Summary of Financial Results for Q2 FY2014

Recruit Holdings Co., Ltd.

Recruit Group Summary

■Major Business Segment

Our company has three major business segments which are Marketing Media, HR Media, and Staffing.
As for results for FY2013, the Media business accounts for around 50% of our net sales and the Staffing segment makes up the remainder. On the other hand, if you look at our EBITDA, you will see that the Media business represents more than 80% of our total EBITDA.

■Key Management Index/EBITDA

We adopt EBITDA as a key management index and aside from non-organic growth by acquisitions, our target is to achieve mid to high single digit EBITDA growth in existing business. As for EBITDA margin for each segment, we consider that around high 20% is a comfortable zone for Media business, both for HR Media and Marketing Media. EBITDA margin for Staffing business appears lower than Media business because we need to recognize the gross amount of salary of staffing associates as revenue, however, 5.7% that we achieve currently is the highest level on a global basis.
We will allocate the available capacity to the growth strategy while maintaining the EBITDA margin.

■Mid to Long-term Vision

We plan to leverage the strengths we cultivated in the domestic market to make the Recruit Group become No.1 in global HR business by about 2020, and then to become No. 1 in both HR and Marketing Media by about 2030. Our mid- to long-term vision is to become a leading global matching platform company.
To realize our vision, we are focusing IT strategies in Japan, and carrying out M&A strategies in overseas.

■Sustainable growth in domestic business

We attain new client leveraging our IT expertise in domestic business. In the lifestyle operations, we provide cloud-based reservation and seat management solutions to our clients namely *Air REGI* for dining and *SALON BOARD* for beauty without any additional charges.
For example, *SALON BOARD* acts for reservation management in beauty salon and will show salon staff's vacancy on *HotPepper Beauty* screen. *Air REGI* is a order control solution service for Dining business which recognize the table without any order as an empty seat and post such information on *HotPepper Gourmet* screen.
Through these services, we aim to reduce operational burden on client side while providing valuable information to users and in all will improve the massive user conversion volume to the client and expand client base.
For the first half of FY2014, number of online users for Hot Pepper Gourmet was 9million whereas number of online reservations for *HotPepper Beauty* was 13.41million, both shows high achievement.

■Further growth in overseas business

As for our M&A policies, we divide our M&A strategy into two phases. In phase 1, we focus on small size acquisition or minority investments, which may enable us to increase the probability of our success while minimizing risks. In phase 2, we expedite global expansion based on the verified benefits we found in our examination. Secondly, we have a strict internal hurdle rate when making investment decisions. Our hurdle rate is based on multiple factors including the risk free rate in the target countries, and generally we require more than 10% IRR.
As we accelerated our overseas business investment for past few years, Staffing and HR Media segments are in Phase 2 now with solid M&A records, 4 for Staffing, 5 for HR Media.
As for Marketing Media, we have 9 records of alliance with local companies or minority investments for we are now in Phase 1.
For Marketing Media, we have made minor investment to the illustrated companies in the first half of this year. Briefly, Wahanda in upper left runs the largest online beauty reservation service in Europe and Quandoo is the largest dining online reservation service presence mainly in Germany and Italy. As of now, we are trying to raise value of these companies by implementing our business know-how as well as marketing methods.

■Financial Policies

We procured around 100 billion yen in our recent IPO. Under proforma calculation, we have capability of around 700 billion yen for our mid-term growth investment. We are also considering M&A deals that will require an investment of more than 100 billion yen per deal. In case we need to procure acquisition cost, we plan to look debt first. In that case, we maintain leverage level that will not impair A rating from domestic rating agency.

In addition, we are paying full attention to capital efficiency. As a yardstick we set adjusted ROE target at around 15%. Such ROE is adjusted by adding back amortization of goodwill to net income.

For shareholders return, our basic principle is to reward capital gains to shareholders by sustaining profit growth. The yardstick for our payout ratio is around 25%, based on adjusted net income.

Results for Q2 FY2014

■Consolidated Earnings Summary

In the first half, we made steady progress with two digit growth in net sales and increased EBITDA. Net sales trended favorably mainly in the HR Media and Staffing segments reflecting an expansion in demand for job recruitment, resulted 617.3 billion yen, an increase of 10.4% YoY. Net sales from overseas business were 158.4 billion yen, an increase of 19% YoY. EBITDA was 85.8 billion yen, an increase of 1.1% YoY. This was because we continued our growth, started from Q4 of FY2013, for this first half. This investment itself progressed as it planned, therefore, EBITDA was also in line with our initial plan.

Net income was 28.4 billion yen, a decrease of 4.1% due mainly to increase of depreciation of goodwill and amortization.

■Marketing Media

Net sales were 157.9 billion yen, an increase of 3.3% YoY, and EBITDA was 43.8 billion yen, a decrease of 4.4% YoY. Net sales in the Life Event operations fell 0.4% YoY but those in the Lifestyle operations rose 7.3% reflecting favorable trend. The decrease in EBITDA reflected the growth investments we made for continuous buildup of the introduction of *Air REGI* and *SALON BOARD*. The result was in line with our expectations.

In the Life Event operations, net sales in the bridal business trended solidly YoY. In the housing and real estate business, net sales trended favorably in the independent housing service and in

leasing service. Meanwhile, due mainly to increase in consumption tax, net sales were weak in the condominium apartment service, which accounts for a high ratio of net sales. Consequently, net sales in the housing and real estate business dropped 4.5% YoY.
In the Lifestyle operations, net sales rose in each business. In particular, net sales in the travel business rose 6.8% YoY, owing to a rise in the unit price for hotels and other accommodations. In addition, net sales in the beauty field sharply rose 17.8% YoY, owing to intensive introduction of the *SALON BOARD*.
In both Dining and Beauty business, the number of online reservations significantly increased reflecting IT strategies improvement.

■HR Media

Net sales were 136.8 billion yen, a rise of 17.9% YoY, and EBITDA was 32.2 billion yen, an increase of 11.6%. Net sales trended favorably in both domestic and overseas recruiting.
In domestic recruiting, owing to a positive market environment, the mid-career and temporary/part-time worker services trended favorably. We strengthened our sales force, including our sales personnel increase. This led to 11.2% increase of net sales.
We anticipate that growth rate will be moderate on and after Q3.
In overseas recruiting, net sales rose 86.7% YoY, reflecting smooth growth in service used by small and medium-sized clients. We anticipate solid growth on and after Q3. We note that the positive impact of the weak Yen to net sales was 1.0 billion yen. Excluding this impact, our net sales growth was 77.4%.

■Staffing

Net sales were 328.1 billion yen, an increase of 11.3% YoY and EBITDA was 18.9 billion yen, an increase of 13.0%, reflecting a gradual recovery in the market environment both in domestic and overseas.
In the domestic staffing operations, net sales rose 10.1% YoY, reflecting solid net sales at both Recruit Staffing and Staff Service. We anticipate solid growth on and after Q3.
In the overseas staffing operations, Net sales were up 13.2% YoY, trended favorably reflecting steady growth in the real GDP in the US and UK. We anticipate solid growth on and after Q3 for overseas staffing business as well. Also, we are continuing to implement our cost management methods, which are strengths of Recruit Group, to the overseas Staffing entities. Consequently, we are making solid progress in improving EBITDA margin. The positive impact of the weak Yen to net sales was 10.9 billion yen. Excluding this impact, net sales growth was 4.1%.

■Forecast of Financial Results for full-year FY2014

No change has been made to the forecast of financial results for full-year FY2014 announced on May.
We anticipate our YTD earnings results ended Q3 will decrease from a year ago but this is in line with our expectation as this is mainly due to a timing change of one of our product, *RIKUNAVI*, a job information website to the prospective new graduates in Japan, to Q4.