

Hakuhodo DY Holdings Inc.
Q1 FY2024 Consolidated Financial Results: Q&A

Thursday, August 8, 2024, 14:00-15:00

Presenters:

Masanori Nishioka, Representative Director & Senior Executive Corporate Officer

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- What are the factors behind the increased billings from “Marketing/Promotion”? Have the projects in BPO business carried over from the previous business year contributed to the billings’ growth? What are the prospects for BPO business going forward?

BPO business was a somewhat negative factor in Q1 YoY. The robust performance of activation businesses including SP, events and commerce, one of the growth domains identified in the Medium-Term Business Plan, more than offset the decline in BPO businesses, exceeding the previous year’s result. As regards the prospects for BPO businesses, projects carried over from the previous year are expected to be recognized in Q2 and contribute to exceeding the previous year’s results for the full year.

- What is the current status and prospects for the consulting business in the US?

Weak performance continues for the consulting business in the US. Our Group’s business in North America is divided into two categories: consulting and advertising. Clients tend to prioritize short-term profits, resulting in spending on advertising, but budgets for consulting services with a mid- to long-term perspective remain constrained. Thanks to the previous year’s structural reform, we managed to secure profit in Q1. As regards prospects, it is hard to tell when the consulting business will recover, in view of uncertainties about future events such as the US presidential election.

- It appears that the growth of Internet media is slowing. What is the current status and prospects? How about the status of TV?

Regarding Internet media, our performance follows the trend of the market, which now shows single-digit growth due to the sheer volume of transactions. Although the advertising budgets of large companies remain similar to the previous year, we have good business relationships with medium- and small-sized companies, mainly the clients of Hakuhodo DY ONE. The growth rate remains within our assumptions, and this trend is expected to remain in the mid-single digits.

With regard to TV, we managed to increase our market share thanks to robust business with IT platformers and active spending by beverage manufacturers, continuing from the previous year, despite reducing ad placements compared to the previous year from the “Automobiles/Related

products” and “Household products”.

- This quarter saw the launch of Hakuhodo DY ONE. What effects has the integration had?

Although the integration is improving cost efficiency, it will take time for any impact on profitability to materialize. We are now seeking to develop new solutions by bringing together the expertise of former DAC and former IREP, with more operations to come as a fully integrated entity. Please allow us more time.

- The full-year plan predicts an increase in selling, general and administrative (SG&A) expenses mainly due to incentives. When will the increase occur? Will SG&A excluding incentives stay at the level of Q1 throughout the year?

It is true that the full-year plan indicates an increase in SG&A, but the increase is not largely attributable to incentives. Rather, we anticipate an increase in personnel expenses due to rising prices and an increase in headcount, and we also plan to increase other costs where necessary.

Factors behind the decline in SG&A in Q1 on the previous year include the impact of the structural reform implemented overseas in the second half of the previous year and cost controls in Japan including on performance-based incentives. We will control costs in Q2 and beyond depending on our business performance. We also expect other costs to increase later in the FY2024, including AI and software development expenditures, but we do not expect the increase to exceed our initial assumptions on a full-year basis.

- Do you have any updates on the incident involving Nihon Total Tele-marketing (NTM)?

We are strengthening the governance structure, putting in place a Confidence-Building Division in NTM and dispatching the staffs from Hakuhodo Product’s Inc., its parent. The whole Hakuhodo Product’s group is now developing preventive measures and reinforcing its compliance system.

Negotiations with municipalities are not expected to significantly affect our consolidated business performance at this moment.

- How will foreign exchange rate fluctuations affect business performance overseas?

The depreciation of the yen has pushed up gross profit and SG&A by about 10% on the previous year.

- Did SG&A go as planned in Q1? Is it going to increase progressively throughout in the FY2024?

We expect it to increase to some extent in Q2 and beyond, provided that the topline progresses as planned. The developments thus far have stayed within our full-year assumptions.

- Please comment on Q1 results and second half forecast regarding billings by clients' industry.

In Q1, we saw growth in our business with IT platformers in the “Information/Communications”. In “Beverages/Cigarettes/Luxury foods” clients actively invested in campaigns for alcohol, continuing from the previous year. “Restaurants/Services” and “Transportation/Leisure,” among other industries, continued to grow strongly in the post-pandemic era. “Cosmetics/Toiletries” also showed robust performance after a long time. Meanwhile, the performance of “Automobiles/Related products” stayed similar to the previous year.

As for second half, we continue to have high expectations for “Beverages/Cigarettes/Luxury foods.” We also expect an increase in marketing budget in the “Foodstuffs” industry, as the impact of rising raw materials prices recedes.

- What is the progress in the six business domains as envisaged in the Medium-Term Business Plan? What are the prospects for related investments going forward?

It is too early to evaluate the outcome in Q1. Our two-pronged monitoring for traditional business and the other for growth options suggests a positive outcome for the growth domains. We started new structures in the digital and consulting domains, launching Hakuhodo DY ONE and ENND PARTNERS, respectively. We hope to be able to report on the progress at the next financial results briefing both qualitatively and quantitatively.

- I understand that you are still in the investment phase, but I have the impression that SG&A is a little too high. How do you control the cost from the long-term perspective?

Under the previous Medium-Term Business Plan, we primarily made upfront investments to reinforce digital talent. We will make sure we reap returns on those investments. At the same time, we will make investments in advance toward the future vision that our group is aiming for through the business structure reforms indicated in the new Medium-Term Business Plan.