

The Interpublic Group (IPG)

\$22.71 (As of 01/02/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: B

Momentum: A

Summary

Interpublic's top line continues to benefit from higher organic revenue growth. The company continues to look for strategic investments and buyouts to expand in high-growth regions and key world markets. It has opportunities from the emerging and developing markets. The company's consistent dividend payments and share buybacks boost investors' confidence and positively impact earnings per share and consequently its share price. The stock has outperformed its industry in the past year. However, global presence makes Interpublic vulnerable to foreign currency risk. The company's cash position is affected by seasonality in business due to clients' fluctuating annual media spending budgets and changing media spending patterns. Client concentration can be a hindrance to Interpublic's business. High debt is another concern.

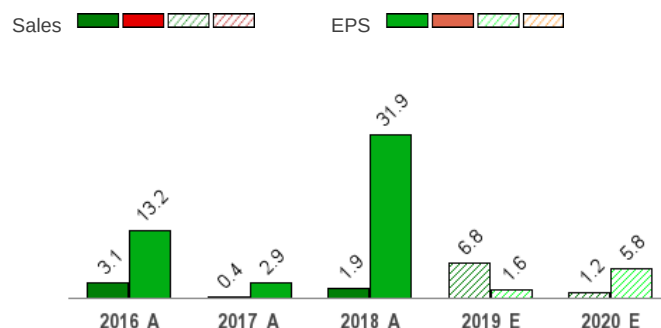
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.98 - \$19.56
20 Day Average Volume (sh)	2,693,148
Market Cap	\$8.8 B
YTD Price Change	-1.7%
Beta	1.11
Dividend / Div Yld	\$0.94 / 4.1%
Industry	Advertising and Marketing
Zacks Industry Rank	Bottom 11% (226 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.1%
Last Sales Surprise	17.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/12/2020
Earnings ESP	0.0%
P/E TTM	11.7
P/E F1	11.4
PEG F1	3.6
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					8,685 E
2019	2,005 A	2,520 A	2,438 A	2,389 E	8,581 E
2018	1,774 A	2,392 A	1,896 A	2,414 A	8,032 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$2.00 E
2019	\$0.11 A	\$0.46 A	\$0.49 A	\$0.83 E	\$1.89 E
2018	\$0.03 A	\$0.43 A	\$0.48 A	\$0.89 A	\$1.86 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

Overview

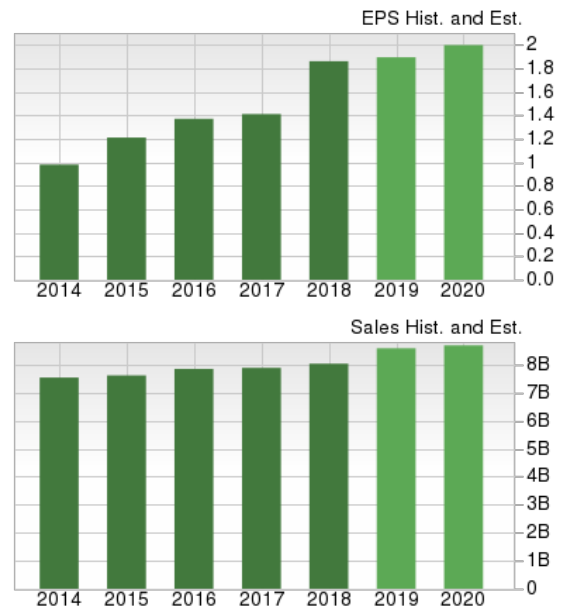
New York-based Interpublic Group of Companies Inc., together with its subsidiaries, provides advertising and marketing services worldwide. The company was founded in September 1930 as a successor to the advertising agency businesses founded in 1902 and 1911 by A.W. Erickson and Harrison K. McCann, respectively, and was formerly known as McCann-Erickson. In 1961, the company was re-incorporated in Delaware and was named The Interpublic Group of Companies.

Interpublic specializes in consumer advertising, digital marketing, public relations, communications planning and media buying, and specialized communications disciplines. It provides multi-channel advertising and communications and marketing services such as meeting and event production, public relations, sports and entertainment marketing, corporate and brand identity, and strategic marketing consulting to a broad list of customers in more than 110 countries. The company focuses on point-to-point client interaction which enables accurate decision-making and enhanced customer focus.

Interpublic's agencies create customized marketing programs for clients that include large global marketers as well as regional and local clients. Comprehensive global services are offered to multinational and local clients in markets across the world as these clients target brand building, increase in sales and market share. Solutions vary from project-based activity involving one agency to long-term, fully integrated campaigns created by multiple IPG agencies working together.

The company has two revenue segments, **Integrated Agency Networks (IAN)**, comprising FCB, Lowe, McCann Worldgroup, IPG Mediabrands, digital specialist agencies and our domestic integrated agencies, and **Constituency Management Group (CMG)**, consisting of a number of specialist marketing service offerings.

The company has undertaken a number of strategic moves in the recent years to fend off competition and strengthen position in the global advertising and communications market. These include, investment in senior talent, increase in digital capabilities, investments in emerging and strategic markets, use of integrated marketing solutions and acquisitions. Interpublic's peers include WPP, Omnicom, Clear Channel and Publicis.



Reasons To Buy:

▲ Interpublic's digital capabilities, **diversified business model** and geographic reach offer a distinctive competitive advantage. The company is expected to achieve targeted levels in the coming quarters based on diversification across emerging regions and collaboration/integration across agencies through technological improvement. Moreover, the company continues to look for strategic investments/acquisitions to expand in high-growth regions and key world markets.

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▲ Interpublic's top line continues to **grow organically** driven by growth across its major geographic regions and contributions from net client wins and net higher spending from existing clients (especially in the healthcare sector). The company witnesses organic growth in the United States backed by its media and advertising disciplines. Strong performance of advertising businesses in the United Kingdom and media businesses in the Continental Europe, Latin America and United Kingdom regions also aids organic growth. In the first nine months of 2019, organic net revenue growth was 3.5%. In 2018, the company witnessed an organic net revenue growth of 5.5%. Growth was 5.1% in the United States and 6.2% in international markets. This marks an improvement from the organic net revenue increase of 1.5% in 2017, which includes 1.9% growth in the United States and 1.1% in international markets. For 2019, the company continues to expect organic revenue growth of 2-3%.

▲ **Acquisitions** have been one of the key growth catalysts for Interpublic. The company has been continuously acquiring and investing in companies globally to expand its product portfolio, thereby trying to stand up to the rapidly-changing marketing services and media prospects. In recent years, Interpublic has acquired agencies across the marketing spectrum, which includes firms specialized in digital, mobile marketing, social media, healthcare communications and public relations, as well as agencies with full-service capabilities. During the first nine months of 2019, the company acquired a content communications agency based in the U.K. In the first nine months of 2019, net acquisitions had a positive impact of 8.8% on Interpublic's top line growth. In 2018, the company has completed three acquisitions — data-related and analytical services provider, Acxiom LLC in October; London-based social creative agency That Lot through its subsidiary, Weber Shandwick in July; and Brazil-based digital marketing and technology agency, Cappuccino in May. Full year 2018 revenues includes \$181.7 million in relation to the Acxiom acquisition and a positive impact of 1.8% from net acquisitions. The company's acquisitions in 2017 include a digital marketing agency based in the U.S., a data science and business intelligence firm based in the U.S. with operations in China, an advertising and consulting company based in Indonesia, a strategic communications agency based in the U.K., an independent creative agency based in the U.K., a retail branding and design firm based in the U.S., a content creation and marketing agency based in the Netherlands, an independent media agency and digital consultancy based in Finland, and an integrated marketing communications agency based in Canada.

▲ Interpublic has **opportunities from the emerging and developing markets**. To expand its presence in high-growth geographic regions, the company continues to invest strategically. It has made significant investments in Russia, Brazil, India and China, in recent years, to further strengthen its position in these important developing markets. The company holds a majority stake in the Middle East Communication Networks ("MCN"). Further, the buyout of Cappuccino should help Interpublic's subsidiary Weber Shandwick strengthen its foothold across Latin America. Of late, Weber Shandwick has been busy in expanding its operations in Latin America to meet the growing demand from domestic and multinational companies in the region. It already has owned and operated offices in Brazil, Colombia and Mexico and affiliates in Argentina, Chile and Peru. In March 2018, it opened a new office in Bogota, Colombia.

▲ We are impressed with Interpublic's **consistent efforts to reward its shareholders**. In the first nine months of 2019, Interpublic paid \$272.2 million in dividends and did not repurchase any shares. In 2018, the company paid four quarterly cash dividends of 21 cents per share for a total amount of \$322.1 million and repurchased 5.1 million shares for \$117.1 million. In 2017 and 2016, the company paid \$280.3 million and \$238.4 million in dividend payments and repurchased shares worth \$300.1 million and \$303.3 million, respectively. Such moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These shareholder-friendly initiatives not only instill investors' confidence but also positively impact earnings per share. This might have impacted the company's share price, which has improved 9.6% over the past year, outperforming the 4.7% rise of the industry it belongs to.

Reasons To Sell:

- ▼ **Client/Customer concentration** can be a major hindrance to Interpublic's business. The company has a large and diverse client base which includes some of the most popular companies and brands throughout the world. Interpublic's top ten clients accounted for almost 18% of net revenues in 2018 and 20% in 2017. The company's largest client accounted for nearly 4% of net revenues in 2018 and 2017. This implies that Interpublic highly relies on its large clients for a significant portion of revenues. Maintaining strong client relationships by retaining the older ones while attracting newer is important for Interpublic. A reduction in advertisement spending by any of the big clients can significantly dent the company's top-line growth.
- ▼ Interpublic's cash position is affected by **seasonality** in business. This is because of clients' fluctuating annual media spending budgets and changing media spending patterns which varies throughout the year with different localities. Seasonality is observed in the first nine months of a year, with the biggest impact in the first quarter.
- ▼ With agencies located in more than 100 countries, Interpublic's global presence makes it vulnerable to the **risks associated with foreign currency exchange rate fluctuations**. The company earns around 40% of revenues from operations outside the United States, with businesses transactions occurring in currencies other than the U.S. Dollar, such as the Australian Dollar, Brazilian Real, British Pound Sterling, Canadian Dollar, Chinese Yuan Renminbi, Euro and Indian Rupee. Notably, the company's top line was unfavorably impacted by foreign currency translation of 2.1% during the first nine months of 2019.
- ▼ Interpublic's **balance sheet is highly leveraged**. As of Sep 30, 2019, total debt was \$3.62 billion while cash and cash equivalents were \$520.5million. Such a cash position implies that Interpublic needs to generate adequate amount of operating cash flow to service its debt. Also, high debt may limit the company's future expansion and worsen its risk profile.

Client concentration, seasonality, foreign currency fluctuations and high debt weigh on Interpublic's prospects.

Last Earnings Report

Interpublic Beats on Q3 Earnings & Revenue Estimates

Interpublic reported solid third-quarter 2019 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings of 49 cents per share beat the consensus mark by a penny and improved on a year-over-year basis. Total revenues of \$2.44 billion beat the consensus estimate by \$366.3 million and increased 6.1% on a year-over-year basis. The top line benefited from organic revenue growth of 1.4% and positive impact from acquisitions of 8.6%, which were, however, partially offset by a negative impact of 1.3% due to foreign currency movement.

Net revenues of \$2.06 billion increased 8.7% year over year.

Quarterly results were driven by solid performance across the company's media, healthcare marketing, public relations, and sports & entertainment offerings. It witnessed contributions from a wide range of client sectors, which include healthcare, financial services, retail, tech and telecom, and consumer goods. While international markets remained strong, the company is fixing out the impact of certain account-specific headwinds in the United States.

Operating Results

Operating income in third-quarter 2019 came in at \$280.3 million compared with \$261.7 million in the prior-year quarter. Operating margin on net revenues declined to 13.6% from 13.8% in the year-ago quarter due to increased amortization expenses related to the acquisition of Acxiom. Operating margin on total revenues rose to 11.5% from 11.4% in the year-ago quarter.

Adjusted EBITA came in at \$302 million compared with \$277.8 million at the end of prior-year quarter. Adjusted EBITA margin on net revenues came in at 14.7%, flat year over year. Adjusted EBITA margin on total revenues rose to 12.4% from 12.1% in the year-ago quarter.

Total operating expenses of \$2.16 billion declined 6% year over year.

Balance Sheet

As of Sep 30, 2019, Interpublic had cash and cash equivalents of \$520.5 million compared with \$614 million at the end of the prior quarter. Total debt was \$3.62 billion compared with \$3.77 billion at the end of the prior quarter.

Dividend Payout

During the reported quarter, the company declared and paid out a cash dividend of 23.5 cents per share amounting to \$90.8 million.

2019 Outlook

Interpublic reaffirmed its full-year 2019 guidance. The company continues to expect organic revenue growth of 2-3% and adjusted EBITA margin expansion of 40-50 basis points.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	17.68%
EPS Surprise	2.08%
Quarterly EPS	0.49
Annual EPS (TTM)	1.95

Recent News

On **Oct 15, 2019**, Interpublic announced the appointment of Linda Sanford as an independent director on its board.

Valuation

Interpublic shares are up 9.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 4.7% and 31.4%, over the past year, respectively.

The S&P 500 index is up 26.3% in the past year.

The stock is currently trading at 11.99X price to forward 12 months' earnings, which compares to 12.06X for the Zacks sub-industry, 25.76X for the Zacks sector and 19.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.41X and as low as 9.90X, with a 5-year median of 15.30X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$30.00 price target reflects 15.84X price to forward 12 months' earnings.

The table below shows summary valuation data for IPG

Valuation Multiples - IPG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	11.99	12.06	25.76	19.06
	5-Year High	19.41	18.66	25.76	19.34
	5-Year Low	9.90	10.22	18.75	15.17
	5-Year Median	15.3	14.14	20.55	17.44
P/S F 12M	Current	1.03	1.01	3.96	3.46
	5-Year High	1.23	1.5	5.13	3.46
	5-Year Low	0.79	0.86	3.09	2.54
	5-Year Median	1.07	1.22	3.63	3
P/B TTM	Current	3.52	18.03	4.98	4.41
	5-Year High	5.08	18.03	6.72	4.42
	5-Year Low	3.07	2.53	4.13	2.85
	5-Year Median	4.22	9.99	5.34	3.6

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (226 out of 253)



Top Peers

Cognizant Technology Solutions Corporation (CTSH)	Neutral
DISH Network Corporation (DISH)	Neutral
Nielsen Holdings Plc (NLSN)	Neutral
Omnicom Group Inc. (OMC)	Neutral
Publicis Groupe SA (PUBGY)	Neutral
WPP PLC (WPP)	Neutral
Clear Channel Outdoor Holdings, Inc. (CCO)	Underperform
FLUENT, INC. (FLNT)	Underperform

Industry Comparison Industry: Advertising And Marketing				Industry Peers		
	IPG Neutral	X Industry	S&P 500	OMC Neutral	PUBGY Neutral	WPP Neutral
VGM Score	A	-	-	B	A	A
Market Cap	8.81 B	72.77 M	23.76 B	17.39 B	10.38 B	18.72 B
# of Analysts	3	2	13	4	1	2
Dividend Yield	4.14%	0.00%	1.78%	3.26%	4.05%	3.96%
Value Score	C	-	-	B	A	A
Cash/Price	0.06	0.14	0.04	0.14	NA	0.15
EV/EBITDA	10.45	5.40	13.97	8.49	NA	NA
PEG Ratio	3.54	2.53	2.02	2.53	7.45	NA
Price/Book (P/B)	3.52	1.63	3.38	5.82	1.28	1.45
Price/Cash Flow (P/CF)	8.59	5.47	13.70	11.48	4.86	6.41
P/E (F1)	11.30	11.71	18.83	12.65	8.94	11.71
Price/Sales (P/S)	0.87	0.50	2.68	1.17	NA	NA
Earnings Yield	8.81%	5.90%	5.30%	7.91%	11.19%	8.54%
Debt/Equity	1.92	0.01	0.72	1.94	NA	0.72
Cash Flow (\$/share)	2.64	0.48	6.94	6.96	2.35	10.95
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	14.82%	7.84%	10.56%	7.77%	NA	NA
Proj. EPS Growth (F1/F0)	5.46%	4.86%	7.41%	4.86%	-3.76%	-4.76%
Curr. Cash Flow Growth	26.29%	1.92%	14.83%	6.64%	36.36%	11.82%
Hist. Cash Flow Growth (3-5 yrs)	12.81%	3.15%	9.00%	4.07%	10.75%	3.15%
Current Ratio	0.95	1.33	1.23	0.87	NA	0.95
Debt/Capital	66.58%	21.23%	42.92%	66.79%	NA	42.00%
Net Margin	6.42%	-7.66%	11.08%	8.88%	NA	NA
Return on Equity	31.19%	-6.97%	17.10%	44.02%	NA	NA
Sales/Assets	0.63	0.78	0.55	0.60	NA	NA
Proj. Sales Growth (F1/F0)	1.22%	1.22%	4.20%	1.50%	NA	-17.01%
Momentum Score	A	-	-	A	B	C
Daily Price Chg	-1.69%	0.00%	0.33%	-1.42%	1.06%	-0.07%
1 Week Price Chg	0.09%	0.00%	0.13%	0.01%	1.40%	1.82%
4 Week Price Chg	1.93%	3.32%	3.31%	0.72%	4.76%	12.29%
12 Week Price Chg	14.52%	-2.78%	9.70%	9.16%	9.26%	22.20%
52 Week Price Chg	11.32%	0.00%	30.28%	11.60%	-17.34%	31.24%
20 Day Average Volume	2,693,148	116,267	1,603,615	1,233,805	229,362	138,813
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.76%
(F1) EPS Est 12 week change	-1.64%	-6.93%	-0.57%	-1.10%	-6.57%	0.93%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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