Shen: Welcome to the Recruit Holdings FY2022 earnings conference call.

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

I'm Mizuho Shen, group manager of Investor Relations and Public Relations and joining me today are, Hisayuki Idekoba, Representative Director, President and CEO, Yoshihiro Kitamura, Managing Executive Officer, Matching & Solution Business, and Junichi Arai, Executive Officer, Corporate Planning Division.

The first 30 minutes at this call will be the Fireside Chat among the three participants and the latter half hour will be a QA session.

Please note that today's session, including the QA, will be posted on our IR website later today.

Please refer to the earnings release, FAQ, and four presentations regarding the full-year financial results and our three management strategies, available on our IR website, which are Simplify Hiring, Help Businesses Work Smarter, and Prosper Together.

Although our COO, Ayano Senaha, is not participating today, we will have a separate event to give an overview on progress of our ESG strategy, Prosper Together on July 4. Details will be provided as soon as possible.

Now I'll turn the call over to Jun.

Arai: Thank you very much. First I have a few questions for you, Idekoba-san. How do you plan to navigate the near-term challenging economic environment? Any measures you have in mind?

Idekoba: It's all about "preparing for the worst and doing the best we can". As you know, the global HR matching business is heavily impacted by the economic environment. Therefore it's very important to continue investing for the future and improving the efficiency of our business, while conservatively assuming a downturn followed by a period of economic stagnation.

Arai: Thank you. In the first half of FY2022, you hired aggressively in HR Technology, and then reduced the workforce at the end of the fiscal year. There was such fluctuation during one fiscal year, and some have pointed out that it was an error in management decision. Can you please explain the sudden change in the business environment, changes made in the business operating structure, and executions of multiple actions?

Idekoba: Yes, historically speaking, the tight job market has shown gradual improvement over the past year as assumed, the current rate of decline is concerning. However, in comparison to the 2008 and 2009 recessions, where approximately 2.7 million jobs were lost over a two-year period, the number of jobs in FY2022 alone has declined by around 2.5 million. It has been challenging to predict the speed of this decline.

It was also difficult to predict that companies' willingness to spend on hiring would decline at a rate faster than the decline in job openings. Based on such rapid change, we paused hiring in our HR Technology business in October of last year, and in March we announced a workforce reduction. We are currently working to further optimize organizational efficiency and productivity.

Arai: Thank you. Our policy for the past few years has been to disclose financial guidance in the beginning of the fiscal year. Why not this year? What's so different this year compared to previous years?

Idekoba: We are managing our business on the assumption that a recession is likely to come this fiscal year. However, to forecast the depth and length of the recession is nearly impossible and the degree of uncertainty...
is so different compared to the same time last year. We intend to provide fiscal year guidance again when the outlook becomes clearer.

Arai: Okay. For this year, FY2023, what kind of business environment should we expect to see a revenue decline of, let’s say, 20% for HR Technology?

Idekoba: As I mentioned earlier, from 2007 to 2009, the number of US open jobs fell 2.7 million from a peak of 5 million. Back then, the leading US job advertising company at the time, saw its revenue drop by about 30%, despite having long-term contracts with employers.

Indeed’s business model is not based on long-term contracts with employers, therefore, the correlation between the number of jobs and revenue is much stronger in the short term, leading to the potential for significant fluctuations in revenue. Therefore, a revenue decline of 20% or more in FY2023 is possible, depending on the severity and timing of the downturn.

Arai: If the revenue of the HR Technology business were to decrease by 20%, what would be the level of the adjusted EBITDA margin?

Idekoba: Given the recent cost reduction measures, and assuming we maintain our current cost structure, we should be able to achieve mid 20% ’s adjusted EBITDA margins for the full year. However, there is a possibility that it may fall below that level in the short term during a rapid economic deterioration.

Arai: If the business environment deteriorates further than the worst-case scenario you mentioned earlier, will you implement another headcount reduction or further cost-cutting measures in the HR Technology business?

Idekoba: We are managing our business under the assumption that a recession will come in this fiscal year. For the time being we will not resume hiring activity, but we are expecting the decline of headcount through attrition. But having said that, a sudden change in the environment could happen. We will continue to manage our business wisely and will consider all options if conditions are worse than our expectations. Even then, the recession will impact all companies in the HR industry, including our competitors, and compared to other competitors, we have a relatively strong balance sheet to survive and hold ample cash and minimal debt.

Arai: I see. So changing the question, you said that revenue generated per successful hire through the HR Technology business is less than 1% of the annual base salary of the candidate last year. In the recovery and expansion period after a recession, will it be possible for the rate to double or even triple? In that case, what do you think will happen to revenue and adjusted EBITDA margins?

Idekoba: Recruiting agencies and headhunters charge about 25% to 30% or even more of a candidate’s annual base salary as a performance fee. We are not immediately aiming for that, but if we add more value to employers’ recruiting processes through advancing technology and improving matching efficiency, we can possibly get 1.3%, 1.5%, or 2%, for example. We will continue running tests to achieve this goal.

If these tests succeed, we will continue to make upfront investments for the next phase of growth and challenges.

I believe many of the most successful technology companies in the world are able to balance mid to long-term growth rates and healthy margins. As a growing technology company, we are also committed to growth rates and margin, and therefore, if mid to long-term growth rates were to slow, we would plan to deliver higher margins, but we are still in the growing phase.

Arai: I see. You mentioned that you will advance the technology and improve matching efficiency. How will the recent advances in AI affect Recruit Holdings? Is the competitive environment going to become tougher?

Idekoba: Recently I have received many questions regarding AI. I think many of you have used ChatGPT and are feeling the evolution of AI. GPT stands for “Generative Pretrained Transformer”. The important part is the pre-trained part. In other words, ChatGPT is not using a theory that is significantly different from previous
machine learning systems, however it is pretrained, in other words, it replies with something that has been trained by some data in advance.

The very important thing here is what type of data is being used to train the system, in other words, without the data to pretrain the system, it doesn't work.

Recruit Group has access to online and offline data that only we possess. For example, in the past year, there were approximately 2.5 billion job applications submitted on Indeed. This uniqueness, the quantity and the quality of the data, that competitors don't possess, is the most important thing.

For example, what are the different skills, attributes and preferences that lead to a hire vs others that end up in rejection? At the same time, we recognize the importance of ensuring that our data and its outputs are safe, accurate, and free from any potential biases. We are confident that our unique data set can improve the quality of matching and I strongly believe in our company's ability to harness the power of machine learning and AI effectively. As long as we possess the most comprehensive and relevant unique data, I am confident that we can maintain our competitive edge in the market.

**Arai:** Now questions to you, Kitamura-san. You talked about the Marketing Solutions business and the HR Solutions business separately under the Matching & Solutions SBU. I understand that the HR solutions aim is to grow using a matching engine. In the mid term, should we expect an increase in revenue or an improvement in margins?

**Kitamura:** I would like you to imagine revenue growth in the mid term.

The HR Matching market in Japan is very fragmented and we are partly responsible for that. There are many HR companies specialized to each industry, job type, employment type, and region. Job seekers and employers fit themselves to this situation.

Previously, we also defined the market as "the area our sales people can cover." However, by evolving our matching engine and promoting a self-serve model in which AirWORK ATS enables employers to create job advertisements and automatically post them to the most appropriate matching platform, we believe that we can expand our services regardless of the speciality, sizes, and regions. This will simplify options for individual users and business clients. Therefore, we believe revenue will grow in the medium term.

Additionally, the HR matching business is heavily impacted by the economy, therefore, with the evolution of the matching engine, we will also work on moving away from a labor-intensive model.

**Arai:** Thank you. For Marketing Solutions, the strength of your existing vertical businesses stands out while you are making upfront investments in new businesses, such as fintech services. From the mid-term perspective, should we expect an increase in margins by improving the efficiency of the operations? Or should we expect an increase in revenue from new businesses but will not lead to an increase in margins due to upfront investment?

**Kitamura:** In Marketing Solutions, we will build on the strengths of each vertical's existing businesses, while working on collaborating between existing and new businesses.

You may think Marketing Solutions' existing businesses have no connections with the fintech service, but that's not the case. With many matches already being made on the matching platform, it would be convenient for both individual users and business clients if we could not only make reservations but also complete payment at the time of reservation. For us, this would mean an increase of GPV in our ecosystem. While the revenue contribution of fintech services in the mid term may be limited, we believe it can contribute to long term growth.

Similar to HR Solutions, we will work on moving away from a labor-intensive model, and aim to maintain a stable margin while making upfront investments.

**Arai:** In July last year, you said, "In the mid term, we target revenue of 1 trillion yen and adjusted EBITDA margin in the low 20s % in the Matching & Solutions business." Do you plan to achieve this target through
both revenue growth and margin expansion in HR Solutions due to its continued evolution, and an improvement in margins in Marketing Solutions?

**Kitamura:** As I explained, we believe that this can be achieved through revenue growth in HR Solutions with the evolution of HR matching businesses, stable revenue growth of Marketing Solutions, and margin expansion in both HR Solutions and Marketing Solutions. For the long term opportunity, I talked about fintech services.

Thanks to early efforts and strategic investments during the post COVID-19 recovery period, we are on track to achieve this mid term target for now.

**Arai:** I see. Should we rather consider the two subsegments separately and expect different evolutions? Or in the presentation you also touched on collaborations between Marketing and HR Solutions.

**Kitamura:** As the matching engine is shared across the Group, I am aware that the time has come for the Group as a whole to consider revising its segments.

Of course, each segment should achieve its target, but I think it is important for the Group as a whole to evolve in line with its strategy and growth.

**Arai:** Thank you. Lastly, I would like to ask both of you about the specifics of creating new business models and collaborating between segments and businesses. I felt the future. What do you think our company will be like in 5 years? I would like to get some hints that will spark the imagination of the capital market participants.

**Kitamura:** I will start. The moment you think it's complete, it begins to degenerate, so we always need to keep evolving, and we will continue to do so. Five years from now, I want to be used by more business clients and individual users. By doing so, I believe that the scope of our business will naturally expand. In fact, Air BusinessTools is celebrating its 10th anniversary this year, and we have released a special website that summarizes the voices of many businesses and the history of our products. We hope you will take a look at it and look forward to the next 5 to 10 years.

**Idekoba:** Looking back at the history of Recruit, we could not imagine transitioning from a magazine business to an internet business. We also could not imagine then evolving into global businesses, and into SaaS businesses. I would like Recruit to continue to be a company that changes and evolves in ways that we cannot imagine today.

**Shen:** Now we would like to proceed to the Q&A session. First, we will take questions from the media.

First of all, from Nikkei Shimbun, Sato-san, please go ahead.

**Sato:** Hello, this is Sato speaking. I’d like to hear about the impairments related to office consolidation and software-related impairment, which were booked in the previous fiscal year. In this fiscal year, are any of them going to be carried over?

**Arai:** Well, largely there are two elements, as we mentioned during the presentation. In HR Technology, there is a one-off loss. In Q1, there is a small amount that potentially may be booked, but the majority has been booked in Q4 already.

In other businesses, software-related impairments, goodwill impairments, these are normally judged at the end of the fiscal year. It is rare to have them booked during the fiscal year, but depending on the business environment, if there is such judgment, at the end of the fiscal year, we may decide to book them. Thank you.

**Shen:** Any other questions? If we do not have questions from the media at this point, we will go to sell-side analysts and come back to the media again. Sell-side analysts, if you have any questions?

BofA Securities, Nagao-san, please.
Nagao: Thank you. This is Nagao from BoFA Securities. Thank you. I have one question to Idekoba-san and Kitamura-san. First of all, Idekoba-san, you talked about HR Technology adjusted EBITDA margin in the mid-20%. You gave us one projection. If you could break this down, give us a little more color to this. So growth investment, mid-20%, does that take into account both investment for growth and the possibility of recession. Or is this the minimum that you can maintain? Could you explain the mid-20% positioning in the overall picture a little more, please?

Can I go on to the second question?

Shen: Yes, please.

Nagao: Matching & Solutions business, thank you very much for the detailed explanation. There are two categories, Marketing Solutions and HR Solutions, what does your adjusted EBITDA margin look like for each? Due to COVID, restaurants, dining, and travel were hurt, but HR business seems to be solid. That is the image the stock market has. When you break these into the two, how was it in the year that just ended and how do you project for this year? Thank you.

Shen: Idekoba-san?

Idekoba: The HR Tech business’s adjusted EBITDA margin was your first question. Of course, the medium- to long-term growth investment and the short-term margin needs to hit the right balance. At all times, no matter the situation, we need to hit the right balance.

And you asked me for a little more color. The HR-related business, in most cases, marketing cost is performance marketing. It's not a fixed cost. We use an approach in which we focus on LTV, for example; how much return we can get after how many months.

During a recession or economic downturn, customers’ revenue, the business clients’ revenue outlook becomes lower and the individual users', the job seekers', acquisition cost declines. And so, the marketing cost can be controlled quite flexibly. With the economic downturn, it becomes less expensive, less cost.

And Q1 outlook has been announced and I believe adjusted EBITDA margin is already quite high. We are looking at the economic downturn and we think we are well prepared. We will watch the speed at which the economic deceleration occurs and continue our long-term investments as much as possible.

And you mentioned the minus 20% scenario, and at that level, we think we can achieve a mid-20% adjusted EBITDA margin. That's the kind of control we have. Does this answer your question?

Nagao: So, even at revenue of minus 20%, you can still secure the mid-20% adjusted EBITDA margin and beyond that, you will control margin while considering the right balance with the investments for growth?

Idekoba: Yes, we are not reducing the medium- to long-term growth investment. The short-term client decline is now being controlled in the short term and we think we can address this sufficiently by controlling our current headcount.

Arai: The underlying premise is this analysis based on the April 1 headcount number. But also that those who are determining the long-term direction are still being secured.

Like Idekoba-san just said, we do not intend to stop the long-term investment. Even if revenue declines 20%, with the current structure, we can secure the mid-20% adjusted EBITDA margin.

Nagao: Thank you very much. I understand well.

Arai: Kitamura-san.

Kitamura: I would also like to respond with regard to the businesses I manage. For the Marketing Solutions and HR Solutions’s adjusted EBITDA margin status for last year and this year’s outlook, please refer to the disclosed materials. Marketing Solutions' adjusted EBITDA margin has remained basically flat, unchanged

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over the past few years, including during COVID. With the COVID-related restrictions, the travel, dining and other businesses were damaged somewhat, but on the contrary, because of COVID, there were other businesses that grew. Therefore, in terms of revenue, there were ups and downs in different segments.

At the same time, looking at adjusted EBITDA margin for Marketing Solutions, the more the businesses shifted to a platform, the more variable the marketing fees became, in line with revenue. And so despite COVID, Marketing Solutions' adjusted EBITDA margin did not fluctuate much.

On the other hand, HR Solutions, even though temporarily, there was a pause of hiring during COVID, there's been this chronic labor shortage. Therefore, as a market, despite COVID, it was relatively active.

That said, after the market shrunk, the size of the market share at the restart of growth determines the market position the following year or the year after that. And this is what we learned from our experience in the past recessions. We knew this from our experience.

And so for the past few years, for HR Solutions, we invested heavily in promotion fees and development costs. Therefore, for the past few years, overall, HR Solutions' adjusted EBITDA margin had declined.

This fiscal year, we have a good, reasonable position, so we will return to the original margin level. I hope this answers your question.

Arai: Yes, let me add some more information. For the first time since we integrated our organization the adjusted EBITDA margin for each segment is disclosed, and so this is just a rough number. So Marketing Solutions, 25%; and HR Solutions, 12% for last year. And this year, the full-year margin target is around 28% for Marketing Solutions; and around 22% for HR Solutions. For the entire segment, we said around 14.5%, and it was 14.4% for last year as a final result. And this year, including headquarter costs and overhead, after excluding them, it is 20%.

And so like Kitamura-san just said, Marketing Solutions was high, and we're aiming for a higher margin. HR Solutions has changed its face, so 12% up to 22%. That is what we are envisioning.

But the Japanese market situation, this is based on the assumption that the Japanese market does not change. If there is a change in the business environment, this is subject to change.

Nagao: Thank you very much for that.

Shen: Thank you. Next, Mori-san from JPMorgan. Please go ahead.

Mori: This is Mori speaking from JPMorgan. Thank you for this opportunity. First one is in the North American market, what is the current situation? What is happening? And what could happen going forward? That is one thing I would like to focus on first.

In Q3, the volume of sponsored job decline was 30%. And in this January to March quarter, it was once again 30%. As a result we are seeing a decline in sponsored jobs as well.

The job advertising market could downsize to half of what it used to be before COVID. But sponsored job advertisement, is it going to fluctuate similarly to the market? Or is it likely to have a larger decline? If it is in line with the market, the sponsored job volume is declining rapidly and I imagine that it could hit the bottom earlier.

Regarding Indeed, it is becoming a benchmark for those looking at macroeconomic situations. I'm sorry, my question is focused on short-term perspective, but what is happening now in the market? In the worst case scenario, are you expecting any difference in the timeline of sponsored job volume and the market?

And regarding Indeed sponsored jobs, I believe it is shifting to automation and you have CPA-related initiatives as well. In this fiscal year, I understand that the impact is going to be limited, but the balance of the entire volume and unit price, when are we going to start to see some impact? I believe market penetration will
be faster during an economic recession. In the next fiscal year, are we going to have a different view? What is your impression so far? I apologize that my first question is so long.

And moving on to my second question, this is to Kitamura-san. Earlier in the domestic M&S business, you mentioned that there’s a larger potential for revenue growth in HR Solutions than in Marketing Solutions. And in HR Solutions, you have Indeed in Japan and there’s media and placement services. Direct recruiting is something you’ve been focusing on recently. There’s ATS as well. There are many things.

In five years, the domestic HR market, what is going to be the revenue structure for you? I do not have a clear image of how this could change. Where do you see business opportunities in five years? That is all. Thank you.

Idekoba: Well, that’s a very good question. Now, let me first respond to your long first question. I will try to respond.

First of all, this is something we talked a lot about last fiscal year. In the beginning of the previous fiscal year, what we used to say was that the economy was going to go into a recession and at the same time there is a shortage in the HR market. And this is the first time where you would be observing this gap, a recession and a labor market shortage in the modern age. That’s what we talked about in the Davos meeting as well.

The North American market especially, just like Japan, workers’ aging is noticeable. One element is COVID, but in the mid to long-term perspective, over the last five years, immigrant workers continue to decline.

And when we look at monthly data, well, you may think that the HR market is pretty strong on a monthly basis, but if you look at the content, most of the positive growth is coming from hospitality, including restaurants and hotels, and in health care. These are the only areas where you see positive growth.

Therefore, if you look at the details, there’s deterioration of the economy, and a gap with the HR market is becoming a reality. Under such circumstances, paying for sponsored job advertisements, what we are calling this self-serve type model and clients can choose to buy or not to buy online.

So when there is a bank bankruptcy, and when there is a series of them, you see a slowdown, but when the media starts saying it seems to be okay, we see that the activities are warming up. I believe this is very susceptible to such changes.

And as we mentioned earlier, European central banks and the US central bank, and governments are looking at our data as leading indicators.

And as you said, well, this is unprecedented, but the number of job openings, this is a lagging indicator, late by two months, so well, the first fluctuation we see is that they decide not to post job advertisements two months before, and it is possible that is going to hit the bottom first. But as we mentioned earlier, when we look at the total volume of job postings and in which area the revenue is the largest, well, there is a gap between the two. Probably globally, this is the first time we are observing such data for management purposes, so we will closely monitor the situation.

I talked about the short-term scenario, but in the mid- to long-term, there is uncertainty in the US economy, and there is no other way but to decline over time. That is going to be our assumption; that will continue to be our assumption in our business management. On the other hand, we will be improving our services at the same time.

And now, moving on to your second question, using matching technology, that is going to be our initiative going forward. But what is not easy to see is in Europe and in the US, sentiment to spend on hiring, the atmosphere there is becoming much weaker, so offering them new technology is becoming more difficult, and we are afraid that we may struggle going forward based on the information we gather from daily conversations.

Did I answer your question?
Mori: Yes, it was very informative. Thank you.

Kitamura: Now, let me respond to your second question. In the domestic HR hiring market, we are not overwhelmingly strong. There are many other services and competitors, and the market is quite fragmented. In addition, compared to other G7 countries, we have low labor market liquidity in the domestic market.

In 5 or 10 years' time frame, such liquidity will never go down. There is a room for going up, though, that is an external environment observation. Matching engine technology is our competitive edge, and furthermore, face-to-face service for placement or media services.

In the domestic market, we have various channels to extract data, and as we mentioned in the beginning, we possess unique data and the matching engine. When we combine the two, well, Indeed, media, placement, Direct Scout, ATS, they are expressed separately on a monetization basis. But going beyond and across those borders to offer a more convincing hiring experience is something we aim to achieve.

In the domestic HR business, Simplify Hiring is our domestic strategy of the holding company, and we also have Help Businesses Work Smarter as another strategy. In the overlapping area, there is the domestic HR business. In this area, there's media and placement service, and we need to take a step up in order to evolve ourselves. In five years' time, we would like to maximize our business opportunities in the Japanese market. That is our intention with the current efforts.

Did I answer your question?

Mori: Yes. Thank you. Just one follow-up. From a mid to long-term perspective, what kind of data or what kind of indicators are you going to be focusing on in order to grow this area? Have you made any changes?

Kitamura: Well, in Marketing Solutions and HR Solutions, the number of clients has been our focus indicator. The more job information we gather from more customers, it is easier for us to gather and match users who are looking for jobs.

And regarding HR Solutions, in media, some services are regional as I mentioned earlier for example, so we need to make them open. I think that increasing the number of clients who post jobs using ATS and other means of automatic job posting is an important KPI to start with.

Mori: I see. Thank you.

Shen: Jefferies Securities, Mr. Takeuchi, please.

Takeuchi: This is Takeuchi from Jefferies Securities. First, HR Technology, Idekoba-san, the market environment, three months ago and now, what is the difference in your view of the length and the depths of the economic downturn? And, Indeed, expansion measures, did it prove to be successful? And how was it different between the US and other countries?

Second, Matching & Solutions' adjusted EBITDA margin, you said mid 20%. Could you explain your thinking behind it? Matching Solutions or HR Technology is still in the downturn. And so, Kitamura-san, maybe holding back the investment you want to do and it's 20% based on that? Or in HR Solutions, you are seeing more potential for profit, so you are seeing the profit improvement phase in sight? Thank you.

Idekoba: First, HR Technology's market environment, how is it different from now and three months ago? It remains unchanged. Not much difference. As I mentioned earlier, the total demand, the number of job openings is still at a historic high level. But compared to the peak after COVID, the decline from the peak in the past one year is as deep or sharp as we saw in 2008 and 2009.

Will we see a rebound? Despite the big drop like 2008 and 2009, the deceleration is not yet seen. There's not much slowdown in the decline despite this big decline, so up and down. One year ago, we thought it would go up and then down and we thought this labor shortage would continue. That proved to be right. But the decline, the speed of decline, was much faster than what we thought last year and the year before that.

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At this pace, this month, at this point, we think the drop will be pretty quick. And so that has not changed from three months ago.

In the expansion measures, we usually do not think much of the market share. But looking at various numbers, our share is increasing, as you can see. And as I've been mentioning from the past, during an expansion phase, it's difficult to hire people, so companies tend to use various measures.

And during recession, the numbers tend to concentrate to the most efficient part. It's not that we do anything unique to capture market share. Our product is competitive and that is why we are capturing the clients and raising our market share.

Takeuchi: Thank you.

Kitamura: On M&S’s adjusted EBITDA margin, let me respond. The underlying premise is this fiscal year, we think around 20%, but this is including the necessary medium- to long-term growth investment.

To answer your question, in HR Solutions, we now have a good site. But at this restart timing, we need to evaluate and scrutinize costs, and also continue the necessary medium- to long-term strategic investment and that lands us at 20%.

Needless to say, my Matching & Solutions business that I'm in charge of is part of Recruit Holdings, so, in this overall picture, appropriate amount of investments need to be used at the right balance. If there's inefficiencies, we need to reduce the inefficient investment, and we will focus on that more going forward.

As this is the entire Recruit Holdings' way of thinking, we anticipate the worst. We prepare for the worst.

In Matching & Solutions, we will revisit the current cost, reevaluate, and spend on medium- to long-term growth investment continuously. Does this answer your question?

Takeuchi: Yes, thank you very much. On my first question if you could follow up. Non-US, increase of share and increase of recognition, do you see any particular progress in countries outside of the US? European countries like Germany, for example?

Idekoba: The original job board service market share was relatively high to begin with. In such countries we are taking good market share. We have such data. Does this answer your question?

Takeuchi: Thank you very much. Thank you.

Shen: Thank you. Yamamura-san from Citigroup Securities please.

Yamamura: Thank you for your presentation. This is Yamamura speaking from Citigroup. I have two questions. One is in HR Tech related to the transition from CPC to CPQA, what is the progress as of today?

There's confusion in operation and there is a media report that some clients are leaving for that reason. Has there been any negative impact on the recent decline from the shift to CPQA? Or is this only due to the external environment?

And in the North American market, new clients, especially SMEs, I heard that they have no choice but to choose CPQA. If that is the case, I think that this is too rapid in terms of a change. What are some of the countermeasures? And what will be a trigger for further penetration based on your past experience? Do you have any ideas? That is my first question.

And the second question, this is almost the same as the previous question. But I also would like to ask the upside of adjusted EBITDA margin of the HR Solutions business. The quality of improving its profitability or one-time restart initial cost decline and reduction of promotional expenses. Are these the only reasons for the decline? Or consolidation of the fragmented services will lead to structural improvement? Or is it both?
In HR Solutions, I noticed that there are perhaps too many services. When the situation changes, is it possible for you to spend more promotional expenses? What is the possibility from a mid- to long-term perspective? Thank you.

**Idekoba:** Then I would like to first talk about CPQA and PPA, which is paying for applications. As you mentioned, there was a time that clients could only choose PPA. Well, that was a test. And for those of you engaged in the internet business, I believe you have a similar experience. But if you ask a client to choose out of these two, there is lower conversion if you have more choice. If you have only one option, you tend to have higher conversion.

In our case, as we mentioned before, for example, about 10 years ago, a monthly fee was set but when there is one click, you only have to pay when there's a click. Every month, we used to set a fee a long time ago, and some clients wanted a monthly fee because it was easier for them to understand.

Well, even though the amount that clients had to pay continued to decline, some of them complained that it was too confusing, so over time we have made improvements. And today, I believe this is going to be another dramatic shift.

From the user side perspective, for example, within 48 or 72 hours, they need to respond. There is such a requirement, so there is increasing appreciation from the job seekers’ side. We have been explaining and trying to convince them why we are shifting in this way, and we have been testing to see what happens to the conversion.

As of today, PPA is not the only option. Maybe the conversion will be less, but we would have two options, for example, and test different ways of explaining. That test is happening on a daily basis.

This is an area of innovation, and we need to struggle every time we innovate. We do not rush to generate revenue, but we would like to make sure that people understand that this is for the better, and we need to strike a good balance with the convenience of the users. That is why we have been testing all the way, because this is important. Such tests are going to continue to be conducted to gain further understanding. Does this answer your question?

**Yamamura:** Yes. In the Q4 number decline, there was no negative impact. Can I assume that?

**Idekoba:** Well, yes. When we look at the announcements of competitors, they have a larger drop compared to us. Our side-by-side test results prove that it is not causing any negative impact so far.

**Yamamura:** That's clear. Thank you.

**Kitamura:** Now, let me respond to the question regarding the adjusted EBITDA margin upside of the HR Solutions business. This time's improvement consists of two elements. One is promotional expenses control. In the timing of the restart, we advertised in various media. During the pandemic, there were a lot of people working from home, so the timing of becoming aware and taking an action, that pattern has changed. And we were aware that has changed.

In the HR Solutions business, we decided to use various media, and we measured performance. And based on that result, we are now confident that—well, we aim to become confident that we can maintain good performance, even if we optimize the promotional expenses. By controlling the promotional and advertising expenses, we would like to achieve a certain improvement.

And the other element is the timing of the restart. In addition to promotional expansion, there needs to be an operational effort, also in sales and back office operations. And we have done that. Maybe semi automation should have happened, but we could not do that in time.

As I mentioned in the beginning, there is a labor-intensive effort to secure certain positions. That is what we did in this fiscal year, and in the next fiscal year, semi-automation is going to be done. And we will also have

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manual monitoring with human eyes, so that we can improve operational expenses. By these two elements, we would like to improve the adjusted EBITDA margin of the HR Solutions business.

Did I answer your question?

Yamamura: Yes, thank you. Thank you very much.

Shen: Thank you very much. With that, we will close our financial results call. Thank you very much for your attendance.

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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