Business Strategy Presentation - Help Businesses Work Smarter

July 12, 2022

Shen: Welcome to the Recruit Holdings Business Strategy Presentation call about Help Businesses Work Smarter.

This call is a simultaneous translation of the original call in Japanese and translation is provided for the convenience of investors only.

Today we have Yoshihiro Kitamura, Managing Corporate Executive Officer and Head of the Media & Solutions SBU and Junichi Arai, Corporate Executive Officer in charge of the Corporate Planning Division.

We'll play our prepared remarks, around 15 minutes, then move to a fireside chat with Yoshi and Jun.

The presentation video will be uploaded shortly after this event. The slides have been uploaded to our IR website.

Now let's move to the video presentation.

Slide2

Yoshi: I'm Yoshi, Managing Corporate Executive Officer and Head of Media & Solutions.

Today, I would like to explain the Media & Solutions business strategy, "Help Businesses Work Smarter" and I'd like to discuss our plans for future business expansion.

The last time I presented was in November 2017 so I am excited to share our progress and updates to our strategy.

Slide3

Media & Solutions consists of two subsegments in Japan: Marketing Solutions and HR Solutions, where we maintain the largest market share in many of the verticals in which we operate.

In each vertical, we offer online matching platforms to connect individual users and business clients, and we also offer software as a service across these verticals and others to help business clients operate more efficiently and improve their productivity.

Slide4

In FY2021, revenue in Media & Solutions was 658.6 billion yen and adjusted EBITDA was 102.4 billion yen. As we disclosed on May 16th, revenue in this fiscal year is expected to recover to a level similar to pre-COVID.

Slide5

"Help Businesses Work Smarter" is the second pillar of Recruit Holdings' three business strategies. Its goal is to create an ecosystem of solutions that support the operations of businesses in Japan to help improve their productivity and profitability.

Slide6

In Japan, the labor force continues to decline due to a low birthrate and an aging population. We estimate that Japan will need to increase productivity per capita by 15% just to maintain the 2019 GDP level in 2040.

Therefore, I believe improving productivity is a top priority for Japan.

Slide7

Through our matching platforms, we have been operating a two-sided marketplace business model. For individual users, we provide highly convenient services which offer the best options and peace of mind.

For business clients, we help them attract customers by maximizing the number of matches on our platforms.

Slide8

While we are leveraging data and technology to further improve our matching platforms, we are also providing cashless payment services.

We aim to simplify the entire business process for business clients by replacing complicated administrative and operational processes with our SaaS solutions called "Air BusinessTools".

Slide9

We aim to maximize the number of matches between individual users and business clients as well as the number of actions that lead to increased sales for our business clients such as reservations and payments.

In other words, we are building an ecosystem that enables business clients to more quickly and easily respond to more actions from individual users.

By leveraging technology, business clients can increase operational efficiency and improve the overall performance of their business.

Slide10

Air BusinessTools provides sales management and payment functions, customer relationship management, human resource management, and cash management, including a wide range of payments and working capital solutions, all within a single ecosystem linked to one ID.

We aim to become an indispensable partner to our business clients by efficiently circulating the flow of people, goods and services, and payments within the ecosystem.

As a result, we are creating a "simpler, faster, closer" world for both individual users and business clients.

Slide11

We will measure our success using three KPIs:"the number of actions by individual users" on our matching platforms, "the number of registered accounts" utilizing our SaaS solutions, and "the gross payment volume" that accumulates as a result of the completion of payments.

We believe that we can grow our revenue by having more individual users and business clients continue to utilize our ecosystem for a longer period of time, thereby maximizing the lifetime value of both parties.

We are in a unique position to achieve this as we have already established matching platforms with a huge amount of individual user actions.

Slide12

In order to reflect this vision, which is centered on our matching platforms, we are changing the name of the SBU and business segment to "Matching & Solutions".

Slide13

Before discussing our future strategy, I'd like to briefly explain how we have evolved our business over the last six decades.

Since our foundation in 1960, we have expanded our business from job advertising to marketing, from print to online media, from online media to matching platforms, and from matching platforms to an ecosystem that includes SaaS.

Today, we are providing matching platforms and solutions that not only help business clients increase awareness and customer acquisition through advertising, but also help increase "the number of individual users taking an action" and "the number of matches between individual users and business clients."

Slide14

In FY2021, the total number of actions by individual users was approximately 300 million, an increase of approximately 10 times compared to 33 million 10 years ago.

This increase is the result of our shift from paper media to online matching platforms and the continuous focus on improving the satisfaction of individual users and business clients by optimizing matching through the collection and analysis of action data.

Through this transition, in addition to an advertising-based revenue model, we have introduced "cost per action" models where fees are linked to individual user actions and flat-rate fee models so that business clients have flexibility, giving them comfort that they can use our services for a long period of time.

Now I'll discuss what we are working on right now.

Slide15

We aim to help business clients improve their business performance after the actual matching stage, for example by facilitating reservations, orders and payments.

Our SaaS solutions connect the actions of individual users and the operations of business clients in real time through online reservations on Hot Pepper Beauty or Hot Pepper Gourmet.

We want our business clients to be able to "complete their entire range of business processes within our ecosystem using a single ID."

SaaS solutions are now being used by business clients beyond those who are already using our vertical matching platforms. As a result, this has led to an increase in the overall number of SaaS accounts.

Slide16

The number of registered accounts using our SaaS solutions in FY2021 was approximately 2.45 million.

Slide17

We had previously estimated that there were roughly 2.9 million business locations and stores in Japan that could be potential users of our Air BusinessTools.

However, today, we believe that the expansion of our SaaS solutions including the introduction of AirWork ATS and other solutions may enable us to reach a broader range of potential clients.

We now estimate the number of potential users at roughly 4.53 million business locations and stores in Japan.

We currently offer approximately 20 SaaS solutions, primarily within Air BusinessTools, and we recognize that there is still significant white space to expand the number of accounts, as we continue to launch new services in the future.

We believe that expanding the number of SaaS accounts will increase the number of business clients whose business operations we can track in a real-time manner, which we expect will further contribute to an increase in the number of actions on our matching platforms.

Slide18

In the future, as our ecosystem takes shape to streamline the flow of people, goods and services, and the flow of money with payments as the entry point, we are aiming to expand further into fintech services to simplify and improve the efficiency of complicated processes related to payments and cash flow management.

Slide19

AirPAY, a cashless payment service, was initially launched by targeting potential Air BusinessTools users. However, we now believe that this service can be used by many business clients regardless of the size of their business.

AirPAY has allowed us to enter a part of the cashless payment market, which has a total gross payment volume of approximately 100 trillion yen.

As we continue to expand our fintech services, we believe it is crucial "how simply and how quickly" we can utilize the payment volumes that accumulate in our ecosystem from payments made mainly through AirPAY and AirPAY ONLINE to help our business clients improve their performance and operational efficiency.

Therefore, we view GPV as one of our important KPIs, and we currently expect annual GPV to reach approximately 1 trillion yen in the fiscal year ending March 2023.

Slide20

One example of our expansion of fintech services is AirCASH. There are many SME owners who are not sure where to go for funding when sudden working capital needs arise and are unfamiliar with the time-consuming processes that must be completed.

Additionally there are small and medium-sized business owners who have large personal advances or have incurred personal debt for their businesses.

This April, we launched a service called AirCASH which is a fintech service for business owners that allows them to obtain cash in advance based on their future revenue.

AirCASH was created with the idea to support business clients' sustainable growth by offering cash in a safe, easy, and timely manner, and varying the amount deducted from settlements in line with their expected monthly revenue.

Slide21

We also aim to expand our services into the payroll sector in the future.

Each month in Japan, there are long queues of employers at banks on payday making payroll payments. And on the same day, employees form long queues in front of ATMs to withdraw cash.

We are excited to imagine how much more efficient and convenient this would be if these two processes could be completed with a single click.

Lastly, we would like to share with you how we expect the financial performance of the Matching & Solutions business to progress in the future.

Slide22

As you can see, over the past five years, Matching & Solutions has been positioned as a segment that generates significant cash flow, maintaining a mid 20% adjusted EBITDA margin while achieving a slight increase in revenue.

However, since FY2020, adjusted EBITDA margin has remained around 15% due to the impact of COVID-19 and increased strategic investments including marketing expenses to reinforce and expand HR Solutions and SaaS solutions.

Adjusted EBITDA margin is expected to stay around this level in FY2022 based on our May 16th guidance.

Going forward, as we expect the number of actions on our matching platforms to increase due to the expansion of SaaS solutions, we aim to increase revenue and adjusted EBITDA margin.

As a result, our medium term target is to achieve revenue of approximately 1 trillion yen and an adjusted EBITDA margin in the low 20% range.

The contribution to financial performance from our new fintech service offering is expected to be limited as we plan to focus on product expansion in the medium term.

However, once revenue from the SBU exceeds 1 trillion yen, we expect fintech services, which are based on GPV, will gradually contribute.

The demands of business clients to increase operational efficiency and improve the overall performance and productivity of their business, cannot be met through matching platforms, a single SaaS solution, or fintech services alone.

We will continue to evolve our ecosystem of solutions to "Help Businesses Work Smarter". By solving the long standing challenges of SMEs in Japan, we will become a true long time partner to our business clients.

This concludes my presentation. Thank you.

Shen: Now, we would like to start the Q&A session. Questions from Mr.Arai to Mr.Kitamura based on the content of the previous presentation, something that I'm sure you are all interested in.

After that we will take questions from sell side analysts and the media.

Kitamura-san and Arai-san, please start.

Arai: We would like to dig deeper into what you've said. So, Kitamura-san, I understand that you joined Recruit as the new college graduate and it marks the 25th year and you have launched various new businesses, large and small, and led them to success.

And I also heard and understand that many of those successes have been achieved through your close collaboration with Mr.Idekoba.

We hear about all those successful stories.

Now how do you position this new challenge compared to your past successes as the company and as your personal challenge? I'd like to start from there.

You haven't done much research and you have high winning success probability or not such a big success probability, but you will take on the challenge anyways?

Yoshi: As mentioned in the video, from 2014, this matching platform has been our focus and we've been focusing as our strategy. Personally, in Recruit, we planned to create another Recruit in Recruit.

That was the core of our challenge. So HotPepper Beauty and HotPepper Gourmet, what was so-called media to action platform.

So we've been focusing on building that. It was like creating a new Recruit within Recruit. And now it is becoming one Recruit.

Chance of success, I don't want to sound so arrogant, but when we build businesses like this, there were successes, there were failures in the past.

So these initiatives and experiences, we tried to tilt them by half a degree, half a circle. So we use the track record for the half and the new challenge for the other half.

And we are proud of having successfully grown this way.

And so to answer your question about the chance of success, I wouldn't be taking on this challenge unless I have this confidence.

But the hurdles and the theme that we need to overcome and address are challenging. So we want to continue working on them.

And just one actual example. It was a great experience as a user. Due to COVID-19, one restaurant in Nakameguro was facing difficulty.

And after the restriction for the activity was lifted, they were having a hard time hiring the part time workers and so they were wondering what to do to close the business or what.

And so we heard the troubles and including Air BusinessTools, they introduced our business tools.

So we came to experience with HotPepper Gourmet. At the time of book, I fix when I will get the seat on which time, which day. And so I go to the restaurant and I was guided to the seat and the order I will show the menu. And so I ordered the menu one after another.

And I tried and noticed. I don't have to say Hi to the sales staff. I can just order one after another and the dishes will come very quickly.

So each smartphone, if you read the QR code the order comes in.

Arai: So you can choose the order so I can just order a new drink while we are talking.

Yoshi: Right. Without stopping the conversation. Exactly.

You don't have to look for a staff and say Hi or Hello. And after we are done, we pay with AirPAY and leave the restaurant.

And I heard from the staffs that by introducing the system they had seven staffs, they can do this in three staffs.

In addition, as we often hear, restaurant guests sometimes hesitate calling on the staffs because they look so busy, but they don't have to do that. So the pay per customer increased by 20%.

On the other hand, staffs is down from 7 to 3. So I heard from the owners. They said they increased the staff salary by 25%. But even then, they have more profit.

They can think of what using this, they can think of the new format. And I think there are a few key points here.

One is the so-called Restaurant Board, which is SaaS attached to Air BusinessTools. You can gather the information real time.This allows real time matching.

And after you go to the restaurant, Air BusinessTools can be used. What was done face to face in the past is automated.

So efficiency goes up. So this real time matching and the improvement in the store operational efficiency improves the profitability and this can be used as the next investment or increase in salary of the staffs or when they want to hire a new part time workers, they can offer higher hourly wage, which means more competitive.

So this is a good, virtuous cycle. When I heard this, I felt that what we had been doing, there were many visible, invisible things, but we are changing the way the stores, the business clients are running business and how they think about their business.

And so I came in contact with those who are actually using our system and felt this winning formula or the winning method.

And we think we can hone our system even more by understanding this. And I think this is where our reason for existence lies.

Arai: As you mentioned, the word "media" has been changed to "matching". And if the word speaks for itself, how is matching different from media?

It's a very simple question, especially from the viewpoint of our business clients. Why would they choose Recruit as their long term business partner?

And from our viewpoint, there's long term value for each client and why would we be able to maximize each client's LTV?

Yoshi: Initially, Recruit within Recruit Japan, there was business on media and also there was business on referral or counter business in SUUMO to support customers who like to purchase houses or we have ZEXY who also offers a over-the-counter service to introduce wedding venues.

But it was not only a "media". We used the word "media" but what we always focused on is the growth of PV for each client and how much the awareness was raised.

But rather than that, what we have focused on is how much the users and clients matched with each other, how much our clients were able to sell their products or services more.

That has been the shared understanding and this time we decided to change the name of the SBU to "matching" because it better expresses what we do and we can maximize the LTV of each business client by focusing on matching because business clients' revenue is something we commit to.

If we are only committing to raising the awareness of the business clients, we would be only a part time business partner, which will be chosen only when they want to raise awareness.

But revenue is something they need to constantly grow and in order to constantly grow the revenue, what do they need to do?

There is a simple consulting service or proposal of solutions and we commit to the revenue growth of our business clients.

That has been our business model and as a result, we can build a long term partnership with our clients.

Arai: Are there any other companies that offers this a similar solution?

Yoshi: Well, perhaps consulting firms, maybe they have a similar business model.

Arai: But for small and medium sized businesses, I believe that there are not many companies who offer similar services for those types of business clients.

Yoshi: Exactly. So which part of the operation is creating revenue? Which part of the operation can be eliminated?

That is the point of view we have in building our partnership, and we want to minimize the unnecessary portion of the operation or a simple task or routine work that doesn't create revenue so that they can focus more on the revenue growth.

Maybe this is a unique approach that we have.

Arai: Then the word is not "media".

Yoshi: Yes, from our viewpoint it is "matching" and we commit to the revenue growth.

And revenue growth means we offer a high quality experience for our clients and I believe that is important.

Arai: In today's presentation you talked about three KPIs. The number of actions by individual users, the number of registered SaaS account of corporate clients, and GPV, the gross payments volume.

You talked about the ecosystem, the circulation. I think this links to the circulation in the ecosystem.

So what kind of synergy effect or the positive spiral, the up going spiral will this create? Can you elaborate once again?

Yoshi: The starting point is the business client SaaS account number.

Because when we do the online matching, for example, there are online shopping malls.

And when you think of buying something there, if it says it's not in the inventory, it takes a week to get the product.

If that product exists only there, then you may go and decide to buy from there but if you want it right away, you will find another shop that already has inventory, has the product in the inventory.

I am sure we often experience waiting for a week or ten days. But the dynamism of the Internet is such that when you want to do it right now, you decide now and come up with the execution plan. The speed is the key point here.

If the number of registered sales account of corporate clients increase, then sales status using SaaS or the seats in restaurants, the availability, open seats, such real time data.

So real time data, we can capture such real time data. And by using that, the individual users can immediately decide what to do today and tomorrow.

Fix what you do today. We often hear that you reserve a seat, but then if you receive an email later on, say, no, the seat was not open after all, you get very disappointed.

And so this is how the action, number will increase. If these two increase then in the middle, you have sales, the revenue. And that is GPV, gross payments volume.

And this GPV, from business clients point of view, this is part of their revenue. So this will be source of their future business, source of investment and source of cash flow for their business.

So cycling them. By having the client real time information and the action, we can increase the GPV, that's the mechanism.

Arai: I see.

Many of the audience today recognize that we first had HR solutions and then expanded to marketing solutions. And I believe they are expecting the SaaS business to become the third pillar of revenue in long term.

But according to your presentation today, I understand that you're looking at opportunities in the new ecosystem, including SaaS business, and that is the means to achieve our strategy.

And perhaps this is a unique to this particular business, but can you please elaborate on some background and philosophy behind?

Yoshi: Well, in the SaaS business, we increase the efficiency of operation of business clients, and that is one effect.

For instance, there is SaaS to solve challenges around the process and that will make the work easier probably, but in a longer term point of view, monthly subscription model for a particular SaaS platform, even if we had such business model, that fee is going to be generated from the reduced cost and therefore the TAM or the size of our revenue will lack dynamism.

But by using SaaS, as I said earlier, real time sales data can be collected such as vacant available seats or what is available at the moment.

By knowing such information, we would be able to contribute to a larger point of revenue.

And we have such idea and so it's not just monthly fee charged for the SaaS, but we would like to utilize data in an effective manner, transitioning data to elsewhere so that we can go after a larger revenue.

So we often talk about offering a Salon Board alone or AirREGI. We can charge per unit, we often hear such voice, but that's not the case.

Arai: Exactly.

Yoshi: We have a science around monetization.There are different patterns in our day to day life. We all experience various fee models, but the mindset of the decision maker who's actually paying the money has also been studied through science.

For instance, if it was no subscription, or if it was a transaction fee, we currently have the transaction fee model, but if it was a subscription model, I believe we wouldn't have been able to collect this much data around availability.

From the business clients viewpoint, they would be paying more if the matching number increases.

Then at some point they would calculate the amount of inventory and they would probably choose to offer information that is needed only to acquire the new clients.

And the CPA is going to be lower as the matching number increases.

In this new model, which creates motivation. So having a transaction fee model is not necessarily a benefit for the clients or the customers. So we would like to be flexible in thinking about our fee model.

Arai: I have two more questions I like to ask. Of course, we will be taking questions from the audience today as well.

Today you talked about using data and technology to improve the quality and the efficiency of the matching and drive that with the three KPIs.

The strength of Recruit is the strong sales force. I understand. Using technology and data and the existing very compelling sales force, how can they co-exist with each other or interact with each other?

One example episode is ,I was doing sales in the past and I always asked the customers what the impact was. And so you posted the ad, what was the impact and how many actions did you get as a result?

Now we don't have to ask the question. There's data.

So this month is the up or down vs the last month, and maybe we can do this differently to increase the action.

That is the change in our sales activity.

And furthermore, outside of matching, there is the business status. We can look at the business and see this part can be compressed and instead, sales or the customer service resource can be opened up and be more available.

So the sales marketing style has changed significantly, however, this is a very detailed work that has to be customized.

So we have pride and confidence in our sales activity, but maybe it's not so much sales, it's more business consulting.

We are evolving as business consulting to improve the contribution to the customers of the business clients.

Arai: Thank you. That's something to look forward to.

Last but not least, in the end of your presentation, you've shown the 3 to 5 year outlook for the revenue and the adjusted EBITDA for the first time.

And in the beginning you said that I wouldn't say it if I didn't have confidence but let me ask, how confident are you in achieving these goals?

And about the fintech business, that is also exciting but what is your expectation for the future outlook for the fintech business?

Yoshi: To a certain extent, serve the existing or the new platforms, our value is to be enhanced and what we've shown as the outlook is one hurdle that we need to achieve and the adjusted EBITDA well, we've had COVID and we have changed transformed our business model to enter the new field and we have been making investments for that.

Therefore, temporarily, the adjusted EBITDA margin is seemingly low, but as the scale expands, the revenue is going to grow and we are expecting the adjusted EBITDA margin to improve as well.

So it's not that we don't have any visibility, but we wouldn't be disclosing this information unless we are confident that we can achieve, therefore under the current circumstances, this is achievable as a target.

And with regards to the fintech business, the matching volume is expected to increase.

So the improvements can be made automatically to certain extent, and perhaps we may be hindered by some regulations or laws.

But rather than continuing the conventional fintech business, we would like to stand by our business clients in offering fintech services going forward.

Shen: Thank you very much for waiting.

Now we will like to take questions from those participating through the telephone line. We are going to take one question per person at one time.

Shen: BofA Securities, Kinoshita-san, please.

Kinoshita: Yes, this is Kinoshita speaking. Can you hear me? So sales and marketing, you talked about, the sales structure, I have a question.

Traditionally, you had the sales for each domain, but now the service structure is changing and you are unifying. So the current sales structure and the agents, I think you've used a lot of agents.

How do you deal with them? And like you said, you are now moving in the direction of the consulting. So the sales reps skill needs to move in the direction of business consulting.

How do you plan to secure and train and educate your talents? If you could elaborate on these points, I'd appreciate it.

Yoshi: Thank you for the question.

Our sales structure, like we had before, we have the vertical teams for each division, and in addition, we have Air BusinessTools. And so that's another team.

Air BusinessTools' sales reps visit the customers and identify challenges and propose which tool can be used to offer the improvement.

That is the sales activity they are doing. This know-how will be fed back to the business side right away.

And of course, matching platform sales team, if they can understand their business tools 100% when they propose, it will be ideal. But, in order for us to have a high level proposal, we have the prior teams and they cut across divisions and they share knowledge and information to all of us.

And through cases, case examples, we can find out how that can be used, what kind of savings impact can be enjoyed and then lead that to customers' proposal.

That is how we pursue and the way we deal with the agents.

Like we did before, we still have the relationship and started Air BusinessTools, and AirPAY. New agents or the smartphone, mobile phone carriers are increasing when Air BusinessTools is introduced, the internet line and the terminal has to be purchased together and therefore, in order to introduce the business, the mobile phone carriers and agents, there are more opportunities where we introduce our Air BusinessTools, and therefore the sales network is now on the expansion. It's expanding.

And lastly, we have to shift to a consulting way of thinking.

How to attract such talents? Of course, sales it's not just about hiring the former consultants. Our proposal is based on improvement results, improvement examples, and so how to equip the sales reps with such theory is the key.

It's not hiring a particular type of talents. We want the same kind of talent who can work together with the clients and at the same time the sales tool, the tablet will be equipped with them, along with the expertise and the knowledge.

Shen: Thank you. Next, we like to move on to the next one. UBS securities, Fukuyama-san, please.

Fukuyama: This is Fukuyama speaking from UBS. Thank you for this opportunity.

I have a question related to the 1 trillion yen revenue target. To what extent are you planning to expand the number of actions per individual user?

Well, currently there are 300 million actions for 650 billion yen revenue. So we can calculate backward.

And if it's going to be flat, it could be 500 million actions. But perhaps there is an upside more than this simple calculation, so in order to achieve 1 trillion yen revenue, is there any specific target for the number of actions?

Yoshi: Thank you for your question. 1 trillion yen of revenue target and how much individual user action is targeted cannot be disclosed, unfortunately, today.

But as you just mentioned, cost per action is higher in some areas and in other areas they should be made lower. So depending on the market, we assume a certain CPA.

And in order to increase the number of actions, we need to increase the number of business clients and we need to collect the real time sales data. And that's we are aiming to reinforce.

If we make a simple calculation, you were correct in terms of numbers. So 2,000 yen on average can be high in some areas and it could be low in some areas. If we try to increase the number of actions for matching, we need to move more toward the daily consumption field.

So CPA goes down, but the action volume could increase above your calculation, and that will help us achieve the revenue target in a realistic manner.

Shen: Next question is Nikkei newspaper, Tankai-san, please.

Tankai: My question is SaaS, the current number of used account 2.45 million, this may overlap with the previous question, but as you aim for 1 trillion yen, this 4.5 million, will you acquire all this or?

Yoshi: Thank you for the question.

2.45 million, this is the original Air BusinessTools TAM that they were aiming for. So it is the number of accounts extracted from the TAM that we were after.

And back then we were thinking that HR SaaS was not included and now we added HR. So now it exceeds 4 million TAM now as we aim for 1 trillion yen.

How much does this need to increase to? I cannot mention the actual number, but in Japan as a whole, we want coverage around the country.

So we want to increase this number to cover the entire country.

In some areas, the usage may be close to 100% So as we focus on action there are areas that can easily link to action. We want to increase that part. We want to focus on that part.

Shen: Thank you. Next is Watanabe-san from Mito Securities.

Watanabe: This is Watanabe speaking. Can you hear my voice?

According to your presentation, clients who are outside your ecosystem, compared to the clients within the ecosystem, will they be inferior in terms of profitability, according to the example you mentioned earlier?

And will they have no choice but to go on the ecosystem of yours. Is that your assumption?

And you have the media and the business tools and you have done matching all the way.

So I believe there's a the entry barrier for the other peers. And your business model is eventually going to be something like a platform business model, where clients have no choice but to use your ecosystem platform in order to be profitable.

Yoshi: Thank you for your question. So it's not something we want to be. We don't want to sound arrogant by saying that our clients need to choose our ecosystem to be platform. But it is true that there is a track record.

If there is more track record of clients who becomes more profitable by choosing our ecosystem, maybe that will become the truth. Raising the hourly wage, there are many thoughts, but improving profitability and profit margin.

Unless they're improved, those ideas cannot be realized and if we want to realize those ideas, we need to have business clients focus more on profitability.

And if that happens, we hope that we will be the one to be chosen.

We have a high awareness and the high number of actions on a real time basis.

These are our strength that we understand. So by using these strength, we would like to expand into a matching platform moving forward.

It is not simply being the online media to raised awareness, but some kind of purchasing activity happens there or some actions are completed on our platform, for example, making reservations, placing orders, buying something, but also the payment itself.

All of those processes are completed on our matching platform. That's what we hope to expand into. Thank you.

Shen: Next question is JP Morgan, Mori-san, please.

Mori: Thank you for this opportunity. I have one question about your profitability 1 trillion yen revenue and 20% margin target. Maybe I missed, but what is the timeline that you want to achieve these targets?

In your presentation, you said it's not necessarily transaction based or monthly payment. Not one single answer is right. You want to be flexible.

So as an image, the media it comes from the sales promotion expense in many cases, I think, but once you reach 1 trillion yen, this transaction base or the pay for the solution, will this continue coming from customers sales promotion expense?

What is your image into the future? Thank you.

Yoshi: Thank you for the question. So image we say medium term, this is 3 to 5 years.

So we have a range because as I said earlier, the expansion of matching volume, at what speed is the determining factor.

So recently due to COVID-19, the restriction on action was applied and so the revenue 90% was lost all of a sudden, for example. And so without such events, we say 3 to 5 years timeline.

And at present, it comes from sales promotion types of expenses, you said. But given the size of the business clients advertisement or sales promotion, companies that look at such expenses in such detail, if a company's large, maybe yes, but it may not be broken down that precisely. That is my impression.

So our ideal is if it came from sales promotion, for example, that expense is like same as paying for infrastructure like utilities, electricity, water.

If they think of those two as similar, then this 1 trillion becomes more realistic.

And adding SaaS to action platform, it becomes directly related to sales revenue and it will be linked to revenue and it will also improve the operational efficiency.

So this will encourage the clients to continue with using it. Then it no longer becomes sales promotion fee. It will more become like more like infrastructure.

And I think we're starting to see that. So how much increase we can see there is the key. And maybe the fee structure can be easier to use in the future.

We want to come up with something that is easier to use.

Next, transaction data, there's nothing I can disclose at this point, but once we reach 1 trillion yen, our transaction fee volume will depend on the fee structure that we choose at that point in time.

So it's not something I can disclose at this point. Nothing to offer at this point. Thank you.

Shen: We have addressed all the questions we've received and we still have a few more minutes, but maybe we can take one more question from the audience. Does anyone have any question? No?

Arai: So Kitamura-san, as I listen to the questions, I think they're interested in how we are going to achieve the 1 trillion yen target, especially the capital market audience focuses on that point and the 20% margin, will we say lower 20% range, so we want to emphasize that it is not just 20% but 1 trillion yen revenue with margin in the range of 20 to 25%.

So creating a model, building an outlook for a business, I believe for those audiences, this point is very important.

And you mentioned that you wouldn't disclose if you didn't have a confidence but this SaaS business, according to your presentation, I think, is based on the existing business as a foundation.

Well, there has been SaaS and the media, but today they were explained as transforming into one ecosystem. And I think maybe this was the information they heard for the first time for some of them.

And when do you think they will realize what you're speaking today was actually true?

Yoshi: Well, making a reservation on the HotPepper Gourmet is something I would like to recommend to feel what I'm talking about. And if you're using HotPepper Beauty you can peek into how they are using their cash register.

Arai: Business SaaS is in the background so it is not really visible from the customer's viewpoint.

So, Mori-san, we encourage you to use the services and it may be difficult for you to feel it in reality but before COVID, we decided to integrate the businesses because we thought there's a limit in the revenue we can achieve with the existing business structure.

But during this pandemic, it was an easier environment for us to transform because we took this as an opportunity to transform into a new structure because the performance would have deteriorated in any way.

So because we have gone through such experience, because we've changed the business model, we will be able to acquire a larger cost per action and we are now prepared for that new journey.

Arai: So there are developers, sales reps within the company but the motivation, the morale have they been elevated?

Yoshi: Yes, we are trying to transform like a chameleon. We are trying to transform into something new and I think there's a higher level of commitment now.

Shen: Thank you. It is 5 pm now so I would like to ask Kitamura-san for a closing comment to add to your response so far.

Yoshi: I would like to encourage you to experience, as I've experienced our own services, I've given feedback that this was not good and this was good.

So I'm not trying to advertise ourselves, but I would like to encourage you to experience our services.

Arai: And if you're residing in overseas, when you come to Japan, please use our services.

Shen: With this, we would like to conclude today's program.Thank you very much for joining.

<div align="right">END</div>

Forward-Looking Statements

This document contains forward-looking statements, which reflect the Company's assumptions and outlook for the future and estimates based on information available to the Company and the Company's plans and expectations as of the date of this document or other date indicated. There can be no assurance that the relevant forecasts and other forward-looking statements will be achieved.

Please note that significant differences between the forecasts and other forward-looking statements and actual results may arise due to various factors, including changes in economic conditions, changes in individual users' preferences and business clients' needs, competition, changes in the legal and regulatory environment, fluctuations in foreign exchange rates, and other factors.

Accordingly, readers are cautioned against placing undue reliance on any such forward-looking statements. The Company has no obligation to update or revise any information contained in this document based on any subsequent developments except as required by applicable law or stock exchange rules and regulations.