

INTERPUBLIC GROUP OF COMPANIES, INC.

Form 10-Q

July 23, 2015

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, 2015

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

(State or other jurisdiction of

incorporation or organization)

13-1024020

(I.R.S. Employer

Identification No.)

1114 Avenue of the Americas, New York, New York 10036

(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, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting 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)

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 15, 2015 was 410,401,096.

INDEX

Page No.

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited)</u>	
	<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>2</u>
	<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>3</u>
	<u>Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014</u>	<u>4</u>
	<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014</u>	<u>5</u>
	<u>Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2015 and 2014</u>	<u>6</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>32</u>
Item 4.	<u>Controls and Procedures</u>	<u>32</u>

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>33</u>
Item 1A.	<u>Risk Factors</u>	<u>33</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>33</u>
Item 6.	<u>Exhibits</u>	<u>33</u>
	<u>SIGNATURES</u>	<u>34</u>
	<u>INDEX TO EXHIBITS</u>	<u>35</u>

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.

Table of Contents

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 June 30,		Six months ended June 30,	
	2015	2014	2015	2014
REVENUE	\$1,876.1	\$1,851.4	\$3,552.1	\$3,488.9
OPERATING EXPENSES:				
Salaries and related expenses	1,205.2	1,170.2	2,420.4	2,358.8
Office and general expenses	455.1	485.4	908.1	946.0
Total operating expenses	1,660.3	1,655.6	3,328.5	3,304.8
OPERATING INCOME	215.8	195.8	223.6	184.1
EXPENSES AND OTHER INCOME:				
Interest expense	(20.3)	(22.6)	(41.2)	(42.8)
Interest income	5.0	6.6	12.2	12.8
Other income (expense), net	0.5	(11.2)	0.8	(9.5)
Total (expenses) and other income	(14.8)	(27.2)	(28.2)	(39.5)
Income before income taxes	201.0	168.6	195.4	144.6
Provision for income taxes	77.7	65.3	76.3	63.6
Income of consolidated companies	123.3	103.3	119.1	81.0
Equity in net income of unconsolidated affiliates	0.5	0.4	0.5	0.3
NET INCOME	123.8	103.7	119.6	81.3
Net income attributable to noncontrolling interests	(2.6)	(4.3)	(0.2)	(2.8)
NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS	\$121.2	\$99.4	\$119.4	\$78.5
Earnings per share available to IPG common stockholders:				
Basic	\$0.30	\$0.24	\$0.29	\$0.19
Diluted	\$0.29	\$0.23	\$0.29	\$0.18
Weighted-average number of common shares outstanding:				
Basic	410.5	421.1	410.8	421.9
Diluted	417.6	428.1	417.6	428.5
Dividends declared per common share	\$0.120	\$0.095	\$0.240	\$0.190

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,	
	2015	2014	2015	2014
NET INCOME	\$123.8	\$103.7	\$119.6	\$81.3
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation:				
Foreign currency translation adjustments	26.1	25.5	(109.0	) 24.5
Less: reclassification adjustments recognized in net income	(0.7	) 0.0	(1.2	) (0.9
	25.4	25.5	(110.2	) 23.6
Available-for-sale securities:				
Changes in fair value of available-for-sale securities	0.0	0.1	0.2	0.2
Income tax effect	0.2	0.0	(0.1	) 0.0
	0.2	0.1	0.1	0.2
Derivative instruments:				
Changes in fair value of derivative instruments	0.0	0.0	0.0	(0.6
Less: recognition of previously unrealized losses included in net income	0.5	0.5	1.0	0.9
Income tax effect	(0.2	) (0.2	) (0.4	) (0.1
	0.3	0.3	0.6	0.2
Defined benefit pension and other postretirement plans:				
Net actuarial gains (losses) for the period	1.3	0.0	5.7	(0.3
Less: amortization of unrecognized losses, transition obligation and prior service cost included in net income	3.2	2.4	6.2	5.0
Less: settlement and curtailment losses included in net income	0.2	0.0	0.2	0.0
Other	(0.3	) (0.1	) (0.2	) (0.2
Income tax effect	(1.3	) (0.7	) (2.2	) (1.3
	3.1	1.6	9.7	3.2
Other comprehensive income (loss), net of tax	29.0	27.5	(99.8	) 27.2
TOTAL COMPREHENSIVE INCOME	152.8	131.2	19.8	108.5
Less: comprehensive income (loss) attributable to noncontrolling interests	2.7	4.0	(0.5	) 1.9
COMPREHENSIVE INCOME ATTRIBUTABLE TO IPG	\$150.1	\$127.2	\$20.3	\$106.6

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, 2015	December 31, 2014
ASSETS:		
Cash and cash equivalents	\$848.9	\$1,660.6
Marketable securities	6.7	6.6
Accounts receivable, net of allowance of \$59.5	3,976.7	4,376.6
Expenditures billable to clients	1,452.4	1,424.2
Other current assets	352.7	342.2
Total current assets	6,637.4	7,810.2
Property and equipment, net of accumulated depreciation of \$1,069.4 and \$1,070.0, respectively	526.4	548.2
Deferred income taxes	204.2	192.9
Goodwill	3,626.3	3,669.2
Other non-current assets	505.0	526.7
TOTAL ASSETS	\$11,499.3	\$12,747.2
LIABILITIES:		
Accounts payable	\$5,669.8	\$6,558.0
Accrued liabilities	603.8	796.0
Short-term borrowings	158.0	107.2
Current portion of long-term debt	2.0	2.1
Total current liabilities	6,433.6	7,463.3
Long-term debt	1,622.8	1,623.5
Deferred compensation	480.4	527.9
Other non-current liabilities	719.3	723.9
TOTAL LIABILITIES	9,256.1	10,338.6
Redeemable noncontrolling interests	230.1	257.4
STOCKHOLDERS' EQUITY:		
Common stock	41.5	41.2
Additional paid-in capital	1,597.4	1,547.5
Retained earnings	1,201.8	1,183.3
Accumulated other comprehensive loss, net of tax	(735.8)	(636.7)
	2,104.9	2,135.3
Less: Treasury stock	(121.0)	(19.0)
Total IPG stockholders' equity	1,983.9	2,116.3
Noncontrolling interests	29.2	34.9
TOTAL STOCKHOLDERS' EQUITY	2,013.1	2,151.2
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$11,499.3	\$12,747.2

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 CASH FLOWS

(Amounts in Millions)

(Unaudited)

	Six months ended	
	June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$119.6	\$81.3
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets and intangible assets	78.2	80.7
Provision for uncollectible receivables	6.7	5.6
Amortization of restricted stock and other non-cash compensation	33.2	26.2
Net amortization of bond discounts and deferred financing costs	2.8	2.3
Deferred income tax provision	0.2	7.3
Other	11.8	14.9
Changes in assets and liabilities, net of acquisitions and dispositions, providing (using) cash:		
Accounts receivable	284.1	327.6
Expenditures billable to clients	(53.2)	(239.4)
Other current assets	(17.7)	(76.7)
Accounts payable	(775.3)	(584.5)
Accrued liabilities	(198.3)	(173.5)
Other non-current assets and liabilities	(28.7)	(29.0)
Net cash used in operating activities	(536.6)	(557.2)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(49.8)	(58.7)
Proceeds from sales of businesses and investments, net of cash sold	(0.5)	10.5
Acquisitions, net of cash acquired	0.0	(50.8)
Other investing activities	0.4	(0.1)
Net cash used in investing activities	(49.9)	(99.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(102.0)	(97.3)
Common stock dividends	(98.5)	(80.1)
Acquisition-related payments	(27.8)	(8.6)
Distributions to noncontrolling interests	(8.2)	(12.1)
Purchase of long-term debt	(1.0)	(350.1)
Proceeds from issuance of long-term debt	0.0	499.1
Excess tax benefit on share-based compensation	9.0	4.3
Exercise of stock options	10.6	10.7
Net increase (decrease) in short term bank borrowings	54.9	(52.8)
Other financing activities	2.5	(2.4)
Net cash used in financing activities	(160.5)	(89.3)
Effect of foreign exchange rate changes on cash and cash equivalents	(64.7)	3.9
Net decrease in cash and cash equivalents	(811.7)	(741.7)
Cash and cash equivalents at beginning of period	1,660.6	1,636.8
Cash and cash equivalents at end of period	\$848.9	\$895.1

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

Table of Contents

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

	Common Stock Shares	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, 2014	414.6	\$41.2	\$1,547.5	\$1,183.3	\$ (636.7)	\$ (19.0)	\$ 2,116.3	\$ 34.9	\$ 2,151.2
Net income			119.4			119.4	0.2	119.6	
Other comprehensive loss				(99.1)		(99.1)	(0.7)	(99.8)	
Reclassifications related to redeemable noncontrolling interests							3.2	3.2	
Distributions to noncontrolling interests							(8.2)	(8.2)	
Change in redemption value of redeemable noncontrolling interests				(2.0)		(2.0)		(2.0)	
Repurchase of common stock					(102.0)	(102.0)		(102.0)	
Common stock dividends				(98.5)		(98.5)		(98.5)	
Stock-based compensation	2.4	0.3	47.4			47.7		47.7	
Exercise of stock options	1.0	0.1	10.6			10.7		10.7	
Shares withheld for taxes	(0.8)	(0.1)	(17.2)						