Summary of the Q&A Session for the FY2017 Consolidated Financial Highlights Briefing

Date of event: May 14, 2018 (Monday)
Attending members from the Company:
Hirokazu Toda, Representative Director & President
Kunihiko Sawada, Representative Director & Executive Vice President
Mitsumasa Matsuzaki, Director & Senior Executive Corporate Officer
Masanori Nishioka, Director & Corporate Officer

(Domestic Advertising Market)

Q. What is your view on the domestic advertising market during FY2017 and FY2018?

A. Despite steady growth in the Japanese economy in FY2017, we understand that the domestic advertising market finished the year at a level that was more or less on a par with the previous fiscal year according to the Survey of Selected Service Industries (Ministry of Economy, Trade and Industry). This means that the advertising market faced slightly more sluggish conditions compared with the overall economic environment. We believe there are several major factors behind this result, including the downturn in the large volume of television advertisements by online gaming companies that was present in FY2016 as well as the significant decline in billings at our major competitor.

We feel that this trend, where the positive impact of a favorable economic environment is not being reflected in the domestic advertising market, is only temporary. We therefore believe that the domestic advertising market will move toward a gradual recovery from FY2018 onward, with the Japanese economy continuing to perform favorably as the country prepares for Tokyo 2020. During FY2018, while growth in the television advertising market may be minimal, double-digit growth is expected to continue in the internet media market, which in turn will help drive overall market growth. Specifically, we expect the domestic advertising market to grow nearly 2%.

(Conditions of Overseas Businesses)

Q. Could you please talk about overseas' performance on an organic basis and your forecast going forward?

A. Overseas revenue rose 22.7% in FY2017 when including the impact of M&A. Of this amount, organic revenue growth was over 7%. In our forecast for FY2018, while we expect significant contributions from companies acquired through M&A, we also expect close to double-digit growth on an organic basis.

Q. How does your forecast for revenue look when considering domestic and overseas operations individually?

A. We forecast a revenue increase of ¥37.7 billion in FY2018, and over 70% of this amount represents overseas revenue. In addition to the anticipated solid performance of existing companies, this forecast reflects our decision to incorporate profits and losses from 13 newly acquired companies starting from FY2018.

Q. In FY2018, 13 companies primarily acquired through overseas M&A will be newly incorporated into the scope of consolidation. How much cash was used to pursue these M&A transactions?

A. We have nearly completed the acquisition and investment process for all 13 companies. While I cannot specify exact amounts, I can say that these acquisitions comprise the majority of the ¥20.4 billion for net cash used in investing activities recorded under the consolidated statement of cash flows.

Q. Could you please tell us specific details regarding the 13 companies that will be newly incorporated into the scope of consolidation in FY2018?

A. These companies are located in the Greater China and ASEAN regions as well as in North America. For the Greater China Region, these companies include two new companies in addition to the two companies in Taiwan that are listed in our consolidated financial highlights. Companies in the ASEAN region include three new ones that are located in the Philippines, Vietnam, and Thailand respectively, also listed in the highlights. Furthermore, newly incorporated companies include three additional companies in Thailand. In North America, three companies have become new members of *kyu*, making for a total of 13 that will be newly incorporated in the scope of consolidation.

Through these new companies, we aim to realize growth in Asia by establishing a structure that allows us to not only provide integrated solutions but also pursue specific initiatives catered to local clients. Through the three new *kyu* members, we aim to achieve expansion by evolving and enhancing our marketing activities and responding to the need for innovation. Under this aim, these three members were included in the scope of consolidation.

Q. How do you feel about the profitability of the strategic operating unit *kyu* and is there any room for improvement going forward?

A. While we forecast improvement in the operating margin before amortization of goodwill for *kyu* during FY2018, the margin level is still relatively low compared with our competitors in both Japan and overseas. Going forward, we will take steps to gradually improve this margin.

(SG&A Expenses)

Q. You offer retirement benefit costs as a reason for the increase in SG&A expenses. Could you tell us the total amount of these costs and the impact they will have going forward?

A. From April 2018, major Group subsidiaries have transitioned their corporate pension scheme from a defined benefit plan to a defined contribution plan, and we project a cost increase of ¥1.8 billion as the impact of this transition. The amount of retirement benefit costs should remain stable at its current level barring a major change in the number of employees covered under the new plan.

(Shareholder Returns)

Q. I understand that the Company maintains a fundamental stance of providing a stable dividend and has determined the FY2017 dividend after a comprehensive evaluation of trends in business results. However, the dividend payout ratio declined slightly compared with the previous fiscal year. Could you tell us the Company' s line of thinking regarding future shareholder returns, including dividends and repurchases of treasury stock, in the event that business performance is solid going forward?

A. Corresponding with the ¥40.2 billion in profit attributable to owners of parent, we issued cash dividends of ¥28 per share, resulting in a dividend payout ratio of 26%. However, the ¥40.2 billion in profit attributable to owners of parent includes a one-time extraordinary gain that accompanied the transition of corporate pension schemes. If we look at net income that does not include this extraordinary gain, we see that the dividend payout ratio comes to nearly 34%. We will continue to adhere to the stance of implementing stable and continuous dividends and will determine dividend amounts after making comprehensive evaluations of such factors as capital supply and demand, trends in business performance, and the maintenance of sufficient internal reserves to strengthen our competitiveness as a company.

(Other)

Q. In April, a new index was introduced pertaining to television spot purchasing. Will there be any changes that result from this introduction?

A. One of the major reasons for this index revision was to transition from measuring household viewing ratings, which was done under the previous index, to individual viewer ratings. Another major reason was to factor in "recording playback ratings" and treat these ratings as inventory for spot advertising. Purchases under the new index are already being conducted in the Tokyo area, and an agreement has previously been reached between key broadcast stations in Tokyo and the Japan Advertisers Association. At the moment, we have not heard of any significant changes. Also, we understand that a survey is being conducted before the new purchasing index is implemented in Osaka and Nagoya, and we hope to hear news of how this index will improve the value of television advertising going forward.