Message from our CFO

Strengthening enterprise value with strategic acquisitions and technology

Keiichi Sagawa
CFO, Senior Managing Corporate Executive Officer and Board Director

Three-year historical performance summary FY2016 - FY2018

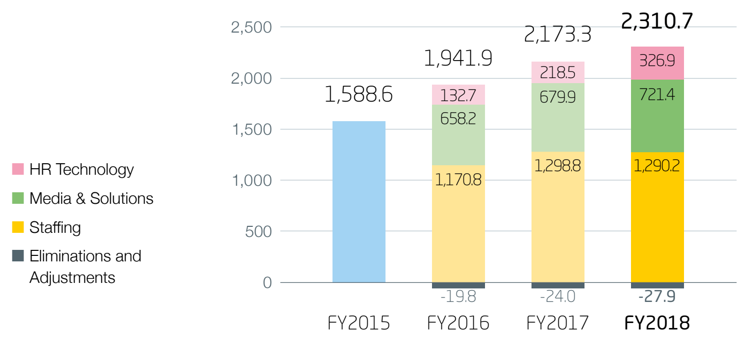
FY2018 was the final year of the mid-term management policy that was established when we announced the financial results for FY2015. During the three-year period from FY2016 to FY2018, our consolidated revenue, consolidated EBITDA, and adjusted EPS each delivered favorable growth. Consolidated EBITDA, a management KPI that we put great value on during the period, has grown by 45%, from 202.2 billion yen in FY2015 to 293.2 billion yen. Also, the result of the adjusted EPS target set in our mid-term management policy, three-year CAGR of high single digit, was 15.5%, greatly exceeding the target.

Significant progress was made in two key areas targeted in our mid-term management policy—further growth in overseas business and sustainable growth in our business in Japan.

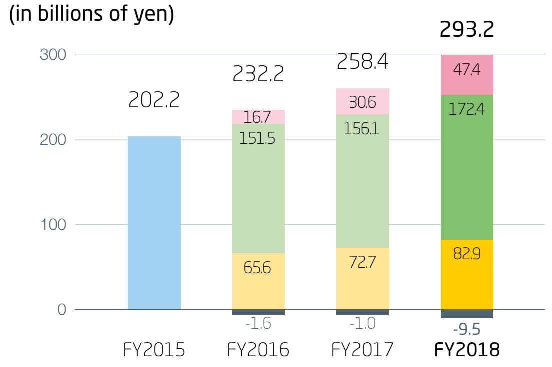
The success of our overseas business was primarily due to the high growth of Indeed over the past three years. Other factors such as the strategic acquisitions of Glassdoor in the HR Technology SBU and USG People (now Recruit Global Staffing) in the Staffing SBU, also contributed to the growth of our overseas business. As a result, the contribution from overseas business to our consolidated revenue increased from 36% in FY2015 to 46% in FY2018.

To continue the sustainable growth of our businesses in Japan, we have expanded both our individual user and enterprise client base mainly in the Media & Solutions SBU. We also focused on creating new growth areas such as operational and management support services through SaaS solutions for SMEs, and the online education service "Study Sapuri."

Consolidated Revenue*1*2
(in billions of yen)



Consolidated EBITDA*1*2
(in billions of yen)



Consolidated financial guidance for FY2019*3

In FY2019, consolidated revenue and adjusted EBITDA are expected to increase in all three of our SBUs: HR Technology, Media & Solutions, and Staffing. Adjusted EBITDA*4 is expected to grow this fiscal year compared to the prior fiscal year, and is forecasted to be in a range of 310 billion to 330 billion yen. Adjusted EPS is targeted to grow high single digits.

In order to reflect the rapidly changing technology business environment and the growth of the HR Technology SBU, we changed our guidance practices for FY2019. We are no longer providing specific consolidated financial forecasts for revenue, EBITDA, operating income, profit attributable to owners of the parent, adjusted profit, and adjusted EPS.

Financial policies and shareholder returns

ROE was 19.3% for FY2018, which exceeded the target of 15%. We will continue to maintain ROE of approximately 15%. Recruit Group views dividends as an important tool to deliver returns to our shareholders. We aim to pay out consistent and stable dividends twice a year, with a target payout ratio of approximately 30%*5. For FY2018, the annual dividend per share was 28 yen, which was comprised of the interim dividend of 13.5 yen, and the year-end dividend of 14.5 yen, up 1 yen from the initial dividend forecast. For FY2019, we plan to pay an annual dividend of 30 yen per share, up 2 yen from the previous fiscal year, with 15 yen for each of the interim and year-end dividends.

Also, we expect to utilize capital for strategic acquisitions that will help us realize our ambitious goals. We will work to retain sufficient capital that will enable us to move flexibly and quickly for strategic M&A, when necessary. Additionally, we consider external financing through borrowings for acquisitions as needed, provided we ensure our financial soundness is maintained. Based on the capital market environment and financial outlook, we may consider implementing a share repurchase program, as necessary, after meeting the above-mentioned funding needs.

*1 Recruit Holdings adopted IFRS from the beginning of the FY2017. Figures for FY2016 were calculated assuming IFRS were applied on pro forma basis. Figures for FY2015 are based on Japanese GAAP.
*2 Recruit Holdings changed the structure of its reportable segments from FY2016; figures for FY2015 under the current structure are not available.
*3 Guidance based on the financial results for the first quarter of FY2019.
*4 Recruit Holdings decided to change the management KPI from EBITDA to adjusted EBITDA (such EBITDA is adjusted to exclude the main impact of the IFRS 16 adoption) to ensure comparability with the prior management KPI from Q1 FY2019 when Recruit Group started to adopt IFRS 16 and changed its accounting policy. Adjusted EBITDA = operating income + depreciation and amortization (excluding depreciation of right-of-use assets) ± other operating income/expense.
*5 Payout ratio (consolidated) based on profit available for dividends. (Profit available for dividend = profit attributable to owners of the parent ± non-recurring income/losses, etc).