

Presentation Material of Financial Results for the Second Quarter of FY2024 (from January 1, 2024 to June 30, 2024)

Note: This English translation is solely for reference purposes and not a legally definitive translation of the original Japanese text. In the event a difference arises regarding the meaning herein, the original Japanese version will prevail as the official authoritative version.

DENTSU SOKEN INC.

July 31, 2024



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Financial Highlights for the Second Quarter of FY2024

Net sales

74.2 billion yen, almost in line with plan
+6.3% YoY, mainly in the Financial and Manufacturing Solutions Segments.

Operating profit

10.3 billion yen, short of initial forecast (-5.8% vs. initial forecast, -2.7% YoY,)
In addition to a lower-than-planned gross profit margin, SG&A expenses increased mainly due to personnel expenses.

Orders

Orders received +16.3% YoY in 2Q, Order backlog +9.9% YoY at the end of 2Q (order backlog +8.8% excluding the impact of M&A.)

Full-year forecast

For the full year, the forecast for net sales remains unchanged from the initial forecast, because orders received are expected to improve in the 2H of the fiscal year. (Forecast was revised on July 24 to reflect M&A effects only)

Consolidated Results for the Second Quarter of FY2024

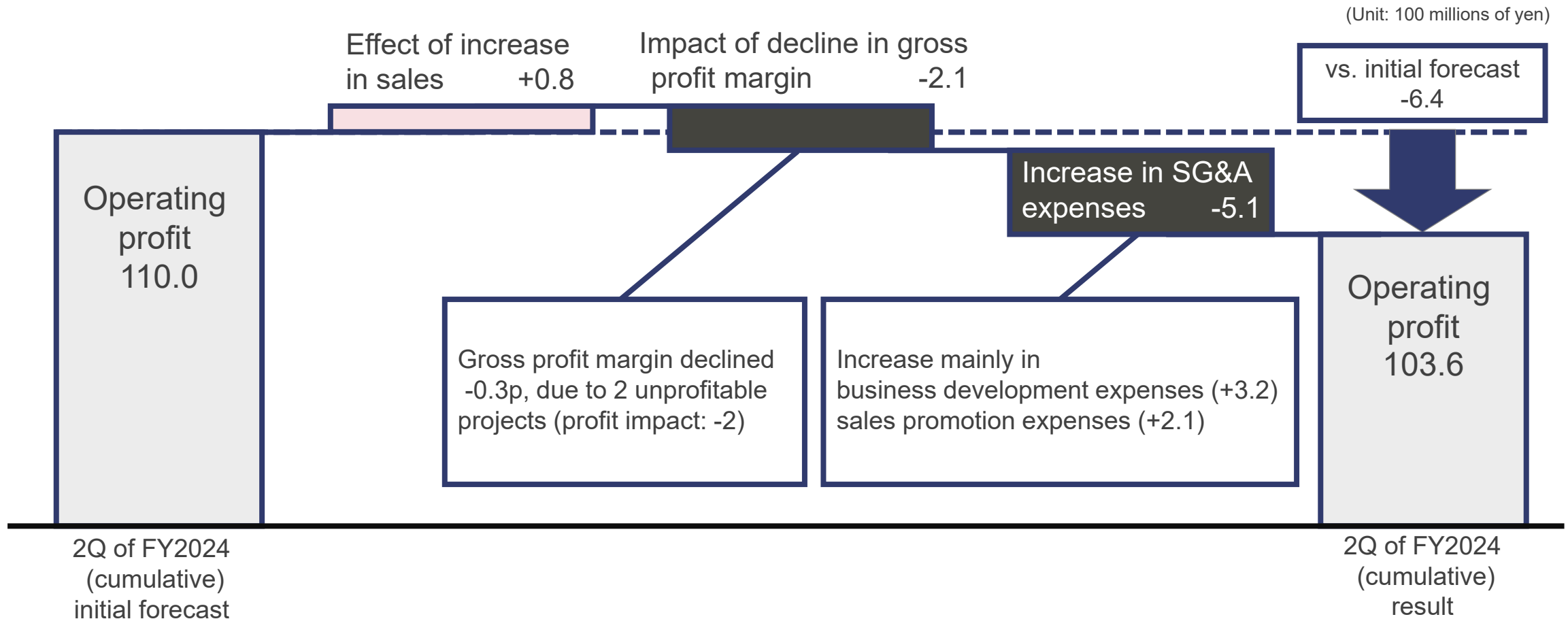
(Unit: millions of yen)

	2Q of FY2024 (cumulative)	YoY			Vs. initial forecast (Announced on February 14, 2024)		
		2Q of FY2023 (cumulative)	Variance	% change	Forecasts	Variance	% change
Net sales	74,235	69,849	+4,386	+6.3	74,000	+235	+0.3
Gross profit	27,076	25,562	+1,514	+5.9	27,200	-124	-0.5
Gross profit margin (%)	36.5	36.6	-0.1p	-	36.8	-0.3p	-
Selling, general and administrative expenses	16,715	14,910	+1,805	+12.1	16,200	+515	+3.2
Operating profit	10,360	10,652	-292	-2.7	11,000	-640	-5.8
Operating margin (%)	14.0	15.3	-1.3p	-	14.9	-0.9p	-
Ordinary profit	10,262	10,785	-523	-4.9	11,000	-738	-6.7
Profit attributable to owners of parent	7,248	7,446	-198	-2.7	7,700	-452	-5.9
Number of employees (people)* **	4,349	3,599	+750	+20.8			

* At the end of the second quarter ** Including Mitsue-Links Co., Ltd. which became a subsidiary in April 2024

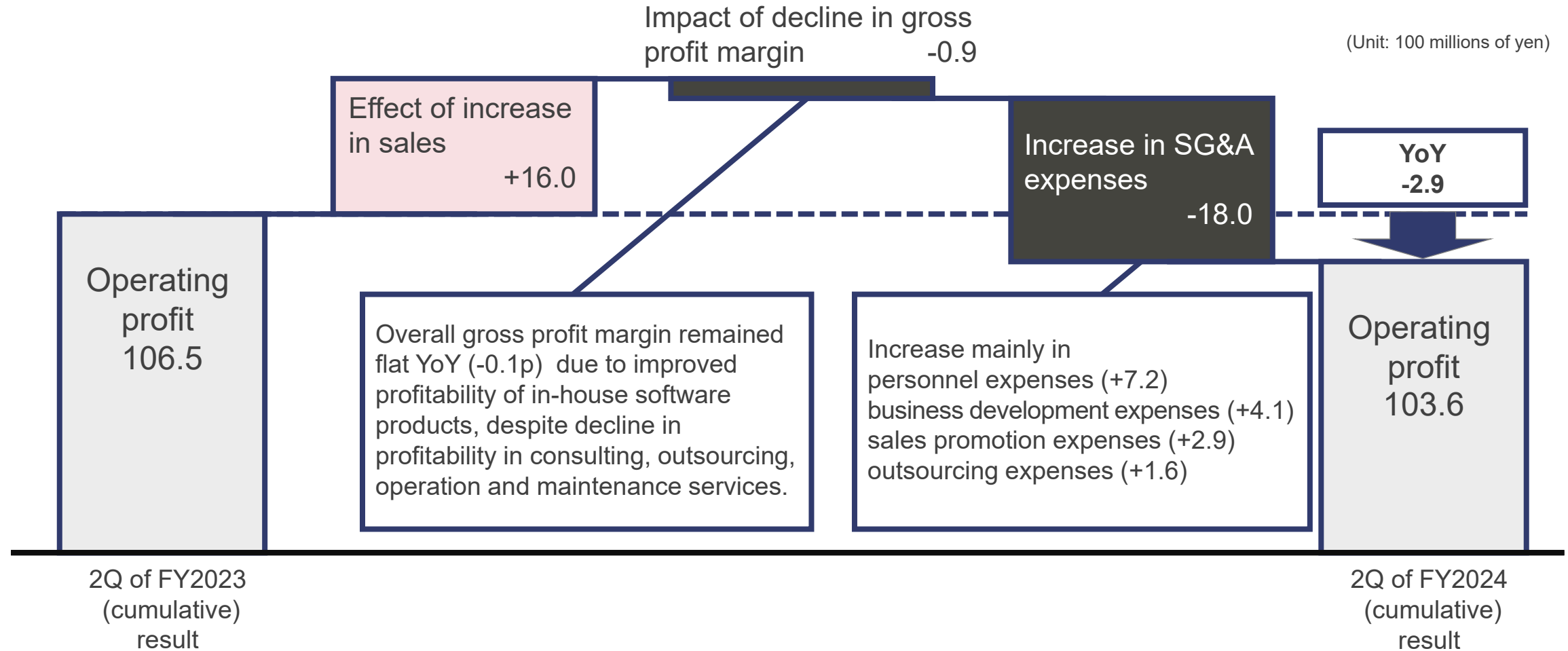
Factors for Increase/Decrease in Operating Profit (vs. initial forecast)

- Gross profit margin declined from the plan due to two unprofitable projects in the second quarter.
- SG&A expenses increased more than expected due to an increase in man-hours spent on proposal activities by engineers to win new deals and an increase in unpaid man-hours spent by engineers due to a decrease in sales of add-on development services for in-house software products compared to the plan.



Factors for Increase/Decrease in Operating Profit (YoY)

- Net sales +6.3% YoY, and gross profit margin remained almost unchanged from the same period of the previous year
- Operating profit declined due to a significant increase in SG&A expenses resulting from an increase in the number of personnel, higher base salaries, and an increase in unpaid man-hours spent by engineers.



Non-operating Income/Expenses and Extraordinary Income/Losses

- Non-operating income/expenses deteriorated due to the posting of foreign exchange losses, etc.
- Extraordinary income/losses improved due to the recording of gain on sale of investment securities and a decrease in loss on valuation of investment securities.

(Unit: millions of yen)

	2Q of FY2024 (cumulative)	YoY		
		2Q of FY2023 (cumulative)	Variance	% change
Operating profit	10,360	10,652	-292	-2.7
Non-operating income	130	151	-21	-13.9
Non-operating expenses	228	18	+210	+1,166.7
Ordinary profit	10,262	10,785	-523	-4.8
Extraordinary income	320	135	+185	+137.0
Extraordinary losses	25	377	-352	-93.4
Profit before income taxes	10,557	10,544	+13	+0.1
Total income taxes	3,309	3,096	+213	+6.9
Profit attributable to non-controlling interests	-	1	-1	-
Profit attributable to owners of parent	7,248	7,446	-198	-2.7

Net Sales and Operating Profit by Reportable Segment

(Unit: millions of yen)

Reportable Segment		2Q of FY2024 (cumulative)	YoY			Vs. initial forecast	
			Variance	% change	Overview	Variance	% change
Financial Solutions	Net sales	16,109	+1,388	+9.4	Net sales and operating profit increased due to expanded sales and implementation of third-party software in the accounting area to the banking industry and sales and installations of Lamp increased to the leasing industry.	+109	+0.7
	Operating profit	1,840	+424	+29.9		-	-
	%	11.4	+1.8p	-		-	-
Business Solutions	Net sales	11,717	+64	+0.5	Net sales were flat YoY due to the peak out of several projects in the accounting area, although sales and implementation of POSITIVE expanded mainly in the insurance industry. Profit decreased due to a significant increase in personnel expenses in line with strategic personnel recruitment.	-583	-4.7
	Operating profit	2,781	-371	-11.8		-	-
	%	23.7	-3.3p	-		-	-
Manufacturing Solutions	Net sales	22,694	+2,899	+14.6	Net sales and operating profit increased due to the expansion of consulting to support system grand design and engineering, as well as sales and implementation of Teamcenter mainly to the electric appliances and precision instruments industry.	+994	+4.6
	Operating profit	2,727	+556	+25.6		-	-
	%	12.0	+1.0p	-		-	-
Communication IT	Net sales	23,713	+35	+0.1	Net sales were flat YoY due to sluggish performance in collaboration with the Dentsu group, despite expanded implementation of SAP solutions to the machinery industry. Profit decreased due to an increase in personnel expenses and the impact of a project that was unprofitable in the previous fiscal year remaining at a low profit level.	-287	-1.2
	Operating profit	3,010	-900	-23.0		-	-
	%	12.7	-3.8p	-		-	-

* Lamp: Leasing and finance business management package, POSITIVE: human capital management solution, Teamcenter: product lifecycle management solution

Ref. Consolidated Financial Results for the 2Q of 2024(April-June)

Consolidated Financial Results

(Unit: millions of yen)

	2Q of FY2024 (April-June)	2Q of FY2023 (April-June)	YoY	
			Variance	% change
Net sales	37,135	35,069	+2,066	+5.9
Gross profit	13,509	12,788	+721	+5.6
%	36.4	36.5	-0.1p	-
SG & A expenses	8,906	7,812	+1,094	+14.0
Operating profit	4,603	4,975	-372	-7.5
%	12.4	14.2	-1.8p	-

Reportable Segment

(Unit: millions of yen)

Reportable Segment		2Q of FY2024 (April-June)	YoY	
			Variance	% change
Finance Solutions	Net sales	8,223	+818	+11.0
	Operating profit	872	-21	-2.4
	%	10.6	-1.5p	-
Business Solution	Net sales	6,111	+133	+2.2
	Operating profit	1,545	-36	-2.3
	%	25.3	-1.1p	-
Manufacturing Solutions	Net sales	10,981	+1,341	+13.9
	Operating profit	880	-7	-0.8
	%	8.0	-1.2p	-
Communication IT	Net sales	11,820	-225	-1.9
	Operating profit	1,304	-309	-19.2
	%	11.0	-2.4p	-

Net Sales by Service Category and Dentsu Group

(Unit: millions of yen)

Service category	2Q of FY2024 (cumulative)	YoY		Vs. initial forecast	
		Variance	% change	Variance	% change
Consulting Services	4,763	+764	+19.1	+163	+3.5
Custom System Development	15,027	-711	-4.5	-973	-6.1
In-house Software	15,136	+82	+0.5	-1,264	-7.7
Third-party Software	26,886	+3,827	+16.6	+1,586	+6.3
Outsourcing, Operation and Maintenance Services	8,404	+188	+2.3	+404	+5.1
IT Equipment Sales and Others	4,017	+237	+6.3	+317	+8.6

Counterparty	2Q of FY2024 (cumulative)	YoY	
		Variance	% change
Dentsu Group Inc. and its subsidiaries	10,763	-268	-2.4

Net Sales by Industry

(Unit: millions of yen)

Industry		2Q of FY2024 (cumulative)		YoY	
		Net sales	Composition ratio (%)	Variance	% change
Financial	Banks	11,272	15.2	+398	+3.7
	Other financial institutions	4,314	5.8	+1,024	+31.1
		15,586	21.0	+1,422	+10.0
Manufacturing	Transportation equipment	12,734	17.2	+1,703	+15.4
	Electric appliances Precision instruments	8,197	11.0	+857	+11.7
	Machinery	5,566	7.5	+394	+7.6
	Other products	5,458	7.4	-519	-8.7
	31,957	43.1	+2,435	+8.2	
Services and public offices		20,448	27.5	+462	+2.3
Distributions and others		6,243	8.4	+67	+1.1

* As we reviewed some of our client industries, we used reclassified figures for comparison with the same period last year.

Orders Received and Order Backlog

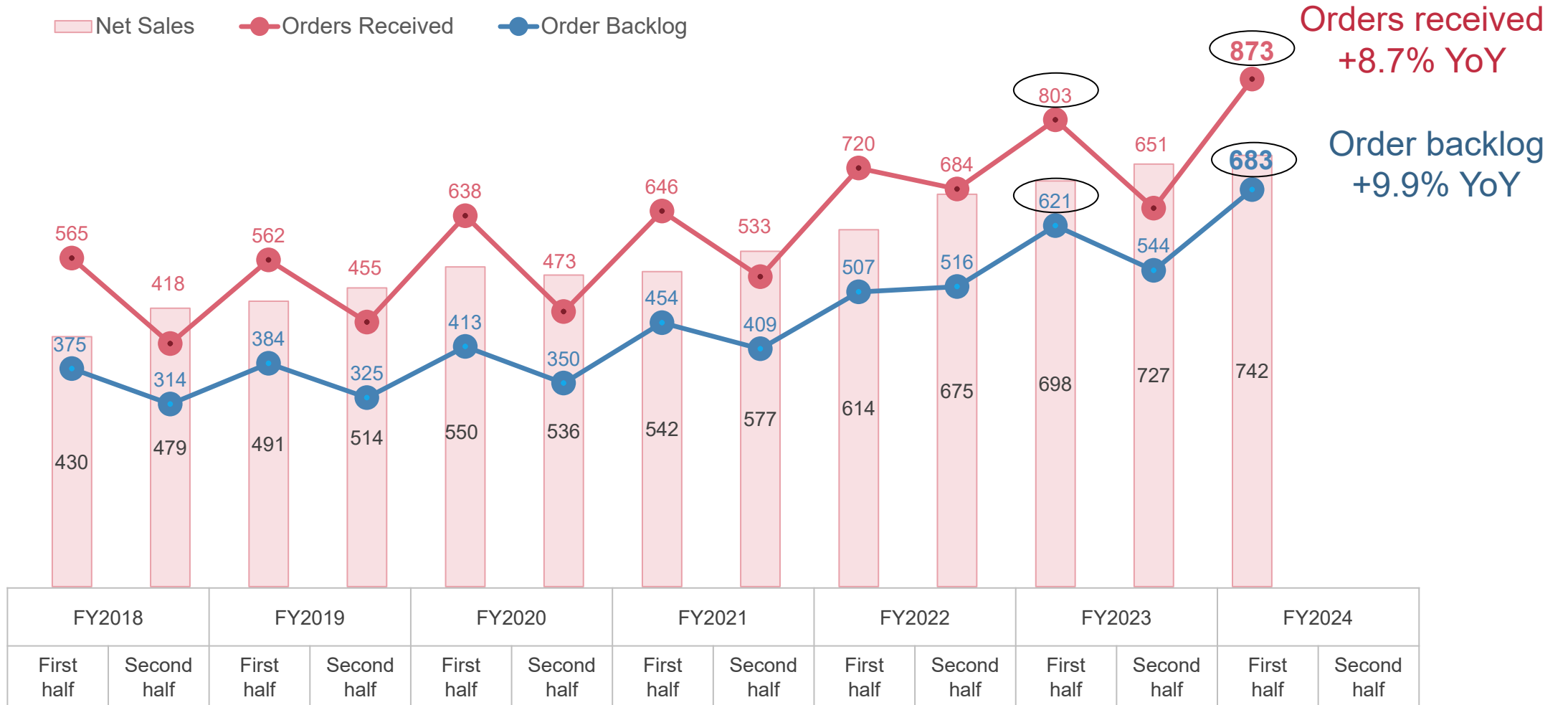
(Unit: millions of yen)

		Orders received				Order backlog	
		2Q of FY2024 (April-June)	YoY % change	2Q of FY2024 (cumulative)	YoY % change	End of 2Q of FY2024	YoY % change
Total		41,355	+16.3	87,351	+8.7	68,303	+9.9
Reportable segment	Financial Solutions	8,224	-1.9	17,172	+12.6	9,313	+12.0
	Business Solutions	6,299	+7.3	12,214	+5.5	8,485	-16.5
	Manufacturing Solutions	12,140	+12.3	27,597	+7.8	28,017	+17.2
	Communication IT	14,690	+40.0	30,366	+8.8	22,486	+13.8
Service category	Consulting Services	2,993	+21.7	5,558	+19.3	2,281	+38.7
	Custom System Development	7,418	+5.1	16,223	+8.1	6,976	+11.9
	In-house Software	8,399	+4.6	16,043	+1.8	11,678	-12.9
	Third-party Software	16,840	+32.9	34,263	+17.9	34,766	+23.5
	Outsourcing, Operation and Maintenance Services	3,753	-2.1	10,841	-4.4	6,693	+0.8
	IT Equipment Sales and Others	1,949	+30.0	4,422	-1.6	5,906	-2.5

* The order backlog at the end of the second quarter includes the figures for Mitsue-Links Co.,Ltd., which became a subsidiary in April 2024 and is incorporated into the Communication IT segment.

Trends in Orders Received and Order Backlog

(Unit : 100 million yen)



Consolidated Balance Sheets

(Unit: millions of yen)

	As of June 30, 2024	As of December 31, 2023	Variance	Main Factors for Increase/Decrease
Total current assets	116,050	114,813	+1,237	Increase in advance payments to suppliers (+5,555) Increase in deposits paid (+1,899) Increase in cash and deposits (+542) Decrease in trade receivables and contract assets (-7,081)
Total non-current assets	27,547	18,520	+9,027	Increase in goodwill (+7,847) Increase in investments and other assets (+558)
Total assets	143,597	133,333	+10,264	
Total current liabilities	53,655	47,622	+6,033	Increase in contract liabilities (+5,071) Increase in notes and accounts payable - trade (+1,557)
Total non-current liabilities	2,998	2,739	+259	Increase in asset retirement obligations (+103) Increase in provision for share awards (+65)
Total liabilities	56,653	50,362	+6,291	
Total net assets	86,944	82,971	+3,973	Increase in retained earnings (+3,598)
Total liabilities and net assets	143,597	133,333	+10,264	

Consolidated Statements of Cash Flows

(Unit: millions of yen)

	2Q of FY2024 (cumulative)	Main Factors	YoY	
			2Q of FY2023 (cumulative)	Variance
Cash flows from operating activities	16,207	Quarterly profit before income taxes (10,557) Decrease in trade receivables and contract assets (7,790) Increase in contract liabilities (4,829) Increase in advance payments to suppliers (-5,513)	10,136	+6,071
Cash flows from investing activities	-10,146	Purchase of shares of subsidiaries resulting in change in scope of consolidation (-8,591) Purchase of intangible assets (-1,100)	-1,130	-9,016
Cash flows from financing activities	-4,048	Dividends paid (-3,649)	-3,376	-672
Effect of exchange rate change on cash and cash equivalents	367		246	+121
Net increase (decrease) in cash and cash equivalents	2,379		5,876	-3,497
Cash and cash equivalents at beginning of period	57,515		53,305	+4,210
Cash and cash equivalents at end of period	59,895		59,181	+714

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Note:

Forecasts of business results in this document are based on judgments and assumptions made in light of industry trends, customer conditions, and other information currently available, and are not intended as a guarantee that they will be achieved. Actual results may differ from these forecasts due to uncertainties inherent in forecasts, changes in internal and external conditions, and other factors.

Forecasts for FY2024

- The full-year forecast announced on February 14 was revised on July 24 as follows, taking into account the effect of making Mitsue-Links Co., Ltd. a subsidiary, although there is no change to the initial forecast for net sales.
- As for profits, the forecast for all profit items remains unchanged because orders received increased 16.3% in the second quarter, mainly in consulting services and third-party software, and are expected to improve in the second half of the fiscal year.

	(Unit: millions of yen)				(Unit: millions of yen)		
	Previous Forecast (Announced on February 14, 2024)	Revised Forecast (Announced on July 24, 2024)	Vs. Previous forecast		YoY		
			Variance	% change	FY2023	Variance	% change
Net sales	153,000	155,000	+2,000	+1.3	142,608	+12,392	+8.7
Operating profit	22,500	22,500	-	-	21,028	+1,472	+7.0
Operating margin (%)	14.7	14.5	-0.2p	-	14.7	-0.2p	-
Ordinary profit	22,500	22,500	-	-	21,244	+1,256	+5.9
Profit attributable to owners of parent	15,700	15,700	-	-	14,663	+1,037	+7.1

Ref. Forecasts for the Second half of FY2024

(Unit: millions of yen)

	Revised 2H Forecasts (Announced on July 24, 2024)	YoY			Ratio of 2H forecasts to revised full-year forecast(%)
		FY2023	Variance	% change	
Net sales	80,764	72,758	+8,006	+11.0	52.1
Operating profit	12,139	10,375	+1,764	+17.0	54.0
Operating margin (%)	15.0	14.3	+0.7p	-	-
Ordinary profit	12,237	10,458	+1,779	+17.0	54.4
Profit attributable to owners of parent	8,451	7,216	+1,235	+17.1	53.8

Reference: Net Sales Forecasts for FY2024

(Unit: millions of yen)

Reportable segment	Revised Forecasts (Announced on July 24, 2024)	YoY	
		FY2023 (cumulative)	% change
Financial Solutions	33,000	+2,402	+7.9
Business Solutions	25,000	+1,893	+8.2
Manufacturing Solutions	45,000	+3,882	+9.4
Communication IT	52,000*	+4,216	+8.8
Total	155,000	+12,392	+8.7

*The figures for Mitsue-Links Co., Ltd. which became a subsidiary in April 2024, is included in the Communication IT segment by reporting segment and in the Custom System Development by service category.

(Unit: millions of yen)

Service category	Revised Forecasts (Announced on July 24, 2024)	YoY	
		FY2023 (cumulative)	% change
Consulting Services	9,500	+889	+10.3
Custom System Development	34,000*	+3,087	+10.0
In-house Software	34,000	+3,763	+12.4
Third-party Software	53,000	+4,816	+10.0
Outsourcing, Operation and Maintenance Services	17,000	-108	-0.6
IT Equipment Sales and Others	7,500	-53	-0.7
Total	155,000	+12,392	+8.7

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Medium-Term Management Plan (2022-2024)

Medium-Term Management Plan (2022–2024) —Strategic Framework—

DENTSU SOKEN X(Cross) Innovation 2024

While accelerating growth through deepening X Innovation, we will build a new foundation for the DENTSU SOKEN Group focused on our long-term goal for 2030

Priority Measures	
1 Business Domain Expansion Hiraku	1 Accelerate existing core business growth 2 Strength and establish customer contact reform business 3 Strength and establish corporate and social transformation business
2 New Capability Acquisition Tsukuru	4 Strengthen human resources 5 Strengthen consulting 6 Strengthen cutting-edge technology
3 Earnings Model Innovation Kasegu	7 Enhance in-house software and third-party software 8 Promote diversification of business models
4 Management Foundation Innovation Sasaeru	9 Promote sustainability management 10 Innovate management foundation

Quantitative Targets		
	FY2024 Medium-Term Targets	2021–2024 CAGR
Net sales	¥150 billion	10.2%
Operating profit	¥22.5 billion *	18.0%
Operating margin	15% *	
ROE	18% *	

Growth Investments	
Human resources	over 4,200 employees (consolidated, as of Dec. 31, 2024)
Technology	¥17.0 billion (3-year cumulative)
Financing/M&A	¥10.0 billion or more (3-year cumulative)

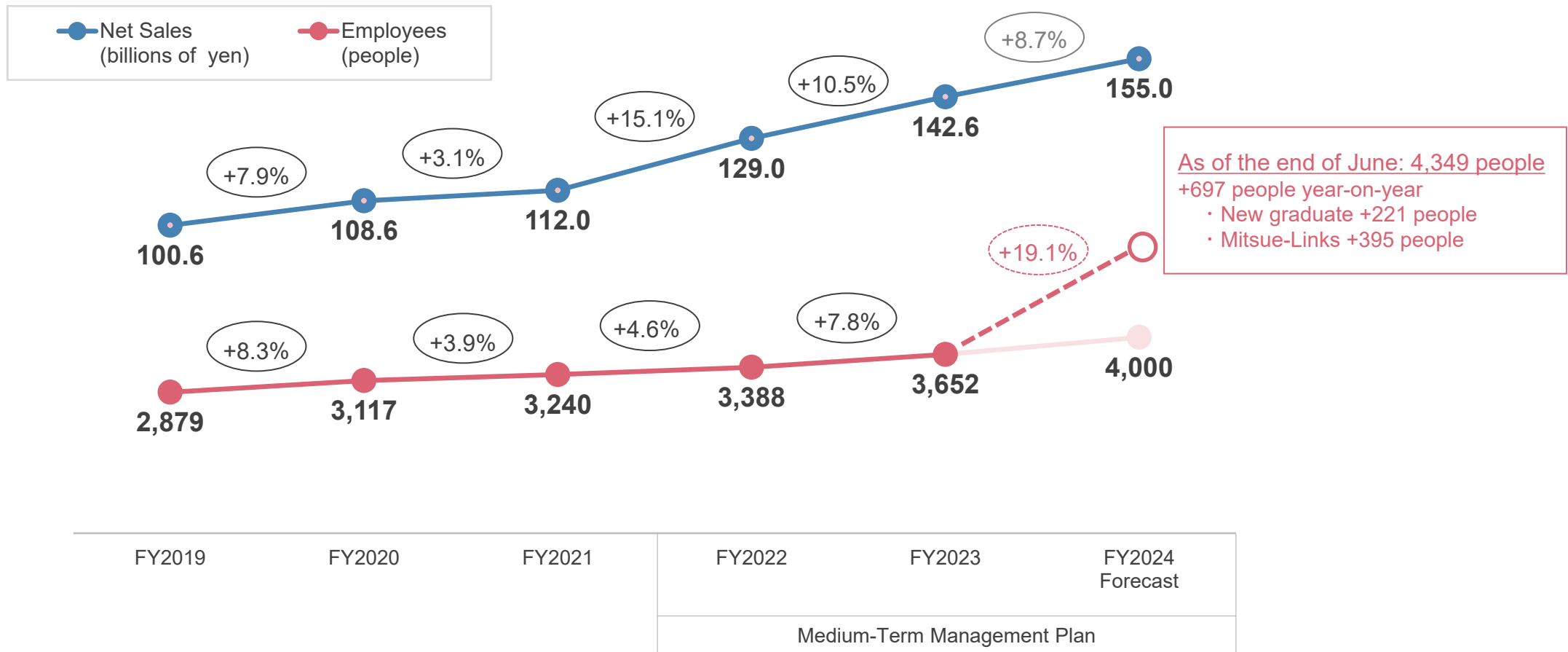
* Quantitative targets were revised on July 31, 2023

Progress of Medium-Term Management Plan

		FY2024 Medium-Term Management Plan Targets	FY2024 Forecast	Progress
Quantitative Targets	Net sales	¥150 billion	¥155 billion	Sales have steadily progressed toward targets, driven in part by M&A synergies.
	Operating profit	From ¥18.0 to ¥22.5 billion (Revised upward in July 2023)	¥ 22.5 billion	Although orders received stalled in the first half of 2024, there is an upward trend.
	Operating margin	From 12% to 15% (Revised upward in July 2023)	14.5%	While sales are strong, increased personnel expenses, goodwill amortization, etc.
	ROE	From 15% to 18% (Revised upward in July 2023)	18.0%	Progress on plan.
Growth Investments	Human resources	over 4,200 people	4,349 people (As of the end of June 2024)	Significant excess outlook due to M&A effects.
	Technology	3-year cumulative ¥17.0 billion	¥11.6 billion	While falling short of our targets, we have achieved a certain level of success in developing new products and improving existing ones.
	Financing /M&A	3-year cumulative over ¥10.0 billion	¥9.2 billion (As of the end of June 2024)	Continue to consider projects to expand our strengths.

Status of Implementation of Priority Measures: Strengthen human resources

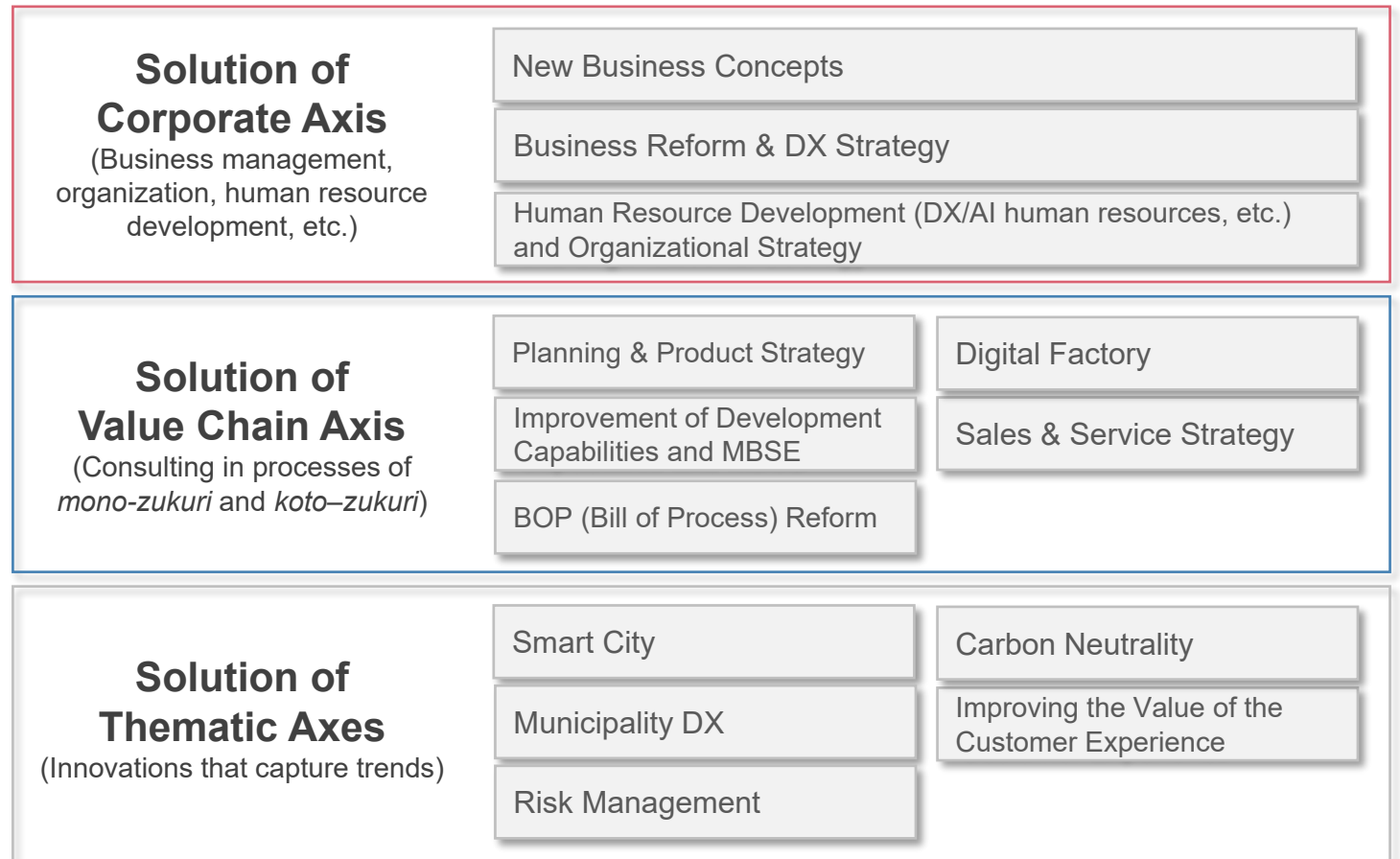
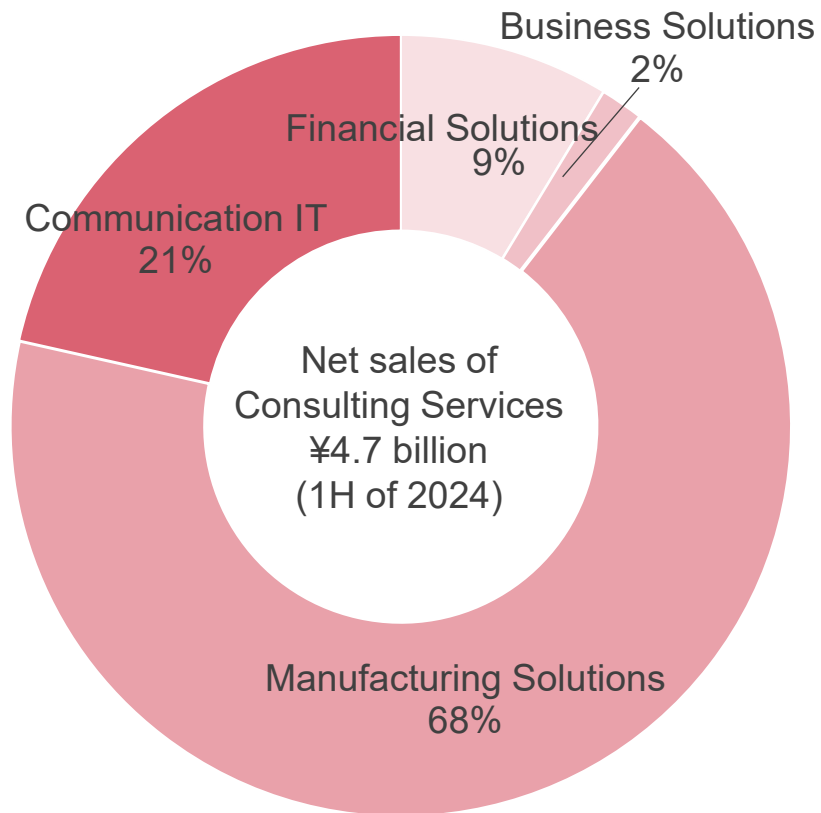
- The risk of personnel shortages after 2022 is currently being resolved by strengthening the recruitment system and rebranding measures.
- Human resources are the source of growth. Continue to strengthen recruitment in the second half of the fiscal year and beyond.



Status of Implementation of Priority Measures: Strengthen consulting

- Integrated consulting functions of two subsidiaries and the Company. Net sales of Consulting services in the first half of the year increased by 19.1% year-on-year.
- Expanded our capabilities with a focus on our strengths in the engineering and marketing domains.

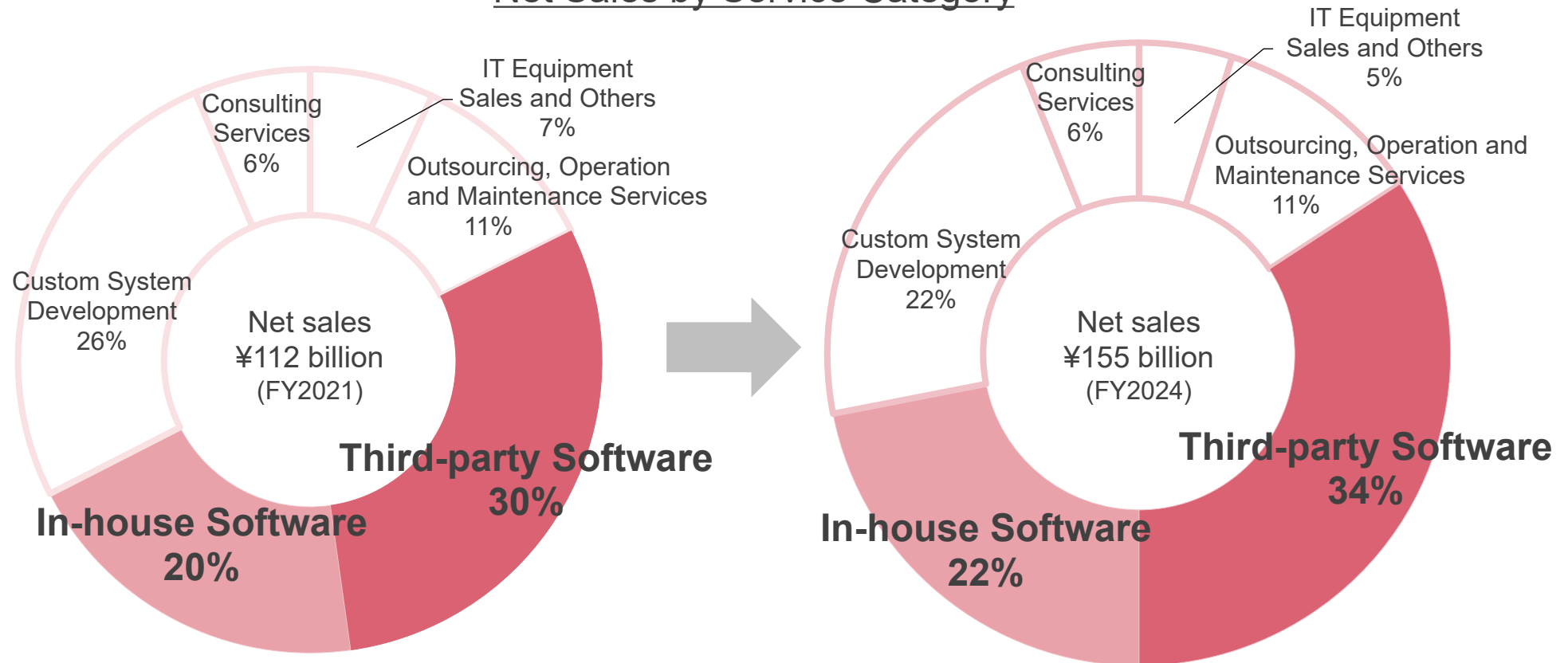
Net Sales by Reportable Segment



Status of Implementation of Priority Measures: Enhance in-house and third-party software

- The ratio of Third-party Software and In-house Software to net sales increased. (from 50% for FY2021 to 56% for FY2024)
- Expanded software provision capabilities through new product development, increased number of distributors, strengthened partner collaboration, etc.

Net Sales by Service Category



Status of Implementation of Priority Measures: Promote sustainability management

- The following two reports were issued.

Integrated Report 2024 (published July 31)



<URL>

<https://www.dentsusoken.com/ir/library/integratedreport.html>

*Japanese version only. English version to be published at a later date.

Human Capital Report 2024 (published July 16)



<URL>

https://www.dentsusoken.com/sites/dentsusoken_default/files/2024-07/HumanCapitalReport2024.pdf

* Japanese version only

- Improved external recognition

- Selected as a constituent of the MSCI Japan ESG Select Leaders Index for the first time
- Recognized as the first ISS ESG Corporate Rating “Prime” for the first time
- Selected as a constituent of the Sompō Sustainability Index for the first time



電通総研

DENTSU SOKEN INC.