



kaonavi

すべての才能が、  
カオを出す。

Kaonavi (4435 JP)

Recruit's talent management SaaS platform at 2.1x EV/Sales with 20-30% growth



ASIAN  
CENTURY  
STOCKS

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# Summary

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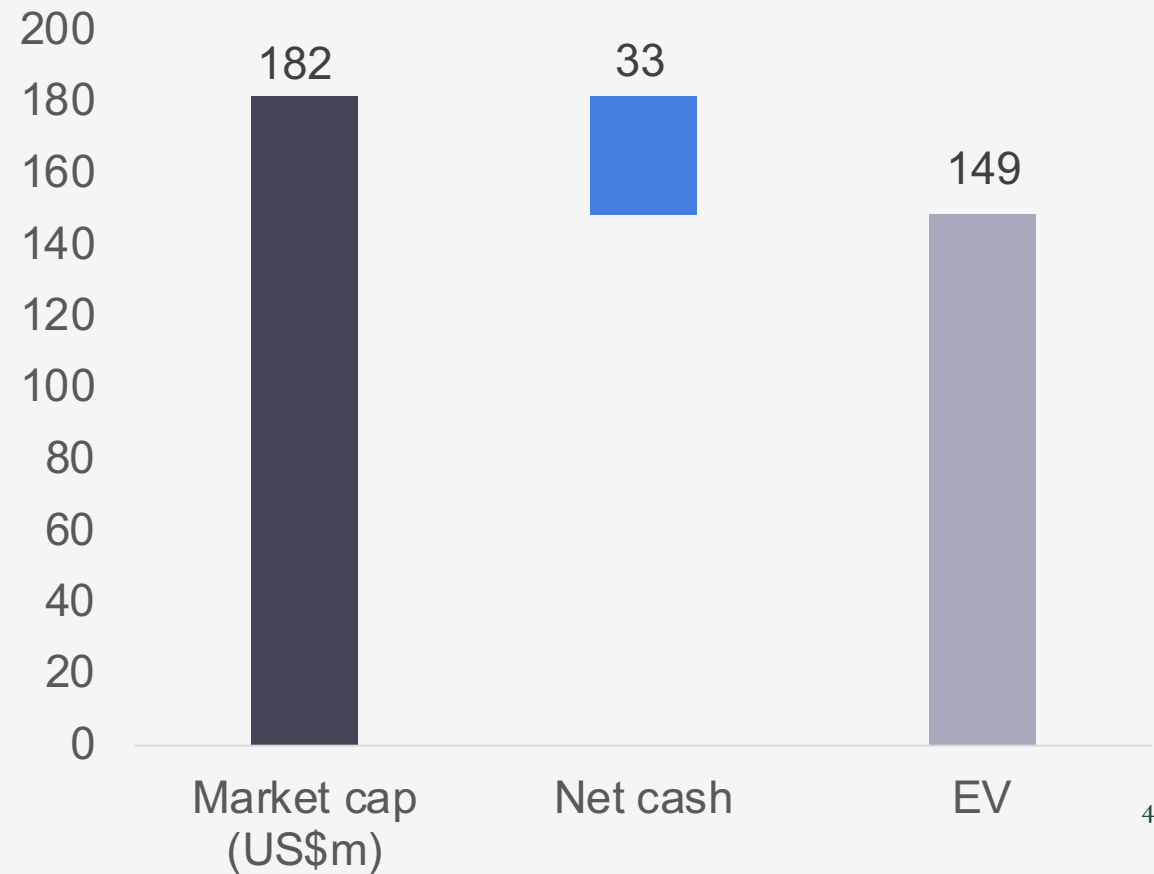
- Kaonavi is a talent management software developer, operating in an oligopoly with an estimated 30% market share. Unlike its parent company, job search giant Recruit, Kaonavi focuses on managing staff post-employment. Key features in Kaonavi's software includes a visual overview of employees with their photos and key information, evaluation services, surveys, training, recruitment internally and externally, etc.
- The software has been a massive success story. Revenues have grown at a 35% annual rate in the past five years. The company is now ramping up its marketing expenditures yet the company continues to enjoy a 10x LTV/CAC. The churn rate is a modest 5% per year and falling. The company-wide return on equity is 35% and rising, despite a massive cash pile that the company is now reinvesting.
- I was drawn to Kaonavi because of the switching costs of its product. It's not easy to export employee data from its software, so companies are more or less tied to the system. Kaonavi is also adding features to its software that should increase stickiness and the hurdles for new competition. It's said that competition in the HR-tech industry is brutal, but the churn number tell a different story. The key selling point is that Kaonavi's software is easy to use, helping onboard ordinary companies with little IT expertise. Plus Alpha Consulting's Talent Palette is a competitor, but so far they haven't competed much for the same customers.
- The penetration rate of talent management software is only 23%, and there are reasons to believe that this number could eventually reach 60%. The total addressable market can also be estimated by the total number of companies in Japan with above 100 employees, and those are currently more than 60,000 compared to Kaonavi's current customer base of 3,677. I also think there's upside in the current average revenue per user of JPY 187,000/month (US\$1,228/month).
- The near-term looks fantastic. Kaonavi just released a complementary product called "Roum Mate", built on the software acquired from another company last year. Kaonavi says that they're aiming to achieve the same level of sales and market share as their existing talent management suite, thus potentially doubling revenues. It's also improving Kaonavi's feature set through the new budget control system "Yojitsutics". The momentum becomes obvious once you look at Google search query data, with the number of Google searches for its platform rising +37% year-on-year.
- The stock trades at 2.3x EV/Sales, roughly half of its historical multiple and half of those of its peer group. With a long-term operating margin guidance of 20%+, the stock is essentially trading at a ~10x business model margin-adjusted EV/EBIT. With top-line growth guidance of 20-30%, we should be seeing its multiples contract steadily over the next few years. On my numbers, the stock will reach an EV/EBIT of 4.5x by 2029e.
- Competition is said to be fierce. Kaonavi's software is not protected by patents. Then again, it's currently building switching costs by improving the feature set of the platform. And an LTV/CAC of 10x suggests continued profitable growth. You could also make an argument that Recruit might benefit at Kaonavi's expense. But I also think that having the support of a powerful company like Recruit should help Kaonavi succeed in the long-run.

# Capitalization



- Share price: JPY 2,382
- Shares outstanding: 12 million
- Market cap: US\$182 million
- Net cash: US\$33 million
- Enterprise value: US\$149 million
  
- Average daily trading volume: US\$1.4 million

US\$ million



\* JPY = Japanese Yen. JPY/USD = 152.3

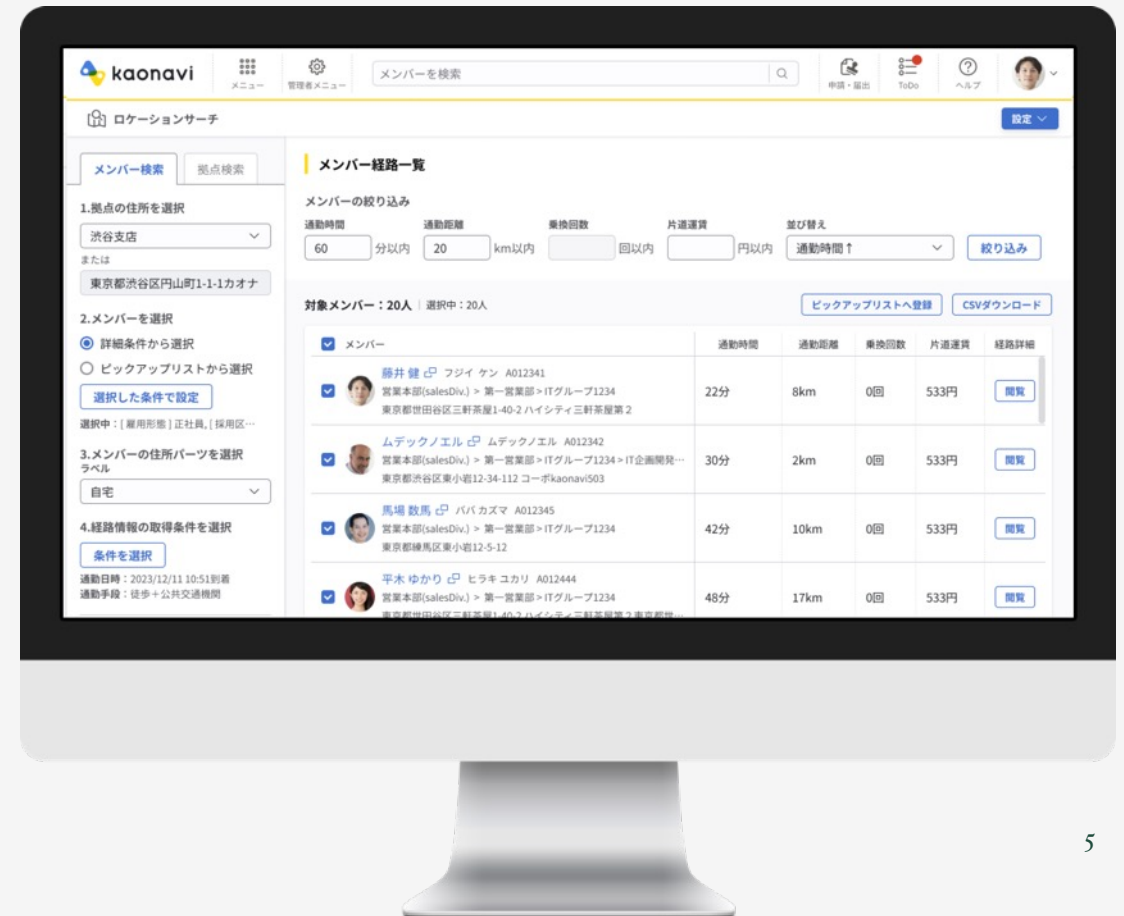
# Business overview



kaonavi



- Kaonavi (カオナビ) is a developer of talent management software for small- and medium-sized enterprises in Japan. Kao apparently means “face” in Japanese, and “navi” is the short form of the English word navigation.
- Kaonavi helps companies manage talents within their organization, including staffing, performance reviews, surveys, data analysis, etc. In other words, it centralizes human resource information into a single platform.
- The key selling points of the system seems to be to check pictures of employees so you know who is who. As well as help evaluate employees to help them in their development. Many also use the system to track the number of paid holidays remaining.
- The software now has 3,600 customers across Japan, with key customers such as Toyota, Yoshinoya, Nissin, Mitsubishi, Suntory, etc. And the number of employees in its database is now well above 1.5 million people.



# Kaonavi's history

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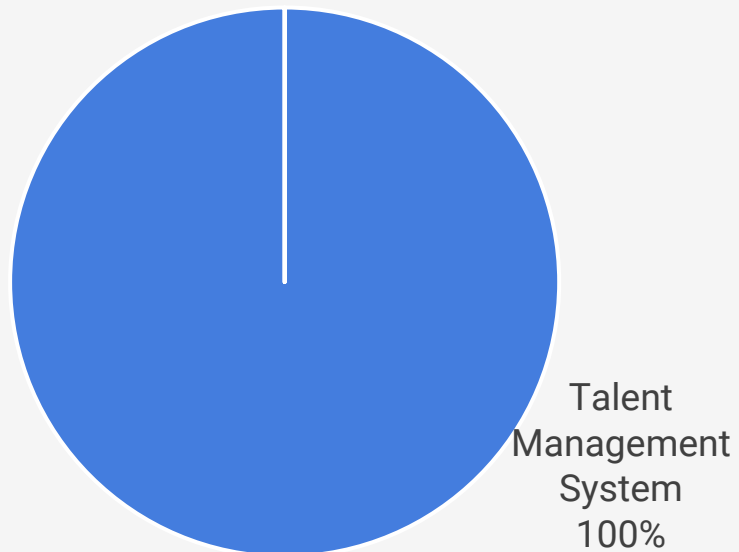


- Kaonavi was established in **2008** under the name of “Japan Operation Lab”
- Four years later, in **2012**, it launched “kaonavi” as the first talent management SaaS service in Japan with photos and profiles along with search functionality
- In **2014**, it added personnel evaluation tools
- Then in **2016**, Kaonavi launched user support services for existing paid subscribers
- In **2017**, Recruit invested Kaonavi through one of its funds, and then helped it grow by connecting its own services to it through APIs. For example, the PSI3 aptitude test became offered as an add-on.
- The Kaonavi smartphone app was launched in **2018**
- The IPO took place in **2019** on the Mothers markets for fast-growing innovative companies. The Connected Partners program was launched in the same year, as was the Pulse Survey feature.
- The Enterprise version of Kaonavi was launched in **2023**, bringing up overall ARPU
- An acquisition of Made Work Style was made in January **2024**, financed through shares

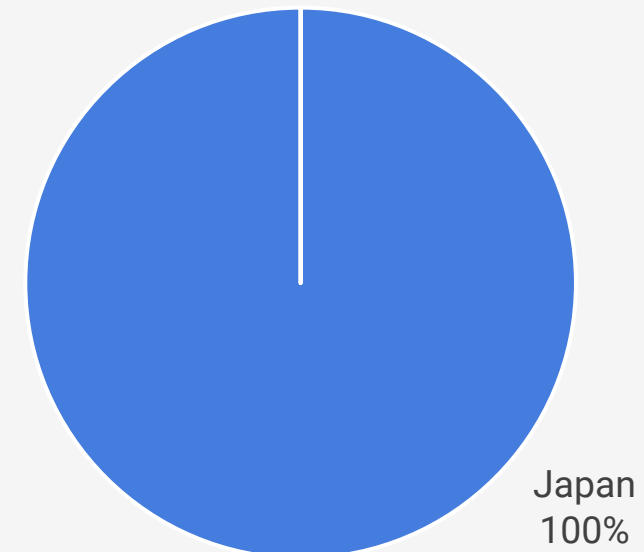
# Kaonavi is an incredibly straightforward business to analyze: it operates a cloud-based talent management system in Japan



Revenues by segment

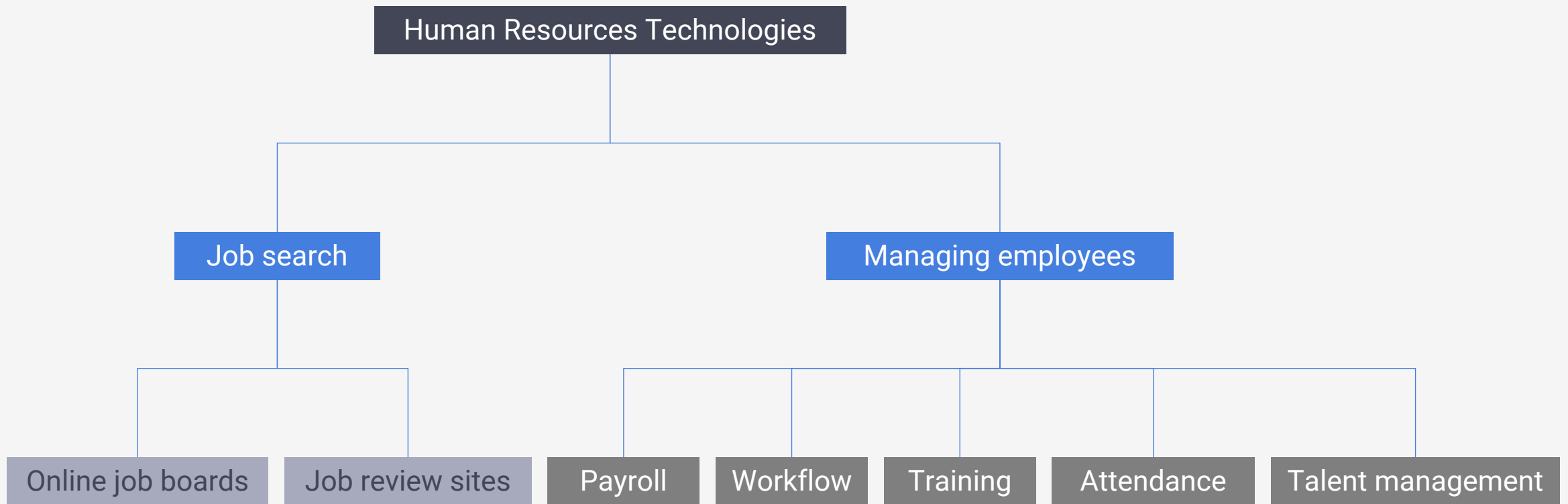


Revenues by region



Source: Shared Research

Talent management software is a niche in the broader HR-tech industry, and even a niche in the field of employee management



*Kaonavi, PAC*

# Kaonavi's initial selling point was presenting the organization in an easily viewable format with portrait photos, names, skills, etc



kaonavi user screen

kaonavi MENU SETUP

メンバーを検索

メンバー : 724人

操作を選択する ▼ ソート: 社員番号 ↑ ビュー: [Grid] [List] [Table]

藤井 健 フジケン  
営業本部(salesDiv.) > 第一営業部  
社員番号 : a0001 役職 : 部長 等級 : 3  
性別 : 男性 生年月日 : 1978/10/16 年齢 : 42歳  
入社日 : 2005/12/01 入社年度 : 2005年度 勤続年数 : 14年10ヵ月  
採用区分 : 中途 発令日 : 2007/10/01 部署滞留年 : 1年0ヵ月  
状態 : はれ ランク : 中堅 都道府県 : 大阪  
内線番号 : 5222 退職日 : 電話番号 : 090-0000-0000  
契約更新日: 2020/09/15  
メール : sample@mail

伊藤 太輔 a0007 梶沼 隆 a0008  
鈴木 克正 a0015 佐野 周平 a0016  
鈴木 欣弘 a0017 余吾 順子 a0018 山下 透 a0021 村田 亮 a0022 井上 雄 a0023 植田 とし子 a0024 中川 美穂 a0025 金子 衆 a0027

メンバーを検索

詳細条件で絞り込む

保存された条件 19件

- 総合職 削除
- 昇格候補者 削除
- 2年連続S評価人材 削除
- S評価人材 削除
- 有効期限切れ1か月前 削除
- 次世代リーダー研修対象者 削除
- 40歳以下の高評価人材 削除

すべて見る ▼

所属 [+] [-]

- 役員(10+1)
  - 役員(1)
  - 役員人事部(5+1)
  - 役員監査部(4)
- 営業本部(salesDiv.)(204+21)
  - 営業本部(salesDiv.)(2+3)
    - 第一営業部(61+3)
      - 第一営業部(5+2)
      - ITグループ(28+1)
      - Webグループ(28)
    - 第二営業部(71+3)
      - 第二営業部(3+1)

[https://service.kaonavi.jp/personal/detail/pb?member\\_id=1&pos=1](https://service.kaonavi.jp/personal/detail/pb?member_id=1&pos=1)

## Benefits of a talent management system:

- Centralized and visualized data
- Performance reviews
- Skills management
- Motivation analysis
- Staff deployment
- Surveys
- Going paperless
- Accessibility
- Streamlining across organization



# Key features offered by Kaonavi

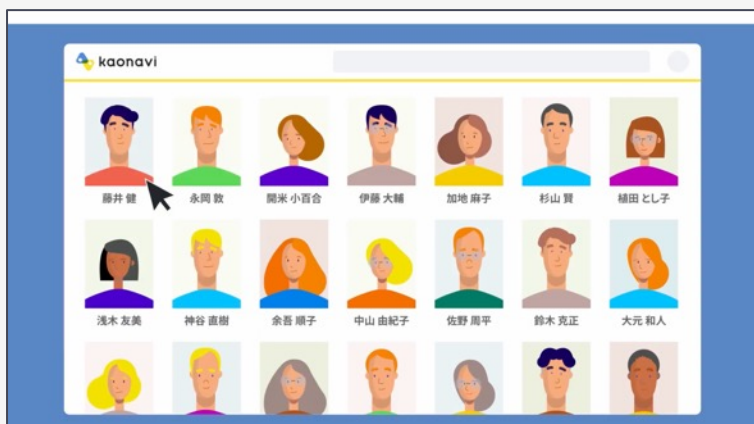
- Kaonavi started out as a website where you could sort employees based on their portrait photos.
- But today, the photos are more of a hook for the more complex talent management system
- It's a visual tool allowing users to view the entire company through organization charts with greater granularity if they so wish
- They can also search for employees with specific skills, e.g. language skills or certain personality traits
- As well as track KPIs over time

Major functions	Description
HR database	Rows of portrait photos
Employee data sorting	Sort by employee data
Employee lists	Select talented employees
Organizational tree	Diagram with employee portrait
Personality test	Categorizes individuals into 9 types
Creative map	Enables users to pull up portrait
Evaluation workflows	Management by objectives etc
Employee surveys	Surveys
Allocation balance	Bird's eye view of organization
Employee data graphs	Trends for for key KPIs
Dashboard	Analysis
Position management	Algorithm for selecting right staff
Skill management	Templates for learning skills
Selected information view	Customized views
Human capital template	Report function
Industry-specific templates	Report function
Personnel management	Manage applications, payroll, etc.



# Visualization of Kaonavi's key features (1/2)

## Employee database



## Employee profile



## Visualizations of staff data



## Staff evaluation sheets



## Workflow management



## Staffing in organization chart





## Visualization of Kaonavi's key features (2/2)

Post a recruitment ad

募集要項

**DX推進担当**

所属	DX推進室
カテゴリ	DX関連
定員	3名
事業内容	社内DX化案件の推進メンバーとして、業務効率化を実現するプロジェクト企画や新しい働き方の設計、全社展開の推進を担当していただきます。 ○社内の業務効率化サポート ○社内基幹システムの追加開発・保守 ○各種BIツールなどを活用したDX推進
募集期間	2023/08/15 - 2023/09/24

Search internally for candidate

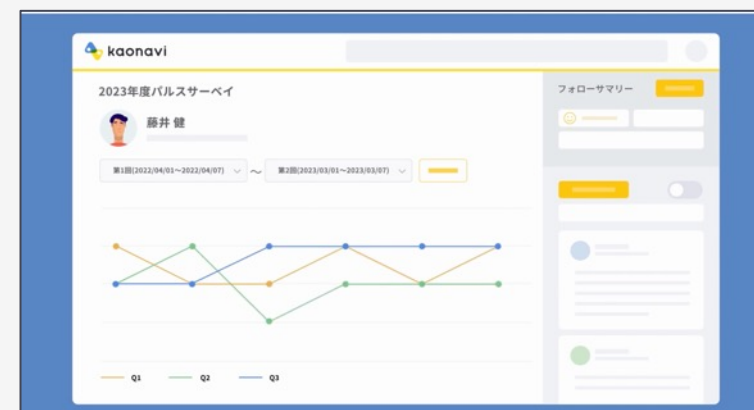
候補者・アサインメンバーの設定

検索条件: 所属: DX推進室, 職種: DX推進担当, 検索: [検索]

検索結果: 32人

氏名	所属	職種	スキル	評価
田中 小百合	DX推進室	DX推進担当	100%	100%
山田 花子	DX推進室	DX推進担当	90%	85%
鈴木 太郎	DX推進室	DX推進担当	85%	85%
山本 健太	DX推進室	DX推進担当	74%	74%
伊藤 美咲	DX推進室	DX推進担当	73%	73%
中村 実	DX推進室	DX推進担当	68%	68%
水戸 武	DX推進室	DX推進担当	62%	62%
内田 優子	DX推進室	DX推進担当	60%	60%

Surveys / personality tests



Training modules

教材

電話対応の仕方

テスト

テストにチャレンジ

ビジネスマナーの基本

受講期間: 2023.2.3 - 2023.3.31

テストの合格で受講終了

Build custom staff database

社員データベース

氏名: [検索]

フリガナ: [検索]

所属: [検索]

社員番号: [検索]

職種: [検索]

性別: [検索]

年齢: [検索]

入社年度: [検索]

勤続年数: [検索]

電話番号: [検索]

内線番号: [検索]

メールアドレス: [検索]

退職日: [検索]

Built-in customer support

社員データベース

氏名: [検索]

フリガナ: [検索]

所属: [検索]

社員番号: [検索]

職種: [検索]

性別: [検索]

年齢: [検索]

入社年度: [検索]

勤続年数: [検索]

電話番号: [検索]

内線番号: [検索]

メールアドレス: [検索]

退職日: [検索]

# What problem does Kaonavi solve? It helps manage complex organizations



As companies grow, they:

1. They become complicated with HR data solved across paper files and computer files, e.g. Excel spreadsheets
2. It becomes difficult to assign personnel to suitable tasks since management doesn't know who has certain language- or computer skills, etc.
3. Evaluation workflows also become unnecessarily complicated, saved across different locations
4. A rapid increase in the headcount makes the organization unwieldy and difficult to grasp, including remember the names and information of new colleagues
5. Human resources tasks can be automated through clever visualizations



Kaonavi makes money through 1) initial fees 2) support fees and 3) basic usage fees across three plans. But 85% of revenues come from the latter.



# of Registered Employees		Subscription Plan	DATABASE PLAN Consolidate all personnel data	PERFORMANCE PLAN Efficient review operation	STRATEGY PLAN Strategic HR management
Additional fees paid for every 100 employees	~ 100 people	HR Database	✓	✓	✓
	~ 200 people	Pickup List	✓	✓	✓
	~ 300 people	Organization Chart	✓	✓	✓
	~ 400 people	Performance Review		✓	✓
	~ 500 people	Employee Survey		✓	✓
	~ 600 people	Matrix Chart			✓
	~ 700 people	Employee Data Graph			✓
	~ 800 people	Dash Board			✓
	⋮	Option Services*1	✓	✓	✓

Exact fees not disclosed, but personal estimates:

Starting from ~JPY 50,000/month (US\$333)	Starting from ~JPY 75,000/month (US\$500)	Starting from ~JPY 100,000/month (US\$666)
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# Some of Kaonavi's existing customers



Used by various companies and organizations regardless of industry or business size



TOYOTA

TOPPAN

NISSHINBO



HONDA



SUNTORY



森永乳業



WACOAL

ダイヤモンド社

TOHO



KADOKAWA

SATUDORA HOLDINGS

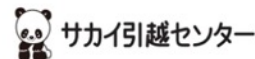
吉野家 YOSHINOYA

CAINZ

FUJITA KANKO



ZENRIN



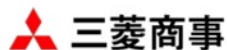
OGFA 株式会社 大阪ガスファシリティーズ



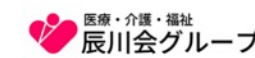
KINTETSU GROUP HOLDINGS

NANKAI

清水建設



JCB



# Kaonavi's Connected Partner Program entails both risks and opportunities



- Kaonavi collaborates with partners within the HR technology field to offer its customers a richer feature set. One of its partners is its shareholder Recruit Holdings, the leading company in Japan's HR-tech industry, having complementary expertise given its main focus on job search. Two of the products now offered through the Connect Partners Program are now:
  - Recruit's aptitude test **SPI 3** (Japanese language, mathematics plus personality test). Clients can thus take SPI 3 on the Kaonavi platform and the result is then saved in Kaonavi's user data. By taking this test, the company will understand the personality traits of its employees and make better decisions when it comes to staffing.
  - Recruit's job search tool **Talent Finder**, which is also offered directly the Kaonavi platform. Managers can input recruitment requirements and then find suitable clients through the system. Or employ Recruit's headhunting service through the system, with suitable candidates showing up on the Kaonavi website.



# Kaonavi's customer acquisition strategy



- Kaonavi finds its customers primarily through advertising, and then tries to recoup those expenses through recurring revenues over time.
- It's had advertisement campaigns in Tokyo's subway, but also online through search and display ads.
- Then, it picks up, it gets organic conversions from visits to the Kaonavi website.
- It also gets traffic from comparison websites that shows Kaonavi's features vs those of the competition.
- It also has an active sales force, with a similar organization structure as Salesforce.com. Leads that have shown an interest will get calls from Kaonavi's sales team. Most customer acquisitions are from direct sales.
- Kaonavi has also held seminars. In 2020, it reported that it had had over 1,400 companies participating

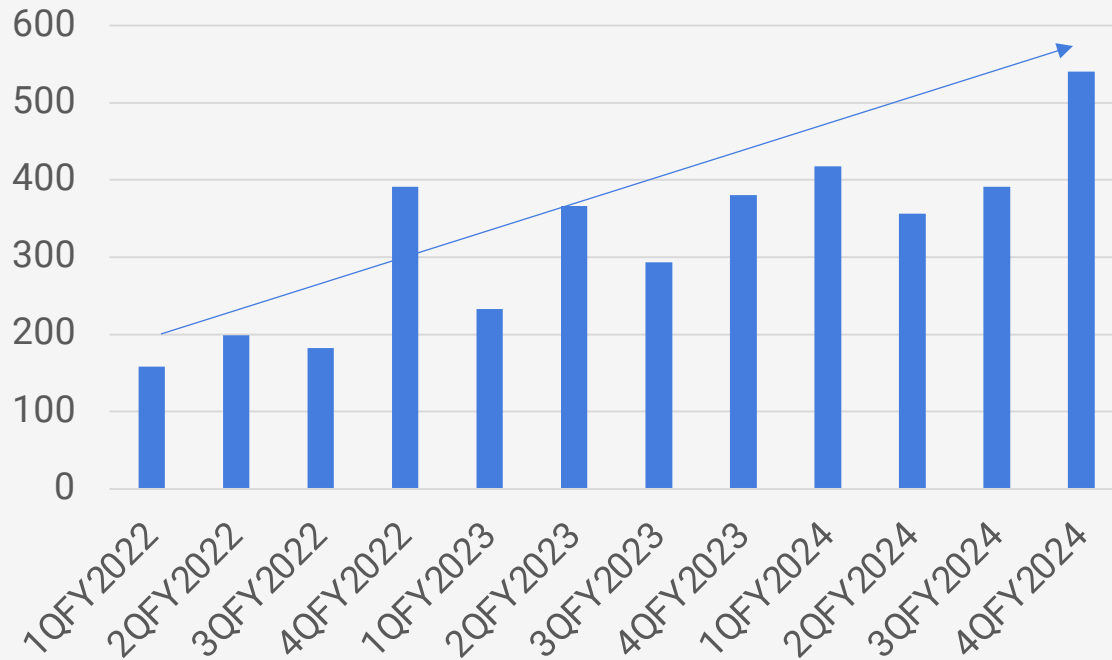


*A Kaonavi advertisement campaign in a Tokyo subway station*

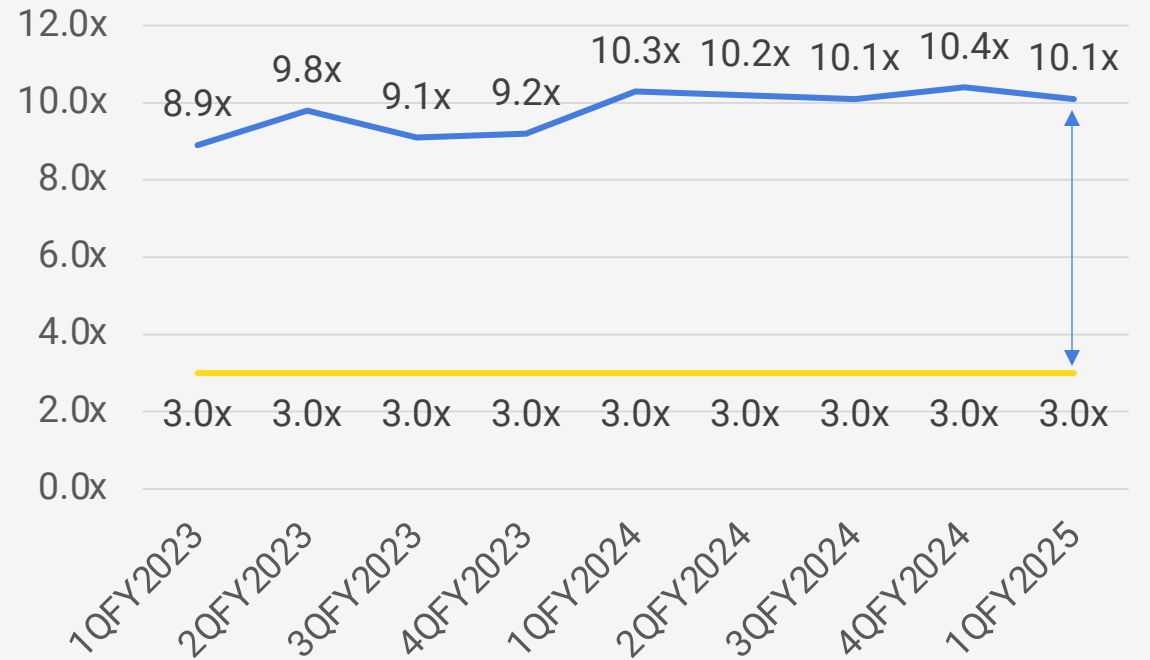
# An LTV/CAC of 10x suggests that the flywheel is working



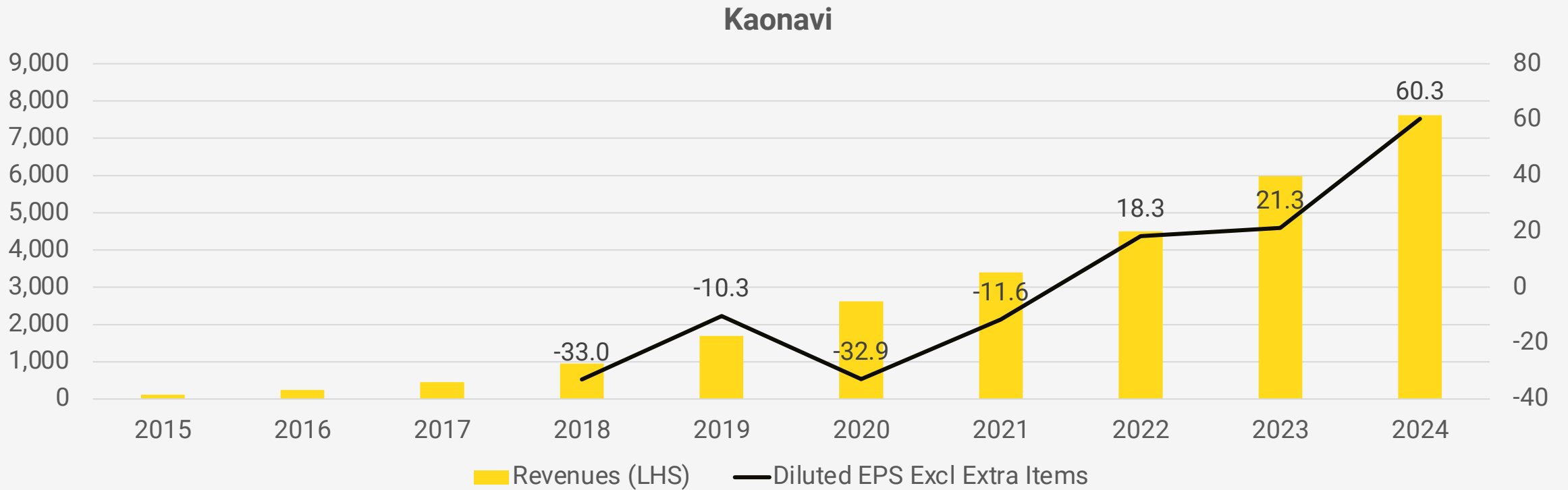
## Sales & marketing expenses



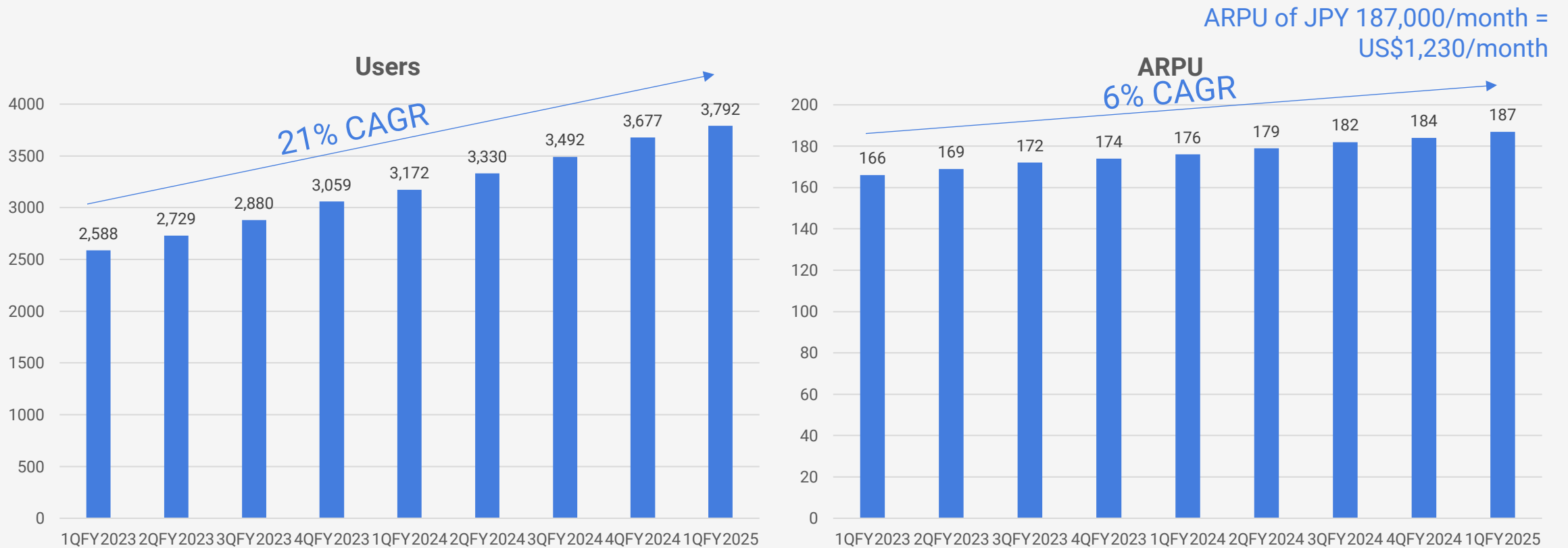
## Kaonavi LTV/CAC



# Kaonavi's historical growth has been impressive



Growth has been broad based across both higher user numbers on top of higher revenues per user... driven by up-selling / mix shift



# Competitive advantages








- **Leading feature set:** Japanese enterprises culturally prefer best-of-breed products, and Kaonavi is the leader in talent management systems, with an estimated market share of 30%. Why? Probably because the software is intuitive, easy to use and that the company offers great customer service.
- **Switching costs:** After data gets accumulated in Kaonavi's systems, that data will be difficult to export. In recent years, Kaonavi has pushed optional features such as pulse surveys and workflow products, which reduce churn.



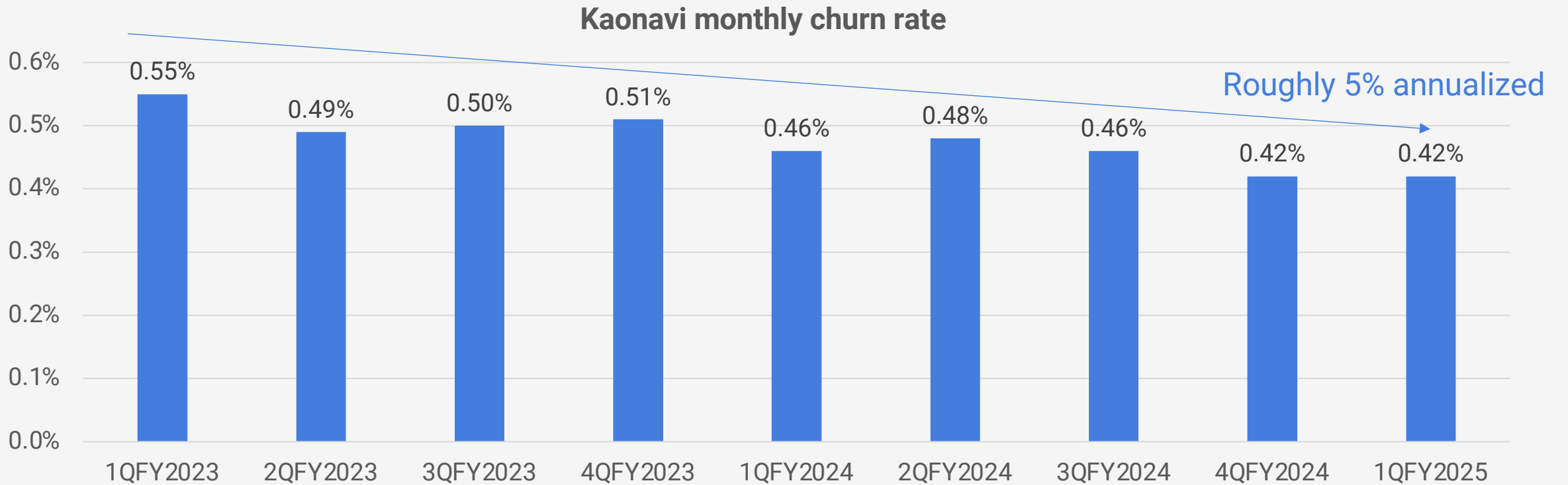
Kaonavi's selling point is its ease of use, whereas Talent Palette has greater features, including data mining tools to identify talent



 					
Kaonavi	Talent Palette (PAC)	HR Brain	SmartHR	Workday	"Legacy"
Kaonavi (4435 JP)	Plus Alpha Consulting (4071 JP)	(Private)	(Private)	Workday (WDAY US)	n.a.
Beautiful	Lots of features	Owned by EQT	Started in payroll	Focus on enterprise	Excel-based
Ease of use	Data mining tools: eg identify non-motivated employees	Emphasizes goal management / evaluation of staff	Has added talent management features since 2019	Poor local customization	Manual
Focus on SMEs	Focus on enterprise	Focus on small companies			Not online
	Separate CRM system				

Key players in Japan's talent management software industry

# Kaonavi's monthly churn rate is impressively low – and falling, indicative of a lack of competition with Talent Palette



# IT Grid Review commentary suggests that the software is convenient and easy to use, though with security / login issues



## Positives

- *"It's great that we can now centrally manage all the information and activities of all employees, which was previously managed using multiple software programs, and that we can share information between the two parties."*
- *"It's good that you can write evaluations online and have them approved electronically"*
- *"Since our company frequently undergoes organizational changes and personnel transfers, it is very convenient to be able to display the latest organizational chart with photos of the members."*
- *"We decided to introduce Kaonavi because its UI and information management method are easy to understand and can be used even by our company, which has low literacy."*

## Negatives

- *"It was on the news, but I'm worried about personal information leaks"*
- *"The window display when entering text is a little hard to see, so I would be happy if it could be improved"*
- *"It would be great if it could be linked to email software so that clicking on a department name would send an email to all members."*
- *"Although it is easy to input information, there are many items, which can lead to missing information"*
- *"At present, I have no particular complaints and am using the service."*
- *"This is because the security system is perfect, and the policies of each company are different, so it is difficult to generalize, but two-step authentication can be a hassle"*

# Since 2022, the company has been run by two co-CEOs



- Since 2022, Kaonavi has been run by two co-CEOs. This shift to a co-CEO model was meant to help the business maintain a long-term vision without getting bogged down in day-to-day management:
  - **Hiroyuki Sato:** Started his career at Accenture, then founded Kaonavi in 2008 though not as a CEO. He held the position as Executive Vice President and COO up until 2022, when he took over as co-CEO. He now looks after the day-to-day management of Kaonavi.
  - **Hiroki Yanagihashi:** Started his career at Sanyo Electric, then became an investment banker at Mitsubishi UFJ Securities in 2006 before joining Kaonavi in preparation for its IPO in 2019. Since then he held the position as Chief Financial Officer and head of the management strategy office, before finally becoming co-CEO in 2022. He focuses on medium- to long-term strategic questions, including the development of new products and businesses.

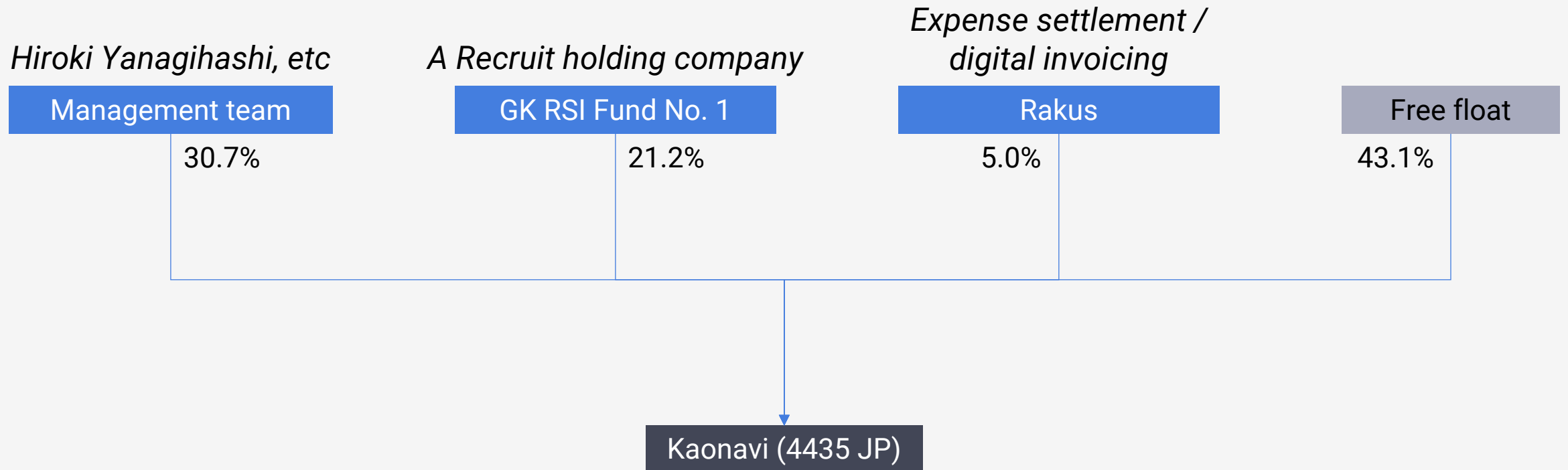


*Hiroyuki Sato, co-CEO*



*Hiroki Yanagihashi, co-CEO*

# Kaonavi enjoys the support from both Recruit and Rakus

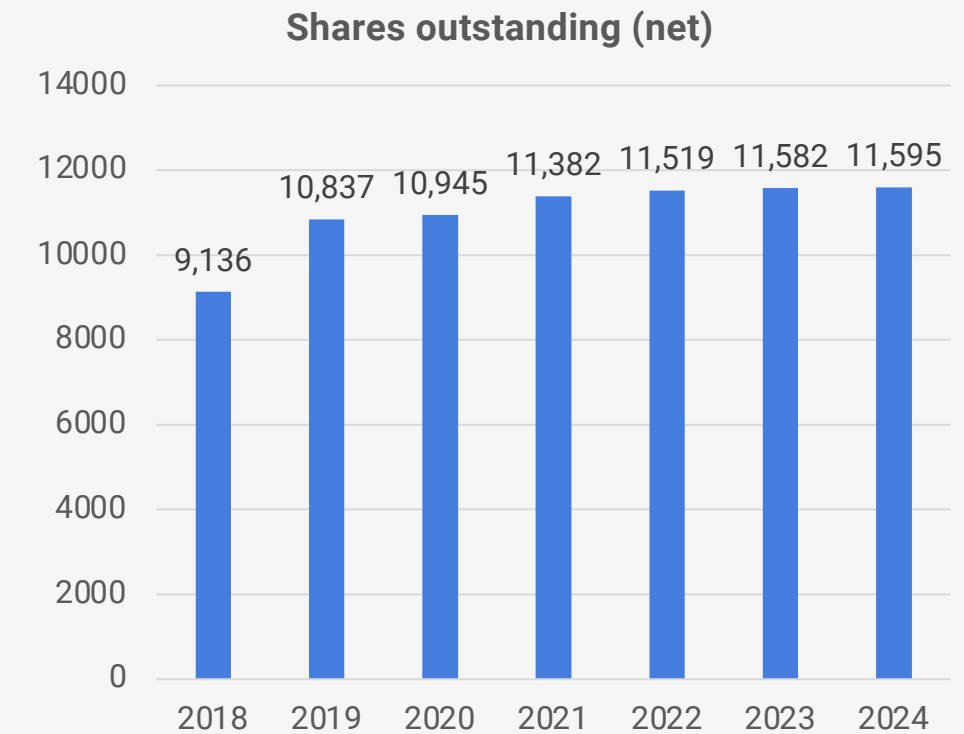


Source: Kaonavi investor presentation FY2024



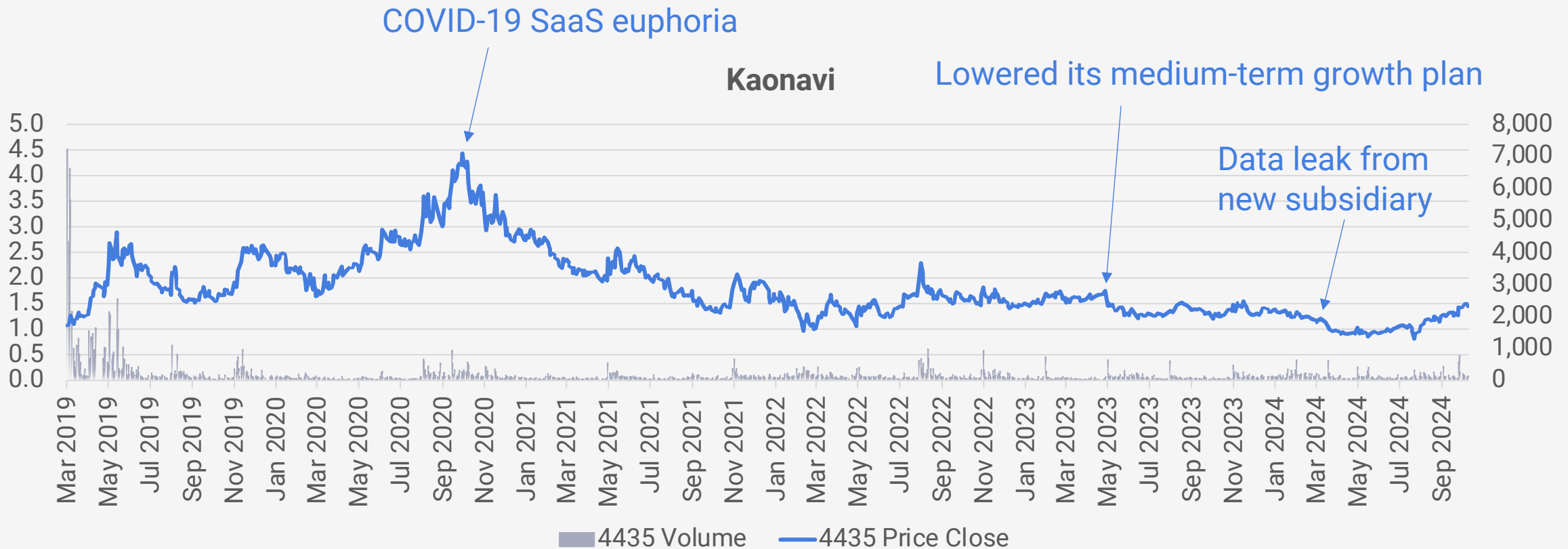
## Th capital allocation and corporate governance seems decent

- For the time being, Kaonavi prioritizes reinvesting capital into the business, as it should, given its current 10x LTV/CAC ratio. However, it does plan to return profits at some point, though not in the near term. This policy appears to be rational, from my point of view.
- Management gets paid partly through stock compensation, though it hasn't been excessive in the past. On my numbers, the dilution has been far less than 1% per year.
- One question mark I have is the acquisition of 51.8% of WorkStyleTech for JPY 726 million (US\$4.9 million) in cash. It runs a labor management system called WelcomeHR: digitization of contracts, payroll, etc.
- The return on equity last year was 35%, despite a massive cash pile on Kaonavi's balance sheet. The company is quite clearly a cash flow machine.



Source: TIKR

# Kaonavi's share price has dropped owing to the post-COVID malaise for Japanese SaaS stocks and lowered long-term guidance

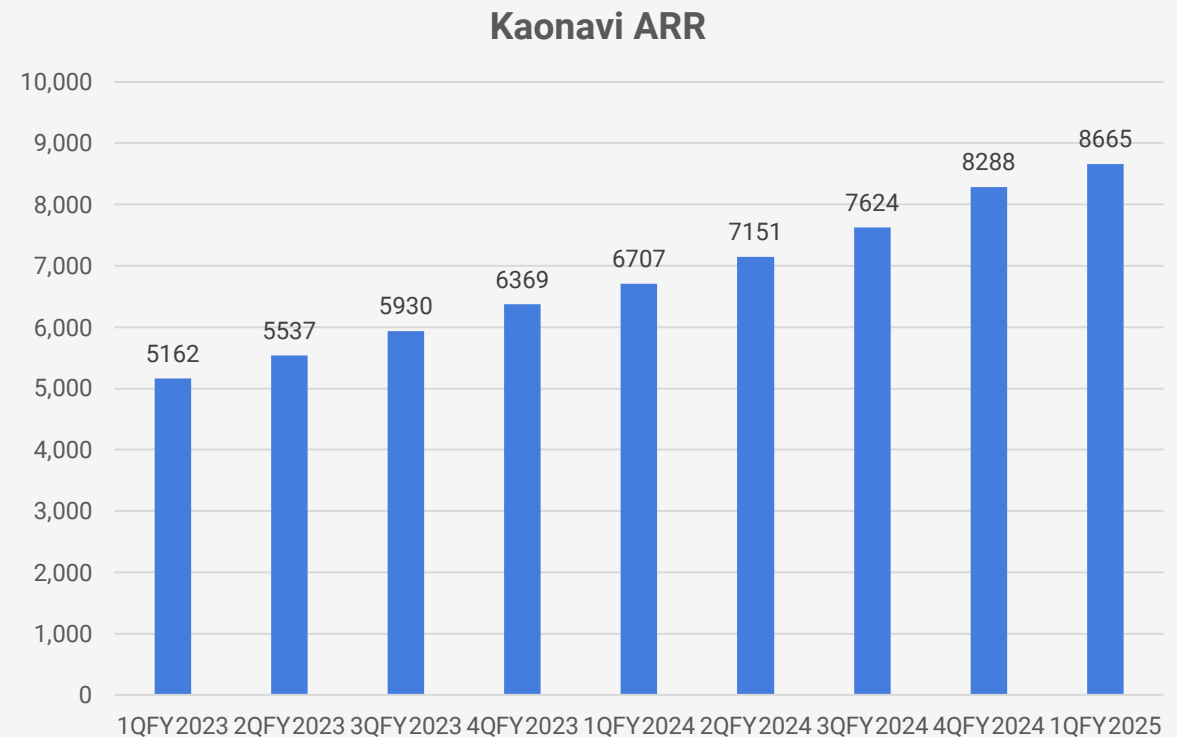


Source: TIKR

# What has gone wrong to cause the multiple to contract this much?



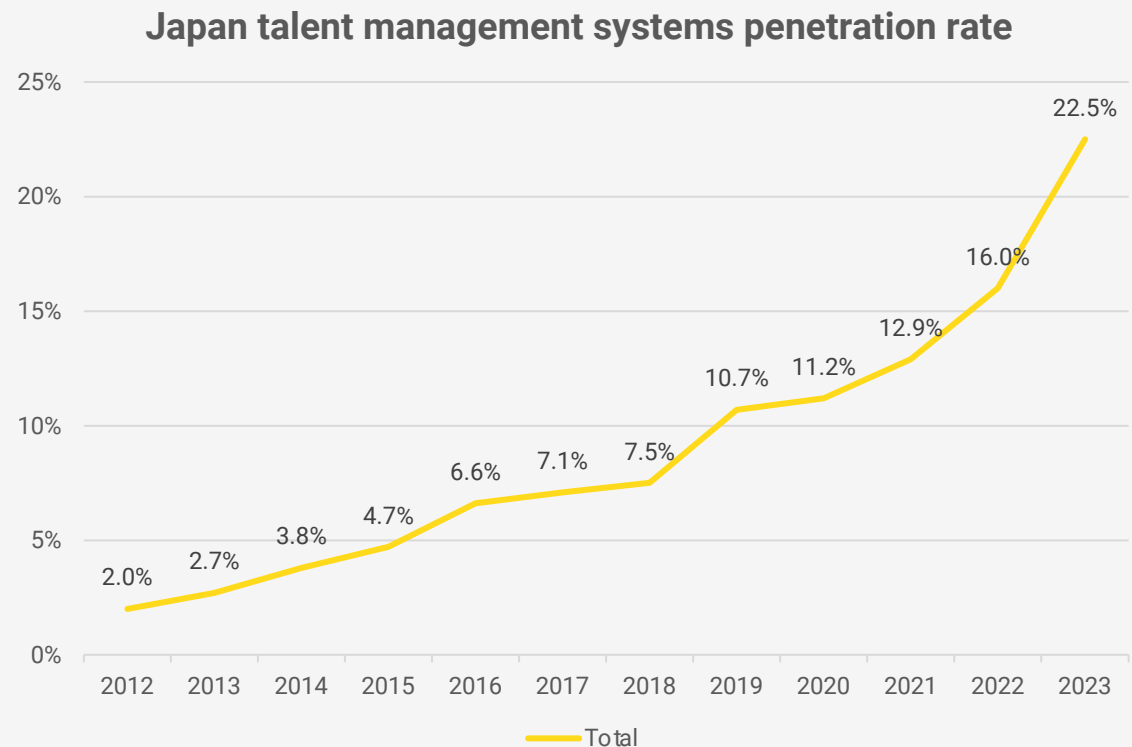
- Kaonavi's financial results have been decent
- But recently, revenue growth has decelerated from 30%+ to the high 20s
- This is ostensibly due to higher competition from Visional, Freee and Money Forward offering similar services
- On 12 May 2023 it also reduced its long-term growth guidance in the following fashion:
  - FY2025 revenue: JPY 10 billion => 20-30% CAGR
  - Gross profit margin: 80% => ?
  - Operating profit margin: 30% => 20%+





# Long-term industry trends

- Japan's the working-age population is decreasing at a rate of 0.5% per year. This increases the hurdle to hiring quality personnel.
- There's also a shift from manufacturing to the service industry, with greater focus on talent.
- Japan's labor productivity is far below most developed countries, perhaps 1/3 lower than that of the US. Talent management can help address this issue.
- The penetration rate of talent management software has gone from 2% in 2012 to 23% today.
- That penetration rate is far lower than for attendance management software (61%) and payroll management software (58%) (note: 2017 numbers from IDC, so somewhat outdated).

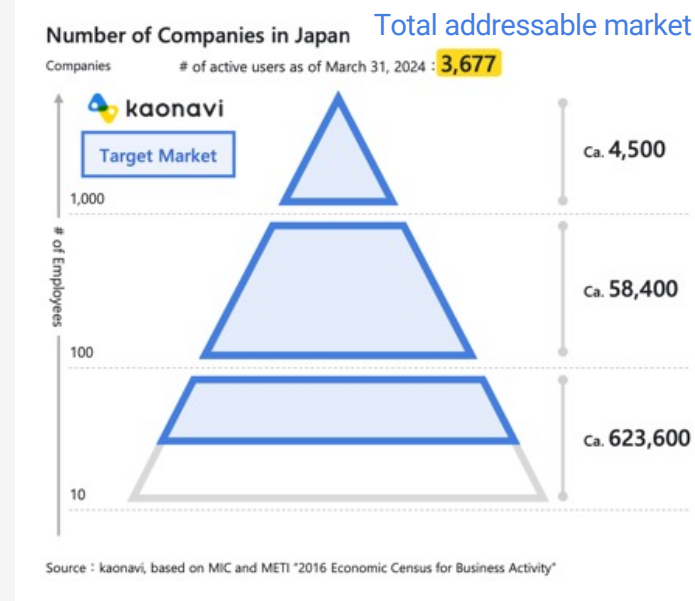


Source: Japan Users Association of Information System (JUAS) 30

# What is going to change for Kaonavi?



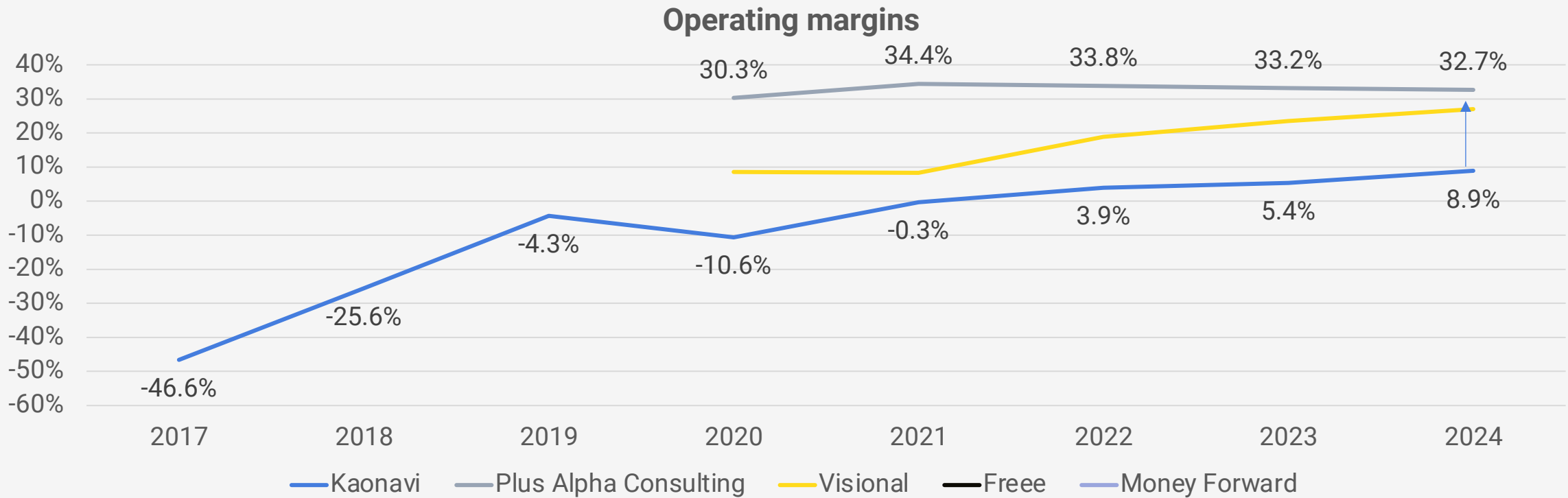
- 1. Guidance:** The new guidance is for 20-30% ARR growth and 20%+ operating margins. Management does not expect a significant increase in the churn rate as competitors are focusing on new clients rather than starting a price war. It will increase ARPU by going after enterprise users, upsell company-wide implementations and expand the HR data platform. It will also continue acquiring new customers from a huge target market of at least 60,000 companies.
- 2. Richer feature set:** Over time, Kaonavi is planning to create a comprehensive HR data platform. To that end, in July 2024, Kaonavi launched labor management system “Roum mate” as what it calls “its second [growth] pillar” after Kaonavi. It’s already received orders from dozens of companies, suggesting it will contribute to top-line growth.
- 3. Profile portability:** In the future, Kaonavi wants employee profiles to be portable to their next companies. If so, that would create a moat for Kaonavi since portability requires use of its software across both the old and new employer.



Near-term guidance	FY24/3		YoY
	Actual	FY25/3 Forecast	
Net Sales	7,625	9,420 ~ 9,560	+23.5% ~ +25.4%
Subscription Revenue	6,723	8,465 ~ 8,565	+25.9% ~ +27.4%
Support Revenue	903	955 ~ 995	+5.8% ~ +10.2%
Adjusted Operating Profit <sup>1)</sup>	814	Not disclosed	
Margin	10.7%		



# There's remaining upside to reach PAC's ~30% margins



Source: TIKR



# The core platform is being continuously improved upon

## Location search

kaonavi

メンバーを検索

ロケーションサーチ

1. 拠点の住所を選択

東京新宿店

または

東京都新宿区

2. メンバーを選択

ピックアップリストから選択

選択中: 経路探索① 東京都

3. メンバーの住所パーツを選択

テキストボックスで住所

4. 経路情報の取得条件を選択

条件を選択

通勤日時: 2024/07/17 09:00到着  
通勤手段: 徒歩+公共交通機関

経路取得 リセット

メンバー経路一覧

メンバーの絞り込み

通勤時間: 分以内  
通勤距離: km以内  
乗換回数: 回以内  
片道運賃: 円以内  
並び替え: 通勤時間↑

絞り込み

対象メンバー: 33人 | 選択中: 30人

CSVダウンロード

メンバー	通勤時間	通勤距離	乗換回数	片道運賃	経路詳細
<input checked="" type="checkbox"/> 山田 雅弘 a0030 店舗 > 東日本 > 東京 東京都港区虎ノ門2-2-8	29分	6.5km	1回	178円	閲覧
<input checked="" type="checkbox"/> 近藤 美紗 a0032 店舗 > 東日本 > 東京 東京都港区虎ノ門3-3-7/バステージ510	30分	6.5km	1回	178円	閲覧
<input checked="" type="checkbox"/> 矢澤 健太郎 a0033 店舗 > 東日本 > 東京 東京都港区芝浦1-1-9デュアル213	44分	8.7km	2回	355円	閲覧
<input checked="" type="checkbox"/> 吉田 理 a0034 店舗 > 東日本 > 東京 東京都港区芝浦2-4-4アメニティ616	48分	14.4km	0回	208円	閲覧

*Enables users to search for commuting times and transportation costs to destination store or office*

## Group training management

ラーニングライブラリ > 受講申し込み

講座の説明

4月入社対象の集合研修です。

入社後研修

スケジュール・会場

日程を選択して申込を行ってください。

開催日時	会場名	オンライン参加
<input type="radio"/> 2024/04/17 13:00 ~ 2024/04/17 15:00	残りわずか(1) 会議室A	不可
<input type="radio"/> 2024/04/17 13:00 ~ 2024/04/17 15:00	残りわずか(10) 会議室B	不可
<input checked="" type="radio"/> 2024/04/19 10:00 ~ 2024/04/19 12:00	空席あり 大会議室C	不可

受講申し込み

*Added group training management functionality to the "learning library", targeting enterprises*

# April 2024: Kaonavi released budget control system “Yojitsutics”



- “Yojitsutics” is a budget control system which centralizes management data and helps you quickly identify what the management team, the corporate planning team, and the field operations teams should do.”
- “By visualizing various data such as P/L data, including sales, sales cost, and SG&A, through centralized data management, it allows you to share numbers and status on a real-time basis and to speedily make the right management decisions.”
- “It is chosen by business managers and corporate planning departments across every sector and business category as a system for solving all management-related issues.”

# July 2024: Labor management service “Roum mate” released, built on the software purchased through WorkStyleTech



Early 2024: “Aiming to achieve the same level of sales and market share as kaonavi’s TMS in this area alone”

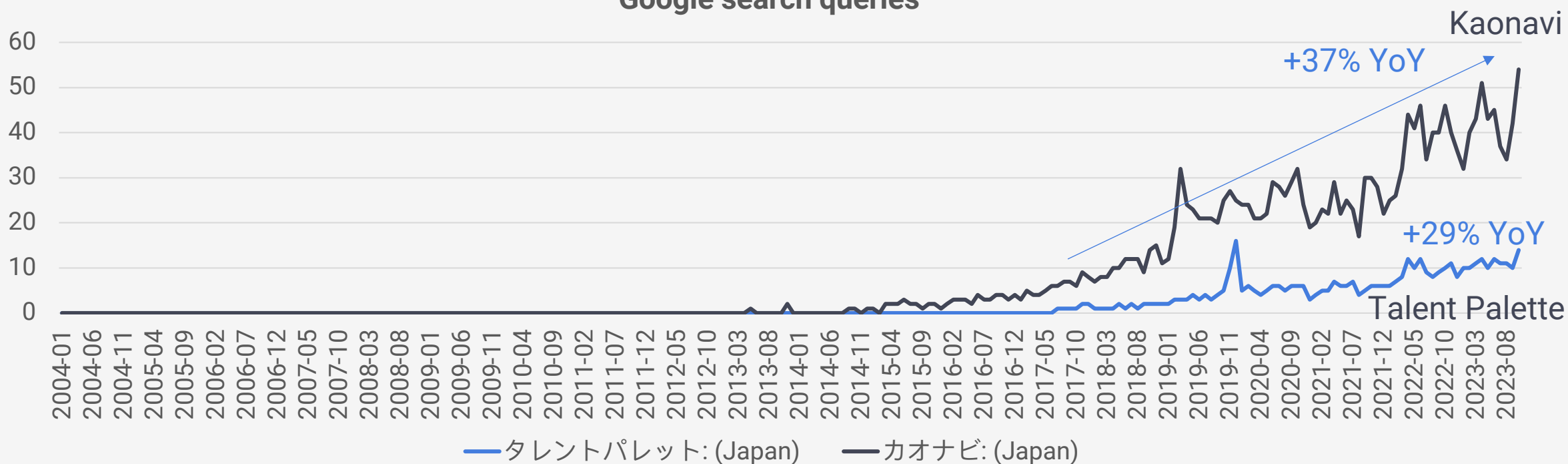


"Roummate" is a labor management system that enables you to get through labor-related procedures paper-free. It transforms HR tasks with paper and Excel making it all on the system, such as onboarding documents, year-end adjustments, paystubs, and electronic applications.

# Google search queries for “Kaonavi” keep rising rapidly, and they remain way higher than those of Talent Palette



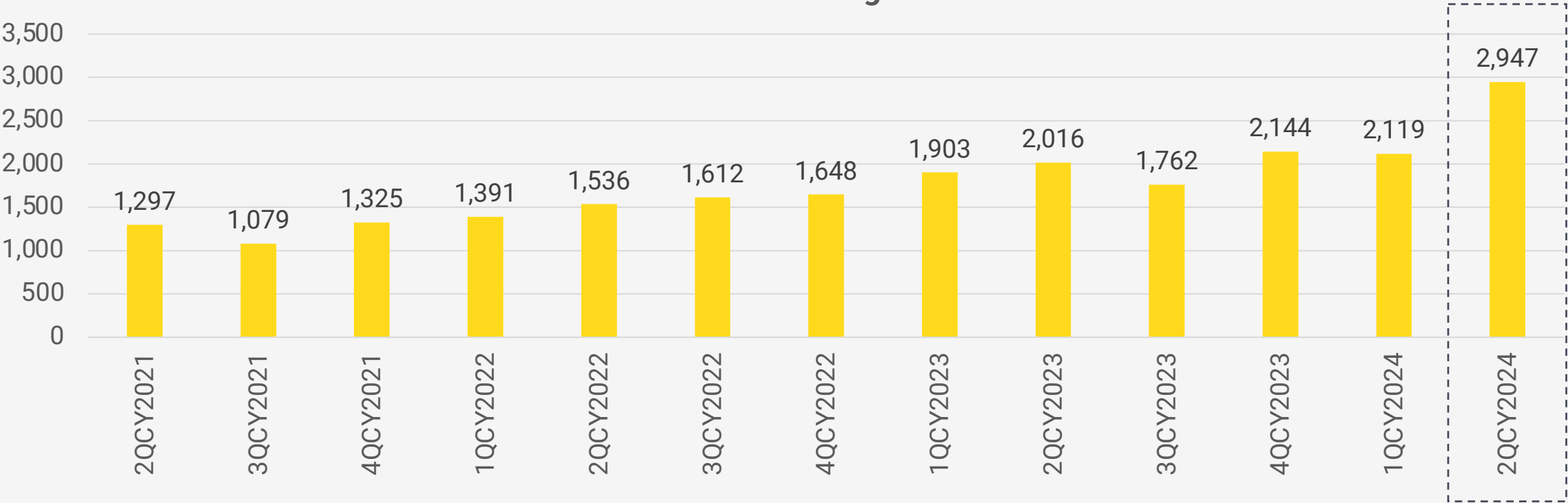
Google search queries



Kaonavi’s “billings” number (revenue plus change in deferred revenue) shot up in 2Q2024. That bodes well for future revenue recognition.



Kaonavi billings



## Kaonavi trades at half the EV/Sales multiple of its peers



Japan HCM SaaS	Ticker	Region	Mkt cap (US\$m)	EV/Sales	EV/EBIT	P/E	Div yield
Kaonavi	4435 JP	Japan	181	2.25x	27.5x	35.7x	n.a.
Plus Alpha Consulting	4071 JP	Japan	570	4.65x	13.4x	29.6x	0.9%
Visional	4194 JP	Japan	2,005	3.25x	12.4x	24.6x	0.1%
Freee	4478 JP	Japan	1,084	4.18x	n.a.	n.a.	n.a.
Money Forward	3994 JP	Japan	1,827	5.92x	n.a.	n.a.	n.a.
Average ex-Kaonavi			1,371	4.50x	12.9x	27.1x	0.5%
Median ex-Kaonavi			1,456	4.42x	12.9x	27.1x	0.5%

Kaonavi has historically traded at more than twice the current EV/Sales multiple of 2.2x



kaonavi, inc. (4435)

4435 NTM Total Enterprise Value / Revenues: Mean: 4.69x High: 16.20x Low: 1.16x Last: 2.22x

Zoom 3m 6m ytd 1yr 3yr 5y 10y all



Source: TIKR

Gradually falling top-line growth from the current 28% and 23.5% operating margin at the horizon means P/E 7.9x by 2029.



Kaonavi (4435 JP)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Net sales	2625	3402	4496	5990	7625	9684	12105	14889	18015	21438
Cost of sales	-652	-941	-1201	-1570	-1723	-2227	-2784	-3424	-4144	-4931
Gross profit	1972	2461	3295	4420	5902	7456	9321	11464	13872	16508
SG&A	-2250	-2472	-3121	-4098	-5224	-6344	-7567	-8861	-10181	-11472
Operating profit	-278	-11	174	322	678	1113	1754	2604	3691	5036
Non-operating income	0	2	0	0	0	0	0	0	0	0
Non-operating expenses	-2	-7	-11	-5	-4	-4	-4	-4	-5	-5
Extraordinary losses	-72	-109	-43	-28	-114	0	0	0	0	0
Pretax profit	-352	-125	120	289	560	1108	1749	2599	3686	5031
Income tax	-5	-6	90	-43	138	-339	-536	-796	-1129	-1540
NPAT to controlling	-357	-131	210	246	698	769	1214	1803	2558	3490
EPS (JPY)	-31	-11	18	21	60	66	105	155	220	301
P/E	-77.5x	-211.5x	131.6x	112.2x	39.6x	36.0x	22.8x	15.3x	10.8x	7.9x
EV/Sales	8.6x	6.7x	5.0x	3.8x	3.0x	2.3x	1.9x	1.5x	1.3x	1.1x
EV/EBIT	-81.5x	-2050.3x	130.0x	70.2x	33.4x	20.3x	12.9x	8.7x	6.1x	4.5x
GPM	75.1%	72.3%	73.3%	73.8%	77.4%	77.0%	77.0%	77.0%	77.0%	77.0%
SG&A/sales	85.7%	72.7%	69.4%	68.4%	68.5%	65.5%	62.5%	59.5%	56.5%	53.5%
OPM	-10.6%	-0.3%	3.9%	5.4%	8.9%	11.5%	14.5%	17.5%	20.5%	23.5%

# Potential downside risks



- **Competition:** Kaonavi's software is not protected by patents, so the only way to win is to expand the feature set and increase switching costs.
- **Security breaches:** In March 2024, there was a data breach with personal information leaked from newly acquired subsidiary WorkStyleTech.
- **Related party transactions:** It's possible that Recruit will push its own services at the expense of Kaonavi minority shareholders. On the other hand, Kaonavi's management team owns 30.7% and is on our side.

The screenshot shows the Kaonavi member profile page for Ken Fujii (藤井 健). The page includes a header with the Kaonavi logo, a search bar, and a menu icon. The main content area displays the member's profile picture, name, and department (営業本部(salesDiv.) > 第一営業部). To the right, there is a section titled '育成計画' (Development Plan) which contains a table of basic information (基本情報) and a skill map (スキルマップ).

**基本情報**

役職	一般	等級	S3
職種	営業	採用区分	中途
雇用形態	正社員		

**スキルマップ**

The skill map is a radar chart showing proficiency in three areas: リーダーシップ (Leadership), チームワーク (Teamwork), and 課題分析 (Issue Analysis). The chart shows a green line representing the member's skill level, which is highest in Leadership and Teamwork, and slightly lower in Issue Analysis.

# Catalysts



- Ramp-up of “Roum mate” software suite
- 2QFY2025 earnings on 11 November 2024
- Japan SaaS’s post-COVID malaise finally over

