

Question & Answer

Shen : It is time, so Arai-san, please start the sell-side analyst follow-up call on Q3 FY2022. Arai-san will answer your questions as always. BofA Securities, Kinoshita-san, please.

Kinoshita : Thank you. First is HR Tech, some clarifications to understand your stance better. The number of job openings declined by 3.5%, but sponsored job ads volume declined by 33%.

So based on sponsored ads, we calculate backwards and understand the trend. Am I right? Is this the baseline that we can use?

Idekoba-san said that the total job openings is 11 million, but this may decline to 7 million to 7.5 million, the pre-COVID level or even lower. Currently, the sponsored job ad market, more than the decline in this absolute number, the sponsored job ads may be declining more.

How can I interpret the trend? Maybe this is two questions for HR Tech, so this is my clarification, my first question.

And my second question is the margin for next fiscal year. You will have the level of margin as a result. You will do what you need to do and the result will be shown in the level of margin.

In that line of thinking, fixed costs, what level of fixed cost is controllable? So you do what you need to do and what you do, you can still reduce the fixed cost?

The overall cost towards next year, do you think you can reduce the overall cost? Or if you need to do what you have to do, be it recession or be it otherwise, it will be flat? How do you foresee? Thank you.

Arai : I think your first question has many points. As I've been saying, structurally speaking, Indeed Hiring Lab data is one data source that we talk about and is familiar to you.

The site-wide number of job openings, number of job postings. If we assume that this covers the entire US and that is the total number of ads, as Idekoba-san said earlier, if companies really want people, they have strong momentum.

But if it's nice to have, then it's a different level and the different level of payment that comes in.

The change in the number of sponsored jobs is more than the change of the entire pie. When the total number of jobs increases, the number of sponsored jobs increases more in terms of percentage. But because of this same kind of momentum, when it declines, it declines more.

The amplitude, if you will, is bigger. During the declining momentum, the percentage decline is bigger. And vice versa, when it's rising, same story.

To answer your question, Kinoshita-san, our revenue is based only on clients who pay us. Some clients use it for free and others we aggregate and index.

Some companies post jobs and use our services for free, some jobs we aggregate and index; we do not get paid for that. There are companies that pay and post, and that is the source of revenue for Indeed, as I have been mentioning. So yes, your understanding is correct.

That's your answer to the first question.

Second question. If you look back to FY2020 Q1, the measures we took back then and what we did after that is one proof of our track record.

There are, of course, some costs that we can reduce in a timely fashion, very rapidly as necessary. On the other hand, labor costs as an example, cannot be reduced immediately and at the same time we cannot hire people very quickly to quickly develop the next product. There are SG&A items where we can control in a timely fashion and those that are not. And so sometimes, margin goes down, sometimes up.

I'm remembering what I said before. The cost spending sometimes lags behind the revenue increase or cost reductions lag the revenue declines. And so this kind of mismatch will continue going forward.

And when revenue declines, cost reduction will not be as big and when revenue recovers, the investment does not follow suit immediately. And so there may be a timing mismatch.

As Idekoba-san said, we will generate profit every quarter. We'll, of course, try to generate profit every quarter, but revenue is not controllable.

We need to preempt and take measures quickly anticipating the revenue. Sometimes, we are reactive, and we react quickly to what is happening. But as we always say, we're not in the operation where we generate profit stably every quarter.

And so on a quarterly or biannual or annual basis, we will report our results, and invest and hire people as necessary.

If recession comes, how strongly we recover or how we gain market share is our final target. We should not be overly elated or disappointed every moment.

Kinoshita: Two clarifications on HR Tech. The overall job posting is as you said. But as I mentioned, as I asked on a YoY basis, 33% decline in the sponsored job ads.

I think you are managing quite well, but you do not think so? Do you think this difficult situation will continue for some time? As Idekoba-san said, next year and the year after, revenue may continue declining?

Arai: The number is still higher than 2019, pre-COVID. If we are to anticipate a decline, the overall job posting may decline further, as I said earlier, right. But the overall job posting may decline by 50%, but the sponsored job ad is already down by 30%.

And so sponsored jobs will not go down proportionally. Well, the sensitive people may not pay and stay. I think that will happen first.

Kinoshita: In cost, the fiscal year ending March 2021, Q1 is a good reference, you said. The FX needs to be taken out. But on a YoY basis, you reduced cost by 80 billion yen.

And from the previous quarter, you reduced by 100 billion yen. So you can reduce by 100 billion yen or that level if you want to. But as mentioned earlier, I don't think you will control at that level in H1. Maybe if the US faces a recession?

Arai : The initial phase of COVID, we reduced costs. We reduced the advertisement and promotion down to zero. If the drop is big, that is the kind of action we will take.

It's meaningless to send advertisements to clients that do not need people. But people who unfortunately lost jobs, who are looking for the next job, for such users, we want to promote Indeed.

We will continue the advertisement of Indeed but we will prioritize our advertisement. We have to do this when revenue drops, but it's not as unforeseeable as the initial phase of COVID.

When COVID started, we did not know how long this will last. We stopped that action in Q1 and we had the determination to continue that in the Q2 and Q3.

But as Idekoba-san said, we anticipate that it could be long, so we are determined to do it for a longer period, if we have to.

Kinoshita: So you may continue reducing costs for that long?

Arai : Well, if revenue declines, then yes, we have to take such countermeasures.

Kinoshita: Thank you.

Shen : Thank you. Munakata-san from Goldman Sachs Securities, please.

Munakata: First is regarding HR Tech. The US, non-US profitability difference right now, can you give some commentary on that difference?

I ask this because having listened to what you've explained so far, towards the next fiscal year, in terms of composition, US is likely to increase in its share.

And so these changes, would they have an impact on profitability or not? If you could give some commentary on this.

And the second is regarding the Staffing segment. In your explanation, in Q4, you're going to incur additional costs, looking for a pickup post April.

But after April, which is next fiscal year, what type of business growth are you expecting at this point in time? Thank you.

Arai: Thank you for your question. In terms of business structure or when we think of the business operations, then when we consider US, non-US, the profit and the profitability, they cannot be really looked at on an apple-to-apple basis because the majority of the development function is in the US.

And so the margin in US and non-US, some areas are just selling what has been developed, and so the level of profitability, even if we sell the same product in the same way, then because the US has made the initial investment, the margin would be lesser theoretically speaking.

But on the other hand, in the US, like Idekoba-san explained, we actually launch new products earlier. And so there are various factors that come into play.

And so if our disclosure progresses and if the US revenue is this, then the margin in the US is that, and the non-US revenue is this, the margin is that. If we were able to show information like that, then that would be the kind of thing that is occurring.

And so by that, the revenue in the US or the non-US being large, it's not going to be like that.

And so right now and for the foreseeable future, in regards to the HR Technology business, the sales breakdown is US and non-US for now. But in terms of profit, we show a single number. That's the background.

As we have explained previously, the current revenue and the current cost, there is a mismatch in timing, and particularly, when we are developing the product for the future, when we are testing or developing those, then they may not link to the profitability right now, but they are necessary for the future.

And so there is a large amount of that, which is recognized as personnel cost.

If we take that into consideration, then our EBITDA margin could be slightly less than 30% overall. If you look at it in that way, then it may be more helpful for you to understand our operations.

In terms of Staffing and the numbers for next fiscal year, well, the forecast for next year is still being formed internally, so I'm unable to talk in detail at this point in time.

But in regards to Japan, April 1 is when the people are actually dispatched to the site, all that month. And so what is important is that then the capable people we are able to dispatch, to have these people ready so that we are able to send these people to match the customers' desires, that will lead to revenue in the next fiscal year.

On that basis, in Q4, we are spending these costs in advance to an extent. Although each year, it may be large or small, but in Japan every year, this is what essentially happens as a seasonality in Japan, if you could understand it in that way.

Right now, it's not the case that we are expecting the Staffing business to decline. We're not assuming that, and that's the reason why we're expanding those costs now.

Munakata: Thank you. For HR Tech, we should look at the situation overall. I understand your point.

Shen : Next, Mito Securities. Watanabe-san, please.

Watanabe: HR Technology auction model is now changing, so you're thinking 4 to 5 years out.

Next year and the year after, you do not know the impact to the unit price and so revenue may decline. But after that, after the model changes, for capable talent, you encourage the business clients, they will change the behavior for replying within 72 hours and your technology will improve to find the capable talent, then 20% or 30% or 100% of the initial salary, so the unit price has the big potential to be increased like that?

Arai: If our service quality improves, then the amount we receive from our business clients may increase and they will still be satisfied.

We should not charge them so much that they will be dissatisfied. We don't want to charge them a lot and say that's good.

We want to offer better service and product and satisfy the business clients so that they will be happy to pay us. That's what we want to achieve.

Watanabe: Can I understand that the unit price potential is big? So if you can have this scheme in HR Tech, then the business clients will be happy to pay a higher price. This has a big unit price potential?

Arai: Unit price per click is one concept. The application, the population is different to begin with. And another population is the group of talent, capable talent.

And so we think that is valuable. Rather than the clients may think it's better if the Indeed machine does that than us doing it ourselves and pay us an additional fee, they may not think it's bad for them or they may be willing to pay more.

At that stage, we will see what Watanabe-san just said. We're expecting that to happen.

Shen: Yamamura-san from Citigroup Securities, please go ahead.

Yamamura: I want to ask two questions about the Matching & Solutions business. Right now, revenue is performing quite well.

But for other companies, the reopening type of revenue increase is slowing down. Post-COVID, the rebound is starting to disappear, so in Hot Pepper or in the travel area, what is the progress for you?

Have there been changes to market share? The growth that we have right now, to what extent will it continue is what I want to learn more about.

The second question is related to the question asked by the first person. You have controlled the advertising expense.

And this is mainly for HR Tech? And for Matching & Solutions, you will continue to spend? Is this the right understanding?

And you are seeing the revenue increase, but profit coming down and HR Tech is susceptible to the external environment.

But when both businesses start to perform, then we can expect good things for next fiscal year, but we have prioritized on investment.

Are you going to control costs? Then how much buffer do you have in regards to advertising expense? These are my questions.

Arai: I will answer your second question first. At the start of the fiscal year, I gave the explanation and we are proceeding in line with that at this point in time.

At the start of the year, I said that more than in the past, we will be spending more advertising expense to work on the brush up and also beef up the business. That type of situation is continuing now.

For the full year, 14.5% was the adjusted EBITDA margin that we assumed. This may end up at about 14%, as we explained before.

Against the initial assumptions, well, we are assuming for some additional investment in Q4 on the increase in revenue.

As for next year onwards, so next fiscal year onwards after April, we are still putting together the plan. But as Idekoba-san responded to the question, we will look at the situation and effect control as required.

And so it's not the case that we will just continue to spend.

It would depend on the Japanese environment, the global environment, and our consolidated financial situation. We will look at all of these aspects in making decisions going forward.

Of course, during COVID, as Kinoshita-san asked, the costs for HR Tech, we actually addressed that part. But at that point in time, for Matching & Solutions, we also narrowed down in a similar way.

If a situation like that should occur, then we would do what is necessary. If we have room for that, we will create that room if required, of course.

And your first question, recovery from COVID. That speed may be slowing down. I think that was your question.

We have five verticals, broadly speaking, and those not impacted by COVID, grew steadily.

Say, for example, Housing and Real Estate, or the Beauty vertical, they have continued, and we expect them to continue growing still strongly.

This is the assumption that we can have for next fiscal year, but they weren't really affected by the COVID to begin with. We're just expecting a steady situation.

But on the other hand, where there was governmental support, where the spend has grown significantly, of course, that type of vertical, we may have to take a more conservative outlook next fiscal year. But we don't want to be overly caught up with that type of situation.

As I have explained previously, for Housing and Real Estate and the Beauty business, they now account for more than 50% of the Marketing Solutions.

And so they are healthily growing, maintaining market share, and that will be essential for stability of this Marketing Solutions operation and our outlook on that remains unchanged.

We haven't put together the numbers for the next fiscal year as of yet, but that is the kind of thinking that we have at this point in time. For other verticals, the level of the rebound, could be slowing somewhat.

Yamamura: Housing and Real estate, I understand that COVID had the impact of having more people looking at potential houses online. Are you seeing any changes in growth at this point in time?

Arai: As for the numbers that I'm looking at right now, we are not seeing the signs of a rapid decline. This is a subsegment, and we stopped making disclosure at that level.

I apologize for that. But at this point in time, say, for example, in Q4, this is for the Housing and Real Estate, we are not assuming a significant drop in Q4, no.

Yamamura : Thank you.

Arai : Thank you.

Shen: Thank you. We have answered all the questions we've received so far. Any other questions? Yes, CLSA, Kato-san, please?

Kato: I have a question on the consumers' mindset, sentiment in Japan. The price of goods is rising and large corporates' wages are rising, but not so much in the SMEs.

What is the impact on the consumers' mindset in Japan going forward?

Arai : HR business, global side was explained by Idekoba-san. As we always say, the situation in Japan, from the US perspective, is later. Japan is later.

We do what we need to do, and we are prepared to do what we need to do. How soon, how quickly will we see this environment, slowly, or to a large degree, or quickly? We don't know.

But for Q4, we do not see much signs. For next year, we have to be a bit more cautious. But it's not like we will see a steep decline as in the US at this point. We're still vague, but that is our outlook.

Kato : I see. Matching & Solutions, my question was more for the Matching & Solutions.

Arai : Yes, Japanese business, yes, I understand.

Kato : So the economic business sentiment, Housing and Real Estate, maybe interest rates will rise. This business may be at risk next year?

Arai : We will announce next year's figures in May. Right now, we are formulating these numbers and cannot go into detail today, I'm sorry.

Kato : Understood. And the 75 billion yen is the equity-based expense and now it is around 51 billion yen already posted. Do you think you will achieve this as planned?

Arai : Share-based payment expenses, equity incentive plan, Recruit Holdings as a whole?

Kato : Yes.

Arai : This is based on the expected number of headcount. The share-based payment expense amount is in line with our plan.

Kato : Thank you very much.

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