Translation

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Summary of Consolidated Financial Results for the Six Months Ended September 30, 2024 (Japanese GAAP)

November 13, 2024

Company name: kaonavi, inc.
Listed stock exchange: Tokyo
Stock code: 4435 URL https://corp.kaonavi.jp/en
Representative: Representative Director, President & Co-CEO Hiroyuki Sato
Inquiries: Director & CFO Kimitaka Hashimoto TEL 03(6633)3258
Scheduled date to commence dividend payments: —
Supplementary materials: Yes
Meeting for institutional investors and analysts: Yes

(Figures are rounded to the nearest million yen)

1. Consolidated financial results for the six months ended September 30, 2024 (April 1, 2024 - September 30, 2024)

(1) Consolidated operating results (cumulative)

(Percentages show year-on-year changes)

	Net sales		Adjusted operating profit		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2024	4,562	—	378	—	330	—	322	—	259	—
Six months ended September 30, 2023	—	—	—	—	—	—	—	—	—	—

Note: Comprehensive income
Six months ended September 30, 2024: 190 million yen (—%) Six months ended September 30, 2023: —million yen (—%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2024	22.36	21.77
Six months ended September 30, 2023	—	—

Note 1: As consolidated quarterly financial statements are being prepared from the fourth quarter of the fiscal year ended March 31, 2024, figures for the first quarter of the fiscal year ended March 31, 2024 and percentage changes from the first quarter of the previous year for the fiscal year ended March 31, 2024 and ending March 31, 2025 are not shown.
Note 2: Adjusted operating profit = Operating profit + Stock-based compensation expenses + Amortization of goodwill by acquisition + Other one-time costs

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2024	7,094	2,512	34.9
As of March 31, 2024	6,544	2,312	33.7

Reference: Shareholders' equity September 30, 2024: 2,478 million yen March 31, 2024: 2,208 million yen

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2024	—	0.00	—	0.00	0.00
Year ending March 31, 2025	—				
Year ending March 31, 2025 (forecast)		0.00	—	0.00	0.00

Note : Amendments to dividend forecast compared with the most recent disclosure: None

3. Consolidated financial forecast for the fiscal year ending March 31, 2025 (April 1, 2024 - March 31, 2025)

(Percentages show year-on-year changes)

	Net sales		Adjusted operating profit	
	Millions of yen	%	Millions of yen	%
Full year	9,420 ~ 9,560	23.5 ~ 25.4	—	—

Note : Revisions of most recent financial results forecast: None

4. Notes

(1) Significant changes in the scope of consolidation during the period: None

(2) Application of special accounting methods for preparing consolidated quarterly financial statements: Yes

(Calculation of tax expenses)

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after application of tax-effect accounting to profit before income taxes for the fiscal year including the first quarter of the fiscal year under review, with quarterly profit before income taxes then multiplied by the estimated effective tax rate. However, in the event that this tax expense calculation using estimated effective tax rate results in a significantly improbable figure, a method using the statutory effective tax rate may be adopted.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

1) Changes in accounting policies due to revisions to accounting standards and other regulations: None
2) Changes in accounting policies due to other reasons: None
3) Changes in accounting estimates: None
4) Restatement of prior period financial statements: None

(4) Number of shares outstanding (common shares)

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

As of September 30, 2024: 11,607,400 shares As of March 31, 2024: 11,595,200 shares

2) Number of treasury stock at the end of period

As of September 30, 2024: 317 shares As of March 31, 2024: 280 shares

3) Average number of shares outstanding during the period

Six months ended September 30, 2024: 11,599,284 shares Six months ended September 30, 2023: 11,585,552 shares

Review of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: None

*** Cautionary statement with respect to forward-looking statements**

The forecasts above are based on the judgments made in accordance with information currently available. Forecasts therefore include risks and uncertainties. Actual figures may differ from these forecasts due to subsequent changes in the circumstances.

1. Qualitative Information regarding Results for the Period

(1) Overview of Business Results

Our group aims to realize a society in which individual career development and working styles are diversified by understanding the individuality and talents of each person through technology, based on our purpose of “Implement technology to ‘WORK’ and modify the specifications of society leveraging individual power”. To this end, we advocate the vision of “Create a HR data-centric platform” and provide the Talent Management System (“TMS”) “kaonavi”, which serves as a central data platform that manages all human resources information at one place on the cloud to enable data-driven decision making.
In the face of declining working-age population Japanese companies are to address a variety of human resources issues, such as improving productivity, accommodating diverse ways of working, employee retention and flight risk mitigation, and competitive recruitment to fill the gap. In order to solve these issues, the need for TMS has been increasing and the market is expected to expand continuously in the future.
Our group has set out three goals for its mid-term management policy: “Continued ARR[*1] growth”, “Profitability improvement”, and “Promotion of non-financial activities”.
As part of our measures to achieve continued ARR growth, we aim to build a human resources data platform that provides customers with optimal user experience by enhancing added value through various service integrations centered on our human resources database. In the current consolidated fiscal year, we plan to accelerate mid-term ARR growth by further expanding our existing TMS business as well as cultivating new businesses such as labor management system and budget control system.

Under this policy, our group has focused on developing and improving functions to enhance the value for user experience. We have released a new feature called “Insight Finder” that organizes and analyzes a vast amount of text data within the company, in addition to various other function updates including the advancement of “Ability Manager”, the skills management solution. We also released a new product called “Roummate”, which allows complete labor management operations without paperwork. Furthermore, we have been focused on strengthening our organizational structure which includes active hiring and people development, accelerated marketing activities to raise service awareness, and engaging initiatives for our existing customers.
As a result, at the end of the current 2nd quarter consolidated fiscal period, consolidated ARR increased by 28.0% YoY to 9,151 million yen. Of this, ARR of TMS[*2] increased by 25.1% YoY to 8,947 million yen, Active Users of TMS[*3] increased by 19.0% YoY to 3,963 companies, and ARPU of TMS[*4] increased by 5.1% YoY to 188 thousand yen. The last 12-month average of Churn Rate of TMS[*5] was 0.40% (down 0.08 points YoY) remaining at a low level.
Therefore, the Company’s financial results for the same period were net sales of 4,562 million yen, adjusting operating profit[*6] of 378 million yen, operating profit of 330 million yen, ordinary profit of 322 million yen, and profit attributable to owners of parent of 259 million yen.
The reportable segment of our group is “HR Tech business” only, and “Other business” segment is yet to be significant, hence the segment information is omitted. From the first quarter of the current fiscal year, the name of the reportable segment has been changed from “Talent management systems business” to “HR Tech business”. This name change has no impact on segment information.

Note 1: ARR stands for Annual Recurring Revenue. It is calculated by multiplying Monthly Recurring Revenue (“MRR”) at the end of the quarter by 12. MRR is total monthly subscription revenue based on the contract value that does not reflect the new revenue recognition standard or limited-time offers such as free months (one of the managerial accounting figures).

Note 2: It is calculated by multiplying monthly subscription revenue from all the subscriptions of the talent management system “kaonavi” at the end of the quarter (“MRR of TMS”) by 12.

Note 3: Number of companies and organizations implementing the talent management system “kaonavi” at the end of the quarter.

Note 4: ARPU stands for Average Revenue Per User. It is calculated by dividing the MRR of TMS at the end of the quarter by the Active Users of TMS at the same end of month.

Note 5: Churn Rate based on MRR. It is calculated by dividing the MRR of TMS that has decreased due to cancellations in the current month by the MRR of MTS at the end of the previous month.

Note 6: Adjusted operating profit = Operating profit + Stock-based compensation expenses + Amortization of goodwill by acquisition + Other one-time costs

(2) Overview of Financial Position

Explanations of Balance Sheet

(Assets)

Total assets as of September 30, 2024 were 7,094 million yen, up 550 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 474 million yen in cash and deposits and 165 million yen in prepaid expenses.

(Liabilities)

Total liabilities as of September 30, 2024 were 4,582 million yen, up 350 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 496 million yen in deferred revenue.

(Net assets)

Total net assets as of September 30, 2024 were 2,512 million yen, up 200 million yen from the end of the previous consolidated fiscal year. This was mainly due to the recording of 259 million yen in profit attributable to owners of parent.

Explanations of Cash Flows

Cash and cash equivalents (“cash”) at the end of the 2nd quarter consolidated accounting period increased by 474 million yen from the end of the previous consolidated fiscal year to 5,162 million yen. The status of each section of cash flows and the major contributors to it are as follows.

(Cash flows from operating activities)

Cash provided by operating activities was 532 million yen. This was mainly due to an increase in cash of 496 million yen in deferred revenue, 279 million yen in profit before income taxes, and a decrease in cash of 168 million yen in prepaid expenses.

(Cash flows from investing activities)

Cash used in investing activities was 27 million yen. This was mainly due to purchase of intangible assets of 14 million yen.

(Cash flows in financing activities)

Cash used in financing activities was 31 million yen. This was mainly due to repayments of long-term loans payable of 31 million yen.

(3) Explanations of Consolidated Financial Results Forecasts and Other Forward-Looking Statements

There have been no changes to the forecast for the fiscal year ending March 31, 2025, announced on May 13, 2024.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	4,688	5,162
Accounts receivable - trade	332	292
Contract assets	61	67
Prepaid expenses	188	352
Other	6	8
Allowance for doubtful accounts	(4)	(3)
Total current assets	5,271	5,878
Non-current assets		
Property, plant and equipment		
Buildings	28	28
Accumulated depreciation	(7)	(9)
Buildings, net	22	19
Vehicles	—	3
Accumulated depreciation	—	(1)
Vehicles, net	—	2
Tools, furniture and fixtures	51	51
Accumulated depreciation	(30)	(32)
Tools, furniture and fixtures, net	21	20
Total property, plant and equipment	42	40
Intangible assets		
Goodwill	615	581
Trademark right	0	0
Software	2	13
Software in progress	13	11
Total intangible assets	630	604
Investments and other assets		
Investment securities	59	28
Guarantee deposits	73	74
Deferred tax assets	469	469
Total investments and other assets	601	571
Total non-current assets	1,273	1,215
Total assets	6,544	7,094

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	112	111
Short-term borrowings	100	100
Current portion of long-term loans payable	61	61
Accounts payable - other	324	256
Accrued expenses	308	303
Income taxes payable	141	119
Accrued consumption taxes	100	99
Deposits received	24	29
Deferred revenue	2,693	3,188
Contract liabilities	72	44
Provision for bonuses	40	44
Other	0	0
Total current liabilities	3,975	4,355
Non-current liabilities		
Long-term loans payable	257	226
Total non-current liabilities	257	226
Total liabilities	4,232	4,582
Net assets		
Shareholders' equity		
Capital stock	1,153	1,153
Capital surplus	1,143	1,153
Retained earnings	(87)	173
Treasury stock	(1)	(1)
Total shareholders' equity	2,208	2,478
Non-controlling interests	104	34
Total net assets	2,312	2,512
Total liabilities and net assets	6,544	7,094

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income (cumulative)

(Millions of yen)

	Six months ended September 30, 2024
Net sales	4,562
Cost of sales	1,109
Gross profit	3,453
Selling, general and administrative expenses	3,124
Operating profit	330
Non-operating income	
Interest income	0
Miscellaneous income	0
Total non-operating income	1
Non-operating expenses	
Interest expenses	3
Share issuance cost	1
Foreign exchange losses	3
Commission fee	1
Loss on sales and retirement of non-current assets	0
Miscellaneous losses	0
Total non-operating expenses	8
Ordinary profit	322
Extraordinary losses	
Compensation expenses	12
Loss on valuation of investment securities	30
Total extraordinary losses	43
Profit before income taxes	279
Total income taxes	90
Profit	190
Loss attributable to non-controlling interests	(70)
Profit attributable to owners of parent	259

Consolidated Statement of Comprehensive Income (cumulative)

(Millions of yen)

	Six months ended September 30, 2024
Profit	190
Comprehensive income	190
(Breakdown)	
Comprehensive income attributable to owners of parent	259
Comprehensive income attributable to non-controlling interests	(70)

(3) Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended September 30, 2024
Cash flows from operating activities	
Profit before income taxes	279
Depreciation	11
Guarantee deposits depreciation	2
Amortization of goodwill	34
Interest income	(0)
Interest expenses	3
Loss (gain) on valuation of investment securities	30
Loss (gain) on sale and retirement of non-current assets	0
Share issuance cost	1
Commission fee	1
Increase (decrease) in allowance for doubtful accounts	(0)
Increase (decrease) in provision for bonuses	4
Decrease (increase) in accounts receivable - trade	40
Decrease (increase) in contract assets	(6)
Decrease (increase) in prepaid expenses	(168)
Increase (decrease) in accounts payable - trade	3
Increase (decrease) in accounts payable - other	(67)
Increase (decrease) in accrued expenses	(4)
Increase (decrease) in accrued consumption taxes	(1)
Increase (decrease) in deferred revenue	496
Increase (decrease) in contract liabilities	(27)
Other	18
Subtotal	648
Interest received	0
Interest expenses paid	(3)
Income taxes paid	(114)
Cash flows from operating activities	532
Cash flows from investing activities	
Purchase of property, plant and equipment	(11)
Purchase of intangible assets	(14)
Proceeds from guarantee deposits	(2)
Cash flows from investing activities	(27)
Cash flows from financing activities	
Repayments of long-term loans payable	(31)
Purchases of treasury stocks	(0)
Proceeds from issuance of common shares	(0)
Other	(0)
Cash flows from financing activities	(31)
Net increase (decrease) in cash and cash equivalents	474
Cash and cash equivalents at beginning of period	4,688
Cash and cash equivalents at end of period	5,162

(4) Notes on Consolidated Financial Statement

(Notes on Substantial Changes in the Amount of Shareholders' Equity)

Not applicable.

(Notes on Going Concern Assumption)

Not applicable.