

Transcript of Questions and Answers for FY2025 Q2 Financial Results Briefing

The transcript of the questions and answers at the financial results briefing for the Q2 of the fiscal year ending December 2025 (for institutional investors, analysts, and the media) held on August 7, 2025 is as follows.

Speakers:

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

Q&A 1: Specific Client Impact Within Marketing Communication Segment

Questioner: Could you elaborate on a specific client impact within your Marketing Communication Segment? I imagine other participants are also interested in this, as we've heard similar stories in other companies' earnings reports. I was wondering if this is related to those trends. Also, I would appreciate an explanation on whether this impact is expected to continue.

Kouno: We mentioned the impact of the specific client within the Marketing Communication Segment. This specifically concerns a client in the Information and Communications sector with whom we previously had a certain level of business. Due to a change in their marketing strategy, this impact is not temporary and is expected to continue. For us, we initially anticipated a decrease in net sales and profit due to this client's situation. However, from April to June, we successfully acquired new projects and expanded existing ones, which has allowed us to achieve solid growth in both revenue and profit for H1.

Looking ahead to Q3 and beyond, we have already made up for the impact with other clients, and we are steadily acquiring new projects. Based on our projection that we can fully recover from this impact, we are currently moving forward with our business activities.

Q&A 2: Trends and Future Outlook for Internet Advertising Market

Questioner: My question concerns the current trends and outlook for the internet advertising market. I believe your April-June quarter was down 3% YoY, which seems weak. Since statistical surveys are no longer available, could you please tell us the current growth rate of the internet advertising market? I would also appreciate your thoughts on advertisers' trends, especially given the ongoing uncertainty surrounding the Trump tariffs.

Kouno: Looking at Q2 alone, it's a seasonal trend where the April-June period, which marks the beginning of the fiscal year for many clients, tends to look slightly weaker.

Regarding the current market sentiment, based on our conversations with competing companies and media partners, especially foreign platformers, we've observed that despite various concerns like generative AI, their sales haven't significantly declined. We believe they're either maintaining or even seeing positive growth.

While some domestic media companies have experienced a slight decrease, we feel the overall market will continue to grow at around 106% to 108% for the full year, consistent with previous years. In the agency

market, which accounts for about half of the internet advertising market, we're seeing some differences among companies. In the April-June period, there were concerns about the Trump tariffs and some clients holding back on their ad spending. We believe that some agencies that specialize in or have clients in industries that are holding back on ad spending may see a temporary impact on their performance.

Given that many of our clients generate sales in the domestic market, we believe we have not been significantly impacted by the Trump tariffs. The slight impact we saw in the April-June period was due to the specific client issue I mentioned earlier.

Q&A 3: Factors Behind Profitability Improvement and Response to Declining Client Sales

Questioner: Regarding the improvement in profitability, your revenue has increased despite a decrease in net sales. Could you elaborate on the key factors that have contributed to this?

Furthermore, you mentioned a significant decrease in sales from a major client. Was this a project with low profitability, which therefore had little impact on your revenue? Or was the negative impact on profitability significant, and you were able to cover it through your own efforts? Could you please explain your thinking on this?

Kouno: We have been strongly pushing for profitability improvement internally since the previous fiscal year. There are various factors, but I believe there are two main ones.

The first factor is the ratio of ad agency services and solution sales. Ad agency fees have traditionally been between 10% and 20%. In contrast, solution sales, including CRM, are a much more profitable product. We are working to improve our profitability by increasing our share in this area.

The second factor is that as we improve advertising effectiveness and our contribution to clients' sales through our solutions, we are better able to negotiate transaction terms with clients in line with our ad performance. So, by increasing ad effectiveness, we can also properly negotiate the fees we receive from clients, which is an effort to improve our profitability. As a result, our profitability has improved compared to the previous period.

Regarding the situation with the specific client, it's true that our Q2 performance could have been even better if the business had continued. However, even with this decline, we have made significant progress in our recovery. We feel that the strength of our current efforts has been gradually increasing since last year.

You can view this not as an impact that will continue indefinitely, but as a situation where we have already begun to recover by expanding business with other clients and acquiring new projects.

Q&A 4: Factors Behind Increase in Revenue for Direct Business Segment and Its Future Growth

Questioner: My question is about the Direct Business Segment. Given the very strong growth in top line, could you please explain which industries and products are contributing to this? Also, could you elaborate on the background of this revenue increase, its sustainability, and the potential for future acceleration?

Kouno: The biggest factor behind the revenue increase in the Direct Business Segment is the significant expansion of business with the specific client, separate from the one I mentioned earlier. We are working with this client as part of our Dentsu collaboration. Their budget potential remains very high, and our share of their total budget is increasing. We believe this client will continue to be a key driver for revenue growth in the Direct Business Segment.

In terms of our product mix, we are providing a variety of solutions, including digital advertising and offline commercials inserted into direct marketing programs on BS and CS television. By offering these diverse

products to our clients, we are successfully increasing their top-line sales, which shows significant growth in the Direct Business Segment.

Q&A 5: Increase in Transaction Value and Business Expansion

Questioner: Excluding the specific client you mentioned, is the Direct Business Segment generally expanding? Or should we understand that your dependency on a small number of specific clients is actually increasing?

Kouno: We track the transaction value per client internally, and we have seen a noticeable trend across the entire group over the past year: the average transaction value per client has been increasing compared to last year.

This increase in the average transaction value per client has allowed us to effectively cover the decrease in business from the specific client I mentioned earlier. By leveraging our strong ad operations capabilities, increasing the number of proposals to our clients, and growing our involvement with our clients' high-transaction-value services, we believe we have created a solid environment for steady growth in Q3 and beyond.

Q&A 6: Specific Client Impact Within Marketing Communication Segment

Questioner: Could you provide an estimate of the impact on the growth rate of net sales due to the issue with this specific client in the Marketing Communication Segment? Also, could you tell us what kind of ad products were most affected?

Kouno: Events like this are not uncommon, and they have happened several times in the past. This particular client is one we have had a long-standing relationship with, and they offer a variety of services, so this situation will affect our sales by industry.

While I cannot share specific percentages, this client was one of our top accounts in terms of sales. Despite this, as I mentioned earlier, we have been able to cover the impact by increasing the average transaction value with our other clients.

Regarding the types of ad products affected, our business with this client was diverse, so you can assume the impact was spread across various media.

Q&A 7: Factors Behind Decline in Gross Profit for Marketing Communication Segment

Questioner: My question is also about the Marketing Communication Segment. Although revenue has ended on a positive note, gross profit is down YoY. Could you please share the factors behind this?

Kouno: As we have mentioned before, gross profit is calculated after deducting creative-related costs, such as outsourcing and production of creatives, from revenue. The continued creative-related cost is the reason why the growth in gross profit is slightly lower than the growth in revenue.

Specifically, for the production of vertical videos for platforms like TikTok, which I mentioned earlier, there are parts of the process that we can handle in-house. However, we still need to outsource aspects that are beyond our current solutions and capabilities, and these costs are not being fully absorbed internally.

That said, we are continuously working to bring these costs into our profit by gaining more expertise and

transforming our production process. We will continue to make efforts to increase both revenue growth and gross profit growth.

Q&A 8: Q2 Situation and Its Impact on Full-Year Forecast

Questioner: I have just one follow-up question. Based on your explanation so far, I didn't get the impression of any significant gap. Is it correct to assume that we don't need to be concerned about the situation getting worse?

Kouno: As I explained, our progress toward the full-year forecast is on track. We do not believe the situation from Q2 will carry over into Q3 and Q4. We have a clear outlook for H2 of the year and are confident we will achieve our full-year forecast. We will continue to work together as a group to achieve this.

Q&A 9: Specific Client Impact and Recovery Situation in Marketing Communication Segment

Questioner: My question, and I apologize as this has been a frequent topic, is about the specific client issue in the Marketing Communication Segment and the recovery plan. Could you clarify if this impact came from one client or multiple clients? Also, could you share the prominent industries and competitive landscape of the projects covering this impact? Finally, what aspects of your services are being particularly well-received by clients compared to your competitors?

Kouno: This specific client issue involves a single client. However, we had business with them across multiple services, so they accounted for numerous accounts.

As for the industries of the clients we've recently acquired, we are seeing significant growth in transactions with clients in human resources, education, health foods, and household products. These are the types of clients who have helped us cover the decrease from the one specific client during Q2.

Questioner: I have one follow-up question. Compared to your competitors, what aspects of your services are being particularly well-received by clients, leading to an increase in transaction value?

Kouno: Advertising generally distinguish between two types: brand ads and direct response ads. We specialize in direct response ads. A key reason our business is growing is that our ads are highly effective, which directly increases our clients' sales.

We have started to use tools like generative AI to improve the efficiency of our ads on platforms such as TikTok for vertical videos, Google Display, and Meta's Facebook and Instagram. We believe that this increased ad efficiency is what is driving the higher transaction values with our clients.

Q&A 10: Necessity of Mid-Career Hires in Light of Profitability Environment

Questioner: My question is about hiring. I understand that despite a decrease in business from the specific client, your profitability environment is strong. In light of this, is there a need to increase mid-career hires?

Kouno: As I mentioned in my previous explanation, we have slightly reduced our new graduate hires from 120 last year to 80 this year. We are managing this fiscal year with the premise of making mid-career hires as we monitor our business performance.

Considering our past operating profit per employee, we believe there is still room to improve productivity. While the group's V-shaped recovery is in sight this fiscal year, we have not yet reached our past record highs. We plan to consider mid-career hires this fiscal year while we monitor revenue growth and our progress and determine the upper limit of our operating profit per employee.

Q&A 11: Growth of Marketing Communication Segment and Specific Client Impact

Questioner: My question is about the Marketing Communication Segment's net sales. Excluding the impact of the specific client, was the growth rate in Q2 as high as in Q1, or did it slow down? I'm trying to understand the actual business situation in Q2. Since this client's impact shouldn't affect others, and your take rate is also up, should we assume that once this impact subsides, the business is well-positioned for strong growth next fiscal year?

Kouno: You are correct. The steady growth of our business with other clients was a major reason we did not see a decrease in revenue this quarter. As I have mentioned before, this is not just a Q2 trend. We believe we have the momentum to continue expanding our business in Q3 and beyond by improving ad effectiveness and contributing to our clients' sales growth. Therefore, we feel our progress is very positive.

Furthermore, regarding the business with the specific client I have been discussing, our relationship has not ended completely. We are continuing to provide solution support and have personnel exchanges with this client, so our relationship has not been completely zeroed out. We want to continue working with them and providing our capabilities to help them increase their sales. I wanted to clarify that the business has not completely disappeared.

Questioner: Just to confirm, is it correct to understand that if you exclude the portion of the decline, net sales would have increased and ended with a positive result?

Kouno: That is correct. The net sales from other clients have increased.

Q&A 12: Internalizing Creative Production and Changes in Profit Structure of Direct Business Segment

Questioner: Regarding the Direct Business Segment, could you update us on the progress of your initiative to internalize creative production? In Q1, the segment saw a profit decrease due to outsourcing costs. Based on the results of Q2, can we assume that the profit structure has changed so that an increase in revenue in H2 will also lead to an increase in profit?

Kouno: You are correct that the structure is such that an increase in revenue leads to an increase in gross profit. However, the growth rate of our gross profit is still slightly behind the growth rate of our revenue.

To address this, we are starting to implement initiatives to improve our gross profit margin by internalizing the production process. We are doing this in collaboration with our subsidiary, Septeni Ad Creative, which is based in Hokkaido. By increasing transaction value while maintaining a solid profit margin, we aim to further improve our gross profit.

Q&A 13: Impact on Business Performance Due to Changes in Specific Client's Transaction Terms and Current Transaction Status

Questioner: That specific client has a large number of accounts, meaning they have many subsidiaries, and you were providing a wide range of services to them. So, when that client decided to change their transaction methods all at once starting in April, there were probably some departments that could respond immediately and others that could not.

With that in mind, is it correct to assume that the full impact was felt in Q2? Or did some business remain, for example, did the impact become more significant partway through May? If that's the case, should we expect a QoQ decline in Q3 related to this client? What are your thoughts on that?

Kouno: Thank you. The change in the transaction form with this client started on April 1st, so there wasn't a situation where business continued until the middle of Q2. The current transaction form has been in place since the beginning of Q2. Therefore, there will be no QoQ impact in Q3, and we anticipate the transaction value to be at a similar level to Q2.

Q&A 14: Status of Transactions with Specific Client in Marketing Communication Segment and Data & Solutions Segment

Questioner: You mentioned earlier that the transaction did not go to zero. Is it correct to assume that business with this client is continuing in other segments, such as the Data & Solutions Segment, but not in the Marketing Communication Segment?

Kouno: We were conducting business with this client across both the Marketing Communication Segment and the Data & Solutions Segment. None of these segments have gone to zero. Both the Marketing Communication Segment and the Data & Solutions Segment are continuing to do business with this client.

Q&A 15: Outlook on Recovery Following Specific Client Impact

Questioner: Regarding your statement that a recovery is in sight, if you only manage to fully recover the business lost from that specific client and don't make up for that shortfall, you won't be able to meet your full-year target. Could you please clarify if "recovery is in sight" means that you expect to cover the loss over the entire fiscal year, or if it simply means you're recovering but won't be able to make up for the lost business?

Kouno: My statement was based on the premise of recovering toward our full-year forecast. A decrease in business with this client alone would make it difficult to achieve our full-year forecast. However, we are making up for that difference by increasing business with other clients, and this is why we say that a recovery toward our full-year forecast is in sight.

Questioner: Is it correct to understand that you are improving profitability by including the take rate, rather than just focusing on net sales?

Kouno: Yes, that is correct.

Q&A 16: AI-Related Trends and Business Opportunities in Japanese Market

Questioner: My question is for an update on your insights regarding AI. In the recent Q2 earnings report from

Alphabet, there was a mention of an increase in Google's AI Overviews viewers.

On the other hand, there's also been discussion about users not clicking on the provided links and changes in search behavior with ChatGPT. From your perspective, could you provide an update on the changes in consumer behavior in Japan and the business opportunities you see as an agency?

Shimizu: You are absolutely right. The impact of AI is becoming more pronounced globally, especially with services from Alphabet (Google.) In Japan, several major updates have been announced, including some this quarter. We've been in discussions with platformers and believe that while Japan may not reach the same level as the global market, we will gradually start to see a shift in how consumers use AI.

However, for the remainder of this fiscal year, from July to December, we predict that there will be no significant negative impact on advertising spending in search results pages. This is a similar trend globally.

From a medium-term perspective, we believe the key is to figure out how to turn the changes, particularly those driven by AIO, into new revenue streams. Our current market assessment is that it's appropriate to focus on seizing these opportunities while not anticipating a major short-term decline in ad spending. That concludes my answer.

Q&A 17: Impact of CARTA HOLDINGS' Finance on Septeni Group

Questioner: My question concerns the recent developments within the Dentsu Group, which includes your company.

There was a recent announcement about CARTA HOLDINGS' finance, which seems to be strengthening the relationship between the Dentsu Group and NTT Docomo. Does this finance have any impact on your company? Also, if there are any future developments you are looking forward to as a result of this change, could you please share your thoughts and comments?

Kouno: The Septeni Group was not involved in the recent announcement regarding CARTA HOLDINGS and NTT Docomo. Therefore, I can tell you that there is no relationship between this finance and our company.

Q&A 18: Scale and Business Model of TikTok

Questioner: Regarding the TikTok initiatives you introduced earlier, the graph on page 18 of the financial presentation doesn't have a scale, so it's hard to gauge the magnitude. Is the scale of your TikTok business something we should be watching for as it relates to your Marketing Communication Segment or overall company performance? Is it becoming a key performance indicator that we should consider for future forecasts? I'd appreciate some insight into the scale and key points.

Also, could you please explain the business model behind it, especially in terms of profitability?

Shimizu: You are correct. TikTok, a service from ByteDance, is a rapidly growing area both domestically and globally.

While I can't provide specific numbers on our percentage of transactions, the volume of our TikTok business is approaching the scale of our business with other major platforms.

Looking at the Japanese market, TikTok's growth rate is very strong, even compared to other major platforms. It's safe to assume that over the next few years, the TikTok advertising business will continue to be a strong driver of momentum.

Our TikTok business model can be broadly divided into two main areas. The first is advertising, which we have been involved with for some time. The key differentiator from other platforms is the use of dynamic vertical video content to engage with consumers. Utilizing this type of content in our ad operations is a major point of focus. As Mr. Kouno mentioned earlier, there are costs involved in production, but since user response is relatively high, the overall profitability of our ad business with TikTok is currently higher than that of other platforms, especially when compared to search ads and static display ads.

The second area is our support business for TikTok Shop, which launched at the end of June. This is a bit different from our main ad business within the Marketing Communication Segment. It involves helping advertisers sell their services and products on TikTok, making it closer to a solution sales model. Since this business model differs from the traditional ad margin business, I cannot provide specific details yet as it just launched. However, we believe that an increase in this area has the potential to significantly contribute to the overall profitability of the group.

So, please understand that our TikTok business has two main pillars: advertising and the solution-based TikTok Shop. That concludes my answer.

Q&A 19: Dentsu Collaboration and Outlook for Q3 and Beyond

Questioner: I'd like to ask about the Dentsu collaboration. In Q2, what was the proportion of referrals from your company to Dentsu clients, or non-internet advertising projects like TV ads? Also, is the Dentsu collaboration expected to continue growing at the same pace in Q3 and beyond?

Kouno: While I cannot disclose the specific breakdown of our Dentsu collaboration, I can say that it grew by 18% in Q2, and we expect it to continue growing steadily for the remainder of this fiscal year, making a significant contribution to our overall net sales growth.

The core of our collaboration has been our internet advertising sales team working alongside Dentsu's sales team to do business with Dentsu's clients. However, starting this fiscal year, we are gradually expanding this initiative to sell Dentsu's capabilities to our own Septeni Group clients. We are strengthening our partnership to offer not only TV and other media products but also non-advertising solutions to our clients. That concludes my answer.