

# PUBLICIS TO ACQUIRE EPSILON

15 April 2019



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# PUBLICIS TO ACQUIRE EPSILON

## Strategic fit

An acceleration of Publicis Groupe's strategy to become its clients' preferred transformation partner by seamlessly connecting creativity, media, technology, consulting and data at scale

## Value creation

Attractive transaction terms  
leading to double-digit accretion from Year 1

## Integration

Clear roadmap for an asset that fits perfectly Publicis current model,  
backed by both management teams

# A HIGHLY COMPELLING TRANSACTION

## A unique asset

- **Publicis will become an industry leader in personalized experiences at scale** by putting Epsilon at the core of its operations:
  - **Technology** to organize, manage and activate clients' first-party data
  - **Unparalleled data assets** to enrich clients' first-party data with consumer identity/demographics, behavioral insights or online/offline transactions and to predict purchases thanks to AI
  - **Platforms** to create IDs, deliver personalized messaging, and measure outcomes to optimize investments
- **Epsilon is recognized as a trusted partner with the highest standards in consumer privacy built on years of expertise in securely managing consumer data in a compliant way**

## Clear Strategic rationale

- **Publicis+Epsilon to offer an end-to-end suite of services** in a data and technology era to meet the shift in clients' investments towards data-driven, digital-first consumer engagement
- **Best positioned to accelerate the growth** of its existing business and open up new opportunities in an enlarged \$1.5tn addressable market
- **Operational and structural synergies** to increase efficiency in delivery

# HIGHLY ATTRACTIVE FINANCIAL IMPACT

## Transaction highlights

- **Net purchase price of \$3.95bn**, after acquisition-related tax step-up, implying an 8.2x 2018 adjusted EBITDA <sup>(1)</sup> multiple
- **100% cash consideration fully financed** in debt and cash on hand
- Subject to customary approvals, **expected to close in Q3 2019**
- **Strategic partnership with Alliance Data System Corporation**

## Financial impact

- **2018 Pro forma combined Groupe: €10.6bn net revenue and €2.1bn EBITDA** with industry-leading margin
- **Double-digit accretive to headline EPS and Free Cash Flow per share <sup>(2)</sup> from 2020**
- **Maintain robust balance sheet** in line with current rating and significant cash flow generation

(1) 2018 reported Epsilon EBITDA converted from € to \$ at the 2018 average exchange rate of 1.18, adjusted for standalone carve out costs of €21m, share based compensation of €30m to align with Publicis' accounting policy, €60m of run-rate cost reductions being implemented at Epsilon and before any potential cost synergies derived from this transaction.

(2) Headline EPS and FCF per share on a fully diluted basis.

# WHAT IS EPSILON?



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# EPSILON IS A TECHNOLOGY LEADER MAXIMIZING THE VALUE OF ITS CLIENTS' DATA AT SCALE

## COMPANY BACKGROUND

- Technology, platform and software leader with unparalleled data assets to deliver personalized, multi-channel marketing campaigns at scale
- Consolidated 2018 Net Revenue of c.\$2bn
  - ~97% of revenue comes from US
- ~9,000 employees led by an experienced and talented management team
  - ~3,700 data scientists
  - ~2,000 India-based technology delivery experts
- Founded in 1969, headquartered in Irving (Texas)

## TECHNOLOGY LEADERSHIP EVIDENCED BY BLUE-CHIP CLIENTS

- Client base: at least 7 out of top 10 US companies in main industries
  - Auto, Retail, Financial Services, CPG and Media
- Top 50 clients with 14 years average tenure and 8% average annual revenue growth from 2016-2018
- Recognized leader in consumer privacy, with track record of managing consumer data in an ethical and compliant way



(1) Forrester Waves, 2018 for Email and 2019 for Loyalty ; Adage ranking for CRM.

## KEY STATS

**#1**  
ranked CRM, email &  
loyalty platforms <sup>(1)</sup>

**71BN**  
personalized emails  
annually

**250M+**  
U.S. consumers identified

**7,000+**  
attributes  
per person

**173BN**  
transactions  
tied to people

**535M**  
mobile devices  
reached

**1BN**  
model updates every 5 minutes

**200BN**  
daily online interactions

# EPSILON'S ADVANCED TECHNOLOGY & PLATFORM SPANS THE FULL DATA LIFECYCLE

Client  
1<sup>st</sup>-party  
raw data

Data  
Onboarding

Data  
Enrichment

Unique Profile  
Building

Activation

Technology

Data

Platform

**Clients'  
First-party data**

- ✓ Data Onboarded
- ✓ Data Cleansed
- ✓ Data Normalized
- ✓ Data Organized

**Epsilon  
Proprietary data assets**

- ✓ Demographic and contact
- ✓ Behavioral
- ✓ Transactional: online and offline

**Data science and  
artificial intelligence**

- ✓ Unique ID creation
- ✓ Segmentation
- ✓ Data analytics

**Mass personalization  
at scale**

- ✓ Campaign delivery across channels
- ✓ Measurement and close-loop



Email



Video



Image



Display



Website



Mail



Format



Content



Social

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**Constant Feedback Loop**

✓ Enhanced predictive analytics powered by AI



# EPSILON CORE CAPABILITIES

## TECHNOLOGY

- **Proprietary software** to organize and manage client first-party data:
  - CRM (120m purchases seen daily)
  - Loyalty (600m+ members)
  - Direct email (71bn personalized messages served annually)
- Named by *Forrester* as **a leader** for all of its software
- **Software-as-a-Service** model
- Technology **consulting services**

## DATA

- Multiple partnerships creating **unparalleled data repositories**:
  - **Identity/demographic data**: 250m+ consumers
  - **Behavioral data**: 178 observations per consumer per day
  - **Transactional data**: online and offline transactions, covering almost all of U.S. population
- **Largest repository of privacy-compliant** consumer data built over years of investment
- **Excellence in privacy compliance**

## PLATFORM

- **Integration** of client first-party data and **ID creation**
- **Segmentation** to build relevant audiences
- AI based **predictive models**
- **Activation**/campaign delivery (170m unique ads served daily)
- **Measurement** and optimization of campaign outcomes

## CLIENT BENEFITS

Maximize the value of relationships  
with customer and prospects



Access to multi-sourced data assets  
fueling unparalleled understanding of  
consumer purchases

360° view of all consumers to maximize  
engagement at scale

# ACCELERATING OUR STRATEGY AND OUR ORGANIC GROWTH



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# PUBLICIS + EPSILON: IDEALLY POSITIONED TO DELIVER PERSONALIZED EXPERIENCES AT SCALE

## KEY CHALLENGES

**Rise of consumer expectations affecting how they feel, think and shop for brands**

**Overwhelmingly complex and fragmented tech landscape**

**Decreasing brand loyalty: mainstreaming of Direct-to-Consumer and omnipresence of e-retailers**

**New regulation requirements on data collection and storage**

## PUBLICIS + EPSILON SOLUTIONS

**Unparalleled data sets to create IDs on who consumers are, what they do and buy**

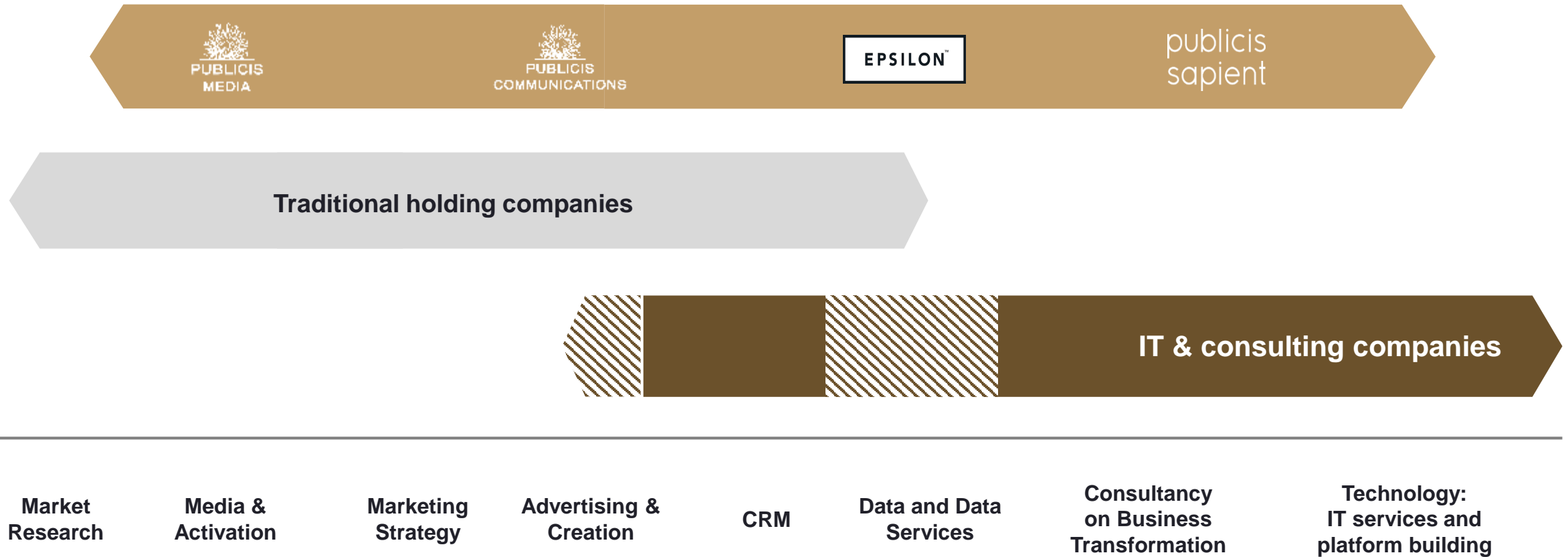
**Platforms placing the consumer at the core to drive speed, effectiveness and automation**

**Access to unique combination of online/offline transactional data**

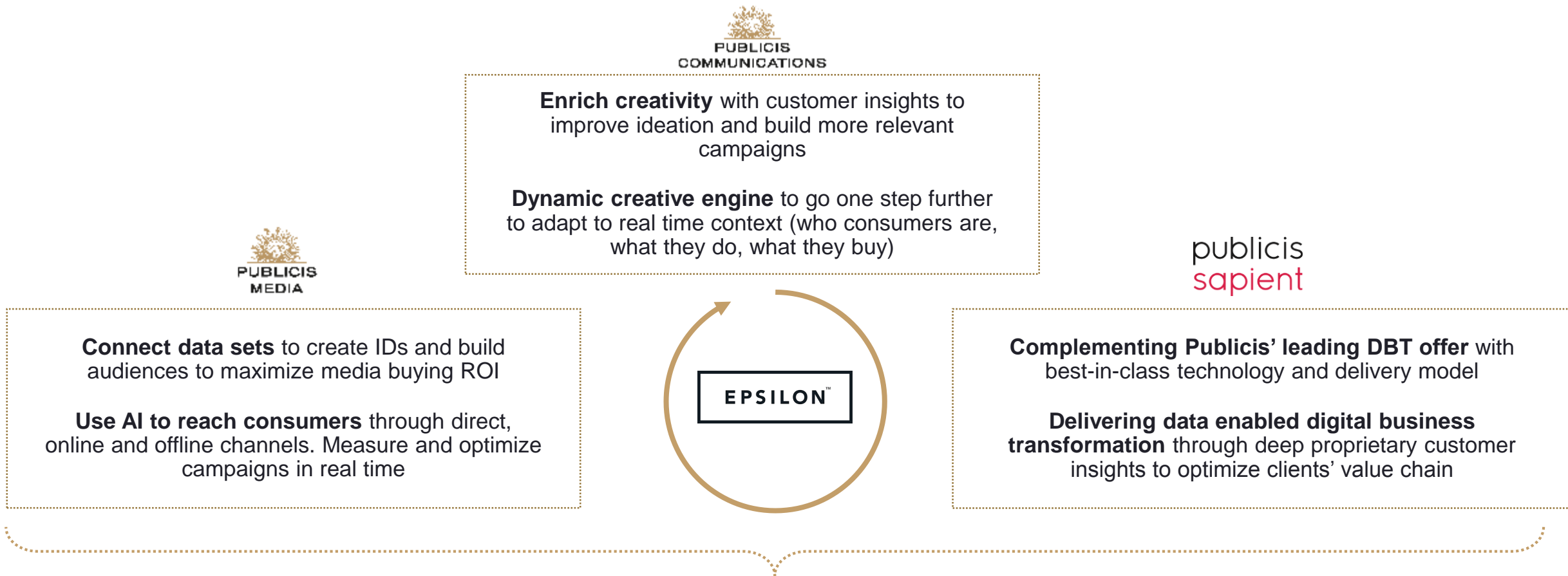
**Predictable behavioral solutions thanks to artificial intelligence capabilities**

**Technology to manage first-party data (CRM and emails) in a compliant and transparent way for valued experiences**

# AN END-TO-END POSITIONING TO WIN IN A \$1.5tn INDUSTRY



# EPSILON WILL FUEL PUBLICIS' ENTIRE ORGANIZATION AND ACCELERATE GROWTH



QUANTUM LEAP IN STRATEGIC GAME CHANGERS

# PUBLICIS WILL UNLOCK EPSILON'S FULL POTENTIAL

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## ACCESS

Access to IT/ Marketing specialists

Access to C-Suite  
to increase impact on US client base

## GLOBAL REACH

Predominantly US footprint

Access Publicis' global reach  
and client portfolio

## VERTICALS

Unique Auto platform

Replication to other verticals  
(Health, Financial Services, Telco, Retail)

# PUBLICIS WITH EPSILON

**A natural extension of Publicis' capabilities**

**The first to cover the full spectrum of services at scale**

**Best positioned to meet clients' new imperatives and foster organic growth**

**Committed to remain at the forefront of data privacy and ethical standards**

**Accelerating our strategy to become our clients' preferred partner  
in their transformation**

# THE TRANSACTION



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# TRANSACTION HIGHLIGHTS

- Net purchase price of \$3.95 billion after acquisition-related tax step-up
  - Implied 8.2x 2018 Adjusted EBITDA<sup>(1)</sup> multiple
  - Cash consideration of \$4.40 billion payable to ADS at closing
- Double-digit accretion to both headline EPS and free cash flow <sup>(2)</sup> from first full year (2020)
- Committed to maintain BBB+ / Baa2 current ratings
- Full deleveraging 4 years after completion
- Expected closing during Q3 2019, subject to customary approvals

# ACQUISITION FINANCING AND FINANCIAL POLICY

- **100% cash transaction**
  - **Financed through a bridge loan and part of Publicis Groupe's own cash**
- **Publicis Groupe has obtained a firm commitment from BNP Paribas and Citi on a 12-month bridge loan that can be renewed 2 x 6 months**
- **Opportunity to extend debt maturities; estimated weighted average cost of new debt of c. 4%**
- **Expected euro funding to be swapped in US dollars to match the acquired US cash flows**
- **Financial policy**
  - **~45% dividend pay-out policy maintained**
  - **Announced Share Buy Back on hold in the context of the acquisition**

# PUBLICIS GROUPE INCLUDING EPSILON MAIN INDICATORS IN 2018

(EUR million)	PUBLICIS GROUPE	EPSILON <sup>(1)</sup>	ADJUSTMENT <sup>(3)</sup>	Combined
				With run rate cost reduction being implemented at Epsilon
Net Revenue	8,969	1,641 <sup>(2)</sup>		10,610
EBITDA	1,652	403	8	2,063
Margin (%)	18.4%	24.5%		19.4%
Operating margin	1,501	275	38	1,814
Margin (%)	16.7%	16.7%		17.1%
Free cash flow before change in WCR	1,182	238	(22)	1,398
People	~75,000	~9,000		~84,000



(1) EUR = USD 1.18

(2) Calculated based on Publicis net revenue definition

(3) Adjusted for stand-alone operating costs after carve-out, share based compensation, run rate cost reduction being implemented at Epsilon and interest / tax impacts of transaction. See detail in supplemental information

NB: all the financial numbers are before IFRS16

# ACCRETIVE TO HEADLINE EPS AND FCF (before any transaction-related synergies)

(EUR million)	PUBLICIS GROUPE	EPSILON <sup>(1)</sup>	ADJUSTMENT	Combined
				With run rate cost reduction being implemented at Epsilon
<b>Operating margin</b>	<b>1,501</b>	<b>275</b>	<b>38 <sup>(2)</sup></b>	<b>1,814</b>
Net financial income (expenses)	(25)		(132)	(157)
Income taxes	(352)	(67)	24	(395)
Others	(17)			(17)
<b>Headline Groupe Net income</b>	<b>1,107</b>	<b>207</b>	<b>(69)</b>	<b>1,245</b>
<b>Headline EPS, diluted</b>	<b>€4,72</b>			<b>€5,31</b>
<b>Accretion</b>				<b>+12.5%</b>
<b>Free Cash Flow before change in WCR</b>	<b>1,182</b>	<b>238</b>	<b>(22) <sup>(3)</sup></b>	<b>1,398</b>
<b>Free Cash Flow before change in WCR, per share diluted</b>	<b>€5,04</b>			<b>€5,96</b>
<b>Accretion</b>				<b>+18.3%</b>



(1) EUR = USD 1.18

(2) Adjusted for stand-alone operating costs (after carve-out) and run rate cost reduction being implemented at Epsilon -See details in Supplemental information

(3) Operating margin related adjustments and deal-related financial expense post-tax, as well as yearly tax-step up effect

NB: all the financial numbers are before IFRS16; EPS and FCF on a fully diluted basis

# ONGOING COST REDUCTION INITIATIVES AT EPSILON AND POTENTIAL SYNERGIES

- **Ongoing cost reduction program** at Epsilon with an expected run-rate impact of €60m per annum
  - Internal rationalization plan in progress on a stand-alone basis
  - Phased towards run-rate in 2022
  - Main cost reduction areas:
    - Product Engineering / Offshoring
    - Procurement
    - Facilities
    - Technology
    - Finance
    - HR
- **Cost synergies from the integration within Publicis Groupe not included at this stage**
  - Optimization of data offering
  - Support functions / shared services
  - Systems harmonization / rationalization
  - Real estate

# INTEGRATION PLAN



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# IN-DEPTH REVIEW OF EPSILON PROVIDED FULL CONFIDENCE ON ASSETS ...

<b>DATA &amp; TECHNOLOGY</b>	<b>Validated compatibility between Epsilon and Publicis Groupe's assets in US and India and how to leverage the combination of the two</b>
<b>DATA PRIVACY</b>	<b>Confirmed compliance with existing environment and readiness for upcoming regulations</b>
<b>GROWTH SYNERGIES</b>	<b>Evaluated business and cross-fertilization opportunities with a combination of their assets</b>
<b>COST SYNERGIES</b>	<b>Defined potential consolidation areas in support functions and operations</b>
<b>CLIENTS</b>	<b>Interviewed senior leaders of several common clients</b>



**A 100-day integration plan based on outcomes from these sessions**

# ... AND A CLEAR ROADMAP FOR A SUCCESSFUL INTEGRATION

## LEVERAGE EPSILON'S ASSETS WITH OUR BEST-IN-CLASS CAPABILITIES

- **Epsilon's Technology, Data and Platforms** will be managed as a standalone entity at the core of Publicis, irrigating all Groupe operations, under the **leadership of Bryan Kennedy**, reporting directly to Arthur Sadoun and joining the Executive Committee
- Publicis Groupe's data talents, expertise and technology will join Epsilon's operations
- Selected Epsilon assets **naturally complement Publicis' core Solutions**:
  - The CJ Affiliate practice will add to Publicis Media's industry expertise
  - Agency practice will benefit from our creative networks

## CROSS-FERTILIZE OUR CLIENT BASE TO WIN BUSINESS

- **Publicis' Groupe Client Leaders** to introduce Epsilon to all of our large clients
- Offer Epsilon's clients a **full suite of products and services** powered by Publicis
- Put **Epsilon at the heart** of our existing business and new business initiatives

## INTEGRATE SUPPORT FUNCTIONS TO REALIZE SYNERGIES

- **Optimize Epsilon's support function**, back-office operations and harmonize systems
- **Increase synergies** between Epsilon's Indian delivery center and Publicis' platform



# CONCLUSION



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# CONCLUSION

**Why Epsilon?**

**One-time opportunity to acquire the technology platform of scale with unparalleled data assets that will accelerate the implementation of our winning model**

**Why now?**

**Meet the shift in clients' investments  
in the era of data-enabled digital-first marketing**

**What's next?**

**Fast-forwarding our strategy to build the end-to-end transformation partner  
for our clients and accelerate growth**

# Q&A



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# SUPPLEMENTAL INFORMATION



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## BREAKDOWN OF ADJUSTMENTS

<b>(EUR million)<sup>(1)</sup></b>	<b>Stand-alone operating costs after carve-out</b>	<b>Share-based compensation</b>	<b>Interest expenses of acquisition debt, net of tax</b>	<b>Tax step-up</b>	<b>Run rate cost reduction being implemented at Epsilon</b>	<b>TOTAL ADJUSTMENTS</b>
<b>EBITDA</b>	<b>(21)</b>	<b>(30)</b>			<b>60</b>	<b>8</b>
<b>Operating margin</b>	<b>(21)</b>				<b>60</b>	<b>38</b>
<b>Net financial expenses</b>			<b>(132)</b>			<b>(132)</b>
<b>Income taxes paid</b>	<b>5</b>		<b>34</b>	<b>47</b>	<b>(15)</b>	<b>71</b>
<b>FCF</b>	<b>(16)</b>		<b>(98)</b>	<b>47</b>	<b>45</b>	<b>(22)</b>

(EUR million)	PUBLICIS GROUPE	EPSILON <sup>(1)</sup>	ADJUSTMENT <sup>(3)</sup>	Combined
				With run rate cost reduction being implemented at Epsilon
<b>EBITDA</b>	<b>1,652</b>	<b>403</b>	<b>8</b>	<b>2,063</b>
<b>Margin (%)</b>	<b>18.4%</b>	<b>24.5%</b>		<b>19.4%</b>
<b>Operating margin</b>	<b>1,501</b>	<b>275</b>	<b>38</b>	<b>1,814</b>
<b>Margin (%)</b>	<b>16.7%</b>	<b>16.7%</b>		<b>17.1%</b>
Non-Current income and expenses	(2)			(2)
Net financial income (expenses)	(25)		(132)	(157)
Income taxes	(352)	(67)	24	(395)
Associates	(4)			(4)
Minority interests	(11)			(11)
<b>Headline Group net income</b>	<b>1,107</b>	<b>207</b>	<b>(69)</b>	<b>1,245</b>
Amortization of intangibles arising on acquisitions, net of tax	(55)	(114)		(169)
Impairment / Real estate consolidation charge, net of tax	(103)			(103)
Main capital gains (losses) / change in fair value of financials assets	(10)			(10)
US Tax reform impact	18			18
Revaluation of earn-out	(13)			(13)
<b>Group net income</b>	<b>944</b>	<b>93</b>	<b>(69)</b>	<b>968</b>



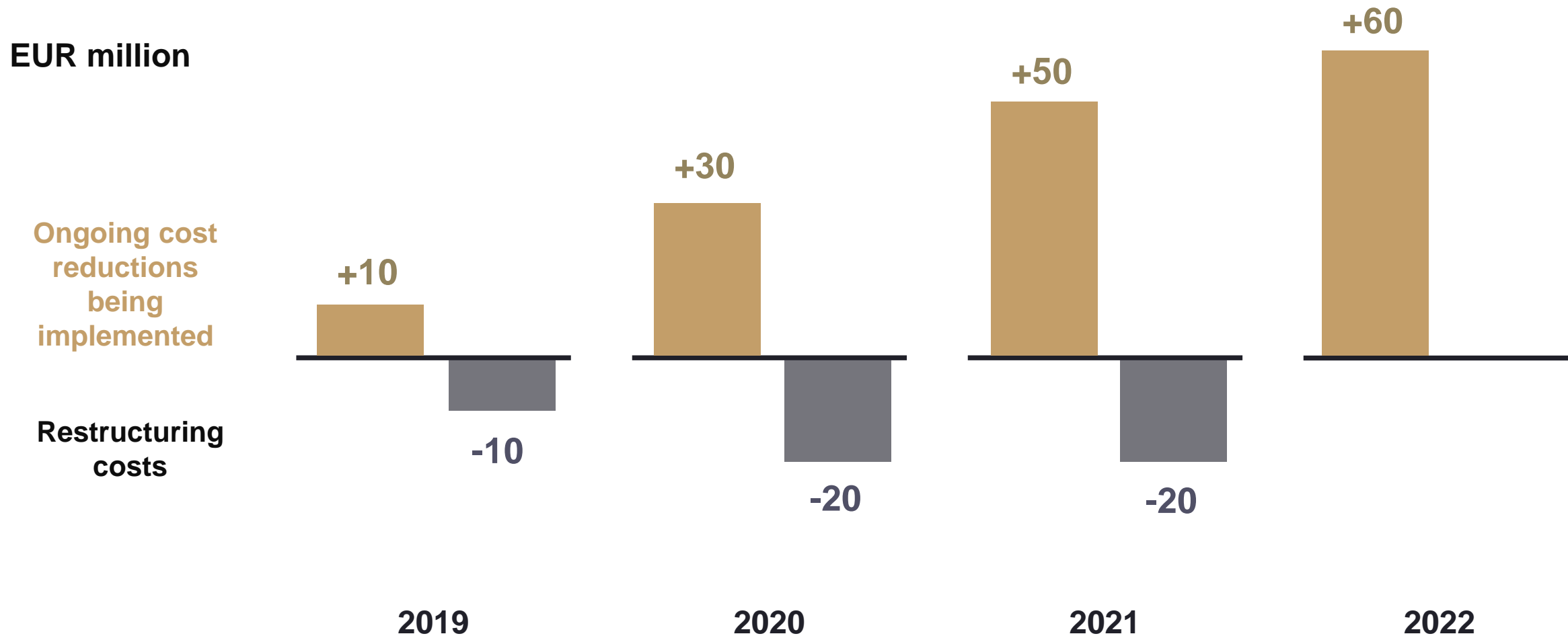
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Note: all the financial numbers are before IFRS16

# PHASING OF ONGOING COST REDUCTION PLAN AT EPSILON



# MERCI



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