

WPP PLC (ADR) Ticker: WPPGY Sector: Consumer Discretionary Industry: Advertising	Intrinsic Value: \$ 155.7 Current Price: \$117.03 Stop Loss: \$ 89.59 Upside Review: \$ 145	TTM P/E: 17.45 Forward P/E: 18.79 Beta: 1.25	Market Cap: \$ 29.7B Dividend Yield: \$2.91 (2.9%) 52 Week Range: \$ 88.15–\$116.53
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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.

Competitive Analysis:

Through global and local subsidiaries, WPP offers a comprehensive array of advertising and marketing services, clustered around four areas of expertise or functions: Advertising, Media, and Investment Management activities; Information, Insight and Consulting services; Public Relations and Public Affairs; Branding and Identity, Healthcare and Specialist Communications.

Pros:

- Hundreds of smaller agencies within WPP are focused on a particular geographic or niche area of expertise (for example, mobile marketing)
- WPP companies works in partnership to offer a comprehensive and integrated range of communications services.
- The company continues to stay on the cutting edge of the industry.
- Group's diversified geographical exposure and the fact it does not rely exclusively on one single advertising medium.

Risk Factors:

- Major pullback in global advertising expenditures due to a contraction in G7 economies
- Potential value-destroying acquisitions (e.g., overpaying in higher-growth markets);

5 Year Stock Performance:



(Yahoo!)

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: 46.67/24.51 Equal Opportunity: 1/1
- Emission Reduction: 1/1 Environment Disclosure: 41.86/21.10

Prepared by Xiaoying Gan (Feb 16, 2014)

Competitor Comparison:

WPP LN Equity		Relative Valuation	
Comp Source	Bloomberg	% Rev. by Industry - FY2013	Region
Advertising & Marketing	100%		North America
Metric	WPP	Low	High
Est P/E Current Yr	17.43	12.63	40.64
EV/Est EBITDA Curr...	11.89	8.31	18.10
Sales Growth Yoy (%)	6.23	-25.58	39.26
EBITDA Margin (%)	18.69	-32.10	36.15
Operating Margin (%)	14.93	-39.74	29.28

Name	Mkt Cap (GBP)	Last Px (GBP)	Chg Pct 1D	Chg Pct 1M	Rev - 1 Yr Gr:Yr	EPS - 1 Yr Gr:Yr	P/E	ROE	Dvd Yld	ESG Disc Score:Y	OPM:Y
Average	8.01B	24.70	0.66%	4.59%	4.80%	22.14%	36.20	14.55%	2.31%	21.61	7.04%
WPP PLC	18,968	14.45	-0.14%	4.33%	6.23%	9.37%	16.74	15.38%	2.44%	46.69	14.93%
OMNICOM GROUP	12,468	50.59	1.83%	5.41%	5.03%	14.40%	18.16	33.70%	2.45%	24.38	12.69%
INTERPUBLIC GROUP OF ...	6,028	14.39	4.54%	11.79%	5.82%	83.87%	19.49	17.95%	1.72%	22.72	10.46%
AIMIA INC	1,278	7.40	2.24%	3.01%	-25.58%	--	--	-24.17%	4.94%	21.90	39.74%
CONVERSANT INC	--	--	--	--	6.17%	22.55%	--	26.55%	--	11.16	29.28%
SHUTTERSTOCK INC	1,308	36.78	-4.64%	-2.40%	39.26%	-19.23%	90.43	10.16%	0.00%	13.22	11.78%
VALASSIS COMMUNICATIO...	--	--	--	--	-3.30%	21.81%	--	22.91%	--	11.16	9.87%

Information from: Bloomberg, Value Line, S&P Net Advantage, Yahoo