FAQ's for Q2 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 Results

Q1: Why did operating profit increase 21.6% year on year, while consolidated revenue increased 5.0% year on year?
A: Mainly because the revenue from the HR Technology and the Media & Solutions, which have higher profitability than Staffing, increased.

Q2: Why did comprehensive income for the six-months period decrease 30.3%?
A: It was mainly due to a decrease in exchange differences on translation of foreign operations (*) of 26.3 billion yen, resulting from the foreign exchange rate movements, particularly related to the stronger yen.
(*) Currency translation adjustments

■HR Technology

Q3: Why did revenue on a US dollar basis (*) increase 34.8% year on year? Why was the revenue growth rate lower compared to 46.3% in Q1 FY2019?
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 USD dollar based revenue growth was slower compared to Q1 FY2019 primarily due to the absence of acquired revenue growth related to the Glassdoor acquisition.
(*) 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.

Q4: 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 Q2 FY2019, the HR Technology segment continued to achieve strong revenue growth in the US and Non-US operations.

Q5: Why did adjusted EBITDA margin increase year on year to 22.9%?
A: Adjusted EBITDA margin expansion in Q2 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. Adjusted EBITDA margin for FY2019 is expected to be approximately the same level of FY2018, plus or minus a few %.

Q6: How many unique visitors did Indeed and Glassdoor have? Please also provide an update on the number of employees.
A: As of Q2 FY2019, Indeed and Glassdoor attracted more than 250 million and 60 million monthly unique visitors, respectively. As of the end of Q2 FY2019, Indeed and Glassdoor had approximately 9,700 and 1,000 employees, respectively.

Media & Solutions

Q7: Why did revenue and adjusted EBITDA in Marketing Solutions increase 9.7% and 5.2% year on year, respectively?
A: Revenue growth was primarily driven by increased revenue in the Housing and Real Estate, Travel and Beauty subsegments. Adjusted EBITDA growth was primarily due to the increased revenue.

Q8: Why did quarterly revenue in the Housing and Real Estate subsegment increase 9.2% year on year?
A: Revenue growth 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.

Q9: Why did quarterly revenue in the Travel subsegment increase 20.8% 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 traveling demand during the summer due to the 10 consecutive-day holiday in May in Japan and frequent bad weather.

Q10: Why did revenue and adjusted EBITDA in HR Solutions increase 6.5% and 17.7% year on year, respectively?
A: Revenue increased as a result of solid performance particularly in the placement business in the Recruiting in Japan subsegment, against the backdrop of the extremely tight Japanese labor market, in which the subsegment focused on strengthening its organizational structure to improve productivity. Adjusted EBITDA growth was primarily due to the increased revenue, and lower advertising expenses compared to Q2 FY2018.

Q11: The revenue growth rate in the Recruiting in Japan subsegment was 5.3% in Q2. What was the revenue growth rate excluding one time factors such as a sale of subsidiaries?
A: The sale of two subsidiaries in August 2018 and April 2019 impacted revenue growth in the Recruiting in Japan subsegment. Excluding the impact, revenue increased 6.8% year on year.

Staffing
Q12: Why did revenue in Japan operations increase 5.5% year on year?
A: The Japanese labor market remained tight, and in this market the number of active agency workers remained at a high level, growing 2.1% year on year in the three months from April to June 2019, based on the most recently available data from the Japan Staffing Services association, indicating continued strong demand for agency workers. In this environment, Japan operations focused on increasing the number of registered agency workers and acquiring new staffing contracts. As a result, revenue increased year on year.

Q13: Why did adjusted EBITDA margin in Japan operations increased to 8.2% in Q2 FY2019, from 7.2% in Q2 FY2018?
A: This was mainly due to the absence of the one-off expenses related to abnormally high holiday pay in Q2 FY2018, accompanied by the Revised Worker Dispatching Act in Japan, and the lower growth rate of advertising expense to grow the number of registered agency workers compared to the revenue growth rate.
Adjusted EBITDA in Japan operations increased by 20.4% year on year.

Q14: Why did revenue in Overseas operations decrease 8.0% year on year?
A: Revenue decreased primarily due to an uncertain outlook for the European economy. The negative impact of foreign exchange rate movements on revenue was 13.6 billion yen. Excluding this impact, revenue decreased 1.0% year on year.

Q15: What is the outlook for adjusted EBITDA margin going forward, as is was flat at 5.5% in Q2 FY2019, compared to Q2 FY2018?
A: With 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 focus on utilizing the Unit Management System.

■Rikunabi DMP Follow
Q16: The Company received several directives regarding Rikunabi DMP Follow service from regulators. What are the actions the Company has taken so far?
A: The Company takes the administrative admonishment and administrative directive from the Personal Information Protection Commission and the administrative directive from the Tokyo Labor Bureau very seriously. The Company is taking various measures by instructing and supervising Recruit Co., Ltd (“Recruit”), the headquarters of Media & Solutions segment, and Recruit Career Co., Ltd (“Recruit Career”), the subsidiary of Recruit, and the operating company of Rikunabi DMP Follow.

For example, the Company has instructed Recruit to establish a standardized multi-check process for products and services, to reinforce its organizational structure related to data management by establishing a centralized team and integrating the legal functions across its subsidiaries, and to strengthen employee training regarding personal information protection. The Company has also instructed Recruit Career to reinforce its governance structure including the verification process of trial-based products, and has confirmed that Recruit Career has taken these initiatives.

In addition, the Company led Recruit to establish an Advisory Committee on Data Utilization which includes outside advisors and plans to organize the first committee meeting in December.
Q17: Is there any change in consolidated financial results guidance for FY2019?

A: There is no revision of consolidated financial guidance for FY2019 from the figures announced on May 14, 2019. For the Staffing segment, the Company revised partially in Q1 FY2019 and there is no revision in Q2.

The partial revision for the Staffing segment in Q1 FY2019 was as below:

The Company previously announced, on May 14 2019, segment revenue was expected to grow low single digits, comprised of an increase in both Japan and Overseas operations. However, the revenue in Overseas operations may decrease as the Company expects the uncertain outlook, mainly in Europe, to continue and will further improve productivity by implementing the Unit Management System. The Company continues to expect revenue of the overall Staffing segment and Japan operations to increase low single digits and adjusted EBITDA margin for the Staffing segment to improve slightly for FY2019.

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