

# Update on progress under the Medium-Term Business Plan

## Abbreviations within this document

HC: Hakuhold DY Holdings Inc.    H: Hakuhold Inc.    D: Daiko Advertising Inc.    Y: YOMIKO ADVERTISING INC.  
MP: Hakuhold DY Media Partners Inc.    DAC: D.A.Consortium Inc.    IREP: IREP Co., Ltd

Good afternoon. My name is Masayuki Mizushima, and I am the Representative Director & President of Hakuhold DY Holdings Inc.

Please allow me to provide an explanation on the progress we are making under the Hakuhold 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> <div> Aggressive Investment  Data, technologies,  infrastructure, human resources,  M&amp;A, and other areas </div>
Outline of Growth (FY2023)	<p><b>Since our view of the economy and advertising market, which underpins this plan, has changed greatly, we withdrew the numerical targets of the current Medium-Term Business Plan (MTBP).</b></p>
Medium-Term Business Plan Targets (FY2023)	

\* 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.

Due to the COVID-19 pandemic, our view of the economy and advertising market, which underpins the Medium-Term Business Plan, has changed greatly. For that reason, at the time of the release of our financial results for the first half of FY2020, we announced that we had withdrawn the numerical targets of the current Medium-Term Business Plan.

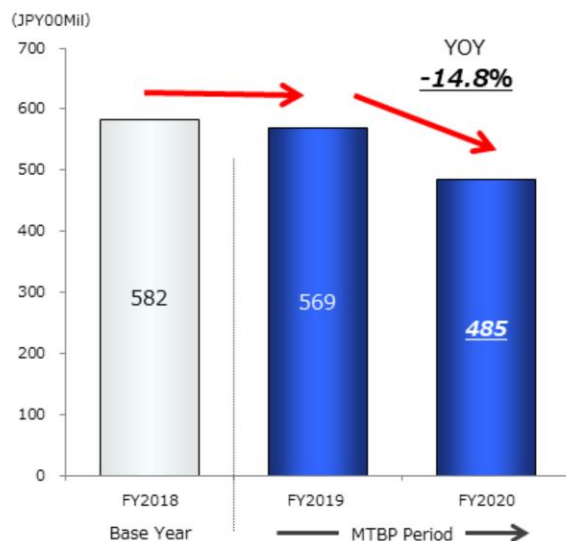
Today, I will explain the progress we are making with various initiatives amid the accelerating shift to complete digitalization, which is the cornerstone of the Medium-Term Business Plan.

# Overview of Profit/Loss Situation in FY2020

- While operating income excluding investment projects, after adjustments and before amortization of goodwill, was stable in the first year of the MTBP (FY2019), a year in which we actively made strategic investments, it declined year on year in the plan's second year due to the significant negative impact from the COVID-19 pandemic.
- To respond to rapidly occurring changes in the business environment, we commenced initiatives to accelerate innovation in the services we provide and reform and improve cost-cutting measures.

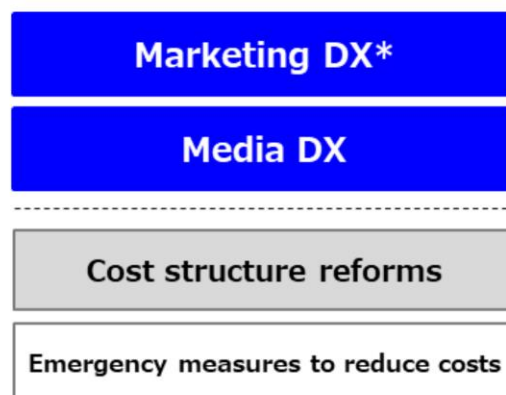
## Operating Income after Adjustments\* and before Amortization of Goodwill

\*Adjusted: Excluding investment projects and after retroactive restatements



## Responding to Rapidly Occurring Changes

- Challenging profit/loss environment due to the COVID-19 pandemic
- Changes in the behavior and lifestyles of *sei-katsu-sha*



\* DX: Digital transformation

First, let me discuss operating income before amortization of goodwill.

Operating income excluding investment projects, after adjustments and before amortization of goodwill, was stable in the first year of the Medium-Term Business Plan, a period in which we pursued not only M&A but also proactive strategic investments in such areas as human resources and the development of data and system infrastructure.

In the second year of the plan, various factors had a significant negative impact on the Hakuhodo DY Group's performance, including the declaration of states of emergency and the rapid decline in economic activities due to the COVID-19 pandemic. While we were able to secure ¥48.5 billion in operating income excluding investment projects, after adjustments and before amortization of goodwill, the above factors resulted in a year-on-year decrease.

Facing the sudden deterioration in our profit/loss environment, we started to implement emergency measures to reduce costs and began examining the feasibility of medium- to long-term cost structure reforms.

In addition, changes in *sei-katsu-sha* behavior, lifestyles, and client needs are occurring at a rapid pace, and we are thus working to innovate the services we provide from the perspectives of marketing DX and media DX.

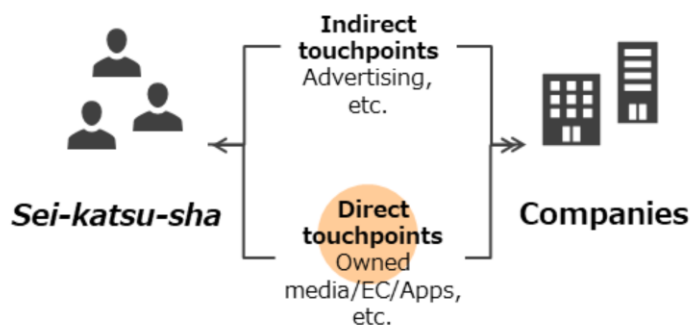
I will now explain some specific actions we are taking, so please see the next slide.

# Marketing DX and Media DX

- With complete digitalization increasing opportunities for *sei-katsu-sha* and companies to connect directly, focused efforts on building structures able to respond to such direct contact points and respond to companies' marketing DX needs.
- In the media domain, with a view to business transformation, announced Advertising as a Service (AaaS).


## Marketing DX


### Increased importance of direct touchpoints as a result of complete digitalization



**Build DX response structures for CRM, EC/D2C, owned media, stores and other domains**

## Media DX

 **Sei-katsu-sha**      Diversification of information contact  
Always-on connection

 **Companies**      Expectation of high effects from crossing media/platforms

**AaaS™**  
Advertising as a Service

**Maximization of media effects from integrated ad media ops services**

First, I will talk about marketing DX.

The shift to complete digitalization has been accelerating due in part to people refraining from going outside and avoiding direct contact with others as a result of the pandemic. Amid these conditions, there has been a greater number of opportunities to establish direct touchpoints between *sei-katsu-sha* and companies through such means as owned media and apps. Accordingly, we are witnessing a growing need for marketing DX, which involves innovating the marketing activities of companies to better respond to these direct touchpoints and cater to the new environment.

To that end, we developed new solutions and built a structure for responding to DX needs in CRM, EC/D2C, owned media, stores, and other business domains.

Next, I will discuss media DX.

Last year, we announced our next-generation model for the advertising media business, Advertising as a Service (AaaS). Upon doing so, we began the provision of new integrated operations services for advertising media.

With advances in digital technology, the ways *sei-katsu-sha* come in contact with information have been diversifying through the use of various media, devices, and platforms. Furthermore, *sei-katsu-sha* are now constantly connected.

Accordingly, reaching across a wide range of media and platforms, it is expected that companies' marketing communication initiatives will be more effective.

AaaS is a next-generation model for the advertising media business that emphasizes the transition from businesses focused on advertising space transactions to businesses focused on maximizing advertising effects. We aim to maximize the effects of advertising and contribute to the business growth of companies through the provision of integrated operations services for advertising media based on this model.

# Integration of Marketing DX and Media DX

- Establishment of HAKUHODO DX\_UNITED, a strategic organization that implements digital transformation (DX) for clients and partner companies in an integrated manner through a two-pronged approach that incorporates marketing DX and media DX. (H/MP/DAC)
- Implementation of value-creating DX that uncovers latent demand and encourages new preferences and actions in *sei-katsu-sha* to create better lifestyles and a better society.



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Furthermore, we established HAKUHODO DX\_UNITED, a strategic organization that implements DX for companies in an integrated manner through a two-pronged approach incorporating marketing DX and media DX.

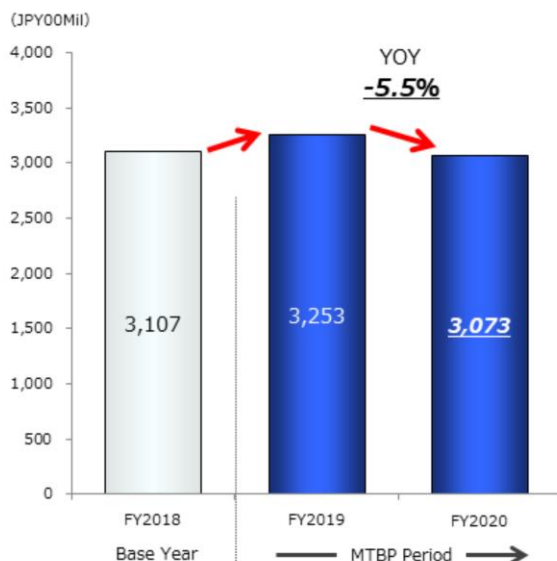
HAKUHODO DX\_UNITED spans the three companies Hakuhodo Inc., Hakuhodo DY Media Partners Inc., and D.A.Consortium Inc., and brings together eight expert functions and roughly 700 specialists in various domains from these three companies. Going beyond the perspectives of enhancing efficiency and reducing costs, HAKUHODO DX\_UNITED will implement value-creating DX that uncovers latent demand and encourages new preferences and actions in *sei-katsu-sha* to create better lifestyles and a better society.

# Overview of Progress toward Other Indicators

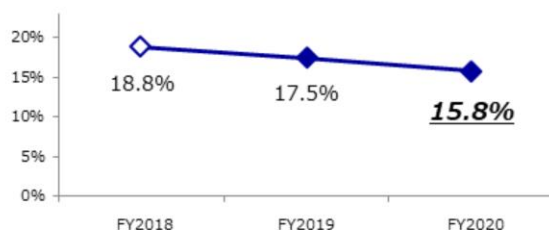
- Revenue after adjustments held at a 5.5% decrease amid a double-digit decline in the domestic advertising market, the Company's main area of operation.
- Operating margin after adjustments and before amortization of goodwill rose above the 15% level due to the success of emergency measures to reduce costs.
- ROE before amortization of goodwill remained at the double-digit level.

## Adjusted\* Revenue

\*Adjusted: Excluding investment projects and after retroactive restatements



## Operating Margin after Adjustments and before Amortization of Goodwill



## ROE before Amortization of Goodwill



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Continuing on, I will explain our progress toward indicators other than operating income before amortization of goodwill.

Amid a double-digit decline in the domestic advertising market, the Company's main area of operation, we held revenue after adjustments to around a 5% decrease.

There are several reasons we were able to do so. The first reason was the success of proactive proposal-making activities starting in the period of difficult circumstances in the first half of FY2020. These activities helped us realize year-on-year increases in billings in the service categories of TV spot advertising, digital media, and digital production in the second half. Another reason was the contributions from our ongoing efforts to improve our gross profit margin.

Operating margin after adjustments and before amortization of goodwill was kept above the 15% level due to the success of emergency measures to reduce costs. In addition, ROE before amortization of goodwill remained at the double-digit level. In these ways, we were able to maintain important indicators at a certain level even under the extremely challenging business environment.



## 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

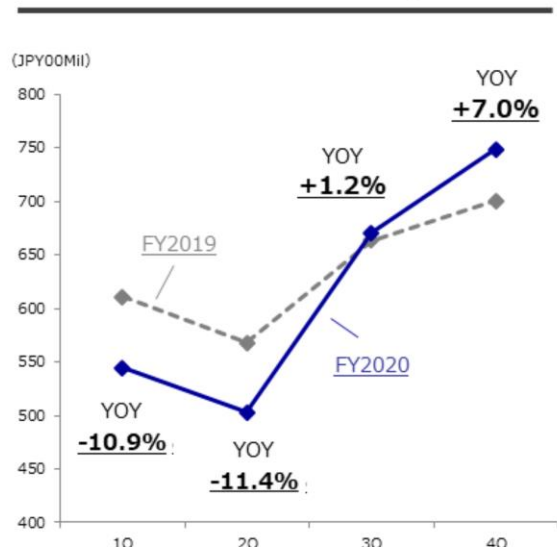
Next, I will explain, in order, the main measures for strengthening structures and response capabilities centered on the Medium-Term Business Plan's Three Fundamentals for Growth.

Please see the following slide.

# Establish a Leading Position in the Broader Digital Domain

- Internet media billings declined year-on-year in the first half due to the COVID-19 pandemic, but rapidly recovered in the second half, resulting in a year-on-year increase in the second half.
- In addition to the development of services for rapidly growing EC/D2C business, focused efforts on creating new experience value for *sei-katsu-sha* utilizing cutting-edge technology.

## Internet Media Billings\*



\* Relates to domestic business on a consolidated basis. Excluding investment projects. Figures after retroactive adjustment.  
 \* Figures adjusted retroactively to reflect the change in calculation method for billings by service category

## Topics

### Implementation of Marketing DX and Media DX for Clients and Partner Companies

- Introduced AaaS, a next-generation model for advertising media business, and began provision of integrated operations services for advertising media. (MP)
- Established HAKUHODO DX\_UNITED, a strategic organization that implements value-creating DX. (H/MP/DAC)
- Began the provision of HAKUHODO Marsys Assessment, a service that supports the optimization of marketing system infrastructure. (H)

### Support for the EC/D2C Businesses of Clients and Partner Companies

- Collaborated with FRACTA Inc., a ShopifyPlus partner company, to develop D2C Gate, a solution that supports the swift creation of D2C websites for large companies. (H)
- Began provision of Commerce Flow, a platform for optimizing programmatic advertising on EC websites. (DAC/IREP)

### Creation of New Experience Value Utilizing Cutting-Edge Technologies

- Launched hakuhoodo-XR, a Group-wide project that aims to create new experience value for *sei-katsu-sha* utilizing XR technologies. (H/MP)

I will begin by talking about the first Fundamental for Growth : “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 double-digit decline year on year in the first half due in part to the significant impact of the COVID-19 pandemic in industries where we boast strengths. However, these billings recovered starting in the second half and, by the fourth quarter, saw a year-on-year increase of around 7%.

In particular, the integrated advertising companies, centered on Hakuhodo, together realized robust double-digit billings growth in the second half, and IREP Co., Ltd., a next-generation digital agency that vies with advertising companies that specialize in internet advertising, also saw positive growth in billings in the second half.

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



# Strengthen Response Capabilities for Borderless Corporate Activities

- Revenue from overseas businesses saw a double-digit decline in the second quarter due to the COVID-19 pandemic, but recovered and increased year on year by the fourth quarter owing to the positive impact of M&A.
- Continued to enhance structure in specialized domains and strengthen creativity amid the COVID-19 pandemic through M&A and external collaborations.

## Revenue from Overseas Business



## Topics

### Contribution of Newly-Incorporated Profits and Losses

Contributions from companies whose profits and losses were newly incorporated into the Group's performance from the second half helped push revenue in the fourth quarter above last year's level.

- GROWWW Media (H), Godfrey Dadich (kyu), and others

### Enhancement of Organizational Structure in Specialized Domains

- Infectious Media, a digital agency with strengths in programmatic advertising, participated in Kepler Group (kyu)
- Entered into a strategic partnership with Wipro Appirio, K.K. of the major India-based IT service company Wipro Group. (H)

### Strengthening of Creativity

Our subsidiaries won awards at Campaign Asia-Pacific's Agency of the Year Awards 2020.

- IdeasXMachina Advertising (Philippines) (H)
- Winter Agency (Thailand) (H)

Next, allow me to explain the second Fundamental for Growth, "strengthen response capabilities for borderless corporate activities."

Revenue from overseas business saw a double-digit decline in the second quarter due to the COVID-19 pandemic. However, this revenue recovered and increased year on year by the fourth quarter owing in part to the positive impact of M&A.

In particular, the speed of recovery was fast in Greater China, as this region promptly curtailed the spread of COVID-19. Even on an organic basis that excludes the impact of M&A, revenue in Greater China for the full fiscal year still exceeded that of the previous fiscal year.

Furthermore, by promptly implementing cost-cutting measures to address the rapid decline in revenue caused by the COVID-19 pandemic, we were able to achieve more than ¥4.0 billion in operating income before amortization of goodwill in our overseas business overall.

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

- Stepped up creativity-based collaborations with external companies and efforts to generate innovation.
- Continued to invest in start-up companies that are anticipated to grow amid and after the COVID-19 pandemic, further strengthening external collaborations.

## Upgrading creativity

- Creativity as “capital for creating the future”
- UNIVERSITY of CREATIVITY TOKYO Campus launched in September 2020
- A learning platform for co-development that transcends public-private-academic, humanities-science-arts, and internal-external borders
- In total, over 7,000 people have participated in sessions



## Ongoing Investment in Start-Ups

- As part of efforts to reinforce our foundation for collaborations with external companies, formed a new corporate venture capital fund and commenced investment activities in July 2019.
- Continued to invest in promising venture companies, thereby reinforcing collaborations.



Number of venture companies  
invested in during FY2020\*

**11 companies**  
(FY2019: Five companies)

\* Publicly announced investments

The third Fundamental for Growth is “accelerate innovation through external collaborations.”

We are continuing to step up creativity-based collaborations with external companies and efforts to generate innovation.

We established the UNIVERSITY of CREATIVITY as a cross-disciplinary learning platform that transcends public-private-academic, humanities-sciences-arts, and internal-external borders. The UNIVERSITY of CREATIVITY serves as a venue for discussing, researching, and experimenting with creativity as the capital for creating the future. In September 2020, we opened and commenced the full-scale operation of the TOKYO Campus of the university.

Also, regarding efforts to reinforce our foundation for collaboration with start-up companies, while engaging in careful investment decision-making taking into account the challenging conditions in the economic environment, we continue to invest in promising companies. By doing so, we are continuing to reinforce external collaborations.



## 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.

Around one year since COVID-19 began to spread, the world is undergoing significant change. To respond to these major changes and ensure that we remain half a step ahead, we have begun revising the Medium-Term Business Plan, including the numerical targets that we withdrew last year, while undertaking various initiatives ahead of time.

The domestic economy and advertising market have bounced back from their sluggish performance in FY2020, and significant growth is expected therein in FY2021. While making sure we seize on this near-term recovery, we will move forward with efforts to realize growth over the medium to long term.

Thank you for your attention.