

September 3, 2021

Notice regarding the sale and lease agreement of fixed assets including Dentsu Headquarters building

Dentsu Group Inc. (Tokyo: 4324; ISIN: JP3551520004; President & CEO: Toshihiro Yamamoto; Head Office: Tokyo; Capital: 74,609.81 million yen; hereinafter “the Company”) announces that its Board of Directors resolved to enter into a sale contract of fixed assets, real estates in Shiodome A Block including Dentsu Headquarters building (hereinafter “this real estate”), and a lease agreement of Dentsu Headquarters building (hereinafter “this building”) (hereinafter “this contract,” a combined series of the contract and the agreement). The partner of the sale contract is a special-purpose company (hereinafter “the SPC”) and the partner of the lease agreement is a domestic business company (hereinafter “the business company”).

It is expected that a gain on sale of approximately 89 billion yen will be recorded in the financial results for the fiscal year ending December 31, 2021. This is expected to have a one-time positive impact on statutory operating profit of approximately 87 billion yen and net profit attributable to owners of the parent of approximately 56 billion yen in the consolidated IFRS financial results. These figures are reflected in the FY2021 financial forecasts announced on August 11, 2021. The Dentsu Group will continue to use this building as its headquarters after the transaction based on the lease agreement.

1. Reason for sale

In August 2020, the Company launched a comprehensive review of business operations and capital efficiency. Since then, the Group has implemented various measures that will enable it to achieve its four clear objectives of: simplifying the business for both clients and operations; structurally and permanently lowering operating expenses; enhancing the efficiency of our balance sheet; and maximizing long-term shareholder value.

To improve capital efficiency, the Company has already executed the sale of a number of holding shares and two property assets in Japan. The Company announced, on June 29, it had received a statement of intent to purchase from the potential buyer.

The transfer date and start of the lease agreement is expected to be September 30, 2021. From this date annual charges associated with the lease agreement are expected to be recorded. However, a number of costs associated with owning the building will cease, including depreciation costs of the building, building repairs, equipment repairs and costs associated with management of tenants. Therefore, an additional annual cost for the term of the lease agreement is expected to be immaterial. The funds generated from the transactions will support progress towards the Group’s Medium-term Management Plan, 2021: 2024, allowing investment for growth and improving returns

to shareholders. Further details of the use of proceeds will be explained in an appropriate manner, if needed.

In line with the evolution of work environments, it is intended that the building's use will develop into a collaborative working space. The building will be the central base for the entire Dentsu Japan Network (DJN), positioned as a place where companies can create synergies by connecting with one another. Bringing businesses into one shared space will promote a new way of working, creating an environment where employees can work in a more engaging and efficient manner. At present there are more than 20 Dentsu Japan Network companies that are headquartered in the Dentsu headquarters building or that will be relocating into the building.

2. Details of the transfer and lease asset

Asset details and location	<p>Dentsu Headquarters Building in Shiodome, Tokyo</p> <ul style="list-style-type: none"> ■ Location: 1-8-1, Higashi-shimbashi, Minato-ku, Tokyo ■ Land: 17,244 m² ■ Site area: 17,244 m² ■ Building area: 12,496 m² ■ Total floor area: 231,701 m² ■ Construction: SRC construction / BS construction ■ Height: 213.3 m ■ Number of floors: 48 floors above ground, 5 floors below ground (Other one building)
Gain on sale	Approximately 89 bn yen (expected amount)
Book value	Approximately 177 bn yen (As of Sept. 30, 2021, estimated today)
Current situation	Used as an office / commercial / cultural facility

- i After setting up this real estate as a trust to a trust and banking company, it is planned to transfer the trust beneficiary rights to the SPC based on the settings of the trust.
- ii The scope of the lease agreement is the part that comprises the offices for the Company and its group companies' use, halls and studios included in the Dentsu Headquarters building.
- iii The term of the lease agreement is 11 years from the transfer date.
- iv The Company refrains from disclosing the transfer price and the total lease fee due to the agreement with the SPC and the business company, but it is an appropriate price that reflects market prices determined by competitive bidding.
- v The gain on sale generated by this transaction is calculated by first deducting the transfer costs from the difference between the transfer price and the book value of this building, and then deducting the difference between leased back asset and lease obligation in accordance with IFRS 16. The gain on sale in the above table is the estimated amount of gain on sale that is expected to be recorded in FY2021. Total amount of the gain on sale and the book value both in the table above is not equal to its transfer price.

3. Overview of the buyer

The buyer is a special-purpose company, named Godo Kaisha Shibaguchibashi Investment.

4. Schedule of this transaction

- i Resolution at the Board of Directors: September 3, 2021
- ii Closing of the contract and the agreement: September 3, 2021
- iii Transfer date: September 30, 2021 (expected)
- iv Start of the lease agreement: September 30, 2021 (expected)

5. Future outlook

It is expected that a gain on sale of approximately 89 billion yen will be recorded in FY2021. The total gain on sale and other associated expenses (net) is expected to have a one-time positive impact on statutory operating profit of approximately 87 billion yen and net profit attributable to owners of the parent of approximately 56 billion yen in the consolidated financial results of the Company, which comply with the IFRS accounting standard. The gain on sale has no impact on underlying operating profit or underlying net profit attributable to owners of the parent in FY2021. The impacts are reflected in the FY2021 financial forecasts announced on August 11, 2021.

In addition, the Company will continue its comprehensive review of business operations and capital efficiency, including consideration of the utilization and sale of non-trading assets, and will make announcements about individual measures as necessary.

For additional inquiries

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