dentsu

August 9, 2018

Dentsu Inc.
H1 FY2018 Consolidated Financial Results

(The first half ended June 30, 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.

Executive Summary

- In H1 FY2018 the Dentsu Group delivered total growth of revenue less cost of sales of 7.6% (constant currency basis) and organic growth of 4.0%.
- In Q2 FY2018 the Dentsu Group delivered organic growth of 5.9%; the fourth consecutive quarter of improving organic growth.
- In H1 FY2018, the Japan business delivered total growth of revenue less cost of sales of 4.7% and organic growth of 4.7%, in part, due to an increase in digital-related services and new business wins. The international business, Dentsu Aegis Network, delivered total growth of revenue less cost of sales of 9.7% (constant currency basis) and organic growth of 3.4%, partly driven by new business wins in H2 FY2017.
- Underlying operating profit declined 1.8% (constant currency basis). In Japan, although this was partially offset by planned investments in the working environment reforms, profit grew. At Dentsu Aegis Network, its profit decline reflects planned investments in global platforms and systems to increase shared services and investments to drive top line growth.
- FY2018 net profit guidance is revised upwards due to the expected gain on sales of shares of associates in Japan to be recorded in Q3 FY2018 and other factors.
- In response to the rapidly changing business environment, the Dentsu Group has begun to consider its changes in a group holding structure. Please see separate press release for further details.

Financial Results for H1 FY2018

Consolidated Group (million yen)	H1 FY2018	H1 FY2017*	YoY change, %	Constant currency basis, %
Revenue	481,654	443,678	8.6	-
Revenue less cost of sales**	445,739	412,226	8.1	7.6
Statutory results				
• operating profit	40,533	42,923	(5.6)	-
• net profit (attributable to owners of the parent)	10,786	29,085	(62.9)	-
• basic EPS	38.26 yen	102.59 yen	(62.7)	-
Underlying results***				
▪ operating profit	60,862	61,970	(1.8)	(1.8)
▪ operating margin	13.7%	15.0%	(130) bps	(130) bps
▪ net profit (attributable to owners of the parent)	31,592	39,382	(19.8)	-
▪ basic EPS	112.07 yen	138.91 yen	(19.3)	-
EBITDA****	69,888	71,192	(1.8)	-
Average JPY/USD rate	108.7 yen	112.4 yen	(3.3)	-
Average JPY/GBP rate	149.7 yen	141.4 yen	5.9	-

** IFRS 15 "Revenue from Contracts with Customers" is applied on the previous-year results and their figures are 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."*

H1 FY2018 results

- The Dentsu Group delivered **growth of revenue less cost of sales** of 7.6% (constant currency basis) in H1 FY2018:
  - 4.7% in Japan, and 9.7% (constant currency basis) at Dentsu Aegis Network driven by acquisitions and organic growth.
  - Contribution amount to the increase: +16.9 billion yen by organic growth, +14.4 billion yen from M&As, and +2.0 billion yen from foreign exchange rates.

- The Group produced **organic growth** of 4.0% (constant currency basis) in H1 FY2018:
  - 4.7% in Japan, and 3.4% (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 45.0% (H1 FY2017: 42.7%), including 23.9% in Japan (H1 FY2017:22.0%), and 60.1% at Dentsu Aegis Network (H1 FY2017: 58.3%).
  - **International business contribution to total revenue less cost of sales** reached 58.2% (H1 FY2017: 56.8%).

- Group **underlying operating profit** was 60.8 billion yen (H1 FY2017: 61.9 billion yen).
  - 45.5 billion yen in Japan (H1 FY2017: 45.1 billion yen), and 15.3 billion yen at Dentsu Aegis Network (H1 FY2017: 16.8 billion yen).

- Group **underlying operating margin** was 13.7% (H1 FY2017: 15.0%).
  - 24.4% in Japan (H1 FY2017: 25.4%), and 5.9% at Dentsu Aegis Network (H1 FY2017: 7.2%).
  - The decline in Japan was mainly due to planned SG&A costs related to the working environment reforms. At Dentsu Aegis Network, the operating margin reflects the planned internal investment in global platforms and systems as well as investments to drive top line growth.
  - The H1 FY2018 margin is aligned to our budget and is largely on track for FY2018 expectations.

- **Underlying net profit (attributable to owners of the parent) and underlying basic EPS** decreased by 19.8% and 19.3% respectively mainly due to the decline of underlying operating income and an increase of corporate taxes, etc.

- **Interim dividend per share** was determined to be 45 yen, as announced in the earnings release on February 13, 2018.

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

"In Q2 FY2018, Dentsu Group delivered the fourth consecutive quarter of improving growth. We continue to build our own momentum in a market which remains challenging.

The digital and technological revolution that our clients are facing continues to provide enormous opportunity for the Dentsu Group, and we are well positioned to take advantage of the opportunities that a fast-changing market provides. Flexible thinking and creativity remain at our core as we innovate across the marketing mix and deliver long-term value for our clients.

2017 and 2018 have seen internal investment for both Dentsu in Japan and our international business, Dentsu Aegis Network. Investments have left the Group in a stronger position, more efficient and more streamlined. By leveraging our enhanced infrastructure, we intend to grow the businesses in 2019 and 2020. At the same time, for the Dentsu Group, the term marks a vital phase for the transformation of our entire Group businesses toward 2020 and beyond. This transformation is essential if we are to realize sustainable growth beyond 2021 in a rapidly changing society.

In line with this direction, we today announced the next stage in the evolution of the Dentsu Group. We have begun to make and analysis of the Group's holding structure going forward, the aim of which is to ensure that Dentsu Group's governance and organization is fit for purpose, aligned with the demands of a fast-changing business environment and rapidly evolving client needs.*

We remain upbeat and optimistic about the prospects for Dentsu Group in 2018 and beyond."

** Please refer to the separate press release also released today. URL:* http://www.dentsu.com/news/release/

H1 FY2018 Consolidated Financial Results and FY2018 Forecasts

1. H1 FY2018 performance review by region

Japan:

The Group's operations in Japan produced organic growth of 4.7% in the H1 FY2018. This was due, in part, to an increase in digital-related services and new business wins.

Underlying operating margin in Japan declined by 100 bps to 24.4%. 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. In Q2 FY 2018, 5.4 billion yen was allocated to working environment reforms from the FY2018 budget of 13.0 billion yen. This was used for IT, including RPA (Robotic Process Automation, automating basic processes) and ICT, office environmental reform, and personnel costs. From June 2018, Dentsu Inc. introduced "Input holiday," a monthly holiday for all employees. 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 six months from January 2018. We will continue to build on the programs that were successful in FY2017 and introduce further additional measures in H2 FY2018. Dentsu in Japan is committed to the completion of environmental/infrastructural overhaul for future growth by accelerating the work environment reforms.

International:

Dentsu Aegis Network delivered organic growth of 3.4% in H1 FY2018 and 4.5% in Q2 FY2018. Q2 FY2018 is the fourth consecutive quarter of improving growth and the best quarterly organic growth number since Q4 FY2016. All three regions posted growth in Q2 FY2018 with seven of our top 20 markets delivering double digit organic growth. Our project based businesses improved globally and showed continued momentum in the US.

Although Q2 FY2018 was our easiest comparable period of the year with the comparison base becoming progressively tougher through H2 FY2018, we are in line with the FY2018 guidance, low to mid-single digit organic gross profit growth.

So far in FY2018, our new business wins have tracked behind the standout performance of last year. The pitch pipeline is however healthy, 10% larger than this time last year and over 85% offensive - providing significant opportunity for the rest of the year. Our win rate in Digital, Creative and Experiential remains at the same level as last year; we derive 30% of our global revenues from creative work.

The Q2 FY2018 underlying operating margin reflects the seasonality of the business and is largely on track for FY2018 expectations. Profitability is lower year-on-year due to the planned internal investment in global systems and platforms which remain on track. These investments will allow the business to operate more efficiently at scale, standardize business operations and support faster decision making.

The investments fall into two main areas. Firstly, in robust common platforms and systems and increased shared services. These include people management systems and shared financial platforms. Secondly, investments to drive top line growth. These investments include our proprietary Growth Platform, the rollout of Salesforce, investments in data product development including M1 and an upgrade to NEON, an internal collaboration platform available across our entire Network.

Regions

In EMEA, Dentsu Aegis Network reported 3.9% organic growth in H1 2018 and 4.8% in Q2 FY2018.
The region continued its positive growth trajectory, although performance across the region was mixed. Russia, Spain and Italy posted stand-out performances in the quarter, all delivering double digit organic growth. France and Germany remain in negative territory. The UK posted positive growth.

In the Americas, Dentsu Aegis Network reported 5.5% organic growth in H1 2018 and 6.5% in Q2 FY2018.
Q2 growth is the strongest result for the region for 13 quarters. Momentum remains with the business, the benefit of new business wins from H2 FY2017 will impact the third quarter. Both the US and Brazil showed continued strong performance.

In the APAC region (excluding Japan), Dentsu Aegis Network reported (0.9%) organic growth in H1 FY2018 and 0.8% in Q2 FY2018.
Q2 FY2018, saw the region return to growth; but we expect a number of one off factors to weigh on the region's growth in H2 FY2018. China remains in negative growth and although performance improved from the previous quarter; the market does face tough comparables in H2 FY2018. India posted double digit organic growth in the second quarter and Australia showed a strong result.

Acquisitions

To date in 2018, we have signed nine new acquisitions across the Americas and EMEA. The pipeline is strengthening and we remain focused on purchasing high growth, quality businesses at the right multiples. Prior year acquisitions continue to perform well.

Dentsu Aegis Network continues to accelerate its strategy through acquisitions, motivated by growing scale, geographic and capability in-fill and innovation with a focus on digital capability including data and CRM, customer experience and performance marketing.

2. Outlook & Forecasts for FY2018 full year performance

Outlook for FY2018

Our performance for the H1 FY2018 was in line with the financial forecast announced on February 13, 2018. However, there were some changes to the FY2018 Consolidated Financial Forecasts*, which now reflect expected gain on sales of shares of associates in Japan to be recorded in Q3 FY2018, a recording of loss on revaluation of earnout liabilities and M&A related put option liabilities due to favorable performances in acquired overseas companies while taking into consideration the impact on corporate taxes. There was a change only at net profit (attributable to owners of the parent) in the table below from 61.6 billion yen in the initial forecasts to 79.5 billion yen in the revised forecasts. There is no change for the planned interim dividend per share.

** Please refer to the separate press release also released today. URL: http://www.dentsu.com/news/release/*

FY2018 Revised Forecasts (vs. FY2018 Initial Forecasts announced in February 2018)

Consolidated Group (million yen)	2018 Jan-Dec Revised Forecasts	2017* Jan-Dec Actual Results	YoY* change, %	Constant currency basis, %		2018 Jan-Dec Initial Forecasts
Revenue	1,006,900	946,225	6.4	-		1,006,900
Revenue less cost of sales	954,700	877,622	8.8	7.2		954,700
Japan	366,600	361,902	1.3	1.3		366,600
International total	588,100	516,052	14.0	11.2		588,100
Underlying operating profit	150,000	163,946	(8.5)	(9.5)		150,000
Japan	72,500	88,801	(18.4)	(18.4)		72,500
International total	77,500	75,146	3.1	0.9		77,500
Operating profit margin	15.7%	18.7%	(300) bps	(290) bps		15.7%
Japan	19.8%	24.5%	(470) bps	(470) bps		19.8%
International total	13.2%	14.6%	(140) bps	(130) bps		13.2%
Underlying net profit	99,800	107,874	(7.5)	-		99,800
Underlying basic EPS	354.03 yen	381.58 yen	(7.2)	-		354.03 yen
Operating profit	112,900	137,392	(17.8)	-		112,900
Net profit	79,500	105,478	(24.6)	-		61,600
JPY/USD rate**	110.9 yen	112.2 yen	(1.2)	-		110.9 yen
JPY/GBP rate**	153.4 yen	144.5 yen	6.2	-		153.4 yen

** IFRS 15 "Revenue from Contracts with Customers" is applied on the previous-year results and their figures are adjusted.*
*** Estimated exchange rates adopted in FY2018 revised forecasts and FY2018 initial 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.

- Ends –

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 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 H1 FY2018

Consolidated Group (million yen) – reported on an IFRS basis	H1 FY2018	H1 FY2017*	Change, %
Underlying operating profit	60,862	61,970	(1.8)
Adjustment items:	(20,329)	(19,047)	-
Amortization of M&A related intangible assets	(17,516)	(16,258)	
Acquisition costs	(523)	(743)	
Share-based compensation expenses related to acquired companies	(2,071)	(1,473)	
One-off items	(219)	(573)	
Gain (loss) on sales and retirement of non-current assets	(90)	629	
Impairment loss	-	(689)	
Others	(129)	(513)	
Statutory operating profit	40,533	42,923	(5.6)

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Quarterly results

Consolidated Group (million yen)	2018 Apr-Jun	YoY* change, %	2018 Jan-Mar	YoY* change, %
Revenue	239,546	11.6	242,107	5.7
Revenue less cost of sales	219,073	10.4	226,665	6.1
Japan	84,059	8.4	102,340	1.9
International total	135,099	11.6	124,385	9.8
Underlying operating profit	28,118	16.1	32,744	(13.3)
Japan	15,100	24.5	30,439	(7.9)
International total	13,014	7.5	2,309	(50.8)
Operating profit margin	12.8%	60 bps	14.4%	(330) bps
Japan	18.0%	230 bps	29.7%	(320) bps
International total	9.6%	(40) bps	1.9%	(210) bps
Underlying net profit	13,619	(13.9)	17,972	(23.7)
Operating profit	18,139	26.5	22,393	(21.7)
Net profit	(1)	-	10,788	(30.9)
EBITDA	32,865	15.0	37,022	(13.1)

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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)	5.9%	(4.6%)	10.0%	8.4%	(7.6%)	13.4%	4.5%	(2.7%)	7.2%
H1 (Jan – June)	4.0%	(0.4%)	7.2%	4.7%	(1.1%)	8.5%	3.4%	0.1%	6.0%
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)	4.8%	(0.3%)	5.0%	6.5%	(4.1%)	2.4%	0.8%	(3.8%)	16.8%
H1 (Jan – June)	3.9%	2.9%	7.6%	5.5%	(2.0%)	0.3%	(0.9%)	(0.2%)	11.5%
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 145 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