

PRESENTATION MATERIAL OF FINANCIAL RESULTS FOR FY2022 (ENDED DECEMBER 31, 2022)

February 10, 2023

Information Services International-Dentsu, Ltd.

Note: This English translation is solely for reference purposes and not a legally definitive translation of the original Japanese text.
In the event a difference arises regarding the meaning herein, the original Japanese version will prevail as the official authoritative version.

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AGENDA

Section 1

Outline of financial results for FY2022 and forecasts for FY2023

Akira Kobayashi
Senior Managing Director

Section 2

Medium-term Management Plan “ISID X Innovation 2024” Progress and transformation to realize “Vision 2030”

Ryoichi Nawa
President, CEO & COO

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Outline of financial results for FY2022

Note: We have applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. "accounting standard for revenue recognition" from the following section.), etc. from the beginning of the current consolidated fiscal year.

Financial Highlights for FY2022

- Net sales and profits achieved **record highs for the fifth consecutive year.**
- **Achieved operating profit, operating margin, and ROE two years ahead of schedule** among the quantitative targets for the fiscal year ending December 31, 2024 set forth in the Medium-Term Management Plan.
- The year-end dividend is scheduled to be **¥45 per share** as planned. As a result, annual dividend of ¥78 per share, a dividend payout ratio of 40.3%, **increasing for the 10th consecutive year.**

1. Consolidated Results for FY2022

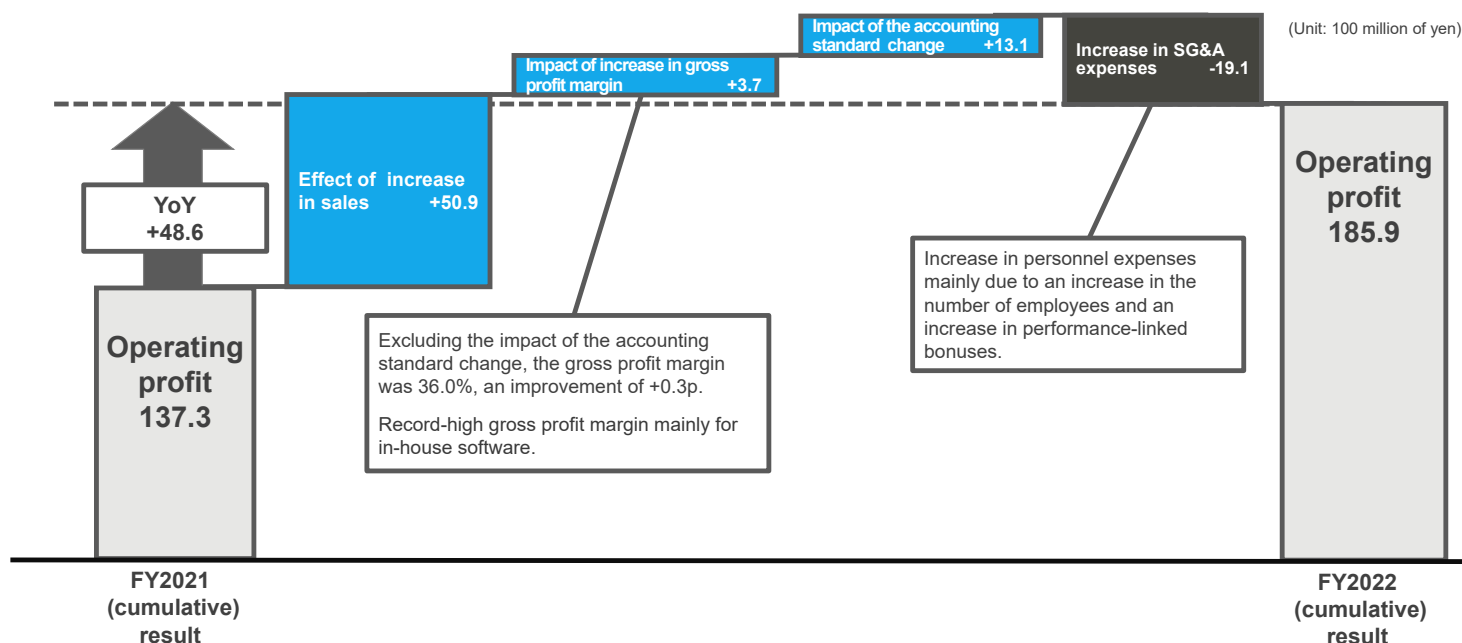
- Revenues and profits increased **due to the strong performance of all segments** and the impact of the adoption of the accounting standard for revenue recognition – Net sales +2,692 million yen, Operating profit +1,318 million yen –.

(Unit : Millions of yen)

	FY2022 (cumulative)	YoY			Vs. initial forecasts (announced on July 28, 2022)		
		FY2021 (cumulative)	Variance	% change	Forecasts	Variance	% change
Net sales	129,054	112,085	+16,969	+15.1	123,000	+6,054	+4.9
Gross profit	49,786	40,016	+6,770	+16.9	45,500	+1,286	+2.8
Gross profit margin	36.3%	35.7%	+0.6p	–	37.0%	-0.7p	–
Selling, general and administrative expenses	28,196	26,280	+1,916	+7.3	28,000	+196	+0.7
Operating profit	18,590	13,736	+4,854	+35.3	17,500	+1,090	+6.2
Operating margin	14.4%	12.3%	+2.1p	–	14.2%	+0.2p	–
Ordinary profit	18,354	13,224	+5,130	+38.8	17,500	+854	+4.9
Profit attributable to owners of parent	12,598	8,944	+3,654	+40.8	12,500	+98	+0.8
ROE	18.1%	14.3%	+3.8p	–			
Number of employees*	3,388 people	3,240 people	+148 people	+4.6			

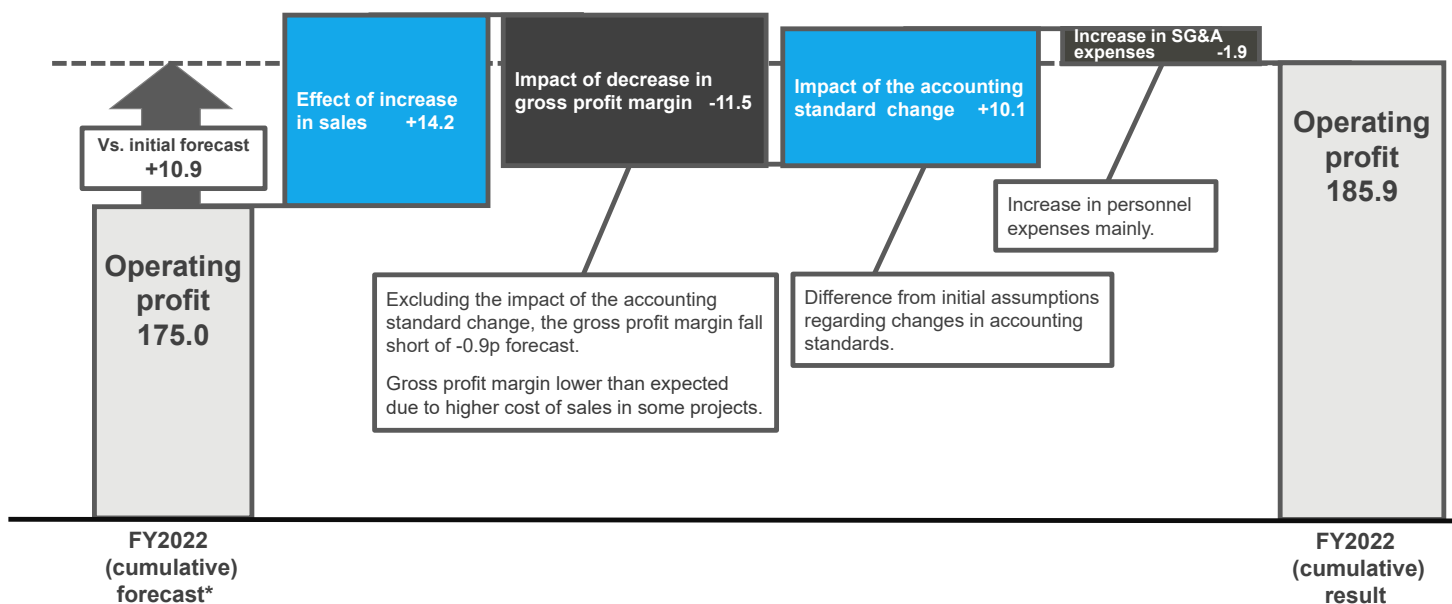
* at the end of the fiscal year

2-1. Factors for Increase/Decrease in Operating Profit (Vs. the previous year)



2-2. Factors for Increase/Decrease in Operating Profit (Vs. initial forecast)

(Unit: 100 million of yen)



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* Revised full-year forecast on July 28, 2022.

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3. Non-operating Income & Losses/Extraordinary Income & Losses

(Unit : Millions of yen)

	FY2022 (cumulative)	YoY		
		FY2021 (cumulative)	Variance	% change
Operating profit	18,590	13,736	+4,854	+35.3
Non-operating income	188	230	-42	-18.1
Non-operating expenses	424	742	-318	-42.8
Ordinary profit	18,354	13,224	+5,130	+38.8
Extraordinary income	374	—	+374	—
Extraordinary losses	1,078	53	+1,025	—
Profit before income taxes	17,651	13,171	+4,480	+34.0
Total income taxes	5,040	4,225	+815	+19.3
Profit attributable to non-controlling interests	12	0	+12	—
Profit attributable to owners of parent	12,598	8,944	+3,654	+40.8

<Extraordinary income>

Compensation for forced relocation	270
Gain on valuation of investment securities	73
Gain on change in equity	31

<Extraordinary losses>

Loss on valuation of investment securities	155
Loss on cancellation of rental contracts *	922

*Due to the cancellation of a portion of the office lease agreement due to lower office attendance rate of employees as a result of remote work.

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4. Net Sales and Operating Profit by Reportable Segment

(Unit : Millions of yen)

Reportable segment		FY2022 (cumulative)	YoY			Vs. initial forecast	
			Variance	% change	Overview	Variance	% change
Financial Solutions	Net sale	28,125	+2,949	+11.7	Net sales increased due to favorable sales of DX support projects for the banking industry, mainly in the area of customer contact reform, and an expansion in custom system development projects for the other financial industry. Operating profit increased due to the effect of the increase in sales though profitability declined due to an increase in the cost of sales for a certain project.	+1,125	+4.2
	Operating profit	1,611	+117	+7.8		—	—
	%	5.7	-0.2p	—		—	—
Business Solutions	Net sale	18,608	+3,650	+24.4	Net sales and operating profit increased due to the expansion of the sales and introduction of four focused solutions, POSITIVE, STRAVIS, Ci*X and CCH Tagetik, mainly in the trading, retailing and services industries.	+1,108	+6.3
	Operating profit	4,704	+2,049	+77.2		—	—
	%	25.3	+7.6p	—		—	—
Manufacturing Solutions	Net sale	36,453	+4,422	+13.8	Net sales and operating profit increased due to the expansion of projects for the introduction of the Teamcenter, a PLM solution that supports the digitization of engineering chains, mainly in the machinery and transportation equipment industry.	+1,953	+5.7
	Operating profit	4,179	+1,332	+46.8		—	—
	%	11.5	+2.6p	—		—	—
Communication IT	Net sale	45,867	+5,948	+14.9	Net sales and operating profit increased due to an expansion of customer DX support projects in the marketing and core business areas to the service and pharmaceutical industries, as well as an expansion of projects for the introduction of SAP solutions mainly to the manufacturing industry.	+1,867	+4.2
	Operating profit	8,095	+1,357	+20.1		—	—
	%	17.6	+0.7p	—		—	—

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* POSITIVE : human capital management solution STRAVIS: consolidated accounting software Ci*X : financial solution system CCH Tagetik : business management solution Teamcenter : PLM (Product Lifecycle Management) solution
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Ref. Consolidated Results for the 4Q (October - December)

Consolidated Results

(Unit : Millions of yen)

	4Q of FY2022 (Oct.- Dec.)	YoY		
		4Q of FY2021	Variance	% change
Net sales	35,245	32,200	+3,045	+9.5
Gross profit	12,768	11,763	+1,005	+8.5
Gross profit margin	36.2%	36.5%	-0.3p	—
Selling, general and administrative expenses	8,364	7,564	+800	+10.6
Operating profit	4,403	4,199	+204	+4.9
Operating margin	12.5%	13.0%	-0.5p	—

Reportable Segment

(Unit : Millions of yen)

Reportable segment		4Q of FY2022 (Oct.- Dec.)	YoY	
			Variance	% change
Financial Solutions	Net sale	7,414	+278	+3.9
	Operating profit	78	-305	-79.6
	%	1.1	-4.3p	—
Business Solutions	Net sale	5,094	+1,286	+33.8
	Operating profit	1,038	+134	+14.8
	%	20.4	-3.3p	—
Manufacturing Solutions	Net sale	9,924	+1,069	+12.1
	Operating profit	1,037	+367	+54.8
	%	10.4	+2.8p	—
Communication IT	Net sale	12,812	+413	+3.3
	Operating profit	2,249	+9	+0.4
	%	17.6	-0.5p	—

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5. Net Sales by Service Category and the Dentsu Group

(Unit : Millions of yen)

Service category	FY2022 (cumulative)	YoY		Vs. initial forecast	
		Variance	% change	Variance	% change
Consulting Services	7,418	+218	+3.0	-82	-1.1
Custom System Development	33,107	+3,862	+13.2	-393	-1.2
In-house Software	24,807	+2,718	+12.3	-193	-0.8
Third-party Software	40,299	+6,532	+19.3	+1,799	+4.7
Outsourcing, Operation and Maintenance Services	16,052	+3,967	+32.8	+3,052	+23.5
IT Equipment Sales and Others	7,369	-327	-4.2	+1,869	+34.0

Counterparty	FY2022 (cumulative)	YoY	
		Variance	% change
Dentsu Group Inc. and it's subsidiaries	24,081	+103	+0.4

6. Net Sales by Industry

(Unit : Millions of yen)

Industry	FY2022 (cumulative)		YoY	
	Net Sales	Composition Ratio (%)	Variance	% change
Banks	19,602	15.2	+561	+2.9
Other financial institutions	8,195	6.3	+2,740	+50.2
Financial	27,797	21.5	+3,300	+13.5
Transportation equipment	18,456	14.3	+1,692	+10.1
Electric appliances Precision instruments	13,147	10.2	+2,045	+18.4
Machinery	8,469	6.6	+1,220	+16.8
Other products	11,876	9.2	+2,573	+27.7
Manufacturing	51,949	40.3	+7,529	+16.9
Services and public offices	38,662	30.0	+4,608	+13.5
Distributions and others	10,645	8.2	+1,532	+16.8

7. Consolidated Balance Sheets

(Unit : Millions of yen)

	As of December 31, 2022	As of December 31, 2021	Variance	Main Factors for Increase/Decrease
Total current assets	103,099	89,933	+13,166	Increase in trade receivables, including contract asset (+7,158) Increase in advance payments - trade (+3,252) Increase in deposits paid (+2,574)
Total non-current assets	18,793	18,255	+538	Increase in software (+599)
Total assets	121,892	108,188	+13,704	
Total current liabilities	45,687	40,476	+5,211	Increase in trade payables (+4,557) Increase in contract liability (+664)
Total non-current liabilities	2,333	2,240	+93	Increase in long-term leased assets (+111)
Total liabilities	48,021	42,716	+5,305	
Total net assets	73,871	65,471	+8,399	Increase in retained earnings (+8,555)
Total liabilities and net assets	121,892	108,188	+13,704	

8. Consolidated Statements of Cash Flows

(Unit : Millions of yen)

	FY2022 (cumulative)	Main Factors	YoY	
			FY2021 (cumulative)	Variance
Cash flows from operating activities	11,914	Profit before income taxes (17,651) Increase in trade payables (4,531) Income taxes paid (-5,735) Increase in trade receivables, including contract asset (-5,729) Increase in advance payments – trade (-3,244)	16,981	-5,067
Cash flows from investing activities	-3,132	Purchase of intangible assets (-2,430)	-2,815	-317
Cash flows from financing activities	-5,419	Dividends paid (-4,105) Repayments of lease obligations (-929)	-4,461	-958
Effect of exchange rate change on cash and cash equivalents	194		242	-48
Net increase (decrease) in cash and cash equivalents	3,556		9,947	-6,391
Cash and cash equivalents at the beginning of period	49,748		39,773	9,975
Cash and cash equivalents at the end of period	53,305		49,748	3,557

9. Orders Received and Order Backlog

(Unit : Millions of yen)

		Orders received				Order backlog	
		4Q of FY2022 (Oct. - Dec.)	YoY (%)	FY2022 (cumulative)	YoY (%)	FY2022 (As of Dec. 31)	YoY (%)
Total		38,944	+33.0	140,557	+19.1	51,648	+26.1
Reportable Segments	Financial Solutions	7,362	-4.5	28,538	+12.9	7,782	+2.9
	Business Solutions	9,200	+120.1	23,629	+46.8	10,232	+88.4
	Manufacturing Solutions	10,788	+45.4	39,251	+9.8	18,325	+13.6
	Communication IT	11,591	+16.2	49,138	+20.3	15,309	+29.3
Service Categories	Consulting Services	2,101	+8.4	7,637	+4.6	985	+10.5
	Custom System Development	8,460	+4.3	33,578	+11.2	6,958	+3.0
	In-house Software	11,397	+90.7	30,389	+36.6	12,699	+71.9
	Third-party Software	11,550	+37.4	43,996	+14.6	22,149	+18.8
	Outsourcing, Operation and Maintenance Services	3,457	+41.3	17,389	+45.7	3,510	+57.3
	IT Equipment Sales and Others	1,975	-17.6	7,565	-4.2	5,345	+5.7

Forecasts for FY2023

Note: Explanation regarding the appropriate use of forecasts of business results
 The forecast figures are projections based on information available at the time of release and are not intended as a guarantee that we will achieve these targets.
 Actual results may differ significantly from the forecasts as a result of changes in the business environment and other factors.

1. Earnings and Dividend Forecasts for FY2023

- Aim to increase sales in all segments
- Aim to increase profits at all levels by covering the increase in SG&A expenses with the effect of higher sales and improved gross

(Unit : Millions of yen)

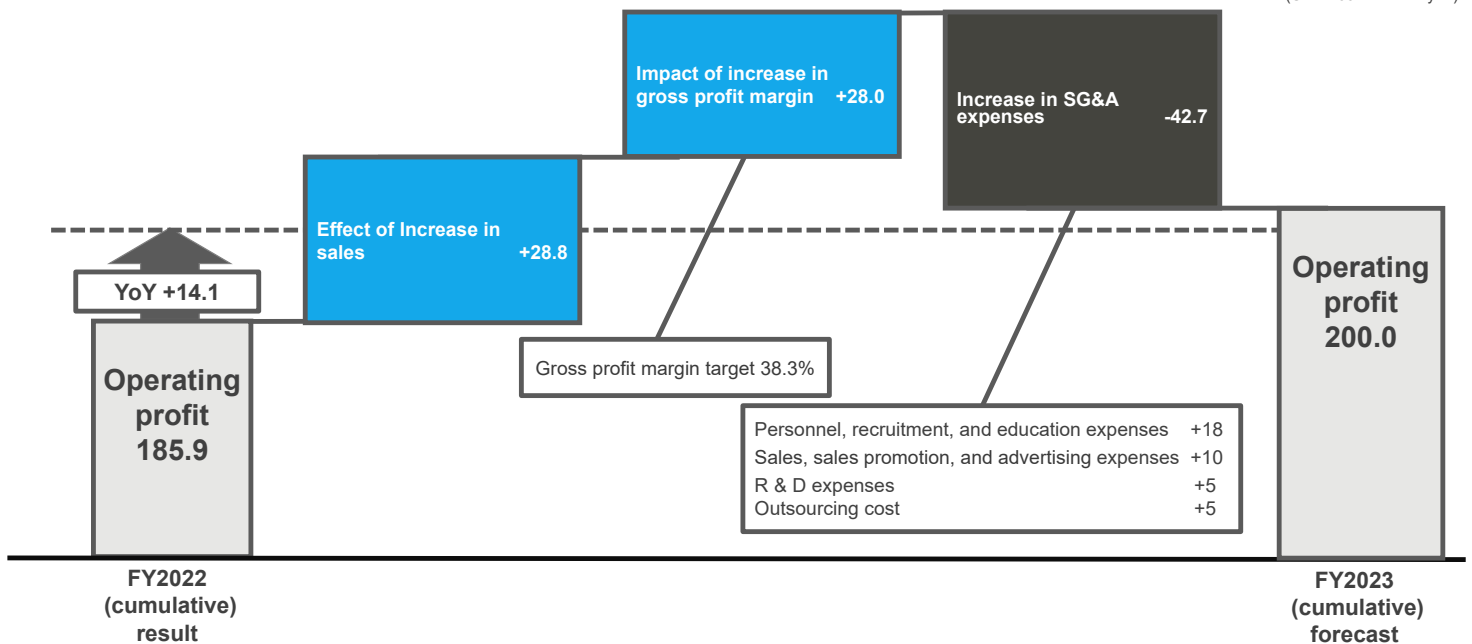
	FY2023 (cumulative)	YoY			
		FY2022 (cumulative)	Variance	% change	
Net sales	137,000	129,054	+7,946	+6.2	
Operating profit	20,000	18,590	+1,410	+7.6	
Operating margin	14.6%	14.4%	+0.2p	-	
Ordinary profit	20,000	18,354	+1,646	+9.0	
Profit attributable to owners of parent	14,500	12,598	+1,402	+11.1	
Number of employees*	3,700 people	3,388 people	+312 people	+9.2	
Dividend Forecast	Annual dividend	¥88	¥78*	+10	-
	dividend payout ratio	40.9%	40.3%	+0.6p	-

* at the end of the fiscal year

*interim dividend ¥44 / Year-end dividend ¥44

2. Factors for Increase/Decrease in Operating Profit for FY2023

(Unit: 100 million of yen)



3. Net Sales Forecasts by Reportable Segment / Service Category for FY2023

■ Net Sales by Reportable Segment

(Unit : Millions of yen)

Reportable segment	FY2023 (cumulative)	YoY		
		FY2022 (cumulative)	Variance	% change
Financial Solutions	29,405	28,125	+1,280	+4.6
Business Solutions	19,938	18,608	+1,330	+7.1
Manufacturing Solutions	38,007	36,453	+1,554	+4.3
Communication IT	49,647	45,867	+3,780	+8.2

■ Net Sales by Service Category

(Unit : Millions of yen)

Service category	FY2023 (cumulative)	YoY		
		FY2022 (cumulative)	Variance	% change
Consulting Services	8,617	7,418	+1,199	+16.2
Custom System Development	33,960	33,107	+853	+2.6
In-house Software	25,949	24,807	+1,142	+4.6
Third-party Software	45,161	40,299	+4,862	+12.1
Outsourcing, Operation and Maintenance Services	16,965	16,052	+913	+5.7
IT Equipment Sales and Others	6,345	7,369	-1,024	-13.9

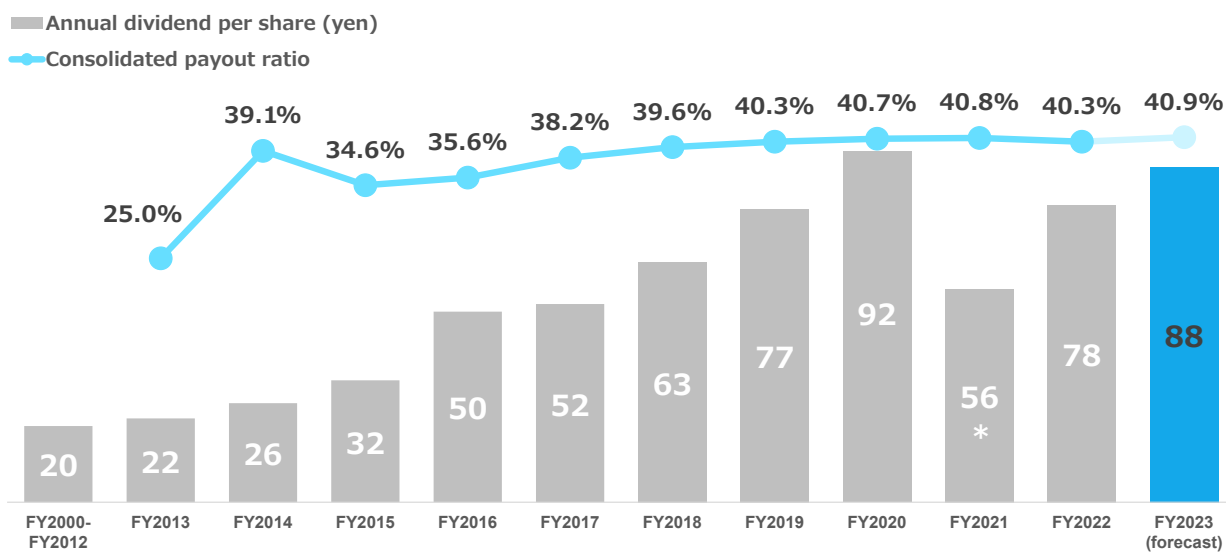
4. Earnings Forecasts for the First Half of FY2023

(Unit : Millions of yen)

	First half of FY2023 (Jan. - Jun.)	YoY			Ratio to full year (%)
		First half of FY2022	Variance	% change	
Net sales	67,130	61,458	+5,672	+9.2	49.0%
Operating profit	9,730	9,634	+96	+1.0	48.7%
Operating margin	14.5%	15.7%	-1.2p	-	-
Ordinary profit	9,734	9,645	+89	+0.9	48.7%
Profit attributable to owners of parent	6,684	7,028	-344	-4.9	47.7%

5. Shareholder Returns

- Expected to increase ¥10 per share to ¥88 (interim ¥44 / year-end ¥44)
- Aiming for a 40.9% dividend payout ratio and 11th consecutive year of dividend increases



**Medium-term Management Plan
“ISID X Innovation 2024” Progress**

Medium-term Management Plan for FY2022–2024

ISiD X Innovation 2024

While accelerating growth by deepening X Innovation, we will look ahead to 2030 and build a new foundation for the ISiD Group.

Priority Measures		Quantitative Goals		
A. Business domain expansion (HIRAKU) B. New capability acquisition (TSUKURU) C. Earnings model innovation (KASEGU) D. Management foundation innovation (SASAERU)	① Accelerate existing core business growth	FY2024 plan targets	CAGR 2021–2024	
	② Strength and establish customer contact reform business	Net sales	¥150 billion	10.2%
	③ Strength and establish corporate and social transformation business	Operating profit	¥18 billion	9.5%
	④ Strengthen human resources	Operating margin	12%	
	⑤ Strengthen consulting	ROE	15%	
	⑥ Strengthen cutting-edge technology	Growth Investments		
	⑦ Enhance in-house software and third-party software	Human resources	4,200 employees (consolidated, as of end of 2024)	
	⑧ Promote diversification of business models	Technology	¥17.0 billion (three-year cumulative)	
	⑨ Promote sustainability management	M&A/Financing	¥10.0 billion or more (three-year cumulative)	
	⑩ Innovate management foundation			

Review of the first year (quantitative aspect)

- Growth was above CAGR targets thanks to strong DX demand.
- Profits were achieved two years ahead of schedule due to increased sales and productivity improvements in in-house & third-party software.

(Unit : Billions of yen)

	FY2024 forecast	FY2022 result	Variance	CAGR Target	CAGR 2021–2022
Net sales	150	129	-21	10.2%	15.1%
Operating profit	18	18.5	+5	9.5%	35.3%
Operating margin	12%	14.4%	+2.4p		
ROE	15%	18.1%	+3.1p		

Review of the first year (Growth investment and priority measures)

Review	
Growth investment	<ul style="list-style-type: none"> ● Human Resources : Increased in headcount, but less than medium-term plan targets. Established the Human Resources Strategy Division to accelerate recruitment activities ● Technology : R&D remained weak compared to the medium-term plan target as a result of shifting resources to client projects ● M&A/Financing : Considered large-scale M&A, but not closed
Priority measures	<ul style="list-style-type: none"> ● New business development : Promoted of social transformation businesses such as municipal DX and urban OS solutions ● Sustainability promotion : Identified Material Issues and disclosed Compliant with TCFD Recommendations ● Management foundation : Carried projects regarding Human resources, Organizational and business management, and Corporate and social transformation business



Need to continue and strengthen initiatives

Transformation to realize “Vision 2030”

Recognition of current situation

Many opportunities for significant growth alongside market expansion

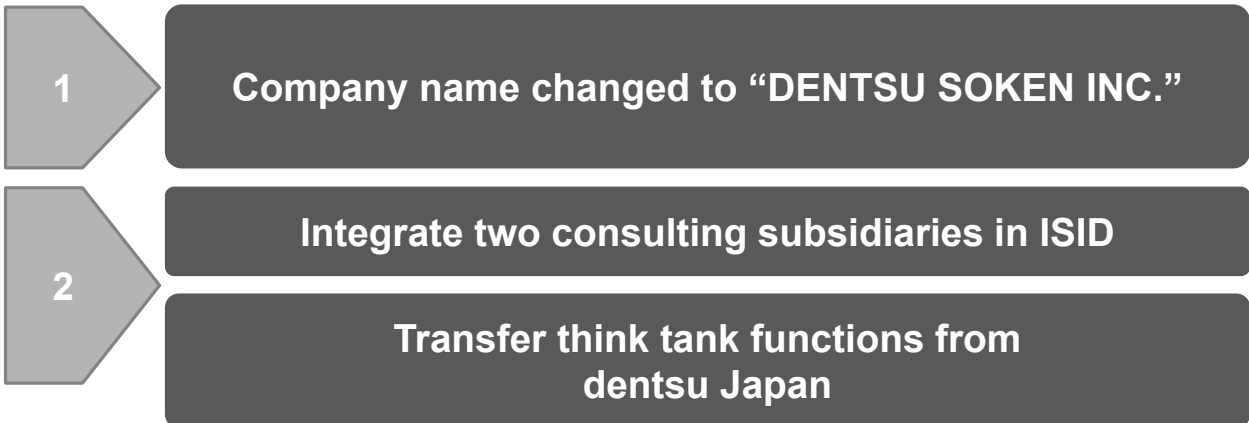
Insufficient human resources compared to demand



Accelerate growth by dramatically enhancing our ability to acquire human resources through rebranding and repositioning

Toward Accelerating Growth

- Plans to implement the following policies as of January 1, 2024 with the aim of rebranding and repositioning



1) Change of Company name

Company name

DENTSU SOKEN INC.

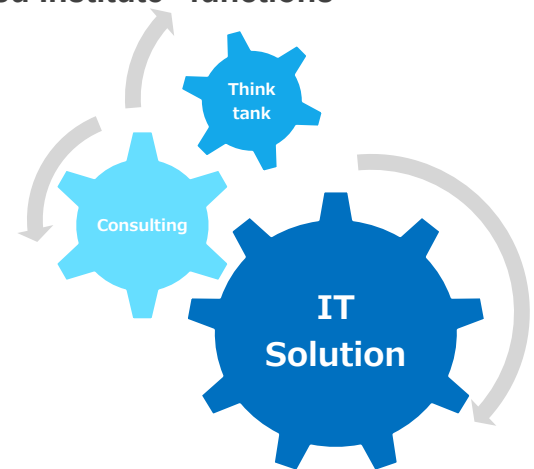
Company name
in Japanese

株式会社電通総研

- Breaking away from the image of Sler and build a new brand that is chosen by society, corporates, and consumers
- Further enhance growth potential in conjunction with the integration of the two subsidiaries and think tank function in dentsu Japan

2) Functional enhancements

- Transfer of the dentsu Japan In-house organization “Dentsu Institute” functions
(The details will be examined in the future)
>Strengthen think tank functions to provide proposals and information on society and people
- Integration two consulting subsidiaries
>Accelerate growth of consulting functions to support strategy formulation



ITID, Ltd.



ISID Business Consulting, Ltd.

isidbc

Aiming to expand business by linking think tank, consulting, and IT solutions

Vision 2030 and beyond

- Review the target for FY2024 based on the implementation of large-scale measures (to be announced once decided)
- Acquire **diversity in people and technology** by changing Company name and strengthening functions, then accelerate growth toward 2030 and beyond

