

November 14, 2018

## Dentsu Inc.

### Q3 FY2018 Consolidated Financial Results

(The first nine months ended September 30, 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 the first nine months, the Dentsu Group delivered total growth of revenue less cost of sales of 8.0% (constant currency basis) and organic growth of 4.4%. The Japan business delivered 4.1% and 4.1%, respectively, in part, due to an increase in digital-related services, favorable results in subsidiaries and new business wins. The international business, Dentsu Aegis Network, delivered 10.8% (constant currency basis) and 4.6%, respectively, partly driven by new business wins in H2 FY2017.
- Underlying operating profit declined 4.0% (constant currency basis). In Japan, profit declined due to planned investments in the working environment reforms. At Dentsu Aegis Network, investments in global platforms and systems continue as planned, increasing shared services to enable our agency brands to collaborate more effectively
- There is no change to the FY2018 financial guidance announced on August 9, 2018.
- In line with the medium-term direction announced in August, Dentsu Inc. has announced its intention to invest in two listed Japanese mid-sized digital advertising agencies to strengthen its digital capability.
- The international business achieved the fifth consecutive quarter of improving organic growth, partly due to the business wins gained in H2 FY2017.

#### Financial Results for First Nine Months of FY2018

| Consolidated Group (million yen)                    | First nine months of FY2018 | First nine months of FY2017* | YoY change, % | Constant currency basis, % |
|---|-----------------------------|------------------------------|---------------|----------------------------|
| <b>Revenue</b>                                      | 725,168                     | 666,309                      | 8.8           | -                          |
| <b>Revenue less cost of sales**</b>                 | 668,301                     | 619,179                      | 7.9           | 8.0                        |
| <b>Statutory results</b>                            |                             |                              |               |                            |
| • operating profit                                  | 57,993                      | 62,582                       | (7.3)         | -                          |
| • net profit (attributable to owners of the parent) | 58,200                      | 43,694                       | 33.2          | -                          |
| • basic EPS   | 206.46 yen                  | 157.31 yen                   | 31.2          | -                          |
| <b>Underlying results***</b>                        |                             |                              |               |                            |
| ▪ operating profit                                  | 89,510                      | 93,643                       | (4.4)         | (4.0)                      |
| ▪ operating margin                                  | 13.4%                       | 15.1%                        | (170) bps     | (170) bps                  |
| ▪ net profit (attributable to owners of the parent) | 48,006                      | 58,922                       | (18.5)        | -                          |
| ▪ basic EPS   | 170.30 yen                  | 208.23 yen                   | (18.2)        | -                          |
| <b>EBITDA****</b>                                   | 102,202                     | 105,682                      | (3.3)         | -                          |
| <b>Average JPY/USD rate</b>                         | 109.6 yen                   | 111.9 yen                    | (2.1)         | -                          |
| <b>Average JPY/GBP rate</b>                         | 148.2 yen                   | 142.7 yen                    | 3.9           | -                          |

\* 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 6 for definition of "underlying."

\*\*\*\* See page 6 for definition of "EBITDA."

### First Nine Months of FY2018 results

- The Dentsu Group delivered **growth of revenue less cost of sales** of 8.0% (constant currency basis) in the first nine months of FY2018:
  - 4.1% in Japan, and 10.8% (constant currency basis) at Dentsu Aegis Network driven by acquisitions and organic growth.
  - Contribution amount to the increase: +28.3 billion yen by organic growth, +20.9 billion yen from M&As, and (0.0) billion yen from foreign exchange rates.
  
- The Group produced **organic growth** of 4.4% in the first nine months of FY2018:
  - 4.1% in Japan, and 4.6% at Dentsu Aegis Network. The international business benefited from the strong new business wins in H2 FY2017; further impact from new business wins is expected in Q4 FY2018.
  - **Digital business contribution to total revenue less cost of sales** reached 45.4% (9M FY2017: 43.1%), including 23.4% in Japan (9M FY2017: 21.6%), and 60.5% at Dentsu Aegis Network (9M FY2017: 58.8%).
  - **International business contribution to total revenue less cost of sales** reached 59.2% (9M FY2017: 57.7%).
  
- Group **underlying operating profit** was 89.5 billion yen (9M FY2017: 93.6 billion yen).
  - 61.4 billion yen in Japan (9M FY2017: 62.3 billion yen), and 28.0 billion yen at Dentsu Aegis Network (9M FY2017: 31.3 billion yen).
  
- Group **underlying operating margin** was 13.4% (9M FY2017: 15.1%).
  - 22.6% in Japan (9M FY2017: 23.8%), and 7.1% at Dentsu Aegis Network (9M FY2017: 8.8%).
  - 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 reflects planned internal investments in FY2018.
  - The margin for the first nine months of FY2018 is aligned to our budget and is largely on track for FY2018 expectations.
  
- **Underlying net profit (attributable to owners of the parent) and underlying basic EPS** decreased by 18.5% and 18.2% respectively mainly due to the decline of underlying operating income and an increase of corporate taxes, etc. As for the significant increase in statutory net profit, it was mainly due to a gain on sale of shares in affiliates of 51.5 billion yen (before tax), recorded by the sale of all shares of Kakaku.com, Inc.

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

*“In the third quarter of FY2018, Dentsu Group recorded 5.4% organic growth. Dentsu Aegis Network achieved 7.0% organic growth - the fifth consecutive quarter of improving organic growth, and the business in Japan delivered 2.7%.*

*Dentsu Aegis Network has shown strong growth in Q3 FY2018, with September the strongest month in the quarter. The media business continued its strong performance and project-based business continued to improve. We have seen success in FY2018 when we work collaboratively. Increasingly, some of our most successful pitches are those where several of our brands work together to provide a coherent, holistic solution for clients. Growth is becoming broader based with eight of our top 20 markets delivering double digit organic growth.*

*In Japan, we have continued to build and improve our digital services and announced, in October, a plan to invest in two listed mid-sized digital agencies. These investments will bring new skills and enhanced product offerings for our clients. Dentsu will continue to search for investments and alliances in Japan, in line with the mid-term direction announced in August 2018.*

*We continue to generate our own momentum in a challenging market and reiterate the revised FY2018 financial guidance we issued in August.”*

## The First Nine Months of FY2018 Consolidated Financial Results and FY2018 Forecasts

### 1. The First Nine Months of FY2018 performance review by region

#### Japan:

The Group's operations in Japan produced organic growth of 4.1% in the first nine months of FY2018. This was due, in part, to an increase in digital services, favorable results in subsidiaries and new business wins.

Underlying operating margin in Japan declined by 120 bps to 22.6%. This was primarily due to planned investments in the working environment reforms.

In Japan, further measures have been implemented to ensure the completion of our work environment reforms by the end of FY2018. In the first nine months of FY2018, 8.1 billion yen was allocated to these reforms from the FY2018 budget of 13.0 billion yen. 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 more in FY2019.

In line with the medium-term direction announced in August, Dentsu Inc. has decided to acquire the common stock of SEPTENI HOLDINGS CO., LTD., listed on the JASDAQ Standard of the Tokyo Stock Exchange (TSE) through a tender offer. As a result, it will become an equity-method affiliate of Dentsu Inc. Moreover, Dentsu Inc. has decided to make VOYAGE GROUP, INC, listed on the First Section of the TSE, a consolidated subsidiary through a change in ownership.

#### International:

Dentsu Aegis Network delivered organic growth of 4.6% in first nine months of FY2018 and 7.0% in Q3 FY2018. Q3 FY2018 is the fifth consecutive quarter of improving growth and the best quarterly organic growth figure in two years. All three regions posted growth in Q3 FY2018 with eight of our top 20 markets delivering double digit organic growth.

Year to date FY2018, the new business wins have tracked behind the standout performance of last year. The pitch pipeline is however healthy, with 80% of the current pitch opportunities offensive.

The Q3 FY2018 underlying operating margin reflects the seasonality of the business and the planned investments across the business.

The investments fall into two main areas. Firstly, in robust common platforms and systems and increased shared services across all markets and all agency brands. These include people management systems and shared financial platforms. Secondly, investments to drive top line growth. These investments include our proprietary Growth Platform, the rollout of Salesforce and investments in data product development including M1.

The operating margin is largely on track for FY2018 expectations.

#### Regions

In EMEA, Dentsu Aegis Network reported 5.3% organic growth in the first nine months of FY2018 and 8.2% in Q3 FY2018, which is the best quarterly performance since Q1 FY2016.

In the first nine months, double digit growth was seen in Italy, Switzerland, the Nordics, Spain and Russia. The UK remained in positive growth territory and Germany returned to growth.

In the Americas, Dentsu Aegis Network reported 5.4% organic growth in the first nine months of FY2018 and 5.3% in Q3 FY2018.

The Americas has seen higher spend from existing clients across a number of our agencies and the pitch environment remains healthy. The US market saw strong new business wins in the third quarter with a number of new clients added to the roster. In the first nine months, it saw a mid-single digit growth in the U.S. and high single digit growth in Canada and Brazil.

In the APAC region (excluding Japan), Dentsu Aegis Network reported 2.1% organic growth in the first nine months of FY2018 and 8.2% in Q3 FY2018.

The region posted its best quarterly performance in two years, partly due to a turnaround of the China business with spend increasing from Western and Japanese clients. In the first nine months, India remains a stand out performer boosted by a pick-up in project-based work. Elsewhere, Taiwan, Australia and Thailand also saw positive growth.

## **Acquisitions**

To date in FY2018, 14 acquisitions have been signed across all three regions. Four new acquisitions have been signed in the Americas, eight in EMEA and two in APAC.

The acquisition of Namics\* in Germany this quarter will add significant capabilities in business transformation strategy, digital consulting and technology implementation across Adobe Experience Cloud, Sitecore, SAP and other leading technology partners. The acquisition will add 550 digital specialists across Germany and Switzerland and accelerates our strategy to extend Merkle's people-based marketing capabilities across EMEA.

The acquisition pipeline remains healthy into year end. Dentsu Aegis Network continues to accelerate its strategy through acquisitions, motivated by growing scale, geographic and capability in-fill and innovation.

*\*The acquisition by Merkle is subject to German Federal Cartel Office's clearance.*

## **2. Outlook & Forecasts for FY2018 full year performance**

### **Outlook for FY2018**

Our performance for the first nine months of FY2018 is in line with the financial guidance announced on August 9, 2018 and remains unchanged.

– 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 the first nine months of FY2018

| Consolidated Group (million yen) – reported on an IFRS basis    | First nine months of FY2018 | First nine months of FY2017* | Change, % |
|---|-----------------------------|------------------------------|-----------|
| <b>Underlying operating profit</b>                              | 89,510                      | 93,643                       | (4.4)     |
| Adjustment items:   | (31,517)                    | (31,060)                     |           |
| Amortization of M&A related intangible assets                   | (26,290)                    | (25,066)                     |           |
| Acquisition costs   | (831)                       | (1,333)                      |           |
| Share-based compensation expenses related to acquired companies | (3,996)                     | (1,883)                      |           |
| One-off items   | (400)                       | (2,778)                      |           |
| Payment related to working hours**                              | -                           | (2,367)                      |           |
| Gain (loss) on sales and retirement of non-current assets       | (123)                       | +629                         |           |
| Impairment loss   | -                           | (705)                        |           |
| Others  | (277)                       | (335)                        |           |
| <b>Statutory operating profit</b>                               | 57,993                      | 62,582                       | (7.3)     |

\* 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.

## Quarterly results

| Consolidated Group<br>(million yen) | FY2018<br>Jul-Sept | YoY*<br>change, % | FY2018<br>Apr-Jun | YoY*<br>change, % | FY2018<br>Jan-Mar | YoY*<br>change, % |
|-------------------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Revenue</b>                      | 243,514            | 9.4               | 239,546           | 11.6              | 242,107           | 5.7               |
| <b>Revenue less cost of sales</b>   | 222,562            | 7.5               | 219,073           | 10.4              | 226,665           | 6.1               |
| Japan                               | 86,276             | 2.7               | 84,059            | 8.4               | 102,340           | 1.9               |
| International total                 | 136,326            | 10.8              | 135,099           | 11.6              | 124,385           | 9.8               |
| <b>Underlying operating profit</b>  | 28,647             | (9.6)             | 28,118            | 16.1              | 32,744            | (13.3)            |
| Japan                               | 15,954             | (7.0)             | 15,100            | 24.5              | 30,439            | (7.9)             |
| International total                 | 12,691             | (12.5)            | 13,014            | 7.5               | 2,309             | (50.8)            |
| <b>Operating profit margin</b>      | 12.9%              | (240) bps         | 12.8%             | 60 bps            | 14.4%             | (330) bps         |
| Japan                               | 18.5%              | (190) bps         | 18.0%             | 230 bps           | 29.7%             | (320) bps         |
| International total                 | 9.3%               | (250) bps         | 9.6%              | (40) bps          | 1.9%              | (210) bps         |
| <b>Underlying net profit</b>        | 16,414             | (16.0)            | 13,619            | (13.9)            | 17,972            | (23.7)            |
| <b>Operating profit</b>             | 17,459             | (11.2)            | 18,139            | 26.5              | 22,393            | (21.7)            |
| <b>Net profit</b>                   | 47,414             | 224.5             | (1)               | -                 | 10,788            | (30.9)            |
| <b>EBITDA</b>                       | 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* |
| <b>Q1 (Jan – Mar)</b>     | 2.1%               | 3.7%   | 4.1%  | 1.9%            | 4.3%   | 3.6%  | 2.2%                       | 3.1%   | 4.5%  |
| <b>Q2 (Apr – June)</b>    | 5.9%               | (4.6%) | 10.0% | 8.4%            | (7.6%) | 13.4% | 4.5%                       | (2.7%) | 7.2%  |
| <b>H1 (Jan – June)</b>    | 4.0%               | (0.4%) | 7.2%  | 4.7%            | (1.1%) | 8.5%  | 3.4%                       | 0.1%   | 6.0%  |
| <b>Q3 (Jul – Sept)</b>    | 5.4%               | (2.1%) | 3.0%  | 2.7%            | (4.8%) | 0.9%  | 7.0%                       | (0.2%) | 5.2%  |
| <b>9 Month (Jan-Sept)</b> | 4.4%               | (1.0%) | 5.7%  | 4.1%            | (2.4%) | 5.7%  | 4.6%                       | 0.0%   | 5.7%  |
| <b>Q4 (Oct – Dec)</b>     | -                  | 2.8%   | 4.1%  | -               | 5.5%   | 1.4%  | -                          | 1.2%   | 5.8%  |
| <b>Fiscal Year</b>        | -                  | 0.1%   | 5.1%  | -               | (0.3%) | 4.5%  | -                          | 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<br>EMEA |        |       | Dentsu Aegis Network<br>Americas |        |        | Dentsu Aegis Network<br>APAC |        |       |
|---------------------------|------------------------------|--------|-------|----------------------------------|--------|--------|------------------------------|--------|-------|
|                           | 2018                         | 2017*  | 2016* | 2018                             | 2017*  | 2016*  | 2018                         | 2017*  | 2016* |
| <b>Q1 (Jan – Mar)</b>     | 2.7%                         | 5.8%   | 10.7% | 4.6%                             | 0.6%   | (2.0%) | (2.9%)                       | 4.5%   | 5.2%  |
| <b>Q2 (Apr – June)</b>    | 4.8%                         | (0.3%) | 5.0%  | 6.5%                             | (4.1%) | 2.4%   | 0.8%                         | (3.8%) | 16.8% |
| <b>H1 (Jan – June)</b>    | 3.9%                         | 2.9%   | 7.6%  | 5.5%                             | (2.0%) | 0.3%   | (0.9%)                       | (0.2%) | 11.5% |
| <b>Q3 (Jul – Sept)</b>    | 8.2%                         | 5.9%   | 5.0%  | 5.3%                             | (2.0%) | 5.4%   | 8.2%                         | (5.5%) | 5.3%  |
| <b>9 Month (Jan-Sept)</b> | 5.3%                         | 3.9%   | 6.7%  | 5.4%                             | (2.0%) | 2.3%   | 2.1%                         | (2.0%) | 9.1%  |
| <b>Q4 (Oct – Dec)</b>     | -                            | 1.3%   | 7.5%  | -                                | (0.0%) | 4.4%   | -                            | 2.6%   | 5.6%  |
| <b>Fiscal Year</b>        | -                            | 3.1%   | 6.9%  | -                                | (1.5%) | 3.1%   | -                            | (0.6%) | 7.9%  |

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

**FY2018 Revised Forecasts announced on August 9<sup>th</sup> (vs. FY2018 Initial Forecasts announced in February 2018)**

| Consolidated Group<br>(million yen) | FY2018<br>Jan-Dec<br>Revised<br>Forecasts | FY2017*<br>Jan-Dec<br>Actual<br>Results | YoY*<br>change, % | Constant<br>currency<br>basis, % | FY2018<br>Jan-Dec<br>Initial<br>Forecasts |
|-------------------------------------|---|---|-------------------|----------------------------------|---|
| <b>Revenue</b>                      | 1,006,900                                 | 946,225                                 | 6.4               | -                                | 1,006,900                                 |
| <b>Revenue less cost of sales</b>   | 954,700                                   | 877,622                                 | 8.8               | 7.2                              | 954,700                                   |
| Japan                               | 366,600                                   | 361,902                                 | 1.3               | 1.3                              | 366,600                                   |
| International total                 | 588,100                                   | 516,052                                 | 14.0              | 11.2                             | 588,100                                   |
| <b>Underlying operating profit</b>  | 150,000                                   | 163,946                                 | (8.5)             | (9.5)                            | 150,000                                   |
| Japan                               | 72,500                                    | 88,801                                  | (18.4)            | (18.4)                           | 72,500                                    |
| International total                 | 77,500                                    | 75,146                                  | 3.1               | 0.9                              | 77,500                                    |
| <b>Operating profit margin</b>      | 15.7%                                     | 18.7%                                   | (300) bps         | (290) bps                        | 15.7%                                     |
| Japan                               | 19.8%                                     | 24.5%                                   | (470) bps         | (470) bps                        | 19.8%                                     |
| International total                 | 13.2%                                     | 14.6%                                   | (140) bps         | (130) bps                        | 13.2%                                     |
| <b>Underlying net profit</b>        | 99,800                                    | 107,874                                 | (7.5)             | -                                | 99,800                                    |
| Underlying basic EPS                | 354.03 yen                                | 381.58 yen                              | (7.2)             | -                                | 354.03 yen                                |
| <b>Operating profit</b>             | 112,900                                   | 137,392                                 | (17.8)            | -                                | 112,900                                   |
| <b>Net profit</b>                   | 79,500                                    | 105,478                                 | (24.6)            | -                                | 61,600                                    |
| <b>JPY/USD rate**</b>               | 110.9 yen                                 | 112.2 yen                               | (1.2)             | -                                | 110.9 yen                                 |
| <b>JPY/GBP rate**</b>               | 153.4 yen                                 | 144.5 yen                               | 6.2               | -                                | 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.

**For additional enquiries**

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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](http://www.dentsu.com)