

Questions at Q2 FY2014 Earnings Results

Recruit Holdings Co., Ltd.

Consolidated earnings results

Q: Why was EBITDA growth a 1.1% YoY despite net sales growth of 10.4%?

A: The increase in net sales reflected brisk momentum in the HR Media and Staffing segments owing in part to an expansion in job recruitment demand in Japan. In contrast, the low EBITDA growth rate reflects an increase in certain operating expenses due to the implementation of growth investments, including the introduction of *SALON BOARD* and *Air REGI*, which are IT tools designed to support client's business operations, and the ID point strategy enhancements. In addition, we began implementing growth investments from Q4 FY2013, which created a deviation in the make-up of quarterly EBITDA in FY2013. That said, we believe we are making favorable progress toward achieving the full-year earnings forecast we released at the start of the fiscal year.

Q: In the first six months, only 45% of the full FY2014 EBITDA target (¥191.0 billion) was achieved. This seems low. What factors triggered this?

A: We generally post a substantially higher level of profit in the second half, in contrast with the first half. This is mainly due to the impact from seasonal products, including those that target new graduates. In FY2013, we began selectively implementing growth investments from Q4. This has slightly changed the general weighting of profits. In FY2012, we posted 44.9% of our full-year EBITDA in the first half. In FY2014, we expect to see the same results.

Q: Why did operating and net income decline YoY despite a rise in EBITDA?

A: This primarily reflects an increase in depreciation expense mainly in conjunction with our growth investments, as well as an increased goodwill amortization of acquired subsidiaries due to a weaker yen. We note that we employ EBITDA (operating income + depreciation and amortization + goodwill amortization) as a key management index.

Q: What impact did the fluctuation in exchange rates have on earnings?

A: For every ¥1 decline in the yen's value versus the US dollar, sales rise around ¥3.0 billion. That said, given our foreign exchange rate assumption for FY2014 of ¥103/USD, our first half sales increased around ¥12.0 billion owing to benefit from a weaker yen.

Q: Why do you anticipate a decline in EBITDA for the first nine-months (Q1–Q3) in FY2014?

A: This mainly reflects the following two factors. In FY2014, we plan to post earnings from our *RIKUNAVI* platform, a product for new graduates, in Q4, rather than in Q3, as was the case in FY2013. Also, we plan to continue to carry out growth investments, which we began implementing in Q4 FY2013. We note that we are retaining the full-year forecasts we announced at the start of the fiscal year given the smooth progress in earnings growth we made in the first half and as we expect to see the YoY profit growth in Q4.

Segment earnings results

■ Marketing Media

Q: Why did EBITDA decline 4.4% YoY, despite a sales growth of 3.3%?

A: The decline in EBITDA chiefly reflects a rise in certain operating expenses owing to the promoted introduction of our IT system for supporting client business operations, including the *SALON BOARD* and *Air REGI*, in Lifestyle operations.

Q: In Life Event operations, why did sales drop 0.4% YoY?

A: This reflects a decline in sales in the housing and real estate business of 4.5% YoY. In the housing and real estate business, sales were brisk for secondary transaction of houses and condominiums, and also owing to demand for rentals. Meanwhile, in the new condominium division, sales trended weakly due in part to impact from a reactionary drop in demand, following the last-minute rush demand to beat the consumption tax hike. We expect to see similar trends in and after Q3.

■ HR Media

Q: I believe both sales and EBITDA rose YoY in this segment. What catalysts drove this brisk profit growth?

A: In domestic recruiting, sales were brisk underpinned by an expansion in job recruitment demand. In addition, we also saw a continued increase in the use of Indeed, a global HR service for small- and medium-sized clients, in overseas recruiting. We note that from Q3 onward we expect solid earnings trends to continue in the overseas recruiting business. In contrast, we anticipate modest trends in the domestic recruiting operations.

Q: Although sales and profit trended upward, what triggered the slight decline in the EBITDA margin?

A: Operating expenses increased temporarily, mainly in the part-time field of the domestic recruiting operations, in tandem with a review of our sales structure, including the outsourcing of some functions.

■ Staffing

Q: I believe both sales and EBITDA rose YoY in this segment. What catalysts drove this brisk profit growth?

A: In the domestic and overseas staffing businesses, earnings trended briskly underpinned by a gradual recovery in the market environment. Moreover, in the overseas staffing business, we posted an improvement in the EBITDA margin thanks to advancements in management efficiency, which is one of our strengths.

■ Other/adjustments

Q: In other segment, how do you explain the widened decline in EBITDA?

A: We posted expenses in this segment related to the ID point strategy. This reflects the intensive investment to implement this strategy since Q4 FY2013.

Q: How did adjustments trigger a widened decline in EBITDA?

A: Under adjustments we mainly post expenses related to corporate staff. This reflects costs for strengthening security measures, the hiring and training of IT engineers, which are related to the IT strategy enhancements, and one-off costs related to the listing of our shares.

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