

# Update on progress under the Medium-Term Business Plan


## Abbreviations within this document

HC: Hakuodo DY Holdings Inc.    H: Hakuodo Inc.    D: Daiko Advertising Inc.    Y: Yomiko Advertising Inc.  
MP: Hakuodo DY Media Partners Inc.    DAC: D.A. Consortium Inc.    IREP: IREP Co., Ltd

Greetings! My name is Masayuki Mizushima, and I am the Representative Director & President of Hakuodo DY Holdings Inc.

Please allow me to provide an explanation on the progress we are making under the Hakuodo DY Group's Medium-Term Business Plan.

# Medium-Term Business Plan (FY2019-FY2023: 5-year plan)

Core Medium-Term Strategy	With <i>sei-katsu-sha</i> insight as our cornerstone, the Hakuhodo DY Group will combine its creativity, integrative capabilities, and data and technology utilization skills to play a leading role in evolving companies' marketing activities and generating innovation in a completely digitalized era. In this way, we will continue to impact and provide new value to <i>sei-katsu-sha</i> and society as a whole.		
Strengthening Fundamentals for Growth	<ul style="list-style-type: none"><li>● Establish a leading position in the broader digital domain</li><li>● Strengthen response capabilities for borderless corporate activities</li><li>● Accelerate innovation through external collaborations</li></ul>		Aggressive Investment Data, technologies, infrastructure, human resources, M&A, and other areas
Outline of Growth (FY2023)	<ul style="list-style-type: none"><li>● Billings from Internet media (domestic business): At least double*</li><li>● Overseas business<ul style="list-style-type: none"><li>- Revenue: At least double*</li><li>- Operating margin before amortization of goodwill: Continuous improvement</li></ul></li></ul>		
Medium-Term Business Plan Targets (FY2023)	<p><u>Operating income before amortization of goodwill : ¥95.0 billion</u></p> <ul style="list-style-type: none"><li>● CAGR of revenue*</li><li>● Annual growth rate of operating income before amortization of goodwill*</li><li>● Operating margin before amortization of goodwill</li><li>● ROE before amortization of goodwill</li><li>● Shareholder returns<ul style="list-style-type: none"><li>- Stable and continuous dividends</li><li>- Shareholder returns in line with performance and financial position</li></ul></li></ul>	At least 7% At least 8% At least 20% At least 15%	} Base after adjustment (Excluding investment projects)

\* Figures are a comparison of the base year (FY2018) and FY2023

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We have been moving forward with a variety of initiatives in accordance with the Medium-Term Business Plan you can see here, which runs through FY2023.

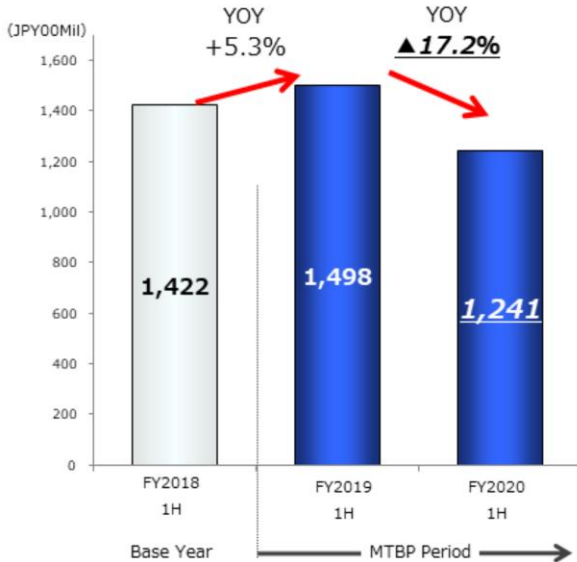
I will now explain the progress we made in the first half of FY2020. So, please see the next slide.

# Overview of Progress in 1H of FY2020

- Revenue excluding investment projects and after adjustments grew steadily in FY2019, the first year of the current Medium-Term Business Plan(MTBP). However, revenue declined below the previous year's level in the first half of FY2020, as the impact from the COVID-19 pandemic was significant.
- Meanwhile, we have started to see trends that address the "new normal" era emerge, and we have been steadily responding to environmental changes accordingly.

## Adjusted\* Revenue

\*Adjusted: Excluding investment projects and after retroactive restatements



## Trends That Address the "New Normal" Era

- Creation of new lifestyle settings for having fun at home / Support for isolation life
- Digital transformation (DX) of previously live events/content
- Shift to non-contact brand experiences → Implementation of integrated and continuous DX
- Support for the digitalization of companies/business
- Proposals of new ways to live and work in urban and rural areas

First, let me discuss revenue.

Revenue excluding investment projects and after adjustments grew steadily in FY2019, the first year of the current Medium-Term Business Plan. However, this revenue declined 17.2% year on year in the first half of FY2020 due to the significant negative impact of the COVID-19 pandemic both in Japan and overseas.

Meanwhile, within this challenging operating environment, we have been working to promptly ascertain *sei-katsu-sha* insight and corporate needs in the "new normal" era. Through these efforts, we are starting to see opportunities where we can leverage the Group's diverse capabilities and have been steadily responding to environmental changes accordingly.

## Key strengthening measures centered around the three fundamentals for growth

- Strengthening of structures and response capabilities centered around the MTBP's three fundamentals for growth.

### Main measures

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Establish a leading position in the broader digital domain

Strengthen response capabilities for borderless corporate activities

Accelerate innovation through external collaborations

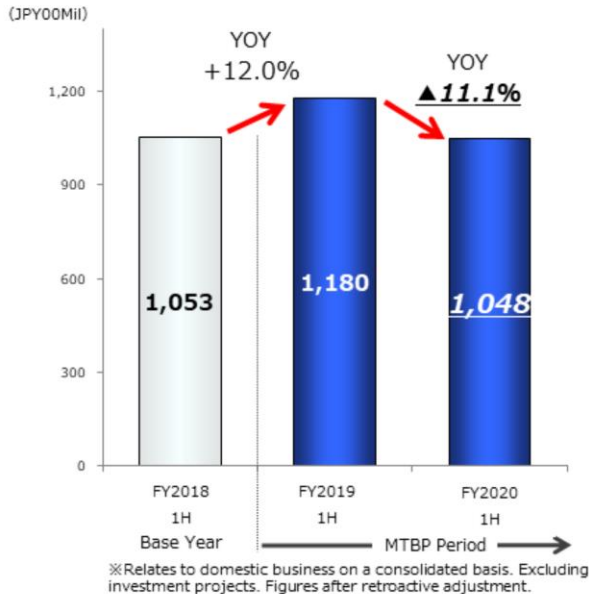
Continuing on, I will explain, in order, the main measures for strengthening structures and response capabilities centered on the Medium-Term Business Plan's three fundamentals for growth.

Please see the next slide.

# Establish a leading position in the broader digital domain

- Billings from Internet media saw a double-digit decline, falling 11.1% year on year, due to the significant impact of the COVID-19 pandemic.
- To address the acceleration of the shift to complete digitalization, we focused on not only enhancing digital marketing functions but also strengthening DX solution and D2C business response capabilities.

## Internet Media Billings\*



## Topics

### Enhancement of Digital Marketing Functions

- Collaborated with Gunosy Inc. to launch Guhack, a platform for optimizing the acquisition of user actions through TV commercials (MP)
- Commenced collaboration with toBe marketing, inc, a company that possesses strengths in integrated marketing tools provided by salesforce.com, Inc. (IREP)

### Provision of DX Solutions

- Launched hakuhodo DXD, a specialized team that supports DX from the perspectives of engineering and creativity (H)
- Launched GOGO DX, a DX solution that promotes a non-contact, non-face-to-face shift in contact point customer communication (H)

### Strengthening of D2C Business Response Capabilities

- Commenced the provision of D2C Design Studio, a support program for developing D2C brands based on *sei-katsu-sha* insight (H)

The first fundamental for growth I will talk about is “establish a leading position in the broader digital domain.”

Billings from the internet media domain, which we adopt as an indicator of progress for this domain, saw a decline of 11.1% year on year in the first half. Although we had continued to see robust billings growth in this domain to date, many of the industries in which we possess strengths were impacted by the COVID-19 pandemic in the first half, thus leading to this double-digit decline.

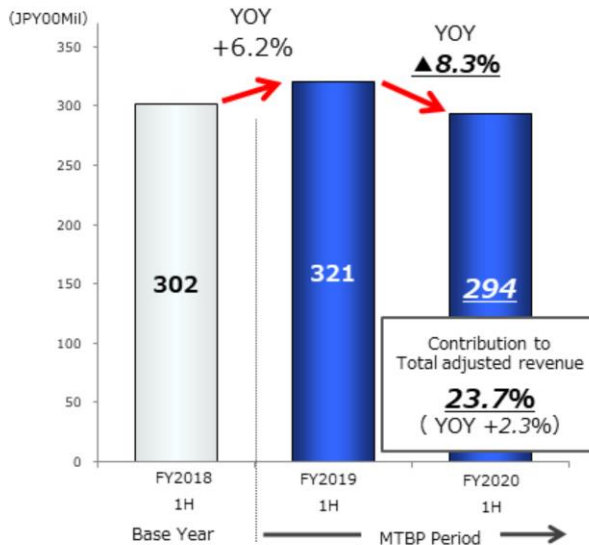
Although we found ourselves in a challenging situation numerically speaking, we steadily moved forward with efforts to strengthen our structures and response capabilities with a focus on the future.

For details on specific measures, please see the items listed under the Topics section of this slide.

# Strengthen Response Capabilities for Borderless Corporate Activities

- Revenue from overseas business declined 8.3% year on year on an overall basis. Although Asia returned similar levels of revenue to last year, due in part to mergers and acquisitions, there was a significant drop in North America.
- We continued to incorporate companies with diverse specialization and innovation and to enhance creativity. In Asia, there has been a progression in trends that address changes in *sei-katsu-sha* during the COVID-19 pandemic, and we will focus on business expansion in this region going forward.

## Overseas Revenue



## Topics

### Enhancement of Specialization and Innovation

- Godfrey Dadich Partners LLC, a communication firm that excels in storytelling and editorial capabilities became a member (kyu)
- Acquired shares in Public Digital Ltd., a DX consulting company in the United Kingdom (kyu)

**Godfrey Dadich.** **public digital**

### Enhancement of Creativity

- Sid Lee won an Emmy Award, a prestigious award in the United States television industry (kyu)

### Surveys of *Sei-katsu-sha* during the COVID-19 Pandemic

- Hakuhodo Institute of Life and Living ASEAN and Hakuhodo Institute of Life and Living Shanghai conducted surveys on *sei-katsu-sha* trends during the COVID-19 pandemic and announced the results (H)

Next, allow me to explain the second fundamental for growth, “strengthen response capabilities for borderless corporate activities.”

Revenue from overseas business declined 8.3% year on year on an overall basis. Although Asia saw revenue levels on a par with those of the first half of FY2019, due in part to M&A, there was a significant decline in North America.

Meanwhile, although it is not listed on this slide, we were able to maintain operating profit before amortization of goodwill from overseas business above the 1 billion yen level as a result of our swift efforts to reduce costs in response to the rapid decline in revenue due to the COVID-19 pandemic.

For details on specific measures to further strengthen our response capabilities, please see the items listed under the Topics section of this slide.



# Accelerate Innovation through External Collaborations

- Increased efforts toward the creation of new businesses based on *sei-katsu-sha* insight and creativity while collaborating with a diverse range of players from different industries
- Focused efforts on establishing a foundation for strengthening creativity as capital for creating the future

## Efforts to Realize Smart Cities Where *Sei-katsu-sha* Play a Leading Role

- Commenced Smart Citizen Vision, an activity for realizing smart cities where *sei-katsu-sha* play a leading role, through Hakuhodo's MIRAI Business Division
- Created new businesses in collaboration with diverse partners



### Smart Citizen Vision

Collaboration with Diverse Partners



Participation in SmartCityX, a global open innovation program



Collaboration with Mitsui & Co., Ltd. to create new businesses in the smart city domain

## Launch of the UNIVERSITY of CREATIVITY

- Launched the UNIVERSITY of CREATIVITY TOKYO Campus, a place for the research, development and social implementation of creativity as capital for creating the future
- A learning platform for co-development that transcends the boundaries of industry, government, and academia / culture, science, and art / inside and outside the company



The last fundamental for growth is “accelerate innovation through external collaborations.”

As you can see on this slide, in the first half we collaborated with a diverse range of players from different industries and worked to increase efforts toward advancing new businesses based on the Group's *sei-katsu-sha* insight and creativity.

We also focused our efforts on establishing a foundation for strengthening creativity as capital for creating the future.

# Numerical Targets of the Medium-Term Business Plan

## Recognition of the Business Environment Surrounding the Hakuhodo DY Group

- We are seeing an acceleration in “the shift to complete digitalization,” the basis of the strategies in this plan, due to the COVID-19 pandemic. We will therefore remain committed to responding to this shift in a flexible and speedy manner.
- Meanwhile, the domestic economy and advertising market have sustained tremendous damage, and the path to recovery for the economy and the advertising market remains unclear.



**Since our view of the economy and advertising market, which underpins this plan, has changed greatly, we have decided to withdraw the numerical targets of the current Medium-Term Business Plan.**

Once we are able to reasonably forecast the market outlook over the medium term, we will consider new numerical targets and announce them at an appropriate time.

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As I have now explained, we have been moving forward with a variety of initiatives in accordance with our Medium-Term Business Plan, which runs through FY2023. As a result of the pandemic, we are seeing a further acceleration in the “shift to complete digitalization,” which forms the basis of the strategies under our Medium-Term Business Plan.

We therefore remain committed to responding to this shift in a flexible and speedy manner.

Meanwhile, the domestic economy and advertising market have sustained tremendous damage due to the pandemic, and the path forward to recovery in the economy and the advertising market remains unclear.

When formulating the numerical targets of the current Medium-Term Business Plan, we based these targets on the assumption that the domestic economy (nominal GDP) and the domestic advertising market would grow by roughly 1.5% annually during the period of the Medium-Term Business Plan. However, our view of the economy and advertising market has unfortunately changed significantly in light of the current situation.

Taking this into account, we have determined that it would not be appropriate to maintain our current numerical targets and have withdrawn them accordingly.

Once we are able to reasonably forecast the market outlook over the medium term, we will consider new numerical targets and announce them at an appropriate time.



The logo for Hakuhodo DY Holdings is centered on a blue background with a diagonal split. The left side is a darker blue, and the right side is a lighter blue. The text "HakuhodoDY holdings" is written in a white, sans-serif font, with "Hakuhodo" and "holdings" in white and "DY" in a slightly lighter shade of blue.

## HakuhodoDY holdings

This concludes my explanation of the progress we are making with the Medium-Term Business Plan. Please let me say a few words in closing.

Under the COVID-19 pandemic, *sei-katsu-sha*, companies, and society at large are undergoing significant changes.

Rather than returning to the way things were before, we believe that the world itself is beginning to change, with the emergence of new value systems and lifestyles, and a “new normal.”

Furthermore, clients’ needs and marketing itself are also changing.

We believe that the Hakuhodo DY Group, too, must evolve flexibly in response to these significant changes. We have therefore begun Groupwide discussions and are undertaking a variety of other initiatives to advance the digital transformation of the services we provide and structural reform of the Company.

In regard to the current situation in the domestic advertising market, we have been seeing a trend of improvement across the market since the second quarter, although there have been differences between service categories.

In the second half, we believe the conditions in the TV spot advertising market will recover faster than we initially anticipated. We also believe that we will see a gradual improvement in the internet media market.

Going forward, we will make Companywide efforts to overcome these adverse circumstances, focusing on enhancing our competitiveness and realizing continuous business growth. By doing so, we will strive to further improve our corporate value.

Thank you for your attention.