Hakuhodo DY Holdings Summary of Questions and Answers for 1H of FY2022

Date: November 11, 2022 (Friday), 15:30–16:30
Presenters:
Masayuki Mizushima, Representative Director & President
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- How much of the funds allocated to strategic investments were spent during the first half, and what is your guidance for spending in the second half? Also, what are your plans for strategic investments in FY2023?

During FY2022, we plan on executing strategic expenses totaling over ¥10.0 billion, and 40% of that amount has been executed in the first half. In terms of human resource-related expenses, following the shift toward digitalization, we have been moving forward with the recruitment of digital-savvy personnel and with mid-career hires for technological positions, largely as planned. Additionally, we have been making steady progress with investments to establish a digital foundation and initiatives related to human resource development and workstyle reforms. In the second half, we will continue these kinds of initiatives and, in the event that we need to control expenses, we will carry out strategic investments as planned and adjust expenses in other areas. While we are still examining the scale of investment in FY2023, we intend to continue making strategic investments to build frameworks and promote structural reforms.

- You have left the figures for your performance guidance unchanged since they were announced at the start of the period. Could you please tell us the status of your clients' advertising budgets in the second half as well as your guidance for the domestic advertising market?

We believe that clients will likely tighten their advertising budgets in the second half compared with the first half, based on discussions with them and the status of orders received. However, this does not mean that clients in all industries will be strict with their budgets, and we have a relatively positive outlook for eight industries, including Restaurants/Services, Government/Organizations, and Foodstuffs. Looking at each service category, we forecast stagnant demand in Television resulting from decreased advertising inventories due to declining viewing rates. Also, although we expect a slowdown in the growth rate of Internet Media, we believe we can still maintain positive growth in this category. Under the Medium-Term Business Plan, we are working on diversifying our profit base in such ways as stepping up our response to growing DX-related needs and our response in marketing execution domains. With regard to performance guidance, even if advertising revenue declines, we believe we can achieve the guidance we announced at the beginning of FY2022 by incorporating profits from other domains, which is why we have left our guidance unchanged.

- Could you please tell us the status of client interest in placing advertisements? Have clients been reducing their full-year advertising budget since the first half? Or, are clients deferring budget spending to the second half?

The status of advertising placement varies by industry. Foodstuffs and Cosmetics/Toiletries, which are two industries that have already seen the impact of soaring raw material prices, have been reducing their advertising budgets since early on the year. Automobiles/Related Products has been on a trend of recovery due to the benefits provided by the weakening yen and the elimination of semiconductor and component shortages. In addition, we have high expectations for pent-up demand, and there has been revitalized demand in industries related to travel and tourism. Many companies are making proactive efforts to capture the benefits of inbound tourism consumption. With regard to FY2023, we will support companies working to develop new products and services that will help them make a full recovery from the adverse impacts of the COVID-19 pandemic, thereby working to revitalize the overall advertising market.

- On what basis do you determine the amount you will spend for share buyback?

We determine this amount based on comprehensive considerations of such aspects trends in our share price, comparisons with other companies, trends in our business performance, progress in our investment plans, and our financial position. This buyback will have a limited impact in terms of enhancing capital efficiency, however, we will continue to consider shareholder return plan including buyback going forward.

- Please tell us about the growth in billings from Internet Media in the second quarter. What factors, including M&A, impacted this growth?

In addition to solid growth from our integrated advertising companies, such as Hakuhodo Inc., Daiko Advertising Inc., YOMIKO ADVERTISING INC., and Hakuhodo DY Matrix Inc., billings increased by 12% compared with the first half of the previous fiscal year due to double-digit growth at IREP Co., Ltd. Billings in the second quarter (July to September) increased by 18% year-on-year, due in part to the impact of acquiring SoldOut,Inc. Even excluding this impact, we still achieved double-digit growth.

- **Do you foresee business process outsourcing (BPO) being a sustainable business from FY2023 onward?**

As part of its efforts in marketing execution domains, the Hakuhodo DY Group has been working to reinforce its structure for supporting activities related to marketing, including those related to call centers and the human resource domain. The BPO business has seen consistent growth in the advertising domain and it has been functioning effectively for a number of years in terms of activities by the national and local governments. Corporate activities are expected to expand going forward, centered on e-commerce, and we also anticipate an increase in outsourcing by the national government. To that end, although there may be fluctuations in the near term, we would like to make BPO a sustainable business going forward.

- **Could you share with us any information regarding trends among overseas clients in FY2023?**

We are still gathering data about trends among overseas clients, so please understand that I can only provide a brief overview at this juncture.
In terms of the overseas advertising market, there are many factors that depend on trends in the U.S economy. However, in Europe and the Americas, we expect to see a higher level of growth in FY2023 compared to the current fiscal year due in part to the fact that we are active in many domains pertaining to creativity and solutions (more so than conventional advertising). We also expect to see robust growth in China, ASEAN, and other regions, due to a revitalization of marketing activities as these regions emerge from the COVID-19 pandemic.