

Turning social challenges into a business opportunity

Scala, Inc. (4845: TSE Prime)

Recommendation rating (Mar 28)

Neutral

Stock Price	Unit of Investment	Market Cap	52-Week High	52-Week Low	P/E Ratio (Est.)
¥726 (3/28)	100 shares	¥12.58 billion (3/28)	¥814 (23/6/7)	¥677 (24/2/5)	— (3/28)

A large-scale structural reform in progress

Rebuilding the DX business

Scala, Inc. reported its consolidated business results for the first six months (July to December 2023; hereinafter, "the period under review") of the fiscal year ending June 2024 (FY06/24). In the period under review, sales revenue stood at ¥5.694 billion (down 10.1% year-on-year), and operating profit at a loss of ¥238 million (¥136 million in the same period of the previous fiscal year) on a non-GAAP basis. On an IFRS basis, sales revenue was ¥5.694 billion, and operating profit was a loss of ¥237 million. By business segment, the DX business posted a loss of ¥128 million (¥200 million in the same period of the previous fiscal year), and the Financial Related business a loss of ¥126 million (a loss of ¥83 million in the same period of the previous fiscal year). Profit in the HR & Education business decreased due to start-up costs for new businesses. On the other hand, the EC business continued to grow in both revenue and profit. The Incubation business remained in the red.

Since January 2024, the company has carried out a large-scale business structure reform to support the DX business. As a result, the company withdrew its earnings forecast for FY06/24 (initial forecast of ¥12.8 billion in sales revenue and ¥650 million in operating profit) and left it undecided. In particular, the company plans to cut fixed costs, such as office expenses, system usage fees, and professional fees, as well as to dispose of unprofitable businesses. **The restructuring costs are anticipated to be in the range of ¥1 billion to a maximum of ¥1.5 billion. Operating profit in FY06/25 is expected to increase by ¥200 million due to the business restructuring and by ¥600 million due to the fixed cost reduction.**

Expecting to turn a profit in FY06/25

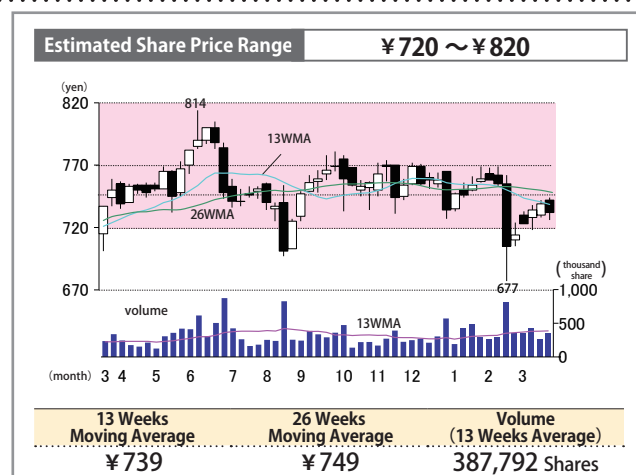
Looking at the condition in each business segment in the period under review, the DX business suffered a large drop in both sales and profit. In addition to a reactionary decline experienced by Scala's subsidiary EGG Co., Ltd. in businesses related to the Go To Travel Campaign and the Nation Travel Discount Program, Scala Communications, Inc. saw its projects reduced or delayed due to turmoil in the non-life insurance industry. In the HR & Education business carried out by Athlete Planning, Inc. or other affiliates, sales revenue increased by 7.8%

Financial Results (as of Mar. 28, 2024)

	Sales Revenue (Yen Mil)	YoY (%)	Operating Profit (Yen Mil)	YoY (%)	Income Before Income Taxes (Yen Mil)	YoY (%)	Net Profit (Yen Mil)	YoY (%)	EPS (Yen)
2022-6 Past Results	9,569	—	-191	—	-210	—	-526	—	-29.66
2023-6 Past Results	12,644	32.1	259	—	233	—	-218	—	-12.62
2024-6 Company est.	—	—	—	—	—	—	—	—	—
WA est.	11,300	-10.6	-650	—	-650	—	-650	—	-36.63
2025-6 WA est.	13,300	17.7	200	—	205	—	205	—	11.6

※ The company prepares its financial information under the International Financial Reporting Standards (IFRS); however, the above figures have been reconciled to non-GAAP measures by excluding adjustments and other items resulting from the application of IFRS (actual values).

※ The company forecast for FY06/23 is based on IFRS; the percentage change in WA forecast is compared to the results of the previous fiscal year (non-GAAP).



year-on-year thanks to the expansion of demand for event exhibitions as a result of the shift to an earlier start of job hunting by students. However, profit decreased by 18.2% year-on-year due to the impact of increasing the number of personnel for the launch of the new career change support service. The number of corporate exhibitors at Athlete Planning's key events targeting university sports club students increased to 630 (up 52 YoY), with a particularly notable increase in visiting-type events. Scala PLAYce, Inc.'s EC business continued to expand, with sales revenue increasing by 10.0% YoY and operating profit increasing by 8.3% YoY. Yuyu-Tei, an e-commerce site for trading cards, recorded an increase in memberships to 265,600 at the end of the period under review (up 23.5% YoY). The Financial Related business, which covers the Nihon Pet Small-amount Short-term Insurance, incurred heavy marketing and new product development costs amid sluggish sales. In contrast, the number of in-force policies turned upward as the proportion of customers with long-term contracts increased, and the loss ratio improved.

The competitive environment in the DX market is intensifying, calling for strengthened competitiveness and profit structure. Although the long-term growth potential of Scala's business performance is still significant, it is necessary to closely monitor the progress of its business structure reform for the time being. The

restructuring costs of \1 billion to \1.5 billion that the company has indicated may be lower than anticipated. Attention is also needed on whether the company will take drastic measures, such as reallocating or reducing personnel, and curbing hiring.

Wealth Advisor (WA) estimates Scala's operating profit to be a loss of \650 million in FY06/24 due to restructuring expenses. **However, it expects Scala to return to profitability in FY06/25 and beyond, assuming the structural reform takes effect. In addition to improving the profit structure of the DX business, expansion of profits from new services in the HR & Education business, and profit growth in the Financial Related business, where new products have performed well in the recent period, are also in sight.** Given all the facts, our forecast for the company's estimated share price is between \720 and \820. WA gives a "Neutral" rating to Scala as we estimate it will take time for market confidence to recover.

(Souta Suzuki)

Company Overview

Scala, Inc. initiated its business by providing the SaaS/ASP services. The company sees business opportunities in solving problems to enrich society and improve individual lives through DX utilizing IT, AI, and IoT. It excels at co-creating businesses with other companies and actively makes direct and indirect investments in addition to providing services. Scala pursues the DX business, which offers DX-related services, including i-search, an internal site search engine, and Interactive Voice Response (IVR, a telephone answering system), to major companies, local and national governments, and public offices. The company also conducts the HR & Education business, such as providing specialized support for hiring new graduates; the EC business, which operates an e-commerce site for reusable trading cards; the Financial Related business, which covers the Nihon Pet Small-amount Short-term Insurance; and the Incubation business.

Business Environment and Outlook

With the declining birthrate and aging population, the Japanese government aims to ease the population concentration in Tokyo by boosting the population and revitalizing local areas through regional development. As

Progress of Medium Term Business Plan

- ! Although there are some delays in the foundation platform, progress in priority strategies is generally on schedule.
- ! Continue to take measures to increase the probability of realizing "VISION 2030" based on monitoring results.

Redefine Unique Value	Meta Platform	Continued efforts to solve regional and social issues through public-private co-creation, including being selected as a TOKYO SUTEMAI partner.
	Co-creation Platform	Launched two new services in the liberal arts field that will lead to growth opportunities: "mid-career job change support" and "career education for students."
	Foundation Platform	Concluded that human growth through the DX business is the top priority for establishing unique value, and created a new system that enables sales and development, basic to grow gradually together with customers, and started operation (delisted from the initial schedule.)
Strengthen Business Management Infrastructure	Restructure Business Alliance Structure	Started by narrowing down focus services and refining existing profitable businesses.
	Promote and Enhance Shared Sectors	Started marketing/branding reform from B2C business.
	Systems that Energize a Diverse Workforce	Started to consider the overall concept for the institutional design.
	Deepen Monitoring	Thoroughly promote various measures to address issues revealed by monitoring (decisions on strategy changes, business downsizing and exit based on business profitability assessments, etc.).

※ Medium Term Business Plan 2024-2026 https://scalagr.jp/pdf/ir/release/midtermplan_20230814s.pdf

※ VISION2030: Our group's vision for 2030 and after, beyond the Medium Term Business Plan 2024-2026. "Realize a society where people can always and forever live their lives as they are."

Source: Scala, Inc.'s document

local governments increasingly focus on improving the livability of their residents through their unique measures, DX initiatives are critical to achieving their goals. Against this backdrop, Scala sees solving social issues as a business opportunity and builds up co-creation projects with local governments through various services developed in-house. In addition to developing multiple businesses such as e-commerce (for trading cards) and pet insurance, whose markets continue to grow, the company also pursues investment business.

Risk Factors

Scala's potential risks include major customers curbing IT investments due to the economic downturn, delays in development progress and additional costs due to larger and more complex projects, problems with SaaS/ASP services due to server failures, and the risk of loss in the Incubation business.

Shareholder Return (as of Mar. 28, 2024)

Dividends

		Dividend Per Share		
		First half	Second half	Annual
2022-6	Past Results	¥18.00	¥18.00	¥36.00
2023-6	Past Results	¥18.50	¥18.50	¥37.00
2024-6	Company est.	¥18.75	¥18.75	¥37.50

Shareholder Special Benefits

None

Competitor Comparison (Bold red figures indicate superiority to competitors) (as of Mar. 28, 2024)

	Scala, Inc. (4845: TSE Prime)	Techmatrix Corporation (3762: TSE Prime)	Cybozu, Inc. (4776: TSE Prime)
Stock Price	¥726	¥1,816	¥1,755
Basic Point	Unit of Investment	100 shares	100 shares
	Minimum Investment Amount	¥72,600	¥181,600
	Fiscal Year End	June	March
Share Price Indicator	P/E Ratio (est.)	—	41.2 x
	PBR	1.6 x	3.8 x
	Dividend Yield (E)	5.2%	1.4%
Growth	Revenue Growth Rate (E)	—	13.0%
	Operating Profit Growth Rate (E)	—	4.0%
	EPS Growth Rate (E)	—	152.3%
Profitability	Operating Margin (E)	—	10.8%
	ROE	—	31.3%
	ROA (Ordinary income/Total assets)	—	20.4%
Financial Stability	Equity Ratio	40.8%	58.5%
	Debt-to-Equity (D/E) Ratio	76.6%	0.0%
	Current Ratio	180.2%	143.6%

We have chosen TechMatrix (3762) and Cybozu (4776) as comparable entities.

■ Growth

Due to the slump in the DX business, Scala will carry out a large-scale business structure reform in FY06/24. Despite the temporary restructuring costs, Japanese local governments have strong IT needs, and the company is expanding its customer base through its unique services. We expect the company to return to a growth track from FY06/25 when the anticipated effects from structural reform will result in financial benefits. While the company has yet to withdraw its medium-term business plan targets (sales revenue of ¥15.5 billion and operating profit of ¥2 billion) for FY06/26, we deem the company needs to overhaul the targets considering its current business climate.

■ Profitability

Scala has not decided on its earnings forecast for FY06/24 due to its business restructuring. The company will likely post a one-time operating loss attributed to substantial restructuring costs. However, the company expects the earnings boost from fixed-cost cuts to start in FY06/25.

■ Financial Stability

Scala's equity ratio was 40.8% in FY06/23. Interest-bearing debt decreased to ¥6.336 billion from ¥6.826 billion in the previous fiscal year. On the other hand, losses are expected due to business restructuring in FY06/24. The company, however, has maintained its dividend forecast (annual ¥37.5 per share) even after withdrawing its earnings forecast.

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How to Read Wealth Advisor Equity Research Report

Our Uniqueness

(1) Emphasize Its Position as an Independent Evaluation Organization

Wealth Advisor emphasizes its position as an independent evaluation organization and is committed to providing objective comparison and assessment in the Wealth Advisor Equity Research Report. For all stocks covered by us, we determine investment decisions, estimated share price range and earnings forecasts based on expertise of an individual analyst as well as the stock assessment committee consisting of several analysts.

(2) Universe of Covered Stocks

The stock assessment committee selects covered stocks based on the following criteria.

[Stock Selection Criteria]

- Domestic emerging companies that are rarely covered by analysts
- Stocks that are popular among retail investors (refer to data from online security brokers)
- Size of market capitalization (over about 5 billion yen)
- Exclude stocks which are liquidated or trade control, or stocks with going concern and excessive debt

(3) Investment Decisions Classified into Three Groups

We determine investment decisions for covered stocks after consultation with the stock assessment committee based on research, interview and analysis by each Wealth Advisor analyst.

Each stock is classified into either of three groups according to the following criteria.

Overweight

: Forecasted to go beyond the current stock price level by 15% or more in the next 6 months.

Neutral

: Forecasted to fall into the range of -15% ~+15% of the current stock price level in the next 6 months.

Underweight

: Forecasted to go below the current stock price level by 15% or more in the next 6 months.

We flexibly respond to any changes of observations regarding earnings forecasts, financial situations and stock price trends, and change investment decisions accordingly. "Under Review" status may be applied if any new information comes out and extra time is needed to determine investment decisions. Also we don't change investment decisions during trading hours. "Suspension" status may be applied when an analyst leaves our company.

(4) Estimated Share Price Range in the Medium Term

It shows the price range for a stock price in the next 6 months. We determine upper and lower range of stock price based on fair value estimates from share price indicator, technical factors such as chart points, most recent high and low prices, trend line and moving average, trading volume in each price range and such.

Analysis Points

■ Analyst Comment

Each analyst reports and evaluates the most recent earnings trend and business environment. It shows the most important information for stock investment such as evidence for investment decisions, perspectives on earnings forecasts and business prospects. Also to make sure it is easy to comprehend, we write in 2-4 paragraphs and use bold to emphasize important texts.

■ Revenue and Earnings Trend

It reports earnings in past two fiscal years, company forecasts and our forecasts for the current and next fiscal year. We predict earnings based on research as well as past quarterly earnings trend and analysis by segments.

■ Company Overview

It explains in detail what businesses the company is engaged in and how revenue sources are defined. Also on the basis of our research, it discusses what businesses the company will focus on in years to come and how it carries out mid-term business plan.

■ Business Environment and Outlook

It discusses current circumstances and growth potential of the industry to which the company belongs. A comprehensive report on the industry from different perspectives is provided through research interviews to competitors. Specific figures of the industry data are also introduced.

■ Risk factors

It shows the company's risk factors and describes various aspects of risks such as business, earnings and financials. Typical stock market risks are also taken into consideration.