

Interpublic

First thoughts on Betaville mention

Reiterate Rating: BUY | PO: 38.00 USD | Price: 32.68 USD

Remain Buy, PO \$38

Bloomberg picked up a report by Betaville which mentioned that Interpublic (IPG) attracted takeover interest. The report has not been confirmed and was described as “uncooked”, ergo indicating it is highly speculative. When contacted by Bloomberg for comment the company replied, “We don’t comment on rumor and innuendo,” We maintain our Buy rating as we expect IPG’s organic growth will accelerate throughout 2024 while shares trade at an unusual discount to its closest peer, Omnicom.

Some historical context on IPG

IPG is the fourth largest agency holding company worldwide. Its particular point of differentiation stems from high exposure to Healthcare (28% of revenue), first-party data ownership (Acxiom) and an integrated “open architecture” model. Its smaller relative size (30% smaller than WPP/Publicis/Omnicom) means it has been infrequently cited as a takeover candidate, especially during phases of relative operating underperformance (2005-14). For historical perspective, following IPG’s acquisition of True North, Publicis held a ~1% stake in IPG during 2001-13. In August 2012, the FT reported that Publicis was mooting a bid, which was subsequently denied. In 2014-17, Elliott built a ~7% stake in IPG and unsuccessfully pushed for a sale. The M&A noise on IPG dried up as its operating performance caught up and eventually outgrew peers. The last 12 months have nonetheless proven more challenging with 2 sales warnings and a more mixed track-record in net new business, leaving shares trading on 11x LTM P/E, at a discount to Publicis (14x) or Omnicom (13x).

Three possible bidders – but all options have drawbacks

If takeover interest were to be confirmed, it could come in our view from three sources, though none of the options are obvious 1) **Another agency holdco**. The main benefit is greater scale and operating efficiencies. However, cultural differences and integration issues (agency holdcos employ 60-115k people) have often times led to significant challenges. In fact, there have been very few deals of late. Aegis was bought by Dentsu for \$4.5bn / 13x LTM EV/EBITDA. Publicis/Omnicom attempted a 50/50 merger in July 2013 but it got eventually called off as companies struggled to agree on leadership. Havas was acquired by Vivendi in 2017 for \$4.2bn / 11x EV/EBITDA but this was more a “vertical” deal 2) **Private equity**. Agencies are known to be cash generative businesses. Yet interest from financial bidders is unusual. We think this is due to i) the cyclical nature of agencies’ revenue ii) Leveraging up agencies is generally incompatible with their need for financial flexibility (agencies have regular M&A needs to reposition their business to faster growing areas) and iii) the people nature of the business 3) **IT consultancies**. During 2017-19, Accenture in particular acquired lots of creative agencies in a bid to enter the marketing space. Since then, and following leadership change, its strategic priorities have changed. Synergies between the IT and marketing worlds have yet to be demonstrated in our view.

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Stock Data

Price	32.68 USD
Price Objective	38.00 USD
Date Established	18-Jan-2024
Investment Opinion	B-1-7
52-Week Range	27.20 USD-40.95 USD
Mrkt Val / Shares Out (mn)	12,611 USD / 385.9
Average Daily Value (mn)	144.27 USD
Free Float	99.1%
BofA Ticker / Exchange	IPG / NYS
Bloomberg / Reuters	IPG US / IPG.N
ROE (2024E)	28.2%
Net Dbt to Eqty (Dec2023A)	20.8%
ESGMeter™	High

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Exhibit 1: Recent examples of deals in the agencies space

Most comparable transaction in bold

Date	Target	Acquirer	Area	EV (\$m)	EV/Sales LTM	EV/EBITDA LTM
Apr-19	Epsilon	Publicis Groupe	Data/CRM	3,950	2.0x	9.0x
Apr-19	Droga5	Accenture	Creative	476	2.8x	12.0x
Dec-18	MightyHive	S4 Capital	Programmatic	150	3.7x	13.5x
Jul-18	MediaMonks	S4 Capital	Creative	345	2.7x	18.2x
Jul-18	Axiom	IPG	Data/CRM	2,000	3.0x	12.1x
Jun-18	AppNexus	AT&T	Adtech	1,600	9.4x	-
May-17	Havas	Vivendi	Integrated	4,220	1.7x	11.0x
Aug-16	Merkle	Dentsu	Data/CRM	1,430	3.3x	21.7x
Nov-14	Sapient	Publicis Groupe	Digital	3,350	2.4x	20.4x
Sep-14	Conversant	Alliance Data Systems	Data/CRM	2,300	3.8x	12.8x
Jan-13	Globant	WPP	Digital	350	2.7x	116.7x
Sep-12	LBi	Publicis Groupe	Digital	540	2.0x	12.3x
Jul-12	Aegis	Dentsu	Media	4,540	2.5x	13.1x
Jun-12	AKQA	WPP	Digital	540	2.9x	15.9x
May-11	Rosetta	Publicis Groupe	Digital	575	2.3x	16.9x
Aug-09	Razorfish	Publicis Groupe	Digital	530	1.4x	13.9x
May-07	24/7 Real Media	WPP	Digital	650	3.3x	nm
Dec-06	Digitas	Publicis Groupe	Digital	1,300	3.3x	19.7x
Mar-01	True North	IPG	Creative	2,200	1.4x	8.1x
Sep-00	Snyder	Havas	Creative	2,650	4.2x	26.1x
Jun-00	Saatchi & Saatchi	Publicis Groupe	Creative	1,650	0.6x	21.6x
May-00	Y&R	WPP	Creative	4,800	2.8x	16.3x

Source: BofA Global Research estimates, company report

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Price objective basis & risk

Interpublic (IPG)

Our price objective of \$38 is based on the average of a discounted cash flow (8.5% weighted-average cost of capital, 1.5% long-term growth rate) and 12.5x 2023E P/E, a 30% discount to the S&P 500 (non market cap weighted) given pedestrian but solid revenue/EPS growth.

Upside risks to our price objective are i) the global synchronized recovery leads to relief on marketing spending, ii) Interpublic actively repositions its assets, simplifying its structure, tearing down silos, or selling non-performing units, and iii) the secular wave of consolidation comes back, either between agencies or between consultancies and agencies.

Downside risks to our price objective are if Interpublic loses a big account and /or a large account decreases its media spend, macro decelerates abruptly and consultancies have a bigger and earlier impact than expected.

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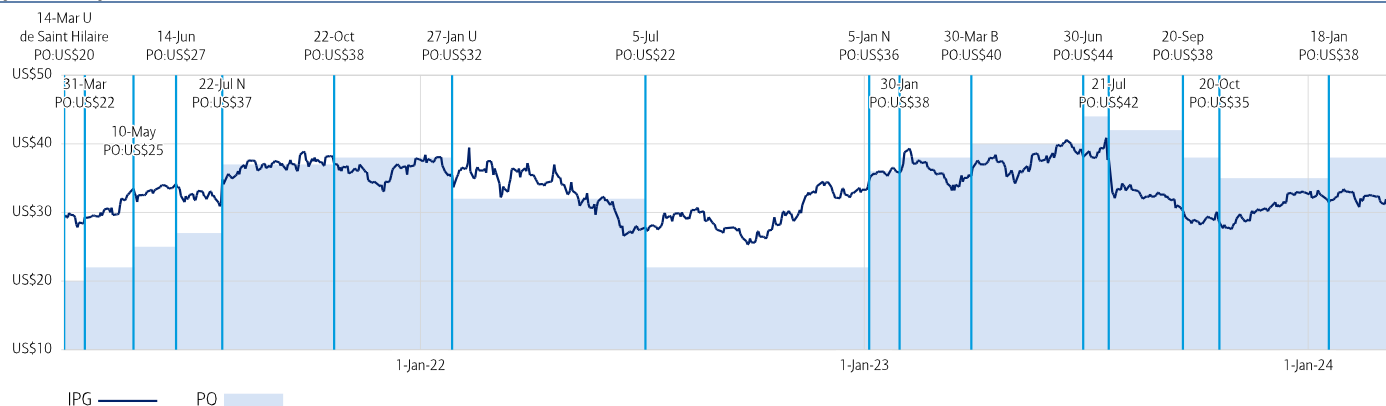
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Interpublic Group (IPG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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