Recruit Holdings Q4 FY2022 Sell-side Analyst Call
May 15, 2023

Question & Answer

Shen : We will now start the Q&A session. First question is from UBS Securities. Fukuyama-san, please.

Fukuyama : Thank you very much. First question is on Marketing Solutions, Air BusinessTools, loss YoY change? And the second question is about generative AI. Thank you very much for the disclosure. This is very helpful. ABT investment, but there's not much loss. Margin was quite high in Marketing Solutions. It was in Others. SaaS used to be in Others, but compared to last year, this year, what is your projection on the loss? Qualitative information is fine.

Second question is about generative AI. Google Bard, it will be launched. Indeed.com, collaboration is now played up in the media. Is that true? And if so, what kind of collaboration do you expect? And I think you generated AI in-house and so how do you plan to delineate that with the external one?

Arai : Let me start from the second question. The other day, I heard from Idekoba-san because we found out that it was going on. This was in Google's presentation. Indeed was mentioned a few times; Google mentioned that a few times. That seems to be a fact. It's not one-on-one or exclusive. They said they will explore various opportunities, so they may do this in-house and collaborate with external parties. It's not that this is definitive or conclusive. That was 2 or 3 days ago.

And loss related to Air BusinessTools, year over year change. It is becoming bigger. If we do well, we can say what you want us to say, that it is being successfully monetized. But we have a long-term view. And so once it becomes bigger, we inject more money, invest more money so that we can make it even bigger further down the road. As Kitamura-san said earlier, we will aim for the appropriate level.

In addition to Air BusinessTools, fintech will be next. Including that, we understand this is overall, we will increase more products and increase people and development accordingly, so this will remain a negative. And I may have said this earlier, but we're not doing this to monetize. This is for the existing verticals and for the establishment of the ecosystem. We think of this as an investment. We are not focusing on reducing the loss here. That is not how Kitamura-san's team operates this business. In that sense, this will remain negative. Negative, but investments for a promising future.

Fukuyama : Thank you very much.

Arai : Thank you.

Shen : Thank you. Munakata-san from Goldman Sachs, please go ahead.

Munakata : Thank you. This is Munakata speaking.

Arai : Well, Munakata, I can see your face, which is good.

Munakata : Thank you.

Arai : Well, you're allowed to ask three questions because you are showing your face. Just kidding. Two questions at a time.

Munakata : Thank you. My first question is from this time, you're disclosing the breakdown of SG&A. This was very helpful. Thank you. And during your explanation, in the previous fiscal year, you mentioned that there were different movements in the first half and the second half. As of today, continuing on from Q4, what is the expected change of ratio in this fiscal year? And for example, if the economic situation has more depth in value or faster recovery than expected, what type of expenses are going to increase and where is the buffer? That is my first question.

And the second question is, in February, Idekoba-san said that next fiscal year, you may continue to have a tough top line. Have there been any changes to that view? Personally speaking, well, as it was mentioned in other people's questions, in your performance, I'm feeling that the downside or the bottom is coming faster than expected. So there is a possibility of shifting to the upside in the second half of FY2023. Is there any update on that? Thank you.

Arai : To your first question, I believe this is about HR Tech?

Munakata : Yes.

Arai : Right. Thank you. SG&A cost, well, we could break this down further, but we disclosed advertising expenses, personnel expenses, including the employee benefit expenses. These two were the large categories. This is linked to what I'm going to talk about next. But especially regarding advertising expenses, in the second half of FY2022, there was a significant reduction. The trend today, if it continues the level from the second half of FY2022, the absolute amount from the second half of FY2022 will be sustained. I mentioned 13%, and it will be somewhere around that level, maybe 10% to 16% or 13% to 16%. If that is the range, 10% is going to be the level for this fiscal year.

And regarding personnel expenses, it is going to be the opposite. It is approximately 50%, maybe the first half 40%; and the second half 60%. If that is the case, from the 60%, we reduced the workforce, resulting in approximately USD 500 million of annualized savings, as we announced. Q1 forecast compared to Q1 and Q2 previous year, we are having a higher margin, so there is going to be less cost. I believe that is the image for numbers.

If recovery happens faster, of course, we have been controlling many different elements, but the amount of advertising expenses is likely to increase if there is a buffer in terms of operation. As Idekoba-san explained and as it was mentioned in the presentation deck, so far, natural attrition is the direction we're taking for the headcount.

We are not intending to resume hiring immediately just because we see signs of recovery. We will be cautious and closely monitor the operation. And if the recovery can happen sooner, I cannot give you a concrete answer, so we will assume the worst-case scenario and do our best to prepare. We would not be optimistic. We will rather be pessimistic. And we will take every measure with much energy to prepare for the worst-case scenario. That is going to be the direction of management this year.

Munakata : Thank you very much. That was clear. Thank you.

Shen : TACHIBANA SECURITIES, Irisawa-san, please.

Irisawa : Thank you for this opportunity. First is HR crash, the way we need to look at it. Q1 is in the range, so no crash. You said 20% drop is possible. Based on the assumption that there is not a crash, in the Q1 range, is there enough option for the upper and the lower end of the range?

And second is M&S, HR Solutions, service integration schedule or the speed, timeline, so the Japan HR service impact. If you integrate your service, there are various operators who are doing small-scale services that may be shaken out. And your market share in Japan, your volume may increase. That is my take. Is that correct? And what is the timeline? When do you plan to integrate? Thank you very much.

Arai : Thank you for the question. You mentioned a crash. And I don't know if I understand that word crash properly, but dramatic slowdown in the market demand, is that what you mean by crash? What I mentioned in the fireside chat is if the full-year revenue declined by 20%, even by a 20% decline, we will maintain profit-generating capability. We use 20% as an example to say that we will maintain our profit capability.

It's not that we have any specific assumption that will lead us to think that there's a revenue decline of 20%. That is not the forecast. Let me just state that at the outset. This is not our profit performance outlook. It's a hypothetical number that we used for calculation purposes. In the range of margin, we have the range for revenue, so 0% to minus 5%, so the profit will go up or down accordingly.

Second question, Kitamura-san did not say he will integrate the HR Solutions business. What we think is important is the data collection, and by having good data collection, we can enjoy synergy and provide better service for job seekers and launch more effective products and services to our business clients. That is what Kitamura-san said.

It's not that we are going to integrate the brands and businesses into one. It's not that. But in many areas of our HR business, we have various kinds of businesses, media-type businesses and the placement-type businesses, matching transaction services. If we can collaborate better within the rule, we can offer better services to job seekers and the job offerers, or employers. It's not that we have a fixed integration schedule or anything. This is what we think; how we think we'll proceed with our business.

Irisawa : Thank you. So Q1 and 20%, so this is not part of your forecast?

Arai : Right, it's not.

Irisawa : Okay. I understand.

Arai : Q1 compared to Q1 last year, it is down by 13.5% to 17.5%. That is our forecast.

Irisawa : Thank you.

Shen : Watanabe-san from Mito Securities, please go ahead.

Watanabe : This is Watanabe from Mito Securities. Thank you. I have two questions. One is regarding the HR business future vision. After listening to all the discussion, I would like to clarify. The number of job openings, 12 million, it is a peak, and it is going to decline. There is increasing aging, and there is maybe a structural change, so it would not return to the state pre-COVID. That is my view. And when the recovery happens, I assume your unit price will be higher, your market share will be higher. And the market has shifted more towards automation. Before reaching the past peak, well, it depends on the timeline, but you would be recovering to a certain level from a mid to long-term perspective in the HR business. Is that a fair assumption? That is my first question.

And my second question is regarding M&S. This is a view for this fiscal year and maybe next fiscal year. Last fiscal year, there was advertising expenses looking at mid to long-term market share taking. Plus 10% is the number for Q1 and plus 6% is the full-year number. Decline from Q1, does this mean that the hurdle will be higher every quarter and not that you are expecting economic recession? You have been addressing many different areas, so even without spending advertising expenses, from the next fiscal year, are you going to go into a growth phase?

And on a full-year basis, plus 4% and the ratio is 10% to 8% in Q1. I believe growth could have been higher, considering the recovery from the pandemic, so I would like to ask for some more color on that.

Arai : Thank you. In your first question, it was related to HR Technology business. I probably think that you are asking more about this next 1, 2, and 3 years rather than the future. I believe there are a couple of highlights and if I were to summarize, our performance and market environment and future automation are nice to have. Perhaps they are based on different timelines. That is what I assumed.

In any case, no matter how it deteriorates, HR business always comes back. It warms up again. How long it takes is just a question, and it is difficult to have visibility there. That's the difficulty of the business. But by then, we are making efforts so that we can achieve greater growth with increased matching accuracy and understanding of clients, hopefully leading to higher appreciation and evaluation from the clients. That is what we need to think about.

The decline in sponsored job volume and the number of job openings in the longer term is something we focus on. Supply side and demand side imbalance is set to be filled or matched during the market downturn, generally speaking. But as of today, the job seeker number is relatively smaller, and that remains unchanged.

But our revenue is coming from payments made by business clients, so if their motivation or willingness to spend declines, we will have less revenue. When it is going to hit the bottom, when it is going to start recovering, these will be the questions to be addressed next.

In the HR business, the speed of evolution was not necessarily fast. Idekoba-san has been saying, we are working on improving matching accuracy. But we never know if others will do the same. When the market starts recovering, we want to make sure that we can offer better services to win competitive advantage. That is my summary for your first question.

And for your second question related to M&S, I believe the first part was related to HR Solutions. This is not a type of business where you can see impact visibly every quarter. Well, when it declines, it declines sharply. But when there is a positive impact, we never see that instantly every quarter. We just need to continue working on initiatives. So 10% for Q1 and 6% for full-year, well, it means that it is easier to have visibility for H1, but towards the end of the year, it is more difficult, and there's more uncertainty.

One year from now is something not completely visible for those who are business planning. In Q2 and Q3, perhaps we would revise it to 10% growth on a full-year basis or 4% to 5%. Every quarter, we are going to be making an update, but the year has just begun, and we cannot say anything decisive. But approximately 6%, somewhere around 6% is our forecast or expectation. This is based on the assumption that there is not going to be severe damage in the domestic market.

And the same goes for Marketing Solutions. You may think it could have been higher and I hear that, but in each vertical, we already have high market share, and we are still trying to grow the revenue. I hope you understand that we are making a great effort. Thank you.

Shen : CLSA Securities, Kato-san, please.

Kato : Kato from CLSA Securities. Thank you. In Q4, HR Tech US is minus 10% in revenue and sponsored jobs, minus 30%. The 20-or-so percent difference, what were the elements that led to this difference?

Arai : What do you mean by difference?

Kato : The volume was minus 30%; revenue, minus 10%. Is it the unit price, the CPC, or Indeed Flex?

Arai : Indeed Flex is different, but it's like last time, so like the Q3, same situation. But as Idekoba-san said earlier, various things are being tested, and we try and retract, so I think there will be fluctuations along the way. But as we mentioned to you, Kato-san, unit price, we're not trying to compensate for the lower revenue with this, to make up for the lower revenue. Unit price cost per action, of course, yes, we want to make it higher, and we will make an effort as a company. But if we push too much and drive the customers away, it's not good, like Idekoba-san said. So we will try to be deliberate and meticulous and try many things. For Q4, this was the result.

Kato : Yes, understood. At the beginning of the year, Indeed Flex, you mentioned 2% to 3% in revenue. What was the result? 2% to 3% of total?

Arai : I do not have the exact number at hand, but the market situation has changed quite significantly. And it's not just Indeed Flex. From the second half of FY2022, especially in the US, the staffing business demand slowed down, so we were impacted by that. Probably this 2% to 3% of total was not met I think, but we will continue making improvements and try to capture new clients and make new initiatives so that we can move the staffing business forward.

Kato : Yes, understood. Thank you.

Shen : Nagao-san from BofA Securities, please go ahead.

Nagao : This is Nagao speaking. Arai-san, in this earnings release, adjusted EBITDA margin, 28%. That was brilliant.

Arai : Thank you.

Nagao : Well, I wouldn't ask for each vertical, but the presentation of this 28%, Housing, Beauty, are they the drivers as they have been always? Or Travel and Dining are coming back, so in addition to the strong drivers, are they coming back? Or is it Air BusinessTools related contributions? I'm not sure how to put it, but what is it that you aim to achieve throughout the year?

Arai : When we look at FY2022, as we've been saying from the previous year, just like you said, Housing and Beauty have been the strong drivers of revenue growth. On top of that, the Travel business, in terms of the numbers, has recovered to the pre-COVID level already. Restaurants or Dining has not recovered yet, that was the state of the components in last fiscal year.

And looking at this fiscal year as a whole, on a full-year basis, the Dining business is expected to recover more. At the same time, the two largest verticals are going to make stable contributions to the profit.

Nagao: I see.

Arai : SaaS business, well, when I say SaaS business, we are expanding to fintech business as well, but this is where we are going to continue to invest to increase the number of clients and transactions as KPIs. We are not expecting to generate profit from this business in the short term. The five largest verticals are going to make a great contribution in that sense. I would like to tell you more details, but that is all I can say for now.

Nagao : Thank you. That was helpful. On the other hand in the HR Solutions, adjusted EBITDA, 22% is the target, where it was 12% last fiscal year. In other words, I believe this is an area where you have intensive competition. This is fragmented, and you have more competitors than the others. I have this impression that 10% improvement is a great improvement. In HR Solutions, is this profit improvement due to revenue growth or by controlling cost and striking a better balance? I would appreciate additional explanation on this point. Thank you.

Arai : Last fiscal year, we spent a large amount of expenses. I believe you still remember. Placement business-related products required investment and ATS-related investment, for business clients, especially SME clients on one side and for users on the other side.As Kitamura-san said earlier, in order to improve our matching accuracy, in many different areas, we focused on users or job seekers and employers to enrich our data.

In this fiscal year, we will not be making efforts at the same level as the previous year. We will be more moderate in terms of the amount of expenses we plan to spend in this fiscal year compared to the previous year. As Kitamura-san said earlier, we will see flowers bloom bearing fruit. That is why we are saying we will be able to improve to 22% for HR Solutions.

And because of integrations, it is difficult to compare apples-to-apples with what it used to be, so 12%, 25% that you see, these are not authorized numbers by accounting; these are just internal numbers. When one year will have passed, we will be sharing numbers of this fiscal year in more detail, but in the Marketing Solutions business, I believe many people expected a lower margin, but that is not the case. In this fiscal year, we wanted to communicate that to you.

And if we control and optimize costs, we will be able to achieve 22% for HR Solutions. We wanted to convey that to the audience. That is why we decided to offer this breakdown.

Nagao : Thank you. This is very clear. Just one follow-up. Advertising expenses for each business is given. But are you showing these numbers because you are ready to carry out cost reduction if necessary, this year?

Arai : In Q3, Idekoba-san said that eight quarters from now will be a tough time. Some people said that the margin will just continue to deteriorate and they just want to sell what they own. I heard that there were such opinions.

So to the extent possible, we wanted to explain what is the cost structure, what is the structure we have, so that we can offer better understanding. In the past, HR Technology was not a large segment, so we just had to share with you the consolidated performance in order for you to understand the trend. But we are now having a larger business, and they obviously have different cost structures, so we decided to offer further details, including the cost structure of each business.

And as a question was asked, the trend can be very different between the first half and the second half. And based on that understanding, we wanted you to think about the outlook for this fiscal year. That is the background of our decision.

Nagao : Thank you very much. I appreciate it.

Shen : Thank you. This is time to conclude the follow-up call.

[END]

Forward-Looking Statements

This document contains forward-looking statements, which reflect the Company's assumptions and outlook for the future and estimates based on information available to the Company and the Company's plans and expectations as of the date of this document or other date indicated. There can be no assurance that the relevant forecasts and other forward-looking statements will be achieved.

Please note that significant differences between the forecasts and other forward-looking statements and actual results may arise due to various factors, including changes in economic conditions, changes in individual users' preferences and business clients' needs, competition, changes in the legal and regulatory environment, fluctuations in foreign exchange rates, climate change or other changes in the natural environment, the impact of the spread of COVID-19, the occurrence of large-scale natural disasters, and other factors.

Accordingly, readers are cautioned against placing undue reliance on any such forward-looking statements. The Company has no obligation to update or revise any information contained in this document based on any subsequent developments except as required by applicable law or stock exchange rules and regulations.