



The Interpublic Group of Companies (IPG)

Updated October 25th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	11.8%	Market Cap:	\$14.5B
Fair Value Price:	\$41	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/30/2021 ¹
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date:	12/15/2021
Dividend Yield:	2.9%	5 Year Price Target	\$58	Years Of Dividend Growth:	10
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	5.9%

Overview & Current Events

The Interpublic Group of Companies, Inc. provides advertising and marketing services worldwide. Its operations are well diversified amongst 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 more than \$8.0 billion in annual revenues. IPG is headquartered in New York, New York.

On October 21st, 2021, Interpublic reported its Q3-2021 for the quarter ending September 30th, 2021. For the quarter, revenues increased 15.7% to \$2.26 billion, 15% of which was organic. Revenue growth reflected both a rebound from the impact of the pandemic as well as strength on Interpublic's evolving offerings. Specifically, organic net revenue growth came in at 14.7% in the U.S. and 15.4% internationally. Net income came in at \$239.9 million, against \$279.7 million in the prior-year period. However, the decline was due to a \$73.0 million provision for income taxes. Operating income actually increased 41.4% to \$351.5 million, highlighting a robust margin expansion compared to last year. Adjusted EPS came in at \$0.63, 18.8% higher YoY, excluding the income tax provision.

Management raised its full-year guidance, now expecting organic growth of 11% (previously 9%-10%) and an adjusted EBITA margin of approximately 16.8% (previously 16.0%). We have, therefore, adjusted our FY2021 EPS estimates to \$2.58 to reflect this quarter's accretive performance and management's estimates.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.12	\$1.01	\$0.62	\$1.14	\$1.11	\$1.52	\$1.42	\$1.61	\$1.70	\$1.73	\$2.58	\$3.62
DPS	\$0.24	\$0.24	\$0.30	\$0.38	\$0.48	\$0.60	\$0.72	\$0.84	\$0.94	1.02	\$1.08	\$1.48
Shares²	541	481	430	425	416	408	397	389	391	390	399	370

After the Great Financials Crisis, the company experienced massive earnings growth as worldwide advertising expenditures increased substantially. While the COVID-19 outbreak caused a notable slowdown, the bottom line is set to hit a new record this year. To reflect the international segment's strong growth, the ongoing margins expansion, and the possibility for further share buybacks, we retain our EPS growth estimates at 7%. Further, we retain our DPS growth estimates at 6.5% to reflect the company's healthy payout ratio and higher likelihood for DPS growth acceleration following the strong results year-to-date. IPG's buybacks have resulted in the company retiring ~20% of its shares outstanding over the past decade. While they have been paused for now, they are likely to resume.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	22.0	11.0	16.0	25.0	15.0	18.0	14.0	15.3	14.1	12.7	14.3	16.0
Avg. Yld.	3.1%	2.3%	2.3%	1.8%	2.3%	2.5%	3.8%	3.8%	4.8%	4.9%	2.9%	2.6%

¹ Estimated dividend dates based on past dividend dates

² Share count is in millions.

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In 2010, the company's stock was trading above 30 times its earnings, as its profitability growth was snowballing coming out of the Great Financial Crisis. However, as advertising and media have been disrupted over the past few years, its growth normalized, resulting in shares attracting a much lower valuation multiple. The stock is currently trading 14.3 times IPG's FY2021 net income, while the dividend yield of 2.9% hovers just below its historical average. We believe that the current multiple reflects the market's concerns over the industry's macro outlook and whether the company will continue blossoming in what seems to be a very competitive future in the advertising industry. We view the current P/E as slightly humble, nonetheless. Considering IPG's robust growth, we expect an expansion to a P/E of 16 going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	21%	24%	48%	33%	43%	39%	51%	52%	55%	59%	42%	41%

The company's payout ratio has increased over the past decade as DPS growth has outpaced earnings growth. The dividend remains well-covered, nonetheless. Still, several concerns should be considered, which could adversely impact what it looks like today as a safe yield.

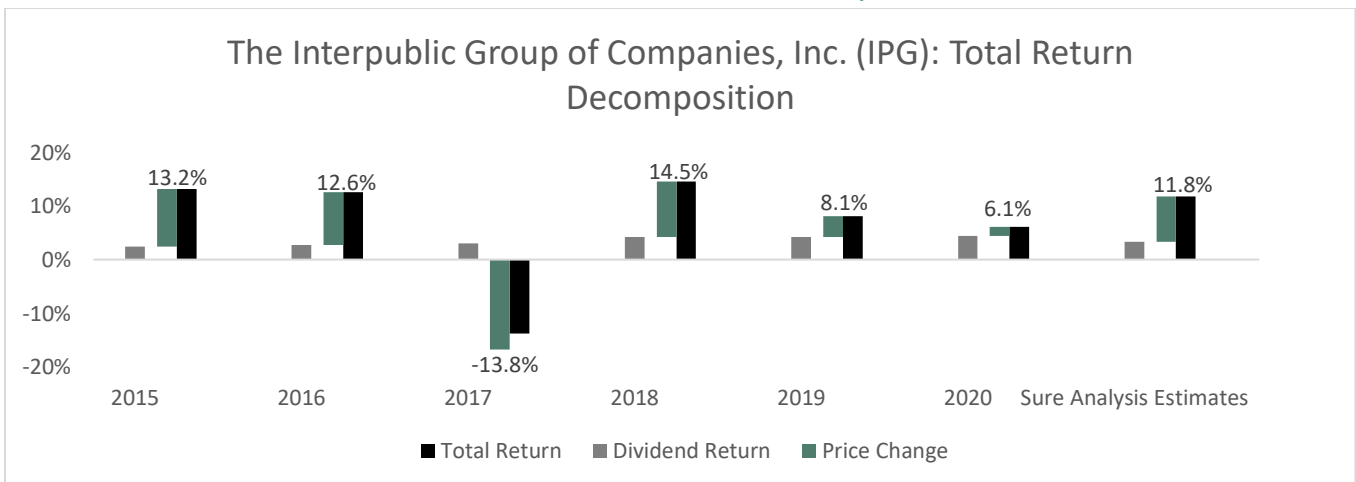
First, the media and advertising sectors are evolving rapidly, causing the big advertising conglomerates to fall behind smaller, more innovative, and efficient firms that can pivot faster than their "slow-moving" peers. This concern is especially important in the current economic environment, which has transformed capital expenditures towards advertising and media. While international revenues grew during the quarter, the slight revenue decline in its U.S. division could be interpreted as an early signal of these risks materializing.

Finally, its net income margins remain quite low at around 9.4%, displaying the sector's steep competition, while its quick ratio of just 0.9 likely signals that its short-term liquidity may be struggling, adding to the overall risks.

Final Thoughts & Recommendation

Interpublic has been delivering satisfactory returns over the years, powered by its strong EPS and DPS growth. On the one hand, concerns regarding the company's future remain due to the macro-uncertainties. On the other hand, management's optimistic projections, the stock's solid yield, and satisfactory growth estimates make for a noteworthy investment case. Combined with the stock's relatively attractive valuation, we forecast annualized returns in the very low double-digits. We believe that shares present a decent income option, with well-covered payouts. We continue to rate shares a cautious buy for these reasons.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	6956	7122	7537	7614	9056	9048	9714	10221	9061
Gross Profit	2564	2577	2717	2759	1235	1214	1378	1492	1352
Gross Margin	36.9%	36.2%	36.0%	36.2%	13.6%	13.4%	14.2%	14.6%	14.9%
SG&A Exp.	1887	1918	1928	1884	139	119	167	94	59
D&A Exp.	148	157	163	157	160	157	203	279	291
Operating Profit	677	659	788	875	936	938	1009	1120	1002
Operating Margin	9.7%	9.3%	10.5%	11.5%	10.3%	10.4%	10.4%	11.0%	11.1%
Net Profit	447	268	477	455	605	554	619	656	351
Net Margin	6.4%	3.8%	6.3%	6.0%	6.7%	6.1%	6.4%	6.4%	3.9%
Free Cash Flow	188	420	548	527	312	726	388	1331	1680
Income Tax	213	181	217	283	197	271	199	205	8

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	13494	12905	12737	12585	12485	12705	15620	17752	18040
Cash & Equivalents	2575	1637	1661	1503	1098	791	673	1192	2509
Accounts Receivable	4497	4565	4377	4361	4390	4585	5127	5209	4646
Goodwill & Int. Ass.	3721	3793	3844	3757	3823	3961	5971	5909	5879
Total Liabilities	11037	10654	10585	10583	10429	10458	13188	14926	15100
Accounts Payable	6585	6914	6558	6689	6304	6420	6698	7205	7270
Long-Term Debt	2450	1663	1722	1745	1690	1373	3734	3326	3466
Shareholder's Equity	2199	2215	2116	1966	2017	2212	2393	2776	2895
D/E Ratio	1.01	0.75	0.81	0.89	0.84	0.62	1.56	1.20	1.197

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.4%	2.0%	3.7%	3.6%	4.8%	4.4%	4.4%	3.9%	2.0%
Return on Equity	20.1%	12.1%	22.0%	22.3%	30.4%	26.2%	26.9%	25.4%	12.4%
ROIC	9.7%	6.1%	12.3%	11.9%	16.1%	15.1%	12.6%	10.7%	5.6%
Shares Out.	481.4	429.6	425.4	415.7	408.0	397.3	389.0	391.2	393.2
Revenue/Share	14.45	16.58	17.72	18.32	22.20	22.77	24.97	26.13	23.04
FCF/Share	0.39	0.98	1.29	1.27	0.77	1.83	1.00	3.40	4.27

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

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