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Consolidated Financial Highlights for Q2 FY2023

Hakuhodo DY Holdings Inc. has announced its second-quarter earnings report for FY2023, the year ending March 31, 2024, after approval at the Board of Directors' meeting held today. The main points are as follows.

1. Income Statements (Q2 FY2023: April 1, 2023 to September 30, 2023)

(Millions of JPY)

	FY2022 (6M Result)	FY2023 (6M Result)	YoY Comparison	
			Change	(%)
Billings	719,646	697,854	- 21,791	-3.0%
Revenue	419,382	399,558	- 19,824	-4.7%
Gross profit	177,182	175,090	- 2,092	-1.2%
(Gross margin)	(24.6%)	(25.1%)	(+0.5%)	-
SG&A expenses	156,670	173,744	17,073	10.9%
Operating income	20,512	1,346	- 19,165	-93.4%
(Operating margin)*	(11.6%)	(0.8%)	(-10.8%)	-
Non-operating income	4,308	4,014	- 294	-6.8%
Non-operating expenses	827	1,798	971	117.4%
Ordinary income	23,993	3,562	- 20,431	-85.2%
Extraordinary income	2,106	1,299	- 806	-38.3%
Extraordinary loss	888	6,014	5,126	576.9%
Net income before income taxes and minority interests	25,211	-1,153	- 26,364	-104.6%
Net income attributable to owners of parent	11,713	-10,872	- 22,586	-192.8%

* Operating margin = Operating income / Gross profit

In the first half of the current fiscal year (April 1, 2023, to September 30, 2023), the Japanese economy continued to recover slowly, supported by the recovery of service consumption, inbound demand, and the improvement of the manufacturing industry. However, the impact of continued inflation from the previous year led to some weakness in the recovery of personal consumption. The Japanese advertising market (Note 1) remained at the same level as the previous year through August due to a slowdown in the recovery of personal consumption as well as uncertainty over the economic outlook. Under this circumstance, the Hakuhodo DY group continued to aggressively expand business operations in accordance with its medium-term management plan ending March 31, 2024. As a result, billings (Note 2) were ¥697,854 million (decreased by 3.0% YoY), and revenue was ¥399,558 million (decreased by 4.7% YoY).

In terms of billings by service category, internet media increased YoY by utilizing AaaS and promoting group collaboration. Despite the stagnation in the advertising market, the total media service, including traditional media service, increased. However, billings in “Marketing/Promotion” significantly decreased YoY due to a reactionary decline from large-scale BPO projects.

In terms of billings by client industry, "Government/Organizations," "Information/Communications," and "Beverages/Cigarette/Luxury foods" decreased YoY. However, "Distribution/Retailing," "Transportation/Leisure," and "Foodstuffs" increased YoY supported by the termination of action restrictions and the recovery of inbound travel. (Note 3)

Gross profit decreased by ¥2,092 million YoY to ¥175,090 million (decreased by 1.2% YoY). In Japan, gross margin improved by 0.1 pt. YoY due to the contribution of various technology-based solutions such as AaaS, as well as successful efforts to improve profitability. Gross profit, excluding BPO operations, was higher than the previous year. In overseas, growth continued mainly in Asia, including Taiwan and India, as well as boosted by M&A and the exchange rate fluctuations, resulting in an 8.1% YoY increase in gross profit. Operating income decreased to ¥1,346 million (decreased by 93.4% YoY) and ordinary income decreased to ¥3,562 million (decreased by 85.2% YoY) due to the continued investment in strategic expenses for medium-term growth in SG&A expenses, as well as an increase due to the return of activity expenses.

After an extraordinary gain of ¥1,299 million and an extraordinary loss of ¥6,014 million, net loss before income taxes amounted to ¥1,153 million (net income of ¥25,211 million in Q2 FY2022). After deducting ¥8,051 million in income taxes and ¥1,668 million in net income attributable to noncontrolling interests, net loss attributable to owners of the parent amounted to ¥10,872 million (net income of ¥11,713 million in Q2 FY2022).

(Notes)

1. According to the Survey of Selected Service Industries (Ministry of Economy, Trade and Industry, Japan).
2. "Billings" are based on previous accounting standards but are voluntarily disclosed because we believe it is useful to financial statement users, although not in accordance with the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards.
3. Based on internal management categories and data compiled by Hakuhodo DY holdings.

2. Balance Sheets (As of September 30, 2023)

(Millions of JPY)

	March 31, 2023		September 30, 2023		Comparison with March 31, 2023	
	Amount	Share	Amount	Share	Change	(%)
Current assets	680,728	66.3%	595,471	61.9%	-85,257	-12.5%
Fixed assets	345,687	33.7%	366,872	38.1%	21,185	6.1%
Total assets	1,026,415	100.0%	962,343	100.0%	-64,071	-6.2%
Current liabilities	565,850	55.1%	505,359	52.5%	-60,491	-10.7%
Non-current liabilities	70,750	6.9%	68,630	7.1%	-2,119	-3.0%
Total liabilities	636,601	62.0%	573,990	59.6%	-62,610	-9.8%
Total shareholders' equity	329,585	32.1%	307,885	32.0%	-21,699	-6.6%
Accumulated other comprehensive income	34,313	3.3%	55,591	5.8%	21,277	62.0%
Subscription rights to shares	223	0.0%	223	0.0%	0	-0.1%
Noncontrolling interest	25,691	2.5%	24,652	2.6%	-1,039	-4.0%
Total net assets	389,814	38.0%	388,353	40.4%	-1,461	-0.4%
Total liabilities and net assets	1,026,415	100.0%	962,343	100.0%	-64,071	-6.2%

3. Consolidated forecasts for FY 2023 (April 1, 2023 to March 31, 2024)

(Revised consolidated forecasts for the full year, FY 2023)

We have revised consolidated forecasts for FY2023 based on the 1H results and the 2H outlook. The main reasons for the revision are as follows. The first is a decrease in earnings at some entities in North America. Despite pushing for cost structure reforms and expecting to improve profitability in 2H, the annual profit is anticipated not to reach the initial forecast. The second reason is that some BPO income will be carried over to the next fiscal year.

In Japan, excluding the reactionary reduction of COVID-19 related BPO operations in 2H, we anticipate that our top-line growth will surpass the domestic market.

We will continue our strategic investments for establishing a foundation for medium to long-term growth as planned. This will help us meet the evolving needs of our clients and lead to future improvements in our operating margin.

	Revenue	Opearting income	Ordinary income	Profit attributable to owners of parent	Net income per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	yen
Previous forecast (A)	1,030,000	49,000	51,000	27,000	72.41
Current forecast (B)	970,000	35,000	36,000	14,000	38.12
Difference (B-A)	-60,000	-14,000	-15,000	-13,000	—
Difference (%)	-5.8	-28.6	-29.4	-48.1	—
(Ref.) Results for FY 2022	991,137	55,409	60,378	31,010	83.16

Note. The forecasts are based on certain conditions that we consider reasonable at the present time. Please note that actual performance may vary significantly due to various factors in the future.

(Dividend forecast)

Our basic policy is to pay stable and continuous dividends. The 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. The interim dividend for the current fiscal year was determined to be ¥16 per share from the perspective of stable dividend payment. The year-end dividend forecast is also ¥16 per share, for a total annual dividend of ¥32 per share, the same amount as in the previous year.