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FY2015 First Quarter Results

August 11, 2015

* 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 in the Appendices for each definition of the indicators.

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1. Highlights

- Gross profit increased by 15.4% (YoY)
- Organic gross profit growth: +8.1% (YoY)
  (Japan +1.9% / International +13.7%)
- Underlying operating profit increased by 37.5% (YoY)
- Underlying operating margin: 12.0%, +200 bps (YoY)
- Underlying basic EPS increased by 41.3% (YoY)
- Share repurchase: JPY15.9 bn as of June 30
  (Completion of share repurchase: around JPY 20.0 bn as of July 24)

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2. Summary

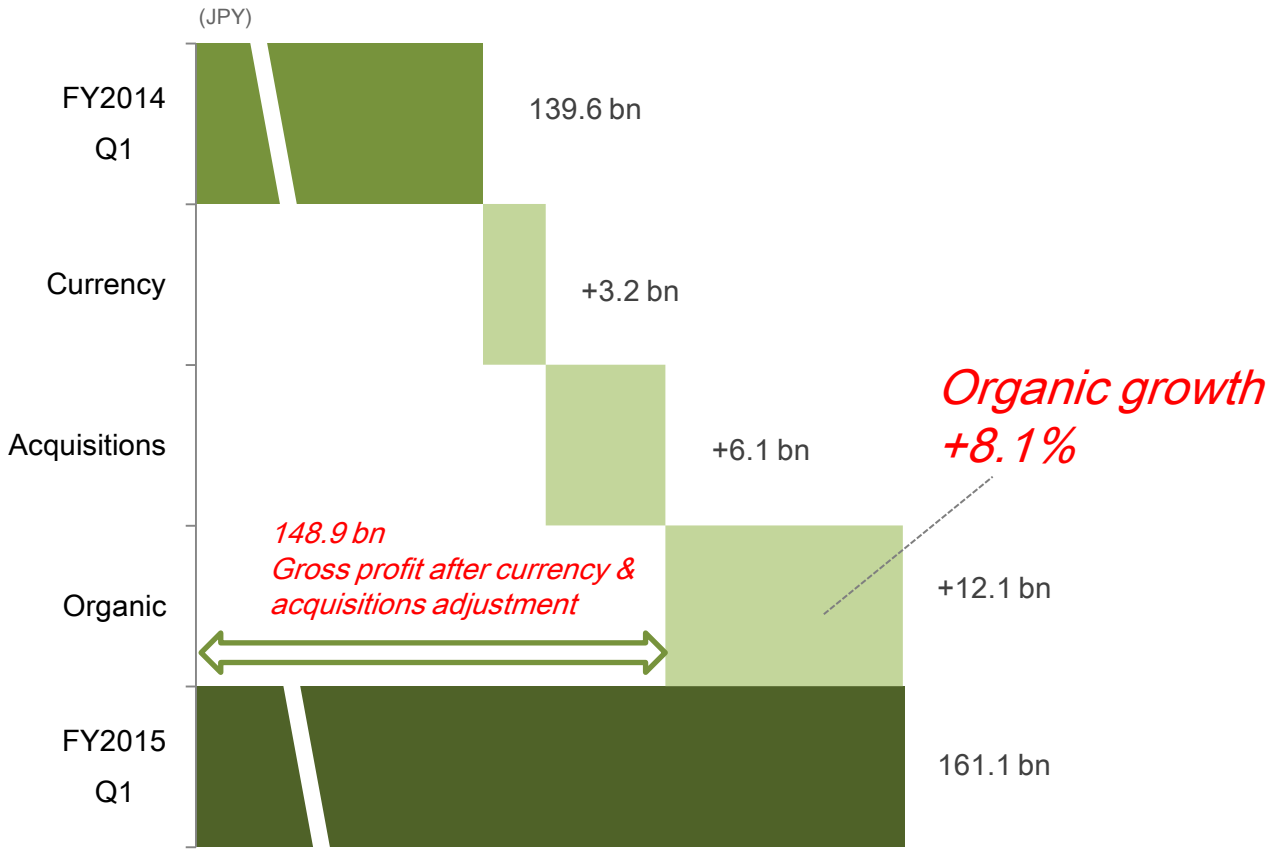
(JPY mn)

	FY2015 Q1	FY2014 Q1	YoY %
Turnover	1,136,613	1,022,111	+11.2
Revenue	172,027	149,763	+14.9
Gross profit	161,111	139,616	+15.4
Operating profit	12,254	9,930	+23.4
Net profit	6,838	3,911	+74.8
Underlying operating profit	19,282	14,025	+37.5
Operating margin	12.0%	10.0%	+2.0
Underlying net profit	13,653	9,686	+41.0
Underlying basic EPS	47.5 yen	33.6 yen	+41.3
EBITDA	22,831	19,198	+18.9
Currency			
JPY/USD (Jan–Mar average)	119.1 yen	102.8 yen	+15.9
JPY/GBP (Jan–Mar average)	180.5 yen	170.1 yen	+6.1

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

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3. Gross Profit Growth



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4. Regional Information

(JPY mn)

FY2015 Q1	Gross profit	YoY %	Underlying operating profit	YoY %	Organic growth %
Japan	74,190	+2.3	13,351	+9.9	+1.9
operating margin			*18.0%*	*+1.3*	
EMEA	30,709	+9.4	-	-	+11.1
Americas	32,733	+45.9	-	-	+10.4
APAC	23,514	+42.0	-	-	+22.5
International total	86,957	+29.7	5,904	+227.5	+13.7
operating margin			*6.8%*	*+4.1*	
Consolidation adjustments	(35)	-	25	-	-
Dentsu consolidated total	161,111	+15.4	19,282	+37.5	+8.1
operating margin			*12.0%*	*+2.0*	

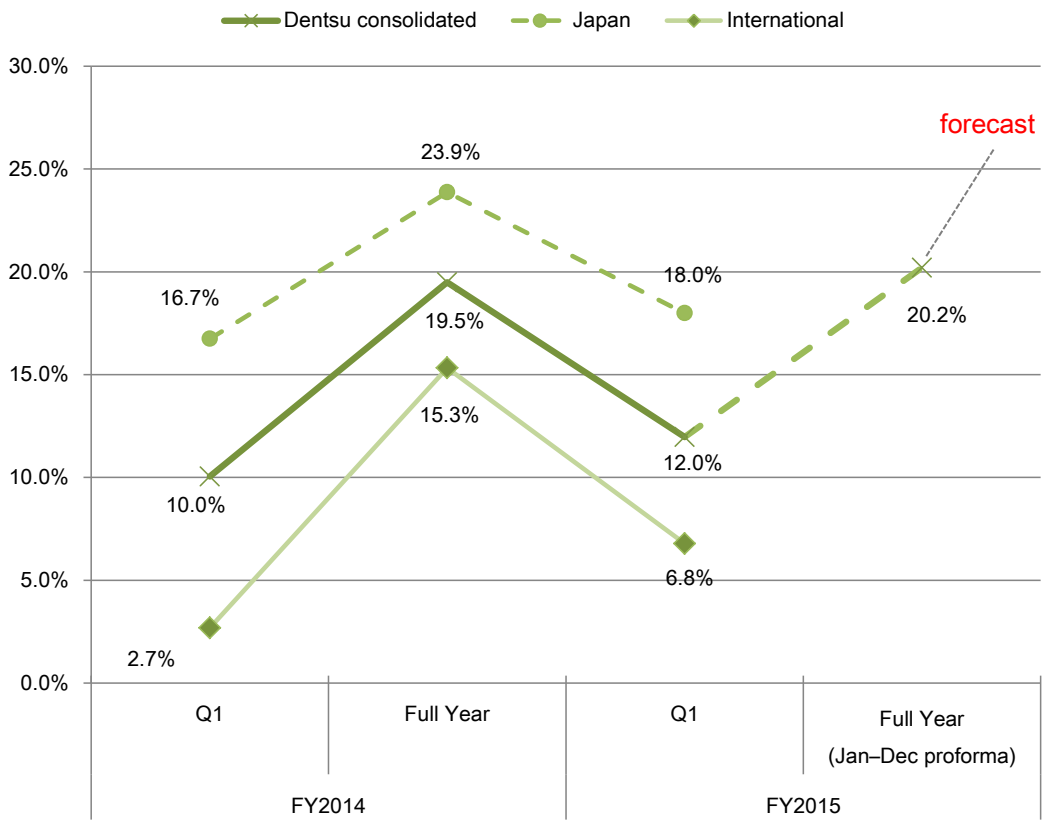
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5. Change in Underlying Operating Margin



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6. Operating Margin



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7. Reconciliation from Underlying OP to Statutory OP

(JPY mn)

	FY2015 Q1	FY2014 Q1	YoY #	YoY %
Underlying operating profit	19,282	14,025	+ 5,256	+37.5
Adjustment items	(7,027)	(4,094)	(2,933)	
Amortization of M&A related intangible assets	(5,354)	(4,398)	(955)	
Acquisition costs	(124)	(149)	+ 25	
Gain (loss) on sales and retirement of non-current assets	(56)	(102)	+ 45	
Gain on sales of shares of subsidiaries and associates	+ 868	+ 306	+ 562	
Loss on liquidation of subsidiaries and associates	(2,561)	-	(2,561)	
Others	+ 200	+ 249	(49)	
Operating profit	12,254	9,930	+ 2,323	+23.4

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8. Statutory Operating Profit to Net Profit

(JPY mn)

	FY2015 Q1	FY2014 Q1	YoY #	YoY %
Operating profit	12,254	9,930	+ 2,323	+23.4
Share of results of associates	938	1,935	(996)	(51.5)
Profit before interest and tax	13,193	11,866	+ 1,327	+11.2
Net finance income (costs)	(2,463)	(5,417)	+ 2,953	-
Finance income	2,733	1,809	+ 924	+51.1
Finance costs	5,197	7,226	(2,029)	(28.1)
Profit before tax	10,729	6,449	+ 4,280	+66.4
Income tax expense	3,359	2,429	+ 930	+38.3
Net profit	7,369	4,019	+ 3,350	+83.3
Attributable to owners of the parent	6,838	3,911	+ 2,926	+74.8
Attributable to non-controlling interests	531	107	+ 423	+392.4

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9. Financial Position

(JPY mn)

	2015 End of Jun	2015 End of Mar	Var. #	Var. %
Current assets	1,463,246	1,681,861	(218,614)	(13.0)
Non-current assets	1,440,400	1,477,673	(37,273)	(2.5)
Total assets	2,903,646	3,159,534	(255,887)	(8.1)
Current liabilities	1,333,211	1,511,256	(178,044)	(11.8)
Non-current liabilities	511,796	537,214	(25,418)	(4.7)
Total liabilities	1,845,008	2,048,470	(203,462)	(9.9)
Owner's interests	1,029,309	1,080,364	(51,054)	(4.7)
Non-controlling interests	29,329	30,699	(1,370)	(4.5)
Total equity	1,058,638	1,111,063	(52,425)	(4.7)
Total liabilities and equity	2,903,646	3,159,534	(255,887)	(8.1)
JPY/USD	120.2 yen	120.6 yen	-	(0.3)
JPY/GBP	178.1 yen	187.0 yen	-	(4.8)

Note: Currency… 2015 B/S (End of Jun): as of Mar 31, 2015, 2015 B/S (End of Mar): as of Dec 31, 2014

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10. Net Debt

(JPY mn)

	2015 End of Jun	2015 End of Mar	Var. #	2014 End of Jun	Var. #
Total debt	386,289	409,618	(23,329)	332,845	+ 53,443
Cash and cash equivalents	263,206	365,379	(102,173)	175,741	+ 87,465
Net debt	123,082	44,238	+ 78,843	157,104	(34,021)
Total debt (LTM average)	371,749	367,484	+ 4,264	-	-
Cash and cash equivalents (LTM average)	249,856	247,886	+ 1,970	-	-
Net debt (LTM average)	121,892	119,598	+ 2,294	-	-
EBITDA (LTM)	178,153	174,520	+ 3,633	-	-
Net debt / EBITDA (LTM)	0.69	0.25		-	
Net debt (LTM average) / EBITDA (LTM)	0.68	0.69		-	

Note: LTM… Last twelve months

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11. International Jan–Jun Gross Profit Growth (unaudited)

	Organic growth % (Jan–Jun)	Organic growth % (Apr–Jun)
EMEA	+13.8	+16.1
Americas	+9.1	+7.9
APAC	+12.8	+5.4
International total	+11.8	+10.2

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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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Appendices

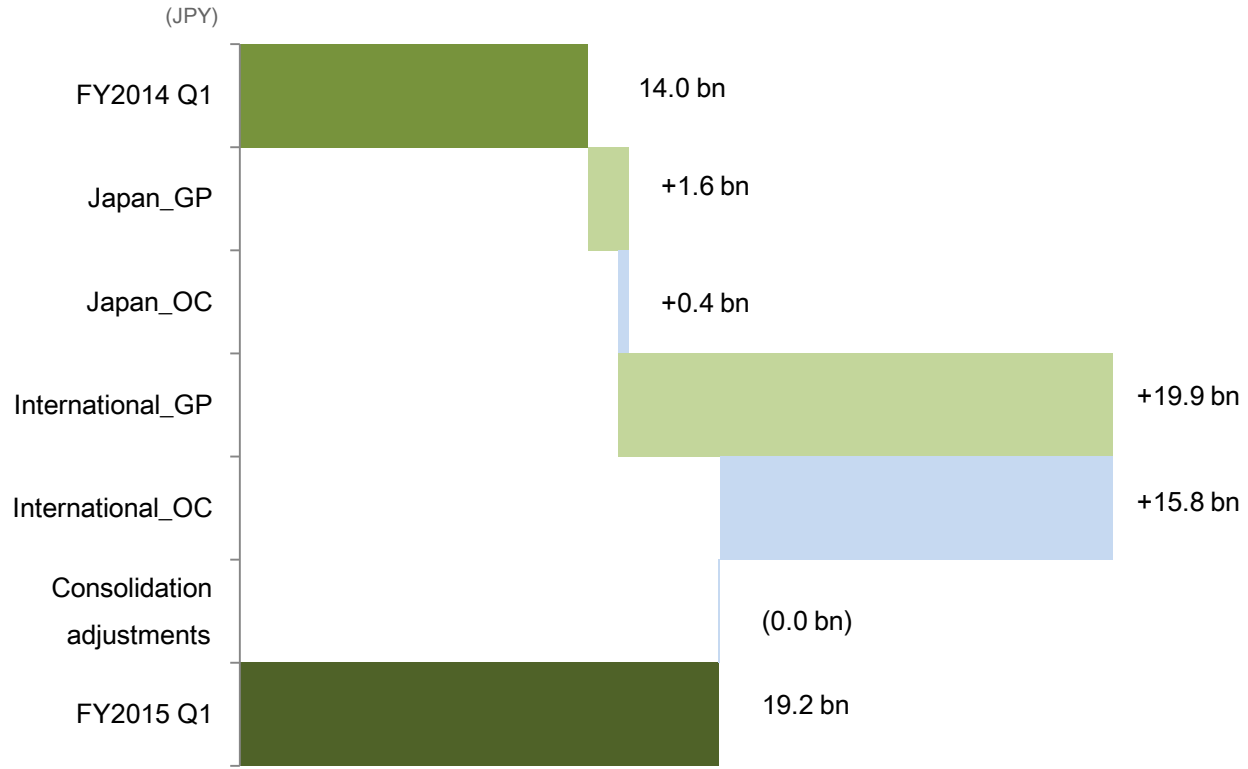
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1. Definition

- Turnover: The gross amounts billable to clients handled by the Group on behalf of clients, with net of discounts, VAT and other sales-related taxes.
- Underlying operating profit: KPI to measure recurring business performance which is calculated as operating profit added with amortization of M&A related intangible assets, impairment loss, gain/loss on sales of non-current assets, acquisition costs and other one-off items
- Operating margin: Underlying operating profit divided by gross profit
- 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
- Currency: Currency movements comparing prior period reported gross profit at reported currency to prior period gross profit at constant currency
- Acquisitions: The effect of business acquired or disposed of since the beginning of the prior year
- Organic: Organic growth represents the constant currency year-on-year growth after adjusting for the effect of business acquired or disposed of since the beginning of the prior year. This is calculated by comparing current period reported gross profit to prior period gross profit, adjusted for the pre-acquisition or pre-disposal gross profit as applicable, and stated at constant exchange rate, in order to derive like-for-like growth

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2. Analysis of Underlying Operating Profit



Notes: Figures of Japan subsidiaries and International are after eliminations of internal transactions
GP… Gross profit
OC… Operating costs (selling, general & administrative expenses, other income and other expenses)

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3. Reconciliation from Underlying NP to Statutory NP

(JPY mn)

	FY2015 Q1	FY2014 Q1	YoY #	YoY %
Underlying net profit	13,653	9,686	+ 3,967	+41.0
Adjustment items	(6,815)	(5,774)	(1,040)	
Operating profit adjustments	(7,027)	(4,094)	(2,933)	
Amortization of associate purchased intangibles	-	(84)	+ 84	
Loss on revaluation of earnout liabilities and M&A related put option liabilities	(2,402)	(5,324)	+ 2,921	
Loss on early redemption of private placement bond	(884)	-	(884)	
Related income tax expense	+ 3,229	+ 3,580	(350)	
Adjustments attributable to non-controlling interests	+ 269	+ 149	+ 120	
Net profit	6,838	3,911	+ 2,926	+74.8

Note: Underlying net profit and net profit… Excluding attribution to non-controlling interests

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4. FY2015 Q1 Results (parent company, J-GAAP)

(JPY mn)

	FY2015 Q1	FY2014 Q1	YoY %
Net sales	364,989	356,896	+2.3
Gross profit	49,130	50,243	(2.2)
gross profit margin	*13.5%*	*14.1%*	*(0.6)*
SG&A	39,018	40,388	(3.4)
Operating income	10,111	9,854	+2.6
vs. gross profit	*20.6%*	*19.6%*	*+1.0*
Ordinary income	27,924	26,979	+3.5
Income before income taxes	29,784	27,260	+9.3
Net income	25,171	22,514	+11.8

Note: SG&A… Selling, general & administrative expenses

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5. Net Sales by Business Category
(parent company, J-GAAP)

(JPY mn)

	FY2015 Q1	YoY %
Newspapers	20,569	(10.0)
Magazines	6,949	(1.4)
Radio	3,249	(4.2)
Television	171,329	(6.6)
Time	68,111	(13.5)
Spot	103,217	(1.4)
Interactive Media	19,818	+19.6
OOH Media	15,942	+21.3
Creative	46,355	+0.2
Marketing/Promotion	42,111	+15.5
Content Services	28,136	+59.8
Others	10,526	+4.3
Total	364,989	+2.3

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6. Net Sales by Industry
(parent company, J-GAAP)

(JPY mn)

	FY2015 Q1	YoY %
Information/Communications	41,894	(13.0)
Beverages/Cigarettes	41,305	(5.1)
Finance/Insurance	31,908	+14.8
Foodstuffs	26,440	+0.3
Cosmetics/Toiletries	25,958	+5.8
Automobiles/Related Products	24,439	+1.6
Distribution/Retailing	23,851	+0.7
Food Services/Other Services	21,491	+12.9
Pharmaceuticals/Medical Supplies	18,451	+0.3
Transportation/Leisure	16,541	+9.5
Hobbies/Sporting Goods	14,041	+0.3
Government/Organizations	13,870	+57.7
Household Products	13,321	(8.1)
Real Estate/Housing Facilities	11,487	+20.8
Apparel/Fashion, Accessories/Personal Items	10,356	+16.2
Others	29,629	(3.0)
Total	364,989	+2.3

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7. Effects of Currency

	Average			Period end		
	FY2015 Q1	FY2014 Q1	Var. %	2015 End of Jun	2015 End of Mar	Var. %
JPY/USD	119.1	102.8	+15.9	120.2	120.6	(0.3)
JPY/EUR	134.2	140.8	(4.7)	130.3	146.5	(11.1)
JPY/CNY	19.1	16.8	+13.5	19.4	19.4	+0.1
JPY/GBP	180.5	170.1	+6.1	178.1	187.0	(4.8)

Gross profit ratio by currency

(%)	JPY	USD	EUR	GBP	CNY	Others	Total
FY2015 Q1	46.0	17.1	8.9	5.9	5.8	16.3	100.0

Note: Currency of period end… 2015 End of Jun: as of Mar 31, 2015
2015 End of Mar: as of Dec 31, 2014