1H/FY2013 Earnings Presentation

November 15, 2013

DENTSU INC.

dentsu

2013 Interim Results

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Please be reminded that the figures shown in this presentation may be different from those shown in the financial statements as this presentation has been prepared for investors to understand our businesses. Please refer to the annotations on Appendix for each definition of the indicators

November 15, 2013

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This presentation contains statements about Dentsu that are or may be forward-looking statements. All statements other than statements of historical facts included in this presentation may be forward-looking statements. Without limitation, any statements preceded or followed by or that include the words “targets”, “plans”, “believes”, “expects”, “aims”, “intends”, “will”, “may”, “anticipates”, “estimates”, “projects” or, words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: information on future capital expenditures, expenses, revenues, earnings, synergies, economic performance, and future prospects.

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Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation

i Risk related to fluctuations in the economic and business environment

ii Risk related to structural changes in the media

iii Risk related to our ability to realize our financial targets

iv Risk related to common business practices

v Risk related to competition among advertising agencies

vi Risk related to the development of systems and databases

vii Risk related to legal or regulatory changes

viii Risk of litigation

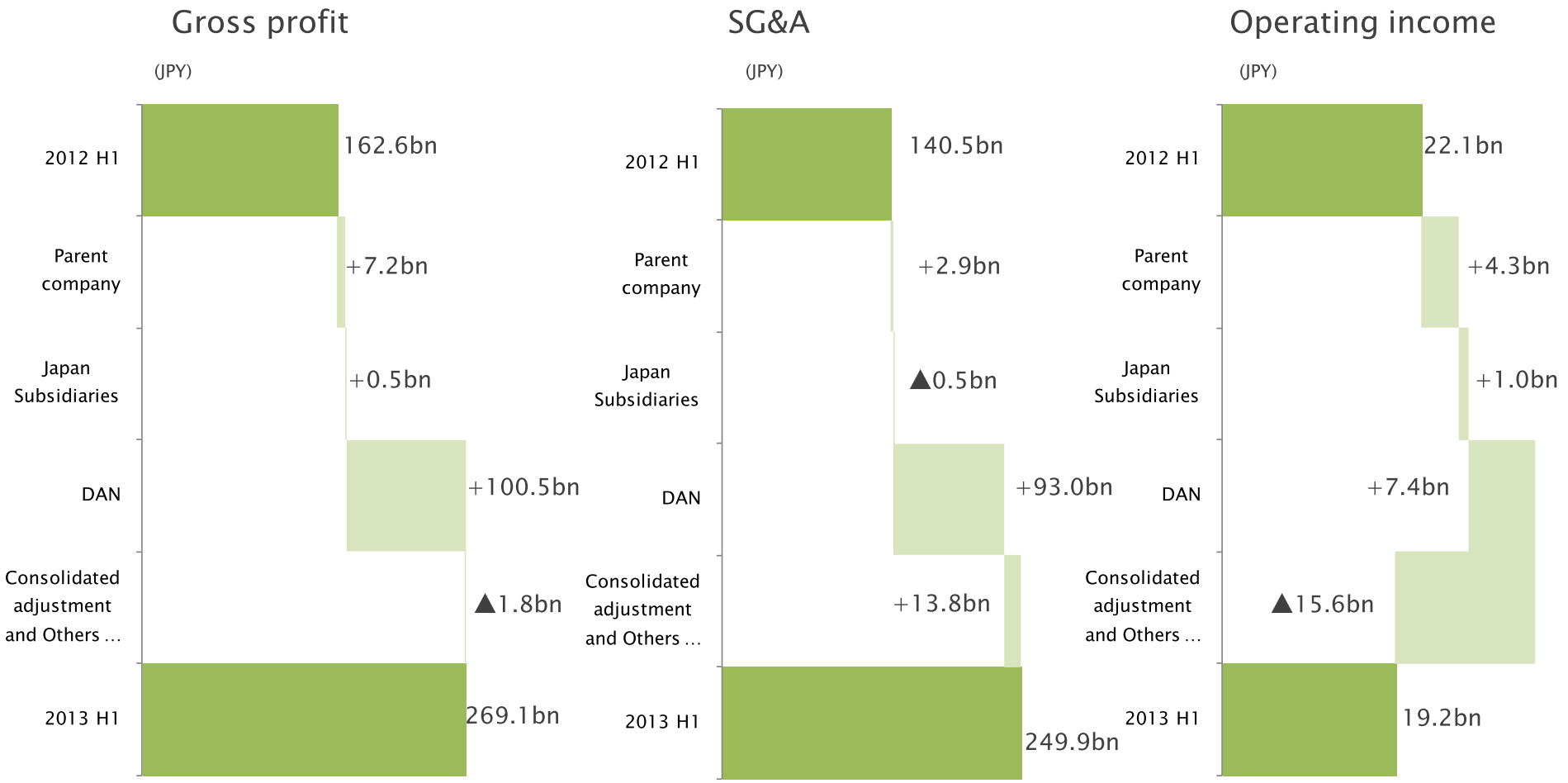
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1. Summary

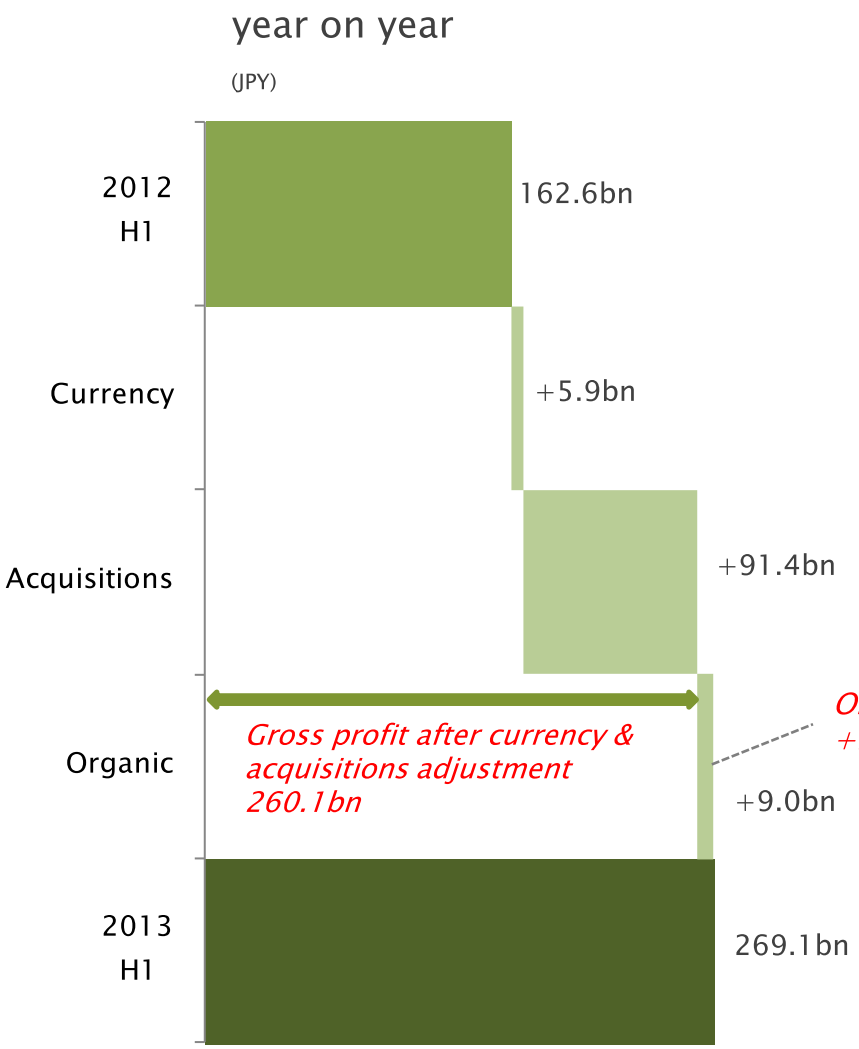
JPY mn	2013 H1	2012 H1	yoy %	2012 H1 Proforma	yoy Proforma %	Forecast variance %
	Current	Previous		Proforma		
Turnover	1,933,154	921,036	+ 109.9	1,675,534	+ 15.4	-
Net sales	1,082,360	921,036	+ 17.5	994,966	+ 8.8	+ 0.1
Gross profit	269,193	162,654	+ 65.5	234,284	+ 14.9	+ 1.2
Gross profit margin	*24.9%*	*17.7%*	*+ 7.2*	*23.5%*	*+ 1.3*	*+ 0.3*
Operating income	19,284	22,110	(12.8)	17,002	+ 13.4	+ 39.7
Non-operating income/loss	4,764	▲ 2,326	-	▲ 3,519	-	-
Net income	10,134	9,349	+ 8.4	1,918	+ 428.4	-
EBITDA	48,290	30,053	+ 60.7	40,116	+ 20.4	-
Adjusted operating income	40,111	24,230	+ 65.5	34,293	+ 17.0	+ 16.3
Operating margin	*14.9%*	*14.9%*	*+ 0.0*	*14.6%*	*+ 0.3*	*+ 1.9*
Adjusted EPS	117.9 yen	46.0 yen	+ 156.3	77.0 yen	+ 53.1	-
Currency						
JPY/US$ (Jan-June average)	95.6 yen	79.7 yen	+ 19.9			
JPY/GBP £ (Jan-June average)	147.4 yen	125.7 yen	+ 17.3			

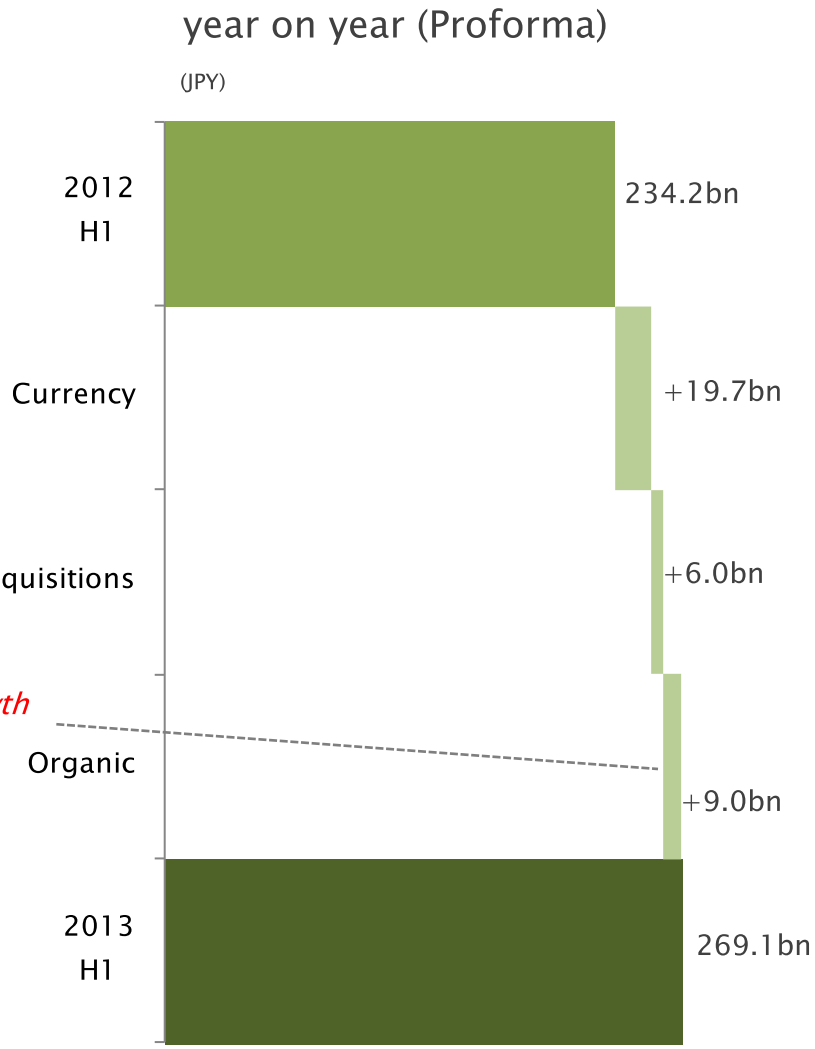
*Adjusted operating income and adjusted EPS: Amortization of goodwill and M&A related intangible assets need to be added back

2. Gross profit, SG&A, Operating income



3. Gross profit growth



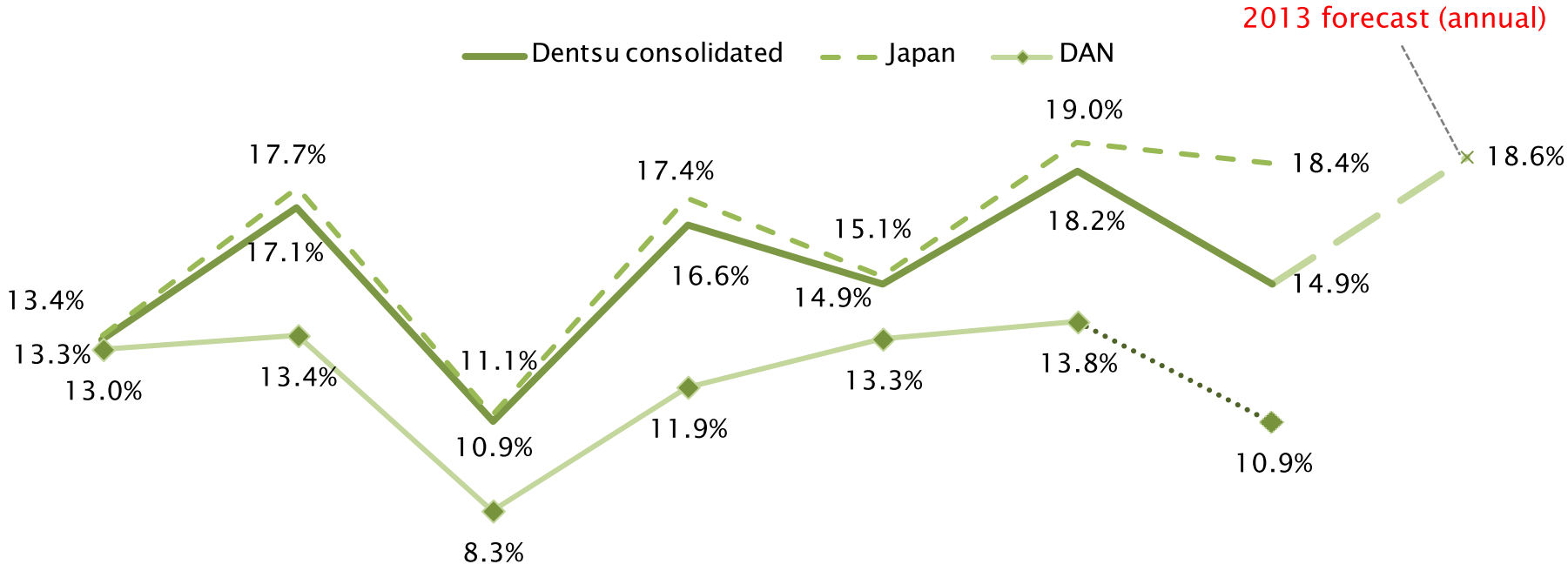


4. Gross profit by region

2013 H1 JPY mn	Gross profit	yoy%	v.s proforma %	Adjusted operating income	yoy%	v.s proforma %	Organic growth proforma %
Japan	143,252	+ 6.3	+ 6.3	26,414	+ 29.7	+ 29.7	+ 6.4
operating margin				*18.4%*	*+ 3.3*	*+ 3.3*	
EMEA	47,551	+ 2,846.2	+ 24.9	–	–	–	(1.9)
Americas	44,717	+ 181.6	+ 35.2	–	–	–	+ 5.4
APAC	33,966	+ 222.0	+ 19.1	–	–	–	+ 3.8
internal transaction (non Japan related)	▲ 60	–	–	–	–	–	–
Dentsu Aegis Network total	126,174	+ 350.2	+ 26.6	13,798	+ 276.6	+ 0.5	+ 2.0
operating margin				*10.9%*	*(2.1)*	*(2.8)*	
Consolidated adjustment & others	▲ 233	–	–	▲ 101	–	–	–
Dentsu consolidated gross profit	269,193	+ 65.5	+ 14.9	40,111	+ 65.5	+ 17.0	+ 3.5
operating margin				*14.9%*	*+ 0.0*	*+ 0.3*	

*Organic growth in regional segments and the Dentsu Aegis Network total are based on the local accounting standard
*yoy% is a comparison with the Dentsu Network results

5. Operating margin (adjusted operating income base)



Apr 1–June 30	Apr 1–Dec 31	Apr 1–June 30	Apr 1–Dec 31	Apr 1–June 30	Apr 1–Dec 31	Apr 1–June 30	Apr 1–Dec 31
2010		2011		2012		2013	

*DAN: The Dentsu group's overseas segment figures are shown for the years up to 2012

6. Operating income to Net income

JPY mn	2013 H1	2012 H1	yoy %
Operating income	19,284	22,110	(12.8)
Net non-operating income	4,764	▲ 2,326	-
Non-operating income	11,458	4,723	+ 142.6
Non-operating expenses	6,694	7,050	(5.1)
Ordinary income	24,049	19,784	+ 21.6
Net extraordinary income (loss)	▲ 100	▲ 2,057	-
Extraordinary income	3,224	192	+ 1,573.2
Extraordinary loss	3,325	2,249	+ 47.8
Income before income taxes and minority interests	23,948	17,727	+ 35.1
Income taxes	13,247	7,448	+ 77.9
Minority interests in income	566	929	(39.1)
Net income	10,134	9,349	+ 8.4

7. Balance sheet

JPY mn	2013 End of Sept	2013 End of March	yoy %
Current assets	1,089,308	1,122,602	(3.0)
Fixed assets	1,203,874	1,082,966	+ 11.2
Total assets	2,293,182	2,205,569	+ 4.0
Current Liabilities	1,017,348	1,317,554	(22.8)
Fixed liabilities	459,345	279,377	+ 64.4
Total liabilities	1,476,693	1,596,931	(7.5)
Shareholders' equity	696,862	570,419	+ 22.2
Other comprehensive income accumulated	96,593	14,076	+ 586.2
Minority interests	23,033	24,141	(4.6)
Net assets	816,489	608,637	+ 34.2
Total liabilities and net assets total	2,293,182	2,205,569	+ 4.0
JPY/GBP £	150.3 yen	139.5 yen	+ 7.7

*Currency: B/S (end of Sept): June 30, 2013, B/S (End of March): Dec 31, 2012

8. Purchase price allocation (PPA)

JPY mn	Goodwill	Other intangible assets	Total
2013 End of March	519,076	25,898	544,974
i Purchase price allocation			
Customer relationship	▲ 130,995	130,995	–
Brand	▲ 37,670	37,670	–
Deferred tax liability	32,963	–	32,963
ii Other adjustments	▲ 1,338	–	▲ 1,338
iii Amortization	▲ 10,867	▲ 6,563	▲ 17,430
iv Foreign currency translation	61,049	14,833	75,882
2013 End of Sept	432,218	202,834	635,052
2013 amortization old forecast	24,550	11,400	35,950
2013 amortization forecast	21,367	13,127	34,494

*Goodwill: amortized over 20 years
*M&A related intangible assets: Brands, customer relationship amortized over 10 – 20 years
*Currency: B/S (end of Sept): June 30, 2013, H1 amortization & annual amortization (forecast) : Jan-June average in 2013, annual amortization (old forecast) Jan-Mar average in 2013

9. Cash flow

JPY mn	2013 H1	2012 H1	yoy %
Income before income taxes and minority interests	23,948	17,727	+ 35.1
Equity in earnings of affiliated companies	▲ 1,361	▲ 884	-
Amortization of goodwill (net)	13,406	2,247	+ 496.6
Depreciation and amortization	15,599	6,314	+ 147.1
Impairment loss	573	655	(12.5)
Others	535	3,970	(86.5)
Income taxes paid	▲ 24,095	▲ 14,733	-
Cash flow from operations before change in WC	28,605	15,296	+ 87.0

10. Use of cash flow

JPY mn	2013 H1	2012 H1	yoy %
Change in WC ii	▲ 7,300	23,582	–
Payments for purchases of property, plant and equipment (net)	2,420	1,366	+ 77.2
Acquisition payments (net)	313,810	107,723	+ 191.3
Dividend paid to shareholders	3,986	3,986	(0.0)
Dividend paid to minorities	883	335	+ 163.6
Use of cash flow iii	321,099	113,410	+ 183.1
Proceeds from issue of new stocks and sales of treasury stocks iv	120,008	–	–
Effect of exchange rate changes and others iv	2,992	676	+ 342.6
Change in net cash i + ii − iii + iv + v	▲ 176,794	▲ 73,856	–
(Acquisition payments)			
Acquisition payments in Japan (net initial & earn out payments)	599	–	–
Acquisition payments in overseas (net initial & earn out payments)	308,366	–	–
excluding acquisition of shares of Aegis Group plc	12,181	–	–

*Payment for purchase of property, plant and equipment and acquisition payments are shown as net figures of payments and proceeds by disposal of business or subsidiaries

11. Dividend

	2013 forecast	2012 actual	2011 actual
Dividend per share (annual) interim dividend	32.00 yen (16.00 yen)	32.00 yen (16.00 yen)	31.00 yen (15.00 yen)
Payout ratio	26.6%	21.9%	26.1%
Payout ratio of adusted EPS	11.7%	19.6%	23.4%

12. Net debt

JPY mn	2013 End of Sept	2013 End of Mar
Total debt	358,757	215,852
Cash and marketable securities	174,583	208,473
Net debt	184,173	7,379
EBITDA (LTM)	92,971	74,734
Net debt / EBITDA (LTM)	1.98 x	0.10 x
Net debt equity ratio	0.23 x	0.01 x

*LTM: Last twelve month

13. Dentsu Aegis Network Jan-Sept gross profit growth

	Organic growth % (Jan-Sept)	Organic growth % (July-Sept)
EMEA	+ 3.2	+ 15.5
Americas	+ 6.7	+ 9.5
APAC	+ 7.1	+ 13.7
DAN total	+ 5.5	+ 13.0

*Based on local accounting standard (unaudited)

14. Fiscal year 2013 (Apr to March) forecast

JPY mn	2013 forecast (annual)	% variance against old forecast	2013 H2 Oct-Mar forecast	2013 H1 Apr-Sept actual
Net sales	2,292,000	+0.4	1,209,639	1,082,360
yoy %	+ 18.1		+ 18.6	+ 17.5
Operating income befor amortization	578,500	+1.2	309,306	269,193
yoy %	+ 67.2		+ 68.8	+ 65.5
Gross profit	107,800	+7.7	67,688	40,111
yoy %	+ 71.5		+ 75.3	+ 65.5
Operating income	65,600	+12.1	46,315	19,284
yoy %	+ 12.2		+ 27.4	(12.8)
Ordinary income	72,400	+23.3	48,350	24,049
yoy %	+ 22.7		+ 22.7	+ 21.6
Net income	33,100	+73.3	22,965	10,134
yoy %	(8.9)		(14.9)	+ 8.4