

Media & Internet

Updating estimates for IPG and Omnicom

Price Objective Change

IPG: Buy, PO \$38

We update our estimates for FY23 results and the FY24 outlook, which came in a bit below expectations with 1-2% organic growth and 16.6% adjusted EBITA margin. We reiterate our Buy rating and \$38 PO, as we expect organic sales growth to accelerate as headwinds from lower ad spending in the Tech sector abate, net new business ramps and execution issues with digital specialist agencies (R/GA and Huge) are resolved. Shares trade on non-GAAP P/E of 11x 2024E P/E, slightly below Omnicom. We expect this to reverse in 2024 as IPG's organic growth edges higher versus Omnicom.

Omnicom: Underperform, PO raised to \$82

We have updated our forecasts to incorporate the latest FY23 results and the FY24 outlook. For 2024 onward, our non-GAAP adjusted net income/EPS is now aligned with Omnicom's new definition, which fully excludes software amortisation and amortisation of acquired intangible assets. We raise our PO to \$82 from \$79 on higher FCF assumptions resulting from a better-than-expected outlook. Our target multiple is updated from 10x 2023 P/E to 11x 2024E, with the higher multiple a function of peers and market re-rating. We reiterate our Underperform rating, as we expect organic sales growth to slow, with the Flywheel integration bringing execution risks given Omnicom's lack of experience in integrating assets. The reduced share buyback in 2024 as well as higher interest expenses also reduces EPS growth this year.

14 March 2024

Equity
Europe
Media & Internet

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Refer to important disclosures on page 5 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 3.

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Updating estimates for IPG and Omnicom

Omnicom: Underperform, PO raised to \$82

Exhibit 23: Updating forecasts post FY23 results

Omnicom: key changes

\$m	2022	2023E			2024E			2025E		
	Actual	Actual	Old	% change	New	Old	% change	New	Old	% change
Revenues	14,289	14,692	14,636	0%	15,538	14,981	4%	15,863	15,221	4%
Organic growth	9.4	4.1	3.8		3.7	2.7		2.1	1.6	
US	8.7	2.6	3.2		2.8	2.8		1.0	1.0	
Other North America	9.2	3.0	3.0		2.0	2.0		1.0	1.0	
UK	10.9	4.5	4.5		4.5	2.0		3.0	2.0	
Euro & Other Europe	9.7	7.2	4.5		5.0	2.0		2.5	1.0	
Asia-Pacific	6.6	6.0	4.0		4.0	4.0		4.0	4.0	
Latin America	14.1	13.0	14.0		8.0	5.0		7.0	5.0	
Africa and Middle East	33.2	-5.8	-2.0		5.0	2.5		5.0	2.5	
Forex	-4.8	-0.2	-0.3		0.2	-0.5		0.0	0.0	
Scope	-4.7	-1.1	-1.1		1.8	0.1		0.0	0.0	
Reported growth	0.0	2.8	2.4		5.8	2.4		2.1	1.6	
Adjusted EBITA	2,277	2,312	2,308	0%	2,416	2,307	5%	2,459	2,329	6%
Adjusted EBITA margin	15.9	15.7	15.8		15.6	15.4		15.5	15.3	
Exceptional items	-113	-127	-113		0	0		0	0	
EBITA	2,164	2,185	2,195	0%	2,416	2,307	5%	2,459	2,329	6%
Net interest expense	-138	-112	-119		-139	-127		-140	-116	
Adjusted PBT	2,059	2,120	2,110	0%	2,277	2,099	8%	2,319	2,130	9%
PBT	1,945	1,993	1,997	0%	2,159	2,099	3%	2,198	2,130	3%
Adjusted tax	-542	-550	-559		-615	-567		-626	-575	
Adjusted tax rate	26.3	25.9	26.5		27.0	27.0		27.0	27.0	
Associates	5	5	5		5	5		5	5	
Non controlling interests	-87	-82	-70		-87	-69		-88	-70	
GAAP net income	1,316	1,391	1,403	-1%	1,494	1,468	2%	1,522	1,490	2%
Adjusted net income	1,435	1,494	1,486	1%	1,581	1,468	8%	1,610	1,490	8%
Diluted no. of shares	207	201	201		198	195		194	189	
GAAP EPS	\$6.36	\$6.91	\$6.98	-1%	\$7.53	\$7.51	0%	\$7.86	\$7.89	0%
Adjusted EPS	\$6.93	\$7.42	\$7.40	0%	\$7.97	\$7.51	6%	\$8.31	\$7.89	5%
DPS	2.80	2.80	2.80	0%	2.80	2.80	0%	2.90	2.90	0%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

We have updated our forecasts to incorporate the latest FY23 results and the FY24 outlook. For 2024 onwards, our non-GAAP adjusted net income/EPS is now aligned with Omnicom's new definition, which fully excludes software amortisation and amortisation of acquired intangible assets. We raise our PO to \$82 from \$79 on higher FCF assumptions resulting from a better-than-expected outlook. Our target multiple is updated from 10x 2023 P/E to 11x 2024E, with the higher multiple a function of peers and market re-rating. We reiterate our Underperform rating, as we expect organic sales growth to slow, with the Flywheel integration bringing execution risks given Omnicom's lack of experience in integrating assets. The reduced share buyback in 2024 as well as higher interest expenses also reduces EPS growth this year.

Interpublic: Buy, PO \$38

Exhibit 19: Updating forecasts post FY23 results

IPG: Key changes

\$m	2022	2023			2024E			2025E		
	Actual	Actual	Old	% change	New	Old	% change	New	Old	% change
Net revenues	9,449	9,401	9,459	-1%	9,536	9,666	-1%	9,905	10,041	-1%
Organic growth (%)	7.0	-0.1	-0.2		2.1	2.3		3.9	3.9	
United States	6.6	-1.1	-1.3		1.5	1.7		4.0	4.0	
UK	5.2	1.8	1.8		2.0	3.3		2.5	3.6	
Continental Europe	6.9	2.2	1.8		2.0	2.0		2.5	2.5	
Asia Pacific	5.4	-2.7	0.2		3.0	2.0		4.0	2.5	
Latin America	12.9	8.2	-1.5		8.0	3.0		7.0	4.0	
All Other Markets	11.4	2.4	7.0		3.5	8.0		3.5	7.0	
Forex	-2.9	-0.5	-0.2		0.1	-0.1		0.0	0.0	
Scope	-0.3	0.1	0.5		-0.8	0.0		0.0	0.0	
Reported growth	3.7	-0.5	0.1		1.4	2.2		3.9	3.9	
Adjusted EBITA	1,568	1,567	1,575	-1%	1,583	1,614	-2%	1,664	1,697	-2%
Adjusted EBITA margin (%)	16.6	16.7	16.7		16.6	16.7		16.8	16.9	
Amortization of acquired intangible assets	-85	-84	-85		-84	-85		-84	-85	
Adjusted operating income	1,484	1,483	1,490		1,499	1,530		1,580	1,612	
Exceptional items	-102	0	0		0	0		0	0	
Operating income	1,381	1,483	1,490	-1%	1,499	1,530	-2%	1,580	1,612	-2%
Net financial results	-111	-85	-81		-88	-78		-87	-77	
Other income (expense)	-1	10	-25		-5	-5		-5	-5	
Adjusted PBT	1,460	1,476	1,494	-1%	1,495	1,536	-3%	1,577	1,620	-3%
PBT	1,269	1,408	1,385	2%	1,406	1,447	-3%	1,488	1,531	-3%
Adjusted tax	-362	-305	-324		-381	-399		-402	-421	
Adjusted tax rate	24.8	20.6	21.7		25.5	26.0		25.5	26.0	
Associates	6	1	6		1	6		1	6	
Non controlling interests	-18	-20	-24		-19	-23		-20	-24	
GAAP net income	938	1,098	1,071	3%	1,030	1,053	-2%	1,090	1,114	-2%
Non-GAAP net income	1,086	1,153	1,152	0%	1,096	1,120	-2%	1,157	1,181	-2%
Diluted no. of shares	395	386	386		377	377		369	369	
GAAP basic EPS	\$2.40	\$2.86	\$2.79	3%	\$2.74	\$2.81	-2%	\$2.97	\$3.04	-3%
Non-GAAP EPS	\$2.75	\$2.99	\$2.98	0%	\$2.91	\$2.97	-2%	\$3.13	\$3.21	-2%
DPS	\$1.18	\$1.26	\$1.26	0%	\$1.34	\$1.34	0%	\$1.42	\$1.42	0%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

We update our estimates for FY23 results and the FY24 outlook, which came in a bit below expectations with 1-2% organic growth and 16.6% adjusted EBITA margin. We reiterate our Buy rating and \$38 PO as we expect organic sales growth to accelerate as headwinds from lower ad spending in the Tech sector abate, net new business ramps and execution issues with digital specialist agencies (R/GA and Huge) are resolved. Shares trade on non-GAAP P/E of 11x 2024E P/E, slightly below Omnicom. We expect this to reverse in 2024 as IPG's organic growth edges higher versus Omnicom.

Price objective basis & risk

Interpublic (IPG, \$33.03, B-1-7)

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.

Omnicom (OMC, \$95.67, B-3-7)

Our price objective of \$82 is based on the average of a discounted cash flow (weighted-average cost of capital 8.2%, long-term growth 1%) and 11x 2024E P/E, a 30% discount to the equal-weighted S&P500 multiple, consistent with the valuation methodology we apply to peers.

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

Downside risks to our price objective are if Omnicom 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.

Analyst Certification

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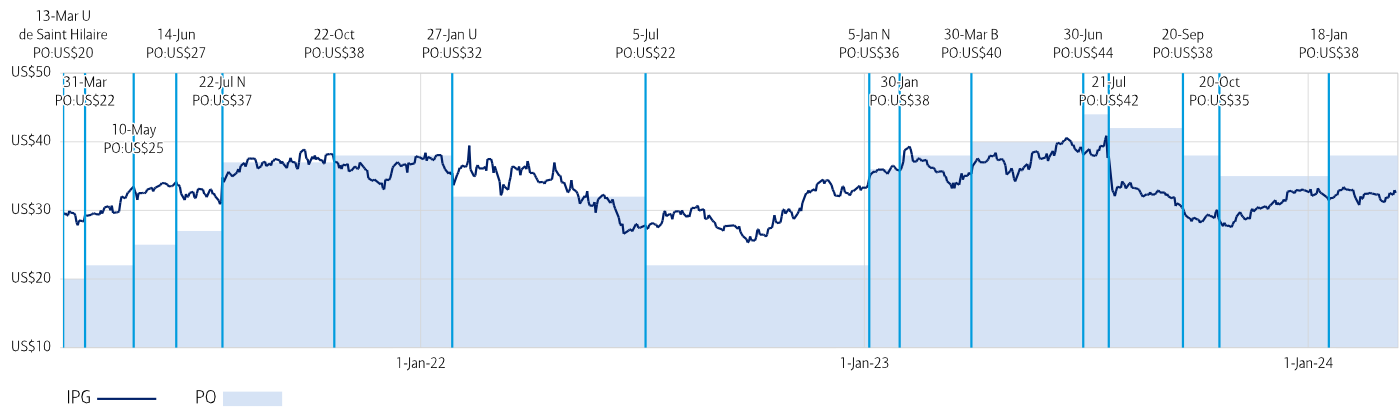
EMEA - Media Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Auto Trader	ATDRF	AUTO LN	David Amira, CFA
	Deliveroo	DROOF	ROO LN	Kiranjot Grewal
	Entain	GMVHF	ENT LN	Kiranjot Grewal
	Evolution	EWVTY	EWVTY US	Kiranjot Grewal
	Evolution Gaming	EVGGF	EVO SS	Kiranjot Grewal
	Flutter	XZMVF	FLTR LN	Kiranjot Grewal
	Flutter	FLUT	FLUT US	Kiranjot Grewal
	Informa	IFPJF	INF LN	David Amira, CFA
	Interpublic	IPG	IPG US	Adrien de Saint Hilaire
	JCDcaux	JCDXF	DEC FP	Adrien de Saint Hilaire
	Just Eat Takeaway	TKAYF	TKWY NA	Kiranjot Grewal
	Just Eat Takeaway	JTKWY	JTKWY US	Kiranjot Grewal
	Playtech	PYTCF	PTEC LN	Kiranjot Grewal
	Publicis	PUBGY	PUBGY US	Adrien de Saint Hilaire
	Publicis Groupe	PGPEF	PUB FP	Adrien de Saint Hilaire
	RELX	XFAFF	REN NA	David Amira, CFA
	RELX	RLXXF	REL LN	David Amira, CFA
	RELX	RELX	RELX US	David Amira, CFA
	Schibsted	SBSNF	SCHA NO	Adrien de Saint Hilaire
	Schibsted	SBBTF	SCHB NO	Adrien de Saint Hilaire
	Scout24	SCOTF	G24 GY	David Amira, CFA
	Universal Music Group	UMGNF	UMG NA	Adrien de Saint Hilaire
	Vivendi	VIVEF	VIV FP	Adrien de Saint Hilaire
	Vivendi	VIVHY	VIVHY US	Adrien de Saint Hilaire
NEUTRAL				
	Ascential	AIAPF	ASCL LN	David Amira, CFA
	AUTO1 Group	ATOGF	AG1 GY	David Amira, CFA
	Baltic Classifieds Group	XZXXF	BCG LN	David Amira, CFA
	Chegg Inc.	CHGG	CHGG US	David Amira, CFA
	Delivery Hero	DLVHF	DHER GY	Kiranjot Grewal
	La Francaise Des Jeux	LDJF	FDJ FP	Kiranjot Grewal
	Pearson	PSORF	PERSON LN	David Amira, CFA
	Pearson	PSO	PSO US	David Amira, CFA
	Wolters Kluwer	WOLTF	WKL NA	David Amira, CFA
	Wolters Kluwer	WTKWY	WTKWY US	David Amira, CFA
UNDERPERFORM				
	Embracer Group	THQQF	EMBRACB SS	Adrien de Saint Hilaire
	HelloFresh	HLFFF	HFG GY	Kiranjot Grewal
	ITV	ITVPF	ITV LN	Adrien de Saint Hilaire
	Omnicom	OMC	OMC US	Adrien de Saint Hilaire
	ProSiebenSat.1	PBSFF	PSM GY	Adrien de Saint Hilaire
	Rightmove	RTMVF	RMV LN	David Amira, CFA
	Rightmove	RTMVY	RTMVY US	David Amira, CFA
	RTL Group	ZRLQF	RRTL GY	Adrien de Saint Hilaire
	Ubisoft	UBSFF	UBI FP	Adrien de Saint Hilaire
	Ubisoft	UBSFY	UBSFY US	Adrien de Saint Hilaire
	WPP	WPPGF	WPP LN	Adrien de Saint Hilaire
	WPP	WPP	WPP US	Adrien de Saint Hilaire

Disclosures

Important Disclosures

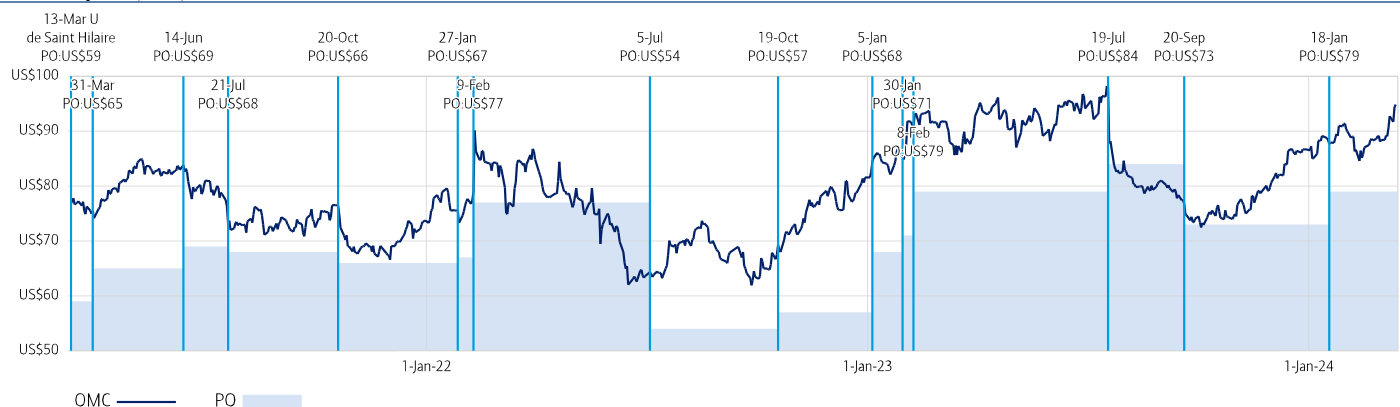
Interpublic Group (IPG) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Omnicom Group Inc. (OMC) Price Chart



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

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Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)

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: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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