

Hakuhodo DY Holdings, Inc.
Consolidated Results Briefing for Q1 FY2025: Q&A

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Questions answered by:

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- Why has revenue declined more than billings? Do you expect a similar impact in Q2 and beyond?

One of the reasons is the reduced number of consolidated companies due to the exclusion of UNITED, Inc., for example. Another reason is the increase in transactions through agents due to partial changes in commercial distribution following the consolidation into Hakuhodo DY ONE. This trend will continue in Q2 and beyond. However, the cost of sales has also declined by a roughly equivalent amount, so the impact on gross profit and other profit items on the P/L is not significant. Although the huge difference between billings and revenue makes things less visible, there is no impact on profits.

- We hear about the lackluster performance of search advertising in the industry. Do you think that any changes in trends will affect the results, such as the changing approach to ad placement and in-house advertising operations among e-commerce advertisers?

We are seeing no significant change among e-commerce advertisers. Although some clients are slightly changing their advertising approach, that has not been a big factor for the reduced revenue. It is true that some clients have also commenced in-house operations, but there are no signs of it developing into a sizable movement. Thus, such changes in trends have not significantly affected our performance.

- How about the growth of the TV and internet markets and changes in your share? In particular, do you think that the shrinking TV market is a temporary phenomenon?

We expect the market to grow by about 3% this year, and just over 1% in Q1. Temporary factors are affecting the TV market in Q1. In addition, uncertainty around tariffs caused very difficult market conditions in April. The state of the market compared with the previous year has been improving since May. Our market share shrank slightly in Q1. Factors behind this sub-par performance include weak growth in automobile-related industries, which were significantly impacted by the tariff hikes. Nevertheless, we are looking at above-market growth for the whole business year, with a series of big events planned in the second half including the Japan Mobility Show. Meanwhile, our market share in internet media remains robust, growing by more than 5%.

- How have the Q1 results fared against the plan? Did the original plan include the impact of the

changing scope of consolidation?

The results after adjustments met our expectations as both gross profit and operating income exceeded the level of the previous year. The initial plan took into account the changes in consolidation scope. We have been making progress in line with the guidance.

- Growth in domestic billings seems to be rather weak. Is this due to factors common to the market, or factors specific to Hakuodo DY Group companies? Was there any impact from reduced ad placements on e-commerce platforms?

We believe that the market remained robust in Q1, growing by over 1%. Our performance was slightly below the market average, partly because some large-scale projects have been postponed to Q2 and beyond. We see no significant impact of reduced ad placements on e-commerce platforms.

- I believe that a certain percentage of business shifted from TV to the internet in Q1 in the wake of the Fuji TV issue. Given that assumption, growth in the internet market looks rather weak. Has the whole market remained weak, or were there any other factors?

Some clients did re-channel their advertising spend to the internet in January–March to use up their annual budget, but many clients have been revisiting the allocation of their advertising budget since the beginning of this business year. Thus, we have not seen a sizable shift since April vs. January–March. We do not see weakness in the internet advertising market as a whole.

- Why did the domestic advertising market rise since May? Which industries can be expected to drive the recovery in ad placements going forward?

Considerable uncertainty remained in April with the temporary tariff pause. The turnaround may be explained by the return of a certain level of confidence. Industries that are expected to drive the recovery in ad placements include: household products with the expected return of clients that are holding off on advertising; transportation/leisure on the back of the Osaka Expo and buoyant inbound tourism; automobiles/related products with the upcoming Japan Mobility Show; and finance/insurance, an industry that is expected to boost advertising spend this year.

- Tell us about the state of overseas business and policy going forward. Are you going to remain independent or think about collaboration and partnership more flexibly? How about additional actions for underperforming regions and any risk factors?

In North America, we have now established a profitable structure following the successful implementation of structural reforms last year. As regards ASEAN, the strong performance in Thailand last year has deteriorated this year. Our regional performance varies, as indicated by the robust results in India and Taiwan.

Our policy going forward has many options, including capital and business alliances. Structural reform is another possible option in regions that underperform in the long term, but for now, we prefer to ensure positive growth for overseas business as a whole, with good performance in some areas compensating for lackluster performance in others.

- How have billings and operating income evolved against the plan? I imagine you will need to introduce cost controls to deliver on the full-year guidance.

The topline growth of the Hakuodo DY Group tends to accelerate as the business year proceeds. We currently believe that our billings will evolve smoothly without substantially diverging from the guidance. At the same time, we are striving to limit any cost increase to a level below the growth of gross profit. Even if the topline should move slower than expected, we will be able to achieve the operating income target under the guidance including by controlling costs with incentives.

- The billings of overseas business have been declining. Is this due to temporary factors, or any structural problems such as loss of clients or falling unit prices of projects?

Some of the subsidiaries overseas have been unconsolidated this year, with a negative impact on revenue. In some of the Group companies, large-scale projects reported in Q1 last year are expected to be put off until H2 this year. Those factors inevitably contributed to the reduced revenue in Q1.

- About internet advertising, are video ads still going strong?

OTT and other video ads are growing, along with vertical videos including on TikTok.

- Are the cost amounts reported as elimination or corporate in Q1 expected to remain on a par in Q2 and beyond?

We expect similar amounts throughout the year.