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Consolidated Financial Results for the Three Months Ended October 31, 2022 [Japanese GAAP]



December 14, 2022

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 4194
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 Scheduled date of filing quarterly securities report: December 15, 2022
 Scheduled date of commencing dividend payments: –
 Availability of supplementary explanatory materials on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Not scheduled

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

1. Consolidated Financial Results for the Three Months Ended October 31, 2022 (August 1, 2022 - October 31, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|--------------------|-------------|------|------------------|------|-----------------|------|---|------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Three months ended | | | | | | | | |
| October 31, 2022 | 13,218 | 38.1 | 3,703 | 46.0 | 3,783 | 44.3 | 2,531 | 42.2 |
| October 31, 2021 | 9,570 | – | 2,536 | – | 2,621 | – | 1,780 | – |

(Note) Comprehensive income: Three months ended October 31, 2022: ¥2,531 million [42.2%]

Three months ended October 31, 2021: ¥1,780 million [–%]

| | Basic earnings per share | Diluted earnings per share |
|--------------------|--------------------------|----------------------------|
| | Yen | Yen |
| Three months ended | | |
| October 31, 2022 | 65.88 | 60.73 |
| October 31, 2021 | 49.66 | 42.64 |

(Note) The year-on-year rates of changes for the three months ended October 31, 2021 are not disclosed, as the Company did not prepare consolidated financial statements for the three months ended October 31, 2020.

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|------------------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| As of October 31, 2022 | 47,610 | 31,354 | 65.7 |
| As of July 31, 2022 | 45,952 | 28,772 | 62.5 |

(Reference) Equity: As of October 31, 2022: ¥31,272 million

As of July 31, 2022: ¥28,716 million

(Note) In the three months ended October 31, 2022, the Company has confirmed the provisional accounting treatment concerning business combinations. Accordingly, data for the fiscal year ended July 31, 2022 is presented at the amounts after reflecting the contents of the confirmation of the provisional accounting treatment.

2. Dividends

| | Annual Dividend | | | | |
|---|-----------------|------|-----|----------|--------|
| | 1Q | 2Q | 3Q | Year-end | Annual |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended July 31, 2022 | — | 0.00 | — | 0.00 | 0.00 |
| Fiscal year ending July 31, 2023 | — | | | | |
| Fiscal year ending July 31, 2023 (Forecast) | | 0.00 | — | 0.00 | 0.00 |

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending July 31, 2023 (August 1, 2022 - July 31, 2023)

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Basic earnings per share |
|-----------|-------------|------|------------------|------|-----------------|------|---|------|--------------------------|
| Full-year | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| | 56,000 | 27.4 | 12,500 | 50.9 | 12,810 | 47.0 | 8,330 | 42.3 | 217.23 |

(Note) 1. Revision to the financial results forecast announced most recently: None

2. In the three months ended October 31, 2022, the Company has confirmed the provisional accounting treatment concerning business combinations. Amounts for the fiscal year ended July 31, 2022 after reflecting the contents of the confirmation of the provisional accounting treatment are operating profit of ¥8,282 million, ordinary profit of ¥8,713 million, and profit attributable to owners of parent of ¥5,852 million, and the year-on-year rates of changes above are computed using the amounts reflecting the confirmation.

* Notes:

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

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

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

October 31, 2022: 38,475,600 shares

July 31, 2022: 38,346,700 shares

2) Total number of treasury shares at the end of the period:

October 31, 2022: 213 shares

July 31, 2022: 179 shares

3) Average number of shares during the period:

Three months ended October 31, 2022: 38,425,051 shares

Three months ended October 31, 2021: 35,857,943 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

The statements regarding the forecast of financial results in this report are based on the information that is available to the Company, as well as certain assumptions that are deemed to be reasonable by management. Therefore, there might be cases in which actual results differ materially from forecast values due to various factors.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

Statements in this document about the future reflect our judgments as of end of the current quarter of the fiscal year under review.

For the end of the fiscal year ended July 31, 2022, we confirmed the provisional accounting treatment concerning business combinations. Accordingly, we used the revised amounts reflected in the confirmation of the provisional treatment for comparison and analysis with the amounts as of the end of the previous fiscal year.

In the three months ended October 31, 2022, the Japanese economy showed signs of recovery partly aided by easing restrictions on movement taken by the government against the COVID-19 infection. On the other hand, the outlook for the global macroeconomy remains unclear due to factors such as a surge of raw material prices and fluctuation in the financial capital markets, reflecting the unstable global situation.

Under these circumstances, the Group's core BizReach business performed strongly backed by a continued willingness of companies to recruit and the increase in job seekers due to advertising, and boosted performance of the Group.

As a result, in the three months ended October 31, 2022, the Group recorded net sales of ¥13,218 million (up 38.1% year on year), operating profit of ¥3,703 million (up 46.0% year on year), ordinary profit of ¥3,783 million (up 44.3% year on year), and profit attributable to owners of parent of ¥2,531 million (up 42.2% year on year).

Performance by segment was as follows.

(i) HR Tech

The HR Tech segment consists of BizReach, HRMOS, and other HR Tech services.

The BizReach business achieved growth in comparison to the end of the previous fiscal year in all of its growth indices, backed by the continued strength of human resources demand in the professional human resources domain. As of the end of the first quarter under review, the cumulative number of registered direct employers (Note 1) increased to more than 22,300 (compared to more than 21,100 as of the end of the previous fiscal year), the number of active headhunters (Note 2) rose to more than 5,800 (compared to more than 5,500 as of the end of the previous fiscal year), and the number of scoutable job seekers (Note 3) increased to more than 1.79 million (compared to more than 1.70 million as of the end of the previous fiscal year). The business recorded net sales of ¥11,618 million (up 40.5% year on year), and adjusted operating profit before corporate expense allocation (Note 4) of ¥5,630 million (up 26.7% year on year).

In the HRMOS business, we are conducting sales and marketing activities in order to expand the number of customers while continuing product investment such as the development of new functionalities. In August 2022, the business released a free cloud HRMOS year-end tax adjustment function, a new function of HRMOS Attendance Management, which allows users to respond to the digitalization of the year-end tax adjustment. As for the combined KPI of HRMOS ATS module and HRMOS Talent Management module, ARR (Note 5) rose 31.0% to ¥1,764 million, the number of unique paying customers (Note 6) increased 29.4% to 1,280, and ARPU (Note 7) rose 1.2% to ¥114,886 from the end of the previous fiscal year. The churn rate (Note 8), which is a 12-month average, decreased to 0.52%.

As a result, the HRMOS business, which includes HRMOS ATS, HRMOS Talent Management, and HRMOS Attendance Management, recorded net sales of ¥485 million (up 46.8% year on year), and an adjusted operating loss before corporate expense allocation (Note 4) of ¥582 million (loss of ¥553 million for the previous fiscal year). As a result, in the three months ended October 31, 2022, the HR Tech segment recorded net

sales of ¥12,686 million (up 39.2% year on year) and segment profit of ¥4,426 million (up 42.4% year on year).

- (Notes)
1. The total number of direct employers that have subscribed to BizReach, excluding headhunters
 2. The number of headhunters that have been screened by BizReach, Inc.
 3. The number of registered BizReach users who have configured their employment history to be disclosed to hiring companies or who have configured their employment history to be disclosed to headhunters
 4. This is the operating profit or loss of the business before bearing the personnel expenses and ancillary outsourcing and other general administrative expenses associated with accounting, legal, human resources, and other business administration, and also personnel costs and ancillary outsourcing and other costs of the information systems and design divisions that cannot be charged directly to specific products and services.
 5. Annual Recurring Revenue. This is calculated by multiplying the MRR (Monthly Recurring Revenue) in the final month of the quarter by 12. The MRR is the total monthly revenue from customers subject to recurring billing as of the end of the target period (excluding one-time revenue).
 6. The number of paying users of HRMOS series services
 7. Average Revenue per User. $\text{MRR as of the end of the month} \div \text{number of active employers}$
 8. Reduction in MRR due to the cancellation in the current month divided by MRR at the end of the previous month is defined as the single-month churn rate, and the churn rate is the average of the last 12 months.

(ii) Incubation

The Incubation segment includes Trabox, M&A Succeed, BizHint, yamory, and Assured.

Each business in the Incubation segment conducted activities within the limits of profits generated from the HR Tech segment, including human resource investment, new-product development, and advertising. In the three months ended October 31, 2022, the segment recorded net sales of ¥495 million (up 19.8% year on year) and segment loss of ¥456 million (loss of ¥405 million for the previous fiscal year).

(2) Explanation of Financial Position

As of the end of the first quarter under review, total assets amounted to ¥47,610 million, a ¥1,658 million increase since the end of the previous fiscal year. This was primarily due to a ¥607 million increase in accounts receivable - trade to ¥4,964 million due to the growth in net sales in the first quarter, and a ¥1,391 million increase in other current assets to ¥2,474 million.

As of the end of the first quarter under review, total liabilities amounted to ¥16,255 million, a ¥923 million decrease since the end of the previous fiscal year. This was primarily due to a ¥1,199 million decrease in income taxes payable to ¥831 million and a ¥548 million decrease in provision for bonuses to ¥612 million, despite a ¥852 million increase in unearned contract liabilities to ¥5,793 million due to an increase in the number of corporate users for the BizReach business in the first quarter.

As of the end of the first quarter under review, net assets amounted to ¥31,354 million, a ¥2,582 million increase since the end of the previous fiscal year. This was mainly due to a ¥2,531 million increase in retained earnings due to the recording of profit attributable to owners of parent.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The content of the consolidated financial results forecast for the fiscal year ending July 31, 2023 is unchanged from the forecast issued on September 14, 2022.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(in millions of yen)

| | As of July 31, 2022 | As of October 31, 2022 |
|------------------------------------|---------------------|------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 31,362 | 31,356 |
| Accounts receivable - trade | 4,356 | 4,964 |
| Other | 1,082 | 2,474 |
| Allowance for doubtful accounts | (57) | (70) |
| Total current assets | 36,743 | 38,724 |
| Non-current assets | | |
| Property, plant and equipment | 735 | 865 |
| Intangible assets | | |
| Goodwill | 3,300 | 3,177 |
| Other | 1,986 | 1,904 |
| Total intangible assets | 5,287 | 5,081 |
| Investments and other assets | | |
| Other | 3,194 | 2,947 |
| Allowance for doubtful accounts | (8) | (8) |
| Total investments and other assets | 3,185 | 2,939 |
| Total non-current assets | 9,208 | 8,885 |
| Total assets | 45,952 | 47,610 |

(in millions of yen)

| | As of July 31, 2022 | As of October 31, 2022 |
|---|---------------------|------------------------|
| Liabilities | | |
| Current liabilities | | |
| Current portion of long-term borrowings | 205 | 206 |
| Income taxes payable | 2,030 | 831 |
| Contract liabilities | 4,941 | 5,793 |
| Provision for bonuses | 1,161 | 612 |
| Other | 5,649 | 5,763 |
| Total current liabilities | 13,988 | 13,207 |
| Non-current liabilities | | |
| Liabilities from application of equity method | 2,453 | 2,373 |
| Long-term borrowings | 440 | 388 |
| Other | 296 | 286 |
| Total non-current liabilities | 3,190 | 3,047 |
| Total liabilities | 17,179 | 16,255 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 6,226 | 6,240 |
| Deposits for subscriptions of shares | 6 | 1 |
| Capital surplus | 10,190 | 10,205 |
| Retained earnings | 12,294 | 14,826 |
| Treasury shares | (1) | (1) |
| Total shareholders' equity | 28,716 | 31,271 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 0 | 0 |
| Total accumulated other comprehensive income | 0 | 0 |
| Share acquisition rights | 56 | 82 |
| Total net assets | 28,772 | 31,354 |
| Total liabilities and net assets | 45,952 | 47,610 |

(2) Quarterly Consolidated Statement of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

Three months ended October 31

(in millions of yen)

| | For the three months ended October 31, 2021 | For the three months ended October 31, 2022 |
|---|--|--|
| Net sales | 9,570 | 13,218 |
| Cost of sales | 1,304 | 1,621 |
| Gross profit | 8,266 | 11,597 |
| Selling, general and administrative expenses | 5,729 | 7,894 |
| Operating profit | 2,536 | 3,703 |
| Non-operating income | | |
| Share of profit of entities accounted for using equity method | 79 | 79 |
| Other | 6 | 5 |
| Total non-operating income | 86 | 85 |
| Non-operating expenses | | |
| Interest expenses | 0 | 0 |
| Commitment fees | 1 | 1 |
| Foreign exchange losses | — | 3 |
| Other | 0 | 0 |
| Total non-operating expenses | 1 | 5 |
| Ordinary profit | 2,621 | 3,783 |
| Extraordinary income | | |
| Gain on reversal of share acquisition rights | — | 3 |
| Total extraordinary income | — | 3 |
| Profit before income taxes | 2,621 | 3,786 |
| Income taxes - current | 643 | 960 |
| Income taxes - deferred | 197 | 294 |
| Total income taxes | 840 | 1,255 |
| Profit | 1,780 | 2,531 |
| Profit attributable to owners of parent | 1,780 | 2,531 |

Quarterly Consolidated Statement of Comprehensive Income

Three months ended October 31

(in millions of yen)

| | For the three months ended October 31, 2021 | For the three months ended October 31, 2022 |
|--|--|--|
| Profit | 1,780 | 2,531 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 0 | 0 |
| Total other comprehensive income | 0 | 0 |
| Comprehensive income | 1,780 | 2,531 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 1,780 | 2,531 |
| Comprehensive income attributable to non-controlling interests | — | — |

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Segment information, etc.)

(Segment information)

For the three months ended October 31, 2021 (from August 1, 2021 to October 31, 2021)

Information on sales and profit (loss) by reportable segment

(in millions of yen)

| | Reportable segment | | | Reconciliations (Note 1) | Amounts in the quarterly consolidated financial statements (Note 2) |
|---------------------------------|--------------------|------------|-------|-----------------------------|--|
| | HR Tech | Incubation | Total | | |
| Net sales | | | | | |
| Net sales to external customers | 9,116 | 413 | 9,530 | 40 | 9,570 |
| Intersegment sales or transfers | 32 | 21 | 54 | (54) | — |
| Total | 9,149 | 435 | 9,584 | (14) | 9,570 |
| Segment profit (loss) | 3,107 | (405) | 2,702 | (165) | 2,536 |

(Notes) 1. Reconciliations of segment profit (loss) are general and administrative expenses that are not allocable to the reportable segments.

2. Segment profit (loss) is adjusted based on operating profit.

For the three months ended October 31, 2022 (from August 1, 2022 to October 31, 2022)

1. Information on sales and profit (loss) by reportable segment

(in millions of yen)

| | Reportable segment | | | Reconciliations (Note 1) | Amounts in the quarterly consolidated financial statements (Note 2) |
|---------------------------------|--------------------|------------|--------|-----------------------------|--|
| | HR Tech | Incubation | Total | | |
| Net sales | | | | | |
| Net sales to external customers | 12,686 | 495 | 13,181 | 36 | 13,218 |
| Intersegment sales or transfers | 11 | 23 | 34 | (34) | — |
| Total | 12,697 | 518 | 13,216 | 2 | 13,218 |
| Segment profit (loss) | 4,426 | (456) | 3,970 | (266) | 3,703 |

(Notes) 1. Reconciliations of segment profit (loss) are general and administrative expenses that are not allocable to the reportable segments.

2. Segment profit (loss) is adjusted based on operating profit.

2. Information regarding impairment losses on non-current assets or goodwill by reportable segment
(Significant changes in goodwill)

During the fiscal year ended July 31, 2022, the Company applied provisional accounting treatment

concerning the business combination with IEYASU, Inc. carried out in the second quarter and with ezSoft Co., Ltd. carried out in the third quarter. The Company has confirmed the provisional accounting treatment in the three months ended October 31, 2022.

For details, please refer to “Business combinations” in the Notes to Quarterly Consolidated Financial Statements.

(Business combinations)

(Confirmation of provisional accounting treatment concerning business combinations)

During the previous fiscal year, the Company applied provisional accounting treatment concerning the business combination with IEYASU, Inc. on November 1, 2021. The Company has confirmed the provisional accounting treatment in the three months ended October 31, 2022.

Due to the confirmation of the provisional accounting treatment, comparison data in the quarterly consolidated financial statements in the three months ended October 31, 2022 reflects a major revision of the initial allocation of the acquisition cost. As a result of the allocation of ¥461 million to other intangible assets and ¥154 million to other non-current liabilities, the amount of goodwill has changed from a provisional ¥911 million to ¥605 million, a decrease of ¥306 million. This change has no effect on retained earnings as of the end of the previous fiscal year.

During the previous fiscal year, the Company applied provisional accounting treatment concerning the business combination with ezSoft Co., Ltd. on March 1, 2022. The Company has confirmed the provisional accounting treatment in the three months ended October 31, 2022.

Due to the confirmation of the provisional accounting treatment, comparison data in the quarterly consolidated financial statements in the three months ended October 31, 2022 reflects a major revision of the initial allocation of the acquisition cost. As a result of the allocation of ¥615 million to other intangible assets and ¥206 million to other non-current liabilities, the amount of goodwill has changed from a provisional ¥2,142 million to ¥1,733 million, a decrease of ¥408 million. This change has resulted in a ¥6 million decrease in retained earnings as of the end of the previous fiscal year.