

IPG, OMC, PUB, WPP: Pre-3Q16 Updates

Oct 17, 2016

BOTTOM LINE: We are updating price targets on agency holding companies ahead of 3Q16 earnings, featuring new YE2017 price targets and updates to our company models. As Publicis has fallen off since our recent downgrade to Hold, but our price target is now slightly higher, we are now upgrading Publicis back to Buy. However, IPG offers more upside potential and remains our preferred stock among the group. Omnicom and WPP remain Hold-rated, as our new price targets remain sufficiently close (+/- 15%) to current trading levels. WPP remains the best-in-class holding company in the long run, although OMC is poised to remain very strong in the near term.

Agency holding companies appeared relatively quiet during the third quarter, with seemingly less news related to transparency, account reviews and profit pressure than we saw earlier in the year. However, the importance of each of these topics remains undiminished.

The “rebate”/transparency issue isn’t going away any time soon. Marketers have taken the recent K2 report on transparency very seriously, with most we have spoken to looking to ensure that their contracts account for the issues referred to within the report. The impact of the report will likely take years to play out, as marketers become newly aware of different ways that agencies transparently or otherwise generate revenues. Marketers are also learning of the need to become increasingly vigilant in approving costs associated with the technology vendors their agencies recommend. As illustrated by the recent over-billing episode with Dentsu in Japan, they will also likely place additional scrutiny on media plans as well. However, we also think that many marketers ‘happily’ accept the trade-off between low fees and an agency’s ability to generate revenues from principal trading activities to make up the difference. Although marketers who dislike these practices or the potential biases they introduce into holding companies, those marketers have relatively few alternatives outside of the holding companies to practically consider given holding companies’ advantages of experience, cost and geographic span.

Account reviews have shown Omnicom to be on a hot streak this year. While new business is only one factor supporting the health of a holding company, the degree to which Omnicom has outperformed this year is significant, with recent account wins for McDonald’s, AT&T and Volkswagen among others. However, from the outside it is difficult to know how much of the new business performance was due to better strategic offerings vs. re-imagined workflows vs. better pricing. And where better pricing is at play, we’re mindful that Omnicom has expanded its principal trading operations significantly in recent years (illustrated well, we think, by the gap in revenue per employee at Omnicom which is around 30% higher than for Interpublic). Whatever the source, Omnicom is well positioned to grow faster than peers in 2017 because of this year’s activity.

Cost pressures are ever-present, and cause holding companies to manage differently. Marketers are constantly looking to squeeze like-for-like fees, and where they have the ability to do so, the margins that agencies generate. Individual business units, in turn, have to find new ways to manage their operations to meet goals promised to investors, such as a given number of basis points of margin improvement each year. We remain relatively optimistic that agencies can continue to find new ways to squeeze efficiencies out of their operations, above and beyond what marketers would try to claim for themselves. For example, we note that centralization efforts are ongoing at many sub-holding companies, as illustrated by Publicis’ creation of many single country P&Ls for its major creative agencies. Similarly, Publicis’ efforts to place all agencies in markets outside of the top 20 under one P&L (dubbed Publicis One) probably balances global marketers needs with cost efficiencies, if possibly at the risk of limiting revenue growth from single country clients inside of those markets. But these efforts are not limited to Publicis. We noted that IPG’s McCann Worldgroup recently sold off its Nordic units to an entity that will maintain an affiliate status with McCann. Such moves, while relatively small, are likely illustrations of ways in which holding companies can continue to manage their enterprises towards the margin goals they have set.

VALUATION. We value companies on a DCF basis. Key variables driving valuations across the agencies include long-term costs of capital ranging from 10.9% to 11.4% (IPG, OMC and WPP and the low end and PUB on the high end) and long-term growth rates ranging from 4.0% (for IPG and OMC) to 5.0% (for WPP and PUB).

RISKS. Agency risks relate to squeezing fees from clients, competition from adjacent industries, reduced competition between marketers and demand for advertising services.

Brian Wieser, CFA
212-514-4682
brian@pvtl.com

IPG (IPG)

RATING: BUY
(Previous: BUY)
Target Price: \$28.00
(Previous: \$27.00)
Price (10/14/16): \$22.66

OMNICOM (OMC)

RATING: HOLD
(Previous: HOLD)
Target Price: \$86.00
(Previous: \$79.00)
Price (10/14/16): \$82.87

PUBLICIS (PUB.PA)

RATING: BUY
(Previous: HOLD)
Target Price: €77.00
(Previous: €72.00)
Price (10/14/16): €65.50

WPP (WPP.L)

RATING: HOLD
(Previous: HOLD)
Target Price: 2040p
(Previous: 1810p)
Price (10/14/16): 1827p

Interpublic Income Statement

All Figures in mm Except Per Share Totals	INTERPUBLIC INCOME STATEMENT																			
	FY14A	1Q15A	2Q15A	3Q15A	4Q15A	FY15A	1Q16A	2Q16A	3Q16E	4Q16E	FY16A	1Q17E	2Q17E	3Q17E	4Q17E	FY17A	FY18A	FY19A	FY20A	FY21A
Revenue ^(a)	7,537.1	1,676.0	1,876.1	1,865.5	2,196.2	7,613.8	1,742.0	1,917.9	1,897.0	2,259.7	7,816.7	1,824.3	2,006.7	1,985.1	2,361.3	8,177.4	8,536.1	8,907.0	9,295.5	9,702.3
• YOY Growth	5.8%	2.4%	1.3%	1.3%	-0.5%	1.0%	3.9%	2.2%	1.7%	2.9%	2.7%	4.7%	4.6%	4.6%	4.5%	4.6%	4.4%	4.3%	4.4%	4.4%
Operating Expenses ^(a)	(4,820.4)	(1,215.2)	(1,205.2)	(1,202.2)	(1,235.1)	(4,857.7)	(1,270.9)	(1,229.0)	(1,214.9)	(1,261.8)	(4,976.6)	(1,324.6)	(1,278.9)	(1,264.4)	(1,310.2)	(5,178.1)	(5,375.8)	(5,591.5)	(5,816.9)	(6,052.0)
Salaries and Related Expenses	64.0%	72.5%	64.2%	64.4%	56.2%	63.8%	73.0%	64.1%	64.0%	55.8%	63.7%	72.6%	63.7%	63.7%	55.5%	63.3%	62.8%	62.8%	62.6%	62.4%
Office and General Expenses ^(a)	(1,928.2)	(453.0)	(455.1)	(471.4)	(504.7)	(1,884.2)	(450.2)	(464.1)	(475.6)	(514.8)	(1,904.7)	(468.7)	(482.6)	(494.7)	(534.4)	(1,980.4)	(2,054.5)	(2,134.9)	(2,218.7)	(2,306.1)
• % of Revenue	25.6%	27.0%	24.3%	25.3%	23.0%	24.7%	25.8%	24.2%	25.1%	22.8%	24.4%	25.7%	24.0%	24.9%	22.6%	24.2%	24.1%	24.0%	23.9%	23.8%
Restructuring and Other Reorganization-Related Long-Lived Asset Impairment and Other Charges	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expenses	(6,748.7)	(1,668.2)	(1,660.3)	(1,673.6)	(1,739.8)	(6,741.9)	(1,721.1)	(1,693.1)	(1,690.5)	(1,776.6)	(6,881.3)	(1,793.3)	(1,761.5)	(1,759.1)	(1,844.6)	(7,158.4)	(7,430.3)	(7,726.4)	(8,035.6)	(8,358.1)
Operating Income	788.4	7.8	215.8	191.9	456.4	871.9	20.9	224.8	206.5	483.2	935.4	31.0	245.2	226.0	516.7	1,019.0	1,105.8	1,180.6	1,260.0	1,344.2
• % of Revenue	10.5%	0.5%	11.5%	10.3%	20.8%	11.5%	1.2%	11.7%	10.9%	21.4%	12.0%	1.7%	12.2%	11.4%	21.9%	12.5%	13.0%	13.3%	13.6%	13.9%
Interest Expenses and Other Income	(57.5)	(13.7)	(15.3)	(15.7)	(18.3)	(63.0)	(16.8)	(18.9)	(13.8)	(13.8)	(63.2)	(13.8)	(13.8)	(13.8)	(13.8)	(55.0)	(55.0)	(55.0)	(55.0)	(55.0)
• Net Interest Expense	(64.8)	(20.9)	(20.3)	(21.3)	(23.9)	(85.8)	(22.6)	(24.5)	(21.3)	(21.3)	(89.6)	(21.3)	(21.3)	(21.3)	(21.3)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
• Interest Income	27.4	7.2	5.0	5.6	5.0	22.8	5.8	5.6	7.5	7.5	26.4	7.5	7.5	7.5	30.0	30.0	30.0	30.0	30.0	
Other Income (Expense), Net	(10.2)	0.3	0.5	(37.2)	(10.3)	(46.7)	(17.1)	(0.1)	0.0	0.0	(17.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (Expense) and Other Income	(67.7)	(13.4)	(14.8)	(52.9)	(28.6)	(109.7)	(33.9)	(19.0)	(13.8)	(13.8)	(80.4)	(13.8)	(13.8)	(13.8)	(13.8)	(55.0)	(55.0)	(55.0)	(55.0)	(55.0)
Income Before Income Taxes	720.7	(5.6)	201.0	139.0	427.8	762.2	(13.0)	205.8	192.8	469.4	855.0	17.3	231.5	212.3	502.9	964.0	1,050.8	1,125.6	1,205.0	1,289.2
Less: Facebook Gains	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Income Before Income Taxes Ex-Facebook	720.7	(5.6)	201.0	139.0	427.8	762.2	(13.0)	205.8	192.8	469.4	855.0	17.3	231.5	212.3	502.9	964.0	1,050.8	1,125.6	1,205.0	1,289.2
Provision for Income Taxes Ex-Facebook	(216.5)	1.4	(77.7)	(61.1)	(145.4)	(282.8)	15.6	(43.7)	(73.3)	(176.4)	(279.7)	(6.2)	(83.3)	(76.4)	(181.1)	(347.0)	(367.8)	(384.0)	(421.7)	(451.2)
• Effective Tax Rate	30.0%	25.0%	38.7%	44.0%	34.0%	37.1%	120.0%	21.2%	38.0%	38.0%	32.7%	36.0%	36.0%	36.0%	36.0%	36.0%	35.0%	35.0%	35.0%	35.0%
Income of Consolidated Companies	504.2	(4.2)	123.3	77.9	282.4	479.4	2.6	162.1	119.5	291.0	575.3	11.0	148.2	135.9	321.9	616.9	683.0	731.6	783.2	838.0
Equity in Net Income of Unconsolidated Affiliates	1.2	0.0	0.5	0.1	0.5	1.1	0.1	(1.9)	1.0	1.0	0.2	1.0	1.0	1.0	1.0	4.0	4.0	6.0	7.0	7.0
Net Income	505.4	(4.2)	123.8	78.0	282.9	480.5	2.7	160.2	120.5	292.0	575.5	12.0	149.2	136.9	322.9	620.9	687.0	737.6	790.2	845.0
Net Income Attributable to Noncontrolling Interests	(28.3)	2.4	(2.6)	(3.1)	(22.6)	(25.9)	2.7	(3.3)	0.0	(22.0)	(22.6)	0.0	(3.0)	0.0	(24.0)	(27.0)	(30.0)	(33.0)	(36.0)	(39.0)
Net Income Attributable to IPG	477.1	(1.8)	121.2	74.9	260.3	454.6	5.4	156.9	120.5	270.0	552.9	12.0	146.2	136.9	298.9	593.9	657.0	704.6	754.2	806.0
Dividends on Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Benefit from Preferred Stock Repurchased	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Allocation to Participating Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income Available to IPG Common Stockholders - Basic Ex-Facebook	477.1	(1.8)	121.2	74.9	260.3	454.6	5.4	156.9	120.5	270.0	552.9	12.0	146.2	136.9	298.9	593.9	657.0	704.6	754.2	806.0
Earnings Per Share Available to IPG Common Stockholders																				
Basic, Ex-Facebook	1.14	(0.00)	0.30	0.18	0.65	1.11	0.01	0.39	0.30	0.69	1.39	0.03	0.38	0.35	0.78	1.55	1.72	1.84	1.97	2.11
Diluted, Ex-Facebook	1.12	(0.00)	0.29	0.18	0.63	1.09	0.01	0.38	0.30	0.67	1.36	0.03	0.37	0.35	0.76	1.52	1.68	1.80	1.93	2.06
Adjusted Diluted EPS	0.98	(0.00)	0.29	0.27	0.66	1.21	0.01	0.33	0.30	0.67	1.30	0.03	0.37	0.35	0.76	1.52	1.68	1.80	1.93	2.06
Weighted Average Number of Common Shares Outstanding																				
Basic	419.2	411.7	410.5	407.6	403.4	408.1	400.6	400.1	397.1	393.1	397.7	391.1	389.1	386.1	382.1	382.1	382.1	382.1	382.1	382.1
Diluted, As Reported	424.6	411.7	417.6	415.5	412.3	415.7	409.3	409.8	406.8	402.8	407.2	400.8	398.8	395.8	391.8	391.8	391.8	391.8	391.8	391.8
Dividends Declared Per Common Share	0.38	0.12	0.12	0.12	0.12	0.48	0.15	0.15	0.15	0.15	0.60	0.18	0.18	0.18	0.18	0.72	0.80	0.90	1.00	1.10
(a) Includes effect of incorporating estimates for reclassification of taxes assessed by governmental authorities directly imposed on revenue producing transactions from gross to net basis for periods prior to 1Q10 (reported figures subsequent to this period account for the change)																				
Key Metrics																				
EBIT	788.4	7.8	215.8	191.9	456.4	871.9	20.9	224.8	206.5	483.2	935.4	31.0	245.2	226.0	516.7	1,019.0	1,105.8	1,180.6	1,260.0	1,344.2
• EBIT Margin	10.5%	0.5%	11.5%	10.3%	20.8%	11.5%	1.2%	11.7%	10.9%	21.4%	12.0%	1.7%	12.2%	11.4%	21.9%	12.5%	13.0%	13.3%	13.6%	13.9%
Amortization	81.0	24.2	24.1	20.8	21.3	90.5	30.1	27.3	27.3	27.3	112.1	22.3	22.3	22.3	22.3	89.0	89.0	89.0	89.0	89.0
EBITA	869.4	32.0	239.9	212.7	477.7	962.4	51.0	252.1	233.8	510.4	1,047.5	53.3	267.5	248.3	538.9	1,108.0	1,194.8	1,269.6	1,349.0	1,433.2
• EBITA Margin	11.5%	1.9%	12.8%	11.4%	21.7%	12.6%	2.9%	13.1%	12.3%	22.6%	13.4%	2.9%	13.3%	12.5%	22.8%	13.5%	14.0%	14.3%	14.5%	14.8%
Depreciation	136.2	32.7	33.3	43.5	42.6	152.0	32.0	32.8	35.8	35.8	136.3	41.3	41.3	41.3	41.3	165.0	175.0	185.0	190.0	195.0
EBITDA	1,005.6	64.7	273.1	256.2	520.2	1,114.4	83.0	284.8	269.5	546.2	1,183.7	94.5	308.7	289.5	580.2	1,273.0	1,369.8	1,454.6	1,539.0	1,628.2
• EBITDA Margin	13.3%	3.9%	14.6%	13.7%	23.7%	14.6%	4.8%	14.6%	14.2%	24.2%	15.1%	5.2%	15.4%	14.6%	24.6%	15.6%	16.0%	16.3%	16.6%	16.8%
Net Profit Margin	6.3%	-0.1%	6.5%	4.0%	11.9%	6.0%	0.3%	8.2%	6.4%	11.9%	7.1%	0.7%	7.3%	6.9%	12.7%	7.3%	7.7%	7.9%	8.1%	8.3%
EBIT Ex-Restructuring	10.5%	0.5%	11.5%	10.3%	20.8%	11.5%	1.2%	11.7%	10.9%	21.4%	12.0%	1.7%	12.2%	11.4%	21.9%	12.5%	13.0%	13.3%	13.6%	13.9%

Source: Pivotal Research, Company Reports

Interpublic Discounted Cashflow Model

INTERPUBLIC DISCOUNTED CASHFLOW MODEL					
All Figures In mm Except Per Share Totals	FY17A	FY18A	FY19A	FY20A	FY21A
Net Income	\$593.9	\$657.0	\$704.6	\$754.2	\$806.0
D&A	254.0	264.0	274.0	279.0	284.0
Change in Working Capital	0.0	0.0	0.0	0.0	0.0
Capital Expenditures / Acquisitions	(280.0)	(300.0)	(320.0)	(340.0)	(360.0)
Common Stock Dividends	(278.7)	0.0	0.0	0.0	0.0
Preferred Stock Dividends	0.0	0.0	0.0	0.0	0.0
Share Repurchases	(320.0)	0.0	0.0	0.0	0.0
Other Changes in Cash Balances	0.0	0.0	0.0	0.0	0.0
Changes in Cash Flows	(\$30.8)	\$621.0	\$658.6	\$693.2	\$730.0
Interest Expense	\$85.0	\$85.0	\$85.0	\$85.0	\$85.0
Less: Tax Adjustment	(30.6)	(29.8)	(29.8)	(29.8)	(29.8)
• Assumed Tax Rate on Interest	36.0%	35.0%	35.0%	35.0%	35.0%
Unlevered Free Cash Flows	\$23.6	\$676.3	\$713.9	\$748.5	\$785.2
NPV of Future Cash Flows	\$23.6	\$625.6	\$610.9	\$592.5	\$575.1
Sum of Future Cash Flows	\$2,404.1				
NPV of Terminal Value	8,487.0				
Value of Future Cashflows	\$10,891.2				
Plus: 2017E Cash	1,440.7				
Value of Cashflows, Cash and Investments	\$12,331.8				
Less: 2017E Debt	(1,820.0)				
Less: Preferred Stock	0.0				
2017E Common Equity Value	\$10,511.8				
Shares Outstanding 2017E	391.8				
Equity Value 2017E (Per Share)	\$28.00				
Current Equity Value	22.66				
2017E Equity Value Premium	24%				
Vs. Current Price					
KEY ASSUMPTIONS					
Applied Near-Term Discount Rate	8.1%				
Terminal EV/FCF Multiple	15.9x				
Long-Term Growth Rate	4.0%				
Long-Term Discount Rate	10.8%				

Source: Pivotal Research, Company Reports

Omnicom Income Statement

OMNICOM INCOME STATEMENT (All Figures in mm Except Per Share Totals)																				
	FY14A	1Q15A	2Q15A	3Q15A	4Q15A	FY15A	1Q16A	2Q16A	3Q16E	4Q16E	FY16A	1Q17E	2Q17E	3Q17E	4Q17E	FY17A	FY18A	FY19A	FY20A	FY21A
Revenue	15,317.8	3,469.2	3,805.3	3,706.6	4,153.3	15,134.4	3,499.1	3,884.9	3,819.4	4,314.6	15,518.0	3,683.9	4,089.6	4,021.4	4,490.1	16,285.0	16,969.7	17,719.5	18,510.4	19,344.0
• YOY Growth	5.0%	-0.9%	-1.7%	-1.1%	-1.0%	-1.2%	0.9%	2.1%	3.0%	3.9%	2.5%	5.3%	5.3%	5.3%	4.1%	4.9%	4.2%	4.4%	4.5%	4.5%
Operating Expenses, Ex-Amort. of Intangibles	(13,266.6)	(3,064.2)	(3,239.6)	(3,251.9)	(3,549.3)	(13,105.0)	(3,078.7)	(3,294.6)	(3,339.4)	(3,674.2)	(13,386.9)	(3,234.0)	(3,460.0)	(3,508.0)	(3,814.6)	(14,016.6)	(14,572.0)	(15,198.1)	(15,858.0)	(16,552.8)
Amortization of Intangibles	(107.1)	(27.3)	(27.1)	(26.4)	(28.5)	(109.3)	(28.3)	(28.5)	(27.5)	(27.5)	(111.8)	(28.5)	(28.5)	(28.5)	(28.5)	(114.0)	(116.0)	(118.0)	(120.0)	(122.0)
Total Operating Expenses	(13,373.7)	(3,091.5)	(3,266.7)	(3,278.3)	(3,577.8)	(13,214.3)	(3,107.0)	(3,323.1)	(3,366.9)	(3,701.7)	(13,498.7)	(3,262.5)	(3,488.5)	(3,536.5)	(3,843.1)	(14,130.6)	(14,688.0)	(15,316.1)	(15,978.0)	(16,674.8)
Operating Income	1,944.1	377.7	538.6	428.3	575.5	1,920.1	392.1	561.8	452.5	612.9	2,019.3	421.5	601.1	484.9	646.9	2,154.4	2,281.7	2,403.4	2,532.4	2,669.2
• % of Revenue	12.7%	10.9%	14.2%	11.6%	13.9%	12.7%	11.2%	14.5%	11.8%	14.2%	13.0%	11.4%	14.7%	12.1%	14.4%	13.2%	13.4%	13.6%	13.7%	13.8%
Net Interest Expense	(134.1)	(34.2)	(34.6)	(35.9)	(36.8)	(141.5)	(40.1)	(44.8)	(40.0)	(40.0)	(164.9)	(40.0)	(40.0)	(40.0)	(40.0)	(160.0)	(160.0)	(160.0)	(160.0)	(160.0)
Income Before Income Taxes	1,810.0	343.5	504.0	392.4	538.7	1,778.6	352.0	517.0	412.5	572.9	1,854.4	381.5	561.1	444.9	606.9	1,994.4	2,121.7	2,243.4	2,372.4	2,509.2
Income Tax Expense	(593.2)	(112.7)	(165.3)	(128.9)	(176.7)	(583.6)	(115.5)	(167.9)	(134.5)	(186.8)	(604.8)	(125.9)	(185.2)	(146.8)	(200.3)	(658.2)	(700.2)	(740.3)	(782.9)	(828.0)
• Effective Tax Rate	32.8%	32.8%	32.8%	32.8%	32.8%	32.8%	32.8%	32.5%	32.6%	32.6%	32.6%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%
Income From Equity Method Investments	16.1	(1.0)	4.0	3.2	2.2	8.4	(0.2)	2.8	2.5	2.5	7.6	2.8	2.8	2.8	2.8	11.0	12.0	13.5	15.0	16.0
Net Income	1,232.9	229.8	342.7	266.7	364.2	1,203.4	236.3	351.9	280.5	388.6	1,257.2	258.3	378.7	300.9	409.4	1,347.3	1,433.6	1,516.6	1,604.5	1,697.2
Less: Net Income to Noncontrolling Interests	(128.9)	(20.7)	(28.8)	(27.4)	(32.6)	(109.5)	(17.9)	(25.8)	(25.2)	(31.1)	(100.0)	(19.4)	(28.4)	(27.1)	(32.8)	(107.6)	(114.5)	(121.1)	(128.2)	(135.6)
Net Income - Omnicom Group Inc	1,104.0	209.1	313.9	239.3	331.6	1,093.9	218.4	326.1	255.2	357.5	1,157.2	239.0	350.3	273.8	376.6	1,239.6	1,319.1	1,395.4	1,476.4	1,561.6
Net Income Allocated to Participating Securities	(20.3)	(2.8)	(3.9)	(2.5)	(3.3)	(12.5)	(1.5)	(2.0)	(2.6)	(3.6)	(9.6)	(2.4)	(3.5)	(2.7)	(3.8)	(12.4)	(13.2)	(14.0)	(14.8)	(15.6)
Net Income Available For Common Shares	1,083.7	206.3	310.0	236.8	328.3	1,081.4	216.9	324.1	252.7	353.9	1,147.6	236.6	346.8	271.0	372.9	1,227.3	1,305.9	1,381.5	1,461.6	1,546.0
Earnings Per Share Available to Omnicom Group Inc. Common Stockholders																				
Basic	4.27	0.84	1.26	0.97	1.35	4.43	0.90	1.36	1.07	1.51	4.84	1.02	1.50	1.19	1.65	5.35	5.90	6.25	6.61	6.99
• YOY Growth	14.0%	7.7%	1.4%	2.2%	4.0%	3.7%	7.9%	8.0%	9.9%	11.7%	9.4%	12.6%	10.2%	10.9%	9.1%	10.5%	10.4%	5.8%	5.8%	5.8%
Diluted	4.24	0.83	1.26	0.97	1.35	4.41	0.90	1.36	1.06	1.50	4.81	1.01	1.49	1.18	1.63	5.30	5.85	6.19	6.55	6.93
• YOY Growth	14.3%	8.2%	2.2%	2.1%	3.9%	3.9%	7.9%	7.5%	9.5%	11.3%	9.1%	12.2%	9.9%	10.9%	9.1%	10.3%	10.3%	5.8%	5.8%	5.8%
Weighted Average Number of Common Shares Outstanding																				
Basic	253.9	246.4	245.5	243.2	242.6	244.3	240.0	237.7	236.2	234.2	237.0	232.5	230.7	228.5	226.2	229.5	221.2	221.2	221.2	221.2
Diluted	255.5	247.4	245.7	244.4	243.8	245.3	241.1	239.0	238.2	236.2	238.6	234.5	232.7	230.5	228.2	231.5	223.2	223.2	223.2	223.2
Dividend Declared Per Common Share	1.90	0.50	0.50	0.50	0.50	2.00	0.50	0.50	0.55	0.55	2.10	0.55	0.55	0.55	0.55	2.20	2.20	2.20	2.20	2.20
Payout Ratio	44.5%	59.7%	39.6%	51.4%	36.9%	45.2%	55.3%	36.7%	51.4%	36.4%	43.4%	54.0%	36.6%	46.4%	33.4%	41.1%	37.3%	35.2%	33.3%	31.5%
Key Metrics Ex-POG Merger Costs																				
EBIT	1,951.1	377.7	538.6	428.3	575.5	1,920.1	392.1	561.8	452.5	612.9	2,019.3	421.5	601.1	484.9	646.9	2,154.4	2,281.7	2,403.4	2,532.4	2,669.2
• EBIT Margin	12.7%	10.9%	14.2%	11.6%	13.9%	12.7%	11.2%	14.5%	11.8%	14.2%	13.0%	11.4%	14.7%	12.1%	14.4%	13.2%	13.4%	13.6%	13.7%	13.8%
Amortization of Intangibles	107.1	27.3	27.1	26.4	28.5	109.3	28.3	28.5	27.5	27.5	111.8	28.5	28.5	28.5	28.5	114.0	116.0	118.0	120.0	122.0
EBITA	2,058.2	405.0	565.7	454.7	604.0	2,029.4	420.4	590.3	480.0	640.4	2,131.1	450.0	629.6	513.4	675.4	2,268.4	2,397.7	2,521.4	2,652.4	2,791.2
• EBITA Margin	13.4%	11.7%	14.9%	12.3%	14.5%	13.4%	12.0%	15.2%	12.6%	14.8%	13.7%	12.2%	15.4%	12.8%	15.0%	13.9%	14.1%	14.2%	14.3%	14.4%
Depreciation	187.3	46.9	45.7	45.3	43.9	181.8	45.9	44.5	51.3	51.3	192.9	52.8	52.8	52.8	52.8	211.0	(116.0)	227.0	235.0	243.0
EBITDA	2,245.5	451.9	611.4	500.0	647.9	2,211.2	466.3	634.8	531.3	691.6	2,324.0	502.7	682.3	566.2	728.2	2,479.4	2,281.7	2,748.4	2,887.4	3,034.2
• EBITDA Margin	14.7%	13.0%	16.1%	13.5%	15.6%	14.6%	13.3%	16.3%	13.9%	16.0%	15.0%	13.6%	16.7%	14.1%	16.2%	15.2%	13.4%	15.5%	15.6%	15.7%
Diluted EPS	4.27	0.83	1.26	0.97	1.35	4.41	0.90	1.36	1.06	1.50	4.81	1.01	1.49	1.18	1.63	5.30	5.85	6.19	6.55	6.93
Net Profit Margin	7.1%	5.9%	8.1%	6.4%	7.9%	7.1%	6.2%	8.3%	6.6%	8.2%	7.4%	6.4%	8.5%	6.7%	8.3%	7.5%	7.7%	7.8%	7.9%	8.0%

Source: Pivotal Research, Company Reports

Omnicom Discounted Cashflow Model

OMNICOM DISCOUNTED CASHFLOW MODEL					
All Figures In mm except Per Share Totals	FY17A	FY18A	FY19A	FY20A	FY21A
Net Income	\$1,227.3	\$1,305.9	\$1,381.5	\$1,461.6	\$1,546.0
D&A	325.0	335.0	345.0	355.0	365.0
Change in Operating Capital	0.0	0.0	0.0	0.0	0.0
Capital Expenditures / Acquisitions	(310.0)	(400.0)	(440.0)	(480.0)	(520.0)
Common Stock Dividends	(509.2)	0.0	0.0	0.0	0.0
Share Repurchases	(750.0)	0.0	0.0	0.0	0.0
Changes in Debt Balances	0.0	0.0	0.0	0.0	0.0
Other Changes in Cash Balances	0.0	0.0	0.0	0.0	0.0
Changes in Cash Flows	(16.9)	1,240.9	1,286.5	1,336.6	1,391.0
Interest Expense	217.4	221.0	221.0	221.0	221.0
Less: Tax Adjustment	(71.7)	(72.9)	(72.9)	(72.9)	(72.9)
• Assumed Tax Rate on Interest	33.0%	33.0%	33.0%	33.0%	33.0%
Unlevered Free Cash Flows	\$128.7	\$1,389.0	\$1,434.6	\$1,484.7	\$1,539.1
NPV of Future Cash Flows		\$1,284.7	\$1,227.3	\$1,174.8	\$1,126.5
Sum of Future Cash Flows	\$4,813.3				
NPV of Terminal Value	16,624.6				
Value of Future Cashflows	\$21,437.9				
Plus: 2017E Cash	2,529.9				
Value of Cashflows and Cash	\$23,967.8				
Less: 2017E Debt	(4,912.0)				
2017E Common Equity Value	\$19,055.8				
Shares Outstanding 2017E	228.2				
Equity Value 2017E (Per Share)	\$86.00				
Current Equity Value	82.87				
2017E Equity Value Premium Vs. Current Price	4%				
KEY ASSUMPTIONS					
Near-Term Discount Rate	8.1%				
Terminal EV/FCF	18.3x				
Long-Term Growth Rate	4.0%				
Long-Term Discount Rate	10.8%				

Source: Pivotal Research, Company Reports

Publicis Income Statement

PUBLICIS INCOME STATEMENT (All Figures in mm of € Except Per Share Totals)																										
INCOME STATEMENT	FY10A	1H11A	2H11A	FY11A	1H12A	2H12A	FY12A	1H13A	2H13A	FY13A	1H14A	2H14A	FY14A	1H15A	2H15A	FY15A	1H16A	2H16E	FY16E	1H17E	2H17E	FY17E	FY18A	FY19A	FY20A	FY21A
Revenue	5,410.0	2,699.0	3,117.0	5,816.0	3,084.0	3,508.0	6,610.0	3,261.0	3,602.0	6,953.0	3,258.0	3,897.0	7,255.0	4,542.0	5,059.0	9,601.0	4,753.0	5,231.1	9,985.7	4,980.0	5,473.1	10,455.3	11,660.5	11,695.4	12,366.2	13,074.1
• YOY Growth	19.8%	6.3%	8.2%	7.3%	14.3%	13.1%	13.7%	8.7%	2.2%	5.2%	0.2%	8.2%	4.3%	35.3%	29.8%	32.3%	4.6%	3.4%	4.0%	4.8%	4.6%	4.7%	5.8%	5.7%	5.7%	5.7%
Operating Margin Before D&A	967.0	411.0	623.0	1,034.0	467.0	721.0	1,188.0	521.0	706.0	1,227.0	493.0	814.0	1,307.0	675.0	986.0	1,661.0	704.0	1,048.7	1,752.7	772.3	1,137.9	1,910.1	2,108.5	2,263.4	2,428.5	2,604.5
• YOY Growth	25.3%	-2.6%	14.3%	6.9%	13.6%	15.7%	14.9%	11.6%	-2.1%	3.3%	-5.4%	15.3%	6.5%	36.9%	21.1%	27.1%	4.3%	2.0%	5.5%	7.7%	11.3%	9.0%	10.1%	7.3%	7.3%	7.2%
• Margin	17.8%	15.2%	20.0%	17.8%	15.1%	20.4%	18.0%	15.9%	19.6%	17.6%	14.7%	20.9%	18.0%	14.9%	19.5%	17.3%	14.8%	20.0%	17.6%	15.5%	20.8%	18.3%	19.1%	19.4%	19.6%	19.9%
Depreciation and Amortization	(145.0)	(64.0)	(77.0)	(141.0)	(75.0)	(96.0)	(171.0)	(84.0)	(95.0)	(169.0)	(82.0)	(94.0)	(176.0)	(128.0)	(134.0)	(263.0)	(125.0)	(140.0)	(265.0)	(137.5)	(142.5)	(280.0)	(295.0)	(310.0)	(325.0)	(340.0)
Impairment Loss	(11.0)	0.0	0.0	0.0	(5.0)	(6.0)	(11.0)	(1.0)	(3.0)	(4.0)	(24.0)	(48.0)	(72.0)	0.0	(23.0)	(28.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current income and expenses	14.0	2.0	19.0	21.0	4.0	35.0	39.0	13.0	0.0	69.0	8.0	2.0	10.0	8.0	0.0	8.0	16.0	(16.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income	835.0	349.0	565.0	914.0	391.0	654.0	1,045.0	449.0	618.0	1,123.0	395.0	674.0	1,069.0	554.0	824.0	1,378.0	595.0	892.7	1,487.7	634.8	995.4	1,630.1	1,813.5	1,953.4	2,103.5	2,264.5
• % of Gross Profit	15.4%	12.9%	18.1%	15.7%	12.7%	18.5%	15.8%	13.4%	17.2%	16.2%	11.8%	17.3%	14.7%	12.2%	16.3%	14.4%	12.5%	17.1%	14.9%	12.7%	18.2%	15.6%	16.4%	16.7%	17.0%	17.3%
Financial Expense	(81.0)	(42.0)	(47.0)	(89.0)	(44.0)	(27.0)	(71.0)	(23.0)	(23.0)	(46.0)	(22.0)	(26.0)	(48.0)	(56.0)	(53.0)	(109.0)	(54.0)	(52.0)	(106.9)	(53.0)	(56.0)	(106.0)	(106.0)	(106.0)	(106.0)	(106.0)
Financial Income	16.0	16.0	17.0	33.0	30.0	11.0	41.0	10.0	10.0	20.0	10.0	15.0	25.0	16.0	19.0	35.0	15.0	15.0	30.0	15.0	15.0	30.0	30.0	30.0	30.0	30.0
Other Financial Income and Expenses	(11.0)	(2.0)	4.0	3.0	3.0	(5.0)	(2.0)	8.0	(3.0)	5.0	(7.0)	0.0	(5.0)	7.0	(22.0)	(15.0)	(11.0)	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-Tax Income of Consolidated Companies	750.0	321.0	539.0	860.0	380.0	633.0	1,013.0	444.0	602.0	1,102.0	376.0	663.0	1,041.0	521.0	768.0	1,289.0	545.0	866.7	1,411.7	599.8	954.4	1,554.1	1,737.5	1,877.4	2,027.5	2,188.5
Income Taxes	(216.0)	(91.0)	(157.0)	(248.0)	(106.0)	(176.0)	(320.0)	(124.0)	(174.0)	(236.0)	(113.0)	(196.0)	(311.0)	(159.0)	(227.0)	(386.0)	(162.0)	(261.5)	(423.5)	(179.9)	(286.3)	(466.2)	(521.2)	(563.2)	(608.3)	(656.5)
Net Income of Consolidated Companies	543.0	230.0	382.0	612.0	274.0	457.0	713.0	320.0	428.0	804.0	263.0	465.0	730.0	362.0	541.0	903.0	383.0	605.2	988.2	419.8	668.1	1,087.9	1,216.2	1,314.2	1,419.3	1,531.9
• YOY Growth	8.0	10.0	7.0	17.0	7.0	18.0	25.0	2.0	3.0	5.0	2.0	2.0	4.0	3.0	5.0	8.0	2.0	4.5	6.5	3.3	3.8	7.0	7.0	8.0	8.0	8.0
Share of Profit of Associates	15.0	24.0	38.0	62.0	28.0	47.0	75.0	32.0	43.0	80.0	26.0	46.0	73.0	36.0	54.0	91.0	38.0	60.9	99.7	42.3	67.8	1,094.9	1,223.2	1,322.2	1,427.3	1,539.9
Net Income Attributable to Non-Controlling Interests	(25.0)	(9.0)	(20.0)	(29.0)	(8.0)	(19.0)	(27.0)	(9.0)	(8.0)	(17.0)	(5.0)	(9.0)	(14.0)	(2.0)	(8.0)	(10.0)	(4.0)	(15.0)	(19.0)	(2.5)	(18.5)	(21.0)	(21.0)	(25.0)	(25.0)	(25.0)
Net Income Attributable to Equity Holders of Parent Company	528.0	231.0	362.0	600.0	273.0	456.0	729.0	313.0	423.0	792.0	260.0	456.0	720.0	363.0	538.0	901.0	381.0	594.7	975.7	420.6	653.3	1,073.9	1,202.2	1,297.2	1,402.3	1,514.9
• Profit Margin	9.7%	8.6%	11.8%	10.3%	8.9%	12.9%	11.0%	9.3%	11.7%	11.4%	7.7%	11.8%	9.9%	8.0%	10.6%	9.4%	8.0%	11.4%	9.8%	8.4%	11.9%	10.3%	10.9%	11.1%	11.3%	11.6%
Impact of Dilutive Securities	27.0	14.0	13.0	27.0	14.0	3.0	17.0	1.0	1.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group Net Income - Diluted	553.0	245.0	382.0	627.0	287.0	499.0	746.0	314.0	424.0	794.0	260.0	458.0	720.0	363.0	538.0	901.0	381.0	594.7	975.7	420.6	653.3	1,073.9	1,202.2	1,297.2	1,402.3	1,514.9
Per Share Data																										
Number of Shares	202.1	202.2	197.6	202.5	193.0	209.0	201.0	213.5	217.0	215.5	222.3	224.5	223.9	224.2	218.2	222.7	221.7	221.7	222.7	221.7	221.7	222.7	222.7	222.7	222.7	222.7
Earnings Per Share	2.69	1.14	1.87	2.96	1.41	2.19	3.63	1.47	1.96	3.67	1.17	2.04	3.22	1.62	2.47	4.05	1.72	2.68	4.38	1.90	2.95	4.82	5.40	5.83	6.30	6.80
Number of Diluted Shares	235.5	237.2	231.9	237.1	226.6	218.2	224.1	221.7	225.2	224.4	227.4	229.7	227.8	228.6	222.6	226.0	224.6	224.6	226.0	224.6	224.6	226.0	226.0	226.0	226.0	226.0
• Free shares and dilutive stock options	4.4	5.4	4.9	5.4	4.5	4.5	4.5	3.3	3.3	3.2	3.8	3.8	2.8	3.4	3.4	2.4	2.1	2.1	2.4	2.1	2.1	2.4	2.4	2.4	2.4	2.4
• Warrants	0.5	1.2	1.2	0.9	1.2	1.2	1.4	2.3	2.3	3.1	1.4	1.4	1.1	1.0	1.0	0.9	0.8	0.8	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9
• Shares resulting from conversion of convertible	28.5	28.4	28.1	28.5	27.9	3.5	17.2	2.6	2.6	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Diluted Earnings Per Share	2.35	1.03	1.65	2.64	1.27	2.10	3.33	1.42	1.88	3.54	1.14	1.99	3.16	1.59	2.42	3.99	1.70	2.65	4.32	1.87	2.91	4.75	5.32	5.74	6.20	6.70
HEADLINE EARNINGS PER SHARE																										
Net Income used to calculate headline EPS	528.0	231.0	369.0	600.0	273.0	456.0	729.0	313.0	429.0	792.0	260.0	460.0	720.0	363.0	538.0	901.0	381.0	594.7	975.7	420.6	653.3	1,073.9	1,202.2	1,297.2	1,402.3	1,514.9
Headline Group net income	538.0	241.0	360.0	601.0	283.0	415.0	698.0	314.0	464.0	778.0	303.0	526.0	820.0	383.0	609.0	992.0	448.5	594.7	1,043.2	488.1	655.8	1,143.9	1,272.2	1,372.2	1,477.3	1,589.9
Impact of dilutive instruments																										
• Savings in financial expenses linked to conversions	27.0	14.0	13.0	27.0	14.0	3.0	17.0	1.0	1.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Headline Group net income, diluted	563.0	255.0	373.0	628.0	297.0	418.0	715.0	315.0	465.0	780.0	303.0	526.0	820.0	383.0	609.0	992.0	448.5	594.7	1,043.2	488.1	655.8	1,143.9	1,272.2	1,372.2	1,477.3	1,589.9
Number of shares used to calculate EPS	202.1	202.2	197.6	202.5	193.0	207.2	201.0	213.5	217.2	215.5	222.3	224.3	223.9	224.2	218.2	222.7	221.7	221.7	222.7	221.7	221.7	222.7	222.7	222.7	222.7	222.7
Average number of shares used for the calculation																										
Impact of dilutive instruments																										
• Free shares and dilutive stock options	4.4	5.4	4.9	5.2	2.0	4.5	4.5	3.3	3.3	3.2	3.8	3.8	2.8	3.4	3.4	2.4	2.1	2.1	2.4	2.1	2.1	2.4	2.4	2.4	2.4	
• Warrants	0.5	1.2	1.2	0.9	1.2	1.2	1.4	2.3	2.3	3.1	1.4	1.4	1.1	1.0	1.0	0.9	0.8	0.8	0.9	0.8	0.8	0.9	0.9	0.9	0.9	
• Shares resulting from the conversion of the convertible bonds	28.5	28.4	28.1	28.5	27.9	3.5	17.2	2.6	2.6	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Number of diluted shares	235.5	237.2	231.9	237.1	224.1	216.4	224.1	221.7	225.4	224.4	227.4	229.7	227.8	228.6	222.6	226.0	224.6	224.6	226.0	224.6	224.6	226.0	226.0	226.0	226.0	226.0
Headline EPS	2.65	1.19	1.82	2.97	1.47	2.00	3.47	1.																		

Publicis Discounted Cashflow Model

PUBLICIS DISCOUNTED CASHFLOW MODEL (All Figures In mm of € Except Per Share Totals)					
	FY17E	FY18A	FY19A	FY20A	FY21A
Net Income	1,073.9	1,202.2	1,297.2	1,402.3	1,514.9
D&A	280.0	295.0	310.0	325.0	340.0
Change in Working Capital	0.0	0.0	0.0	0.0	0.0
Capital Expenditures / Acquisitions	(555.0)	(615.0)	(650.0)	(685.0)	(720.0)
Common Stock Dividends	(413.4)	0.0	0.0	0.0	0.0
Share Repurchases	0.0	0.0	0.0	0.0	0.0
Net New Debt Issued	0.0	0.0	0.0	0.0	0.0
Other Changes in Cash Balances	0.0	0.0	0.0	0.0	0.0
Changes in Cash Flows	385.5	882.2	957.2	1,042.3	1,134.9
Interest Expense	106.0	106.0	106.0	106.0	106.0
Less: Tax Adjustment	(31.8)	(31.8)	(31.8)	(31.8)	(31.8)
• Assumed Tax Rate on Interest	30.0%	30.0%	30.0%	30.0%	30.0%
Unlevered Free Cash Flows	459.7	956.4	1,031.4	1,116.5	1,209.1
NPV of Future Cash Flows		818.5	816.5	817.6	885.5
Sum of Future Cash Flows	3,338.1				
NPV of Terminal Value	14,109.7				
Value of Future Cashflows	17,447.9				
Plus: 2017E Cash	2,769.5				
Plus: Share of Private Company/Other Investments	0.0				
Value of Cashflows, Cash and Investments	20,217.3				
Less: 2017E Debt	(3,432.0)				
2017E Common Equity Value	16,785.3				
Shares Outstanding 2017E	224.6				
Equity Value 2017E	77.00				
Current Equity Value	65.50				
2017E Equity Value Premium Vs. Current Price	18%				
KEY ASSUMPTIONS					
Near-Term Discount Rate	8.1%				
Terminal EV/FCF Multiple	21.8x				
Long-Term Growth Rate	5.0%				
Long-Term Discount Rate	11.3%				

Source: Pivotal Research, Company Reports

WPP Income Statement

INCOME STATEMENT	WPP INCOME STATEMENT (All Figures in m of £ Except Per Share Totals)																											
	1H10A	2H10A	FY10A	1H11A	2H11A	FY11A	1H12A	2H12A	FY12A	1H13A	2H13A	FY13A	1H14A	2H14A	FY14A	1H15A	2H15A	FY15A	1H16A	2H16E	FY16A	1H17E	2H17E	FY17A	FY18A	FY19A	FY20A	FY21A
Gross Revenue	4,440.9	4,890.1	9,331.0	4,713.0	5,308.8	10,021.8	4,971.6	5,401.5	10,373.1	5,326.7	5,692.7	11,019.4	5,468.7	6,060.2	11,528.9	5,839.4	6,395.8	12,235.2	6,535.6	7,721.6	14,199.7	7,851.6	8,474.0	16,250.0	17,144.1	18,136.0	19,182.0	20,283.8
• YOY Growth	3.5%	11.2%	7.4%	6.1%	8.6%	7.4%	5.5%	1.7%	3.5%	7.1%	5.4%	2.7%	6.5%	2.9%	6.8%	5.5%	6.1%	11.9%	20.7%	16.1%	20.1%	9.7%	14.9%	5.4%	5.8%	5.8%	5.7%	
Direct Costs	(361.0)	(409.5)	(770.5)	(360.2)	(423.1)	(783.3)	(403.8)	(454.5)	(858.3)	(442.4)	(500.9)	(943.3)	(677.0)	(787.1)	(1,464.1)	(798.7)	(912.2)	(1,710.9)	(942.7)	(1,101.3)	(1,985.6)	(1,132.4)	(1,206.6)	(2,273.4)	(2,397.3)	(2,536.0)	(2,682.4)	(2,838.4)
Net Sales	4,079.9	4,480.6	8,560.5	4,352.8	4,885.7	9,238.5	4,567.8	4,947.0	9,514.8	4,884.3	5,191.8	10,076.1	4,791.7	5,273.1	10,064.8	5,040.7	5,483.6	10,524.3	5,592.9	6,620.3	12,214.1	6,719.2	7,267.4	13,976.6	14,746.7	15,600.0	16,500.5	17,447.4
• YOY Growth	3.2%	11.3%	7.2%	6.7%	9.0%	7.9%	4.9%	1.3%	3.0%	6.9%	4.9%	5.9%	-1.9%	1.6%	-0.1%	5.2%	4.0%	4.6%	11.0%	20.7%	16.1%	20.1%	9.7%	14.5%	5.4%	5.8%	5.6%	
• Net Sales Margin	91.9%	91.9%	91.7%	92.4%	92.0%	92.2%	91.9%	91.6%	91.7%	91.9%	91.2%	91.4%	87.6%	87.0%	86.2%	86.3%	85.7%	86.0%	85.6%	85.7%	86.0%	85.6%	85.7%	86.0%	85.6%	86.0%	86.0%	86.0%
Operating Costs	(3,739.7)	(3,847.8)	(7,587.5)	(3,621.6)	(4,124.7)	(8,045.9)	(4,112.4)	(4,161.3)	(8,273.7)	(4,370.5)	(4,295.5)	(8,665.8)	(4,260.8)	(4,299.9)	(8,657.5)	(4,251.8)	(4,640.5)	(8,892.3)	(5,040.2)	(5,269.5)	(10,208.7)	(5,671.0)	(6,090.0)	(11,761.0)	(12,357.6)	(13,026.0)	(13,744.9)	(14,498.8)
Operating Profit	340.2	632.8	973.0	431.2	761.0	1,192.2	454.4	785.7	1,241.1	513.8	896.5	1,410.3	531.1	976.2	1,507.3	788.9	843.1	1,632.0	553.8	1,351.8	1,905.4	1,048.2	1,175.4	2,223.6	2,389.0	2,574.0	2,755.6	2,948.0
• Operating Margin	8.3%	14.1%	11.4%	9.9%	15.8%	12.9%	10.0%	15.9%	13.0%	10.5%	17.3%	14.0%	11.1%	18.5%	15.0%	15.7%	15.4%	15.5%	9.9%	20.4%	15.8%	15.6%	16.2%	15.9%	16.2%	16.5%	16.7%	16.9%
Share of Results of Associates	22.3	32.9	55.2	24.5	41.5	66.1	28.0	41.4	69.4	27.6	40.5	69.1	28.7	33.2	61.9	16.0	31.0	47.0	15.9	34.1	53.0	18.0	37.0	55.0	60.0	65.0	70.0	75.0
Profit Before Interest and Taxation	362.2	665.7	1,028.2	455.7	802.5	1,258.3	483.4	827.1	1,310.5	541.4	937.0	1,479.4	559.8	1,009.4	1,569.2	804.9	874.1	1,679.0	569.5	1,385.9	1,959.4	1,066.2	1,212.4	2,278.6	2,449.0	2,639.0	2,825.6	3,023.6
• As % of Gross Profit	8.9%	14.9%	10.2%	10.6%	16.7%	13.8%	10.6%	16.7%	13.8%	11.1%	18.0%	14.7%	11.7%	19.1%	15.6%	16.0%	16.0%	16.0%	10.2%	20.9%	16.0%	16.3%	16.6%	16.3%	16.6%	16.9%	17.1%	17.3%
Net Finance Costs	(118.6)	(58.3)	(176.9)	(121.4)	(128.5)	(249.9)	(125.7)	(92.9)	(218.6)	(114.3)	(68.3)	(182.6)	(68.7)	(48.6)	(117.3)	(95.2)	(91.2)	(186.4)	(144.4)	(95.7)	(240.1)	(87.8)	(84.4)	(172.2)	(169.7)	(167.2)	(164.7)	(162.2)
Profit Before Taxation	243.6	607.4	851.3	334.3	674.1	1,008.4	357.7	734.2	1,091.9	427.1	868.7	1,296.8	491.1	960.8	1,451.9	709.7	782.9	1,492.6	425.1	1,290.2	1,715.3	978.4	1,127.9	2,106.4	2,279.3	2,471.8	2,660.9	2,861.5
Taxation	(61.3)	(129.0)	(190.3)	(71.5)	(20.4)	(91.9)	(50.9)	(146.3)	(197.2)	(111.7)	(172.0)	(283.7)	(94.9)	(197.2)	(292.1)	(108.6)	(138.9)	(247.5)	(143.1)	(258.0)	(401.1)	(215.3)	(248.1)	(463.4)	(524.2)	(593.2)	(665.2)	(715.4)
• Tax Rate	25.1%	21.2%	22.4%	21.4%	3.0%	9.1%	14.2%	19.8%	18.1%	26.2%	19.8%	21.9%	19.3%	20.5%	20.1%	15.3%	17.7%	16.6%	33.7%	20.0%	23.4%	22.0%	22.0%	22.0%	23.0%	24.0%	25.0%	25.0%
Profit for the Period	182.6	478.4	661.0	262.8	653.7	916.5	306.8	587.9	894.7	315.4	696.7	1,012.1	396.2	763.6	1,159.8	601.1	644.0	1,245.1	282.0	1,032.2	1,314.2	763.2	879.8	1,643.0	1,755.1	1,878.6	1,996.7	2,146.1
• YOY Growth	32.0%	29.8%	30.4%	43.9%	36.6%	38.7%	16.7%	-10.1%	-2.4%	2.8%	18.5%	13.1%	25.6%	9.6%	14.6%	51.7%	15.7%	7.4%	53.1%	69.3%	5.9%	170.6%	14.8%	25.0%	6.8%	7.0%	6.2%	
Attributable to:																												
Equity Holders of the Parent	150.8	435.2	596.0	230.7	609.4	840.1	277.8	544.9	822.7	280.9	656.6	936.5	364.8	712.4	1,077.2	566.2	594.0	1,160.2	245.8	978.4	1,224.2	723.2	824.8	1,548.0	1,655.1	1,773.6	1,885.7	2,031.1
Minority Interests / Non-controlling Interests	31.8	43.2	75.0	32.1	44.3	76.4	29.0	43.0	72.0	34.5	41.1	75.6	31.4	42.9	74.3	34.9	50.0	84.9	36.2	53.8	90.0	40.0	55.0	95.0	100.0	105.0	110.0	115.0
• YOY Growth	6.4%	9.9%	8.4%	0.9%	2.5%	1.9%	-9.7%	-2.9%	-5.8%	19.0%	-4.4%	5.0%	-9.0%	4.4%	-1.7%	11.1%	16.0%	14.3%	3.7%	7.6%	6.0%	10.5%	2.2%	5.0%	5.3%	5.0%	4.6%	4.5%
Headline PBIT	455.3	773.4	1,228.7	517.9	911.1	1,429.0	570.0	961.0	1,531.0	637.0	1,024.6	1,661.6	622.0	1,058.6	1,680.6	669.1	1,104.9	1,774.0	768.7	1,331.7	2,100.4	950.2	1,463.4	2,433.6	2,614.0	2,814.0	3,010.6	3,218.6
• YOY Growth	33.1%	14.8%	20.8%	13.7%	17.8%	16.3%	10.1%	5.5%	7.1%	11.8%	6.6%	8.5%	2.4%	3.3%	1.1%	7.8%	6.4%	5.5%	14.9%	29.5%	18.4%	19.4%	15.9%	14.4%	15.9%	17.4%	7.0%	6.9%
Headline PBIT Margin On Old Gross Revenue	10.3%	15.8%	13.2%	11.0%	17.2%	14.3%	11.5%	17.8%	15.1%	11.4%	17.5%	14.6%	11.5%	17.3%	14.5%	11.8%	17.2%	14.5%	11.8%	17.2%	15.8%	12.1%	17.5%	15.0%	15.2%	15.5%	15.7%	15.9%
Headline PBT	356.2	677.4	1,033.6	417.0	812.1	1,229.1	466.8	850.3	1,317.1	523.7	934.3	1,458.0	531.6	981.0	1,512.6	595.7	1,026.6	1,622.3	679.2	1,181.1	1,860.3	1,048.4	1,212.9	2,261.4	2,444.3	2,646.8	2,845.9	3,056.5
New Headline PBIT Margin on New Gross Profit	11.2%	17.3%	14.4%	11.9%	18.6%	15.5%	12.5%	19.4%	16.1%	13.0%	19.7%	16.5%	13.0%	20.1%	16.7%	13.3%	20.1%	16.9%	13.7%	20.1%	17.2%	14.1%	20.4%	17.4%	17.7%	18.0%	18.2%	18.4%
DILUTED EPS																												
Diluted Headline Earnings	239.2	491.6	739.8	293.0	589.3	882.3	334.9	631.3	966.2	375.1	713.0	1,088.1	394.0	719.2	1,135.8	441.7	787.4	1,229.1	498.2	943.1	1,369.2	793.2	909.8	1,703.0	1,820.1	1,948.6	2,070.7	2,226.1
Shares Used in Diluted EPS Calculation	1,254.1	1,339.0	1,339.0	1,344.0	1,342.2	1,342.2	1,347.4	1,352.6	1,352.6	1,355.9	1,360.3	1,360.3	1,349.2	1,337.5	1,337.5	1,317.1	1,313.0	1,313.0	1,300.0	1,288.5	1,288.0	1,288.0	1,288.0	1,288.0	1,288.0	1,288.0	1,288.0	1,288.0
Diluted Reported EPS	0.120	0.325	0.438	0.172	0.454	0.626	0.206	0.403	0.608	0.207	0.482	0.688	0.270	0.533	0.805	0.430	0.452	0.884	0.189	0.771	0.950	0.570	0.640	1.202	1.285	1.377	1.484	1.577
Diluted Headline EPS	0.191	0.387	0.546	0.218	0.439	0.657	0.249	0.467	0.714	0.277	0.524	0.800	0.292	0.538	0.849	0.335	0.600	0.936	0.383	0.743	1.063	0.625	0.705	1.322	1.413	1.513	1.608	1.728
Diluted Headline EPS Growth	47.5%	16.5%	22.9%	14.3%	19.6%	20.4%	14.0%	6.3%	8.7%	11.3%	12.3%	12.0%	5.6%	2.6%	6.2%	14.8%	11.5%	10.2%	14.3%	24.0%	13.6%	63.2%	-5.0%	24.4%	6.9%	7.1%	6.3%	7.5%
DIVIDENDS																												
Dividends Declared	0.060	0.118	0.178	0.075	0.171	0.246	0.088	0.197	0.285	0.106	0.237	0.342	0.116	0.266	0.382	0.159	0.288	0.447	0.196	0.372	0.567	0.313	0.353	0.661	0.707	0.756	0.804	0.864
Dividend Pay-Out Ratio	31.3%	32.2%	32.6%	34.2%	39.0%	37.4%	35.4%	42.2%	39.9%	38.2%	45.1%	42.8%	39.8%	49.4%	45.0%	47.4%	48.0%	47.7%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%

Source: Pivotal Research, Company Reports

WPP Discounted Cashflow Model

WPP DISCOUNTED CASHFLOW MODEL (All Figures In mm of £ Except Per Share Totals and Where Noted as \$)					
	FY17A	FY18A	FY19A	FY20A	FY21A
Net Income	1,548.0	1,655.1	1,773.6	1,885.7	2,031.1
D&A	413.0	436.0	459.0	485.0	510.0
Change in Working Capital	0.0	0.0	0.0	0.0	0.0
Capital Expenditures / Acquisitions	(735.0)	(770.0)	(805.0)	(840.0)	(875.0)
Common Stock Dividends	0.0	0.0	0.0	0.0	0.0
Share Repurchases	0.0	0.0	0.0	0.0	0.0
Other Changes in Cash Balances	0.0	0.0	0.0	0.0	0.0
Changes in Cash Flows	<u>1,226.0</u>	<u>1,321.1</u>	<u>1,427.6</u>	<u>1,530.7</u>	<u>1,666.1</u>
Interest Expense	236.7	236.7	236.7	236.7	236.7
Less: Tax Adjustment	(52.1)	(54.4)	(56.8)	(59.2)	(59.2)
• Assumed Tax Rate on Interest	22.0%	23.0%	24.0%	25.0%	25.0%
Unlevered Free Cash Flows	<u>1,410.6</u>	<u>1,503.3</u>	<u>1,607.5</u>	<u>1,708.2</u>	<u>1,843.6</u>
NPV of Future Cash Flows	1,410.6	1,403.8	1,401.7	1,390.9	1,401.8
Sum of Future Cash Flows	5,598.1				
NPV of Terminal Value	<u>24,269.7</u>				
Value of Future Cashflows	29,867.8				
Plus: 2017E Cash	1,358.5				
Plus: Share of Private Company/Other Investments	<u>1,000.0</u>				
Value of Cashflows, Cash and Investments	32,226.3				
Less: 2017E Debt	<u>(6,396.3)</u>				
2017E Common Equity Value	25,830.0				
Shares Outstanding 2017E	1,288.0				
Equity Value 2017E (Pence Per Share)	2,040.0				
Current Equity Value (Pence Per Share)	1,827.0				
2017E Equity Value Premium Vs. Current Price	12%				
Current Exchange Rate	1.22				
Equity Value 2017E (\$ Per ADR)	124.00				
Current Equity Value (\$ Per ADR)	111.31				
2017E Equity Value Premium Vs. Current Price	11%				
KEY ASSUMPTIONS					
Near-Term Discount Rate	7.1%				
Terminal EV/FCF Multiple	19.2x				
Long-Term Growth Rate	5.0%				
Long-Term Discount Rate	10.8%				

Source: Pivotal Research, Company Reports

RISKS

Investors will need to consider the following among company and industry risks for agency holding companies:

Rebate blowback. Marketers are beginning to learn about practices associated with agency rebates. To the extent undisclosed rebates have unduly become a factor for an agency and are later discovered, marketer-clients may try to claw back revenues or (more likely) limit an agency's ability to pursue similar arrangements in the future, reducing long-term growth.

Failure to meet revenue or margin expectations. Client losses or the failure to improve operations could lead to shortfalls of revenue or margin expectations.

Squeezing fees. Marketers are typically squeezing their agencies for operational efficiencies on an ongoing basis. Agencies have historically proven resilient in finding cost saving opportunities to perform like-for-like services. However at some point such efforts may no longer yield incremental benefits, and as long as agencies operate in a competitive manner they will suffer. In a similar light, high margin services offered today are typically likely to become standard-margin services in the future, as the more a service becomes standardized, the more that marketers' procurement teams seek to standardize processes and drive agency margin out of the activity.

Competition from adjacent industries. We remain skeptical that today's digital media companies such as Google will ever actively compete with agencies. This should hold not least because digital media companies will want to retain their margins (significantly higher than those for agency services) but also because clients generally want some perceived independence from advisors making marketing budget recommendations.

However, agencies are increasingly placed up against today's IT services firm in providing some services today. This type competition is more likely to increase in the future, although not across all marketing-related disciplines. Companies such as Accenture and IBM are increasingly positioning parts of their businesses adjacent to agencies as they seek to build platforms which can manage the execution of media campaigns, monitor the impact of those campaigns and integrate those efforts with an array of marketing data within a company's ERP (enterprise resource planning) system.

Reduced competition between marketers. We have previously identified that advertising spending – and marketing in general – is primarily driven by the competitive intensity that is present within a given category. To the extent that industries evolve to feature reduced levels of competitive intensity, marketing services would generally suffer.

Appendix: Important Disclosures

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I, Brian W. Wieser, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and their securities. I further certify that I have not received and will not receive direct or indirect compensation related to specific recommendations or views contained in this research report.

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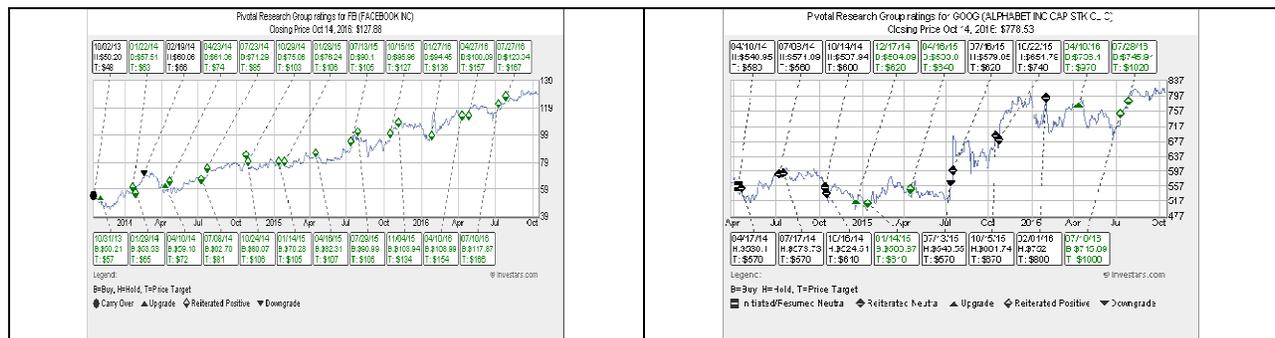
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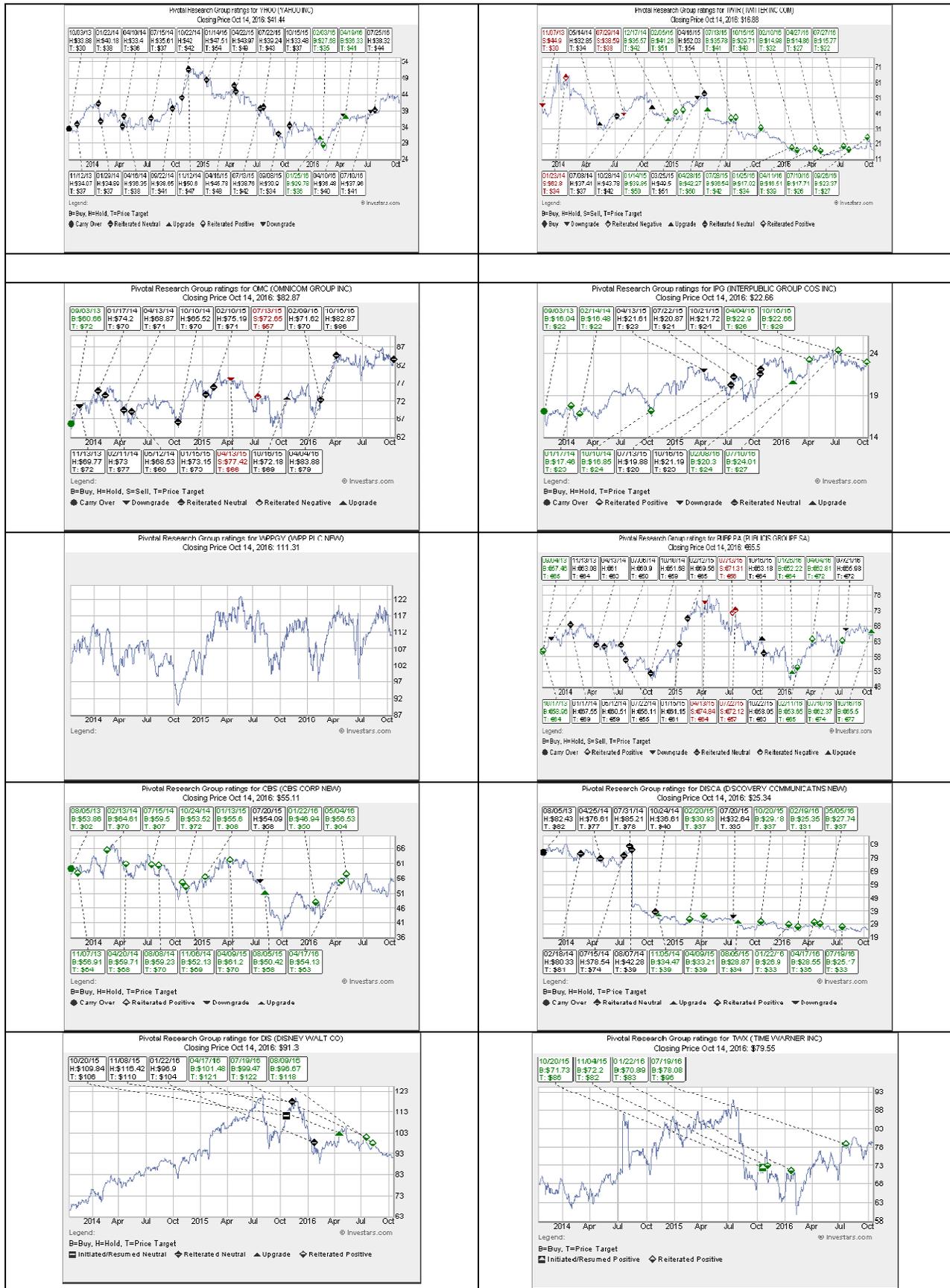
SELL: The security is expected to have an absolute return less than minus 15%.

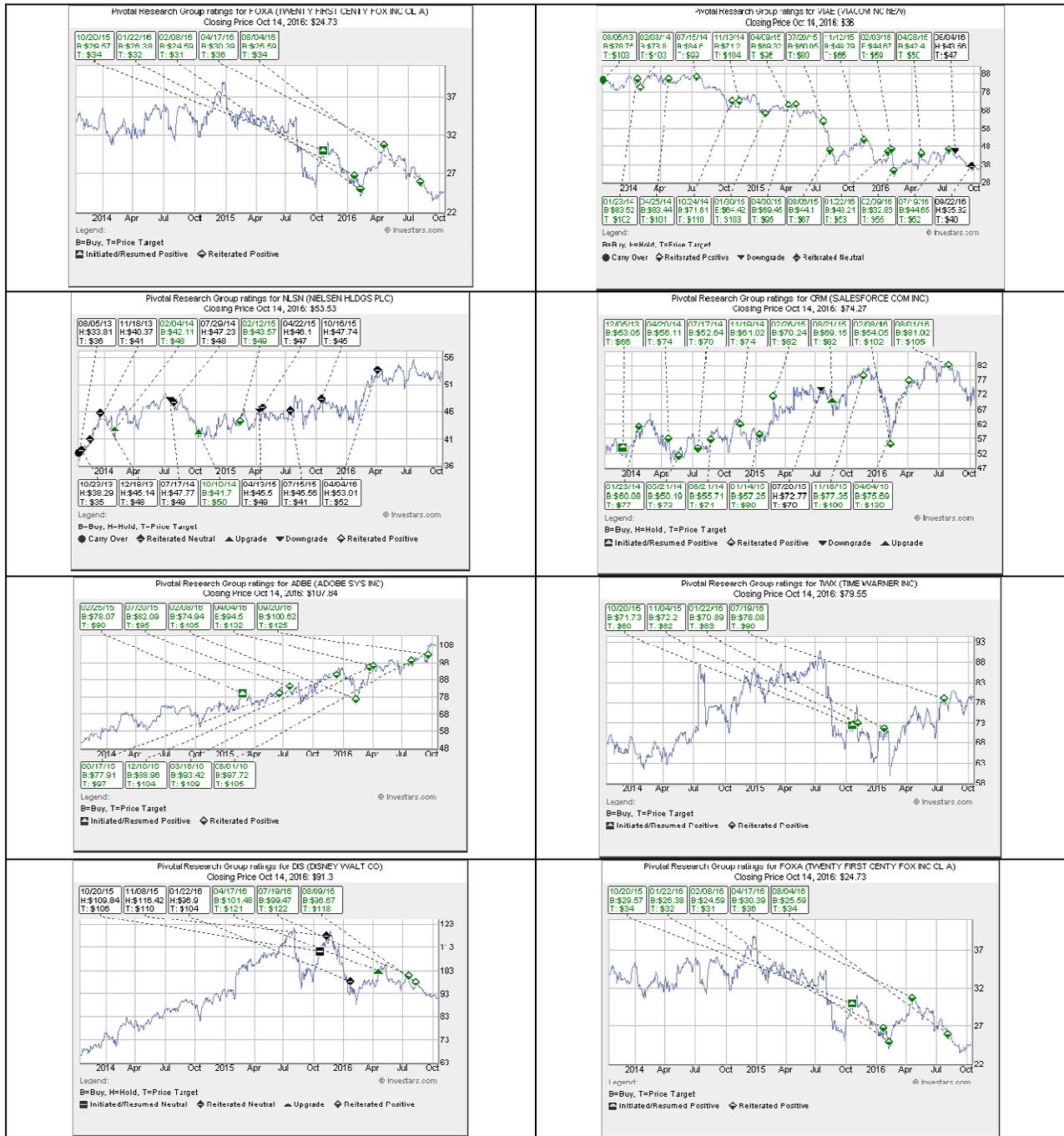
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