

The Interpublic Group (IPG)

\$18.05 (As of 07/15/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: D

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. 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. Partly due to these negatives, the company's stock has declined over the past year.

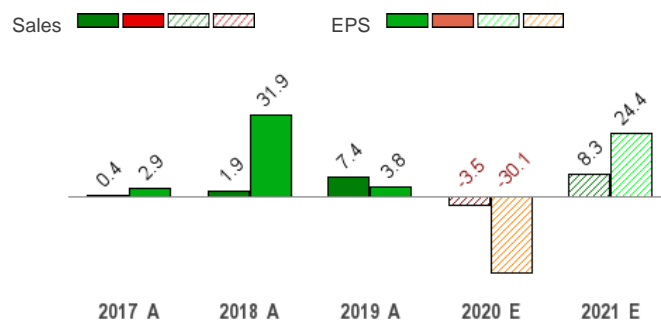
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.20 - \$11.63
20 Day Average Volume (sh)	3,943,395
Market Cap	\$7.0 B
YTD Price Change	-21.9%
Beta	1.05
Dividend / Div Yld	\$1.02 / 5.7%
Industry	Advertising and Marketing
Zacks Industry Rank	Bottom 5% (238 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.2%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/29/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					9,011 E
2020	1,972 A	1,747 E	1,787 E	2,282 E	8,320 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					\$1.68 E
2020	\$0.11 A	\$0.20 E	\$0.27 E	\$0.74 E	\$1.35 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.

P/E TTM	9.3
P/E F1	13.4
PEG F1	4.2
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/15/2020. The reports text is as of 07/16/2020.

Overview

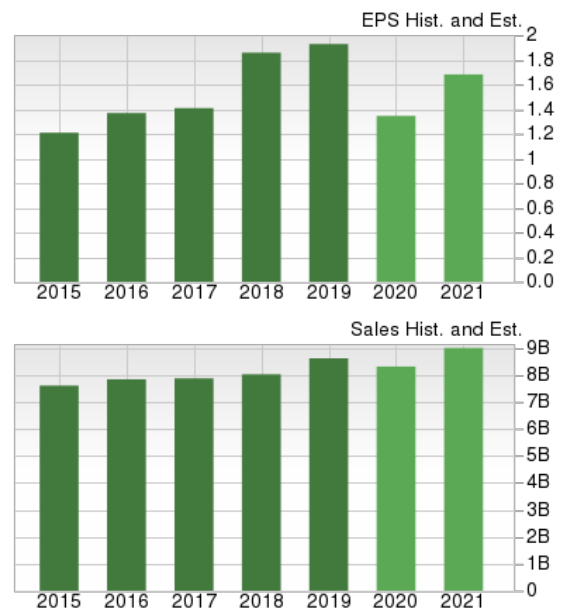
New York-based Interpublic Group of Companies Inc., together with its subsidiaries, provides advertising and marketing services worldwide. The company was founded in September 1930 as a successor to the advertising agency businesses founded in 1902 and 1911 by A.W. Erickson and Harrison K. McCann, respectively, 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 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. 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. This may weigh on the company's price performance, which has declined 21.8% over the past year.
- ▼ 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 has a **debt-laden balance sheet**. Total debt at the end of first-quarter 2020 was \$5.69 billion, up from the \$5 billion recorded at the end of the prior quarter. The total debt to total capital ratio of 0.7 was higher than the previous quarter's 0.64. Increasing debt to capitalization ratio indicates that the proportion of debt to finance the company's assets is on the rise. Higher debt as a percentage of total capital indicates that a company has a higher risk of insolvency. Further, cash and cash equivalent balance of \$1.55 billion at the end of the first quarter was well below the debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$1.1 billion.

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

Last Earnings Report

Interpublic Tops Q1 Earnings & Revenue Estimates

Interpublic reported solid first-quarter 2020 results wherein earnings and revenues beat the Zacks Consensus Estimate.

Adjusted earnings of 11 cents per share beat the consensus mark by 22.2% but remained flat on a year-over-year basis. Net revenues of \$1.97 billion beat the consensus estimate by 1.6% but decreased 16.5% on a year-over-year basis. The top line benefited from organic revenue growth of 0.3%, which was, however, partially offset by a negative impact of 1% due to foreign currency movement and 0.9% due to dispositions. **Total revenues of \$2.36 billion were flat year over year.**

Quarter Ending 03/2020

Report Date	Apr 22, 2020
Sales Surprise	1.62%
EPS Surprise	22.22%
Quarterly EPS	0.11
Annual EPS (TTM)	1.94

Operating Results

Operating income in first-quarter 2020 came in at \$75.9 million compared with \$50.2 million in the prior-year quarter. Operating margin on net revenues improved to 3.8% from 2.5% in the year-ago quarter. Operating margin on total revenues rose to 3.2% from 2.1% in the year-ago quarter.

Adjusted EBITA came in at \$97.2 million compared with \$103.6 million at the end of the prior-year quarter. Adjusted EBITA margin on net revenues declined to 4.9% from 5.2% in the year-ago quarter. Adjusted EBITA margin on total revenues rose to 4.1% from 2.1% in the year-ago quarter.

Total operating expenses of \$2.28 billion declined 1.2% year over year.

Balance Sheet

As of Mar 31, 2020, Interpublic had cash and cash equivalents of \$1.55 billion compared with \$1.19 billion at the end of the prior quarter. Total debt was \$4.22 billion compared with \$3.33 billion at the end of the prior quarter.

Dividend Payout

During the reported quarter, the company declared and paid out a cash dividend of 25.5 cents per share amounting to \$100 million.

Recent News

On **Jun 2, 2020**, Interpublic's unit, McCann Worldgroup announced the appointment of Bill Kolb as chief operating officer.

On **May 21, 2020**, Interpublic's board of directors declared a quarterly dividend 25.5 cents per share, payable on Jun 15, 2020, to holders of record at the close of business on Jun 1, 2020.

On **Jun 26, 2020**, Interpublic's IPG Mediabrands released its 10 Media Responsibility Principles (MRP) as part of its broader effort to balance brand safety and brand responsibility in advertising.

On **May 13, 2020**, Interpublic announced that it has become part of a coalition of 90 companies and NGO partners with a view to address equality, diversity and inclusion issues around COVID-19.

Valuation

Interpublic shares are down 21.8% in the year-to-date period and 23.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 39.6% and 2.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 40.5% while the sector is up 0.6%.

The S&P 500 index is down 0.4% in the year-to-date period but up 7.9% in the past year.

The stock is currently trading at 11.81X price to forward 12 months' earnings, which compares to 13.45X for the Zacks sub-industry, 29.48X for the Zacks sector and 22.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.45X and as low as 6.07X, with a 5-year median of 13.38X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$19.00 price target reflects 12.43X 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	11.81	13.45	29.48	22.72
	5-Year High	18.45	16.53	29.48	22.72
	5-Year Low	6.07	9.11	18.68	15.25
	5-Year Median	13.38	13.22	20.89	17.52
P/S F 12M	Current	0.81	0.73	4.08	3.55
	5-Year High	1.23	1.38	4.08	3.55
	5-Year Low	0.55	0.64	3.06	2.53
	5-Year Median	1.05	1.1	3.59	3.02
P/B TTM	Current	2.73	11.42	4.61	4.38
	5-Year High	5.08	17.98	6.71	4.56
	5-Year Low	1.72	1.81	3.28	2.83
	5-Year Median	4.11	10.12	5.21	3.7

As of 07/15/2020

Industry Analysis Zacks Industry Rank: Bottom 5% (238 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Cognizant Technology Solutions Corporation (CTSH)	Neutral	4
DISH Network Corporation (DISH)	Neutral	3
Nielsen Holdings Plc (NLSN)	Neutral	3
Omnicom Group Inc. (OMC)	Neutral	3
Publicis Groupe SA (PUBGY)	Neutral	4
WPP PLC (WPP)	Neutral	3
Clear Channel Outdoor Holdings, Inc. (CCO)	Underperform	5
FLUENT, INC. (FLNT)	Underperform	5

Industry Comparison Industry: Advertising And Marketing				Industry Peers		
	IPG	X Industry	S&P 500	OMC	PUBGY	WPP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	C	-	-	D	A	A
Market Cap	7.03 B	101.51 M	22.66 B	12.05 B	7.07 B	9.49 B
# of Analysts	3	1.5	14	4	1	2
Dividend Yield	5.65%	0.00%	1.83%	4.62%	5.95%	12.40%
Value Score	B	-	-	B	A	A
Cash/Price	0.24	0.32	0.07	0.23	0.56	0.41
EV/EBITDA	7.11	4.68	12.99	6.53	4.10	5.04
PEG Ratio	4.25	1.16	2.97	1.85	NA	NA
Price/Book (P/B)	2.73	1.21	3.12	4.12	0.85	0.96
Price/Cash Flow (P/CF)	6.23	3.45	12.14	7.84	2.89	4.70
P/E (F1)	13.56	11.63	22.04	12.98	8.96	11.63
Price/Sales (P/S)	0.69	0.51	2.38	0.81	NA	NA
Earnings Yield	7.48%	2.95%	4.32%	7.70%	11.15%	8.60%
Debt/Equity	1.86	0.13	0.76	2.16	0.88	0.71
Cash Flow (\$/share)	2.90	0.12	6.94	7.17	2.70	8.24
Growth Score	D	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	13.88%	5.28%	10.85%	8.18%	NA	NA
Proj. EPS Growth (F1/F0)	-30.22%	-32.68%	-9.64%	-28.51%	-38.30%	-33.27%
Curr. Cash Flow Growth	10.62%	-27.50%	5.51%	-0.22%	14.72%	-24.78%
Hist. Cash Flow Growth (3-5 yrs)	11.98%	7.22%	8.55%	2.46%	14.09%	-2.36%
Current Ratio	0.97	1.16	1.30	0.92	0.88	0.99
Debt/Capital	65.79%	28.06%	44.46%	69.05%	46.72%	41.52%
Net Margin	6.54%	-4.17%	10.59%	8.96%	NA	NA
Return on Equity	29.27%	-21.29%	15.75%	43.58%	NA	NA
Sales/Assets	0.61	0.84	0.54	0.60	NA	NA
Proj. Sales Growth (F1/F0)	-11.45%	0.00%	-2.52%	-11.83%	0.00%	-28.45%
Momentum Score	D	-	-	F	A	B
Daily Price Chg	4.03%	0.00%	1.91%	2.50%	2.16%	2.06%
1 Week Price Chg	-0.53%	0.00%	-0.41%	-1.45%	-5.14%	-4.58%
4 Week Price Chg	3.38%	0.00%	1.88%	1.52%	-5.80%	-3.13%
12 Week Price Chg	28.56%	17.04%	16.37%	10.93%	17.04%	15.92%
52 Week Price Chg	-21.83%	-30.36%	-4.22%	-31.07%	-41.61%	-34.08%
20 Day Average Volume	3,943,395	196,790	2,266,132	2,733,194	40,005	192,811
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.30%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-4.58%
(F1) EPS Est 12 week change	-19.20%	-20.71%	-5.76%	-15.71%	-4.40%	-5.53%
(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	B
Growth Score	D
Momentum Score	D
VGM Score	C

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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