

Summary of Questions and Answers for 1H of FY2019

Date of event: November 12, 2019 (Tuesday)

Attending members from the Company:

Hirokazu Toda, Representative Director & Chairman, Chief Executive Officer

Masayuki Mizushima, Representative Director & President

Mitsumasa Matsuzaki, Director & Senior Executive Corporate Officer

Masanori Nishioka, Director & Senior Corporate Officer

Takeshi Tokugawa, Corporate Officer

Regarding the performance of overseas businesses during the first half of the fiscal year, while growth was achieved in the first half, revenue and operating income were down in the second quarter compared with the same period of the previous fiscal year. What were the reasons behind this situation?

The second-quarter slowdown was due in part to the sluggish performance at certain offices stemming from specific factors, such as budget reductions at client companies amid a challenging operating environment. Please note that, in the first quarter, there was the earnings-boosting impact of subsidiaries acquired during the previous fiscal year, however, there was no such impact in the second quarter. That is another reason you felt slowdown compared with the first quarter.

The second-quarter increase in operating loss after amortization of goodwill resulted from temporary increase in amortization of goodwill. Although we were able to maintain operating income before amortization of goodwill, the amount of this income was lower than in the second quarter of the previous fiscal year. This outcome was due to lower topline growth, sluggish performance at certain offices, and organizational reforms aimed at creating a structure to improve profitability.

Although we forecast overseas revenue growth in the second half of FY2019, there is a risk that the rate of growth may slow down compared with the rate in the first half. Factors behind this risk include increased uncertainty in the outlook for the global economy. Particularly in Asia, the deceleration of economic growth in China, the protests in Hong Kong, and the deterioration of the relationship between South Korea and Japan are all factors that could contribute to a slowdown in revenue growth. While we will continue to face difficulties with regard to profit, we will move forward with efforts to enhance our organizational structure with the aim of promptly improving profitability.

How does the Company intend to use the cash that was generated from the sale of common stock held in Recruit Holdings Co., Ltd., and from other sales of marketable securities that may take place in the future?

As our basic policy, over the five-year period of the Medium-Term Business Plan we intend to utilize the cash generated from operating cash flows for growth investments after ensuring returns to our shareholders. We will continue to adhere to our basic policy of consistently paying a stable dividend, and dividend amounts will be determined based on consideration for funding needs, performance trends, and the internal reserves required to boost competitiveness. Based on the balance of shareholder returns, growth investments, and measures to reinforce our financial base, we will increase the annual dividend by ¥2, to ¥30 per share for this fiscal year. As described in the news release pertaining to the sale of shares in Recruit Holdings, the cash generated will be utilized

to meet funding needs and bolster investment capacity.

During an explanation, it was stated that conditions slightly improved after August 2019. From what perspectives did you see changes in the advertising market?

There are two reasons behind the improvement in conditions to which you refer. The first reason was a turn for the better with regard to international conditions. Specifically, we had felt as though a qualitative crisis was being faced with regard to the overall economy, due in part to the issues between the United States and China, and in the Middle East, seen in July and August. However, it now seems as though that sense of crisis is disappearing.

The second reason was the rush in demand prior to the consumption tax increase in Japan. While we had initially anticipated the emergence of such demand, we had assumed around summer that, realistically, we could not expect this demand to be particularly substantial. Contrary to our assumption, this demand rush did indeed appear, although it was more limited than expected in certain industries.

Conditions in the advertising market are more challenging than initially expected at the beginning of the fiscal year. In light of this, what was the thought process behind the decision to not change full-year forecasts?

We had initially expected a growth rate of around 1.5% for the Japanese advertising market in FY2019. However, the growth rate indicated in *the Survey of Selected Service Industries* released by the Ministry of Economy, Trade and Industry was practically in the negatives for the first half of the fiscal year. However, based on the Company's calculation method, the growth rate was relatively unchanged from the same period of the previous fiscal year. This is the backdrop that frames our view of performance figures in the first half of FY2019.

We view these figures as the result of the uncertain outlook for the global economy, a decline in spending appetite among clients and other corporations, and an unsubstantial rush in demand before the consumption tax increase seen in the first half of the fiscal year.

Looking at the market overall, however, we anticipate that growth in the second half of FY2019 will outpace that of the previous year. During this period, sports events and motor shows will provide a positive boost to the market.

Up until now, companies have been limiting marketing budgets while closely examining the impacts of the consumption tax increase. However, we have received word that some companies may be able to find the budget to place additional ads as we approach the end of the calendar year and the fiscal year. This development gives us hope for positive growth in the second half of the fiscal year. On a full-year basis, we project growth of around 1.0% in the Japanese advertising market.

As for the Hakuhodo DY Group, first-half performance was as we previously explained. Looking only at the month of October 2019, the combined sales of Hakuhodo Inc., Daiko Advertising Inc., and YOMIKO ADVERTISING INC. were down year on year. This decrease was a result of a decline in TV ad spots and marketing promotions at Hakuhodo on a non-

consolidated basis, which was itself caused by factors including the circumstances of specific clients and rebounds from the strong performance seen in October 2018. However, we have been told that advertising orders will likely be placed in November and December during meetings with clients, and we therefore expect that performance will improve after October.

We have an idea of when Hakuhodo, Daiko Advertising, and YOMIKO ADVERTISING will be able to achieve growth rates that outperform the overall market growth rate by increasing their market shares. At the same time, we are working to boost the profit margins of these companies. In regard to the recent decline in TV ad spots, these companies have been working to strengthen their media planning capabilities that realize synergies between television and digital venues for the past several years. We believe these efforts will contribute to increased competitiveness and consequently sales growth going forward. Furthermore, in addition to developing businesses in diverse value chains, these three companies intend to build a track record in event and digital promotion initiatives. In these ways, we aim to accomplish our targets.

Centered on IREP Co., Ltd., the Group's Internet media operations seemed to be performing more favorably than the competition. Could you please explain, as specifically as possible, the factors that contributed to the growth of the Group's market share? Also, can we anticipate growth in the second half of FY2019 that surpasses the growth seen in the first half?

Figures pertaining to the Internet media market vary based on the source of statistics. However, we recognize that the Hakuhodo Group has been outperforming in this market, even with the double-digit annual average growth the market is anticipated to experience going forward. To maintain our leading position amid the shift toward complete digitalization, we will need to have a high level of competitiveness in regard to online advertising. The Group is making concerted efforts to achieve this level of competitiveness.

I would like to focus the discussion of our strong performance in this area on three factors. The first is the benefits of integrating operations with D.A.Consortium Holdings Inc. after it was acquired through a tender offer bid. By boosting our execution and implementation capabilities with regard to frontline contacts with clients and backline contacts with the media, this acquisition helped us make progress with reinforcing the foundations underpinning the Group's growth.

The second factor was our conversion of IREP to a wholly owned subsidiary, which in turn raised its position within the Group. This move enabled us to allocate, to a greater degree, the Hakuhodo DY Group's resources, such as data, tools, expertise, products, and personnel, to IREP, thereby enhancing its competitiveness as a next-generation digital agency.

The third factor was our swift provision of solutions and our comprehensive approach, encompassing mass-media services (other than television), sales promotions, and creatives, amid the rising importance of media planning initiatives that realize synergies between television and digital venues.

The Group has already established an incredibly strong track record in this area, which has helped us achieve a competitive edge over our rivals, many of which operate primarily in online advertising.

What is your outlook for the Internet media market in the second half of the fiscal year?

We project that the Internet media market will maintain its current momentum. Although some companies are skeptical of the potential for growth in this market, we have heard in our meetings with major media companies that strong growth will be seen for the market overall. The Hakuhodo DY Group is committed to steadily capitalizing on this growth. We also expect benefits from our close coordination with major platform holders.