

Recruit Holdings Q2 FY2022 Sell-side Analyst Call
November 14, 2022

Question & Answer

Shen: Thank you for your patience. Now it is time to begin the sell-side analyst call. So Arai is going to be answering your questions. We accept up to two questions per person at a time. Kinoshita-san from BoA Securities.

Kinoshita: Hello. Can you hear me?

Arai: Yes, we can.

Kinoshita: Thank you. I have two questions. First is related to numbers. In HR Tech, non-US revenue growth in Q1 was 46%. Q2 was 19%.

With regards to the exchange rate, especially against dollar appreciation, what can be the potential impact? I would appreciate your insight on this. Because I'm not familiar with the non-US composition, it is difficult for me to calculate it. That is my first question.

Should I ask my second question as well?

Arai: So the response to the first one is in the FAQ, actually. We have an impact from Forex. So, this will be uploaded shortly. If you refer to the FAQ, you will get the numbers, including and excluding exchange rate and what can be the potential impact on a US dollar basis.

Kinoshita: I found it, actually, on your website just now.

Arai: I believe then you will get the actuarial response if you refer to the FAQ.

Kinoshita: So can I assume that the disclosure also explains development from Q1 to Q2?

Arai: Yes, I believe so.

Kinoshita: Thank you. Then my second question is regarding the performance of the forecast or outlook. The Japanese yen depreciation had a positive contribution on revenue.

Looking at the market rate, internally, you have taken into account the yen depreciation, but you decided not to revise the performance forecast. So, it may not sound right but it is essentially revised downward, equivalent to the amount of the yen depreciation. Is my understanding correct?

If that's the case, where is it, that the margin is declining or revenue is weaker, just equivalent to the impact from the exchange rate?

You said HR Tech will land closer to the lower end of the range. In Staffing, I believe you have been progressing as planned. So where is it that is offsetting the exchange rate impact?

Arai: Yes. Back in May, when we announced the guidance, on a consolidated basis, we announced revenue and EBITDA.

We announced a number. In the three segments, revenue growth and margin are announced in a range, on the other hand. What we said back then was that, in each business unit, when we accumulate and add up the numbers and rounded up, JPY520 billion for EBITDA, that was what we said for the range.

We haven't changed the view on this range but, this time, the numbers that we have internally, if we'd exceed 30% of the threshold as decided by Tokyo Stock Exchange, that is not the case.

So there is positive and negative in the JPY520 billion. Where is that absorbed? I believe that's your question to be straightforward. So, this JPY520 billion adjusted EBITDA is not changed, not because we have visibility to that number, but there is yen depreciation.

So there is a possibility of upside, but as Deko said we have uncertainty in the economic cycle going forward. We don't have visibility for the economic trend after January in the US, so we are taking into account a certain buffer but, still, we are not changing JPY520 billion adjusted EBITDA.

So it's not that we are absorbing the entire impact from forex, but we are taking into account the buffer and we decided not to change JPY520 billion.

Kinoshita: Understood. According to a different interpretation, I believe it seems like you revised downward based on the yen depreciation.

Arai: Well, if we revise the outlook next February, if we need to revise downward because of the change in the exchange rate, we don't want to do that.

As of today, we are trying to create an outlook based on the fact that we have in front of us, we are coming closer to the end of the year. Perhaps we may need to revise in the future as we see more facts but, for now, we decided not to change.

Kinoshita: That was clear. Thank you very much.

Shen: Thank you. JPMorgan, next up, please.

Mori: Thank you very much. I have two questions. First, I'm sorry I'm repetitive but the HR Tech forecast, last time, you were in the first half of the range and this time, around 10%.

So this lowering of your forecast in three months, this is basically from a strong dollar? The details have not impacted this change? Am I right to understand it that way?

At the beginning of the year, the volume, you said, will be flat. You've explained the KPI trend. I don't think you can mention the actual numbers.

But at the first half, end of the first half, the volume and unit price, how are they moving vis-a-vis your expectations? So that's my first question. Thank you.

My second question is the same question from last time. Strategic investment, JPY140 billion at the beginning of the year. How is this moving?

HR Tech and Matching and Solutions, how much have you spent each? HR Tech, 2,500 were hired, you said. This year, you originally planned to increase 30% but this will be the end of the hiring for this year unless there is someone who is extraordinarily good?

Arai: Thank you. The first question will be a repeat of what I mentioned earlier. So at the beginning of the year and three months ago, the difference from then is, as you mentioned, you're right.

Non-US revenues, the dollar-based number is impacted. Kinoshita-san asked the same question. So it's in the FAQ. The impact is in the FAQ. Originally, 75%/25% was the breakdown. The 25% portion on a US dollar basis is knocked down.

So the 10% to 20% range we thought would now be 10% to 15%, it is now down to more like 10%. So now 10% to 15% is down to 10%. The big reason for that is, on a year on year basis, 4.4% in the first half.

This is a sizable impact. So that was unexpected so far. So far, FX, JPY140-plus to USD1 is our assumption for the second half, so that is the impact.

And the others are, as you said, Mori-san, no big deviation or change from our forecast at the beginning of the year.

Second is about JPY140 billion. So roughly JPY100 billion is HR Tech, JPY40 billion, Matching and Solutions. So we mentioned this before. The components, the reasons are future investment, investment for the future, especially for HR Tech.

Around a 4,000 headcount increase was planned for this year, so that was the biggest component. That accounted for the entire cost increase, as Idekoba-san mentioned earlier, about 1,000 in Q1 and 1,500 in Q2.

Summer recruiting of the undergraduates and graduates, the fresh-out-of-college hiring, recruiting went very well. So Q2 hiring was bigger on net compared to Q1. So 2,500 are hired now this year as of the end of September. So hiring will be paused, as mentioned earlier.

Between 2,500 to 3,000 people hiring is completed, so headcount increases will be paused for the moment. This will be about 3/4 of the size of our original plan.

In Matching and Solutions, this is also mentioned in the FAQ. So far, this fiscal year, the additional plans and the forecast of the initial environment, there are upsides and we don't see any downside.

So as we planned originally, the advertisement and promotion and system investment, system improvement, are being used. As of today, the additional portion of spending will be used. So, Matching and Solutions revenue and EBITDA margin forecast remains unchanged because of the reasons that I mentioned.

Mori: Thank you very much. So HR Tech, JPY100 billion, about 3/4 will be used. Three quarters of that amount will be used this year?

Arai: Yes. First, the original assumption was JPY120 to USD1. That's another factor. But yes, you're right.

Mori: Understood. Thank you very much.

Shen: Next is Yamamura-san from Citigroup Securities.

Yamamura: Hi. This is Yamamura from Citigroup Securities. Thank you. I have two questions. I apologize if I'm wrong but first is on HR Tech. First is, regarding Q2, the number of advertisements did decrease. The number of clicks increased, if I understand correctly.

On a local currency basis, it's flat QoQ and an increase in revenue on a YoY basis. The 2% increase in revenue for October, is it because of the decrease in users' activities level?

When we look at JOLTS, the number of advertisements is slightly increasing from September to October. But can I understand that this is not in line with Indeed development?

The second question is, again, I apologize for being repetitive. You gave a suggestion that there is a possibility of revenue decline next year.

A hard landing of macroeconomic factors and the yen's appreciation, is that what you're assuming? But is the possibility likely to remain even under the same macroeconomic conditions?

I believe there is severe inadequacy of supply of human resources. But still, your explanation sounded pretty severe, so I would appreciate your extra explanation.

Arai: I don't understand what you mean by my explanation was severe, but let me respond to your second question first. What Deko said was revenue growth and decrease based on US dollars.

In HR Tech business revenue, institutional investors have raised requests quite strongly, so we are disclosing also based on US dollars. Many investors are focusing on development based on US dollars, so we have been explaining based on US dollars as well.

Next year, revenue might decline and become negative. That is again based on US dollars, just to be clear. The level of the Japanese yen will decide the impact, obviously, but our explanation is based on US dollars. That's one thing.

We have been disclosing every year the size of the TAM. Clients' hiring demand decreases, if that happens, hiring budgets decrease and then business clients will pay less to service providers like ourselves. That was pretty noticeable from two years ago to a year before.

This year, we are seeing the same trend. But into the next fiscal year, when we look at the economic deceleration, we can expect a possible decrease of the TAM as a whole. We don't know the depth and the length of that to happen but the size of the entire pie is going to become smaller.

If that happens, we would be impacted in some way. But even under such circumstances, we would like to maintain the wallet share from our clients or even expand the wallet share so that, in the recovery phase, we can maintain that and grow that.

That will really determine the further expansion, the growth, of this HR business. So the length of this period is unknown but because of the decline of the hiring budget, we would be impacted in some way and our revenue may decrease as a possibility. That was the key point of our explanation earlier.

Your first question, I forgot what the first question was as I was responding to the second one.

Yamamura: Should I ask?

Arai: Yes.

Yamamura: Okay. For the results of Q2, the number of ads decreased but the number of clicks or user activity apparently increased. That's how I understand it.

This is flat QoQ revenue growth and YoY. This was the reason for that result. And 2% of revenue growth in October, as you said, was there. User activity, has it been moderating? When I look at JOLTS, the number of ads slightly increased from September to October. But is that not in line with Indeed's performance?

Arai: JOLTS has a time lag. They take a survey and reflect the results, so there is a time lag. So it goes down and then picks up. When we take into account the time lag, it's not that Indeed performance is not in line with JOLTS.

Our revenue, well, I'm going to have to say the same thing as what I said to your second question. The amount of paid advertisements will be the key element. Rather than per-click, budget allocation is more impactful in our business model.

So, the biggest impact is how much money the clients are willing to spend. The number of workers will continue to be relatively low and the amount of advertisement by clients is going to be the element deciding our revenue.

When it comes to hiring of people in the future, the demand and supply imbalance will become smaller. I believe that is the reason for the 2.5%.

Yamamura: Thank you. Understood.

Shen: Next, Irisawa-san.

Irisawa: Thank you for the question. Thank you for letting me ask the question. HR, your way of thinking, I want to know.

So originally, Indeed is an auction model, so the unit price increases, at the high demand season, the unit price goes up and they go down when it's the opposite environment.

So rather than multiplying the jobs, the increase or decrease of customers, clients advertisement is a better indicator to follow the trend? So, the unit price and the number of cases, if you could share with us the current view?

Another is domestic M&S, Matching and Solutions. Next year's image of the deceleration, I don't think you anticipate a crash.

So there are some that will grow, but on average, a little less than 10% growth, I think, has been achieved in this business on average. But this will slow down somewhat? Is that your forecast for next fiscal year or is there some more upside or downside you anticipate here? Thank you.

Arai: The Indeed business model, last year, this year, the number of clients and the payment per client, we had that number. For unit price, if we had published the number, then you could have done the multiplication and add and subtract and complete your model, but we have not disclosed that much performance-related data.

So, as Idekoba-san said, the supply-demand environment and the corporate clients' hiring appetite trend, that may come from JOLTS data or the CPI or the number of workers or the unemployment rate.

You could combine them and see the trend and understand the trend and see how much TAM will shrink. So if you could take a macroeconomic view, it will be a better method to understand the overall trend at this point in time.

We are studying what KPI we can publish and disclose going forward but our current revenue, current market size, how they will change, I think that is a better indicator. It's a rough indicator, but that is a more accurate indicator for you to understand the trend.

Now, Matching and Solutions, it's not that we expect a slowdown next year. What Deko-san said was the trend in the US and Europe will come to Japan with some time lag.

That's all he said. So, we have both Marketing and HR Solutions. They have their own trend. Marketing Solutions has multiple verticals, which have different moves.

So the economic cycle, from the sensitivity of the economic cycle, HR has more sensitivity and Marketing Solutions is more stable. Regardless of the economy, economic cycle, customers, users, use the service. It's closer to the people's lives. So Marketing Solutions is more stable.

In April and May, we will issue our forecast. We cannot do it earlier than that.

Especially in the US, we have a big portion. So during recession, revenue decline can be possible, I said today. But for Japan, that is not what we see. We haven't gotten that forecast for Japan.

So, for Marketing Solutions, there are businesses that have not fully recovered from COVID, so what happens after recovery is still yet to be seen. So for Japanese business, there's still a time lag.

Irisawa: Thank you very much. So I thought maybe you are starting to see signs of deterioration. That's why I asked my question. Thank you very much.

Shen: Next is Kato-san from CLSA.

Kato: This is Kato from CLSA.

Arai: Hello, Kato-san.

Kato: Hello. So, staffing business in the overseas market, excluding exchange rate impact, the growth is accelerating from Q1. What is the background? How should I look at the second half performance?

Arai: In Staffing, compared to the expectation, internal control has been successful and revenue did not decline significantly.

That has been the trend in Europe, where we have the biggest business. And then the US and Australia. We have three other regions where we operate the Staffing business.

In terms of revenue, we don't have visibility after January yet but we are not expecting any significant fluctuation here.

In terms of margin, it is under control and proactive measures are taken. So, I believe this will be profitable in a stable manner going forward.

Kato: So in different regions, did you have any particularly strong region or weak region?

Arai: Well, in Q1 or Q2, do you mean?

Kato: Yes. In Q2, for example, Europe was particularly the driver?

Arai: Well, we didn't have a particularly weak region but the US business was strong on a YoY basis as well as Australia. In Europe, it was flattish.

As we said in the financial report, there was a special demand related to the pandemic. And such jobs are going to disappear. Such demand is going to disappear.

I believe that is the reason for the flat performance. But they are converted into general demand and that is the reason we have been able to maintain flat.

Kato: I see. Thank you. As you said, in the HR Tech FAQ, if I look at the FAQ, non-US is 64% and 39% for Q2, so it's slowing down. So even if HR Tech decelerates, can I assume that overseas Staffing will continue to grow?

Arai: Well, they are in the same HR business. It really is determined by the demand level of clients. So rather than permanent hiring, there may be business clients who would like to rely more on temporary staff.

But the specifications or expectation requirements for staff would not be the same for dispatched employees. In a serious economic downturn, they may be treated as a temporary resource. We don't see such signs as of today but there is a possibility.

So, a similar trend may be observed in those two businesses but we don't know it yet. We don't see any signs yet.

Kato: Thank you. That's all for me. Thank you.

Shen: UBS Securities, Fukuyama-san, please?

Fukuyama: Thank you very much. Can you hear me?

Arai: Yes.

Fukuyama: So my question is on HR Tech cost, some detailed questions, two questions. First is about salary wage. HR Tech employees' salary, what is the growth over the past few years? As you slow down the hiring, the salary increase will go up in a linear fashion in accordance with the inflation? So, that's my first question.

The second question is, in the last financial briefing, Idekoba-san said, during recession, we learned lessons. We should have hired more people during the recession.

He said that. But even then, this time, you are temporarily suspending the hiring because you are expecting something bad to happen? It worries me. There are some talents that are being laid off in other competitors. Is there a risk that you may regret, looking back and regret that you should have hired more?

Arai: If we hire - and like others, a CEO of another company said, I hired too much. So Idekoba-san does not want to do that like we see in other CEOs.

As we've been mentioning, first, we want the engineer for the future, not the engineer for the revenue. They are now working in full force. So, 2,500 or eventually 3,000 this year, we are hiring at this pace this year. Currently, we think this is sufficient and we have reached a point where we do not take a risk.

Maybe there will be some comments, like you mentioned, later on. But as the environment is unforeseeable, the original plan, 4,000 up to 5,000. If we say, 5,000, then, Fukuyama-san, you may say, what are you thinking?

So, there are upsides and downsides. We think this decision is the right one in the current environment. So, if we say 4,000, if we can only hire 1,000, it may worry you, yes.

But we are hiring 3,000 of great tech talent. So, I think we are pretty well off and in a good position. With the current existing employees and the new ones that are onboarding, we think we can manage for the future growth.

For the salary, you're right. This competition is a factor. We want employees to be satisfied and have fun working for us, so we need to pay a salary that is sufficient and worthwhile.

The compensation for salespersons and salary for the development personnel are different from administrative people, and so we need to pay accordingly, appropriately, for each job type.

Fukuyama: Thank you very much.

Shen: Next is Takeuchi-san from Jefferies.

Takeuchi: Yes. Thank you. Hello. I have two questions. One is on HR Tech. Other than CPC, how is the revenue ramping up, is the composition increasing? Are there any products, services, that started to monetize in terms of CPC? That is my first question.

Second is matching solutions' SaaS business. In the SaaS business, when we look at the revenue breakdown, can you give me some suggestion of what is the breakdown? Operational support package, is that the primary portion or is there something else? Can you give me some suggestions on the breakdown?

Arai: SaaS business in Matching and Solutions, I see. I think Deko-san responded to someone's question earlier.

But the SaaS business, rather than making it as an independent stand-alone business, within the strategy that we explained, what kind of ecosystem we can create, that sticky ecosystem. As an important element, we would like to grow the SaaS business.

There have been several new services, products that have been launched. So, that strategy will remain the same.

Operational support package, when you say that, I'm not sure what you're referring to when you say that. But as Kitamura-san said, it's not that we aim to monetize in a sizable amount just by the SaaS business. So that is not our view in our business. I believe that is the short answer.

But AirPay will be used to position ourselves and the flow of payment. That remains the same as a policy, which is largely the same as what we have always had. I'm not sure if I answered your question, though. That is what I can share with you at the moment.

And then the first question was, yes, in August, I believe we talked about this already. Not CPC but cost per application, that is what we offer for the new clients.

This has been a trial, so that has been progressing as planned. We've been charging clients based on that scheme. It is not a large amount yet but that business has been progressing.

As Deko-san said earlier, increasing revenue, increasing revenue per client, per se, is not the objective. But we aim for higher satisfaction levels so that the clients would spend more money for us.

Under difficult circumstances, it's important to maintain a good relationship with clients, a relationship of trust. So, cost per click, pay per click, continues to exist.

The pay per applicant is something we hope to grow going forward and our development team has been working hard on that.

Takeuchi: This is a follow-up question. The online job interview tool, is there a direct charging or monthly subscription of the platform? Is there such an idea?

Arai: Well, when we think about the history, we wanted people to use the platform whenever they want to or whenever they need to hire someone.

For the small business owners, they really have appreciated that policy or the idea. So, if we say we are going to charge fixed costs going forward, that is not going to be in line with our policy. Thank you.

Shen: The next one will be the last one. SMBC Nikko Securities, Maeda-san, please?

Maeda: Thank you. About stock-based compensation. You are suspending the hiring this year, so will this change the stock-based compensation this year? This is for the already hired people, so this portion will not decrease?

The hiring environment for you is favorable. It's easier for you to hire now. So the stock based compensation expense, the portion, this will decrease? This will not decrease because the right lies in the employees who hold the stock? Is there a fixed, decided amount? Thank you very much.

Arai: Let me talk about the factors of increase and decrease. Even if the employees have the right, this will not be granted to the employees who quit halfway. We also give this right to the newly hired.

So, we always think of this on a net basis. But the ones who had the right last year but quit this year will not receive it. So, that is the scheme.

Therefore, if we have more people on net, this share-based compensation portion will increase. But this is only a part of the personnel cost, so it's not something that will be added on top of this. It is included.

I may have touched on this earlier, but these share-based compensation expenses, before we introduced this system, we had the long-term incentive plan which we paid cash for. We stopped this LTI and moved to this compensation share-based system.

So, the LTI is decreasing and the share-based portion is increasing. This long-term incentive plan related portion will be offset by the share-based portion. The program will be accumulated every year. This started two years ago, so it is now accumulated for two years' worth.

Next year will be the third year and then the fourth year, and it will end in four years. So, next year and the year after that, if the employees remain unchanged, then, realistically speaking, the number will not change. But right now, it is still being accumulated, so the share-based portion will increase.

Maeda: So you planned to hire 4,000, but now it's 3,000, so not much input last year?

Arai: Let me elaborate. Originally, we had the quota but did not use it all. There's the number of shares and the reserve for that. These factors are complex. We anticipate a certain level of people who quit.

We have the accounting reserve for that and this cost is already allocated for that, so it doesn't change much. This is decided every year. It is consumed every year, so it is not a single-year impact.

Maeda: Understood. Thank you.

Shen: Thank you very much. This is the end of this call. Thank you very much for joining.

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