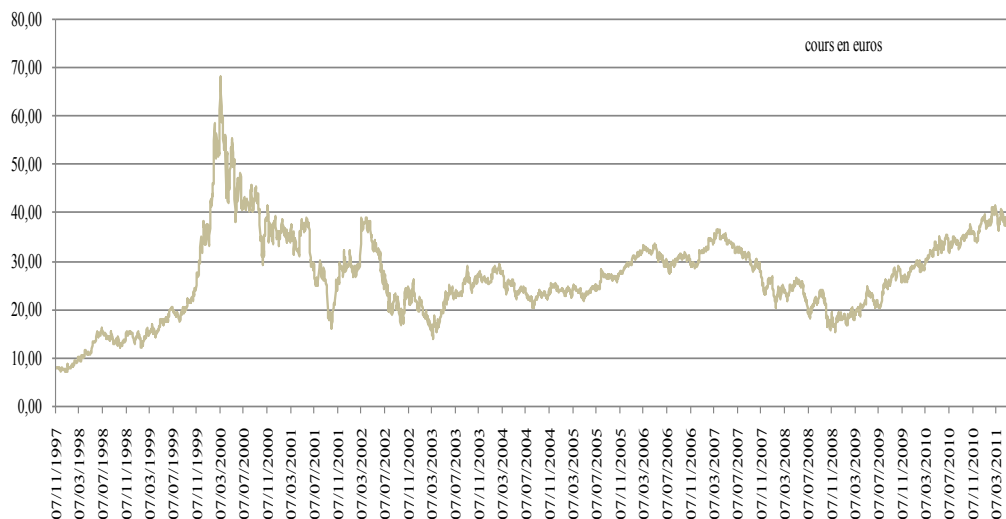


DESCRIPTION

Publicis is the 3rd largest advertising company in the world, behind WPP (UK) and Omnicom (US). The company has 3 major ad networks (Publicis, Saatchi & Saatchi, Leo Burnett), most of which have been acquired over the last 20 years. Through the acquisition of Digitas ('06), Razorfish ('09) and Rosetta ('11) and many smaller buyouts, Publicis has continuously reinforced its presence in the digital and the emerging markets, where it has the largest exposure compared to its competitors.

Share Price	38.72€
Nb of shares	202m
Market Capitalization	€7,821m
Net Debt 2011e	-€680m
Enterprise Value	€7,141m

FAIR@~€25-28
Valuation Range
[€28.6-€40.1]



Market profile

High 52 weeks	31.81€
Low 52 weeks	41.84€
Average volume	858,526

Free float	73.4%
Insiders	21.5%

Shareholders

E.Badinter	10.5%
Dentsu	9.3%
SEP Badinter/Dentsu	1.7%
Treasury shares	5.1%
Free float	73.4%

Valuation ratios

P/E 2011e/2012e	11.7x/10.0x
P/CF 2011e/2012e	9.3x/8.0x
P/B 2011e/2012e	2.0x/1.7x
EV/EBIT 2011e/2012e	7.8x/6.3x
Rendement du dvd	2.6%/3.0%
FCF Yield 2011e/2012e	11.2%/12.9%
Gearing 2011e/2012e	-4%/-16%

5 year-forecast (CAGR)

Revenue	6.1%
EBIT	9.1%
EPS	12.0%
DPS	14.5%

When buy the share ?

Publicis is the 3rd largest advertising company in the world, but the most profitable. Its a clear leader in terms of profitability, cash flow generation, thanks to its early positioning on key growth drivers (digital/emerging) and to the constant focus on cost control implemented under the leadership of visionary and long lasting CEO, Maurice Lévy.

The key focus is now on expanding the digital franchises acquired by the group and to both control costs while being able to retain key human resources and creative talents. This is probably the most difficult task to realize although its has being successfully implemented in large networks as Publicis WW, Leo Burnett and Saatchi & Saatchi.

Our intrinsic value of Publicis is close to €35.8 a share (close to €31 on a fully diluted basis). Taking into account a margin of safety of 20% (cyclicality of the advertising business), **we would consider the share particularly attractive in the range of €25-28.**

Catalysts

- 1) integration of recent acquisitions (Digitas, Razorfish, Rosetta)
- 2) expansion in emerging markets (Brazil, China are key strategic targets; PUB slightly behind WPP but ahead of rest of the competition)
- 3) a step-up in dividend policy (pay-out ratio is currently at 27%)
- 4) designation of a new CEO would clarify the future of the group and its strategy

Risks

- 1) macroeconomic risks (public debt in Europe, US; inflation in emerging markets)
- 2) overpaid acquisitions (Rosetta valued >2x EV/Sales vs 1.3x for PUB)
- 3) human resources (turnover; ability to attract talents in new media)
- 4) dilution impact of convertible bonds, stock-options... (fully diluted nb of shares is ~235m)
- 5) corporate governance (lack of independence of the board of directors)

Valuation

- DCF: €40.1 (wacc 10.3%; g 2.5%; average operating margin 2011-2018:16.3%)
- EVA: €38.8 (average ROCE 2011-2016: 13.8%; wacc 10.3%)
- Normalized earnings: €28.6