FAQ's for Q1 FY2023

Recruit Holdings Co., Ltd.

Q1. What did you see in the global HR Matching market during Q1?

Global labor markets largely continued to gradually moderate throughout Q1 FY2023 and return to a more normal and sustainable balance between job seekers and employers. With few exceptions among advanced economies, job openings, job postings and annual wage growth have all largely fallen or slowed from recent highs set in early 2022, but generally remained well above their pre-pandemic baselines.

The US labor market has proven especially resilient throughout 2023, even in the face of headwinds that include persistently high inflation, tighter monetary policy, high interest rates and lingering uncertainty in the financial sector. Layoffs picked up in some industries, including tech and media, but have not yet spread to the broader economy in large numbers.

The June US unemployment rate of 3.6% was near 50-year lows, and employers added an average of 244,000 jobs per month across the quarter – more than double the rate needed to keep pace with population growth. Annual US wage growth was 5.3% in May 2023, according to the Indeed Wage Tracker, down considerably from the January 2022 high of 9.3% but still comfortably above the pre-pandemic average of 3.1% and in line with several measures of inflation.

The share of workers aged 25-to-54 in the labor force rose to 83.5% in June, the highest rate since May 2002 – and the participation rate for prime-age women, in particular, is at a record high.

So while the US labor market is slowing down, it is doing so from a position of strength – demand for workers remains high, and the supply of workers is growing to match it, as job seeker activity on Indeed in the US continued to increase sequentially.

In Europe, job postings remained high relative to historical levels on average, while unemployment remained low and wage growth was robust – though with considerably more macroeconomic uncertainty. Collectively, the European Union has so far narrowly avoided a technical recession, although some economies, including Germany, have already had two consecutive quarters of negative growth. Average annual wage growth across the six euro-area nations tracked by Indeed was 4.7% in May, down slightly from a peak of 5.1% reached in October.

In the Asia-Pacific region, demand for workers remained higher than it was prior to the pandemic, but slowed notably throughout the first half of 2023. And while inflation remained uncomfortably high in the region, wage growth was much slower than in Europe and the United States. As of June 29, 2023, the overall level of job postings on Indeed in Japan was 38.4% higher than it was on the eve of the pandemic, and was 87.7% higher in Australia (after seasonal adjustment). But while those numbers are high, they are well off recent peaks.

These labor market dynamics continue to reflect a tight labor market in many countries and are expected to continue to serve as a long term tailwind for our HR matching businesses.

For more details, please refer to the Indeed Hiring Lab (https://www.hiringlab.org/) where Indeed’s global economists share data and insights on labor market trends.

Q2. Please explain the latest trend in the number of total and paid job ads in the US on Indeed.

In Q1 FY2023, the total number of job openings on Indeed in the US declined by approximately 19% year over year. This decrease can be attributed mainly to the normalization of the supply and demand in the labor market after the peak period in Q1 FY2022, during which job openings and paid job volumes reached their highest level, reflecting significant hiring demand. On a quarter over quarter basis, the declining trend in US job openings on Indeed has remained relatively steady.

At the same time, the number of US paid job ads has declined approximately 50% year over year. The decline in the number of paid job ads on Indeed compared to the previous year can be attributed to a combination of external and internal factors, including pricing model changes aimed at enhancing the quality of the HR Technology talent marketplace.

During the past few years, Indeed has been conducting tests with various pricing models to transition from pay per click (PPC) to pay per application (PPA) and pay per started application (PPSA). This shift aims to provide more value to employers by only charging them for positive outcomes that are closer to the actual hire, as the value of a qualified applicant or an apply start is significantly greater to an employer than just a click.

Additionally, these changes have had the effect of reducing the total number of paid job ads because under the PPA or PPSA pricing models, jobs that only receive clicks but no completed or started applications are no longer being monetized, and therefore are no longer counted as paid job ads.

In Q1, Indeed expanded the rollout of the PPSA pricing model to employers in several countries. While this expansion of the PPSA pricing model reduced the number of job ads being monetized, the majority of this decline in volume has come from job ads that have historically generated very few applications and a very low dollar per job on average. As a result, this pricing model change did not have a material impact on HR Technology revenue during the quarter.

Q3. Please explain the different job posting pricing models on Indeed?

Indeed's business model is centered around pay for performance, where employers pay only when they receive tangible results. This means Indeed's pricing models are designed to only charge employers when their job postings receive specific actions from job seekers, such as a click, an apply start or a completed application. Job postings that receive one of these actions are monetized and are categorized as "paid job postings". Please visit this link to learn more about the latest evolution of Indeed pricing models.

The traditional Pay Per Click (PPC) pricing model charges employers for all clicks that lead to the job view page. Sponsored jobs are priced on a pay for performance model, with charges incurred only when job seekers click on a sponsored job. Customers typically use a daily or monthly budget to manage their PPC recruitment spending, and a higher budget increases the chance of a job ad to be competitive.

Pay Per Started Application (PPSA) refers to Indeed's new performance-based pricing model. A "started application" is when a candidate starts the application process by clicking the "Apply" button on the job view page. The traditional pay per click (PPC) pricing model charges employers for all clicks that lead to the job view page. The new PPSA pricing model charges employers when a higher-intent candidate undertakes an action to start the application process. Employers typically use a monthly budget to manage their recruitment spend, and with PPSA, employers are less likely to pay for clicks that do not drive tangible results. Under this new model, the total number of paid job ads will be fewer because job ads that only receive clicks on the job view page, but not started applications, are not monetized.

Lastly, Pay Per Application (PPA) pricing has been available to a subset of employers for more than a year. This is a pricing model where for each sponsored job, Indeed will show the employer how much each accepted application will cost. Factors like job location, job title, and the number of active people looking for jobs in the job's area all contribute to the price paid per application. Before sponsoring a job, Indeed will tell the employer how much they'll spend per application. Employers can set a custom limit on the number of applications they want to pay for. Indeed gives the employer 72 hours to reject applications that do not meet their requirements before they're charged, giving them the opportunity to only pay for qualified applicants. This pricing model also has the effect of reducing the number of paid job ads, similar to PPSA, since Indeed is only charging much further into the hiring process, when a candidate has completed an application.

Q4. Please explain the background of the outlook for FY2023 Q2.

HR Technology

On a US dollar basis, revenue in July decreased approximately 17% year over year. In Q2 FY2023, assuming no sharp deterioration in the economic environment, revenue on a US dollar basis is expected to decline approximately 7% to 2.5% quarter over quarter, or down approximately 20% to 16% year over year. Adjusted EBITDA margin is expected to be approximately 33% to 37% due to the implementation of cost reduction measures.

The Company will continue to control costs flexibly by monitoring the business environment while balancing with investments in our long-term strategy. However, the Company does not expect to maintain the level of forecasted adjusted EBITDA margin in Q2 throughout the fiscal year.

Matching & Solutions

Revenue for Q2 FY2023 in Marketing Solutions is expected to increase approximately 7% year over year and to increase approximately 9% year over year in HR Solutions, and adjusted EBITDA margin for Matching & Solutions is expected to be approximately 22%.

There’s no revision in FY2023 outlook. The Company expects revenue in Marketing Solutions to increase approximately 4% and in HR Solutions approximately 6%. Adjusted EBITDA margin for FY2023 is expected to be approximately 20%.

Staffing

In Q2 FY2023, revenue in Japan is expected to increase approximately 11% in Japan and to decrease 7% in Europe, US and Australia year over year. Adjusted EBITDA margin is expected to be approximately 6.5%.

The outlook for Q2 FY2023 and the guidance for FY2023 for consolidated and each SBUs are as follows.

(In billions of yen)			FY2022 Q2 Actual	FY2023 Q2 Outlook	FY2022 Actual	FY2023 Guidance
Consolidated	Revenue		878.4	**825 - 850**	3,429.5	**Decrease YoY**
		YoY	+25.3%	**-6.1% - -3.2%**	+19.4%	
	Adjusted EBITDA		145.3	**143 - 166**	545.0	**Decrease YoY**
HR Technology	Revenue (in millions of dollar)		2,173	**-**	8,243	**Revenue and adjusted EBITDA to decrease YoY**
		YoY	+11.6%	**approx. -20% - -16%**	+7.7%	
	Adjusted EBITDA margin		30.4%	**approx. 33% - 37%**	30.7%	
Matching & Solutions	Revenue	Marketing Solutions	111.9	**-**	451.5	**approx. +4% YoY**
		YoY	+13.9%	**approx. +7%**	+13.9%	
		HR Solutions	70.2	**-**	297.4	**approx. +6% YoY**
		YoY	22.2%	**approx. +9%**	+19.3%	
	Adjusted EBITDA margin		15.1%	**approx. +22%**	14.4%	**approx. 20%**
Staffing	Revenue	Japan	166.0	**-**	684.1	**approx. +9% YoY**
		YoY	+14.0%	**approx. +11%**	+13.1%	
		Europe, US and Australia	234.2	**-**	901.1	**Decrease YoY**
		YoY	+23.3%	**approx. -7%**	+16.5%	
	Adjusted EBITDA margin		7.0%	**approx. 6.5%**	6.5%	**approx. 6%**

The foreign exchange rate assumptions for Q2 FY2023 are 139 yen per US dollar, 152 yen per Euro and 94 yen per Australian dollar.

Q5. How much did exchange rate fluctuations impact consolidated revenue and Staffing revenue for the three months ended June 30, 2023?

(In billions of yen)		FY2022 Q1	FY2022 Q2	FY2022 Q3	FY2022 Q4	FY2023 Q1
Consolidated	Reported	843.1	878.4	880.1	827.7	**850.8**
	YoY	26.8%	25.3%	18.0%	9.0%	**0.9%**
	Constant Currency	779.4	787.9	794.7	780.5	**825.1**
	YoY	17.3%	12.4%	6.5%	2.7%	**-2.1%**
Staffing	Reported	385.7	400.2	415.6	383.6	**401.4**
	YoY	15.1%	19.3%	16.2%	9.6%	**4.1%**
	Constant Currency	366.1	370.6	384.1	365.5	**390.3**
	YoY	9.2%	10.5%	7.4%	4.5%	**1.2%**
Staffing Europe, US and Australia	Reported	220.5	234.2	241.1	205.1	**215.2**
	YoY	17.2%	23.3%	19.4%	6.1%	**-2.4%**
	Constant Currency	200.9	204.6	209.6	187.1	**204.1**
	YoY	6.8%	7.8%	3.8%	-3.3%	**-7.4%**

Q6. Regarding revenue of HR Technology, please tell us the growth rates excluding the impact of exchange rate fluctuations.

(In millions of USD)		FY2022 Q1	FY2022 Q2	FY2022 Q3	FY2022 Q4	FY2023 Q1
US	Reported	$1,618	$1,610	$1,435	$1,337	**$1,317**
	YoY	24.9%	9.2%	-2.0%	-10.1%	**-18.6%**
Non-US	Reported	568	563	548	560	**557**
	YoY	46.5%	18.9%	5.3%	2.4%	**-1.8%**
	Constant Currency	637	657	629	602	**563**
	YoY	64.2%	38.7%	20.7%	10.1%	**-0.9%**
Total	Reported	2,187	2,173	1,984	1,897	**1,875**
	YoY	29.9%	11.6%	-0.1%	-6.7%	**-14.2%**
	Constant Currency	2,256	2,267	2,064	1.939	**1,879**
	YoY	34.0%	16.4%	3.9%	-4.7%	**-14.1%**

Q7. Can you summarize the Self Tender Offer that was announced on May 17, 2023?

Dai Nippon Printing Co., Ltd., which held the largest ownership percentage among our Japanese business shareholders, notified the Company of its intention to reduce by part of its ownership stake in the Company's common stock. The Company considered the priorities of Dai Nippon Printing Co., Ltd., the potential impact on the Company's share price from large uncoordinated sales of shares over a short period, the capacity to pursue strategic business investments, the capital markets environment, and the outlook for the Company's financial position and has determined it is appropriate to acquire our own shares.

The share repurchase was conducted from May 18 to June 14, 2023, through a self tender offer at a price of 3,326 yen per share, a 10% discount from the simple average of the closing price of the Company's common stock over the past three months until the business day immediately preceding the date that the Board of Directors resolved the self tender offer, as agreed with Dai Nippon Printing Co., Ltd., with a maximum of 23 million shares to be purchased.

The total number of shares purchased and the total share repurchase amount as of June 14, 2023 was 18.82 million shares and 62.6 billion yen, respectively.

The Company is expected to record a decrease in cash and cash equivalents in Q2 as the delivery date of the treasury stock was July 6, 2023.

Please find more information on the website:
https://recruit-holdings.com/en/newsroom/20230517_0001/
https://recruit-holdings.com/en/newsroom/20230615_0001/

Q8. Please tell us about the progress made during FY2022 regarding "Prosper Together".

On July 4th, the Company presented the progress of FY2022, and the targets and challenges in FY2023 of our ESG (Environmental, Social,
Governance) commitment "Prosper Together", one of our corporate strategic pillars. Please see below for the details:
https://recruit-holdings.com/en/newsroom/20230704_0001/

Through "Prosper Together," the company has set specific goals for ESG and created initiatives to help achieve those goals. FY2022 was the second year since the company sets five ESG targets for FY2030. In FY2022, the company started seeing tangible signs of progress through the evolution of our products and services. The progress toward each target is as follows.

Environmental: Achieve carbon neutrality in the amount of greenhouse gas (GHG) emissions throughout our business activities by FY2021, and throughout our value chain by FY2030.

- The company will achieve our short-term goal as planned by reaching carbon neutrality throughout our business activities in FY2022[1].
- Toward the goal to achieve carbon neutrality in GHG emissions across our entire value chain by FY2030, the company sets a reduction target that aligns to the 1.5 degree celsius pathway, which aims to limit the increase in global average temperature to less than 1.5°C compared to the pre-industrial era. This target is approved by Science Based Targets initiative (SBTi) on June 1st, 2023.
- The Company was rated for two consecutive years as a top company on CDP's 2022 Supplier Engagement Rating (SER) in FY2022.

Social - Social impact (1): By FY2030, reduce the time it takes to get hired by half compared to that of FY2021.

- There were signs that the time it takes to get hired was reduced by utilizing the products on Indeed.
- For example, job seekers hired to sponsored jobs through a Pay Per Application model had a 17% shorter search duration[2] than those hired to Pay Per Click jobs. Business clients who used Indeed Assessments, an online resource for employers that helps skill matching on Indeed, reduced time to hire by 16%[3] compared to job postings where employers did not use this product.

Social - Social impact (2): Support 30 million people facing barriers to get hired by FY2030.

- Through making product advancements and partnerships, the company is proud to have been able to help 3.9 million job seekers[4] facing barriers get hired.
- Education is one of the major barriers for job seekers. To overcome this barrier, the company stopped recommending education requirements as one of the screener questions employers populate when they post jobs. After this was rolled out in the U.S., The company observed a 37% decrease in the share of jobs requiring a college degree[5], and 10% increase in applicants for job postings that do not require a college degree[6], which in turn may lead to more successful hires.

Social - DEI[7]: By FY2030, achieve approximately 50% representation of women in senior executive positions, in managerial positions, and total employees of the entire group.

- At the Matching & Solutions Strategic Business Unit (SBU), which operates mainly in Japan where the gender gap is particularly significant, the SBU identified and reduced gender bias by clarifying the requirements for managerial positions. The organizations that adopted this initiative identified 1.7 times more women candidates for first-line managers while it increased by 1.4 times for men, leading to an overall expansion of candidates for management positions.

Governance: By FY2030, achieve approximately 50% ratio of women among the members of the Board of Directors, including Audit & Supervisory Board members, at Recruit Holdings.

- After Katrina Lake was approved to be a member of the Board of Directors at the Annual Shareholders' Meeting held in June, the percentage of women in the Board of Directors members, including Audit & Supervisory Board members increased from approximately 27% to approximately 33%[8].

[1] GHG emissions throughout our business activities are the sum of direct emissions from the use of fuels in owned or controlled sources and are referred to as Scope 1. Indirect emissions from the use of purchased electricity, heat, or steam in owned or controlled sources are referred to as Scope 2. GHG emissions from the value chain are referred to as Scope 3, and comprise indirect emissions other than Scope 1 and 2. The entire value chain represents the sum of Scopes 1, 2 and 3 GHG emissions. The Company aims to achieve carbon neutrality upon completion of the following steps: measurement of GHG emissions, obtaining an accredited third-party assurance on the amount of GHG emissions, and offsetting of those emissions.

[2] Difference calculated using time from a job seeker's application on Indeed (to the job for which they were ultimately hired) to the time of the hire for hires made on Indeed reported by job seekers in the United States between January 2022 and January 2023. The data set analyzed included sponsored jobs only hosted on Indeed using one of these two pricing models: Pay Per Application and Pay Per Click. Pay Per Application is a newer pricing model where employers only pay for job applicants that meet their criteria. Pay Per Click is Indeed's original sponsored job pricing model, where employers pay when a job seeker clicks on their sponsored job listing.

[3] For jobs on Indeed that (a) were less than 14 days old and (b) had applications between November 1, 2022 through December 31, 2022, an analysis revealed a statistically significant difference in the number of days for an employer to make a hire on Indeed between jobs that used Indeed Assessments and those that did not. Time to hire was defined as the period from the day the job was posted on Indeed to the day that the job was closed by the employer with the reason that the employer hired a candidate on Indeed.

[4] Represents number of hires made on Indeed reported from both job seeker and employer sources through our Hired Signal measurement, from May 1, 2021 - March 31, 2023 globally for job seekers who faced at least one of the following barriers: education, criminal record, military experience, disability or lack of essentials such as a computer or internet access.

[5] Hosted jobs on Indeed in the U.S. that included a college degree as at least one of the screener questions decreased from 22% in May 2022 to 14% in January 2023, a 37% decrease.

[6] Analysis revealed that within specific job titles, jobs that indicated that no college degree was required received 10% more applicants than jobs requiring college degrees.

[7] DEI stands for Diversity, Equity and Inclusion.

[8] The ratio of women on the Board of Directors members, including Audit & Supervisory Board members, is as of July 1, 2022 and 2023.

Appendix

Historical Results of Operations by Segment

		FY2021					FY2022					FY2023
(In billions of yen)		Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1
Consolidated Operating Results												
	Revenue	664.7	701.1	746.0	759.7	2,871.7	843.1	878.4	880.1	827.7	3,429.5	850.8
	YoY %	39.8%	23.2%	22.0%	23.9%	26.5%	26.8%	25.3%	18.0%	9.0%	19.4%	0.9%
	Adj. EBITDA	131.4	147.1	142.0	91.2	511.8	152.3	145.3	138.2	109.1	545.0	165.9
	Adj. EBITDA margin	19.8%	21.0%	19.0%	12.0%	17.8%	18.1%	16.5%	15.7%	13.2%	15.9%	19.5%
HR Technology												
	Revenue in million USD ($)	1,683	1,948	1,986	2,034	7,653	2,187	2,173	1,984	1,897	8,243	1,875
	YoY % USD ($)	144.5%	100.1%	81.3%	64.7%	91.6%	29.9%	11.6%	-0.1%	-6.7%	7.7%	-14.2%
	Revenue	184.4	214.4	225.8	236.6	861.4	283.7	300.5	280.5	251.3	1,116.1	257.9
	YoY %	148.9%	107.3%	97.2%	80.4%	103.5%	53.9%	40.1%	24.2%	6.2%	29.6%	-9.1%
	Adj. EBITDA	74.8	92.3	78.5	77.5	323.3	95.5	91.2	78.8	76.7	342.3	98.1
	Adj. EBITDA margin	40.6%	43.1%	34.8%	32.8%	37.5%	33.7%	30.4%	28.1%	30.5%	30.7%	38.1%
Matching & Solutions												
Marketing Solutions	Revenue	91.5	98.3	102.1	104.5	396.5	104.8	111.9	115.4	119.2	451.5	116.6
	YoY %	18.7%	-20.5% (4.3%)	-23.8% (-1.3%)	-13.6% (2.3%)	-13.0% (5.2%)	14.6%	13.9%	13.1%	14.1%	13.9.%	11.2%
	Adj. EBITDA	-	-	-	-	-	-	-	-	-	-	-
	Adj. EBITDA margin	-	-	-	-	-	-	-	-	-	approx. 25%[3]	approx. 27%
HR Solutions	Revenue	56.5	57.5	62.8	72.4	249.3	72.6	70.2	73.7	80.8	297.4	80.8
	YoY %	2.7%	18.4%	20.5%	24.4%	16.5%	28.3%	22.2%	17.5%	11.6%	19.3%	11.3%
	Adj. EBITDA	-	-	-	-	-	-	-	-	-	-	-
	Adj. EBITDA margin	-	-	-	-	-	-	-	-	-	approx. 12%[3]	approx. 25%
Total	Revenue	151.8	157.8	168.5	180.3	658.6	180.4	185.2	191.9	203.0	760.6	199.9
	YoY %	14.2%	-8.7% (10.1%)	-9.8% (7.9%)	0.6% (12.4%)	-2.0% (11.1%)	18.8%	17.3%	13.9%	12.6%	15.5%	10.8%
	Adj. EBITDA	31.5	32.4	36.4	2.3	102.8	31.3	27.9	31.6	18.9	109.8	42.5
	Adj. EBITDA margin	20.8%	20.5%	21.6%	1.3%	15.6%	17.4%	15.1%	16.5%	9.3%	14.4%	21.3%
Staffing												
Japan	Revenue	146.9	145.7	155.7	156.5	604.9	165.1	166.0	174.4	178.4	684.1	186.1
	YoY %	0.8%	4.9%	9.1%	9.8%	6.1%	12.4%	14.0%	12.1%	14.0%	13.1%	12.7%
Europe, US, and Australia	Revenue	188.2	189.8	202.0	193.4	773.5	220.5	234.2	241.1	205.1	901.1	215.2
	YoY %	46.5%	18.9%	16.2%	15.9%	23.0%	17.2%	23.3%	19.4%	6.1%	16.5%	-2.4%
Total	Revenue	335.1	335.5	357.7	349.9	1,378.4	385.7	400.2	415.6	383.6	1,585.2	401.4
	YoY %	22.2%	12.4%	13.0%	13.1%	15.0%	15.1%	19.3%	16.2%	9.6%	15.0%	4.1%
	Adj. EBITDA	26.2	24.0	28.6	14.3	93.2	27.2	27.9	29.8	17.2	102.2	26.7
	Adj. EBITDA margin	7.8%	7.2%	8.0%	4.1%	6.8%	7.1%	7.0%	7.2%	4.5%	6.5%	6.7%

[1] Figures in parentheses represent YoY % in revenue excluding Rent Assistance Program by The Small and Medium Enterprise Agency of the Ministry of Economy in Japan from Q2 FY2020 to Q4 FY2020.
[2] Beginning in Q1 FY2022, the company changed the adjustment items for adjusted EBITDA and adjusted EPS. All the figures in the table above are based on the new definition.
[3] Unaudited internal measures

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 business clients' needs, competition, changes in the legal and regulatory environment, fluctuations in foreign exchange rates, climate change or other changes in the natural environment, the impact of the spread of COVID-19, the occurrence of large-scale natural disasters, 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.

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