

Hakuhodo DY Holdings

Consolidated Financial Results Briefing for Q3 FY2024: Q&A Minutes

Wednesday, February 12, 2025, 14:00-15:00

Presenters:

Masanori Nishioka, Representative Director & Senior Executive Corporate Officer

Takeshi Tokugawa, Senior Corporate Officer

- How has progress been on your full-year plan thus far?

Progress has been smooth as of Q3, but Q4 will see some difficulties including the decline in profitability of BPO projects and the possible impact of the Fuji TV scandal. We hope to be able to reach the annual guidance target including through cost controls as necessary.

- What is the impact of the Fuji TV scandal?

We are shifting our clients' marketing activities to other stations and media. We will closely monitor developments regarding Fuji TV to decide our actions for April and beyond.

- International business has been facing headwinds both in North America and China. How are things going now?

Despite robust performance in Taiwan, our business is still facing difficulties in mainland China as clients are cutting back on advertising spend in industries including automobiles and toiletries. Elsewhere in Asia, our business is booming particularly in India, Vietnam, the Philippines and Thailand, with rising revenue and profit on an organic basis. In North America, we are trying to ensure profitability through optimizing the workforce and reducing costs amid the stagnant performance of the consulting business.

- Tell us about SG&A in Japan and abroad, particularly personnel expenses, and the outlook for Q4 and the future.

Personnel expenses have been under control since last year up to Q3 YTD. Reductions are largest in North America, where staff cuts and restructuring are underway. In Japan, where the workforce and basic pay are rising, we have been controlling incentives every quarter this fiscal year, helping to reduce personnel costs.

Looking ahead at Q4, the effect of the ongoing restructuring in North America is expected to continue, while incentive pay, mainly in Japan, will depend on business performance.

The workforce is expected to expand in the years ahead, as we continue to invest in growth option domains, but improved operational efficiency, including through the use of AI, will keep personnel expenses other than incentive pay on a par.

- Why have SG&A expenses in eliminations/corporate increased?

The increase largely reflects upfront investment in technology, or the rising cost of developing IT infrastructure in Japan.

- Is the recruitment of consulting staff progressing as planned?

Recruitment has been progressing as planned in the consulting and AI domains, but we are still seeking to hire for highly specialized positions.

- About the new management system, how are you going to share roles between the CEO and COO?

We will explain in detail at the press conference after this briefing.

- What are the main components of the extraordinary loss reported in Q3? Is any extraordinary loss expected for Q4?

Appraisal loss on investment security holdings accounts for the most part, but it also includes part of the restructuring costs in North America. Although performance in Q4 depends on the prices of shares held, we do not expect any significant extraordinary loss.

- Is the establishment of a joint venture with NTT Data only intended as a collaboration in the commerce business domain? What are your expectations for its future growth?

Our collaboration is currently centered on the commerce business domain. We are not yet in a position to make public any figures on our growth prospects.

- Do you think the Fuji TV scandal could trigger the marketing budget of clients to shift from TV to the Internet?

We believe that TV is still a crucial media channel. Digitalization of the media had been ongoing for some time even before the Fuji TV incident. We are seeking to improve efficiency in the existing media business, while advancing adaptation to digitalization.

- How do you compare your performance with that of competitors in the domestic advertising market? What is your plan going forward?

Despite the increasingly difficult competitive environment in the digital domain, we have established a competitive advantage this year, achieving above-average growth and increasing our market share in both TV and internet advertising. You can expect even

better performance from us next year, as we integrate Hakuholdo and Hakuholdo DY Media Partners to enhance our full-funnel marketing. We will also steadily address other growth domains under the Medium-Term Business Plan.

- Will you be able to achieve the full-year guidance for “net income attributable to owners of parent”?

Partly because of the extraordinary loss, it is uncertain whether we can achieve the full-year guidance, but we are aiming for an increase in operating profit. We are also looking to achieve the guidance for overall net income as we still have room to improve P/L including by streamlining the balance sheet.

- Roughly what percentage of the advertising budget for Fuji TV will have been shifted to other TV stations and what percentage to other media channels?

We have been making the shift since mid-January, but are not yet in a position to share information.

- About clients in North America, what is the current status and your future prospects?

There has been little change since the announcement of our results for H1. The consulting business has been affected by clients shifting their budget from longer-term projects including consulting to projects capable of bringing short-term results. Meanwhile, digital marketing follows a steady, albeit mild, growth trend. We will do whatever we can including backyard commonization and cross-selling to clients.

- Business diversification should entail investment. What’s your thinking on SG&A and investment?

On a cash basis, we will be focusing on CAPEX including for software development. We are thinking about controlling operating costs a little differently to cover the depreciation expenses. We will also improve efficiency in the traditional marketing business. Thus, we are looking to increase the business efficiency of the whole Group for the remaining two years of the Medium-Term Business Plan by spending money on expanding growth option domains while raising operating margin.

- What, if any, issues do you have in the human resources area?

We will continue to need personnel for highly specialized positions. In so doing, we will naturally consider impact on personnel costs.