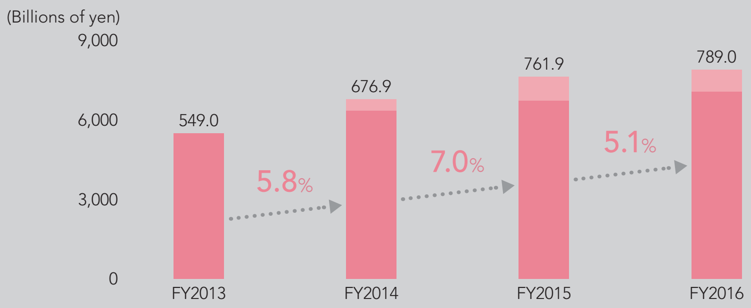
Our Strategy

Medium-term Management Plan

	Overview
Diversifying the portfolio on a global basis	We aim to expand our customer base in terms of both region and service domain, leveraging customer assets cultivated by both Dentsu and Aegis. We will work to win new accounts in all markets, offering a unique global network with an established business base in Japan.
Evolving and expanding in the digital domain	As marketing activities shift toward digital marketing, the Dentsu Group is using M&As to increase our capabilities in the digital sphere. We will provide a one-stop service encompassing various areas of digital marketing.
Re-engineering business processes and improving profitability	We will work to streamline all business processes through cost controls and flexible resource management on a global scale. Especially in Japan, we will steadily review and reduce assets and increase the profitability and business efficiency of the Group.
Further reinforcing the business platform in the core Japanese market	We will work to advance our digital solution capabilities and structure in order to reinforce our established business platform in Japan, where the Group's main strength lies. In addition, we will work to increase our competitiveness in the mass media business and sports marketing area.

Progress in Fiscal 2016

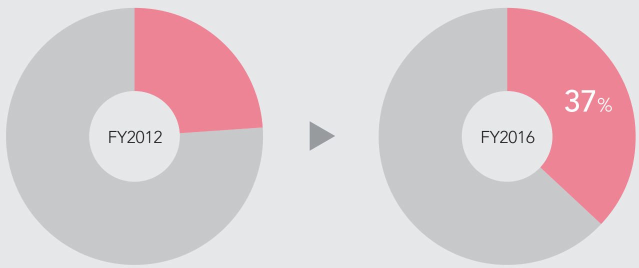
International business grew rapidly, due to increased business from existing clients, progress in winning new accounts, and steady growth of digital networks. As a result, international business accounted for 54% of our gross profit. With this figure, we achieved our medium-term management plan target one year early. Organic growth, including in Japan business, exceeded the plan's target figure of sustained 3–5% growth. We also conducted multiple mergers and acquisitions (M&As) to acquire resources and help increase our competitiveness.



Gross Profit/ Organic Growth Rate

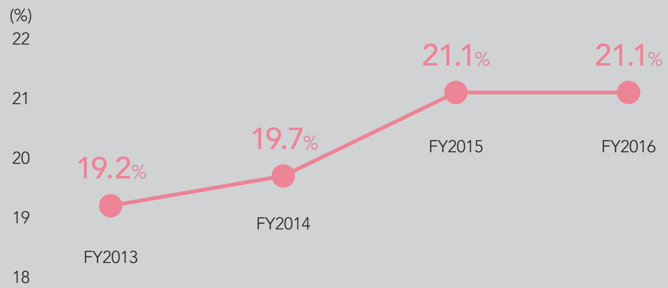
Gross profit in the digital domain grew both for our domestic and international businesses, and we reached our medium-term management plan targets (digital domain making up 35% or more of gross profit) one year ahead of schedule.

Overseas, we acquired various resources—particularly through large-scale M&A activity—that are expected to contribute to growth in the digital domain.



Gross Profit Digital Domain Ratio

Despite a rise in expenses in line with technology investments in international business, ongoing cost controls in our Japan business led to a consolidated underlying operating margin of 21.1% in fiscal 2016. We therefore met the targets of our medium-term management plan, as in fiscal 2015.



Underlying Operating Margin

To increase competitiveness, we started increasing our expertise through reorganizing the Group, including Dentsu, mainly in the key areas of digital and promotion. We also worked to increase profitability. As a result, the Japan business saw growth in gross profit and underlying operating profit operating margin.

- In January 2017, we established Dentsu Live Inc. by integrating Dentsu's Event & Space and Design departments with Dentsu Tec's Event & Space related department. The promotion business was taken over by a new company, which adopted the existing name Dentsu Tec Inc.
- Under the new structure, we plan to provide services that meet the diverse digital marketing demand of our customers.

Reinforcing the Promotion Domain

Consolidated Operating Highlights (IFRS)

(Millions of Yen)

Dentsu Inc. and Consolidated Subsidiaries	Consolidated (Financial reporting basis) IFRS		Consolidated (Calendar year basis (pro forma)) IFRS		
	2015/3	2015/12	2014	2015	2016
Turnover	4,642,390	4,513,955	4,642,901	4,990,854	4,924,933
Revenue	728,626	706,469	725,886	818,566	838,359
Gross profit	676,925	669,489	676,882	761,996	789,043
Organic gross profit growth rate(1) Consolidated	5.8%	–	–	7.0%	5.1%
Organic gross profit growth rate Japan	2.2%	–	–	3.9%	4.5%
Organic gross profit growth rate International	10.3%	9.4%	10.3%	9.4%	5.7%
Operating profit	132,305	107,265	137,558	128,212	137,681
Underlying operating profit(2)	131,937	133,328	133,402	160,438	166,565
Operating margin(3) Consolidated	19.5%	19.9%	19.7%	21.1%	21.1%
Operating margin Japan	23.9%	24.7%	24.2%	26.0%	26.8%
Operating margin International	15.3%	16.9%	15.3%	16.9%	16.2%
Profit for the year attributable to owners of the parent	79,846	72,653	81,409	83,090	83,501
Underlying net profit(4)	92,875	94,368	89,179	113,388	112,972
Basic earnings per share	¥276.89	¥254.05	¥282.31	¥289.95	¥292.85
Basic underlying net profit per share	¥322.08	¥329.98	¥309.26	¥395.67	¥396.20
Return on equity (ROE)(5)	8.1%	6.8%	8.2%	7.7%	8.3%
Underlying ROE	9.4%	8.8%	9.0%	10.6%	11.3%
ROA(6)	4.6%	3.4%	–	–	4.4%
Ratio of equity attributable to owners of the parent(7)	34.2%	34.8%	–	34.8%	29.6%
Cash dividend per share	¥55	¥75	¥55	¥75	¥85
Dividend payout ratio(8)	19.9%	29.5%	19.5%	25.9%	29.0%
Underlying dividend payout ratio	17.1%	22.7%	17.8%	19.0%	21.5%

(1) Organic gross profit growth rate represents the constant currency year-on-year growth after adjusting for the effect of business acquired or disposed of since the beginning of the previous year
(2) Underlying operating profit is a KPI to measure recurring business performance which is calculated as operating profit added with amortization of M&A related intangible assets, acquisition costs and one-off items such as impairment loss and gain/loss on sales of non-current assets.
(3) Underlying operating profit ÷ Gross profit × 100
(4) 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, revaluation of earnout liabilities/M&A related put-option liabilities, tax-related and NCI profit-related and other oneoff items
(5) ROE (IFRS) = Profit for the year attributable to owners of the parent ÷ Average equity attributable to owners of the parent based on equity at the beginning and end of the fiscal year × 100
(6) ROA (IFRS) = Profit before tax ÷ Average total assets based on total assets at the beginning and end of the fiscal year × 100
(7) Ratio of equity attributable to owners of the parent = Equity attributable to owners of the parent÷Total assets
(8) Dividend payout ratio = Cash dividend per share ÷ Basic earnings per share × 100

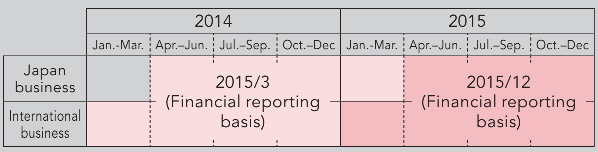
Change in fiscal period

Effective from fiscal 2015, the Company and its subsidiaries with fiscal year-ends other than December 31 have changed their fiscal year-ends to December 31. As a result of this change, the Group's consolidated fiscal year-end date has been changed from March 31 to December 31, and fiscal 2015 is the nine-month period from April 1, 2015 to December 31, 2015. However, since the fiscal year-end date of Dentsu Aegis Network Ltd. and its subsidiaries, which operate the Group's international business, was already December 31, the financial results of these companies for the twelve-month period from January 1, 2015 to December 31, 2015 have been consolidated into the Group's consolidated financial results. [On a financial reporting basis for 2015/12]

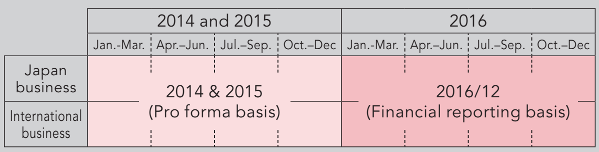
As reference figures for the purpose of making comparisons, figures calculated on the assumption that the Group's accounting periods for both fiscal 2014 and fiscal 2015 covered January 1 to December 31 are provided. [On a calendar year basis]

Figures for fiscal 2016 from the period covering January 1 to December 31 are provided on a financial reporting basis.

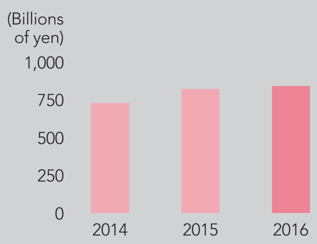
Financial reporting basis (fiscal 2014 and 2015)
2015/3: Japan business Apr.–Mar. (twelve months) + International business Jan.–Dec. (twelve months)
2015/12: Japan business Apr.–Dec. (nine months) + International business Jan.–Dec. (twelve months)
Note: Financial report for fiscal 2016 is provided on a calendar year basis.



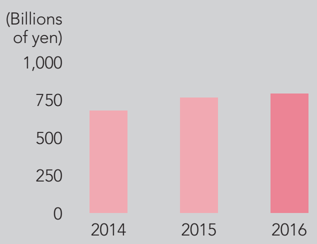
Calendar year basis (pro forma)
2014: Japan business Jan.–Dec. (twelve months) + International business Jan.–Dec. (twelve months)
2015: Japan business Jan.–Dec. (twelve months) + International business Jan.–Dec. (twelve months)
2016/12: Japan business Jan.–Dec. (twelve months) + International business Jan.–Dec. (twelve months)
Note: 2014 and 2015 are reported on a pro forma basis, and 2016/12 is reported on a financial reporting basis.



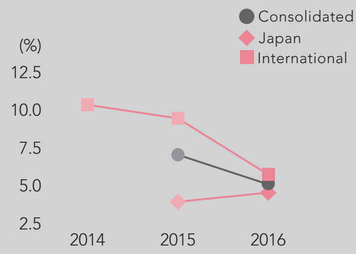
Revenue



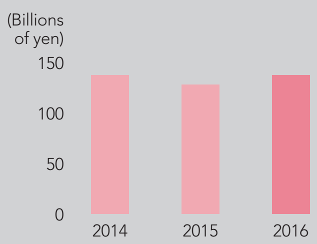
Gross Profit



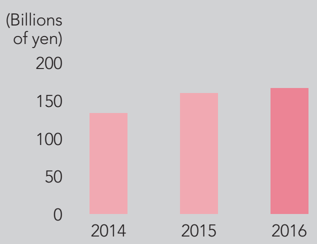
Organic Gross Profit Growth Rate



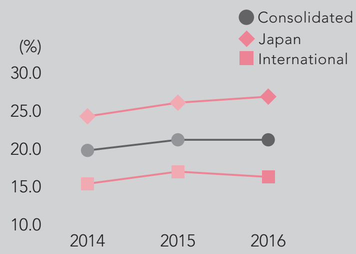
Operating Profit



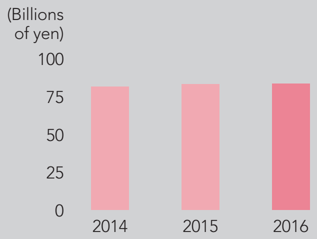
Underlying Operating Profit



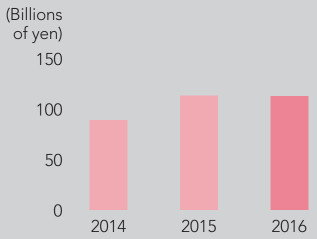
Operating Margin



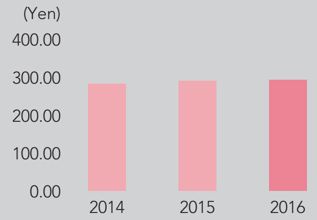
Profit for the Year Attributable to Owners of the Parent



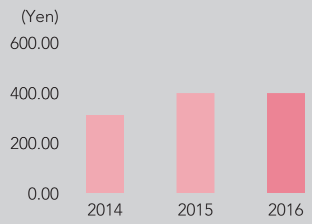
Underlying Net Profit



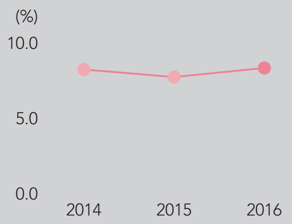
Basic Earnings per Share



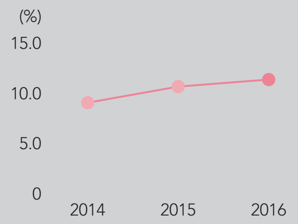
Basic Underlying Net Profit per Share



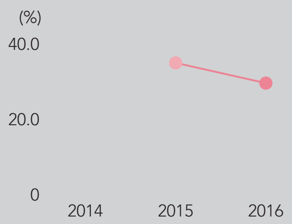
Return on Equity (ROE)



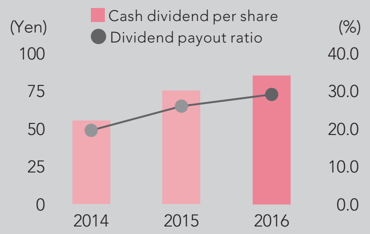
Underlying ROE



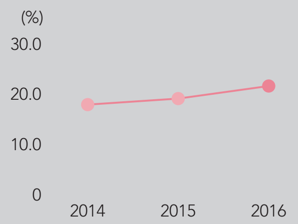
Ratio of Equity Attributable to Owners of the Parent



Cash Dividend per Share/Dividend Payout Ratio



Underlying Dividend Payout Ratio



Performance 2016

Message from the CFO: Fiscal 2016 Results and Fiscal 2017 Outlook

International business is growing rapidly. Japanese business is aiming for new growth through reforms.

Shoichi Nakamoto

Representative Director and
Senior Executive Vice President & CFO

Fiscal 2016 Results

Core Japan business progressed steadily, while international business grew rapidly and outpaced market growth and competitors.

In fiscal 2016, consolidated earnings were robust in our Japan business, while the Dentsu Group's international business grew at a rate that substantially outpaced that of competitors.

Japan business saw a gross profit of ¥363.2 billion (up 4.3% year on year,* with organic growth up 4.5%). This was due to an improved gross profit margin at the parent, as well as contributions from domestic Group companies. The underlying operating profit** in Japan was ¥97.3 billion, up 7.7% year on year.

In international business, dealings involving existing clients expanded, and we steadily won new accounts. In addition, we conducted mergers and acquisitions to help increase competitiveness and acquire the resources necessary to create a platform for future growth, such as the acquisition of the Merkle Group Inc. (Merkle), based in the US. As a result, the gross profit of our international business concerns in fiscal 2016 was ¥426.0 billion (up 2.9% year on year, with organic growth up 5.7%) despite the effects of currency translation. The growth rate excluding currency translation effects was 18.1%. By region, the Americas grew 28.9% year on year, EMEA (Europe, the Middle East and Africa) rose 12.6%, and APAC (Asia Pacific, excluding Japan) rose 12.2%. All regions maintained strong momentum and outperformed market growth. The underlying operating profit for our international business was ¥69.0 billion (down 1.6% year on year), but up 11.2% excluding currency translation effects.

Key Measures for Fiscal 2017

We will establish a platform for sustainable growth through drastic reforms of our Japan business. We will accelerate growth through strengthening and expanding the competitive base of our international business.

The Dentsu Group has implemented various measures to achieve its medium-term management plan. As a result, even given the recent effects of currency translation, at the end of fiscal 2016, earnings on the whole reached levels initially targeted for fiscal 2017.

Meanwhile, we are still developing working environment reforms in our Japan business, to resolve structural issues such as long work hours (please see page 5 for details).

In fiscal 2017 we plan to focus on resolving structural issues, the root cause of many of our concerns, and reforming our Japan-based business as quickly as possible.

In fiscal 2017, we plan to invest a total of ¥7.0 billion, comprising about ¥2.5 billion in human resource reinforcement at the parent company; some ¥3.0 billion in digitalization and IT to reduce and streamline labor; and ¥1.5 billion in office facilities. We consider these investments necessary to improve productivity over the medium term, and are working to evolve our Japan business and become a leader that establishes new work styles.

In our international business, while keeping an eye on changes in the macro environment and appropriately identifying various risks, we plan to maintain and increase the growth momentum. In 2016, the Dentsu Group acquired Merkle, one of the largest independent CRM service companies in the US.

We will continue to promote strategic and proactive mergers and acquisitions (M&As), which can lead to growth opportunities. We will combine these moves with our established ability to identify changes in business activities and consumer behavior. In addition, we aim to uncover business opportunities at existing clients and win new clients by proposing creative and unique solutions that integrate newly acquired capabilities with our established competencies in consumer insights, creativity, and technology.

Capital policy and dividends

Our top priority is to continue investing in growth domains in the pursuit of sustainable profit growth. Further, we plan to steadily enhance capital efficiency in order to provide our shareholders with comprehensive returns and improve ROE over the medium term. We will achieve this by combining long-term improvement in shareholder value through business growth, together with ongoing and stable dividend payments, as well as flexible share repurchases.

For the fiscal 2016 dividend, we decided to pay out ¥85 per share, with an interim dividend of ¥40 and a year-end dividend of ¥45. The decision was made after careful consideration of the current fiscal year's operating results; the medium- and long-term performance forecast; and our financial status, bearing in mind future investment plans and our financial soundness.

Your continued understanding and support for the Dentsu Group's management is highly appreciated.

* Year-on-year refers to comparisons between the current consolidated accounting year (January 1, 2016 – December 31, 2016) and the same period of the previous year (January 1, 2015 – December 31, 2015).
For the Company and consolidated subsidiaries with fiscal years ending in March, the period included for consolidation is between January 1, 2015, and December 31, 2015.
For consolidated subsidiaries with fiscal year-ends in December, the consolidation is also January 1, 2015, through December 31, 2015.

** Underlying operating profit is a KPI to measure recurring business performance which is calculated as operating profit less on-off items, such as amortization of acquisition-related intangible assets, M&A-related expenses, impairment losses and gains/losses on sales of non-current assets.