

# **Cheil**

I d e a s t h a t m o v e

## **Third Quarter 2014 Earnings Release**

**'14. 10. 23 (Thu)**

**Cheil Worldwide**

*The financial information in this document is consolidated earning results based on K-IFRS.*

*This document is provided for investors' information before FY 2014 3Q reviewed financial statements are released. The review outcomes may cause some parts of this document to be revised.*

*This document contains "forward-looking statements" - that is, statements related to future, not past events.*

*In this context, forward-looking statements often address our expected future business and financial performance, and often contain words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", or "will". Forward-looking statements by their nature address matters that are, to different degrees, uncertain.*

*For us, particular uncertainties which could adversely or positively affect our future results include: the behavior of financial markets, including fluctuations in exchange rates, interest rates and commodity prices; strategic actions including dispositions and acquisitions. These uncertainties may cause our actual results to be materially different from those expressed in this document.*

- Financial Summary (K-IFRS consolidated)
- Consolidated Gross Profit Analysis
- Profitability Analysis

**Financial Summary (K-IFRS consolidated)**

(Unit: Billion KRW)

	2013		2014		Growth %	
	3Q	First 9 Months	3Q	First 9 Months	3Q	First 9 Months
Sales	646.2	1,923.0	601.5	1,914.3	△6.9	△0.5
Gross Profit	186.6	524.8	188.1	567.6	0.8	8.2
SG&A	153.3	432.5	165.2	479.9	7.8	11.0
Operating Profit	33.3	92.3	22.9	87.7	△31.2	△5.0
Non Operating Income/Expense	0.4	1.4	△0.6	7.9	△250.0	464.3
Finance Income/Expense	0.9	5.7	1.6	3.9	77.8	△31.6
Gain/Loss on Equity method Investment	△0.1	0.4	0.1	0.1	200.0	△75.0
Income before Income Tax	34.5	99.8	24.0	99.6	△30.4	△0.2
Net Income	26.6	72.2	16.6	67.2	△37.6	△6.9
Non-Controlling interest net income	3.7	6.5	△0.1	0.2	△102.7	△96.9
Controlling interest net income	22.9	65.7	16.7	67.0	△27.1	2.0

## Consolidated Gross Profit Analysis

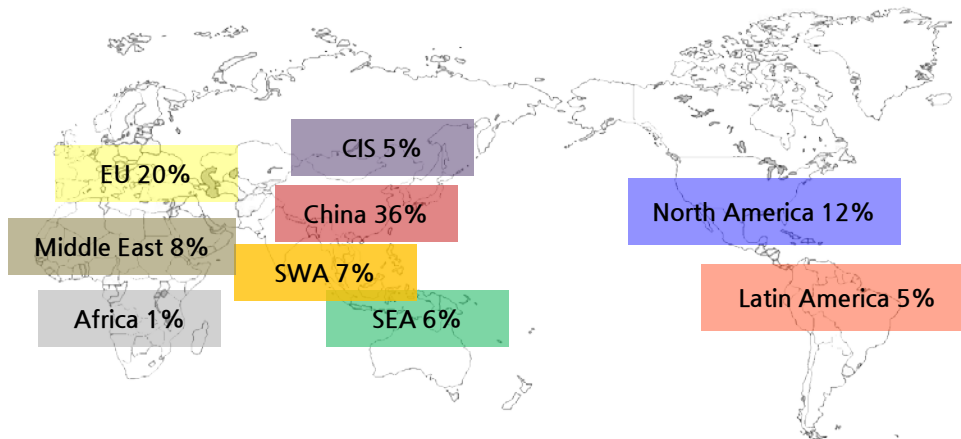
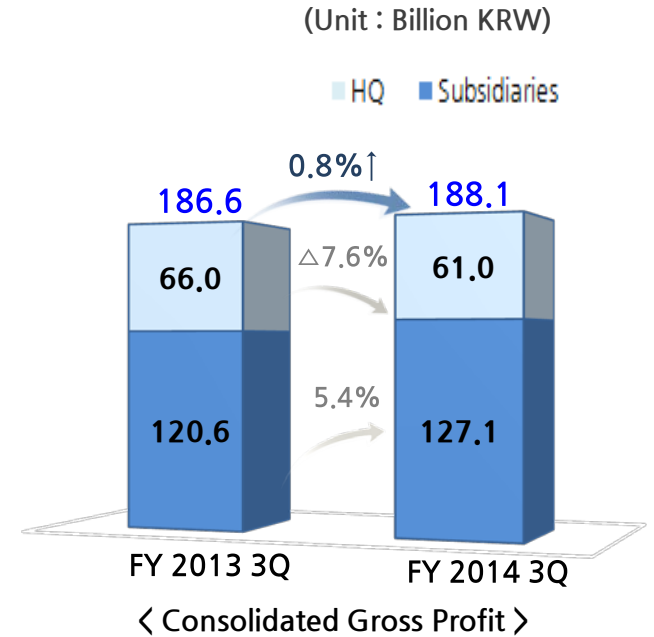
### Consolidated gross profit up 0.8% to KRW 188.1B

HQ gross profit down 7.6% to 61.0B YoY

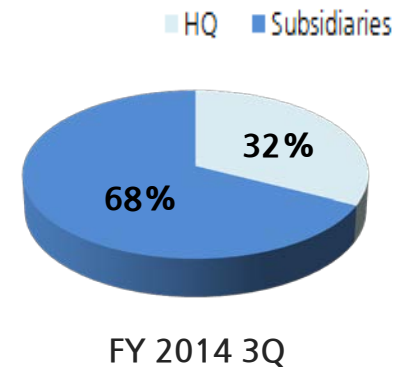
- Slowdown in domestic ad market and decrease in earnings from captive market

Subsidiaries gross profit up 5.4% to 127.1B YoY

- New client development and M&A companies' business growth contribution



< Overseas Gross Profit by Region >



< Gross Profit : HQ vs. Subsidiaries >

## Profitability Analysis

### Operating profit down 31.2% to 22.9B YoY

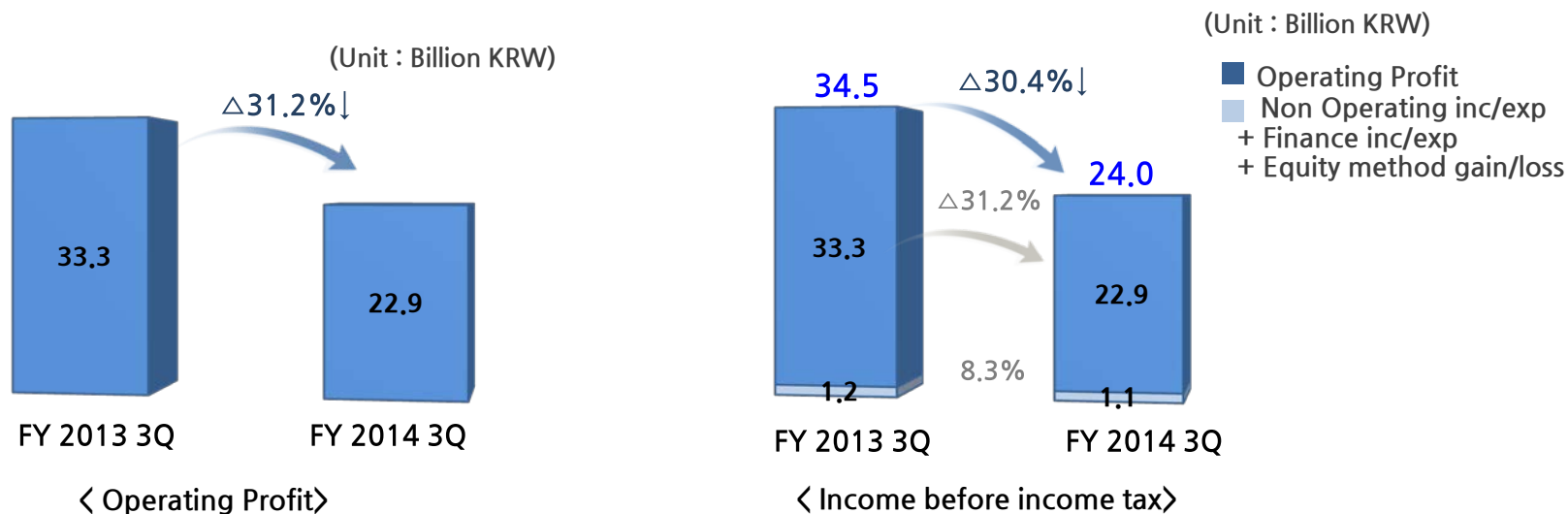
- SG&A increased 7.8% to 165.2B

- Mainly from increase in IT expense and amortization of intangible assets due to ERP adoption
- Salary up 6.8% to 112.2B, general expense up 10.0% to 53.0B

### Non Operating income down 8.3% to 1.1B YoY

- Non Operating income/expense  $\Delta 0.6B$
- Finance income/expense 1.6B
- Equity method gain/loss 0.1B

### Income before income tax down 30.4% to 24.0B YoY



■ HQ Business Performance

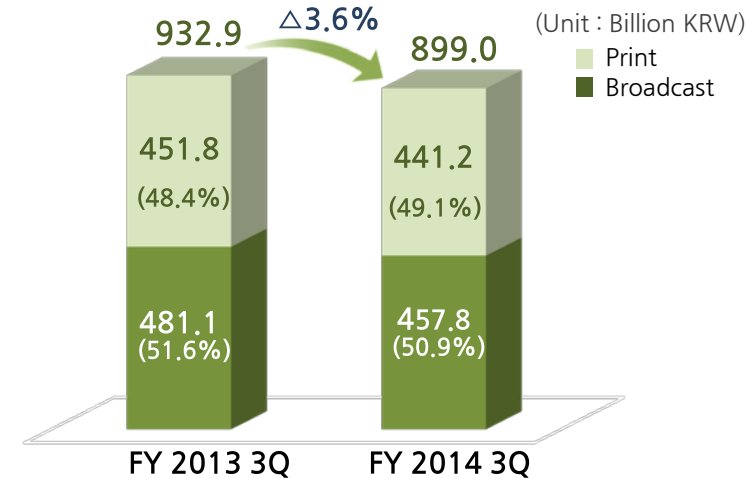
■ Overseas Business Performance

## HQ Business Performance

### FY 2014 3Q Domestic Ad Market

- 4 traditional ad market down 3.6% to 899.0B YoY
  - Broadcasting ad market down 4.9%↓ to 457.8B
  - Print ad market down 2.3%↓ to 441.2B
  - Largest ad industries : computer & IT, finance, services

< Domestic Ad Market : 4 media >

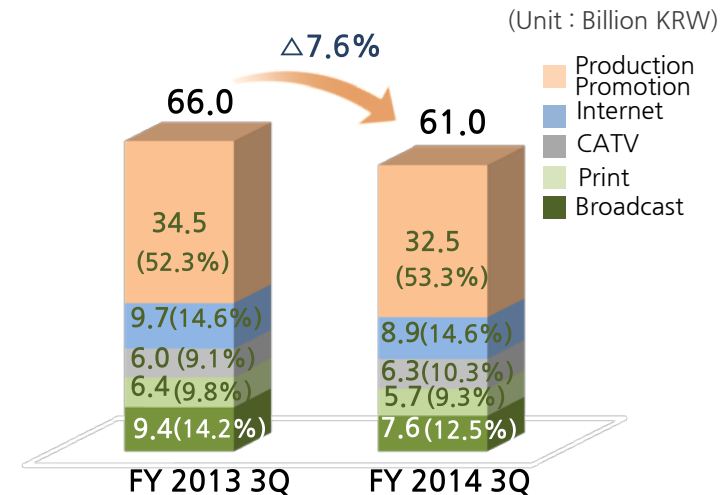


\*source : Cheil Media

### Cheil HQ Business

- HQ gross profit down 7.6% to 61.0B YoY
  - 4 media has decreased due to economic slowdown and overall decline in ad spending in domestic market
  - 4 media gross profit down 15.9% to 13.3B
    - : Broadcast 7.6B(19.1%↓) , Print 5.7B(10.9%↓)
  - Other media(new media) down 3.2% to 15.2B
    - : CATV 6.3B (5.0%↑), internet 8.9B(8.2%↓)
  - Production/Promotion marketing down 5.8% to 32.5B

< HQ gross profit by discipline >





## HQ Business Performance

### ■ Outstanding performance at various international advertising awards

- Ad Stars : GrandPrix 2, Gold 4, Silver 6, Bronze 6, Crystal 11
  - Nominated as 'Agency of the Year'
- Spikes Asia : Silver 2, Bronze 8
  - Sponsored Spikes Asia Student Academy for a sixth year
- Clio Awards : Silver 3, Bronze 3 Including Clio Sports

### ■ Successful campaigns and marketing activities

- KT 'Good Choice', G9 'Shopping Song', Samsung Card 'Holgabun Project', etc.



<KT 'Good Choice'>



<G9 'Shopping Song'>



<Samsung Card 'Holgabun Project'>

## Overseas Business Performance

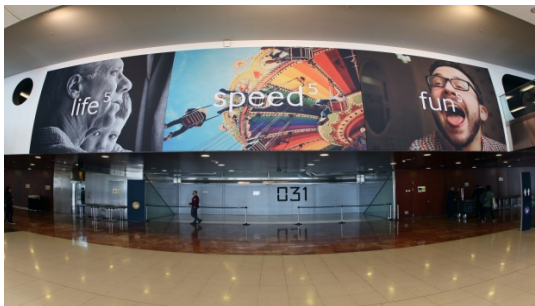
### ■ New client development

- Diversified business portfolio by cultivating new clients
  - SingTel(Singapore, Digital), VTB24(Russia, Integrated), Herbalife(China, ATL), 9F Bank(China, ATL), Timex Group(India, Retail), etc.



### ■ SEC Global launching and promotional marketing

- Global Event : Samsung's Unpacked 2014 Episode 2
- Global Exhibition : IFA 2014



< Samsung's Unpacked 2014 Episode 2 >



< IFA 2014 >

### ■ Expanding Global Coverage

- Establishing new offices : Indonesia(July), Guatemala(August), Jordan(September)

- Advertising Market Forecast
- Outlook and Strategies for Cheil Worldwide

## Advertising Market Forecast

### ■ Global ad market

- Global advertising expenditure forecast : 2014 \$523B(5.3%↑) → 2015 \$551B(5.3%↑)
  - Global ad spend is predicted to grow 5.3% in 2015 with rapid growth in developing markets and digital market especially mobile
    - \* Digital ad spend forecast : 2014 \$122B → 2015 \$142B    \* source : ZenithOptimedia

### ■ Domestic ad market

- GDP growth forecast : 2014 3.5% → 2015 3.9%
  - The Bank of Korea reduced GDP growth forecast for 2014 twice this year due to decrease in consumption and construction expenditures
    - \* GDP growth forecast : beginning of this year 4.0% → July 3.8% → October 3.5%
  - Forecast for 2015 is 3.9% which is higher than 2014 by 0.4%p
- Domestic advertising expenditure growth forecast
  - Expected to be flat in 2014 due to sluggish economic growth
  - In 2015, domestic ad market will slowly recover with growth in mobile and other media market

## Outlook and Strategies for Cheil Worldwide

### ■ Broaden the scope of work to new domains

- Expand business area reinforcing digital and retail expertise

### ■ Develop new clients globally

- Decrease captive market portion by winning new clients in domestic/global market
- Diversify client portfolio through new global M&As

### ■ Cheil China as the second headquarter that drives overall growth of Cheil Worldwide

- Rebuild the growth strategy in China given the rapid growth in China ad market
    - In 2014, China is expected to overtake Japan and become the world's second-largest ad market
- Top three ad markets in 2014 : 1) USA(\$167B) 2) Japan(\$43B) 3) China(\$41B)
- Top three ad markets in 2015 : 1) USA(\$175B) 2) China(\$46B) 3) Japan(\$44B)
- Sharpen competitive edge as a group through business collaboration with M&A companies in China

**Thank you!**