カオナビ

FY2020 3Q Financial Results

February 12, 2021

1. FY2020 3Q Financial Highlights

Business Highlights

Active Users

1,965 Companies

ARPU [1]

137 JPY Thou.

Recurring Revenue Ratio [2]

87.5 %

Active Users by the Size of Registered Employees
Companies

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

	FY2018 1Q	2Q	3Q	4Q	FY2019 1Q	2Q	3Q	4Q	FY2020 1Q	2Q	3Q
Total	961	1,075	1,194	1,293	1,410	1,536	1,643	1,791	1,842	1,911	1,965
1,000~ people		178	188	204	227	241	272	295	302	315	317 (16.1%)
200~900 people		617	699	772	858	944	1,009	1,125	1,178	1,233	1,286 (65.4%)
100 people		280	307	317	325	351	362	371	362	363	362 (18.4%)

ARPU
JPY Thou.

	FY2018 1Q	2Q	3Q	4Q	FY2019 1Q	2Q	3Q	4Q	FY2020 1Q	2Q	3Q
ARPU	94	95	98	102	108	112	117	121	126	131	137

*1：Average monthly subscription fee per user company (FY2020Q3)
*2：The ratio of revenue from subscription services to net sales (FY2020Q3)

Subscription KPIs

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

Growth Rate of Recurring Revenue [1]

39.6 %

Growth

LTV/CAC [2]

4.7 x

Profitability

MRR Churn Rate [3]

0.65 %

Retention

[1]：Growth rate of quarterly recurring revenue over the same period last year (FY2020Q3). Please refer to page 7 for details
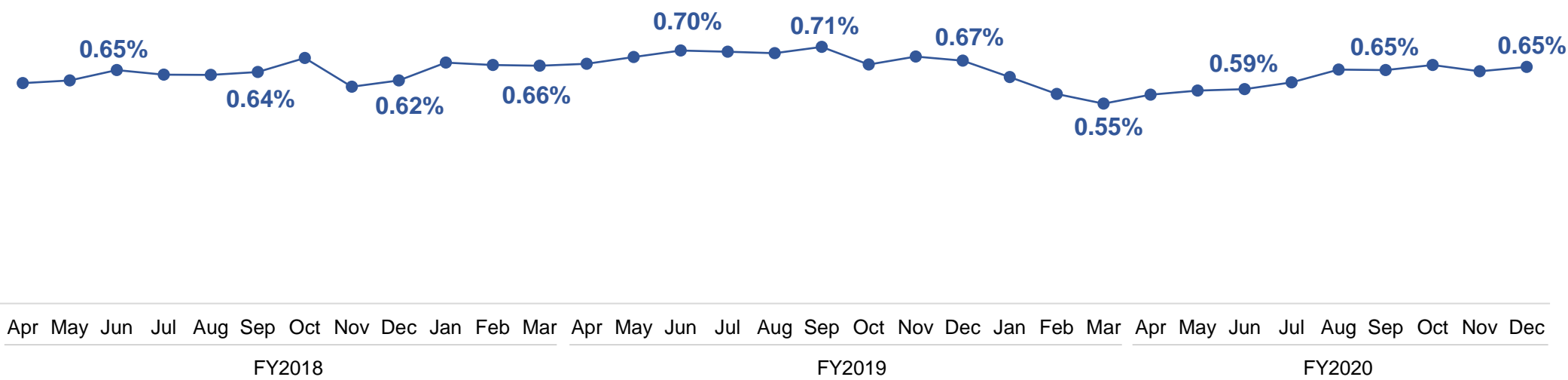[2]：The ratio is calculated by dividing LTV (Lifetime Value) by CAC (Customer Acquisition Cost) in FY2020Q3. Please refer to page 10 for details
[3]：Last 12-month average churn rate based on MRR (December 2020). Please refer to page 5 for details

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	Oct	Nov	Dec
				FY2018												FY2019												FY2020				

Data point labels: 0.65%, 0.64%, 0.62%, 0.66%, 0.70%, 0.71%, 0.67%, 0.55%, 0.59%, 0.65%, 0.65%

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

Financial Results : 3ʳᵈ Quarter

Net sales increased by 29.4% YoY. Gross profit also grew steadily by 23.5% YoY
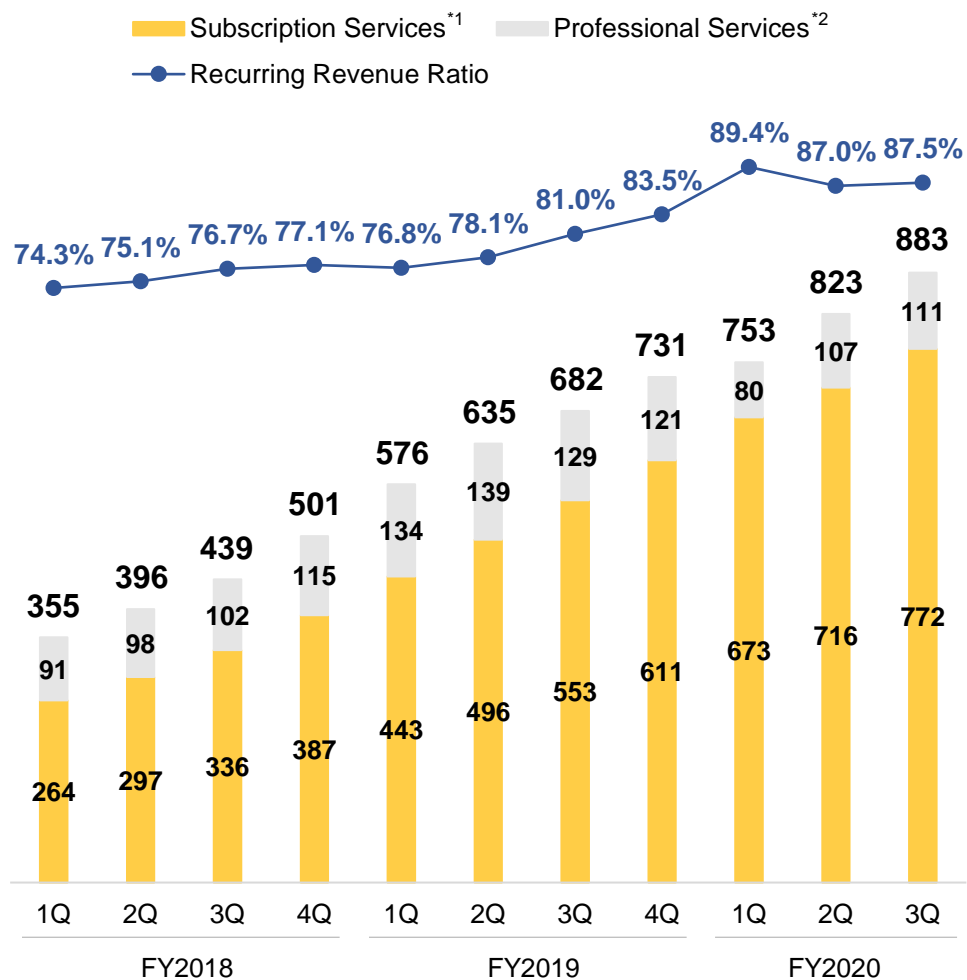
JPY MM	FY2019 3Q Same period last year	FY2020 2Q Previous quarter	FY2020 3Q Actual	YoY	QoQ
Net Sales	682	823	**883**	+29.4%	+7.3%
Gross Profit	514	619	**635**	+23.5%	+2.6%
Margin	75.3%	75.2%	**71.9%**	-3.4pt	-3.3pt
Operating Profit	-73	41	**-58**	-	-
Margin	-	5.0%	**-**	-	-
Ordinary Profit	-74	40	**-60**	-	-
Net Profit	-147	5	**-94**	-	-

Net Sales

Recurring revenue increased significantly by 39.6% YoY, and its ratio remains high

Net Sales (Quarterly basis)

JPY MM

- 🟨 Subscription Services[*1] ⬜ Professional Services[*2]
- 🔵 Recurring Revenue Ratio

Recurring Revenue Ratio: 74.3% | 75.1% | 76.7% | 77.1% | 76.8% | 78.1% | 81.0% | 83.5% | 89.4% | 87.0% | 87.5%

	FY2018				FY2019				FY2020		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Total	355	396	439	501	576	635	682	731	753	823	883
Professional	91	98	102	115	134	139	129	121	80	107	111
Subscription	264	297	336	387	443	496	553	611	673	716	772

Net Sales (YoY)

JPY MM

- 🟨 Subscription Services ⬜ Professional Services

+29.4%

	FY2019 3Q	FY2020 3Q
Total	682	883
Professional Services	129	111 (-14.4%)
Subscription Services	553	772 (+39.6%)

*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

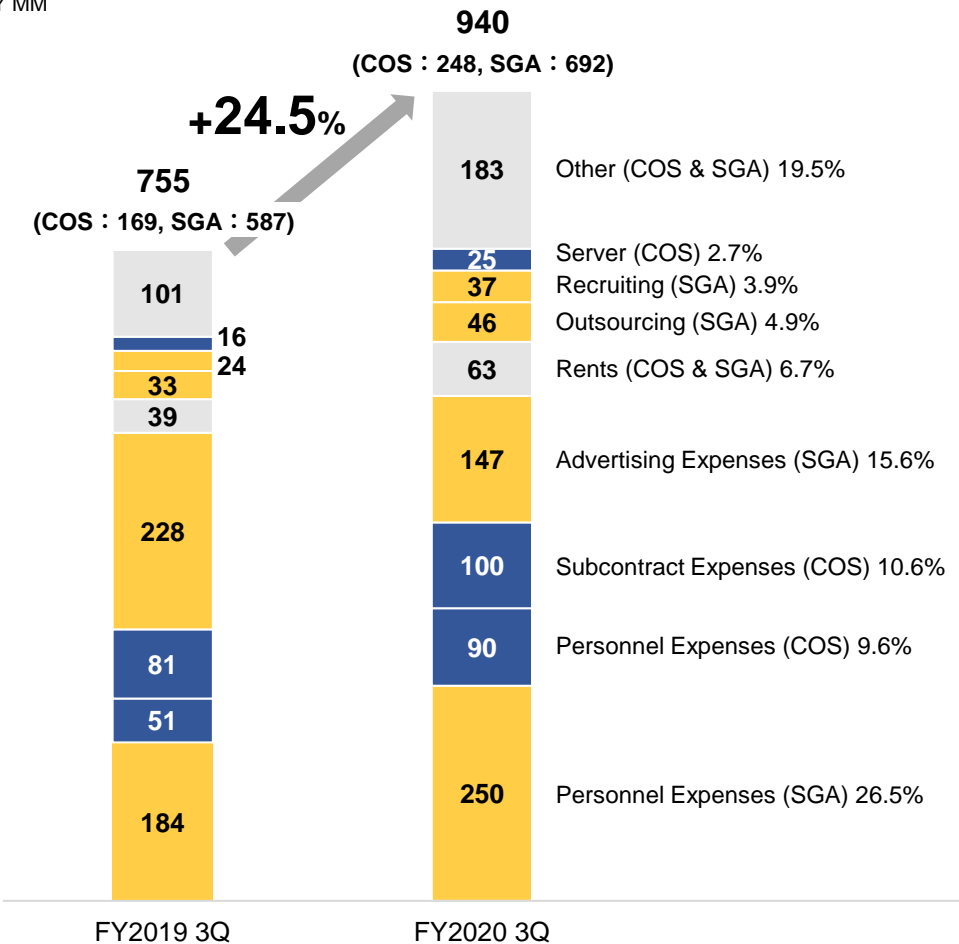## Gross Profit (Quarterly basis)

JPY MM

| | Gross Profit | Margin |

	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Gross Profit	204	248	297	358	439	483	514	536	563	619	635
Margin	57.6%	62.8%	67.7%	71.5%	76.3%	76.1%	75.3%	73.3%	74.8%	75.2%	71.9%
	FY2018				FY2019				FY2020		
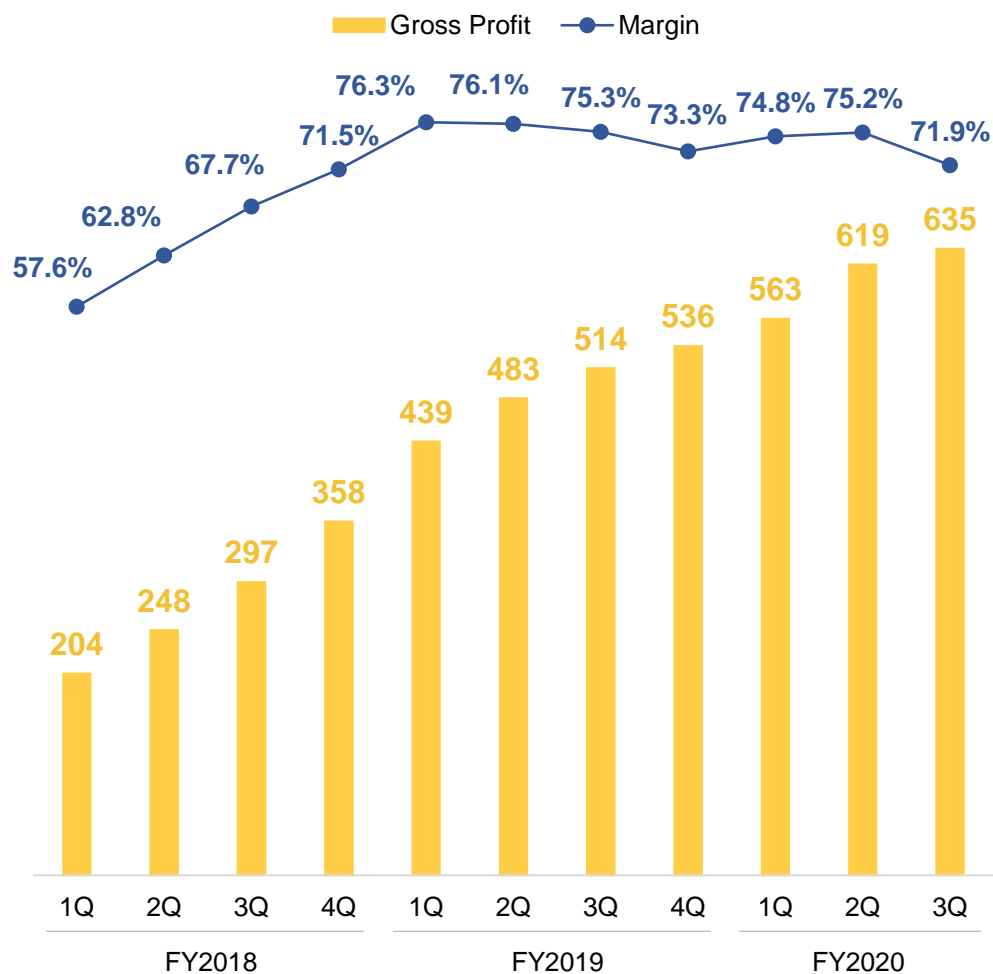
Operating Profit (Quarterly basis)

JPY MM

	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Operating Profit	(36)	(50)	(14)	25	6	(10)	(73)	(200)	120	41	(58)
	FY2018				FY2019				FY2020		

Cost Analysis

Operating expenses increased by 24.5% YoY due to an increase in personnel expenses and headquarters relocation expenses of JPY61MM

Operating Expenses (YoY)

JPY MM

940
(COS：248, SGA：692)

+24.5%

755
(COS：169, SGA：587)

FY2019 3Q	FY2020 3Q	
101	183	Other (COS & SGA) 19.5%
16	25	Server (COS) 2.7%
24	37	Recruiting (SGA) 3.9%
33	46	Outsourcing (SGA) 4.9%
39	63	Rents (COS & SGA) 6.7%
228	147	Advertising Expenses (SGA) 15.6%
81	100	Subcontract Expenses (COS) 10.6%
51	90	Personnel Expenses (COS) 9.6%
184	250	Personnel Expenses (SGA) 26.5%

of Employees by Group (YoY) *1

People

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

173

+43.0%

121

	FY2019 3Q	FY2020 3Q
Corporate	21	35
Engineer	41	61
Customer Success / Support	21	27
Sales & Marketing	38	50
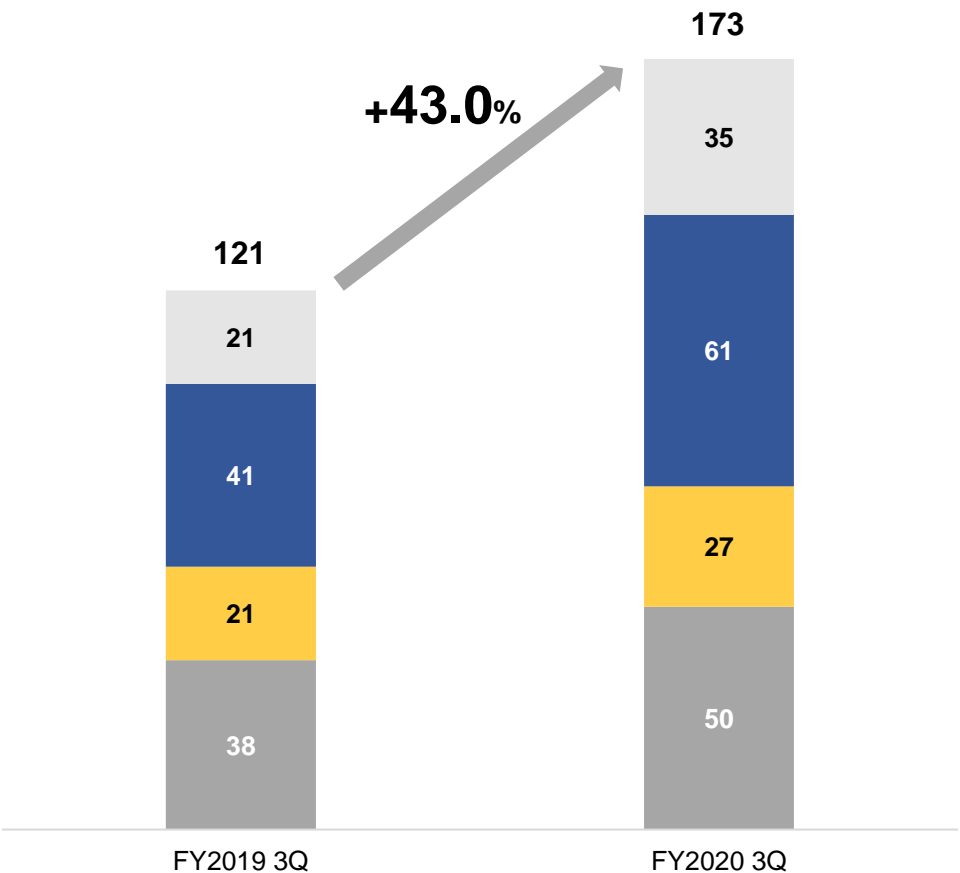
*1：The number of full-time employees as of end of September

Unit Economics

Maintaining healthy unit economics

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

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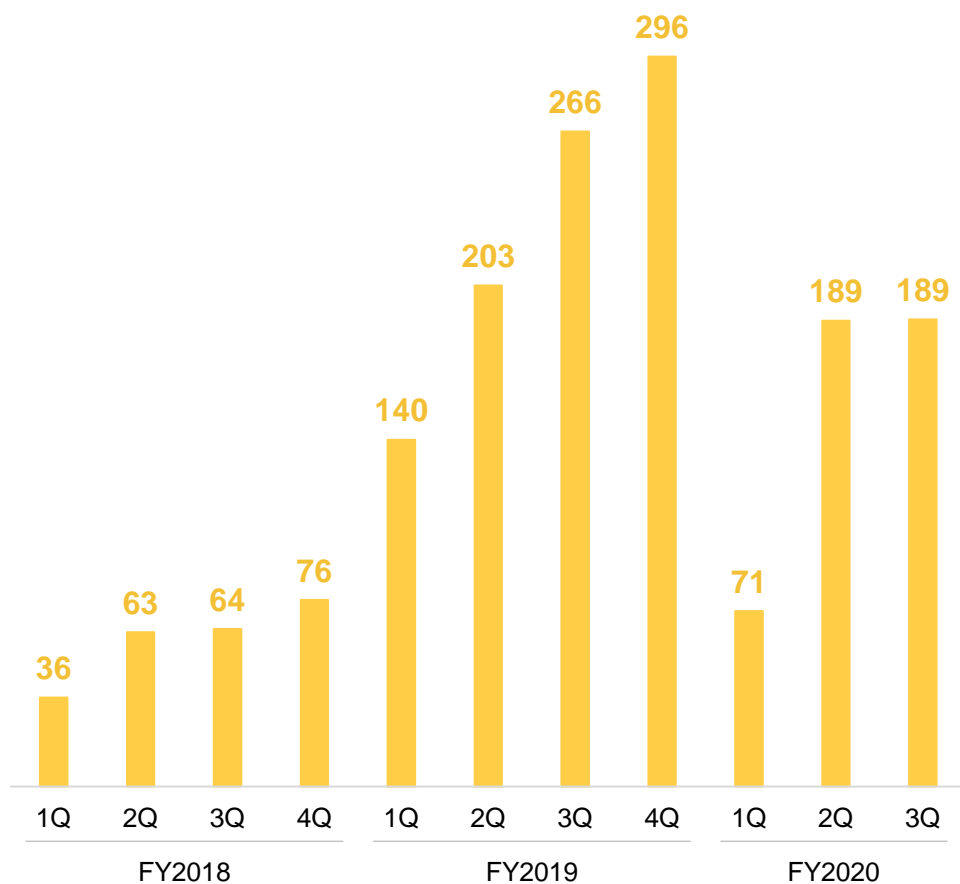
LTV/CAC [2] **(Quarterly basis)**
X

	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Value	10.8	6.8	7.4	5.4	8.6	6.2	5.9	7.5	6.2	4.3	4.7
		FY2018				FY2019				FY2020	
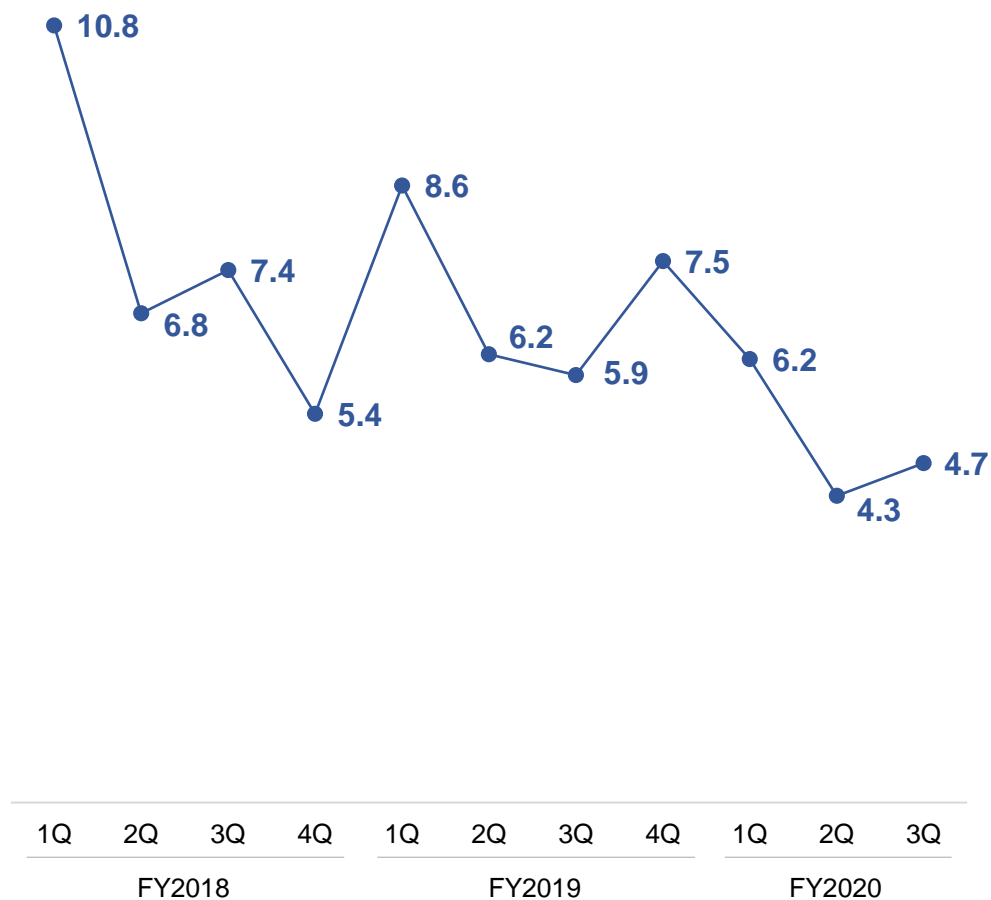
*1：Expenses related to marketing activities such as advertising and sales promotion
*2：LTV= (ARPU / Last 3-month average of MRR churn rate) x Gross profit margin
　　CAC= Sales & Marketing cost (personnel costs for sales & marketing, customer success and PR, marketing-related expenses, rents, system usage fee, etc.) / # of new customers acquired

Marketing Activities

Lead generation via our website has been recovering since June

Website Conversion [1] (Quarterly basis)

# of website conversions in FY2018 1Q=1
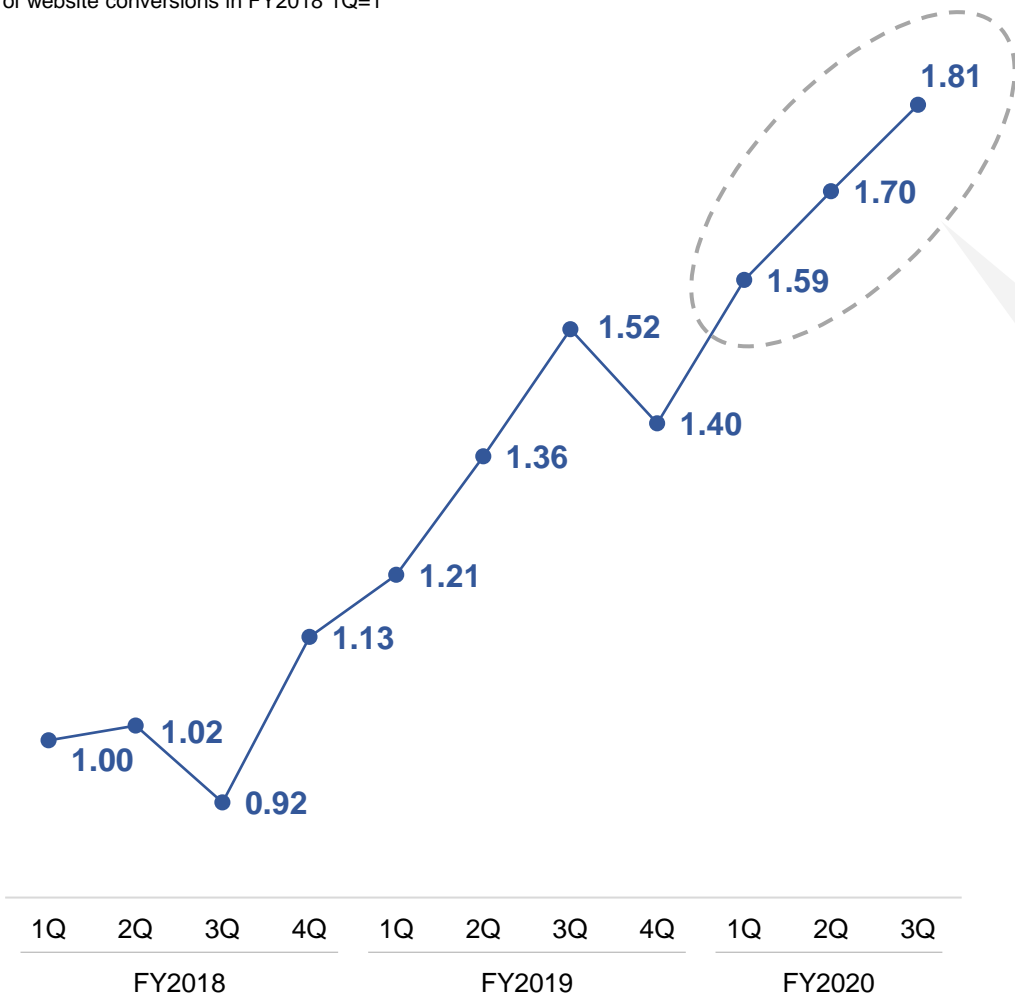
Website Conversion (Monthly basis)

1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
1.00	1.02	0.92	1.13	1.21	1.36	1.52	1.40	1.59	1.70	1.81
FY2018				FY2019				FY2020		

Monthly chart values: Apr, May, Jun, Jul, Aug, Sep, Oct, Nov, Dec
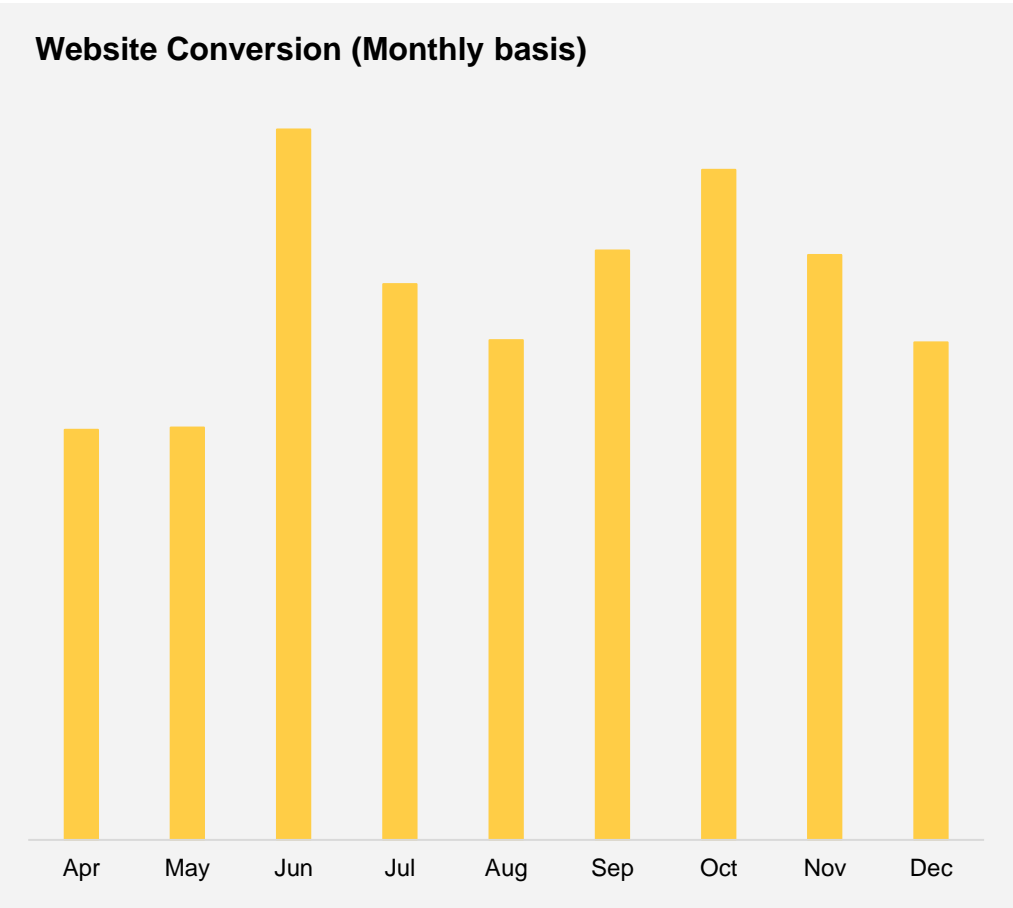
[1] : The number of website conversions through organic traffic

Free Cash Flow and Deferred Revenue

One-time cash out for headquarters relocation ended this third quarter

FCF (Quarterly basis)
JPY MM

- 1Q FY2018: (128)
- 2Q FY2018: 22
- 3Q FY2018: 59
- 4Q FY2018: 178
- 1Q FY2019: 113
- 2Q FY2019: (99)
- 3Q FY2019: (117)
- 4Q FY2019: (379)
- 1Q FY2020: 205
- 2Q FY2020: 127
- 3Q FY2020: (301)

Payments for building interior work related to HQ relocation：(161)

Deferred Revenue (Quarterly basis)
JPY MM

■ Subscription Services *1   ■ Professional Services

- 1Q FY2018: 177
- 2Q FY2018: 203
- 3Q FY2018: 268
- 4Q FY2018: 368
- 1Q FY2019: 435
- 2Q FY2019: 433
- 3Q FY2019: 511
- 4Q FY2019: 600
- 1Q FY2020: 738
- 2Q FY2020: 777
- 3Q FY2020: 861

*1：The ratio of annual payment to MRR in December 2020 was 58.4%

Product Development : Updating Existing Features

Makes HR database more convenient and easier to use

Built-in Data Logging [*1]
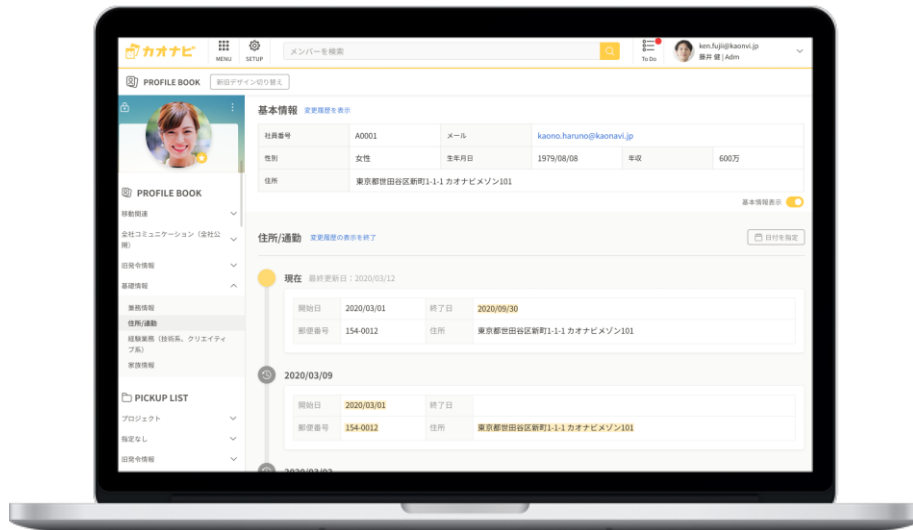
Automatically logs and retains access to historical data

- Covers past data required for business operations in addition to the latest data
- Enables to browse historical snapshots of the database at an individual level

Group Consolidation [*1]
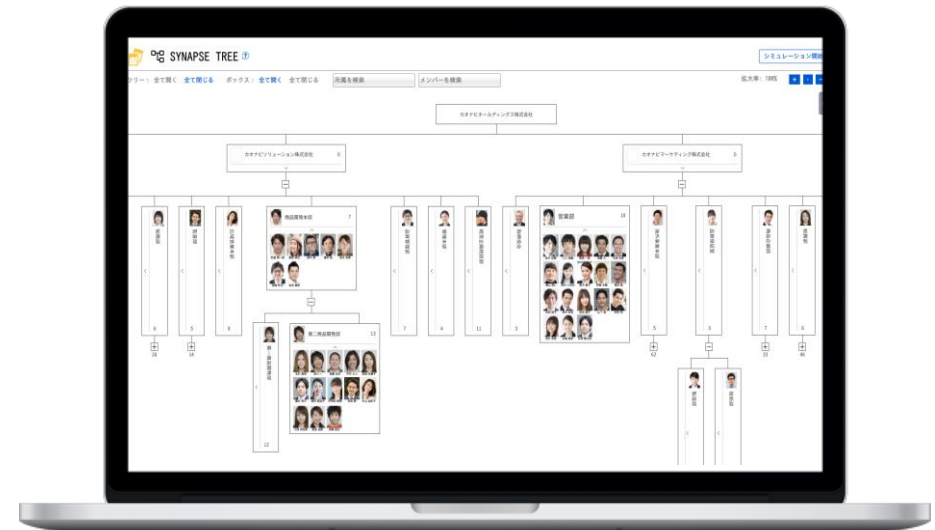
Enables to identify and select talents across entities

- Visualizes every employee of all the group companies

*1：To be released in spring 2021

Product Development : Launching a New Feature

Promoting the digitization of all workflows, including hiring, onboarding processes and labor related applications

Workflows [1]

Streamlines applications and approval processes

Supporting all types of applications

The HR database automatically captures any type of status updates or changes reported by employees when approved

[1]：To be released in spring 2021

FY2020 Financial Forecast

On track to achieve our full-year forecast

JPY MM	FY2019 Actual	FY2020 Forecast	YoY	FY2020 1-3Q Actual	vs. Forecst
Net Sales	2,625	**3,340 ~ 3,400**	+27.2 ~ +29.5%	**2,458**	72.3 ~ 73.6%
Gross Profit	1,972	**2,390 ~ 2,490**	+21.2 ~ +26.2%	**1,817**	73.0 ~ 76.0%
Margin	75.1%	**71.6% ~ 73.2%**	-3.6 ~ -1.9pt	**73.9%**	-
Operating Profit	-278	**-210 ~ 90**	-	**103**	-
Margin	-	**-**	-	**4.2%**	-
Ordinary Profit	-280	**-216 ~ 84**	-	**100**	-
Net Profit	-357	**-330 ~ -30**	-	**-8**	-

Net Sales Forecast

Recurring revenue is expected to grow by more than 40% YoY despite remaining concerns about prolonged sales cycle and increased-churn

Net Sales Forecast (YoY)

JPY MM

■ Subscription Services   ■ Professional Services

+27.2~29.5%

	FY2019	FY2020	
Total	**2,625**	**3,340~3,400**	
Professional Services	523	380~420	**-27.3~ -19.6%**
Subscription Services	2,102	2,960~2,980	**+40.8~41.8%**
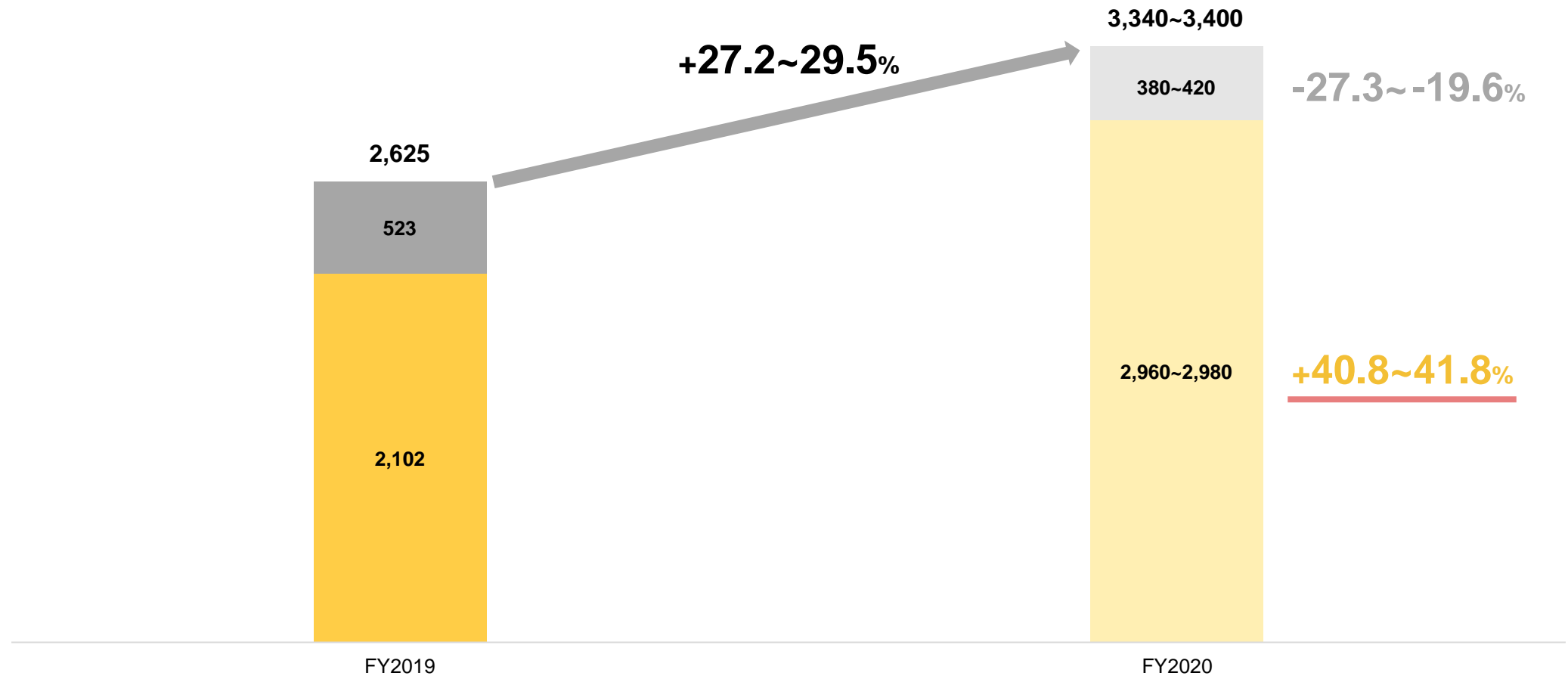
Cost Discipline

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
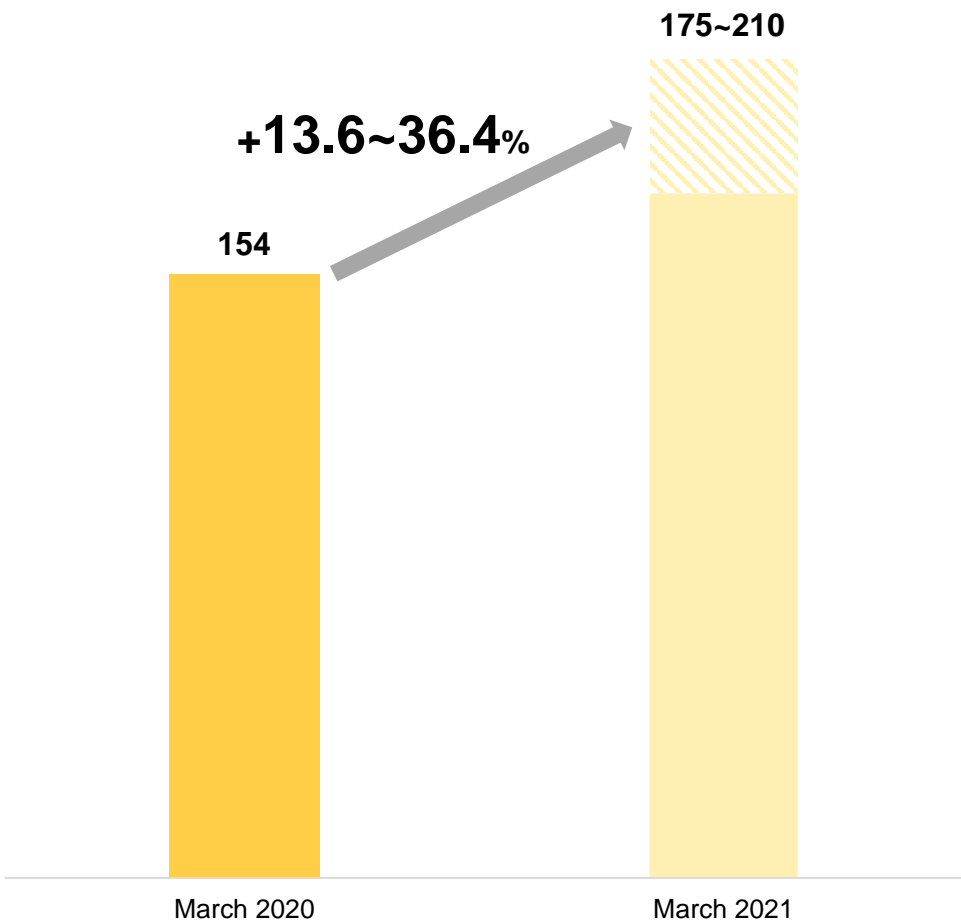
Marketing-related Expenses Forecast
JPY MM

905

2nd Half   562

1st Half   343

600~700

340~440

260

FY2019   FY2020
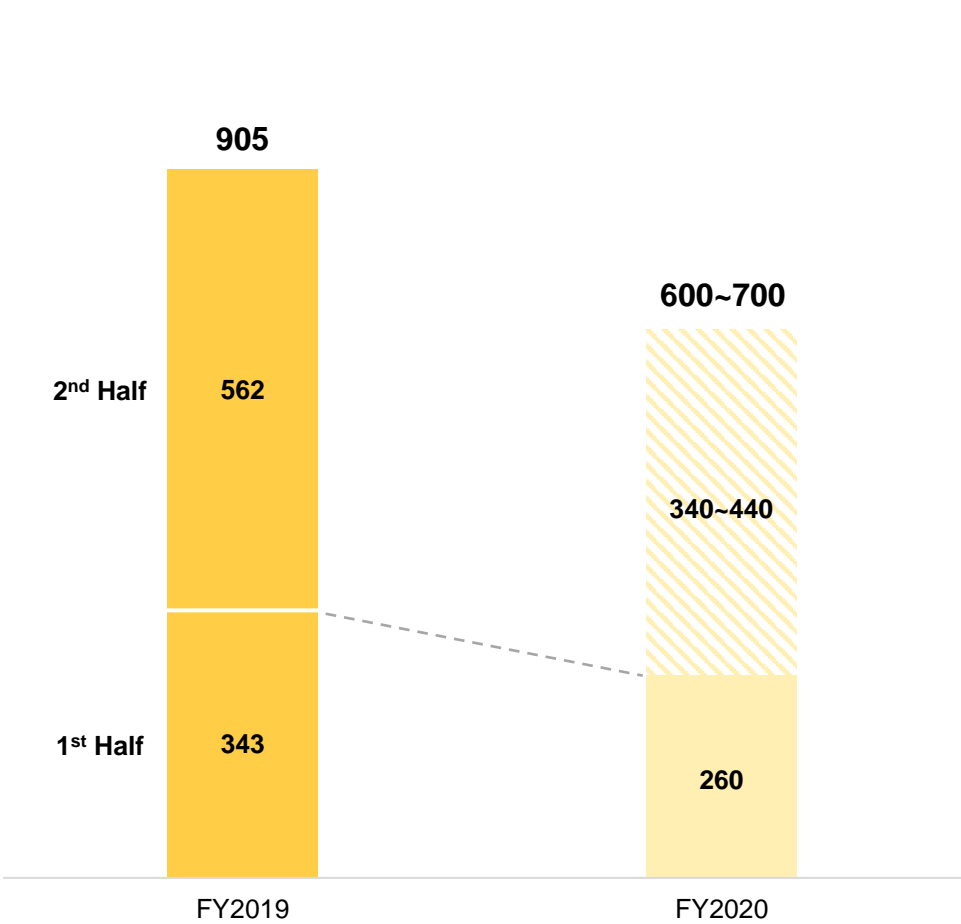
Grand Design of Mid-term Growth

Revised the grand design of mid-term growth to reflect the current business environment, pushing back the target year

FY2019   **Mid-term (approximate 5 year time frame)**

Net Sales

2.6 JPY bn   **10** JPY bn

Gross Profit Margin

75.1 %   ➡   **80** %

Operating Profit Margin

Negative   **30** %
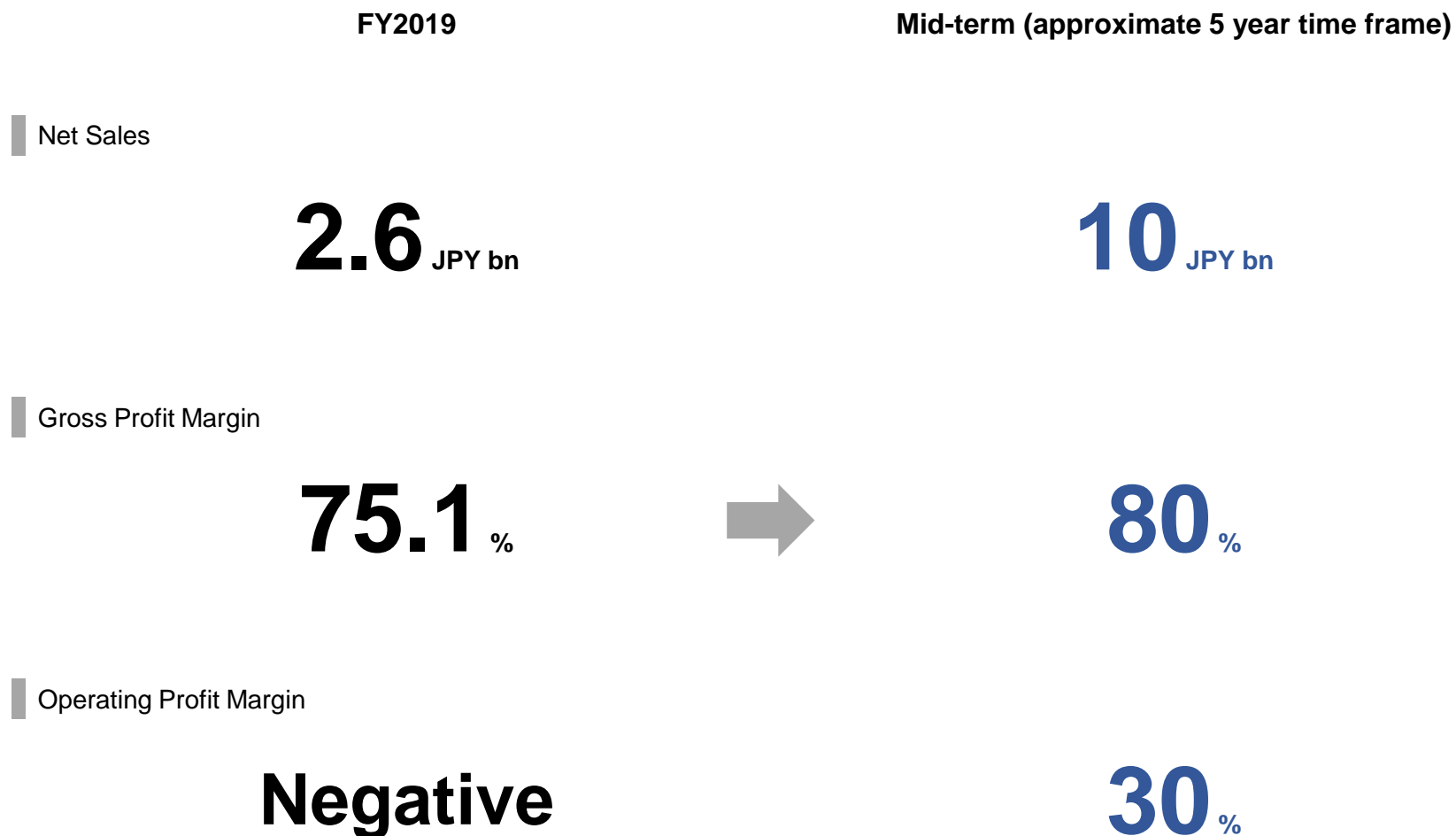
1. FY2020 3Q Financial Highlights

2. FY2020 Financial Forecast

3. Appendix

Company Overview

Name ： kaonavi, inc.

HQ Office ： 15F/16F TOKYO TORANOMON GLOBAL SQUARE, 1-3-1 Toranomon, Minato-ku, Tokyo

Established ： May 2008 (Commencement of business : April 2012)

# of Employees ： 164 (September 2020)

Business ： Providing a cloud-based talent 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

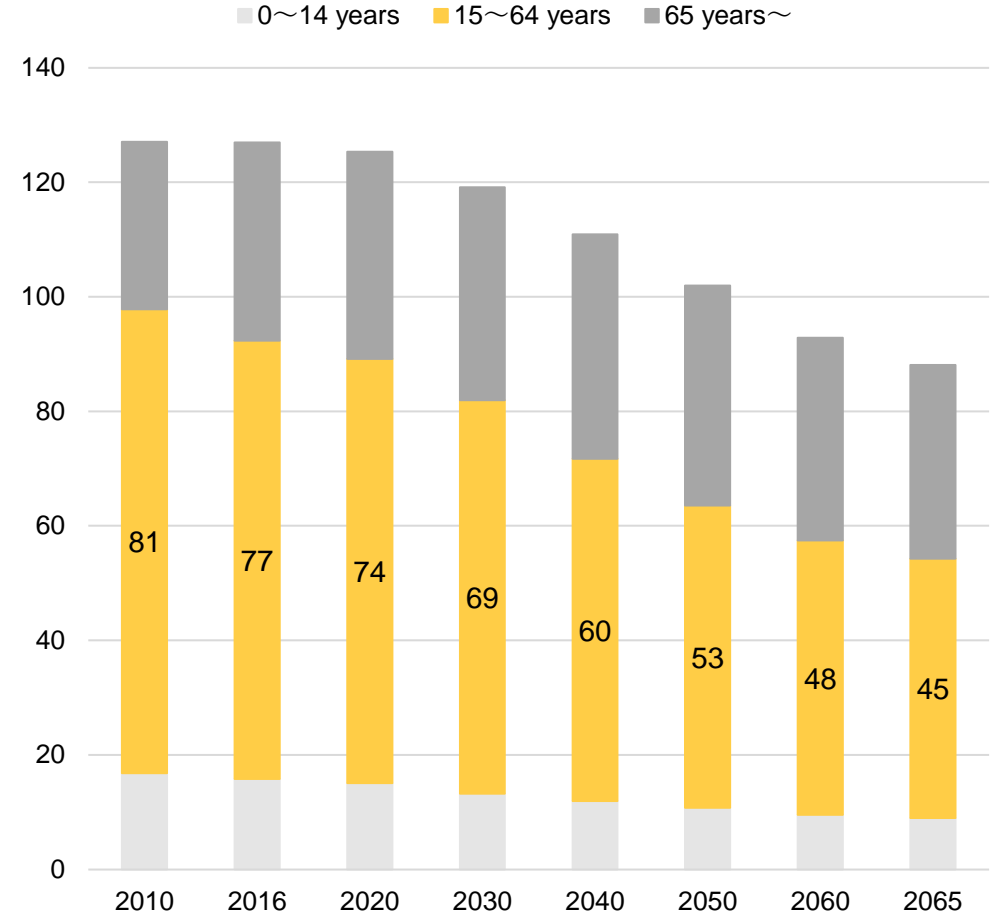## OECD Countries' Labor Productivity (2016, per workers)

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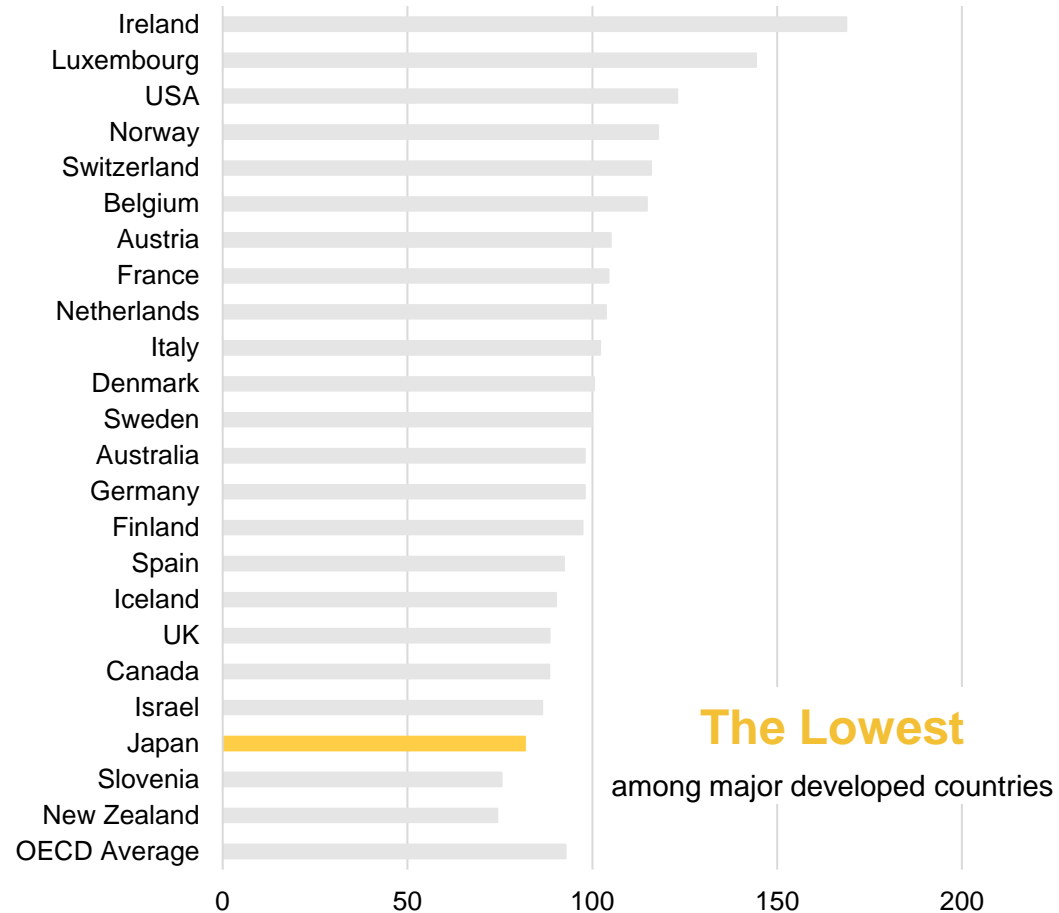
Ireland
Luxembourg
USA
Norway
Switzerland
Belgium
Austria
France
Netherlands
Italy
Denmark
Sweden
Australia
Germany
Finland
Spain
Iceland
UK
Canada
Israel
Japan
Slovenia
New Zealand
OECD Average

The Lowest

among major developed countries

0   50   100   150   200

Japan's Population Projections by Age

Million people

- 0〜14 years
- 15〜64 years
- 65 years〜

81
77
74
69
60
53
48
45

140
120
100
80
60
40
20
0

2010 2016 2020 2030 2040 2050 2060 2065

Rising Demand for Talent Management

Individuality of employees is the paramount focus for solving various HR issues that companies confront

Turnover prevention
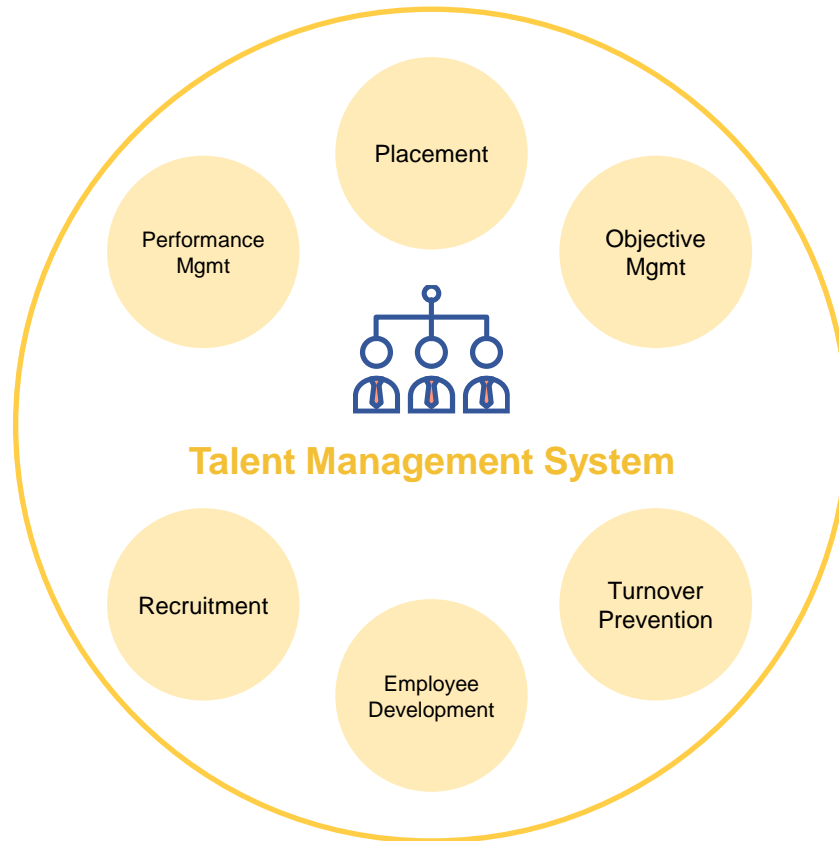
Evolving people practices

Recruitment difficulties

Remote workforce mgmt

Succession plans

Productivity improvement

Streamlined HR operations
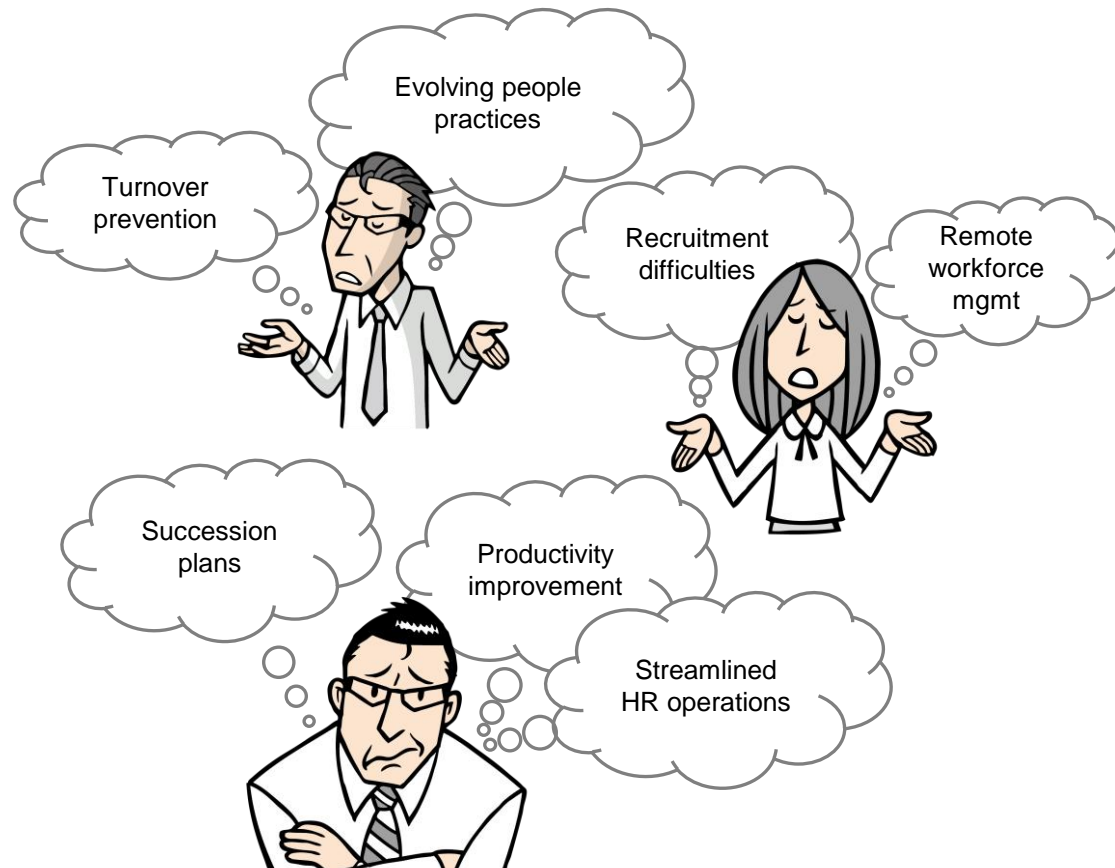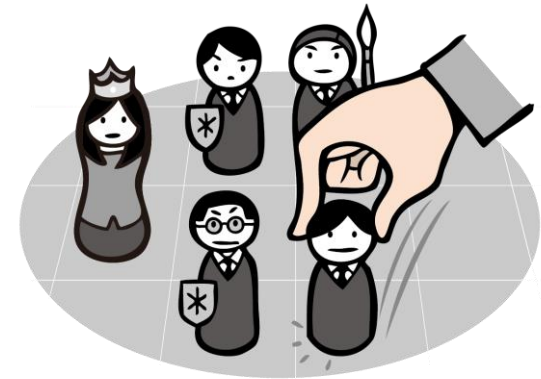
Talent Management

- Centralized and visualized HR data
- Well-fit employee placement
- Streamlined performance review process
- Skills management and people development
- Better hiring to avoid talent mismatches
- Increased employee engagement

Business Realm

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

カオナビ

HR Management

Talent Management System

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

Labor Management

ERP System

- Payroll
- Time & Attendance Mgmt
- Status Update Application
- Social Insurance
- Year-end Adjustment
- Employment Contract
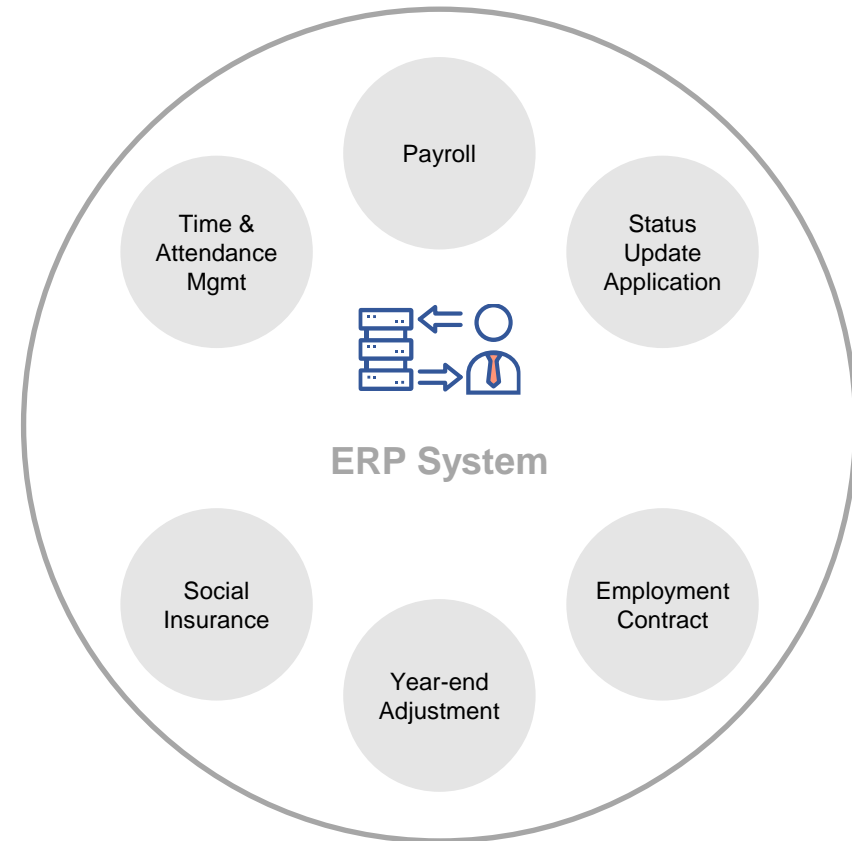
What Is KAONAVI ?

A database-centered talent management system

Talent Management System

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

HR Database

Retire

Get hired

Onboard

Learn and develop skills

Get promoted

Features and Effects

Committed to promoting "Work Style Reform" as well as enhancing competitive advantages by offering capabilities to accelerate talent management

KAONAVI's features and expected effects

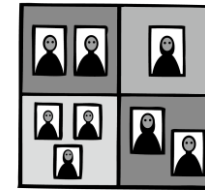| HR Database	Pickup List	Organization Chart	Review Workflow	Employee Survey
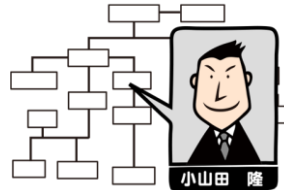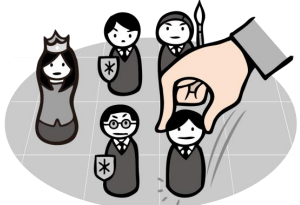
Matrix Chart	Employee Data Graph	Pulse Survey	Aptitude Test (SPI3)	Mobile Apps

Business Efficiency

Centralize all HR data in the 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

Fee Structure

Offer three subscription plans with different sets of functions and charge based on the number of 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

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 kai group	KAONAVI greatly improved efficiency of HR operations by "visualizing HR data".
NP 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 !

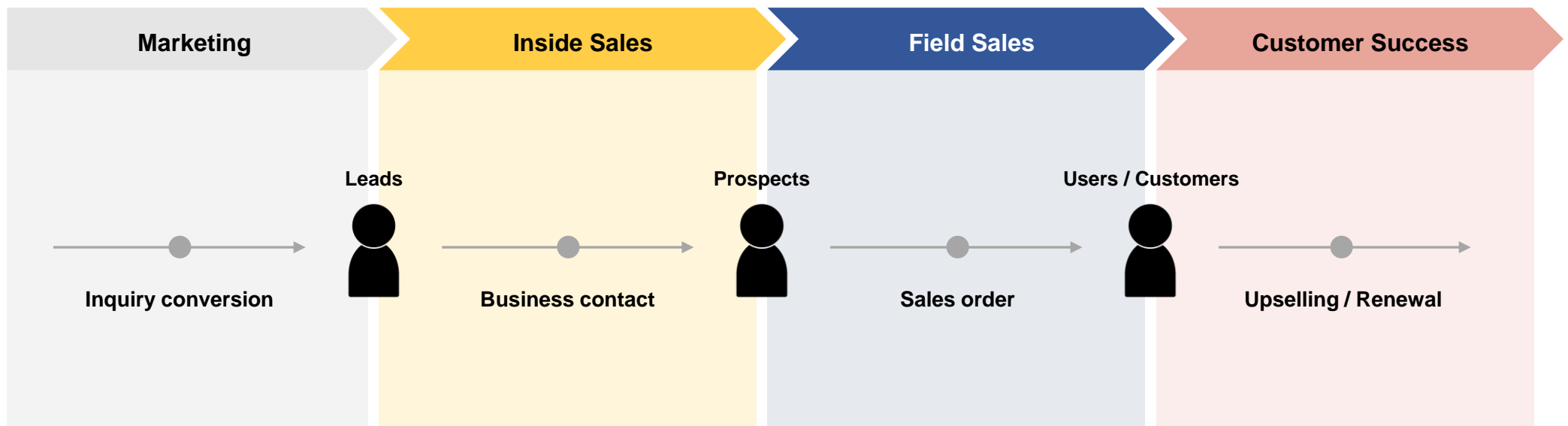|	
産經新聞社	Deciding factor was the outstanding "simple and easy to view" usability. We aim to visualize journalists' skills, then assign them with their skill development in mind.
TERUMO	KAONAVI is used to select executive candidates from ca. 4,800 employees. Strengthening people development measures through sharing information between the management and HR department.
CA 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.

Business Process

Aiming to streamline sales & marketing activities and maximize LTV by structuring processes

Marketing	Inside Sales	Field Sales	Customer Success
	Leads	**Prospects**	**Users / Customers**
Inquiry conversion	Business contact	Sales order	Upselling / Renewal

Our Strengths

Ensuring both the system and know-how working side by side for our users to thrive in talent management initiatives without any silver bullet

Flexibly designed solution, suitable for any user regardless of position

Real-world use cases from other companies

System + **Know-how**

Our Strengths : System

System design in pursuit of flexibility and usability

Customizable HR Database

Self-explanatory User Interface

Secure Access Management

Our Strengths : Know-how

Hands-on know-how available for our users to adapt to their own talent management

Community

A place where users can learn directly
from other users

Library

Overwhelming amount of use cases
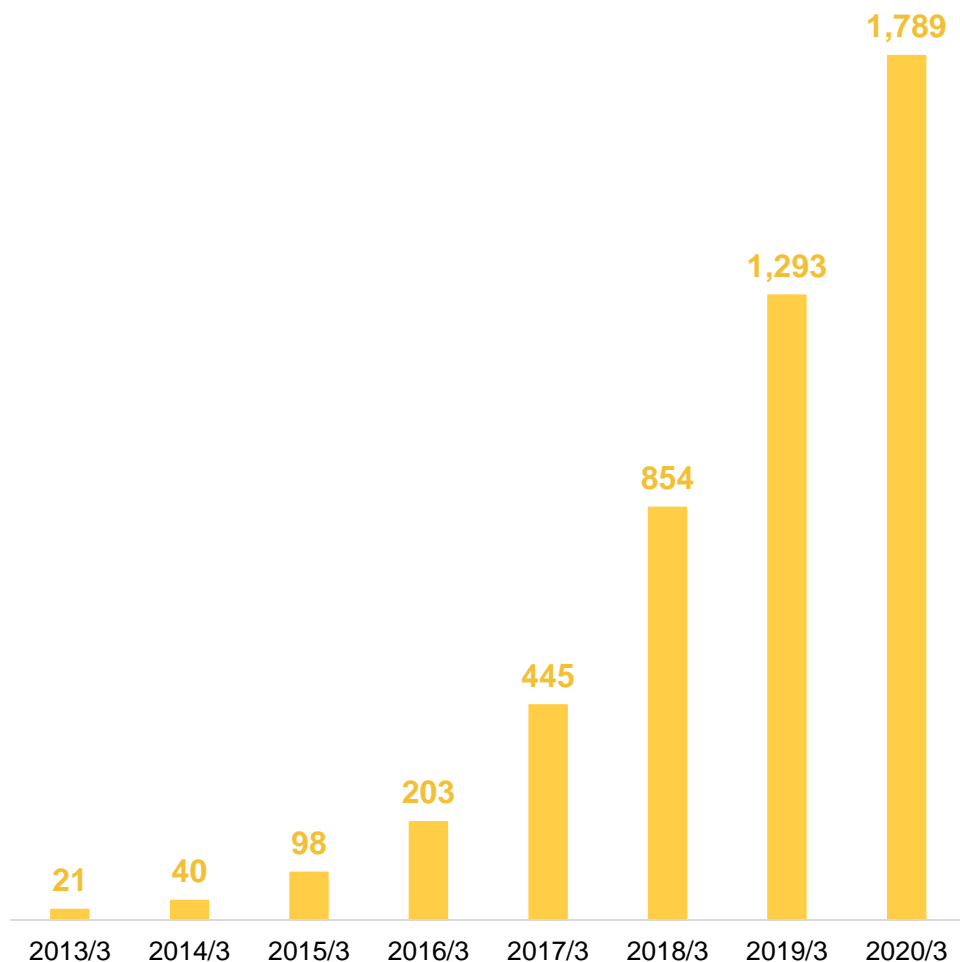across industries, business types and scale

Dedicated Staff

Accompanied by our support staff
with a wealth of experience and expertise

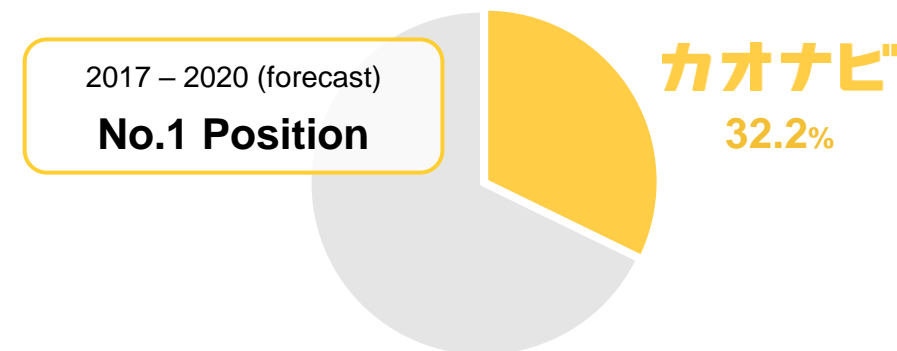# Market Position

The market leader in talent management system

Trend in Active Users

Companies

Year	Companies
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 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
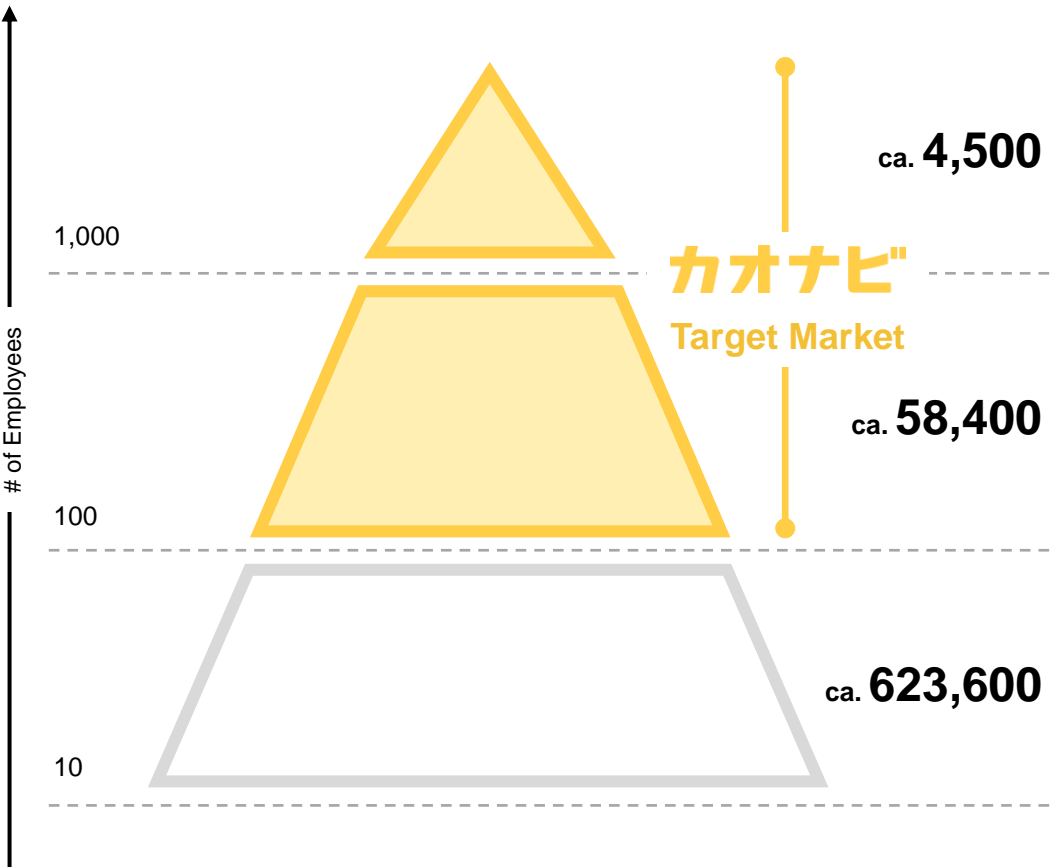
Growth Potential

KAONAVI's target market is still uncultivated, and its growth potential is significantly large

# of Companies in Japan
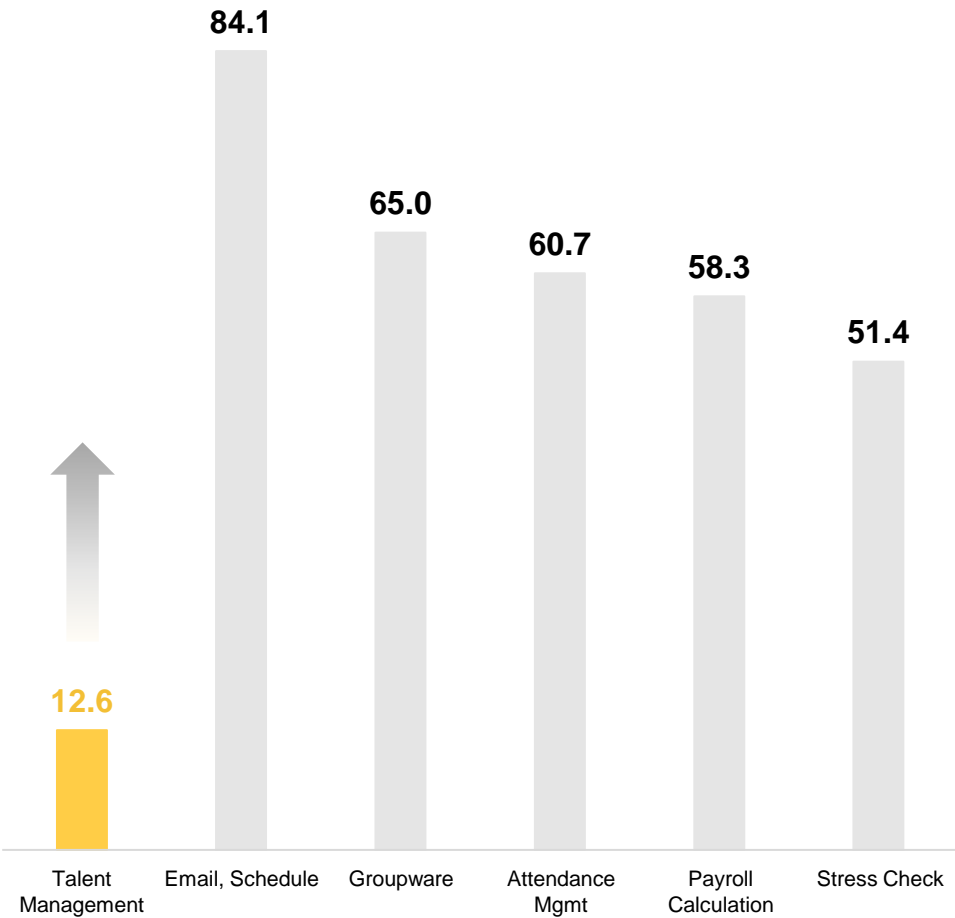
Companies

ca. **4,500**

カオナビ
Target Market

ca. **58,400**

ca. **623,600**

1,000

100

10

# of Employees

Adoption of HR-related IT Systems in Japan

Implementation Rate：%

Talent Management	Email, Schedule	Groupware	Attendance Mgmt	Payroll Calculation	Stress Check
12.6	84.1	65.0	60.7	58.3	51.4

Source：kaonavi, based on MIC and METI "2016 Economic Census for Business Activity"

Source：IDC Japan, July 2017

Future of Talent Management

Harnessing dynamic data in addition to static data to utilize human resources more advanced than ever before

HR data	Behavioral data	Communication data

HR big data
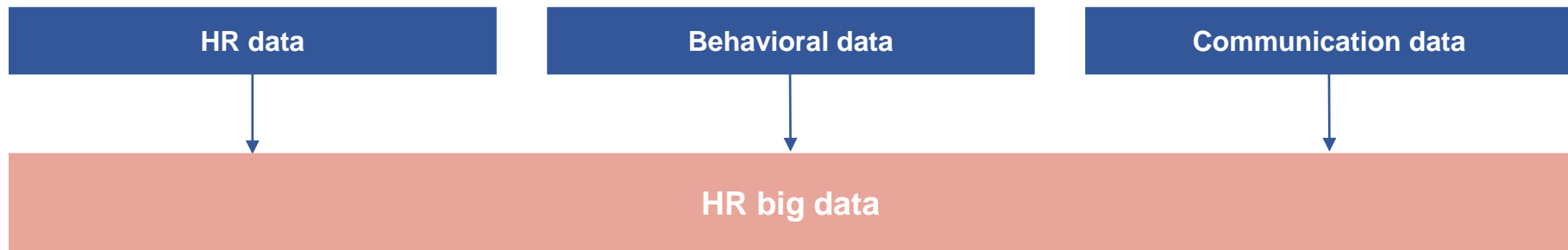
⇒ Analyze high performers, identify signs of turnover, prevent hiring mismatches, and conduct personalized development programs
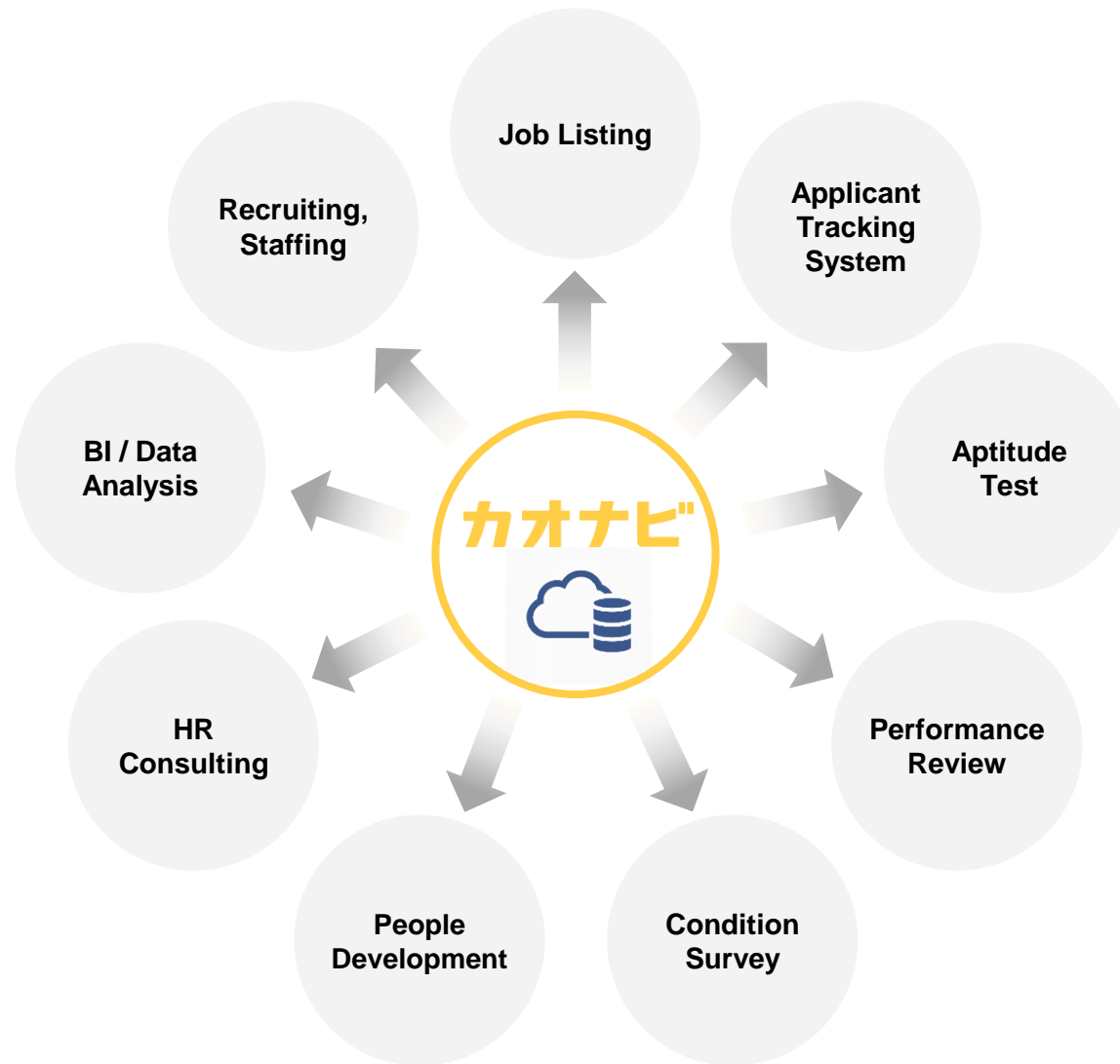
Technical Advisor

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

TAM Expansion Opportunities with Platform Business [*1]

HR Data Platform Related Market

Approx. US$ **84** Bn [*3]

Talent Management System

Approx. US$ **2** Bn [*2]
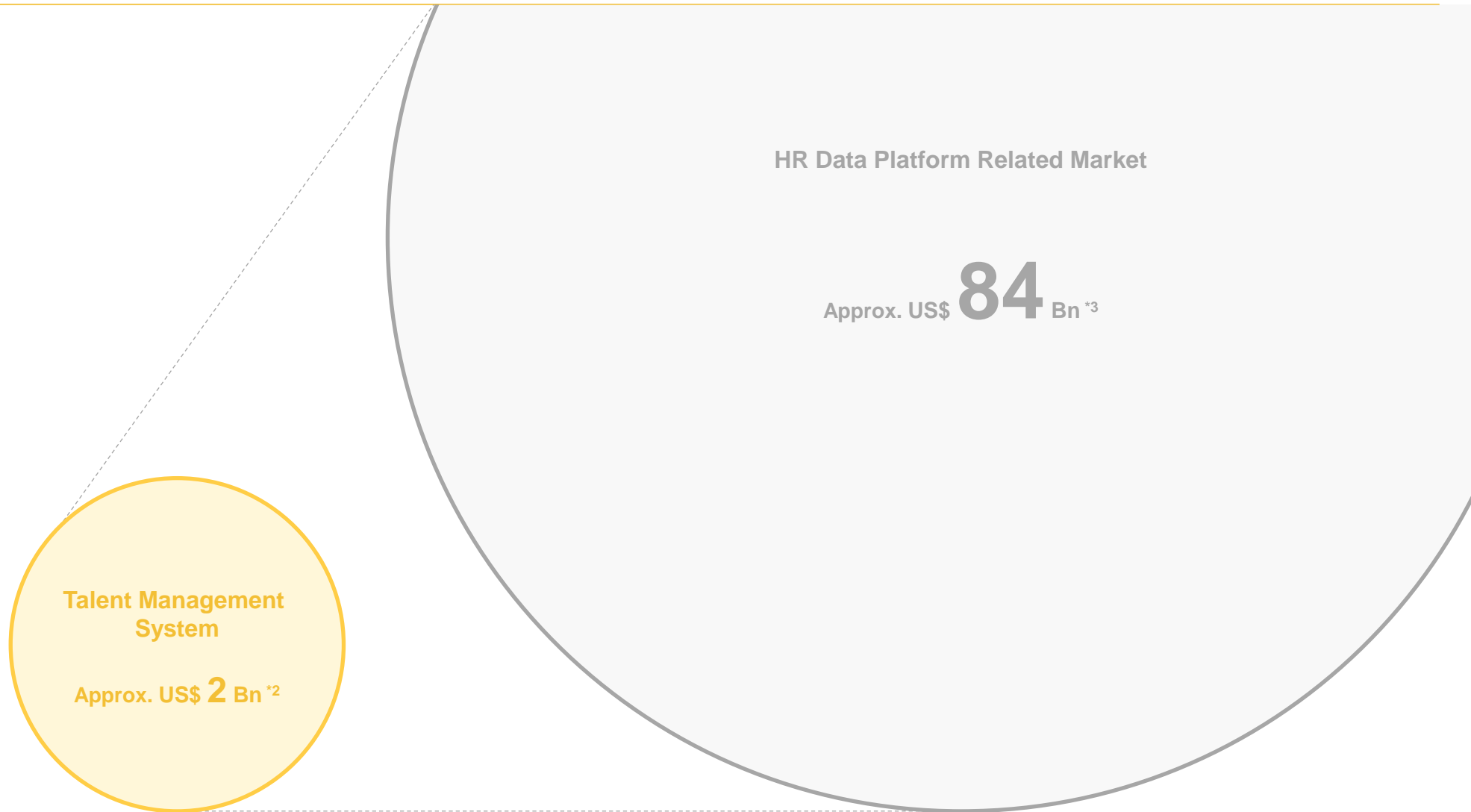
*1：USDJPY=100. Potential TAM has been calculated by kaonavi, under certain assumptions, using data referenced from the below publicly disclosed statistical reports
*2：Calculated by multiplying the number of companies with 50 or more employees by KAONAVI's fee structured for corresponding employee size, based on MIC and METI "2016 Economic Census for Business Activity"
*3：Calculated as the sum of the below markets
Market size of job listing, job recruiting and job staffing by Japan Association of Human Resource Services Industry "The Labor Market in 2030 and The Role of The HR Services Industry"
Market size of training services for companies (2019) by Yano Research Institute "Research on Corporate Training Services Market (2020)"
Market size of reemployment support (2019) by Yano Research Institute "Research on The Human Resources Business Market (2020)"
Market size of employee assistance program (2015 forecast) by Yano Research Institute "Research on EAP Market (2016)"
Market size of ATS cloud and employee development cloud (2021 forecast) by Deloitte Tohmatsu MIC Research Institute "HR Tech Cloud Market 2020"

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