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FY2017 Third Quarter Results

November 14, 2017

* 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 11.0% (YoY, constant currency basis)
- Organic gross profit growth: -1.0%
  (Japan -2.4% / International +0.0%)
- Underlying operating profit decreased by -9.2% (constant currency basis)
- Underlying operating margin: 15.3%, -340 bps (constant currency basis)
- Underlying basic EPS decreased by -5.9%

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Summary

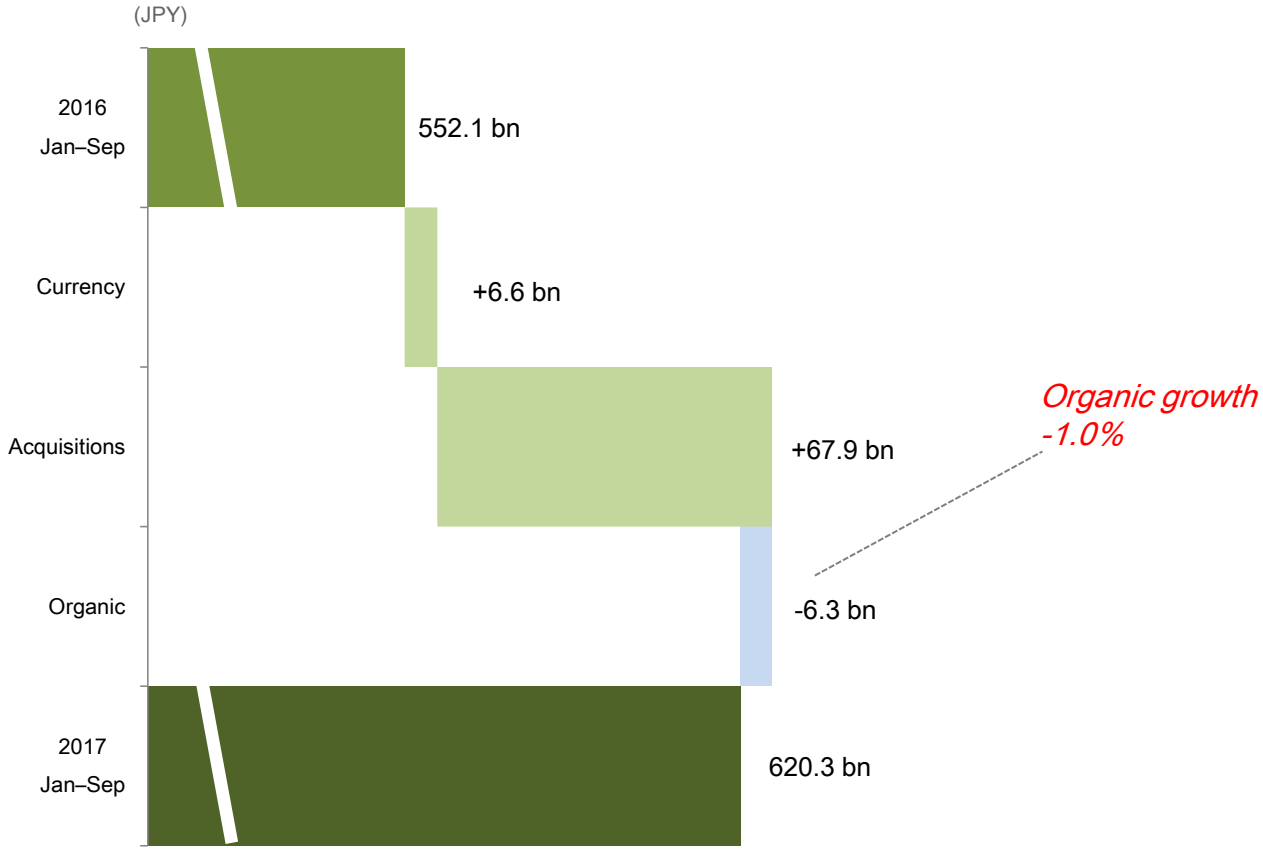
(JPY mn)

	2017 Jan–Sep	2016 Jan–Sep	YoY %	Constant currency basis %
Turnover	3,652,364	3,493,053	+4.6	-
Revenue	657,143	588,278	+11.7	-
Gross profit	620,371	552,107	+12.4	+11.0
Underlying operating profit	94,835	102,233	(7.2)	(9.2)
Operating margin	15.3%	18.5%	(3.2)	(3.4)
Underlying net profit	59,740	63,958	(6.6)	-
Underlying basic EPS	211.12 yen	224.31 yen	(5.9)	-
Operating profit	63,774	83,998	(24.1)	-
Net profit	44,513	50,929	(12.6)	-
EBITDA	106,873	115,350	(7.3)	-
Currency				
JPY/USD	111.9 yen	108.7 yen	+3.0	-
JPY/GBP	142.7 yen	151.8 yen	(6.0)	-

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)

	2017 Jan–Sep	2016 Jan–Sep	YoY %	Constant currency basis %	Organic growth %
Japan	263,162	269,616	(2.4)	(2.4)	(2.4)
Digital domain ratio	21.5%	19.7%	+1.8	+1.8	
EMEA	125,596	102,865	+22.1	+21.1	+3.9
Americas	148,353	101,912	+45.6	+40.6	(2.0)
APAC	83,436	77,834	+7.2	+4.2	(2.0)
International total	357,382	282,612	+26.5	+23.5	+0.0
Digital domain ratio	58.8%	50.5%	+8.3	+7.4	
Consolidation adjustments	(172)	(121)	-	-	-
Dentsu consolidated total	620,371	552,107	+12.4	+11.0	(1.0)
Digital domain ratio	43.0%	35.5%	+7.5	+6.9	
International business ratio	57.6%	51.2%	+6.4	+5.8	

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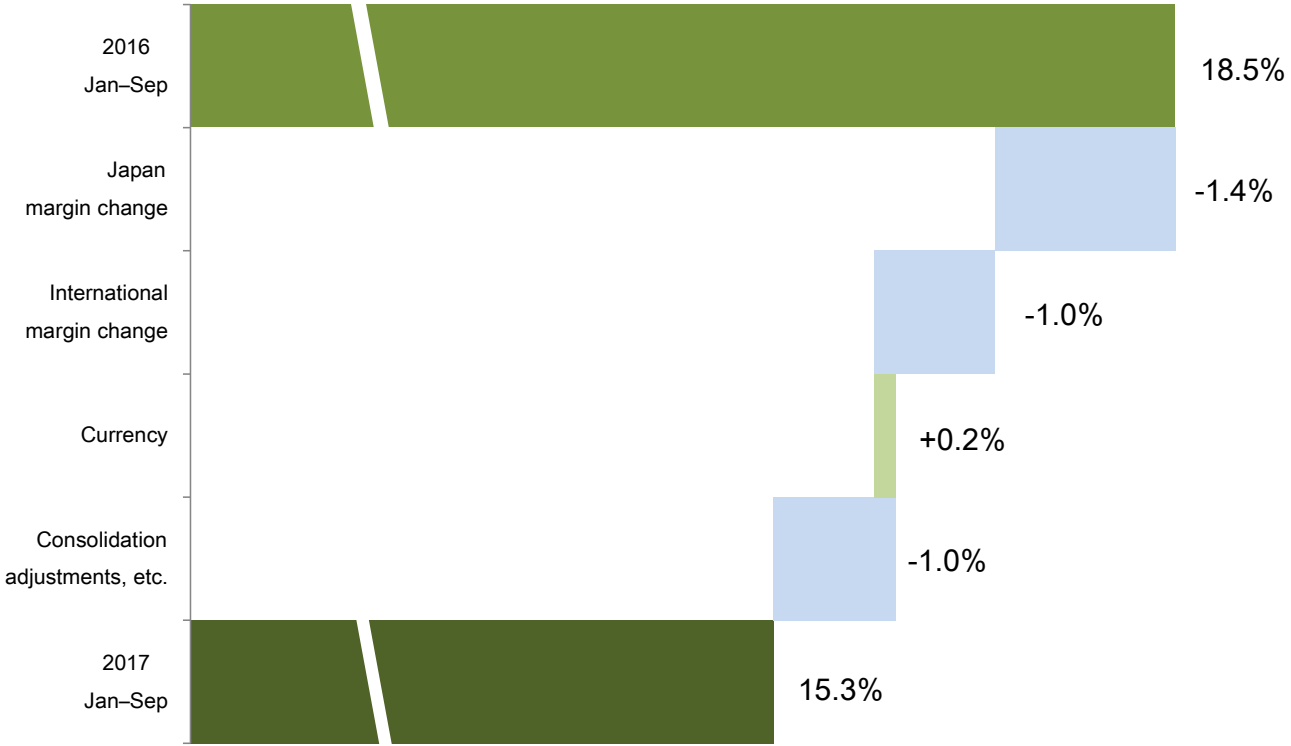
Regional Information – Underlying Operating Profit –

(JPY mn)

	Underlying operating profit				Operating margin			
	2017 Jan–Sep	2016 Jan–Sep	YoY %	Constant currency basis %	2017 Jan–Sep	2016 Jan–Sep	YoY %	Constant currency basis %
Japan	63,540	74,300	(14.5)	(14.5)	24.1%	27.6%	(3.5)	(3.5)
International total	31,308	27,926	+12.1	+3.6	8.8%	9.9%	(1.1)	(1.6)
Consolidation adjustments	(14)	5	-	-	-	-	-	-
Dentsu consolidated total	94,835	102,233	(7.2)	(9.2)	15.3%	18.5%	(3.2)	(3.4)

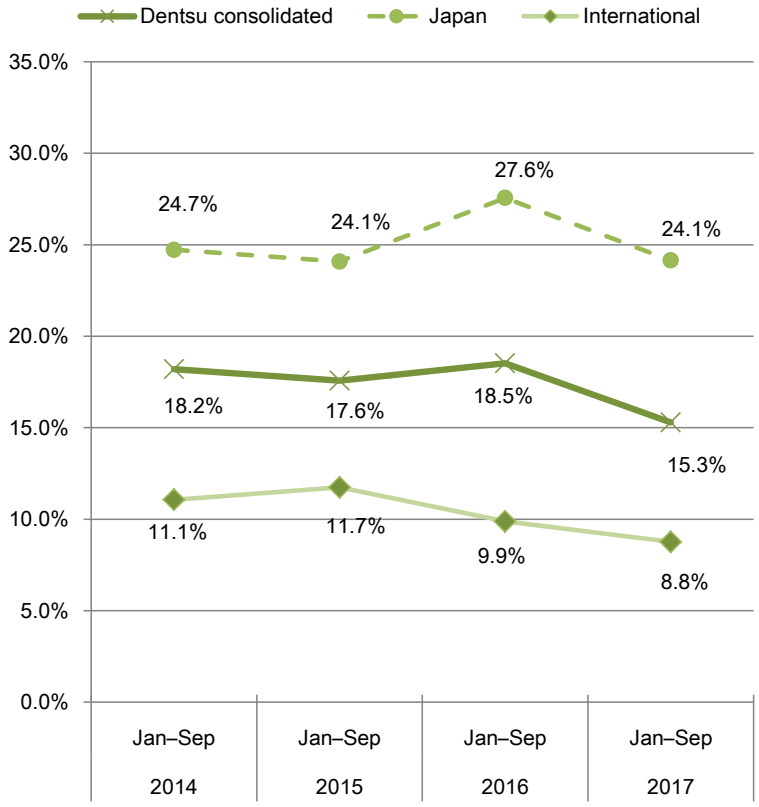
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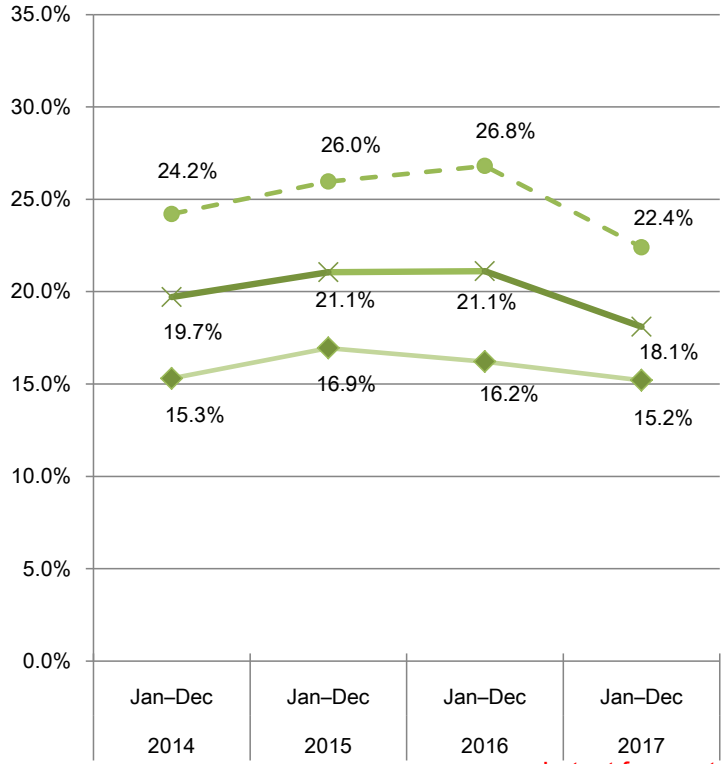
Change in Underlying Operating Margin



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Operating Margin





Latest forecast (announced in Aug)

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Reconciliation from Underlying OP to Statutory OP

(JPY mn)

	2017 Jan–Sep	2016 Jan–Sep	YoY #	YoY %
Underlying operating profit	94,835	102,233	(7,397)	(7.2)
Adjustment items	(31,060)	(18,234)	(12,826)	
Amortization of M&A related intangible assets	(25,066)	(15,743)	(9,323)	
Acquisition costs	(1,333)	(2,926)	+ 1,594	
Share-based compensation expenses related to acquired companies	(1,883)	-	(1,883)	
One-off items	(2,778)	+ 435	(3,214)	
Payment related to working hours	(2,367)	-	(2,367)	
Gain (loss) on sales and retirement of non-current assets	+ 629	+ 1,691	(1,062)	
Gain (loss) on sales of shares of subsidiaries and associates	+ 593	+ 460	+ 132	
Impairment loss	(705)	(69)	(635)	
Special retirement expenses	(335)	(1,012)	+ 676	
Others	(593)	(635)	+ 42	
Operating profit	63,774	83,998	(20,224)	(24.1)

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Statutory Operating Profit to Net Profit

(JPY mn)

	2017 Jan–Sep	2016 Jan–Sep	YoY #	YoY %
Operating profit	63,774	83,998	(20,224)	(24.1)
Share of results of associates	2,630	2,248	+ 382	+17.0
Profit before interest and tax	66,405	86,247	(19,841)	(23.0)
Net finance income (costs)	3,631	(4,367)	+ 7,998	-
Finance income	12,516	3,985	+ 8,531	+214.1
Finance costs	8,885	8,353	+ 532	+6.4
Profit before tax	70,036	81,879	(11,842)	(14.5)
Income tax expense	21,948	26,608	(4,660)	(17.5)
Net profit	48,088	55,271	(7,182)	(13.0)
Attributable to owners of the parent	44,513	50,929	(6,416)	(12.6)
Attributable to non-controlling interests	3,574	4,341	(766)	(17.7)

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Cash Flow

(JPY mn)

	2017 Jan–Sep	2016 Jan–Sep	YoY #	YoY %
Profit before tax	70,036	81,879	(11,842)	(14.5)
Share of results of associates	(2,630)	(2,248)	(382)	
Depreciation and amortization	42,393	31,281	+ 11,111	
Impairment loss	705	69	+ 635	
Gain (loss) on sales and retirement of non-current assets	(629)	(1,691)	+ 1,062	
Others	(8,455)	908	(9,364)	
Income taxes paid	(55,317)	(33,233)	(22,084)	
Cash flow from operations before change in WC i	46,102	76,967	(30,864)	(40.1)

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Use of Cash

(JPY mn)

	2017 Jan–Sep	2016 Jan–Sep	YoY #	YoY %
Change in WC ii	(74,108)	(44,623)	(29,484)	
Payments for PPE, intangible assets and investment property (net)	(13,878)	(9,597)	(4,280)	
Payments for investing activities (net)	(57,141)	(136,623)	+ 79,481	
Dividends paid to shareholders	(25,516)	(22,811)	(2,705)	
Dividends paid to non-controlling shareholders	(2,613)	(3,625)	+ 1,012	
Payments for share repurchase	(20,011)	(7)	(20,003)	
Use of cash iii	(119,161)	(172,665)	+ 53,504	(31.0)
Effect of exchange rate changes and others iv	1,645	8,655	(7,010)	
Change in net cash i (preceding slide)+ii+iii+iv	(145,520)	(131,666)	(13,853)	-
(Acquisition payments)				
Initial payments	(34,079)	(139,524)	+ 105,445	
Earn-out payments / Additional acquisition payments	(15,861)	(26,007)	+ 10,146	
Proceeds from sales	72	4,944	(4,872)	

Notes: “Payments for PPE (property, plant and equipment), intangible assets and investment property (net)” and “Payments for investing activities (net)” are shown as net figures of payments and proceeds by disposal of PPE/intangible assets/investment property and businesses/subsidiaries.
“Effect of exchange rate changes and others”… Including effect of exchange rate changes from debt and net cash that acquired companies had held.

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Net Debt

(JPY mn)

	2017 End of Sep	2016 End of Dec	Var. #
Total debt	476,170	403,599	+ 72,571
Cash and cash equivalents	169,461	242,410	(72,948)
Net debt	306,708	161,188	+ 145,520
Total debt (LTM average)	440,878	367,196	+ 73,681
Cash and cash equivalents (LTM average)	212,581	241,866	(29,285)
Net debt (LTM average)	228,296	125,329	+ 102,967
EBITDA (LTM)	175,587	184,064	(8,477)
Net debt / EBITDA (LTM)	1.75	0.88	
Net debt (LTM average) / EBITDA (LTM)	1.30	0.68	

Notes: LTM average… Average of last twelve months
LTM… Last twelve months

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FY2017 Forecast (no changes from Aug 9th)

(JPY mn)

	2017 Jan–Dec	2016 Jan–Dec	YoY %	Constant currency basis %
Revenue	933,000	838,359	+11.3	-
Gross profit	884,000	789,043	+12.0	+10.8
Japan	358,700	363,242	(1.3)	(1.3)
International total	525,300	426,014	+23.3	+20.8
Underlying operating profit	160,300	166,565	(3.8)	(5.1)
Japan	80,300	97,362	(17.5)	(17.5)
International total	80,000	69,059	+15.8	+11.7
Operating margin	18.1%	21.1%	(3.0)	(3.1)
Japan	22.4%	26.8%	(4.4)	(4.4)
International total	15.2%	16.2%	(1.0)	(1.3)
Underlying net profit	105,900	112,972	(6.3)	-
Underlying basic EPS	374.60 yen	396.20 yen	(5.5)	-
Operating profit	136,500	137,681	(0.9)	-
Net profit	86,800	83,501	+4.0	-
Currency	Av. Jan–Jun in 2017	Av. Jan–Dec in 2016		
JPY/USD	112.4 yen	108.9 yen	+3.2	-
JPY/GBP	141.4 yen	147.8 yen	(4.3)	-

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

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Disclaimer

Forward-Looking Statements

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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

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

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Appendices

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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, share-based compensation expenses related to acquired companies 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 growth: 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 Results

(JPY mn)

	2017 Jul–Sep	YoY %	2017 Apr–Jun	YoY %	2017 Jan–Mar	YoY %
Turnover	1,187,711	+5.9	1,204,360	+2.4	1,260,292	+5.4
Revenue	217,658	+11.6	209,672	+8.3	229,813	+15.2
Gross profit	205,761	+12.1	197,349	+8.7	217,261	+16.2
Japan	82,824	(5.0)	76,372	(8.2)	103,966	+4.7
International	122,983	+27.6	121,068	+22.9	113,329	+29.2
Underlying operating profit	30,480	(9.3)	23,073	(29.7)	41,281	+15.4
Japan	15,972	(27.1)	10,979	(42.8)	36,589	+10.1
International	14,500	+23.9	12,109	(11.5)	4,698	+84.6
Operating margin	14.8%	(3.5)	11.7%	(6.4)	19.0%	(0.1)
Underlying net profit	18,730	(8.2)	15,126	(31.3)	25,883	+20.1
Operating profit	18,467	(27.1)	13,188	(50.9)	32,119	+1.0
Net profit	13,800	(8.9)	12,769	(31.2)	17,943	+4.2
EBITDA	33,297	(6.7)	27,440	(26.6)	46,135	+9.1

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

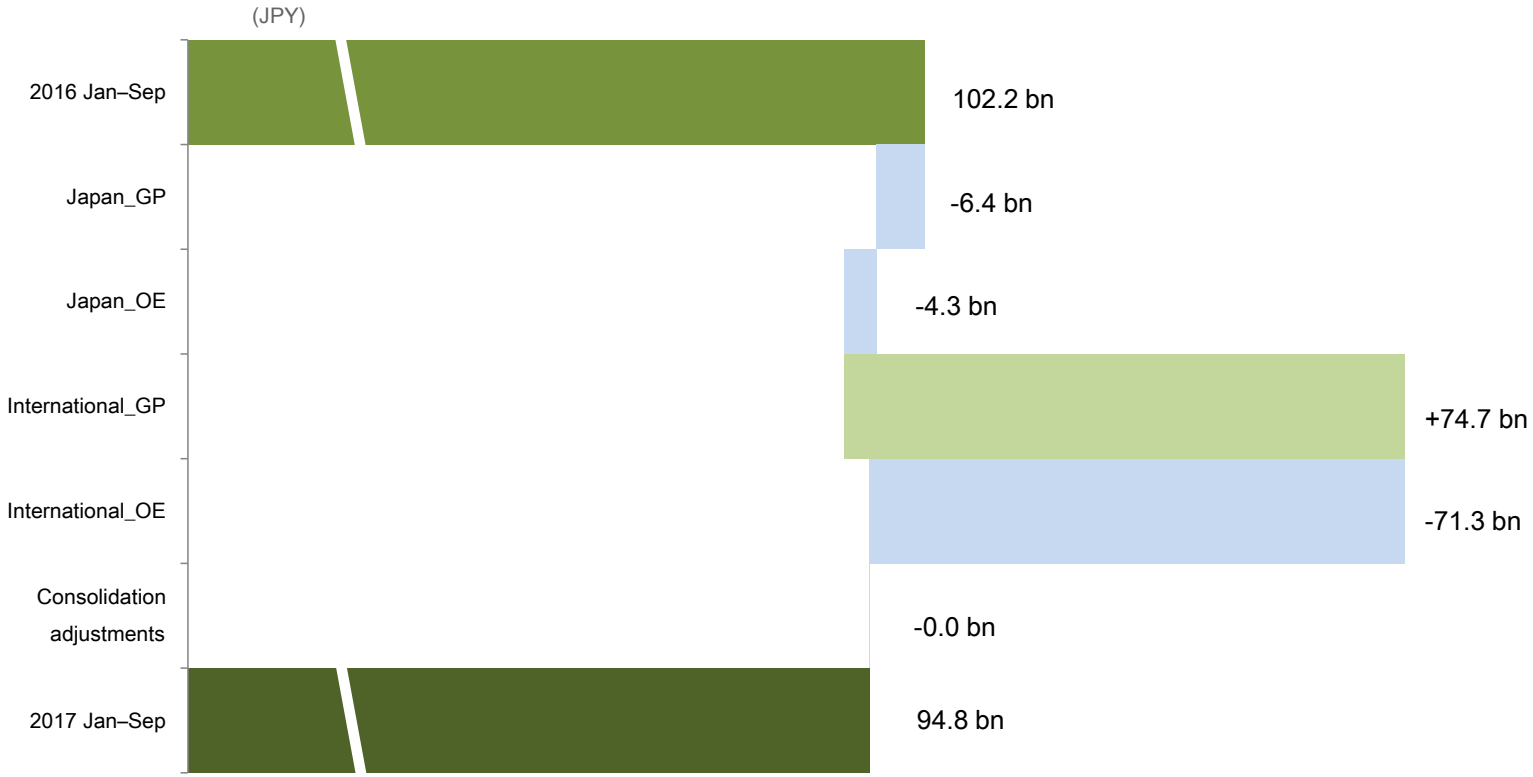
Quarterly Gross Profit Organic Growth

(%)

	Dentsu consolidated total			Japan			International total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Jan–Mar	+3.9	+5.1	+6.2	+4.7	+5.6	+0.0	+3.1	+4.5	+13.7
Apr–Jun	(4.8)	+9.5	+6.5	(8.1)	+12.2	+1.9	(2.7)	+7.2	+10.2
Jul–Sep	(2.1)	+2.7	+4.2	(5.0)	+0.3	+1.4	(0.2)	+5.2	+6.6
Oct–Dec	-	+3.9	+10.6	-	+1.0	+12.9	-	+5.8	+8.2

	International – EMEA			International – Americas			International – APAC		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Jan–Mar	+5.8	+10.7	+11.1	+0.6	(2.0)	+10.4	+4.5	+5.2	+22.5
Apr–Jun	(0.3)	+5.0	+16.1	(4.1)	+2.4	+7.9	(3.8)	+16.8	+5.4
Jul–Sep	+5.9	+5.0	+11.0	(2.0)	+5.4	+0.1	(5.5)	+5.3	+9.3
Oct–Dec	-	+7.5	+11.0	-	+4.4	+2.1	-	+5.6	+11.0

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)

	2017 Jan–Sep	2016 Jan–Sep	YoY #	YoY %
Underlying net profit	59,740	63,958	(4,217)	(6.6)
Adjustment items	(15,227)	(13,028)	(2,198)	
Operating profit adjustments	(31,060)	(18,234)	(12,826)	
Loss on revaluation of earnout liabilities and M&A related put-option liabilities	+ 8,011	(1,900)	+ 9,911	
Related income tax expense	+ 7,223	+ 6,453	+ 770	
Adjustments attributable to non-controlling interests	+ 597	+ 652	(54)	
Net profit	44,513	50,929	(6,416)	(12.6)

Note: Operating profit adjustments…Please refer to “Reconciliation from Underlying OP to Statutory OP” on page 8
Underlying net profit and net profit… Excluding attribution to non-controlling interests

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Financial Position

(JPY mn)

	2017 End of Sep	2016 End of Dec	Var. #	Var. %
Current assets	1,518,413	1,618,111	(99,697)	(6.2)
Non-current assets	1,675,303	1,537,118	+ 138,184	+9.0
Goodwill	785,407	718,717	+ 66,690	+9.3
Intangible assets	277,169	274,074	+ 3,094	+1.1
Total assets	3,193,717	3,155,230	+ 38,486	+1.2
Current liabilities	1,445,418	1,599,235	(153,816)	(9.6)
Non-current liabilities	697,042	574,033	+ 123,008	+21.4
Total liabilities	2,142,461	2,173,269	(30,808)	(1.4)
Owners' interests	999,408	932,742	+ 66,666	+7.1
Non-controlling interests	51,847	49,218	+ 2,628	+5.3
Total equity	1,051,256	981,961	+ 69,295	+7.1
Total liabilities and equity	3,193,717	3,155,230	+ 38,486	+1.2
JPY/USD	112.7 yen	116.5 yen	-	(3.2)
JPY/GBP	151.4 yen	143.0 yen	-	+5.9

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Results of Parent Company (J-GAAP)

(JPY mn)

	2017 Jan–Sep	YoY %	2017 Jul–Sep	YoY %	2017 Apr–Jun	YoY %	2017 Jan–Mar	YoY %
Net sales	1,157,274	(2.4)	353,103	(6.3)	344,302	(7.7)	459,867	+5.5
Gross profit	168,897	(4.4)	53,964	(3.9)	45,956	(14.1)	68,976	+3.1
gross profit margin	*14.6%*	*(0.3)*	*15.3%*	*+0.4*	*13.3%*	*(1.0)*	*15.0%*	*(0.3)*
SG&A	128,331	+1.8	44,505	+7.9	39,981	(3.2)	43,844	+0.8
Operating income	40,566	(19.8)	9,459	(36.6)	5,975	(51.1)	25,131	+7.2
vs. gross profit	*24.0%*	*(4.6)*	*17.5%*	*(9.1)*	*13.0%*	*(9.8)*	*36.4%*	*+1.4*
Ordinary income	61,719	(22.9)	11,650	(35.1)	13,669	(16.8)	36,399	(20.3)
Income before income taxes	61,886	(41.2)	11,659	(71.6)	13,670	(24.8)	36,555	(20.7)
Net income	47,421	(40.8)	8,107	(71.4)	11,205	(18.5)	28,108	(26.0)

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

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

(JPY mn)

	2017 Jan–Sep	YoY %	2017 Jul–Sep	YoY %	2017 Apr–Jun	YoY %	2017 Jan–Mar	YoY %
Newspapers	58,825	(11.6)	15,422	(19.4)	16,051	(17.4)	27,351	(2.4)
Magazines	17,052	(14.5)	5,586	(17.2)	5,391	(10.4)	6,075	(15.4)
Radio	10,063	(2.4)	3,362	(2.8)	3,221	(5.5)	3,479	+0.9
Television	486,155	(4.2)	157,651	(6.1)	159,836	(7.1)	168,668	+0.7
Time	209,241	(5.3)	71,284	(10.6)	66,349	(3.6)	71,607	(1.2)
Spot	276,914	(3.3)	86,366	(2.0)	93,486	(9.5)	97,061	+2.1
Interactive Media	74,475	+9.3	23,899	+4.3	23,107	+3.8	27,468	+19.6
OOH Media	41,319	(3.6)	12,493	(2.7)	12,531	(13.9)	16,294	+5.3
Creative	143,279	(1.8)	47,293	+4.7	41,069	(8.1)	54,916	(1.9)
Marketing/Promotion	155,555	(1.3)	48,207	(12.1)	49,412	(1.4)	57,935	+10.1
Content Services	139,803	+3.3	29,097	(12.9)	23,610	(20.0)	87,096	+20.2
Others	30,742	(3.0)	10,089	(4.5)	10,071	(7.1)	10,581	+2.8
Total	1,157,274	(2.4)	353,103	(6.3)	344,302	(7.7)	459,867	+5.5

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)

	2017 Jan–Sep	YoY %	2017 Jul–Sep	YoY %	2017 Apr–Jun	YoY %	2017 Jan–Mar	YoY %
Information/Communications	166,800	+2.4	53,998	(4.8)	40,868	(7.4)	71,933	+15.9
Beverages/Cigarettes	116,438	+0.3	39,033	+10.8	42,385	(4.4)	35,019	(4.1)
Finance/Insurance	106,891	(3.7)	28,146	(7.7)	29,069	(8.0)	49,675	+1.7
Cosmetics/Toiletries	105,213	(0.3)	35,051	(1.9)	38,563	(0.9)	31,598	+2.4
Foodstuffs	91,271	+3.6	26,699	(3.3)	27,713	(2.2)	36,857	+14.5
Automobiles/Related Products	71,132	+4.3	24,491	(4.3)	20,976	+8.3	25,664	+10.4
Distribution/Retailing	60,252	(11.4)	18,604	(10.9)	20,809	(13.0)	20,838	(10.2)
Food Services/Other Services	57,654	(13.6)	18,182	(13.4)	16,093	(19.0)	23,378	(9.8)
Transportation/Leisure	54,131	(7.3)	14,527	(14.7)	14,932	(22.9)	24,671	+12.2
Real Estate/Housing Facilities	46,961	+13.7	12,903	(6.4)	11,456	+16.3	22,601	+28.1
Government/Organizations	45,103	(18.5)	11,171	(35.9)	12,008	(29.7)	21,924	+5.3
Hobbies/Sporting Goods	40,445	(4.4)	13,297	(14.3)	11,599	(10.3)	15,548	+12.2
Pharmaceuticals/Medical Supplies	39,046	+1.6	12,545	(2.2)	14,076	+4.4	12,425	+2.4
Home Electric Appliances/AV Equipment	30,713	(12.2)	9,331	(11.3)	9,099	(11.8)	12,282	(13.1)
Energy/Materials/Machinery	29,397	+17.0	9,029	+36.6	5,888	(7.4)	14,479	+19.1
Others	95,819	(7.4)	26,089	(13.0)	28,761	(12.9)	40,967	+1.2
Total	1,157,274	(2.4)	353,103	(6.3)	344,302	(7.7)	459,867	+5.5

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Effects of Currency Exchange Rates

	Average rate			Period end rate		
	2017 Jan–Sep	2016 Jan–Sep	Var. %	2017 End of Sep	2016 End of Sep	Var. %
JPY/USD	111.9 yen	108.7 yen	+3.0	112.7 yen	116.5 yen	(3.2)
JPY/EUR	124.6 yen	121.2 yen	+2.8	132.9 yen	122.7 yen	+8.3
JPY/CNY	16.5 yen	16.5 yen	(0.2)	17.0 yen	16.8 yen	+1.2
JPY/GBP	142.7 yen	151.8 yen	(6.0)	151.4 yen	143.0 yen	+5.9
JPY/AUD	85.7 yen	80.5 yen	+6.5	88.5 yen	84.4 yen	+4.9

Gross profit ratio by currency

(%)	JPY	USD	EUR	GBP	CNY	AUD	Others	Total
2017 Jan–Sep	42.4	20.8	8.5	6.2	4.6	3.3	14.2	100.0