

**Recruit Holdings Q1 FY2022 Sell-side Analyst Call**  
**August 12, 2022**

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**Question & Answer**

**Shen:** Now we would like to begin the sell side analyst call for the first quarter results in fiscal year ending in March 2023.

Kinoshita-san from BofA securities, please.

**Kinoshita:** First of all, in Staffing, overseas staffing. As I saw the flash report, it said that every market has grown. But in Europe, the material said that a temporary demand related to COVID measures have slowed down. In quarter over quarter, Europe is flat, but is it growing year over year?

Is that the right way to understand this?

**Arai:** Well, I believe we discussed this previously, but there is a demand related to pandemic measures.

For example, in vaccination venues, there are jobs. And such job ordered by the government has been declining.

And it is not that it happened suddenly in the first quarter, but we already saw a sign already in the fourth quarter.

Europe was strong last year compared to Japan. But that has started to disappear. That is our message.

**Kinoshita:** So year over year is Europe declining?

**Arai:** I wouldn't say it's declining. It is almost flat.

**Kinoshita:** Understand. And, US, and Australia, are they growing steadily?

**Arai:** Well, growing in staffing business. That is a growth of a different characteristics from HR Technology. It has different dynamics. So I would say it is growing in a stable manner.

**Kinoshita:** Understood. Thank you. Well, next going into the staffing business in the US

I fully understand the development in HR Technology business, but in the US staffing, is current environment still a tailwind?

In some of the jobs, has it become easier for you to recruit people and place in different clients? In the US staffing business, how do you look at the environment situation and what are the actions you're trying to take?

**Arai:** In the euro currency regions and in the US dollar area and the Australian dollar area, we look at those three regions as we break down the results.

In the US business, although we don't disclose, it had the largest year over year growth. And demand here is expected to continue at a relatively high level.

The euro currency area has the largest volume, but the growth in the US is continued to be at high level.

**Kinoshita:** So you don't see any sign for slowdown as you see in HR Technology?

**Arai:** It is a staffing business, so we do have a better visibility. We already have a backlog, although we may not be as long as what we have in Japan.

And based on that, understanding we haven't changed our outlook.

**Shen:** Next is SMBC Nikko Securities, Maeda-san, please.

**Maeda:** I have two questions. First is you mentioned earlier, the US HR Technology. Unit revenue and the number of jobs. You mentioned the detail, but in total, there were some changes in the mix but the unit price revenue is still rising.

What is the degree of the rise? And the trend of the jobs number you mentioned by category, but what does the total picture look like? Thank you. That's my first question.

And second question is cost in HR Technology. You are starting to control your hiring, but in other segments remain strong. So no change from your original investment plan?

You mentioned you will be flexible when the environment changes, but in other segments you see no need?

**Arai:** First question. What we mentioned in the fourth quarter is we have no plan of doing the quarterly update.

But to answer the earlier question, we gave you some breakdown. But so far, no plan. The breakdown will change and if we do this on a quarterly basis, it may be misleading.

So we think it's more appropriate to assure you the annual explanation.

And maybe in the future we may need to do this on a bi annual basis, but including the changes and the adjustment, if we do this on a quarterly basis, it will be misleading, so we would like to refrain from mentioning this time.

And the second point, there are strategies for each segment. And the strategy that we mentioned, the investment we mentioned on the 16th of May, was mainly HR Technology "Simplify Hiring" related and "Help Businesses Work Smarter" in Japan, so the two categories.

In the second part "Help Businesses Work Smarter", the investment there remains unchanged from the original plan.

And we think it will bear fruit continuing the investment where we think will result positive results if the environment changes, like we did in April to June, July of FY2020, we may do the same again, but so far we are not in that situation yet.

**Maeda:** Thank you very much.

**Shen:** Our next guest, Kishimoto San for Mizuho Securities.

**Kishimoto:** This is Kishimoto from Mizuho Securities. I have two questions in Matching & Solutions SBU.

First, I have a rough image but in Marketing Solutions and HR Solutions, what is the situation of these sub segment?

I do have a rough image of where the growth rate is stronger, but I would like to know the most recent situation where at least some sort of hint.

And the second question is a margin for Matching & Solutions SBU. I believe there's been an up to the postings. What is going to be the impact on the second quarter and beyond?

The marketing expenses increase, is that plan going to be affected, looking at the result of your marketing activities during this period? What has been the impression of the result of your marketing activities?

**Arai:** Your second question, is it related to the effective investment that we made in the fourth quarter or is it from April through June?

**Kishimoto:** I believe there was a gap in timing so if you can divide a breakdown, the first and the fourth quarter, that would be great.

**Arai:** I didn't quite understand your first question.

**Kishimoto:** In Marketing Solutions and HR Solutions, they each have subsegments. For example, Travel, what is the revenue? And in the job advertisement service, what is the revenue in Placement Service? I would appreciate a rough breakdown.

**Arai:** I see. Since last fiscal year, regarding Marketing Solutions, we've stopped disclosing revenue breakdown for the subsegments and for HR Solutions, the revenue of job board and placement service that remains unchanged.

When we used to disclose this numbers, I believe it's before the pandemic. The amount of revenue back then, and their proportions, the mix.

I think you should look at it and imagine how have they changed over this time during the pandemic.

Then you will get closer to the truth.

As we explained in the disclosures, the major change is that SUUMO business and Beauty business have become larger in terms of proportion.

As we've been discussing these two have grown despite the COVID pandemic, and they now have a larger weight compared to when we used to disclose these numbers. For Bridal, Travel, Dining, through the pandemic, they have been affected and they have shrunk.

That is the change you should imagine in your mind. The SUUMO business, the Beauty business altogether, I think we've discussed it previously, but these two altogether would account for about 50%.

Compared to the previous first quarter, the remaining three business areas especially the Travel business started to recover. That is the color we can give you.

Regarding HR Solutions segment, as we mentioned in the disclosures, our placement service business has been trending strongly. People who we introduced start working and we recognize revenue for the first time then.

So the first quarter numbers are the revenue from the people we placed in the previous period. So there is a time lag. But still continuing from the previous year, the performance has been strong, resulting in recovery of revenue in HR solutions.

And marketing promotion expenses, their investment effectiveness, as you know, in the fourth quarter, the change in people's work style, people's behavior are changed and we try to capture demand related to that change, and we made a large investment during a January through March quarter.

And from this April, we have been making strategic investments continuously. So that is why the percentage has increased compared to the previous year in terms of the marketing expenses to revenue.

And strategic investment, it's not something that can bear fruit in a year. This is for our future growth. And the investments in the fourth quarter were targeting at the peak between February through April period when people move around the most in a year.

That was the type of investment we made in the fourth quarter. As a result, the year over year growth of revenue was 14.6% in Marketing Solutions.

This is a result of investments made in January through March quarter.

On the other hand, as we introduced, margin has declined and the absolute amount is almost flat. And this is a result of such active investment activities.

**Kishimoto:** I see. Now I understand there's a peak in the fourth quarter. Is it correct that you have continued your proactive behavior in terms of execution of your budgets?

**Arai:** Yes. Based on the strategy, we have been continuing an active investment for the domestic business.

**Shen:** Macquarie Securities, Mr. Tonioka, please.

**Tanioka:** I am Tanioka from Macquarie Securities. Thank you. I have two questions.

You mentioned maybe this is a repetitive question, but HR Technology. So the sponsored ad proportion, the spot timing, and on the first quarter, how much increase have you seen?

The reason is job market is now mildly slowing down, but still the sponsored job proportion is small. And so by exploring that, despite the market, your top line can be maintained to a certain extent?

That's what I want to find out. So that's my first question. Thank you.

**Arai:** Paid post on Indeed site?

**Kinoshita:** Yes.

**Arai:** Percentage or the increase decrease has never been disclosed until now. So we cannot say this is where we are, this is where we were.

I cannot disclose that in our current disclosure. So that's why you look at other data and guess the level.

So, how much is it? Because you need to know that to find out the sales. I know, I understand, but, paid post percentage proportion will not be disclosed going forward either.

So I'm sorry, I cannot give you a clear cut answer, but I hope you could understand.

**Tanioka:** Okay. You mentioned that it's an increasing trend. The proportion is an increasing trend. Is that correct?

**Arai:** Our market share is, when it rises, as Deko said, larger clients are using it for more jobs. If that's the case, yes, it will be an increasing trend.

**Tanioka:** Understood. Thank you. And the other question is Matching & Solutions, you change the name and Air CASH was launched. So if you could give us how it's going. It goes with the transaction volume.

I think there is a big growth potential. So what is your current impression? Thank you.

**Arai:** Yes, it just started, so it's a long way to go. And I hope to give you good news going forward. There's nothing big that I can share with you yet. So I hope we can do that very soon. But if you could look at aggregation, it is easy to use. It has high usability, so it can be used by many users, I think.

**Tanioka:** Thank you very much. That's all. Thank you.

**Shen:** Arai-san from Mitsubishi with Morgan Stanley.

**Arai from MS:** This is Arai speaking. I have two questions.

First is related to share based compensation expenses, ¥13.3 billion yen was the number for the first quarter.

I think it is flat from the fourth quarter, which was 13 billion and moving forward, Indeed, you said that you are revisiting the hiring plan. From the second quarter and onward, how should we expect the share based compensation expenses?

**Arai:** I believe if we are too specific, it's going to be a long explanation.

But in the fourth quarter, January through March period, to the employees of HR Technology, we have the largest proportion of share based compensation for these people.

In HR Technology, the fiscal year begins in January. And pay the largest amount of expenses are recognized at the beginning of the year. This is an annual program, so it tends to be higher.

And in previous fiscal year, 2021 program was also included in that period. As a result, as long as the current protocol continues, the fourth quarter will continue to have the largest amount of expenses.

2021 program and 2022 program are running and the aggregated number will show up in the following quarter.

The second one would be targeting at a larger number of employees. Therefore, the amount of basis, this is flat during the fourth and the first quarter. But this is the US dollar based. So there is exchange rate impact.

But on a constant currency basis, the first quarter, a number is actually lower than the fourth quarter. But because of the exchange rate, it is seemingly flat in terms of the amount.

And in this fiscal year, fourth quarter, we are expecting for a larger provision for share based compensation. That is the calculation we're anticipating.

**Arai from MS:** Thank you. Then from first quarter to 2, 3 and Q4, It is an upward trend, although it is also impacted by the exchange rate.

**Arai:** Well, in Q1, 2 and 3, they are rather flat. But in the fourth quarter, we are looking the largest amount.

**Arai from MS:** I see.

In such a situation, by revisiting the hiring plan, in this fiscal year, I believe you were expecting a significant increase in the share based compensation. But will that outlook be changed?

**Arai:** Well, in the initial calculation on the 16th of May, Deko announced a plan, hiring plan, and that was the assumption for the outlook.

And, we were expecting to offer share based compensation for those who are not hired yet.

Therefore, depending on the number of people we hire, the outlook can be smaller.

But in actuarial calculation, we have already provided for this expenses. And if a portion is not used that will be carried over to the next year.

It will be depending on the number of people we hire or the net increase of headcount, which is affected by the number of people who leave the company. They can affect the amount of this expenses.

I believe a larger impact will be brought about by the amount of we will carry over to the following year.

**Arai from MS:** That was very clear. Thank you.

And my second question is, you discussed in the fourth quarter results or the full year results previously, but has there been any update on Indeed Flex?

**Arai:** I've been informed that it has been quite steady. It is a new program, so we've been receiving feedback and requests from the customers. So far, it has been trending as scheduled.

**Arai from MS:** Understood. Thank you. Thank you very much.

**Shen:** Mito Securities Watanabe-san, please.

**Watanabe:** Mito Securities Watanabe speaking.

One question, please. This is a clarification to you Idekoba-san or Arai-san.

July is a bit weak. But at the outset you said, the structural changes like the aging society and the changes in the balance and the loss of immigration. There are the structural changes, and therefore, and with work life balance, you can change, increase the share.

You will think it will be lower half of the approximately 10% to 20% of US dollar guidance range.

It will not be lower than 10% with the structural change and with the share increase? You will keep the floor of this guidance, is that what you're mentioning?

**Arai:** Yes. Idekoba-san said at the outset that it's not a short term, it's a fundamental situation.

We tend to compare with pre-COVID and the number is higher and lower than pre-COVID. We do that a lot, but the comparator is different to begin with.

Supply side is in short. Even by controlling the demand side, supply is in shortage. So we don't know how impactful it can be. That is the point.

What will happen this fiscal year is something that we've never seen in the past history. It's difficult to foresee.

But the first quarter number year over year growth in US dollar base is fairly good.

Will this continue? Looking at July, it is 15%. Compared to the first quarter growth, it is down by 15%. And on May 16, we announced the numbers and we talked about this.

The first quarter number is strong, but this will decline somewhat, we said, because the second, fourth quarter numbers last year was extraordinarily good. Compared to that, growth will be lower, we said.

First quarter result may be on the higher side, but the growth will slow down and on a full year basis, we think it will be somewhere between 10% to 20%. That's what we mentioned on May 16.

However, if we look at July number alone, first quarter was 20 something percent and is now 15%. So it's down.

The pace of decline may be a bit quick. Maybe it's not 10% to 20%. Maybe more accurately, it's 10 to 15%. That's the kind of message that I want to send out.

**Watanabe:** So it's unforeseeable. But looking at July alone, there is such risk. Is that right?

**Arai:** Yes. In the November call, we may say it turned out to be better than we thought. But just recently we are reporting what we said today.

**Watanabe:** And just once again, EBITDA margin is 33.7% in the first quarter. You used cost, but in the first quarter and the numbers were relatively good. You mentioned around 30%, so you are now trending within that range, right? EBITDA margin?

**Arai:** Yes. The sales growth slowdown will be the key factor. If we use a lot of cost, the margin will be lower. It depends on the situation. We are prepared to review the cost according to the situation.

**Watanabe:** Understood. Thank you.

**Shen:** Takeuchi-san from Jefferies Securities.

**Takeuchi:** I have two questions. First is related to the security report. Indeed, \$5.7 billion is the non consolidated revenue, but is it really correct? Is it this small?

And was the fiscal year from January through December?

**Arai:** Where are you looking at?

**Takeuchi:** I'm looking at page 19 of the Security Report.

**Arai:** I believe it's an unconsolidated revenue for a single company. I haven't found that page, but we need to measure the substance in the security report.

And we're asked what is the subsidiary with a large substance. It is not referring to the HR Technology revenue. We do have an unconsolidated company that almost works like a holding company.

**Takeuchi:** It says Indeed but is there any indeed revenue that's not included here?

**Arai:** Yes. We're only asked where are the subsidiaries that have the revenue, in the US and in Ireland for example.

**Takeuchi:** I understand. Thank you. And secondly, about the number of SaaS accounts. 2.64 million is the cumulative number of SaaS accounts, and AirPAY, active account is 300,000, if I understand correctly.

What is the largest contributor here? Maybe for particular services? Can you give me any hints to think about the breakdown of the 2.64 million?

**Arai:** Well, there is AirREGI, and among the product group, AirREGI has a longer history and there are active and inactive accounts. They are included in the cumulative number of accounts, so they may account for a larger proportion.

**Takeuchi:** What about AirWORK ATS? I think it was a little over 300,000. Is it included here?

**Arai:** Yes. That accounts for a meaningful proportion as well.

**Takeuchi:** There is a Air something series. But is there anything else other than that series?

**Arai:** Basically, they're the only services included here.

**Takeuchi:** Understood. Thank you.

**Shen:** J.P. Morgan Mori-san, please.

**Mori:** Thank you. I have two questions. First is about the strategic investment. Full year, 140 billion was your original budget on a full year. But the first quarter progress, how much did you use in the first quarter and the breakdown if possible?

You said you may review this and as a background to that, the EBITDA plan for this year is your commitment. Is it because of your strong commitment to EBITDA target? Maybe not just alone, but is that the background reason?

**Arai:** First quarter, how much the break progress and the breakdown, we do not disclose that number, so I don't have it at hand.

But as Idekoba-san said earlier, originally, 30%, 4,000 people hiring was the plan. But now, on a quarterly basis, we are keeping the cruise speed, if you will, of the original plan.

And for Matching & Solutions, we are moving in accordance with the plan. So the margin is lower than the first quarter last year.

That is a great question. We have to think about that.

In the second quarter, at result briefing, how much of this 140 billion will be explained. And whether we are mindful of EBITDA margin, the answer is yes.

Idekoba-san is someone who use the cost no matter what, was the question we had earlier, and I wondered and had internal discussion.

But when we cannot goal in accordance with the initial sales plan, we will eliminate or reduce what we can.

It's not that we say 30% margin at the beginning and we try to keep that no matter what.

Even if the sales are flat, we will continue securing the personnel we need for our long term growth.

In that case, we may fall short of 30% EBITDA margin. We now say 10 to 20% guidance range, but if we reach 20%, we may hire more people. And then end up with EBITDA margin of 30%.

It's not that margin is the starting point. But we think of what we mentioned at the beginning of year as the baseline.

**Mori:** Thank you very much. A follow up question, Matching & Solution, if we look at the profit growth again, sales growth first quarter, it seems like you did big investment.

This 40 billion, you had a head start in the first quarter, was that the investment plan? And what did you invest in if you could share that with us?

**Arai:** In the first quarter, there was nothing that was extraordinary. The marketing and promotion, we did that investment to reinforce our backbone.

And this is done in line with our plan. As a result, the margin declined.

On a full year basis, we have the sales projection and the EBITDA margin around 15%.

We are progressing towards that target in a cruise speed, if you will.

**Mori:** Thank you. Second question is, I'm sorry to be persistent, but HR Technology sales growth, I already received it for July, but 15%, is this the global number?

**Arai:** Yes.

**Mori:** Now the U.S. slowdown is becoming more prominent, you said.

In terms of natural slowdown, US will be like that from the second quarter onward, but US is showing a more prominent slowdown, you said. Is this against your projection?



**Arai:** Internally, We have a revenue stream projection. Idekoba-san said it is against our internal projection assumption. You are right, Mori-san.

**Mori:** Okay. Non US, because the dollar is strong, that's one factor, but on the organic basis, you are in line with the plan?

**Arai:** Well, I talked about this with Idekoba-san and we are using dollars, and we convert to yen and then we have Japanese operations. So it's really difficult to understand how things really are. In non-US, looking at dollars based, it's difficult to understand.

**Mori:** Non-US organic is not clear, right?

**Arai:** Not like Staffing, Non-US of HR Technology is a mix of countries with different currencies.

The general trend is difficult to explain at this point. If the currency settles, then it will be easier to compare.

**Mori:** Yes, understood. Thank you.

**Shen:** We like to make the next question the last question today. Fukuyama-san from UBS securities, please.

**Fukuyama:** Thank you again for this opportunity. Perhaps you've already said this, but HR Technology revenue grew 15% level only in July? Or if we compare on a monthly basis, was it already on this trend since around May? Are you able to share with us some of this perspective?

**Arai:** There is a fluctuation. It was not a straight decline.

**Fukuyama:** Understood. Thank you.

My second question is related to Staffing business in the US. Structurally there's a shortage of personnel, but was there any reason for the ease of receiving large number of applications? Are more people choosing temporary staffing as their work style because of the change in the environment?

**Arai:** If such a lifestyle change is happening, that is something we don't know. But. Supply for demand was able to match constantly.

We don't have a visibility for the future, but as we discussed earlier, there are job types that slow down which are related to COVID, but maybe people are attracted to different types of jobs.

There was good matching, there was a good supply of people.

**Fukuyama:** Understood. Thank you.

**Shen:** Thank you, everyone. It is time to conclude today's call. Thank you very much, everyone, for your attendance.

[END]

## **Forward-Looking Statements**

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