Planet Tracker

From ADversity to ADvantage

Ad agencies' role in promoting the environmental footprints of their clients

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CONTENTS

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INTRODUCTION

Love it or hate it, advertising is ubiquitous and pervasive. As media channels have multiplied, our exposure to commercial communications has multiplied exponentially.

The advertising industry argues that the growth in advertising over the last 20 years has enabled the provision of useful and often engaging content and services – that the erosion of privacy is a price worth paying for almost limitless choice. They also point, with some justification, to the important role of advertising in generating revenue for companies, providing security of employment, driving competition between brands which fosters innovation and positively impacts prices;[i] they frequently cite advertising as a force for good in raising awareness of social, humanitarian and environmental problems all over the world.

Advertising is all these things, but it also has a more problematic side – advertising is often used by companies to convince us that their activities are in the best interests of society by only telling half the story.

In multiple industries, such as oil & gas, automotive, fashion or plastic, companies employ advertising agencies to present their best face to the public while ignoring the harsh reality. This comes in many forms – promoting a greener future through renewable energy while still being committed to the long term extraction of fossil fuels; showcasing electric automotive technology while still profiting from fossil fuel-thirsty SUVs; creating demand for low-cost fast fashion without making clear the environmental and human harms which occur in the upstream manufacturing process; trumpeting plastic as the material of the future, when the petrochemical giants are increasing the conversion of petrochemicals into virgin plastic which fills the ocean and the environment with unrecyclable waste.

There is no doubt that advertising agencies (along with their clients) have recognised the need to address what is likely to become a serious reputational risk and this awareness is reflected in their annual sustainability reporting. This extract from WPP's 2020 Sustainability Report sounds encouraging, but as the advertising Holding Company with the highest number of carbon-intensive clients, as shown in this report, WPP falls short of any clear statement of its future policy with regard to fossil fuel clients.

"We recognise that modern lifestyles and demand for goods have contributed significantly to the climate crisis and environmental degradation. We also know the threat these impacts pose to global social and economic development. Advertising has undoubtedly played a role in fuelling consumerism – but we are excited about the part it can now play in promoting low-impact and regenerative living".[ii]

Despite a growing number of exceptions[1], the majority of advertising agencies have chosen to adopt the stance that, rather than take a stand against clients, it is better to effect 'change from within', a euphemism for continuing to work with the environmentally damaging clients they already have. While many openly promote their own efforts to cut emissions and behave responsibly within their companies,[iii] they are more reticent about a similar approach to their clients.

These excerpts from recent company reports underline the disconnect between their clients' products and services and the agencies' true acceptance of what is at stake for the planet, as they continue to work for carbon-intensive clients.

1 https://cleancreatives.org/agency-signers

Interpublic Group (IPG): *"Currently, a small number of IPG agencies create marketing for carbon-intensive clients, including oil, gas and utility companies. And while some of the work that these agencies have contributed to in the past would not live up to our current standards, we are committed to aligning all future work on behalf of these clients to our company's sustainability values".*[iv]

Planet Tracker notes that 'carbon-intensive' clients include Saudi Aramco, Exxon Mobil, Repsol, Shell and Petronas.[v]

WPP: *"Given the power of creativity to change attitudes and behaviour, WPP is committed to applying high ethical standards to its work to ensure those changes are for the better. WPP's policy is to……not undertake work which is intended or designed to mislead in any respect, including social, environmental and human rights issues".*[vi]

Planet Tracker notes that 'carbon-intensive' clients include Shell, BP, Castrol, Chevron, ExxonMobil and Saudi Aramco.[vii]

Omnicom Group: *"Our diverse and dedicated team pursued progress against our focus areas while delivering exceptional results for our clients in 2022. Every individual action contributes to our positive global impact. This year's report demonstrates our commitment to advancing sustainable and responsible practices around the globe".*[viii]

Planet Tracker notes that 'carbon-intensive' clients include ExxonMobil and Repsol.[ix]

The bottom line is that advertising agencies are continuing to create campaigns for clients whose business activities are detrimental to the environment, despite the scientific evidence of the effect those clients' activities have on the planet. These campaigns span multiple local and global sectors.

To date, the majority of activity by the NGO community in this field has focused on fossil fuels advertising. While this is an area of immediate concern, there are other important sectors that need addressing. This report also focuses on plastic, automotive, fashion, technology and food & beverages.

Our analysis builds a set of related financial factors that are relevant to the large, listed advertising Holding Companies. We do so by linking environmental impacts in six sectors to corporates, to their agencies and Holding Companies. Investors in, and financers of, these companies, by supporting best practices, can reduce financial risk and generate optimal outcomes for the future of the planet.

What is clear, is that 'problematic' advertising is not merely a non-financial matter. As explained in this report there are possible impacts to the profit and loss account and the balance sheet. Clearly client losses will affect the revenue line, but if staff become disillusioned with the environmental footprint of agencies, watch employee costs. On average, they account for 63% of total costs. Also be mindful of the balance sheet. If reputational issues start to impact goodwill valuations, beware. On average, intangible assets account for 40% of the Holding Companies' asset base. Write-offs would directly impact net income and lower the assets backing lending. Company liabilities (ex debt) are likely to be covered by fixed assets, leaving debt to be covered by intangibles.

KEY TAKEAWAYS

- The advertising agency sector is extremely fragmented but **most campaigns for the top brands/companies are handled by agencies that belong to six global Holding Companies.**
- **Advertising agencies continue to support clients with damaging environmental footprints**, despite claiming to be environmentally aware.
- The Advertising Holding Companies do not seem to have embraced ESG commitments beyond generalised statements in annual reports. The common approach is to claim to be "**changing client attitudes from within**" rather than refusing to work for environmentally harmful clients. This enables the agencies to continue to benefit from revenues across a client's product range (e.g. SUVs versus electric vehicles) while claiming to be promoting clean technologies.
- In this analysis, **oil & gas and automotive companies have the worst overall environmental footprint.**
- Assessing the companies in six industry sectors for their environmental impact (across three metrics) shows that, while there are leaders and laggards according to each metric, **no single company is able to claim a 'clean sheet'.**
- Linking those companies back to the relevant advertising Holding Companies allows us to rank the latter according to the performance of their clients – in the environmentally aware context of the present, that provides **a powerful message for investors concerned about reputational risk** and, where relevant, about environmental degradation.
- **We caution against investors and lenders viewing these environmental footprints as a non-financial issue.** If staff become dissatisfied, employment costs, already above 60%, will rise. And on their balance sheets, goodwill accounts for 40% of their asset bases. Write-offs would have serious implications for asset coverage and for net income.
- Overall **the top ten investors own on average 43% of the five listed advertising Holding Companies.**
- **BlackRock and Vanguard have the largest investments in the Holding Companies but also the highest attributable environmental footprint** for GHG emissions, waste and water **in terms of the agencies' clients.**
- By not pressing the Holding Companies to refuse to work for clients with high environmental footprints, **investors are complicit in allowing business-as-usual to continue.**
- **Clearer measurement and reporting by the agencies** of their clients' environmental footprint scores **would help investors to make more informed decisions.**
- **Executive compensation in the advertising Holding Companies is heavily geared towards prioritising financial performance over sustainability factors** - the 'best in class' CEO only has 10% of variable income based on ESG commitments – and some of that covers issues such as diversity, rather than environment. **Linkage to client profile and impact is negligible or completely absent.**

EXECUTIVE SUMMARY

Our objective in writing this report is to provide a clear link between investments in, and funding of, the leading advertising Holding Companies' and their clients' environmental footprints.

We believe that asset managers, of which the top 10 own almost 43% of the advertising Holding Companies, and financiers should have a clear picture of the environmental impact of the clients for whom the Holding Companies produce advertising campaigns, often in support of environmentally unsustainable products or activities.

One of the largest Holding Companies, Interpublic Group, identifies that ***'ESG issues are increasingly a focus of the investor community. If large shareholders were to reduce their ownership stakes in our Company as a result of dissatisfaction with our policies or efforts in this area, there could be negative impact on our stock price, and we could also suffer reputational harm'.***[x]

In order to create a representative picture of the connections between investment in advertising Holding Companies at one end and the clients' environmental impact at the other, Planet Tracker constructed a universe of the largest global companies in six industry sectors, based on 2022 revenues – see Figure 1.

FASHION	TECHNOLOGY	FOOD & BEVERAGE	PLASTIC POLLUTERS	AUTOMOTIVE	OIL MAJORS
LVMH	Apple	Nestle	Nestle	Volkswagen	Exxon Mobil
Nike	Alphabet (Google)	PepsiCo	PepsiCo	Toyota	Shell
Inditex	Samsung	Tyson Foods	Procter & Gamble	Daimler	TotalEnergies
Adidas	Microsoft	Anheuser-Busch InBev	Unilever	Ford	BP
Hennes & Mauritz	Huawei	Coca-Cola	Coca-Cola Company	General Motors	Chevron Corporation
Chanel	Dell Technologies	Kraft Heinz Company	Danone	BMW	Saudi Aramco
	Sony	Kellogg	Mondelez International	Honda	
	Hitachi	General Mills	Colgate-Palmolive	Fiat Chrysler	
				Hyundai	
				Nissan	

***Figure 1**: Leading companies in six sectors, by revenue. (Source: Planet Tracker)*[2,3]

All the companies reviewed in this report have a quantifiable impact on the environment, but many also run advertising campaigns which promote environmentally damaging products and activities. Planet Tracker believes that these environmentally harmful aspects are often not clear to investors and consumers.

2 Grey type denotes companies with no environmental data disclosure

3 Blue type denotes companies occurring in more than one category

Our initial universe consisted of 43 companies. These are leading players in their respective categories. Of these, two are private companies (Chanel and Huawei) and two are companies (Nike and Adidas) that don't provide enough comparable environmental data.

Unsurprisingly, there is some duplication of names in both the 'Food & Beverage' and 'Plastic Polluters' groupings. All these 'noteworthy oddities' are identified using lighter text in Figure 1.

For reasons explained above, **four companies (Chanel, Huawei, Nike and Adidas) have been excluded,** meaning that **the universe drops to 39 companies**. Analysis throughout this report refers to these 39 companies and the advertising Holding Companies that they employ.

While the advertising agency sector is fragmented, the majority of campaigns for the top brands/companies in each product sector are handled by agencies that belong to one or more of the six large global Holding Companies.

Five of the six large global Holding companies are publicly listed; Havas is the only one that isn't, but Vivendi its owner, is considering selling it off and creating a listed entity. Some clients are serviced by agencies which are independent of the Big 6.

Looking beyond oil

To date, concerns have mostly focused on advertising agencies' links to oil companies. This report goes beyond oil and creates an environmental impact tracker that ranks the GHG, waste and water footprints of the 39 companies. This universe of companies includes the leading players in six selected global sectors.

Planet Tracker strongly believes a) that 'best practice', which includes not producing campaigns that support items that create negative environmental impact, needs to extend beyond just considering oil & gas, and b) that actions which do support such campaigns carry wider risks; risks that we expand on later in this report.

While six major oil companies have been included in our analysis, the universe has been expanded to include some of the largest companies by 2022 revenue in five other environmentally degrading sectors:

- Fashion (6 companies)
- Technology (8 companies)
- Food & Beverage (8 companies)
- Plastic Polluters (8 companies)
- Automotive (10 companies)
- Oil (6 companies)

Companies often have complex multi-agency relationships. These relationships can be with different agencies within the same holding company group, say for different services such as media or digital, or with agencies belonging to different advertising Holding Company groups, say for campaigns in different geographies.

Microsoft is a good example: for the three campaigns that we have reviewed, McCann (part of IPG) is the sub-agency for one, EP+Co (part of Dentsu) the sub-agency for another and WPP the agency for the third.

This web of relationships makes applying 'pressure' in support of positive change challenging.

To simplify this situation we have attempted to identify the main advertising Holding Company for each of the companies in our universe. This was achieved for 33. The link/allocation of the remaining six companies (Toyota, Sony, Unilever, ExxonMobil, Chevron and Shell) is split between two agencies. The results are shown in Figure 2.

LISTED					UNLISTED	
Publicis	Omnicom	Dentsu	WPP	IPG	Havas	Independent
LVMH	Apple	Hitachi	Alphabet	Microsoft	Shell	Inditex
Samsung	Sony	Toyota	Dell	AB InBev	Danone	Hennes & Mauritz
Nestle	PepsiCo	BMW	Sony	General Motors		Hyundai
Kellogg	Volkswagen	Chevron	Tyson Foods	Exxon Mobil		
Toyota	Daimler		Coca-Cola	Saudi Aramco		
Fiat Chrysler	Honda		Kraft Heinz Company	Unilever		
TotalEnergies	Nissan		General Mills			
Procter & Gamble	Exxon Mobil		Ford			
Mondelez Int'l			Shell			
			BP			
			Chevron			
			Unilever			
			Colgate-Palmolive			

***Figure 2**: Main advertising Holding Company for the 39 companies in the universe. (Source: Planet Tracker).*

Having defined the company universe, Trucost data was used to establish an environmental footprint for each of the 39 companies using GHG emissions, waste output in tonnes and water usage in cubic meters. In the few instances where Trucost data was not available we have used Refinitiv data and applied sector average conversion factors.

This enabled us to create a map of worst and best performing companies against those criteria. By mapping companies to agencies we have been able to attribute these campaigns and the underlying environmental footprints (GHG / Water / Waste) of the companies to each of the advertising Holding Companies.

Using public data to calculate the environmental footprint of each of the 39 companies for each of our chosen parameters (GHG emissions, waste and water usage) we established a link of these attributed footprints to the companies' agencies and advertising Holding Companies.

Figures 3-5 show the GHG, Waste and Water footprints of the 39 companies analysed in this report and include an allocation of those footprints to each of the companies' main Advertising Holding Company. The five oil majors typically have the largest footprint.

Sector	Company	GHG CO_2e (T)	WPP	Omnicom	Dentsu	Publicis	IPG	Havas	Independent
Fashion	Inditex	1,324,164	-	-	-	-	-	-	1,324,164
	Hennes & Mauritz	577,227	-	-	-	-	-	-	577,227
	LVMH	295,442	-	-	-	295,442	-	-	-
Tech	Samsung	17,578,700	-	-	-	17,578,700	-	-	-
	Alphabet	5,905,106	5,905,106	-	-	-	-	-	-
	Hitachi	4,692,012	-	-	4,692,012	-	-	-	-
	Microsoft	4,220,545	-	-	-	-	4,220,545	-	-
	Sony	1,380,976	690,488	690,488	-	-	-	-	-
	Apple	937,630	-	937,630	-	-	-	-	-
	Dell Technologies	469,444	469,444	-	-	-	-	-	-
F&B	Nestle	6,267,582	-	-	-	6,267,582	-	-	-
	Tyson Foods	6,174,742	6,174,742	-	-	-	-	-	-
	Anheuser-Busch InBev	5,309,663	-	-	-	-	5,309,663	-	-
	PepsiCo	5,272,316	-	5,272,316	-	-	-	-	-
	Coca-Cola	1,594,850	1,594,850	-	-	-	-	-	-
	Kraft Heinz Company	1,290,028	1,290,028	-	-	-	-	-	-
	Kellogg	1,053,419	-	-	-	1,053,419	-	-	-
	General Mills	945,024	945,024	-	-	-	-	-	-
Plastic	Procter & Gamble	4,784,563	-	-	-	4,784,563	-	-	-
	Unilever	1,871,100	935,550	-	-	-	935,550	-	-
	Mondelez International	1,613,495	-	-	-	1,613,495	-	-	-
	Danone	1,534,304	-	-	-	-	-	1,534,304	-
	Colgate-Palmolive	577,676	577,676	-	-	-	-	-	-
Autos	Volkswagen	9,593,113	-	9,593,113	-	-	-	-	-
	Toyota	6,244,415	-	-	3,122,208	3,122,208	-	-	-
	Honda	4,677,495	-	4,677,495	-	-	-	-	-
	General Motors	4,304,176	-	-	-	-	4,304,176	-	-
	Ford	3,840,143	3,840,143	-	-	-	-	-	-
	Nissan	3,103,073	-	3,103,073	-	-	-	-	-
	Daimler	2,554,695	-	2,554,695	-	-	-	-	-
	Hyundai	2,396,877	-	-	-	-	-	-	2,396,877
	BMW	1,908,463	-	-	1,908,463	-	-	-	-
	Fiat Chrysler	887,285	-	-	-	887,285	-	-	-
Oil	Exxon Mobil	112,000,000	-	56,000,000	-	-	56,000,000	-	-
	Saudi Aramco	88,155,843	-	-	-	-	88,155,843	-	-
	Shell	74,048,404	37,024,202	-	-	-	-	37,024,202	-
	Chevron	57,000,000	28,500,000	-	28,500,000	-	-	-	-
	BP	45,489,417	45,489,417	-	-	-	-	-	-
	Total Energies	38,361,483	-	-	-	38,361,483	-	-	-
Total	GHG FOOTPRINT (T)	530,234,889	133,436,669	82,828,810	38,222,683	73,964,176	158,925,776	38,558,506	4,298,269
Total	NUMBER of COMPANIES	39	13	8	4	9	6	2	3

***Figure 3:** GHG CO_2e footprint (T). (Source: Trucost, Planet Tracker)*

Sector	Company	WASTE (T)	WPP	Omnicom	Dentsu	Publicis	IPG	Havas	Independent
Fashion	LVMH	15,581	-	-	-	15,581	-	-	-
	Hennes & Mauritz	6,768	-	-	-	-	-	-	6,768
	Inditex	2,048	-	-	-	-	-	-	2,048
Tech	Hitachi	339,500	-	-	339,500	-	-	-	-
	Samsung	40,108	-	-	-	40,108	-	-	-
	Microsoft	16,436	-	-	-	-	16,436	-	-
	Apple	13,091	-	13,091	-	-	-	-	-
	Alphabet	6,639	6,639	-	-	-	-	-	-
	Dell Technologies	1,596	1,596	-	-	-	-	-	-
	Sony	988	494	494	-	-	-	-	-
F&B	Tyson Foods	581,959	581,959	-	-	-	-	-	-
	Kellogg	228,721	-	-	-	228,721	-	-	-
	General Mills	115,150	115,150	-	-	-	-	-	-
	Coca-Cola	106,990	106,990	-	-	-	-	-	-
	Kraft Heinz Company	96,450	96,450	-	-	-	-	-	-
	Anheuser-Busch InBev	84,924	-	-	-	-	84,924	-	-
	PepsiCo	56,583	-	56,583	-	-	-	-	-
	Nestle	5,800	-	-	-	5,800	-	-	-
Plastic	Mondelez International	284,554	-	-	-	284,554	-	-	-
	Danone	118,824	-	-	-	-	-	118,824	-
	Unilever	16,695	8,348	-	-	-	8,348	-	-
	Procter & Gamble	12,740	-	-	-	12,740	-	-	-
	Colgate-Palmolive	10,000	10,000	-	-	-	-	-	-
Autos									
	General Motors	204,446	-	-	-	-	204,446	-	-
	Honda	107,744	-	107,744	-	-	-	-	-
	Volkswagen	99,589	-	99,589	-	-	-	-	-
	Ford	75,100	75,100	-	-	-	-	-	-
	Toyota	68,000	-	-	34,000	34,000	-	-	-
	Daimler	24,000	-	24,000	-	-	-	-	-
	Hyundai	37,282	-	-	-	-	-	-	37,282
	Fiat Chrysler	22,007	-	-	-	22,007	-	-	-
	BMW	7,168	-	-	7,168	-	-	-	-
	Nissan	6,414	-	6,414	-	-	-	-	-
Oil	Saudi Aramco	543,868	-	-	-	-	543,868	-	-
	BP	283,700	283,700	-	-	-	-	-	-
	Shell	280,235	140,117	-	-	-	-	140,117	-
	Exxon Mobil	170,643	-	85,322	-	-	85,322	-	-
	Total	124,230	-	-	-	124,230	-	-	-
	Chevron	100,000	50,000	-	50,000	-	-	-	-
Total	WASTE FOOTPRINT (T)	4,316,571	1,476,542	393,237	430,668	767,742	943,342	258,941	46,099
Total	NUMBER of COMPANIES	39	13	8	4	9	6	2	3

***Figure 4:** Waste footprint (Tonnes). (Source: Trucost, Planet Tracker)*

Sector	Company	WATER (M3)	WPP	Omnicom	Dentsu	Publicis	IPG	Havas	Independent
Fashion	LVMH	9,164,077	-	-	-	9,164,077	-	-	-
	Inditex	1,731,917	-	-	-	-	-	-	1,731,917
	Hennes & Mauritz	1,064,127	-	-	-	-	-	-	1,064,127
Tech	Apple	312,105,484	-	312,105,484	-	-	-	-	-
	Samsung	75,828,000	-	-	-	75,828,000	-	-	-
	Hitachi	28,418,000	-	-	28,418,000	-	-	-	-
	Alphabet	8,498,265	8,498,265	-	-	-	-	-	-
	Sony	5,797,810	2,898,905	2,898,905	-	-	-	-	-
	Dell Technologies	1,020,496	1,020,496	-	-	-	-	-	-
	Microsoft	532,860	-	-	-	-	532,860	-	-
F&B	Coca-Cola	142,410,000	142,410,000	-	-	-	-	-	-
	Anheuser-Busch InBev	82,923,060	-	-	-	-	82,923,060	-	-
	Nestle	78,400,000	-	-	-	78,400,000	-	-	-
	Tyson Foods	24,000,000	24,000,000	-	-	-	-	-	-
	PepsiCo	22,455,000	-	22,455,000	-	-	-	-	-
	Kraft Heinz Company	13,090,000	13,090,000	-	-	-	-	-	-
	General Mills	5,714,000	5,714,000	-	-	-	-	-	-
	Kellogg	1,758,000	-	-	-	1,758,000	-	-	-
Plastic	Danone	46,164,000	-	-	-	-	-	46,164,000	-
	Procter & Gamble	39,899,000	-	-	-	39,899,000	-	-	-
	Unilever	8,773,620	4,386,810	-	-	-	4,386,810	-	-
	Mondelez International	7,599,000	-	-	-	7,599,000	-	-	-
	Colgate-Palmolive	3,271,310	3,271,310	-	-	-	-	-	-
Autos	Honda	13,604,130	-	13,604,130	-	-	-	-	-
	Volkswagen	12,084,000	-	12,084,000	-	-	-	-	-
	Nissan	8,896,000	-	8,896,000	-	-	-	-	-
	Fiat Chrysler	6,989,252	-	-	-	6,989,252	-	-	-
	Daimler	4,115,000	-	4,115,000	-	-	-	-	-
	Ford	3,118,000	3,118,000	-	-	-	-	-	-
	General Motors	2,572,000	-	-	-	-	2,572,000	-	-
	BMW	646,956	-	-	646,956	-	-	-	-
	Toyota	354,920	-	-	177,460	177,460	-	-	-
	Hyundai	229,870	-	-	-	-	-	-	229,870
Oil	Total Energies	536,800,000	-	-	-	536,800,000	-	-	-
	Exxon Mobil	268,970,735	-	134,485,368	-	-	134,485,368	-	-
	BP	235,600,000	235,600,000	-	-	-	-	-	-
	Shell	112,000,000	56,000,000	-	-	-	-	56,000,000	-
	Saudi Aramco	98,626,409	-	-	-	-	98,626,409	-	-
	Chevron	86,735,845	43,367,923	-	43,367,923	-	-	-	-
Total	WATER FOOTPRINT (T)	2,311,961,143	543,375,709	510,643,886	72,610,339	756,614,789	323,526,506	102,164,000	3,025,914
Total	NUMBER of COMPANIES	39	13	8	4	9	6	2	3

Figure 5: *Water footprint (m^3). (Source: Trucost, Planet Tracker)*

Investor concentration

Five of the six large integrated advertising holding companies are listed companies. The exception is Havas, which is part of Vivendi[4]. But Vivendi, which is a listed company, announced in December 2023 that it is considering splitting itself into three listed entities. One of these three entities is likely to be Havas.[xi]

The owners of the listed advertising holding companies (Publicis, Dentsu, Interpublic, Omnicom and WPP) are their shareholders. They are, therefore, in a strong position to influence corporate policy and to benefit from positive action. Conversely, they are also exposed to risk from negative events.

Figure 6 shows the top 10 shareholders in the Holding Companies ranked by size of overall investment and by ranks their investments by the environmental footprints of the 39 clients of the Holding Companies.

4 Vivendi SE is a French mass media holding company headquartered in Paris, widely known as the owner of Gameloft, Groupe Canal+, Havas, Editis, Prisma Media, Vivendi Village and Dailymotion.

Rank	Largest Investor ($m)	Largest GHG footprint (T)	Largest GHG ex Oil footprint (T)	Largest waste footprint (T)	Largest water footprint (m^3)
1	BlackRock	BlackRock	BlackRock	BlackRock	BlackRock
2	Vanguard Group	Vanguard Group	Vanguard Group	Vanguard Group	Vanguard Group
3	Capital Group	Capital Group	Capital Group	Capital Group	Capital Group
4	State Street	State Street	State Street	Silchester Partners	State Street
5	Bpce	Bpce	Bpce	Bpce	Wellington Management
6	Wellington Management	Wellington Management	Wellington Management	Wellington Management	Bpce
7	Silchester Partners	Silchester Partners	Badinter (Elisabeth)	State Street	Badinter (Elisabeth)
8	Credit Agricole	FMR	Credit Agricole	Credit Agricole	Silchester Partners
9	Badinter (Elisabeth)	Bank of America	Geode Capital	FMR	Credit Agricole
10	Geode Capital	Credit Agricole	Charles Schwab	Geode Capital	Geode Capital

Figure 6: *The top 10 shareholders for the Holding Companies. (Source: Planet Tracker).*

These Top 10 owners/funders account for close to half of the outstanding shares in the advertising Holding Companies. By calculating the total environmental footprint for each Holding Company, based on the clients in our universe (see Figure 2 above), we have attributed the total environmental footprint for each impact category to the investors. The data for the individual companies' environmental footprints and their allocation to Holding Companies can be seen in Figures 3 to 5.

Having established a link between environmental impact and the investors in the advertising Holding Companies, we have looked at the risk exposure of these Holding Companies when it comes to supporting advertising for environmentally harmful products. The conclusions from our analysis are that these risks are both real and material.

We note the following characteristics:

- **Each agency serves slightly different industries.** Having said that, the largest sectors tend to come from a similar list: Automotive, Healthcare, Financial, Food & Beverage and Consumer Goods; it isn't just oil that has environmental issues.

- **All tarred with the same brush.** While there are leaders and laggards according to each metric, no single company is able to claim a 'clean sheet'. Adopting a transparent approach to environmental concerns related to their clients, rather than justifying the status quo, would be a significant reputation-enhancing opportunity.

- **Customer concentration is similar across the 'Big 6'.** Although disclosure varies, the largest client typically accounts for around 3% of group revenues, the top 10 about 20%, and the top 100 about 50%. Client tendering/churn is a common feature.

- **The 'Big 6' Holding Companies have a growth problem.** Between 2015-2022 all six agencies grew more slowly than global advertising revenues. Growth in digital advertising is a significant factor, adding pressure on an already competitive industry.

- **Growth via acquisition has resulted in goodwill-heavy balance sheets.** On average, intangible assets account for 40% of total assets. Ex-these, net tangible assets are negative for each of the five holding companies. Goodwill impairment is a risk.

- **A focus on revenue is reflected in remuneration structures.** Only two of the five holding companies have a clear quantitative link between sustainability and executive compensation. In neither case is the amount material. None link to the environmental performance of their clients.

- **As a service industry, staff dominate the cost base.** For the five listed holding companies, staff costs account for an average 63% of total costs. Staff churn caused by negative reaction to environmentally damaging clients would have a material impact on revenue, costs and profitability.

- **Ownership and financing is concentrated.** The top 10 debt providers account for more than half of total borrowings. The top 10 equity owners on average own 43% of each Holding Company.

INVESTOR CALL TO ACTION

The five listed advertising Holding Companies have a combined market value of USD 74 billion[5]. These five and their sub-agencies dominate big brand non-digital advertising. Ownership is concentrated with the top 10 investors on average owning 43%.

Active investors account for five of the top 10 owners. These and the financiers, who are lending USD 30 billion against negative net tangible assets (see Figure 25), are in a strong position to drive positive change.

In Planet Tracker' s view, these owners and financiers should:

- **Reassess their investment strategies with regard to Holding Companies' support for carbon-intensive clients.** Our work shows issues across a range of globally relevant sectors (e.g. plastics, automotive, fast fashion, IT, food & beverage).
- Encourage the advertising Holding Companies to transition from "changing client attitudes from within" to **refusing to work for environmentally harmful** clients.
- **Join the dots between advertising campaign activity at the agency** level and the risk at the parent advertising **Holding Company** level.
- Encourage agencies to **actively work to transition their clients** to sustainable business models.
- Press agencies **to comply with guidance on Client Disclosure Reports or Advertised Emissions** as recommended by Race to Zero.[xii]
- **Introduce scorecards** that reflect agency client footprint profiles and link revenue generation to **environmental impact** - e.g. comparative environmental ROI scores.
- **Ask why executive compensation has little or no sustainability component.** Currently, Holding Company CEOs have an incentive to maximise revenues, even if this means promoting unsustainable products or services and no or negligible KPIs linked to external ESG outcomes.
- **Fully understand the material financial implications of client and employee dissatisfaction.** If clients wish to disassociate themselves from those agencies with the largest environmental footprints, the revenue implications are obvious. If employees become discontented, that 60% plus of their cost base at risk. But it could also call into question the vast amounts of goodwill on these companies balance sheets, in turn leading to possible write-offs in the P&L and affecting asset coverage of debt liabilities.

5 Calculated as of close of business 26th of January 2024.

OVERVIEW OF THE ADVERTISING INDUSTRY

According to Group M, a WPP company and arguably the world's largest media agency, the global advertising industry was worth about USD 821 billion in 2022[6], or USD 808 billion, excluding US political advertising. This represents growth of 6.5% in 2022 and follows a stronger than anticipated post-Covid recovery in 2021 when advertising spend increased by 24%. Based on its mid-year 2023 forecast Group M expects advertising growth of 5.9% in 2023.

Growth remains heavily skewed towards digital (which following growth of 32% in 2021, grew by a further 9% in 2022). In contrast, non-digital grew by 13% in 2021 followed by growth of just 1% in 2022. This is a continuation of a long-running trend of digital growing much faster than non-digital.

Since 2014, global advertising revenue has grown by a cumulative 88% (CAGR of 8%), over three times faster than global GDP, which expanded by 26% over the same period. On the face of it advertising is a growth industry. Digging deeper into the statistics, it is clear that digital advertising is indeed a fast-growing industry but that the rest of the industry has been static or shrinking. The trends are illustrated in Figure 7.

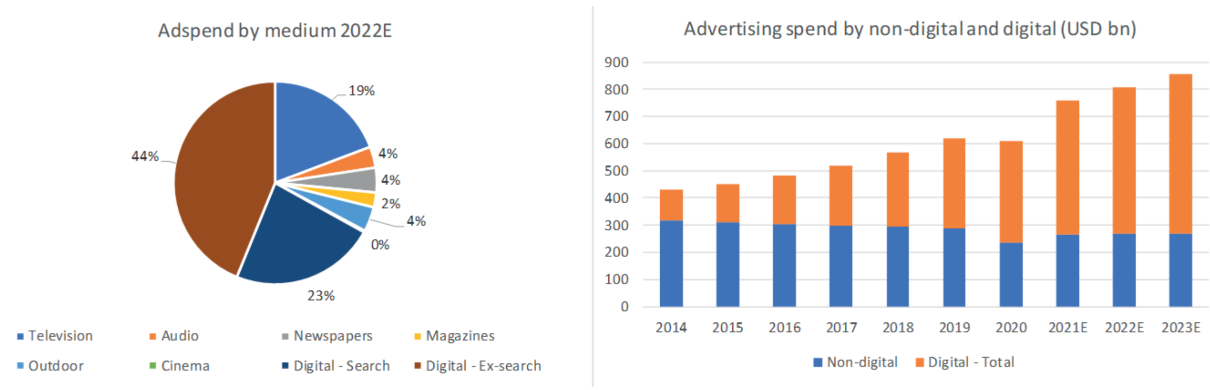

***Figure 7:** Advertising spend by medium 2022 Estimated.*[xiii]

Television has been stable but note that the Group M data is nominal, i.e. not adjusted for inflation. In real terms, television advertising has been shrinking over time. Overall, digital has grown by a cumulative 377% since 2014 (i.e. nearly fivefold) and non-digital has shrunk by 16% - see Figure 8.

6 Source: Group M Global End-of-Year forecast December 2022

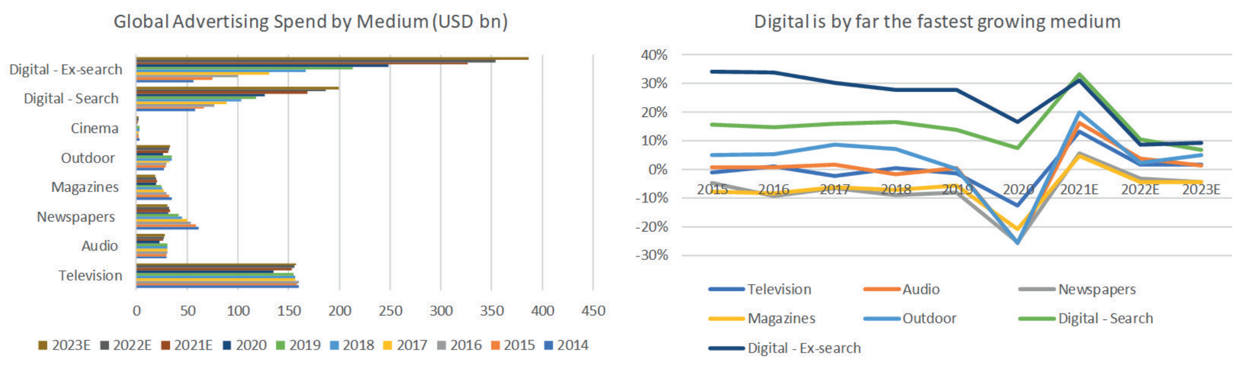

Figure 8: *Global Ad spend by medium*[xiv]

Identifying the Market Players

The advertising agency world splits broadly into two segments: traditional and digital. Within the traditional space, the large global Holding Companies dominate followed by a very long tail of smaller, private companies; the 'independents'.

Sitting at the very top of the industry pyramid are six major established international groups - WPP, Omnicom, Publicis Groupe, Interpublic, Havas and Dentsu.

The scale of these advertising Holding Companies is demonstrated by their extensive ownership of agencies across the commercial communications spectrum and across the globe. Many of the agencies in their networks are global brands in their own right. A complete list of agencies in the Big 6 advertising Holding Companies can be found here:

WPP	Agencies in the WPP Network
OmnicomGroup	Agencies in the Omnicom Network
IPG	Agencies in the Interpublic Group Network
PUBLICIS GROUPE	Agencies in the Publicis Groupe Network
dentsu	Agencies in the Dentsu Network
havas	Agencies in the Havas Group Network

Figure 9: *Advertising Holding Company agency networks. (Source: Winmo.com)*

Five of these six holding companies – WPP, Omnicom, Publicis, Interpublic and Dentsu - are publicly listed companies. Their listed status brings them into the spotlight and creates wider ownership and greater accountability. The other, Havas, is the advertising arm of Vivendi, a listed French mass media holding company. As mentioned above, Vivendi may decide to float Havas as a listed company in the near future.

Generally, the Holding Company does not involve itself too much in day-to-day advertising business but works with its subsidiary businesses to encourage intra-group synergy and to develop commercial and acquisition strategy.

The 'Big 6', who combined account for about 10% of the global advertising market, all have active acquisition policies and buy a steady stream of small agencies, particularly if they are active in areas where the acquirer is under-represented. There is very little information available on the small, private agencies as they tend not to release financials.

The origins of the 'Big 6' are in the non-digital space, although they are increasingly adding this capability via acquisitions. There is no escaping, however, that they have been losing overall advertising market share to the 'newer' digital advertising service providers.

While they are not financially stressed (low leverage/decent margins and returns/still reporting topline growth) they are generally growing at a more modest rate than the overall market. And continued delivery of this growth is the key focus of management, as reflected in remuneration/incentive structures linked to advertising return on investment (incremental client sales/cost of campaign). **This emphasis on growth carries heightened risk of 'revenue over appropriateness'.**

The other main players are the newer digital advertising service providers. These are growing fast, with digital ad spend already accounting for over two thirds of total ad spend.

Figure 10 below shows how these more recent players have developed substantial revenues which will undoubtedly have contributed to the slower growth of the 'Big 6'.

These providers include Accenture Interactive, Deloitte Digital, PWC digital Services, IMB iX (with revenues of USD 10.3 billion, USD 7.9 billion, USD 6.7 billion, USD 5.6 billion respectively).[xv]

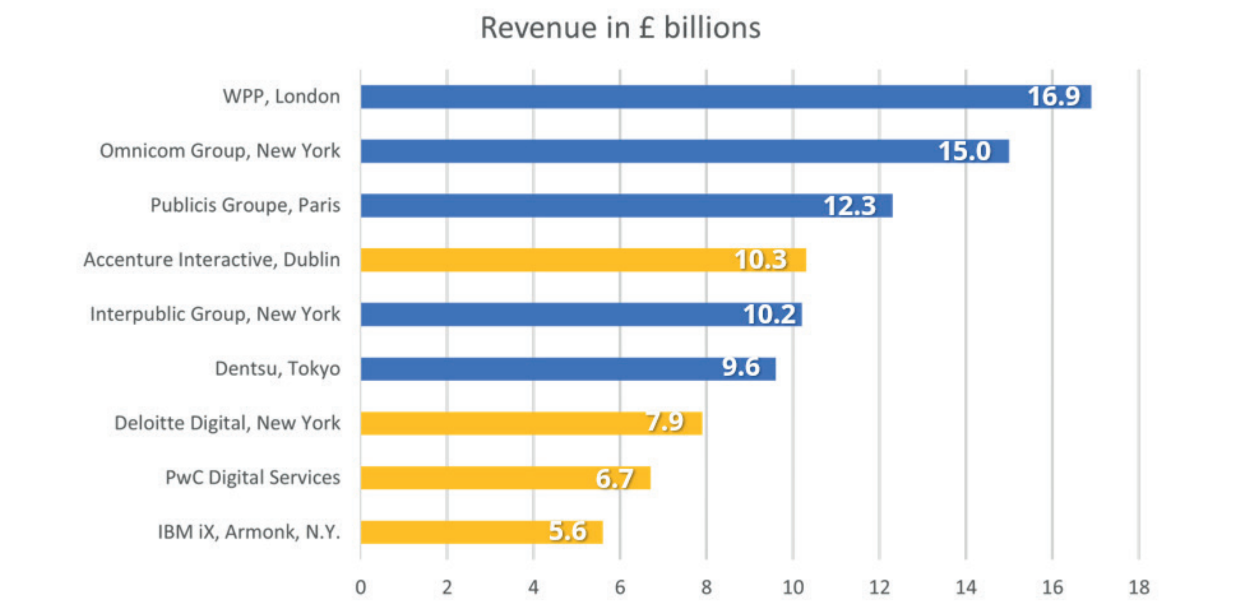

Figure 10: *Leading advertising agency groups worldwide in 2022 by revenue*[xvi]

This presents a further reason why investors in the 'Big 6' should be concerned about future financial performance and be pressing the Holding Companies to ensure that their client portfolios are based not just on short term profits but are sensitive to external ESG factors and robust enough to adapt to changing trends.

While the digital space is dominated by private companies, **the traditional space is dominated by the large Holding Companies.** As **listed companies**, disclosure levels are necessarily higher, and they **become a logical point where financial influence can be brought to bear.**

EXPOSING CORPORATE ADVERTISING COMPLEXITY

Companies often have complex multi-agency relationships. These relationships can be with different agencies within the same Holding Company group, say for different services, or with agencies in different holding company groups, say for campaigns in different geographies.

Microsoft is a good example: for the three campaigns that we have reviewed, McCann (part of IPG) is the sub-agency for one, EP+Co (part of Dentsu) the sub-agency for another and WPP the agency for the third. This web of relationships makes applying 'pressure' in support of positive change challenging.

We have attempted to simplify the situation by identifying the main advertising Holding Company for the 39 companies in our universe.

The results are shown in Figure 11. This linkage then enables further analysis, including the attribution of environmental footprints both at the advertising holding company level (see Figures 3 - 5) and in terms of the shareholders and financers of the advertising Holding Companies (see Figure 6).

LISTED					UNLISTED	
Publicis	Omnicom	Dentsu	WPP	IPG	Havas	Independent
LVMH	Apple	Hitachi	Alphabet	Microsoft	Shell	Inditex
Samsung	Sony	Toyota	Dell	AB InBev	Danone	Hennes & Mauritz
Nestle	PepsiCo	BMW	Sony	General Motors		Hyundai
Kellogg	Volkswagen	Chevron	Tyson Foods	Exxon Mobil		
Toyota	Daimler		Coca-Cola	Saudi Aramco		
Fiat Chrysler	Honda		Kraft Heinz Company	Unilever		
TotalEnergies	Nissan		General Mills			
Procter & Gamble	Exxon Mobil		Ford			
Mondelez Int'l			Shell			
			BP			
			Chevron			
			Unilever			
			Colgate-Palmolive			

Figure 11: *The main advertising holding company for the 39 companies in our universe. (Source: Planet Tracker).*

For 29 of the 39 companies, we have identified a single listed advertising Holding Company as the main link. This simplification serves to illustrate the linkage between clients' environmental footprints & the advertising Holding Companies. It should not, however, be overlooked that, especially where oil & gas and automotive companies are concerned, companies are serviced by many more than just the 'main' advertising Holding Company.

For six client companies, Sony, Toyota and Unilever in the non-oil categories and ExxonMobil, Shell and Chevron in the oil category, we have split the relationship between two Holding Companies. We have also equally split the linkage when looking at environmental footprints. The remaining four are spread across Havas (part of Vivendi and not listed as a Holding Company in its own right) and independent agencies. These independents are notably active in the 'fast' fashion space.

ATTRIBUTING FOOTPRINTS - GHG, WATER AND WASTE

The leading client companies all have significant environmental footprints and, at the same time, as we show in this report, exhibit instances of advertising which ignore the impact which the company has on the environment.

For each advertising Holding Company, it is possible, based on the footprints of its clients, (excluding Scope 3), to calculate its attributable environmental footprint (GHG, water and waste).

For example, for Dentsu we calculate its water footprint, related to its clients covered in this report, at 73 million m^3 based on the sum of Hitachi (28 million m^3), Toyota (half of 355k m^3 as we split Toyota's footprint between two holding companies), BMW (647k m^3) and Chevron (half of 87 million m^3).

Based on the 39 companies covered in this report we have calculated the GHG, waste and water footprints of the advertising Holding Companies. The results are summarised in Figures 12 - 14. We present this on both an excluding and including oil/gas company advertising basis, given that the oil/gas companies' high emissions and pollution figures affect the outcomes, particularly for GHG and water.

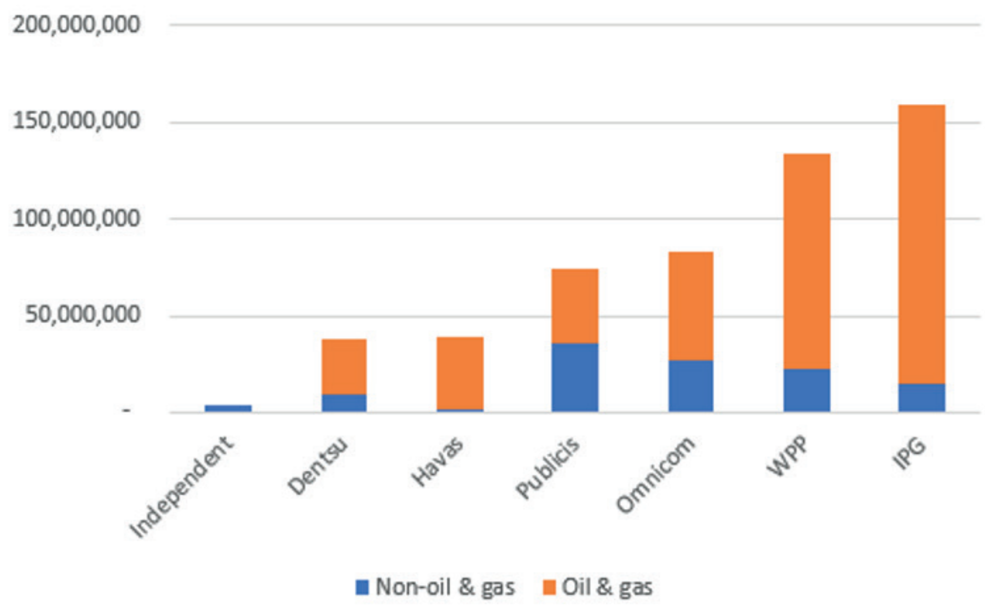

Figure 12: *GHG CO_2e (T) footprint by advertising Holding Company based on attribution analysis of 39 companies covered in this report. (Source: Planet Tracker, Trucost).*

The combined GHG CO_2e footprint of the five publicly listed advertising Holding Companies based on just the 39 companies identified in this report is 530 million tonnes per annum. This is larger than the GHG footprint of the UK (427 million tonnes per annum in 2021[xvii]). Excluding the five oil companies in this analysis, the combined GHG on a CO_2e basis drops to 115m tonnes.

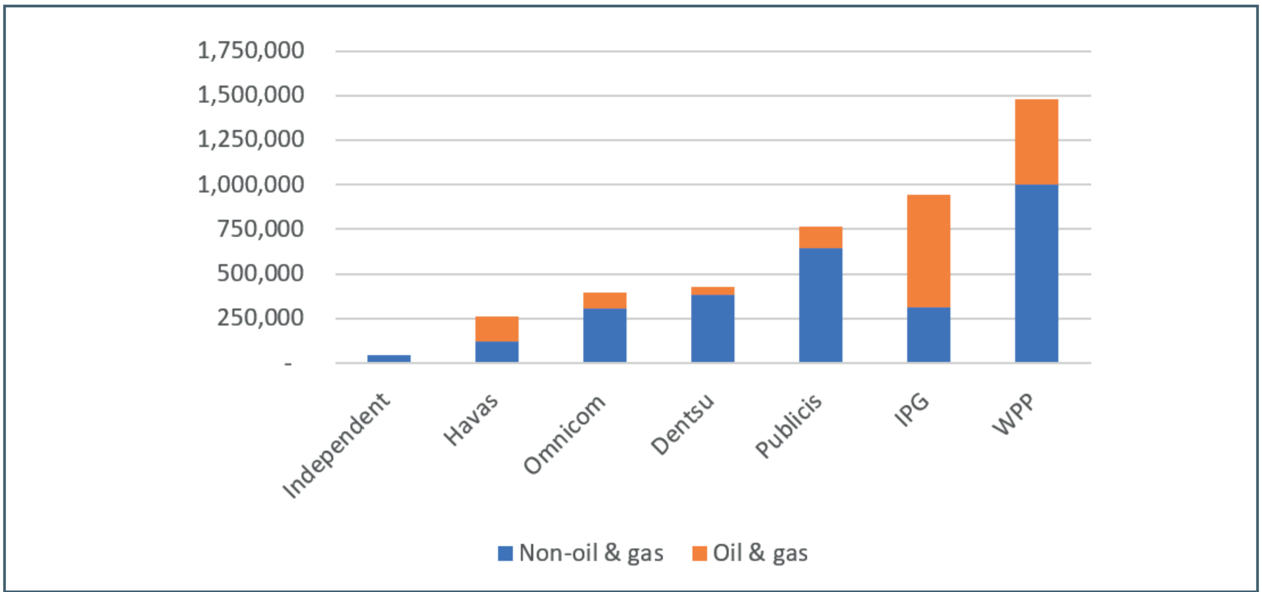

Figure 13: *Waste (Tonnes) footprint by advertising Holding Company based onattribution analysis of 39 companies covered in this report. (Source: Planet Tracker, Trucost).*

When it comes to oil-linked footprints, Interpublic (IPG), with ExxonMobil and SaudiAramco as clients, tops the bill, closely followed by WPP. On an all-in basis WPP, with the most clients in our universe, ranks either first or second depending on the environmental impact metric. In contrast Dentsu, with the least clients and an attributed half share in only one of the six oil company clients in our analysis, has the lowest footprint.

On this basis, the owners (shareholders) and funders (financiers) of IPG and WPP should be more concerned than those of Dentsu. That said, the commonality of ownership and funding is high.

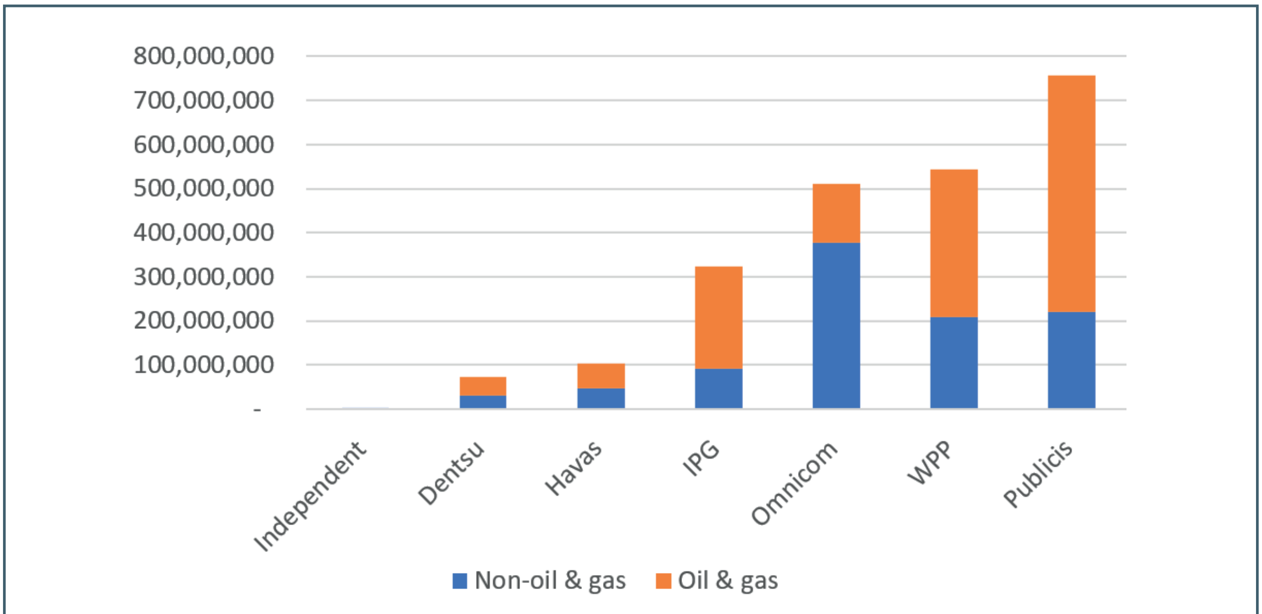

Figure 14: *Water (m^3) footprint by advertising holding company based on attribution analysis of 39 companies covered in this report. Source: Planet Tracker, Trucost).*

LINKING INVESTORS TO ADVERTISING HOLDING COMPANIES

The shareholders of the publicly listed advertising Holding Companies (Publicis, Dentsu, Interpublic, Omnicom and WPP) are in a strong position to influence corporate policy and to benefit from positive action. Conversely, they are also exposed to risk from negative events. Figure 15 shows the top 10 shareholders for each Holding Company.

Publicis		Dentsu		Interpublic		Omnicom		WPP	
Capital Group Companies Inc	15%	Gen Inc Assoc Kyodo News	8%	Vanguard Group Inc	14%	Vanguard Group Inc	14%	BlackRock Inc	14%
BlackRock Inc	6%	Nomura Holdings Inc	7%	BlackRock Inc	12%	BlackRock Inc	11%	Silchester Partners Ltd	6%
Badinter (Elisabeth)	5%	Silchester Partners Ltd	7%	State Street Corp	7%	State Street Corp	7%	Wellington Management Group LLP	6%
Parvus Asset Management Europe Ltd	3%	Jiji Press Ltd	7%	Bank of America Corp	5%	FIL Ltd	4%	Vanguard Group Inc	4%
Vanguard Group Inc	3%	BlackRock Inc	4%	Bpce SA	5%	Wellington Management Group LLP	3%	Bpce SA	4%
Bpce SA	2%	Mizuho Financial Group Inc	4%	FMR LLC	5%	Charles Schwab Corp	3%	T Rowe Price Group Inc	3%
Credit Agricole SA	2%	Sumitomo Mitsui Trust Holdings Inc	3%	Invesco Ltd	3%	Beutel Goodman & Company Ltd	3%	Schroders PLC	2%
Levy (Maurice)	2%	Daiwa Securities Group Inc	3%	Grace Partners of Dupage LP	3%	Geode Capital Holdings LLC	3%	Norway, Kingdom Of (Government)	2%
Wellington Management Group LLP	1%	Sumitomo Mitsui Financial Group Inc	3%	Charles Schwab Corp	3%	Sun Life Financial Inc	3%	Jupiter Fund Management PLC	2%
BNP Paribas SA	1%	Sumitomo Mitsui Trust Holdings Inc	3%	Bank of New York Mellon Corp	3%	ORIX Corp	2%	Credit Agricole SA	1%
Top 10	**7.973**	Top 10	**3.838**	Top 10	**7.359**	Top 10	**8.392**	Top 10	**4.460**
Total market cap	19.662	Total market cap	7.861	Total market cap	12.437	Total market cap	15.667	Total market cap	10.240
Top 10 / total	**41%**		**49%**		**59%**		**54%**		**44%**

Figure 15: *top 10 shareholders for each Holding Company.*
(Source: Planet Tracker, Refinitiv)[7]

Investment by the top 10 overall investors totals USD 24 billion. Looking at the separate top 10 for each of the Holding Companies, the combined total increases to USD 32 billion. This accounts for 43% of combined market capitalisation; a concentrated level of ownership and influence.

With a risk exposure mindset, we have applied a 'planetary impact lens' to the shareholders of the advertising Holding Companies; using the level of ownership in each Holding Company to create an attributable share of 'advised carbon footprint' for each investor, both at the individual holding company level and in totality across the five listed advertising Holding Companies.

Using Invesco as an illustrative example, this active investment manager has USD 843 million invested across the five advertising Holding Companies, which ranks it as the 13th largest investor on a combined basis. Its investments consist of a 2.88% stake in Interpublic Group, a 1.33% stake in Dentsu, a 1.22% stake in Omnicom, a 0.92% stake in Publicis Groupe and a 0.08% stake in WPP.

These ownership stakes gives us a ratio on which to attribute the five companies underlying environmental footprints.

The net result combined is a GHG CO_2e footprint of 6.9 mT (4.6 mT, 0.5 mT, 1.0 mT, 0.7 mT, and 0.1 mT respectively), which ranks it 13th overall. This coincidentally is the same ranking as on an investment level, with the lower level of investment in WPP offset by a larger level of investment in Interpublic; the two top oil company exposed holding companies (see Figure 10 in the previous section).

7 Market Capitalisation calculated as of close of business 26th of January 2024.

With all the holding companies having oil & gas majors as clients, this commonality of investment and environmental footprint ranking largely holds true across the top 10 – see Figure 16.

Rank	Investment Manager by AuM (US$)	GHG footprint (T)	GHG ex Oil footprint (T)	Waste footprint (T)	Water footprint (m^3)
1	BlackRock	BlackRock	BlackRock	BlackRock	BlackRock
2	Vanguard Group	Vanguard Group	Vanguard Group	Vanguard Group	Vanguard Group
3	Capital Group	Capital Group	Capital Group	Capital Group	Capital Group
4	State Street	State Street	State Street	Silchester Partners	State Street
5	Bpce	Bpce	Bpce	Bpce	Wellington Management
6	Wellington Management	Wellington Management	Wellington Management	Wellington Management	Bpce
7	Silchester Partners	Silchester Partners	Badinter (Elisabeth)	State Street	Badinter (Elisabeth)
8	Credit Agricole	FMR	Credit Agricole	Credit Agricole	Silchester Partners
9	Badinter (Elisabeth)	Bank of America	Geode Capital	FMR	Credit Agricole
10	Geode Capital	Credit Agricole	Charles Schwab	Geode Capital	Geode Capital

***Figure 16**: Top10 investment managers, by assets under management (AuM) and attributable environmental footprints of the listed advertising holding companies. (Source: Planet Tracker).*

In addition **to having a combined investment of USD 24 billion, the top 10 overall investors have a combined** (39 companies across 5 advertising Holding Companies) **annual attributable GHG CO_2e related footprint of 194 mT per annum, a waste-related footprint of 1.5 mT and a water usage of 845 million m^3.** These are substantial amounts.

In Figure 16 we show the largest investors ranked by total assets under management and by environmental footprint (GHG, water or waste). It would be reasonable to expect the largest global asset managers to appear in this list as they are simply investing in line with their total investable assets. However, what is interesting is where smaller asset managers appear in this top 10 ranking, implying they have significant over-exposure to the Ad Agency Holding Companies (e.g. BPCE, Geode Capital, and Silchester Partners).

On the 'active' front - those investors that 'choose to own' rather than 'passively own' - amongst the top 10 the following all feature heavily:

- Capital Group
- Wellington
- Silchester Partners
- Bpce
- FMR
- Credit Agricole

Further details of investors in the Holding Companies can be found in Appendix 1.

ARE INVESTORS LOOKING THE WRONG WAY?

Planet Tracker believes it is possible that investors who wish to avoid industries with 'dirty links', could be attracted to advertising companies because of a reliance on ESG scores, which will value only the environmental metrics of the agency itself, not its client exposure.

These ESG scores typically focus on the footprint of the firm which has a low direct footprint. Office and travel make up a significant part of this footprint. Both are quantifiable and have mitigation strategies, including offsets, available. The net result, as shown in Figure 17, is good Refinitiv ESG scores for the Advertising Holding Companies.

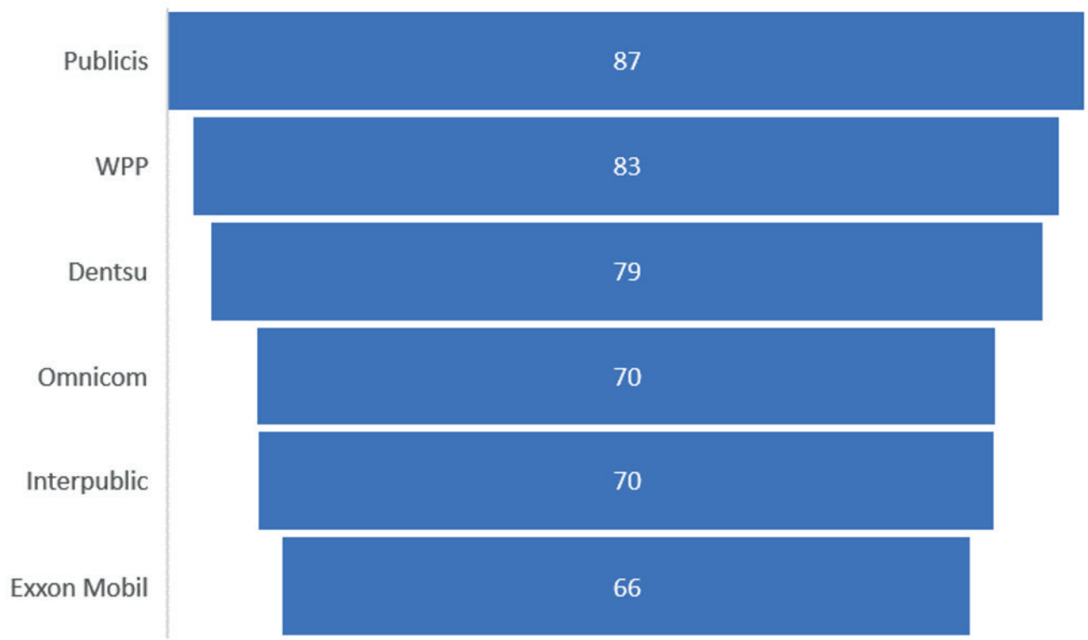

***Figure 17**: Most recent ESG scores (Source: Refinitiv); Scale of 0-100, where 0 is the worst and 100 is best. Higher ratings are designed to indicate stronger ESG performance and lower ESG risk.*

The scores of Publicis, WPP and Dentsu, at above 75%, place them in the fourth (top) quartile and equate to an 'A' (good) rating.

According to London Stock Exchange Group "a score within this range indicates excellent relative ESG performance and high degree of transparency in reporting material ESG data publicly[8]". Omnicom and Interpublic are in the third quartile; still a solid result with scores equating to a 'B' rating. As shown in Figure 18, these ratings are fairly stable.

8 ESG Scores | LSEG

	FY0	FY-1	FY-2	FY-3	FY-4
Publicist	A-	A	A	A-	A
WPP	A-	A-	A-	A-	A-
Dentsu	A-	A-	A-	A-	A-
Omnicom	B+	B+	B+	B+	B
Interpublic	B+	B+	B	B+	B

***Figure 18:** ESG timeline scores in alpha-rating terms (Source: Refinitiv)*

Many agencies rely on the industry's own initiatives, such as Ad Net Zero,[iii] the advertising industry's drive to decarbonise the production, distribution and publication of advertising, to present an environmentally-concerned face to the world, but this only applies to the 'internal' environmental footprint of the companies.

However, as we demonstrate in this report, it is not just the internal footprint that they 'create' that needs to be considered, but the much larger footprint that they support, based on the clients they choose to work with.

The widespread continued promotion of big oil, as covered on page 26, is a blatant example. This would be the 'Scope 3' type of assessment that industrial firms are being required to assess in their extended supply chains.

Following this through, a worrying conclusion is the possibility that these 'positive ESG scores' result in the Advertising Holding companies being included in ESG funds. While it is to be hoped that additional screens and a more thorough review of underlying dynamics would ensure that this wasn't the case, we are concerned that investors may be 'looking the wrong way'.

Clearer measurement and reporting by agencies regarding their clients' environmental footprint scores are crucial to enable investors to make more informed decisions.

This is not just a 'nice to have' option - most large businesses already require their agencies to be a signatory to the United Nations-backed Race to Zero[9] campaign, but two of the large Holding Companies are not members (IPG and Omnicom) and as yet there is no obligation to comply with the Race to Zero guidance on Advertised Emissions or Client Disclosure Reports, although that is currently under review.

They are very similar concepts - reporting companies, advertisers and agencies, like financial institutions - have influence over the emissions that result from their decisions and therefore a choice between more emissions or less emissions.

The concept of Advertised Emissions is an effective approach for advertising and public relations firms. Advertised Emissions are the greenhouse gas emissions that result from the uplift in sales generated by advertising. Asking holding companies to calculate and publish their Advertised Emissions reveals the climate impact of the incremental consumption they have generated on behalf of their clients. The more carbon intensive their clients, the higher a Holding Company's Advertised Emissions will be. Dentsu[xviii] has already calculated their Advertised Emissions as part of their 2023 TCFD report and the Publicis Groupe Board has been served a letter by a group of investors asking what efforts are underway to measure and reduce their Advertised Emissions.

9 Race to Zero is a global campaign to rally leadership and support from businesses, cities, regions and investors for a healthy, resilient, zero-carbon recovery that prevents future threats, creates decent jobs and unlocks inclusive, sustainable growth.

The Race to Zero sees a strong parallel between Advertised Emissions and Financed Emissions. Leading banks such as HSBC,[xix] NatWest,[xx] Barclays,[xxi] and Dansk Bank[xxii] are choosing not to invest in new oil and gas projects as a means to reduce their Financed Emissions.

Talking of why Advertised Emissions is an effective approach to adopt, Race to Zero says: "Agencies should choose not to advertise certain products in the same way that financial institutions can choose not to invest in certain industries".[xxiii]

The Client Disclosure Reports, for instance, require PR & Advertising agencies to disclose their revenue by client industry. The purpose of these disclosures is to build transparency in 'true' Scope 3 for an industry whose product is mainly intangible.

There's a real risk for agencies here as the Race to Zero campaign is currently reviewing the guidance and is likely to increase requirements. If these two initiatives move from guidance and into criteria, then most agencies will be non-compliant with Race to Zero and will risk their inclusion in pitches for new clients.

OIL & GAS – A WORRYING PRECEDENT

For some time, the provision of services to oil & gas companies by advertising agencies has received attention and prompted questions. Looking at oil & gas companies, out of the six oil majors covered in this report, WPP has the greatest exposure; it acts for the equivalent of two of the six oil companies, BP, Shell and Chevron. Interpublic ranks second with an equivalent exposure to Saudi Aramco, through McCann and Well7 and ExxonMobil.

Omnicom also counts ExxonMobil as a client, Dentsu has Chevron and Publicis is the main agency for TotalEnergies. According to NGO Clean Creatives,[xxiv] a total of 293 agencies are actively working for oil & gas companies including all the major Holding Companies.

Of the top 40 investors by amount invested across the five listed advertising Holding Companies, 21 appear to exercise no discrimination on the nature of the Holding Companies' clients and own all five Holding Companies – see Figure 19.

INVESTOR	Publicis	Dentsu	Interpublic	Omnicom	WPP	TOTAL OWNED
BlackRock Inc	x	x	x	x	x	5
Vanguard Group Inc	x	x	x	x	x	5
State Street Corp	x	x	x	x	x	5
Bpce SA	x	x	x	x	x	5
Credit Agricole SA	x	x	x	x	x	5
Geode Capital Holdings LLC	x	x	x	x	x	5
Charles Schwab Corp	x	x	x	x	x	5
Nomura Holdings Inc	x	x	x	x	x	5
Invesco Ltd	x	x	x	x	x	5
Bank of New York Mellon Corp	x	x	x	x	x	5
Dimensional Holding Inc	x	x	x	x	x	5
Goldman Sachs Group Inc	x	x	x	x	x	5
T Rowe Price Group Inc	x	x	x	x	x	5
Schroders PLC	x	x	x	x	x	5
UBS Group AG	x	x	x	x	x	5
Morgan Stanley	x	x	x	x	x	5
Northern Trust Corp	x	x	x	x	x	5
TIAA Board of Governors	x	x	x	x	x	5
BNP Paribas SA	x	x	x	x	x	5
Norway, Kingdom Of (Government)	x	x	x	x	x	5
Legal & General Group PLC	x	x	x	x	x	5
Capital Group Companies Inc	x		x	x	x	4
Wellington Management Group LLP	x		x	x	x	4
FIL Ltd	x	x		x	x	4
FMR LLC		x	x	x	x	4
ORIX Corp	x		x	x	x	4
Sun Life Financial Inc		x	x	x	x	4
Lazard Ltd	x	x		x	x	4
Grace Partners of Dupage LP		x	x	x		3
Fiduciary Management Inc			x	x	x	3
Silchester Partners Ltd		x			x	2
Beutel Goodman & Company Ltd			x	x		2
Bank of America Corp			x	x		2
General Incorporated Association Kyodo News	x	x				2
Citadel LP			x	x		2
Mizuho Financial Group Inc		x			x	2
Badinter (Elisabeth)	x					1
Parvus Asset Management Europe Ltd	x					1
Jiji Press Ltd		x				1
Black Creek Investment Management Inc			x			1
TOTAL OWNED	29	30	32	33	31	155

Figure 19*: Investors, ranked by number of investments out of a possible maximum of the five holding companies. (Source: Planet Tracker).*

As a further illustration of the degree of ownership commonality and investor concentration, each advertising Holding Company is owned by at least 29 of the top 40 investors and on average by 31 out of the top 40 investors, an average ownership rate of over three quarters.

Greenwashing is a common risk

In multiple industries, such as oil & gas, automotive, fashion or plastic, companies employ advertising agencies to present their best face to the public while ignoring the harsh reality. This comes in many forms – promoting a greener future through renewable energy while still being committed to the long term extraction of fossil fuels; showcasing electric automotive technology while still profiting from fossil fuel-thirsty SUVs; creating demand for low-cost fast fashion without making clear the environmental and human harms which occur in the upstream manufacturing process; trumpeting the advantages of plastic, when the waste has become unmanageable, impacting landscapes, the oceans and potentially human and animal health.

Increasingly, these activities are being widely perceived as potential greenwashing (or any of the variations commonly found)[10].

Although the focus of this report is on the financial performance of the Advertising Holding Companies and the implications for investors, across all six sectors, it became apparent that there is a wealth of advertising which, in Planet Tracker's opinion, could be interpreted as misleading or potentially greenwashing[11] – the oil & gas and automotive industries are good examples as they stress the 'green' aspects of their work while often ignoring the environmental damage their core activities create. Planet Tracker classifies this type of strategy as 'greenlighting'. TotalEnergies' 'The Roads to Carbon Neutral'[xxv] campaign is a good example as the vision of a future powered by low or no carbon energy omits to mention that the company is committed to fossil fuel extraction for the foreseeable future.

Greenwashing is to some extent subjective, but it has been growing increasingly sophisticated and the reputational damage it can cause is becoming better understood. Investors should be aware of the potential risks to their investments arising from reputational damage.

10 See 'The Greenwashing Hydra', Planet Tracker 2023

11 Greenwashing is defined as behaviour or activities that make people believe that a company is doing more to protect the environment than it really is (see Planet Tracker's report The Greenwashing Hydra)

FINANCIAL & REPUTATIONAL RISK

Two diagrams in Publicis' Universal Registration Document (URD) paint a very clear picture of how investors and financiers should think about risk at the advertising Holding Companies.

The first is Publicis' dual optic materiality analysis: one from the impact on stakeholders and one from the impact on the company. From the stakeholder perspective, 'Responsible Marketing' tops the bill. It also ranks in the top 5 from a company perspective – see Figure 20.

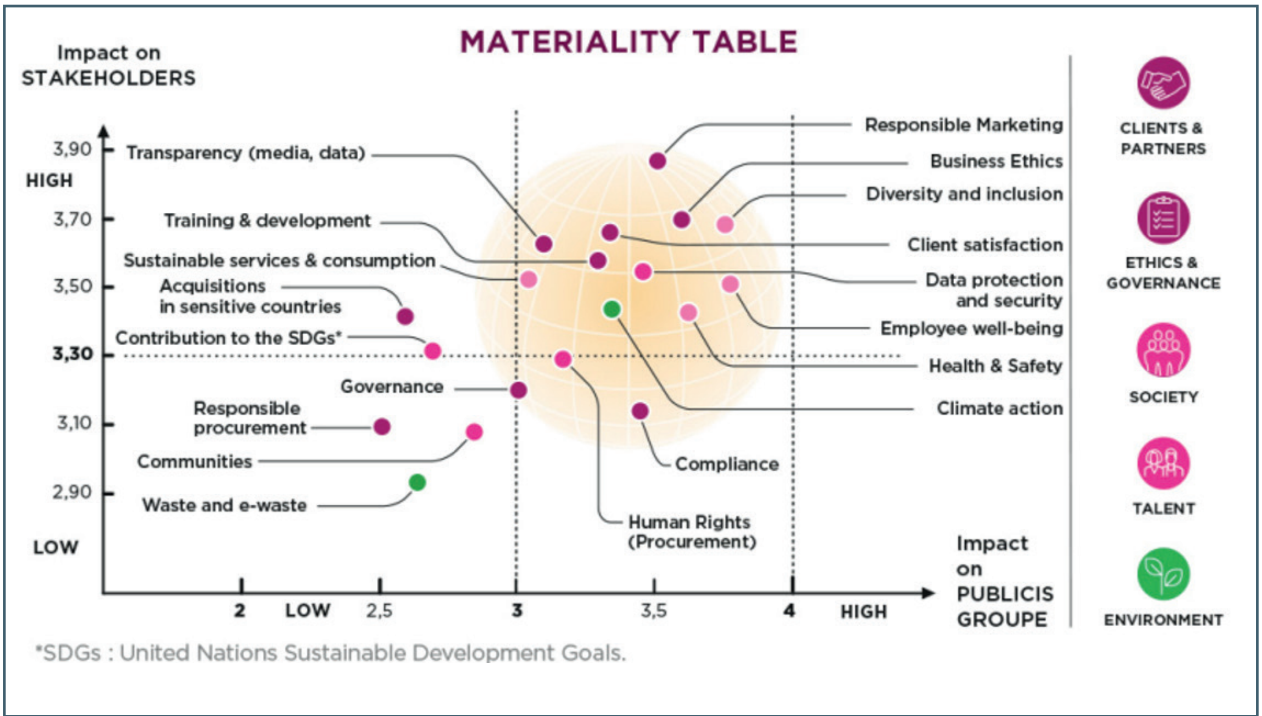

***Figure 20:** Publicis' materiality table*[xxvi]

The second identifies the various stakeholders – see Figure 21. Based on related URD narrative the 'main' stakeholders are 'Clients, Talents and Investors'.

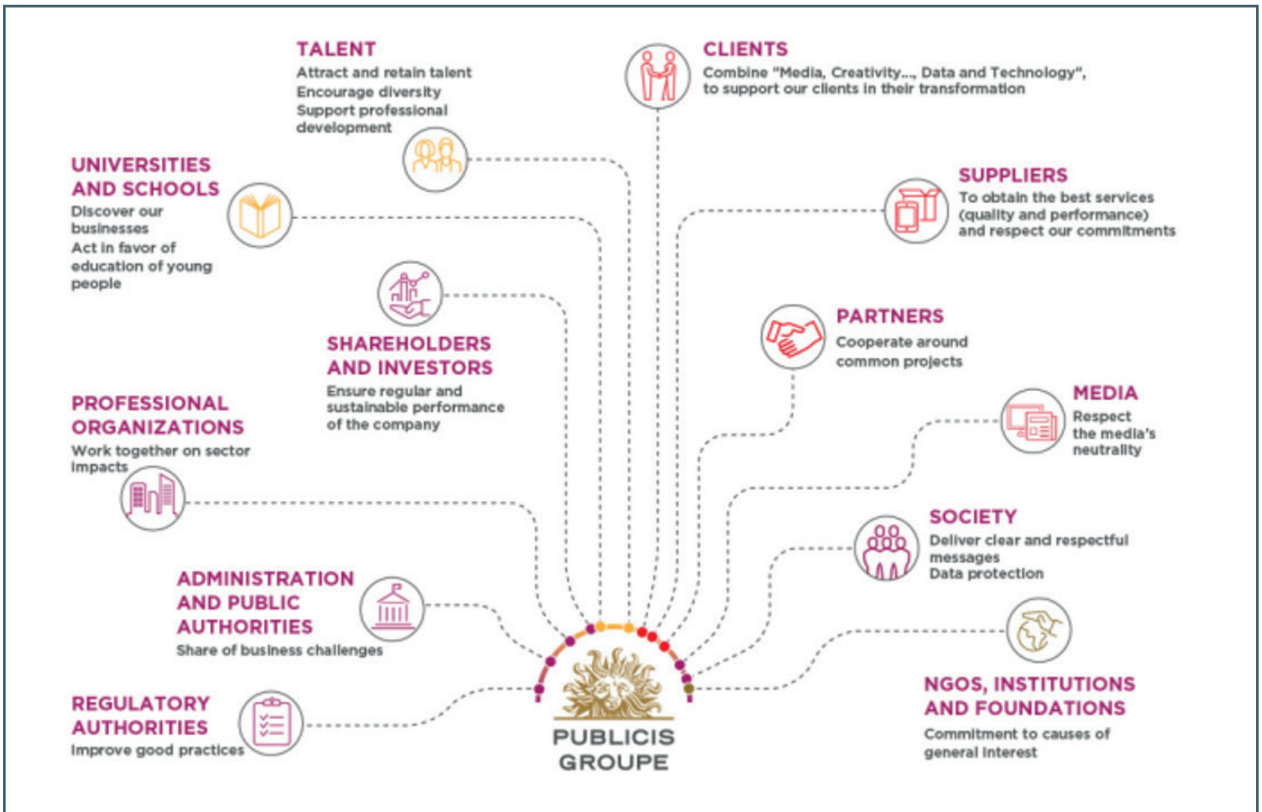

Figure 21: *Publicis' stakeholders*[xxvii]

The section below expands on the responsible marketing-linked risks associated with each stakeholder ('Clients', 'Talents' and 'Investors' – although we widen 'Investors' to finance in general) and why investors and lenders need to be mindful of the overlap between financial and reputational risks. It will become evident to readers that Ad Holding Companies' exposure to clients which have a high environmental footprint could become a material financial risk.

1) CLIENTS (Revenue) risk analysis

We note that corporates are increasingly aware of the problems of negative association. The dropping of celebrity and sport star 'brand ambassadors' following a scandal is a very clear example of how seriously they view the risks and of how quickly they can act.

In the words of Interpublic, *'increasingly our clients request that we comply with their own social responsibility, sustainability or other business policies or standards, which may be more restrictive than current laws and regulations, before they commence, or continue, doing business with us'.*[xxviii]

If a company's current advertising agency, or indeed a company that is part of the same network, is acting inappropriately (this includes supporting industries with a negative impact and creating campaigns with greenwashing elements – two areas that we cover in this report) there is clearly a risk that some of its other corporate clients sever ties and take their business elsewhere.

With plenty of alternatives available (other global advertising conglomerates, independent and in-house agencies) the risk of business/revenue loss is amplified. **So what happens if customers walk because of negative associations/concerns?**

On the plus side, the advertising Holding Companies have a solid track record in cost management. This is reflected in stable margin profiles under varying revenue run rates - as shown in Figure 22.

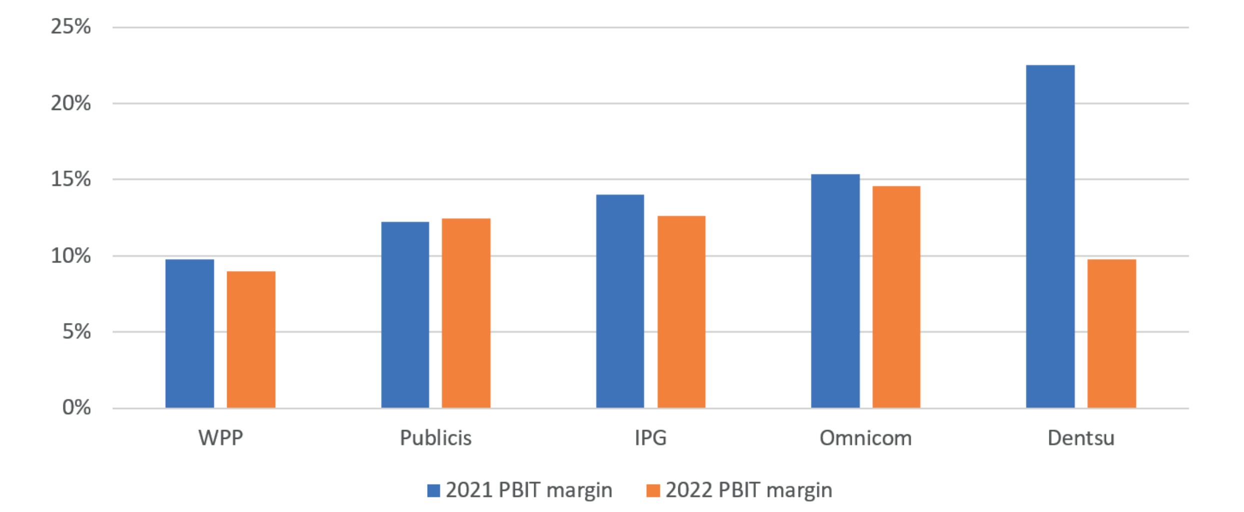

Figure 22: *Stable margins under varying revenue levels...implies lost revenue would have a proportionate negative impact on profitability. Source: (Planet Tracker, company reports).*

While cost reductions help protect margins, the simple conclusion is that lost revenue will often impact the bottom line, as the profit margin on the lost revenue disappears.

Namely, a 10% loss of revenue from 'concern' induced client churn would translate into a 10% drop in profitability. Aside from impacting staff morale (margin management typically means savings through staff reduction need to be made), these numbers are material enough to impact valuations and attract wider stakeholder attention from, for example, investors or other clients.

And while the Holding Companies have significant numbers of clients – for example 3,620 clients account for 92% of Publicis' revenue – they also have a degree of client concentration. Dentsu doesn't provide figures, but the other four do. On average, the top 10 clients typically account for 20% of revenue - see Figure 23. Losing even a few of these clients would have a material impact on financials and credibility.

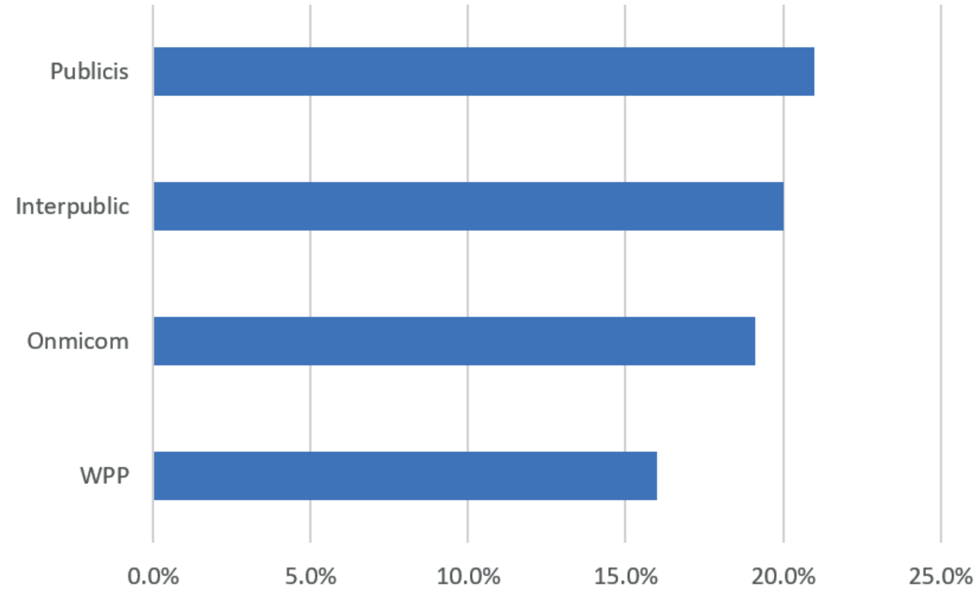

Figure 23: *Top 10 Holding Company clients, share of total revenue. (Source: Planet Tracker, company reports).*

This is at the heart of the dilemma facing the Holding Companies, whose desire to appear to be acting responsibly is in direct contrast to their reluctance to remove clients with poor environmental performance which would significantly impact their revenues.

As a result, despite the upbeat statements contained in their sustainability reports, all the Big 6 Holding Companies continue to work for major oil & gas companies across their creative, media, digital and public relations subsidiary agencies.[xxix]

2) TALENT (Staff) risk analysis

Advertising, or at least the creative element, is a people-led activity. They dominate both revenue generation and costs, accounting on average for 63% of total costs for the five listed advertising Holding Companies – see Figure 24.

In the words of Interpublic 'our employees, *including creative, digital, research, media and account specialists, and their skills and relationships with clients, are among our most valuable assets*'.[xxx] **What happens if employees walk because of negative concerns?**

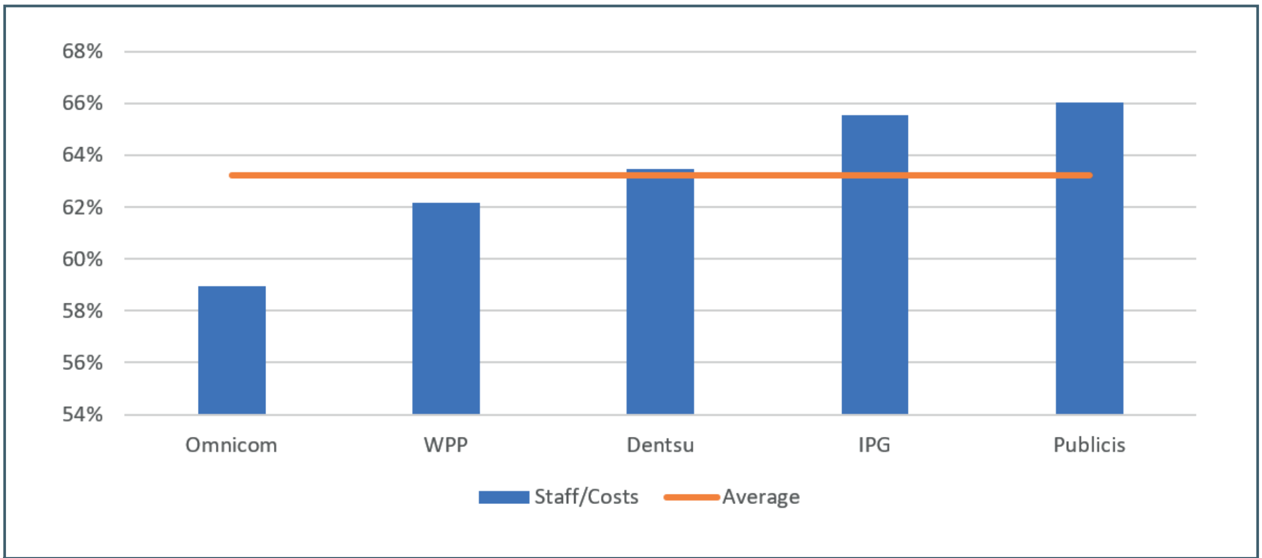

Figure 24: *Staff costs as a percentage of total costs. (Source: Planet Tracker, 2022 company reports)*

Staff churn is a concern for any business, but particularly a skilled people-heavy business. Higher staff turnover drives increased recruitment costs, possible wage inflation and potential periods where staff levels are below required needs. This can have knock on effects on revenue and/or client servicing.

We believe that there is a growing awareness of 'appropriateness' amongst staff in the advertising industry. Importantly, for the advertising holding companies, this awareness extends beyond just the employee's direct subsidiary company. In this regard, 'inappropriate' advertising could lead, in our opinion, to higher risk of staff churn. This is supported by numerous studies showing that workers in general want their employer to be more transparent on sustainability.[xxxi]

To illustrate the potential impact, we have assumed that staff churn results in the following, assuming everything occurs at the start of the year, and all other conditions remain static - see Table 1:

1. 10% of workforce churn in a year, with two-month replacement cycle
   Drop in staff costs related to these churning staff; 10% x 2/12 (event 1)

2. 5% higher wage costs for the replacing and remaining staff
   Increase in staff cost as a result of churn; 5% x 10/12 (event 2)

3. Lost revenue due to lack of staff to provide services
   Drop in sales directly linked to drop in staff levels for two months; 10% x 2/12 (event 3)

Table 1: *Proforma illustrative potential impact of staff churn (Source: Planet Tracker). Numbers rebased to 100, using revenue as the fixing point.*

P&L	Start	Event 1	Event 2	Event 3	Proforma	Change
Revenue	100.0			-1.7	98.3	-2%
Staff cost	-63.2	1.1	-2.6		-64.8	3%
Other cost	-25.1				-25.1	0%
Profit	11.7				8.4	-28%
Margin	12%				9%	

Table 1 uses the average cost (staff and other) and PBIT margin profile (which ranges from 9-15%) for the five listed advertising Holding Companies as a start point. Based on our proforma workings, churn of 10% of the employees would result in a 28% drop in profit; a 2% decline in revenue and a 3% increase in staff costs results in a narrowing of the profit margin from 12% to 9%. These are financially material numbers.

3) FINANCE (BALANCE SHEET) RISK ANALYSIS

We have analysed the balance sheet structure of the five listed advertising Holding Companies to answer the question, **what happens to 'optics' in the event of negative concerns?** With growth via acquisition an important strategy in this sector, it is hardly surprising to find material levels of intangible assets.

These intangibles are shown clearly in Figure 25 and consist principally of goodwill.

2022	Intangible assets	Other assets	Assets	Borrowings	Other liabilities	Liabilities	Net assets
Publicis	14,794	23,710	38,504	3,879	24,329	28,207	10,297
Dentsu	7,312	21,123	28,435	4,046	17,128	21,174	7,260
WPP	11,983	6,282	18,266	6,014	7,219	13,233	5,033
Omnicom	10,048	16,955	27,003	5,594	17,632	23,226	3,776
IPG	5,898	12,947	18,845	2,915	12,224	15,139	3,706

Figure 25: *Balance sheet structure of the five listed advertising holding companies. USD millions converted at end 2022 exchange rate. (Source: Planet Tracker, company reports*

This is a function of acquisition price paid in excess of the carrying value of assets acquired. This is often referred to as the whole company approach to valuing goodwill. This goodwill is compounded by the acquisitive growth favoured by the Holding Companies and relatively low level of tangible assets typically found in advertising companies. The main asset for a service business is people.

To illustrate this, we have reproduced the 'Acquisitions' (note 29) from WPP's 2022 annual report in Figure 26. Acquired net assets are just GBP 23 million, with the biggest number after purchase consideration (GBP 261 million) being goodwill (GBP 249.3 million).

	Book value at acquisition £m	Fair value adjustments £m	Fair value to group £m
Intangible assets	1.2	46.5	47.7
Property, plant and equipment	1.3	-	1.3
Cash and cash equivalents	38.8	-	38.8
Trade receivables due within one year	27.0	-	27.0
Other current assets	13.1	1.1	14.2
Total assets	**81.4**	**47.6**	**129.0**
Current liabilities	(49.4)	(5.3)	(54.7)
Trade and other payables due after one year	(10.3)	(27.3)	(37.6)
Deferred tax liabilities	(0.1)	(12.4)	(12.5)
Long-term lease liabilities	(0.1)		(0.1)
Provisions	(0.1)	(1.2)	(1.3)
Total liabilities	**(60.0)**	**(46.2)**	**(106.2)**
Net assets	**21.4**	**1.4**	**22.8**
Non-controlling interests			(2.1)
Fair value of equity stake in associate undertakings before acquisition of controlling interest			(9.0)
Goodwill			249.3
Consideration			261.0
Consideration satisfied by:			
Cash			218.3
Payments due to vendors			42.7

Figure 26: *WPP goodwill generated by acquisitions in 2022 (source: WPP 2022 annual report)*

We highlight some of the features of this structure that we think are relevant if the value of the balance sheet goodwill comes into question:

1. The value of an asset is linked to the future cashflows it can generate. (This is known as the discounted cashflow approach to goodwill valuation.) If revenues are down and costs are up because of staff and client churn linked to an association with flawed advertising, then the future cashflows will be lower than expected. This will drive lower valuations (goodwill in this case), in turn, leading to write-offs.

2. Intangible assets account on average for 40% of the companies' asset base - see Figure 27. In the most extreme, WPP, this amounts to 66% of total assets. This is an untypically large amount, with any changes to these carrying amounts having a potentially material impact.

3. Note that a goodwill reduction (write-off) will be treated as an impairment expense in the profit & loss account, reducing the net income of the business.

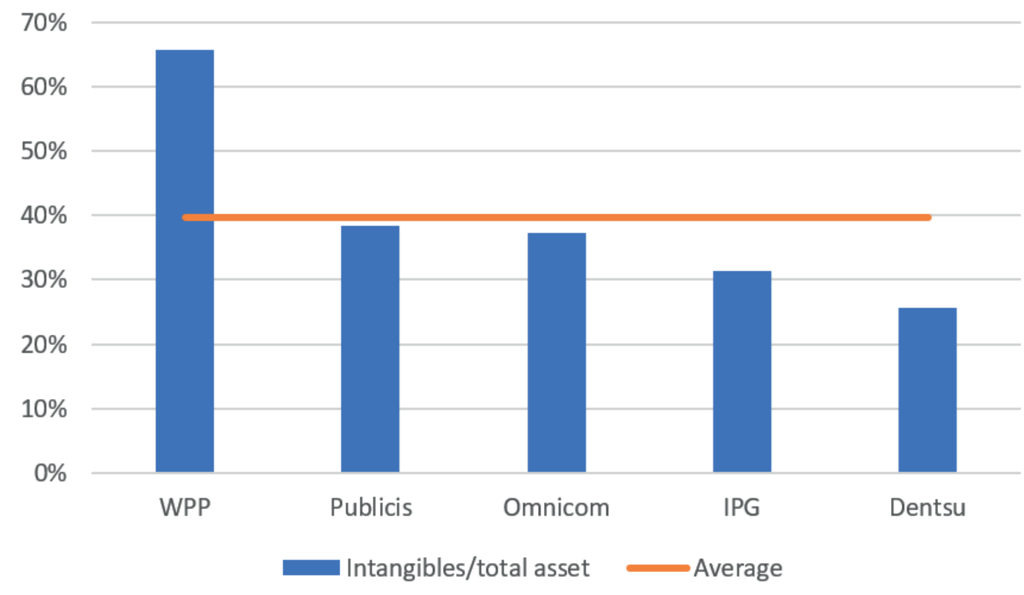

Figure 27: *intangible assets as a proportion of total assets. (Source: Planet Tracker, company reports).*

1) Furthermore, as illustrated in Figure 28, if we exclude the intangible (mainly goodwill) assets, then the remaining tangible net asset amounts are negative for all five advertising holding companies. Again this illustrates just how significant these intangible assets are in terms of the advertising holding companies' balance sheet structure.

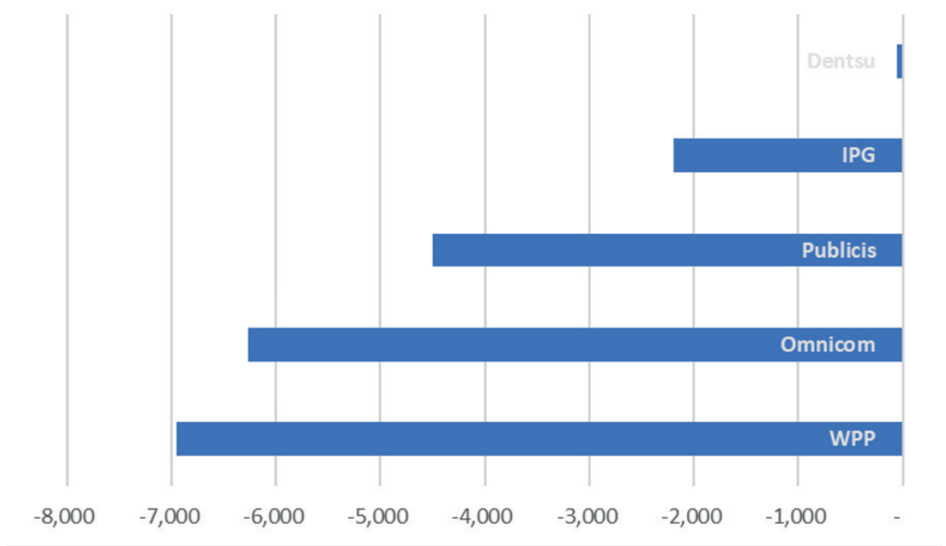

Figure 28: *Intangible dependent: ex-intangibles assets, advertising companies have net liabilities. (Source: Planet Tracker, company reports). Converted to USD using end 2022 exchange rates*

2) And, as the numbers show in Figure 25 and the chart summarises in Figure 29, tangible assets roughly equal liabilities before debt; 1.0x on average with a range of 0.9-1.2x.

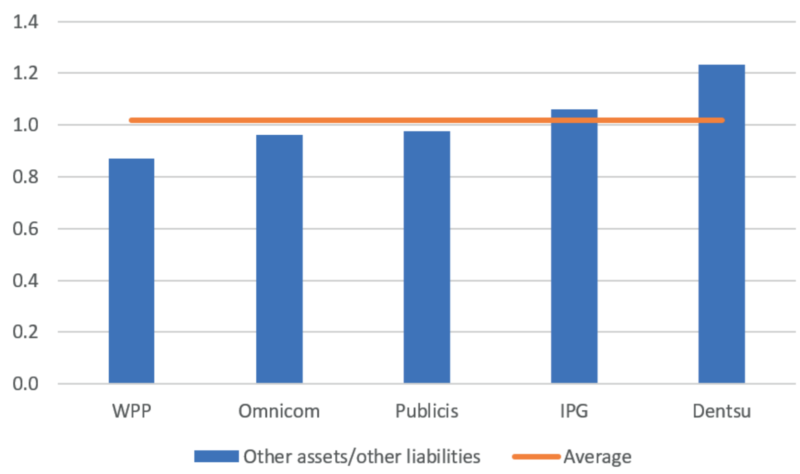

Figure 29: *Tangible assets cover liabilities ex-debt...leaving debt to be covered by intangible assets. (Source: Planet Tracker)*

Putting this all together it means that to cover a company's liabilities (think wages, rent, tax) before worrying about repaying any debt, would on average require all of the companies tangible assets (property, stock, trade debtors, cash etc).

With all of those assets used to repay the company's liabilities before debt, the financial institutions that have lent to the bank would be reliant upon the intangible assets to secure repayment. This could be in the form of cash generation from these assets or a crystallisation of this value from sale.

While on the plus side, as shown in Figure 25, there is plenty of headroom (coverage) with intangibles to borrowings averaging 2.1x (range of 1.8-3.8x), these intangible values, can change rapidly.

In the words of WPP: *'**historically our [intangible asset] impairment losses have resulted from** a specific event, condition or circumstance in one or more of our companies, such as the impact of Covid-19 or **the loss of a significant client**'.*[xxxii]

The question therefore becomes, how might a revaluation of the carrying value of these intangible assets, on the back of links to wider group 'environmentally harmful' advertising, impact the overall balance sheet and the willingness of banks to provide ongoing funding support.

As illustrated in Figure 30, we estimate that a 15% reduction in the value of intangible assets would reduce net assets by 27% on average. We use a higher figure than the 5% and 10% reductions imputed elsewhere, as we expect risk premiums amongst other negative factors, to increase.

2022	Intangibles	Net cash / (debt)	Other assets / (liabilities)	Net assets	Gearing	Proforma Intangibles	Proforma net asset	Change in net assets	Proforma gearing
WPP	11,983 -	2,999 -	3,951	5,033	60%	10,186	3,236	-36%	93%
Omnicom	10,048 -	1,312 -	4,959	3,776	35%	8,541	2,269	-40%	58%
IPG	5,898 -	370 -	1,822	3,706	10%	5,013	2,821	-24%	13%
Publicis	14,794	1,073 -	5,570	10,297	na	12,575	8,078	-22%	na
Dentsu	7,312	542 -	593	7,260	na	6,215	6,164	-15%	na
Average					35%			-27%	55%

***Figure 30**: Impact of a 15% reduction in intangible carrying value on net assets and gearing (USD million)*

While actual gross and net cash/debt positions remain unchanged, the reduction in intangible asset values would feed through to lower overall asset values and would increase net gearing (financial leverage) for the three companies that have net debt positions, from an average of 35% (WPP 60% / Omnicom 35% / IPG 10%) to an average of 55% (93%, 58% and 13% respectively).

These are financially material numbers and point to potential nervousness by the banks towards lending/funding policies. On this basis, we would urge financial institutions that currently provide funding to demand from the holding companies a transparent strategy and robust delivery against the support of 'inappropriate' campaigns.

Debt funding - is it important and should we worry about balance sheet erosion?

Using enterprise value (EV), as shown in Figure 31, we can see that equity makes up the majority of funding: 82% on average compared to 18% net debt and other components – see Figure 31.

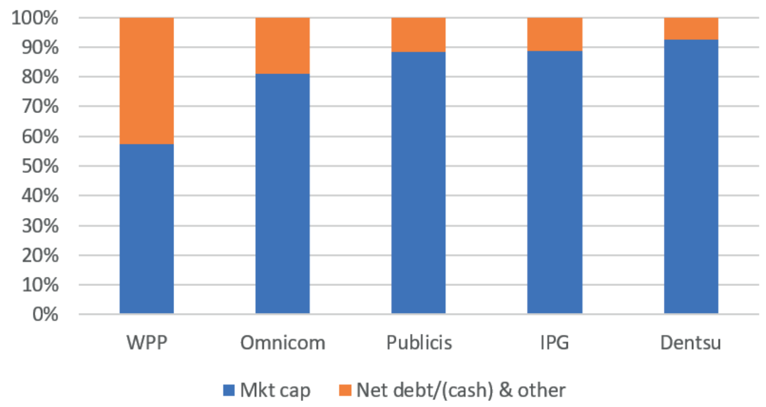

Figure 31: *Enterprise Value mix: 'equity' and 'non-equity'. (Source: Planet Tracker, Refinitiv).*

In the case of WPP, however, the net debt and other funding elements are substantially above average at 43%. Omnicom is in line with the average, at 20%, while at Publicis, Interpublic and Dentsu, it is nearer to 10%.

These net debt numbers hide the fact that the companies typically have high cash levels. On average, cash levels are one third of market capitalisation, meaning that gross debt numbers are higher than might initially be expected. On a combined basis, gross debt for the five advertising holding companies is a sizeable USD 29.6 billion.

Interpublic identifies that ***'ESG issues are increasingly a focus of the investor community. If large shareholders were to reduce their ownership stakes in our Company as a result of dissatisfaction with our policies or efforts in this area, there could be negative impact on our stock price, and we could also suffer reputational harm'.***[xxxiii] We would add that these risks are equally relevant on the debt side of financing.

Our review of bond holding data points to outstanding bonds of USD 3.7 billion with nearly all this amount related to just two companies, Interpublic and Omnicom. This suggests that funding is more lending in nature.

We also note that these bonds are fairly closely held; the top 10 owners hold nearly half the total. All 10 are American investors, with Vanguard Group accounting for over 10% of the total.

In contrast, our data on lending shows a much larger contribution to the funding mix: a total amount of USD 59.2 billion of debt funding has been provided over the past 10 years – see Figure 32. Based on the combined level of debt (USD 29.6 billion), this implies an average tenure of roughly five years.

Using our 10-year data we can estimate the exposure by financial institutions both overall and by company. We note however that this data has relatively small amounts related to WPP (just USD 1.6 billion) in contrast to its more leveraged balance sheet (end 2022 gross debt of GBP 5.0 billion). For the other names 10-year totals are between USD 10.1-16.7 billion.

USDbn	Publicis	Dentsu	Interpublic	Omnicom	WPP	Total
Citigroup Inc	•	•	•	•		4,5
JPMorgan Chase & Co	•	•	•	•		4,4
_Unknown		•				3,7
HSBC Holdings PLC	•		•	•	•	3,5
BNP Paribas SA	•		•	•		3,4
Bank of America Corp	•		•	•	•	3,0
Mizuho Financial Group Inc	•	•		•		2,8
Mitsubishi UFJ Financial Group Inc	•	•	•	•		2,4
Wells Fargo & Co			•	•		2,1
US Bancorp			•	•		1,9
Barclays PLC	•		•	•	•	1,8
Societe Generale SA	•			•		1,7
Morgan Stanley		•	•		•	1,6
Intesa Sanpaolo SpA			•	•		1,5
ING Groep NV	•		•	•	•	1,5
Sumitomo Mitsui Financial Group Inc		•		•		1,4
Natixis SA	•					1,3
Deutsche Bank AG	•			•		1,2
Commerzbank AG	•				•	1,2
Banco Bilbao Vizcaya Argentaria SA			•	•		1,2
Top 20	**13,6**	**8,6**	**10,8**	**11,7**	**1,4**	**46,1**
Others	3,1	1,6	3,4	4,9	0,2	13,1
Total	**16,7**	**10,1**	**14,2**	**16,6**	**1,6**	**59,2**
Top10/total	47%	71%	52%	54%	22%	54%
Top20/total	81%	85%	76%	71%	89%	78%

Figure 32: *Financers: providers of debt finance. (Source: Refinitiv)*
• = finance relationship

The top 10 debt providers contain a mix of American, European and Japanese banks, a geographic profile that mirrors the domiciles of the five advertising Holding Companies.

In terms of the banks:

- **America:** Citigroup is the largest debt provider, JP Morgan Chase is second;
- **Europe:** HSBC and BNP Paribas, are fourth and fifth;
- **Japan:** Mizhou Financial and Mitsubishi Financial, are seventh and eighth.

The top 10 debt providers account for more than half of total borrowings. This concentration of exposure, which is replicated in the equity ownership profile (see **Appendix 1**), points to risk if lenders were to get nervous about client profiles and the scope for associated reputational harm.

EXECUTIVE REMUNERATION

Planet Tracker is a strong advocate of discretionary compensation linked to positive environmental action. This linkage needs to be clear and material and extend to all relevant areas - in the case of the advertising Holding Companies this should include their sub-agencies' work with clients[12].

Leaving structure (qualitative vs quantitative/materiality) aside, we find Omnicom's comments that *'shareholders were overwhelmingly supportive of the changes to our compensation structure in 2022',*[xxxiv] which lowered the level of weighting allocated to non- financial performance, as worrying.

According to the company, shareholders were *'pleased that we increased the weight of our internal financial performance metrics in the fiscal 2022 Annual Cash Incentive Award program from 25% to 40% and decreased the weight of our peer group and qualitative metrics to 40% and 20%, respectively.'* Qualitative metrics, which have been downgraded in terms of importance, place emphasis on diversity, equity and inclusion (DE&I), corporate responsibility and integrity (including environmental sustainability, human capital management and employee training initiatives).

While worrying, this revenue-first mindset is unsurprising, as the Holding Companies are after all a sub-sector of the advertising industry that is growing at a slower rate than the whole. While predictable, it is still disappointing and suggests amplified risk to those associated with the industry – owners, funders, staff and clients.

Link between business ethics and compensation

Before looking at the detail of executive compensation schemes, we have outlined the links between business ethics and compensation on a company-by-company basis. We conclude that there are significant references to 'business ethics' and the 'right way of doing business'. However, the link between such actions and content standards and actual compensation isn't clear.

WPP

'Purpose and reputation' are one of the four non-financial scorecard items used in calculating executive compensation at WPP. Whilst not explicitly stated, we assume that this incorporates some features of the revised *'Assignment acceptance policy and framework' and the 'new Green Claims guide'.*

Omnicom

The term 'corporate responsibility and integrity' along with DEI both feature in Omnicom's 'Qualitative Metric' used to drive part of performance based compensation. 'Corporate responsibility and integrity' specifically includes 'environmental sustainability', but what isn't clear is whether this includes client campaigns.

12 See Planet Trackers' reports on executive compensation in the textiles and plastic sector.

Publicis

The group has stated key responsible marketing principles of *'truth, decency, respect, honesty, societal responsibility'*. It also has a publicly available general responsible marketing policy (www.publicisgroupe.com), with particular reference to environmental claims and greenwashing risk in client campaigns. None of this however is referenced in its wider compensation policy.

Interpublic Group

Performance against *'High Priority Objectives'* feature as a component of executive compensation. These include 'qualitative and quantitative' elements that incorporate DEI, talent management and collaboration. No reference is made as to whether within this there is any link to content standards and its clients.

Dentsu

A special review committee identified *'an organizational culture with an excessive client-first emphasis'*. The company has responded by implementing *"Mindset and Behaviour Reform"*, with the aim of raising *'awareness of our social responsibilities and improve transparency'*. Possibly linked into this is the introduction of quantitative non-financial performance indicators, including a sustainability component, for the annual bonus in 2022. An explicit link to content standards is, however, not yet obvious.

In summary, WPP and Omnicom appear to potentially incorporate a qualitative linkage between clients, content standards and compensation, albeit of an uncertain level, whereas for Interpublic, Dentsu and Publicis there appears to be none.

Link between sustainability and internal performance-based compensation

Planet Tracker has undertaken a two-dimensional assessment of the structure of the internal performance-based executive remuneration. This analysis has been performed for the five advertising Holding Companies. For consistency, the numbers relating to the executive Chair or, in the case of a non-executive Chair, the CEOs have been reviewed – see Figure 33.

- The first dimension looks at whether there is a link between sustainability and compensation and, if there is, whether this link is qualitative (poor) or quantitative (good). The assessment is scored from A-D, where A is good.
- The second dimension looks at materiality. A greater than 10% share of compensation relating to environmental factors is viewed as 'material' (score of 1), above 5% as 'noticeable' (score of 2) and below 5% as 'immaterial' (score of 3).
- In a number of cases, a blended ESG element, with no clear attribution between 'E', 'S' or 'G' categories, results in an 'unknown' outcome. Such opaqueness is accounted a negative and therefore this 'unknown' is scored as a 4.

Materiality (Score: 1-5)	Internal Structure (Score: A-D)			
	No Link between sustainability and compensation (D)	Link between sustainability and compensation - not quantative (C)	Link between sustainability and compensation - possibly quantative (B)	Quantative link between sustainability and compensation (A)
Material (1)				
Noticeable (2)				Publicis
Immaterial (3)				Dentsu
Unknown (4)		Omnicom	WPP	
None (5)	Interpublic			

Figure 33: *Link between sustainability and executive compensation. (Source: Planet Tracker).*

WPP B4

'The incentive schemes are designed to underpin the Company's culture and strategy'.
25% of short-term incentive (STI) payments relate to four non-financial scorecard items:

i) client
ii) people and diversity, equality and inclusion
iii) purpose and reputation
iv) strategic priorities

Long-term incentives are linked to financial and share performance.

With STI accounting for 26% of CEO target compensation, the implied total linked to non-financial factors is 6.5%. However with no clarity of allocation to the four elements WPP receives a B4 rating: a link that is possibly quantitative but an uncertain amount.

Omnicom C4

Short-term cash incentives accounted for 58% of executive chair compensation, with 20% of this relating to the 'Qualitative Metric', giving an implied link of 12%. These consist of:

i) diversity, equality and inclusion
ii) corporate responsibility and integrity, which in turn includes environmental and talent. Long-term incentives have no link to ESG factors. With a descriptor of 'qualitative' and no clarity on the allocation between the factors we rate Omnicom C4; a link that is qualitative and an amount that is uncertain

Publicis A2

For its executive chair, target compensation is based 33% on short-term and 50% on long-term components (the balance of 17% is non-variable base compensation). Of these, 20% and 15% respectively relate to CSR factors. These in turn are split equally between *'diversity, equality and inclusion'* factors and *'fight against climate change'*. Working the maths implies that the *'fight against climate change'* sustainability element accounts for a possible 7% of total compensation.
With clear GHG footprint targets and a notable element linked to environmental matters, we rate Publicis A2.

Interpublic Group D5

20% of short-term compensation is linked to '*high performance objectives*'. These incorporate:

i) diversity equality and inclusion
ii) talent management
iii) collaboration

There is no specific link to environmental factors for either short or long term compensation. As a result we rate Interpublic D5.

Dentsu A3

10% of the annual (short-term) bonus is linked to *'implement ESG and sustainability-related initiatives'*. With clear annual CO_2 emission targets for scope 1 & 2 emissions, this comes with a quantitative element. However, with the annual bonus accounting for only 29%, the resulting linkage is immaterial at just 2.9% of total compensation. We therefore rate Dentsu **A3**.

	WPP	Omnicom	Publicis	Interpublic	Dentsu
ESG Share					
ST Incentive	25%	20%	20%	20%	10%
LT Incentive	0%	0%	15%	0%	0%
Wider ESG linked/total comp					
ST Incentive	6,5%	12,0%	6,6%	4,6%	2,9%
LT Incentive	0,0%	0,0%	7,5%	0%	0,0%
Environmental (E) share of ESG					
ST Incentive	?	?	50%	0%	100%
LT Incentive	?	?	50%	0%	0%
Overall E / total compensation	**?**	**?**	**7,1%**	**0%**	**2,9%**
Materiality rating	**4**	**4**	**2**	**5**	**3**

Figure 34: *Advertising holding companies; environment compensation materiality summary. (Source: Planet Tracker, company reports).*

Outside of basic target compensation structures, we also note the propensity for multipliers to apply to both short- and long-term components and for these to be larger and possibly exclusively for the financial elements when compared to the non-financial parts. Omnicom is a good example of this:

- The annual cash incentive is 40% related to financial performance relative to peers, 40% related to internal financial performance metrics and 20% related to the qualitative metric.
- The first two are subject to multiplier of up to 2x if actual results are at or above the top end of the target range. The qualitative metric isn't subject to such an uplift.
- The net result if all three come in above target range is that the relative impact of the qualitative metric is diluted from 20% (20/(40+40+20)) to 11% (20/(80+80+20)).

Link between client profile and external-based performance compensation

As this is a service industry, this outward/external client view is a significant overlay when it comes to assessing the remuneration structure of the advertising Holding Companies. Again, a clear link is rated as an ‘A’, a possible quantitative link as a ‘B’, a possible qualitative link as ‘C” and no link as a ‘D’. Similar materiality ratings from 1 (material) to 5 (none) are also applied. On this basis, as summarised in Figure 35, we rate WPP and Omnicom as C4 - ‘C’ (having a potential qualitative link) and a ‘4’ (of an unknown level). The remaining companies are ranked D5; ‘D’ (no link) and ‘5’ (none).

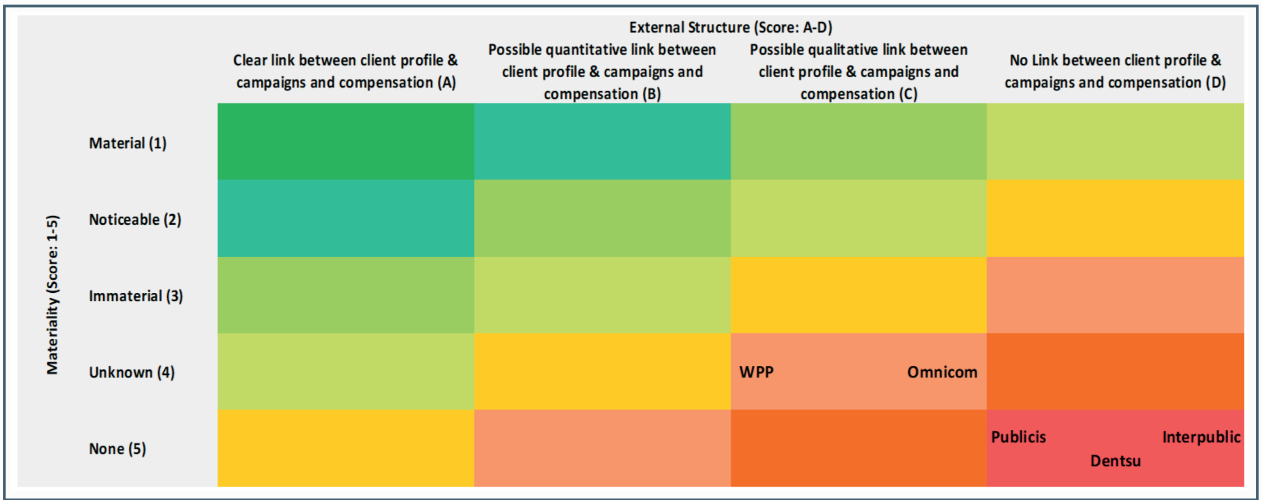

Figure 35: *External ‘client’ sustainability-compensation structure linkage (Source: Planet Tracker)*
Note: presented as a mirror to the internal structure shown in Figure 35
to aid combination view in Figure 37.

Combined linkage of sustainability-compensation ratings

Combining the analysis of external client facing compensation linkage with internal ESG-compensation linked analysis produces the result illustrated in Figure 36:

1) No company achieves a combined maximum rating
2) Publicis, which scores top on internal factors, shows no linkage to external factors
3) Dentsu has an immaterial internal linkage and no external linkage
4) WPP has a 'may have' / 'uncertain amount' through both lenses
5) Omnicom occupies a similar 'may have' / 'uncertain amount' through both lenses
6) Interpublic shows no linkage to internal or external factors

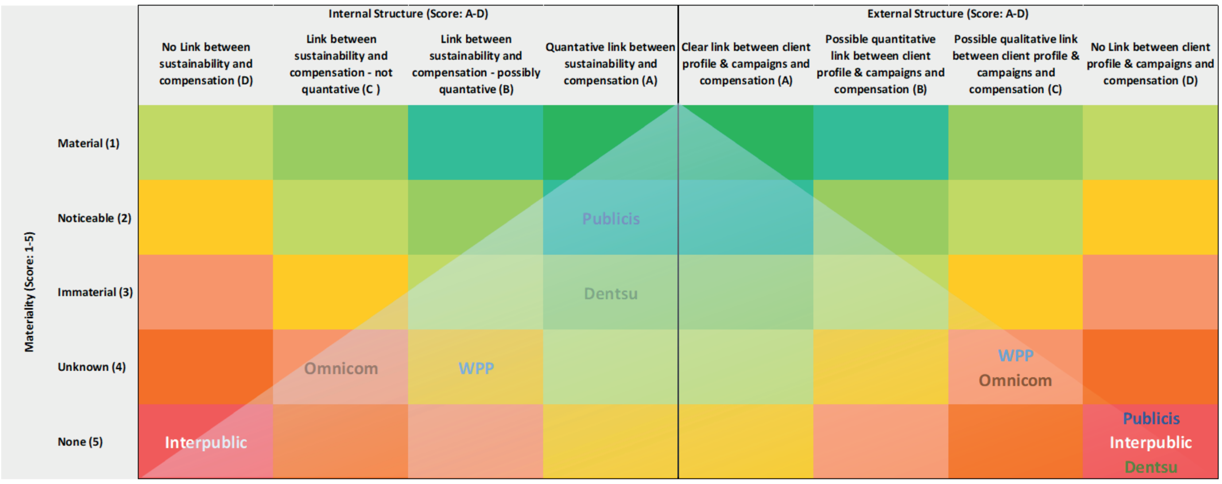

***Figure 36**: Combined internal and external ratings of links to variable compensation (Source: Planet Tracker)*

CONCLUSION

1. Who can action change?

Five of the six advertising Holding Companies are listed companies. The sixth, Havas, has a parent company, Vivendi, which may list it soon. Ownership and financing at the advertising Holding Companies is concentrated; the top10 owners and funders account for roughly half of the total for both.

There is commonality of ownership amongst the large passive index investors: BlackRock, Vanguard, State Street and Geode are all amongst the top10. There is also a strong active investors presence. Capital, Wellington, Silchester and Credit Agricole, along with French banking group Bcpe, feature in the top 10.

The owners (investors) and financers (bankers) of these companies are in a strong position to champion positive change.

2. Identifying problems

Revenue maximisation by the Holding Companies is a constant feature, with the risk that revenue generation trumps sustainability and, potentially, long-term sustainable earnings. Digital competition amplifies this at the more traditional-focused advertising Holding Companies.

A complex network of sub-agencies creates a structure where the identity of the parent advertising Holding Company is opaque; questionable client relationships can be hidden. In addition, it is hard to find any mention of oil & gas clients on the Holding Company websites – normally a platform for showcasing their work for major clients.

Planet Tracker's analysis links the major advertising Holding Companies to clients with substantial environmental footprints. It also reveals the material financial risks, to both the P&L and balance sheet, that these companies could be exposed.

It also shows that executive remuneration is, at best, weakly tied to sustainability matters and that these tend to be internal rather than linked to clients' environmental performance.

3. What can the advertising Holding Companies do?

Investors and funders need to place pressure on the advertising Holding Companies to move to a more transparent and accountable client-agency-campaign structure. With many environmentally damaging industries/products, these requirements need to extend beyond just 'not working with oil companies'.

We advocate for:

- **Disclosure and analysis of aggregated client environmental footprint data**, with the objective of incentivising an improving portfolio profile, similar to financial institution portfolios.
- Compliance with **guidance on Client Disclosure Reports and Advertised Emissions** as recommended by Race to Zero[xii].
- **The reporting of return on investment analysis for client generated revenue when linked to environmental footprint scores**, thereby making cleaner companies more attractive clients.
- A clear stance on where the agencies stand on wider environmental matters and **a scorecard disclosure on performance against these goals.**
- A material and quantitative **link between executive compensation and sustainability factors**, extending beyond internal performance to improvement in client portfolio footprint.
- **Avoidance of campaigns with direct or indirect potential greenwashing characteristics.** Dirty industries and those in transition (e.g. automotive) require greater sensitivity in creative representation.
- Sign the **Clean Creatives Pledge.**
- Join the **Creatives for Climate Community.**

A small number of players have a significant degree of influence at both the direction (ownership) and action (operator) levels. Combine this with a global data-driven industry and an ability to story-tell positive change and the pieces are in place for a significant step forward.

What Can Capital Markets Do?

- **Reassess their investment strategies with regard to Holding Companies' support for carbon-intensive clients.** Our work shows issues across a range of globally relevant sectors (e.g. plastics, automotive, fast fashion, IT, food & beverage).
- Encourage the advertising Holding Companies to transition from "changing client attitudes from within" to **refusing to work for environmentally harmful** clients.
- **Join the dots** between advertising **campaign** activity at the **agency** level and the risk at the parent advertising **Holding Company** level.
- Encourage agencies to **actively work to transition their clients** to sustainable business models.
- Press agencies **to comply with guidance on Client Disclosure Reports or Advertised Emissions** as recommended by Race to Zero[xii].
- **Introduce scorecards** that reflect agency client footprint profiles and link revenue generation to **environmental impact –** e.g. comparative environmental ROI scores.
- **Ask why executive compensation has little or no sustainability component.** Currently, Holding Company CEOs have an incentive to maximise revenues, even if this means promoting unsustainable products or services and no or negligible KPIs linked to external ESG outcomes.
- **Fully understand the material financial implications of client and employee dissatisfaction.** If clients wish to disassociate themselves from those agencies with the largest environmental footprints, the revenue implications are obvious. If employees become discontented, that 60% plus of their cost base at risk. But it could also call into question the vast amounts of goodwill on these companies balance sheets, in turn leading to possible write-offs in the P&L and affecting asset coverage of debt liabilities.

APPENDIX

APPENDIX 1

Investors in the five publicly listed Advertising Holding Companies

Table 2: *The top 10 investors in WPP own a combined 44% of the company (Source: Refinitiv).*

WPP		
Investor	**Country**	**Stake**
BlackRock Inc	United States of America	14%
Silchester Partners Ltd	United Kingdom	6%
Wellington Management Group LLP	United States of America	6%
Vanguard Group Inc	United States of America	4%
Bpce SA	_na	4%
T Rowe Price Group Inc	United States of America	3%
Schroders PLC	United Kingdom	2%
Norway, Kingdom Of (Government)	Norway	2%
Jupiter Fund Management PLC	United Kingdom	2%
Credit Agricole SA	France	1%
TOP 10		44%
Perpetual Ltd	Australia	1%
Sun Life Financial Inc	Canada	1%
FMR LLC	United States of America	1%
Lazard Ltd	Bermuda	1%
Allianz SE	Germany	1%
Capital Group Companies Inc	United States of America	1%
Geode Capital Holdings LLC	United States of America	1%
Franklin Resources Inc	United States of America	1%
Fiduciary Management Inc	United States of America	1%
RWC Partners Midco Ltd	Guernsey	1%
Legal & General Group PLC	United Kingdom	1%
Prudential PLC	_na	1%
HSBC Holdings PLC	United Kingdom	1%
UBS Group AG	Switzerland	1%
JPMorgan Chase & Co	_na	0%
REMAINDER		45%
TOTAL MARKET CAP		100%

Table 3: *The top 10 investors in Omnicom own a combined 54% of the company. (Source: Refinitiv).*

OMNICOM		
Investor	**Country**	**Stake**
Vanguard Group Inc	United States of America	14%
BlackRock Inc	United States of America	11%
State Street Corp	United States of America	7%
FIL Ltd	Bermuda	4%
Wellington Management Group LLP	United States of America	3%
Charles Schwab Corp	United States of America	3%
Beutel Goodman & Company Ltd	Canada	3%
Geode Capital Holdings LLC	United States of America	3%
Sun Life Financial Inc	Canada	3%
ORIX Corp	Japan	2%
TOP 10		54%
Citadel LP	United States of America	2%
Credit Agricole SA	France	2%
Goldman Sachs Group Inc	United States of America	2%
Capital Group Companies Inc	United States of America	2%
TIAA Board of Governors	United States of America	1%
Fiduciary Management Inc	United States of America	1%
Bank of New York Mellon Corp	United States of America	1%
Northern Trust Corp	United States of America	1%
Baird Investment Management	_na	1%
Cooke & Bieler LP	United States of America	1%
Morgan Stanley	United States of America	1%
Invesco Ltd	United States of America	1%
UBS Group AG	Switzerland	1%
Dimensional Holding Inc	United States of America	1%
Lazard Ltd	Bermuda	1%
REMAINDER		24%
TOTAL MARKET CAP		100%

Table 4: *The top 10 investors in Interpublic own a combined 59% of the company. (Source: Refinitiv).*

INTERPUBLIC		
Investor	**Country**	**Stake**
Vanguard Group Inc	United States of America	14%
BlackRock Inc	United States of America	12%
State Street Corp	United States of America	7%
Bank of America Corp	United States of America	5%
Bpce SA	_na	5%
FMR LLC	United States of America	5%
Invesco Ltd	United States of America	3%
Grace Partners of Dupage LP	United States of America	3%
Charles Schwab Corp	United States of America	3%
Bank of New York Mellon Corp	United States of America	3%
TOP 10		59%
Geode Capital Holdings LLC	United States of America	3%
Black Creek Investment Management Inc	Canada	3%
ORIX Corp	Japan	3%
Capital Group Companies Inc	United States of America	2%
Beutel Goodman & Company Ltd	Canada	2%
Credit Agricole SA	France	2%
Goldman Sachs Group Inc	United States of America	2%
Morgan Stanley	United States of America	2%
Northern Trust Corp	United States of America	2%
Dimensional Holding Inc	United States of America	2%
Ariel Investments LLC	United States of America	2%
Banc of America Securities LLC	United States of America	2%
UBS Group AG	Switzerland	1%
Wells Fargo & Co	United States of America	1%
Nomura Holdings Inc	Japan	1%
REMAINDER		13%
TOTAL MARKET CAP		100%

Table 5: *The top 10 investors in Publicis own a combined 41% of the company. (Source: Refinitiv).*

PUBLICIS		
Investor	**Country**	**Stake**
Capital Group Companies Inc	United States of America	15%
BlackRock Inc	United States of America	6%
Badinter (Elisabeth)	France	5%
Parvus Asset Management Europe Ltd	United Kingdom	3%
Vanguard Group Inc	United States of America	3%
Bpce SA	_na	2%
Credit Agricole SA	France	2%
Levy (Maurice)	United States of America	2%
Wellington Management Group LLP	United States of America	1%
BNP Paribas SA	France	1%
TOP 10		41%
Bank of New York Mellon Corp	United States of America	1%
Invesco Ltd	United States of America	1%
Dimensional Holding Inc	United States of America	1%
AXA SA	France	1%
Schroders PLC	United Kingdom	1%
FIL Ltd	Bermuda	1%
Polaris Capital Management LLC	United States of America	1%
Dulac (Sophie)	France	1%
Geode Capital Holdings LLC	United States of America	1%
Mawer Investment Management Ltd	Canada	1%
Eleva Capital SAS	France	1%
JPMorgan Chase & Co	_na	0%
Intesa Sanpaolo SpA	Italy	0%
HSBC Holdings PLC	United Kingdom	0%
Liontrust Asset Management PLC	United Kingdom	0%
REMAINDER		51%
TOTAL MARKET CAP		100%

Table 6*: The top 10 investors in Dentsu own a combined 49% of the company. (Source: Refinitiv).*

DENTSU		
Investor	Country	Stake
General Incorporated Association Kyodo News	Japan	8%
Nomura Holdings Inc	Japan	7%
Silchester Partners Ltd	United Kingdom	7%
Jiji Press Ltd	Japan	7%
BlackRock Inc	United States of America	4%
Mizuho Financial Group Inc	Japan	4%
Sumitomo Mitsui Trust Holdings Inc	_na	3%
Daiwa Securities Group Inc	Japan	3%
Sumitomo Mitsui Financial Group Inc	Japan	3%
Sumitomo Mitsui Trust Holdings Inc	Japan	3%
TOP 10		49%
Vanguard Group Inc	United States of America	3%
Dentsu Group Inc. Group Employees	_na	2%
Yoshida Hideo Memorial Foundation	Japan	2%
Recruit Holdings Co Ltd	Japan	2%
BlackRock Inc	_na	2%
Fuji Media Holdings Inc	_na	2%
TBS Holdings Inc	Japan	2%
Invesco Ltd	United States of America	1%
Mitsubishi UFJ Financial Group Inc	Japan	1%
Schroders PLC	United Kingdom	1%
Norway, Kingdom Of (Government)	Norway	1%
JPMorgan Chase & Co	United States of America	1%
Carmignac Gestion SA	France	1%
Geode Capital Holdings LLC	United States of America	1%
Dimensional Holding Inc	United States of America	1%
REMAINDER		30%
TOTAL MARKET CAP		100%

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Planet Tracker is an award-winning non-profit think tank focused on sustainable finance. We engage directly with financial institutions to drive transformation of global financial activities, achieve real world change in our means of production and align investment with a resilient, just, net-zero and nature-positive economy. Our purpose is to ensure that capital markets' investment and lending decisions are aligned with planetary boundaries and support a just transition.

INFLUENCERS PROGRAMME

The Influencer Programme currently connects the environmental footprint of the clients of advertising Holding Companies in six industry sectors to their investors. In the current context of ESG concern, we believe the investors who own almost 50% of the advertising Holding Companies should have a clear picture of the environmental impact of the clients for whom the Holding Companies produce advertising campaigns, often in support of unsustainable products or activities. Investors in, and financers of, these companies can, by supporting best practice, reduce financial risk and generate optimal outcomes for the future of the planet.

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