

CEO message



The Dentsu Group exists to realize a better society by contributing to the growth of our clients, partners, people, and all consumers.

Toshihiro Yamamoto

Representative Director
President & CEO

Clarifying our value through the crisis of COVID-19

2020 was a challenging year for society, for our clients, our business and of course, our people.

Throughout this year, our people across the organization have shown themselves to be adaptable, demonstrating dedication and resilience. I want to express my thanks for their commitment to our business during a time of tremendous change.

The defining feature of the year was of course the impact of COVID-19. Our primary concern throughout the COVID-19 crisis has been the health, safety and well-being of our people, as well as that of our clients, their customers, and our communities.

Firstly, our people—the engine of our business. I would like to highlight a website. “Women From Home” created by Merlee Jayme, Chief Creative Officer, dentsu APAC. The website shares practical ideas to support our people and their families during the pandemic implemented in our APAC region. (<https://www.dentsuwomenapac.com/>)

The physical and mental health of our people was a top priority across the Group with many initiatives implemented at a market level to support them. Across the Dentsu Group, remote working quickly became common place across the organization to protect the safety and wellbeing of our people and their families. The working life of our people was disrupted, but the business reacted at speed. Our teams strengthened their connections through our collaborative work platforms and ensuring our leaders were visible was

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more critical than ever. Our new business teams quickly adapted to hosting, and winning, pitches virtually. This was possible through the investment in the operating infrastructure that we have been promoting throughout the Group over the past two years.

Secondly, supporting our clients. By utilizing our research, analysis, and forecasting capabilities, we provided our clients with consumer insights to help them shape their response to the rapidly changing environment we all experienced.

Finally, our communities. We have worked with our clients to plan and implement a variety of solutions that contribute to local communities under the impact of COVID-19. In China, we worked with a pharmacy client to provide free, online medical consultation services during the crisis. Together with another client, we worked to deliver free meals to hospital workers in a highly impacted Asian market.

With this backdrop, there is also an opportunity for us at Dentsu to clarify our meaning, value and purpose in society.

“The Dentsu Group exists to realize a better society by contributing to the growth of our clients, partners, people, and all consumers.”

We believe that fulfilling this mission will sustainably enhance the value we deliver to all our stakeholders including our shareholders.

Review of 2020

As a result of the unprecedented impact of COVID-19 on our industry, the Dentsu Group posted gross profit of 835.0 billion yen (down 9.8% year-on-year,

constant-currency basis) and adjusted operating profit of 123.9 billion yen (down 10.6% year-on-year, constant-currency basis). As a result of swift cost action across the entire Group we were able to deliver an operating margin of 14.8% (down 0.2% year-on-year) as a result of thorough cost control in Japan and abroad. I would like to pay tribute once again to the efforts and ingenuity of our employees, both in Japan and abroad.

The Group recorded a statutory operating loss of 140.6 billion yen and a net loss of 159.5 billion yen (attributable to owners of the parent). As president and CEO of the Group, I recognize my responsibility for these results.

2020 brought much success, both with new client wins and industry recognition. We are honored to be granted the responsibilities of new media accounts such as Kraft Heinz globally excluding the US, McDonald's and Nestlé in China, and Galderma globally, while deepening our relationships with existing clients such as Generali and Heineken.

Responding to the emerging client needs for brand experience consultancies, our CXM and creative lines of business have won many accounts. And I'm proud to announce we have significantly expanded our relationship with American Express, without a formal review through dentsu mcgarrybowen.

In Japan, we announced a joint venture with Toyota, elevating our existing partnership to deliver true digital transformation beyond marketing. The project has started well with the aim of enhancing marketing and data management throughout the

supply chain of Toyota.

The longstanding, trusted partnerships we are developing with our clients demonstrates success as we integrate talent, process, and technology.

These wins stand as a testament to our strategy of leveraging the deep expertise across our Group, with our proven ability to unite them into bespoke solutions for clients across our global network.

We have also been widely recognized by third parties, such as industry analysts.

Forrester placed one of our agencies, Merkle as a leader in the Customer Database and Engagement Agencies Wave and the Adobe Implementation Services Wave. Carat, our global media agency at Dentsu International, also received a placing in the leader category for global media agencies.

In terms of creativity and capability of delivering solutions to our clients, we celebrated Dentsu Inc.'s Yuya Furukawa receiving the President's Award at the D&AD Awards in September for his outstanding contribution to creativity. Dentsu Group was selected as one of the Most Effective Agency Holding Groups at the Effie, with dentsu mcgarrybowen and 360i selected as winning lead agencies.

Through our focus on sustainability, I am pleased to announce that Dentsu International achieved the ambitious goal it set itself in 2015 to procure 100% renewable electricity by the end of 2020. The international business has also committed to becoming a net zero emissions business by 2030. The commitment includes a new science-based target to reduce absolute carbon emissions by 46% and offset

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all unavoidable emissions through certified greenhouse gas removal projects. We also reconfirmed our listing in the FTSE4Good Index by meeting its ESG standard.

The Group also has announced that it is joining the Valuable 500, which was launched last year at the World Economic Forum's Annual Meeting in Davos, to commit to respecting employee diversity and developing solutions for people with disabilities.

Comprehensive Review and Medium-term Management Plan: “Sustainable Growth through Transformation”

In August 2020, our comprehensive review with four clear objectives was launched in advance of the Medium-term Management Plan.

1. Create a more simplified structure
2. Structurally and permanently lower operating expenses
3. Enhance the efficiency of our balance sheet
4. Maximize long-term shareholder value

We have taken swift action. Announcing a transformation to simplify the business with associated cost savings generating approximately 75 billion yen by 2022 across both Dentsu Japan Network and Dentsu International. Dentsu Japan Network is reorganizing the business into four domains and Dentsu International is integrating 160 agency brands to six. We launched a review of our balance sheet, challenging whether we are the natural owner of all non-trading assets. This review resulted in the sale of the majority of our

holdings in Recruit Holdings and the review continues with two property asset sales in Q1 2021. These actions enabled us to deliver against our fourth objective of improving shareholder value by announcing a 30 billion yen (maximum) buyback in February 2021.

Full details of our transformation and cost saving program are covered later in this report (see p. 12).

In February 2021 we announced the Medium-term Management Plan: “Sustainable Growth through Transformation.” We are executing the Accelerated Transformation Plan and driving Business Transformation to deliver growth and margin improvement from 2022.

Our strategy of Integrated Growth Solutions remains the center point of our vision. With Consumer Intelligence at the core of our capabilities and creativity as our innate competitiveness, we create integrated solutions across the total customer experience beyond marketing.

We are proud to serve 95 of the world's top 100 advertisers as our clients—demonstrating the strength of our offer—our opportunity lies with the ability to deepen those client relationships.

Today, the core competencies of our clients have transformed significantly over time. Consumers require companies to provide social value through their corporate behavior and their products. Consumers interest in corporate social roles and values has risen dramatically, and companies are under intense scrutiny on an unprecedented basis. Companies must ensure transparency and earn the trust and confidence of consumers and the public. The questions facing the

management of every company is how to integrate the creation of social value with the growth of the business.

We provide “dentsu Sustainable Business Solutions” based on our unique consumer intelligence utilizing data and technology, and it is another growth opportunity for the Dentsu Group.

It goes without saying that it is we ourselves who are under scrutiny for the social role and value of our companies. If we are to provide our customers with solutions to create social value, we must first take a hard look at our own actions, straighten up, and fulfill our responsibilities as a corporate citizen.

At the end of March, the Dentsu Group established the Sustainable Business Board, chaired by Wendy Clark, to oversee both the delivery of dentsu Sustainable Business Solutions, which focus on client sustainability, and our own sustainability from the same perspective.

In six months, we have made significant progress, but we recognize there is more to do. I look forward to updating you on our continued progress throughout 2021.

Holding company formation

2020 saw the formation of Dentsu Group Inc. as a holding company to support our two operating units.

To embrace this change we created a new Group vision “an invitation to the never before.” as our NORTHSTAR with eight values common to all of our people across the Group: “The 8 Ways.” The 8 Ways drive behavior and ambition in our people to deliver the best for our clients. Our clients will see one

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go-to-market offer: dentsu.

Through “one dentsu,” we are creating an environment in which the 64,000 people operating in more than 145 markets can form teams easily across geographical and organizational boundaries, bringing together unique talent and diverse perspectives that can spark innovation from anyone, anywhere. This radical collaboration empowers all individuals to create value and innovation, and gives us the ability to form diverse and new solutions around client needs and sets us apart from our competitors to give us a renewed source of differentiation.

The diversity of our people has never been more important and the creation of a workplace where each individual can thrive is central to the vision of one dentsu.

As part of this transformation, in September our international business rebranded to Dentsu International, symbolizing the unity between the Japan business and the international business strengthening the dentsu brand and uniting all employees. This allows us to leverage our global skills with clients able to access the best talent across the whole of Dentsu Group.

We saw further change at our international business in 2020 as well. Firstly, we welcomed Wendy Clark to the position of Global CEO of Dentsu International Limited and as an executive member of Dentsu Group Inc. in September. Wendy is a highly talented executive with experience from the client side coupled with a strong understanding of the complexities of running a global advertising business.

This is hugely complementary to our growth plans which focus on the delivery of Integrated Growth Solutions. Wendy has already made a positive impact with our people and our clients. I have strong belief she is the right individual to return the international business to growth. In March 2021 Wendy joined the board of Dentsu Group Inc. to strengthen the board, as well as enhance diversity, with greater international representation.

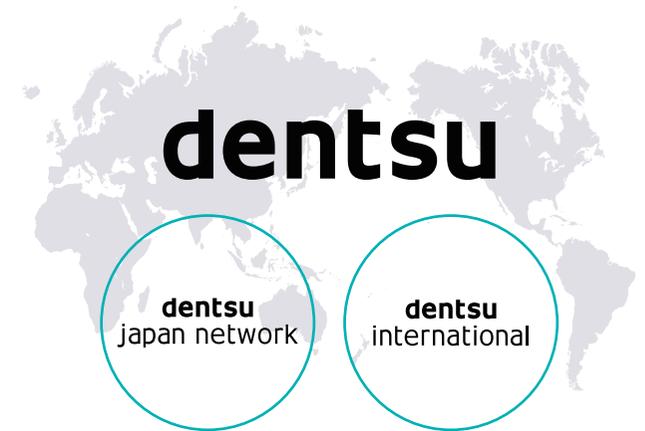
Secondly, in March 2020 we announced the accelerated buyout of the remaining Merkle shares. This delivered single-digit EPS accretion for Dentsu Group in 2020, in addition to ensuring key talent retention and allowing us to accelerate the final stage of the integration of Merkle. As I mentioned earlier, Merkle remains a key contributor to our ambition of reaching 50% revenues from Customer Transformation & Technology over time.

Looking ahead

In July 2021, we enter the 121st year from the founding of the Dentsu Group. The ancient Chinese calendar, which is still popular in Japan, is based on a cycle of 60 years. In other words, it is the start of the third cycle for the Dentsu Group from the July of this year.

In the next 60 years, we will contribute to the creation of a better society while challenging ourselves to change for the better.

We want to continue to be a company that contributes to the growth of our clients, our partners who live and work, so that we can create a better society.



The events of the past 12 months have demonstrated the importance of working together, collaborating, and collectively working towards a common goal. I would like to express my thanks to the 64,000 employees of the Dentsu Group around the world during this difficult time, and thank our clients, partners, and shareholders who support us. Thank you very much for your continued support.