



The Interpublic Group of Companies (IPG)

Updated October 23rd, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	11.4%	Market Cap:	\$11.36 B
Fair Value Price:	\$31	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/29/2024 ¹
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	12/16/2024
Dividend Yield:	4.4%	5 Year Price Target	\$44	Years Of Dividend Growth:	13
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

The Interpublic Group of Companies, Inc. provides advertising and marketing services worldwide. Its operations are well arrayed among consumer advertising, digital marketing, communications planning, media buying, and data management services. The company dates back to 1902. It has massively grown since then, currently generating close to \$11 billion in annual revenues. IPG is headquartered in New York, New York.

On October 22nd, 2024, Interpublic reported its Q3 results for the period ending September 30th, 2024. For the period, net revenues came in at \$2.24 billion, down 2.9% compared to last year. This was derived from a negative 0.5% currency translation effect and a negative impact of 2.4% from dispositions, offset by organic growth of 1.0%. The company saw solid contributions to growth from media services, sports marketing, data management and public relations.

Adjusted EPS was \$0.70, flat compared to last year. Year-to-date, the company repurchased \$230.1 million worth of stock, which slightly aided EPS.

Looking ahead, management sees a strong new business pipeline, for both Q4 activity and longer-term AOR (Agency of Record – i.e., larger and more stable than project-based work) opportunities. For fiscal 2024, they still expect organic revenue growth of 1%. The adjusted EBITA margin target remains at 16.6%. We forecast FY2024 EPS of \$2.85.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.14	\$1.11	\$1.52	\$1.42	\$1.61	\$1.70	\$0.90	\$2.42	\$2.40	\$2.86	\$2.85	\$4.00
DPS	\$0.38	\$0.48	\$0.60	\$0.72	\$0.84	\$0.94	\$1.02	\$1.08	\$1.16	\$1.24	\$1.32	\$1.81
Shares²	425	416	408	397	389	391	389	394	388	381	377	370

Over the past decade, IPG has grown its EPS at a CAGR of 10.8%, driven by a series of strategic shifts, acquisitions, and its ability to adapt to an evolving advertising landscape. After a slight dip in EPS in 2015 due to FX headwinds, earnings rebounded in 2016, powered by strong North American growth and cost efficiencies. In 2018, IPG made a transformative move with the \$2.3 billion acquisition of Acxiom, which enhanced its data-driven marketing capabilities and fueled EPS growth to \$1.61 in 2018 and \$1.70 in 2019. However, the global pandemic in 2020 caused EPS to fall sharply to \$0.90, as advertisers cut budgets across industries. Despite this setback, IPG bounced back strongly in 2021 to \$2.42, benefiting from the recovery in ad spending, elevated demand for digital services, and its strengthened data capabilities. EPS remained stable in 2022 and reached a decade high of \$2.86 in 2023, driven by ongoing demand for digital and data-led marketing solutions and IPG's ability to maintain client relationships and control costs in a shifting advertising landscape. To reflect the international segment's strong growth, the ongoing margin expansion, and the ongoing, substantial share buybacks, we retain our EPS growth estimates at 7%. Embedding digital elements across the portfolio and adding a layer of data and tech to its offerings should also contribute positively to earnings. Also, we retain our DPS growth estimates at 6.5% to reflect the company's healthy payout ratio and most recent dividend increase.

¹ Estimated dividend dates based on past dates.

² Share count is in millions.

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IPG's buybacks have resulted in the company retiring more than 10% of its outstanding shares over the past decade, and about 22% of their shares since 2011. Share buybacks should continue to lower the share count moving forward.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	25.0	15.0	18.0	14.0	15.3	14.1	12.7	14.2	13.3	11.2	10.6	11.0
Avg. Yld.	1.8%	2.3%	2.5%	3.8%	3.8%	4.8%	4.9%	2.9%	3.6%	3.9%	4.4%	4.1%

The stock is currently trading at 10.6 times our projected earnings-per-share for FY2024, while the dividend yield of 4.4% hovers modestly higher than its historical average. Despite the rather underwhelming organic growth expectations for FY2024, we believe the current P/E slightly undervalues the stock. This is despite interest rates remaining high and the advertising industry becoming increasingly competitive. We retain our fair P/E of 11, which we believe fairly reflects the risk/reward ratio of IPG's investment case.

Safety, Quality, Competitive Advantage, & Recession Resiliency

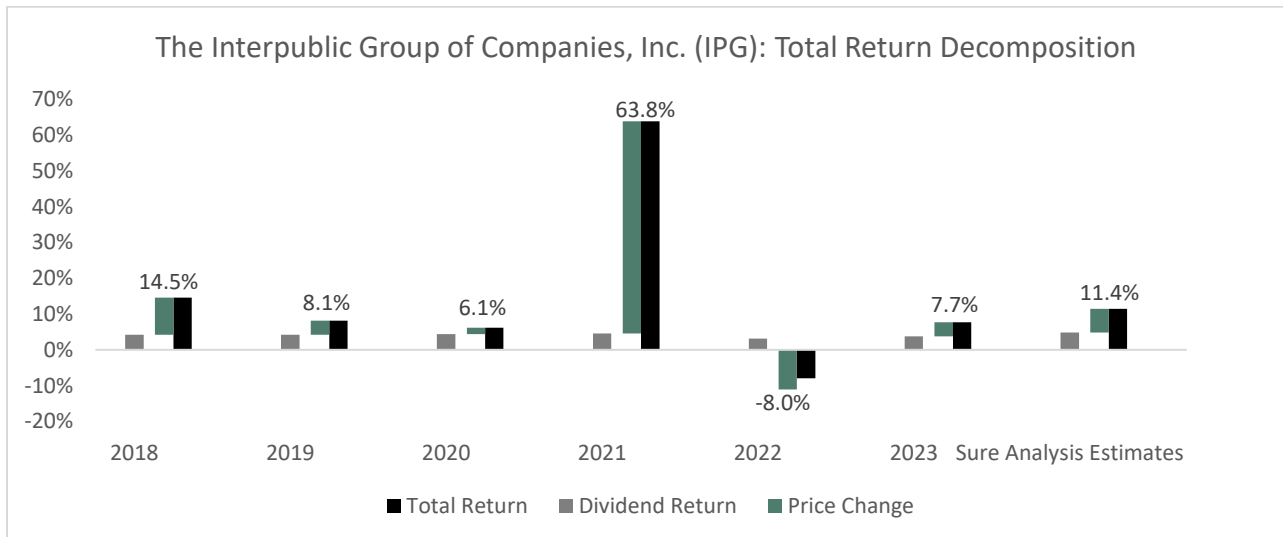
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	43%	39%	51%	52%	55%	113%	45%	48%	43%	46%	45%

The company's payout ratio has increased over the past decade as DPS growth has outpaced earnings growth. The dividend remains well-covered, nonetheless – especially following the latest hike. Still, several concerns should be considered, which could adversely impact what it looks like today as a safe yield. First, the media and advertising sectors are evolving rapidly, causing the big advertising conglomerates to fall behind smaller, more innovative, and efficient firms that can pivot faster than their "slow-moving" peers. This concern is especially important in the current economic environment, which has further compressed capital expenditures in the advertising industry. Finally, IPG's net income margins remain quite low, in the single digits, displaying the sector's steep competition.

Final Thoughts & Recommendation

Interpublic has delivered satisfactory returns over the years, powered by its gradual earnings and dividend growth. While concerns regarding the company's future remain due to the ongoing macro-uncertainties, the stock's investment case appears compelling at its current levels. Based on our 7% growth estimate, the stock's 4.4% yield, and a possible valuation tailwind ahead, we forecast annualized returns of 11.4% through 2029. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	7537	7614	9056	9048	9714	10221	9061	10240	10930	10890
Gross Profit	2717	2759	1235	1214	1378	1492	1352	1853	1845	1814
Gross Margin	36.0%	36.2%	13.6%	13.4%	14.2%	14.6%	14.9%	18.1%	16.9%	16.7%
SG&A Exp.	1928	1884	139	119	167	94	59	122	87	67
D&A Exp.	163	157	160	157	203	279	291	284	274	264
Operating Profit	788	875	936	938	1009	1120	1002	1447	1484	1483
Operating Margin	10.5%	11.5%	10.3%	10.4%	10.4%	11.0%	11.1%	14.1%	13.6%	13.6%
Net Profit	477	455	605	554	619	656	351	953	938	1098
Net Margin	6.3%	6.0%	6.7%	6.1%	6.4%	6.4%	3.9%	9.3%	8.6%	10.1%
Free Cash Flow	548	527	312	726	388	1331	1680	1880	431	375
Income Tax	217	283	197	271	199	205	8	252	318	291

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	12737	12585	12485	12705	15620	17752	18040	19910	18840	19270
Cash & Equivalents	1661	1503	1098	791	673	1192	2509	3270	2545	2386
Accounts Receivable	4377	4361	4390	4585	5127	5209	4646	7525	7339	7998
Goodwill & Int. Ass.	3844	3757	3823	3961	5971	5909	5879	5756	5869	5824
Total Liabilities	10585	10583	10429	10458	13188	14926	15100	16300	15100	15220
Accounts Payable	6558	6689	6304	6420	6698	7205	7270	8960	8235	8355
Long-Term Debt	1722	1745	1690	1373	3734	3326	3466	2957	2916	3202
Shareholder's Equity	2116	1966	2017	2212	2393	2776	2895	3526	3648	3943
LTD/E Ratio	0.81	0.89	0.84	0.62	1.56	1.20	1.20	0.84	0.80	0.81

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.7%	3.6%	4.8%	4.4%	4.4%	3.9%	2.0%	5.0%	4.8%	5.8%
Return on Equity	22.0%	22.3%	30.4%	26.2%	26.9%	25.4%	12.4%	29.7%	26.2%	28.3%
ROIC	12.3%	11.9%	16.1%	15.1%	12.6%	10.7%	5.6%	14.6%	14.2%	15.8%
Shares Out.	425.4	415.7	408.0	397.3	389.0	391.2	393.2	398.4	395.1	385.9
Revenue/Share	17.72	18.32	22.20	22.77	24.97	26.13	23.04	25.70	27.66	28.22
FCF/Share	1.29	1.27	0.77	1.83	1.00	3.40	4.27	4.72	1.09	0.97

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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