

## Interpublic

## 4Q23 first take: Weak US trends and cautious 2024 outlook in focus

Maintain Rating: BUY | PO: 38.00 USD | Price: 32.24 USD

## Remain buyers, expect pressure today

While Interpublic (IPG) 4Q23 P&L beat expectations, we expect shares could be under some pressure today given 1) Weaker than expected US performance 2) Tepid FY24 outlook. We have a Buy rating on IPG as we think the shares trade at an unjustified discount to Omnicom (OMC) despite offering better net organic sales growth prospects.

## 4Q23 beats but US still weak

4Q23 organic sales growth came in at +1.7%, versus expectations/guidance at +1%. This marks the first beat on organic sales growth since 3Q22. That said, similar to Omnicom (OMC) a few days ago, the geographical mix is a negative surprise with US missing expectations at +0.1% (+0.6%e), but Europe (+11.7% vs +3.2%e) and Latin America (+15% vs +6.3%e) more than offsetting this. We await for more details during the call, but we think IPG US softness may be a function of 1) prolonged cuts from Tech advertisers 2) Mixed client activity (Verizon, BMW were recently lost though Pfizer and should now be fully visible) 3) Ongoing underperformance of specialized agencies R/GA and Huge. Adjusted EBITA of \$629m was in line with expectations (+12% YoY), implying a margin of 24.4% +190bp YoY also in line with expectations. Non-GAAP EPS of \$1.18 beat by 3c/3% (+15% YoY) on a lower tax rate of 25% versus 27.5%e. Similar to OMC, cash generation was dented by lower than expected working capital inflow (+\$423m vs BofAe +\$800m) in 4Q23 hence 4Q23 FCF of \$843m missed our expectation for \$1.3bn. On the positive side, quarterly dividend was raised 6% (12 consecutive years of dividend increase) and the Board authorised another \$320m for share repurchases – all as we expected.

## FY24 outlook shy of expectations for now

IPG guides on 1-2% organic sales growth and 16.6% adjusted EBITA margin. This compares to Visible Alpha consensus on +2.3% and 16.7% and we believe expectations had gone down into the print. IPG has a track-record of exceeding its initial guidance with 7 beats in the past 10 years and 2 miss (2017, 2023). The 4Q23 beat may rebuild confidence that the 2024 guidance is conservative but conviction here will take time to form after a challenging 2023. We await for commentary on the shape of growth for 2024, which might be shared during the call. A back-end loaded commentary would be taken cautiously.

08 February 2024

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## Stock Data

Price	32.24 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)	12,458 USD / 386.4
Average Daily Value (mn)	102.05 USD
Free Float	99.1%
BofA Ticker / Exchange	IPG / NYS
Bloomberg / Reuters	IPG US / IPG.N
ROE (2023E)	31.7%
Net Dbt to Eqty (Dec2022A)	9.7%
ESGMeter™	High

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Timestamp: 08 February 2024 07:48AM EST

## 4Q23 first take

### Exhibit 1: 4Q23 P&L above expectations but US was below

4Q23 actual versus expected

\$m	4Q 23 Actual	4Q 23 Cons.	Actual vs cons.	4Q 23 BofAe	Actual vs BofAe	4Q 22 Actual	YoY growth
Net revenues	2,551	2,586	-1%	2,644	-4%	2,551	4%
Organic growth	1.7%	1.0%		1.2%		3.8%	
United States	0.1%	0.6%		-0.6%		2.4%	
UK	0.4%	0.9%		0.5%		9.5%	
Continental Europe	11.7%	3.2%		4.9%		5.5%	
Asia Pacific	-1.5%	-1.4%		2.9%		3.0%	
Latin America	15.0%	6.3%		10.8%		5.7%	
All Other Markets	-1.7%	-0.4%		5.0%		6.9%	
Forex				1.6%		-3.9%	
Scope				0.9%		0.2%	
Adjusted EBITA	629	630	0%	637	-1%	568	12%
Adjusted EBITA margin	24.4%	24.4%		24.1%		22.3%	
Exceptional costs/income				-1		-102	
EBITA				636	-100%	467	36%
Amortization of acquired intangible assets				-22		-22	
Operating income				614	-100%	445	38%
Net financial results				-14		-32	
Adjusted PBT	609			628	-3%	545	15%
PBT	624			600	4%	413	45%
Adjusted tax	-152			-172		-140	
Tax	-155			-160		-109	
Associates	3			7		2	
Non controlling interests	8			-12		-9	
GAAP net income	463	418	11%	435	6%	297	47%
Non-GAAP net income	451	439	3%	450	0%	399	13%
Diluted NOSH				386		393	-2%
GAAP EPS		\$1.10	-100%	\$1.14	-100%	\$0.76	49%
Non-GAAP EPS	\$1.18	\$1.15	3%	\$1.17	1%	\$1.01	15%

Source: BofA Global Research estimates, company report

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### Exhibit 2: 2024 guidance behind expectations for now

2024 guidance versus expectations

2024	Guidance	Consensus	BofA
Organic sales growth	1-2%	2.3%	2.3%
Adjusted EBITA margin	16.6%	16.7%	16.7%

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.

#### **Omnicom (OMC;B-3-7;\$86.32)**

Our price objective of \$79 is based on the average of a discounted cash flow (weighted-average cost of capital 8.2%, long-term growth 1%) and 10x 2023E 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.

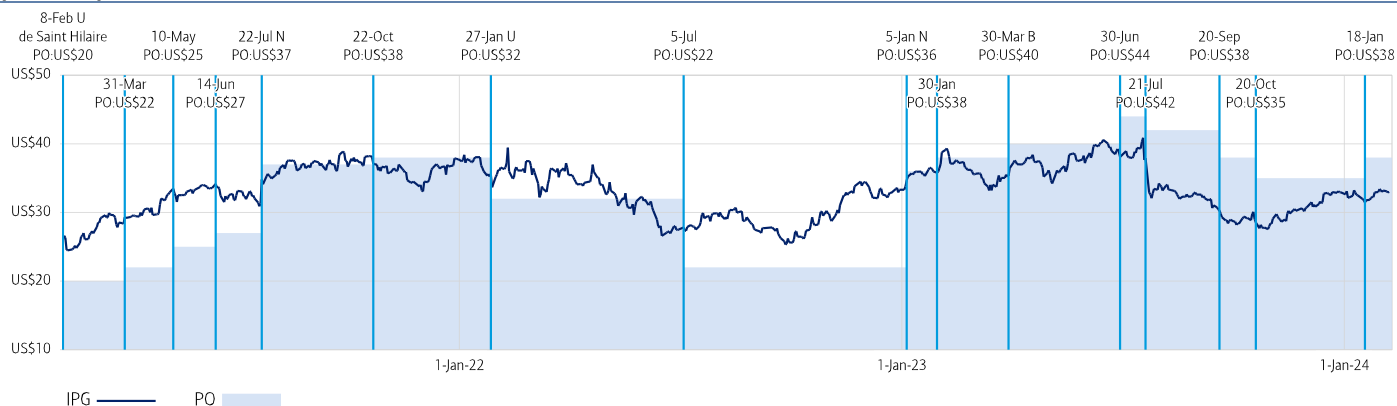
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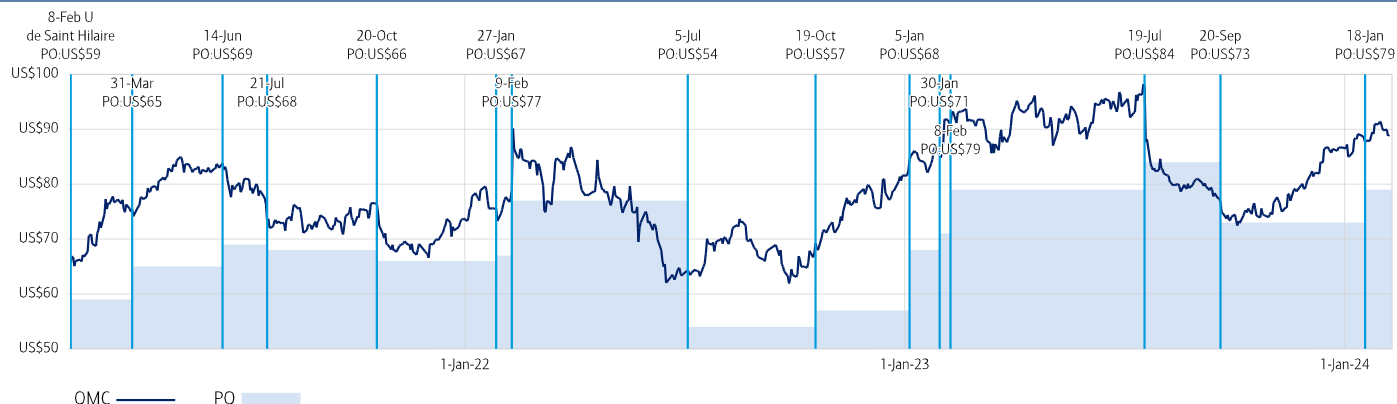
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### 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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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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Underperform	N/A	≥ 20%

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