**This is an edited version of the English translation of the Q3 FY2023 earnings call which was conducted in Japanese. Please note there are differences between the simultaneous English audio translation during the Q&A session and this summary.**

**Recruit Holdings Q3 FY2023 Earnings Call**

**February 9, 2024**

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**Mizuho:** Welcome to the Recruit Holdings Co., Ltd. Q3 FY2023 earnings conference call.

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

I am Mizuho from IR and PR, and joining me today is Junichi Arai, Senior Vice President - Corporate Strategy and Investor Relations of Recruit Holdings.

**Jun:** Thank you all for joining today.

Earlier at 3 p.m., we disclosed our FY2023 Q3 financial results, Q4 outlook and full year guidance. Many of you may have already watched the video presentation of the financial results, but I would like to give you a brief summary.

Although we have assumed a decrease in consolidated revenue and adjusted EBITDA for the full year due to the deteriorating business environment and uncertainty in the future during the fiscal year, today, we disclosed that consolidated revenue is expected to be approximately flat year over year, and approximately 3.4 trillion yen and consolidated adjusted EBITDA is expected to be approximately 585 billion yen, due to a significant increase in adjusted EBITDA margin in Matching & Solutions and in the adjusted EBITDA margin increase in HR Technology, resulting from cost controls throughout the fiscal year.

Net income and profit attributable to owners of the parent is expected to be approximately 355 billion yen and approximately 354 billion yen, to record highs. Basic EPS and adjusted EPS are expected to increase approximately 34.1% and 16.9% respectively.

Consolidate revenue for Q3 decreased 1.5% due to continued lower revenue in HR Technology despite revenue increases in Matching & Solutions and Staffing.

Consolidated adjusted EBITDA margin increased 2.5 percentage points to 18.3% as a result of cost controls.

Next, HR Technology in Q3, US dollar based revenue decreased 17.2% and adjusted EBITDA margin was 33.2%, which was above the outlook announced. For Q4, revenue based on US dollar is expected to be approximately flat quarter over quarter with a potential small incremental benefit from Indeed PLUS.

Adjusted EBITDA margin for Q4 is expected to be approximately 27% as we expect operating expenses to increase quarter over quarter due primarily to seasonal increases in personnel costs and advertising expenses and incremental costs related to indeed PLUS.

We expect US dollar based revenue for FY2023 to decrease approximately 15.5% and adjusted EBITDA margin of approximately 34%.

For Matching & Solutions, revenue in HR solutions for Q3 decreased 0.8% to 73.1 billion and revenue in Marketing Solutions increased 7.1% adjusted EBITDA margin was 23.3%.

Revenue in HR Solutions in Q4 is expected to decrease approximately 4.5% due to the continued downward revenue trend in the job advertisement service and the impact from transition of revenue to HR Technology due to Indeed PLUS.

Revenue in Marketing Solutions is expected to increase approximately 7%.

Adjusted EBITDA is expected to improve from the previous year to approximately 12.5% with advertising expenses in anticipation of the new fiscal year as in the past.

For FY2023, revenue in HR Solutions is expected to increase approximately 2.5% and revenue in Marketing Solutions is expected to increase approximately 9%.

Adjusted EBITDA margin in Matching & Solutions for FY2023, is expected to be approximately 20% in line with our initial estimate.

For Staffing, based on results through Q3 and outlook for Q4, we expect revenue in *Japan* for FY2023 to increase approximately 10% while revenue in *Europe, US and Australia* is expected to decrease approximately 2%. Adjusted EBITDA margin is expected to be approximately 6%, in line with our initial outlook.

Next, I'd like to briefly introduce Indeed PLUS which is quite important to progress on business strategy before moving on to Q&A.

I appreciate sell side equity research analysts who have already published their research reports regarding Indeed PLUS. Starting with Indeed PLUS we will quickly promote the conversion of HR Solutions in Matching & Solutions into a HR Technology business and promote Simplify Hiring in Japan.

Indeed PLUS has been developed and prepared in the Japanese market, which is the second largest HR matching market after the United States, as a cross business project by HR Solutions in Matching & Solutions and HR Technology since 2021.

It supports the efficient hiring of the best matched talent and simplifies the complicated hiring process. Indeed PLUS is a job distribution platform that automatically distributes jobs to the most appropriate job boards based on the job content by linking multiple job boards.

For the 12 months through December 2023, HR Solutions revenue in the job advertising business for full time and part time job seekers was approximately 115 billion yen and Indeed revenue in Japan was approximately 68 billion yen.

Each of the job boards operated by HR Solutions in Matching & Solutions will gradually become job boards linked to Indeed PLUS and revenue from job advertising services in HR Solutions will be gradually shifting to Indeed Japan.

In addition, Indeed expects to further increase its revenue in Japan in the medium to long term by acquiring new employers who use Indeed PLUS and by increasing the average revenue of existing employers.

Now I would like to take your questions.

**Mizuho:** If you have a question, please click on the Zoom raise hand button. Please unmute before asking your question. We will accept up to two questions at a time. So first, JP Morgan Mori-san, please.

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

First, is Indeed PLUS, that you just mentioned. Could you please elaborate more on that? I don't have a full understanding. First of all, your full-time and part-time job advertising business was approximately 115 billion yen in revenue. From my understanding this revenue will gradually shift to HR Technology.

So if it is just a simple shift by moving to PPC, the revenue per customer may dip in the short term, but in the medium to long term, I understand that it has a big potential. What is the timeline you have in mind for the clients to shift? How do you think the revenue will trend, will it dip once and then recover and grow from there onward?

Where will the transition be in the next year? It has only been 10 days since the launch, but what has been the response or feedback from current advertisers? What do you think about acquiring new advertisers?

**Jun:** Thank you. Please go ahead with your second question.

**Mori:** HR Technology, you mentioned that you sunsetted PPA. Are you back to a blank slate for increasing revenue per job? Are you taking various new measures? Will the next measure come very shortly? Tell me about your efforts to add value. How will the revenue per job develop once you stop offering PPA? Could you elaborate on your initiatives to provide added value?

I have another question. From my understanding Smart Sourcing will be launched in the spring. I don't have the full picture yet, but is your primary intent to increase the revenue per job with that product? Thank you very much.

**Jun:** First, starting with your question regarding Indeed PLUS and the job ad business in Japan. This is the revenue that our sales team is creating and generating as well as through agencies. And this has been the case historically, this has been the model all along. It is influenced by many factors, including business client preference and agency behavior, as well as the preferences and evolution of job seekers.

We are not setting a fixed timeline for the shift. All these factors will need to be watched and monitored closely so the shift can be implemented smoothly and expeditiously. We have no intention of taking an unnecessarily long time on the shift.

In May, we will provide an update on our progress. Will revenue decline or dip once or not? Even if that happens, as Mori-san just said, this will lead to a more efficient, simplified hiring process in the medium to long term. So there may be some decline as part of the transition, but this will be beneficial in the long run.

And revenue, the 115 billion yen you mentioned, whether this all shifts to Indeed, the revenue recognition is different. On the Indeed or HR Technology side, revenue via agencies is invoiced from the agency, so that revenue will be recognized on a net basis.

For HR Solutions, that revenue is invoiced by Recruit, so the revenue is recognized on a gross basis, including the fee paid to the agency, which is also recorded to Sales Promotions expenses. So the number is different. It’s not just a one for one shift from one side to the other side.

We hope to realize the shift as quickly as possible. It depends on how our business clients manage their budgets, but if it goes well we should be able to avoid a big downside. We started the launch on January 30th, so it's too early to make a judgment, but our business clients say that they are enjoying a simpler process because all the back and forth communication that used to take place can be avoided and the new process is convenient and easy to use.

So the feedback is positive, that’s what we’re hearing internally. On the job seeker side, job seekers experience a positive change of seeing more jobs on a site like Rikunabi NEXT. So if this trend continues, we can realize and complete a smooth transition.

For your second question on the sunsetting of PPA, in the FAQ #2, we have more details. Pay for performance will continue to be the basis for changes and validated. Not necessarily through a dramatic shift like PPA, but more like PPSA. We will adjust the billing based on the feedback of our business clients.

Smart Sourcing is a new product using AI. We are trying many things, we always do. And we had very positive feedback from our clients using the Smart Sourcing product. As you said correctly, this product is intended to improve the revenue per job.

It’s part of our pursuit to improve our performance by providing more value, to take on various challenges to try to accomplish our goal. So we stopped using PPA, but we will remain committed to delivering value.

**Mori:** Thank you. I have a follow up question on my second question. So, do you expect next fiscal year that HR Technology revenue will be driven more by job volume.

**Jun:** Despite the declining job volume, revenue declined little or flat, which means the revenue per job is increasing. Of course, it is a business that is heavily impacted by job volume, but compared to the past, revenue per job is increasing.

So, we will continue pursuing that and try to increase the revenue per job further, so that we are not heavily dependent on volume. We are trying to improve our performance, and thereby increasing the revenue per job and continue having our clients use our product and enjoy the value that we can offer.

**Mizuho:** Next, Munakata-san from Goldman Sachs Securities, please.

**Munakata:** I have two questions. First question is regarding the sunsetting of the PPA. In your explanation, you said that there was a discrepancy between the expectations and the actual usage by the clients for paying for the qualified job applicants. Is it my understanding that there is not a problem with the PPA concept itself, but rather that there was a discrepancy between the initial expectations and the technical mechanism, such as the acceptance of the application by the company within 72 hours of submitting it?

Or was there some positive feedback from the Pay Per Application model itself or the concept itself, which could help you to continue to promote the pay-for-performance model going forward in a different shape?

My second question may be difficult to respond immediately. In the Q3 earnings call one year ago, management commented that revenue is likely to decline in FY2023 and FY2024. One year has passed since then. Are there any changes in the outlook for the next fiscal year or anything that you can comment on now. Thank you very much.

**Jun:** Let me respond to your second question first. We would like to talk about this in May. We are currently having discussions with the business units and looking at the numbers. That is where we are currently at. It is premature to make any comments today, and so I would like to refrain from giving any clear answer.

But with regard to the first time that we're able to provide the full year outlook for next fiscal year, at this juncture, it’s unknown if we will have the visibility to do this for the full year in May.

As I responded to the previous question, we will never stop evolving our business, how we can grow our revenue and expand our margin. We will develop excellent products which are used by clients and by many job seekers, and that is the way for us to grow our business. This is not something that we do in a single year.

So what kind of year will next fiscal year be? This is still being formulated, we’re still working on it. Please refer to the trend from Q3 to Q4, in order to consider what will be the next fiscal year projections until we provide an update.

Going back to your first question, regarding the PPA reject and replace feature within 72 hours. From the employer side, we discovered that this was actually a large-scale change in their hiring process.

Especially larger clients, they had to work on the weekends and even during long holidays they had to respond to applications. And that was quite cumbersome for them. That was the feedback that we received from employers.

But in order to use this product, employers had to comply with this process. This was a hurdle for the employer side.

On the other hand, from the job seekers perspective, it's an excellent product. We tried, but we were not able to resolve the challenges for employers and so it was difficult for us to further expand PPA.

And some employers took advantage of the reject or replace option. They would reject the candidate on Indeed and then send an email directly to the applicant to continue the hiring process. This was something that we did not expect. We saw growth in the number of rejections toward the end. Hence, we decided to not further improve the product, but rather to sunset the product.

**Munakata:** Thank you. I have one follow up regarding PPA, thank you very much for the clear explanation.There may be some overlap to the previous question.

Regarding the next fiscal year, I understand that the shift to PPSA is almost complete in the US. So you will establish the PPSA pricing model, and will be rather looking at incremental changes to add value while improving the unit price. Is this understanding correct?

**Jun:** For the next fiscal year, I will provide more detail in May. But basically we will forge ahead with PPSA, but we will also conduct various tests. The successful tests, we will share with you as soon as possible, but not every test is going to be successful. So there will be trial and error.

We will choose the initiatives that have a high probability of success. After launching we will listen to customer feedback carefully before we will make further improvements and expand and continue that cycle. Our challenge will continue.

**Munakata:** Thank you very much. That's very clear. I look forward to your new tests. Thank you.

**Jun:** At the end of March. The leaders of each business will talk in more detail about their specific initiatives. Please participate at the event in March.

**Munakata:** Thank you. I look forward to it.

**Mizuho:** So next Citi Securities, Yamamura-san please.

**Yamamura:** Thank you, I'm Yamamura. I have two questions. First, is regarding the medium term perspective on Indeed PLUS. First, you will eliminate the redundancies and this will improve the efficiency in terms of the structure of your organization. In the medium term, wallet share will increase. How could I understand this?

If you can hire more efficiently and faster with Indeed PLUS, you will not need to advertise on other media, including other companies, and demand will gradually converge on Indeed PLUS, expanding its market share. Is this correct?

On the other hand, I still have the impression that business clients will continue to place their job advertisements in multiple media for the time being and see how it goes, so I would like to know how we should think about the mid-term approach, including the time axis.

The second question is regarding HR Solutions revenue in Matching & Solutions in Q3. So in Q3 Indeed PLUS impact was probably non-existent. So the revenue decline is not related to that. Is that correct?

In Q2, some business clients canceled and there was a temporary weakness. Maybe that trend is still ongoing? After Indeed PLUS started, the situation may change?

But advertising expenses were reduced and so the revenue may remain weak. It appears that HR solutions in Matching & Solutions may be less competitive and that is why you are trying to improve, by taking these measures by introducing Indeed PLUS?

**Jun:** Thank you. Regarding your first question on Indeed PLUS medium term approach. The ultimate goal of our business clients is to hire people. So it's not about placing ads on multiple media platforms, but of controlling the display of advertisements to the most suitable job seekers according to the budget. As AI matching continues to evolve, the return on budget from business clients' viewpoint will gradually increase. If our AI driven matching is the best, we will win. That we see as the biggest impact. That is the essence of the Simplify Hiring strategy.

It's not just about shifting to Indeed PLUS. Beyond that, it is about improving the matching accuracy. We are focusing on that technology to improve the precision.

It's not just about Indeed, it's not just about the Japan business. We are trying to invest to improve our services to become more competitive as a company-wide effort. So it is not just about Indeed PLUS that alone is not the goal. If these business clients are willing to spend more budget that will be appreciated, but that is not the goal. Our end goal is how to improve matching.

The growth for HR Solutions was negative 0.8% in Q3. I will not provide details, but the placement business is doing well, it remains strong. However, that media side of business, the entire market is slightly weakening. So that is the background.

Of course, as the Indeed PLUS project was progressing, engineering and sales were more focused on that project, but the slow down of the overall market was a big factor.

As I said earlier, and I also mentioned in the script, this project started in 2021, and we have been working on it for quite some time. It is not something we just came up with in order to address a short term market dip. It is not a quick fix. So the reduction in advertisement is not leading to the revenue decline.

Other competitors are using as much advertisement expenses and of course there's a comparison with us and our peers. But the market projection, or the views on the market environment, are different from one another.

**Yamamura:** Understood. Thank you very much.

**Mizuho:** Next, Nagao san from BofA please.

**Nagao**: I'm Nagao, I have two questions. First regarding the HR Technology adjusted EBITDA margin. Actual revenue was basically in line with the guidance you provided. But in terms of adjusted EBITDA margin, you have overperformed the guidance for three consecutive quarters. Based on the adjusted EBITDA margin trend, is there a sense of optimism among the top management, or is there a continued conservative stance regarding the margin? Additionally, looking at the US economic indicators, employment trends have continued to improve for quite a long time.

HR Technology revenue is still declining. But looking at the US advertising market, there is a large recovery expected in the second half of 2024. So little by little I believe that there are signs of optimism for HR Tech revenue going forward. So I would like to ask the mindset of the board members regarding the future trends.

My second question is regarding the share repurchase program that was announced on the 13th of December. What was the rationale regarding that timing?

I believe this share repurchase will end in July 2024. After that, are there any changes in terms of the shareholder return policy? Those are my two questions. Thank you.

**Jun:** As far as I know, Deko has never been optimistic. He always feels a sense of urgency and assumes the worst in his management, that is my view. Of course, there are good times and bad times in the market. It's a balanced mindset, I believe, in growing the business and that is the thinking of the rest of the board as well.

Going back to your question. I believe tech companies in the US share a similar view. Rather than growing the top line aggressively, the focus is more on allocating resources for organizational and operational efficiency.

In the long history of Recruit, we have seen the productivity for our organization increase .When the HR market is tough, we take measures to improve the organizational efficiency, and we have subsequently grown stronger. As in the past, we would like to continue operating this way going forward. That was the response to your first question.

Regarding the share repurchase announced in December, why that timing?

We have conducted two share repurchases through a self tender offer this fiscal year and now we have a share repurchase program run by the brokerage firms. We did not want to conduct these simultaneously. As we have completed the repurchases through a self tender offer, we are able to start the share repurchase program.

As we disclosed today, adjusted EBITDA margin improvement measures have been quite effective. And the tax benefits from the organizational change increased our bottom line above our initial expectations. Then the dividend, as well as the self tender offer that we conducted twice, the return to the shareholders in terms of the ratio, would be inferior to the previous year based on the calculations.

Given that background, since we have confirmed there were no immediate plans to invest in a large scale M&A we were ready to provide shareholders returns, and that is why we announced it at that timing.

That program is running until the end of July. The reason being, what kind of return we can provide to the shareholders? We also considered the amount and duration of the program and consulted with a brokerage firm. As a result, we decided that December through July was the right length of time for the program.

The ongoing capital allocation policy has not changed. It is rather that we have done one by one according to our prioritization, and the last item is the buyback, which we are conducting in an flexible manner in order to secure the return to shareholders.

**Nagao:** Thank you. In that case, this will not be something that you'll be conducting on a regular basis going forward, but rather that you will look at the overall picture and conduct such share repurchases flexibly.

**Jun:** You’re right, there is no change to our stance. Depending on the investor, someone says that flexible share buyback is fine, but the company should provide a more clear direction on this. So taking that feedback, flexible of course, sounds good, but in what kind of situation will we conduct the share buyback may not be as clear. So in May we hope to provide more explanation regarding our capital allocation.

**Mizuho:** Next Tanioka-san from Macquarie Securities, please.

**Tanioka:** Tanioka from Macquarie Securities. I have two questions. First one is related to the earlier question. You talked about the self tender offer. Your company is in the middle of a share repurchase period. Corporate shareholders still hold a big amount of your shares. If there is an offer from such shareholders to buy back their shares, would it be correct to say that you are prepared to accept the offer?

And the second question is last year, about one year ago, Indeed, HR Technology, the headcount reduction was announced, and now you're a lean structure, a highly productive structure. What will be the trigger for rehiring? Again, same question from last time.

**Jun:** Thank you. I answered in your earlier question, we are currently in the period, and as I said, during this share repurchase period, if there is a request from large shareholders, a self tender offer will be a discounted transaction in that case. We will probably not run this in parallel. There is no consistency if we do these two in parallel.

If one ends and the other starts, that may be something we can consider, but the timing and other factors need to be aligned. During the share repurchase period, a TOB, discounted tender offer, will not be done for the specific shareholders, but if there are requests that come in, we will discuss afterwards. And no particular requests at this point, though.

To your second question, last year, at the end of March we did the headcount reduction. For hiring, we are doing this in a very selective manner. It's not just a big resumption of hiring. If there are talented, capable personnel and if there is a strategic focus area we want to increase our resourcing of, we will open that position and hire on a selective basis. We are not planning on increasing the headcount aggressively again.

In case we have new product developments or new initiatives, these projects are ongoing. So we will consider shifting people and also hiring people in some cases. Our talent portfolio will be kept at an optimum level.

**Mizuho:** We have responded to all the questions raised. It's a bit early but we'd like to close the session here. Lastly, one more comment from Arai-san.

**Jun:** In the last week of March 2024, on the morning of March 27th, the evening of the 28th and the evening of the 29th Japan time, we will be hosting our inaugural Investor Update FY2023 virtually, spanning 3 days. This has already been announced.

As I mentioned earlier, this event will feature the senior management of Recruit Holdings as well as the business and product leaders from the SBUs and the members of Sustainability Committee. Together we will discuss updates to our business strategies and the latest product innovations.

For the Institutional investors and the sell-side analysts, our business side members will be presenting their activities and product developments. We hope to share such information to further enhance your understanding.

Please note financial data related to results and guidance, including FY2023 financial results and guidance for FY2024 will not be discussed at the event in March. These numbers will be discussed by Deko or myself after our full year results announcement in May.

Details of the Investor Update FY2023 can be found on our IR website.

The presentations will be recorded as well so that you can watch them later as well. But I hope that you will join us for the events. Thank you very much.

**Mizuho:** The link for the Investor Update events are updated on the webpage as of yesterday. Thank you very much for joining us today.

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