

FAQ's for Q4 and FY2019

Recruit Holdings Co., Ltd.

In this document, the terms the “Company,” “Recruit Group,” “we,” and “our” refer to Recruit Holdings Co., Ltd. and its subsidiaries unless otherwise indicated. The “Holding Company” refers to Recruit Holdings Co., Ltd. (“Recruit Holdings”) on a standalone basis. SBU stands for strategic business unit.

Recent Highlights

Q1: How has COVID-19 affected your financial performance?

A: Due to a significantly uncertain outlook caused by the global spread of COVID-19, economic activity, including consumer and business activity, has been negatively affected globally, including in Japan. As a result, beginning in March 2020 the Company’s revenue and profits across all three businesses were negatively impacted and may be further negatively impacted in future periods.

HR Matching businesses, which are comprised of HR Technology and Staffing, and the HR Solutions in Media & Solutions, have been negatively affected, as employers have turned cautious on hiring while assessing the current economic situation and adapting to social distancing and other restrictions in many countries around the world.

Also, Marketing Solutions, in Media & Solutions, has also been negatively affected by reduced demand for advertising services, especially in the Travel, Dining and Bridal businesses as a result of the state of emergency and shelter-in-place request in Japan.

The Company has experienced a continued adverse impact on its business from the global spread of COVID-19, with consolidated revenue decreasing approximately 21%(*1), year on year in April 2020.

HR Technology year on year monthly revenue(*2), on a US dollar basis, increased approximately 26% and 4% in February and March 2020 respectively, and decreased 35% in April 2020. Revenue began to stabilize in mid-April, although the future outlook contains significant uncertainty.

Media & Solutions revenue (*2) (*3) in February 2020 increased approximately 5%, in March 2020 decreased approximately 10%, and in April decreased approximately 23% year on year.

Staffing revenue (*2) in February, March, and April 2020 was up by approximately 0.1%, by approximately 0.2% and down by approximately 12% year on year respectively.

(*1) Monthly revenue reporting represents the unaudited financial results of operating companies as reported on a monthly basis (before applying intercompany eliminations or adjustments), which may differ in certain material respects from the consolidated financial results of the Company reported under IFRS. Accordingly, monthly revenue figures are not comparable to consolidated revenue reported by the Company and should not be regarded as a substitute for the consolidated financial results of the Company.

(*2) Monthly revenue reporting represents the unaudited financial results of operating companies as reported on a monthly basis (excluding the impact from foreign exchange rate movements and before applying intercompany eliminations or adjustments), which may differ in certain material respects from the consolidated financial results of the Company reported under IFRS. Accordingly, monthly revenue figures are not comparable to consolidated revenue reported by the Company and should not be regarded as a substitute for the consolidated financial results of the Company.

(*3) The impact of the change in timing of revenue recognition is excluded.

Q2: What is the Company's short-term strategy against the potential negative impact to revenue and profit resulting from the global spread of COVID-19?

A: We plan to continue to invest in the area of our mid- to long- term strategy, while controlling costs according to business situations, such as advertising and marketing expenses in HR Technology and Media & Solutions.

Q3: In Japan operations in Staffing, how does compensation for lost income for temporary staff affect your cash on hand as the number of companies which close their business due to COVID-19 increases?

A: If temporary staff are idled due to the suspension of enterprise clients' business during the contract period, the Company is required to pay compensation to the temporary staff workers, but this cost is expected to be charged back to the enterprise clients based on the individual dispatch contracts. If enterprise clients are unable to pay for the compensation for the lost income, we may consider applying for Japanese government subsidies for employment adjustment, which support companies trying to maintain employment in a challenging business environment. As a result, we believe there is a limited chance that our cash on hand will be impacted.

Q4: What is your consolidated financial guidance for FY2020?

A: Due to the uncertainty and rapidly evolving conditions around the world, the Company is unable at this time to reliably predict the impact that the global spread of novel COVID-19 will have on its FY2020 financial performance. The Company plans to provide consolidated financial guidance for FY2020 when the Company is able to reasonably estimate the impact of the global spread of COVID-19 on its business. Based on the broad impact on business performance, the global spread of COVID-19 may continue to impact performance in Q2 FY2020 and beyond.

Q5: What is your dividend forecast for FY2020?

A: Per the Company's Dividend Policy, the consolidated dividend payout ratio is set at approximately 30% of profit attributable to owners of the parent excluding non-recurring income/losses. As previously discussed the Company is unable at this time to reliably predict the FY2020 financial performance, hence the dividend forecast will also not be disclosed at this time.

Mid- to Long- Term Strategy

Q6: There is concern about the impact on business performance due to the spread of COVID-19. Is this resulting in any change in your mid- to long-term strategy? Has the situation forced you to delay strategic investments?

A: There are no changes regarding our mid- to long-term strategy: "Aim to become the global leader of the HR Matching market" and "Improve productivity of clients' businesses through software as a service ("SaaS") solutions with a focus on Air BusinessTools".

In a world with COVID-19, we are adapting our offerings to develop more convenient and efficient matching solutions that address changes in individual users' job search and/or consumption activities, and changes in employers' hiring needs and business environment.

We will continue to actively invest in these priority areas in order to achieve long-term business growth and corporate value improvement.

Q7: Will the Company's strategy of focusing on the growth of the HR Matching business, and the size of that opportunity, change due to the current and future risk of a global recession?

A: We believe there will be no changes regarding the strategy that we've previously discussed. The Company continues aiming to become the global leader in the HR Matching market, for which the Company estimates annual revenue to be over 159 billion US dollars (*1), by utilizing innovation and creativity driven by technology.

The Company believes the size of the global HR Matching market will decrease significantly in the near-term, including in 2020 due to the impact of the COVID-19 pandemic as revenue in the HR Matching market tends to be highly correlated with overall economic growth as well as conditions in labor markets. However, the resulting uncertainty and rapidly evolving conditions around the world prevent the Company from reliably predicting the magnitude of the negative impact on the HR Matching market in 2020 or subsequent years. During these unprecedented times, the Company remains fully committed to supporting job seekers and employers through its resources and technology. The Company will continue to invest proactively and strategically to become a global leader in the HR Matching market in the mid- to long-term.

(*1) Sum of the estimated size of addressable markets for the job advertising & talent sourcing tools market and the placement & search market in terms of annual revenue, and that for the temporary staffing market in terms of annual gross profit by the Company.

Q8: Why is the expansion of Air BusinessTools a strategic focus?

A: The Company believes there is a sizable long-term growth opportunity to provide operational support services empowered by technology, that is delivered through SaaS solutions to help improve productivity for SMEs in Japan.

The Company believes this opportunity may accelerate during the challenging business environment caused by COVID-19, as SMEs have been significantly impacted and need to reduce their day-to-day operational costs, which is the primary value provided by Air BusinessTools.

The Company aims to solve various challenges SMEs face every day in their business operations by providing Air BusinessTools across a variety of categories in Japan.

Q9: What will drive the future growth of Air BusinessTools?

A: We place great importance on the total number of accounts, a primary KPI, for SaaS solutions including Air BusinessTools.

Air BusinessTools is focused on increasing the number of accounts by leveraging the Company's strong market position and relationships with existing clients while at the same time attracting new SME clients through online media and other channels.

Recently, the number of accounts for AirPAY, a SaaS solution for accepting cashless payments, has significantly increased, supported by the Japanese government initiative, to encourage individual users and business owners to accept cashless payments in conjunction with the consumption tax hike. AirPAY had approximately 149,000 accounts as of March 2020, an increase of 167% compared to March 2019. We estimate this current market penetration represents roughly 5% of the number of potential customers of Air BusinessTools in Japan (*1), potentially signaling that there is still plenty of room for expansion.

An increasing number of clients who use AirPAY have also subscribed to other Air BusinessTools solutions. Among the approximately 149,000 AirPAY accounts as of March 2020, approximately 102,000 accounts have also subscribed to other Air BusinessTools solutions. The Company believes the growth in AirPAY accounts will lead the overall growth of Air BusinessTools accounts.

(*1) The Company estimated the number of business locations and stores that can use Air BusinessTools by first identifying the total number business locations and stores of small and medium-sized enterprises in Japan (using the definition used by the Small and Medium Enterprise Agency) based on the 2016 Economic Census for Business Activity conducted by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry. The Company then estimated the number of these business locations and stores that could use Air BusinessTools by aggregating the number of all such business locations and stores operating in all industries in which there were 20 or more existing Air BusinessTools registered accounts (including non-active accounts) as of March 31, 2020. As the Company has estimated such business locations and stores

based on data for 2016, it is possible that the estimated number of such business locations and stores would materially differ based on more recent data. In addition, while the estimated number of such business locations and stores that can use Air BusinessTools is based on the number of all business locations and stores in all industries in which there were 20 or more existing Air BusinessTools registered accounts, there can be no assurance that all such business locations and stores would in fact have a need for the solutions offered by Air BusinessTools.

Financial Health

Q10: Does the Company believe it is in a strong financial position?

A: Yes. The goal of the Company's financial policy is to maintain a strong consolidated financial position resulting in appropriate credit ratings. Financing through borrowing is utilized as necessary to achieve the goals of this policy. As of March 31, 2020, the balance of cash and deposits was 421.2 billion yen, and the balance of interest-bearing debt was 136.6 billion yen (of which the interest-bearing debt with payments due within 1 year was 25.8 billion yen).

The Company believes it is important to maintain a sufficient level of shareholders' equity in order to be able to respond flexibly to investment opportunities for future growth, while at the same time enhancing its ability to address possible risks relating to its business operations and assets. Equity attributable to owners of the parent was 988.4 billion yen and the ratio of equity attributable to owners of the parent to total assets was 49.4% as of March 31, 2020.

The Company has also entered into overdraft agreements with four financial institutions to secure liquidity and raise working capital funds efficiently. The maximum amount of borrowings under these overdraft agreements was 113 billion yen as of March 31, 2020, and the entire amount remains unused.

In addition, the Company entered into a committed credit facility agreement providing for with a total maximum borrowing amount of 399.9 billion yen on April 30, 2020. The entire amount available under these credit facilities remains unused as of May 27, 2020. The Company maintains agreements with the aim of ensuring sufficient liquidity in the event of significant changes in the business environment.

Financial Result for Q4 and FY2019

Consolidated Results

Q11: How do you evaluate the consolidated results for FY2019 against your earlier guidance?

A: For FY2019, we met our revised financial guidance announced on Feb 14, 2020 of increases in both revenue and adjusted EBITDA in HR Technology and Media & Solutions, exceeded our adjusted EBITDA guidance of 320 billion yen, and exceeded our high single-digit growth guidance for consolidated adjusted EPS as we announced on May 2019.

For HR Technology, on a US dollar basis, revenue growth for FY2019 was 32.7% year on year, almost achieving our original expectation of approximately 35%. Also, the financial results of Media & Solutions and Staffing were in line with our guidance, with increases in both revenue and adjusted EBITDA for Media & Solutions and decreases in both revenue and adjusted EBITDA for Staffing.

For each business, overall results were in line with our guidance, other than the revenue decrease in HR Solutions in Media & Solutions which was expected to increase by low single-digits. COVID-19 impacted HR Solutions as many enterprise clients were cautious in their recruiting activities, resulting in a decline in revenue.

Q12: Why was there an operating loss of 6.2 billion yen while revenue increased by 1.6% year on year?

A: The Q4 FY2019 consolidated operating loss included goodwill and intangible asset impairment losses of 31.0 billion yen primarily related to the overseas operations of Marketing Solutions of Media & Solutions, and the Australian operations of Staffing. Excluding impairment losses, consolidated operating income for Q4 FY2019 was 24.7 billion yen. This was a decrease of 19.9% year on year, mainly due to an increase in depreciation related to expansion of business operations and other one-off expenses.

Q13: What is the background of the impairment losses in the financial statements? Please disclose the amount of goodwill as of March 31, 2020.

A: Due to changes in investment priority in Media & Solutions, Hotspring Ventures Limited, the entity that operates Treatwell, the European beauty business, recorded a goodwill impairment losses of 14.5 billion yen. Quipper Limited, an online learning support platform for students, recorded 2.3 billion goodwill impairment losses, as a result of reviewing the business plan to reflect the changes in the business environment beyond the impacts of COVID-19 as of March 2020. A total of 18.1 billion yen was recorded as goodwill and intangible asset impairment losses for Media & Solutions. For Quandoo GmbH, the European dining business, no goodwill remains.

Staffing recorded impairment losses of 12.8 billion yen for Q4 FY 2019 including goodwill impairment of 7.8 billion yen for Chandler Macleod Group Limited in Australia and an intangible asset impairment of 3.8 billion yen for USG People Germany GmbH. These were mainly due to decreased future cash flow forecasts as a result of revised business projections, reflecting business performance in FY2019 which was negatively affected by an uncertain economic outlook in the markets such businesses operated, as well as the expectation that the negative impact caused by COVID-19 will continue for a certain period of time.

The Outstanding amount of goodwill for each SBU as of March 31, 2020 is below:

	(billion yen)
	Outstanding Goodwill
HR Technology	196.4
Media & Solutions	1.8
Japan	-
Overseas	1.8
Staffing	184.8
Japan	27.7
North America	13.9
Europe	137.6
Australia	5.5
Total	383.1

Q14: What is the summary of Q4 FY2019 results for each segment?

A: For HR Technology, on a US dollar basis, reported revenue growth was 19.4% (*1) in Q4 FY2019. Due to the spread of COVID-19, the worldwide demand for recruitment decreased starting in March, and as a result,

the year on year revenue growth rate slowed considerably in March. HR Technology continued to invest heavily for future growth during the fourth quarter as planned, particularly in January and February, which led to an adjusted EBITDA margin of 7.9%.

For Marketing Solutions in Media & Solutions, though COVID-19 impacted travel and dining businesses, total revenue increased by 7.5%. However, adjusted EBITDA declined by 1.4% due to increased marketing investments such as advertising expenses. The timing of marketing investments fluctuates on a quarterly basis.

For HR Solutions, demand for recruitment from enterprise clients decreased which resulted in a 8.6% decrease in revenue. However adjusted EBITDA increased by 5.0% as a result of controlling marketing investments.

For Japan operations in Staffing, by focusing on increasing the number of newly registered staff members and acquiring new staffing contracts, revenue increased by 7.7%. Additionally, by controlling marketing investments, a 53.7% increase in adjusted EBITDA was achieved.

For Overseas operations in Staffing, in addition to the continued uncertain business sentiment in Europe, the global economic outlook deteriorated due to COVID-19 and resulted in a 9.8% decrease in revenue and a 15.0% decrease in adjusted EBITDA. Revenues excluding the effects of foreign exchange were down by 5.7%.

(*1) 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.

Forward-Looking Statements

This document contains forward-looking statements, which reflect the Company's assumptions and outlook for the future and estimates based on information available to the Company and the Company's plans and expectations as of the date of this document or other date indicated. There can be no assurance that the relevant forecasts and other forward-looking statements will be achieved. Please note that significant differences between the forecasts and other forward-looking statements and actual results may arise due to various factors, including changes in economic conditions, changes in individual users' preferences and enterprise clients' needs, competition, changes in the legal and regulatory environment, fluctuations in foreign exchange rates, and other factors. Accordingly, readers are cautioned against placing undue reliance on any such forward-looking statements. The Company has no obligation to update or revise any information contained in this document based on any subsequent developments except as required by applicable law or stock exchange rules and regulations.

Third-Party Information

This document includes information derived from or based on third-party sources, including information about the markets in which we operate. These statements are based on statistics and other information from third-party sources as cited herein, and the Company has not independently verified and cannot assure the accuracy or completeness of any information derived from or based on third-party sources.