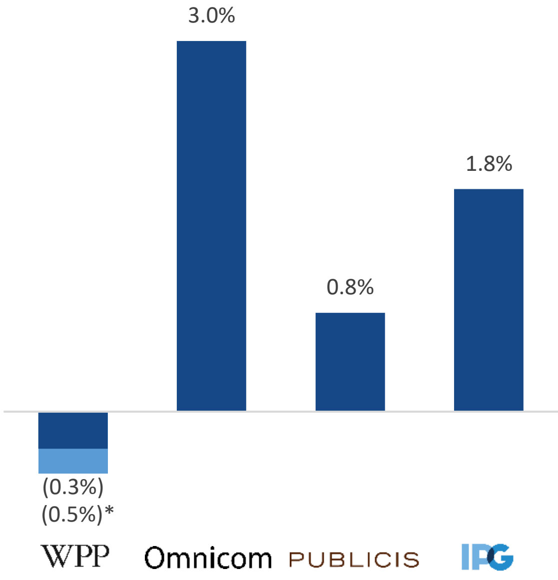
WPP suffers worst year in growth terms since 2009, and shares see biggest drop in 20 years

WPP, the world's largest marketing group, suffered its worst year since the 2009 recession in growth terms, with like for like revenue (which factors in currency and acquisitions) down 0.3%, on total revenue of £15.3bn. Following the announcement, shares in the company had their biggest drop in 20 years, falling 13%.

Looking at individual business sectors, Advertising and Media Investment Management performed the best in revenue growth and constant currency terms. However, like for like revenue was down 0.1% over the year. Within this, the traditional creative business has underperformed, while the media business has seen significant pickup. Growth was weak generally across all geographic markets with North America the worst performing, down 2.3% like for like over the year. The UK continues to be the one of the few bright spots for the company with 4.8% like for like growth, and an impressive 8.4% growth in the final quarter.

FY 2017 Organic Revenue Growth



Net Sales Growth[1]

WPP blamed its poor performance in 2017 on both cyclical and structural factors. Throughout the year many large multinational clients cut their marketing costs amid pressure from activist investors. Furthermore, consultancies such as Accenture have emerged as serious competitors to the ad-agencies. Longer term, tech disruption continues in the industry, with more advertising spend going online to Google and Facebook.

New York-based **Omnicom Group** was the strongest performing holding company in 2017, with organic growth of 3.0% on revenue of $15.3bn. Despite this, Omnicom missed analyst expectations for Q4, and their share price fell 5.8% following the announcement, and has continued to fall, currently trading close to 10% lower than prior to the announcement.

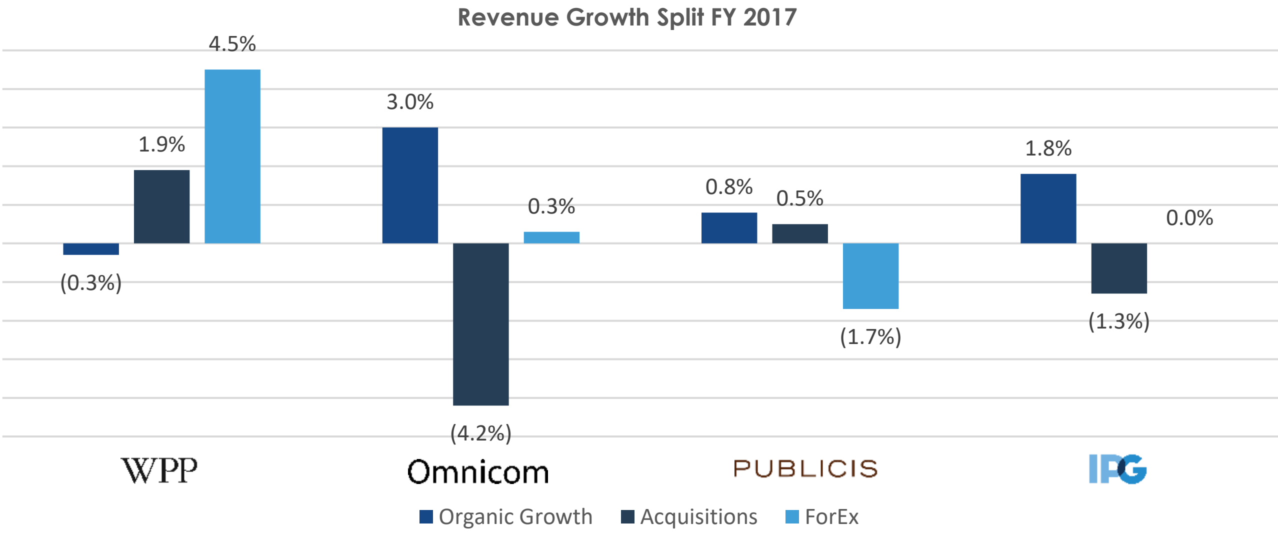
Regionally, organic revenue growth was very strong in the UK (5.1%), Europe (9.4%), Latin America (16.8%), and the Middle East and Africa (12.8%). However, North America, which accounts for 57% of Omnicom's revenues only saw organic growth of 0.6% for the year, and hence held the business back. This was significantly below analyst forecasts, and was due to a reduction in client spending, and lower political spend in PR related to the 2016 elections. All five of Omnicom's disciplines saw positive organic growth, with CRM Execution & Support (4.0%), and Advertising (3.9%) being the best performing by far. PR, the worst performing sector, rose by 0.3%.

Publicis had a more positive 2017 following a couple of weak years for the French group. While organic growth over the year was only 0.8%, the firm showed strong momentum over the year with sequential improvements in organic growth from Q1(-1.2%) to Q4 (2.2%). Performance in the final quarter was in line with expectations, and was seen as very reassuring to the market, where its share price increased by over 5% following the announcement.

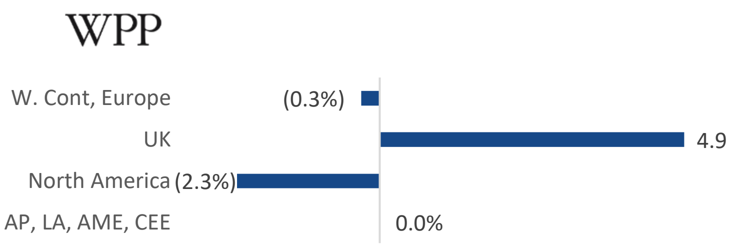
North America was a particularly encouraging region for Publicis. Although organic growth was only 0.5% over the year, there was great acceleration of growth in the region, with 3.7% in H2 vs -2.4% in H1. This reflected good momentum from a number of client wins over 2016 and 2017 including Hewlett Packard, McDonald's and Carrefour. Latin America (4.8%) and Middle East Africa regions (4.8%) were also very strong over the year. European performance (1.3%) was weaker, with a disappointing -1.6% growth rate in H2. Within Europe though Italy (4.0%) and the UK (5.5%) stood out while growth in Germany was particularly poor, falling 6.9%.

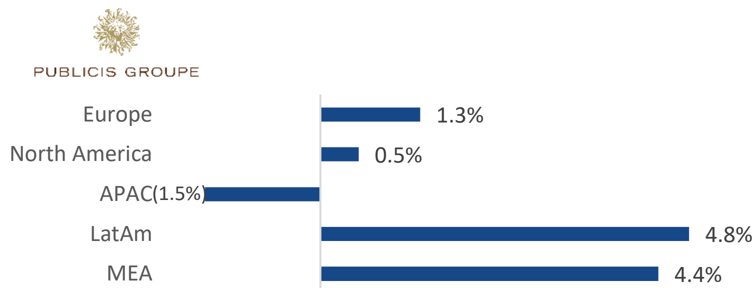
Interpublic Group's Q4 earnings were met with the greatest amount of enthusiasm from the market. While full year organic revenue was only modestly up 1.8% over the previous year, there was very strong momentum coming from Q4 organic growth of 3.3% over the prior-year period. These results delivered on IPG's updated targets, and performed well above analyst expectations. Following the announcement, the company's share price increased by more than 10%. Mediabrands, McCann Worldgroup, and FCB were cited by the company as driving overall growth.

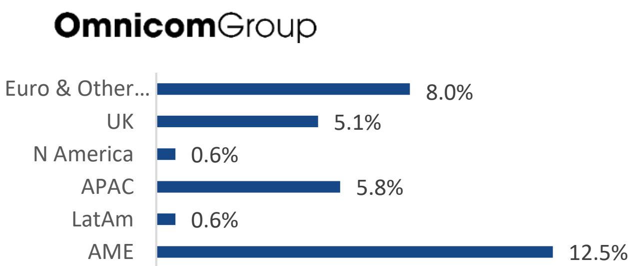
Looking at individual regions, IPG performed particularly well relative to the other agencies in organic growth terms in the US (2.0% over the year and 3.47% in Q4) and Continental Europe (3.4%). As with the other networks, UK growth was solid at 4.1% over the year. Asia Pacific was the worst performing region with a negative organic growth of 2.5%.

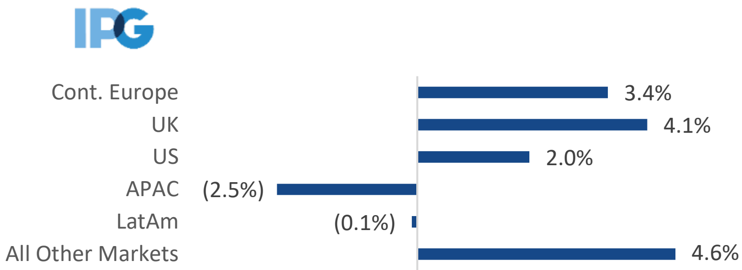


Organic revenue growth by region[1]









North America continued to be an area of concern for the four companies with all failing to make significant gains in the region. WPP in particular performed very poorly, experiencing negative growth of 2.3%. This is a trend that has continued for more than a year, and is likely a result activist investors having a greater influence on cost cutting, and the greater relative importance of digital advertising vs television in North America. In the US, digital ad spending overtook TV for the first time last year. This trend can also be linked to 2017 not having as many large events such as the Olympics or the US presidential election as the year before.

The holding companies showed very good performance across the board in the UK in 2017. This however may change going forward though with uncertainty around Brexit negotiations, general headwinds in the economy, and the slowdown in the rate of digital ad spend growth in the country. Results in Europe were very mixed especially when the UK is factored out, with no clear trend emerging.

No clear trend emerged from the other regions with a high amount of variance shown in the performance of the four companies in Asia-Pacific, Latin America, and the Middle East.

Outlook

Following WPP's poor performance in 2017, the company predicts a continuation of the challenging conditions it faced last year, forecasting a slow-start to 2018, with a no-growth outlook for the rest of the year. This is in spite of 2018 having a number of big events such as the Football World Cup in Russia, Winter Olympics in South Korea, and US midterm elections taking place. Given this, CEO Sir Martin Sorrell has upped WPP's strategic efforts, aiming to simplify the company's structure and making it more unified and coordinated. Furthermore,gg the firm hopes to continue to build up its digital marketing and ecommerce skills.

Although Omnicom performed the best of the holding companies with organic growth of 3.0%, their Q4 earnings fell well short of their expectations, which was further disappointing given the context of IPG and Publicis's positive results that had made some people considering the possibility of an industry-wide recovery. CEO John Wren blamed the results on client losses earlier in 2017 that took their time to impact results, and he expects this to continue in to the first part of 2018. Omnicom forecast organic revenue to grow between 2 and 3% next year, which is line with IPG. As with other firms, Omnicom also expect to continue to invest in their digital, data & analytics capabilities.

Publicis CEO Arthur Sadoun was very pleased about the progress of the group, especially considering that it is amid a transformation itself. Key goals for the firm going forward continue to be cost cutting, and the continuing transformation of the group from a holding company to a 'client-centric connecting platform' with Data, Content and Technology at its core. With their positive momentum, both in terms of key client wins and financial performance, the group believes it is in a very strong position going forward.

IPG CEO Michael I. Roth is bullish about the company's financial strength, as well as its future prospects, with Q4 results suggesting that pressures on big brands' advertising budgets may be easing. Given this, the firm's Board of Directors recent decision to increase dividends by 17%, and increase share repurchase by an additional $300m. Despite this, the firm is still wary about negative sector trends and want to temper expectations to fit within this context. For 2018, IPG has targeted a slightly faster growth rate than the previous year and are targeting organic revenue growth of 2-3%. The company aims to continue investing in talent, and in the key areas of Digital, Data & Analytics

About Ciesco

Ciesco is a boutique corporate finance advisory firm, specialising in the digital, media, marketing and technology sectors. Ciesco advises clients on mergers & acquisitions and corporate strategy.

Notes:
Source: All data obtained from WPP, Omnicom, Publicis and Interpublic Group of Companies' Q4 interim reports and presentations.

Organic Growth: the year-on-year increase or decrease in revenue from the prior period, excluding the FX impact and net acquisition revenue

1: For WPP, net sales figures and organic net sales growth are used rather than revenue and organic revenue growth, as they show underlying trends more accurately, given the increase in both online media buying as principal together with pass-through costs for data investment management.

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