Summary of Questions and Answers for 1Q of FY2020

Date of event: August 7, 2020 (Friday) 16:00–17:00
(Teleconference)
Attending members of the Company:
Masanori Nishioka, Director & Senior Corporate Officer
Takeshi Tokugawa, Corporate Officer

Q1

1. **Could you explain the reasons behind the further increase in gross margin? Also, is this increase sustainable?**
2. **Could you tell us about the details of cost control efforts in the first quarter as well as plans for these efforts from the second quarter on?**

A1

Our domestic businesses have continued on a trend of recovery since the second half of the previous fiscal year. In addition to the success we've been having with efforts to secure profits at our main advertising companies, gross margin has increased due to the impact of our client mix. Also, the expansion of our call center and other services in the first quarter contributed to this increase. While the impact from our client mix has the potential to fluctuate going forward, we will remain diligent to ensure that the more substantial contributing factors to this increase continue.

A2

First, we started by curtailing nonessential and nonurgent costs. Furthermore, costs for activity expenses such as travel and entertainment expenses declined significantly as such activities themselves decreased during the period of the state of emergency. In terms of strategic investments, we have secured expenditures related to reinforcing our data and technologies foundation. Meanwhile, we have put a halt on mid-career hiring in consideration of the trends in our top-line performance.

For the second quarter and the second half, our forecasts for top-line are unclear, and, accordingly, we are examining numerous scenarios. Preparing for the worst-case scenario, we set cost control plans that include curtailing not only costs for activity expenses but also a part of strategic investments. If our performance trends upwards, our plan is to unfreeze spending starting from the highest priority areas.

Q2

We would like you to address the following topics in regard to the overseas businesses:

1. **Please explain the condition in each region during the first quarter (January to March).**
2. **Please also explain the trends in each region during the second quarter (April to June).**
3. **Please tell us the extent to which the corona crisis has impacted M&A.**

A1

In Greater China, which was the first region impacted by the corona crisis, despite a solid performance in Taiwan, our performance in mainland China was significantly impacted by the spread of the virus, owing in part to our large percentage of accounts in the automobile industry. As a result, revenue in Greater China declined over 10%. While revenue levels in the ASEAN countries were up, these levels were only slightly better than in the same period of the previous fiscal year when excluding the impact of M&A. Our performance in North America was on a par with that of the same period in the previous fiscal year.

A2

In brief, our performance in Greater China is heading toward a recovery. We are expecting double-digit declines in the ASEAN countries and North America due to the impact of lockdowns.

A3

The environment surrounding our target companies has been undergoing changes, and we are, therefore, cautiously conducting M&A through careful investigations of each individual project.

Q3

The way people live their lives is changing due to the corona crisis. What is your view about this impact by client industry and by service category? Some of competitors have been responding well to these types of changes and have been able to minimize their impact in the first quarter. Going forward, will you adopt a flexible approach in regard to such matters as allocating personnel with a focus on industries

anticipating future growth?

A

The Group has a high percentage of clients that conduct large-scale brand advertising, including clients in the automobile and telecommunications industries. Accordingly, it may appear that we are not as flexible as advertising companies specializing in Internet advertisements. Of course, we will focus efforts on industries that are benefiting from the current stay-at-home demand, such as e-commerce, games, pharmaceuticals, and toiletries. However, we do not necessarily have a large percentage of clients in such industries. In light of this, rather than changing our personnel allocation based on industry, we will work to change the content of our operations, including actively making proposals for responding to digital transformations in the post-COVID-19 era, centered on major clients. At the moment, we are actually working on a Groupwide basis to carry out such a response.

Looking at service category, we believe we will continue to face challenging conditions in terms of TV spots, which are easily impacted by client performance. We believe there will be a relatively fast recovery in the market for Internet media, and we believe the Group can achieve growth in accordance with the trends in this market.

Q4

1. **Please tell us your approach to reducing activities that require SG&A expenses in the second quarter and from the third quarter on.**
2. **Please explain your plans to reduce costs overseas.**

A1

We will control SG&A expenses while observing trends in our top-line performance. We are seeing signs of recovery in the second quarter, and, as such, we expect reductions to SG&A expenses to be on about the same level as in the first quarter, if not slightly lower. However, further cost reductions may become necessary depending on the spread of COVID-19. We will determine our approach to cost control measures from the third quarter on while monitoring the status of our top-line.

A2

In term of our overseas businesses, the spread of COVID-19 began to intensify from the second quarter. In turn, costs have naturally started to decline from the second quarter as our business activities became restricted due to lockdowns. Additionally, we will conduct proactive cost control activities in accordance with the situation in each region of operations.

Q5

1. **Could you tell us your current awareness of the overall market growth and the growth of the Company?**
2. **Are you concerned that the Company's creativity and sales capabilities will decline due to the continuation of teleworking?**

A1

The values of the Survey of Selected Service Industries for June were released today. While conditions in the overall advertising industry are recovering compared with May, when excluding the "others" category, levels are generally the same as they were in May.

In the first quarter, Internet advertisement declined by around the 10% level year on year. This decline was relatively small compared with other service categories, and we believe we will see a quick recovery. Meanwhile, it will take a while for TV spots to recover. I cannot comment on our share at the moment as confirmed data do not appear in this market information. However, we believe the impact of the corona crisis on our performance is largely in line with the crisis's impact on the market overall.

A2

While there was some confusion when we initially implemented teleworking, our employees started to become accustomed to teleworking from the end of April on. Essentially, all of our work processes can now be performed online. So, we have in place a structure that enables us to work in a manner that does not adversely affect our creative and client service capabilities.

On the other hand, there have been some difficult aspects in terms of developing and training new employees completely online, and we recognize that as an issue we need to address going forward.