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FY2016 First Quarter Results

May 16, 2016

* 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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Highlights

- Gross profit increased by 7.2% (YoY, constant currency basis)
- Organic gross profit growth: +5.1%
  (Japan +5.6% / International +4.5%)
- Underlying operating profit increased by 7.4% (constant currency basis)
- Underlying operating margin: 19.1%,
  maintained the same level as 2015 (constant currency basis)
- Underlying basic EPS increased by 3.8%
- FY2016 forecast has been changed, mainly due to the recent JPY appreciation since the previous forecast announcement in February.

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Summary

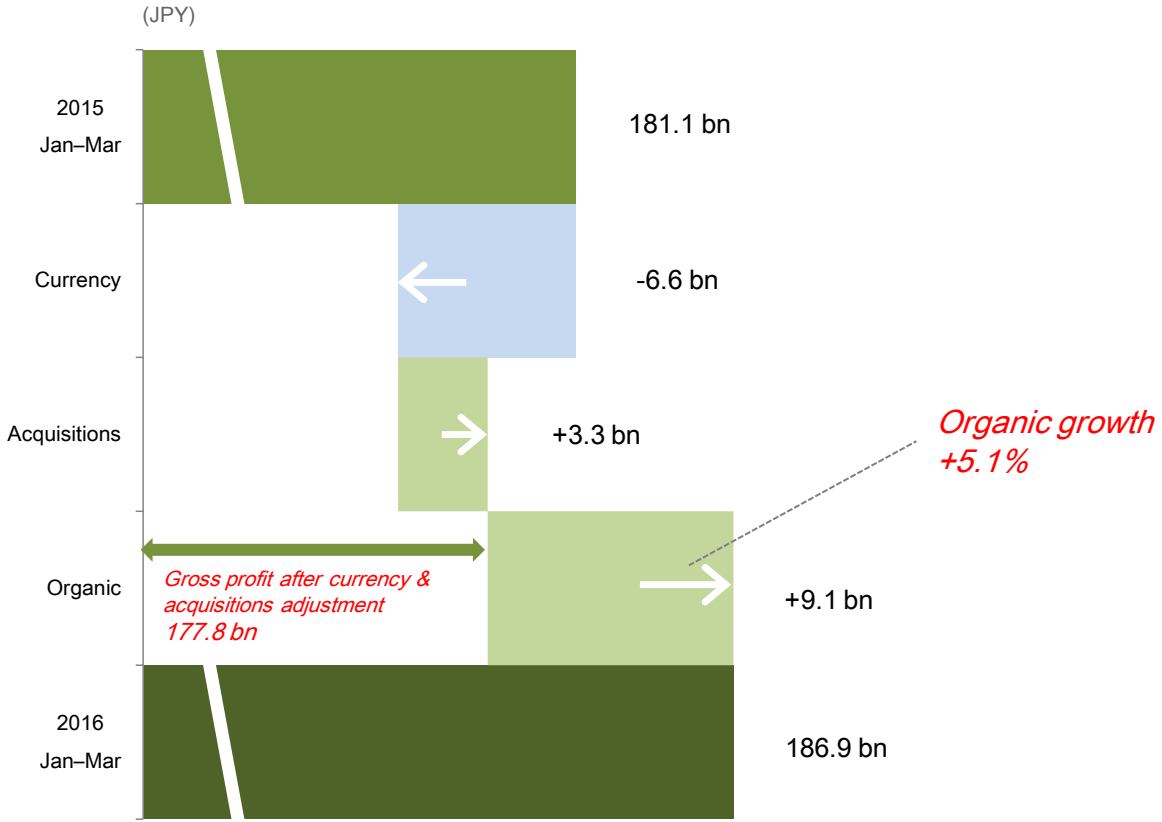
(JPY mn)

	2016 Jan–Mar	2015 Jan–Mar	YoY %	Constant currency basis %
Turnover	1,195,570	1,194,252	+0.1	-
Revenue	199,542	198,157	+0.7	-
Gross profit	186,990	181,121	+3.2	+7.2
Underlying operating profit	35,769	33,651	+6.3	+7.4
Operating margin	19.1%	18.6%	+0.5	+0.0
Underlying net profit	21,552	21,003	+2.6	-
Underlying basic EPS	75.6 yen	72.8 yen	+3.8	-
Operating profit	31,796	21,976	+44.7	-
Net profit	17,215	10,459	+64.6	-
EBITDA	42,287	33,808	+25.1	-
Currency				
JPY/USD (Jan–Mar average)	115.4 yen	119.1 yen	(3.1)	-
JPY/GBP (Jan–Mar average)	165.2 yen	180.5 yen	(8.4)	-

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

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Gross Profit Growth



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Regional Information – Gross Profit –

(JPY mn)

	2016 Jan–Mar	2015 Jan–Mar	YoY %	Constant currency basis %	Organic growth %
Japan	99,308	94,199	+5.4	+5.4	+5.6
Digital domain ratio	18.8%	19.6%	(0.8)	(0.8)	
EMEA	33,730	30,709	+9.8	+19.0	+10.7
Americas	30,929	32,733	(5.5)	+0.9	(2.0)
APAC	23,042	23,514	(2.0)	+8.1	+5.2
International total	87,702	86,957	+0.9	+9.2	+4.5
Digital domain ratio	47.8%	45.6%	+2.2	+2.9	
Consolidation adjustments	(20)	(35)	-	-	-
Dentsu consolidated total	186,990	181,121	+3.2	+7.2	+5.1
Digital domain ratio	32.4%	32.1%	+0.3	+1.2	
International business ratio	46.9%	48.0%	(1.1)	+0.9	

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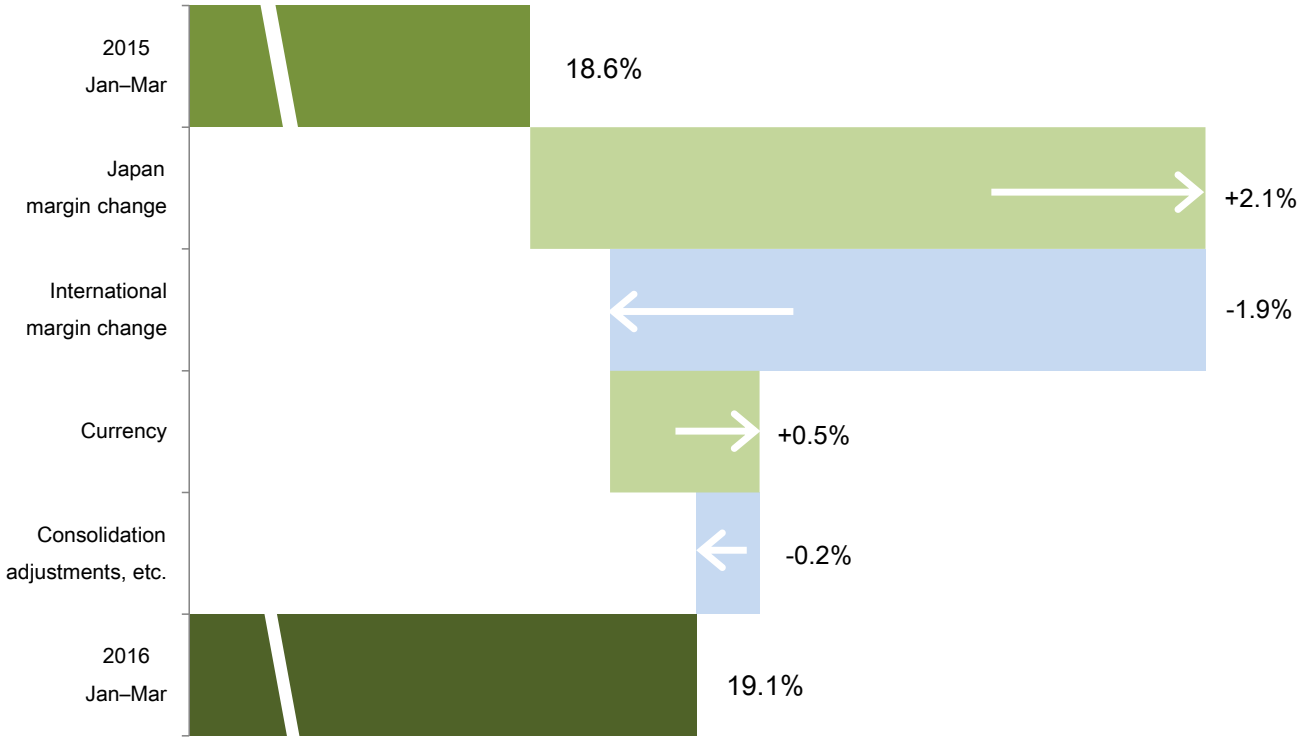
Regional Information – Underlying Operating Profit –

(JPY mn)

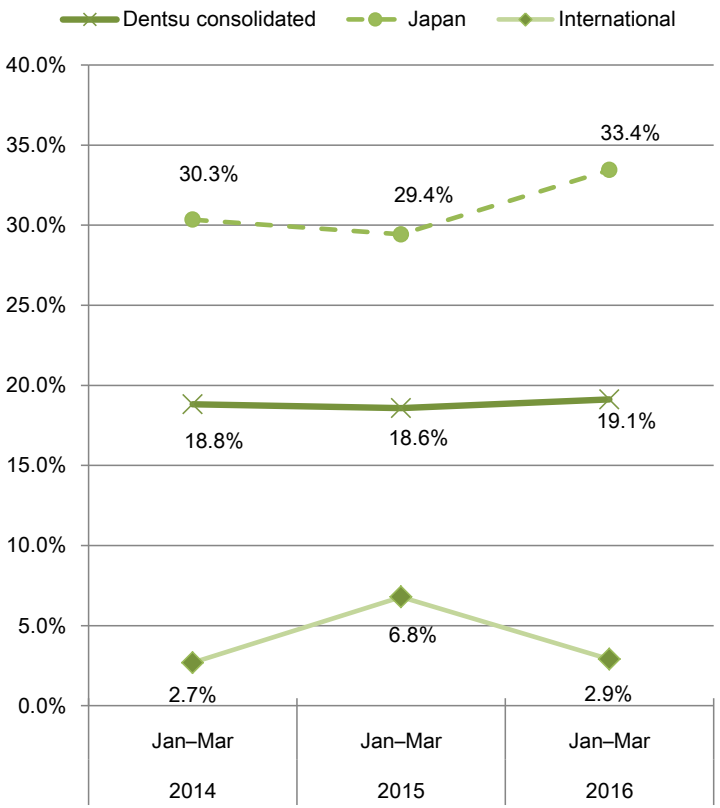
	Underlying operating profit				Operating margin			
	2016 Jan–Mar	2015 Jan–Mar	YoY %	Constant currency basis %	2016 Jan–Mar	2015 Jan–Mar	YoY %	Constant currency basis %
Japan	33,218	27,719	+19.8	+19.8	33.4%	29.4%	+4.0	+4.0
International total	2,545	5,904	(56.9)	(55.4)	2.9%	6.8%	(3.9)	(4.2)
Consolidation adjustments	5	27	-	-	-	-	-	-
Dentsu consolidated total	35,769	33,651	+6.3	+7.4	19.1%	18.6%	+0.5	+0.0

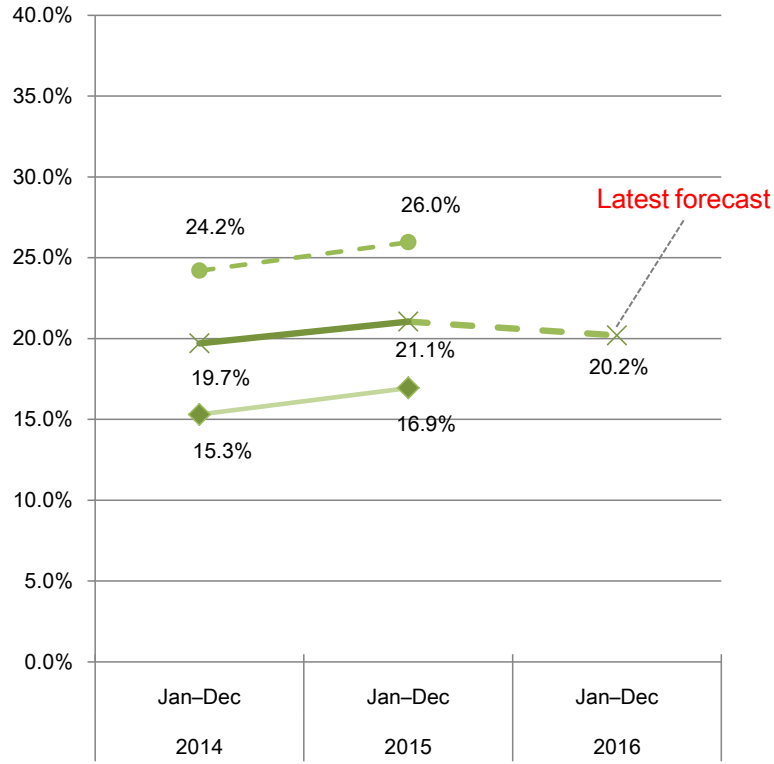
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Change in Underlying Operating Margin



Operating Margin





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Reconciliation from Underlying OP to Statutory OP

(JPY mn)

	2016 Jan–Mar	2015 Jan–Mar	YoY #	YoY %
Underlying operating profit	35,769	33,651	+ 2,117	+6.3
Adjustment items	(3,972)	(11,675)	+ 7,702	
Amortization of M&A related intangible assets	(5,460)	(5,354)	(106)	
Acquisition costs	(284)	(137)	(146)	
One-off items	+ 1,772	(6,184)	+ 7,956	
Gain (loss) on sales and retirement of non-current assets	+ 1,419	(1,374)	+ 2,794	
Gain on sales of shares of subsidiaries and associates	+ 1,445	-	+ 1,445	
Revaluation gain (loss) on investment reclassification	-	+ 355	(355)	
Impairment loss	(5)	(1,161)	+ 1,155	
Special retirement expenses	(44)	(3,751)	+ 3,706	
Others	(1,043)	(253)	(790)	
Operating profit	31,796	21,976	+ 9,819	+44.7

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Statutory Operating Profit to Net Profit

(JPY mn)

	2016 Jan–Mar	2015 Jan–Mar	YoY #	YoY %
Operating profit	31,796	21,976	+ 9,819	+44.7
Share of results of associates	910	848	+ 62	+7.3
Profit before interest and tax	32,706	22,824	+ 9,881	+43.3
Net finance income (costs)	(4,293)	(1,863)	(2,429)	-
Finance income	1,253	2,328	(1,074)	(46.2)
Finance costs	5,547	4,192	+ 1,354	+32.3
Profit before tax	28,412	20,960	+ 7,452	+35.6
Income tax expense	9,603	9,028	+ 575	+6.4
Net profit	18,809	11,932	+ 6,876	+57.6
Attributable to owners of the parent	17,215	10,459	+ 6,756	+64.6
Attributable to non-controlling interests	1,593	1,473	+ 120	+8.2

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Financial Position

(JPY mn)

	2016 End of Mar	2015 End of Dec	Var. #	Var. %
Current assets	1,516,801	1,618,024	(101,222)	(6.3)
Non-current assets	1,364,186	1,448,051	(83,864)	(5.8)
Total assets	2,880,988	3,066,075	(185,086)	(6.0)
Current liabilities	1,391,173	1,488,602	(97,428)	(6.5)
Non-current liabilities	456,592	474,729	(18,136)	(3.8)
Total liabilities	1,847,766	1,963,331	(115,565)	(5.9)
Owners' interests	999,396	1,068,216	(68,820)	(6.4)
Non-controlling interests	33,825	34,526	(701)	(2.0)
Total equity	1,033,222	1,102,743	(69,521)	(6.3)
Total liabilities and equity	2,880,988	3,066,075	(185,086)	(6.0)
JPY/USD	112.7 yen	120.6 yen	-	(6.6)
JPY/GBP	161.9 yen	178.8 yen	-	(9.4)

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Net Debt

(JPY mn)

	2016 End of Mar	2015 End of Dec	Var. #
Total debt	350,049	353,783	(3,733)
Cash and cash equivalents	244,608	263,322	(18,714)
Net debt	105,441	90,460	+ 14,980
Total debt (LTM average)	374,380	380,689	(6,309)
Cash and cash equivalents (LTM average)	278,029	271,719	+ 6,310
Net debt (LTM average)	96,350	108,970	(12,620)
EBITDA (LTM)	183,933	175,454	+ 8,479
Net debt / EBITDA (LTM)	0.57	0.52	
Net debt (LTM average) / EBITDA (LTM)	0.52	0.62	

Note: LTM… Last twelve months

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FY2016 Forecast

(JPY mn)

	2016 Jan–Dec	Previous forecast (Feb)	Variance %	2015 Jan–Dec	YoY %	Constant currency basis %
Revenue	817,200	865,600	(5.6)	818,566	(0.2)	-
Gross profit	768,700	817,100	(5.9)	761,996	+0.9	+8.4
Underlying operating profit	155,000	164,300	(5.7)	160,438	(3.4)	+2.1
Operating margin	20.2%	20.1%	+0.1	21.1%	(0.9)	(1.2)
Underlying net profit	104,500	110,400	(5.3)	113,388	(7.8)	-
Underlying basic EPS	366.5 yen	387.2 yen	(5.3)	395.7 yen	(7.4)	-
Operating profit	132,400	142,000	(6.8)	128,212	+3.3	-
Net profit	81,200	88,900	(8.7)	83,090	(2.3)	-
Currency	At May 4, 2016	Av. Jan–Sep in 2015		Av. Jan–Dec in 2015		
JPY/USD	106.1 yen	120.9 yen	(12.2)	121.0 yen	(12.3)	-
JPY/GBP	155.4 yen	185.3 yen	(16.2)	185.1 yen	(16.0)	-

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

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Disclaimer

Forward-Looking Statements

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.

Such forward-looking statements involve risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors could cause actual results to differ materially from those projected or implied in any forward-looking statements. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof.

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

Dentsu disclaims any obligation to update any forward-looking or other statements contained herein, except as required by applicable law.

Previous year’s figures in the Consolidated Statement of Income

The previous year’s figures are provided on a December year-end basis, although the fiscal year-end had not yet changed in the same period of the previous year.

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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, acquisition costs and one-off items such as impairment loss and gain/loss on sales of non-current assets
- 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
- Constant currency basis: Comparison with the current period where the previous year's numbers are recalculated using the currency exchange rate which is used for the current year's numbers
- Currency: Currency movements comparing prior period reported gross profit at reported currency to prior period gross profit at constant currency (reported currency of the current year)
- 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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Quarterly Gross Profit Organic Growth

(%)

	Dentsu consolidated total			Japan			International total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Jan–Mar	+5.1	+6.2	-	+5.6	+0.0	-	+4.5	+13.7	+9.6
Apr–Jun	-	+6.5	-	-	+1.9	-	-	+10.2	+8.5
Jul–Sep	-	+4.2	-	-	+1.4	-	-	+6.6	+12.8
Oct–Dec	-	+10.6	-	-	+12.9	-	-	+8.2	+10.5

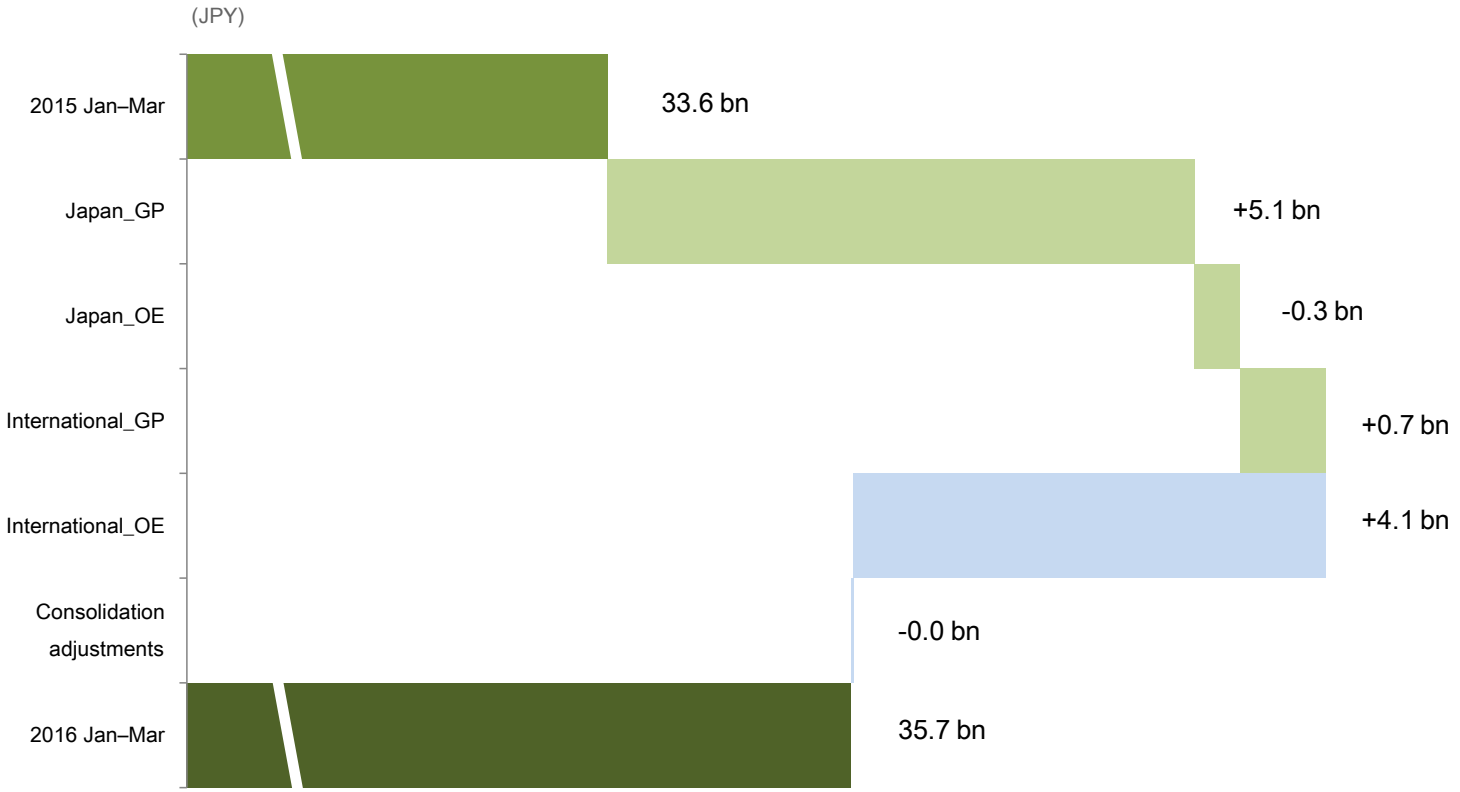
	International – EMEA			International – Americas			International – APAC		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Jan–Mar	+10.7	+11.1	+10.6	(2.0)	+10.4	+4.7	+5.2	+22.5	+14.8
Apr–Jun	-	+16.1	+6.9	-	+7.9	+5.0	-	+5.4	+15.2
Jul–Sep	-	+11.0	+10.8	-	+0.1	+12.8	-	+9.3	+15.5
Oct–Dec	-	+11.0	+10.6	-	+2.1	+8.3	-	+11.0	+12.8

Note:

Given the different year-ends of Dentsu in Japan and Dentsu Aegis Network previously, and the fact that Dentsu in Japan previously reported under J-GAAP, the quarterly organic gross profit growth figures for FY2014 for the Dentsu Group and Dentsu in Japan are not directly comparable to the figures for FY2015 and FY2016, which are reported on a December year-end basis under IFRS. Therefore, the FY2014 quarterly organic gross profit growth numbers for the Dentsu Group and Dentsu in Japan are not included in the table above.

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Analysis of Underlying Operating Profit



Notes:
GP… Gross profit
OE… Operating expenses (selling, general & administrative expenses, other income and other expenses)

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Reconciliation from Underlying NP to Statutory NP

(JPY mn)

	2016 Jan–Mar	2015 Jan–Mar	YoY #	YoY %
Underlying net profit	21,552	21,003	+ 548	+2.6
Adjustment items	(4,336)	(10,544)	+ 6,207	
Operating profit adjustments	(3,972)	(11,675)	+ 7,702	
Loss on revaluation of earnout liabilities and M&A related put option liabilities	(2,868)	(1,272)	(1,595)	
Related income tax expense	+ 2,312	+ 2,203	+ 109	
Adjustments attributable to non-controlling interests	+ 192	+ 200	(7)	
Net profit	17,215	10,459	+ 6,756	+64.6

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

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Q1 FY2016 Results of Parent Company (J-GAAP)

(JPY mn)

	2016 Jan–Mar	2015 Jan–Mar	YoY %
Net sales	436,019	403,949	+7.9
Gross profit	66,927	61,253	+9.3
gross profit margin	*15.3%*	*15.2%*	*+0.2*
SG&A	43,487	44,757	(2.8)
Operating income	23,440	16,496	+42.1
vs. gross profit	*35.0%*	*26.9%*	*+8.1*
Ordinary income	45,674	19,000	+140.4
Income before income taxes	46,118	11,500	+301.0
Net income	37,994	7,338	+417.8

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

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Net Sales of Parent Company by Business Category
(J-GAAP)

(JPY mn)

	2016 Jan–Mar	YoY %
Newspapers	28,029	(7.8)
Magazines	7,177	(13.8)
Radio	3,449	(1.3)
Television	167,523	+3.1
Time	72,461	+1.3
Spot	95,062	+4.4
Interactive Media	22,960	+1.0
OOH Media	15,477	+7.1
Creative	55,988	(4.5)
Marketing/Promotion	52,638	+3.5
Content Services	72,481	+72.4
Others	10,293	(1.8)
Total	436,019	+7.9

Note: Scale of digital domain operations in Japan (including parent company)… Please refer to the “Regional Information – Gross Profit –” slide

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Net Sales of Parent Company by Industry
(J-GAAP)

(JPY mn)

	2016 Jan–Mar	YoY %
Information/Communications	59,642	+4.6
Finance/Insurance	48,951	+39.6
Beverages/Cigarettes	36,165	(4.5)
Foodstuffs	33,320	+35.6
Cosmetics/Toiletries	29,472	+16.4
Automobiles/Related Products	23,556	(21.5)
Food Services/Other Services	23,222	+1.1
Distribution/Retailing	22,294	(5.2)
Government/Organizations	21,917	+4.4
Transportation/Leisure	20,785	+16.3
Real Estate/Housing Facilities	17,470	+35.0
Hobbies/Sporting Goods	14,861	+23.9
Home Electric Appliances/AV Equipment	14,169	+8.0
Pharmaceuticals/Medical Supplies	12,840	(8.7)
Energy/Materials/Machinery	11,827	+30.4
Others	45,520	(4.4)
Total	436,019	+7.9

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Effects of Currency Exchange Rates

	Average rate			Period end rate		
	2016 Jan–Mar	2015 Jan–Mar	Var. %	2016 End of Mar	2015 End of Dec	Var. %
JPY/USD	115.4 yen	119.1 yen	(3.1)	112.7 yen	120.6 yen	(6.6)
JPY/EUR	127.2 yen	134.2 yen	(5.2)	127.7 yen	131.8 yen	(3.1)
JPY/GBP	165.2 yen	180.5 yen	(8.4)	161.9 yen	178.8 yen	(9.4)
JPY/CNY	17.6 yen	19.1 yen	(7.7)	17.4 yen	18.4 yen	(5.3)
JPY/AUD	83.2 yen	93.7 yen	(11.2)	86.3 yen	87.9 yen	(1.9)

Gross profit ratio by currency

(%)	JPY	USD	EUR	GBP	CNY	AUD	Others	Total
FY2016 Jan–Mar	53.1	13.9	8.3	5.8	4.6	3.2	11.1	100.0