

Visional, Inc., FY2023/7 FY Financial Results

September 14, 2023

(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 fiscal year ending July 31, 2023. 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.

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Representative Director and CEO, Soichiro Minami, and Executive Director, CFO, Risako Suefuji will now explain the contents of the earnings announcement for the fiscal year ending July 31, 2023, 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 me provide a brief explanation of our full year financial performance for FY2023/7.

Slide 2 is our highlights. I'd like to emphasize that this year, we were able to strongly grow our businesses. What this means is that whilst we grew the top line of each of our businesses, in terms of profits, we were able to balance growth investments and robust cost control, delivering increased profits or decreased losses.

I will touch on more details 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. 4Q landed at JPY 14.73 Bn, 22.1% YoY growth, full year landed at JPY 56.27 Bn, 28.0% YoY growth.

On the right hand side shows our consolidated operating profit. 4Q landed at JPY 3.26 Bn, 200.8% YoY growth, full year landed at JPY 13.22 Bn, 59.7% YoY growth, operating margin of 23.5%. In the last 2 years, we have expanded our operating profit amount quite significantly.

Moving to slide 4, I'd like to explain Visional's consolidated performance by segments. For HR Tech segment, with BizReach and HRMOS growing strongly, segment net sales grew 28.5% YoY to JPY 53.68 Bn. Segment profits grew by 47.7% YoY to JPY 15.70 Bn driven by BizReach delivering 40.9% operating profit margin before corporate expense allocation, and HRMOS significantly improving its losses YoY.

For Incubation segment, net sales grew 22.9% YoY to JPY 2.46 Bn, whilst improving losses compared to the previous fiscal year. Segment losses landed at JPY 1.40 Bn. We are balancing business growth and investments.

Slide 5 shows our FY2023/7 performance against our financial forecast released in September 2022. We

landed strongly aligned to our forecast. We have set targets that are ambitious, and have committed to deliver against these targets.

For consolidated net sales actuals, the difference to forecast was 0.5%, overachieving forecast by JPY 0.27 Bn. We accurately landed to forecast. HR Tech segment BizReach performance was on plan. HRMOS, although impact to consolidated financials is limited, the business came out stronger than forecast based on couple of quarters of stronger customer acquisition against plan.

For Incubation, as we are incubating several businesses, there is volatility in its performance and although impact to consolidated financials is limited, net sales landed below forecast.

For consolidated operating profit actuals, the difference to forecast was 5.8%, overachieving forecast by JPY 0.72 Bn. HR Tech segment BizReach adjusted operating profit margin before corporate expense allocation landed as forecasted, in the lower range of 40 – 45%. For HRMOS, in addition to its net sales performing stronger than forecast, costs were robustly controlled, and as a result, losses significantly improved compared to FY2022/7, and even further compared to plan.

For Incubation segment, as I explained earlier, although net sales landed below forecast, by controlling costs, segment losses were reduced against FY2022/7 and even compared to plan.

Our FY2024/7 forecast is built based on the same philosophy to FY2023/7, where we have set high targets.

Continuing on to FY2024/7 consolidated financial forecast.

For consolidated net sales, we forecast 18.0% YoY growth to JPY 66.40Bn.

Breaking it down by segments, for HR Tech segment, BizReach, we continue to assume that demand for hiring professionals will continue despite slowdown in hiring activities by some companies. We forecast BizReach adjusted operating profit margin before corporate expense allocation to be around 40%.

For HRMOS, we forecast the business to grow 51.0% YoY to JPY 3.30 Bn. We forecast the adjusted operating losses before corporate expense allocation to be similar levels to FY2023/7 as we are scheduled to release our HRMOS Payroll module during FY2024/7.

For Incubation segment, we forecast the segment to grow 19.5% YoY to JPY 2.94Bn. Segment losses are expected to be similar levels to FY2023/7. We will continue to manage business growth and investments.

We will continue to prioritize growth investments for BizReach whilst maintaining a disciplined balance between growth investments and cost control.

We will explain the performance of our key businesses.

Going into BizReach.

Please refer to slide 9. 4Q net sales grew 24.5% YoY to JPY 12.72 Bn. 4Q net sales decreased against 3Q but this is within the range of the normal seasonality.

On the right hand side, we have shown our quarterly net sales trend. For FY2023/7, the quarterly trend is somewhat at a normalized state. Although we continued to experience pent up demand from COVID-19 in the 1H of the fiscal year, 1Q and 2Q being similar levels, one could be smaller than the other, 3Q being the largest quarter based on seasonality of the hiring market, and 4Q being smaller than 3Q is more or less our quarterly net sales trend.

Our normalized growth rate target is 15 – 20% over the next 3 years. Even after 2 consecutive years of

significant growth taking COVID-19 as an opportunity, there is no change to our targets.

Slide 10 is our full year BizReach net sales breakdown.

The left hand pie chart shows the ratio between recurring revenue and performance revenue. The right hand pie chart shows the ratio between headhunters and direct employers.

We would like to note here that in FY2023/7, we continue to see growth in the direct employer net sales ratio, indicating the gradual expansion of direct recruiting in Japan.

On slide 11 shows BizReach main KPIs.

On the left hand top, the # of registered direct employers increased by approx. 1,400 companies in 4Q, reaching to more than 26,200 companies. On the right hand bottom, the # of active direct employers reaching to more than 13,400 companies in FY2023/7. We have been able to grow our customer base very strongly.

On the right hand top, the # of scoutable job seekers grew nicely, reaching to more than 2.14MM in 4Q. The left hand bottom shows our headhunters that reached to more than 6,600.

Slide 12 shows our adjusted operating profit before corporate expense allocation. 4Q, as in previous years, is a quarter where we make the largest investments. For FY2023/7, compared to the previous fiscal year, we were able to execute our investments as planned in a more normalized manner.

Throughout the year, our growth investments have been in marketing and expansion of our sales organization.

In regards to our margins, quarterly margins are volatile due to the balance between net sales trends and investment plans, yet our margin for full year landed at 40.9%, aligned to what we forecasted, which was to land in the lower range of 40 – 45%.

In order to achieve sustainable business growth, we are targeting the normalized growth rate of BizReach to be between 15 – 20% delivering around 40% margin in the next 3 years.

On slide 13, we would like to introduce to you our Data x Technology initiative.

In July 2023, we have announced our new technology where resume / CV creation is supported by technology to maximize matching opportunities.

Although changing jobs has become more common than before, the first hurdle in changing jobs is known to be preparing individual's resume / CV. Also, we know that resume / CV is important for high quality matching between job seekers and direct employers. As such, we have developed a GPT tool where instructions are given to a GPT model provided by OpenAI, composed of proprietary logic based on the know-how and data accumulated by BizReach over the years.

The uniqueness of this function is that the quality of the GPT tool has been verified through a joint research, showing that GPT tool enables creation of quality resume / CVs, and the number of scout messages received increased.

Slide 14 is a reference slide, which we have been including in our deck for a while.

Going on to HRMOS.

Slide 16 shows our HRMOS HCM Ecosystem and the seamless integration with BizReach.

HRMOS is composed of modules that are developed inhouse, modules that have been acquired through M&A and are currently going through PMI, and we will also have a new module HRMOS Payroll in the workforce management and payroll area that we are expecting to launch during FY2024/7.

On slide 17 is HRMOS net sales.

HRMOS net sales include HRMOS ATS, HRMOS Talent Management, and HRMOS Attendance Management.

For FY2023/7, the business grew 49.8% YoY to JPY 2.18 Bn driven by increase in the acquisition of unique paying customers of HRMOS ATS and HRMOS Talent Management.

From FY2024/7 onwards, in our financial figures, we are planning to include HRMOS Expense Management that is currently going through PMI and HRMOS Payroll after its release. As such, HRMOS financial figures will include all HRMOS modules.

On slide 18 shows operating losses before corporate expense allocation. As mentioned earlier, HRMOS operating losses improved significantly, driven by net sales growth and robust cost control.

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 module, nor pricing of each module 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.

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 # of unique paying customers, ARR grew 31.5% YoY to JPY 2.13 Bn. Number of unique paying customers grew 29.6% YoY to 1,546 companies. ARPU is steady at JPY 115k and churn rate is at 0.49%.

This concludes my explanation of our financial performance.

Next section on Visional Group Strategy and our Future will be presented by our CEO, Minami.

(Minami) My name is Minami, CEO of Visional. Thank you very much for your time today. I will explain the overall strategy and future prospects of the Visional Group.

(Slide 21)

The mission of the Visional Group is stated on this page as "Persistent creation of new possibilities." Our vision is to tap into the power of the internet to support the innovative progress of our world by persistently transforming social obstacles into new possibilities. We have been working hard to create new businesses to deliver our mission for the past 14 years since our establishment.

(Slide 22)

When we build new businesses, we do this by using our business creation framework as we have done so since our establishment.

The most important question we ask ourselves first is: Which social issue do we solve through our business? We put most of our efforts on identifying this issue. We have been searching for issues mainly by reading reports from the government and various research institutes, and picking up social issues that are likely to occur in the future.

With these issues in hand, we travel around the world to thoroughly research how these issues are being solved in countries and regions that are ahead of us. What kind of business models already exist and how are they funded? What kind of players are there in our market? How big is the market? Based on this

information, we will develop a business plan. Based on this plan, we then create a minimum team and product, and after testing our hypothesis repeatedly, we verify whether this business can really scale and whether it can bring a large impact on society. If we determine that the business has potential, we will invest fully and scale our team. This is how we have created our business so far.

(Slide 23)

Slide 23 explains Japan's "Workstyle" issues. When we entered this "Workstyle" area 14 years ago, we started by creating our business using the same framework. There is clearly something that needs to be done with the "Workstyle" in Japan compared to the rest of the world. In order to create a better future, we must break away from the now outdated way of working. How can we change the "Workstyle" in this country while expanding various options and countless possibilities? This is how, based on various data and trends, we began to create business models such as BizReach and later HRMOS.

We do not see these challenges as negative issues, but rather as opportunities for further growth.

(Slide 24)

The growth potential in this "Workstyle" area is its investment in people.

(Slide 25)

Furthermore, investment in growth areas. New technologies in this new era. Why aren't we investing? And why don't people shift into these areas?

(Slide 26)

The labor productivity has completely lost its competitiveness.

(Slide 27)

As a result, perhaps unsurprisingly, real wages in Japan are not increasing and employee engagement is also stagnant. This is rather an opportunity for us who create businesses in this "Workstyle" area. Despite all this, Japan has a relatively strong influence in the global economy, and as a country it remains prosperous. This is why we see this as an opportunity.

(Slide 28)

The Japanese government has also indicated that it will strongly promote labor market reform for the further growth of Japanese society in the future. In May, "The Council of New Form of Capitalism Realization", which is aimed at realizing the Kishida administration's major policies, presented guidelines for "Three-pronged labor market reforms", stating that it is imperative to transform the employment system and allow transfer of labor to further grow the Japanese society and the Japanese economy. If time allows, please take the opportunity to read through the contents described in its strategy. It describes precisely what we have been trying to solve through our business for the last 14 years.

(Slide 29)

Companies are also trying to change to address this challenge. Strengthening human capital. Changes in management priorities. Change in "Workstyles." Companies are beginning to express their willingness to make major changes in this area. Japan's employment system, which has lagged behind the rest of the world, has begun to change over the past few years. Signs of change can be seen in various data points such as hiring and how people are managed.

(Slide 30)

The trends as mentioned above, in the government and in companies, are changing Japan into exactly the new "Workstyle" that we have aspired to, a "Workstyle" that is more productive and more growth-oriented

for the future.

(Slide 31)

Especially for BizReach, we see this as a tailwind more than anything else, as the professional hiring market is beginning to show a marked increase in liquidity in its figures.

(Slide 32)

We are also beginning to see some changes in wage increases.

(Slide 33)

Let me touch on the way we look at the future of the Japanese “Workstyles.”

In the future, companies will clarify the skills, experience, and knowledge required for each job description. Evaluation standards will be clarified, and companies will start to develop compensation systems that are performance-based. Individuals will start self-developing themselves as required skills are clearer. And for the first time, companies and individuals will have a shared goal. Clear expectation on both sides will lead to higher productivity and greater engagement, and will inevitably lead to higher wages.

This kind of competition, which is commonplace in the rest of the world, will occur in the Japanese economy, and competitive companies will further accelerate their investment in people and actively go out to hire people with the experience and skills they need.

As a result, this positive economic spiral, in which individuals and companies share the same goals, will further strengthen the relationship and accelerate the Japanese economy. This is the kind of scenario we envision for the future.

(Slide 34)

It may take time. This is a huge growth opportunity in Japan that cannot wait. Because we are a company that is creating businesses in the area of “Workstyle,” we not only believe in this future, but also want to support this positive economic spiral through the creation of an HCM Ecosystem. It has been two and a half years since we went public. As we have communicated with investors at the time of our listing, we will surely create an HCM Ecosystem that supports “People” and “Workstyle” and supports the management of companies.

(Slide 35)

For my part, let me clearly communicate to our shareholders and investors my commitment as the CEO to realize Visional Group’s group mission.

First, we will deliver sustained growth and profit expansion of BizReach.

(Slide 36)

Why am I able to commit? Let me explain this from two perspectives: the market perspective and the business perspective.

The first is from a market perspective. As I mentioned in the first part of my presentation, the “Workstyle” in Japan has begun to change significantly. However, there is still much room for growth. The percentage of full-time employees changing jobs in Japan is still in the 2% range. In other words, if there are 100 full-time employees in a year, only 2 or 3 will leave the company. From a global perspective, this is unsustainable. I have just presented earlier the job change rate over the past five years for professionals, and from an overall perspective, the rate is still at this level. I feel that there is only room for growth.

(Slide 37)

Second, from a business perspective, BizReach's market share. We believe that there is room for further growth on both the job seeker and direct employer sides.

In FY23/7 4Q, we had 2.14MM+ scoutable job seekers. At the same time, the number of active direct employers using the service in the past fiscal year was 13,400+. As the market continues to expand and become more liquid, we would like to take a firm share of the market.

From these two perspectives, we believe that BizReach still has room for growth. We are committed to BizReach's growth.

(Slide 38)

Second, we will commit to continue to promote the seamless integration of BizReach and HRMOS to build a data-driven HCM Ecosystem that will support the future of BizReach and also the area of "Workstyle".

(Slide 39)

BizReach has been and will continue to grow as a sizeable matching platform in the Japanese labor market. We are taking the accumulation of data from matching supply and demand between job seekers and direct employers obtained from the external labor market and making it available as functions and tools for management to use between companies and employees internally.

In our HRMOS HCM Ecosystem, we are utilizing data obtained from the external labor market through BizReach in our HRMOS ATS and HRMOS Talent Management module and utilize the data to support human capital management.

We are gradually developing functions as presented here, and we would like to continue to contribute to a more productive "Workstyle" for companies and individuals by connecting BizReach and HRMOS data. This is our second commitment.

(Slide 40)

Finally, we will continue to actively pursue incubating new businesses and use M&A as required.

(Slide 41)

As for our new businesses, we have presented them as the incubation segment.

We are currently focusing on M&A for business succession, cyber security, and focusing on issues that address digitalization for SMEs.

Kishida Administration's "Grand Design and Action Plan for a New Form of Capitalism" report, and other government reports also mention these three issues as challenges that Japanese society will face in the future, and we would like to work hard to solve these issues through new technologies and business models.

At the same time, we will continue to work hard to create new businesses based on issues that will arise in the future.

(Slide 42)

We have also been utilizing M&A in combination with new business creation. We intend to continue using cash on our balance sheet to pursue acquisitions that complement our existing business and acquisitions for new business areas.

Also, if we believe our businesses can grow more productively in the hands of others than in our own, we will make decisions to sell the businesses that we have nurtured. We will continue to review our business portfolio and take appropriate measures to allocate our resource.

(Slide 43)

As CFO Suefuji has just provided guidance on this fiscal year's forecast, and I would like to make a final comment. For FY2024/7, we are forecasting group consolidated net sales of JPY 66.40Bn and consolidated operating profit of JPY 16.00Bn. While committing to these two figures, we will continue to manage the company flexibly in order to increase our enterprise value.

We thank you for the opportunity for us to explain to you our performance for FY2023/7 and our strategy for FY2024/7. We thank you for your continued support.

(Moderator) This concludes Visional Group financial results briefing for the fiscal year ending July 31, 2023. Thank you very much for your participation.

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