Q&A at the Briefing of the Financial Results of the 1st Quarter Ended June 30, 2024

Questioner 1:
I would like to reconfirm some points with comments made by CFO Tokunaga. Could you provide some more detail colors regarding the change in gross profit and SG&A expenses?

CFO Tokunaga:
Please look at page 5 of the slides. You can tell that (,including the impact of foreign exchange rate,) gross profit increased by 9.8 billion yen year on year, and on the expense front, SG&A expenses rose 5.9 billion yen.
Compared with our original Q1 forecast we made at the beginning of the year, (excluding the impact of foreign exchange rate,) gross profit saw an upswing of 2 billion yen, while SG&A expenses went in the opposite direction, as we managed to reduce them by 4 billion yen.

Questioner 1:
Which segments were responsible for the 2-billion-yen upswing in gross profit? And which segments were responsible for reducing or underutilizing SG&A expenses? Please provide a more in-depth look at what happened here.

CFO Tokunaga:
For both gross profit and SG&A expenses, there was no major variance depending on the SBU; the results were good across the board.
Especially, gross profit across our four domestic SBUs was good overall. Similarly, SG&A expenses fell overall.
And for Q2, Q3 and beyond, we hope to make additional marketing investments in the Career SBU, while keeping watch on conditions in the market.

Questioner 2:
You mentioned that SG&A expenses have been controlled in general, but instead of variations across SBUs if you look at the type of expenditures, would it be correct to say that the upswing in profit was primarily due to curbing promotional

costs?
In addition, particularly for the Career SBU, it appears that productivity has been regained recently, but regarding the market environment, in your initial forecasts you took quite a conservative view, and I get the impressions that you have developed your forecasts to incorporate some conservative elements particularly in the second half of the year. How do you feel about the current market environment?

CEO Wada:
In terms of curbing expenses that was mentioned a moment ago, we have also controlled personnel expenses and recruitment to a small degree. On the whole, we have basically controlled expenses related to marketing.
In terms of recent market trends, the Career SBU has been performing at about the same level since last year. Specifically on the corporate side, the trend of careful selection in recruitment has continued to strengthen, and we expect that situation to persist in the second half of the year.
Working under those conditions, we intent to reach the current levels we are seeing by aggressively implementing our business and sales activities.
I believe the securing of human resources is another challenge we face in the second half of the year. Going forward, the challenge of recruiting candidates will be a major issue. We recognize that further improvements in that area are directly linked to our business results, and we are now at the stage of assessing the right balance between market trends and our marketing and advertising investments.

Questioner 2:
I'd just like to confirm that in that case, particularly in the Career SBU productivity metrics have calmed down to some extent compared with the previous year, and as you answered a moment ago, since the head count has been restricted to a certain degree, from Q2 and beyond as long as the business environment does not rapidly deteriorate, as with Q1 where will be some degree of leeway compared with the initial forecasts, and you intend to actively use that financial surplus when there is a positive turn in the business environment in the future. Is my understanding correct there?

CEO Wada:

Regarding the Career business, we certainly don't think the business environment can be viewed optimistically. Similarly, considering recent foreign exchange rate fluctuations, manufacturers and export-related companies are extremely concerned about future developments. We will do whatever we can to achieve our plans with that context in mind.

Questioner 3:

I'd like to confirm some figures. In Q1, you reported a 2-billion-yen upswing in gross profit and a 4-billion-yen downturn in SG&A expenses. As a result, we are to recognize that operating profit jumped by 6 billion yen.

If that understanding is correct, it would indicate that your Q1 forecast for operating profit was 11 billion yen, and 13.4 billion yen for Q2.

In the Staffing SBU, due to the increase in people taking paid leave, etc. over the summer holiday period, you would generally expect profit to decline in Q2 compared with Q1. However, your initial forecasts for Q1 and Q2 were expected to be 11 billion yen and 13.4 billion yen, respectively. Can you comment on my expectation for Q1 and Q2 operating profit level?

CFO Tokunaga:

First of all, my comments earlier were made on an adjusted EBITDA basis, not an IFRS-based operating profit basis.

In our initial outlook, we disclosed a forecast of approximately 35 billion yen in adjusted EBITDA for the first half, and to put it simply, half of that is the Q1 portion. I would like you to understand that half of 35 billion yen is 17.5 billion yen, and that we were referring to the difference between the Q1 result of 22.9 billion yen and that 17.5 billion yen figure.

Questioner 3:

Then would I be correct in understanding that your forecast adjusted EBITDA for the first half of the year was 35.1 billion yen, and rather than weighting Q1 and Q2 differently, you apportioned the same 17.5 billion yen to each?

CFO Tokunaga:
That is correct.
If you look at page 6 of the briefing materials, you can see that depreciation changes little between Q1 and Q2, but that the additional provision of accrued paid leave liabilities increases in Q1. That is because the provision for the impact of wage increases was processed in Q1, and since there was little impact due to wage increases in Q2, the provision was minimal. That difference can be seen when you look at operating profit. That is why we gave an explanation on an adjusted EBITDA basis.

Questioner 3:
In that case, since adjusted EBITDA was 22.9 billion yen in Q1 against a forecast of 17.5 billion yen, on an adjusted EBITDA basis there was an upturn of 5.4 billion yen vs. the forecast. Is that correct?

CFO Tokunaga:
That is almost correct.

Questioner 3:
As when the question about SG&A expenses from earlier, is how you will use the surplus generated by those reductions dependent on how conditions evolve in the future?

CFO Tokunaga:
That is correct.

Questioner 4:
I would like to ask some figures regarding Sharefull. You mentioned that there have been 7 million app downloads. How should we assess this in comparison to the number of registered users of Timee?
In addition, what competitive strategy will you pursue now that Timee has been publicly listed? For example, I assume that your take rate is about 30%. What kind of strategy will you pursue in terms of take rate, job seekers and businesses?

CEO Wada:

First of all I would like to describe our strategy rather than drawing comparisons with Timee.

We have been pursuing the Sharefull business after designating it was an area for proactive investment, but we don't just see it as an area for gig-type jobs; our efforts are based on what we recognize to be a model that will lead from gig-type jobs to services provided to people who will be employed on a more continuous basis in the future.

In addition to that, we are also looking into ways to properly showcase our uniqueness in the future. For example, we will combine Sharefull within the shift management model integrated within it to automatically generate orders based on shifts, and offer this as a solution to customers. If customers use the service in this way, it will offer greater convenience both to our customers on the user side and to the people who are in turn employed using the system. By pursuing these initiatives to improve satisfaction with the service, we are striving to differentiate ourselves from Timee.

On the matter of the 7 million app downloads, as there are various ways to present figures such as the number of app downloads or the number of users, I will refrain from commenting on it further.

Questioner 4:

Do you plan to compete in terms of take rate strategy or price?

CEO Wada:

We believe we will be able to put up good enough of a fight regarding take rate in the future.

Above all Timee is the pioneer in this space, and we recognize them as being a very strong company. We hope that we can build the market together in a positive way.

Questioner 5:

This may come across as a very elementary question, but in the case of Persol, what are the factors that drive improvements to gross profit margin (GPM)? For example, does GPM automatically improve if the unit price for temporary staffing increases? Does it rise if requests to raise permanent placement commissions get through? What things have to happen for GPM to rise?

CFO Tokunaga:

The factors of improving GPM vary across our five SBUs, but to look at the Staffing SBU first of all, increasing billing rates is generally directly linked to a rise in gross profit.

As the BPO SBU mainly involves contracting, improving the terms of each business transaction leads to a better GPM.

Similarly with the Technology SBU, higher billing rates lead to improved GPM.

For the Career SBU, the commission rate is generally around 35%, and since these commission rate doesn't change in relation to the annual salary, GPM also increases as the annual salaries of people we place rise.

Lastly with regard to the APAC SBU, as this involves temporary staffing, placement and also the contracting of facility management, the business model pushes up GPM as billing rates increase.

Questioner 5:

Given this, if the Career SBU and Technology SBU account for a higher percentage of your business, would there be a trend of unit prices also increasing overall?

CFO Tokunaga:

Speaking in terms of our business portfolio mix, the Career SBU has the highest GPM, followed by the BPO SBU. If they accounted for a higher percentage of our business, GPM would increase overall.