

February 14, 2023

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2023 (Six Months Ended December 31, 2022) [IFRS]

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Scheduled date of filing of Quarterly Report: February 14, 2023
 Scheduled date of payment of dividend: February 20, 2023
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly 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 and Non-GAAP

Consolidated Results of Operations (July 1, 2022 – December 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	%
(IFRS)										
Six months ended Dec. 31, 2022	6,504	52.7	140	–	120	–	80	–	90	–
Six months ended Dec. 31, 2021	4,259	–	(78)	–	(87)	–	(91)	–	(72)	–
(Non-GAAP)										
Six months ended Dec. 31, 2022	6,504	52.7	140	116.5	121	119.3	81	340.8	91	141.7
Six months ended Dec. 31, 2021	4,259	–	64	–	55	–	18	–	37	–

	IFRS		Non-GAAP	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
	Yen	Yen	Yen	Yen
Six months ended Dec. 31, 2022	5.22	5.20	5.27	5.26
Six months ended Dec. 31, 2021	(4.09)	(4.09)	2.14	2.13

Notes: 1. In the fourth quarter of the fiscal year ended June 30, 2022, Scala's consolidated subsidiary Scala Works, Inc. was classified as a discontinued operation following the resolution on its dissolution and liquidation. Accordingly, revenue, operating profit, and profit before tax for the six months ended December 31, 2021 were reclassified by deducting the amounts of those from the discontinued operation from the amounts of those from continuing operations. Because of this, these year-on-year changes are not presented.

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

- In non-GAAP measures, for adjustment, profit or loss on securities related to investment business was deducted from the line items below operating profit, and profit from discontinued operations was deducted from the line items below profit.
- In non-GAAP measures, in addition to the above Note 2, expenses associated with merger and acquisition and expenses incurred on the relocation of the head office of Scala's subsidiaries of 74 million yen were deducted from the line items below operating profit for the six months ended December 31, 2021.
- For details of the non-GAAP measures, please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance (1) Explanation of Results of Operations" on page 2 of Attachments.

2. Consolidated Financial Position under IFRS

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity per share attributable to owners of parent
	Million yen	Million yen	Million yen	%	Yen
As of Dec. 31, 2022	20,220	8,703	8,385	41.5	484.23
As of Jun. 30, 2022	20,816	9,006	8,687	41.7	497.29

3. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2022	–	18.00	–	18.00	36.00
Fiscal year ending Jun. 30, 2023	–	18.50			
Fiscal year ending Jun. 30, 2023 (forecasts)			–	18.50	37.00

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

4. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2023 under IFRS (July 1, 2022 – June 30, 2023)

(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	13,000	29.8	1,000	–	970	–	680	–	650	–	38.56

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

* 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 Dec. 31, 2022: 17,717,159 shares As of Jun. 30, 2022: 17,698,259 shares

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

As of Dec. 31, 2022: 400,008 shares As of Jun. 30, 2022: 228,608 shares

3) Average number of outstanding shares during the period

Six months ended Dec. 31, 2022: 17,324,845 shares Six months ended Dec. 31, 2021: 17,623,740 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 (February 14, 2023) and available on the Scala's website.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	6
(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements	6
2. Condensed Quarterly Consolidated Financial Statements and Notes	7
(1) Condensed Quarterly Consolidated Statement of Financial Position	7
(2) Condensed Quarterly Consolidated Statements of Income and Comprehensive Income	8
Condensed Quarterly Consolidated Statement of Income	8
Condensed Quarterly Consolidated Statement of Comprehensive Income	9
(3) Condensed Quarterly Consolidated Statement of Changes in Equity	10
(4) Condensed Quarterly Consolidated Statement of Cash Flows	12
(5) Notes to Condensed Quarterly Consolidated Financial Statements	14
Going Concern Assumption	14
Notes to Condensed Quarterly Consolidated Financial Statements	14
Segment Information	15
Discontinued Operations	17
Material Subsequent Events	17

1. Qualitative Information on Quarterly Consolidated Financial Performance

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

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

In the fourth quarter of the fiscal year ended June 30, 2022, the Company resolved to dissolve and liquidate its consolidated subsidiary Scala Works, Inc., and classified Scala Work’s business as a discontinued operation.

Accordingly, revenue, operating profit, and profit before tax for the six months ended June 30, 2022 were reclassified by deducting the amounts of those from the discontinued operation from the amounts of those from continuing operations.

(1) Explanation of Results of Operations

During the first half of the fiscal year ending June 30, 2023 (the “period under review”), the Japanese economy has moved toward the normalization of economic activities with the easing of movement restrictions promoted because of COVID-19, and at the same time, has been advancing toward a new phase of life coexisting with the coronavirus. On the other hand, the economic outlook in Japan remained uncertain due to such factors as the ongoing depreciation of yen caused by global monetary tightening and an increase in costs due to soaring energy prices and a limited supply of energy resources due to the prolonged Ukraine situation. Even under such circumstances, there continues to be need for initiatives related to work style reform and solutions to social issues. And this has triggered the increased use of cutting-edge technologies of digital transformation (DX) such as AI, IoT, and RPA to lower costs and streamline operations.

In such business environment, the Group has worked to create and expand new services and enhance the 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 6,504 million yen (up 52.7% year on year) for the period under review. This increase was due to an increase in revenue from the IT/AI/IoT/DX Business and the HR & Education Business as well as continued steady growth in the EC Business, though partially offset by a decrease in revenue from the Customer Support Business.

On the profitability front, the Group reported operating profit of 140 million yen (compared with operating loss of 78 million yen a year earlier). This result can be explained mainly by an increase in profit from the Incubation & Investment Business due to improvement in profitability and reduction of costs amid the continued aggressive investment toward the development of various new businesses such as intensive business activities to support corporate value creation leading to major DX projects, creation of new services related to regional revitalization as well as organizational enhancement to promote international businesses.

Profit before tax amounted to 120 million yen (compared with loss before tax of 87 million yen a year earlier) despite an increase in interest expenses. As a result of recording income tax expense of 39 million yen, profit amounted to 80 million yen (compared with loss of 91 million yen a year earlier) and profit attributable to owners of parent amounted to 90 million yen (compared with loss attributable to owners of parent of 72 million yen a year earlier).

(Reporting on a non-GAAP basis)

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

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

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

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

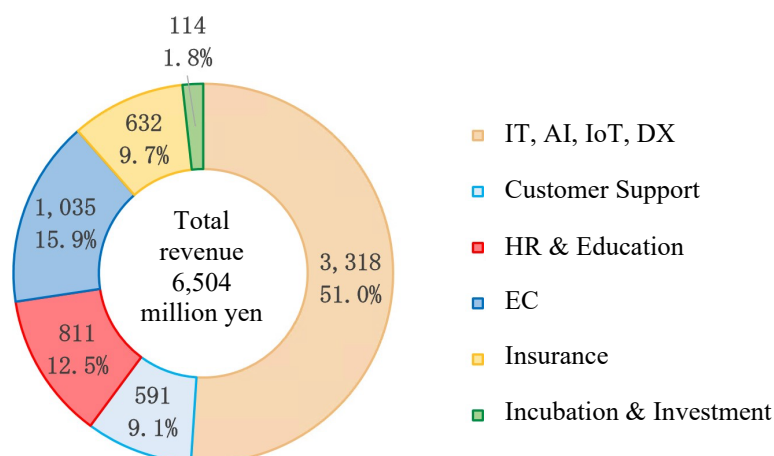
For adjustment, profit or loss on securities related to investment business were deducted from operating profit and the line items below it, and profit from discontinued operations was deducted from profit and line items below it.

During the first half of the previous fiscal year, in addition to the above-mentioned deduction, there were 74 million yen of expenses associated with merger and acquisitions, and expenses incurred on relocation of the head office of Scala’s subsidiaries.

Business segment performance is as follows.

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

Composition of revenue by segment (millions of yen)



(i) IT/AI/IoT/DX Business

In this business segment, Scala Communications, Inc. and EGG CO., LTD. as main players continued working for major companies, local governments, the central government, and government agencies by providing planning and system development of new services for promoting DX as well as proposal, introduction support, and provision of the existing SaaS/ASP services.

As one of the major projects, Scala Communications, Inc., Otsuka Pharmaceutical Co., Ltd. and Sampo Japan Insurance Inc. have started working jointly to build a value co-creation platform in the healthcare field. These companies have conducted demonstration experiments for multiple companies, including Sampo Himawari Life Insurance Inc., and have been developing programs using the results obtained from these experiments for better service provision. Other services are also under consideration for development to cover important themes for health maintenance. Furthermore, we have completed the development of “eG Plus,” a system for using the data of dairy cattle genome test results, and started to provide the service from January 6, 2023. We have developed this system, which makes genome tests readily available for dairy farmers so that they can effectively improve herds based on test results, with a view to contributing to improving productivity against a backdrop of the severe business environment in the livestock industry due to an increase in production costs caused by the recent soaring of livestock feeding costs. This system enables users to compare a variety of genetic codes with those in Japan or individual prefectures, to display graphs of the average genetic traits of herds and progress of herd improvement, to view genome test results of individuals and results of tested mother cows or other cattle, and to check an ox used for crossbreeding with a cow to be fertilized by linking mating results.

Other existing services are also being introduced, including the FAQ management system “i-ask” for Bank of The Ryukyus, Limited and Asahi Group Foods, Ltd., and the website search service “i-search” for The Furukawa Battery Co., Ltd.

EGG CO., LTD., jointly with Nexway Co., Ltd., a group company of TIS INTEC Group, and TACT INC., a group company of USEN-NEXT HOLDINGS Co., Ltd., has conducted a demonstration experiment on an automated and labor-saving system that checks arrival of an application form for the “one-stop special procedure system” in the hometown tax payment operation. This experiment has been conducted for the following local governments: Sanjo City in Niigata Prefecture, Kusatsu Town in Gunma Prefecture, and Showa Village in Gunma Prefecture. The hometown tax donation made by individuals has been increasing year by year in amount and number, leading to an increase in the BPO sales of EGG CO., LTD. What is more, we will consider enhancing the promotion of DX in the same field for digitalization and labor saving in clerical work, which are now essential for local governments.

Connect Agency, Inc. continues to propose softphone, which enable users to receive and make calls using software running on PCs, as an alternative to conventional telephones, targeting existing clients. We have made proposals to seven companies during the period under review and are engaging in activities to win orders by the end of the third quarter. Since significant reduction is expected in equipment expenses for the conventional phones once completely switched to softphone, we will continue to strive for completion of switching by the end of this fiscal year.

(Millions of yen)

		First six months of FY6/22	First six months of FY6/23	Year-on-year change Amount [%]
Revenue		1,945	3,318	1,372 [70.6%]
Segment profit (IFRS)	Before allocation of corporate expenses	499	556	56 [11.3%]
	After allocation of corporate expenses	201	228	26 [12.9%]

(ii) Customer Support Business

In this business segment, we suffered a temporary decrease in sales due to the suspension of activities for major projects to respond to the revision of the Telecommunications Business Act. However, during the second quarter, we received orders of new BPO projects as a result of streamlined sale activities. We are now preparing to resume operations in the third quarter. In addition, we have continued to strive for in-house service provision for further cost reduction by, for instance, transferring two projects to the call center in Okinawa.

We will continue actively promoting sales activities to receive more subcontracting orders for customer support operations and streamlining of operations within and outside of the Group.

(Millions of yen)

		First six months of FY6/22	First six months of FY6/23	Year-on-year change Amount [%]
Revenue		700	591	(109) [(15.6)%]
Segment profit (IFRS)	Before allocation of corporate expenses	(13)	(26)	(12) [-]
	After allocation of corporate expenses	(15)	(30)	(15) [-]

(iii) HR & Education Business

This business mainly consists of the following services: (1) recruitment support services for new graduates and mid-career hires, specialized for athletic students and female students, as well as for the planning and operation of related events such as joint company information sessions and career seminars; (2) childcare and educational services, which engage in opening and operations of facilities 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 Largo KIDS after-school day service focusing on athletic activities; and (3) sports education services, which engage in planning and operations of sports school for children including baseball, soccer, basketball, and Ballschule (which literally means “ball school”) and sports events.

In the recruitment support service, many companies have participated in joint company information sessions with the resumption of the economy after the pandemic and a continued increase in willingness to recruit new employees for the spring of 2024 due to the labor shortage.

In the childcare and educational services, preschools Universal Kids Shinagawa and Universal Kids Bangkok were pre-opened in September 2022. We have been enhancing activities for attracting customers through workshops or other events for opening of these preschools in April 2023 in the upcoming academic year.

In the sports education service, the Company continued considering businesses with the government sports administration in cooperation with the national and local governments. Meanwhile, the Saitama Broncos professional basketball team, which belongs to the B3 League, maintains steady performance and keeps being in top positions in the 2022–23 season, aiming for play-offs (top eight clubs).

(Millions of yen)

		First six months of FY6/22	First six months of FY6/23	Year-on-year change Amount [%]
Revenue		697	811	113 [16.3%]
Segment profit (IFRS)	Before allocation of corporate expenses	119	134	14 [12.3%]
	After allocation of corporate expenses	94	105	10 [11.4%]
Segment profit (Non-GAAP)	Before allocation of corporate expenses	130	134	4 [3.5%]
	After allocation of corporate expenses	104	105	0 [0.6%]

Note: For the first six months of the previous fiscal year, expenses including those incurred on relocation of the head office of Scala's subsidiaries were deducted to derive the non-GAAP measures.

(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. In the period under review, efforts for digital marketing including SEO continued to work successfully, and both revenue and profit remained strong at a level much higher than the previous fiscal year. In particular, backed by the current exchange rate environment, purchasing activities by overseas users have been increasing

month after month, contributing to higher sales. In addition, we are developing a password-less login solution equipped with robust security features. Introducing this solution improves user interface and user experience (UI/UX) by significantly decreasing the needs for reissuance of a password due to, for example, a case where the user forgets the password. We will continue to actively consider introducing cutting-edge technologies to design and provide comfortable UI/UX.

		(Millions of yen)		
		First six months of FY6/22	First six months of FY6/23	Year-on-year change Amount [%]
Revenue		815	1,035	219 [26.9%]
Segment profit (IFRS)	Before allocation of corporate expenses	141	168	27 [19.2%]
	After allocation of corporate expenses	120	136	16 [13.8%]

(v) Insurance Business

This business operates the pet insurance “Insurance for Dogs and Cats.”

Pet-related industries including pet insurance have been expected to grow rapidly in response to an increase in the stay-at-home demand and continued remote working due to the influence of COVID-19 infection. To organically increase the acquisition of insurance policies with insurance products distinctive with caring design, we are working to strengthen SEO measures and advertisement delivery and aggressively find new sales channels. We also continue to review business partners and streamline business operations to improve the cost structure, and thus strive to reduce loss ratio. Through these measures, the Company is working to further strengthen its profit structure to create a system that enables to generate stable profits.

		(Millions of yen)		
		First six months of FY6/22	First six months of FY6/23	Year-on-year change Amount [%]
Revenue		-	632	- [-]
Segment profit (IFRS)	Before allocation of corporate expenses	-	(65)	- [-]
	After allocation of corporate expenses	-	(83)	- [-]

(vi) 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 collaboration among the central government, local governments, and private companies, which is promoted by SOCIALX, INC., and businesses by J-Phoenix Research Inc., which engaged in 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 promotes the work-style reform of companies and regional revitalization through workation. 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. supports the creation of new businesses for addressing social problems in public-private co-creation through a variety of Gyaku Propo services. Specifically, as experts of co-creation collaboration between local governments and private companies, two representatives of SOCIALX serve as mentors for approximately 800 people from 110 major companies (as of October 2022) participating in ARCH (the world’s first incubation center established and operated by Mori Building Co., Ltd. as an organization with a distinctive mission to restructure existing businesses and create new businesses for major companies.) At ARCH, they promote co-creation by leveraging knowledge and insights about public-private co-creation and the network with local governments. In addition, Gyaku Propo Lab@ARCH was established within ARCH as a place for dialogue, idea generation, networking events, and communications between local government officials and large companies that reside in ARCH. There also has been an increase in the number of collaborations with local governments. In November 2022, SOCIALX, INC. concluded the “Agreement on public-private co-creation for DX/CX promotion” with Toyota City in Aichi Prefecture. Through Gyaku Propo services, the following two projects are under way for addressing social problems in public-private co-creation: the project by QUICK Corp. matched to eight local governments (Yamagata City, Yokohama City, Kosai City, Toyota City, Kaga City, Koryo Town, Ikoma City, Hirakata City); and the project by OITA TRINITA (Oita FC) matched to Koryo Town in Nara. As a new project, E.design Insurance Co., Ltd., EBARA CORPORATION, and EBARA EARNEST Co., Ltd. have started conducting public fund raising. Furthermore, the “Kids Café DX” project has won the Best Idea Prize in the 17th Manifesto Awards. This project was started by WirelessGate, Inc. and Hirakata City in 2021 through Gyaku Propo. While receiving increasing attention, SOCIALX, INC. continues rolling out projects nationwide.

Scala Partners, Inc. has worked on, through the operation of workation services for corporations, addressing companies’ challenges on the promotion of remote working, establishing a workshop and verifying the effect of workation in collaboration with college institutions, and developing content for training and training camp programs targeting companies by leveraging the concept of workation.

Furthermore, the Group has signed a comprehensive partnership agreement with Mitsui Sumitomo Insurance Company, Limited to develop insurance products in response to new work styles and promote work style reforms of companies. Under this agreement, we have extended and strengthened partnerships with local governments and business operators in a variety of fields to further improve the promotion of human capital management service. Thanks to an increase in the number of implementation of services, we are successfully monetizing these services.

J-Phoenix Research Inc. has provided listed companies with IR support including the preparation of an integrated report and development of a medium-term business plan. SCSV-1 Investment Limited Partnership, a value co-creation engagement fund, has endeavored to increase the value for the invested companies by, for example, promoting digital transformation.

Moreover, focusing on business expansion through M&A as one of the growth strategies, we have continued actively engaging in deal sourcing and providing co-creation oriented M&A advisory and M&A implementation support services by leveraging the accumulated M&A experiences and the know-how on digital transformation in the Group.

		(Millions of yen)		
		First six months of FY6/22	First six months of FY6/23	Year-on-year change Amount [%]
Revenue		99	114	15 [15.2%]
Segment profit (IFRS)	Before allocation of corporate expenses	(297)	(89)	207 [-]
	After allocation of corporate expenses	(474)	(216)	258 [-]
Segment profit (Non-GAAP)	Before allocation of corporate expenses	(164)	(89)	74 [-]
	After allocation of corporate expenses	(341)	(215)	125 [-]

Notes: 1. For the first six months of the previous fiscal year, profit and loss on securities related to investment business, expenses associated with merger and acquisitions, and expenses incurred on relocation of the head office of Scala's subsidiaries were deducted to derive the non-GAAP measures.

2. For the period under review, profit and loss on securities related to investment business was deducted to derive the non-GAAP measures.

(2) Explanation of Financial Position

Assets

Total assets amounted to 20,220 million yen at the end of the period under review, a decrease of 596 million yen over the end of the previous fiscal year. This was mainly attributable to a decrease of 951 million yen in cash and cash equivalents primarily due to purchase of treasury shares and year-end dividends, which was partially offset by increases of 271 million yen in trade and other receivables and 156 million yen in reinsurance assets.

Liabilities

Liabilities totaled 11,516 million yen, a decrease of 293 million yen over the end of the previous fiscal year. This was mainly attributable to decreases of 37 million yen in income taxes payable due to the payment of income taxes and 124 million yen of bonds and borrowings.

Equity

Equity totaled 8,703 million yen, a decrease of 302 million yen over the end of the previous fiscal year. This was mainly due to a decrease of 125 million yen due to the purchase of treasury shares and a decrease of 314 million yen in retained earnings due to the payment of dividends, which were partially offset by the recording of profit attributable to owners of parent of 90 million yen.

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

The Group maintains its consolidated forecast for the fiscal year ending June 30, 2023 that was announced in the "Consolidated Financial Results for the Fiscal Year Ended June 30, 2022" on August 15, 2022.

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

	(Thousands of yen)	
	FY6/22 (As of Jun. 30, 2022)	Second quarter of FY6/23 (As of Dec. 31, 2022)
Assets		
Current assets		
Cash and cash equivalents	9,625,387	8,673,529
Trade and other receivables	1,614,342	1,885,509
Inventories	288,297	334,014
Reinsurance assets	363,426	520,182
Other current assets	138,844	141,328
Total current assets	12,030,298	11,554,565
Non-current assets		
Property, plant and equipment	638,519	603,880
Right-of-use assets	2,210,887	2,069,351
Goodwill	2,356,300	2,356,300
Intangible assets	1,219,123	1,169,825
Other financial assets	1,196,173	1,316,790
Securities related to investment business	466,924	466,591
Deferred tax assets	689,618	674,418
Other non-current assets	8,562	8,447
Total non-current assets	8,786,110	8,665,606
Total assets	20,816,408	20,220,171
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	947,982	1,058,018
Bonds and borrowings	3,306,693	3,589,110
Lease liabilities	536,434	554,304
Income taxes payable	94,504	56,695
Insurance contract liabilities	644,380	624,039
Other current liabilities	406,208	356,809
Total current liabilities	5,936,203	6,238,977
Non-current liabilities		
Bonds and borrowings	3,644,434	3,237,521
Lease liabilities	1,764,532	1,586,023
Deferred tax liabilities	317,718	304,398
Other non-current liabilities	147,268	149,820
Total non-current liabilities	5,873,952	5,277,764
Total liabilities	11,810,156	11,516,742
Equity		
Equity attributable to owners of parent		
Share capital	1,778,718	1,783,528
Capital surplus	965,568	982,001
Retained earnings	6,016,133	5,792,113
Treasury shares	(174,187)	(299,966)
Other components of equity	101,175	127,795
Total equity attributable to owners of parent	8,687,408	8,385,472
Non-controlling interests	318,844	317,956
Total equity	9,006,252	8,703,428
Total liabilities and equity	20,816,408	20,220,171

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

	(Thousands of yen)	
	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)	First six months of FY6/23 (Jul. 1, 2022 – Dec. 31, 2022)
Continuing operations		
Revenue	4,259,333	6,504,295
Cost of sales	(2,375,580)	(3,940,680)
Gross profit	1,883,752	2,563,614
Selling, general and administrative expenses	(1,890,189)	(2,426,644)
Other income	4,826	17,120
Other expenses	(7,142)	(13,735)
Operating profit (loss) before gains/losses on securities related to investment business	(8,753)	140,355
Gains/losses on securities related to investment business	(69,608)	(333)
Operating profit (loss)	(78,361)	140,022
Finance income	9,477	10,303
Finance costs	(19,033)	(29,429)
Profit (loss) before tax	(87,916)	120,896
Income tax expense	(2,359)	(39,390)
Profit (loss) from continuing operations	(90,276)	81,506
Discontinued operations		
Profit (loss) from discontinued operations	(1,028)	(710)
Profit (loss)	(91,304)	80,795
Profit (loss) attributable to:		
Owners of parent	(72,047)	90,434
Non-controlling interests	(19,257)	(9,638)
Profit (loss)	(91,304)	80,795
Earnings per share		
Basic earnings (loss) per share (Yen)		
Continuing operations	(4.03)	5.26
Discontinued operations	(0.06)	(0.04)
Total	(4.09)	5.22
Diluted earnings (loss) per share (Yen)		
Continuing operations	(4.03)	5.24
Discontinued operations	(0.06)	(0.04)
Total	(4.09)	5.20

Condensed Quarterly Consolidated Statement of Comprehensive Income

	(Thousands of yen)	
	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)	First six months of FY6/23 (Jul. 1, 2022 – Dec. 31, 2022)
Profit (loss)	(91,304)	80,795
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(56,287)	26,751
Total other comprehensive income, net of tax	(56,287)	26,751
Comprehensive income	(147,592)	107,546
Comprehensive income attributable to:		
Owners of parent	(128,335)	117,185
Non-controlling interests	(19,257)	(9,638)
Comprehensive income	(147,592)	107,546

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First six months of FY6/22 (Jul. 1, 2021 – Dec. 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, 2021	1,750,027	934,989	7,173,991	(9)	303,622	10,162,621
Profit (loss)	–	–	(72,047)	–	–	(72,047)
Total other comprehensive income	–	–	–	–	(56,287)	(56,287)
Comprehensive income	–	–	(72,047)	–	(56,287)	(128,335)
Dividends	–	–	(316,754)	–	–	(316,754)
Exercise of share acquisition rights	12,521	12,521	–	–	(343)	24,698
Share-based remuneration transactions	10,164	797	–	–	–	10,961
Forfeiture of share acquisition rights	–	1,077	–	–	(1,077)	–
Establishment of subsidiaries with non-controlling interest	–	–	–	–	–	–
Total transactions with owners	22,685	14,396	(316,754)	–	(1,421)	(281,094)
Balance as of Dec. 31, 2021	1,772,712	949,385	6,785,190	(9)	245,912	9,753,192

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2021	308,355	10,470,977
Profit (loss)	(19,257)	(91,304)
Total other comprehensive income	–	(56,287)
Comprehensive income	(19,257)	(147,592)
Dividends	–	(316,754)
Exercise of share acquisition rights	–	24,698
Share-based remuneration transactions	–	10,961
Forfeiture of share acquisition rights	–	–
Establishment of subsidiaries with non-controlling interest	5,000	5,000
Total transactions with owners	5,000	(276,094)
Balance as of Dec. 31, 2021	294,098	10,047,290

First six months of FY6/23 (Jul. 1, 2022 – Dec. 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, 2022	1,778,718	965,568	6,016,133	(174,187)	101,175	8,687,408
Profit (loss)	–	–	90,434	–	–	90,434
Total other comprehensive income	–	–	–	–	26,751	26,751
Comprehensive income	–	–	90,434	–	26,751	117,185
Dividends	–	–	(314,453)	–	–	(314,453)
Exercise of share acquisition rights	4,809	4,809	–	–	(132)	9,487
Share-based remuneration transactions	–	6,776	–	–	–	6,776
Purchase of treasury shares	–	–	–	(125,779)	–	(125,779)
Changes in ownership interest in subsidiaries	–	4,847	–	–	–	4,847
Total transactions with owners	4,809	16,432	(314,453)	(125,779)	(132)	(419,122)
Balance as of Dec. 31, 2022	1,783,528	982,001	5,792,113	(299,966)	127,795	8,385,472

	Non-controlling interests	Total equity
	Balance as of Jul. 1, 2022	318,844
Profit (loss)	(9,638)	80,795
Total other comprehensive income	–	26,751
Comprehensive income	(9,638)	107,546
Dividends	–	(314,453)
Exercise of share acquisition rights	–	9,487
Share-based remuneration transactions	–	6,776
Purchase of treasury shares	–	(125,779)
Changes in ownership interest in subsidiaries	8,750	13,598
Total transactions with owners	8,750	(410,371)
Balance as of Dec. 31, 2022	317,956	8,703,428

(4) Condensed Quarterly Consolidated Statement of Cash Flows

	(Thousands of yen)	
	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)	First six months of FY6/23 (Jul. 1, 2022 – Dec. 31, 2022)
Cash flows from operating activities		
Profit (loss) before tax	(87,916)	120,896
Profit (loss) before tax from discontinued operations	(1,014)	(999)
Depreciation and amortization	323,673	399,060
Loss on retirement of fixed assets	6,390	12,112
Losses (gains) on securities related to investment business	69,608	333
Finance income	(9,493)	(9,684)
Finance costs	18,518	23,478
Decrease (increase) in trade and other receivables	26,322	(360,824)
Increase (decrease) in trade and other payables	61,328	156,015
Decrease (increase) in inventories	(60,120)	(46,938)
Decrease (increase) in reinsurance assets	–	(156,756)
Increase (decrease) in insurance contract liabilities	–	(20,340)
Other	(125,030)	20,017
Subtotal	222,267	136,369
Interest and dividends received	7,872	9,482
Interest paid	(15,351)	(19,126)
Income taxes refund (paid)	1,449,288	(84,589)
Net cash provided by (used in) operating activities	1,664,077	42,137
Cash flows from investing activities		
Purchase of property, plant and equipment	(108,395)	(72,016)
Purchase of intangible assets	(25,015)	(27,245)
Purchase of investment securities	(92,130)	(20,000)
Payments for loans receivable	(12,000)	–
Collection of loans receivable	152	–
Payments of leasehold and guarantee deposits	(13,563)	(10,389)
Proceeds from refund of leasehold and guarantee deposits	16,016	628
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(69,797)	–
Purchase of investments accounted for using equity method	–	(42,807)
Other	(733)	104
Net cash provided by (used in) investing activities	(305,466)	(171,726)

	(Thousands of yen)	
	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)	First six months of FY6/23 (Jul. 1, 2022 – Dec. 31, 2022)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	75,112	83,332
Proceeds from long-term borrowings	950,000	600,000
Repayments of long-term borrowings	(680,674)	(791,520)
Redemption of bonds	(20,000)	(20,000)
Repayments of lease liabilities	(215,786)	(274,573)
Proceeds from exercise of share acquisition rights	35,659	9,487
Purchase of treasury shares	–	(125,779)
Dividends paid to owners of parent	(316,810)	(310,963)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	–	(2,002)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	–	15,600
Net cash provided by (used in) financing activities	(172,498)	(816,419)
Effect of exchange rate changes on cash and cash equivalents	(554)	(5,849)
Net increase (decrease) in cash and cash equivalents	1,185,557	(951,858)
Cash and cash equivalents at beginning of period	9,809,559	9,625,387
Cash and cash equivalents at end of period	10,995,117	8,673,529

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://scalagr.jp/>).

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

The Group aims to become a "value co-creation company solving social problems with clients through business" through the operations of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Insurance Business, and Incubation & Investment Business, mainly focusing on services supporting communication between companies and people.

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

2. Basis of Preparation

(1) Compliance with IFRS

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

The condensed quarterly consolidated financial statement was approved by Scala's Board of Directors on February 14, 2023.

(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.

In the fourth quarter of the fiscal year ended June 30, 2022, the Company resolved to dissolve and liquidate its consolidated subsidiary Scala Works, Inc., and classified Scala Work's business as a discontinued operation and excluded from the segment information for the first six months of the previous and current fiscal years.

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

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

First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)

(Thousands of yen)

	Reportable segment							Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 2)
	IT/AI/IoT/ DX Business	Customer Support Business	HR & Education Business	EC Business	Insurance Business	Incubation & Investment Business	Subtotal		
Revenue									
Sales to external customers	1,945,706	700,435	697,451	815,944	–	99,795	4,259,333	–	4,259,333
Inter-segment sales and transfers	37,033	34,285	4,551	–	–	6,154	82,023	(82,023)	–
Total	1,982,739	734,720	702,002	815,944	–	105,949	4,341,357	(82,023)	4,259,333
Segment profit (loss)	201,974	(15,601)	94,788	120,048	–	(474,817)	(73,608)	(4,752)	(78,361)
Finance income	–	–	–	–	–	–	–	–	9,477
Finance costs	–	–	–	–	–	–	–	–	(19,033)
Profit (loss) before tax	–	–	–	–	–	–	–	–	(87,916)

- Notes:
1. The (4,752) thousand yen adjustment to segment profit is elimination for inter-segment transactions.
 2. Segment profit (loss) is adjusted to be consistent with operating profit presented in the condensed quarterly consolidated statement of income.
 3. Corporate expenses are allocated to each segment based on a rational basis.
 4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

First six months of FY6/23 (Jul. 1, 2022 – Dec. 31, 2022)

(Thousands of yen)

	Reportable segment							Adjustments	Amounts shown on condensed quarterly consolidated financial statements (Note 1)
	IT/AI/IoT/DX Business	Customer Support Business	HR & Education Business	EC Business	Insurance Business	Incubation & Investment Business	Subtotal		
Revenue									
Sales to external customers	3,318,686	591,060	811,119	1,035,552	632,945	114,930	6,504,295	–	6,504,295
Inter-segment sales and transfers	7,750	45,941	8,946	–	–	11,875	74,513	(74,513)	–
Total	3,326,436	637,002	820,065	1,035,552	632,945	126,805	6,578,808	(74,513)	6,504,295
Segment profit (loss)	228,103	(30,819)	105,635	136,586	(83,213)	(216,269)	140,022	–	140,022
Finance income	–	–	–	–	–	–	–	–	10,303
Finance costs	–	–	–	–	–	–	–	–	(29,429)
Profit (loss) before tax	–	–	–	–	–	–	–	–	120,896

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

Discontinued Operations

As the Company resolved to dissolve and liquidate Scala Works, Inc., the Company's consolidated subsidiary in the fourth quarter of the fiscal year ended June 30, 2022, Scala Works, Inc. has been classified as a discontinued operation and separately presented.

(1) Discontinued operations performance

	(Thousands of yen)	
	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)	First six months of FY6/23 (Jul. 1, 2022 – Dec. 31, 2022)
Profit or loss from discontinued operations		
Revenue	8,763	1,613
Expense	(9,778)	(2,613)
Profit (loss) before tax from discontinued operations	(1,014)	(999)
Income tax expense	(14)	288
Profit (loss) from discontinued operations	(1,028)	(710)

(2) Cash flows from discontinued operations

	(Thousands of yen)	
	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)	First six months of FY6/23 (Jul. 1, 2022 – Dec. 31, 2022)
Cash flows from discontinued operations		
Cash flows from operating activities	(12,684)	(2,928)
Cash flows from investing activities	(12,000)	10
Cash flows from financing activities	–	–
Total	(24,684)	(2,918)

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.