Visional, Inc., FY2024/7 2Q Financial Results

March 14, 2024

(Moderator) Thank you very much for taking time out of your busy schedule to join us today for the Visional Group financial results briefing for the second quarter of the fiscal year ending July 31, 2024. Since we are holding today's meeting via Zoom webinar, the cameras and microphones of all participants will be automatically turned off.

Today's financial results presentation materials are available on our website.

Before I begin, I would like to remind you of the following.
In this presentation, we may discuss future prospects based on our current expectations. Please be aware that these statements are subject to risks and uncertainties, and actual results may differ from those discussed in the forward-looking statements.

Unauthorized recording, videotaping, or transferring of participation URLs or other information to external parties is strictly prohibited.

Risako Suefuji, CFO will now explain the contents of the earnings announcement for the second quarter of fiscal year ending July 31, 2024, which was disclosed at 3:00 p.m. JST today.

We will now begin the explanation.

(Suefuji) Thank you very much for your time today. My name is Risako Suefuji.
Let us provide a brief explanation of our financial performance for FY2024/7 2Q.

Slide 2 is our highlights. Detail of each business performance will be explained later, but we would like to summarize that, consolidated net sales is progressing on plan, with 1H net sales of JPY 31.43 Bn, 19.0% YoY growth. No change to our full year financial forecast. In regards to the hiring market, no big changes observed, and we do not foresee change during our fiscal year. While solid demand for hiring professionals especially amongst Japanese companies continues, no change observed in slowdown of hiring activities in some companies including global tech and selective multinationals. Future market conditions remain unclear.

For consolidated operating profit, 1H was JPY 9.79 Bn, 68.1% YoY growth, exceeding plan. This is driven by improved advertising efficiency and change in marketing plan mainly in BizReach. We plan to increase our marketing investment from 3Q onwards compared to plan, and therefore, on a full year basis, no change to our financial forecast on the operating profit. As we have explained in the past, we are able to control our bottom line by adjusting our marketing investments, and as such, depending on the market conditions and our profitability, we will adjust as required.

We will touch in more detail in the following slides.

Our consolidated financials are shown on slide 3 and 4.
On slide 3, on the left hand side shows our consolidated net sales. 1H landed at JPY 31.43 Bn, 19.0% YoY growth, 2Q landed at JPY 15.37 Bn, 16.6% YoY growth. 2Q net sales decreased by JPY 0.68 Bn compared to 1Q as we believe some 2Q sales were booked in 1Q, and also from the completion of the share transfer of BizHint, Inc. on December 1, 2023, we no longer have BizHint sales from December.

On the right hand side shows our consolidated operating profit. 1H landed at JPY 9.79 Bn, 68.1% YoY growth, operating margin of 31.2%. 2Q landed at JPY 4.83 Bn, 127.9% YoY growth, operating margin of 31.5%. Profits exceeded plan due to smaller-than-plan marketing investments, and investments will shift to 2H.

Moving to slide 4, we would like to explain Visional's consolidated performance by segments.

For HR Tech segment, with the growth of BizReach and HRMOS, segment 1H net sales grew 19.3% YoY to JPY 30.12 Bn. Incubation Segment 1H net sales grew by 13.3% YoY to JPY 1.23 Bn, 2Q segment net sales was JPY 0.54 Bn, a decline of 8.2% YoY, due to the share transfer of BizHint, Inc., as briefly touched earlier.

From the BizHint transaction, JPY 0.46 Bn is recorded under extraordinary income in 2Q as gain on sale of shares of subsidiaries.

Slide 5 shows our FY2024/7 Financial Forecast disclosed in September 2023. As we are tracking on plan, there is no change to our Financial Forecast.

We are targeting JPY 66.40 Bn, 18.0% YoY growth for consolidated net sales. Consolidated operating profit target is JPY 16.00 Bn, 21.0% YoY growth, 24.1% operating profit margin.

We anticipate 3Q BizReach net sales to be the largest quarter within the fiscal year, and therefore, whether we are able to meet our guidance depends on the performance of 3Q. It is difficult to control net sales, which is impacted by market conditions, yet, we anticipate at this time that net sales will land very close to our financial forecast.

On the other hand, in regards to operating profit, this can be controlled by adjusting our investments. As such, if we are not able to meet our net sales targets, we are still committed to delivering our profit targets.

Touching on each of our businesses, for BizReach, performance until 2Q is within plan for net sales. No change to our JPY 59.00 Bn, 20.0% YoY growth target for this year. We do anticipate net sales to land very close to our guidance. In regards to profit targets, we have expanded our 2H investment plan and therefore, no change to our 40% profit margin target.

For HRMOS, no change to our financial forecast. Net sales is progressing above plan in the 1H, and therefore losses are expected to be smaller than the last fiscal year, yet impact to consolidated financials is limited.

In regards to the Incubation Segment, we anticipate net sales to land below our forecast, yet we are able to fill the gap on the consolidated level, and therefore no change to our consolidated financial forecast due to the share transfer.

Let us explain our business performance more in detail. Going into BizReach.

Please refer to slide 8. 1H net sales grew 18.9% YoY to JPY 27.49 Bn. 2Q net sales was JPY 13.40 Bn, which is a decline from 1Q. We believe the decline is driven by the fluctuation in the timing of net sales being recorded, which is based on when individuals start their next roles.

Let us touch on this topic in a little more detail. BizReach 1Q grew 21.3% YoY compared to 1Q of last fiscal year. This was a higher-than-expected growth rate, higher than our full year guidance of 20.0% against a quarter which included the pent-up demand from COVID-19. Therefore, we analyze that net sales that we expected it to be recorded in 2Q was recorded in 1Q, leading to a higher-than-expected growth rate in 1Q, and smaller quarter in 2Q of 16.5% YoY growth, JPY 13.40 Bn. As such, evaluating the business not by each quarter but the addition of the 2 quarters is more adequate. 1H progress is within plan. Growth rate hurdles will be normalized 3Q onwards as we believe the pent up demand from COVID had ceased by this time.

Slide 9 shows our BizReach KPIs.

Slide 10 is BizReach adjusted operating profit before corporate expense allocation.

Our full year profit guidance is 40%, and as of 2Q YTD, the margin is 44.3%.

Quarterly profit margin fluctuates based on the balance between net sales and the timing of growth investment plans. As investment was smaller than planned, our margin landed higher than plan.

There are 2 reasons why our investments were smaller than plan. First reason is driven by our continued exercise in improving investment efficiency through review of advertising channels. The second reason is because of our temporary refrainment of advertising post the 2024 Noto Peninsula Earthquake in January. We express our condolences to those that have been affected by the earthquake.

As we have positioned the next several years to be our investment period, we believe that continuing investment for this fiscal year is important for future growth. As 1H investment plans became smaller than plan, we will shift these investments to the 2H and therefore, we expect the margin to land around 40% this fiscal year. Investments we make will be in a controlled manner from profitability standards.

Slide 11 and slide 12 shows our investments in Data and Technology for BizReach.

Slide 13 and 14 are reference slides we update once a year.

Going onto HRMOS.

Slide 16 shows our HRMOS HCM ecosystem. As shown in purple on the right hand bottom, we are scheduled to launch our workforce management and payroll service HRMOS Payroll. The impact on our net sales is negligible this fiscal year.

On slide 17 is HRMOS net sales.
HRMOS net sales include HRMOS ATS, HRMOS Talent Management, HRMOS Attendance Management and HRMOS Expense Management. As HRMOS Expense Management is included from this fiscal year, YoY growth rate looks high compared to past trends.

HRMOS services are growing strongly, trending higher than plan.
HRMOS ATS customer acquisition went well.
HRMOS Expense Management customer acquisition was stronger than plan and retention was managed well. We saw strong orders, especially rush demand in 1Q and 2Q driven by regulatory changes and the demand has settled down to normal standards at this time.
Although still small and the impact to the consolidated financials is limited, HRMOS Attendance Management is growing strongly. After its pricing increase last year, churn rate has been kept low and 1H grew by almost 100%.

On slide 18 shows our operating losses before corporate expense allocation. As HRMOS net sales is growing stronger than plan, operating losses are expected to land smaller compared to last fiscal year. Major costs in this business are product development and marketing.

Also, we are targeting to turn the business profitable in FY2026/7, which is in 3 years. We are unable to provide net sales forecasts as we have yet to release our HRMOS Payroll service, nor pricing of each service is yet to be fixed. However, in terms of profits or investments, we can somewhat control it, and as such, based on our current strategy, we are targeting to make the business profitable in 3 years' time. However, we may change our strategy based on future market trends, and if so, timing of business profitability may change. No change from what we have explained previously.

HRMOS KPIs are shown on slide 19.
As disclosed, these KPIs consist of HRMOS ATS and HRMOS Talent Management that make up the majority of HRMOS net sales.
Driven by the growth in the number of unique paying customers, ARR grew 30.0% YoY to JPY 2.43 Bn.
The number of unique paying customers grew 26.5% YoY to 1,744 companies. ARPU is at JPY 116k, and churn rate is at 0.57% , trending at a steady rate.

Slide 20 and 21 shows our development in different functions in HRMOS. We are leveraging our know-how from BizReach including our recruiting know-how and our experience with Chat GPT, and actively implementing them to additional functions for HRMOS.

This concludes our explanation of our financial performance.

(Moderator) This concludes Visional Group financial results briefing for the second quarter of the fiscal year ending

July 31, 2024. Thank you very much for your participation.