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November 14, 2019

# Dentsu Inc.
# Q3 FY2019 Consolidated Financial Results
*(The First Nine Months ended September 30, 2019 – reported on an IFRS basis)*

## Executive Summary


- In the first nine months, the Dentsu Group delivered total growth of revenue less cost of sales of 3.3% (constant currency basis) and organic growth of -1.0%.
- The Japan business delivered 1.4% and -0.9% respectively. The impact from the decline in traditional media in the Japanese market was offset by growth in digital-related services and favorable results in subsidiaries. An absence of large scale sporting events impacted the year-to-date results.
- The international business, Dentsu Aegis Network, delivered 4.6% growth of revenue less cost of sales (constant currency basis) and -1.0% organic growth. In the third quarter, the business faced the toughest comparables of the year and organic growth was impacted by further declines in APAC, attributed to the Australian and Chinese markets, while the Americas, in particular the US market, saw continued strength.
- In the fourth quarter, the Japanese business will benefit from a number of large scale events (Rugby World Cup and Tokyo Motor Show) and the International business should benefit from continued momentum in the Americas.
- The financial guidance announced on August 7, 2019 remains unchanged.


## Financial Results for First Nine Months FY2019

| Consolidated Group (million yen) | First nine months of FY2019 | First nine months of FY2018 | YoY change, % | Constant currency basis, % |
|---|---|---|---|---|
| **Revenue** | **746,610** | 725,168 | +3.0 | - |
| **Revenue less cost of sales*** | **674,205** | 668,301 | +0.9 | +3.3 |
| **Statutory results** | | | | |
| • operating profit | **37,050** | 57,993 | (36.1) | - |
| • net profit (attributable to owners of the parent) | **4,742** | 58,200 | (91.9) | - |
| • basic EPS | **16.83 yen** | 206.46 yen | | |
| **Underlying results**** | | | | |
| ▪ operating profit | **75,578** | 89,510 | (15.6) | (14.9) |
| ▪ operating margin | **11.2%** | 13.4% | (220) bps | (240) bps |
| ▪ net profit (attributable to owners of the parent) | **39,432** | 48,006 | (17.9) | - |
| ▪ basic EPS | **139.93 yen** | 170.30 yen | | |
| **EBITDA***** | **105,016** | 102,202 | +2.8 | - |
| **Average JPY/USD rate** | **109.1 yen** | 109.6 yen | (0.4) | - |
| **Average JPY/GBP rate** | **139.0 yen** | 148.2 yen | (6.2) | - |

**Revenue less cost of sales is the metric by which the Group's organic growth is measured. Organic growth represents the constant currency year-on-year growth after adjusting for the effect of businesses acquired or disposed of since the beginning of the previous year.*
*** See page 6 for definition of "underlying."*
**** See page 6 for definition of "EBITDA."*

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**First Nine Months of FY2019 results**

- The Dentsu Group delivered **growth of revenue less cost of sales** of +3.3% (constant currency basis):
  - +1.4% in Japan, and +4.6% at Dentsu Aegis Network driven by M&A.
  - The breakdown in contribution is: +28.2 billion yen from M&A, -6.9 billion yen by organic growth, and -15.3 billion yen from foreign exchange rates.

- The Group produced **organic growth** of -1.0%:
  - -0.9 % in Japan, and -1.0% at Dentsu Aegis Network. The Japan business declined due to an absence of large scale sporting events as well as a decrease in traditional media in the Japanese market, offset by growth in digital-related services and favorable results in subsidiaries. The international business was impacted by negative growth in APAC, driven by further weakness in the Australian and Chinese markets. Excluding the impact of Australia and China, Q3 organic growth for Dentsu Aegis Network was 1.8%.
  - **Digital business contribution to total revenue less cost of sales** reached 47.8% (9M FY2018: 45.4%), including 28.6% in Japan (9M FY2018: 23.4%), and 61.1% at Dentsu Aegis Network (9M FY2018: 60.5%).
  - **International business contribution to total revenue less cost of sales** reached 59.0% (9M FY2018: 59.2%).

- Group **underlying operating profit** was 75.5 billion yen (9M FY2018: 89.5 billion yen).
  - 50.5 billion yen in Japan (9M FY2018: 61.4 billion yen), and 25.0 billion yen at Dentsu Aegis Network (9M FY2018: 28.0 billion yen).
  - The difference between the underlying operating profit and statutory operating profit was largely due to the difference in amortization of M&A related intangible assets.

- Group **underlying operating margin** was 11.2% (9M FY2018: 13.4%).
  - 18.3% in Japan (9M FY2018: 22.6%), and 6.3% at Dentsu Aegis Network (9M FY2018: 7.1%).
  - The decline in Japan was mainly due to planned SG&A costs related to investments to drive future growth. At Dentsu Aegis Network the decline was due to planned investments, strong cost management in central and regional costs continues.
  - The Group underlying operating margin for Q3 improved by 70 bps over the same period last year.

- **Underlying net profit (attributable to owners of the parent) decreased by 17.9%, mainly due to a decline in underlying operating income.**
  - Difference between the underlying net profit and statutory net profit was mainly due to the operating profit adjustments.

**Toshihiro Yamamoto, President and CEO, Dentsu Inc., said:**

*"In the first nine months of FY2019, Dentsu Group recorded a decline in organic growth of -1.0%, with -0.9% in Japan and -1.0% at Dentsu Aegis Network.*

*The Japan business has seen sequential improvement through each quarter of 2019, with the fourth quarter set to benefit from many large scale events, including the successful Rugby World Cup hosted in Japan and the Tokyo Motor Show.*

*We continue to see the shift of revenue from traditional media in Japan into digital channels and this is clearly reflected in the performance of our Group companies, such as Dentsu Digital, ISID and other subsidiaries. We continue to capture the transfer of value as marketing shifts from traditional mediums.*

*In the International business, in order to future-proof our business and serve clients more effectively, we have streamlined and consolidated our offering around three lines of business: Creative, Media and CRM. These lines of business have been designed around client needs and will ensure we are set up to help clients win, keep and grow their best customers—by being data-driven, tech-enabled and ideas-led. 2020 is a year of transition and by 2021, we will be operating under these three lines of business and be truly integrated by design.*

*Finally, today we will shortly announce the new management team of Dentsu Group Inc. taking office from January 2020. This announcement marks the start of the next stage in the evolution of Dentsu Group and the team will be fully committed to our shared vision of "One dentsu."*

## The First Nine Months of FY2019 Consolidated Financial Results

### 1. The First Nine Months of FY2019 Performance Review

**Japan:**

The Group's operations in Japan delivered organic growth of -0.9% in the first nine months of FY2019. This was mainly due to a turnover decline in traditional media, which was largely offset by growth in digital-related services and favorable results in subsidiaries. An absence of large scale sporting events impacted the year-to-date results. These results reflect the steady progress we are making as we continue to see the transition of the traditional media business into digital.

VOYAGE GROUP Inc. joined the Group and has been consolidated since January 2019. The acquisition was in line with our strategy to expand digital-related services. Information Services International-Dentsu, Ltd. (ISID) showed strong performance in the first nine months of FY2019 mainly due to favorable business conditions driven by the information services industry as demand for corporate investment in information technology remains buoyant.

Underlying operating margin in Japan declined by 430 bps to 18.3%. This was mainly due to planned SG&A costs related to investments to drive future growth. This also includes investment in our people through HR development initiatives, future proofing our talent and unlocking new potential across the business.

**International:**

Dentsu Aegis Network delivered organic growth of -1.0% in the first nine months of FY2019 and -1.0% in Q3 FY2019. The business faced the toughest comparables of the year in the third quarter, despite this, the US market showed continued strong momentum. EMEA's performance was pulled lower by the UK and by France. Weakness in APAC was centered around the Australian and Chinese markets.

The year to date net new billings have reached $4.0bn, remaining well ahead of our average annual performance. This strong performance in FY2019 provides a tailwind as we enter FY2020, with many account wins yet to impact our financials.

The operational excellence program continues to improve operational agility and drive efficiencies across the firm. Current programs include a firm-wide approach to sales forecasting through the use of Salesforce and the global roll-out of resource utilization reporting.

**International – Regions:**

In EMEA, Dentsu Aegis Network reported -0.2% organic growth in the first nine months of FY2019 and -1.0% in Q3 FY2019.
The UK and France both posted negative results, significantly impacting the regional performance. Norway and Sweden also reported negative growth. Switzerland posted double digit organic growth and Russia, and Germany posted positive organic growth.

In the Americas, Dentsu Aegis Network reported +2.7% organic growth in the first nine months of FY2019 and +5.0% in Q3 FY2019.
The region saw improving momentum through the third quarter, particularly in the US market. This momentum is expected to continue into the final quarter of the year. In September, the Americas achieved 8% organic growth, with the US market seeing double digit organic growth, driven by new business wins and strong growth at Carat, Merkle, Vizeum and Dentsu X. The performance of our largest clients in the region remains strong although project-based business was a little weaker. Brazil saw a pullback in performance due to reduced client spend and challenging macroeconomic conditions. New management has recently been appointed in the Brazil market.

In the APAC region (excluding Japan), Dentsu Aegis Network reported -9.7% organic growth in the first nine months of FY2019 and -12.3% in Q3 FY2019.
Weakness in the region was driven by Australia and China. There are no green shoots of recovery in either market, both of which continue to severely impact the regional and group performance. Changes have been made to the regional management team, with Ashish Bhasin promoted to APAC Regional CEO from CEO of South Asia previously. The rest of APAC reported a slightly softer performance in the third quarter versus the second quarter.

**International –Acquisitions:**

Year to date 2019, a total of eleven new acquisitions have been signed： three in EMEA, two in the Americas and six in APAC. Focus for acquisitions remains on high growth areas in the world’s largest advertising markets.

The third quarter saw the addition of MuteSix in the Americas. MuteSix is one of the world’s largest direct-to-consumer marketing agencies and is one of Facebook’s largest direct response advertisers. MuteSix’s client base covers a broad spectrum, including start-ups and challenger brands as well as many established blue chips. The second acquisition, EBP, joined the iProspect brand in China. EBP works with brands across China’s foremost e-commerce platforms to deliver integrated marketing services.

Acquisitions contribute to the Group’s sustainable growth by driving scale, adding new capabilities and geographic infill. The ability to integrate acquired businesses well is fundamental to our success in M&A. Successful integration allows Dentsu to leverage new technologies and offerings across the firm quickly, benefiting our clients, our people and our shareholders.

## 2. Outlook & Forecasts for FY2019 full year performance

**FY2019 Forecasts**

The financial guidance announced on August 7, 2019 remains unchanged.

**– Ends –**

Note:

- IFRS 16 “Leases” is applied from January 1, 2019. Past results are not restated under IFRS 16.

**Further information**

Further details of these results, including all related financial statements, can be found in the Investor Relations section of the Dentsu Inc. website: https://www.dentsu.com/ir.

**Definitions of "underlying" and "EBITDA"**

- **Underlying operating profit**: KPI to measure recurring business performance which is calculated as operating profit added with amortization of M&A related intangible assets, acquisition costs, share-based compensation expenses related to acquired companies and one-off items such as gain/loss on sales and retirement of non-current assets and impairment loss.
- **Operating margin**: Underlying operating profit divided by Revenue less cost of sales.
- **Underlying net profit (attributable to owners of the parent)**: KPI to measure recurring net profit attributable to owners of the parent which is calculated as net profit added with adjustment items related to operating profit, gain/loss on sales of shares of associates, revaluation of earnout liabilities / M&A related put-option liabilities, tax-related, NCI profit-related and other one-off items.
- **Underlying basic EPS**: EPS based on underlying net profit (attributable to owners of the parent).
- **EBITDA**: Operating profit before depreciation, amortization and impairment losses.

**Reconciliation from Underlying to Statutory Operating Profit in the First Nine Months of FY2019**

| Consolidated Group (million yen) | First nine months of FY2019 | First nine months of FY2018 | Change, % |
|---|---|---|---|
| **Underlying operating profit** | **75,578** | 89,510 | (15.6) |
| Adjustment items: | **(38,527)** | (31,517) | |
| Amortization of M&A related intangible assets | **(26,789)** | (26,290) | |
| Acquisition costs | **(936)** | (831) | |
| Share-based compensation expenses related to acquired companies | **(6,182)** | (3,996) | |
| One-off items | **(4,620)** | (400) | |
| **Statutory operating profit** | **37,050** | 57,993 | (36.1) |

**Reconciliation from Underlying to Statutory Net Profit in the First Nine Months of FY2019**

| Consolidated Group (million yen) | First nine months of FY2019 | First nine months of FY2018 | Change, % |
|---|---|---|---|
| **Underlying net profit** (attributable to owners of the parent) | **39,432** | 48,006 | (17.9) |
| Adjustment items: | **(34,689)** | 10,193 | |
| Operating profit adjustments | **(38,527)** | (31,517) | |
| Gain (loss) on revaluation of earnout liabilities and M&A related put-option liabilities | **(12,229)** | (8,003) | |
| Gain on sales of shares of associates | **-** | +52,128 | |
| Revaluation gain on step acquisition | **+2,239** | - | |
| Related income tax expense | **+11,373** | (4,575) | |
| Adjustments attributable to non-controlling interests | **+2,455** | +2,161 | |
| **Net profit (attributable to owners of the parent)** | **4,742** | 58,200 | (91.9) |

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**Quarterly results**

| Consolidated Group (million yen) | FY2019 Jul-Sept | YoY change, % | FY2019 Apr-Jun | YoY change, % | FY2019 Jan-Mar | YoY change, % |
|---|---|---|---|---|---|---|
| **Revenue** | **249,542** | +2.5 | 246,489 | +2.9 | 250,578 | +3.5 |
| **Revenue less cost of sales** | **224,962** | +1.1 | 221,268 | +1.0 | 227,974 | +0.6 |
| Japan | **89,950** | +4.3 | 84,932 | +1.0 | 101,561 | (0.8) |
| International total | **135,232** | (0.8) | 136,427 | +1.0 | 126,482 | +1.7 |
| **Underlying operating profit** | **30,580** | +6.7 | 20,525 | (27.0) | 24,472 | (25.3) |
| Japan | **14,866** | (6.8) | 10,980 | (27.3) | 24,655 | (19.0) |
| International total | **15,713** | +23.8 | 9,549 | (26.6) | (183) | - |
| **Operating profit margin** | **13.6%** | +70 bps | 9.3% | (360) bps | 10.7% | (370) bps |
| Japan | **16.5%** | (200) bps | 12.9% | (500) bps | 24.3% | (540) bps |
| International total | **11.6%** | +230 bps | 7.0% | (260) bps | (0.1) % | (200) bps |
| **Underlying net profit** | **16,568** | +0.9 | 10,312 | (24.3) | 12,551 | (30.2) |
| **Operating profit** | **18,974** | +8.7 | 8,781 | (51.6) | 9,294 | (58.5) |
| **Net profit** | **6,017** | (87.3) | 1,308 | - | (2,583) | - |
| **EBITDA** | **41,367** | +28.0 | 31,446 | (4.3) | 32,201 | (13.0) |

**P/L from Statutory Operating Profit to Statutory Net Profit in the First Nine Months of FY2019**

| Consolidated Group (million yen) | First nine months of FY2019 | First nine months of FY2018 | Change, % |
|---|---|---|---|
| **Operating profit** | **37,050** | 57,993 | (36.1) |
| **Share of results of associates** | **409** | 1,996 | (79.5) |
| **Gain on sales of shares of associates** | **-** | 52,128 | - |
| **Revaluation gain on step acquisition** | **2,239** | - | - |
| **Profit before interest and tax** | **39,698** | 112,118 | (64.6) |
| **Net finance income (costs)** | **(23,602)** | (13,631) | - |
| **Finance income** | **6,504** | 6,081 | +7.0 |
| **Finance costs** | **30,107** | 19,713 | +52.7 |
| **Profit before tax** | **16,096** | 98,487 | (83.7) |
| **Income tax expense** | **6,831** | 35,745 | (80.9) |
| **Net profit** | **9,265** | 62,741 | (85.2) |
| **Attributable to owners of the parent** | **4,742** | 58,200 | (91.9) |
| **Attributable to non-controlling interests** | **4,522** | 4,541 | (0.4) |

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**Quarterly Organic Growth for the Dentsu Group, Dentsu in Japan, and Dentsu Aegis Network**

(%)

| | Dentsu Group Total | | | Dentsu in Japan | | | Dentsu Aegis Network Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017* | 2019 | 2018 | 2017* | 2019 | 2018 | 2017* |
| Q1 (Jan – Mar) | (1.6) | 2.1 | 3.7 | (2.7) | 1.9 | 4.3 | (0.7) | 2.2 | 3.1 |
| Q2 (Apr – June) | (1.3) | 5.9 | (4.6) | (1.4) | 8.4 | (7.6) | (1.3) | 4.5 | (2.7) |
| Q3 (Jul – Sept) | **(0.1)** | 5.4 | (2.1) | **+1.7** | 2.7 | (4.8) | **(1.0)** | 7.0 | (0.2) |
| Q4 (Oct – Dec) | - | 0.9 | 2.8 | - | (3.0) | 5.5 | - | 3.4 | 1.2 |
| Fiscal Year | - | 3.4 | 0.1 | - | 2.1 | (0.3) | - | 4.3 | 0.4 |

** IFRS 15 "Revenue from Contracts with Customers" is applied on the FY2017 results and their figures are adjusted.*

**Quarterly Organic Growth for Dentsu Aegis Network by Region**

(%)

| | Dentsu Aegis Network EMEA | | | Dentsu Aegis Network Americas | | | Dentsu Aegis Network APAC | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017* | 2019 | 2018 | 2017* | 2019 | 2018 | 2017* |
| Q1 (Jan – Mar) | (0.4) | 2.7 | 5.8 | 0.1 | 4.6 | 0.6 | (3.0) | (2.9) | 4.5 |
| Q2 (Apr – June) | 0.7 | 4.8 | (0.3) | 2.8 | 6.5 | (4.1) | (12.3) | 0.8 | (3.8) |
| Q3 (Jul – Sept) | **(1.0)** | 8.2 | 5.9 | **5.0** | 5.3 | (2.0) | **(12.3)** | 8.2 | (5.5) |
| Q4 (Oct – Dec) | - | 12.0 | 1.3 | - | 3.5 | (0.0) | - | (9.6) | 2.6 |
| Fiscal Year | - | 7.4 | 3.1 | - | 4.9 | (1.5) | - | (1.7) | (0.6) |

** IFRS 15 "Revenue from Contracts with Customers" is applied on the FY2017 results and their figures are adjusted.*

**For additional enquiries**

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**About the Dentsu Group**

Dentsu is the world's largest advertising agency brand. Led by Dentsu Inc. (Tokyo: 4324; ISIN: JP3551520004), a company with a history of 118 years of innovation, the Dentsu Group provides a comprehensive range of client-centric brand, integrated communications, media and digital services through its ten global network brands—Carat, Dentsu, dentsu X, iProspect, Isobar, mcgarrybowen, Merkle, MKTG, Posterscope and Vizeum—as well as through its specialist/multi-market brands. The Dentsu Group has a strong presence in over 145 countries and regions across five continents, and employs more than 62,000 dedicated professionals. Dentsu Aegis Network Ltd., its international business headquarters in London, oversees Dentsu's agency operations outside of Japan. The Group is also active in the production and marketing of sports and entertainment content on a global scale. https://www.dentsu.com/