Message to stakeholders
Message to stakeholders

CEO Message

Advancing Innovations that help individuals live to the fullest

Recruit’s strength

It is the will of every employee to create new value by working hard to solve issues for immediate customers, for industries and eventually for society as a whole. We pick ourselves back up even when we fail and we learn from our mistakes.

The history of Recruit itself is also our strength, where we have continuously created major innovations by harnessing everyone’s will.

From its home in Japan, Recruit aims to be No. 1 in the world.

Our vision is to create a more fulfilling world where all individuals can live life to the fullest.
Management in Tune with Global Trends

When I became CEO five years ago, globalization was already advancing at an unprecedented pace, and the advent of new devices like smartphones and the spread of social media were changing the way people communicate. My mission at the time was to steer Recruit as appropriately as possible.

I began by splitting Recruit Group into different businesses. I restructured the Group organization, of which Recruit Co., Ltd. had been at the center, dividing it into a set of core operating companies with 1,000–2,000 employees under Recruit Holdings Co., Ltd. Management decisions became much faster since each operating company resembled Recruit at the beginning of 1980s when Recruit was growing at its fastest pace.

In 2013, we revised our management philosophy to "We are focused on responding to the needs of society by creating new value, thereby contributing to a brighter and more fulfilling world in which all individuals can live life to the fullest". Our mission is to deliver "Opportunities for Life", which means providing the opportunities that people are seeking throughout the world, beyond the bounds of Japan, where we started our business.

As a step to realize this philosophy, Recruit set the vision of becoming the world leader in the HR business in terms of number of positions filled by 2020, and the world leader in terms of total service users in the HR and the Marketing Media businesses by 2030.

We decided to go public in 2014 because doing so would contribute to the long-term growth in profit that our vision dictates. The IPO diversified our financial strategy, increased trustworthiness from a global standpoint, and improved management transparency. It also allowed Recruit to invest flexibly and aggressively in growth, including M&A.

Our major agenda currently includes enhancement of existing businesses, development of new businesses and execution of
M&A. Particularly for overseas businesses, we aim to grow our HR technology business through Indeed, a search engine website. Aiming for a sustained increase in enterprise value, Recruit is reinforcing its corporate governance structure at the global level.

■ Our Determination as a Company is to Advance Innovation

Since the establishment of Recruit Group, all of our employees have worked to create new value with various stakeholders by directly addressing any needs expressed in the form of dissatisfaction, inconvenience, and unease in society and among our customers. I consider it our mission to provide new value to society through innovation.

Recruit was founded in 1960 during Japan’s high economic growth period. We started out in the business of providing information that matches the needs between job seeking students and hiring companies.

We opened up hiring information in a consistent and convenient form as an information magazine, through which students can compare opportunities and choose an opportunity that best fits their will and value. This was a new model for seeking jobs. Years ago, it was considered virtuous to spend one’s entire career at a single company, and changing jobs was viewed as taking a step backwards. Recruit changed that perception into an opportunity for people to shape their own careers and life plans. We have created opportunities to meet each person’s job seeking needs in diverse situations, providing options of working as a part-time or temporary worker, and supporting women’s participation in the workforce.

Going beyond the HR field, Recruit diversified into domains where information had been closed off, such as housing, travel, wedding and used cars. By opening up and eliminating asymmetries in information, we gave consumers confidence to choose and helped increase the efficiency of companies and industries.
By always being first to identify and provide solutions for the needs of people and industries, Recruit has created new markets and established itself as the leading brand. The services Recruit Group has created to date have become the essential infrastructure in its respective industries.

Today, the information we deal with has become digital and our medium of service is changing from paper-based magazines to the Internet and smartphone apps. Digital information can now reach the farthest corners of the world, so we may not be able to provide services required by users and clients if we stay within Japan. We are seeing major changes such as advancement of technologies accelerated globally like AI, rapid changes in communications such as a sharp shift to IoT and devices, and spread of social media and cloud-based services. We must quickly incorporate them and turn them into benefits for users. Not satisfied with being the leader in a limited range of domains and areas, we will relentlessly seek new challenges for creating new value.

Recruit’s Competitive Edge Is Its People and Culture

How has Recruit kept its entrepreneurial spirit alive for more than 50 years? How is Recruit able to continuously produce such a variety of human resources? Moreover, why has Recruit been able to create new growth businesses and transform existing businesses at the same time amid changes in the environment?

I believe “people” are the answer to these questions. People are the driving force behind the creation of innovations tuned into the changes in the social landscape.

And the “people” are supported by two things: our corporate culture which can never be copied by rivals, and our way of nurturing people and making the most of them.

For example, our start-up contest has been held for over 30 years. This has created numerous new businesses, including Zexy, HOT PEPPER, and Jyuken Sapuri (now Study Sapuri). We hold the contest once a month, and around 700 business ideas
Message to stakeholders

were proposed in fiscal year 2016.

In M&A by Recruit, the person who identified an opportunity and proposed the deal to management is assigned to continuously take responsibility after the acquisition. Instead of sending a large number of employees from Recruit over to the acquired company to impose our way of doing things, we clarify authority and have the management of the acquired company make its own performance commitments. We have found this to be a key aspect of our winning strategy.

Recruit has a number of systems for circulating human capital and intellectual capital, such as the Human Resources Development Committee, goal setting and assessment, feedback systems, and knowledge-sharing events.

Our true strength is that these systems, business models and corporate culture of “Entrepreneurs United”, “Strong Sense of Ownership”, and “Empowered Individuals, Strong Teams” have impacts on each other and develop continuously. The circulation of these competitive advantages, deeply embedded in our corporate culture, cannot be easily imitated by any other companies.

I Started Out Managing Several Media Businesses

My own roots can be traced to the principles of the “Strong Sense of Ownership” and the “Entrepreneurs United”. My career at Recruit started with the used car information magazine, Car Sensor. One day, when I was making the rounds of sales offices in an advertising and marketing company, I asked to take a turn answering the phones at a sales office that I was familiar with. I learned from inquiries over the phone what car models were popular, and analyzed which cars were selling well and at what price range in each region. Then proposed models to purchase and selling prices to certain store managers. The revenues at these stores began to grow. When I proposed selling new cars with affordable low interest rate loans, inquiries about the ads were off the charts. These experiences taught me the overriding importance of providing solutions to customers’ needs.
Next, with the launch of the wedding information magazine Zexy, I gained the invaluable experience of seeing how the declining wedding services industry could turn itself around by opening up information and offering products completely tailored to the customers. Companies can invigorate entire industries. I came to be attracted by making a commitment to society as a business person.

Subsequently, I was put in charge of the Housing and Real Estate business. We decided to overhaul this business, where growth had slowed over the past 30 years, and reposition the service primarily online under the SUUMO brand, creating a new growth platform. Our employees did the most important job, meeting with customers and facing the industry with a strong determination and a vision for what they wanted to achieve. I set them challenging targets and tasks one after the other, and they developed by striving for those challenges. This kind of our culture makes Recruit what it is.

■ Aiming to Help Solve Social Issues around the World

Globalization and IT are having impacts on society and the environment. In this rapidly shifting trend, we will embark on even more complex and difficult challenges.

In countries around the world, there are innumerable social issues waiting for solutions. I believe it is our mission to help these issues be solved. In the HR field for instance, Recruit is directly taking on issues of inequality. We are providing solutions for unmet needs in various countries and professions through our staffing business and our job search site Indeed, both are in the leading positions in the global market. Recruit also understands the importance of an even stronger awareness of ESG, and continues forward-looking initiatives that contribute to the achievement of the Sustainable Development Goals (SDGs) adopted by the United Nations through determined cooperation with various stakeholders and sectors.
Message to stakeholders

What else can Recruit Group do to solve issues around the world? We will strive to create new value, aiming at achieving a bright and sustainable world for everyone, while grasping the overall image of an increasingly complex world.

Recruit Group will continue to take on new challenges in a constantly changing world to meet the ever-increasing expectations of society with the support of its stakeholders.
Achieving Record-Setting Profits and Delivering a Solid Performance in Line with Our Mid-Term Management Strategy

■ Record-Setting Net Sales and EBITDA*

In fiscal year 2016, Recruit Group generated EBITDA of ¥230.8 billion, an increase of 14.1% year on year, on net sales of ¥1,839.9 billion, up 15.8%, representing its best performance...
Since fiscal year 2007, net sales have grown in all three major segments: Marketing Media, HR Media and Staffing. Net income attributable to owners of the parent rose 32.4% to ¥85.4 billion. The overseas ratio of consolidated net sales, which was only 3.6% in fiscal year 2011, has risen to 40.1% due to M&A in the Staffing business and growth at Indeed.

With its swift decision-making structure, Recruit Group will respond to the rapidly changing Internet business environment, capture needs and business opportunities in the global market ahead of others, and maximize shareholder value and enterprise value. Starting from April 2016, Recruit formed three new Strategic Business Units (SBUs) called Global Online HR, Media & Solutions, and Global Staffing. With a new structure designed to accelerate business momentum in each SBU, in fiscal year 2016, Recruit began to disclose information based on the SBU structure using HR Technology, Media & Solutions, and Staffing as its three reportable segments.

*Recruit voluntarily adopted International Financial Reporting Standards (IFRS) from fiscal year 2017. Prior-year comparisons for fiscal year 2016 results are based on Japanese GAAP and will differ from comparisons based on finalized IFRS figures. Please refer to page 29 for the background to the introduction of IFRS, and page 63 for performance data comparisons for each segment based on IFRS figures.

Management Strategy and Progress

Over the three-year period beginning in fiscal year 2016, Recruit Group has been working to develop new businesses and execute M&A, along with bolstering existing businesses in Japan and overseas, in order to achieve its long-term vision. Notably, Recruit Group has positioned the HR Technology segment, centered on Indeed as a growth pillar. To implement this growth strategy, Recruit has broadened the time frame of its management targets from “stable growth each fiscal year” to the “compound annual growth rate (CAGR) for three years”. We have also adopted adjusted EPS as a management target. For the three-year period from fiscal year 2016 to fiscal year 2018, we are targeting a compound annual growth rate in the high single digits. Adjusted EPS for fiscal year 2016 was ¥80.42, an increase of 15.1% year on year.
We continue to execute appropriate financial strategies in accordance with the mid- to long-term strategy. As of the beginning of fiscal year 2017, Recruit has the capacity to execute investments of up to ¥500 billion over the mid-term. Even so, Recruit has maintained its strategy of giving priority to raising funds from external borrowings when cash in hand generated from business activities does not cover the fund requirements for new investments, or when external conditions such as foreign exchange and interest rates are conducive for such financing. In terms of capital efficiency, Recruit’s basic policy is to maintain its ROE of around 15%.

■ Balancing Investments to Enhance Enterprise Value and Shareholder Returns

To benefit all shareholders, Recruit Group is committed to increasing enterprise value through appropriate management decisions on well-considered investments and ongoing earnings growth. In addition, we position shareholder returns as an important management measure.

With a basic policy of maintaining a steady and sustained dividend, we will determine the return of profits to shareholders by comprehensively regarding business performance trends and the need to enhance internal reserves for growth investments and establish a solid financial base. Guided by this policy, in February 2017, we revised our benchmark for the payout ratio from “around 25% of consolidated net income before amortization of goodwill” to “approximately 30% of profit attributable to owners of the parent, excluding the effects of non-recurring income/losses”, in order to enhance the return of profits to shareholders.* Based on this policy, in fiscal year 2016, we paid an annual dividend of ¥65 per share. Looking ahead, we will continue to steadily return profits to shareholders.

Additionally, we have decided to distribute an interim dividend from fiscal year 2017, and plan to distribute dividends twice a year based on interim and year-end dividend record dates.
We also implemented a three-for-one stock split of our common stock with a record date of June 30, 2017 and an effective date of July 1, 2017. The purpose of this stock split is to increase stock liquidity and expand the investor base by reducing the stock price per trading unit of stock.

* Presented on a Japanese GAAP basis before the revision and in terms of IFRS line items after the revision.

### Accelerating Global Business Expansion Further through the Voluntary Adoption of IFRS

Recruit Group is expanding its business in the global market. To accelerate this process, we must strengthen the foundations of our business management while enhancing the international comparability and convenience of financial information for the capital markets. Accordingly, Recruit Holdings has voluntarily adopted IFRS to replace the previous Japanese GAAP standard.

Looking at the impact of adopting IFRS on Recruit Group’s consolidated business performance compared to Japanese GAAP, revenue for fiscal year 2016 increased by ¥101.9 billion to ¥1,941.9 billion, and EBITDA by ¥1.4 billion to ¥232.2 billion. The main reason for the increase in revenue was that the consolidation period for the results of USG People (Staffing segment), which became a consolidated subsidiary in fiscal year 2016, was extended from 6 months under Japanese GAAP to 10 months under IFRS, as IFRS consolidates the business results of overseas subsidiaries on the same balance sheet date as the parent company. Operating income increased by ¥66.2 billion to ¥193.5 billion and net income attributable to owners of the parent by ¥51.2 billion to ¥136.6 billion. The main reason for the large increases in operating income and net income is that goodwill is not amortized under IFRS. Incidentally, adopting IFRS had only a limited impact on EBITDA and adjusted EPS, Recruit’s key management targets. Both targets have been adjusted to facilitate like-on-like comparisons with figures based on Japanese GAAP even after the transition to IFRS.