カオナビ

FY2020 2Q Financial Results

November 13, 2020

1. FY2020 2Q Financial Highlights

Business Highlights

Active Users

1,911 Companies

ARPU *1

131 JPY Thou.

Recurring Revenue Ratio *2

87.0 %

Active Users by the Size of Registered Employees
Companies

Legend: ▧ 100 people | ▧ 200~900 people | ▧ 1,000~ people

	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Total	961	1,075	1,194	1,293	1,410	1,536	1,643	1,791	1,842	1,911
1,000~ people		178	188	204	227	241	272	295	302	315
200~900 people		617	699	772	858	944	1,009	1,125	1,178	1,233
100 people		280	307	317	325	351	362	371	362	363

16.5%
64.5%
19.0%

FY2018 | FY2019 | FY2020

ARPU
JPY Thou.

	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
ARPU	94	95	98	102	108	112	117	121	126	131

FY2018 | FY2019 | FY2020

*1：Average revenue per user (FY2020Q2)
*2：The ratio of revenue from subscription services to net sales (FY2020Q2)

Subscription KPIs

Achieved a best-in-class subscription model with high growth and stability

Growth Rate of Recurring Revenue [1]

44.4 %

Growth

LTV/CAC [2]

4.3 x

Profitability

MRR Churn Rate [3]

0.65 %

Retention

[1]：Growth rate of quarterly recurring revenue over the same period last year (FY2020Q2). Please refer to page 8 for details
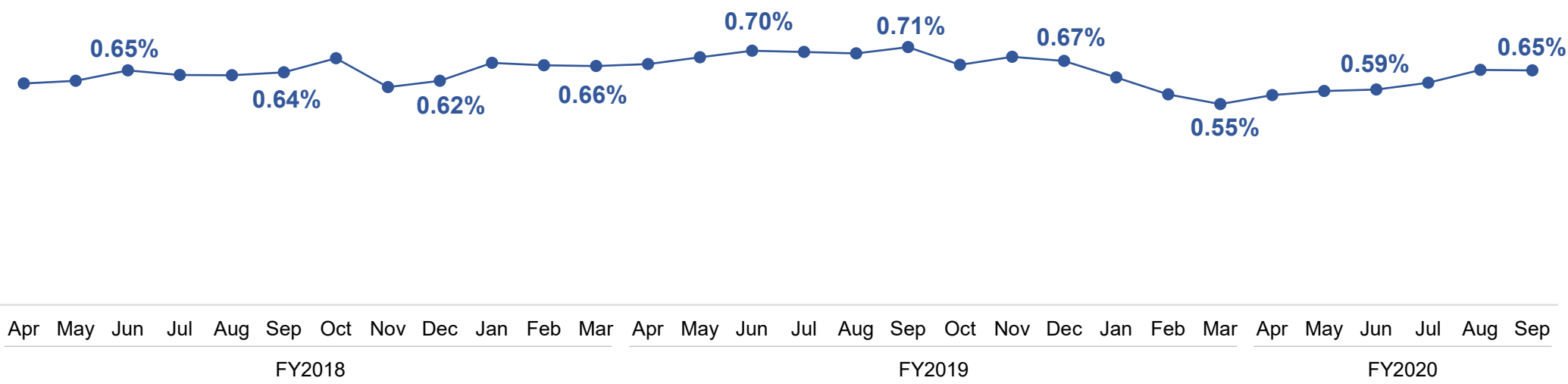[2]：The ratio is calculated by dividing LTV (Lifetime Value) by CAC (Customer Acquisition Cost) in FY2020Q2. Please refer to page 11 for details
[3]：Last 12-month average churn rate based on MRR (September 2020). Please refer to page 5 for details

Churn Rate

Maintaining a low churn rate by focusing on CS and lifting the database value proposition with data accumulation

Last 12-Month Average of MRR Churn Rate [1]

%

Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep

FY2018　　　　　　　　　　　FY2019　　　　　　　　　　　FY2020

Data labels shown on chart: 0.65%　0.64%　0.62%　0.66%　0.70%　0.71%　0.67%　0.55%　0.59%　0.65%

[1]：MRR churn rate = MRR lost in the month / MRR as of the end of previous month

Financial Results : 2nd Quarter

Net sales increased by 29.5% YoY. Gross profit also grew steadily by 28.0% YoY
Operating profit declined from the previous quarter mainly due to an increase in advertising expense

JPY MM	FY2019 2Q Same period last year	FY2020 1Q Previous quarter	FY2020 2Q Actual	YoY	QoQ
Net Sales	635	753	**823**	+29.5%	+9.3%
Gross Profit	483	563	**619**	+28.0%	+9.8%
Margin	76.1%	74.8%	75.2%	-0.9pt	+0.4pt
Operating Profit	-10	120	**41**	-	-66.0%
Margin	-	16.0%	5.0%	-	-11.0pt
Ordinary Profit	-10	119	**40**	-	-66.6%
Net Profit	-10	82	**5**	-	-94.3%

Financial Results : 1st Half of the Year

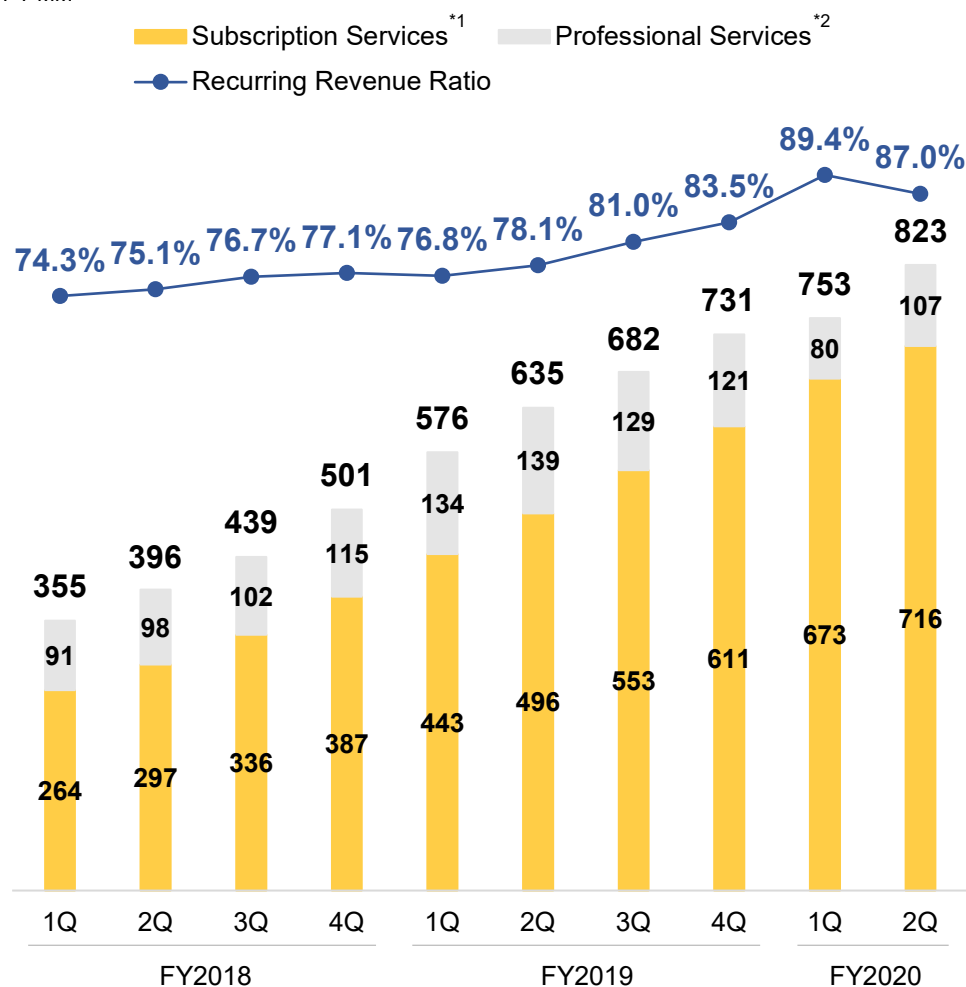Financial results for the 1st half of the year were in line with the forecast

JPY MM	FY2019 1H Actual	FY2020 1H Actual	FY2020 1H Forecast	YoY	vs. Forecst
Net Sales	1,211	**1,575**	1,575	+30.1%	+0.0%
Gross Profit	923	**1,182**	1,185	+28.1%	-0.2%
Margin	76.2%	**75.0%**	75.2%	-1.1pt	-0.2pt
Operating Profit	-4	**161**	145	-	+11.1%
Margin	-	**10.2%**	9.2%	-	+1.0pt
Ordinary Profit	-5	**159**	143	-	+11.3%
Net Profit	-7	**86**	75	-	+15.1%

Net Sales

Recurring revenue increased significantly by 44.4% YoY, and its ratio remains high

Net Sales (Quarterly basis)
JPY MM

- Subscription Services [1]
- Professional Services [2]
- Recurring Revenue Ratio

	FY2018				FY2019				FY2020	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Total	355	396	439	501	576	635	682	731	753	823
Professional	91	98	102	115	134	139	129	121	80	107
Subscription	264	297	336	387	443	496	553	611	673	716
Recurring Revenue Ratio	74.3%	75.1%	76.7%	77.1%	76.8%	78.1%	81.0%	83.5%	89.4%	87.0%

Net Sales (YoY)
JPY MM

- Subscription Services
- Professional Services

	FY2019 2Q	FY2020 2Q	
Total	635	823	
Professional Services	139	107	-23.3%
Subscription Services	496	716	+44.4%

[1]：Monthly subscription fee
[2]：Initial setting support, paid seminar and option services

Gross Profit and Operating Profit

Gross profit, a source of profitability, has increased steadily in line with the net sales growth
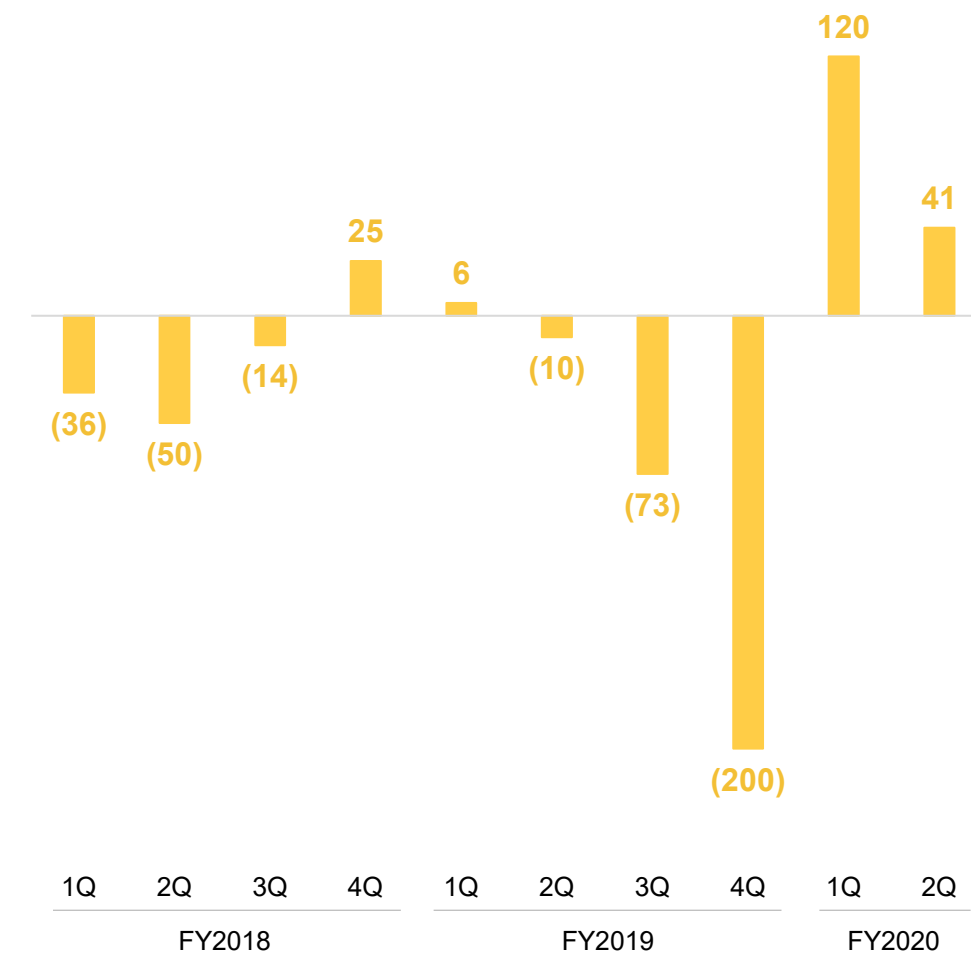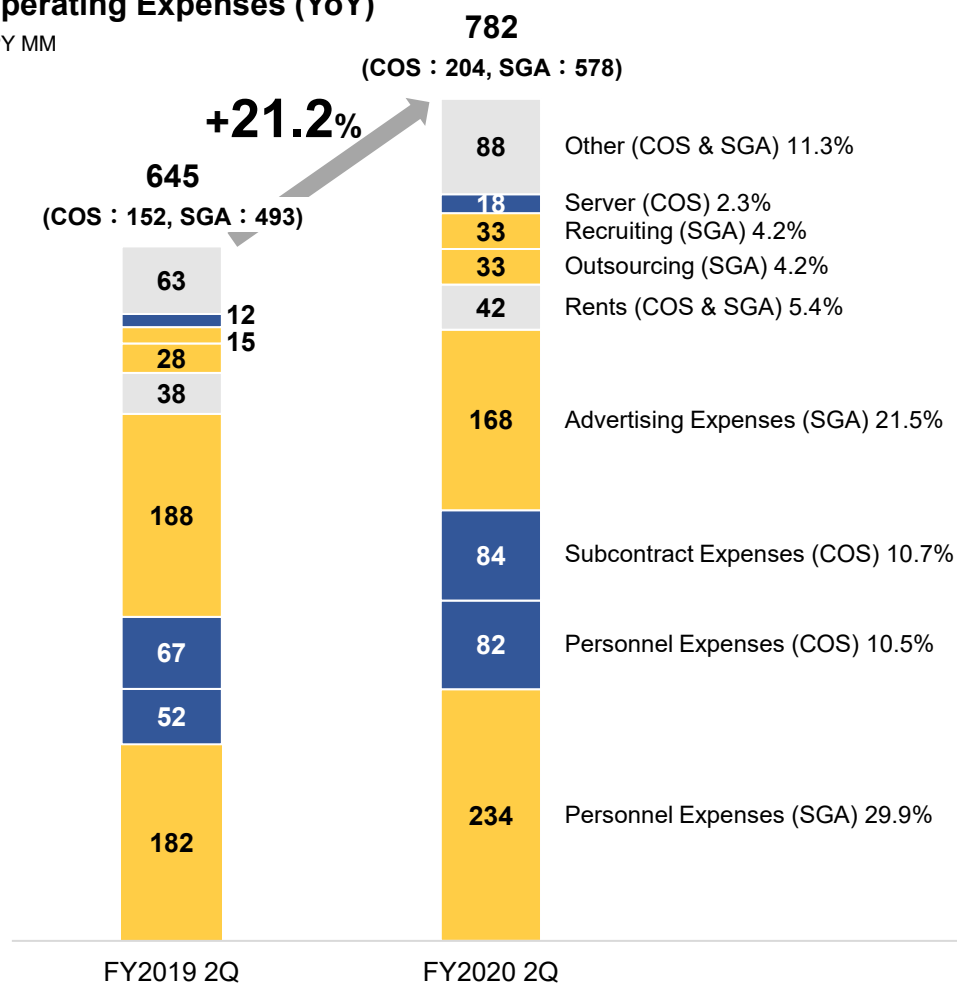
Gross Profit (Quarterly basis)
JPY MM

Gross Profit — Margin

	FY2018				FY2019				FY2020	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Gross Profit	204	248	297	358	439	483	514	536	563	619
Margin	57.6%	62.8%	67.7%	71.5%	76.3%	76.1%	75.3%	73.3%	74.8%	75.2%
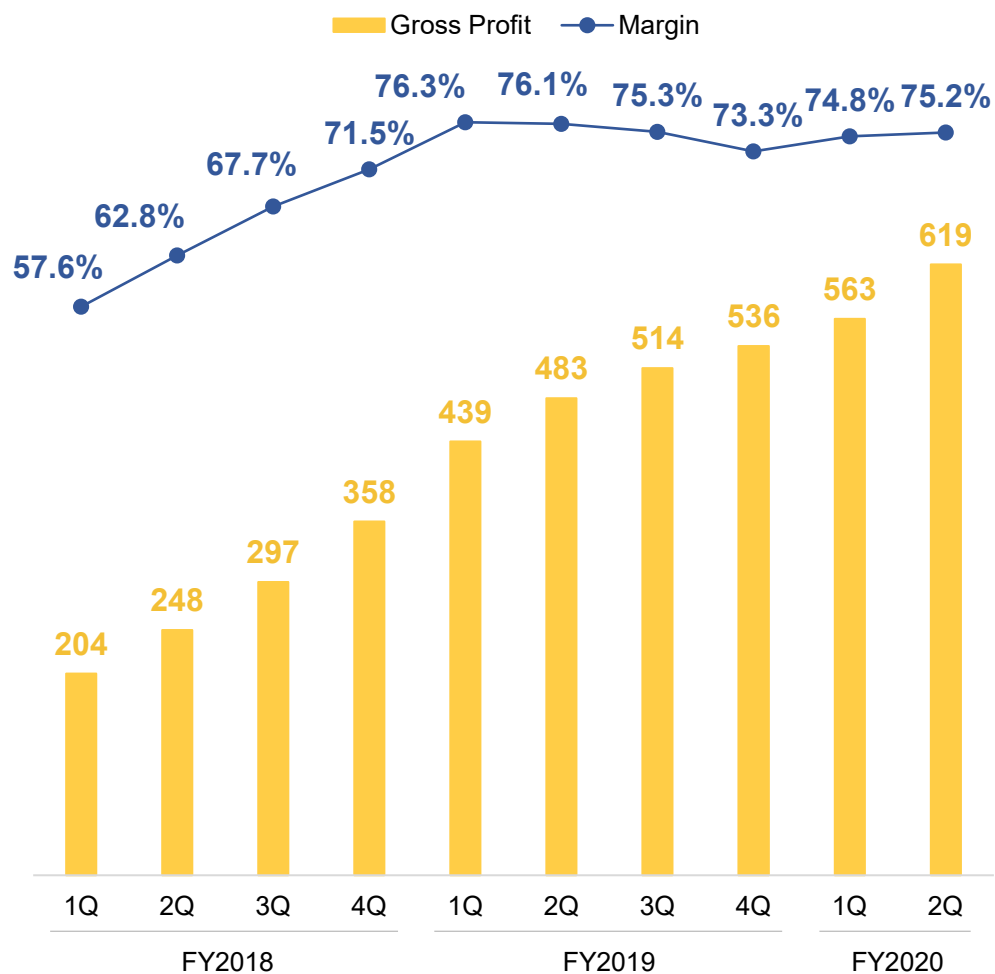
Operating Profit (Quarterly basis)
JPY MM

	FY2018				FY2019				FY2020	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Operating Profit	(36)	(50)	(14)	25	6	(10)	(73)	(200)	120	41

Cost Analysis

Operating expenses increased by 21.2% YoY, and recruiting activities are on track

Operating Expenses (YoY)

JPY MM

782
(COS：204, SGA：578)

+21.2%

645
(COS：152, SGA：493)

FY2019 2Q	FY2020 2Q	
63	88	Other (COS & SGA) 11.3%
12	18	Server (COS) 2.3%
15	33	Recruiting (SGA) 4.2%
28	33	Outsourcing (SGA) 4.2%
38	42	Rents (COS & SGA) 5.4%
188	168	Advertising Expenses (SGA) 21.5%
67	84	Subcontract Expenses (COS) 10.7%
52	82	Personnel Expenses (COS) 10.5%
182	234	Personnel Expenses (SGA) 29.9%

# of Employees by Group (YoY) *1

People

■ Sales & Marketing ■ Customer Success / Support ■ Engineer ■ Corporate

164

+41.4%

116

FY2019 2Q	FY2020 2Q
22	33
39	57
20	25
35	49
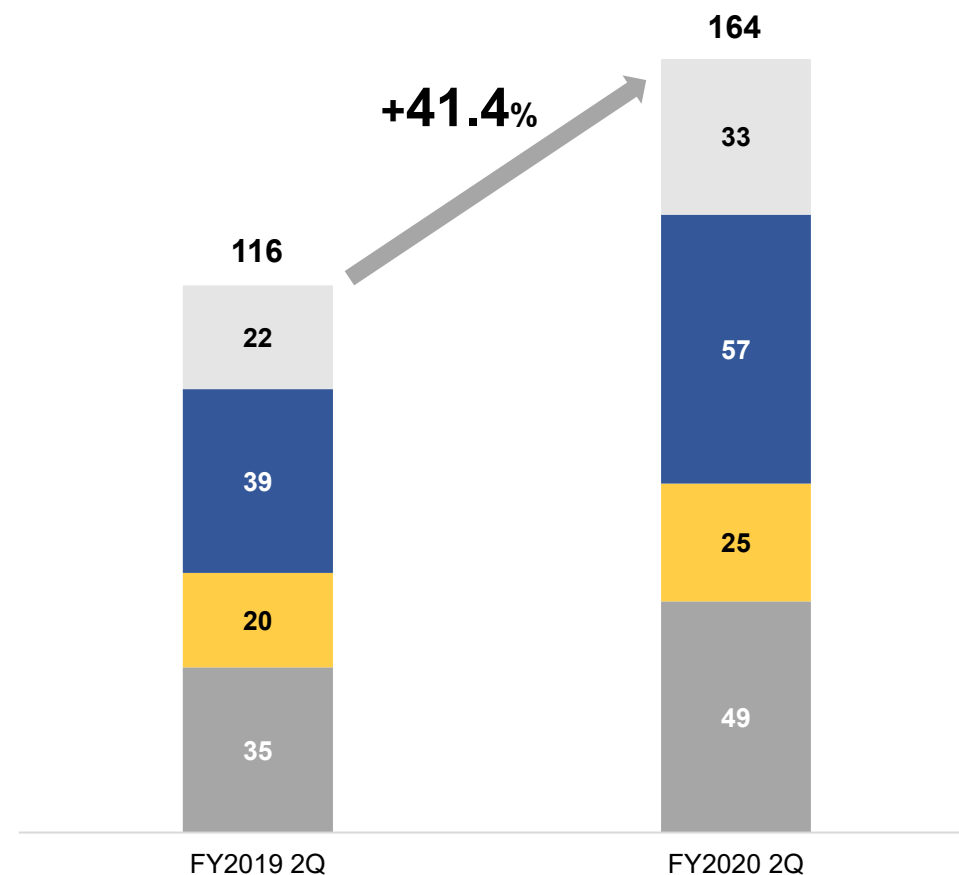
*1：The number of full-time employees as of end of September

Unit Economics

Maintaining healthy unit economics despite a decline due to an increase in advertising expense and other factors

Marketing-related Expenses [1] (Quarterly basis)
JPY MM

	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
	36	63	64	76	140	203	266	296	71	189
		FY2018				FY2019			FY2020	
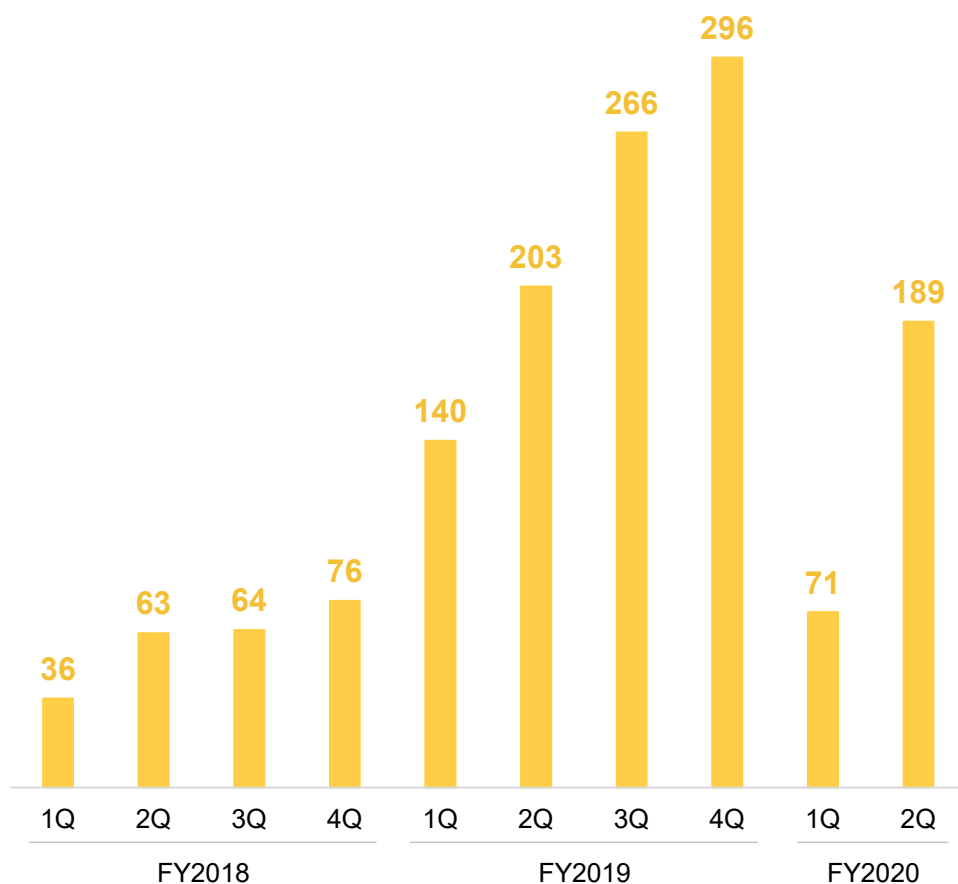
LTV/CAC [2] (Quarterly basis)
X

	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
	10.8	6.8	7.4	5.4	8.6	6.2	5.9	7.5	6.2	4.3
		FY2018				FY2019			FY2020	
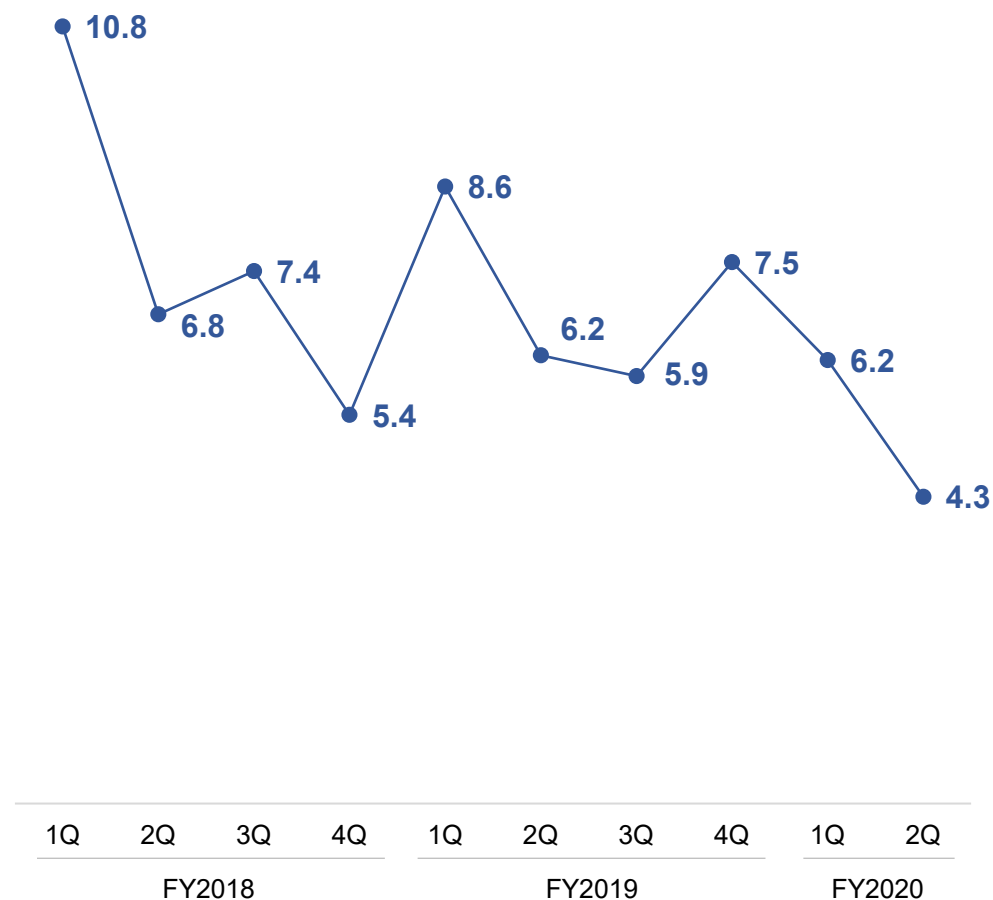
[1] : Expenses related to marketing activities such as advertising and sales promotion
[2] : LTV= (ARPU / Last 3-month average of MRR churn rate) x Gross profit margin
CAC= Sales & Marketing cost (personnel costs for sales & marketing, customer success and PR, marketing-related expenses, rents, system usage fee, etc.) / # of new customers acquired

Marketing Activities

Lead generation has been recovering since June

Website Conversion ^{*1} (Quarterly basis)

\# of website conversions in FY2018 1Q=1
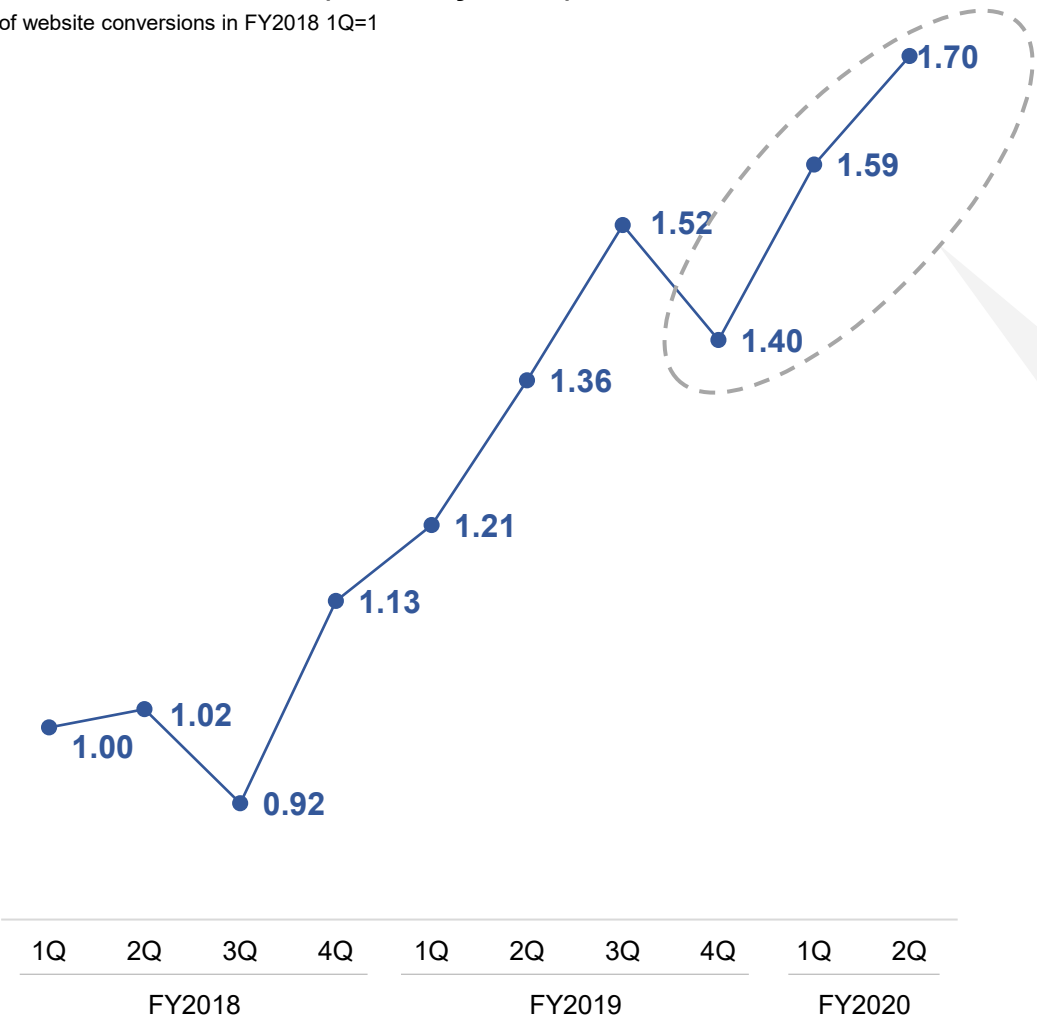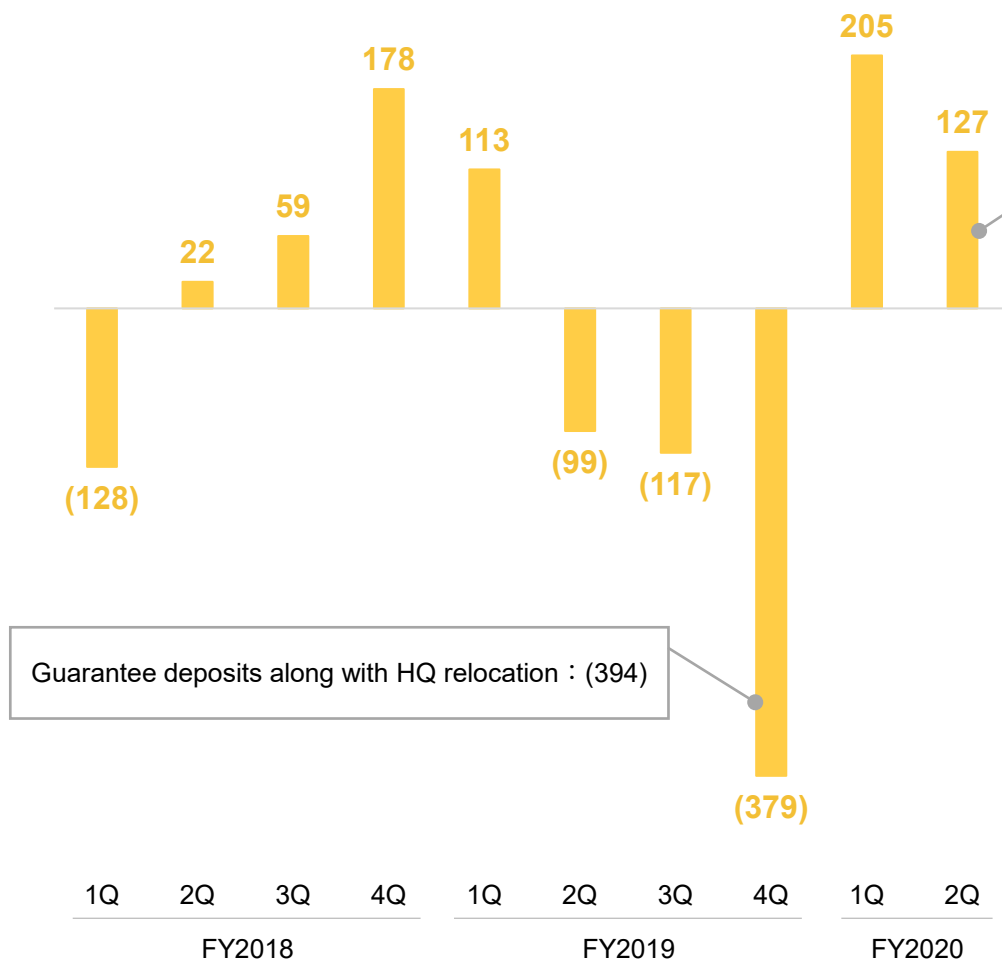

Website Conversion (Monthly basis)
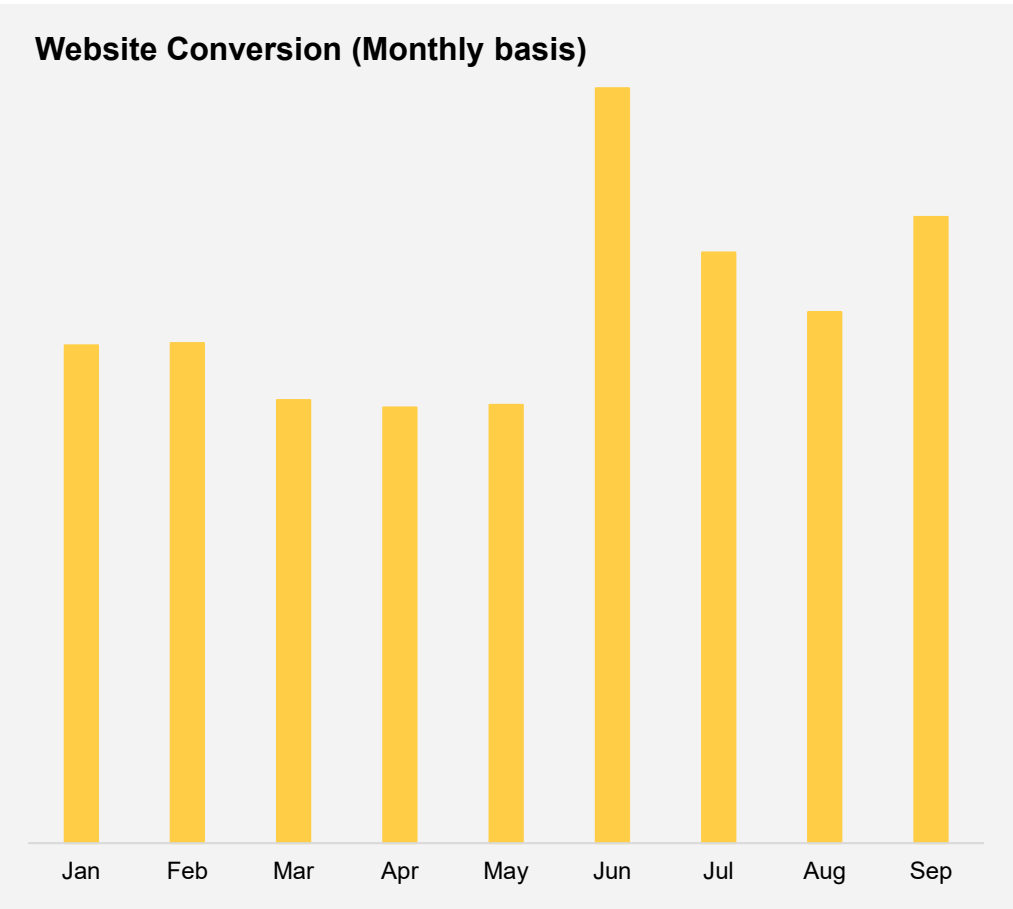
*1：The number of website conversions through organic traffic

Free Cash Flow and Deferred Revenue

Improving substantial cash-generation capacity steadily due to a growth of recurring revenue
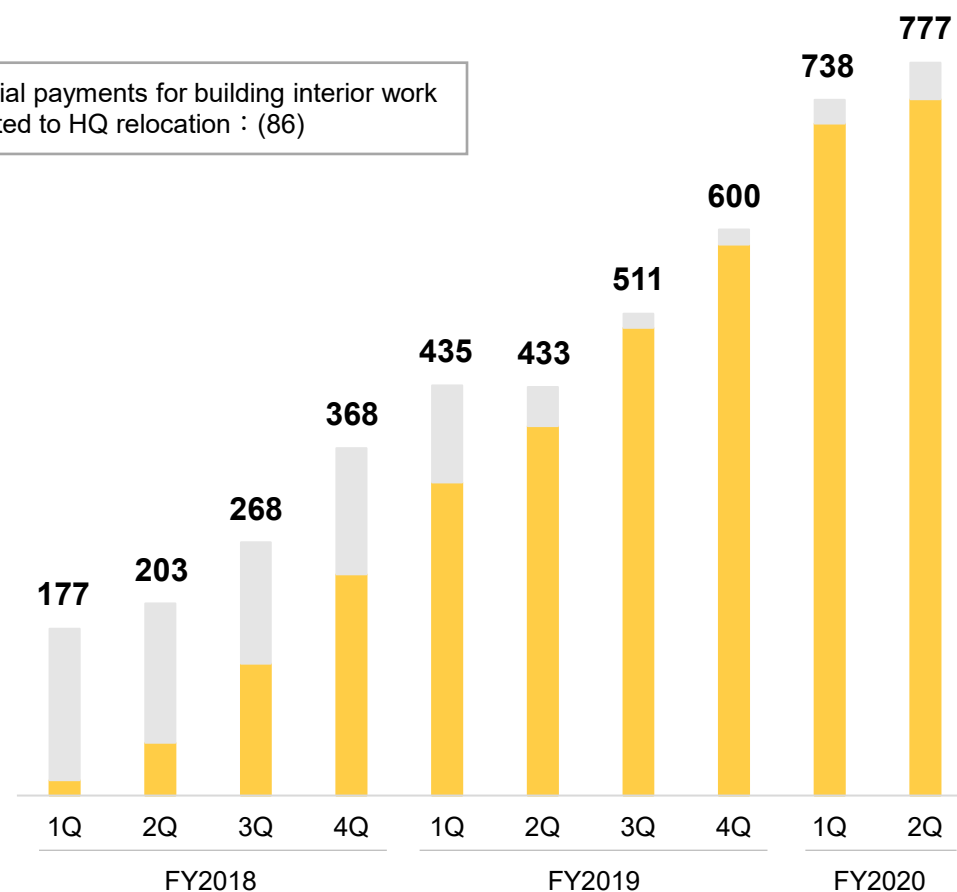
FCF (Quarterly basis)
JPY MM

- (128)
- 22
- 59
- 178
- 113
- (99)
- (117)
- (379)
- 205
- 127

Partial payments for building interior work related to HQ relocation：(86)

Guarantee deposits along with HQ relocation：(394)

1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
FY2018				FY2019				FY2020	

Deferred Revenue (Quarterly basis)
JPY MM

■ Subscription Services[1] ■ Professional Services

- 177
- 203
- 268
- 368
- 435
- 433
- 511
- 600
- 738
- 777

1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
FY2018				FY2019				FY2020	

*1：The ratio of annual payment to MRR in September 2020 was 56.3%

Ownership Structure

Ownership and Distribution of Shares

Legend:
- Indivisuals and Others
- Corporations
- Securities Firms
- Financial Institutions
- Foreign Institutions

2020/9 stacked bar:
- 19.6% (Foreign Institutions)
- 16.0% (Financial Institutions)
- 1.4% (Securities Firms)
- 24.0% (Corporations)
- 39.0% (Indivisuals and Others)

Institutional Investors

35.6% （March 2020：32.3%）

Major Shareholders

Recruit HD：21.8%

Hiroki Yanagihashi：30.1%

2020/9
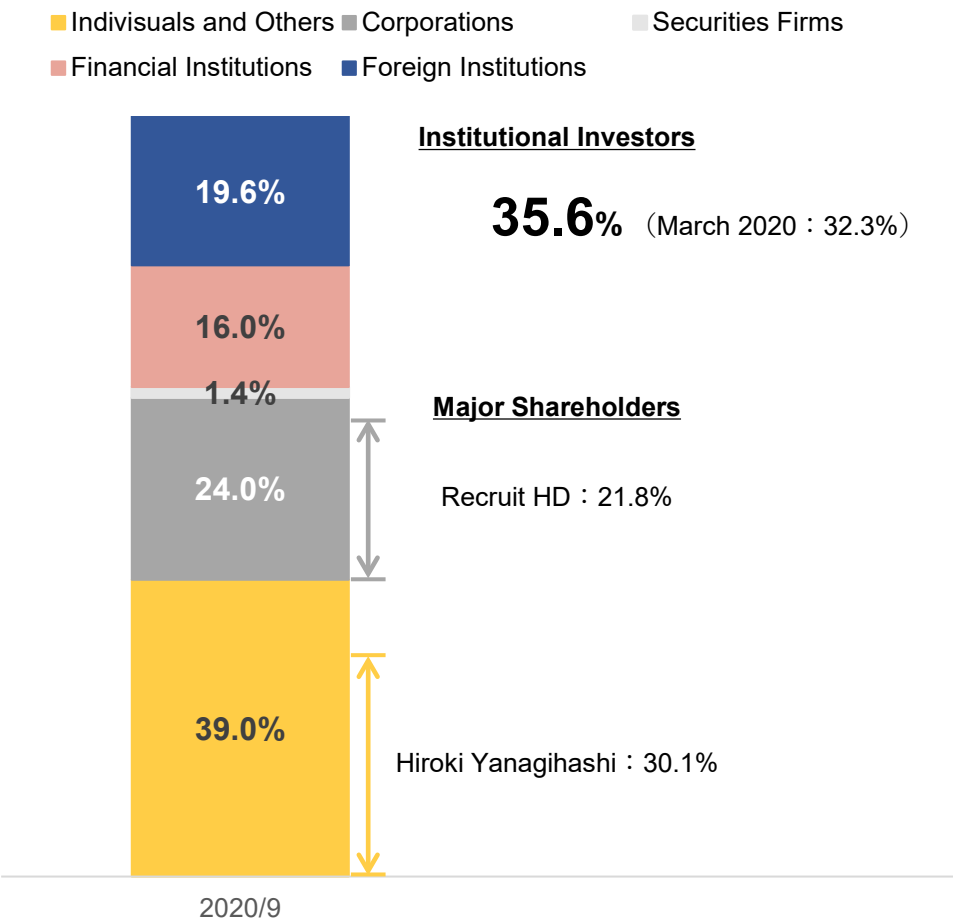
Ownership and Distribution of Shares Excluding Major Shareholders
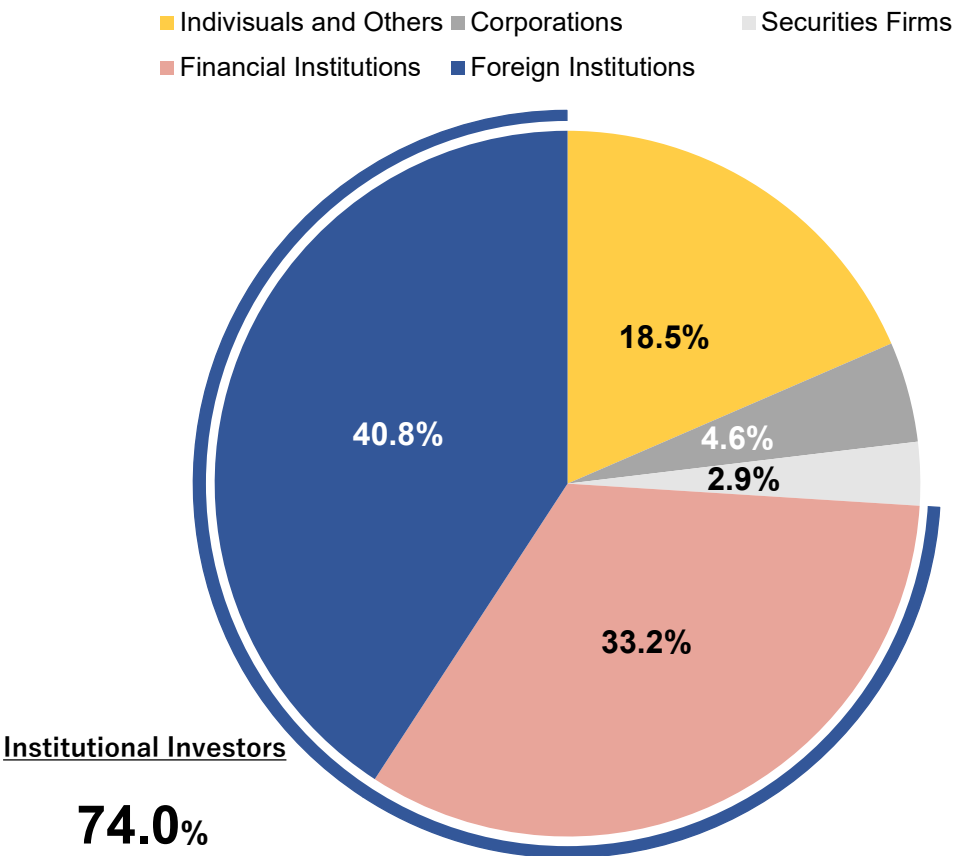
Legend:
- Indivisuals and Others
- Corporations
- Securities Firms
- Financial Institutions
- Foreign Institutions

Pie chart:
- 18.5% (Indivisuals and Others)
- 4.6% (Corporations)
- 2.9% (Securities Firms)
- 33.2% (Financial Institutions)
- 40.8% (Foreign Institutions)

Institutional Investors

74.0%

Impact of COVID-19

Business environment surrounding us has been improving since late May when the state of emergency was lifted

Process to Implementation

- Inquiry conversion

Leads

- Business contact

Prospects

- Sales order

Users / Customers

Business Trend

Inquiry conversion

A higher level than the previous year since June by making use of online seminars or events as well as mass media advertising

Business contact

A higher level than the previous year since August by enhancing inside sales measures combined with increasing inquiry conversions

Sales order

Recovered to **the same level as the previous year** in June, however, the lead time for decision-making still tends to be longer

Churn

Expected to **trend upward** over a certain time period as corporate earnings deteriorate due to the prolonged socioeconomic downturn

Financial Forecast : Full-year

Net sales are expected to grow by 27.2~29.5% YoY. Gross profit margin is expected to turn out approximate 71~73%
Expenses of JPY178MM [1] will be recorded relating to the headquarters relocation scheduled in November 2020

JPY MM	FY2019 Actual	FY2020 Forecast	Change Amount	YoY
Net Sales	2,625	**3,340 ~ 3,400**	+715 ~ +775	+27.2 ~ +29.5%
Gross Profit	1,972	**2,390 ~ 2,490**	+418 ~ +518	+21.2 ~ +26.2%
Margin	75.1%	**71.6% ~ 73.2%**	-	-3.6 ~ -1.9pt
Operating Profit	-278	**-210 ~ 90**	+68 ~ +368	-
Margin	-	-	-	-
Ordinary Profit	-280	**-216 ~ 84**	+64 ~ +364	-
Net Profit	-357	**-330 ~ -30**	+27 ~ +327	-

*1：JPY108MM out of JPY178MM is expected to be recorded as an extraordinary loss
We will disclose it promptly when the amount of headquarters relocation expenses changes in accordance with the progress of the relocation project

Net Sales Forecast

While anticipating negative YoY growth in professional services due to a slowdown in new customer acquisition affected by COVID-19, recurring revenue is expected to increase by more than 40% YoY

Net Sales Forecast (YoY)
JPY MM

■ Subscription Services ■ Professional Services

+27.2~29.5%

3,340~3,400

2,625

380~420   **-27.3~ -19.6%**

523

2,960~2,980   **+40.8~41.8%**

2,102

FY2019   FY2020
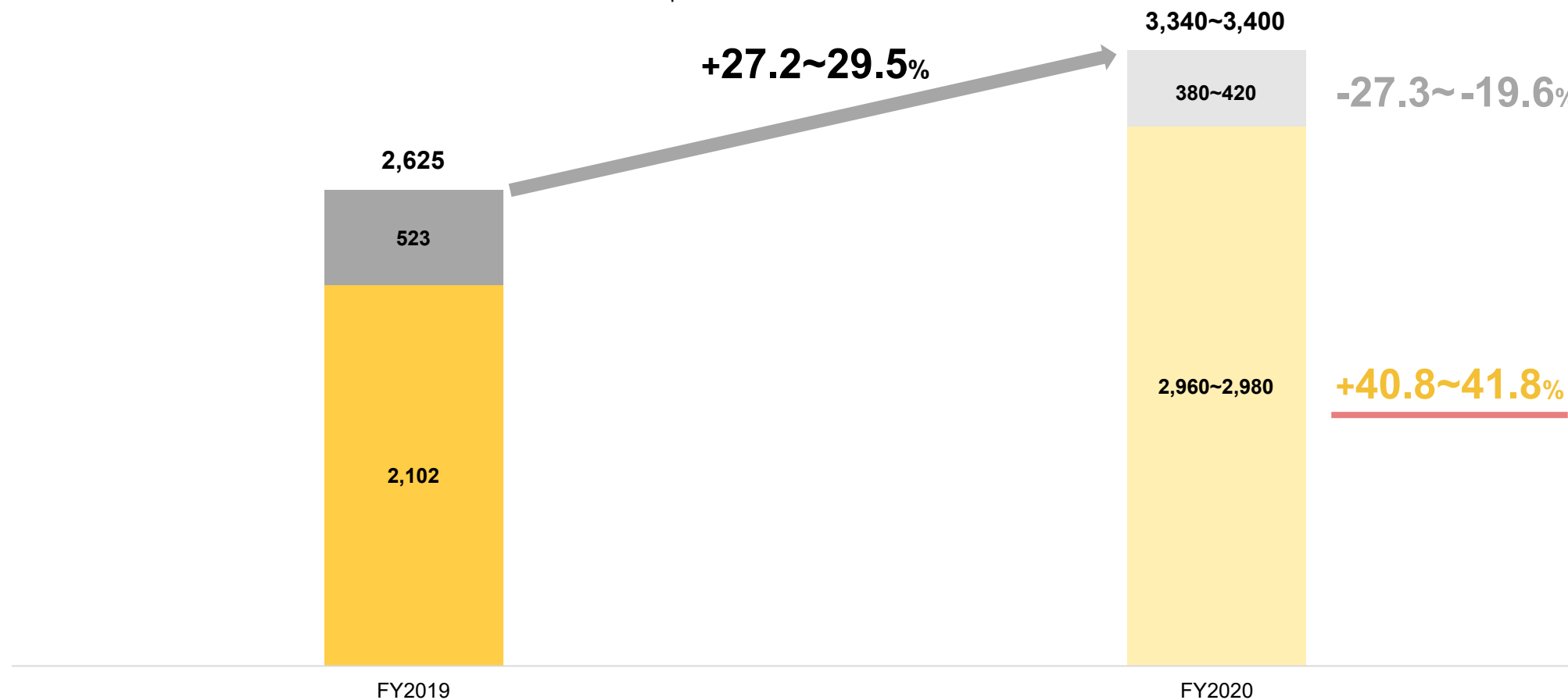
Cost Discipline

Plan to proactively hire and invest in marketing activities to re-accelerate the growth rate for the next fiscal year and beyond

Staffing Plan (# of Employees)

People

175~210

+13.6~36.4%

154

March 2020   March 2021
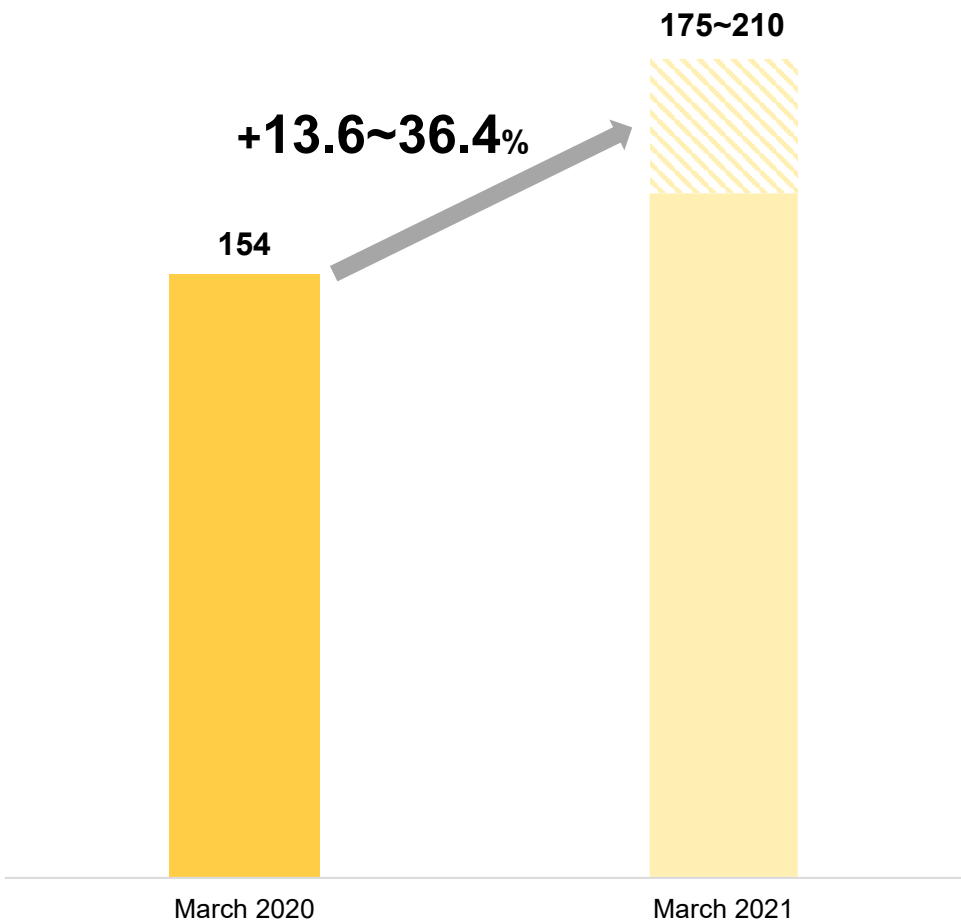
Marketing-related Expenses Forecast

JPY MM

905

600~700

2nd Half   562   340~440

1st Half   343   260

2020/3   2021/3
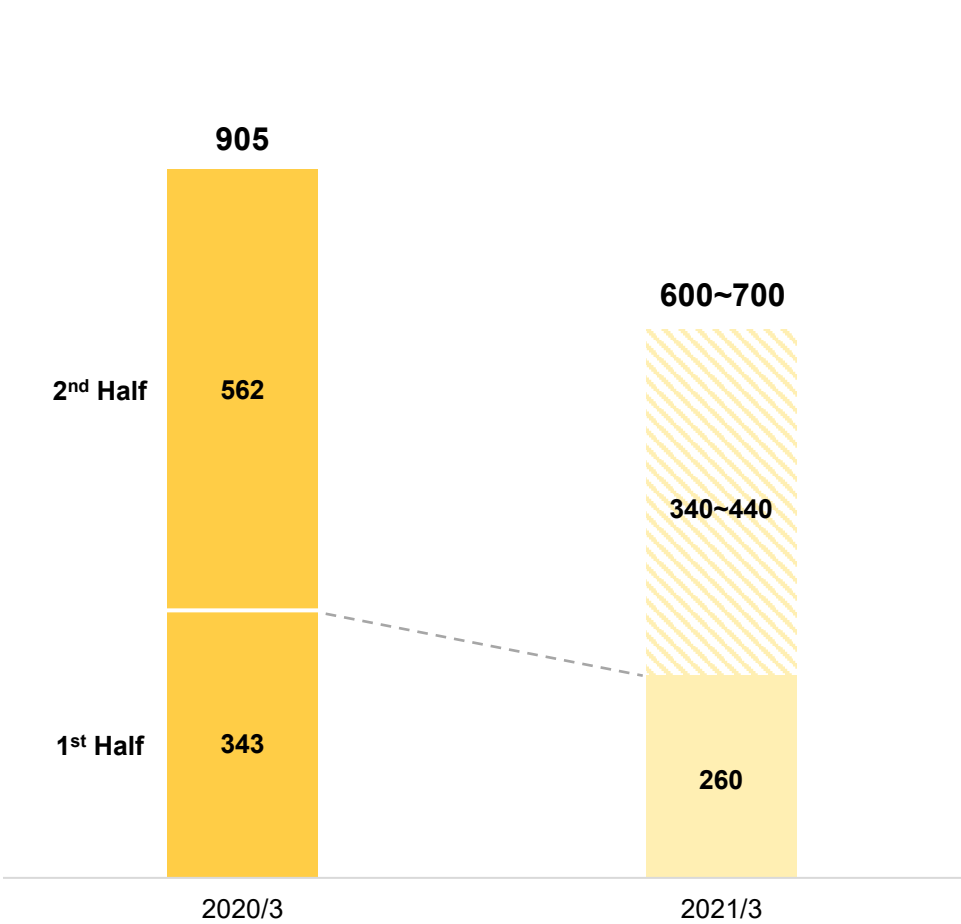
Grand Design of Mid-term Growth

Net sales, GP margin and OP margin to grow up to JPY10bn, 80% and 30% respectively in FY2023 [1]

	FY2019	FY2023
Net Sales	2.6 JPY bn	10 JPY bn
Gross Profit Margin	75.1 %	80 %
Operating Profit Margin	Negative	30 %

[1]：The figures shown illustrate a mid-term growth projection and represent a single milestone not a commitment

1. FY2020 2Q Financial Highlights

2. FY2020 Financial Forecast

3. Appendix

Company Overview

Name	：	kaonavi, inc.
HQ Office	：	5F AKASAKA K-TOWER, 1-2-7 Moto-Akasaka, Minato-ku, Tokyo
Established	：	May 2008 (Commencement of business : April 2012)
# of Employees	：	164 (September 2020)
Business	：	Providing a cloud-based human resource management system "KAONAVI"
Board of Directors	：	Hiroki Yanagihashi, Representative Director, President & CEO
		Hiroyuki Sato, Director, Executive Vice President & COO
		Kimitaka Hashimoto, Director & CFO
		Suguru Kobayashi, Outside Director, Director of Field Management Human Resource Inc.
		Jiro Ito, Auditor
		Hiroyuki Yamada, Auditor
		Masaharu Adachi, Auditor
		Akemi Higuchi, Auditor
Major Shareholders	：	Hiroki Yanagihashi
		Recruit Holdings Co., Ltd. (RSI Fund 1 LLC)

Mission / Vision

Mission | **Innovate management to focus on individuality**

Vision | **Create a HR data-centric platform**

Japan's Labor Market Challenges

Japan faces low labor productivity and decline of working-age population

OECD Countries' Labor Productivity (2016, per workers)

PPP Conversion : US$ 1,000
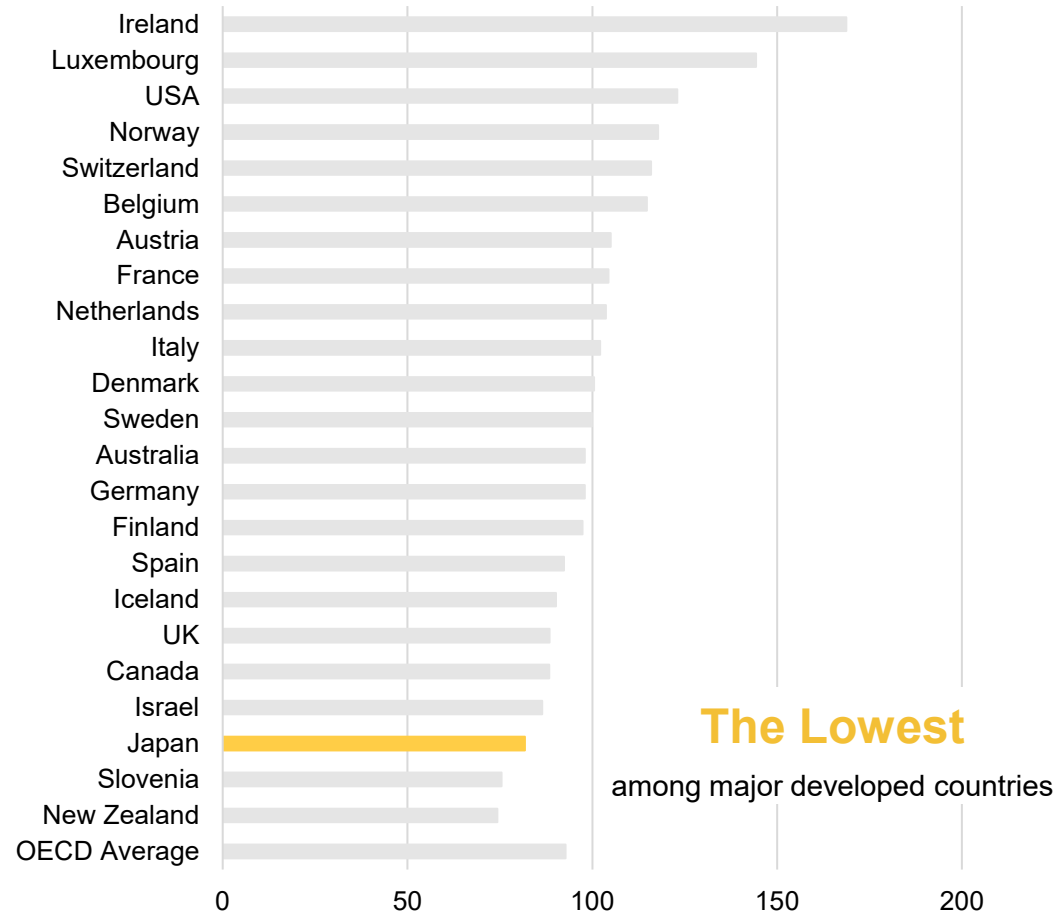
Country	
Ireland	
Luxembourg	
USA	
Norway	
Switzerland	
Belgium	
Austria	
France	
Netherlands	
Italy	
Denmark	
Sweden	
Australia	
Germany	
Finland	
Spain	
Iceland	
UK	
Canada	
Israel	
Japan	
Slovenia	
New Zealand	
OECD Average	

The Lowest

among major developed countries

Japan's Population Projections by Age

Million people

Legend: ▢ 0〜14 years ▢ 15〜64 years ▢ 65 years〜

Year	15〜64 years
2010	81
2016	77
2020	74
2030	69
2040	60
2050	53
2060	48
2065	45
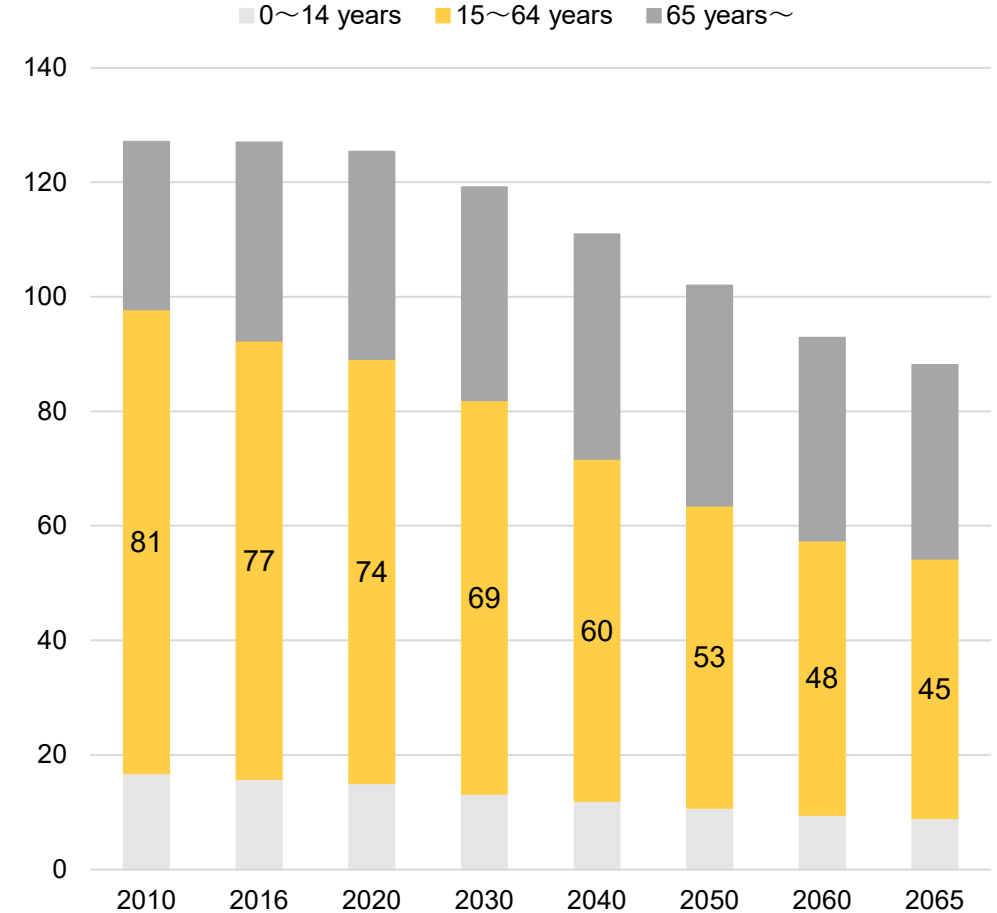
Rising Demand for HR Management

HR management is considered imperative for solving various HR issues that companies confront

Understaffing

Evolving people practices

Recruitment difficulties

Retention

Succession plans

Productivity improvement

Long working hours
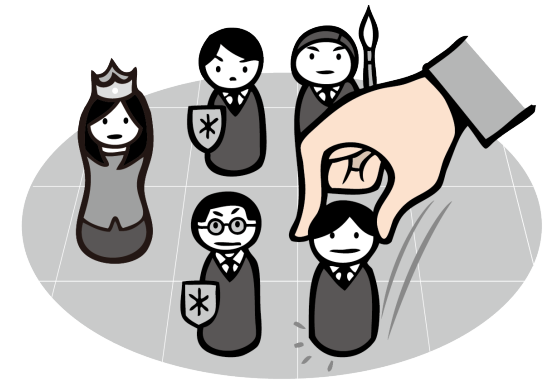
HR Management

- Centralized and visualized HR data
- Well-fit employee placement
- Build and operate transparent performance review
- Streamlined people development in place

Business Realm

Providing services in HR management area such as performance management, retention and placement

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HR Management

Talent Management System

- Placement
- Objective Mgmt
- Performance Mgmt
- Recruitment
- Employee Development
- Turnover Prevention

Labor Management

ERP System
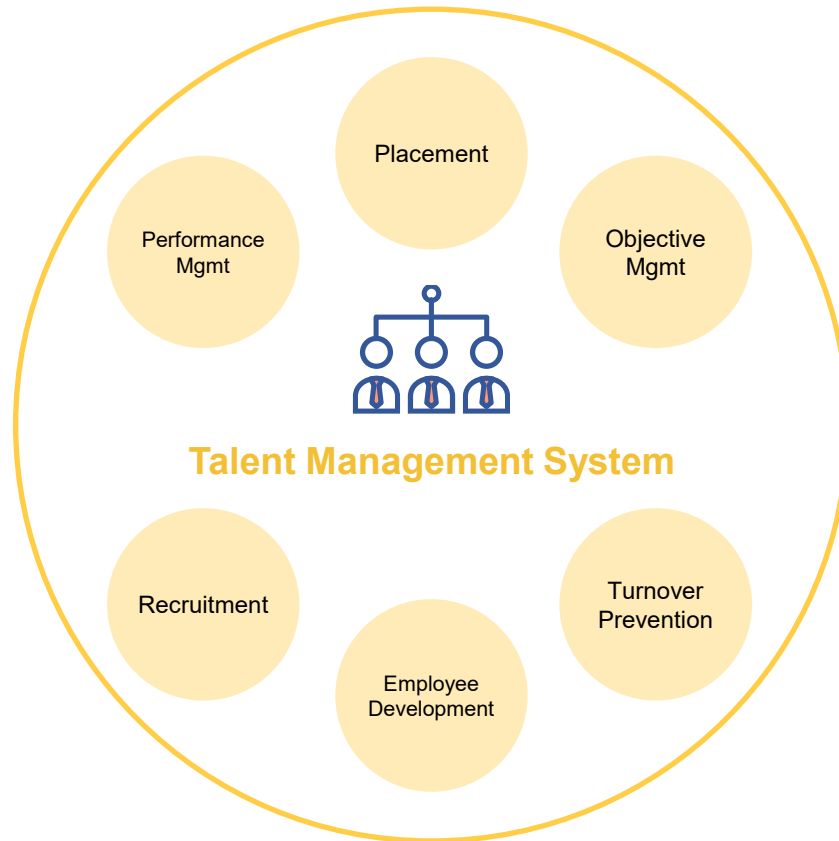
- Payroll
- Personal Statement Application
- Time & Attendance Mgmt
- Social Insurance
- Year-end Adjustment
- Employment Contract
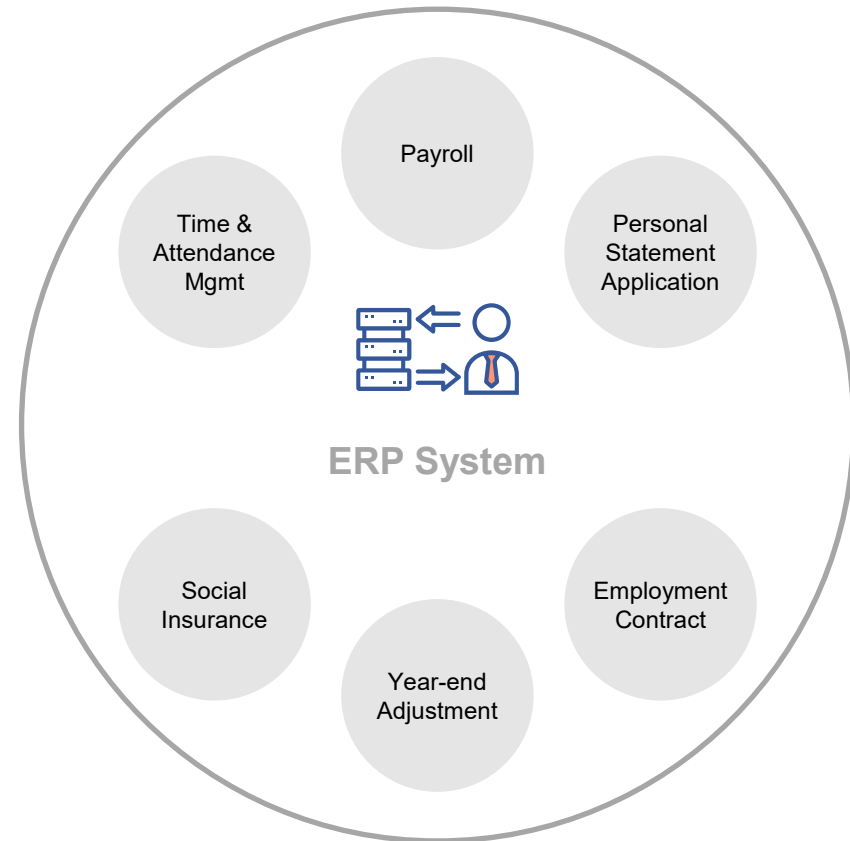
Feature of KAONAVI

A database-centered product to enhance HR management operations

HR Operations

Performance review	Promotion / Placement	Personal application
Recruitment	Training & development	Engagement
Data aggregation / analysis	. . . .	

HR Database

Retirement

Promotion

Recruitment

Onboarding

Training and development
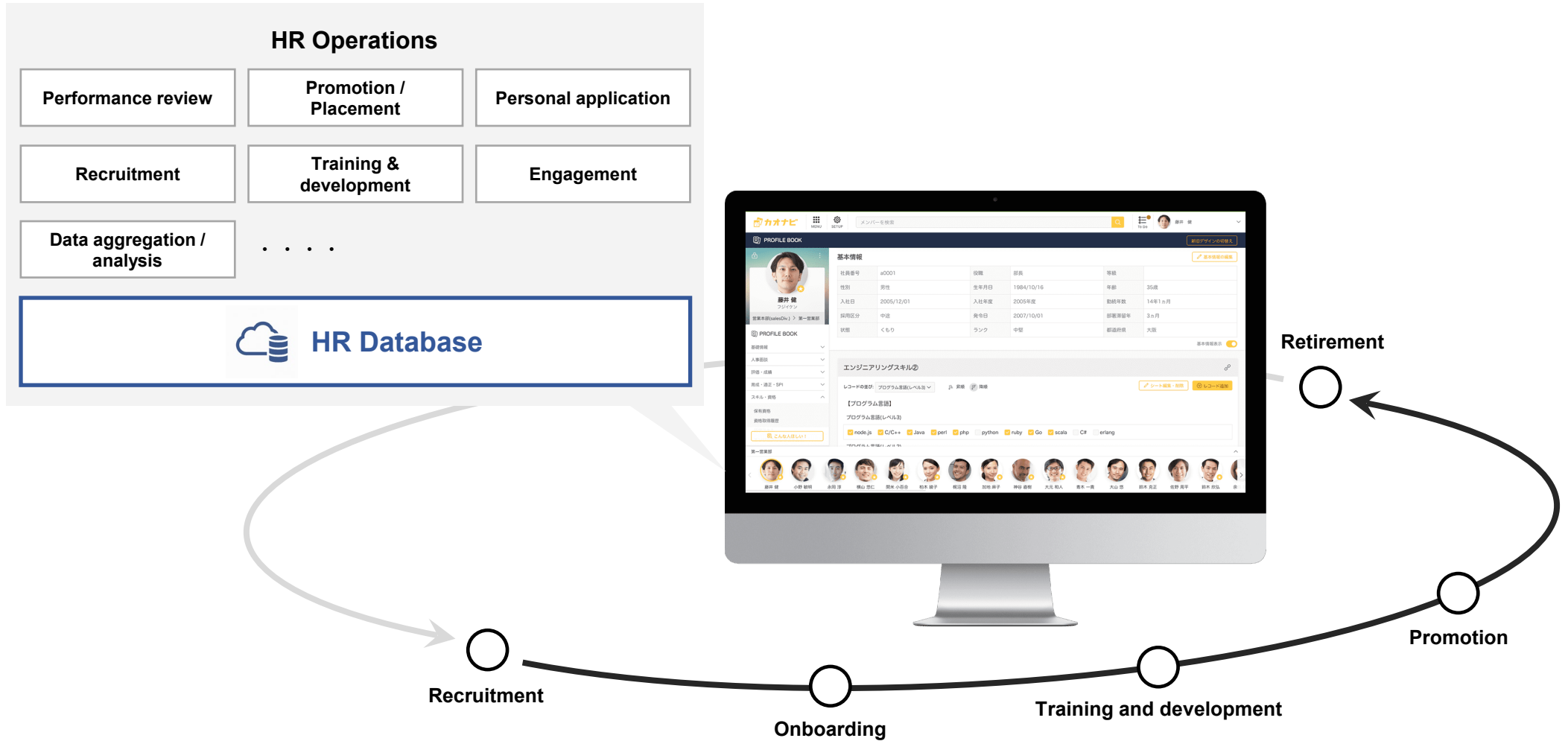
Functional Advantage as a HR Database

It enables customers to construct database easily and freely on their own without any engineering involved
Access control can be set for each customized item

Easy to customize database layout by "drag and drop"

Appreciating Individuality

Highly productive HR management through optimal placement based on a multifaceted comprehension of employees, including their talents, personality as well

Features and Effects

Provide useful functions for HR management, and contribute to promote "Work Style Reform"

KAONAVI's features and expected effects

HR Database	Pickup List	Organization Chart	Review Workflow	Employee Survey
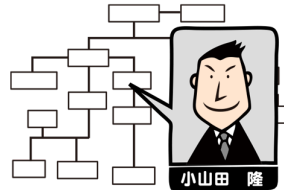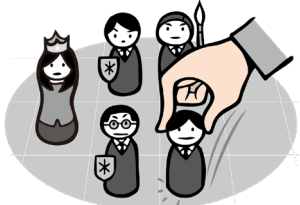
Matrix Chart	Employee Data Graph	Pulse Survey	Aptitude Test (SPI3)	Mobile Apps
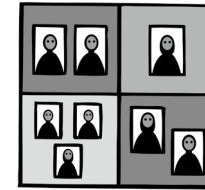
Business Efficiency

Centralize all HR data in cloud

Productivity Improvement

Right person for the right position through talent visualization
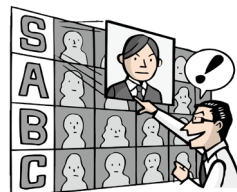
Talent Development

Transparent evaluation process set out by workflow

Turnover Prevention

Better communication, highly engaged

Management Enhancement

Focus on HR strategy based on visualized HR data

Customer Stories

Empowering a wide range of customers regardless of industry to solve their HR issues

To centralize and share HR data !

株式会社ユーミーClass	Aimed to "match faces with names", and "be freed from Excel". Future goal is to further improve communication.
kai group	KAONAVI greatly improved efficiency of HR operations by "visualizing HR data".
Net Protections	Dug up and made accessible the information that tends to be "black-boxed" using KAONAVI. Developed an organization where not only the HR division, but all employees have become engaged.
avex	Assessed the personalities of all employees with KAONAVI. Raising motivation of employees by "visualizing" their jobs, such as listing person in charge by the project.

To enhance employee engagement !

| 松屋 | Consolidated HR data in KAONAVI. Matching stores' staff with the manager can prevent turnover. |
| GlobalKids | After 2 and half years of using KAONAVI, employees' satisfaction has improved, also employees' turnover has dropped below the national average. |

To streamline performance review process !

BANDO	Reduced more than 100 hours of performance review work time throughout the year! Improved employee satisfaction by "visualizing" feedbacks.
WONDERTABLE	Assessment process that required 2 weeks now takes only 1 week! KAONAVI has also contributed to the improvement of the "quality" of performance reviews.
えがお	Helping employees develop by integrating goal settings, feedback records and evaluation. KAONAVI also enables us to improve employee engagement and workstyle.

To realize strategic placement/selection/transfer/development !

産經新聞社	Deciding factor was the outstanding "simple and easy to view" usability. We aim to visualize journalists' skills, then assign them with their skill development in mind.
TERUMO	KAONAVI is used to select executive candidates from ca. 4,800 employees. Strengthening people development measures through sharing information between the management and HR department.
CyberAgent	Matched all the faces and names of 3,000 employees within the Group. Carried out bold placement and selection using the organization chart on the cloud.

Fee Structure

Offer three subscription plans with different sets of functions and charge based on registered employees

	DATABASE PLAN	PERFORMANCE PLAN	STRATEGY PLAN
	Consolidate all personnel data	Efficient review operation	Strategic HR management
HR Database	✓	✓	✓
Pickup List	✓	✓	✓
Organization Chart	✓	✓	✓
Review Workflow		✓	✓
Employee Survey		✓	✓
Matrix Chart			✓
Employee Data Graph			✓
Dash Board			✓
Option Services ※1	✓	✓	✓

*1：Aptitude Test (SPI3), Pulse Survey and so on

Market Position
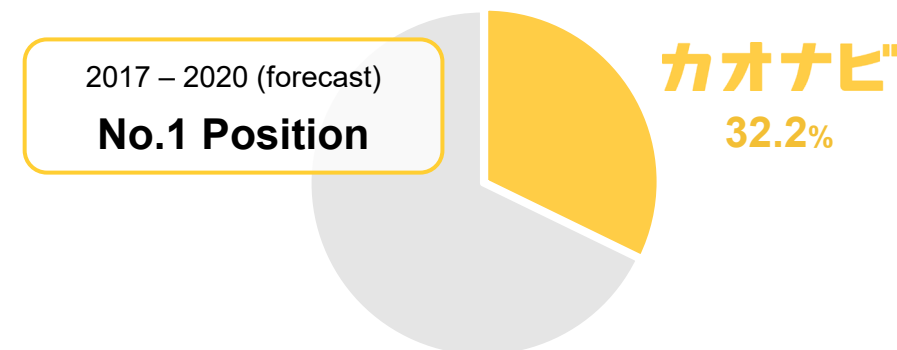
The market leader in HR management system

Trend in Active Users

Companies

Year	Users
2013/3	21
2014/3	40
2015/3	98
2016/3	203
2017/3	445
2018/3	854
2019/3	1,293
2020/3	1,789
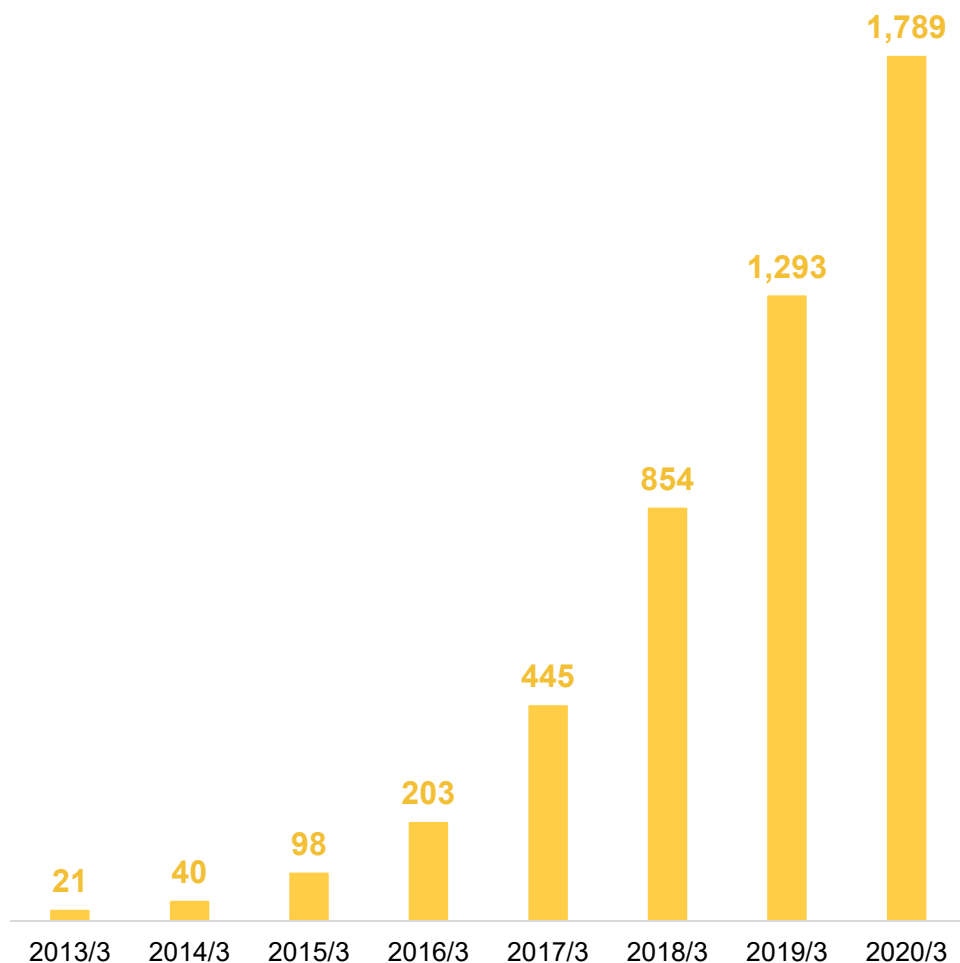
*1：As of March 31, 2020

Market Share of Shipment (2020 forecast)

2017 – 2020 (forecast)

No.1 Position

カオナビ
32.2%

Source：HRTech cloud Market – HR and deployment cloud by MIC Research Institute, January 2020

Customers [*1]

一休.com　Money Forward　sansan　KADOKAWA　NIKKEI

MBS　FamilyMart あなたと、コンビに、　TORIDOLL→　TOYOTA　日本キャタピラー CAT

MARUHA NICHIRO　MITSUBISHI ELECTRIC Changes for the Better　LIXIL Link to Good Living　森永乳業 morinaga　NISSIN GROUP

MIZUHO みずほフィナンシャルグループ　JCB　Panasonic Homes & Living　KINTETSU GROUP HOLDINGS　RITSUMEIKAN

Growth Potential

KAONAVI's target market is still uncultivated, and its growth potential is significantly large
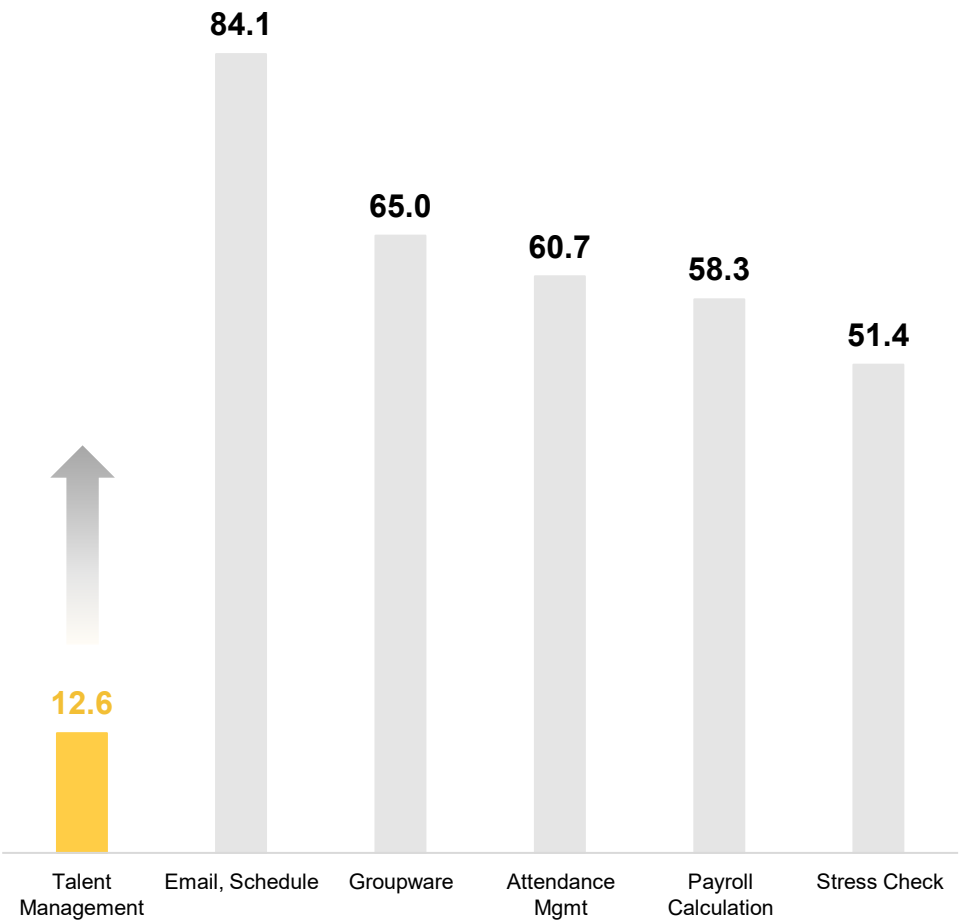
# of Companies in Japan

Companies

Adoption of HR-related IT Systems in Japan

Implementation Rate：%
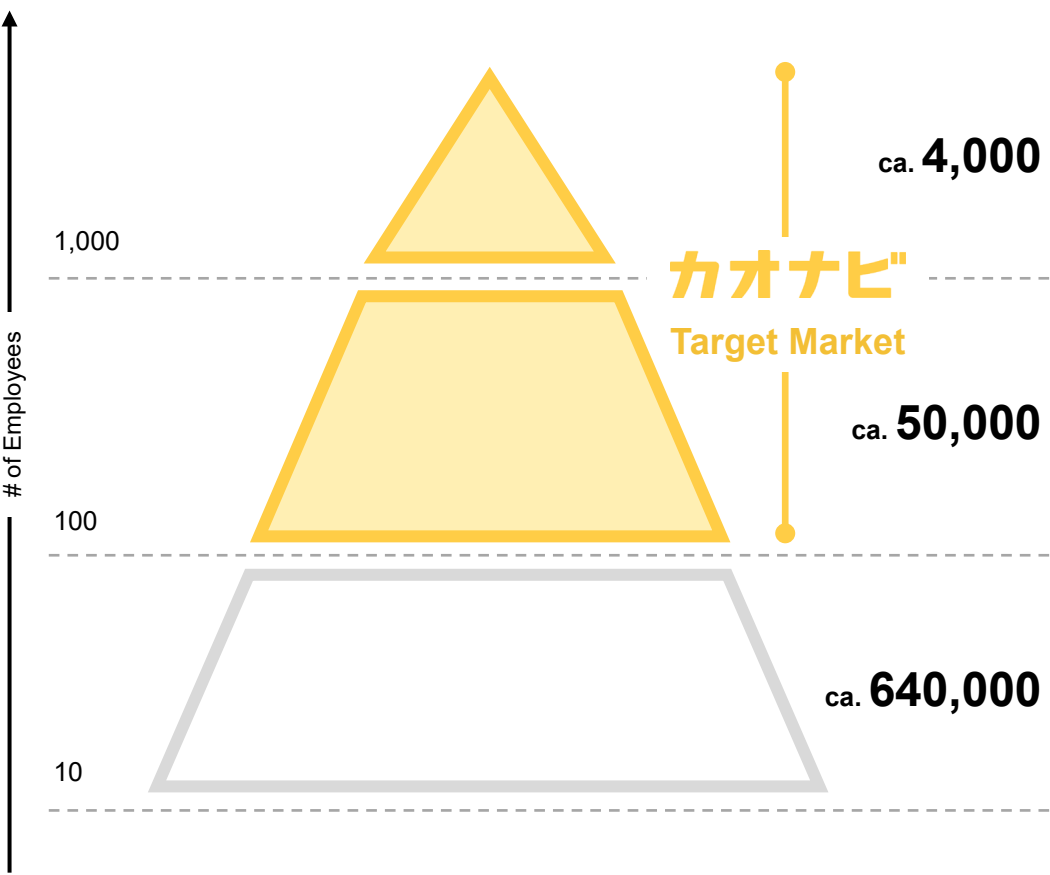
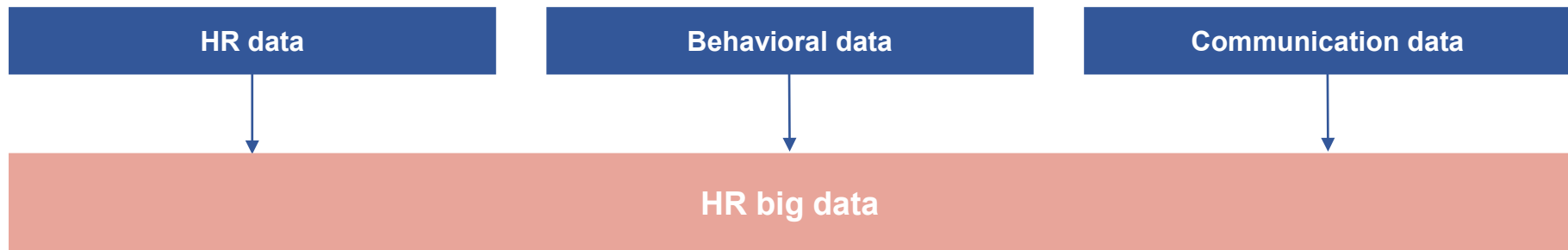Source：kaonavi, based on MIC and METI "2012 Economic Census for Business Activity"

Source：IDC Japan, July 2017

Future of HR Management

Harnessing dynamic data in addition to static data to make HR management more advanced than ever before

HR data	Behavioral data	Communication data

HR big data

⇒ Analyze high performers, identify signs of turnover, prevent hiring mismatches, and conduct personalized development programs

Technical Advisor

Masaya Mori

Partner at Deloitte Tohmatsu Consulting LLC
Specially-appointed Professor at Tohoku University
Advisor at Japan Deep Learning Association

Joined Rakuten Inc in 2006 after leading advanced technology group at Accenture. As Rakuten Executive Officer and Global Head of Rakuten Institute of Technology, he was in charge of developing and implementing strategies of AI, IoT and Big Data solutions and managing seven institutes in 5 countries.

The HR Data Platform Structure

Create and leverage a HR data platform to access new business areas
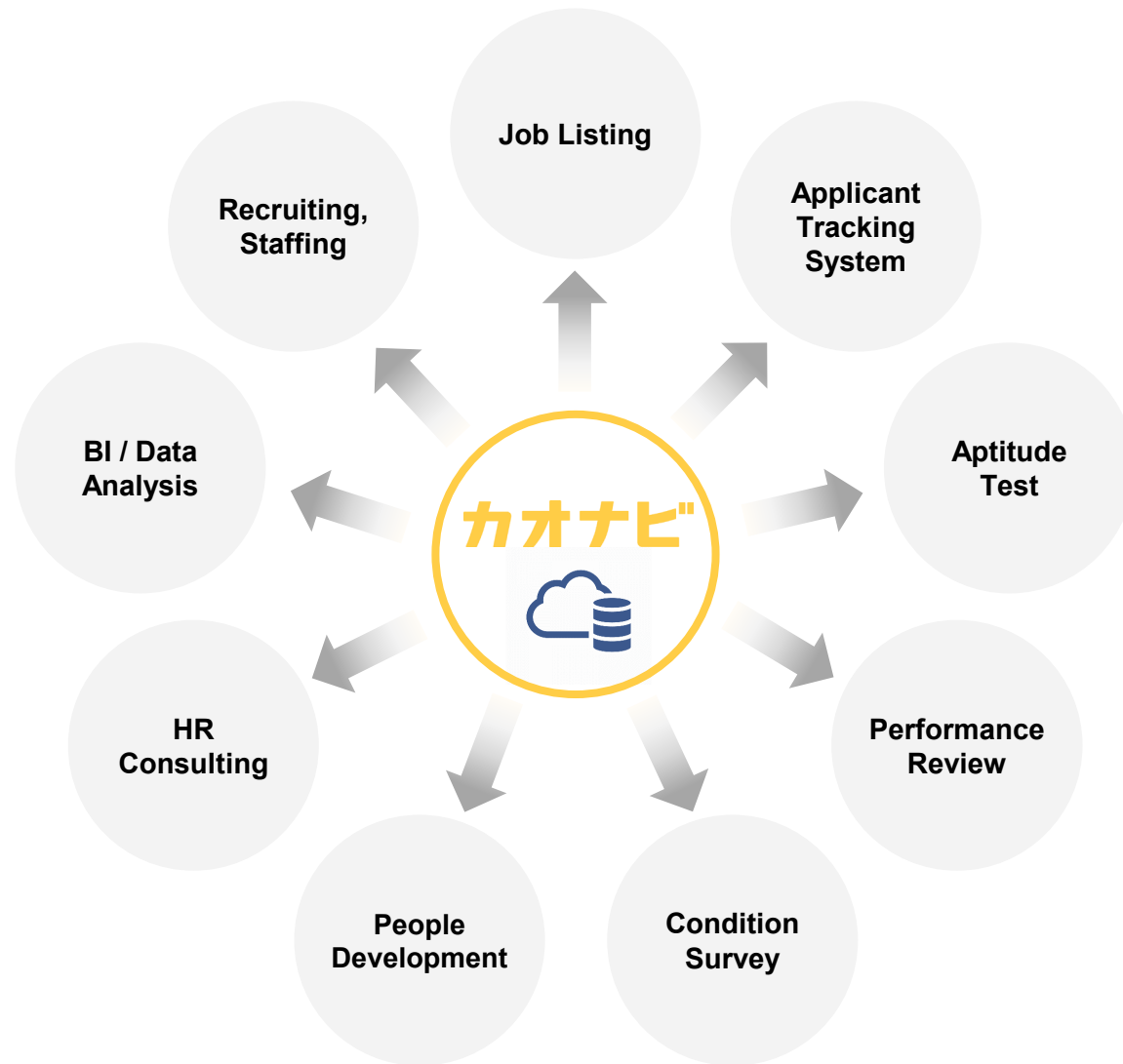
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The forward-looking statements set out in this material including performance outlooks are based on information currently available to kaonavi, inc. and on certain assumptions deemed rational, and may therefore differ materially from actual results due to uncertainties in judgements or assumptions, or for other reasons.

Such factors of uncertainty and change include both general, domestic and international economic conditions, such as general industry and market conditions, interest rates, and foreign exchange fluctuations.

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