FY2020 First Quarter Results

May 27, 2020

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* 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.

Key Points

- **Dentsu Group organic growth rate Q1 FY2020 -0.8%**
  - The Japanese business grew +2.1% due to strong performance of Digital Solutions & Marketing promotions
  - The International business saw organic decline of -3.3%, pulled lower by APAC -19.5%

- **Dentsu Group operating margin Q1 FY2020 16.4%, +430bps yoy**
  - The Japanese business saw +40bps yoy due to a favorable performance of ISID, Dentsu Live and Dentsu Digital
  - The international business saw +710bps yoy due to restructuring activities announced in Dec. 2019 and cost actions taken YTD

- **The impact of COVID-19 was felt towards the end of Q1 FY2020**
  - Expect Q2 FY2020 to be the weakest quarter of the year

- **2020 guidance has been withdrawn due to uncertainty around COVID-19**

- **Dentsu Group well capitalized, strong balance sheet and AA- issuer rating by R&I**

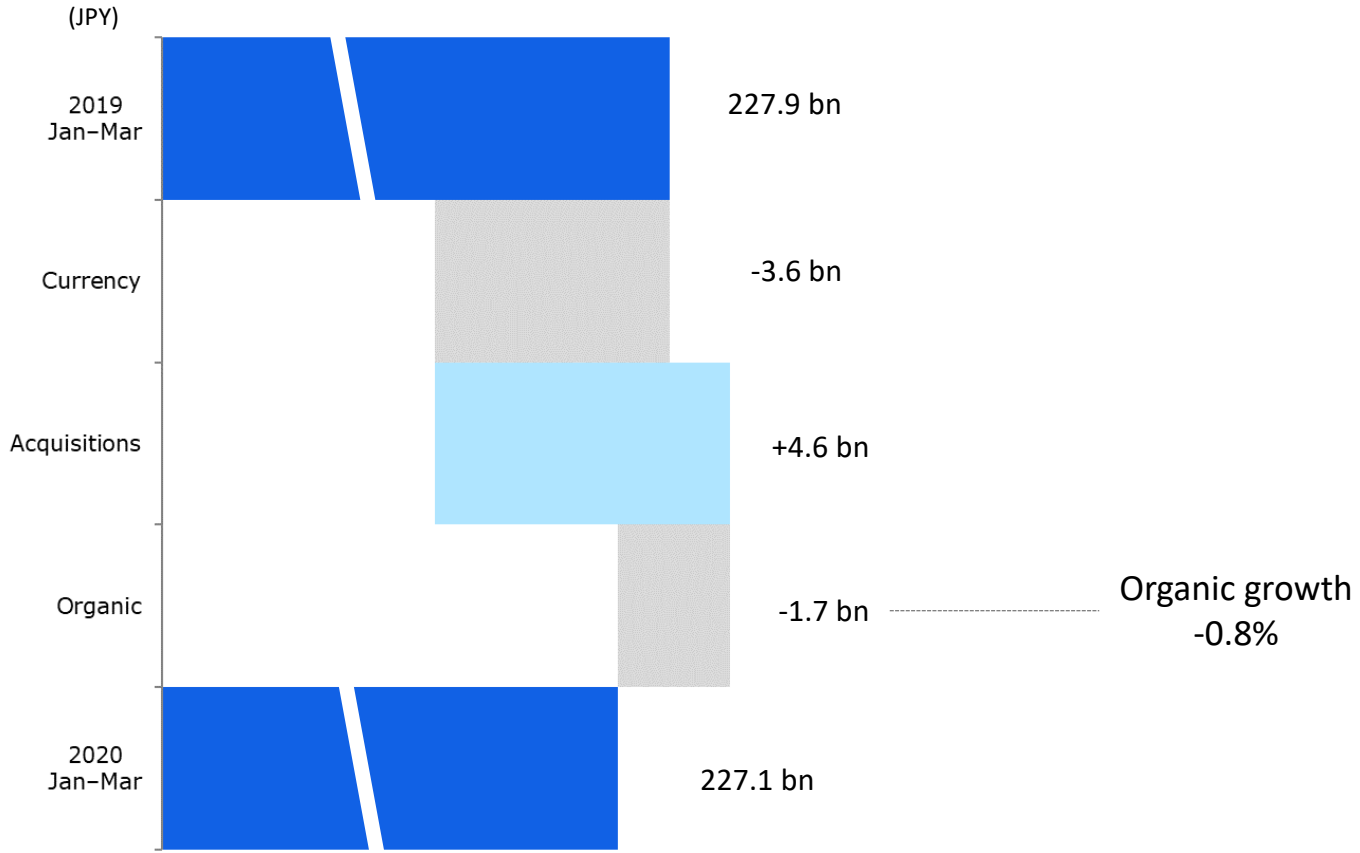
Summary

(JPY mn)

	2020 Jan–Mar	2019 Jan–Mar	YoY %	Constant currency basis %
Turnover	1,194,431	1,214,714	(1.7)	-
Revenue	252,737	250,578	+0.9	-
Revenue less cost of sales	227,170	227,974	(0.4)	+1.3
Digital domain ratio	48.1%	47.0%	+1.1	+2.3
International business ratio	54.3%	55.5%	(1.2)	(0.4)
Underlying operating profit	37,237	27,601	+34.9	+34.0
Operating margin	16.4%	12.1%	+4.3	+4.0
Underlying net profit	20,358	14,514	+40.3	-
Underlying basic EPS	74.09 yen	51.48 yen		
Operating profit	24,694	12,424	+98.8	-
Net profit (loss)	15,356	(620)	-	-
EBITDA	48,251	35,331	+36.6	-
Currency				
JPY/USD	109.0 yen	110.2 yen	(1.1)	-
JPY/GBP	139.6 yen	143.7 yen	(2.8)	-

*Net profit, underlying net profit and underlying basic EPS: Excluding attribution to non-controlling interests
*The numbers for Jan-Mar 2019 are after bonus equalization unless otherwise stated.

Movement of Revenue less cost of sales



Regional Information – Japan

(JPY mn)

	2019 Jan–Mar	2018 Jan–Mar	YoY %	Organic growth %
DENTSU Inc.	60,496	61,342	(1.4)	(1.4)
ISID	8,978	7,641	+17.5	+17.5
Dentsu Digital	6,045	5,057	+19.5	+19.5
Dentsu Regional entities	5,369	6,304	(14.8)	(14.8)
CARTA HOLDINGS	5,254	5,464	(3.8)	(3.8)
Dentsu Tec	3,863	3,442	+12.2	+12.2
Dentsu Live	3,126	2,129	+46.8	+46.8
Other/Aujustments	10,584	10,182	+3.9	-
Revenue less cost of sales	103,715	101,561	+2.1	+2.1
Digital domain ratio(%)	29.2	27.7		
Underlying operating profit	28,857	27,784	+3.9	
Operating margin	27.8%	27.4%	+0.5	

*Revenue less cost of sales figures of each company are based on IFRS.
*Underlying operating profit and Operating margin for the January-March period of 2020 include the holding company's cost of 1,211 (JPY mn).

Regional Information – International

(JPY mn)

	2020 Jan–Mar	2019 Jan–Mar	YoY %	Constant currency basis %	Organic growth %
EMEA	45,930	47,214	(2.7)	+0.7	(0.4)
Americas	57,688	54,728	+5.4	+7.5	+1.2
APAC	19,606	24,541	(20.1)	(16.7)	(19.5)
Revenue less cost of sales total	123,210	126,482	(2.6)	+0.3	(3.3)
Digital domain ratio	64.2%	62.5%	+1.7	+3.4	
Underlying operating profit (loss)	8,655	(183)	-	-	
Operating margin	7.0%	-0.1%	+7.1	+7.0	
Media					(5.9)
Creative					(6.5)
CRM					+3.9

Reconciliation from Underlying OP to Statutory OP

(JPY mn)

	2020 Jan–Mar	2019 Jan–Mar	YoY #	YoY %
Underlying operating profit	37,237	27,601	+ 9,635	+34.9
Adjustment items	(12,543)	(15,177)	+ 2,634	
Amortization of M&A related intangible assets	(8,138)	(9,004)	+ 865	
Acquisition costs	(320)	(421)	+ 101	
Share-based compensation expenses related to acquired companies	(2,425)	(1,985)	(440)	
One-off items	(1,660)	(3,767)	+ 2,107	
Impairment loss	(1,686)	-	(1,686)	
Others	+ 26	(3,767)	+ 3,793	
Operating profit	24,694	12,424	+ 12,270	+98.8

Statutory Operating Profit to Net Profit

(JPY mn)

	2020 Jan–Mar	2019 Jan–Mar	YoY #	YoY %
Operating profit	24,694	12,424	+ 12,270	+98.8
Share of results of associates	430	160	+ 270	+168.8
Impairment loss of associates	(436)	-	(436)	-
loss on sales of shares of associates	(78)	-	(78)	-
Revaluation gain on step acquisition	44	-	+ 44	-
Profit before interest and tax	24,653	12,584	+ 12,069	+95.9
Net finance income (costs)	5,097	(10,939)	+ 16,035	-
Finance income	13,346	1,302	+ 12,044	+925.0
Finance costs	8,249	12,241	(3,991)	(32.6)
Profit before tax	29,750	1,645	+ 28,105	+1,708.5
Income tax expense	11,593	613	+ 10,980	+1,791.2
Net profit	18,156	1,031	+ 17,124	+1,660.9
Attributable to owners of the parent	15,356	(620)	+ 15,977	-
Attributable to non-controlling interests	2,799	1,652	+ 1,147	+69.4

Conclusions:

- **Cost actions: Savings to deliver a 7% reduction against 2020 consolidated costs**
  - Cost actions, temporary salary reductions, hiring freeze, pausing acquisitions
  - International restructuring plan announced in Dec. 2019 on track to deliver planned savings

- **Strong balance sheet and well capitalized**
  - Strong long term Credit Rating, AA- by R&I
  - JPY 326.0bn of unused credit lines and JPY259.8bn of cash

- **Guidance: Withdrawn for FY2020**
  - We expect Q2 to be the weakest quarter of the year

- **Dividend: Forecast unchanged JPY 95**
  - Interim payment forecast JPY 47.5

Disclaimer

Forward-Looking Statements

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

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 the past years 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.

Appendices

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

Quarterly Organic Growth

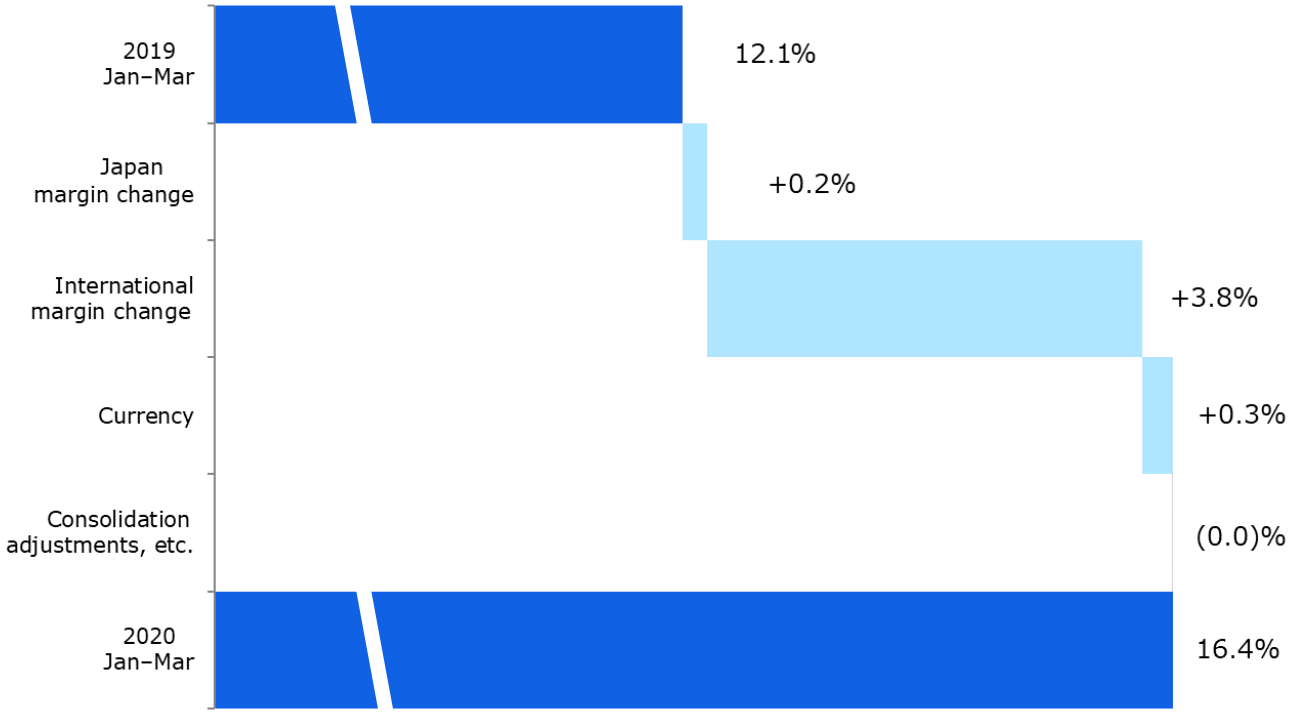
	Dentsu consolidated total (%)			Japan (%)			International total (%)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Jan–Mar	(0.8)	(1.6)	+2.1	+2.1	(2.7)	+1.9	(3.3)	(0.7)	+2.2
Apr–Jun	-	(1.3)	+5.9	-	(1.4)	+8.4	-	(1.3)	+4.5
Jul–Sep	-	(0.1)	+5.4	-	+1.7	+2.7	-	(1.0)	+7.0
Oct–Dec	-	(1.1)	+0.9	-	+4.0	(3.0)	-	(4.0)	+3.4

	International – EMEA			International – Americas			International – APAC		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Jan–Mar	(0.4)	(0.4)	+2.7	+1.2	+0.1	+4.6	(19.5)	(3.0)	(2.9)
Apr–Jun	-	+0.7	+4.8	-	+2.8	+6.5	-	(12.3)	+0.8
Jul–Sep	-	(1.0)	+8.2	-	+5.0	+5.3	-	(12.3)	+8.2
Oct–Dec	-	(1.8)	+12.0	-	+1.5	+3.5	-	(17.9)	(9.6)

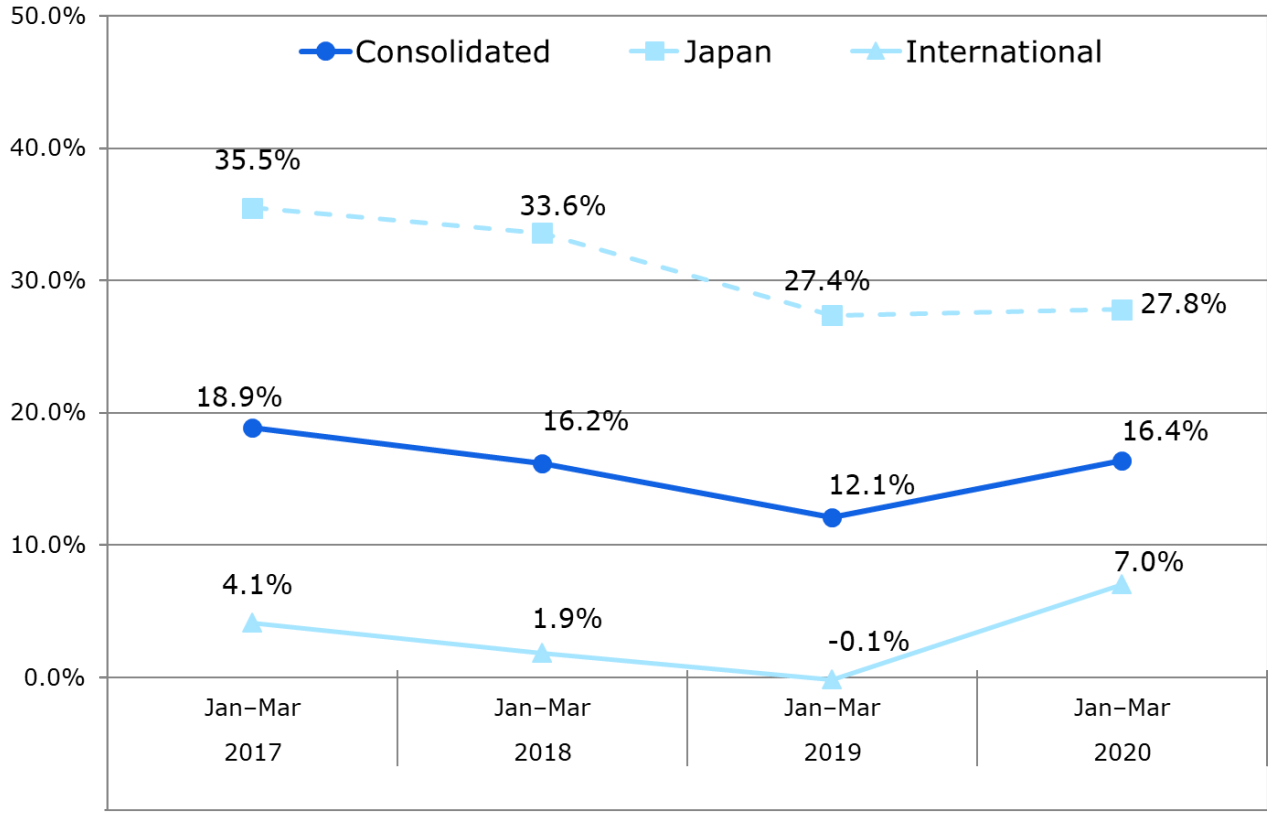
Organic Growth of Major Markets

2020 Jan–Mar Organic Growth %	Markets
"10% or more" to "less than 20%"	Russia
"5% or more" to "less than 10%"	Italy, Sweden, Switzerland
"0% or more" to "less than 5%"	Denmark, Japan, Spain, USA, UK,
"Less than 0%"	Australia, Brazil, Canada, China, France, Germany, India, Norway, Netherlands, Poland, Taiwan, Thailand

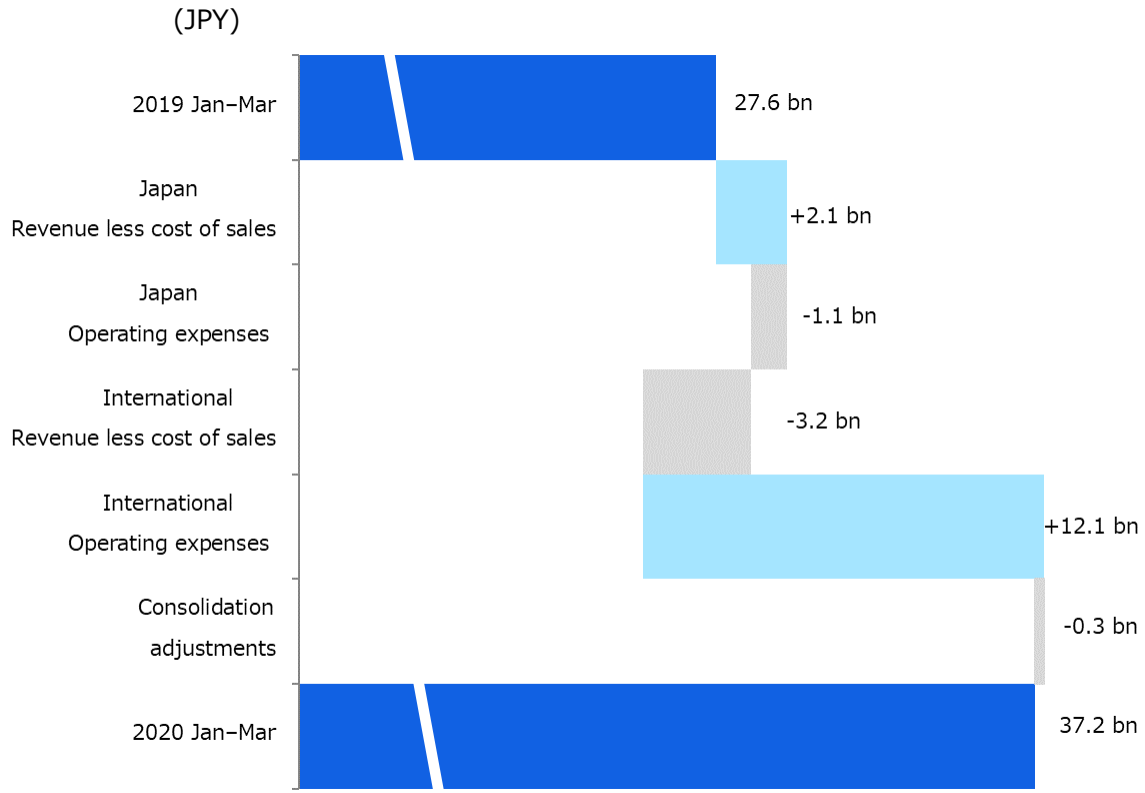
Change in Underlying Operating Margin



Operating Margin



Analysis of Underlying Operating Profit



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

Reconciliation from Underlying NP to Statutory NP

(JPY mn)

	2020 Jan–Mar	2019 Jan–Mar	YoY #	YoY %
Underlying net profit	20,358	14,514	+ 5,844	+40.3
Adjustment items	(5,002)	(15,135)	+ 10,132	
Operating profit adjustments	(12,543)	(15,177)	+ 2,634	
Gain(Loss) on revaluation of earnout liabilities and M&A related put-option liabilities	+ 9,669	(7,216)	+ 16,885	
Impairment loss of associates	(436)	-	(436)	
loss on sales of shares of associates	(78)	-	(78)	
Revaluation gain on step acquisition	+ 44	-	+ 44	
Related income tax expense	(1,851)	+ 6,292	(8,143)	
Adjustments attributable to non-controlling interests	+ 194	+ 967	(772)	
Net profit (loss)	15,356	(620)	+ 15,977	-

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

Cash Flow

(JPY mn)

	2020 Jan–Mar	2019 Jan–Mar	YoY #
Profit before tax (loss)	29,750	(1,484)	+ 31,234
Share of results of associates	(430)	(160)	(270)
Depreciation and amortization	21,870	22,907	(1,036)
Impairment loss	1,686	-	+ 1,686
Others	(10,706)	9,908	(20,615)
Income taxes paid	(12,776)	(36,498)	+ 23,722
Cash flow from operations before change in working capital	29,393	(5,327)	+ 34,721
Change in working capital	(144,833)	(132,999)	(11,833)
Net cash flow from operating activities i	(115,439)	(138,327)	+ 22,887

*The numbers for Jan-Mar 2019 are before bonus equalization.

Cash Flow

(JPY mn)

	2020 Jan–Mar	2019 Jan–Mar	YoY #
Net cash flow from operating activities i	(115,439)	(138,327)	+ 22,887
Payments/proceeds for PPE, intangible assets and investment property (net)	(4,674)	(5,986)	+ 1,312
Net cash (paid) received on acquisition and disposal of subsidiaries and securities (A)	(10,934)	(11,002)	+ 68
Others (B)	(57)	(1,499)	+ 1,442
Net cash flow from investing activities ii	(15,666)	(18,489)	+ 2,823
Net increase (decrease) in borrowings	23,676	53,291	(29,615)
Repayments of lease obligations	(8,818)	(8,015)	(803)
Payment/proceeds for acquisition/sales of interest in a subsidiary from/to non-controlling interests (net) (C)	(1,528)	(806)	(721)
Payments for purchase of treasury shares	(10,001)	-	(10,001)
Dividends	(14,822)	(13,536)	(1,286)
Others	(115)	394	(510)
Net cash flow from financing activities iii	(11,610)	31,328	(42,938)
Effect of exchange rate changes iv	(11,577)	5,026	(16,604)
Net increase (decrease) in cash and cash equivalents i + ii + iii + iv	(154,293)	(120,461)	(33,832)
Reference:			
Payments for investing activities (net) (A)+(B)+(C)	(12,519)	(13,308)	+ 789
Acquisition payments (net), included in above	(9,354)	(6,129)	(3,225)

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

Financial Position

(JPY mn)

	2020 End of Mar	2019 End of Dec	Var. #	Var. %
Current assets	1,694,739	1,933,691	(238,951)	(12.4)
Non-current assets	1,721,645	1,862,037	(140,392)	(7.5)
Goodwill	722,722	754,796	(32,073)	(4.2)
Intangible assets	231,008	245,517	(14,508)	(5.9)
Total assets	3,416,385	3,795,729	(379,343)	(10.0)
Current liabilities	1,645,115	1,859,224	(214,109)	(11.5)
Non-current liabilities	847,774	883,970	(36,196)	(4.1)
Total liabilities	2,492,889	2,743,195	(250,305)	(9.1)
Owners' interests	849,542	974,977	(125,435)	(12.9)
Non-controlling interests	73,953	77,556	(3,603)	(4.6)
Total equity	923,495	1,052,533	(129,038)	(12.3)
Total liabilities and equity	3,416,385	3,795,729	(379,343)	(10.0)
Currency				
JPY/USD	108.8 yen	109.6 yen	-	(0.7)
JPY/GBP	133.3 yen	143.5 yen	-	(7.1)

Net Debt

(JPY mn)

	2020 End of Mar	2019 End of Dec	Var. #
Total debt	622,803	623,927	(1,123)
Cash and cash equivalents	259,761	414,055	(154,293)
Net debt	363,042	209,872	+ 153,169
Total debt (LTM average)	605,929	589,141	+ 16,788
Cash and cash equivalents (LTM average)	312,346	343,727	(31,381)
Net debt (LTM average)	293,583	245,413	+ 48,170
EBITDA (LTM)	176,330	160,280	+ 16,049
Net debt / EBITDA (LTM)	2.06	1.31	
Net debt (LTM average) / EBITDA (LTM)	1.66	1.53	

The above Total debt is sum of loans and bonds. Lease obligation (JPY 120,076 mn as of March 31, 2020 JPY 133,063 mn as of December 31, 2019) is not included
LTM average: Average of latest twelve months
LTM: Latest twelve months
The numbers for 2019 are before bonus equalization

Turnover of Japan Business by Business Category (IFRS basis)

(JPY mn)

	2020 Jan-Mar	YoY %
Newspapers	18,788	(19.6)
Magazines	4,302	(13.2)
Radio	3,653	(5.1)
Television	170,093	(2.8)
Internet*1	65,861	(2.7)
OOH Media	14,100	+0.5
Creative	57,423	+1.8
Marketing/Promotion	79,165	+27.8
Content Services (Japan GAAP)*2	100,916	+5.9
Others	38,373	+1.3
Consolidation adjustments and others*3	▲ 52,995	-
Internet included in mass media*4	▲ 2,027	-
Total	497,657	+0.9

*1 The aggregate of Internet (previous calculation) and Internet turnover which is included in mass media (2020 Jan to March: JPY 2,027 mn)
*2 There is a difference in revenue recognition timing between IFRS and Japan GAAP. Japan GAAP is used for Content Services in the table. 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.

Japan Business Digital Domain (IFRS basis)

(JPY mn)

	2020 Jan–Mar	YoY %
Digital domain turnover	109,995	+2.8
Digital domain revenue less cost of sales	30,266	+7.5
Digital domain revenue less cost of sales: Digital domain ratio in Japan business*1	29.2%	+1.5

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

Net Sales (Turnover) of Dentsu Inc. by Industry (J-GAAP)

(JPY mn)

	2020 Jan–Mar	YoY %
Information/Communications	65,822	+7.7
Finance/Insurance	48,292	(6.1)
Beverages/Cigarettes	35,269	(9.3)
Food Services/Other Services	34,846	+25.0
Government/Organizations	32,819	+69.8
Foodstuffs	27,867	(5.6)
Transportation/Leisure	26,131	+3.4
Cosmetics/Toiletries	25,129	(10.8)
Automobiles/Related Products	24,211	(3.5)
Real Estate/Housing Facilities	23,545	+4.2
Distribution/Retailing	17,085	(4.0)
Energy/Materials/Machinery	16,262	+16.9
Pharmaceuticals/Medical Supplies	15,404	(7.1)
Home Electric Appliances/AV Equipment	12,912	+16.0
Hobbies/Sporting Goods	10,698	(15.6)
Others	34,778	(7.0)
Total	451,077	+2.8

Currency Exchange Rates Information

	Average rate			Period end rate		
	2020 Jan–Mar	2019 Jan–Mar	Var. %	2020 End of Mar	2019 End of Dec	Var. %
JPY/USD	109.0 yen	110.2 yen	(1.1)	108.8 yen	109.6 yen	(0.7)
JPY/EUR	120.2 yen	125.1 yen	(4.0)	119.6 yen	122.5 yen	(2.4)
JPY/CNY	15.6 yen	16.3 yen	(4.4)	15.3 yen	15.7 yen	(2.3)
JPY/GBP	139.6 yen	143.7 yen	(2.8)	133.3 yen	143.5 yen	(7.1)
JPY/AUD	71.8 yen	78.5 yen	(8.6)	66.1 yen	76.5 yen	(13.6)

Revenue less cost of sales ratio by currency (%)

	JPY	USD	EUR	GBP	CNY	AUD	Others	Total
2020 Jan–Mar	45.7	22.7	8.4	5.2	2.2	2.1	13.9	100.0