

Questions at Q3 FY2016 Earnings Results

Recruit Holdings Co., Ltd.

Consolidated earnings results

Q: Why did net sale and EBITDA of FY 2016 Q3 YTD achieve the favorable results of double-digit growth year-on-year?

A: During the period, we achieved favorable results mainly in housing and real estate and the beauty business (Marketing Media segment), overseas recruiting business (HR Media segment), and Staffing segment. As a result, all three segments saw a rise both in net sales and EBITDA and recorded double-digit growth year-on-year.

Q: What impact did exchange rate fluctuation have on results of Q3 FY2016?

A: Exchange rates during the first nine months in FY2016 were ¥108.57/USD, ¥80.43/AUD, and ¥121.06/EUR. A negative impact on net sales was ¥57.2 billion year-on-year. Based on the revised FY 2016 forecast announced on July 27, for every ¥1 rise in the yen's value against the US dollar, net sales decrease around ¥3.7 billion, against the Australian dollar, net sales decrease around ¥1.9 billion, and against the Euro, net sales decrease around ¥1.3 billion.

Segment earnings results

■ Marketing Media

Q: Why did net sales in housing and real estate business trend favorably year-on-year (+14.4%)?

A: The favorable trend in independent housing and leasing division continued in this third quarter as well. In addition, condominium apartment division, which showed a sluggish trend in the previous fiscal year, also trended favorably, reflecting a rise of major developers' customer acquisition needs in the Tokyo metropolitan area. There is a temporary positive impact on business related to custom-build housing sales because we changed its sales report timing in the first quarter.

Q: In travel business, why did net sales growth rate decreased by 3.4% year-on-year?

A: It was because net sales decrease due to an impact of the transfer of Yuko Yuko Corporation's shares in the second quarter. Without the impact, net sales achieved a high single-digit increase. In addition, room rate and the number of guests increased year-on-year by low single-digit, which became moderate compared to the previous fiscal year, since the weather was bad, holidays fell in weekdays, and hotels' operation growth which benefited recent inbound tourism surge had become moderate.

Q: Why did net sales in Life Event Other division increase by 21.1% and net sales in Lifestyle Other division decrease by 26.7%?

A: A main reason was transfer of some businesses which was included in the Lifestyle Other in the previous fiscal year. We transferred two businesses to the Life Event Other from Q1 FY2016: *Akasugu*, a mail order service for maternity and nursing parents, and *Keiko to Manabu*, a learning service for working people.

■ HR Media

Q: Why did EBITDA remain at an increase of 1.3% in spite of the 14.6% increase of net sales?

A: Net sales increased by 14.6% year-on-year, as a result of favorable trend both in domestic and overseas business. On the other hand, EBITDA remained at an increase of 1.3% mainly due to investment - we invested in promotion (mainly in TV commercials) and operating system enhancement for domestic recruiting business in the first half, as well as investment in Indeed for its mid- to long-term growth. However, EBITDA was in line with our forecast since the domestic investment scale shrank in Q3 and we saw returns on the investment we did in the first half.

Q: Net sales in overseas recruiting business recorded a year-on-year increase of 46.3%. It seems that its growth rate is slowing down compared to that of in the first half. What is the reason for that?

A: A negative impact of foreign exchange fluctuation was 9.7 billion yen, and without it, the growth rate of its net sales achieved continuous high growth of 63.0%. There is no change in its growth trend. We will continue to invest in user-base enhancement. In addition, we focus on measures to expand client base, such as establishing local corporations and increase sales reps in the regions where we have already held solid user base, aiming full-scale monetization outside the US.

■ Staffing

Q: Why did both net sales (+16.0%) and EBITDA (+24.6%) trend favorably year-on-year?

A: Despite ¥45.8 billion decrease from currency fluctuation, net sales trended favorably with ¥81.8 billion yen contribution of USG People consolidation in Q3; ¥38.3 billion contribution of three subsidiaries acquired during the previous fiscal year, Chandler, Peoplebank, Atterro; and double-digit increase in domestic operation as a result of solid market environment.

EBITDA trended favorably as well with net sales increase and development of unit management, which is Recruit's specific expertise to improve management efficiency, in overseas existing subsidiaries.

■ Other

Q: Why did you revised dividend forecast and payout ratio?

A: As well as focusing on our strategic investment for sustainable profit growth, we aim to pursue stable and sustainable returns to our shareholders in an effort to return our profit to shareholders as important management measures. Therefore, we review payout ratio every fiscal year, considering competitor's payout ratio level and our earnings and financial condition.

Based on it, we revised payout ratio from around 25% to around 30% and raised the dividend forecast from 50 yen to 60 yen per share. In addition, with an aim to pursue stable and sustainable returns to our shareholders, we have changed the definition of dividend resource as "net income prior to amortization of goodwill, excluding the effects of extraordinary items" which was previously defined as "net income before amortization of goodwill".

Q: You will adopt IFRS from Q1 FY2017. How much impact will the adoption have on your earnings results?

A: We will have an impact on operating income because we do not amortize goodwill under IFRS. Recruit will explain its impact followed by IFRS adoption at the announcement of FY2016 full-year results.

Disclaimer

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