

Scala, Inc.

4845

Tokyo Stock Exchange Prime Market

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* This is an English translation of a report issued on March 29, 2022.

■ Summary

Aims to accelerate growth by positioning public-private co-creation and healthcare as priority fields and actively investing in them

Scala, Inc. <4845> (hereafter, “the Company”) is a holding company that aims to create value and solve social problems through its portfolio focused on the IT/AI/IoT/DX Business. In FY6/21, it reorganized its business segments into the five businesses of the IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business. It is working to achieve the results target (revenue of ¥500bn in FY6/30) set out in COMMIT5000, its mid-term management plan. It plans to move to the Prime Market of the Tokyo Stock Exchange (TSE) in line with the TSE’s transition to new market segments in April 2022.

1. Overview of 1H FY6/22 results

In 1H FY6/22 in the ongoing businesses*, revenue decreased 0.4% compared to in the same period in the previous fiscal year (year on year (YoY)) to ¥4,268mn, and operating loss was ¥79mn (compared with operating profit of ¥25mn in the same period of the previous fiscal year). Revenue grew in the IT/AI/IoT/DX Business, HR & Education Business, EC Business, and Incubation & Investment Business, but fell in the Customer Support Business such that overall revenue declined slightly. On the profit front, HR & Education Business turned to profit and the EC Business recorded sharp profit growth. However, profit declined in the IT/AI/IoT/DX Business as the Company continued to proactively invest, including in new businesses, and focused on sales activities to tie value creation management support to large-scale DX projects, and the Incubation & Investment Business posted a loss due partly to upfront investments.

* Following the sale of shares of consolidated subsidiary SOFTBRAIN Co., Ltd. in November 2020, the businesses of this company and its subsidiaries were classified as discontinued businesses, and revenue and operating profit show amounts based on ongoing businesses and exclude discontinued businesses.

2. Outlook for FY6/22

The Company changed its outlook for FY6/22 to undetermined from its initial forecast in ranges. This is because it intends to make Nihon Pet Small-amount Short-term Insurance Company a subsidiary in February 2022 following the acquisition of its shares after obtaining approval from the relevant authorities, and expects it to take a reasonable amount of time to change the applicable accounting standards to the International Financial Reporting Standards. In existing businesses, the Company expects generally solid performance in all segments except for the Customer Support Business.

Summary

In 2022, the Company announced it will acquire all of the shares in EGG CO., LTD., which has top market share in systems for local governments for the “Furusato Nozei” taxation system, and Nihon Pet Small-amount Short-term Insurance Company, which offers pet insurance, and make them subsidiaries. EGG is a pioneer that developed the first core system on the part of local governments accompanying the start of the “Furusato Nozei” taxation system in Japan, and boasts top market share. The Company looks to utilize EGG’s robust network to propose things like DX support solutions and public-private co-creation projects, and tie that to IT/AI/IoT/DX Business growth. In addition, EGG’s subsidiary COLUMBUS CO., LTD. is helping to extend healthy life expectancy and reduce the social security costs of local governments by developing an early detection system for frailty* in seniors. The system has progressed with demonstration experiments at several local governments, and future business development in the healthcare field is expected. Meanwhile, Nihon Pet Small-amount Short-term Insurance Company provides small-amount short-term “Inu to neko no hoken (insurance for dogs and cats).” By making it a subsidiary, the Company plans on expansion from pet insurance into diverse insurance areas, and is considering applying data and risk analysis utilizing AI to optimal risk transfer technology, and developing it as a business assisting companies, local governments, and others in transferring the risks they face. For the latest fiscal year, the two companies’ combined revenue was about ¥3.5bn and operating profit was roughly ¥0.2bn.

| * A status between human health and a need for care, with declines in physical and/or cognitive functions. |

3. Mid-term management plan and growth initiatives

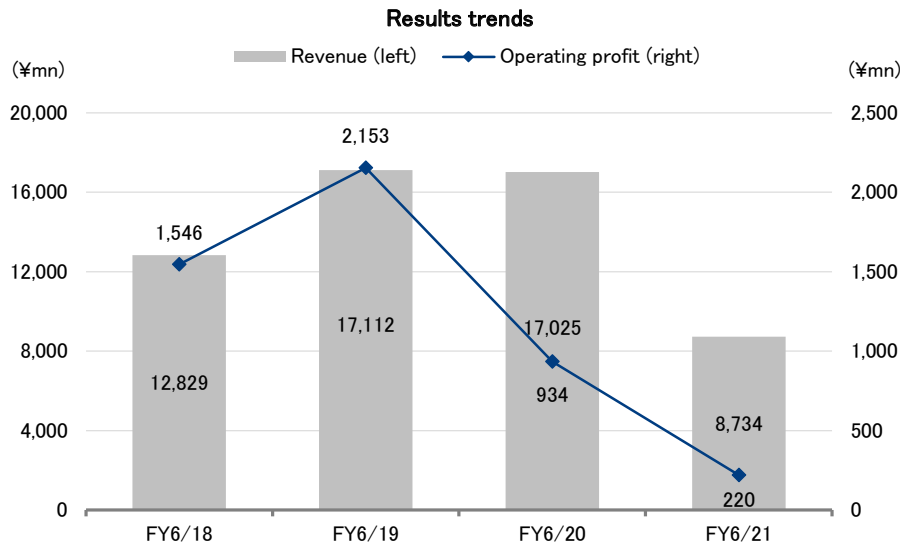
The mid-term management plan COMMIT5000 calls for advancement of three businesses—the value creation support business, IT/AI/IoT-related business, and social issue-solving business. It targets revenue of ¥500bn and operating profit of ¥50bn in FY6/30 (and revenue of ¥100bn and operating profit of ¥10bn in FY6/25). The plan aims to accelerate growth, positioning the public-private co-creation and healthcare as particular areas of focus. In the public-private co-creation domain, inquiries about the “Gyaku Propo” (reverse public offering proposal)* public-private co-creation matching platform released in 2020 are increasing as are cases of its introduction, and the Company aims to expand business further through collaboration with its capital alliance partner xID Inc. and subsidiary EGG. As for the healthcare domain, the Company is considering providing new services based on the healthcare DX platform concept, and future growth is likely.

| * “Gyaku Propo” is 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. |

Key Points

- In 1H FY6/22, revenue was on par with the same period of the previous fiscal year, and the Company continued to proactively invest in new businesses
- The Company executed two M&As, looking to accelerate growth from FY6/23
- The Company’s mid-term management plan targets revenue of ¥500bn and operating profit of ¥50bn in FY6/30

Summary



Note: FY6/21 results are figures for ongoing businesses excluding SOFTBRAIN and its subsidiaries.
 FY6/22 results forecasts are undecided.
 Source: Prepared by FISCO from the Company's financial results

Company profile

With IT/AI/IoT as its core technologies, is integrating its consulting capabilities, including for value creation management support

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 for it ceased due to changes in the market environment, and the service was ended in the fall of 2016.

Company profile

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 distributed processing (client/servers), and it started expanding its business through M&A utilizing funds obtained from its IPO in 2001. Looking at developments over the past few years, in 2017 the Company made plube Co., Ltd. (ownership ratio: 100.0%, currently Scala PLAYce, Inc.), an EC website management company, a subsidiary in order to enter the EC Business. In 2018, the Company made Leoconnect, Inc. (ownership ratio: 66.0%), which provides customer support consulting for the brands and products of the HIKARI TSUSHIN <9435> Group, a subsidiary, and also made Connect Agency, Inc. (ownership ratio: 51.0%), which provides a cloud PBX service to companies and call centers making outbound calls for such customers as the HIKARI TSUSHIN Group, a subsidiary. Also, in 2018, as part of the preparations toward strengthening development capabilities and deploying the overseas business, subsidiary Scala Next Inc. established a Mandalay branch in Myanmar to act as a base for offshore development and has started to recruit local engineers.

As measures toward building a value co-creation platform under mid-term management plan COMMIT5000 starting in 2019, the Company established Scala Partners, Inc. in July of the same year, and then made wholly owned subsidiaries of J-Phoenix Research Inc., which provides management consulting and IR support, in October and Grit Group Holdings, which provides HR & Education Business, in April 2020. The Company is also intensifying efforts toward growth, such as by actively making capital and business alliances. In November 2020, the Company sold its shares in SOFTBRAIN, a major sales support software group that was made a subsidiary in July 2016, to an investment fund, and removed from the scope of consolidation.

To conduct more flexible management, the Company switched to a holding company organization in 2004, and in FY6/16, it changed its accounting standards to IFRS to disclose its results.

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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. 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.
September 2021	Made a subsidiary of readytowork Co., Ltd.
November 2021	Established SOCIALX, INC.
March 2022	Made a subsidiary of EGG CO., LTD.

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

Engaged in five business segments: the IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business

2. Business description

Reorganized business segments into five segments—IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Incubation & Investment Business—and discloses information on them.

On looking at the Group companies responsible for each business segment, the IT/AI/IoT/DX Business is comprised of seven 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. is a subsidiary 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.

In addition to the above, Leoconnect, Inc. is engaged in the Customer Support Business, while the three companies of Athlete Planning, Inc., Sports Stories, Inc. and FourHands, Inc. comprise the HR & Education Business. The EC Business is conducted by Scala PLAYce, Inc., while the Incubation & Investment Business are conducted by Scala Partners, Inc., J-Phoenix Research, Inc., SCL Capital LLC, and the SCSV-1 Investment Limited Partnership. The Group also includes the Company itself as the holding company.

Subsidiaries by business segment and business content

Business segment	Subsidiary	Ownership ratio (%)	Main business
IT/AI/IoT/DX Business	Scala Communications, Inc.	100.0	Provision of SaaS/ASP services
	Scala Service, Inc.	100.0	
	Scala Next Inc.	100.0	Development of SaaS/ASP services, offshore development
	readytowork Co., Ltd.	100.0	
	Connect Agency, Inc.	51.0	
	Retool, Inc.	66.0	Planning, development, and sales of cloud activity management tools
	Social Studio Inc.	51.0	Promotion of DX and SDGs to the national and local governments (joint venture with Branding Technology Inc.)
Customer Support Business	Leoconnect, Inc.	66.0	Customer support consulting (call center operations, etc.)
HR & Education Business	Athlete Planning, Inc.	100.0	HR recruiting (new graduate recruiting, mid-career recruiting) support, etc.
	Sports Stories, Inc.	80.0	Exercise education, sports school operation, etc.
	FourHands, Inc.	100.0	Infant education, community development support, etc.
EC Business	Scala PLAYce, Inc.	100.0	Management of an EC site for the buying and selling of battle-type trading cards
Incubation & Investment Business	Scala, Inc.	-	Group head office, holding company functions, investment business
	Scala Partners, Inc.	100.0	Innovation, incubation, investment
	J-Phoenix Research Inc.	100.0	Value creation management support (creation of analyst and integrated reports, fund management support)
	SCL Capital LLC	100.0	Investment fund management
	SCSV-1 Investment Limited Partnership	71.4	Investment fund
	SOCIALX, INC.	75.0	Planning and operation of the <i>Gyaku Propo</i> public-private co-creation platform

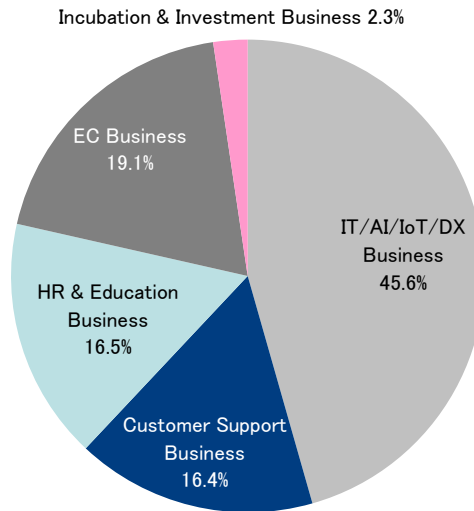
Note: As of the end of December 2021

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

Looking at the composition of sales by business segment in 1H FY6/22, the IT/AI/IoT/DX Business provided 45.6%, Customer Support Business 16.4%, HR & Education Business 16.5%, EC Business 19.1%, and Incubation & Investment Business 2.3%, making the IT/AI/IoT/DX Business the mainstay business.

Company profile

Composition by business segment (1H FY6/22)



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

(1) IT/AI/IoT/DX Business

The IT/AI/IoT/DX Business includes various types of ASP services such as i-search, a search service that is used in companies' websites, and i-ask, an FAQ service. They also include IVR, an interactive voice response system, and a news distribution service. In addition, these services can be divided into those provided for a monthly fee (some usage-based billing) under a recurring income-type business model, and custom projects where systems are developed according to customer needs.

The i-search service was launched in 2007, and currently has the leading market share at about 15% with more than 450 customers, particularly large enterprises. While many companies have entered this market, the Company's service has been highly evaluated by customers for its convenience, including that users can be accurately guided to the target page using thumbnails displayed in search results. The average usage fee per month is ¥100,000 to ¥150,000.

The Company launched the i-ask service around 2008 which is used by more than 250 companies, mainly in the financial and insurance industries. This service enables users to resolve issues on their own by listing frequently asked questions and related answers on corporate sites. It helps to lower costs by reducing inquiries to call centers and can improve customer satisfaction. The Company holds a roughly 15% market share, ranked second after OKWAVE, Inc. <3808>. The average usage fee per month is ¥200,000 to ¥300,000.

IVR is a system for voice-based automated responses at corporate phone help desks, and the Company's service stands out for being provided in the SaaS format. Companies previously incurred large investment costs for IVR, including the need to install a PBX (private branch exchange) system. However, the SaaS format enables them to access the service inexpensively and use it during limited periods, such as campaigns. Therefore, IVR is steadily introduced by many companies as a service that is highly convenient.

Company profile

Other than these businesses, various other services are offered, including a news distribution service for corporations and a service for planning, development, production, maintenance, and management of websites according to customer needs, and thus the Company features a rich service lineup and does not rely on a specific service. They also include services such as the cloud PBX service provided by Connect Agency and the Retool cloud activity management tool provided by Retool.

It also develops systems and provides services related to IoT and big data as customized development projects, and has started system developments through public-private co-creation and other projects. Examples of this are Smiling Road, a safe-driving assistance service (for corporations)*1 sold by Sampo Japan Insurance Inc., and Portable Smiling Road, a smartphone app (for individuals)*2. In these services, big data, such as driving-related data sent from the users' dashboard cameras, is received by the server of Scala Communications and is operated and managed by the web system developed by the Company.

*1 A service that contributes to the promotion of continuous safe driving and accident prevention. It does so by using a website or smartphone app to provide various functions to facilitate safe driving, for example, processing of driving data collected from dashboard cameras utilizing IoT technologies, providing safe driving analysis for drivers and administrators, granting points to drivers rated highly in the driving evaluation system, and enabling them to apply for prizes.

*2 A service that provides "peace of mind" functions such as reporting accidents with the single push of a button in the event that the driver has an accident, "safety" functions useful for accident prevention such as driving analysis and provision of information in real time, and "comfortability" functions such as GPS, being a service contributing to the promotion of safe driving and accident prevention, all using a smartphone app.

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
	i-catalog	Product site management system
Content management	i-linkcheck	Link check services
	i-flow	CMS service
	Hosting services	Hosting services
Content delivery	i-print	Web page printing system
	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
	i-shopnavi	Store reservation support system
	Campaign website construction	Campaign website construction and reception
Inquiry management	i-assist	Web chatbot system
	i-livechat	Web chat system
Member management	i-point	Point systems compatible with EC sites
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

Company profile

(2) Customer Support Business

The Customer Support Business conducted by Leoconnect provides consulting operations for the management of inbound call centers (20 bases nationwide), ranging from receiving inquiries about customer companies' services and products to follow-up after the response, and its main customers include the HIKARI TSUSHIN Group and its agencies. In addition to launching products such as i-livechat, i-assist, and IVR at each call center, the Company is aiming to improve call center productivity by introducing C7, a core system developed by Scala Communications that reflects customer needs (launched in November 2019). Going forward, the Company's strategy is to build its own call center and acquire customers outside the HIKARI TSUSHIN Group, and thereby work to improve profitability.

(3) HR & Education Business

In the HR & Education Business, 65% of sales come from the HR business and 35% 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. Currently, the source of earnings is from the planning and management of corporate joint briefing meetings to recruit new graduates. 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, presenting a seasonal factor for results with earnings concentrated in 3Q. However, amid the COVID-19 pandemic it has been difficult to hold joint briefing meetings in person, so the Company has been holding events online.

In the education business, FourHands provides educational services with high added value targeting infants to elementary school students. Its services include the Minna no Hoikuen nursery schools, Universal Kids international combination day care centers and preschool, UK Academy for cultivating an international sensibility among schoolchildren, and Largo KIDS day 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.

(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 so it is known as the industry's No. 1 EC shop. Many of the purchases on the site are made by overseas users, and starting in FY6/20, users will be able to purchase from overseas users as well.

(5) 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 engagement in value creation management support by J-Phoenix Research, new business development by Scala Partners, and regional revitalization-related services centered on the management of the KomfortaWorkation website to introduce workation facilities. Furthermore, it involves the SCSV-1 Investment Limited Partnership, the value co-creation engagement fund operated by SCL Capital LLC, and improving the value related to its investments, etc.

Company profile

The value co-creation engagement fund invests in listed companies with market capitalization up to ¥10.0bn for which ROIC of at least 15% is expected. The amount invested per company is in the ¥100-¥150mn range, and after making an investment the shares are sold at the stage when the corporate value has reached the expected level. The proceeds from the sale are then used to acquire shares in the next portfolio company. As for investment projects through 1H FY6/22, the fund has invested in ARCHITECTS STUDIO JAPAN, INC.<6085>, Cookbiz Co., Ltd.<6558>, and Astena Holdings Co., Ltd.<8095>.

Aims to differentiate itself from competitors by increasing convenience through developments from the customer's perspective and providing a rich service lineup

3. The Company's strengths

One of the Company's strengths in its core IT/AI/IoT/DX Business is that it develops services from the customer's perspective. Direct sales account for 80% of revenue from monthly billing-based services such as the i-series. The Company improves service functions and develops new services by listening closely to customer needs and feeding this information back to its development team. Its development policy of meeting 100% of customer requests is facilitating products with excellent usability and smooth expansion of sales to new customers.

Another strength is that the extensive lineup of services differentiates it from its competitors. The ability to propose multiple services in packages enables the Company to satisfy diverse customer needs, and this cross-selling helps to raise the average price per customer, boost customer satisfaction, and prevent cancellations. The i-series has been introduced at over 1,000 companies, including 400 listed companies, and its cancellation rate is low at under 7%.

The features of the IT/AI/IoT/DX Business revenue structure are that monthly billing revenue accounts for approximately 60% of revenue, and it has a recurring income-type business model in which monthly revenue builds up in accordance with the accumulation of service contracts. The Company's basic policy is to avoid usage-based billing as much as possible and to provide services only from fixed monthly billing (With usage-based billing included, this business accounts for just over 70% of revenue). Also, the main services are maintaining high gross profit margins at around 80%. A reason for this is that the Company develops services customized to customer needs, and then develops them horizontally as general services, which enables it to keep development costs down as a result.

In the Company, these strengths are ascertained as three capabilities: "the capability to determine real issues" (accurately understanding customer needs in direct sales), "the capability to discover the hidden value of resources" (focusing only on functions that meet needs and developments that create and customize the value of IT resources), and "the capability to maximize value by proposing and executing the optimal combination of issues and resources" (optimization, including of the cloud environment, and dispatching project managers as necessary who will contribute to maximizing the satisfaction of stakeholders). Its strategy is to further strengthen these three capabilities, and as the value co-creation platform, to realize high growth through developing businesses over a wide range of fields including not only companies but local governments and overseas markets as well.

Results trends

1H FY6/22 results on par with levels in the same period of the previous fiscal year, partly since the Company focused on developing new services

1. Overview of 1H FY6/22 results

In the 1H FY6/22 consolidated results (ongoing business basis), revenue declined 0.4% YoY to ¥4,268mn, operating loss amounted to ¥79mn (compared with profit of ¥25mn in the same period of the previous fiscal year), loss before tax amounted to ¥88mn (compared with profit of ¥7mn a year earlier), and loss attributable to owners of parent amounted to ¥72mn (profit of ¥137mn a year earlier).

1H FY6/22 consolidated results (IFRS)

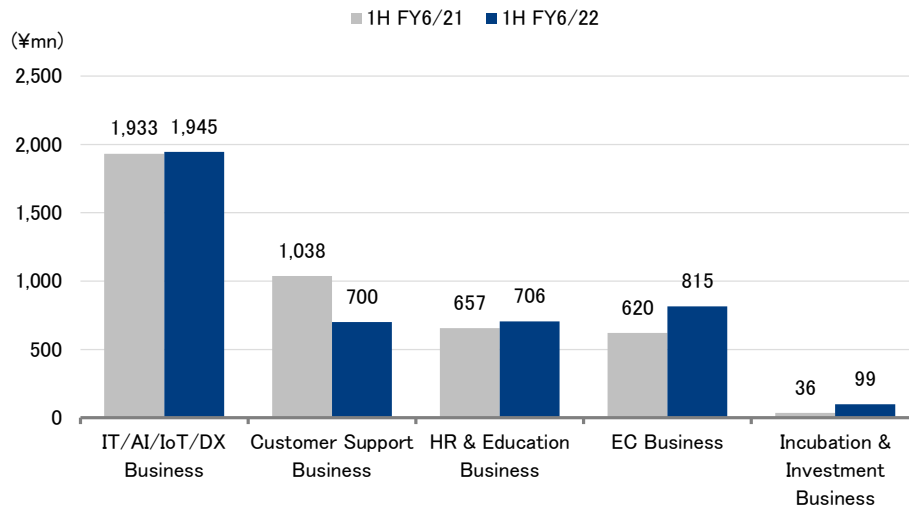
	1H FY6/21		1H FY6/22		
	Results	vs. revenue	Results	vs. revenue	YoY
Revenue	4,285	-	4,268	-	-0.4%
Cost of sales	2,543	59.3%	2,377	55.7%	-6.5%
SG&A expenses	1,776	41.4%	1,897	44.5%	6.8%
Other income/expenses	75	1.8%	-2	-0.1%	-
Operating profit	25	0.6%	-79	-1.9%	-
Profit before tax	7	0.2%	-88	-2.1%	-
Profit from discontinued operations	278	6.5%	-	-	-
Profit attributable to owners of parent	137	3.2%	-72	-1.7%	-

Note: 1H FY6/21 results are results for ongoing businesses and exclude SOFTBRAIN and its subsidiaries
 Source: Prepared by FISCO from the Company's financial results

Despite higher revenue in the IT/AI/IoT/DX Business, HR & Education Business, EC Business, and Incubation & Investment Business, overall revenue declined slightly due to lower revenue in the Customer Support Business. As for profit, the HR & Education Business turned to profit and the EC Business recorded sharp profit growth. However, there was negative impact from lower profit in the IT/AI/IoT/DX Business and wider losses in the Incubation & Investment Business due mainly to upfront investments and recognition of a loss on valuation of investment securities. Operating profit under non-GAAP measures (excluding items from operating profit and the items below it such one-time costs as loss on valuation of investment securities, M&A-related expenses, and costs accompanying the transfer of subsidiary) came to ¥63mn compared with ¥84mn in the same period of the previous fiscal year.

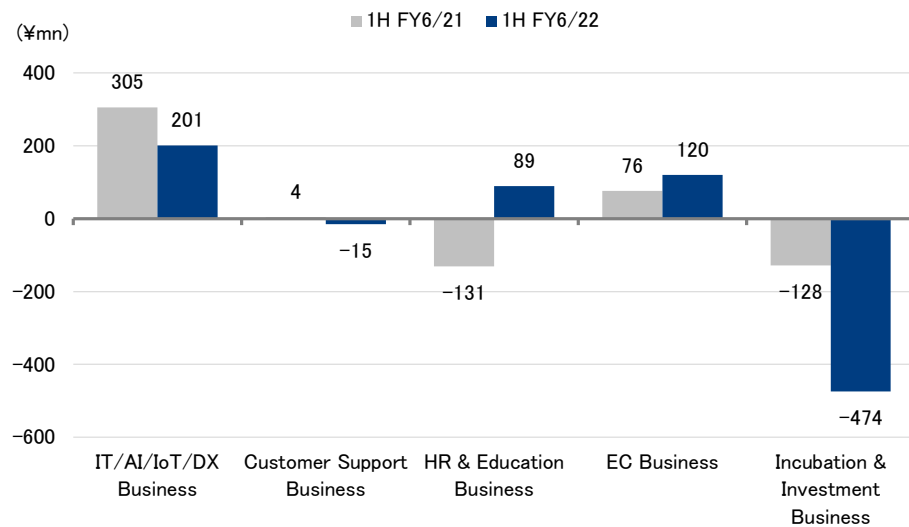
Results trends

Revenue by business segment



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

Operating profit by business segment



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

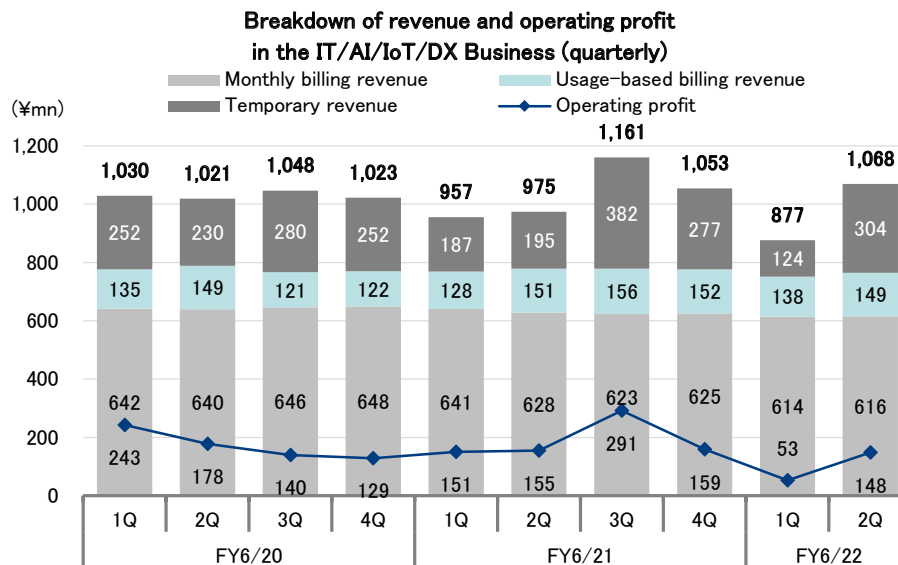
Results trends

Strong performance in the EC Business with double-digit increases in both revenue and profits. Profit declined in the mainstay IT/AI/IoT/DX Business due to upfront investments, but rose before allocation of corporate expenses

2. Trends by business segment

(1) IT/AI/IoT/DX Business

In the IT/AI/IoT/DX Business, revenue increased 0.6% YoY to ¥1,945mn, while operating profit decreased 33.9% to ¥201mn resulting in increased revenue and decreased profits. However, the segment's operating profit before allocation of corporate expenses (non-GAAP, same hereafter) rose 17.8% YoY to ¥499mn. The pace of new customer acquisitions slowed for mainstay i-series services because the Company focused on winning orders for large-scale projects, including by planning and developing new services to promote DX by companies and local governments, which led to sluggish growth in revenue. Looking at revenue by type, monthly billing revenue declined 3.1% YoY, but revenue from usage-based billing rose 2.9%, and revenue from contracted system development projects, which is recorded in temporary revenue, increased 12.0%. The growth in revenue from contracted system development projects reflects the recording of revenue in 2Q from the "Real Estate Trust DX Platform" co-created with Shinoken Group <8909>. The Company plans to continue with additional development of the platform in 3Q onward for online disclosure statements and digitized sale and purchase contracts.



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

Results trends

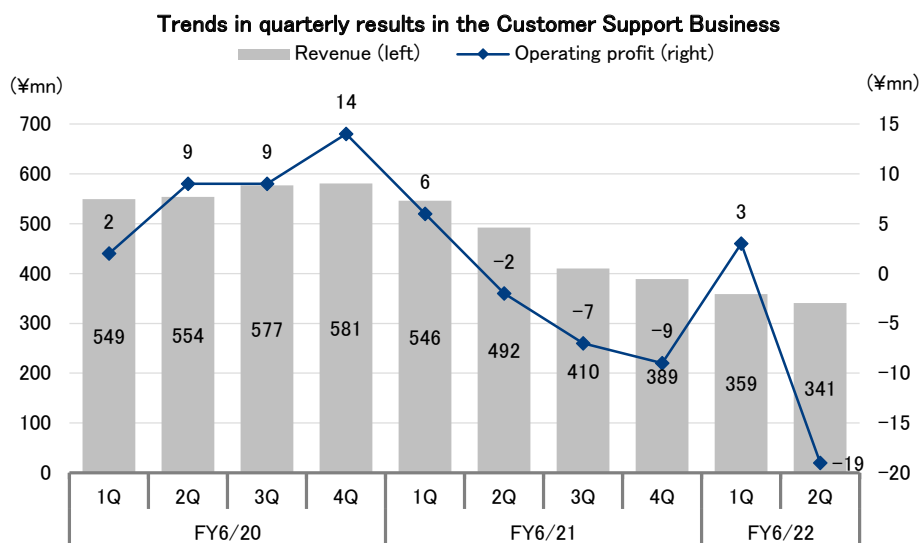
Main new customers for IT/AI/IoT/DX Business services (For 1H FY6/22)

Type	Product	Description	Customers
Information searches	i-search	Internal search engine for websites	transcosmos inc., NYK CRUISES CO., LTD., SBI Neotrade Securities Co., Ltd.
Content management	i-ask	FAQ management system	USEN NETWORKS Co., Ltd., AVAL DATA CORPORATION, DENTSU TEC INC., NTT DATA CUSTOMER SERVICE Corporation
Inquiries management	i-assist	Web chatbot system	DNP Communication Design Co., Ltd., JTRIP Co., Ltd.
	i-identify	Identity authentication service using incoming telephone calls	COLON Company Limited

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

(2) Customer Support Business

In the Customer Support Business, revenue decreased 32.5% YoY to ¥700mn, operating loss was ¥15mn (profit of ¥4mn in the previous fiscal year), and operating loss before allocation of corporate expenses was ¥13mn (profit of ¥26mn in the previous fiscal year). Momentum did not recover for conventional call center operations for sales of new products of companies in the HIKARI TSUSHIN Group, and conditions remained tough. However, the Company has been working to strengthen its organizational structure and sales activities since 1Q to flexibly address the diversification of post-pandemic needs. While upfront expenses are arising in connection with bolstering of the organizational structure, customer support services are taking shape with synergies being generated with co-creation business via the insourcing of previously outsourced support projects.

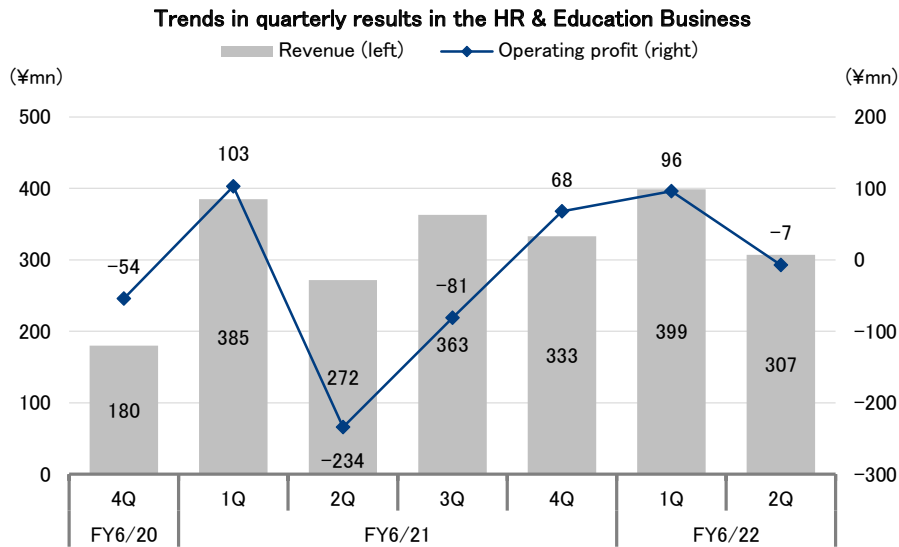


Source: Prepared by FISCO from the Company's financial results and results briefing materials

(3) HR & Education Business

The HR & Education Business turned to profit, with revenue increasing 7.5% YoY to ¥706mn, operating profit of ¥89mn (loss of ¥131mn in the previous fiscal year), and operating profit before allocation of corporate expenses of ¥124mn (loss of ¥49mn in the previous fiscal year). In the HR business, the Company focused on providing services and strengthening support frameworks for new graduates since interest in hiring is recovering, mainly at large companies, and revenue increased as a result. In the education business, the Company concentrated on recruiting students for the UK Academy for school children that opened in FY6/21 as well as implemented flexible measures during the COVID-19 pandemic, and revenue was on par with the previous fiscal year as a result.

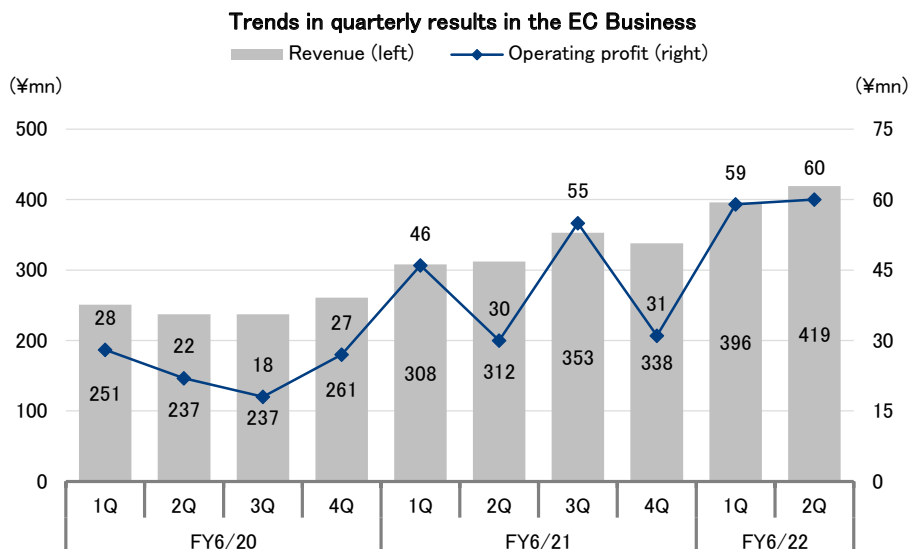
Results trends



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

(4) EC Business

The EC Business posted record-high profit, with revenue increasing 31.4% YoY to ¥815mn, operating profit rising 56.2% to ¥120mn, and operating profit before allocation of corporate expenses increasing 48.7% to ¥141mn. Amid ongoing online trading needs supported by stay-at-home demand during the COVID-19 pandemic, stepped-up SEO and other digital marketing was successful, and the sale held at the end of 2021 was highly rated. In addition, user numbers steadily grew for the iOS app released at the end of FY6/21.

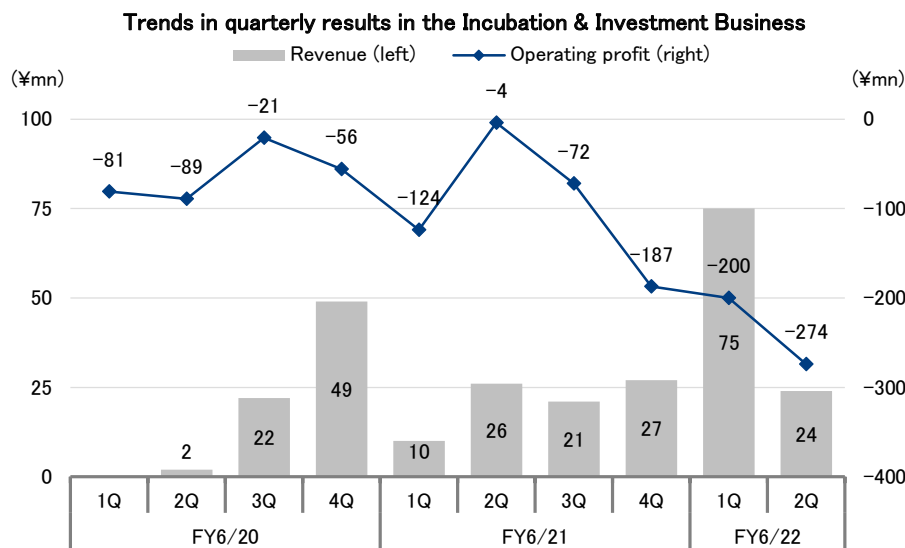


Source: Prepared by FISCO from the Company's financial results and results briefing materials

Results trends

(5) Incubation & Investment Business

In the Incubation & Investment Business, revenue grew 174.5% YoY to ¥99mn, operating loss was ¥474mn (loss of ¥128mn in the same period of the previous fiscal year), and operating loss before allocation of corporate expenses was ¥164mn (loss of ¥28mn). Solid expansion of *Gyaku Propo* contributed to the revenue growth. Turning to the profit front, the segment losses owe chiefly to various advisory fees accompanying business investments, a rise in upfront costs such as for development and personnel expenses with an eye to future growth, and a decline in the share prices of the listed companies in which SCSV-1 Investment Limited Partnership has been investing. However, the majority of the expenses mentioned above are temporary.



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

Scala Partners' workation service* also contributed. In addition, the Company worked to provide IR support, including via mid-term management plan establishment, promote digital transformation, and otherwise raise the value of ARCHITECTS STUDIO JAPAN, INC. and Cookbiz Co., Ltd., in which the SCSV-1 Investment Limited Partnership invested by subscribing to a third-party allotment.

* 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.

Results trends

With the *Gyaku Propo* public-private co-creation matching platform service, the Company set up 12 projects and developed and provided new services related to them such as “Kids Café Encouraging Wi-Fi” and “&e” co-created automobile insurance. *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 the Company 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. In fact, thanks to matchings through *Gyaku Propo*, the Company received orders from Hino Town in Shiga Prefecture to develop a COVID-19 vaccination appointment system and an appointment system using the My Number Card. The Company previously jointly operated *Gyaku Propo* with Public dots & Company. In September 2021, however, the Company decided to run the business independently and established SOCIALX, INC. as the operating company.

Gyaku Propo's main projects

Stage	Project/new service description	Participating partner
Development/service achieved	Kids Café DX	Hirakata City × WirelessGate Inc.
	DX for child care support businesses	Ikoma City × WirelessGate Inc.
	Established a nighttime emergency transport model for nursing care facilities	Kitakyushu City × DoctorMate Inc.
	Appointment system for vaccinations, etc.	Hino Town, Shiga Prefecture × Scala, Inc.
Development/provision projects underway	Realizing a safer transportation environment and society	E.design Insurance Co., Ltd.
	Enhancing operations to help mitigate damage in the event of a disaster	KIMURA UNITY CO.,LTD.
	Digitalize notifications to residents	Toppan Inc.

Source:Prepared by FISCO from the Company's mid-term management plan

Plans to use cash on hand for growth investments and shareholder returns

3. Financial condition and business indicators

Looking at the financial condition at the end of 1H FY6/22, total assets were down ¥367mn compared to the end of the previous fiscal year to ¥19,962mn. In current assets, cash and cash equivalents increased ¥1,185mn, whereas other current assets decreased. In non-current assets, right-of-use assets decreased ¥227mn, and securities related to investment business declined ¥37mn.

Total liabilities were up ¥56mn compared to the end of the previous fiscal year to ¥9,915mn, mainly owing to ¥340mn increase in interest-bearing debt. Total equity decreased ¥423mn to ¥10,047mn, primarily due to the recording of ¥72mn loss attributable to owners of parent and ¥316mn decline in retained earnings due to dividend payments.

Results trends

Looking at management indicators, the ratio of equity attributable to owners of parent declined slightly from 50.0% at the end of the previous fiscal year to 48.9%, while the interest-bearing debt ratio increased from 58.8% to 64.7%. However, net cash (cash and cash equivalents - interest-bearing debt) increased ¥844mn from the end of the previous fiscal year to a record-high level of ¥4,680mn. The significant amount of net cash indicates a high degree of financial soundness. The Company plans to use cash on hand for business investments, M&A, and other investments in growth, as well as proactive shareholder returns.

Consolidated statement of financial position (IFRS)

	(¥mn)				
	FY6/19	FY6/20	FY6/21	1H FY6/22	Change
Current assets	10,165	11,780	12,991	12,796	-194
(Cash and cash equivalents)	6,393	7,822	9,809	10,995	1,185
(Trade and other receivables)	3,251	3,456	1,412	1,423	10
Non-current assets	8,529	13,132	7,338	7,165	-172
(Goodwill)	6,192	7,086	1,949	2,033	84
Total assets	18,694	24,912	20,330	19,962	-367
Total liabilities	9,086	14,569	9,859	9,915	56
(Interest-bearing debt)	5,978	8,632	5,973	6,314	340
Total equity	9,608	10,343	10,470	10,047	-423
(Equity attributable to owners of parent)	7,010	7,402	10,162	9,753	-409
(Non-controlling interests)	2,597	2,940	308	294	-14
Indicators					
(Stability)					
Equity attributable to owners of parent ratio	37.5%	29.7%	50.0%	48.9%	-1.1pt
Interest-bearing debt ratio	85.3%	116.6%	58.8%	64.7%	6.0pt

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

■ Outlook

Execution of two M&As to accelerate growth from FY6/23

1. M&A initiatives

In 2022, the Company announced it will acquire all of the shares in EGG CO., LTD., which has top market share in systems for local governments for the "Furusato Nozei" taxation system, and Nihon Pet Small-amount Short-term Insurance Company, which offers pet insurance, and make them subsidiaries. At FISCO, we expect this to further expand the Company's business opportunities and contribute to faster growth in FY6/23 onward. An overview of the two companies' businesses and the objective for making them subsidiaries are described below.

(1) EGG

EGG CO., LTD. became a subsidiary at the end of February 2022. The system development company is headquartered in Tottori Prefecture. It is a pioneer that developed the first core system on the part of local governments in Japan accompanying the start of the "Furusato Nozei" taxation system. It has top share in that market, with about 680 or a third of local governments in Japan having introduced its "Furusato Nozei" systems. The Company looks to utilize EGG's robust network to propose things like DX support solutions and public-private co-creation projects, and tie that to IT/AI/IoT/DX Business growth.

Outlook

In addition, EGG's subsidiary COLUMBUS CO., LTD. is helping to extend healthy life expectancy and reduce the social security costs of local governments by developing an early detection system for frailty in seniors. Recently, the system has been undergoing demonstration experiments at several local governments in Tottori Prefecture, mainly in Yonago City, and could proceed to full-fledged deployment if benefits from its introduction can be confirmed. In regions where the population is aging, providing a frailty countermeasure package is likely to ease the strain of local government finances. The business model entails contracts with local governments, which pay fees for using the system. Since the Company aims to build a healthcare DX platform, this service could become one of its service offerings.

EGG's FY9/21 sales were ¥1,714mn and operating profit was ¥170mn. Including its three subsidiaries, COLUMBUS CO., LTD., Biz Support Co., Ltd., and EGG RESEARCH INSTITUTE G.K., bring sales to about ¥190mn and operating profit to roughly ¥20mn. EGG's sales increased sharply in FY9/21 because it received an order for system development for the Japanese government's Go To Travel campaign.

Results for EGG and its subsidiaries

	EGG CO., LTD.		COLUMBUS CO., LTD.		Biz Support Co., Ltd.		EGG RESEARCH INSTITUTE G.K.	
	FY9/20	FY9/21	FY9/20	FY9/21	FY9/20	FY9/21	FY9/20	FY9/21
Sales	752	1,714	41	53	49	113	9	30
Operating profit	145	170	0	1	-9	18	4	6
Ordinary profit	162	186	2	1	-5	18	4	6
Net profit	35	117	1	2	24	15	4	5
Business description	System development, etc.		Medical-related software development and sale		BPO business		Big data analysis, etc.	

Note: 100% of shares acquired on February 28, 2022; acquisition price: ¥928mn; advisory fees, etc.: ¥78mn
 Source: Prepared by FISCO from the Company's press release

(2) Nihon Pet Small-amount Short-term Insurance

In February 2022, the Company announced it will make Nihon Pet Small-amount Short-term Insurance Company a subsidiary.* Nihon Pet Small-amount Short-term Insurance Company provides the small-amount short-term "Inu to neko no hoken (insurance for dogs and cats)." It offers unique insurance products, including those with a 90% rate of reimbursement for covered expenses, and has extensive knowledge related to insurance. By making Nihon Pet Small-amount Short-term Insurance Company a subsidiary, the Company plans to expand into diverse insurance areas from pet insurance to personal insurance, financial areas, and so forth. Additionally, the Company is considering applying data and risk analysis utilizing AI to optimal risk transfer technology, and developing it as a business assisting companies, local governments, and others in transferring the risks they face. Nihon Pet Small-amount Short-term Insurance Company's FY3/21 ordinary income was ¥1,773mn and ordinary profit was ¥46mn.

* To become a subsidiary subject to approval of the relevant authorities.

Nihon Pet Small-amount Short-term Insurance Company's results

	(¥mn)		
	FY3/19	FY3/20	FY3/21
Ordinary income	983	1,229	1,773
Ordinary profit	-65	-27	46
Profit	-66	-26	40
Net assets	29	43	93
Total assets	356	495	676

Note: Stock acquisition price of ¥400mn, advisory fees, etc. of ¥24mn
 Source: Prepared by FISCO from the Company's press release

Outlook

Company's FY6/22 forecast is undetermined, but it expects solid performance in existing businesses, mainly IT/AI/IoT/DX Business

2. Outlook for FY6/22

The Company changed its outlook for FY6/22 to undetermined from its initial forecast in ranges. This is because it intends to make a subsidiary of Nihon Pet Small-amount Short-term Insurance Company, which it acquired in February 2022, following the acquisition of its shares after obtaining approval from the relevant authorities, and expects it to take a reasonable amount of time to change the accounting standards to IFRS. However, the Company seems to plan to release its full-year forecast along with 3Q FY6/22 results if it receives approval by that time. In existing businesses, the Company expects generally solid performance in 2H FY6/22 for all segments except for the Customer Support Business.

The plans for initiatives in each business segment going forward are as follows.

(1) IT/AI/IoT/DX Business

In the IT/AI/IoT/DX Business, the Company is aiming for double-digit annualized growth with new services and acquiring new contracts stemming from other businesses to increase recurring revenue, as well as by capturing large projects in contracted development and by acquiring projects that will lead to new businesses. Looking at the number of contracts by service for FY6/22, the Company expects the number of contracts for the i-series, which accounts for approximately 70% of revenue, to increase 6.2% YoY to 2,550 contracts. Meanwhile, the Company expects enterprise contracts (custom projects) which are somewhat high in unit price to increase 15.2% to 190 contracts, and co-creation projects and other large projects to increase 29.6% to 35 projects.

In co-creation projects, there is the ongoing safe driving assistance project for Sompo Japan Insurance and the "Real Estate Trust DX Platform" developed jointly with Shinoken Group. In addition, the Company is advancing development of "U-medical support," the first veterinary medical care support system in the livestock industry, as a co-creation project with Mitsui Sumitomo Insurance Co., Ltd. and desamis Co., Ltd. By working with U-motion®, a system to monitor cattle behavior developed by Desamis, U-medical support aims to digitally assist communication pertaining to the medical treatment of livestock. The Company plans to release the service around April 2022. Scala Communications, Inc. engages in project management, service development, sales, operations, and database analysis. In addition to system development fees, the company receives fixed percentage fees based on monthly usage.

In terms of progress as of 1H FY6/22, co-creation projects were on track but the i-series was a bit behind plan. The Company aims to catch up in 2H and meet its targets.

Number of contracts by service

(Unit: Number of contracts)

	Price	Cancellation rate	FY6/21 Results	1H FY6/22 Results	FY6/22		FY6/25	
					Forecast	YoY	Forecast	vs. FY6/21
i-series	Approx. ¥100,000/month	Under 7%	2,401	2,430	2,550	6.2%	3,000	24.9%
Enterprise	Approx. ¥300,000/month	Under 2%	165	170	190	15.2%	250	51.5%
Co-creation	Over ¥2 million/month	0%	27	31	35	29.6%	100	270.4%

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

Outlook

(2) Customer Support Business

In the Customer Support Business, the Company will work to increase added value to its services in the customer support domain. Specifically, the Company will strive to enhance convenience and improve productivity, and aim to grow the business scale and improve profitability by reducing low-profit projects and building high profit margin call centers and combining it with the Group's products and services. Additionally, the Company will contribute to co-creation business growth by designing in an integrated fashion and building an operational organizational framework in the customer support areas of co-creation business.

Looking at the number of call center seats, while the number of call center seats for handling traditional consulting will decline from 300 seats in FY6/21 to 200 seats in FY6/22 and 100 seats in FY6/25, the in-house call center that the Company will newly launch will be expanded from 50 seats in FY6/22 to 500 seats in FY6/25. As a result, the Company aims to increase the total number of seats from 300 in FY6/21 to 600 seats in FY6/25, and aims to increase the number of contracts from 250 to 500.

A point to note is that operations have started at the in-house call center specializing in customer support services, with its total number of seats coming to eight in 1H FY6/22. The Company will continue to review projects with low profitability, targeting a turn to profit from FY6/23.

Number of call center seats and contracts

	FY6/21 Results	1H FY6/22 Results	FY6/22		FY6/25	
			Forecast	YoY	i-series	vs. FY6/21
Number of call center seats for consulting	300	293	200	-33.3%	100	-66.7%
Number of in-house call center seats	0	8	50	-	500	-
Number of customer support contracts acquired	250	253	300	20.0%	500	100.0%

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

(3) HR & Education Business

Among the HR & Education Business, in the HR business the Company will work to increase the number of registered job seekers by new graduate recruiting and human resources referral service. The Company plans for the number of new graduates of physical education schools to increase from 17,000 in FY6/21 to 18,000 in FY6/22, for the number of new female graduates to increase from 13,000 to 14,000 students, and for the number of job seekers via human resources referral to increase from 7,000 to 8,000 people. The Company will work to increase the number of people registered by getting more placement requests from companies with strong brand power. Also, the number of hiring-related events, which was struggling due to the COVID-19 pandemic, is expected to recover from 72 in FY6/21 to 80 in FY6/22 while continuing to hold online events. In fact, revenue from hiring-related events has recovered to the scale prior to the COVID-19 pandemic, and revenue and profits are both outpacing targets in FY6/22.

Through these initiatives, the Company expects growth to continue in the HR business which the Company has been focusing on since 2H FY6/21, and forecasts higher revenue and a turn to positive operating profit in FY6/22. Heading towards FY6/25, the Company plans to focus on increasing the number of people registered among new female graduates and job seekers through personnel referrals. Meanwhile, the Company expects stable growth in physical education students due to the fact that the registration rate is already at a high level.

Outlook

Number of registered job seekers and number of hiring-related events held

	FY6/21 Results	1H FY6/22 Results	FY6/22		FY6/25	
			Forecast	YoY	Forecast	vs. FY6/21
Number of registered job seekers (new graduates of physical education schools)	17,000	16,000	18,000	5.9%	21,000	23.5%
Number of registered job seekers (new female graduates)	13,000	7,000	14,000	7.7%	22,000	69.2%
Number of registered job seekers (human resources referral)	7,000	Being prepared (pre-season)	8,000	14.3%	14,000	100.0%
Number of hiring-related events held	72	35	80	11.1%	110	52.8%

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

Meanwhile, in the education business, the Company will expand the business scale and increase the stability of earnings by not only operating its own day care centers and preschools, but also by leveraging its know-how to operate day care centers and preschools for customers on a contract basis. For the daycare centers and preschools that it operates itself, the Company increased the number of facilities from six facilities in FY6/21 to seven facilities in FY6/22, and had been planning to operate one more facility under contract, but due to the impact of COVID-19, the outlook is that this will now be shifted to FY6/23. In addition, the Company plans to advance educational content development, sales, and licensing. Its strategy is to steadily expand the scale of the business, while partnering with regional co-creation-related services.

Number of daycare centers and preschools operated by the Company and number of facilities operated on a contract basis

	FY6/21 Results	1H FY6/22 Results	FY6/22		FY6/25	
			Forecast	YoY	Forecast	vs. FY6/21
Number of daycare centers and preschools operated by the Company	6	6	7	16.7%	8	33.3%
Number of facilities operated on a contract basis	0	0	1	-	5	-

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

(4) EC Business

In the EC Business, the Company expects both revenue and profits to grow by double digits again in FY6/22. The Company will work to increase the number of members and the number of cards sold through ongoing improvements to the EC site "Yuyu-Tei" and by bolstering digital marketing. Also, the Company will improve profitability by improving fulfillment operations. In terms of the number of members, the Company aims to increase membership from 140,000 people in FY6/21 to 180,000 people in FY6/22, and then to 230,000 people in FY6/25, as the Company strives for additional growth as Japan's largest trading card game EC shop.

The Company is also considering opening physical stores targeting business scale expansion. Because physical stores will be able to purchase trading cards directly from manufacturers, the Company expects that this will enhance the product lineup and increase sales opportunities. For the future, the Company is also looking into the possibility of producing card games related to the Group's educational content.

As for points of interest, the Company has embarked on a full-scale revamp of the EC site Card Shop – Yuyu-Tei, with the aim of increasing the number of members and purchases and sales, and will strengthen digital marketing. It is also working on developing an Android app since the iOS app is doing well. It looks to make back-end operations more efficient and increase profitability by using an AI image processing system to automate work such as pricing and identifying cards.

Outlook

Number of members of EC site Card Shop – Yuyu-Tei

	FY6/21	1H FY6/22	FY6/22		FY6/25	
	Results	Results	Forecast	YoY	Forecast	vs. FY6/21
Members	140,000	172,000	180,000	28.6%	230,000	64.3%

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

(5) Incubation & Investment Business

J-Phoenix Research is approaching around 200 companies per year on an ongoing basis, and the Company will work to acquire value creation management support projects and DX support projects, as well as carry out M&A and capital and business tie-ups. It also plans to go beyond M&A and investment, forming links to co-creation and cooperation.

Meanwhile, there is an extremely high level of interest in *Gyaku Propo* among companies engaging in new business development and local governments, and the Company expects to obtain more projects. In FY6/22, the Company plans to expand these projects and becomes profitable as well as obtain contracted system development projects stemming from matchings. Further, the Company aims to accumulate cases of public-private co-creation by promoting matching, and work on developing new services that convert social issues into data. In FY6/21, there were two projects for *Gyaku Propo* that led to matching contracts, and the Company aims to increase this to 15 projects in FY6/22 and 30 projects in FY6/25. Likewise, the Company expects the number of contracted system development projects stemming from matchings to increase from 1 project in FY6/21 to 30 projects in FY6/25.

Track record of matching through *Gyaku Propo* and forecast

	FY6/21	1H FY6/22	FY6/22		FY6/25	
	Results	Results	Forecast	YoY	Forecast	vs. FY6/21
Number of matches	2 projects	2 projects	15 projects	7.5x	30 projects	15x
Number of matched local public entities (total)	4 entities	3 entities	15 entities	3.8x	100 entities	25x
Development projects stemming from matching	1 project	2 projects	3 projects	3x	30 projects	30x

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

In the mid-term management plan, targeting revenue of ¥500bn and operating profit of ¥50bn in FY6/30

3. Mid-term management plan

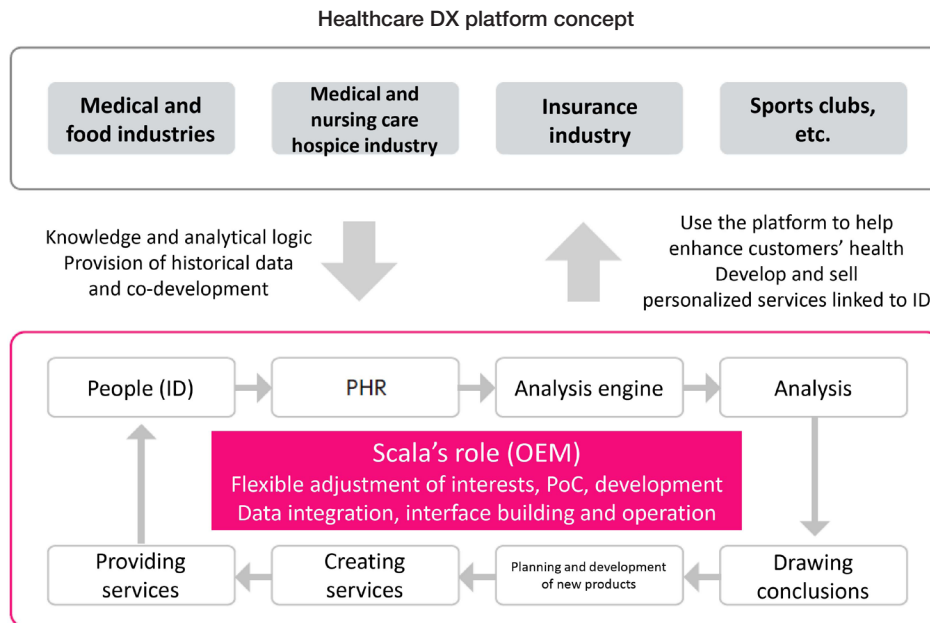
In the Company's COMMIT5000 mid-term management plan running up to 2030 which it announced in August 2019, the basic policy is to utilize the Company's strengths, which are its three capabilities of "ability to determine real issues" (the value creation support business), "ability to discover the hidden value of resources," (the IT/AI/IoT/DX-related business), and "ability to maximize value by proposing and executing the optimal combination of issues and resources," (the social issue-solving business), and the strategy is to aim for mid- to long-term growth while linking these capabilities together. In terms of numerical targets, the Company projects revenue of ¥100bn and operating profit of ¥10bn for FY6/25, while it projects revenue of ¥500bn and operating profit of ¥50bn in FY6/30.

Outlook

The Company’s aim is to grow and deepen existing businesses through its growth model of working with joint-development partners to build “models” for “value creation management support + DX support” and then horizontally developing this model. In addition, the Company’s strategy is to accelerate growth by proactively advancing M&A as well as new business development. In addition, growth factors will be the acquisitions of capital gains from the investment fund and the accumulation of recurring-type income from building IT systems for the companies it invests in and the provision of various services.

The Company is positioning the provision of services to local governments lagging behind in DX as a growth field, and plans to accumulate orders while building a network through *Gyaku Propo*. The Company has deployed the digital ID solutions using My Number Card that it is advancing jointly with xID to help make government services more sophisticated, and introduced workation and other initiatives to help revitalize regional areas and encourage population inflows to them.

As a new initiative, the Company is working on developing new healthcare services through joint planning and co-creation with a pharmaceutical company and a non-life insurance company, with the aim of building a healthcare DX platform. It is currently at the demonstration experiment stage, and plans to provide service moving forward. By bringing together each company’s resources in advancing the project and collecting personal health records (PHRs), the Company’s goal is to establish a value-generating platform for developing and providing optimal personalized healthcare services that is not tied to a particular industry.



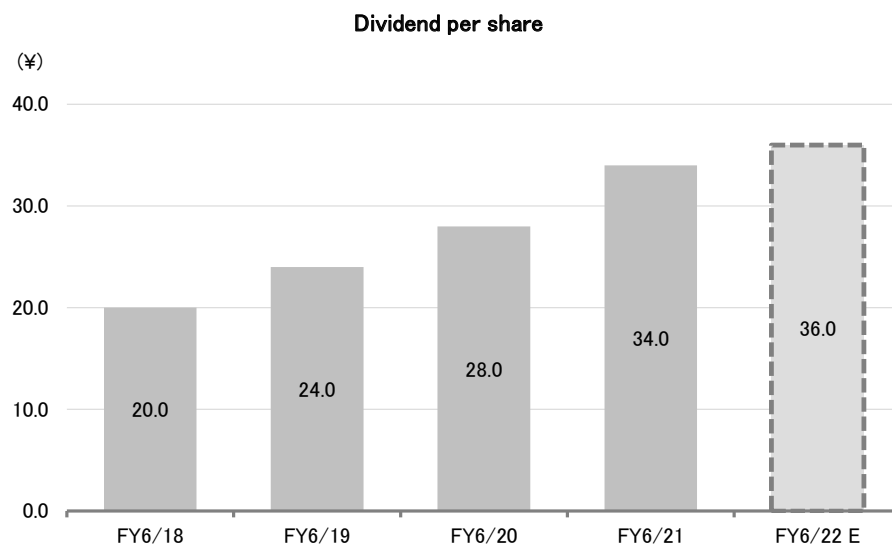
Source: Reprinted from the Company's mid-term management plan

Shareholder return policy

Proactive about returns to shareholders, and planning to pay higher dividends for the 13th consecutive period in FY6/22

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 develop its businesses in the future, and the Company aims to continually increase dividends under this policy. For FY6/22, the Company expects to increase the dividend ¥2.0 YoY to ¥36.0 per share, which will mark the 13th consecutive period it has increased the dividend.

With respect to the Tokyo Stock Exchange's new market segments, which will go into effect from April 2022, the Company has chosen to switch to the Prime Market in order to realize its mid-term management plan and meet the high expectations and demands of the capital market. In addition, in order to strengthen its governance system, the Company is transitioning from a company with audit and supervisory board members to a company with a nominating committee, etc.



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

Information security measure

The Company's mainstay business is SaaS/ASP services that utilize the internet, so information security is one of its most important management issues. In terms of specific measures, all Group companies have obtained and will continue to maintain ISO/IEC27001 certification, which is the international standard for information security, and to implement information security measures incorporating a global-standard third-party perspective. They also strive to thoroughly manage the information assets owned by the Group based on an internal management system. They use in-house servers and some private clouds for the information system, while also constructing backup systems.

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