This is an edited version of the English translation of the Q1 FY2024 earnings call which was conducted in Japanese. Please note there are differences between the simultaneous English audio translation during the Q&A session and this summary.

Recruit Holdings Q1 FY2024 Earnings Call
August 8, 2024

Mizuho: Welcome to the Recruit Holdings Co., Ltd. Q1 FY2024, earnings conference call.

This call is a simultaneous translation of the original call in Japanese, and translation is provided for the convenience of investors only.

I am Mizuho from IR and PR, and joining me today is Junichi Arai, Senior Vice President - Corporate Strategy and Investor Relations of Recruit Holdings.

The Q1 financial results presentation video and transcript were uploaded to the IR website at 3:00 PM today.

Today, we will start with Jun's opening remarks, then followed by a Q&A session.

Now I'll pass the call to Jun. Please go ahead.

Jun: Hello everyone. Thank you very much for your attendance today. Before I take your questions, I would like to make a few additions to the presentation we disclosed at 3:00 PM, just one hour ago.

So three months ago, in the FY2023 earnings announcement on May 15th, Deko said the following about the positioning of the current fiscal year and the background behind FY2024 guidance, especially for the HR Technology business.

So let me once again refer to that. When I was thinking about this message this morning, Nishioka-san of Nikkei wrote an article from the eyes of a journalist about us (only in Japanese). And I think this article is only in Japanese, so I hope this will be translated into English, so that the overseas institutional investors can take a look.

Regarding the content that we disclosed on May 15th, the thinking behind it, and my meetings in July, were summarized well in the article. This is exactly the message I wanted to talk about today. So it will be redundant with that article, but let me once again mention this.

What Deko said on May 15th is the following:

"*Of course, financial market stress is increasing under high interest rate conditions and economic uncertainties remain high. As I mentioned earlier, against the background that the supply of workers to the job market in the US is not increasing significantly as in the past, and even if a recession occurs, we believe that it is unlikely that the number of job openings will decline by another 3 million or so from the current level.*

We assume that the number of job openings in the US will hit the bottom after decreasing for another 18 or 24 months.

In FY2024, we would like to operate in the "Year 0" of the economic cycle, in the sense that the decline in job demand may bottom out and the trend may turn up in the future.

By improving the efficiency of monetization, which has been our focus in recent years, we hope to return to a positive year-on-year revenue trend in the second half of the fiscal year, even during a period of declining job openings."

So that was the message by Deko.

In other words, the FY 2024 outlook for HR Technology and the consolidated guidance range are based on the assumption and outlook that job demand in the US will continue to decline until mid to late FY2025 and then will bottom out.

Looking at the Q1 revenue for HR Technology on a US dollar basis, revenue in the US decreased 5.0% year over year, however, increased 7.7% quarter over quarter.

And HR Technology segment revenue, including Japan and Rest of World, decreased 2.5% year over year, however, increased 7.2% quarter over quarter. Which means that the Q1 results are in line with the assumption we communicated on May 15th that the revenue for the first half of FY2024 will continue the trend of year over year declines. Given the current situation, we believe that there is no need to revise the full-year outlook range.

However, if we determine that it is necessary to revise our guidance due to changes in the business environment, we will communicate that to you at the appropriate time.

And after the announcement, we received a number of questions from many people, so I would like to provide a response first.

We will conduct a share repurchase of a maximum 600 billion yen.

We've announced such a share repurchase program, and on the first day of that announcement we've made share repurchases through the ToSTNeT-3. Some investors asked from who actually we bought the shares.

I was not able to provide a response to the questions, so I continued to refrain from disclosing that.

But the day before yesterday, a seller's earnings release made a mention of that. Since it has now become public information, I would like to share information with you at this time. There have been speculations that perhaps overseas investors made a sale, but that is not the case.

The company, NTT Data, was the company that made a sale on ToSTNeT-3. This has become public, so I can share this with you now.

So now I will take your questions. I will hand it over to you, Shen-san.

Mizuho: If you have a question, please click on the Zoom raise hand button. Please unmute before asking your question. We will accept up to two questions at a time.

So first of all, Nomura Securities, Oum-san, please.

Oum: Thank you very much, Oum from Nomura Securities.

As always, I have a question on Indeed job postings. In July in various sectors, the index is now trending upwards.

So, Arai-san, if you could share with us your view on this. Is this one-off temporary, or has it hit the bottom and is trending upward? So that's my first question.

Second question is: In the material it says, Indeed’s Q1 monetization progress compared to Q4 is starting to show results. Could you elaborate on that point? Where do you see some actual outcomes? Thank you.

Jun: Thank you for the question. Thank you for looking at the data very closely. As I've mentioned in the past, we do not become overly happy or disappointed by monthly results. So this alone cannot help us to make the big decisions. The data may look flat, but the volatility is still high. So in November, when we announce our Q2 results, I would like to touch on this.

We do not want to be happy or disappointed on monthly results and just steadily work on what we have to do. So that is my answer to your first question. I do not think it has hit the bottom yet.

How we are making progress on how we can offer higher value, higher added value products and services so that more users can use our services and pay money to us?

We talked about this in the March event. We're taking various initiatives and also developing and launching smaller-scale services and trying to identify what works and what doesn't.

So we're trying to accumulate knowledge and experience. As a result of that the unit price is rising up. So if it works, we will increase the scale, the area, and number of customers.

But we're trying many things and trying to see what works and what doesn't work on a day-to-day basis.

We cannot say what is performing well and what we want to expand at this moment, but on a quarter over quarter basis for the US and for the entire segment, we are trending upwards. So you can say that there is a certain level of impact, so we will continue researching and studying our initiatives.

Oum: Thank you very much.

Mizuho: Next, SMBC Nikko, Maeda-san please.

Maeda: Thank you. It is perhaps similar to the previous questioner, but the 7.7% quarter on quarter increase in revenues that you mentioned earlier due to the progress in monetization and the market environment. Perhaps we are seeing a recovery in matching? So, I'd like to understand the factors contributing to the 7.7%. Could you elaborate, please?

And also, looking at the latest employment statistics, we see that the market is fluctuating. We have not seen any revisions to the guidance, however. But looking at the latest numbers, do you see that perhaps the numbers are trending down faster than your expectations, or is everything within your expectations? I would like to ask about your views on the latest trends.

Jun: Thank you very much for the question. I would like to respond to the second part of the question first.

So what I mentioned and also covered in the presentation, is basically from what we shared in May. What we are seeing is within expectations, that's contributing to the background to the numbers that we are seeing.

So it is not that things have moved significantly over the past several weeks, and hence we have not made any revision to the forecast.

And if it's just performance, it's one thing, but if the currency exchange is moving alongside, then perhaps the story may be different. But the exchange rate is also trending within our expectation at 145 yen to the dollar, therefore we've not made any revision.

It's not that our views that we outlook have changed significantly as a result of what we are seeing today. And looking at the Indeed Hiring Lab, among others, the number of job posts, both paid and free, continues to show a declining trend.

So it's not that the market environment is improving. Rather it's a result of our efforts bearing fruit in some part.

I believe we can take this as good news. As Deko said in Year “0”, this is what we consider as a preparatory year towards “Year 1” and “Year 2”.

So we will continue to build on our efforts, and we are making preparations for our efforts to bear fruit, big fruit in the future. Thank you very much.

Mizuho: Thank you. Next, BofA securities, Nagao-san, please.

Nagao: Thank you very much. Nagao from BofA Securities. My first question is on HR Technology adjusted EBITDA margin. Revenue compared to the previous quarter, or on a year on year basis, has recovered to a certain extent, but margin is declining. Looking at the material, your marketing investment is increasing and Indeed PLUS is another increasing factor.

So the intent of the marketing investment at this point in time and the increase in cost from Indeed PLUS, if you could elaborate on that point please. That is my first question.

Second question is, there is an impact from Indeed PLUS? So, Marketing Solutions, adjusted EBITDA margin is improving quite significantly. Recently, I don't see many Matching & Solutions television commercials.

And so Indeed PLUS, the transfer portion, and the existing business advertisement promotion is probably being controlled very meticulously, I think. So, if you could talk about that. So two questions on margins. Thank you.

Jun: So to your first question. In Q1 FY2023, HR Technology margin was 38.1% and this time it is 35.2%. And so you talked about that decline. First in May, we had the second workforce reduction and so they came off of the payroll, but there was a time lag.

So the contribution to the first quarter was only June. From the second quarter, we will have a full contribution, so in the quarter that we are currently in. So that's one factor.

And for the advertisement promotion, the amount is increasing. Due to the weak yen, the amount is bigger on a yen basis. But the actual amount compared to the previous first quarter, we are spending more. That is a fact.

Because we are trying many things in many areas to prepare for the future. We had been controlling, suppressing, the cost in previous years, so we are now using.

And Indeed PLUS. You may still remember that Kitamura and Deko discussed that we are trying to improve adjusted EBITDA of Japan HR business so that it will catch up with HR Technology. There's gap of adjusted EBITDA margin between them.

So low margin is coming to this side, and so this is somewhat of a drag. That's what it meant. It's not that we are spending more cost on Indeed PLUS.

That's my answer to your first question. And the other question was related to Matching & Solutions. We continue our tight cost control.

But as you know, Nagao-san, in HR Solutions and in Marketing Solutions, as I mentioned in the material, the advertisement and promotion expense is bigger in Q4 from January to March. So compared to that, Q1 spending may seem smaller, and the amount is smaller.

So comparing Q4 and Q1, we do spend differently, but it's not that we're trying to control the entire amount. We continue our stance on spending where we need to.

Nagao: So one quick follow-up question, if I may.

Jun: Please.

Nagao: So, Matching & Solutions advertisement and promotion expense on a quarter on quarter basis is what you just mentioned, but on a year on year basis compared to Q1 last year, has the amount gone down, or is it up?

Jun: Just a moment. The advertisement and promotion expenses in Marketing Solutions is slightly higher. But when we say advertisement and promotion expenses, there's real advertisement and also sales promotions. There are a few items here.

So comparing the entire amount, it is about the same from the previous year. And in HR Solutions, pretty much the same. Maybe slightly lower on both sides, and that is why adjusted EBITDA margin is inching up. Yes, it's not substantial.

Nagao: Understood. Thank you very much.

Mizuho: Thank you very much. We believe we've received all the questions whose hands were up. But since we still have more time, we can start round two.

Mizuho: SBI Securities, Hosui-san, please.

Hosui: Thank you. This is Hosui from SBI Securities. I have two questions.

The first question regarding Indeed Japan business on a yen basis. Quarter on quarter, we've seen a 15% increase, but continuing growth from the conventional Indeed or the new business, which is contributing more to this growth rate?

Also, I would like to know more about the progress of this collaboration since the last announcement? That is my first question.

The second question is regarding the Staffing service in the US, Europe, and Australia whose revenue decreased 8% year on year on a constant currency basis.

Should we expect a similar decrease for the remaining of the fiscal year, or somewhat of a recovery starting from the second half as you expect in Indeed US?

Jun: Thank you. Looking at the existing Indeed Japan and Indeed PLUS, which is contributing more to growth, that is a very difficult question. Even internally this is something we are extensively discussing.

The reason why it is difficult to say is because of the switch from Indeed to Indeed PLUS. Customers who have been using Indeed will continue to use the same service.

In addition, we will have new customers, new users, spending more to use these services. And then we have Indeed PLUS, which is a new way of getting sales. According to what Hosui-san said, if we look at that from a completely new sales entry point, then we can determine the contribution by business.

But actually in reality, these two are intricately combined. Therefore, it is difficult to segment and say with certainty which is contributing more.

But in relation to the second part of your question, the shift is progressing well. If you ask whether everything is going well, there are certainly some areas that still need to be worked on, and some issues from the operational standpoint that still need to be addressed.

But overall, we see that this shift is going in the direction that we envisaged from the beginning. So looking at the contribution from the original Indeed and the new Indeed PLUS, since this shift is going in the right direction, we see that combined, it is contributing more.

We are still in the transition period, so it is difficult to segment and say with certainty: This is the conventional Indeed, this is the new Indeed, and this is the switch.

But from next year and onwards, within the HR Technology business, we will be able to see the US, the largest region, followed by Japan. So, we will be able to present more clearly the difference and changes from what it is today.

But as of today, this shift or the change is happening right now as we speak, so it is difficult to say which part is contributing what. But customers say that the service has become more convenient. Users find it easier to use our service and the number of jobs looks to be increasing, so we continue to receive good reviews.

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This will drive growth going forward. I apologize for not a straightforward answer.

And for the Staffing service, this is smaller than the negative range on a full-year basis that we presented.

But there are still uncertainties. We will continue to hold on to a tougher or more severe view on this. We're not optimistic about this business much. Particularly the US will be quite challenging.

Hosui: Thank you very much. I would like to ask a follow-up question in relation to my first question. After the announcement of Indeed PLUS, Indeed's share in the HR market, or the presence of Indeed I believe, is increasing combined with the conventional Indeed. Is that a true assessment?

Jun: On a Japanese yen basis, we've seen an approximately 45% year over year increase in revenue. This is including Indeed PLUS. So if that is the case, then it is true that our presence is increasing.

Hosui: Thank you very much. That's all from me.

Jun: Thank you.

Mizuho: Thank you very much. Next, CLSA Securities, Kato-san please.

Kato: Yes, Kato from CLSA Securities.

My question is related to HR Technology in Japan. 29% increase in Q1 was good and for the full-year you're aiming for 70%. Are you off to a slower start, or will the Indeed PLUS impact be more in the second half? How should I interpret this?

Jun: First, FX is one factor. There are a few other factors, too. So it's not that we can push this up in a linear fashion. I think we will gain more momentum. This launched on January 30th. So we think we will gain momentum and gain speed as we go. But we're not concerned.

So my outlook is that it will increase more in the second half. That is our original outlook. So we are not concerned about that.

On a Japanese yen basis, it is 45% up year on year. So we're not concerned.

Kato: For the full year, is 70% up on a US dollar basis?

Jun: Yes, and that is based on 145 yen to 1 US dollar.

Kato: The other question is Staffing in Japan, 7.6% in Q1 and for the full-year 5% is expected. So is it going better than you thought? Or do you expect a deceleration in the second half? What is your outlook?

Jun: Well, it's too early to decide. It's only three months into the year. But with the current pace, we think it will be stronger than our outlook. Of course, because we have high quality candidates, we are introducing strong staffing temporary workers. But this is because many workers are active on assignments.

In Japan, the renewal is three months, and so this gives us better visibility, but there's still high volatility. So it is hard to say what will happen at the end of the year. We cannot be too bullish. But if the current pace continues, it may be higher than our outlook, but it is hard to say.

Kato: Thank you. Regarding this 7.6%, if you break this down to volume and unit price?

Jun: It's volume. More staff are on assignments.

Kato: Are you negotiating for price increases, or is it difficult?

Jun: We are modest and humble so we work for our clients.

Kato: Thank you very much.

Mizuho: Thank you. Next Mizuho Securities, Kishimoto-san, please.

Kishimoto: This is Kishimoto from Mizuho Securities. Thank you for the explanation.

I have two questions, the first one is on Matching & Solutions related to Marketing Solutions by vertical. I would like to get some color by vertical for Q1 results. And what are your expectations for growth rates for each vertical from Q2 onward? For example, is Dining doing better than others? What were the drivers of growth for Marketing Solutions in particular? That's my first question.

And the second question is about a spot work business you plan to launch in the fall. How is this business going to be launched? I apologize for this rather vague question, but I would like to know more about this.

Is it going to be like a blockbuster type of launch? So in the short term, adjusted EBITDA margin may be low, but first you may want to establish a substantial volume. Is this how you imagine the business will be launched, or is it going to be a soft launch as one function of Indeed? I would like to see how this business will be launched in the fall. Those are the two questions I have.

Jun: Thank you very much. Regarding Marketing Solutions, in your first question.

We provided a range of revenue growth from 1.5 to 9%. So based on this assumption, we want to increase the adjusted EBITDA margin, excluding corporate overhead costs, to a 30% range.

We continue to see good progress on the two pillars in Marketing Solutions. Unless there is any negative change, then we believe growth within the range that I presented for this fiscal year is possible. That is the first thing.

So in my presentation, I gave a comment on this. For example, in Travel, we have seen a certain period in which the unit price remains stable. So this is a factor contributing to revenue in this business.

But looking at the different verticals: Housing & Real Estate and Beauty businesses account for a large portion. So they will continue to drive the revenue of this business. If we continue to build revenue from these two business areas, then it is likely that we will be able to land within the range that I presented.

It's not that we are seeing any negatives in the verticals. All the verticals are growing and contributing to the revenue increase in Q1.

And the summer season will further drive demand in Travel, and then it will subside. So we are not optimistic that this level will continue throughout the year. But at the moment, we don't have any negative news.

As for the spot work business, we are latecomers in this area. So we need to do more research so that we can provide a service that fits the expectations and needs of our users and customers.

So we are still in the study phase. We are still working on this business. And legally as well, there are established rules and regulations that need to be observed. And since we are coming into this market late, we need to make sure that we don't inconvenience other stakeholders.

We want to make sure that we follow the rules and as a team, working on the design of this business, we are paying attention to all these things and going through due process.

I apologize for also giving you a vague answer. But when the right time comes, we hope we'll be able to provide you with more information.

Kishimoto: Thank you very much.

Mizuho: Thank you very much. Mito Securities, Watanabe-san please.

Watanabe: Watanabe from Mito Securities. Regarding Indeed, you said earlier that you are making small efforts, and this is bearing fruit. So you have talked about many things, but I want you to elaborate on that. And you talked about workforce reduction. Are you okay with less headcount? What are the factors that allow business to run efficiently and smoothly with less headcount? Could you elaborate?

Jun: I understand you have two questions. First is to elaborate on the small efforts, and the other is if we are okay with less headcount.

So let me answer your second question first. We are making sure that we can operate with fewer headcount. You may remember when I said in May, for faster action and decision making, we are trying to become a more lean structure to prepare for “Year 1” and “Year 2”.

So that is the purpose of the headcount reduction. So we're not losing any function or losing speed.

We're trying to become faster. So it's a headcount reduction to become speedier. So we hope this will be a positive for us. That is our structural design, and that's what we are executing. So we have no worries there. Please rest assured.

And to your first question, what are the small efforts? For clients in multiple industries who want to raise the quality of the applicants, we will say “yes, we will do that if you could pay a little more, we will make sure you can find and meet such candidates.”

So we're continuing such screening and tuning to introduce better candidates. So we're testing such services. And if the clients like it, then they will be happy to pay more.

So those are some fruits that we're starting to see. So they may be small scale now, but if they work, they may become bigger.

Watanabe: Understood. So with fewer people, your organization is working well and the quality that you mentioned last time is now showing results in Q1.

Jun: Yes, well, it's not a big result in terms of numbers. But once we have more successful initiatives, it will also show in the numbers later on.

Watanabe: Thank you very much.

Jun: Thank you very much.

Mizuho: Thank you very much. Oum-san from Nomura Securities, please.

Oum: Thank you for picking me for the second time.

I would like to ask about the collaboration. You mentioned that one of the management themes is to increase efficiency of organizations. Among the sales structure and other organizational structure, have you had any progress in Q1?

And also, to be more specific. If you have any milestones that you're currently working towards, I would like to know more about them. Thank you.

Jun: On May 15th, Kitamura and Deko talked about this. I believe it was during the fireside chat that they talked about this. Indeed PLUS is currently moving forward, the Japan HR Solutions business and HR Technology business will increase in their collaboration. We are currently considering the appropriate organizational structure to further drive that, I believe that was mentioned.

So, the evolution of the Japanese business includes the evolution of the products, the services, the operations. And also the adjusted EBITDA margin eventually, will also be evolved. So we are working on this.

And there are things that go well and do not go so well. So we are starting to identify. But in any case we are looking into this, we are studying more into this, and we are eliminating the negatives or issues one by one in order to realize this integrated management. So once we realize that we will be able to enter the next step. We believe we will be able to present figures that will be appreciated by the market participants.

Oum: Thank you very much. I have one more question. Regarding Indeed, for example, the Indeed Apply or ATS integrations. Have you had any additional events that you can share with us?

Jun: Well, there are some things that are reflected in numbers and some are not. Back in March we talked about the product and service development.

We do not have plans to do something similar event next year. But when we announced the results for Q3, if there are any new service announcements, or if there's going to be any evolution, then we can share with regards to the existing products and services, or with regards to any new business.

Mizuho: JP, Morgan Securities, Mori-san, please.

Mori: Thank you. I have two questions. I may overlap with the earlier questions. I'm sorry. But the first question related to the HR Technology US trend.

You said that you are moving in line with your outlook from May. Any changes in the clients' or customers' sentiments? Is it in line with your cautious outlook or not?

Macro data is starting to move, as we saw from last week. ZipRecruiter, I know they are different from you, but they were cautious in their Q3 outlook. So Indeed, is there no change, or it has changed, but within your expectation? So my first question is about your nuance.

Jun: What is your second question?

Mori: Thank you. Second question is on Matching & Solutions. Another repetitive question, but your profit was quite big, but the Marketing Solutions revenue is growing steadily. So on a quarterly basis, the advertisement and promotion expense is one factor.

Are you finding better ways to maintain and increase revenue in a more efficient way? Should we just think that the advertisement and promotion was lower only in this quarter?

Jun: Your second question is, on a full-year basis before corporate overhead costs, adjusted EBITDA margin is aimed at 30% for Marketing and Solutions.

And so towards that target, we are reducing where we can, but in Q4 we will use what we need to use.

So all inclusive, we will save where we can to achieve the target number and the result is the result of our efforts. It's not that we have given up on the revenue and started focusing on the cost. We have such intentions, but operating in a natural way and bearing this result, I think we are in a positive position.

And to your first question, yes, we understand ZipRecruiter's outlook, but we are different from them. We are in line with our expectations. So sudden market improvement, or sudden customers halt, is unlikely from what we saw in July, so we are in line with our outlook.

Mori: Thank you.

Jun: Shen-san, should we take more questions?

Mizuho: Okay, so we still have more time. Nagao-san, from BofA, please.

Nagao: Thank you for picking me.

I would like to ask a rather difficult question. Looking at your company and how you generate profits, there is a cyclical element. But in times of recessions, you're proactive in cutting costs to maintain profitability. That is my view of the company.

Of course, it's difficult to predict the future. But if there's going to be a hard landing with regards to the US economy, while you talk about “Year 0”, and you are now making preparations for the next step, will it be possible to make that drastic change in one go? What is the sense of urgency shared among management? Perhaps you're shifting your gear into neutral.

I guess, the other way of asking this, is there more room to cut costs? Are you ready to implement such action? What is your view and assessment of this right now?

Jun: Since last week, I've been talking about this with Deko. Looking at the current labor environment, focusing on the labor market, it appears that things have not gone wrong or gone in strange directions. And based on that, we have not changed the guidance range that we presented earlier.

But at times, for example, the financial markets affect the real economy in adverse ways, and then we enter into a negative cycle. So if that were the case, then we need to be prepared to also change our outlook and guidance as well. But right now, we have not seen anything like that.

And for HR Technology, the large items in SG&A expenses are people and advertising and promotion costs. So if things turn up, if we expect higher revenues, if we see more opportunities for us to do a lot of things, then we will start to make advertisement investments and we will start hiring more.

If we can achieve higher revenues, and the curve of the increase in costs is flatter than revenue growth, then margin will also follow. So that's what we are aiming for and that's what we expect to happen in “Year 1” and beyond. If Year 1 and Year 2 are postponed, we will continue the current operations or we will make further cost cuts, but we don't think this is necessary at this time.

What Deko said is that for the next 18 to 24 months, the job openings will continue to decline gradually. If we see a sudden decline, as we saw in the first months of COVID pandemic, then things will be different.

But our current expectations are different. It will be a gradual decline. If that is the case, then we will continue to work as we’ve planned. But of course, we need to be flexible, if things change. And we believe we have the capabilities to adapt, to change. Deko has a great sense in making such assessments. So I'm not worried.

Nagao: Thank you. It's clear. Thank you very much.

Mizuho: Thank you. Arai-san, could you give us the last remarks?

Jun: Thank you very much again for today. Last but not least, we will have Indeed FutureWorks 2024 on September 26th in Dallas, Texas. So we would like to welcome you to the venue or online.

I hope you are looking forward to the upcoming individual, group and large IR meetings. And in the first week of September, we will take part in some conferences in Tokyo. And with Nagao-san, we are planning to have a fireside chat. So I hope you can come. We welcome institutional investors.

Mizuho: Thank you very much. We will close the financial results briefing today. Thank you for joining us today.

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