

The Interpublic Group (IPG)

\$18.23 (As of 03/09/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

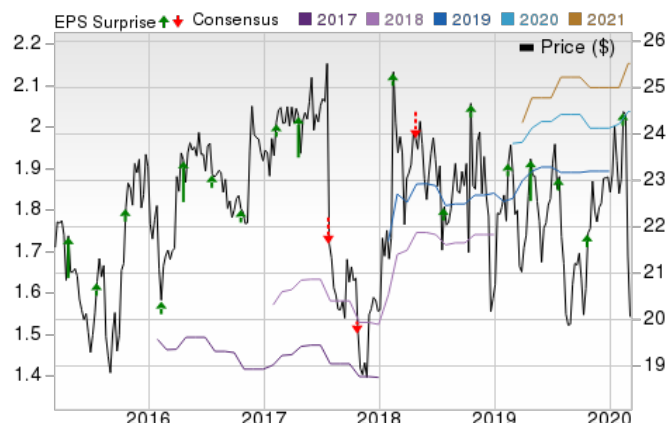
Growth: A

Momentum: C

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. Partly due to these positives, 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 and high debt are major concerns for the company.

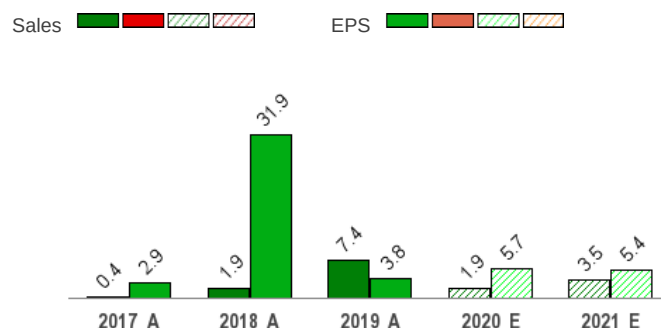
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.20 - \$18.04
20 Day Average Volume (sh)	4,859,681
Market Cap	\$7.1 B
YTD Price Change	-21.1%
Beta	1.00
Dividend / Div Yld	\$1.02 / 5.6%
Industry	Advertising and Marketing
Zacks Industry Rank	Top 13% (33 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.0%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	2.2%
Expected Report Date	04/24/2020
Earnings ESP	0.0%
P/E TTM	9.4
P/E F1	8.9
PEG F1	2.8
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					9,099 E
2020	2,007 E	2,163 E	2,117 E	2,505 E	8,792 E
2019	2,005 A	2,520 A	2,438 A	2,433 A	8,625 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.15 E
2020	\$0.10 E	\$0.50 E	\$0.51 E	\$0.92 E	\$2.04 E
2019	\$0.11 A	\$0.46 A	\$0.49 A	\$0.88 A	\$1.93 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 03/09/2020. The reports text is as of 03/10/2020.

Overview

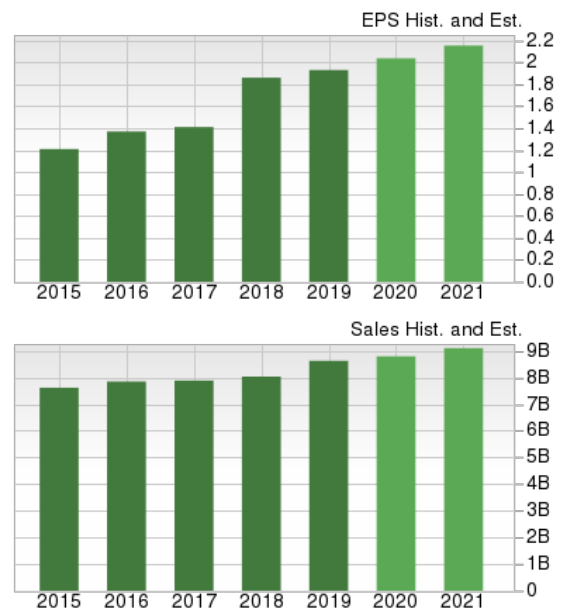
New York-based Interpublic Group of Companies Inc., together with its subsidiaries, provides advertising and marketing services worldwide. The company was founded in September 1930 as a successor to the advertising agency businesses founded in 1902 and 1911 by A.W. Erickson and Harrison K. McCann, respectively,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

Interpublic's digital capabilities, diversified business model and geographic reach offer a distinctive competitive advantage.

▲ 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 2019, the company witnessed an organic net revenue growth of 3.3%. Growth was 1.9% in the United States and 5.5% in international markets. For 2020, the company expects organic revenue growth of 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. 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. In 2018, the company has completed five acquisitions — a data and technology company based in the U.S., as discussed in detail above, a full-service digital agency based in Brazil, an entertainment marketing and brand licensing agency in the fashion and lifestyle sector based in the U.K., a content-focused social creative agency based in the U.K. and a content production firm based in Israel. During 2019, the company acquired a content communications agency based in the U.K. Notably, acquisitions have been positively impacting the company's top line growth. In 2019, net acquisitions had a positive impact of 5.8% on Interpublic's top line growth which marks an improvement from 1.8% positive impact in 2018.

▲ 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 2019, Interpublic paid \$363.1 million in dividends and did not repurchase any shares. In 2018 and 2017, the company paid \$322.1 million and \$280.3 million in dividend payments and repurchased shares worth \$117.1 million and \$300.1 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.

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 17% of net revenues in 2019, 18% in 2018 and 20% in 2017. The company's largest client accounted for nearly 3% of net revenues in 2019 and 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 38% 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 1.7% during 2019.
 - ▼ Interpublic's **balance sheet is highly leveraged**. As of Dec 31, 2019, total debt was \$3.33 billion while cash and cash equivalents were \$1.19 billion. 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.
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Client concentration, seasonality, foreign currency fluctuations and high debt weigh on Interpublic's prospects.

Last Earnings Report

Interpublic Tops Q4 Earnings & Revenue Estimates

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

Adjusted earnings of 88 cents per share beat the consensus mark by 6% but declined 1.1% on a year-over-year basis. Net revenues of \$2.43 billion beat the consensus estimate by 1.8% and increased 0.8% on a year-over-year basis. The top line benefited from organic revenue growth of 2.9%, which was, however, partially offset by a negative impact of 1% due to foreign currency movement and 1.1% due to divestitures.

In the reported quarter, the company witnessed organic net revenue growth of 2.1% in the United States and 4.1% in international markets. Total revenues of \$2.90 billion increased 1.6% year over year.

Operating Results

Operating income in fourth-quarter 2019 came in at \$491.3 million compared with \$459.1 million in the prior-year quarter. Operating margin on net revenues improved to 20.2% from 19% in the year-ago quarter. Operating margin on total revenues rose to 16.9% from 16% in the year-ago quarter.

Adjusted EBITA came in at \$512.7 million compared with \$503.7 million at the end of prior-year quarter. Adjusted EBITA margin on net revenues rose to 21.1% from 20.9% in the year-ago quarter. Adjusted EBITA margin on total revenues rose to 17.7% from 17.6% in the year-ago quarter.

Total operating expenses of \$2.41 billion declined 0.6% year over year.

Balance Sheet

As of Dec 31, 2019, Interpublic had cash and cash equivalents of \$1.19 billion compared with \$520.5 million at the end of the prior quarter. Total debt was \$3.33 billion compared with \$3.62 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 \$90.9 million.

2020 Outlook

Interpublic unveiled its 2020 guidance. The company expects organic revenue growth of 3% and EBITA margin expansion of 20 basis points.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	1.86%
EPS Surprise	6.02%
Quarterly EPS	0.88
Annual EPS (TTM)	1.94

Recent News

On **Mar 9, 2020**, Interpublic announced that the company's senior management will be attending the Deutsche Bank 28th Annual Media, Internet & Telecom Conference, scheduled to be held on the same day.

On **Mar 6, 2020**, Interpublic announced that it is adopting the UN Global Compact's Women's Empowerment Principles (WEPs), in order to celebrate International Women's Day. The UN Global Compact's WEPs program empowers women in the workplace, marketplace and community through seven actionable principles.

On **Feb 27, 2020**, Interpublic announced that the company's senior management will be attending the 2020 Morgan Stanley Technology, Media & Telecom Conference, scheduled to be held on Mar 2 2020.

On **Feb 12, 2020**, Interpublic announced that the company's board of directors has declared a dividend hike of 9%, thereby raising the quarterly cash dividend from 23.5 cents per share to 25.5 cents. The dividend will be paid on Mar 16, 2020, to holders of record at the close of business on Mar 2, 2020.

Valuation

Interpublic shares are down 19.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 30.5% while those in the Zacks Business Services sector are up 6.6% over the past year.

The S&P 500 index is up 5.6% in the past year.

The stock is currently trading at 8.86X price to forward 12 months' earnings, which compares to 8.77X for the Zacks sub-industry, 23.01X for the Zacks sector and 17.02X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.88X and as low as 8.86X, with a 5-year median of 13.99X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20.00 price target reflects 9.71X 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	8.86	8.77	23.01	17.02
	5-Year High	18.88	17.89	25.27	19.34
	5-Year Low	8.86	8.77	18.89	15.18
	5-Year Median	13.99	13.22	20.59	17.42
P/S F 12M	Current	0.8	1	3.65	3.14
	5-Year High	1.23	1.45	4	3.44
	5-Year Low	0.79	0.86	3.09	2.54
	5-Year Median	1.07	1.17	3.63	3.01
P/B TTM	Current	2.5	13.56	4.53	3.99
	5-Year High	5.08	17.98	6.71	4.56
	5-Year Low	2.5	2.53	4.13	2.85
	5-Year Median	4.2	10.63	5.25	3.63

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Top 13% (33 out of 253)



Top Peers

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

Industry Comparison Industry: Advertising And Marketing				Industry Peers		
	IPG Neutral	X Industry	S&P 500	OMC Neutral	PUBGY Outperform	WPP Neutral
VGM Score	A	-	-	A	A	B
Market Cap	7.07 B	36.95 M	19.13 B	13.09 B	7.86 B	11.39 B
# of Analysts	3	1	13	4	1	2
Dividend Yield	5.60%	0.00%	2.26%	4.31%	5.36%	6.50%
Value Score	A	-	-	A	A	A
Cash/Price	0.15	0.27	0.05	0.30	NA	0.30
EV/EBITDA	6.97	3.15	11.99	6.08	NA	NA
PEG Ratio	2.80	2.00	1.68	1.68	5.51	NA
Price/Book (P/B)	2.50	1.02	2.64	3.88	0.97	1.06
Price/Cash Flow (P/CF)	6.29	4.08	10.70	8.42	3.68	5.19
P/E (F1)	8.94	9.39	15.44	9.39	6.61	7.74
Price/Sales (P/S)	0.69	0.40	2.05	0.88	NA	NA
Earnings Yield	11.19%	8.14%	6.47%	10.65%	15.13%	12.92%
Debt/Equity	1.49	0.01	0.70	1.72	NA	0.71
Cash Flow (\$/share)	2.90	0.59	7.01	7.17	2.35	8.24
Growth Score	A	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	14.41%	8.15%	10.85%	8.06%	NA	NA
Proj. EPS Growth (F1/F0)	5.53%	7.26%	6.25%	6.15%	-7.09%	10.62%
Curr. Cash Flow Growth	10.62%	-2.23%	6.09%	-0.22%	36.36%	-24.78%
Hist. Cash Flow Growth (3-5 yrs)	11.98%	1.78%	8.52%	2.46%	10.75%	-2.36%
Current Ratio	0.93	1.20	1.24	0.91	NA	0.99
Debt/Capital	60.71%	21.23%	42.57%	64.06%	NA	41.52%
Net Margin	6.42%	-9.08%	11.69%	8.95%	NA	NA
Return on Equity	29.83%	-14.11%	16.74%	43.58%	NA	NA
Sales/Assets	0.62	0.78	0.54	0.59	NA	NA
Proj. Sales Growth (F1/F0)	-6.43%	0.00%	3.76%	1.88%	0.00%	-16.61%
Momentum Score	C	-	-	C	C	F
Daily Price Chg	-9.03%	-6.00%	-7.65%	-8.28%	-6.68%	-8.58%
1 Week Price Chg	-6.18%	-4.23%	-0.67%	-4.99%	-4.23%	-3.17%
4 Week Price Chg	-21.29%	-21.29%	-19.26%	-21.60%	-22.05%	-31.40%
12 Week Price Chg	-20.36%	-23.92%	-17.26%	-26.17%	-22.47%	-37.60%
52 Week Price Chg	-19.16%	-33.74%	-6.83%	-20.05%	-38.58%	-23.95%
20 Day Average Volume	4,859,681	80,294	2,684,709	2,679,717	96,459	238,844
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.17%	0.00%	-0.06%	1.50%	0.00%	-4.50%
(F1) EPS Est 12 week change	2.00%	0.00%	-0.46%	1.86%	2.34%	-7.30%
(Q1) EPS Est Mthly Chg	-28.57%	-34.74%	-0.40%	1.61%	NA	NA

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	A
Growth Score	A
Momentum Score	C
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.

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