Shen: Now we would like to begin the Sell-Side Analyst Call for the Q1 results in the fiscal year ending in March 2024. This call is an English translation of the original call in Japanese.

Shen: First of all, Jefferies Securities, Takeuchi-san, please go ahead.

Takeuchi: Thank you. How have the personnel costs for each segment changed on a YoY basis? In HR technology, it has decreased and in the other businesses, it has increased. Is that the right understanding?

And Indeed, when I visited the website, it said that there are 14,600 people. Is that right?

Jun: Is that what it said on the Indeed website?

Takeuchi: Yes, I just visited a minute ago.

Jun: Well, roughly speaking, I believe that is the number as of the 31 of March. And just for your information as of the end of March, we announced a personnel reduction on March 22. But nevertheless, there were people who stayed on the payroll until the 31 of March. It doesn't reflect all of the personnel reduction effort. But as of the end of June, the headcount has reduced further. The number that you mentioned, Takeuchi-san, is about 1,000 higher compared to the end of June. And there is also a natural attrition increment, so I believe your understanding is correct.

And going back to the cost breakdown question. We do not disclose a cost breakdown for each quarter and for each segment. SG&A in HR Technology, have decreased overall due to various strategies. In the previous call, I also explained that promotion and advertising expenses decreased significantly and there were changes in the increase and decrease of personnel cost and promotional cost in H1 and H2. We have reduced personnel, and we have implemented a hiring freeze, and we have been allocating expenses effectively for marketing and promotions.

The traffic of job seekers on the website is increasing, so we do not need to spend much money there. Rather, we are spending more money to attract employers.

In the Matching & Solutions business, marketing and promotion expenses are moderate. Including outsourcing expenses, the absolute amount has slightly increased YoY. But in terms of percentage of revenue, it has decreased. On a YoY basis, revenue has increased from JPY 180 billion to JPY 200 billion. Compared to that revenue increase, SG&A and promotional expenses have not increased as much. As a result, the margin has improved.

In the Staffing business on a revenue basis, well, marketing expenses are small, so there is not much difference. But in terms of the cost structure, it remains almost flat, and we will continue a tight cost control. Those are the differences between the three segments.

Takeuchi: Thank you.

Jun: And in half a year or in a year, a rough cost breakdown for each segment is expected to be communicated.

Takeuchi: Thank you. Moving on to my second question about the Matching & Solutions business. I assume that the improvement of profitability in this segment has been progressing steadily as expected. But what are some of the specific measures to reduce costs? Including AirWORK ATS, are you being selective in where
you spend money between different products? Or are you just reducing the overall cost temporarily? I would appreciate it if you can give us some more details. Thank you.

Jun: Rather than cost reduction, last fiscal year, I believe you still remember that, we invested strategically a large amount of promotional and marketing in this business. Hitoshi Matsumoto and Tori Matsuoka appeared in our commercials, so we spent a large amount of a budget there. That has been downsized this year, but we will be investing as required. We're just being selective. This is not just happening in HR Solutions, but also in Marketing Solutions as well.

But in terms of absolute amount compared to Q1 last year, we exercised stricter control over marketing and promotional expenses this year.

Takeuchi: Thank you.

Shen: Next is Mito Securities, Watanabe-san.

Watanabe: This is Watanabe from Mito Securities. First, a US HR Technology clarification. The trend from Q4 to Q1, and the guidance for Q2 suggest that on a macroeconomic basis, the US is now set to be a soft landing. If that is the situation with the macro economy, can a severe scenario be avoided? Is there any risk of a severe scenario emerging other than macro? Is that the right understanding?

Regarding Matching & Solutions, we got the Q2 guidance too, so the way to look at H1 and H2. On a QoQ basis, it is flattening out. But you said that the main businesses are growing. On a YoY basis, if we compare the two H2, H1 is growing, so this H1 is higher than H1 last year. Is looking at the YoY rather than QoQ basis the correct way to understand the trend of the Matching & Solutions? Thank you.

Jun: First question, HR tech business. As you rightly said, Q4 of last year and the Q1 results that we just announced and the Q2 outlook, gives you a better visibility. And as we mentioned in the call earlier, it seems like a temporary lull, but the question is: Will this stay flat or return to the original level? We don't think so. Towards the end of this fiscal year and towards next fiscal year, we think the difficult situation will continue. So we are not optimistic.

If we are confident, we would have said that we will announce the full-year forecast. The number of job postings is still higher than pre-COVID level. By normalization, I mean the demand-supply in the labor market, this normalization will progress. But the macro economy is not something we can be optimistic about.

And M&S, Matching & Solutions, in our guidance, we talked about Q2, so you already have the first six months, together with Q1 results. And for this M&S, we issued the full-year outlook. If you could subtract H1 from the full-year outlook, I think you can have a good image.

From a macroeconomic perspective, we expect the Japan economy not to drop significantly, and that is the basis for the full-year guidance. Japan will progress steadily, we think. On the other hand, there are seasonalities. Our Q4, we will look at the following year, because it's when people change their lifestyle and enter a new phase, so we address that every year.

Margin tends to decline in Q4 through our actions. On a full-year basis, full-year revenue growth and margin around 20% will become a reality.

Watanabe: Understand. Following up on my first question. We do not know what the macro economy will look like. But if it's a hard landing, you will face difficulty. But if it's a soft landing, then things will not be that severe. You are not facing any other uncertainties, am I right?

Jun: So we are involved in this HR business, so if the business clients' environment worsens, their demand for hiring will decline. And so we are dependent on that. That is what we call the macroeconomic environment.

Other than that, there is the competitive situation that we are supported by our users, and the decline is expected to be smaller than our peers. The dependency and the trust, I think, is there.
We think things are steady and hope we can increase our business.

**Watanabe:** Understand. Thank you.

**Shen:** Goldman Sachs Securities, Munakata-san, please go ahead.

**Munakata:** This is Munakata speaking. My first question is regarding the non-US business of HR technology. Excluding foreign exchange impact, revenue slightly decreased for the non-US business. You mentioned earlier that in the US, the number of paid job ads is decreasing and the unit price per job ad is increasing on the other hand. But in the non-US business, can I assume that the gap is not as large as in the US? Also, I assume that the YoY revenue decline is due to the higher hurdle for YoY comparisons, but has there been any change in the labor market?

And my second question is a follow-up on a previous question. In the Matching & Solutions business, especially in Marketing Solutions business, the top line increased by double digits in Q1 and 7% growth is expected in Q2, so 4% growth on a full-year basis. I think there is good progress against that target. But in H1, do you think the progress is better than your expectation? And on a full-year basis, do you think there is the possibility for upside?

That is all. Thank you.

**Jun:** Thank you for your questions. Which one should I address first? Well, let me answer your first question. As I said earlier, there is a time lag between different regions. In Europe, their environment basically follows the situation in the US. The foreign exchange impact that you mentioned is not based on Japanese yen. It is based on the US dollar. That is something I once again would like to share with you. That is the situation in Europe.

But having said that, in terms of difference, our penetration or market share in the different countries in Europe is relatively low compared to the US. So if our business is more accepted and penetrated in those markets, there could be an upside. But as you know, the US is the largest market, followed by Japan, the UK, and Germany. The size of TAM in each country is also relevant. The revenue contribution by country has also an impact. But 75% versus 25%, if the market penetration increases, Non US could be 30% or 35% eventually with growth in the US, as well in the rest of the world could also improve. We're hoping that this strong US dollar situation will improve going forward. That is our view.

And to your second question regarding the M&S business. Well, we have a conservative view. So that could happen if the current situation continues. But our initial full-year expectation has not been changed so far. Internally, obviously, we look at this at the higher end of the range, which is higher than 4% revenue growth on a full-year basis. We do have such a scenario, but only three months have passed since we announced our forecast. So we are not confident about this upside. But in three months, we may change our view, but we're not that confident as of today.

And there is a seasonality as well, which is one of the variable elements. We would also look at such situations, and we will look at the mid figure and conservative end of the range. But as of today, we are not confident enough to tell you that we will go for the upside.

**Munakata:** Thank you. As a follow-up on my first question, the volume of paid job ads and unit price breakdown in the non-US markets, the gap, for example, because implementation of PPSA is not as much as in the US, so can I assume that the gap is smaller compared to the US? There is more correlation between revenue growth and the volume of paid job ads?

**Jun:** Regarding PPSA, implementation has been promoted actually.

**Munakata:** Even for the non-US markets?

**Jun:** Yes.
Munakata: I see. Thank you.

Jun: Actually, there were several tests in Europe, which was earlier than the US. We have been continuing that effort. I think I can tell you that testing has been happening.

For PPA, there is a gap difference from the US. But for PPSA, it is not that different.

Munakata: I see. Thank you very much.

Jun: Thank you. I'm sorry, it's confusing. There's PPA, PPC, and PPSA.

Munakata: No, it is very informative. Thank you.

Shen: Thank you. Citigroup Securities, Yamamura-san, please.

Yamamura: I'm sorry, I'm always showing up many times. My first, it's about the cost related to the first question. First, as you mentioned earlier, the cost items are decreasing. But in the earning release, quarterly update, the necessary up-front investment was conducted, you said. On the P&L, which item is it reflected in? And what kind of up-front or anticipatory investment were conducted in Q1? That's my first question.

Second question is just a clarification. HR technology revenue against your plan, you are enjoying upside. EBITDA margin is also an upside. Is this because the revenue exceeded the plan? Was that the cost not being spent as much? Or are you progressing in line with the plan? Thank you.

Jun: The necessary up-front investment was conducted, so most of that is the new service development, building of new environment. That is what we call the up-front investment. In HR technology, we cut the headcount, but in necessary areas, we are allocating people to pursue new opportunities, necessary opportunities. We are continuing our up-front investment.

We are not just investing in advertising to increase short-term revenue. We are placing people we need in the areas we need. That is what we mean by doing necessary up-front investment, not just in HR technology, but also for Japanese businesses. The same philosophy is applied in other businesses, too.

And second question, the upside. If we focus on tight cost management, the behavior of spending large costs will decline. When revenue declines, margin improves under such circumstances. But at the same time, we are spending necessary costs, which is related to Q1, the first question.

So it's not like we will do anything to improve our margin in the short term, like we've said all along and as we expressed in our script. Q1 margin at 38%, and in Q2, it's expected to be a little lower, but still higher margin. We are not aiming for that level when we operate our business in Q3 and Q4. We will spend where we need to and there are priorities. We may sacrifice revenue and margin. We will spend cost and margin will fluctuate, depending on the revenue increase or decrease.

The biggest portion is the personnel cost. And the headcount, as mentioned in Takeuchi-san's question, is decreasing on a net basis. This trend remains unchanged. We will continue tight cost controls and don't plan to increase our personnel much. If revenue declines in Q3 and Q4 significantly, the margin will be impacted. And we will think of necessary measures at that point in time. But at the current revenue level, this will be the revenue level—margin level. The impact of the measures we implemented last year is producing positive results. Thank you.

Shen: SMBC Nikko Securities, Maeda-san, please?

Maeda: Thank you. First of all, the Matching & Solutions business, for marketing and HR, they are both growing at 11% or slightly higher. But in terms of recovery from the pandemic period, there is a positive recovery. Also in the previous call, you mentioned that for the dining vertical, you are performing relatively stronger compared to peers. You have been implementing the SaaS model. What about the progress and your unique strength in the Marketing Solutions business? Can you give us some more color on that?
And in HR Solutions, the peers are spending to enter this area and you are enjoying 11% growth. Is this coming from market share growth? Is there a negative impact from cost-reduction measures? That is my first question.

My second question is for each segment, cost-control flexibility is something I would like to ask. In Matching & Solutions, personnel cost, outsourcing cost, well, I think many of the cost items are variable items. But in HR Technology, last fiscal year, you cut down the headcount. But when you need it, is there flexibility to hire? Are you now going to have the necessity to hire in the short term? That is what I would like to clarify in the HR Technology business. Thank you.

Jun: Thank you. Regarding Marketing Solutions in the M&S business, from a few years ago, we stopped disclosing the breakdown. I understand there is a lower visibility and apologize for that. But as we’ve been saying, for Housing & Real Estate and Beauty, we continue to have a convenient product for customers. And even under the pandemic situation, we continue to grow. And in this Q1, well, it is not as much as the Dining sector, but in terms of revenue, they have grown, just that the percentage is not as high as the Dining sector.

Travel and Dining, these two sectors have a SaaS offering and also new services related to payment. I believe these have been effective. But there has not been any significant contribution from these offerings in terms of revenue growth. But rather, it is coming from the solid relationships we have built over time with customers.

We would like to improve our offerings, including the SaaS and fintech business, so that we can offer further convenience for our customers and help them realize their growth. In any of our businesses, where we have a large share, we will never be satisfied with the current situation. We will constantly improve ourselves, and we will continue to have that attitude.

And in HR Solutions, since the IPO, this has been in our advertising business, but we haven't disclosed the breakdown for the placement business, so there is even lower visibility here. But I would like to ask you for your continued support and understanding. We have been able to grow our revenue.

Compared to Marketing Solutions, the HR Solutions business is more dependent on the macroeconomic situation. But in the US and Europe, there is a headwind, but we do not see that in this business. That is why we were able to achieve over 11% growth YoY. And in the Q2, it may be seemingly weak in terms of percentage, but we believe we can deliver strong revenue. We will continue to offer refined offerings and gain support from the customers.

And to your second question, in M&S, you commented that personnel cost and outsourcing cost can be seen as variable costs. But that is happening in some area. In the Japanese business environment compared to that of the US, drastic headcount reduction is difficult because of the nature of the country. Rather, we'll be looking at longer term to carefully manage headcount.

In marketing business or placement business, we will make sure we have the right people in the right place. We need to be more careful in the Japan business.

Regarding HR technology, increasing or decreasing headcount is not what we are planning at this moment. We will be maintaining the current level for the time being, and we will be taking necessary actions while observing the market condition.

We're not saying we would never do this or we would definitely do this; that is not our view for talent. But when the business deteriorates significantly, then we may need to take some action. But if that doesn't happen, we are not planning to increase the number of people significantly, and we will be ensuring replacement. The situation will be ever-changing.

In HR technology, they have more flexibility in terms of headcount, in both good ways and negative ways. In Japan, we will be able to hire people, but it will be more difficult to reduce headcount in a timely manner. That will continue to be a challenge, but we need to consider that sensitivity and optimize cost control. That's what we need to demonstrate on the business side.
Shen: Next, BofA Securities, Nagao-san, please.

Nagao: Thank you. BofA Securities, Nagao is my name. What is management's stance on each segment, and how do you think management is shaping up? HR Technology, are you still cautious? Matching & Solutions, are you pretty aggressive to gain more shares? And are you entering a margin improvement phase? What is your stance?

What is the difference in Staffing between Japan and overseas? But in terms of establishing the segment, it will not deteriorate much. And so compared to the beginning of the year, I think you are more forward-looking. What do you think? Could you elaborate?

Jun: Revenue is directly connected with margin. So, if personnel costs and marketing and promotion are kept at the optimal level, margin will fluctuate in case revenue increases or decreases. As I said earlier, in Japan, we are based on the assumption that the market environment for this year will not be disrupted.

In the US, there’s still a possibility of a decline. In that sense, revenue will decline and margin will also decline. Our macroeconomic view will be related to this business.

For Staffing, like HR Technology, it will be directly impacted by the market. And so there are some differences in Japan and overseas. The HR matching business is heavily influenced by the macro economy. The largest market is the US. And in Japan and Europe, in each region, the phase, the speed is different. The impact may be different, large or small.

And the other is Matching & Solutions, not as big an impact as HR business. We are strategically controlling our cost and the revenue can be predictable as well as the margin. HR business for different countries and the Matching & Solutions, Marketing Solution business in Japan, if you could look at it that way, the volatility of the margin can be understood, I think.

So are we more forward-looking? We would love to be. But in the past, HR technology business, when this business was still small, risk averse or cyclical, it served as a function of bridging the cyclical or risk averse. We were able to say that this side will help and save our business. But now the big contributor is HR Technology in the US. So the Japan Matching business or Marketing Solution is not large enough to correct the fluctuation of the HR technology.

During IPO, this HR business and the marketing business, I said, were complementary. But now because of the size, the size of contribution is different. We cannot say that as strongly as we did back then. But Marketing Solutions is solid, resilient and strong. As you can see in the chart we showed today. Thank you very much.

Nagao: Thank you. I understand well. One more question, if I may. I have the next question on Air BusinessTools and SaaS business. It's in Marketing Solutions, but it's difficult to quantify. In terms of the number of accounts grew strongly to 3.34 million, that is plus 26%~27%. That's for the Japan business. Now we're recovering from COVID. In the environment recovering from COVID, is it positive when selling SaaS products?

Jun: As I always say, this business, do we want to monetize this business alone or not? In our case, fortunately, we have the existing strong vertical businesses. These vertical businesses that have high affinity with SaaS can be combined and we can enjoy synergies on both sides.

Furthermore, we can use the connection point to run a cash management-related business to be more useful for the clients to be more useful for the clients. We've been focusing on increasing users, and we've been making good progress. We will continue that.

Travel or Dining, for example, has a high affinity with the SaaS software business. And, Nagao-san, you always say that the Beauty business was originally a SaaS business. Beauty also has a high affinity.

These business verticals, the SaaS business will have a positive impact. By pursuing this further, of course, profit is important, but our priority is how this can improve the convenience on the part of the users and clients.
and will extend our relationship with them. How can we improve the lifetime value of the clients? This will be crucial for us to enjoy this business in the long term.

So rather than short term, we are thinking of long term. And the revenue per client may not be large now, but will amount to be large. Our foundation is now being established. And on top of that, we want to address clients' needs very carefully. This is not a short-term initiative. We're thinking of medium to long term, by using the existing business as a basis and how we're going to add more new business on top of that. We're not starting a SaaS business from scratch. We have strong existing verticals and are trying to build on top of that. That's how we are building our business, and so we'll continue doing that.

**Nagao:** Thank you. I understand well.

**Shen:** Thank you. Well, we apologize that we were not able to take all the questions, but this is time to conclude the follow-up call. Thank you for joining us. Thank you for your continued support. Thank you.

[END]

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