Road to Value Creation

- Review of CY2015 and the medium-term management plan

Changes in the business environment, driven by globalization and digitalization, are forcing big changes in the advertising industry and its business model. These circumstances and the acquisition of Aegis Group plc (currently Dentsu Aegis Network Ltd.) in March 2013 have enabled the Dentsu Group to evolve into a truly global network. We thus took the opportunity to formulate a medium-term management plan, Dentsu 2017 and Beyond, that is to run from FY2013 to FY2017.

In recent years, given the numerous technological advances and changing consumer behavior, it has become difficult for many companies to achieve satisfactory results from marketing activities in the absence of coordinated initiatives. Our medium-term management plan is designed to evolve into a world-class global network, contributing to raising corporate value for all clients. Accordingly, we see the promotion of our plan as leading to value creation.

The following summarizes the medium-term management plan's progress and achievements by fiscal 2015 year-end, which marked the plan's halfway point. We also consider the Group's future outlook.

Progress, Achievements, Future Outlook

Part 1: Evolving into a global network

Steady performance of core Japan business

The gross profit resulting from our CY2015 business in the Japan market was brisk at ¥348.2 billion (up 4.3% year on year, with organic growth up 3.9% year on year). Since the establishment of Dentsu Aegis Network (DAN), the expansion of Japanese companies' operations abroad and the entry of foreign companies into the Japanese market have enabled us to expand our business both at home and abroad. We will continue to work aggressively to acquire new accounts in all markets, and to enhance our competitiveness as a global network with a solid business foundation in Japan. (For more information on key initiatives in Japan, please refer to pages 17–22.)

Continued high growth in our international business

During CY2015, our gross profit of ¥157.1 billion (a year-on-year increase of 15.4%, including a 12.2% hike in organic growth) that resulted from overseas business significantly outperformed market growth, underpinned by the strong business momentum in Europe, the Middle East, and Africa. Meanwhile, in the Asia Pacific region, excluding Japan, we recorded a profit of ¥117.5 billion (a 23.5% year-on-year surge that included an 11.4% rise in organic growth).

In the Americas, the organic growth rate rose 4.9% year on year, slightly less than the market growth rate. This was the result of, among other things, the renewal of large-account contracts. However, there was a 24.6% year-on-year rise in the gross profit to ¥139.3 billion, reflecting the significant contribution of M&As.

The Group's strong momentum is supported by our smooth integration of the former Aegis Group, as well as the progress of Dentsu Group-wide collaboration. The leadership team of the former Aegis entity remains in the integrated network, where it is helping to drive our growth and support the enlarged Group's momentum. (Please refer to comments by the general manager of international business on pages 23–26.)

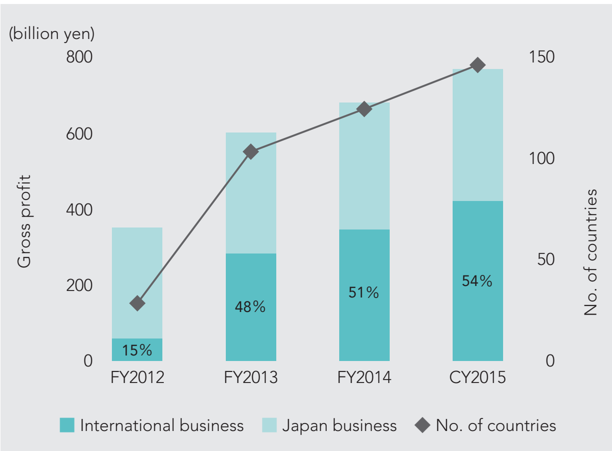
Enhanced competitiveness of our global network

With the acquisition of Aegis, the consolidated gross profit of the Dentsu Group almost doubled from the figure recorded in FY2013. With the continued momentum and our Group's steadily expanding gross profit, international business accounted for 54% in CY2015, the global network having some 47,000 professionals in more than 140 countries.

We continue to improve our operating model One P&L, which has been applied in all our businesses outside of Japan, and have already introduced a next-generation model in some regions. (For more information on One P&L, please also refer to page 31.)

We intend to continue promoting personnel exchanges between our Japan and international businesses, mainly in the growing digital field, as well as to use innovation to strengthen our competitiveness as a global network.

International business ratio*/No. of countries and territories



* International business ratio is on a gross profit basis. For more information, please refer to page 75.

Progress, Achievements, Future Outlook
Part 2: Continuation of industry-leading organic growth

We continue to achieve steady organic growth in many areas, while the organic growth of the entire Group still outperforms that of our competitors.

As well as the solid acquisition of new contracts, many major clients continue to award us contracts without requiring us to go through the contract bidding process. The resulting business expansion, which contributes to our organic growth, shows that clients appreciate our Group's performance. (For more information on performance and key initiatives in Japan and each overseas region, please refer to pages 17–22 and 23–28.)

In the fast-growing digital domain, both our Japan and international businesses achieved double-digit growth in gross profit for FY2015, with year-on-year increases of 22.2% and 24.8%, respectively.

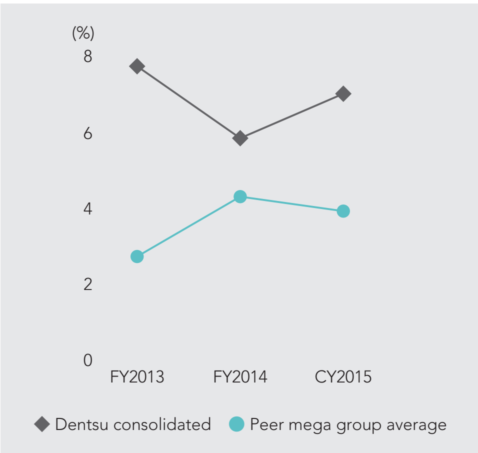
Progress, Achievements, Future Outlook
Part 3: Maintaining and improving high operating margin

The Dentsu Group's operating margin has outperformed that of its competitors, as the Group has continued to boost its Japan business and improve its international business margins.

Particularly in FY2015, the consolidated margin improved significantly because our international business started to see the effects of its first-phase business platform development, to which our Group companies in Japan made a significant contribution. We will continue to restructure our value chain, including our Group companies.

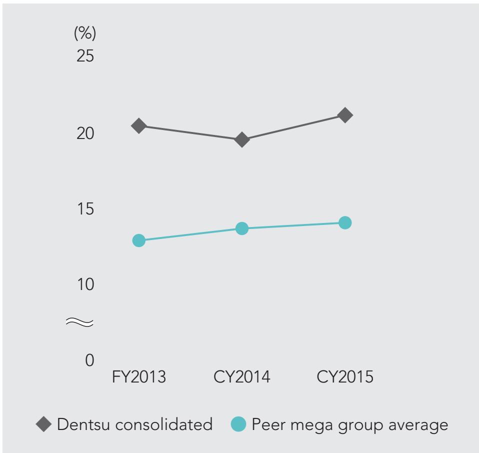
In FY2016, we will keep investing in improving our medium-term competitiveness, and further strengthening the level of our business platform across the Group. Through ongoing initiatives, we aim to maintain a consolidated operating margin of 20% or higher, which is one of the current medium-term management plan's key performance indicators.

Organic growth*



* Organic growth is on a gross profit basis. For more information, please refer to page 75.

Operating margin*



* Operating margin is on an underlying operating profit basis. For more information, please refer to page 75.

Progress, Achievements, Future Outlook
Part 4: Measures to attain sustainable growth

M&As to set up businesses abroad

M&As are important means of establishing foundations for sustainable growth. Between our acquisition of Aegis in March 2013 and the end of 2015, we conducted 76 M&A transactions, for a total value of some £760 million. By the end of FY2015, our M&A activities had contributed some £90 million to the Group's profits, while M&As accounted for 43% of our total business transactions.

M&A outside Japan (from April 2013 to December 2015)

760 m£	76 transactions	91 m£	43 %
M&A investment	No. of M&A transactions	Contribution of M&A investment to PBT (2015)	Digital domain ratio in M&A investment

Capability enhancement through M&As continues

Since FY2015, we have expanded our acquisition targets in the digital domain to include not only digital media, but also new areas of business. Thus, we have acquired companies in rapidly growing domains such as content marketing, experiential marketing, e-commerce solutions, mobile business, CRM, and data analytics. (Our M&A strategy and three case examples are described on pages 29–30.) We believe that these rapidly growing business areas will become extremely important in Japan.

To better cope with changes in consumer behavior and accommodate the progress being made in the area of marketing convergence, one of the main growth strategies that we plan to develop is the enhancement of our capabilities overall through M&A transactions.

Japan market growth opportunities through accelerated digitalization

We are working to derive growth opportunities in Japan from marketing convergence, based on our strong competitiveness in the traditional domains of media content, creative work, and marketing. (For more information on our competitiveness in the Japan market, please refer to pages 17 and 18.)

Our clients have urged us to broaden and merge these core competences with new capabilities such as CRM, e-commerce, system solutions, and data analytics. In response to these demands, in January 2016 we formed a new organization by integrating and restructuring our professional services in the digital marketing domain, before spinning off the organization and setting up a new company, Dentsu Digital Inc. (For more information, please refer to pages 19–20). Through this company, we aim to gain further growth opportunities in the Japanese market by providing one-stop service in all areas of digital marketing.

Seeking growth opportunities through the revitalization of Japan

In association with the Tokyo 2020 Olympic and Paralympic Games, there will be numerous world sports events held in Japan before 2020 and beyond. Moreover, action plans—including the Vision of the Future Society Brought by Accelerated Advancement of Intelligence in ICT, as well as Infrastructure Improvement in Metropolitan Tokyo—have been gaining momentum in the lead-up to 2020.

Through our commitment to these social projects, which are not purely in the advertising domain, we will contribute to their success, as well as to the development of innovation in Japan and, ultimately, the revitalization of the Japan brand.

Toward 2017

As a result of the above-mentioned initiatives, we have made good progress in the medium-term management plan as we move toward achieving our 2017 key performance indicator goals.

Centered on our Japan business, while making the best of the global coverage of DAN, we continue to focus on innovation and new challenges to further expand our business. In addition, we plan to improve our integrated problem-solving and revenue creation abilities, in order to become a partner that supports its clients' successes in diverse ways.

Progress of medium-term management plan (from FY2013 to FY2017)

	FY2012 (Actual)	CY2015 (pro forma) (Actual)	FY2017 (Target)
Gross Profit Organic Growth Rate		7.0%	3-5%
Gross Profit International Business Ratio	43%	54.3%	55% or higher
Gross Profit Digital Domain*1 Ratio	24%	34%	35% or higher
Underlying Operating Profit Operating Margin*2	17%	21.1%	20% or higher

Note: The fiscal period of FY2012 is from April 1 to March 31. Dentsu Inc. and its subsidiaries with closing dates other than December 31 changed their closing dates to December 31 in fiscal 2015.

*1 Digital domain: Internet-related marketing services and the contracted development and sales, etc., of the IT system
*2 Underlying operating profit operating margin: Underlying operating profit ÷ Gross profit × 100