

Visional, Inc., FAQ for FY2023/7 Full Year Financial Results

Consolidated Financial Results

Q1 What is the summary of the full year results for FY2023/7?

The consolidated net sales for FY2023/7 4Q recorded JPY 14.73 Bn (22.1% YoY growth) and consolidated net sales for 12 months ended July were JPY 56.27 Bn (28.0% YoY growth). Consolidated operating profit for FY2023/7 4Q were JPY 3.26 Bn (200.8% YoY growth) and consolidated operating profit for 12 months ended July were JPY 13.22 Bn (59.7% YoY growth, 23.5% margin). Disciplined execution balancing investments for future growth and cost control have led to FY2023/7 results to land with no significant difference against our FY2023/7 financial forecast disclosed in September 2022.

The Company consists of HR Tech segment and Incubation segment:

HR Tech Segment

BizReach: Net sales for 4Q were JPY 12.72 Bn (24.5% YoY growth) and net sales for 12 months ended July were JPY 49.16 Bn (30.7% YoY growth). Although some companies have slowed down or are selective in their hiring activities, professional hiring needs of direct employers and headhunters using BizReach continues. In particular, sales growth from direct employers continues to be strong, with the ratio of direct employers to headhunters expanded from 66% in FY2022/7 to 69% in FY2023/7, indicating the penetration of direct recruiting in Japan. The total number of registered direct employers reached to more than 26,200 companies as of the end of July 2023. This is an increase of more than 1,400 companies during 4Q. The number of active direct employers reached to more than 13,400 companies in FY2023/7.

Adjusted operating profit before corporate expense allocation for 12 months ended July were JPY 20.12 Bn (40.9% margin). Investments were made in marketing and expansion of the sales organization. Profitability of job seeker acquisition, which accounts for a large portion of our marketing investments, continues to be controlled by managing returns based on job seeker profiles. FY2023/7 net sales and adjusted operating profit before corporate expense allocation actuals for BizReach landed with no significant difference from our FY2023/7 financial forecast figures disclosed in September 2022.

HRMOS: While product development remains our priority, HRMOS ATS and HRMOS Talent Management have expanded their customer base. 4Q HRMOS net sales (including HRMOS ATS, HRMOS Talent Management and HRMOS Attendance Management) amounted to JPY 0.60 Bn (52.0% YoY growth) and net sales for 12 months ended July were JPY 2.18 Bn (49.8% YoY growth). Adjusted operating losses before corporate expense allocation for 12 months ended July (including HRMOS ATS, HRMOS Talent Management, HRMOS Attendance Management, and new product development expenses) were JPY 1.74 Bn. Significant improvement in losses compared to FY2022/7.

HRMOS ATS and HRMOS Talent Management total ARR was JPY 2.13 Bn (31.5% YoY growth), and the number of unique paying customers was 1,546 companies (29.6% YoY growth).

Although impact to consolidated financials is limited, HRMOS net sales landed stronger than our FY2023/7 forecast figures disclosed in September 2022, and improvement of losses progressed stronger than plan.

HR Tech Other: This includes other recruitment platform businesses and ezSoft Co., Ltd., which is going through PMI. In December 2022, we have closed CareerTreck, included in HR Tech Other, as part of our resource prioritization exercises.

Incubation Segment

To increase mid to long term enterprise value, we are creating businesses in growth areas other than HR Tech. Segment sales for 4Q were JPY 0.70 Bn (25.7% YoY growth) and segment sales for 12 months ended July were JPY 2.46 Bn (22.9% YoY growth). Segment operating losses for 4Q were JPY 0.31 Bn and segment operating losses for 12 months ended July were JPY 1.40 Bn. We continue to control expenses while achieving business growth.

As we are incubating several businesses, there is volatility in its performance. Although impact to our consolidated financials is limited, compared to our FY2023/7 financial forecast released in September 2022, net sales landed below plan. However, investments were controlled, and segment losses landed smaller than plan.

Q2 What is penalty income recorded in the non-operating income?

When there is a violation to our BizReach terms of service, we charge a penalty that is defined in our terms of service agreement. This penalty income is recorded in non-operating income. For FY2023/7, JPY 0.77 Bn was recorded as penalty income.

Q3 What is the summary of the financial outlook for FY2024/7?

Consolidated financial forecasts for net sales is JPY 66.40 Bn (18.0% YoY growth) and operating profit forecast is JPY 16.00 Bn (21.0% YoY growth, 24.1% margin). We will continue to balance growth investments and cost control.

HR Tech Segment

BizReach: Although we do not expect recovery of some companies slowing down in their hiring activities, our full year net sales forecast for BizReach is JPY 59.00 Bn (20.0% YoY growth) based on the assumption that demand for professionals will continue to be solid. BizReach full year adjusted operating profit margin before corporate expense allocation is expected to be around 40%.

HRMOS: While product development remains our priority, our full year net sales forecast for HRMOS is JPY 3.30 Bn (51.0% YoY growth). HRMOS Expense Management, which we acquired in March 2022, and rebranded during FY2023/7, and HRMOS Payroll, which we plan to launch during FY2024/7, will be included in HRMOS financial figures from FY2024/7. As a result, FY2024/7 net sales will consist of HRMOS ATS, HRMOS Talent Management, HRMOS Attendance Management, HRMOS Expense Management, and HRMOS Payroll after its release in FY2024/7.

Adjusted operating losses before corporate expense allocation for FY2024/7 is expected to be similar levels to FY2023/7.

SaaS KPIs disclosed consists of HRMOS ATS and HRMOS Talent Management (unchanged from our previous disclosure in FY2023/7).

Incubation Segment

We continue to create businesses to increase enterprise value in the mid to long term. Our full year net sales forecast for the incubation segment is JPY 2.94 Bn (19.5% YoY growth). Full year segment losses expected to be similar levels to FY2023/7.

(JPY MM)	FY24/7 Forecast	FY23/7 Actuals	Difference	Growth Rate
Consolidated Net Sales	66,400	56,273	+10,126	18.0%
HR Tech Segment	63,340	53,685	+9,654	18.0%
BizReach	59,000	49,161	+9,838	20.0%
HRMOS	3,300	2,184	+1,115	51.0%
Incubation Segment	2,940	2,460	+479	19.5%
Others	120	126	-6	(5.4)%
Operating Profit	16,000	13,225	+2,774	21.0%
Ordinary Profit	16,320	14,373	+1,946	13.5%
Profit attributable to owners of parent	10,930	9,928	+1,001	10.1%

Should our forecast change based on changes in the economic assumptions etc., we will disclose as soon as appropriate.

Q4 What is the impact of stock options to total shares outstanding?

We grant stock options (tax qualified stock options and stock options with charge) to directors and selected employees to increase their motivation and morale for improving business performance, and to hire talent for Visional Group, leading to further enhancement in the corporate value of Visional Group. These stock options can be exercised in phases through FY2030/7. Majority of these stock options were granted prior to the Company's listing, and about half became exercisable from April 23, 2022.

Total shares outstanding as of July 31, 2023, is 39,096,200 shares (increase of 749,500 shares from July 31, 2022).

As of July 31, 2023, the total shares outstanding on a fully diluted basis is 41,833,100 shares.

Q5 Are there any plans to change to the Tokyo Stock Exchange Prime Market?

On September 14, 2023, at a meeting of the Board of Directors, the Company has resolved to prepare for an application to change the market category to the Tokyo Stock Exchange Prime Market. For details, please refer to the "Notice Regarding Preparation for Application to Change Market Category to Tokyo Stock Exchange Prime Market".

Q6 What is the impact of reflecting the finalization of the provisional accounting treatment for the business combination on the financial figures for FY2022/7?

With respect to the acquisition of shares of IEYASU, Inc. on November 1, 2021 and the acquisition of shares of ezSoft Co., Ltd. on March 1, 2022, provisional accounting treatment was applied for FY2022/7, which we confirmed during FY2023/7 1Q. As a result, the accounting treatment asks that we treat as if such confirmation had taken place in FY2022/7 in the comparative information. As a result, the consolidated financial statements for FY2022/7 in the comparative information have been changed to reflect the following. As a result, the figures for each quarter from FY2022/7 2Q onwards have been changed.

(JPY MM)	FY22/7 Before reflection	FY22/7 Post reflection	Impact
Total Intangible Assets	4,964	5,287	+322
Goodwill	3,958	3,300	-657
Other (*1)	1,006	1,986	+980
Total Investments and Other Assets (*2)	3,318	3,185	-132
Total Fixed Liabilities (*2)	2,994	3,190	+196
Retained Earnings	12,300	12,294	-6
Selling, General & Administrative Expenses	29,830	29,869	+38
Operating Profit	8,320	8,282	-38
Ordinary Profit	8,751	8,713	-38
Total Income Taxes	2,896	2,864	-32
Profit Attributable to Owners of Parent	5,858	5,852	-6

*1 Including Customer Relationship and Software

*2 Effect of changes in Deferred Tax Assets and Deferred Tax Liabilities

Q7 What is Adjusted Operating Profit before Corporate Expense Allocation?

This is the operating profit or loss of the business before bearing the personnel expenses and ancillary outsourcing and other general and administrative expenses associated with business administration, information systems that cannot be charged directly to specific products and services. In principle, the costs directly tied to products and services are recorded.

Q8 What are Liabilities from application of Equity Method?

This is an account that arose when 60% of Stanby, Inc. was divested to Z Holdings Corporation. Stanby is currently our equity method affiliate.

BizReach

Q9 How should we consider the impact of the economic uncertainty to the business?

Although some companies in Japan have slowed down their hiring efforts, many Japanese companies continue to have solid professional hiring needs driven by changes in hiring behavior. As a result, in 4Q, more than 1,400 direct employers have started to use BizReach, leading to the number of registered direct employers to reach to more than 26,200 companies. Active direct employers have reached to more than 13,400 companies in FY2023/7 compared to more than 10,400 companies in FY2022/7.

We expect the market to continue to grow structurally, and direct employers to continue to actively pursue mid-career hiring. As such, we forecast BizReach net sales to grow 20.0% YoY for FY2024/7.

Q10 What is the mid-term growth rate for BizReach?

The normalized growth rate target for BizReach is 15 – 20% in the next 3 years.

We will continue to invest to grow the business and maintain the adjusted operating margin before corporate expenses to be around 40%.

For FY2024/7, we forecast BizReach to grow 20%, which indicates the upper limit of the range.

Q11 What is your cost structure?

Our major costs consist of marketing expenses and personnel expenses. As BizReach is still in its growth stage, we will continue to invest in hiring and expanding our sales organization through internal moves, and conduct marketing activities including online, offline ads, and TV commercials whilst carefully monitoring the return on our investments

Q12 What is the future vision of BizReach?

We believe importance of direct recruiting (direct sourcing) will increase as war for talent intensifies and liquidity in the labor market accelerates, driven by factors such as mismatch of corporation and worker life spans, shift to performance-based workstyle with clear job descriptions, and the social dynamic changes caused by the pandemic. We will encourage increased use of our platforms based on further growth in the professional hiring market, increase in our market share through further acquisition of job seekers and direct employers, reactivation of existing job seekers and investments in matching capabilities.

HRMOS

Q13 What is the product lineup of HRMOS?

HRMOS currently consists of HRMOS ATS, which was ranked No.1 in customer satisfaction (*1), HRMOS Talent Management, HRMOS Attendance Management (*2), and HRMOS Expense Management (*3).

The number of paying customers using HRMOS ATS and HRMOS Talent Management continues to expand, with ARR of JPY2.13 Bn as of the end of 4Q.

In March 2023, HRMOS Talent Management released an organization simulation function and a 360° feedback function as new functions to the module, which allow users to consider the placement of human resources based on a comprehensive selection of employee data and conduct objective and multifaceted evaluations by coordinating with employee databases. Furthermore, HRMOS Talent Management released a dashboard function (beta version) in June, which enables visualization of human capital data to support users to analyze human resource/organizational issues.

HRMOS Attendance Management released HRMOS Year-end Tax Adjustment functions in August 2022. Additionally, a price revision was announced on February 1, 2023.

We are currently advancing product development, aiming to provide services in workforce management/payroll area by the end of FY2024/7.

Financial figures for FY2024/7 will include HRMOS ATS, HRMOS Talent Management, HRMOS Attendance Management, HRMOS Expense Management, and HRMOS Payroll after its release during 2024/7.

*1 Based on Seed Planning, Inc.'s "Survey on Actual Usage of Applicant Tracking System" as of August 2021. Calculated the percentage of companies which selected "comprehensively satisfied" for the question asking the degree of satisfaction about applicant tracking systems which they have used.

*2 HRMOS Attendance Management is currently in a PMI process following the acquisition of IEYASU, Inc. on November 1, 2021. Over 60,000 companies (cumulative) including SMEs and startups are using the service.

*3 HRMOS Expense Management was rebranded in November 2022 after the acquisition of ezSoft Co.,Ltd., on March 1, 2022. The service is used by companies in different industries and different company sizes.

Q14 How should we consider the impact of the economic uncertainty to the business?

Although the Churn Rate increased temporarily due to the impact of COVID-19, it is now consistently below the pre-COVID-19 level of 1%. New customer acquisitions of HRMOS ATS are also progressing as planned, and we believe that the impact of the uncertain economic situation on HRMOS is limited.

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