

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, 2024 [Japanese GAAP]

June 13, 2024

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 filing quarterly securities report: June 13, 2024

Scheduled date of commencing dividend payments: July 11, 2024

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, 2024 (November 1, 2023 to April 30, 2024)

(1) Consolidated Operating Results

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|---------------------------------|-----------------|-----|------------------|-------|-----------------|-------|-----------------------------------------|--------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Six months ended April 30, 2024 | 1,378 | 1.2 | 123 | (0.6) | 129 | 2.3 | 85 | (10.9) |
| April 30, 2023 | 1,362 | 4.5 | 124 | (9.6) | 126 | (7.1) | 95 | 117.5 |

(Note) Comprehensive income: Six months ended April 30, 2024: ¥ 88 million [(10.0)%]
Six months ended April 30, 2023: ¥ 97 million [114.7%]

| | Basic earnings per share | Diluted earnings per share |
|------------------|--------------------------|----------------------------|
| Six months ended | Yen | Yen |
| April 30, 2024 | 30.80 | - |
| April 30, 2023 | 29.61 | - |

(2) Consolidated Financial Position

| | Total assets | Net assets | Capital adequacy ratio |
|------------------|-----------------|-----------------|------------------------|
| As of | Millions of yen | Millions of yen | % |
| April 30, 2024 | 2,947 | 1,920 | 65.1 |
| October 31, 2023 | 2,976 | 1,844 | 62.0 |

(Reference) Equity: As of April 30, 2024: ¥ 1,920 million
As of October 31, 2023: ¥ 1,844 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, 2023 | - | 4.50 | - | 6.00 | 10.50 |
| Fiscal year ending October 31, 2024 | - | 6.00 | | | |
| Fiscal year ending October 31, 2024 (Forecast) | | | - | 6.00 | 12.00 |

(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, 2024 :

| | |
|------------------------|-------|
| Commemorative dividend | - yen |
| Special dividend | - 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 | 58.04 |

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

* Notes:

(1) Changes in significant subsidiaries during the six months ended April 30, 2024

(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, 2024: 5,240,000 shares

October 31, 2023: 5,240,000 shares

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

April 30, 2024: 2,469,011 shares

October 31, 2023: 2,479,476 shares

3) Average number of shares outstanding during the period:

Six months ended April 30, 2024: 2,764,168 shares

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

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

(1) Explanation of Business Results

During the second quarter of the FY2024 (November 1, 2023 to April 30, 2024), the Japanese economy was on a recovery trend due to the classification shift of the COVID-19 infection diminishes, but the geopolitical situation in Ukraine and Israel the future remains uncertain due to soaring crude oil and raw material prices due to economic risks, as well as the weak yen in the foreign exchange market.

In the information and communications industry, our core business, DX (digital transformation), which is being promoted as a national policy, is accelerating during the coronavirus pandemic. Users place importance on attracting customers online, digitizing office work, and data security, and it is expected that IT investments will continue to increase in order to enhance corporate competitiveness and improve operational efficiency.

In this environment, our company has announced a three-year medium-term plan starting from the fiscal year ending October 2024, and is working on measures to improve shareholder value and corporate value, as well as mechanisms for growth strategies.

In the beauty ICT business, we have been certified by METI as a DX certified business and an IT implementation support business. The products and content services we provide are eligible for IT introduction subsidies 2024, and we are responding to the demand for DX in user salons. 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. Against this backdrop, we are actively releasing a new product for beauty salons, the "salon tablet," and a new product for beauty dealers, the "Sumaho terminal."

Furthermore, we expanded our capital and business alliance to strengthen and develop our long-term partnership with M.H. Group LTD. (Tokyo Stock Exchange Standard Market, Code 9439). We will cooperate with both companies' networks and solution technologies to develop content that solves issues such as promoting environmental management and DX in the beauty industry, and to expand our service area.

In the business service business, we have been recognized by METI 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 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 the nursing care services business, profits and losses have been significantly affected by an increase in vacancies at nursing homes for the elderly due to hospitalizations due to deterioration of chronic illnesses and deaths, as well as the soaring costs of food, water, and utilities. However, in the second quarter of this year, the number of people moving in gradually exceeded the number of people moving out, and there are signs of recovery.

As a result, consolidated results for the second quarter of the FY2024, we achieved net sales of ¥1,378,395 thousand (up 1.2% year-on-year), operating income of ¥123,464 thousand (down 0.6% year-on-year), ordinary income of ¥129,817 thousand (up 2.3% year-on-year), and profit attributable to owners of parent of ¥85,132 thousand (down 10.9% year-on-year).

The reason for the decrease in quarterly net income attributable to owners of the parent company is the gain on rent exemption (extraordinary income) associated with the eviction of the former Tokyo headquarters office in the same quarter of the previous year.

Operating results by business segment are as follows. Segment income is based on operating income. Additionally, from the first quarter consolidated accounting period, the segment names have been changed from "ICT business for beauty salons" to "Beauty ICT business" and "Business services business for SMEs" to "Business services business." This change is a change in segment name and has no effect on segment information.

a) Beauty ICT business.

In the beauty ICT business, we are working to further improve the stock revenue of maintenance, content, and new fee-based services, in addition to system sales, which are our main source of revenue.

In system sales, the on-premises POS system "Sacla PREMIUM" continues to be selected as a product eligible for IT implementation support in fiscal 2024, and is driving orders using IT implementation subsidies. "Sacla PREMIUM" is a POS system for beauty salons that supports the salon's business strategy, from customer management, customer attraction support such as reservation coordination, to staff management, and also responds to the customization requests of user salons.

From the SaaS type "BEAUTY WORKS", we have released a new product "salon tablet" targeting small salons. The new product "salon tablet" is a system that enables online reservation management and cash register accounting with just one tablet. It can be installed even in stores with small cashier counters, and tablet-type cash registers can be carried around, so you can work closely with customers to provide counseling, make next reservations, and process payments. In addition, electronic handwritten medical records (cloud karte) are included as standard, making it useful for beauty salons to move away from paper medical records.

On the other hand, in the beauty industry, mailing paper invoices is still the mainstream, and DXing billing and payment operations is an issue for the industry as a whole. In order to solve this problem, we are collaborating with Right Staff Co., Ltd., (M.H. Group LTD. Subsidiary) which provides electronic billing services and BtoB credit payment services specializing in the hairdressing industry, and our POS system for beauty salons and sales management system for beauty dealers.

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".

Furthermore, towards the third quarter, we will be releasing a new sales tool, "Sumaho Terminal," which will improve the efficiency of logistics operations and cover the industry's demand for handy terminals. Salespeople dealing with beauty products can complete everything from ordering and placing orders to arranging deliveries and issuing receipts using a single "Sumaho Terminal".

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 charge-based stock business, we are steadily acquiring member stores through the smartphone app (Salon Appli), "Reserve with Google," "LINE Mini App," and Rakuten Super Points collaboration, and are accumulating web content revenue.

As a result of the above, in the current second quarter consolidated cumulative period, sales were ¥839,232 thousand (up 2.2% year-on-year), and segment profit was ¥87,019 thousand (down 2.8% year-on-year).

b) Business service business.

In the business service business, we provide various services centered on accounting and accounting office work that support the management of SMEs. The company 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, and 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.

Due to the invoice system starting in October 2023, sales of personal settlement support services for sole proprietorships increased by 4.4% compared to the previous year in the second quarter.

In addition to continuing to provide support to each client regarding the revision of the of ERRL (Electronic Record Retention Law), we will strive to expand various services for corporate backstage operations, such as business succession and consulting services as a certified support organization.

As a result of the above, in the current second quarter consolidated cumulative period, sales were ¥170,410 thousand (up 3.2% year-on-year), and segment profit was ¥23,624 thousand (up 121.5% 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.

Due to the effects of the coronavirus pandemic, waiting periods for residents at paid nursing homes with assisted living have become longer, and occupancy rates have been declining since the latter half of last year due to residents dying or leaving due to hospitalization. Furthermore, increases in expenses associated with increases in utility costs, food costs, and commodity prices had a significant impact on profit and loss.

In the second quarter of the current fiscal year, in-facility events and tours that had been suspended due to the coronavirus pandemic have resumed, and there are signs of business recovery. The occupancy rate of nursing care facilities is improving, with fewer long-term hospitalizations and deaths, and the acceptance of new residents progressing smoothly. Furthermore, the occupancy rate of home-based services is also on a recovery trend.

In addition, due to rising prices, there was a limit to how much we could save depending on the industry, but we were able to take advantage of the utility subsidy provided by local governments and agree to raise some of the actual costs through discussions with residents and their families. We are gradually being able to compensate for this.

As a result of the above, in the current second quarter consolidated cumulative period, net sales were ¥359,101 thousand (down 1.9% year-on-year), and segment profit was ¥7,235 thousand (down 61.7% year-on-year).

Quarterly Consolidated Financial Statements
Quarterly Consolidated Balance Sheets

(Thousands of yen)

| | As of October 31, 2023 | As of April 30, 2024 |
|--------------------------------------------|------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,209,125 | 1,192,650 |
| Accounts receivable - trade | 246,601 | 259,194 |
| Merchandise | 39,719 | 25,789 |
| Work in process | 1,904 | 1,747 |
| Other | 23,261 | 60,937 |
| Allowance for doubtful accounts | (211) | (276) |
| Total current assets | 1,520,400 | 1,540,043 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 1,056,248 | 1,063,338 |
| Accumulated depreciation | (435,701) | (447,533) |
| Buildings and structures, net | 620,547 | 615,804 |
| Land | 245,830 | 245,830 |
| Other | 140,267 | 141,245 |
| Accumulated depreciation | (121,527) | (123,705) |
| Other, net | 18,739 | 17,540 |
| Total property, plant and equipment | 885,117 | 879,175 |
| Intangible assets | | |
| Software | 208,191 | 151,912 |
| Software in progress | 42,608 | 84,024 |
| Goodwill | 37,049 | 29,639 |
| Other | 3,507 | 2,967 |
| Total intangible assets | 291,357 | 268,544 |
| Investments and other assets | | |
| Investment securities | 30,400 | 34,720 |
| Deferred tax assets | 159,838 | 160,025 |
| Other | 104,747 | 80,978 |
| Allowance for doubtful accounts | (15,808) | (15,690) |
| Total investments and other assets | 279,178 | 260,033 |
| Total non-current assets | 1,455,652 | 1,407,753 |
| Total assets | 2,976,052 | 2,947,796 |

(Thousands of yen)

| | As of October 31, 2023 | As of April 30, 2024 |
|----------------------------------------------------------------------|------------------------|----------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 45,958 | 44,554 |
| Current portion of long-term borrowings | 61,680 | 61,680 |
| Accrued expenses | 114,605 | 110,142 |
| Income taxes payable | 71,663 | 52,459 |
| Provision for bonuses | 77,934 | 66,382 |
| Other | 151,553 | 100,895 |
| Total current liabilities | 523,396 | 436,114 |
| Non-current liabilities | | |
| Long-term borrowings | 178,520 | 147,680 |
| Provision for retirement benefits for directors (and other officers) | 16,685 | 16,685 |
| Provision for share awards | 30,296 | 32,658 |
| Retirement benefit liability | 326,535 | 338,699 |
| Asset retirement obligations | 40,446 | 40,628 |
| Other | 15,650 | 15,165 |
| Total non-current liabilities | 608,133 | 591,516 |
| Total liabilities | 1,131,530 | 1,027,630 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 200,000 | 200,000 |
| Capital surplus | 338,339 | 339,143 |
| Retained earnings | 2,174,072 | 2,241,340 |
| Treasury shares | (865,331) | (860,764) |
| Total shareholders' equity | 1,847,081 | 1,919,720 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (2,559) | 445 |
| Total accumulated other comprehensive income | (2,559) | 445 |
| Total net assets | 1,844,522 | 1,920,165 |
| Total liabilities and net assets | 2,976,052 | 2,947,796 |

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, 2023 | For the six months ended April 30, 2024 |
|----------------------------------------------|--------------------------------------------|--------------------------------------------|
| Net sales | 1,362,024 | 1,378,395 |
| Cost of sales | 808,784 | 821,393 |
| Gross profit | 553,240 | 557,001 |
| Selling, general and administrative expenses | 429,075 | 433,537 |
| Operating profit | 124,164 | 123,464 |
| Non-operating income | | |
| Interest income | 7 | 5 |
| Insurance claim income | - | 2,023 |
| Facility rental fee | 731 | 775 |
| Subsidy income | 3,278 | 3,395 |
| Other | 308 | 829 |
| Total non-operating income | 4,325 | 7,029 |
| Non-operating expenses | | |
| Interest expenses | 1,321 | 663 |
| Other | 299 | 13 |
| Total non-operating expenses | 1,621 | 676 |
| Ordinary profit | 126,869 | 129,817 |
| Extraordinary income | | |
| Gain on exemption from rent | 17,478 | - |
| Total extraordinary income | 17,478 | - |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 0 | 8 |
| Total extraordinary losses | 0 | 8 |
| Profit before income taxes | 144,347 | 129,808 |
| Income taxes - current | 49,581 | 46,178 |
| Income taxes - deferred | (801) | (1,501) |
| Total income taxes | 48,780 | 44,676 |
| Profit | 95,567 | 85,132 |
| Profit attributable to owners of parent | 95,567 | 85,132 |

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

(Thousands of yen)

| | For the six months ended April 30, 2023 | For the six months ended April 30, 2024 |
|-------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Profit | 95,567 | 85,132 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 2,336 | 3,004 |
| Total other comprehensive income | 2,336 | 3,004 |
| Comprehensive income | 97,904 | 88,136 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 97,904 | 88,136 |

Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

| | For the six months ended April 30, 2023 | For the six months ended April 30, 2024 |
|---------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Cash flows from operating activities | | |
| Profit before income taxes | 144,347 | 129,808 |
| Depreciation | 72,097 | 80,365 |
| Amortization of goodwill | 7,409 | 7,409 |
| Increase (decrease) in allowance for doubtful accounts | (88) | (53) |
| Interest and dividend income | (7) | (5) |
| Interest expenses | 1,321 | 663 |
| Loss on retirement of non-current assets | 0 | 8 |
| 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 | 11,128 | 12,164 |
| Increase (decrease) in provision for share awards | 5,527 | 2,361 |
| Increase (decrease) in provision for bonuses | (16,236) | (11,551) |
| Decrease (increase) in trade receivables | (29,477) | (12,592) |
| Decrease (increase) in inventories | (21,446) | 13,936 |
| Increase (decrease) in trade payables | 9,556 | (1,404) |
| Increase (decrease) in accrued expenses | 16,732 | (4,463) |
| Increase (decrease) in advances received | (417) | (4,066) |
| Other, net | 11,086 | (44,717) |
| Subtotal | 192,376 | 167,865 |
| Interest and dividends received | 7 | 5 |
| Interest paid | (1,241) | (667) |
| Income taxes refund | 9 | 357 |
| Income taxes paid | (23,449) | (64,956) |
| Net cash provided by (used in) operating activities | 167,703 | 102,604 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (5,439) | (44,816) |
| Purchase of intangible assets | (41,343) | (48,520) |
| Payments of guarantee deposits | (40,899) | - |
| Proceeds from refund of guarantee deposits | - | 23,462 |
| Other, net | 200 | 158 |
| Net cash provided by (used in) investing activities | (87,481) | (69,715) |
| Cash flows from financing activities | | |
| Repayments of long-term borrowings | (32,840) | (30,840) |
| Repayments of lease liabilities | (1,155) | (683) |
| Purchase of treasury shares | (462,801) | - |
| Dividends paid | (18,730) | (17,838) |
| Net cash provided by (used in) financing activities | (515,527) | (49,362) |
| Net increase (decrease) in cash and cash equivalents | (435,306) | (16,474) |
| Cash and cash equivalents at beginning of period | 1,765,709 | 1,209,125 |
| Cash and cash equivalents at end of period | 1,330,403 | 1,192,650 |