

Dentsu Group

Mid-term management plan in place

Dentsu has published its FY24 results, which show a strong Q424 in its Japanese business, ensuring that the group effectively met November's net revenue guidance despite continuing weakness in international trading. As a result of higher discount rates and shifts in the international risk profile, Dentsu has taken a ¥210.1bn impairment charge, split ¥153.0bn in EMEA and ¥57.1bn in the Americas. The group has also now launched its new mid-term management plan (MTMP), targeting organic revenue growth of 4% in FY27, with operating margins of 16–17% by the plan's completion. This involves a re-evaluation of the underperforming businesses within the group and laying solid foundations on which to build.

Year end	Net revenue (¥m)	PBT (¥m)	EPS (¥)	DPS (¥)	P/E (x)	Yield (%)
12/23	1,144,819.0	151,631.0	339.79	139.50	9.0	4.6
12/24	1,194,056.0	161,481.0	355.24	139.50	8.6	4.6
12/25e	1,215,000.0	123,738.2	273.53	139.50	11.2	4.6
12/26e	1,281,756.0	165,802.3	368.98	139.50	8.3	4.6

Note: PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Sequential growth in the fourth quarter

Dentsu had a strong Q424, with organic net revenue growth of 2.6%, with Japan particularly positive at 8.4% (FY24: +4.0%). The rate of decline in the Americas also slowed to -2.9%, with the outturn for the full year at -4.1%. The Europe, Middle East and Africa (EMEA) result was flattered by a weak comparator, and stripping this out leaves a decline in net revenue of 1.5%. The smaller Asia-Pacific (APAC) region (ex-Japan) declined by 7.0%. In terms of activity, customer experience management (CXM) remains particularly difficult across Dentsu's international markets, with persistent high interest rates and low economic confidence constraining corporate decision-making that has led to reduced levels of spend from existing clients.

MTMP designed to regain competitiveness

The long-awaited MTMP shows FY25 scheduled to cover a re-evaluation of Dentsu's activities, with the aim of restoring profitability and competitiveness within the international business. A one-off cost of ¥50bn is envisaged to simplify the organisation, including global and regional headquarters, and to exit unprofitable business and markets. Over the three-year duration of the plan, a further ¥45bn will be spent on investing in key markets and operations to drive the top-line growth. Ex-Japan, this is likely to focus on an enhanced media-based offering. The company expects programme costs to dilute the normalised operating profit margin to 12.0% in FY25 from 14.8% in FY24, recovering to 16–17% by FY27. The target payout ratio will remain at 35%, with a maintained dividend payment of ¥139.5 guided for FY25.

Valuation: Discount to peers

Dentsu's share price peaked in November prior to the Q3 results, and has since fallen back, with an 17% retrenchment in the year-to-date. It now trades at a 22% discount to peers on EV/EBITDA across FY24–26, which narrows to 19% when Publicis (which continues to perform strongly commercially) is excluded.

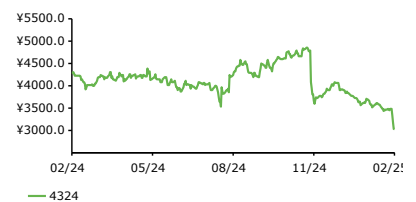
FY24 results and launch of management plan

Media

18 February 2025

Price	¥3,056.00
Market cap	¥812bn
Net cash/(debt)	¥175,265.0m
Shares in issue	265.8m
Code	4324
Primary exchange	TSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(18.0)	(15.6)	(26.5)
52-week high/low	¥4,821.8	¥3,446.0	

Business description

Dentsu Group is a holding company, operating in over 120 countries. It provides a wide range of client-centric integrated communications, media and digital services.

Next events

Q125 earnings	mid-May 2025
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FY24 results

Net revenues were up 5.7% over the prior year (an organic change of -0.1%), which implies a Q4 improvement of 4.2% (organic: +2.6%) and a particularly strong outturn from the Japanese operations. We summarise the regional performances briefly below, with the outlook summarised in the following section on the MTMP.

Japan (40% of FY24 net revenue): There was a notable boost in Q424 from internet media, which posted a 14.3% net revenue gain despite tough comparatives as the group offering in integrated campaigns across delivery media gained traction. Business Transformation also continued to grow in double digits, with Digital Transformation cited as performing well, which we presume to mean in single digits. The largest Japanese enterprise, DENTSU Inc., had steady progress of 3.4%, with the faster growth emanating from Dentsu Soken (systems integration and consulting) and Dentsu Digital (digital marketing). Television, which remains an important delivery mechanism in Japan, remained positive in Q4, showing a 2.7% gain over the full year. In terms of sectors, the largest (food, beverage and tobacco) was slightly down on the prior year, while IT and tech pushed slightly into positive territory. Automotive had a particularly good year.

Americas (29% of FY24 net revenue): The organic revenue decline for the year was 4.1%, so Q424's decline of 2.9% shows a sequential improvement from the low point in Q323 and is in line with the commentary around the Q324 figures. The good news is that the media business had a better Q424, as the drag from the prior year's client losses dissipated. The uptick from the Tag acquisition is starting to show through in results from Creative, boosted by the important win from Adobe, and we would expect to see more benefit as FY25 progresses. CXM remains the problem child, with client budget cuts, new projects at smaller scale than those that preceded them and long sales cycles again cited. This is likely to remain the case while interest rates are high and business confidence is uncertain.

EMEA (22% of FY24 net revenue): Organic net revenue growth was 2.2% for the year an +3.5% in Q424, but this is against comparatives that were impacted by the DACH cluster issue, as discussed in our reports at the time. Stripping out this effect, the underlying organic decline was 1.5%. The UK market remained difficult, posting a single-digit decline, with Germany the same with clients reluctant to spend, again particularly noticeable within CXM. Media across the region was positive (Spain and Poland highlighted here), while Creative was a modest drag.

APAC ex-Japan (9% of FY24 net revenue): Business here remained tough, and especially difficult in China and Australia, with CXM in the latter market continuing to be a challenge. There were bright spots in markets such as Taiwan and Thailand. Media services has stayed slightly softer than prior year and Creative has simply stayed difficult, with lower client spend in China.

Exhibit 1: Quarterly progression by geography

¥bn	Q123	Q223	Q323	Q423	FY23	Q124	Q224	Q324	Q424	FY24
Net revenue										
Japan	119.6	100.5	106.9	121.9	448.9	123.0	101.8	109.8	132.1	466.7
Americas	73.2	77.3	82.7	88.8	322.0	80.5	86.6	81.3	86.2	334.6
EMEA	52.1	53.6	57.9	73.9	237.5	57.2	68.1	64.9	79.1	269.3
APAC ex-Japan	22.1	26.2	29.4	35.5	113.2	24.2	29.4	26.5	36.3	116.4
Eliminations	2.4	1.1	2.0	2.2	7.7	1.5	1.5	2.0	2.0	7.0
Group	269.4	258.7	278.9	322.3	1,129.3	286.4	287.4	284.5	335.8	1,194.1
Underlying operating profit										
Japan	33.7	14.8	24.1	30.8	103.4	33.9	15.2	22.8	42.3	114.2
Americas	13.3	15.2	20.5	24.0	73.0	13.1	20.7	17.2	24.2	75.2
EMEA	3.7	2.0	2.3	16.2	24.2	(0.7)	9.7	7.5	22.0	38.5
APAC ex-Japan	(2.2)	0.4	2.1	7.6	7.9	(3.1)	0.6	(1.8)	5.4	1.1
Eliminations	(10.7)	(9.5)	(11.6)	(13.3)	(45.1)	(13.3)	(13.0)	(11.5)	(14.7)	(52.5)
Group	37.8	22.9	37.4	65.3	163.4	29.9	33.1	34.2	79.0	176.2
Underlying operating margin										
Japan	28.2%	14.7%	22.5%	25.3%	23.0%	27.6%	14.9%	20.8%	32.0%	24.5%
Americas	18.2%	19.7%	24.8%	27.0%	22.7%	16.3%	23.9%	21.2%	28.0%	22.5%
EMEA	7.1%	3.7%	4.0%	21.9%	10.2%	-1.2%	14.2%	11.6%	27.8%	14.3%
APAC ex-Japan	-10.0%	1.5%	7.1%	21.4%	7.0%	-12.8%	2.0%	-6.8%	14.7%	0.9%
Group	14.0%	8.9%	13.4%	20.3%	14.5%	10.4%	11.5%	12.0%	23.5%	14.8%

Source: Dentsu accounts

Substantial goodwill impairment taken

Dentsu has recognised a goodwill impairment of ¥210.1bn, split ¥153.0bn against EMEA assets and ¥57.1bn in the Americas. A ¥67.8bn write-down on APAC assets was taken at the end of FY23. The reasoning cited is a higher discount rate being used in the calculations in light of the continuing environment of high interest rates, alongside a re-evaluation of operational risks in the respective markets. This pushes the group into a reported loss for the 2024 financial year.

It does, though, clear the decks ahead of the implementation of the new MTMP.

MTMP published

We intend to look at this in greater detail in an upcoming report, but the MTMP broadly follows the earlier indications, that is:

- Concentrating resources on the key markets of Japan and the US. This had been viewed as an indication that there would not be geographical retrenchment, rather that there would be more investment around developing data and technology-driven offerings concentrated in Japan and the US. However, the plan does indicate that underperforming markets will now be re-evaluated.
- Strengthening the structure for strategic clients, by extending and deepening the resource dedicated to the Accelerator clients, discussed in [earlier reports](#).
- Further investment in data, technology, AI and talent, which will drive enhanced collaboration and integration, including collaboration on Japanese clients.
- Driving greater efficiency within the organisation through adjusting the cost structure and eliminating internal functional duplication.

There are additional objectives to drive the international business through focusing on media with associated, value-adding capabilities and to drive Japan through strengthening the business transformation and technology offerings.

MTMP targets

The plan sets out three financial targets to reach in FY27:

1. Organic revenue growth of 4.0%.
2. An operating margin of 16–17%
3. A mid-teens return on equity (a new metric for Dentsu)

Management is also now guiding to achieving operating cash flow for FY27 of ¥140bn.

Short-term implications

The most obvious impact is on the expected operating margin with the guidance for FY25 of 12.0%, down from the 14.8% achieved in FY24. FY25 is set to be a year when the focus is on putting the group back into a shape from which it can grow, with the right businesses and the right people in the right places to meet the needs of its clients. The cost indicated is a one-off spend of ¥50bn in the current year and a further investment of ¥45bn to be made across the three years of the plan.

We have set our FY25 modelling to match management guidance for the year, which assumes a modest net revenue growth rate of 1.8%, which is considerably less than Dentsu's own forecasts for the growth in global ad spend, which currently stands at +5.9%. FY25 net revenue is now expected to be ¥1.215bn, very marginally below our previous projection of ¥1.217bn. Management guidance suggests that this would deliver underlying operating profit of ¥146bn (Edison's forecast was ¥183.6bn). Our FY26 projections are published here for the first time and are predicated on a rebuild of net revenue growth and progress on building back operating margins towards the FY27 objective.

Valuation

We look at the valuation of Dentsu in comparison to a core set of global peers, including Stagwell, which, although smaller, has considerable ambitions to build its global presence. Publicis has clearly been performing very strongly, both operationally and in terms of share price performance. Omnicom, WPP and Stagwell have all found the going more difficult, with only Stagwell showing a gain over the year. On a one-year perspective, WPP is the only major apart from

Publicis to show a gain.

When we last carried out this exercise in November, Dentsu's valuation was sitting at an average 10% discount on EV/EBITDA across the years CY23–25, having narrowed from 22% in August. We have shifted the frame of reference forward by a year. Dentsu now sits at a 22% discount on EV/EBITDA across CY24–26e and at a 23% discount on P/E.

Exhibit 2: Peer valuations

Company	Price	Market cap	YTD	EV/revenue (x)	EV/EBITDA (x)			P/E (x)			Dividend yield
	(local CCY)	(US\$m)	(%)	CY24	CY24	CY25	CY26	CY24	CY25	CY26	(%)
Publicis	€105	27,767	1.9	2.0	9.3	8.7	8.2	15.7	13.4	12.6	3.5
Omnicom	US\$82	16,100	-4.3	1.2	7.3	7.0	6.8	11.5	9.7	9.0	3.3
WPP	778p	10,524	-5.0	1.1	7.0	7.0	6.8	N/A	9.1	8.9	4.8
Interpublic	US\$27	10,040	-3.2	1.1	N/A	7.2	6.7	15.4	10.1	9.5	4.7
Hakuhodo	¥1100	2,816	-8.2	0.5	6.8	6.7	6.4	23.3	18.6	16.5	2.3
Stagwell	US\$7	1,808	1.4	1.3	8.5	8.0	7.1	8.5	8.3	8.0	0.0
Peer average			-3.8	1.2	7.8	7.4	7.0	14.9	11.5	10.7	3.1
Dentsu	¥3056	5,426	-7.8	1.0	5.5	6.5	5.3	8.6	11.2	8.3	4.6
Premium/(discount)				-19%	-29%	-13%	-25%	-42%	-3%	-23%	47%

Source: Edison Investment Research, LSEG Data & Analytics. Prices as at 17 February 2025.

Exhibit 3: Financial summary

	2022	2023	2024	2025e	2026e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	1,246,401	1,304,552	1,403,400	1,494,000	1,535,073
Cost of Sales	(126,882)	(159,733)	(209,344)	(279,000)	(253,317)
Net revenue	1,119,519	1,144,819	1,194,056	1,215,000	1,281,756
EBITDA	217,519	178,127	207,878	177,643	217,621
Operating profit (before amortisation and exceptionals)	204,319	163,515	176,233	146,000	187,780
Amortisation of acquired intangibles	(28,721)	(30,691)	(29,335)	(29,335)	(29,335)
Exceptionals	(56,849)	(87,840)	(266,311)	(2)	(1)
Share-based payments	0	(500)	0	0	0
Reported operating profit	118,747	45,312	(124,992)	116,667	158,446
Net Interest	(20,246)	(15,810)	(17,073)	(24,613)	(24,360)
Joint ventures & associates (post tax)	(1,932)	3,400	2,321	2,351	2,382
Exceptionals	5,467	526	0	0	0
Profit Before Tax (normalised)	187,608	151,631	161,481	123,738	165,802
Profit Before Tax (reported)	102,038	33,103	(139,744)	94,405	136,468
Reported tax	(34,982)	(38,572)	(43,605)	(33,986)	(49,129)
Profit After Tax (normalised)	139,949	95,309	92,936	79,192	106,113
Profit After Tax (reported)	67,055	(5,469)	(183,349)	60,419	87,340
Minority interests	(6,077)	(5,245)	(8,808)	(8,192)	(8,192)
Discontinued operations	0	0	0	0	0
Net income (normalised)	130,854	89,840	92,938	71,000	96,533
Net income (reported)	60,977	(10,714)	(192,157)	52,227	79,148
Average Number of Shares Outstanding (m)	268.0	264.4	261.6	261.6	261.6
EPS - normalised (¥)	488.3	339.8	355.2	273.5	369.0
EPS - normalised fully diluted (¥)	485.3	337.7	355.2	273.5	369.0
EPS - basic reported (¥)	227.5	(40.5)	(734.6)	38.5	333.8
Dividend (¥)	155.3	139.5	139.5	139.5	139.5
Net revenue growth (%)	16.9	2.3	4.3	1.8	5.5
EBITDA margin to revenue less pass-through costs (%)	19.4	15.6	17.4	14.6	17.0
Normalised op. margin to revenue less pass-through costs (%)	18.3	14.3	14.8	12.0	14.7
BALANCE SHEET					
Fixed Assets	1,281,646	1,355,588	1,201,553	1,166,512	1,136,546
Intangible Assets	962,100	1,069,854	900,744	865,703	832,465
Tangible Assets	26,577	29,430	26,159	26,159	29,431
Investments & other	292,969	256,304	274,650	274,650	274,650
Current Assets	2,270,531	2,087,362	2,131,734	2,281,737	2,549,153
Stocks	3,670	6,396	6,096	8,124	7,376
Debtors	1,531,957	1,524,289	1,669,153	1,776,909	2,018,726
Cash & cash equivalents	603,740	390,678	371,989	412,211	438,558
Other	131,164	165,999	84,497	84,493	84,493
Current Liabilities	(2,017,695)	(1,939,910)	(2,058,998)	(2,159,616)	(2,380,330)
Creditors	(1,532,591)	(1,527,612)	(1,558,582)	(1,659,200)	(1,850,499)
Tax and social security	(30,894)	(28,088)	(27,172)	(27,172)	(27,172)
Short-term borrowings	(95,790)	(39,213)	(173,646)	(173,646)	(173,646)
Other	(358,420)	(344,997)	(299,598)	(299,598)	(329,013)
Long-term liabilities	(768,403)	(781,735)	(670,828)	(665,211)	(659,594)
Long-term borrowings	(245,961)	(455,232)	(373,627)	(368,010)	(362,393)
Other long-term liabilities	(522,442)	(326,503)	(297,201)	(297,201)	(297,201)
Net Assets	766,079	721,305	603,461	623,422	645,776
Minority interests	(75,060)	(71,104)	(72,197)	(80,389)	(88,581)
Shareholders' equity	691,019	650,201	531,264	543,033	557,195
CASH FLOW					
Operating Cash Flow	176,208	111,822	(58,295)	184,720	224,980
Working capital	(3,519)	(60,338)	(114,899)	(9,166)	(49,771)
Exceptional & other	40,156	85,937	513,473	3,869	3,586
Tax	(115,764)	(47,301)	(25,651)	(33,986)	(49,129)
Net operating cash flow	97,081	90,120	314,628	145,437	129,667
Capex	(4,585)	(27,623)	(25,564)	(25,684)	(25,683)
Acquisitions/disposals	(40,873)	(136,544)	(22,343)	(10,762)	(10,762)
Net interest	(18,301)	(20,583)	(22,088)	(24,613)	(24,360)
Equity financing	(40,006)	(4)	(20,006)	0	0
Net dividends	(37,895)	(42,009)	(35,847)	(38,136)	(36,495)
Other	(24,920)	(27,786)	(16,500)	(349)	15,802
Net cash flow	(69,499)	(164,429)	172,280	45,892	48,169
Opening net debt/(cash)	(144,352)	(262,008)	103,748	175,265	129,427
FX	13,932	11,117	17,114	0	0
Other non-cash movements	173,223	(212,444)	(260,911)	(54)	(16,223)
Closing net debt/(cash)	(262,008)	103,748	175,265	129,427	97,481

Source: Dentsu accounts, Edison Investment Research

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