Yale
School *of*
Management

Industry Report - Advertising

November 5, 2001

Investment Highlights:

We are initiating coverage of the advertising industry with a **hold** recommendation. We believe that **in the short and intermediate term**, given its cyclical nature, the industry will contract and underperform the market. Over this period several ad stocks may be underpriced and become a bargain for investors. But **in the long term**, the industry as a whole will outperform the market when the economy rebounds. Our recommendation is based on the following observations:

Continued Pricing Pressure

- Many stocks still trading at high P/E multiples relative to S&P 500 and industry average, despite the fact that S & P Advertising/Marketing Index was already down 18% in the past year.
- The economic contraction will continue next year. This will induce retail, airline and entertainment industries, which are major clients of advertising agencies, to further cut back their marketing activities.

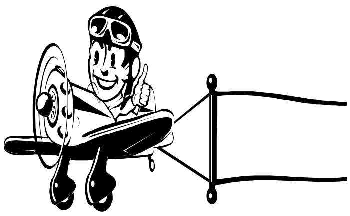
Effects from September 11

- All companies lowered guidance due to decrease in television and print media advertising in the days and weeks just after the attack as consumer spending decreased 2 % for September (**Appendix 8**).
- Decrease in direct mail marketing and/or increase in postal service costs.
- Not all bad news though, as innovative agencies could take advantage of the uncertainty faced by major retailers on how best to market its products during wartime.

Long-Term Upside Potential

- Ongoing consolidation activities may intensify, driving up the price of potential acquisition targets.
- The turnaround of the industry will be magnified when the economy recovers given its cyclical nature and relatively high beta.
- Emerging markets hold great promise as these economies continue to grow above U.S. growth rates.

Therefore, we view that there is considerable short-term downside in this industry. It should be noted that prices would become increasingly attractive over the next 12 months, with stock appreciation eminent in the longer term.



Companies Covered:

WPP Group plc

Omnicom Group Inc.

Interpublic Group of Companies

Havas Advertising SA

Grey Global Group

Cordiant Communications Group

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INDUSTRY OVERVIEW[1]

The Advertising Agency Business

The worldwide market for advertising and marketing services in 2000 amounted to US$463.9 billion, with 53% attributed to the U.S. market alone (**Appendix 2**). Over the five-year period from 1994-1999, the communications sector achieved the strongest cumulative annual growth rate (7.8%) among major economic sectors in the U.S.[2] The principal functions of an advertising agency are to plan and create advertising programs for its clients and to place advertising in various media such as television, cinema, radio, magazines, newspapers, direct mail, outdoor and interactive electronic media. While media such as magazines and newspapers have lost their popularity, Internet advertising has been gaining momentum in recent years (**Appendix 1**) and the trend is expected to continue. Planning advertising programs involves analyzing the market for the particular product or service, creating the appropriate advertising campaign to convey the agreed-upon benefit or message and choosing the appropriate media to reach the desired market most effectively. The advertising agency develops a communication strategy, creates an advertising program within the limits imposed by the client's advertising budget and places orders for space or time with the media that have been selected. In addition, many advertising agencies provide public relations, public affairs and consulting services.

Effects of the WTC attacks

Prior to the September WTC attacks, the industry had been undergoing a gradual slowdown. The projected growth rate for 2001E was around 2.5% (**Appendix 2**). It was originally expected that the industry would pick up more rapidly next year. However, after the attacks, the industry downturn is expected to magnify due to the cyclical nature and past track record of the industry (**Appendix 7**). In the days and weeks following the attacks, mass media sacrificed ad revenues for news coverage. While this phenomenon lasted a relatively short time, all advertising companies lowered guidance for the near term. According to the following table, Merrill Lynch revised its projected growth rate for the industry downward. It predicted that total US ad spending would drop by 3.1% this year and 0.8% next year.

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[1] Annual Reports of 2000: Interpublic Group and WPP Group; Salomon Smith Barneys, October 2001.
[2] Veronis, Suhler & Associates, The Publishing & Media Group, Bureau of Economic Analysis.

	1998	1999	2000	2001E	2002E
Nominal US GDP	5.7%	5.8%	6.5%	3.4%	3.7%
Real US GDP	4.4%	4.2%	4.1%	**1.0%**	**2.0%**
Total US Advertising	7.6%	7.6%	9.2%	**-3.1%**	**-0.8%**
Newspaper Advertising	6.3%	5.4%	5.6%	-6.7%	-1.3%
TV Advertising	8.1%	5.7%	12.4%	-4.4%	-5.3%
TV Networks	5.5%	1.6%	12.5%	-4.7%	-7.0%
TV Stations	6.5%	1.5%	10.4%	-10.6%	-0.3%
Radio Advertising	11.7%	14.2%	12.8%	-4.6%	2.0%
Magazine Advertising	7.1%	8.7%	12.0%	-7.5%	-2.0%
Internet Advertising	81.0%	136.8%	53.3%	-7.0%	12.5%
Total Non-US Advertising	-2.3%	4.2%	3.0%	-0.8%	0.7%
Global Ad Forecasts				**-2.5%**	**0.0%**

Source: Merrill Lynch, September 28, 2001.

Going forward, advertisers will need to pay special attention to consumer behavior as the ongoing war against terror will undoubtedly change not only what consumers will buy, but also how it will be marketed. For example, direct marketing by mail may decrease due to fears associated with bio-terrorism or simply due to the increased costs of using the postal service. Consequently, those agencies that can deliver this service to major accounts will have a competitive advantage over its rivals.

Competitive Landscape

The advertising agency as well as other marketing communications and marketing services businesses are highly competitive. Competitive advantage in the advertising industry depends to a large extent on the client's perception of the quality of an agency's "creative product". An agency's ability to serve clients, particularly large international clients, on a broad geographic basis is also an important competitive consideration. At the same time, because an agency's principal asset is its human capital, freedom of entry into the industry is almost unlimited and fairly small agencies are, on occasion, able to take all or some portion of a client's account from a much larger competitor. Also, the industry has recently faced competition from the consulting industry, which is now examining how it can develop its demand side (or consumer) capabilities in addition to its supply side (or industry) expertise.

Three companies, Interpublic Group of Companies (IPG), Omnicom (OMC) and WPP Group dominate the industry, generating revenues of $21.5 billion in 2000 (**Appendix 3**), accounting for 56% of top 15 advertising agencies' total revenue. Their dominance enabled the revenue share of other top players to stay well below 10%. Dentsu and Bcom3 have combined revenues of $5.3 billion. The postponement of Bcom3's IPO may drive them closer together or encourage a bid. Two French companies, Havas and Publicis with combined revenues over $5.2 billion, remain aggressive consolidators, acquiring numerous targets, including Snyder Communications and Saatchi & Saatchi. However, weakness in the stock markets and the weak French franc make this more difficult. Recently, the ninth largest agency, True North was acquired by IPG. This leaves Cordiant and Grey, both with revenues of $3.1 billion, looking increasingly vulnerable, as do Hakuhodo and Tokyu in Japan.

International reach

Advertising agencies compete on a global level. Multinational companies with global advertising needs expect its agencies to have a network of local offices around the world. In fact, some of the fastest growing advertising markets are in emerging markets, namely Russia, China, Brazil and India. While many of the countries listed in **Appendix 4** hold great potential for global agencies, many are politically unstable and resist exposure to western media. In the long term, agencies with a keen understanding of local trends and consumer behavior will take advantage of the growth in the emerging markets, for example, hiring local staff instead of bringing in expatriates from where the headquarters is based. With that said, the U.S. and Western Europe still makes up 60% of total worldwide ad spending. Therefore, it is in these established markets where competition is fierce because that is where the majority of spending occurs.

Revenue Model

Advertising agencies earn revenue mainly from commission and agreed-upon fees. In recent years, the remuneration structure has changed to allow for performance bonus. Usually, an incentive component included in arrangements with clients is based on improvements in an advertised brand's awareness or image, or increases in a client's sales or market share of the products or services being advertised. Such structural change has contributed to the competitive dynamics of the industry.

Historically, under commission arrangements, the commission customary in the industry was 15% of the gross charge ("billings") for advertising space. Media bill an agency at their gross rates. The agency bills these amounts to its clients, remits the net charges to the media and retains the balance as its commission. On the other hand, under the fee structure, the agency bills its clients for the net charges billed by the media plus an agreed-upon fee. These fees usually are calculated to reflect the agency's hourly rates and out-of-pocket expenses incurred on the client's behalf, plus proportional overhead and a profit mark-up. Billings are generally rendered upon completion of the earning process, including presentation date for media, when services are rendered, when costs are incurred for radio and television production and when print production is completed.

The agencies also receive commissions from clients for planning and supervising work done by outside contractors in the physical preparation of finished print advertisements and the production of television and radio commercials and other forms of advertising. This commission is customarily 18% of the outside contractor's total charges including commission. With the expansion of negotiated fees, the terms on which outstanding contractors' charges are billed are subject to wide variations and even include in some instances the elimination of commissions entirely, provided that there are adequate negotiated fees.

Because of the above-mentioned billings arrangement, the billings figure, an important industry parameter (**Appendix 3**), refers to the gross amounts billed to clients in respect of commission-based income together with the total of other fees earned. Revenue, on the other hand, comprises commission and fees earned in respect of billings. This is the amount that is recognized in the income statement. Accordingly, the agencies usually have a huge amount of accounts receivable and payable in their balance sheets, referring to the amounts owed by clients for their billings and the amounts owed by the agencies to media respectively. Therefore, the efficiency operating these advertising agencies depends largely on their abilities to collect receivables effectively and account for bad debts appropriately.

	Industry	WPP	IPG	Omnicom
Days of sales outstanding	228.65	212.64	346.03	219.63
Net Receivables Turnover Flow	1.7	2.0	1.2	1.8

Source: Hoover's Online

In other words, the fewer number of days of sales outstanding and the quicker net receivables turnover, the better.

Cost structure

Advertising agencies usually incur a huge amount of operating expenses, driving down the net profit margin to a single-digit level. Over time, reductions in general levels of margins seem to occur when agencies grow globally, as significant overhead is added in account management, human resources, information technology and financial and administrative activities at country, regional and worldwide levels[3]. Currently, the net profit margin for the industry is around 4.8%[4]. While the WPP Group and OMC earn a net margin of 8.2% and 7.2% respectively, the net margins of IPG and Havas are as low as 0.6% and 1.8% respectively.

The major cost drivers for the agencies are operating expenses and amortization of intangible assets. As mentioned, human capital is the principal asset for every agency. As a result, staffing costs become the largest component of operating expenses. Office and general expense is the next significant driver of operating expenses. At the same time, amortization of intangible assets, which account for a significant portion of total assets for most agencies, contributes to the overall cost structure of the business. The reason being that a substantial amount of acquired goodwill and corporate brand name has been created as a result of the ongoing wave of consolidation, which was encouraged by the agencies' need to create widespread network to maintain their market share and sustain their profitability. With a significant amount of intangible assets, the agencies have to increase their amortization expenses accordingly.

Key Accounts

The big advertising groups mentioned above usually concentrate on a number of major clients, which used to be big "ad spenders" before 2001 (**Appendix 5**). However, businesses from these clients dropped since the beginning of 2001. Again, this was mainly due to the overall economic deceleration in the retail, airline and automobile sectors, which used to be strong advocates of advertising and marketing activities but contracted in recent months. To sustain organic growth and ensure greater efficiency in the use of human capital, advertising agencies compete on soliciting new clients. The Big Three are particularly aggressive in soliciting new businesses. In 2000, the Net New Business Win, a backlog for next year's organic growth, was roughly $4-5 billion each (**Appendix 6**).

[3] Annual Reports of WPP Group, 2000.
[4] Hoover's Online.

A loss of one big client could have a significant impact on an agency. On September 24, 2001 PepsiCo announced that an account representing $350 million a year in billings was being transferred from IPG to OMC. The account involved such brands as Quaker Oats and Gatorade. IPG's share price closed at $19.30 on September 26 after PepsiCo made the announcement. One-week prior, shares closed at $25.10 representing a 23% decline in IPG shares. OMC shares were at $60.01 on September 21, 2001 and closed at $64.82 on September 24, the day of the week representing the highest volume, resulting in an 8% gain. The capitalization lost to IPG was near $2 billion and the gain to OMC near $1 billion.

Technology

Technology has changed the industry in a number of ways. As mentioned, Internet advertising has been gaining momentum in recent years. Advertising spend online has shown the greatest 2000 to 2001 percentage increase. According to Morgan Stanley, total world e-advertising and e-direct marketing will grow at 61%, 45% and 28% in each year between 2002 and 2004. Advertising is forecast to make up to 92.3 % or $6.8 billion of $7.4 billion in portal sales in 2001 versus 36.5% or $25 billion of $70 billion in 2006[5]. Moreover, e-commerce proliferation has offered a different way of capturing and analyzing market research data. As online marketers have been increasingly involved in content and not pure advertising, they are looking for agencies working on content matters and targeted online video activates[6]. The success of advertising agencies therefore lies in their abilities to embrace new technologies in their traditional channels.

The annual growth in traditional media such as network television, newspapers and magazines in the next four years is expected to be relatively slow. On average, the advertising expenditure in such media will range from 4% to 7% per annum.[7] The economic implication of this shift of importance among media is that television's relative position has weakened, despite its ability to deliver the largest possible audiences at the cheapest cost-per-thousand people.

[5] Ovum, October 2001.
[6] Forbes, October 29, 2001.
[7] Euromonitor.

Network television has become relatively more expensive as prices have risen faster than inflation and audiences have fallen. In the last few years when general price inflation has been 2-3%, network prices have been rising 10% in real terms. Cable, with its lower cost-per-thousand people, radio and posters all offer interesting alternatives. Of course, new technologies offer one-to-one forms of communication with more measurable results. Thus, clients become more interested in the lowest effective, rather than purely cheapest, cost-per-thousand people.

Growth

Growth in the industry can be categorized into four main types – organic (international and domestic), acquisition, market share and sector growth. We view that the overall growth will be in the negative territory in the near future. Organic growth in the domestic market will slow down although the emerging markets will post modest growth. New business wins for big agencies will suffer. The market may become more concentrated in view of increasing consolidation activities. Market shares for big agencies will then grow bigger. Sector growth will, again, decelerate.

Risks

A trend towards increasing market power has led to the recent consolidation trends in the advertising industry. Clients are focusing on how they can generate top line growth by coordinating their marketing communications, while reducing costs by focusing their resources with one provider. For example, DaimlerChrysler placed all its business with OMC, rather than True North, in an attempt to coordinate its overall marketing strategy. However, increasing size brings some limitation to an agency's potential for securing new business, mainly because clients prefer not to be represented by an agency that also represents a competitor. Also, clients frequently wish to have different products represented by different agencies. To counteract this dilemma, agencies seek to develop a worldwide network of small agencies to give it additional competitive opportunities.

The advertising industry is subject to government regulation, both domestic and foreign. There has been an increasing tendency in the U.S. on the part of advertisers to resort to the courts, industry and self-regulatory bodies to challenge comparative advertising on the grounds that the advertising is false and deceptive. In recent years, there has been a continuing expansion of specific rules, prohibitions, media restrictions, labeling disclosures and warning requirements with respect to the advertising for certain products. Representatives within certain government bodies, both domestic and foreign, continue to initiate proposals to ban the advertising of specific products and to impose taxes on or deny deductions for advertising, which if successful, may have an adverse effect on advertising expenditure.

Lobbying Power

The American Advertising Association (ANA) lobbies for the needs of advertisers, agencies, and the media. Laws dealing with privacy (including The McCain Bill and EU Privacy Agreement), tax deductibility, child protection, prescription drug education, tobacco, and digital television all affect the Industry. According to its web site, tax law is a key area of concern. The ANA has been so far successful in lobbying for[8]:

1. Full deductibility of advertising as an ordinary and necessary business expense

   ANA and its members are committed to maintaining the full deductibility of advertising as an ordinary and necessary business expense. Through the years, there have been numerous attempts in Congress and at the state level to reduce or eliminate advertising deductibility on an across-the-board or product-specific basis.

2. Opposing advertising tax proposals at the state and local level

   Most recently, the Tennessee Senate approved a state budget without any new taxes after debating for months the question of whether to include a state income tax or expand the sales tax to include business services, including advertising.

[8] ANA web site.

COMPANY SNAPSHOTS

WPP Group plc (NASD: WPPGY)

WPP, the 1st largest worldwide advertising group by revenue in 2000, is a communications services organization that offers national, multinational and global clients a comprehensive range of advertising and marketing services. These services include advertising and media investment management, information and consultancy, public relations and public affairs, and branding and identity, healthcare and specialist communications. WPP reported that its 3Q01 revenues grew almost 41% to $956.3 million, reflecting the contribution from newly acquired Young & Rubicam, Inc. But on a like-for-like basis, excluding acquisitions and currency fluctuations, revenues fell by over 6%. The management warned that the 15% margin target for the year was beyond its reach mainly due to the impact of the September 11 terrorist attacks. The group was dealt another blow by a Takoever Panel ruling which rejected WPP's plea to withdraw from a $436 million offer for Tempus Group by claiming there had been a "material adverse change" in its business. Analysts have already cut their pretax profit forecasts for the year from $550 million to $480 million due to the sharp downturn in the advertising market.

Omnicom Group Inc. (NYSE: OMC)

Omnicom operates 1,400 holding companies in over 100 counties, provides marketing and corporate communication services to multiple industries, and has over 5,000 clients, of which the top 200 accounted for 48% of its Y2K consolidated revenues. Its largest client, serviced by 14 of the company's agencies accounted for 5.2% of its consolidated revenues in 2000. As part of its strategy after acquiring Quaker Oats, PepsiCo shifted its broadcast buying account for Gatorade, Aquafina, Tropicana, and Quaker Oats from IPG to OMC on Sept 21st; the account represented approximately $350 million in annual billings. Net income for 3Q01 increased 8% to $92.4 million from $85.7 million in 3Q00. Diluted earnings per share increased 4% to $0.50 per share in 2001 from $0.48 per share in 2000. Net income for the nine months ended September 30, 2001 increased 16% to $339 million from $292.8 million in 2000, excluding an after-tax gain in the first nine months of 2000 of $63.8 million on the sale of a portion of the Company's ownership position in Razorfish.

Interpublic Group of Companies (NYSE: IPG)

The Interpublic Group of Companies, Inc., is comprised of a group of advertising and specialized marketing and communications service companies. Interpublic's agencies and allied companies operate in more than 650 offices in 127 countries around the world. Its business is conducted principally through two advertising and specialized marketing and communication services systems, McCann-Erickson WorldGroup and The Lowe Group, plus a number of additional marketing communications and marketing services networks. Based on revenue, Interpublic's five largest clients are General Motors Corporation, Nestle, Unilever, Johnson & Johnson and Coca-Cola. Interpublic is not dependent on any one account as these five companies account for only 15% of total revenue. Revenues for the first six months of 2001 were up a 1% and the company expects flat revenue growth to continue for the rest of the year. Net new business wins totaled $846 million during 2Q01. Earnings per share, exclusive of one-time charges, are expected to be between $1.05 - $1.15 per share in 2001.

Havas Advertising SA (NASDAQ: HADV)

Havas Advertising, headquartered in France, is the 5th largest advertising group worldwide, following the acquisition of Snyder communications. It has a presence in 75 countries and through its worldwide network, the Company offers a complete line of communications services, including general advertising, direct marketing, media planning and buying, corporate communications, sales promotion, design, human resources, multimedia interactive communications and public relations. Havas conducts its business through four principal operating divisions: Euro RSCG Worldwide, Arnold Worldwide Partners, Media Planning Group and Diversified Agencies Group. Company guidance suggests revenues will increase by 5.5% in FY2001, 2% below previous indications.

Grey Global Group (NASDAQ: GREY)

Grey Global Group provides a full range of advertising and marketing communications services to clients on an international or local basis. Grey serves a diversified client roster in the apparel, automobile, beverage, chemical, communications, community service, computer software and hardware, corporate services, electrical appliance, entertainment and media, food product, home furnishing, house ware, healthcare, packaged goods, publishing, restaurant, retailing, toy and other sectors. Procter & Gamble, which has been a client of Grey for more than 40 years, represented approximately 10% of the Grey's revenues. The loss of this client would have an adverse effect on the results of the Company. No other client represented more than 5% of the Company's total revenues. For the first six months of 2001, revenues increased 4%.

Cordiant Communications Group (NYSE: CDA)

Cordiant offers advertising and other marketing services, including direct marketing, media services, sales promotion, production services, interactive media, branding and design, and business communications consulting. During 2000, advertising services accounted for 64% of the Group's revenues and marketing services accounted for 36%. Recently, it has announced that it would not meet its previous guidance for the fiscal year 2001. Wall Street analysts on average were expecting the Company to earn $0.60 per share in the same period. The Group cited the downturn in marketing expenditure in North America and the tragic events in New York as the primary reasons for its expected earnings and revenue shortfall. It would cut more jobs as the U.S.-led economic slowdown spreads to Europe and the Asian-Pacific region and as technology clients continue to defer marketing spending.

FINANCIAL DATA

Industry Statistics

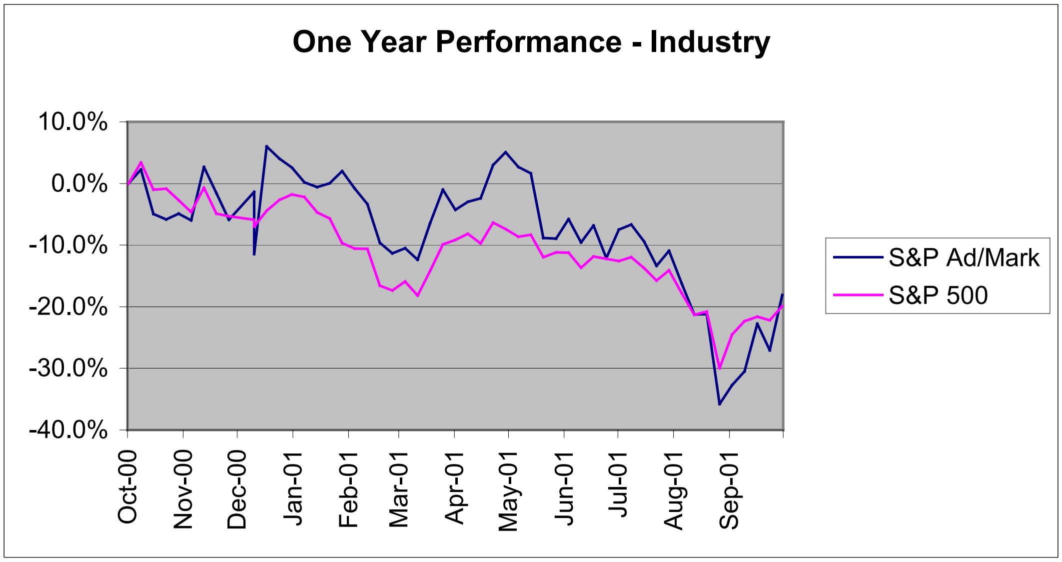
Appendix 6 shows that book ROE, a measure of profitability using internal resources, has decreased for the industry as well and for each peer except OMC and WPP, when comparing the one-year to the five-year average. Likewise, the losses experienced by IPG and Grey are more pronounced than OMC and WPPs' gains in profitability. Losses could be explained by deteriorating profit margins and cost control, but not reduced turnover, which has remained stable.

Maintenance of turnover hints that no loss in efficiency has occurred, but rather suggests that the culprit is performance. The historical growth data supports this notion as one-year EPS growth has deviated more from the 5- year average than has the one-year sales growth from its 5-year average. On a related issue, since the industry is not capital intensive, asset turnover, an indicator of operational efficiency, has remained steady over the years without the need for added capital expenditure.

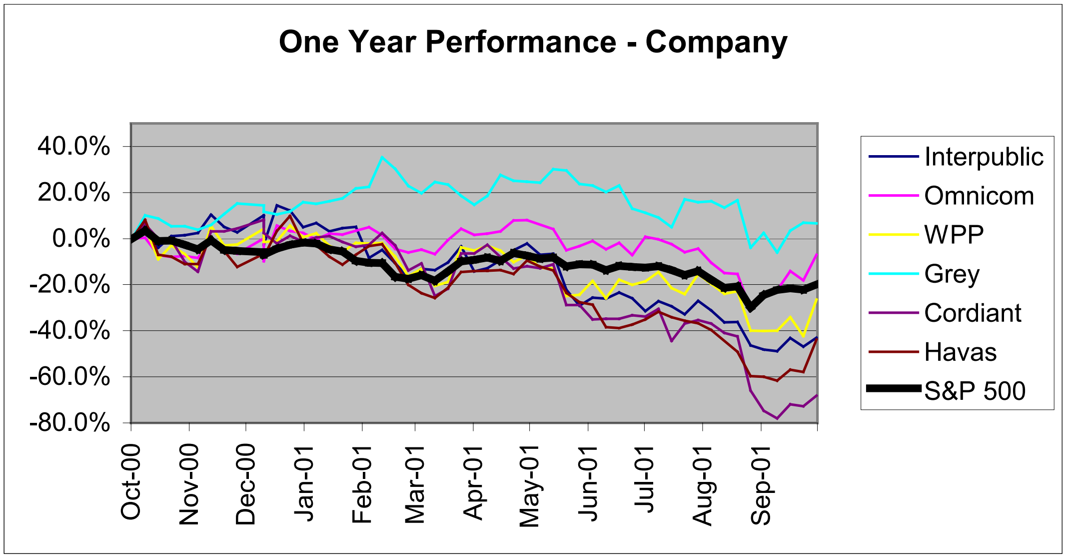
The one-year stock trend of individual companies is shown in the **Market Data Section**. Industry stocks have not been performing well, as each peers' stock price has declined in the year-to-date, tracking the performance of S & P 500. In particular, the peers are trading closer to their 52-week lows than their 52-week highs, with the exception of OMC. The industry P/E ratio is near its 5-year low although most companies covered in this report have their P/E well above the industry average, indicating that some of these stocks may still be overpriced in the current stock slump. Further price adjustment is expected. The stock prices of these companies are therefore not expected to go up by a significant amount until the market turns around. Price volatility is highly likely in the next few months.

Market Data

One Year Performance: -18.1% vs. S&P 500: -19.9%
Industry Beta: 1.17 Industry Dividend Yield: 1.36

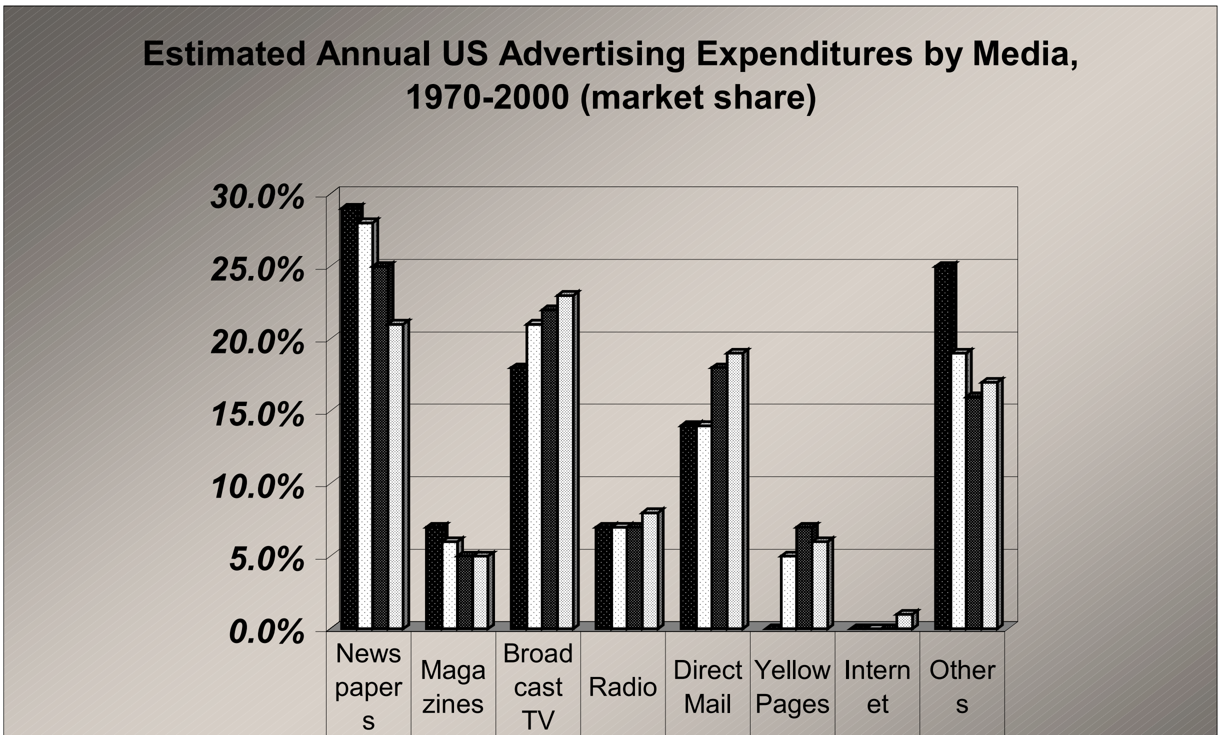


Keeping in line with its high beta, the advertising industry tends to be very sensitive to market fluctuations. Advertising stocks experienced a significant dip after September 11, but have rebounded sharply over the last month.



APPENDIX

Appendix 1



	Newspapers	Magazines	Broadcast TV	Radio	Direct Mail	Yellow Pages	Internet	Others
1970	29.0%	7.0%	18.0%	7.0%	14.0%	0.0%	0.0%	25.0%
1980	28.0%	6.0%	21.0%	7.0%	14.0%	5.0%	0.0%	19.0%
1990	25.0%	5.0%	22.0%	7.0%	18.0%	7.0%	0.0%	16.0%
2000	21.0%	5.0%	23.0%	8.0%	19.0%	6.0%	1.0%	17.0%

Source: Bear, Stearns & Co. (July 2001).

Appendix 2: Advertising & Marketing Services – Worldwide Advertising Growth: 1999-2004E*

	USA		Overseas		Total World	
	Billion US$	% Change	Billion US$	% Change	Billion US$	% Change
1990	130.0	3.9	145.9	11.8	275.9	7.9
1991	128.4	(1.2)	153.9	5.5	282.3	2.3
1992	133.8	4.2	165.4	7.5	299.2	6.0
1993	141.0	5.4	163.2	(1.3)	304.2	1.7
1994	153.0	8.6	179.0	9.7	332.0	9.1
1995	165.1	7.9	205.9	15.0	371.0	11.7
1996	178.1	7.9	212.1	3.0	390.2	5.2
1997	191.3	7.4	210.0	(1.0)	401.3	2.8
1998	206.7	8.0	205.2	(2.3)	411.9	2.6
1999	222.3	7.6	213.8	4.2	436.1	5.9
2000	**243.7**	**9.6**	**220.2**	**3.0**	**463.9**	**6.4**
2001E	249.8	2.5	231.2	5.0	481.0	3.7
2002E	262.0	5.0	244.0	5.5	506.0	5.2
2003E	282.2	7.7	N/A	N/A	N/A	N/A
2004E	303.9	7.7	N/A	N/A	N/A	N/A

** Forecasts made prior to September 11.*
Source: Robert J. Coen – Universal McCann (July 2001); Euromonitor.

Appendix 3: Top 15 Worldwide Advertising and Marketing Services Organizations by Revenues for 2000 ($ in millions)

Rank 2000	Rank 1999	Company	2000 Revenues	'00-'99 % chg	2000 Billings
1	3	WPP Group	7,971.0	19.9	67,225.0
2	1	Omnicom Group	6,986.2	11.9	55,651.6
3	2	Interpublic Group of Cos. (IPG)	6,595.9	16.9	54,828.2
4	5	Dentsu	3,089.0	22.2	21,689.1
5	4	Havas Advertising	2,757.3	7.8	26,345.5
6	6	Publicis Groupe	2,479.1	7.8	29,302.7
7	7	Bcom3 Group	2,215.9	16	17,932.6
8	8	Grey Global Group	1,863.2	18.7	11,406.3
9	9	True North Communications*	1,539.1	11.6	13,171.7
10	10	Cordiant Communications Group	1,254.8	16.5	11,256.0
11	11	Hakuhodo	1,008.7	21.8	7,640.0
12	13	Asatsu-DK	431.4	19.4	3,740.1
13	12	Carlson Marketing Group	390.2	7.4	2,977.3
14	14	TMP Worldwide	332.1	9.1	3,386.5
15	19	Digitas	288.2	54.1	N/A

** True North has recently been acquired by the IPG.*
Source: Bear, Stearns & Co. Inc.; Advertising Age (July 2001).

Appendix 4: World Advertising Expenditure Summary by Country (US$ million)

	2000	2001E	% Change
Selected Countries			
USA	223,070	234,390	5%
France	10,705	11,625	9%
Germany	20,714	21,788	5%
UK	16,537	17,318	5%
Italy	8,394	8,881	6%
Japan	36,955	37,324	1%
Emerging Markets			
Myanmar	21	29	38%
Russia	1,115	1,483	33%
Indonesia	1,068	1,325	24%
Mexico	4,959	6,076	23%
Hungary	994	1,194	20%
South Korea	6,366	7,505	18%
China	4,756	5,578	17%
Bulgaria	80	93	16%
Thailand	1,499	1,742	16%
Portugal	1,797	2,084	16%
Romania	172	199	16%
India	1,640	1,857	13%
Lithuania	46	52	13%
Philippines	549	617	12%
Singapore	916	1,016	11%
Belgium	1,976	2,190	11%
Brazil	6,235	6,885	10%
Estonia	51	56	10%
Turkey	1,078	1,122	4%
Venezuela	1,500	1,482	-1%

Source: Zenith Media.

Appendix 5: Company Ad Spending (US$ in million)

Advertisers	Total 2000	Jan-March 2001	Advertising agencies
General Motors	2,840	516.1	IPG
	*% change**	*-23.7%*	
Philip Morris	1,770	346.9	WPPGY, OMC, HAVAS
	*% change**	*-27.8%*	
DaimlerChrysler	1,670	376	OMC
	*% change**	*1.7%*	
Procter & Gamble	1,530	365.2	GREY, CDA
	*% change**	*-5.3%*	
AOL Time Warner	1,440	382.7	GREY
	*% change**	*29.0%*	
Ford Motor	1,160	255.9	WPPGY
	*% change**	*-19.2%*	
Walt Disney	1,050	266.2	WPPGY
	*% change**	*-4.1%*	

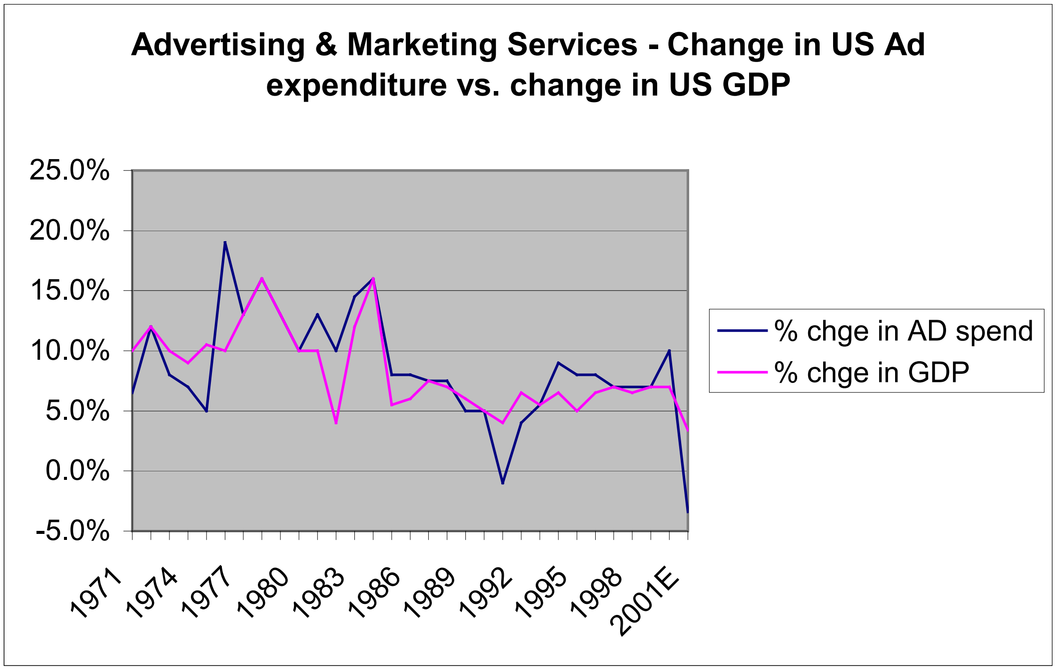
** % change reflects the % change as compared to the same quarter last year.*
Source: Company reports; Advertising Age (July 2001).

Appendix 6: Ratio Analysis and Industry Metrics for 2000

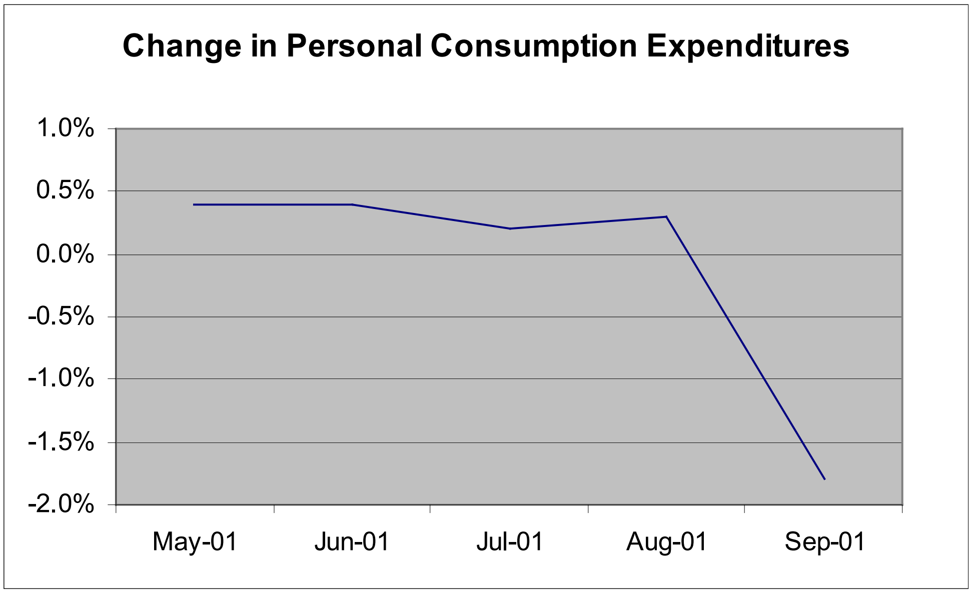
		OMC	WPP	IPG	HADV	GREY	CDA	Industry
Decomposition	One Year							
	Profit Margin (%)	7.79	8.83	1.70	1.84	1.38	1.68	3.60
	X Asset Turnover	0.69	0.51	0.61	0.41	0.70	2.36	1.22
	= ROA (%)	5.40	4.53	1.03	0.75	0.96	3.97	4.39
	X Leverage	6.39	2.87	2.56	2.50	6.72	0.38	3.17
	ROE (%)	32.21	13.01	2.63	1.84	6.54	1.49	13.90
	Five Year Average							
	Profit Margin (%)	7.47	7.48	5.84	N/A	2.94	1.59	5.05
	X Asset Turnover	0.68	0.76	0.66	N/A	0.72	2.26	0.96
	= ROA (%)	5.09	5.72	3.83	N/A	2.11	3.59	4.84
	X Leverage	5.56	1.87	5.23	N/A	6.53	N/A	3.32
	ROE (%)	28.28	10.69	20.04	N/A	13.78	N/A	16.09
Historical Growth		%	%	%	%	%	%	%
	Sales- One Year	17.65	59.39	4.37	46.00	8.36	39.55	13.02
	EPS- One Year	2.46	23.09	-82.14	-8.47	-51.82	N/A	-27.73
	Sales- Five years	22.21	13.90	18.87	N/A	12.63	25.20	29.88
	EPS- Five years	24.01	32.14	15.14	N/A	-2.86	N/A	25.60
Stock Data	% Change YTD	-0.14	-0.43	-0.51	-0.55	N/A	-0.72	-0.19
	Current Price	79.99	47.68	22.24	7.50	577.00	6.99	N/A
	52 Week Low	59.10	32.55	18.25	4.85	470.00	4.14	N/A
	52 Week High	98.20	69.50	47.43	17.19	760.00	22.00	N/A
	Market Capitalization (MM)	14,847.00	10,603.00	8,358.00	1,923.00	725.30	509.70	N/A
	Dividend Yield	1.13	0.48	1.82	1.75	0.69	2.40	0.01
Price/ Earnings	Current	30.14	41.08	118.37	36.86	68.80	29.12	22.79
	Five Year Low	21.77	N/A	29.91	N/A	69.29	N/A	22.70
	Five Year High	55.07	N/A	160.24	N/A	123.79	N/A	53.44
Additional Metrics	Sales/ Employees	117,909	105,811	115,771	68,755	89,226	232,116	180,289
	NI/ Employees	9,187	9,347	1,967	1,262	1,233	3,906	14,561
	Net New Business Win (MM)	4,959	4,500	3,869	N/A	N/A	N/A	N/A

Source: Business Browser; Bear, Stearns & Co. (July 2001).

Appendix 7 (*Source: Bear, Stearns & Co. (July 2001)*)



Appendix 8 (*Source: Bureau of Economic Analysis)*



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