May 16, 2022

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2022 (Nine Months Ended March 31, 2022) [IFRS]

Company name:	Scala, Inc.	Listing: Tokyo Stock Exchange	
Stock code:	4845	URL: https://scalagrp.jp/	
Representative:	Norikatsu Nagino, Director, Representative Executive Officer & President		
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Scheduled date of filing of Quarterly Report: May 16, 2022
Scheduled date of payment of dividend: -
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: None

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

1. Management Performance Measures under IFRS

Consolidated Results of Operations (July 1, 2021 – March 31, 2022)

(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	%
Nine months ended Mar. 31, 2022	6,713	1.8	(37)	-	(46)	-	(38)	-	(32)	-
Nine months ended Mar. 31, 2021	6,594	19.2	159	(46.9)	139	(51.5)	2,881	333.5	2,714	626.0

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Mar. 31, 2022	(1.87)	(1.87)
Nine months ended Mar. 31, 2021	154.71	153.34

Note: In the second quarter of the fiscal year ended June 30, 2021, the businesses that Scala's consolidated subsidiary SOFTBRAIN Co., Ltd. and its subsidiaries operate are classified as a discontinued operation.
The transfer of all shares of SOFTBRAIN held by Scala was complete in the third quarter.
Accordingly, revenue, operating profit, and profit before tax in the nine months ended March 31, 2021 present the amounts of those from continuing operations.
For details of the discontinued operations, please refer to "2. Condensed Quarterly Consolidated Financial Statements and Notes, (5) Notes to Condensed Quarterly Consolidated Financial Statements (Discontinued Operations)" on page 17 of Attachments.

2. 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. Qualitative Information on Quarterly Consolidated Financial Performance, (1) Explanation of Results of Operations" on page 2 of Attachments.

Consolidated Results of Operations (July 1, 2021 – March 31, 2022)

(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	%
Nine months ended Mar. 31, 2022	6,713	1.8	96	(61.9)	87	(62.6)	63	(63.7)	69	(59.9)
Nine months ended Mar. 31, 2021	6,594	19.2	253	(38.4)	233	(41.5)	176	(35.4)	173	(31.0)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Mar. 31, 2022	3.95	3.93
Nine months ended Mar. 31, 2021	9.89	9.80

Notes:
1. For adjustment, profit or loss on securities related to investment business were deducted from operating profit and the items below it, and profit from discontinued operations was deducted from profit and the items below it.
2. In addition to the above Note 1, expenses incurred on the transfer of common shares of SOFTBRAIN Co., Ltd., Scala's consolidated subsidiary (consisting of financial advisory fees and legal fees) and expenses incurred on relocation of the head office of Scala's subsidiary (consisting of retirement expenses for property, plant and equipment, etc.) of 71 million yen were deducted from the line items below operating profit for the nine months ended March 31, 2021.
3. In addition to the above Note 1, expenses associated with merger and acquisition and expenses incurred on the relocation of the head office of Scala's subsidiary of 66 million yen were deducted from the line items below operating profit for the nine months ended March 31, 2022.

3. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2021	-	16.00	-	18.00	34.00
Fiscal year ending Jun. 30, 2022	-	18.00	-		
Fiscal year ending Jun. 30, 2022 (forecasts)				18.00	36.00

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

4. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2022 under IFRS (July 1, 2021 – June 30, 2022)

(Percentages represent year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	9,900	13.3	0	-	0	-	0	-	0	-	0.00

Note: Revisions to the most recently announced consolidated forecast: Yes

For details of the consolidated forecast for the fiscal year ending June 30, 2022, please refer to "Notice Concerning Revisions to Consolidated Earnings Forecast (Japanese version only)" released today (May 16, 2022).

5. Consolidated Financial Position under IFRS

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity per share attributable to owners of parent
	Million yen	Million yen	Million yen	%	Yen
As of Mar. 31, 2022	20,627	9,762	9,452	45.8	534.38
As of Jun. 30, 2021	20,330	10,470	10,162	50.0	577.51

* Notes

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

Newly added: - Excluded: -

(2) Changes in accounting policies and accounting estimates

1) Changes in accounting policies required by IFRS: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

(3) Number of shares outstanding (common shares)

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

As of Mar. 31, 2022:	17,688,259 shares	As of Jun. 30, 2021:	17,597,459 shares

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

As of Mar. 31, 2022:	8 shares	As of Jun. 30, 2021:	8 shares

3) Average number of outstanding shares during the period

Nine months ended Mar. 31, 2022:	17,640,810 shares	Nine months ended Mar. 31, 2021:	17,542,920 shares

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

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

Cautionary statement with respect to forecasts

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

How to view supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results will be disclosed today (May 16, 2022) and available on the Scala's website.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

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

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

As the Company excluded SOFTBRAIN Co., Ltd., a consolidated subsidiary, from the scope of consolidation due to the Company transferring all of its shares in the previous fiscal year, it has reclassified the businesses of SOFTBRAIN Co., Ltd. and its subsidiaries as discontinued operations.

(1) Explanation of Results of Operations

The first nine months of the fiscal year ending June 30, 2022 ("the period under review") saw some signs of normalization of economic activities as a result of increased vaccination uptake. However, with a rapid spread of the new variant strain, it is hard to predict when the pandemic will be over. In addition, as geopolitical risks that have surfaced since late February, such as the Ukraine situation, have created concerns about an impact on the global economy, the economic outlook remains uncertain.

In such business environment, the Group has worked to create and expand new services and enhance existing businesses in the form of "co-creation" with the domestic private companies and local governments in order to develop into a "value co-creation company solving social problems with clients through business" as stated in the Mid-term Management Plan announced in August 2019.

As a result, the Group reported revenue of 6,713 million yen (up 1.8% year on year) for the first nine months. This increase was due to higher sales in the IT/AI/IoT/DX Business, HR & Education Business, EC Business and Incubation & Investment Business despite a significant decline in sales in the Customer Support Business.

Operating loss amounted to 37 million yen (compared with profit of 159 million yen for the same period of the previous fiscal year) due to the following reasons: the profit decrease in IT/AI/IoT/DX Business and increased losses in Incubation & Investment Business due to the continued aggressive investment toward the development of various new businesses such as intensive business activities to support corporate value creation leading to major digital transformation (DX) projects, creation of new services related to regional revitalization as well as organizational enhancement to promote international businesses, and recognition of loss on valuation of investment securities in the Investment Business, all of which offset a surplus in the HR & Education Business and a significant increase of operating profit in the EC Business.

Loss before tax amounted to 46 million yen (compared with profit of 139 million yen a year earlier), loss amounted to 38 million yen (compared with profit of 2,881 million yen a year earlier) and loss attributable to owners of parent amounted to 32 million yen (compared with profit of 2,714 million yen a year earlier), despite a decrease in interest expenses resulting from a decrease in the average balance of borrowings during the period under review.

(Reporting on a non-GAAP basis)

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

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

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

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

For adjustment, profit or loss on securities related to investment business were deducted from operating profit and the items below it, and profit from discontinued operations was deducted from profit and the items below it.

For the first nine months of the previous fiscal year, in addition to the above-mentioned deduction, there were 71 million yen of expenses incurred on the transfer of common shares of a Scala’s consolidated subsidiary SOFTBRAIN Co., Ltd. (consisting of financial advisory fees and legal fees) and for expenses incurred on relocation of the head office of Scala’s subsidiary (consisting of retirement expenses for property, plant and equipment, etc.)

During the period under review, in addition to the above-mentioned deduction, there were 66 million yen of expenses associated with merger and acquisitions, and expenses incurred on relocation of the head office of Scala’s subsidiary.

Business segment performance is as follows.

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

(i) IT/AI/IoT/DX Business

In this business segment, Scala Communications, Inc. and Scala Next, Inc. are working on proposal, introduction support, provision and improvement of existing SaaS/ASP services as well as planning and development of new services to support major private companies and local governments to promote DX initiatives.

As a new co-creation project, in collaboration with Elite Genomics Co., Ltd. and desamis Co., Ltd., we have started the development of “EG-Genome (tentative name),” an application for using the data of dairy cattle genome test results to enhance dairy farm management. By using this application, linked with Igenity® Dashboard created by Neogen Corporation, the largest inspection company in the United States, users can easily view dairy cattle genome test results in Japanese using a smartphone. This application clarifies dairy farm management strategies by not only presenting individual data but also analyzing the ability, health, and other factors of a herd. We have also smooth development of “U-medical support,” a co-creation project proceeded jointly with Mitsui Sumitomo Insurance Company, Limited and desamis Co., Ltd. This application is planned to be released this coming summer. Moreover, we have continued to receive orders of the development of additional functions for the real estate trust DX platform co-created with Shinoken Group Co., Ltd., which has also been progressing smoothly. In addition, we have been working jointly with xID Inc., in which we have further invested, on a demonstration experiment of a new service for local governments and also have been proceeding with the demonstration experiment of a next-generation digital health care service co-created with a pharmaceutical company and a general insurance company. These approaches are being promoted for implementation of actual services.

Introduction of other existing services has also been going on. Specifically, we have introduced “i-search,” a website internal search service to Wako Co., Ltd., MIROKU JYOHO SERVICE CO., LTD., DAIICHI SANKYO COMPANY, LIMITED and other companies, “i-ask,” a FAQ management system to Consumers' Co-op Osaka Palcorp, The Ehime Bank, Ltd., TableMark Co., Ltd. and other companies, and both “i-ask” and “i-assist” at the same time to Kiraboshi Bank, Ltd.

We have also continued development of a microservice platform, GEAR-S. It has been introduced to Wako Co., Ltd.

Connect Agency, Inc., in collaboration with other CTI service vendors, has engaged in providing a wide variety of proposals while enhancing its lineup by adding call center solutions including lines, softphone, and voice recognition. This effort has allowed them to acquire several potential deals. For one of these deals, they intend to deliver the service during the fourth quarter. In addition, there has been steady progress in receiving replacement orders—they have received orders of introduction of new services from eight existing customers.

EGG CO., LTD., which was transformed into a subsidiary in the period under review, and other three affiliated companies have been consolidated into this segment.

As a result, segment revenue was 3,203 million yen (up 3.5% year on year,) segment profit was 832 million yen (up 5.4%) before allocation of corporate expenses, and 385 million yen (down 35.4%) after allocation of corporate expenses.

(ii) Customer Support Business

In the Customer Support Business, we have been expanding our businesses and enhancing our sales activities by creating group synergies between Leoconnect, Inc. and Scala Service, Inc. since January this year, which followed the opening of a call center in Okinawa in November last year.

In the period under review, inquiries have increased—we already have received a large order of customer representative operation for MEmobile Co., Ltd., and orders from three other companies have been determined during the fourth quarter. With these increased orders, we have been striving to build a foundation for sales growth for the next fiscal year.

As a result, segment revenue was 1,030 million yen (down 28.8% year on year), segment loss was 24 million yen (compared with segment profit of 27 million yen a year earlier) before allocation of corporate expenses, and 27 million yen (compared with segment loss of 3 million yen a year earlier) after allocation of corporate expenses.

(iii) HR & Education Business

This business mainly consists of the following services: (1) recruitment support for new graduates, specialized for athletic students and female students, as well as services for the planning and operation of related events such as joint information sessions and career seminars; (2) childcare and educational services such as *Minna no Hoikuen* (which literally means a nursery school for everyone), international preschool Universal Kids, UK Academy for school children to foster international awareness, and after-school day service Largo KIDS; and (3) sports school for children, the planning and management of sports events, and online sports education services.

The growth opportunities for the recruitment support service for new graduates is stable since the job openings-to-applicants ratio for university graduates in 2022 was almost unchanged from the previous year even with the coronavirus and the willingness to hire is recovering, especially among large companies. Given these circumstances, we have focused on strengthening our support system and providing services for newly graduated students. We also actively held events such as joint job fairs for companies that are looking ahead to a post-COVID-19 world and vigorously moving toward recruiting activities for students who will graduate from university in 2023.

In the childcare and educational services, the Group focused on securing children for the UK Academy for School Children and promoted measures including holding events and others to ensure that parents and young children can also enjoy at nursery schools and others even amid the COVID-19 pandemic.

As a result, the business recorded segment revenue of 1,097 million yen (up 7.5% year on year), segment profit before allocation of corporate expenses of 140 million yen (compared with loss of 120 million yen a year earlier), and segment profit after allocation of corporate expenses of 102 million yen (compared with loss of 212 million yen a year earlier).

Under the non-GAAP measures adjusted for subsidiary relocation expenses, segment profit before allocation of corporate expenses was 150 million yen (compared with loss of 89 million yen a year earlier), and segment profit after allocation of corporate expenses was 112 million yen (compared with loss of 180 million yen a year earlier).

(iv) EC Business

The EC business operates a reuse e-commerce site for buying and selling trading cards games (TCG), which also contains game walkthrough pages.

Under the circumstances where online trading needs have been expanding amid the COVID-19 pandemic, efforts for digital marketing including SEO worked successfully, and both sales and segment revenue remained strong at a level much higher than the previous fiscal year. In addition, the iOS app released at the end of the previous fiscal year has steadily been acquiring more and more users, and development of an Android app is underway. Moreover, to deliver pleasant shopping and purchasing experiences, we are planning to switch the current server to a public cloud server for much faster website display and processing and also introduce a password-less login solution equipped with robust security features. We will continue to actively consider introducing cutting-edge technologies to design and provide comfortable user interface and user experience (UI/UX).

As a result, the EC business recorded revenue of 1,213 million yen (up 24.7% year on year), segment profit before allocation of corporate expenses of 207 million yen (up 31.0%), and segment profit after allocation of corporate expenses of 176 million yen (up 33.9%).

(v) Incubation & Investment Business

The segment covers business investments by the Company, development and promotion of services under a new form of public-private co-creation in collaboration between local governments and private companies, which is promoted by SOCIALX, INC., and businesses by J-Phoenix Research Inc., which are engaged with activities including investment discovery, investments execution and engagement that will lead to creation of corporate value. Furthermore, Scala Partners, Inc., implements new business development, and businesses related to regional revitalization, such as immigration support service from the perspective of ordinary citizens. Investments together with the related activities, such as those for value increase of the investee companies are also implemented under an engagement fund named SCSV-1 Investment Limited Partnership, which is a value co-creation engagement fund managed by SCL Capital LLC.

SOCIALX, INC. is promoting the implementation of new services in public-private co-creation through Gyaku Propo and, at the same time, developing new businesses at ARCH, an incubation center operated by Mori Building Co., Ltd., to address social problems by generating a synergistic effect between the business development capabilities of participating companies and knowledge and insights about public-private co-creation possessed by SOCIALX, INC. as well as its networks with local governments. In addition, selected as the secretariat of Project for Business Adoption/Startup in Coexistence with Local Communities in 2022, which was publicly offered by the Ministry of Economy, Trade and Industry, SOCIALX, INC. will contribute to outcomes of more than 20 projects that are to be conducted by small and medium-sized companies who are cooperating with local governments and developing businesses aiming both to address social problems and gain profit.

Scala Partners, Inc. is promoting co-creation with partner companies and local governments through the operation of KomfortaWorkation, a workation facility introduction website. For example, it is proposing “a new working style that is not constrained by where to work” suitable for the post COVID-19 era, providing training services for corporations at workation facilities nationwide, as well as developing a service with the theme of “You can learn anywhere,” which enables elementary and junior high school students to learn at any place by utilizing online classes. In addition, it is developing experience services aimed at creating a “concerned population” (people who are diversely involved with the region) by allowing people to experience the appeal of the community and increasing the number of fans of the region.

SCSV-1 Investment Limited Partnership, a value co-creation engagement fund, is working on boosting the value of invested companies through the efforts of providing IR support, including establishment of a medium-term business plan, promoting digital transformation and others.

Moreover, we have focused on business expansion through M&A as one of the growth strategies and continued to actively engage in deal sourcing and due diligence.

As a result, the segment revenue was 168 million yen (up 193.1% year on year) with segment loss before allocation of corporate expenses of 404 million yen (compared with loss of 98 million yen a year earlier) and segment loss after allocation of corporate expenses of 675 million yen (compared with loss of 200 million yen a year earlier), due primarily to increased upfront investment costs, such as various advisory fees in connection with business investments made by the Company, development costs and personnel expenses for the sake of future growth, and a drop in stock prices of the listed companies in which SCSV-1 Investment Limited Partnership has been investing. Since these losses were caused by upfront investment costs for development into the next stage for future growth, we regard them as temporary losses.

In terms of the non-GAAP measures adjusted for subsidiary relocation expenses, segment loss before allocation of corporate expenses was 280 million yen (compared with loss of 49 million yen a year earlier) and segment loss after allocation of corporate expenses was 551 million yen (compared with loss of 150 million yen a year earlier).

(2) Explanation of Financial Position

Assets

Total assets amounted to 20,627 million yen at the end of the period under review, an increase of 297 million yen over the end of the previous fiscal year. This was mainly due to a decrease of 1,493 million yen in income taxes receivable, resulting in an increase of 477 million yen in cash and cash equivalents, an increase of 165 million yen in trade and other receivables, an increase of 1,032 million yen in goodwill from merger and acquisitions, and an increase of 164 million yen in securities related to investment business.

Liabilities

Liabilities totaled 10,864 million yen, an increase of 1,005 million yen over the end of the previous fiscal year. This was mainly due to an increase of 359 million yen in trade and other payables and an increase of 655 million yen in bonds and borrowings under non-current liabilities, resulting from procuring funds from financial institutions mainly for the purpose of merger and acquisitions.

Equity

Equity totaled 9,762 million yen, a decrease of 708 million yen over the end of the previous fiscal year. This was mainly due to an increase of 26 million yen in share capital through the issuance of new shares for restricted stock compensation and the exercise of share acquisition rights, etc., an increase of 22 million yen in capital surplus, a decrease of 90 million yen in financial assets measured at fair value through other comprehensive income resulting from an decrease in estimated value, loss attributable to owners of parent of 32 million yen, and a decrease of 634 million yen in retained earnings due to dividend payments.

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

For revisions to the consolidated forecast, please refer to “Notice Concerning Revisions to Consolidated Earnings Forecast (Japanese version only)” released as of today.

2. Condensed Quarterly Consolidated Financial Statements and Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousands of yen)

	FY6/21 (As of Jun. 30, 2021)	Third quarter of FY6/22 (As of Mar. 31, 2022)
Assets		
Current assets		
Cash and cash equivalents	9,809,559	10,287,478
Trade and other receivables	1,412,951	1,578,224
Inventories	198,479	252,192
Other current assets	1,570,200	71,732
Total current assets	12,991,192	12,189,628
Non-current assets		
Property, plant and equipment	623,252	625,633
Right-of-use assets	2,525,349	2,328,607
Goodwill	1,949,745	2,981,792
Intangible assets	175,906	176,534
Other financial assets	1,378,871	1,334,522
Securities related to investment business	202,981	367,238
Deferred tax assets	478,312	615,700
Other non-current assets	4,397	7,761
Total non-current assets	7,338,818	8,437,790
Total assets	20,330,010	20,627,419
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	697,097	1,056,608
Bonds and borrowings	3,355,217	3,302,655
Lease liabilities	481,420	538,230
Income taxes payable	44,164	199,293
Other current liabilities	333,951	384,750
Total current liabilities	4,911,850	5,481,538
Non-current liabilities		
Bonds and borrowings	2,618,594	3,273,848
Lease liabilities	2,121,004	1,888,519
Deferred tax liabilities	75,201	73,950
Other non-current liabilities	132,382	146,885
Total non-current liabilities	4,947,182	5,383,204
Total liabilities	9,859,032	10,864,742
Equity		
Equity attributable to owners of parent		
Share capital	1,750,027	1,776,173
Capital surplus	934,989	957,928
Retained earnings	7,173,991	6,506,210
Treasury shares	(9)	(9)
Other components of equity	303,622	211,871
Total equity attributable to owners of parent	10,162,621	9,452,175
Non-controlling interests	308,355	310,501
Total equity	10,470,977	9,762,676
Total liabilities and equity	20,330,010	20,627,419

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

Condensed Quarterly Consolidated Statement of Income

(Thousands of yen)

	First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)
Continuing operations		
Revenue	6,594,121	6,713,252
Cost of sales	(3,851,273)	(3,736,302)
Gross profit	2,742,848	2,976,950
Selling, general and administrative expenses	(2,635,967)	(2,953,726)
Other income	122,273	14,097
Other expenses	(46,978)	(7,920)
Operating profit before gains/losses on securities related to investment business	182,175	29,400
Gains/losses on securities related to investment business	(22,547)	(66,929)
Operating profit (loss)	159,628	(37,528)
Finance income	18,216	20,160
Finance costs	(38,093)	(29,337)
Profit (loss) before tax	139,750	(46,705)
Income tax expense	(28,882)	7,968
Profit (loss) from continuing operations	110,868	(38,736)
Discontinued operations		
Profit from discontinued operations	2,770,842	-
Profit (loss)	2,881,710	(38,736)
Profit attributable to		
Owners of parent	2,714,083	(32,960)
Non-controlling interests	167,626	(5,776)
Profit (loss)	2,881,710	(38,736)
Earnings per share		
Basic earnings (loss) per share (Yen)		
Continuing operations	6.18	(1.87)
Discontinued operations	148.53	-
Total	154.71	(1.87)
Diluted earnings (loss) per share (Yen)		
Continuing operations	6.13	(1.87)
Discontinued operations	147.21	-
Total	153.34	(1.87)

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Thousands of yen)

	First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)
Profit (loss)	2,881,710	(38,736)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	38,203	(90,157)
Total other comprehensive income, net of tax	38,203	(90,157)
Comprehensive income	2,919,914	(128,894)
Comprehensive income attributable to		
Owners of parent	2,754,273	(123,117)
Non-controlling interests	165,640	(5,776)
Comprehensive income	2,919,914	(128,894)

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)

(Thousands of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent
Balance as of Jul. 1, 2020	1,721,239	902,874	4,634,951	(9)	143,932	7,402,989
Profit	-	-	2,714,083	-	-	2,714,083
Total other comprehensive income	-	-	-	-	40,190	40,190
Comprehensive income	-	-	2,714,083	-	40,190	2,754,273
Increase (decrease) by business combination	-	-	-	-	-	-
Change in scope of consolidation	-	-	-	-	-	-
Share-based remuneration transactions	15,147	8,499	-	-	-	23,646
Share-based remuneration transactions of subsidiaries	-	-	-	-	-	-
Dividends	-	-	(526,261)	-	-	(526,261)
Exercise of share acquisition rights	10,179	10,179	-	-	(279)	20,080
Forfeiture of share acquisition rights	-	1,983	-	-	(1,983)	-
Acquisition and disposal of non-controlling interests	-	348	-	-	-	348
Total transactions with owners	25,326	21,011	(526,261)	-	(2,262)	(482,185)
Balance as of Mar. 31, 2021	1,746,565	923,886	6,822,773	(9)	181,860	9,675,077

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2020	2,940,181	10,343,170
Profit	167,626	2,881,710
Total other comprehensive income	(1,986)	38,203
Comprehensive income	165,640	2,919,914
Increase (decrease) by business combination	4,900	4,900
Change in scope of consolidation	(2,761,838)	(2,761,838)
Share-based remuneration transactions	-	23,646
Share-based remuneration transactions of subsidiaries	(46,011)	(46,011)
Dividends	-	(526,261)
Exercise of share acquisition rights	-	20,080
Forfeiture of share acquisition rights	-	-
Acquisition and disposal of non-controlling interests	1,462	1,811
Total transactions with owners	(2,801,487)	(3,283,673)
Balance as of Mar. 31, 2021	304,334	9,979,411

First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)

(Thousands of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent
Balance as of Jul. 1, 2021	1,750,027	934,989	7,173,991	(9)	303,622	10,162,621
Profit (loss)	-	-	(32,960)	-	-	(32,960)
Total other comprehensive income	-	-	-	-	(90,157)	(90,157)
Comprehensive income	-	-	(32,960)	-	(90,157)	(123,117)
Increase (decrease) by business combination	-	-	-	-	-	-
Share-based remuneration transactions	10,164	5,879	-	-	-	16,043
Dividends	-	-	(634,897)	-	-	(634,897)
Exercise of share acquisition rights	15,982	15,982	-	-	(438)	31,525
Forfeiture of share acquisition rights	-	1,077	-	-	(1,077)	-
Establishment of subsidiaries with non-controlling interest	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	77	-	(77)	-
Total transactions with owners	26,146	22,939	(634,820)	-	(1,593)	(587,328)
Balance as of Mar. 31, 2022	1,776,173	957,928	6,506,210	(9)	211,871	9,452,175

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2021	308,355	10,470,977
Profit (loss)	(5,776)	(38,736)
Total other comprehensive income	-	(90,157)
Comprehensive income	(5,776)	(128,894)
Increase (decrease) by business combination	2,921	2,921
Share-based remuneration transactions	-	16,043
Dividends	-	(634,897)
Exercise of share acquisition rights	-	31,525
Forfeiture of share acquisition rights	-	-
Establishment of subsidiaries with non-controlling interest	5,000	5,000
Transfer from other components of equity to retained earnings	-	-
Total transactions with owners	7,921	(579,406)
Balance as of Mar. 31, 2022	310,501	9,762,676

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)
Cash flows from operating activities		
Profit (loss) before tax	139,750	(46,705)
Profit before tax from discontinued operations	2,855,389	-
Depreciation and amortization	837,574	488,008
Loss on retirement of fixed assets	41,380	6,390
Loss (gain) on securities related to investment business	22,547	66,929
Loss (gain) on sale of investment securities	(4,797)	-
Loss (gain) on sale of shares of subsidiaries	(2,435,747)	-
Finance income	(18,633)	(20,160)
Finance costs	40,374	28,620
Decrease (increase) in trade and other receivables	452,032	467,243
Increase (decrease) in trade and other payables	489,773	(59,922)
Decrease (increase) in inventories	(59,477)	(50,343)
Other	(70,682)	2,530
Subtotal	2,289,486	882,590
Interest and dividends received	8,929	11,175
Interest paid	(36,599)	(24,475)
Income taxes refund (paid)	(1,752,777)	1,422,473
Net cash provided by (used in) operating activities	509,038	2,291,764
Cash flows from investing activities		
Purchase of property, plant and equipment	(76,660)	(133,401)
Purchase of intangible assets	(619,715)	(40,394)
Purchase of investment securities	(109,086)	(291,185)
Proceeds from sale of investment securities	49,253	-
Payments for loans receivable	(460)	(12,000)
Collection of loans receivable	4,251	152
Payments of leasehold and guarantee deposits	(34,709)	(14,481)
Proceeds from refund of leasehold and guarantee deposits	32,241	46,016
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(70,000)	(1,006,217)
Purchase of investments accounted for using equity method	(18,915)	-
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	5,652,058	-
Other	(1,079)	(930)
Net cash provided by (used in) investing activities	4,807,178	(1,452,442)

(Thousands of yen)

	First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	419,038	(358,221)
Proceeds from long-term borrowings	740,492	2,130,000
Repayments of long-term borrowings	(1,292,994)	(1,046,575)
Redemption of bonds	(220,000)	(140,000)
Proceeds from issuance of bonds	350,000	-
Repayments of lease liabilities	(432,475)	(347,716)
Proceeds from exercise of share acquisition rights	55,274	31,964
Dividends paid	(521,407)	(630,058)
Dividends paid to non-controlling interests	(659)	-
Other	(5,938)	-
Net cash provided by (used in) financing activities	(908,671)	(360,606)
Effect of exchange rate changes on cash and cash equivalents	(2,008)	(796)
Net increase (decrease) in cash and cash equivalents	4,405,536	477,919
Cash and cash equivalents at beginning of period	7,822,725	9,809,559
Cash and cash equivalents at end of period	12,228,262	10,287,478

Note: Cash flows from continuing operations and cash flows from discontinued operations are included in the above table.
Cash flows from discontinued operations are described in Note (Discontinued Operations).

(5) Notes to Condensed Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Notes to Condensed Quarterly Consolidated Financial Statements

1. Reporting Entity

Scala, Inc. is a corporation located in Japan.

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

Scala's consolidated financial statements for the nine months ended March 31, 2022 encompass Scala and the Group's interests in Scala's subsidiaries.

The Group mainly provides SaaS/ASP services supporting communications between corporations and individuals through the operations of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business.

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

2. Basis of Preparation

(1) Compliance with IFRS

The Group's condensed quarterly consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting pursuant to the provisions of Article 93 of Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Order No. 64 of 2007) because the Group qualifies as a "specified company complying with designated international accounting standards" as stipulated in Article 1-2 of the said Order. As the condensed quarterly consolidated financial statements for the period under review do not include all the information required in the consolidated financial statements for the fiscal year, they should be used in conjunction with the consolidated financial statements for the previous fiscal year.

The condensed quarterly consolidated financial statement was approved by Scala's Board of Directors on May 16, 2022.

(2) Basis of measurement

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

3. Significant Accounting Policies

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

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

4. Significant Accounting Estimates and Judgments Involving Estimates

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

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

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

Segment Information

(1) Overview of reportable segments

The Group's reportable segments are components of the Group for which 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.

As the Company excluded SOFTBRAIN Co., Ltd., a consolidated subsidiary, from the scope of consolidation due to the Company transferring all of its shares in the previous fiscal year, it has reclassified the businesses of SOFTBRAIN Co., Ltd. and its subsidiaries as discontinued operations. Accordingly, the segment information for the first nine months of the previous fiscal year is presented with the amounts of those from continuing operations, excluding those from discontinued operations. For more information about discontinued operations, refer to "Discontinued Operations" in the Notes to Condensed Quarterly Consolidated Financial Statements.

- The IT/AI/IoT/DX Business promotes digital transformation (DX) through AI, IT, and IoT and proactively facilitates cooperation with different industries and partners who have expertise in relevant technology, with the primary objective of establishing new businesses and services, redefining existing businesses, and speeding up regrowth to promote DX inside and outside Japan. The Group also provides SaaS/ASP services that leverage IT (web, phone, fax, SMS related technologies)/AI/IoT technologies to respond to customer needs in flexible and speedy manner.
- 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.
- The HR & Education Business offers recruiting support for new graduates and mid-career employees focusing on physical education students and professional athletes, infant education and sports education to support children to foster personality, and recruiting and hiring support for overseas human resources.
- The EC Business operates a reuse e-commerce site called as "Yuyu-Tei" for buying and selling trading cards games (TCG) for battle-type games, which also contains game walkthrough pages.
- The Incubation & Investment Business engages in M&A and alliance with other companies. It also provides support for new business development working with private-sector firms in coordination with local governments and municipalities across the nation, and offers regional revitalization services through projects such as those for promoting relocations to rural areas. Furthermore, it makes business investments on its own or through investment partnerships, makes effort to enhance their value, and other activities.

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

First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021) (Thousands of yen)

	Reportable segment							
	IT/AI/IoT/ DX Business	Customer Support Business	HR & Education Business	EC Business	Incubation & Investment Business	Subtotal	Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 3)
Revenue								
Sales to external customers	3,095,014	1,448,311	1,020,210	973,156	57,429	6,594,121	-	6,594,121
Inter-segment sales and transfers	24,088	37,686	6,747	-	18	68,540	(68,540)	-
Total	3,119,103	1,485,997	1,026,957	973,156	57,447	6,662,662	(68,540)	6,594,121
Segment profit (loss)	597,672	(3,596)	(212,037)	131,738	(200,545)	313,230	(153,602)	159,628
Finance income								18,216
Finance costs								(38,093)
Profit (loss) before tax								139,750

Notes: 1. The (153,602) thousand yen adjustment to segment profit includes elimination for inter-segment transactions of 3,897 thousand yen and corporate expenses allocated to discontinued operations of (157,500) thousand yen, categorized as a discontinued operation.
2. Corporate expenses are allocated to each segment based on a rational basis.
3. Segment profit (loss) is adjusted to be consistent with profit before tax recorded in the condensed quarterly 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.

First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022) (Thousands of yen)

	Reportable segment							
	IT/AI/IoT/ DX Business	Customer Support Business	HR & Education Business	EC Business	Incubation & Investment Business	Subtotal	Adjustments	Amounts shown on condensed quarterly consolidated financial statements (Note 2)
Revenue								
Sales to external customers	3,203,490	1,030,863	1,097,016	1,213,559	168,321	6,713,252	-	6,713,252
Inter-segment sales and transfers	50,426	57,909	5,689	-	8,677	122,702	(122,702)	-
Total	3,253,916	1,088,772	1,102,705	1,213,559	176,999	6,835,954	(122,702)	6,713,252
Segment profit (loss)	385,875	(27,249)	102,678	176,439	(675,272)	(37,528)	-	(37,528)
Finance income								20,160
Finance costs								(29,337)
Profit (loss) before tax								(46,705)

Notes: 1. Corporate expenses are allocated to each reportable segment based on a rational basis.
2. Segment profit (loss) is adjusted to be consistent with profit before tax recorded in the condensed quarterly consolidated statement of income.
3. Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

Discontinued Operations

Effective on August 14, 2020, the Company concluded an agreement with C5-8 Holdings Co., Ltd. on transferring all shares of SOFTBRAIN Co., Ltd., the Company's consolidated subsidiary. Subsequently on March 22, 2021, the Company completed the transfer of the shares in accordance with the said share transfer agreement.

As SOFTBRAIN Co., Ltd. was excluded from the scope of consolidation in the previous fiscal year, the businesses operated by SOFTBRAIN Co., Ltd. and its subsidiaries have been reclassified and separately presented as discontinued operations.

(1) Discontinued operations performance

(Thousands of yen)

	First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)
Profit or loss from discontinued operations		
Revenue	9,515,125	-
Expense	(6,659,735)	-
Profit before tax from discontinued operations	2,855,389	-
Income tax expense	(84,547)	-
Profit from discontinued operations	2,770,842	-

Note: Revenue in the first nine months of the FY6/21 includes gain on sale of shares of subsidiaries of 2,435,747 thousand yen resulting from transfer of all shares of SOFTBRAIN Co., Ltd.

(2) Cash flows from discontinued operations

(Thousands of yen)

	First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)
Cash flows from discontinued operations		
Cash flows from operating activities	(2,545,805)	-
Cash flows from investing activities	5,094,289	-
Cash flows from financing activities	260,507	-
Effect of exchange rate changes on cash and cash equivalents	(1,206)	-
Total	2,807,784	-

Material Subsequent Events

1. Making Nihon Pet Small-amount Short-term Insurance Company a wholly owned subsidiary through share acquisition

The Company's Board of Directors resolved at its meeting held on February 14, 2022 that the Company would acquire 100% of shares in Nihon Pet Small-amount Short-term Insurance Company (hereinafter referred to as "NPSSI") and thereby make NPSSI its wholly owned subsidiary. On the same day, the Company executed a share transfer agreement with NPSSI, and on April 26, 2022, completed the procedures for acquiring all shares of NPSSI.

(1) Overview of business combination

Name of company acquired: Nihon Pet Small-amount Short-term Insurance Company

Business: Small-amount Short-term Insurance Business

(2) Reason for share acquisition

NPSSI is a company that has developed business contributing to society through operation of pet insurance "Insurance for Dogs and Cats" since its inauguration, aiming to achieve a happy coexistence of humans and pets and reform the pet industry into the one it should be as well as responding to diverse needs of customers by providing unique insurance products. The Company will aim to achieve a new world of insurance by providing services that lead to safety, security and health through co-creation with NPSSI and related partner companies.

The Company has decided to acquire shares in NPSSI based on its belief that acquiring insurance function will enable us to provide the best solutions to various risks our customers and business partners may face, by combining data analysis and risk analysis using technologies such as IT/AI/IoT, which will contribute to further improvement of the Company's corporate value.

(3) Timing of share acquisition

April 26, 2022

(4) Acquisition cost of acquired company and breakdown by type of consideration

Payment for the acquisition: Cash 429 million yen

(5) Acquisition-related costs

The acquisition-related costs of business combination amounted to 28 million yen.

(6) Compensation as of the acquisition date and fair value of the acquired assets and liabilities

As fair values of the assets acquired and the liabilities assumed as of the date on which the acquiring company obtains control of the acquired company is now being determined, the amounts have not yet to be finalized.

2. Purchase of treasury shares

The Company's Board of Directors resolved at its meeting held on May 16, 2022 matters pertaining to the purchase of treasury shares in accordance with Article 156 of the Companies Act as applied pursuant to Article 165, Paragraph 3 of the same act.

(1) Reason for purchasing treasury shares

To increase capital efficiency and implement agile capital policies in line with the business environment

(2) Resolutions of the Board of Directors on the purchase of treasury shares

(i)	Class of shares to be acquired:	Common shares
(ii)	Total number of shares to be acquired:	400,000 shares (at maximum)
(iii)	Total amount of shares to be acquired:	300 million yen (at maximum)
(iv)	Acquisition period:	May 17, 2022 through August 31, 2022
(v)	Method of acquisition:	Market purchase by discretionary investment method using a securities company

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.