

Summary of Financial Results for FY2016

Recruit Holdings Co., Ltd.

Results for FY2016

■ Consolidated Earnings Summary

Consolidated net sales increased by 15.8% year-on-year to 1,839.9 billion yen. EBITDA rose by 14.1% to 230.8 billion yen, achieving record-high results. Net sales exceeded revised forecast announced on July 27, 2016, by approx. 10 billion yen, and EBITDA surpassed the forecast by approx. 8 billion yen, mainly due to higher-than-expected growth in Indeed. Indeed, which we position as a growth business, has recorded revenue of USD 117 million with approx. 62% growth. Operating income increased 11.6% to 127.2 billion yen. Net income increased by 32.4% to 85.4 billion yen due to extraordinary income of 28.5 billion yen including proceeds from sales of subsidiary shares. Adjusted net income excluding amortization of goodwill and extraordinary income and loss was 134.3 billion yen, an increase of 13.5%. Adjusted EPS grew by 15.1% to 241.27 yen, which we set as our key management target in fiscal year 2016, making a favorable start for the first year of our mid-term target of three year CAGR of high single digits.

Overseas sales ratio to overall group sales increased to approximately 40% from previous fiscal year results of 35% due to consolidation of staffing company and Indeed's growth.

We raised the dividend per share for FY2016 from the latest announcement of 60 yen to 65 yen.

■ Financial Results Highlights by Segment

All segments achieved favorable results with increase of net sales and EBITDA.

In Marketing Media, net sales recorded 376.3 billion yen, a year-on-year increase of 7.7% and EBITDA grew by 9.4% to 102.0 billion yen along with EBITDA margin of 27.1%.

In Life Event business, net sales increased by 10.2% to 197.4 billion yen with favorable performance in condominium apartment division and independent housing division of Housing and Real Estate business. In Lifestyle business, we saw healthy trend in beauty business and it resulted in net sales of 171.7 billion yen, an increase of 2.7%.

HR Media recorded net sales of 405.3 billion yen, an increase of 12.8%, EBITDA of 94.6

billion yen, an increase of 7.6%, and EBITDA margin of 23.4%. In Domestic Recruiting business, full-time job division and part-time/temporary job division made a solid growth and net sales increased by 4.2% to 266.6 billion yen. In Overseas Recruiting business, as a result of Indeed's high growth, net sales grew by 42.5% to 120.2 billion yen.

In Staffing, net sales increased by 20.1% year-on-year to 1,068.7 billion yen, EBITDA rose by 27.6% to 63.3 billion yen, and EBITDA margin was 5.9%. Net sales in Domestic Staffing recorded 463.4 billion yen, an increase of 11.9%, with a favorable trend reflecting a solid market environment. In Overseas Staffing, net sales grew by 27.2% to 605.2 billion yen with the six-months-contribution of USG People.

Without the foreign exchange fluctuation, consolidated net sales in FY2016 increased by 20.5%, HR Media Overseas Recruiting sales grew by 58.8%, and Overseas Staffing sales were up 39.6%.

Mid-term Strategy

■ Segment Change

We have changed the reporting segments from this FY2017 to align with the Strategic Business Unit, SBU, structure which we had adopted in the previous fiscal year.

First SBU is HR technology which is comprised entirely of Indeed. This was formerly Overseas Recruiting within the HR Media segment.

Second, Media & Solutions includes former Marketing Media segment, Domestic Recruiting and others in HR Media segment, and Other segment.

And finally, the Staffing segment remains unchanged from the former segment.

■ Our Business Model Realizing Mid- to Long-term Vision

Since our IPO in October 2014, Recruit Group has been operating diverse businesses globally, setting our sights on becoming No1 in global HR business by 2020 and becoming No1 in global HR and Marketing Media business by 2030. In all three segments, we aim to constantly provide new value to our clients and users by eliminating inconvenience around the world with our unique business model of providing matching platforms for every opportunity. Positioning the HR technology as a growth driver over the mid-term, we will realize our vision by leveraging the strengths of each of the three segments while utilizing M&A actively.

■ HR Technology

In the HR Technology segment, Indeed already has an aggregate of employers of more than 3 million that have used Indeed.com to hire on a global basis. We aim to further expand this business both in the US and other regions. At the FY2015 full-year financial announcement, we mentioned we expect Indeed's FY2018 revenue to be at least doubled from FY2015 figures, however, considering its growth trajectory so far and assuming current economic conditions persist, we are raising our revenue objective and now believe Indeed can achieve three fold growth to over 2 billion USD in FY2018. As we set strategy of entering other HR related businesses, we believe there is significant opportunity for technological innovation in other areas of the HR function. Leveraging Indeed's assets such as its advanced technology and jobseeker data, and utilizing M&A, we will expand into other business areas to drive future growth.

■ Media & Solutions

Media & Solutions business has achieved stable sales growth by strengthening existing businesses and creating new businesses. We aim to maintain high EBITDA margin at around 25%, even including new business investment for the future. We enjoy a high competitive advantage in existing businesses in Media & Solutions. In order to further strengthen our business base and pursue continuous growth, we believe it is necessary to put more focus on offering diverse services for clients' daily operations which are not limited to advertisements for hiring and attracting users and also on acquiring clients in new categories of business. As examples of services in the category of customer management, accounting, and payment, we are offering Air Platform including Operation Support Package for Dining business and Air Pay, both of which contribute to SME productivity improvement and started taking fee from clients. They are demonstrating a strong start. Through these efforts, we aim to strengthen our client base and establish a diversified business portfolio, to realize sustainable growth.

■ Staffing

The domestic Staffing business has achieved a world's highest level EBITDA margin of 7%. We are continuously working on EBITDA margin improvement by introducing our expertise to acquired overseas subsidiaries. In the previous fiscal year, USG People contributed to our consolidated financial results with its six-month-results. Assuming it was a full-year contribution, Overseas Staffing sales were supposed to reach approximately 760 billion yen. Our goal is to achieve 1 trillion yen overseas net sales around 2020 through M&A in overseas markets, while improving EBITDA of acquired subsidiaries.

IFRS adoption

We have adopted IFRS from FY2017. FY2016 results difference between JGAAP and IFRS is as explained below.

■ IFRS Adoption Impact on Consolidated Results

The impact from the adoption on our key management target, EBITDA and adjusted EPS, is limited. Revenue increased 101.9 billion yen compared to figures under JGAAP because of the consolidation period difference of USG people: the period used to be six months under JGAAP but changed to ten months under IFRS. This is because overseas subsidiaries results are integrated into the Group's consolidated results in a timely manner under IFRS. Operating income increased 66.5 billion yen and net income increased 50.5 billion yen because goodwill is not amortized under IFRS.

EBITDA and adjusted net income, the basis of adjusted EPS, are arranged under IFRS, to make those definitions equivalent to the one under JGAAP.

■ IFRS Adoption Impact on Consolidated Balance Sheet

As of adoption date, April 1, 2016, the difference between JGAAP and IFRS of 44.1 billion yen on total assets is resulting from; changes of exchange rates due to account closing date unification of overseas subsidiaries, and impairment of goodwill. Total liabilities increased 29.9 billion yen due to a rise in advanced revenue. It is arose because revenue of web ads service is allocated over the posting period.

We evaluated goodwill based on IFRS as of the adoption date, April 1, 2016, and had recognized an impairment of goodwill, mainly in Quandoo with the entire 22.8 billion yen and Hotspring with a partial amount. However, both subsidiaries do not have any impairment under JGAAP. This adjustment is only made on balance sheet, and there is no impact on the profit and loss statement of FY2016.

Regarding Quandoo, an online restaurant booking service provider in Europe, we haven't changed its positioning that it aims to turn profitability in the longer term, since the acquisition in March, 2015. Our current priority is focused on acquiring user-capturing restaurants, to boost the number of reservations. The operation is currently behind our initial plan, however, some considerable development can be seen as a result of our efforts, for example, the number of reservations has doubled in some regions. EBITDA of FY2016 is approximately a 2 billion yen loss,

which is in line with our expectation at the time of M&A.

Hotspring, a beauty salon online reservation service provider in Europe, has secured its competitive edge as a pioneer in this market. Due to trials for capturing customers, the current business plan is approximately one year behind the initial plan. However, we have seen healthy growth as it has achieved No.1 in the number of online reservations in 8 countries out of 10 countries where we operate the business, and an EBITDA surplus is expected in 2020.

Total assets on balance sheet at the end of FY2016 increased 22.8 billion yen because goodwill was not amortized. The increase of total liabilities of 25.2 billion yen is due to a rise in advanced revenue. This is because revenue of web ads service is allocated over the posting period.

FY2017 Full-year Forecast & Shareholder Returns

■ FY2017 Full-year Forecast

As we have adopted IFRS from this FY2017, the forecast is shown under IFRS. Revenue is expected to increase by 7.3% year-on-year to 2,084.0 billion yen due to expected high growth of HR Technology segment and the full-year contribution of USG People in Staffing segment. EBITDA is to increase by 18.5 billion yen, an 8.0% increase, to 251.0 billion yen from 232.4 billion yen in the previous fiscal year, also due to high growth of HR technology and continuous growth of Media & Solutions. We expect 185.5 billion yen operating income, a decrease of 4.3%, however, excluding FY2016 proceeds from sales of shares of Yuko Yuko Corporation, it is to be an 8.0% increase. Profit attributable to owners of the parent is estimated to be 122.0 billion yen, a decrease of 10.3%, however, it is to increase by 4.3% without the impact from the sales of shares. Adjusted profit is expected to be 137.0 billion yen and adjusted EPS is to 246.02 yen, both will achieve a moderate increase of 2%, due to depreciation cost and a decrease in tax deduction as a result of a change in taxation in Japan. We set a management target, a high single digit CAGR for adjusted EPS over the three years. In FY2016, we achieved 15.1% and in this fiscal year it is expected to be 2%. Therefore, two years CAGR is to be 8.4%, and we remain on track to achieve this target. Adjusted ROE achieved 18.0% in FY2016. We will continue to maintain ROE of approximately 15% under IFRS. Assumed exchange rates are 110 yen for USD, 118 yen for EUR, and 82 yen for AUD.

■ Shareholder Returns

We raise the annual dividend per share for FY2017 by 1 yen from FY2016 to 66 yen. Additionally, to enhance opportunities for shareholder return, we will start to pay an interim dividend from FY2017. Also, to increase liquidity of the stock and to acquire diverse shareholders, Recruit intends to implement a three-for-one stock split as of July 1, 2017. After the stock split, interim dividend is to be 11 yen, and year-end dividend is to be 11 yen, totaling full-year dividend of 22 yen per share of common stock.

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