

May 15, 2024

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2024 (Nine Months Ended March 31, 2024) [IFRS]

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 Scheduled date of filing of Quarterly Report: May 15, 2024
 Scheduled date of payment of dividend: –
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: None

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

1. Management Performance under IFRS and Non-GAAP Measures

Consolidated Results of Operations (July 1, 2023–March 31, 2024)

(Percentages represent year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
(IFRS)										
Nine months ended Mar. 31, 2024	8,376	(10.1)	(915)	–	(936)	–	(1,629)	–	(1,627)	–
Nine months ended Mar. 31, 2023	9,318	–	370	–	356	–	220	–	230	–
(Non-GAAP)										
Nine months ended Mar. 31, 2024	8,376	(10.1)	(195)	–	(215)	–	(195)	–	(182)	–
Nine months ended Mar. 31, 2023	9,318	–	374	–	360	–	223	–	223	–

	IFRS		Non-GAAP	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
	Yen	Yen	Yen	Yen
Nine months ended Mar. 31, 2024	(93.85)	(93.85)	(10.50)	(10.50)
Nine months ended Mar. 31, 2023	13.33	13.28	12.90	12.86

Notes: 1. Revenue, operating profit, and profit before tax for the nine months ended March 31, 2023 were reclassified by deducting the amounts of those from discontinued operations from the amounts of those from continuing operations. Because of this, these year-on-year changes are not presented.

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

2. In non-GAAP measures, for adjustment, gains/losses on securities related to investment business were deducted from the line items below operating profit, and profit from discontinued operations was deducted from the line items below profit.
3. In non-GAAP measures, in addition to the above Note 2, expenses related to office downsizing, impairment losses on goodwill and other items, and reversal of deferred tax assets of 1,393 million yen were deducted from the line items below operating profit for the nine months ended March 31, 2024.
4. For details of the non-GAAP measures, please refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance (1) Explanation of Results of Operations” on page 2 of Attachments.

2. Consolidated Financial Position under IFRS

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity per share attributable to owners of parent
	Million yen	Million yen	Million yen	%	Yen
As of Mar. 31, 2024	15,732	5,762	5,528	35.1	318.68
As of Jun. 30, 2023	18,316	8,089	7,832	42.8	451.84

3. Dividends

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

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

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

(Percentages represent year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	8,300	–	(1,100)	–	(1,100)	–	(2,700)	–	(2,700)	–	(155.73)

Notes: 1. Revisions to the most recently announced earnings forecast: None

2. The consolidated earnings forecast for the fiscal year ending June 30, 2024 is a forecast as of the filing date and is subject to change depending on the liquidation of several consolidated subsidiaries by the end of the fiscal year under review.

* Notes

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

Newly added: –

Excluded: –

- (2) Changes in accounting policies and accounting estimates

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

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

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

As of Mar. 31, 2024: 17,747,759 shares As of Jun. 30, 2023: 17,734,259 shares

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

As of Mar. 31, 2024: 400,008 shares As of Jun. 30, 2023: 400,008 shares

- 3) Average number of shares outstanding during the period

Nine months ended Mar. 31, 2024: 17,339,790 shares Nine months ended Mar. 31, 2023: 17,322,565 shares

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

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

Cautionary statement with respect to forecasts

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

How to view supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results will be disclosed today (May 15, 2024) and available on the Scala's website.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

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

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

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

Furthermore, in the third quarter of the fiscal year ending June 30, 2024, the transfer of all shares of FourHands, Inc., a consolidated subsidiary, was completed and this company has been classified as discontinued operations.

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

(1) Explanation of Results of Operations

During the first nine months of the fiscal year ending June 30, 2024 (the “period under review”), the Japanese economy continued to show a gradual recovery with consumer spending and inbound tourism demand reviving due to the ongoing normalization of economic activities following the easing of COVID-19 movement restrictions. However, the economic outlook remains uncertain due to soaring crude oil and raw material prices caused by geopolitical risks, price hikes driven by the ongoing depreciation of the yen, and other factors.

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

In such business environment, the Group has been undertaking business restructuring through the selection and concentration of business along with cost reduction in order to significantly improve the Group's profitability, especially in the DX business, which is our critical foundation, toward the fiscal year ending June 30, 2025 and beyond.

The Group has also aimed to achieve its Vision: “Make the world where valuable things come springing up” according to the Medium-Term Business Plan 2024–2026 announced in August 2023. In addition, we have continued to work hard to achieve the objectives stated in the Plan by providing services to companies and central and local governments in Japan and overseas.

As a result, the Group reported revenue of 8,376 million yen (down 10.1% year on year) for the period under review. This decrease was attributable to a temporary decrease in development projects, mainly in the DX Business, the end of the Go To Travel Campaign, and the scale-down of the government’s nationwide travel discount program, although the EC Business continued steady growth.

On the profitability front, the Group reported operating loss of 915 million yen (compared with operating profit of 370 million yen a year earlier). This result can be explained mainly by a decrease in revenue in the DX Business, as well as cancellation fees for office downsizing in connection with business restructuring and impairment losses on property, plant and equipment, goodwill and other assets.

Loss before tax amounted to 936 million yen (compared with profit before tax of 356 million yen a year earlier). As a result of recording a reversal of deferred tax assets, loss amounted to 1,629 million yen (compared with profit of 220 million yen a year earlier), and loss attributable to owners of parent amounted to 1,627 million yen (compared with profit attributable to owners of parent of 230 million yen a year earlier).

(Reporting on a non-GAAP basis)

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

We believe that disclosure of the non-GAAP measures makes it easier for our stakeholders to make both cross-sectional and time-series comparisons and can also provide useful information that helps them to understand the Group’s underlying operating performance and its outlook.

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

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

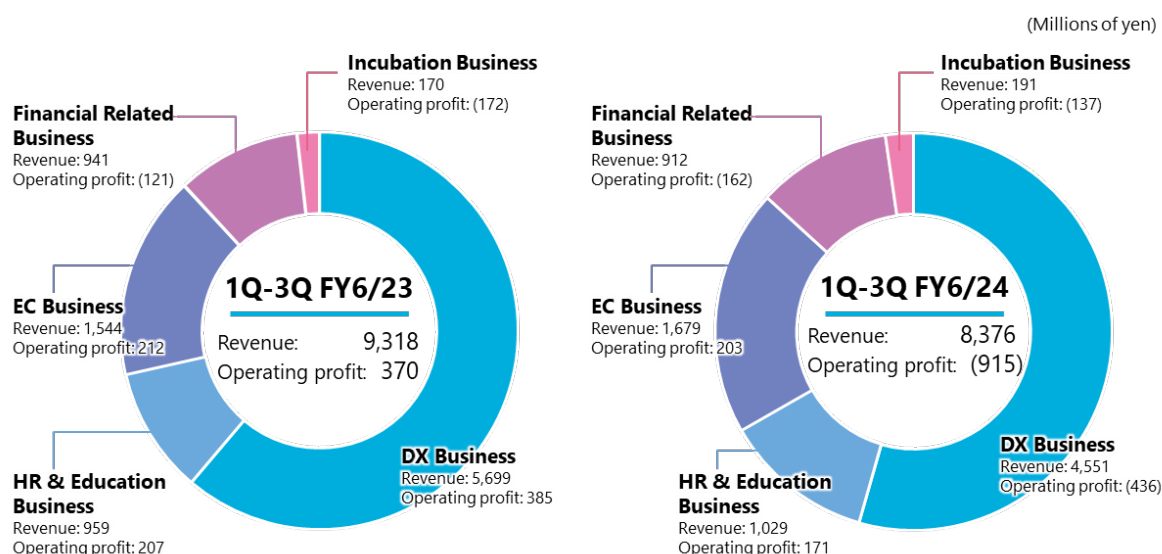
For adjustment, profit or loss on securities related to investment business were deducted from operating profit and the line items below it, and profit from discontinued operations was deducted from profit and line items below it. In addition to the above, expenses related to office downsizing, impairment losses on goodwill and other items, and reversal of deferred tax assets of 1,393 million yen were deducted for the period under review.

The operating segment performance is as follows.

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

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

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



(i) DX Business

Scala Communications, Inc. experienced a decrease in revenue and profit. This was due to the impact of a reduction in the scale of projects for certain customers caused by changes in the situation in some industries with large transaction amounts. Meanwhile, the acquisition of new customers is progressing, such as the accelerated orders for U-Medical Support, a comprehensive medical support tool for cattle that we develop jointly with desamis Co., Ltd. and Mitsui Sumitomo Insurance Company, Limited.

EGG CO., LTD. saw revenue decrease due to the termination of the Go To Travel business and the downsizing of the government’s nationwide travel discount program. On the other hand, the company has started delivery in Digital Garden City National Fund and is making progress in winning over new projects. It will continue to do so.

On the profitability front, the Group reported impairment losses on intangible assets and goodwill of 377 million yen. This was because the current business environment caused the assets less profitable than initially expected as the business progress fell behind the initial plan.

As a result of the above, while the DX Business as a whole accomplished a certain level of achievements in implementing existing and new services, revenue and profit declined due to a reduction in the scale of projects, the recording of impairment losses, and other factors.

(Millions of yen, unless otherwise stated)

		First nine months of FY6/23	First nine months of FY6/24	Year-on-year change	
				Amount	%
Revenue		5,699	4,551	(1,147)	Down 20.1%
Segment profit (IFRS)	Before allocation of corporate expenses	882	55	(826)	Down 93.7%
	After allocation of corporate expenses	385	(436)	(822)	–
Segment profit (non-GAAP measures)	Before allocation of corporate expenses	882	433	(449)	Down 50.9%
	After allocation of corporate expenses	385	(59)	(444)	–

(ii) HR & Education Business

In the recruitment support services business, demand for graduate recruitment services remains strong. In particular, the need for recruiting support services specializing in student athletes and female students remains high. In addition, the need for companies to exhibit at recruitment events continued to exceed that of the same period of the previous fiscal year.

Meanwhile, we have launched new businesses in the domain of mid-career job change support and career education business for students. Due to the upfront investment in building the organization for these businesses, segment profit increased slightly.

As a result of the above, both worker placement and recruitment events remained strong, and revenue and profit increased compared to the same period of the previous fiscal year.

(Millions of yen, unless otherwise stated)

		First nine months of FY6/23	First nine months of FY6/24	Year-on-year change	
				Amount	%
Revenue		959	1,029	70	Up 7.3%
Segment profit (IFRS and non-GAAP measures)	Before allocation of corporate expenses	242	206	(35)	Down 14.8%
	After allocation of corporate expenses	207	171	(35)	Down 17.3%

(iii) EC Business

In the EC business, despite a decline in revenue due to the end of the boom in some of the titles that had driven sales growth in the previous fiscal year, other titles generally performed well, and revenue increased year on year.

Conversely, profits decreased year on year due to higher expenses for increased marketing of the website, which was relaunched last September to increase the number of organic traffic.

(Millions of yen, unless otherwise stated)

		First nine months of FY6/23	First nine months of FY6/24	Year-on-year change	
				Amount	%
Revenue		1,544	1,679	135	Up 8.8%
Segment profit (IFRS and non-GAAP measures)	Before allocation of corporate expenses	259	250	(8)	Down 3.3%
	After allocation of corporate expenses	212	203	(8)	Down 4.0%

(iv) Financial Related Business

In the Financial Related Business, revenue was almost flat year on year. However, profits were down year on year, in part due to the upfront investments to strengthen marketing efforts, including website and landing page redesigns, and develop new products.

(Millions of yen, unless otherwise stated)

		First nine months of FY6/23	First nine months of FY6/24	Year-on-year change	
				Amount	%
Revenue		941	912	(29)	Down 3.1%
Segment profit (IFRS and non-GAAP measures)	Before allocation of corporate expenses	(94)	(135)	(40)	–
	After allocation of corporate expenses	(121)	(162)	(40)	–

(v) Incubation Business

SOCIALX, INC. supports the creation of new businesses for addressing social problems in public-private co-creation through a variety of Gyaku Propo services. In the “Public-Private Co-Creation Acceleration Program (SOCIALX Acceleration),” the finalists for the first term have been selected and applications for the second term have begun. In addition, it has been decided to expand the program to include the Okinawa General Bureau, Cabinet Office and the Gunma Prefectural Government, thereby attracting more interest from financial institutions and other organizations. Furthermore, the public-private co-creation human resources development program developed together with Toyota City in August has since been expanded to Iwata City, Akashi City, and Ministry of the Environment (jointly with 14 municipalities in Gunma Prefecture). In addition, as part of the Tokyo Metropolitan Government’s Open Innovation Platform, a project to promote collaboration, the training programs will be implemented in various fields such as local governments across the country.

Continuing from the previous fiscal year, Gyaku Propo provided secretarial operations and accompanying supports for business development to solve social issues for the Small and Medium Enterprise Agency’s program—Project for Business Introduction and Startup Promotion by Collaboration of Local Governments and Companies. We continue taking on new challenges to establish co-creation economy, which is attracting attentions from the central and local government and other organizations.

In overseas business development, we are working on “ASEAN-Japan Business Co-Creation” project involving entrepreneurs and investors from around the world at three bases in Japan, Singapore, and Indonesia, focusing on agriculture, healthcare, and education, which are essential to the country’s development. In agriculture, we have worked extensively with Farm Management, a diverse group with varying expertise in different crops. To accelerate the infrastructure of digital agricultural cooperatives, we entered into a business partnership with Telkom Group, Indonesia’s largest state-owned telecommunications company, and agreed to pursue joint business development in the agricultural sector. We have also developed services to build production record database and models that assess credit scores. As a pilot investor, we have invested in several projects. We plan to set up agricultural funds together with outside investors.

In the healthcare field, we applied technology from an Indonesian Fintech startup to develop a system infrastructure in the town of Ikata, Ehime Prefecture. The system centralizes information on health management, care prevention, and shared meals through facial recognition of residents and can also be used for shopping. For local governments struggling with rising social security costs in the face of declining birth rates, aging, and population decline, we believe the system can be used to promote health and provide preventive care for residents in collaboration with various healthcare providers. Therefore, we plan to market the product externally as a Health Investment Platform for local governments.

In education, we formed a capital and business alliance with Indonesian EdTech startup Binar Academy, which is engaged in DX talent development.

As a result of the expansion of these and other initiatives, revenues and profits were higher year on year.

(Millions of yen, unless otherwise stated)

		First nine months of FY6/23	First nine months of FY6/24	Year-on-year change	
				Amount	%
Revenue		170	191	21	Up 12.6%
Segment profit (IFRS)	Before allocation of corporate expenses	(168)	(133)	35	–
	After allocation of corporate expenses	(172)	(137)	35	–
Segment profit (non-GAAP measures)	Before allocation of corporate expenses	(164)	(190)	(25)	–
	After allocation of corporate expenses	(168)	(194)	(25)	–

(2) Explanation of Financial Position

Assets

Total assets amounted to 15,732 million yen at the end of the period under review, a decrease of 2,584 million yen over the end of the previous fiscal year. This was mainly attributable to decreases of 339 million yen in property, plant and equipment, 1,325 million yen in right-of-use assets, 351 million yen in goodwill, and 588 million yen in deferred tax assets, which were partially offset by an increase of 143 million yen in inventories.

Liabilities

Liabilities totaled 9,969 million yen, a decrease of 257 million yen over the end of the previous fiscal year. This was mainly attributable to decreases of 246 million yen in lease liabilities (current) and 1,108 million yen in lease liabilities (non-current), which were partially offset by an increase of 1,019 million yen in bonds and borrowings.

Equity

Equity totaled 5,762 million yen, a decrease of 2,326 million yen over the end of the previous fiscal year. This was mainly due to the recording of loss attributable to owners of parent of 1,627 million yen and a decrease of 645 million yen in retained earnings as a result of and the payment of dividends.

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

The Group maintains its consolidated forecast for the fiscal year ending June 30, 2024 that was announced in the “Notice Concerning Revision to Full-year Consolidated Earnings Forecast, Recording of Impairment Losses and Reversal of Deferred Tax Assets” on April 25, 2024.

The above are current forecast and are subject to change depending on the liquidation status of several consolidated subsidiaries by the end of the fiscal year ending June 30, 2024.

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

(Thousands of yen)

	FY6/23 (As of Jun. 30, 2023)	Third quarter of FY6/24 (As of Mar. 31, 2024)
Assets		
Current assets		
Cash and cash equivalents	7,740,400	7,679,708
Trade and other receivables	1,384,649	1,387,916
Inventories	322,902	466,604
Reinsurance assets	528,151	477,962
Income taxes receivable	135,447	4,506
Other current assets	101,370	465,799
Assets held for sale	67,827	-
Total current assets	10,280,749	10,482,497
Non-current assets		
Property, plant and equipment	541,743	201,930
Right-of-use assets	1,844,243	518,798
Goodwill	1,990,895	1,639,369
Intangible assets	1,164,502	1,062,337
Other financial assets	1,448,298	1,315,197
Securities related to investment business	346,864	403,763
Deferred tax assets	691,195	102,697
Other non-current assets	8,025	5,697
Total non-current assets	8,035,767	5,249,790
Total assets	18,316,517	15,732,288
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	813,638	1,003,180
Bonds and borrowings	3,215,156	4,093,545
Lease liabilities	565,165	319,126
Income taxes payable	83,186	-
Insurance contract liabilities	592,749	588,459
Other current liabilities	420,680	479,107
Liabilities directly associated with assets held for sale	14,589	-
Total current liabilities	5,705,166	6,483,419
Non-current liabilities		
Bonds and borrowings	2,787,649	2,928,855
Lease liabilities	1,326,734	217,927
Deferred tax liabilities	255,533	268,390
Other non-current liabilities	151,973	70,739
Total non-current liabilities	4,521,891	3,485,913
Total liabilities	10,227,058	9,969,332
Equity		
Equity attributable to owners of parent		
Share capital	1,787,880	1,791,315
Capital surplus	986,384	989,819
Retained earnings	5,162,735	2,889,552
Treasury shares	(299,966)	(299,966)
Other components of equity	195,234	157,635
Total equity attributable to owners of parent	7,832,267	5,528,356
Non-controlling interests	257,191	234,598
Total equity	8,089,459	5,762,955
Total liabilities and equity	18,316,517	15,732,288

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

(Thousands of yen)

	First nine months of FY6/23 (Jul. 1, 2022–Mar. 31, 2023)	First nine months of FY6/24 (Jul. 1, 2023–Mar. 31, 2024)
Continuing operations:		
Revenue	9,318,700	8,376,950
Cost of sales	(5,466,865)	(4,872,282)
Gross profit	3,851,834	3,504,667
Selling, general and administrative expenses	(3,499,841)	(3,673,417)
Other income	37,335	10,479
Other expenses	(15,290)	(814,361)
Operating profit (loss) before gains/losses on securities related to investment business	374,039	(972,632)
Gains/losses on securities related to investment business	(3,978)	56,899
Operating profit (loss)	370,061	(915,733)
Finance income	25,299	13,943
Finance costs	(39,046)	(34,256)
Profit (loss) before tax	356,314	(936,046)
Income tax expense	(135,768)	(614,446)
Profit (loss) from continuing operations	220,546	(1,550,493)
Discontinued operations:		
Profit (loss) from discontinued operations	316	(79,306)
Profit (loss)	220,862	(1,629,799)
Profit (loss) attributable to:		
Owners of parent	230,875	(1,627,305)
Non-controlling interests	(10,013)	(2,493)
Profit (loss)	220,862	(1,629,799)
Earnings (loss) per share:		
Basic earnings (loss) per share (Yen)		
Continuing operations	12.79	(89.27)
Discontinued operations	0.54	(4.57)
Total	13.33	(93.85)
Diluted earnings (loss) per share (Yen)		
Continuing operations	12.75	(89.27)
Discontinued operations	0.54	(4.57)
Total	13.28	(93.85)

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Thousands of yen)

	First nine months of FY6/23 (Jul. 1, 2022–Mar. 31, 2023)	First nine months of FY6/24 (Jul. 1, 2023–Mar. 31, 2024)
Profit (loss)	220,862	(1,629,799)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	38,202	(41,198)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	–	3,693
Other comprehensive income	38,202	(37,505)
Comprehensive income	259,065	(1,667,304)
Comprehensive income attributable to:		
Owners of parent	269,078	(1,664,810)
Non-controlling interests	(10,013)	(2,493)
Comprehensive income	259,065	(1,667,304)

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First nine months of FY6/23 (Jul. 1, 2022–Mar. 31, 2023)

(Thousands of yen)

	Equity attributable to owners of parent					Total equity attributable to owners of parent
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
Balance as of Jul. 1, 2022	1,778,718	965,568	6,016,133	(174,187)	101,175	8,687,408
Profit (loss)	–	–	230,875	–	–	230,875
Total other comprehensive income	–	–	–	–	38,202	38,202
Comprehensive income	–	–	230,875	–	38,202	269,078
Dividends	–	–	(634,821)	–	–	(634,821)
Exercise of share acquisition rights	6,973	6,973	–	–	(191)	13,754
Share-based payment transactions	–	6,776	–	–	–	6,776
Purchase of treasury shares	–	–	–	(125,779)	–	(125,779)
Changes in ownership interest in subsidiaries	–	4,847	–	–	–	4,847
Total transactions with owners	6,973	18,596	(634,821)	(125,779)	(191)	(735,222)
Balance as of Mar. 31, 2023	1,785,691	984,164	5,612,188	(299,966)	139,186	8,221,264
		Non-controlling interests	Total equity			
Balance as of Jul. 1, 2022		318,844	9,006,252			
Profit (loss)		(10,013)	220,862			
Total other comprehensive income		–	38,202			
Comprehensive income		(10,013)	259,065			
Dividends		–	(634,821)			
Exercise of share acquisition rights		–	13,754			
Share-based payment transactions		–	6,776			
Purchase of treasury shares		–	(125,779)			
Changes in ownership interest in subsidiaries		8,750	13,598			
Total transactions with owners		8,750	(726,471)			
Balance as of Mar. 31, 2023		317,581	8,538,846			

First nine months of FY6/24 (Jul. 1, 2023–Mar. 31, 2024)

(Thousands of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent
Balance as of Jul. 1, 2023	1,787,880	986,384	5,162,735	(299,966)	195,234	7,832,267
Profit (loss)	–	–	(1,627,305)	–	–	(1,627,305)
Total other comprehensive income	–	–	–	–	(37,505)	(37,505)
Comprehensive income	–	–	(1,627,305)	–	(37,505)	(1,664,810)
Dividends	–	–	(645,877)	–	–	(645,877)
Exercise of share acquisition rights	3,435	3,435	–	–	(94)	6,777
Establishment of subsidiaries with non-controlling interests	–	–	–	–	–	–
Changes due to loss of control of subsidiaries	–	–	–	–	–	–
Total transactions with owners	3,435	3,435	(645,877)	–	(94)	(639,100)
Balance as of Mar. 31, 2024	1,791,315	989,819	2,889,552	(299,966)	157,635	5,528,356
		Non-controlling interests	Total equity			
Balance as of Jul. 1, 2023		257,191	8,089,459			
Profit (loss)		(2,493)	(1,629,799)			
Total other comprehensive income		–	(37,505)			
Comprehensive income		(2,493)	(1,667,304)			
Dividends		–	(645,877)			
Exercise of share acquisition rights		–	6,777			
Establishment of subsidiaries with non-controlling interests		1,500	1,500			
Changes due to loss of control of subsidiaries		(21,598)	(21,598)			
Total transactions with owners		(20,098)	(659,198)			
Balance as of Mar. 31, 2024		234,598	5,762,955			

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First nine months of FY6/23 (Jul. 1, 2022–Mar. 31, 2023)	First nine months of FY6/24 (Jul. 1, 2023–Mar. 31, 2024)
Cash flows from operating activities		
Profit (loss) before tax	356,314	(936,046)
Profit (loss) before tax from discontinued operations	(36,421)	(76,940)
Depreciation and amortization	594,965	543,485
Impairment losses	–	582,719
Loss on retirement of non-current assets	12,112	5,891
Loss (gain) on securities related to investment business	3,978	(56,899)
Loss (gain) on sale of investment securities	–	5,702
Finance income	(24,331)	(14,022)
Finance costs	34,596	31,188
Decrease (increase) in trade and other receivables	(374,357)	(405,473)
Increase (decrease) in trade and other payables	(73,926)	287,576
Decrease (increase) in inventories	(68,075)	(141,494)
Decrease (increase) in reinsurance assets	(258,724)	50,188
Increase (decrease) in insurance contract liabilities	28,538	(4,290)
Other	168,670	82,271
Subtotal	363,338	(46,144)
Interest and dividends received	13,510	11,655
Interest paid	(28,749)	(27,413)
Income taxes refund (paid)	(315,898)	36,243
Net cash provided by (used in) operating activities	32,200	(25,658)
Cash flows from investing activities		
Purchase of property, plant and equipment	(82,182)	(26,601)
Purchase of intangible assets	(53,626)	(52,887)
Purchase of investment securities	(20,000)	(30,003)
Proceeds from sale of investment securities	–	55,669
Collection of loans receivable	–	2,700
Payments of leasehold and guarantee deposits	(10,566)	(13,227)
Proceeds from refund of leasehold and guarantee deposits	1,646	38,873
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	–	(28,005)
Purchase of investments accounted for using equity method	(42,807)	–
Proceeds from sale of securities related to investment business	157,500	–
Other	788	(2,733)
Net cash provided by (used in) investing activities	(49,249)	(56,215)

(Thousands of yen)

	First nine months of FY6/23 (Jul. 1, 2022–Mar. 31, 2023)	First nine months of FY6/24 (Jul. 1, 2023–Mar. 31, 2024)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	549,999	783,332
Proceeds from long-term borrowings	650,000	1,645,000
Repayments of long-term borrowings	(1,186,221)	(1,224,162)
Redemption of bonds	(40,000)	(190,000)
Repayments of lease liabilities	(412,777)	(367,221)
Proceeds from exercise of share acquisition rights	13,754	6,777
Purchase of treasury shares	(125,779)	–
Dividends paid	(630,004)	(644,248)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(2,002)	–
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	15,600	–
Other	–	(114)
Net cash provided by (used in) financing activities	(1,167,430)	9,362
Effect of exchange rate changes on cash and cash equivalents	(6,705)	(3,532)
Net increase (decrease) in cash and cash equivalents	(1,191,185)	(76,044)
Cash and cash equivalents at beginning of period	9,625,387	7,740,400
Net increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale	–	15,352
Cash and cash equivalents at end of period	8,434,201	7,679,708

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

(5) Notes to Condensed Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Notes to Condensed Quarterly Consolidated Financial Statements

1. Reporting Entity

Scala, Inc. is a corporation located in Japan.

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

Scala's condensed quarterly consolidated financial statements for the nine months ended March 31, 2024 encompass Scala and its interests in Scala's subsidiaries.

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

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

2. Basis of Preparation

(1) Compliance with IFRS

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

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

The condensed quarterly consolidated financial statements were approved by Scala's Board of Directors on May 15, 2024.

(2) Functional currency and presentation currency

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

3. Material Accounting Policy Information

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

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

4. Significant Accounting Estimates and Judgments Involving Estimates

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

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

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

Segment Information

(1) Overview of reportable segments

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

The businesses operated by Connect Agency, Inc. (DX Business), J-Phoenix Research Inc. (Incubation Business), and Scala Works, Inc. and Four Hands, Inc. (HR & Education Business) have been classified as discontinued operations and excluded from the segment information for the first nine months of the each of the fiscal years ended June 30, 2023 and ending June 30, 2024, respectively.

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

(2) Changes in reportable segments

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

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

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

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

First nine months of FY6/23 (Jul. 1, 2022–Mar. 31, 2023)

(Thousands of yen)

	Reportable segment						Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 2)
	DX Business	HR & Education Business	EC Business	Financial Related Business	Incubation Business	Subtotal		
Revenue								
Sales to external customers	5,699,144	959,409	1,544,057	941,467	170,442	9,314,522	4,178	9,318,700
Inter-segment sales and transfers	34,624	13,796	–	–	11,189	59,610	(59,610)	–
Total	5,733,768	973,206	1,544,057	941,467	181,632	9,374,132	(55,432)	9,318,700
Segment profit (loss)	385,356	207,375	212,065	(121,318)	(172,956)	510,522	(140,461)	370,061
Finance income	–	–	–	–	–	–	–	25,299
Finance costs	–	–	–	–	–	–	–	(39,046)
Profit (loss) before tax	–	–	–	–	–	–	–	356,314

- Notes: 1. The (140,461) thousand yen adjustment to segment profit includes the elimination of inter-segment transactions and the corporate expenses that are not allocated to each reportable segment.
2. Segment profit (loss) is adjusted to be consistent with operating profit presented in the condensed quarterly consolidated statement of income.
3. Corporate expenses are allocated to each reportable segment based on a rational basis.
4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

First nine months of FY6/24 (Jul. 1, 2023–Mar. 31, 2024)

(Thousands of yen)

	Reportable segment						Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 2)
	DX Business	HR & Education Business	EC Business	Financial Related Business	Incubation Business	Subtotal		
Revenue								
Sales to external customers	4,551,437	1,029,654	1,679,418	912,125	191,836	8,364,471	12,478	8,376,950
Inter-segment sales and transfers	12,659	26,682	–	–	35,837	75,179	(75,179)	–
Total	4,564,097	1,056,337	1,679,418	912,125	227,674	8,439,651	(62,700)	8,376,950
Segment profit (loss)	(436,851)	171,440	203,489	(162,225)	(137,735)	(361,881)	(553,852)	(915,733)
Finance income	–	–	–	–	–	–	–	13,943
Finance costs	–	–	–	–	–	–	–	(34,256)
Profit (loss) before tax	–	–	–	–	–	–	–	(936,046)

- Notes: 1. The (553,852) thousand yen adjustment to segment profit includes the elimination of inter-segment transactions and the corporate expenses that are not allocated to each reportable segment.
2. Segment profit (loss) is adjusted to be consistent with operating profit presented in the condensed quarterly consolidated statement of income.
3. Corporate expenses are allocated to each reportable segment based on a rational basis.
4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Discontinued Operations

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

In the third quarter of the fiscal year ending June 30, 2024, the Company classified FourHands, Inc. as a discontinued operation and completed the transfer of all shares.

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

(1) Overview of share transfer

FourHands, Inc.

Name of the segment in which the above company was included	HR & Education Business
Number of shares held before transfer	100 shares (Percentage of voting rights held: 100.0%)
Number of shares transferred	100 shares
Number of shares held after transfer	0 shares (Percentage of voting rights held: 0%)

(2) Operating results of discontinued operations

	(Thousands of yen)	
	First nine months of FY6/23 (Jul. 1, 2022–Mar. 31, 2023)	First nine months of FY6/24 (Jul. 1, 2023–Mar. 31, 2024)
Profit or loss from discontinued operations		
Revenue	551,648	286,883
Expenses	(588,070)	(363,824)
Profit (loss) before tax from discontinued operations	(36,421)	(76,940)
Income tax expense	36,738	(2,365)
Profit (loss) from discontinued operations	316	(79,306)

(3) Cash flows from discontinued operations

	(Thousands of yen)	
	First nine months of FY6/23 (Jul. 1, 2022–Mar. 31, 2023)	First nine months of FY6/24 (Jul. 1, 2023–Mar. 31, 2024)
Cash flows from discontinued operations		
Cash flows from operating activities	36,606	(25,342)
Cash flows from investing activities	700	41,091
Cash flows from financing activities	657	(579)
Total	37,965	15,169

Material Subsequent Events

Not applicable.

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