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Consolidated Financial Results for the Year Ended October 31, 2023 [Japanese GAAP]

December 14, 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(6275)1130

Scheduled date of Annual General Meeting of Shareholders: January 30, 2024
Scheduled date of commencing dividend payments: January 31, 2024
Scheduled date of filing annual securities report: January 31, 2024
Availability of supplementary briefing material on annual financial results: Yes
Schedule of annual financial results briefing session: No

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

1. Consolidated Financial Results for the Fiscal Year Ended October 31, 2023 (November 1, 2022 to October 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	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
October 31, 2023	2,742	6.0	227	1.7	230	3.5	157	56.9
October 31, 2022	2,587	4.2	224	23.9	223	23.4	100	(16.8)

(Note) Comprehensive income: Fiscal year ended October 31, 2023: ¥ 161 million [64.4%]
Fiscal year ended October 31, 2022: ¥ 98 million [(16.6)%]

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets ratio	Operating profit to net sales ratio
Fiscal year ended	Yen	Yen	%	%	%
October 31, 2023	52.79	-	7.9	7.2	8.3
October 31, 2022	24.30	-	4.5	6.2	8.7

(Reference) Equity in earnings (losses) of affiliated companies: Fiscal year ended October 31, 2023: ¥ - million
Fiscal year ended October 31, 2022: ¥ - million

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
October 31, 2023	2,976	1,844	62.0	668.18
October 31, 2022	3,470	2,177	62.7	555.60

(Reference) Equity: As of October 31, 2023: ¥ 1,844 million
As of October 31, 2022: ¥ 2,177 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
October 31, 2023	339	(135)	(760)	1,209
October 31, 2022	253	112	(326)	1,765

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
October 31, 2022	-	4.00	-	4.50	8.50	35	35.0	1.6
October 31, 2023	-	4.50	-	6.00	10.50	31	19.9	1.7
Fiscal year ending October 31, 2024 (Forecast)	-	4.50	-	5.00	9.50		-	

(Note) Breakdown of the year-end dividend for the fiscal year ended October 31, 2023 :

Commemorative dividend 5.00 yen

Special dividend 1.00 yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending October 31, 2024 (November 1, 2023 to October 31, 2024)

(% 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	2,804	2.3	243	6.8	243	5.4	160	1.6	58.12

* Notes:

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

New - (Company name:)

Exclusion: - (Company name:)

(2) 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

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

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

October 31, 2023: 5,240,000 shares

October 31, 2022: 5,240,000 shares

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

October 31, 2023: 2,479,476 shares

October 31, 2022: 1,320,876 shares

3) Average number of shares outstanding during the period:

Fiscal Year ended October 31, 2023: 2,991,744 shares

Fiscal Year ended October 31, 2022: 4,142,935 shares

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

(1) Explanation of Business Results

The company have changed of trade name to " SCAT Inc. " from May 1, 2023, and move its Tokyo head office in October, making a new start.

During the current consolidated fiscal year (November 1, 2022 to October 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 future remains uncertain due to factors such as the sharp depreciation of the yen in the foreign exchange market, the protracted situation in Ukraine, and soaring prices due to rising utility costs and raw material prices.

In the information and communications industry, which is our core business, against the background of DX (digital transformation) being promoted as a national policy, corporate IT investment is expected to increase over the medium to long term due to the use of IT to strengthen corporate competitiveness and information security, as well as improve business operations based on online operations.

The company's purpose is to "contribute to society by supporting SMEs enterprises through the provision of ICT," and we provide "Plus 1" added value. 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 we provide are eligible for IT introduction subsidies, responding to users' demand for DX. Furthermore, the market environment continues to be favorable, with demand expected to increase in response to legal revisions such as ERRL (Electronic Record Retention Law) and the invoice system (to be introduced in October 2023).

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, the number of cases of consulting services such as management consultation and business plan formulation and implementation support for clients is gradually increasing.

In the nursing care services business, although the COVID-19 infection has been classified as a Category 5 infectious disease, the same as seasonal influenza, we continue to take measures against infectious diseases with a high degree of tension. In particular, in the current consolidated fiscal year, there has been an increase in vacancies at paid nursing homes due to hospitalizations due to worsening of chronic illnesses and deaths, as well as sharp rises in food and utility costs, which have had a significant impact on profits and losses.

As a result of the above, in the current consolidated fiscal year, we achieved net sales of ¥2,742,420 thousand (up 6.0% year-on-year), operating income of ¥227,866 thousand (up 1.7% year-on-year), ordinary income of ¥230,837 thousand (up 3.5% year-on-year), and profit attributable to owners of parent of ¥157,936 thousand (up 56.9% year-on-year).

Regarding extraordinary profits, we recorded a gain of ¥34,956 thousand on rent exemption due to the eviction of the former Tokyo head office.

Regarding extraordinary losses, we have recorded office relocation costs of ¥14,276 thousand, loss on disposal of fixed assets of ¥3,050 thousand, and impairment loss of ¥5,738 thousand.

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 striving to add stock revenues such as maintenance, content, and new paid services to system sales, which are our main source of revenue.

This fiscal year, while the effects of the COVID-19 infection remain, joint sales with sales agents and exhibitions were gradually lifted, and sales activities became more active. In addition, there were tailwinds such as an improvement in the acceptance rate of the national system of "IT introduction subsidy", "invoice system support" and "DX promotion", resulting in results that exceeded initial expectations.

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 fiscal 2023, we continued to be selected as an "IT implementation support provider" and received orders for "Sacla PREMIUM" using IT implementation subsidies, exceeding our initial expectations. In addition, deliveries to large users, which had been postponed due to product shortages caused by the semiconductor shortage, are proceeding as planned.

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.

For future business development, we are collaborating with " M H Group LTD. (TSE Standard: 9439) ", which operates and manages the hair salon "Mods Hair", in order to provide new services in the hairdressing industry.

As a result of the above, in the current consolidated fiscal year, net sales were ¥1,684,035 thousand (up 12.8% year-on-year), and segment profit was ¥164,186 thousand (up 13.4% 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.

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, and we provide support and risk management (life and non-life insurance agency business).

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.

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 the future, we will continue to work to expand various services, such as providing support to each client regarding the invoice system and ERRL (Electronic Record Retention Law) that will be implemented from January 2024, as well as business succession and consulting services as a certified support organization.

As a result of the above, in the current consolidated fiscal year, net sales were ¥313,059 thousand (down 1.1% year-on-year), and segment profit was ¥11,838 thousand (Loss of ¥753 thousand in the previous consolidated fiscal 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.

Although there are more new residents than usual in paid nursing homes with assisted living, the number of vacant rooms has increased due to a combination of people passing away due to worsening chronic conditions and leaving due to long-term hospital treatment. Furthermore, due to factors such as the spread of coronavirus infections in the region and the length of time it takes to move in, occupancy rates have declined and income has decreased.

Additionally, in the home support business, the number of new day service users is increasing and the operating rate is returning to pre-coronavirus levels. However, short stays have been affected by the intermittent outbreaks of coronavirus infections at nearby medical institutions and nursing care facilities, leading to an increase in cancellations by customers using multiple nursing care services at other facilities.

In addition, profits were significantly affected by rising utility costs and an increase in miscellaneous expenses due to rising prices of food and other items.

As a result of the above, in the current consolidated fiscal year, net sales were ¥726,021 thousand (down 4.4% year-on-year), and segment profit was ¥42,427 thousand (down 38.6% year-on-year).

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Consolidated Financial Statements

Consolidated Balance Sheets

(Thousands of yen)

	As of October 31, 2022	As of October 31, 2023
Assets		
Current assets		
Cash and deposits	1,765,709	1,209,125
Accounts receivable - trade	221,369	246,601
Merchandise	32,734	39,719
Work in process	5,139	1,904
Other	23,093	23,261
Allowance for doubtful accounts	(103)	(211)
Total current assets	2,047,941	1,520,400
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,010,678	1,056,248
Accumulated depreciation	(423,729)	(435,701)
Buildings and structures, net	586,949	620,547
Land	247,101	245,830
Other	165,515	140,267
Accumulated depreciation	(146,583)	(121,527)
Other, net	18,932	18,739
Total property, plant and equipment	852,982	885,117
Intangible assets		
Software	218,341	208,191
Software in progress	68,090	42,608
Goodwill	51,869	37,049
Other	4,659	3,507
Total intangible assets	342,961	291,357
Investments and other assets		
Investment securities	25,600	30,400
Deferred tax assets	153,262	159,838
Other	63,621	104,747
Allowance for doubtful accounts	(16,061)	(15,808)
Total investments and other assets	226,423	279,178
Total non-current assets	1,422,368	1,455,652
Total assets	3,470,310	2,976,052

(Thousands of yen)

	As of October 31, 2022	As of October 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	54,794	45,958
Short-term borrowings	200,000	-
Current portion of long-term borrowings	63,680	61,680
Accrued expenses	113,038	114,605
Income taxes payable	27,522	71,663
Provision for bonuses	80,337	77,934
Other	116,379	151,553
Total current liabilities	655,752	523,396
Non-current liabilities		
Long-term borrowings	240,200	178,520
Provision for retirement benefits for directors (and other officers)	18,365	16,685
Provision for share awards	21,343	30,296
Retirement benefit liability	326,180	326,535
Asset retirement obligations	12,855	40,446
Other	18,165	15,650
Total non-current liabilities	637,110	608,133
Total liabilities	1,292,863	1,131,530
Net assets		
Shareholders' equity		
Share capital	200,000	200,000
Capital surplus	338,339	338,339
Retained earnings	2,048,152	2,174,072
Treasury shares	(403,149)	(865,331)
Total shareholders' equity	2,183,343	1,847,081
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(5,896)	(2,559)
Total accumulated other comprehensive income	(5,896)	(2,559)
Total net assets	2,177,446	1,844,522
Total liabilities and net assets	3,470,310	2,976,052

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Thousands of yen)

	For the fiscal year ended October 31, 2022	For the fiscal year ended October 31, 2023
Net sales	2,587,750	2,742,420
Cost of sales	1,503,999	1,655,924
Gross profit	1,083,751	1,086,495
Selling, general and administrative expenses	859,588	858,628
Operating profit	224,162	227,866
Non-operating income		
Interest income	14	12
Dividend income	6	6
Institution expenses	1,671	1,460
Subsidy income	343	5,420
Reversal of allowance for doubtful accounts	240	220
Other	242	1,149
Total non-operating income	2,518	8,269
Non-operating expenses		
Interest expenses	3,014	2,239
Settlement payments	-	1,529
Other	536	1,529
Total non-operating expenses	3,550	5,298
Ordinary profit	223,129	230,837
Extraordinary income		
Subsidy income	16,213	-
Gain on sale of non-current assets	43,952	-
Gain on exemption from rent	2,913	34,956
Gain on reversal of asset retirement obligations	8,500	-
Total extraordinary income	71,579	34,956
Extraordinary losses		
Loss on COVID19	34,617	-
Loss on sale of non-current assets	44,902	-
Loss on retirement of non-current assets	87	3,050
Impairment losses	56,061	5,738
Office relocation expenses	-	14,276
Total extraordinary losses	135,668	23,065
Profit before income taxes	159,040	242,728
Income taxes - current	55,085	92,830
Income taxes - deferred	3,293	(8,037)
Total income taxes	58,378	84,792
Profit	100,661	157,936
Profit attributable to owners of parent	100,661	157,936

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	For the fiscal year ended October 31, 2022	For the fiscal year ended October 31, 2023
Profit	100,661	157,936
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,559)	3,337
Total other comprehensive income	(2,559)	3,337
Comprehensive income	98,102	161,274
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	98,102	161,274

Consolidated Statements of Changes in Equity

For the fiscal year ended October 31, 2022

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income		Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income	
Balance at beginning of period	200,000	338,339	1,996,498	(214,716)	2,320,122	(3,337)	(3,337)	2,316,784
Changes during period								
Dividends of surplus			(49,007)		(49,007)			(49,007)
Profit attributable to owners of parent			100,661		100,661			100,661
Purchase of treasury shares				(189,509)	(189,509)			(189,509)
Disposal of treasury stock by ownership plan trust				1,076	1,076			1,076
Net changes in items other than shareholders' equity						(2,559)	(2,559)	(2,559)
Total changes during period	-	-	51,653	(188,432)	(136,779)	(2,559)	(2,559)	(139,338)
Balance at end of period	200,000	338,339	2,048,152	(403,149)	2,183,343	(5,896)	(5,896)	2,177,446

For the fiscal year ended October 31, 2023

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income		Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income	
Balance at beginning of period	200,000	338,339	2,048,152	(403,149)	2,183,343	(5,896)	(5,896)	2,177,446
Changes during period								
Dividends of surplus			(32,016)		(32,016)			(32,016)
Profit attributable to owners of parent			157,936		157,936			157,936
Purchase of treasury shares				(462,636)	(462,636)			(462,636)
Disposal of treasury stock by ownership plan trust				454	454			454
Net changes in items other than shareholders' equity						3,337	3,337	3,337
Total changes during period	-	-	125,920	(462,182)	(336,261)	3,337	3,337	(332,924)
Balance at end of period	200,000	338,339	2,174,072	(865,331)	1,847,081	(2,559)	(2,559)	1,844,522

Consolidated Statements of Cash Flows

(Thousands of yen)

	For the fiscal year ended October 31, 2022	For the fiscal year ended October 31, 2023
Cash flows from operating activities		
Profit before income taxes	159,040	242,728
Depreciation	128,306	152,302
Impairment losses	56,061	5,738
Amortization of goodwill	14,819	14,819
Increase (decrease) in allowance for doubtful accounts	(699)	(145)
Interest and dividend income	(21)	(19)
Interest expenses	3,014	2,239
Loss (gain) on sale of property, plant and equipment	950	-
Loss on retirement of non-current assets	87	3,050
Remission of house rent	(2,913)	(34,956)
Gain on reversal of asset retirement obligations	(8,500)	-
Increase (decrease) in provision for retirement benefits for directors (and other officers)	-	(1,680)
Increase (decrease) in retirement benefit liability	(14,245)	354
Increase (decrease) in provision for share awards	10,795	8,952
Increase (decrease) in provision for bonuses	683	(2,403)
Decrease (increase) in trade receivables	(35,676)	(25,231)
Decrease (increase) in inventories	6,192	(3,449)
Increase (decrease) in trade payables	11,966	(8,835)
Increase (decrease) in accrued expenses	(22,279)	1,566
Increase (decrease) in advances received	2,726	(1,161)
Other, net	23,601	38,561
Subtotal	333,909	392,432
Interest and dividends received	21	19
Interest paid	(3,054)	(2,187)
Income taxes paid	(79,177)	(50,532)
Income taxes refund	1,504	9
Net cash provided by (used in) operating activities	253,204	339,742
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,132)	(9,100)
Proceeds from sale of property, plant and equipment	228,000	-
Purchase of intangible assets	(105,803)	(85,109)
Payments of guarantee deposits	(3,859)	(41,799)
Other, net	4,116	300
Net cash provided by (used in) investing activities	112,321	(135,709)
Cash flows from financing activities		
Proceeds from short-term borrowings	100,000	-
Repayments of short-term borrowings	(100,000)	(200,000)
Repayments of long-term borrowings	(85,680)	(63,680)
Repayments of lease liabilities	(2,570)	(2,052)
Purchase of treasury shares	(189,674)	(462,801)
Dividends paid	(48,876)	(32,082)
Net cash provided by (used in) financing activities	(326,802)	(760,616)
Net increase (decrease) in cash and cash equivalents	38,723	(556,583)
Cash and cash equivalents at beginning of period	1,726,985	1,765,709
Cash and cash equivalents at end of period	1,765,709	1,209,125