**This is an edited version of the English translation of the Q4 FY2024 sell-side follow-up meeting which was conducted in Japanese. The Q&A session was translated from Japanese using an AI tool and subsequently edited for clarity.**

**Recruit Holdings Q4 FY2024 Sell-side Follow-up Meeting**

**May 9, 2025**

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**Please refer to the presentation slides for the earnings results call.**

**Arai:** Thank you very much. Actually, I initially wrote down what I was going to talk about today.

However, if I did that, I would end up talking almost entirely by myself. So, I prepared a summarized version, which is what I presented as a summary today.

This is the actual material I created, and it includes various points I wanted to convey. However, it also contained a lot of mathematical elements, which I significantly cut down during the earnings call.

Therefore, while looking at this chart, I would like to talk about what I am focusing on and what I consider important. Of course, I will also answer any questions you may have. I will try my best to explain things clearly while referring to the numbers.

**Slide 24**

Regarding our results, as you can see, and as detailed in our financial statements, our revenue components are approximately 1 trillion yen in the US, 1.7 trillion yen in Japan, and slightly less than 900 billion yen in Europe and Australia.

However, when it comes to profit, the contribution of our US HR Technology business is significant. Although we don't disclose specific figures, we are already at a stage where we are earning more in dollars than in yen.

On the right side of this chart, we are showing gross profit. The gross profit margin on this revenue is approximately 60%. The cost of sales, which accounts for the difference, is almost entirely from our Staffing business.

In Staffing, for accounting purposes, when we bill our customers, the amount includes the salaries and wages paid to the temporary staff. So, salaries and wages paid to temporary staff are recorded both as revenue and cost of sales. This is unavoidable from an accounting perspective.

The cost of sales is calculated by directly deducting those salaries and wages. So, money that we don't actually touch is included in our revenue, which is somewhat distorted.

On the other hand, businesses like our HR Technology segment and MMT have gross margins in the mid-90% range, with almost no cost of sales. In that sense, over 90% of our consolidated cost of sales comes from the Staffing business.

Actually, this way of looking at gross profit aligns with how we view our Total Addressable Market (TAM), so I consider this gross profit figure quite important. At the same time, the percentage of margin against this gross profit, which is shown on the next page, I believe accurately reflects the reality.

**Slide 25**

The chart on the left side of this slide shows what we generally refer to as adjusted EBITDA.

In parentheses, it says EBITDA+S, which, as you know, means we have added back stock-based compensation. In other words, it represents EBITDA before stock-based compensation.

We originally changed to this concept in 2021. When the stock-based compensation plan was created at the beginning of the 2021 calendar year, we decided to add it back because it's a non-cash item. This is the current basis for our adjusted EBITDA.

As some people find it confusing, we are using EBITDA+S this time. If you look at the very bottom for fiscal year 2024, you can see a figure in the 30% range.

This is the gross profit margin restated, and if you look at it, I think you'll see figures that suggest we're quite a technology company. I personally believe that mathematically, this probably represents the actual situation.

While we will continue to discuss consolidated margins, such as the ordinary margin on revenue being around 19.1% or 19.8%, I think looking at these figures is probably more appropriate.

At the same time, we have received numerous comments regarding the pros and cons of adding back stock-based compensation and the difficulty in understanding it. Therefore, on the right side, we have also presented the ordinary adjusted EBITDA figures that we used until fiscal year 2020. We will probably be looking at both of these going forward.

We will continue to present the adjusted EBITDA on the left side. However, considering the confusion it might cause and whether to think in terms of cash flow or profit margin (in this case, looking at the personnel expenses of the HR Technology business on the right-hand chart, as it takes that into account), if you believe that whether we pay in cash or stock, cost is cost, then the right-hand chart makes more logical sense.

We would like to gradually converge on which basis we will use for our discussions, taking into account your feedback in the future. That's what we are thinking. In any case, cost improvements are progressing across various areas, so the graph should show an upward trend.

**Slide 26**

The next page presents another concept: Non-GAAP operating income. It has been quite some time since we acquired Indeed and then Glassdoor. Since we are based on IFRS, the amortization of goodwill is reflected in the Non-GAAP operating income, and its margin is another important figure to consider when evaluating profitability, in my opinion.

Using operating income under IFRS includes all temporary items, so I will primarily focus on Non-GAAP operating income, along with the previously mentioned EBITDA and EBITDA+S, as the three key figures for evaluating profitability.

**Slide 28**

That's all for the consolidated discussion. Next, let's move on to the HR Technology business.

This shows the quarterly dollar-based revenue.

Revenue on a US dollar basis for HR Technology was 1.85 billion US dollars, an increase of 8.7%, which was roughly in line with our February outlook of 8.4% year over year increase. Compared to the third quarter, revenue increased by 2.6%.

As Deko mentioned earlier, data confirms that in the US, the number of paid job postings from small and medium-sized businesses has been trending weaker since the beginning of March compared to the overall job market trends in the US. Unfortunately, we were unable to detect this in February, so the actual result fell below the forecast we presented in February, reaching 1.18 billion US dollars with an increase of 2.2%.

Compared to the third quarter, this represents an increase of only 0.3%.

Regarding margins, we continue to strictly manage costs, resulting in a figure of 34.6%. However, looking at the +S part of EBITDA+S on the right, we received quite a few questions from institutional investors asking why the margin had decreased compared to Q2 and Q3.

My answer is that the accounting recognition of stock-based compensation actually fluctuates quite a bit each quarter for various reasons.

For example, if the number of employees decreases, then the amount of stock-based compensation will also decrease.

There are factors that cause it to increase and decrease. However, as you can see, if you look at the dark blue line, it remains relatively constant at around 29% on a quarterly basis

Therefore, if it weren't for the impact of stock-based compensation, I think we would have seen stable operations throughout the year.

Because of this, I've recently been thinking that looking at the figures without the +S (stock-based compensation) in EBITDA might be a better way to understand the underlying reality.

Shall we move on to the next page?

**Slide 29 and 30**

This page looks back at the history of our HR Technology business. Those who have been following us for a while may vividly recall the remarkable revenue growth and margin expansion in fiscal year 2021.

As I mentioned earlier, the highest quarterly margin within that period was 43.1%. I believe that in future phases of revenue growth, surpassing that level shouldn't be too difficult.

The reason for this is that in that year, 2021, our headcount was probably just over 13,000. However, the following year saw a rapid increase in personnel, peaking around December 2022 at over 16,000. While revenue increased, the margin declined, as you can see, due to a sharp rise in personnel costs.

We implemented the first cost reduction in March, followed by another one a year later. As of the end of March most recently, our headcount has fallen to around 11,500.

So, when we hit our peak margin, the headcount wasn't that low; it was around 13,000. After that, it exceeded 16,000, and now it's around 11,000 something. Considering costs, I don't think it's a pipe dream to surpass the previous 43% margin.

**Nagao:** Are you saying that the 43% can be surpassed on an annual basis?

**Arai:** I don't know. I don't know how long the revenue growth will continue. However, if our cost structure is solid, I don't think it's an outlandish statement even if revenue fluctuates to some extent.

As our revenue has grown this large, we can't really spend a very high percentage on advertising and promotion, even if we wanted to. There aren't that many places to spend it effectively, so I think the percentage will be limited.

Looking at the margin on the next page, as I mentioned earlier, we created the stock-based compensation plan starting in the 2020 calendar year, and that has accumulated to around ¥70 billion plus.

The amount will decrease as the number of employees decreases and increases as it increases. But if you think about it calmly, an increase in headcount leads to a larger add-back, which improves the percentage.

However, is that truly a good thing? I think looking at the figures without the +S is probably better for everyone to track the progress of efficiency.

By the way, almost 95% of the stock-based compensation comes from the HR Technology. Management in other operations also receive stock.

In terms of who receives it, it's almost entirely limited to the HR Technology business. You can assume that almost all of it is tied to HR Technology.

The headcount at the end of fiscal year 2024 is actually around 11,800.

**Slide 31**

Next, this slide probably contains the most interesting content for everyone today.

From the left, we have revenue in US dollars, then revenue in Japanese yen in the middle. And then the EBITDA margin, which is presented in Japanese yen as well, and the margin itself doesn't change regardless of the currency, so that's why it's presented this way.

On the far left, in US dollars, I'd like you to focus on the US and Europe & Others.

And for our Japan business, since it operates in yen, we'd like you to look at the figures in yen. That's why we've provided both yen and dollar figures.

Since we're using an exchange rate of 145 yen to the dollar this time, we've already incurred a 5% loss due to the yen-dollar conversion. To make things clearer, we've prepared both yen and dollar figures this time.

The green figures in the middle are pro forma numbers, and this is our launchpad. The figures up to last year don't include the Japan business, so the actual results are solid and accurate. However, for analysis, future forecasts, and understanding trends, we believe it's best to use these green pro forma figures as your starting point.

Another point here, looking at the margin on the far right, the real, or actual, margin before the pro forma adjustment is 35.9%, but it becomes 33% in the pro forma. I think many of you might assume that the Japan business dragged down the overall margin.

Since we don't distribute stock-based compensation to our employees in Japan, the profitability of our Japan operations appears lower when looking at the EBITDA+S basis.

Therefore, we want you to look at the margin before adding back stock-based compensation, which is the blue section. If you do that, you'll see that we're not really losing that much ground – only about one point-something percent – so the Japan business isn't significantly pulling down the overall performance.

The decrease in revenue from gross to net actually has a positive effect on the margin. This is a prime example of why you can't just take the numbers at face value.

Even with the revenue decrease, the increase in margin meant that the integration didn't result in a significant loss overall.

For FY2025, we will see improvement, reaching 34.5%. The increase from 33% to 34.5% is due to the efficiency improvements that Deko discussed. This means that despite the gross revenue in yen not being particularly strong, it's actually decreasing, we anticipate both the actual amount and the percentage of the margin to increase. This is probably the most significant point.

**Yoneshima**: Is the pro forma revenue for FY2024 net revenue?

**Arai:** Yes, it is.

**Nagao:** May I ask a question as well?

Regarding the yen-based revenue for FY2025, since it's Japan, I assume it's an apple-to-apple comparison. Could you explain the background for the slightly weak figure of -2.7% here?
**Arai:** Yes. We have advertising and placement. Placement is positive.

However, as a result, the negative impact of advertising can't be offset, leading to the -2.7% figure. Since placement is positive, it naturally means that the decline in advertising is larger. About 70% of the decline in advertising is due to the difference between gross and net revenue.

The majority of the remaining 30% is a more detailed matter, but the fact is that by April 1st, everything except one specific business was converted to PPC (Pay-Per-Click). The only business that hasn't been converted is our new graduate recruitment business. This business operates on a one-year cycle, so the current preparations are still based on the old system, and we will continue with the current approach for the rest of this year. That's the basic situation.

So, by this time next year, our new graduate recruitment business will also be converted to the PPC model. To be more precise, we plan to make that model change sometime within this current fiscal year. Therefore, the difference between gross and net revenue from that change should account for almost all of the remaining 30%.

Operationally, the business is progressing smoothly, and you can consider it to be roughly flat.

**Nagao:** I understand completely. Thank you.

**Arai:** Since this is the first year of integration, our primary goal for this year is to stabilize operations rather than aggressively pursue revenue growth. We anticipate further improving operational efficiency from next year onwards, and I believe revenue growth will likely follow.

However, this year Japan will be relatively low-key, with the negative growth largely attributable to the significant difference between gross and net revenue.

**Oum:** Regarding the US revenue plan, the explanation was that you would monetize to offset an approximately 10% volume decrease to achieve a flat result.

However, looking back, there was also a negative figure in the previous period, perhaps around the same 10%, and you were able to achieve 5% growth. Considering this, the hurdle for monetization seems to have increased. Are you making preparations for this period? Why is it -10% resulting in 0% this period? Or, from another perspective, you mentioned that there's a range for each business. Could the maximum range be +5%, or could it also be 0%?

**Arai:** It depends on the timing, but the fact that this March and April have seen a significant weakening in the situation is a very large factor behind the current figures. Whether this is a temporary phenomenon or will continue is one parameter that would create the range in our forecast.

If we consider how long this decline will continue, a band emerges. On the other hand, as I've mentioned before, the effect of monetization involves not only increasing the numerator but also decreasing the denominator, which has a positive impact. However, that effort gradually diminishes in its effectiveness.

So, we will strive to ensure that the effect doesn't diminish. For example, for job postings lower than average price, we can set a threshold as minimum budgets to reduce them. We talked about such strategies before.

As we set the minimum budget for monetization, the number of posted jobs will decrease, and the impact of those measures will naturally diminish. But despite that, our current scenario is that we should be able to offset this negative volume at a minimum.

The reason Japan is a bit weak and can't immediately return to growth is partly due to a pause in various investments and hiring before the reorganization, a typical reaction of not undertaking major changes before an integration. This might cause a slight lag. However, if we can effectively recover from that, we anticipate a good season from next fiscal year onwards for that business.

**Slide 32**

In Staffing, Japan's growth had sufficiently offset the negative performance overseas until last year. However, it seems unlikely that this will be the case this year, so we're hitting a ceiling. Regarding margin, I don't think we'll reach 6%, but I believe we can manage with a slight decrease compared to last year.

**Nagao:** What kind of image should we have for the margin in fiscal year 2025 when comparing Japan and overseas?

**Arai:** Margin, right. The margin in Japan itself is not decreasing. If we were to invest in systems, it might decrease, but considering only the operational soundness, it's not deteriorating.

**Slide 33**

Let's move on. This is also a business where pro forma figures are necessary. The HR Solutions segment is gone, and M&S has changed its name to MMT.

So, the launchpad is the green figure of 540 billion yen. We previously showed a pie chart once every half-year, but as I mentioned earlier, the right half, which accounts for about 50% of revenue, will drive revenue growth. That is, this area will achieve revenue growth higher than 5%, pulling up the overall figure to achieve a 5% increase in total revenue.

Regarding margin, before allocating corporate overhead costs, we achieved the 30% we had been discussing, actually 30.2%. However, when we redraw that onto the green bar, it reaches 25.4%. This is the pro forma figure.

We are saying that if we achieve this 5% revenue growth, we should be able to see an improvement of around 2.2 percentage points even this year. In the medium term, we expect this to reach around 35%.

Also, as Deko mentioned earlier, we can now discuss this Marketing Solutions business much more clearly, so I think we can gradually increase the level of detail. That concludes the business discussion.

**Slide 34 and 35**

As a result, at the consolidated level, while revenue will slightly decrease and gross profit will also slightly decrease, we anticipate an improvement in margin.

**Yamamura**: Regarding cost management, I had thought that the HR Technology business had already undergone significant personnel reductions and reached a near-limit. Where do you see room for these cost improvements? Should we understand it as coming from AI-driven automation or other areas?

**Arai**: There's a general understanding that there are quite a few areas where we can trim costs. As Deko also mentioned, about one-third of new coding is already being automated, so at least in that area, there's no need to increase headcount.

We are considering things like not needing to replace staff lost through natural attrition. When we consider various other small areas where we can make cuts, as I mentioned in the segment-specific discussion, we still anticipate margin improvement in the HR Technology.

We are told that this isn't being implemented in Japan yet, so the main impact will be in the US and Europe. While we don't provide separate figures, the fact that the overall margin is up by 1.5% means that the improvement in those regions other than Japan must be even higher, or they have to improve significantly to reach that 1.5% overall increase if Japan remains flat. So, there's a strong push for improvement there.

Since we can't increase revenue significantly in the short term, we are moving towards focusing on how to increase profit. We are implementing various cost-cutting measures in different areas, and the figures we've presented this time represent the minimum we expect to achieve.

**Slide 36, 37 and 38**

Finally, regarding capital allocation, we did quite a bit last year, spending 819.6 billion yen, and we also conducted share cancellations, so I think significant improvement was achieved in that regard.

The 450 billion yen buyback program that we started in March is still in progress. We originally planned to continue it until December, but we've already spent about 76% of that amount, so it will likely finish much sooner than December, probably sometime in June. This will naturally lead to the question of what we will do next.

We have many M&A ideas, so we will monitor whether those materialize while also observing the economic environment. For example, if the economic environment were to harm our operations, buybacks would no longer be a viable option. However, if that doesn't happen and no M&A occurs, we would consider doing another buyback. That's our current thinking.

Therefore, while our target of reaching 600 billion yen remains, we may need to be flexible depending on future economic conditions and circumstances. However, we don't currently anticipate a situation where that would be necessary.

Regarding dividends, as we've communicated, shareholder returns will take other forms, so this year we are increasing the dividend by 1 yen per share.

What I didn't mention earlier were points like how I look at gross margin and profitability on a gross profit basis, the concept of adding back or not adding back stock-based compensation, and the reasons for the negative trend in Japan's HR Technology business. These are somewhat detailed topics, so I omitted them earlier, but I thought it would be better to explain them to you today, hence this explanation.

**Q&A Session**

**Arai**: I will now take questions.

**Yoneshima**: Regarding the revenue of the HR Technology business, I'd like you to elaborate. For the US, there's an assumption of a 10% decrease, but you also mentioned in today's briefing that the second half might see a bottoming out. Is the forecast based on a bottoming out, or is it really based on a sharp 10% decline?

**Arai**: It's not a 10% decline followed by a flat trend; it's rather a gradual downward trend.

**Yoneshima**: One more point. Europe & Others is at +8%. While the Staffing business is a bit weak, the HR Technology business in Europe & Others is showing relatively good figures. What's the reason or background for this?

**Arai**: There's quite a high potential for monetization. Progress is, in a good way, lagging behind the US, which suggests there's room for growth.

**Yamamura**: This isn't about the numbers, but a follow-up on the Japan discussion. I tried to roughly map out how the analyst model might evolve by combining the HR Solutions and HR Technology, but today Deko was saying something like the monetization approach might be shifting…

**Arai**: Whether it's advertising or placement services, if we can help candidates find good jobs, that's what matters, right? If I were a candidate, that's what I would think.

The people who need our services want to land a good job as quickly as possible, so the method doesn't really matter to them, especially since they're not paying us directly.

The perspective might be a bit different for the companies. There's a difference in how they allocate funds depending on whether they pay upon successful hire or pay for advertising regardless of the outcome.

When considering hiring good people, companies might be more inclined to spend money on placement services.

This relates to the ongoing discussion about how to allocate the recruitment budget. Ultimately, the most desirable outcome is for Recruit to receive payment, regardless of whether it's through advertising or placement fees.

The same applies to the candidate pool. The resumes, or profiles, are the same. Matching based on the same information is the most efficient. Doing this together rather than separately increases that efficiency. The AI agent video also illustrates this. We provide an app to candidates, but we don't directly charge them for it.

However, the data we gather is enormous. If that leads to better matching, then it pays off for us in terms of cost. That's the underlying philosophy, in the long run.

**Yamamura:** So, whether it's advertising or placement doesn't matter? What's your vision for what happens when placement and automation compete?

**Arai**: Ultimately, even if we look at the current situation, there are people who pay for advertising and people who pay for placement, and many customers use both. So, it's not necessary for them to become one single thing. It's just a matter of how money is spent and how hiring is done. I think those two categories, or methods, will remain regardless of whether or not automation happens.

However, even in our placement business, we are advancing automation. Therefore, compared to those who operate solely with human staff, our efficiency will naturally be better, our running costs will be lower, and our profit margin will increase.

Furthermore, because we will be conducting transactions 24 hours a day, we will naturally be able to handle a large volume. That's where our winning strategy lies. However, even if you create such a mechanical or automated system, it becomes useless if there are no actual matches.

Because we possess matching capabilities, it makes sense for us to pursue automation. But even if someone just creates a mechanically valuable tool, as Deko mentioned, what makes it profitable or valuable for us is that we have job data and data related to our customers' hiring needs. He said that this is essential, and I agree.

The remaining question is how well human-driven operations can be made more efficient, and how we can overcome that bottleneck.

For example, if candidates answer questions the mechanical agents ask, then perhaps our human career advisors, who can currently handle 30 candidates at a time, could handle 60 if some of their tasks are automated. I think there's probably a balance between the upside of one career advisor being able to take care of 60 people to drive revenue, and the cost-savings of focusing only on 30 people, maybe requiring only a 0.5 employee. So, if we're prioritizing revenue growth for now, I think it makes sense to use machines to help increase the number of people each advisor can take care of. That's the kind of world we're entering.

As that gradually saturates, the next step will be to increase efficiency. Either can come first, but I think interesting developments will emerge as this progresses.

When expanding in the US, as Deko also mentioned, we will focus on areas where we can offer new and better solutions.

I think there's a huge difference between having and not having a business rooted in human interaction. I hope that those who are successfully running such businesses will leverage them, grow them, and transform them into new businesses – that's where the dream lies.

**Zhai**: I haven't been covering your company for very long, so I'm not sure if my understanding is correct. You mentioned earlier that the European business is a bit behind the US, so there's still room for monetization there. Does this mean that there are monetization methods already implemented in the US that haven't been introduced in Europe yet, and introducing them will increase the unit price?

**Arai**: Yes, that's part of it. Also, the penetration rate is still lower. So, what we were able to achieve in the US last year will likely be realized in Europe, with a slight time difference. That's what I meant.

**Zhai**: Conversely, based on what I heard, is it fair to understand that the US is reaching a point where the possibilities for further improvement are becoming limited?

**Arai**: I think the goal is to continue creating new things so that possibilities don't become limited.

**Zhai**: So, this fiscal year, there will be relatively fewer of these new things compared to last year?

**Arai:** I wouldn't say there will be fewer. We're talking about offsetting the negative impact of around 10% decrease in job openings, so I don't think we're significantly lagging behind.

However, simply repeating the initiatives that emerged last year will only result in a flat outcome. We naturally face the challenge of needing to introduce new initiatives on top of that.

Therefore, our business goal is to advance monetization efforts that surpass that.

**Munakata**: Just to confirm the previous question, you've conducted various beta tests and trials in the past, learning through trial and error what works and what doesn't, and growing based on that. Should we expect a similar process this fiscal year – an extension of that, where various things are being tested internally, and we might hear about successes or things that didn't quite work out during briefings?

**Arai**: To give you a concrete image, if we could announce something significant and new at Indeed FutureWorks in September, like a new product launch, that would be an example of what we're aiming for.

**Yamamura**: So, based on what's currently visible, you can achieve to offset the 10% decrease?

**Arai**: I believe we are also developing other things that haven't been discussed yet.

**Yamamura**: So, considering that, there's still potential for future growth.

**Arai**: Yes, and I think you'll need to follow us every quarter, as new things will likely emerge. We are working towards launching them because we believe that's necessary to offset the negative impact.

**Shen**: Thank you very much.