

Q3 FY2017 Financial Results FAQ

Recruit Holdings Co., Ltd.

Financial Results for Q3 FY2017

■ Consolidated Results

Q1: Why did consolidated operating income decrease 0.8% year on year for the nine-months period, although consolidated EBITDA increased 13.8%?

A: This was mainly due to a non-recurring gain of ¥21.9 billion resulting from the sale of a subsidiary, Yuko Yuko corporation, recorded in other operating income in Q2 FY2016. Due to this effect, other operating income for the nine-month period in FY2016 increased to ¥23.7 billion, while nine-month other operating income in FY2017 was ¥4.2 billion, which led to a lower year-on-year growth rate in consolidated operating income. Adjusted operating income excluding this one-time impact increased 13.3% year over year.

Q2: Why did profit attributable to owners of the parent increase 8.1% year on year for the nine-months period, although operating income decreased 0.8%?

A: Profit attributable to owners of the parent benefited from lower income tax expense mainly resulting from tax reforms in the United States and European countries.

Q3: What was the reason for high year-on-year increase of 32.9% in profit attributable to owners of the parent in Q3, while growth rate in operating income was 15.5%?

A: Quarterly profit attributable to owners of the parent benefited from lower income tax expense mainly resulting from tax reforms in the United States and European countries.

Q4: Why did advertising expenses increase 48.1% year on year in Q3?

A: The increase in advertising expenses was resulted from ongoing investment in marketing activities in the HR Technology segment to acquire new users and customers, the timing of which fluctuates throughout the year.

Q5: How much was the impact of foreign exchange rate movement on consolidated revenue?

A: The positive impact of foreign exchange rate movements on consolidated revenue in Q3 was ¥19.0 billion year-on-year. For the nine-month period, the positive impact on revenue was ¥51.5 billion year-on-year.

■ HR Technology

Q6: What drove continued strong revenue growth in HR Technology?

A: The strong revenue growth was mainly driven by a combination of new customer acquisition and expanding spend from existing customers, against the backdrop of a favorable economic environment and strong labor market.

Q7: What is the difference in revenue growth rates between the US and Non-US?

A: We continued to achieve robust top line growth in the US. However, the revenue growth rate in non-US markets was higher than in the US, particularly driven by strong performance in major non-US countries such as Japan, UK, Canada and Germany. Overall, the Non-US revenue growth rate is following a similar trajectory to what the US experienced a few years ago. We do not disclose revenue by regions.

Q8: Why did Q3 EBITDA margin in HR Technology decrease to 12.3% compared to Q1 and Q2?

A: To support future revenue growth, the HR Technology segment continued to invest in its sales force and marketing activities to acquire new users and customers, and in product enhancements to increase user and customer engagement. We expect EBITDA margins will fluctuate each quarter based on timing of these investments for growth, but we expect to stay within a range of 10% to 20% on an annualized basis.

Q9: How many clients and unique visitors did Indeed reach? Please also provide an update on the number of resumes, employees and offices.

A: The number of accounts spending with Indeed to support their hiring needs continued to grow dramatically, approximately 90% year on year in calendar year 2017. It has also reached a significant milestone of 250 million unique visitors in January 2018, achieving double-digit growth year on year. The number of resumes uploaded to its platform was approximately 100 million as of September 2017. Indeed had more than 5,600 employees and 26 offices globally as of December 2017.

Q10: Was there any change in competitive environment in HR Technology, such as impact of competitors' services?

A: There was no significant change in business performance and operational trend in Q3, as evidenced by year-on-year revenue growth of 62.9% on a US dollar basis, and the number of unique visitors increased with double-digit growth year on year.

■ Media & Solutions

Q11: Why did year-on-year EBITDA decrease in HR Solutions in Q3, while EBITDA in Marketing Solutions increased year on year at a higher growth rate than revenue? Please explain the reason behind EBITDA margin fluctuation.

A: In Marketing Solutions, year-on-year EBITDA increased at a higher growth rate than revenue in Q3 FY2017, mainly due to lower marketing expenditure than in Q3 FY2016, supported by solid revenue growth.

On the other hand, quarterly EBITDA decreased in HR Solutions year on year, primarily due to the impact of lower-level marketing investment in the second-half of the previous year. Nine-month EBITDA in HR Solutions increased 5.1% year on year.

Q12: What was the reason behind the year-on-year decrease in revenue in Housing and Real Estate business both for Q3 and nine-month period?

A: The decrease in quarterly revenue was primarily due to the absence of revenue from Recruit Forrent Insure Co., Ltd., a subsidiary in Housing and Real Estate business which was sold during Q3 FY2017. Excluding the impact of the sale of ¥1.6 billion, quarterly revenue increased by 3.2% year on year.

Nine-month revenue also decreased year on year, mainly due to the absence of the subsidiary's revenue mentioned above, as well as the absence of a one-time revenue increase of ¥2.6 billion associated with the contract change in over-the-counter business in Q1 FY2016. Excluding these one-time factors, revenue for the nine-month period increased by 5.1% year on year.

Q13: Why did nine-month revenue in Travel business increase only 0.6% year on year ?

A: This was mainly due to a non-recurring gain recorded in July 2016 resulting from the transfer of a subsidiary, Yuko Yuko corporation. Excluding the impact of the transfer of ¥2.4 billion, nine-month revenue increased 6.4% year on year.

Q14: Why did revenue in Dining business decrease year on year?

A: Revenue in Dining business decreased year on year both for Q3 and nine-month period, mainly because a few major clients were forced to limit their spending on sales promotion, due to a challenging environment resulting from the workforce shortage in Japan.

Simultaneously, Dining business intensively focused on promoting Air Platform, a cloud-based operational support package. The number of clients using this service grew favorably, exceeding 17,000 at the end of December 2017. The revenue of this operational support package is recorded in Other business in Marketing Solutions. The quarterly revenue combining Dining and operational support package businesses increased approximately 6% year on year.

Q15: Was there any progress in service functions or business activities for Air Series?

A: The new services for Air Series announced in January 2018, AirSHIFT, Air REGI Handy and AirMATE, will be launched in Spring 2018. AirSHIFT enables restaurant operators to create, edit and share employees' work schedules through its platform. AirREGI Handy supports restaurants' daily operations such as taking orders and tray services. AirMATE assists restaurant operators with the efficient management of operations.

■ Staffing

Q16: What drove continued high growth in the Japanese operations in the Staffing segment?

A: The Japanese staffing market continues to expand, and the average number of active agency workers in Japan from July to September 2017 increased 8.1% year over year. Under this favorable environment, the number of active agency workers using our Staffing services also increased, which led to a revenue increase in the Japanese operations both for Q3 and nine-month period.

Q17: Why was year-on-year growth rate in quarterly EBITDA higher than revenue growth in the Japanese operations? Please explain the reason for EBITDA margin increase.

A: EBITDA margin in the Japanese operations increased both for Q3 and nine-month period mainly due to our continued operational focus on profitability, and the revenue increase driven by the favorable market environment in Japan.

Q18: What was quarterly normalized revenue in overseas operations in Staffing segment, excluding the effect of foreign exchange rates movement and acquisition?

A: The positive effect of foreign exchange rate movements on quarterly revenue was ¥15.6 billion. As there was no acquisition in Q3, normalized revenue excluding the positive effect of exchange rate movements decreased 1.2% year on year. This was primarily due to its operating focus on

profitability, and a decrease in transactions with existing clients resulting from the challenging business environment especially in the Oil & Gas industries in the United States.

Normalized revenue for the nine-month period, excluding the positive impact of USG People's consolidation of ¥54.7 billion and the applied foreign exchange rates of ¥42.7 billion, declined 3.3% year on year.

Revision of Full-Year Forecasts for FY2017

** The forecasts mentioned below are the revised consolidated forecasts for FY2017 announced on Feb 14, 2018, unless otherwise stated.*

■ Consolidated Forecasts

Q19: Why is year-on-year growth rate in Q4 EBITDA forecast expected to decrease to 0.8% compared to nine-month EBITDA forecast?

A: This is because each segment will make additional investments, based on the favorable nine-month results.

The Staffing segment will invest in its marketing activities to attract potential agency workers under the favorable market environment in Japan. To support future revenue growth, the HR Technology segment will continue to invest in its sales force and marketing activities to acquire new users and customers and in product enhancements to increase user and customer engagement. The Media & Solutions segment will also continue its marketing investment to attract users in both Marketing Solutions and HR Solutions for its sustainable growth.

Q20: What is the reason that full-year operating income is expected to decrease year on year, although full-year EBITDA is expected to increase?

A: This was mainly due to a non-recurring gain of ¥21.9 billion resulting from the sale of a subsidiary, Yuko Yuko corporation, recorded in other operating income in Q2 FY2016. Other operating income in FY2017 is expected to decrease compared to FY2016, in which other operating income was ¥23.7 billion primarily due to the non-recurring gain. Adjusted operating income, excluding the impact of the sale, is expected to increase 10.9% year over year.

Q21: What is the reason for the significant increase in the revised forecast of profit

attributable to owners of the parent from the initial forecast, compared to EBITDA and operating income?

A: This is because income tax expense is expected to be lower in FY2017 compared to FY2016, mainly resulting from tax reforms in the United States and European countries.

Q22: Why is year-on-year growth rate in adjusted profit forecast in Q4 expected to decrease to 9.3% compared to nine-month adjusted profit?

A: This is mainly because tax exemption is expected to decrease in FY2017 compared to FY2016, resulting from tax system revision in Japan related to “the special tax measures regarding increasing base salaries and bonuses for employees” and “tax credit for R&D expenses”, in addition to the effect of the additional investments expected in Q4.

Q23: Revised full-year forecast of profit attributable to owners of the parent increased dramatically from the initial forecast. On the other hand, why is the revised full-year adjusted profit forecast increased at a lower rate from the initial forecast?

A: This is mainly due to a higher amount of non-recurring income and related tax reconciliation included in the revised forecast compared to the initial forecast. As a result, full-year profit attributable to owners of the parent is expected to increase at a higher rate than adjusted profit, which excludes the impact of non-recurring income.

Please refer to the following definition of adjusted profit and adjustment items;

- Adjusted profit = profit attributable to owners of the parent \pm adjustment items (excluding non-controlling interests) \pm tax reconciliation related to certain adjustment items
- Adjustment items = amortization of intangible assets by acquisitions \pm non-recurring income/losses

Q24: Will there be any change in the year-end dividend forecast?

A : The year-end dividend forecast for FY2017 remains unchanged. The dividend forecast will be reviewed when the full-year consolidated earnings results are finalized, based on its dividend policy to set its payout ratio at approximately 30% of profit available for dividends.

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