This is an edited version of the English translation of the follow up call with Sell Side Analysts which was conducted in Japanese.

Recruit Holdings Q4FY2023 Sell-side Analyst Follow-up Call
May 15, 2024

Question & Answer

Shen: We will now begin the follow-up call with the sell-side analysts. I would like to change the way we proceed this time, so Arai-san will start first.

Jun: Thank you again for joining me today.

I've been doing this call for a year or two now, and I've been taking random questions from you and answering them, but I've been getting the same questions over and over again, and I've been going back and forth and back again, and it's been a little inefficient. So, I may change it back.

Today, I would like to divide the discussion into four or so topics and ask you questions on each of them.

The first topic is Q4 for FY2023, the second is the full-year results for FY2023, the third is the forecast for FY2024, and the fourth is the medium-term forecast, which I have talked about in various ways this time.

I would like to divide the presentation into four parts in chronological order, and since the time is divided into 45 minutes, if I stay on one part, I will not be able to follow up on the other parts. I understand that most of your questions are about this year and the medium to long term, so perhaps we don't need to spend too much time on the first two.

Shen: Now we would like to proceed to the Q&A session. Could we start with Yamamura-san from Citigroup Securities?

Yamamura: Regarding HR Technology, I want to confirm several things regarding Q4 results. Outside Japan Q4 growth in revenues, I believe there was an impact from foreign exchange. But the impact of the transfer of Indeed PLUS, should I understand that was the biggest contributing factor in that case? I think that the migration is taking place faster than expected. Is this understanding correct?

And also, you mentioned earlier that you're currently making preparations to partner and work with external companies. Within this fiscal year, do we expect that this will be expanded to several external companies? Can you tell us more about the progress? Thank you.

Jun: Yes, so I think my strategy failed actually. Well, if what you are asking is not about Q4 and it's more about sometime in the future, then I can talk about it. In Q4, how much actually contributed from Indeed PLUS. Is that your question?

Yamamura: Yes. I would like to know more about the difference in speed from your expectation.

Jun: Ok. We disclosed at 3pm today and in my presentation, if you look at the HR Technology revenue and EBITDA, there was a page that talks about these numbers. If you refer to that, on an annual basis for fiscal year 2023, the revenue breakdown is shown in the dollar basis.

And I believe it was the first time that Japan was separated out in terms of revenue. And you see 500 million USD as a number there.

From January 30, we started Indeed PLUS. So the two months contributed to some of the 500 million USD. So, to answer your question, for the two months since the launch, as it was the initial phase, the contribution is quite small. But after Q1, we will continue to disclose the revenues for Japan as well. And at that time we will say. Of course, last year, we didn't have Indeed PLUS. So, in effect we will be showing the growth in Japan from the one without Indeed PLUS to the one with Indeed PLUS. On an annual basis around 70% or so is incremental, that we are expecting.

So, if your calculations give you that the 500 million USD used to be zero, and that all the upside for all of that comes from Indeed PLUS or the 70% incremental is from Indeed PLUS contribution is up to you to determine. But going forward we will be disclosing as Japan total. So we will not be disclosing Indeed PLUS as a separate number. It will be difficult for us to distinguish

There are clients that are moving from pure Indeed to Indeed PLUS and it doesn't mean to distinguish that number. So we will be disclosing Japan in total.

Whether we will be making progress in collaboration with other companies or not, we are not sure but as we know we will be reporting it to you.

And maybe we'll see revenue split. In that case, revenues will be even more complicated. But if anything happens, we will report to you on the progress. I hope that answers your question.

Yamamura: Yes, that's clear. Thank you very much.

Shen: We may not be able to categorize the questions precisely into different categories, but we'll try to address as much as possible.

We apologize for any confusion regarding the translation. There are people who are listening in on the English line. So please submit questions via chat if you are listening in English.

Next question is from Nagao-san from BofA.

Nagao: This is Nagao speaking from BofA and I would like to ask about HR Technology in USD. The Q4 revenue was minus 13% in the US. The initial plan was around minus 13% as well. I believe it is basically in line with what we expected. Sorry, I was looking at some different numbers so that's just it for me.

Jun: Any other questions regarding Q4? We can always go back to Q4. Then what about for the full year of FY2023? If not, we can talk about FY2024.

Shen: There is Kishimoto-san, Mizuho Securities.

Kishimoto: This is Kishimoto from Mizuho Securities. I'm going back to Q4 results. Regarding the January to March period for US HR Technology business on the US dollar basis, what was the momentum? Do you see a recovery on a month on month level?

I just like to hear about the momentum, not any specific monthly numbers. And if possible, I'd like to ask about the most recent April results. Thank you very much.

Jun: For the US revenue, comparing Q3 against Q4, we had a small but plus 2.9% increase. It's been a while since we saw a quarter over quarter improvement. So this may be one trend that we can highlight. We continue to see negative year over year growth. So in terms of momentum, as Deko mentioned previously, we believe that it is in the second half that we will start to see a year over year uptrend.

So for the first half, we continue to see some ups and downs and lack of stability in the numbers. But compared to where we were one year ago, this situation is quite different.

Last year, we provided quarterly guidance. So we talked about the month of April or month of July, but this year, we are providing the full year guidance. So we would like to refrain from providing monthly numbers, and we ask for your kind understanding. Thank you.

Kishimoto: Thank you very much.

Shen: Maeda-san from Nikko Securities, please go ahead.

Maeda: Yes, thank you. I apologize if you have already mentioned this but on the results.

The operating profit is the only item that is below guidance. All the other items have exceeded guidance. So, I would like to know the reasons why the operating profit alone underperformed.

Jun: Well, there are several factors and they are covering several different segments. But since we apply IFRS, so compared to J-GAAP, the extraordinary gains and extraordinary losses were incorporated before the operating profit as per IFRS practice.

It’s not like there is something significantly large but there are several things that we didn't anticipate. Certain losses that we hadn't anticipated, but actually realized. Nothing significant, but they were bigger than anticipated. So additional 2 billion here.

And all of these things are contributing to the numbers.

Maeda: Thank you, that's clear.

Jun: Thank you.

Shen: Next, one more question from Nagao-san from BofA.

Nagao: For Matching & Solutions service based breakdown. Thank you very much for that disclosure.

And I'm looking at the pie chart on page 25. If you could provide some color.

The right hand side is Beauty, Travel, Dining is 246.9 billion of which Beauty is 106.7 billion. So 140 billion is Travel and Dining. I think Dining is like 20 billion.

Jun: This includes SaaS Solutions.

Nagao: Oh I see. So it's not only Beauty, Travel, Dining but also SaaS.

Jun: You know that. Right?

Nagao: Oh, I missed the “plus” SaaS solutions. Oh now it's clear. Thank you very much.

Shen: Now, Munakata-san from Goldman Sachs Securities, please.

Munakata: Goldman Sachs Securities, Munakata. Thank you. I'd like to confirm one thing in the flash report.

The hires per minute was 23 in Indeed and Glassdoor for the period that just ended. I believe that was part of the disclosure. And the year before in FY2022, I believe it was the same number, 23 hires per minute. So it means it was flat year on year.

And this number is disclosed on a full year basis. So mid year, the job posts decreased and also the number of hires, I assume, was decreasing throughout the year. However, the results turned out to be flat year over year.

So how should we interpret this number? What does it mean? So does that mean the matching efficiency and accuracy are increasing, but at the same time, we're seeing revenue decreased. So the unit price is also assumed to be lower? How do you view this? What is your reflection of this?

Jun: First of all, looking at our business model, how we bill our clients is not bill per hire.

As you know, we are basically paid for advertisements. So even if you divide by that number, the resulting number would not be meaningful.

Let's put it very simply. I think that's what it means.

So it's not the unit price. But of course, we want to go towards per hire in terms of monetization. We are aiming to improve monetization, but this is not necessarily linked right now.

But looking at the trend over the past two years, the hiring unit price has come down as you pointed out. While the hiring demand is declining, at the same time the total number has increased. So what does it mean?

This means that our function or our platform, or our role as a platform and its accuracy has actually been improving. I think that's what it indicates. And also our products have been more sophisticated. Quantitatively, this is what these numbers indicate.

It would be simple if we say that our business model is per hire, but actually hiring comes at the end. We charge customers in the earlier processes and of course we need to continue to shorten that cycle and shorten that process.

As Munakata-san talked about 23 hires, and in your view, in the medium to long term, we need to be connecting the dots and achieve revenue predictions in the medium to long term. I understand your view but right now it is difficult to connect the dots.

Munakata: I see. So the current business model, it's not that you divide by the number of hires. It's not a direct link. So the numbers don't mean anything, right?

Jun: For example, if we are in the placement business, then Munakata-san's logic would be easier to understand. We started from the advertising model. If you recall, then it's not necessarily where we monetize as of today. Of course, going forward in the future we need to monetize in these other areas and improve the take rate, but today with PPSA we're not there yet. So, it's impossible to try to calculate it. It's not feasible to create such a model, as of today.

Munakata: I see that's clear. Thank you.

Shen: Next, Yamamura-san from Citigroup Securities, please.

Yamamura: I would like to ask about FY2024 guidance, March 2025 period. In the second half, HR Technology is expected to have an upturn. You assume the job openings decline for 18 months to 24 months, and then are bottoming out. Then by improving the efficiency of monetization, you're expecting a recovery trend for the second half. So I would like to ask about the higher efficiency in monetization. What are the initiatives that you're planning? Is that mostly about the conversion to PPSA. If you could be a bit more concrete?

Jun: If Deko is here, I could ask him to explain everything. But he is gone, so I apologize. From what I've heard, many tests are ongoing. And some of these tests may have a big impact. Some may have a minor impact. And this is where we are at.

So, it is not that one element is going to drastically improve. If we can find something like that, that will be great, but may not be favored by the customer. So we're running all of these tests again and again. And some of what we introduced in March will be effective. But is that going to really double the number? Not necessarily. So, we could have small but effective measures and by accumulating those initiatives, we could improve the efficiency. So it's very difficult to model that in revenue.

So the economic environmental trend may be flat or may be worsening. But by accumulating all of these tests and initiatives, we would like to bring the year on year revenue to a positive turn from the second half. That is what we have been explaining at 3pm today. We will continue to improve productivity. We will continue to tightly control the cost and then we are aiming for a 33 to 36% margin but this includes different scenarios.

So, if we have a more positive economic outlook, then we will be accelerating the advertising cost in order to win more job posts from the clients.

So we make various initiatives to improve the take rates on average, but the margin is not going to necessarily improve drastically. Because there'll be some negative factors such as accelerating the cost, the advertising costs, in the event that we see an upturn in the economy. So the margin outlook for this fiscal year is 33% to 36% as of now.

So that is probably not the perfect answer to your question but this is how we look at the numbers behind the guidance. So on a first half second half basis. For the first half, the economic environment continues to be difficult. And year over year will be minus, for the first half. But from the second half, we expect all of these initiatives to contribute to an improvement year on year while we continuously improve productivity. That is where we are aiming for.

Yamamura: I understand. Thank you.

Shen: We have a question from David Gibson from MST Financial on the English line. I will read out the question.

David: For the Marketing Solutions guidance. 1.5 to 9% increase in revenues is the guidance as per disclosure. It seems this is a wide range.

The result for the prior year was plus 9%. So for FY2024, you've disclosed a wider range. What is the background to this wide range of guidance?

Jun: So if we look at the breakdown, we have certain growth for this sub-segment and this growth for that sub-segment. We don't disclose numbers in such a way. So it's difficult to say what will contribute to all of these numbers. But one way to look at this is:

In 2022, 2021 with the recovery after COVID, we've had an increase and then that increase has now come down as it has stabilized. So that is gone. On the other hand, there is continuing growth in the areas such as Beauty, as Kitamura-san mentioned, and also Housing & Real Estate, where the trends are slightly different. So we need to have a varied look depending on the sub-segments this year.

We might have seen bigger increases in the prior years, but this year we are experiencing flat or there are certain sub-segments that continue to grow. So if we combine all of these, then the lower end will be 1.5% the higher end will be plus 9%. So if we add all these different scenarios, then the range is plus 1.5% to plus 9%.

Shen: Next, Mori-san from JP Morgan Securities, please.

Mori: Thank you. Do we have to talk about the guidance? Can we talk about the results?

Jun: Oh, it's okay. You can ask about the results.

Mori: I would like to ask about the HR Technology cost side, looking at FY2023 results: 52% for labor costs and then 11% for advertising. In terms of the 52% labor cost, compared to the previous year, this is about a reduction of 30 billion yen.

In March last year, there was a headcount reduction. And the explanation was that this will be equivalent to about 500 million dollars of improvement but the improvement does not seem to be as much. Maybe there is the FX factor, but what are the reasons? Why is it not as much?

And then 255 billion in the new fiscal year. Can we expect this will simply be the reduction? And what about the cost that we don't have the percentage, meaning outside of the 52% and 11%?

There seems to be quite a large reduction in FY2023 year on year. So what are the factors behind this?

If you could talk about cost reduction for the new fiscal year?

Jun: Well, I don't think the other costs have decreased that significantly. I am looking at the numbers now. But we don't see any substantial change in terms of the other costs.

Going back to the first question regarding the personnel cost.

Let me start off with the numbers from FY2022 to FY2023. So at the end of FY2022 to the end of FY2023 the number of people, or headcount, had been reduced and there'll be further reduction this year.

So $255 million, that’s still on the payroll and after they have been removed from the payroll then the impact will be over 10 months of the fiscal year. That's the $255 million, timing wise.

Going back to your question. Considering all the factors including headcount, up until mid FY2022 we had a lot of people and then by the end of FY2023 we have been doing a headcount reduction. So it looks like the reduction was lost because the headcount became very large. It was expanded and then it shrunk. So the difference was quite large. And so in terms of the cost, I do understand your question. But of course, US is a large base. The majority of people are located in the US. So the FX fluctuation between yen and the US dollar probably accounts for much of the explanation. But on the yen basis, of course the employee remuneration is down based on numbers that I have.

So in terms of your question asking the 255 million, will that go down, for some time going forward, we will not be increasing the headcount. So the answer is yes. So in Q1, it remains as it is for 2 months, it's not that necessarily they will be removed from payroll at the end of May, but to put it simply, we will have one month of impact in Q1.

And then, from then on, we will have the amount allocated from the 255 million.

So personnel costs, of course we have been adding costs where necessary. So headcount and cost is not going to be directly linked in terms of the average cost, but for the overall trend I think, you're correct.

Mori: In the previous year, I think the assumption was that the revenue will be coming down.

And so there were other costs that needed to be reduced accordingly, and there were some overlaps in the different offices and you were really tightening the purse strings. But at this juncture, even though there are some ups and downs and the range, or you don't expect a revenue decline, you decided this size of a headcount reduction. How can we understand this? What are the functions and what are the roles that are being reduced?

Jun: Well, we have gone through this last year as well, but we are making the organization leaner. We are reducing the layers so that we can shorten the reporting line and make the operation more agile. And as Deko said earlier, or how can we utilize AI? We need to speed up this AI adoption process in order to win in the market. So, we need to take quick action to make quick decisions. We need to transform ourselves into an organization that can be more agile and swiftly make decisions. So, we decided to change the organization so that we can act with more speed. But because of the changes in the operation, we have decided to reduce some headcount. And so this is the year zero, that Deko mentioned today. In terms of area, last time we said all over, but this time R&D is going to be the main area for this.

Mori: Thank you very much.

Shen: Nomura Securities, Oum-san, please go ahead.

Oum: Thank you for picking me. I am Oum from Nomura Securities. Regarding the organizational reform of Indeed, I have high expectations. But I just want to confirm as this is my concern. Due to a reduction of 1,000 people in R&D and also Go to market teams, R&D power and sales or customer success power, may be diminished slightly. And as a result, the products that satisfy clients or the kind of engagement may be reduced. The overall activities may decrease and this could limit revenue growth. And the number of job openings is decreasing so even if you go to clients, you cannot get orders. So if you decrease your power on top of that, would that be wise? I understand you're trying to increase efficiency but in terms of its impact on your capabilities, how are your views?

Jun: We're not doing this in order to generate margins in the short run. This is something we've mentioned in the past as well and also the fact that this is year zero in preparation for year one.

So if what you said or if your concern was to be realized, and if it will have a negative impact, then we wouldn't be doing this. We are doing this with the expectation that this will have a positive impact and that is why we've taken this kind of action this time. Based on our understanding and calculations, such a negative impact would not result.

For sales and client support it's not that there will be an actual decrease, but rather having the R&D and sales, in other words the people who bring the client's needs and people who will realize the clients requirements, they need to be connected in order to actually develop something. But eliminating layers so that there'll be a more direct link, that is the image that we are trying to implement.

And by introducing efficiency, the Go to Market reductions could be possible because of that. In other words, changing the organization and changing the structure gives us a clear understanding that certain functions that used to exist before are no longer necessary, that is the basis of our judgment. R&D has seen an increase in its team size and looking at it more closely, there are many duplications of work done by different teams.

And in order to streamline and become a lean organization, making preparations for year one, we've implemented this change. That is the goal, to become a leaner organization.

We've already confirmed that this would not have a negative impact and hence we've included that as part of our action.

But thank you for your concern.

Oum: Thank you. I have quick follow-up if I may? A third time, additional layoffs, is that something you're considering as an option?

Jun: Well last time, we said that we will consider different options depending on the situation, that we will not say never.

Right now we are not thinking about it, but in case the society undergoes drastic change and there's something happening to the economy, then it's possible that we may have to consider it. But as per our expectation with regards to HR Technology, in the second half of this year we expect to turn to positive year over year. And that is our assumption. So in that case, another round is not in our options. Thank you.

Oum: Thank you.

Shen: Housui-san from SBI Securities, please.

Housui: Thank you for allowing me to ask a question. This is Housui from SBI Securities. I would like to ask about Indeed PLUS. In the investor update, 26 companies' ATS are going to be linked to Indeed PLUS. So with regards to connecting to external job boards, is it the same as connecting to external ATS and when will this connection to the external 26 ATSs start?

In Q4, there was a connection to the job boards and here was a revenue shift from HR Solutions to HR Technology. Connecting with outside job boards should contribute to your revenue growth, and I would like to know the timing.

And then, will that be under the agency's revenue as revenue in HR Solutions or would that be HR Technology’s revenue?

Jun: Thank you for the question. So connection of ATSs and third party job boards joining Indeed PLUS, actually that's a different matter.

In terms of ATS, customers using ATSs have a more user friendly service by connecting to Indeed PLUS. And then for the job board, by a third party job board joining our job board and sending the job post to different job boards and making more people to see them, the revenue will be shared, there'll be a revenue split between Indeed PLUS and the third party job board. So the customers connecting via ATS, that will be a different matter.

And so we would like to have more and more customers connected to Indeed PLUS and in a sense we like to connect to as many ATSs as possible going forward. So this is something that we will continue to promote going forward. At the same time, not just within our Group, but we would like to invite other job board operators outside of our Group to join us, and this also leads to higher revenue. Both will have a positive impact to our business.

For Indeed PLUS, as the name indicates. this is an Indeed product, so the third party contract will be with Indeed whether it's a job board or ATS, and so revenue will fall under Indeed.

Housui: Thank you. If I could ask a follow up question. These 26 ATS connections. When will they start? Has this already started?

Shen: Yes, the 26 ATSs are already announced to link to Indeed PLUS when we have already disclosed. So going forward this number will increase.

Housui: So this leads to an increase in job postings and increase in customers?

Jun: Well yes, as more connections we have to ATSs, the more connections we have to customers. And so this will be one element to push up the other numbers.

ATS connections are not going to directly impact revenue.

Housui: Understood. Thank you.

Shen: The next question will be the last one. Nagao-san of BofA please.

Nagao: Well, looking at the numbers, what was impactful was the 1.1 trillion yen of cash and cash equivalents and that by the end of FY2025 this will be reduced to 600 billion yen. The cash will be utilized in other things. The cash flow on an annual basis of your company is around 400 billion yen, so 1.1 trillion plus 400 billion yen times two, so roughly around 2 trillion yen, and then you are looking at 600 billion. So I think that's a very significant amount. Arai-san. How will you do this?

Jun: Well 400 billion yen is, I think, too large, I think it should be less than that. But the biggest thing is that we are currently earning in dollars.

So as the yen dollar exchange fluctuates, then our numbers will also vary significantly. And at the end of the year, we said 1.1 trillion yen. But compared to our expectation, the FX rate varied and as a result, on a yen basis, the number became large.

So the opposite can also happen. So, the dollar amount we currently have will also have an impact. And as Nagao-san mentioned, for any earnings that we will receive in the future will also undergo a similar impact. So in any case, the assumption is that the numbers will fluctuate.

So, with that understanding, still, as you rightly pointed out, there is a significant amount. So how should we wisely return this amount or spend on acquisitions if we have any opportunities?

We're looking at both over the next two years.

So for instance, if you asked me how this money will be used, with the completion of the ongoing share buyback, we can launch another round, that's one option. Or there may be some large shareholders of ours who are looking to sell their shares and we can purchase their shares, so that's another option. So we need to be doing these things year round. We need to be making efforts all year round in order to reach that level.

Nagao: I see, I understand. In the next two years, the assumption for the dividend payout ratio, maybe you can set a target for the payout ratio? Maybe such a positive, forward looking stance could be an option?

Jun: Are you asking if we are to increase dividends?

Nagao: Yes, simply put, yes, that is a question.

Jun: For this year, at least this year, our policy of stable dividends remains unchanged. So in the middle of the year, we do not plan to increase the dividend mid year. So in terms of shareholder returns, and how we tap the capital market in direct ways to achieve returns, our methods will be limited.

Nagao:I see. I understand.

Jun: Maybe when you develop your model if we have zero M&A, then the two years worth of free cash flow if you add them up to the 1.1 trillion yen and see the difference between 600 billion yen, and you may calculate by dividing by two.

That's one way to develop your model. If you include M&A then it will give you a different number. But the FX rates could fluctuate and it would result in a difference of 100 or 200 billion yen. So that also needs to be taken into account. In any case, trading on a daily basis, if you look at the trading volume of our shares, you will see that we need to be making significant efforts to reach the 600 billion level. That's the straight target that we're setting for ourselves.

Nagao: I see. Arai-san, thank you very much.

Jun: So I hope you'll see this positively.

Nagao: Yes, from my point of view, I think this number had the biggest impact in my view. Thank you.

Jun: So even after all this, if we don't reach that level, it's quite embarrassing. So we will work hard. Thank you very much.

Shen: We apologize that we're not able to take all the questions due to limitations in time. Thank you very much, everyone.

Jun: We continue to ask for your support. Thank you very much.

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