

Scala, Inc.

4845

Tokyo Stock Exchange First Section

2-Oct.-2020

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<http://www.fisco.co.jp>

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Summary

Will sell Softbrain shares and accelerate investment in highly profitable projects

Scala, Inc., <4845> (hereafter, also “the Company”) is a leading provider of website search services, FAQ services, and other services for corporate websites. It is developing its businesses centered on the SaaS/ASP* business, which has a business model with recurring (stock-type) income, and it continues to grow while expanding its business areas through an M&A strategy. In August 2019, the Company announced the medium-term management plan COMMIT5000. Based on this plan, it is building a value co-creation platform through its three capabilities (the capability to determine real issues, the capability to discover the hidden value of resources, and the capability to maximize value by proposing and executing the optimal combination of issues and resources), targeting revenue of ¥500bn in FY6/30. The Company has adopted International Financial Reporting Standards (IFRS) accounting.

* Service that supplies application software functionality to customers over a network

1. Overview of FY6/20 results

In the FY6/20 consolidated results, revenue decreased 0.5% year-on-year (YoY) to ¥17,025mn and operating profit declined 56.6% to ¥934mn. The main factors were that the results of the subsidiary Softbrain <4779> were greatly affected by the novel coronavirus pandemic, and revenue and profits declined; that Grit Group Holdings Co., Ltd.,* which became a consolidated subsidiary from the 4Q, recorded a loss of ¥127mn; and that in the SaaS/ASP business also, profits decreased due to the increase in upfront investment toward realizing the medium-term management plan.

* Grit Group Holdings and four other companies conduct businesses including a human-resources services business, a regional revitalization business, a child education business, and a foreigner employment support business.

2. Outlook for FY6/21

In FY6/21, how the novel coronavirus pandemic will develop remains uncertain, so the Company has announced results forecasts in a range format. The forecasts are for revenue of ¥10,000 to ¥13,000mn and operating profit of ¥3,100 to ¥3,500mn. It plans to sell its Softbrain shares and this company will be removed from the scope of consolidation from the 2Q onwards, which will be a factor reducing revenue by around ¥7.2bn and operating profit by approximately ¥600mn. On the other hand, in accounting terms in the 3Q, it is expected to record around ¥2.6bn as a gain on the sales of shares at the operating-profit stage. On an ongoing businesses basis excluding these factors, the outlook is for results to steadily grow in each of the SaaS/ASP business, the customer support business, and the EC business. Also, the value creation support business, which the Company is newly working on, is a business to not only provide consulting for customer companies' transitions to DX and to develop systems, but also to provide total support, including IR support to increase enterprise value. Although there are many IT-related consulting firms, no other firm provides combined support services as far as increasing enterprise value, and these services are attracting attention for being able to differentiate Scala from its competitors. Also, it is considered that the Company will acquire the shares of these target companies at the same time as obtaining capital gains. Currently, it is conducting specific investment negotiations with 10 listed companies with market capitalizations on a scale of up to ¥10bn, and from among them, it intends to invest in a maximum of around 5 companies in FY6/21.

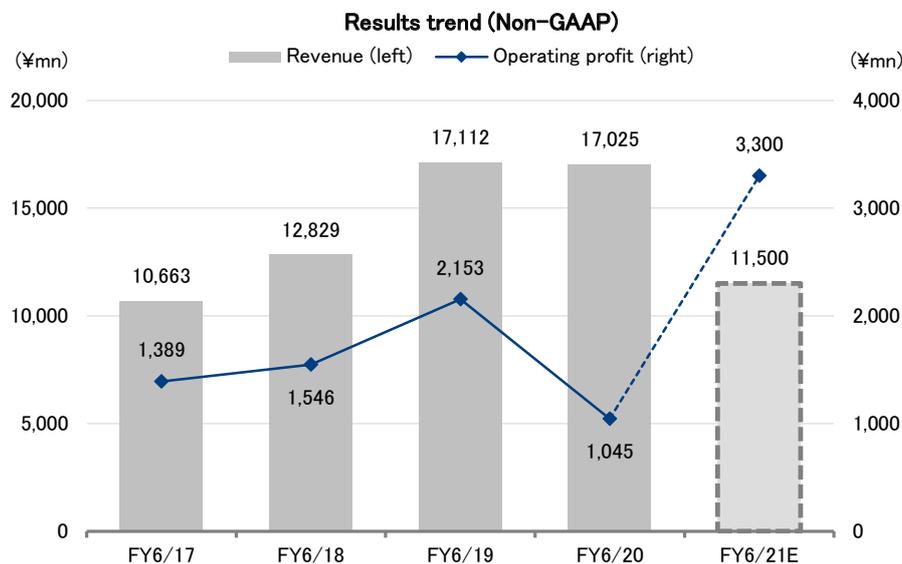
Summary

3. Medium-term management plan and growth initiatives

Based on the medium-term management plan COMMIT5000, the Company is progressing three businesses—the value creation support business, the AI/IoT/IT-related business, and the social issue-solving business—targeting revenue of ¥500bn and operating profit of ¥50bn in FY6/30. To achieve these targets, it will actively work on M&A and alliances in the future as well. Domestically, it is focusing on measures with xID Inc., with which it entered-into a capital and business partnership in February 2020. xID is the developer of the xID digital identification application that uses blockchain technology, and going forward, its use is expected to expand through the collaboration with My Number. It is already receiving inquiries, such as from financial institutions and human resources services companies, and introductions of xID combined with existing SaaS/ASP services are expected to increase. Also, as the social issue-solving business, in addition to the regional revitalization business in Japan, the Company has also started initiatives in Myanmar. Specifically, in June 2020, it invested in MyanCare Co., Ltd., a local health-tech company, and by integrating both companies' expertise, they are promoting the transition to DX in the healthcare industry in Myanmar, including in the medical care and insurance fields, and the policy is to work to contribute to building a society with vitality through promoting healthy lifestyles.

Key Points

- In the FY6/20 results, profits decreased due to the increase in upfront investment costs and the impact of the novel coronavirus pandemic
- The outlook for the FY6/21 results is for revenue and profits to increase by at least 10% on an ongoing businesses basis excluding the effects of Softbrain
- The Company's medium-term management plan targets revenue of ¥500bn and operating profit of ¥50bn in FY6/30



Note: Shows average values, as the FY6/21 results forecasts were disclosed as ranges
 Source: Prepared by FISCO from the Company's financial results

■ Company profile

The SaaS/ASP services in the CRM field is its core business and expanded its business domain through an M&A strategy

1. History

The Company was founded in December 1991 with an initial start as a sales distributor of database systems. It realized significant growth in 1999 by inheriting support services, including customers, for the Model 204* mainframe database management system license from Mitsui Knowledge Industry Co., Ltd.

* Developed by US-based Computer Corporation of America and Sirius Software (now, Rocket Software). Major customers were large companies in Japan such as Bank of Japan <8301> and Tokyo Electric Power Company Holdings, Inc. <9501>. Demand for it ceased due to changes in the market environment, and the service was ended in the fall of 2016.

In 2000, the Company determined that it needed to change its business structure to continue growing amid the migration of corporate information systems from mainframes to distributed processing (client/servers), and it started expanding its business through M&As utilizing funds obtained from its IPO in 2001. It began with the purchase of PatentManager, a patent management software business from Interscience in 2003, and then acquired Dbecs Co., Ltd. with the aim of entering the CRM field, Vodamedia Inc. with the goal of entering the IVR (interactive voice response) field, the news distribution service provider NewsWatch Inc., the website developer TriAx Corp., and other firms in the Internet domain as subsidiaries one after another. The Company is steadily expanding its SaaS/ASP business, which is a business model with recurring income, as its core operations and bolstering its recruitment of system engineers to enhance its own service development capabilities.

The Company made subsidiaries of Softbrain, a major sales support software company (as of the end of June 2020, an ownership ratio based on voting rights of 50.2%) in July 2016; plube Co., Ltd. (ownership ratio: 100.0%, currently Scala PLAYce Inc.), an EC website management company, in August 2017 in order to enter the EC business; Leoconnect Inc. (ownership ratio: 66.0%), which uses 24 call centers to provide customer support consulting for the brands and products of the HIKARI TSUSHIN <9435> Group, in March 2018; and Connect Agency Inc. (ownership ratio: 51.0%), which provides a cloud PBX service to companies and call centers making outbound calls for such customers as the HIKARI TSUSHIN Group, in November 2018. Also, in December 2018, as part of the preparations toward strengthening development capabilities and deploying the overseas business, the subsidiary Scala Next, Inc., established a Mandalay branch in Myanmar, and it has started to recruit local engineers and will be a base for offshore development.

As the measures since 2019 toward building the value co-creation platform in the medium-term management plan COMMIT5000, the Company established Scala Partners, Inc., in July of the same year, and it then made wholly owned subsidiaries of J-Phoenix Research Inc., which provides management consulting and IR support, in October of the same year, and of Grit Group Holdings in April 2020.

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

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Company profile

History

Date	Major event
December 1991	Founded Database Communications (now, Scala, Inc.)
January 1999	Formed sales distribution contracts for the Japanese market with US-based Computer Corporation of America and Sirius and started Model 204 support
May 2001	Listed on the Osaka Securities Exchange's NASDAQ Japan market (now, TSE JASDAQ (Standard))
April 2003	Acquired Interscience's patent management software (product name: PatentManager) with the aim of entering the intellectual property system field
October 2003	Acquired Dbeecs Co., Ltd. as a subsidiary to enter the CRM field
April 2004	Acquired Vodamedia Inc. as a subsidiary with the aim of entering the IVR (interactive voice response) field
September 2004	Renamed as Fusion Partners Co. in the transition to a holding company structure and established Database Communications (now, Scala Services Inc.) as a new company and transferred its business
June 2006	Merged subsidiaries Vodamedia and Dbeecs and changed the company name to Digi-Ana Communications Inc. (now, Scala Communications Inc.)
November 2010	Acquired NewsWatch Inc. as a subsidiary
April 2012	Merged subsidiaries Digi-Ana Communications and NewsWatch (now, Scala Communications Inc.)
May 2014	Listing transferred to the TSE Second Section
December 2014	Shares elevated to the TSE First Section
November 2015	Acquired TriAx Corp. as a subsidiary
January 2016	Renamed subsidiary Database Communications as PAREL, Inc.
July 2016	Acquired Softbrain Co., Ltd. as a subsidiary
December 2016	Changed trade name to Scala, Inc.
December 2016	Merged the subsidiaries Digi-Ana Communications and TriAx Corp. and changed the trade name to Scala Communications Inc.
August 2017	Acquired plube Co., Ltd. as a subsidiary
March 2018	Acquired Leoconnect, Inc. as a subsidiary
November 2018	Acquired Connect Agency Inc. as a subsidiary
November 2018	Established Scala Next, Inc.
December 2018	Established the Scala Next, Inc., Mandalay branch (Myanmar)
July 2019	Established Scala Partners Inc.
October 2019	Made a subsidiary of J-Phoenix Research Inc.
November 2019	Established SCL Capital LLC.
April 2020	Made a subsidiary of Grit Group Holdings, Co. Ltd.

Source: Prepared by FISCO from the Company's website

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Company profile

Subsidiaries by business segment and business content

Business segment	Subsidiary	Ownership ratio (%)	Main business
The SaaS/ASP business	Scala Communications, Inc.	100.0	SaaS/ASP services and software development, sales, and maintenance
	Scala Services, Inc.	100.0	Provides solutions to enhance business efficiency and to improve added value
	Scala Next, Inc.	100.0	Development and operations of the SaaS/ASP services, as well as planning and development of new businesses
	Connect Agency Inc.	51.0	Cloud-based PBX services, telephone equipment for office and call-center operations, and management of telephone lines, etc.
SFA business	Softbrain Co., Ltd.	50.2	Sales of support-system licenses and provision of Cloud services
	Softbrain Service Co. Ltd.	98.7 [*]	Sales consulting and sales-skills training
	Softbrain Integration Co., Ltd.	100.0 [*]	Support and consulting for introductions of iPads, etc., and education and operations support, etc.
Field marketing business	Softbrain Field Co., Ltd.	85.6 [*]	Field-activity operations, market research and other services
Customer support business	Leoconnect, Inc.	66.0	Consulting service relating to customer support including call center management and BPO
Other	Scala PLAYce Inc.	100.0	Management of an EC site for the buying and selling of battle-type trading cards
	Softbrain Offshore Co., Ltd.	100.0 [*]	Outsourced development of software
	Diamond Business Planning, Inc.	70.0 [*]	Services including the planning, editing, and publishing of business books
	Scala Partners Inc.	100.0	CSV innovation, CSV incubation, and CSV investment
	SCL Capital LLC.	100.0	Investment fund management
	SCSV No.1 Investment Limited Partnership	71.4	Investment fund
	J-Phoenix Research Inc.	100.0	Management consulting, securities analyst reports, investment fund management and support, etc.
	Grit Group Holdings, Co. Ltd.	100.0	Human resources recruitment, business development in Myanmar, infant education, support for recruiting overseas human resources, etc.
	Athlete Planning Co., Ltd.	100.0	
	Sports Stories Inc.	100.0	
Retool Co., Ltd.	100.0		
Fourhands Co., Ltd.	100.0		

*A subsidiary of Softbrain Co., Ltd.

Note: as of the end of June 2020

Source: prepared by FISCO from the companies' securities reports, results briefing materials, and business briefing materials.

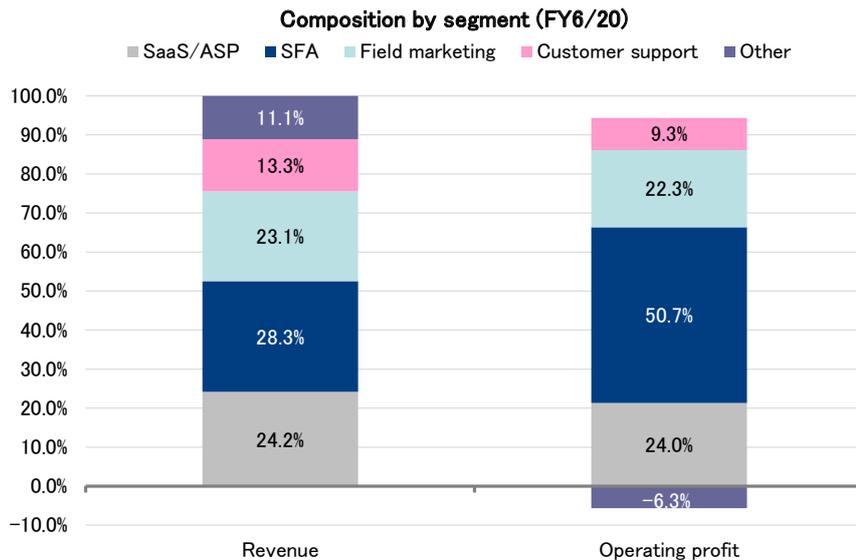
Holds a leading share in the domestic market, including for i-search (an internal website search service) and i-ask (an FAQ service)

2. Business description

The Company discloses results divided into the mainstay SaaS/ASP business, in which it provides various IT services that contribute to improving operating efficiency in companies' CRM fields, and also the SFA (Sales Force Automation) business conducted by the Softbrain Group, the field marketing business, the customer support business conducted by Leoconnect, and other businesses (which are the Softbrain Group's systems development and publishing businesses, Scala PLAYce's EC business, and also the businesses of J-Phoenix Research, Scala Partners, SCL Capital, and Grit Group Holdings).

Company profile

In the percentages of total net sales by business segment in FY6/20, the SaaS/ASP business provided 24.2%, the SFA business 28.3%, the field marketing business 23.1%, the customer support business 13.3%, and other businesses 11.1%. Looking at the percentages of segment profit also, the SaaS/ASP business provided 24.0%, the SFA business 50.7%, and the field marketing business 22.3%, so these three businesses provided a large portion of the total.



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

(1) SaaS/ASP business

The main services in SaaS/ASP are the i-search website search service, i-ask FAQ service, IVR service, and news distribution service. The i-search service was launched in 2007, and it currently holds the leading market share at around 15% with more than 400 customers, particularly large enterprises. While the Company has over 10 competitors, its i-search service offers better visibility by displaying images in search results and provides effective guidance to users. The average usage fee per month is ¥100,000–150,000.

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

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

Company profile

Other than these businesses, the Company also provides various other services, including a news distribution service for corporations, and a service for the planning, development, production, maintenance, and management of websites according to customer needs, and one of its features is that it has a rich service lineup and it does not rely upon a specific service. It also includes the Cloud PBX service provided by Connect Agency, which was made a subsidiary in October 2018.

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

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

*2 A service that contributes to the promotion of safe driving and accident prevention. It does so by using a smartphone app to provide various functions for "peace of mind," reporting accidents with a single push of a button should the driver be in an accident, and for "safety," being useful for accident prevention including through driving analysis and the provision of information in real time, and GPS for "convenience."

Description of the SaaS/ASP business services

Type	Product name	Description
Site assistance service	i-search	Site internal search engine
	i-linkcheck	Link-loss detection system
	i-print	Site print system
	i-linkplus	Related link display service
CMS service	i-ask	FAQ system
	i-catalog	Product site management system
	i-flow	Progress management and approval system
CRM service	i-assist	Web chatbot system
	i-livechat	Web chat system
	i-gift	Digital gift service
Telephone system service	SaaS-type IVR	24-hour, 365-day automated voice response
News distribution service	Corporate news	Monitoring important business information
Data management	PatentManager6	Latest patent management system
	GripManager	Contract operations management system
Site operations business	Fresheye	Search portal site
IoT, Big Data	Safe driving analysis	Processing and management of Big Data

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

(2) The Softbrain Group's businesses

The Softbrain Group's businesses can be divided into the SFA business, field marketing business, and other businesses. The SFA business is mainly the development and sales of e-Sales Manager, which is SFA/CRM software, but also includes a consulting service to solve sales issues, skills training, and a service to support the introduction of smart devices into companies. In addition, e-Sales Manager has an excellent reputation as being No. 1 for usability. It is the industry-leading product from domestic SFA vendors, and it has been introduced by a total of more than 5,000 companies.

Company profile

The field marketing business is mainly for consumer goods manufacturers, and involves conducting field activities, market research, and other activities in stores utilizing registered staff, who are mainly housewives aged in their 30s to 50s. As of the end of June 2020, the Company has approximately 94,000 registered staff nationwide who cover more than 190,000 stores, centering on convenience stores and drugstores, and it is deploying this business on the largest scale within Japan. Recently, field activities have expanded to encompass the B-to-B domain (sales agent) as well as B-to-C.

The systems development business and publishing business are included in the other businesses segment. But even for both businesses combined, their annual sales have trended around ¥700mn to ¥800mn and operating profit has been in the range of tens of millions of yen, so their impact on earnings is negligible.

(3) Customer support business

The customer support business conducted by Leoconnect provides consulting operations for the management of inbound call centers (24 bases nationwide), from receiving inquiries about customer companies' services and products through to the follow-up after the response, and its main customers include the HIKARI TSUSHIN Group and its agencies. The Company is aiming to improve the call centers' productivity by introducing technologies such as i-livechat, i-assist, and IVR into call centers, and by introducing C7, which is a new core system that reflects customer needs jointly developed with Scala Communications (launched in November 2019), while its policy is also to expand the business through acquiring customers outside of the HIKARI TSUSHIN Group.

(4) Other businesses

Other businesses include the Softbrain Group's systems development and publishing businesses, and Scala PLAYce's EC business, which manages "yuyu-tei," an EC website for buying and selling battle-type trading cards. The site has a high name recognition in the gaming industry and is influential to the extent that it is used as a reference indicator for the pricing of used cards, and so it is known as the industry's No. 1 EC shop. Many of the purchases on the site are made by overseas users, and starting in FY6/20, users will be able to purchase from overseas users as well. Other businesses also include the management consulting business of J-Phoenix Research, which has newly been made a subsidiary, the CSV innovation (management and business consulting) business of newly established Scala Partners, the CSV investment business, SCL Capital's investment fund business. It includes the human-resources services business, the regional revitalization business, the child education business, foreigner employment support business, and other businesses of Grit Group Holdings, which was made a subsidiary in April 2020.

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

3. The Company's strengths

One of the Company's strengths in the SaaS/ASP business is that it develops services from the customer's perspective. It handles most of its business as direct sales and 80% of revenue is from direct salesforces. It improves service functions and develops new services by listening closely to customer needs and feeding this information back to its development team, and its development policy is to meet 100% of customer requests. The Company developed its core i-search and i-ask services thanks to this approach of meeting customer requests and its services are characterized specially by their ease of use, and this has also enabled it to make smooth progress in expanding sales to new customers.

Company profile

Another strength is that the extensive lineup of services developed in this manner differentiates it from its competitors. The ability to propose multiple services in packages enables the Company to satisfy diverse customer needs, and this cross-selling helps to raise the average price per customer, boost customer satisfaction, as well as prevent cancellations. The Company has done business with over 1,000 companies, including 400 listed companies.

The features of the SaaS/ASP business are that monthly billing revenue accounts for approximately 70% of revenue and its recurring income business model, in which monthly revenue is accumulated in accordance with the number of service contracts. The Company's basic policy is to avoid usage-based billing as much as possible and to provide services only from fixed monthly billing. Also, the main services are maintaining high gross profit margins at around 80% (the margin is lower for the news distribution service, at around 70%, because of the costs of purchasing content). A reason for this is that the Company initially develops services customized to customer needs, and then develops them horizontally as general services, which enables it to keep development costs down eventually.

In the Company, these strengths are ascertained as three capabilities, of "the capability to determine real issues," (accurately understanding customer needs in direct sales), "the capability to discover the hidden value of resources," (focusing only on functions that meet needs and developments that create and customize the value of IT resources), and "the capability to maximize value by proposing and executing the optimal combination of issues and resources" (optimization, including of the Cloud environment, and dispatching project managers as necessary who will contribute to maximizing the satisfaction of stakeholders). Its strategy is to further strengthen these three capabilities, and as the value co-creation platform, to realize high growth through developing businesses over a wide range of fields.

Results trends

In the FY6/20 results, profits decreased due to the increase in upfront investment costs and the impact of the novel coronavirus pandemic

1. Overview of FY6/20 results

In the FY6/20 consolidated results, revenue decreased 0.5% YoY to ¥17,025mn, operating profit declined 56.6% to ¥934mn, profit before tax increased 57.5% to ¥907mn, and profit attributable to owners of parent decreased 66.1% to ¥321mn.

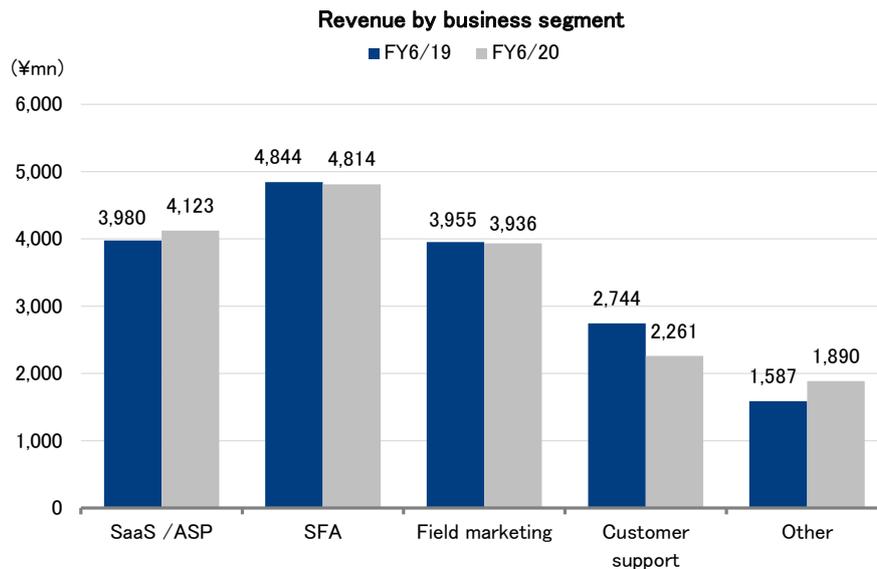
FY6/20 consolidated results

	FY6/19		FY6/20		
	Results	vs. revenue	Results	vs. revenue	YoY
Revenue	17,112	-	17,025	-	-0.5%
Cost of sales	10,913	63.8%	11,045	64.9%	1.2%
SG&A expenses	4,082	23.9%	4,998	29.4%	22.5%
Other income/expenses	36	0.2%	-47	-0.3%	-
Operating profit	2,153	12.6%	934	5.5%	-56.6%
Profit before tax	2,137	12.5%	907	5.3%	-57.5%
Profit attributable to owners of parent	946	5.5%	321	1.9%	-66.1%

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

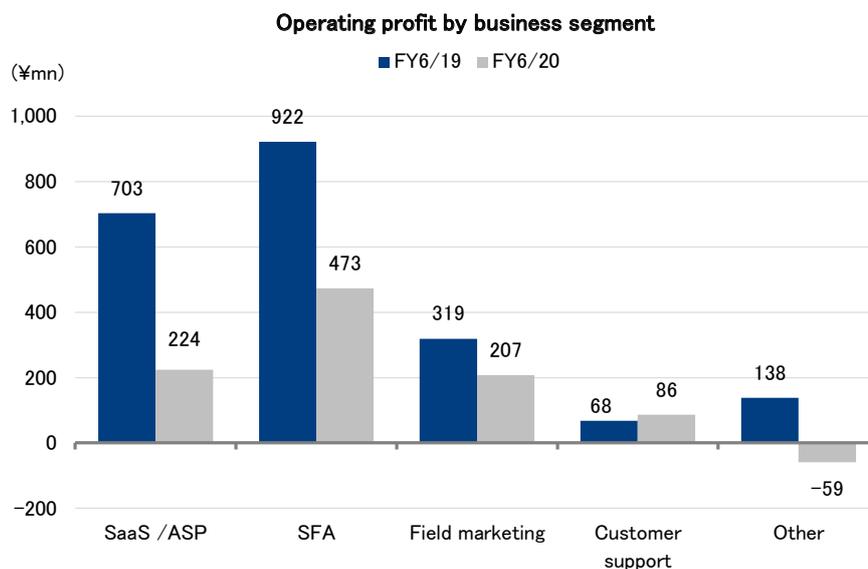
Results trends

For revenue, the new consolidations of Grit Group Holdings and J-Phoenix Research were an increase factor of ¥252mn. However, in April 2020 the Japanese government issued a declaration of a state of emergency due to the novel coronavirus pandemic, and because of the resulting restriction on sales activities, including voluntary restraint on going outdoors, there occurred postponements and cancellations of projects, centered on the Softbrain Group's businesses (SFA business, field marketing business, etc.), while in the customer support business, there were efforts to review projects toward improving profitability. As a result, revenue declined slightly YoY.



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

Conversely, for operating profit, profits declined in the Softbrain Group's businesses. In addition, profits also fell in the SaaS/ASP business due to the implementation of upfront investment toward growth (investment in human resources, in new business development, etc.). The newly consolidated subsidiaries (Grit Group Holdings, J-Phoenix Research, Scala Partners, SCL Capital, etc.) were a profit-decrease factor of ¥168mn.



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

We encourage readers to review our complete legal statement on "Disclaimer" page.

Progressing measures in the mainstay SaaS/ASP business toward realizing the medium-term management plan

2. Trends by business segment

(1) SaaS/ASP business

In the SaaS/ASP business, revenue increased 3.6% YoY to ¥4,123mn, which was a new record high. However, operating profit declined 68.1% to ¥224mn, decreasing for the first time in three fiscal periods. This was due to the implementation of development investment toward growth and upfront investment, including to actively invest in recruiting human resources. It was also because the impact of the novel coronavirus pandemic appeared in the 4Q, including postponements of ordered projects. Another profit-decrease factor was that, alongside the relocation of the head office, temporary costs of ¥110mn were incurred (changes to the depreciation periods of building ancillary equipment, costs to change PCs and to purchase equipment, and re-branding work costs associated with the relocation).

SaaS/ASP business results by Group company

Group company	FY6/19			FY6/20			YoY change amount	
	Revenue	Operating profit	Profit margin	Revenue	Operating profit	Profit margin	Revenue	Operating profit
Scala Communications	3,586	1,305	36.4%	3,569	1,264	35.4%	-17	-40
Scala Services								
Connect Agency (was in the scope of consolidation for only 5 months in previous period)	393	32	8.4%	553	62	11.3%	160	29
Scala Next (upfront-investment stage)	0	-51	-	0	-118	-	0	-66
Scala (upfront investment stage, head office functions)	0	-611	-	0	-1,004	-	0	-393
Inter-company transactions with other segments	-	28	-	-	20	-	-	-8
Total	3,980	703	17.7%	4,123	224	5.5%	143	-478

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

Looking at how results trended by Group company, as the totals for Scala Communications and Scala Services, revenue decreased 0.5% YoY to ¥3,569mn and operating profit declined 3.1% to ¥1,264mn. The number of contracts steadily increased for the main SaaS/ASP services, particularly for the i-ask FAQ system and the i-assist chatbot system on corporate websites, and monthly billing revenue increased. However, the decline in customized development projects, which are temporary sales, was a revenue-decrease factor.

In the medium-term management plan, it is clarified that the Company's policy is also to focus on regional revitalization, and its track record of introductions for local governments, including simultaneous introductions of i-ask and i-assist for Kobe City, Kitakyushu City, and others, has started to increase. It developed the "automotive insurance 1 click insurance premium approximate estimate system," which is a system enabling easy online automotive insurance premium estimates, for E.design Insurance Co, Ltd., part of the Tokyo Marine Holdings <8766> Group, and this system received the Good Design Award in 2019. In this system, when the user requests an estimate for insurance premiums online, it generates an approximate estimate from a single click by simplifying the process that previously required around 30 clicks. After receiving the Good Design Award, inquiries increased and one new order was acquired, while it is expected to be developed horizontally in the future. The digital gift service i-gift has been introduced by Dyson K.K, as a campaign system, and it is demonstrating the effects of its introduction, including leading to an increase in the number of applications.

Results trends

Other than the above, as measures to leverage synergies between Group companies, a call system that connects Connect Agency, which is a per-second-billing service provided by Connect Agency, and C7, which is a core system jointly developed by the Company and Leoconnect, has been introduced by NUWORKS Co. Ltd. This system starts with a function that enables direct outbound calls from a Web system, and it is installed with functions that are highly convenient for call center operations. In the future, many introductions are expected by companies whose main operations are outbound call services. Also, as a collaborative project with Leoconnect, its introduction is being steadily progressed for the HIKARI TSUSHIN Group and its agencies.

The main new customers for SaaS/ASP business services

Type	Product	Description	Customers
Site assistance service	i-search	Site internal search engine	Haluene Co., Ltd.*
CMS service	i-ask	FAQ system	Haluene Co., Ltd.*, Fene Co., Ltd.*, hi-ho Inc.*, Community Network Co., Ltd, Kobe City, Kitakyushu City, JAPAN POST BANK Co., Ltd., MORINAGA & CO., LTD., Joshin Denki Co., Ltd., The Kiyo Bank, Ltd., etc.
CRM service	i-assist	Web chatbot system	Kobe City, Kitakyushu City, and SUMITOMO LIFE INSURANCE COMPANY
	i-livechat	Web chat system	Haseko Corporation and Chubu Electric Power Co., Inc.
	i-gift	Digital gift service	E.design Insurance Co., Ltd. and Dyson K.K.
Telephone system service	SaaS-type IVR	Automated voice response service	Sompo Japan Insurance Inc.

*Collaborative projects with Leoconnect

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

Connect Agency's revenue was ¥553mn (¥393mn in the five-month period in the previous fiscal year,) and its operating profit was ¥62mn (¥32mn). Revenue decreased because it progressed its response for Softphone, for which customer needs are high, but the operating margin rose from 8.4% in the previous period to 11.3%. Also, Scala Next receives consignment development projects from Scala Communications and carries out the planning and development of new businesses and new services, so it receives no revenue from external customers and has been positioned as something like a cost center. In FY6/20, the operating loss was ¥118mn (a loss of ¥51mn in the previous period), with the main factor being the establishment of a development base in Myanmar (with more than 30 engineers). Also, as previously stated the Company itself conducted upfront investment and relocated its head office, resulting in an operating loss of ¥1,004mn (a loss of ¥611mn in the previous period).

(2) SFA business

In the SFA business, revenue decreased 0.6% YoY to ¥4,814mn and operating profit declined 48.7% to ¥473mn. On entering the 4Q, sales of the main product, the sales support software e-Sales Manager, were sluggish due to the impact of the novel coronavirus pandemic. In addition, profit-decrease factors were the increase in development costs and the postponements and cancellations, including of the provision and holding of one-to-one education, consulting services, and seminars.

(3) Field marketing business

In the field marketing business, revenue decreased 0.5% YoY to ¥3,936mn and operating profit declined 35.0% to ¥207mn. The main reason for the lower earnings was that, due to the declaration of a state of emergency in April and May, self-restraint was required for activities for regular field services and human resources dispatch services, which are the main services for retail stores.

Results trends

(4) Customer support business

In the customer support business conducted by Leoconnect, revenue declined 17.6% YoY to ¥2,261mn and operating profit increased 27.2% to ¥86mn. Utilizing its expertise, including in inbound contact center operations for various companies in the HIKARI TSUSHIN Group, this business newly received orders for comprehensive consulting operations, including for call center operations for electric power retail operators, human resources recruitment, and cost reductions, while it also acquired orders for customer support operations from customers using Scala Communications' consulting services. Therefore, the number of customers steadily increased. The reason for the decline in revenue was that it is progressing switching from unprofitable projects to highly profitable projects in order to improve profitability. This business is realizing a reduction in the number of incoming calls and improved productivity by introducing services such as i-ask and IVR, and as a result, the operating margin rose from 2.1% in the previous period to 2.7%.

Going forward, the newly developed core system C7 will be sequentially introduced into Leoconnect's customers of call center businesses, with the aims of further improving work efficiency and productivity. Introducing C7 enables call center businesses to expand their work-processing capabilities and therefore accept orders for new projects. The Company is introducing these businesses to new customers other than those in the HIKARI TSUSHIN Group. The usage fees for services such as i-ask, IVR, and C7 are proportionally divided into the SaaS/ASP business and the customer support business and recorded as revenue.

(5) Other businesses

In other businesses, revenue increased 19.1% YoY to ¥1,890mn and the operating loss was ¥59mn (a loss of ¥138mn in the previous period). Looking at the breakdown by business, the EC business conducted by Scala PLAYce benefitted from nesting (staying at home) demand, while buying and selling of battle-type trading cards was active. As a result, revenue increased 14.9% to ¥986mn, while operating profit rose 13.9% to ¥131mn, as the increase in development costs was absorbed by the higher revenue. Going forward, during 2020 it plans to release the smartphone-app version of the card shop "yuyu-tei," an EC website, and to install functions to automatically set prices through AI. The introduction of a native app will make it easier to buy and sell on smartphones, while the installation of AI functions will make it possible for prices, which up to the present time have been set by judgments by people, to be set automatically. Developments such as these are expected to further increase the distribution monetary amount and to improve productivity.

In the systems development business conducted by the Softbrain Group, revenue increased 7.2% YoY to ¥459mn, as projects from existing customers were strong. However, in the publishing business, revenue decreased 36.3% to ¥191mn mainly because customers refrained from conducting activities due to the impact of the declaration of a state of emergency. It seems that profits declined for each business.

Scala, Inc. | 2-Oct.-2020
 4845 Tokyo Stock Exchange First Section | <https://scalagr.jp/en/ir/>

Results trends

Also, in Grit Group Holdings, which newly joined the Group from April 2020, revenue was ¥216mn and the operating loss was ¥127mn. Due to the impact of the novel coronavirus pandemic, customer companies suspended their human resources recruitment activities, and therefore results were worse than was initially expected. However, it appears that recruitment activities have been rapidly recovering since July. In Scala Partners, which is conducting businesses including CSV innovation (management and business consulting), CSV incubation and CSV investment, revenue was ¥1mn and the operating loss was ¥44mn. As the track record of the CSV investment business, it invested in VALT JAPAN Co., Ltd., in November 2019 and in xID in February 2020. VALT JAPAN is a start-up company founded in 2014 that conducts various types of employment-support operations specializing in people with disabilities. Also, the demonstration experiment of NEXT HERO, which is a support system for both “work and health management” for people who have difficulties finding employment, is being progressed in collaboration with Kamakura City, and in the future, the Company Group will provide system development support for NEXT HERO. Also, xID, the venture company established in 2012, is developing xID, which is a digital identity card app that uses blockchain technology, and measures are being progressed to spread its use. In August 2020 in advance of the rest of the country, coordination between a digital application service and xID was realized with Kaga City, Ishikawa Prefecture. In the future, it is thought that the aim is to introduce it over a wide network, including into the Company Group’s customer companies and local governments, and already inquiries have started to be received from financial institutions for xID as a method of identification, such as for when opening an account.

In addition, in March 2020, SCSV No. 1 Investment Limited Partnership was formed (investment amount, ¥700mn) as an investment fund. The strategy for this fund’s “value co-creation engagement fund” is that in the future, it will provide three kinds of support for the companies it invests in, of value-creation management support services, DX support, and support for the acquisition of management resources, which will lead to improvements in enterprise value.

Results by Group company other than for the SaaS/ASP business

Business segment	Group company	(¥mn)							
		FY6/19			FY6/20			YoY change amount	
		Revenue	Operating profit	Profit margin	Revenue	Operating profit	Profit margin	Revenue	Operating profit
SFA									
Field marketing	Softbrain Group	9,529	1,305	13.7%	9,401	707	7.5%	-127	-598
Other									
Customer support	Leoconnect, Ltd.	2,744	58	2.1%	2,261	61	2.7%	-482	3
	Scala PLAYce Inc.	858	115	13.4%	986	131	13.3%	127	15
	Scala Partners, Inc.	-	-	-	1	-44	-	-	-
	SCL Capital LLC.	-	-	-	-	-	-	-	-
Other	SCSV No.1 Investment Limited Partnership	-	-	-	0	1	-	-	-
	J-Phoenix Research Inc.	-	-	-	36	2	-	-	-
	Grit Group Holdings Co. Ltd.	-	-	-	216	-127	-	-	-

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

Although interest-bearing debt will increase due to the strategic investment, net cash is expected to improve greatly due to the sale of Softbrain shares

3. Financial condition and business indicators

Looking at the financial condition at the end of FY6/20, total assets were up ¥6,217mn on the end of the previous fiscal period to ¥24,912mn. Breaking down the change factors, in current assets, there were increases in cash and cash equivalents of ¥1,429mn and trade and other receivables of ¥204mn. In non-current assets, right-of-use assets increased ¥2,774mn following the adoption of IFRS No.16, while goodwill rose ¥894mn as a result of turning companies such as Grit Group Holdings into subsidiaries.

Total liabilities were up ¥5,483mn on the end of the previous fiscal period to ¥14,569mn. Interest-bearing debt increased ¥2,653mn, while lease obligations rose ¥2,886mn following the adoption of IFRS No.16. Total equity increased ¥734mn to ¥10,343mn. The main factors were increases in share capital of ¥113mn due to the exercising of share acquisition rights, and in capital surplus of ¥346mn, mainly due to the exercising of share acquisition rights and exchanges of shares, and also because while profit attributable to owners of parent of ¥321mn and profit attributable to non-controlling interests of ¥288mn were recorded, a decrease of ¥448mn in retained earnings due to dividend payments was also recorded.

Looking at the business indicators, the ratio of equity attributable to the owners of parent declined by 7.8 percentage points (pp), from 37.5% at the end of the previous fiscal year to 29.7%. Of this decline, around 3.7pp was from the effect of recording lease assets following the adoption of IFRS No.16, so on an actual basis, it only declined about 4pp. The main factor was the accumulation of interest-bearing debt for upfront investment costs toward realizing the medium-term management plan, and the interest-bearing debt ratio rose from 85.3% at the end of the previous fiscal period to 116.6%. But as net cash (cash and cash equivalents – interest-bearing debt) was kept at the equilibrium level, the Company can be judged to be maintaining financial soundness.

In the 3Q FY6/21, the Company plans to sell all of its Softbrain shares to an investment fund company. At the end of June 2020, the Softbrain Group held total assets of approximately ¥7bn, of which, cash and deposits accounted for around ¥3.7bn. So after the sale, these assets and goodwill will have been deducted from the financial condition. Conversely, cash of around ¥10.5bn will be obtained from the sale of shares, and the Company will utilize these funds as new investment funds, while it also plans to allocate part of them to debt repayments, and net cash is expected to greatly improve.

Results trends

Consolidated statement of financial position (IFRS)

	FY6/17	FY6/18	FY6/19	FY6/20	Change
(¥mn)					
Current assets	7,167	8,120	10,165	11,780	1,614
(Cash and cash equivalents)	4,999	4,950	6,393	7,822	1,429
Non-current assets	7,774	8,112	8,529	13,132	4,603
(Goodwill)	5,684	5,787	6,192	7,086	894
Total assets	14,941	16,233	18,694	24,912	6,217
Total liabilities	7,021	7,587	9,086	14,569	5,483
(Interest-bearing debt)	4,768	4,793	5,978	8,632	2,653
Total equity	7,919	8,645	9,608	10,343	734
(attributable to non-controlling interests)	1,934	2,196	2,597	2,940	342
Indicators					
(Stability)					
Ownership ratio attributable to owners of parent	40.1%	39.7%	37.5%	29.7%	-7.8pt
Interest-bearing debt ratio	79.7%	74.3%	85.3%	116.6%	31.3pt
(Profitability)					
ROE	60.4%	11.4%	14.1%	4.5%	-9.6pt
ROA	30.4%	9.9%	12.2%	4.2%	-8.0pt
Operating margin	35.0%	12.1%	12.6%	5.5%	-7.1pt

Note: Based on IFRS

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

■ Outlook

The outlook for the FY6/21 results is for revenue and profits to increase by at least 10% on an ongoing businesses basis excluding the effects of Softbrain

1. Outlook for FY6/21

In terms of the outlook for the FY6/21 results, how the novel coronavirus pandemic will develop remains unclear, while the Company plans to sell all of the shares of its main subsidiary Softbrain, so it will be removed from the scope of consolidation from the 2Q onwards. Therefore, it has disclosed range forecasts. Specifically, it is forecasting revenue of ¥10,000mn to ¥13,000mn, operating profit and profit before tax of ¥3,100mn to ¥3,500mn, and profit attributable to owners of parent of ¥2,900mn to ¥3,300mn. The monetary amounts from Softbrain being removed from the scope of consolidated will be to decrease revenue by approximately ¥7.2bn and operating profit by around ¥600mn*. Also, in accounting terms in the 3Q, around ¥2.6bn is expected to be recorded as a gain on the sales of shares at the operating-profit stage. The outlook after excluding these Softbrain-related effects is that both revenue and the profit items will increase by at least 10% YoY.

* The consolidated results for October 2019 to June 2020 announced by Softbrain.

Outlook

Outlook for FY6/21

	FY6/20		FY6/21	
	Results	YoY	Company target	YoY
Revenue	17,025	-0.5%	10,000~13,000	-41.3%~-23.6%
Operating profit	934	-56.6%	3,100~3,500	231.8%~-274.6%
Profit before tax	907	-57.5%	3,100~3,500	241.5%~-285.5%
Profit attributable to owners of parent	321	-66.1%	2,900~3,300	803.0%~-927.5%
Basic earnings per share (¥)	18.46		165.62~188.47	

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

(1) Will accelerate investment in highly profitable projects through the sale of Softbrain shares

The background to the Company's sale of its Softbrain shares is that the two companies have been generating hardly any business synergies and that the directions they are taking are not necessarily the same toward building the "value co-creation platform" that the Company is aiming for. In the Company's medium-term management plan, its policy is to actively promote the value creation support business and within this, to also invest in companies with high growth potential. Therefore, it decided to sell the shares from a calculation taking a capital-efficiency viewpoint. Rather than continuing to hold Softbrain shares, the Company will use the funds from the sale of shares to invest in other highly profitable projects, and it is estimated that in the next two or three years, the shareholder value amount will grow by four times. It is focusing on investment projects premised on having a Return on Invested Capital (ROIC) of at least 15%.

Aiming for effects of increasing shareholder value from the sale of Softbrain shares

Discussion points	Continuing to hold		Sale
Realization value	¥ 6,026 mn ¹		¥ 10,545 mn ²
Increase in amount of shareholders' equity	-		¥ 2,392 mn
Amount contributing to profit attributable to owners of parent	FY6/19 result Approx. ¥ 463 mn	FY6/20 result Approx. ¥ 269 mn	Target through investment ¥ 1,582 mn ³
Shareholder value upside	If the value of Softbrain's shares doubles ¥ 6,026 mn ⁴		If target through investment is realized ¥ 21,092 mn ⁵
Contribution to COMMIT5000	Limited to a specific field		Makes possible investments in various highly profitable and high-growth opportunities in COMMIT5000

Increase in the amount of shareholder value through investment of basically the same amount as the sale price

$$2,392 + 21,092 = ¥23,482\text{mn}$$

- A: The no. of Softbrain shares held by the Company, 14,770,000 shares, B: the closing price of Softbrain shares on August 13, 2020, ¥408, calculated as A x B.
- C: Sale price per Softbrain share, ¥714, calculated as A x C.
- D: The Targeted ROIC (Return On Invested Capital) when investing basically the same amount as the Softbrain shares' sale price, 15%, E: Targeted operating profit F when investing ¥10,545mn, assuming G: Tokyo's sized-based business tax of 30.62%, D x E - (1-G) = ¥2,280mn (F). When calculated considering that approximately half of the invested capital will be allocated to interest-bearing debt and assuming an interest rate of 1%, the extent of the contribution to profit attributable to owners of parent is calculated as (F-E x 0.5 x 1%) x (1-G) = ¥1,582mn.
- It is assumed that if profits simply double, the share price also doubles.
- The Company's Weighted Average Capital Cost (WACC) is estimated to be 5% from a ratio of the target interest-bearing debt to shareholder value of 50% (DE ratio =100%), and the amount that shareholder value increases on realizing the target ROIC of 15% below is calculated theoretically as E (¥10,545mn) x (ROIC-WACC) = WACC=¥21,092mn.

Source: The Company's results briefing materials

Outlook

Already, centered on J-Phoenix Research, specific investment negotiations are being conducted with around 10 candidate companies. These companies will be provided with total support, from value creation management support and AI/IoT consulting, through to support to transition to and implement DX. By providing consulting services to increase enterprise value and various SaaS/ASP services to transition to DX, annual sales per company of ¥100mn to ¥200mn are expected. Investment will be carried out through SCSV No. 1 Investment Limited Partnership, which was formed in March 2020. The targeted companies are listed companies with market capitalizations of up to ¥10bn, and from among them, the aim is to invest ¥100mn to ¥150mn per company, up to a maximum of around five companies, during FY6/21. The investment policy after the investment is to sell at the stage when the anticipated enterprise value is reached and to allocate these funds to acquire the shares of the next company to invest in. The Company is accumulating success case studies for the value creation support business for SMEs, while in the future it also has in sight business development using the same scheme for large companies.

(2) SaaS/ASP business

The outlook for the SaaS/ASP business in FY6/21 is for revenue and profits to increase by double digits. This is because SaaS/ASP monthly billing revenue, such as from i-ask and i-search, is accumulating, and also sales are expected to increase of customized development projects, which decreased in the previous period. The insurance recruitment system and the “1 click estimate system” were delayed due to the impact of the novel coronavirus pandemic, and they are set to be developed horizontally, while xID is also expected to be introduced by financial institutions and human resources services companies. It seems that human resources services companies are considering utilizing xID in order to simplify work, such as to register dispatch staff. For the ongoing development projects for Sompo Japan Insurance as well, a comparatively large project in the telematics field is scheduled for FY6/21.

For developments, the outlook is that the outsourcing Cloud platform that the Company has been working on since the previous period will start from around February 2021. Compared to previously, it will improve development productivity and can be utilized flexibly by outsourcing partners, and it will eliminate problems relating to development resources. For engineer recruitment also, synergies are being generated from Grit Group Holdings joining the Group. Grit Group Holdings conducts a human resources services business and it has a wide network of agent companies, so the number of mid-career hires utilizing this route is increasing.

In Connect Agency also, revenue and profits are forecast to increase. It is growing sales of the call system that links Connect Agency and the C7 core system to businesses whose main operations are outbound call services. For the upfront investment by Scala Next and the Company, the plan for FY6/21 is to invest the same amount as in the previous period.

(3) Customer support business

Continuing on from the previous period, the customer support business is working to improving profitability by reviewing unprofitable projects and progressing acquisitions of new customers. Revenue may decrease, but the outlook is for profits to increase due to the progress made in introductions of services such as C7 and i-ask. For this business, the target is an operating margin of 10% in the future.

Outlook

(4) Other businesses

The forecasts for the EC business are for revenue and profit to continue to increase, because as a major EC trading card website, trading is expected to increase not only in Japan, but overseas as well. In addition, the previously described developments, such as the launch of the smartphone app and the implementation of AI functions, will also contribute to results. In addition, Grit Group Holdings will start corporate recruitment activities from July 2020 and is expected to contribute to earnings in FY6/21. In FY6/19, its recorded revenue of approximately ¥1,999mn and operating profit of around ¥31mn. Grit Group Holdings also conducts a regional revitalization business and has a wide network with local governments, so sales of SaaS/ASP services to local governments through this network are expected to grow.

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

2. Medium-term management plan

In August 2019, the Company announced its medium-term management plan to run up to 2030. The plan's basic policy is to utilize the Company's strengths, which are its three capabilities of "the capability to determine real issues" (the value creation support business), "the capability to discover the hidden value of resources," (the AI/IoT/IT-related business), and "the capability to maximize value by proposing and executing the optimal combination of issues and resources," (the social issue-solving business), and the strategy is to aim for growth in the medium- to long-term while coordinating these capabilities.

The plan's numerical management targets for FY6/30 are revenue of ¥500bn and operating profit of ¥50bn. On considering that the revenue forecast for FY6/20 is in a range of ¥10bn to ¥13bn, the revenue target appears enormous. But the Company is focusing on two fields, "IT solutions, centered on AI/IoT" that has high growth potential in the future, and "the social issue-solving business, including SGDs," and it seems that it is aiming for growth not just from its existing businesses, but also from deploying new businesses utilizing an M&A strategy and business deployment for overseas markets.

Initiatives and Revenue Targets by Segment

Capabilities	Segment involved	Main expertise and infrastructure built in FY6/20	Breakdown of ¥500bn
1) Determine real issues	Value creation support business	<ul style="list-style-type: none"> • Contact around 200 companies as investment targets, and from among them, conduct investment negotiations with 10 companies • A support system calling for empathy from top management for on-site and information systems • Double value creation capabilities from capital gains and the SaaS/ASP business • Communications support for investors 	¥100bn
2) Discover hidden value of resources	AI/IoT/IT-related business	<ul style="list-style-type: none"> • DX support from SaaS/ASP • Partner strategy for large-company reforms • Measures in Scala model I & Scala model II for billing with agile development • Digital ID solutions tailored to the new personal information activities era • Measures for new era call centers 	¥200bn to ¥300bn
3) Maximize value by proposing and executing optimal combinations of issues and resources	Social-issue solving business	<ul style="list-style-type: none"> • Japan: regional revitalization (branding for local governments and network of regional banks) • Myanmar: medical (remote medicine, medical data +AI diagnoses, and various types of health-tech) • Agriculture (IoT agriculture, production management + AI predictions, and various types of agri-tech) • Education (incubation centers and various types of education-tech) 	¥200bn to ¥300bn

Source: Prepared by FISCO from the COMMIT 5000 medium-term management plan and results briefing materials

Outlook

(1) Value creation support business

For the value creation support business, the long-term targets are revenue of ¥70bn to ¥110bn and operating profit of ¥15bn to ¥30bn. SCL Capital launched the No. 1 Fund in April 2020, and together with the investment, it is also providing support, including to transition to DX and for IR. Going forward, it will invest in around 50 companies over five years for a total investment amount of approximately ¥10bn, targeting capital gains of around three to four times. Recurring-type earnings, including from the support to transition to DX, are expected to be ¥100mn to ¥200mn per year per company, for five-year total revenue of ¥5bn to ¥7bn, which is forecast to contribute ¥1bn to ¥1.5bn to operating profit.

Also, up to FY6/30, SCL Capital will invest in a cumulative total of around 300 companies in Japan and overseas and acquire capital gains of an annual average of around ¥10bn, while for the DX support SaaS/ASP business, the targets are revenue of ¥60bn to ¥100bn and operating profit of ¥6bn to ¥20bn. At the same time as supporting companies' transitions to DX, it will provide IR support and other support to increase enterprise value, which will be provided in combination with the investment and other aspects. So it is aiming to grow this business by differentiating itself from consulting firms and other competitors through this highly original business model.

(2) AI/IoT/IT-related business

The AI/IoT/IT-related business is conducted on a line extending from the existing businesses. The revenue target for FY6/30 is ¥200bn to ¥300bn. One growth strategy is to partner with large companies. It is difficult for large companies in Japan to bear all of the risk from the launch of a new business to the establishment of that business, which is a reason why innovative new businesses are not being created. In order to eliminate this problem, a risk-sharing scheme to launch new businesses is being constructed in the Company Group, focused on employees who previously worked in large companies. In this scheme, human resources with ideas for new businesses are appointed and financial support provided to launch a new business, and at the point when the business has been established to a certain extent, cooperation with large companies is initiated for further business growth.

Also, in addition to the conventional business model of accumulating monthly revenue through agile development (Scala model I), business scale will be further expanded by systemizing a new business model, of building the optimal IT infrastructure to promote DX while utilizing the existing legacy IT management resources held by customer companies (Scala model II).

Moreover, as a digital ID solution tailored to the new era of using personal information, the Company plans to digitalize government services by utilizing xID and to introduce it into companies, including financial institutions, insurance firms, and human resources staffing services companies. In particular, regional local governments are lagging behind in digitalization, and the potential here is enormous. It is proposing introductions of xID in combination with its own SaaS/ASP services. Digitalization is also progressing rapidly for call center management, including to respond to the strengthening of the regulations in the Act on the Protection of Personal Information, and the Company is aiming to grow earnings in the call center market based on its C7 core system with high cost performance.

(3) Social issue-solving business

The social issue-solving business is aiming for revenue of ¥100bn to ¥300bn and operating profit of ¥10bn to ¥20bn through measures from a long-term perspective.

Outlook

Domestically, the Company is working on measures including branding of local governments on the theme of regional revitalization, cooperation and matching services in order to develop new businesses between companies, and media building to link the necessary human resources. In August 2020, it announced it had established a joint venture, Social Studio Co., Ltd, with Branding Technology Inc. <7067> that provides “branding x digital marketing” solutions, with the aim of progressing DX for the government and local governments. Going forward, the plan is for both companies to utilize their expertise to deploy a business for digitalization and marketing support for the government, local governments, and business companies. By progressing these measures, the aims are to improve the administrative services of regional local governments and to create environments in which it is easier to work and to live, which will lead to an increase in residents and the revitalization of regional companies that are responsible for the future of the regions. Also, Grit Group Holdings is conducting measures on the axis of HR-tech, such as providing education services and building a mechanism for recruitment support to utilize overseas human resources and deploying an infant education business that utilizes AI.

For overseas business development, the Company is advancing into Myanmar as the first phase. In June 2020, in order to progress business development in the health-tech field, it announced it had invested in MyanCare, a local health-tech company. MyanCare is a company that is developing call centers and a mobile application for remote medical services, and it has 30 employees. On the one hand, Myanmar is undergoing remarkable economic development, but on the other hand, it has the social problem of its medical system being underdeveloped even in comparison to its neighboring countries. In order to help solve this problem, MyanCare is providing remote medical services, centered on call centers with full-time doctors specializing in pediatrics, and remote medical services via a smartphone app. For insurance also, the Company is collaborating with Prudential Life Insurance Co., Ltd., and both companies are actively conducting business development, including starting joint sales and marketing activities.

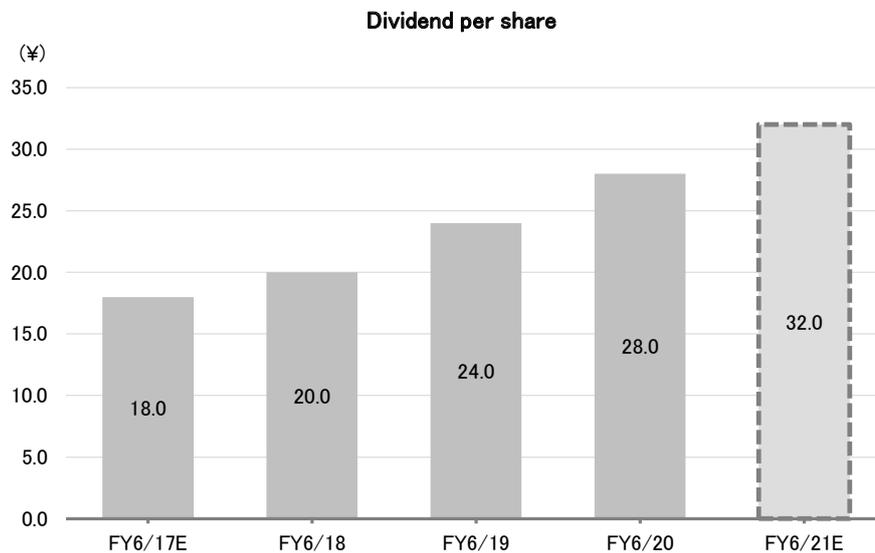
Elsewhere, the Company's main customers in Japan include insurance companies, to which it provides a wide range of services through IoT/ big data processing and analysis. It is at the stage of investigating how it should contribute to the promotion of business in Myanmar of these insurance companies (since 2019, the restrictions on foreign investment in the insurance industry have been eased, and the restriction on sales activities has been lifted). Through the recent investment in MyanCare, it is activating the Myanmar healthcare industry as a whole, including the medical and insurance fields, by utilizing the Company's expertise in big data processing and analysis for the personal health care records (PHR) of MyanCare's users. Or in other words, it is envisaging model cases for transitions to DX in the healthcare field. The big data analysis of PHR makes it possible to manage health conditions and to provide services useful for preventive medicine, while it also makes possible the development of the optimal health insurance system and insurance products.

Also, in August 2020, the Company announced it had established a joint venture company, SCALA ACE Co., Ltd. (investment ratio, 35.0%), with ACE Data Systems Ltd., which is Myanmar's largest IT company. In the future, both companies will leverage their expertise and utilize AI/IoT/IT in the education, medical, and agricultural fields, with the aim of contributing to solving Myanmar's social problems. At the same time, they will work to build a business-creation foundation in order to continuously develop businesses. ACE Data Systems has an abundant track record for Myanmar government-related IT projects, so it is also possible that they will collaborate on and promote DX on a national strategy level, so we shall be paying attention to developments in the future.

Shareholder return policy

In FY6/21, plans to pay a dividend per share of ¥32.0, the 12th consecutive period of higher dividends

The Company's basic shareholder return policy is to stably and continuously pay dividends while also securing the internal reserves necessary to strengthen its financial structure and develop its businesses in the future. In FY6/21, profits are forecast to increase at each profit-item stage, while it is aiming for revenue to accumulate in the recurring-revenue businesses, centered on the SaaS/ASP business, and for continued growth in the future from the effects of investment. Therefore, it plans to increase the dividend per share by ¥4.0 YoY to ¥32.0, which will be the 12th consecutive fiscal period of higher dividends.



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

Information security measure

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



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