

Hakuhodo DY Holdings Inc.

Briefing on Consolidated Financial Results in Q3 FY2023: Q&A Session

Date: February 9, 2024(Friday), 17:00–18:00

Presenters:

Masayuki Mizushima, Representative Director & President

Hirotake Yajima, Director & Executive Vice President

Masanori Nishioka, Representative Director & Senior Executive Corporate Officer

Akihiko Ebana, Director & Senior Executive Corporate Officer

Takeshi Tokugawa, Corporate Officer

• What is your view on the advertising market in Japan, by industry and service category?

In “Beverages/Cigarettes/Luxury foods”, robust marketing activities are under way particularly among beverage companies, following the amendment of the Liquor Tax Act. Ad spending has been increasing in “Automobiles/Related products” industries since the holding of the Japan Mobility Show. Spending is also rising in digital service-related industries, led by ad placement for accounting services with the start of the invoice system and TV commercials for dating apps thanks to the lifting of the ban. We expect this Q3 trend to continue into Q4, and we are also hopeful for our clients' last-minute demand for the fiscal year end. We are also expecting substantial growth in demand in the next fiscal year, as interest in corporate marketing tends to rise in an Olympic year.

The latest estimate points to mild growth of the advertising market, up about 1% on the previous year, on the back of economic recovery and improvement in consumer sentiment. We foresee a continuation of the mild downtrend in traditional media, as well as 5% growth in Internet media and an increase in spending on out-of-home (OOH) and transit advertising.

• What is your view on the performance and cost of the North America business going forward, in light of trends in orders received and cost reduction?

Our consulting business in North America has been struggling. Profitability in Q3 improved as the reforms of our cost structure started to take effect. On a full-year basis, we will be able to secure a positive operating income before amortization of goodwill, thanks largely to successful controls on selling, general and administrative expenses.

For the next fiscal year, acknowledging the risks such as an uncertain environment and recession concerns, we are discussing setting targets to simultaneously pursue profit enhancement and cost structure reform..

• Is establishing a new digital core company a decision to solve the issues related to the stagnant growth of the Internet domain?

The growth of our Group in the digital domain may appear to be slowing largely due to the underperformance of direct sales at DAC even though full-service advertising companies including Hakuhodo Inc. continue to perform well. But, unlike before, we believe that the market itself has now entered a period of maturity and is expected to slow to single-digit growth this year. Although we have formed various teams inside our group to find solutions to clients' issues in keeping pace with the rapid changes in technology and media, we concluded that this is the time to build a new digital business structure for the future, leading to the decision to establish a new company.

- How do you perceive the scale of profit from AaaS as of now? Will it have enough impact to be a significant factor in the TV's success?

The number of business decisions made by utilizing AaaS has grown by almost 20%. Direct profit, including from fees, has also increased by nearly 15%. Over 250 companies have introduced AaaS, which is now involved in more than 1,000 projects.

Visualization of the impact of TV and digital ads is appreciated by clients, which has been effective in acquiring new projects. This is considered a key factor in the robust performance of the TV business this year.

- What areas will the newly established digital company focus on? And how is cost reduction expected to be achieved through the company's integration?

In addition to the integration of DAC and IREP, we will seek to find the right mix of functions among brand agencies and Hakuhodo DY Media Partners. Our primary objective is to create a new earnings model by solving issues facing clients through the provision of end-to-end digital services with higher precision. In so doing, we will aim to increase profit by proceeding with back-office integration and automation, and by building optimal configurations for digital marketing. We hope this will result in a new business structure to meet the needs of clients.

- What options are you considering for streamlining the balance sheet now that attention is focused on capital policies, including shareholder returns? Are those options available under the next Medium-Term Business Plan and not limited to the period of the present one?

We are considering selling assets although I cannot elaborate on that today. We have a few options for the allocation of the fund including business investment and shareholder returns. We believe that any idea for improving capital efficiency needs to be carried out over the longer term, and not from a short-term perspective. It is also crucial to maintain financial solidity while examining options including strategic investment and shareholder returns. Details will be provided in our next Medium-Term Business Plan, to be

made public in May.

- Assuming that various kinds of strategic investment will be required under the next Medium-Term Business Plan, is it assumed that the previously set targets of a 15% operating margin and a 10% ROE will continue to serve as the benchmarks for KPIs?

When considering KPI, we have to start with financial results as benchmarks. We recognize the necessity to restore profitability, but we are still considering how to set out KPIs in the context of current business diversification.

- What do you think of the direction of business performance going forward? How confident are you about the improvement in business performance?

We will make ongoing efforts to capture profit in accounts that are recovering, such as those related to “Information/Communications” and “Automobiles/Related products”. Regarding the question of how to improve our performance, however, we are not counting on organic growth of the advertising market but are focusing on increasing our share even in the case of limited market growth. Starting next fiscal year, we plan to recoup strategic investments made thus far and expect to achieve results particularly in the digital domain.

- How will you secure capabilities required for the six business domains set forth in the next Medium-Term Business Plan: organically within the Group or through M&A? How are you going to realize the future vision?

The six business domains are based on some foundational assets already within our Group companies, which means that we are not starting from scratch with no capabilities at all. We will start by promoting collaboration among operating companies and increase Group competitiveness by addressing any shortage in capabilities through M&A. To that end, we plan to build an optimal structure for the future, based on our existing organizations.

- In comparison with competitors in Japan and overseas, what are the uniqueness and strengths of the “creativity platform” as the future direction of the Hakuodo DY Group?

“*Sei-katsu-sha* thinking,” one of the original strengths of our group that applies a human-centric perspective in thinking about the relational values of things, is also advocated overseas as “human-centered thinking” by IDEO, among others. Based on this mindset, we believe that something new can be created, and social issues solved, by mixing the ideas of our people worldwide and their personalities. Our strengths also include our outstanding human resources who can integrate *sei-katsu-sha* thinking with creativity.

- What kind of synergy do you expect in terms of billings by engaging Hakuhodo DY Media Partners in the new company? What will be their role?

Even digital agencies have come to offer client services with various techniques including “non-digital”. We believe that Hakuhodo DY Media Partners will help the new company provide a wider range of services than the competition by bringing their unique media planning functions including optimization of TV and digital media.