Interpublic Group (IPG.US)

Climate Transition Analysis

Climate Action 100+ Focus Company

Overall Assessment

IPG is most likely heading towards a 1.5°C pathway by 2030.

Planet Tracker assessed IPG's Climate Transition strategy by analysing its GHG emissions trends from 2019 to 2022 and its alignment with the Paris Agreement. IPG has Science Based Target initiative (SBTi)-validated targets to reduce its absolute Scopes 1 and Scope 2 (market-based) GHG emissions by 50% by 2030 against a 2019 baseline and a 30% reduction in Scope 3 (GHG) emissions by 2030. This target is in line with the trajectory of emissions we derive based on the reductions in emissions achieved from 2019 to 2022. This suggests a high likelihood of achieving the target for 2030. Beyond its 2030 target, IPG is part of the Ad Net Zero global group, which aims to move the advertising industry towards a net zero future. As of 2021, IPG has committed to reaching net zero by 2040, but details of the pathway to this goal are limited. Notably, IPG does not currently address its Advertised Emissions. This means that even if it does deliver on its own emission targets, it could still be considered misaligned with the Paris goals due to its development of advertising for other businesses that are not aligned.

In summary, we assess IPG as most likely heading towards a 1.5°C pathway by 2030. We call on the company to provide more detail on how it will continue to deliver emissions reductions over the medium term, to tie management compensation to sustainability target delivery and to address its Advertised Emissions.

Climate Alignment

- IPG has a goal to reduce its absolute Scope 1 and Scope 2 (market-based) greenhouse gas (GHG) emissions by 50% by 2030 against a 2019 baseline and a 30% reduction in Scope 3 GHG emissions by 2030. This target is in line with the trajectory of emissions we derive based on the reductions in emissions achieved from 2019 to 2022. We note that IPG currently focuses only on upstream Scope 3 emissions.

- IPG does not discuss its Advertised Emissions or any plan to reduce these in its sustainability reporting. This is a notable hole in its green credentials.

Policy and Governance

- IPG engages with its customers to work with them to reduce its own emissions and help customers to meet their Scope 3 emissions targets. IPG expects suppliers to consider the potential environmental impacts of their operations. However, it provides limited details on how it will continue to drive Scope 3 emissions reductions.

- Management incentive structures do not make explicit mention of any sustainability-linked targets. Including quantitative goals tied to an explicit proportion of compensation on both an annual and long-term basis would more directly align management incentives with delivering on climate targets.

Risk Analysis

- IPG does not currently conduct climate-related scenario analysis to inform its corporate strategy. The company does acknowledge both risks and opportunities related to climate change and has a well-defined internal reporting structure for addressing these issues.

Strategy Assessment

- IPG has undertaken various strategic initiatives to reduce its emissions so far. These have included a focus on reducing its real estate footprint and power usage by co-locating agencies and using energy-efficient certified buildings. Moving to a cloud-based software system is expected to significantly reduce carbon emissions in the next few years.

Planet Tracker

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Company Overview

Interpublic Group (IPG) is a U.S.-based provider of marketing solutions. Over the past five years (2020-2024), the company has reported an average annual revenue of USD 9 billion.

IPG operates through three core business segments: **Media, Data & Engagement Solutions**; **Integrated Advertising & Creativity-Led Solutions** and **Specialized Communications & Experiential Solutions**. The **Media**, **Data & Engagement Solutions** segment is the principal revenue driver, contributing 45% of the company's average revenue during this period – see **Figure 1**. A list of agencies under the IPG umbrella can be found here - IPG Agencies and Global Marketing Firms.

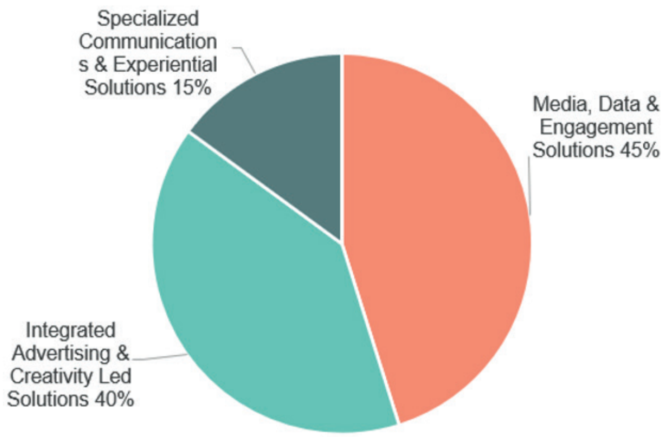

Figure 1: *Revenue - Breakdown by Business Segments (5Y Avg.). Source: IPG's Annual Reports 2020-2024.*

Geographically, IPG has established a significant presence in its domestic market of North America but is also active across the globe. Its "Domestic" North American market constitutes the majority of IPG's total revenue – see **Figure 2**.

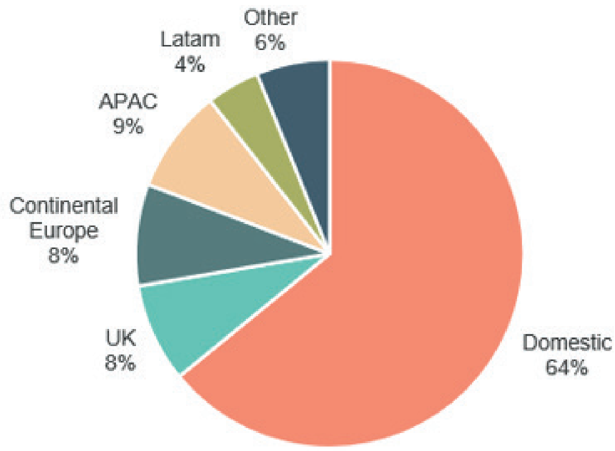

Figure 2: *Breakdown by Geography (5Y Avg.). Source: IPG Annual Reports 2020-2024.*

In summary, IPG's global operations in key developing regions like the Asia-Pacific and developed markets such as North America and Europe suggest that its climate transition risks and opportunities, along with regulatory impacts, are concentrated in these areas. These risks will be both direct to its own operations and indirect via potential impacts on its customer base.

Climate Alignment

EMISSIONS INVENTORY

Between 2019 and 2022, IPG reported Scope 1, Scope 2, and upstream Scope 3 GHG emissions. IPG does not report Scope 3 downstream greenhouse gas emissions.

Based on company data from 2019-2022, total emissions decreased from 637 kilotonnes of CO_2e ($ktCO_2e$) in 2019 to 476 $ktCO_2e$ in 2022 (25%). However, the recent trend has been for emissions to rise, with total emissions rising 19% between 2021 and 2022, driven by a 23% rise in Scope 3 emissions. We note that the exact emissions inventory reported for past years has changed slightly over time. The company has not noted a significant change to the methodology used for emissions analysis across the period. We use the latest available reported emissions for each year in our analysis, but note the potential for some inconsistencies.

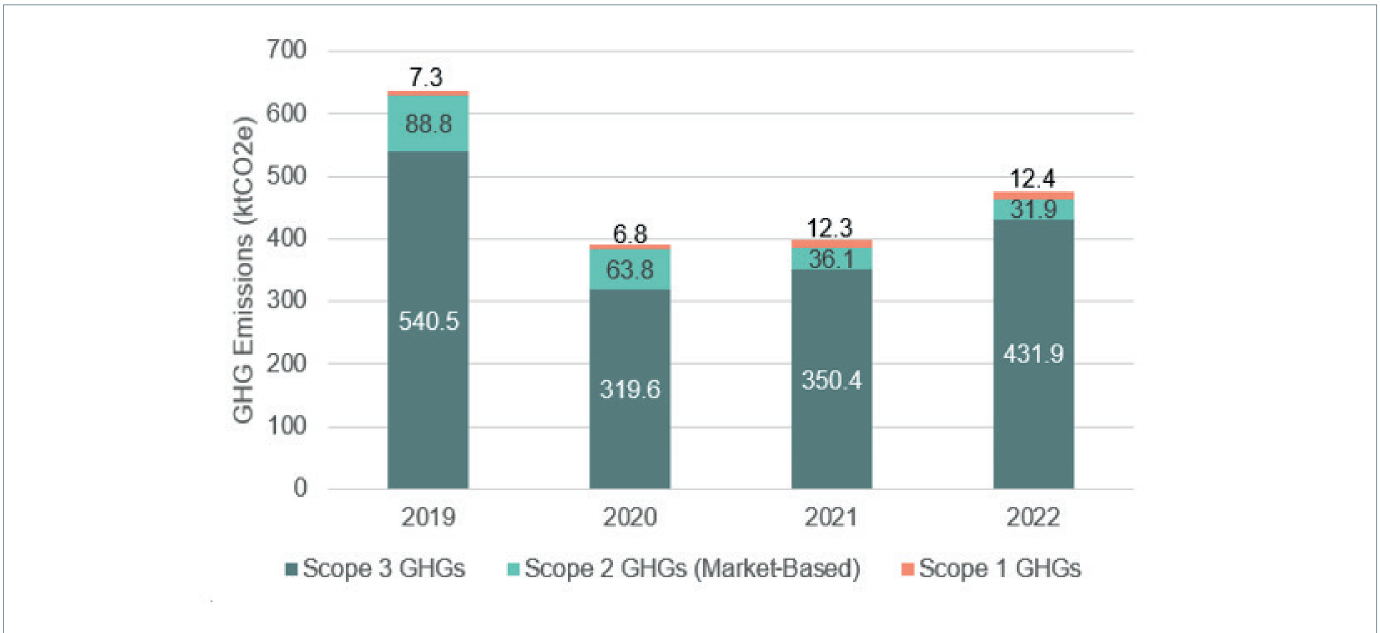

Figure 3: *IPG Reported Emission History (Source: IPG's CDP Report 2023).*

	2019 (ktons of CO_2e)	**2022** (ktons of CO_2e)	**CAGR %** (2019-2022)	**Absolute Change %** (2019-2022)
Scope 1 GHG emissions	7.3	12.4	19%	70%
Scope 2 GHG emissions (market-based)	88.8	31.9	-29%	-64%
Scope 3 upstream	540.5	431.9	-7%	-20%
Scope 1, 2 and 3 GHG emissions	**636.6**	**476.1**	**-9%**	**-25%**

Figure 4: *IPG Summary Emissions Change 2019-2022 (Source: IPG's CDP Report 2023).*

IPG's 2022 total GHG footprint broke down as follows:

- **Scope 1 emissions**: 12.4 ktCO_2e, 2.6% of total emissions.
- **Scope 2 emissions (market-based)**: 31.9 ktCO_2e, 6.7% of total emissions.
- **Upstream Scope 3 emissions**: 431.9 ktCO_2e, 90.7% of total emissions.

Within the Scope 3 category, key contributors were:

- **Purchased Goods and Services (upstream)**: 60.1% of total emissions.
- **Transportation (upstream)**: 19.1% of total emissions.
- **Processing (upstream)**: 11.5% of total emissions.

For more details see **Figure 5**.

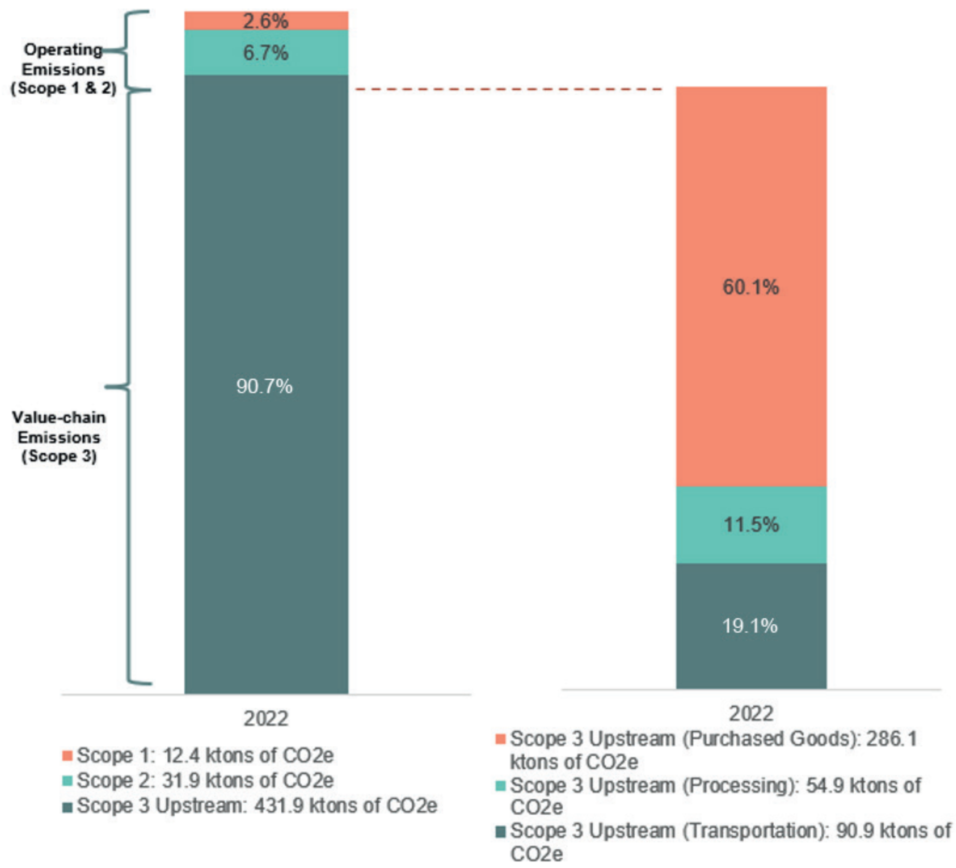

Figure 5: *Total GHG Footprint (2022) – Percentage Breakdown by Scope. (Source: IPG's CDP Report 2023).*

EMISSIONS TRENDS AND TARGETS

Historical and Expected Emissions

Based on company-reported figures, between 2019 and 2022, IPG's total GHG emissions decreased by 19%. This fall was characterised by declining emissions for all scopes except Scope 1, which saw a 70% increase (**Figure 6**).

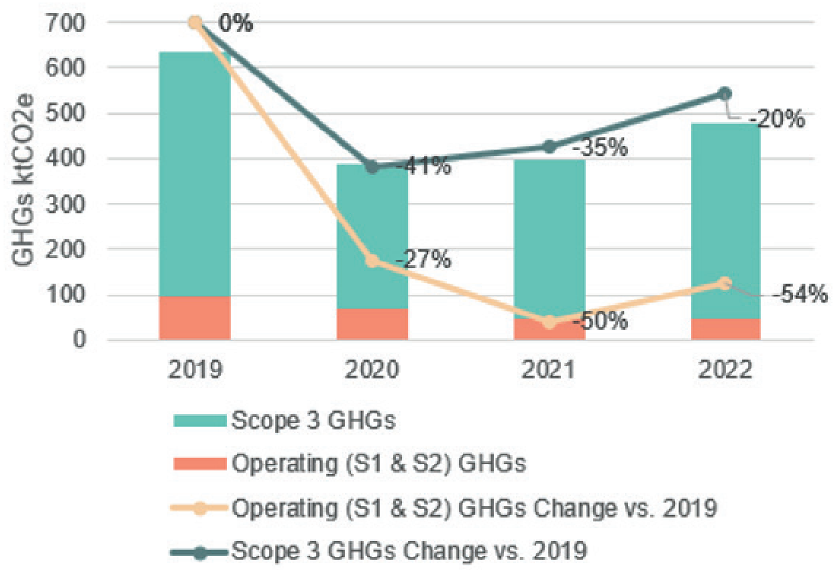

Figure 6: *Historic Scope 1, 2, and Upstream Scope 3 CO_2e Evolution (2019-2022). Source: IPG CDP Climate Response 2023. Note – We Use Market-Based Scope 2 Emissions in This Figure and Upstream Scope 3 Emissions Only.*

A high-level extrapolation model was employed to forecast IPG's emissions up to 2030. This model projects the annual emissions change rate from the past five years forward, assuming the company continues its historical mitigation efforts while maintaining an intrinsic annual revenue growth rate in the low single digits. Given that Scope 1 emissions grew over 2019-2022, we assume they will decline at the average rate of Scope 2 and Scope 3 reductions over 2019-2022 going forward.

Based on the recent emissions history, Planet Tracker's extrapolation indicates:

- **Scope 1 emissions** are expected to decrease by 54% by 2030 vs 2019.
- **Scope 2 emissions** are projected to decrease by 96% by 2030 vs 2019.
- **Scope 3 emissions** are expected to decrease by 56% by 2030 vs 2019.

This would result in an absolute emissions decrease of 62% vs 2019, with projected emissions reaching 244.8 $ktCO_2e$ by 2030, compared to 476.1 $ktCO_2e$ in 2022. In this scenario, operational emissions (Scopes 1 and 2) would account for 3% of the total footprint, while upstream Scope 3 activities would contribute 97%, as presented in **Figure 7**.

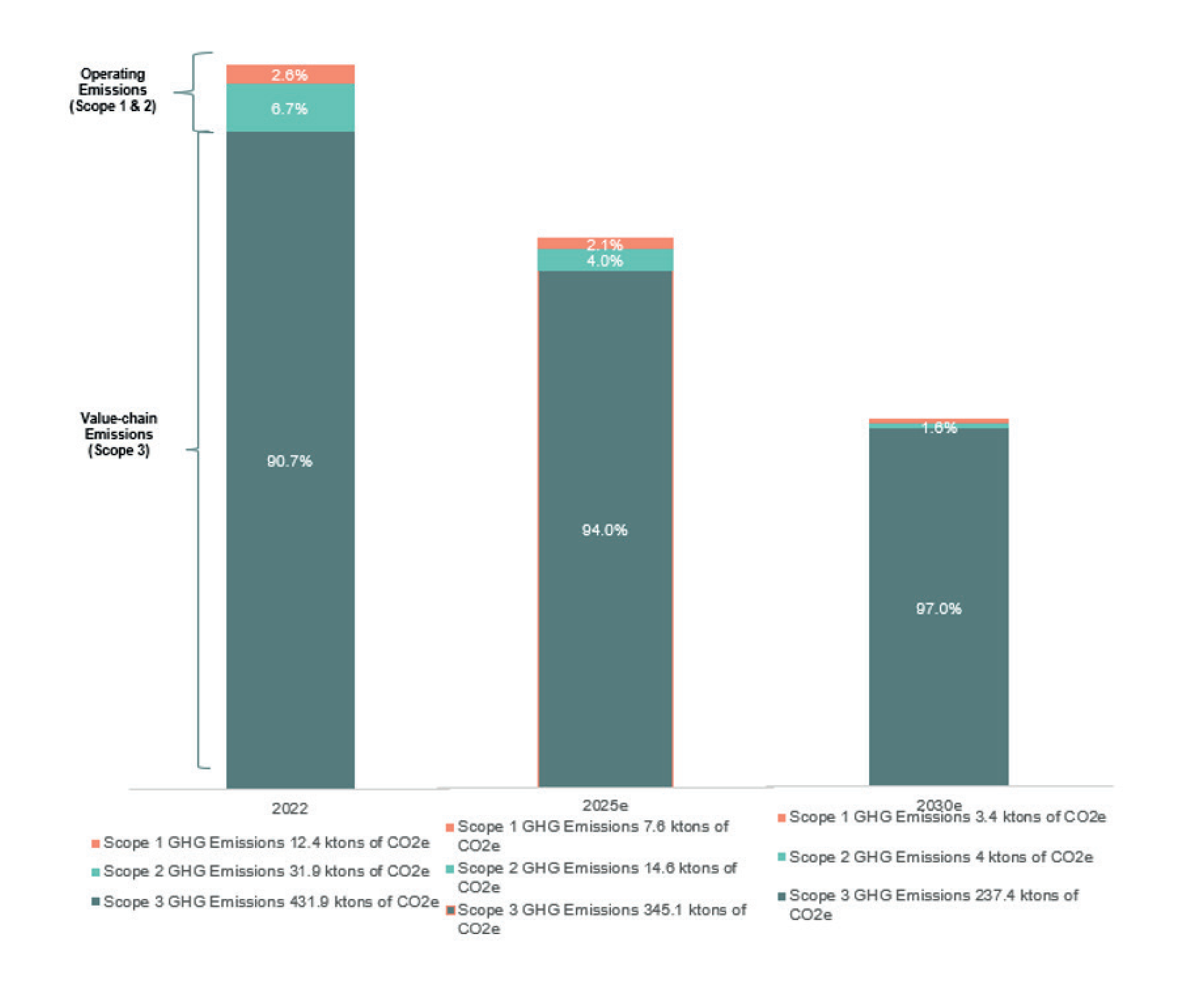

Figure 7: *Expected Scope 1, 2, and Scope 3 CO_2e Evolution (2025e & 2030e) – Percentage Breakdown by Scope. Source: IPG's CDP Response 2023 and Planet Tracker Calculations. Note: Only Upstream Scope 3 is Included Per IPG's Targets and Reporting.*

Decarbonisation Targets

IPG has a goal to reduce its absolute Scopes 1 and Scope 2 (market-based) GHG emissions by 50% by 2030 against a 2019 baseline and a 30% reduction in Scope 3 GHG emissions by 2030. These goals were validated in 2023 by the Science Based Targets initiative (SBTi). As part of this goal, the company has also committed to sourcing 100% renewable energy across its portfolio by 2030.

The company reports that progress has been strong so far, with a 58% reduction in Scope 1 and Scope 2 GHG emissions as of 2022 (against the 2019 baseline) and a 20% reduction in Scope 3 emissions. Renewable energy usage has reached approximately 20% as of 2022.

Beyond its 2030 target, IPG is a part of the Ad Net Zero global group which aims to move the advertising industry towards a net zero future. As of 2021, IPG has committed to reaching net zero by 2040, although the pathway to this goal has not been detailed.

Policy and Governance

ENGAGEMENT AND INFLUENCE

Suppliers' Engagement

IPG's engagement with suppliers is guided by its Strategic Sourcing & Procurement team. IPG expects suppliers to consider the potential environmental impacts of their operations. The IPG Supplier Code of Conduct requires all suppliers to share in IPG's "commitment to sustainability and to comply with all applicable environmental laws and regulations".

IPG encourages its suppliers to target reducing their emissions by 30% by 2030 (against a 2019 baseline), in line with IPG's own Scope 3 target, and to target reach net zero by 2040. IPG requests that suppliers look to have their targets verified by the Science Based Targets initiative (SBTi). IPG also requests that its suppliers disclose their emission data to CDP on an annual basis.

Customers' Engagement

IPG engages with its customers to work with them to reduce its own emissions and to help customers meet their Scope 3 emissions targets.

IPG also proactively engages with customers to detail its own sustainability commitments.

IPG states that its move to adopt a net-zero target of 2040 was, in part, in response to customer and investor engagement requesting that IPG set this goal.

IPG also notes that part of its long-term growth strategy is to work with its clients to develop advertising campaigns for new markets and sustainable products. IPG is working to "create a fundamental change in marketing" that helps shift demand towards sustainable and environmentally responsible products and services.

IPG states that it screens prospective clients from the oil, energy and utility sectors. This screening is based on a series of questions that the potential customer must affirm before IPG will work with them. It notes that they have turned down potential new business from clients who have not met these requirements.

What About Advertised Emissions?

Advertised Emissions are the greenhouse gas emissions that result from the uplift in sales generated by advertising. This can be a material source of emissions. Work by industry network Purpose Disruptors and econometrics firm Magic Numbers in 2021 estimated Advertised Emissions in the UK market alone at 186 million tonnes of GHG, equivalent to the emissions of the Netherlands[i].

Asking advertising 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.

In 2024, Race to Zero[1], a global campaign led by the UN Climate Change High-Level Champions published a report setting out a six-point framework as to how service providers, like advertising agencies, can be a key driver of the transition to net zero[ii]. Many large businesses already require their agencies to be *a signatory* to the United Nations-backed Race to Zero campaign. However, IPG is one of two large holding companies that are not signatories (Omnicom is the other).

IPG provides limited disclosure on its client mix. In its 2023 Annual Report, it states that "*...our largest client sectors (in alphabetical order) were financial services, healthcare, and technology and telecom.*" Moving to report its Advertised Emissions and how it will reduce them over time would be a key step for IPG in aligning with a net-zero future.

IPG does state that it screen prospective clients from the oil, energy and utility sectors and has turned down potential new business from clients in these areas.

"IPG and our companies now proactively review the climate impacts of prospective clients that operate in the oil, energy and utility sectors before accepting new work. We have worked with a third-party expert in the area of climate change to develop a set of questions that we expect prospective clients to affirm before we enter a new partnership."
- IPG CDP response 2023

Influence on Policymakers

IPG is a member of advertising industry trade associations that engage in lobbying. IPG claims that its ESG Steering Committee assesses the activities of these organisations to ensure they align with IPG's corporate strategy. Trade associations it is a member of include:

- **American Association of Advertising Agencies (the 4As)**: the 4As network of clients and peers provides IPG with opportunities to collaborate on sustainability. IPG's CSO is a member of the 4A's Sustainability Task Force. 4As also provides resources and information-sharing within the network. 4As also has a Benefits division that advocates for policies to support the advertising industry, and a Foundation to connect multicultural talent to the industry.

1 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.

MANAGEMENT ALIGNMENT

Sustainability Targets Oversight

IPG operates with a governance structure comprising a Board of Directors of up to 12 members, consisting of a mixture of independent and management directors. The Chair of the Board may be an independent or management director and may also be the CEO of the company.

A number of committees report to the Board of Directors and are peopled by members of the Board. They include the Audit committee, Compensation and Leadership Talent Committee, Corporate Governance and Social Responsibility Committee and Executive Committee.

The Corporate Governance and Social Responsibility Committee has primary oversight for IPG's ESG-related policies and practices. The Audit Committee has primary responsibility for overseeing risk management, which includes climate-related risk. Climate-related issues are conveyed to the board via the Chief Financial Officer (CFO), Chief Sustainability Officer (CSO) and Global Assistant Controller. The CSO is responsible for monitoring climate action performance and assessing and managing climate-related risks and opportunities.

Management Compensation

The CEO and other executive managers receive performance-linked compensation, including monetary rewards, bonuses as a percentage of salary, and stock options. In FY2023, performance-linked pay constituted approximately 90% of the CEO's total compensation, with 20% tied to annual targets and 70% to medium- and long-term targets. For other executive managers, performance-linked pay accounted for about 76% of total compensation on average, with 23% linked to short-term targets and 53% to long-term incentives.

Key targets for executives include:

- **Organic Revenue Growth %**
- **Operating Income Before Incentives and Amortisation of Acquired Intangibles (OIBIA) Margin%**
- **Individual Priority Objectives**

The individual priority targets focus on progress on group level strategic priorities; DE&I initiatives; talent management and cross-agency collaboration. Together, these targets are given a 20% weighting in determining annual bonus awards. It is disappointing to see no explicit mention of sustainability-linked targets in the compensation scheme design.

Risk Analysis

FINANCIAL IMPACT

IPG does not currently use climate-related scenario analysis to inform its strategy. IPG does include opportunities and risks from climate change in its annual company-wide risk management process.

Opportunities

IPG anticipates that its sustainability efforts could enhance its reputation with clients. This could include new opportunities as clients adapt to of climate change.

IPG notes that climate change is boosting interest in novel technologies and services related to mitigation and adaptation. These new businesses offer an opportunity for IPG to develop advertising campaigns to help to shift consumer behaviours.

IPG anticipates that moving to more energy-efficient buildings and consolidating its floor space will reduce operating costs over time.

Transition Risks

IPG anticipates its major customers potentially seeking to do business with companies taking action to address climate change. It notes that this could require IPG to meet client sustainability standards, which may be more stringent than current laws or regulations.

IPG also expects investors to increasingly demand that their portfolio companies take action on climate change. It notes that if large shareholders reduce their ownership stakes due to dissatisfaction with IPG's sustainability efforts, this could negatively impact its cost of capital.

IPG notes that if clients are adversely affected by climate change or related regulations and laws, they may have less money to spend on IPG's services. Supplier prices could also rise for the same reasons as they seek to pass on costs.

IPG also notes the importance of its brand reputation and that this could be put at risk if it is thought not to be taking climate-related issues with appropriate seriousness or if it fails to adhere to environmental laws and regulations.

Physical Risks

When it comes to physical climate change impacts, IPG notes the risk of extreme weather events and rising sea levels. Such events could affect employees' ability to work. Extreme weather events could also pose a risk of damage to IPG properties and of employee injury. Damage to properties could lead to asset impairments or write-offs or force the early retirement of assets with associated costs of relocation and/or replacement.

IPG is addressing the risk of climate-driven disruption to work by putting in place plans for displaced employees to be able to work at nearby offices. It also has invested in remote working infrastructure.

IPG notes that climate change could raise the cost of air conditioning its properties. It estimates the cost of air conditioning could rise as much as 5-10%. To address this, they consider energy efficiency in all new property build-outs.

In the longer-term, it notes that it could face changing legal conditions associated with climate change. It anticipates that different regions could operate under different climate-policy regimes. The company tracks such potential changes in regulations. This could raise the cost of compliance.

RISK MANAGEMENT

Risk Management

IPG considers risks and opportunities as having a potentially substantive financial impact when they exceed 5% of group operating revenues.

Physical risks related to climate change, for instance, extreme weather events, are included in IPG's business continuity planning.

IPG has offices in cities around the world that could be affected by climate-related weather events or sea-level rise (noting New York in particular). It has invested in cloud infrastructure to enable employees to work remotely as necessary, reducing the risk of office closures.

Strategic Assessment

CAPITAL ALIGNMENT

IPG has a goal to reduce its absolute Scopes 1 and Scope 2 (market-based) GHG emissions by 50% by 2030 against a 2019 baseline, and a 30% reduction in Scope 3 GHG emissions by 2030. These goals were validated in 2023 by the Science Based Targets initiative (SBTi). As part of this goal, the company has also committed to sourcing 100% renewable energy across their portfolio by 2030.

The company reports that progress has been strong so far, with a 58% reduction in Scope 1 and Scope 2 GHG emissions as of 2022 (against the 2019 baseline) and a 20% reduction in Scope 3 emissions. Renewable energy usage has reached approximately 20% as of 2022.

IPG notes several initiatives that have helped drive the reduction in emissions seen so far:

Efficient use of space – IPG has moved to reduce its real estate footprint by co-locating agencies where possible.

Energy-efficient buildings – Since 2016, all new buildings have been required to be Leadership in Energy and Environmental Design (LEED) certified or better.

Proactive energy management – Over the next four years IPG is looking to roll out company-wide use of cloud-based computing to reduce energy use. The company states that moving to using cloud-based, energy-efficient data centres will help to "significantly reduce" carbon emissions. As noted, the company has also committed to sourcing 100% renewable energy across its portfolio by 2030. As of 2022, it had reached 20% renewable energy.

TRANSITION APPRAISAL

Planet Tracker assessed IPG's climate transition strategy by analysing its GHG emissions trends from 2019 to 2022 and its alignment with the Paris Agreement. IPG has a goal to reduce its absolute Scope 1 and Scope 2 (market-based) GHG emissions by 50% by 2030 against a 2019 baseline, and a 30% reduction in Scope 3 GHG emissions by 2030.

This target is in line with the trajectory of emissions we derive based on the reductions in emissions achieved from 2019 to 2022. This suggests a high likelihood of achieving the target for 2030.

Planet Tracker's assessment also reviewed IPG's Policies, Governance, Risk Management and Capital Alignment to evaluate its ability to sustain its historical progress on emissions reduction. The company has undertaken various strategic initiatives to reduce its emissions. These have included a focus on reducing its real estate footprint and power usage by co-locating agencies and using energy-efficient certified buildings. Moving to a cloud-based software system is expected to "significantly" reduce carbon emissions in the next few years.

Notably, IPG does not currently address its Advertised Emissions. This means that even if it does deliver on its own emissions targets, it could still be considered misaligned with the Paris goals due to its development of advertising for other businesses that are not aligned.

Generally, IPG's Climate Risk Assessment and Management strategy reflects a commitment to managing key risks and leveraging opportunities. The company acknowledges both risks and opportunities related to climate change and has a well-defined reporting structure internally for addressing these issues. Risks it has identified include physical risks to its premises and staff from extreme weather as well as reputational risks if clients do not associate IPG with strong climate action. Opportunities identified include potential new business lines linked to clients developing new climate change-related technologies and services.

We note that management incentive structures do not make explicit mention of any sustainability-linked targets. Including quantitative goals tied to an explicit proportion of compensation on both an annual and long-term basis would more directly align management with delivering on climate targets.

In conclusion, IPG demonstrates a good commitment to achieving its climate transition goals, supported by credible initiatives and a management structure that is supportive. While certain gaps remain, such as transparency on Advertised Emissions and a need to align management compensation with sustainability goals, the company's efforts position it to align with a 1.5°C pathway by 2030.

Planet Tracker concludes IPG is likely to align with a 1.5°C pathway by 2030.

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i Advertising adds 28% to the annual carbon footprint of every single person in the UK - Magic Numbers

ii The-role-of-professional-service-providers-in-realizing-a-net-zero-future.pdf

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Planet Tracker is a non-profit financial think tank producing analytics and reports to align capital markets with planetary boundaries. We aim to create a significant and irreversible transformation of global financial activities by 2030. By informing, enabling and mobilising the transformative power of capital markets we aim to deliver a financial system that is fully aligned with a net-zero, nature-positive economy. Planet Tracker proactively engages with financial institutions to drive change in their investment strategies. We ensure they know exactly what risk is built into their investments and identify opportunities from funding the systems transformations we advocate.

PLANET TRACKER'S CLIMATE TRANSITION ANALYSIS

As part of its Influencers programme, Planet Tracker is examining the transition plans of the six major Advertising Agencies. Our goal is to provide investors with the key information and analysis they need to be able to hold the companies to account for the quality of their climate transition plans and their execution against those plans. We also encourage investors to use this information to engage effectively with these companies with the aim of driving the sustainable transformation of the advertising industry.

ACKNOWLEDGEMENTS

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WITH THANKS TO OUR FUNDERS

KR FOUNDATION

Suggested citation:
Wielechowski R., Interpublic Group Climate Transition Analysis, Planet Tracker (2025)

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