

Transcript of Questions and Answers for Q3 and 9M FY2025 Financial Results Briefing

The transcript of the questions and answers at the financial results briefing for Q3 and 9M FY2025 (for institutional investors, analysts, and the media) held on November 12, 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: Advertising Media Trends in Japan and the Impact of Generative AI

Questioner: Could you share your perspective on the medium- to long-term changes you foresee in advertising media trends within the industry?

In recent earnings announcements from various platformers, it was confirmed that globally, the media value of platforms strong in generative AI—such as Meta's social media advertising and Alphabet's search advertising—has increased.

Is a similar trend occurring in Japan? That is, is the media value of platforms strong in generative AI, like Meta and Alphabet, also rising, and are these two major platforms expanding their market share as advertising destinations?

I would like to hear your thoughts on the media placement trends for online advertising in Japan following the rise of generative AI. Specifically, could you elaborate on these changes and whether you see this trend as a tailwind for your company?

Kouno: As you mentioned, the trend in Japan is similar to the global one. In the domestic internet advertising market, the market share held by media operated by Google and Meta remains high, and they continue to grow.

At the same time, we have also seen growth in vertical video media, such as TikTok, over the past few years. In Japan, other video media, including platforms like "TVer," are also continuing to grow.

While their scale is not as large as Google or Meta, they are steadily expanding their share. We believe the growth of "TVer," in particular, is a trend unique to the Japanese market.

Q&A 2: Advertising Spend Shift and Changes in Japan's Media Mix Driven by Generative AI

Questioner: As the utilization of generative AI enhances the accuracy of ad recommendations, I would like to ask about the potential shift in advertising spend towards online advertising, compared to traditional media such as television. In other words, will this shift from traditional media to online advertising accelerate further?

It would be helpful if you could share any signs of change in the composition ratio of advertising media in Japan.

Kouno: Although 2025 has not yet concluded, looking back at 2024, the total advertising market in Japan was approximately 7.6 trillion yen.

The 2024 data indicates that the growth rate for the four mass media was between 100% and 101%. In contrast, digital advertising showed a growth rate of about 109%, continuing a recent trend of approximately 108% to 110%. Therefore, we anticipate that a similar trend will likely be observed in the current fiscal year.

However, regarding this fiscal year, various factors have had an impact starting from January, including the change in the U.S. administration, the launch of Japan's new administration, and tariff issues. Particularly from around January to April, I believe there was considerable scrutiny and cautiousness from companies regarding their advertising expenditures.

We feel that spending has recovered to normal levels in the recent July-to-September period, and we strongly sense that the appetite for investing in high-growth digital advertising remains exceptionally strong.

Regarding specific client industries, among our clientele, sectors such as staffing services, finance, telecommunications & information services, and entertainment have historically utilized digital advertising at a high rate. More recently, however, we have confirmed a growing demand from the distribution & retail, food manufacturing, and energy-related sectors to leverage digital advertising, and our transactions with these industries are also on an upward trend.

Our impression is that even among companies that traditionally focused their promotional and advertising investments on the four mass media, investment in digital advertising is increasing, particularly as the overall growth rate of the advertising market moderates.

Q&A 3: Background of Improvement in the Revenue to Net Sales Ratio and Future Outlook

Questioner: My question is about the revenue to net sales ratio. You have been implementing various initiatives to increase this ratio, and it seems the effects have accelerated over the last two quarters, with a particularly strong contribution this quarter.

Could you review the initiatives themselves and explain the background for why these effects have become so significant recently? Is this primarily due to the external environment, or is it because your employees have become more accustomed to these initiatives? Has there been some specific change?

Additionally, regarding the future outlook, could you please tell us whether you expect this trend to accelerate further into the next fiscal year?

Kouno: As we have mentioned previously, we have several major initiatives aimed at improving our revenue to net sales ratio. Among these, the most important are, first, improving advertising effectiveness, and second, reaching agreements with our clients to revise transaction terms based on those results.

By achieving solid results through improved advertising effectiveness, our members throughout the Group, especially within the Marketing Communication Segment, have taken a more proactive stance in their interactions with clients.

As a result, we have recently achieved a situation where the revenue to net sales ratio exceeds 20%, and we believe this is one major contributing factor.

Furthermore, for projects centered on advertising sales, we typically transact with various clients at margins of around 10% to 20%. However, as I mentioned earlier regarding the collaboration and solution development example with beBit, Inc., by combining solution proposals with standard advertising sales, the proportion of transactions with a higher gross margin for us has been increasing. We feel that the results of the efforts we have made over the past one to two years are steadily beginning to emerge.

At this point, we do not feel that the improvement and rise in profitability have reached a ceiling. We believe we can continue to aim for further improvement and growth. Our impression is that our initiatives to date have finally

established the foundation, and simultaneously, the results are now materializing.

Q&A 4: Background of Large Client Acquisitions and Future Sustainability

Questioner: Regarding the fact that you are steadily acquiring large new clients, could you please explain the background for this? Also, can we expect further upside heading into the next fiscal year, and do you see this trend as sustainable?

Kouno: The background for our success in acquiring large clients is that our advertising operations are delivering solid results. Another factor, as I touched upon briefly earlier, is the increasing diversification of the companies and industries that are spending on digital advertising.

While some industries have always had a high ratio of digital advertising budgets compared to four mass media, there is a clear trend where industries and clients that had not previously done so are now increasing their digital spend. This is a trend observed not only by our company but by the Dentsu Group as a whole, and we expect this to continue.

Japan's total advertising expenditure was approximately 7.6 trillion yen in 2024, and it is forecasted to grow to around 8 trillion yen over the next five years. Digital advertising spend was about 3.7 trillion yen in 2024 (just under 50% of the total). This figure is expected to increase to between 55% and 65% of the total spend by 2030. Therefore, we believe the trend of shifting to digital advertising will continue.

Q&A 5: Factors for the Decrease in Revenue in the Data & Solutions Segment and Future Trends

Questioner: The Data & Solutions Segment turned to a revenue decline this quarter, cited as a reactionary decline from projects delivered in the previous period. Is this trend temporary? Also, if you have any information you can confirm regarding the underlying trends that form the premise for the Data & Solutions Segment's performance, please share it.

Kouno: We began preparations, including commercialization, for this segment last year, but it has not yet reached a scale comparable to the Marketing Communication Segment or the Direct Business Segment. Therefore, when development projects for certain clients conclude, the engineering resources we were providing may temporarily be booked only as costs. Given the timing of project conclusions and the fact that the business scale is not yet large, we view this segment as one that is subject to temporary volatility.

However, compared to a year ago, we feel that our hiring, the client reception of our proposals, and their understanding of our services are all gradually advancing. We sense we are moving into a situation where it is easier to secure client budgets.

Consequently, we do not believe this trend will continue; rather, we believe we are now ready to enter a phase of achieving solid growth. After more than a year and a half of preparation, the structure to support this is now falling into place.

Q&A 6: Policy on Hiring Control

Questioner: Regarding your policy on hiring control. You mentioned that going forward, you will conduct mid-career hiring while monitoring profitability. Could you please tell us what level of profitability you are targeting as a decision-making criterion, and perhaps when you expect to achieve it?

Kouno: This fiscal year, as I have been discussing, we have focused on our top-line growth and revenue ratio. Although there was some impact from a specific client, we have managed to recover firmly and swiftly.

On the other hand, our costs have somewhat expanded over the past few years. Therefore, we have been working on reviewing our business portfolio and improving productivity in our current operations. For the past year, we have been adjusting mid-career hiring while monitoring the balance, focusing primarily on new graduate recruitment.

We have finally begun to see an upward trend in operating profit margin from the previous quarter to this quarter. Based on this situation, we are currently discussing the resumption of mid-career hiring to sustain growth, with a view toward the next fiscal year and beyond.

While I will refrain from specific figures, we are planning for the next fiscal year and beyond, centering on mid-career hiring—which allows us to easily control hiring volume and timing. We will do this while considering top-line growth, using operating profit per employee for the entire Group and for each business as our indicator.

At the same time, new graduate hiring remains a crucial recruitment opportunity for our company, and we will continue to hire new graduates next fiscal year. On top of that, we plan to consider the volume and timing for mid-career hires.

Q&A 7: Background of Personnel Reduction in Overseas Business and Future Development

Questioner: I would like to ask about your overseas business. Could you please explain the background for the recent reduction in personnel at your overseas locations? Also, how do you currently position your overseas business, what is your future direction, and how do you plan for it to contribute to profits during the medium-term management plan period?

Kouno: First, regarding the personnel at our overseas locations, this was a personnel adjustment at the offshore development hub for the Data & Solutions Segment.

With the advent of generative AI and other factors, we are entering an era where relatively minor development needs and maintenance/operation tasks can be partially automated or substituted. Therefore, the background is that we implemented personnel optimization at the development hub for cost adjustment purposes.

On the other hand, regarding overseas net sales, our business centered on the Marketing Communication Segment—which involves supporting overseas clients with their promotions in Japan—continues to grow steadily. Among digital marketing players in Japan, our relationships and track record with overseas clients represent one of our competitive advantages.

In addition, due to recent foreign exchange trends, there has been an increasing demand from Japanese companies for outbound advertising delivery. We are actively responding to this demand through our own organic efforts and collaboration with the Dentsu Group, and we feel this area is showing growth.

Therefore, we intend to expand our overseas advertising business—which previously focused mainly on "out-in" projects (promotions in Japan by overseas companies)—by adding "in-out" projects (promotions overseas by Japanese companies).

Questioner: My understanding is that your overseas revenue has not fluctuated significantly in the past. Is it correct to understand that it is now entering an expansion phase?

Kouno: That is correct. While the "out-in" projects are a focus, we are particularly keen to more strongly grow

the "in-out" projects. We also feel that the current market environment is becoming favorable for this, so we intend to focus our efforts here.

Q&A 8: Revenue to Net Sales Ratio in the Marketing Communication Segment

Questioner: Regarding the revision of transaction terms, which you explained as a factor for the improvement in the revenue to net sales ratio in the Marketing Communication Segment: What is the penetration rate of these revisions among all clients? Also, is there any deviation by industry?

Furthermore, for clients who have agreed to these revised terms or those for whom you are successfully selling solutions, what is their revenue to net sales ratio level compared to the Marketing Communication Segment's overall revenue to net sales ratio of around 17%? Could you give us a hint as to the future upside potential?

Shimizu: Regarding the coverage of the improvement in transaction terms, I must refrain from sharing a specific percentage at this time. However, the image is not that we are implementing a uniform increase; rather, we are taking an approach of gradual improvement, focusing on clients with whom we have deep business relationships. Therefore, you can imagine that this has penetrated a number of clients corresponding to a low double-digit percentage of the total.

Also, when compared to the average revenue to net sales ratio of 17%, it is difficult to generalize whether the ratio for these clients is higher or lower, as there are variations such as each client's industry, their specific situation, and their annual marketing investment budget. However, we believe this is the result of gradually adjusting the transaction terms with each client to a more realistic level, and advancing negotiations carefully based on mutual understanding.

This initiative will form one of the foundations for the next fiscal year and beyond. As Kouno mentioned earlier, this is not the upper limit. We are currently at a stage where it is within our scope to continue aiming for further improvement from the current level, which will contribute to the improvement of profitability for the entire Group.

Q&A 9: Revenue in the Marketing Communication Segment

Questioner: My question is about the waterfall chart for the Marketing Communication Segment's revenue on page 18 of the presentation materials.

Is it correct to understand that the negative 600 million yen in transaction value with existing clients is attributable to only one client, an impact that occurred in April or later, and that there has been no impact from other clients?

Additionally, regarding the increase in revenue from new clients, which you mentioned as an initiative to offset this: What is your current outlook on whether you can cover the negative impact from this specific client with the revenue increase from new clients alone, and whether you can expect to return to positive territory on a net sales basis in Q4 or Q1 of the next fiscal year? Please share your current outlook.

Kouno: First, regarding the item 'total increase/decrease in transaction value with existing clients' on the slide, this is not from just one client. It represents the sum of cases where amounts decreased with multiple clients and cases where amounts increased with existing clients, resulting in negative 600 million yen.

For this quarter, due to the impact from the specific client starting in April, netting the increases and decreases in transaction value with existing clients resulted in negative 600 million yen. However, this impact will run its course by next April, so we believe this component will gradually turn positive. Therefore, this data does not

reflect the impact of only a few specific clients.

Regarding new clients, as mentioned earlier, the utilization of digital advertising is advancing significantly. We are winning orders by making independent proposals organically, and the number of so-called competitive pitches in the advertising industry have been increasing substantially. Our win rate for these has also improved compared to the year before last and last year.

We will proceed strongly with acquiring new clients, aiming for continued growth in the upcoming Q4, Q1 of next year, and beyond.

Questioner: So, is it correct to understand that the negative 600 million yen is largely attributable to the impact from that specific client, and it is not the case that a new negative impact from another large client emerged in July or later?

Kouno: That is correct. While this figure includes other minor factors for the decrease, the primary negative factor stems from the continuing impact this quarter from the specific client we discussed during the Q2 earnings announcement.

Q&A 10: Outlook for the Next Fiscal Year's Performance

Questioner: Could you briefly comment on your outlook for the next fiscal year's performance? I assume the impact from certain clients will linger into the first quarter, but after that runs its course, will you aim to re-accelerate top-line growth, or will it be a period to focus on further improving profitability? Also, given the changing environment, will it be a year that emphasizes investment? To the extent possible, please comment on how your company positions the next fiscal year and what its important themes will be.

Kouno: First, regarding the current fiscal year, we have been proceeding with the goal of achieving an increase in both revenue and profit compared to the previous year. Although there were various impacts, we feel that we are currently progressing smoothly.

For the next fiscal year and beyond, we will continue to aim for top-line growth. While we are facing some impact from the specific client at the moment, we intend to continue focusing our efforts on both top-line growth and improving our profitability in the next fiscal year as well.

Furthermore, we have secured a solid investment allowance within our capital allocation policy, which we have discussed previously. Based on this, we also intend to steadily pursue inorganic growth through initiatives such as M&A and business partnerships, while holding discussions with potential partners.

Q&A 11: Profitability Improvement from the Expanding Use of Generative AI

Questioner: I would like to ask about the impact of the expanding use of generative AI on your company. For example, if operational efficiency improves due to the increased utilization of generative AI in your business, to what extent do you believe there is room for profitability improvement through further control of SG&A expenses, such as by suppressing personnel hiring?

I would appreciate it if you could provide an explanation or comments on the potential for utilizing generative AI in your company's operations.

Kouno: Regarding the use of generative AI at our company, as is the case with many companies, it is increasingly substituting a wide range of tasks. This includes routine tasks, workflows, proposal creation, and

even regular internal communications. The introduction and utilization of such generative AI has become one of the factors contributing to the improvement in our operating profit margin.

We are currently promoting the use of generative AI across each business and the entire Group, and its effects are gradually materializing. However, this does not mean we will immediately conduct personnel reductions just because we have introduced generative AI. At our company, our attrition rate has remained at a certain level.

Therefore, rather than simply backfilling positions vacated by departing employees through new hiring, we are advancing initiatives to improve productivity per employee by leveraging generative AI.

In particular, the foundation for generative AI utilization has been established over the past six months to a year. By further promoting its use, we intend to continue this initiative to improve productivity in terms of operating profit per employee.

Q&A 12: Background of the Increase in Business from New Industries

Questioner: This is regarding your earlier comment that you are handling an increasing number of new client industries. My impression was that you haven't mentioned this so explicitly in the past, but I felt it was referenced several times today.

Is there a specific change this quarter that is the background for you being able to discuss this now? Or is it more the case that this has simply reached a certain scale as an extension of existing trends? Could you elaborate on this?

Kouno: I would say it is not the case that a sudden change emerged this quarter. At our company, in addition to our organic initiatives, we are promoting collaboration with the Dentsu Group. Through this collaboration as well, we have the impression that clients from a more diverse range of industries have been gradually increasing over the past year to year and a half.

Furthermore, this is likely a trend for the entire industry. We believe the major point is that this isn't just one specific agency or industry growing; rather, the appetite for digital advertising spend is increasing across industries as a whole.

Q&A 13: Background of Profit Increase in Other Business and Future Outlook

Questioner: The Non-GAAP operating profit for Other Business in this July-to-September quarter was 33 million yen. Considering that Q1 and Q2 were almost zero, this is a clear profit expansion. Could you please explain the background for this? Also, could you please comment on the possibility of this trend continuing?

Kouno: This pertains to Other Business, which we are currently preparing for commercialization. At the center of this are a group of subsidiaries that provide HR-related services.

Currently, the situation is that they are beginning to generate a slight profit, but they have not yet reached a level where we can expand the scale.

We will continue these preparations and aim to establish a structure that will allow us to expand the scale and achieve growth in the future.