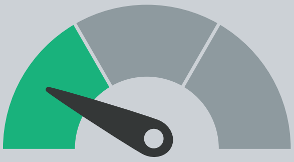
Dentsu Group Inc. (TYO: 4324)

Climate Transition Analysis

Climate Action 100+ Focus Company



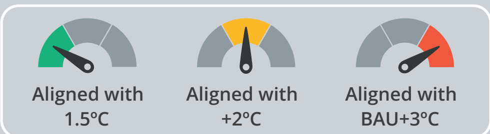
Overall Assessment

Dentsu is most likely heading towards a 1.5°C pathway by 2030.

Planet Tracker assessed Dentsu's climate transition strategy across emissions, policy and engagement, governance, risk management, and capital allocation. The company is making good progress on its Science Based Targets initiative (SBTi)-validated target to reduce Scope 1 and Scope 2 greenhouse gas (GHG) emissions and Scope 3 emissions from purchased goods and services, business travel and employee commuting[1] by 46.2% relative to a 2019 baseline by 2030[2]. Dentsu provides limited details on how it will continue to deliver reductions and acknowledges that under a business-as-usual scenario, supply-chain decarbonisation may not be fast enough to meet Dentsu's stated climate goals.

The company has good management oversight of sustainability delivery. Sustainability-related targets are included in annual management compensation target setting, but not long-term compensation targets. Dentsu's assessment of risks and opportunities related to climate change appears robust. It has used climate-scenario modelling to inform its risk-management process.

In summary, we assess Dentsu as most likely heading towards a 1.5°C pathway by 2030. We call on the company to provide more detail on how it will continue to deliver emissions reductions over the medium term.



1 For the rest of the report, references to Scope 3 assume this same perimeter unless specified otherwise.

2 For the rest of the report, progress to date and 2030 targets will be assumed to be against a 2019 baseline unless state otherwise.

Climate Alignment

- The company has science-based net-zero targets for climate looking out to 2030 and 2040. By 2030, it aims to reduce absolute Scope 1 and Scope 2 emissions by 46.2% relative to a 2019 baseline, and absolute Scope 3 emissions (from purchased goods and services, business travel and employee commuting) by 46.2% from a 2019 baseline. Our own estimation of the future emissions trajectory suggests a high likelihood of achieving the target for 2030.

Policy and Governance

- In its climate-related policies, the company includes Scope 1 and Scope 2 GHG reduction targets in annual compensation setting, but no GHG-reduction targets in long-term compensation. Given the challenge Dentsu faces in addressing Scope 3 emissions if it is to deliver on its decarbonisation targets, linking executive pay to Scope 3 will be important to align management focus with these goals.

Risk Analysis

- The assessment of risks and opportunities related to climate change appears strong. It has used climate-scenario modelling to inform its risk management process and recognises a variety of risks and opportunities from climate change and decarbonisation.

Strategy Assessment

- The company has driven emissions reductions so far via renewable energy, space rationalisation and energy efficiency. It indicates a growing focus on supply-chain decarbonisation. However, beyond describing "scalable, high-impact" interventions, the specific initiatives and likely costs are not detailed.

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Company Overview

Dentsu Group Inc. (Dentsu) is a Japan-based multinational company specialising in marketing, advertising, and digital communications. Over the past five years (2020-2024), the company has reported an average annual revenue of JPY 1.2 trillion. The majority of sales come from Advertising Services (91%), with a smaller share from Information Services or Other Services – see **Figure 1**. A list of agencies under the Dentsu umbrella can be found here - Dentsu Agencies and Global Marketing Firms.

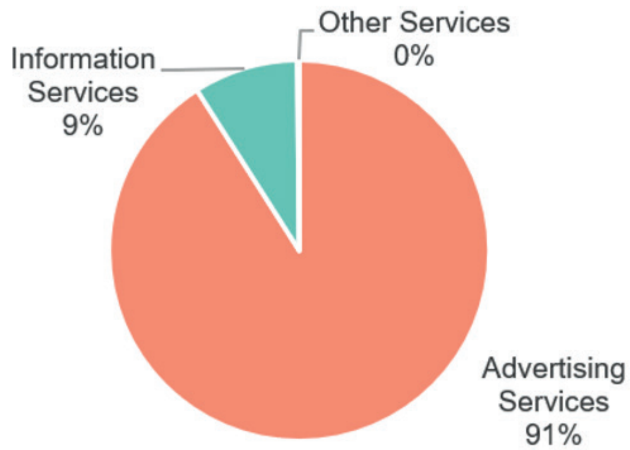

Figure 1: *Revenue - Breakdown by Business Segments (5Y Avg.). Source: Dentsu Finance Reports.*

Geographically, Dentsu's largest market is Japan, followed by the Americas and EMEA – see **Figure 2**.

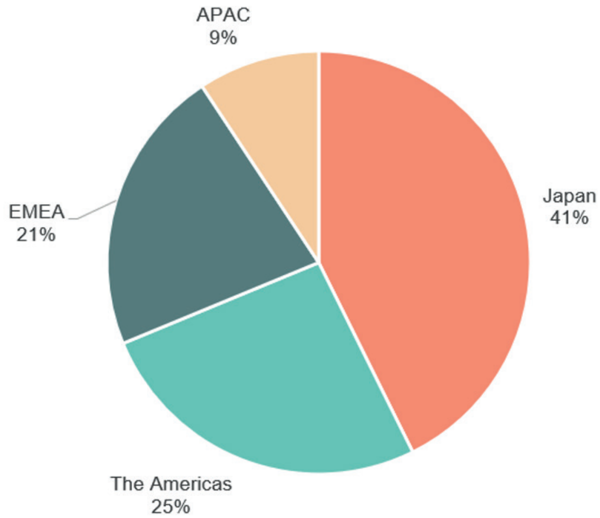

Figure 2: *Breakdown by Geography (5Y Avg.). Source: Dentsu Finance Reports 2020-2025.*

In summary, Dentsu's global operations in key developing regions such as the Asia-Pacific and developed markets such as Japan and Europe suggest that climate-transition risks and opportunities, along with regulatory impacts, are concentrated in these areas.

Climate Alignment

EMISSIONS INVENTORY

Dentsu includes Scope 1 and Scope 2 (market-based) and both upstream and downstream Scope 3 emissions (**Figure 3**) in its GHG emission reporting.

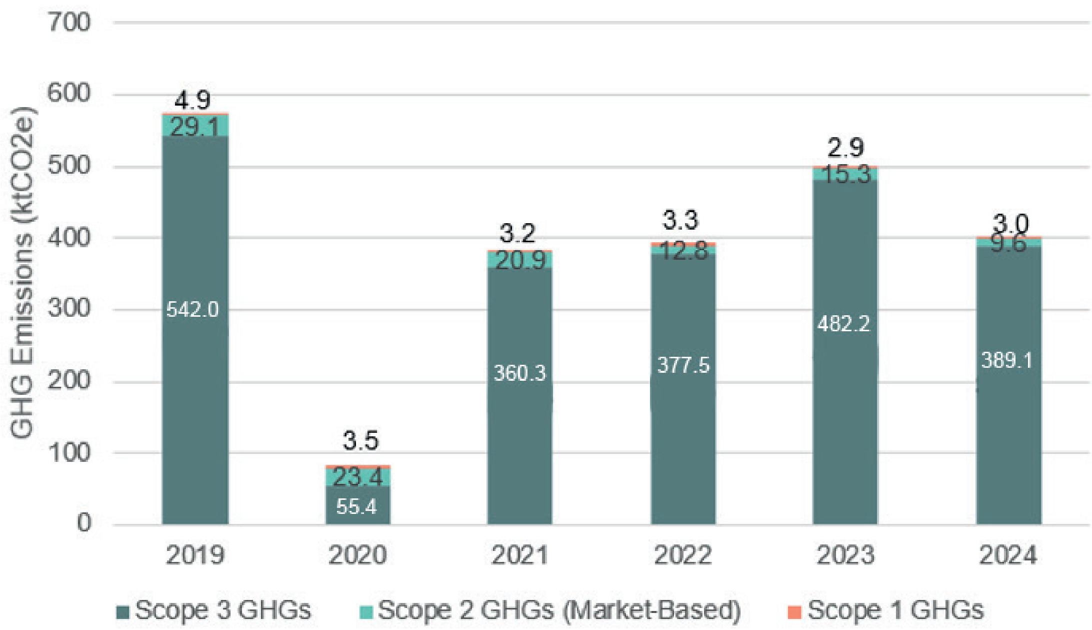

Figure 3: *Dentsu Reported Emission History (Source: Dentsu Annual Reports 2019-2024).*

Scope	2019 ($ktCO_2e$)	2024 ($ktCO_2e$)	CAGR % (2019-2024)	Absolute Change (2019-2024)
Scope 1 GHG emissions	4.9	3.0	-9%	-39%
Scope 2 GHG emissions (market-based)	29.1	9.6	-20%	-67%
Scope 3 upstream	417.2	343.8	-4%	-18%
Scope 3 downstream	124.8	45.4	-18%	-64%
Scope 1, 2 and 3 GHG emissions	**576.0**	**401.7**	**-7%**	**-30%**

Figure 4: *Dentsu Summary of Emissions Changes (Source: Dentsu Annual Reports 2019-2024).*

Upstream Scope 3 emissions dominate, representing 86% of Dentsu's total, with Downstream Scope 3 at 11%. Of its Upstream Scope 3 emissions, Purchased Goods & Services account for 55%, Processing 17% and Transportation 14% – see **Figure 5**.

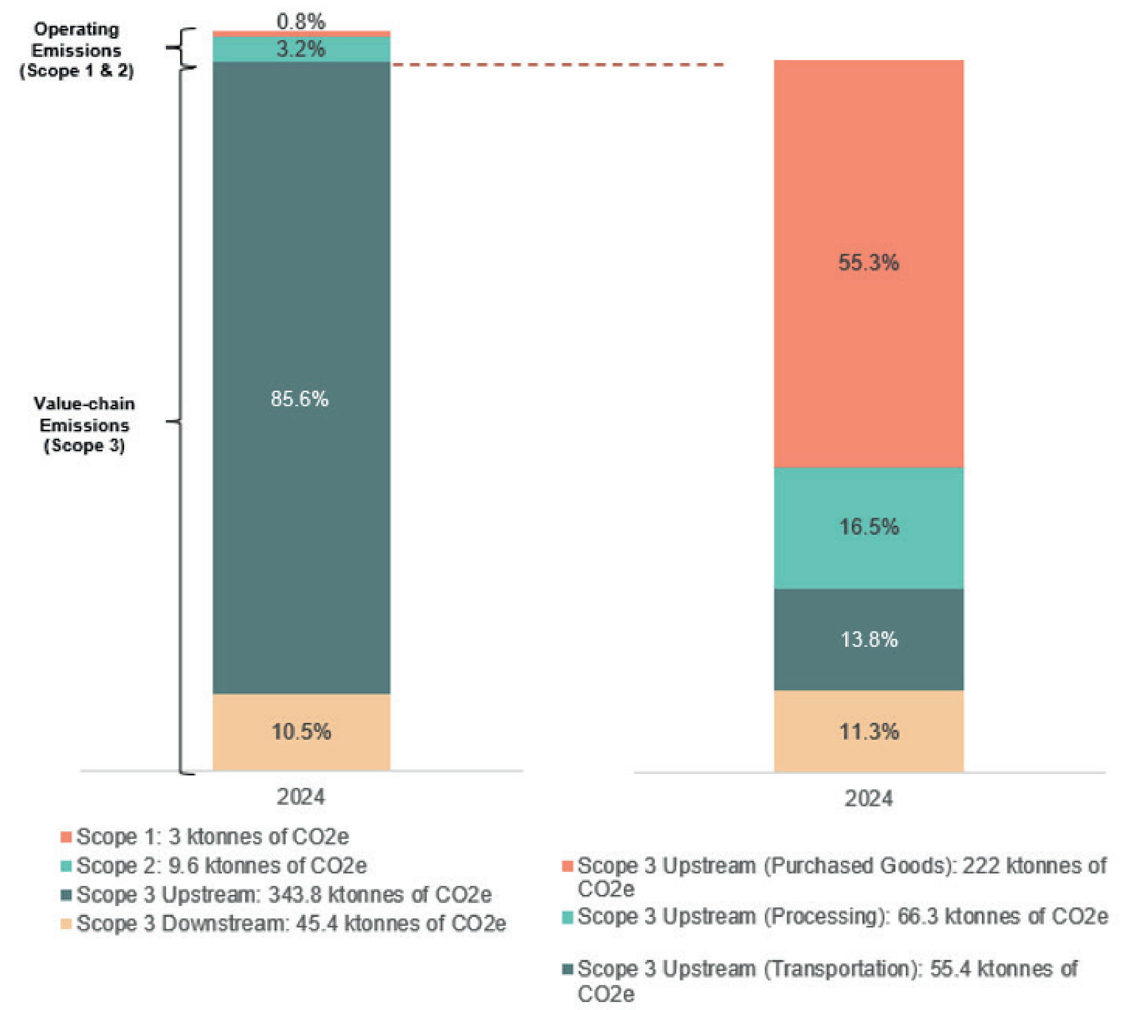

Figure 5: *Total GHG Footprint (2022) - Percentage Breakdown by Scope. (Source: IPG's CDP Report 2023).*

EMISSIONS TRENDS AND TARGETS

Historical and Expected Emissions

Dentsu reports a 30% total GHG emission reduction from 2019 to 2024, characterised by declines across all Scope categories – see **Figure 6**. Note that Dentsu significantly increased its reference 2019 baseline in its 2024 reporting, from 375 ktCO_2e previously to 542 ktCO_2e due to "changes in the scope of consolidation resulting from M&A".

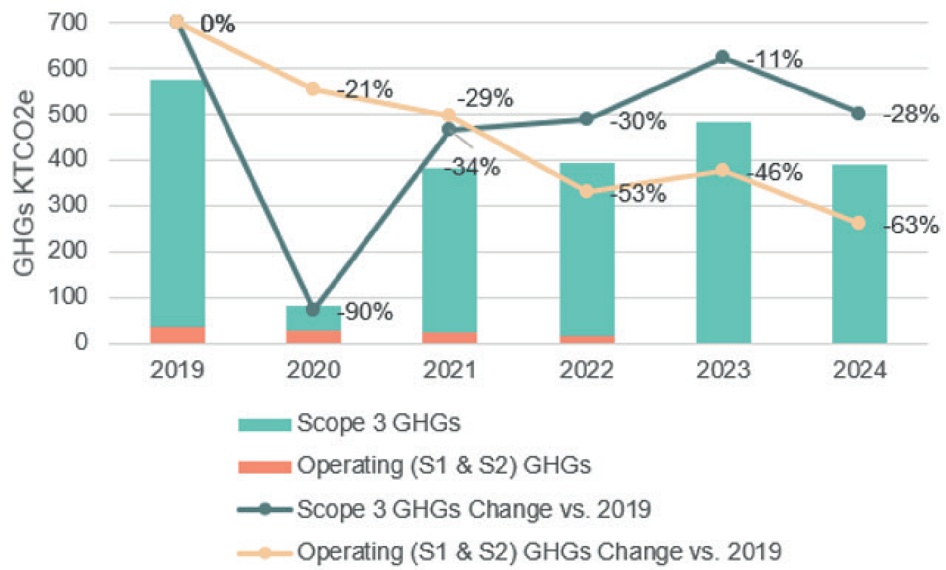

Figure 6: *Historic Scope 1, 2, and Upstream Scope 3 CO_2e Evolution (2019-2024).*
Source: Dentsu Databooks 2019-2024. Note – Market-Based Scope 2 Emissions Are Used in This Figure.

A high-level extrapolation model was employed to forecast Dentsu's emissions to 2030 and 2040. This model projects the annual emissions change rate from the past five years forward, assuming that the company continues its historical mitigation efforts whilst maintaining an intrinsic annual revenue growth rate in the low single digits.

According to Planet Tracker's extrapolation:

- **Scope 1 emissions** are expected to decrease by 66% by 2030 and 7% by 2040 vs. 2019.
- **Scope 2 emissions (market-based)** are projected to decrease by 91% by 2030 and 99% by 2040 vs. 2019.
- **Scope 3 emissions** are expected to decrease by 52% by 2030 and 75% by 2040 vs. 2019.

This implies an absolute emissions change of 54% by 2030 and 76% by 2040, with projected emissions reaching 265.7 ktCO_2e by 2030, compared to 432.6 ktCO_2e in 2024 (**Figure 7**).

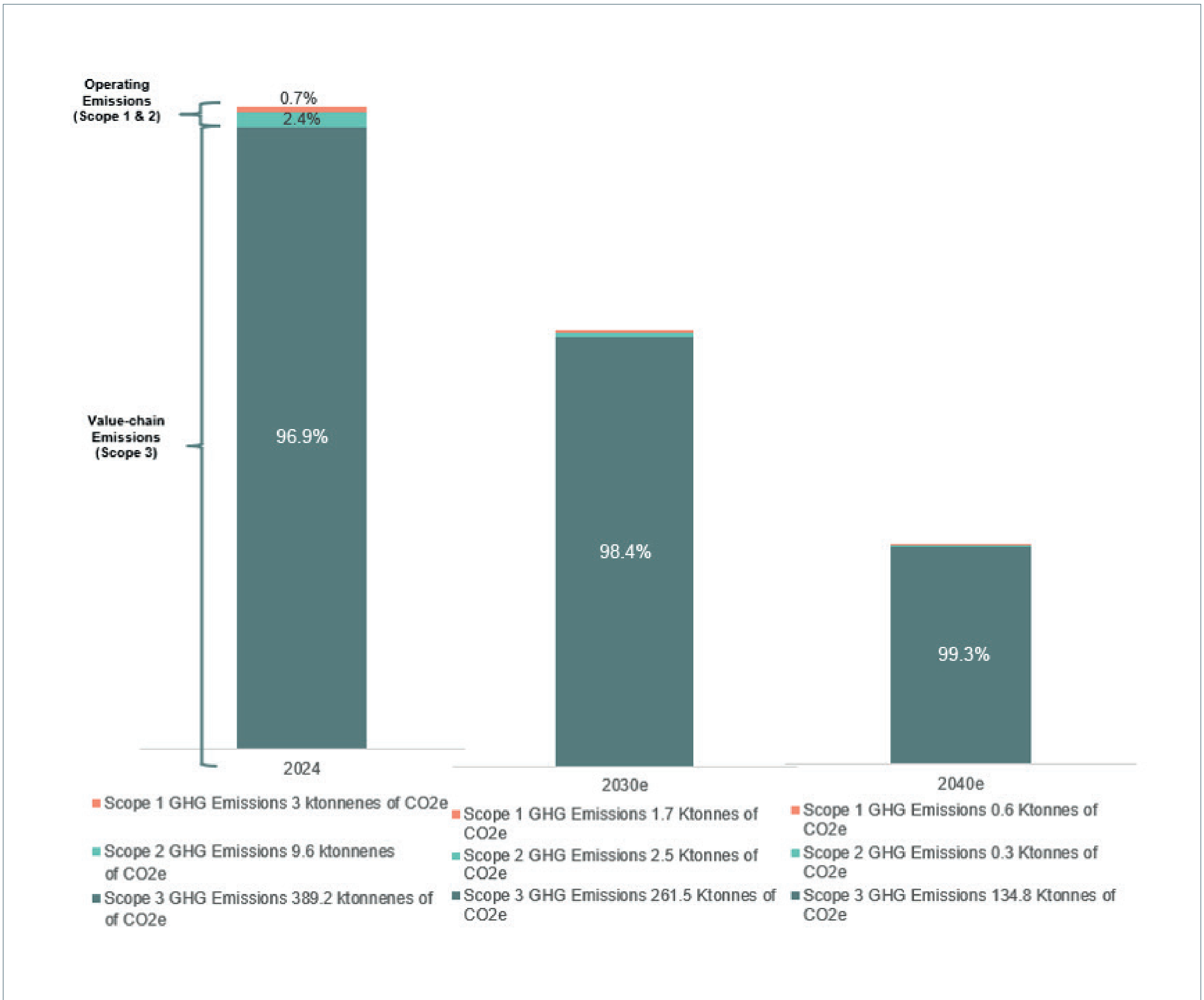

Figure 7: *Expected Scope 1, 2, and Scope 3 CO_2e Evolution (2030e & 2040e) – Percentage Breakdown by Scope. Source: Dentsu Annual Reports and Planet Tracker Calculations.*

Decarbonisation Targets

Dentsu has SBTi-validated net-zero targets looking out to 2030 and 2040. By 2030, it aims to reduce absolute Scope 1 and Scope 2 emissions by 46.2% relative to a 2019 baseline, and absolute Scope 3 emissions (purchased goods and services, business travel and employee commuting) by 46.2% from a 2019 baseline. By 2040, it aims to reduce absolute emissions of Scopes 1, 2 and 3 by 90% versus a 2019 baseline.

Alongside these targets, Dentsu aims to achieve 100% renewable energy usage by 2030.

What About Advertised Emissions?

Advertised Emissions are the greenhouse gas emissions that result from the uplift in sales generated by advertising. This can be a material source of emissions. Work by industry network Purpose Disruptors and econometrics firm Magic Numbers in 2021 estimated Advertised Emissions in the UK market alone at 186 million tonnes of GHG, equivalent to the emissions of the Netherlands[i].

Asking advertising holding companies to calculate and publish their Advertised Emissions reveals the climate impact of the incremental consumption they have generated on behalf of their clients. The more carbon-intensive their clients, the higher a holding company's Advertised Emissions will be.

In 2024, Race to Zero[3], a global campaign led by the UN Climate Change High-Level Champions, published a report setting out a six-point framework as to how service providers, like ad agencies, can be a key driver of the transition to net zero[ii]. Many large businesses already require their agencies to be a signatory to the United Nations-backed Race to Zero campaign.

In its 2023 Task Force on Climate-related Financial Disclosures (TCFD), Dentsu states that it calculated Advertised Emissions using the methodology put forward by Purpose Disruptors. It estimated Advertised Emissions for 2022 at 12.8 million tCO_2e, equating to 32x its operational GHG footprint in 2022, with 77% associated with only four client sectors.

3 Race to Zero is a global campaign to rally leadership and support from businesses, cities, regions and investors for a healthy, resilient, zero-carbon recovery that prevents future threats, creates decent jobs and unlocks inclusive, sustainable growth.

Policy and Governance

ENGAGEMENT AND INFLUENCE

Suppliers' Engagement

In light of rising Scope 3 emissions, Dentsu is looking to work with its suppliers to understand their emissions. In 2024, the company launched a group-wide project to obtain high-quality data from suppliers so Dentsu can better understand how to drive down Scope 3 emissions. As part of the onboarding process for new global suppliers, they are requested to respond to sustainability-related questions.

Influence on Policymakers

Dentsu is a member of advertising industry trade associations that engage in lobbying and of sustainability-focused initiatives, such as Ad Net Zero.

MANAGEMENT ALIGNMENT

Sustainability Targets Oversight

Dentsu operates with a Board of Directors of 15 members, a majority of whom are independent outside directors. The Chair must be a member who is not also an executive officer. Sub-committees report to the Board on specific operational and/or strategic areas; these include the Nominating Committee, Audit Committee, Compensation Committee and Finance Committee.

Day-to-day operations are handled by the Group Management Board, which is appointed by and supervised by the Board of Directors, and reports on sustainability to the Board.

Dentsu has established a Group Sustainability Committee that reports to the Group Management Board. It is chaired by the Global Chief Sustainability Officer, and the Group President and Global CEO is a member. The committee meets quarterly and evaluates progress on the sustainability strategy and key KPIs, such as GHG emission reductions.

Management Compensation

The CEO and other executive managers receive performance-linked compensation, including monetary rewards, salary-based bonuses, and stock options. In FY2024, performance-linked pay constituted approximately 70% of the CEO's total compensation, with 29% tied to annual targets and 43% to medium- and long-term targets.

Key annual variable-pay indicators include:

- **Organic revenue growth %**
- **Operating margin%**
- **Individual priority objectives**
- **ESG indicators**

The individual priority targets focus on progress on individual targets set for each executive officer. The ESG indicators focus on: employee-engagement score; the proportion of female leaders at Dentsu; and Scope 1 and Scope 2 GHG emissions versus the 2019 baseline. The ESG indicators carry a weighting of 10% in the final annual-bonus assessment.

The long-term variable pay award focuses only on financial metrics:

- **Total shareholder return versus a peer group of companies**
- **Total shareholder return versus the Tokyo Stock Exchange Stock Price Index**
- **Consolidated underlying operating-income compound annual growth rate**

We are disappointed to see no link to sustainability delivery in the long-term pay scheme. We also note that only Scopes 1 and 2 are included in the annual target setting. Given the challenge Dentsu faces in addressing Scope 3 emissions, linking executive pay to Scope 3 action would better align incentives. We would also like to see Dentsu address reducing its Advertised Emissions and include a target for this in management compensation setting.

Risk Analysis

FINANCIAL IMPACT

In 2023 and 2024, Dentsu used scenario analysis to assess how climate change could impact the business in the future. Physical-risk scenarios included a high-emission pathway (IPCC SSP5-8.5), associated with more than 4 °C of warming and a low-emission pathway (IPCC SSP1-2.6) where we stay below 2 °C of warming. Transition risk and opportunity analysis considered high, medium and low carbon-emission pathways.

Impacts assessed included extreme weather risks from, and risks and opportunities from the transition to a low carbon economy. Dentsu applies a clear hierarchy for potential operating-profit impact from each risk or opportunity.

	Impact on Operating Profit (¥)
Very High Risk	- ¥18 billion or higher
High Risk	- ¥9 billion
Low/Medium Risk	- ¥4.5 billion
Low/Medium Opportunity	+ ¥4.5 billion
High Opportunity	+ ¥9 billion
Very High Opportunity	+ ¥18 billion or higher

Figure 8: *Dentsu Risk/Opportunity Impact Scoring (Source: Dentsu TFCD Report 2024).*

Dentsu considers three-time horizons in its risk analysis: Short-term: 0-1 year; Medium-term: 1-3 years; and Long-term: 3-15 years.

Opportunities

Dentsu sees access to new markets as a potential opportunity as regulation and market changes create demand in new sectors.

The company also sees new technologies as a potential opportunity. Dentsu is investing in bespoke tools to help clients monitor their own emissions and the impacts of media content.

Transition Risks

Dentsu identifies potential climate-induced global economic changes as a risk to its business.

It also views increased regulation and disclosure as a potentially significant risk over the medium and long term. Requirements to report new types of sustainability data may increase. This may require investment to capture, manage and store this data. The risk of greenwashing could increase as regulations increase. There could also be increased costs due to carbon taxes or other climate regulations.

Shifts in consumer behaviour present both risk and opportunity over the medium and long term. Growing demand for low-carbon products, could create new revenue, but Dentsu will need the technology, people and skills to meet this demand, if it arises. Investment will be required to develop the needed technology and talent, though the amount is not specified. On the other hand, if its clients fail to adapt to changing consumer demand, advertising spend may fall as their businesses shrink. We believe that Dentsu should be more explicit on the investment required to target the opportunities of a transitioning economy. How much investment might this require, either opex (hiring new talent) or capex? This should be transparently disclosed to investors.

Dentsu notes greenwashing as a potential climate-related risk for both the company and the broader advertising industry. It has created a Sustainability Communication Guide to support staff on projects where the risk of greenwashing is higher.

Physical Risks

Dentsu identifies extreme weather events as a potentially significant risk over the medium and long term. This includes extreme winds and storms, extreme heat, water stress and drought, and wildfires.

Potential impacts identified include damage to physical assets (e.g. offices) and staff injury. Operating and capital expense costs could rise due to higher maintenance needs, and there may be disruption to operations if offices are damaged or forced to close.

Extreme weather could also impact Dentsu's suppliers. This in turn could lead to lost revenue if Dentsu is unable to fulfil contractual commitments, or higher operating expenditure (opex) if it must secure alternative suppliers for products or services.

The company also notes that extreme heat could affect data centre providers, potentially forcing a switch to other providers and raising opex costs.

Dentsu risk analysis found that changes in global temperatures could increase its energy costs for heating and cooling across its office network over the longer term.

RISK MANAGEMENT

Dentsu utilises an enterprise risk management approach, with the Group Risk Committee using a four-step process (identify, assess, respond, monitor and report) to analyse material risks, including climate-related impacts. The Group Risk Committee meets bi-annually and is overseen by, and reports to the Group Management Board.

Physical Risks

Dentsu reviews its real estate portfolio and liaises with landlords to promote integration of sustainable practices and technologies. The company is working to implement energy efficiency measures in offices and has set a target of 100% renewable energy by 2030, having achieved 76% in 2024.

A dedicated resilience team strengthens the preparedness of the Group for climate-related hazards, using third-party data analysis to identify acute risks and conducting crisis simulations.

Transition Risks

Dentsu aims to create sustainable business models and future-proofed products with its clients. By helping their clients adapt and be more resilient, the company strengthens its own position and opens up new opportunities. It continues to invest in R&D for new products and services and to deepen its understanding of evolving sustainability demand.

Dentsu is building team capacity to shift to sustainable advertising. It reports "thriving" sustainability services sales in Japan; rolling out similar services in other regions could be a significant opportunity, with Japan providing a foundation to scale these business lines globally.

Dentsu participates in industry discussions and stakeholder meetings on the transition to a low-carbon society and the role of advertising in that change.

The company tracks emerging regulation and policy, and engages with policy makers and industry groups to help shape pragmatic rules, aiming to reduce the long-term potential cost burden of compliance.

Dentsu continues to enhance its sustainability reporting to meet new regulations, support market transparency and meet stakeholder expectations.

Dentsu is active in the development and adoption of innovative technology (for instance, AI) that can help reduce the emissions footprint of advertising services. It works with clients to minimise campaign impact and to measure the associated emissions. This includes the proprietary Dentsu Digital Media Calculator, which offers full-service, all-channel media-carbon calculations in certain markets.

Strategic Assessment

CAPITAL ALIGNMENT

As a service-focused business where much of the value is in intangible assets, Dentsu's pathway to reducing GHG emissions is driven more by opex than capital expenditure (capex) over the medium to long term.

Initiatives contributing to Scope 1 and Scope 2 emissions reduction to date include:

- **Renewable energy** – the company has a target to move to 100% renewable electricity by 2030. It achieved a proportion of 76% renewable in 2024.
- **Energy efficiency** – Dentsu has invested in a range of initiatives to reduce energy consumption across its office footprint.
- **Space rationalisation** – Dentsu has sought to rationalise its footprint and reduce the number of buildings it operates.
- **EVs** – Dentsu is transitioning to hybrid and electric vehicle (EV) company cars.

The company's focus is now also turning to initiatives to decarbonise its supply chain. This will be critical to delivering on its stated decarbonisation targets.

Dentsu acknowledges that, under a business-as-usual scenario, supply-chain decarbonisation may not be fast enough to meet Dentsu's stated climate goals. It notes that the future policy landscape and market conditions are uncertain, whilst technological advancements may impact the feasibility of long-term emission-reduction strategies.

Dentsu is focusing its Scope 3 reduction efforts on "scalable, high-impact" interventions. It has used regional and market-level analyses of the policy landscape, infrastructure readiness and current emissions footprint to determine where, and how much, intervention can be delivered.

As part of its risk management, Dentsu has analysed the level of investment needed to mitigate transition risks and develop opportunities. When considering reducing its operational emission footprint, it has used marginal abatement cost curves for 12 priority markets to assess the effectiveness of different reduction strategies including, energy efficiency investments, renewable energy procurement and low-carbon technologies. It also considered deploying digital platforms to collect supplier data as part of addressing Scope 3 emissions, along with the likely cost of supplier engagement programmes.

Dentsu does not currently use carbon offsets and is monitoring the SBTi guidance. It acknowledges that offsets may be required to achieve net zero in the longer term.

Overall, the company indicates it has a flexible capital allocation policy that can adapt to seize opportunities and address risks as they develop, under both low- and high-emissions scenarios.

TRANSITION APPRAISAL

Planet Tracker assessed Dentsu's Climate Transition strategy by analysing its GHG emissions trends from 2019 to 2024 and its alignment with the Paris Agreement. Dentsu's SBTi-validated net-zero targets for climate look out to 2030 and 2040. By 2030, it aims to reduce absolute Scope 1 and Scope 2 emissions by 46.2% relative to a 2019 baseline. It aims to reduce absolute Scope 3 emissions from purchased goods and services, business travel and employee commuting by 46.2% from a 2019 baseline. By 2040, it aims to reduce absolute emissions of Scopes 1, 2 and 3 by 90% versus a 2019 baseline. Dentsu has calculated its Advertised Emissions in the past, but does not currently address reducing these as part of its transition strategy.

A high-level extrapolation model was employed to forecast Dentsu's emissions to 2030 and 2040. The trajectory of emissions we derive suggests a high likelihood of achieving the target for 2030, but missing the 2040 target.

Planet Tracker's assessment also reviewed Dentsu's policies, governance, risk management and capital alignment to evaluate its ability to sustain its historical progress on emission reduction.

As a company in a service-focused industry, in which much of the value lies in intangible assets, Dentsu's pathway to reducing GHG emissions is driven more by opex than capex over the medium to long term. The company provides some detail on how it has delivered emission reduction so far, focussing on renewable energy, space rationalisation and energy efficiency. It also indicates that its focus is now turning to supply-chain decarbonisation. However, beyond describing "scalable, high-impact" interventions, specific levers and likely costs are not disclosed.

Dentsu's assessment of risks and opportunities related to climate change appears robust. Dentsu utilises an enterprise risk management approach, with the Group Risk Committee using a four-step process (identify, assess, respond, monitor and report) to analyse material risks, including climate-related impacts. It has used climate scenario modelling to inform its risk management process.

Management incentive structures include ESG indicators in the annual variable pay scheme, but not the long-term scheme. We are disappointed that the long-term scheme contains no link to sustainability delivery. We also note that only Scopes 1 and 2 are included in the annual pay scheme target setting. Given the need for Dentsu to address its Advertised Emissions, we believe linking executive pay to a strategy on this area will be important for aligning management focus with this goal.

In conclusion, Dentsu recognises both the need to decarbonise and the challenges and opportunities this transition will involve. Emission reduction goals are supported by a credible management structure and appropriate risk management. We would like to see greater transparency on the levers to drive further emissions reductions, particularly for Scope 3. It is constructive that Dentsu acknowledges that, under a business-as-usual scenario, decarbonisation of the supply chain may not be fast enough to meet its stated climate goals. The company notes that the future policy landscape and market conditions are uncertain, whilst technological advancements may impact the feasibility of long-term emission-reduction strategies. Whilst some gaps remain, the company's efforts position it to align with a 1.5°C pathway by 2030.

Planet Tracker concludes Dentsu is likely to align with a 1.5°C pathway by 2030.

i Advertising adds 28% to the annual carbon footprint of every single person in the UK - Magic Numbers

ii The-role-of-professional-service-providers-in-realizing-a-net-zero-future.pdf

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Planet Tracker is a non-profit financial think tank producing analytics and reports to align capital markets with planetary boundaries. We aim to create a significant and irreversible transformation of global financial activities by 2030. By informing, enabling and mobilising the transformative power of capital markets we aim to deliver a financial system that is fully aligned with a net-zero, nature-positive economy. Planet Tracker proactively engages with financial institutions to drive change in their investment strategies. We ensure they know exactly what risk is built into their investments and identify opportunities from funding the systems transformations we advocate.

PLANET TRACKER'S CLIMATE TRANSITION ANALYSIS

As part of its Influencers programme, Planet Tracker is examining the transition plans of the six major Advertising Agencies. Our goal is to provide investors with the key information and analysis they need to be able to hold the companies to account for the quality of their climate transition plans and their execution against those plans. We also encourage investors to use this information to engage effectively with these companies with the aim of driving the sustainable transformation of the advertising industry.

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