

May 15, 2017

Dentsu Inc.
Q1 FY2017 Consolidated Financial Results (IFRS)

A steady start to the year with digital revenue streams driving growth

Consolidated Group (million yen)	Q1 FY2017	Q1 FY2016	YoY Change, %	Constant currency basis, %
Revenue	229,813	199,542	15.2	–
Gross profit*	217,261	186,990	16.2	17.7
Statutory results				
• operating profit	32,119	31,796	1.0	–
• net profit (attributable to owners of the parent)	17,943	17,215	4.2	–
• basic EPS (yen)	63.02	60.38	4.4	–
Underlying results**				
▪ operating profit	41,281	35,769	15.4	13.4
▪ operating margin	19.0%	19.1%	(0.1)	(0.7)
▪ net profit (attributable to owners of the parent)	25,883	21,552	20.1	–
▪ basis EPS (yen)	90.90	75.58	20.3	–
EBITDA	46,135	42,287	9.1	–
Average JPY/USD rate	113.6	115.4	(1.6)	
Average JPY/GBP rate	140.8	165.2	(14.8)	

* 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 Q1 FY2017:

- The Group delivered total gross profit growth of 17.7% on a constant currency basis in Q1 FY2017.
- The Group produced organic gross profit growth of 3.9% during the period, ahead of the peer group average:
 - The Group's operations in Japan produced organic gross profit growth of 4.7%, driven by Dentsu Inc.'s World Baseball Classic-related business and contribution from services in digital marketing and promotion
 - Dentsu Aegis Network delivered organic gross profit growth of 3.1%, reporting growth in all three regions.
- Group underlying operating profit increased by 13.4% on a constant currency basis.
- Group underlying operating margin was 19.0%.
- Group underlying basic EPS increased by 20.3%.
- The Group continued to accelerate its global business strategy through key acquisitions with three deals signed in Q1 FY2017.

Reconciliation from underlying to statutory operating profit

Consolidated Group (million yen)	Q1 FY2017	Q1 FY2016	Change/yen
Underlying operating profit*	41,281	35,769	5,511
Adjustment items:	(9,161)	(3,972)	(5,189)
Amortization of M&A related intangible assets	(7,833)	(5,460)	(2,373)
Acquisition costs	(215)	(284)	68
One-off items	(1,113)	1,772	(2,884)
Gain (loss) on sales and retirement of non-current assets	(8)	1,419	(1,427)
Gain on sales of shares of subsidiaries and associates	–	1,445	(1,445)
Impairment loss	(616)	(5)	(611)
Special retirement expenses	(113)	(44)	(68)
Others	(376)	(1,043)	667
Statutory operating profit	32,119	31,796	322

* Underlying operating profit and underlying net profit are operating profit and net profit respectively, stated before those items of financial performance that the Group believes should be separately disclosed to assist in the understanding of the underlying performance achieved by the Group and its businesses ("adjustment items"). In the opinion of the Group, such adjustment items are material by nature or amount and may include impairment charges, profits and losses on disposals of investments and property or on retirement of non-current assets, amortization of purchased intangible assets (being amortization charged on separately identifiable intangible assets in acquired businesses), special retirement expenses and one-off items which are material by nature or amount in the opinion of the Group, and any related tax thereon, as appropriate.

Toshihiro Yamamoto, President and Chief Executive Officer of Dentsu Inc., said:

"The Dentsu Group has had a steady start to 2017 with the Q1 results delivering against the Group's targets, as well as outperforming the peer group average. In a highly competitive market we continued to make strong progress, with digital revenue from our international business exceeding 55%. Market conditions remain uncertain and challenging, however we have a clear plan and are well positioned going into the second quarter, to provide our clients with best-in-class solutions."

Q1 FY2017 Consolidated Financial Results

Overview

Gross profit for the Dentsu Group in the first quarter of the 2017 fiscal year was 217,261 million yen, up 17.7% on a constant currency basis, from the same period of the previous fiscal year. Organic growth, based on gross profit, for the Group was 3.9%, ahead of the peer group average for the period.

On a reported basis, there was a deficit of 2.4 billion yen on gross profit from foreign exchange movements, particularly driven by the strengthening of the JPY against the USD during the period, compared to Q1 FY2016. The average JPY/USD rate declined by 1.6% to 113.6 yen during Q1 FY2017, from 115.4 yen in the prior year period.

Group underlying operating profit was 41,281 million yen, an increase of 5,511 million yen (13.4% increase on constant currency basis) from the same period of the previous fiscal year. The Group's underlying operating margin was 19.0%.

Underlying basic earnings per share increased by 20.3% to 90.90 yen, from 75.58 yen in the same period of the previous fiscal year.

Regional performance review

The Group's operations in Japan produced organic gross profit growth of 4.7%, driven by Dentsu Inc.'s World Baseball Classic-related business and contribution from services in digital marketing and promotion.

Dentsu Aegis Network delivered strong total gross profit growth of 32.8% on a constant currency basis, with double digit growth in all three regions. Organic gross profit growth was 3.1%, ahead of the peer group average. The total performance was driven by good organic gross profit growth and a strong contribution from recent acquisitions, particularly Merkle.

In EMEA, Dentsu Aegis Network delivered strong total gross profit growth of 18.2% on a constant currency basis, and organic gross profit growth of 5.8% in Q1 FY2017. In Western Europe, there were strong performances across the Nordics, France and Italy with the UK remaining stable despite general market uncertainty surrounding Brexit and the impending election. In Eastern Europe, Russia and Poland delivered a solid performance.

In Americas, Dentsu Aegis Network delivered total gross profit growth of 63.4% on a constant currency basis, and organic gross profit growth of 0.6% in Q1 FY2017. The US delivered double digit total gross profit growth in Q1, with strong performances from iProspect and Fetch, as well as the material contribution of Merkle. Argentina and Columbia performed strongly, with Mexico building on momentum achieved in 2016, however Brazil still proves to be challenging with geopolitical and economic tension causing market uncertainty.

APAC, excluding Japan, Dentsu Aegis Network delivered total gross profit growth of 11.6% on a constant currency basis, and organic gross profit growth of 4.5% in Q1 FY2017. There were strong performances in a number of markets including Taiwan who delivered double-digit organic gross profit growth, as well as India, Australia, Indonesia and Singapore. China remained stable despite delayed campaign spend and has momentum going into Q2 on the back of recent new business wins.

Digital services now accounts for 56.9% of gross profit at Dentsu Aegis Network, up 9.1% from the same period last year. Acquisitions continue to accelerate the Group's progress against strategic business goals, with three deals signed in Q1 FY2017: blue-infinity, a leading digital transformation player based in Switzerland, Dwi Sapta, the largest independent media and creative shop in Indonesia and Grant Group, the largest independent creative agency in Sri Lanka, establishing Dentsu Aegis Network's presence in a market with significant potential.

Forecast for FY2017 full year performance

There is no change to the FY2017 Consolidated Financial Forecast.

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Further information:

Details of Dentsu Inc.'s Q1 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 2016 and 2017 to date for the Dentsu Group and Dentsu in Japan, and the figures for 2015, 2016 and 2017 to date for 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)	-	9.5%	6.5%	-	12.2%	1.9%	-	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)	-	5.0%	16.1%	-	2.4%	7.9%	-	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, media and digital services through its ten global network brands—Carat, Dentsu, Dentsu media, 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 140 countries across five continents, and employs more than 55,000 dedicated professionals. Dentsu Aegis Network Ltd., its global 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