

Summary of Introduction to media & Solutions business

Recruit Holdings Co., Ltd.

■ Business Portfolio

In the last 50 years since our foundation, the segment has expanded its businesses to very wide fields. Presently we are engaged in the Life Event and the Lifestyle businesses mainly in the Japanese market. In the last five years, our revenue has grown at 7.4% on a CAGR basis and EBITDA margin has been maintained in a range around 25%. In FY2016, our revenue was 658.2 billion yen, EBITDA reached 151.5 billion yen on a IFRS basis, and total headcount was more than 15,000.

The segment's history is indeed Recruit's history. Almost all of our domestic businesses are developed and expanded by ourselves. We have built up our unique portfolio organically. Recruit was started with HR business in Japan. In 1980's, we entered the life event businesses which targeted major life events that people experience only once or twice in their lives, such as entering college, buying or renting a house, purchasing second-hand cars, and marriage. In 2000's, we expanded our business into the lifestyle businesses including Travel, Dining, and Beauty businesses.

In the history, we had promptly and smoothly transferred our platforms to Internet from traditional paper media. As of now, almost all of our major businesses achieved #1 position in revenue.

■ Established Strong Business Model and Future Potentials

○ Established Traditional Business Model: the Ribbon Model

The business environments differ by business but this well-known Ribbon Model is common to every business of Media & Solutions. We aim to maximize our profit by increasing the transaction volume and by improving matching efficiency, with satisfactory services provided to individual users affluently on our medias (Matching Platforms).

In order to increase the transaction volume, it is essential to access the real-time information on reservation and purchase. We call such information as inventory information for user actions. We are able to maintain our competitive advantage by maximizing volume and quality of the real-time information for actions with this business model. As a result, our businesses could enjoy stable profit growth on a medium-term basis.

However, ironically, our clients get dissatisfied by operating works increased as their transaction volume increases on our platforms. We now need a refined business model with an operating support system to solve the issue. This is why we focus on providing our clients with operating

support services.

○ **Established Stronger Business Model with SaaS**

We are not a company only operating medias (Matching Platforms) any more, therefore the segment name was changed to Media & Solutions. We have established a solid business model which enables us to reach the inventories more efficiently through Software as a Services (SaaS), or operating support applications for clients developed by the Internet cloud technology.

On the other hand, we started the Recruit ID, a horizontal point service across the Recruit Group. We believe that the point service enables us to increase the number of user more efficiently. Also we integrated our user databases, each of which was previously owned and managed by an individual service unit and became an alliance partner of PONTA to enhance user convenience and ownership value.

We offer Matching Platform and Solutions business which provides satisfactory services to both users and clients. It has evolved into a business which offers our clients Media and Solutions, or online matching platforms and online operating support products. We provide value added services to our SME clients for their growing profits and efficient operations optimized by IT.

■ **Successful Beauty Business Model**

○ **Domestic Beauty: Hot Pepper Beauty × SALON BOARD**

SALON BOARD replace all the traditional phone call reservation processes, realizing the salons' sales increase by helping them free from the operating burden for taking reservations with efficient management system.

With continued enhancement of the services, the number of clients using SALON BOARD achieved 28% CAGR in the last five years, and the number of reservations increased by 68%. As a result, revenue grew at 20% CAGR in the last five years from FY2012, and in the previous fiscal year, revenue increased by 24% year-on-year to 57.3 billion yen.

There is a certain room to grow more. We estimate there would be 200 thousand beauty salons and nail salons as potential clients nationwide. As for the number of online reservations, there is also a plenty of room to grow by replacing the phone call reservations.

■ **Mid- to Long-Term Growth Potentials**

1) **Strengthening Other Existing Businesses**

Domestic Recruiting: Recruit Agent × CAST

This service supports clients' hiring process. Our clients could obtain information on candidates directly through our database. The matching is optimized by the machine learning systems.

We aim to free clients from the entire hiring process burden by automating the process with SaaS, and offer the most efficient operation and high level matching to clients.

This service was launched in January 2016, and more than 10,000 clients already use this

service.

2) Increasing Number of New Clients

Air REGI × Dining: Restaurant Board × Hot Pepper Gourmet

Following Air REGI, Restaurant Board was launched. It provides online reservation management services as same as SALON BOARD, through which real-time inventory information is delivered to Hot Pepper Gourmet.

As the pioneer of the business field, we could launch the online reservation services and the operating support services simultaneously and established the dominant market position in terms of the number of reservations. The number of restaurants using real-time online reservation services increased at 156% CAGR in last five years from FY2012. The number of online reservations on Hot Pepper Gourmet has grown 57% in the last four years from FY2013, and increased 38% in previous fiscal year on a year-on-year basis. The Dining business revenue has grown 4% CAGR in the last five years.

The Operating Support Package is a good example of monthly charged SaaS service contributing to our revenues. The Operating Support Package is designed to target companies which we have not been able to have business with and the existing small-scale clients with small businesses with us in Hot Pepper Gourmet. The inventory information from them would contribute to our additional revenues.

The number of clients using the Operating Support Package reached more than 16 thousand as of September 2017. The already installed Air REGI have accelerated the operating support SaaS introduction to our clients.

More than 50 thousand restaurants have been advertised on our Hot Pepper Gourmet platform. More than 130 thousand restaurants that had ever experienced marketing media services must be next targeted. We aim to further expand the market and increase our revenue by introducing our online reservation and other operating support services to replace the traditional phone call reservation processes.

3) Providing Peripheral Services

Payment System: Air PAY

The credit card acceptance rate at small stores is quite low in Japan. We see this as another business opportunity for our payment system along with Air REGI, SALON BOARD, and Restaurant Board, which definitely enhance user payment convenience.

As of today, more than 20 thousand shops have already installed our payment system, since February 2017, the payment system revenue has been increasing more than 7% month-on-month. The already installed Air REGI and SALON BOARD have contributed to the smooth introduction of the payment systems to our existing clients

4) Launching New Services

Financing: "Partners"

This is a quite unique loan service based on a credit analysis model with big data analyses, machine learning, and AI which is now offered to a limited number of our travel business clients. The system immediately comes up with a maximum amount of lending to a client based on the client' business projection forecasted by our enormous business data including historical matching transaction volume and users' comments and reviews on our platform. With this system, our SME clients could reach a loan arrangement within a day at the fastest. We plan to expand this business to other business fields and to offer a variety of operating support services.

5) Expanding into International Markets

International Beauty: Treatwell

We acquired Hotspring in 2015, which operates Treatwell, a beauty salon online booking service. When acquired, it was #1 only in the UK, however, currently it has attained #1 positions in Germany, Spain, and other major countries in Europe in terms of number of online reservations and client salons. In some regions, the operations recorded positive EBITDA already. Total revenue has grown for approximately 2.5 times since the acquisition and reached 1.6 billion yen. Its business model is slightly different from domestic business, but our business expansion in Europe will be accelerated by implanting our domestic expertise and experience into Hotspring.

■ Summary: Established Strong Business Model and Future Potentials

On a medium-term basis, Media & Solutions' stable revenue growth is to be achieved by the increasing matching volume on the platforms in the established strong business models in the existing business fields. Our profit can be maximized when the total transaction volume is maximized as a result of a winning combination of (i) higher volume and quality of inventories from our client companies, (ii) an increased number of users satisfied by the information, and (iii) further enhanced matching efficiency on our platforms.

There are a lot of promising business opportunities in our existing business fields. When a newly targeted business field is identified and decided through our thorough feasibility studies, we will allocate our massive sales force to the field to obtain a dominant market position as soon as possible.

We continue developing new business opportunities with high probability of success in the already-entered business fields to apply our established strong business model appropriately.

We aim further growth by focusing on increasing the number of new clients, launching new operating support products, and pursuing new business opportunities in new business fields aggressively.

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