Recruit Holdings FY2020 Earnings Call May 17, 2021

Shen: Welcome to the Recruit Holdings FY2020 earnings conference call. I'm Shen from IR department and I will serve as a moderator.

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

Today we have Hisayuki Idekoba, President and CEO, and Junichi Arai, Executive Officer of Corporate Planning Division.

Deko will begin with the vision and the overall business strategies for Recruit Holdings.

Then Jun will discuss the FY2020 results and FY2021 guidance, followed by the Q&A session.

We recommend that you refer to the financial results summary and FAQ for Q4 FY2020 posted on our IR website.

Now over to Deko.

Deko: Thank you for joining us today.

I am Hisayuki Idekoba, President and CEO of Recruit Holdings, but most people call me "Deko".

Today, I would like to introduce myself, and share my vision for Recruit.

I joined Recruit Co., Ltd. as a new graduate in 1999, so this is my 22nd year with the company.

Throughout my career, I have always focused on creating products and services that can make life easier and more convenient.

For example, about 20 years ago, I led the digital transformation of our travel magazine, Jalan, into an online travel booking platform.

At that time, most local inns and guesthouses didn't have computers. We started by asking the inn owners to purchase computers and sign up for internet access, and steadily increased the number of inns in Japan that can be booked online.

Similarly, in the Beauty business, we also created an online reservation system that allowed beauty salons across Japan to take reservations online.

Then in 2010, I was put in charge of the globalization of Recruit and traveled to many countries in Asia and around the world. I was really surprised to see with my own eyes that in many countries, the local people told me, "I don't even know how to find a job".

It made me realize that there should be services and products that made it easier for people all over the world to find jobs. Then I met CEOs of various kinds of companies, and fortunately met the founders of Indeed and asked them to join Recruit. Today, our services are used by millions of people around the world.

These are a few examples of how I have continually created products and services that can simplify and better our lives.

For the past three years, I have been in charge of formulating and executing the strategy for Recruit Holdings and the Recruit Group across all three SBUs.

And that’s why, with my appointment as CEO this April, there will be no major changes in our strategy. We will continue to work on our mission, “Opportunities for Life,” which means connecting individuals and businesses faster, simpler and closer than ever before.

In pursuit of our mission, we are now outlining three specific pillars of our overall strategy: Simplify Hiring, Help Businesses Work Smarter, and Prosper Together.

The first is "Simplify Hiring," in other words, connecting people with jobs, faster and easier.

This is something we have been doing for more than 60 years since our founding, and I believe there is still so much more we can accomplish.

The second pillar is, "Help Businesses Work Smarter,” in other words, improving business performance and productivity through SaaS solutions.

In the Japanese market, where the working population is expected to continue declining, we believe that simply making it easier to find a job will not be enough to improve the country’s fundamental labor shortage.

I believe that we still have a lot to contribute to Japanese companies, which are said to be lagging behind in digitalization.

We are also now introducing a third strategic pillar, “Prosper Together,” in other words, seeking mutual prosperity with all stakeholders.

While this philosophy has always been a part of Recruit’s history, at this time we are elevating its importance. As the number of our users and clients increases around the world, we feel that our responsibility to contribute to a sustainable society is also increasing.

I would like to talk briefly about the current status of these management strategies.

Regarding the first pillar, "Simplify Hiring,"

The impact of the COVID-19 pandemic since last year has reaffirmed our belief in the importance of our HR services, including Indeed, Glassdoor, Townwork, Rikunabi and temporary staffing. All have played a crucial role in the lives of people all around the world.

When the spread of COVID-19 began, millions of people lost their jobs and needed to find a new one as soon as possible. But they weren’t able to have in-person interviews. So since last year we have accelerated the development of various online recruitment processes.

For example, we created a tool for online job interviews, offered it for free, and as a result, we were able to help more than 20,000 people change jobs or find employment in a matter of weeks.

Also, in recent months, our Staffing business has been able to assist in expediting COVID-19 testing and vaccination in various countries.

Currently, Recruit’s services and platforms match searches by hundreds of millions of job seekers each month with more than three million employers searching for talent, resulting in more than 10 hires every minute.

We will continue to strive to make it as easy as possible for as many people as possible to get a job by fully utilizing AI and machine learning, so that "people who want a job can change jobs in one second" or "people can find a new job with the push of a button.”

Regarding the second pillar of our strategy, “Help Businesses Work Smarter”, in another word, improving business performance and productivity through SaaS solutions.

Let me introduce an example that made me wish that cashless payments was more commonplace in the world.

Long before, when my wife was working as a manager at a restaurant in Japan, I remember her saying that she had to go to the bank at least three times a week to make deposits and exchange money, and that it was such a waste of time.

I thought that if the world became more cashless, people would be able to spend time focusing on their business instead of on this kind of administrative work.

We now have more than 210,000 AirPay customers, and the number of solutions we can provide is constantly increasing. In the future, I believe the promotion of cashless transactions and the automation of marketing will continue to evolve.

In the near future, I even believe that it will be possible for store owners to realize that they can run their business using only a smartphone, and then they can concentrate on selling their products, food or services.

Through the businesses we have conducted over the years, we've built relationships with many stores and companies throughout Japan, and we believe that the evolution of the solutions we provide can greatly improve the productivity of Japan.

Regarding the third pillar of our strategy, "Prosper Together",

When the spread of COVID-19 began, many people, especially in the US, lost their jobs. And in February this year, we had one of the heaviest snowfalls in 100 years in Austin, Texas, where Indeed is headquartered.

There was widespread loss of power and heat, so our Indeed office welcomed people suffering from the cold to keep them warm. This experience highlighted for me that many people are really in a difficult situation.

Of course, it's important to support people in need through charitable activities, but to solve the issue fundamentally, it is critical for people to have a job and earn a living, and I believe there are so many things that we can do.

We have been making efforts to provide new opportunities and new jobs to as many people as possible, but as disparities continue to widen in many parts of the world, the Board of Directors has discussed whether we can take more responsibility for creating a sustainable society, and decided to proceed with setting clear ESG goals. Please refer to the press release we released today for details.

Those are our management strategies.

As for the short term business environment, in places where the vaccination is progressing, such as the US, there has been a temporary surge in demand as economic activity has resumed.

However, we assume that the economic and business environment will continue to be very uncertain due to the slow vaccination rate in many regions, the impact of new strains of virus spreading in various countries, which rages in India for example, and furthermore, how the economic support of governments will change.

There is a possibility that short-term business performance may be negatively affected by the responses to the state of emergency in each country.

However, just as in 2020, I hope to make steady progress in the execution of our management strategies in parallel with prudent short-term decision-making, while achieving solid results in the mid- to long-term.

Even now, Recruit has a relatively small presence in the competitive global technology landscape. However, when I started running Indeed about 10 years ago, there were 30 to 40 engineers as a team at Indeed.

Also, Recruit's overseas revenue ratio was only 3% about ten years ago, and is about to become the majority in this fiscal year. Given this track record I believe we have an opportunity to be even more successful.

If we focus on our strength and expertise in niche areas such as HR Matching technology and apply the unique insights and knowledge we have through our relationships with our business clients in Japan, I believe we can create new products and services that make people wonder "How did we live without them?"

We will continue to provide new products and services to society. This is the role and responsibility we must fulfill and will be our lasting contribution to society. By fulfilling this responsibility, I believe we can achieve a sustainable increase in our enterprise value.

Now, I will turn it over to Jun Arai, Executive Officer of Corporate Planning to discuss the fiscal year results and guidance for FY2021.

Arai: I am Jun Arai.

Now, I will explain the Consolidated Results of Operations for FY2020, the Financial Forecast for FY2021, and finally, Shareholder Returns and Capital Allocation. Please refer to the table on the second page of the financial results summary during my remarks.

For details on our Q4 financial performance, please refer to the earnings materials disclosed earlier today.

I will begin with the financial results for the last fiscal year ending March 2021.

In the first half of FY2020, HR Technology and Media & Solutions segments implemented rapid cost-cutting measures amid a sharp drop in revenue due to the rapid deterioration of the global market caused by the spread of COVID-19.

In the second half of FY2020, while revenue from HR Technology improved rapidly, in Media & Solutions, it was a six-month period with intense ups and downs, with the positive impact of the Go To campaign in Japan and the negative impact of the subsequent state of emergency period.

During this period, we continued to aggressively make investments that we believe are necessary for future growth in line with our management strategy.

As a result, full year revenue excluding the Rent Assistance Program decreased 8.7%, consolidated adjusted EBITDA decreased 25.7%, and adjusted EPS decreased 31.8% year on year.

Adjusted EBITDA for FY2020 was 241.6 billion yen, which was 9.7 billion yen higher than the revised forecast of 231.9 billion yen disclosed on February 15.

The full-year dividend will be 20.0 yen per share, which is 1.0 yen higher than our prior guidance.

For the consolidated financial guidance for the fiscal year ending March 2022, the business environment continues to evolve rapidly, as restrictions in some countries have variously been relaxed and reintroduced, making forecasting difficult.

Assuming that new large scale lockdowns and states of emergency will not cause long-term stagnation of economic activities, we disclosed FY2021 guidance in ranges today.

Revenue and adjusted EBITDA are expected to increase in the HR Technology and Staffing segments, while revenue in the Media & Solutions segment is expected to increase compared to the previous year's revenue when excluding the Rent Assistance Program.

Adjusted EBITDA is expected to be 270 billion yen to 335 billion yen, compared to the previous year.

Adjusted EPS is expected to be 95.51 yen to 126.10 yen.

The dividend forecast for the half year and the full year for FY2021 has not been determined at this time.

Next, I will talk about the full-year financial results and outlook by segment,

For HR Technology, in the first half of FY2020, revenue declined significantly in the first quarter due to the spread of COVID-19, followed by a recovery driven by the US, resulting in revenue reaching close to pre pandemic levels during the second quarter.

During the second half of FY2020, hiring demand surged, particularly driven by small and medium size employers in the US, which created an imbalance between dampened job seeker activity in the US and significant hiring demand, driving revenue growth higher.

As a result, revenue for the full year decreased 0.4% year on year. On a US dollar basis, reported revenue was 3.99 billion US dollars, an increase of 2.2% year on year.

HR Technology pulled back marketing investments and paused hiring during the first half of FY2020, while prioritizing investments to simplify hiring, which put us in a strong position to support employer’s hiring activities during the second half of FY2020.

As a result, adjusted EBITDA margin for FY2020 was 15.8%.

HR Technology’s results for the next fiscal year may be significantly impacted by the success of vaccine rollouts, the reopening of schools, the reduction of government stimulus, and job seekers becoming more comfortable returning to work, which make it difficult for the Company to forecast the business environment during the second half of FY2021.

While the overheated competition for talent in the US is continuing in the first quarter of FY2021, we expect US dollar based revenue growth to be 40% to 50% for FY2021 which is based on the assumption that this competition will ease during the first half and the imbalance between supply and demand for labor will return to normal thereafter.

For the full year, adjusted EBITDA margin is expected to be approximately 20%, as we continue investing in sales and marketing activities to acquire new users and clients, while increasing investments in product and technology to transform HR Matching markets in order to realize our “Simplify Hiring” business strategy that Deko mentioned earlier.

The timing of these investments, combined with the continued strong revenue performance expected in Q1, is expected to result in the highest quarterly adjusted EBITDA margin to date in the first quarter.

Regarding the definition and quantification of the HR Matching market, please refer to our earnings release and question 4 in the FAQ.

Next, for Media & Solutions, revenue for the first half of FY2020 dropped significantly due to the first state of emergency in Japan.

For the second half, revenue in the third quarter showed signs of recovery benefitting from the Go To Campaigns, however, in the fourth quarter, the positive revenue trends reversed due to the second state of emergency.

As a result, revenue for FY2020 decreased 11.1%, and excluding the Rent Assistance Program, it decreased 21.6% year on year.

While Media & Solutions reduced operating expenses quickly during the first half, during the second half, Media & Solutions made strategic and proactive marketing investments to seize future growth opportunities.

In addition, an increase in costs related to the reorganization of the Media & Solutions SBU completed on April 1, 2021 and increased allowance for doubtful accounts, due to the pandemic, resulted in a decrease of 41.6% in adjusted EBITDA.

As a result, the adjusted EBITDA margin was 15.9%.

For Media & Solutions, the guidance for Marketing Solutions for FY2021, Housing & Real Estate and Beauty are expected to continue stable performance, while the timing of revenue recovery in Travel and Dining is uncertain due to negative impacts of the repeated states of emergency in Japan. The challenging business environment is expected to continue for Bridal.

As a result, revenue for Marketing Solutions is expected to be in the range of a decrease of approximately 3% to an increase of approximately 9% year on year compared to FY2020 revenue excluding the Rent Assistance Program, and is not expected to recover to the same level as FY2019.

For HR Solutions, although the uncertain business environment has continued mainly due to repeated states of emergency in Japan, from mid to late FY2021, hiring demand from business clients especially in the dining industry, which has been negatively impacted by the state of emergency in Japan during the first quarter, is expected to recover, and the part-time job advertisement business is expected to recover.

The placement service is also expected to recover gradually. As a result revenue for HR Solutions is expected to increase in the range of approximately 13% to 24% year on year.

For FY2021, to realize our business strategy in the mid- to long-term that Deko explained, Media & Solutions is accelerating its investments for future growth in marketing and product development. As a result, we expect adjusted EBITDA margin to be approximately the same level as FY2020.

And if the business environment deteriorates or there is a prolonged delay in the expected recovery, Media & Solutions expects to be able to control operating expenses, as we did in the first half of FY2020.

As for one of our key strategies, ”Help Businesses Work Smarter”, in other words, improving business performance and productivity through SaaS solutions, please refer to the earnings release and questions five and six in the FAQ.

Next is Staffing.

For FY2020, in Japan operations, the implementation of the “equal pay for equal work” regulations positively contributed to increased revenue and adjusted EBITDA throughout the year.

However, due to the continual uncertain business environment in Japan throughout the year, lower demand for new orders persisted and revenue declined year on year from the second quarter onward.

On the other hand, in Overseas operations, while a decrease in demand for temporary staff due to COVID-19 related government-mandated lockdowns in each country led to a significant revenue decline in the first half, there was a recovery in the second half in certain industries and revenue growth turned positive, partially supported by a positive foreign exchange rate impact.

As a result, for the Staffing business in total, revenue for FY2020 decreased 4.0% year on year.

For FY2021, for Japan operations, although there is uncertainty in demand for new orders, revenue is expected to be flat year on year.

For Overseas operations, revenue is expected to increase approximately 5% to 10% year on year.

By pursuing efficient business operations, adjusted EBITDA margin for Staffing in total is expected to be the same level as FY2020.

Next, for Capital Allocation and Shareholder Returns.

The capital allocation policy remains unchanged, as shown on page two of the summary, with the following priorities in this order: 1. various investments, including development and advertising expenses, in line with business strategies, 2. dividends, 3. M&A, and 4. share buybacks.

In order to realize the world that Deko is aiming for and to achieve our management strategies of "Simplify Hiring", "Help Businesses Work Smarter", and "Prosper Together," Recruit Holdings will strive and return profits to our shareholders by maintaining a sound financial position and continuously paying stable dividends, while aiming to achieve a continuous increase in enterprise value.

The amount of dividends for FY2021 and beyond will be determined by comprehensively taking into account the trend of consolidated financial performance, including net income, and financial conditions.

We will consider whether or not to repurchase our own shares, taking into account the market environment and the outlook for our financial condition.

We will continue to pay close attention to domestic and international trends and their impacts, and aim to grow our business and achieve our business strategy from a mid- to long-term perspective.

We are grateful for the understanding and support of our shareholders, other capital market participants, and all of our stakeholders.

Please refer to the earnings release and the materials on our website as appropriate, which include the contents of today's presentation.

Question & Answer

Shen: We would now like to move to Q&A session.

Shen: Citigroup Securities, Tsuruo, please.

Tsuruo: Thank you very much for this opportunity. You have solid performance. I congratulate you. I have a question to Idekoba-san. HR Tech will support your future performance and looking at the material you gave us, you have made significant progress in the past year. What led to the share increase? What was the driver? And how sustainable do you think this is? That's my first question.

And if I may, I want to ask the second question together. The second question is, at this point, the business environment is unforeseeable. The medium-term forecast was only the mission statement. But once the business environment stabilizes, what kind of financial performance target do you have to expand the shareholder value? You have announced the medium-term plan. I want to know your view, maybe a conceptual level on the medium-term plan. Thank you very much.

Deko: Thank you very much. This is Idekoba speaking. Starting with HR Tech, our share seems to have increased in the past year, and you want to know the driver, the factors. What we've been doing all along is looking at the competitors and decide to increase our market share? No, that's not what we are doing. Whether we are acquiring market share is not watched that closely.

As I mentioned earlier, we want the users to find jobs very easily, and the employers can post jobs and hire someone very easily. We want to improve the convenience there, and that is crucial. As a result, many people use our service. I think it boils down to that.

You said that our market share seems to be rising. For the past 60 years, we've been doing this type of business. And when the economy is bad, once every 8 or 9 years, if we look back in the history, what happened was, as an example, in good times, when the economy is strong, companies decide to hire people, but they sometimes find it difficult to hire. They post jobs but cannot hire as many people as they want. And so, they try this and that and many, many channels, so customers start using many channels.

When the economy is bad, companies, employers cannot try 3 or 4 channels, so they only go for the most efficient one, most effective one, and concentrate their management resource in one. I think that happened in the past.

As a result, in 2020, especially during COVID-19, in the first half, the situation was very difficult. And so, we saw a similar situation. And as a result, compared to competitors, our share may have increased.

To answer your second question, the business environment is unforeseeable. But after it stabilizes, what kind of performance target we have? I think that was your question. Our medium- to long-term plan, our 3-year plan and 5-year plan, we have been shifting to technology centered business. Given our current circumstances, in 3 years' time, our new innovation will progress this much or this kind of challenging endeavor will prove to be successful.

You may have seen our past and saw how much resource we injected and how much increase we've seen. It's not like the past. It's difficult to forecast. I think this is the same as other companies. We gather data and take action. We don't know how much progress we can make because we are in a brand-new phase and same for other companies. It's hard to say how much progress we can make in three years. Even if we have a 3-year plan, it may work counter to us. We may be bound by what we try to achieve in 3 years in the plan. So how much more convenient can we make the world, if we have a plan, we may not be able to maximize the value that we offer to the world. So, for now, we have no plan of developing a medium-term business plan.

Tsuruo: Thank you very much. I understand.

Shen: From JP Morgan Securities, Ms. Mori, please?

Mori: Thank you for this opportunity. I have two questions. First, for the HR Matching market, you presented data on the market. For HR Technology business, the drivers for the revenue, I would like to know your views on the drivers for the revenue. Currently, advertising revenue accounts for the largest portion, I understand. But will the situation continue to stagnate or the hiring platform that you launched in March, how are you going to localize it? What about Indeed Hiring? What is the direction?

And more in the long term, for the Staffing services, how you are going to make changes to that business? I would like to ask your views and more detailed explanation on these matters. Thank you.

Deko: Yes. Thank you. This is the first question. I would like to first respond. Or should I get to your second question at this time?

Mori: Sure. The second question is about the SaaS solution. For monetizing, what is going to be your focus on monetizing this business? You have 210,000 accounts, and it's less than 10%. You're, for the time being, going to focus on accounts. But looking at the current circumstances, I think it will take longer for the EBITDA to return to the pre-pandemic level. So, for the SaaS solution, looking at the growth drivers, what are they? And what is going to be your focus for making this a viable business?

Deko: Thank you for the wonderful questions. With respect to the first HR Matching and future drivers, what they're going to be, I understand that it was your first question. As I briefly touched upon earlier, of course, the hiring process needs to be much more simplified. Simply put, what I often say is this.

A company that makes autonomous driving cars, of course, there are a number of companies that are in that business. But when we apply autonomous driving cars to the HR industry, what I'm trying to say is this. In autonomous driving, you have taxi drivers, their jobs, truck drivers, and, of course, there are people who drive their own cars. All those things happen even in autonomous driving. So, for job advertising market, it's exactly that: advertising market.

Looking at business clients' costs, let's take Indeed, for example. We have about 10,000 employees, 300 to 400 of them, from the talent acquisition team, their sole job is to work on hiring. Of course, advertising cost is something many companies pay, but 300 or 350 people, their contribution is great and, of course, the cost as well. If we outsource them, it will be the cost that we pay to placement company. But the underlying story is that costs basically are incurred when we have people working on certain tasks.

What we need to do going forward, which is going to be more difficult than autonomous driving, is that not everything will switch all at once. Of course, this will not happen in autonomous driving either. But what people are doing right now, what we want to achieve is increasing efficiency by five times or ten times, let's say, we have 300 people working as a hiring team, maybe about 1/2 of them have the scale of the team will still be able to do the same hiring tasks. I think even by such measure, efficiency will drastically increase. So that's what we are going to do.

The value of it is making hiring easier. And how we are going to monetize is, let's say, for example, what we pay externally, what we pay to the placement companies, this could be replaced or that may be resizing the hiring team and still achieve the same productivity. There are various ways to achieve this.

What is happening right now is this. As you are aware, many companies in the world with the spread of COVID-19 pandemic, let's say they used to have a hiring team of 1,000 people in FY2020. Many companies have downsized these hiring teams.

Certainly, with the end of COVID-19 pandemic insight, companies may want to hire more people. But because they have already downsized their hiring teams, they need to hire people to be in the hiring team. That's what the situation many companies find right now.

Now we have the virtual hiring platform and other new products that we can offer to those companies. With fewer people, certain positions can still be filled and companies choose to use those products because of this benefit.

So how we are going to monetize this service? Right now, our thought, our view is that rather than monetizing this, we want to advertise the service to a number of companies so that they will find it very easy to use and convenient. Once they use the product, let's say a hiring team of 1,000 was downsized to 200, and the company starts using this new product, once they start using it, it will be unlikely that they will return to the old ways of doing things. There are various ways we can promote our values.

To your second question, with respect to SaaS, what will be the factor necessary for this to monetize, I want to give an example. AirPAY accounts. We have 210,000, as you mentioned, in the US and Europe, companies that provide payment platform, comparing our revenue to theirs is that when we acquire one customer, how much increase in revenue it contributes, that is the biggest difference between them and us.

1/4, 1/5, why is it less? Simply put, it's because, for example, in the US, credit card revenue accounts for much higher percentage compared to Japan. And in Japan, on the other hand, looking at various data, 20% is the rate of cashless payment. Of course, the government is also setting a target to increase this rate to 40% in 2025 and reach eventually 80% comparable to the west.

But the current 20%, whether this will increase to 40% and 60%, and when it does, one company that currently has business with Recruit will have double or triple the amount of transactions with us. What we can say for certain is that like in the US and Europe, the rate of cashless payment is going to reach 70% and 80%. Of course, in what time frame, we don't know, but it will reach that level. Currently, it's 20% looking at this situation right now.

How many more accounts we'll be able to acquire will be key. So, looking at one condition for this to monetize, I would say the rate of cashless payment, percentage of cashless payment, if this reaches a significant level, then we will, of course, enter a phase where we need to consider how to monetize this.

But having said that, of course, this rate of cashless, it's a matter of time. We will closely watch the situation as it unfolds.

Mori: Thank you very much.

Shen: From Nomura Securities, Mr. Nagao, please.

Nagao: This is Nagao from Nomura Securities.

I have two questions. First is Media & Solutions. Especially in the Marketing Solutions under COVID, the Dining and Travel are now still struggling. So, Idekoba-san, after COVID ends, do you think this part will recover linearly? Or do you think the value will change and the Marketing Solutions will have to change?

My second question is including HR Tech. Going forward, you will enhance the service horizontally and vertically. So, M&A, I think will be one big management strategy. Idekoba-san, your M&A strategy is what I would like to know. The budget size, so JPY700 billion was the capacity you had, and you used us for the Australian strategy in JPY200 billion, and the remaining JPY500 million was for HR and for Marketing Media, Marketing Solutions. What kind of capital allocations do you have compared to when you did IPO?

Deko: Thank you very much for great questions.

First question, Dining and Travel post-COVID, how they will recover post COVID? Currently, we are running our business in many countries. What we see now is, especially in the US, there is a strong rebound, I can call it a rebound. It is a significant economic surge. Many restaurants in hospitality, hotels or airlines, high-range recruitment is now increasing. The hiring demand is increasing at a rapid speed.

And hourly wage, companies have to raise at least USD2 or USD3 an hour to hire someone. In the past two or three decades, this is the most difficult period to hire someone, and this is because, as you mentioned earlier, Dining and Travel demand are recovering to pre-COVID levels. That is why our business clients are trying to hire so rapidly.

In the US, restaurants, I drove around and looked at how the restaurants are doing. There are many guests, many users in restaurants, but there are a few chefs and a few waiters, so the people have to wait a long time to be served. Looking at the situation, we had Brexit and the COVID-19 damage was severe in the UK, but even in the UK, the demand recovery is significant. Demand is rising at a great speed.

And in Japan, vaccination rollout, once it rises from 30% to 40%, 50% like US and Europe, then we will start seeing the atmosphere we are now seeing in the US, I think.

Fundamentally, human beings enjoy dining and travel and especially travel. Travel had been increasing all along until now. People's value perceptions will not change with this one event fundamentally.

Now, answering your second question, you asked me about my strategy on M&A. M&A, as I mentioned earlier, our mission is to help people find jobs, to make it easy for people to find jobs. This is our mission, which we have been committed to so far and will continue committing going forward.

Buying sales or use budget to buy sales or buy revenue, I think this will disappear. We think technology-oriented M&A is increasing. It's not really an M&A to increase the revenue, just simply increasing the revenue. Under COVID, we are trying to turn the recruitment virtually and take all data and process that data. There are many start-ups that are focusing on one particular part of the process solution and automate that particular solution. So, if our goals and missions and our strategies meet, then it's sufficiently possible that they can join our group. It is possible. So, rather than companies that are working on the entire process, we are looking for companies that are focusing on point solutions. I think there's a high possibility there.

We are not thinking of the budget amount. We are rather focusing on trying to find the companies with good solutions so that together, we can contribute to the society. So that is my strategy.

Nagao: Thank you very much.

Shen: From Mizuho Securities, Mr. Kishimoto, please.

Kishimoto: This is Kishimoto from Mizuho Securities. Thank you for this opportunity. I have one question.

For HR Technology, what are your views on the margin? In your explanation and also FAQ number 13, it also mentioned this, but 20%, I think that's a rather high level. Is it going to be driven mainly by increase in revenue? Or is there going to be improvement in the mix or new products and services?

The assumptions for revenue for this fiscal year have been disclosed. What are some circumstances in which you are going to accelerate investments? And what are some circumstances in which you will hold investments? I would like to understand more about scenarios.

Your medium-term views, if revenue increase is going to contribute to increased profitability, should we expect a further improvement after FY2023 and beyond? Or margin 20% will be the ceiling for this fiscal year? You believe you've already achieved a relatively high level and it will not further increase.

Deko: Thank you for the question. For specific numbers, I would like to ask Arai-san to later contribute. From my side, I would like to give an overall view for HR Tech.

When we look at this business, cost of goods of sales, I'd like to use, for example, our structure for the business is not that when revenues increase, costs increase as well. Honestly put, looking at other companies and compared to them, our ratio is much lower. As we said, the margin will be mainly driven by increase in revenue. When we have larger revenues temporarily, rather than the speed of cost input, when the revenue increase exceeds, then it's possible that we have a higher margin.

But from medium- to long-term, the biggest cost item is, as I've been mentioning since before, what we can provide to society our biggest value is not sales and marketing but actual products and services. That's where we bring value to society.

So, in fact, we need engineering people who will make those products and services. We need to make sure that we hire these resources, and that should be our priority policy.

On this matter, as you are aware, tech stocks are surging. Over the past six months or so, there has been very severe competition over resources. Also, there's the effect of work from home. Engineers can now work from anywhere in the world. Companies are fighting over these resources. But we will continue to make active investments in this area. As you said, revenue and to what extent we are successful in hiring these resources, will have impact on margin and how it fluctuates. But we will continue to make investments in this area.

I would like to now hand over to Arai-san.

Arai: As time is limited, I will be brief. I've talked about this, and Idekoba also mentioned this.

In the first quarter, revenue is going to be higher. As a result of that, there's going to be a mismatch of revenues and cost. The margin is going to be higher on a full-year basis. And after that, the revenue increase is going to follow a different trajectory, especially in the US. And also, costs will be incurred. So, looking at revenue and how it transitions from QoQ will not be the trend we will see this fiscal year. That's all for me.

Kishimoto: Thank you.

Shen: We are approaching our closing time. So the next one, CLSA Securities, Kato-san. This will be the last question.

Kato: This is Kato from CLSA Securities. Thank you. I have a question on Indeed.

In 2020, Idekoba-san, when you found this in 2010, what did you think was the most appealing point when you first found it? It is now a well-known company, but back then, barely no one knew it. I'm sure there were positions of the M&A internally. What was the innovation that they had and the image when you acquired and the current image, excluding COVID-19? What was better than your anticipation? What was better or worse than your expectation?

Deko: Thank you. So, in 2011 or 2012, when I first met Indeed, what I thought was user first. Users who are looking for jobs were put in the center. We wanted to buy an HR company that had that kind of attitude. The company, the employers pay money. All CEOs of any companies talk about the employers. It didn't appeal to me. Internet technology, foundation of internet technology is how to democratize the information, empower the consumer side, the user side. That had been my thought all along. Therefore, finally, when I met Indeed, helps people get job, they have this great mission, and they believe that from the bottom of their heart, the executive teams, and I loved them.

They had this so-called orange chair. In all meeting rooms, there is one person looking for job. Do we make this decision even if this person is having difficulty? That was the basis of thought. I remember them discussing from that perspective. And of course, there were things that were better and worse than my expectation, but back then, the engineering team, only 30 to 40 people in the engineering team. It was a peer start-up. When I first met the engineering team in Austin, after we acquired them, we were in a small room. Everyone could fit in small room where we didn't need a microphone, and I spoke in this small team.

Compared to that, they've grown up. Now they are a full-fledged company, a well-established company, and there are many teams now. And so, they are now a solid company, I think.

If I can manage this company better, it could have grown to be a bigger company now. And so that's something I could have done better. But I hope this answers your question.

Kato: Thank you very much. What is the biggest risk for HR Technology?

Deko: The risk for HR Technology is regarding data privacy. This is a big interest in all countries. Basically, we follow the US rules. Consumer law is what we follow. Of course, GDPR and CCPA and all the other regulations. Countries that do not have much data privacy, gather data and do machine learning without individuals' consent, if companies do whatever they want in such countries, then it will be unfair. Depending on regions, the view on data will be different. Looking 10 to 20 years beyond, this may be a risk, I think.

Kato: Thank you very much.

[END]