

**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 Q3 FY2023 Sell-side Analyst Follow-up Call**

**February 9, 2024**

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### **Question & Answer**

**Mizuho:** Thank you for your attendance. So please use the raise hand button of zoom and unmute yourself and ask questions. Two questions per person at a time.

**Oum:** Oum from Nomura Securities. My question is on the penetration of PPSA. What is the percentage penetration in other key markets outside the US? And the second question is on HR Technology adjusted EBITDA margin. If we added back the time lag of the costs, would adjusted EBITDA margin be 27%? In which period will the costs from the time lag be incurred?

**Jun:** For Q3 adjusted EBITDA margin, I said that there is a time lag factor. I do not think it would have been around 27%. It would not have fallen to that level.

In other markets, like Canada and the UK, in these non-US markets, we are trying, but not aggressively pursuing. As I mentioned before, the business clients' budget remains unchanged. But we're trying to improve the benefit for the business clients.

**Oum:** A follow up question. You said that the timing of the share-based compensation grant will be changed. The additional 150 million US dollars of share-based compensation grants will not be recognized this year. In which quarter will this be recognized?

**Jun:** When you say 150 million US dollars, are you referring to the difference between what we initially said we expected last May and the latest assumed amount? In May 2023, we said we expected total share-based payment expense to be around 700 million US dollars for FY2023. I don't have the breakdown of the entire difference. The fiscal year has been changed for HR Technology. Originally, the fiscal year ended in December but we aligned it with the Recruit Holdings fiscal year end in March. I have not done the exact calculations, but the majority of the 150 million US dollars is expected to be recorded in Q1.

**Oum:** Is there a time lag for advertising expenses?

**Jun:** That was not a time lag. So in the 2024 calendar Q1 or FY2023 Q4, we said it would increase. So no time lag in this advertisement and promotion expenses.

**Mizuho:** Next, Kato-san from CLSA please?

**Kato:** I have a question regarding HR Technology's adjusted EBITDA margin, which has increased. Once revenue is accelerating back again, whether it's next year or the year after, what will be the margin level?

In the past, you would invest in growth, so adjusted EBITDA margin was between 15% to 20%. But during COVID it went up to 35% to 40% and this year with cost control, 34%. Once the revenue growth recurs, should we think about the 20% margin with more investment growth, or has efficiency improved so that the 35% will be the floor for the EBITDA margin going forward?

My second question is regarding the Staffing overseas business, which increased on a QoQ basis but HR Technology non-US is still decreasing. Can you give some background on this difference?

**Jun:** Your question was regarding revenue?

Staffing overseas business revenue is improving. HR Technology's rest of the world are countries outside the US, while for Staffing it is all countries outside of Japan. Hence, it is not an apples to apples comparison.

**Kato:** For HR Technology, Japan is still growing but revenue in Europe and Canada is decreasing. You always said that the US goes down first, followed by Europe and then Japan. But in the temporary overseas Staffing business, Q2 was minus 11.8%, and Q3 was minus 6.9% on a constant currency, so it's improving for Staffing business. I wanted to know a little bit about the background here.

**Jun:** Which revenue numbers are you looking at?

**Kato:** I'm looking at page five of the earnings release. In Q3, Staffing in *Europe, US and Australia* minus 6.9% and Q2 was minus 11.8% year on year on a constant currency basis.

**Jun:** Just a moment please. Of course there are differences amongst countries. But looking at Q3, I mentioned earlier that for example the UK and Canada are not doing very well. Of course the penetration of Staffing and HR Technology in each country is different. So I'm sorry, I've never compared that from that perspective. But these are HR businesses. So the large trend should be quite similar. I apologize. I'm not able to give you a direct answer. That is not the kind of a perspective that we have.

**Kato:** Is Staffing in Australia doing well?

**Jun:** I don't think Australia is doing especially well. No country is doing especially well. Excuse me, I can't give you a clear answer to your questions.

Regarding your previous question on adjusted EBITDA margin in HR Technology. Our revenue now is much higher than prior to Covid, so it's difficult to imagine such a large scale investment that would lower our margin by five points for example.

But of course we will continue to develop new products and services and still continue with our tests. We will continue to invest in such areas as we aim for growth.

But at the same time, we will also look at how we can raise our revenue per job by providing better services to our clients and how they can realize the value. So it's really a combination of these two. Also, we have to increase our productivity. That is another factor.

So when we were growing very aggressively, the priority was on revenue growth over all else, rather than costs. But now as the business is very large, we have to focus on productivity and efficiency. That is our mission as a company,

Given the current size of the organization, we need to consider the management focus. We have resilience in terms of our earnings power. Margins becoming 10% to 20% by hiring a large number of people, is unlikely unless the market deteriorates significantly, or a huge competitor comes into play and takes substantial market-share and revenue drops drastically. Otherwise, I think it's unlikely.

**Kato:** Understood, thank you. When you went public, the company's margin was around 10%. But the company said that Indeed will become a 40% margin business in the future. So what is the goal for the margin? Can you go to 50%?

**Jun:** I'm sorry, but I cannot recall who talked about 40% and when. But it's not just about bringing up the margin. Best is to have both growth and efficiency realizing both at the same time. So we do not give up on revenue growth and increase margin. We don't think this is that kind of a mature business yet. We will continue to grow our top line, while seeking efficiency, and creating value-add services so we can increase our unit price, while still keeping our customers. As a result we will be taking various initiatives that will result in higher margins, but we have not yet reached the maturity to target a specific margin level.

**Mizuho:** SMBC Securities, Maeda-san, please.

**Maeda:** Indeed PLUS, I have two questions, or three questions.

First, Q4 expenses, Indeed PLUS related costs. Is this just a large expense in Q4 or will it be a continuous expense over the next fiscal year? Could you give us a sense, what will be the scale of this expense?

What is the overlap of the business clients between Indeed PLUS, the original Indeed Japan, and Matching & Solutions, HR Solutions? And whether the launch of Indeed PLUS will increase the wallet share of current Indeed and HR Solutions customers?

I don't know the other competitors' solutions in the same industry in Japan, but I was wondering if you could tell me if there is any differentiation in terms of new client acquisition?

**Jun:** Thank you very much. To your first question, are you referring to the HR Technology margin in Q4 related to Indeed PLUS?

**Maeda:** Yes.

**Jun:** Okay. Some of the development costs will be amortized and some will be recorded as expenses.

And the other expense is related to M&S of HR Solutions, which serves as one of the agencies, to sell Indeed PLUS. Cost associated with that will be charged to Indeed. That is the accounting treatment. That is also another type of expense. This is the cost of the business clients that Recruit brought to Indeed PLUS and will be a continuous cost.

So, when the revenue is small, margins are low, but as revenue increases, loss declines and margins improve. This is an economies of scale factor and this is not a one off factor.

Regarding the size of the scale, we will be able to speak in May, including whether or not we will be able to provide full-year guidance.

How HR Technology, rest of the world and Japan revenue is impacted, and how this will impact the margin of HR Solutions, it is up to you how to quantify, but what is expected and what could happen will be explained at a later date.

Today I cannot talk about the size of the impact.

Second question, regarding the business client overlap. Yes, there will be an overlap of customers.

Until now we have been offering bundles to our business clients. But I do not know the percentage. If it's a major player, clients will pay for it, so I think there is a quite sizable overlap.

By starting Indeed PLUS, the existing clients wallet share will increase? If customers benefit from having more people seeing their jobs, they will allocate more budget to us. HR Solutions will be positioned as a job board connected to Indeed PLUS.

Basically, the revenue will be recorded on the Indeed PLUS side. Recruit's existing salesperson will focus on sales and marketing to increase Indeed PLUS's revenue and increase the wallet share.

**Maeda:** Are there any similar products and services offered by competitors?

**Jun:** We have data and AI, this is our strength and our differentiating factor.

As I said earlier, we can offer a high ROI for business clients. The players that can offer high ROI will acquire big wallet share in the medium to long term. That is the only way. I expect that we will increase the wallet share from existing clients and encourage new clients to use our product. We will be able to increase the overall share of the pie.

Matching is not just about HR Solutions, but also applies to other areas. I think that some companies are growing by matching effectively and creating products that clients see the benefits from. But I don't think there are any other players doing this in HR Solutions and in Japan.

I hope we can hone our service to offer more convenience to our business clients and allow job seekers to feel that they find a lot of jobs there.

**Maeda:** Thank you very much.

**Mizuho:** Hosui-san from SBI securities please.

**Hosui:** I have two questions. The first question is regarding the Staffing business. I may be overlapping with the previous question but in the Q4 guidance, in *Europe, US, and Australia*, revenue is expected to increase. I would like to ask about the background. Is it the market improvement or is it the lower hurdle compared to the previous year?

My second question is regarding the Matching & Solutions business. In Q4, advertising and promotional costs will be increased? And in HR Technology, Indeed PLUS related marketing, do you have any plans? And what is the timing for strengthening the marketing for the existing job boards? Is that when after Indeed PLUS has a better penetration or you will expand the marketing regardless?

**Jun:** Q4 guidance for *Europe, US, and Australia* Staffing is a positive, it's plus 1%. Well, we're not expecting a large recovery, but given the past track record we do see signs of a bottoming out. That's what we want to convey. It's not any significant recovery yet. I wouldn't say that we are back to a very strong market for Staffing. We're not overly optimistic on this.

**Hosui:** So you have expectations that the situation will bottom out, and that this current level will continue for some time?

**Jun:** Well, this is more of a retroactive understanding, looking back, then we can say when the bottom was. But we may have exited from the phase where the numbers keep declining.

**Hosui:** Regarding the advertising and marketing expense for Q4?

**Jun:** As communicated, the January to March period is when various clients and job seekers take various activities in preparation for April. So this is the period when the return is high for investment. So we have invested in marketing and advertising in this quarter, as we have in past years as well. So this year we will be expanding the sales promotion for the Marketing Solutions business. So Indeed PLUS marketing, I believe that most of this will be done by the Indeed side. And from the M&S side for Q4, the main investment will be sales promotion activities for Marketing Solutions.

**Hosui:** So marketing for the existing job boards, what is the timing for when you will start again to strengthen marketing for the job boards? Is that dependent on the penetration of Indeed PLUS? Or once the sales structure is in place for Indeed PLUS?

**Jun:** For the main job boards, these will be connected to Indeed PLUS. So the existing job boards will be positioned as boards connected to Indeed PLUS. So from the user perspective, whether it's Indeed, or Indeed PLUS, it's not so different. It doesn't really matter for the users.

The same as before, they could come to Rikunabi NEXT and look at the available jobs. So there will still be many people who will be coming to Rikunabi NEXT as well as to Indeed. So from the job seeker side, they're not really thinking about Indeed PLUS, it's rather the business clients whose convenience will be boosted through Indeed PLUS. If we're going to spend advertising on this, it will be more on the marketing towards the business clients side.

**Hosui:** Over the last year, you invested quite a lot on Recruit Direct Scout. In the next fiscal year, such a new product will not be launched. So given the current strategy in HR Solutions, the advertising cost will not increase that significantly? That was the impression. Am I correct?

**Jun:** Well, next year's numbers are still being formulated as we speak, so I'm not going to be able to provide any clear cut answer.

For Recruit Direct Scout, it was launched and we wanted the job seekers to register and utilize the service and that was the large scale marketing communication. But for this product, I'm not sure whether we will do the same because it's not really about improving the user side penetration. It's more about communicating the additional convenience to the business clients. That's what we want to communicate. So we need to have more in depth discussion, communication, to the business clients. And the shift to PPC should be also communicated clearly. So from PPP to PPC, the benefits will need to be explained, so that they can allocate larger budgets to this.

**Mizuho:** Watanabe-san, Mito Securities please?

**Watanabe:** I don't understand this much yet about Indeed PLUS. But listening to you. So by doing this, business clients will enjoy greater convenience and on your side so you will not have to go through agencies as much and you will not need as many people as before? So, the benefit is the business clients convenience and your costs will not increase proportionate to the revenue in the medium to long term? Advertising and promotion expenses, the employers place ads to Rikunabi or Indeed separately? So, there's not much impact there? And for job seekers, a large number of applications, that's what improves the convenience? That's my first question.

And my second question is about Indeed in the US. And you explained the situation in the US. You said it's not bad. So your turnaround, your initiatives and your market share are the factors, so from the outside, I don't understand the macro much and so the decline QoQ will become smaller and then you will turn positive?.

**Jun:** So to your second question, I want to clarify your question once again. But your first question. So if you could think of inside Recruit in Japan. Until now we had a TownWork website with its own sales staff engaged in TownWork sales. They were not selling Indeed. On the other hand there were sales staff in Indeed Japan, they were not selling TownWork. So these different divisions, with different products, different brands and advertising media. People who belong to different departments, different product teams, different brand teams and different advertising media will now be selling the same product.

So with this, we can reduce our cost and better use our human resources to improve our efficiency. The impact may not appear right away, because we are in a siloed, fragmented structure but if we can combine and integrate them, we can enjoy efficiency. So, eventually we can enjoy an advantage or benefit from higher efficiency.

With Indeed PLUS, it will be easier for the job seekers to look for jobs by just coming to one place and seeing it.

Rikunabi NEXT will have more jobs by linking to Indeed PLUS, as we're already seeing an increase. So the job seekers can choose from a wider option of jobs and look for the right job for them.

In the US there have been similar models. But the network distributing jobs to the right place, is the first of its kind. As I said earlier, data and AI strength will be leveraged to distribute jobs to the best location, the optimal location.

So in the past, we tried to increase sales and profit through TownWork alone, but now we have Indeed PLUS. How the HR Solutions media business can be expanded and made more efficient will be the key going forward, so we are trying to pursue that.

**Watanabe:** If we look at matching rate alone, with AI learning, matching can improve. But with Indeed PLUS, does the matching rate improve?

**Jun:** This is an advertisement. So the traditional PPP you would pay for posting, not when somebody clicks on the ad, now its performance based. So the impact will improve and the matching for business clients will improve. It will be more effective.

**Watanabe:** My second question is JOLTS and other HR statistics that are issued in the US, if this indicator is strong that does not simply mean that Indeed sales goes up.

We cannot expect when it will hit the bottom and start to increase but following the trend of Indeed in the US is the only way to see the trend? Is there any indicator we can monitor to understand the situation in the US?

**Jun:** So you want to know the indicator to use to estimate our financial results next year? Is that your question?

In the US the data we use is the Indeed Hiring Lab. We offer that to the government, to the Federal Reserve to consider their plan. So one indicator is the number of jobs and the trend there, and the market size, and how much money the business clients are using on companies like ourselves. Those are the data points that they're looking at on a real time basis.

Indeed data is watched very closely. It's real data and raw data. It's not like JOLTS, which is based on a survey or hearing from a particular limited group from two months ago. So it's real time data capturing. How many are paid job ads and how many are free ads, we do not disclose that data. So the number of job postings, the ups and downs can be viewed, but not directly linked to our revenue. Because there's paid job ads and free ads. That's the biggest reason that makes it difficult to capture the trend.

**Mizuho:** Next will be the last question, I think. Mori-san from J.P. Morgan Securities, please.

**Mori:** This is my second turn. Thank you for answering. I have two quick questions.

First, for the Q4 revenue outlook for HR Technology, you explained that there may be some contribution from Indeed PLUS and that revenue could increase quarter on quarter. I apologize for asking such a detailed question, but you're saying is that it could be flat and the slight positive increase is coming from the Indeed PLUS contribution. Is this it?

**Jun:** Well, are you referring to the slight difference in the chart?

**Mori:** You said that there might be an incremental benefit from Indeed PLUS and may slightly increase QoQ growth.

**Jun:** So it's not necessarily 0.0. That's the kind of impression that we wanted to convey with the chart.

**Mori:** What you're saying is that QoQ is flat and Indeed PLUS is adding about 4 billion yen? Is that the amount you are expecting for the first two months?

**Jun:** I do not know if it is 4 billion or not, but it's not very large. On a dollar basis, It's like a one percentage point increase from 0%. This is just the first two months and it's not going to have a big impact. That is not the plan.

**Mori:** I understand. Will the shift accelerate over time?

**Jun:** As I mentioned before, we don't plan to gradually do this over an extended period of time. We would like to do this as swiftly as possible. We normally don't say this, but we have communicated that we will do this as quickly as possible. But of course we have relationships with these agencies. The most important factor is whether business clients are willing to shift to Indeed PLUS and that is not going to be 100% under our control. But we will be taking initiatives to promote that shift, so that we can have the business clients shift their budgets to Indeed PLUS as swiftly as possible.

After posting on Indeed PLUS, jobs are going to be distributed to the other job boards, like Rikunabi NEXT. That's a change from PPP to PPC. We'd like to convey the convenience, and that it's simpler, and we hope that we can accomplish this as soon as possible.

**Mori:** Second question, Matching & Solutions, I was wondering what will be the medium term target? 1 trillion yen of revenue and low 20% adjusted EBITDA margin - that was the initial target. But with this measure, I don't think that's relevant anymore. 1 trillion yen and a low 20% margin was the initial target, but are you aiming for a higher number than that?

In terms of the domestic HR Solutions, the initial target was 1 trillion yen, and low 20% adjusted EBITDA margin. And the revenue will shift to HR Technology from HR Solutions and will the ultimate goal be higher than the previous objective? Of course, that is the intention and it has to be increasing from the medium term plan.

Will you provide an updated mid-term target for Matching & Solutions?

**Jun:** We will not be talking about this in March. Kitamura-san will be talking about different interesting areas of the business. But we will not be talking about these numbers in March. If we are going to provide updated medium term guidance for M&S, we will do so in May provided by Deko or myself.

But as Mori-san, you have said, HR Solutions and Marketing Solutions, it's quite confusing to mix these two together today because these are very different businesses.

So we will provide an explanation that would meet such needs, whether it's quantitatively or qualitatively. I'm not sure whether we will provide an update to the medium term guidance for M&S, the 1 trillion yen, the low 20% margin. It's not going to be apple to apple, so it's not going to be as relevant. But of course as a group, we have the intention to go higher than that. That is why we are doing this initiative.

**Mori:** For HR Technology, we do hope that you will provide more details for Japan going forward.

**Jun:** I understand such a request.

**Mori:** Thank you very much.

**Mizuho:** Thank you very much. With that we will close today's financial results briefing call.

**Jun:** Thank you for your continuous support.

[END]

## **Forward-Looking Statements**

This document contains forward-looking statements, which reflect the Company's assumptions and outlook for the future and estimates based on information available to the Company and the Company's plans and expectations as of the date of this document or other date indicated. There can be no assurance that the relevant forecasts and other forward-looking statements will be achieved.

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