

Summary of Introduction to Staffing Business

Recruit Holdings Co., Ltd.

■ Business expansion of our Staffing business

In the last five fiscal years, we successfully achieved a two-fold sales increase from approx. 500 billion yen to more than 1 trillion yen. With this increase, EBITDA approximately doubled. We realized this business expansion primarily through M&A activity.

We started our business as SHE'S STAFF founded in 1987, which later became Recruit Staffing. Then in 2007, we acquired Staff Service Holdings in Japan. In 2010, we entered the global market, with our first acquisition of a U.S. staffing company, The CSI Companies. Success with CSI convinced us that the Unit Management system can be utilized for overseas companies as well. Therefore we completed the acquisitions of; Staffmark Holdings, Inc. and Advantage Resourcing America, Inc. and Advantage Resourcing Europe B.V. in 2011, Chandler Macleod Group Limited and Peoplebank Holdings Pty Ltd in 2015, and most recently USG People B.V. in 2016.

As a result of our overseas expansion, our business portfolio now covers North America, Europe, Australia, and Japan, which we originally targeted as our projection.

■ Management after acquisition: the Unit Management Method

Our management priority after acquisition is put on EBITDA margin improvement. The North America operations have shown steady improvement and EBITDA margin is now close to the level of our domestic business which is global leading level. In Australia and in Europe EBITDA margin is also improving, though they are still in the early stage.

○ How do we improve EBITDA margin

The "Product" of a Staffing service is the WORKFORCE of temporary workers, therefore it is difficult to differentiate the service. Also, a majority of revenues are salaries paid to workers, therefore it would be difficult to reduce the COGS. Workers need to find a job close to their homes, which means a concept of pursuing efficiency with massive scale and standardized service for a large area does not work for this business.

After seeking the possibility of securing EBITDA and enlarging the business to certain size with keeping these characteristics in mind, Unit Management method was developed.

We came up with the idea that what we can do and we should do to improve EBITDA is to introduce an autonomous management system for each "unit", which is a smaller division of the organization and continue incremental improvements in each Gemba (the real place), and also it may be possible to achieve global expansion of the business if we continue to compile such unit

operations.

What we do in Unit Management is to divide the organization into small-scale units based on the job category each team is dealing with, and geographical conditions: each unit has several functions and is comprised of 10-100 personnel. Management authority is given to a unit manager who manages his or her unit just like a company. Monthly P/L and KPIs are shared throughout the entire organization to motivate all employees to generate profit, making it possible to improve EBITDA margin for the entire organization.

○ **How do we introduce the Unit Management to an acquired company**

After acquisition, we intensively work with the management teams so that the Unit Management takes root in the organization.

At first step of the Unit management introduction, sales may decrease temporarily, because in some cases we choose to exit from business that operates as a very low profit. However, a rise in productivity leads to margin improvement.

At second step, a stage of organic sales growth naturally follows the stage of productivity management, once the organization begins to adopt well the improvement cycle, and we see sales growth and organic EBITDA growth.

○ **Reason of staying away from the Unit Management**

1. Managers become nervous when they are not required to grow sales or raise market share.
2. It is important for all the employees to pay attention to the whole process including client visit and collecting receivables. In many cases, a CEO who used to be a successful sales person or those from financial services tend to lack experiences either in production management or retail chain management, which actually provide great insights to staffing service.
3. Investment cost and administrative cost such as headquarters expense for administration have to be allocated to each Unit. Otherwise they tend to simply grow because it is not easy to measure its ROI.
4. Not a formal structure of Unit Management makes the difference. If the top management doesn't really put their feet on the ground, he/she cannot provide practical guidance to operations.
5. It is difficult to persuade the local office or other management members, without a success example.
6. It is difficult to wholly in to challenging the new management method

○Reasons of Success in Governing Acquired Companies

1. Recruit management member takes the position of chairman
2. The important thing is to find Who can do, not Which Company can do
3. We do not dispatch our employees to let them act as a “watchdog”, but assign Japanese expats under local managers and make them come back to Japan if the boss is not happy to have them. This policy is working as the base for us to grow the subsidiary together.
4. Only a few Japanese staffs are dispatched to a subsidiary.
5. It is important to minimize interference by HQ’s function by clarifying roles between management and execution.
6. Fully trust the local managers. When they fail to meet expectation even so, we request them to leave.

■Strategy for the future

We will continue searching for acquisition opportunities which have a good fit to apply the Unit Management method. Also we will continue to focus on improving EBITDA margin in the acquired subsidiaries. In doing so, we aim to achieve overseas sales of 1 trillion yen around 2020.

Through our staffing business, for temporary workers, we offer opportunities for job application, career development opportunity for the future, and flexible workstyle.

We also strive to create value for client companies through supplying working force promptly and by reducing their HR /labor management work.

Recruit group is now providing job opportunities to more than 260 thousand people throughout the world.

Going forward, we aim to deliver value continuously to both workers and employers in the world through our staffing business.

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