# Mid-Term Management Plan 2025-2027

February 14, 2025

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# Agenda

1. Aims of the new Mid-Term Management Plan
2. Direction and Challenges
3. Reevaluating Underperforming Businesses, Rebuilding the Business Foundation
4. Business Strategy
5. Financial Policy
6. Governance, Sustainability, Talent Management
7. Next Generation Growth Initiatives

# 1 Aims of the new Mid-Term Management Plan

# In formulating the new Mid-Term Management Plan

- The business growth and profitability targets set out in the previous Mid-Term Management Plan (2021-2024) have not been achieved
- The new Mid-Term Management Plan has been formulated to revise our previous growth strategy, which focused on M&A, and return to strong organic growth
- Considering changes in the industry environment, we have reviewed our businesses portfolio, and we are focusing our capital and talents in these areas to regain our competitiveness
- At the same time, in FY2025 we will focus on restoring profitability by reevaluating underperforming businesses and rebuilding business foundation
- We will not stop the progress toward One dentsu, returning our International business to a growth trajectory and increasing shareholder value

DENTSU VISION

# To be at the forefront of people-centered transformations that shape society

# In FY2025, we will focus on restoring profitability
# In FY2027, we will return to a growth trajectory

Since the acquisition of Aegis

**Mid-Term Management Plan**

Vision

### 2025

- Reevaluating underperforming businesses and rebuilding business foundation to restore profitability
- Regaining competitiveness through internal investment

### 2026

- No markets operating at a loss*
- International business contributes to increasing shareholder value
- Reaping the benefits of rebuilding the business foundation and internal investment

### 2027

- Returning to a growth trajectory
- All 4 regions contribute to increasing shareholder value

**People-centered Transformation**

*Refers to markets that have seen over 10 billion yen of cumulative investment

# Key financial targets for FY2027

| 4% | 16-17% | JPY 140bn | Mid-teens range |
|---|---|---|---|
| **Organic Growth** | **Operating Margin** | **Operating cash flow for the year** | **ROE** |

# 2 Direction and Challenges

# The profitability and competitiveness of the International business has been undermined by executing an M&A-focused growth strategy

We have already begun to implement the One dentsu Operating Model, review our business portfolio, and promote internal investment in response to these challenges

### Incomplete integration

- The organization has become more complex and siloed, with high cost structures
- Results of recent acquisitions tend to be below expectations due to unrealized synergies

### Lagging business portfolio realignment

- Profits have deteriorated significantly in some businesses and markets.
- Some obsolete assets have become fixed within the Group

### Insufficient updates to existing capabilities

- Focus on Customer Transformation & Technology has resulted in lack of strengthening Media/Creative capabilities
- Lack of Group-led internal investment

# Our position has become increasingly challenging in the face of intensifying competition

**Scaling up the advertising business**

**Intensifying competitive environment**

**Super-large-scale AI investment by tech and consulting companies**

**dentsu's position**

- Inferior in terms of network and resource scaling
- Insufficient technology investment

# It is essential to restore the profitability and competitiveness of our International business in order to achieve the objectives of the MTMP

**Under One dentsu, we will return to a growth trajectory in FY2027**

**Focus on restoring profitability in the International business**

| Restoring profitability | Restoring competitiveness |
| --- | --- |
| • Reevaluate underperforming businesses swiftly<br>• Systematically carry out sustainable cost reductions by rebuilding business foundation | • Focus on business strategies that leverage dentsu's unique strengths |

# 3 Reevaluating Underperforming Businesses, Rebuilding the Business Foundation

# In FY2025, we focus on reevaluating underperforming businesses and rebuilding our business foundation to improve profitability

**Reasons for unprofitability in the International business**

**Incomplete integration**

**Lagging business portfolio realignment**

**Reevaluating underperforming businesses**

- Identify underperforming businesses based on capital efficiency
- Within FY2025, implement thorough and swift measures keeping all options open

**Rebuilding the business foundation**

- In FY2025, record one-off expenses and strongly promote the simplification of the organization, standardization and sophistication of operations
- In FY2026 and FY2027, achieve the effect of reducing operating costs

# Reevaluate underperforming businesses: International business contributing to increasing shareholder value by FY2026

**Underperforming markets**

**Criteria**
- Cumulative capital investment of over 10 billion yen
- Losses for two or more consecutive years

*Thorough and swift implementation of measures*

**Underperforming entities**

**Criteria**
- Among the recent major M&As, entities that have not met the acquisition plan's targets

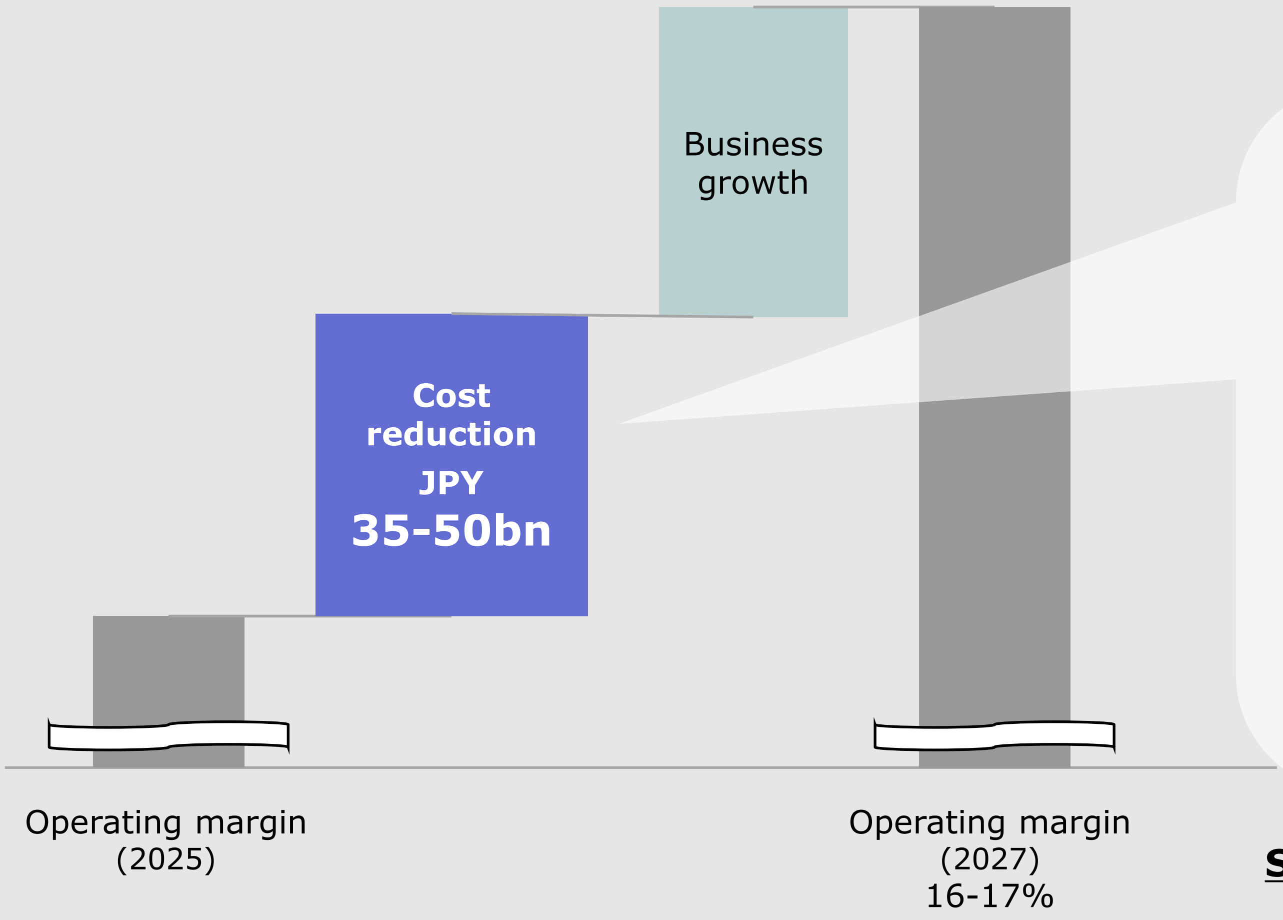
## OUR GOALS

by FY2026
- **No markets operating at a loss***
- **International business contributing to increasing shareholder value**

by FY2027
- **All 4 regions contributing to increasing shareholder value**

*Refers to markets that have seen over 10 billion yen of cumulative investment

# Rebuilding the business foundation: Achieving operating cost reductions of up to 50 billion yen in FY2027




**1. Simplification of organizations**

- **Global HQ**
  Integration of Tokyo and London HQ functions
- **Regional HQ**
  Simplifying operations by redefining the role of the regional HQ
- **Markets**
  Control costs in markets

**2. Standardization and Sophistication of operation**

Extensively automate with AI and systems and leverage outsourcing

**Systematically carry out sustainable cost reductions**

# 4 Business Strategy

## OUR OFFERING

# INTEGRATED GROWTH SOLUTIONS

Combining our renewed strategy with dentsu’s unique experience and diverse capabilities will enable us to drive innovation that positively impacts the entire business value chain, including our clients and society.

# Focus of the business strategy

## A network that wins globally by growing locally

By focusing on dentsu's unique strengths, we will prevail in the increasingly competitive market

### Client centricity

**Long-term relationships and a deep understanding of the client's business**, leveraging our experiences in Japan

### Continuous innovation

**Innovative and bespoke solutions** that meet the complex needs of our clients by market

### Impact-generating talent

Talent capable of involving a wide range of stakeholders, **executing the plan, and having a significant impact on society**

# Concentrated investment of resources and talents to achieve the strategy, improving competitiveness in key areas and markets

## Markets

- **Focus on Japan and the US**, large-scale markets with an abundance of business assets
- Additionally, focus on other markets where we already have a strong position

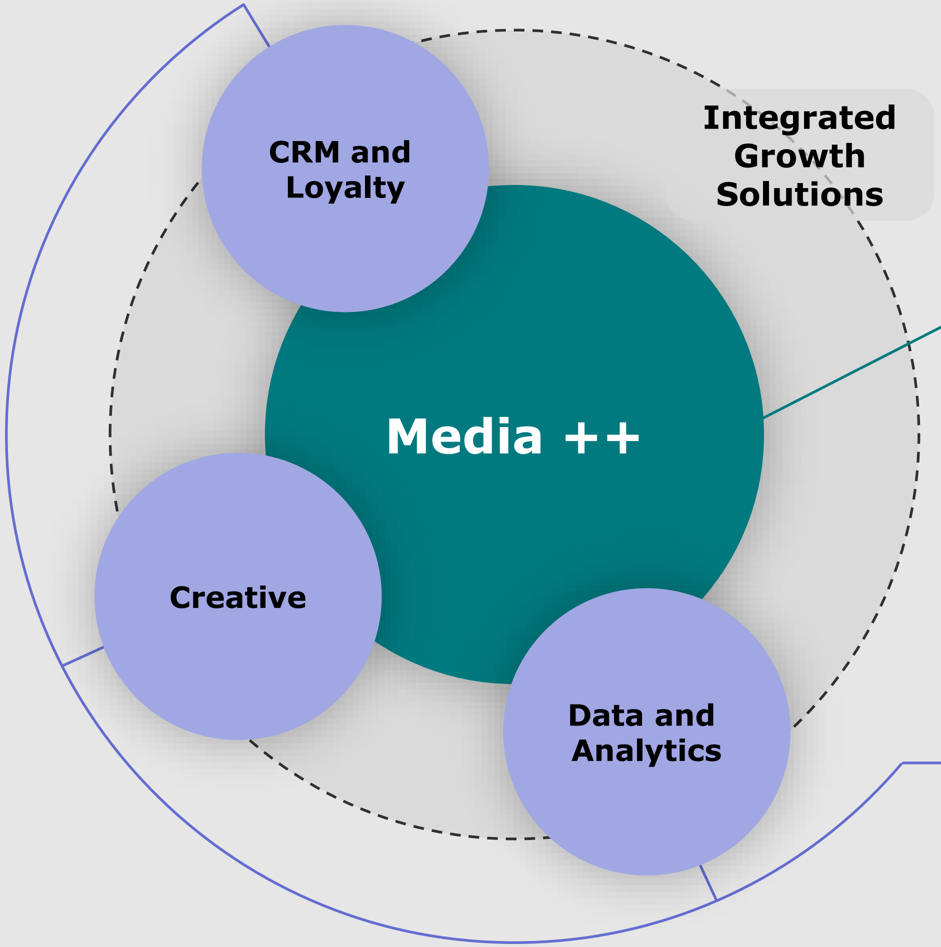
## Clients

- **Focus on large and medium-sized clients in each market**
- Maintain Global Accelerator client initiatives
- Strengthen the Client Management team

## Capability

- In the International business, **focus on improving the added value of the media business, which is the core of IGS,** and restore business performance
- In Japan, further differentiate IGS by strengthening capabilities such as BX and technology

# In International business, we will focus on delivering IGS with the media business and capabilities that enhance its value



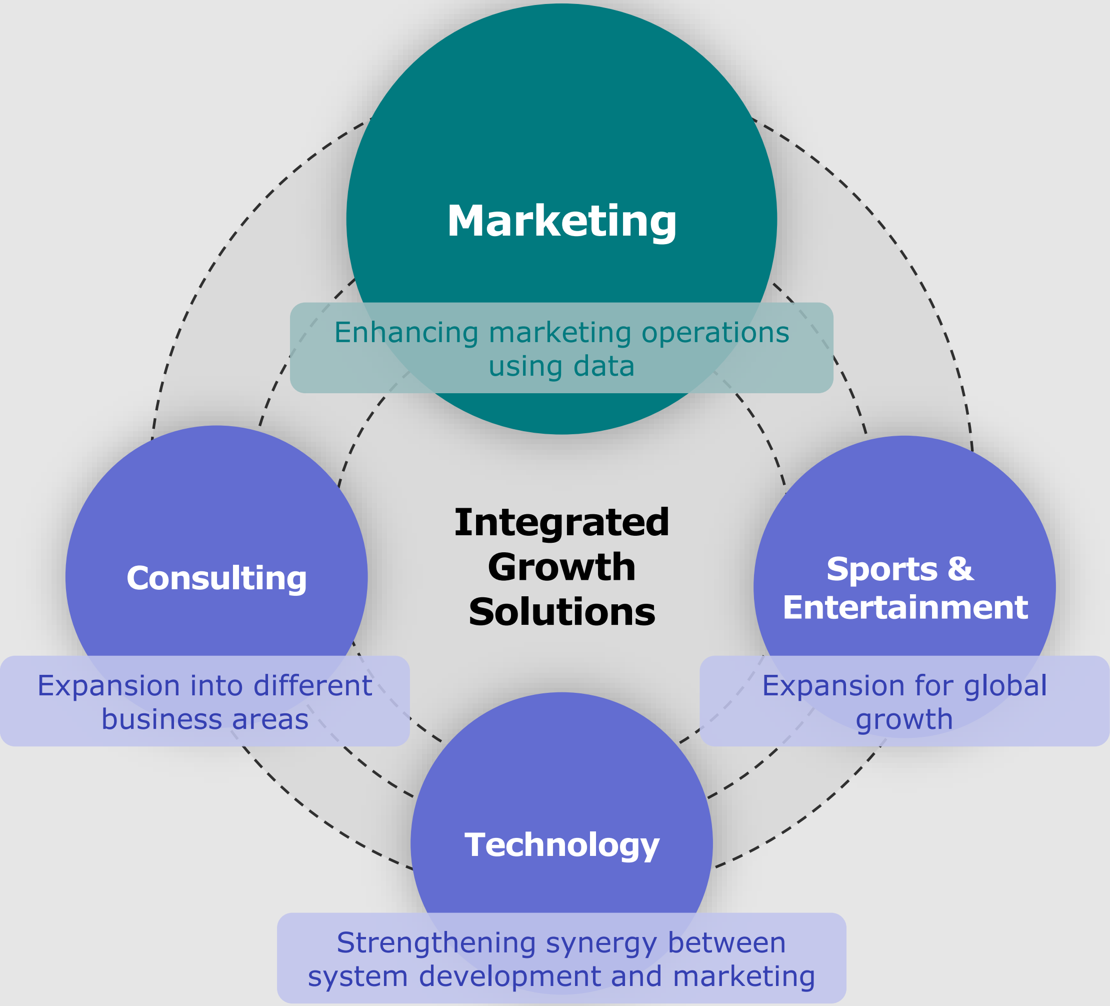

## Focus areas

- Strengthen modern media, including programmatic and retail media
- Strengthening partnerships with media and platform providers
- Promote the integration of Creative and CXM to add value to media

## Leading measures in the US

- Merkury for Media
- Adobe GenStudio dentsu+
- Integrated Loyalty

# Position Japan as a Cutting-edge market to drive IGS differentiation through unique value creation




Strengthen our significant competitive advantage in marketing in Japan and seize business opportunities throughout our whole clients' value chains

Enhance our support for the overseas expansion and overseas business of our Japanese clients through our group's global network

# 5 Financial Policy

# Financial policy and capital allocation

## Financial policy

- Restore a healthy balance sheet over three years by recovering profitability and competitiveness
- Continue accelerating disposal of non-operating assets, such as strategic shareholdings
- Further strengthen investment discipline in cooperation with the Finance Committee

## Capital allocation

| Rebuilding the business foundation | Internal investment | Shareholder returns | M&A, etc. |
|---|---|---|---|
| 50 billion yen will be spent as a one-off cost in FY2025, and implementation is scheduled to take place | Investment in key markets and businesses. 45 billion yen planned over 3 years | Maintain its policy of "35% payout ratio" as in the previous MTMP and will aim to pay stable dividends. In FY2025, while the investment will precede its outcome, the dividend will be maintained at the previous year's level as a transitional period | Carried out selectively in line with business performance recovery and under strengthened, disciplined management |

# Management that emphasizes shareholder value and capital efficiency

We have set a target for ROE as a part of our management policy that emphasizes capital efficiency

**Previous Mid-Term Management Plan** | **New Mid-Term Management Plan**


| | 2021 | 2022 | 2023 | 2024 | 2027 |
|---|---|---|---|---|---|
| ROE | 13.7% | 6.9% | -1.2% | -25.0% | mid-teens range |

# 6 Governance, Sustainability, Talent Management

# Continuing our commitment to governance evolution, sustainable society, and talent expansion

## Governance

**Effective corporate governance for improving corporate value**

**Risk Management**
A consistent system and process for the Group

**Improvement of internal control**
Efficient and effective operation of internal control

**Transforming the organizational culture**
Establishing an organizational culture that prioritizes integrity

## Sustainability

**Sustainability strategy integrated with business strategy**

**2030**
**Sustainability Strategy**

Continue to take action in the three priority areas and five key issues set out in the strategy update*

## Talent management

**Investing in human capital to realize people-centered transformation and sustainable growth**

**Goals for the final year of Mid-Term Management Plan**

- Strengthen leadership foundations and One dentsu culture
- Improving capabilities and systems to become a growth partner
- Establish a foundation for utilizing human capital through a common platform

*Updates on the 2030 Sustainability Strategy: https://www.group.dentsu.com/en/philosophy/sustainability-strategy-2030.html

# 7 Next Generation Growth Initiatives

# Create opportunities and establish new models by capturing the turning point in the sports and entertainment business


- Growth through a combination of rights investment business and client-oriented solution business


- Strengthen the sports and entertainment capabilities of the International business


- Respond to an emerging engagement-driven ecosystem with content as its core, through partnering with various stakeholders
- Contribute to the growth of IP globally

# Concluding Thoughts

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- Formulate a Mid-Term Management Plan, and return to a competitive business with organic growth of 4% and an operating margin of 16-17% by FY2027
- In FY2025, we are focusing on restoring profitability through rebuilding the business foundation and reevaluating underperforming businesses
- We will maintain the same dividend payout ratio of 35% as in the previous Mid-Term Management Plan, but plans to pay a dividend of 139.5 yen per share in FY2025
- We have set a target of achieving ROE in the mid-teens range by FY2027, and will strive to increase enterprise value and shareholder value

# Disclaimer

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- IFRS16 "Leases":
  IFRS16 "Leases" is applied from January 1st, 2019. The cumulative effect of initially applying IFRS 16 is recognized at the date of initial application (modified retrospective approach). Past results are not restated under IFRS 16.

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  ① Risk related to fluctuations in the economic and business environment
  ② Risk related to structural changes in the media
  ③ Risk related to our ability to realize our financial targets
  ④ Risk related to common business practices
  ⑤ Risk related to competition among advertising agencies
  ⑥ Risk related to the development of systems and databases
  ⑦ Risk related to legal or regulatory changes
  ⑧ Risk of litigation

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# Definition

- Turnover: The gross amounts billable to clients handled by the Group on behalf of clients, with net of discounts, VAT and other sales-related taxes
- Underlying operating profit: KPI to measure recurring business performance which is calculated as operating profit added with M&A related items and one-off items
- M&A related items: amortization of purchased intangible assets, acquisition costs, share-based compensation expense issued following the acquisition of 100% ownership of a subsidiary
- One-off items: items such as business transformation cost, asset write-down and gain/loss on sales of non-current assets
- Operating margin: Underlying operating profit divided by net revenue
- Underlying net profit (attributable to owners of the parent): KPI to measure recurring net profit attributable to owners of the parent which is calculated as net profit (attributable to owners of the parent) added with adjustment items related to operating profit, gain/loss on sales of shares of associates, revaluation of earnout liabilities / M&A related put-option liabilities, tax-related, NCI profit-related and other one-off items
- Underlying basic EPS: EPS based on underlying net profit (attributable to owners of the parent)
- Payout ratio: Calculated based on underlying basic EPS
- Underlying EBITDA: Underlying operating profit before depreciation and amortization (excluding depreciation adjustments under IFRS 16).
- Constant currency basis: Comparison with the current period where the previous year's numbers are recalculated using the currency exchange rate which is used for the current year's numbers
- Currency: Currency movements comparing prior period reported net revenue at reported currency to prior period net revenue at constant currency (reported currency of the current year)
- Acquisitions: The effect of business acquired or disposed of since the beginning of the prior year
- Organic growth/ Organic revenue decline: Organic growth and organic revenue decline represent the constant currency year-on-year growth/decline after adjusting for the effect of business acquired or disposed of since the beginning of the prior year. This is calculated by comparing current period reported net revenue to prior period net revenue, adjusted for the pre-acquisition or pre-disposal net revenue as applicable, and stated at constant exchange rate, in order to derive like-for-like growth
- CT&T (Customer Transformation & Technology): high growth business domain including the services related to marketing technology, customer experience management, commerce, system integration, and transformation & growth strategy.
- Net working capital: Working capital after deducting trade payables, other payables and other current liabilities from trade receivables and other receivables, inventories and other current assets
- Net debt : Total debt less cash and cash equivalents

# Thank you

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