

## FAQ for Q4 and FY2017

Recruit Holdings Co., Ltd.

### Financial Results for FY2017

#### ■ Consolidated Results

**Q1: Why did consolidated operating income in FY2017 decrease 0.9% year on year, although consolidated EBITDA increased 11.3%?**

A: This was mainly due to a non-recurring gain of 21.9 billion yen resulting from the sale of a subsidiary, Yuko Yuko corporation, recorded in other operating income in FY2016. Due to this effect, other operating income in FY2016 was 24.3 billion yen, while other operating income in FY2017 was 5.7 billion yen, which led to a lower year-on-year growth rate in consolidated operating income. Adjusted operating income excluding this one-time impact increased 11.2% year on year.

**Q2: Why did profit attributable to owners of the parent for FY2017 increase 11.0% year on year, although operating income for the year decreased 0.9%?**

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, and a sale of subsidiaries.

**Q3: What is the reason for slower EBITDA growth of 0.2% year on year in Q4 FY2017 compared to previous quarters of the fiscal year?**

A: Reflecting the strong performance for the nine months in FY2017, marketing investments were accelerated in Q4 for further growth, mainly in Japan operations of the Staffing business.

**Q4: Why did consolidated operating income decrease 1.7% year on year in Q4, although consolidated EBITDA increased 0.2%?**

A: This is mainly due to an increase in depreciation and amortization expense by 10.2% year on year in Q4. This is primarily related to an increase in capital expenditure on new offices in the HR Technology segment, and increased software investment in the Media & Solutions segment.

**Q5: Why did profit attributable to owners of the parent for Q4 increase 30.6% year on year, although operating income decreased 1.7%?**

A: Profit attributable to owners of the parent for Q4 benefited from lower income tax expense mainly resulting from tax reforms in the United States and European countries, and a sale of subsidiaries.

**Q6: Why was year-on-year growth rate in adjusted profit slower than profit attributable to owner of the parent in Q4?**

A: This was mainly due to a higher tax exemption amount in Q4, which led to lower Adjusted profit due to tax reconciliation compared to the same period of the last fiscal year.

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

**Q7: Why did advertising expense increased year on year in Q4?**

A: The increase in advertising expense mainly resulted from ongoing investment in marketing activities in the HR Technology segment to acquire new users and customers, and in the Staffing segment to increase the number of registered agency workers in Japan operations.

**Q8: How much was the impact of foreign exchange rate movements on consolidated revenue?**

A: The positive impact of foreign exchange rate movements on Q4 revenue was 4.9 billion yen. The positive impact on full-year revenue was 56.5 billion yen in FY2017.

### ■ HR Technology

**Q9: Revenue for FY2017 on a US dollar basis increased 60.7% in HR Technology. What drove continued strong revenue growth?**

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.

**Q10: What is the difference in revenue growth rates between the US and Non-US in FY2017?**

A: HR Technology continued to achieve strong revenue 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 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.

**Q11: Why did Q4 EBITDA margin in HR Technology decrease sequentially to 11.9% compared to Q3?**

A: To support future revenue growth, the HR Technology segment continued to invest in sales and marketing activities to acquire new users and customers, and in product enhance-

nts to increase user and customer engagement. We expect EBITDA margins will fluctuate each quarter based on timing of these investments for growth, but FY2017 EBITDA margin was 14.0%, which is within the target range of 10% to 20% on an annualized basis, as was previously communicated.

**Q12: How many unique visitors did Indeed reach? Please also provide an update on the number of resumes, employees and offices.**

A: The number of unique visitors reached a significant milestone of 250 million in January 2018. The number of resumes uploaded to its platform was approximately 120 million as of March 2018. Indeed had more than 6,100 employees and 27 offices globally as of the end of March 2018.

**Q13: Was there any change in competitive environment in HR Technology in Q4?**

A: There was no significant change in business performance and operational trend in Q4, as evidenced by year-on-year revenue growth of 61.1% on a US dollar basis.

## ■ Media & Solutions

**Q14: Why did EBITDA for HR solutions decrease 0.4% in FY2017 and 15.9% in Q4?**

A: Reflecting favorable growth trend for the nine months in FY2017, HR Solutions made strategic investments actively to acquire more users in domestic recruiting business for future growth given the favorable employment environment in Japan, which led to the decrease in EBITDA both in Q4 and the full year.

**Q15: Why did EBITDA in Marketing Solutions increase 43.5% year on year in Q4?**

A: Quarterly EBITDA for Marketing Solutions increased mainly due to lower marketing expense to attract users in the Media & Solutions, and increased EBITDA primarily in the Beauty subsegment, compared to the same period of the previous fiscal year.

**Q16: What was the reason behind the year-on-year decrease in revenue in the Housing and Real Estate business both in Q4 by 2.9% and in the full year by 1.4%?**

A: The decrease in Q4 revenue year on year 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 in October 2017. Excluding the impact of the sale of approximately 1.6 billion yen quarterly revenue in Q4 increased 3.9% year on year. Full-year revenue also decreased year on year, mainly due to the impact of the sale of the subsidiary mentioned above of approximately 3.3 billion yen, as well as the absence of a one-time revenue increase of 2.6 billion yen associated with the contract change in Q1 FY2016. Excluding these one-time factors, revenue for the full year increased 4.8% year on year.

**Q17: Why did full-year revenue in the Travel business increase only 0.8% year on year?**

This was mainly due to a non-recurring gain recorded in July 2016 resulting from the sale of a subsidiary, Yuko Yuko corporation. Excluding the impact of the sale of 2.4 billion yen, full-year revenue increased 5.2% year on year.

**Q18: Why did Q4 revenue in the Travel business grow slower at 1.6% year on year compared to 5.3% in Q3?**

A: Travel business carried out marketing promotions to attract customers in Q4 in both FY2017 and FY2016. However, the timing of promotions in Q4 FY2017 was slightly delayed along with the associated impact which resulted in a slower year on year growth rate in Q4 FY2017.

**Q19: Why did full-year revenue in the Dining business decrease 0.3% year on year?**

A: Restaurant operators faced a challenging environment mainly due to the workforce shortage in Japan throughout the fiscal year. Under such environment, a few large clients were forced to limit their spending on sales promotion which led to a decrease in full-year revenue. However, the number of the paid clients for *Operational Support Package* in the Dining business exceeded 18,000 as of the end of March 2018, showing steady growth. The revenue from *Operational Support Package*, one of the services provided for restaurant operators through *Air Platform*, is recorded in Others subsegment in Marketing Solutions. Full-year revenue combining the Dining and operational support package business increased approximately 7.9% year on year.

**Q20: Why did Q4 revenue in the Dining business increase 2.1% year on year, reversing a downward trend in the earlier quarters in FY2017?**

A: The business environment for restaurant operators continues to be challenging. Meanwhile, the Dining business strengthened its relationship with clients by focusing on solution driven sales, by promoting *Air Platform*, a cloud-based operational support services, and by providing clients with analysis of data accumulated on its online platform, *Hot Pepper Gourmet*. As a result, there were signs of clients returning to use paid advertisements on its platform which led to the revenue increase year on year. The revenue from *Operational Support Package*, one of the services provided for restaurant operators through *Air Platform*, is recorded in Others subsegment in Marketing Solutions. Q4 revenue combining the Dining and operational support package business increased approximately 10.3% year on year.

## ■ Staffing

**Q21: What was the reason for slower quarterly revenue growth rate of 5.1% in Q4 in Japan operations in Staffing, compared to double digit growth in the nine-month period of FY2017?**

A: The Japanese staffing market continues to expand as evidenced by the increasing number of active agency workers, which grew 5.5% from October to December 2017, compared to the same period of the previous year. In this environment, the number of active agency workers registered with the Staffing business also increased, which led to the revenue increase in Q4. The revenue growth decreased sequentially in Q4 primarily due to the fact that the

re were two fewer business days in the quarter compared to the same period of the previous year.

**Q22: Why did quarterly EBITDA for the Japan operations decrease significantly in Q4, and why did quarterly EBITDA margin also decrease?**

A: This was mainly due to accelerated investment in advertisement to increase the number of registered agency workers in the Japan operations, leveraging the favorable market environment.

**Q23: What was normalized revenue in overseas operations in the Staffing segment, excluding the effect of foreign exchange rate movements and acquisitions?**

A: Foreign exchange rate movements had a positive impact on quarterly revenue of 4.9 billion yen in Q4. Since there was no acquisition in Q4, normalized revenue excluding the positive effect of exchange rate movements decreased 0.7% 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.

For the full year, normalized revenue in overseas operations of the Staffing segment declined 2.6% year on year, excluding the positive impact of foreign exchange rate movements of 47.6 billion yen, and the positive impact of 52.7 billion yen due to the full year contribution of Recruit Global Staffing B.V. (former USG People B.V.) which started to be consolidated in June 2016.

**Q24: Why did quarterly EBITDA for the overseas operations decrease in Q4 year on year, and why did quarterly EBITDA margin also decrease?**

A: The overseas operations continue to focus on profitability improvement based on Unit Management System. However, quarterly EBITDA margin for Q4 decreased due to a decrease in transactions with existing clients resulting from the challenging business environment in the United States.

## **Full-Year Forecasts for FY2018**

**Q25 : Why is year on year revenue growth rate in FY2018 forecast expected to be 5.9%, lower than 11.9% in FY2017?**

A: This is mainly due to the impact of new acquisitions. Revenue for FY2017 had a positive impact of 52.7 billion yen due to full year contribution of Recruit Global Staffing B.V. (former USG People B.V.), which was consolidated from June 2016. In FY2018, on the other hand, positive impact on revenue due to the planned acquisition of Glassdoor, Inc. is expected to be approximately 16.0 billion yen.

Also, difference in foreign exchange rate affects the consolidated revenue growth rate forecast. Assumed foreign exchange rate for FY2018 forecasts is 106 yen per US dollar, while exchange rate effects on revenue for FY2017 was 110.85 yen per US dollar, which has negative impact on translation of US dollar revenue into in the yen-based consolidated revenue.

**Q26: Why is year-on-year EBITDA growth rate for FY2018 expected to be 10.3%, higher than revenue growth rate forecast of 5.9%?**

A: This is mainly due to revenue ratio from the segments with higher EBITDA margin, HR Technology and Media & Solutions, is expected to increase in FY2018, compared to FY2017. Also, SG&A ratio is expected to be lower in FY2018 resulting from lower advertising expense, while marketing investments were accelerated in FY2017 primarily in the Japan operations of the Staffing segment to attract new agency workers.

**Q27: Why is profit attributable to owners of the parent is expected to increase 0.9% year on year, while operating income is forecasted to increase 9.5%?**

A: This is due to expected higher tax expense in FY2018, compared to the previous fiscal year. In FY2017, 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, and a sale of subsidiaries. As no such impact is assumed, income tax expense is expected to rise in FY2018.

**Q28: What is the outlook by segment for FY2018?**

A: In the HR Technology segment, it is difficult to predict future growth rates due to the rapidly evolving Internet business. We are investing aggressively to continue growing significantly on an annual basis assuming the favorable economic environment continues. EBITDA margin is expected to stay within a range of 10% to 20% on an annual basis. The impact of the planned acquisition of Glassdoor, Inc. includes estimated revenue of approximately 16.0 billion yen, and EBITDA of approximately -3.0 billion yen for FY 2018. -3.0 billion yen.

In the Media & Solutions, revenue is expected to increase low to mid single digits year on year, and EBITDA is expected to increase high single digits.

Revenue in the Staffing business is expected to increase low single digits year on year, and EBITDA is expected to increase high single digits.

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