

INTERPUBLIC GROUP OF COMPANIES, INC.

Form 10-Q

October 25, 2018

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 September 30, 2018

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 every Interactive Data File required to be submitted 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 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

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 October 15, 2018 was 384,351,500.

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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 and our quarterly reports on Form 10-Q. 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;
- developments from changes in the regulatory and legal environment for advertising and marketing and communications services companies around the world; and
- failure to realize the anticipated benefits on the acquisition of the Acxiom business.

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 and our quarterly reports on Form 10-Q.

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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		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<b>REVENUE:</b>				
Net revenue	\$1,895.7	\$1,832.5	\$5,617.9	\$5,342.4
Billable expenses	401.8	375.7	1,240.5	1,115.4
Total revenue	2,297.5	2,208.2	6,858.4	6,457.8
<b>OPERATING EXPENSES:</b>				
Salaries and related expenses	1,251.4	1,218.8	3,874.6	3,699.4
Office and other direct expenses	317.0	302.9	974.1	934.0
Billable expenses	401.8	375.7	1,240.5	1,115.4
Cost of services	1,970.2	1,897.4	6,089.2	5,748.8
Selling, general and administrative expenses	21.6	13.6	85.5	69.1
Depreciation and amortization	44.0	42.2	134.0	124.5
Total operating expenses	2,035.8	1,953.2	6,308.7	5,942.4
<b>OPERATING INCOME</b>	<b>261.7</b>	<b>255.0</b>	<b>549.7</b>	<b>515.4</b>
<b>EXPENSES AND OTHER INCOME:</b>				
Interest expense	(27.6 )	(21.0 )	(73.6 )	(67.6 )
Interest income	5.3	4.1	14.0	14.0
Other expense, net	(15.3 )	(9.9 )	(56.0 )	(24.5 )
Total (expenses) and other income	(37.6 )	(26.8 )	(115.6 )	(78.1 )
Income before income taxes	224.1	228.2	434.1	437.3
Provision for income taxes	60.7	54.9	137.0	136.2
Income of consolidated companies	163.4	173.3	297.1	301.1
Equity in net income (loss) of unconsolidated affiliates	0.1	(1.0 )	(1.9 )	0.1
<b>NET INCOME</b>	<b>163.5</b>	<b>172.3</b>	<b>295.2</b>	<b>301.2</b>
Net (income) loss attributable to noncontrolling interests	(2.5 )	(2.6 )	(2.5 )	0.9
<b>NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS</b>	<b>\$161.0</b>	<b>\$169.7</b>	<b>\$292.7</b>	<b>\$302.1</b>
<b>Earnings per share available to IPG common stockholders:</b>				
Basic	\$0.42	\$0.44	\$0.76	\$0.77
Diluted	\$0.41	\$0.43	\$0.75	\$0.76
<b>Weighted-average number of common shares outstanding:</b>				
Basic	382.6	389.5	383.2	391.2
Diluted	388.4	397.2	388.4	398.6
Dividends declared per common share	\$0.21	\$0.18	\$0.63	\$0.54

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Millions)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
NET INCOME	\$163.5	\$172.3	\$295.2	\$301.2
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation:				
Foreign currency translation adjustments	(27.9 )	30.3	(121.9 )	116.2
Reclassification adjustments recognized in net income	3.3	1.5	16.7	1.8
	(24.6 )	31.8	(105.2 )	118.0
Available-for-sale securities:				
Changes in fair value of available-for-sale securities	0.0	(0.1 )	0.0	0.0
Recognition of previously unrealized gains included in net income	0.0	(0.7 )	0.0	(0.7 )
Income tax effect	0.0	0.1	0.0	0.1
	0.0	(0.7 )	0.0	(0.6 )
Derivative instruments:				
Recognition of previously unrealized losses in net income	0.6	0.5	1.7	1.6
Income tax effect	(0.2 )	(0.2 )	(0.5 )	(0.6 )
	0.4	0.3	1.2	1.0
Defined benefit pension and other postretirement plans:				
Net actuarial gains (losses) for the period	0.0	8.2	(1.4 )	9.0
Amortization of unrecognized losses, transition obligation and prior service cost included in net income	1.8	1.7	5.7	5.2
Settlement and curtailment losses included in net income	0.1	4.0	0.3	4.0
Other	0.0	0.0	(0.4 )	(0.6 )
Income tax effect	(0.1 )	(2.8 )	0.0	(3.4 )
	1.8	11.1	4.2	14.2
Other comprehensive (loss) income, net of tax	(22.4 )	42.5	(99.8 )	132.6
TOTAL COMPREHENSIVE INCOME	141.1	214.8	195.4	433.8
Less: comprehensive income (loss) attributable to noncontrolling interests	2.0	2.5	0.2	(0.3 )
COMPREHENSIVE INCOME ATTRIBUTABLE TO IPG	\$139.1	\$212.3	\$195.2	\$434.1

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

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CONSOLIDATED BALANCE SHEETS

(Amounts in Millions)

(Unaudited)

	September 30, 2018	December 31, 2017
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 1,860.2	\$ 790.9
Accounts receivable, net of allowance of \$46.5 and \$42.7, respectively	4,009.1	4,585.0
Accounts receivable, billable to clients	1,995.9	1,747.4
Assets held for sale	5.7	5.7
Other current assets	459.6	346.5
Total current assets	8,330.5	7,475.5
Property and equipment, net of accumulated depreciation of \$1,026.8 and \$1,036.2, respectively	602.9	650.4
Deferred income taxes	270.2	234.0
Goodwill	3,784.7	3,820.4
Other non-current assets	524.8	524.4
<b>TOTAL ASSETS</b>	<b>\$ 13,513.1</b>	<b>\$ 12,704.7</b>
<b>LIABILITIES:</b>		
Accounts payable	\$ 5,515.1	\$ 6,420.2
Accrued liabilities	571.0	674.7
Contract liabilities	514.4	484.7
Short-term borrowings	82.6	84.9
Current portion of long-term debt	0.1	2.0
Liabilities held for sale	8.5	8.8
Total current liabilities	6,691.7	7,675.3
Long-term debt	3,261.4	1,285.6
Deferred compensation	438.5	476.6
Other non-current liabilities	791.6	768.8
<b>TOTAL LIABILITIES</b>	<b>11,183.2</b>	<b>10,206.3</b>
Redeemable noncontrolling interests (see Note 5)	159.7	252.1
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock	39.1	38.6
Additional paid-in capital	1,041.8	955.2
Retained earnings	2,158.4	2,104.5
Accumulated other comprehensive loss, net of tax	(925.3)	(827.8)
	2,314.0	2,270.5
Less: Treasury stock	(176.1)	(59.0)
Total IPG stockholders' equity	2,137.9	2,211.5
Noncontrolling interests	32.3	34.8
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>2,170.2</b>	<b>2,246.3</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 13,513.1</b>	<b>\$ 12,704.7</b>

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 CASH FLOWS  
(Amounts in Millions) (Unaudited)

	Nine months ended September 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$295.2	\$301.2
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	134.0	124.5
Provision for uncollectible receivables	9.4	9.5
Amortization of restricted stock and other non-cash compensation	59.7	59.8
Net amortization of bond discounts and deferred financing costs	4.2	4.2
Deferred income tax (benefit) provision	(22.9 )	18.8
Net losses on sales of businesses	50.0	20.9
Other	4.2	16.1
Changes in assets and liabilities, net of acquisitions and divestitures, providing (using) cash:		
Accounts receivable	443.6	875.8
Accounts receivable, billable to clients	(303.0 )	(166.9 )
Other current assets	(100.6 )	(63.9 )
Accounts payable	(766.9 )	(961.7 )
Accrued liabilities	(186.5 )	(287.8 )
Contract liabilities	46.1	(68.1 )
Other non-current assets and liabilities	6.8	(21.4 )
Net cash used in operating activities	(326.7 )	(139.0 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(105.7 )	(108.7 )
Acquisitions, net of cash acquired	(12.0 )	(22.6 )
Other investing activities	1.1	(9.2 )
Net cash used in investing activities	(116.6 )	(140.5 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	1,994.2	0.0
Exercise of stock options	9.1	12.1
Common stock dividends	(241.6 )	(211.2 )
Repurchases of common stock	(117.1 )	(216.0 )
Acquisition-related payments	(30.4 )	(49.1 )
Tax payments for employee shares withheld	(28.8 )	(38.4 )
Distributions to noncontrolling interests	(13.4 )	(16.9 )
Repayment of long-term debt	(4.9 )	(23.6 )
Net (decrease) increase in short-term borrowings	(4.6 )	429.9
Other financing activities	(11.9 )	0.1
Net cash provided by (used in) financing activities	1,550.6	(113.1 )
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(35.3 )	0.4
Net increase (decrease) in cash, cash equivalents and restricted cash	1,072.0	(392.2 )
Cash, cash equivalents and restricted cash at beginning of period	797.7	1,100.2
Cash, cash equivalents and restricted cash at end of period	\$1,869.7	\$708.0
The accompanying notes are an integral part of these unaudited financial statements.		



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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in Millions)

(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Treasury Stock	Total IPG Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
	Shares	Amount							
Balance at December 31, 2017	386.2	\$ 38.6	\$ 955.2	\$ 2,104.5	\$ (827.8 )	\$ (59.0 )	\$ 2,211.5	\$ 34.8	\$ 2,246.3
Net income				292.7			292.7	2.5	295.2
Other comprehensive loss					(97.5 )		(97.5 )	(2.3 )	(99.8 )
Reclassifications related to redeemable noncontrolling interests								7.1	7.1
Distributions to noncontrolling interests								(13.4 )	(13.4 )
Change in redemption value of redeemable noncontrolling interests			41.8	4.5			46.3		46.3
Repurchases of common stock						(117.1 )	(117.1 )		(117.1 )
Common stock dividends				(241.6 )			(241.6 )		(241.6 )
Stock-based compensation	4.7	0.5	63.3				63.8		63.8
Exercise of stock options	1.4	0.1	9.1				9.2		9.2
Shares withheld for taxes	(1.2 )	(0.1 )	(28.9 )				(29.0 )		(29.0 )
Other			1.3	(1.7 )			(0.4 )	3.6	3.2
Balance at September 30, 2018	391.1	\$ 39.1	\$ 1,041.8	\$ 2,158.4	\$ (925.3 )	\$ (176.1 )	\$ 2,137.9	\$ 32.3	\$ 2,170.2

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



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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(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, 2016	394.3	\$ 39.4	\$ 1,199.2	\$ 1,839.9	\$ (964.4 )	\$ (63.3 )	\$ 2,050.8	\$ 39.6	\$ 2,090.4
Net income				302.1			302.1	(0.9 )	301.2
Other comprehensive income					132.0		132.0	0.6	132.6
Reclassifications related to redeemable noncontrolling interests								7.3	7.3
Distributions to noncontrolling interests								(17.5 )	(17.5 )
Change in redemption value of redeemable noncontrolling interests				(4.6 )			(4.6 )		(4.6 )
Repurchases of common stock						(216.0 )	(216.0 )		(216.0 )
Common stock dividends				(211.2 )			(211.2 )		(211.2 )
Stock-based compensation	5.6	0.6	62.9				63.5		63.5
Exercise of stock options	1.1	0.1	12.1				12.2		12.2
Shares withheld for taxes	(1.6 )	(0.2 )	(38.5 )				(38.7 )		(38.7 )
Other				(1.1 )			(1.1 )	(2.3 )	(3.4 )
Balance at September 30, 2017	399.4	\$ 39.9	\$ 1,235.7	\$ 1,925.1	\$ (832.4 )	\$ (279.3 )	\$ 2,089.0	\$ 26.8	\$ 2,115.8

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 2017 Annual Report on Form 10-K.

As of January 1, 2018, the Company has revised the presentation of its Consolidated Statements of Operations, which disaggregates net revenue and billable expenses within total revenue and separately presents cost of services; selling, general and administrative expenses; and depreciation and amortization within operating expenses. The revised presentation does not impact total revenue, operating expenses or operating income.

Cost of services is comprised of the expenses of our revenue-producing operating segments, Integrated Agency Networks ("IAN") and Constituency Management Group ("CMG"), including salaries and related expenses, office and other direct expenses and billable expenses, and includes an allocation of the centrally managed expenses of our Corporate and other group. Office and other direct expenses include rent expense, professional fees, certain expenses incurred by our staff in servicing our clients and other costs directly attributable to client engagements.

Selling, general and administrative expenses are primarily the unallocated expenses of our Corporate and other group, as disclosed further in Note 12, excluding depreciation and amortization.

Depreciation and amortization of the fixed assets and intangible assets of the Company is disclosed as a separate operating expense.

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: Summary of Significant Accounting Policies

Effective January 1, 2018, IPG adopted Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, ("ASC 606") using the full retrospective transition method. Under this method, the Company will revise its consolidated financial statements for the years ended December 31, 2016 and 2017, and applicable interim periods within the year ended December 31, 2017, as if ASC 606 had been effective for those periods. ASC 606 applies to all contracts with customers, except for contracts that are within the scope of other standards. Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We only apply the five-step model to contracts when it is probable that IPG will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are distinct performance obligations. We then assess whether IPG acts as an agent or a principal for each identified performance obligation and include revenue within the transaction price for third-party costs when we determine that we act as principal.

Revenue Recognition

We recognize revenue when the control to promised goods or services transfers to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods and services. Our revenues are primarily derived from the planning and execution of multi-channel advertising and communications and marketing services, including public relations, meeting and event production, sports and entertainment marketing, corporate and brand identity, and strategic marketing consulting around the world. Our revenues are directly dependent upon the advertising, marketing and corporate communications requirements of our existing clients and our ability to win new clients. Depending on the terms of the client contract, revenue is derived from

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

diverse arrangements involving fees for services performed, commissions, performance incentive provisions and combinations of the three.

Net revenue, primarily consisting of fees, commissions and performance incentives, represents the amount of our gross billings excluding pass-through expenses charged to a client. Revenues for the creation, planning and placement of advertising are determined primarily on a negotiated fee basis and, to a lesser extent, on a commission basis. Fees are usually calculated to reflect hourly rates plus proportional overhead and a mark-up. Contractual arrangements with clients may also include performance incentive provisions designed to link a portion of our revenue to our performance relative to mutually agreed-upon qualitative or quantitative metrics, or both. Commissions are earned based on services provided and are usually derived from a percentage or fee over the total cost to complete the assignment. Commissions can also be derived when clients pay us the gross rate billed by media and we pay for media at a lower net rate; the difference is the commission that we earn, which we either retain in full or share with the client depending on the nature of the applicable services agreement. We also generate revenue in negotiated fees from our public relations, sales promotion, event marketing, sports and entertainment marketing, and corporate and brand identity services.

Billable expenses predominantly include pass-through expenses related to event and advertising production costs for performance obligations where we have determined that we are acting as principal that are rebilled to our clients, as well as out-of-pocket costs. Out-of-pocket costs often include expenses related to airfare, mileage, hotel stays, out-of-town meals and telecommunication charges for client service staff. We record these billable expenses within total revenue with a corresponding offset to operating expenses.

Most of our client contracts are individually negotiated and, accordingly, the terms of client engagements and the basis on which we earn fees and commissions vary significantly. As is customary in the industry, our contracts generally provide for termination by either party on relatively short notice, usually 30 to 90 days. Our payment terms vary by client, and the time between invoicing date and due date is typically not significant. We generally have right to payment for all services provided through the end of the contract or termination date.

Our client contracts may include provisions for incentive compensation and vendor rebates and credits. Our largest clients are multinational entities and, as such, we often provide services to these clients out of multiple offices and across many of our agencies. In arranging for such services, it is possible that we will enter into global, regional and local agreements. Agreements of this nature are reviewed by legal counsel to determine the governing terms to be followed by the offices and agencies involved.

For media contracts that can be canceled by the customer at any time without compensation, the entity does not have an enforceable right to the payment until media airs, at which point revenue is recognized.

**Timing of Recognition**

We have determined that we generally satisfy our performance obligations over time, except for certain less-frequent commission-based contracts, which are recognized at a point in time, typically the date of broadcast or publication. Fees are generally recognized based on proportional performance utilizing periodically updated estimates to complete.

**Performance Obligations**

Our client contracts may include various goods and services that are capable of being distinct, are distinct within the context of the contract and are therefore accounted for as separate performance obligations. We allocate revenue to each performance obligation in the contract at inception based on its relative standalone selling price. Our events businesses include creative services related to the conception and planning of custom marketing events as well as activation services which entail the carrying out of the event, including, but not limited to, set-up, design and staffing. Additionally, our public relations businesses include a broad range of services, such as strategic planning, social media strategy and the monitoring and development of communication strategies, among others. While our contracts in these businesses may include some or all of these services, we typically identify only one performance obligation in the assessment of our events and public relations contracts as there is a significant integration of these services into a combined output such that they are not distinct within the context of the contract.



Principal vs. Agent

For each identified performance obligation in the contract with the customer, we assess whether our agency or the third-party supplier is the principal or agent. We control the specified services before transferring those services to the customer and act as the principal if we are primarily responsible for the integration of products and services into the deliverable to our customer, have inventory risk, or discretion in establishing pricing. For performance obligations in which we act as principal, we record the gross amount billed to the customer within total revenue and the related incremental direct costs incurred as billable expenses. We have determined that we primarily act as principal for creative, media planning, in-house production, event, public relations and branding services, where we control the specified services before transferring those services to the customer because we are primarily

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

responsible for the integration of products and services into the deliverable to our customer. We generally do not have inventory risk or discretion in establishing pricing in our contracts with customers.

If the third-party supplier, rather than IPG, is primarily responsible for the performance and deliverable to our customer, then we generally act as the agent and solely arrange for the third-party supplier to provide services to the customer. For performance obligations for which we act as the agent, we record our revenue as the net amount of our gross billings less pass-through expenses charged to a customer.

**Variable Consideration**

Revenue for our services is measured based on the consideration specified in a contract with a customer. Contractual arrangements with clients may also include performance incentive provisions designed to link a portion of our revenue to our performance relative to either qualitative or quantitative metrics, or both.

Incentive compensation is estimated using the most likely amount and is included in revenue up to the amount that is not expected to result in a reversal of a significant amount of cumulative revenue recognized. We recognize revenue related to performance incentives as we satisfy the performance obligation to which performance incentives are related.

**Practical Expedients**

As part of our adoption of ASC 606, we apply the practical expedient and do not disclose information about remaining performance obligations that have original expected durations of one year or less. Amounts related to those performance obligations with expected durations of greater than one year are immaterial.

We apply the practical expedient and do not capitalize costs to obtain a contract as these amounts would generally be recognized over less than one year and are not material.

Additionally, we report revenue net of taxes assessed by governmental authorities that are directly imposed on our revenue-producing transactions.

**Note 3: Revenue**

**Adoption of ASC 606**

Effective with the adoption of ASC 606 on January 1, 2018 using the full retrospective transition method, the Company will revise its consolidated financial statements for the years ended December 31, 2016 and 2017, and applicable interim periods within the year ended December 31, 2017, as if ASC 606 had been effective for those periods. ASC 606, which accelerates the recognition of revenue primarily as a result of estimating variable consideration, mostly impacts the timing of revenue recognition between quarters, but also can affect, to a lesser extent, the amount of annual revenue recognized. Although ASC 606 results in an increase in the number of performance obligations within certain of our contractual arrangements, the amount or timing of revenue recognized is not materially impacted. ASC 606 also results in an increase in third-party costs being included in revenue and costs, primarily in connection with our events businesses, which has no impact on operating income, net income or cash flows. The increases to retained earnings as of December 31, 2017 and 2016 as a result of adopting ASC 606 were not material. The following tables summarize the effects of adopting ASC 606.

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended			Nine months ended		
	September 30, 2017			September 30, 2017		
	As	ASC 606	As	As	ASC 606	As
	Revised <sup>1</sup>	Adjustments	Adjusted	Revised <sup>1</sup>	Adjustments	Adjusted
<b>REVENUE:</b>						
Net revenue	\$1,796.6	\$ 35.9	\$1,832.5	\$5,282.3	\$ 60.1	\$5,342.4
Billable expenses	106.0	269.7	375.7	259.1	856.3	1,115.4
Total revenue	1,902.6	305.6	2,208.2	5,541.4	916.4	6,457.8
<b>OPERATING EXPENSES:</b>						
Salaries and related expenses	1,218.8	—	1,218.8	3,699.4	—	3,699.4
Office and other direct expenses	302.9	—	302.9	934.0	—	934.0
Billable expenses	106.0	269.7	375.7	259.1	856.3	1,115.4
Cost of services	1,627.7	269.7	1,897.4	4,892.5	856.3	5,748.8
Selling, general and administrative expenses	13.6	—	13.6	69.1	—	69.1
Depreciation and amortization	42.2	—	42.2	124.5	—	124.5
Total operating expenses	1,683.5	269.7	1,953.2	5,086.1	856.3	5,942.4
<b>OPERATING INCOME</b>	<b>219.1</b>	<b>35.9</b>	<b>255.0</b>	<b>455.3</b>	<b>60.1</b>	<b>515.4</b>
<b>EXPENSES AND OTHER INCOME:</b>						
Interest expense	(21.0 )	—	(21.0 )	(67.6 )	—	(67.6 )
Interest income	4.1	—	4.1	14.0	—	14.0
Other expense, net	(9.9 )	—	(9.9 )	(24.5 )	—	(24.5 )
Total (expenses) and other income	(26.8 )	—	(26.8 )	(78.1 )	—	(78.1 )
Income before income taxes	192.3	35.9	228.2	377.2	60.1	437.3
Provision for income taxes	42.5	12.4	54.9	115.8	20.4	136.2
Income of consolidated companies	149.8	23.5	173.3	261.4	39.7	301.1
Equity in net (loss) income of unconsolidated affiliates	(1.0 )	—	(1.0 )	0.1	—	0.1
<b>NET INCOME</b>	<b>148.8</b>	<b>23.5</b>	<b>172.3</b>	<b>261.5</b>	<b>39.7</b>	<b>301.2</b>
Net (income) loss attributable to noncontrolling interests	(2.6 )	—	(2.6 )	0.9	—	0.9
<b>NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS</b>	<b>\$146.2</b>	<b>\$ 23.5</b>	<b>\$169.7</b>	<b>\$262.4</b>	<b>\$ 39.7</b>	<b>\$302.1</b>
<b>Earnings per share available to IPG common stockholders:</b>						
Basic	\$0.38	\$ 0.06	\$0.44	\$0.67	\$ 0.10	\$0.77
Diluted	\$0.37	\$ 0.06	\$0.43	\$0.66	\$ 0.10	\$0.76
<b>Weighted-average number of common shares outstanding:</b>						
Basic	389.5	—	389.5	391.2	—	391.2

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Diluted	397.2	—	397.2	398.6	—	398.6
Dividends declared per common share	\$0.18		\$0.18	\$0.54		\$0.54

<sup>1</sup> These amounts have been revised for the new presentation as described in Note 1.

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## CONSOLIDATED BALANCE SHEET

	December 31, 2017		
	As Reported	ASC 606 Adjustments	As Adjusted
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 790.9	\$ —	\$ 790.9
Accounts receivable, net of allowance of \$42.7	4,585.0	—	4,585.0
Expenditures billable to clients	1,747.4	(1,747.4 )	—
Accounts receivable, billable to clients	—	1,747.4	1,747.4
Assets held for sale	5.7	—	5.7
Other current assets	335.1	11.4	346.5
Total current assets	7,464.1	11.4	7,475.5
Property and equipment, net of accumulated depreciation of \$1,036.2	650.4	—	650.4
Deferred income taxes	236.0	(2.0 )	234.0
Goodwill	3,820.4	—	3,820.4
Other non-current assets	524.3	0.1	524.4
<b>TOTAL ASSETS</b>	<b>\$ 12,695.2</b>	<b>\$ 9.5</b>	<b>\$ 12,704.7</b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 6,907.8	\$ (487.6 )	\$ 6,420.2
Accrued liabilities	674.7	—	674.7
Contract liabilities	—	484.7	484.7
Short-term borrowings	84.9	—	84.9
Current portion of long-term debt	2.0	—	2.0
Liabilities held for sale	8.8	—	8.8
Total current liabilities	7,678.2	(2.9 )	7,675.3
Long-term debt	1,285.6	—	1,285.6
Deferred compensation	476.6	—	476.6
Other non-current liabilities	766.9	1.9	768.8
<b>TOTAL LIABILITIES</b>	<b>10,207.3</b>	<b>(1.0 )</b>	<b>10,206.3</b>
Redeemable noncontrolling interests	252.1	—	252.1
<b>STOCKHOLDERS' EQUITY:</b>			
Common stock	38.6	—	38.6
Additional paid-in capital	955.2	—	955.2
Retained earnings	2,093.6	10.9	2,104.5
Accumulated other comprehensive loss, net of tax	(827.4 )	(0.4 )	(827.8 )
	2,260.0	10.5	2,270.5
Less: Treasury stock	(59.0 )	—	(59.0 )
Total IPG stockholders' equity	2,201.0	10.5	2,211.5
Noncontrolling interests	34.8	—	34.8
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>2,235.8</b>	<b>10.5</b>	<b>2,246.3</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 12,695.2</b>	<b>\$ 9.5</b>	<b>\$ 12,704.7</b>



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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

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## CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine months ended September 30, 2017		
	As Reported	ASC 606 Adjustments	As Adjusted
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$261.5	\$ 39.7	\$ 301.2
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	124.5	—	124.5
Provision for uncollectible receivables	9.5	—	9.5
Amortization of restricted stock and other non-cash compensation	59.8	—	59.8
Net amortization of bond discounts and deferred financing costs	4.2	—	4.2
Deferred income tax provision	(1.6	) 20.4	18.8
Net losses on sales of businesses	20.9	—	20.9
Other	16.1	—	16.1
Changes in assets and liabilities, net of acquisitions and divestitures, providing (using) cash:			
Accounts receivable	875.8	—	875.8
Expenditures billable to clients	(165.9	) 165.9	—
Accounts receivable, billable to clients	—	(166.9	) (166.9
Other current assets	(48.2	) (15.7	) (63.9
Accounts payable	(986.4	) 24.7	(961.7
Accrued liabilities	(287.8	) —	(287.8
Contract liabilities	—	(68.1	) (68.1
Other non-current assets and liabilities	(21.4	) —	(21.4
Net cash used in operating activities	(139.0	) —	(139.0
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net cash used in investing activities	(140.5	) —	(140.5
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net cash used in financing activities	(113.1	) —	(113.1
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	0.4	—	0.4
Net decrease in cash, cash equivalents and restricted cash	(392.2	) —	(392.2
Cash, cash equivalents and restricted cash at beginning of period	1,100.2	—	1,100.2
Cash, cash equivalents and restricted cash at end of period	\$708.0	\$ —	\$ 708.0

Retained earnings as of December 31, 2016 and September 30, 2017 increased by \$35.6 and \$75.3, respectively, as a result of the adoption of ASC 606. Accumulated other comprehensive loss, net of tax, as of December 31, 2016 and September 30, 2017 decreased by \$1.9 and increased by \$0.3, respectively, as a result of the adoption of the ASC 606.

## Disaggregation of Revenue

The following is a description of the principal activities, by reportable segment, from which we generate revenue. For more detailed information about reportable segments, see Note 12.

## Integrated Agency Networks

The IAN segment of IPG principally generates revenue from providing advertising and media services as well as a comprehensive array of global communications and marketing services. Within IAN's advertising business, we typically identify two performance obligations for creative and production services. Depending on the arrangement, we typically act as the principal for our creative services and as the agent for our production services. Within our media business, we also identify two performance obligations for media planning and media buying services. We

typically act as the principal for our media planning services and

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

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as the agent for media buying services. Generally, our branding arrangements consist of two performance obligations, and we act as the principal for both performance obligations.

**Constituency Management Group**

The CMG segment generates revenue from providing events and public relations services as well as sports and entertainment marketing, corporate and brand identity, and strategic marketing consulting. In CMG's events and public relations arrangements, we typically identify one performance obligation, for which we act as the principal in most arrangements. Generally, our branding arrangements consist of two performance obligations, and we act as the principal for both performance obligations.

**Principal Geographic Markets**

Our agencies are located in over 100 countries, including every significant world market. Our geographic revenue breakdown is listed below.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Total revenue:				
United States	\$1,407.1	\$1,340.8	\$4,203.5	\$4,006.8
International:				
United Kingdom	220.9	201.7	626.9	542.7
Continental Europe	177.5	171.6	564.3	506.1
Asia Pacific	267.3	259.9	803.0	740.7
Latin America	95.3	94.9	267.8	265.2
Other	129.4	139.3	392.9	396.3
Total International	890.4	867.4	2,654.9	2,451.0
Total Consolidated	\$2,297.5	\$2,208.2	\$6,858.4	\$6,457.8

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net revenue:				
United States	\$1,160.9	\$1,109.6	\$3,424.7	\$3,294.3
International:				
United Kingdom	174.0	160.0	513.2	436.9
Continental Europe	152.0	150.7	489.4	446.2
Asia Pacific	210.6	203.7	603.6	582.7
Latin America	84.0	86.9	239.9	241.6
Other	114.2	121.6	347.1	340.7
Total International	734.8	722.9	2,193.2	2,048.1
Total Consolidated	\$1,895.7	\$1,832.5	\$5,617.9	\$5,342.4

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

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IAN	Three months ended		Nine months ended	
	September 30,		September 30,	
Total revenue:	2018	2017	2018	2017
United States	\$1,064.2	\$1,006.2	\$3,150.6	\$2,998.4
International	710.5	696.6	2,122.1	1,983.5
Total IAN	\$1,774.7	\$1,702.8	\$5,272.7	\$4,981.9

Net revenue:

United States	\$952.9	\$913.1	\$2,814.2	\$2,701.4
International	627.6	618.3	1,876.7	1,755.1
Total IAN	\$1,580.5	\$1,531.4	\$4,690.9	\$4,456.5

CMG	Three months ended		Nine months ended	
	September 30,		September 30,	
Total revenue:	2018	2017	2018	2017
United States	\$342.9	\$334.6	\$1,052.9	\$1,008.4
International	179.9	170.8	532.8	467.5
Total CMG	\$522.8	\$505.4	\$1,585.7	\$1,475.9

Net revenue:

United States	\$208.0	\$196.5	\$610.5	\$592.9
International	107.2	104.6	316.5	293.0
Total CMG	\$315.2	\$301.1	\$927.0	\$885.9

**Contract Balances**

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	September 30,	December 31,
	2018	2017
Accounts receivable, net of allowance of \$46.5 and \$42.7, respectively	\$ 4,009.1	\$ 4,585.0
Accounts receivable, billable to clients	1,995.9	1,747.4
Contract assets	57.8	11.5
Contract liabilities (deferred revenue)	514.4	484.7

Contract assets are primarily comprised of contract incentives that are generally satisfied annually under the terms of our contracts and are transferred to accounts receivable when the right to payment becomes unconditional. Contract liabilities relate to advance consideration received from customers under the terms of our contracts primarily related to reimbursements of third party expenses, whether we act as principal or agent, and to a lesser extent, periodic retainer fees, both of which are generally recognized shortly after billing.

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

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## Note 4: 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	September 30, 2018		December 31, 2017	
		Book Value	Fair Value <sup>1</sup>	Book Value	Fair Value <sup>1</sup>
3.50% Senior Notes due 2020 (less unamortized discount and issuance costs of \$0.9 and \$2.9, respectively)	3.89%	\$496.2	\$500.1	\$—	\$—
3.75% Senior Notes due 2021 (less unamortized discount and issuance costs of \$0.3 and \$3.2, respectively)	3.98%	496.5	500.8	—	—
4.00% Senior Notes due 2022 (less unamortized discount and issuance costs of \$1.1 and \$0.9, respectively)	4.13%	248.0	249.9	247.6	259.0
3.75% Senior Notes due 2023 (less unamortized discount and issuance costs of \$0.7 and \$1.8, respectively)	4.32%	497.5	494.9	497.1	513.2
4.20% Senior Notes due 2024 (less unamortized discount and issuance costs of \$0.6 and \$2.3, respectively)	4.24%	497.1	501.6	496.7	524.2
4.65% Senior Notes due 2028 (less unamortized discount and issuance costs of \$1.7 and \$4.4, respectively)	4.78%	493.9	500.6	—	—
5.40% Senior Notes due 2048 (less unamortized discount and issuance costs of \$2.8 and \$5.6, respectively)	5.48%	491.6	497.3	—	—
Other notes payable and capitalized leases		40.7	40.7	46.2	46.2
Total long-term debt		3,261.5		1,287.6	
Less: current portion		0.1		2.0	
Long-term debt, excluding current portion		\$3,261.4		\$1,285.6	

<sup>1</sup> See Note 13 for information on the fair value measurement of our long-term debt.

## Debt Transactions

## Bridge Facility Commitment

On July 2, 2018, we entered into a Membership Interest Purchase Agreement (the "Acxiom Purchase Agreement") to acquire the Acxiom Marketing Solutions business from Acxiom Corporation for \$2,300.0 in cash, subject to final customary adjustments (the "Acxiom Acquisition"). On that same date, we entered into a commitment letter for a 364-day senior unsecured bridge loan facility in aggregate principal amount of up to \$2,300.0 to fund the Acxiom Acquisition (the "Bridge Facility Commitment") in the event we were unable otherwise to secure financing for the planned acquisition. By its terms, the Bridge Facility Commitment was terminated when we secured financing for the acquisition under the Term Loan Agreement and with the issuance of the Senior Notes (as defined and discussed below).

## Term Loan Agreement

To provide financing for the Acxiom Acquisition, on July 27, 2018, we entered into a Term Loan Agreement with third-party lenders for \$500.0 (the "Term Loan Agreement"). By its terms, any funding under the Term Loan Agreement would occur substantially concurrently with the consummation date of the Acxiom Acquisition (the "Acxiom Closing Date"), may be used solely to finance the payment of the cash consideration payable under Acxiom Purchase Agreement and to pay related fees and expenses, and will mature on the three-year anniversary of the Acxiom Closing Date. See Note 16 for further details regarding the closing of the Acxiom Acquisition.

## Senior Notes

On September 21, 2018, we issued a total of \$2,000.0 in aggregate principal amount of unsecured senior notes (in four separate series of \$500.0 each, together, the "Senior Notes") for purposes of financing the Acxiom Acquisition. Upon issuance, the Senior Notes were reflected on our Consolidated Balance Sheets net of discount in the amount of \$5.8 and net of the capitalized debt

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issuance costs, including commissions and offering expenses, in the amount of \$16.1, both of which will be amortized in interest expense through the respective maturity dates of each series of Senior Notes using the effective interest method. Interest is payable semi-annually in arrears on April 1st and October 1st of each year, commencing on April 1, 2019.

The issuance was comprised of the following four series of notes:

Senior Notes	Par Value	Discount at Issuance	Net Price at Issuance	Issuance Cost	Net Proceeds
3.50% Senior Notes Due 2020	\$500.0	\$ 1.0	\$499.0	\$ 2.9	\$496.1
3.75% Senior Notes Due 2021	500.0	0.3	499.7	3.2	496.5
4.65% Senior Notes Due 2028	500.0	1.7	498.3	4.4	493.9
5.40% Senior Notes Due 2048	500.0	2.8	497.2	5.6	491.6
Total	\$2,000.0	\$ 5.8	\$1,994.2	\$ 16.1	\$1,978.1

Proceeds from the issuance of the Senior debt may be used to finance the Acxiom Acquisition or for general corporate purposes, including repayment of commercial paper balances. During the third quarter ended September 30, 2018, we repaid a portion of our commercial paper borrowings and uncommitted lines of credit in the amount of \$800.0 and \$59.0, respectively. We retained the remainder to fund the Acxiom Acquisition.

Consistent with our other debt securities, the newly issued Senior Notes include covenants that, among other things, limit our liens and the liens of certain of our consolidated subsidiaries, but do not require us to maintain any financial ratios or specified levels of net worth or liquidity. We may redeem each series of the Senior Notes at any time in whole or from time to time in part in accordance with the provisions of the indenture, including the applicable supplemental indenture, under which such series of Senior Notes was issued. If the Acxiom Acquisition had been terminated or had not closed on or prior to June 30, 2019, we would have been required to redeem the Senior Notes due 2020, 2021 and 2028 at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest. Additionally, upon the occurrence of a change of control repurchase event with respect to the Senior Notes, each holder of the Senior Notes has the right to require the Company to purchase that holder's Senior Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, unless the Company has exercised its option to redeem all the Senior Notes. For further information on the closing of the Acxiom Acquisition, see Note 16.

Credit Agreements

We maintain a committed corporate credit facility, which has been amended and restated from time to time (the "Credit Agreement"). We use our Credit Agreement to increase our financial flexibility, to provide letters of credit primarily to support obligations of our subsidiaries and to support our commercial paper program. The Credit Agreement is a revolving facility, expiring in October 2022, under which amounts borrowed by us or any of our subsidiaries designated under the Credit Agreement may be repaid and reborrowed, subject to an aggregate lending limit of \$1,500.0, or the equivalent in other currencies. The Company has the ability to increase the commitments under the Credit Agreement from time to time by an additional amount of up to \$250.0, provided the Company receives commitments for such increases and satisfies certain other conditions. The aggregate available amount of letters of credit outstanding may decrease or increase, subject to a sublimit on letters of credit of \$50.0, or the equivalent in other currencies. Our obligations under the Credit Agreement are unsecured. As of September 30, 2018, there were no borrowings under the Credit Agreement; however, we had \$8.5 of letters of credit under the Credit Agreement, which reduced our total availability to \$1,491.5. We were in compliance with all of our covenants in the Credit Agreement as of September 30, 2018.

On July 27, 2018, we entered into Amendment No. 1 to our Credit Agreement (the "Amendment"). The Amendment increased the maximum leverage ratio covenant to (i) 4.00 to 1.00 for the first, second and third fiscal quarters ending after the Acxiom Closing Date, (ii) 3.75 to 1.00 for the fourth, fifth, sixth and seventh full fiscal quarters ending after

the Acxiom Closing Date and (iii) 3.50 to 1.00 for the eighth full fiscal quarter ending after the Acxiom Closing Date and thereafter. The Amendment further excludes any debt securities issued to finance the Acxiom Acquisition for purposes of determining compliance with the aforementioned leverage ratios until the Acxiom Closing Date to the extent that the cash proceeds from the issuance of such debt securities are either held in escrow on customary terms or are held by the Company as unrestricted cash or cash equivalents.

We also have uncommitted lines of credit with various banks that permit borrowings at variable interest rates and that are primarily used to fund working capital needs. We have guaranteed the repayment of some of these borrowings made by certain subsidiaries. If we lose access to these credit lines, we would have to provide funding directly to some of our operations. As of September 30, 2018, the Company had uncommitted lines of credit in an aggregate amount of \$1,157.0, under which we had outstanding borrowings of \$66.6 classified as short-term borrowings on our Consolidated Balance Sheet. The average amount outstanding during the third quarter of 2018 was \$100.6, with a weighted-average interest rate of approximately 4.3%.

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## Commercial Paper

We have a commercial paper program under which the Company is authorized to issue unsecured commercial paper up to a maximum aggregate amount outstanding at any time of \$1,500.0. Borrowings under the program are supported by the Credit Agreement described above. Proceeds of the commercial paper are used for working capital and general corporate purposes, including the repayment of maturing indebtedness and other short-term liquidity needs. The maturities of the commercial paper vary but may not exceed 397 days from the date of issue. As of September 30, 2018, there was \$16.0 of commercial paper outstanding. The average amount outstanding under the program during the third quarter of 2018 was \$735.7, with a weighted-average interest rate of 2.4% and a weighted-average maturity of fifteen days.

## Note 5: Acquisitions

We continue to evaluate strategic opportunities to expand our industry expertise, strengthen our position in high-growth and key strategic geographical markets and industry sectors, advance our technological capabilities and improve our operational efficiency through both acquisitions and increased ownership interests in current investments. Our acquisitions typically provide for an initial payment at the time of closing and additional contingent purchase price payments based on the future performance of the acquired entity. We have entered into agreements that may require us to purchase additional equity interests in certain consolidated and unconsolidated subsidiaries. The amounts at which we record these transactions in our financial statements are based on estimates of the future financial performance of the acquired entity, the timing of the exercise of these rights, foreign currency exchange rates and other factors.

During the first nine months of 2018, we completed three acquisitions, including a full-service digital agency based in Brazil, an entertainment marketing and brand licensing agency in the fashion and lifestyle sector based in the U.K., and a content-focused social creative agency based in the U.K. All three of our acquisitions were included in the CMG operating segment. During the first nine months of 2018, we recorded \$24.0 of goodwill and intangible assets related to our acquisitions.

During the first nine months of 2017, we completed seven acquisitions, including a strategic communications agency based in the U.K., an independent creative agency based in the U.K., a retail branding and design firm based in the U.S., a content creation and marketing agency based in the Netherlands, an independent media agency and digital consultancy based in Finland, and an integrated marketing communications agency based in Canada. All seven of our acquisitions were included in the IAN operating segment. During the first nine months of 2017, we recorded \$48.1 of goodwill and intangible assets related to our acquisitions.

The results of operations of our acquired companies were included in our consolidated results from the closing date of each acquisition. Details of cash paid for current and prior years' acquisitions are listed below.

	Nine months ended September 30, 2018 2017	
Cost of investment: current-year acquisitions	\$12.3	\$28.1
Cost of investment: prior-year acquisitions	30.6	50.0
Less: net cash acquired	(0.5 )	(6.4 )
Total cost of investment	42.4	71.7
Operating payments <sup>1</sup>	18.3	37.5
Total cash paid for acquisitions <sup>2</sup>	\$60.7	\$109.2

<sup>1</sup> Represents cash payments for amounts that have been recognized in operating expenses since the date of acquisition either relating to adjustments to estimates in excess of the initial value of contingent payments recorded or were

contingent upon the future employment of the former owners of the acquired companies. Amounts are reflected in the operating section of the unaudited Consolidated Statements of Cash Flows.

Of the total cash paid for acquisitions, \$12.0 and \$22.6 for the nine months ended September 30, 2018 and 2017, respectively, are classified under the investing section of the unaudited Consolidated Statements of Cash Flows, as acquisitions, net of cash acquired. These amounts relate to initial payments for new transactions. Of the total cash paid for acquisitions, \$30.4 and \$49.1 for the nine months ended September 30, 2018 and 2017, respectively, are classified under the financing section of the unaudited Consolidated Statements of Cash Flows as acquisition-related payments. These amounts relate to deferred payments and increases in our ownership interest for prior acquisitions. Many of our acquisitions include provisions under which the noncontrolling equity owners may require us to purchase additional interests in a subsidiary at their discretion. Redeemable noncontrolling interests are adjusted quarterly to their estimated redemption value, but not less than their initial fair value. Any adjustments to the redemption value impact retained earnings, except for foreign currency translation adjustments.



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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

The following table presents changes in our redeemable noncontrolling interests.

	Nine months ended September 30,	
	2018	2017
Balance at beginning of period	\$252.1	\$252.8
Change in related noncontrolling interests balance	(15.5 )	(9.5 )
Changes in redemption value of redeemable noncontrolling interests:		
Additions	0.0	3.4
Redemptions	(33.7 )	(18.5 )
Redemption value adjustments	(43.2 )	9.8
Balance at end of period	\$159.7	\$238.0

## Note 6: Earnings Per Share

The following sets forth basic and diluted earnings per common share available to IPG common stockholders.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income available to IPG common stockholders	\$161.0	\$169.7	\$292.7	\$302.1
Weighted-average number of common shares outstanding - basic	382.6	389.5	383.2	391.2
Dilutive effect of stock options and restricted shares	5.8	7.7	5.2	7.4
Weighted-average number of common shares outstanding - diluted	388.4	397.2	388.4	398.6
Earnings per share available to IPG common stockholders:				
Basic	\$0.42	\$0.44	\$0.76	\$0.77
Diluted	\$0.41	\$0.43	\$0.75	\$0.76

## Note 7: Supplementary Data

## Accrued Liabilities

The following table presents the components of accrued liabilities.

	September 30, December 31,	
	2018	2017
Salaries, benefits and related expenses	\$ 340.1	\$ 441.7
Acquisition obligations	52.3	42.0
Office and related expenses	49.4	53.2
Interest	19.0	16.4
Other	110.2	121.4
Total accrued liabilities	\$ 571.0	\$ 674.7

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## Other Expense, Net

Results of operations for the three and nine months ended September 30, 2018 and 2017 include certain items that are not directly associated with our revenue-producing operations.

	Three months ended September 30, 2018		Nine months ended September 30, 2017	
Net losses on sales of businesses	\$(5.8 )	\$(8.7 )	\$(50.0 )	\$(20.9 )
Other	(9.5 )	(1.2 )	(6.0 )	(3.6 )
Total other expense, net	\$(15.3 )	\$(9.9 )	\$(56.0 )	\$(24.5 )

Net losses on sales of businesses – During the three and nine months ended September 30, 2018 and 2017, the amounts recognized were related to sales of businesses and the classification of certain assets and liabilities, consisting primarily of cash, accounts receivable, and accounts payable, as held for sale within our IAN and CMG operating segments.

Other – During the three and nine months ended September 30, 2018, the amounts recognized are primarily a result of transaction-related costs from the Acxiom Acquisition.

## Share Repurchase Program

In February 2018, our Board of Directors (the "Board") authorized a new share repurchase program to repurchase from time to time up to \$300.0, excluding fees, of our common stock, which was in addition to the remaining amount available to be repurchased from the \$300.0 authorization made by the Board in February 2017.

We may effect such repurchases through open market purchases, trading plans established in accordance with SEC rules, derivative transactions or other means. The timing and amount of repurchases in future periods will depend on market conditions and other funding requirements.

The following table presents our share repurchase activity under our share repurchase programs for the nine months ended September 30, 2018 and 2017.

	Nine months ended September 30, 2018		2017	
Number of shares repurchased	5.1	9.4		
Aggregate cost, including fees	\$117.1	\$216.0		
Average price per share, including fees	\$23.03	\$22.92		

On July 2, 2018, in connection with the announcement of the Acxiom Acquisition, we announced the suspension for a period of time of share repurchases under the repurchase programs. As of September 30, 2018, \$338.4, excluding fees, remains available for repurchase under the share repurchase programs. The share repurchase programs have no expiration date.

## Note 8: Income Taxes

For the three and nine months ended September 30, 2018, our effective income tax rates were negatively impacted by losses in certain foreign jurisdictions where we receive no tax benefit due to 100% valuation allowances, by losses on sales of businesses, and the classification of certain assets as held for sale, for which we received a minimal tax benefit, by tax expense associated with the change to our assertion regarding the permanent reinvestment of undistributed earnings attributable to certain foreign subsidiaries, and by tax expense related to the true-up of our December 31, 2017 tax reform estimates as permitted by SEC Staff issued Staff Accounting Bulletin No. 118 ("SAB 118"). This was partially offset by a tax benefit related to foreign tax credits from a distribution of unremitted

earnings. The nine months ended September 30, 2018 also included research and development credits based on the conclusion of multi-year studies.

Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") was signed into law on December 22, 2017. The Tax Act legislated many new tax provisions which have impacted our operations. At December 31, 2017, provisional amounts were recorded as permitted by SAB 118. As of September 30, 2018, we have finalized our calculations of the impact of the Tax Act and have revised our estimates as required by SAB 118. This resulted in a net increase of \$16.7, primarily attributable to our estimate of the tax imposed on the deemed repatriation of unremitted foreign earnings.

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Notes to Consolidated Financial Statements – (continued)

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(Unaudited)

The Company has historically asserted that its unremitted foreign earnings are permanently reinvested, and therefore has not recorded any deferred taxes on such amounts. During the third quarter ended September 30, 2018, as a result of our increased debt and associated servicing commitments in connection with the Acxiom Acquisition that was consummated on October 1, 2018, the Company re-evaluated its global cash needs and as a result determined that approximately \$440.0 of undistributed foreign earnings from certain international entities are no longer subject to the permanent reinvestment assertion. We recorded a tax expense of \$17.3 representing our estimate of the tax costs associated with this change to our assertion. We have not changed our permanent reinvestment assertion with respect to any other international entities as the related historical earnings and profits will fund international operations and investments.

The Tax Act imposed a new tax on certain foreign earnings generated in 2018 and forward. These global intangible low-taxed income ("GILTI") tax rules are complex. U.S. GAAP allows us to choose an accounting policy which treats the U.S. tax under GILTI provisions as either a current expense, as incurred, or as a component of the Company's measurement of deferred taxes. The Company has elected to account for the GILTI tax as a current expense.

We have various tax years under examination by tax authorities in various countries, and in various states, such as New York, in which we have significant business operations. It is not yet known whether these examinations will, in the aggregate, result in our paying additional taxes. We believe our tax reserves are adequate in relation to the potential for additional assessments in each of the jurisdictions in which we are subject to taxation. We regularly assess the likelihood of additional tax assessments in those jurisdictions and, if necessary, adjust our reserves as additional information or events require.

The total amount of gross unrecognized tax benefits as of September 30, 2018 was \$342.5. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$317.2. During the three and nine months ended September 30, 2018, the net increase to our unrecognized tax benefits was \$36.6 and \$70.5, respectively. The increase is primarily due to tax positions taken during a prior year.

With respect to all tax years open to examination by U.S. federal, various state and local, and non-U.S. tax authorities, we currently anticipate that total unrecognized tax benefits will decrease by an amount between \$30.0 and \$40.0 in the next twelve months, a portion of which will affect our effective income tax rate, primarily as a result of the settlement of tax examinations and the lapsing of statutes of limitations.

We are effectively settled with respect to U.S. federal income tax audits through 2012, with the exception of 2009. With limited exceptions, we are no longer subject to state and local income tax audits for years prior to 2007 or non-U.S. income tax audits for years prior to 2006.

**Note 9: Incentive Compensation Plans**

We issue stock-based compensation and cash awards to our employees under a plan established by the Compensation and Leadership Talent Committee of the Board of Directors (the "Compensation Committee") and approved by our shareholders. We issued the following stock-based awards under the 2014 Performance Incentive Plan (the "2014 PIP") during the nine months ended September 30, 2018.

	Awards	Weighted-average grant-date fair value (per award)
Restricted stock (shares or units)	1.9	\$ 23.62
Performance-based stock (shares)	2.9	\$ 21.13
Restricted stock units (settled in cash)	0.1	\$ 23.63
Total stock-based compensation awards	4.9	

During the nine months ended September 30, 2018, the Compensation Committee granted performance cash awards under the 2014 PIP and restricted cash awards under the 2009 Restricted Cash Plan with a total annual target value of \$56.1 and \$20.5, respectively. Cash awards are expensed over the vesting period, which is typically three years.



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Note 10: Accumulated Other Comprehensive Loss, Net of Tax

The following tables present the changes in accumulated other comprehensive loss, net of tax, by component.

	Foreign Currency Translation Adjustments	Derivative Instruments	Defined Benefit Pension and Other Postretirement Plans	Total
Balance as of December 31, 2017	\$ (585.3 )	\$ (6.8 )	\$ (235.7 )	\$(827.8)
Other comprehensive loss before reclassifications	(119.6 )	0.0	(0.6 )	(120.2 )
Amount reclassified from accumulated other comprehensive loss, net of tax	16.7	1.2	4.8	22.7
Balance as of September 30, 2018	\$ (688.2 )	\$ (5.6 )	\$ (231.5 )	\$(925.3)

	Foreign Currency Translation Adjustments	Available-for-Sale Securities	Derivative Instruments	Defined Benefit Pension and Other Postretirement Plans	Total
Balance as of December 31, 2016	\$ (718.6 )	\$ 0.6	\$ (8.4 )	\$ (238.0 )	\$(964.4)
Other comprehensive income before reclassifications	115.6	0.0	0.0	6.3	121.9
Amount reclassified from accumulated other comprehensive loss, net of tax	1.8	(0.6 )	1.0	7.9	10.1
Balance as of September 30, 2017	\$ (601.2 )	\$ 0.0	\$ (7.4 )	\$ (223.8 )	\$(832.4)

Amounts reclassified from accumulated other comprehensive loss, net of tax, for the three and nine months ended September 30, 2018 and 2017 are as follows:

	Three months ended September 30, 2018		Nine months ended September 30, 2017		Affected Line Item in the Consolidated Statements of Operations
Foreign currency translation adjustments	\$3.3	\$1.5	\$16.7	\$1.8	Other expense, net
Gains on available-for-sale securities	0.0	(0.7 )	0.0	(0.7 )	Other expense, net
Losses on derivative instruments	0.6	0.5	1.7	1.6	Interest expense
Amortization of defined benefit pension and postretirement plan items	1.9	5.7	6.0	9.2	Other expense, net
Tax effect	(0.6 )	(0.6 )	(1.7 )	(1.8 )	Provision for income taxes
Total amount reclassified from accumulated other comprehensive loss, net of tax	\$5.2	\$6.4	\$22.7	\$10.1	

Note 11: Employee Benefits

We have a defined benefit pension plan that covers certain U.S. employees (the “Domestic Pension Plan”). We also have numerous funded and unfunded plans outside the U.S. The Interpublic Limited Pension Plan in the U.K. is a defined benefit plan and is our most material foreign pension plan in terms of the benefit obligation and plan assets. Some of our domestic and foreign subsidiaries provide postretirement health benefits and life insurance to eligible employees

and, in certain cases, their dependents. The domestic postretirement benefit plan is our most material postretirement benefit plan in terms of the benefit obligation. Certain immaterial foreign pension and postretirement benefit plans have been excluded from the table below.

The components of net periodic cost for the Domestic Pension Plan, the significant foreign pension plans and the domestic postretirement benefit plan are listed below.

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Notes to Consolidated Financial Statements – (continued)

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	Domestic Pension Plan		Foreign Pension Plans		Domestic Postretirement Benefit Plan	
Three months ended September 30, 2018	2018	2017	2018	2017	2018	2017
Service cost	\$ 0.0	\$ 0.0	\$ 1.1	\$ 1.0	\$ 0.0	\$ 0.0
Interest cost	1.2	1.3	3.1	3.4	0.3	0.3
Expected return on plan assets	(1.7 )	(1.5 )	(4.5 )	(4.5 )	0.0	0.0
Settlements and curtailments	0.0	0.0	0.1	4.0	0.0	0.0
Amortization of:						
Prior service cost (credit)	0.0	0.0	0.0	0.1	0.0	(0.1 )
Unrecognized actuarial losses	0.4	0.3	1.4	1.4	0.0	0.0
Net periodic cost	\$ (0.1 )	\$ 0.1	\$ 1.2	\$ 5.4	\$ 0.3	\$ 0.2

  

	Domestic Pension Plan		Foreign Pension Plans		Domestic Postretirement Benefit Plan	
Nine months ended September 30, 2018	2018	2017	2018	2017	2018	2017
Service cost	\$ 0.0	\$ 0.0	\$ 3.1	\$ 2.9	\$ 0.0	\$ 0.0
Interest cost	3.4	3.8	9.9	10.0	0.8	0.9
Expected return on plan assets	(5.0 )	(4.6 )	(14.2 )	(13.2 )	0.0	0.0