FAQ's for Q4 FY2020

Recruit Holdings Co., Ltd.

Consolidated Financial Guidance and Dividend Forecasts for FY2021

Q1. What are the assumptions for FY2021 consolidated financial guidance?

Although the vaccination rollout has progressed and some industries and countries, including the US, are experiencing recent strength in hiring demand and increased consumer spending, the spread of new COVID-19 variants continues. As a result the Company expects the global economy's recovery and stabilization will be gradual.

In Japan, the outlook for the timing and speed of the economic recovery continues to be uncertain due to the reimplementation of a state of emergency and the slow rollout of vaccines compared to the US and Europe.

In addition, the Company's business environment continues to evolve rapidly, making forecasting difficult, as restrictions in some countries have variously been relaxed and reintroduced. Therefore the Company's outlook remains cautious and FY2021 guidance is based on the assumption that long-term stagnation of economic activities caused by new large scale lockdowns and states of emergency will not occur during FY2021.

	FY2019	FY2020		FY2021	
(In billions of yen, unless otherwise stated)	Actual	Actual	Year on year % change	Guidance	Year on year % change
Revenue (excluding the Rent Assistant Program)	2,399.4	2,269.3 (2,190.3)	-5.4% (-8.7%)	2,450.0 - 2,600.0	8.0% - 14.6%
Adjusted EBITDA	325.1	241.6	-25.7%	270.0 - 335.0	11.7% - 38.6%
Operating income	206.0	162.8	-21.0%	180.0 - 245.0	10.5% - 50.5%
Profit before tax	226.1	168.5	-25.5%	185.0 - 250.0	9.8% - 48.4%
Profit for the period	181.2	131.6	-27.3%	140.0 - 190.0	6.3% - 44.3%
Profit attributable to owners of the parent	179.8	131.3	-27.0%	140.0 - 190.0	6.6% - 44.6%
Adjusted EPS (yen)	121.03	82.56	-31.8%	95.51 - 126.10	15.7% - 52.7%

Assumptions of the foreign exchange rates for the consolidated financial guidance for FY2021 are as follows: 108 yen per US dollar, 130 yen per Euro, 84 yen per Australian dollar.

The Rent Assistance Program, from which the Company recorded 79.0 billion yen of revenue, was completed in FY2020, and therefore there will be no financial impact from the program in FY2021.

Q2. What is the SBU level financial guidance for FY2021?

The guidance for FY2021 for the three segments is provided below.

(In billions of yen, unless otherwise stated)			FY2019 Actual	FY2020 Actual	FY2020 Year on year % change	FY2021 Guidance
HR Technology	Revenue (million US dollars)		3,907	3,993	2.2%	approx. +40% - +50% yoy on a USD basis
	Adjusted EBITDA margin		16.8%	15.8%	-1.0pt	approx. 20%
Media & Solutions	Revenue	Marketing Solutions (excluding the Rent Assistant Program)	438.5	456.0 (376.9)	4.0% (-14.0%)	Compared to excluding the Rent Assistance Program approx. -3% - +9% yoy
		HR Solutions	314.1	214.0	-31.9%	approx. +13% - +24% yoy
	Adjusted EBITDA margin		24.2%	15.9%	-8.3pt	Similar to FY2020
Staffing	Revenue	Japan	567.8	569.9	0.4%	Similar to FY2020
		Overseas	680.3	628.8	-7.6%	approx. +5% - +10% yoy
	Adjusted EBITDA margin		6.5%	6.4%	-0.2pt	Similar to FY2020

Q3. Why aren't dividend forecasts for FY2021 provided? Has the dividend policy changed?

The Company's primary use of capital is to invest for its long-term business strategy in order to achieve sustainable profit growth and increase enterprise value. The Company believes that this approach will contribute to the common interests of shareholders. The Company also considers the return of capital to its shareholders in the form of dividends to be an important part of its capital allocation strategy, next to the investment in existing businesses for future growth. The Company strives to continue stable dividends considering its long-term cash need and financial position forecast.

Dividend forecasts for FY2021 are not provided because the Company expects the global economy's recovery and stabilization, especially in Japan, will be gradual and the outlook for the timing and speed of economic recovery continues to be uncertain.

Business Strategies

Q4. How did the pandemic impact the HR matching addressable markets in 2020? Please explain how the HR Matching TAM has changed compared to prior years, particularly the Recruitment Automation market, and how you plan to address it.

The size of the Company's measurable HR Matching Total Addressable Market ("TAM") contracted in 2020 due to the impacts of COVID-19 on the hiring activities of employers globally. Please see the chart below which compares the estimates provided by the Company to measure the TAM in 2019 and 2020 for the details of this impact. Additionally, the Company has decided to break out the Direct Hire and Retained Search components of Placement & Search, as we currently believe these markets may be addressed by different products in the future.

HR Matching addressable markets (estimated)[1]		2019 (USD billions)	2020 (USD billions)
Job Advertising and Talent Sourcing		21	19
Placement & Search	Direct Hire	55	26
	Retained Search		19
Temporary Staffing (Net)		82	67
Total Addressable Market ("TAM")		**$159**	**$131**
Additional Recruitment Automation		N/A	N/A

[1]See earnings release for details of sources

In particular, the Company has identified, but not quantified, the Recruitment Automation market, consisting of the combination of Direct Hire and the internal resources at companies and other employers to source, screen, schedule and conduct interviews, and otherwise evaluate and disposition job candidates. This market is currently being addressed by the Indeed Hiring Platform and is a focus of HR Technology's role in achieving the Company's first strategic pillar, "Simplify Hiring." While we have not yet been able to quantify the Recruitment Automation market, we believe there is significant opportunity to automate certain manual processes and methods used by both external and internal hiring resources.

Q5. Please explain more about the strategy in Media & Solutions SBU to improve the performance and productivity of business clients in Japan through providing online platforms and vertical/horizontal SaaS solutions and to build an ecosystem that supports business operations.

The Company aims to improve the performance and productivity of business clients in Japan by providing online platforms and SaaS solutions, which are operational and management support tools that utilize technology and data. By transforming the services Marketing and HR Solutions have been providing to the business clients, the Company is building an ecosystem that supports business operations such as customer acquisition, customer relationship management, hiring, workforce management, and payments.

Q6. Will Media & Solutions continue to aim for the growth of its advertising businesses in a stable manner while maintaining the overall profitability of the segment?

Media & Solutions focuses on improving performance and productivity of business clients in Japan through vertical and horizontal SaaS solutions to both new and existing business clients, in addition to its existing matching platforms. This requires additional investment in research and development of SaaS solutions. So, as Media & Solutions' focus has shifted to long-term business growth supported by proactive investment, maintaining the short-term profitability level of this SBU is no longer central to our long-term strategy. The number of registered SaaS solution accounts in Japan continues to be the most important KPI, and as of March 31, 2021, the total number of registered SaaS solution accounts exceeds the total number of matching platform accounts.

Q7. What is the reason why you added ”Prosper Together - Seek sustainable growth shared by all stakeholders” as a third pillar of your corporate strategies?

The Company has grown by solving social issues through our businesses throughout our history.
Currently the world is facing widening social and economic disparity due to the spread of COVID-19. In an environment of high uncertainty, the Company believes that making a positive impact on society is critical to achieving sustainable growth, and therefore has set specific targets for environmental, social and governance (ESG) matters as a corporate strategy.

For the environment, we aim to achieve carbon neutrality by reducing greenhouse gas (GHG) emissions to address climate change issues, as a material foundation for our corporate activities.

For social, the Company has made commitments to society to solve issues in the labor market, and this work will begin with Indeed, which leads our HR Matching strategy, during FY2021. The Company also made a commitment to employees, and set specific targets related to gender diversity. Other diversity and inclusion and employee engagement considerations will also be addressed as a material foundation of corporate activities and will proceed with initiatives accordingly.

For governance, the Company has set a target aiming to enhance gender diversity in members of the Board of Directors, which include Audit & Supervisory Board members, and has also decided to incorporate ESG factors into Executive Compensation beginning in FY2021.

Consolidated

Q8. What are the main reasons for the 44.4% decrease of adjusted EBITDA for Q4 FY2020 while revenue increased 4.0% year on year?

Consolidated revenue for Q4 FY2020 excluding revenue from the Rent Assistance Program increased 0.8% year on year. Although revenue in the HR Technology segment increased, revenue in the Media & Solutions segment and Japan operations in the Staffing segment decreased.

Due to proactive investments for future growth in all three segments made in Q4, consolidated adjusted EBITDA decreased significantly.

Q9. What are the main reasons for the significant fluctuation in other operating income and expenses in Q4 compared to the same period of the prior year?

Other operating income increased by 11.0 billion yen year on year. This was mainly due to the sale of the Recruit Ginza 8 Building in February 2021 which resulted in the recording of 9.6 billion yen of other operating income. As part of the examination of efficient asset management, which had been carried out periodically, we decided to sell this building and lease it instead. Additionally, other operating expenses decreased by 37.8 billion yen year on year. This was mainly due to the recording of 31.0 billion yen of goodwill and impairment losses on intangible assets in Q4 FY2019.

Q10. The outlook for the business environment continues to be uncertain. Does the Company have sufficient liquidity on hand?

As of the end of Q4 FY2020, cash and cash equivalents on a consolidated basis were 501.0 billion yen. Net cash, the amount calculated by subtracting interest-bearing debt from cash and cash equivalents, was 388.2 billion yen, an increase of 103.7 billion yen compared to the end of FY2019. Although the Company maintains its strong cash position, in order to ensure the liquidity and flexible financing capability, the Company has registered corporate bonds for potential issuance and entered into overdraft agreements and a credit facility agreement. As of May 17, 2021, all of them remain unused. The Company believes it can ensure sufficient liquidity in the event of significant changes in the business environment.

HR Technology

Q11. Please explain the dynamics driving the quarterly HR Technology revenue performance in an environment with muted job seeker activity.

Revenue increased 23.3% during the quarter due to a surge in hiring demand from small and medium sized businesses in the US, as businesses reopened, expanded operations or created new businesses. For the fiscal year, approximately 75% of HR Technology revenue was from business clients in the US. The labor market is recovering more quickly in certain countries and regions, particularly the US, and in certain industries. By March 26, 2021, job postings on Indeed in the US were 13.5% above the February 1, 2020, the pre-pandemic baseline after adjusting for seasonal variations (see HiringLab.org).

At the same time, job seeker activity continued to be constrained by factors including the fear of contracting COVID-19 and childcare responsibilities, while government financial support may have played an increasing role in job seeker search behavior. This created an imbalance between the number, type and location of jobs offered by employers and the number of people seeking those jobs. The imbalance in the labor market led to competition on Indeed and Glassdoor, resulting in an increased number of sponsored jobs from new and existing customers, and ultimately driving an increase in quarterly revenue.

Q12. You mentioned that job seeker activity on Indeed and Glassdoor was dampened in Q4, a continuation of trends seen in Q3. What measures are you looking at to indicate this?

Job seeker activity is measured by analyzing visits, searches, clicks, and applies among other measures across all of HR Technology’s online job platforms. There are several factors depressing broad job seeker search behavior in the overall labor market, as previously outlined in Q11, and these dynamics have also been reflected in all measures of job seeker activity on Indeed and Glassdoor. As vaccines are rolled out, schools reopen, and efforts to mitigate the spread of COVID-19 and related government stimulus measures are eased, we may see job seeker activity in the overall labor market and on HR Technology's platforms increase.

Q13. What are the factors that HR Technology guidance was based on for FY2021?

We expect revenue to continue to be supported by the imbalance between job seeker activity and employers’ hiring demand through Q1 FY2021, with significant uncertainty in the global labor market making it difficult to foresee at this moment when a more balanced labor market will be achieved in many countries, and what impact that will have on revenue performance for the remainder of the fiscal year.

Our guidance assumes a rebalancing is likely to occur beginning in Q2 FY2021 as vaccines are administered globally, schools reopen, and government financial support for individuals lessens. At the same time, in some countries where there has not yet been a resurgence in hiring, such as in Japan, it is less clear when the demand for hiring will return to pre-pandemic conditions. Based on these factors and assumptions, we expect revenue growth for FY2021 to increase by 40% to 50%.

In this uncertain environment, HR Technology remains focused on achieving its goals of the Company’s first strategic pillar, “Simplify Hiring.” This means we expect to increase hiring of engineers and other technical employees throughout the year so that we can effectively go after the significant TAM opportunities. This focus on our long term goals means we will also continue to proactively invest in Sales and Marketing to drive user and customer acquisition, and to achieve long term growth.

The timing of these investments, combined with the continued strong revenue performance outlined above, is expected to result in higher adjusted EBITDA margins in Q1 FY2021. However, we expect adjusted EBITDA margins to decrease in the subsequent quarters of the fiscal year, resulting in an adjusted EBITDA margin to be approximately 20% for FY2021.

Media & Solutions

Q14. What is the background to the adjusted EBITDA margin of 4.1% in the Media & Solutions SBU for Q4 FY2020, which was reflected in the significant year-on-year decrease in adjusted EBITDA of 78.8% compared to the same period of the previous year despite a revenue decrease of 7.0% year on year?

Adjusted EBITDA for Q4 FY2020 was 7.2 billion yen, a decrease of 78.8% year on year. Adjusted EBITDA margin was 4.1%. In addition to the 7.0% year on year decrease in revenue, the significant decrease in adjusted EBITDA and adjusted EBITDA margin was due to an increase in costs related to the reorganization of the Media & Solutions SBU completed on April 1, 2021, an increase in allowance for doubtful accounts in Q4 FY2020 due to negative impacts of COVID-19, as well as strategic and proactive marketing investments in anticipation of future growth in FY2021 and beyond in both Marketing Solutions and HR Solutions.

Q15. The Company anticipated potentially weak performance for Housing & Real Estate in Q4 FY2020 due to a decrease in the number of properties which were available for sale, so why did revenue increase 7.2% year on year?

Although demand for the advertisement of newly built condominiums decreased sequentially due to a continuing decline in the number of properties available for sale, advertising demand for newly built and existing properties and rental properties increased compared to Q4 FY2019, resulting in a revenue increase of 7.2% year on year.

Q16. What factors is Media & Solutions guidance for FY2021 based on?

Revenue for Marketing Solutions for FY2021 is expected to be in the range of a decrease of approximately 3% to an increase of approximately 9% year on year compared to revenue in FY2020 excluding the Rent Assistance Program. For FY2021, Housing & Real Estate and Beauty are expected to continue stable performance, while the expected timing of revenue recovery in Travel and Dining is uncertain due to negative impacts of the repeated states of emergency in Japan. The challenging business environment is expected to continue for Bridal.

Revenue for HR Solutions is expected to be in the range of an increase of approximately 13% to 24% year on year. The part-time job advertisement business is expected to recover from mid to late FY2021 as hiring demand in the dining industry which has been negatively impacted by the state of emergency in Japan during Q1 recovers. The placement service also is expected to recover gradually.

For FY2021, Media & Solutions is accelerating its investments for future growth in marketing and product developments to realize its long-term business strategy with a similar level of adjusted EBITDA margin in FY2020 while expecting to control operating expenses if the business environment deteriorates or there is a delayed recovery.

Staffing

Q17. For Japan operations, why was Q4 adjusted EBITDA margin, 2.7%, lower than recent quarters?

The number of temporary staff continuously decreased year on year during Q4 before leveling off, and so in anticipation of future growth Japan operations increased investments in advertising to attract temporary staff and business clients, with additional investments made to improve remote work capabilities, all of which led to a lower adjusted EBITDA margin compared to prior quarters.

Q18. For Overseas operations, why was Q4 adjusted EBITDA margin, 3.1%, lower than recent quarters?

Q4 adjusted EBITDA margin tends to be lower compared to other quarters due to seasonal impacts. In addition, this year we made investments in personnel in anticipation of growth in FY2021 and beyond as the business has shown a partial recovery over the second half and through Q4. As a result, Q4 adjusted EBITDA margin was lower than other quarters and Q4 of the prior fiscal year.

Q19. What are the factors that Staffing guidance for FY2021 are based on?

For Japan operations, there was a certain amount of increase in billing prices following the implementation of the "equal pay for equal work" regulations, which had a positive impact on revenue growth in FY2020. But this positive impact is not expected in FY2021. Revenue for Japan operations for FY2021 is expected to be flat year on year although there is uncertainty in demand for new orders.
For Overseas operations, revenue is expected to increase approximately 5% to 10% year on year for FY2021 due to continuous business recovery in certain industries.

Others

Q20. 51job, Inc, which the Company owns 34.8%, has received a privatization offer. What is the position of the Company regarding the proposal?

We are aware that 51job, Inc. has received a revised offer, but we have nothing to comment on at this moment.