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 Nine Months Ended July 31, 2023 [Japanese GAAP]

September 12, 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: September 12, 2023
Scheduled date of commencing dividend payments: -
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 Nine Months Ended July 31, 2023 (November 1, 2022 to July 31, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
July 31, 2023	2,044	4.1	182	(9.8)	183	(8.8)	138	69.2
July 31, 2022	1,962	5.0	202	15.8	201	15.1	81	(33.3)

(Note) Comprehensive income: Nine months ended July 31, 2023: ¥ 143 million [77.4%]
Nine months ended July 31, 2022: ¥ 80 million [(33.0) %]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
July 31, 2023	44.98	-
July 31, 2022	19.34	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Millions of yen	Millions of yen	%
July 31, 2023	2,830	1,826	64.5
October 31, 2022	3,470	2,177	62.7

(Reference) Equity: As of July 31, 2023: ¥ 1,826 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)				6.00	10.50

(Note) Revision to the forecast for dividends announced most recently: Yes

(Note) Breakdown of year-end dividends for the fiscal year ending October 2023 (forecast) :

Ordinary dividend 5.00 yen

Commemorative dividend 1.00 yen

(Note) For details on revisions to dividend forecasts, please see the "Notice of Revision of Dividend Forecast （Commemorative dividend） " released today.

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 nine months ended July 31, 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):

July 31, 2023: 5,240,000 shares

October 31, 2022: 5,240,000 shares

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

July 31, 2023: 2,480,126 shares

October 31, 2022: 1,320,876 shares

3) Average number of shares outstanding during the period:

Nine months ended July 31, 2023: 3,069,820 shares

Nine months ended July 31, 2022: 4,218,376 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

We have changed of trade name to " SCAT Inc. " from May 1, 2023 and are making a new start.

During the third quarter of the FY2023 (November 1, 2022 to July 31, 2023), the Japanese economy showed signs of economic recovery toward the normalization of social activities due to the deregulation of COVID-19. However, the outlook remains uncertain due to factors such as the prolonged situation in Ukraine and soaring prices due to rising utility costs and raw material prices.

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.

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, although the legal classification of COVID-19 has been shifted to the same category 5 infectious disease as seasonal influenza, we continue to take measures against infectious diseases with a high sense of urgency. In particular, pay nursing homes with long-term care services have been affected by the increase in vacancies due to deaths (end-of-life care), as well as sharp rises in food and utility costs.

As a result, consolidated results for the third quarter of the FY2023, we achieved net sales of ¥2,044,177 thousand (up 4.1% year-on-year), operating income of ¥182,360 thousand (down 9.8% year-on-year), ordinary income of ¥183,408 thousand (down 8.8% year-on-year), and profit attributable to owners of parent of ¥138,080 thousand (up 69.2% 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”.

We will continue to be selected as an “IT introduction support business operator” in FY2023, and the number of orders for “Sacla PREMIUM” utilizing IT introduction subsidies will continue to exceed our initial forecast. In addition, shipments to major users, which had been postponed due to product shortages due to semiconductor shortages, are progressing according to schedule, and we expect to complete them within the current fiscal year.

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 the charge-type stock business, the acquisition of member stores is progressing smoothly with the start of collaboration with the new content “LINE Mini App” in January 2023, and the smartphone app (Salon Appli), which has led the construction of the charge-type stock business, and “ Reserve with Google” and “Rakuten Super Point Collaboration” are further accelerating the expansion of fee-based services.In the fall of 2023, we will collaborate with “Right Staff Co., Ltd.” to promote a B to B credit payment service (cashless) in the hairdressing industry. "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 ".

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 third quarter consolidated cumulative period, sales were ¥1,241,447 thousand (up 8.8% year-on-year), and segment profit was ¥130,471 thousand (down 8.8% 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).

By providing these services, we have strengthened our relationships with existing customers, and our alliances with referral partner companies, local financial institutions and professionals have led to stable acquisition of new customers.

In addition to responding to each client of the "invoice system" from October, we are striving to expand our consulting services, such as providing consulting services for “Support agencies for business innovation” and business succession support.

As a result of the above, in the current second quarter consolidated cumulative period, sales were ¥239,840 thousand (down 1.0% year-on-year) , and segment profit was ¥11,726 thousand (up 498.0 % 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 for the elderly, although there were more new residents than usual, vacancies increased due to deaths due to exacerbation of chronic diseases and withdrawals due to long-term hospitalization. Earnings were also affected by soaring utility bills and an increase in expenses due to rising food prices.

In the home support business, the number of new users of “day service” is increasing, and the operating rate is returning to the level before the corona disaster. "Short Stay" was still experiencing intermittent outbreaks of local COVID-19, affecting business operations.

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 ¥548,411 thousand (down 3.0% year-on-year), and segment profit was ¥32,866 thousand (down 32.7% 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 July 31, 2023
Assets		
Current assets		
Cash and deposits	1,765,709	1,079,001
Accounts receivable - trade	221,369	246,861
Merchandise	32,734	55,423
Work in process	5,139	5,938
Other	23,093	35,160
Allowance for doubtful accounts	(103)	(174)
Total current assets	2,047,941	1,422,210
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,010,678	1,014,401
Accumulated depreciation	(423,729)	(442,035)
Buildings and structures, net	586,949	572,365
Land	247,101	247,101
Other	165,515	168,457
Accumulated depreciation	(146,583)	(152,371)
Other, net	18,932	16,085
Total property, plant and equipment	852,982	835,552
Intangible assets		
Software	218,341	165,114
Software in progress	68,090	99,635
Goodwill	51,869	40,754
Other	4,659	3,849
Total intangible assets	342,961	309,353
Investments and other assets		
Deferred tax assets	153,262	142,327
Other	89,221	136,965
Allowance for doubtful accounts	(16,061)	(15,881)
Total investments and other assets	226,423	263,411
Total non-current assets	1,422,368	1,408,318
Total assets	3,470,310	2,830,528

(Thousands of yen)

	As of October 31, 2022	As of July 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	54,794	50,897
Short-term borrowings	200,000	-
Current portion of long-term borrowings	63,680	61,680
Accrued expenses	113,038	108,894
Income taxes payable	27,522	45,138
Provision for bonuses	80,337	37,721
Other	116,379	89,061
Total current liabilities	655,752	393,391
Non-current liabilities		
Long-term borrowings	240,200	193,940
Provision for retirement benefits for directors (and other officers)	18,365	16,685
Provision for share awards	21,343	29,576
Retirement benefit liability	326,180	341,760
Other	31,020	29,065
Total non-current liabilities	637,110	611,027
Total liabilities	1,292,863	1,004,419
Net assets		
Shareholders' equity		
Share capital	200,000	200,000
Capital surplus	338,339	338,339
Retained earnings	2,048,152	2,154,217
Treasury shares	(403,149)	(865,668)
Total shareholders' equity	2,183,343	1,826,888
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(5,896)	(778)
Total accumulated other comprehensive income	(5,896)	(778)
Total net assets	2,177,446	1,826,109
Total liabilities and net assets	3,470,310	2,830,528

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the nine months)

(Thousands of yen)

	For the nine months ended July 31, 2022	For the nine months ended July 31, 2023
Net sales	1,962,932	2,044,177
Cost of sales	1,119,056	1,221,694
Gross profit	843,875	822,482
Selling, general and administrative expenses	641,598	640,121
Operating profit	202,276	182,360
Non-operating income		
Interest income	7	7
Dividend income	6	6
Facility rental fee	1,267	1,085
Subsidy income	100	3,278
Other	337	1,085
Total non-operating income	1,719	5,463
Non-operating expenses		
Interest expenses	2,305	1,863
Other	536	2,552
Total non-operating expenses	2,841	4,415
Ordinary profit	201,153	183,408
Extraordinary income		
Grant income	13,913	-
Gain on sale of non-current assets	43,952	-
Gain on exemption from rent	-	26,217
Total extraordinary income	57,865	26,217
Extraordinary losses		
Loss on COVID19	28,362	-
Loss on sale of non-current assets	44,902	-
Loss on retirement of non-current assets	0	0
Impairment losses	56,061	-
Total extraordinary losses	129,326	0
Profit before income taxes	129,693	209,625
Income taxes - current	26,531	62,851
Income taxes - deferred	21,563	8,693
Total income taxes	48,094	71,545
Profit	81,598	138,080
Profit attributable to owners of parent	81,598	138,080

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

(Thousands of yen)

	For the nine months ended July 31, 2022	For the nine months ended July 31, 2023
Profit	81,598	138,080
Other comprehensive income		
Valuation difference on available-for-sale securities	(890)	5,118
Total other comprehensive income	(890)	5,118
Comprehensive income	80,707	143,198
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	80,707	143,198