COMPANY RESEARCH AND ANALYSIS REPORT

Scala, Inc.

4845

Tokyo Stock Exchange Prime Market

23-Apr.-2025

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Contents

Summary

Return to profitability in 1H FY6/25 for the first time in two years. Return to a growth trajectory from FY6/26 onward

Scala, Inc. <4845> (hereafter, also “the Company”) operates under the corporate philosophy of “demonstrating ethical values,” “fulfilling social responsibility,” and “achieving lasting prosperity.” Centered on IT businesses, the Company has expanded through M&As. However, in response to a downturn in performance, it undertook structural reforms in FY6/24, and from FY6/25 onward, it has been striving to restore performance under a new management structure.

1. Overview of 1H FY6/25 results

In continuing operations in 1H FY6/25* (July to December 2024), revenue increased 3.9% year on year (YoY) to ¥4,803mn and operating profit was ¥264mn (loss of ¥162mn in the same period of the previous fiscal year), marking a return to profitability for the first time in two years. In the mainstay DX Business, a major development project for a financial services company was delivered on schedule and fixed costs such as personnel expenses and rents were reduced due to the effects business structural reforms carried out in 2H FY6/24, which contributed to increases in sales and profit. The results represent smooth progress on the Company’s forecasts (revenue of ¥4,890mn and operating profit of ¥175mn), even exceeding the operating profit target. Business structural reforms are now about 70% complete, and the Company plans to have them fully completed, including the sale of unprofitable businesses, by the end of FY6/25.

> * In 3Q FY6/24, the Company sold its shares of FourHands, Inc., and removed it from the scope of consolidation. It did the same for readytowork Co., Ltd., Sports Stories, Inc., and Broncos20 Co., Ltd. in 4Q FY6/24 and Retool, Inc. in 2Q FY6/25. Additionally, in July 2024 it resolved to dissolve and liquidate Leoconnect, Inc. As a result, these businesses have been excluded from business results as discontinued operations and YoY comparisons have been adjusted to only include continuing operations.

2. FY6/25 forecasts

The forecast for FY6/25 results sees revenue decreasing 5.7% YoY to ¥10,100mn, while operating profit of ¥550mn (loss of ¥2,155mn in the same period of the previous fiscal year), with the initial forecast unchanged. If the Company decides to sell unprofitable businesses in the future, it will put downward pressure on revenue but will also boost operating profit. In the mainstay DX Business, the Company expects performance to remain steady in 2H amid strong IT investment and has already released multiple new services. In September 2024, it released “fitbiz,” a healthcare service developed through a co-creation project with Otsuka Pharmaceutical Co., Ltd., and in November 2024, it released a “Fixed-Amount Tax Reduction/Benefit Application Management System” to support local governments with benefit-related administrative tasks. The future performance of these will be closely watched. In the Incubation Business, a support service for new business development through public-private sector co-creation in development at subsidiary SOCIALX, INC. is gradually building a track record, and it is expected to facilitate the creation of new businesses. In the HR Business and EC Business, progress rates on targets as of the end of 1H are a little behind forecasts, but the Company will aim to catch up in 2H.

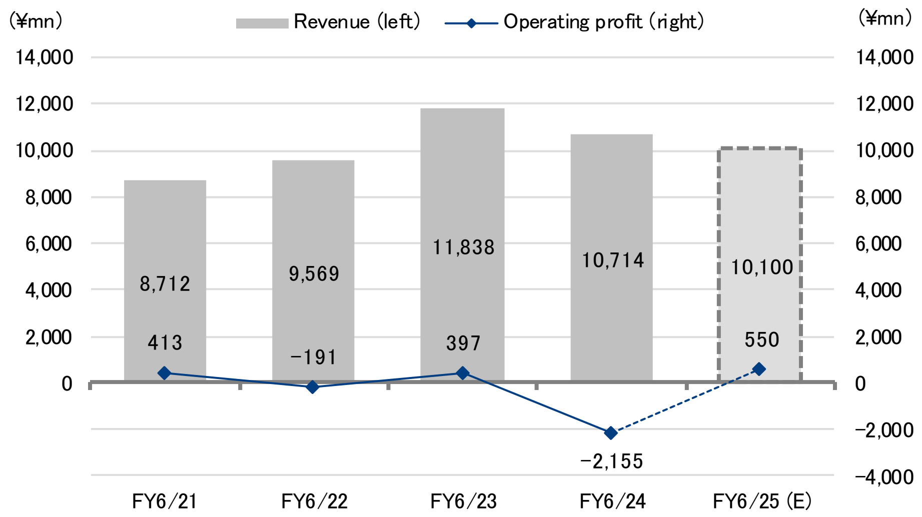
3. Management strategy and shareholder return policy

The Company has positioned FY6/26, the fiscal year following the completion of its business structural reforms, as a new beginning and plans to announce a new medium-term management plan. Its basic strategy is to enhance profitability centered on its IT businesses (DX Business and EC Business) and the HR Business with the aim of recovering its operating profit margin to the 10–20% range as quickly as possible. With regard to M&A, it appears to take a positive stance toward deals that can help strengthen its IT and HR businesses. The Company's basic shareholder return policy is to maintain stable dividend payments. From FY6/25 onward, it aims to return around 50% of profit before tax—excluding extraordinary factors such as gains on sale of shares of subsidiaries—based on an appropriate level of retained earnings. Under this policy, it plans to reduce the amount of dividend per share from ¥37.5 in FY6/24 to ¥16.0 in FY6/25 (51.3% of profit before tax per share). However, from FY6/26 onward, it aims to increase the dividend again by returning revenue and profit to a growth trajectory.

Key Points

- Returned to profitability in 1H FY6/25 for the first time in two years due to the effects of business structural reforms
- Full-year forecast for FY6/25 remains unchanged but probability high that profits will exceed targets
- Return to a growth trajectory from FY6/26 onward once structural reforms are completed
- Forecasts a dividend decrease in FY6/25 due to a change to dividend policy, but aims to increase it again from FY6/26 onward

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 has been expanding its business areas through an M&A strategy

1. Company 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. (now, 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 <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&As 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, 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. However, amid the deterioration in earnings, the Company has been restructuring businesses and selling subsidiaries since FY6/23 in stages.

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 Tokyo Stock Exchange First Section to the Tokyo Stock Exchange Prime Market in line with the Tokyo Stock Exchange's transition to new market segments in April 2022.

Company History

Date	Major event
December 1991	Founded Database Communications, Inc. (now, Scala, Inc.)
January 1999	Formed sales distribution contracts for the Japanese market with US-based Computer Corporation of America and Sirius Software (now, Rocket Software Inc.) 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 Inc. and NewsWatch Inc. (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, Inc. as PAREL, Inc. (now, Scala Service, Inc.)
July 2016	Acquired SOFTBRAIN Co., Ltd. as a subsidiary
December 2016	Changed trade name to Scala, Inc. Merged the subsidiaries Digi-Ana Communications Inc. 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. (now, Scala Communications, 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 Co., Ltd., 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
April 2023	Merged subsidiaries Scala Communications, Inc. and Scala Next, Inc.
June 2023	Sold Connect Agency Inc. to Adjustone, Inc.
August 2023	Sold J-Phoenix Research Inc.
March 2024	FourHands, Inc. removed from the scope of consolidation through a share transfer
April 2024	readytowork Co., Ltd. removed from the scope of consolidation through a share transfer
June 2024	Scala Partners Inc. absorbed into Scala Communications, Inc. through an absorption-type merger Sports Stories, Inc., and Broncos20 Co., Ltd. removed from the scope of consolidation through a share transfer
July 2024	Resolution made to dissolve and liquidate Leoconnect, Inc.
December 2024	Retool, Inc. removed from the scope of consolidation through a share transfer

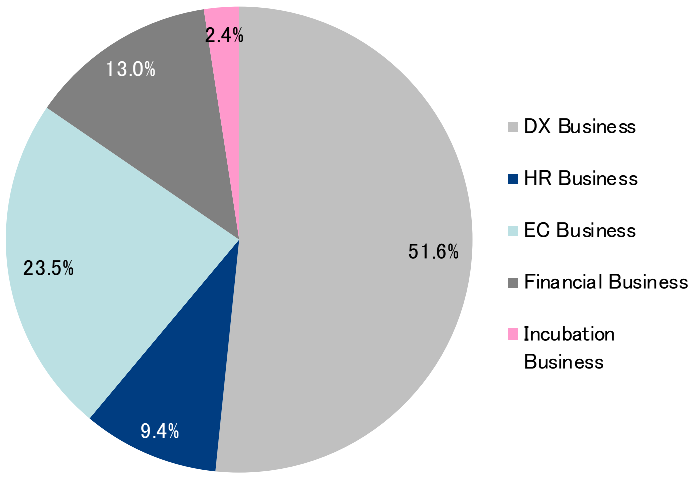
Source: Prepared by FISCO from the Company's website and press releases

Engaged in five business segments: DX Business, HR Business, EC Business, Financial Business, and Incubation Business

2. Business description

The Company has organized its business segments into five segments—DX Business, HR Business, EC Business, Financial Business, and Incubation Business—and discloses information on them. Looking at the composition of revenue by business segment in 1H FY6/25, the DX Business contributed the majority share of 51.6%, followed by 23.5% for the EC Business, 13.0% for the Financial Business, 9.4% for the HR Business and 2.4% for the Incubation Business. In terms of operating profit, the DX Business contributes the most, followed by the EC Business and the HR Business. The Financial Business and Incubation Business are yet to become profitable.

Composition by business segment (1H FY6/25)



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

Subsidiaries by business segment and business content

Business segment	Company	Main business
DX Business	Scala Communications, Inc.	SaaS/ASP-related services business; development, sales, and maintenance of software products
	EGG CO., LTD.	Businesses related to national policy, the Furusato Nozei taxation system, healthcare, and regional revitalization
	Scala Service, Inc.	Call center service
HR Business	Athlete Planning, Inc.	HR recruiting (new graduate recruitment) support, career education for students
	GeaREmake, Inc.	HR recruiting (mid-career recruiting) support
EC Business	Scala PLAYce, Inc.	Operation of Card Shop – Yuyu-Tei, an e-commerce site for trading card games (TGC)
Financial Business	Nihon Pet Small-amount Short-term Insurance Company	Small-amount, short-term pet insurance business
Incubation Business	Scala, Inc.	Strategic investment business
	SOCIALX, INC.	Planning and operation of the Gyaku Propo public-private sector co-creation platform, support for the development of new projects for solving social issues
	SCL Capital LLC	Investment fund management
	SCSV-1 Investment Limited Partnership	Investment fund

Note: As of the end of December 2024
Source: Prepared by FISCO from the Company's results briefing materials

Looking at the main business operations of the subsidiaries that make up each business segment, the DX Business comprises three subsidiaries: Scala Communications, Inc., which mainly provides SaaS/ ASP services and contract-based system development; EGG CO.,LTD, which is engaged in businesses concerning national policy, the Furusato Nozei taxation system*1, healthcare (developing systems and apps for frailty*2 prevention), and regional revitalization; and Scala Service, Inc., which operates a call center service.

*1 A system that enables local government personnel to manage donor information and thank-you gifts, and to accurately and efficiently create various related documents. EGG was the first company in Japan to develop and offer this system and it has been introduced by more than 680 local governments, representing about a third of municipalities in Japan.

*2 Frailty is a state between good health and needing full-time nursing care (a sufferer needs support within their daily life). The concept was popularized in Japan in 2014 by the Japan Geriatrics Society. It is thought that elderly people go through a process starting from good health, before suffering from sarcopenia, in which the muscles weaken, then frailty, in which all the functions needed for daily life weaken. Finally, they end up needing nursing care.

The HR Business now comprises two subsidiaries: Athlete Planning, Inc., which operates a new graduate recruiting support service focused on university student athletes, and GeaREmake, Inc., which was newly established in January 2024 and provides a mid-career recruiting support service. The EC Business comprises Scala PLAYce, Inc., which operates Card Shop – Yuyu-Tei, an e-commerce site for the buying and selling of battle-type trading cards. The Financial Business comprises Nihon Pet Small-amount Short-term Insurance Company, which develops and sells pet insurance. The Incubation Business operates the Company's strategic investment business (M&A support services), and also comprises SOCIALX, INC., which carries out the planning and operation of the Gyaku Propo public-private sector co-creation platform, and SCL Capital LLC, an investment fund management business.

(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. SaaS/ASP services act as a stable revenue base by providing a recurring-income business model.

In recent years, to promote the creation of new businesses and new services centered on DX, Scala Communications has been actively pursuing collaborations with partners who have expertise in related technologies across various industries. To give examples, it has been developing, among other things, a public facility reservation system using digital IDs in partnership with xID Inc. and healthcare platform services through co-creation with Otsuka Pharmaceutical Co., Ltd. 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, and then expanding these initiatives in a cross-sectoral manner.

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-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
	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-ask	FAQ system
	i-assist	Web chatbot system
	i-livechat	Web chat system
Data management	PatentManager6	Latest patent management system
	GripManager	Contract operations management system
Authentication	i-dentify	Incoming call authentication service

Source: Prepared by FISCO from the Company's website

(2) HR Business

In the HR business, Athlete Planning provides services including a comprehensive employment support system for university student athletes, 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). Additionally, in January 2024 it established GeaREmake, to strengthen mid-career recruiting and job change support services.

(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 e-commerce site with the functions of a strategy guide 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 e-commerce shop in the purchase and sale of trading cards. From FY6/20, Scala PLAYce began purchasing from overseas users, and the transaction circulation value has continued to grow at a double-digit annual rate. In FY6/25 it also launched a direct sales service for overseas users (previously, a forwarding service had been used). As of December 2024, the site had over 300,000 registered members.

(4) Financial Business

The Financial 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.

(5) Incubation Business

The Incubation Business includes business investments by the Company, regional revitalization services in collaboration with local governments, and co-creation-type M&A advisory services. It also encompasses the Gyaku Propo public-private sector co-creation platform provided by SOCIALX, as well as investment fund management by SCL Capital.

Gyaku Propo is a service for private-sector companies—including large corporations and startups—when they want to speedily implement measures, such as identifying demand trends and verifying hypotheses, for a new business that solves social issues. In a conventional public offering proposal, a local government with a project budget publicly solicits proposals, and companies hoping to win the contract prepare and submit project plans, then a third party evaluates and selects a winner. Conversely, in Gyaku Propo, a company develops a social-issue-solving project at its own expense and openly invites local governments interested in participating in the proposed theme. Local governments that wish to participate in the project prepare and submit proposals for initiatives such as demonstration experiments aligned 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, there are cases where it receives orders to develop systems used in the projects, and has positioned it as an important entry point for expanding public-private sector co-creation projects because it also increases opportunities for receiving orders for projects such as DX support from participating local governments.

Results trends

Returned to profitability in 1H FY6/25 for the first time in two years due to the effects of business structural reforms

1. Overview of 1H FY6/25 results

In the 1H FY6/25 consolidated results (on a continuing operations basis), revenue increased 3.9% YoY to ¥4,803mn, operating profit was ¥264mn (loss of ¥162mn in the same period of the previous fiscal year), profit before tax amounted to ¥253mn (loss of ¥176mn), and profit attributable to owners of parent was ¥353mn (loss of ¥246mn), marking a return to profitability for the first time in two years.

1H FY6/25 consolidated results (IFRS, continuing operations)

(¥mn)

	1H FY6/24		1H FY6/25		YoY	
	Results	vs. revenue	Results	vs. revenue	Change	% change
Revenue	4,622	-	4,803	-	181	3.9%
Cost of sales	2,554	55.3%	2,684	55.9%	130	5.1%
SG&A expenses	2,225	48.2%	1,828	38.1%	-397	-17.9%
Other income/expenses	-3	-0.1%	-25	-0.5%	-21	-
Operating profit	-162	-3.5%	264	5.5%	427	-
Profit before tax	-176	-3.8%	253	5.3%	430	-
Profit from discontinued operations	-78	-1.7%	173	3.6%	252	-
Profit attributable to owners of parent	-246	-5.3%	353	7.4%	599	-

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

Revenue increased roughly in line with forecasts. Although revenue from the HR Business was weak, a major development project in the DX Business was delivered as scheduled, and EGG's Furusato Nozei taxation system business exceeded expectations. On the profit front, operating profit increased ¥427mn YoY, supported by a recovery in profitability in the DX Business, the effects of structural reforms implemented in 2H FY6/24 (including streamlining personnel, reducing office floor space, and reorganizing unprofitable businesses) and a reduction in SG&A expenses (down ¥397mn YoY) due to lower officer remuneration from 2Q onward. Furthermore, the sale of all shares in the subsidiary Retool in December 2024 resulted in profit from discontinued operations of ¥173mn (up ¥252mn), significantly contributing to a sharp increase in profit attributable to owners of parent to ¥599mn.

Compared to the Company's forecasts for 1H FY6/25 (revenue of ¥4,890mn and operating profit of ¥175mn), although the HR and EC Businesses were a little below target, this was covered by the DX Business surpassing its own target. In the DX Business, factors that contributed to revenue included the delivery of a large project by Scala Communications, as well as rapid growth of the engineer human resources business department, the effects of efforts to reduce personnel expenses in the previous fiscal year, and an increase in revenue from EGG's Furusato Nozei taxation system business. At the end of 1H FY6/25, the number of consolidated employees was 428, a decrease of 101 employees compared to end of FY6/24 partially due to the impact of the sale of Retool. Business structural reforms are now about 70% complete, and the Company plans to carry out the remaining 30% (including the sale of unprofitable businesses) by the end of FY6/25.

Considerable recovery in revenue in the DX Business

2. Trends by business segment

Results by business segment (IFRS)

(¥mn)

			1H FY6/24 results	1H FY6/25 results	YoY	
					Change	% change
DX Business	Revenue		2,264	2,479	215	9.5%
	Operating profit	Before allocation of Company-wide costs	214	528	313	146.1%
		After allocation of Company-wide costs	-106	432	538	-
HR Business	Revenue		487	453	-33	-6.8%
	Operating profit	Before allocation of Company-wide costs	148	87	-60	-41.0%
		After allocation of Company-wide costs	129	47	-81	-63.4%
EC Business	Revenue		1,138	1,128	-9	-0.9%
	Operating profit	Before allocation of Company-wide costs	179	183	4	2.4%
		After allocation of Company-wide costs	147	157	9	6.5%
Financial Business	Revenue		606	624	17	2.9%
	Operating profit	Before allocation of Company-wide costs	-108	-71	36	-
		After allocation of Company-wide costs	-126	-89	36	-
Incubation Business	Revenue		123	116	-7	-6.0%
	Operating profit	Before allocation of Company-wide costs	-124	-84	39	-
		After allocation of Company-wide costs	-127	-84	42	-

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

(1) DX Business

In the DX Business, revenue increased 9.5% YoY to ¥2,479mn and operating profit was ¥432mn (loss of ¥106mn in the same period of the previous fiscal year). Also, on a non-GAAP basis, operating profit before the allocation of Company-wide costs rose sharply 146.1% to ¥528mn.

Scala Communications recorded an increase in revenue due to the firm performance of existing services such the i-ask and i-search SaaS/ASP services, as well as the delivery of a large-scale development project for a financial services company in December 2024. It also secured orders for new enterprise projects involving SaaS development and solution services, and made smooth progress on joint development projects. On the profit front, in addition to the contribution from the large-scale development project, the engineer human resources business department launched in 2023 made steady progress on recruiting engineers. This stabilized engineer utilization rates, contributing to better profitability. The department has recruited approximately 25 engineers, who are allocated to either in-house roles or external assignments depending on the situation. This has helped reduce outsourcing costs during busy periods.

Furthermore, EGG received new orders for projects in its Furusato Nozei taxation system business and also saw an increase in usage-based fees due to an increase in the number of items processed by existing local government clients. In its national policy business, inquiries have increased regarding new contracting projects involving operational management systems for national and local governments. Its business involving frailty prevention for local governments* also steadily built up a track record, including capturing new orders from local governments for the fiscal 2025 budget. Although the scale of this business is still fairly small, with an annual revenue of around ¥100mn, it is a social issue-solving business that is expected to grow in the future.

* The frailty early detection system developed by EGG uses the local government's official LINE account as a starting point to enable 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 these results. The system's implementation is expected to curb the increase in people needing nursing care while also boosting health and lowering the nursing care cost burden.

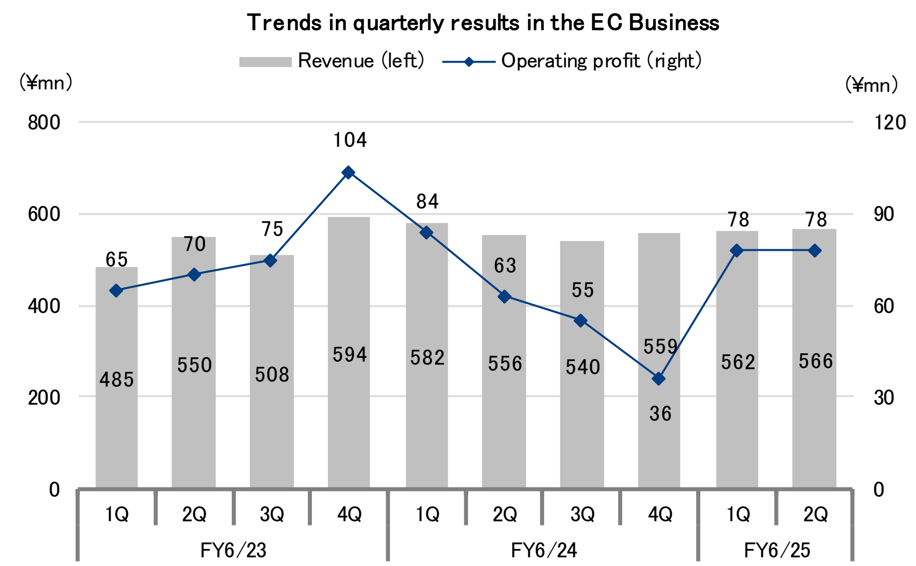
Looking at revenue by type, temporary revenue grew 46.7% YoY to ¥580mn due to the recording of a large-scale project, while revenue from monthly fees such as SaaS/ASP service charges increased 0.3% to ¥1,347mn, and revenue from usage-based fees increased 5.2% to ¥552mn. One reason revenue from monthly fees struggled to grow was because of an increase in contract cancellations in the previous fiscal year. To counter this, Scala Communications is structurally strengthening its customer support department as a measure to prevent contract cancellations. Recently, the number of cancellations has declined to about one-third of the level seen in the previous fiscal year, suggesting that the measure is beginning to show results.

(2) HR Business

In the HR Business, revenue decreased 6.8% YoY to ¥453mn, operating profit decreased 63.4% to ¥47mn, and operating profit before the allocation of Company-wide costs declined 41.0% to ¥87mn. The market environment was favorable, supported by strong demand from companies for new graduate hires, including rising sales prices driven by robust interest from both new and existing corporate customers in exhibiting at events for students graduating in 2026. Despite this, revenue and profit decreased due to a temporary shortage of career advisors, which led to a downturn in new member acquisition and a lower contract conclusion rate for referrals. However, on a quarterly basis, in 2Q (October–December 2024), the HR Business regained growth in revenue and profit, with revenue increasing 17.7% YoY to ¥264mn and operating profit rising 101.3% to ¥44mn. The Company expects this recovery trend to continue from 3Q onward, backed by a favorable market environment. On the other hand, mid-career recruiting and job change support services were unable to make a profit in a fiercely competitive market environment. Going forward, the Company aims to become profitable through measures including the deployment of industry-specific services.

(3) EC Business

In the EC Business, revenue slightly decreased 0.9% YoY to ¥1,128mn, but both types of profit increased: operating profit increasing 6.5% to ¥157mn, and operating profit before the allocation of Company-wide costs rising 2.4% to ¥183mn. With the trading card market expanding year by year, the EC website Card Shop – Yuyu-Tei saw steady growth, surpassing 300,000 registered members (increasing at a pace of around 2,000 to 3,000 per month). Sales of core titles remained steady, but overall revenue stayed roughly flat due to the waning boom in certain titles that had performed strongly in the previous fiscal year. The rise in profit was supported by the introduction of an in-house developed AI image recognition solution, which has improved the efficiency of delivery operations and helped curb operational costs. Scala PLAYce is also gradually shifting to a direct sales model for overseas users, who account for about 20% of total sales, and this is expected to contribute to cost reductions in 2H and beyond.



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

(4) Financial Business

In the Financial Business, revenue increased 2.9% YoY to ¥624mn, and there was operating loss of ¥89mn (loss of ¥126mn in the same period of the previous fiscal year). Operating loss before allocation of Company-wide costs on a non-GAAP basis decreased to ¥71mn (loss of ¥108mn in the same period of the previous fiscal year). Revenue increased due to steady sales following the strengthening of sales promotions for the new products Inu to Neko no Hoken (Insurance for Dogs and Cats) Next / Light / Mini. The increase in profit was supported by an increase in the ratio of new products in the number of contracts held and a decline in the insurance loss ratio*.

* Insurance loss ratio: Claims paid divided by premium income

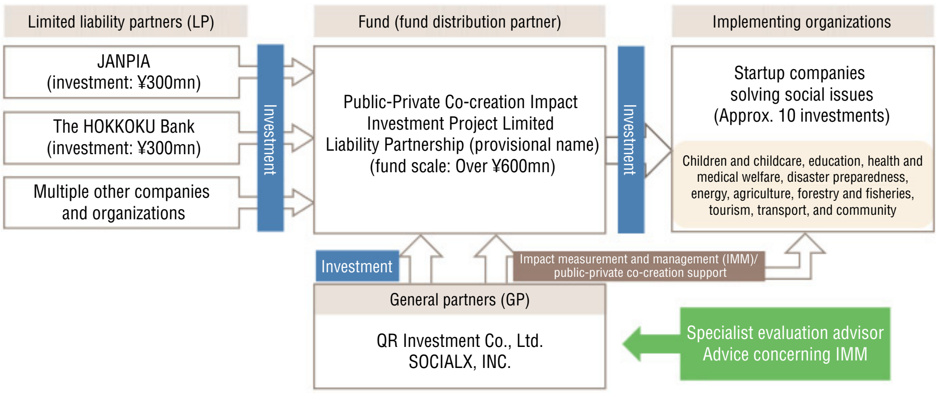
The public-private sector co-creation business is steadily raising its visibility to grow a network of local governments

(5) Incubation Business

In the Incubation Business, revenue decreased 6.0% YoY to ¥116mn, operating loss was ¥84mn (loss of ¥127mn in the same period of the previous fiscal year), and operating loss before allocation of Company-wide costs on a non-GAAP basis was ¥47mn (loss of ¥125mn). The steady capture of orders for public-private sector co-creation projects by SOCIALX, as well as efforts to reorganize unprofitable businesses and reduce costs, led to the amount of loss shrinking. This loss also includes a ¥37mn loss on valuation of investment securities in the fund business.

A new initiative by the public-private sector co-creation business was the establishment of SOCIALX IMPACT FUND, a fund which invests in startup companies that are solving social issues. A joint bid by SOCIALX and QR Investment Co., Ltd., a subsidiary of Hokkoku Financial Holdings, Inc. <7381>, was selected as a fund distribution partner to allocate dormant funds held by the General Incorporated Foundation Japan Network for Public Interest Activities (JANPIA) as funding for impact investment. Over an investment period of six years, it will invest in seed and early-stage companies at a scale of ¥5.0–50.0mn per project. The initiative has already amassed ¥600mn and the Company aims not only to earn fund management fees, but also to contribute to solving social issues by supporting co-creation between investee companies and local governments, while also securing new projects such as system development projects for the DX Business.

Scheme diagram



Source: General Incorporated Foundation Japan Network for Public Interest Activities press release

Also, the Public-Private Sector Co-creation Acceleration Program, SOCIALX Acceleration—which aims to foster and support startups that address social issues while balancing financial returns and social impact—is provided as an OEM offering to MUFG Bank, Ltd. and Mitsubishi UFJ Trust and Banking Corporation for the deployment of the “Oshigoto Crowdfunding” initiative. The initiative began accepting entries* from companies in November 2024. Selected startup companies will receive support for further developing their businesses through workshops and mentoring by co-creation personnel, and once their businesses have been sufficiently defined, they will receive access to the public-private sector co-creation matching service Gyaku Propo and support for implementing proof of concept (PoC) trials with local governments. Local governments will lead efforts to cover PoC expenses in the form of crowdfunding through Furusato Nozei tax donations.

* The initiative solicits and selects impact startup companies that possess services, technologies, or ideas with the potential to help solve the 10 priority social issues identified by MUFG.

While the public-private sector co-creation business is still sowing the seeds of future growth, it is steadily raising its visibility to expand its network of local government partners. Moving forward, the Company's strategy is to use this business as a gateway to capture more development projects for the DX Business, thereby growing consolidated results.

Financial condition improving due to the implementation of business structure reforms

3. Financial position and management indicators

Looking at the financial condition at the end of 1H FY6/25, total assets were down ¥799mn compared to the end of the previous fiscal year to ¥11,900mn. In current assets, time deposits increased ¥607mn and trade and other receivables increased ¥102mn, while cash and cash equivalents decreased ¥1,792mn. In non-current assets, right-of-use assets increased ¥487mn but securities related to investment business decreased ¥199mn.

Total liabilities decreased ¥770mn from the end of the previous fiscal year to ¥7,359mn. Lease liabilities (non-current) increased ¥500mn, while interest-bearing debt decreased ¥1,306mn. Total equity declined ¥28mn to ¥4,540mn. This was mainly due to capital surplus shrinking ¥470mn and non-controlling interests decreasing ¥58mn, despite an increase of ¥503mn in retained earnings.

Looking at business indicators, the Company continued to streamline its assets in line with business structural reforms. The recovery in profitability put the equity attributable to owners of parent ratio back on an upward trend, rising from 34.2% at the end of the previous fiscal year to 36.7%, while the interest-bearing debt ratio decreased from 133.5% at the end of the previous fiscal year to 102.6% as the Company reduced its interest-bearing debt. Net cash (cash and deposits minus interest-bearing debt), which had been on a downward trend since peaking at ¥3,835mn at the end of FY6/21, returned to an upward trajectory reaching ¥1,148mn at the end of 1H FY6/25, an increase of ¥121mn from the end of the previous fiscal year. These developments suggest that the deterioration in the Company's financial condition has come to a halt and that a modest recovery is now underway. The Company intends to complete business structural reforms, including the liquidation and sale of unprofitable businesses, within FY6/25 and it is possible that it will further streamline assets. Going forward, it will advance efforts to improve business performance and further strengthen its financial base, so indicators that demonstrate management soundness are expected to continue improving.

Consolidated statement of financial position (IFRS) and business indicators

(¥mn)

	FY6/22	FY6/23	FY6/24	1H FY6/25	Change
Current assets	12,030	10,280	9,106	8,077	-1,028
Cash and cash equivalents	9,625	7,740	6,817	5,024	-1,792
Non-current assets	8,786	8,035	3,593	3,822	228
Goodwill	2,356	1,990	978	978	0
Total assets	20,816	18,316	12,699	11,900	-799
Total liabilities	11,810	10,227	8,130	7,359	-770
Interest-bearing debt	6,951	6,002	5,790	4,483	-1,306
Total equity	9,006	8,089	4,569	4,540	-28
Equity attributable to owners of parent	8,687	7,832	4,338	4,368	29
Non-controlling interests	318	257	231	172	-58
Business indicators					
Stability					
Equity attributable to owners of parent ratio	41.7%	42.8%	34.2%	36.7%	2.5pp
Interest-bearing debt ratio	80.0%	76.6%	133.5%	102.6%	-30.8pp
Net cash	2,674	1,737	1,027	1,148	121

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

Outlook

Full-year forecast for FY6/25 remains unchanged but probability high that profits will exceed targets

1. FY6/25 forecasts

The forecast for FY6/25 remains unchanged, with revenue decreasing by 5.7% YoY to ¥10,100mn, operating profit of ¥550mn (loss of ¥2,155mn in the previous fiscal year), profit before tax of ¥540mn (loss of ¥2,166mn), and profit attributable to owners of parent of ¥340mn (loss of ¥2,887mn). The Company expects to return to profitability for operating profit and profit before tax for the first time in two fiscal years and for profit attributable to owners of parent for the first time in four fiscal years. The results for operating profit and profit before tax will represent the highest levels since FY6/21. On the other hand, revenue is forecast to decline due to the absence of contributions from Leoconnect, which was liquidated at the beginning of the fiscal year. However, revenue on a continuing operations basis is expected to increase for the first time in two fiscal years.

Incidentally, the FY6/25 revenue target includes projected sales from Retool, which has already been sold. The Company is also considering the sale of other unprofitable businesses in 2H. If these sales are finalized and their sales contributions excluded, revenue would decrease further. However, since these businesses are also sources of loss, their removal would instead become a positive factor for profits. The progress toward full-year targets in 1H is 47.6% for revenue and 48.2% for operating profit. However, considering that the 1H result for operating profit has surpassed the 1H target, we at FISCO believe there is a high probability that profits will exceed the Company's forecasts.

FY6/25 consolidated results forecast (IFRS)

(¥mn)

	FY6/24 results	FY6/25 Company forecast	YoY		Progress on targets in 1H
			Change	% change	
Revenue	10,714	10,100	-614	-5.7%	47.6%
Operating profit	-2,155	550	2,705	-	48.2%
Profit before tax	-2,166	540	2,706	-	47.0%
Profit attributable to owners of parent	-2,887	340	3,227	-	104.0%
Profit per share (¥)	-166.53	19.61			

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

Forecast for considerable improvement in profits in the DX and Financial Businesses

2. Outlook by business segment

Results outlook by business segment

(¥mn)

		FY6/24 results	FY6/25 forecast	YoY		Progress on targets in 1H
				Change	% change	
DX Business	Revenue	5,865	5,000	-865	-14.8%	49.6%
	Operating profit	-1,217	465	1,683	-	93.0%
HR Business	Revenue	1,028	1,213	184	18.0%	37.4%
	Operating profit	266	247	-18	-7.1%	19.2%
EC Business	Revenue	2,238	2,515	277	12.4%	44.9%
	Operating profit	240	377	137	57.1%	41.8%
Financial Business	Revenue	1,216	1,077	-138	-11.4%	58.0%
	Operating profit	-818	-170	648	-	-
Incubation Business	Revenue	294	347	52	17.9%	33.6%
	Operating profit	-188	-55	132	-	-

Note: Operating profit is based on IFRS standards, after the allocation of Company-wide costs
Source: Prepared by FISCO from the Company's results briefing materials

(1) DX Business

In the DX Business, the Company is forecasting a 14.8% YoY decrease* in revenue to ¥5,000mn and operating profit of ¥465mn (loss of ¥1,217mn in the previous fiscal year). Progress on 1H targets was 49.6% for revenue and 93.0% for operating profit, indicating that the business is already ahead of schedule in terms of profitability. While earnings in 3Q progressed at a slightly slower pace than expected due to the concentration of resources on the delivery of a large-scale project in 2Q, results for the nine-month period ended March 31, 2025 still exceeded the initial forecast. Regarding the full-year outlook, considering the steady performance of both Scala Communications and EGG, backed by strong demand for DX investment, we at FISCO believe there is a high probability that profit will exceed the Company's forecast.

* The YoY decline is due to the inclusion of revenue from Leoconnect (¥1,049mn) in FY6/24. On a continuing operations basis, revenue is expected to increase.

The outlook for 2H FY6/25 onward is that Scala Communications will continue to secure enterprise projects aimed at solving social issues and advance joint development, while also strengthening existing SaaS/ASP functions to drive sales growth. Specifically, in its mainstay i-ask (FAQ system) service, the company aims to increase the number of contracts by advancing development toward implementing generative AI functions and strengthening its branding. Although the current impact on results is still small, it is making steady progress on initiatives including DX for local governments, a smart healthcare platform, and livestock DX, which are expected to contribute to future earnings.

a) DX for local governments

Scala Communications has launched PORTAL X, a system for booking public facilities, as a service supporting the DX of local government operations. The system enables users to carry out all processes concerning usage of public facilities, from user registration to facility booking, use, and payment, completely online using a digital ID (My Number Card). It was designed and developed with small- to medium-sized local governments in mind as it enhances convenience for users while reducing the workload of public facility management staff. It has already been introduced by a number of local governments, and the company is still gradually enhancing its functions. In January 2025, it added a function that uses the Digital Identification App*1 provided by Japan's Digital Agency to enable proof of residency*2 processes to be carried out online. The addition of this function means that users no longer have to go and prove their identity in person when making use of usage fee reductions and exemptions (discount system), which is expected to further enhance convenience and reduce the cost of handling these processes. As personal information can be centrally managed within the Digital Identification App, it no longer needs to be entered for each individual process, which reinforces measures to safeguard personal information and prevent leaks. While several businesses provide systems for booking public facilities, the company's service has the advantage over the services provided by competitors due to its high operational expandability and low introductory and running costs, and usage is expected to spread.

*1 An app that enables safe personal identification through a smartphone using a My Number Card
*2 Proof that an individual lives within a certain municipality

Facility management system for local governments (comparison with competing services)

		PORTAL X	Competitor A	Competitor B	Competitor C
Fee structure	Initial cost	From ¥1mn	From ¥2mn	From ¥1.5mn	Depends on number of facilities
	Monthly usage fee	From ¥85,000	From ¥150,000	From ¥120,000	
Functions and flexibility		○ Regularly updated	○	△	◎
Compatible with Digital ID App		○	×	×	△
Support structure		○	◎	△	○

Note: Based on research by the Company (as of September 2024)
Source: Prepared by FISCO from the Company's website

In November 2024, the company launched a Fixed-Amount Tax Reduction/Benefit Application Management System, a cloud-based service that supports local governments with benefit-related operations. The system enables digital management of the process—from receiving online benefit applications from residents to making bank transfers—enhancing operational efficiency. In summer 2024, it was trialed by three local governments in Shizuoka Prefecture and received positive feedback, prompting a full-scale rollout in partnership with a major agency. Since the system is only used during periods when benefit payments are processed, revenue from the service will be limited to a few months each year. However, considering its potential to improve services for residents, reduce workloads for local government staff and cut costs associated with paperwork and postage, it is very possible that the service will be widely adopted by local governments, so future developments by the company will be closely watched. In addition to this, the company is developing a cloud-based service in response to the revised Family Register Act, which will come into force in May 2025, and it has provided estimates to multiple local governments.

Effects of introducing a benefits application management system (FY2024 results)

Local government	No. of applications	Online applications	Online application uptake rate	Hours of processing time saved	Reduction in postal costs
City A	41,393	15,178	36.0%	Approx. 2,000	Approx. ¥1.6mn
Town B	6,569	2,291	35.0%	Approx. 380	Approx. ¥250,000
City C	19,298	8,172	42.0%	Approx. 1,300	Approx. ¥890,000

Source: Prepared by FISCO from the Company's website

b) Smart healthcare platform

The Smart Healthcare Platform, developed as a co-creation project with Otsuka Pharmaceutical since 2022, launched its first service in September 2024: "fitbiz," a corporate health support program. The service supports employees in creating healthy habits and provides visualizations of the results of healthy action through a smart-phone app. It helps employees, who participate voluntarily, to realize their individual health challenges, review lifestyle habits, and then take action that benefits their health. Its Lifestyle Habits Learning Support Program not only includes educational content but also delivers a 12-week paid course (¥10,000 per person) that encourages users to review their habits while incorporating Otsuka Pharmaceutical products*1 as part of the process. The result reports outlining achievements and challenges issued at the end of the course can also be used by companies to fulfill conditions for gaining recognition as a Health & Productivity Management Outstanding Organization*2, providing an incentive for companies engaged in health and productivity management to use the service. In addition to system development fees, Scala Communications also receives revenue through service operation and maintenance fees, as well as a portion of the usage fees. It has set the target of ¥1mn in revenue in FY6/25.

*1 Otsuka Pharmaceutical's food for specified health use, "The Wise Man's Dining – Double Support"
*2 The Health & Productivity Management Outstanding Organization Recognition Program is a certification system operated by Nippon Kenko Kaigi that provides visible recognition for organizations, including large companies and small and medium-sized enterprises, which are engaged in outstanding health and productivity management activities with the aim of creating an environment in which these organizations can get social acclaim from stakeholders, including employees, potential employees, business partners, and financial institutions.

c) Livestock DX

For livestock DX, in January 2023 Scala Communications 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 an abnormality 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. 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 200,000 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 revenue. With revenue for FY6/25 forecast to be modest at approximately ¥10mn, the contribution to results will be minimal. However, the service is expected to contribute as a stable source of revenue through an increase in the number of facilities using it and horizontal expansion.

*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 ¥22,000 per account and ¥55,000 per business establishment, but dairy farmers can use the service for free. It is possible that rates will change as functions are added. Japan has around 4,000 veterinary facilities involved in treating livestock.

In May 2024, the NOSAI Aichi Agricultural Insurance Association (NOSAI Aichi) adopted U-Medical Support. Previously, NOSAI staff (veterinarians and other staff) had to visit farms to carry out checks related to livestock mortality aid procedures, but following a revision to regulations, member farmers can now complete this procedure online using a GPS tag or by sending an image of a cow's distinguishing features, and U-Medical Support has become the tool for carrying this out. Going forward, the company plans to grow sales through sales activities targeting agricultural insurance associations in other prefectures.

(2) HR Business

The HR Business is forecasting revenue to increase 18.0% YoY to ¥1,213mn and operating profit to decline 7.1% to ¥247mn. Progress in 1H reached 37.4% for revenue and 19.2% for operating profit. These levels are low due to a slow start in 1Q, but performance has improved since 2Q, and Athlete Planning aims to catch up when sales peak in 3Q. In 4Q, typically a quiet period, revenue is also expected to exceed the same period of the previous fiscal year due to earlier recruitment activity. However, there is a strong possibility that full-year targets will not be met. Regarding the shortage of career advisors, reforms are underway, including revisions to compensation and working conditions, with a framework expected to be in place by the end of the fiscal year. The forecasted decline in operating profit is due to an increase in the allocation of Company-wide costs to this segment, following a change in allocation standards. However, operating profit before allocation of Company-wide costs is expected to increase.

(3) EC Business

The EC Business is forecasting revenue to increase 12.4% YoY to ¥2,515mn and operating profit to increase 57.1% to ¥377mn. Progress on targets in 1H was 44.9% for revenue and 41.8% for operating profit, slightly behind schedule. In 2H, Scala PLAYce aims to grow revenue by continuing balanced purchasing activities to reduce the impact of fluctuations in demand for specific titles. The growth in operating profit will be mainly due to the effects of increased revenue and efforts to enhance the sale of high-margin titles, as well as a decrease in development expenses, the streamlining of operational costs accompanying the introduction of an AI-based image recognition solution, and a shift to a direct sales model for overseas users, which is scheduled for completion by fiscal-year end and is expected to reduce costs by ¥3mn per month.

(4) Financial Business

The Financial Business is forecasting revenue to decrease 11.4% YoY to ¥1,077mn, while operating loss is expected to shrink to ¥170mn (loss of ¥818mn in the previous fiscal year) due to the absence of impairment losses. In 3Q, Nihon Pet Small-amount Short-term Insurance Company will stop renewing contracts for outdated products and only sell new products. This will put downward pressure on revenue by lowering the unit price of insurance premiums but should lead to an improvement in profit.

(5) Incubation Business

The Incubation Business is forecasting revenue to increase 17.9% YoY to ¥347mn, while operating loss is expected to shrink to ¥55mn (loss of ¥188mn in the previous fiscal year) due to the absence of impairment losses. Progress on the revenue target in 1H is low at 33.6%. The Company aims to grow revenue by increasing public-private sector co-creation projects at SOCIALX and to reduce operating loss through cost optimization.

Return to a growth trajectory from FY6/26 onward once structural reforms are completed

3. Management policy and strategy

In its management policy for FY6/25, the Company has positioned winning back the trust of stakeholders as its top priority by ensuring financial soundness and transparency. To enhance corporate value, it recognizes the importance of returning to a growth trajectory in both revenue and profit by focusing on its core IT businesses (DX Business and EC Business), HR Business, and public-private sector co-creation consulting business, while cultivating new markets and further developing existing ones in each business area.

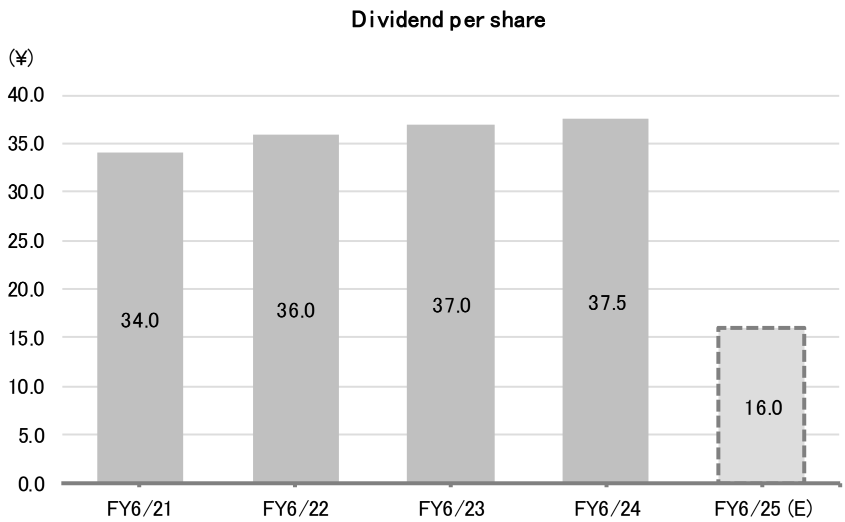
Its management strategies will be advanced under the three themes of “practice highly transparent information disclosure and thorough governance,” “take a customer-centric approach,” and “practice social contribution and sustainable management.” Priority measures include strengthening human resources development and organizational capabilities, innovating technology, and enhancing quality, and advancing public-private sector co-creation. Over the last few years, the Company has grown the scope of its business by actively pursuing M&As. However, this has dispersed its resources and weakened profitability. In response, the Company has promoted business concentration and selection through structural reforms, resulting in a recovery in profitability in FY6/25. From FY6/26 onward, the IT Business is expected to drive the return to a growth trajectory.

Additionally, the Company is gradually building a track record in the governmental DX field, which has plenty of growth potential, and it is highly likely that its business in this field will increase in scale. It intends to revisit its M&A strategy once structural reforms are complete and profitability has been restored. Potential targets are companies that possess human resources in the IT and HR businesses.

Shareholder return policy

Forecasting a dividend decrease in FY6/25 following a change to dividend policy. Plans to increase it again from FY6/26 onward

The Company's basic shareholder return policy is to stably and continuously pay dividends, which it consistently increased up to FY6/24. From FY6/25 onward, it aims to return around 50% of profit before tax—excluding extraordinary factors such as gains on sale of shares—while considering an appropriate level of retained earnings to support sustainable growth. Under this policy, it plans to pay a dividend per share of ¥16.0 in FY6/25 (51.3% of profit before tax per share). Going forward, if profits—excluding extraordinary factors—continue to grow, dividend increases may also be expected. The Company also intends to consider acquiring treasury shares as appropriate to improve capital efficiency and implement a flexible capital policy aligned with the business environment.



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

Disclaimer

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