

June 29, 2021

Notice regarding the expected sale and leaseback of Dentsu Headquarters building, a fixed asset, and the expected recorded gain on sale of the asset

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 consider the sale and lease (sale and leaseback transaction) (hereinafter “this transaction,” a combined series of transactions) of part of the Company’s fixed assets (Dentsu Headquarters Building, hereinafter “this building”) under the conditions stated in the statement of intent to purchase (hereinafter “this statement of intent to purchase”) received from a potential buyer.

If the transaction is carried out under the conditions stated in the statement of intent to purchase, 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 2021. This is expected to have a one-time positive impact on operating income of approximately 87 billion yen and net profit attributable to owners of the parent of approximately 59 billion yen in the consolidated IFRS financial results. The Group will continue to use this building as its headquarters after the transaction.

1. Reason for implementation of this transaction

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 announced the sale of a number of holding shares and two property assets in Japan. These transactions strengthen the Group’s financial structure, whilst securing funds to invest for growth, thereby improving shareholder value. The sale of the building had been under consideration and the submission of the statement of intent to purchase was received yesterday. The Company is currently considering the transaction under the conditions stated in the statement.

If this transaction is completed, annual charges associated with the lease agreement are expected to be recorded, however, the depreciation cost of the building will reduce. In addition, other costs related to building repairs, management of tenants and equipment repairs, which could be charged if we didn’t execute this transaction, will cease. If the transaction is carried out under the conditions stated in the statement of

intent to purchase, the funds generated from this transaction will support progress towards the Group's Medium-term Management Plan, 2021: 2024. Details of the use of proceeds will be explained in an appropriate manner, if needed, after the final agreement has been signed.

In line with the evolution of work environments, it is intended that the building's use will develop into a collaborative working space. Following the structural reform pillars of the Japan business, 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.

2. Details of the transfer and lease asset

Asset details and location	Gain on sale	Book value	Current situation
<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 / S construction ■ Height: 213.3 m ■ Number of floors: 48 floors above ground, 5 floors below ground (Other one building) 	Approximately 89 bn yen (expected amount)	Approximately 179 bn yen (As of June 30, 2021, estimated today)	Used as an office / commercial/ cultural facility

- 1 After setting up this building including its land as a trust, it is planned to transfer the trust beneficiary rights based on the settings of the trust.
- 2 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.
- 3 The term of the lease agreement is 11 years from the transfer date.
- 4 The Company refrains from disclosing the transfer price and the total lease fee due to the agreement with the potential buyer, but they are appropriate prices that reflect market prices determined by competitive bidding.
- 5 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 if this transaction is carried out under the conditions stated in this statement of intent to purchase. Total amount of the gain on sale and the book value both in the table above is not equal to its transfer price.

3. Schedule of this transaction

Although a final agreement must be concluded in order to carry out this transaction, the timing and details of the final agreement have not been finalized at this time. The Company plans to carry out this transaction under the terms and conditions set forth in this statement of intent to purchase, but the terms and conditions agreed to in the final agreement may differ. Notification of the terms and conditions agreed to in the final agreement will be made as soon as a decision has been made to conclude the agreement.

4. Future outlook

The Company has refrained from announcing a consolidated financial forecast for FY2021 due to the unstable macro environment of the world economy and other factors. However, if this transaction is carried out in FY2021 under the conditions stated in this statement of intent to purchase, 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 operating income of approximately 87 billion yen and net profit attributable to owners of the parent of approximately 59 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 income or underlying net profit attributable to owners of the parent in FY2021. Notification of the estimated impact on the financial performance based on the terms and conditions in the final agreement will be made as soon as a decision has been made to conclude the agreement.

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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