

Recruit Holdings Q4 FY2021 Earnings Call

May 16, 2022

Welcome to the Recruit Holdings FY2021 earnings conference call.

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

Today, we have a prepared remark regarding our business strategy and its progress by

Hisayuki Idekoba, President and CEO,
Ayano Senaha, Managing Corporate Executive Officer and COO,
Yoshihiro Kitamura, Managing Corporate Executive Officer and Head of Media & Solutions Business

Followed by the full-year results for FY2021 and the guidance for FY2022 by
Junichi Arai, Executive Officer, Corporate Planning Division.

The presentation we use today is available on our IR website.
Please refer to the highlights on the earnings release and FAQ, also available on our IR website.

Now I'll turn the call over to Deko.

1. Simplify Hiring

Hi, I am Hisayuki Idekoba, most people call me "Deko".

Slide 1-01

The past year will forever be marked in human history: we saw the ongoing fight against COVID-19, the reopening of the economy leading to competition for talent, record inflation and international conflicts. As we look forward, I believe that we will continue to face unique situations and an environment that remains unpredictable.

Slide 1-02

That said, our revenue and adjusted EBITDA for FY2021 were our highest ever.

With the outbreak of COVID-19 and global lockdowns at the start of FY2020, our revenue declined and we quickly cut costs in response. However, the global economy, especially in the US, rebounded in the summer of 2021 and our HR Technology revenue quickly recovered. But our investments, including our hiring, did not keep up with the rebound. As a result, adjusted EBITDA was higher than planned.

Looking back, considering the many opportunities for innovation that lie ahead, we should have maintained our investments in hiring tech talent to support our long-term growth.

Slide 1-03

For FY2022, we forecast another year of record-high revenue and adjusted EBITDA. This year, we plan to invest an incremental 100 billion yen in the HR Technology SBU and plan to hire close to 4,000 people. As a result of this and other investments, we expect adjusted EBITDA to slightly exceed FY2021. We intend to invest aggressively in the long term opportunity, adjusting to economic conditions as needed.

Slide 1-04

The long term opportunity is defined by our mission, "Opportunities for Life. Faster, simpler and closer to you," our focus on connecting people and companies more easily and quickly.

Slide 1-05

Our mission is carried out through the three business strategies: Simplify Hiring, Help Businesses Work Smarter, and Prosper Together. We would like to explain these three strategies in more detail.

Slide 1-06

I will begin with Simplify Hiring, the strategy of making it easy to get a new job or to make a hire.

Slide 1-07

We envision a world where getting a job is as easy as pushing a button. This vision will be accomplished by evolving AI and automation.

Slide 1-08

As you have seen in the news, AI is advancing at a remarkable pace and seems to be integrating more and more into our daily lives. Even before the COVID-19 pandemic, people were predicting a dystopian future in which many human jobs would be taken away by robots.

Slide 1-09

For decades, people have feared the evolution of AI and automation and its impact on jobs performed by humans, but we're more optimistic, and let me tell you why.

Slide 1-10

Let's look at an example from the US airline industry.

In the past, airline ticket reservations had to be made by phone or in person. These days, it is common to make reservations online. As a result, employment in this industry has changed dramatically.

Slide 1-11

In the 70s, reservation agents made up about 20% of airline industry jobs. As the number of travelers increased and as technology became more widely used, the percent of reservation agent jobs went down while the percent of customer service jobs went up. Overall, during this time, employment in the US airline industry has grown and is expected to continue to grow.

With technological disruption, jobs will be lost, jobs will change, and many new jobs will be created.

In fact, many companies that successfully integrate AI and automation into their operations are able to improve productivity, increase revenue and create new job opportunities to support their evolving business.

Slide 1-12

We do not believe there will be widespread unemployment in the next 30 years.

It is hard to predict what will happen after that. What we do know is that over the next 2 to 3 decades there will be a shortage of workers, including essential workers such as truck drivers and nurses. The reason for the shortage is the aging workforce and new views on work-life balance.

Slide 1-13

Rather than worrying about AI and robots taking jobs from people, it is extremely important for people to be open to new ways of working as our society drastically evolves. We believe society will benefit more because of the collaboration between AI and humans, not just humans working alone.

Slide 1-14

With this future in mind, we believe our efforts to Simplify Hiring are becoming more and more important around the world.

Slide 1-15

The way I think about making job search and recruiting easier and more convenient is like having a personal advisor assigned to every person in the workforce.

People often say “I don’t think my current job is right for me, but should I quit?”. What if they had someone who knew their interests, skills and more? This person could suggest: “There’s a company that would like to hire you and they are offering a better salary and benefits.” People looking for something different would have more courage to take on new opportunities.

Slide 1-16

We have not yet made it that easy to get a new job or to make a hire, but we are starting to see results. Through our efforts, the number of measured hires per minute on the platforms in the HR Technology SBU has more than doubled since before COVID-19, to an average of 20 hires per minute.

Slide 1-17

Looking across all of our SBUs, not just HR Technology SBU, we see an opportunity to utilize technology and matching beyond just job advertising to all of the HR Matching market, which is estimated at 236 billion US dollars.

Take for example the temporary staffing and placement businesses. Today, workers in these businesses spend a lot of time doing manual tasks such as checking resumes and scheduling interviews. We can make this process better with technology.

Slide 1-18

We have been testing a collaboration between our Staffing SBU and the HR Technology SBU, with Indeed Flex, a technology driven temporary staffing solution. This collaboration helped Indeed Flex more than triple its revenue year over year. Going forward, we will continue to challenge ourselves and look for new ways to disrupt the temporary staffing business using technology.

In the Media & Solutions SBU, as a pilot, we have been working on combining the placement business in Japan with Indeed's matching technology. This pilot has shown a significant increase in the number of interviews between candidates and companies.

By streamlining many of these manual processes with technology, those involved in hiring will be able to spend more time on the many tasks that only humans can do.

Slide 1-19

It’s our responsibility to evolve HR Matching across all SBUs, and as a result, make it easy for everyone to find jobs.

Thank you. Now I’ll pass to Yoshi.

2. Help Businesses Work Smarter

Slide 2-01

I am Yoshihiro Kitamura, Head of Media & Solutions Business. I would like to share with you an update on our progress to Help Businesses Work Smarter.

Slide 2-02

Do you know how many operational processes are required to operate a store?

Although there are differences between stores that provide services and stores that sell products, restaurants and beauty salons, for example, require at least 50 operational processes to operate. Of these, 30% to 70% of the time spent by owners and staff is on back-office operations, such as hiring, shift and labor management, marketing activities, store maintenance, and sales and expenditure management, which do not directly involve customers.

It is inefficient and difficult to manage as each of these processes and data are typically disconnected, often managed in separate systems or even paper-based. Aggregating these paper-based data and analyses are

manual and inefficient. Those back-office operations which take time and effort are a psychological obstacle for many business owners.

Slide 2-03

For many years, we have been providing HR and marketing platforms to small businesses through SUUMO, Hot Pepper Beauty, Rikunabi, Townwork, and so on, and through our strong customer relationships, we have seen our business clients struggle to deal with the challenges of operating a business and wondered how we could help them solve those problems. This is how Air BusinessTools were born.

Air BusinessTools, is a bundled suite of SaaS solutions that digitally connects dispersed and analog business processes. With Air ID, by connecting the data of separate operational areas, business clients can use multiple Apps and web services to operate more efficiently and improve productivity.

Slide 2-04

I'd like to introduce one example of our client experiences. At a restaurant that values customer service, due to the lack of staff during the pandemic, staff could not fully respond to customers' requests, with customers waiting a long time to order and not receiving the expected level of service, and the customer complaints became a major issue.

In order to solve this problem, the restaurant began using AirREGI ORDER, a self ordering system. As customers place orders on their smartphones, there is no waiting time, no loss of opportunity, and as a result, the average sale per customer has increased. In addition, 3 people can now handle the work that previously required 5 people. And by making orders digital, order mistakes have been reduced. It has become possible to spend three times as much time on customer service as before, and the quality of customer service has improved significantly.

Slide 2-05

Going forward, we also aim to further expand into financial services. For example, we launched Air CASH in April, allowing business clients to receive cash in exchange for their expected Air PAY accounts receivables made through Air PAY. This allows businesses that have immediate cash needs to support and grow their business to make needed investments.

We estimate that there may be roughly 2.9 million business locations and stores in Japan at which operational support SaaS solutions such as Air REGI and Air PAY can be used. And now we also are aiming at another big market, financial services for SMEs. We will communicate more about this opportunity and our business transformation in the future.

Building an ecosystem that supports all aspects of a business's operations, including financial services, is our long-term strategy and we believe that this strategy will take some time to monetize. While building the ecosystem, the number of registered SaaS solution accounts in Japan is the most important KPI. In order to increase the number of accounts, we will focus on expanding the range of SaaS solution offerings and proactive marketing activities.

Slide 2-06

In FY2021, we launched AirWORK ATS, a recruitment management tool, and AirWALLET, an app for individual users to manage digital accounts and payments in which Coin+ is embedded.

Slide 2-07

AirPAY continues to be a driver of the increase in the number of accounts with 281,000 accounts at the end of March 2022, 33.6% growth year-over-year.

The number of AirWORK ATS registered accounts at the end of March, 2022 reached more than 380,000, an increase of over 100% year over year, progressing on track with our plans.

Slide 2-08

“Opportunities for life”

The ecosystem that we are aiming for supports all aspects of business operations, including financial services, and will solve problems that business clients are facing. We believe that this is what we should do to help businesses work smarter, to improve performance and productivity of clients’ businesses.

We hope to lead the improvement of productivity and the economic revitalization of all of Japan by supporting the business operations and business creation that each individual envisions. In order to do so, we will continue to provide better solutions and work hard to build an ecosystem that helps achieve this.

I will now pass to Sena

3. Prosper Together

Slide 3-01

Hi, I’m Sena (Ayano Senaha) COO and director of the board of Recruit Holdings.

I would like to speak about Prosper together, the third pillar of our corporate strategy introduced last year. This pillar leverages Recruit’s strengths to drive sustainable growth, creating shared prosperity for all stakeholders.

Slide 3-02

Delivering social value has been a part of our DNA since the foundation of the Company in 1960. Last year, as we were building our new management team, we decided to take a step further to do more for our future. With Recruit Group growing to become a global HR Matching business leader, we felt strongly that we must use our increasing influence and capabilities to achieve a greater social impact. As such, we established clear measurable goals in environmental, social and governance categories within an ambitious timeframe.

Slide 3-03

Firstly, our social impact goal is to shorten the time it takes to get hired by half, by FY2030. And we aim to do so through making job matching significantly faster.

Slide 3-04

Nearly 40% of people could fall into poverty if they do not have an income for three months. Having a job is one of the most important facets of life for many people. Therefore speed matters when it comes to getting a job.

Slide 3-05

Over the past year, we worked to better define job search duration on Indeed. Based on the data of those who got jobs on Indeed, while it varies between individuals, we found that currently, it takes approximately 15 weeks until most job seekers get hired.

In addition, in a global labor force survey conducted across 30 countries, nearly half of the respondents reported that their job search duration was longer than the amount of time that they could cover their personal expenses.

Going forward, we will continue to advance our products to support job seekers by, for example, identifying those who are urgently seeking jobs, and proactively supporting them.

Slide 3-06

Job seekers from underrepresented or vulnerable groups face barriers when searching for and securing a job. These barriers are difficult to remove through improving matching efficiency alone. This is why we are also committed to helping 30 million job seekers facing barriers get hired.

For example, having a criminal record. In the United States, more than 70 million people, or 1/3 of the adult population, have a criminal record, and the unemployment rate among this population is about five times above the average. However, if people with criminal records can find a job within two months of being

released, the likelihood of returning to prison drops significantly. We have started new projects to help people with criminal records get jobs, and are already seeing progress.

A criminal record is one of many barriers that need to be addressed. Going forward, we will continue to identify and break barriers to promote inclusive hiring.

Slide 3-07

Our third and fourth goals focus on gender parity, and we are starting from within.

Value creation produced by empowered employees is a management priority. We can only continue to innovate by betting on the ideas that arise from a diverse employee base. To support this, we will aim to achieve gender parity at all levels, and we have made much progress in FY2021.

For example, the number of women in senior management positions, consisting of CEOs of our major subsidiaries and executives of each SBU, increased from 10% to 21%. Also, in the boardroom, we will propose candidates for election at the Annual Meeting of Shareholders in June. Once approved, women will account for 27%, up from 20% in the previous year.

Moving forward, it will become ever more challenging to move the needle towards parity, but we will continue to drive forward with our three-year target developed by each SBU.

Slide 3-08

Our fifth and final sustainability goal focuses on climate action.

We expect to have achieved our short-term goal of reaching carbon neutrality across our own business activities in FY2021.

We are accelerating our path to achieve carbon neutrality across our entire value chain by FY2030 by having set a three-year reduction target that aligns with an international framework. In addition, the three-year targets focused on climate action and greater diversity will bear incentive goals effective FY2022 for the Company's executives who lead actions in each of its ESG themes.

Slide 3-09

Honestly speaking, these are all very lofty goals and it won't be easy. But together, we can make it. We look forward to sharing this journey with you.

Now, I will pass to Jun.

4. Consolidated Results of Operations for FY2021 and Financial Forecast for FY2022

Slide 4-01

Hi, I am Jun Arai.

Today I am pleased to present our consolidated financial results for FY2021 and guidance for FY2022. All comparisons in my remarks will be year over year unless otherwise noted.

Revenue from our HR Matching businesses is subject to rapid changes in business clients' hiring demand and job seeker activities, which may both be impacted by many factors, including changes in global economic conditions. And in a rapidly changing online business environment, our financial performance is subject to a number of factors and uncertainties, making it increasingly difficult to provide financial forecasts.

Our FY2022 guidance is based upon the assumption that business clients' hiring activities will not diminish significantly due to a rapid deterioration of the economic environment in the global HR Matching market.

Regarding our guidance assumptions for the business environment in Japan, we assume that potential reimplementations of various COVID-19 related restrictions or changes in global economic trends will not impact business clients' activities significantly.

Slide 4-02

This transcript is provided for the convenience of investors only

Here is our progress over the past three years on consolidated revenue, adjusted EBITDA and adjusted EPS.

Beginning with FY2022, we have changed the adjustment items for adjusted EBITDA and adjusted EPS, which better allow them to be globally comparable financial indicators. We are now including share-based payment expenses as an adjustment item for adjusted EBITDA and we are excluding amortization of intangibles from business combinations for adjusted EPS.

In FY2019, the last pre-pandemic fiscal year, consolidated revenue reached almost 2.4 trillion yen led by 30% revenue growth in HR Technology, with a consolidated adjusted EBITDA margin of 13.6%.

Our progress in FY2020 was disrupted by the pandemic. During the first half of the year, all segments were significantly impacted by the COVID-19 pandemic and we managed operating expenses strategically and flexibly, however, during the second half of the year, HR Technology rapidly recovered. In FY2021, the significant growth in HR Technology continued, leading to strong financial performance.

FY2022 is a year in which we will continue to generate strong cash flow and aggressively make upfront investments as the next step toward achieving long-term growth.

Slide 4-03

Next, I will get into more detail about our FY2021 actual results.

Consolidated revenue reached a record-high of 2.87 trillion yen, an increase of 26.5%.

Adjusted EBITDA increased 98.4% to 479.3 billion yen based on our prior definition, without adjusting for share-based payment expenses. This was also the highest ever, and exceeded the upper end of our guidance of 470 billion yen. Adjusted EBITDA margin was 16.7%.

Slide 4-04

This performance was led by HR Technology's significant revenue growth of 91.6% on a US dollar basis and a significant increase in adjusted EBITDA by 338.9% due to the continued overheated hiring competition in the HR Matching market, especially in the US, throughout the year.

Adjusted EPS, based on our prior definition, including an adjustment for amortization of PPA, was 196.67 yen. Dividend per share for the 2nd half of FY2021 is 10.5 yen resulting in 21.0 yen for the full year. After using 121.6 billion yen of cash for the self tender offer in February, net cash as of the end of March 2022 was 608.9 billion yen.

Slide 4-05

I will now provide the consolidated guidance and the outlook for each segment for FY2022.

Revenue in all three segments is expected to increase, and the consolidated revenue guidance for approximately 3.3 trillion yen is based upon the outlook for each segment.

Slide 4-06

Cash flow from operating activities will increase reflecting the revenue growth, while strategic investments of approximately 140 billion yen are expected to increase expenses in FY2022.

As a result, consolidated adjusted EBITDA, adjusted for 77.5 billion yen of share-based payment expenses including the HR Technology share-based compensation program, is expected to be approximately 520 billion yen. Adjusted EPS is expected to be 170.65 yen. Annual dividends per share for FY2022 are planned to be 22 yen, a one yen increase compared to the previous year.

In the case of a sharp economic downturn, we are prepared to quickly implement cost control measures strategically as we did in the first half of FY2020.

Now, I will go through each segment.

Slide 4-07

In FY2021, HR Technology's revenue on a US dollar basis increased significantly, up 91.6% to 7.6 billion US dollars, reflecting a prolonged period of elevated hiring activity globally. Revenue growth was primarily the result of a significant increase in the number of paying clients and in the number of jobs advertised on Indeed and Glassdoor. Revenue in the US increased 88.5%, and revenue outside of the US increased 101.6%. In FY2021, advertising revenue per sponsored job in the US increased approximately 16% compared to FY2020.

Adjusted EBITDA margin based on the prior definition was 34% driven by the increase in revenue, and 37.5% with adjustment for share-based payment expenses.

In FY2022, assuming a limited increase in the number of sponsored job advertisements, we expect to increase revenue per sponsored job advertisement as we deliver more value to job seekers and employers by making hiring and recruiting processes more efficient. As a result, revenue in HR Technology, on a US dollar basis, is expected to increase approximately 10% to 20% compared to the previous year. Achieving this outlook would result in a 3 year US dollar-based CAGR of approximately 29% to 33% and we expect revenue to reach over 1 trillion Japanese yen in FY2022. Revenue from Indeed Flex, a technology driven temporary staffing online platform service within HR Technology, is expected to be approximately 2% to 3% of total HR Technology revenue in FY2022. In FY2022, we expect HR Technology revenue growth to decelerate throughout the fiscal year.

As Deko explained earlier, HR Technology plans to significantly increase the number of employees by approximately 30% from just over 13,000 at the end of FY21 resulting in increased employee benefit expenses. Along with increased advertising expenses, these investments will result in a year over year increase of approximately 100 billion yen of SG&A expenses excluding share-based payment expenses. Additionally, including the start-up costs for Indeed Flex, adjusted EBITDA margin for FY2022 is expected to be approximately 30% based on the new definition.

Slide 4-08

Moving to Media & Solutions, revenue excluding the Rent Assistance Program for FY2021 was 658.6 billion yen, an increase of 11.1%. The 15.6% adjusted EBITDA margin was similar to the previous year and adjusted EBITDA was 102.4 billion yen, based upon the prior definition. Housing & Real Estate and Beauty, which together account for more than 50% of the revenue in Marketing Solutions, and HR Solutions were the primary drivers of revenue growth.

For FY2022, revenue in Media & Solutions is expected to recover approximately to the pre-pandemic level of FY2019. A steady increase in Housing & Real Estate and Beauty is expected to continue, while Travel and Dining are not expected to recover to pre-pandemic levels. Therefore, revenue in Marketing Solutions is expected to increase approximately 9% to 14%.

In HR Solutions, we expect a recovery in the part-time job advertising service and growth in the placement service as a result of a recovery in hiring demand by business clients, particularly in the restaurant sector. Revenue is expected to increase approximately 16% to 23%.

In FY2022, adjusted EBITDA margin has the potential to be approximately 20% due to the increased revenue. However, we expect it to be approximately 15% due to the strategic investments of 40 billion yen for FY2022.

These strategic investments are specifically: 30 billion yen in marketing to strengthen HR Solutions to execute our Simplify Hiring strategy and to reinforce and execute the long-term strategy of SaaS solutions, and approximately 10 billion yen to upgrade the technology infrastructure and core systems of the Media & Solutions SBU.

The current outlook doesn't take into account the potential impact of any new Go To campaign.

Slide 4-09

Finally, for Staffing, revenue for FY2021 was 1.37 trillion yen, an increase of 15%, primarily due to a 23% increase in revenue in Europe, US, and Australia. Adjusted EBITDA margin was 6.8% based upon the prior definition.

For FY2022, revenue in Japan is expected to increase approximately 9% to 12%, while revenue in Europe, US, and Australia is expected to increase approximately 5.5% to 7% as temporary demand related to the pandemic is expected to ease in FY2022.

By continuing to promote operational efficiency, adjusted EBITDA margin is expected to be approximately 6%.

Slide 4-10

There are no changes to our capital allocation policy.

We prioritize investments for execution of our long-term strategy, such as the strategic investments of 140 billion yen planned for FY2022. Dividends for FY2022 are planned in accordance with our policy, continuous payment of stable per-share dividends. Regarding strategic M&A, we will carry out acquisitions that will contribute to executing our long-term strategy at appropriate valuations. After considering all these factors, finally, we will consider and execute a share repurchase program flexibly in consideration of our cash balance and our share price, as we executed the self tender offer in February¹ of this year.

This concludes my presentation. Thank you.

¹ The self tender offer period was from January 31, 2022 to March 1, 2022.

Idekoba : We operate in the HR Matching market which is heavily dependent on changes in the macro economic environment, and we operate internet businesses in an environment that changes rapidly and constantly. Our focus is always on maximizing enterprise value by executing our long-term business strategy, rather than short-term profitability.

We are grateful for the understanding and support of our shareholders, and capital market participants, and all of our stakeholders.

Thank you for your attention.

Question & Answer

Shen: JP Morgan Securities, Mori-san, please go ahead.

Mori: Thank you for allowing this opportunity. I have two questions. My first question is to Deko and second question is to Kitamura-san.

First question is about HR technology. Under COVID, What kind of share expansion did you experience? If you could share with me the information again, sponsored job ads per case. In the FAQ, you showed us the information. Based on that, last year's result grew by 16%. So I think it was a 70% growth in terms of number. So the number of accounts and the revenue per job ads, how did you outperform your projection? So revenue per job ads, long term upside potential. How do you see the long term upside potential? That is my first question.

Second question is about Air Business Tools, AirPAY penetration. Your 2.9 million TAM, currently you stand at around 10%. How do you evaluate your current penetration? You may have slowed down a bit due to COVID, but given the current circumstances, do you think it is sufficient this current pace or do you want to pick up the pace and accelerate further?

And PAYPAY, although a little different, had been consumer center but is now having a business version smart app. So there are players that are making big investments. If you have to compete head on, what do you think you need to do? Thank you.

Shen: Today, Deko and Arai will answer these questions.

Mori: Okay.

Deko: So first HR technology, the market under COVID. A third party conducted a survey and according to that, HR Matching market, the overall market grew by 33% year on year, and job ads and the talent sourcing tool grew by 36% year on year. That is according to the third party survey. Our revenue growth is over 100%. So our market share has increased, we think.

Now, medium to long term growth per job ads. As I alluded to earlier, ultimately speaking, revenue it's not so much the revenue per job, it's the revenue per hire. That is how we have to evolve going forward. So for the sake of calculation, this is two stage calculation but this time, revenue grew.

Because the unit price per job ads increased, but also the number of jobs increased and the increased. So the number of jobs per customer increased and the number of business clients also increased.

So how many business clients successfully hired? Of course, there were corporate clients who failed in hiring. So the job ads, it's advertisement, it's not a gamble, I wouldn't say gamble, but it is payment for posting and as HR Tech, we take pay per performance method and that is our value.

So we want the payments to be in accordance with the performance and therefore CPC(cost per click) payments to CPQA(cost per qualified applicant). To ensure that the applicants are qualified, pay when you are comfortable with the quality of the applicants. This is what we want to do and achieve.

Then the payment for successful hire that will be the direct hire, placement, 25% to 35% billing for the annual income. In terms of this per job ads, this is an advertisement style concept.

So in terms of revenue per hire, we are only billing less than 1% of the salary. We want to raise this to 2 to 3%.

Then, how will this per job number be converted. For the job failure, it will not be billed and therefore, on average will this go up or down? We think it will go up. But will it double or triple? Depends on the number of hire. In the medium term, hire or qualified application at least.

So person who the companies are willing to pay for. We want to come close to the cost in that area. And increase this 1% to 2 to 3% of the annual salary. So this is how we would like to improve ourselves.

Next is Air BusinessTools penetration, our current view on penetration. On a year on year basis, we saw more than 30% growth. Of course, under COVID, we slowed down, but still this is the result. And now expecting the recovery from COVID going forward. Dining or travel, while they slowed down, we still had 30% growth year on year. So this was a good, reasonable growth.

Going forward, rather than growing on the short term, depending on the campaign, there are companies that are showing some short term growth, but other players. But we want to focus on growing in the medium to long term. We will take a steady steps to achieve that. And PAYPAY is now launching a business service for businesses and other players, few players are now launching their service for businesses. I understand that.

But for now, according to our survey or are hearing from the front line, I do not hear that those players are increasing their market share. But our strength is not spending large marketing costs. We are not aerial fight, we want a ground fight or working hand in hand with the clients closely.

Mori: Thank you very much.

Shen: Kato-san, from CLSA securities please.

Kato: Thank you very much for this opportunity. I have two questions.

First of all, in HR tech, global matching market, this is also related to Mori-san's question. But I would like to ask about the competition here. Together with LinedIn revenue, 70% of 26 billion is accounted for and there is

a 10% increase every year. And are you and LinkedIn, do you expect the two players to be the dominant players going forward?

And do you see revenue ramping up in other emerging markets? And are you expecting a new players in the competition, whether it is a traditional service providers or is it going to be an emerging type of companies?

The second question is also related to HR technology, within HR teach, Indeed, traditional advertisement income. How much does it account for? And also in the next 3 to 5 years period, how are you going to evolve that? And other than advertisement, what kind of revenue do you expect and do you have any numerical targets? Thank you.

Deko: Regarding your first question. So out of the 26 trillion. I believe you said that we and LinkedIn account for 70% together, but I believe that is not true. The two companies do have a high market share in the job advertisement market. But am I understand your question, right?

Kato: Yes.

Deko: So conventionally over the past 3 to 5 years, what we've been saying is that from job advertisement, hiring tools market, we would like to expand into other markets. That has been our challenge over the past five years. And we included this in our disclosures this time.

But domestic hiring placement service including Recruit Agent, such company's hiring operation will 30% or 35% of the first year salary is how we bill for the services.

But the so-called recruiters have been manually working on matching in these businesses. We are trying to evolve this using AI algorithm we have been testing that over the past six months as for the number of interviews significantly increase.

What I'm trying to deliver here is that HR Matching market or hiring tools market or job advertisement is rather a minority. It is accounting for a small proportion. And placement service market is actually double the size of that.

And how we bill the clients. It's quite different here when hire is made. If we bill for every hire, we will have better monetization. And from customers point of view, there will be no waste of cost for hiring activity that may not be successful.

However, there is something in the middle as well. Maybe we can ask clients to pay if they believe they found the applicant the candidate. It's reasonable for them to be targeted.

So with that, Kind of change, We would like to go into the placement market or corporate clients. HR operations, which is a mostly manual today, could be a shift into a new digital form in order for us to increase our revenue. That is what we envision.

So it is not that we aim for extremely high market share only in the job advertisement market. And in this online job advertisement percentage, in terms of revenue, it accounts for about 90% of the total revenue which is basically the majority of their revenue today.

And how we're going to transition from here is how we recognize revenue. They change and we have been testing different options. In 3 to 5 years we do not have any clear numerical target as to what percentage we would like to achieve.

However, we are seeing increase in the number of clients. And if we can ask them to pay for the service, if they find a reasonable applicant and we are still not sure whether we can call that a HR type of business. Perhaps it is close to booking for travel and restaurant which is paying per performance type of mechanism.

Rather than advertisement revenue. Maybe it will be called matching revenue. Various monetization options are will be explored going forward. Thank you.

Kato: And what about your competitor? Where do you expect your competitor from?

Deko: As of today, to be honest. Well, globally speaking, mainly in Europe. We still see a traditional job board business model.

Therefore, I believe in many countries we can generate revenue in this area. But in terms of new business models, who could be our competitors. As of today, we do not see any potential competitors. But do you have any particular candidate in your mind?

Kato: No, I was just asking out of curiosity. Thank you.

Shen: SMBC Nikko Securities Mr. Maeda, please.

Maeda: One question on Media and Solutions. Earlier in the presentation, you showed us the ecosystem. Currently, how is this working?

Each media advertisement field, they collaborate and link with each other to scale up their revenue? It's still in the development phase and still take time for monetization or is it already producing significant results and impact?

As the advertisement media, in advertising and media revenue I think is big, but when do you think you can see you've transformed SaaS? When can we expect that?

Deko: Thank you for the question.

M&S SaaS, existing advertisement sales and the linkage there and as monetization change, when can we say we have successfully transformed to a source business model? So I understand that was your question.

This is a difficult question to answer. The first the existing SaaS business or in the current advertisement business and SaaS linkage collaboration. This depends on domain. It differs from domain to domain. For example, in dining or beauty. The SMEs of each and individual customers are small.

Air pay usage is high in this area. It's increasing. Now, if you look at air pay alone, hotels and Japanese inns have introduced considerably. But we cannot say that a great number of customers are using it, not just yet. And so hotels and Japanese inns, we are trying to come up with a separate SaaS solution. Hotels and Japanese inns have their unique original website and booking system.

We are offering our SaaS system in their booking site so that they can use it. So it's a different kind of support. And we monitor that. And so it's difficult to say how much linkage there is between SaaS and the advertisement revenue because the area is very broad.

But simply put, the advertisement domain and bookings transaction domain, so in terms of affinity, transaction type area is closer to SaaS type business model. That is our take.

And when can we say we successfully transformed to SaaS business? Currently, the number of customers with the advertisement style and the SaaS type, a number of customers with SaaS is exceeding is more but in terms of that revenue amount, we have more advertisement type customers.

So in terms of ARR, if we calculate using value, if SaaS account for 30 to 40%, then we can say we are starting to transform successfully to SaaS type business model but we are not there yet. Does this answer your question?

Maeda: Yes. Thank you.

Shen: Fukuyama-san from UBS Securities, please.

Fukuyama: Thank you for this opportunity. I have two questions, both related to our technology.

First is related to hiring. Can you recap the hiring situation in FY2021? You mentioned the headcount is now about 13,000, but what was the progress against Target? And in FY2022, I believe you're forecasting 30% increase in the headcount. I would like to ask this question in order to confirm the accuracy of this target.

And the second question is related to corporate clients, shift to CPQA to a model. What kind of technological breakthrough do you think you would need to achieve that? Thousands of applications are being processed automatically. Sounds pretty difficult. Is this really achievable? And this is a solution where clients assess candidates. And from the viewpoint of neutrality, is it going to be difficult for you to provide as a service?

Deko: Thank you for your questions.

First of all, 30% increase in headcount for this fiscal year. Previous fiscal year was concentrated in the second half especially after October, hiring activities accelerated. When we look at the number of our recruitment per month, it continued to increase every month.

And as a result, the number of headcount increase was close to 3000. In that sense in February and March the progress of hiring has been larger. To put it simple, if you imagine sales, having 100 clients to 200 clients. That is the kind of change the sales reps have been experiencing even with the same headcount.

Therefore, we have been quickly picking up the numbers of sales reps. Therefore, actually we have fewer hiring planned in the second half of the year. When we look at the current progress at a quite high probability. We're confident that we can achieve 30% increase,

Especially in the US, high Commission is paid for all the sales people, so if the economic situation deteriorates, I'm afraid that the situation might change. But at least for now, that is the situation.

And secondly, introducing CPQA for corporate clients. Large corporate enterprise clients are already using the SaaS based platform for some of the services. Why is that? There have been a lot of clients struggling to hire people. As soon as the candidates flow into the platform, they disappear. They have that kind of experience.

So utilizing IHP, if they can use their assessment, they can enjoy higher yield. And they have learned that from the past experience. So if they have a clear target of hiring, a lot of clients choose to use our platform. In terms of CPQA, if they have 1000 open jobs, if they really want to stick to hiring for the 50 jobs out of 1000, they can pay for that 5%.

But even when they say open jobs, it doesn't mean that they would like to hire anyone. They're looking for a very attractive talent. But at the same time, they have open jobs where they are willing to hire essentially anyone.

So the situation varies, but the platform is already used by many clients and a lot of SaaS solutions are going to be using API connection. And for various HR tasks, we have been working with clients hand in hand to test integration or to discuss integration. And this is based on requests from enterprise clients in a long term perspective. We believe this is going to continue as a trend. I hope that satisfies your question.

Fukuyama: That was very clear. Thank you.

Shen: We apologize that we were unable to address all the questions, but we would like to conclude today's earnings call. With regards to the long term strategy to help businesses work smarter and prosper together, we're planning to hold a one hour presentation and Q&A session at a later date.

Prosper Together will be facilitated by Seneha at 5pm on June 28th, and Help Businesses Work Smarter will be facilitated by Kitamura at 4 pm on July 12. The details are going through provided on our website.

Thank you very much for attending today.

[END]

Forward-Looking Statements

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