**Business Summary:** WPP is one of the world’s largest communication services groups, with operations in advertising, media buying, consultancy, PR, branding, and specialist communications. There are more than 155 companies within the Group – and each is a distinctive brand in its own right. Almost 175,000 people (including associates) work for WPP companies, out of over 3,000 offices in 110 countries.

**Industry Trends:** Over the past five years, the Advertising Agencies has fared well due to the proliferation of digital media allowing operators to access their target audience via more mediums. Many industry clientele have expanded their TV advertising budget, while video advertising comprised the fastest growing digital format. Moreover, robust advertising demand from the automotive, telecommunications and restaurants sectors have spurred industry revenue. However, as more individuals have accessed media with a variety of devices, this trend caused audiences to become increasingly fragmented. In the five years to 2019, industry revenue is forecasted to grow at an annualized rate of 4.0% to $58.0 billion. While TV advertising is anticipated to still account for the largest share of advertising expenditures, advertising agencies will increasingly streamline TV advertisements with online and mobile applications.

**Investment Thesis:** WPP is actively positioning itself in faster-growing functional and geographical areas, both organically and through acquisitions. Its revenues are increasing by more than 6% organically, and the operating margins have increased to 15.8% in 2013. In addition, the weakening of the pound to the dollar will translate into great profits. We believe HD is a buy.

**Total Return Estimates**
3 Yr FV Reversion: 10%
5 Yr FV Reversion: 6%

**Key Valuation Assumptions**
Est Revenue Growth: 6.2%
WACC: 8.64%
Expected Inflation: 1.7%
Terminal Growth Rate: 3.5%
10 Yr Risk Free Rate: 2.82%
Equity Risk Premium: 5.9%
Tax Rate: 22.0%

**Key Financial Data**
Est 2014 EPS: $6.60
Est 2015 EPS: $7.25
3-5 Yr Est EPS Growth: 7%
PEG (TTM): 12.01
Credit Quality: BBB (S&P)
ROE: 15.38%
ROA: 4.65%
Price/Book: 16.74
Price/Cash Flow: 14.50
Debt/Equity: 0.45
Current Ratio: 0.96
Quick Ratio: 0.92

**CSR Characteristics (WPPGY/Industry)**
Human Rights: 1/1  Business Ethics Policy: 1/1
ESG Disclosure: 46.67/24.15  Equal Opportunity: 1/1
Emission Reduction: 1/1  Environment Disclosure: 41.86/21.10
Prepared by Xiaoying Gan (Feb 16, 2014)