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New Rec: Monster Worldwide (MWW: \$15.81) April 8, 2010

Position: Sell

Target: \$10.06

| | 1Q10e | 2Q10e | 3Q10e | 4Q10e | FY2010e | FY2011e |
|------------|-------|-------|-------|-------|---------|---------|
| Rev (\$Ms) | 210.2 | 206.9 | 210.8 | 217.1 | 845.0 | 905.9 |
| EPS (\$) | -0.18 | -0.07 | -0.06 | -0.04 | -0.33 | -0.13 |
| Y/Y Gro | n/a | n/a | n/a | n/a | n/a | n/a |
| PE | n/a | n/a | n/a | n/a | n/a | n/a |
| PSR | n/a | n/a | n/a | n/a | 2.2x | 2.1x |
| Consens | -0.15 | -0.01 | 0.02 | 0.03 | -0.11 | 0.34 |

Shares Out: 120M

Market Cap: \$1.90B

FYE: Dec. 31

Concept:

1. Industry participants indicate that operating conditions in the recruitment industry are likely to remain weak for an extended period. Recruiters and employers are very cautious with hiring, and with recruitment budgets for the foreseeable future.

2. HR personnel say that ‘generalist’ recruitment websites now longer offer a less valuable hiring proposition. The emergence of industry specific sites, free classifieds sites, and social networks, has intensified competition and increased pricing pressure.
3. HR personnel indicate that even if economic conditions and recruitment spending do improve, amount of spending for MWW may not recover, as it loses share to increasing diverse product and social network options, many of which are free or carry much lower cost.

Summary: Monster Worldwide Inc. is a leader in the global online recruitment industry. The company operates ‘generalist’ recruitment websites in North America, Europe and Asia. MWW has approximately 10% of the global recruitment market (online and offline) and approximately 30% of the global online recruitment market. MWW websites are currently the number one or two-job destination sites in most industries and regions in which it operates. According to our sources, and company representatives, MWW (including HotJobs) and primary ‘destination’ competitor CareerBuilder.com, evenly share approximately two thirds of the US online recruitment market.

50% of Monster’s revenue is derived from online job postings, 30% from subscriptions to their searchable database of resumes, and the remainder from ancillary services and Internet advertising. North American revenues account for 45% of the total, and International revenues (Europe, Middle-East, Asia) account for 41%. The remainder of revenue is Advertising and Fees.

In all segments, MWW operates in an increasingly competitive environment, as several forms of competitor emerge. First, direct competition from other ‘generalist’ recruitment sites such as CareerBuilder.com, and Jobs.com, appears to be hurting Monster.com. Second, the emergence of low-cost or free classifieds listings websites such as Craigslist and Indeed.com, are currently taking the greatest market share from traditional online job boards.

Industry-specific and niche recruitment sites have become increasingly prominent, taking significant market share from MWW, its affiliates, and other ‘generalist-destination’ recruitment websites.

Finally, structural change in the industry seems inevitable, with the emergence of social networking as a means of hiring, for both the recruiter and the candidate. Social networks offer a new paradigm for the recruitment industry. Many of those with whom we spoke see social networking, to varying degrees, as a game-changer in recruitment, and as such, likely to alter spending habits for recruiters in the future. For example, Google almost exclusively uses its LinkedIn careers page as their source of candidates. Data seen by OWS show that four years ago, more than 60% of Google online job-postings were with Monster.com.

The competitive advantages of social networks are threefold. The first is targeting. Recruiters can tap into functions already offered to members of the network, such as the associations with interest groups or professional bodies. Second, social networks enhance visibility for both the candidate and the recruiter. Job postings on social networks are more focused, targeting members whose profiles match keywords related to the posting. For the recruiter, a network such as LinkedIn allows immediate dissemination of a broad spectrum of information about a candidate – group memberships, connections, experience, education and recommendations.

Finally, we have been told frequently that recruiters and businesses have become more judicious in selecting candidates. The availability on social networks of passive candidates (those not actively seeking new employment) is a significant advantage over traditional online sources. Many of our contacts told us they prefer a new hire to be currently employed, or to have been unemployed for the shortest possible time. The nature of social networking incentivizes candidates to keep profiles up to date with experience, qualifications, references and memberships. This is compared to traditional ‘destination’ online recruitment sites such as Monster.com, where a significant proportion of profiles may be out of date or irrelevant. There is no incentive to update profiles on such websites unless a candidate is actively seeking employment.

We conducted research in the Northeast, Mid-Atlantic, Southeast, Mid-west and West coast, speaking to recruiting companies and businesses in various industries. The majority of those with whom we spoke expressed serious concern for the 2010 recruitment market, telling us they are “very cautious” in their own recruitment spending. Further, many told us that Q1 FY2010 “has been the worst in memory” from the perspective of recruitment. Historically, Q1 is the strongest quarter in the hiring and recruitment industry. As a result of a poor first quarter, most have low expectations for FY2010. As far as 2011 is concerned, any optimism regarding an improvement does not appear to be supported by evidence.

Our sources almost unanimously agreed that when and if economic conditions and recruitment budgets recover, customers will be more discerning in allocating their share of wallet to the most effective sources for candidates. Industry data show a noticeable shift toward free online classifieds, especially Craigslist, and towards industry-specific sites (Net-temps) and social networks (LinkedIn). We also note that the data indicate that CareerBuilder is faring better than Monster in the current environment because it has a more attractive value proposition. However, overall, we note the emphasis on and the growth of free alternative sites. See Table 1, below, for recent data.

Candidates are also recognizing the value of industry specific sites and social networks. Considering current levels of unemployment – particularly in the computer savvy 18-30 years bracket – job-seekers are using a growing number of disparate niche websites and social networks to seek jobs.

Table 1: Available Ads, without duplicates

| | Q1 FY2010 | Q1 FY2009 | Gro Y/Y |
|---------------|------------------|------------------|----------------|
| Craigslist | 5,122,651 | 3,743,766 | 36.8% |
| CareerBuilder | 1,262,201 | 1,184,271 | 6.6% |
| Monster | 950,463 | 978,958 | -2.9% |
| Dice | 447,133 | 410,123 | 9.0% |
| LinkedIn | 82,925 | 24,008 | 245.4% |

Source: Proprietary Data /subscription database

Job postings are the main revenue driver for Monster.com, and we note that Monster.com is one of the most expensive job-posting sites on a like for like basis. For example, CareerBuilder, Monster’s largest paid for competitor offers unlimited job postings for \$419 per month, while Monster charges \$365 for just one posting, and then adds discounts for larger numbers. For example, in Boston it would cost a total of \$2,300 for 10 job postings for one month on Monster versus \$419 for 10 postings on CareerBuilder. The other important revenue segment is database subscriptions. Customers pay monthly or annual subscriptions for access to resumes and contact details for candidates posted on the website. While many online databases charge by volume of contacts made, Monster.com uses geographic versioning to limit access, and charges incrementally for wider use. While Monster.com and CareerBuilder.com claim the largest database (approximately 60m candidates each), we note that industry sources told us that many of these profiles are out of date or irrelevant. LinkedIn currently has approximately 60m members, and is growing at 0.5m new members each week. Facebook has 350m profiles.

For access to Monster’s candidate database, an annual subscription will cost upwards of \$14,000. Main competitor, CareerBuilder.com offers 12-month access (currently on special offer) for \$6,000. Industry specific sites offer access for a fraction of the cost. The difference in product offerings between competitors is something we discuss later.

We model significant revenue and EPS variance for MWW versus “street” consensus estimates over the next two years. The key “street” assumptions are for revenue to remain flat in FY2010, and to grow 17% in FY2011. Operating margin expansion is also built into “street” models, from -3.1% in FY2010 to 5.1% in FY2011, and doubling to 10.7% in FY2012. OWS revenue expectations are \$845m in FY2010, and \$905.9m in FY2011. OWS expectations are for lower

operating margin in FY2010, and modest recovery in margins, but remaining below profitability for FY2011. Over the longer-term, our research suggests customers will be more discerning in recruitment spending, seeking higher value, lower-cost alternatives to Monster.com, including social networking. This will ultimately reduce share of recruitment wallet allocated to Monster.com.

Our price target is \$10.06. We apply a 1.5x sales multiple to FY2010 revenues of \$845m, as we discuss below, to arrive at our target. Another way to think about this would be, for example, to assume an 8% net margin on 2012 sales of \$946.6m, yielding \$0.62 in EPS, and give that a multiple of 15x. MWW would be worth \$9.34 per share in that case. We expect that Monster will continue to lose share of recruitment spend, which will mute the benefit it receives from any general recovery. We think that the Monster business model will continue to lose share not only versus for pay competitors who are cheaper, but especially versus free competitors.

Background:

Monster Worldwide is a leader in the global online employment and recruitment industry, and operates ‘generalist’ recruitment websites in North America, Europe and Asia. MWW has approximately 10% of the global recruitment market (online and offline) and approximately 30% of the global online recruitment market. MWW websites are currently the number one or two-job destination sites in most industries and regions in which it operates. According to our sources, and company representatives, MWW (including HotJobs) and primary ‘destination’ competitor CareerBuilder.com, evenly share approximately about two thirds of the US online recruitment market.

The company came to prominence in 1994 when it pioneered the business of digital recruitment. In 1999, TMP formed Monster.com as an amalgamation of the largest online job posting sites – Monster Board, Online Career Centre, and MedSearch – all of which it owned. In 2003, after another round of acquisitions, TMP was renamed Monster Worldwide Inc. In 2009, MWW bought the No.3 ‘generalist-destination’ website HotJobs from Yahoo! for \$225m. We find it interesting that this is almost half the price paid by Yahoo! for HotJobs in 2004, and that HotJobs and Monster.com have lost significant market share since 2004. Market share changes are discussed later.

MWW operates a network of websites in 59 countries, and maintains offices in 23 countries. Its online recruiting and employment services – which connect employers and jobseekers – include searchable job postings, resume database, recruitment media solutions, and other career related content. The company also offers premium services. To the job seeker, it offers resume writing and

assistance, priority listings, and social recruiting tools. To the recruiter, it offers targeted postings, refreshed job listings, and HireRight background checks. Sales are primarily to recruiters looking to hire and to those seeking access to a database of candidates and resumes. While access to Monster.com and affiliates is free for candidate users, there are paid services available for the candidate, as mentioned above.

Revenue is recognized in three main operating segments: Careers – North America (45%), Careers – International (41%), and Internet Advertising and Fees (14%). Deferred revenue is a significant percentage of total revenue, and as such, is a good harbinger of revenue health in future periods. Deferred revenue refers to pre-paid or subscription services. At year-end FY2006 and FY2007 Deferred Revenues were 40% of total sales for those full years. This fell to 30% of total FY 2008 sales or \$414m at the end of FY2008.

At the end of FY2009, Deferred Revenue remained at 33% of total sales. However, a poor operating environment in FY2009, translated into absolute dollar declines of more than \$110m in Deferred Revenue to the end of FY2009. This will have a depressing effect on total 2010 sales, as the amount of recognizable revenue coming out of deferred in FY2010 will be lower. Further, we anticipate additional declines in Deferred Revenue at the end of FY2010, given the poor recruitment environment.

MWW prices on an a-la-carte basis, and minimal functionality is included in an MWW basic package or subscription. This is in contrast to many competitors, whose basic packages include more functions and services as standard. Our research indicates significant client concerns with incremental annual price increases from Monster for services, something we discuss later. Over the past two years, new MWW management has embarked on an aggressive makeover of the business. The website was re-launched, offering a greater number of services and enhanced versions of previous products. Additionally, for the first time, MWW invested in field sales teams (currently totaling 150 personnel), and “in-sourced” a new customer service function. However, the majority of enhancements are in direct response to competitor functions and services previously available.

In all segments, MWW operates in an increasingly competitive environment. Newer ‘destination’ careers websites (CareerBuilder.com), industry-specific and niche websites (JustTechJobs.com, MedRep.com), online job boards (Craiglist, Indeed.com), professional group and association sites (CFA Institute, American Marketing Association), and social networks (LinkedIn), are all players in the current job-seeking / recruitment market. We note that, as a percentage of revenue, the Careers – International segment has become increasingly important for MWW (27% in FY2006 vs. 40% in FY2009), as competition has increased in more

established markets. Concurrently, MWW market dominance has waned since the inception of online recruitment, and MWW (including HotJobs) now has approximately 30% of the online market, less than half of its strongest ever position, in 1999. The advent of competitors, many of whom are lower-cost, with similar or better scope, has squeezed Monster. The acquisition or development of new technologies, and joint ventures and acquisitions of local job sites in new markets has become a vital aspect of MWW business strategy. The pending acquisition of HotJobs from Yahoo! is the most recent example of MWW strategy.

MWW, and its competitors are heavily geared to the economic cycle. Historically however, the recruitment industry has had a very long-tail recovery compared with economic recovery, tracking unemployment trends more closely. During the previous recession in 2001, MWW had 10 consecutive quarters of Y/Y revenue declines, starting in Q3 FY01. During the same period, GDP grew in 9 of 10 consecutive quarters, while unemployment initially increased slowly, and was then flat. Our research indicates that, thus far, employment has not tracked economic recovery. Multiple sources continue to tell us “everyone is looking to do more with less,” and that appointments being made are more often than not internal hires, with businesses preferring known candidates, and avoiding an increase in headcount. We think, based on our research, that much of the ‘new jobs’ being created are those that were lost during the recession, or are due to job churn, rather than newly created jobs.

Discussion:

1. Management guidance and “street” consensus revenue expectations for FY2010, and FY2011, seem too high. Sequential improvements Q/Q expected for FY2010, and hopes for much better activity for hiring and recruitment spending in FY2011 do not match evidence and sentiment from our field research. We have spoken with recruiters and businesses in the Northeast, Mid-Atlantic, Southeast, Southwest and West coast. General sentiment is that recruiters are “very cautious” in hiring, or even in considering hiring, and that they do not currently plan to spend more money on the process. Further, very few expect a significant increase in spending in FY2010 versus FY2009, which was labeled by some “a disaster.” In fact, many of our sources tell us that Q1 FY2010 continued in that same vein of very low recruitment spending on equally low volumes of hiring, setting the trend for what they expect to be a very poor year.

Traditionally, the first quarter is the biggest recruitment period of the year – and as such the period accounts for the largest share of recruitment budgets – while the fourth quarter is also quite strong. 50% of MWW revenue is derived from short-term job postings, which are naturally geared towards the strongest recruiting quarters in the year. From MWW’s perspective, in every year Q1 has been the

strongest revenue period, generating on average 28% of annual revenue. Additionally, Q1 generates significantly more volume than any other quarter, as subscription or pre-paid services are renewed, and customers spend newly allocated recruitment budgets. The revenue is then recognized over the course of the year. Sequentially, Q1 has also historically generated higher revenues than Q4, and we note that the years in which MWW failed to grow revenue Q/Q in Q1 were also those years when total annual sales were down y/y. As such Q1 has tended to be a harbinger of the health of revenues for the full year. See Table 2 for details.

Management guidance for Q1 FY2010 is for revenue to be “flat to slightly down,” owing to the fact that “the first quarter is somewhat slower from a seasonal point of view.” While our research corroborates management expectations that Q1 FY2010 will be anemic at best, past MWW performance, and all those to whom we have spoken in the industry, indicate that, historically, Q1 is seasonally, and on an adjusted basis, the strongest quarter in the recruitment market for volume and revenue generation. However, for Q1 FY2010, those with whom we spoke almost universally saw little or no growth in recruitment spending, and they expected continued low volumes compared to Q3 and Q4 FY2009. In fact, some labeled the recently ended quarter “a disaster...the worst first quarter ever...[and we think] there is a long year ahead.”

For full year FY2010, management expects “revenue will be flat on a y/y basis, plus or minus a few percent.” Guidance for Q1 FY2010 is for revenue declines sequentially and on a y/y basis. In order to meet revenue guidance for the full year FY2010, management implies sequential revenue gains in each of the following quarters for the year. This is contrary to historic MWW revenue trends, and against traditional seasonality in the business. MWW management stated on the most recent earnings call, that “the first quarter is somewhat slower from a seasonal point of view. Industry sources, proprietary online jobs data, and historic MWW results disagree, showing the first quarter to be a seasonally strong period. The table below highlights the impact of Q1 on revenue.

Table 2: MWW Q4 to Q1 Revenue Sequentially and y/y

| \$m | <u>2004</u> | | <u>2005</u> | | <u>2006</u> | | <u>2007</u> | | <u>2008</u> | | <u>2009</u> | |
|-------|-------------|-------|-------------|--------|-------------|-------|-------------|-------|-------------|--------|-------------|--------|
| | Q1 | Q4 | Q1 | Q4 | Q1 | Q4 | Q1 | Q4 | Q1 | Q4 | Q1 | Q4 |
| Revs | 187.7 | 221.3 | 228.5 | 165.9 | 257.0 | 298.6 | 329.0 | 368.2 | 366.5 | 292.9 | 254.4 | 213.1 |
| % y/y | na | na | 21.7% | -25.0% | 12.5% | 80.0% | 28.0% | 23.3% | 11.4% | -20.5% | -30.6% | -27.2% |
| % q/q | na | na | 3.3% | na | 54.9% | na | 10.2% | na | -0.5% | na | -13.1% | na |

Source: MWW Company Filings

Table 3: Reported revenue all quarters sequentially and y/y.

| \$m | <u>2008</u> | | | | <u>2009</u> | | | |
|------------|-------------|-------|-------|--------|-------------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Revenue | 366.5 | 354.3 | 332.2 | 292.9 | 254.4 | 223.1 | 214.5 | 213.1 |
| Change y/y | 11.4% | 9.4% | 0.6% | -20.4% | -30.6% | -37.0% | -35.4% | -27.2% |
| Change q/q | -0.5% | -3.3% | -6.2% | -11.8% | -13.2% | -12.3% | -3.8% | -0.6% |

Revenue estimates sequentially and y/y

| \$m | <u>2010 E</u> | | | | <u>2011 E</u> | | | |
|------------------|---------------|-------|-------|-------|---------------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| "Street" revenue | 212.2 | 221.6 | 230.4 | 238.9 | 245.5 | 257.3 | 267.1 | 278.4 |
| Change y/y | -16.6% | -0.7% | 7.4% | 12.1% | 15.7% | 16.1% | 15.9% | 16.5% |
| Change q/q | -0.4% | 4.4% | 4.0% | 3.7% | 2.8% | 4.8% | 3.8% | 4.2% |
| OWS revenue | 210.2 | 206.9 | 210.8 | 217.1 | 228.0 | 222.7 | 225.3 | 229.9 |
| Change y/y | -17.4% | -7.3% | -1.7% | 1.9% | 8.5% | 7.6% | 6.9% | 5.9% |
| Change q/q | -1.4% | -1.6% | 1.9% | 3.0% | 5.0% | -2.3% | 1.2% | 2.0% |

Source: Management Guidance; "Street" Consensus; OWS Estimates

Further, in our conversations, industry players expressed "grave concern for the industry for 2010." Some sources told us recruitment spends from certain clients and in certain sectors were performing slightly better than others – healthcare, some IT firms, skilled employment in construction, such as engineering – but that, in general, the "volume of requisitions has just seemed to stop." However, even those sectors hiring limited numbers, volume has been comparatively low versus previous years, "the process has become very slow, and spending is cautious and muted."

Overall sentiment from recruiters and businesses with whom we spoke is "very cautious," a term the majority used to describe hiring activity and spending. Companies, insofar as possible, are "doing more with less," and in situations where vacancies are becoming available, three tactics have been observed. First, workers who had been made redundant, particularly in small and medium-sized business (SMEs), are being re-hired into those companies if the need arises, as opposed to seeking out new employees in the market. Second, temporary and staffing workers are increasingly being hired to fill seasonal or impermanent gaps. This trend has been noted in previous recessions. Bulls see an increase in temporary hiring as cause for optimism for MWW, as it will equate to increased online job postings and ultimately more permanent recovery in hiring spending and recruitment budgets. The reality, from our research, suggests that staffing agencies are the most likely source for temp-workers, and that temporary work is at best, a very long-term harbinger of recovery. Also, industry-specific sites may be preferred to 'generalists,' shifting online spend away from the likes of Monster.com. This is something we discuss later. Third, in situations where new positions do open up, many prefer "internal hiring." Businesses know the individuals, and fill the space

without increasing headcount. Again, this alleviates the necessity to increase recruitment spend, or to allocate recruitment budgets to online sources.

In assessing guidance, and “street” models for FY2010, we conclude there is significant execution risk involved for MWW. Management expects “an increase of 15% to 20% in annual sales, or approximately \$180m, the first \$100m of which is to replace annual declines in deferred revenues since FY2007. We agree with management that “declines in deferred revenue” will continue in the coming year as a result of depth of the recession in FY2009. We assume this will have a depressing impact on revenue, as recognizable revenue in future periods will decline.

Table 4: Deferred Revenue and Total Revenue trends

| \$m | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 E | 2011 E |
|----------------------|-------|--------|--------|--------|--------|--------|--------|
| Total Revenue | 818.3 | 1116.7 | 1351.3 | 1343.6 | 905.1 | 864.9 | 931.6 |
| Deferred Revenue | 49.4 | 444.1 | 524.3 | 414.3 | 305.9 | 260.0 | 280.0 |
| Deferred % of Total | 6.0% | 39.8% | 38.8% | 30.8% | 33.8% | 30.1% | 30.1% |
| Gro Total Revenue | na | 36.5% | 21.0% | -0.6% | -32.6% | -4.4% | 7.7% |
| Gro Deferred Rev y/y | na | 799.0% | 18.1% | -21.0% | -26.2% | -15.0% | 7.7% |

Source: MWW Company filings and OWS estimates

Based on our research, we question whether it will be possible to increase sales to new customers by \$180m in FY2010, as management expects. However, we note that such an increase would be necessary to merely maintain current revenue levels (as per guidance for FY2010), with the ‘new sales’ compensating a decline of \$114 in Deferred Revenue to the end of FY2009, and anticipated further declines in Deferred Revenue to the end of FY2010.

Revenue from the acquisition of HotJobs.com should be available to MWW, pending regulatory approval, from Q3 FY2010. Management expects approximately 20% overlap between MWW and HotJobs revenues. However, our research suggests a higher overlap in customers of 30% or more. Further, we note continuing declines in HotJobs’ market share. We think the acquisition by MWW of another ‘generalist-destination’ recruitment site increases business risk. The entity is now more closely tied to the declining fortunes of the ‘generalist-destination’ website vertical. We discuss changing industry structure and competitive pressures further below.

Table 5: HotJobs Revenue. OWS estimates of HotJobs contribution to MWW beginning Q3

| \$m | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 E | | | | 2011 E | | | |
|------------------|-------|-------|-------|-------|-------|--------|-------|------|------|--------|------|------|------|
| | | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| HotJobs Revenue* | 184.0 | 218.5 | 230.0 | 216.3 | 200.2 | 46.3 | 43.2 | 28.9 | 30.9 | 31.4 | 28.7 | 30.1 | 31.8 |
| Change y/y | na | 18.7% | 5.3% | -6.0% | -7.4% | -17.9% | -3.8% | -39% | -40% | -32% | -33% | 4.2% | 2.9% |

*Contribution to MWW Revenue begins Q3 FY2010.

Estimate eliminates duplication and overlap.

Source: Yahoo! Company filings; MWW Management, OWS estimates

“Street” consensus is for revenue to remain essentially flat in FY2010, at \$910m. The “street” expectations are in line with management guidance. Contrary to historical MWW performance, and traditional seasonality in the business, the “street” model for sequential revenue growth of 4.4%, 4% and 3.7% in Q2, Q3 and Q4 of FY2010 respectively.

Guidance is for a once-off operating expense increase of 10% - 15% in Q1, and full year operating expense to be 3% - 6% higher in FY2010. Despite the expected increase in operating expense for FY2010, the “street” models operating margin expansion through FY2010. As a result, “street” models positive earnings in Q3 and Q4 FY2010. We wonder how margin expansion expected by the “street” can be achieved. The sale of higher margin products to existing customers, based on our research, seems an unlikely proposition in the current operating environment, with muted recruitment budgets and spending. This is something we discuss in greater detail below. We are modeling for revenue declines of 6.6% in FY2010, and have been equally conservative in allocating costs for the year, coming in at the low end of guidance for operating expense increases. We estimate EPS of -\$0.16 for FY2010.

Table 6: “Street” Expectations

| "Street" Model | <u>2010 E</u> | | | | <u>2011 E</u> | | | |
|----------------|---------------|-------|-------|-------|---------------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Revenue | 212.2 | 221.6 | 230.1 | 238.9 | 245.5 | 257.3 | 267.1 | 278.4 |
| EPS | -0.15 | -0.01 | 0.02 | 0.03 | -0.01 | 0.10 | 0.13 | 0.15 |

Source: FactSet Research

2. The “street” expects significant improvement in FY2011 for MWW revenue and earnings, and for the recruitment market. Geographically, consensus for FY2011 is 14% improvement in North America revenues, and 22% improvement in Europe revenues. Our extensive research has not provided this type of visibility for hiring and recruitment spending, and revenues in online recruitment, for FY2011. From our conversations, many do expect that eventually hiring will improve, but these sources are quick to caution that their expectations for spending and volume on recruitment in 2011 are as much “about optimism as they are a consideration of the timing of recovery.”

For several reasons, we are also cautious about MWW revenues for FY2011. We project a 5.7% improvement over FY2010 results, to \$905m, which is about the same as FY2009 levels, significantly below FY2008 levels, and is significantly below consensus revenue for FY2011. First, we are cautious about forecasting robust improvement in hiring volumes and recruitment spending. Second, we think there are increasing competitive pressures on ‘generalist’ job websites such as Monster.com, from niche and industry oriented sites. These are more focused, and

invariably more cost-effective and cost-efficient, outlets for recruitment, and seem likely to gain a greater portion of the recruitment wallet in future periods. Third, our research indicates that many expect a paradigm shift (and a shift in spending habits) to occur in the industry as volume recovers, given the rise of social networks, such as LinkedIn, as a tool for recruitment. These are issues we discuss further below.

Some of those with whom we spoke advise caution in expecting exuberant hiring and concurrent growth in spending for some years to come. Recalling the last recession in 2001/2, we have been told, “clients remained very cautious” about hiring, and about recruitment spending, well into 2003/4. It was then, as now, an employer’s market, and as such many became significantly more careful about spending recruitment dollars. The most frequent questions then were in relation to online recruitment, and its cost-effectiveness. We think in the current context, employers will engage and spend more with the growing number of competitors to Monster.com, and many will allocate some budget to the newest sources for candidates, such as social networks.

Expectations for European revenues, both in FY2010 and FY2011, seem too bullish. Given that the European economy has lagged the US in terms of decline and also in recovery, we find it interesting that the “street” expects robust performance from MWW revenues in the region. While online recruitment has not been as heavily adopted in Europe as in the US, the “street” assumption is that increased use of online sources will automatically defer additional revenue to ‘generalist’ sites such as Monster.com. However, our evidence strongly suggests otherwise. As mentioned above it seems prudent to expect an increased use of niche, industry and geographically oriented sites, as well as social networks, by those in charge of recruitment budgets.

Finally, we note three interesting data points, which are acknowledged in general public discussion, but which might temper expectations for MWW revenue in FY2011 in both Europe and the US. First, the retirement rate has fallen. In the US, there are 500,000 additional workers over the age of 65 in the workforce compared to 5 years ago. This significantly reduces job churn, and the need to spend on recruitment. Second, we note that the average length of unemployment is now more than 31 weeks, making candidates less appealing to employers. This will again drive recruiters to allocate resources towards access to skilled or passive candidates on niche sites or social networks, and not to ‘generalist’ sites such as Monster.com.

3. A focus of our field research has been the increased occurrence and intensity of competition in the online recruitment market. As the dominant player in the ‘generalist-destination’ website vertical, and the incumbent in the industry, MWW

is most vulnerable to the emergence of competitors. Our research, and quantitative data, suggests that recruitment dollars have already shifted away from the ‘generalist’ job sites. Monster.com market share in 1999 was 60% of online recruitment. That now stands at approximately 30%. Yet over the same time period, online recruitment has grown to account for 70% of the total job classifieds and recruitment market. Further, market data suggests that Monster.com continues to lose market share.

Through our conversations with industry participants, we learned that when recruitment spend does begin to see tangible recovery and growth, recruiters are likely to be more discerning in allocating their recruitment budgets, utilizing only the most effective sources for their recruitment needs. The options available in the online recruitment market are greater than ever, and in general, pricing pressure is high owing to the increased competition, greater expectation of access and functionality, and also as a function of trying to match declines in recruitment budgets.

One recruiter told us that she no longer uses Monster.com, having grown tired of continuous price increases. She now uses industry-specific sites such as MedReps.com instead, which offers markedly more cost-efficiency, and more targeted access to the candidates she is looking for. While this is just one example, our research universally realizes the ever-increasing number of industry specific websites, addressing the vast majority of specialties. These include the broader sites like MedReps.com, JustTechJobs.com, or eFinancialCareers.com, in addition to sites as specific as NursingJobs.com, HRcrossing.com, or SalesManager.com.

In addition to niche sites, which seem, from our research, to be the most important threat to ‘generalist’ sites such as Monster.com, there are a growing number of generalist host sites, which are broken into industry specific areas. Websites such as Jobs.com run directly accessible websites for many industries and specialties. The appeal of allocating spend to a site such as this is that candidates can be targeted in different areas for one business, through one subscription account. Monster.com has lagged in adapting to this change, and in offering comparable functionality.

Another vertical, which has grown in popularity and prominence in the last few years, is the online version of the executive or managerial headhunter. Websites such as TheLadders.com operate only for jobs paying over \$100,000 in annual salary, yet compensation for the website is based on advertising and subscription revenue, as opposed to a percentage placement fee. Other sites, such as the ExecutivesOnline.com focus solely on C-level hires. These are niches in which Monster.com has not been competitive.

Finally, from the perspective considering Monster.com a traditional online job board, the growth of classified postings boards such as Craigslist is a significant market share and pricing threat for MWW. With 50m unique visitors per month, Craigslist browsing numbers are significantly higher than Monster.com's 35m visitors per month. While not all Craigslist visitors are job seekers, the prevalence of cheap or free classified boards – including Indeed.com, Oodle.com and Local.com – is a major threat to online job majors, Monster.com and CareerBuilder.com, which remain the most expensive offerings in the market. For example, a 30 day single posting costs \$365 on Monster.com, while the same posting on NursingJobs.com is \$270; \$279 on JustTechJobs.com; or just \$199 on SalesJobs.com. All of the afore mentioned sites price on a per posting basis, with discounts offered for additional postings. In the case of CareerBuilder, unlimited job postings are offered for \$419 per month, making it the least expensive of for pay job posting offerings. We note that Monster.com was recently offering 25% off 30-day job postings, but even then Monster is far more expensive than CareerBuilder. For example, with the discount, 20 job postings on Monster would still be \$2,700 versus \$419 on CareerBuilder.

Job postings are the main revenue driver for Monster.com. The other important revenue segment is database subscriptions. Recruiters subscribe for scaled access to the database of resumes or members of a recruitment website, and can search candidates using a myriad of criteria. This is useful for the frequent and infrequent user alike, but can be an expensive proposition. Access to Monster.com is versioned based on geographic scope. A typical annual subscription will cost \$10,000 to \$13,000. Main competitor, CareerBuilder.com offer 12-month access (currently on special offer) for \$6,000. Large, industry specific sites on the other hand will offer significantly wider access (geographically, say) for a fraction of the cost.

4. Our research indicates deeper structural change than merely increased competition from niche service providers and pricing pressure. One of our conversations, with a recruiter in the mid-Atlantic, labeled emerging changes in recruitment, the evolution of the online recruitment business model. Linear changes – increasing specialization of online recruitment sites – are threatening to the likes of Monster.com. In addition, new business models are being developed in order to attract recruitment budgets, and to more efficiently match job openings and candidates.

For example, some sites are now charging fees to candidates, or monthly subscriptions, to remain as members of their databases. In turn, access for recruiters is less expensive, or in some cases free. For example, TheLadders.com charges candidates \$45 per month to remain listed on their database. For both the recruiter and the candidate, this dissuades opportunism, encourages members to

keep their profiles up to date, and leaves recruiters and candidates the opportunity for greater exposure. Only the most serious candidates – those willing to accept the expense – will have access to recruiters.

However, the most important change highlighted by the majority of our sources – including contacts within MWW, and main competitor CareerBuilder.com – is the use of social networks as a tool for matching candidates and recruiters. Our research indicates an increasing engagement with these sources by major firms such as Google. We have seen data that shows Google now conducts the majority of its recruiting via LinkedIn, compared to four years ago, when the majority was through online recruiters such as Monster.com, CareerBuilder.com and Dice.com.

Social networks offer a new paradigm for the recruitment industry. Many of those with whom we spoke saw social networking, to varying degrees, as a game-changer in recruitment, and as such, likely to change spending habits for recruiters in the future, taking share of wallet away from MWW. This runs contrary to management's assertion that MWW will gain share of wallet over the coming periods.

Such is the extent of the potential for social networking as a recruiting tool that CareerBuilder.com has signed onto a co-licensing agreement with Facebook – an agreement unique in the field. This gives CareerBuilder.com exclusive recruiting access, and also information gathering access, to candidates found through Facebook. Similarly, TheLadders.com (the \$100K+ recruitment website) has an advertising agreement with LinkedIn in order to capitalize on increased usage of the online business network. However, we note that to date, Monster.com has failed to engage with social networking. One source inside the company indicated an internal task force has been established to address this shortcoming, but that little or nothing would be known in FY2010.

For some recruiters, social networks represent a useful tool for researching candidates. For others, it represents a completely new way to search and engage potential candidates, particularly passive members – those not actively seeking employment. LinkedIn is the leader in terms of utilizing a social network as a source of job or candidate searches. We engaged with LinkedIn, in order to understand its recruitment tools and pricing. We were impressed with the usability and functionality of its search tool, job postings and company profile offerings, the three main areas which social networks are targeting in order to generate revenue from recruiters.

The competitive advantages of social networks are threefold. The first is targeting. The tools available to recruiters can tap into functions offered to

members of the network, such as the membership of groups. With LinkedIn, searching the membership of industry or interest groups is one way of seeking out viable candidates. This is simply a more targeted and time-efficient manner of more traditional search methods, such as searching through professional membership boards. Similarly, job postings on social networks are targeted toward members whose profiles match keywords or toward groups related to the post.

Second is visibility. From the candidate perspective, a company profile on the social network allows him/her to research the company, see all available job postings, read recommendations from current and past employees, and even connect with those people to discuss the company further. For the recruiter, a network such as LinkedIn allows immediate dissemination of the broader picture of a candidate – group memberships, connections, experience and recommendations.

This is linked with the third differentiating advantage for social networks, this one for the recruiter. From our research in the industry, recruiters have told us they are becoming increasingly judicious in selecting candidates, seeking, as close to a perfect match for their job vacancy as possible; it is an employer's market. As such, the availability on social networks of passive candidates is a major draw. Our contacts nearly all said they would prefer a new hire to be currently employed, or to have been unemployed for the shortest possible time. While social networks will have active job seekers, the nature of an online social network (to keep your contacts and connections up to date with your movements and achievements, as well as to connect with others in your field or wider circle) means that most profiles are very up to date with experience, qualifications, references and memberships. This is compared to traditional 'destination' online recruitment sites, which may claim large databases of candidates, but where, in reality, a significant proportion of profiles may be out of date, given that there is no incentive to update information unless the member is actively seeking employment.

Social networks are also useful for companies who have laid off workers, and are now re-hiring. As mentioned before, many companies, particularly in manufacturing, prefer to hire either internally, or to hire those employees they had previously made redundant. The use of social networks allows these recruiters to reach out via current connections or group memberships.

Finally, we note that in addition to wider scope and product offerings, social networks are also more cost-efficient.

5. OWS Financial Assumptions

For Q1 FY2010, we are in line with “street” expectations and management guidance. Starting in H2 FY2010, OWS estimates diverge from “street” expectations. We expect that organic revenue (ex-HotJobs) will follow usual seasonal trends, with Q1 and Q4 being the strongest quarters. We are modeling for FY2010 revenue of \$845.2, a 6.6% decline y/y decline, versus “street” estimates of \$910.5m. For FY2011, we model revenue of \$893.1m, up 5.7% y/y. In FY2011, we assume a normal seasonal trend in revenue. The rise in income in FY2011 is attributable to the integration of HotJobs revenues for the full year, and some recovery in recruitment spending. However, these are offset by falling market share and continuing pricing pressure for MWW in FY2011. The consensus “street” estimate for FY2011 is revenue of \$1.06bn.

Based on management guidance of 3%-6% increase in operating expense for the full year, we have been conservative in allocating costs at the lowest end of guidance. We attribute some immediate synergies in the US from the integration of HotJobs with MWW systems and pricing. We note that the increased leverage of MWW should increase interest expense in FY2010 and FY2011.

In assessing job postings data in Q1 FY2010, and based on our assumptions and research of market trends and recruitment spending for the full year, we model that deferred revenue will continue to decline in FY2010 to \$260m, or 30% of total sales at 31-Dec-2010. Our research indicates that customers are displaying extreme caution in allocating recruitment spending. As such, we have difficulty in envisaging any scenario other than a continued decline in recognizable revenue in future quarters – including subscriptions and pre-paid accounts. Finally, in considering deferred revenues, we accounted for increasingly competitive pricing in the industry, as outlined in Table 5.

Compared to the “street,” we model for EPS of -\$0.33 in FY2010 and -\$0.13 in FY2011, versus “street” consensus of -\$0.11 and \$0.34 respectively. The divergence of OWS opinion versus the “street” is based on our revenue assumptions (as discussed above), and “street” expectation of significant margin expansion. Also, as discussed before, we find little justification in the current operating environment for management guidance of an increase in ‘new’ sales of \$180m, or 20% of FY2009 total revenue.

Table 7: Off Wall Street revenue assumptions:

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010 E</u> | <u>2011 E</u> |
|---------------------------|-------------|-------------|-------------|-------------|---------------|---------------|
| North America Revenue Gro | 26% | 7% | -10% | -36% | -11% | 6% |
| International Revenue Gro | 64% | 59% | 18% | -36% | -3% | 5% |
| Revenue Growth | 36.5% | 21.0% | -0.6% | -32.6% | -6.6% | 5.7% |
| Deferred as % of Total | 39.8% | 38.8% | 30.8% | 33.8% | 30.8% | 31.4% |
| Deferred Revenue Growth | 799.0% | 18.1% | -21.0% | -26.2% | -15.0% | 7.7% |
| OWS Operating Margin | 20.6% | 15.9% | 12.6% | -1.0% | -10.9% | -3.7% |
| "Street" Operating Margin | na | na | na | na | 1.1% | 7.2% |
| OWS EPS | \$0.27 | \$1.12 | \$0.94 | \$0.15 | -\$0.33 | -\$0.13 |
| "Street" EPS | na | na | na | na | -\$0.11 | \$0.34 |

Potential risks to our thesis include the benefits of acquisitions, greater than expected benefit from the launch of the 6Sense technology, and a stronger than expected recovery in recruitment spending.

6. Valuation and Price Target

We model significant revenue and EPS variance for MWW versus “street” consensus estimates over the next two years. We note also the wide range of “street” opinion, with analyst EPS estimates for FY2011, for example, ranging from \$0.07 to \$0.85.

The key “street” assumptions are for revenue to remain flat in FY2010, and to grow 17% in FY2011. Operating margin expansion is also built into “street” models, from -3.1% in FY2010 to 5.1% in FY2011, and doubling to 10.7% in FY2012. This is contrary to OWS expectations for lower operating margin in FY2010, and modest recovery in margins, but remaining below profitability for FY2011. Our assumptions are based on a dearth of evidence to suggest near-term recovery in recruitment spending. Over the longer-term, our research suggests customers will be more discerning in recruitment spending, seeking higher value, lower-cost alternatives to Monster.com, including social networking. We expect that, as a result, Monster will lose share of spend, which will mute the benefit it receives from any general recovery.

Finally, we think the “street” and management overestimate the ability of MWW (and new acquisition HotJobs), to up-sell higher margin products to their current customer base, given the operating environment, and increased competition and pricing pressure.

Due to negative earnings, we use a 1.5x sales multiple on FY2010 revenues of \$845.2m to value MWW shares. The online recruitment industry has moved away from being a growth industry, and does not warrant a high sales multiple when compared to other web-based companies, such as Google, Yahoo, or eBay.

The trailing 5-quarter average Price/Sales multiple is 1.5x, and the stock is currently trading at 2.3x FY2009 sales. Our Price/Sales target price is \$10.06, a 36% downside to current share price.

Alternatively, taking a revenue growth rate similar to FY2011, applying it to FY2012 revenues, and then awarding a generous net margin of 8% after taxes and using today's share count, we get about \$0.62 in earnings for 2012, and applying a market multiple, we arrive at a slightly lower target price of \$9.34.

7. Financial Models

a. Quarterly Projections

| \$m, except per share | Q4 09 | Q1 10e | Q2 10e | Q3 10e | Q4 10e | Q1 11e | Q2 11e | Q3 11e | Q4 11e |
|-------------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| North America Careers | 90.9 | 89.6 | 86.9 | 89.9 | 94.4 | 101.0 | 96.0 | 97.9 | 100.8 |
| International | 88.5 | 87.6 | 87.6 | 88.5 | 89.4 | 92.9 | 92.0 | 92.0 | 92.9 |
| Internet advertising | 33.7 | 33.1 | 32.4 | 32.4 | 33.4 | 34.0 | 34.7 | 35.4 | 36.1 |
| Total Revenue | 213.1 | 210.2 | 206.9 | 210.8 | 217.1 | 228.0 | 222.7 | 225.3 | 229.9 |
| Salaries | 115.0 | 119.9 | 116.9 | 116.2 | 118.5 | 119.9 | 116.9 | 116.2 | 120.9 |
| Office and general | 49.5 | 59.0 | 56.9 | 56.8 | 51.9 | 56.1 | 54.0 | 54.0 | 50.9 |
| Marketing and promotion | 45.3 | 85.1 | 49.4 | 51.5 | 52.0 | 83.4 | 49.0 | 51.0 | 51.0 |
| Restructuring / stock / other | 0.0 | 2.0 | 1.0 | 0.0 | 0.0 | 2.0 | 0.0 | 0.0 | 0.0 |
| Depreciation | 19.6 | 17.1 | 17.8 | 18.3 | 20.6 | 18.0 | 18.7 | 19.2 | 21.6 |
| Amortization of stock based | 28.0 | 0.0 | 0.0 | 0.0 | 30.2 | 0.0 | 0.0 | 0.0 | 32.7 |
| Non cash stock option exp | 0.7 | 0.0 | 0.0 | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 | 1.6 |
| Amortization of intangibles | 6.8 | 0.0 | 0.0 | 0.0 | 8.5 | 0.0 | 0.0 | 0.0 | 10.6 |
| Operating Income | 3.4 | -55.8 | -17.3 | -13.7 | -5.3 | -33.4 | 1.8 | 4.1 | 7.1 |
| EBITDA reported | 58.5 | -38.6 | 0.5 | 4.5 | 55.0 | -15.4 | 20.5 | 23.3 | 73.6 |
| Interest and other | -7.1 | -1.0 | -1.0 | -1.0 | -2.0 | -1.0 | -1.0 | -1.0 | -2.0 |
| Pretax Income | -3.7 | -56.8 | -18.3 | -14.7 | -7.3 | -34.4 | 0.8 | 3.1 | 5.1 |
| Provision reported | -2.4 | -36.6 | -11.4 | -9.0 | -3.5 | -21.9 | 1.2 | 2.7 | 4.7 |
| Earnings in equity interests | -0.8 | -1.2 | -1.2 | -1.0 | -0.8 | -1.2 | -1.2 | -1.0 | -0.8 |
| Net Income | -2.1 | -21.4 | -8.2 | -6.8 | -4.7 | -13.7 | -1.6 | -0.6 | -0.4 |
| EPS | -0.02 | -0.18 | -0.07 | -0.06 | -0.04 | -0.11 | -0.01 | -0.01 | 0.00 |
| Shares diluted | 119.6 | 120.0 | 120.5 | 122.0 | 123.0 | 122.0 | 120.0 | 121.0 | 121.0 |

| Y/Y Change | Q4 09 | Q1 10e | Q2 10e | Q3 10e | Q4 10e | Q1 11e | Q2 11e | Q3 11e | Q4 11e |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| North America Careers | -32.7% | -24.8% | -14.7% | -5.5% | 3.8% | 12.8% | 10.5% | 8.9% | 6.8% |
| International | -27.9% | -15.5% | -1.1% | 4.4% | 1.0% | 6.1% | 5.0% | 4.0% | 4.0% |
| Internet advertising | -3.6% | 4.8% | -0.8% | -6.3% | -1.1% | 3.0% | 7.2% | 9.3% | 8.2% |
| Total Revenue | -27.2% | -17.4% | -7.3% | -1.7% | 1.9% | 8.5% | 7.6% | 6.9% | 5.9% |
| Salaries | -15.0% | -2.0% | 3.0% | 3.0% | 3.0% | 0.0% | 0.0% | 0.0% | 2.0% |
| Office and general | -15.0% | -5.0% | -5.0% | -5.0% | 5.0% | -5.0% | -5.0% | -5.0% | -2.0% |
| Marketing and promotion | -15.0% | 15.0% | 10.0% | 12.5% | 15.0% | -2.0% | -1.0% | -1.0% | -2.0% |
| Depreciation | 12.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Amortization of stock based | 0.0% | 1.0% | 1.0% | 2.0% | 8.0% | 0.0% | 0.0% | 0.0% | 8.0% |
| Non cash stock option exp | 0.0% | 0.0% | 0.0% | 0.0% | 50.0% | 0.0% | 0.0% | 0.0% | 50.0% |
| Amortization of intangibles | 0.0% | 5.0% | 5.0% | 5.0% | 25.0% | 0.0% | 0.0% | 0.0% | 25.0% |
| Operating Income | -92.5% | 84.1% | 60% | -50% | n/a | -40.2% | n/a | n/a | n/a |
| EBITDA reported | -43.2% | n/a | -97.9% | -66.4% | -5.9% | -60.3% | n/a | n/a | 33.7% |
| Interest and other | n/a | n/a | 00% | 00% | -71.7% | 00% | 00% | 00% | 00% |
| Pretax Income | n/a | 94.7% | 12.3% | 20% | 99.1% | -39.5% | n/a | n/a | n/a |
| Earnings in equity interests | n/a | 00% | 00% | 00% | 00% | 00% | 00% | 00% | 00% |
| Net Income | n/a | 00% | 00% | 00% | n/a | -36.0% | -80.9% | -90.8% | -91.4% |
| EPS | n/a | -13.8% | -50.5% | n/a | n/a | -37.1% | -80.8% | -90.7% | -91.2% |
| Shares diluted | -1.3% | 1.0% | 1.0% | 0.3% | 2.9% | 1.7% | -0.4% | -0.8% | -1.6% |
| As % of Net Sales | Q4 09 | Q1 10e | Q2 10e | Q3 10e | Q4 10e | Q1 11e | Q2 11e | Q3 11e | Q4 11e |
| North America Careers | 42.7% | 42.6% | 42.0% | 42.7% | 43.5% | 44.3% | 43.1% | 43.4% | 43.9% |
| International | 41.5% | 41.7% | 42.3% | 42.0% | 41.1% | 40.8% | 41.3% | 40.8% | 40.4% |
| Internet advertising | 15.8% | 15.7% | 15.7% | 15.4% | 15.4% | 14.9% | 15.6% | 15.7% | 15.7% |
| Salaries | 54.0% | 57.1% | 56.5% | 55.1% | 54.6% | 52.6% | 52.5% | 51.6% | 52.6% |
| Office and general | 23.2% | 28.1% | 27.5% | 27.0% | 23.9% | 24.6% | 24.3% | 24.0% | 22.1% |
| Marketing and promotion | 21.2% | 40.5% | 23.9% | 24.4% | 24.0% | 36.6% | 22.0% | 22.6% | 22.2% |
| Restructuring / option / other | 0.0% | 1.0% | 0.5% | 0.0% | 0.0% | 0.9% | 0.0% | 0.0% | 0.0% |
| Depreciation | 9.2% | 8.2% | 8.6% | 8.7% | 9.5% | 7.9% | 8.4% | 8.5% | 9.4% |
| Amortization of SBC | 13.1% | 0.0% | 0.0% | 0.0% | 13.9% | 0.0% | 0.0% | 0.0% | 14.2% |
| Non cash stock option exp | 0.3% | 0.0% | 0.0% | 0.0% | 0.5% | 0.0% | 0.0% | 0.0% | 0.7% |
| Amortization of intangibles | 3.2% | 0.0% | 0.0% | 0.0% | 3.9% | 0.0% | 0.0% | 0.0% | 4.6% |
| Operating margin | 1.6% | -26.5% | -8.4% | -6.5% | -2.5% | -14.6% | 0.8% | 1.8% | 3.1% |
| EBITDA Margin | 27.4% | -18.4% | 0.2% | 2.2% | 25.4% | -6.7% | 9.2% | 10.4% | 32.0% |
| Interest and other | -3.3% | -0.5% | -0.5% | -0.5% | -0.9% | -0.4% | -0.4% | -0.4% | -0.9% |
| Pretax Margin | -1.7% | -27.0% | -8.9% | -7.0% | -3.4% | -15.1% | 0.4% | 1.4% | 2.2% |
| Tax Provision | -1.1% | -17.4% | -5.5% | -4.3% | -1.6% | -9.6% | 0.5% | 1.2% | 2.0% |
| Net Margin | -1.0% | -10.2% | -3.9% | -3.2% | -2.2% | -6.0% | -0.7% | -0.3% | -0.2% |

b. Annual Projections

| \$m, except per share | FY 2009 | FY 2010 e | FY 2011 e | FY 2012 e |
|--|---------|-----------|-----------|-----------|
| North America Careers | 407.1 | 360.8 | 395.7 | 427.4 |
| International | 365.5 | 353.0 | 369.8 | 417.9 |
| Internet advertising | 132.5 | 131.2 | 140.3 | 148.7 |
| Total Revenue | 905.1 | 845.0 | 905.9 | 960.2 |
| Salaries | 463.7 | 471.5 | 473.9 | 393.7 |
| Office and general | 231.3 | 224.7 | 215.0 | 153.6 |
| Marketing and promotion | 209.9 | 238.0 | 234.3 | 230.5 |
| Restructuring / stock option and other | 16.1 | 3.0 | 3.0 | 0.0 |
| Depreciation | 70.3 | 73.8 | 77.5 | 77.5 |
| Amortization of stock based comp | 28.0 | 30.2 | 32.7 | 32.7 |
| Non cash stock option expense | 0.7 | 1.1 | 1.6 | 0.0 |
| Amortization of intangibles | 6.8 | 8.5 | 10.6 | 10.6 |
| Operating Income | -9.1 | -92.2 | -20.3 | 104.9 |
| EBITDA reported | 52.0 | -21.4 | 54.2 | 182.4 |
| Interest and other | -5.8 | -5.0 | -5.0 | 4.0 |
| Pretax Income | -14.9 | -97.2 | -25.3 | 108.9 |
| Provision reported | -37.9 | -60.5 | -13.3 | 21.7 |
| Earnings in equity interests | -4.3 | -4.3 | -4.3 | 0.0 |
| Net Income | 18.7 | -41.0 | -16.3 | 73.0 |
| EPS | 0.15 | -0.33 | -0.13 | 0.60 |
| Shares diluted | 121.2 | 123.0 | 121.0 | 123.4 |

| Y/Y Change | FY 2009 | FY 2010 e | FY 2011 e | FY 2012 e |
|----------------------------------|---------|-----------|-----------|-----------|
| North America Careers | -35.0% | -11.4% | 9.7% | 8.0% |
| International | -36.5% | -3.4% | 4.8% | 13.0% |
| Internet advertising | 0.0% | -1.0% | 6.9% | 6.0% |
| Total Revenue | -35.0% | -6.6% | 7.2% | 6.0% |
| Salaries | -16.0% | 1.7% | 0.5% | -16.9% |
| Office and general | -18.0% | -2.9% | -4.3% | -28.5% |
| Marketing and promotion | -25.0% | 13.4% | -1.6% | -1.6% |
| Depreciation | 25.00% | -81.4% | 0.0% | n/a |
| Amortization of stock based comp | 0.00% | 5.0% | 5.0% | 0.0% |
| Non cash stock option expense | 0.00% | 8.0% | 8.0% | 0.0% |
| Amortization of intangibles | 0.00% | 50.0% | 50.0% | n/a |
| Operating Income | n/a | 25.0% | 25.0% | 0.0% |
| EBITDA reported | -80.64% | 915.3% | -78.0% | n/a |
| Interest and other | n/a | n/a | n/a | n/a |
| Pretax Income | n/a | -13.5% | 0.0% | n/a |
| Earnings in equity interests | -44.65% | 554.1% | -74.0% | n/a |
| Net Income | n/a | 59.7% | -78.0% | n/a |
| EPS | -83.60% | 0.0% | 0.0% | n/a |
| Shares diluted | -0.02% | n/a | -60.3% | n/a |

| As % of Net Sales | FY 2009 | FY 2010 e | FY 2011 e | FY 2012 e |
|--------------------------------|---------|-----------|-----------|-----------|
| North America Careers | 45.0% | 42.7% | 43.7% | 44.5% |
| International | 40.4% | 41.8% | 40.8% | 43.5% |
| Internet advertising | 14.6% | 15.5% | 15.5% | 15.5% |
| Salaries | 51.2% | 55.8% | 52.3% | 41.0% |
| Office and general | 25.6% | 26.6% | 23.7% | 16.0% |
| Marketing and promotion | 23.2% | 28.2% | 25.9% | 24.0% |
| Restructuring / option / other | 1.8% | 0.4% | 0.3% | 0.0% |
| Depreciation | 7.8% | 8.7% | 8.6% | 8.1% |
| Amortization of SBC | 3.1% | 3.6% | 3.6% | 3.4% |
| Non cash stock option expense | 0.1% | 0.1% | 0.2% | 0.0% |
| Amortization of intangibles | 0.8% | 1.0% | 1.2% | 1.1% |
| Operating margin | -1.0% | -10.9% | -2.2% | 10.9% |
| EBITDA Margin | 5.7% | -2.5% | 6.0% | 19.0% |
| Interest and other | -0.6% | -0.6% | -0.6% | 0.4% |
| Pretax Margin | -1.6% | -11.5% | -2.8% | 11.3% |
| Tax Provision | -4.2% | -7.2% | -1.5% | 2.3% |
| Net Margin | 2.1% | -4.9% | -1.8% | 7.6% |

8. Additional Info

| | |
|--|---------|
| Current Debt | 50.1 |
| Current Equity | 1,133.2 |
| Current Tangible Book Value | 163.5 |
| Current market value | 1987.3 |
| Current Cash | 275.5 |
| Current DSO | 121.5 |
| EBIT | -9.1 |
| EBITDA | 75.8 |
| Free Cash Flow | -4.2 |
| Surplus Cash Flow (net income+D&A-Capex) | 38.5 |
| Capex | 48.7 |
| EV/EBITDA | 23.1x |
| EV/(EBITDA-Capex) | 64.6x |