

This is an edited version of the English translation of the Q2 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 Q2 FY2024 Earnings Call November 11, 2024

Mizuho: Welcome to the Recruit Holdings Q2 FY2024 earnings conference call.

This call is the 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 Q2 financial results presentation video and transcript were uploaded to the IR website at 3:30 PM today.

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

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

Jun: Hello, everyone. Before I take your questions, I would like to make a few additions to the presentation we disclosed today.

In the presentation, with regards to the result for Q2 and 1H of FY2024, I explained in HR Technology US revenue exceeded our initial expectations, which was due to the fact that despite the continuing trend of a decrease in the number of job postings, the rate of increase in revenue per paid job ads exceeded the rate of decrease in the number of paid job ads, thanks to a combination of small scale tests and innovations.

And in Japan, the transition to Indeed PLUS is progressing, although it is slightly slower than our initial expectations.

Regarding the outlook for the second half of FY2024, we are not changing our view that "the number of job openings in the US will hit the bottom after decreasing for another 18 or 24 months" that Deko said in May, and we assume that the number of paid job postings will continue to decline until the end of the current fiscal year.

Regarding HR Solutions in Japan, it has been decided to discontinue the PPP, pay-per-post advertising model, by the end of FY2024 with the exception of the new graduate recruitment platform and it has been confirmed that HR Solutions will be integrated into Indeed PLUS.

The outlook for Marketing Solutions and SaaS Solutions has not changed significantly, and regarding Staffing, it is assumed that the growth in revenue in Japan will be offset by that in *Europe, US and Australia*, as there is still no improvement in the business environment.

We have prepared the outlook for each segment, assuming exchange rates of 142 yen per US dollar and 157 yen per euro, and based on this, we have prepared our outlook for the second half of FY2024 on a consolidated basis.

And we have disclosed today the revised full-year guidance, which is the sum of the results for 1H and the outlook for 2H. For those of you, who already have looked at this information, you will notice that the lower limits of the ranges have been significantly raised compared to the guidance ranges, which we disclosed in May.

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Thirdly, the share buybacks currently underway, as informed previously, have been progressing much faster than our initial expectations.

With the ToSTNeT-3 transactions executed so far, approximately 80% of the maximum total purchase price of 600 billion yen has been utilized over four months through the end of October.

If the remaining 20% is also utilized similarly, even though it depends on the share price, we expect that the buybacks may be completed earlier than the originally anticipated end date.

As of September 30, 2024, net cash and deposits were 756.6 billion yen, which is a decrease of approximately 378.7 billion yen from 1,135.4 billion yen as of March 31, 2024.

And fourthly, regarding the transfer of businesses between disclosed segments, this will be the first change since the significant change made to the disclosed segments in FY2017.

From next fiscal year, the HR Solutions business in Matching & Solutions will be transferred to HR Technology, and as a result, Matching & Solutions will consist of the current Marketing Solutions and SaaS Solutions.

We understand this may cause a significant inconvenience to capital market participants, but we would greatly appreciate it, if you could consider revising your financial model and valuation models according to this change.

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

First, Oum-san from Nomura Securities.

Oum: Thank you very much. This is Oum from Nomura. I have two questions.

First, the impact of the increase in immigration on the Indeed US job posting business. How important is the immigrant population? Do you have any past data to see how much impact it will have on Indeed job postings and budgets?

Also regarding Indeed US, there are the initiatives regarding establishment of new plants, the number of manufacturing plants to bring back jobs. I think there have been various moves by various governments to increase employment in the US, such as subsidies, tax cuts, tariffs, etc.

Have these factors pushed up Indeed's revenue? So the increase in immigration and bring back jobs initiatives, how much impact do these two factors have on the Indeed business? I would appreciate it if you could explain a little more. Thank you very much.

Jun: So I think the question is based on the result of the US presidential election.

As you know, we have a two-sided business model in almost all of our businesses.

So the first question is about the job seeker side of the story, so, the supply side. And the other question is about the demand side. How we match both of these sides efficiently is the key to our business, especially for Indeed revenue in the US.

So matching is more important when a large number of people look for jobs or in a situation where the number of job seekers is not that much. The unemployment rate and the promotion for hiring are also involved.

If there is an increase of employers who want to hire people, those will be a factor. And in some cases, there is a mismatch, and in other cases it is balanced, and that impacts our pricing. From the business structure of Indeed, it's Pay-For-Performance and pricing goes up or down depending on supply and demand. So that is the type of business model we have. So of course, those factors you mentioned have impacts.

But it's hard to quantify. We do not disclose the percentages.

Of course, if supply goes down and demand goes up, mismatch increases, like post-COVID, and pricing goes up and revenue goes up. And vice versa.

So I think you're asking about how higher demand and supply will react and depending on that, our revenue will change. And speed is another factor.

So when employers want to hire, how quickly they can take action or not is important. So job openings will decline, but we'll hit a bottom and will rise up again at one point in the future. And the curve of the increase cannot be predicted easily.

It will not be a surge like post-COVID. Unless it's an extraordinary circumstance, it will be a mild increase. So it will not be the only factor that impacts our revenue. But employers who want good talents will give us assignments for advertisement early on.

So, the supply and demand sides, both fluctuate. So the number of job seekers will be one factor, and the demand will also be a factor.

But regarding when that will be, what percentage that will be and by how much employers will activate their company's hiring activities, we have parameters that we are looking at, but it's difficult to say what percentage and explain very clearly at this point.

But as I mentioned earlier, the market volume will decline, so we are preparing for the next pick up, and so our stance remains unchanged. Thank you. I hope this answers your question.

Oum: Thank you very much, Arai-san.

Mizuho: Thank you. Next is SMBC Nikko Securities, Maeda-san please go ahead.

Maeda: This is Maeda from SMBC Nikko.

I have two questions. First of all, in the presentation earlier, you referred to the situation of Indeed revenue in the US. The growth of revenue per job posting and decline in job postings were mentioned.

So can you please explain how much each of them increased or decreased? And you also mentioned tests on the second page of the transcript. You introduced some examples. But what kind of functions contributed the most? I think there are multiple factors involved, but if there were any significant tests that affected the situation, I would like to know. That is my first question.

And secondly, this is a more straightforward question about the decrease of the personnel costs, employee benefit expenses and service outsourcing expenses. Can you quantify the impact, especially for HR Technology. Thank you.

Jun: The percentage of unit price increase and decrease, I apologize, at least as of today, we decided not to disclose that information. I hope you will understand.

And regarding tests, I talked about three tests: urgent hiring label, candidate targeting, and matched candidates.

For example, an urgent hiring label is a label to show that this is an urgent hire. Or employers who are posting paid job ads, can set screening conditions and backgrounds for available candidates, and we will utilize the employers' budget only when candidates are a good match.

Also on the Indeed platform, job seekers are signed up with their resumes and profiles, and based on such personal information, we use our machine learning to identify suitable candidates for employers.

So employers do not need to wait for applications, but can directly reach out to job seekers who would satisfy their needs. If they really meet the requirements of the employer, compared to when they don't use that function, we will be able to increase the value for clients, and we will be able to charge a higher price, which will result in a higher unit price.

We aim to develop a better environment so that we can introduce better job postings to job seekers, so that they can find better jobs. We have been making these efforts little by little to develop a better environment, and I think that is going to lead to higher unit prices.

Of course, we test, and clients may not be satisfied, or it may create some dissatisfaction. But even if a test fails, or even if the test does not perform as expected, we can also learn from such experience, and we can repeat that process.

So hopefully, we can continue to increase the unit price and as the market conditions improve, the volume will increase.

When that is achieved, we can make a better contribution to revenue growth. That is our idea, in evolving our business day by day. I apologize that I cannot quantify the impact, but that is the idea.

In terms of the employee benefit expense decrease. In the Q1 announcement, I explained that was due to the reduction of the headcount. Their payroll has been discontinued as of the end of May.

So in Q1, there is a one month impact. In the second quarter, there is a full impact. That is the impact we are seeing.

So on a quarterly basis, we are not providing the cost breakdown for each segment. For 1H, we are providing this information, but we don't provide that information on a quarterly basis. So I hope you can refer to the number 1H. Thank you.

Maeda: Thank you.

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

Nagao: Yes, thank you very much. Nagao from BofA Securities speaking. I have two questions.

First is regarding Indeed's second half margin and the way you think of margin. In the FAQ, it's written that in 2H for the US, on a US dollar base, 4.5% plus minus revenue growth is expected, but the adjusted EBITDA for 2H is down compared to 1H. How should I look at the revenue and profitability or the balance between the two in 1H and 2H? Thank you very much. That's my first question.

The second question is: I have many questions, but I think one key question is regarding the 600 billion yen share repurchase and that 80%, around 500 billion, has already been used. This is much faster than your original schedule. So do you plan an additional share repurchase or, while balancing with investment in growth, could you please share with us your capital allocation policy once again? Thank you.

Jun: Thank you very much. Let me start with the second question.

So there were ToSTNeT-3 transactions. We started as a one year program, but there was a supply that we did not anticipate in the beginning as ToSTNeT-3. Therefore, the usage was faster than we thought. As I mentioned earlier, we want to use the next two years to adjust our cash and cash equivalents. And the way to do that is share repurchases and/or acquiring good businesses, if we have some options.

We will use the cash for our future business and for our shareholders, and reduce the cash and cash equivalents to a certain level, and we will continue that effort.

This time, the program may end earlier than we thought. But we will decide what we will do and at what size. We will discuss and decide going forward. But during the two years is the period to adjust our cash and cash equivalents. So, in the next fiscal year, we will continue reviewing this plan.

Regarding the margin in the second half. As we mentioned earlier, for Indeed or HR Technology, the current expenses are not necessarily spent for the current revenue. At this moment, we are conducting various tests and launching them in the market. We improve the promising tests and make them bigger. So we are doing a cycle.

And the other large cost is our advertising and promotion expenses. If we have good opportunities, and if it leads to higher revenue, we may invest upfront.

We do not plan to increase headcount radically at this moment, so it is better you imagine it as flat.

So if revenue remains flat and margin drops by 1% that means we are using marketing costs for our customers and users. That's the way I would like you to think about it. As we said, if there is demand and if there is a need, we will try to invest as efficiently as possible.

If there is a recovery in sight, we will be willing to invest. But we are not there yet. So this time, we revised the full-year revenue forecast and, for the margin, we did not make a significant revision from May. That is where we stand.

Nagao: Thank you very much. I have one follow-up question. You are currently restructuring your SBUs, and in terms of where you will be investing your marketing costs for the HR Technology business in 2H of this fiscal year, am I correct in understanding that this includes Japan's domestic business?

Jun: This year the segments are still separated. From next year onwards, it will be unified. So for efficiency purposes, we may revisit in May, but for this fiscal year the cost will be incurred separately.

Nagao: Thank you very much.

Mizuho: Thank you. Nomura Securities Oum-san go ahead.

Oum: Thank you.

I have a question about Indeed Apply. In 2024, you talked about your plan to integrate with the Big 4 ATSs. I would appreciate it if you could share any progress with us.

The other question is about Indeed PLUS. As more outside media joined Indeed PLUS. What kind of growth is anticipated going forward? What is the roadmap? Is there anything that you've learned from the current experience? Thank you.

Jun: Regarding the ATSs, we want to increase the volume of business with large business clients. We want them to use us more efficiently, and we want to offer higher added value by linking and synchronizing Indeed with ATSs. That is essential.

It's not only the Big 4 but we have been implementing various integrations also with other ATSs. It may be possible technologically, however, that we require approval from clients. So we have to make it technologically possible and we have to get the approval from the client.

The number of clients connected with ATSs is not disclosed, but that number is continuing to grow steadily. And if that leads to a further increase in volume, it will affect our future performance after all. So this is why we have been working on.

Regarding Indeed PLUS. I believe you're referring to non-Recruit job boards when you say "outside media".

In January when we launched the service, we explained that this is what we welcome, and we would like to encourage those media to join Indeed PLUS. Of course, there is a revenue split and other terms and conditions that we need them to agree on. So it is not something we are pushing for, but if they are interested, they can join us.

But this is not the main reason that we launched Indeed PLUS. Within the Recruit Group, we have a Japan job board business that we want to integrate, and this will make it even stronger.

We use the Recruit job board businesses to shift from PPP to PPC. That is the strategy for Indeed PLUS. So we are not requiring a certain number of outside media to join us to achieve our goal.

We are not depending on such outside factors, but rather, we are focusing on designing better operations internally.

Again, if outside job boards are interested, we welcome them to join us. But that is not the only factor. We want to make ourselves stronger and more powerful. That is what we are determined to focus on, so that we can evolve the service even further.

Oum: That was very clear. Thank you.

Mizuho: Thank you very much. Next SBI Securities. Hosui-san, please.

Hosui: Hosui from SBI Securities. Thank you very much. I have two questions. The first one is about Indeed Japan. Last time you said it is difficult to divide existing Indeed revenue and Indeed PLUS revenue. But the overall revenue, which one is contributing to revenue, the number of clients and the unit price, and how far along are you in transferring from PPP to PPC? That's my first question.

Next, Indeed PLUS transfer speed, you said, speed is rather slower than expected. What are the factors and what are the hurdles? Thank you very much.

Jun: Thank you. So your two questions are related to Indeed PLUS in Japan. So last time or the one before we said that it's difficult to say which of Indeed PLUS and Indeed itself is the bigger factor. And this difficulty has become deeper, because the job boards, originally from Recruit, are now being switched or transferred to Indeed PLUS.

And in Recruit, we recognize on a gross revenue basis, while Indeed PLUS will be accounted for on a net basis. So 100 will not be 100. It's difficult to numerically explain. So it cannot be explained in a clear-cut fashion.

And this relates to your second question too. The original job board business was PPP and the clients liked it and we received revenue from that. But now it will be PPC. We need to explain the benefits to the clients from us directly and the agencies do to the clients as well. We are using various routes or channels to realize this shift from 100 to 20, 40, 60, 80 and eventually 100.

What we mean is the agencies play an important role in promoting Indeed PLUS. Agencies need to get used to promoting Indeed PLUS and convince clients. Or when the clients know the benefits of PPC but still they like PPP better, it's challenging to convince and persuade them to shift to PPC. It's not just about the logic or efficiency or just pure theory to change the clients' mindset.

We thought this transition would be rather quick. But the progress is slightly delayed with other factors too. However, as the PPP business will be discontinued by the end of March, the transition to Indeed PLUS will be ended up as we anticipated anyway. So the HR Technology revenue related to Indeed PLUS in Q2 and Q3 is slightly lower than what we thought in May. And revenue in HR Solutions in Matching & Solutions is not declining as much as we thought as a trade off.

We will come to the originally planned level by the end of March, but as of Q2 and Q3 the transition speed is still rather slower than expected. And so this side revenue is lower, and that side revenue is not declining as much.

At the end of Q3, we will update you. But this is where we stand.

Hosui: Thank you.

Mizuho: Thank you. Next Mizuho Securities, Kishimoto-san. Please go ahead.

Kishimoto: This is Kishimoto from Mizuho Securities. Thank you for this opportunity. I have two questions.

Firstly, about Indeed US and the current headcount situation. You have reduced the headcount this year, and top-line improvement is seen. So in accordance with the top-line growth, are you planning to increase headcount once again?

Or is that not necessary within a certain level of revenue growth? And as a result, do you anticipate margin to grow? So what is the expectation for the personnel expenses? That is my first question.

And my second question is regarding spot work, TOWNWORK SUKIMA. You announced that you were planning to release it this fall. It is still fall now, so I think we should wait for further announcements, but I was expecting some news to come out by now.

Recently, I have seen some difficulties related to spot work. So, are you kind of waiting for the right timing, or is it going to be released sometime after without any issue? Is there anything that you can share with us at the moment? Thank you.

Jun: Thank you.

Top-line is growing, as you said, but it is not a rapid, significant growth. And in the presentation, I didn't use the word "recovery" or "improvement", so we are not thinking of this as a recovery. Of course, we need to have volume recovery in order to be able to regard the situation as recovering.

So once again, as Deko said in May, for 18 to 24 months, volume will decline, and we are right in the middle of that decline or we're even at the beginning or in the middle of the decline. That is our view of our business.

And regarding headcount, in May we made that decision and executed it. For the time being, in this environment, with the reduced headcount we will continue to operate, and that is as planned. And there is no necessity or intent to increase headcount immediately.

So, as I responded to Nagao-san earlier regarding personnel expenses, in a simple model, it will remain flat.

In such a market, how efficiently are we going to spend personnel or marketing expenses? I think that is the question.

So there was a headcount reduction recently, and it's not that we are in need of more headcount immediately.

And the second question was regarding the spot work business in Japan. As Kishimoto-san said, I did mention that, given the recent social circumstances, we have been carefully discussing our plan. And as I mentioned today, there is a transfer of business between segments. So we have to be mindful of that as well. So there are two factors, segment transfer and social circumstances.

It is not that we are in a hurry, but rather we want to take time to prepare. We initially announced this will be released in the fall, but at least for now, it is not going to be released this fall. That is the current status.

Did I answer your question?

Kishimoto: Yes. Thank you.

Mizuho: Thank you very much. BofA Securities Nagao-san please.

Nagao: This is Nagao from BofA Securities, thank you very much. Thank you for giving me the second round. My question is on the strategic side.

In Matching & Solutions, there's the traditional job board which is now shifting to HR Technology.

So in the traditional business, there's also the Recruit Agent, a middle-class placement service or Recruit Executive Agent, the high-class headhunting business. These businesses also shift to HR Technology? Could you elaborate on the progress there?

And my second question is, the pure Marketing Solutions growth strategy. In each segment, performance guidance, on the lower side, the floor has been raised. But Marketing Solutions is not improving that much. So the original forecast has not changed much. So my question is for the growth strategy of Marketing Solutions, once again, in Air BusinessTools the new initiatives exist, but they are not clearly reflected in the financial performance. So how are you sorting this out? Thank you very much.

Jun: Thank you very much for the question. So to your first question, Japan's HR business will become part of HR Technology from April 1st. So the placement service will come under HR Technology.

This business is run only in Japan. So, this will come under Japan's revenue. The presentation says that on April 1 next year. This leads into your second question, but Matching & Solutions will be Marketing Solutions and SaaS business segment from April next year. From the next fiscal year, this business will be a standalone segment.

So the current status of the future growth strategy and the strategy to improve business efficiency can hopefully be explained more clearly. We are, in turn, preparing this internally. So the HR business, which consists of HR Technology and Staffing, the Simplify Hiring block of business. And Help Businesses Work Smarter, this is Marketing Solutions and SaaS, making up the Matching & Solutions business.

So we showed you a pie chart in the past. The right half we will do this, and the left half this, with Housing & Real Estate. In May, we hope to be able to explain more clearly. We're discussing it internally now. I hope you could give us a little more time. I understand your preference, so please look forward to it.

Nagao: Thank you very much. So SBU realignment, my first question, a follow-up on that. The placement services will be under HR Technology, but Recruit Agent, Recruit Executive Agent, these are labor intensive traditional types of referral business. So, if you can apply technology to that, what can be leveraged? Is this a big realignment or are you trying to change the business model as well, if you could elaborate on the strategy, please.

Jun: A while ago. I think I said this. So the placement in Japan, by utilizing the Indeed engine, the matching efficiency can be enhanced and we're seeing improvement. I think we've been saying this for two and a half years now.

And of course, for the candidates, we have our salespeople in charge, and our business clients have our salespeople taking care, and the back office. So we've been doing this for two, three years. So the front end is handled by our people, but in the back end, machines are being used already.

How we move this forward is the challenge we need to address. Furthermore, we've been talking about how HR Technology, with the Simplify Hiring strategy, can shift from a job advertising model to a transaction model type business. This business in Japan can be used as a basis to do more business globally. We're thinking of that possibility.

So this placement business is now working well. How we can develop this further in Japan and possibly globalize this going forward. That is something we are still thinking about. So we don't have any concrete plans, we are just starting now but this Japan placement business that we've been cultivating over the years can leverage the power of technology, and may become global. So we're discussing that internally.

Nagao: Thank you very much for your insightful comment.

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

Oum: I would like to ask questions about the two new subsidiaries. First, it is about the name. Both start with Indeed. So what is the aim?

And about the reporting line. Using Indeed technology and integrating the placement business, as you explained earlier. I understand that. But will you continue to have the same person at the head of the placement business in the new subsidiary, or are you going to reshuffle the structure as well? What is going to be the reporting line?

Is there anything that you can share with us about what you're discussing internally? Thank you.

Jun: Well, that is what I also would like to know, but it has not been decided yet. When we have a big reshuffling or reorganization in our company, in most cases, when we make an announcement in February at the Q3 earnings release, we make a disclosure for the TSE about the change. So at this point in time, I believe that is going to be the timing to share the details.

Well, it's not really about which is which, but we just want to make something better. So if we already have something good, we will use it to the fullest extent. It's not really about using something from Recruit and something else from Indeed. It's not really about which organization is going to take the initiative. That would be a very narrow view.

Now we are ready to make better things together while utilizing and developing existing assets. In my opinion, somebody who is willing and capable should lead the team rather than to consider how many people from each side..

And regarding the naming of these two subsidiaries. Well, we thought about including both Indeed and Recruit.

We have discussed it with native English speakers and reviewed what the acronym would be. It was hard work, actually, to come up with a good name. So there is no hidden intention, but we also thought about integrating into HR Technology, so we could give it a brand new name. But rather than creating a new logo for the brand new name, we thought it is better to build the most valuable thing based on what we already have.

That is the background of why we decided on these names.

So there are really no specific meanings or thoughts. But rather, we excluded names that resulted in a bad acronym.

Oum: Understood, thank you.

I have a specific follow-up question.

About advertising and promotion expenses in Matching & Solutions. In Q2, how much did you use? If it is difficult to quantify the amount, can you please share with us the year over year change?

Jun: I believe I responded to Maeda-san's question that we do disclose that number for 1H, but we don't disclose this on a quarterly basis. So I hope you can refer to that information.

Oum: Understood. Thank you.

Mizuho: We answered all the questions we received, and we were able to share with you some behind-the-scenes stories too. As Jun said, once we decide on something to be disclosed, we will disclose and continue to have close communications with you. Thank you very much. So we will bring this session to a close today.

Jun: Thank you very much for joining us today. Thank you as always and I ask you for your continuous support.

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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