

FAQ's for Q3 FY2019

Recruit Holdings Co., Ltd.

As used herein, the “Company” refers to Recruit Holdings Co., Ltd. and the “Group” refers to the Company and its consolidated subsidiaries unless the context indicates otherwise.

Consolidated Financial Results Guidance for FY2019

Q1: Is there any change in consolidated financial results guidance for FY2019?

A: The Company has revised the consolidated financial guidance for FY2019 announced on May 14, 2019 based on recent business performance and foreign exchange trends.

For FY2019, the Company expects:

- Adjusted EBITDA to be approximately 320 billion yen
- Adjusted EPS to grow high single digits
- Revenue and adjusted EBITDA for HR Technology and Media & Solutions to increase
- Revenue and adjusted EBITDA for Staffing to decrease

The HR Technology segment revenue on a US dollar basis is expected to grow approximately 35%. Adjusted EBITDA margin for the segment is expected to increase slightly compared to FY2018. The HR Technology segment will continue to invest in sales and marketing activities to acquire new users and clients and in product enhancements to increase user and client engagement.

The Media & Solutions segment is expected to maintain stable revenue growth. Revenue for Marketing Solutions is expected to grow high single digits, and revenue for HR Solutions is expected to grow low single digits. Adjusted EBITDA margin for the segment is expected to remain at a level similar to that of FY2018.

For the Staffing segment, both revenue and adjusted EBITDA for Japan operations are expected to increase, however, those of Overseas operations are expected to decrease due to the continued uncertain economic outlook mainly in Europe. Adjusted EBITDA margin for the segment is expected to remain at a level similar to that of FY2018.

The Company expects that the reorganization of the Media & Solutions SBU announced on January 6, 2020 and the incident related to *Rikunabi DMP Follow* will not have a significant impact on the Company's consolidated financial results for FY2019.

Announcement of Leadership Changes

Please refer to the press releases below:

“Recruit Holdings Announces Changes in Board of Directors and Audit & Supervisory Board Members”:

https://recruit-holdings.com/ir/ir_news/upload/20200214_03_en.pdf

“Recruit Holdings Announces Leadership Structure for FY2020”:

https://recruit-holdings.com/ir/ir_news/upload/20200214_02_en.pdf

Q2: What is the difference between the composition of the new Board of Directors and Audit & Supervisory Board of the Company and the previous one?

A: The Company intends to revise the composition of its Board of Directors and Audit & Supervisory Board in a timely manner following recent changes in the business environment, including business expansion and strategic changes.

The changes announced on February 14, 2020, which are subject to the approval at the Annual General Meeting of Shareholders in June 2020 include; 1) the ratio of external Board Directors to be improved, 2) gender diversity of Board of Directors to be improved, as the Company announced at the full-year financial results for FY2018 and the Convocation Notice of the 59th Ordinary General Meeting of Shareholders, and 3) the independence of Audit & Supervisory Board Members to be further ensured.

Q3: What are the key points and important changes regarding the new leadership structure for FY 2020?

A: Hisayuki Idekoba has been elected to Executive Vice President and COO, to work together with the CEO to advance the Group's future vision, promote management decisions and business expansion, in order to further enhance the enterprise value of the Group. Going forward, in addition to his existing Business Operations Division responsibilities, Hisayuki will be responsible for the management of the Group's Finance Division.

Within the Finance Division, Junichi Arai continues to be responsible for Capital Market Strategies and Investor Relations, Iwaaki Taniguchi continues to be responsible for Finance, Accounting and Tax, and Yoshihiro Kitamura will now be responsible for the Finance Division Business Performance.

Ayano Senaha has been newly elected to Managing Corporate Executive Officer, CSO, CHRO and CRO, and will be in charge of the Corporate Planning Division, the Human Resources / General Affairs Division, and the Risk Management Division.

Consolidated Results

Q4: Why did adjusted EBITDA increase 8.5% year on year, while consolidated revenue increased 3.6% year on year?

A: This was mainly because the revenue from the HR Technology and the Media & Solutions, which have higher profitability than the Staffing, increased.

Q5: Why did profit before tax decrease 0.9% year on year, while operating income increased 6.1% year on year?

A: This was mainly due to a decrease in the profit associated with the convertible bonds issued by 51 job, Inc., an equity-method affiliate of the Company. These bonds were converted to equity in Q1 FY2019 and were therefore no longer a source of profit in Q3 FY2019.

HR Technology

Q6: Why did revenue on a US dollar basis (*) increase 33.5% year on year?

A: Revenue growth was primarily driven by increased sponsored job advertising, which continued to be supported by a generally favorable economic environment and tight labor market, especially in the US and Japan. Also contributing to revenue growth year over year were Indeed and Glassdoor recruiting solutions focused on resume searching and employer branding.

(*) The US dollar based revenue reporting represents the financial results of operating companies in this segment on a US dollar basis, which differ from the consolidated financial results of the Company.

Q7: What is the split of revenue between US vs Non-US for the HR Technology segment and what was the difference in revenue growth rate?

A: The Company discloses the breakdown of its revenue by regions only for the full-year results. In FY2018, non-US revenue approached approximately 30% of the total revenue of the HR Technology segment, and we expect this proportion to gradually increase over the long term. In Q3 FY2019, the HR Technology segment continued to achieve strong revenue growth in the US and Non-US operations.

Q8: Why did adjusted EBITDA margin for the HR Technology segment increase year on year to 17.5%?

A: Adjusted EBITDA margin expansion in Q3 FY2019 was primarily due to lower growth in sales and marketing expenses compared to revenue growth. To support future revenue growth, the HR Technology segment also invested heavily in product enhancements to increase user and client engagement. The timing of these investments will fluctuate on a quarterly basis. The focus is on growing market share and revenue growth, not margin expansion. As a result of the EBITDA margin performance year to date, Adjusted EBITDA margin for FY2019 is expected to increase slightly compared to 14.5% in FY2018.

Q9: How many unique visitors did Indeed and Glassdoor have? Please also provide an update on the number of employees.

A: As of Q3 FY2019, Indeed and Glassdoor attracted approximately 250 million and 60 million monthly unique visitors, respectively. As of the end of Q3 FY2019, Indeed and Glassdoor had approximately 9,800 and 1,000 employees, respectively.

Media & Solutions

Q10: Why did revenue and adjusted EBITDA in Marketing Solutions increase 8.3% and 6.3% year on year, respectively?

A: Revenue growth was primarily driven by increased revenue in the Travel and Beauty subsegments. Adjusted EBITDA growth was primarily due to the increased revenue.

Q11: Why did quarterly revenue in the Travel subsegment increase 17.8% year on year?

A: Revenue increased mainly due to revised online booking fees of the online reservation platform, *Jalan*, effective from April 1, 2019, despite the negative impact from less than normal travel demand during Q3 due to the 10 consecutive-day holiday in May in Japan and frequent bad weather.

Q12: Why did revenue and adjusted EBITDA in HR Solutions decrease 2.8% and 0.3% year on year, respectively?

A: Quarterly revenue and adjusted EBITDA decreased in Q3 FY2019 mainly because some enterprise clients, including in manufacturing, reduced their job advertising spend in the face of challenging business environments.

Q13: The revenue growth rate in the Recruiting in Japan subsegment was down 4.6% in Q3. What was the revenue growth rate excluding one time factors such as a sale of subsidiaries?

A: The sale of a subsidiary in April 2019 impacted revenue growth in the Recruiting in Japan subsegment. Excluding the impact, revenue decreased 3.8% year on year.

Q14: There was an announcement on January 6, 2020, regarding the reorganization of a wholly owned subsidiary of Recruit Co., Ltd. ("Recruit"). Please tell us about the background and goals of the reorganization.

A: The Company determined that it would be best to integrate the main core operating companies and functional companies into Recruit in order to consolidate the operational know-how and diverse human resources at these core operating companies and functional companies, and to aim for further growth. We aim to further strengthen its three key business elements such as product development capabilities, sales and distribution capabilities, and human resource development capabilities, while strengthening corporate governance functions, to pursue the further expansion of the SaaS business and develop new businesses for the next ten years.

Staffing

Q15: Why did revenue in Japan operations increase 4.1% year on year?

A: The Japanese economy continues to perform well and demand for temporary labor remains high. This is evidenced by the most recently available data from the Japan Staffing Services association, the number of active agency workers grew 3.1% year on year in the three months from July to September 2019, indicating continued strong demand for those workers. In this positive environment, Japan operations focused on increasing the number of registered agency workers and acquiring new staffing contracts from new clients. As a result, revenue increased year on year.

Q16: Why did revenue in Overseas operations decrease 8.7% year on year?

A: Revenue decreased primarily due to the negative impact of foreign exchange rate movements of 11.2 billion yen and an ongoing uncertain outlook for the European economy. Excluding this impact, revenue decreased 2.8% year on year.

Q17: What is the outlook for adjusted EBITDA margin going forward, as it was flat at 6.0% in Q3 FY2019 compared to Q3 FY2018?

A: For FY2019, adjusted EBITDA margin for the segment is expected to remain at a level similar to that of FY2018. In the current uncertain economic environment in certain European countries, the Staffing segment aims to optimize its adjusted EBITDA margin by improving cost efficiency by reducing administration costs, integrating some branches and optimizing personnel allocation, while continuing to implement the Unit Management System.

■ Rikunabi DMP Follow

Q18: What are the actions the Company has taken so far, related to a series of directives from regulators regarding *Rikunabi DMP Follow* service?

A: The Company takes the series of administrative admonishment and administrative directives from the Personal Information Protection Commission and the Tokyo Labor Bureau very seriously. The Company is taking various measures by instructing and supervising Recruit Co., Ltd (“Recruit”), the headquarters of the Media & Solutions SBU (“Strategic Business Unit”), and Recruit’s subsidiary Recruit Career Co., Ltd (“Recruit Career”), the operating company of *Rikunabi DMP Follow*.

The following measures are being taken to further strengthen its governance structure related to data management.

- Recruit established an organization dedicated to data governance in October 2019, and plans to establish a centralized legal team in April 2020 by integrating the legal functions across its subsidiaries.
- Recruit is establishing a standardized multi-check process for its products and services.
- Recruit is strengthening employee training regarding personal information protection.
- The Company has instructed Recruit Career to reinforce its governance structure including the verification process of trial-based products. Accordingly, Recruit Career has established a standardized multi-check process and made clear the responsibility for its products and services.

In addition, in December 2019 Recruit established an Advisory Committee on Data Utilization which includes outside advisors, aiming to create written guidelines for appropriate data utilization going forward.

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