Recruit Holdings Q2 FY2024 Results Presentation

Slide 01

I am Junichi Arai, Senior Vice President - Corporate Strategy and Investor Relations of Recruit Holdings.

Slide 02

Today, I will discuss the following topics.

Results for the second quarter and first half of the fiscal year, the revised full-year guidance based on the first half results and the second half outlook, an update on shareholder returns and, finally, the transfer of businesses between segments due to the reorganization starting next fiscal year, which was approved by our Board of Directors today.

Slide 03

Regarding the results for the second quarter, consolidated revenue increased 4.9% year over year or decreased 0.5% from the first quarter, to 897.1 billion yen. While all three segments increased year over year, a highlight of this performance was the US revenue increase of 2.4% in HR Technology on a US dollar basis.

Adjusted EBITDA margin was 21.0%, and Basic EPS was 76.58 yen.

Slide 4

For the first half of this fiscal year, consolidated revenue was 1.79 trillion yen, up 5.4% from the same period last year and up 5.2% from the second half of last fiscal year. This was primarily due to the fact that, for the first half on a US dollar basis, US revenue in HR Technology decreased only 1.4% and HR Technology overall increased by 1.8%.

On a yen basis, HR Technology overall grew by 10.3%, and in addition, the other two segments also saw an increase in revenue.

Adjusted EBITDA margin was 20.4%, and Basic EPS was 145.64 yen.

Slide 05

Today, we have revised our full-year guidance based on the first half results and our outlook for the second half. This guidance is based on assumed exchange rates of 142 yen per US dollar and 157 yen per Euro for the second half.

We expect second half consolidated revenue to be in the range of 1.67 to 1.75 trillion yen, consolidated adjusted EBITDA to be in the range of 255 to 315 billion yen, and Basic EPS to be in the range of 94 to 125 yen, taking into account the share repurchase currently underway.

Slide 06

As a result, full-year consolidated revenue guidance has been revised to the range of 3.46 to 3.54 trillion yen, consolidated adjusted EBITDA guidance has been revised to the range of 622.2 to 682.2 billion yen, and Basic EPS guidance has been revised to 239.64 yen to 270.64 yen, taking into account the ongoing share buybacks.

Slide 07

Regarding shareholder returns, more specifically share repurchases, as of October 31st, 79.8% of the maximum total purchase price of 600 billion yen has been utilized, and a total of 53.1 million shares have been acquired.

Through large off-auction repurchase transactions via ToSTNeT-3, on July 10th and September 3rd, we acquired 2.7 million shares for 246.5 billion yen.

Ongoing repurchases through open market purchases by an appointed securities dealer with transaction discretion have also progressed steadily, and we expect that they may be completed before the originally anticipated end date of July 9th, 2025.

In addition, our Board of Directors approved today to pay an interim dividend of 12 yen per share.
The guidance for the year end dividend is 12 yen per share, as expected at the beginning of the fiscal year, and 24 yen for the full year.

Slide 08

Finally, I'd like to discuss the transfer of businesses between segments.

In the full-year results announcement on May 15th, Deko, our CEO, stated:

“In the HR market in Japan, we believe it is essential to further strengthen the collaboration between HR Technology and HR Solutions in Matching & Solutions, and to operate them in a unified manner.

First, through Indeed PLUS, the job advertising service of HR Solutions in Matching & Solutions will be transferred to HR Technology, and both will be operated more efficiently.”

Furthermore, Kitamura-san, who heads our Matching & Solutions business, said in a Fireside Chat on the same day:

"We believe that from FY2025 onward, at least from a disclosure perspective, we will be able to report to capital market participants on the progress of this evolution as a single business segment.”

Accordingly, we have been preparing to transfer the HR Solutions business of the Matching & Solutions segment to the HR Technology segment, and this transfer will be in place beginning in FY2025.

From next fiscal year onwards, we believe that by aligning our business strategies with our disclosed segments, we will be able to report the progress of our business evolution to capital market participants more clearly.

Now, I will explain the second quarter and first half results of each business segment, as well as our outlook for the second half and revised outlook for the full year.

Slide 10

First, I will talk about HR Technology.

At the full-year earnings call in May, Deko said “we will operate under the assumption that the number of job openings in the US will hit the bottom after decreasing for another 18 or 24 months.

However, by improving the efficiency of monetization, 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.”

At present, our outlook for job postings in the US labor market remains unchanged.

Indeed is constantly striving to improve its products by conducting thousands of tests, including those that contribute to improving monetization.

For example, Indeed is testing simplified pricing tiers for Sponsored Jobs. It is offering easier to understand options that more clearly align budgets with value in terms of speed to hire and candidate quality.

Value added features being tested include

an urgent hiring label (note: a function to display urgent recruitment),

candidate targeting (note: a product in which the budget is only spent when a candidate who matches employer's qualifications agreed upon in advance with Indeed applies for a sponsored job post),

and matched candidates (note: a function that instantly displays suitable candidates for the job based on the job description and job seekers' Indeed profile, which may include their resume and preferences. Allows employers to invite relevant job seekers to apply for the job without waiting for the job seeker to apply).

In addition, Indeed is introducing policies to maintain a fair and healthy marketplace in order to create a more positive experience for job seekers and employers.

Revenue in the first half increased year over year, partly due to the positive impact of these small scale tests to improve monetization.

We will continue these tests and initiatives as we aim to achieve overall monetization improvement.

US revenue for the second quarter increased 2.4% and 0.7% quarter over quarter to $1.26 billion, exceeding our initial expectations as the rate of increase in revenue per paid job ad exceeded the rate of decrease in the number of paid job ads.

In the second quarter, on a US dollar basis, Japan revenue increased 57.5% and 20% quarter over quarter, to $186 million, due to the continued progress of Indeed PLUS.

For HR Technology overall on a US dollar basis, revenue increased 6.3% and 3.3% quarter over quarter, to $1.89 billion, or 283 billion Japanese yen.

Adjusted EBITDA margin in the second quarter was 37.8%, increasing from 35.2% in the first quarter, partly due to reduced employee benefit expenses resulting from the headcount reductions implemented in May while continuing investments in marketing.

Slide 11

For the first half of FY2024, US HR Technology revenue on a US dollar basis decreased 1.4% and increased 9.6% compared to the second half of last fiscal year, to $2.51 billion.

For HR Technology overall, revenue on a US dollar basis increased 1.8% and 11.1% compared to the second half of last year to $3.72 billion.

Adjusted EBITDA margin was 36.5%. As a result of continued cost control measures in the first half, sales commission, promotion expenses and advertising expenses amounted to approximately 12% of revenue, while employee benefit expenses and service outsourcing expenses totaled approximately 48% of revenue.

As for the second half of this fiscal year, while we expect the number of job postings in the US to continue to gradually decline as mentioned earlier, on a US dollar basis, we expect US revenue to increase approximately 4.5% year over year through the continued improvement of monetization.

This equates to a decrease of approximately 4.7% compared to the first half of the fiscal year, as we assume hiring activities will moderate in the third quarter due to the typical holiday seasonality.

We expect Japan revenue on a US dollar basis to increase by approximately 60% year over year for the second half, reflecting the slightly slower transition of HR Solutions job advertising service to Indeed PLUS than initially expected.

For HR Technology overall in US dollars, we expect revenue in the second half, to increase between 6.5% and 14.5% year over year and to be in a range from a decrease of 4.1% to an increase of 3.1% compared to the first half of the fiscal year.

We expect adjusted EBITDA margin for HR Technology in the second half to be in the range of 31.5% to 35.5%.

Slide 12

As for the full-year outlook for HR Technology, based on the first half results and the second half outlook on a US dollar basis, we have revised our US revenue outlook to increase by approximately 1.4%.

We have also revised our outlook for Japan revenue to increase by approximately 52.1%.

Regarding our paid job boards within the HR Solutions business in Matching & Solutions, we have decided to end the "Pay Per Post" advertising model by the end of the current fiscal year, with the exception of Rikunabi, our new graduate recruitment platform. As I mentioned earlier, from FY2025 onward, we will consolidate and integrate the job board operations in HR Solutions under Indeed PLUS within the HR Technology segment.

We have also revised our Rest of World revenue outlook to increase by approximately 6.2%.

For HR Technology overall on a US dollar basis, we have revised our revenue outlook to be in the range of an increase of 4.1% to 7.9% year over year.

Segment adjusted EBITDA margin is now expected to be in the range of 34.1% to 36.0%.

Slide 13

Next, I will talk about the results of Matching & Solutions.

First in HR Solutions, in the second quarter, revenue in the placement service continued to grow steadily in a stable business environment.

On the other hand, revenue in the job advertising service declined primarily due to the shift of revenue to Indeed Japan as the integration with Indeed PLUS progressed. Overall, revenue in HR Solutions decreased 6.2% to 69.5 billion yen.

Adjusted EBITDA margin in HR Solutions before allocation of corporate overhead costs increased to 23.3%, partially driven by the solid growth of the placement service.

Slide 14

As a result, revenue in HR Solutions for the first half was 144.3 billion yen and adjusted EBITDA margin before allocation of corporate overhead costs was 23.8%.

For the second half, with the transition to Indeed PLUS continuing, we expect revenue to be in the range of minus 8% to minus 18%, and adjusted EBITDA margin before allocation of corporate overhead costs is expected to be in the range of 13% to 18%.

Slide 15

The full-year revenue outlook in HR Solutions has been revised to a range of minus 7.4% to minus 12.3%, and adjusted EBITDA margin before allocation of corporate overhead costs has been revised to be in the range of 18.8% to 21.0%.

Slide 16

In Marketing Solutions, the business environment in Japan remained largely unchanged from the first quarter and revenue increased across the major verticals, including Beauty, Travel, Dining, and Housing & Real Estate. This led to a revenue increase of 8% to 133.3 billion yen.

In particular, revenue in Beauty increased due to continued growth in new business clients. Additionally, revenue in Travel increased as the trend of high unit prices for lodging continued, and revenue in Housing & Real Estate continued to increase due to higher advertising prices per unit.

The SaaS business, represented by Air BusinessTools, is included in Marketing Solutions. During Q2, the number of SaaS accounts rose 16.7% to approximately 4 million.

Adjusted EBITDA margin in Marketing Solutions before allocation of corporate overhead costs was 35.0% due to appropriate cost control principally related to service outsourcing expenses.

Slide 17

As a result, revenue for the first half was 258.9 billion yen, with total revenue for the three lifestyle verticals (Beauty, Travel and Dining) and SaaS increasing 12.3% and accounting for approximately 52% of the total revenue in Marketing Solutions. Specifically, revenue in Beauty increased 8.7%, accounting for approximately 22% of the total.

Revenue in Housing & Real Estate increased 4.4%, accounting for approximately 28% of the total revenue in Marketing Solutions.

Adjusted EBITDA margin before allocation of corporate overhead costs was 33.6%.

For the second half, we expect revenue to be in a range of plus 3% to 9%.

Adjusted EBITDA margin before allocation of corporate overhead costs is expected to be in the range of 25% to 28%.

Slide 18

The full-year revenue outlook in Marketing Solutions has been revised to increase in the range of 5.4% to 8.4%, and adjusted EBITDA margin before allocation of corporate overhead costs is expected to be approximately 30% in line with our initial assumptions.

Slide 21

Based on the results for the first half and the outlook in HR Solutions and Marketing Solutions for the full year and including corporate overhead costs, the revenue outlook for Matching & Solutions has been revised to be in a range of minus 1.4% to plus 2.4%.

We expect adjusted EBITDA margin for Matching & Solutions to be in the range of 21.6% to 23.4%.

Slide 22

Lastly, for Staffing. segment revenue in the second quarter was 417.7 billion yen, an increase of 2.8% or an increase of 0.4% on a constant currency basis.

Revenue in Japan was 197.4 billion yen, an increase of 7.2% due to an increase in the number of temporary staff on assignment as a result of continued growth in demand for staffing services.

Revenue in Europe, US, and Australia was 220.3 billion yen, a decrease of 0.9%, or a decrease of 5.2% on a constant currency basis as demand for temporary staffing services slowed against the backdrop of an uncertain economic outlook.

Segment adjusted EBITDA margin was 6.4%.

Slide 23

As a result, for Staffing, revenue in the first half was 840.3 billion yen, adjusted EBITDA margin was 6.6%.

Slide 24

For the full-year outlook, revenue in Japan is revised to plus 7.2%, and revenue in Europe, the US and Australia is revised to a range of minus 3.9% to minus 2.9%.

Adjusted EBITDA margins for Staffing overall are expected to be approximately 5.9%.

This concludes my presentation. Thank you.

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Forward-Looking Statements

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