

Expected Q&A for the 3Q FYE Mar 2022 Financial Results

February 10, 2022

Consolidated Results

Q. The 3Q cumulative sales progress rate was 76% compared to the FYE 2022 plan. When that is deducted, will there be a significant reduction in 4Q sales to approximately 12.1 billion yen and in the increase in sales rate to +4% year-on-year?

→ Although 3Q cumulative sales exceeded expectations, we have not revised our FYE 2022 plan. Therefore, deducted sales will be lower in the calculation. The 4Q is a busy period. Accordingly, while the year-on-year sales target will also be higher, we expect a continuing double-digit increase in sales.

Q. You stated the following in relation to operating income: “Although sales are proceeding greater than we expected, we will not revise the FYE 2022 plan due to additional investment in advertising expenses.” However, are there any other factors behind that?

→ The factors for the upturn in sales include overseas business, domestic job boards and HR-Tech. Of those, the impact of an IT temporary staffing agency in overseas business (India) is large. Nevertheless, the margin is low compared to other services in the business model. Therefore, the impact on income will be small. Moreover, the additional investment in advertising expenses will mainly be promotion investment in domestic job boards – in particular the AMBI and HR-tech engage services for young high-class staff that we are strategically strengthening.

Q. This is a question about consolidated PL SGA expenses in the financial results briefing materials. Job advertisement agency commissions were recorded as approximately 1.8 billion yen in the “SGA and other expenses” item due to the application of the new standard for revenue recognition. Nevertheless, the increase in “SGA and other expenses” was only 870 million yen. What was reduced in the approximately 900-million-yen deduction?

→ We have been promoting business with teleworking at an early stage. Therefore, we have halved office space in alone. Accordingly, land rent has greatly decreased. Moreover, SGA outsourcing

expenses were unused mainly in subsidiaries. The actual increase in “SGA and other expenses” was 870 million yen due mainly to the above factors.

Q. The gross margin has been declining quarterly. What are the causes of that?

→ The gross margin in this fiscal year went from 80.3% in the 1Q to 79.2% in the 2Q and then to 78.7% in the 3Q. This is a result of the increase in temporary staff-related expenses accompanying an increase in sales in India FFI that is involved in the IT temporary staffing agency business. Although reference figures, the gross margin with FFI excluded is 88.4% in the 1Q, 89.2% in the 2Q and 89.4% in the 3Q. If we exclude the cause of FFI, there has been no change in our profit model in terms of costs.

Domestic Job Boards

Q. Hiring demand in the service industry that has been greatly affected by the COVID-19 pandemic is also returning. What kind of businesses are experiencing a prominent recovery specifically? What is the situation outside of the service industry?

→ Hiring demand in the IT and Web industries and manufacturers has recovered ahead of others. Sales are at high level that exceed those before the COVID-19 pandemic. There has also been a significant improvement year-on-year in the restaurant industry and leisure and amusement-related companies in addition to the recovery in personnel-related companies in the service industry. Moreover, distribution-related companies are also driving recovery in the logistics and retail industries. In addition to this, we have seen a trend for improvement across retail stores in general.

Q. The 3Q (Oct to Dec) sales growth rate in the 3Q was +36% year on year for domestic job boards overall. This business consists of multiple job boards. Which boards are growing?

→ AMBI in the young high-class staff area is growing at a rate that significantly exceeds domestic job boards overall. In addition, the year-on-year growth rate of [en]Career Change Info also increased further due to a rise in hiring demand starting with the service industry. [en]Career Change Consultant is also performing steadily with sales that continue to exceed the level from before the COVID-19 pandemic. Sales with boards for temporary staffing companies were as expected. However, it will take time for a full-scale recovery in new temporary staff hiring demand. Therefore, sales were at a high level on par with the previous year.

Q. The financial statements state that your unit price has risen due to an increase in job advertisement placings by large-lot companies. Please can you tell me the correlation between large companies and the unit price?

→ A large-lot company refers to a client with a large number of hires and a large budget. Large-lot companies tend to use high-priced job advertisement plans and various additional options to ensure they can hire enough people. Therefore, the gross amount per advertisement (per company) is high. This means that the overall unit price tends to rise due to changes in the mix when the number of job advertisement placings by large-lot companies increases.

Domestic Permanent Recruitment

Q. The 3Q cumulative sales growth rate was only +1.9% year on year. Why was recovery slow compared to job boards? On the other hand, operating income increased significantly at +2.8% year on year. Why was that?

→ We have a fee contingent on success billing model for permanent recruitment. This means we record sales when an employee we have introduced to a company joins that company. Therefore, it usually takes about three to six months to record sales. A lot of sales before the impact of the COVID-19 pandemic were recorded up until the first half of the previous fiscal year. Accordingly, sales decreased in the 1Q in this fiscal year.

We have seen a double-digit increase in sales from the 2Q onward. However, the aforementioned impact is large, so there was only a slight increase in 3Q cumulative sales. Moreover, we have been reviewing costs in general from the previous fiscal year. This has meant that sales have recovered while we have been controlling costs. Accordingly, we have seen a significant increase in operating income. Nevertheless, we also need an increase in employees for future growth. We will invest appropriately to achieve this.

Overseas Business

Q. There was a big improvement in operating income (+88% year on year) compared to the improvement in (3Q cumulative) sales (+26% year on year). What was the cause of that?

→ The return to profit of our Navigos Group subsidiary in Vietnam that operates a job board mainly drove this. Sales declined in the 3Q due to the impact of the lockdown. However, cost control that we have been working on since the previous fiscal year has proved effective. Accordingly, we secured income on par year on year. In addition, our FFI IT temporary staffing agency subsidiary in India also saw an increase in sales and income.

HR-Tech

Q. The number of paid job advertisements has increased significantly with the auto-charge function of engage. What kind of function is that?

→ The auto charge function is used by corporate clients under the name “Raku-Raku Charge”. The paid plan of engage is a model in which corporate clients first make a deposit and are then billed for each application after that (deducted from the deposit). We have recently seen an increase in repeat use and a switch of many job advertisements to the paid plan because it is possible to feel the effectiveness of the engage paid plan. “Raku-Raku Charge” is a function that enables repeat use and applications for paid job advertisements to be completed by corporate clients themselves without the assistance of our sales team. Accordingly, there has led to an efficient increase in the number of paid job advertisements.

Q. You have stated that you will make additional investment in engage for future growth. What kind of investment will that be? In addition, engage returned to profit in the most recent 2Q. However, will it return to a deficit in the future due to the aforementioned investment?

→ The additional investment will mainly be in advertising expenses. The number of job advertisements is steadily increasing and the foundations are in place due to a rise in activity by corporate clients.

Therefore, we are looking to increase the number of applications for job advertisements by strengthening promotions through the acquisition of job seekers.

We intend to grow engage to a size in which it becomes one of our main businesses in the mid- to long-term. This means we are aiming for mid- to long-term profit return by first focusing on an increase in size

as a platform and an increase in sales through proactive investment instead of recording short-term profit.

Other

Q. There is currently a spread in infections of the COVID-19 Omicron variant. Has this had any impact on hiring demand and results?

→ We have not seen a major impact at this time. Nevertheless, the scale of the spread of infections from Omicron is larger than with previous variants. Accordingly, there is a possibility that clients involved in face-to-face business may avoid hiring. Therefore, we will continue to pay close attention to the situation.

Q. You made an announcement about the direction of results in the next fiscal year (the possibility that profit will not increase due to proactive investment) in the 2Q financial results in November last time. Have there any changes in that direction? Do you have any additional information at this time?

→ We are currently preparing to formulate the new mid-term management plan (scheduled to be announced in May) in addition to the next fiscal year. There are many uncertainties at the current time such as with numerical information. Accordingly, we will not make any new disclosures now.

We said that the businesses where we will proactively invest in the future when we announced our financial results in November last time were [en]Career Change Consultant, AMBI and engage. However, we have revised part of the financial statements reference page (Policy for the Future) to focus on AMBI and engage.

In addition, we used the expression for the markets we will target of the “knowledge work and manual work areas.” However, we have now changed that to “high-class and operation business and front business areas.”

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