

May 15, 2019

## Dentsu Inc.

### Q1 FY2019 Consolidated Financial Results

*(The first quarter ended March 31, 2019 – reported on an IFRS basis)*

#### Executive Summary

- In Q1 FY2019, the Dentsu Group delivered total growth of revenue less cost of sales of 2.3% (constant currency basis) and organic growth of -1.6%.
- The Japan business delivered -0.8% and -2.7% respectively, mainly due to a decrease in traditional media in the Japanese market, partially offset by digital-related services and favorable results in subsidiaries.
- The international business, Dentsu Aegis Network, delivered 4.8% growth of revenue less cost of sales (constant currency basis) and -0.7% organic growth, impacted by negative growth in APAC mainly due to weakness in the Australian market.
- Despite a soft start to the year, revenue is expected to build as the year progresses.
- There is no change to the full-year guidance announced in February 2019.

#### Financial Results for Q1 FY2019

Consolidated Group (million yen)	Q1 FY2019	Q1 FY2018	YoY change, %	Constant currency basis, %
<b>Revenue</b>	<b>250,578</b>	242,107	3.5	-
<b>Revenue less cost of sales*</b>	<b>227,974</b>	226,665	0.6	2.3
<b>Statutory results</b>				
• operating profit	<b>9,294</b>	22,393	(58.5)	-
• net profit (attributable to owners of the parent)	<b>(2,583)</b>	10,788	-	-
• basic EPS	<b>(9.16) yen</b>	38.27 yen	-	-
<b>Underlying results**</b>				
▪ operating profit	<b>24,472</b>	32,744	(25.3)	(25.2)
▪ operating margin	<b>10.7%</b>	14.4%	(370) bps	(390) bps
▪ net profit (attributable to owners of the parent)	<b>12,551</b>	17,972	(30.2)	-
▪ basic EPS	<b>44.53 yen</b>	63.76 yen	(30.2)	-
<b>EBITDA***</b>	<b>32,201</b>	37,022	(13.0)	-
<b>Average JPY/USD rate</b>	<b>110.2 yen</b>	108.3 yen	1.8	-
<b>Average JPY/GBP rate</b>	<b>143.7 yen</b>	150.9 yen	(4.8)	-

\*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 5 for definition of "underlying."

\*\*\* See page 5 for definition of "EBITDA."

## Highlights of Q1 FY2019 results

- The Dentsu Group delivered **growth of revenue less cost of sales** of 2.3% (constant currency basis) :
  - -0.8% in Japan, and 4.8% at Dentsu Aegis Network driven by acquisitions.
  - The breakdown in contribution is: +8.8 billion yen from M&As, -3.7 billion yen by organic growth, and -3.7 billion yen from foreign exchange rates.
- The Group produced **organic growth** of -1.6% :
  - -2.7% in Japan, and -0.7% at Dentsu Aegis Network. The Japan business declined due to a decrease in traditional media in the Japanese market, partially offset by digital-related services and favorable results in subsidiaries. The international business was impacted by negative growth in APAC, due to weakness in the Australian market, softer client spend and cycling out of account lost in FY2018.
  - **Digital business contribution to total revenue less cost of sales** reached 47.0% (Q1 FY2018: 43.7%), including 27.7% in Japan (Q1 FY2018: 23.0%), and 62.5% at Dentsu Aegis Network (Q1 FY2018: 60.8%).
  - **International business contribution to total revenue less cost of sales** reached 55.5% (Q1 FY2018: 54.9%).
- Group **underlying operating profit** was 24.4 billion yen (Q1 FY2018: 32.7 billion yen).
  - 24.6 billion yen in Japan (Q1 FY2018: 30.4 billion yen), and -0.1 billion yen at Dentsu Aegis Network (Q1 FY2018: 2.3 billion yen).
  - Difference between the underlying operating profit and statutory operating profit was mainly due to amortization of M&A related intangible assets.
- Group **underlying operating margin** was 10.7% (Q1 FY2018: 14.4%).
  - 24.3% in Japan (Q1 FY2018: 29.7%), and -0.1% at Dentsu Aegis Network (Q1 FY2018: 1.9%).
  - The decline in Japan was mainly due to planned SG&A costs related to investments to drive future growth. At Dentsu Aegis Network, a softer-than-expected start to the year impacted on the operating margin which was seasonally low in the first quarter and was within budget.
- **Underlying net profit (attributable to owners of the parent) and underlying basic EPS** decreased by 30.2% and 30.2% respectively, mainly due to the decline of underlying operating income and an increase of finance costs.
  - Difference between the underlying net profit and statutory net profit was mainly due to operating profit adjustments and a loss on M&A related put-option liabilities.

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

*"In Q1 FY2019, Dentsu Group recorded a decline in organic growth of -1.6%, with -2.7% in Japan and -0.7% at Dentsu Aegis Network.*

*It has been a soft start to the year and challenging market conditions remain, however, we expect to see revenues build through the remainder of the year. In Japan, a number of world-class, one-off events will positively impact our results particularly in H2 FY2019. At Dentsu Aegis Network, the cycling out of accounts lost in FY2018 and the on-boarding of new business wins will begin to impact results in H2 FY2019.*

*In Japan, investment has continued to drive sustainable future growth with key investments in our IT infrastructure and our digital business. At Dentsu Aegis Network, operational excellence remains a key priority, with the next stage focusing on client and media operation processes.*

*At the end of March 2019, our shareholders endorsed our plans to reorganize the corporate structure of Dentsu Inc. effective January 1, 2020. The holding company 'Dentsu Group Inc.' will support all Dentsu Group companies and our combined 62,000 talented people. The new structure will allow for greater corporate governance and improved integration between Dentsu in Japan and Dentsu Aegis Network. Workstreams are already underway across many of our corporate functions and business lines to ensure a smooth and seamless transition.*

*There is much to do in the remainder of the year, but through maintaining our continued focus on driving innovation and pursuing excellence in everything we do, I am confident we can continue to deliver even greater value for our clients."*

## **Q1 FY2019 Consolidated Financial Results**

### **1. Q1 FY2019 Performance Review**

#### **Japan:**

The Group's operations in Japan delivered organic growth of -2.7% in Q1 FY2019. This was mainly due to a decrease in traditional media in the Japanese market, partially offset by digital-related services and favorable results in subsidiaries.

Underlying operating margin in Japan declined by 540 bps to 24.3%. This was mainly due to planned SG&A costs related to investments to drive future growth.

#### **International:**

Dentsu Aegis Network delivered organic growth of -0.7% in Q1 FY2019. The Americas reported positive organic growth, EMEA was negative but with a mixed performance across the region and APAC (excluding Japan) was negative, impacted by weakness in Australia.

The Q1 2019 margin is impacted by the usual seasonality expected in the first quarter. We continue to control our costs responsibly and still expect to deliver margin improvement in FY2019 as guided in February 2019.

Total net new business year-to-date for media is significantly ahead of this stage last year with no major account losses. The pitch pipeline is healthy with the current opportunities over 80% offensive. The win rate for digital, creative & experiential is also significantly ahead of last year's run rate with a good spread of accounts won across all regions.

**International – Regions:**

In EMEA, Dentsu Aegis Network reported -0.4% organic growth in Q1 FY2019. There was a mixed performance across the region. Germany, Spain and Italy posted double-digit growth, while Russia, Switzerland and the Netherlands performed well. The Nordics experienced some slowdown, facing tougher comparables after a very strong 2018, while the UK and France were in negative territory.

In the Americas, Dentsu Aegis Network reported 0.1% organic growth in Q1 FY2019. In the U. S. the slowdown was due to timing of client spend and the cycling out of several client accounts. Growth in the U. S. is expected to improve in H2 FY2019 as new business wins impact our revenues. Canada performed well while challenging macro-economic conditions in Brazil impacted growth.

In the APAC region (excluding Japan), Dentsu Aegis Network reported -3.0% organic growth in Q1 FY2019. Australia remains a difficult market. A combination of macro factors and account losses cycling out will continue to add pressure until H2 FY2019. New management has recently joined in Australia and will continue to manage the business to reflect the challenging operating environment we face. China returned to positive growth in the quarter, new management has recently been installed. There has been good growth across other markets within APAC, including India and Thailand.

**Acquisitions:**

Acquisitions continue to accelerate the Group strategy by providing innovation, scale, geographic and capability infill as well as bringing new entrepreneurial talent into the organization. In Q1 FY2019, a total of five new acquisitions were signed. Two acquisitions were made in EMEA, one in the Americas and two in APAC.

In February 2019, we welcomed Happy Marketer, Southeast Asia's leading data-driven digital marketing agency. Joining Merkle as Happy Marketer, a Merkle Company, this acquisition will provide a strategic foundation for Merkle's data, analytics and CRM solutions, enabling the delivery of people-based marketing at scale across the region.

– 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: <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, 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 Q1 FY2019

Consolidated Group (million yen)	Q1 FY2019	Q1 FY2018	Change, %
<b>Underlying operating profit</b>	<b>24,472</b>	32,744	(25.3)
Adjustment items:	<b>(15,177)</b>	(10,350)	
Amortization of M&A related intangible assets	<b>(9,004)</b>	(8,792)	
Acquisition costs	<b>(421)</b>	(320)	
Share-based compensation expenses related to acquired companies	<b>(1,985)</b>	(1,099)	
One-off items	<b>(3,767)</b>	(140)	
<b>Statutory operating profit</b>	<b>9,294</b>	22,393	(58.5)

### Reconciliation from Underlying to Statutory Net Profit (Loss) in Q1 FY2019

Consolidated Group (million yen)	Q1 FY2019	Q1 FY2018	Change, %
<b>Underlying net profit</b>	<b>12,551</b>	17,972	(30.2)
Adjustment items:	<b>(15,135)</b>	(7,184)	
Operating profit adjustments	<b>(15,177)</b>	(10,350)	
Gain (loss) on revaluation of earnout liabilities and M&A related put-option liabilities	<b>(7,216)</b>	(1,918)	
Related income tax expense	<b>6,292</b>	4,373	
Adjustments attributable to non-controlling interests	<b>967</b>	710	
<b>Net profit (loss)</b>	<b>(2,583)</b>	10,788	-

## P/L from Statutory Operating Profit to Statutory Net Profit (Loss) in Q1 FY2019

Consolidated Group (million yen)	Q1 FY2019	Q1 FY2018	Change, %
Operating profit	9,294	22,393	(58.5)
Share of results of associates	160	916	(82.5)
Profit before interest and tax	9,454	23,310	(59.4)
Net finance income (costs)	(10,939)	(4,286)	-
Finance income	1,302	1,502	(13.3)
Finance costs	12,241	5,789	111.4
Profit (loss) before tax	(1,484)	19,023	-
Income tax expense	(553)	6,781	-
Net profit (loss)	(930)	12,241	-
Attributable to owners of the parent	(2,583)	10,788	-
Attributable to non-controlling interests	1,652	1,453	13.6

## 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)	-	5.9%	(4.6%)	-	8.4%	(7.6%)	-	4.5%	(2.7%)
Q3 (Jul – Sept)	-	5.4%	(2.1%)	-	2.7%	(4.8%)	-	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)	-	4.8%	(0.3%)	-	6.5%	(4.1%)	-	0.8%	(3.8%)
Q3 (Jul – Sept)	-	8.2%	5.9%	-	5.3%	(2.0%)	-	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.

**FY2019 Forecasts (No change from the announcement in February 2019)**

Consolidated Group (million yen)	FY2019 Forecasts	FY2018 Actual Results	YoY change, %	Constant currency basis, %
<b>Revenue</b>	<b>1,097,900</b>	1,018,512	7.8	-
<b>Revenue less cost of sales</b>	<b>986,400</b>	932,680	5.8	7.9
Japan	<b>400,800</b>	369,258	8.5	8.5
International total	<b>585,600</b>	563,852	3.9	7.4
<b>Underlying operating profit</b>	<b>157,400</b>	153,229	2.7	4.3
Japan	<b>81,300</b>	80,268	1.3	1.3
International total	<b>76,100</b>	72,963	4.3	7.5
<b>Operating margin</b>	<b>16.0%</b>	16.4%	(40) bps	(50) bps
Japan	<b>20.3%</b>	21.7%	(140) bps	(140) bps
International total	<b>13.0%</b>	12.9%	10 bps	10 bps
<b>Underlying net profit</b>	<b>95,400</b>	97,419	(2.1)	-
Underlying basic EPS	<b>338.42 yen</b>	345.59 yen	(2.1)	-
<b>Operating profit</b>	<b>122,500</b>	111,638	9.7	-
<b>Net profit</b>	<b>61,400</b>	90,316	(32.0)	-
<b>JPY/USD rate*</b>	<b>109.0 yen</b>	110.4 yen	(1.3)	-
<b>JPY/GBP rate*</b>	<b>140.7 yen</b>	147.5 yen	(4.6)	-

\* FY2019 forecasts are based on average exchange rates in January 2019. Actual exchange rates in FY2018 actual results are annual average exchange rates in 2018.

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

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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 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. <http://www.dentsu.com/>