

Summary of the Q&A Session for 3Q of FY2019

Date of event: February 10, 2020 (Monday) 16:00-17:00

Attending members of the Company: Takeshi Tokugawa, Corporate Officer

Atsushi Yoshino, IR Group Manager

Satoru Yagi and Takeshi Tada, IR Division members

Regarding Performance

Q. To date, Hakuhodo DY Holdings has seen gross margin growth on a continuous basis. Gross margin in the third quarter for both the Company' s domestic and overseas businesses has increased even further. What are the factors behind these increases and how likely is it that such increases will continue?

A. In our domestic businesses, frontline personnel at our key advertising companies have been engaging in activities that place emphasis on operating income, and these activities have helped boost gross margin. We therefore believe that profitability in our domestic businesses will steadily increase on a continuous basis going forward. In regard to our overseas businesses, third-quarter growth in gross margin was due in part to the impact of the change in accounting policy for recognizing billings at certain companies in the fourth quarter of the previous fiscal year. Accordingly, this substantial increase in gross margin will not continue on a full-year basis.

Regarding Forecasts and Market Outlook for the Current Period

Q. As you have not made revisions to your full-year performance forecasts at this time, I understand that the fourth quarter forecasts represent your full-year forecasts minus your cumulative performance in the first three quarters. Given this, isn' t the hurdle to reach your target for billings in the fourth quarter a bit too high? In addition to current advertising demand, could you please tell us your view on various risk factors, such as COVID-19 (2019 novel coronavirus)?

A. While there is no question that the hurdle for reaching our billings target in the four quarter, calculated as you stated, is high, we recognize that the gap between our forecasts on a full-year basis and our current performance is not all that large. Although our performance in January and February is not likely to be strong, in March we believe there will be several positive factors that will contribute positively to our performance, including projects related to the Olympic Games, although it is still difficult to give an accurate estimation. As for risks, we do not yet have a clear understanding on the impact that the recent coronavirus outbreak will have on our performance (at this time, we have not heard of any large-scale campaigns being suspended in Japan, or anything else of that nature).

Q. SG&A expenses have increased around 7% to 8% thus far through the first three quarters. However, you forecast almost no increase in SG&A expenses in the fourth quarter. Are there extraordinary factors behind this fourth-quarter forecast? Also, please tell us your approach to controlling costs.

A. We are not anticipating any significant extraordinary factors in the fourth quarter. In regard to controlling costs, we may examine the timing of investments while observing trends in our top line. We may also make adjustments to expenses, starting with personnel costs such as bonuses.

Regarding Performance Forecasts and Market Outlook for the Next Fiscal Year

Q. With the Olympic Games being held during the upcoming fiscal year, how do you view the advertising market? In addition, what are your thoughts on the market for Internet media?

A. The Olympic Games will certainly provide a positive boost to advertising demand. There will also likely be a rebound from the boost that the games provide. With that said, on a full-year basis, we believe the increased demand due to the Olympics will have an overall positive impact on our performance.

For the Internet media market, although there will be differences between each client over the short term, overall we do not anticipate significant change in our clients' desire to post advertisements online. Accordingly, there have been no change to our expectations that Internet media will continue to realize a high level of growth over the medium term.

Q. The next fiscal year marks the second year of your Medium-Term Business Plan. Could you please tell us your approach to SG&A expenses as you enter into this second year?

A. Compiling the budget for the next fiscal year is a task that we are about to undertake, and we will therefore examine the specific level of SG&A expenses, including strategic investments, in the near future. With that said, we basically position the next fiscal year as a phase in which we will focus on investments, as we have stated in our plan.