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FY2019 First Quarter Results

May 15, 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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Key Points

- Revenue less cost of sales increased due to the contribution of newly consolidated subsidiaries. (constant currency basis +2.3%)
  - Digital business grew steadily, digital domain ratio has reached 47%.

- Organic growth rate was negative for both Japan Business and International Business
  - Consolidated -1.6% (Japan business -2.7%/ International business -0.7%)

- There is no change to the full-year guidance announced in February 2019. Despite a slow start, we expect performance to improve through the year.
  - In Japan, we are focusing on large-scale events and on activities related to TOKYO 2020 sponsors
  - In the International business, we expect growth to accelerate in H2 2019 from strong net new wins.

- We continue to manage costs in a responsible manner

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Summary

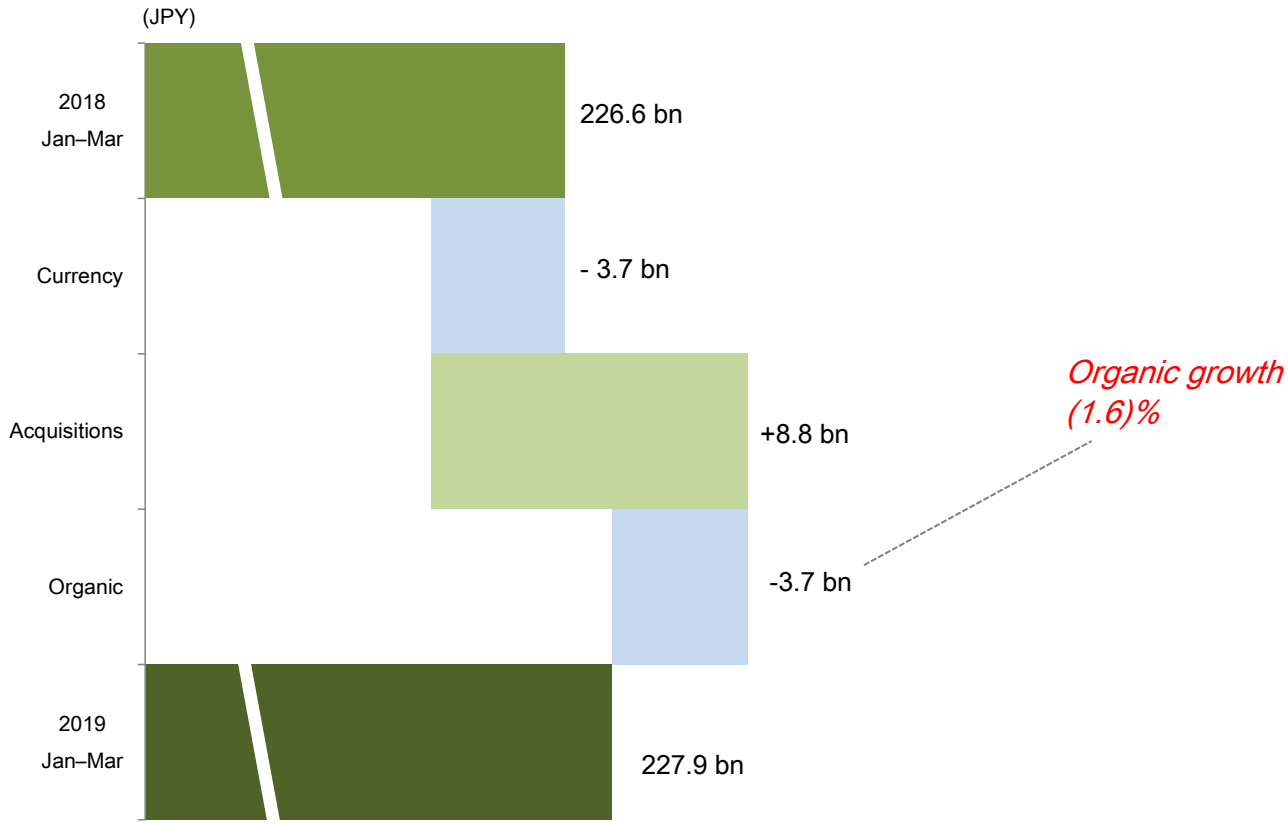
(JPY mn)

	2019 Jan–Mar	2018 Jan–Mar	YoY %	Constant currency basis %
Turnover	1,214,714	1,250,838	(2.9)	-
Revenue	250,578	242,107	+3.5	-
Revenue less cost of sales	227,974	226,665	+0.6	+2.3
Digital domain ratio	47.0%	43.7%	+3.3	+3.4
International business ratio	55.5%	54.9%	+0.6	+1.4
Underlying operating profit	24,472	32,744	(25.3)	(25.2)
Operating margin	10.7%	14.4%	(3.7)	(3.9)
Underlying net profit	12,551	17,972	(30.2)	-
Underlying basic EPS	44.53 yen	63.76 yen	(30.2)	-
Operating profit	9,294	22,393	(58.5)	-
Net profit (loss)	(2,583)	10,788	-	-
EBITDA	32,201	37,022	(13.0)	-
Currency				
JPY/USD	110.2 yen	108.3 yen	+1.8	-
JPY/GBP	143.7 yen	150.9 yen	(4.8)	-

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

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Movement of Revenue less cost of sales



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Regional Information – Japan

(JPY mn)

	2019 Jan–Mar	2018 Jan–Mar	YoY %	Constant currency basis %	Organic growth %
Revenue less cost of sales	101,561	102,340	(0.8)	(0.8)	(2.7)
Digital domain ratio	27.7%	23.0%	+4.7	+4.7	
Underlying operating profit	24,655	30,439	(19.0)	(19.0)	
Operating margin	24.3%	29.7%	(5.4)	(5.4)	

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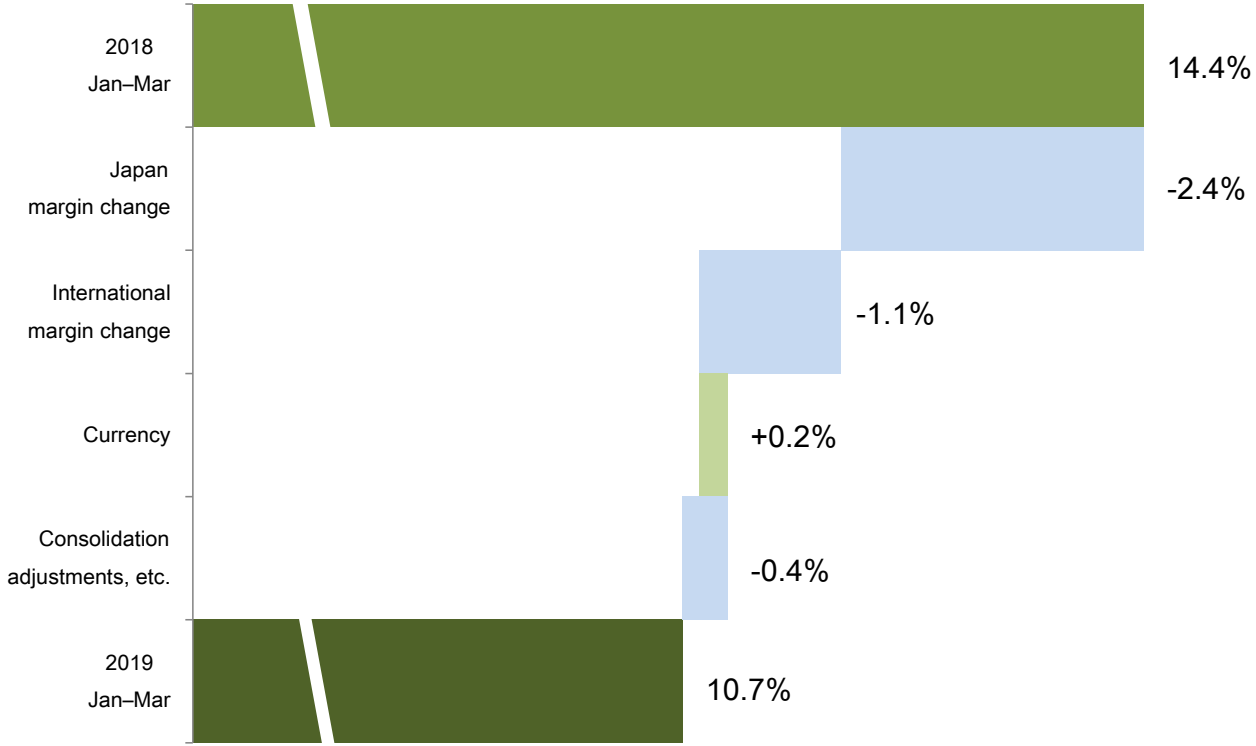
Regional Information – International

(JPY mn)

	2019 Jan–Mar	2018 Jan–Mar	YoY %	Constant currency basis %	Organic growth %
EMEA	47,214	46,306	+2.0	+8.7	(0.4)
Americas	54,728	51,995	+5.3	+4.6	+0.1
APAC	24,541	26,088	(5.9)	(1.4)	(3.0)
Revenue less cost of sales total	126,482	124,385	+1.7	+4.8	(0.7)
Digital domain ratio	62.5%	60.8%	+1.7	+1.4	
Underlying operating profit(loss)	(183)	2,309	(108.0)	(108.1)	
Operating margin	-0.1%	1.9%	(2.0)	(2.0)	

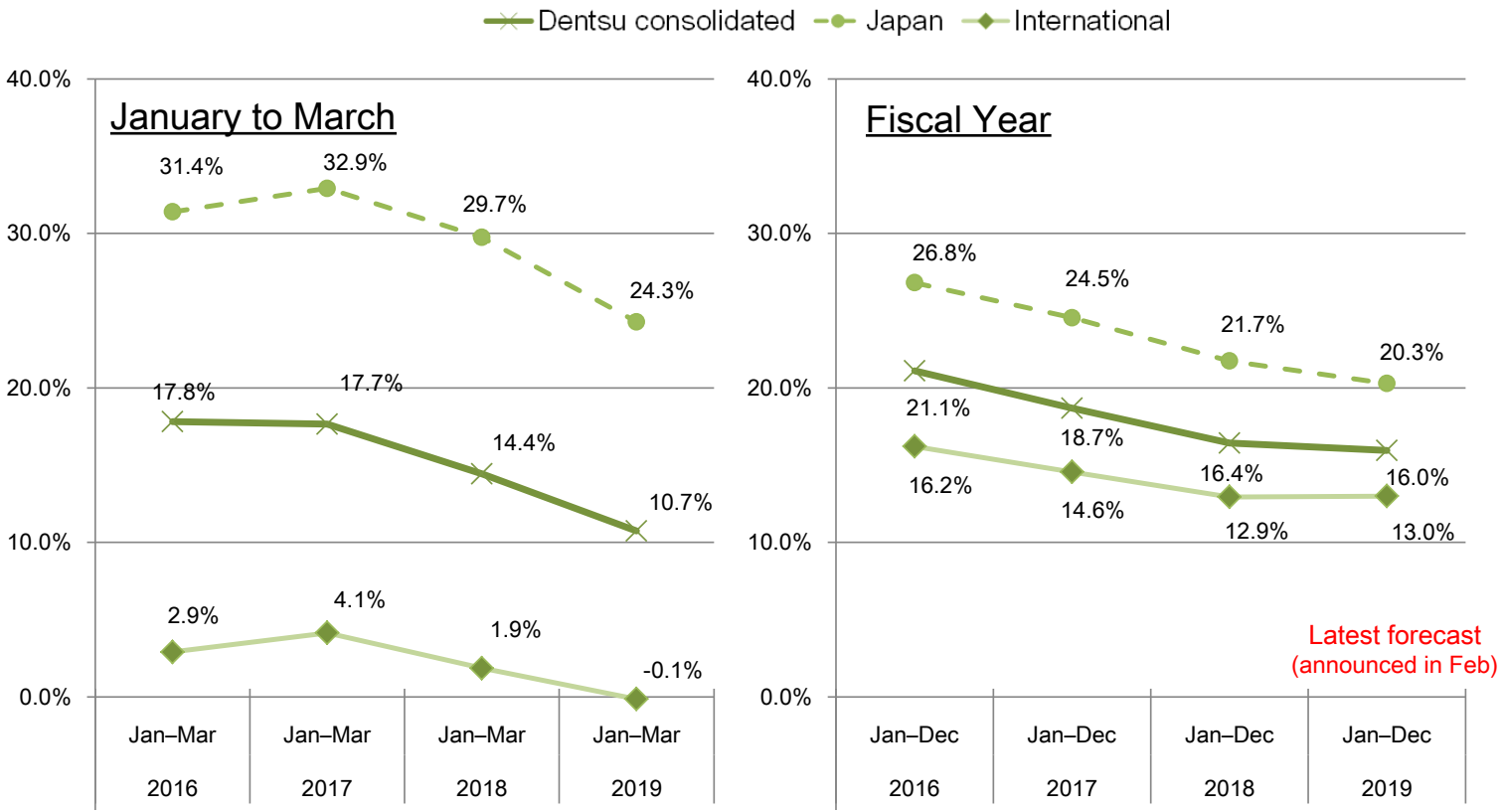
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Change in Underlying Operating Margin



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Operating Margin



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Reconciliation from Underlying OP to Statutory OP

(JPY mn)

	2019 Jan–Mar	2018 Jan–Mar	YoY #	YoY %
Underlying operating profit	24,472	32,744	(8,272)	(25.3)
Adjustment items	(15,177)	(10,350)	(4,826)	
Amortization of M&A related intangible assets	(9,004)	(8,792)	(211)	
Acquisition costs	(421)	(320)	(102)	
Share-based compensation expenses related to acquired companies	(1,985)	(1,099)	(886)	
One-off items	(3,767)	(140)	(3,627)	
Operating profit	9,294	22,393	(13,099)	(58.5)

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Statutory Operating Profit to Net Profit (Loss)

(JPY mn)

	2019 Jan–Mar	2018 Jan–Mar	YoY #	YoY %
Operating profit	9,294	22,393	(13,099)	(58.5)
Share of results of associates	160	916	(756)	(82.5)
Profit before interest and tax	9,454	23,310	(13,855)	(59.4)
Net finance income (costs)	(10,939)	(4,286)	(6,652)	-
Finance income	1,302	1,502	(200)	(13.3)
Finance costs	12,241	5,789	+ 6,452	+111.4
Profit(loss) before tax	(1,484)	19,023	(20,508)	-
Income tax expense	(553)	6,781	(7,335)	-
Net profit(loss)	(930)	12,241	(13,172)	-
Attributable to owners of the parent	(2,583)	10,788	(13,371)	-
Attributable to non-controlling interests	1,652	1,453	+ 198	+13.6

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FY2019 Forecast
(FY2019 Forecast is not changed from Feb 14th)

(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
(FY2019 Forecast is not changed from Feb 14th)

(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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Disclaimer

Forward-Looking Statements

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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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IFRS15 “Revenue from Contracts with Customers”:
IFRS15 “Revenue from Contracts with Customers” is applied from January 1st, 2018.
In this presentation file, IFRS15 is also applied to 2016 and 2017 and presented as pro forma information.

IFRS 16 “Leases”:
IFRS 16 “Leases” is applied from January 1st, 2019. The cumulative effect of initially applying IFRS 16 is recognized at the date of initial application (modified retrospective approach). Past results are not restated under IFRS 16.

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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 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, gain/loss on sales of shares of associates, 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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Quarterly Organic Growth

(%)

	Dentsu consolidated total			Japan			International total		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Jan–Mar	(1.6)	+2.1	+3.7	(2.7)	+1.9	+4.3	(0.7)	+2.2	+3.1
Apr–Jun	-	+5.9	(4.6)	-	+8.4	(7.6)	-	+4.5	(2.7)
Jul–Sep	-	+5.4	(2.1)	-	+2.7	(4.8)	-	+7.0	(0.2)
Oct–Dec	-	+0.9	+2.8	-	(3.0)	+5.5	-	+3.4	+1.2

	International – EMEA			International – Americas			International – APAC		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Jan–Mar	(0.4)	+2.7	+5.8	+0.1	+4.6	+0.6	(3.0)	(2.9)	+4.5
Apr–Jun	-	+4.8	(0.3)	-	+6.5	(4.1)	-	+0.8	(3.8)
Jul–Sep	-	+8.2	+5.9	-	+5.3	(2.0)	-	+8.2	(5.5)
Oct–Dec	-	+12.0	+1.3	-	+3.5	(0.0)	-	(9.6)	+2.6

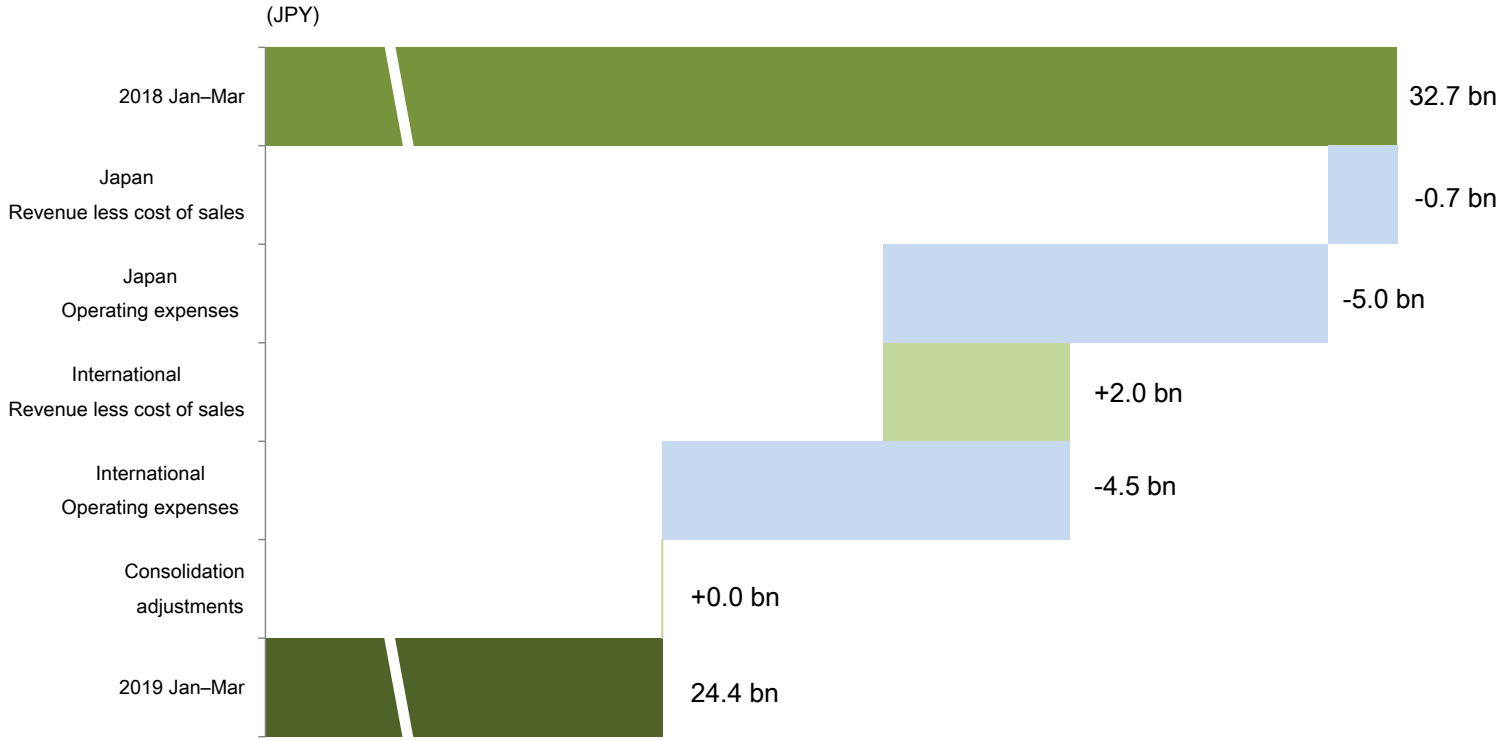
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Organic Growth of major countries

2019 Jan-Mar Organic Growth %	Country
“10% or more” to “less than 20%”	Germany, Italy, Spain,
“5% or more” to “less than 10%”	Netherlands, Russia, Switzerland
“0% or more” to “less than 5%”	Canada, China, Denmark, India, Thailand, USA
“Less than 0%”	Australia, Brazil, France, Japan, Norway, Poland, Sweden, Taiwan, UK

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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)

	2019 Jan–Mar	2018 Jan–Mar	YoY #	YoY %
Underlying net profit	12,551	17,972	(5,421)	(30.2)
Adjustment items	(15,135)	(7,184)	(7,950)	
Operating profit adjustments	(15,177)	(10,350)	(4,826)	
Gain(Loss) on revaluation of earnout liabilities and M&A related put-option liabilities	(7,216)	(1,918)	(5,297)	
Related income tax expense	+ 6,292	+ 4,373	+ 1,918	
Adjustments attributable to non-controlling interests	+ 967	+ 710	+ 256	
Net profit (loss)	(2,583)	10,788	(13,371)	-

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

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Cash Flow

(JPY mn)

	2019 Jan–Mar	2018 Jan–Mar	YoY #
Profit(Loss) before tax	(1,484)	19,023	(20,508)
Share of results of associates	(160)	(916)	756
Depreciation and amortization	22,907	14,629	8,278
Others	9,908	(2,269)	12,178
Income taxes paid	(36,498)	(16,347)	(20,151)
Cash flow from operations before change in WC	(5,327)	14,118	(19,446)
Change in WC	(132,999)	(66,724)	(66,275)
Net cash flow from operating activities i	(138,327)	(52,605)	(85,721)

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Cash Flow

(JPY mn)

	2019 Jan–Mar	2018 Jan–Mar	YoY #
Net cash flow from operating activities i	(138,327)	(52,605)	(85,721)
Payments/proceeds for PPE, intangible assets and investment property (net)	(5,986)	(5,887)	(98)
Net cash (paid) received on acquisition and disposal of subsidiaries and securities (A)	(11,002)	(10,804)	(198)
Others (B)	(1,499)	994	(2,493)
Net cash flow from investing activities ii	(18,489)	(15,698)	(2,790)
Net increase (decrease) in borrowings	53,291	13,315	39,975
Payment/proceeds for acquisition/sales of interest in a subsidiary from/to non-controlling interests (Net) (C)	(806)	(125)	(681)
Dividends	(13,536)	(13,646)	110
Others	(7,620)	(1,100)	(6,520)
Net cash flow from financing activities iii	31,328	(1,556)	32,884
Effect of exchange rate changes iv	5,026	(6,199)	11,226
Net increase (decrease) in cash and cash equivalents i+ii+iii+iv	(120,461)	(76,060)	(44,401)
Payments for investing activities (net) (A)+(B)+(C)	(13,308)	(9,935)	(3,373)
Acquisition payments (net), included in above	(6,130)	(7,495)	1,365

Acquisition payments (net): Net cash (paid) received on acquisition and disposal of subsidiaries + Payment for acquisition of interest in subsidiary from non-controlling interests

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Financial Position

(JPY mn)

	2019 End of Mar	2018 End of Dec	Var. #	Var. %
Current assets	1,795,949	1,935,586	(139,637)	(7.2)
Non-current assets	1,915,866	1,702,902	+ 212,964	+12.5
Goodwill	816,448	786,851	+ 29,596	+3.8
Intangible assets	256,127	249,921	+ 6,205	+2.5
Total assets	3,711,815	3,638,488	+ 73,327	+2.0
Current liabilities	1,678,567	1,785,608	(107,040)	(6.0)
Non-current liabilities	898,428	742,130	+ 156,297	+21.1
Total liabilities	2,576,995	2,527,738	+ 49,256	+1.9
Owners' interests	1,060,911	1,047,619	+ 13,291	+1.3
Non-controlling interests	73,908	63,129	+ 10,778	+17.1
Total equity	1,134,819	1,110,749	+ 24,070	+2.2
Total liabilities and equity	3,711,815	3,638,488	+ 73,327	+2.0
JPY/USD	111.0 yen	111.0 yen	-	(0.0)
JPY/GBP	145.0 yen	140.5 yen	-	+3.2

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Net Debt

(JPY mn)

	2019 End of Mar	2018 End of Dec	Var. #
Total debt	605,327	538,859	+ 66,468
Cash and cash equivalents	296,206	416,668	(120,461)
Net debt	309,121	122,191	+ 186,929
Total debt (LTM average)	501,423	472,460	+ 28,963
Cash and cash equivalents (LTM average)	280,737	282,648	(1,910)
Net debt (LTM average)	220,685	189,812	+ 30,873
EBITDA (LTM)	166,584	171,406	(4,822)
Net debt / EBITDA (LTM)	1.86	0.71	
Net debt (LTM average) / EBITDA (LTM)	1.32	1.11	

*The above Total debt is sum of loans and bonds.
Lease obligation (JPY141,142mn as of March 31, 2019) is not included.

Notes: LTM average… Average of latest twelve months
LTM… Latest twelve months

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Turnover of Japan business by Business Category(IFRS basis)

(JPY mn)

	2019 Jan–Mar	YoY %
Newspapers	23,361	(8.0)
Magazines	4,954	(21.4)
Radio	3,849	(6.8)
Television	174,979	(3.3)
Internet*1	67,718	+36.7
OOH Media	14,025	(9.3)
Creative	56,394	(4.8)
Marketing/Promotion	61,944	(13.5)
Content Services (Japan GAAP)*2	95,318	+6.0
Others	37,784	+4.8
Consolidation adjustments and others*3	(44,850)	-
Internet included in mass media*4	(2,044)	-
Total	493,435	(0.0)

*1 The aggregate of Internet (previous calculation) and internet turnover which is included in mass media (2019 Jan to Mar: JPY 2,044 mn)

*1 Excluding the increase from the consolidation of VOYAGE GROUP, Inc., Internet YoY% increase would be +20.6%.

*2 There is a difference in revenue recognition timing between IFRS and Japan GAAP. In the 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.

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Japan Business Digital Domain (IFRS basis)

(JPY mn)

	2019 Jan–Mar	YoY %
Digital domain turnover	106,967	+17.7
Digital domain revenue less cost of sales	28,147	+19.7
Digital domain ratio in Japan business*1	27.7%	+4.7

*1 Digital domain: Internet and data related marketing service and, development and sales of IT system

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Results of Parent Company (J-GAAP)

(JPY mn)

	2019 Jan–Mar	2018 Jan–Mar	YoY %
Net sales (Turnover)	438,789	450,365	(2.6)
Revenue less cost of sales	65,432	70,935	(7.8)
Revenue less cost of sales margin	*14.9%*	*15.8%*	*(0.9)*
SG&A	47,136	47,511	(0.8)
Operating income	18,295	23,424	(21.9)
vs. Revenue less cost of sales	*28.0%*	*33.0%*	*(5.0)*
Ordinary income	31,146	36,725	(15.2)
Income before income taxes	31,034	36,660	(15.3)
Net income	23,524	27,385	(14.1)

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

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

(JPY mn)

	2019 Jan–Mar	YoY %
Newspapers	20,483	(8.6)
Magazines	4,608	(21.7)
Radio	3,202	(6.7)
Television	163,581	(3.5)
Internet*1	38,068	+16.4
OOH Media	12,812	(13.2)
Creative	50,561	(6.6)
Marketing/Promotion	44,246	(14.4)
Content Services	93,400	+6.9
Others	9,869	(1.7)
Internet included in mass media*2	(2,044)	-
Total	438,789	(2.6)

*1 The aggregate of Internet (previous calculation) and internet turnover which is included in mass media (JPY 2,044mn)

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

Note: Please refer to the Appendices “Turnover of Japan business by Business Category(IFRS basis)” slide 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)

	2019 Jan–Mar	YoY %
Information/Communications	64,148	(2.3)
Finance/Insurance	51,277	+6.2
Beverages/Cigarettes	36,299	+9.4
Foodstuffs	29,784	(1.0)
Cosmetics/Toiletries	27,856	(2.1)
Food Services/Other Services	25,819	(18.2)
Automobiles/Related Products	25,486	(20.3)
Transportation/Leisure	23,006	(1.9)
Real Estate/Housing Facilities	22,516	(6.7)
Government/Organizations	19,724	+5.4
Distribution/Retailing	17,615	(5.3)
Pharmaceuticals/Medical Supplies	16,628	+0.0
Energy/Materials/Machinery	14,140	+10.0
Hobbies/Sporting Goods	13,890	(6.2)
Publications	12,070	+2.2
Others	38,523	(4.0)
Total	438,789	(2.6)

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Effects of Currency Exchange Rates

	Average rate			Period end rate		
	2019 Jan–Mar	2018 Jan–Mar	Var. %	2019 End of Mar	2018 End of Dec	Var. %
JPY/USD	110.2 yen	108.3 yen	+1.8	111.0 yen	111.0 yen	(0.0)
JPY/EUR	125.1 yen	133.2 yen	(6.1)	124.6 yen	127.0 yen	(1.9)
JPY/CNY	16.3 yen	17.1 yen	(4.3)	16.5 yen	16.2 yen	+1.9
JPY/GBP	143.7 yen	150.9 yen	(4.8)	145.0 yen	140.5 yen	+3.2
JPY/AUD	78.5 yen	85.3 yen	(7.9)	78.6 yen	78.2 yen	+0.6

Revenue less cost of sales ratio by currency (%)

	JPY	USD	EUR	GBP	CNY	AUD	Others	Total
2019 Jan–Mar	44.5	21.6	9.1	5.3	3.3	2.2	14.0	100.0