Visional, Inc., FAQ for FY2022/7 4Q Financial Results

Consolidated Financial Results

Q1 What is the summary of the full year results for FY2022/7?

The consolidated net sales for FY2022/7 was JPY 43.95Bn (53.2% YoY growth), JPY 12.07Bn (49.1% YoY growth) for 4Q. Consolidated operating profit for FY2022/7 was JPY 8.32 Bn (251.3% YoY growth) , JPY 1.10 Bn (operating loss of JPY 0.74 Bn for FY2021/7) for 4Q. Net sales and profit is driven by strong BizReach performance.

The Company consists of HR Tech segment and Incubation segment.

<u>HR Tech Segment</u>

BizReach: Rebound hiring demand from COVID-19 and the increased momentum of employers to actively hire mid-careers have resulted in JPY 37.60 Bn (59.6% YoY growth) for FY2022/7. For 4Q, although the peak of the rebound demand from COVID-19 may have peaked, strong demand for professionals continued, resulting in sales of JPY 10.21 Bn (49.2% YoY growth). The number of Active Direct Employers grew from more than 8,000 companies as of end of July 2021 to more than 10,400 companies as of end of July 2022, indicating the high mid-career hiring needs of direct employers using BizReach.

Full year adjusted operating profit before corporate expense allocation was JPY 17.60 Bn yen (adjusted operating profit margin before corporate expense allocation was 46.8%). Despite marketing and human resource investments, significant sales growth led to margin levels higher than usual years, and adjusted operating profit before corporate expense allocation grew 82.7% YoY.

HRMOS: While product development remains our priority, JPY 1.62 Bn ARR (28.2% YoY growth), 1,193 unique paying customers (26.8% YoY growth) as of 4Q end, progressing on track.

As a result of investments in human resources for product development, and investments in marketing including TV commercials in 2Q and 4Q for HRMOS ATS, the adjusted operating losses before corporate expense allocation for FY2022/7 was JPY 2.95 Bn.

Other: HR Tech includes other recruitment platform businesses and companies acquired for future integration to HCM ecosystem.

<u>Incubation Segment</u>

To increase mid to long term enterprise value, we are creating businesses in growth areas other than HR Tech. Full year segment sales was JPY 2.0 Bn (34.8% YoY growth), and full year segment operating losses was JPY 1.64 Bn. As we had limited investments during 2H of FY2020/7 and 1H of FY2021/7 due to uncertainties arising from COVID-19, segment operating losses for the past 2 fiscal years have been approximately JPY 0.86 Bn respectively. For FY2022/7, we invested in product development and marketing with discipline. In February 2022, we launched "Assured," a risk evaluation cloud, with the aim of launching a business to support cyber security measures required as use of cloud services increases.

Q2 What is the summary of the financial outlook for FY2023/7?

Consolidated financial forecasts for net sales is JPY 56.0 Bn (27.4% YoY growth) and operating profit is JPY 12.5 Bn (50.2% YoY growth). We will continue to balance growth investments and management discipline.

<u>HR Tech Segment</u>

BizReach: Our full year net sales forecast for BizReach is JPY 49.0 Bn (30.3% YoY growth) based on the assumption that although uncertainty in the economy has slowed down hiring activities in some companies, strong demand for professionals will continue.

Our full year adjusted operating profit margin before corporate expense allocation is expected to be between 40%-45%.
HRMOS: Our full year net sales forecast for HRMOS is JPY 1.98 Bn (35.8% YoY growth), while product development remains our priority. Attendance management cloud IEYASU, acquired in November 2021, has been rebranded to HRMOS Attendance Management, and will be included in HRMOS figures from FY2023/7. HRMOS Attendance Management is a freemium model and impact to consolidated financials is limited.
For FY2023/7, we plan to reduce the adjusted operating losses before corporate expense allocation from FY2022/7.

Incubation Segment
Our full year net sales forecast for the incubation segment is JPY 2.60 Bn (29.9% YoY growth). We continue to create businesses to increase enterprise value in the mid to long term. As they are early businesses, net sales fluctuation risk exists, although impact to consolidate financials is negligible and profitability will be maintained by controlling expenses.

(JPY MM)	FY23/7 Forecast	FY22/7 Actuals	Difference	Growth Rate
Consolidated Net Sales	56,000	43,954	+12,045	27.4%
HR Tech Segment	53,275	41,791	+11,484	27.5%
BizReach	49,000	37,607	+11,392	30.3%
HRMOS	1,980	1,458	+521	35.8%
Incubation Segment	2,600	2,002	+597	29.9%
Operating Profit	12,500	8,320	+4,179	50.2%
Ordinary Profit	12,810	8,751	+4,058	46.4%
Profit attributable to owners of parent	8,330	5,858	+2,471	42.2%

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

Q3 What is the status of stock options exercisable after the listing?

We grant stock options to directors and selected employees to increase their motivation and morale for improving business performance, and to hire talent for the Visional Group, leading to further enhancement in the corporate value of Visional Group. These options can be exercised in phases until FY2029/7 and about half became exercisable on April 23, 2022. TSO as of July 31, 2022 is 38,346,700 shares (increase of 2,488,700 shares from July 31, 2021).

Q4 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.

Q5 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

Q6 How should we consider the impact of BizReach's rebound growth from COVID-19?

The rebound hiring demand from COVID-19 may have already peaked in 4Q FY2022/7. Although uncertainty in the economy has slowed down hiring activities in some companies, we assume strong demand for professionals will continue based on the structural growth, and increased momentum of direct employers to hire mid-careers. As such, BizReach forecasts 30.3% YoY growth for FY2023/7.

Q7 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 marketing including online, offline ads, and TV commercials whilst carefully monitoring net sales trend. Based on the currently brisk hiring market, as disclosed, we increased our marketing investments for 4Q, leading to an increase in customer acquisition, including scoutable job seekers and direct employers.

Q8 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.

Q9 Do you have any medium-term growth targets for BizReach?

BizReach net sales grew 59.6% YoY for FY2022/7 driven by combination of factors including business growth resulting from rebound hiring demand from COVID-19, structural growth due to job mobility that COVID-19 has likely accelerated, and continued momentum by employers to actively hire mid-careers. For FY2023/7, we forecast 30.3% YoY growth under the assumption that COVID-19 rebound has peaked out, whilst increased momentum by direct employers for mid-career hiring continues. Due to the uncertain economic outlook, it is difficult to forecast the market environment at a steady state, so we are unable to provide mid term growth guidance for BizReach. However, with more than 10,400 active direct employers using BizReach, there is significant room for continued growth with structural changes driven by the accelerated job mobility.

HRMOS

Q10 What is the product lineup of HRMOS

HRMOS currently consists of an applicant tracking module “HRMOS ATS”, which was ranked No.1 in customer satisfaction(*), talent management module “HRMOS Talent Management”, and launched a freemium cloud attendance management module “HRMOS Attendance Management”(*) on February 14, 2022, which we re-branded from the IEYASU attendance management service we acquired.

In addition, on April 15, 2022, we launched the “HRMOS Individual Condition Survey” function which identifies changes in employees’ “motivation and performance” on a real-time basis to encourage action to create organizations with high job satisfaction and support retainment of hired employees.

From August 2022, we launched a free cloud HRMOS year-end tax adjustment function.

We are currently advancing product development, aiming to provide services in payroll and workforce management in the future.

From FY2023/7, HRMOS figures will include HRMOS ATS, HRMOS Talent Management and HRMOS

Attendance Management.

* 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.
* "HRMOS Attendance Management" is currently in a PMI process following the acquisition of IEYASU on November 1, 2021. Over 40,000 companies (cumulative) including SMEs and startups have used this service.

Q11 How should we think about the HRMOS results?

Currently, majority of net sales in HRMOS is driven by HRMOS ATS. The pricing structure of HRMOS ATS is company based (not employee account based) and this is the reason why ARR growth may not be as high as that of general cloud services. However, HRMOS ATS has steadily increased the number of unique paying customers and HRMOS ARR grew 28.2% YoY as of the end of July 2022. In the future, in addition to expanding the existing modules, launch of new modules that will be charged by employee account base are all expected to drive ARR growth in the mid-term.
HRMOS is prioritizing product development, however, HRMOS adjusted operating profit before corporate expense allocation for FY2023/7 is expected to decrease compared to FY2022/7.

Q12 What is the future vision of HRMOS?

We envision to deliver an HCM ecosystem whereas data between BizReach and HRMOS is fully integrated, leading to optimized talent management including optimization of employee efficiency. We continue to strengthen our existing services in HR database and talent management modules, as well as to develop payroll and workforce management modules in the future. In addition, we envision to connect IEYASU attendance management cloud (now rebranded HRMOS Attendance Management), and ezSoft, expense management cloud, to our HRMOS offerings to accelerate the development of the HCM ecosystem.