FAQ's for Q2 FY2018

Recruit Holdings Co., Ltd.

Financial Results for Q2 FY2018

■Consolidated Results

Q1: Why did the year-on-year growth rate of EBITDA increase from 9.5% in Q1 FY2018 to 13.6% in Q2 FY2018?

A: This is due to the higher growth rate in EBITDA for Media & Solutions and HR technology compared to Q1 FY2018. HR Technology contributed significantly to the EBITDA growth rate, with an increase of 69.9% in Q2 FY2018, compared to 21.6% in Q1 FY2018.

Q2: Why was the year-on-year growth rate of adjusted profit (27.4%) higher than that of profit attributable to owners of the parent (8.3%) in Q2 FY2018?

A: There were two reasons for the higher growth rate of adjusted profit compared to that of profit attributable to owners of the parent. The first reason was the lower tax exemption amount in Q2 FY2018, which led to higher growth rate in adjusted profit due to tax reconciliation compared to the same period of the last fiscal year.
The second reason was the change in the adjustment item included to calculate adjusted profit. Please refer to Q6 of FAQ's for Q1 FY2018:
https://recruit-holdings.com/who/value/post_50.html

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

[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 FY2018]

- Q1 FY2018: 29.37 yen, an increase of 8.3% from 27.12 yen, adjusted for the same items as the previous quarters.
- Q2 FY2018: 29.26 yen, an increase of 4.4% from 28.04 yen, adjusted for the same items as the previous quarters.
- 1st Half FY2018: 58.64 yen, an increase of 6.3% from 55.15 yen, adjusted for the same items as the previous quarters.

Q3: How did the acquisition of Glassdoor impact the consolidated balance sheet at the end of Q2 FY2018?

A: The completion of the acquisition of Glassdoor during Q1 FY2018 resulted in an increase in goodwill of 132.3 billion yen in the consolidated financial statement as of the end of Q1 FY2018. Recruit Holdings further evaluated the fair value based on the additional information it obtained during Q2 FY2018 and the amount of goodwill was changed to 98.3 billion yen tentatively at the end of Q2 FY2018. Recruit Holdings plans to complete the allocation of consideration paid for acquisition including the classification of goodwill based on the fair value by the end of FY2018.

Q4: How did foreign exchange rate movements impact consolidated revenue?

A: The negative impact of foreign exchange rate movements on the consolidated revenue for Q2 FY2018 was 2.9 billion yen. Foreign exchange rate movements positively impacted revenue by 0.6 billion yen for the first half of FY2018.

■HR Technology

Q5 : Please provide details regarding the revision of Indeed's results for Q1 FY2018 due to the adoption of IFRS 15. What impact will be expected for the full-year financial results for FY2018?

A: Recruit Holdings changed the accounting policies from Q1 FY2018, adopting IFRS 15. As a result, it was concluded that sales agents for some transactions should be defined as the customer, then requiring that the transaction net amount (equal to the gross amount less agency commissions earned) be recognized as revenue.
Accordingly, Recruit Holdings revised revenue of the HR Technology segment for Q1 FY2018 retrospectively, resulting in a reduction of each of Indeed's revenue and cost of sales by the same amount of 1.8 billion yen. Recruit Holdings has submitted the revision to the consolidated financial results for Q1 FY2018.
Assuming IFRS 15 was applied in Q1 FY2017 on a pro forma basis, revenue of the HR Technology segment for Q1 FY2018 on a US dollar basis would have increased 57.6% year on year*.
Please refer to the following link for further details on the revision of the results for Q1 FY2018 :
"(Revision / Revision of Numerical Data) Partial Revision to the "Consolidated Financial Results for the Three Months Ended June 30, 2018 (IFRS, Unaudited)," released on November 13, 2018:
https://recruit-holdings.com/ir/ir_news/2018/1113_03.html

*These are the financial results of operating companies in the HR Technology segment, which differ from the consolidated financial results of Recruit Holdings Co., Ltd.

Q6： Please explain the purchase accounting adjustments related to Glassdoor and how the consolidated forecasts for Glassdoor will be impacted?

A: In adjusting Glassdoor's assets and liabilities to fair market value in the business combinations accounting process after the acquisition of Glassdoor, a certain amount of revenue, which was originally planned to be recorded in its profit and loss statement of Recruit Holdings after Q2 FY2018, was recorded as a net asset in its balance sheet. This one-off impact arises from the consolidation of Glassdoor's assets and liabilities into the consolidated financial statements, with a majority of the impact expected to be realized in the current fiscal year. Further, this adjustment has no impact on Glassdoor's cash flow as it arises from the fair market valuation of the acquired assets and liabilities.

The expected financial impact from the acquisition of Glassdoor on the consolidated revenue, EBITDA, and adjusted profit for FY2018 has been updated to approximately 15.3 billion yen, -5.4 billion yen, and -4.4 billion yen, respectively. The previously announced expected impact on the consolidated revenue, EBITDA, and adjusted profit for FY2018 was 18.2 billion yen, -3.5 billion yen, and -3.5 billion yen, respectively.

Q7： Why did quarterly revenue of the HR Technology segment on a US dollar basis continue to grow strongly in Q2 FY2018? What was the year on year growth rate assuming IFRS 15 is applied to the previous fiscal year?

A: The strong revenue growth continued mainly due to increased sponsored job advertising revenue from new and existing customers at Indeed, against the backdrop of a favorable economic environment and strong labor market. In addition, the inclusion of Glassdoor in the consolidated results from July 2018 positively impacted the revenue growth rate. As a result, revenue for Q2 and 1st half FY2018 on a US dollar basis increased 55.1% and 53.5% year on year, respectively. Assuming the change in accounting policies was applied in the previous fiscal year on a pro forma basis, revenue increased 60.6% in Q2 and 59.2% in the 1st half FY2018 year on year, respectively.
Please refer to Q5 for details regarding IFRS 15.

Q8： Why did quarterly EBITDA increase 69.9% year on year in the HR Technology segment? Why did EBITDA margin increase 1.4 points to 17.4% in Q2 FY2018, with higher growth rate than in Q2 FY 2017?

A: EBITDA growth was primarily a result of strong revenue growth. In Q2 FY2018, Indeed gained scale in its sales, marketing and customer support functions, while continuing to invest aggressively in product and engineering to build enhanced functionality for job seekers and employers. As a result, EBITDA margin increased by 1.4 points year on year. The reassessed identification of a customer due to the IFRS 15 definition described in Q5 did not impact EBITDA, while negatively impacting revenue. While EBITDA margin of the HR Technology segment will fluctuate throughout the year depending on the timing of investments, it is expected to remain within the target range of 10% to 20% on an annualized basis.

Q9: What was the difference in revenue growth rate between the US and Non-US business of the HR Technology segment?

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 countries such as Japan, UK, Canada and Germany. 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 attracted approximately 250 million unique visitors per month, achieving double digit growth year on year in Q2 FY2018. Indeed's resume database grew year on year with over 120 million resumes uploaded to its platform as of the end of September 2018. As of the end of Q2 FY2018, Indeed had approximately 7,400 employees and 27 offices globally in 14 countries.

Q11: How many unique visitors did Glassdoor reach? Please also provide an update on the number of employees and offices.

A: Glassdoor attracted approximately 60 million unique visitors per month in Q2 FY2018, achieving double digit growth year on year. As of the end of Q2 FY 2018, Glassdoor had approximately 800 employees and 7 offices.

■ Media & Solutions

Q12: Why did quarterly EBITDA in Marketing Solutions increase 17.9% year on year?

A: This was largely driven by increased EBITDA in the Beauty subsegment within Marketing Solutions. In addition, there was a positive impact on quarterly 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 14.1% year on year.

Q13: Why did quarterly revenue in the Housing and Real Estate subsegment stay flat in Q2 FY2018 compared to a decrease in Q1 FY2018?

A: Recruit Forrent Insure Co., Ltd., was sold in October 2017, resulting in a year on year decrease in revenue; quarterly revenue for Q2 FY2018 increased due to the continued growth in the independent housing division and leasing division. Excluding the one-time impact of 1.7 billion yen on quarterly revenue due to the sale of the subsidiary, quarterly revenue increased 7.6% year on year.

Q14: Why did quarterly revenue and EBITDA in HR Solutions increase 8.2% and 4.0% 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 from Eliminations and Adjustments in the Media & Solutions segment. Excluding the impact of the change in intra-group transactions described in Q12, quarterly EBITDA increased 1.8% year on year.
Quarterly EBITDA growth rate was lower than revenue growth rate for Q2 FY2018, mainly due to an increased investments in advertising and in the sales force to strengthen our competitiveness.

Q15: Why did quarterly revenue in the Others subsegment in HR Solutions increase 23.0% year on year？ What is the reason for slower revenue growth rate compared to Q1?

A: Revenue increased mainly due to the transfer of the recruiting assessment business from the Recruiting in Japan subsegment to the Others subsegment in HR Solutions from Q1 FY2018. The recruiting assessment business has a seasonality in revenue trend. The revenue tends to be higher in Q1, during which many companies conduct recruiting assessments in their recruiting and hiring process. As a result, the revenue growth rate for Q2 FY2018 was lower than that for Q1 FY2018.

■**Staffing**

Q16: Why did quarterly revenue in Japan operations in Staffing increase 7.0% 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 its registered agency workers and new staffing contracts, as well as extending existing staffing contracts. As a result, quarterly revenue increased year on year.

Q17: Why did quarterly EBITDA in Japan operations in Staffing decrease compared to that for Q1?

A: EBITDA decreased due to an increased investment mainly in advertisement to attract more potential agency workers in order to maintain revenue growth. The timing of these marketing investments was concentrated in this quarter.
Further, Japan operations in the Staffing segment 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 decreased 2.0% year on year.

Q18: Why did quarterly revenue in overseas operations in Staffing decrease 3.7% year on year?

A: Revenue decreased due to the negative impact of foreign exchange rate movements of 3.2 billion and the adoption of IFRS 15 on quarterly revenue of 4.0 billion. Excluding these impacts, the quarterly revenue was flat year on year.

Q19: Why did quarterly EBITDA growth in overseas operations in the Staffing segment decrease to 3.9%, compared to an increase of 15.0% in Q1 FY2018?

A: EBITDA was negatively impacted mainly by an increase in investments to simplify the operational governance model in Europe to improve future productivity. Overseas operations continued to focus on the implementation of the Unit Management System to increase profitability.