

Visional, Inc. FY2024/7 Full Year Financial Results FAQ

September 12, 2024

Consolidated Financial Results

Q1 What is the summary of FY2024/7 4Q and FY results?

Consolidated net sales for FY2024/7 recorded JPY 66.14 Bn (17.5% YoY growth), and consolidated net sales for 4Q were JPY 17.22 Bn (16.9% YoY growth). Our net sales have landed at similar levels to our FY forecast disclosed in September 2023. We have demonstrated our capability of setting targets that are stretched and committed to execution.

Consolidated operating profit for FY was JPY 17.83 Bn (34.9% YoY growth, 27.0% margin), and 4Q was JPY 2.57 Bn (21.1% YoY decline, 14.9% margin). As a result of balancing growth investment and cost discipline, we exceeded FY2024/7 forecast disclosed in September 2023 and June 2024.

The Company consists of the HR Tech segment and the Incubation segment.

HR Tech Segment:

BizReach: Net sales for FY2024/7 were JPY 57.77 Bn (17.5% YoY growth), and net sales for 4Q were JPY 14.80 Bn (16.4% YoY growth). While solid demand for hiring professionals continues in the hiring market generally, as we continue to observe some areas of the market where hiring has not recovered fully, we landed slightly below plan. Market sentiment remains uncertain.

Operating profit (before corporate expense allocation) for FY2024/7 were JPY 23.33 Bn (15.9% YoY growth, 40.4% margin), and for 4Q were JPY 4.38 Bn (10.3% YoY decline, 29.6% margin). Although 4Q declined YoY, this is aligned to plan. In addition to our regular marketing activities to acquire job seekers, we invested in BizReach 15th anniversary campaign and started airing our new TV commercial "CEO's Determination". Through investment in future growth and cost discipline, we landed in line with our FY2024/7 forecast of 40%.

HRMOS: Financial figures for FY2024/7 include all HRMOS services (*1). Net sales for FY2024/7 were JPY 3.84 Bn (76.0% YoY growth), and net sales for 4Q were JPY 1.09 Bn (79.9% YoY growth). Steady customer acquisition continues, and all services grew stronger than plan.

Operating losses (before corporate expense allocation) for FY2024/7 were JPY 1.02 Bn, and for 4Q were JPY 0.32 Bn. Operating losses decreased significantly compared to plan due to strong net sales growth and efficient marketing activities.

HRMOS ATS and HRMOS Talent Management total ARR was JPY 2.77 Bn (29.8% YoY growth), and the number of unique paying customers were 1,947 companies (25.9% YoY growth).

HR Tech Other: This segment includes other recruitment platform businesses. In December 2022, we have closed CareerTrek, included in this segment, as part of our resource prioritization exercise.

Incubation Segment

To increase mid to long term enterprise value, we are creating businesses in growth areas other than HR Tech.

Due to the share transfer of BizHint, Inc., completed on December 1, 2023, segment net sales for FY2024/7 were JPY 2.21 Bn (9.8% YoY decline), segment net sales for 4Q were JPY 0.52 Bn (24.7% YoY decline) yet increase from 3Q. Segment operating losses for FY2024/7 were JPY 1.02 Bn and segment losses for 4Q were JPY 0.44 Bn. We are building businesses whilst controlling investments.

*1 Financial figures for FY2024/7 include HRMOS ATS, HRMOS Talent Management, HRMOS Attendance Management, HRMOS Expense Management, and HRMOS Payroll.

Q2 How do you evaluate BizReach 4Q net sales growth of 16.4%?

Growth rate in 4Q indicates general solidness in the needs for professionals in the hiring market. More than 1,400 direct employers have started to use BizReach in 4Q, leading to the number of registered direct employers to reach to more than 31,700 companies showing expansion of direct recruiting (direct sourcing).

At the same time, the market sentiment remains uncertain, with selective hiring continues to be

observed in some areas, and slow recovery observed in others. In such market environment, although BizReach net sales slightly fell short of plan, the FY growth rate was 17.5%, and 4Q was 16.4%, which landed within our normalized growth rate of 15 – 20%.

Since the market environment still contains many uncertainties, such as the timing of recovery of hiring needs in some areas, we assume a growth rate of 15.0% in FY2025/7, and a mid-term growth rate of about 15%.

Q3 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 FY2024/7, JPY 0.27 Bn was recorded as penalty income.

Q4 What is the summary of the financial forecast for FY2025/7?

Consolidated net sales forecast is JPY 76.40Bn (15.5% YoY growth), and consolidated operating profit forecast is JPY 19.15Bn (7.4% YoY growth 25.1% margin). To increase our enterprise value in the mid-term, in FY2025/7, whilst continuing with our discipline, Visional Group will increase our investment in human capital including hiring, offering competitive compensation, and expansion of office space in addition to investment in other businesses.

HR Tech Segment:

BizReach: While solid demand for hiring professionals continues in the hiring market, market sentiment remains uncertain. Based on such market conditions, we forecast FY2025/7 net sales of JPY 66.44 Bn (15.0% YoY growth), operating margin (before corporate expense allocation) of 40%.

HRMOS: The basic line-up of our service offering of our envisioned integrated human capital ecosystem is now in place. Based on our strategy to grow each service as well as to introduce the integrated HRMOS service offering, we forecast FY2025/7 net sales of JPY 5.0 Bn (30.1% YoY growth). Operating losses (before allocation expense allocation) for FY2025/7 is expected to be at a similar level as the previous year as we invest in our promotional activities.

Incubation segment:

We continue to create businesses to enhance corporate value over the medium to long term, balancing investment for future growth and cost discipline. FY2025/7 segment net sales is forecasted at JPY 2.47Bn (11.3% YoY growth). Segment losses are forecasted to be around JPY 1.5Bn.

(JPY MM)	FY25/7 Forecast	FY24/7 Actuals	Difference	Growth Rate
Consolidated Net Sales	76,400	66,146	+10,253	15.5%
HR Tech Segment	73,880	63,791	+10,088	15.8%
BizReach	66,440	57,776	+8,663	15.0%
HRMOS	5,000	3,844	+1,155	30.1%
Incubation Segment	2,470	2,219	+250	11.3%
Others	50	135	(85)	--
Operating Profit	19,150	17,837	+1,312	7.4%
Ordinary Profit	19,600	18,476	+1,123	6.1%
Profit Attributable to Owners of Parent	13,470	12,990	+479	3.7%

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

Q5 What is the impact of the share acquisition of InterRace, Inc.?

73.3% shares of InterRace, Inc. was acquired on March 1, 2024. The company provides talent acquisition services. It is recorded in HR Tech Segment. Impact to consolidated financials is negligible.

Q6 What is the background of the share transfer of BizHint, Inc.?

On December 1, 2023, the Company transferred all the shares of its consolidated subsidiary, BizHint, Inc., to SMARTCAMP Co., Ltd.

BizHint, Inc. operates a B-to-B lead generation platform "BIZHINT". Since its start in August 2016, the business has grown into one of the largest performance-based lead generation platforms and media for decision makers in Japan, providing IT/SaaS and DX solutions. The share transfer will enable BizHint, Inc. and SMARTCAMP Co., Ltd. to further accelerate matching of companies who are looking to increase efficiency, with IT/SaaS and DX solutions providers.

For details, please refer to the "Notice Regarding Change of a Consolidated Subsidiary (Share Transfer)" disclosed on October 31, 2023.

Q7 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, 2024, is 39,642,100 shares (increase of 545,900 shares from July 31, 2023).

As of July 31, 2024, the total shares outstanding on a fully diluted basis is 41,688,800 shares.

Q8 What is Adjusted Operating Profit before Corporate Expense Allocation? (or shown as operating profit (before corporate expense allocation))

This is the operating profit or losses 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.

Q9 What are Liabilities from application of Equity Method?

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

BizReach

Q10 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.

Q11 Why did 4Q operating profit (before corporate expense allocation) decreased YoY?

In 4Q, as planned, in addition to regular marketing investments to acquire job seekers, we conducted BizReach 15th anniversary campaign and started airing our new TV commercial "CEO's Determination". Profits and profit margins for each quarter will fluctuate depending on the balance between net sales and growth investment plans.

We have maintained our discipline in balancing growth investment and cost control as we landed at 40.4% margin aligned to our forecast of 40%. We will continue to deliver sustainable growth by adjusting investment plans based on market conditions.

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.

The ratio of net sales of BizReach from direct employers is gradually increasing, indicating the

penetration of direct recruiting in Japan.

We will continue to encourage increased use of our platform 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.

Q13 Will BizReach be affected by stricter regulations on so-called "congratulatory gifts"?

The Ministry of Health, Labour and Welfare (MHLW) released a draft amendment that limits provision of money in the "business of providing recruitment information" (please refer to Japanese FAQ for the official Japanese provision title). The draft amendment was released for public comment on August 21, 2024. The Proposed Amendment is expected to be finalized after public comment, resolved and enforced.

We believe that providing large amounts of monetary incentives to encourage excessive job changes that may hinder long-term career development and stable employment practices are inappropriate. On the other hand, providing a fair level of monetary provision plays a role in preventing fraud in recruitment support services, and we also implement such measures. If the proposed amendment is resolved and enforced, we will take measures to prevent fraud in other means that is aligned with the amendment, and as such, we do not anticipate impact to our business performance at this time. Should our financial forecast change based on such impact, we will disclose as soon as appropriate.

HRMOS

Q14 What is the service lineup of HRMOS?

HRMOS currently consists of HRMOS ATS, HRMOS Talent Management, HRMOS Attendance Management, HRMOS Expense Management, and HRMOS Payroll.

The number of paying customers using HRMOS ATS and HRMOS Talent Management continues to expand, with ARR of JPY2.77 Bn (29.8% YoY growth) as of the end of 4Q.

HRMOS has launched HRMOS Payroll as a new addition to the HRMOS series.

HRMOS Payroll is a cloud system that provides functions for efficient processing of labor and payroll operations, and seamlessly integrates with other functions and services in the HRMOS series to streamline various labor and payroll operations and prevent human error.

Impact to consolidated FY financial forecast is negligible.

Q15 Why does FY2025/7 HRMOS net sales growth forecast appear to be slowing significantly?

FY2024/7 YoY net sales growth was impacted by the addition of HRMOS Expense Management that was not included in HRMOS in the prior year. FY2025/7 YoY growth rate represents growth within the same services. As such, although the growth rate appears to be slowing significantly, growth of each of the HRMOS services are forecasted to grow steadily.

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