

## Recruit Holdings Q1 FY2022 Earnings Call

### August 12, 2022

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**Shen:** Welcome to the Recruit Holdings Q1 FY2022 earnings conference call.

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

I'm Mizuho Shen, group manager of Investor Relations and Public Relations, and joining me today is Junichi Arai, Executive Officer of Corporate Planning Division.

Jun will briefly go through the Q1 FY2022 results we announced at 3pm today, then proceed to the Q&A session.

For the Q&A session, Hisayuki Idekoba, President and CEO, will also join.

The presentation we use today is available on our IR website.

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

We have applied a new definition for Adjusted EBITDA, Adjusted EBITDA margin, and Adjusted EPS, from this fiscal year, and the new definition is applied retrospectively to FY2021 for comparison purposes.

Now I'll turn the call over to Jun.

**Arai:** Thank you for your participation today.

I am Junichi Arai, Executive Officer of the Corporate Planning Division of Recruit Holdings.

On May 16th, we discussed our 3 business strategies including Simplify Hiring, and held additional detailed presentations on Prosper Together on June 28th and Help Businesses Work Smarter on July 12th.

Please visit our website for the detailed materials and the webcasts for these events.

I will begin with the Consolidated Results of Operations for Q1 of FY2022.

As you may know, the Japanese Yen average exchange rate moved significantly compared to the same period of the previous year, so I will also discuss the results excluding the impact of the year over year exchange rate fluctuations.

Consolidated revenue was 843.1 billion yen, an increase of 26.8% year over year, led by continued strong hiring demand in the US and European labor market as well as the increased hiring demand in Japan as economic activity recovered.

Consolidated revenue increased by 17.3% on a constant currency basis.

Adjusted EBITDA increased by 15.9% to 152.3 billion yen.

Adjusted EBITDA margin was 18.1% primarily due to strategic investments focused on product and technology initiatives, including hiring for future growth, as well as sales and marketing activities.

Adjusted EPS was 54.06 yen, an increase of 9.6%.

There is no change in the guidance from the figures disclosed in May.

Consolidated revenue year over year increased as revenue in all segments increased led by HR Technology, while adjusted EBITDA margin decreased year over year in all segments.

Adjusted EBITDA increased led by HR Technology while Adjusted EBITDA margin of each segment was affected by the additional cost from the strategic investments which we had announced in May.

Now, I will walk through each segment.

First, I will talk about HR Technology.

US dollar based revenue was 2.187 billion dollars, an increase of 29.9% year over year, and 7.5% quarter over quarter.

On a Japanese yen basis, revenue increased by 53.9% year over year, and 19.9% quarter over quarter.

The increase was supported by both small and medium sized businesses and large enterprises that continued to turn to Indeed and Glassdoor to attract and hire talent.

The labor market remained historically tight which resulted in continued competition for talent on Indeed and Glassdoor.

On a US dollar basis, revenue in the US increased by 24.9% and revenue outside of the US increased by 46.5%, primarily led by Europe and Canada.

On a quarterly basis, revenue in the US increased by 8.8% and revenue outside of the US increased by 3.9%, respectively.

Adjusted EBITDA was 95.5 billion yen, an increase of 27.7% or 7.8% on a constant currency basis.

Adjusted EBITDA margin decreased to 33.7%, a decrease of 6.9 percentage points.

On a quarterly basis, Adjusted EBITDA margin was at a similar level to Q4.

As discussed in May, we made significant investments during the quarter including hiring focusing on product and technology development to execute our Simplify Hiring strategy.

We intend to continue to execute necessary strategic investments for our long term strategy, Simplify Hiring.

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

As announced on July 12th, we are changing the name of the SBU and business segment to "Matching & Solutions", in order to reflect the vision which is centered on our matching platforms.

Revenue in Matching & Solutions increased by 18.8% year over year with an increase in revenue for both Marketing Solutions and HR Solutions, which reflects the recovery of demand in the Japan economy.

Revenue in Marketing Solutions increased by 14.6% which is slightly above revenue for Q1 of FY2019, before the COVID-19 pandemic.

Revenue in HR Solutions increased by 28.3%. However, it still did not recover to pre-pandemic levels.

In Marketing Solutions, the revenue increase was mainly led by Housing & Real Estate and Beauty continuing the growth trend of the past several quarters, both are above pre-pandemic levels.

Along with the economic recovery in Japan, revenue in Travel increased from the previous year when travel in Japan was subject to COVID-19 related restrictions. Also, revenue increased in Bridal and Dining.

As discussed by Kitamura in July, we believe that the expansion of our SaaS solutions including the introduction of AirWork ATS and other solutions may enable us to reach a broader range of potential clients.

We now estimate the number of potential business locations and stores in Japan that can use these solutions to be roughly 4.53 million.

As we now offer approximately 20 different SaaS solutions, the number of accounts increases when a single business location or store uses multiple solutions.

We believe that we can grow the number of accounts by launching new SaaS solutions, increasing the number of business locations and stores using multiple solutions, and by attracting potential new users.

At this point, the cumulative number of SaaS accounts as of June 30, 2022 was 2.64 million.

The number of AirPAY accounts as of June 30, 2022 was 304 thousand, an increase of 32.8% year over year.

In HR Solutions, revenue in the placement service increased year over year, exceeding pre-pandemic levels, due to an increase of hiring demand in many industries which utilize placement services.

On the other hand, in the part-time job advertising business, revenue did not recover to pre-pandemic levels. However, hiring demand improved year over year mainly from business clients in retail and dining, which had been impacted by the COVID-19 related restrictions in the prior year.

As a result, revenue in HR Solutions was still below pre-pandemic levels.

In Q1 FY2022, we executed strategic marketing activities aligned with our business strategy.

Adjusted EBITDA was 31.3 billion yen, a decrease of 0.8% year over year, and Adjusted EBITDA margin was 17.4%, a decrease of 3.4 percentage points year over year.

Finally, I will talk about the results of Staffing.

Revenue increased 15.1% or 9.2% on a constant currency basis.

Adjusted EBITDA margin for Q1 of FY2022 was 7.1%, a decrease of 0.8 percentage points year over year.

Revenue in Japan increased 12.4% as the number of temporary staff on assignment increased.

Adjusted EBITDA margin in Japan was 10.1%, a decrease of 0.9 percentage points due to an increase in paid vacation time and an increase in advertising and marketing expenses in anticipation of continued demand for temporary staff.

Adjusted EBITDA increased by 3.6%.

Revenue in Europe, US, and Australia increased by 17.2% year over year or 6.8% on a constant currency basis.

Demand for temporary staff increased in the US and Australia, while demand related to COVID-19 mitigation efforts slowed in Europe.

Adjusted EBITDA margin was 4.8%, a decrease of 0.6 percentage points year over year, primarily due to the impact of higher personnel costs resulting from increased headcount and higher wages.

Adjusted EBITDA decreased by 5.7% excluding the impact of foreign exchange fluctuation.

As mentioned earlier, there is no change in the consolidated guidance for the current fiscal year from the figures announced in May.

This concludes my presentation.

Thank you.

**Arai:** Now let's proceed to Q&A session.

Today, since Deko is joining us, firstly I will ask a few questions about a topic that I believe you have an interest in.

We will then take your questions.

At the sell-side analyst call that follows this call, I will be taking questions from the sell-side analysts focused on the quarterly financial results, so please feel free to ask Deko any questions here.

Now, Deko, firstly, what are your thoughts on the global HR market, or the global HR matching market, and in particular, the U.S. market, its current status and future prospects?

**Deko:** We believe there are three long term trends that will continue to result in a labor supply shortage: not only in Japan but most advanced countries we are seeing aging workforce population, 2) attitudes towards work life balance is changing under COVID, and 3) lack of immigration, decline of immigration not just in the US, but most advanced countries.

These trends are leading to shortage of labor supply. These trends are not likely to be solved in the short term.

Under some circumstances, we are now experiencing this difficult situation and on top of that COVID-19 occurred and probably for the first time in our history, a unique situation where hiring demand is very strong as we are recovering from the pandemic, but there's a huge labor supply shortage and an economic slowdown happening at the same time.

Typically, during a recession, the economy weakens, hiring demand slows down and many jobs are lost. Right now, although many measures of labor market demand may have peaked, the labor market remains historically tight in countries across the globe.

In the US, for example, in July, there were 528,000 new jobs added and the unemployment rate is still near historic lows at 3.5%, and there were still 10.7 million job openings as of June.

We believe that the current situation, where the supply of workers is inadequate and interest rates are rising at an unprecedented rate, will continue to make the outlook truly uncertain, as there is no precedent for how quickly and to what extent the demand for hiring will decline.

**Arai:** Under that circumstance, what are you seeing recently on Indeed in terms of job posting activity from employers?

**Deko:** In the first quarter, job postings on Indeed remained significantly elevated compared to a year ago and also compared to pre-pandemic levels. However, depending on the country, growth has stalled or slightly reversed from the highest levels that were seen earlier.

In the US in July, we've seen hiring slow down and some of the largest % declines in roles that had experienced tremendous growth during the pandemic, such as in software development and HR.

And that has resulted in deceleration in hiring activities. In Europe during Q1, job postings have, on average, declined in countries with high imports from Russia – likely impacted by the war in Ukraine – but they remain elevated, while holding steady in countries with low imports from Russia.

**Arai:** So what does this activity in Indeed signal about the future performance of our business, especially HR technology, and the measures you are taking?

**Deko:** As announced in May, overall Q1 financial performance was strong. As expected, revenue growth continued to decelerate from the significant growth last year.

In July, USD revenue growth year over year was approximately 15% with the total number of jobs on our platform both globally and in the US increasing year over year.

In the US, however, when we look at those jobs posted directly on our platform by employers, posted mostly by SMBs, we saw a year over year decrease in volume for the first time since early in the pandemic.

We expect overall hiring demand from employers to soften going forward as we had previously anticipated.

Given the recent trends in job posting activity and the significant uncertainty regarding the potential severity and timing of a slowdown, we now believe HR Tech year over year revenue growth is more likely to be in the lower half of the approximately 10-20% USD range we gave in May if these trends continue.

We will appropriately monitor changes in the business environment and continue to be flexible in our approach to investments, while at the same time managing our business so as not to lose sight of long term opportunities.

As a result, we are adjusting our hiring plan in HR Tech. We added over 1000 people in HR Tech this quarter and going forward we will focus on prioritizing roles that support our long term growth.

We intend to continue to hire this year, but not as aggressively as we had originally planned, and will adjust our plans flexibly as the situation evolves.

I discussed short-term matters today, but we remain convinced that the honest pursuit of "Simplify Hiring" in any business environment will provide opportunity for significant growth over the long term.

## Question & Answer

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**Arai:** Thank you. Now we would like to proceed to the Q&A session with the audience. Shen-san, over to you.

**Shen:** Now we would like to begin the Q&A session. First is Takeuchi-san from Jefferies Securities.

**Takeuchi:** This is Takeuchi speaking from Jefferies.

First is about the revenue in HR technology. How do you see the revenue in the US? And also, what is the breakdown?

As we have seen the drop changes during the April through June period, the number of job openings and the number of hirings have apparently declined by 2%.

I believe 8% growth is a quite strong growth if we look at this quarter.

Is this because of something new? Or within the CPC business model, has there been any positive factor that have driven this growth? And how sustainable is this growth?

And my second question is related to share-based compensation and the result. I believe you have enhanced this program. Has it impacted the quality of people you can hire? Have you seen any positive signs as a result of the change? Thank you.

**Deko:** Thank you very much. First of all, the revenue in the US and HR tech segment, that was the first question. Now let me address your first question.

So the QoQ growth that you've mentioned, in March, about 12 million job openings were there, and it has declined to 10.7 million.

For example, compared to 2008, back then, in 18 months, 2.5 million job openings was lost. Therefore, this decline just happening in three months, 1.2 million jobs lost in three months. This speed is, I would say, quite fast. That is the current situation.

But having said that, as I mentioned earlier, this is very difficult to evaluate because in 2007 and 2008, when we entered the economic recession, we started from 5 million job openings and it declined to 2.5 million.

But decline from 12 million to 6 million, which is the pre-pandemic level, what would be the speed of the decline this time? That is uncertain, but we have been closely monitoring the situation.

Job decline QoQ has not resulted in declining revenue.

As we discussed in May, we did expect the number of jobs to decline and we have strived to enhance value offer to various clients, which has led to growth in the clients' revenue.

Therefore, QoQ spending by customers have trended strongly. But for YoY number, the number of job increase is leading to the growth in revenue.

On our platform, when we look at our clients on our platform, we especially see positive numbers if we look at the recent situation.

And regarding the outcome of the share-based compensation program, we did enhance the program, as you said.

What kind of impacts were brought about initially, our hiring competitors were benchmarked. And where we were behind, we wanted to be at least equal.

As I mentioned earlier briefly, in Q1, we were able to add above 1,000 headcounts, mostly for technology-related positions.

When we think about this, this number is almost close to the Guinness certified number.

Therefore, we can definitely say there is a positive impact on our hiring. I hope that has answered your questions.

**Takeuchi:** Thank you.

**Shen:** Next is UBS Securities, Fukuyama-san, please.

**Fukuyama:** Thank you. First is about Indeed job type situation in US. Blue collar, white collar, if you look at this in further breakdown, how is the hiring demand changing?

In the news headline, it says that IT companies are now starting to revisit their hiring approach. This may have impacted the share price. If you enlighten me on how it is maybe different from this headline news.

My second question about your review of the hiring plan. In the last financial results briefing, President, you said that you slowed down on the hiring under COVID and you learned lessons from there.

What was the background that led to the review of your hiring plan this time?

**Deko:** Thank you. So first, by segment was your first question.

Well, what we can clearly see from our data is in July data in the US, in our data, software development negative was the biggest among all segments. It was minus 17.3% YoY, so that is a big negative.

And then the next big decline was media and communications, human resource, and then loading and stocking, this is ecommerce-type tacking job, and then marketing.

Generally speaking, when the economy slows down, the job declines, but software development is the only one that showed a big decline for the first time.

What we can clearly say from this is that in the past 3 to 4 years or 3 to 5 years, especially in the US, the investment from the fund for the start-ups was done in a big way.

So a big amount of fund flowed in and now it's being reversed. The so-called start-ups or the listed companies, like in SPAC, are now facing a difficult cash position.

They are now stopping their hiring of software developers suddenly and that is the biggest factor, I think.

And so you asked a question on blue collar and white collar. But in that sense, this is different from the share price.

Share price, the tech companies account for a big portion, but in the real economy, it's not there yet.

The blue collar and service type jobs is much, much bigger than the software developer job.

In the US, especially the engineering technology jobs or service jobs, recently, the automobile repair technician, for example, which is a type of job that you have to learn so much during college to be able to function properly, so the supply is in big shortage in such types of jobs.

So even with slight decline in the job, the supply side has problems. How much can this be matched by addressing on the interest rate? This is questionable.

For the first time in human history, labor market is not so bad, but everyone says it's recessionary. It seems that it will become worse because the supply side has a problem, but it is trying to be balanced by reducing the demand.

My personal view is that wage inflation cannot be lowered that much. We think it's better to operate our business conservatively, and that is why we are reviewing our hiring plan, so we will turn conservative for this time, temporarily.

When COVID started, we stopped hiring and the biggest mistake we did was because our HR jobs disappeared completely, it took time for us to restart the engine.

Rather than stepping on the gas pedal all of a sudden, we watched a more smoother adjustment to address the changes.

In the medium to long term, when the sales is softening, the sales and client support hiring will be adjusted to match the demand.

But if possible, for engineers, like we said earlier, the stock-based compensation is in place and other competitors are now slowing down their hiring. And so we can hire capable talent. And so we will work hard and continue our hiring like considering that as a long-term investment. That is the kind of hiring we want to pursue.

**Fukuyama:** Thank you. I understand

**Shen:** Thank you. Next is Mori-san from JP Morgan.

**Mori:** Thank you for this opportunity. First, as Deko-san explained earlier, well, I'm focusing on the short-term viewpoint, but revenue in July grew by 15%. And if this trend continues, you will land at the lower 1/2 of the range.

I would like to confirm in Q1, I believe the performance was quite strong. And if we look at July alone, this expectation for the lower half of the range, is it because of the slowdown beyond July would be faster than expected?

And previously, revenue per job was disclosed for the first time. And how has it trended in the first quarter? If possible, I would appreciate that comment.

**Deko:** Thank you. First of all, situation in July and the speed of slowdown beyond July, were the two points in your question. Well, I believe there are a couple of factors.

In the guidance for HR tech SBU, this is based on US dollar. Therefore, if the US dollar is stronger, that would affect the revenue growth.

However, especially the decline of speed in the US is quite fast in July from our viewpoint. If the speed continues and as we speak with our customers, we hear voices saying they're thinking about reducing the number of hirings.

And as I said earlier, in the typical economic recession, the signs will be the number of job postings by small- and medium-sized companies. If we see them decline, that will be a sign of economic recession.

From that, we also believe the speed may be faster than we had expected. But as you said, in mid-July, if we look at this July, we are based on the assumption that the trend continues. If we look at August or September, well, it is also true for the share price, but maybe the decline will be slower than we had expected.

Especially in the US, the mood for economic slowdown, if that does not expand or spread, perhaps the situation may be better. But if we only focus on the deceleration in July, we have to say that it was a quick slowdown.

And the other point is price per job, revenue per job is the trend in Q1. Well, to be specific for large enterprises, systems are integrated in such companies and number of such companies have been increasing.

The number of job advertisements by such large enterprises has been increasing.

I believe we discussed this previously. But on our hiring platform, there are employers who directly post their ads. And there are clients who are connected by system, they have different trends.

Of course, we strive to offer value to every customer, but our system-connected customers tend to have a larger volume and that is resulting in a slow growth in the revenue per job.

But for those on platform, we have been taking various measures. Therefore, we have been seeing stronger trend. That is our impression. I hope I answered your question.

**Mori:** Thank you. I would like to ask a follow-up question. Probably indexed job and hosted job is what you're talking about.

Hosted job, the trend this year is upward and price per job has been pushed up. At this timing, indexed job, is it starting to increase suddenly? Has there been any change in the trend?

**Deko:** Yes. Thank you. Indexed job is what I refer to as system-connected customers. They have always been on an upward trend.

These customers are large enterprises, but they are connected through the system. And they also post jobs ads directly on the platform. Such customers is increasing.

Both services are used by many large enterprises today. Indexed job, the system-connected jobs, they have not been on the downward trend; they have been on a growing trend. It's just that more customers are using those services today.



In Q1, indexed job customers increased further. They are more of a driver for the cost per job.

**Mori:** I see. Is there any reason for that trend, for this increase in the indexed job? Or did it just happen to be that way in Q1?

**Deko:** ATS integration, well, there are more customers who are connected through the system.

And depending on customers, 100,000 jobs will be the volume they budget for. And if we look at budget per shop, it can be smaller. System integration type of customers is increasing. That is how I would address your question.

**Mori:** Thank you. And regarding my second question, today, you've explained the macroeconomic situation, and I was able to deepen my understanding.

Previously, you discussed CPA, CPQ, shift to CPA and CPQA and medium to long term. Today, you're facing an uncertainty when we try to foresee the future. How would these factors affect your transition to CPA and CPQA?

I believe the impact would not be as large during this period. Maybe it is not something you can judge in the short term, but during these 1 or 2 years or from a medium-term viewpoint, what kind of impact do you expect on this shift?

**Deko:** Thank you. CPA, CPQA, we are trying to enlarge the value we can offer, and these are just one of the examples.

What is important is especially for CPQA, so there's application and the applicant. If the Company likes the applicant, we charge a price.

This type of business model, why we do this is because job seekers, their largest complaint was that they applied for 5 or 10 jobs, but they don't hear back in 2 or 3 weeks.

That has been their biggest complaint for many years in the past, and that resulted in low satisfaction level of job seekers.

For those job seekers who are seeking jobs, it is important that they receive a reply within 48 hours, and they would know if they can go to the next step or not. We have been pushing this pricing model.

Regardless of the economic condition, I believe we discussed this previously, but from the company's point of view, maybe their HR personnel is busy or, in large enterprise, they would receive 100 applications in a day, and they wouldn't be able to read them all.

We do see that there is a hurdle in expanding this pricing model further. This CPQA is not going to be the only solution. But for example, Cost per apply start, instead of CPC, if a begin application button is clicked, we can charge a price; that is another version.

We have been testing a variety of solutions, and these are just one of the examples. That status has not changed from the previous briefing.

We are willing to promote solutions that are good for the job seekers. I hope I was able to answer your question.

**Mori:** Thank you very much. That was clear. Thank you.

**Deko:** Well, CPA, CPQA, in addition to them, we are trying to offer various values. Especially for those on our platform, we've been seeing a rise in the unit revenue.

**Shen:** Thank you. It is almost time, so we will make the next question the last question. BofA, Kinoshita-san, please.

**Kinoshita:** Sorry, I'm mindful of time. Thank you for the US update. The non-US countries for Indeed, compared to the US, the non-US countries are still in the development phase I think.

You mentioned that in the US, the hiring will be reviewed, among others. But in non-US countries, what is your strategy? And what is the status?

Given the current macroeconomic status, are you changing your strategy? In other words, non-US countries, HR tech strategy or status is my question. Thank you.

**Deko:** Thank you. So non-US countries, roughly speaking, the non-US advanced nations, the OECD countries and non-US developing countries, the emerging countries, there are two main groups.

First, countries centered on Europe. The test that we are conducting in US are deployed very actively in Europe. The employee status is mostly sales, local sales personnel.

The hiring there, the hiring is done controlled in accordance with the situation in each country. And the current status is the Europe growth rate is higher than that of the US.

Therefore, US sales, which we prioritize on the adjustment of the hiring, it's US that we prioritize. Now the developing countries.

In countries like India, it had been a challenging country for us. But finally, the number of users<sup>1</sup> exceeded the company, the local company that had already been number one. And now we are number one.

This is a promising country. In such countries, we will first secure the number of users and try to invest as much as possible.

Does this answer your question?

**Kinoshita:** Yes. Just for clarification, so you will place more focus on Europe than US? But dollar is stronger, euro is weaker, so from dollar perspective, it seems like that. And so the growth rate seems relatively lower, but the market maturity from Indeed perspective is still growing.

So we want to secure market share. On a QoQ basis, the US and non-US, non-US seems lower, but on a local currency basis, that is not the case. The non-US countries are growing more solidly. Is that correct?

**Deko:** Well, especially Japan, yen is weak. And so on a dollar-denominated basis, QoQ, it is pretty deviated, but.

**Kinoshita:** Thank you.

**Shen:** Thank you. It is time. We will now close the financial results briefing call. Thank you very much.

<sup>1</sup> Number of total visits based on SimilarWeb: June 2022.

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## **Forward-Looking Statements**

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