dentsu

NEWS RELEASE

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FOR IMMEDIATE RELEASE
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Dentsu Announces Variances between the Actual Results and the Forecast of Financial Results for the First Half, and Changes to the Forecast of Financial Results for the Fiscal Year Ending March 31, 2015

In light of the variances that have arisen between the forecast of financial results for the first half (cumulative first and second quarters) of the fiscal year ending March 31, 2015 that was announced on August 12, 2014 and the actual results announced today, Dentsu Inc. (Tokyo: 4324; ISIN: JP3551520004; President & CEO: Tadashi Ishii; Head Office: Tokyo; Capital: 74,609.81 million yen) hereby announces changes to the full-year forecast of financial results.

1. Variances between the Actual Results and the Forecast of Financial Results for the First Half Ended September 30, 2014

(1) Consolidated Financial Results (Japanese GAAP)

(Millions of yen)

	Net sales	Gross profit	Operating income before amortization of goodwill and other intangible assets	Operating income	Ordinary income	Net income	Net income per share (Yen)
Previously announced forecast (A)	1,130,900	290,300	40,700	19,000	21,600	4,600	15.95
Actual results (B)	1,136,878	295,674	39,225	14,606	20,952	2,822	9.79
Variance (B-A)	5,978	5,374	(1,475)	(4,394)	(648)	(1,778)	
Rate of variance (%)	0.5	1.9	(3.6)	(23.1)	(3.0)	(38.6)	

(Reference) Actual results for prior year (First half ended Sept. 30, 2013)	1,082,360	269,193	40,111	19,284	24,049	10,134	38.61

(2) Non-consolidated Financial Results (Japanese GAAP)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income	Net income per share (Yen)
Previously announced forecast (A)	755,500	21,900	37,000	25,200	87.39
Actual results (B)	734,808	23,226	43,332	33,375	115.74
Variance (B-A)	(20,691)	1,326	6,332	8,175	
Rate of variance (%)	(2.7)	6.1	17.1	32.4	
(Reference) Actual results for prior year (First half ended Sept. 30, 2013)	717,583	18,390	29,727	23,137	88.14

2. Changes to the Forecast of Financial Results for the Fiscal Year Ending March 31, 2015

(1) Forecast of Consolidated Financial Results (Japanese GAAP)

(Millions of yen)

	Net sales	Gross profit	Operating income before amortization of goodwill and other intangible assets	Operating income	Ordinary income	Net income	Net income per share (Yen)
Previously announced forecast (A)	2,371,200	623,000	115,500	72,500	77,900	31,100	107.85
Amended forecast (B)	2,432,100	651,700	118,300	69,300	76,700	29,400	101.95
Variance (B-A)	60,900	28,700	2,800	(3,200)	(1,200)	(1,700)	
Rate of variance (%)	2.6	4.6	2.4	(4.4)	(1.5)	(5.5)	

(Reference) Actual results for prior year (Fiscal year ended March 31, 2014)	2,309,359	594,072	114,186	71,490	82,538	38,800	140.89

(2) Forecast of Non-consolidated Financial Results (Japanese GAAP)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income	Net income per share (Yen)
Previously announced forecast (A)	1,567,200	51,900	69,100	43,000	149.12
Amended forecast (B)	1,544,700	54,300	74,800	48,300	167.50
Variance (B-A)	(22,500)	2,400	5,700	5,300	
Rate of variance (%)	(1.4)	4.6	8.2	12.3	
(Reference) Actual results for prior year (Fiscal year ended March 31, 2014)	1,515,062	50,579	69,667	46,953	170.49

3. Reason

With regard to the consolidated results for the first half (Japanese GAAP), although net sales and gross profit were higher than the initial forecasts, the strong performance of companies acquired by the Dentsu Group resulted in an increase of around 4.8 billion yen against the original forecast in the estimated value of earnouts (see Note 1) related to these acquisitions that may be paid in the future. In addition, the depreciation of the yen has increased the amortization of goodwill and other intangible assets on a yen basis. The resultant increase in the selling, general and administrative expenses and other factors led to the lower-than-forecast operating income before amortization of goodwill and other intangible assets, operating income, ordinary income and net income, as shown in 1. (1) Consolidated Financial Results (Japanese GAAP) above.

Meanwhile, although non-consolidated net sales (Japanese GAAP) came in lower than the original forecast, an improvement in the gross profit margin and increase in dividends received and other non-operating income resulted in higher-than-forecast operating income, ordinary income and net income, as shown in 1. (2) Non-consolidated Financial Results (Japanese GAAP) above.

Regarding the amendment to the full-year forecast of financial results (Japanese GAAP) shown in 2. (1) Forecast of Consolidated Results (Japanese GAAP) and (2) Forecast of Non-consolidated Results (Japanese GAAP) above, in addition to the variances that arose in the first half, the impact of recent advertising market trends and changes in the exchange rate were taken into account.

Note 1

In a deferred consideration or an earnout, a certain portion of the total purchase price is not paid at the time of the acquisition. There is an obligation, however, to pay this portion at a later date when the acquired business meets certain conditions. In general, the acquirer and the seller specify the conditions for the performance of the acquired business after a certain period of time, and the amount of the earnout varies according to the actual results of the acquired business during the agreed period of time. An earnout estimate based on the future expected performance of the acquired business is calculated at the time of the acquisition, and if the actual performance is better than was expected at the time of the acquisition, the estimated future earnout consideration increases. The acquirer is expected to recognize this as an expense. Conversely, if the actual performance of the acquired business is worse than was expected at the time of the acquisition, the estimated future earnout consideration decreases. The acquirer is required to recognize this as revenue income.

Note 2

The forecasts of net sales and income provided in this document have been calculated based on judgments and assumptions made using currently available information such as industry trends and client circumstances. Therefore, actual sales and income may differ from the forecasts due to uncertain elements inherent in the forecasts as well as other factors including changes in the domestic or overseas economic conditions of business operations going forward.

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