

August 7, 2019

Dentsu Inc.

H1 FY2019 Consolidated Financial Results

(The first half ended June 30, 2019 – reported on an IFRS basis)

Executive Summary

- In H1 FY2019, the Dentsu Group delivered total growth of revenue less cost of sales of 2.6% (constant currency basis) and organic growth of -1.5%.
- The Japan business delivered 0.1% and -2.1% respectively. Organic growth decline was mainly due to a decrease in traditional media in the Japanese market as well as an absence of large scale sport events, partially offset by digital-related services and favorable results in subsidiaries.
- The international business, Dentsu Aegis Network, delivered 4.4% growth of revenue less cost of sales (constant currency basis) and -1.0% organic growth. Organic growth was impacted by negative growth in APAC mainly due to weakness in the Australian and Chinese markets.
- The Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2019 is lowered, reflecting the lower than expected H1 FY2019 results and updated H2 FY2019 outlook. *
- In line with our shareholder return policy that we combine stable dividend payments and flexible share repurchases, we also announced a repurchase of up to 30 billion yen, together with 95 yen per share dividend for the full year as previously announced. *
- Preparation for a shift to a holding company structure scheduled in January 2020 progresses on track.

* Please refer to the separate press releases also released today. URL: <http://www.dentsu.com/news/release/>

Financial Results for H1 FY2019

Consolidated Group (million yen)	H1 FY2019	H1 FY2018	YoY change, %	Constant currency basis, %
Revenue	497,068	481,654	+3.2	-
Revenue less cost of sales*	449,242	445,739	+0.8	+2.6
Statutory results				
• operating profit	18,075	40,533	(55.4)	-
• net profit (attributable to owners of the parent)	(1,275)	10,786	-	-
• basic EPS	(4.52) yen	38.26 yen		
Underlying results**				
▪ operating profit	44,997	60,862	(26.1)	(25.7)
▪ operating margin	10.0%	13.7%	(370) bps	(380) bps
▪ net profit (attributable to owners of the parent)	22,864	31,592	(27.6)	-
▪ basic EPS	81.11 yen	112.07 yen		
EBITDA***	63,648	69,888	(8.9)	-
Average JPY/USD rate	110.0 yen	108.7 yen	+1.3	-
Average JPY/GBP rate	142.4 yen	149.7 yen	(4.9)	-

*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."

Highlights of H1 FY2019 results

- The Dentsu Group delivered **growth of revenue less cost of sales** of 2.6% (constant currency basis):
 - 0.1% in Japan, and 4.4% at Dentsu Aegis Network driven by M&A.
 - The breakdown in contribution is: +18.0 billion yen from M&A, -6.7 billion yen by organic growth, and -7.7 billion yen from foreign exchange rates.
- The Group produced **organic growth** of -1.5%:
 - -2.1 % in Japan, and -1.0% at Dentsu Aegis Network. The Japan business declined due to an absence of large scale sport events as well as a decrease in traditional media in the Japanese market, partially offset by digital-related services and favorable results in subsidiaries. The international business was impacted by negative growth in APAC, due to weakness in the Australian and Chinese markets. Excluding the impact of Australia and China, H1 organic growth for Dentsu Aegis Network would be 0.9%.
 - **Digital business contribution to total revenue less cost of sales** reached 48.9% (H1 FY2018: 45.0%), including 28.5% in Japan (H1 FY2018: 23.9%), and 63.3% at Dentsu Aegis Network (H1 FY2018: 60.1%).
 - **International business contribution to total revenue less cost of sales** reached 58.5% (H1 FY2018: 58.2%).
- Group **underlying operating profit** was 44.9 billion yen (H1 FY2018: 60.8 billion yen).
 - 35.6 billion yen in Japan (H1 FY2018: 45.5 billion yen), and 9.3 billion yen at Dentsu Aegis Network (H1 FY2018: 15.3 billion yen).
 - The difference between the underlying operating profit and statutory operating profit was mainly due to the difference in amortization of M&A related intangible assets.
- Group **underlying operating margin** was 10.0% (H1 FY2018: 13.7%).
 - 19.1% in Japan (H1 FY2018: 24.4%), and 3.6% at Dentsu Aegis Network (H1 FY2018: 5.9%).
 - The decline in Japan was mainly due to planned SG&A costs related to investments to drive future growth. At Dentsu Aegis Network the decline was due to planned investments, but strong cost management in central and regional costs provides confidence in the upgraded FY2019 margin guidance.
- **Underlying net profit (attributable to owners of the parent) and underlying basic EPS decreased by 27.6% and 27.6% respectively, mainly due to the decline of underlying operating income.**
 - Difference between the underlying net profit and statutory net profit was mainly due to operating profit adjustments and a loss on revaluation of earnout liabilities and M&A related put-option liabilities.
- **Interim dividend per share was determined to be 47.5 yen, as announced in the earnings release on February 14, 2019.**

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

“In H1 FY2019, Dentsu Group recorded a decline in organic growth of -1.5%, with -2.1% in Japan and -1.0% at Dentsu Aegis Network. The weaker than expected H1 results have led us lower our FY2019 forecasts. We also announced a share repurchase of up to 30 billion yen to demonstrate our confidence in the future performance of the Group.

In the Japan business, our growth strategy is focused on business “For the client and With the client”. This remains central as we move to become trusted partners for our clients undergoing business transformation.

Today, brands are not what they say, they are what they do. They need to go beyond advertising to deliver highly crafted brand moments around the consumer that are inspired by data and insights that use storytelling to resonate, and leverage technology to unlock products and services that deliver value.

Experiences, when designed well and powered by digital and creativity, have the potential to build brands, move products and impact people’s lives.

As we continue to bring the Japanese and International business closer together we can fuse our capabilities and increasingly leverage the diverse and talented 62,000 individuals across the Group. This will allow us to anticipate continuous change, drive innovation and offer world-class services to our clients.

Although our business has expanded beyond advertising and is increasingly diverse in nature, our role and value are crystal clear: to find and execute the best solution for our clients. This is why it is imperative that we discover, connect and develop the diversity that will comprise One Dentsu.

H1 FY2019 Consolidated Financial Results

1. H1 FY2019 Performance Review

Japan:

The Group’s operations in Japan delivered organic growth of -2.1% in H1 FY2019. This was mainly due to a decrease in traditional media in the Japanese market as well as an absence of large scale sport events, partially offset by digital-related services and favorable results in subsidiaries.

VOYAGE GROUP Inc. joined the Group and has been consolidated since January 2019. The acquisition was in line with our strategy to expand digital-related services. Information Services International-Dentsu, Ltd. (ISID) showed strong performance in H1 FY2019 mainly due to favorable business conditions driven by the information services industry as demand for corporate investment in information technology remains buoyant.

Underlying operating margin in Japan declined by 530 bps to 19.1%. This was mainly due to planned SG&A costs related to investments to drive future growth. This also includes investment in our people through HR development initiatives, future proofing our talent and unlocking new potential across the business.

International:

Dentsu Aegis Network delivered organic growth of -1.0% in H1 FY2019 and -1.3% in Q2 FY2019. The Americas posted positive organic growth, EMEA was also positive but with a mixed performance across the region, and

APAC (excluding Japan) was negative. Weakness in APAC was centered around the Australian and Chinese markets.

In the second quarter over USD 1 billion of billings were added to the net new business wins. Year to date net new billings of USD 3.4 billion are already ahead of the past four-year annual average performance. The pitch pipeline provides further cause for optimism. The current pipeline of opportunities is the largest since FY2015 with 96% of those opportunities being offensive.

Digital, Creative & Experiential wins are also tracking ahead of the FY2018 full year rate.

The operational excellence program continues. Following the implementation of common systems and platforms over the past two years, we now look to optimise internal processes focusing on media operations.

International – Regions:

In EMEA, Dentsu Aegis Network reported 0.2% organic growth in H1 FY2019 and 0.7% in Q2 FY2019.

Performance in the second quarter was mixed across the region. Italy, Switzerland and Poland delivered double-digit organic growth and Russia, Denmark and Norway all had a positive quarter. However, the UK, Spain, Netherlands, France and Sweden posted negative growth in the second quarter, and although Germany reported negative growth in the quarter, the market is performing well on a year-to-date basis.

In the Americas, Dentsu Aegis Network reported 1.5% organic growth in H1 FY2019 and 2.8% in Q2 FY2019.

The region experienced a turnaround in performance in the second quarter and saw improving momentum as the quarter progressed, particularly in the US market. The improving performance was primarily driven by our media brands (Carat, Vizeum and dentsu x), performance (iProspect) and Merkle. A stronger US performance was offset by weakness in Brazil, impacted by client losses, reduced client spend and challenging macroeconomics. Canada posted strong growth driven by a number of new client wins.

An increase in pitch costs in the quarter highlights the strong pipeline of offensive opportunities for the region. Revenues are expected to build through H2 FY2019 as we recognise income from account wins earlier in the year and FY2018 account losses cycle out.

In the APAC region (excluding Japan), Dentsu Aegis Network reported -8.1% organic growth in H1 FY2019 and -12.3% in Q2 FY2019.

Weakness in the region was driven by Australia and China. Client losses in Australia continue to impact the growth rate and while new management manage the business to reflect the operating environment, we expect it to take some time before growth returns. China was impacted by weaker spend from local and Japanese clients. Restructuring at a regional level continues. South East Asia saw slower growth in the second quarter, but performance is expected to pick up in the second half. India remains a bright spot in the region and continues to perform well due to our strong digital offering.

International –Acquisitions:

Year to date FY2019, a total of nine new acquisitions have been signed. Three acquisitions were made in EMEA, one in the Americas and five in APAC.

The focus for investment remains on our top 20 markets, but we continue to explore building out capabilities in other, particularly faster growing, markets. All investments are clearly aligned with our strategic priorities through acquiring capability, talent and scale.

In July 2019, we welcomed Ugam, a global leader in data and analytics, based in India and that will operate within Merkle. Ugam’s solution set is highly complementary to Merkle’s existing capabilities and with a focus on the U.S. market and long-tenured relationships with more than 75 Fortune 500 companies will create many synergies, strengthening existing client relationships.

2. Outlook & Forecasts for FY2019 full year performance

* Please refer to the separate press releases also released today. URL: <http://www.dentsu.com/news/release/>

FY2019 Revised Forecasts (vs. FY2019 Initial Forecasts announced in February 2019)

Consolidated Group (million yen)	2019 Jan-Dec Revised Forecasts	2019 Jan-Dec Previous Forecasts	Change, %	2018* Jan-Dec Actual Results	Change, %	Constant currency basis, %
Revenue	1,054,400	1,097,900	(4.0)	1,018,512	+3.5	-
Revenue less cost of sales	959,700	986,400	(2.7)	932,680	+2.9	+4.5
Japan	383,200	400,800	(4.4)	369,258	+3.8	+3.8
International total	576,500	585,600	(1.6)	563,852	+2.2	+5.1
Underlying operating profit	142,900	157,400	(9.2)	153,229	(6.7)	(6.3)
Japan	66,800	81,300	(17.8)	80,268	(16.8)	(16.8)
International total	76,100	76,100	-	72,963	+4.3	+7.2
Operating profit margin	14.9%	16.0%	(110) bps	16.4%	(150) bps	(170) bps
Japan	17.4%	20.3%	(290) bps	21.7%	(430) bps	(430) bps
International total	13.2%	13.0%	+20 bps	12.9%	+30 bps	+30 bps
Underlying net profit*	86,000	95,400	(9.9)	97,419	(11.7)	-
Underlying basic EPS*	305.08 yen	338.42 yen		345.59 yen		-
Operating profit	98,500	122,500	(19.6)	111,638	(11.8)	-
Net profit*	35,800	61,400	(41.7)	90,316	(60.4)	-
JPY/USD rate**	110.0 yen	109.0 yen	+1.0	110.4 yen	(0.3)	-
JPY/GBP rate**	142.4 yen	140.7 yen	+1.2	147.5 yen	(3.4)	-

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

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

– Ends –

Note:

- IFRS 16 “Leases” is applied from January 1, 2019. Past results are not restated under IFRS 16.

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 H1 FY2019

Consolidated Group (million yen)	H1 FY2019	H1 FY2018	Change, %
Underlying operating profit	44,997	60,862	(26.1)
Adjustment items:	(26,921)	(20,329)	
Amortization of M&A related intangible assets	(17,935)	(17,516)	
Acquisition costs	(654)	(523)	
Share-based compensation expenses related to acquired companies	(3,850)	(2,071)	
One-off items	(4,482)	(219)	
Statutory operating profit	18,075	40,533	(55.4)

Reconciliation from Underlying to Statutory Net Profit (Loss) in H1 FY2019

Consolidated Group (million yen)	H1 FY2019	H1 FY2018	Change, %
Underlying net profit (attributable to owners of the parent)	22,864	31,592	(27.6)
Adjustment items:	(24,139)	(20,806)	
Operating profit adjustments	(26,921)	(20,329)	
Gain (loss) on revaluation of earnout liabilities and M&A related put-option liabilities	(8,069)	(16,774)	
Related income tax expense	+9,138	+14,342	
Adjustments attributable to non-controlling interests	+1,713	+1,395	
Net profit (loss) (attributable to owners of the parent)	(1,275)	10,786	-

Quarterly results

Consolidated Group (million yen)	2019 Apr-Jun	YoY change, %	2019 Jan-Mar	YoY change, %
Revenue	246,489	+2.9	250,578	+3.5
Revenue less cost of sales	221,268	+1.0	227,974	+0.6
Japan	84,932	+1.0	101,561	(0.8)
International total	136,427	+1.0	126,482	+1.7
Underlying operating profit	20,525	(27.0)	24,472	(25.3)
Japan	10,980	(27.3)	24,655	(19.0)
International total	9,549	(26.6)	(183)	-
Operating profit margin	9.3%	(360) bps	10.7%	(370) bps
Underlying net profit	10,312	(24.3)	12,551	(30.2)
Operating profit	8,781	(51.6)	9,294	(58.5)
Net profit	1,308	-	(2,583)	-
EBITDA	31,446	(4.3)	32,201	(13.0)

P/L from Statutory Operating Profit to Statutory Net Profit (Loss) in H1 FY2019

Consolidated Group (million yen)	H1 FY2019	H1 FY2018	Change, %
Operating profit	18,075	40,533	(55.4)
Share of results of associates	(168)	1,771	-
Gain on sales of shares of associates	-	558	-
Profit before interest and tax	17,906	42,864	(58.2)
Net finance income (costs)	(15,213)	(19,960)	-
Finance income	4,912	2,908	+68.9
Finance costs	20,126	22,869	(12.0)
Profit (loss) before tax	2,693	22,903	(88.2)
Income tax expense	1,111	8,989	(87.6)
Net profit (loss)	1,581	13,914	(88.6)
Attributable to owners of the parent	(1,275)	10,786	-
Attributable to non-controlling interests	2,856	3,128	(8.7)

Quarterly Organic Growth for the Dentsu Group, Dentsu in Japan, and Dentsu Aegis Network

(%)

	Dentsu Group Total			Dentsu in Japan			Dentsu Aegis Network Total		
	2019	2018	2017*	2019	2018	2017*	2019	2018	2017*
Q1 (Jan – Mar)	(1.6)	2.1	3.7	(2.7)	1.9	4.3	(0.7)	2.2	3.1
Q2 (Apr – June)	(1.3)	5.9	(4.6)	(1.4)	8.4	(7.6)	(1.3)	4.5	(2.7)
Q3 (Jul – Sept)	-	5.4	(2.1)	-	2.7	(4.8)	-	7.0	(0.2)
Q4 (Oct – Dec)	-	0.9	2.8	-	(3.0)	5.5	-	3.4	1.2
Fiscal Year	-	3.4	0.1	-	2.1	(0.3)	-	4.3	0.4

* IFRS 15 "Revenue from Contracts with Customers" is applied on the FY2017 results and their figures are adjusted.

Quarterly Organic Growth for Dentsu Aegis Network by Region

(%)

	Dentsu Aegis Network EMEA			Dentsu Aegis Network Americas			Dentsu Aegis Network APAC		
	2019	2018	2017*	2019	2018	2017*	2019	2018	2017*
Q1 (Jan – Mar)	(0.4)	2.7	5.8	0.1	4.6	0.6	(3.0)	(2.9)	4.5
Q2 (Apr – June)	0.7	4.8	(0.3)	2.8	6.5	(4.1)	(12.3)	0.8	(3.8)
Q3 (Jul – Sept)	-	8.2	5.9	-	5.3	(2.0)	-	8.2	(5.5)
Q4 (Oct – Dec)	-	12.0	1.3	-	3.5	(0.0)	-	(9.6)	2.6
Fiscal Year	-	7.4	3.1	-	4.9	(1.5)	-	(1.7)	(0.6)

* IFRS 15 "Revenue from Contracts with Customers" is applied on the FY2017 results and their figures are adjusted.

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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 118 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 62,000 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. <http://www.dentsu.com/>