Consolidated Financial Results for the Fiscal Year Ended June 30, 2019 [IFRS]

August 14, 2019

Company name: Scala, Inc.
Listing: Tokyo Stock Exchange, First Section
Stock code: 4845
URL: https://scalagrp.jp/
Representative: Norikatsu Nagino, President and CEO
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Scheduled date of Annual General Meeting of Shareholders: September 24, 2019
Scheduled date of filing of Annual Securities Report: September 24, 2019
Scheduled date of payment of dividend: September 25, 2019
Preparation of supplementary materials for financial results: None
Holding of financial results meeting: Yes (for institutional investors and analysts)

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

1. Management Performance Measures under IFRS

(1) Consolidated Results of Operations (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	%
Fiscal year ended Jun. 30, 2019	17,112	33.4	2,153	39.2	2,137	39.1	1,457	37.3	946	33.8
Fiscal year ended Jun. 30, 2018	12,829	20.3	1,546	(58.6)	1,535	(58.8)	1,061	(68.6)	707	(76.3)

	Basic earnings per share	Diluted earnings per share	Ratio of equity attributable to owners of parent to profit	Ratio of profit before tax to total assets	Ratio of operating profit to revenue
	Yen	Yen	%	%	%
Fiscal year ended Jun. 30, 2019	55.87	54.94	14.1	12.2	12.6
Fiscal year ended Jun. 30, 2018	41.88	41.35	11.4	9.9	12.1

Reference: Share of profit (loss) of investments accounted for using equity method (million yen)
Fiscal year ended Jun. 30, 2019: - Fiscal year ended Jun. 30, 2018: -

2. Management Performance Measures under Non-GAAP Measures

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 stakeholders to make both cross-sectional and time-series comparisons, and can also provide useful information that helps stakeholders to understand the Group's underlying operating performance and its outlook.

For details of the non-GAAP measures, please refer to "(1) Results of Operations" on page 2 of Attachments.

(1) Consolidated Results of Operations (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	%
Fiscal year ended Jun. 30, 2019	17,112	33.4	2,153	39.2	2,137	39.1	1,457	37.3	946	33.8
Fiscal year ended Jun. 30, 2018	12,829	20.3	1,546	11.3	1,535	11.1	1,061	12.1	707	28.0

Note: Operating profit for the fiscal year ended June 30, 2017 was adjusted primarily by deducting gain on step acquisitions due to the inclusion of Softbrain Co., Ltd. in the scope of consolidation.
For the fiscal years ended June 30, 2018 and 2019, no adjustments to measures under IFRS were made to calculate the non-GAAP measures.

	Basic earnings per share	Diluted earnings per share	Ratio of operating profit to revenue
	Yen	Yen	%
Fiscal year ended Jun. 30, 2019	55.87	54.94	12.6
Fiscal year ended Jun. 30, 2018	41.88	41.35	12.1

(2) Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total		
	Yen	Yen	Yen	Yen	Yen	Million yen	%
Fiscal year ended Jun. 30, 2018	-	10.0	-	10.0	20.0	338	47.8
Fiscal year ended Jun. 30, 2019	-	12.0	-	12.0	24.0	406	43.0
Fiscal year ending Jun. 30, 2020 (forecasts)	-	14.0	-	14.0	28.0	475	-

(3) Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 to June 30, 2020)

There is no consolidated earnings forecast for the fiscal year ending June 30, 2020 because the new businesses we are going to focus on will have a material impact on the forecast.

For more information, please refer to "Notice Concerning Formulation of the Medium-term Business Plan" released on August 14, 2019.

3. 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 Jun. 30, 2019	18,694	9,608	7,010	37.5	413.08
As of Jun. 30, 2018	16,233	8,645	6,448	39.7	381.21

4. Consolidated Cash Flows under IFRS

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Jun. 30, 2019	1,922	(893)	414	6,393
Fiscal year ended Jun. 30, 2018	1,389	(589)	(848)	4,950

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): Yes

Newly added: 1 (Connect Agency, Inc.) Excluded: -

(2) Changes in accounting policies and accounting estimates

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

Note: For more information, please refer to "Notes to Consolidated Financial Statements, 3. Significant Accounting Policies" on page 14 of Attachments.

(3) Number of shares outstanding (common shares)

1) Number of outstanding shares as of the end of the period (including treasury shares)
As of Jun. 30, 2019: 16,971,659 shares As of Jun. 30, 2018: 16,917,159 shares
2) Number of treasury shares as of the end of the period
As of Jun. 30, 2019: 8 shares As of Jun. 30, 2018: - shares
3) Average number of outstanding shares during the period
Fiscal year ended Jun. 30, 2019: 16,936,563 shares Fiscal year ended Jun. 30, 2018: 16,884,297 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2019 (July 1, 2018 to June 30, 2019)

(1) Non-consolidated Results of Operations (Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Jun. 30, 2019	1,059	9.0	400	(1.5)	520	2.7	396	4.2
Fiscal year ended Jun. 30, 2018	972	5.7	406	816.2	507	381.5	380	315.8

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended Jun. 30, 2019	23.40	23.01
Fiscal year ended Jun. 30, 2018	22.52	22.23

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Jun. 30, 2019	9,817	3,570	36.3	209.91
As of Jun. 30, 2018	8,429	3,533	41.8	208.52

Reference: Shareholders' equity (million yen) As of Jun. 30, 2019: 3,562 As of Jun. 30, 2018: 3,527

* The current consolidated financial results are not subject to the audit 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.
Please refer to "(4) Outlook" on page 5 of Attachments for forecast assumptions and notes of caution for usage.

Contents of Attachments

1. Overview of Results of Operations

Scala, Inc. and its group companies ("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.

(1) Results of Operations

1) Results of operations under IFRS

The Group has sought to enhance its corporate value by devoting more human resources to growth areas, expanding business through M&A as well as making more efficient use of corporate resources.

As a result, during the fiscal year ended June 30, 2019, the Group reported revenue of 17,112 million yen (up 33.4% year-on-year), operating profit of 2,153 million yen (up 39.2% year-on-year), profit before tax of 2,137 million yen (up 39.1% year-on-year), profit of 1,457 million yen (up 37.3% year-on-year) and profit attributable to owners of parent of 946 million yen (up 33.8% year-on-year).

2) Results of operations under non-GAAP measures

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 stakeholders to make both cross-sectional and time-series comparisons, and can also provide useful information that helps stakeholders 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 both the previous and current fiscal years, no adjustments were made to calculate the non-GAAP measures.

Business segment performance was as follows.

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

(i) SaaS/ASP Business

During the fiscal year ended June 30, 2019, the Group took actions for meeting customer needs with flexibility and, as a result, revenue continued to increase cumulatively.

In this business segment, there was growth in the use of core services by customers. These services include "i-ask," an FAQ service to help users easily find answers to frequently asked questions; "IVR (Interactive Voice Response)," an automated voice response service that is operated by using the buttons on a phone; "i-assist," a chatbot system to automatically answer questions from users on a website; and "i-gift," a digital gift service for companies to deliver gifts to individuals.

"i-ask" is now used by Sumitomo Life Insurance Company, DX Antenna Co, Ltd., Lifenet Insurance Company, The Nanto Bank, Ltd., ORIX Credit Corporation, E.design Insurance Co., Ltd., Sanrio Company, Ltd., JFR CARD Co., Ltd., HASEKO Corporation, DIAMOND, Inc. and Unimat Life Corporation; "i-gift" is used by Money Partners Co., Ltd., Saison Automobile & Fire Insurance Co., Ltd.; and "i-assist" is used by The Nishi-Nippon City Bank, Ltd., Daiwa Securities Co., Ltd., and The Gunma Bank, Ltd.

Also, Sanyo Denki Co., Ltd. has started using PIM (Product Information Management), a system used to centrally manage product information.

Moreover, there has been steady progress with the creation of joint proposals with Leoconnect Inc., which was transformed into a subsidiary in the previous fiscal year. As a result, customers such as Haluene Co., Ltd., Maxsupport, Inc., Fene Co., Ltd. and Salespartner Inc. have started using “i-ask” and customers such as Hi-Bit Inc., Last One Mile Co., Ltd., and accessell, Inc. have started using “i-assist.”

Two of our subsidiaries, Scala Communications and Leoconnect Inc., have started jointly developing mission-critical systems tailored to the needs of call centers. These systems are expected to produce additional synergies.

As a result, segment revenue was 3,980 million yen (up 26.7% year-on-year) and operating profit was 703 million yen (up 25.6% year-on-year).

(ii) SFA Business

In this business segment, the Group has continued efforts to win new customers by holding sales seminars aimed at “establishing a scheme to improve productivity.” There are also development programs focused on ease-of-use. One example is the establishment of a website to support the effective use of the CRM/SFA software “e-Sales Manager Remix Cloud,” a mainstay product for the Group.

As a result, segment revenue was 4,844 million yen (up 15.6% year-on-year) and operating profit was 922 million yen (up 42.2% year-on-year), backed by consistently strong sales of the CRM/SFA software “e-Sales Manager,” a mainstay product for the Group, especially the Cloud version.

(iii) Field Marketing Business

In this business segment, the Group has focused on efforts to tap new markets and drive further growth by using a new concept called “Field Cloud Sourcing,” which shifts emphasis from shops to serving a wider range of business sectors and operations. In addition, the Group formed alliances in the POB (Point of Buy) business to increase the number of members.

As a result, segment revenue was 3,955 million yen (up 15.6% year-on-year) and operating profit was 319 million yen (up 21.8% year-on-year). Growth was backed by the strong performance of businesses with recurring income, including the packaged outsourcing of field activities, and non-recurring transactions such as market surveys at stores.

(iv) Customer Support Business

Leoconnect, Inc., which operates a customer support consulting business and serves as a one-stop source of solutions for a variety of issues associated with call center operations, performed strongly. Leoconnect, Inc. is continuing to leverage know-how acquired from performing inbound call center tasks for the Hikari Tsushin group companies and other activities. This resulted in customer consulting orders from major non-utility providers of electricity and major telecommunications companies. An order from Scala Communications to provide customer support services also contributed to its performance. As a result, segment revenue was 2,744 million yen (up 220.3% year-on-year) and operating profit was 68 million yen (up 770.4% year-on-year).

(v) Other Business

In the EC business, plube Inc. operates an e-commerce site for buying and selling battle game trading cards (trading card game; “TCG”). The EC business has continued to perform better than expected, having recorded revenue of 858 million yen (up 56.8% year-on-year).

The system development business focused on winning new customers, especially major companies, as well as increasing the volume of business with existing customers. As a result, the business recorded revenue of 428 million yen (up 16.0% year-on-year).

In the publishing business, revenue increased slightly to 301 million yen (up 0.1% year-on-year).

Overall, the other business segment had an operating profit of 138 million yen (up 106.5% year-on-year) mainly because of the strong performance of the EC business.

(2) Financial Position

Assets

Total assets amounted to 18,694 million yen at the end of the current fiscal year, an increase of 2,461 million yen over the end of the previous fiscal year. This was mainly due to increases of 1,443 million yen in cash and cash equivalents, 411 million yen in trade and other receivables, and 404 million yen in goodwill.

Liabilities

Liabilities totaled 9,086 million yen, an increase of 1,498 million yen over the end of the previous fiscal year. This was mainly due to increases of 421 million yen in bonds and borrowings under current liabilities and 763 million yen in bonds and borrowings under non-current liabilities.

Equity

Equity totaled 9,608 million yen, an increase of 962 million yen over the end of the previous fiscal year. This was mainly due to profit attributable to owners of parent of 946 million yen, profit attributable to non-controlling interests of 511 million yen, and a decrease of 372 million yen in retained earnings due to dividend payments.

(3) Cash Flows

Cash and cash equivalents as of the end of the current fiscal year amounted to 6,393 million yen, a net increase of 1,443 million yen over the end of the previous fiscal year.

Cash flows and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash provided by operating activities totaled 1,922 million yen (compared with net cash provided of 1,389 million yen in the previous fiscal year). This was mainly due to profit before tax of 2,137 million yen, income taxes paid of 535 million yen, depreciation and amortization of 445 million yen, and a 235 million yen increase in trade and other receivables.

Cash flows from investing activities

Net cash used in investing activities totaled 893 million yen (compared with net cash used of 589 million yen in the previous fiscal year). This was mainly due to payments of 285 million yen for purchase of intangible assets and 342 million yen for acquisition of subsidiaries.

Cash flows from financing activities

Net cash provided by financing activities totaled 414 million yen (compared with net cash used of 848 million yen in the previous fiscal year). This was mainly due to proceeds from long-term borrowings of 2,633 million yen, repayments of long-term borrowings of 1,362 million yen, redemption of bonds of 432 million yen, and dividends paid of 375 million yen.

Reference: Cash flow indicators

	FY6/15	FY6/16	FY6/17	FY6/18	FY6/19
Ratio of equity attributable to owners of parent to total assets (%)	56.5	40.6	40.1	39.7	37.5
Market value ratio of equity attributable to owners of parent to total assets (%)	286.1	88.0	94.7	114.3	84.2
Interest-bearing debt to cash flow ratio (years)	0.6	8.0	6.3	3.4	3.1
Interest coverage ratio (times)	103,464.0	117.1	37.0	83.7	80.7

Ratio of equity attributable to owners of parent to total assets: Equity attributable to owners of parent / Total assets
Market value ratio of equity attributable to owners of parent to total assets: Market capitalization / Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flows
Interest coverage ratio: Cash flows / Interest payments

Notes: 1. All indices are calculated based on consolidated figures.
2. Market capitalization is calculated based on the number of outstanding shares excluding treasury shares.
3. Cash flows are based on “Net cash provided by (used in) operating activities.”
4. Interest-bearing debt includes all debt on the consolidated statement of financial position that incur interest.

(4) Outlook

Consolidated earnings forecast under non-GAAP measures

In the SaaS/ASP business segment, revenue from fixed monthly fees for a variety of SaaS/ASP services is expected to continue to increase. These SaaS/ASP services include core services such as “i-ask,” an FAQ service; “i-search,” a website internal search service; “IVR+SMS,” a service to easily transition customers from phone to online services; and “Web Service,” a service for building web systems tailored to the needs of customers. On top of these mainstay services, new services such as “i-livechat,” a web chat system; “i-assist,” a web chatbot system; and “i-gift,” a digital gift service; are expected to be used by more customers and eventually contribute to sales in the next fiscal year. The Group expects to cross-sell especially “i-livechat” and “i-assist” to the existing customers of “i-ask” by reusing the knowledge database accumulated through the “i-ask” service.

The customer support business will continue to perform inbound call center operations for Hikari Tsushin group companies. In addition, there will be activities to increase the number of companies using Scala Communications’ call center SaaS/ASP service, which was launched in the previous fiscal year. There are also activities aimed at capturing orders for outsourced customer consulting services for supporting call center operations. Furthermore, the Group is working on the development of “C7,” a new cloud-based mission-critical system that precisely matches customers’ requirements. Several companies already plan to start using this system, which is expected to begin contributing to sales and earnings in the fiscal year ending June 30, 2020. The goal of this business is to continue to leverage its operating know-how in order to become a proposal-driven inbound call center.

The Group provides a variety of SaaS/ASP services to customers primarily through B-to-B channels. Faced with a shrinking working-age population, a major social issue in Japan, corporate customers have accelerated their efforts to automate tasks performed by people, such as call center operations, and digitize and eliminate paper from billing and reception operations. The Group is determined to place more focus on the development and delivery of new IT solution services that help customers streamline operations quickly.

For “yuyu-tei,” an EC website operated by plube, the Group has been steadily upgrading and improving its system and services such as by developing a smartphone app. The objective is to deliver compelling trading experiences to users as the leading TCG (Trading Card Game) online shop, by leveraging the competitive advantage that it holds due to the use of internal operations for logistics, systems, sales and purchases, and marketing. The Group will also add new game titles and keep providing information on game tips with deep insights in a timely manner in order to make “yuyu-tei” the most attractive website for TCG users and ultimately achieve sustainable growth.

In the SFA and field marketing businesses, Softbrain Co., Ltd. has implemented structural reforms to restructure its revenue structure. The objective is to achieve consistent growth of its existing businesses and drive growth of new businesses, in line with the medium-term business plan that was announced in January 2018.

There is no consolidated earnings forecast for the fiscal year ending June 30, 2020 because the new businesses we are going to focus on will have a material impact on the forecast.

For more information, please refer to “Notice Concerning Formulation of the Medium-term Business Plan” released on August 14, 2019.

(5) Basic Policy for Profit Distribution and Dividend Plans for the Current and Next Fiscal Years

Scala regards the distribution of profits to shareholders as one of its priorities. The basic policy is to make stable dividend payments while maintaining sufficient retained earnings to strengthen financial soundness and expand business operations in the future.

The Group has consistently paid interim and year-end dividends. The decision-making bodies for distributions of retained earnings are the general meeting of shareholders for year-end dividends and the Board of Directors for interim dividends.

For the current fiscal year, the Group plans to pay an annual dividend of 24 yen, consisting of a year-end dividend of 12 yen, which will require approval at the general meeting of shareholders scheduled for September 24, 2019, in addition to an interim dividend of 12 yen, which has been paid.

For the fiscal year ending June 30, 2020, the Group plans to raise both the interim and year-end dividends to 14 yen, resulting in an annual dividend of 28 yen, because revenue, operating profit, profit before tax, and profit under the non-GAAP measures are expected to increase.

2. Basic Approach to the Selection of Accounting Standards

The Group has adopted IFRS since the fiscal year ended June 30, 2016 for the purpose of enhancing international comparability and the usefulness of financial information in capital markets.

3. Consolidated Financial Statements and Notes

(1) Consolidated Statement of Financial Position

(Thousands of yen)

	FY6/18 (As of Jun. 30, 2018)	FY6/19 (As of Jun. 30, 2019)
Assets		
Current assets		
Cash and cash equivalents	4,950,509	6,393,530
Trade and other receivables	2,840,248	3,251,866
Inventories	135,558	175,097
Other current assets	194,121	345,443
Total current assets	8,120,438	10,165,937
Non-current assets		
Property, plant and equipment	443,519	471,845
Goodwill	5,787,555	6,192,006
Intangible assets	1,010,071	1,034,527
Other financial assets	782,810	774,930
Deferred tax assets	82,637	45,953
Other non-current assets	6,324	9,741
Total non-current assets	8,112,919	8,529,005
Total assets	16,233,358	18,694,943
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	1,983,542	2,119,119
Bonds and borrowings	1,552,957	1,974,211
Income taxes payable	207,616	377,295
Other current liabilities	409,779	514,119
Total current liabilities	4,153,895	4,984,745
Non-current liabilities		
Bonds and borrowings	3,240,570	4,004,387
Deferred tax liabilities	110,218	54,779
Other non-current liabilities	83,227	42,760
Total non-current liabilities	3,434,015	4,101,927
Total liabilities	7,587,911	9,086,672
Equity		
Equity attributable to owners of parent		
Share capital	1,594,118	1,607,988
Capital surplus	573,917	556,277
Retained earnings	4,182,249	4,762,540
Treasury shares	-	(9)
Other components of equity	98,628	83,796
Total equity attributable to owners of parent	6,448,913	7,010,593
Non-controlling interests	2,196,533	2,597,677
Total equity	8,645,446	9,608,270
Total liabilities and equity	16,233,358	18,694,943

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Thousands of yen)

	FY6/18 (Jul. 1, 2017 – Jun. 30, 2018)	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)
Revenue	12,829,127	17,112,193
Cost of sales	(7,744,892)	(10,913,383)
Gross profit	5,084,234	6,198,809
Selling, general and administrative expenses	(3,531,767)	(4,082,023)
Other income	20,630	50,019
Other expenses	(26,218)	(13,335)
Operating profit	1,546,878	2,153,470
Finance income	12,998	13,968
Finance costs	(23,998)	(30,362)
Profit before tax	1,535,878	2,137,075
Income tax expense	(474,276)	(679,088)
Profit	1,061,601	1,457,986
Profit attributable to		
Owners of parent	707,161	946,164
Non-controlling interests	354,440	511,822
Total	1,061,601	1,457,986
Earnings per share		
Basic earnings per share (Yen)	41.88	55.87
Diluted earnings per share (Yen)	41.35	54.94

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY6/18 (Jul. 1, 2017 – Jun. 30, 2018)	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)
Profit	1,061,601	1,457,986
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	-	(16,264)
Items that may be reclassified to profit or loss		
Change in fair value of available-for-sale financial assets	40,203	-
Other comprehensive income	40,203	(16,264)
Comprehensive income	1,101,805	1,441,722
Comprehensive income attributable to		
Owners of parent	747,402	929,730
Non-controlling interests	354,403	511,992
Comprehensive income	1,101,805	1,441,722

(3) Consolidated Statement of Changes in Equity

FY6/18 (Jul. 1, 2017 – Jun. 30, 2018)

(Thousands of yen)

	Equity attributable to owners of parent				
	Share capital	Capital surplus	Retained earnings	Other components of equity	Total equity attributable to owners of parent
Balance as of July 1, 2017	1,576,761	556,459	3,795,663	56,215	5,985,100
Profit	-	-	707,161	-	707,161
Other comprehensive income	-	-	-	40,241	40,241
Total comprehensive income	-	-	707,161	40,241	747,402
Increase (decrease) by business combination	-	-	-	-	-
Share-based payment transactions of subsidiaries	-	-	-	-	-
Dividends	-	-	(320,575)	-	(320,575)
Dividends to non-controlling interests	-	-	-	-	-
Exercise of share acquisition rights	17,356	17,356	-	(476)	34,236
Issuance of share acquisition rights	-	-	-	2,649	2,649
Acquisition and disposal of non-controlling interests	-	100	-	-	100
Total transactions with owners	17,356	17,457	(320,575)	2,172	(283,588)
Balance as of June 30, 2018	1,594,118	573,917	4,182,249	98,628	6,448,913

	Non-controlling interests	Total equity
Balance as of July 1, 2017	1,934,573	7,919,673
Profit	354,440	1,061,601
Other comprehensive income	(37)	40,203
Total comprehensive income	354,403	1,101,805
Increase (decrease) by business combination	17,520	17,520
Share-based payment transactions of subsidiaries	(1,702)	(1,702)
Dividends	-	(320,575)
Dividends to non-controlling interests	(109,862)	(109,862)
Exercise of share acquisition rights	-	34,236
Issuance of share acquisition rights	-	2,649
Acquisition and disposal of non-controlling interests	1,601	1,702
Total transactions with owners	(92,443)	(376,032)
Balance as of June 30, 2018	2,196,533	8,645,446

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

(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 July 1, 2018	1,594,118	573,917	4,182,249	-	98,628	6,448,913
Cumulative effect of accounting change	-	-	6,600	-	-	6,600
Restated balance	1,594,118	573,917	4,188,849	-	98,628	6,455,513
Profit	-	-	946,164	-	-	946,164
Other comprehensive income	-	-	-	-	(16,433)	(16,433)
Total comprehensive income	-	-	946,164	-	(16,433)	929,730
Increase (decrease) by business combination	-	-	-	-	-	-
Share-based payment transactions of subsidiaries	-	-	-	-	-	-
Dividends	-	-	(372,473)	-	-	(372,473)
Purchase of treasury shares	-	-	-	(9)	-	(9)
Dividends to non-controlling interests	-	-	-	-	-	-
Exercise of share acquisition rights	13,869	13,869	-	-	(380)	27,359
Issuance of share acquisition rights	-	-	-	-	1,983	1,983
Acquisition and disposal of non-controlling interests	-	(31,510)	-	-	-	(31,510)
Total transactions with owners	13,869	(17,640)	(372,473)	(9)	1,602	(374,650)
Balance as of June 30, 2019	1,607,988	556,277	4,762,540	(9)	83,796	7,010,593

	Non-controlling interests	Total equity
Balance as of July 1, 2018	2,196,533	8,645,446
Cumulative effect of accounting change	-	6,600
Restated balance	2,196,533	8,652,046
Profit	511,822	1,457,986
Other comprehensive income	169	(16,264)
Total comprehensive income	511,992	1,441,722
Increase (decrease) by business combination	27,909	27,909
Share-based payment transactions of subsidiaries	(2,022)	(2,022)
Dividends	-	(372,473)
Purchase of treasury shares	-	(9)
Dividends to non-controlling interests	(117,078)	(117,078)
Exercise of share acquisition rights	-	27,359
Issuance of share acquisition rights	-	1,983
Acquisition and disposal of non-controlling interests	(19,657)	(51,167)
Total transactions with owners	(110,848)	(485,499)
Balance as of June 30, 2019	2,597,677	9,608,270

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY6/18 (Jul. 1, 2017 – Jun. 30, 2018)	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)
Cash flows from operating activities		
Profit before tax	1,535,878	2,137,075
Depreciation and amortization	358,345	445,450
Loss on retirement of non-current assets	20,026	11,188
Loss (gain) on valuation of investment securities	-	(34,428)
Finance income	(12,417)	(13,968)
Finance costs	23,998	30,358
Decrease (increase) in trade and other receivables	(407,532)	(235,641)
Decrease (increase) in inventories	(30,006)	(42,552)
Increase (decrease) in trade and other payables	88,024	78,919
Other	88,040	83,126
Subtotal	1,664,357	2,459,528
Interest and dividends received	11,791	13,198
Interest paid	(16,593)	(23,825)
Income taxes refund	1,179	8,634
Income taxes paid	(271,067)	(535,226)
Net cash provided by (used in) operating activities	1,389,666	1,922,308
Cash flows from investing activities		
Purchase of property, plant and equipment	(172,106)	(134,731)
Purchase of intangible assets	(315,398)	(285,722)
Payments for acquisition of subsidiaries	(15,405)	(342,959)
Payments for loans receivable	(1,498)	(2,136)
Payments for leasehold deposits and guarantee deposits	(88,560)	(151,686)
Proceeds from collection of leasehold deposits and guarantee deposits	715	21,397
Other	2,375	2,048
Net cash provided by (used in) investing activities	(589,879)	(893,790)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(413,332)	-
Proceeds from long-term borrowings	1,200,000	2,633,500
Repayments of long-term borrowings	(804,130)	(1,362,323)
Proceeds from issuance of bonds	-	100,000
Redemption of bonds	(432,000)	(432,000)
Repayments of lease obligations	(2,841)	(5,198)
Proceeds from exercise of share acquisition rights	34,236	27,359
Proceeds from issuance of share acquisition rights	2,649	1,983
Payments for acquisition of interests in subsidiaries from non-controlling interests	-	(43,530)
Payments for purchase of treasury shares	-	(9)
Dividends paid	(320,510)	(375,998)
Dividends paid to non-controlling interests	(109,862)	(121,647)
Other	(3,167)	(7,477)
Net cash provided by (used in) financing activities	(848,958)	414,656
Net increase (decrease) in cash and cash equivalents	(49,170)	1,443,173
Cash and cash equivalents at beginning of period	4,999,099	4,950,509
Effect of exchange rate changes on cash and cash equivalents	580	(152)
Cash and cash equivalents at end of period	4,950,509	6,393,530

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Notes to 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://scalagrp.jp/).
Scala's consolidated financial statements for the 12 months ended June 30, 2019 encompass Scala and the Group's interests in Scala's subsidiaries.

The Group provides SaaS/ASP services supporting communications between corporations and individuals mainly by using the "i-search" and "i-ask" brands; the sales support system branded "e-Sales Manager" and marketing support services including field activities at retail stores; and customer support consulting that serves as a one-stop source of solutions for a variety of issues associated with call center operations.

2. Basis of Preparation

(1) Compliance with IFRS

The Group's consolidated financial statements have been prepared in accordance with IFRS pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976) because the Group qualifies as a "specified company complying with designated international accounting standards" as stipulated in Article 1-2 of the said Ordinance.

(2) Basis of measurement

The Group's consolidated financial statements are prepared on a cost basis, except specific financial instruments and other items that are measured at fair value.

(3) Functional currency and presentation currency

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

(4) Standards and interpretations issued but not yet adopted

Of the major standards and interpretations issued prior to August 14, 2019, which is the date of authorization of the Group's consolidated financial statements, the Group did not early adopt those not yet mandatorily effective as of June 30, 2019. The Group is currently examining the impact of applying these standards and interpretations on the consolidated financial statements.

Standard	Name of standard	Mandatorily effective from the fiscal year beginning on and after	Effective for the Group from the fiscal year beginning on	Outline of new/amended standards
IFRS 16	Leases	January 1, 2019	July 1, 2019	In principle, the standard requires an entity (as lessee) to account for and disclose all leases as acquisitions of the right-of-use assets associated with the corresponding lease liabilities

3. Significant Accounting Policies

The significant accounting policies applied for the consolidated financial statements for the current fiscal year remain the same as those applied for the consolidated financial statements for the previous fiscal year except the following changes in accounting policies.

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* (issued in May 2014) and *Clarifications to IFRS 15* (issued in April 2016) (collectively "IFRS 15") starting with the current fiscal year.

In applying IFRS 15, the Group recognizes revenue by applying the following five steps, except for interest and dividend income in IFRS 9 *Financial Instruments*.

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group uses the method where the cumulative effect of applying this standard is recognized at the date of initial application.

The Group has applied IFRS 9 *Financial Instruments* (amended in July 2014, "IFRS 9") starting with the current fiscal year.

Financial assets that meet both of the following conditions are classified as financial assets measured at amortized cost:

- The financial assets are held within a business model with the objective of collecting contractual cash flows, and
- The contractual terms of the financial assets provide cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

As a result of this change in classification, financial assets previously classified as "available-for-sale financial assets" have now been classified as "financial assets measured at fair value through other comprehensive income."

Furthermore, for the impairment of financial assets, IFRS 9 has replaced the "incurred loss model" under IAS 39 *Financial Instruments: Recognition and Measurement* with the "expected credit loss model."

The Group assesses at the end of each reporting period whether the credit risk associated with financial assets has increased significantly since the initial recognition. If the credit risk has not increased significantly since the initial recognition, the amount equal to 12-month expected credit losses is recognized as an allowance for doubtful accounts; on the other hand, if the credit risk has increased significantly since the initial recognition, the amount equal to lifetime expected credit losses is recognized as an allowance for doubtful accounts. For expected credit losses associated with trade receivables, the Group has adopted the simplified approach in IFRS 9, which allows an entity to recognize the amount equal to lifetime expected credit losses as an allowance for doubtful accounts. Expected credit losses are estimated by a method that reflects changes in credit information and past due information of receivables.

In applying IFRS 15, the Group has reviewed its revenue recognition criteria and concluded that there is no impact on the opening balance of retained earnings in the consolidated statement of financial position for the current fiscal year. Specifically, for the current fiscal year, the application of IFRS 15 has resulted in increases in revenue, trade and other receivables, and cost of sales by 27,769 thousand yen each and a 27,769 thousand yen decrease in inventories compared with if IFRS 15 had not been applied. There is no impact on the line items below operating profit in the consolidated statement of income.

In applying IFRS 9, the Group has performed fair value measurement for certain stocks as equity financial assets measured at fair value through other comprehensive income that were classified into Level 3. As a result, the opening balance of retained earnings in the consolidated statement of financial position for the current fiscal year increased 6,600 thousand yen compared with if the previous accounting standard had been applied. Specifically, for the current fiscal year, the application of IFRS 9 increased other long-term financial assets and other income by 34,428 thousand yen each, reduced deferred tax assets by 10,541 thousand yen, and increased income tax expense by 10,541 thousand yen.

4. Significant Accounting Estimates and Judgments Involving Estimates

The preparation of consolidated financial statements in accordance with IFRS 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 concerning the following matters that have a material impact on the amounts reported in the consolidated financial statements:

- Useful lives and residual values of property, plant and equipment and intangible assets
- Impairment of property, plant and equipment, goodwill and intangible assets
- Accounting for provisions and their measurement
- Recoverability of deferred tax assets

Segment Information

(1) Overview of reportable segments

The Group’s reportable segments are components of the Group for which discrete financial information is available and that the Board of Directors regularly reviews to make decisions about allocations of corporate resources and assess their performance.

The SaaS/ASP business provides SaaS/ASP services supporting communications between corporations and individuals mainly by using the “i-search” and “i-ask” brands.

The SFA business sells licenses for sales support systems and provides cloud services, customized development, sales consulting, sales skill training, business process consulting utilizing iPads and other devices, and education services.

The field marketing business provides marketing support services including field activities and market research.

The customer support business provides customer support consulting that serves as a one-stop source of solutions for a variety of issues associated with call center operations.

(2) Information related to revenue and profit or loss for each reportable segment

FY6/18 (Jul. 1, 2017 – Jun. 30, 2018) (Thousands of yen)

	Reportable segment							
	SaaS/ASP Business	SFA Business	Field Marketing Business	Customer Support Business	Subtotal	Other (Note 1)	Adjustments (Note 2)	Amounts shown on consolidated financial statements (Note 3)
Revenue								
Sales to external customers	3,141,777	4,190,057	3,423,008	856,873	11,611,717	1,217,410	-	12,829,127
Inter-segment sales and transfers	22,000	31,585	2,809	-	56,395	39,339	(95,734)	-
Total	3,163,777	4,221,643	3,425,818	856,873	11,668,868	1,256,749	(95,734)	12,829,127
Operating profit	559,916	649,259	262,639	7,836	1,479,652	67,165	60	1,546,878
Finance income								12,998
Finance costs								(23,998)
Profit before tax								1,535,878

Notes: 1. The "Other" segment consists of activities that are not included in any of the reportable segments, and includes the EC business, the system development business and the publishing business.
2. The 60 thousand yen adjustment to operating profit includes adjustment of non-current assets of 37 thousand yen and inventory adjustments of 23 thousand yen.
3. Operating profit is adjusted to be consistent with profit before tax recorded in the consolidated statement of income.
4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019) (Thousands of yen)

	Reportable segment							
	SaaS/ASP Business	SFA Business	Field Marketing Business	Customer Support Business	Subtotal	Other (Note 1)	Adjustments (Note 2)	Amounts shown on consolidated financial statements (Note 3)
Revenue								
Sales to external customers	3,980,254	4,844,362	3,955,540	2,744,617	15,524,774	1,587,418	-	17,112,193
Inter-segment sales and transfers	44,532	35,806	2,889	12,597	95,824	38,293	(134,117)	-
Total	4,024,786	4,880,168	3,958,430	2,757,214	15,620,599	1,625,711	(134,117)	17,112,193
Operating profit	703,397	922,992	319,924	68,214	2,014,529	138,697	242	2,153,470
Finance income								13,968
Finance costs								(30,362)
Profit before tax								2,137,075

Notes: 1. The "Other" segment consists of activities that are not included in any of the reportable segments, and includes the EC business, the system development business and the publishing business.
2. The 242 thousand yen adjustment to operating profit includes adjustment of non-current assets of 102 thousand yen and inventory adjustments of 140 thousand yen.
3. Operating profit is adjusted to be consistent with profit before tax recorded in the consolidated statement of income.
4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Per-share Information

	FY6/18 (Jul. 1, 2017 – Jun. 30, 2018)	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)
Profit attributable to owners of parent (thousands of yen)	707,161	946,164
Profit used to calculate diluted earnings per share (thousands of yen)	707,161	946,164
Average number of common shares outstanding during the period (shares)	16,884,297	16,936,563
Increase in the number of common shares		
Share acquisition rights (shares)	217,739	284,441
Average number of diluted common shares outstanding during the period (shares)	17,102,036	17,221,004
Basic earnings per share (yen)	41.88	55.87
Diluted earnings per share (yen)	41.35	54.94

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.