

**This is an edited version of the English translation of the Q3 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 Q3 FY2024 Earnings Call**

### **February 12, 2025**

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**Mizuho:** Welcome to the Recruit Holdings Q3 FY2024 earnings conference call.

This call is the simultaneous translation of the original call in Japanese, and translation is provided for the convenience of capital market participants 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 Q3 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, followed by a Q&A session.

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

**Jun:** Hello everyone. Thank you very much for your time today. Before I take your questions, I would like to summarize the financial results presentation that we released today.

Among the 4 highlights discussed in the presentation, the first one is the consolidated results for Q3.

As you are aware, starting next fiscal year, HR Solutions in Matching & Solutions is scheduled to be shifted to HR Technology. In advance of that, we have been moving the job advertising service within HR Solutions to Indeed PLUS since the end of January last year.

As a result, revenue in Matching & Solutions overall decreased. However, revenue in HR Technology and in Japan Staffing increased. And consolidated revenue increased 3.5% to 896.9 billion yen.

We would greatly appreciate it if you could revise your financial and valuation models in preparation for the segment changes taking effect next fiscal year.

The second highlight is the revised full-year guidance for this fiscal year. Based on the results for Q3, we have now revised it to a single figure, at the upper end of the range of the revised guidance from November.

Third, regarding the results of HR Technology, US revenue for Q3 on a US dollar basis increased year on year in line with our expectations even though the number of open jobs continued to decline year over year.

The rate of increase in revenue per paid job ad exceeded the rate of decrease in the number of paid job ads due to continued monetization progress.

Quarter over quarter, Q3 revenue decreased, as hiring activities moderated due to the expected typical holiday seasonality.

Our outlook for Q4 is based on the assumption that the trend of job postings in the US labor market in Q4 remains unchanged.

While the outlook for Japan and the Rest of World on a US dollar basis has been revised lower compared to the November outlook, most of this revision is due to our assumption that US dollar would be stronger than expected in our Q4 assumptions.

We will provide our market outlook for the next fiscal year in May, when we announce full-year financial results and guidance.

Fourth, update on share repurchases. The largest share repurchase program to date, which began in July last year, was completed on February 7.

We will appropriately consider a new program, taking into account our investment capacity, the stock price level, market conditions, and the forecast of our financial position.

I will now take your questions.

**Mizuho:** We will now take your questions.

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

**Mizuho:** First of all, Goldman Sachs Securities Munakata-san. Please go ahead.

**Munakata:** This is Munakata from Goldman Sachs. Thank you for this opportunity. I have two questions, and I'm going to ask questions altogether.

First is about HR Technology. In the US market, monetization-related efforts have made progress, and unit price growth rate increased while volume rate declined.

And I believe the trend continues to be the same from Q2, but I would like you to give us some more color on it. For example, as you talked about in the previous conference call, urgent hiring label and matched candidates. Are those functioning or are there other factors?

If possible, can you please talk about the change in how the volume and the unit price movements differ from that in Q2?

And my second question is your management structure from April. I have taken a look at your release. So Arai-san is going to become CFO and Executive Vice President. Congratulations! When it comes to strategy decision making, the speed and relationship with the capital market, will there be any changes in that regard? I would appreciate any information available at the moment. Thank you.

**Jun:** Thank you for your questions.

To your first question, as you said, your understanding is correct. We have been continuing our existing initiatives. From this Q3, there is nothing new. But as you said, urgent hiring label, candidate targeting and matched candidates are the efforts that we've been making steadily in order to appeal to customers.

And as I mentioned in the beginning, Q3 seasonally tends to have weaker activities, especially I am referring to the US market situation. But I believe we were able to make good efforts despite those circumstances. A lot of people are already wondering what is going to happen next year and if the market condition would change, but that's that. We will continue to think about what we can do, what kind of good services we can offer with added value.

That's what we will be steadily thinking through. We will be building on what we already worked on so far.

I wish I could tell you what percentage for which item, but the situation continues to evolve, and the changes from Q2 are closely interrelated. The number of clients and number of jobs continue to change.

So it is difficult to give you a concrete number, but the volume is declining overall. However, the increase in the unit price is more than offsetting that trend.

And also, to your second question, my title is going to change, but that is not really going to affect what I do as my duty in Recruit. Our stance is that our title does not affect what we do.

In 2016, I joined the company, and our mission has been consistent, which is how we can continue to enhance the value of Recruit Holdings. I will continue to focus on enhancing the value of the company so that you can better evaluate and appreciate the value of the company, and that's what I'm going to pursue.

So my job is going to be largely the same, and I will be doing them at the same speed, but I'm hoping to accelerate some of them and also I would like to contribute to the company, not only for the company.

Like yourselves, I was working for a financial institution, so I am hoping to become a role model for those of you who may start working in the business world after working in the financial institutions. That's the performance I'd like to present going forward.

**Munakata:** Thank you very much. Yes, I will learn from you, and I will look forward to it. Thank you.

**Mizuho:** Thank you very much. So next, Nomura Securities Oum-san, please.

**Oum:** Thank you very much for this opportunity. I'm Oum from Nomura Securities.

So first is the guidance for HR Technology. Your accuracy of the revenue is very high, I think. At the beginning of the year and the mid year revision. And this time, the change was only \$73-74 million, so it remains pretty much unchanged. But what is the reason? So macro economy and your internal measures, your forecasting is becoming more accurate?

Or the revenue linked expenses are adjusted, and that is why you have this number? Or why is your forecast so accurate now? If you could give us your line of thinking, that is my first question.

My second question is about buyback. So you consider various factors. You mentioned various factors. Of which, which one are you watching the most or not deciding because one factor has not materialized, any particular element?

**Jun:** Thank you very much for your first question. Thank you. I take it as a praise.

Our May guidance, it was a range, and in November, it was still a range. Our floor was raised in the November range. This time we came down to a single number and to the higher end of the range. So we are trying to meet this number in the range. The foreign exchange goes up and down, which is uncontrollable, but our guidance, our forecast, in the US and Japan and in other areas, we are capturing and monitoring the latest information very frequently.

So that is what we do internally. And if something happens, we try to communicate to you as soon as possible. For this fiscal year, Mr. Idekoba talked about this in the very beginning, the environment and the number of jobs. We said it is expected to decline, which turned out to be the case.

So our guidance was developed based on that forecast, especially in the US, and this remained unchanged, and that is why we came to this point.

And Japan, there's a shift to Indeed PLUS. So this was something we can control to a certain extent. The shift may have been a bit slower than the initial anticipation, but it is in line with our plan, basically.

And in Europe and other areas of the world, like the US, the initial forecast has been the case till the end of the year, and so our view on the market did not change or waiver, and that is why I think we were able to do this.

Second question. It's not that any particular factor has not materialized. We're thinking of what will happen next year, and as I mentioned in the past, what kind of investment or ways of spending money will enhance our value the most. We think from that perspective.

Strategically significant M&A may not happen in the short term, but if there is something that can enhance our value in the medium to long term, we will consider them. And if we do not have such deals in a timely fashion, we will consider share buybacks.

And the percentage is quite low now, but our share is partially still held by Japanese business companies, although the proportion is declining. And those companies may decide to sell our shareholdings. So at those timings, we will consider what will allow us to use money in the most effective and flexible fashion.

So we said we will do buybacks until July. But two big deals were materialized with ToSTNeT-3. And at the end of last week, we were able to complete this earlier than originally anticipated and so the amount and the length may change accordingly.

In May, we said what would be the best for us going forward in the next two years, we need to, want to bring the cash and cash equivalents to the optimal level. So we will think what we need to do to make that happen.

We are looking very meticulously in a fine grained fashion. Thank you very much. I hope this answers your question.

**Oum:** Thank you, Arai-san.

**Mizuho:** Next is SMBC Securities Maeda-san. Please go ahead.

**Maeda:** Thank you. I have two questions.

First is Indeed PLUS. It has been a year, so what has been the impact? HR Technology in Japan business, how much impact have you had up to this Q3? Can you also give us numbers to explain? That's my first question.

And secondly, the labor market situation. At the beginning of the fiscal year, you were saying that the market will recover in the next fiscal year, and you will be shifting your management towards that change.

In this Q3 and Q4, can you please talk about your active investments? And if possible, what is your plan for the next fiscal year? I would also appreciate it if you can include accounting items as well as numbers. Thank you.

**Jun:** Thank you for your questions.

Japan business, as you can see, HR Tech, Indeed PLUS is where the revenue is shifting to. At the end of March, New Graduates business will remain but everything else is going to be transferred to the HR Technology Indeed PLUS business.

That is a determined and announced path, and we have been making progress. Based on Japanese yen, how much would it be? Well, compared to the initial expectation, I think we're largely in line.

Perhaps the progress is weaker, but compared to FY2023 in terms of revenue in HR Tech, when you look at Japan revenue, I think about 60% is the size of growth, and the majority of that is coming from Indeed PLUS, which is currently under HR Technology.

So there have been some fluctuations in the number, but they are largely in line with our anticipation on a full-year basis.

Of course, we need to promote understanding of our clients so that we can encourage them to use more, and that is going to bear fruit going forward. So this shift is not the end, but we need to focus on growing it, and that is the critical part.

So from next fiscal year, as HR Technology, we will be expanding the Japan business, and we're looking forward to seeing it.

That's to your first question. And your second question was a shift in the management or capital or our investment.

Well, as I mentioned earlier, when we have a better economic situation, we will be too late to hire engineers when that already has happened. So it is important to take little steps to improve efficiency of our management that will make us adaptive to the changes in the environment. So that's what we will continue to work on.

And advertising expenses, we will be carefully looking at the situation to decide to whom we should advertise. And we are thinking about that in each market. When we announce the full year results in May, and when we provide you with the outlook on the margin, I think I will be able to give you some more color on this topic.

We have made our best efforts in this fiscal year, but when it comes to what we will be doing, where we will be investing in next fiscal year, we hope you can wait until the May session.

**Maeda:** In this update of the guidance, can you please follow up on your policy for the advertisement expenses in Q3?

**Jun:** Well, for this fiscal year, we have not made any drastic changes.

**Maeda:** Understood. Thank you.

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

**Watanabe:** Thank you very much. This is Watanabe from Mito Securities. I have two questions.

Regarding the HR Technology US dollar-based, US business, you mentioned seasonality. So on a year on year basis it's plus 4.9%. So, rather than absolute numbers, it is a 4.9% improvement year on year. Is this a satisfactory number? That's my first question.

Second question, in HR Technology, recently generative AI related topics are now drawing attention. Will you utilize generative AI to do your business without increasing headcount? We would like to see higher revenue without increasing people. If you have any progress or anything you could share, I'd appreciate it. Thank you.

**Jun:** Whether we can be satisfied with the result is hard to say from our standpoint.. But the revised range -- the guidance in the range we issued in November, this time we are in that range, so we are in line with our expectation.

So as you rightly mentioned, Watanabe-san, including the seasonality. So compared to the same term last year, it is 4.9% higher. But from the second quarter onward, it is minus 6% on a US dollar basis. So it is down Q-on-Q, but we are up 4.9% year-on-year. So I think we are putting up a good fight in the circumstances.

And to your second question, what is the most effective way of using our money, we are thinking hard. It's not to make our business easy. We are thinking more about the users, our clients. More effective, more convenient product for our users and clients, that's what we want. And as a result, if we can, if that allows us to work more efficiently, that will be great. So this is what all of us think, us and other companies, competitors as well. And I think there are many ideas. The most important thing is the users, the job seekers, to improve the convenience of the job seekers and our business clients, corporate clients to hire quicker. We hope that will be possible with our new tools. And as a result, we may be able to do our business easier. But that is the second or third priority. Thank you. I hope this answers your question.

**Watanabe:** Thank you.

**Mizuho:** Next is Mizuho securities. Kishimoto-san, please go ahead.

**Kishimoto:** This is Kishimoto from Mizuho Securities. Thank you for this opportunity. I only have one question.

About the stock compensation expenses, I think it was \$550 million, but that has been downgraded to \$520 million. So compared to the expectation at the beginning of the year, has there been lower headcount, or has there been any revisit to this cost itself? So can you please explain the background of this change? Thank you.

**Jun:** Thank you for your question.

Developing these numbers is difficult, and there are multiple factors, including the change in the number of headcount and obviously, as a basis, we need to look at the performance. There is a constant update on this type of number.

\$30 million change from the initial number, I think that is within the range that we expected at the beginning of the year. And there have been multiple changes to what we anticipated at the beginning of the year.

So based on the changes of headcount or performance, we will be updating this number constantly. But of course, when this number is doubled or reduced by half, we would need to be responsible for explaining it. But if this is the change that we're looking at, \$30 million change, this is within the anticipated extent.

**Kishimoto:** So can I assume that you have been able to hire the necessary headcount, and this is just a small gap that you're experiencing?

**Jun:** Yes, exactly regarding the number of personnel, we have already made efforts. And we have not made any drastic adjustments, other than the change that we made twice already. And it is not that we are falling short of what we had to hire.

**Kishimoto:** Understood. Thank you.

**Jun:** Thank you.

**Mizuho:** If you would like to ask your question a second time, we would like to welcome them. So Irisawa-san from Tachibana Securities, please,

**Irisawa:** Hello. Thank you very much for this opportunity.

So I have a question on the Marketing Solutions, so the trend of each business remains unchanged, I understand, but the interest rate or the prices are rising. So by business area, are you anticipating any changes going forward? Could you follow up on that?

And the other question is SaaS business impact. So in the Marketing Solutions, revenue increased 7%. You are explaining that in each business domain. But is this a big enough impact, including the direction you're moving into? If you could elaborate, please. Thank you.

**Jun:** So to your first question, as already announced, the environment and the trends are not that different. It is not changing that significantly. So we think we can achieve the numbers as we have planned, which we have announced. So there are some, the unit price remains high and those individual factors, but basically no change in the trend from our initial forecast.

Now the SaaS business impact. So Marketing Solutions has revenue of over 500 billion yen, so the impact on revenue, how much increment we can enjoy in revenue and how this impacts our other verticals, are things to consider. But it has positive impacts on each vertical, that I think is the bigger factor, that is the value of SaaS business.

So in the short term, as I've been mentioning, it's not so much increasing the SaaS revenue, SaaS business revenue, but it's more about how to increase the satisfaction of our business clients and help the clients increase their sales and reduce their costs. So if we can do that, it will contribute to each vertical and to the overall revenue.

So increasing SaaS revenue, to increase the revenue of the Marketing Solutions, that is secondary. Rather the most important point, priority is to help the revenue increase, the profit increase in each vertical, in each client.

**Irisawa:** Thank you very much. So the impact on each vertical can be reflected in numbers? Can it be quantified? Will it be reflected in numbers?

**Jun:** SaaS apps have been introduced for quite some time, so the more amount that we handle, the higher the client's revenue, profit will be. So if our application is used, the clients will be able to conduct their business with less staff, which means higher profit. So we can contribute to higher profits for the clients. So the vertical profit is already increasing in those clients that understand the value. So we are trying to push this further.

**Irisawa:** Thank you.

**Mizuho:** Next is Nomura Securities Oum-san, please go ahead.

**Oum:** Thank you. I have a follow-up question regarding Indeed. You have been continuing tests of various products. In these three months has there been any increase or an expansion in scope? And as a result of the test, have you discovered any improvement in the customer experience value? I'm interested in learning such progress.

My second question is Indeed Europe, which will be included in the Rest of World, you disclosed for Japan and the US, they are very clear. But when it comes to other regions, what is the progress against the plan? Can you please give us some follow-up response? Thank you.

**Jun:** To your first question about testing, they can be small, they can be large. I think I said this before, but there are many things ongoing in parallel to find out what will be attractive to our users, what they would appreciate. As a result of expansion, we sometimes find it to be less attractive or more attractive.

In these past three months, well I think I responded to Munakata-san about this, but we haven't had anything that's new and innovative. But what we've been doing is to continue to work on this steadily. New services, new initiatives. If we have any updates regarding those, I will be happy to talk about it in our May announcement. But we don't have anything innovative and new. But I think it's better to assume that we haven't had such changes.

And when it comes to the Rest of World, we have Europe and Canada. They account for the majority of this portion. The number of job trend follows the US, so it is not that we have a very favorable market condition but each country is trying to overcome challenges to move ahead.

So based on local currency, the current progress is largely in line with our initial expectations. So we are not overly worried, but we will be developing a plan for the next fiscal year and we've been discussing whether we should look at those markets in the same way as the US. In the next 1 to 3 months, we will be putting that together and that will be shared with you in May. I appreciate your patience until then.

**Oum:** Understood, thank you.

**Mizuho:** Thank you very much. Nagao-san, please.

**Nagao:** Nagao from BofA Securities, I have two questions. First, is HR Technology business, EBITDA margin, your view, your thinking on EBITDA margin? Not right now, but in the longer term, is the HR Technology business still in the investment phase? Of course, you're taking measures on the site, but are you already in the phase where you can capture the profit sufficiently? Looking at the margin trajectory from next year onward, which phase is HR Technology in right now? If you could touch on that point first.

My second question is about Matching & Solutions business, especially in the Marketing Solutions. 35 to 40% in the medium term, you said. So three quarters into this year, to improve the margin further, what kind of measures will you need? So if you could update us on your strategy, thank you very much.

**Jun:** Thank you for the question. So your first question. Mr. Idekoba can talk about this in more actual, real terms in May, when we announce our results, but capturing, harvesting profit? No, we are far from that.

So if Mr. Idekoba says we are harvesting our profit, then I would not be in this company. We can do more. So we will continue contributing, helping companies do better. So we are at the starting point, but it's not that we will intentionally reduce our margin. Compared to a few years ago, the revenue is much bigger, so we have more scalability.



So we will continue investing in a reasonable fashion, hiring people or developing new things. But such investment will not push down the margin that much, but we will continue trying things.

There will be failures and successes, maybe more failures than successes. But what we have to do as a listed company is enhancing value. We will continue being aggressive on that. But we will not hold ourselves back from doing anything because we want the short term margin to be a certain level. No, we will not do that.

We will continue being ambitious to become bigger. Then you may think we may be ignoring margin, but we understand our position as a listed company and aim for further growth. If you could understand like that, I'd appreciate it.

**Nagao:** Thank you.

**Jun:** So I hope you could have high hopes for us.

And next, Matching & Solutions. This year, we are forecasted 30%. And as I mentioned in our earlier disclosure, this is before the deduction of the corporate overhead expenses. So in FY2024, we will have our pro forma numbers, keeping the conditions unchanged in April. So we can announce the margin after the allocation of corporate overhead costs and show how much we can increase from there, like we did last May. We will increase our revenue and improve our efficiency.

So those two levers, how we grow in which vertical, and how we push for higher efficiency in each vertical and as overall, that will be the levers.

So in HR Technology, we talked about AI, how we can improve our efficiency and automate and how this can be incorporated into our process. Once we realize that, we can improve our internal productivity, and have our customers understand us and improve client stickiness to our business.

So if these go well, margin will be more visible. But as we will explain in May, what we use and what we aim for, I hope we can say we will do this and that which will improve our margin. We are preparing all the information. I hope you could stay tuned. Thank you very much.

**Mizuho:** Thank you. We answered all of the questions - let me conclude the session. Thank you very much for joining us today.

**Jun:** Thank you.

## **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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