FAQ's for Q4 and FY2018

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.

Financial Results for Q4 and FY2018

■Consolidated Results

Q1: (Full-year) Why did consolidated operating income for FY2018 increase by 16.3% year on year, while consolidated revenue for FY2018 increased by 6.3% year on year?
A: All three segments, the HR Technology, Media & Solutions, and Staffing, contributed positively to the growth of consolidated operating income. Also, the percentage of total revenue from the HR Technology segment increased from approximately 10% in FY2017 to approximately 14% in FY2018 while the percentage of total revenue from the Staffing segment, which has the lowest profitability among the three segments, decreased from approximately 60% in FY2017 to approximately 56% in FY2018.

Q2: (Q4) Why was the quarterly EBITDA margin for Q4 FY2018 (9.2%) higher than Q4 FY2017 but lower compared to the first three quarters of FY2018 (approximately 13% to 14%)?
A: The quarterly EBITDA margin for Q4 FY2018 was lower than for the first three quarters of the fiscal year mainly due to increased advertising expenses to attract individual users during the quarter. However, EBITDA margin in Q4 FY2018 was higher than Q4 of the previous fiscal year mainly due to EBITDA margin improvement year on year in the Media & Solutions and the Staffing segments. In Media & Solutions, EBITDA margin improved as a result of higher revenue and good cost control. In Staffing, EBITDA margin for Q4 FY2018 in Overseas operations increased due to improvements in operational productivity.

Q3: (Q4) Why did profit before tax for Q4 FY2018 increase by 39.8% year on year, while quarterly operating income for Q4 FY2018 increased by 23.1% year on year?
A: It was mainly due to the increase in operating income, share of profit of associates and joint ventures, and finance income.

Q4: (Q4) Why did profit attributable to owners of the parent for Q4 FY2018 increase by 22.4%, while profit before tax for Q4 FY2018 increased by 39.8% year on year?
A: The increase in profit attributable to owners of the parent was due to lower income tax expense in Q4 FY2017, which mainly resulted from the sale of a subsidiary.

■HR Technology

Q5: (Full-year) Why did revenue on a US dollar basis increase by 54.0%(*) year on year in FY2018?
A: The strong revenue growth continued mainly due to increased sponsored job advertising revenue from new and existing enterprise clients at Indeed, against the backdrop of a favorable economic
environment and strong labor market during the year. In addition, revenue from Glassdoor, which was acquired during Q1 FY2018, positively impacted the revenue growth rate.

(*) Assuming the reassessed identification of a customer due to the IFRS15 definition was applied in the previous fiscal year on a pro forma basis.

Please refer to FAQ No.5 for Q2 FY2018 for details:

Q6: (Full-year) 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: Non-US revenue is approaching approximately 30% of the total revenue of the HR Technology segment, and we expect this proportion to gradually increase over time. The HR Technology segment continued to achieve strong revenue growth in the US and Non-US in FY2018.

Q7: (Q4) Why did Q4 EBITDA margin in the HR Technology segment decrease to 11.8% compared to the first three quarters?
A: To support future revenue growth, the HR Technology segment continued to invest in sales and marketing activities to acquire new individual users and enterprise clients and in product enhancements to increase individual user and enterprise client engagement. The timing of these investments fluctuates throughout the year, but on a full year basis, FY2018 EBITDA margin was 14.5%, which is within the previously communicated target range of 10% to 20% on an annualized basis.

Q8: How many unique visitors did Indeed have? Please also provide an update on the number of resumes, employees and locations.
A: Indeed attracted approximately 250 million monthly unique visitors, and job seeker traffic grew year on year in Q4 FY2018. Indeed’s resume database grew year on year, with over 150 million resumes uploaded to its site as of the end of March 2019. As of the end of Q4 FY2018, Indeed had approximately 8,900 employees located in 29 cities and 14 countries.

Q9: How many unique visitors did Glassdoor have? Please also provide an update on the number of employees.
A: Glassdoor attracted approximately 67 million monthly unique visitors, and traffic grew double digits year on year in Q4 FY2018. As of the end of Q4 FY2018, Glassdoor had approximately 900 employees.

Media & Solutions

Q10: (Full-Year) Why did revenue and EBITDA in Marketing Solutions in FY2018 increase 5.8% and 15.3% year on year, respectively?
A: Revenue growth was primarily driven by increased revenue in the Housing and Real Estate and Beauty subsegments. EBITDA growth was primarily due to the increased revenue. In addition, there was a positive impact on EBITDA because the treatment of intra-group transactions such as management service fees and general administrative fees was changed at the beginning in Q1.
FY2018 due to the group reorganization implemented from last year. Excluding the impact of the change in the treatment of intra-group transactions, EBITDA increased 11.3% year on year.

Q11: (Q4) Why did quarterly revenue in the Housing and Real Estate subsegment increase 13.5% year on year?
A: Revenue growth in the independent housing division and leasing division was primarily a result of continued improvements in the user experience on its online platform, marketing efforts to attract more individual users to the platform, and sales initiatives to offer operational and management solutions to enterprise clients.

Q12: (Full-Year) Why did revenue and EBITDA in HR Solutions in FY2018 increase 7.6% and 6.3% year on year, respectively?
A: Revenue increased in the Recruiting in Japan subsegment as a result of solid performance particularly in the placement business. EBITDA growth was primarily due to the increased revenue. Excluding the impact of the change in intra-group transactions described in FAQ No.10, EBITDA increased 4.2% year on year.

Q13: (Full-year / Q4) What was the revenue growth rate in the Recruiting in Japan subsegment excluding one time factors such as a transfer of businesses (the growth rate including such factors in FY2018 and Q4 FY2018 increased 4.9% and 1.8% year on year)?
A: The transfer of the placement business for the medical industry to the Recruiting in Japan subsegment from Eliminations and Adjustments in the Media & Solutions segment contributed to the revenue increase in the Recruiting in Japan subsegment. Meanwhile, there were two factors that negatively impacted year on year revenue growth in both FY2018 and Q4 FY2018: 1) the transfer of the recruiting assessment business from the Recruiting in Japan subsegment to the Others subsegment in HR Solutions from Q1 FY2018 and 2) the sale of a subsidiary in August 2018. Excluding the impact of all the one time factors above, revenue increased 7.4% and 5.1% year on year, respectively. Excluding the impact of business transfer alone, revenue increased 6.2% and 3.7% year on year, respectively.

■ Staffing

Q14: (Full-year) Why did EBITDA in Japan operations increase 27.3% year on year compared to the revenue increase of 6.5% year on year?
A: In the Japanese labor market, the number of active agency workers remained at a high level and the demand for agency workers continued to be strong. In this environment, Japan operations focused on increasing the number of registered agency workers and new staffing contracts. As a result, revenue increased year on year.
EBITDA grew as a result of the continued revenue growth in the staffing business and an increase in placement fee revenue; the increase in placement fee revenue resulted from revisions in Japanese laws that encouraged enterprise clients to hire agency workers directly. Also, EBITDA grew significantly year on year as the amount of spend on advertisement to grow the number of registered staff in Q4 FY2018 was lower compared to significant spend in Q4 FY2017.
In addition, Japan operations were affected by the change in the treatment of intra-group transactions, which also impacted the Media & Solutions segment. Excluding the impact of the change in the intra-group transactions, EBITDA increased 18.9% year on year.
Q15: (Q4) Why did quarterly revenue in the Japan operations increase by 3.5%, compared to high single digit growth during the first three quarters of the year?
A: The Japanese staffing market continued to expand as evidenced by the increasing number of active agency workers, which grew 4.4% year on year in Q3, based on the most recent available data from Japan Staffing Services association. In this environment, Q4 revenue grew due to an increase of the number of active agency workers dispatched by the Group, while revenue growth decreased sequentially in Q4 primarily due to one fewer business day compared to the same period of the previous year. Also continued tight labor market in Japan made it increasingly difficult to find agency workers for certain jobs because of increased scarcity.

Q16: (Q4) Why did quarterly revenue and EBITDA in Overseas operations decrease 10.6% to 170.7 billion yen and 1.4% to 7.0 billion yen year on year, respectively?
A: Revenue and EBITDA decreased primarily due to an uncertain outlook for the European economy. The negative impact of foreign exchange rate movements and the adoption of IFRS15(*) on revenue was 7.8 billion yen and 4.5 billion yen, respectively. Excluding this impact of foreign exchange rate movements and the adoption of IFRS15, the quarterly revenue decreased 4.2% year on year. In FY2018, EBITDA in Overseas operations grew 2.5% and EBITDA margin improved 40 basis points to 5.3% year on year.

(*) Revenue reporting changed from gross amount (the amount of revenue including commissions paid to agencies) basis to net amount (the amount of revenue excluding commissions) basis for some enterprise clients.

Long-term vision and Mid-term Strategy

Q17: Why did the Company decide to establish a management mid-and-long-term strategy that does not include a stated time period, compared to the previous three-year mid-term management policy?
A: In the rapidly changing technology business environment, there are many factors that may affect our consolidated performance. We believe it is important for management to create value by focusing on achieving the long-term vision and goals of the Company, rather than on short or mid-term goals.

Q18: What is the breakdown of the HR matching market size, which the Company estimates to be more than 150 billion US dollars (16.6 trillion yen) (*)?
A: The market for online job advertising and talent sourcing tools, which is the primary business of the HR Technology segment, is estimated to be approximately 15 billion US dollars (1.7 trillion yen) globally in annual revenue, growing high single digits each year. We estimate the size of the US market to be approximately 6.5 billion US dollars (720 billion yen). We estimate the offline job advertising market to be more than 5 billion US dollars (550 billion yen), including such as print media. We expect the offline job advertising market to continue to shift online. The placement and executive search market is estimated to be approximately 50 billion US dollars (5.5 trillion yen) in annual revenues. We use annual gross profit (rather than annual revenue) to estimate the size of the temporary staffing market. This market is estimated to have approximately 445 billion US dollars (49.4 trillion yen) in annual revenue based on SIA’s research(**).

(*) Revenue reporting changed from gross amount (the amount of revenue including commissions paid to agencies) basis to net amount (the amount of revenue excluding commissions) basis for some enterprise clients.

(**)
Gross profit excludes costs such as salary paid to temporary staff and is estimated to be approximately 81 billion US dollars (9.0 trillion yen) annually. We calculated this based on the average of the top 3 publicly traded global staffing companies in terms of revenue.

(*) 1 US dollar=110.92 yen (FY2018 results)
(**) Staffing Industry Analysts: Global Staffing Industry Market Estimates and Forecast - updated in November 2018

Q19 : What is the mid-term strategies for each segment?
A : In the HR Technology segment, we aim to continue to grow our existing online job advertising businesses. We will also execute new business development and M&A, and will consider collaborations with our other SBUs in the HR matching business.
In the Media and Solutions segment, we will continue to improve our advertising business in order to maintain stable revenue growth. In Marketing Solutions, we aim to drive further growth in these businesses by expanding our operational and management support services, which strengthen relationships with existing and new enterprise clients.
In the Staffing segment, we aim to maintain and improve our adjusted EBITDA margin(*) We will maintain and strengthen our ability to generate profits by leveraging the respective strengths in each SBU.

(*)Please refer to FAQ No.21 for detailed information about adjusted EBITDA

Consolidated Financial Guidance for FY2019

Q20 : Please provide details regarding the adoption of IFRS16 and Adjusted EBITDA as a new management KPI.
A : The Group adopted IFRS16 in Q1 FY2019, and changed its accounting policy. Pursuant to IFRS16, a lessee generally must recognize a ‘right-of-use asset’ for all leases, such asset representing the right to use the underlying asset over the term of such leases. A lessee also must recognize as its financial liability the lessee’s obligation to make future lease payments. Under previous accounting standards, IAS 17, a company recorded lease payments of operating leases as rent expense. However under IFRS16, a company must record depreciation for its right-of-use assets and an interest expense on its lease liability. As a result of adoption of IFRS16, EBITDA increases because rent expense decreases—instead, the depreciation of the right-of-use asset increases, but EBITDA excludes depreciation. Therefore the Group decided to change its Management KPI from EBITDA to adjusted EBITDA (operating income + depreciation and amortization (exclude depreciation for right-of-use assets) ± other operating income/expenses) to exclude the main impact of IFRS16 adoption, in order to have comparability with the prior Management KPI. There is no impact to the definition of Adjusted EPS.

Q21 : Why were the disclosed forecasted items for FY2019 changed?
A : The Company is changing its prior guidance practices for FY2019 to reflect the rapidly changing technology business environment. We will no longer provide specific full year consolidated forecasts for revenue, EBITDA, operating income, profit attributable to owners of the parent, adjusted profit and adjusted EPS. Instead, we are providing guidance on consolidated revenue, adjusted EBITDA, the most important KPI, and adjusted EPS growth, together with each segment’s outlook for revenue growth and adjusted EBITDA margin in FY2019.
Q22: What are the assumptions of the range for consolidated adjusted EBITDA guidance of 310 billion yen to 330 billion yen in FY2019?
A: The range of consolidated adjusted EBITDA guidance is calculated by adding each segment’s lowest and highest figures of internal forecasts for FY2019. The forecast for the HR Technology segment adjusted EBITDA has the widest range due to the rapidly changing technology business environment in which the HR Technology segment operates.

Q23: What are the revenue growth forecasts for US and Non-US in the HR Technology segment in FY2019?
A: We do not provide guidance for the separate US and Non-US growth rates, but we expect Non-US growth rate to be higher than US growth rate. Excluding any future acquisitions and assuming current market conditions, we expect the HR Technology SBU to grow approximately 35% plus or minus a few percent for FY2019.

Q24: What are the assumptions of mid single digits revenue growth guidance for Marketing Solutions and low single digits revenue growth guidance for HR Solution in the Media & Solution segment?
A: Revenue in Marketing Solutions is expected to grow primarily due to increase in Travel and Beauty subsegments. Revenue in HR Solutions is expected to grow mainly driven by the placement business, reflecting the tight labor market in Japan.

Q25: Revenue growth guidance for the Staffing segment is low single digits in FY2019, comprised of an increase in both Japan and Overseas operations. Why is the growth in Japan operations (which increased by 6.5% year on year in FY2018) expected to slow, and the growth in Overseas operations (which decreased by 5.3% year on year in FY2018) expected to accelerate? Are the adjusted EBITDA margins for both Japan and Overseas operations expected to improve slightly?
A: Demand for temporary agency workers is expected to be strong, reflecting the tight labor market. However, in Japan operations, revenue growth is expected to moderate in FY2019 because of the relatively larger size of its revenue base and adjusted EBITDA margin is expected to remain at a level similar to that of FY2018. For Overseas operations, revenue for FY2019 is expected to grow and adjusted EBITDA margin is expected to increase slightly by continuous operational productivity improvement.

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