

Hakuhodo DY Holdings Inc.
Summary of Questions and Answers for 3Q of FY2021

Date: February 9, 2022 (Wednesday), 16:30–17:30

Presenters:

Masayuki Mizushima, Representative Director & President

Hirotake Yajima, Director & Executive Vice President

Masanori Nishioka, Director & Senior Executive Corporate Officer

Akihiko Ebana, Director & Senior Executive Corporate Officer

Takeshi Tokugawa, Corporate Officer

- In your business forecast for the fourth quarter, top-line growth looks strong, while the outlook for operating income appears to be less favorable. What kind of expenses are included in this forecast?

In addition to steadily incorporating the recovery in the domestic advertising market, we expect solid top-line growth in the fourth quarter due in part to the impact of our business process outsourcing (BPO) work. Meanwhile, selling, general and administrative (SG&A) expenses will be 30% higher than they were in the same period of the previous fiscal year, and one of the reasons for this increase is the execution of proactive strategic investments in accordance with our Medium-Term Business Plan (MTBP). Expenses related to the digital-business infrastructure that we have been setting up during FY2021 will increase, as will personnel expenses for the digital-savvy human resources we have recruited. In addition, employee incentives resulting from our strong business performance will be a greater factor for expense increases than they have been in the fourth quarter of previous fiscal years.

- Regarding the numerical figures in the MTBP, what are your assumptions regarding the advertising market, top-line growth, and strategic investments?

We expect the domestic advertising market to grow at an annual rate of 5% or more. By service category, we forecast double-digit annual growth for internet media and relatively flat growth for TV. Taking this into account, we expect to achieve an annual growth rate in gross profit of around 7% using FY2020 as the base year.

In terms of strategic expenses, we announced strategic investments of ¥10.0 billion in

FY2021 at the start of this period, and we will execute an additional ¥10.0 billion in strategic investments over the upcoming two years. While we could forecast an operating margin of 20% if we were to curtail strategic investments, we believe now is the right time to implement investments in such areas as business structural reforms in accordance with changes in the external environment as well as increases in personnel. After completing the current MTBP, we understand that we must realize returns on these investments during the next MTBP.

- What is your policy on shareholder returns during the period of the MTBP?

While we have no intention of veering from our basic policy of providing stable dividend payments, we will comprehensively evaluate shareholder returns taking into account our funding needs and trends in business performance.

- Around what percentage of growth do you expect to see in the domestic advertising market in FY2022. Also, could you tell us your forecasts by media and by service category?

The domestic economy is expected to grow at a nominal GDP rate of around 3.5% due to a recovery in consumer spending, a recovery in the supply of semiconductors, economic stimulus measures implemented by the Japanese government, and the materialization of the economic recovery that was originally expected to occur in FY2021. We anticipate that the domestic advertising market will continue to see positive growth on the back of this economic recovery, returning to the level that it was in FY2019. By service category, internet media in FY2022 is expected to grow by more than 10% compared with FY2021, while TV will see relatively flat growth, owing in part to the significant recovery realized in this category in FY2021. We also expect to see double-digit growth in magazines, a category that has thus far been slow to recover.

- What position do you aim to achieve within the advertising industry as a result of the upfront investments carried out under the MTBP? Amid the changes occurring in the industry, including at other companies, do you expect to complete your upfront investments during the period of the current MTBP and move on to the phase of realizing returns?

We are working to transform the services we provide in order to implement full-funnel

Sei-katsu-sha Data-Driven Marketing. We are also strengthening cross-organizational functions, investing in human resources, and establishing new companies. Through such efforts, we aim to achieve a leading position as a partner to our clients that can respond to their marketing and innovation-related needs using our creativity and technologies.

While realizing returns underpinned by the foundation we established during the current MTBP, we believe we still need to carry out new investments going forward to respond to the extreme changes occurring in this technology-driven and digitalized era.

- How do you foresee the compensation scheme with your clients changing due to your provision of solutions such as full-funnel marketing and Advertising as a Service (AaaS)?

Our relationships with customers have been based on receiving orders for ad space. However, with the shift to constantly-connected and programmatic media as well as expanding our operations to owned media and e-commerce, the situations are changing. As a result, we expect to engage in a wide variety of transactions, including fee-based contracts and revenue sharing. Going forward, we aim to achieve growth by transcending the boundaries of a traditional advertising company to do business with our clients in terms of marketing and solutions overall.