Recruit Holdings Q3 FY2023 Results Presentation

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Shen: Hello everyone. Welcome to Recruit Holdings’ earnings call for the third quarter, FY2023.

On this call, “FY2023” means the fiscal year ending March 31, 2024.

All the growth comparisons are year over year, unless otherwise stated.

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

First of all, I would like to talk a little about Indeed PLUS, which has already been covered by several analysts in their reports and very important for our business strategy.

The Company has been contributing to the establishment and expansion of the HR Matching market in Japan over the last 60 years since Recruit started the job advertisement business for new graduate students.

Japan is the second largest HR matching market in the world after the US. It has become essential for employers to efficiently hire the best matched talent and simplify a complicated recruitment process.

We remain committed to evolving our HR matching services to meet the changing needs of job seekers and employers, aiming to swiftly implement and promote our most important strategy, 'Simplify Hiring,' throughout Japan.

To accomplish this, HR Solutions in Matching & Solutions and HR Technology launched a cross-business project in 2021, leading to the nationwide launch of a new service called Indeed PLUS on January 30th.

Indeed PLUS, in a word, is a job distribution platform that automatically distributes job postings to the most appropriate job boards linked to it, based on their job descriptions and other factors.

We expect to quickly transform the HR Solutions business in Matching & Solutions into an HR technology business, by shifting from the conventional PPP (or Pay Per Post) model to a PPC (or Pay Per Click) model. At the same time, we expect revenue in the HR Technology SBU to increase further in Japan, one of the most important markets after the US.

The job boards such as TOWNWORK and Rikunabi NEXT will continue to exist as job boards linked to Indeed PLUS, and HR Solutions will become a partner with Indeed to support the sales and marketing activities of Indeed PLUS.

For your information, in the 12 months ending December 31, 2023, HR Solutions revenue for the full-time and part-time job advertising business was approximately 115 billion yen. Of the HR Technology Non-US revenue in the past 12 months, Indeed's revenue in Japan was approximately 68 billion yen.

The impact of Indeed PLUS on consolidated business performance in Q4 and the impact of changes in the recording of revenue between HR Solutions and HR Technology is expected to be minor.

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Now, I would like to discuss the Consolidated Results of Operations for Q3.

Consolidated revenue in Q3 decreased 1.5% to 866.7 billion yen. Excluding the positive impact of foreign exchange, revenue decreased 4.5%.

Consolidated revenue was slightly above the upper end of the outlook range of "840 to 860 billion yen," which we provided at the earnings announcement in November.

Consolidated adjusted EBITDA increased 14.4% to 158.2 billion yen, which was above the outlook range of “130 to 145 billion yen”. Adjusted EBITDA margin increased 2.5 percentage points to 18.3% due to higher adjusted EBITDA margins in HR Technology and Matching & Solutions.

Operating income increased 12.5% to 108.9 billion yen.

Profit attributable to owners of the parent increased 36.6% to 106.3 billion yen due to the impact of an internal legal entity restructuring in HR Technology, which decreased the consolidated income tax rate as we announced in November.

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

Basic EPS was 68.03 yen, an increase of 40.0% and Adjusted EPS, after excluding one-time gains and losses, was 68.03 yen.

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The number of shares held as treasury stock as of December 31, 2023 was 140.52 million which includes 29.4 million shares acquired through the self tender offers announced last May and October, and 3.52 million shares acquired through December 31 under the share repurchase program executed since December 14.

The number of shares held as treasury stock includes 58.55 million shares held in the trust account of the Board Incentive Plan (“BIP”) trust and the Employee Stock Ownership Plan (“ESOP”) trust.

Excluding those shares, the number of shares held as treasury stock was 81.97 million shares, or 4.83% of the total number of outstanding shares.

The number of shares acquired through the ongoing share repurchase program through January 31 was 8.9 million shares (on an execution date basis).

We plan to use treasury stock for share based compensation plans, delivery of shares upon stock option execution, or for strategic M&A. After taking into account the number of shares to be used for these purposes in the next fiscal year, we will consider the cancellation of some treasury stock.

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Today, we disclosed our guidance for FY2023 full year and the outlook for Q4 FY2023, assuming there will not be a sudden deterioration in the economic environment.

For Q4, we expect consolidated revenue to be approximately 830 billion yen, approximately flat compared to the previous year. We expect revenue to increase in Matching & Solutions and Staffing while revenue in HR Technology is expected to decrease, but it is expected to be approximately flat quarter over quarter.

Consolidated adjusted EBITDA is expected to decrease 9.3% to approximately 99 billion yen, with consolidated adjusted EBITDA margin expected to be approximately 11.9%. This is due to anticipated declines in adjusted EBITDA margins in HR Technology and Staffing, which are expected to outweigh the adjusted EBITDA margin increase in Matching & Solutions. HR Technology margins are expected to be impacted by seasonal increases in personnel costs and advertising expenses, as well as expenses related to Indeed PLUS, while Staffing margins are expected to be impacted by strategically allocated advertising expenses in Japan.

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When we announced our Q2 results in November, we had said that “although revenue for FY2023 is expected to decline, based on the first half performance and assuming the current business environment does not deteriorate significantly, adjusted EBITDA for the full year will either decrease slightly or remain at the same level compared to last year”. We now expect consolidated revenue to be approximately flat quarter over quarter at approximately 3.4 trillion yen, down slightly less than 1% year over year.

Consolidated adjusted EBITDA is now expected to increase 7.3% to approximately 585 billion yen, a record high. Adjusted EBITDA margin is expected to increase approximately 1.3 percentage points to 17.2% due to a significant increase in adjusted EBITDA margin in Matching & Solutions and a margin increase in HR Technology resulting from cost controls throughout the fiscal year.

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The Company expects Operating Income to increase 18.2% to approximately 407 billion yen, including one-time losses that are expected to be recorded in Q4.

Profit attributable to owners of the parent is expected to increase significantly, 31.2% to approximately 354 billion yen, a record high, including the impact of a one-time decrease in the income tax rate in FY2023 from an internal legal entity restructuring in HR Technology.

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Basic EPS and adjusted EPS are expected to increase, approximately 34.1% and 16.9%, respectively.

Now, I will explain the Q3 results and the Q4 outlook for each SBU.

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First, I will talk about HR Technology.

US dollar based revenue was 1.64 billion dollars, a decrease of 17.2% year over year, which was slightly better than the November outlook for an 18% decrease. Revenue decreased 7.6% quarter over quarter.

On a US dollar basis, revenue in the US decreased 8.3% quarter over quarter, while revenue outside of the US decreased 6.0% quarter over quarter. On a year over year basis, revenue in the US decreased 21.3% and decreased 6.3% outside of the US.

On a Japanese yen basis, revenue decreased 5.5% quarter over quarter and 13.4% year over year.

Globally, total job openings remained above the pre pandemic level of February 1, 2020. However, the supply and demand mismatch between job seekers and employers continued to ease.

This was also reflected on Indeed and Glassdoor in Q3.

In the US, total job postings, which include both free and paid ads, continued to decrease by approximately 13% year over year. At the same time, job seeker engagement as measured by traffic and applies on our hiring platforms continued to increase.

Continued declines in both total and paid job ads, in the US, were partially offset by year over year increases in revenue per paid job listing.

Similar trends were observed in markets outside the US.

The decline in both total and paid job ads were largely driven by the same factors that we detailed in November: an easing of the labor market imbalance and further improvements and updates to Indeed’s pricing model, including the implementation of Pay Per Started Application and minimum budgets.

These enhancements are designed to deliver a better job search and hiring experience for job seekers and employers, the core of our Simplify Hiring strategy.

Likewise, at the end of Q3, in response to customer feedback and engagement with the product, Indeed decided to stop offering Pay Per Application pricing, or PPA, in its current form in all markets. Over time, how employers utilized and valued the ability to select and pay for qualified applicants diverged from our original expectations and goals. This decision did not have a negative impact on Q3 HR Technology revenue and we do not expect it will have a negative impact in Q4. Indeed will continue to explore various tests to innovate the HR matching industry and deliver value to job seekers and employers.

Adjusted EBITDA was 80.7 billion yen, and adjusted EBITDA margin was 33.2%, which is above the outlook announced in November, as a result of slightly better than expected Q3 revenue and cost savings, and timing of advertising expenses.

Adjusted EBITDA margin increased 5.1 percentage points year over year primarily due to lower personnel costs and advertising expenses.

Regarding our Q4 and FY2023 outlook,

We expect revenue in Q4 to be approximately flat quarter over quarter, with a potential incremental benefit from Indeed PLUS.

Revenue on a US dollar basis in January decreased approximately 14%.

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.

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Based on our Q4 outlook for HR Technology, for FY2023, we expect revenue on a US dollar basis will decline approximately 15.5%

Adjusted EBITDA margin for FY2023 is expected to be approximately 34%, as we carefully controlled costs throughout the fiscal year.

We announced in May that the total amount of share-based payment expense in FY2023 is expected to be slightly above 700 million US dollars. However, we revised our expectation to be approximately 550 million US dollars mainly due to a change in the timing of share-based compensation grants to existing employees due to changes in the fiscal year of Indeed.

Going forward, we will promote efficient business operations by responding to changes in the business environment and implementing appropriate cost control measures as needed, while balancing continued strategic investments for long-term growth.

As we mentioned previously in May, we do not prioritize maintaining a specific adjusted EBITDA margin level.

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

For Q3, in HR Solutions, the outlook provided in November was a revenue increase of approximately 2%. However, while revenue in the placement service increased, revenue in the job advertising service decreased. As a result, revenue in HR Solutions decreased 0.8% to 73.1 billion yen.

Adjusted EBITDA margin for HR Solutions was approximately 18%.

Revenue in Marketing Solutions was 123.6 billion yen, an increase of 7.1%, exceeding our outlook. Revenue increased as the business environment in Japan remained strong compared to Q2.

Revenue in Housing & Real Estate increased due to increased advertising demand from business clients, revenue in Beauty increased due to continued growth in new business clients, and revenue in Travel increased mainly due to the impact of higher room rates driven by stronger demand from overseas travelers.

Adjusted EBITDA margin for Marketing Solutions was approximately 34% due to appropriate cost controls, mainly related to advertising expenses.

The SaaS business, represented by Air BusinessTools, is included in Marketing Solutions. During Q3, the number of SaaS accounts rose 19.7% to 3.6 million, driven by growth in AirPAY and AirSHIFT accounts.

Overall revenue in Matching & Solutions was 199.5 billion yen, an increase of 3.9%.

Adjusted EBITDA increased 47.1% to 46.4 billion yen and adjusted EBITDA margin was 23.3%, an increase of 6.8 percentage points.

Regarding the Q4 outlook for Matching & Solutions, based on the assumption that Japan's economic environment will not change significantly,

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

Revenue in Marketing Solutions for Q4 is expected to increase approximately 7% year over year.

Adjusted EBITDA margin is expected to be approximately 12.5% as we expect to strategically invest in advertising expenses, especially in Marketing Solutions, in Q4. These investments are timed in anticipation of active consumer spending in April, which is the start of the business year and a new school year in Japan, in order to meet the demand of both individual users and business clients.

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Regarding FY2023 outlook, In HR Solutions, revenue in the first half increased 8.4%. However, in the second half we expect revenue in the job advertising service will decrease in addition to the revenue impact from the transition to Indeed PLUS, resulting in a full year increase of approximately 2.5%.

On the other hand, in Marketing Solutions, revenue is expected to increase approximately 9%, with stable quarterly performance throughout the year.

The outlook for adjusted EBITDA margin of approximately 20% in Matching & Solutions for FY2023 remains unchanged.

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Next, I will talk about the results of Staffing.

Revenue in Q3 was 433.6 billion yen, an increase of 4.3% or an increase of 0.6% on a constant currency basis.

Revenue in *Japan* was 193.4 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 240.2 billion yen, a decrease of 0.4%, or a decrease of 6.9% 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 32.5 billion yen, an increase of 9.2%, and adjusted EBITDA margin was 7.5%.

Regarding the Q4 outlook for Staffing, quarter over quarter, revenue for Staffing is expected to decrease approximately 9%. Year over year, revenue in *Japan* is expected to increase approximately 5%, and revenue in *Europe, US and Australia* is expected to increase approximately 1%.

Adjusted EBITDA margin is expected to be approximately 3% as we expect to strategically invest in advertising expenses in Japan.

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For FY2023, revenue is expected to increase approximately 3% year over year. Revenue in *Japan* is expected 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%.

Please refer to the IR website for more details.

This concludes my presentation.

Thank you.

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Forward-Looking Statements