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Company Name: Hakuhodo DY Holdings Inc.
Representative: Masayuki Mizushima, President
(Code number: 2433; TSE First Section)
Inquiries: Atsushi Yoshino
Executive Manager, Investor Relations Division
(Tel: +81-3-6441-9033)

Consolidated Financial Highlights for Q3 of FY2021

Hakuhodo DY Holdings Inc. has announced its Q3 earnings report for FY2021, the year ending March 31, 2022, after approval at the Board of Directors' meeting held today. The main points are as follows.

Effective from the Q1 of FY2021, the company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020). Year-on-year comparisons are based on figures after retroactive restatement. The following "Revenue" figures are after the application of the revenue recognition standard.
In addition, "Billings" is based on the previous accounting standard and is voluntarily disclosed, although it is not in accordance with the ASBJ No.29, since it is useful to users of financial statements.

1. Income Statements (Q3 FY2021: April 1, 2021 to December 31, 2021)

(Millions of JPY)

	FY2020 (9M Result)	FY2021 (9M Result)	YoY Comparison	
			Change	(%)
Billings	883,038	1,039,320	156,281	17.7%
Revenue	472,037	582,602	110,564	23.4%
Gross profit	212,786	259,387	46,601	21.9%
(Gross margin)	(24.1%)	(25.0%)	(+0.9%)	
SG&A expenses	193,925	211,828	17,903	9.2%
Operating income	18,860	47,559	28,698	–
(Operating margin)*	(8.9%)	(18.3%)	(+9.5%)	
Non-operating income	3,692	3,572	(120)	-3.3%
Non-operating expenses	1,151	729	(421)	-36.6%
Ordinary income	21,402	50,401	28,999	135.5%
Extraordinary income	7,084	806	(6,278)	-88.6%
Extraordinary loss	3,590	5,180	1,589	44.3%
Net income before income taxes and minority interests	24,896	46,027	21,131	84.9%
Net income attributable to owners of parent	9,091	23,103	14,012	154.1%

* Operating margin = Operating income / Gross profit

During the third quarter of FY2021 (April 1, 2021 to December 31, 2021), the Japanese economy continued to lack strength from the beginning of the period due to the prolonged declaration of a state of emergency, although it was on a recovery trend. Since October, there have been signs of an acceleration in the economic recovery, such as an upturn in consumer spending due to the gradual easing of restrictions on behavior, however, toward the end of the year, the spread of the Omicron strain around the world once again caused a strong sense of uncertainly in the outlook. In the domestic advertising market (Note 1), strong growth has continued since the beginning of the fiscal year, partly due to a reactionary increase from the previous year's decline. Although the state of recovery differs by category, particularly strong growth has been seen in the TV and Internet media categories.

Under such environments, Hakuhodo DY group has continued to aggressively develop its business while taking care to respond to the COVID disaster. As a result, billings increased significantly year on year to ¥1,039,320 million (up 17.7% YoY) and revenue to ¥582,602 million (up 23.4% YoY).

In terms of billings by service category, billings for all services except magazines exceeded the results for the same period of the previous fiscal year. Billings in marketing/promotion and internet media grew strongly, while TV and creative media also showed a strong recovery.

In terms of billings by client industry, all industries except automobiles/related products and energy/materials/machinery posted YoY increases, with information/communications, beverages/tobacco products, and transportation/leisure posting particularly large increases. (Note 2)

Gross profit increased by ¥46,601 million YoY to ¥259,387 million (up 21.9% YoY). Of this amount, the domestic business increased by 21.1% to ¥205,523 million, and the overseas business increased by 24.4% to ¥56,187 million due to the expansion of the scope of consolidation in addition to the recovery trend in North America and Greater China. Although there was an increase in selling, general and administrative (SG&A) expenses due to the investment in strategic expenses for medium-term growth and the expansion of the scope of consolidation, operating income increased by 152.2% to ¥47,559 million, and ordinary income increased by 152.2% to ¥50,401 million. As a result, operating income increased to ¥47,559 million (up 152.2% YoY) and ordinary income increased to ¥50,401 million (up 135.5% YoY), both significant increases.

As for extraordinary income and loss, extraordinary income totaled ¥806 million, and extraordinary loss totaled ¥5,180 million as a result of special retirement payments of ¥4,231 million due to the implementation of an early retirement system at some of our consolidated subsidiaries. After taking into account the above factors, net income before income taxes and minority interests was ¥46,027 million (up 84.9% YoY), and net income attributable to shareholders of the parent company was ¥23,103 million (up 154.1% YoY), a significant recovery from the same period last year.

Notes 1. According to the Survey of Selected Service Industries (Ministry of Economy, Trade and Industry, Japan).
2. Based on internal management categories and data compiled by the Company.

2. Balance Sheets (December 31, 2021)

(Millions of JPY)

	March 31, 2021		December 31, 2021		Comparison with March 31, 2021	
	Amount	Share	Amount	Share	Change	(%)
Current assets	626,731	66.6%	666,218	66.7%	39,486	6.3%
Fixed assets	314,372	33.4%	332,605	33.3%	18,233	5.8%
Total assets	941,103	100.0%	998,824	100.0%	57,720	6.1%
Current liabilities	416,338	44.2%	434,855	43.5%	18,516	4.4%
Non-current liabilities	162,625	17.3%	175,098	17.5%	12,472	7.7%
Total liabilities	578,964	61.5%	609,953	61.1%	30,989	5.4%
Total shareholders' equity	276,197	29.3%	287,304	28.8%	11,107	4.0%
Accumulated other comprehensive income	54,228	5.8%	69,628	7.0%	15,399	28.4%
Subscription rights to shares	247	0.0%	282	0.0%	35	14.5%
Noncontrolling interest	31,466	3.3%	31,654	3.2%	188	0.6%
Total net assets	362,139	38.5%	388,870	38.9%	26,730	7.4%
Total liabilities and net assets	941,103	100.0%	998,824	100.0%	57,720	6.1%

3. Consolidated Forecasts for FY 2021 (April 1, 2021 to March 31, 2022)

(Millions of JPY)

	FY2020 Actual	FY2021 Forecast	YOY Change	(%)
Billings	1,297,947	1,566,000	268,052	20.7%
Revenue	714,560	920,000	205,439	28.8%
Operating income	45,033	69,000	23,966	53.2%
Ordinary income	49,594	72,000	22,405	45.2%
Net income attributable to owners of parent	26,479	54,000	27,520	103.9%
Dividend per share (@JPY/share)	30.0	32.0	2.0	

* Including a mid-term dividend of ¥15 per share.

(Forecast for the full year, FY2021)

The Company expect the current advertising market to remain strong despite uncertain factors such as the expansion of Omicron infection and the international situation. In addition to appropriately capturing the recovery in advertising demand, BPO operations in the area of marketing practices and Olympic and Paralympic games-related operations, which have been part of our efforts to strengthen our structure, will also contribute, and we expect the top line to significantly exceed the previous year's level. In addition, taking into account the fact that the growth of SG&A expenses will remain moderate compared to gross profit and the recently announced sale of investment securities, we have upwardly revised our forecasts for operating income, ordinary income, and net income attributable to shareholders of the parent company, as shown above.

(Note 1) The forecast of financial results has been prepared based on certain conditions that we considers reasonable at the present time. Actual results may differ significantly from these forecasts due to various factors.

(Note 2) On January 28, 2022, Recruit Holdings Co., Ltd. announced about "Share repurchase through self tender offer". The Company has applied for it and expects to receive a gain on the sale of investment securities, assuming that all of the Company's planned shares can be sold.

(Dividend forecast)

Our basic policy is to pay dividends in a stable and continuous manner. The amount of dividends will be determined after comprehensively taking into consideration the status of demand for financial funds, trends in business performance, and the enhancement of retained earnings.

Under our policy, In consideration of the full-year earnings forecast and other factors, we have decided to increase the year-end dividend by ¥2 per share from ¥15 per share in the previous fiscal year to ¥17 per share.

Combined with the interim dividend of ¥15 per share already paid, the total annual dividend will be ¥32 per share.

4. Review of the Medium-Term Business Plan

Due to the impact of the Corona disaster, the Hakuhodo DY group announced in November 2020 that it withdraw its numerical targets due to major changes in the views of the economy and advertising market, which had been the premise for setting the numerical targets in the plan.

Since then, we have been closely monitoring the economic and market trends and have been reviewing the plan. The Company has decided to review the medium-term management plan at the time of the announcement of the financial results for the third quarter of the fiscal year ending March 31, 2022.

With the fiscal year ending March 31, 2021 as the base year, we have positioned FY2021 to FY2023 as a period in which we accelerate transformation of our services and business foundation to lead with solutions to clients' marketing and innovation-related challenges and realize sustainable growth for our clients and the Hakuhodo DY group.

During this period, we will accelerate the update of the entire Hakuhodo DY group by proactively making strategic investments for transformation while continuing business growth. The quantitative targets in this Medium-Term Business plan are as follows.

＜Medium-term business targets (FY2023)＞

Adjusted gross profit: Annual growth rate of at least +7% (Note 1)

Adjusted operating income before amortization of goodwill: Annual growth rate of at least +7% (Note 2)

Operating income before amortization of goodwill: At least ¥65 billion in FY 2023 (Note 3)

＜Important indicators (FY2023)＞

Operating margin after adjustments and before amortization of goodwill: Around 15% in FY2023 (Note 4)

ROE before amortization of goodwill: At least10% in FY2023 (Note 5)

(Note 1) Adjusted gross profit is gross profit of the core businesses excluding the investment business.
Annual growth rate is calculated for FY2020 through FY 2023.

(Note 2) Adjusted operating income before amortization of goodwill is operating income, excluding amortization of goodwill, for FY2020 through FY2023.

(Note 3) Operating income before amortization of goodwill is operating income, excluding amortization of goodwill. It includes investment business.

(Note 4) Operating margin after adjustments and before amortization of goodwill = Adjusted operating income before amortization of goodwill / Adjusted gross profit.

(Note 5) ROE before amortization of goodwill = Net income attributable to shareholders of the parent company calculated excluding amortization of goodwill / Shareholders' equity (average balance of the beginning and end of the fiscal year).