

Recruit Holdings Announces FY2020 Q2 Results

1. 6 Months FY2020 Consolidated Financial Highlights

- Consolidated revenue⁽¹⁾ of 1,044.6 billion yen (-13.0%), revenue excluding the Rent Assistance Program was 1,015.1 billion yen (-15.5%), adjusted EBITDA of 123.4 billion yen (-30.6%), adjusted EPS of 41.83 yen (-38.4%).
 - The global spread of COVID-19 had a broad impact on business performance, resulting in year on year revenue decreases, however, revenue growth rates improved quarter on quarter in all three segments.
 - Reduced SG&A expenses by 65.8 billion yen yoy driven mainly by reduced advertising expenses and promotion expenses, as well as lower sales commissions which were directly correlated to revenue.

(In billions of yen, unless otherwise stated)	FY2020			
	Q2	YoY	6M	YoY
Revenue⁽¹⁾	569.1	-6.2%	1,044.6	-13.0%
Revenue (ex Rent Assistance Program)	539.6	-11.1%	1,015.1	-15.5%
Adjusted EBITDA	69.9	-22.6%	123.4	-30.6%
Adjusted EBITDA margin	12.3%	-2.6 pt	11.8%	-3.0 pt
Operating income	48.0	-32.7%	74.7	-47.6%
Profit attributable to owners of the parent	40.2	-26.7%	62.5	-45.2%
Adjusted EPS	24.35 yen	-29.8%	41.83 yen	-38.4%

(1) Revenue for the six months ended September 30, 2020 includes 29.5 billion yen from the Rent Assistance Program by The Small and Medium Enterprise Agency of the Ministry of Economy in Japan.

2. Q2 FY2020 Segment Highlights

HR Technology:

- Revenue decreased by 3.1% yoy and by 2.3%⁽¹⁾ yoy in US dollar terms. Revenue decline was primarily driven by decreased demand year on year for sponsored job advertising, candidate sourcing and screening solutions, and employer branding products.
- Adjusted EBITDA decreased by 39.5% yoy, primarily driven by the decline in revenue and increased investments in product and technology initiatives to develop solutions that serve the changing needs of enterprise clients and individual users. Adjusted EBITDA margin was 14.3% (22.9% in Q2 FY2019).
- Increased marketing investments compared to Q1 FY2020 and resumed limited hiring in the latter half of the second quarter, in reaction to Q2 revenue trend.

(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.

Media & Solutions:

- Revenue decreased by 9.3% (-24.8% ex revenue from the Rent Assistance Program) yoy. Excluding revenue from the Rent Assistance Program, revenue in each of Marketing Solutions and HR Solutions both decreased. Although revenue continued to slowly recover since June through the second quarter following the lifting of the state of emergency at the end of May, it remains below prior year levels.
- Adjusted EBITDA decreased by 28.4% yoy, mainly due to the decline in HR Solutions. Adjusted EBITDA margin was 19.8% (25.2% in Q2 FY2019).

Staffing:

- Revenue decreased by 6.0% (-7.0% ex FX impact) yoy. Revenue for Japan operations decreased by 0.7% and for Overseas operations by 10.2% (-11.9% ex FX impact) yoy.
- Adjusted EBITDA increased by 6.3% (Japan +20.7%, Overseas -10.6%) yoy. Adjusted EBITDA margin was 7.5%.
- For Japan operations, revenue decreased primarily due to one less business day in the quarter compared to the previous year, and lower demand for temporary staff amid the economic uncertainty, while adjusted EBITDA increased mainly due to ongoing cost control measures.
- For Overseas operations, both revenue and adjusted EBITDA decreased yoy, primarily due to a decline in demand from enterprise clients for temporary staff under the continued restrictions on their business operations as well as uncertainty about the future. Overseas operations maintained a positive adjusted EBITDA margin by strengthening ongoing cost control initiatives.

3. Consolidated Financial Guidance for FY2020

The global economic outlook remains uncertain as some countries are experiencing a second wave of COVID-19 and new restrictions which may impact the Company's business are being implemented.

The Company's consolidated financial guidance for FY2020 is based on the assumption that the spread of COVID-19 will not worsen to the extent it causes severe and prolonged lockdowns of major cities, and the business environment will not deteriorate significantly during the remainder of the fiscal year.

The Company expects the global HR Matching market's recovery and stabilization will be gradual, despite the recent strength in recruiting demand in some industries and increased consumer spending. Some countries and regions have already started to reimplement lockdowns and the Company's business environment continues to evolve rapidly. Therefore the Company's outlook remains cautious.

- Consolidated revenue for the six months ending March 31, 2021 is expected to be in the range of 1.10 trillion yen to 1.20 trillion yen, and is expected to be in the range of 2.14 trillion yen to 2.24 trillion yen for FY2020.
- Consolidated adjusted EBITDA for the six months ending March 31, 2021 is expected to be in the range of 86.6 billion yen to 121.6 billion yen, and is expected to be in the range of 210.0 billion yen to 245.0 billion yen for FY2020.
- Adjusted EPS for FY2020 is expected to be in the range of 62.83 yen to 77.83 yen, assuming the amount of depreciation and amortization and other adjustment items for the six months ending March 31, 2021 to be similar to the six months ended September 30, 2020. Adjusted EBITDA and adjusted EPS are the Company's target management key performance indicators.

Assumptions of FX rates for the consolidated financial guidance for FY2020 are as follows: 107 yen per USD, 121 yen per EUR, 74 yen per AUD.

4. Segment Financial Guidance for FY2020

HR Technology

- HR Technology's revenue, on a US dollar basis, for the six months ending March 31, 2021 is expected to be in the range of a decrease of 5% to an increase of 9% from the same period of the previous year.
- Adjusted EBITDA margin for the six months ending March 31, 2021 is expected to be in the mid-teens.
- In order to improve its revenue trend globally in the short-term and to accelerate revenue growth in the mid-term, HR Technology will invest in sales and marketing activities to acquire new users and clients, and in product enhancements to increase user and client engagement.

Media & Solutions

- Revenue for Marketing Solutions, excluding the Rent Assistance Program, for the six months ending March 31, 2021 is expected to be in the range of a decrease of 9% to an increase of 6% yoy. Including the Rent Assistance Program, revenue for Marketing Solutions for the six months ending March 31, 2021 is expected to increase approximately 15% to 30% yoy.
- Challenging business environment is expected to continue for Bridal and Dining, while continued stable performance is expected for Housing & Real Estate and Beauty.
- Revenue recovery of Travel compared to the six months ended September 30, 2020, supported by the Go To Travel campaign by the Japanese government, is expected.
- Revenue for HR Solutions for the six months ending March 31, 2021 is expected to decrease approximately 25% yoy, mainly due to the expectation for continued weak demand for placement services, while the part-time job board services see signs of recovery.
- Adjusted EBITDA margin for the six months ending March 31, 2021 for Media & Solutions is expected to be approximately 12%. Media & Solutions expects to continue reducing operating expenses such as advertising, while resuming strategic investments in businesses which have started to show recovery in their revenue trends.
- Revenue from the Rent Assistance Program, which is recorded in Others under Marketing Solutions in Media & Solutions for FY2020 is expected to be 93.2 billion yen including tax. However, the total revenue recorded in FY2020 might be lower depending on the number of applicants and recipients of the program.

Staffing

- Revenue for Japan operations for the six months ending March 31, 2021 is expected to decrease approximately 10% to 5% yoy mainly due to weak demand for new orders.
- Revenue for Overseas operations for the six months ending March 31, 2021 is expected to decrease approximately 12% to 8%.
- Adjusted EBITDA margin for the six months ending March 31, 2021 is expected to be approximately 5% primarily due to a decline in adjusted EBITDA margin in Japan operations caused by the decline in revenue and an increase in advertising expense, partially offset by continued cost control measures.

Appendix: Q2 Segment Highlights

(In billions of yen)

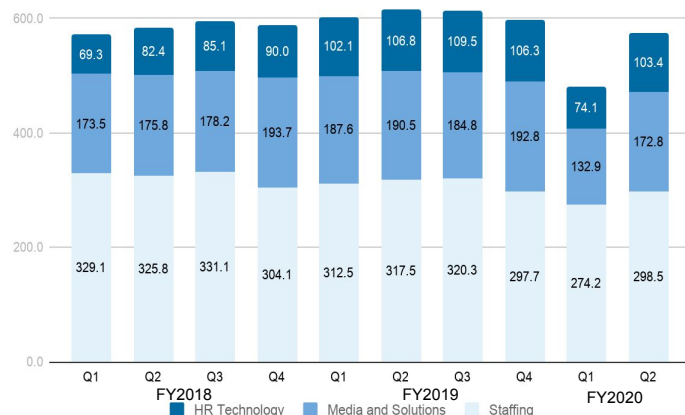
	Q2			6M		
	FY2019	FY2020	YoY	FY2019	FY2020	YoY
Revenue						
HR Technology	106.8	103.4	-3.1%	209.0	177.5	-15.0%
Revenue in US dollars ⁽¹⁾ (In millions of US dollars)	\$996	\$973	-2.3%	\$1,925	\$1,662	-13.7%
Media & Solutions						
Marketing Solutions						
Housing & Real Estate	27.5	29.2	6.1%	54.3	54.2	-0.1%
Beauty	20.2	20.6	1.7%	39.6	38.1	-3.9%
Bridal	13.1	7.2	-45.2%	26.4	14.3	-45.6%
Travel	21.3	15.7	-26.3%	38.8	21.8	-43.9%
Dining	9.3	3.1	-66.6%	18.8	4.9	-74.0%
Others	18.9	47.8	152.4%	38.1	67.3	76.7%
Total	110.6	123.7	11.9%	216.3	200.8	-7.2%
HR Solutions						
Recruiting in Japan	70.0	41.9	-40.1%	141.9	91.0	-35.8%
Others	9.2	6.6	-28.1%	18.4	12.6	-31.5%
Total	79.2	48.5	-38.7%	160.3	103.6	-35.3%
Eliminations and Adjustments	0.6	0.5	-21.4%	1.4	1.2	-13.0%
Total	190.5	172.8	-9.3%	378.2	305.8	-19.1%
Staffing						
Japan	139.8	138.8	-0.7%	277.5	284.6	2.6%
Overseas	177.7	159.6	-10.2%	352.5	288.0	-18.3%
Total	317.5	298.5	-6.0%	630.1	572.7	-9.1%
Eliminations and Adjustments	(8.0)	(5.7)	-	(16.1)	(11.5)	-
Consolidated Revenue ⁽²⁾	606.7	569.1	-6.2%	1,201.2	1,044.6	-13.0%
Adjusted EBITDA						
HR Technology	24.4	14.7	-39.5%	43.7	22.6	-48.3%
Media & Solutions						
Marketing Solutions	31.3	30.7	-1.7%	62.1	48.0	-22.7%
HR Solutions	21.3	8.8	-58.5%	44.9	23.8	-47.0%
Eliminations and Adjustments	(4.7)	(5.3)	-	(8.9)	(10.1)	-
Total	47.9	34.3	-28.4%	98.0	61.6	-37.1%
Staffing						
Japan	11.4	13.8	20.7%	23.2	30.8	32.8%
Overseas	9.6	8.6	-10.6%	17.7	11.5	-35.2%
Total	21.1	22.4	6.3%	40.9	42.3	3.4%
Eliminations and Adjustments	(3.0)	(1.5)	-	(5.0)	(3.2)	-
Consolidated Adjusted EBITDA ⁽²⁾	90.3	69.9	-22.6%	177.7	123.4	-30.6%
Adjusted EBITDA Margin						
HR Technology	22.9%	14.3%	-8.6pt	20.9%	12.7%	-8.2pt
Media & Solutions						
Marketing Solutions	28.3%	24.9%	-3.4pt	28.7%	23.9%	-4.8pt
HR Solutions	27.0%	18.3%	-8.7pt	28.0%	23.0%	-5.1pt
Staffing						
Japan	8.2%	9.9%	+1.8pt	8.4%	10.8%	+2.5pt
Overseas	5.5%	5.4%	-0.0pt	5.0%	4.0%	-1.0pt
Consolidated Adjusted EBITDA Margin	14.9%	12.3%	-2.6pt	14.8%	11.8%	-3.0pt

(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.
(2) The total sum of the three segments does not correspond with consolidated numbers due to Eliminations and Adjustments, such as intra-group transactions.

Appendix:
Quarterly Revenue and Adjusted EBITDA by Segment^(1,2)

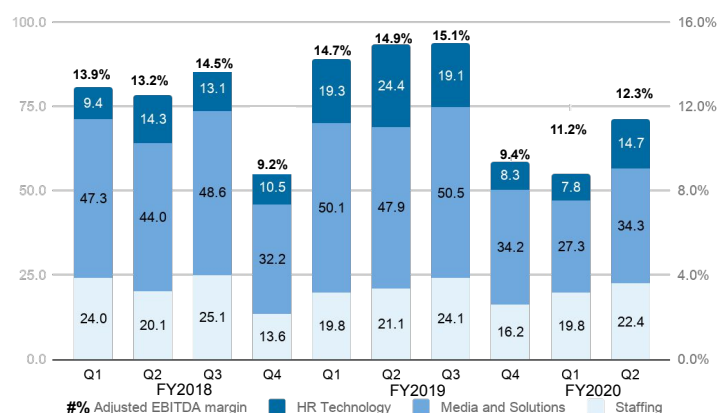
Revenue

(In billions of yen)



Adjusted EBITDA and adjusted EBITDA margin

(In billions of yen)



(1) The total sum of the three segments does not correspond with consolidated revenue and adjusted EBITDA due to Eliminations and Adjustments, such as intra-group transactions.
(2) EBITDA and EBITDA margin for FY2018. Adjusted EBITDA and adjusted EBITDA margin for FY2019 and FY2020.

Adjusted items for Adjusted EBITDA and Adjusted Profit

(In billions of yen)

Adjusted EBITDA	FY2020	
	Q2	6M
Operating income	48.0	74.7
Other operating income	-4.6	-7.4
Other operating expenses	+6.6	+16.4
Depreciation and amortization	+29.7	+59.2
EBITDA	79.8	142.9
Depreciation and amortization (right-of-use-assets)	-9.8	-19.5
Adjusted EBITDA	69.9	123.4

(In billions of yen)

Adjusted Profit	FY2020	
	Q2	6M
Profit (loss) attributable to owners of the parent	40.2	62.5
Amortization and intangible assets arising due to business combination	+4.6	+9.2
Non-recurring income	-4.2	-6.8
Non-recurring losses	+6.1	+15.9
Tax reconciliation regarding the adjusted items	-6.9	-11.8
Adjusted Profit	39.7	68.9

Definition of the Financial Measures

Financial Measures	Definition
Adjusted EBITDA	Operating income + depreciation and amortization (excluding depreciation of right-of-use assets) ± other operating income/expenses
Adjusted profit	Profit attributable to owners of the parent ± adjustment items (excluding non-controlling interests) ± tax reconciliation related to certain adjustment items
Adjusted EPS	Adjusted profit / (number of issued shares at the end of the period - number of treasury stock at the end of the period)
Profit available for dividends	Profit attributable to owners of the parent ± non-recurring income/losses ± tax reconciliation related to certain non-recurring income/losses
Adjustment items	Amortization of intangible assets arising due to business combinations ± non-recurring income/losses
Non-recurring income/losses	Gains or losses from disposals of shares of associates, expenses relating to company restructuring, gains or losses from the sale or impairment of property and equipment, and income and expense items that the Company believes are unusual or non-recurring in nature which do not reflect the Company's underlying results of operations

Full set of material regarding Q2 FY2020 results announcement is posted on <https://recruit-holdings.com/ir/>.

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This document is based on the Company's earnings release for Q2 FY2020, and earnings releases are not subject to review by a certified public accountant nor an independent auditor.

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