

FAQ's for Q1 FY2021

Recruit Holdings Co., Ltd.

Q1. What did you see in the HR Matching market globally and how did it impact year over year revenue growth in the Company's HR matching businesses in Q1 FY2021?

Q1 FY2021 represented a rare point in time in several labor markets around the world.

The US continued to experience an imbalance in the labor market between hiring demand from employers and job seekers looking for work that may have been driven by a combination of COVID-19 related factors including fear of contracting COVID-19 and childcare responsibilities, while government financial support and new perspectives on job satisfaction may have played a role. These conditions were also seen during Q1 in several key markets including Canada, Germany, and the UK as the loosening, or the anticipated loosening, of COVID-19 related restrictions and increasing vaccination rates led to a surge of hiring demand that could not be immediately met by available and willing job seekers.

Due to the pay-per-performance dynamic pricing model on Indeed and Glassdoor, when demand from employers increases faster than the supply of job seekers, the cost to advertise jobs is driven upwards and ultimately drives revenue higher. As a result, Q1 FY2021 revenue for HR Technology increased significantly. In Staffing, revenue in *Europe, US, and Australia* for Q1 FY2021 increased due to many of these same labor market conditions, and specifically increased demand for temporary staff for logistics and healthcare roles especially in Europe.

Conversely, Japan has not experienced a widespread imbalance between supply and demand in the labor market as the jobs-to-applicants ratio in Japan has been nearly flat in the past six months. Specifically in the job advertising service for part-time jobs, which is an important part of the HR Solutions business and where there was a significant decline one year ago due to pandemic related restrictions, the recovery has been gradual because of the continuing restrictions on the hospitality sector. Elsewhere, in the placement service, hiring demand for mid-career professionals from business clients also experienced a low point in Q1 FY2020, but has been increasing due to the tight labor market which Japan has been experiencing long before the pandemic.

These conditions have combined to result in a slight improvement of revenue for HR Solutions in Media & Solutions for Q1 FY2021 year over year. In these labor market conditions, in Staffing, despite a decreased number of temporary staff, increased total working hours of temporary staff resulted in a slight increase in revenue in Japan in Q1 FY2021.

Q2. What are the main reasons for the upward revision of FY2021 financial guidance?

The following table presents Consolidated Financial Guidance for FY2021.

In billions of yen	FY2021 Full Year Guidance			
	Revised	YoY	Previous (May 17, 2021)	YoY
Revenue	2,600.0 - 2,700.0	14.6% - 19.0%	2,450.0 - 2,600.0	8.0% - 14.6%
Adjusted EBITDA	360.0 - 430.0	49.0% - 77.9%	270.0 - 335.0	11.7% - 38.6%
Operating income	270.0 - 340.0	65.8% - 108.8%	180.0 - 245.0	10.5% - 50.5%
Profit before tax	270.0 - 340.0	60.2% - 101.8%	185.0 - 250.0	9.8% - 48.4%
Profit for the year	200.0 - 250.0	51.9% - 89.8%	140.0 - 190.0	6.3% - 44.3%
Profit attributable to owners of the parent	200.0 - 250.0	52.2% - 90.3%	140.0 - 190.0	6.6% - 44.6%
Adjusted EPS (yen)	136.32 - 166.92	65.1% - 102.2%	95.51 - 126.10	15.7% - 52.7%

The following table presents SBU Financial Guidance for FY2021.

		FY2021 Full Year Guidance		
		Revised	Previous (May 17, 2021)	
HR Technology	Revenue	approx. +65% - +75% YoY on a USD basis	approx. +40% - +50% YoY on a USD basis	
	Adjusted EBITDA margin	high 20% range	approx. 20%	
Media & Solutions	Revenue	Marketing Solutions	approx. -3% - +9% YoY ¹	
		HR Solutions	approx. +13% - +24% YoY	
	Adjusted EBITDA margin	Similar to FY2020	Similar to FY2020	
Staffing	Revenue	Japan	Similar to FY2020	
		Europe, US, and Australia	approx. + 15% - +20% YoY	
	Adjusted EBITDA margin	Similar to FY2020	Similar to FY2020	

¹Percentage change in Marketing Solutions revenue guidance for FY2021 is based on revenue for Marketing Solutions in FY2020 excluding 79.0 billion yen from the Rent Assistance Program by The Small and Medium Enterprise Agency of the Ministry of Economy in Japan ("Rent Assistance Program") which was completed in FY2020.

The Company's business environment continues to evolve rapidly, as COVID-19 related restrictions in some countries have variously been relaxed and reintroduced, making forecasting difficult. The Company has revised its May 17, 2021 consolidated financial guidance for FY2021, reflecting the updated outlook for HR Technology and Staffing and information available as of August 12, 2021. The Company's outlook remains cautious and FY2021 guidance is based on the assumption that long-term stagnation of economic activities caused by new large scale lockdowns and states of emergency will not occur during FY2021.

In HR Technology, in Q1 the competition for talent in the US remained elevated, resulting in a significant increase in revenue and adjusted EBITDA year over year, which exceeded the Company's prior expectations. As of May 17, 2021 when the Company announced the prior financial guidance, the increased competition for talent in the US was expected to ease during the first half of FY2021. However, based on the current business environment and

assuming surges in new COVID-19 cases do not substantially impact it, the Company expects that the elevated hiring demand will ease at some point during the second half of the current fiscal year, although the precise timing remains uncertain.

In Staffing, the continued demand for talent in logistics roles to support e-commerce and healthcare roles to support COVID-19 mitigation efforts in Europe resulted in revenue and adjusted EBITDA growth in *Europe, US, and Australia* which exceeded the Company's expectations for Q1 FY2021. The Company expects that while elevated demand for talent will continue, the impacts of this will gradually ease throughout the fiscal year.

Q3. For HR Technology, do you see signs that job seeker activity is recovering? How will this impact revenue in FY2021?

As previously noted in the answer for Q1, there are several factors that are likely contributing to less job seeker activity in recent quarters compared to FY2019/Pre-COVID-19. While it is difficult to determine the relative impact of each of these factors, many recent developments and upcoming events point to a possible sustained rebound in job seeker activity: global vaccination rates, particularly in the largest markets that HR Technology operates in, have risen substantially over the preceding quarter, many schools are likely to be open in the fall, and many government benefits, to the extent they have had an impact, are ending or are soon to end.

Given these ongoing and upcoming changes and assuming surges in new COVID-19 cases do not substantially impact these trends, we expect the imbalance in the labor market to lessen, which in turn may put downward pressure on revenue growth as finding qualified hires becomes less challenging. This anticipated change in labor market dynamics throughout this fiscal year is reflected in the FY2021 revenue growth guidance of approximately 65-75%.

Q4. HR Technology's adjusted EBITDA margin in Q1 FY2021 of 37.7% is substantially higher than any prior quarter. What are the drivers behind this performance?

Revenue in Q1 FY2021 significantly exceeded our expectations. Substantial Sales & Marketing investments were made in Q1 FY2021, especially in comparison to the same period in the prior year, when the Company drastically reduced operating expenses primarily in the form of lower advertising expenses. However, these investments did not grow sequentially as HR Technology remained focused on extracting measurable short- and long-term return from advertising spend.

Also, HR Technology had slowed the pace of hiring in the last fiscal year while evaluating the impacts of COVID-19 on the labor market and its business. As a result, personnel costs grew less than revenue year over year, and we've remained cautious about increasing our cost base in light of the ongoing uncertainty.

In order to achieve Recruit's strategic pillar to Simplify Hiring, as introduced in Q4 FY2020, the HR Technology SBU will continue to invest in developing new and innovative hiring solutions, primarily through continuing to hire engineering, product, and other technical talent.

Additionally, marketing initiatives that drive client and user acquisition in the short-term and build the Indeed and Glassdoor brands over the long term are expected to remain a significant cost driver. As such, adjusted EBITDA margins for FY2021 are expected to be at levels somewhat above historical norms, as outlined in our updated FY2021 guidance in the high 20% range.

Q5. How did Q1 FY2021 revenue in Media & Solutions compared to Q1 FY2019, pre-COVID-19?

Revenue in Media & Solutions did not recover to the level of Q1 FY2019 for either Marketing Solutions or HR Solutions.

Although negative impacts of COVID-19 related restrictions on economic activities in Japan continued during Q1 FY2021 and activities by individuals and business clients were restricted, economic activities continued gradual recovery with infection prevention measures.

In Marketing Solutions, revenue for Q1 FY2021 significantly increased compared to the same period of the previous year when economic activities were more severely affected by the restrictions. Housing & Real Estate and Beauty were the primary drivers of revenue growth. However, Travel, Bridal and Dining have not fully recovered compared to Q1 FY2019 as activities by individual users and business clients were restricted due to the continued state of emergency and priority preventative measures in Japan.

In HR Solutions, revenue increased year over year same as Marketing Solutions, however, it did not recover to the same level of Q1 FY2019. In the job advertising business, business clients in part-time job advertising are concentrated in the hospitality sector. The business activity of those business clients was restricted by the COVID-19 related restrictions such as reduced opening hours and prohibition on serving alcohol, resulting in the lack of hiring demand, which negatively impacted the recovery of revenue to the same level of Q1 FY2019.

Revenue in the placement service for Q1 FY2021 recovered to a similar level to Q1 FY2019 as increasing hiring demand from business clients continued.

Q6. In line with the Help Businesses Work Smarter business strategy which includes building an ecosystem of SaaS solutions, have there been any new developments?

In Q1 FY2021 JobOpLite, a centralized application management system in HR Solutions that includes creating a career site and the automated posting of jobs on Indeed, was rebranded as Air WORK ATS and is now offered as a solution in the Air BusinessTools suite. In the future, Air WORK ATS will be capable of connecting with other Air BusinessTools solutions through a single ID making business clients' hiring simpler and faster.

Q7. What do you expect the impact of the repeated state of emergency in Tokyo and other prefectures and priority preventative measures in many cities in Japan will be on the outlook for Media & Solutions in Q2 and the rest of FY2021?

Although the impact of the repeated state of emergency in Tokyo and other prefectures and priority preventative measures in many cities in Japan on the outlook for Q2 and the rest of FY2021 is uncertain, it is expected to have certain negative impacts particularly on Travel and Dining as there has previously been a negative impact from the Japanese government's prior COVID-19 related measures. The Company's May 17, 2021 guidance assumed a level of uncertainty due to ongoing and potential states of emergency and therefore as of August 12, 2021 we are not updating the previously issued guidance.

Revenue for Marketing Solutions is expected to be in the range of a decrease of approximately 3% to an increase of approximately 9% year over year, excluding revenue from the Rent Assistance Program in FY2020. Revenue for HR Solutions is expected to be in the range of an increase of approximately 13% to 24% year over year. Adjusted EBITDA margin for FY2021 for Media & Solutions is expected to be similar to that in FY2020.

Q8. The forecast for the annual dividend for FY2021 is 21.00 yen per share, an increase of 1.00 yen from the 20.00 yen dividend in FY2020. Why is the increase in the dividend forecast lower than that of the profit forecast?

Beginning in FY2021, while there is no change in the capital allocation policy, our dividend policy, as announced in Q4 FY2020, is to strive to continue stable dividends considering long-term cash needs and financial position forecast. Based on this policy, our forecast for the annual dividend for FY2021 is 21.00 yen.

Forward-Looking Statements

This document contains forward-looking statements, which reflect the Company's assumptions and outlook for the future and estimates based on information available to the Company and the Company's plans and expectations as of the date of this document or other date indicated. There can be no assurance that the relevant forecasts and other forward-looking statements will be achieved. Please note that significant differences between the forecasts and other forward-looking statements and actual results may arise due to various factors, including changes in economic conditions, changes in individual users' preferences and enterprise clients' needs, competition, changes in the legal and regulatory environment, fluctuations in foreign exchange rates, and other factors. Accordingly, readers are cautioned against placing undue reliance on any such forward-looking statements. The Company has no obligation to update or revise any information contained in this document based on any subsequent developments except as required by applicable law or stock exchange rules and regulations.

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