FAQ's for Q1 FY2018

Recruit Holdings Co., Ltd.

Financial Results for Q1 FY2018

■Consolidated Results

Q1: Why did consolidated operating income increase 20.4% year on year, while consolidated EBITDA increased 9.5%?

A: This was mainly due to an increase in other operating income of 6.6 billion yen, which consists mainly of a non-recurring gain of 6.3 billion yen resulting from the sale of subsidiaries in Overseas Marketing in the Others subsegment in Marketing Solutions in Media & Solutions. Please refer to the following link for further details on the sale of subsidiaries.

Notification of Change in Consolidated Subsidiary (Transfer of Shares and Holdings) (January 5, 2018)
https://recruit-holdings.com/ir/ir_news/2018/0105_8093.html

Q2: Why did year-on-year growth rate of EBITDA increase to 9.5% in Q1 FY2018, while year-on-year growth rate of EBITDA was 0.2% in Q4 FY2017?

A: The year-on-year EBITDA growth rate was higher in Q1 FY2018 compared to Q4 FY2017, mainly due to an accelerated level of investment in advertisements to attract users during Q4 FY2017, to drive future growth.

Q3: Why was year-on-year growth rate of adjusted profit lower than that of profit attributable to owners of the parent in Q1 FY2018?

A: This was mainly due to a non-recurring gain resulting from the sale of subsidiaries in Overseas Marketing in Q1 FY2018, which led to lower growth rate of adjusted profit compared to that of profit attributable to owners of the parent.

Please refer to the following definition of adjusted profit and adjustment items;

- Adjusted profit = profit attributable to owners of the parent ± adjustment items* (excluding non-controlling interests) ± tax reconciliation related to certain adjustment items
  *Adjustment items = amortization of intangible assets arising due to business combinations ± non-recurring income/losses

Q4: What was the impact of the completion of the acquisition of Glassdoor, Inc. ("Glassdoor") to the consolidated financial results for Q1 FY2018.

A: Glassdoor was consolidated as of the end of Q1 FY2018, resulting in an increase in goodwill of 132.4 billion yen in the consolidated financial statement. Recruit Holdings, Co., Ltd. ("Recruit Holdings") plans to complete the classification of intangible assets and goodwill related to the acquisition during Q2 FY2018, based on the fair value.
Profits and losses from Glassdoor's operations will impact the HR Technology segment's results from Q2 FY2018. One-time costs of 1.19 billion yen associated with the Glassdoor acquisition were recorded in the consolidated financial statement in Q1 FY2018.

Q5: How much was the impact of foreign exchange rate movements on consolidated revenue?

A: The positive impact of foreign exchange rate movements on the consolidated revenue for Q1 FY2018 was 3.5 billion yen.

Q6: What was the reason for the change in adjustment items to calculate adjusted profit and adjusted EPS? Why were adjusted profit and adjusted EPS in the previous quarters not changed retroactively?

A：The convertible bond which was issued by 51job, Inc. ("51job"), an equity-method affiliate of Recruit Holdings from 2006, of which we own 37.8% shares as of the end of FY2017, can be converted to equity after October 2018 for market price of 51job at the time of conversion. This may result in an increase in our shareholding ratio which would positively impact to profit, which will be recorded as non-recurring income in the adjustment items.
On the other hand, 51job recorded a significant level of revaluation loss due to an increase in 51job's share price recently. Recruit Holdings recorded this revaluation loss in proportion to its shareholding ratio in 51job under the equity-method, but this loss was not included in the adjustment items in the previous quarters.
This profit and loss above are originated from the same convertible bond from the same issuer, and the record of revaluation loss is associated with a possible increase in profit upon conversion. Therefore, we decided to include the loss related to revaluation of the convertible bond issued by 51job in the adjustment items as non-recurring loss, considering the loss is originated from the same origin as the profit we have already included in the adjustment items, and the impact from the loss which had not been included in the adjustment items is expected to increase.

While this change was reflected to the adjustment items for Q1 FY2018, adjusted profit and adjusted EPS for FY2017 were not changed retroactively as the impact of this change was not significant in the previous fiscal year.

[reference: adjusted EPS assuming the change was applied in the previous years]

- FY2016: 80.32 yen, an increase of 0.3% from 80.06 yen as disclosed.
- FY2017: 88.61 yen, an increase of 2.2% from 86.74 yen as disclosed.

[reference: adjusted EPS in Q1 FY2018]

- Q1 FY2018: 29.37 yen, an increase of 8.3% from 27.12 yen, adjusted in the same items as the previous quarters.

■HR Technology

Q7: Quarterly revenue on a US dollar basis increased 51.7% year on year in HR Technology. What drove the continued strong revenue growth?

A: The strong revenue growth was mainly due to new customer acquisition and expanding spend from existing customers, against the backdrop of a favorable economic environment and strong labor market.

Q8: Why did quarterly EBITDA margin in HR Technology decrease to 13.6%, compared to 16.7% in Q1 FY2017.

A: EBITDA for Q1 FY2018 was negatively impacted by one-time costs of 1.19 billion yen associated with the acquisition of Glassdoor, which was completed on June 21, 2018. Excluding this one-time impact, EBITDA margin in HR Technology for Q1 FY2018 was 15.3%. While we expect EBITDA margins will fluctuate throughout the year based on the timing of investments, our expected target range remains 10% to 20% on an annualized basis.

Q9: What was the difference in revenue growth rates between the US and Non-US?

A: HR Technology continued to achieve strong revenue growth in the US. Additionally, due to the earlier stages of the market development, the revenue growth rate in non-US markets continued to outpace the US, driven by strong performance in Japan, UK, Canada and Germany. Overall, the Non-US revenue growth rate is following a similar trajectory to what the US experienced a few years ago. We do not disclose revenue by regions.

Q10: How many unique visitors did Indeed reach? Please also provide an update on the number of resumes, employees and offices.

A: Indeed attracts more than 200 million unique visitors per month and continued to extend its traffic leadership position, achieving double digit traffic growth year on year in Q1 FY2018. Indeed's resume database grew year on year with over 120 million resumes uploaded to its platform. As of the end of June 2018, Indeed had 6,700 employees and 27 offices globally.

■ Media & Solutions

Q11: Why did quarterly EBITDA in Marketing Solutions increase 13.1% year on year?

A: There was a positive impact on quarterly EBITDA since 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 which was put into action from last year. EBITDA was also driven by increased EBITDA in each subsegment in Marketing Solutions. Excluding the impact of the change in the treatment of intra-group transactions, EBITDA increased 9.3% year on year.

Q12: Why did quarterly revenue and EBITDA in HR Solutions increase 10.9% and 12.4% year on year, respectively?

A: Revenue increased in Recruiting in Japan as a result of solid performance in the professional recruiting business. In addition, quarterly revenue and EBITDA increased due to the transfer of the placement business for the medical industry to the Recruiting in Japan subsegment, which was previously recorded in Corporate Expenses / Elimination (renamed this quarter to Eliminations and Adjustments). Excluding the impact of the change in intra-group transactions described in Q11, quarterly EBITDA increased 10.4% year on year.

Q13: Why did quarterly revenue in the Housing and Real Estate subsegment decrease by 1.7% year on year?

A: While revenue in the independent housing division and leasing division increased, quarterly revenue in this subsegment decreased primarily due to the absence of revenue from Recruit Forrent Insure Co., Ltd., a subsidiary which was sold in October 2017. Excluding this one-time impact of 1.6 billion yen, quarterly revenue increased 5.5% year on year.

Q14: Why did quarterly revenue in the Others subsegment in Marketing Solutions decrease 4.1% year on year?

A: As mentioned in Q1, the sale of subsidiaries in Overseas Marketing in this subsegment impacted quarterly revenue negatively. Excluding this one-time impact of 1.4 billion yen, quarterly revenue increased 5.6% year on year.

Q15: Why did quarterly revenue in the Others subsegment in HR Solutions increase 76.9% year on year？

A: This increase was mainly due to the transfer of the recruiting assessment business, which was previously managed in the Recruiting in Japan subsegment, to the Others subsegment in HR Solutions.

■Staffing

Q16: Why did quarterly EBITDA increase 18.1% year on year in Japan operations in Staffing, while revenue in Japan operations increased 7.9%?

A: This was mainly due to the improvement of productivity in the business operation, and the change in the treatment of intra-group transactions as mentioned in Q11. Excluding the impact of the change in intra-group transactions, EBITDA increased 12.2%.

Q17: Why did quarterly revenue in overseas operations in Staffing increased 0.6% year on year?

A: The application of IFRS 15 resulted in a negative impact on quarterly revenue in some overseas subsidiaries, which was recognized on a net basis instead of a gross basis. Revenue was also impacted by a decrease in transactions with existing clients due to the ongoing focus on increasing productivity and profitability by executing the principles of the Unit Management System, and the challenging business environment in the Staffing market in the United States, resulting in year-on-year revenue increase of 0.6%.
Additionally, foreign exchange rate movements positively impacted quarterly revenue by 4.6 billion yen. Excluding this impact, quarterly revenue decreased 1.8% year on year.

Q18: Why did quarterly EBITDA in overseas operations in Staffing increase 15.0% year on year?

A: EBITDA increased year on year due to a focus on cost reduction driven by the implementation and execution of the Unit Management principles and guidelines that prioritize productivity and profitability over a focus on revenue growth. As a result, although revenue increased by only 0.6%, EBITDA increased by 15.0% due to improved operating leverage. EBITDA margin also expanded year on year.