

Scala, Inc.

4845

Tokyo Stock Exchange Prime Market

4-Oct.-2023

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

<https://www.fisco.co.jp>

■ Index

■ Summary	01
1. Overview of FY6/23 results	01
2. Outlook for FY6/24	01
3. Regarding revision of the mid-term management plan	02
■ Company profile	03
1. History	03
2. Business description	05
3. Vision	10
■ Results trends	11
1. Overview of FY6/23 results	11
2. Trends by business segment	12
3. Financial condition and business indicators	19
■ Outlook	20
1. Outlook for FY6/24	20
2. Medium term business plan	22
■ Shareholder return policy	24

Summary

Focus on social issue resolution-type business that provides human growth opportunities, and return to a growth trajectory for operating results

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 IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC (e-commerce) Business, Insurance Business and Incubation & Investment Business, and the Company uses M&A to expand its business domain and create synergies as one of its growth strategies.

1. Overview of FY6/23 results

In continuing operations* in FY6/23, revenue increased 32.1% year on year (YoY) to ¥12,644mn and operating profit totaled ¥259mn (a loss of ¥191mn in the previous fiscal year). Revenue increased, reflecting favorable performance in the HR & Education Business and the EC Business, as well as the full-year contribution of EGG CO., LTD. and Nihon Pet Small-amount Short-term Insurance Company, which were made subsidiaries in 4Q FY6/22. Profits returned to the black thanks to higher profits in the HR & Education Business and the EC Business, a smaller loss in the Incubation & Investment Business, despite the negative impacts of an increase in costs associated with new co-creation projects and the temporary accumulation of policy reserves in the Insurance Business. When based on the non-GAAP indicator that excludes temporary expenses, operating profit increased 429.3% YoY to ¥256mn.

* Consolidated subsidiary Scala Works Inc. was classified as discontinued operations as a result of being discontinued and dissolved in 4Q FY6/22. In addition, the Company transferred all of the shares of Connect Agency Inc. and resolved to transfer all of the shares of J-Phoenix Research Inc. and entered into a stock transfer agreement in 4Q FY6/23, resulting in the classification of both companies as discontinued operations. Year-on year comparisons of revenue and operating income are presented based on continuing operations, excluding these discontinued operations.

2. Outlook for FY6/24

For FY6/24, the Company is forecasting revenue to increase 1.2% YoY to ¥12,800mn and operating profit to increase 150.4% to ¥650mn. Revenue is projected to benefit from growth in the HR & Education Business and the EC Business, despite a decrease in sales related to the national travel support program, which contributed to the results of the previous fiscal year. With regard to profits, in addition to the impact of higher revenues, a decrease in the burden of development costs for co-creation projects is also expected to result in a significant increase in profits. Co-creation projects with local governments through the Gyaku Propo* service are on the increase, and are expected to contribute to earnings. In the Insurance Business, the Company is reforming the business structure to strengthen profitability and is also making progress on developing new products, aiming to return to the black in FY6/25.

* A co-creation service where companies indicate what social issues are interesting to them and local governments propose ideas and plans for solving issues, and therefore a framework that reverses the conventional process for public offering proposals and bidding.

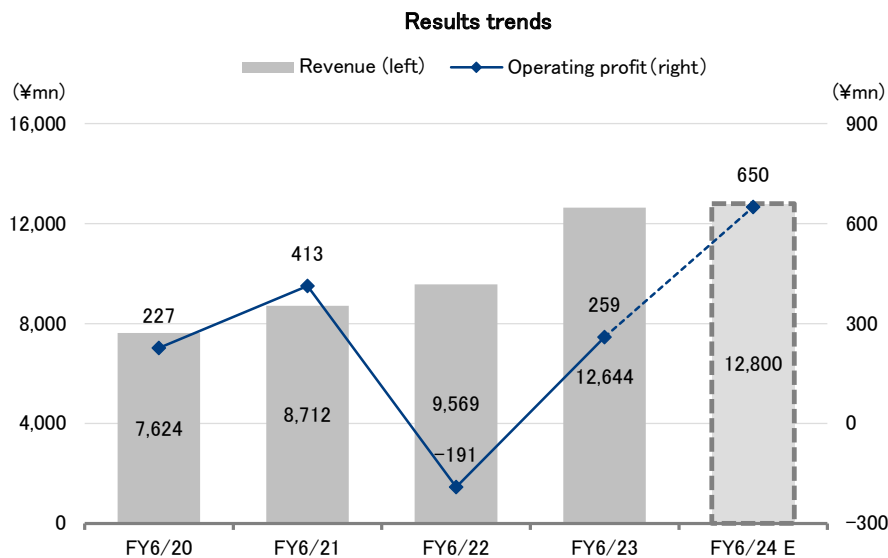
Summary

3. Regarding revision of the mid-term management plan

The Company announced its mid-term management plan COMMIT5000 in August 2019, with strategies aimed at resolving social issues through business together with clients and growing as a value co-creation-oriented company. The plan presented FY6/30 targets of revenue of ¥500.0bn, operating profit of ¥50.0bn (with FY6/25 targets of revenue of ¥100.0bn and operating profit of ¥10.0bn). However, in light of recent earning trends, the Company has now revised the plan. Positioning the three-year period up to FY6/26 as a “period for creating a foundation for robust growth,” the Company has set highly achievable revised targets for FY6/26 as revenue of ¥15.5bn and operating profit of ¥2.0bn. By focusing on businesses related to human growth inside and outside the Group, the Company will expand the scale of its businesses by creating a cyclical structure of “creating projects from social issues,” “Co-creation between individual businesses within the Group and partners,” and “drawing together of human resources and partners who empathized with the realized value with new social issues.” Furthermore, the Company will strive to strengthen its management infrastructure and improve the overall profitability of the Group. 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.

Key Points

- FY6/23 saw higher sales and profits due to favorable performance in the EC Business and HR & Education Business
- Aiming for 2.5 times operating profit growth in FY6/24 through higher sales and cost reduction effects
- Focus on creating a foundation for robust growth, aiming for FY6/26 revenue of ¥15.5bn and operating profit of ¥2.0bn



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 M&A and continuing to grow

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 and steadily increased earnings through its recurring-income earnings model.

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 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.

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.

Scala, Inc. | 4-Oct.-2023
 4845 Tokyo Stock Exchange Prime Market | <https://scalagr.jp/en/ir/>

Company profile

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. as a subsidiary to enter the CRM field
April 2004	Acquired Vodamedia 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. 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. 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.
December 2018	Established the Scala Next, 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.
April 2022	Moved its listing to the TSE Prime Market in line with the TSE's transition to new market segments Acquired Nihon Pet Small-amount Short-term Insurance Company
March 2022	Made a subsidiary of Broncos20 Co., Ltd.
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 six business segments: the IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Insurance Business, and Incubation & Investment Business

2. Business description

The Company has organized its business segments into six segments—IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Insurance Business, and Incubation & Investment Business—and discloses information on them.

On looking at the Group companies responsible for each business segment as of June 30, 2023, the IT/AI/IoT/DX Business is comprised of six companies, centered on Scala Communications, Inc. Of these, Retool, Inc. plans, develops and sells cloud activity management tools that visualize the various processes in corporate activities, however, its track record of introductions is still small and its effects on results is negligible. Also, Social Studio Inc. was established in September 2020 as a joint venture with Branding Technology Inc. <7067> in order to support the promotion of DX and SDGs to the national and local governments. EGG CO., LTD., which became a subsidiary in February 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). The Company sold all shares of the cloud-based PBX service provider Connect Agency Inc. on June 30, 2023, and removed it from the scope of consolidation. After making Connect Agency Inc. a subsidiary in 2018, the Company had pursued synergies through efforts including cross-selling; however, the results of these efforts were not as anticipated, and the cost burden associated with the aging of its systems had also increased significantly.

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

Leoconnect, Inc., which became a subsidiary in 2018, is engaged in the Customer Support Business, while four companies in total (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 March 2022) comprise the HR & Education Business. In addition, the EC Business is conducted by Scala PLAYce, Inc., which became a subsidiary in 2017, while the Insurance Business is conducted by Nihon Pet Small-amount Short-term Insurance Company, which became a subsidiary in April 2022. Moreover, the Incubation & Investment Business are conducted by Scala Partners, Inc., SOCIALX, INC., SCL Capital LLC, and the SCSV-1 Investment Limited Partnership. The Group also includes the Company itself as the holding company. The Company sold all shares of J-Phoenix Research Inc. to the representative director and president of J-Phoenix Research Inc. in August 2023, and removed it from the scope of consolidation. After it was made a subsidiary in 2019, the initial plan for customer acquisition in the domain of value creation management consulting did not proceed as planned, and the shares were therefore sold after consultation between both companies.

* These three companies were placed under the umbrella of Grit Group Holdings Co., Ltd., which was made a subsidiary of the Company in April 2020, but currently exists as the Company’s subsidiaries. Grit Group Holdings changed its name to Scala Works Inc. and was then liquidated at the end of June 2022.

Scala, Inc. | 4-Oct.-2023
 4845 Tokyo Stock Exchange Prime Market | <https://scalagr.jp/en/ir/>

Company profile

Group companies by business segment and business content

Business segment	Group company	Main business
IT/AI/IoT/DX Business	Scala Communications, Inc.	Provision of SaaS/ASP services
	Scala Service, Inc.	
	Scala Next Inc.* ¹	Development of SaaS/ASP services, offshore development
	readytowork Co., Ltd.	
	Connect Agency Inc.* ²	Cloud-based PBX services
	Retool, Inc.	Planning, development, and sales of cloud activity management tools
	Social Studio Inc.	Promotion of DX and SDGs to the national and local governments
Customer Support Business	Egg CO., LTD.	Systems development, maintenance, and network construction
	Leoconnect, Inc.	Customer support consulting (call center operations, etc.)
HR & Education Business	Scala Service, Inc.* ³	Call center service
	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.
EC Business	Broncos20 Co., Ltd.	Basketball club team management
	Scala PLAYce, Inc.	Management of an EC site for the buying and selling of battle-type trading cards
Insurance Business	Nihon Pet Small-amount Short-term Insurance Company	Small-amount short-term insurance
Incubation & Investment Business	Scala, Inc.	Group head office, holding company functions, investment business
	Scala Partners, Inc.	Innovation, incubation, investment
	J-Phoenix Research Inc. * ⁴	Value creation management support (creation of analyst and integrated reports, fund management support)
	SCL Capital LLC	Investment fund management
	SCSV-1 Investment Limited Partnership	Investment fund
	SOCIALX, INC.	Planning and operation of the Gyaku Propo public-private co-creation platform

Note: As of the end of June 2023

*¹ This company was subject to an absorption-type company merger with Scala Communications, Inc. as the surviving company, effective April 1, 2023.

*² All shares of Connect Agency Inc. were sold to Adjustone, Inc. on June 30, 2023, and it was classified as a discontinued operation.

*³ Call center services are included in the Customer Support Business

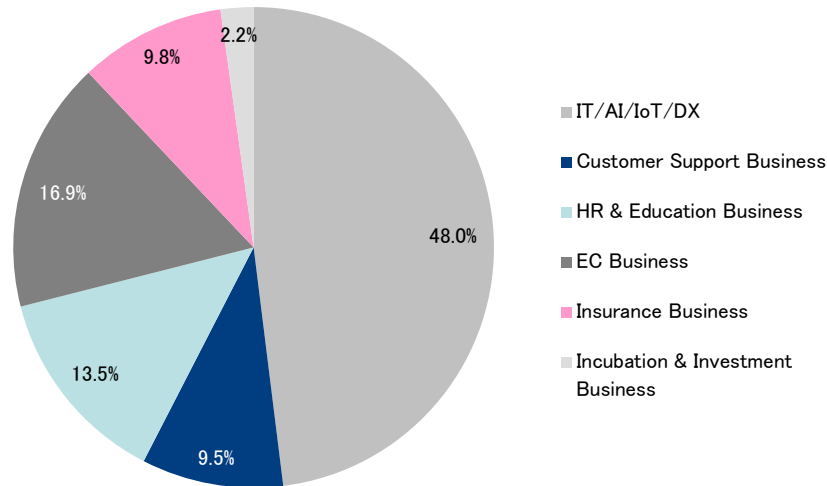
*⁴ All shares of J-Phoenix Research Inc. were sold on August 4, 2023, and it was classified as a discontinued operation.

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

Looking at the composition of sales by business segment in FY6/23, the IT/AI/IoT/DX Business provided 48.0%, Customer Support Business 9.5%, HR & Education Business 13.5%, EC Business 16.9%, Insurance Business 9.8%, and Incubation & Investment Business 2.2%, making the IT/AI/IoT/DX Business the mainstay business which accounts for almost half of sales.

Company profile

Composition by business segment (FY6/23)



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

(1) IT/AI/IoT/DX Business

The IT/AI/IoT/DX Business develops and provides various types of IT services, including SaaS/ASP services (i-series), such as inquiries via the Internet and telephone, information searches, and applications, and it is working on increasing profitability and stability through a recurring-income business model. It is also using as a hook its approaches made through easy-to-understand SaaS/ASP services and the Scala Group's other business, and it is advancing initiatives that will lead to orders for new development projects.

As a part of this series of initiatives, it is advancing DX that uses IT/AI/IoT (with a strong awareness of transformation in particular), and in order to accelerate the creation of new businesses and new services and to redefine its existing business, it is actively advancing collaborations with partners that are experts in related technologies in various industries. To give an example, for the planning and development of new services to respond to COVID-19 and to advance DX, and for introductions of the main services, it is implementing DX policies focused on regional local governments and the finance industry, conducting demonstration experiments for next-generation digital healthcare services through co-creation with a pharmaceutical company and a non-life insurance company, and 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.

Company profile

Description of the IT/AI/IoT/DX Business services

Type	Product name	Description
Information searches	i-search	Internal search engine for websites
	i-ask	FAQ system
Content management	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) Customer Support Business

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. The Company is currently working to raise call center productivity by progressively introducing services such as i-livechat, i-assist, and SaaS-type IVR. Also, the Company is working to improve profitability by constructing its own call centers in Okinawa and acquiring customers from outside of the HIKARI TSUSHIN Group.

(3) HR & Education Business

In the HR & Education Business, about 60% of sales come from the HR business and about 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 school-children, 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. In the future, it will focus on acquiring earnings through methods including expanding the number of basketball schools under the Broncos brand, managing fan club websites, and dispatching coaches for club activities in schools.

Company profile

(4) 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.

(5) Insurance Business

The Insurance 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 other pet-related 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.

(6) Incubation & Investment Business

The Incubation & Investment Business consists of business investment conducted by the Company and regional revitalization-related services in collaboration with local governments. It also includes new business development by Scala Partners, and regional revitalization-related services centered on the management of the KomfortaWorkation 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. The companies targeted for investment by the value co-creation engagement fund are listed companies with a market capitalization of up to ¥10.0bn for which ROIC of at least 15% is expected. The Company intends to invest ¥100-¥150mn per company, and after making an investment, the shares will be sold at the stage when the company's enterprise value has reached the expected level.

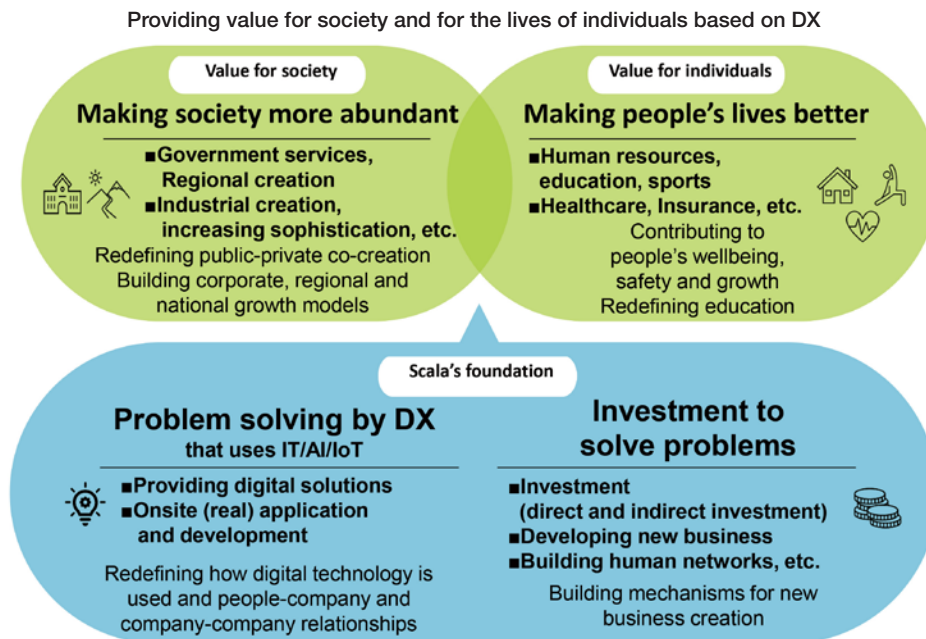
Gyaku Propo is a service private-sector companies, such as large or start-up companies, can use when they want to speedily implement measures, such as ascertaining demand trends and verifying hypotheses, for a new business that solves social issues. In a conventional public offering proposal, a company 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 matched local governments.

Aims to extreme 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 delivering 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.



Source: The Company's results briefing materials

Results trends

FY6/23 saw higher sales and profits due to favorable performance in the EC Business and HR & Education Business

1. Overview of FY6/23 results

In the FY6/23 consolidated results (continuing operations basis), revenue increased 32.1% YoY to ¥12,644mn, operating profit amounted to ¥259mn (loss of ¥191mn in the previous fiscal year), profit before tax amounted to ¥233mn (loss of ¥210mn in the previous fiscal year), and loss attributable to owners of parent amounted to ¥218mn (loss of ¥523mn in the previous fiscal year).

FY6/23 consolidated results (IFRS, continuing operations)

	FY6/22			FY6/23			
	Results	vs. revenue	Company forecast	Results	vs. revenue	YoY	vs. forecast
Revenue	9,569	-	13,000	12,644	-	32.1%	-2.7%
Cost of sales	5,557	58.1%	-	7,509	59.4%	35.1%	-
SG&A expenses	4,052	42.4%	-	4,903	38.8%	21.0%	-
Other income/expenses	-82	-	-	-8	-	-	-
Gain/loss on securities related to investment business	-68	-	-	37	-	-	-
Operating profit	-191	-2.0%	300	259	2.1%	-	-13.5%
Profit before tax	-210	-2.2%	280	233	1.8%	-	-16.5%
Profit attributable to owners of parent	-523	-5.5%	200	-218	-1.7%	-	-

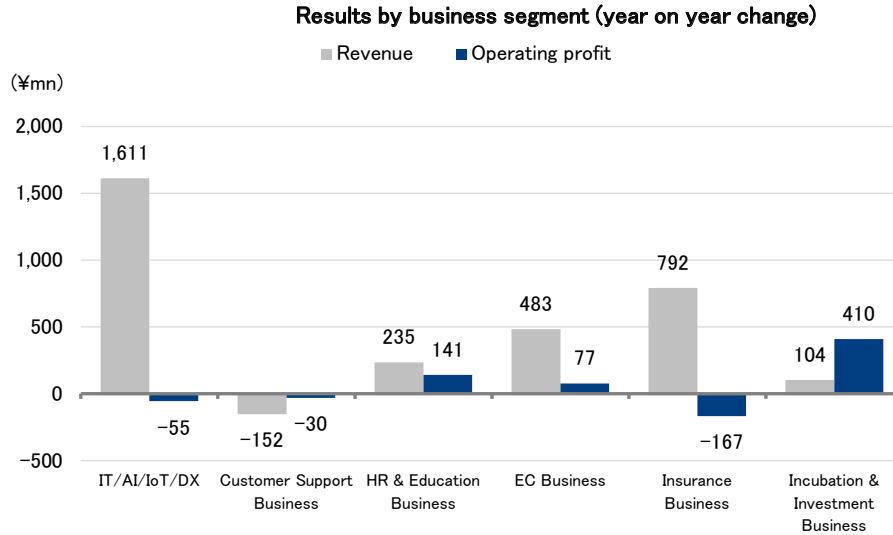
Note: Performance figures based on continuing operations, excluding Scala Works Inc., Connect Agency Inc., and J-Phoenix Research Inc.

The FY6/23 Company forecasts are the values announced in May 2023.

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

Revenue increased, reflecting the full-year contribution of EGG CO., LTD. and Nihon Pet Small-amount Short-term Insurance Company, which were made subsidiaries in 4Q FY6/22 as well as favorable performance in the HR & Education Business and the EC Business. Profits returned to the black after two years, thanks to higher profits in the HR & Education Business and the EC Business, a smaller loss in the Incubation & Investment Business, despite the negative impacts of an increase in the burden of costs associated to new co-creation projects and the temporary accumulation of policy reserves in the Insurance Business. When based on the non-GAAP indicator that excludes temporary expenses, such as head office relocation occurred among Group companies and loss on valuation of investment securities, operating profit increased 429.3% YoY to ¥256mn.

Results trends



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

The Company did not reach the revised targets announced in May 2023 (revenue of ¥13,000mn, operating profit of ¥300mn, profit before tax of ¥280mn, profit attributable to owners of parent of ¥200mn). However, the main factor in this was the classification as discontinued operations of Connect Agency Inc. after executing the sale of its shares and of J-Phoenix Research Inc. after resolving to sell its shares, resulting in the deduction of both company's results from the Company's revenue, operating profit, and profit before tax. Moreover, the Company recorded loss on impairment of goodwill of ¥365mn on them as discontinued operations, which resulted in the recording of a loss attributable to owners of parent.

Significant increase in revenue of the IT/AI/IoT/DX Business due to the effects of M&A

2. Trends by business segment

(1) IT/AI/IoT/DX Business

In the IT/AI/IoT/DX Business, revenue increased 36.1% YoY to ¥6,073mn and operating profit decreased 11.9% to ¥409mn. But when based on the non-GAAP indicator, operating profit before the allocation of Company-wide costs increased 1.1% to ¥1,062mn.

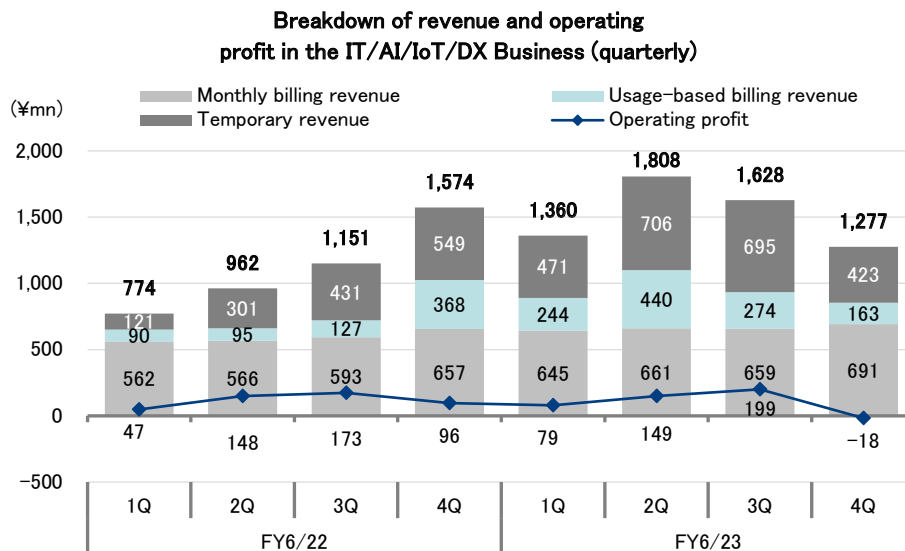
Results trends

Looking by type of revenue, revenue from monthly billing increased 11.7% YoY to ¥2,656mn, revenue from usage-based billing rose 64.9% to ¥1,121mn, and temporary revenue, such as from contracted development projects, increased 63.7% to ¥2,295mn. In each case, the increases were mainly due to the contribution of EGG's sales throughout the year. As for EGG, revenue was contributed through various channels, including the "Furusato Nozei" taxation system, sales related to the government's national travel support program, the development and maintenance of "Tottori Health +,"*1 a medical and long-term care database analysis system commissioned by the Tottori National Health Insurance Organization, and the My Number Card promotion project*2 commissioned by Yonago City and Sakaiminato City in Tottori Prefecture.

*1 A system for promoting effective health guidance based on medical knowledge, improving office efficiency for specialists such as public health nurses, and effective information disclosure that leads to changes in residents' behaviors. The system was developed as a tool for providing healthcare guidance, including future projections for insured persons. Currently, a health app is being developed for residents of Tottori Prefecture enrolled in the National Health Insurance.

*2 Creation of a landing page to lead visitors to the My Number Card application website, planning and design of TV commercials and advertising utilizing YouTube, social media, and camping cars, and opening and running of pop-up booths for processing My Number Card applications at retail facilities.

On an existing business basis, revenues showed a strong trend, primarily in the mainstay i-series services. However, profits seem decreased, mostly due to an increase in development expenses related to new co-creation projects. On a quarterly basis, revenue peaked in 2Q at ¥1,808mn, amid strong contributions to revenue related to the "Furusato Nozei" taxation system and services related to the travel support program, then decreased by 18.9% YoY to ¥1,277mn in 4Q, due to the travel support business contracting after the effects of the M&A had subsided.



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

The status of co-creation projects is as follows

Results trends

a) Smart Healthcare Platform

Scala Communications, Otsuka Pharmaceutical Co., Ltd. and Sompo Japan Insurance Inc. are developing the Smart Healthcare Platform in the healthcare area. This healthcare service aims to promote health and productivity management, using employees' data to promote health through daily lifestyle and support employee health. It is intended to help maintain and promote health by promoting individualized health support through basic data such as personal lifestyle practices (sleep time, exercise time, etc.), and physical status (weight, etc.). The Company has already accumulated a large number of users, and is considering starting full-scale service provision in 2024. The Company develops and operates the system and app, and records monthly usage fees as revenue.

b) U-Medical Support

In livestock DX, 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, using 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, and the Company intends to increase sales of U-Medical Support 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 number of user contracts is currently increasing steadily. The Company is also in discussions with desamis regarding the development of other service provisions.

*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.

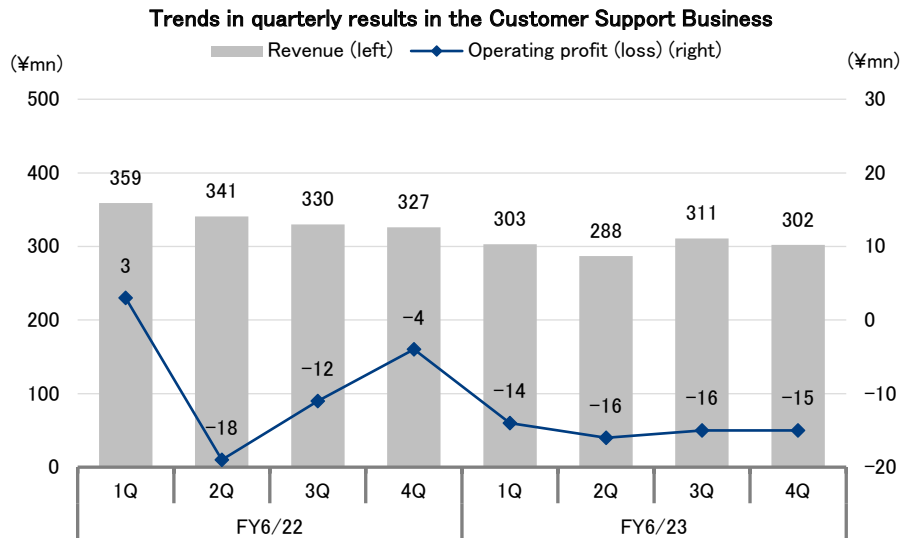
c) Facility Reservation System for local governments

The Company is developing a Facility Reservation System linked with a digital ID together with xID Inc., which is working on solutions using the My Number Card. Currently, the project is being prepared for provision to local governments throughout Japan as a SaaS/ASP. The solutions will enable reservation, unlocking and other actions of public facilities such as community centers and gymnasiums using the My Number system. Currently, the Company has received an order from one local government, and uptake is expected to expand going forward.

(2) Customer Support business

In the Customer Support Business, revenue decreased 11.2% YoY to ¥1,204mn, the operating loss was ¥61mn (a loss of ¥31mn in the previous fiscal year), and the operating loss before allocation of Company-wide costs based on the non-GAAP indicator was ¥52 million (a loss of ¥28mn in the previous fiscal year). The decrease in revenue was caused by a halt in activities on a major project in response to a revision of the Telecommunications Business Act. However, looking at revenue on a quarterly basis, it appears to have reached its lowest point in 2Q at ¥288mn, when the slide was finally stopped, before maintaining a level above ¥300mn from 3Q onward. In FY6/24, revenue is expected to gradually recover thanks to enhanced sales activities. On the profit front, the Company continued to experience losses due to the decrease in revenue, but the Company aims to improve profitability with the transfer of the operations to the Company's in-house call center in Okinawa. Furthermore, since the business scale is small, it has been decided to be incorporated into the IT/AI/IoT/DX Business from FY6/24.

Results trends



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

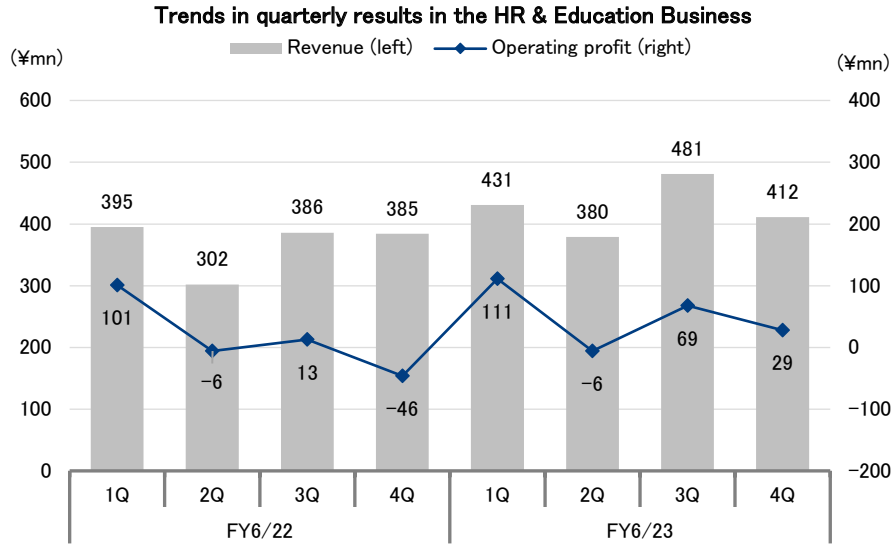
(3) HR & Education Business

The HR & Education Business performed well, with revenue increasing 16.1% YoY to ¥1,704mn, operating profit rising 229.2% to ¥203mn, and operating profit before allocation of Company-wide costs based on the non-GAAP indicator increasing 30.0% to ¥295mn. The HR business performed favorably with double-digit growth in revenue driving the overall operating results. Since the business was incorporated into the Group in April 2020, it has struggled with the impact of the COVID-19 pandemic; however, revenue has recovered almost to the level seen prior to incorporation into the Group, and operating profit has also set a new record high.*

* The FY5/19 consolidated results of Grit Group Holdings Co., Ltd., which operates the HR & Education Business, were at the level of a revenue of ¥1,999mn and an operating profit of ¥31mn. (Both figures are for reference only)

In recruitment support services, companies participating in job fairs trended at a high level owing to the resumption of economic activity post-pandemic and greater interest in recruiting activities against a backdrop of worker shortages, which contributed to favorable sales. On the other hand, in daycare and education services, in April 2023 the daycare services Universal Kids Shinagawa (directly managed) and Universal Kids Bangkok (program provision only, under another company's management) opened, but seem to have made only a slight contribution to sales. Meanwhile, for school-aged children, Global Education Center, which specializes in English language education, opened in April 2023, and having reached capacity due to its strong reputation, now plans to increase classes in October. Broncos20 Co., Ltd., which was made a subsidiary in March 2022, pre-opened a fan club website for the Saitama Broncos, a professional basketball team, and began to enroll members. The website is planned as a new form of fan club using Membership NFT (Non-Fungible Tokens).

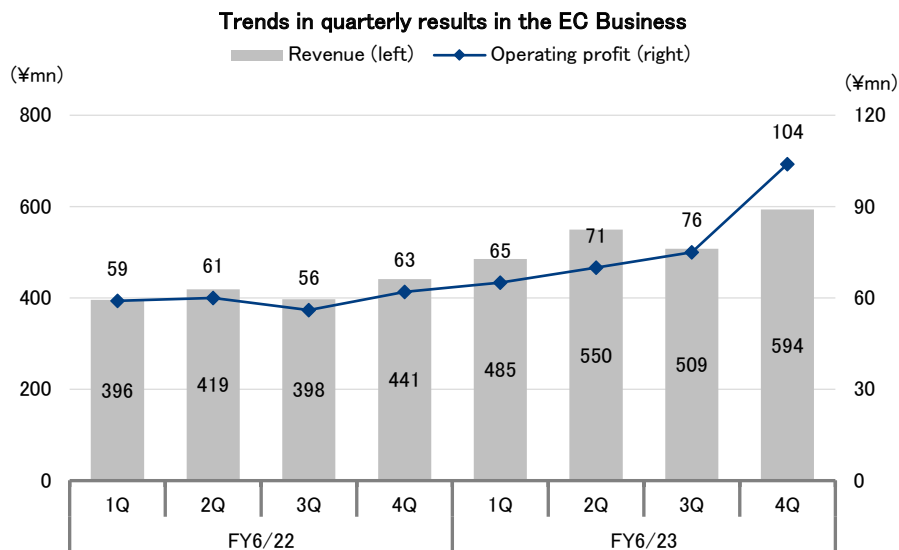
Results trends



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

(4) EC Business

In the EC Business, revenue increased 29.2% YoY to ¥2,138mn, operating profit rose 32.2% to ¥316mn, and operating profit before the allocation of Company-wide costs based on the non-GAAP indicator increased 34.9% to ¥379mn, as both revenue and profits continued to increase by double-digits, setting new record highs. With the market scale for trading cards, such as Pokémon cards, expanding every year, digital marketing initiatives such as Search Engine Optimization (SEO) have seen the membership of the EC website Card Shop – Yuyu – Tei increase steadily from 188,000 at the end of the previous fiscal year to 241,000, leading to favorably operating results. In May 2023, the release of an Android app further boosted user numbers, driving high growth that has continued for some time, with 4Q revenue up 34.7% YoY to ¥594mn and operating profit up 65.1% to reach a new record high of ¥104mn.



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

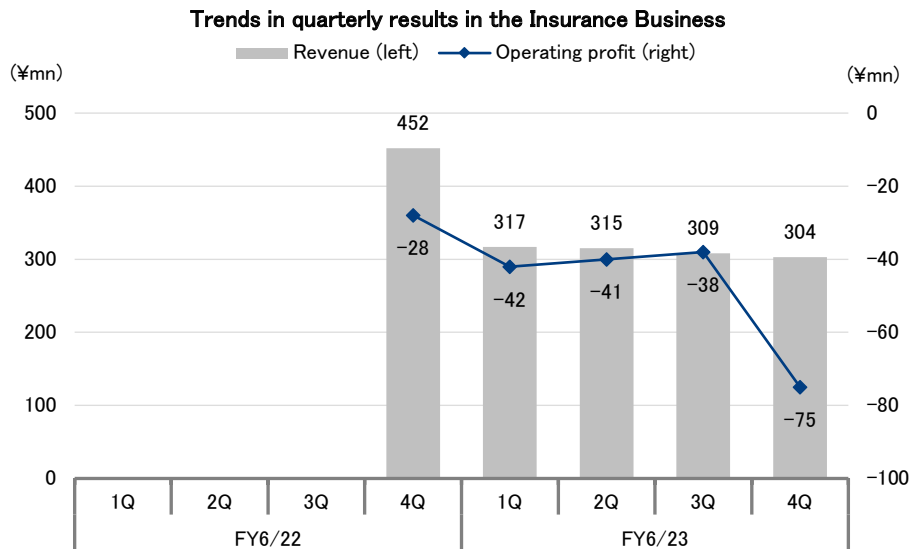
We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends

(5) Insurance Business

In the Insurance Business, revenue increased 175.2% YoY to ¥1,245mn, the operating loss was ¥196mn (a loss of ¥28mn in the previous fiscal year) and the operating loss before allocation of Company-wide costs based on the non-GAAP indicator was ¥160mn (a loss of ¥28mn in the previous fiscal year). Revenue increased due to consolidation of Nihon Pet Small-amount Short-term Insurance Company from 4Q in the previous fiscal year. Looking at results on a quarterly basis, the Insurance Business has maintained a level of over ¥300mn. Looking at revenue levels in FY3/21, prior to the consolidation, ordinary income of Nihon Pet Small-amount Short-term Insurance Company was ¥1,773mn, which shows that revenues have contracted somewhat in scale. The Company has positioned FY6/23 as a period for upfront investments to strengthen earning capabilities, revising the sales structure and products, and also taking various measures such as renewing the website and making marketing investments. A further factor was the recording of a loss due to a one-time expense for accumulation of policy reserves.

To strengthen sales capabilities, the Company plans to eliminate agencies with poor sales efficiency (agencies with low policy continuation rates), and acquire new agencies over the next 1 to 2 years. Moreover, the Company is also working to reduce the insurance loss ratio (claims paid divided by premium income) by strengthening its checking functions through insurance-related organizations and to curb costs. To meet a wide range of customer needs, the Company is also working to develop new products that can offer further safety and peace of mind to beloved pets, and is targeting a return to operating profitability in FY6/25.



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

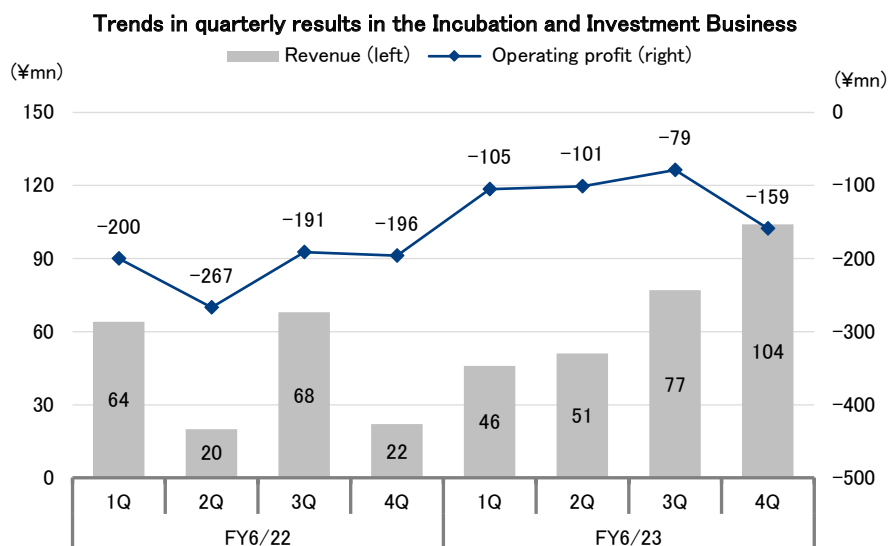
Results trends

(6) Incubation and Investment business

In the Incubation & Investment Business, revenue grew 59.5% YoY to ¥278mn, the operating loss was ¥444mn (a loss of ¥854mn in the previous fiscal year), and the operating loss before allocation of Company-wide costs based on the non-GAAP indicator was ¥240mn (a loss of ¥353mn in the previous fiscal year). Gyaku Propo matching numbers steadily increased, and at Gyaku Propo Lab@ARCH, which opened in 2022 at ARCH, operated by Mori Building Co., Ltd., a total of 244 persons from 90 local governments and 267 persons from 125 companies visited over the 10-month period to the end of July 2023. These visits involved various interactions which have widened the Company’s network. In addition, many local governments have used the Gyaku Propo Concierge service, which translates local government’s social issues into a business perspective and provides them to companies to support business creation. For example, the service has been entrusted with public-private co-creation projects from Kyoto City, Iwata City, and Toyota City, among others. In addition, the Company concluded the “Agreement on Regional Circular Coexistence toward Decarbonizing” with Itami City, Inan Town, and Hannan City, aiming to create model cases to help achieve carbon neutrality in 2050, and has started initiatives aimed at creating social credit through Japan’s first public-private co-creation initiative. Although the contribution to revenue is still small, these co-creation projects are expected to produce an increasing number of opportunities to win orders for system development projects and the like.

Meanwhile, workation services* for corporations also contributed to higher revenues as service uptake expanded through the conclusion of comprehensive partnership agreements with local governments and the strengthening of partnerships with relevant organizations, communities, and service operators. In terms of profit, the segment continued to record an operating loss due to development expenses for growth and upfront expenses such as personnel expenses. However, the loss has narrowed due to growth in sales and a decrease in investment expenses. This segment also includes head office costs, and is therefore expected to continue reporting a loss in FY6/24.

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



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

Sound financial position maintained with an equity ratio in the 40% range; recovering earning capability a challenge

3. Financial condition and business indicators

Looking at the financial condition at the end of FY6/23, total assets were down ¥2,499mn compared to the end of the previous fiscal year to ¥18,316mn. In current assets, there were decreases in cash and cash equivalents of ¥1,884mn and trade and other receivables of ¥229mn, but reinsurance assets increased by ¥164mn and income taxes refund receivable increased by ¥124mn. In non-current assets, other financial assets increased ¥252mn, and there were decreases in right-of-use assets of ¥366mn and goodwill of ¥365, respectively.

Total liabilities decreased ¥1,583mn from the end of the previous period to ¥10,227mn. Interest-bearing debt decreased ¥948mn, and lease liabilities decreased ¥409mn. Total equity declined ¥916mn to ¥8,089mn. This decrease was due to loss attributable to owners of parent of ¥218mn in addition to outlays of ¥631mn for dividend payments and ¥125mn to acquire treasury shares.

Looking at business indicators, the Company's financial position improved slightly, with the ratio of equity attributable to owners of parent increasing slightly from 41.7% at the end of the previous year to 42.8%, while the interest-bearing debt ratio decreased from 80.0% to 76.6%. However, total equity declined by over 20% compared to two years prior, due to the recording of a loss for the period, the payment of dividends, and the acquisition of treasury shares. The main cause of the decline is a temporary decrease in profitability, resulting from aggressive M&A, development investment, and other activities aimed at propelling growth going forward. Looking ahead, the Company aims to increase productivity while working to create a foundation for achieving robust growth.

Consolidated statement of financial position (IFRS) and business indicators

	FY6/20	FY6/21	FY6/22	FY6/23	Change
	(¥mn)				
Current assets	11,780	12,991	12,030	10,280	-1,749
(Cash and cash equivalents)	7,822	9,809	9,625	7,740	-1,884
(Trade and other receivables)	3,456	1,412	1,614	1,384	-229
Non-current assets	13,132	7,338	8,786	8,035	-750
(Goodwill)	7,086	1,949	2,356	1,990	-365
Total assets	24,912	20,330	20,816	18,316	-2,499
Total liabilities	14,569	9,859	11,810	10,227	-1,583
(Interest-bearing debt)	8,632	5,973	6,951	6,002	-948
Total equity	10,343	10,470	9,006	8,089	-916
(Equity attributable to owners of parent)	7,402	10,162	8,687	7,832	-855
(Non-controlling interests)	2,940	308	318	257	-61
Indicators					
(Stability)					
Equity attributable to owners of parent ratio	29.7%	50.0%	41.7%	42.8%	1.1pt
Interest-bearing debt ratio	116.6%	58.8%	80.0%	76.6%	-3.4pt
(Profitability)					
ROE	4.4%	35.8%	-5.5%	-2.6%	2.9pt
Operating profit margin	3.0%	4.7%	-2.0%	2.1%	4.1pt

Note: the profitability indicators are based on the continuing operations
 Source: Prepared by FISCO from the Company's financial results

■ Outlook

Aiming for 2.5 times operating profit growth in FY6/24 through higher sales and cost reduction effects

1. Outlook for FY6/24

In its outlook for FY6/24 consolidated results, the Company is forecasting revenue to increase 1.2% YoY to ¥12,800mn, operating profit to increase 150.4% to ¥650mn, profit before tax to increase 165.1% to ¥620mn, and for profit attributable to owners of parent to be ¥420mn (a loss of ¥218mn in the previous fiscal year). In revenue, the end of the national travel support program is expected to cause a ¥1,089mn decrease in associated sales at EGG (certain maintenance services will remain); however, this will be covered by an increase in sales at other existing businesses. In the HR & Education Business and the EC Business, double digit growth is expected to continue, while the IT/AI/IoT/DX Business, excluding EGG, the Insurance Business, and the Incubation & Investment Business are also expected to see sales growth. On the profit front, the Company is projecting a significant increase due to the impacts of sales growth at these existing businesses, as well as a decrease in co-creation project development costs and Insurance Business restructuring expenses and so forth, which created an increased burden in the previous fiscal year. With regard to the national travel support program, the negative impact on profit is expected to be minor, since the profit margin is low.

FY6/24 consolidated results forecast (IFRS)

	FY6/23 results	FY6/24 Company forecasts	YoY	
			Change	Change (%)
Revenue	12,644	12,800	155	1.2%
Operating profit	259	650	390	150.4%
Profit before tax	233	620	386	165.1%
Profit attributable to owners of parent	-218	420	638	-
Basic earnings per share (¥)	-12.62	24.24		

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

In the IT/AI/IoT/DX Business, the focus will be on the development of co-creation projects: the Smart Healthcare Platform, U-Medical Support, and the Facility Reservation System. Focus will also be on the Frailty Early Detection System*. EGG has received an order for a system for a nursing care prevention project from Yonago City in Tottori Prefecture, and the system is expected to be deployed more widely for other local governments. Contracted service users are to be local governments, which means that it is budget dependent, but we at FISCO see ample scope for the system to be introduced more widely among local governments that have a large number of elderly residents as it is expected to be effective in extending healthy life and reducing social welfare costs.

* A cloud service capable of early detection of frailty (a condition between a healthy state and a state of requiring nursing care, that presents with decreased physical and cognitive function) by having subjects respond to simple questions using a PC or tablet.

Outlook

In other areas, as a co-creation project with a local government, in May 2023 the six parties of Scala Partners, Tsuyama City in Okayama Prefecture, Tsuyama Chamber of Commerce and Industry, NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION Okayama Branch, Adecco Group AG, AKKODiS Consulting Ltd., and IRODORI Inc. announced that they had concluded a collaboration agreement (planned period: May 22, 2023 to March 31, 2026), aimed at revitalizing the industry of Tsuyama City and creating a related population. To address an issue of labor shortages in Tsuyama City in areas such as ICT, the partners will promote a workation business to attract IT companies from outside the area. Scala Partners will be responsible for planning and operating workations to attract companies from outside the area.

Furthermore, in July 2023, the Company announced that it would promote a data business for social implementation of solutions to regional issues through co-creation with AllegroSmart, Inc., which conducts AI analysis using a data-linked platform. Specifically, the companies have started providing a consulting and system building service for building in as little as four weeks an environment that will enable local government employees and other service users to propose hypotheses and perform data analysis and visualization without coding using AllegroSmart's data orchestration platform, "Newtroid. The employees will use data as a starting point to address social issues facing local governments (such as birthrate decline and population aging, population decline, and increasing social welfare cost). For future development, the Company aims to use EGG's network, which has a track record in implementing the Furusato Nozei system at 658 local governments throughout Japan, and propose the system in combination with the Frailty Early Detection System to contribute to extending healthy life and reducing medical and nursing care costs in the region.

In the HR & Education Business, the Company has started a new mid-career recruitment support service. Previously, the Company has focused on services for students, but by expanding the scope to include working adults, the Company aims to expand its business scale a step further. In addition, on the Saitama Broncos fan club website, targeting members of the fan club, the Company is planning to develop and operate an NFT service that allows for participation in sports team operations (a service that provides various benefits with the purchase of NFTs) and a fantasy sports* service that utilizes NFTs. The Company is also looking at utilizing know-how in NFT service operation gained in the area of sports to horizontally deploy services to other fields in the future, such as social solution-type businesses.

* A simulation game in which participants create fantasy teams by selecting actual existing players and then compete with each other on points from individual games and throughout the season.

In the EC Business, the Company is currently working on joint development with manufacturers to utilize AI in the trading card inspection process in order to increase operational efficiency, while also making progress in considering the opening of physical stores. In the Insurance Business, in addition to developing new products, the Company is looking into financial services other than insurance in relation to pets.

In the Incubation & Investment Business, the Company will continue to focus on capturing co-creation projects through Gyaku Propo. It has also been proceeding with overseas business expansion. The Company is currently revising its strategy with regard to the investment business.

Focus on creating a foundation for robust growth, aiming for FY6/26 revenue of ¥15.5bn and operating profit of ¥2.0bn

2. Medium term business plan

(1) Overview and earnings targets of the medium term business plan

The Company revised its mid-term management plan, COMMIT5000, which was announced in August 2019, in light of the current progress and market environment, and announced a three-year medium term business plan through to FY6/26. Under COMMIT5000, the Company created strategies aimed at growing while solving social issues by addressing them with the Company's own resources or with co-creation partners. The earnings targets for FY6/30 were revenue of ¥500.0bn, operating profit of ¥50.0bn (FY6/25 targets were revenue of ¥100.0bn and operating profit of ¥10.0bn). However, projects with co-creation partners did not spread as initially anticipated, and as earnings also slumped during the COVID-19 pandemic, the Company's performance began to diverge from the targets, leading to this revision of the plan. Under the new medium term business plan, the Company has positioned the next three years as a period for "consolidating a foundation for robust growth and redefining the Company's unique value." Under the plan the earnings targets for FY6/26 are revenue of ¥15.5bn and operating profit of ¥2.0bn. This represents revenue growth of 7% per annum, which FISCO considers sufficiently achievable considering the market environment and demand going forward.

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

Under the new medium term business plan, 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. Looking ahead, 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 draw in more people and social issues, transforming social issues into growth opportunities.

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). The Company is already providing multiple services, including daycare and services for school-aged children, and a frailty detection and prevention system. Looking ahead, the Company plans to create various 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.

Outlook

The Foundation PF comprises the Company's existing businesses, such as the IT/AI/IoT/DX Business, the HR & Education Business, the Insurance 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. The Company positions value creation generated through co-creation by these continually learning and evolving PFs and partners as the Group's unique value, and intends to further promote this value creation going forward as a differentiation strategy.

Positioning the three-year period up to FY6/26 as a period for "creating a foundation for robust growth," the Company has set highly achievable revised targets for FY6/26 as revenue of ¥15.5bn and operating profit of ¥2.0bn. By focusing on businesses related to human growth inside and outside the Group, the Company will expand the scale of its businesses by creating a cyclical structure of "creating projects from social issues," "co-creation between individual Group businesses and partners," and "drawing together of human resources and partners who empathized with the realized value with new social issues." The Company also aims to strengthen the business management foundation, and work to increase profitability across the entire Group. The Company's shareholder returns policy is unchanged from previously, aiming basically to stably and continuously pay dividends while also continuing to increase the dividend.

(3) Strengthening the business management foundation

One of the key measures is to improve profitability across the entire Group by strengthening 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

In line with the medium-term policy, the Company will work to increase earning capability by focusing on businesses that lead to human growth, while working to increase the value of existing profitable businesses in accordance with the redefinition of the Company's unique value. 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

With the establishment of a shared division within the headquarters in FY6/24, and by enhancing its capabilities to support feasibility studies of new business plans, the Company aims to strengthen the monetizing capability of the entire Group. This will also elevate the overall effectiveness of the Group's investment in management resources. Specifically, the shared division will organize marketing teams (increasing customer appeal) and survey/analysis teams (building business hypotheses), and development teams (examining feasibility), and rapidly verify the feasibility of new businesses plans that Group companies are planning to execute. Conducting these examinations centrally at head office is expected to effectively increase the probability of success of new business plans.

c) Systems that enable participation by diverse human resources

The Company will help to clarify the future prospects for individuals by providing diverse growth opportunities and flexible options. It will clarify the current options and available experiences, as well as future growth opportunities, and organize systems that will promote revitalization of internal personnel. Examples could be a system that enables visualization of a specialized career path or skill that can be acquired, or a system that involves people who are able to empathize. 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.

Outlook

d) Enhance monitoring

So as not to miss the timing for actions that will lead to increased corporate value, the Company will increase its accuracy by repeatedly monitors the external environment for forecasting and the internal environment to verify effects.

(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 the growth of the Co-Creation PF will accelerate, and that the size of overseas sales will expand. As an indicative image of the composition of revenues in FY6/30, the Foundation PF accounts for 60% (of which 5% are overseas), the Co-Creation PF 35% (of which 20% are overseas), and the Meta PF 5%. Regarding business overseas, the Company intends to work together with local partners to develop services in the healthcare field, targeting emerging Asian countries.

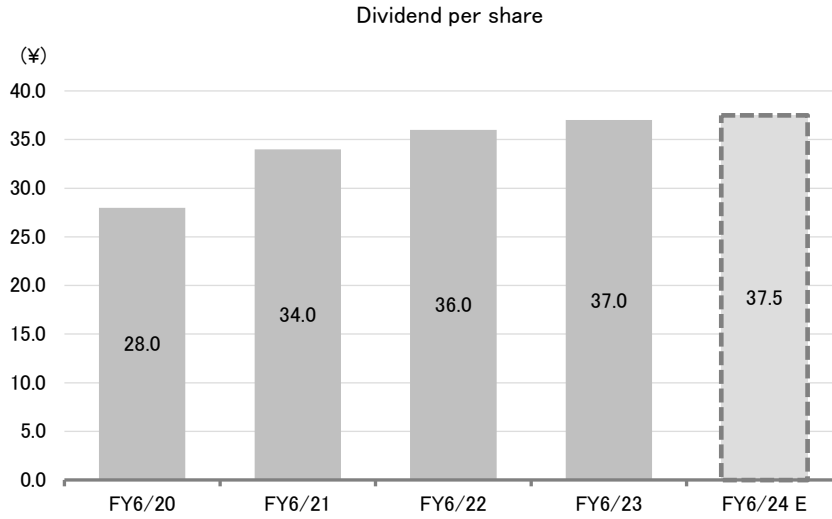
Shareholder return policy

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 while also securing the internal reserves necessary to strengthen its financial structure and to develop its businesses in the future, and it aims to continually increase dividends under this policy. In FY6/23, the Company increased its per-share dividend for the 14th consecutive year by ¥1.0 YoY to ¥37.0, despite posting a loss, as a return on past investment profit. For FY6/24, the Company plans to continue to increase dividends by ¥0.5 YoY to ¥37.5 (payout ratio of 154.7%). Currently, the dividend payout ratio is above 100% due to the low level of profits, but over the medium term, the Company will continue to increase its dividends while working to increase profits so that the dividend payout ratio will be below 50%.

The Company has also been acquiring treasury shares as appropriate in order to improve capital efficiency and so that it can implement a flexible capital policy in response to its business environment. Recently, from May to August 2022, it acquired 400,000 shares (2.26% of the total number of issued shares (excluding treasury shares)) for around ¥300mn.

Shareholder return policy



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

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp