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May 15, 2018

Dentsu Inc.
Q1 FY2018 Consolidated Financial Results

(The first quarter ended March 31, 2018 – reported on an IFRS basis)

Note:
- IFRS 15 "Revenue from Contracts with Customers" is applied from January 1, 2018. In this material, past results are also presented on a pro-forma basis to facilitate the year-on-year comparison.
- The term "Gross profit" is changed to "Revenue less cost of sales" from Q1 FY2018.

Overview of Q1 FY2018 performance

- In Q1 FY2018 the Dentsu Group delivered total growth of revenue less cost of sales of 5.7% (constant currency basis) and organic growth of 2.1%.
- This is the third consecutive quarter of improving organic growth following the slowdown in Q2 FY2017; the Group's quarterly comparables ease significantly through the remainder of FY2018.
- The Japan business delivered total growth of revenue less cost of sales of 1.9%, in part, due to an increase in digital related business.
- The international business, Dentsu Aegis Network, delivered total growth of revenue less cost of sales of 9.0% (constant currency basis) and organic growth of 2.2%, partly driven by new business wins in H2 FY2017. Momentum remains with the business as we enter the second quarter.
- Underlying operating profit declined 13.0% (constant currency basis). In Japan, this was due to planned investments in the working environment reforms. At Dentsu Aegis Network, the year-on-year decline reflects planned investments in global platforms and systems to support future growth. The Q1 FY2018 margin is aligned to our budget and is on track for FY2018 guidance.

Financial Results for Q1 FY2018

Consolidated Group (million yen)	Q1 FY2018	Q1 FY2017*	YoY change, %	Constant currency basis, %
Revenue	242,107	229,071	5.7	-
Revenue less cost of sales**	226,665	213,729	6.1	5.7
Statutory results				
• operating profit	22,393	28,587	(21.7)	-
• net profit (attributable to owners of the parent)	10,788	15,616	(30.9)	-
• basic EPS	38.27 yen	54.84 yen	(30.2)	-
Underlying results***				
▪ operating profit	32,744	37,749	(13.3)	(13.0)
▪ operating margin	14.4%	17.7%	(330) bps	(310) bps
▪ net profit (attributable to owners of the parent)	17,972	23,556	(23.7)	-
▪ basic EPS	63.76 yen	82.73 yen	(22.9)	-
EBITDA****	37,022	42,604	(13.1)	-
Average JPY/USD rate	108.3 yen	113.6 yen	(4.7)	-
Average JPY/GBP rate	150.9 yen	140.8 yen	7.2	-

** IFRS 15 “Revenue from Contracts with Customers” is applied and adjusted.*
***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.”*

Q1 FY2018 results

- The Dentsu Group delivered **growth of revenue less cost of sales** of 5.7% (constant currency basis) in Q1 FY2018:
    - 1.9% in Japan, and 9.0% (constant currency basis) at Dentsu Aegis Network driven by acquisitions and organic growth.

- The Group produced **organic growth** of 2.1 % (constant currency basis) in Q1 FY2018:
    - 1.9% in Japan, and 2.2% (constant currency basis) at Dentsu Aegis Network. The international business benefited from the strong new business wins in H2 FY2017; further impact from new business wins is expected through the remainder of FY2018.
    - **Digital business contribution to total revenue less cost of sales** reached 43.7% (Q1 FY2017: 40.0%), including 23.0% in Japan (Q1 FY2017: 21.0%), and 60.8% at Dentsu Aegis Network (Q1 FY2017: 56.9%).
    - **International business contribution to total revenue less cost of sales** reached 54.9% (Q1 FY2017: 53.0%).

- Group **underlying operating profit** was 32.7 billion yen (Q1 FY2017: 37.7 billion yen).
    - 30.4 billion yen in Japan (Q1 FY2017: 33.0 billion yen), and 2.3 billion yen at Dentsu Aegis Network (Q1 FY2017: 4.6 billion yen).

- Group **underlying operating margin** was 14.4% (Q1 FY2017: 17.7%).
    - 29.7% in Japan (Q1 FY2017: 32.9%), and 1.9% at Dentsu Aegis Network (Q1 FY2017: 4.1%).
    - Decline of group underlying operating margin was mainly due to planned SG&A costs related to the working environment reforms in Japan. At Dentsu Aegis Network, while the usual seasonality of the business is reflected in the first quarter margin, the year-on-year decline reflects the planned internal investment in global platforms and systems which remains on track.
    - The Q1 FY2018 margin is aligned to our budget and is on track for FY2018 expectations.

- **Underlying net profit (attributable to owners of the parent) and underlying basic EPS** decreased by 23.7% and 22.9% respectively mainly due to the decline in operating profit.

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

"FY2018 marks the five-year anniversary since the establishment of Dentsu Aegis Network. During that time much has been achieved. Our global workforce has increased from 36,000 to 60,000 people. Approximately 60% of our Group revenues are now generated outside of Japan, and of those revenues, 60% come from digital activities. We have transformed into a truly global competitor.

In Q1 FY2018, Dentsu Group continued on its return to growth, as seen over the past three quarters. The operating environment remains challenging, yet momentum is with the business.

As a Group, we remain focused on innovating at pace to help our clients stay ahead of the competition. We're leading the industry in the move from marketing to audiences to marketing to real people. In a rapidly changing marketplace, we help our clients maximize the value of data and drive competitive advantage for their brands—turning consumer data into addressable insight, powered by dynamic content, that delivers consumer engagement.

Our world-class talent and leading edge capabilities are designed to build our clients' greatest marketing assets—their brands—in a consumer-led digital economy."

Q1 FY2018 Consolidated Financial Results and FY2018 Forecasts

1. Q1 FY2018 performance review by region

Japan:
The Group's operations in Japan produced organic growth of 1.9% in the Q1 FY2018. This was due, in part, to an increase in digital related business driven by "People Driven Marketing" activities.

Underlying operating margin in Japan declined by 320 bps to 29.7%. This was primarily due to planned investments in the working environment reforms.

In Japan, a range of measures have been implemented to complete the overhaul of our in-house working environment by the end of FY2018. To date, over 50 measures related to working environment reforms have been completed. These include streamlining workflows and improving the office environment for our people. Thanks to these efforts, we have observed a number of positive results that have increased efficiency across the business resulting in a further reduction in total work hours per employee for three months from January 2018. We will continue to build on the programs that were successful in FY2017 and introduce further additional measures in FY2018.

International:
Dentsu Aegis Network delivered organic growth of 2.2% in Q1 FY2018; the third consecutive quarter of organic growth improvement. The quarterly comparable base eases significantly as we progress through FY2018.

Following a strong year in FY2017, the media agencies saw continued growth while our project based agencies saw a pick-up in momentum – particularly in the US.

Q1 FY2018 benefitted from new business accounts won in H2 FY2017. We expect further benefit from new business wins in Q4 FY2017 to impact performance through the remainder of FY2018. Our year-to-date new business performance is tracking ahead of FY2017, a record year for new business. The pitch pipeline remains healthy and is over 80% offensive.

The Q1 FY2018 underlying operating margin reflects the seasonality of the business. Profitability is lower year-on-year due to the planned internal investment in global systems and platforms which remains on track. These investments will allow the business to operate more efficiently at scale, standardize business operations and support faster decision making. The Q1 FY2018 margin is aligned to our budget and is on track for FY2018 expectations.

In EMEA, Dentsu Aegis Network delivered organic growth of 2.7% in Q1 FY2018. Performance was mixed across the region. Germany and France remain in negative territory. However, the UK posted positive organic growth and we had continued stand-out performances from Russia and the Nordics.

In the Americas, Dentsu Aegis Network delivered organic growth of 4.6% in Q1 FY2018; a strong start to the year and the best quarterly performance since Q3 FY2016. Results in the region were boosted by new business won last year and the new management team continue to positively impact results. The U.S. market showed continued momentum with mid-single digit organic growth and Brazil showed a significant turnaround, posting double digit organic growth.

In APAC excluding Japan, Dentsu Aegis Network delivered organic growth decline of 2.9% in Q1 FY2018. There were strong performances from India and Thailand. China continued to face challenging market conditions.

Acquisitions continue to accelerate the Group's progress against strategic business goals. Two new acquisitions were signed in Q1 FY2018; Character and M8 both in the Americas. The M&A pipeline for the remainder of FY2018 remains healthy.

Note:
The EMEA related amount of Merkle, one of our subsidiaries, was included in the Americas in Q1 FY2017. In Q1 FY2018, the related amount is included in EMEA as the split became possible. The related amount is included in EMEA of Q1 FY2017 for the organic growth calculation.

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2. Outlook & Forecasts for FY2018 full year performance

Outlook for FY2018

Our performance for the Q1 FY2018 was in line with the financial forecast at the beginning of the year, and there is no change to the FY2018 Consolidated Financial Forecast announced in February 2018.

FY2018 Forecasts

Consolidated Group (million yen)	2018 Jan-Dec Forecasts	2017 Jan-Dec Actual Results	YoY change, %	Constant currency basis, %
Revenue	1,006,900	938,017*	7.3*	-
Revenue less cost of sales	954,700	877,622	8.8	7.2
Japan	366,600	361,902	1.3	1.3
International total	588,100	516,052	14.0	11.2
Underlying operating profit	150,000	163,946	(8.5)	(9.5)
Japan	72,500	88,801	(18.4)	(18.4)
International total	77,500	75,146	3.1	0.9
Operating profit margin	15.7%	18.7%	(300) bps	(290) bps
Japan	19.8%	24.5%	(470) bps	(470) bps
International total	13.2%	14.6%	(140) bps	(130) bps
Underlying net profit	99,800	107,874	(7.5)	-
Underlying basic EPS	354.03 yen	381.58 yen	(7.2)	-
Operating profit	112,900	137,392	(17.8)	-
Net profit	61,600	105,478	(41.6)	-
JPY/USD rate**	110.9 yen	112.2 yen	(1.2)	-
JPY/GBP rate**	153.4 yen	144.5 yen	6.2	-

** IFRS 15 "Revenue from Contracts with Customers" is applied and adjusted.*
***Estimated exchange rates adopted in FY2018 forecasts are based on average exchange rates in January 2018. Actual exchange rates in FY2017 are annual average exchange rates in 2017.*

Note: Underlying net profit, Underlying basic EPS and Net profit: Excluding attribution to non-controlling interests.

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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: http://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 (attributable to owners of the parent) added with adjustment items related to operating profit, 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 Q1 FY2018

Consolidated Group (million yen) – reported on an IFRS basis	Q1 FY2018	Q1 FY2017*	Change, %
Underlying operating profit	32,744	37,749	(13.3)
Adjustment items:	(10,350)	(9,161)	
Amortization of M&A related intangible assets	(8,792)	(7,833)	
Acquisition costs	(320)	(215)	
Share-based compensation expenses related to acquired companies	(1,099)	(366)	
One-off items	(140)	(747)	
Impairment loss	-	(616)	
Special retirement expenses	(17)	(113)	
Others	(123)	(18)	
Statutory operating profit	22,393	28,587	(21.7)

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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		
	2018	2017*	2016*	2018	2017*	2016*	2018	2017*	2016*
Q1 (Jan – Mar)	2.1%	3.7%	4.1%	1.9%	4.3%	3.6%	2.2%	3.1%	4.5%
Q2 (Apr – June)	-	(4.6%)	10.0%	-	(7.6%)	13.4%	-	(2.7%)	7.2%
Q3 (Jul – Sept)	-	(2.1%)	3.0%	-	(4.8%)	0.9%	-	(0.2%)	5.2%
Q4 (Oct – Dec)	-	2.8%	4.1%	-	5.5%	1.4%	-	1.2%	5.8%
Fiscal Year	-	0.1%	5.1%	-	(0.3%)	4.5%	-	0.4%	5.7%

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Quarterly organic growth figures of Dentsu Aegis Network by region

	Dentsu Aegis Network EMEA			Dentsu Aegis Network Americas			Dentsu Aegis Network APAC		
	2018	2017*	2016*	2018	2017*	2016*	2018	2017*	2016*
Q1 (Jan – Mar)	2.7%	5.8%	10.7%	4.6%	0.6%	(2.0%)	(2.9%)	4.5%	5.2%
Q2 (Apr – June)	-	(0.3%)	5.0%	-	(4.1%)	2.4%	-	(3.8%)	16.8%
Q3 (Jul – Sept)	-	5.9%	5.0%	-	(2.0%)	5.4%	-	(5.5%)	5.3%
Q4 (Oct – Dec)	-	1.3%	7.5%	-	(0.0%)	4.4%	-	2.6%	5.6%
Fiscal Year	-	3.1%	6.9%	-	(1.5%)	3.1%	-	(0.6%)	7.9%

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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 117 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 140 countries and regions across five continents, and employs more than 60,000 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. www.dentsu.com