dentsu

August 9, 2017

Dentsu Inc.
H1 FY2017 Consolidated Financial Results (IFRS)

Consolidated Group (million yen)	H1 FY2017	H1 FY2016	YoY Change, %	Constant currency basis, %
Revenue	439,485	393,167	11.8	-
Gross profit*	414,610	368,619	12.5	13.1
Statutory results				
• operating profit	45,307	58,651	(22.8)	-
• net profit (attributable to owners of the parent)	30,712	35,785	(14.2)	-
• basic EPS (yen)	108.33	125.50	(13.7)	-
Underlying results**				
▪ operating profit	64,354	68,612	(6.2)	(7.7)
▪ operating margin	15.5%	18.6%	(3.1)	(3.5)
▪ net profit (attributable to owners of the parent)	41,010	43,559	(5.9)	-
▪ basis EPS (yen)	144.65	152.77	(5.3)	-
EBITDA	73,575	79,662	(7.6)	-
Average JPY/USD rate	112.4 yen	111.9 yen	0.5	-
Average JPY/GBP rate	141.4 yen	160.3 yen	(11.8)	-

** Gross profit, defined as revenue less direct costs, 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 prior year.*

*** Throughout this announcement, results are stated on an underlying basis unless otherwise indicated. See page 2 for definition of "underlying."*

Highlights of H1 FY2017:

- The Dentsu Group delivered total gross profit growth of 13.1% (constant currency basis) in H1 FY2017:
  - (1.2%) gross profit growth at the Group's operations in Japan, and 27.2% gross profit growth (constant currency basis) at Dentsu Aegis Network, its international business.
- The Group produced organic gross profit growth of (0.4%) during H1 FY2017, including (4.8%) in Q2 FY2017:
  - The Group's operations in Japan produced organic gross profit decline of (1.1%) in H1 FY2017, including (8.1%) in Q2 FY2017. This was due, in part, to the absence of specific business such as TV advertising for the qualifying games for the 2016 Summer Olympics and Paralympic Games in Rio de Janeiro, and large-scale events in Marketing and Promotions.
  - Dentsu Aegis Network delivered organic gross profit growth of 0.1% in H1 FY2017, with a 3.1% growth in Q1 FY2017 and (2.7%) decline in Q2 FY2017. This decline was impacted by strong performance in comparative periods with 7.2% in Q2 FY2016 and 10.2% Q2 FY2015, as well as recent new business wins not due to be realized until Q3 and challenging market conditions.
  - H1 FY2017 saw major new business wins at Dentsu Aegis Network with new and existing clients generating net new media billings over this period totalling US$1.9 billion, up US$722 million from the same time last year.
- Gross profit contribution from digital businesses reached 42.4% at a Group level, including 21.7% in Japan and 58.3% in Dentsu Aegis Network.
- Group underlying operating profit decreased by (7.7%) on a constant currency basis.

- Group underlying operating margin was 15.5% (H1 FY2016: 18.6%) mainly due to an unexpected slower growth in gross profit and an increase in the international business ratio.
- Group underlying basic EPS decreased by (5.3%).
- 14 acquisitions and investments signed in H1 FY2017 contributed to the Group's strategic objectives.
- Dividend per share for H1 FY2017 was 45 yen, an increase from 40 yen from the prior year.

Reconciliation from underlying to statutory operating profit

Consolidated Group (million yen) – reported on an IFRS basis	H1 FY2017	H1 FY2016	Change, %
Underlying operating profit*	64,354	68,612	(6.2)
Adjustment items:	(19,047)	(9,961)	
Amortization of M&A related intangible assets	(16,258)	(10,736)	
Acquisition costs	(743)	(637)	
Share-based compensation expenses related to acquired companies	(1,473)	-	
One-off items	(573)	1,412	
Gain (loss) on sales and retirement of non-current assets	629	1,446	
Gain (loss) on sales of shares of subsidiaries and associates	(114)	744	
Impairment loss	(689)	(56)	
Others	(399)	(722)	
Statutory operating profit	45,307	58,651	(22.8)

*Underlying net profit (attributable to owners of the parent): KPI to measure recurring net profit attributable to the owners of the parent which is calculated as net profit (attributable to owners of the parent) added with adjustment items related to operating profit, reevaluation of earn-out liabilities/M&A related put-option liabilities, tax-related, NCI profit-related and other one-off items

Toshihiro Yamamoto, President and Chief Executive Officer of Dentsu Inc., said: "The Group has continued to accelerate revenue from digital – both in Japan and in our international business – by investing in leading technology and data, both organically and through acquisition. This strategy will ensure that the Group is in the best position to deliver competitive advantage for our clients.

Although the Group has seen slower growth in Q2 FY2017, it has shown continued resilience with strong total gross profit growth across H1 FY2017. Going into the second half of the year, despite uncertain market conditions, the Group is well placed to realize the positive impact of strong new business wins in the first half of 2017. Dentsu in Japan remains focused on a new working environment to foster a progressive working culture, and our international business is well positioned with strong new business momentum and a further strengthened top leadership team to continue its long-term track record of market outperformance on a full year basis."

H1 FY2017 Consolidated Financial Results

Overview

Gross profit for the Dentsu Group in the first half of the 2017 fiscal year was 414,610 million yen, up 13.1% on a constant currency basis, from the same period of the previous fiscal year. Organic growth, based on gross profit, for the Group was (0.4%), including (4.8%) in Q2 FY2017.

On a reported basis, there was a 2 billion yen decline in gross profit from foreign exchange movements as the JPY continued to remain strong against the GBP, compared to H1 FY2016 (as outlined in the table on page 1 of this announcement).

Group underlying operating profit was 64,354 million yen, a decrease of (7.7%) on a constant currency basis, from the same period of the previous fiscal year. The Group's underlying operating margin declined by 350 basis points, on a constant currency basis, to 15.5%, mainly due to an unexpected slower growth in gross profit and an increase in the international business ratio.

Underlying basic earnings per share was down (5.3%) to 144.65 yen, from 152.77 yen in the same period of the previous fiscal year.

Regional performance review

The Group's operations in Japan produced organic gross profit decline of (1.1%) in H1 FY2017, including (8.1%) in Q2 FY2017. This was due, in part, to the absence of specific business like TV advertising for the qualifying games for the 2016 Summer Olympics and Paralympic Games in Rio de Janeiro, and large-scale events in Marketing and Promotions.

Dentsu Aegis Network delivered strong total gross profit growth of 27.2% on a constant currency basis with the annualization of 2016 acquisitions, including Merkle, having a positive impact. Organic gross profit growth was 0.1% in H1 FY2017, with a decline of (2.7%) in the second quarter. The group has had good new business momentum over the period but the positive impact of these will not be realized in gross profit terms until H2 FY2017. The results were also impacted by challenging market conditions as well as the strong performance in comparative periods.

Dentsu Aegis Network reported very strong performance in comparative periods – with a market leading 7.2% organic gross profit growth in Q2 FY2016 and 10.2% organic gross profit growth in Q2 FY2015. Over the last three years (H1 FY2015 – H1 FY2017), the business has delivered 14.7% organic gross profit growth in Q2 and 17.9% organic gross profit growth in H1, showing strong growth and momentum over this period. The network has had good new business momentum which is expected to drive a positive impact on performance in H2 FY2017, with net new media billings totalling US$1.9 billion, up US$722 million from the same time last year.

In EMEA, Dentsu Aegis Network delivered total gross profit growth of 19.9% and organic gross profit growth of 2.9% in H1 FY2017, including a (0.3%) decline in Q2 FY2017. Markets across Eastern Europe performed particularly well with Russia and Poland reporting strong growth as well as the Nordics, buoyed by some solid new business wins.

In the Americas, Dentsu Aegis Network delivered total gross profit growth of 52.1%, however posted an organic gross profit decline of (2.0%), including a (4.1%) decline in Q2 FY2017. Challenging market conditions continued to impact the business in Brazil and although H1 FY2017 saw good performances across a number of US businesses, some were impacted by a more difficult trading environment. The business in Mexico continued to grow strongly as did recent acquisitions including Accordant Media and Merkle.

In APAC, excluding Japan, Dentsu Aegis Network delivered total gross profit growth of 5.9%, and organic gross profit decline of (0.2%) in H1 FY2017, including (3.8%) decline in Q2 FY2017. There were strong performances in Taiwan and India, the latter having just announced the launch of Merkle in the market through the acquisition of

Sokrati. Australia and China experienced a period of weaker growth but are expected to deliver stronger performance in the second half with China supported by new business wins.

Digital remains the dominant force in the industry

The digital economy is the dominant force that will shape future business, and Dentsu Aegis Network is well positioned to take advantage with digital services accounting for 58.3% of gross profit, up 8.2% from the same period last year. Digital continues to disrupt the way brands connect with their consumers; the Dentsu Aegis Network Advertising Spend Report (June 2017) predicts 2017-2018 will be a period of significant milestones where Digital (mobile and paid search in particular) will take the lion's share of investment over traditional forms of advertising spend, like television. Reflecting increased consumer use of digital media, driven by mobile, the Digital share of total media spend is predicted to reach 37.6% in 2018 (up from 34.8% in 2017), versus 35.9% for television. This will take total Digital media spend to a predicted US$215.8 billion.

Acquisitions continue to accelerate our strategy and drive business value

Dentsu Aegis Network continues to accelerate its strategy through acquisitions, motivated by growing scale, geographic and capability in-fill and innovation with a focus on digital capability including data and CRM, brand commerce, customer experience, performance marketing and social & mobile. There were 14 deals signed in H1 FY2017, 11 of these in Q2 FY2017. These included Accordant, Australia's leading data-driven customer experience and personalisation agency (May), Leapfrog Online, a US based performance marketing solutions agency (April) and Gleam, the global leader in digital-first talent management based in the UK (June). These acquisitions continue to accelerate Dentsu Aegis Network's progress against strategic business goals, driving the business ambition to be a 100% digital economy business by 2020.

Forecast for FY2017 full year performance

There is a change to both FY2017 Consolidated and non-Consolidated Financial Forecast. Please see the press release titled "Dentsu Announces Changes to the Forecast of Financial Results for the Fiscal Year Ending December 31, 2017" issued concurrently.

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Further information:

Details of Dentsu Inc.'s H1 FY2017 results, including all related financial statements, can be found in the Investor Relations section of the Dentsu Inc. website: http://www.dentsu.com/ir.

The quarterly organic gross profit growth figures for 2015, 2016 and 2017 to date for the Dentsu Group, Dentsu in Japan and Dentsu Aegis Network, are as follows:

	Dentsu Group Total			Dentsu in Japan			Dentsu Aegis Network Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Q1 (Jan – Mar)	3.9%	5.1%	6.2%	4.7%	5.6%	0.0%	3.1%	4.5%	13.7%
Q2 (Apr – June)	(4.8%)	9.5%	6.5%	(8.1%)	12.2%	1.9%	(2.7%)	7.2%	10.2%
Q3 (Jul – Sept)	-	2.7%	4.2%	-	0.3%	1.4%	-	5.2%	6.6%
Q4 (Oct – Dec)	-	3.9%	10.6%	-	1.0%	12.9%	-	5.8%	8.2%

The quarterly organic gross profit growth figures for 2015, 2016 and 2017 to date for Dentsu Aegis Network in each geographic region are as follows:

	Dentsu Aegis Network EMEA			Dentsu Aegis Network Americas			Dentsu Aegis Network APAC		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Q1 (Jan – Mar)	5.8%	10.7%	11.1%	0.6%	(2.0%)	10.4%	4.5%	5.2%	22.5%
Q2 (Apr – June)	(0.3%)	5.0%	16.1%	(4.1%)	2.4%	7.9%	(3.8%)	16.8%	5.4%
Q3 (Jul – Sept)	-	5.0%	11.0%	-	5.4%	0.1%	-	5.3%	9.3%
Q4 (Oct – Dec)	-	7.5%	11.0%	-	4.4%	2.1%	-	5.6%	11.0%

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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 116 years of innovation, the Dentsu Group provides a comprehensive range of client-centric brand, integrated communications, creative, media and digital services. Dentsu Aegis Network Ltd., its global business headquarters in London, oversees Dentsu's agency operations outside of Japan and has ten global network brands —Carat, Dentsu, dentsu X, iProspect, Isobar, mcgarrybowen, Merkle, MKTG, Posterscope and Vizeum and supported by its specialist/multi-market brands. The Dentsu Group has a strong presence in over 145 countries across five continents, and employs more than 55,000 dedicated professionals. www.dentsu.com