



[International] Source of Value-Creating Capability: Diversifying the Portfolio on a Global Basis



Diversifying the portfolio on a global basis Progress and future strategy

Tim Andree

Director and Executive Vice President, Dentsu Inc.
Executive Chairman, Dentsu Aegis Network

Steady Progress in Diversifying the Portfolio

The goal of the Dentsu Group is to evolve into a truly global network at the forefront of marketing convergence—one of our strategic objectives toward this goal is “diversifying the portfolio on a global basis.”

Our success to date in achieving this objective can be measured by the fact that we now operate in around 140 countries, from just 27 in 2005, and employ over 47,000 people globally, from 14,500 in 2005. In addition, we now have a diversified geographic revenue profile with 46% of our gross profit for the fiscal 2015 generated in Japan, 20% in EMEA, 18% in the Americas, and 16% in APAC.

As shown above, we are making steady progress in diversifying the portfolio; however, given the fast-moving nature of our industry, we need to continuously drive toward this strategic ambition.

Capability Expansion in the Digital Domain

In the global advertising market, digital media is continuously growing. For 10 key markets—including the UK, Ireland, Canada, and Australia—digital has already become the principal media channel for advertising expenditures, driven by the high demand for mobile and online video advertising, especially across social media platforms, and the rise of programmatic buying.

Under such circumstances, the Dentsu Aegis Network is expanding its digital capability portfolio through acquisitions and by continuing to invest internally in hiring digital talent and supplementing our product suite with cutting-edge digital tools.

In Japan, we established a new company, Dentsu Digital Inc., which provides a total package for clients across digital channels and platforms. Dentsu Digital collaborates with other key business units to ensure our clients have access to the full suite of Dentsu capabilities.

Integration of Newly Acquired Capabilities

According to Carat's latest forecasts for the industry outlook (published in September, 2016), global advertising expenditure is expected to grow by 4.4% in 2016. This growth is primarily driven by the continued solid growth of digital media (15.6%) with its share of adspend expected to be 27.7% in 2016. On the other hand, television is expected to remain resilient with a steady 41.1% market share forecast for 2016 as the upcoming Olympic Games and US elections are expected to drive considerable viewership.

Importantly, advertisers continue to place significant emphasis on the integration of their marketing plans across these media platforms. While continuing to invest in our digital capabilities, we will also integrate the newly acquired capabilities and skills into the services and operating model of the Dentsu Group. Furthermore, we will enhance our global infrastructure by strengthening partnerships with global media owners with an emphasis on mobile-centric, data-rich, and video-first.

In this rapidly evolving and complex environment, through these efforts, the Dentsu Group can continue to innovate for its clients, ensuring they have the best platforms.



Continued Promotion of Intragroup Talent Migration

Talent migration has been a key focus area for us in recent years. We have been successful in sharing some of our key talent between Dentsu Inc. in Tokyo and our global operations at Dentsu Aegis Network.

Much of our initial focus in this cross-knowledge transfer has been on the Asia Pacific region, which has the most immediate synergy potential across the Group. We now have over 150 Dentsu Inc. employees, previously based in Tokyo, working across all of our international operations, four of whom manage the entire agency portfolios in those countries.

In 2015, we initiated a pilot program to move some of our international talent to Tokyo, and today, we have a small number of people from Dentsu Aegis Network working in Tokyo. We will continue to drive these liquid talent programs as they promote collaboration and enhance the potential for cross-learning opportunities.



[International] Source of Value-Creating Capability: Transformation to Adapt to the Digital Economy



Aiming at further growth and transformation to adapt to the digital economy

Jerry Buhlmann

Senior Vice President, Dentsu Inc.
CEO, Dentsu Aegis Network

Progress of the Digital Economy Fundamentally Changes the Existing Business

The digital economy is the only growth certainty of the next five years. Digitally enabled business models, including omni-channel retail and the sharing and service economy, have become the dominant economic form, while traditional business models continue to be significantly disrupted. In the future, the most successful businesses will be those that can leverage the agility and speed of the digital economy, where data will become the new currency of business and hyper-connectivity will become even more predominant.

This evolving environment will require businesses to develop and integrate systems, platforms, and transversal workings within their organizations, supported by a significant change in culture. Ultimately, businesses will need digital economy solutions—such as strategic consult, data, analytics, CRM, and customer experience—in order to be truly successful in an increasingly agile and fast world.

Focus on Strategic Objectives and Maintaining Strong Momentum

Given a digital economy that advances with increasingly fast-paced changes, the Dentsu Group must maintain its positive momentum in operational and financial performance to remain well-positioned to access high-growth segments, capabilities, and geographies for our clients.

We will achieve this objective by continuing to outperform the peer group in organic revenue growth and increasing our utilization of capital through a higher pace and volume of acquisition. Dentsu Aegis Network, while carrying out international business of the Dentsu Group, has consistently outperformed the peer-group average, on an organic revenue basis, by a factor of 2x to 3x over the last four years. DAN's outperformance has been achieved through (1) leveraging our global scale and a consistent offering across our network, (2) ensuring an efficient and optimal utilization of capital—with a particular emphasis on acquisitions, and (3) using a unique operating model, which ensures we are truly differentiated from the peer group, and others.

Furthermore, a key driver of our peer group outperformance over this period is a significant and consistent focus on our key strategic objectives:

- Increase exposure to growth markets and segments
- Build capability in the digital economy
- Transform and broaden service offerings across clients
- Grow international client base
- Leverage the content and media transformation value chain
- Lead, and outperform, in the top 20 markets
- Build a scalable organization through innovation



By retaining our focus on these key strategic objectives, and targeting growth organically and through acquisitions, we aim to continue and build upon the positive momentum we have achieved in recent years. This momentum will help drive our business to the heart of the digital economy, maximizing value and impact for our clients while creating value for our stakeholders across the key value chains.

Further Growth and Evolution by Using One P&L

Dentsu Aegis Network aims to realize a two-fold increase in revenue by 2020. During this timeframe, we expect our business to become a 100% digital economy business.

To support our growth aspirations, we will continue building a scalable organization with an organizational structure that enables us to change rapidly. A key element of this is our unique operating model, "One P&L." One P&L is enabled by a 1P&L per market structure and drives our integrated and specialized approach.

To ensure we maintain our market leadership, we are implementing an evolved One P&L model across the business. Under the new model, we deliver broad systemization and integrated solutions while our global network brands and specialist local brands continue to be our interface with clients. The evolved One P&L model organizes our capabilities within the agency brands and enables our agencies to focus on building end-to-end solutions in specific sections of key capability areas. The organization will continue to be supported by a strong foundation of global platforms and global functions.

Ultimately, our business will become a solutions business that drives consumer engagement through to transaction with full data and insight integrity.



[International] Capability to Increase the Value-Creating Capability: M&A Strategy to Accelerate Growth



M&A strategy to accelerate growth of the global network

Nick Priday

CFO, Dentsu Aegis Network

Emphasis on Business Expansion through M&A

Our capital utilization strategy is focused on prioritizing the deployment of capital to drive the growth of the business—by investing in growing our organization and by delivering value-enhancing acquisitions.

Acquisitions have helped to supplement our organic growth outperformance in recent years and will help us to achieve the capability transformation required as we move to the center of the digital economy.

Specifically, we will continue to focus on the following through M&A:

- Increasing exposure to faster-growing markets and segments
- Building our presence in North America and China
- Enhancing our service offerings, particularly across the digital landscape

Clear Strategy for Acquisitions and Target Selection Method

We have a clear strategy for acquisitions—we target scale, geographic and capability in-fill, and innovation, focusing on digital in both emerging and major markets, particularly the US and China.

Within the digital area, we are focused on strategic consult, data, analytics, CRM, performance marketing, and customer experience acquisition targets. We will continue to acquire small- to mid-sized bolt-on acquisitions while also looking at slightly larger deals.

There Are a Number of Elements in Acquisition Targeting:

- Country management identifies and targets small, local deals.
- Global brand management supports local management with small- and mid-sized deals.
- Executive management is responsible for targeting mid- to large-sized strategic deals.

All three teams are supported by central (London) and regional M&A teams. M&A teams manage a pipeline of 50–60 active deals, and we have a monthly review by an M&A Committee, chaired by Jerry Buhlmann, CEO, Dentsu Aegis Network. The teams are supported by well-established M&A policies, practices, and procedures.



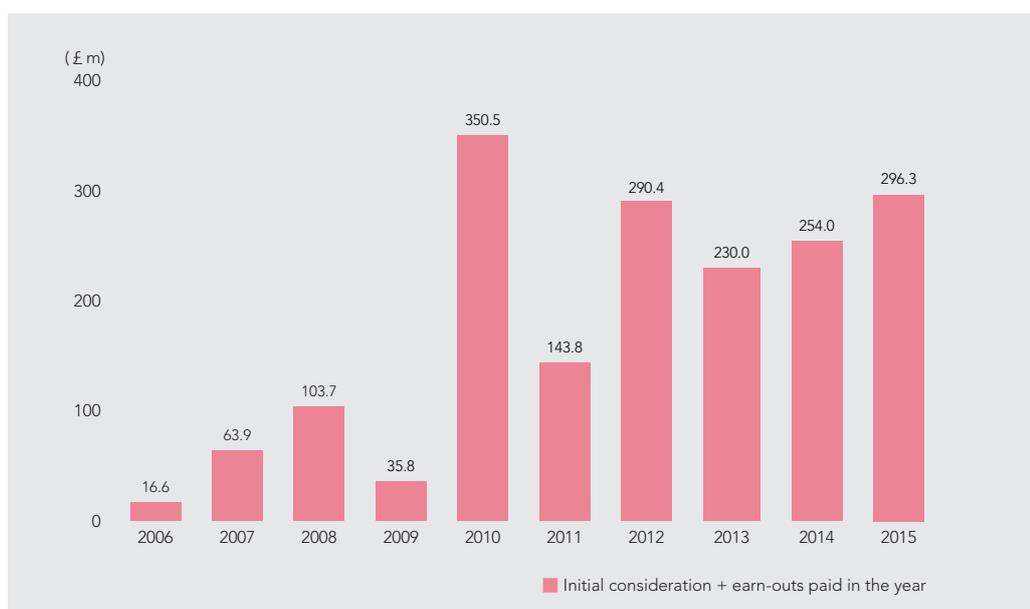
Special Feature

Successful M&A Track Record and Management Retention Rate

Since 2006, we have invested around £2 billion on over 200 acquisitions. We have a successful track record of executing and integrating deals, supported by well-managed structures and processes, and an experienced and integrated team. In addition, we have consistently delivered shareholder value through acquisitions. We have delivered an average Return on Invested Capital (ROI) of 14.1% on a portfolio basis from 2006 to 2014, which is more than double the Dentsu Inc.'s post-tax weighted-average cost of capital (WACC).

We also consider M&A an effective means to bring excellent talents into the Group. In this regard, we have a strong management retention record—with regard to acquisitions and investments since 2006, 71% of senior vendor management is still with the business. Of that number, 88% has stayed beyond earn-out expiry. In addition, around 50% of our senior operational management came into the business through acquisitions. We believe the Dentsu Group is attractive for vendors as our operating model enables quick integration and provides them with immediate opportunities.

DAN's acquisition investment





[International] Capability to Increase the Value-Creating Capability: Business Expansion of the Dentsu Group

Business Expansion of the Dentsu Group

One area of our M&A focus is expansion of the services and acquisition of capabilities all across the digital domain.

The particularly important fields are the brand commerce field to maximize consumer engagement through connections with various brands; the mobile field, which is growing rapidly worldwide; and the content marketing field to lead the consumer purchasing behavior to the products and services of client companies. The following examples illustrate the companies that the Dentsu Group has acquired in recent years.



eCommera Global Limited (hereinafter “eCommera”) has strengths in the brand commerce field, developing e-commerce solutions for major international retailers and consumer goods manufacturers, as well as providing maintenance and consulting services. Headquartered in London, eCommera’s specialist team is active across the world, providing site management support for more than 150 e-commerce sites in 30 markets. Furthermore, eCommera has established development centers in Bulgaria and India.

The Dentsu Group will deepen the collaborative relationship between eCommera and Isobar, integrate their e-commerce solutions technology, brand-building capabilities based on creative design and user experience, and consumer data analysis. This will contribute to maximizing the value of client brands.



Mark Fagan

CEO, eCommera Global Limited

As part of the Dentsu Group, eCommera now has a much richer offering in the field of digital commerce. We are able to leverage Isobar’s brand-building capability and global scale to provide innovative best-in-class cross-channel solutions and guide clients on their journeys to success in an increasingly interconnected and complex brand commerce field.



Fetch

Fetch Media Limited (hereinafter “Fetch”) is a global full-service mobile agency specializing in mobile media planning and buying, and is highly rated for its expertise in advertising planning proposals that utilize mobile media and the buying of advertising space in particular. In addition to its London headquarters, the agency currently has offices in the US, Germany, and Hong Kong. It also has plans to further expand its base.

Going forward, Fetch will promote further collaboration with the Dentsu Group’s global network brand companies specialized in mass media, digital media, OOH, creative, and other areas.



James Connelly

Co-founder and CEO, Fetch Media Limited

Our acquisition by Dentsu Aegis Network was a logical next step for Fetch as we sought to deliver our ambitious growth plans and scale our business globally. Dentsu Group has a proven track record of growing digital businesses and a clear appreciation of the increasing importance of mobile in the media landscape. As part of the Dentsu Group, we remain fully focused on delivering world-class mobile capabilities on behalf of an increasing number of mobile-centric clients.



UK-based branded content marketing agency John Brown Media Group Limited (hereinafter “John Brown Media”) provides highly credited content marketing services, particularly in the digital domain, to its portfolio of high-profile, multinational clients. In addition to its UK base, John Brown Media has offices in South Africa, Hong Kong, and Dubai, facilitating the expansion of innovative content marketing services on a global scale.

The Dentsu Group has to date provided its clients with services in the digital performance domain through iProspect, one of the Group’s global network brands. The acquisition of John Brown Media, one of the world’s leading branded content agencies, will strengthen the cooperative relationship that the company already has with iProspect and other Group companies, and contribute to maximizing client ROI through highly differentiated value-added solutions.



Andrew Hirsch

CEO, John Brown Media Group Limited

John Brown Media has been producing brilliant content for some of the world’s most prestigious brands for the last 20 years. As part of Dentsu Aegis Network, we have the ability to work alongside some of the world’s leading strategists to deliver smarter content and drive even better results for our clients.