SEPTENI HOLDINGS CO., LTD.

Transcript of Questions and Answers for 4Q FY2024 Financial Results Briefing

The transcript of the questions and answers at the financial results briefing for the 4Q of the fiscal year ending December 2024 (for institutional investors, analysts, and the media) held on February 12, 2025 is as follows.

Speakers:

Yuichi Kouno	Representative Director, Group President and Chief Executive Officer
Tei Go	Group Senior Executive Officer

Q&A 1: Net Sales Growth in the Current Fiscal Year Plan

Questioner: Regarding the plan for the current fiscal year, what is the reason why net sales growth is small relative to revenue growth? I think you are assuming a decline in the revenue to net sales ratio in any of three segments. Could you clarify which segments are expected to see this decline?

Kouno: This year's plan projects a 7.1% growth in revenue against a 4.8% growth in net sales. We have identified improving the revenue to net sales ratio as a key challenge from the previous year.

Since revenue growth lagged behind top-line growth due to actions taken to pursue market share, which has been an issue since the 1Q of FY2024, this year's plan prioritizes securing profitable transactions, resulting in higher profit growth than revenue growth. In other words, we are proceeding with a plan to improve profitability.

In terms of segments, our core Marketing Communication Segment has the highest share and the greatest impact on the Group as a whole. Therefore, we plan to increase its profitability in this fiscal year.

Q&A 2: Review of Three-Year Plan and Dividend Plan

Questioner: Could you explain the reasons for withdrawing the three-year plan announced last February? Also, could you explain why the dividend for this fiscal year is currently undetermined?

Kouno: We have reviewed our medium-term management policy annually for about five years using a rolling method. However, in the last few years, we have had to revise our earnings forecasts multiple times, resulting in a significant gap between our forecasts and actual results.

We determined that continuing with the rolling method was difficult to deliver solid information. Therefore, we have shifted to announcing annual full-year earnings forecasts based on our mid- to long-term vision.

While we have not yet determined a dividend per share (DPS) for this fiscal year, our policy remains to maintain a dividend payout ratio of 50% or more, in line with the updated shareholder return policy from the previous year.

Since last year we have thoroughly discussed growth investments and shareholder returns.

While some of them are still in the process of preparing, we will actually take action in FY2025 on initiatives we have been considering since FY2024. While maintaining our dividend payout ratio policy of 50% or more, we will announce further details during the fiscal year, taking performance into account.

Q&A 3: Factors for Improvement in Revenue to Net Sales Ratio

Questioner: The revenue to net sales ratio improved significantly both year on year and quarter on quarter. Could you break down the key factors contributing to this QoQ improvement and quantify their relative impact? Furthermore, please tell us about any anticipated improvements and the expected impact of your initiatives in regard to the outlook for this fiscal year.

Kouno: The revenue to net sales ratio has steadily increased on a quarterly basis since the low point in the 1Q of FY2024. A major contributing factor is negotiations with clients in our existing advertising business, the Marketing Communication Segment, focusing on securing profit according to the advertising performance.

Secondly, we aim to increase the proportion of sales from solutions. Our advertising business operates as a reseller of advertising inventory, operating profit is the remaining amount after deducting selling, general, and administrative expenses from a gross profit of just 10-15% of net sales.

The handling of solutions that does not involve selling advertising inventory, in addition to the sale of our proprietary solutions, the implementation and operation of third-party solutions as part of our services have higher profitability than our advertising business. Some solutions have a 100% margin, while others, even those sourced externally, can achieve margins exceeding 30%. Therefore, these solutions offer significantly higher margins than our advertising business, which typically operates on a 10-15% margin.

We have been actively promoting these solutions since the previous fiscal year, and we are starting to see positive results. We have observed a steady increase in the proportion of net sales generated from solutions, which we believe is gradually contributing to the improvement in our revenue to net sales ratio.

We plan to continue enhancing both of these two actions in this fiscal year, and therefore, we project a continued improvement in the revenue to net sales ratio.

Q&A 4: Performance and Outlook for the Digital Marketing Business in this Fiscal Year

Questioner: In this quarter, while the revenue to net sales ratio and revenue have improved, net sales has remained flat year on year. Compared to competitors, this growth appears somewhat weak.

Given your significant growth in the previous year, a year-on-year percentage comparison might not be entirely appropriate. Could you provide a breakdown of YoY performance by industry segment, including the impact of the collaboration with the Dentsu Group, and your outlook for these factors in this fiscal year?

Kouno: The 1Q (January-March) and the 4Q (October-December) are peak seasons for the advertising business. However, the specific industries and clients that experience growth vary considerably each year, and there are significant fluctuations in which industries experience growth or decline, depending on market trends. Last year, we saw particularly strong growth from clients in the information and communications sector, especially those offering B2C services.

In the 4Q of 2024, the top line remained at almost the same level as the previous fiscal year, but a breakdown shows that some industries experienced growth while others did not. However, compared to the 2Q and 3Q of 2024, we are seeing growth. Although YoY growth for the same quarter was slightly weaker, we do not view this negatively.

We anticipate a similar situation in the next quarter (January-March), but the current top-line trend is more positive than that observed in the October-December period. Therefore, we will continue to monitor the situation closely.

Q&A 5: Undetermined Dividend

Questioner: The explanation for not setting a minimum dividend of 50% this fiscal year was the need for future growth investments. Is it correct to understand that this is due to pending M&A activity under consideration? Could you clarify what the biggest variable is in this decision?

Go: Since we set a lower limit on the payout ratio of 50% last year, this serves as our baseline. Given that we've already disclosed an EPS estimate for this fiscal year, you can calculate a minimum DPS assuming a 50% payout ratio.

We have been discussing this with investors since last year, and a shift from over 100% payout in FY2024 to at least 50% in FY2025 would result in a significant decrease in DPS. We have received feedback regarding the mitigation of this drastic change, and we are currently considering measures.

The 50% figure represents a minimum baseline. The final decision on the actual dividend payout, exceeding this minimum, will be made based on a balance between future growth investments, and we will announce it at the appropriate timing. I would like to say that this does not imply a dividend payout ratio will fall below 50%.

Q&A 6: Outlook for the Advertising Market Environment

Questioner: Earlier, you explained the allocation of advertising budgets between internet and mass media advertising in the context of the mid- to long-term outlook for the advertising market. I believe that since the beginning of this year, a kind of social experiment has been underway in the mass media advertising market.

With some observing that advertisers may not need television advertising to maintain sales, how do you, from your position constantly interacting with advertisers, view the potential for changes in business practices in advertising?

Specifically, what is your perspective on the possibility of a sudden surge in internet advertising spending, potentially driving its share towards 60% as early as next year?

Kouno: Recently, we have seen a shift in television advertising budgets within the market. This shift primarily involves what is often referred to as branding budgets. While there is also reallocation within mass media advertising, we are also seeing a shift of these promotional budgets towards digital channels.

However, our company primarily handles performance-based marketing budgets. While data on the digital shift of promotional budgets since January is still incomplete, I think that conditions are attracting attention across the entire industry as to how will the KPIs related to branding, which advertisers are monitoring, change as promotional budgets move to digital as a social experiment.

Currently, because a majority of our clients have performance-based advertising and promotional budgets, we have not yet seen a significant shift from mass media advertising budgets to digital performance advertising budgets. However, we are seeing increasing interest from clients in allocating their branding budgets to digital, and some of this is already flowing to our company.

Q&A 7: Projected Growth by Segment

Questioner: You mentioned aiming to achieve a mid- to long-term profit target. Please explain the business environment for each business segment, how to make up for what is currently lacking, and the measures being taken to achieve these goals.

Kouno: Page 33 shows the projected growth of the business segments we have newly defined. While each business has unique characteristics, our Marketing Communication business, centered around internet advertising, remains a core part of our company. Through partnerships like the one with beBit, Inc. and expansion of our solution sales, we aim to maximize marketing effectiveness for our clients. In terms of organizational investment, it is the foundation of our group to invest in this business while keeping a close eye on productivity.

We have introduced two new business segments. The Direct Business segment, in particular, differs significantly from our Marketing Communication Segment. It focuses on the direct commerce market which targets a largely senior demographic, utilizing both digital and television channels.

Compared to the Marketing Communication Segment, this market is more mature, meaning competition will center around securing a higher share while ensuring profits.

The Data & Solutions Segment is composed primarily of engineers who previously handled internal solution and product development. We are now expanding this capability into external sales, and with continued high demand for DX solutions, the question becomes which areas we will target. Given our strength in ad-marketing development, we anticipate increased demand for bundled sales with the Marketing Communication Segment and Direct Business Segment as clients increasingly look to in-house solutions.

We are currently expanding this business unit, including its organizational structure, to capture this demand and facilitate cross-selling within our group.

Q&A 8: Improvement in the Revenue to Net Sales Ratio

Questioner: Regarding the full-year plan, while improvement in the revenue to net sales ratio is mentioned, the remaining profit seems somewhat weak. Is this due to the continued increase in outsourcing costs recently? Please let us know if there are any other cost increases.

Kouno: As you pointed out, the costs of generating the top line have increased, and this is reflected in the planned figures. However, because we have capabilities within our group to handle some of this, we will continue to discuss how to internalize currently outsourced functions and strive for improvement.

Q&A 9: Growth of Dentsu Digital Inc.

Questioner: Could you explain Dentsu Digital's growth plans for this fiscal year?

Go: Dentsu Digital's market is essentially composed of two main pillars, the Marketing Communication business and the Data Solutions business, which are the same as our business. As you can see from the disclosed equity in earnings of affiliates, they made a contribution last year, progressing as planned. For this fiscal year, we anticipate growth at a rate roughly in line with the overall market growth.

We have also planned for a certain level of profit growth, which is incorporated into our planned figure. Therefore, you can assume that their growth will be consistent with past performance, showing continued steady growth.

Q&A 10: M&A Plans

Questioner: While this year's dividend is under consideration, what growth investments are currently being considered? Could you describe the current state of your M&A pipeline, and whether you have any idea of the scale of potential projects?

Go: Regarding the pipeline, as mentioned last year, last year was a preparatory period following the establishment of the new management structure, and we will begin executing investments this year. Currently, we have several pipelines and are conducting various assessments. The investment in beBit, Inc., as disclosed, is a minor investment, but it's been allocated to strengthen our existing businesses.

While it's difficult to give specific numbers, the investments under consideration are intended to strengthen our existing businesses. The dividend forecast is currently undecided due to the ongoing assessment of these potential investments, although we have set a lower limit for the dividend payout ratio. We chose not to disclose a specific dividend forecast at this time, as presenting a 50% payout ratio based on the current EPS projection could lead to miscommunication.

Essentially, we will ensure the minimum payout is met, then make a final decision based on the balance with other investment projects. We will communicate about these investment projects at the appropriate time, once deals are finalized.