dentsu

February 14, 2019

Dentsu Inc.
FY2018 Consolidated Financial Results

(Fiscal year ended December 31, 2018 – reported on an IFRS basis)

Note:
- IFRS 15 "Revenue from Contracts with Customers" is applied from January 1, 2018. In this material, past results are also presented on a pro-forma basis to facilitate the year-on-year comparison.
- The term "Gross profit" is changed to "Revenue less cost of sales" from Q1 FY2018.

Executive Summary

- In FY2018, the Dentsu Group delivered total growth of revenue less cost of sales of 6.8% (constant currency basis) and organic growth of 3.4%. The Japan business delivered 2.0% and 2.1% respectively, in part, due to an increase in digital-related services and favorable results in subsidiaries. The international business, Dentsu Aegis Network, delivered 10.2% (constant currency basis) and 4.3% organic growth, driven by a strong client proposition and lack of exposure to legacy businesses.
- Dentsu in Japan achieved the working environment reform targets at the end of FY2018; ongoing transformation of the business will continue to support further growth.
- Underlying operating profit beat the revised forecasts by 2.2% mainly due to lower than expected costs in Japan, but declined 6.0% (constant currency basis) year on year. In Japan, profit declined due to planned investments in the working environment reforms. At Dentsu Aegis Network, profit was lower due to planned investments in global platforms and systems.
- In FY2019, the Dentsu Group forecasts 7.9% increase in revenue less cost of sales (constant currency basis) and 4.3% increase in underlying operating profit, driven by digital business in Japan and in the international business.

Financial Results for FY2018

Consolidated Group (million yen)	FY2018	FY2017*	YoY change, %	Constant currency basis, %
Revenue	**1,018,512**	949,837	7.2	-
Revenue less cost of sales**	**932,680**	877,622	6.3	6.8
Statutory results				
• operating profit	**111,638**	137,392	(18.7)	-
• net profit (attributable to owners of the parent)	**90,316**	105,478	(14.4)	-
• basic EPS	**320.39 yen**	373.11 yen	(14.1)	-
Underlying results***				
▪ operating profit	**153,229**	163,946	(6.5)	(6.0)
▪ operating margin	**16.4%**	18.7%	(230) bps	(220) bps
▪ net profit (attributable to owners of the parent)	**97,419**	107,874	(9.7)	-
▪ basic EPS	**345.59 yen**	381.58 yen	(9.4)	-
EBITDA****	**171,406**	194,073	(11.7)	-
Average JPY/USD rate	**110.4 yen**	112.2 yen	(1.6)	-
Average JPY/GBP rate	**147.5 yen**	144.5 yen	2.1	-

** IFRS 15 "Revenue from Contracts with Customers" is applied on the previous-year results and their figures are adjusted.*
***Revenue less cost of sales is the metric by which the Group's organic growth is measured. Organic growth represents the constant currency year-on-year growth after adjusting for the effect of businesses acquired or disposed of since the beginning of the previous year.*
**** See page 7 for definition of "underlying."*
***** See page 7 for definition of "EBITDA."*

Highlights of FY2018 results

- The Dentsu Group delivered **growth of revenue less cost of sales** of 6.8% (constant currency basis) in FY2018:
  - 2.0% in Japan, and 10.2% (constant currency basis) at Dentsu Aegis Network driven by acquisitions and organic growth.
  - Contribution amount to the increase: +30.6 billion yen by organic growth, +28.6 billion yen from M&As, and (4.2) billion yen from foreign exchange rates.

- The Group produced **organic growth** of 3.4% in FY2018:
  - 2.1% in Japan, and 4.3% at Dentsu Aegis Network. The international business benefited from strong organic growth in EMEA and the Americas
  - **Digital business contribution to total revenue less cost of sales** reached 46.1% (FY2017: 43.2%), including 23.9% in Japan (FY2017: 22.2%), and 60.6% at Dentsu Aegis Network (FY2017: 57.9%).
  - **International business contribution to total revenue less cost of sales** reached 60.4% (FY2017: 58.8%).

- Group **underlying operating profit** was 153.2 billion yen (FY2017: 163.9 billion yen).
  - 80.2 billion yen in Japan (FY2017: 88.8 billion yen), and 72.9 billion yen at Dentsu Aegis Network (FY2017: 75.1 billion yen).

- Group **underlying operating margin** was 16.4% (FY2017: 18.7%).
  - 21.7% in Japan (FY2017: 24.5%), and 12.9% at Dentsu Aegis Network (FY2017: 14.6%).
  - The decline in Japan was mainly due to planned SG&A costs related to the working environment reforms. At Dentsu Aegis Network, the operating margin was lower year on year due to planned investments in global platforms and systems.
  - The Dentsu Group margin for FY2018 beat the revised forecasts announced on August 9, 2018, mainly due to lower than expected costs in the Japan business.

- **Underlying net profit (attributable to owners of the parent) and underlying basic EPS** decreased by 9.7% and 9.4% respectively, mainly due to the decline of underlying operating income.

Toshihiro Yamamoto, President and CEO, Dentsu Inc., said:

"In FY2018, Dentsu Group recorded 3.4% organic growth, with 2.1% in Japan and 4.3% at Dentsu Aegis Network. The market circumstances we face have been challenging, but we have achieved our organic growth targets both in Japan and the international business, driven by growth in digital activities.

2019 heralds a new stage for the Dentsu Group. The achievement of the working environment reform targets in Japan allows the business to focus on both transformation and growth in 2019 and beyond.

At the end of 2018 I was pleased to announce that Tim Andree, Member of the Board and Executive Vice President of Dentsu Inc. and Executive Chairman of Dentsu Aegis Network would be taking on additional responsibilities as CEO of Dentsu Aegis Network. Tim will lead the Dentsu Aegis Network management team going forward ensuring the evolution of the strategy. Tim's deep understanding of the Dentsu Group's market propositions, culture and values position him as the right Executive to lead the business into the next stage of growth.

Our continued focus on people driven marketing and the differentiation of our client offer through innovation, technology, data and analytics will drive our success. We win with our clients through our integrated approach, focused on delivering solutions. Clients want to work with our teams who deliver shared best practices, grounded in a flexible and agile approach, tailored to address their business challenges. Our new business wins in early 2019 are testament to this.

Through our strong client offering and the extraordinary talent throughout the organization, I remain convinced we are well positioned to remain leaders in our industry and will conquer any and all possible disruptions going forward. I will make every effort to ensure that we remain unwavering in our commitment to deliver best-in-class services to all our stakeholders."

FY2018 Consolidated Financial Results and FY2019 Forecasts

1. FY2018 Performance Review

Japan:

The Group's operations in Japan produced organic growth of 2.1% in FY2018. This was due, in part, to an increase in digital services and favorable results in subsidiaries.

Underlying operating margin in Japan declined by 280 bps to 21.7%. This was primarily due to planned investments in the working environment reforms.

In Japan, further measures were implemented to meet the targets of our working environment reforms by the end of FY2018. In FY2018, 11.3 billion yen was allocated to these reforms. Investments include RPA (Robotic Process Automation, automating basic processes), improved communication technology, office environment reform, and personnel costs. As a result of these reforms the business has seen improved efficiency and expects further efficiency gains in FY2019.

In line with the medium-term direction announced on August 9, 2018, Dentsu Inc. acquired the common stock of SEPTENI HOLDINGS CO., LTD., listed on the JASDAQ Standard of the Tokyo Stock Exchange (TSE) and made it an equity-method affiliate. Moreover, Dentsu Inc. has made CARTA HOLDINGS, INC., the holding company of VOYAGE GROUP, INC. and Cyber Communications Inc., a consolidated subsidiary.

International:

Dentsu Aegis Network delivered organic growth of 4.3% in FY2018 and 3.4% in Q4 FY2018. FY2018 saw a continued diversification of the revenue footprint, with nine markets delivering double digit organic growth.

Challenging market conditions remain, but focus on high growth areas such as data and technology and a lack of exposure to legacy activities leaves the business well placed.

In the fourth quarter, EMEA was the standout region double digit organic growth – the best quarterly performance in over three years. The Americas continued its strong performance; while APAC had a challenging quarter impacted by tough comparables in China and a pullback in the Australian market.

In FY2018, the full-year operating margin came in slightly below guidance. While the margin for the underlying business remained resilient, a number of factors impacted our operating profit.

A sharp slowdown late in the year in the APAC region impacted full-year group profitability. Restructuring in the region is already underway to mitigate any further impacts in FY2019 and new management is in place in Australia, one of our key markets. A strong organic revenue performance across the remainder of the Group resulted in a return to incentives to reward and retain our key talent. Foreign exchange fluctuations in the fourth quarter also impacted our profit figures.

Following the implementation of a number of global systems and platforms in FY2018, the business continues to prioritize the delivery of margin improvement. The recent appointment of a Global President of Business Operations will drive the next stage, with a focus on ongoing operational excellence. This will ensure consistent ways of working, process simplification and enhancing client delivery through improvements in areas such as client reporting.

In FY2019, operating margin is expected to improve, with further improvements expected in FY2020 and FY2021.

Total net new business in FY2018 was $1.6bn, below the level expected in an average year. Our win rate was strong throughout the year, but we saw the loss of two significant accounts. On a two-year run rate, the net new business win rate for FY2017 and FY2018 was above average.

International – Regions:

In EMEA, Dentsu Aegis Network reported 7.4% organic growth in FY2018 and 12.0% in Q4 FY2018. Germany continues to post improving growth; the new management team is generating revenues from both new and existing clients. Southern Europe continues to outperform the group, with both Spain and Italy posting double digit organic growth for the full year. The Nordics is another bright spot, with Denmark, Norway and Sweden all posting double digit organic growth driven by both increased spend from existing clients and new client wins. Switzerland was the best performing market in the region in FY2018.
While France remains a challenging market, in the U.K. a new management team has been appointed to re-energize the business.

In the Americas, Dentsu Aegis Network reported 4.9% organic growth in FY2018 and 3.5% in Q4 FY2018.
The U.S. business continues to take share, outperforming the market with strong new business wins throughout FY2018 in both creative and media. Project-based business slowed slightly in the fourth quarter in the U.S. market. Brazil posted strong growth throughout the year driven by higher spend from existing clients. Canada and Mexico also performed well.

In the APAC region (excluding Japan), Dentsu Aegis Network reported -1.7% organic growth in FY2018 and -9.6% in Q4 FY2018.

China faced tough comparables in the fourth quarter, pulling back growth, despite posting a positive organic growth figure in the third quarter. Spend from large, local clients remains strong, but we remain underweight in the long tail of local small and medium enterprises.
Following growth in the third quarter, Australia saw a sharp pullback in the fourth quarter resulting in negative growth for the full year. Challenging client spend and the loss of some accounts impacted the business. New management is developing a relevant, local strategy for the Australian market and will restructure the business accordingly.
The rest of the region reported strong growth highlighting the continued diversification of the revenue footprint across the region. India, Thailand and Taiwan all continued to post positive organic growth.

International – Acquisitions:

Dentsu Aegis Network continues to accelerate its strategy through acquisitions, motivated by growing scale, geographic and capability in-fill and innovation.
In FY2018, a total of 16 new acquisitions were signed. Nine acquisitions were made in EMEA, five in the Americas and two in APAC. Focus remains on purchasing high quality, growth businesses at the right multiples. The robust due diligence undertaken for each acquisition remains crucial to securing high performance assets, particularly in a challenging market.

In December, we welcomed DEG（Digital Evolution Group LLC）to Dentsu Aegis Network, a top provider of data-driven marketing, commerce and collaboration solutions in the U.S. market. This strategy acquisition supports Dentsu Aegis Network’s continued growth strategy for the U.S. and Isobar’s commitment to delivering experience-led transformation.
Number of acquisitions and investments by Dentsu Aegis Network are as follows:

Number of Acquisitions and Investments by Dentsu Aegis Network			
FY2018	**FY2017**	**FY2016**	**FY2015**
30	31	45	36

2. Cash Dividends

Cash dividends per share of common stock applicable to the fiscal year ended December 31, 2018 was determined to be 90 yen, including an interim dividend of 45 yen and a year-end dividend of 45 yen.

This equates to a dividend payout ratio of 26.0% based on underlying net profit attributable to owners of the parent.

3. Outlook & Forecasts for FY2019 Full Year Performance

Outlook for FY2019

Dentsu Aegis Network forecasts that global ad spend growth rate will be 3.8% in 2019 (2018: 4.1%) in "DENTSU AEGIS NETWORK AD SPEND REPORT JANUARY 2019." This forecast reflects the global economy's continued broad-based recovery with moderate growth expected into 2019.

Guidance for Dentsu in Japan is an increase of revenue less cost of sales and a decline of underlying operating profit. Revenue less cost of sales is forecasted to increase due to a contribution from the significant growth of group companies together with sustainable growth of Dentsu Inc. led by digital business. Underlying operating margin is forecast to decrease due to an absence of a one-off gain recorded in FY2018 and a recording of higher SG&A for future growth (HR development, enhancement of IT infrastructure, reinforcement of digital business foundation, expenses related to businesses in 2020 and costs of a transition to a holding company structure). More emphasis was put on future growth than a single-year profit, so total expense plans to increase due to SG&A increase, partially offset by a decrease in working environment reform costs. Operating profit margin is forecast to improve in FY2020 mainly due to effects of investment to date related to progress in productivity.

Guidance for Dentsu Aegis Network for FY2019 is an increase both of revenue less cost of sales and underlying operating profit. As a result, operating margin is also expected to improve. All regions are expected to achieve organic growth and strategic M&A will also contribute.

Cash dividends per share of common stock applicable to the fiscal year ending December 31, 2019 are expected to increase by five yen to 95 yen, including an interim dividend of 47.5 yen and a year-end dividend of 47.5 yen. This equates to a dividend payout ratio of 28.1% (FY2018: 26.0%) based on underlying net profit attributable to owners of the parent forecast.

FY2019 Forecasts

Consolidated Group (million yen)	FY2019 Forecasts	FY2018 Actual Results	YoY change, %	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
Japan	**400,800**	369,258	8.5	8.5
International total	**585,600**	563,852	3.9	7.4
Underlying operating profit	**157,400**	153,229	2.7	4.3
Japan	**81,300**	80,268	1.3	1.3
International total	**76,100**	72,963	4.3	7.5
Operating profit margin	**16.0%**	16.4%	(40) bps	(50) bps
Japan	**20.3%**	21.7%	(140) bps	(140) bps
International total	**13.0%**	12.9%	10 bps	10 bps
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)	-
JPY/USD rate**	**109.0 yen**	110.4 yen	(1.3)	-
JPY/GBP rate**	**140.7 yen**	147.5 yen	(4.6)	-

** FY2019 forecasts are based on average exchange rates in January 2019. Actual exchange rates in FY2018 actual results are annual average exchange rates in 2018.*

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

– Ends –

Further information

Further details of these results, including all related financial statements, can be found in the Investor Relations section of the Dentsu Inc. website: http://www.dentsu.com/ir.

Definitions of "underlying" and "EBITDA"

- **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 gain/loss on sales and retirement of non-current assets and impairment loss.
- **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 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.

Reconciliation from underlying to statutory operating profit in FY2018

Consolidated Group (million yen) – reported on an IFRS basis	FY2018 Actual Results	FY2017* Actual Results	Change, %
Underlying operating profit	**153,229**	163,946	(6.5)
Adjustment items:	**(41,590)**	(26,554)	
Amortization of M&A related intangible assets	**(35,123)**	(31,779)	
Acquisition costs	**(1,554)**	(1,795)	
Share-based compensation expenses related to acquired companies	**(4,314)**	(2,046)	
One-off items	**(599)**	+9,066	
Payment related to working hours**	**-**	(3,103)	
Gain (loss) on sales and retirement of non-current assets	**(252)**	+13,168	
Impairment loss	**(27)**	(1,093)	
Others	**(320)**	+94	
Statutory operating profit	**111,638**	137,392	(18.7)

** IFRS 15 "Revenue from Contracts with Customers" is applied on the previous-year results and their figures are adjusted.*
*** This is an allowance for a lump sum payment based on the results of surveys of the Dentsu Group in Japan carried out on employees' individual testimonies in order to confirm the unregistered time which an individual employee may have been engaged in work from April 2015 to March 2017.*

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Quarterly results

Consolidated Group (million yen)	FY2018 Oct.-Dec.	YoY* change, %	FY2018 Jul-Sept	YoY* change, %	FY2018 Apr-Jun	YoY* change, %	FY2018 Jan-Mar	YoY* change, %
Revenue	**293,343**	3.5	243,514	9.4	239,546	11.6	242,107	5.7
Revenue less cost of sales	**264,378**	2.3	222,562	7.5	219,073	10.4	226,665	6.1
Japan	**96,581**	(3.4)	86,276	2,7	84,059	8.4	102,340	1.9
International total	**168,041**	5.9	136,326	10.8	135,099	11.6	124,385	9.8
Underlying operating profit	**63,718**	(9.4)	28,647	(9.6)	28,118	16.1	32,744	(13.3)
Japan	**18,773**	(29.0)	15,954	(7.0)	15,100	24.5	30,439	(7.9)
International total	**44,947**	2.5	12,691	(12.5)	13,014	7.5	2,309	(50.8)
Operating profit margin	**24.1%**	(310) bps	12.9%	(240) bps	12.8%	60 bps	14.4%	(330) bps
Underlying net profit	**49,413**	0.9	16,414	(16.0)	13,619	(13.9)	17,972	(23.7)
Operating profit	**53,645**	(28.3)	17,459	(11.2)	18,139	26.5	22,393	(21.7)
Net profit	**32,115**	(48.0)	47,414	224.5	(1)	-	10,788	(30.9)
EBITDA	**69,203**	(21.7)	32,314	(6.3)	32,865	15.0	37,022	(13.1)

** IFRS 15 "Revenue from Contracts with Customers" is applied on the previous-year results and their figures are adjusted.*

Quarterly organic growth for the Dentsu Group, Dentsu in Japan, and Dentsu Aegis Network

	Dentsu Group Total			Dentsu in Japan			Dentsu Aegis Network Total		
	2018	**2017***	**2016***	**2018**	**2017***	**2016***	**2018**	**2017***	**2016***
Q1 (Jan – Mar)	2.1%	3.7%	4.1%	1.9%	4.3%	3.6%	2.2%	3.1%	4.5%
Q2 (Apr – June)	5.9%	(4.6%)	10.0%	8.4%	(7.6%)	13.4%	4.5%	(2.7%)	7.2%
Q3 (Jul – Sept)	5.4%	(2.1%)	3.0%	2.7%	(4.8%)	0.9%	7.0%	(0.2%)	5.2%
Q4 (Oct – Dec)	**0.9%**	2.8%	4.1%	**(3.0%)**	5.5%	1.4%	**3.4%**	1.2%	5.8%
Fiscal Year	**3.4%**	0.1%	5.1%	**2.1%**	(0.3%)	4.5%	**4.3%**	0.4%	5.7%

** IFRS 15 "Revenue from Contracts with Customers" is applied on the previous-year results and their figures are adjusted.*

Quarterly organic growth figures of Dentsu Aegis Network by region

	Dentsu Aegis Network EMEA			Dentsu Aegis Network Americas			Dentsu Aegis Network APAC		
	2018	**2017***	**2016***	**2018**	**2017***	**2016***	**2018**	**2017***	**2016***
Q1 (Jan – Mar)	2.7%	5.8%	10.7%	4.6%	0.6%	(2.0%)	(2.9%)	4.5%	5.2%
Q2 (Apr – June)	4.8%	(0.3%)	5.0%	6.5%	(4.1%)	2.4%	0.8%	(3.8%)	16.8%
Q3 (Jul – Sept)	8.2%	5.9%	5.0%	5.3%	(2.0%)	5.4%	8.2%	(5.5%)	5.3%
Q4 (Oct – Dec)	**12.0%**	1.3%	7.5%	**3.5%**	(0.0%)	4.4%	**(9.6%)**	2.6%	5.6%
Fiscal Year	**7.4%**	3.1%	6.9%	**4.9%**	(1.5%)	3.1%	**(1.7%)**	(0.6%)	7.9%

** IFRS 15 "Revenue from Contracts with Customers" is applied on the previous-year results and their figures are adjusted.*

FY2018 Actual Results (vs. FY2017 Actual Results)

Consolidated Group (million yen)	FY2018 Actual Results	FY2017* Actual Results	YoY* change, %	Constant currency basis, %		FY2018 Jan-Dec Revised Forecasts
Revenue	**1,018,512**	949,837	7.2	-		1,006,900
Revenue less cost of sales	**932,680**	877,622	6.3	6.8		954,700
Japan	**369,258**	361,902	2.0	2.0		366,600
International total	**563,852**	516,052	9.3	10.2		588,100
Underlying operating profit	**153,229**	163,946	(6.5)	(6.0)		150,000
Japan	**80,268**	88,801	(9.6)	(9.6)		72,500
International total	**72,963**	75,146	(2.9)	(1.6)		77,500
Operating profit margin	**16.4%**	18.7%	(230) bps	(220) bps		15.7%
Japan	**21.7%**	24.5%	(280) bps	(280) bps		19.8%
International total	**12.9%**	14.6%	(170) bps	(160) bps		13.2%
Underlying net profit	**97,419**	107,874	(9.7)	-		99,800
Underlying basic EPS	**345.59 yen**	381.58 yen	(9.4)	-		354.03 yen
Operating profit	**111,638**	137,392	(18.7)	-		112,900
Net profit	**90,316**	105,478	(14.4)	-		79,500
JPY/USD rate**	**110.4 yen**	112.2 yen	(1.6)	-		110.9 yen
JPY/GBP rate**	**147.5 yen**	144.5 yen	2.1	-		153.4 yen

** IFRS 15 "Revenue from Contracts with Customers" is applied on the previous-year results and their figures are adjusted.*

*** Estimated exchange rates adopted in FY2018 revised forecasts and FY2018 initial forecasts are based on average exchange rates in January 2018. Actual exchange rates in FY2017 are annual average exchange rates in 2017.*

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

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About the Dentsu Group

Dentsu is the world's largest advertising agency brand. Led by Dentsu Inc. (Tokyo: 4324; ISIN: JP3551520004), a company with a history of 117 years of innovation, the Dentsu Group provides a comprehensive range of client-centric brand, integrated communications, media and digital services through its ten global network brands—Carat, Dentsu, dentsu X, iProspect, Isobar, mcgarrybowen, Merkle, MKTG, Posterscope and Vizeum—as well as through its specialist/multi-market brands. The Dentsu Group has a strong presence in over 145 countries and regions across five continents, and employs more than 60,000 dedicated professionals. Dentsu Aegis Network Ltd., its international business headquarters in London, oversees Dentsu's agency operations outside of Japan. The Group is also active in the production and marketing of sports and entertainment content on a global scale. www.dentsu.com