COMPANY RESEARCH AND ANALYSIS REPORT

Scala, Inc.

4845

Tokyo Stock Exchange Prime Market

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Index

Summary

Implement business structure reforms in FY6/24, with the aim of achieving a V-shaped earnings recovery in FY6/25

Scala, Inc. <4845> (hereinafter, "the Company") adopted the Group vision: "Scala makes the world where valuable things come springing up," and is working to contribute to society by becoming a "platform for human growth focusing on providing growth opportunities" based on digital transformation (DX). Its Group companies engage in the DX Business, HR & Education Business, EC (e-commerce) Business, Financial Related Business, and Incubation Business, and the Company uses M&A to expand its business domain and create synergies as one of its growth strategies.

1. Overview of 1H FY6/24 results

In continuing operations* in 1H FY6/24 (July – December 2023), revenue decreased 10.1% year on year (YoY) to ¥5,694mn and operating loss was ¥237mn (profit of ¥136mn in the same period of the previous fiscal year). This performance mainly reflected large decreases in certain revenue and profit items. Specifically, revenue in the mainstay DX Business decreased 21.6% to ¥2,949mn due to a reduction in the scale of certain existing projects caused by changes in the market environment, in addition to the temporary suspension of a large-scale development project for a certain customer for customer-related reasons, along with the end of the Go To Travel Campaign, which contributed to earnings in the same period of the previous fiscal year, and the scale-down of the government's nationwide travel discount program. These factors were also responsible for a decrease of 62.5% in profit before the allocation of Company-wide costs to ¥199mn. In addition, results were hampered by a drop in profit in the HR & Education Business and Financial Related Business due to upfront investment outlays.

* Consolidated subsidiaries Connect Agency Inc. and J-Phoenix Research Inc. were both classified as discontinued operations in 4Q FY6/23. The transfers of all shares of Connect Agency Inc. and J-Phoenix Research Inc. were completed in 4Q FY6/23 and 1Q FY6/24, respectively. Year-on-year comparisons of revenue and operating profit are presented based on continuing operations, excluding these discontinued operations.

2. Outlook for FY6/24

Following a decline in business performance, the Company began large-scale business structure reforms in January 2024 and expects to recognize related expenses. Therefore, the Company has set its outlook for FY6/24 as undetermined. In terms of cost-cutting measures, the Company will reorganize unprofitable operations and reduce the associated fixed costs, as well as cut fixed costs such as office expenses, system usage fees, and expert remuneration. The Company expects cost increases of up to ¥1.0bn to ¥1.5bn at the operating profit and profit before tax levels, due to the accrual of one-time expenses associated with fixed cost reductions and fees associated with business reorganization. It also expects accounting losses of up to ¥2.0 to 3.0bn at the profit attributable to owners of parent level, reflecting impairment losses on goodwill and fixed assets, loss on sale of shares, and unrealized losses on other assets in connection with business reorganization. Accordingly, the Company can be expected to record losses of around several billion yen for FY6/24. However, in terms of the positive effects of these business structure reforms, for operating profit in FY6/25, the Company expects a positive impact of around ¥0.2bn annually from business reorganization and a positive impact of approximately ¥0.6bn annually from fixed cost reduction. For the foreseeable future, the Company intends to concentrate its sales and development systems on its mainstay DX Business in order to reestablish its growth trajectory.

3. Medium term business plan

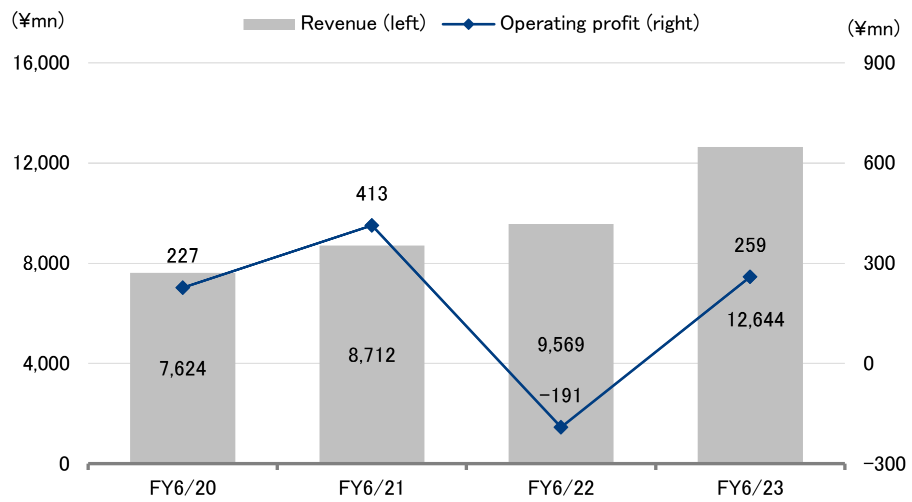
Positioning the three years leading up to FY6/26 as a period for "building a foundation for solid growth," the Company intends to continue implementing measures to solve regional and social issues through public-private co-creation. By capturing demand for system development projects that arise during the process, the Company aims to expand its business results with the DX Business serving as a growth driver. The Company has already begun to receive orders from municipalities for systems such as the Facility Reservation System linked with a digital ID and the frailty* prevention and management system. With this emerging track record, the Company is expected to grow in the future. Furthermore, in the HR & Education Business, the Company aims to expand business with the launch of two new services: mid-career job change support and career education for students. In the Financial Related Business, the Company aims to achieve profitability in FY6/26 through growth in sales of pet insurance products and improved business efficiency, while setting its sights on entering areas other than pet insurance in the future. Following the completion of business structure reforms in FY6/25 and thereafter, the Company expects to achieve a V-shaped recovery in business results through these and other measures. Regarding the shareholder return policy, the Company will continue with its traditional approach, focusing on stable and consistent dividend payments, and aim for a consistent increase in dividends. Dividends per share for FY6/24 are projected to increase by ¥0.5 YoY to ¥37.5, marking the 15th consecutive year of dividend increases.

* "Frailty" is a concept proposed by the Japan Geriatrics Society in 2014 to describe a condition that falls somewhere between good health and requiring nursing care (a condition requiring support in daily life). Many elderly people are thought to progress from good health to sarcopenia, a state in which muscle strength weakens, and then to frailty, a state in which their general capacity to perform everyday functions declines, eventually leading to the need for nursing care.

Key Points

- 1H FY6/24 saw higher sales and profits due to favorable performance in the EC Business and HR & Education Business
- Although earnings declined in the mainstay DX Business, new co-creation-type projects have gradually started to produce results
- The outlook for FY6/24 results has been revised to undetermined, due to the implementation of large-scale business reforms
- Strengthening development and sales systems to restore profitability in the DX Business, with the aim of achieving a V-shaped recovery in FY6/25 and beyond

Results trends



Note: IFRS, continuing operations basis
Source: Prepared by FISCO from the Company's financial results

Company profile

An IT development and services company that is expanding its business areas through an M&A strategy

1. History

The Company was founded in December 1991 with an initial start as a sales distributor of database systems. It realized significant growth in 1999 by inheriting support services, including customers, for the Model 204* mainframe database management system license from MITSUI KNOWLEDGE INDUSTRY CO., LTD.

* Database management system (DBMS) that was developed by US-based Computer Corporation of America and Sirius Software (now, Rocket Software). Customers were large companies in Japan such as the Bank of Japan <8301> and Tokyo Electric Power Company Holdings, Inc. <9501>. Demand ceased due to changes in the market environment, and the service was ended in the fall of 2016.

In 2000, the Company determined that it needed to change its business structure to continue growing amid the migration of corporate information systems from mainframes to client/servers, and started expanding its business through M&A by utilizing funds obtained from its IPO in 2001. It widely developed its own SaaS/ASP services, which are its recurring-income earnings model and steadily increased earnings.

As measures toward building a value co-creation platform promoted as a medium-term target starting in 2019, the Company established Scala Partners, Inc. in July of the same year, and then went on to expand its business activities even further by proactively conducting M&As. These M&As included making wholly owned subsidiaries of J-Phoenix Research Inc., which provides management consulting and IR support, in October, Grit Group Holdings Co., Ltd., which provides HR & Education Business, in April 2020, EGG CO., LTD., an IT system developer, in February 2022, and Nihon Pet Small-amount Short-term Insurance Company, which offers small-amount short-term insurance, in April 2022. (The Company sold all shares of J-Phoenix Research Inc. in August 2023.)

To conduct more flexible management, the Company switched to a holding company organization in 2004, and in FY6/16, changed its accounting standards to IFRS to disclose its results. The Company moved its listing from the TSE First Section to the TSE Prime Market in line with the TSE's transition to new market segments in April 2022.

Company History

Date	Major event
December 1991	Founded Database Communications (now, Scala, Inc.)
January 1999	Formed sales distribution contracts for the Japanese market with US-based Computer Corporation of America and Sirius and started Model 204 support
May 2001	Listed on the Osaka Securities Exchange's NASDAQ Japan market (now, TSE JASDAQ (Standard))
April 2003	Acquired Interscience's patent management software (product name: PatentManager) with the aim of entering the intellectual property system field
October 2003	Acquired Dbecs Co., Ltd. (now, Scala Communications, Inc.) as a subsidiary to enter the CRM field
April 2004	Acquired Vodamedia Inc. (now, Scala Communications, Inc.) as a subsidiary with the aim of entering the IVR (interactive voice response) field
September 2004	Renamed as Fusion Partners Co. in the transition to a holding company structure and established Database Communications (now, Scala Services Inc.) as a new company and transferred its business
June 2006	Merged subsidiaries Vodamedia and Dbecs and changed the company name to Digi-Ana Communications Inc. (now, Scala Communications Inc.)
November 2010	Acquired NewsWatch Inc. (now, Scala Communications, Inc.) as a subsidiary
April 2012	Merged subsidiaries Digi-Ana Communications and NewsWatch (now, Scala Communications Inc.)
May 2014	Listing transferred to the TSE Second Section
December 2014	Shares elevated to the TSE First Section
November 2015	Acquired TriAx Corp. (now, Scala Communications, Inc.) as a subsidiary
January 2016	Renamed subsidiary Database Communications as PAREL, Inc.
July 2016	Acquired SOFTBRAIN Co., Ltd. as a subsidiary
December 2016	Changed trade name to Scala, Inc.
December 2016	Merged the subsidiaries Digi-Ana Communications and TriAx Corp. and changed the trade name to Scala Communications Inc.
August 2017	Acquired plube Co., Ltd. (now, Scala PLAYce, Inc.) as a subsidiary
March 2018	Acquired Leoconnect, Inc. as a subsidiary
October 2018	Acquired Connect Agency Inc. as a subsidiary
November 2018	Established Scala Next, Inc. (now, Scala Communications, Inc.)
December 2018	Established the Scala Next, Inc., (now, Scala Communications, Inc.) Mandalay branch (Myanmar)
July 2019	Established Scala Partners Inc.
October 2019	Made a subsidiary of J-Phoenix Research Inc.
November 2019	Established SCL Capital LLC.
April 2020	Made a subsidiary of Grit Group Holdings Co., Ltd.
June 2020	Invested in MyanCare, a health-tech company in Myanmar that provides remote medical services
August 2020	Established Scala Ace Co., Ltd. as a joint venture with ACE Data Systems Ltd., a major IT company in Myanmar (ownership ratio: 35%)
September 2020	Established Social Studio Inc. as a joint venture with Branding Technology Inc. in order to promote DX to the national and local governments (ownership ratio: 51%)
November 2020	Developed the reverse public offering proposal service called Gyaku Propo specializing in SDGs for companies' new business development
March 2021	Excluded SOFTBRAIN Co., Ltd. from the scope of consolidation due to the transfer its shares
June 2021	Established Scala Truva, Inc.
August 2021	Made a subsidiary of readytowork Co., Ltd.
November 2021	Established SOCIALX, INC.
February 2022	Made a subsidiary of EGG CO., LTD.
March 2022	Made a subsidiary of Broncos20 Co., Ltd.
April 2022	Moved its listing to the TSE Prime Market in line with the TSE's transition to new market segments Made a subsidiary of Nihon Pet Small-amount Short-term Insurance Company
June 2023	Sold Connect Agency Inc. to Adjustone, Inc.
August 2023	Sold J-Phoenix Research Inc.

Source: Prepared by FISCO from the Company's website and press releases

Engaged in five business segments: the DX Business, HR & Education Business, EC Business, Financial Related Business, and Incubation Business

2. Business description

The Company has organized its business segments into five segments— DX Business, HR & Education Business, EC Business, Financial Related Business, and Incubation Business —and discloses information on them. Since 1Q FY6/24, the existing IT/AI/IoT/DX Business and Customer Support Business have been combined to form the DX Business. In addition, the Company renamed the Insurance Business as the Financial Related Business and the Incubation & Investment Business as the Incubation Business.

On looking at the Group companies responsible for each business segment as of December 31, 2023, the DX Business is comprised of six companies, centered on Scala Communications, Inc., which mainly provides SaaS/ASP services. Of these, EGG CO., LTD., which became a subsidiary in 2022, is a pioneer that developed the first core system accompanying the start of the Furusato Nozei taxation system*, and its strengths include its network of many local governments (it has a track record of introducing the system to more than 680, or a third, of local governments in Japan). Moreover, Leoconnect, Inc., which became a subsidiary in 2018, conducts a customer support consulting business (call center operations, etc.).

* System that enables local government workers to simply and accurately manage donor information and thank-you gifts and create various related documents.

The HR & Education Business has a total of four companies, namely the three companies* of Athlete Planning, Inc., which became a subsidiary in 2020, Sports Stories, Inc., and FourHands, Inc., as well as Broncos20 Co., Ltd. which was made a subsidiary by Sports Stories in 2022. In addition, the EC Business is conducted by Scala PLAYce, Inc., which was made a subsidiary in 2017, while the Financial Related Business is conducted by Nihon Pet Small-amount Short-term Insurance Company, which was made a subsidiary in 2022. The Incubation Business includes Scala Partners, Inc., SOCIALX, INC., SCL Capital LLC, and the SCSV-1 Investment Limited Partnership, as well as the Company itself as the holding company.

* These three companies were placed under the umbrella of Grit Group Holdings Co., Ltd., which was made a subsidiary of the Company in 2020, but currently exist as the Company's subsidiaries. Grit Group Holdings was liquidated at the end of June 2022.

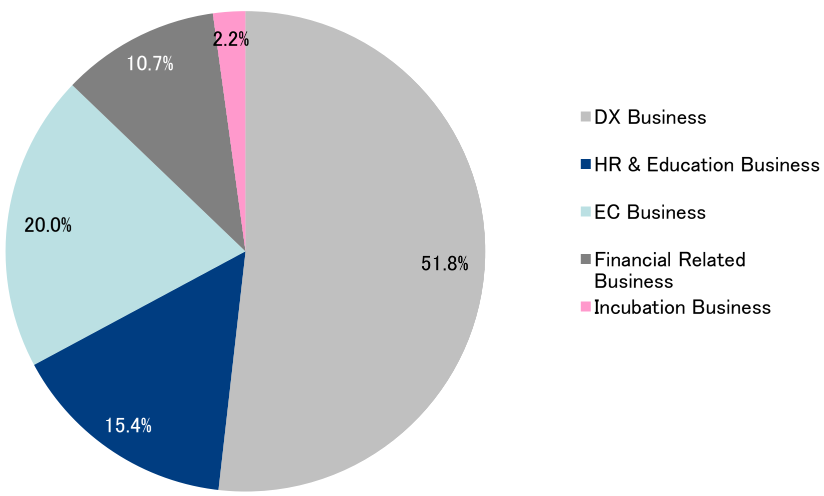
Group companies by business segment and business content

Business segment	Group company	Main business
DX Business	Scala Communications, Inc.	Provision of SaaS/ASP services, offshore development
	Scala Service, Inc.	Provision of SaaS/ASP services, call center service
	readytowork Co., Ltd.	Development of SaaS/ASP services, offshore development
	Retool, Inc.	Planning, development, and sales of cloud activity management tools
	EGG CO., LTD.	Systems development, maintenance, and network construction
	Leoconnect, Inc.	Customer support consulting (call center operations, etc.)
HR & Education Business	Athlete Planning, Inc.	HR recruiting (new graduate recruiting, mid-career recruiting) support, etc.
	FourHands, Inc.	Infant education, community development support, etc.
	Sports Stories, Inc.	Exercise education, sports school operation, etc.
	Broncos20 Co., Ltd.	Basketball club team management
EC Business	Scala PLAYce, Inc.	Management of an EC site for the buying and selling of battle-type trading cards
Financial Related Business	Nihon Pet Small-amount Short-term Insurance Company	Small-amount short-term insurance
Incubation Business	Scala, Inc.	Investment business
	Scala Partners, Inc.	Innovation, incubation, investment
	SOCIALX, INC.	Planning and operation of the Gyaku Propo public-private co-creation platform
	SCL Capital LLC	Investment fund management
	SCSV-1 Investment Limited Partnership	Investment fund

Note: As of the end of December 2023
Source: Prepared by FISCO from the Company's results briefing materials

Looking at the composition of revenue by business segment in 1H FY6/24, the DX Business contributed the majority share of 51.8%, followed by 20.0% for the EC Business, 15.4% for the HR & Education Business, 10.7% for the Financial Related Business and 2.2% for the Incubation Business.

Composition by business segment (1H FY6/24)



Source: Prepared by FISCO from the Company's financial results

(1) DX Business

The DX Business comprises the development and supply of various types of IT services, including SaaS/ASP services (i-series), such as inquiries via the Internet and telephone, information searches, and applications, along with contract development of various IT systems and the customer support business. SaaS/ASP services act as a stable revenue base by providing a recurring-income business model.

In the past few years, in order to accelerate the creation of new businesses and new services and to redefine its existing business, the Company has been actively advancing collaborations with partners that are experts in related technologies in various industries. To give an example, it has been developing, among other things, a public facility reservation system using digital IDs in partnership with xID Inc. and next-generation digital healthcare services through co-creation with a pharmaceutical company and a non-life insurance company and has been advancing initiatives to create services.

Going forward, the Company's strategy is to accelerate growth by participating in many co-creation development projects that will lead to solutions for social issues, while for SaaS/ASP services as well, it is projected that there will be an increase in cases where it provides these services as one development project menu. The fees for SaaS/ASP services are around ¥100,000 per month, but in the case of co-creation projects, fees are more than ¥2mn per month and it becomes a large-scale, recurring-income business. Lead times from the order to the start of service provision are becoming longer, which means it takes time to realize a profit, but operating efficiency is improving, so overall profitability is expected to increase as co-creation projects increase.

In addition, the customer support business, which is conducted by Leoconnect, provides consulting services for the management of inbound call centers, from the receipt of inquiries about customer companies' services and products through to the follow-up after responding to inquiries, and its main customers include the HIKARI TSUSHIN <9435> Group and its agencies. Earnings have remained sluggish over the past few years, and a recovery is likely to require considerable time. Therefore, this business may need to be reorganized.

Description of the DX Business services

Type	Product name	Description
Information searches	i-search	Internal search engine for websites
Content management	GEAR-S	API-based website construction tool
	i-ask	FAQ system
	i-catalog	Product site management system
	i-linkcheck	Link check services
Content delivery	i-linkplus	Service for displaying links to related pages
	i-gift	Digital gift service
	Fresheye™	Search portal site
	Corporate news services	News distribution service for corporations
Various types of reception	SaaS-type IVR	24-hour, 365-day automated voice response
	Campaign website construction	Campaign website construction and reception
Inquiry management	i-assist	Web chatbot system
	i-livechat	Web chat system
Data management	PatentManager6	Latest patent management system
	GripManager	Contract operations management system
IoT, big data	Safe driving analysis	Processing and management of big data

Source: Prepared by FISCO from the Company's results briefing materials and website

(2) HR & Education Business

In the HR & Education Business, just under 60% of sales come from the HR business and little over 40% of sales come from the education business. In the HR business, Athlete Planning provides services including a comprehensive employment support system for physical education students, a job hunt support service specifically for female students, and a second career support service for professional athletes. The source of earnings is from the planning and management of corporate joint briefing meetings to recruit new graduates (including holding events online). This service starts selling exhibition booths to companies in June every year for events scheduled to be held from December to March of the following year.

In the education business, FourHands provides educational services with high added value targeting infants to elementary school students. Its services include the Minna no Hoikuen nursery schools, Universal Kids international combination day care centers and preschool, UK Academy for cultivating an international sensibility among schoolchildren, and Largo KIDS daycare services, such as after-school activities specializing in exercise. Also, Sports Stories provides sports classes, including the Fine'z baseball schools for children, the BEAUT soccer school, the Dunkers basketball schools and Ballschule schools. A feature of these businesses is that they emphasize not only athletic ability, but also growth of noncognitive skills. Broncos20, which was made a subsidiary by Sports Stories in March 2022, manages the Saitama Broncos, which belong to the third division of the B.LEAGUE professional basketball league. Broncos20 also conducts a variety of activities under the Broncos brand, such as organizing basketball schools and managing fan club websites, as well as dispatching coaches for club activities in schools.

(3) EC Business

In the EC Business, Scala PLAYce buys and sells trading cards for battle-type games, and operates Card Shop - Yuyu-Tei, a reuse EC site with the functions of a capture site. The site has high name recognition in the gaming industry and is influential to the extent that it is used as a reference indicator for the pricing of used cards, and it has established itself as the industry's No. 1 EC shop in the purchase and sale of trading cards. From FY6/20, it also started purchases from overseas users and the transaction circulation value has continued to grow at a double-digit annual rate.

(4) Financial Related Business

The Financial Related Business is conducted by Nihon Pet Small-amount Short-term Insurance Company, which was made a subsidiary in April 2022. It provides the Inu to Neko no Hoken (Insurance for Dogs and Cats) insurance for pets, which features a lineup of insurance products with unique features, such as a 90% reimbursement rate. For the future, it also plans to expand its business from pet insurance into various pet-related adjacent services. It is also considering developing a service in the future to support the transfer of risks facing companies, local governments and others by data analysis and risk analysis that use AI, developed as an optimal risk transfer technology.

(5) Incubation Business

The Incubation Business consists of business investment conducted by the Company, regional revitalization-related services in collaboration with local governments, and services to facilitate M&As that support operations. It also includes new business development by Scala Partners, and regional revitalization-related services centered on the management of the Komforta Workation website to introduce workation facilities. In addition, it includes the Gyaku Propo public sector-private sector co-creation platform provided by SOCIALX; investments which is a value co-creation engagement fund managed by SCL Capital; and improvements in value relating to other investments.

Gyaku Propo is a service private-sector companies, such as large or startup companies, can use when they want to speedily implement measures, such as ascertaining demand trends and verifying hypotheses, for a new business that solves social issues. In a conventional public offering proposal, a company aiming to win a project produces and submits a project plan to a soliciting local government with a budget, and a third party evaluates and selects a winner. Conversely, in Gyaku Propo, a company openly solicits local governments who may want to participate in the theme for solving social issues that the company plans while shouldering the costs itself. Local governments can participate by preparing and submitting proposal documents, such as demonstration experiments, in accordance with the theme. As multiple local governments may be selected, companies can also conduct many demonstration experiments. Budgets for the projects will be paid to selected local governments by companies participating in the public offering in the form of "donations." While SOCIALX receives little revenue directly from Gyaku Propo, it has received orders for system development projects utilizing Gyaku Propo, and has positioned it as a tool for expanding public-private co-creating projects because it also increases opportunities for receiving orders for projects such as DX support from matched local governments.

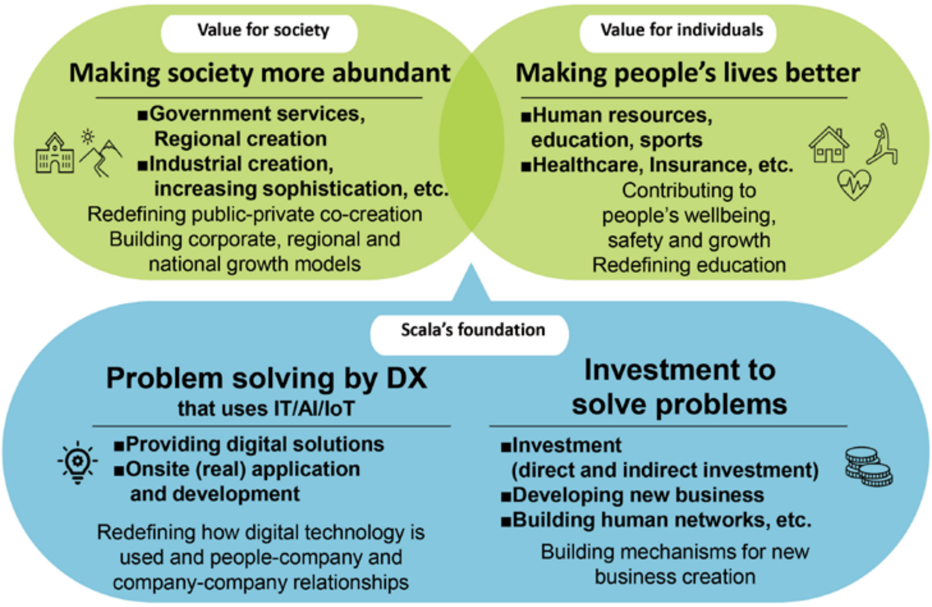
Aiming for the pinnacle of social contribution by providing value for "society" and "the lives of individuals" based on DX

3. Vision

The Company has set the theme of its Group Vision as "Scala makes the world where valuable things come springing up." The Company will promote a cycle of identifying value and people that recognize it, then deliver it with the appropriate form, method, and timing, while creating new value and technologies that surpass existing value. Towards realizing this Group Vision, the Group has formulated "VISION 2030" (realizing a society where people can live in their own way at all times, indefinitely) to describe the direction that it should take. The Group has positioned "being a platform for human growth focusing on providing growth opportunities" as the theme of its medium- to long-term strategy.

By promoting the solution of issues by DX using the Company's IT/AI/IoT and investment for solving issues, the Company will provide opportunities for all to grow and participate. When individuals grow, those around them who empathize and co-create with them will grow in turn. Through the cycle of empathy and co-creation, a cycle of social development is formed. The Company aims to contribute to society and increase its corporate value by continuing to provide various kinds of value for society and the lives of individuals.

Providing value for society and for the lives of individuals based on DX



Source: The Company's results briefing materials

Results trends

In the 1H FY6/24 results, revenue decreased due to a downturn in the DX Business, leading to an operating loss

1. Overview of 1H FY6/24 results

In the 1H FY6/24 consolidated results (continuing operations basis), revenue decreased 10.1% YoY to ¥5,694mn, operating loss amounted to ¥237mn (a profit of ¥136mn in the same period of the previous fiscal year), loss before tax amounted to ¥253mn (a profit of ¥116mn), and loss attributable to owners of parent amounted to ¥246mn (a profit of ¥90mn).

1H FY6/24 consolidated results (consolidated, IFRS, continuing operations)

(¥mn)

	1H FY6/23		1H FY6/24		YoY	
	Results	vs. revenue	Results	vs. revenue	% change	Change
Revenue	6,336	-	5,694	-	-10.1%	-642
Cost of sales	3,810	60.1%	3,413	59.9%	-10.4%	-397
SG&A expenses	2,393	37.8%	2,508	44.1%	4.8%	115
Other income/expenses	3	0.1%	-9	-0.2%	-	-12
Operating profit	136	2.1%	-237	-4.2%	-	-373
Profit before tax	116	1.8%	-253	-4.4%	-	-370
Profit attributable to owners of parent	90	1.4%	-246	-4.3%	-	-336

Note: Other income/expenses include(s) gain/loss on securities related to investment business
Source: Prepared by FISCO from the Company's financial results

Revenue decreased, weighed down by a significant YoY decline of ¥810mn in revenue in the mainstay DX Business, although revenue increased in the HR & Education Business, EC Business and Incubation Business. Meanwhile, the EC Business was the only segment in which operating profit increased. The DX Business posted a ¥329mn decrease in operating profit, and the HR & Education Business, Financial Related Business, and Incubation Business, etc. also posted either declines in operating profit (or larger operating loss) due to increases in upfront investment outlays such as development and marketing costs for new services and products. The Company does not disclose its forecasts for 1H results. However, it looks like results in the DX Business were lower than forecast. This was mostly because of the effects of temporarily suspending a new development project for a certain customer for customer-related reasons.

Results by business segment

(¥mn)

		1H FY6/23 Results	1H FY6/24 Results	YoY	
				% change	Change
DX Business	Revenue	3,759	2,949	-21.6%	-810
	Operating profit	200	-128	-	-329
HR & Education Business	Revenue	811	874	7.8%	63
	Operating profit	105	86	-18.2%	-19
EC Business	Revenue	1,035	1,138	10.0%	103
	Operating profit	136	147	8.3%	11
Financial Related Business	Revenue	632	606	-4.1%	-26
	Operating profit	-83	-126	-	-42
Incubation Business	Revenue	95	123	30.4%	28
	Operating profit	-122	-127	-	-5

Source: Prepared by FISCO from the Company's financial results

Although earnings declined in the mainstay DX Business, new co-creation-type projects have gradually started to produce results

2. Trends by business segment

(1) DX Business

In the DX Business, revenue decreased 21.6% YoY to ¥2,949mn and operating loss was ¥128mn (a profit of ¥200mn in the same period of the previous fiscal year). But when based on the non-GAAP indicator, operating profit before the allocation of Company-wide costs fell sharply by 62.5% to ¥199mn. In terms of results for each major company, Scala Communications, Inc. posted revenue of ¥1,600mn, a decrease of 16.6% YoY, and operating loss of ¥140mn (profit of ¥72mn in the same period of the previous fiscal year), while EGG CO., LTD. posted revenue of ¥658mn, a decrease of 46.9%, and operating profit of ¥65mn, a decrease of 62.8%. These results indicate a significant drop in performance for both of the two major companies in this segment.

Of these companies, EGG CO., LTD. saw decreases both in revenue and profit, although it made some progress on winning over projects supported by the Digital Garden City National Fund (frailty prevention project, etc.). These decreases were mostly due to the end of the Go To Travel campaign, which had contributed to earnings in the same period of the previous fiscal year, along with the downsizing of nationwide travel support projects. Another factor was that EGG CO., LTD. accelerated the recording of development costs for a local government project scheduled for delivery in 3Q. However, these negative factors were anticipated at the beginning of the fiscal year, so progress was in line with the Company's forecasts. On the other hand, Scala Communications, Inc.'s downturn in business performance was mainly caused by the temporary suspension of a new development project for a major insurance company for customer-related reasons, resulting in a contraction in sales and a decline in earnings. While steady progress is being made in obtaining new customers, it was insufficient to offset the consequences of the negative factors.

Results by subsidiary

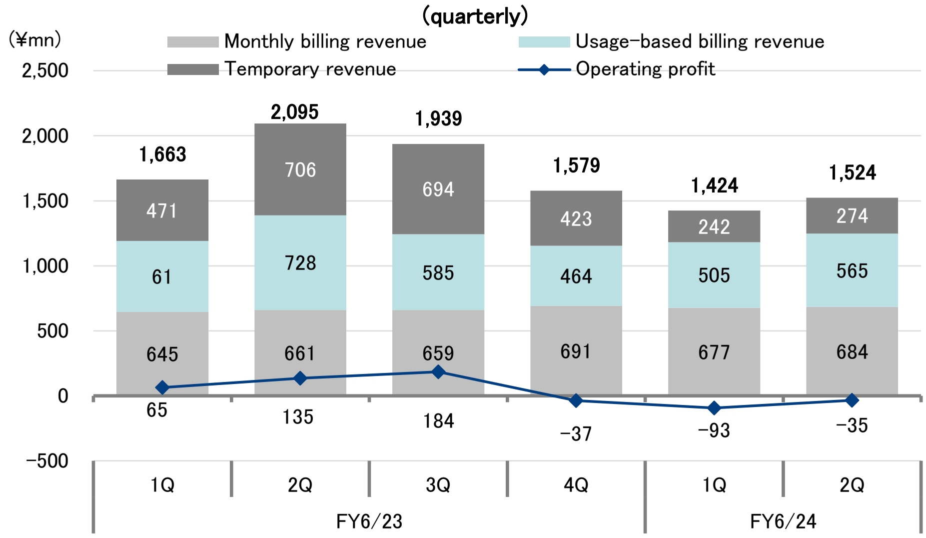
(¥mn)

		1H FY6/23 Results	1H FY6/24 Results	YoY	
				% change	Change
Scala Communications, Inc.	Revenue	1,918	1,600	-16.6%	-317
	Operating profit	72	-140	-	-213
EGG CO., LTD.	Revenue	1,239	658	-46.9%	-581
	Operating profit	176	65	-62.8%	-110
Others	Revenue	601	689	14.7%	88
	Operating profit	-48	-53	-	-4

Note: Others represents the aggregated amount of consolidation adjustments with companies other than Scala Communications, Inc. and EGG CO., LTD. in this segment.
Source: Prepared by FISCO from the Company's results briefing materials

Looking by type of revenue, revenue from monthly billing for SaaS/ASP services such as "i-series" increased by a steady 4.3% YoY to ¥1,362mn, due to the acquisition of new customers, while revenue from usage-based billing decreased 16.1% to ¥1,070mn and temporary revenue fell 56.1% to ¥516mn, representing a large decline in both figures.

Breakdown of revenue and operating profit in the DX Business (quarterly)



Source: Prepared by FISCO from the Company's results briefing materials

The status of projects that are expected to become large projects, such as the co-creation projects that the Company has been focusing on in the past few years, is as follows.

a) Facility Reservation System linked with a digital ID

By 1H FY6/24, the Company has received orders from three local governments for the Facility Reservation System linked with a digital ID, which Scala Communications, Inc. developed in collaboration with its partner xID Inc. In January 2024, Kyotango City in Kyoto Prefecture began operating one of these systems. The system was introduced to enhance resident services by allowing online user registration for facilities via links with the My Number Card. It also accepts credit cards and ID payment for online payments. The Company aims to receive orders from 37 local governments by the end of FY6/24. With an average unit price per order of ¥5.70mn*, the majority of revenue will be recorded as temporary revenue when implementation support is provided. However, because the system generates monthly billing revenue and related income, if the number of local governments that implement it grows, the system will contribute as a source of recurring revenue.

* Average unit price = (Temporary revenue + monthly revenue generated in the current fiscal year) ÷ number of revenue-generating months in the current fiscal year

Facility Reservation System linked with the My Number Card

Source: The Company's website

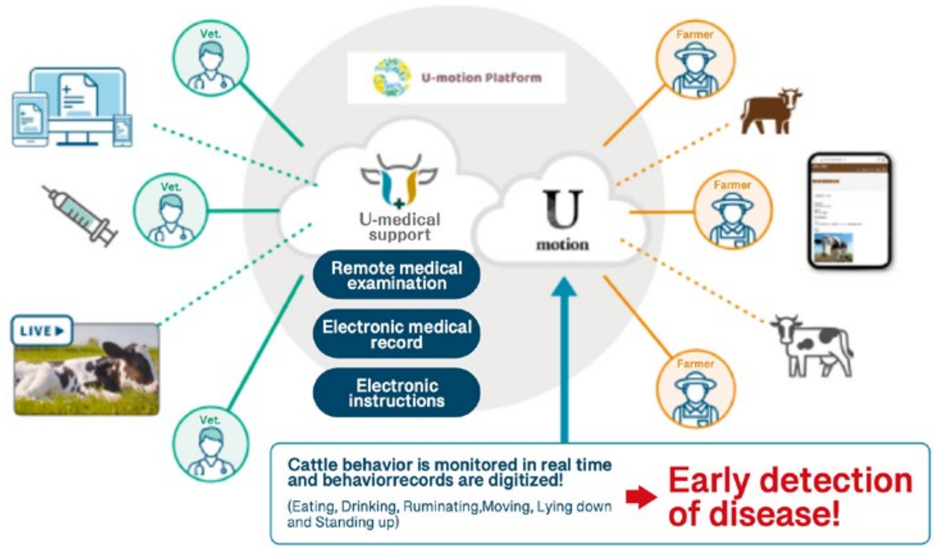
b) Livestock DX

In livestock DX, eG Plus, a system for utilizing data from genomic test results of dairy cattle, was jointly developed by Scala Communications, Inc. and Elite Genomics Co., Ltd. The system went into service in January 2023, and operations began smoothly. The technology is linked with the system of Neogen Corporation, the largest genomic testing company in the U.S., and is available as a smartphone app that allows users to view genomic test results for dairy cattle in Japanese and perform various analyses. It enables users to efficiently enhance dairy cattle through genomic analysis, and is widely used in Europe and the U.S. There has previously been no system in Japan that allows for easy genomic testing and analysis, so this system will be developed to help with dairy farm management in the country. The Company recognized development fees as temporary revenue in FY6/23. It also records a usage fee as revenue based on the number of tests (¥500 per test). In 1H FY6/24, the average monthly number of tests was 976, resulting in revenue of around ¥3mn, which is still small. However, the Company should be able to develop the system horizontally, and as a result, it is projected to become a source of steady earnings.

In addition, in January 2023 the Company began providing U-Medical Support, a comprehensive medical treatment support tool with functions including remote treatment, electronic medical records and generating instruction documents, jointly developed with desamis Co., Ltd. and Mitsui Sumitomo Insurance Company, Limited. The cows' health condition is grasped through U-motion®*1, a cow behavior monitoring system developed by desamis. When a change in the cow's condition is observed but a veterinarian is unable to attend on-site, dairy farmers can use the U-Medical Support smartphone app to contact a veterinarian and request remote treatment. Therefore, the use of U-Medical Support is expected to be effective in preventing further deterioration. As a further benefit, the system also helps reduce the workload of veterinarians. There are around 1.37mn dairy cows in Japan, and U-motion® is used for around 100,000 of them. The deployment of U-Medical Support is progressing steadily through desamis. With U-Medical Support, a fixed proportion of monthly usage fees*2 paid by veterinarians is recorded as the Company's sales, so the contribution to results immediately after its launch has been minimal, but the service is expected to contribute as a stable source of revenue as the number of facilities using it increases and through horizontal development. The Company will continue to work on developing new functions for U-Medical Support, such as a chat function that allows dairy farmers to share information with one another, and a bulletin board function that serves as a community hub for veterinarians, with the aim of increasing widespread adoption of this tool.

*1 A service that grasps a cow's health condition in real time by recording its primary actions, including rumination, movement, lying down and standing up, 24 hours a day, 365 days a year through a sensor attached to its neck.
*2 Monthly fees are ¥20,000 per account and ¥50,000 per business establishment, but dairy farmers can use the service for free. It is possible that rates will change as functions are added. Incidentally, Japan has around 4,000 veterinary facilities involved in treating livestock.

U-Medical Support



Source: The Company's website

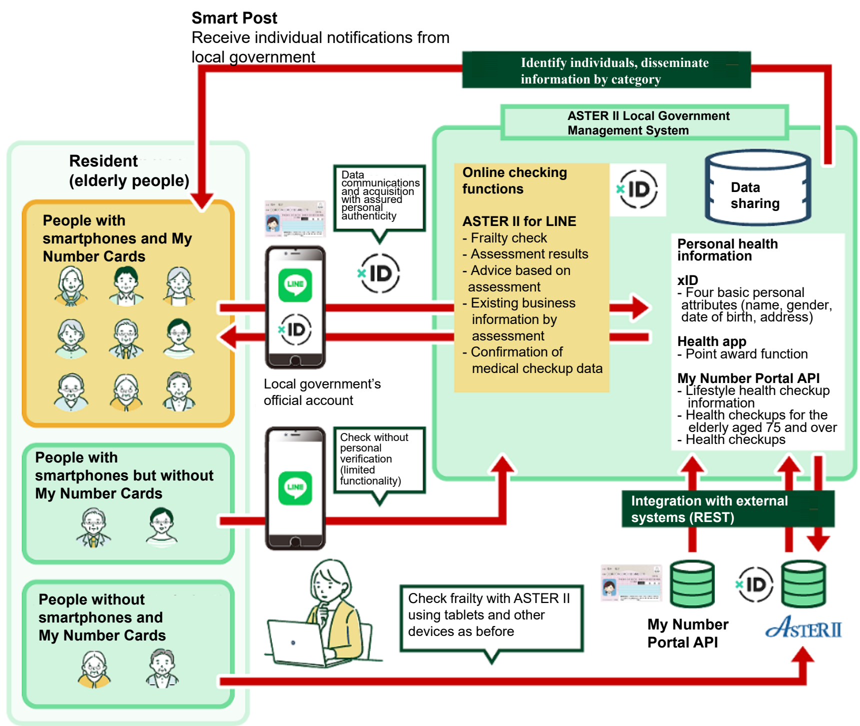
c) Frailty prevention project for local governments

By 1H FY6/24, the Company had secured orders from three local governments*1 for ASTER II, an early frailty detection system developed and provided by EGG CO., LTD., as a project supported by the Digital Garden City National Fund, and it aims to win three more orders in 2H FY6/24. Using the local government's official LINE account as a starting point, the system enables individuals to use their My Number for personal authentication and to conduct frailty assessment checks on their smartphones. The system is designed to prevent frailty by gathering assessment results in the local government's administration system and directing staff to provide intervention and guidance based on the assessment results. The system's implementation is expected to contain the increase in the number of caregivers for those in need of nursing care while also boosting health and lowering the nursing care cost burden. The average unit price per system*2 is ¥23.45mn. Although a high share of temporary revenue is generated when deploying the system, the business model also allows the Company to receive monthly fees. Therefore, an increase in the number of local governments deploying the system will create a steady stream of earnings.

*1 Orders were received from Taka Town, Hyogo Prefecture, and Hino Town, Tottori Prefecture in FY22 and from Yonago City, Tottori Prefecture in FY23.
*2 Average unit price = (Temporary revenue + monthly revenue generated in the current fiscal year) ÷ number of revenue-generating months in the current fiscal year

In addition, as a new system, the Company is currently developing a solution that automatically collects frailty assessment data, as well as various other types of data from the Kokuho Database (KDB), core nursing care system, and other sources, uses AI to perform predictive analysis and detect individuals with a high risk of frailty, and automatically notifies local government staff. The Company plans to release the new system sometime within FY6/24. As the number of people requiring nursing care continues to increase as Japan becomes a super aging society, widespread adoption of this system is expected as a solution to reduce social insurance expenditures.

Schematic diagram of ASTER II for LINE



Source: The Company's website

(2) HR & Education Business

The HR & Education Business posted an increase in revenue and decrease in profits, with revenue increasing 7.8% YoY to ¥874mn, while operating profit decreased 18.2% to ¥86mn and operating profit before allocation of Company-wide costs based on the non-GAAP indicator decreased 14.3% to ¥115mn. Of these amounts, Athlete Planning, Inc.'s recruitment support services saw a 5.6% increase in revenue to ¥487mn, but an 11.1% drop in operating profit to ¥126mn. Revenue increased as a result of an increased need for companies to exhibit at recruitment events in response to the trend of bringing forward the job-hunting process. (The number of events increased by 4 to 39, while the number of companies exhibiting increased by 63 to 659.) Meanwhile, on the profit front, upfront investment outlays (mainly increased personnel costs) in new businesses like the mid-career job change support business and the career education business for students reduced profits. The Company believes that these new businesses can be monetized early on because they allow it to leverage its current business networks and expertise. The mid-career job change support business has already started. In the future, the Company aims for this business to generate nearly the same amount of revenue as new graduate job-hunting support services. On the other hand, in the career education business for students, the Company is currently considering whether to provide this service independently or to supply education content alone to education-related companies. The business will be started once a definitive direction has been established.

Meanwhile, revenue of other subsidiaries carrying out the daycare and education services business, among other operations, increased 10.8% to ¥387mn, while the operating loss was ¥39mn (a loss of ¥36mn in the same period of the previous fiscal year). The daycare services Universal Kids Shinagawa (directly managed), which was opened in April 2023, Universal Kids Bangkok (program provision only, under another company's management), and Global Education Center, a program for school-aged children that specializes in English language education, all contributed to revenue. Broncos20 Co., Ltd. launched a fan club website for the Saitama Broncos, a professional basketball team, which led to a steady increase in membership. However, on the profit front, a slight loss remained due to start-up costs for new sites and an increase in the basketball team's running costs.

Results by subsidiary

(¥mn)

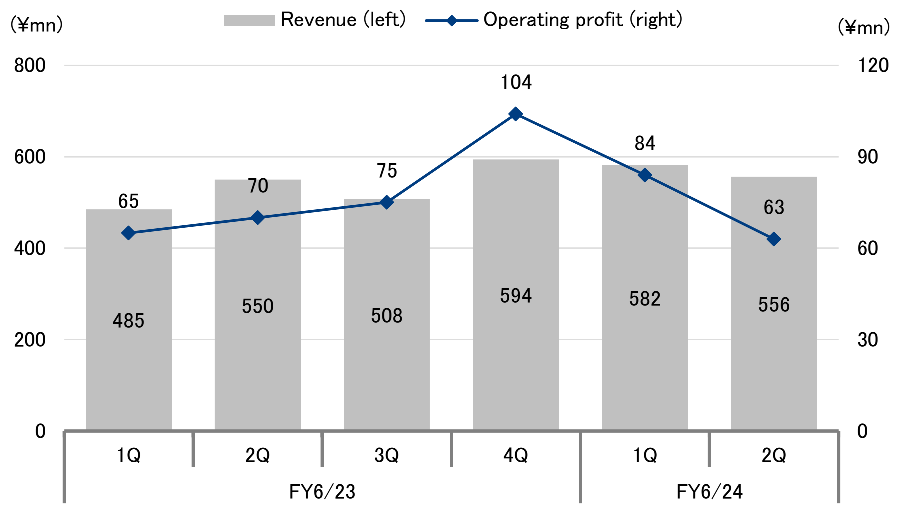
		1H FY6/23 Results	1H FY6/24 Results	YoY	
				% change	Change
Athlete Planning, Inc.	Revenue	461	487	5.6%	25
	Operating profit	142	126	-11.1%	-15
Others	Revenue	349	387	10.8%	37
	Operating profit	-36	-39	-	-3

Note: Others represents the aggregated amount of consolidation adjustments with companies other than Athlete Planning, Inc. in this segment.
Source: Prepared by FISCO from the Company's results briefing materials

(3) EC Business

Revenue in the EC Business, which is carried out by Scala PLAYce, Inc., increased 10.0% to ¥1,138mn, operating profit rose 8.3% to ¥147mn, and operating profit before the allocation of Company-wide costs based on the non-GAAP indicator increased 6.7% to ¥179mn, as both revenue and profits continued to increase, setting new record highs. With the market scale for trading cards expanding every year, the Company worked to implement digital marketing initiatives such as Search Engine Optimization (SEO) and improve usability by enhancing user interface and user experience (UI/UX). It also saw a steady increase in the member users of an Android app released in May 2023, and it completely redesigned the EC website Card Shop – Yuyu-Tei in September 2023. These and other measures met with success, leading to an increase in revenue. KPIs also followed a solid trend. As of December 31, 2023, membership had increased 23.5% to 265,000, inventories had increased 32.0% to ¥323mn, monthly pageviews in December had increased 22.0% to 9,138,000, and unique users had increased 39.1% to 655,000. However, revenue and operating profit have both decelerated, with revenue increasing 1.0% to ¥556mn and operating profit decreasing 11.1% to ¥63mn for 2Q alone. Performance trends in 3Q and beyond will need to be monitored closely.

Trends in quarterly results in the EC Business



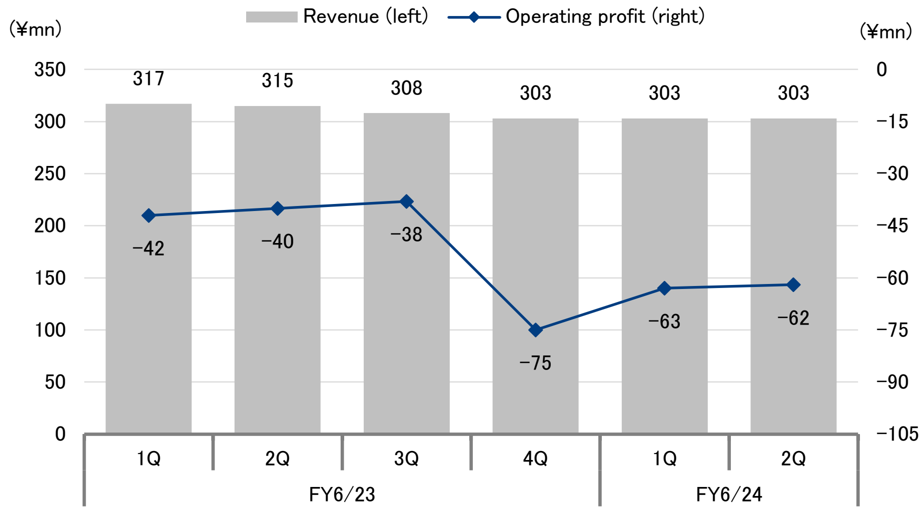
Source: Prepared by FISCO from the Company's results briefing materials

(4) Financial Related Business

In the Financial Related Business, which is carried out by Nihon Pet Small-amount Short-term Insurance Company, revenue decreased 4.1% YoY to ¥606mn, the operating loss was ¥126mn (a loss of ¥83mn in the same period of the previous fiscal year) and the operating loss before allocation of Company-wide costs based on the non-GAAP indicator was ¥108mn (a loss of ¥65mn in the same period of the previous fiscal year). Losses continued to be recorded due to upfront investments in strengthening marketing and developing new products to strengthen earning capabilities. However, the number of insurance policies has resumed an upward trend, albeit gradually, rising to 27,781 in December 2023 after hitting bottom at 27,703 in July 2023. In addition, efforts to review sales agencies*1 and tighten payment standards have led to an improvement in the insurance loss ratio*2. These and other efforts undertaken since Nihon Pet Small-amount Short-term Insurance Company became a subsidiary have started to deliver benefits, and it is thought that progress is being made toward strengthening the management base for monetization. If the number of policies continues to increase in the future, reported losses are expected to persist for some time due to an increase in the accumulation of policy reserves. Nonetheless, the Company aims for this segment to be profitable in FY6/26.

*1 The Company is working to eliminate agencies with poor sales efficiency (agencies with low policy continuation rates) and acquire new agencies (including online agencies).
*2 The insurance loss ratio (claims paid divided by premium income) decreased from 77.7% in FY6/22 to 67.9% in FY6/23. Similarly, the expense ratio (operating expenses divided by premium income) decreased from 112.8% to 100.8%.

Trends in quarterly results in the Financial Related Business



Source: Prepared by FISCO from the Company's results briefing materials

(5) Incubation Business

In the Incubation Business, revenue grew 30.4% YoY to ¥123mn, operating loss was ¥127mn (a loss of ¥122mn in the same period of the previous fiscal year), and operating loss before allocation of Company-wide costs based on the non-GAAP indicator was ¥125mn (a loss of ¥119mn).

Results by subsidiary

(¥mn)

		1H FY6/23 Results	1H FY6/24 Results	YoY	
				% change	Change
SOCIALX, INC.	Revenue	33	50	50.1%	16
	Operating profit	8	13	49.5%	4
Scala Partners Inc.	Revenue	41	85	107.3%	44
	Operating profit	-18	-10	-	7
Others	Revenue	20	-11	-	-32
	Operating profit	-112	-130	-	-17

Note: Others represents the aggregated amount of consolidation adjustments with companies other than SOCIALX, INC. and Scala Partners Inc. in this segment.
Source: Prepared by FISCO from the Company's results briefing materials

Looking at each company, SOCIALX, INC., which conducts business activities such as the operation of the Gyaku Propo public-private co-creation platform, saw steady growth, with revenue increasing 50.1% to ¥50mn and operating profit increasing 49.5% to ¥13mn. Gyaku Propo matching numbers steadily increased. In addition, SOCIALX, INC. became a selected entity of the Startup Support and Development Project by Diverse Entities (TOKYO SUTEAM)*, in response to a public call by the Tokyo Metropolitan Government, and it launched the Public-Private Co-creation Acceleration Program SOCIALX Acceleration in November 2023. SOCIALX, INC. will use this program to nurture entrepreneurs who are committed to solving social issues. SOCIALX, INC. will help startups improve their abilities to present proposals to investors by providing perspectives and approaches to solving social issues, as well as offer opportunities for horizontal service development. In the first public call for candidates, SOCIALX, INC. received entries from 70 companies and chose 15 as finalists. The final selection meeting to determine the winners among the finalists will take place in May 2024.

* The Tokyo Metropolitan Government issued an open call for and chose "selected entities," which are business enterprises that will support startups in collaboration with the Tokyo Metropolitan Government. The selected entities will provide a varied range of support to startups and those seeking to start businesses over a 1.5-year period, leveraging their ideas, networks, fields, and other strengths, in collaboration with the Tokyo Metropolitan Government and other selected entities. The Tokyo Metropolitan Government will pay a contractual fee based on the results of the selected entities' activities. The amount of the contractual fee will be determined based on an evaluation by an Evaluation Committee comprised of outside experts. This evaluation will be centered on fulfillment of KPIs set by the selected entities and the success of the project as a whole.

Moreover, as part of initiatives set forth in the Cooperation Agreement on Regional Circular Coexistence toward Realizing a Decarbonized Society, the Company is developing a business for the utilization of social credits by local governments through public-private co-creation with Itami City, Hannan City, and Iinan Town. In addition, under the program to promote public-private co-creation projects in Kyushu, which is co-hosted by the Kyushu Bureau of Economy, Trade and Industry and the Kyushu Open Innovation Center, the Company continued to take steps to establish a public-private co-creation economy, such as organizing workshops. Although these efforts have only a negligible direct impact on business results, they may lead to the Company receiving orders for system development projects that are needed for business development and grow into large projects.

Scala Partners, Inc. provides workation services* for corporations and new business development. At this company, revenue increased 107.3% YoY to ¥85mn, and operating loss was ¥10mn (a loss of ¥18mn in the same period of the previous fiscal year). The main drivers of revenue growth were an increase in the number of local governments with whom it collaborates or supports, as well as a doubling in the number of corporations that use its services to 40. Turning to the profit front, the segment continued to post a small operating loss, owing primarily to cost increases associated with new business development.

* A service to provide experiences that connect regions and people through preferred worksites and new work, which mainly entails managing the Komforta Workation website that introduces workation facilities.

The equity ratio is expected to temporarily decline due to the implementation of business structure reforms

3. Financial condition and business indicators

Looking at the financial condition at the end of 1H FY6/24, total assets were down ¥664mn compared to the end of the previous fiscal year to ¥17,652mn. In current assets, there was an increase in inventories of ¥109mn, and decreases in cash and cash equivalents of ¥75mn and income taxes refund receivable of ¥135mn. In non-current assets, there were decreases in property, plant and equipment of ¥56mn, right-of-use assets of ¥250mn, and other financial assets (non-current) of ¥107mn.

Total liabilities decreased ¥30mn from the end of the previous fiscal year to ¥10,196mn. Interest-bearing debt increased by ¥334mn, while there were decreases in lease liabilities of ¥271mn and income taxes payable of ¥75mn. Total equity declined ¥633mn to ¥7,455mn. This decrease was mainly due to loss attributable to owners of parent of ¥246mn in addition to outlays of ¥323mn for dividend payments.

Looking at business indicators, the Company's financial position deteriorated slightly, with the ratio of equity attributable to owners of parent decreasing from 42.8% at the end of the previous fiscal year to 40.8%, while the interest-bearing debt ratio increased from 76.6% at the end of the previous fiscal year to 87.9%. However, net cash (cash and deposits minus interest bearing debt) has remained positive, and financial soundness is considered to be maintained. With the start of large-scale business structure reforms in January 2024, the Company is expected to streamline its balance sheet, including impairment loss on goodwill, and the ratio of equity attributable to owners of parent, among other indicators, is projected to decrease further by the end of FY6/24. However, beginning in FY6/25, these indicators are expected to start improving due to the positive effects of business structure reforms.

Consolidated statement of financial position (IFRS) and business indicators

(¥mn)

	FY6/21	FY6/22	FY6/23	1H FY6/24	Change
Current assets	12,991	12,030	10,280	10,070	-210
(Cash and cash equivalents)	9,809	9,625	7,740	7,664	-75
Non-current assets	7,338	8,786	8,035	7,581	-453
(Goodwill)	1,949	2,356	1,990	1,990	0
Total assets	20,330	20,816	18,316	17,652	-664
Total liabilities	9,859	11,810	10,227	10,196	-30
(Interest-bearing debt)	5,973	6,951	6,002	6,336	334
Total equity	10,470	9,006	8,089	7,455	-633
(Equity attributable to owners of parent)	10,162	8,687	7,832	7,206	-625
(Non-controlling interests)	308	318	257	248	-8
Business indicators					
(Stability)					
Equity attributable to owners of parent ratio	50.0%	41.7%	42.8%	40.8%	-2.0pt
Interest-bearing debt ratio	58.8%	80.0%	76.6%	87.9%	11.3pt
Net cash	3,835	2,674	1,737	1,327	-409

Source: Prepared by FISCO from the Company's financial results

Outlook

The outlook for FY6/24 results has been revised to undetermined, due to the implementation of large-scale business reforms

1. Outlook for FY6/24

In its outlook for FY6/24 consolidated results, the Company had previously expected increases in revenue and profits in its initial forecasts. However, as previously stated, earnings in the mainstay DX Business fell drastically, and while other businesses are performing steadily, overall progress has been slower than initially anticipated. In light of these conditions, the Company decided that it needed to conduct a thorough cost review and further business reorganization, as well as focus heavily on turning around the DX Business. Based on this decision, the Company began large-scale business structure reforms in January 2024, and expects to record a temporary large increase in costs. Therefore, the Company has set its outlook for FY6/24 results as undetermined until its forecasts may be firmed up to a certain extent.

FY6/24 consolidated results forecast (IFRS)

(¥mn)

	FY6/23 results	FY6/24	
		Initial forecasts	Current forecasts
Revenue	12,644	12,800	Undetermined
Operating profit	259	650	Undetermined
Profit before tax	233	620	Undetermined
Profit attributable to owners of parent	-218	420	Undetermined
Earnings per share (¥)	-12.62	24.24	Undetermined

Source: Prepared by FISCO from the Company's financial results

The specific details of business structure reforms are as follows. The Company will reduce fixed costs such as rent by downsizing Head Office space, as well as system usage fees and expert remuneration. Furthermore, it will reorganize unprofitable operations (including the sale of subsidiaries) and reduce the associated fixed costs by the end of FY6/24. The Company anticipates combined cost increases of up to ¥1.0bn to ¥1.5bn at the operating profit and profit before tax levels. These costs will include temporary costs incurred as a result of the aforementioned measures (for example, lease agreement penalties) and fees related to business reorganization (for example, consulting fees). Moreover, the business reorganization will result in impairment losses on goodwill and non-current assets, loss on sale of shares, and loss on valuation of other assets. Non-cash accounting losses of up to ¥2.0bn to ¥3.0bn are expected to arise at the levels of profit and profit attributable to owners of parent.

On the other hand, as the positive effects of business structure reforms, in FY6/25, the Company expects a positive impact on profits of approximately ¥0.2bn annually from business reorganization and approximately ¥0.6bn annually from fixed cost reduction. As its top priority, the Company will make every effort to strengthen the DX Business' profitability and return it to a growth trajectory by concentrating development and sales resources in the DX Business, which has so far been its mainstay business and has maintained high profitability. The Company plans to disclose the progress it is making with business structure reforms by the end of March 2024.

The business strategies for each business segment are as follows. In the DX Business, the Company will continue to focus on winning orders for large projects, such as public-private co-creation projects. In the HR & Education Business, the Company aims to expand business by developing newly launched businesses such as the mid-career job change support business and the career education business for students. In the EC Business, the Company's priorities are to increase inflow numbers to EC sites by continuously improving SEO as a measure to increase circulation value; to continuously renew EC sites by means such as improving UI/UX to increase members with high loyalty; and to strengthen trade-ins to enhance the product lineup. Moreover, the Company has introduced an AI-based image recognition system to increase delivery work efficiency and reduce costs and test operations have begun. If the benefits of this initiative materialize, profitability is expected to improve. In the Incubation Business, the Company will continue to focus on public-private co-creation projects such as Gyaku Propo. In addition, the Company has frozen all new investments in the fund-based investment business, with the intention of managing existing investment projects until they reach maturity.

Strengthening development and sales systems to restore profitability in the DX Business, with the aim of achieving a V-shaped recovery in FY6/25 and beyond

2. Medium term business plan

(1) Overview of the medium term business plan

This plan was announced in August 2023 as a three-year medium-term business plan that will run through FY6/26. The next three years are positioned as a period for "building a foundation for solid growth and redefining unique value," with FY6/26 targets of ¥15.5bn in revenue and ¥2.0bn in operating profit. However, as previously stated, the Company has unveiled a policy of carrying out business structure reforms and reorganizing unprofitable businesses. Accordingly, we at FISCO believe that the aforementioned numerical management targets will need to be revised going forward.

That said, there has been no change in the Company's basic policy. The Company's medium-term strategy has three points: 1) place "provision of opportunities that lead to human growth" at the center of the social value created by the Group and provide various services, 2) giving consideration to human capital management, create systems and measures to enable people within the Group also to reach their full potential, 3) the Group will serve as a platform for human growth, realizing both social and corporate value by circulating management resources and knowledge.

(2) Scala Group platforms

The Company has classified the Scala Group platforms (hereinafter, "PF") into three levels: Meta PF, Co-creation PF, and Foundation PF. The platforms serve as spaces to create interaction that solves social issues. The Company's strategy is to provide optimal services for solving social issues by creating organic links between PFs and engaging in co-creation with partners based on the details of each social issue. The Meta PF forms a junction point with partners and other PFs by gathering social issues through Gyaku Propo and other means and translating them into projects. By visualizing the process leading to value creation for observers in and outside the Company, the platform will create a cycle that draws in even more people and social issues, transforming social issues into growth opportunities. In terms of the status of progress on current measures, the Meta PF can be evaluated as progressing steadily on various fronts, including being chosen as a selected entity of TOKYO SUTEAM, as well as Gyaku Propo.

The Co-Creation PF is a platform for creating value for society through co-creation with individual businesses within the Group or partners in order to solve issues that have been translated into projects. As growth opportunities provided through the platform, the Company will develop services in three areas: expansion of individual potential (liberal arts), physical and mental health (wellness), and environmental enhancement (empowerment). Specific services include daycare and services for school-aged children, and a frailty detection and prevention system. In the liberal arts field, the Company launched two new services (the mid-career job change support business and career education business for students). Looking ahead, the Company plans to create a variety of services that provide human growth opportunities, both independently and by leveraging the knowledge of partners. These include a Personal Health Record (PHR) management service, services to support those balancing both childcare and work, and services that support the physical and mental development of parents and children through diet and exercise.

The Foundation PF comprises the Company's existing businesses, such as the DX Business, the HR & Education Business, the Financial Related Business, and the EC Business. In some cases, issues are solved directly by each business, in some cases they are solved by linking data of the functions of each business, and in some cases this PF might function as a part of the Co-Creation PF. Although progress has been slow, the Company positions value creation generated through co-creation by these PFs and partners as the Group's unique value and intends to strengthen future initiatives as a differentiation strategy.

(3) Strengthening the business management foundation

One of the key measures is to strengthen the business management foundation. Specifically, the Company has identified four points to address: rebuild the structure of business cooperation, promote the shared division and increase their capabilities, systems that enable participation by diverse human resources, and enhance monitoring.

a) Rebuild the structure of business cooperation

The Company will begin by narrowing its focus to specific priority services and enhancing existing profitable businesses. It will also increase the profit margin by efficiently capturing management resources (low-cost structure that naturally draws together people, physical equipment, money, and information), and diversify risks by strengthening collaboration with co-creation partners.

b) Promote the shared division and increase their capabilities

The Company will strive to allocate Group management resources even more effectively by supporting the entire Group's monetizing capability. This will be achieved by establishing a shared division within the Head Office in FY6/24, organizing marketing, survey/analysis, and development teams within the division, thereby enabling the shared division to support feasibility studies of new business plans. In terms of specific actions, the shared division has begun undertaking marketing and branding reforms in B2C businesses.

c) Systems that revitalize diverse human resources

The Company will help to clarify the future prospects for individuals by providing diverse growth opportunities and flexible options. It has started considering the overall framework, such as by clarifying the current options and available experiences, as well as future growth opportunities, and organizing systems that will promote revitalization of internal personnel. By introducing such systems, the Company plans to eliminate human resource shortages and realize an increase in productivity, and develop active human resources for the future.

d) Enhance monitoring

The Company will thoroughly implement various measures to address issues identified through monitoring (including decisions to change strategy or downsize/withdraw from businesses based on business aggregation assessment), paving the way for increased corporate value.

(4) Image of platform growth

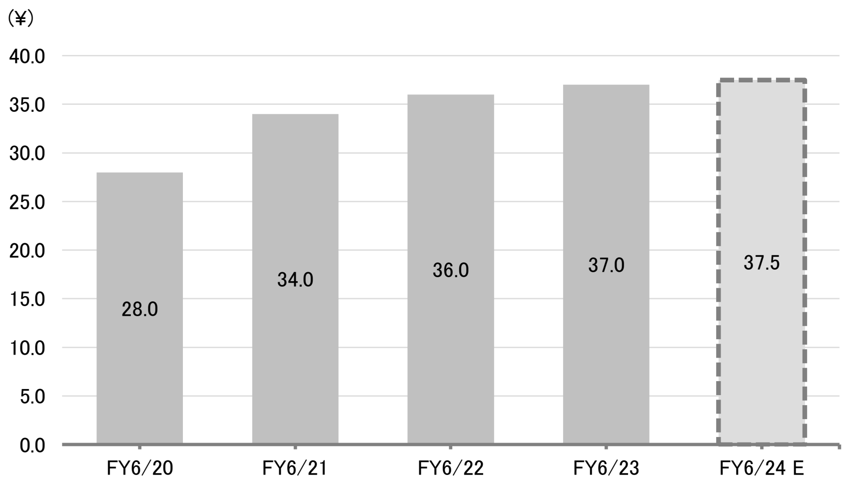
In the Company's image for revenue growth of the three PFs, the Foundation PF comprising existing businesses is to account for the majority of revenues up to FY6/26, but from FY6/27 onward, the Company believes that the growth of the Co-Creation PF will accelerate. As an indicative image of the composition of revenues in FY6/30, the Foundation PF will account for 60%, the Co-Creation PF 35%, and the Meta PF 5%.

Shareholder return policy

Proactive about returns to shareholders, and planning to pay higher dividends for the 15th consecutive period in FY6/24

The Company's basic shareholder return policy is to stably and continuously pay dividends and it aims to continually increase dividends under this policy. Although the Company expects to record a loss due to the implementation of business structure reforms in FY6/24, it will maintain its outlook for a dividend per share of ¥37.5, a ¥0.5 increase YoY, as initially forecast, because the dividends will be funded by profits generated from past investments. From FY6/25 onward, the Company intends to pay dividends based on profits generated in each fiscal year. To sustain the current dividend level, the Company may need to target an operating profit of roughly ¥1.0bn. Over the medium term, the Company will continue to increase its dividends while working to grow profits so that the dividend payout ratio will be below 50%. The Company will also consider acquiring treasury shares as appropriate in order to improve capital efficiency and implement a flexible capital policy in response to its business environment.

Dividend per share



Source: Prepared by FISCO from the Company's financial results

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