

February 14, 2024

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2024 (Six Months Ended December 31, 2023) [IFRS]

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Scheduled date of payment of dividend: February 19, 2024

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen.)

1. Management Performance under IFRS and Non-GAAP Measures

Consolidated Results of Operations (July 1, 2023–December 31, 2023)

(Percentages represent year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
(IFRS)										
Six months ended Dec. 31, 2023	5,694	(10.1)	(237)	–	(253)	–	(254)	–	(246)	–
Six months ended Dec. 31, 2022	6,336	–	136	–	116	–	80	–	90	–
(Non-GAAP)										
Six months ended Dec. 31, 2023	5,694	(10.1)	(238)	–	(254)	–	(254)	–	(246)	–
Six months ended Dec. 31, 2022	6,336	–	136	–	117	–	77	–	85	–

	IFRS		Non-GAAP	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
	Yen	Yen	Yen	Yen
Six months ended Dec. 31, 2023	(14.20)	(14.20)	(14.21)	(14.21)
Six months ended Dec. 31, 2022	5.22	5.20	4.91	4.90

Notes: 1. In the fourth quarter of the fiscal year ended June 30, 2023, both Connect Agency, Inc., a consolidated subsidiary, and J-Phoenix Research Inc., a consolidated subsidiary, were classified as discontinued operations. In the fourth quarter of the fiscal year ended June 30, 2023, the transfer of all shares of Connect Agency, Inc., held by Scala, was completed. In the first quarter of the fiscal year ending June 30, 2024, the transfer of all shares of J-Phoenix Research Inc., held by Scala, was also completed.

Accordingly, revenue, operating profit, and profit before tax for the six months ended December 31, 2022 were reclassified by deducting the amounts of those from discontinued operations from the amounts of those from continuing operations. Because of this, these year-on-year changes are not presented.

For details of the discontinued operations, please refer to “2. Condensed Quarterly Consolidated Financial Statements and Notes, (5) Notes to Condensed Quarterly Consolidated Financial Statements (Discontinued Operations)” on page 17 of Attachments.

2. Under non-GAAP measures, for adjustment, gains/losses on securities related to investment business were deducted from the line items below operating profit, and profit from discontinued operations was deducted from the line items below profit.

3. For details of the non-GAAP measures, please refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance (1) Explanation of Results of Operations” on page 2 of Attachments.

2. Consolidated Financial Position under IFRS

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity per share attributable to owners of parent
	Million yen	Million yen	Million yen	%	Yen
As of Dec. 31, 2023	17,652	7,455	7,206	40.8	415.53
As of Jun. 30, 2023	18,316	8,089	7,832	42.8	451.84

3. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2023	–	18.50	–	18.50	37.00
Fiscal year ending Jun. 30, 2024	–	18.75			
Fiscal year ending Jun. 30, 2024 (forecasts)			–	18.75	37.50

Note: Revisions to the most recently announced dividend forecast: None

4. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2024 under IFRS (July 1, 2023–June 30, 2024)

(Percentages represent year-on-year changes.)

Full year	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	–	–	–	–	–	–	–	–	–	–	–

Notes: 1. Revisions to the most recently announced earnings forecast: Yes

2. As announced in “Notice Concerning Revisions to Consolidated Earnings Forecast” (Japanese version only) on February 14, 2024, the Group has revised its consolidated earnings forecast for the fiscal year ending June 30, 2024 to undetermined. This is because we expect to record a large amount of one-off expenses to be incurred to carry out a major business restructuring from January 2024 to strengthen profitability from the fiscal year ending June 2025 onward. We plan to announce the forecast figures by the end of April 2024.

* Notes

- (1) Changes in consolidated subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

Newly added: –

Excluded: –

- (2) Changes in accounting policies and accounting estimates

- 1) Changes in accounting policies required by IFRS: None
 2) Changes in accounting policies other than 1) above: None
 3) Changes in accounting estimates: None

- (3) Number of shares issued (common shares)

- 1) Number of shares issued as of the end of the period (including treasury shares)

As of Dec. 31, 2023: 17,743,659 shares As of Jun. 30, 2023: 17,734,259 shares

- 2) Number of treasury shares as of the end of the period

As of Dec. 31, 2023: 400,008 shares As of Jun. 30, 2023: 400,008 shares

- 3) Average number of shares outstanding during the period

Six months ended Dec. 31, 2023: 17,337,724 shares Six months ended Dec. 31, 2022: 17,324,845 shares

- The current consolidated financial results are not subject to quarterly review by certified public accountants or auditing firms.

- Explanation of appropriate use of earnings forecasts, and other special items

Cautionary statement with respect to forecasts

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Scala’s management at the time these materials were prepared, but are not promises by Scala regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

How to view supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results will be disclosed today (February 14, 2024) and available on the Scala’s website.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

Scala, Inc. (“Scala” or the “Company”) and its group companies (collectively the “Group”) have adopted International Financial Reporting Standards (IFRS).

In addition to IFRS, the Group has adopted financial measures that can express its operating performance more accurately (the “non-GAAP measures”), and accordingly has disclosed its consolidated results of operations by applying both IFRS and the non-GAAP measures.

In the fourth quarter of the fiscal year ended June 30, 2023, both Connect Agency, Inc. and J-Phoenix Research Inc. were classified as discontinued operations.

Accordingly, revenue, operating profit, and profit before tax for the first six months of the fiscal year ended June 30, 2023 were reclassified by deducting the amounts of those from discontinued operations from the amounts of those from continuing operations.

(1) Explanation of Results of Operations

During the first half of the fiscal year ending June 30, 2024 (the “period under review”), the Japanese economy continued to show a gradual recovery due to the ongoing normalization of economic activities as COVID-19 movement restrictions were eased by the government. However, the economic outlook remains uncertain due to soaring crude oil and raw material prices caused by geopolitical risks, global monetary tightening, and other factors.

Under these circumstances, we focus on the growth not only of the Group, but also of our co-creation partners, local communities, and countries by utilizing cutting-edge digital transformation (DX) technologies to reduce costs and streamline operations to create new work styles. Along with that, we acknowledge that initiatives to promote personal growth of people who are involved in resolving social problems are attracting a lot of attention.

In such business environment, the Group will aim to become a “a platform for human growth focusing on providing growth opportunities” over the medium-to-long term in the Medium Term Business Plan 2024–2026 announced in August 2023. The Group has aimed to realize its Vision: “Make the world where valuable things come springing up” by helping create a cycle of empathy and co-creation among people by providing opportunities that allow everyone to grow and demonstrate their abilities even under an uncertain environment. In addition, we have worked to achieve the objectives stated in the Plan by providing services to companies and central and local governments in Japan and overseas.

As a result, the Group reported revenue of 5,694 million yen (down 10.1% year on year) for the period under review. This decrease was due to impacts caused by the end of the Go To Travel Campaign and the scale-down of the government’s nationwide travel discount program mainly in the DX Business although the EC Business continued steady growth.

On the profitability front, the Group reported operating loss of 237 million yen (compared with operating profit of 136 million yen a year earlier). This result can be explained mainly by decrease in revenue in the DX Business and continued upfront investments including marketing costs for development of new products in the Financial Related Business. It can also be explained by upfront investment costs due to the continued aggressive activities such as intensive business activities leading to the Medium Term Business Plan, creation of new services related to regional revitalization, and organizational enhancement to promote international businesses.

Loss before tax amounted to 253 million yen (compared with profit before tax of 116 million yen a year earlier). As a result of recording 1 million yen of corporate income tax expense, etc., loss amounted to 254 million yen (compared with profit of 80 million yen a year earlier), and loss attributable to owners of parent amounted to 246 million yen (compared with profit attributable to owners of parent of 90 million yen a year earlier).

(Reporting on a non-GAAP basis)

The non-GAAP measures are calculated by deducting non-recurring items and other adjustments, which are prescribed by the Group, from IFRS-based financial figures.

We believe that disclosure of the non-GAAP measures makes it easier for our stakeholders to make both cross-sectional and time-series comparisons and can also provide useful information that helps them to understand the

Group’s underlying operating performance and its outlook.

Non-recurring items refer to one-off profits or losses that we believe should be excluded based on certain criteria for the purpose of preparing the earnings forecast.

While the Group discloses the non-GAAP measures in reference to the rules set out by the U.S. Securities and Exchange Commission, this does not mean the Group fully complies with these rules.

For adjustment, profit or loss on securities related to investment business were deducted from operating profit and the line items below it, and profit from discontinued operations was deducted from profit and line items below it.

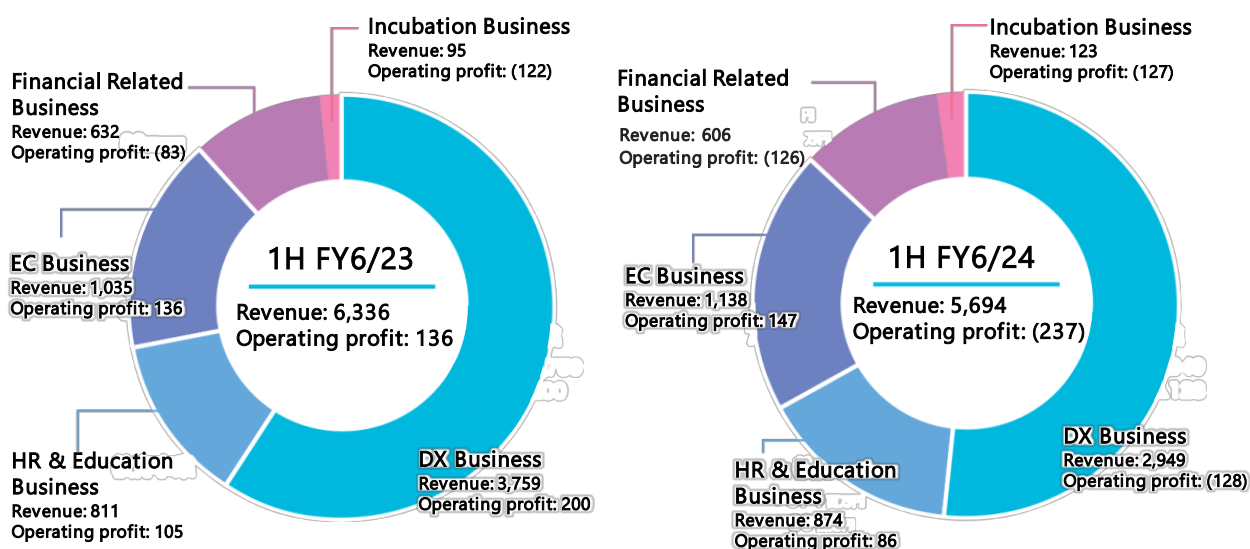
The operating segment performance is as follows.

Segment revenue and operating profit are presented in accordance with IFRS.

Reportable segments have been reclassified since the first quarter of the fiscal year ending June 30, 2024. Accordingly, figures a year earlier were reclassified in a new segment in the following year-on-year comparison.

For details of reportable segments, please refer to “2. Condensed Quarterly Consolidated Financial Statements and Notes (5) Notes to Condensed Quarterly Consolidated Financial Statements (Segment Information).”

(Millions of yen)



(i) DX Business

Scala Communications, Inc. experienced a reduction in the scale of projects for certain large account customers due to the impact of temporary changes in the industry situation. Although the acquisition of new customers proceeded smoothly, overall revenue and profit of Scala Communications, Inc. decreased. In SaaS/ASP, existing services such as "i-ask" and "i-search" performed well, and we introduced new services such as a facility reservation system linked to digital IDs and a system for using the data of dairy cattle genome test results.

EGG CO., LTD. saw sales and profits decrease year on year due to the termination of the Go To Travel business and the downsizing of nationwide travel support projects. On the other hand, the company is making progress in winning over projects supported by the Digital Garden City National Fund, and it will continue to do so.

As a result of the above, the DX Business as a whole achieved a certain level of achievement in implementing existing and new services, but revenue and profit declined due to a reduction in the scale of projects and other factors.

(Millions of yen, unless otherwise stated)

		First six months of FY6/23	First six months of FY6/24	Year-on-year change	
				Amount	%
Revenue		3,759	2,949	(810)	Down 21.6%
Segment profit (IFRS and non-GAAP measures)	Before allocation of corporate expenses	531	199	(332)	Down 62.5%
	After allocation of corporate expenses	200	(128)	(329)	–

(ii) HR & Education Business

In the recruitment support service business, the need for companies to exhibit at recruitment events has increased in response to the trend to move up the job-hunting process. In particular, both existing and new companies increased their demand for visitor-type events due in part to the rebound from the pandemic period. The above factors helped increase revenue.

On the other hand, profits decreased year on year due to an increase in the headcount of personnel in conjunction with the launch of new businesses as part of our efforts to expand our business domain, consisting of a mid-career job change support business and a career education business for students.

(Millions of yen, unless otherwise stated)

		First six months of FY6/23	First six months of FY6/24	Year-on-year change	
				Amount	%
Revenue		811	874	63	Up 7.8%
Segment profit (IFRS and non-GAAP measures)	Before allocation of corporate expenses	134	115	(19)	Down 14.3%
	After allocation of corporate expenses	105	86	(19)	Down 18.2%

(iii) EC Business

In the EC Business, we continue to pursue comfortable UI/UX through SEO, data feed advertising and other digital marketing. In addition, the Android app released at the beginning of 2023 are steadily gaining users. In September 2023, we completely redesigned our website to open a new site. These efforts have resulted in a steady increase in membership. As a result, both revenue and profits increased year on year.

(Millions of yen, unless otherwise stated)

		First six months of FY6/23	First six months of FY6/24	Year-on-year change	
				Amount	%
Revenue		1,035	1,138	103	Up 10.0%
Segment profit (IFRS and non-GAAP measures)	Before allocation of corporate expenses	168	179	11	Up 6.7%
	After allocation of corporate expenses	136	147	11	Up 8.3%

(iv) Financial Related Business

In the Financial Related Business, revenue was almost flat year on year. On the other hand, profits decreased due to the impact of upfront investments for enhancing marketing and developing new products.

(Millions of yen, unless otherwise stated)

		First six months of FY6/23	First six months of FY6/24	Year-on-year change	
				Amount	%
Revenue		632	606	(26)	Down 4.1%
Segment profit (IFRS and non-GAAP measures)	Before allocation of corporate expenses	(65)	(108)	(42)	–
	After allocation of corporate expenses	(83)	(126)	(42)	–

(v) Incubation Business

SOCIALX, INC. has begun an open call for the Public-Private Co-creation Acceleration Program (SOCIALX Acceleration) to create and support startups that resolve social issues with both financial return and social impact. The company launched the program in capacity of a selected entity of the Startup Support and Development Project by Diverse Entities (TOKYO SUTEAM) launched by the Tokyo Metropolitan Government with the aim of achieving “10x10x10” (10 times the number of unicorns from Tokyo, 10 times the number of startups in Tokyo, and 10 times the number of collaborative practices with the TMG) in 5 years. As a result, we received entries from 70 excellent startups that are developing businesses that resolve social issues. We will deliver SOCIALX Acceleration to business companies and CVC entities in the future and have already received interest from certain prefectures about this program.

In the “Gyaku Propo,” E.design Insurance Co., Ltd. launched its fourth open call for traffic safety projects and received entries from many local governments. In addition, a medical startup has begun recruiting local governments to cooperate in a demonstration experiment to reduce hospitalization medical costs by preventing aspiration pneumonia. Furthermore, continuing from the previous fiscal year, the company provides secretariat operations and accompanying supports for business development to solve social issues for the Small and Medium Enterprise Agency’s program—Project for Business Introduction and Startup Promotion by Collaboration of Local Governments and Companies.

As part of the "the Agreement on Regional Circular Coexistence toward Decarbonizing," the company is developing a business for the utilization of social credits through public-private co-creation with Itami City, Hannan City, and Inan Town. Under the program to promote public-private co-creation projects in Kyushu co-hosted by the Kyushu Bureau of Economy, Trade and Industry and the Kyushu Open Innovation Center with the aim of developing successful cases of the public-private co-creation, the company organized the workshops for local governments and companies in Kyushu. We continue taking on new challenges to establish co-creation economy, which is attracting attentions from the central and local governments and other organizations.

Scala Partners, Inc. is reinforcing its service offerings by strengthening partnerships with communities and business operators by means of, for example, concluding a comprehensive partnership agreement with local governments and developing relationships with a range of experts and business operators through joining Japan Workcation Association. By strengthening capabilities to plan, produce, and distribute original workcation content backed by the reclassification of COVID-19 to Class 5, monetization is in progress in response to increases in the number of companies that have introduced a workcation system as well as the number of commissioned projects for local governments organizing workcation monitoring tours.

(Millions of yen, unless otherwise stated)

		First six months of FY6/23	First six months of FY6/24	Year-on-year change	
				Amount	%
Revenue		95	123	28	Up 30.4%
Segment profit (IFRS)	Before allocation of corporate expenses	(119)	(124)	(5)	–
	After allocation of corporate expenses	(122)	(127)	(5)	–
Segment profit (non-GAAP measures)	Before allocation of corporate expenses	(119)	(125)	(6)	–
	After allocation of corporate expenses	(122)	(128)	(6)	–

(2) Explanation of Financial Position

Assets

Total assets amounted to 17,652 million yen at the end of the period under review, a decrease of 664 million yen over the end of the previous fiscal year. This was mainly attributable to decreases of 135 million yen in income taxes refund receivable, 250 million yen in right-of-use assets, and 107 million yen in other financial assets (non-current), which were partially offset by an increase of 109 million yen in inventories.

Liabilities

Liabilities totaled 10,196 million yen, a decrease of 30 million yen over the end of the previous fiscal year. This was mainly attributable to decreases of 102 million yen in other current liabilities and 264 million yen in lease liabilities (non-current), which were partially offset by an increase of 334 million yen in bonds and borrowings.

Equity

Equity totaled 7,455 million yen, a decrease of 633 million yen over the end of the previous fiscal year. This was mainly due to the recording of loss attributable to owners of parent of 246 million yen and a decrease in the retained earnings due to the payment of dividends of 320 million yen.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

As announced in “Notice Concerning Revisions to Consolidated Earnings Forecast” (Japanese version only) on February 14, 2024, the Group has revised its consolidated earnings forecast for the fiscal year ending June 30, 2024 to undetermined. This is because we expect to record a large amount of one-off expenses to be incurred to carry out a major business restructuring from January 2024 for the purpose of strengthening profitability from the fiscal year ending June 2025 onward.

We plan to announce the forecast figures by the end of April 2024.

2. Condensed Quarterly Consolidated Financial Statements and Notes**(1) Condensed Quarterly Consolidated Statement of Financial Position**

(Thousands of yen)

	FY6/23 (As of Jun. 30, 2023)	Second quarter of FY6/24 (As of Dec. 31, 2023)
Assets		
Current assets		
Cash and cash equivalents	7,740,400	7,664,693
Trade and other receivables	1,384,649	1,360,825
Inventories	322,902	432,062
Reinsurance assets	528,151	491,824
Income taxes receivable	135,447	-
Other current assets	101,370	120,744
Assets held for sale	67,827	-
Total current assets	10,280,749	10,070,151
Non-current assets		
Property, plant and equipment	541,743	485,257
Right-of-use assets	1,844,243	1,594,103
Goodwill	1,990,895	1,990,895
Intangible assets	1,164,502	1,114,972
Other financial assets	1,448,298	1,340,865
Securities related to investment business	346,864	347,699
Deferred tax assets	691,195	700,778
Other non-current assets	8,025	7,369
Total non-current assets	8,035,767	7,581,940
Total assets	18,316,517	17,652,091
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	813,638	901,336
Bonds and borrowings	3,215,156	3,156,246
Lease liabilities	565,165	558,415
Income taxes payable	83,186	8,063
Insurance contract liabilities	592,749	617,658
Other current liabilities	420,680	318,035
Liabilities directly associated with assets held for sale	14,589	-
Total current liabilities	5,705,166	5,559,755
Non-current liabilities		
Bonds and borrowings	2,787,649	3,180,647
Lease liabilities	1,326,734	1,061,990
Deferred tax liabilities	255,533	241,717
Other non-current liabilities	151,973	152,313
Total non-current liabilities	4,521,891	4,636,668
Total liabilities	10,227,058	10,196,424
Equity		
Equity attributable to owners of parent		
Share capital	1,787,880	1,790,272
Capital surplus	986,384	988,776
Retained earnings	5,162,735	4,595,936
Treasury shares	(299,966)	(299,966)
Other components of equity	195,234	131,837
Total equity attributable to owners of parent	7,832,267	7,206,856
Non-controlling interests	257,191	248,810
Total equity	8,089,459	7,455,667
Total liabilities and equity	18,316,517	17,652,091

(2) Condensed Quarterly Consolidated Statements of Income and Comprehensive Income**Condensed Quarterly Consolidated Statement of Income**

(Thousands of yen)

	First six months of FY6/23 (Jul. 1, 2022–Dec. 31, 2022)	First six months of FY6/24 (Jul. 1, 2023–Dec. 31, 2023)
Continuing operations:		
Revenue	6,336,901	5,694,389
Cost of sales	(3,810,436)	(3,413,122)
Gross profit	2,526,464	2,281,267
Selling, general and administrative expenses	(2,393,141)	(2,508,975)
Other income	16,979	5,618
Other expenses	(13,735)	(15,918)
Operating profit (loss) before gains/losses on securities related to investment business	136,568	(238,008)
Gains/losses on securities related to investment business	(333)	835
Operating profit (loss)	136,235	(237,173)
Finance income	10,119	9,896
Finance costs	(29,395)	(25,929)
Profit (loss) before tax	116,959	(253,206)
Income tax expense	(39,345)	(1,154)
Profit (loss) from continuing operations	77,613	(254,361)
Discontinued operations:		
Profit (loss) from discontinued operations	3,181	(133)
Profit (loss)	80,795	(254,495)
Profit (loss) attributable to:		
Owners of parent	90,434	(246,114)
Non-controlling interests	(9,638)	(8,380)
Profit (loss)	80,795	(254,495)
Earnings (loss) per share:		
Basic earnings (loss) per share (Yen)		
Continuing operations	4.90	(14.19)
Discontinued operations	0.32	(0.01)
Total	5.22	(14.20)
Diluted earnings (loss) per share (Yen)		
Continuing operations	4.89	(14.19)
Discontinued operations	0.31	(0.01)
Total	5.20	(14.20)

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Thousands of yen)

	First six months of FY6/23 (Jul. 1, 2022–Dec. 31, 2022)	First six months of FY6/24 (Jul. 1, 2023–Dec. 31, 2023)
Profit (loss)	80,795	(254,495)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	26,751	(63,428)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	–	97
Other comprehensive income	26,751	(63,330)
Comprehensive income	107,546	(317,826)
Comprehensive income attributable to:		
Owners of parent	117,185	(309,445)
Non-controlling interests	(9,638)	(8,380)
Comprehensive income	107,546	(317,826)

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First six months of FY6/23 (Jul. 1, 2022–Dec. 31, 2022)

(Thousands of yen)

	Equity attributable to owners of parent					Total equity attributable to owners of parent
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
Balance as of Jul. 1, 2022	1,778,718	965,568	6,016,133	(174,187)	101,175	8,687,408
Profit (loss)	–	–	90,434	–	–	90,434
Total other comprehensive income	–	–	–	–	26,751	26,751
Comprehensive income	–	–	90,434	–	26,751	117,185
Dividends	–	–	(314,453)	–	–	(314,453)
Exercise of share acquisition rights	4,809	4,809	–	–	(132)	9,487
Share-based payment transactions	–	6,776	–	–	–	6,776
Purchase of treasury shares	–	–	–	(125,779)	–	(125,779)
Changes in ownership interest in subsidiaries	–	4,847	–	–	–	4,847
Total transactions with owners	4,809	16,432	(314,453)	(125,779)	(132)	(419,122)
Balance as of Dec. 31, 2022	1,783,528	982,001	5,792,113	(299,966)	127,795	8,385,472

	Non-controlling interests	Total equity
	Balance as of Jul. 1, 2022	318,844
Profit (loss)	(9,638)	80,795
Total other comprehensive income	–	26,751
Comprehensive income	(9,638)	107,546
Dividends	–	(314,453)
Exercise of share acquisition rights	–	9,487
Share-based payment transactions	–	6,776
Purchase of treasury shares	–	(125,779)
Changes in ownership interest in subsidiaries	8,750	13,598
Total transactions with owners	8,750	(410,371)
Balance as of Dec. 31, 2022	317,956	8,703,428

First six months of FY6/24 (Jul. 1, 2023–Dec. 31, 2023)

(Thousands of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent
Balance as of Jul. 1, 2023	1,787,880	986,384	5,162,735	(299,966)	195,234	7,832,267
Profit (loss)	–	–	(246,114)	–	–	(246,114)
Total other comprehensive income	–	–	–	–	(63,330)	(63,330)
Comprehensive income	–	–	(246,114)	–	(63,330)	(309,445)
Dividends	–	–	(320,683)	–	–	(320,683)
Exercise of share acquisition rights	2,392	2,392	–	–	(65)	4,718
Total transactions with owners	2,392	2,392	(320,683)	–	(65)	(315,964)
Balance as of Dec. 31, 2023	1,790,272	988,776	4,595,936	(299,966)	131,837	7,206,856
		Non-controlling interests	Total equity			
Balance as of Jul. 1, 2023		257,191	8,089,459			
Profit (loss)		(8,380)	(254,495)			
Total other comprehensive income		–	(63,330)			
Comprehensive income		(8,380)	(317,826)			
Dividends		–	(320,683)			
Exercise of share acquisition rights		–	4,718			
Total transactions with owners		–	(315,964)			
Balance as of Dec. 31, 2023		248,810	7,455,667			

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY6/23 (Jul. 1, 2022–Dec. 31, 2022)	First six months of FY6/24 (Jul. 1, 2023–Dec. 31, 2023)
Cash flows from operating activities		
Profit (loss) before tax	116,959	(253,206)
Profit (loss) before tax from discontinued operations	2,937	(112)
Depreciation and amortization	399,060	400,475
Loss on retirement of fixed assets	12,112	948
Loss (gain) on securities related to investment business	333	(835)
Loss (gain) on sale of investment securities	–	5,702
Finance income	(9,684)	(9,930)
Finance costs	23,478	21,824
Decrease (increase) in trade and other receivables	(360,824)	30,132
Increase (decrease) in trade and other payables	156,015	106,812
Decrease (increase) in inventories	(46,938)	(112,774)
Decrease (increase) in reinsurance assets	(156,756)	36,326
Increase (decrease) in insurance contract liabilities	(20,340)	24,908
Other	20,017	(103,301)
Subtotal	136,369	146,970
Interest and dividends received	9,482	9,896
Interest paid	(19,126)	(17,480)
Income taxes refund (paid)	(84,589)	52,582
Net cash provided by (used in) operating activities	42,137	191,969
Cash flows from investing activities		
Purchase of property, plant and equipment	(72,016)	(25,555)
Purchase of intangible assets	(27,245)	(25,391)
Purchase of investment securities	(20,000)	(9,700)
Proceeds from sale of investment securities	–	42,459
Collection of loans receivable	–	25,825
Payments of leasehold and guarantee deposits	(10,389)	(10,549)
Proceeds from refund of leasehold and guarantee deposits	628	464
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	–	(1,724)
Purchase of investments accounted for using equity method	(42,807)	–
Other	104	(3,287)
Net cash provided by (used in) investing activities	(171,726)	(7,459)

(Thousands of yen)

	First six months of FY6/23 (Jul. 1, 2022–Dec. 31, 2022)	First six months of FY6/24 (Jul. 1, 2023–Dec. 31, 2023)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	83,332	(16,668)
Proceeds from long-term borrowings	600,000	1,345,000
Repayments of long-term borrowings	(791,520)	(828,360)
Redemption of bonds	(20,000)	(170,000)
Repayments of lease liabilities	(274,573)	(283,222)
Proceeds from exercise of share acquisition rights	9,487	4,718
Purchase of treasury shares	(125,779)	–
Dividends paid	(310,963)	(323,391)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(2,002)	–
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	15,600	–
Net cash provided by (used in) financing activities	(816,419)	(271,922)
Effect of exchange rate changes on cash and cash equivalents	(5,849)	(3,646)
Net increase (decrease) in cash and cash equivalents	(951,858)	(91,059)
Cash and cash equivalents at beginning of period	9,625,387	7,740,400
Net increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale	–	15,352
Cash and cash equivalents at end of period	8,673,529	7,664,693

Note: Cash flows from continuing operations and cash flows from discontinued operations are included in the above table. Cash flows from discontinued operations are described in Notes to Condensed Quarterly Consolidated Financial Statements, Discontinued Operations.

(5) Notes to Condensed Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Notes to Condensed Quarterly Consolidated Financial Statements

1. Reporting Entity

Scala, Inc. is a corporation located in Japan.

The registered address of its head office is disclosed on its corporate website (<https://scalagr.jp/>).

Scala's consolidated financial statements for the six months ended December 31, 2023 encompass Scala and its interests in Scala's subsidiaries.

The Group aims to develop a "platform for human growth focusing on providing growth opportunities" and works on the operations of DX Business, HR & Education Business, EC Business, Financial Related Business, and Incubation Business, mainly focusing on services supporting communication between companies and people.

For more information, please refer to "Segment Information, (1) Overview of reportable segments."

2. Basis of Preparation

(1) Compliance with IFRS

The Group's condensed quarterly consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting pursuant to the provisions of Article 93 of Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Order No. 64 of 2007) because the Group qualifies as a "specified company complying with designated international accounting standards" as stipulated in Article 1-2 of the said Order.

As the condensed quarterly consolidated financial statements for the period under review do not include all the information required in the consolidated financial statements for the fiscal year, they should be used in conjunction with the consolidated financial statements for the previous fiscal year.

The condensed quarterly consolidated financial statement was approved by Scala's Board of Directors on February 14, 2024.

(2) Functional currency and presentation currency

The Group's condensed quarterly consolidated financial statements are presented in Japanese yen, which is Scala's functional currency, and figures are rounded down to the nearest thousand yen.

3. Material accounting policy information

The material accounting policies applied for the condensed quarterly consolidated financial statements for the period under review remain the same as significant accounting policies applied for the consolidated financial statements for the previous fiscal year.

It is noted that income tax expense for the period under review is determined based on the estimated annual effective tax rate.

4. Significant Accounting Estimates and Judgments Involving Estimates

The preparation of the condensed quarterly consolidated financial statements requires the management to make certain judgments, estimates, and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenues, and expenses. Actual results, however, could differ from these estimates.

These estimates and underlying assumptions are consistently reviewed. The effect of changes in accounting estimates is recognized in the reporting period in which the changes are made and in any future reporting periods affected.

The management has made estimates and judgments that have a material impact on the amounts reported in the condensed quarterly consolidated financial statements for the period under review in the same way as it did in the consolidated financial statements for the previous fiscal year.

Segment Information

(1) Overview of reportable segments

The Group's reportable segments are components of the Group for which financial information disaggregated by similarity of nature of services is available and are regularly reviewed to make decisions about allocations of corporate resources and assess their performance.

The businesses operated by Scala Works, Inc., Connect Agency, Inc., and J-Phoenix Research Inc. have been classified as discontinued operations and excluded from the segment information of the HR & Education Business, DX Business, and Incubation Business, respectively.

- The DX Business promotes digital transformation (DX) through IT, AI, and IoT and proactively facilitates cooperation with different industries and partners who have expertise in relevant technology, with the primary objective of establishing new businesses and services, redefining existing businesses, and speeding up regrowth to promote DX inside and outside Japan. This business provides SaaS/ASP services using IT (Web, phone, fax, SMS related technologies)/AI/IoT technologies to meet customer needs flexibly and quickly. It also provides customer support consulting that serves as a one-stop source of solutions for a variety of issues associated with call center operations.
- The HR & Education Business offers recruiting support for new graduates and mid-career employees focusing on physical education students and professional athletes, infant education, and sports education to support children to foster personality, and operation of a professional basketball team.
- The EC Business operates Yuyu-Tei, a reuse EC site for buying and selling trading cards games (TCG) for battle-type games, which also contains game walkthrough pages.
- The Financial Related Business operates pet insurance "Insurance for Dogs and Cats" that covers medical expenses incurred on treatment of sick or injured pets, such as visit, stay, or surgery at an animal hospital. Medical expenses for pets are to be covered up to the amount limit or within a certain range.
- The Incubation Business engages in M&A and alliance with other companies. It also provides support for new business development working with private companies in coordination with governments and municipalities across the nation, and offers regional revitalization services through projects such as those for promoting relocations to rural areas. In addition, it makes business investments on its own or through investment partnerships, while continuing value increase and engagement activities on such investment.

(2) Changes in reportable segments

With the announcement of the Medium-term Business Plan on August 14, 2023, the Company has included the former "Customer Support Business" in the "DX Business" segment effective from the first quarter of the current fiscal year, taking into account the similarity of nature of services. In addition, to reflect the operating performance of each reportable segment more appropriately, the method of presentation has been changed: revenue and expenses in the back-office section of the filing company, which were previously allocated to the Incubation & Investment Business, are presented as adjustments.

Accordingly, the reportable segments have been reorganized from the six segments of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Insurance Business, and Incubation & Investment Business to the five segments of DX Business, HR & Education Business, EC Business, Financial Related Business, and Incubation Business to better represent the business activities.

Segment information for the first half of the previous fiscal year is presented based on the revised segmentation.

(3) Information related to revenue and profit or loss and other items for each reportable segment

First six months of FY6/23 (Jul. 1, 2022–Dec. 31, 2022)

(Thousands of yen)

	Reportable segment						Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 2)
	DX Business	HR & Education Business	EC Business	Financial Related Business	Incubation Business	Subtotal		
Revenue								
Sales to external customers	3,759,653	811,119	1,035,552	632,945	95,036	6,334,308	2,593	6,336,901
Inter-segment sales and transfers	15,579	8,946	–	–	8,195	32,721	(32,721)	–
Total	3,775,233	820,065	1,035,552	632,945	103,231	6,367,029	(30,127)	6,336,901
Segment profit (loss)	200,418	105,635	136,586	(83,213)	(122,389)	237,036	(100,801)	136,235
Finance income	–	–	–	–	–	–	–	10,119
Finance costs	–	–	–	–	–	–	–	(29,395)
Profit (loss) before tax	–	–	–	–	–	–	–	116,959

- Notes: 1. The (100,801) thousand yen adjustment to segment profit includes the elimination of inter-segment transactions and the corporate expenses that are not allocated to each reportable segment.
2. Segment profit (loss) is adjusted to be consistent with operating profit presented in the condensed quarterly consolidated statement of income.
3. Corporate expenses are allocated to each reportable segment based on a rational basis.
4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

First six months of FY6/24 (Jul. 1, 2023–Dec. 31, 2023)

(Thousands of yen)

	Reportable segment						Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 2)
	DX Business	HR & Education Business	EC Business	Financial Related Business	Incubation Business	Subtotal		
Revenue								
Sales to external customers	2,949,008	874,530	1,138,717	606,684	123,949	5,692,889	1,499	5,694,389
Inter-segment sales and transfers	4,514	17,622	–	–	32,729	54,866	(54,866)	–
Total	2,953,523	892,152	1,138,717	606,684	156,678	5,747,756	(53,367)	5,694,389
Segment profit (loss)	(128,693)	86,419	147,902	(126,183)	(127,663)	(148,219)	(88,953)	(237,173)
Finance income	–	–	–	–	–	–	–	9,896
Finance costs	–	–	–	–	–	–	–	(25,929)
Profit (loss) before tax	–	–	–	–	–	–	–	(253,206)

- Notes: 1. The (88,953) thousand yen adjustment to segment profit includes the elimination of inter-segment transactions and the corporate expenses that are not allocated to each reportable segment.
2. Segment profit (loss) is adjusted to be consistent with operating profit presented in the condensed quarterly consolidated statement of income.
3. Corporate expenses are allocated to each reportable segment based on a rational basis.
4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Discontinued Operations

The Company classified Scala Works, Inc., a consolidated subsidiary, as discontinued operations in the fiscal year ended June 30, 2022. The liquidation of the company was completed in the third quarter of the fiscal year ended June 30, 2023. The Company also classified Connect Agency, Inc. and J-Phoenix Research Inc., both consolidated subsidiaries, as discontinued operations in the fourth quarter of the fiscal year ended June 30, 2023. The transfer of all shares of Connect Agency, Inc. was completed in the fourth quarter of the fiscal year ended June 30, 2023 and J-Phoenix Research Inc. in the first quarter of the fiscal year ending June 30, 2024.

Capital gains/losses from the transfer of the shares were recorded in profit (loss) from discontinued operations.

(1) Discontinued operations performance

	(Thousands of yen)	
	First six months of FY6/23 (Jul. 1, 2022–Dec. 31, 2022)	First six months of FY6/24 (Jul. 1, 2023–Dec. 31, 2023)
Profit or loss from discontinued operations		
Revenue	169,331	4,821
Expenses	(166,393)	(4,933)
Profit (loss) before tax from discontinued operations	2,937	(112)
Income tax expense	244	(21)
Profit (loss) from discontinued operations	3,181	(133)

(2) Cash flows from discontinued operations

	(Thousands of yen)	
	First six months of FY6/23 (Jul. 1, 2022–Dec. 31, 2022)	First six months of FY6/24 (Jul. 1, 2023–Dec. 31, 2023)
Cash flows from discontinued operations		
Cash flows from operating activities	77,672	5,623
Cash flows from investing activities	(21)	9,414
Cash flows from financing activities	5,773	(579)
Total	83,424	14,458

Material Subsequent Events

Not applicable.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with International Financial Reporting Standards (IFRS), for the convenience of readers who prefer an English translation.