Recruit Holdings Q1 FY2023 Results Presentation

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I am Junichi Arai, Senior Vice President - Corporate Strategy and Investor Relations of Recruit Holdings.

Today, I'll go through the results for the first quarter of FY2023.

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I will begin with the Consolidated Results of Operation.

Consolidated revenue remained almost flat year over year, increasing 0.9% to 850.8 billion yen. This was due to increased revenue in Matching & Solutions and Staffing and the impact of foreign exchange rates, despite an expected decrease in revenue in HR Technology as we announced in May. Excluding the positive impact of foreign exchange, revenue decreased 2.1%.

Consolidated adjusted EBITDA increased 8.9% to 165.9 billion yen, and adjusted EBITDA margin increased 1.4 percentage points to 19.5% due to increased adjusted EBITDA margins in HR Technology and Matching & Solutions.

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Operating income increased 1.9% to 121.6 billion yen.

Profit attributable to owners of the parent for Q1 increased 16.1% to 98 billion yen.

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Basic EPS for Q1 was 62.04 yen, an increase of 18.2%. Adjusted EPS, after excluding one-time gains and losses, was 63.63 yen.

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We have received many questions regarding the total number of shares in our company, particularly in relation to previous share repurchases and the recording of share-based payment expenses. As a result, we would like to clarify and reiterate our explanation.

The total number of issued shares as of June 30, 2023 was approximately 1 billion 695.9 million shares, of which approximately 114.3 million shares were held as treasury stock.

From May 18 to June 14 this year, we conducted a Self Tender Offer, and acquired approximately 18 million shares for a total of 62.6 billion yen. However, since the delivery date of the treasury stock was July 6, 2023, the transaction will be recorded in the second quarter and had no impact on the amount of treasury stock at the end of Q1.

Of the 114.3 million shares of treasury stock, 65.3 million have already been contributed to trust accounts established for the granting of shares as compensation for Directors of the Board and Key Management Personnel of Recruit Holdings or employees of HR Technology.

Shares contributed to these trusts are treated as treasury stock for accounting purposes until the shares are delivered.

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Next, we have also received many questions regarding the calculation of adjusted EBITDA, so I will explain the additions and subtractions made from consolidated operating income to arrive at consolidated adjusted EBITDA.

Consolidated operating income for Q1 was 121.6 billion yen. From this, we derive non-GAAP operating income for Q1 of 124.8 billion yen. This is the result of adding back 3.1 billion yen of net other operating income and expenses, including one-time expenses related to the headcount reduction in the HR technology business carried out in the previous fiscal year.

To arrive at consolidated adjusted EBITDA, there are additional adjustments. First, we add back depreciation and amortization of 28 billion yen as a non-cash item while excluding depreciation of right-of-use assets based on IFRS lease accounting of 10 billion yen, which is approximately equal to actual cash expense including rent.

Finally, share-based payment expenses of 23 billion yen are added back, resulting in adjusted EBITDA for Q1 of 165.9 billion yen.

Capital expenditures for the acquisition of property, plant, equipment and intangible assets, or so-called capex, for Q1 was 16.3 billion yen.

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Our expectation remains unchanged that both consolidated revenue and adjusted EBITDA for FY2023 will decrease year over year. We will continue to not disclose full year guidance for FY2023 due to the uncertain outlook in the HR matching market.

We expect to disclose the consolidated full year guidance for FY2023 when it becomes reasonably feasible to do so.

Today, we disclosed our outlook for the 1st half of this fiscal year based on the actual results of Q1 and the outlook for Q2, with the assumption that there will not be a sudden slowdown in the economic environment.

For Q2, we expect consolidated revenue to decrease in a range from 3.2% to 6.1% to 825 to 850 billion yen. Adjusted EBITDA margin is expected to be in a range from 17.3% to 19.5% and adjusted EBITDA to be in a range from 143 to 166 billion yen.

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Based on the Q2 outlook, for the first half of FY2023, we expect consolidated revenue to decrease 2.7% to 1.2% to approximately 1.67 to 1.70 trillion yen. Adjusted EBITDA margin is expected to be 18.4% to 19.5% and adjusted EBITDA to be approximately 308.9 to 331.9 billion yen.

Now, I will explain the first quarter results and the second quarter outlook for each business segment.

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First, I will talk about HR Technology.

US dollar based revenue was 1.87 billion dollars, a decrease of 1.2% quarter over quarter, essentially unchanged from the fourth quarter. Year over year, US dollar based revenue decreased 14.2%, or decreased 14.1% on a constant currency basis, from a record high one year ago.

On a US dollar basis, revenue in the US decreased 1.5%, and revenue outside of the US decreased 0.4% quarter over quarter. Year over year, revenue in the US decreased 18.6% and 1.8% outside of the US.

On a Japanese yen basis, revenue decreased 9.1% year over year, or increased 2.6% quarter over quarter.

While the labor market remained tight globally and total job postings were above pre pandemic levels on February 1, 2020, the supply and demand mismatch between job seekers and employers continued to ease.

Total job postings on Indeed, composed of free and sponsored job postings continued to decrease, but job seeker activity as measured by traffic and applies on Indeed and Glassdoor increased year over year.

In Q1, Indeed's total job openings in the US were down approximately 19%. Paid job ads were down approximately 50% compared to the same period last year, when hiring demand was at its peak.

The decline in paid job ads can be attributed to the easing of supply and demand in the labor market and pricing model changes designed to deliver more value to our clients. Pay Per Application, or PPA, and Pay Per Started Application, or PPSA are pay for performance pricing models which only charge employers when job seekers complete an application or start the application process.

In particular, under the PPSA model which was expanded in the first quarter, jobs that only receive clicks, but no applications or started applications, are no longer counted as paid jobs. While these changes contributed to the 50% decrease in the number of paid job ads in the US, the value provided to job seekers and employers on Indeed as a matching platform has increased, leading to a higher average revenue per job ad. As a result, US revenue declined just 18.6% year over year.

Adjusted EBITDA was 98.1 billion yen.

Adjusted EBITDA margin increased 4.4 percentage points to 38.1% year over year due to lower global advertising expenses, or 7.5 percentage points quarter over quarter mainly due to the workforce reduction executed in the fourth quarter of the previous fiscal year in addition to other cost reduction measures.

Regarding our second quarter and FY2023 outlook, revenue on a US dollar basis in July decreased approximately 17%, and we expect revenue in Q2 will decline approximately 7% to 2.5% quarter over quarter, which is equal to a decrease of approximately 20% to 16%, compared to Q2 last year.

Adjusted EBITDA margin for Q2 is expected to be approximately 33% to 37%.

We will respond to changes in the business environment and implement cost control measures as needed, while balancing continued strategic investments for long-term growth.

As previously mentioned in May, we do not prioritize maintaining a certain adjusted EBITDA margin level, such as the level we expect for Q2 or during the first half of this fiscal year.

Since we expect revenue and adjusted EBITDA for the second half of fiscal year to decrease year over year, there is no change at this time to the previously announced full year outlook for a decrease in revenue and adjusted EBITDA for HR Technology.

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Next, I will talk about the results of Matching & Solutions.

Revenue in Matching & Solutions was 199.9 billion yen, an increase of 10.8%, with double digit revenue growth in both Marketing Solutions and HR Solutions.

Adjusted EBITDA margin was 21.3%, an increase of 3.9 percentage points due to cost control measures mainly related to advertising expenses, while continuing to invest in marketing activities and other areas for future growth.

Revenue in Marketing Solutions was 116.6 billion yen, an increase of 11.2%, as the business environment in Japan did not change significantly from Q4.

Revenue in Housing & Real Estate, Beauty, Travel, Bridal, and Dining all increased. In particular, revenue in Housing & Real Estate increased due to increased advertising demand from business clients amid rising prices of newly built houses.

Revenue in Beauty increased due to continued growth in new business clients, and revenue in Travel increased due to the effect of rising unit prices driven by increased demand for domestic travel during the Golden Week holidays following the transition of Corona to Class 5 and increased demand from overseas travelers.

Adjusted EBITDA margin for Marketing Solutions was approximately 27% due to appropriate cost controls, mainly related to advertising expenses.

The SaaS business, represented by Air Business Tools, is included in Marketing Solutions. During the first quarter, the number of SaaS accounts rose 26.5% to 3.34 million, driven by growth in Air Pay and Air Shift accounts.

In HR Solutions, although some business clients tended to be more cautious about hiring, the recruiting market as a whole saw continued growth in hiring demand across a wide range of industries. As a result, revenue in HR Solutions increased 11.3% to 80.8 billion yen.

In Q1 FY2023, adjusted EBITDA margin for HR Solutions was approximately 25%, due to a year over year decrease in advertising expenses, compared to the same period last year when we invested in strategic marketing activities.

Regarding the Q2 and FY2023 outlook for Matching & Solutions, revenue in Marketing Solutions for Q2 is expected to increase approximately 7% year over year, and revenue in HR Solutions for Q2 is expected to increase approximately 9% year over year.

Adjusted EBITDA margin is expected to be approximately 22% in Q2.

Based on the assumption that Japan's economic environment will not change significantly, there is no revision in the full-year guidance for Matching & Solutions from what we previously announced on May 15. Revenue in Marketing Solutions is expected to increase approximately 4%, revenue in HR Solutions to increase approximately 6%, and adjusted EBITDA margin to be approximately 20%.

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Finally, I will talk about the results of Staffing.

Revenue in Q1 was 401.4 billion yen, an increase of 4.1% or an increase of 1.2% on a constant currency basis.

Revenue in Japan was 186.1 billion yen, an increase of 12.7% due to an increase in the number of temporary staff on assignment as a result of continued growth in demand for staffing services.

Revenue in Europe, US, and Australia was 215.2 billion yen, a decrease of 2.4%, or a decrease of 7.4% on a constant currency basis as demand for temporary staffing services slowed against the backdrop of an uncertain economic outlook.

Adjusted EBITDA was 26.7 billion yen, a decrease of 2.0%, and adjusted EBITDA margin was 6.7%.

Regarding the Q2 outlook for Staffing, quarter over quarter, revenue in Japan and in Europe, US and Australia is expected to be approximately flat. Year over year, revenue in Japan is expected to increase approximately 11%, and revenue in Europe, US and Australia is expected to decrease approximately 7%.

Adjusted EBITDA margin is expected to be approximately 6.5% in Q2.

There is no revision in the full-year guidance for Staffing which we announced on May 15.

Please refer to the IR website for more details.

This concludes my presentation.

Thank you.

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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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