Hakuhodo DY Holdings Inc.
Summary of Questions and Answers for FY2020

Date: May 14, 2021 (Friday), 15:30–16:30

Presenters:
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- What is your forecast for recovery by service industry in the domestic advertising market in FY2021? Also, what competitive edge enables you to forecast a recovery in the Company's performance exceeding that of the market?

We expect that the domestic advertising market will grow significantly in FY2021, bouncing back from its sluggish performance in the previous fiscal year, which resulted from the significant impact of the COVID-19 pandemic. To date, numerical declines in the domestic advertising market have tended to exceed declines in the overall Japanese economy. Conversely, when there has been a recovery in the economy, numerical gains in the advertising market have typically exceeded said recovery. We believe that the recovery from the impact of the pandemic will follow these trends. During FY2021, the Japanese economy is expected to see approximately 3.5% growth in nominal GDP, while the advertising market is expected to see double-digit growth. However, even with such growth, the advertising market will not reach the level that it was in FY2019. To that end, we will work to restore our market share to that which we had in FY2019.

By service industry, there has already been a swift recovery in billings from Internet media, and we anticipate an even greater recovery in FY2021. In addition, billings from television have been rallying since around the end of 2020. On the other hand, with continued calls to refrain from going out, we still face challenging conditions in terms of events, promotions, and outdoor media. As vaccinations become more widespread going forward, we believe there will be a recovery in these service industries as well.

As for our forecasting a recovery that exceeds that of the domestic advertising market, one reason for doing so is our ability to swiftly respond to the recent demand for digital transformation (DX), a result of our ongoing efforts over the past few years to promote digitalization based on our *Sei-katsu-sha* Data Management Platform (DMP). Through the recently established HAKUHODO DX_United, we will further strengthen our response to DX.

- You are forecasting up-front investments on the scale of ¥10.0 billion during FY2021. What are the specifics of these investments? Also, do you have your sights set on making up-front investments on a similar scale from FY2022 onward?

We have adopted a two-pronged approach to supporting the DX efforts of our clients that focuses on marketing DX and media DX, and we are taking steps to further refine this approach. The shift to digitalization has been accelerating due to the impact of the COVID-19 pandemic. As such, we now aim to reach goals slated for achievement over a five-year period under the Medium-Term Business Plan in only one or two years. We are also continuing efforts to reform our cost structure and, factoring in the extra leeway these efforts will provide, we intend to carry out upward investments on the scale of ¥10.0 billion. Our first priority is to channel these investments toward human resources, followed by various systems and technologies. Specifically, we will make investments toward developing human resources who can manage digital advertisements and are able to utilize data. We will also invest in the development of cutting-edge technologies. While it will depend on the status of our profits and losses going forward, we aim to make up-front investments on the scale of ¥10.0 billion every fiscal year for the foreseeable future.

- What is your approach to M&A in Japan as a means of establishing a structure for supporting marketing DX and media DX?

HAKUHODO DX_UNITED was launched as a strategic organization integrating functions of Hakuhodo Inc., Hakuhodo DY Media Partners Inc., and D.A.Consortium Inc. However, giving consideration to the future DX needs of our clients, HAKUHODO DX_UNITED’s current composition of just over 700 members is not yet sufficient. In addition to efforts to recruit and develop members, we are examining a wide range of measures to respond to this issue, including pursuing M&A, business alliances, and capital alliances with companies on the front lines of DX support. As DX-related technologies and client needs will become more advanced in the future, we aim to link up with companies that possess high levels of expertise and innovation. To that extent, we will set our sights on not only Japan but also overseas as we work to establish the necessary functions going forward.

- How will media buying change going forward due to the impact of the COVID-19 pandemic? Also, please tell us about client needs and how you will respond to them.

The majority of media buying to date, including that on the Internet, has been reservation-based; however, we are now seeing a growing need for programmatic advertising. Accordingly, we no longer separate advertising by being digital or non-digital, such as the four mass media services and the Internet, but rather by being reservation-based or programmatic. The term “media buying” itself is essentially a concept that corresponds with reservation-based advertising, whereas the standard for programmatic advertising is the effects that an advertisement produces. Around 80% of digital advertisements are already programmatic, and we expect that TV spot advertising will adopt a programmatic model in the near future.

While our clients in digital advertising have been primarily from the information / communications, automobile, and finance industries, clients in the foodstuffs and toiletries industries have also started to incorporate programmatic advertising in FY2021. Going forward, we will reinforce services that cater to programmatic advertising needs based on the idea of “Advertising as a Service” (AaaS).

- Please tell us about your budget for SG&A expenses. Particularly, we would like to hear the details regarding what has become essential and what has diminished in importance due to your COVID-19 countermeasures.

Our forecasts for FY2021 call for an increase in gross profit of approximately ¥30.0 billion, with SG&A expenses growing by slightly less than that amount. In addition to the aforementioned up-front investments, there will be a need for us to recover personnel and strategic expenses—which were cut by a scale of ¥15.0 billion through emergency measures in FY2020—to a greater degree to get close to their FY2019 level, in tandem with realizing a recovery in our top line. Meanwhile, we are moving forward with cost structure reforms, and these efforts are expected to have an impact totaling several billion yen. At the moment, we are continuing to examine ways to achieve these reforms, and going forward we will pursue such measures as reorganizing our offices, reducing indirect costs, and improving operational efficiency through the use of digital technologies.

- What is the current level of billings from work related to marketing DX, and what do you expect that level to be over the medium to long term?

While I cannot provide specific numbers in this regard, we are moving forward with marketing DX initiatives with the aim of diversifying our sources of profit. For media DX, in addition to the integration of TV and Internet advertising, I believe we will be able to create a broad range of businesses spanning across Hakuhodo, Hakuhodo DY Media Partners, and D.A.Consortium, including owned media, CRM, and D2C businesses.

Furthermore, Group company HAKUHODO PRODUCT'S INC. has call center and temporary staffing functions underneath its corporate umbrella, and these functions enable the company to make wide-ranging marketing DX proposals that cover e-commerce and D2C businesses. Going forward, we aim to increase the functions we possess in areas where we implement these types of marketing activities. We established HAKUHODO DX_UNITED in FY2021, and through this organization we will collaborate on a Groupwide basis to create new kinds of businesses and pursue other challenges to continue our growth story.

- The growth rate for billings from the Internet domain on a Groupwide basis is only about half of the respective growth rate of said billings at Hakuhodo, Daiko Advertising Inc., and YOMIKO ADVERTISING INC. What are the reasons for the stagnant growth in billings from the Internet domain outside of those three main companies, and, in consideration of those reasons, how do you view growth in these billings going forward?

The integrated advertising companies (Hakuhodo, Daiko, and YOMIKO) primarily deal with large-scale clients. Although these companies faced extremely tough conditions in the first half of FY2020, they were able to realize a steady recovery in their performance in the second half, resulting in year-on-year growth in billings from the Internet domain. Compared with the year-on-year increases at these companies, the growth rate at IREP Co., Ltd. does appear to be weaker. However, IREP has a high percentage of clients in the travel and transport industries, thus its performance has been greatly impacted by the COVID-19 pandemic. In FY2021, IREP will strive to realize a recovery by enhancing the content of its proposals and improving its portfolio. Combining this recovery with the performance of the integrated advertising companies, we anticipate double-digit growth in billings from the Internet domain in FY2021.

- How will you receive profits from AaaS? Are you planning on a model whereby you essentially charge fees on a monthly basis?

Rather than simply being a moniker for a system, AaaS represents a part of our vision for shifting to programmatic advertising. Under AaaS, we have four types of profit models. The first is margin-based transactions from integrated TV and digital advertisements and from the digital and TV advertisements of IREP. The second is charging fees for digital analysis and planning. Next, we will create and provide AaaS in an application-service-provider (ASP) format for clients that require ASP that is very similar to monthly contract model. Lastly, we will create and customize digital systems. In these ways, we intend to make our profit models for AaaS highly diverse. For now, we will focus on promoting margin-based transactions from integrated TV and digital advertisements and from digital and TV advertisements as well as associated fee transactions.

- What kinds of contributions is *kyu* making in terms of the promotion of DX?

The U.S.-based Kepler Group is moving forward with advanced initiatives for media DX, including user analysis and media buying. We believe that these two types of initiatives can also be rolled out in Japan. Furthermore, one of the companies acquired by Kepler has an office in Singapore, and we aim to promote collaboration between that office and our offices in the region, such as Hakuhodo's offices in ASEAN.

As for marketing DX, in FY2020 we acquired Godfrey Dadich Partners, and going forward we will incorporate into the Group other advanced companies that can design brand experiences in the domains of digitalized media platforms and social media. Also, IDEO LP has been focusing for some time now on business design and service development, and there is much that we could learn on a Groupwide basis from these efforts. We will therefore work to share knowledge across Group companies. In these ways, synergies will be generated through interaction with *kyu* member companies, which in turn will help us improve our service capabilities in Japan.