Note: This document is a translation of a part of the original Japanese version and provided for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.

Consolidated Financial Results for the Six Months Ended April 30, 2023 [Japanese GAAP]

June 13, 2023

Company name: SCAT Inc.
Stock exchange listing: Tokyo
Code number: 3974
URL: https://www.scat.inc/
Representative: Nagashima Hideo President and CEO
Contact: Nishio Shinobu Director,General Manager of Accounting and Finance Division
Phone: +81-3(5623)9670

Scheduled date of filing quarterly securities report: June 13, 2023
Scheduled date of commencing dividend payments: July 11, 2023
Availability of supplementary briefing material on quarterly financial results: Yes
Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended April 30, 2023 (November 1, 2022 to April 30, 2023)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
April 30, 2023	1,362	4.5	124	(9.6)	126	(7.1)	95	117.5
April 30, 2022	1,302	5.4	137	28.5	136	27.7	43	(46.2)

(Note) Comprehensive income: Six months ended April 30, 2023: ¥ 97 million [114.7%]
Six months ended April 30, 2022: ¥ 45 million [(45.6)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
April 30, 2023	29.61	-
April 30, 2022	10.05	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Millions of yen	Millions of yen	%
April 30, 2023	3,092	1,794	58.0
October 31, 2022	3,470	2,177	62.7

(Reference) Equity: As of April 30, 2023: ¥ 1,794 million
As of October 31, 2022: ¥ 2,177 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended October 31, 2022	-	4.00	-	4.50	8.50
Fiscal year ending October 31, 2023	-	4.50			
Fiscal year ending October 31, 2023 (Forecast)			-	4.50	9.00

(Note) Revision to the forecast for dividends announced most recently: No

(Note) Breakdown of the 2nd quarter dividend for the fiscal year ending October 31, 2023 :

Commemorative dividend - yen

Special dividend - yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending October 31, 2023(November 1, 2022 to October 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	2,656	2.7	238	6.2	237	6.2	170	69.3	56.97

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

(1) Changes in significant subsidiaries during the six months ended April 30, 2023 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

New - (Company name:)

Exclusion: - (Company name:)

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

April 30, 2023: 5,240,000 shares

October 31, 2022: 5,240,000 shares

2) Number of treasury shares at the end of the period:

April 30, 2023: 2,480,276 shares

October 31, 2022: 1,320,876 shares

3) Average number of shares outstanding during the period:

Six months ended April 30, 2023: 3,227,393 shares

Six months ended April 30, 2022: 4,370,662 shares

Note:	This document has Been Translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

1. Qualitative Information on Financial Results for the Period under Review

(1) Explanation of Business Results

During the second quarter of the FY2023 (November 1, 2022 to April 30, 2023), the Japanese economy is on a gradual recovery trend toward the end of COVID-19. However, the outlook remains uncertain due to factors such as soaring resource prices due to the prolonged situation in Ukraine, and growing concerns about inflation due to global monetary tightening and exchange rate fluctuations.

Our main business, the information and telecommunications industry, was affected by delays in delivery due to the global shortage of semiconductors. On the other hand, due to national policies to promote DX (Digital Transformation), corporate IT investment is expected to increase in the medium to long term due to strengthening of corporate competitiveness and information security, and improvement of operations based on the premise of online.

The company has been selected by METI as a "DX certified business operator" and "IT introduction support business operator", and has been certified as a " Support agencies for business innovation " that supports the strengthening of management of SMEs, and is creating new businesses. From May 1, 2023, the company change of trade name to “SCAT Inc.” and make a new start.

In the ICT business for beauty salons, the products and content services provide are subject to the government's IT introduction subsidy, responding to the user's demand for DX. In addition, the market environment continues to provide a tailwind, such as the expected increase in demand for sales management systems that support the national consumption tax "invoice system" that will be introduced from October 2023. Based on these, we will promote various measures such as expanding ICT services for beauty salons and expanding business areas, enhancing the functions of our own application software by enhancing the DX system, and hiring career personnel. We are striving to build a foundation for sustainable growth.

In the business service business for SMEs, we have been recognized by the government for our specialized knowledge and practical experience in supporting SMEs, and have been certified as a " Support agencies for business innovation." As a result, we are gradually increasing the number of management consultation projects, including support for the formulation and execution of clients' business plans and financial details.

In the nursing care service business, while the burden on the front line is increasing due to measures against the new coronavirus infectious disease at fee-based nursing homes with nursing care, profits are affected by soaring food and utility costs.

As a result, consolidated results for the second quarter of the FY2023, we achieved net sales of ¥1,362,024 thousand (up 4.5% year-on-year), operating income of ¥124,164 thousand (down 9.6% year-on-year), ordinary income of ¥126,869 thousand (down 7.1% year-on-year), and profit attributable to owners of parent of ¥95,567 thousand (up 117.5% year-on-year).

Operating results by business segment are as follows. Segment income is based on operating income.

a) ICT business for beauty salons

In the ICT business for beauty salons, we are expanding new charge-based stock services such as maintenance and content while securing profits through system sales. Due to the recovery of economic

activity after COVID-19, sales activities have been activated by accompanying sales with distributors and campaigns. In addition to demand for systems in response to the "Invoice System" and " ERRL (Electronic Record Retention Law)" due to revisions to national laws and regulations, orders for system sales are strong due to the tailwind of DX promotion such as "IT introduction subsidies".

In system sales (POS), there are two core systems: the on-premise type “Sacla PREMIUM” that supports customization of beauty salons, and the SaaS type “BEAUTY WORKS”. In order to improve the profitability of beauty salons, we develop and provide products and content services that can meet all the needs of salon operations.

In terms of system sales, orders for "Sacla PREMIUM" have increased more than expected due to the utilization of the "IT introduction subsidy." In addition to favorable orders, deliveries for major users that had been postponed due to product shortages due to semiconductor shortages, as well as deliveries for users selected for the 2022 IT introduction subsidy, are gradually progressing and are expected to be completed within this fiscal year. In addition, we have been selected as an “IT introduction support business operator” again in FY2023, and have received orders from users using this subsidy.

The Company entered into a sales partner agreement with” RAKUS Co., Ltd. (TSE Prime: 3923)”.As a result, the sales management system "i-SCAP/EX" for beauty dealers will be compatible with the " Invoice System " and "ERRL (Electronic Records Retention Law)" by linking with the cloud-based electronic billing system " RAKU RAKU MEISAI ". We have started offering an electronic invoice issuing system. As a result, along with improving the back-office operations and productivity of beauty dealers, they became our distributors and promoted the acquisition of new users, leading to an increase in sales.

In addition to the content of the smartphone app (Salon Appli), “Reserve with Google,” and “Rakuten Super Points,” which have been driving our stock business, we launched a new content “LINE Mini App” collaboration in January 2023. The number of affiliated stores is steadily increasing with the release of the "LINE MINI App" collaboration, and billing-type services are expanding further. This system is designed to allow end-users, who are LINE users, to easily connect with beauty salons, and has received high praise.

In collaboration with "Right Staff Co., Ltd.", we have entered the preparation stage to start providing a comprehensive B to B credit payment service. "Right Staff Co., Ltd" is a consolidated subsidiary of "M H Group LTD. (TSE Standard: 9439)", which operates and manages the hair salon "Mod’s Hair".

Examples of the use of this service include simplification of expense management and centralization of fund management through credit payment for purchases at beauty salons, and reduction of the risk of uncollected accounts receivable through credit payment at beauty product manufacturers. Management rationalization, such as operational efficiency, can be mentioned. Going forward, we will actively introduce this service to i-SCAP/EX users and dealers. We will continue to strive to develop new services.

As a result, segment sales are driven by system sales exceeding initial forecasts, and charge-type stock sales such as content and maintenance are also growing steadily.

Segment profit, on the other hand, declined year-on-year due to the cancellation of COVID-19-related subsidies in the previous fiscal year, but ended up exceeding the initial forecast.

As a result of the above, in the current second quarter consolidated cumulative period, sales were ¥821,110 thousand (up 8.3% year-on-year), and segment profit was ¥89,533 thousand (down 11.7% year-on-year).

b) Business service business for SMEs

In the business service business for SMEs, we provide various services centered on accounting and accounting office work that support the management of SMEs. We have been certified by METI as a “Support agencies for business innovation” and provide consulting services such as formulating plans to improve management capabilities and supporting business restructuring to improve customers' management issues.

Our core business accounting services are centered on financial reports such as monthly settlements, providing cash flow support, bookkeeping and payroll calculation outsourcing (BPO) services, and IT system operation of related accounting, payroll, and sales management software. We provide support and risk management (life and non-life insurance agency business).

In the second quarter of every year, there is a lot of demand for accounting services such as preparation of financial statements for sole proprietors, monthly sales, which are the base, are trending steadily. In addition, we have received high praise from the clients we have supported as a certification support organization.

On the other hand, the support business for organizations accepting foreign technical intern trainees has completely withdrawn from this business due to losses due to immigration restrictions due to COVID-19.

As a result of the above, in the current second quarter consolidated cumulative period, sales were ¥165,136 thousand (up 1.2% year-on-year), and segment profit was ¥10,668 thousand (up 149.1% year-on-year).

c) Nursing care service business

In the nursing care service business, we operate three paid nursing homes with nursing care (Sano City, Tochigi Prefecture, Tatebayashi City, Gunma Prefecture, and Komoro City, Nagano Prefecture), and also operate a home support business in Komoro City, Nagano Prefecture.

At fee-based nursing homes, vacancies increased and occupancy rates declined. In addition to the extension of the waiting period until people on the waiting list to move in due to measures against infectious diseases, there was a succession of deaths due to exacerbation of chronic diseases and long-term hospitalization. In the home support business, such as day services and short stays, and the health promotion business, sales were affected by the temporary suspension of services to prevent infection and customers refraining from using them themselves. On the other hand, the increase in expenses due to the steep rise in food and utility costs had a large impact on profit and loss. Therefore, with the consent of the residents and their families, we will raise some of the fees.

The "Suketto Service", which started in April 2022, will continue to take thorough measures against infectious diseases, will gradually be recognized by the community, and will expand its business, which is a bright factor.

As a result of the above, in the current second quarter consolidated cumulative period, net sales were ¥366,125 thousand (down 1.6% year-on-year), and segment profit was ¥18,868 thousand (down 25.6% year-on-year).

Note: This document has Been Translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Quarterly Consolidated Financial Statements

Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of October 31, 2022	As of April 30, 2023
Assets		
Current assets		
Cash and deposits	1,765,709	1,330,403
Accounts receivable - trade	221,369	250,846
Merchandise	32,734	53,238
Work in process	5,139	6,208
Other	23,093	20,561
Allowance for doubtful accounts	(103)	(135)
Total current assets	2,047,941	1,661,123
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,010,678	1,012,291
Accumulated depreciation	(423,729)	(435,671)
Buildings and structures, net	586,949	576,620
Land	247,101	247,101
Other	165,515	167,629
Accumulated depreciation	(146,583)	(150,207)
Other, net	18,932	17,422
Total property, plant and equipment	852,982	841,143
Intangible assets		
Software	218,341	193,247
Software in progress	68,090	77,954
Goodwill	51,869	44,459
Other	4,659	4,119
Total intangible assets	342,961	319,781
Investments and other assets		
Deferred tax assets	153,262	153,041
Other	89,221	133,110
Allowance for doubtful accounts	(16,061)	(15,941)
Total investments and other assets	226,423	270,210
Total non-current assets	1,422,368	1,431,136
Total assets	3,470,310	3,092,259

(Thousands of yen)

	As of October 31, 2022	As of April 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	54,794	64,351
Short-term borrowings	200,000	200,000
Current portion of long-term borrowings	63,680	61,680
Accrued expenses	113,038	129,771
Income taxes payable	27,522	54,518
Provision for bonuses	80,337	64,101
Other	116,379	104,195
Total current liabilities	655,752	678,618
Non-current liabilities		
Long-term borrowings	240,200	209,360
Provision for retirement benefits for directors (and other officers)	18,365	16,685
Provision for share awards	21,343	26,871
Retirement benefit liability	326,180	337,308
Other	31,020	29,278
Total non-current liabilities	637,110	619,504
Total liabilities	1,292,863	1,298,122
Net assets		
Shareholders' equity		
Share capital	200,000	200,000
Capital surplus	338,339	338,339
Retained earnings	2,048,152	2,125,103
Treasury shares	(403,149)	(865,746)
Total shareholders' equity	2,183,343	1,797,697
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(5,896)	(3,560)
Total accumulated other comprehensive income	(5,896)	(3,560)
Total net assets	2,177,446	1,794,136
Total liabilities and net assets	3,470,310	3,092,259

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the six months)

(Thousands of yen)

	For the six months ended April 30, 2022	For the six months ended April 30, 2023
Net sales	1,302,944	1,362,024
Cost of sales	736,478	808,784
Gross profit	566,465	553,240
Selling, general and administrative expenses	429,050	429,075
Operating profit	137,415	124,164
Non-operating income		
Interest income	6	7
Facility rental fee	846	731
Subsidy income	100	3,278
Other	209	308
Total non-operating income	1,162	4,325
Non-operating expenses		
Interest expenses	1,563	1,321
Other	440	299
Total non-operating expenses	2,003	1,621
Ordinary profit	136,574	126,869
Extraordinary income		
Subsidies income	10,648	-
Gain on exemption from rent	-	17,478
Total extraordinary income	10,648	17,478
Extraordinary losses		
Loss on COVID19	19,805	-
Loss on retirement of non-current assets	-	0
Impairment losses	56,061	-
Total extraordinary losses	75,866	0
Profit before income taxes	71,356	144,347
Income taxes - current	40,704	49,581
Income taxes - deferred	(13,277)	(801)
Total income taxes	27,426	48,780
Profit	43,930	95,567
Profit attributable to owners of parent	43,930	95,567

Quarterly Consolidated Statements of Comprehensive Income (For the six months)

(Thousands of yen)

	For the six months ended April 30, 2022	For the six months ended April 30, 2023
Profit	43,930	95,567
Other comprehensive income		
Valuation difference on available-for-sale securities	1,668	2,336
Total other comprehensive income	1,668	2,336
Comprehensive income	45,599	97,904
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	45,599	97,904

Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	For the six months ended April 30, 2022	For the six months ended April 30, 2023
Cash flows from operating activities		
Profit before income taxes	71,356	144,347
Depreciation	59,065	72,097
Impairment losses	56,061	-
Amortization of goodwill	7,409	7,409
Increase (decrease) in allowance for doubtful accounts	(428)	(88)
Interest and dividend income	(6)	(7)
Interest expenses	1,563	1,321
Loss on retirement of non-current assets	-	0
Gain on exemption from rent	-	(17,478)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	-	(1,680)
Increase (decrease) in retirement benefit liability	(269)	11,128
Increase (decrease) in provision for share awards	4,424	5,527
Increase (decrease) in provision for bonuses	(13,727)	(16,236)
Decrease (increase) in trade receivables	(74,677)	(29,477)
Decrease (increase) in inventories	4,542	(21,446)
Increase (decrease) in trade payables	11,158	9,556
Increase (decrease) in accrued expenses	(2,766)	16,732
Increase (decrease) in advances received	2,856	(417)
Other, net	(53,575)	11,086
Subtotal	72,986	192,376
Interest and dividends received	6	7
Interest paid	(1,519)	(1,241)
Income taxes refund	1,504	9
Income taxes paid	(47,502)	(23,449)
Net cash provided by (used in) operating activities	25,476	167,703
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,879)	(5,439)
Proceeds from sale of property, plant and equipment	100,000	-
Purchase of intangible assets	(53,106)	(41,343)
Payments of guarantee deposits	-	(40,899)
Other, net	120	200
Net cash provided by (used in) investing activities	40,133	(87,481)
Cash flows from financing activities		
Repayments of long-term borrowings	(42,840)	(32,840)
Repayments of lease liabilities	(1,285)	(1,155)
Purchase of treasury shares	(189,665)	(462,801)
Dividends paid	(32,354)	(18,730)
Net cash provided by (used in) financing activities	(266,145)	(515,527)
Net increase (decrease) in cash and cash equivalents	(200,535)	(435,306)
Cash and cash equivalents at beginning of period	1,726,985	1,765,709
Cash and cash equivalents at end of period	1,526,449	1,330,403