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FY2018 Earnings Presentation

February 15,2019

DENTSU INC.

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FY2018 Annual Results

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DENTSU INC.
Director and Executive Officer

February 14, 2019

* 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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Highlight: 12 month figures

- Revenue less cost of sales increased by 6.8% (YoY, constant currency basis)
- Organic growth: +3.4%
  (Japan +2.1% / International +4.3%)
- Underlying operating profit decreased by 6.0% (constant currency basis)
- Underlying operating margin: 16.4%, -220 bps (constant currency basis)
- 2019 dividend expected to increase by 5 yen (YoY) from 2018, to 95 yen per share

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 Appendices “Detail of Pro Forma information by IFRS 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)

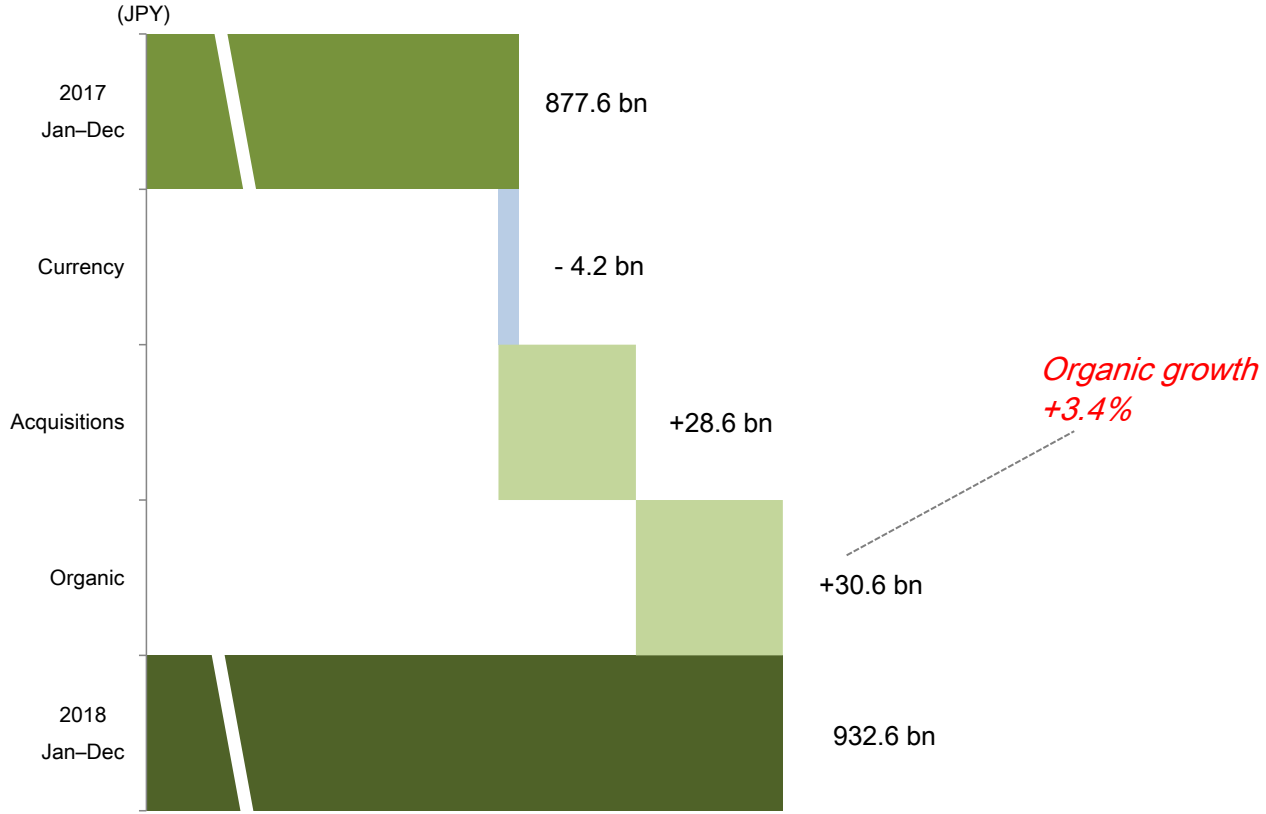
	2018 Jan–Dec	2017 Jan–Dec	YoY %	Constant currency basis %	Forecast (announced in Aug 2018)	Forecast variance %
Turnover	5,357,278	5,187,300	+3.3	-	-	-
Revenue	1,018,512	949,837	+7.2	-	1,006,900	+1.2
Revenue less cost of sales	932,680	877,622	+6.3	+6.8	954,700	(2.3)
Digital domain ratio	46.1%	43.2%	+2.9	+3.0	-	-
International business ratio	60.4%	58.8%	+1.6	+1.8	61.6%	(1.2)
Underlying operating profit	153,229	163,946	(6.5)	(6.0)	150,000	+2.2
Operating margin	16.4%	18.7%	(2.3)	(2.2)	15.7%	+0.7
Underlying net profit	97,419	107,874	(9.7)	-	99,800	(2.4)
Underlying basic EPS	345.59 yen	381.58 yen	(9.4)	-	354.03 yen	(2.4)
Operating profit	111,638	137,392	(18.7)	-	112,900	(1.1)
Net profit	90,316	105,478	(14.4)	-	79,500	+13.6
EBITDA	171,406	194,073	(11.7)	-		
Underlying ROE	9.1%	10.6%	(1.5)	-		
Currency					Av. Jan in 2018	
JPY/USD	110.4 yen	112.2 yen	(1.6)	-	110.9 yen	(0.4)
JPY/GBP	147.5 yen	144.5 yen	+2.1	-	153.4 yen	(3.9)

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 Appendices "Japan Business Digital Domain" 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

12 month organic growth is +2.1%

Cost increase due to investment in working environment reforms and the improvement of corporate infrastructure to support future growth

(JPY mn)

	2018 Jan–Dec	2017 Jan–Dec	YoY %	Constant currency basis %	Organic growth %
Revenue less cost of sales	369,258	361,902	+2.0	+2.0	+2.1
Digital domain ratio	23.9%	22.2%	+1.7	+1.7	
Underlying operating profit	80,268	88,801	(9.6)	(9.6)	
Operating margin	21.7%	24.5%	(2.8)	(2.8)	

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

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Regional Information – International

12 month organic growth is +4.3%.

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

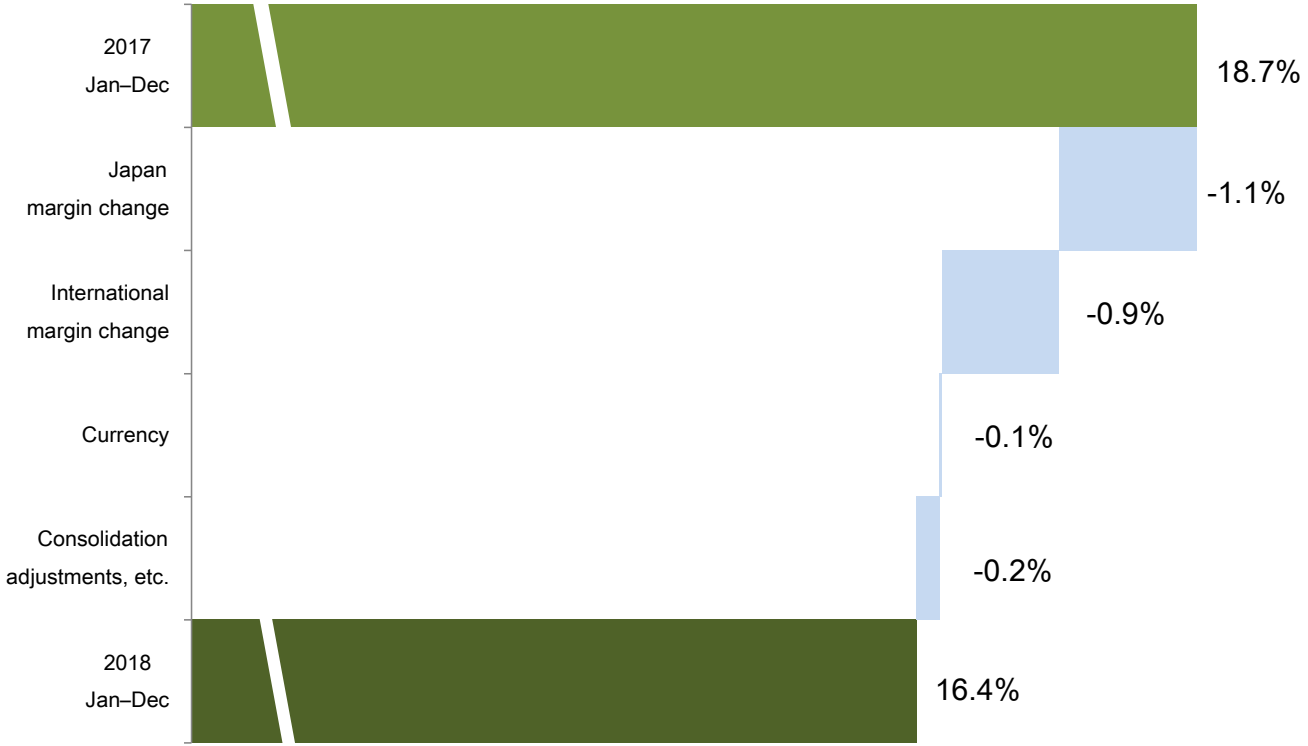
(JPY mn)

	2018 Jan–Dec	2017 Jan–Dec	YoY %	Constant currency basis %	Organic growth %
EMEA	213,029	184,946	+15.2	+13.9	+7.4
Americas	226,257	206,001	+9.8	+12.4	+4.9
APAC	124,573	125,089	(0.4)	+0.8	(1.7)
Revenue less cost of sales total	563,852	516,052	+9.3	+10.2	+4.3
Digital domain ratio	60.6%	57.9%	+2.7	+2.7	
Underlying operating profit	72,963	75,146	(2.9)	(1.6)	
Operating margin	12.9%	14.6%	(1.7)	(1.6)	

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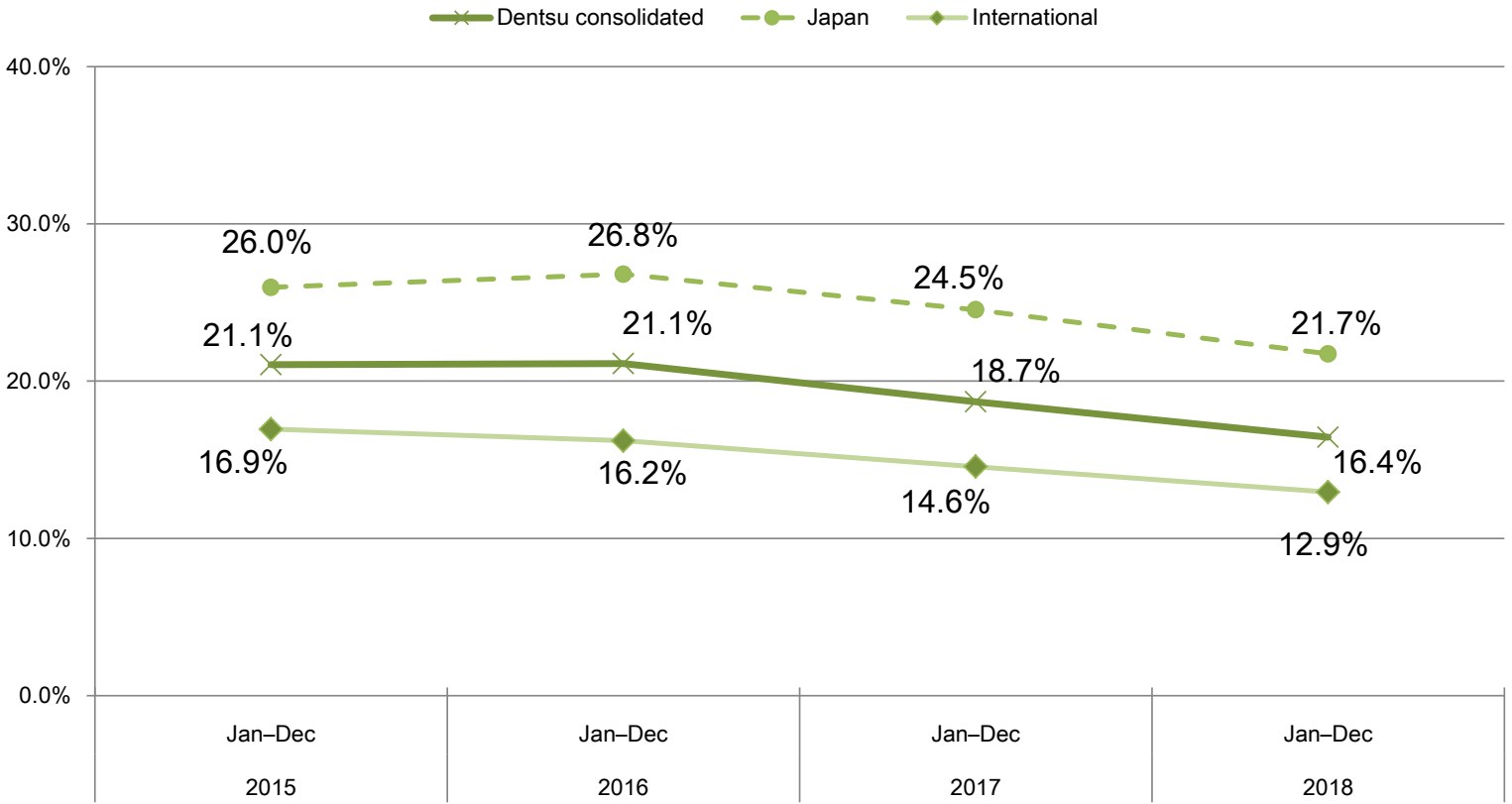
Change in Underlying Operating Margin

Underlying operating margin decrease 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–Dec	2017 Jan–Dec	YoY #	YoY %
Underlying operating profit	153,229	163,946	(10,717)	(6.5)
Adjustment items	(41,590)	(26,554)	(15,035)	
Amortization of M&A related intangible assets	(35,123)	(31,779)	(3,343)	
Acquisition costs	(1,554)	(1,795)	+ 241	
Share-based compensation expenses related to acquired companies	(4,314)	(2,046)	(2,268)	
One-off items	(599)	+ 9,066	(9,665)	
Payment related to working hours	-	(3,103)	+ 3,103	
Gain (loss) on sales and retirement of non-current assets	(252)	+ 13,168	(13,420)	
Impairment loss	(27)	(1,093)	+ 1,065	
Others	(320)	+ 94	(413)	
Operating profit	111,638	137,392	(25,753)	(18.7)

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Statutory Operating Profit to Net Profit

(JPY mn)

	2018 Jan–Dec	2017 Jan–Dec	YoY #	YoY %
Operating profit	111,638	137,392	(25,753)	(18.7)
Share of results of associates	2,699	4,222	(1,523)	(36.1)
Gain on sales of shares of associates	52,127	-	+ 52,127	-
Profit before interest and tax	166,465	141,614	+ 24,850	+17.5
Net finance income (costs)	(17,713)	8,047	(25,760)	-
Finance income	6,839	20,302	(13,462)	(66.3)
Finance costs	24,553	12,254	+ 12,298	+100.4
Profit before tax	148,751	149,662	(910)	(0.6)
Income tax expense	51,250	36,520	+ 14,729	+40.3
Net profit	97,501	113,142	(15,640)	(13.8)
Attributable to owners of the parent	90,316	105,478	(15,161)	(14.4)
Attributable to non-controlling interests	7,185	7,663	(478)	(6.2)

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FY2019 Forecast

(JPY mn)

	2019 Jan–Dec	2018 Jan–Dec	YoY %	Constant currency basis %
Revenue	1,097,900	1,018,512	+7.8	-
Revenue less cost of sales	986,400	932,680	+5.8	+7.9
Underlying operating profit	157,400	153,229	+2.7	+4.3
Operating margin	16.0%	16.4%	(0.4)	(0.5)
Underlying net profit	95,400	97,419	(2.1)	-
Underlying basic EPS	338.42 yen	345.59 yen	(2.1)	-
Operating profit	122,500	111,638	+9.7	-
Net profit	61,400	90,316	(32.0)	-
Currency	Av. Jan 2019	Av. Jan–Dec in 2018		
JPY/USD	109.0 yen	110.4 yen	(1.3)	-
JPY/GBP	140.7 yen	147.5 yen	(4.6)	-

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

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FY2019 Forecast by Region

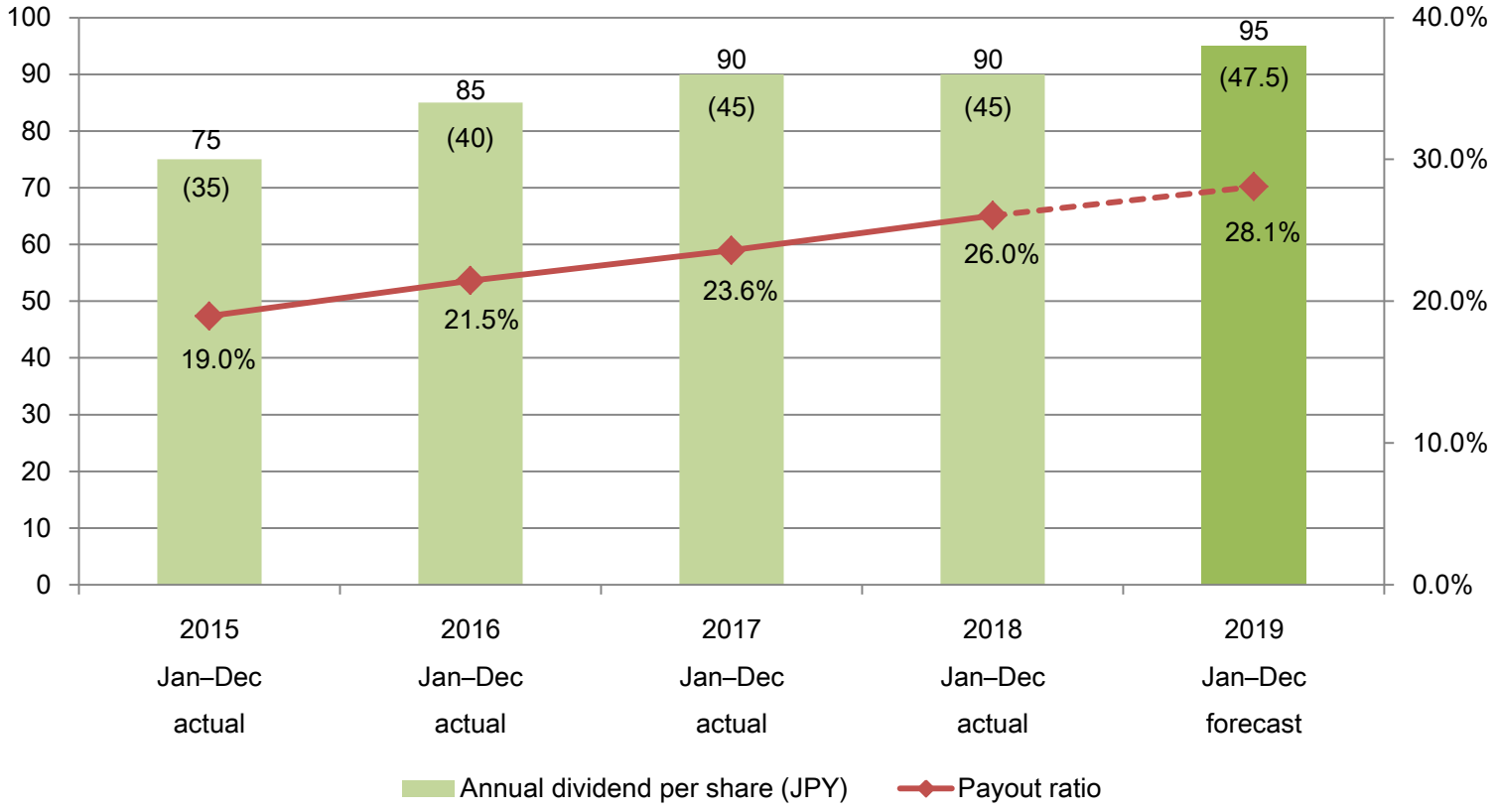
(JPY mn)

		2019 Jan–Dec	2018 Jan–Dec	YoY %	Constant currency basis %
Japan	Revenue less cost of sales	400,800	369,258	+8.5	+8.5
	Underlying operating profit	81,300	80,268	+1.3	+1.3
	Operating margin	20.3%	21.7%	(1.4)	(1.4)
International total	Revenue less cost of sales	585,600	563,852	+3.9	+7.4
	Underlying operating profit	76,100	72,963	+4.3	+7.5
	Operating margin	13.0%	12.9%	+0.1	+0.1

Currency	Av. Jan 2019	Av. Jan–Dec in 2018		
JPY/USD	109.0 yen	110.4 yen	(1.3)	-
JPY/GBP	140.7 yen	147.5 yen	(4.6)	-

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Dividend



Notes:
Payout ratio… Based on underlying net profit attributable to owners of the parent
( )… Interim dividend per share

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Capital Management Strategy

Objective: to deliver an improvement in Shareholder Value over time

Growth of the business – priority for capital deployment:

- Investing in Japan and globally, and realization of future profit growth

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Focus on shareholder return (dividends and share repurchase): steady improvement

- Combination of stable capital returns and flexible share repurchase

Achieve ROE higher than capital cost in the long term

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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

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