FAQ's for Q3 FY2018

Recruit Holdings Co., Ltd.

Financial Results for Q3 FY2018

* We refer to the financial results for Q3 FY2018, unless otherwise stated.

■ Consolidated Results

Q1: Why was the year-on-year growth rate of profit before tax (23.7%) higher than that of operating income (12.6%) in Q3 FY2018?

A: This is primarily due to an increase in share of profit of associates and joint ventures of Recruit Holdings in Q3 FY2018, mainly resulting from an increase in net income of 51job, Inc., an equity-method affiliate of Recruit Holdings. 51job, Inc. recognized a non-cash gain associated with a change in fair value of its convertible senior notes mainly resulting from changes in its stock price.

Q2: Why was the year-on-year growth rate of adjusted profit (26.3%) higher than that of profit attributable to owners of the parent (14.7%) in Q3 FY2018?

A: This is mainly due to the lower tax exemption amount in Q3 FY2018. The tax exemption amount was higher in Q3 FY2017 mainly resulting from tax reforms in the US and European countries. This led to higher growth rate in adjusted profit in Q3 FY2018 due to tax reconciliation compared to 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

Q3: How did the acquisition of Glassdoor impact the consolidated balance sheet at the end of Q3 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 Q3 FY2018 and the amount of goodwill was changed to 99.6 billion yen tentatively at the end of Q3 FY2018. Recruit Holdings plans to complete the allocation of consideration paid for the 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 in Q3 FY2018?

A: The negative impact of foreign exchange rate movements on the consolidated revenue for Q3 FY2018 was 6.3 billion yen. Foreign exchange rate movements negatively impacted consolidated revenue by 5.6 billion yen for FY2018 nine-month period.

■ HR Technology

Q5: Why did quarterly revenue on a US dollar basis continue to grow strongly in Q3 FY2018?

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, revenue from Glassdoor, which was acquired during Q1 FY2018, positively impacted the revenue growth rate this quarter. As a result, revenue for Q3 FY2018 on a US dollar basis increased 48.2% year on year. Assuming the reassessed identification of a customer due to the IFRS 15 definition (*) was applied in the previous fiscal year on a pro forma basis, revenue increased 53.7% year on year on a US dollar basis.

(*) Please refer to FAQ No.5 for Q2 FY2018 for details:
https://recruit-holdings.com/ir/library/upload/report_201902_fq_en.pdf

Q6: Why did quarterly EBITDA increase 84.9% year on year? Why did EBITDA margin increase 300 basis points to 15.4% year on year?

A: EBITDA growth was primarily a result of the strong revenue growth. In Q3 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 300 basis points year on year. The reassessed identification of a customer due to the IFRS 15 definition did not impact EBITDA, while negatively impacting revenue. While the EBITDA margin of the HR Technology segment is expected to 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.

Q7: What was the difference in revenue growth rate between the US and Non-US business of the HR Technology segment?

A: The HR Technology segment continued to achieve strong revenue growth in the US, but, due to the earlier stages of market penetration, the revenue growth rate outside the US in aggregate continued to outpace that of the US, driven by key markets such as Japan, UK, Canada and Germany. We do not disclose revenue by regions.

Q8: How many unique visitors did Indeed reach? 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 double digits year on year in Q3 FY2018. Indeed's resume database grew year on year, with over 150 million resumes uploaded to its site as of the end of December 2018. As of the end of Q3 FY2018, Indeed had approximately 8,000 employees located in 29 cities in 14 countries.

Q9: How many unique visitors did Glassdoor reach? Please also provide an update on the number of employees.

A: Glassdoor attracted approximately 64 million monthly unique visitors and traffic grew double digits year on year in Q3 FY2018. As of the end of Q3 FY 2018, Glassdoor had approximately 800 employees.

■ Media & Solutions

Q10: Why did quarterly revenue and EBITDA in Marketing Solutions increase 7.9% and 11.6% 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 largely driven by increased revenue. 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 8.5% year on year.

Q11: Why did quarterly revenue in the Housing and Real Estate subsegment increase 12.8% year on year?

A: There was no impact from the sale of a subsidiary in the Housing and Real Estate subsegment in Q3 FY2017. Revenue growth in the independent housing division and leasing division was primarily a result of continued improvements to the user experience on its online platform, marketing efforts to attract more users to the platform, and sales initiatives to offer solutions to clients.

Q12: Why did quarterly revenue and EBITDA in HR Solutions increase 7.5% and decrease 0.2% year on year, respectively?

A: Revenue increased in the Recruiting in Japan subsegment as a result of solid performance in the professional recruiting business. EBITDA growth rate was lower than revenue growth rate for Q3 FY2018, mainly due to the increased investments in advertising and in the sales force to strengthen competitiveness.
Excluding the impact of the change in intra-group transactions described in FAQ No.10, quarterly EBITDA decreased 2.1% year on year.

Q13: Revenue in the Recruiting in Japan increased 5.9% year on year, but what is the revenue growth rate excluding the impact of special factors?

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 Q3 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 factors above, revenue increased 8.2% year on year.

■ Staffing

Q14: Why did quarterly revenue and EBITDA in Japan operations increase 7.8% and 26.6% year on year, respectively?

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 a result, quarterly revenue increased year on year.
EBITDA grew as a result of revenue growth in the staffing business and an increase in placement fee revenue, which has higher profitability than staffing revenue, as a result of revisions to Japanese laws which encouraged corporate clients to hire agency workers directly. 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 19.8% year on year.

Q15: Why did quarterly revenue and EBITDA in overseas operations decrease 7.4% and increase 1.2% year on year, respectively?

A: Revenue decreased primarily due to an uncertain outlook for the European economy, the negative impact of foreign exchange rate movements and the adoption of IFRS 15 of 6.1

billion yen and 4.0 billion yen, respectively. Excluding the impacts of foreign exchange rate movements and the adoption of IFRS 15, the quarterly revenue decreased 2.5% year on year.
EBITDA grew as a result of the continued focus on decreasing costs and increasing productivity.

<u>Consolidated Financial Forecast for FY2018</u>

Q16: Please describe the current expectation for the full-year financial forecasts for FY2018, based on favorable Q3 results.

A: There is no revision to the financial forecasts for FY2018 due to the possibility of variances to forecasts in Q4 FY2018. In view of the recent performance, the financial results for FY2018 are expected to exceed the original forecasts previously announced on May 15, 2018.

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