SEPTENI HOLDINGS CO., LTD.

# Transcript of Questions and Answers for 1Q FY2025 Financial Results Briefing

The transcript of the questions and answers at the financial results briefing for the 1Q of the fiscal year ending December 2025 (for institutional investors, analysts, and the media) held on May 12, 2025 is as follows.

Speakers:

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| Yuichi Kouno | Representative Director, Group President and Chief Executive Officer |
| Yusuke Shimizu | Director, Group Executive Vice President and Executive Officer |

## Q&A 1: Advertising Market Conditions for this Fiscal Year

**Questioner:** My question concerns the advertising market outlook for this fiscal year. Could you comment on the current conditions, including factors such as the impact of suspended advertising campaigns on certain television stations, and the macroeconomic effects of the Trump tariffs, given the fluctuating economic sentiment?

**Kouno:** Regarding the market outlook, as you know, Q1 is traditionally a busy period for the advertising industry , and our performance has been stronger than in typical quarters.

In our case, looking at the overall industry growth rate, it appears to be relatively high, leading us to believe we've achieved solid Q1.

Looking ahead to Q2 and beyond, as we mentioned earlier regarding television, we are seeing a gradual increase in business, driven by clients, especially those previously focused on digital, who are now allocating budgets to television due to increased inventory availability. This is a relatively positive development for us as an agency primarily focused on digital.

As for the potential impact of the Trump tariffs, our transactions, both with media partners and clients, are generally conducted in Japanese Yen. Therefore, there is little direct impact on our business. We are currently investigating and discussing with our clients how their cost management related to these tariffs might be affected moving forward. At this point, it is difficult to say with certainty, but we will continue to engage in dialogue with our clients and strive to enhance the effectiveness of their advertising while supporting their cost control efforts, should they be necessary.

## Q&A 2: Increased Synergy with Dentsu Group

**Questioner:** Regarding the increased synergy with Dentsu Group, is this a one-time occurrence specific to this quarter, or can we expect this trend to continue? Also, regarding the increase in net sales this fiscal year, will net sales growth be driven primarily by this increased synergy with Dentsu Group rather than organic growth? Could you share your thoughts on this?

**Kouno:** Thanks to our collaborative efforts, Q1 results from the Dentsu collaboration are the highest ever. Rather than being a one-time occurrence, this reflects our ongoing efforts, as we've been doing, especially since the last fiscal year, to strengthen the offering of our assets to Dentsu Group's clients. Therefore, rather than a one-time event, we intend to expand this further as a key strategic focus.

Regarding the balance between organic growth and collaboration with Dentsu Group, as we've discussed in individual meetings, some projects that originally began through collaboration with Dentsu Group have transitioned into direct relationships with our group. Conversely, some of our group's direct client relationships have evolved into collaborations with Dentsu, allowing us to deliver even better performance to clients. This has led to various changes in business flow. As a result, we have revised our disclosure methods and are now presenting specific figures for our collaboration with Dentsu Group.

Rather than prioritizing either organic growth or Dentsu Group collaboration, we will continue to pursue both avenues. We will carefully assess the best approach to maximize advertising effectiveness for our clients, determining whether a standalone approach or integrated marketing with Dentsu Group is more beneficial. We will continue to consult with Dentsu Group to provide optimal service to our clients.

**Q&A 3: Challenges and Concerns Regarding Overall Business Performance**

**Questioner:** While the Q1 performance appears strong, there are potential headwinds such as the Trump tariffs, as you mentioned. From a management perspective, what are your current concerns and challenges regarding the overall business performance? Could you also comment on any concerns and challenges related to advertiser conditions and synergy with the Dentsu Group, as well as any measures you plan to take to address these?

**Kouno:** Regarding current challenges, in the short term, while our top-line growth has continued in recent years, particularly since the change in management structure, our profitability and productivity have declined somewhat compared to the past. Although there was significant improvement in Q1, there is still room for further improvement. A key challenge is controlling personnel costs, which is becoming increasingly important for our business. We are also working on implementing solutions such as generative AI for our internal infrastructure to improve productivity. Returning our productivity to previous levels is a major focus for us.

As mentioned earlier, we have slightly reduced our new graduate recruitment this year and are carefully reevaluating our mid-career hiring to align with our business performance. We intend to continue managing our business with a focus on productivity from Q2 onwards.

**Q&A 4: Balancing Dividends and Growth Investments, and their Sustainability**

**Questioner:** Regarding shareholder returns, the dividend per share has a lower limit of ¥18. Based on this fiscal year's payout ratio, while it doesn't reach 100%, it's still at a very high level. Even with the expected earnings recovery in the coming fiscal years, the payout ratio is likely to remain quite high for some time. You mentioned balancing this with growth investments, but how do you view the sustainability of this balance? Considering the market environment, if the earnings trend deteriorates unexpectedly, will you be able to maintain this dividend of ¥18 per share over the long term? Could you share your perspective on the sustainability of dividends and growth investments, taking into account your cash position, and looking ahead to the future?

**Kouno:** First, regarding the balance between shareholder returns and growth investment, we have been operating under the policy of allocating a portion of our earned profits to investment and returning a portion to shareholders. In our case, we still have ample cash position reserves available for investment. As we mentioned in the previous earnings announcement, we are continually reviewing and making decisions internally regarding the restructuring of our business portfolio through investments.

Please consider the ¥18 dividend per share as a continuing dividend. We plan to use our current surplus investment funds, beyond what is needed for this dividend, to actively invest and restructure our portfolio. Therefore, this ¥18 dividend will continue. On the other hand, this does not mean that we will be unable to make investments. Our policy is to aim for business growth, including executing investments utilizing our current cash position.

**Q&A 5: Investments in Human Capital**

**Questioner:** You mentioned curbing recruitment. While it seems you currently have sufficient resources, thanks to past initiatives such as increasing personnel costs per employee and active recruitment, could you comment on the long-term outlook? Do you anticipate a relative shortage of personnel in the long run? Or, considering your current DX and AI initiatives to improve productivity, do you believe the need for aggressive recruitment and further increases in personnel costs will be low over the next few years? Could you share your perspective on this from a cost management standpoint?

**Kouno:** As you pointed out, we implemented significant base salary increases and hired extensively in 2023. Although our productivity has slightly declined recently, we currently have sufficient resources. From this point forward, we believe we are in a phase where we can increase productivity by increasing net sales and revenue.

Also, as you mentioned, the utilization of AI is rapidly advancing. Therefore, even if our performance improves, instead of resuming our previous recruitment plans at the same scale, we intend to actively leverage AI where possible and focus on recruiting personnel only for roles that require human expertise.

While we have decreased the number of new graduates hired this year, our recruitment system itself is well-established. We often hear from clients about the difficulties they face in recruitment. Fortunately, we have a robust recruitment model that allows us to attract highly talented individuals. Moving forward, especially from 2025 onwards, we will manage our business with a focus on productivity, carefully balancing our recruitment plans with the utilization of AI.

**Q&A 6: Improvement in Take Rate (Revenue to Net Sales Ratio)**

**Questioner:** Could you elaborate on the improvement in take rate? What factors contributed to this improvement, and do you expect this upward trend to continue into Q2 and beyond? If so, what percentage increase do you foresee as a potential upside, and could you explain the reasoning behind your forecast and any targets you may have?

**Kouno:** While I cannot provide specific figures for the future, I believe there are two main factors contributing to the recent improvement in our take rate.

First, in our regular advertising transactions, we primarily focus on direct-response advertising, which directly impacts our clients' sales. As our clients' advertising results improve, we engage in negotiations to ensure our profitability aligns with the resources and expenses required to achieve those results. We are beginning to see positive results from these efforts.

Second, there's a shift in the share of our sales offerings. As we've previously discussed, the advertising industry inherently operates on a wholesale model, typically with margins between 10% and 15%. Within this context, we are strengthening our sales of solution-based services and ad solutions. The gross profit margin for these offerings varies depending on whether we are selling external solutions or our proprietary solutions. While the revenue from these solutions is currently smaller than our advertising transactions, increasing their share is key to significantly improving our overall profitability. Recently, the sales ratio of solutions has increased compared to a year ago, making this the second major factor contributing to the take rate improvement.

**Questioner:** Considering these factors, can we expect a similar level of YoY improvement in the take rate from Q2 onward?

**Kouno:** Regarding the second point, in particular, our solutions business operates on a recurring revenue model, so it will gradually contribute to improving the take rate.

The first point I mentioned depends on advertising effectiveness, which is influenced not only by our strategies but also by market conditions and the client's product. Our fundamental approach is to deliver strong results for our clients and ensure our own profitability. Depending on market conditions and the client's situation, there may be some fluctuations. Therefore, we will continue to closely monitor these factors and maintain ongoing dialogue with our clients.

**Q&A 7: Television Commercial Projects and Related Expenses**

**Questioner:** Regarding the Direct Business Segment, could you explain the background behind the increase in television commercial projects? Were these primarily one-off spots or ongoing contracts?

Also, could you elaborate on the nature of the increased creative costs? Are these primarily outsourcing expenses? Will these creative costs continue to increase in conjunction with television commercial projects?

**Kouno:** Regarding television projects, these are standard offerings within our Direct Business Segment. They are primarily direct response campaigns on infomercial channels, Broadcast Satellite (BS), and Communications Satellite (CS) channels, which we handle regularly. The growth in Direct Business revenue is largely attributed to acquiring a large client starting in the previous fiscal year.

However, for creative production, we currently outsource certain aspects, such as television commercials and direct response TV commercials, that exceed our in-house capabilities. These outsourced creative costs are reflected in the cost of sales of the Direct Business Segment, which explains the slight difference between revenue growth and gross profit growth.

Within the Direct Business Segment, we aim to either internalize creative production or improve the overall gross profit margin by increasing media orders, as a single creative asset can often be repurposed across multiple media platforms.

Separately, regarding our “version 2” collaboration with Dentsu, where we offer Dentsu Group’s assets to our clients, we secured some spot advertising budgets, often referred to as promotional budgets, within our Marketing Communication Segment in Q1. These were primarily one-off projects rather than ongoing contracts. While quarterly television advertising orders have traditionally been Dentsu Group’s strength, there is a growing demand from clients whose primary budget is allocated to digital advertising, but who are now looking to incorporate television advertising for reach and other purposes. We aim to strengthen our television advertising approach for these clients.

**Questioner:** So, for the Direct Business Segment, a large client’s revenue contributed to this quarter's performance, and the related creative costs also increased this quarter. However, since these creative assets can be reused, are we correct in assuming that while this large client’s spending will continue in Q2 and beyond, the creative costs will decrease proportionally relative to sales?

**Kouno:** That's true within a given quarter. However, continuously using the same creative assets eventually diminishes advertising effectiveness. Therefore, periodic creative production will be necessary, and we will continue to incur production costs. What I mentioned earlier was the media spending associated with those production costs. While the production costs themselves can be relatively fixed, our model allows for improved profitability if we can increase the effectiveness of media delivery. Therefore, a key focus for Q2 and beyond will be how to enhance effectiveness while managing these costs.

**Q&A 8: Growth of Video Advertising**

**Questioner:** I'd like to ask about video advertising. How did your video advertising revenue perform in the January-March period compared to the same period last year and the previous quarter? There are reports that some video media outlets have seen increased advertising due to a certain TV station experiencing reduced advertising spending. Have you also observed an increase in digital video projects due to this shift away from that TV station?

**Kouno:** Our offerings can be broadly categorized into Search, Display, and Social Media advertising. All three saw growth in Q1. As you mentioned, Connected TV, which delivers video content through internet-connected devices and is categorized as online advertising, is a growing market trend. This contributed to the increase in video advertising revenue in Q1.

Both Display and Social Media advertising offer both static image and video formats. The proportion of video advertising continues to rise, and recently, we have seen a surge in demand for vertical video formats on platforms like YouTube, TikTok, and Instagram, surpassing the demand for horizontal video. We are strengthening our service offerings in this area. We believe that client demand for video advertising and user engagement with video content will continue to grow, not just in this quarter, but moving forward. Therefore, we consider this a key area of focus for us.

**Q&A 9: Outlook for the Dentsu Partnership**

**Questioner:** Regarding the Dentsu collaboration, Q1 performance appears quite strong. You mentioned its sustainability in the previous Q&A. Does this suggest that the number of clients with transaction values exceeding ¥100 million, which was 33 in Q1, is expected to continue increasing in Q2 and beyond? Also, looking at your sales growth outlook for Q2 and beyond, are there any specific client-related risks we should be aware of? Essentially, are we correct in assuming a continued positive trend?

**Kouno:** Regarding the Dentsu collaboration, as you can see in the chart on page 11, Q1 benefited from the busy season, which generally leads to increased collaboration with Dentsu. However, Q2 often marks the beginning of the fiscal year for many clients, requiring us to re-engage in budget planning discussions.

Rather than assuming continued transactions at the same volume, we consider it a significant achievement to have secured transactions with 33 large clients exceeding ¥100 million, representing our highest number to date. We will strive to maintain these client relationships and continue discussions with them. Since peak seasons vary by client industry and service, and are distributed across different quarters, we will strengthen our collaboration with Dentsu to ensure ongoing business with these clients.

Regarding Q2 and beyond, we are currently in the midst of those quarters, so I will refrain from commenting on specifics. As for specific client risks, particularly with our largest clients, historically, there have been instances where client strategies shift on a quarterly or annual basis. While I cannot say for certain at this time, we recognize this as an ever-present possibility. Should such changes occur, we will, as always, redirect our resources towards other clients and renegotiate with the affected clients to regain their business.

**Questioner:** Just a follow-up question. Regarding the impressive achievement of 33 clients with transactions exceeding ¥100 million, did this result from existing clients, previously below the ¥100 million threshold, increasing their spending due to the value you provided? Or were these entirely new clients introduced by Dentsu?

**Kouno:** It's a combination of both. Some existing clients, who already had advertising budgets but weren't fully utilizing our services or Dentsu's, expanded their transactions with us after we took over some of their business previously handled elsewhere. We also acquired entirely new clients, previously not working with either of us, through joint efforts with Dentsu Group. Rather than simply receiving referrals from Dentsu, we often jointly pursue clients together. Therefore, it's more accurate to say that our collaboration is accelerating.

**Q&A 10: Vertical Video Production System**

**Questioner:** In your previous answer, you mentioned strong demand for vertical video. However, I've heard at industry seminars that producing vertical video is somewhat challenging for companies like yours and CyberAgent due to cost considerations. I understand that it's typically outsourced. Could you tell us about your current situation? Do you primarily outsource vertical video production, or have you started in-house production?

**Shimizu:** As you mentioned, when vertical video first emerged in the market, there were indeed challenges in terms of shooting and creative development. Larger agencies' production teams and creative agencies often lacked the necessary capabilities, leading to reliance on specific external vendors a few years ago. However, recognizing the growing trend of vertical video, we have been actively developing these capabilities in-house. Currently, while I won't disclose the exact figures, we produce the majority of our vertical video content in-house. You can safely assume that our group rarely outsources vertical video production.

**Q&A 11: Gross Profit Margin of the Direct Business Segment**

**Questioner:** Regarding the Direct Business Segment, you mentioned expanding your involvement in television commercials. Does this mean that while the top line will grow, the gross profit margin will continue to decline due to increased outsourcing costs? If so, to what extent do you plan to expand in this area? Ultimately, an increase in profit is what matters, so could you provide some insight into your targets or expectations in this regard?

**Kouno:** The creative production costs and Gross Rating Points (GRP) for television advertising vary depending on the client. Therefore, it's not necessarily the case that increased television advertising transactions will automatically lead to higher creative production costs and lower profit margins.

We recently acquired a very large client in our Direct Business Segment. Due to this client's specific requirements for creative production, we had to outsource some of the work, resulting in a slight decline in the profit margin for this specific client. For other projects, we expect profit margins to generally remain higher than for digital advertising, as television advertising typically requires less labor in terms of ongoing management.

**Questioner:** Since Q3 of last year, we've heard about situations where you've had to outsource work due to specific client requirements—essentially, projects brought to you with pre-determined conditions. Is this the same client, or are you seeing an increase in clients with such requirements? Could you share the industry sector, if possible?

**Kouno:** It's primarily limited to a specific client in the health food industry.

**Q&A 12: Take Rate of the Marketing Communication Segment**

**Questioner:** Regarding the take rate for the Marketing Communication Segment, we can now see it clearly since you've separated the data. While it has improved YoY, it has worsened by 0.1% QoQ. How should we interpret this? Has it more or less recovered to a satisfactory level?

**Shimizu:** As we've communicated, our policy is to gradually increase the take rate throughout this fiscal year. Therefore, you can safely assume that it's not going to plateau or decline from here.

**Q&A 13: Outlook for Recruitment**

**Questioner:** Earlier, you mentioned managing recruitment with a focus on productivity. Historically, resuming recruitment has been crucial for your company, as personnel has often been a bottleneck. Given your current capacity, how much headroom do you have in terms of resources? How many quarters can you maintain the current growth rate with existing resources? Considering the lead time required for recruitment, when do you anticipate needing to resume hiring? With the productivity improvements from AI, how many quarters do you estimate you can continue with the current restrained hiring approach?

**Kouno:** A key factor in determining when to resume hiring is our attrition rate. As mentioned earlier, our attrition rate has been declining since the base salary increase two years ago. We will determine our hiring strategy based on this rate and our business performance. Previously, we focused primarily on new graduate recruitment, resulting in a large influx of new hires in April. However, as previously stated, we have reduced new graduate hiring this year and are shifting towards more flexible mid-career recruitment.

Regarding how long we can continue with this approach, based on our current progress, we believe we have sufficient capacity with our current workforce to achieve our earnings forecast for this fiscal year while continuing to manage mid-career hiring. Our strategy might change depending on future business conditions and attrition rate trends, but for now, we plan to proceed with our current staffing levels.

**Questioner:** While we understood that the attrition rate decreased last fiscal year compared to the year before last, it seemed that the rate increased in Q4 due to typical end-of-year factors. We were anticipating a potential return to a rising attrition rate trend after this normalization. However, this quarter, the headcount has decreased by seven quarter-on-quarter. Could you explain the dynamics between mid-career hiring and attrition? For instance, during periods of active mid-career recruitment, I believe you've hired in the high tens (say, 40-50 employees) per quarter, whereas hires were somewhere in the 10-30 range in Q3 and Q4 of last fiscal year. This, of course, results in a net change in personnel. Is the current slight upward trend in departures merely temporary? Could you also provide any insight into your mid-career hiring strategy, including whether you're starting to increase recruitment in this area?

**Kouno:** Regarding this fiscal year, since Q1 has just begun, even small changes of one or two employees can appear as significant percentage fluctuations. However, the current attrition rate remains in line with the trend we’ve seen since the base salary increase, generally between 8% and 10% annually.

Typically, with an 8% to 10% attrition rate, we hire around 300 new graduates and mid-career employees combined, and see around 150 to 200 departures annually, resulting in a net increase of 100 to 150 employees. However, as mentioned earlier, we have sufficient capacity this fiscal year. Therefore, we anticipate a net change in headcount roughly equal to the end of the previous fiscal year.

**Q&A 14: Opportunities and Risks Associated with the Spread of Generative AI**

**Questioner:** Could you discuss the medium-term impact of the spread of generative AI and changes in user behavior on the internet industry and related products?
For example, I personally use search engines much less frequently now because of the convenience of generative AI. I find myself increasingly satisfied with the summaries provided by generative AI. This seems to imply a risk of reduced opportunities for search advertising placement and viewership. How do you anticipate consumer use and adoption of generative AI will impact the internet advertising industry and your business, both in terms of risks and opportunities? Could you also briefly touch on any countermeasures you are considering?

**Kouno:** I believe this question encompasses both our internal use of generative AI, how we adapt our product offerings for clients, and the potential impact on the search advertising we handle. I will address the first point, and Mr. Shimizu will address the second.
As mentioned earlier, we are actively promoting the use of generative AI across the entire group. We are particularly focused on utilizing AI in advertising operations, and most significantly, in creative production. As discussed earlier, while we do some outsourcing, we also produce a substantial amount of creative content in-house. We are working on leveraging AI to create this content and then refining it for client use to enhance advertising effectiveness. We believe this will have a significant impact this year and beyond. Therefore, we are currently strengthening our internal operations in this area.

**Shimizu:** Regarding the medium-term outlook and the impact of AI on consumer behavior, as you mentioned, and while this is a generalization, there is a view that search queries will decrease as AI becomes more prevalent.
However, whether this will directly translate into a proportional decrease in advertising budgets and the overall search advertising market size is something we need to carefully monitor. Currently, primarily among business professionals, there is a perceived decrease in search engine use. However, this doesn't necessarily mean a direct, proportional impact on the search market itself. From our perspective on the supply side, competition among advertisers for the remaining search users is likely to intensify, potentially leading to higher ad prices. We will closely monitor global and domestic trends to assess the impact of AI adoption on advertising spending and the search advertising landscape, both this fiscal year and next.

**Q&A 15: Approach to the Dentsu Collaboration**

**Questioner:** Regarding your collaboration with Dentsu, I believe you changed your disclosure method around the middle of the last fiscal year. Since then, even for projects initially introduced by Dentsu, if your company takes the lead in managing the client relationship, it's categorized as organic transactions. We had anticipated a reasonable level of organic growth, but this quarter shows a decline. You mentioned that selling Dentsu products to your clients contributed to this quarter's performance. Does this mean that selling Dentsu products to your clients is classified as collaborative revenue rather than organic?

**Kouno:** Yes, this revenue will be included in the collaborative category going forward.

**Questioner:** So, as you mentioned earlier, should we essentially disregard the distinction between organic and Dentsu collaborative transactions?

**Kouno:** As we've explained in various meetings, making this distinction has become increasingly complex. A project might be categorized as organic in one quarter and then shift to Dentsu collaborative in the next, depending on the client's situation. While these shifts don't happen constantly, they do occur within fiscal years, making comparisons difficult. This is one of the reasons we've revised our reporting format.