



Interpublic (IPG), Omnicom (OMC), WPP (WPP)

Ad Agencies: Prepare Yourself. This Will Be Bumpy.

Summary

We have heard the updates from the European ad agencies; this week will be Interpublic's turn. Given the slight lag in their business models, we don't expect to see a material revenue blow-up in 1Q. However, don't be fooled, the pressure on the industry is likely to show up in 2Q and last for a while.

During the 2008-09 recession, agency organic growth fell by -1,500 bps from +4% in 3Q 2008 to a low of -11% in 2Q 2009. This initial swoon took place over three quarters. Negative revenue growth continued for two more quarters for a total of five. It took seven quarters in the end for organic growth to recover back to +6% in 2Q 2010, reflecting the prolonged economic weakness over this period.

This time will be different. As such, we are estimating around a -1,800 bps drop in organic growth over the next two quarters across the agencies, which is a steeper and faster drop than 2008-09. However, we also expect a more rapid, although still gradual, recovery with a return to prior levels of organic growth in 2021.

On the plus side, agencies, due to their reliance on project-related human capital have more flexible business models than traditional ad-based models and can deliver negative operating leverage of less than 25%. Putting this together, we are cutting 2020 EPS estimates at Interpublic, Omnicom and WPP by -20% to -30%. We are -8% below consensus at Interpublic and Omnicom but +18% above at WPP, reflecting a more conservative take by the U.K./Euro analyst community. Either way, until revisions are settled and we know forward earnings, it is too early to buy this group.

Vital Signs

Interpublic (IPG)

| | | |
|--------------------------|---------|--|
| Recommendation | Neutral | |
| Target Price | \$17.00 | |
| Closing Price (04/20/20) | \$14.72 | |
| Forward P/E | 10.8x | |
| YTD Relative to S&P | -23.8% | |
| 12 Month Relative to S&P | -32.5% | |

| | <u>Old</u> | <u>New</u> | <u>Cons</u> |
|----------|------------|------------|-------------|
| 2020 EPS | \$1.87 | \$1.31 | \$1.64 |
| 2021 EPS | \$2.03 | \$1.45 | \$1.86 |

Omnicom (OMC)

| | | |
|--------------------------|---------|--|
| Recommendation | Sell | |
| Target Price | \$45.00 | |
| Closing Price (04/20/20) | \$53.92 | |
| Forward P/E | 11.5x | |
| YTD Relative to S&P | -21.6% | |
| 12 Month Relative to S&P | -32.6% | |

| | <u>Old</u> | <u>New</u> | <u>Cons</u> |
|----------|------------|------------|-------------|
| 2020 EPS | \$6.38 | \$4.99 | \$5.45 |
| 2021 EPS | \$6.71 | \$5.16 | \$6.16 |

WPP (WPP)

| | | |
|--------------------------|---------|--|
| Recommendation | Neutral | |
| Target Price | 610p | |
| Closing Price (04/20/20) | 551p | |
| Forward P/E | N/M | |
| YTD Relative to S&P | -37.3% | |
| 12 Month Relative to S&P | -40.0% | |

| | <u>Old</u> | <u>New</u> | <u>Cons</u> |
|----------|------------|------------|-------------|
| 2020 EPS | 93.1p | 74.4p | 63.1p |
| 2021 EPS | 98.2p | 81.8p | 79.1p |

U.S. Media Research

Investment Implications

We reiterate our Neutral rating on Interpublic but lower our target price by -\$4 to \$17 based on 9.5x 2022E P/E and 10.5% 2022E Adjusted FCF Yield (unchanged multiples).

We reiterate our Neutral rating on WPP but lower our target price by -140p to 610p based on 7.5x 2022E P/E and 12.5% 2022E Adjusted FCF Yield (unchanged multiples).

We reiterate our Sell rating on Omnicom and lower our target price by -\$14 to \$45 based on 8.5x 2022E P/E and 11.5% 2022E Adjusted FCF Yield (unchanged multiples).

Analysis

After cutting our estimates for traditional media and digital advertising due to the economic fallout from the COVID-19 pandemic, we are now turning our attention to the global advertising agencies. Since initiating on the agencies two years ago, we have been cautious on the sector due to structural challenges of weak client spending and attendant fee pressure, rising competition from digital consultancies and the in-housing of marketing services.

However, in a recession, while the stock prices haven't shown it, we believe the agencies are relatively better positioned than traditional media in large part due to the variable cost nature of their business models. In contrast to the fixed costs inherent in media and digital platforms, the agencies are labor-based and can, unfortunately for staff, adjust headcount needs to coincide with revenue declines in order to help stabilize margins. While there will certainly be top-line pressures, we believe the agencies are relatively less exposed than non-essential ad platforms like Twitter/Snap and general entertainment cable networks.

Also, we do not anticipate financial leverage to be as meaningful of an issue for the agencies, primarily due to efforts they have taken to shed non-core assets and shore up their balance sheets heading into the year. Yet, out of an abundance of caution, we do anticipate a suspension in share buybacks to provide extra cash cushion in 2020.

Nevertheless, two of the three agencies that we cover have been some of the worst performing stocks in our universe since COVID-19 concerns began to weigh on the markets at the end of February. All of our ad-supported names have underperformed the market given exposure to a potentially stark pullback in client ad spending – only ad-free Netflix has outperformed the market in our coverage group. The agencies, in particular, have had some of the worst performance with WPP down -44%, Interpublic down -41% and Omnicom down -31% on an absolute basis since the end of February (see Exhibit 1).

Exhibit 1

Internet, Media & Agency Stock Performance During COVID-19 Concerns

| | 2/20/2020 | | | 4/20/2020 | | | Change | | |
|---------|-----------|----------------|----------|-----------|----------------|----------|--------|----------------|----------|
| | Price | CY20E Earnings | Multiple | Price | CY20E Earnings | Multiple | Price | CY20E Earnings | Multiple |
| S&P 500 | 3,373.23 | 169.63 | 19.9x | 2,826.34 | 145.85 | 19.4x | -16% | -14% | -3% |
| NFLX | 386.00 | 6.01 | 64.3x | 437.76 | 6.09 | 71.9x | 13% | 1% | 12% |
| GOOGL | 1,516.99 | 53.95 | 28.1x | 1,263.97 | 46.21 | 27.4x | -17% | -14% | -3% |
| FB | 214.58 | 9.11 | 23.6x | 178.54 | 7.75 | 23.1x | -17% | -15% | -2% |
| SNAP | 16.92 | 0.03 | na | 12.94 | (0.07) | na | -24% | -359% | na |
| DIS | 140.37 | 5.57 | 25.2x | 102.37 | 3.58 | 28.6x | -27% | -36% | 13% |
| DISCA | 29.98 | 3.91 | 7.7x | 21.74 | 3.17 | 6.9x | -28% | -19% | -10% |
| FOXA | 37.03 | 2.60 | 14.3x | 26.10 | 2.40 | 10.9x | -30% | -8% | -24% |
| TWTR | 39.05 | 0.89 | 43.9x | 27.05 | 0.52 | 52.2x | -31% | -42% | 19% |
| OMC | 78.78 | 6.35 | 12.4x | 54.01 | 5.45 | 9.9x | -31% | -14% | -20% |
| AMCX | 36.30 | 8.34 | 4.4x | 24.16 | 6.86 | 3.5x | -33% | -18% | -19% |
| IPG | 24.93 | 2.01 | 12.4x | 14.72 | 1.64 | 9.0x | -41% | -18% | -28% |
| WPP | 984.2p | 92.5p | 10.6x | 550.80 | 63.1p | 8.7x | -44% | -32% | -18% |
| VIAC | 29.29 | 5.85 | 5.0x | 15.56 | 3.79 | 4.1x | -47% | -35% | -18% |

Source: Thomson, MoffettNathanson analysis

Despite this underperformance, we are maintaining our Neutral ratings on Interpublic and WPP, and our Sell rating on Omnicom. We are projecting agency organic growth to be negative for the rest of the year, and only expect a return to trend growth in 2021 with a more gradual “U-shaped” recovery in ad spending. While we expect the agencies to blunt some of the damage from these revenue cuts through cost management efforts, we still anticipate margins to erode by around -60 to -90 bps in 2020. Given these estimate cuts, we believe the selloff in agency stocks is warranted with limited upside for Interpublic and WPP, yet continue to believe there is additional downside ahead for Omnicom.

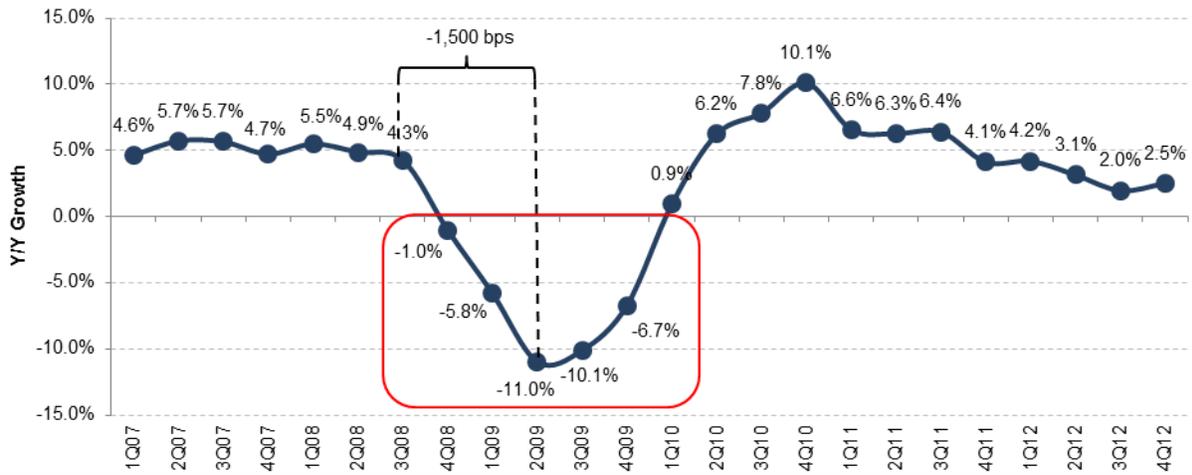
Lowering Agency Estimates due to COVID-19

To evaluate the potential organic revenue declines for the agencies from COVID-19, we looked back to 2008-09 as a benchmark of what happens in a recession. Unfortunately, while it may not be a great comparison, it does offer an indication of how agency revenues may fall as advertisers cut back on spending.

During the 2008-09 recession, agency organic growth fell by -1,500 bps from +4% in 3Q 2008 to a low of -11% in 2Q 2009 (see Exhibit 2). This initial decline took place over three quarters. Negative growth lasted for two more quarters for a total of five. It took seven quarters in the end for organic growth to recover back to +6% in 2Q 2010, reflecting the prolonged economic weakness over this period.

Exhibit 2

Agency Organic Growth in 2008-09 Recession (WPP, IPG, OMC and PUB)



Source: Company reports, MoffettNathanson estimates and analysis

Beyond the 2008-09 recession as a reference point for the potential COVID-19 impact, WPP announced at the end of March that China organic growth in January/February was -16%. So, it appears WPP’s China organic revenues were down -20% or more in February factoring in the full impact from COVID-19.

Also, Publicis announced its 1Q 2020 earnings last week with China organic growth down -15% in the quarter, with “mid-digit” declines in January and roughly equal declines in February/March. This would imply that February/March were each down around -20% for China, in line with WPP’s results for that region. In Europe, Publicis explained that organic growth was down -9% in the quarter primarily due to March weakness. As Publicis organic growth in Europe was -2% in 2019, and assuming January and February were down at a similar -2% rate, then this would imply March organic revenues may have been down -20% in Europe as well (see Exhibit 3).

Exhibit 3

1Q 2020 Publicis Estimated Monthly Organic Growth in China and Europe

| Organic Growth | Jan 2020E | Feb 2020E | Mar 2020E | 1Q 2020 |
|----------------|-----------|-----------|-----------|---------|
| China | -5% | -20% | -20% | -15% |
| Europe | -2% | -2% | -22% | -9% |

Source: Company reports, MoffettNathanson estimates and analysis

For WPP in 1Q 2020, we now expect -4% organic growth for the quarter (vs. -2% previously), driven by continued -20% organic declines in March for China as well as -10% declines in international markets. We assume the U.S. and other key international markets were primarily

hit by COVID-19 in the back half of March. Assuming the -20% run-rate from full COVID-19 impact extends into 2Q, we estimate -20% organic revenue declines for WPP in 2Q. As we anticipate a more gradual “U-shaped” recovery from COVID-19 rather than a rapid rebound in a “V-shaped” recovery, we expect organic growth to remain weak throughout 2020 with declines of -17% in 3Q 2020 and -13% in 4Q 2020 (see Exhibit 4).

We believe the U.S.-based agencies will perform relatively better than their European peers given stronger operating performance heading into the crisis. Rather than the -20% run-rate declines due to COVID-19 modeled for WPP, we instead project around -15% organic growth in 2Q for Interpublic and Omnicom. We are modeling a similar shape of recovery for the U.S.-based agencies as for WPP, with organic growth rebounding in 2Q 2021 after lapping the sharp declines in 2Q 2020 (see Exhibits 5 and 6).

Note, we are estimating around an -1,800 bps drop in organic growth over the next two quarters across the agencies, which is a steeper and faster decline than the -1,500 bps drop in the 2008-09 financial crisis. However, we also expect a more rapid, although still gradual, recovery with a return to prior levels of organic growth in 2021.

| Exhibit 4 | Exhibit 5 | Exhibit 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|------|----|------|-----|------|-----|------|-------|-------|-------|-------|--------|-------|--------|-------|-------|-------|------|--|---------|------------|------|----|------|----|------|----|------|------|-------|-------|-------|--------|-------|--------|-------|-------|-------|------|--|---------|------------|------|----|------|----|------|----|------|------|-------|-------|-------|--------|-------|--------|-------|-------|-------|------|
| <p align="center">WPP Organic Growth</p> | <p align="center">Omnicom Organic Growth</p> | <p align="center">Interpublic Organic Growth</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="1"> <caption>WPP Organic Growth Data</caption> <thead> <tr><th>Quarter</th><th>Y/Y Growth</th></tr> </thead> <tbody> <tr><td>1Q18</td><td>0%</td></tr> <tr><td>3Q18</td><td>-2%</td></tr> <tr><td>1Q19</td><td>-1%</td></tr> <tr><td>3Q19</td><td>-1.9%</td></tr> <tr><td>1Q20E</td><td>-4.0%</td></tr> <tr><td>2Q20E</td><td>-20.0%</td></tr> <tr><td>3Q20E</td><td>-17.0%</td></tr> <tr><td>1Q21E</td><td>-5.0%</td></tr> <tr><td>3Q21E</td><td>0.5%</td></tr> </tbody> </table> | Quarter | Y/Y Growth | 1Q18 | 0% | 3Q18 | -2% | 1Q19 | -1% | 3Q19 | -1.9% | 1Q20E | -4.0% | 2Q20E | -20.0% | 3Q20E | -17.0% | 1Q21E | -5.0% | 3Q21E | 0.5% | <table border="1"> <caption>Omnicom Organic Growth Data</caption> <thead> <tr><th>Quarter</th><th>Y/Y Growth</th></tr> </thead> <tbody> <tr><td>1Q18</td><td>2%</td></tr> <tr><td>3Q18</td><td>3%</td></tr> <tr><td>1Q19</td><td>3%</td></tr> <tr><td>3Q19</td><td>3.5%</td></tr> <tr><td>1Q20E</td><td>-0.5%</td></tr> <tr><td>2Q20E</td><td>-15.5%</td></tr> <tr><td>3Q20E</td><td>-10.5%</td></tr> <tr><td>1Q21E</td><td>-3.5%</td></tr> <tr><td>3Q21E</td><td>3.5%</td></tr> </tbody> </table> | Quarter | Y/Y Growth | 1Q18 | 2% | 3Q18 | 3% | 1Q19 | 3% | 3Q19 | 3.5% | 1Q20E | -0.5% | 2Q20E | -15.5% | 3Q20E | -10.5% | 1Q21E | -3.5% | 3Q21E | 3.5% | <table border="1"> <caption>Interpublic Organic Growth Data</caption> <thead> <tr><th>Quarter</th><th>Y/Y Growth</th></tr> </thead> <tbody> <tr><td>1Q18</td><td>5%</td></tr> <tr><td>3Q18</td><td>6%</td></tr> <tr><td>1Q19</td><td>5%</td></tr> <tr><td>3Q19</td><td>2.9%</td></tr> <tr><td>1Q20E</td><td>-1.0%</td></tr> <tr><td>2Q20E</td><td>-15.0%</td></tr> <tr><td>3Q20E</td><td>-10.0%</td></tr> <tr><td>1Q21E</td><td>-3.0%</td></tr> <tr><td>3Q21E</td><td>4.0%</td></tr> </tbody> </table> | Quarter | Y/Y Growth | 1Q18 | 5% | 3Q18 | 6% | 1Q19 | 5% | 3Q19 | 2.9% | 1Q20E | -1.0% | 2Q20E | -15.0% | 3Q20E | -10.0% | 1Q21E | -3.0% | 3Q21E | 4.0% |
| Quarter | Y/Y Growth | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q18 | 0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q18 | -2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q19 | -1% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q19 | -1.9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q20E | -4.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2Q20E | -20.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q20E | -17.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q21E | -5.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q21E | 0.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Quarter | Y/Y Growth | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q18 | 2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q18 | 3% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q19 | 3% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q19 | 3.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q20E | -0.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2Q20E | -15.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q20E | -10.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q21E | -3.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q21E | 3.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Quarter | Y/Y Growth | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q18 | 5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q18 | 6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q19 | 5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q19 | 2.9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q20E | -1.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2Q20E | -15.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q20E | -10.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q21E | -3.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3Q21E | 4.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Source: Company reports, MoffettNathanson estimates and analysis</p> | <p>Source: Company reports, MoffettNathanson estimates and analysis</p> | <p>Source: Company reports, MoffettNathanson estimates and analysis</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

If we overlay agency organic growth declines from the 2008-09 financial crisis with our estimates for COVID-19, we can see a sharper initial decline and then a slightly quicker recovery from COVID-19 (see Exhibit 7). We set the timeframe in the overlay chart at “o” representing the quarter before the organic growth declines – which was 3Q 2008 during the 2008-09 financial crisis and 4Q 2019 for COVID-19. Two quarters later – as represented by the “+2Q” data point – we anticipate organic growth will reach a bottom at -17% for COVID-19 (2Q 2020). However, in the 2008-09 financial crisis it took three quarters for organic growth to hit a bottom of -11.5% (2Q 2009) – as represented by the “+3Q” data point.

Despite the sharper initial decline from COVID-19, we anticipate a slightly faster recovery over six quarters with organic growth rebounding to +2.5% in 2Q 2021, compared to a slower seven-quarter recovery during the 2008-09 financial crisis.

Exhibit 7

Agency Organic Growth – 2008-09 Financial Crisis vs. COVID-19 (WPP, IPG, OMC)



Source: Company reports, MoffettNathanson estimates and analysis

For full-year estimates, we are lowering 2020 WPP organic growth by nearly -1,300 bps to -14% (vs. -1% previously) and 2021 organic growth by -100 bps to flat (vs. +1% previously) (see Exhibit 8). We are taking similar estimate cuts for the U.S. based agencies, with 2020 organic growth falling by -1,300 bps to -10% for Interpublic (vs. +3% previously) and by -1,250 bps to -10% for Omnicom (vs. +2.5% previously). We anticipate Interpublic and Omnicom to come out of the crisis relatively better positioned than their European peers and are raising our 2021 growth estimates slightly by +50 bps.

Note we are taking a larger -1,300 bps cut to our 2020 organic growth estimates compared to our initial forecast of a -500 bps cut from our report on the potential recession impact on advertising in the beginning of March ([U.S. Media & Internet: Assessing the Recession Risk](#), March 12th). The data points from WPP and Publicis on how sharp organic growth has fallen in regions affected by COVID-19 have led us to these larger estimate cuts.

Exhibit 8

Agency Organic Growth Estimate Changes

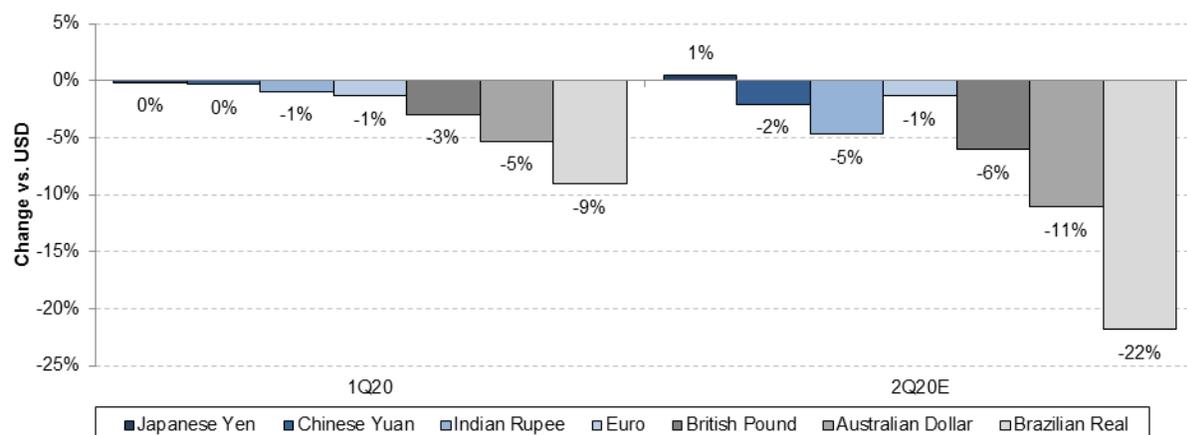
| Organic Growth % | 1Q20E | 2Q20E | 3Q20E | 4Q20E | 2020E | 2021E | 2022E |
|--------------------|----------|------------|------------|------------|------------|----------|-------|
| WPP | | | | | | | |
| Current | -4.0% | -20.0% | -17.0% | -13.0% | -13.7% | -0.0% | 1.0% |
| Prior | -1.8% | -1.6% | -0.4% | -0.4% | -1.0% | 0.9% | 1.0% |
| Change (bps) | -230 bps | -1,840 bps | -1,660 bps | -1,260 bps | -1,270 bps | -100 bps | 0 bps |
| Interpublic | | | | | | | |
| Current | -1.0% | -15.0% | -13.0% | -10.0% | -9.9% | 3.0% | 2.2% |
| Prior | 1.4% | 3.1% | 3.9% | 3.6% | 3.0% | 2.5% | 2.2% |
| Change (bps) | -240 bps | -1,810 bps | -1,690 bps | -1,360 bps | -1,290 bps | 50 bps | 0 bps |
| Omnicom | | | | | | | |
| Current | -0.5% | -15.5% | -13.5% | -10.5% | -10.2% | 2.5% | 1.5% |
| Prior | 2.0% | 2.7% | 3.0% | 2.3% | 2.5% | 2.0% | 1.5% |
| Change (bps) | -250 bps | -1,820 bps | -1,650 bps | -1,280 bps | -1,260 bps | 50 bps | 0 bps |

Source: Company reports, MoffettNathanson estimates and analysis

Along with lower organic growth, we factor in the impact of a strengthening U.S. dollar on our agency top-line estimates. Relative to spot rates at the end of 4Q 2019, there has been widespread devaluation across the core international currencies affecting our advertising agencies. The British pound is down -3% relative to its spot rate at the end of 4Q 2019 while the euro is down -1%. At current spot rates, we anticipate a sharper -6% drop in the British pound in 2Q 2020 with the euro down -1% as well (see Exhibit 9). Keep in mind that a strengthening U.S. dollar is a headwind to revenues for U.S.-based Interpublic and Omnicom, but a tailwind for U.K.-based WPP.

Exhibit 9

Currency Appreciation (Depreciation) vs. USD



Source: Thomson, MoffettNathanson estimates and analysis

Factoring in weaker organic growth and changing FX rates, we are lowering our 2020 revenue estimates by -11% for WPP, -15% for Interpublic and -14% for Omnicom (see Exhibit 10). While we took similar haircuts to organic growth across the agencies, FX is providing a relative boost to WPP as it reports in British pounds rather than U.S. dollars.

| Exhibit 10 | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Agency Revenue Estimate Changes | | | | | | | |
| Revenue, \$ mns | 1Q20E | 2Q20E | 3Q20E | 4Q20E | 2020E | 2021E | 2022E |
| WPP (£) | | | | | | | |
| Current | 2,364 | 2,183 | 2,184 | 2,572 | 9,303 | 9,319 | 9,408 |
| Prior | 2,385 | 2,621 | 2,553 | 2,873 | 10,431 | 10,525 | 10,626 |
| % Change | -1% | -17% | -14% | -10% | -11% | -11% | -11% |
| Interpublic | | | | | | | |
| Current | 1,935 | 1,735 | 1,736 | 2,127 | 7,532 | 7,733 | 7,901 |
| Prior | 1,998 | 2,164 | 2,132 | 2,517 | 8,811 | 9,032 | 9,227 |
| % Change | -3% | -20% | -19% | -16% | -15% | -14% | -14% |
| Omnicom | | | | | | | |
| Current | 3,375 | 3,070 | 3,081 | 3,645 | 13,170 | 13,451 | 13,653 |
| Prior | 3,496 | 3,813 | 3,754 | 4,241 | 15,304 | 15,609 | 15,843 |
| % Change | -3% | -19% | -18% | -14% | -14% | -14% | -14% |

Source: Company reports, MoffettNathanson estimates and analysis

Despite these revenue cuts, we believe the agencies are relatively better positioned to manage margins given the variable cost nature of their business models in comparison to the fixed costs inherent in the media and digital platforms. Indeed during the 2008-09 recession, Omnicom and Interpublic were able to shave 75-80 cents of costs for every dollar of revenues lost (see Exhibits 11 and 12). This led to a -90 bps margin contraction at Omnicom in 2009, and a sharper -280 bps margin contraction at Interpublic given lower cost savings and lower profitability at that time.

| Exhibit 11 | | |
|--|-------------|-------------|
| Omnicom Cost Savings in 2008-09 Recession | | |
| \$, mns | 2008 | 2009 |
| Revenue | 13,360 | 11,721 |
| Change | | (1,639) |
| Operating Expenses | 11,671 | 10,346 |
| Change | | (1,325) |
| % Cost Savings | | 81% |
| EBIT | 1,689 | 1,375 |
| % Margin | 12.6% | 11.7% |
| Change (bps) | | -90 bps |

Source: Company reports, MoffettNathanson analysis

| Exhibit 12 | | |
|--|-------------|-------------|
| Interpublic Cost Savings in 2008-09 Recession | | |
| \$, mns | 2008 | 2009 |
| Revenue | 6,963 | 6,007 |
| Change | | (955) |
| Operating Expenses | 6,373 | 5,666 |
| Change | | (707) |
| % Cost Savings | | 74% |
| EBIT | 590 | 341 |
| % Margin | 8.5% | 5.7% |
| Change (bps) | | -280 bps |

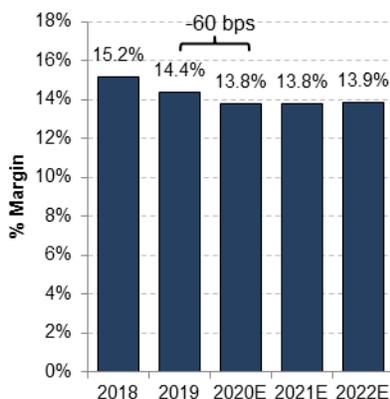
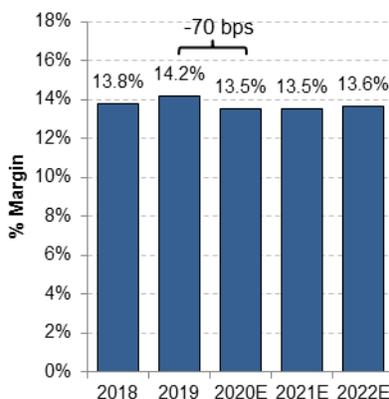
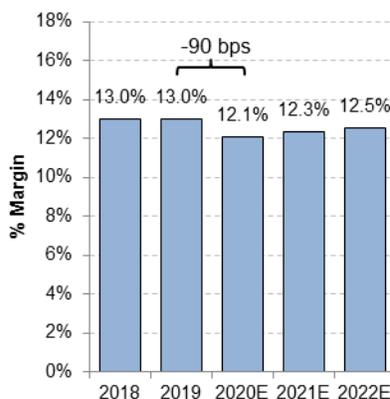
Source: Company reports, MoffettNathanson analysis

Assuming a similar 20% flow through of lost revenues to profits, we are lowering our 2020 EBIT estimates by -15% for WPP, -22% for Interpublic and -18% for Omnicom (see Exhibit 13).

| Exhibit 13 | | | | | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Agency EBIT Estimate Changes | | | | | | | | |
| EBIT, \$ mns | 1Q20E | 2Q20E | 1H20E | 3Q20E | 4Q20E | 2020E | 2021E | 2022E |
| WPP (£) | | | | | | | | |
| Current | | | 514 | | | 1,281 | 1,283 | 1,305 |
| Prior | | | 600 | | | 1,501 | 1,578 | 1,604 |
| % Change | | | -14% | | | -15% | -19% | -19% |
| Interpublic | | | | | | | | |
| Current | 62 | 184 | | 224 | 442 | 912 | 955 | 991 |
| Prior | 82 | 273 | | 294 | 516 | 1,165 | 1,212 | 1,248 |
| % Change | -24% | -33% | | -24% | -14% | -22% | -21% | -21% |
| Omnicom | | | | | | | | |
| Current | 399 | 437 | | 379 | 567 | 1,782 | 1,822 | 1,863 |
| Prior | 432 | 588 | | 490 | 662 | 2,173 | 2,216 | 2,249 |
| % Change | -8% | -26% | | -23% | -14% | -18% | -18% | -17% |

Source: Company reports, MoffettNathanson estimates and analysis

Given these lower profits, we anticipate operating margins to decline by -60 to -90 bps across the agencies in 2020 (see Exhibits 14, 15 and 16). Note this is less margin contraction than in 2008-09 primarily because the agencies are starting off at higher levels of profitability.

| Exhibit 14 | Exhibit 15 | Exhibit 16 |
|---|---|---|
| WPP Operating Margins | OMC Operating Margins | IPG Operating Margins |
|  |  |  |
| Source: Company reports, MoffettNathanson estimates and analysis | Source: Company reports, MoffettNathanson estimates and analysis | Source: Company reports, MoffettNathanson estimates and analysis |

To help shore up cash, we assume the agencies will suspend buybacks for the rest of the year. Indeed, WPP announced that it has suspended the remaining portion of its £950 million share

buyback program using proceeds from the Kantar deal, after spending around £330 million since December 2019. Similarly, Omnicom CEO John Wren explained in a memo to staff (per an [AdAge article](#)) that they have suspended their share repurchases as well. Interpublic has already suspended its share buybacks since 4Q 2018 following the acquisition of Acxiom Marketing Solutions.

However, we expect agencies to return to share buybacks in 2021 as they hopefully lap the impact from COVID-19. Nevertheless, we do not believe leverage will be a meaningful issue for the agencies – we estimate 2020 average net debt to EBITDA of 1.7x for Interpublic compared to 1.2x for WPP and 0.3x for Omnicom. So, suspending share repurchases is more of a precautionary action given the market environment and sensitivity around the practice rather than a necessary action to manage leverage (see Exhibit 17).

| Exhibit 17 | | | | |
|---|-------------|--------------|--------------|--------------|
| Agency Average Net Debt to EBITDA Leverage | | | | |
| Leverage | 2019 | 2020E | 2021E | 2022E |
| WPP | 2.3x | 1.2x | 1.0x | 0.9x |
| Interpublic | 1.9x | 1.7x | 1.5x | 1.4x |
| Omnicom | 0.4x | 0.3x | 0.1x | 0.1x |

Source: Company reports, MoffettNathanson estimates and analysis

Flowing through profit declines as well as the suspension of share buybacks, we are lowering our 2020 EPS estimates for the agencies by around -20% to -30% (see Exhibit 18). Note we are taking larger cuts to our Interpublic earnings estimates as we include additional interest expense from its recent \$650 million bond offering. We had assumed that Interpublic would pay down their impending debt maturities with cash on hand vs. refinancing.

| Exhibit 18 | | | | | | | | |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Agency EPS Estimate Changes | | | | | | | | |
| EPS | 1Q20E | 2Q20E | 1H20E | 3Q20E | 4Q20E | 2020E | 2021E | 2022E |
| WPP (£) | | | | | | | | |
| Current | | | 25.4p | | | 74.4p | 81.8p | 83.3p |
| Prior | | | 31.5p | | | 93.1p | 98.2p | 99.9p |
| % Change | | | -19% | | | -20% | -17% | -17% |
| Interpublic | | | | | | | | |
| Current | \$0.03 | \$0.25 | | \$0.32 | \$0.70 | \$1.31 | \$1.45 | \$1.62 |
| Prior | \$0.09 | \$0.43 | | \$0.48 | \$0.87 | \$1.87 | \$2.03 | \$2.16 |
| % Change | -66% | -43% | | -32% | -19% | -30% | -28% | -25% |
| Omnicom | | | | | | | | |
| Current | \$1.13 | \$1.23 | | \$1.03 | \$1.61 | \$4.99 | \$5.16 | \$5.35 |
| Prior | \$1.24 | \$1.76 | | \$1.43 | \$1.97 | \$6.38 | \$6.71 | \$7.01 |
| % Change | -9% | -30% | | -28% | -19% | -22% | -23% | -24% |

Source: Company reports, MoffettNathanson estimates and analysis

Valuation Has Fallen by More Than our Earnings Cuts

While we are cutting our 2020 estimates by -20% to -30%, agency stock prices have fallen in the range of -30% to -40% since COVID-19 began to weigh on the market at the end of February. Although this underperformance seems extreme, we do not believe agencies are Buys at these levels given risk that near-term organic growth may be even weaker than anticipated. Indeed, we are maintaining our Sell rating on Omnicom which continues to be the most highly valued agency among the group even though it has lower anticipated long-term growth and margin expansion than industry-leading Interpublic.

At first glance, the agencies appear to be trading at multiples nearing levels reached during the 2008-09 financial crisis. In January 2009, agency valuation hit a bottom with Omnicom trading at around 9x NTM P/E, and Interpublic and WPP trading at around 8x (see Exhibit 19). According to consensus NTM earnings estimates, the agencies are trading slightly above these levels with Omnicom at 9.5x NTM P/E, Interpublic at 8.6x and WPP at 8.1x.

Exhibit 19

Agency NTM P/E Multiples During 2008-09 Recession



Source: Thomson, MoffettNathanson analysis

However, we anticipate lower earnings estimates for Omnicom and Interpublic relative to consensus and imply they are trading at higher levels on 2020 earnings (see Exhibits 20 and 21). We are -7% below consensus on 2020 earnings for Interpublic and -8% below consensus for Omnicom. Accordingly, we infer that Interpublic is trading at nearly 10x 2020 earnings compared to 11x for Omnicom.

We are +18% higher than consensus on 2020 earnings estimates for WPP, perhaps due to stronger negative revisions from European-based analysts after WPP’s update on January/February results a few weeks ago as well as Publicis’ release of 1Q earnings last week. Based on our 2020 earnings estimates, we infer WPP is trading at nearly 7.5x earnings – below the 2008-09 recession low – yet recognize that WPP is now in a weaker operating position and should warrant a lower multiple.

| Exhibit 20 | | | |
|--|------------------|----------------|-----------------|
| MN vs. Consensus 2020 EPS Estimates | | | |
| 2020 EPS | Consensus | MN Est. | Variance |
| WPP | 63.1p | 74.4p | 18% |
| Interpublic* | \$1.64 | \$1.53 | -7% |
| Omnicom | \$5.45 | \$4.99 | -8% |

* MN estimate adjusted to exclude amortization

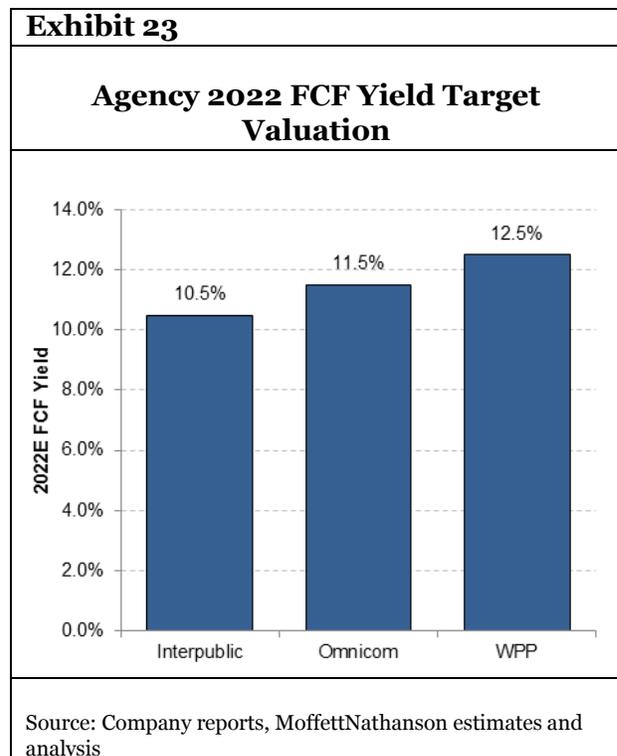
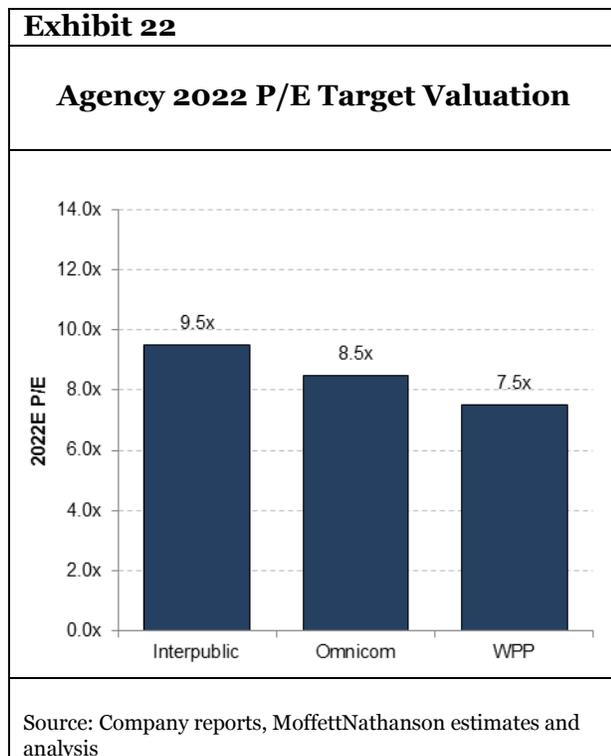
Source: Thomson, Company reports, MoffettNathanson estimates and analysis

| Exhibit 21 | | | |
|---------------------------------|--------------|-----------------|-----------------|
| Agency Current Valuation | | | |
| Valuation | Price | 2020 EPS | 2020 P/E |
| WPP | 550.8p | 74.4p | 7.4x |
| Interpublic* | \$14.72 | \$1.53 | 9.6x |
| Omnicom | \$53.92 | \$4.99 | 10.8x |

* MN estimate adjusted to exclude amortization

Source: Company reports, MoffettNathanson estimates and analysis

We are maintaining our target valuation multiples for the agencies, with Interpublic earning a higher 9.5x 2022 P/E multiple and 10.5% 2022 FCF Yield, compared to 8.5x P/E and 11.5% FCF Yield for Omnicom, and 7.5x P/E and 12.5% FCF Yield for WPP (see Exhibits 22 and 23). We believe Interpublic should be the highest valued agency in the group given its industry-leading organic growth and margin expansion. Meanwhile, we are assigning the lowest valuation to WPP as it has struggled with three straight years of negative organic growth and margin erosion, even before dealing with the ramifications from COVID-19 in 2020.



Based on our lower earnings estimates, while maintaining our valuation multiples on earnings and cash flow, we are lowering our target prices for the agencies by -20% to -25% (see Exhibit 24). We lower our Interpublic target price to \$17 (vs. \$21 previously), our WPP target price to 610p (vs. 750p previously), and our Omnicom target price to \$45 (vs. \$59 previously). We now

have +15% upside to our Interpublic target price, +11% upside to our WPP target price, and -17% downside to our Omnicom target price. We are maintaining our Neutral ratings on Interpublic and WPP despite moderate upside to our target prices given potential risk of further earnings cuts, and continue to rate Omnicom a Sell with further downside anticipated ahead.

| Exhibit 24 | | | | | |
|--|---------------|------------|------------|---------------------------------|-----------------------------|
| Price Targets and Implied Upside/Downside | | | | | |
| | Rating | Old | New | Last Close 4/20/2020 | Upside/ Downside |
| Interpublic | Neutral | \$21.00 | \$17.00 | \$14.72 | 15% |
| WPP | Neutral | 750.0p | 610.0p | 550.8p | 11% |
| Omnicom | Sell | \$59.00 | \$45.00 | \$53.92 | -17% |

Source: Company reports, MoffettNathanson estimates and analysis

The existential question for the agencies is whether the economic downturn will cause clients to reevaluate their agency relationships. Perhaps some marketers will decide to cut out the middleman and try to manage spend in-house. However, we believe this likely recession may instead prove the value of agencies by saving clients the upfront cost of managing their own in-house teams.

Especially given a dynamically changing marketplace, with the rise of OTT TV offerings, new digital ad platforms like Amazon, and changing regulations around consumer privacy and data, it may in fact be more efficient to outsource marketing functions to agencies especially if they are not core competencies for the client. We do not anticipate clients will be itching to set up their own in-house teams and add more fixed costs to their operating models given the downturn this time around, so do not expect the crisis will accelerate the shift in spending away from the agencies.

Exhibit 25

WPP 1Q 2020 Revenue Compare

| in £, mns | 1Q19 | 1Q20E | Y/Y | Old Estimates | | Variance | |
|--|--------------|--------------|---------------|---------------|---------------|-------------|--------------|
| | | | | 1Q20E | Y/Y | Abs. | % Chng |
| Revenue | 3,588 | 2,898 | -19.2% | 2,925 | -18.5% | (27) | -0.9% |
| Pass-through costs | 662 | 535 | -19.2% | 540 | -18.5% | (5) | -0.9% |
| % of revenue | 18.5% | 18.5% | 0 bps | 18.5% | 0 bps | 0 bps | |
| Revenue less pass-through costs | 2,926 | 2,364 | -19.2% | 2,385 | -18.5% | (22) | -0.9% |
| Organic | -2.8% | -4.0% | -123 bps | -1.8% | 104 bps | -227 bps | |
| Acquisitions (net) | 0.5% | 0.0% | -50 bps | 0.0% | -50 bps | 0 bps | |
| FOREX | 1.6% | -0.4% | -190 bps | -1.7% | -330 bps | 139 bps | |
| Total growth | -0.7% | -4.3% | -360 bps | -3.5% | -272 bps | -88 bps | |

Source: Company reports, MoffettNathanson estimates and analysis

Exhibit 26

WPP Annual Compare

| in £, mns | 2019 | 2020E | Y/Y | Old Estimates | | Variance | |
|--|---------------|---------------|---------------|---------------|--------------|----------------|---------------|
| | | | | 2020E | Y/Y | Abs. | % Chng |
| Revenue | 13,234 | 11,462 | -13.4% | 12,857 | -2.8% | (1,395) | -10.8% |
| Pass-through costs | 2,387 | 2,160 | -9.5% | 2,426 | 1.6% | (266) | -11.0% |
| % of revenue | 18.0% | 18.8% | 80 bps | 18.9% | 83 bps | -3 bps | |
| Revenue less pass-through costs | 10,847 | 9,303 | -14.2% | 10,431 | -3.8% | (1,129) | -10.8% |
| Organic | -1.6% | -13.7% | -1212 bps | -1.0% | 59 bps | -1271 bps | |
| Acquisitions (net) | 0.1% | 0.0% | -10 bps | 0.0% | -10 bps | 0 bps | |
| FOREX | 1.2% | -0.5% | -176 bps | -2.8% | -405 bps | 230 bps | |
| Total growth | -0.3% | -14.2% | -1397 bps | -3.8% | -357 bps | -1040 bps | |
| Adjusted operating expenses | | | | | | | |
| Staff costs | 7,091 | 6,130 | -13.5% | 6,819 | -3.8% | (688) | -10.1% |
| Establishment costs | 673 | 577 | -14.2% | 647 | -3.8% | (70) | -10.8% |
| Adjusted other operating costs (ex. D&A) | 1,316 | 1,128 | -14.2% | 1,265 | -3.8% | (137) | -10.8% |
| Depreciation and amortization | 207 | 186 | -10.0% | 199 | -3.8% | (13) | -6.4% |
| Total operating expenses | 9,286 | 8,022 | -13.6% | 8,930 | -3.8% | (908) | -10.2% |
| Adjusted operating profit | 1,561 | 1,281 | -18.0% | 1,501 | -3.8% | (221) | -14.7% |
| % Operating Margin | 14.4% | 13.8% | -63 bps | 14.4% | 0 bps | -63 bps | |
| Share of results of associates | 63 | 90 | 43.8% | 90 | 43.8% | 0 | 0.0% |
| Headline PBIT | 1,624 | 1,371 | -15.6% | 1,591 | -2.0% | (221) | -13.9% |
| % Headline PBIT Margin | 15.0% | 14.7% | -23 bps | 15.3% | 29 bps | -52 bps | |
| Depreciation and amortization | 207 | 186 | -10.0% | 199 | -3.8% | (13) | -6.4% |
| Headline EBITDA | 1,830 | 1,557 | -15.0% | 1,790 | -2.2% | (233) | -13.0% |
| Finance income | 99 | 103 | 4.1% | 103 | 4.1% | 0 | 0.0% |
| Finance costs | (279) | (219) | -21.6% | (219) | -21.6% | 0 | 0.0% |
| Headline PBT | 1,444 | 1,255 | -13.1% | 1,475 | 2.2% | (221) | -15.0% |
| Headline tax charge | (300) | (264) | -11.7% | (314) | 4.8% | 50 | -15.8% |
| Headline Tax Rate % | 20.8% | 22.5% | 174 bps | 22.5% | 174 bps | 0 bps | |
| Profit for the period | 1,144 | 990 | -13.4% | 1,161 | 1.5% | (171) | -14.7% |
| Net income to noncontrolling interests | (79) | (88) | 11.4% | (88) | 11.4% | 0 | 0.0% |
| Profit for equity holders | 1,065 | 902 | -15.3% | 1,073 | 0.8% | (171) | -15.9% |
| Diluted shares | 1,261 | 1,213 | -3.8% | 1,152 | -8.6% | 60 | 5.2% |
| Headline Diluted EPS | 84.5p | 74.4p | -11.9% | 93.1p | 10.3% | -18.7p | -20.1% |

Source: Company reports, MoffettNathanson estimates and analysis

Exhibit 27

WPP Quarterly Income Statement

| in £, mns | 1Q20E | 2Q20E | 1H20E | 3Q20E | 4Q20E | 2020E |
|--|--------------|--------------|--------------|--------------|--------------|---------------|
| Revenue | 2,898 | 2,729 | 5,627 | 2,679 | 3,156 | 11,462 |
| Pass-through costs | 535 | 545 | 1,080 | 496 | 584 | 2,160 |
| % of revenue | 18.5% | 20.0% | 19.2% | 18.5% | 18.5% | 18.8% |
| Revenue less pass-through costs | 2,364 | 2,183 | 4,547 | 2,184 | 2,572 | 9,303 |
| Organic | -4.0% | -20.0% | -12.4% | -17.0% | -13.0% | -13.7% |
| Acquisitions (net) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| FOREX | -0.4% | 0.0% | -0.1% | -2.9% | 1.0% | -0.5% |
| Total growth | -4.3% | -20.0% | -12.5% | -19.9% | -12.0% | -14.2% |
| Adjusted operating expenses | | | | | | |
| Staff costs | | | 3,078 | | | 6,130 |
| Establishment costs | | | 282 | | | 577 |
| Adjusted other operating costs | | | 578 | | | 1,128 |
| Depreciation and amortization | | | 95 | | | 186 |
| Total operating expenses | | | 4,033 | | | 8,022 |
| Y/Y | | | -25.6% | | | -13.6% |
| Adjusted operating profit | | | 514 | | | 1,281 |
| % Operating Margin | | | 11.3% | | | 13.8% |
| Share of results of associates | | | 45 | | | 90 |
| Headline PBIT | | | 559 | | | 1,371 |
| % Headline PBIT Margin | | | 12.3% | | | 14.7% |
| Y/Y | | | -25.6% | | | -15.6% |
| Finance income | | | 45 | | | 103 |
| Finance costs | | | (154) | | | (219) |
| Headline PBT | | | 450 | | | 1,255 |
| Headline tax charge | | | (94) | | | (264) |
| Headline Tax Rate % | | | 21.0% | | | 22.5% |
| Profit for the period | | | 355 | | | 990 |
| Net income to noncontrolling interests | | | (46) | | | (88) |
| Profit for equity holders | | | 309 | | | 902 |
| Diluted shares | | | 1,218 | | | 1,213 |
| Headline Diluted EPS | | | 25.4p | | | 74.4p |
| Y/Y | | | -25.8% | | | -11.9% |
| EBITDA | | | 609 | | | 1,467 |
| EBITDA Margin | | | 13.4% | | | 15.8% |

Source: Company reports, MoffettNathanson estimates and analysis

Exhibit 28

WPP Annual Income Statement

| in £, mns | 2019 | 2020E | 2021E | 2022E | 2023E | 2024E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 13,234 | 11,462 | 11,482 | 11,593 | 11,705 | 11,819 |
| Pass-through costs | 2,387 | 2,160 | 2,164 | 2,184 | 2,206 | 2,227 |
| % of revenue | 18.0% | 18.8% | 18.8% | 18.8% | 18.8% | 18.8% |
| Revenue less pass-through costs | 10,847 | 9,303 | 9,319 | 9,408 | 9,500 | 9,592 |
| Organic | -1.6% | -13.7% | 0.0% | 1.0% | 1.0% | 1.0% |
| Acquisitions (net) | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| FOREX | 1.2% | -0.5% | 0.2% | 0.0% | 0.0% | 0.0% |
| Total growth | -0.3% | -14.2% | 0.2% | 1.0% | 1.0% | 1.0% |
| Adjusted operating expenses | | | | | | |
| Staff costs | 7,091 | 6,130 | 6,141 | 6,191 | 6,241 | 6,292 |
| Establishment costs | 673 | 577 | 578 | 584 | 589 | 595 |
| Adjusted other operating costs | 1,316 | 1,128 | 1,130 | 1,141 | 1,152 | 1,163 |
| Depreciation and amortization | 207 | 186 | 186 | 188 | 190 | 192 |
| Total operating expenses | 9,286 | 8,022 | 8,036 | 8,104 | 8,173 | 8,243 |
| Y/Y | 0.7% | -13.6% | 0.2% | 0.8% | 0.9% | 0.9% |
| Adjusted operating profit | 1,561 | 1,281 | 1,283 | 1,305 | 1,327 | 1,349 |
| % Operating Margin | 14.4% | 13.8% | 13.8% | 13.9% | 14.0% | 14.1% |
| Share of results of associates | 63 | 90 | 90 | 90 | 90 | 90 |
| Headline PBIT | 1,624 | 1,371 | 1,373 | 1,395 | 1,417 | 1,439 |
| % Headline PBIT Margin | 15.0% | 14.7% | 14.7% | 14.8% | 14.9% | 15.0% |
| Y/Y | -5.8% | -15.6% | 0.2% | 1.6% | 1.6% | 1.6% |
| Finance income | 99 | 103 | 107 | 112 | 116 | 121 |
| Finance costs | (279) | (219) | (219) | (219) | (219) | (219) |
| Headline PBT | 1,444 | 1,255 | 1,261 | 1,287 | 1,314 | 1,342 |
| Headline tax charge | (300) | (264) | (266) | (272) | (278) | (284) |
| Headline Tax Rate % | 20.8% | 22.5% | 22.5% | 22.5% | 22.5% | 22.5% |
| Profit for the period | 1,144 | 990 | 995 | 1,016 | 1,036 | 1,058 |
| Net income to noncontrolling interests | (79) | (88) | (88) | (88) | (88) | (88) |
| Profit for equity holders | 1,065 | 902 | 907 | 927 | 948 | 969 |
| Diluted shares | 1,261 | 1,213 | 1,109 | 1,113 | 1,117 | 1,121 |
| Headline Diluted EPS | 84.5p | 74.4p | 81.8p | 83.3p | 84.9p | 86.5p |
| Y/Y | -8.0% | -11.9% | 9.9% | 1.9% | 1.9% | 1.9% |
| EBITDA | 1,768 | 1,467 | 1,469 | 1,493 | 1,517 | 1,541 |
| EBITDA Margin | 16.3% | 15.8% | 15.8% | 15.9% | 16.0% | 16.1% |

Source: Company reports, MoffettNathanson estimates and analysis

| Exhibit 29 | | | | | | | |
|--|---------------|---------------|--------------|----------------------|--------------|-----------------|--------------|
| OMC 1Q 2020 Compare | | | | | | | |
| in \$, mns | 1Q19 | 1Q20E | Y/Y | <u>Old Estimates</u> | | <u>Variance</u> | |
| | | | | 1Q20E | Y/Y | Abs. | % Chng |
| Revenue | 3,469 | 3,375 | -2.7% | 3,496 | 0.8% | (122) | -3.5% |
| <i>Organic</i> | 2.5% | -0.5% | -302 bps | 2.0% | -52 bps | -250 bps | |
| <i>Acquisitions (net)</i> | -3.6% | -0.8% | 283 bps | -0.8% | 283 bps | 0 bps | |
| <i>FOREX</i> | -3.4% | -1.5% | 190 bps | -0.5% | 290 bps | -101 bps | |
| <i>Impact of adoption of ASC 606</i> | <u>0.0%</u> | <u>0.0%</u> | <u>0 bps</u> | <u>0.0%</u> | <u>0 bps</u> | <u>0 bps</u> | |
| <i>Total growth</i> | -4.4% | -2.7% | 172 bps | 0.8% | 522 bps | -351 bps | |
| Operating expenses | | | | | | | |
| Salary and service (ex. SBC) | 2,551 | 2,492 | -2.3% | 2,571 | 0.8% | (79) | -3.1% |
| Share-based compensation | 17 | 16 | -2.7% | 17 | 0.8% | (1) | -3.5% |
| Occupancy and other | 309 | 304 | -1.6% | 312 | 0.8% | (7) | -2.4% |
| SG&A | 104 | 104 | 0.5% | 104 | 0.8% | (0) | -0.2% |
| Depreciation and amortization | 60 | 60 | 0.1% | 60 | 0.8% | (0) | -0.7% |
| Total operating expenses | 3,040 | 2,976 | -2.1% | 3,064 | 0.8% | (88) | -2.9% |
| Operating Income | 429 | 399 | -7.0% | 432 | 0.8% | (34) | -7.8% |
| <i>Operating Margin</i> | 12.4% | 11.8% | -55 bps | 12.4% | 0 bps | -55 bps | |
| Interest expense | (63) | (57) | -10.3% | (57) | -10.3% | 0 | 0.0% |
| Interest income | 17 | 17 | 0.0% | 17 | 0.0% | 0 | 0.0% |
| Income before income taxes | 383 | 359 | -6.2% | 393 | 2.6% | (34) | -8.6% |
| Provision for income taxes | (103) | (95) | -7.3% | (104) | 1.3% | 9 | -8.6% |
| <i>Income Tax Rate %</i> | 26.8% | 26.5% | -32 bps | 26.5% | -32 bps | 0 bps | |
| Equity in net income of affiliates | (1) | (1) | 0.0% | (1) | 0.0% | 0 | 0.0% |
| Net Income | 280 | 263 | -5.8% | 288 | 3.0% | (25) | -8.6% |
| Net income to noncontrolling interests | (17) | (17) | 0.0% | (17) | 0.0% | 0 | 0.0% |
| Net income to participating securities | 0 | 0 | | 0 | | 0 | |
| Net Income for common shares | 263 | 247 | -6.2% | 272 | 3.2% | (25) | -9.1% |
| Diluted shares | 224 | 220 | -2.1% | 219 | -2.4% | 1 | 0.3% |
| Adjusted EPS - Diluted | \$1.17 | \$1.13 | -4.2% | \$1.24 | 5.7% | (\$0.12) | -9.3% |
| EBITDA | 489 | 458 | -6.2% | 492 | 0.8% | (34) | -6.9% |
| <i>EBITDA Margin</i> | 14.1% | 13.6% | -50 bps | 14.1% | 0 bps | -50 bps | |

Source: Company reports, MoffettNathanson estimates and analysis

| Exhibit 30 | | | | | | | |
|--|---------------|---------------|---------------|----------------------|--------------|-----------------|---------------|
| OMC Annual Compare | | | | | | | |
| in \$, mns | 2019 | 2020E | Y/Y | <u>Old Estimates</u> | | <u>Variance</u> | |
| | | | | 2020E | Y/Y | Abs. | % Chng |
| Revenue | 14,954 | 13,170 | -11.9% | 15,304 | 2.3% | (2,134) | -13.9% |
| <i>Organic</i> | 2.8% | -10.2% | -1293 bps | 2.5% | -28 bps | -1265 bps | |
| <i>Acquisitions (net)</i> | -2.9% | -0.2% | 274 bps | -0.2% | 274 bps | 0 bps | |
| <i>FOREX</i> | -2.1% | -1.6% | 46 bps | 0.0% | 208 bps | -162 bps | |
| <i>Impact of adoption of ASC 606</i> | <u>0.0%</u> | <u>0.0%</u> | <u>0 bps</u> | <u>0.0%</u> | <u>0 bps</u> | <u>0 bps</u> | |
| <i>Total growth</i> | -2.2% | -11.9% | -973 bps | 2.3% | 454 bps | -1427 bps | |
| Operating expenses | | | | | | | |
| Salary and service (ex. SBC) | 10,900 | 9,638 | -11.6% | 11,155 | 2.3% | (1,517) | -13.6% |
| Share-based compensation | 73 | 64 | -12.0% | 74 | 2.4% | (10) | -14.0% |
| Occupancy and other | 1,222 | 1,094 | -10.5% | 1,250 | 2.3% | (156) | -12.5% |
| SG&A | 406 | 371 | -8.7% | 415 | 2.3% | (45) | -10.7% |
| Depreciation and amortization | <u>232</u> | <u>222</u> | -4.2% | <u>237</u> | 2.3% | (15) | -6.4% |
| Total operating expenses | 12,831 | 11,388 | -11.2% | 13,131 | 2.3% | (1,743) | -13.3% |
| Operating Income | 2,122 | 1,782 | -16.1% | 2,173 | 2.4% | (391) | -18.0% |
| <i>Operating Margin</i> | 14.2% | 13.5% | -66 bps | 14.2% | 0 bps | -67 bps | |
| Interest expense | (244) | (226) | -7.5% | (226) | -7.5% | 0 | 0.0% |
| Interest income | <u>60</u> | <u>60</u> | 0.0% | <u>60</u> | 0.0% | 0 | 0.0% |
| Income before income taxes | 1,938 | 1,616 | -16.6% | 2,007 | 3.5% | (391) | -19.5% |
| Provision for income taxes | (504) | (428) | -15.1% | (532) | 5.4% | 104 | -19.5% |
| <i>Income Tax Rate %</i> | 26.0% | 26.5% | 48 bps | 26.5% | 48 bps | 0 bps | |
| Equity in net income of affiliates | 2 | 2 | 0.0% | 2 | 0.0% | 0 | 0.0% |
| Net Income | 1,436 | 1,190 | -17.1% | 1,477 | 2.9% | (287) | -19.5% |
| Net income to noncontrolling interests | (97) | (97) | 0.0% | (97) | 0.0% | 0 | 0.0% |
| Net income to participating securities | 0 | 0 | 0.0% | 0 | 0.0% | 0 | #DIV/0! |
| Net Income for common shares | 1,339 | 1,093 | -18.4% | 1,380 | 3.1% | (287) | -20.8% |
| Diluted shares | 221 | 219 | -0.8% | 216 | -2.1% | 3 | 1.3% |
| Adjusted EPS - Diluted | \$6.06 | \$4.99 | -17.7% | \$6.38 | 5.3% | (\$1.39) | -21.8% |
| EBITDA | 2,354 | 2,003 | -14.9% | 2,409 | 2.4% | (406) | -16.9% |
| <i>EBITDA Margin</i> | 15.7% | 15.2% | -53 bps | 15.7% | 0 bps | -53 bps | |

Source: Company reports, MoffettNathanson estimates and analysis

Exhibit 31

OMC Quarterly Income Statement

| in \$, mns | 1Q20E | 2Q20E | 3Q20E | 4Q20E | 2020E |
|--|---------------|---------------|---------------|---------------|---------------|
| Revenue | 3,375 | 3,070 | 3,081 | 3,645 | 13,170 |
| Organic | -0.5% | -15.5% | -13.5% | -10.5% | -10.2% |
| Acquisitions (net) | -0.8% | 0.0% | 0.0% | 0.0% | -0.2% |
| FOREX | -1.5% | -2.0% | -1.5% | -1.5% | -1.6% |
| Total growth | -2.7% | -17.5% | -15.0% | -12.0% | -11.9% |
| Operating expenses | | | | | |
| Salary and service (ex. SBC) | 2,492 | 2,200 | 2,292 | 2,654 | 9,638 |
| Share-based compensation | 16 | 14 | 16 | 17 | 64 |
| Occupancy and other | 304 | 266 | 253 | 270 | 1,094 |
| SG&A | 104 | 95 | 86 | 86 | 371 |
| Depreciation and amortization | 60 | 57 | 54 | 51 | 222 |
| Total operating expenses | 2,976 | 2,633 | 2,702 | 3,078 | 11,388 |
| Y/Y | -2.1% | -16.3% | -14.3% | -11.9% | -11.2% |
| Operating Income | 399 | 437 | 379 | 567 | 1,782 |
| Operating Margin | 11.8% | 14.2% | 12.3% | 15.6% | 13.5% |
| Y/Y | -7.0% | -23.9% | -19.9% | -12.3% | -16.1% |
| Net interest expense | (40) | (40) | (43) | (43) | (166) |
| Income before income taxes | 359 | 396 | 336 | 524 | 1,616 |
| Provision for income taxes | (95) | (105) | (89) | (139) | (428) |
| Income Tax Rate % | 26.5% | 26.5% | 26.5% | 26.5% | 26.5% |
| Equity in net income of affiliates | (1) | 1 | 1 | 1 | 2 |
| Net Income | 263 | 293 | 248 | 386 | 1,190 |
| Net income to noncontrolling interests | (17) | (23) | (22) | (35) | (97) |
| Net income to participating securities | 0 | 0 | 0 | 0 | 0 |
| Net Income for common shares | 247 | 269 | 226 | 351 | 1,093 |
| Diluted shares | 220 | 220 | 219 | 219 | 219 |
| Adjusted EPS - Diluted | \$1.13 | \$1.23 | \$1.03 | \$1.61 | \$4.99 |
| Y/Y | -4.2% | -27.0% | -22.1% | -15.1% | -17.7% |
| EBITDA | 458 | 493 | 433 | 618 | 2,003 |
| EBITDA Margin | 13.6% | 16.1% | 14.1% | 17.0% | 15.2% |

Source: Company reports, MoffettNathanson estimates and analysis

Exhibit 32

OMC Annual Income Statement

| in \$, mns | 2019 | 2020E | 2021E | 2022E | 2023E | 2024E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 14,954 | 13,170 | 13,451 | 13,653 | 13,858 | 14,065 |
| Organic | 2.8% | -10.2% | 2.5% | 1.5% | 1.5% | 1.5% |
| Acquisitions (net) | -2.9% | -0.2% | 0.0% | 0.0% | 0.0% | 0.0% |
| FOREX | -2.1% | -1.6% | -0.3% | 0.0% | 0.0% | 0.0% |
| Total growth | -2.2% | -11.9% | 2.1% | 1.5% | 1.5% | 1.5% |
| Operating expenses | | | | | | |
| Salary and service (ex. SBC) | 10,900 | 9,638 | 9,843 | 9,977 | 10,113 | 10,251 |
| Share-based compensation | 73 | 64 | 66 | 67 | 68 | 69 |
| Occupancy and other | 1,222 | 1,094 | 1,115 | 1,132 | 1,149 | 1,166 |
| SG&A | 406 | 371 | 378 | 384 | 390 | 395 |
| Depreciation and amortization | 232 | 222 | 227 | 230 | 234 | 237 |
| Total operating expenses | 12,831 | 11,388 | 11,629 | 11,790 | 11,952 | 12,118 |
| Y/Y | -2.7% | -11.2% | 2.1% | 1.4% | 1.4% | 1.4% |
| Operating Income | 2,122 | 1,782 | 1,822 | 1,863 | 1,905 | 1,948 |
| Operating Margin | 14.2% | 13.5% | 13.5% | 13.6% | 13.7% | 13.8% |
| Y/Y | 0.8% | -16.1% | 2.3% | 2.2% | 2.2% | 2.2% |
| Net interest expense | (184) | (166) | (166) | (166) | (166) | (166) |
| Income before income taxes | 1,938 | 1,616 | 1,656 | 1,697 | 1,739 | 1,782 |
| Provision for income taxes | (504) | (428) | (439) | (450) | (461) | (472) |
| Income Tax Rate % | 26.0% | 26.5% | 26.5% | 26.5% | 26.5% | 26.5% |
| Equity in net income of affiliates | 2 | 2 | 2 | 2 | 2 | 2 |
| Net Income | 1,436 | 1,190 | 1,219 | 1,250 | 1,280 | 1,312 |
| Net income to noncontrolling interests | (97) | (97) | (97) | (97) | (97) | (97) |
| Net income to participating securities | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Income for common shares | 1,339 | 1,093 | 1,123 | 1,153 | 1,184 | 1,215 |
| Diluted shares | 221 | 219 | 218 | 216 | 214 | 212 |
| Adjusted EPS - Diluted | \$6.06 | \$4.99 | \$5.16 | \$5.35 | \$5.54 | \$5.74 |
| Y/Y | 5.5% | -17.7% | 3.4% | 3.7% | 3.6% | 3.5% |
| EBITDA | 2,354 | 2,003 | 2,049 | 2,093 | 2,139 | 2,185 |
| EBITDA Margin | 15.7% | 15.2% | 15.2% | 15.3% | 15.4% | 15.5% |

Source: Company reports, MoffettNathanson estimates and analysis

| Exhibit 33 | | | | | | | |
|--|---------------|---------------|---------------|----------------------|--------------|-----------------|---------------|
| IPG 1Q 2020 Compare | | | | | | | |
| in \$, mns | 1Q19 | 1Q20E | Y/Y | <u>Old Estimates</u> | | <u>Variance</u> | |
| | | | | 1Q20E | Y/Y | Abs. | % Chng |
| Gross Revenue | 2,361 | 2,308 | -2.3% | 2,383 | 0.9% | (75) | -3.2% |
| Billable expenses | 356 | 373 | 4.6% | 385 | 8.0% | (12) | -3.2% |
| Net Revenue | 2,005 | 1,935 | -3.5% | 1,998 | -0.3% | (63) | -3.2% |
| <i>Organic</i> | 6.4% | -1.0% | -745 bps | 1.4% | -509 bps | -236 bps | |
| <i>Acquisitions (net)</i> | 9.3% | -1.0% | -1035 bps | -1.0% | -1035 bps | 0 bps | |
| <i>FOREX</i> | <u>-2.8%</u> | <u>-1.5%</u> | 130 bps | <u>-0.7%</u> | 210 bps | -79 bps | |
| <i>Total growth</i> | 13.0% | -3.5% | -1649 bps | -0.3% | -1334 bps | -315 bps | |
| Operating expenses | | | | | | | |
| Salaries and related expenses | 1,421 | 1,381 | -2.8% | 1,416 | -0.3% | (35) | -2.5% |
| Office and other direct expenses | 389 | 380 | -2.5% | 388 | -0.3% | (8) | -2.2% |
| SG&A | 41 | 42 | 1.2% | 41 | -0.3% | 1 | 1.5% |
| <u>Depreciation and amortization</u> | <u>71</u> | <u>71</u> | -0.8% | <u>71</u> | -0.3% | (0) | -0.4% |
| Total operating expenses | 1,923 | 1,873 | -2.6% | 1,916 | -0.3% | (43) | -2.3% |
| Operating Income | 82 | 62 | -24.7% | 82 | -0.3% | (20) | -24.5% |
| <i>Operating Margin</i> | 4.1% | 3.2% | -90 bps | 4.1% | 0 bps | -90 bps | |
| Total other income (expense) | (40) | (47) | 17.1% | (36) | -9.8% | (11) | 29.8% |
| Income before income taxes | 42 | 15 | -65.2% | 45 | 8.8% | (31) | -68.0% |
| Provision for income taxes | (18.1) | (4) | -79.1% | (12) | -34.8% | 8 | -68.0% |
| <i>Income Tax Rate %</i> | 43.4% | 26.0% | -1741 bps | 26.0% | -1741 bps | 0 bps | |
| Equity in net income of affiliates | (0) | (0) | 0.0% | (0) | 0.0% | 0 | 0.0% |
| Net income to noncontrolling interests | 2 | 2 | 0.0% | 2 | 0.0% | 0 | 0.0% |
| Net Income | 24.8 | 12 | -51.8% | 35 | 40.2% | (23) | -65.6% |
| Diluted shares | 384.5 | 394 | 2.5% | 394 | 2.5% | 0 | 0.0% |
| Adjusted EPS - Diluted | \$0.06 | \$0.03 | -53.0% | \$0.09 | 36.7% | (\$0.06) | -65.6% |
| EBITDA | 153 | 132 | -13.6% | 153 | -0.3% | (20) | -13.3% |
| <i>EBITDA Margin</i> | 7.6% | 6.8% | -80 bps | 7.6% | 0 bps | -80 bps | |
| EBITA | 104 | 83 | -19.8% | 104 | 0.1% | (21) | -19.9% |
| <i>EBITA Margin</i> | 5.2% | 4.3% | -87 bps | 5.2% | 2 bps | -90 bps | |

Source: Company reports, MoffettNathanson estimates and analysis

Exhibit 34

IPG Annual Compare

| in \$, mns | 2019 | 2020E | Y/Y | Old Estimates | | Variance | |
|--|---------------|---------------|---------------|---------------|-------------|-----------------|---------------|
| | | | | 2020E | Y/Y | Abs. | % Chng |
| Gross Revenue | 10,221 | 8,984 | -12.1% | 10,508 | 2.8% | (1,525) | -14.5% |
| Billable expenses | 1,596 | 1,451 | -9.1% | 1,698 | 6.4% | (246) | -14.5% |
| Net Revenue | 8,625 | 7,532 | -12.7% | 8,811 | 2.2% | (1,278) | -14.5% |
| <i>Organic</i> | 3.3% | -9.9% | -1320 bps | 3.0% | -33 bps | -1287 bps | |
| <i>Acquisitions (net)</i> | 5.8% | -0.8% | -664 bps | -0.8% | -664 bps | 0 bps | |
| <i>FOREX</i> | -1.8% | -2.0% | -22 bps | 0.0% | 173 bps | -195 bps | |
| <i>Total growth</i> | 7.4% | -12.7% | -2006 bps | 2.2% | -524 bps | -1482 bps | |
| Operating expenses | | | | | | | |
| Salaries and related expenses | 5,569 | 4,899 | -12.0% | 5,670 | 1.8% | (771) | -13.6% |
| Office and other direct expenses | 1,564 | 1,375 | -12.1% | 1,597 | 2.1% | (222) | -13.9% |
| SG&A | 94 | 90 | -4.3% | 95 | 1.5% | (5) | -5.6% |
| <u>Depreciation and amortization</u> | <u>279</u> | <u>256</u> | -8.0% | <u>284</u> | 2.0% | (28) | -9.8% |
| Total operating expenses | 7,505 | 6,620 | -11.8% | 7,646 | 1.9% | (1,026) | -13.4% |
| Operating Income | 1,120 | 912 | -18.6% | 1,165 | 4.0% | (253) | -21.7% |
| <i>Operating Margin</i> | 13.0% | 12.1% | -87 bps | 13.2% | 24 bps | -111 bps | |
| Total other income (expense) | (161) | (189) | 17.1% | (145) | -9.8% | (43) | 29.8% |
| Income before income taxes | 959 | 723 | -24.5% | 1,019 | 6.3% | (296) | -29.0% |
| Provision for income taxes | (238.1) | (188.1) | -21.0% | (265) | 11.3% | 77 | -29.0% |
| <i>Income Tax Rate %</i> | 24.8% | 26.0% | 116 bps | 26.0% | 116 bps | 0 bps | |
| Equity in net income of affiliates | 0 | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| Net income to noncontrolling interests | (18) | (18) | 0.0% | (18) | 0.0% | 0 | 0.0% |
| Net Income | 703.0 | 517.8 | -26.4% | 737 | 4.8% | (219) | -29.7% |
| Diluted shares | 391.2 | 395.3 | 1.0% | 394 | 0.6% | 2 | 0.4% |
| Adjusted EPS - Diluted | \$1.80 | \$1.31 | -27.1% | \$1.87 | 4.1% | (\$0.56) | -30.0% |
| EBITDA | 1,398 | 1,168 | -16.5% | 1,449 | 3.6% | (281) | -19.4% |
| <i>EBITDA Margin</i> | 16.2% | 15.5% | -70 bps | 16.4% | 23 bps | -94 bps | |
| EBITA | 1,206 | 998 | -17.3% | 1,253 | 3.8% | (255) | -20.4% |
| <i>EBITA Margin</i> | 14.0% | 13.2% | -74 bps | 14.2% | 23 bps | -97 bps | |

Source: Company reports, MoffettNathanson estimates and analysis

Exhibit 35

IPG Quarterly Income Statement

| in \$, mns | 1Q20E | 2Q20E | 3Q20E | 4Q20E | 2020E |
|--|---------------|---------------|---------------|---------------|---------------|
| Gross Revenue | 2,308 | 2,069 | 2,070 | 2,536 | 8,984 |
| Billable expenses | 373 | 334 | 334 | 410 | 1,451 |
| Net Revenue | 1,935 | 1,735 | 1,736 | 2,127 | 7,532 |
| <i>Organic</i> | -1.0% | -15.0% | -13.0% | -10.0% | -9.9% |
| <i>Acquisitions (net)</i> | -1.0% | -0.9% | -0.8% | -0.6% | -0.8% |
| <i>FOREX</i> | <u>-1.5%</u> | <u>-2.5%</u> | <u>-2.0%</u> | <u>-2.0%</u> | <u>-2.0%</u> |
| <i>Total growth</i> | -3.5% | -18.4% | -15.8% | -12.6% | -12.7% |
| Operating expenses | | | | | |
| Salaries and related expenses | 1,381 | 1,145 | 1,132 | 1,241 | 4,899 |
| Office and other direct expenses | 380 | 323 | 310 | 363 | 1,375 |
| SG&A | 42 | 18 | 8 | 21 | 90 |
| <u>Depreciation and amortization</u> | <u>71</u> | <u>65</u> | <u>62</u> | <u>59</u> | <u>256</u> |
| Total operating expenses | 1,873 | 1,551 | 1,512 | 1,684 | 6,620 |
| Y/Y | -2.6% | -16.6% | -15.1% | -13.3% | -11.8% |
| Operating Income | 62 | 184 | 224 | 442 | 912 |
| <i>Operating Margin</i> | 3.2% | 10.6% | 12.9% | 20.8% | 12.1% |
| Y/Y | -24.7% | -30.8% | -20.1% | -10.0% | -18.6% |
| Total other income (expense) | (47) | (47) | (47) | (47) | (189) |
| Income before income taxes | 15 | 137 | 177 | 395 | 723 |
| Provision for income taxes | (4) | (36) | (46) | (103) | (188) |
| <i>Income Tax Rate %</i> | 26.0% | 26.0% | 26.0% | 26.0% | 26.0% |
| Equity in net income of affiliates | (0) | (0) | 0 | 1 | 0 |
| Net income to noncontrolling interests | 2 | (3) | (3) | (13) | (18) |
| Net Income | 12 | 98 | 128 | 279 | 518 |
| Diluted shares | 394 | 395 | 396 | 397 | 395 |
| Adjusted EPS - Diluted | \$0.03 | \$0.25 | \$0.32 | \$0.70 | \$1.31 |
| Y/Y | -53.0% | -45.4% | -26.8% | -15.4% | -27.1% |
| EBITDA | 132 | 249 | 285 | 501 | 1,168 |
| <i>EBITDA Margin</i> | 6.8% | 14.4% | 16.4% | 23.6% | 15.5% |
| EBITA | 83 | 206 | 245 | 464 | 998 |
| <i>EBITA Margin</i> | 4.3% | 11.9% | 14.1% | 21.8% | 13.2% |

Source: Company reports, MoffettNathanson estimates and analysis

Exhibit 36

IPG Annual Income Statement

| in \$, mns | 2019 | 2020E | 2021E | 2022E | 2023E | 2024E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Gross Revenue | 10,221 | 8,984 | 9,224 | 9,424 | 9,594 | 9,734 |
| Billable expenses | 1,596 | 1,451 | 1,490 | 1,522 | 1,550 | 1,573 |
| Net Revenue | 8,625 | 7,532 | 7,733 | 7,901 | 8,044 | 8,161 |
| <i>Organic</i> | 3.3% | -9.9% | 3.0% | 2.2% | 1.8% | 1.5% |
| <i>Acquisitions (net)</i> | 5.8% | -0.8% | 0.0% | 0.0% | 0.0% | 0.0% |
| <i>FOREX</i> | <u>-1.8%</u> | <u>-2.0%</u> | <u>-0.3%</u> | <u>0.0%</u> | <u>0.0%</u> | <u>0.0%</u> |
| <i>Total growth</i> | 7.4% | -12.7% | 2.7% | 2.2% | 1.8% | 1.5% |
| Operating expenses | | | | | | |
| Salaries and related expenses | 5,569 | 4,899 | 5,017 | 5,110 | 5,186 | 5,254 |
| Office and other direct expenses | 1,564 | 1,375 | 1,409 | 1,439 | 1,465 | 1,487 |
| SG&A | 94 | 90 | 90 | 92 | 94 | 95 |
| <u>Depreciation and amortization</u> | <u>279</u> | <u>256</u> | <u>262</u> | <u>268</u> | <u>273</u> | <u>277</u> |
| Total operating expenses | 7,505 | 6,620 | 6,779 | 6,910 | 7,018 | 7,113 |
| Y/Y | 7.4% | -11.8% | 2.4% | 1.9% | 1.6% | 1.3% |
| Operating Income | 1,120 | 912 | 955 | 991 | 1,025 | 1,048 |
| <i>Operating Margin</i> | 13.0% | 12.1% | 12.3% | 12.5% | 12.7% | 12.8% |
| Y/Y | 7.3% | -18.6% | 4.7% | 3.8% | 3.4% | 2.3% |
| Total other income (expense) | (161) | (189) | (166) | (147) | (128) | (108) |
| Income before income taxes | 959 | 723 | 788 | 844 | 897 | 941 |
| Provision for income taxes | (238) | (188) | (205) | (219) | (233) | (245) |
| <i>Income Tax Rate %</i> | 24.8% | 26.0% | 26.0% | 26.0% | 26.0% | 26.0% |
| Equity in net income of affiliates | 0 | 0 | 0 | 0 | 0 | 0 |
| Net income to noncontrolling interests | (18) | (18) | (18) | (18) | (18) | (18) |
| Net Income | 703 | 518 | 566 | 607 | 646 | 679 |
| Diluted shares | 391 | 395 | 389 | 374 | 360 | 346 |
| Adjusted EPS - Diluted | \$1.80 | \$1.31 | \$1.45 | \$1.62 | \$1.80 | \$1.96 |
| Y/Y | 1.0% | -27.1% | 11.0% | 11.7% | 10.7% | 9.1% |
| EBITDA | 1,398 | 1,168 | 1,217 | 1,259 | 1,298 | 1,325 |
| <i>EBITDA Margin</i> | 16.2% | 15.5% | 15.7% | 15.9% | 16.1% | 16.2% |
| EBITA | 1,206 | 998 | 1,040 | 1,077 | 1,111 | 1,134 |
| <i>EBITA Margin</i> | 14.0% | 13.2% | 13.5% | 13.6% | 13.8% | 13.9% |

Source: Company reports, MoffettNathanson estimates and analysis

Risks

Interpublic

Upside risks for Interpublic include: Faster advertising growth globally, greater share of total advertising spend, stronger client retention and new business wins, more favorable compensation terms, greater operating margin improvements, expanded share repurchase program, increased dividend, upswing in the global economy and M&A.

Downside risks for Interpublic include: Slower advertising growth globally, lower share of total advertising spend, losses of key clients, dilutive acquisitions at inflated valuations, faster operating expense growth and downturn in the global economy. AMS deal could result in slower growth and greater costs from managing data security and user privacy risk.

Omnicom

Downside risks for Omnicom include: Slower advertising growth globally, lower share of total advertising spend, losses of key clients, dilutive acquisitions at inflated valuations, faster operating expense growth and downturn in the global economy.

WPP

Upside risks for WPP include: Faster advertising growth globally, greater share of total advertising spend, stronger client retention and new business wins, greater operating margin improvements, expanded share repurchase program, increased dividend, upswing in the global economy and accretive asset sales.

Downside risks for WPP include: Slower advertising growth globally, lower share of total advertising spend, losses of key clients, dilutive acquisitions at inflated valuations, faster operating expense growth and downturn in the global economy.

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