

INTERPUBLIC GROUP OF COMPANIES, INC.

Form 10-Q

July 27, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-6686

THE INTERPUBLIC GROUP OF COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Delaware 13-1024020

(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

909 Third Avenue, New York, New York 10022

(Address of principal executive offices) (Zip Code)

(212) 704-1200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's common stock outstanding as of July 14, 2017 was 393,268,676.

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INFORMATION REGARDING FORWARD-LOOKING DISCLOSURE

This quarterly report on Form 10-Q contains forward-looking statements. Statements in this report that are not historical facts, including statements about management's beliefs and expectations, constitute forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," "continue" or comparable terminology are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined under Item 1A, Risk Factors, in our most recent annual report on Form 10-K. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, the following:

- potential effects of a challenging economy, for example, on the demand for our advertising and marketing services, on our clients' financial condition and on our business or financial condition;
- our ability to attract new clients and retain existing clients;
- our ability to retain and attract key employees;
- risks associated with assumptions we make in connection with our critical accounting estimates, including changes in assumptions associated with any effects of a weakened economy;
- potential adverse effects if we are required to recognize impairment charges or other adverse accounting-related developments;
- risks associated with the effects of global, national and regional economic and political conditions, including counterparty risks and fluctuations in economic growth rates, interest rates and currency exchange rates; and
- developments from changes in the regulatory and legal environment for advertising and marketing and communications services companies around the world.

Investors should carefully consider these factors and the additional risk factors outlined in more detail under Item 1A, Risk Factors, in our most recent annual report on Form 10-K.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
REVENUE	\$1,884.9	\$1,917.9	\$3,638.8	\$3,659.9
OPERATING EXPENSES:				
Salaries and related expenses	1,239.3	1,229.5	2,514.7	2,498.3
Office and general expenses	439.1	464.1	887.9	914.3
Total operating expenses	1,678.4	1,693.6	3,402.6	3,412.6
OPERATING INCOME	206.5	224.3	236.2	247.3
EXPENSES AND OTHER INCOME:				
Interest expense	(25.7)	(24.5)	(46.6)	(47.1)
Interest income	4.7	5.6	9.9	11.4
Other (expense) income, net	(15.4)	0.4	(14.6)	(18.8)
Total (expenses) and other income	(36.4)	(18.5)	(51.3)	(54.5)
Income before income taxes	170.1	205.8	184.9	192.8
Provision for income taxes	75.4	43.7	73.3	28.1
Income of consolidated companies	94.7	162.1	111.6	164.7
Equity in net (loss) income of unconsolidated affiliates	(0.1)	(1.9)	1.1	(1.8)
NET INCOME	94.6	160.2	112.7	162.9
Net loss (income) attributable to noncontrolling interests	0.1	(3.3)	3.5	(0.6)
NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS	\$94.7	\$156.9	\$116.2	\$162.3
Earnings per share available to IPG common stockholders:				
Basic	\$0.24	\$0.39	\$0.30	\$0.41
Diluted	\$0.24	\$0.38	\$0.29	\$0.40
Weighted-average number of common shares outstanding:				
Basic	392.3	400.1	392.0	400.4
Diluted	400.3	409.8	399.6	409.4
Dividends declared per common share	\$0.18	\$0.15	\$0.36	\$0.30

The accompanying notes are an integral part of these unaudited financial statements.

Table of ContentsTHE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Millions)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
NET INCOME	\$94.6	\$160.2	\$112.7	\$162.9
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation:				
Foreign currency translation adjustments	32.6	(17.8)	84.8	39.1
Reclassification adjustments recognized in net income	0.7	7.5	0.3	6.5
	33.3	(10.3)	85.1	45.6
Available-for-sale securities:				
Changes in fair value of available-for-sale securities	0.0	0.1	0.1	0.2
Recognition of previously unrealized gains in net income	0.0	(1.2)	0.0	(1.2)
	0.0	(1.1)	0.1	(1.0)
Derivative instruments:				
Recognition of previously unrealized losses in net income	0.6	0.5	1.1	1.0
Income tax effect	(0.2)	(0.2)	(0.4)	(0.4)
	0.4	0.3	0.7	0.6
Defined benefit pension and other postretirement plans:				
Net actuarial gains for the period	0.8	0.6	0.8	0.8
Amortization of unrecognized losses, transition obligation and prior service cost included in net income	1.8	(0.2)	3.5	2.5
Settlement and curtailment losses included in net income	0.0	0.2	0.0	0.2
Other	(0.4)	(0.1)	(0.6)	0.0
Income tax effect	(0.5)	0.2	(0.6)	(0.5)
	1.7	0.7	3.1	3.0
Other comprehensive income (loss), net of tax	35.4	(10.4)	89.0	48.2
TOTAL COMPREHENSIVE INCOME	130.0	149.8	201.7	211.1
Less: comprehensive income (loss) attributable to noncontrolling interests	0.1	2.7	(2.8)	0.5
COMPREHENSIVE INCOME ATTRIBUTABLE TO IPG	\$129.9	\$147.1	\$204.5	\$210.6

The accompanying notes are an integral part of these unaudited financial statements.

Table of ContentsTHE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Amounts in Millions)

(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS:		
Cash and cash equivalents	\$657.6	\$ 1,097.6
Marketable securities	3.2	3.0
Accounts receivable, net of allowance of \$56.8 and \$55.7, respectively	3,762.2	4,389.7
Expenditures billable to clients	1,720.7	1,518.1
Assets held for sale	19.7	203.2
Other current assets	323.1	226.4
Total current assets	6,486.5	7,438.0
Property and equipment, net of accumulated depreciation of \$1,020.7 and \$961.6, respectively	635.0	622.0
Deferred income taxes	260.9	220.3
Goodwill	3,753.1	3,674.4
Other non-current assets	542.7	530.5
TOTAL ASSETS	\$11,678.2	\$ 12,485.2
LIABILITIES:		
Accounts payable	\$5,872.0	\$ 6,303.6
Accrued liabilities	513.1	794.0
Short-term borrowings	237.7	85.7
Current portion of long-term debt	301.7	323.9
Liabilities held for sale	21.7	198.8
Total current liabilities	6,946.2	7,706.0
Long-term debt	1,283.1	1,280.7
Deferred compensation	461.8	480.7
Other non-current liabilities	731.4	708.3
TOTAL LIABILITIES	9,422.5	10,175.7
Redeemable noncontrolling interests (see Note 4)	243.4	252.8
STOCKHOLDERS' EQUITY:		
Common stock	39.9	39.4
Additional paid-in capital	1,220.2	1,199.2
Retained earnings	1,774.9	1,804.3
Accumulated other comprehensive loss, net of tax	(874.2)	(962.5)
	2,160.8	2,080.4
Less: Treasury stock	(178.3)	(63.3)
Total IPG stockholders' equity	1,982.5	2,017.1
Noncontrolling interests	29.8	39.6
TOTAL STOCKHOLDERS' EQUITY	2,012.3	2,056.7
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$11,678.2	\$ 12,485.2

The accompanying notes are an integral part of these unaudited financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

(Unaudited)

	Six months ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 112.7	\$ 162.9
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets and intangible assets	82.3	77.8
Provision for uncollectible receivables	8.6	7.6
Amortization of restricted stock and other non-cash compensation	46.0	39.9
Net amortization of bond discounts and deferred financing costs	2.8	2.8
Deferred income tax provision (benefit)	1.5	(4.2)
Net losses on sales of businesses	12.2	20.0
Other	10.2	28.7
Changes in assets and liabilities, net of acquisitions and divestitures, providing (using) cash:		
Accounts receivable	769.7	428.2
Expenditures billable to clients	(165.3)	(110.8)
Other current assets	(82.0)	(33.3)
Accounts payable	(622.9)	(848.7)
Accrued liabilities	(313.9)	(251.8)
Other non-current assets and liabilities	(15.0)	(72.9)
Net cash used in operating activities	(153.1)	(553.8)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(68.9)	(63.0)
Acquisitions, net of cash acquired	(12.6)	(34.3)
Other investing activities	(14.5)	(4.9)
Net cash used in investing activities	(96.0)	(102.2)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock dividends	(141.4)	(120.1)
Repurchases of common stock	(115.0)	(112.5)
Tax payments for employee shares withheld	(37.8)	(22.7)
Acquisition-related payments	(36.3)	(29.2)
Repayment of long-term debt	(23.6)	(1.0)
Distributions to noncontrolling interests	(10.9)	(7.2)
Net increase in short-term borrowings	153.5	55.0
Exercise of stock options	11.8	9.8
Other financing activities	0.3	0.9
Net cash used in financing activities	(199.4)	(227.0)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	8.2	52.6
Net decrease in cash, cash equivalents and restricted cash	(440.3)	(830.4)
Cash, cash equivalents and restricted cash at beginning of period	1,100.2	1,506.1
Cash, cash equivalents and restricted cash at end of period	\$ 659.9	\$ 675.7

The accompanying notes are an integral part of these unaudited financial statements.

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THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Millions)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Treasury Stock	Total IPG Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at December 31, 2016	394.3	\$ 39.4	\$1,199.2	\$1,804.3	\$ (962.5)	\$(63.3)	\$2,017.1	\$ 39.6	\$2,056.7
Net income				116.2			116.2	(3.5)	112.7
Other comprehensive income					88.3		88.3	0.7	89.0
Reclassifications related to redeemable noncontrolling interests								5.0	5.0
Distributions to noncontrolling interests								(11.4)	(11.4)
Change in redemption value of redeemable noncontrolling interests				(3.4)			(3.4)		(3.4)
Repurchases of common stock						(115.0)	(115.0)		(115.0)
Common stock dividends				(141.4)			(141.4)		(141.4)
Stock-based compensation	5.5	0.6	47.3				47.9		47.9
Exercise of stock options	1.1	0.1	11.8				11.9		11.9
Shares withheld for taxes	(1.6)	(0.2)	(38.2)				(38.4)		(38.4)
Other			0.1	(0.8)			(0.7)	(0.6)	(1.3)
Balance at June 30, 2017	399.3	\$ 39.9	\$1,220.2	\$1,774.9	\$ (874.2)	\$(178.3)	\$1,982.5	\$ 29.8	\$2,012.3

The accompanying notes are an integral part of these unaudited financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – (CONTINUED)

(Amounts in Millions)

(Unaudited)

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Treasury Stock	Total IPG Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at December 31, 2015	404.4	\$40.4	\$1,404.1	\$1,437.6	\$ (845.6)	\$(71.0)	\$1,965.5	\$ 36.3	\$2,001.8
Net income				162.3			162.3	0.6	162.9
Other comprehensive income (loss)					48.3		48.3	(0.1)	48.2
Reclassifications related to redeemable noncontrolling interests								2.5	2.5
Distributions to noncontrolling interests								(7.2)	(7.2)
Change in redemption value of redeemable noncontrolling interests				(3.9)			(3.9)		(3.9)
Repurchases of common stock						(112.5)	(112.5)		(112.5)
Common stock dividends				(120.1)			(120.1)		(120.1)
Stock-based compensation	3.3	0.3	67.4				67.7		67.7
Exercise of stock options	1.1	0.1	9.7				9.8		9.8
Shares withheld for taxes	(1.0)	(0.1)	(22.6)				(22.7)		(22.7)
Other			1.8	(0.6)			1.2	0.4	1.6
Balance at June 30, 2016	407.8	\$40.7	\$1,460.4	\$1,475.3	\$ (797.3)	\$(183.5)	\$1,995.6	\$ 32.5	\$2,028.1

The accompanying notes are an integral part of these unaudited financial statements.

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Notes to Consolidated Financial Statements
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

Note 1: Basis of Presentation

The unaudited Consolidated Financial Statements have been prepared by The Interpublic Group of Companies, Inc. and its subsidiaries (the "Company," "IPG," "we," "us" or "our") in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for reporting interim financial information on Form 10-Q. Accordingly, they do not include certain information and disclosures required for complete financial statements. The preparation of financial statements in conformity with U.S. GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported and disclosed. Actual results could differ from these estimates and assumptions. The consolidated results for interim periods are not necessarily indicative of results for the full year and should be read in conjunction with our 2016 Annual Report on Form 10-K.

In the opinion of management, these unaudited Consolidated Financial Statements include all adjustments, consisting only of normal and recurring adjustments necessary for a fair statement of the information for each period contained therein. Certain reclassifications and immaterial revisions have been made to prior-period financial statements to conform to the current-period presentation.

Note 2: Debt and Credit Arrangements

Long-Term Debt

A summary of the carrying amounts and fair values of our long-term debt is listed below.

	Effective Interest Rate	June 30, 2017 Book Value	Fair Value ₁	December 31, 2016 Book Value	Fair Value ₁
2.25% Senior Notes due 2017 (less unamortized discount and issuance costs of \$0.0 and \$0.2, respectively)	2.30%	\$299.8	\$300.5	\$299.4	\$301.4
4.00% Senior Notes due 2022 (less unamortized discount and issuance costs of \$1.5 and \$1.2, respectively)	4.13%	247.3	259.0	247.0	258.4
3.75% Senior Notes due 2023 (less unamortized discount and issuance costs of \$0.9 and \$2.3, respectively)	4.32%	496.8	521.0	496.6	503.3
4.20% Senior Notes due 2024 (less unamortized discount and issuance costs of \$0.7 and \$2.8, respectively)	4.24%	496.5	526.6	496.2	511.6
Other notes payable and capitalized leases		44.4	44.4	65.4	65.4
Total long-term debt		1,584.8		1,604.6	
Less: current portion		301.7		323.9	