Recruit Holdings Q2 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 present the financial results for the second quarter of FY2023.

In this presentation, FY2023 means the fiscal year ending March 31, 2024.

Please note that all comparisons during this conference call are year over year unless otherwise stated.

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I will begin with the Consolidated Results of Operations.

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Consolidated revenue in Q2 decreased 2.7% to 855.1 billion yen. Excluding the positive impact of foreign exchange, revenue decreased 5.7%.

Consolidated revenue was slightly above the upper end of the outlook range of 825 to 850 billion yen, which we provided at the earnings announcement in August. The expected revenue decline in HR Technology and in Europe, US, and Australia in Staffing was partially mitigated by the positive impact of foreign exchange and revenue increased in Matching & Solutions.

Consolidated adjusted EBITDA increased 11.7% to 162.2 billion yen, which was close to the upper end of the outlook range of 143 to 166 billion yen. Adjusted EBITDA margin increased 2.4 percentage points to 19.0% due to higher adjusted EBITDA margins in HR Technology and Matching & Solutions.

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Operating income increased 7.0% to 116.1 billion yen.

Profit attributable to owners of the parent increased 34.9% to 115 billion yen due to the impact of an internal legal entity restructuring in the HR Technology segment, which decreased the consolidated income tax rate.

This decrease in the consolidated income tax rate is a one-time impact only for FY2023.

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Basic EPS was 73.46 yen, an increase of 38.7% and Adjusted EPS, after excluding one-time gains and losses, was 64.41 yen.

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For the first half of FY2023, consolidated revenue decreased 0.9%, consolidated adjusted EBITDA increased 10.3% and adjusted EBITDA margin was 19.2%.

Profit attributable to owners of the parent increased 25.5%.

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Today, we disclosed our outlook for Q3 FY2023, assuming there will not be a sudden deterioration in the economic environment.

For Q3, we expect consolidated revenue to be in the range of 840.0 to 860.0 billion yen, a decrease of 4.6% to 2.3%.

Adjusted EBITDA is expected to be in a range of 130 to 145 billion yen.

Due to the uncertain outlook in the HR matching market, particularly for Q4 FY2023, we are again not providing full year FY2023 guidance at this time. We expect to provide consolidated full year guidance when it becomes reasonably feasible to do so.

We had previously announced that we expected a decline in both revenue and adjusted EBITDA for the full year.

Our expectation for a decline in revenue remains unchanged. However, based on the first half performance and assuming the current business environment does not deteriorate significantly, we believe adjusted EBITDA for the full year will either decrease slightly or remain at the same level compared to last year.

Additionally, if no significant one-time losses are incurred in the second half of this fiscal year, profit attributable to owners of the parent and basic EPS are expected to increase this fiscal year as a result of the lower consolidated income tax rate mentioned earlier.

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

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First, I will talk about HR Technology.

US dollar based revenue was 1.77 billion dollars, representing a decrease of 5.2% quarter over quarter. This result was close to the midpoint of the previously announced outlook range provided in August, which was an expected decrease of 7% to 2.5% from the first quarter of this fiscal year.

Year over year, US dollar based revenue decreased 18.2%, or 19.1% on a constant currency basis.

On a US dollar basis, revenue in the US decreased 6.5%, while outside of the US revenue decreased 1.9% quarter over quarter. On a year over year basis, revenue in the US decreased 23.5% and 2.9% outside of the US.

On a Japanese yen basis, revenue decreased 0.2% quarter over quarter and 14.4% year over year.

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

This was also reflected on Indeed and Glassdoor. While total job postings, which include both free and sponsored listings, continued to decrease, job seeker activity as measured by traffic and applies on our hiring platforms continued to increase.

In Q2, Indeed's total job openings in the US were down approximately 16% year over year, while paid job ads declined approximately 50% compared to the same period last year, when hiring demand was near its peak.

The decline in paid job ads can be attributed to two primary factors: the easing of the tightness in the labor market and ongoing enhancements to Indeed's pricing model which are designed to deliver a better job search and hiring experience for job seekers and employers.

In particular, pricing improvements including the shift to Pay Per Started Application in combination with minimum budgets, were further implemented. These changes led to a continued decline in the overall volume of paid job ads on Indeed, especially for jobs with very low budgets. As a result, the average revenue per job ad increased.

Given that these pricing adjustments and improvements are expected to continue impacting paid job ad volumes on Indeed, this metric is no longer considered to be a reliable indicator of HR Technology revenue trends. Consequently, we will no longer report the change in the number of paid jobs on a quarterly basis.

Adjusted EBITDA was 92.1 billion yen, resulting in an adjusted EBITDA margin of 35.8%, slightly above the midpoint of the outlook range announced in August, from 33% to 37%.

Adjusted EBITDA margin increased 5.5 percentage points primarily due to lower advertising expenses and personnel costs. However, adjusted EBITDA margin decreased 2.2 percentage points quarter over quarter.

For the six months period, revenue on a US dollar basis in the US decreased 21.0%, and revenue outside of the US decreased 2.4% year over year.

Cost control measures have been implemented throughout the first half of FY2023. As a result, sales commission, promotion expenses and advertising expenses amounted to approximately 11% of revenue, while employee benefit expenses and service outsourcing expenses totaled approximately 51% of revenue.

Adjusted EBITDA increased 1.9% to 190.2 billion yen and adjusted EBITDA margin was 36.9%.

Regarding our third quarter and FY2023 outlook, we expect revenue in Q3 will decline approximately 9% quarter over quarter, which is equal to a decrease of approximately 18% year over year.

Revenue on a US dollar basis in October decreased approximately 18%,

Adjusted EBITDA margin for Q3 is expected to be approximately 27%, as we expect operating expenses to remain approximately flat quarter over quarter while revenue declines.

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

As we have mentioned previously in May, we do not prioritize maintaining a specific adjusted EBITDA margin level, such as the level we expect for Q3.

As for the FY2023 outlook for HR Technology, since we expect a year over year decrease in revenue and adjusted EBITDA for the second half of the fiscal year, the full year outlook for a decrease in both revenue and adjusted EBITDA for HR Technology remains unchanged.

At the Fireside Chat in May, Deko presented a hypothetical scenario: If revenue declined 20% in HR Technology for FY2023, adjusted EBITDA margin would be around the mid 20%'s.

Considering the progress on cost controls implemented during the first half of the fiscal year, we now anticipate the margin would be in the upper 20%'s range under this hypothetical scenario, in which the business environment in Q4 becomes more challenging than we currently expect.

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

Revenue in Matching & Solutions was 200.1 billion yen, an increase of 8.1% with revenue growth both in Marketing Solutions and HR Solutions.

Adjusted EBITDA increased 65.5% to 46.2 billion yen due to appropriate cost control measures related to advertising expenses, while continuing to invest in marketing activities and other areas for future growth.

Adjusted EBITDA margin was 23.1%, an increase of 8.0 percentage points.

Revenue in Marketing Solutions was 123.4 billion yen, an increase of 10.3%, exceeding our outlook. Revenue increased across all verticals including Housing & Real Estate, Beauty, Travel, Bridal, and Dining, as the business environment in Japan remained relatively stable compared to Q1.

Revenue in Housing & Real Estate increased due to higher advertising demand from business clients.

Revenue in Beauty increased due to continued growth in new business clients. Revenue in Travel increased mainly due to higher unit prices driven by stronger demand from overseas travelers.

Adjusted EBITDA margin for Marketing Solutions was approximately 32% due to appropriate cost controls, mainly related to advertising expenses.

The SaaS business, represented by Air Business Tools, is included in Marketing Solutions. During Q2, the number of SaaS accounts rose 22.2% to 3.46 million, driven by growth in Air Pay and Air Shift accounts.

In HR Solutions, the outlook provided in August was revenue growth of approximately 9%, however, the job advertising service did not grow as much as expected due to lower demand from some business clients.

At the same time, demand for the placement service continued to increase as 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 approximately 5.5% to 74.1 billion yen.

In Q2 FY2023, adjusted EBITDA margin for HR Solutions was approximately 21%.

For the six months period, revenue in Marketing Solutions increased 10.7%, and revenue in HR Solutions increased 8.4%, and total revenue in Matching & Solutions increased 9.4%.

The total amount of sales commission, promotion expenses and advertising expenses were approximately 21% of revenue, and employee benefit expenses and service outsourcing expenses totaled approximately 40% of revenue.

Adjusted EBITDA increased 49.7% to 88.7 billion yen, and adjusted EBITDA margin was 22.2%

Adjusted EBITDA margin for Marketing Solutions was approximately 30% and for HR Solutions was approximately 23%.

Regarding the Q3 outlook for Matching & Solutions, revenue in Marketing Solutions for Q3 is expected to increase approximately 7% year over year, and revenue in HR Solutions for Q3 is expected to increase approximately 2% year over year.

Adjusted EBITDA margin is expected to be approximately 23% in Q3.

Regarding the FY2023 outlook, on the May 15th earnings call, we had announced that revenue in Marketing Solutions was expected to increase by approximately 4% and in HR Solutions by approximately 6%, and adjusted EBITDA margin was expected to be approximately 20%.

However, we have revised our outlook to an increase in revenue in Marketing Solutions of approximately 8.5% and an increase in revenue in HR Solutions of approximately 4.5%. This is based on the results of the first half of the fiscal year, and the most recent second half outlook for each area, assuming that Japan's economic environment will not change significantly.

The outlook for adjusted EBITDA margin of approximately 20% for FY2023 remains unchanged, as we plan to book significant advertising expenses in Q4 as in previous years.

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Next, I will talk about the results of Staffing.

Revenue in Q2 was 406.3 billion yen, an increase of 1.5% or a decrease of 2.4% on a constant currency basis.

Revenue in Japan was 184 billion yen, an increase of 10.9% driven by 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 222.2 billion yen, a decrease of 5.1%, or a decrease of 11.8% on a constant currency basis, as demand for temporary staffing services slowed continuously against the backdrop of an uncertain economic outlook.

Adjusted EBITDA for the segment was 25.3 billion yen, a decrease of 9.2%, and adjusted EBITDA margin was 6.2%.

In the first half of FY2023, revenue in Japan increased 11.8% while revenue in Europe, US, and Australia decreased 3.8%

Adjusted EBITDA for the first half of FY2023 was 52 billion yen, a decrease of 5.6%.

Regarding the Q3 outlook for Staffing, quarter over quarter, revenue is expected to increase approximately 4%. Year over year, revenue in Japan is expected to increase approximately 11%, and revenue in Europe, US and Australia is expected to decrease approximately 5%.

Adjusted EBITDA margin is expected to be approximately 7%.

On May 15th, we announced that revenue for Staffing in Japan was expected to increase by approximately 9% for FY2023, but this has been revised upwards to approximately 10% based on the results of the first half and the outlook for the second half.

At the same time, we expect demand for temporary staffing services in Europe, US and Australia to continue to slow due to the uncertain economic outlook.

The outlook for Adjusted EBITDA margin of 6% for FY2023 remains unchanged at this point.

Please refer to the IR website for more details.

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Finally, I would like to provide an additional breakdown of revenue in the Marketing Solutions business in Matching & Solutions.

Since the reorganization of core operating and functional subsidiaries into Matching & Solutions in April 2021, we have not disclosed revenue for each vertical in Marketing Solutions.

However, we have received a number of questions from global institutional investors about each vertical, and about the positioning and progress of our SaaS business. To help you better understand our strategic pillar, Help Businesses Work Smarter in Japan, we have decided to disclose a breakdown of revenue in Marketing Solutions for the first half of FY2023.

The breakdown in line with the current business strategy is shown in this pie chart.

We believe it is appropriate to look at Beauty, Travel, and Dining together with SaaS, as those verticals have the highest need among our business clients for SaaS solutions and the highest number of actions by individual users among our matching platforms.

In the first half of FY2023, revenue in these three verticals, including from SaaS solutions, increased approximately 17% to 120 billion yen year over year, which is approximately 50% of the total revenue of Marketing Solutions.

Revenue in Beauty, which represents approximately 22% of total revenue in Marketing Solutions, increased steadily by approximately 8% year over year to 52.7 billion yen in the first half of FY2023.

Additionally, revenue in Travel, Dining, and SaaS solutions each increased significantly compared to the same period last year.

Air BusinessTools has not only helped us strengthen relationships with existing business clients, but has also helped us acquire new clients across various industries.

AirPAY in SaaS solutions continues to perform well. Gross Payment Volume, which is a KPI of our strategic pillar Help Businesses Work Smarter and a crucial element to expand fintech services, is growing steadily. We are advancing in our effort to establish a unique ecosystem in Japan.

Housing & Real Estate is the largest business in Marketing Solutions with revenue of 70.1 billion yen or approximately 29% of overall revenue in Marketing Solutions in the first half of FY2023.

Others in Marketing Solutions including Car, Education, Bridal and others account for approximately 21% of revenue. (Revenue in each vertical is an unaudited internal measure)

We aim to grow revenue in Housing & Real Estate and Others in the future by continuously providing services which offer greater convenience for both individual users and business clients while further enhancing our services.

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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