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FY2018 First Quarter Results

May 15, 2018

* 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

- Revenue less cost of sales increased by 5.7% (YoY, constant currency basis)
- Organic growth: +2.1%
  (Japan +1.9% / International +2.2%)
- Underlying operating profit decreased by 13.0% (constant currency basis)
- Underlying operating margin: 14.4%, -310 bps (constant currency basis)
- Underlying basic EPS decreased by 22.9%

The name of “Gross profit” is changed to “Revenue less cost of sales” from FY2018 First Quarter.

IFRS15 “Revenue from Contracts with Customers” is applied from January 1st, 2018.
To enable year-on-year performance comparison, in this file, IFRS15 is applied to the past years, and presented as pro forma information. Please see “Detail of Pro Forma information by IFRS 15” on page 15.

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Summary

Revenue less cost of sales increase driven by organic growth and international M&A.
Underlying operating profit decrease due to investment in the Group's improvement of corporate infrastructure and working environment reforms in Japan to support future growth.

(JPY mn)

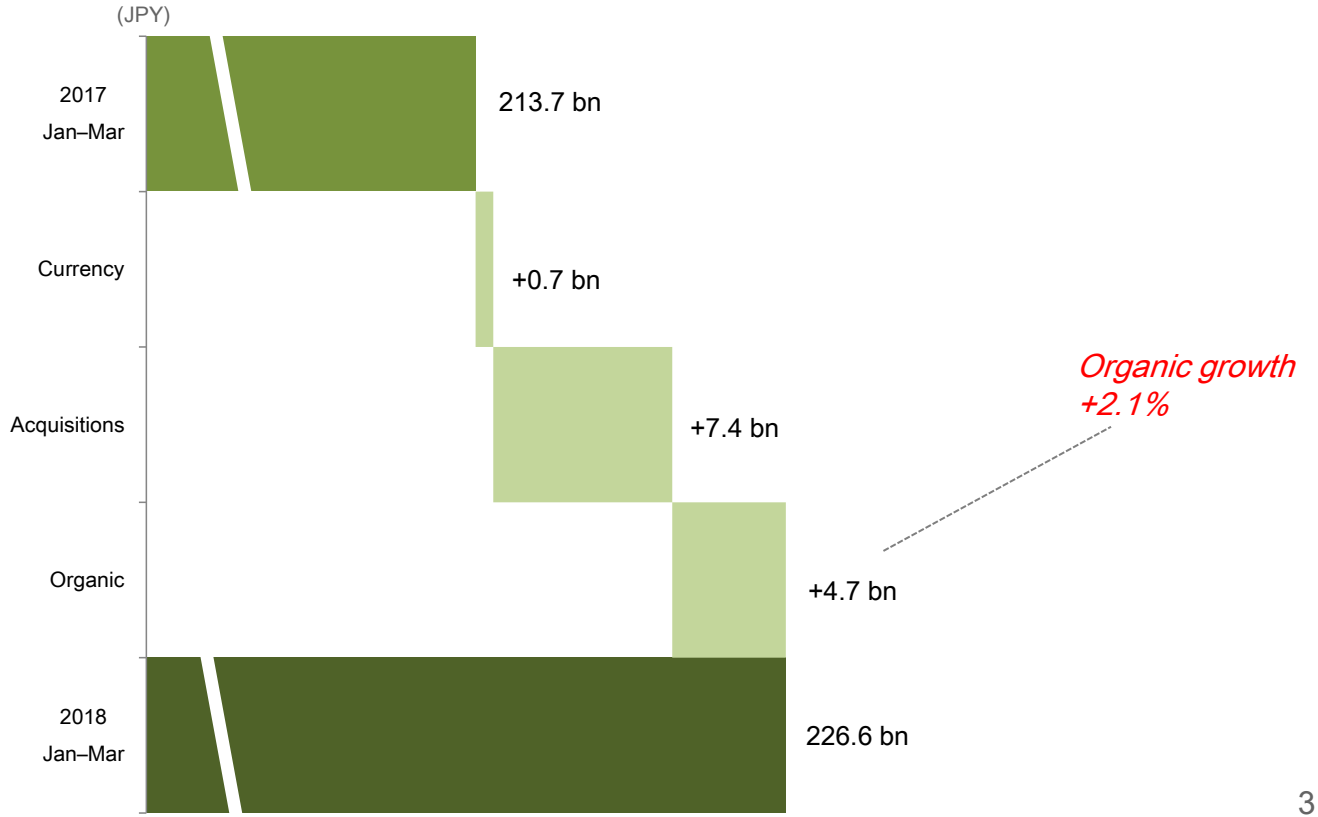
	2018 Jan–Mar	2017 Jan–Mar	YoY %	Constant currency basis %
Turnover	1,250,838	1,219,226	+2.6	-
Revenue	242,107	229,071	+5.7	-
Revenue less cost of sales	226,665	213,729	+6.1	+5.7
Digital domain ratio	43.7%	40.0%	+3.7	+3.9
International business ratio	54.9%	53.0%	+1.9	+1.7
Underlying operating profit	32,744	37,749	(13.3)	(13.0)
Operating margin	14.4%	17.7%	(3.3)	(3.1)
Underlying net profit	17,972	23,556	(23.7)	-
Underlying basic EPS	63.76 yen	82.73 yen	(22.9)	-
Operating profit	22,393	28,587	(21.7)	-
Net profit	10,788	15,616	(30.9)	-
EBITDA	37,022	42,604	(13.1)	-
Currency				
JPY/USD	108.3 yen	113.6 yen	(4.7)	-
JPY/GBP	150.9 yen	140.8 yen	+7.2	-

Note: Net profit, underlying net profit and underlying basic EPS… Excluding attribution to non-controlling interests
The scope of digital domain ratio is changed from 2018. Please see "Japan Business Digital Domain" on page 25 for details.

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Growth of Revenue less cost of sales

Revenue less cost of sales increase driven by M&A and organic growth from both Japan and the International business, Dentsu Aegis Network



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Regional Information – Japan

Organic Growth is +1.9%

Underlying operating profit decrease due to investment in working environment reforms and the improvement of corporate infrastructure to support future growth.

(JPY mn)

	2018 Jan–Mar	2017 Jan–Mar	YoY %	Constant currency basis %	Organic growth %
Revenue less cost of sales	102,340	100,434	+1.9	+1.9	+1.9
Digital domain ratio	23.0%	21.0%	+2.0	+2.0	
Underlying operating profit	30,439	33,057	(7.9)	(7.9)	
Operating margin	29.7%	32.9%	(3.2)	(3.2)	

Note: The scope of digital domain ratio is changed from 2018. Please see “Japan Business Digital Domain” on page 25 for details.

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Regional Information – International

Organic Growth is +2.2%, the third sequential quarter of growth

Underlying operating profit decrease due to planned investments in global platforms and systems

(JPY mn)

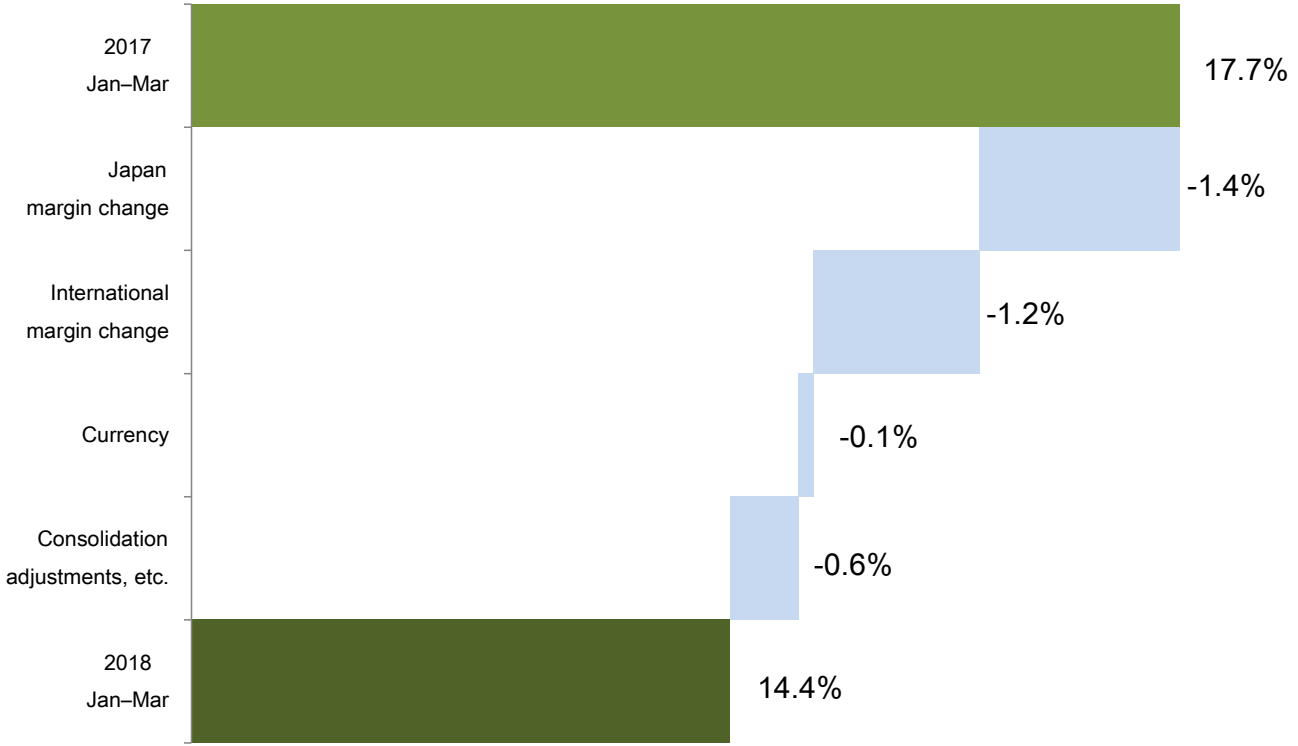
	2018 Jan–Mar	2017 Jan–Mar	YoY %	Constant currency basis %	Organic growth %
EMEA	46,306	37,341	+24.0	+15.4	+2.7
Americas	51,995	50,646	+2.7	+7.5	+4.6
APAC	26,088	25,330	+3.0	+1.9	(2.9)
Revenue less cost of sales total	124,385	113,329	+9.8	+9.0	+2.2
Digital domain ratio	60.8%	56.9%	+3.9	+4.4	
Underlying operating profit	2,309	4,698	(50.8)	(49.7)	
Operating margin	1.9%	4.1%	(2.2)	(2.1)	

Note: The EMEA related amount of Merkle, one of our subsidiaries, was included in Americas in 2017 Jan-Mar. In 2018 Jan-Mar, the related amount is included in EMEA as the split became possible.
The related amount is included in EMEA of 2017 Jan –Mar for the organic growth calculation.

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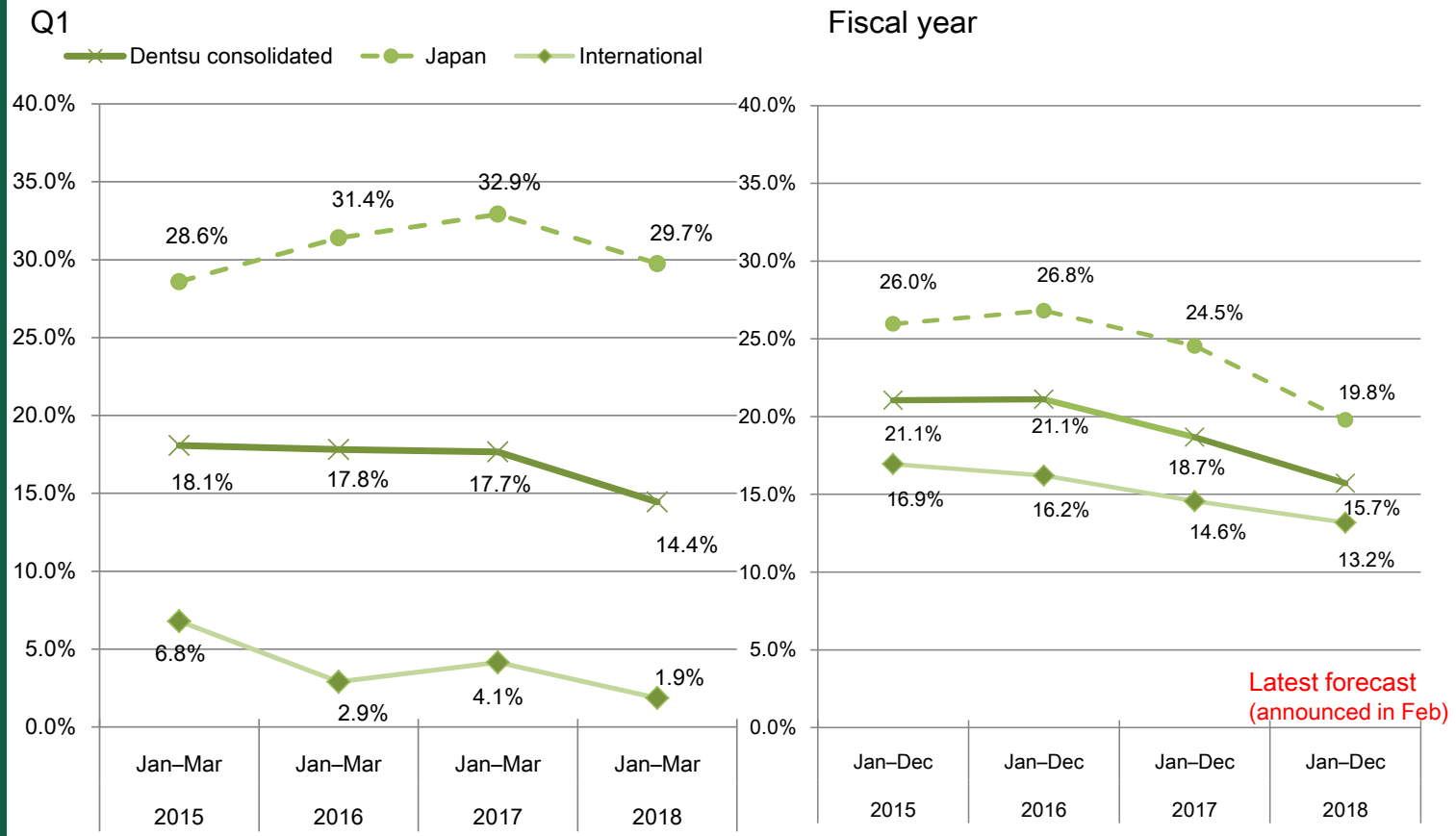
Change in Underlying Operating Margin

Underlying operating margin decreased due to investment in Group's improvement of corporate infrastructure and working environment reforms in Japan to support future growth



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Operating Margin



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Reconciliation from Underlying OP to Statutory OP

(JPY mn)

	2018 Jan–Mar	2017 Jan–Mar	YoY #	YoY %
Underlying operating profit	32,744	37,749	(5,004)	(13.3)
Adjustment items	(10,350)	(9,161)	(1,189)	
Amortization of M&A related intangible assets	(8,792)	(7,833)	(958)	
Acquisition costs	(320)	(215)	(104)	
Share-based compensation expenses related to acquired companies	(1,099)	(366)	(733)	
One-off items	(140)	(747)	+ 605	
Impairment loss	-	(616)	+ 616	
Special retirement expenses	(17)	(113)	+ 95	
Others	(123)	(18)	(106)	
Operating profit	22,393	28,587	(6,193)	(21.7)

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Statutory Operating Profit to Net Profit

(JPY mn)

	2018 Jan–Mar	2017 Jan–Mar	YoY #	YoY %
Operating profit	22,393	28,587	(6,193)	(21.7)
Share of results of associates	916	801	+ 115	+14.4
Profit before interest and tax	23,310	29,388	(6,078)	(20.7)
Net finance income (costs)	(4,286)	(4,357)	+ 70	-
Finance income	1,502	1,280	+ 221	+17.3
Finance costs	5,789	5,638	+ 151	+2.7
Profit before tax	19,023	25,031	(6,007)	(24.0)
Income tax expense	6,781	8,536	(1,754)	(20.6)
Net profit	12,241	16,494	(4,252)	(25.8)
Attributable to owners of the parent	10,788	15,616	(4,828)	(30.9)
Attributable to non-controlling interests	1,453	877	+ 576	+65.6

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FY2018 Forecast
(FY2018 Forecast is not changed from Feb 13th)

(JPY mn)

	2018 Jan–Dec	2017 Jan–Dec	YoY %	Constant currency basis %
Revenue	1,006,900	938,017	+7.3	-
Revenue less cost of sales	954,700	877,622	+8.8	+7.2
Underlying operating profit	150,000	163,946	(8.5)	(9.5)
Operating margin	15.7%	18.7%	(3.0)	(2.9)
Underlying net profit	99,800	107,874	(7.5)	-
Underlying basic EPS	354.03 yen	381.58 yen	(7.2)	-
Operating profit	112,900	137,392	(17.8)	-
Net profit	61,600	105,478	(41.6)	-
Currency	Av. Jan 2018	Av. Jan–Dec in 2017		
JPY/USD	110.9 yen	112.2 yen	(1.2)	-
JPY/GBP	153.4 yen	144.5 yen	+6.2	-

Notes: As mentioned in “Highlights” on Page 1, IFRS15 is applied from 2018. To enable year-on-year performance comparison, in this file, IFRS15 is applied to the past years, and presented as pro forma information. On this page, “revenue” for 2017 Jan- Dec is changed accordingly. The impact on “revenue” for 2018 Jan to Dec is immaterial, and FY2018 forecast disclosed on Feb 13th 2018 is not changed.

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

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FY2018 Forecast
(FY2018 Forecast is not changed from Feb 13th)

(JPY mn)

		2018 Jan–Dec	2017 Jan–Dec	YoY %	Constant currency basis %
Japan	Revenue less cost of sales	366,600	361,902	+1.3	+1.3
	Underlying operating profit	72,500	88,801	(18.4)	(18.4)
	Operating margin	19.8%	24.5%	(4.7)	(4.7)
International total	Revenue less cost of sales	588,100	516,052	+14.0	+11.2
	Underlying operating profit	77,500	75,146	+3.1	+0.9
	Operating margin	13.2%	14.6%	(1.4)	(1.3)

Currency	Av. Jan 2018	Av. Jan–Dec in 2017		
JPY/USD	110.9 yen	112.2 yen	(1.2)	-
JPY/GBP	153.4 yen	144.5 yen	+6.2	-

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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.

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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, 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 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 (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 revenue less cost of sales at reported currency to prior period revenue less cost of sales 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 revenue less cost of sales to prior period revenue less cost of sales, adjusted for the pre-acquisition or pre-disposal revenue less cost of sales as applicable, and stated at constant exchange rate, in order to derive like-for-like growth

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Detail of Pro Forma information by IFRS 15

The changes implemented in line with the application of IFRS 15 are as follows.

1. For certain revenue, revenue is presented on gross basis.

(JPY mn)

	Pro Forma 2017 Jan–Mar	Financial reporting 2017 Jan–Mar	difference
Revenue	232,602	229,813	+ 2,789

2. The timing related to revenue recognition is changed for certain transactions.

(JPY mn)

	Pro Forma 2017 Jan–Mar	Financial reporting 2017 Jan–Mar	difference
Turnover	1,219,226	1,260,292	(41,066)
Revenue	226,281	229,813	(3,532)
Revenue less cost of sales	213,729	217,261	(3,532)
Underlying operating profit	37,749	41,281	(3,532)
Operating margin	17.7%	19.0%	(1.3)%

The difference occurs only from Q1 to Q3, and there is no difference in full year basis as follows.

Transition of difference (pro forma – financial reporting)

(JPY mn)

	2017 Jan–Dec	2017 Jan–Sep	2017 Jan–Jun	2017 Jan–Mar
Revenue less cost of sales	-	(1,192)	(2,384)	(3,532)

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Quarterly Organic Growth

(%)

	Dentsu consolidated total			Japan			International total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Jan–Mar	+2.1	+3.7	+4.1	+1.9	+4.3	+3.6	+2.2	+3.1	+4.5
Apr–Jun	-	(4.6)	+10.0	-	(7.6)	+13.4	-	(2.7)	+7.2
Jul–Sep	-	(2.1)	+3.0	-	(4.8)	+0.9	-	(0.2)	+5.2
Oct–Dec	-	+2.8	+4.1	-	+5.5	+1.4	-	+1.2	+5.8

	International – EMEA			International – Americas			International – APAC		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Jan–Mar	+2.7	+5.8	+10.7	+4.6	+0.6	(2.0)	(2.9)	+4.5	+5.2
Apr–Jun	-	(0.3)	+5.0	-	(4.1)	+2.4	-	(3.8)	+16.8
Jul–Sep	-	+5.9	+5.0	-	(2.0)	+5.4	-	(5.5)	+5.3
Oct–Dec	-	+1.3	+7.5	-	(0.0)	+4.4	-	+2.6	+5.6

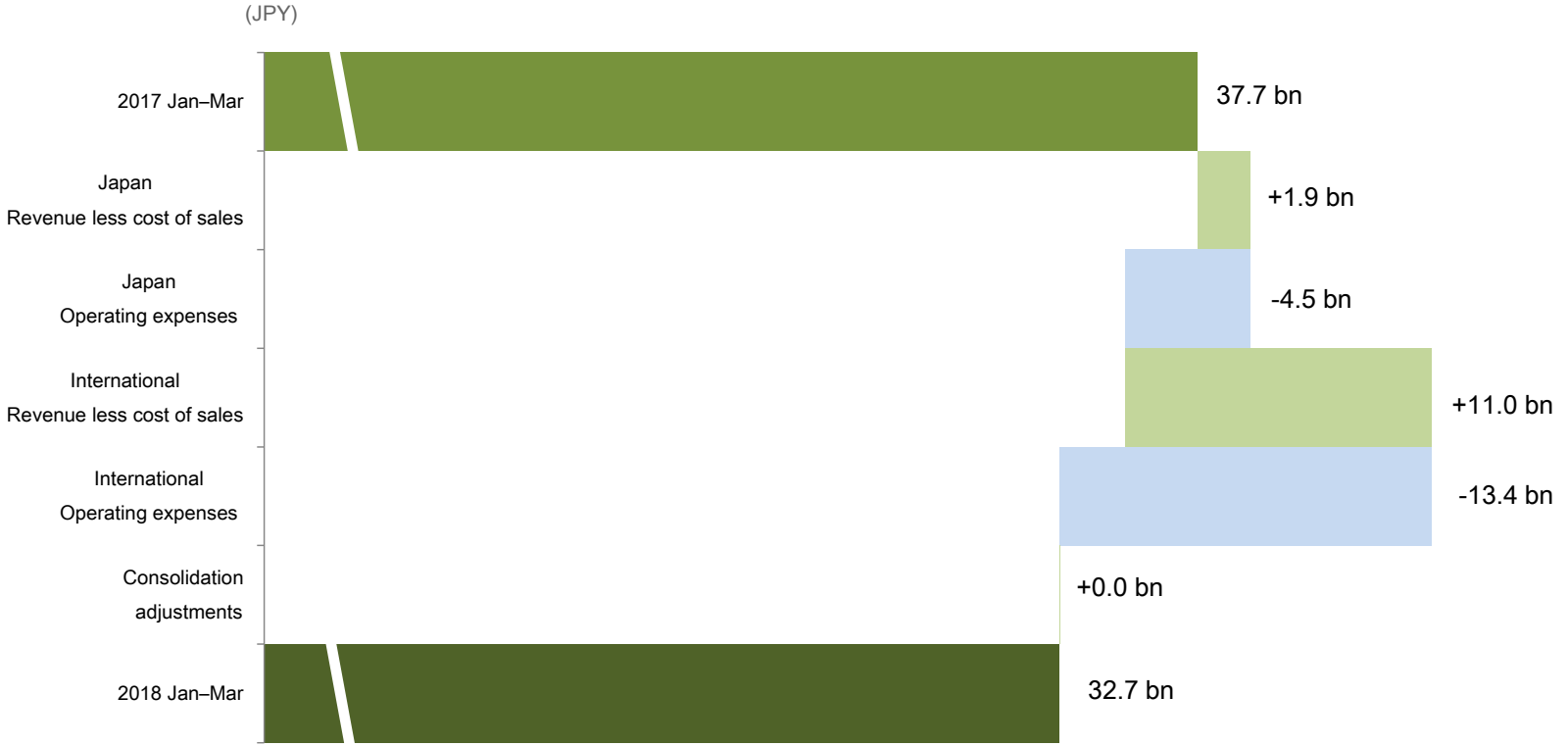
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Organic Growth of major countries

2018 Jan-Mar Organic Growth %	Country
More than 20%	Russia
10% to 20%	Brazil, Sweden
5% to 10%	Denmark, India, Switzerland
0% to 5%	Canada, Italy, Japan, Norway, Spain, Taiwan, Thailand, UK, USA
Less than 0%	Australia, China, France, Germany, Netherlands

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Analysis of Underlying Operating Profit



Notes:
Operating expenses: selling, general & administrative expenses, other income and other expenses

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Reconciliation from Underlying NP to Statutory NP

(JPY mn)

	2018 Jan–Mar	2017 Jan–Mar	YoY #	YoY %
Underlying net profit	17,972	23,556	(5,583)	(23.7)
Adjustment items	(7,184)	(7,939)	+ 754	
Operating profit adjustments	(10,350)	(9,161)	(1,189)	
Gain(Loss) on revaluation of earnout liabilities and M&A related put-option liabilities	(1,918)	(3,173)	+ 1,254	
Related income tax expense	+ 4,373	+ 4,206	+ 167	
Adjustments attributable to non-controlling interests	+ 710	+ 188	+ 521	
Net profit	10,788	15,616	(4,828)	(30.9)

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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Cash Flow

(JPY mn)

	2018 Jan–Mar	2017 Jan–Mar	YoY #	YoY %
Profit before tax	19,023	25,031	(6,007)	(24.0)
Share of results of associates	(916)	(801)	(115)	
Depreciation and amortization	14,629	13,399	+ 1,229	
Impairment loss	-	616	(616)	
Others	(2,269)	(216)	(2,053)	
Income taxes paid	(16,347)	(30,743)	+ 14,396	
Cash flow from operations before change in WC i	14,118	7,287	+ 6,831	+93.7

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Use of Cash

(JPY mn)

	2018 Jan–Mar	2017 Jan–Mar	YoY #	YoY %
Change in WC ii	(66,724)	(58,378)	(8,346)	
Payments for PPE, intangible assets and investment property (net)	(5,887)	(5,022)	(865)	
Payments for investing activities (net)	(11,034)	(14,935)	+ 3,901	
Dividends paid to shareholders	(12,685)	(12,831)	+ 145	
Dividends paid to non-controlling shareholders	(961)	(648)	(312)	
Payments for share repurchase	(2)	(8,798)	+ 8,796	
Use of cash iii	(30,570)	(42,235)	+ 11,664	(27.6)
Effect of exchange rate changes and others iv	12,491	9,996	+ 2,494	
Change in net cash i+ii+iii+iv	(70,685)	(83,330)	+ 12,644	-
(Acquisition payments)				
Initial payments	(5,377)	(9,735)	+ 4,357	
Earn-out payments / Additional acquisition payments	(2,117)	(1,140)	(977)	

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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Financial Position

(JPY mn)

	2018 End of Mar	2017 End of Dec	Var. #	Var. %
Current assets	1,640,026	1,836,584	(196,558)	(10.7)
Non-current assets	1,683,089	1,726,272	(43,182)	(2.5)
Goodwill	778,297	798,177	(19,880)	(2.5)
Intangible assets	260,633	274,502	(13,868)	(5.1)
Total assets	3,323,116	3,562,857	(239,740)	(6.7)
Current liabilities	1,559,023	1,742,215	(183,192)	(10.5)
Non-current liabilities	643,626	670,507	(26,881)	(4.0)
Total liabilities	2,202,649	2,412,722	(210,073)	(8.7)
Owners' interests	1,064,746	1,093,211	(28,464)	(2.6)
Non-controlling interests	55,721	56,923	(1,202)	(2.1)
Total equity	1,120,467	1,150,134	(29,667)	(2.6)
Total liabilities and equity	3,323,116	3,562,857	(239,740)	(6.7)
JPY/USD	106.2 yen	113.0 yen	-	(6.0)
JPY/GBP	148.8 yen	152.0 yen	-	(2.0)

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Net Debt

(JPY mn)

	2018 End of Mar	2017 End of Dec	Var. #
Total debt	455,138	460,512	(5,374)
Cash and cash equivalents	229,700	305,760	(76,060)
Net debt	225,437	154,752	+ 70,685
Total debt (LTM average)	463,106	452,798	+ 10,307
Cash and cash equivalents (LTM average)	235,434	237,976	(2,542)
Net debt (LTM average)	227,671	214,821	+ 12,849
EBITDA (LTM)	188,492	194,073	(5,581)
Net debt / EBITDA (LTM)	1.20	0.80	
Net debt (LTM average) / EBITDA (LTM)	1.21	1.11	

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

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Turnover of Japan business by Business Category (IFRS basis)

(JPY mn)

	2018 Jan–Mar	YoY %
Newspapers	25,396	(16.3)
Magazines	6,303	(5.2)
Radio	4,132	(7.3)
Television	180,923	+0.9
Internet*1	49,527	-
OOH Media	15,460	(8.2)
Creative	59,228	(2.0)
Marketing/Promotion	71,575	(6.1)
Content Services (Japan GAAP)*2	89,961	+0.3
Others	36,046	+14.5
Consolidation adjustments and others*3	(43,263)	-
Internet included in mass media*4	(1,614)	-
Total	493,677	(0.7)

Reference:

Internet (previous calculation)*5	47,912	+13.8

*1 The aggregate of Internet (previous calculation) and internet turnover which is included in mass media (JPY 1,614 mn)

*2 There is a difference in revenue recognition timing between IFRS and Japan GAAP. In the left table, Japan GAAP, applied by Parent Company, is used for this section. The difference between IFRS and Japan GAAP is recorded in “Consolidation adjustments and others.”

*3 Turnover to group companies in International business, GAAP difference and others are included.

*4 Amounts included in both “Internet” and mass media.

*5 Based on the calculation used in “Interactive Media” which was previously disclosed as part of Parent Company disclosure.

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Japan Business Digital Domain (IFRS basis)

(JPY mn)

	2018 Jan–Mar	YoY %
Digital domain turnover	90,894	+12.1
Digital domain revenue less cost of sales	23,516	+11.7
Digital domain ratio in Japan business*1	23.0%	+2.0

*1 From Q1 2018, Internet revenue less cost of sales included in mass media of Parent Company and digital revenue less cost of sales in OOH Media are added to previously used digital domain revenue less cost of sales ratio.

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Results of Parent Company (J-GAAP)

(JPY mn)

	2018 Jan–Mar	2017 Jan–Mar	YoY %
Net sales (Turnover)	450,365	459,867	(2.1)
Revenue less cost of sales	70,935	68,976	+2.8
Revenue less cost of sales margin	*15.8%*	*15.0%*	-
SG&A	47,511	43,844	+8.4
Operating income	23,424	25,131	(6.8)
vs. Revenue less cost of sales	*33.0%*	*36.4%*	-
Ordinary income	36,725	36,399	+0.9
Income before income taxes	36,660	36,555	+0.3
Net income	27,385	28,108	(2.6)

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

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

(JPY mn)

	2018 Jan–Mar	YoY %
Newspapers	22,421	(18.0)
Magazines	5,886	(3.1)
Radio	3,433	(1.3)
Television	169,460	+0.5
Internet*1	32,718	-
OOH Media	14,761	(9.4)
Creative	54,152	(1.4)
Marketing/Promotion	51,704	(10.8)
Content Services	87,396	+0.3
Others	10,045	(5.1)
Internet included in mass media*2	(1,614)	-
Total	450,365	(2.1)
Reference		
Internet (previous calculation)*3	31,103	+13.2

*1 The aggregate of Internet (previous calculation) and internet turnover which is included in mass media (JPY 1,614 mn)

*2 Amounts included in both “Internet” and mass media.

*3 Based on the calculation used in “Interactive Media” which was previously disclosed.

Note:

* Please refer to the “Turnover of Japan business by Business Category(IFRS basis)” slide on page 24 for the turnover of Japan business which includes subsidiaries in Japan.

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Net Sales(Turnover) of Parent Company by Industry

(J-GAAP)

(JPY mn)

	2018 Jan–Mar	YoY %
Information/Communications	63,200	(7.7)
Finance/Insurance	48,303	(2.8)
Beverages/Cigarettes	36,792	+7.4
Automobiles/Related Products	31,958	+24.5
Foodstuffs	30,159	(17.9)
Cosmetics/Toiletries	30,149	(4.6)
Food Services/Other Services	27,316	+20.7
Real Estate/Housing Facilities	24,192	+7.0
Transportation/Leisure	23,253	(5.8)
Government/Organizations	18,795	(14.3)
Distribution/Retailing	18,541	(12.0)
Pharmaceuticals/Medical Supplies	15,325	+16.2
Hobbies/Sporting Goods	14,803	(5.3)
Energy/Materials/Machinery	12,822	(11.1)
Publications	11,765	+0.9
Others	42,983	(5.8)
Total	450,365	(2.1)

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Effects of Currency Exchange Rates

	Average rate			Period end rate		
	2018 Jan–Mar	2017 Jan–Mar	Var. %	2018 End of Mar	2017 End of Dec	Var. %
JPY/USD	108.3 yen	113.6 yen	(4.7)	106.2 yen	113.0 yen	(6.0)
JPY/EUR	133.2 yen	121.1 yen	+10.0	130.5 yen	134.9 yen	(3.3)
JPY/CNY	17.1 yen	16.6 yen	+2.9	16.9 yen	17.3 yen	(2.1)
JPY/GBP	150.9 yen	140.8 yen	+7.2	148.8 yen	152.0 yen	(2.0)
JPY/AUD	85.3 yen	86.2 yen	(1.0)	81.7 yen	88.2 yen	(7.4)

Revenue less cost of sales ratio by currency (%)

	JPY	USD	EUR	GBP	CNY	AUD	Others	Total
2018 Jan–Mar	45.1	20.4	8.4	6.3	3.3	3.0	13.4	100.0