EDISON

Dentsu Group

Q225 results

Japan performs well, international tougher

Dentsu's Q225 performance was a little below management expectations, with conditions remaining challenging outside Japan. Group operating margins were controlled for H125 at 12.0%. With a further goodwill write-down of ¥86.0bn, Dentsu reported a statutory loss for H125 and is not now paying an interim dividend. A decision on the full year will be made later, and our model assumes dividends resume for FY26. Our FY25 forecasts have been realigned to match revised guidance, with a slightly more cautious stance on growth for FY26. Management's target for operating margins of 16–17% by FY27 remains in place, predicated on the targeted cost reductions in the mid-term management plan.

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	8.3	4.9
12/24	1,201,647.0	162,167.0	355.24	139.50	7.9	4.9
12/25e	1,180,100.0	27,288.2	242.70	0.00	11.6	N/A
12/26e	1,197,500.0	167,046.2	374.95	131.50	7.5	4.7

Note: PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. FY23 and FY24 net revenue includes ¥15,249m and ¥7,578m from disposed Russia business.

Japan performance remains positive

Organic net revenue growth in H125 in Japan was 5.3% (Q125: +5.5%), with internet media and business transformation the two stand-out practices. The strong top line helped lift operating margin to 24.6% from 21.8% in H124. Elsewhere, the picture is less rosy, although the pace of decline in the Americas has slowed, with a dip of 1.6% in Q225 after -5.1% in Q125 at the organic net revenue level. EMEA and APAC (excluding Japan) both posted steeper year-on-year falls in Q225 than Q125, with APAC posting an operating loss. At group level, organic net revenue was down 0.2%, but close cost control ensured the operating margin firmed 100bp over H124 to 12.0%. Revised FY25 guidance assumes market conditions remain difficult for the international business through H225, with no significant further deterioration.

Additional goodwill write-downs

The goodwill attributed to the Americas and EMEA was written down in Q424 by ¥57bn and ¥153bn respectively. In light of the further deterioration of trading since February, with the knock-on effects on future periods, and the weakening US dollar against sterling, further impairments have been taken in H125 of ¥68.9bn in the Americas and ¥17.1bn in EMEA. ¥583.8bn of goodwill remains on the balance sheet as at the half-year end. Management has raised the possibility of strategic partnerships as a way forward for the international business.

Valuation: Remains below peers

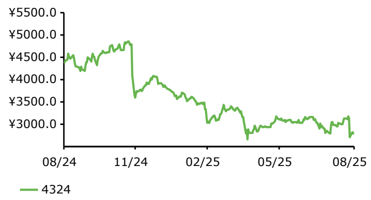
Share prices of all major global peers have been hit by macroeconomic uncertainty, retrenching on average by 16% ytd. Dentsu's share price has fallen 14% post the Q2 results, primarily reflecting the dividend situation. On EV/EBITDA averaged across FY25–26 it now trades 21% below peers, from 16% in May. Closing the gap will require better news on trading and/or developments on strategic partnerships.

Media

21 August 2025

Price	**¥2,820.50**
Market cap	**¥750bn**
Net cash/(debt) as at 30 June 2025	¥(190,182.0)m
Shares in issue	265.8m
Code	4324
Primary exchange	TSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(0.3)	(9.7)	(33.4)
52-week high/low		¥4,821.8	¥2,652.0

Business description

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

Next events

Q3 results	November 2025

Analyst

Fiona Orford-Williams +44 (0)20 3077 5700

tmt@edisongroup.com

Edison profile page

Dentsu Group is a research client of Edison Investment Research Limited

Revised forecasts point to challenges in international business

The continuing weakness in trading in the Americas, Europe, the Middle East and Africa (EMEA) and Asia-Pacific (APAC) (excluding Japan) continues to overshadow the good progress in Dentsu's domestic market. With no short-term likelihood of significant improvement in the trading environment, notably in the CXM (customer experience management) or Creative practices for the international businesses, the previous guidance was looking challenging, particularly so given adverse movements in FX. Guidance for net revenue growth for the full year has gone from c +1% to broadly flat, comprising Japan assumed to be growing at 3% (unchanged) and International revised from a small positive to -2%.

The further goodwill write-downs reflect the lower growth assumptions for both the remainder of the current year across the international business, and from FY26 onwards in the Americas. The consequent accounting reduction in the retained earnings from the entity from which the dividends are distributed has led management to suspend the payment of an interim dividend and to defer a decision on paying a final until the year-end. The overarching intention to pay out 35% of earnings to shareholders in the form of the dividends remains unaltered and this is what we have assumed in our modelling for FY26. More on the mid-term management plan is included in our May report.

Modelled annualised cost reductions under the plan have been revised up from ¥50bn to ¥52bn by FY27, but initial progress on implementation has been slower than anticipated due to the complexities and practicalities of restructuring within the various jurisdictions. Dentsu now expects to spend ¥27bn in FY25 on restructuring the international business, rather than the previous assumption of ¥50bn, with a further ¥6bn of cost expensed. The associated headcount reduction is around 3,400 employees (for reference, the number of group employees at the year-end was 67,667 – 35% in Japan, 65% international – so this represents around 7.7% of the international workforce). The aim is to focus the reductions on back-office and duplicated headquarter functions, rather than on client-facing roles.

Investment spend is also running a little behind plan, with FY25 now expected at ¥17bn, down from ¥20bn. This spend is focused on: data and technology; talent/people to support the integrated growth solutions initiatives; enhancing capabilities in areas such as Media and AI; and improving the efficiency of operational delivery.

The initial phases of cost discipline indicate that the operating margin can be held at c 12.0% for FY25, with the target for the final year of the plan maintained at 16–17%. We have revised our forecasts to align with company guidance, but would note that there is currently no guidance as to the payment of a full year dividend.

Exhibit 1: Summary changes to forecasts

	FY25e			FY26e		
¥m	New	Old	% change	New	Old	% change
Net revenue	1,180,100	1,215,000	-3%	1,197,500	1,281,771	-7%
Underlying operating profit	141,600	146,000	-3%	177,532	187,783	-6%
Underlying operating profit margin	12.0%	12.0%		14.8%	14.7%	
Net income	63,000	71,450	-12%	97,329	96,993	0%
Normalised basic EPS (¥)	243	275	-12%	375	371	1%
Dividend per share (¥)	0	140	-100%	132	140	-6%
Net debt	106,864	110,942	-4%	39,557	79,476	-50%

Source: Edison Investment Research

Persistent performance divergence between Japan and international

Japan has now posted positive organic growth for nine consecutive quarters. Internet media is highlighted in the statement, benefiting from both enhanced spend from existing clients and previous new business gains starting to contribute. The business transformation practice has also continued strongly.

In the Americas, there was some quarter-on-quarter amelioration, with a degree of stabilisation of the CXM practice that has previously proved recalcitrant. The macro backdrop remains challenging and clients are reluctant to commit budgets. Media spend was stable on the prior year. Cost control has helped buoy the margin, which was up on the prior year in both Q125 and Q225.

In EMEA, the position was mixed, with markets such as the UK, the Netherlands, France and Denmark remaining challenging in H125 (although Denmark turned positive in Q225), but with more positive performances in Spain and Poland. CXM remains difficult, while Media appears to have stabilised.

APAC was also mixed, with Taiwan and Thailand positive, offset by greater challenges in China and Australia, which are considerably larger markets.

Internal full year forecasts were downgraded for all three international regional groupings and we have adjusted our modelling accordingly.

Exhibit 2: Quarterly progression by geography

¥bn	Q123	Q223	Q323	Q423	FY23	Q124	Q224	Q324	Q424	FY24	Q125	Q225
Net revenue												
Japan	120	101	107	122	449	123	102	110	132	467	130	107
Americas	73	77	83	89	322	81	87	81	86	335	76	78
EMEA	52	54	58	74	238	57	68	65	79	269	57	64
APAC ex-Japan	22	26	29	36	113	24	29	27	36	116	23	24
Eliminations	2	1	2	18	23	2	2	2	9	14	1	2
Group	**269**	**259**	**279**	**338**	**1,145**	**286**	**287**	**285**	**343**	**1,201**	**287**	**275**
Underlying operating profit												
Japan	34	15	24	31	103	34	15	23	42	114	38	21
Americas	13	15	21	24	73	13	21	17	24	75	14	20
EMEA	4	2	2	16	24	(1)	10	8	22	38	(2)	7
APAC ex-Japan	(2)	0	2	8	8	(3)	1	(2)	5	1	(3)	(1)
Eliminations	(11)	(10)	(12)	(12)	(43)	(13)	(13)	(12)	(15)	(53)	(12)	(13)
Group	**38**	**23**	**37**	**66**	**164**	**30**	**33**	**34**	**79**	**176**	**34**	**34**
Underlying operating margin												
Japan	28.2%	14.7%	22.5%	25.3%	23.0%	27.6%	14.9%	20.8%	32.0%	24.5%	29.0%	19.3%
Americas	18.2%	19.7%	24.8%	27.0%	22.7%	16.3%	23.9%	21.2%	28.0%	22.5%	17.7%	25.6%
EMEA	7.1%	3.7%	4.0%	21.9%	10.2%	-1.2%	14.2%	11.6%	27.8%	14.3%	-2.7%	11.3%
APAC ex-Japan	-10.0%	1.5%	7.1%	21.4%	7.0%	-12.8%	2.0%	-6.8%	14.7%	0.9%	-14.0%	-4.0%
Group	**14.0%**	**8.9%**	**13.4%**	**19.6%**	**14.4%**	**10.4%**	**11.5%**	**12.0%**	**23.1%**	**14.7%**	**11.8%**	**12.2%**

Source: Company accounts

Looking at strategic alternatives for international

We sense that there is an underlying frustration in management that the international business is proving so resistant to returning to a growth tack and that this is detracting from the success of the domestic operations. It is worth quoting here from the presentation:

‘In order to restore our profitability at an early stage, we will further focus on rebuilding the business foundation and reviewing underperforming businesses. Going further still, we will explore and implement strategic alternatives for our International business, including forming comprehensive and strategic partnerships.’

On the analyst call, management expounded further, saying that it needed to consider a ‘bold effort’ and that it is consulting with expert external advisers. It also acknowledged that there is ‘an option...to accelerate business rebuilding through partnership with a third party.’ A full divestment of underperforming business(es) is a possibility, but there was more of a pointing towards harnessing external capital or effectively outsourcing.

At this stage it is not possible to determine how this might affect the group’s valuation.

Exhibit 3: Financial summary

¥'m	2022	2023	2024	2025e	2026e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	1,246,401	1,304,552	1,410,961	1,433,200	1,455,000
Cost of Sales	(126,882)	(159,733)	(209,314)	(253,100)	(257,500)
Net revenue	**1,119,519**	**1,144,819**	**1,201,647**	**1,180,100**	**1,197,500**
EBITDA	217,519	178,127	204,006	181,996	211,947
Operating profit (before amortisation and exceptionals)	204,319	163,515	176,233	141,600	177,532
Amortisation of acquired intangibles	(28,721)	(30,691)	(29,335)	(24,762)	(24,762)
Exceptionals	(56,849)	(87,840)	(529,592)	(2,282)	(89,408)
Share-based payments	0	(500)	0	0	0
Reported operating profit	118,747	45,312	(124,992)	(3,500)	129,770
Net Interest	(20,246)	(15,810)	(17,073)	(13,724)	(13,584)
Joint ventures & associates (post tax)	(1,932)	3,400	3,009	3,053	3,098
Exceptionals	5,467	526	(2)	(103,641)	0
Profit Before Tax (normalised)	187,608	151,631	162,167	27,288	167,046
Profit Before Tax (reported)	102,038	33,103	(139,058)	(117,812)	119,284
Reported tax	(34,982)	(38,572)	(43,605)	50,604	(42,942)
Profit After Tax (normalised)	139,949	95,309	93,622	71,192	106,910
Profit After Tax (reported)	67,055	(5,469)	(182,663)	(67,208)	76,342
Minority interests	(6,077)	(5,245)	(8,808)	(8,192)	(8,192)
Net income (normalised)	130,854	89,840	92,936	63,000	97,329
Net income (reported)	60,977	(10,714)	(191,486)	(75,400)	68,150
Average Number of Shares Outstanding (m)	268.0	264.4	261.6	259.6	259.6
EPS - normalised (¥)	488.3	339.8	355.2	242.7	375.0
EPS - normalised FD (¥)	485.3	337.7	355.2	242.7	375.0
EPS - basic reported (¥)	227.5	(40.5)	(734.6)	(452.8)	294.1
Dividend (¥)	155.3	139.5	139.5	0.0	131.5
Net revenue growth (%)	16.9	2.3	5.0	(1.8)	1.5
EBITDA margin to revenue less pass-through costs (%)	19.4	15.6	17.0	15.4	17.7
Normalised op. margin to revenue less pass-through costs (%)	18.3	14.3	14.7	12.0	14.8
BALANCE SHEET					
Fixed Assets	1,281,646	1,494,840	1,329,901	1,182,485	1,024,171
Intangible Assets	962,100	1,069,854	900,744	768,328	735,090
Tangible Assets	26,577	29,430	26,159	26,159	29,431
Investments & other	292,969	395,556	402,998	387,998	259,650
Current Assets	2,270,531	2,139,556	2,177,355	2,267,174	2,501,193
Stocks	3,670	6,396	6,095	7,370	7,498
Debtors	1,531,957	1,524,289	1,678,146	1,704,596	1,913,425
Cash & cash equivalents	603,740	390,678	371,989	434,087	495,777
Other	131,164	218,193	121,126	121,122	84,493
Current Liabilities	(2,017,695)	(1,939,910)	(2,067,395)	(2,115,502)	(2,283,802)
Creditors	(1,532,591)	(1,527,612)	(1,566,979)	(1,591,677)	(1,753,973)
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)	(323,007)	(329,011)
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	912,751	769,033	668,946	581,968
Minority interests	(75,060)	(71,104)	(72,197)	(80,389)	(88,581)
Shareholders' equity	691,019	841,647	696,836	588,557	493,387
CASH FLOW					
Operating Cash Flow	176,208	111,822	(57,609)	(32,070)	203,223
Working capital	(3,519)	(60,338)	(114,899)	(3,027)	(46,662)
Exceptional & other	40,156	85,937	513,473	105,854	15,093
Tax	(115,764)	(47,301)	(25,651)	50,604	(42,942)
Net operating cash flow	97,081	90,120	315,314	121,361	128,712
Capex	(4,585)	(27,623)	(25,564)	(25,684)	(25,683)
Acquisitions/disposals	(40,873)	(136,544)	(22,343)	4,238	(10,762)
Net interest	(18,301)	(20,583)	(22,088)	(13,724)	(13,584)
Equity financing	(40,006)	(4)	(20,006)	0	0
Net dividends	(37,895)	(42,009)	(35,847)	(18,105)	(11,377)
Other	(24,920)	(27,786)	(16,500)	(349)	15,802
Net cash flow	(69,499)	(164,429)	172,966	67,737	83,109
Opening net debt/(cash)	(144,352)	(262,008)	103,748	174,579	106,864
FX	13,932	11,117	17,114	0	0
Other non-cash movements	173,223	(212,444)	(260,911)	(22)	(15,802)
Closing net debt/(cash)	(262,008)	103,748	174,579	106,864	39,557

Source: Company accounts, Edison Investment Research

General disclaimer and copyright

Australia

New Zealand

United Kingdom

United States

London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom