

Investment Proposal

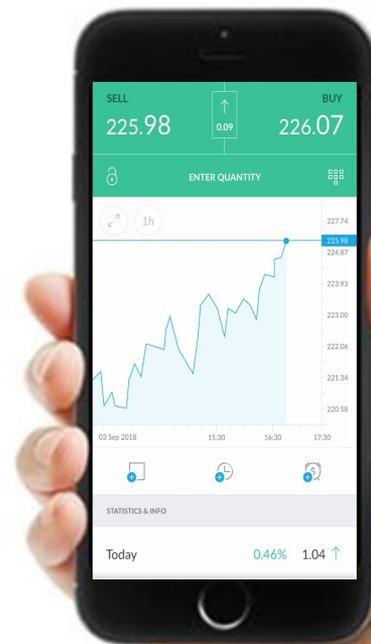


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Company overview

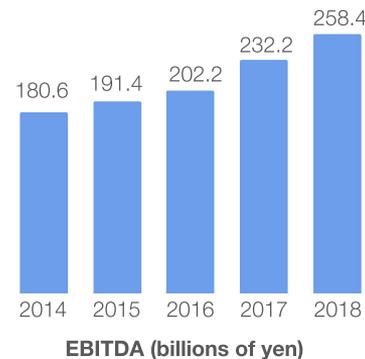
Company Overview

- Japan based Recruit Holdings provides HR solutions through global job-search platforms
- Currently undertaking ambitious global acquisition strategy with large US and Canadian recent acquisitions
- Large troves of data across different 'life-event' domains (i.e. employment, bridal, travel, education) data-analytics-ready

Recent Acquisitions



Key Statistics



Market Cap and EV
(billions of yen)

MC: 5,235
Cash: (389)
Debt: (733)
EV: **4,113**

DCF Valuation Price Target

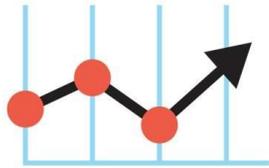
JPY 4000
(30% upside)

	2014	2015	2016	2017	2018
Total Revenue	1,192	1,300	1,589	1,942	2,173
% Growth YoY	14%	9%	22%	22%	12%
Cost of Sales	602	645	832	1,052	1,159
Gross Profit	589	655	756	890	1,014
% Gross Margin	49%	50%	48%	46%	47%
SG&A Expenses	485	533	642	711	817
Operating Income	104	123	114	180	197
Pro-forma EPS (¥)	196.44	197.24	79.00	80.42	86.74
Free Cash Flow	121	131	149	136	174

The current operating model is fee driven from various platforms

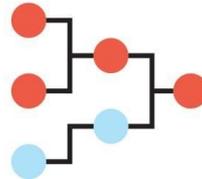


Our Investment Thesis is driven by three areas



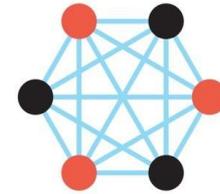
Work Reform

- Japanese government structural reform to address shrinking and ageing workforce
- Increasing demand for HR services as participation rates of women and foreign workers increase



Big Data

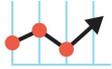
- The Rise of Big Data will provide new opportunities for HR companies with large data troves: Recruit's strong suit
- Clients will receive tailored data analytics to enable better products decisions



Ecosystem

- Recruit has built strong relationships with corporates and job seekers driven by #1 job platform Indeed
- Loyalty driven by value-adding life services integrated within their life-events ecosystem

Abenomics driven work reform is changing the HR landscape

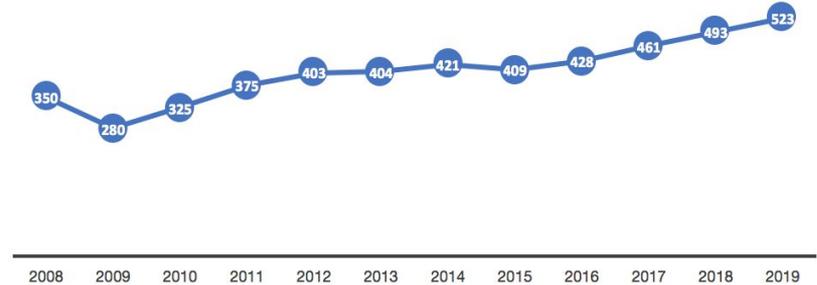


Work Reform

- Japan's economy has long been criticised for traditional business practices, slow decision making outpaced by economies US and China
- Current ongoing structural reform intends to open the economy, modernise the workforce and change work practices to foster innovation and growth
- This sets the perfect scene for Recruit who are pursuing aggressive domestic and global acquisition in the job search market, with the staffing business comprising 60% of the business
- We see significant upside on the back of a global trend in the staffing industry with 50% global growth since 2008

Global Staffing Industry Revenue (in billions of US dollars)

Key Statistics



2.5m

women
employed
2012-2017

4.3%

wage increase:
highest since
1995

20%

increase in
Expatriate job
applications

The Rise of Data: the new Big Data model of HR tech

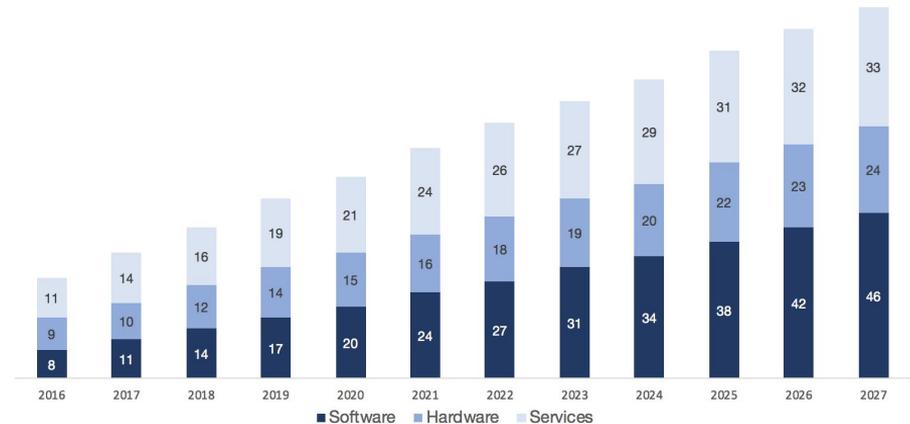


Big Data

- Since its founding in 1963, Recruit has been collecting data from clients across a wide range across its staffing and media & communications segments
- Utilising a 'Ribbon' model, Recruit ties together user data together to match and package them up for clients
- Dr Alon Halevy, an ex-Google researcher expert in data integration heading up efforts to integrate data from each vertical to synergise data ecosystem

**Big Data Revenue Worldwide by major segment
(in billions of US dollars)**

Key Statistics



Source: Big Data Revenue Worldwide 2016-2027

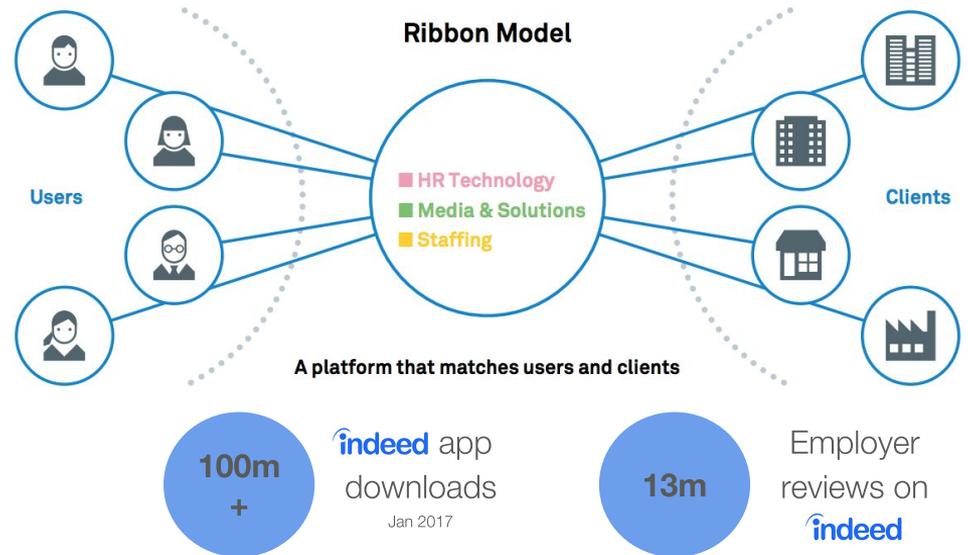
<https://www.forbes.com/sites/louiscolombus/2018/05/23/10-charts-that-will-change-your-perspective-of-big-datas-growth/#50c5f6712926>

Strong stickiness with existing customer ecosystem



Customer Ecosystem

- At its core, the different domains across HR Technology, Media & Solutions and Staffing drive customer loyalty
- The ecosystem is inorganically growing via recent acquisitions of Glassdoor and Workopolis - this trend is set to continue to further bolster the ecosystem and build on Indeed - the World's Number 1 job-search platform
- The unique value proposition of Recruit Holdings are the cross-synergies of different lifestyle businesses that provide data on customers



Valuation using the DCF method shows 30% upside

Valuation Assumptions

- Recruit Holdings Co., Ltd. operates 3 main businesses (HR Technology, Media & Solutions, and Staffing)
- From FY 2012 to FY 2016 (JGAAP), each business shows revenue growth of CAGR 18.1%, 6.3% and 17.9% respectively
- Based on historical data, the team made adjustments via research and interviews
- Assumed that the cost structure remains unchanged from the most recent financials
- EV-EBITDA Ratio used to avoid the effects of depreciation/amortization and tax

Target Price

Key Statistics

Equity Value per share					
Unit: JPY					
WACC	EBITDA multiple				
	14.2x	16.2x	18.2x	20.2x	22.2x
2.93%	3,243.9	3,600.1	3,956.3	4,312.6	4,668.8
3.93%	3,124.0	3,465.4	3,806.8	4,148.2	4,489.6
4.93%	3,010.2	3,337.4	3,664.7	3,992.0	4,319.3
5.93%	2,901.8	3,215.7	3,529.6	3,843.5	4,157.4
6.93%	2,798.8	3,099.9	3,401.1	3,702.3	4,003.4

- For the past 5 years, the target's EV to EBITDA ratio has ranged from 9.50 to 22.90 with median of 14.50
- Based on DCF valuation, we estimate a target price of JPY 4,000/share, expecting upside potential profit of 30%
- (JPY 3,089 as of 2nd Nov)

Technical analysis supports Bullish Trend and price target

- Bullish trend began after breaking out from its sideways movement November 2016
- After experiencing its biggest drop from its all-time high of ¥3845, it is currently trading at the area of Support 1 (¥2870) which is, incidentally, close and above the uptrend line.
- Moreover, the drop is not accompanied with huge trading volume, which shows that the selling pressure is not as strong as it seems
- Confluence of technical indicators, including the 0.382 Fibonacci Retracement level, provides evidence the stock is still in a bullish trend
- Should price breach Support 1 and the uptrend line, possible support will be at the ¥2500 level (Support 2) resulting in a downside risk of 13%. However, the upside is 35% which makes the risk/reward ratio high enough to execute and in line with our DCF price target



Technical analysis does not serve as the main criteria for investment selection for Recruit, but rather provides information for confirmation, risk management and entry timing

Global competition for the HR space is heating up

- Established Internet companies moving into the work space (threat of FAANG)
- Established work internet companies moving into the recruitment and skills space (i.e. LinkedIn)
- The rise of Artificial Intelligence may threaten the staffing business through disruptive data usage
- Pressure on domestic demand due to aging and shrinking Japanese population may dampen returns



Management analysis however shows depth & tech savvy board

Leadership

Current Executive Board



Masumi Minegishi

President, CEO, and Representative Director

Shogo Ikeuchi

CSO, CHRO, and Senior Managing Corporate Executive Officer

Keiichi Sagawa

CFO, CRO, and Senior Managing Corporate Executive Officer

Rony Kahan

Board Director

Naoki Izumiya

External Board Director

Hiroki Totoki

External Board Director



- Revamping their corporate governance policies and procedures in 2018, this is a strong driving factor behind our team's optimism on stock performance relative to the Nikkei 225
- The team spoke to Mr Ikeuchi - the Chief HR Officer about their direction
 - Notable acquisitions in 2018 likely to continue in the short to mid term
 - Recruit are assessing venture opportunities in Silicon valley