Stagwell 2021 Investor Day, November 8, 2021

Speaker 1:

Ladies and gentlemen, we'll be beginning in one minute, please take your seats. Ladies and gentlemen, please welcome Jay Leveton, president of Stagwell Incorporated.

Jay Leveton:

Good afternoon and thank you all for joining us today. Pleased to welcome many of you here at our global campus, used to saying virtual, but actually global campus, in-person here at the World Trade Center. We pleased that you're here today. Also, we have our live stream going, where we have a group of people follow along virtually. For those who are on the live stream and for those who are here in-person, we do have an agenda for you just to grow through it quickly, we'll start off with a conversation around Stagwell's strategic direction, presentation by Mark Penn, our chairman and CEO. And then we will transition to a discussion of our growth engines, four of our key company CEOs will be giving discussions and presentations around their companies, followed by our Chief Investment Officer, Jason Reid and our Chief Financial Officer, Frank Lanuto to view a greater sense of the numbers behind our business.

Jay Leveton:

And then, we have a special presentation and conversation on the future of the consumer economy led by Gerry Baker from the Wall Street Journal, along with former Treasury Secretary, Larry Summers, and also again with Mark Penn, our chairman and CEO. And then for those in-person, please join us outside for cocktail reception. And we look forward to kind of chatting with you all one-on-one and more in in-person afterwards. Before we get going, a couple housekeeping items. First I'd like to remind you that today's event contains forward looking statements and non-gap financial data. Forward looking statements about the company include those related to earnings guidance, are subject to uncertainties referenced in the document titled forward looking statements and non-gap financial data, posted to the investor section of our website at stagwellglobal.com. You can go there for more information. If you have any questions, most importantly, if you are here in the room, you'll see a on your agenda or into placards next to you, there is a QR code, please use that to ask questions.

Jay Leveton:

And if you are on the livestream, please feel free to chat your questions in the software program. Most importantly, if and when you have questions, please do submit them, but we will be consolidating them for the very end and allowing our presenters to present on without questions and we'll be answering them toward the end of the presentation. So with those notes out of the way, let's get things going. I'm very pleased to introduce a video that talks about the work here at Stagwell Inc., and all of this work is all work that we have done here, in the company and all of our agencies. So with that, let me get going on the video and I'll be right back.

Speaker 4:

(singing). [Vinchenzo], come on.

Speaker 5:

Knock, knock, I got your Subway.

Speaker 6:

Here.

Speaker 7:

A dealer is going to deliver this car to our home.

Speaker 8:

Feels like both of my worlds are clashing together.

Speaker 9:

Who got my back?

Group:

We got your back.

Speaker 9:

Who got my back?

Group:

We got your back. (singing).

Jay Leveton:

Okay. So with that, let's jump into the program. And, I think it would make sense to have a special guest come along and introduce our Chairman CEO, Mark Penn, someone who knows him very well from the last couple decades, having gone to college with him and also worked with him when he was at Microsoft. So let me give a special welcome to Steve Ballmer, who will join via video.

Steve Ballmer:

Hi Steve Ballmer, former CEO of Microsoft, co-founder of the Ballmer Group and founder of USAFacts. I've known Mark Penn for many, many years. We go back to Harvard, where we passed each other working on the Harvard Crimson newspaper. I got to really know Mark when he helped us at Microsoft. Mark started to do some critical work for us in the 1990s, leading up to working directly for me several years after on pathbreaking advertising and other campaigns. Mark is someone whose opinion and judgment I came to value and I have enjoyed working with Mark over the past three decades. Six years ago, I made an investment with Mark on an idea. The vision was, could he create a company that would use his 45 years of work in the industry and create a new kind of marketing services company? The answer, yes.

Steve Ballmer:

A lot of people make a lot of promises, but Mark is a guy who gets things done. It's just the kind of person he is. In those six years, since he started, Stagwell has gone from a blank slate to a $2 billion corporation with over 10,000 people across all the core marketing disciplines. I believe that Stagwell is the first digital first marketing company, the company that Mark said he would create when we started. And, I believe that Stagwell is really just getting started, in terms of what it can accomplish as a global public company. I just want to say that I've been personally incredibly impressed with the ability of Mark and the rest of the leadership team to create Stagwell and I'm very proud to be their original investor. I'm excited for the future of Stagwell and I really look forward to hearing what Mark has planned for the next six years. Thanks a lot. I love Stagwell.

Mark Penn:

All right, well, thank you, Steve. Steve was on the Business Board of the Crimson. We always, at that time, we didn't appreciate the business board. Although Jim Cramer was on the Crimson with me, he was actually my first broker, promptly lost a third of my money and I had to move him elsewhere, move my money elsewhere, what I had left of it. So I'm going to really kind of give you a run through today on Stagwell, where it is, where we're going, what the future is and why it's a good place to invest. And, somebody's got to give me the clicker here. All right. Thank you.

Mark Penn:

And, we are going to look into this. So what I want you to think about is if you're investing in Stagwell, you are investing in the future of marketing. And marketing itself is something that's undergoing vast transformation, as it went from mass marketing to individualized digitally placed marketing. And when you look at Stagwell, you're going to go through the high growth digital services we offer, the proven leadership team, the strong margins, the industry leading growth, the platform that we have created to continue to expand and grow, and how specifically we're going to move into larger markets.

Mark Penn:

So first, let's take a look at the marketplace itself. The advertising market is ripe for continued disruption. If you look at the marketplace today, it's about 120 billion in services. Stagwell comes in here at two billion. You can see the consulting companies have eked out about eight to $10 billion marketplaces. Primarily, those companies got the back end of marketing, but really didn't have the full front end of marketing, the creative services. The holding companies that everyone loves to hate, but have no alternatives to using are about 60 billion of the marketplace. And obviously, one of our primary goals is to push into this marketplace in a significant and growing way, taking advantages of what we believe the problems in the marketplace with the competitors. Some are too big and have to slim down, some are behind the times in technology., Some don't have the creativity that you really need to grow.

Mark Penn:

Let's take a look specifically at the disruption, if you look at the advertising marketplace in 2030, 35% of it was TV [inaudible], of it was newspapers and 15% magazines. Obviously now, newspapers and magazines have moved online. And it's all about the 44% that continues to grow here, in terms of digital, online marketing. But television is still 31%, so there's still continued use of television. Although television itself is going to become more connected TV, which means more addressable TV, which is really good when you think about it for companies like us to be able to create, because creative will still play an incredible role combined with technology. And the critical thing to think about with us is that combination of creativity and technology that can grow in the marketplace. Now, let's take a look at some of the other related marketplaces. E-commerce is growing at an 18% CAGR. So every time that they spend, people spend more and more online, logically that is going to generate more online marketing. If you look at the general category of digital marketing services, we see that, that's growing at about 13% a year.

Mark Penn:

Now we also have an investment in advocacy, and if you look at generally that spent on issues and candidates from a made paid media point of view has been growing at 22%. And you look specifically at online fundraising, online fundraising has been growing at 60% CAGR, so it's a tremendous growth marketplace. Anytime you look at the platforms now, what people talk about, in terms of issues, in terms of their commitment, in terms of their ability to contribute. And, some of the presenters later on will explain that in greater detail. I want you also to look at a couple of other related markets, which we're going to move Stagwell increasingly into. One is the market for precision data. If you look at the market research and measurement data, that market is relatively slow growing. But when you look at the new types of information that can be garnered from online analytical sources and to get that kind of data on an interactive basis, that market is actually growing quite significantly and is about another $150 billion marketplace.

Mark Penn:

Then we look at getting technology, about, if you think about it and I ran for a while, all of the advertising/marketing at Microsoft, I enjoyed about a $2 billion budget at the time, but I had my internal team, which was in-house, certain services and techniques that we did in-house, and then I had my agencies. And increasingly as campaigns become more complex, there's another 43 billion marketplace, and campaign management software and customer platform spend that we're also going to tap into. Again, if you look at e-commerce, what's happening in e-commerce is that Amazon and Walmart are discovering that they can make money, not just by selling products, but by selling advertisements within their sites to sell products. And it turns out because they have marginal cost of zero on that, that it's really pretty significantly and a fast growing area.

Mark Penn:

But how do clients decide where to place it, how to place it, how much to spend, that creates new business for Stagwell. Connected TV, as I said before, is also a great area of growth for us. Because what's happening to those people who made traditional television spots. Well, now, if you're going to have connected TV, but generally the most important feature of connected TV is that you're advertising will become more individualized. Well, that means that one ad then has to turn into five or 10 ads. So in order to carry out the promise of connected TV, you really have to go to marketing services companies who can, A, target it effectively, and B, create multiple creative now that can take advantage of the differentiation that can be had in the marketplace. So go back to the in-housing, about 25% of marketing budgets are spent on in-house labor.

Mark Penn:

So that means, in order to play a hundred percent across the marketplace, we don't want to play in just 120 billion that goes to outside services, we also want to play in this and I'll come back to that in a few minutes. Now, let's take a look at Stagwell today. What we have achieved and what was a critical part of the combination of companies that we went through this year was to create an integrated platform for the modern marketer. That means having digital transformation services, the ability to build digital consumer experiences, to design, and engineer and deliver those experiences. We now have, if you look at it, as I'll explain, we have about a 1000 engineers backing up 1000s of designers who are able to deliver those experiences. Second, you need performance, media and data capabilities. You have to be able to deliver advertisements to exactly the right people at exactly the right time, addressable on a global scale.

Mark Penn:

You need to have insights and strategy in the campaign planning, and you need to have strong creativity and communications, that this is really the pyramid that makes up what a modern marketer needs to deliver the right ad to the right person at the right time. And we have filled in quite significantly, each of those blocks in the pyramid, and now have about 10,000 employees, a 1000 engineers, going into the $120 billion market. We're in 68 cities and 24 countries. And importantly, we have 4,000 blue chip clients. A lot of what we're doing is saying, "We already have, whether you name virtually any well known company will touch Stagwell in some way." "The question is, how do we increase our share of wallet with those incredible clients?" We've got about 2.2 billion LTM revenue and close to 400 million LTM adjusted EBITDA and free cash flow at about 50%.

Mark Penn:

we have now put together a coherent experienced management team. As Steve said, I've got a little experience myself, everything from managing to being someone who's founded a company, who put it into larger companies to managing larger assets. Part of the problems I find in the industry as a whole, is that people running it don't have the actual experience. This team does. Jay has worked 25 years in this industry. Beth has worked 25 years in this industry. Frank and Ryan worked in finance departments of the largest marketing services companies. Through and through this, we really have core experience and we have a corporate leadership team that runs all the corporate functions. But then, we also have consolidated a business leadership team that runs the frontline businesses across the 360 degrees of services.

Mark Penn:

When you look at it, I've taken what would be, kind of a large mass here and when I started, was really an archipelago of various companies and we have collapsed them into networks. Those networks are run by key leaders. The Constellation Network has, say 72 and instrument in it. And they combine the combinations of services, so we can go-to market with different flavors of creativity and technology, but much more effectively than in the past. The donor partner network, best known for kind of what we call main street marketing. Code in theory, with FNB kind of leading a digital transformation, anomaly, you'll hear from Carl Johnson, who's just had a fantastic combination of strategy and creativity. And then our communications and advocacy group, which really kind of spans, I think the waterfront on these issues.

Mark Penn:

In the middle is what we've put together as the Stagwell Media Group and that can service the entire constellation here, and a global solutions group that can draw from any of these case studies and talent from anywhere in the network. And a digital innovation group that we are launching, as you'll see and that we have launched, but that we are going to put increasing emphasis on in the coming years. We created the Stagwell Media Network. It's a single network that now brings us the capabilities from top of the funnel, all the way down to CRM and loyalty, all the way down to B&B. And this gives us centralized platforms for media buying, and they're partners with the creative companies who have the frontline entrances into the CMOs. This really didn't exist before, these were resources that were too spread apart, not really relying upon the full power of the $5 billion of media that they either place or are responsible for placing. And this is a strong, new and growing unit, some of the best new accounts are coming in particularly to Assembly and GALE.

Mark Penn:

I mean, I think the message of my earnings call was kind of straightforward that the merger's working. We showed a net revenue growth of 25%, organic growth of 23%, adjusted EBIDA of a 100 million, up 12.4% year-over-year, adjusted EBIDA margin of 20%. And I'm going to come back to the digital revenue mix of the 48% and larger contracts are beginning to come into the house. We're getting invited, even the merger was announced August 2nd, right away people see, I think the pickup in terms of the size of contracts. If you look at it, if I look over the last period, Cue Health, three agencies working together, WorldStride, three working together headed by Ray Day from the central marketing team, Amazon Kids+, several agencies working together, Supercuts looking together, integrated creativity and media. You see how the Stagwell Media Network and the organization of the company is working to produce new kinds of contracts and results that, frankly, weren't there before. And, this is a critical element of growth through the merger. So, where are we going? I call my general plan, giving Stagwell new digs. And so, it really has four dimensions, digital, integrated, global and strategic. And so, obviously continuing to invest and leverage the growth in digital business. Integrating to me has separate meanings, bringing together back office services into network-wide functions, and IT, HR, real estate and going to the market as a single entity for more scaled integrated assignments. Global is obviously, we're continuing to expand the network out from the U.S. globally. And strategic, we have built a platform for strategic acquisition that we obviously can successfully manage, as a critical part of continued growth as well.

Mark Penn:

So, let's take a look again at this pyramid and put some numbers around it. If you really look at the pyramid, 48% of our revenue now is from these core digital services, digital transformation, digital media and data, and digital research and insights. Now, if you look at one of the larger holding companies, the largest said, "They hoped to have 40% in this bucket by 2025. We have 48% in this bucket today. And, that's fundamentally why our growth curve is so much stronger than the rest of the industry. We are better positioned in the marketplace, based on where we are. And just to give you examples, if I take out these companies, Code, YML, Instrument, GALE, Assembly, NRG Harris and Targeted Victory, together, this group is about 37% of net revenue, 44% of adjusted EBIDA and their growth was 89% and 145%.

Mark Penn:

So this group represents, something way bigger than an acorn growing into something as certainly as big as an oak tree. And if you kind of run through the math of the formulas, you'll see that we've really hit the sweet spot of growth far above the typical overall 13% growth of digital marketing services with these companies. This means by 2025, these core digital services will be about 65% of the company. And we will also be adding on top a layer of SaaS and DaaS products. So, we'll be 65% high growth digital. And by that, we mean growing at about 20% or more a year, we'll be adding the layer of SaaS and DaaS products. And, we will continue our strong emphasis on the combination of technology, but the creativity will continue to shrink as an overall proportion of the business. We expect the longer term mix to be about 80/20 because we expect, again, the continued growth curves here, along with the transformation in marketing. Now, let me come back for a couple of minutes on the SaaS and DaaS, right now, we don't have any current... Really we have some modest current revenue, but we have built up a suite of products and have the ability to go into these marketplaces on a very cost effective basis. A startup that might cost tens of millions will cost just a few million within the Stagwell network. Why is that? Because, we have thousands of quality clients already connected to us in marketing areas. We have already a thousand in-house engineers and we have thousands of marketing experts, who understand what clients need. It gives us a fundamental advantage that we're already applying in the marketplace. The goal here will be to create a Stagwell marketing cloud that, that cloud will be sold as a unified set of services and it will go for those people who are doing in-house marketing.

Mark Penn:

So if you're doing in-house marketing, you're going to need an influencer marketing platform, such as we have. You're going to need an ability to target and create target markets. You're going to need AI that tells you how news releases are going to fair in the marketplace. You're going to need to know how to place marketing in the emerging AR and VR world of advertising. You're going to need a terminal with competitive brand information. So we believe that as currently, these have been developed as individualized products, what we will do and be putting a wrapper around them as the key tools for in-house marketers. And we will have a suite of tools that cover each and every of the key services, just as we have now completed a 360 degree marketing wheel for what the modern marketer needs out of house, we'll complete on a technology platform basis what's needed here.

Mark Penn:

And this, we believe then opens us up to significant additional TAM, which right now is included only modestly in any of the numbers. I want to just give you an example of Q, this product is kind of nearing completion. It takes our flow of first party proprietary data that we have coming out of the research, puts it together with client data, and then really designs target marketplaces without having to have cookies. And this is an invaluable platform for creatives, for media targets, for, frankly, both agencies internally using this and clients who are doing in-house work. This is a little video that explains a little bit more about this product.

Speaker 10:

Build for the post cookie world. The consumer understanding and engagement platform turns overwhelming data into fresh target audiences and opportunities for growth, filtering out the data you don't need, organizing and making sense of the data you do, how can you get the right message to the right person at just the right time? CUE, the consumer understanding and engagement platform. CUE turns overwhelming data into fresh target audiences and opportunities for growth. It's a unique, scalable way to capture and connect consumer data. How does it work? Let

Speaker 11:

Let's say you work at Sweet World, LLC, the maker of amazing cakes and candies. CUE combines proprietary survey data from millions of consumers; web data, retail data, all of Sweet World's customer information and even competitive analysis. First party data, no cookies needed. The unique data combination enables AI powered analysis to conclude that pink and purple sprinkles are key ingredients to add to new treats and to attract new fans. Turns out that sprinkle bowls in sets of three and in assorted flavors are exactly what consumers want. CUE also identifies the right targets in marketing channels for these new treats and activates your campaign in a true omnichannel fashion. Stagwell's

CUE is the new intelligent way to make sense of all that data in real time and solve your marketing problems. CUE it up today.

Mark Penn:

So right now that continues to be in testing against other marketing methods, and we expect this to be released within the coming months to consumers directly, but is already being applied to consumer problems internally at Stagwell and meeting a good pickup. Another area where we've really moved into data as a service is we've taken the Harris Poll and its corporate reputation work, and we've terminalized that into basically something that a brand marketer can use to identify, let's say if your Citi Bank, it will be a four or five JPM Bank of America, monitor all of the corporate reputation in real time, changes across against you and your competitors. This has gone from zero to a $5 million run rate over the last several months. It's really had tremendous pickup and we're going to be taking really both. A lot of the media surveys that we do for the studios and streaming companies, terminalizing them and turning them into the same kind of revenue.

Mark Penn:

And we're also going to be taking our... I think we have the largest smartphone survey in the country, and that's about almost 200,000 people a month, and terminalizing that and critically turning all of this stuff into kind of recurring terminalized revenue as the second piece of the assassin death initiative. There's some other frontiers that we're likely to go into. We'd go into NFTs from the point of view of marketing. Which is to say if a big company, fast food company wants to create NFTs that they're going to give out in a contest. So we expect that there are interesting marketing opportunities in NFTs that we can create a market for. We've already started working on the augmented reality problem, particularly starting with a relationship with a major baseball team to develop in-stadium augmented reality experiences where you hold your phone and you see more and more information about the game, the players and perhaps a few ads at the same time. We'll be looking at a QR advertising marketplace as expansion of that.

Mark Penn:

So, these are examples of areas that it's important to see Stagwell is an evolving and developing company. It is about transforming marketing. It is about catching the changes as they occur. It is about becoming more adaptive to those changes. And that's where we're going to expand the TAM from approximately 120 billion to approximately 300 billion, because we expect to then be open to these marketplaces, particularly the in-house suite and particularly the marketing data then puts us in this combination of market spaces. But even without those changes, I think you see the earnings of the last quarter, you see this incredibly significant growth path by having 48% being high growth digital services in our current mix. We're not going to forget about the $30 million of synergies. A lot of those synergies take place in the media department where we've brought everybody together and can have a centralized accounting and placement platforms that serve as resources for the rest of the companies.

Mark Penn:

We were also expanding out globally. Remember we've added an affiliate program because the market was primarily... If you look at Stagwell after the combination we qualify for just about any marketing service contract in the US. And our goal is to expand that notion into qualifying for virtually any company globally. That will be first, most importantly, filling in global media. And second, global digital capability and third global creativity. We've already gotten about 30 affiliates. Our goal is to have 50 by the end of the year. And we're moving very quickly on that. And these affiliates also serve as a farm team for potential acquisitions. We're also moving to global engineering development. If you look at it even now, we have about, 25% of our engineers in the US, We have significant numbers of engineers in India, the Philippines, and actually with recent acquisitions, really, we found Latin America to be a great place on the same time zone to expand engineering capabilities. But this will also kind of work as a way to keep costs under control while we expand engineering capabilities to provide digital services. Again, I think there's a plan here to win additional paired media and creative contracts to compete onto media contracts at scale with our affiliates. Continued digital led fast growth in the mid east, improve the relationships between the agencies, the creative agencies and media. What happened here was, for many years media was split off from creativity. Media and creativity, because of the connected nature of experiences, is coming back together. And we have the nimbleness, I think, in order to make these combined offerings. And I think also Brad's going to talk about the creative media consultancy that he has founded that has particularly hit a sweet spot in the market. I think also Jason Reed is going to talk to you a little bit more that you also have to view what we've built here as a platform for growth.

Mark Penn:

We have shared services, we've been able to make creative acquisitions at scale, we have an innovation group, we have central marketing and global solutions and we have an affiliate network. It means that we can take a company whose market space is limited and bring it into a network and see the kind of growth by bringing in more multinational or bigger assignments, bringing into fixing kind of how they operate and training them in new methods. And obviously we wouldn't be here today, if we weren't successful at being able to take companies in, understand how they work and fundamentally improve them. And those scale benefits only increase. We've taken a lot of the incentives, we've also unified them and enabled people to kind of come together here so that they have an interest now, not just in their own small division, but an interest in their career, their company, their division, and the larger company as a whole.

Mark Penn:

And we've redesigned the incentive system, system wide, in order to create that. So finally, when you add up everything I've said, some of the previous charts really estimated annual organic growth at about 5%. And I've really moved that up to the seven to 9% notion because you can see already that the merger is working faster. The digital growth post pandemic, I think, has been accelerated. That a number of the combinations that we have that are in these growing marketplaces I think is working in a very strong fashion. And so I've moved that up 50% to seven to nine. I'm leaving the Stagwell marketing cloud where it was because it's information and I don't like to over present something that we're really building. And I've accelerated some of the M&A growth because I expect that the faster growth in the overall system will generate additional cash for investments and still staying within the framework of staying at about three times leverage, because our goal has always been, be at about three times leverage.

Mark Penn:

We know here that the cost of money is four, five, 6%, and the kinds of returns that we get on our investments are more in the 20 to 40% range. So we believe that we can continue to effectively invest and expand the platform. And that moves the 2025 goal from 3 billion to 3.4 billion when you add that up, and beyond. So that's the plan. Those are some of the key features. I think you're going to hear from some great people who are on the front lines and are helping manage this. I hope you'll consider these key factors and the future of Stagwell when you think about investing in us. Now, let me turn this over to Julia Hammond who's going to talk to us about managing larger clients successfully.

Julia Hammond:

Thanks Mark. Hey. Wow, look at that. Everyone, thank you for having me here today. I have 10 minutes to talk to you, but I was told old that if I do it in seven, I get a cookie. So I'm going to try and go quickly. There's one thing you can take away from our presentation today right here right now, is that we have a solid plan to drive growth from the center with larger global client contracts. So as Mark said, I'm Julia Hammond. I'm the president of the Stagwell Global Solutions Group. And what we do here is we build integrated solutions for large global clients. Before I came to Stagwell, I spent the last two years at Deloitte. I sat in the middle of the office of the CMO and spent a lot of time talking with CMOs about the things that they struggle with day in and day out; complexity inside of their marketing organization, changing consumer behaviors and dynamics, fragmented data, not having clear ownership over technology. And what I saw when I was sitting in that chair was a massive opportunity for a single solution, a single partner to come in and actually those problems. On average, a fortune 500 CMO works with six different agency partners day in and day out. They spend more time managing agencies than driving business. That's a huge problem. So what we want to do is actually get in there, partner with these CMOs and offer single-minded simple solutions that solve some of these more complex problems. And if we do our jobs right, we're going to convert a lot more business winning with these collaborative models, bringing agencies together in solving, not selling. So I'm going to break this down a little bit further. Our only focus on our team is to increase the average relationship size of our clients. Let me drill into this a bit more. Mark mentioned we work with blue chip clients. We absolutely do. We have an incredible stable of clients that we work with.

Julia Hammond:

But you'll see here from the numbers, 94% of them spend less than $5 million with us. But 6% of these clients, they deliver what, 43% of our total revenue? So our average relationship size with clients is about $1.4 million. But if we can get that average up closer to 3 million by making one plus one equal three, we can become a $5 billion company. So how are we going to do that? I've got a two-pronged approach to making this happen. Number one, we're going to win larger net new contracts. So contract values adding above $10 million. The second thing we're going to do is we're going to expand with these existing clients that we have. We have a solid base of clients. So what we need to do is get our teams working more collaboratively together in order to build these more value additive connected agencies. So if we fix the mix and we get our composition of client partners to look closer like this, then that's how we get to hit our $5 billion goal.

Julia Hammond:

Okay, I'm going to spend a little bit more time on this slide here. So on average year, over year, we see about 10 to 15 of these larger opportunities above 25 million going into review. When we see these opportunities go into review, they're typically triggered by a couple of things, big executive shake up, M&A, sometimes business decline, and they need to see a quick turnaround by making a big change. So typically they appear when there is a problem with an unclear solution. So before the combination, we didn't qualify really for any of these opportunities, but now we've got the global footprint, we've got the stag media network to offer scale that qualifies us for these kinds of opportunities and we've built out the global affiliate program that puts boots on the ground in the markets where our clients want people to call upon. So we now have gotten to the point where we qualify for these opportunities.

Julia Hammond:

And so now it's a matter of pulling together the Stagwell marketing cloud, our ability to capture data and activate data in ways that our competition can't, and deliver not only that but world class creativity, that only our agencies are able to offer. It's a compelling point of difference where we have creativity and accountability working together with the client partners that deliver business driving and brand impact across the board. This is a very unique place for us to play. And what we've seen already just by going to market with this model is a significant amount of momentum. The wind in our back that's going to make us successful. I need to take a breath. I'm really trying to go fast. Okay, so that's number one. Number two, we're going to expand with our existing clients. So our top 10 client partners, they work with an average of eight Stagwell agencies.

Julia Hammond:

So we know that with incremental partnerships, incremental capabilities, incremental markets is a key way for us to continue with organic growth. We've built this central leadership team inside that's connected to specific clients. We've hired ex consulting partners, ex clients, ex tech, people that can come in and actually empathize with what's going on inside of our client partners companies. We're able to pull together these people to leverage our Stagwell marketing cloud, to identify and pinpoint the real problems that our clients are dealing with so we can pull together the right solution at the right time, for the right partner. What we're talking about is really fishing in a bigger pond. We work with 79 of the top 100 marketers. Mark mentioned the blue chip clients. 79 of top 100 marketers.

Julia Hammond:

They control $300 billion of marketing spend, but right now only 51 spend less than $5 million with us. If we focus on that 51, those partners with potential, we really believe we can make a significant impact to organic growth inside of our business. And if we do it right, we'll be able to transform the way our marketing services companies come together with a more collaborative and more value added way. That's going to make us not just transactional partners, doing project after project, but scaled and sustainable partners with year over year revenue. So I think I ever earned my cookie. Yes. And what I get to do now is introduce you to two of those world class partners, via video, Anomaly and Forsman & Bodenfors.

Carl Johnson:

Welcome to Anomaly. We've been pretty successful and the reasons are actually pretty clear. That our name Anomaly is the very idea behind the company. Staying true to that name and continuing to evolve to differentiate and to lead is what has built the strength of our brand and the strength of our business. And that business is 11 X over the last 11 years. We have 750 staff across six offices, all organic growth from the ground up and with the superb blue chip client list. The question is, why has it been so successful? What is the secret? Well, Anomaly is not defined like so many other agencies by its output. Do not take my word for it.

Carl Johnson:

Have a look at the work. We designed this physical product and this one, and we did the innovation strategy, design and the marketing for Milo. We won the super bowl three years in a row with puppies in client deals. And we let this guy loose on the world. And we sports repeatedly. We even sent 15 people to Moscow for the World Cup. We launched this music video and we launched this documentary at the Toronto Film Festival. So what do you call an agency that can do all that? An Anomaly of course. But it's that idea, that level ambition all wrapped up in a powerhouse brand. That's the secret.

Anna Qvennerstedt:

Forsman & Bodenfors is an agency that's been around for a long time, but since the last five years, a partner of Stagwell's. And we work with clients such as Volvo cars, Goldman Sachs, Diageo, P&G, General Mills, H&M, for example.

Toby Southgate:

Well, I've joined F&B and Stagwell just three months ago to take some of these great relationships and this incredible creative agency that truly believe in ideas that change things, that creativity is a force for change in business. And that's really the core of this agency's capability set. We do believe that while we can't do everything, we can do anything.

Jay Leveton:

Okay. We're going to transition into the second agenda item which is our growth engines. I just want to do a quick reminder, we are going to, again, present forward looking statements and non-gap financial data. And so please contact and look at Stagwell Global for more information related to that. Thank you to the lawyers. We'll now spend a round Robin with our four CEOs. They'll take 10 to 15 minutes each to talk about the work that they're doing. As I said, they are the true growth engines of our business. I first want to introduce Brad Sims who is the CEO and founder of GALE. And while Brad will talk about it, more GALE has been at the forefront of some of our largest new business wins in the market. It is truly a business transformation and business consulting company that uses media, creative and customer relationship management to win as I said, some of the largest pieces of new business in the network to date. So with that, let me turn it over to Brad and then we'll go from there. So thanks.

Brad Simms:

Adding lead off here for the in person CEOs. I appreciate that. So my name is Brad. As Jay said, I am the CEO of GALE partners, one of the founders. I'm also the head of strategy and product development at Stagwell Media Networks. Today's presentation in 10 minutes is going to be all about threes. I have three sections. First of all, I'm going to talk about three trends that we're seeing in the marketplace around media and data and insights that we think are disrupting marketing. Second of all, I'm going to talk a little bit about GALE. And third of all, I'm going to have three case studies. I'm going to talk about the category of milk, Got Milk, you might be familiar with that. I'm going to talk about Hard Rock Cafe and I'm going to talk about Chipotle and I'm going to do this all in 11 minutes. So let's get going. So three trends.

Brad Simms:

The very first trend that we see out there in the marketplace is really around consumers and media. Consumers don't think in media silos. I think of this as kind of the ships passing in the night problem. Brands are organized by channels. We all know that. Media departments, creative departments, CRM departments, PR departments, all of that, that's the way brands are organized. However, you have all heard this so many times in the last five or six years, consumers don't think about channels. They think about consistent storytelling and they think about experiences. Well, the first trend is kind of how do you close that gap? Mark spoke about it. Which is really bringing integrated agencies and technology to bridge that divide. There is no way that brands are going to change how they're organized, but there is no way consumers are going to change what they expect.

Brad Simms:

The second trend that we see out there is that you have to get the strategy right, you will get the creative right. In the past we would roll into a client with a 30 second television commercial and that would be the anchor of the campaign. That is not how marketing is done anymore. We roll in with hundreds, if not thousands of pieces of creative, against dozens of audiences that we traffic on dozens of media platforms. What that means is it's all about the optimization inches, creative and audience stories are won by continually optimizing what is in market. Which means you have to have the strategy right. It's not something we back into, we've really flipped that equation. And the third trend that we see out there is it is not about your mom and dad's media world anymore. Mark talked about at Stagwell Media Network we have about five and a half billion dollars of media and we are right sized for what I would call kind of broad reach media.

Brad Simms:

TV, out of home radio and print. However, as Mark also pointed out, we are predominantly digital. But what I want to talk about is in that digital chunk, the fastest area we see growing is really what's at the bottom. And I think that's where integrated agencies that have creativity and media connected actually play. We see the fastest growth area is something I want to call platform media. For a long time, we thought about Facebook and Google as platform media. But I want to redefine that. For us platform are things like SuperAwesome, things like Fortnite, things like Roblox, where we bring creative storytelling to platforms and create authentic brand experiences. This space is on fire force and growing way quicker than any other single channel. These three trends inform our strategy at GALE. This is a side about GALE. We are founded in 2014. We have about 512 humans. These are all humans that came from organic growth.

Brad Simms:

No bolt ins, no tuck unders, no acquisitions. We are in eight offices. At GALE, We call ourselves a business agency. We do consultancy, creative and media. And this year Ad Age gave us data and analytics agency of the year. Core to our superpowers are these two things. We think about the world as business strategy at the top and data and insights at the bottom. Let me talk a little bit about what that means. The very beginning of GALE, seven and a half years ago, we knew that we wanted to be stewards of our client's businesses, not just marketing and communication. That means when we engage with our clients, we get a deep understanding of the client's business, much more like a management consultancy. Business cases, pricing models, zero based budgeting, product innovation is what we bring to the table. At the bottom of that, we have our data layer. With client's first party data, we bring indisputable insights and recommendations to clients that are data backed and easily optimized against things like what customer preferences they want.

Brad Simms:

Are they this product or are they that product? What is the total LTV of a customer and how much should we be investing in them to get them to that spot, and taking those audiences and pushing them into those media platforms? When we think about GALE, we think about it, well as an Oreo cookie. on the top, you have business strategy, on the bottom you have kind of data and insights. And over the last seven years, we've spent a lot of time building integrated capabilities. You've heard a lot of integrated.

Mark talked about integrated. Julia talked about integrated. GALE is an integrated offering. We do everything from that data and that business strategy, to creative, to technology, to comm strategy, to addressable, to media. All of that is in one package at GALE. And if you look at kind of the results... Oops.

Brad Simms:

If you look at the results and you look at this awesome two by two here, you can see that back in 2016, about 70% of our revenue came from clients that were buying only one service from us. But if you look as we end to close 2020, over 40% of our revenue is coming from clients that are buying five plus services. That's 166% growth over last year. And we have 50% growth on clients that are buying four services. Clients are looking for integrated options. Julia mentioned that CMOs are busy managing six, seven, eight, nine agencies. Their whole day is managing agencies. CMOs want to be driving growth, which means they want to be working with fewer partners that have higher impact. The Drum, which is an industry periodical, quoted me a couple weeks ago where I said, "Integration will be a watch word for agencies in the coming months." Let's look at three quick case studies. There we go. At the beginning of the year, MilkPEP brought GALE to kind of transform the milk category.

Brad Simms:

So this is not an individual brand. The category is about 22 years, outside of the pandemic, of decline. The category is not growing. And the reason the category is not growing is because when folks think about milk, they think about chocolate chip cookies, in cereal, and they think about calcium and bones and your teeth. And frankly, none of those messages resonate with consumers today. So the very first thing we did at GALE, as we're providing all those services in the bottom left to MilkPEP as their so agency, is we reset the strategy. Milk is actually a hidden gem. It is a performance beverage. It is the most hydrating beverage. It boosts immunity as a teen in tween. It ensures you get to your maximum height. It is awesome for getting ready in the morning and recovering at the end of the day. We are moving milk as a category away from put the chocolate chip into the cookies and into the performance area.

Brad Simms:

It's a think you should drink in the morning to get your day going, to get ready, it is the thing you should drink at the end to recover. This is some awesome work we're doing with the NFL. We started the year with some Olympic athletes. And the next piece of creative, this is Terry McLaughlin. We tried to break a world record here by having him catch the longest pass ever. And we were short by seven yards. Very specific. They're very specific when you go for those world records. But we love this piece right here. Derrick Henry, who is an absolute machine, launched this social piece on his feed two weeks ago on a Friday afternoon, and by a Saturday afternoon, we had 1.6 million organic shares, no paid media. This is modern media. This is transforming a category. We're also doing some stuff with Juju, but I'll keep going.

Brad Simms:

Hard Rock Cafe, Hard Rock Cafe is an unbelievable global brand with 50 locations. When you think about Hard Rock, you think about this, the traditional cafe. But what you really should be thinking about Hard Rock is this. In between the cafe and these luxury resorts are concert venues and casinos and hotels. But the thing Hard Rock has never had is one consistent global loyalty program and customer relationship management program. About a year and a half ago, we started working with Hard Rock where we defined that business case for Hard Rock, including what the tier should be. The redemption reward scheme. We created the brand of the program, all the marketing of the program. We did the tech dev on the app. We integrated with the CRM and the offer management system. And this all runs on GALE's data platform. We have over 50 people working at Hard Rock. This is integrated different than milk is integrated. And I'm going to stop talking and show you a quick video about our work at Chipotle which is also integrated

Speaker 12:

At Chipotle people get exactly what they want. Chicken, some salsa, a bit of guacamole, a little less rice, a few more beans or lots of cheese. GALE's challenge was to scale addressable marketing for the world's most personalized menu. To make our millions of rewards members feel known and valued. To make each piece of communication feel as real as Chipotle's food, but as unique as their order. The process began to by analyzing transaction histories with Alchemy our customer data platform. We built a detailed view of each rewards member; favorite order, local restaurant, and even if they preferred their burrito with guacamole, queso, sour cream or all of the above, we're not in here to judge. In parallel, we designed a flexible creative system. A huge library of stories, offers and imagery that could snap together to reflect the needs of each communication. We've put the system to work in a series of customer journeys to spark specific behaviors.

Speaker 12:

Like a welcome journey to drive orders with new members that has over 700 variations, and a growth journey to encourage people to try a new entrée or ordering at a new time of day. And others to reward loyal customers and reconnect with those who've lapsed. This flexible system enabled everything from massive national launches, to Chipotlane openings. It helped us tell stories about young farmers, environmental impact, and most recently it helped us react instantly to a changing world with messages about food safety, digital ordering, and contactless delivery. In under a year, GALE has seen Chipotle rewards membership grow from eight to nearly 22 million members. That means every email we send has a bigger reach than Sunday night football. Our investments and new digital features and innovations helped Q1 digital sales grow 134%, year over year, to 870 million, and now represent 50% of sales. And that shows how relevant personal communications can drive real results for real growth.

Brad Simms:

So if there's one thing I wanted to take away from this 10 minutes, it's that integrated is the future. Whether it's integrated with GALE, whether it's integrated across Stagwell with our other agencies, brands are moving to a single account strategy and data insights layer to drive their business. And with that, I'll pass it back over to Jay. Thank you very much.

Jay Leveton:

Thank you, Brad. I think obviously Brad is clearly an expert on digital media. And then I think at this point, we'll switch from digital media and customer relationship management to digital transformation. I

Jay Leveton:

I was asked to remind you that the QR code is for questions in front of you. And also for those in the live stream, please chat your questions in. We are gathering as we speak. So let me turn it over, Dan Gardner, the CEO of Code and Theory who joined at Stagwell in late 2015, early 2016, and has been along with us on this journey since the beginning. Code and Theory is our largest and probably our premier digital transformation company with over a thousand people around the world, and then as Mark referenced, one of our largest engineering forces globally as well. So let me turn it over to Dan.

Dan Gardner:

Thank you, Jay. So I'm Dan Gardner, I'm the CEO and founder of Code and Theory. The thing I really want to start with is we are a company of change. That's what we do. We're hired because we're change agents on behalf of our clients. And one thing that is thrown around a lot is this word digital transformation. It's become almost a buzzword in the industry. It's applied to almost anything that just sounds digital. But for us, it's at the core of that change and the meaning of what digital transformation is both important to us and our clients and really talks about what we do as an agency. So I'm just going to quickly say the definition that is meaningful to us, which is digital transformation is a digital first strategy that is user behavior focused, technology driven, and data enabled in order to set, meet and exceed endlessly shifting expectations for short term impact and long term change.

Dan Gardner:

Now that's a lot, but this is basically what's happening here. There's seismic shifts happening within technology and the capabilities that clients need to succeed in today's business environment. That is just forcing the changes that we see day in, day out. More importantly, consumer expectations are endless shifting.

Dan Gardner:

One question I always get is, what's the future? And the future is this, that it will be different than today. The change is a constant and especially coming from a consumer. And as a brand, you can't tell how a consumer acts, you can only respond to it. And there's no industry unaffected. We've been around for two decades now. For years, there were some industries that kind of stayed around it, but not anymore, especially in the last couple years. Every industry from healthcare, to finance, to education, to government and everything in between, no industry is unaffected by digital transformation at this point.

Dan Gardner:

And if I'm going to go down one level deeper, you actually see in a very tangible way from brick and mortar to eCommerce or distribute of retail to D to C or ATMs to virtual banking or bundled content even to over the top subscriptions. Call centers to digital services, or even recently in the last year or two office workers to remote and gig workers. This list can go on and on and on. And the backbone to everything is digital transformation. That is what powers all this change within business.

Dan Gardner:

So as Brad just discussed, as Mark talks about, integration and putting these things together is imperative. And our belief at Code and Theory as a brand is a sum of all those interactions. So moving from those isolated interactions that you see organizations are typically organized as to synchronize systems. It's doing away with the one off projects or the one off moments in time. It's about how can you thread everything together.

Dan Gardner:

More specifically, we believe in this core principle that digital should be the strategy, not a tactic. And oftentimes when we see digital transformation used, it's used as a tactic. It said, "Oh, let's just apply this to a reprioritization of a media channel." And that it's too simple. Or going e-commerce and it's a gross over simplification of what digital transformation is. It is the strategy. It is the changing of what the products and services a business has to offer and how that's meaningful for consumers. It is connecting end-to-end journeys, first touch to forever touch within media channels. It is putting a technology infrastructure backbone to help organizations scale and use data at the center to be more actionable and quick. And lastly, if you do all those three things, it's naturally changing roles, talent and governance within organizations. All of those things together are what digital transformation is needed.

Dan Gardner:

When I talk about Code and Theory, it's all through those lenses of what digital transformation is. We describe ourselves as a digital first creative agency. And the reason why we say creative is creativity to us isn't just topical fun stuff. It's actually a discipline of solving problems. And the problems we are facing are transforming these businesses. And we have three very specific things that is different about us. First, born digital. We've been doing for two decades. Digital first is something that's thrown around a lot. We are at the intersection of creativity and technology. Our name even says that, Code and Theory, creativity and technology. That's how we look to solve problems. All our people wake up every morning and that's how they think of it. They don't think about just a marketing challenge or a TV spot. They think about digital as a strategy to solve those problems.

Dan Gardner:

Second, we are in the business of building capabilities for our clients. What do I mean by that? These aren't one off projects that come to us. It's high value, high change within the organization. When we're done with our projects, the business itself has a capability that they didn't have before. They're able to do something that they weren't able to do before. It's not just messaging. It's not just marketing. It's not just cultural moments of time. This is capability building. And lastly, as I discuss, we approach digital truly as strategy, not just as a tactic and we walk that walk.

Dan Gardner:

We're now over a thousand people across the network of core Code and Theory with some assets around us, Rhythm being a CRM and digital reduction company, Mediacurrent being one the leading, Drupal, which is an enterprise CMS platform, TrueLogic, which was an acquisition we did last year, which is our nearshore technology. Code and Theory Health, which is a specified healthcare practice for digital transformation within the health space. And Kettle, which is eCommerce and digital content production.

Dan Gardner:

So together across multiple geographies, this is the network that we now scale across of. We've been highly recognized across our peers humbly and fortunately. We've been agency A-list. We've been Digiday's Creative Agency of the Year. We're one of the most recognized companies from [inaudible] over the last two decades. We've been identified as one of the most innovative companies in Fast Company. And the list can go on and on.

Dan Gardner:

And our growth has really shown, especially in this last year. We're up over 50%. I should also say for legal, this is our 2021 forecast numbers, but we should be up over 50% both top line in EBIDA growth. High margins talks to the high value of work that we do. We've been able to increase over 40% our headcount, even in a talent restricted market. We have recently had some incredible wins from Henry Schein to Goldman Sachs and TikTok, ConEd, and Kaplan, which is education. We've actually been identified on R3 Worldwide, which is a trade publication that rates new business wins. The last four months this year consecutively, we've been ranked number one in new business wins.

Dan Gardner:

And here's how we deliver our services. So data analytics research and testing, which we cleverly call DART, which is at the center of everything we do. You cannot be a digital first company without having data, deep rooted insights, technology, data scientists to inform everything around that. Business and organizational consulting. As I mentioned, the cascading effect on what happens within a business when going through this digital transformation is imperative to get right, the roles, the talent, the governance. Transformational technology. Over half of our thousand people are actually technologists. So as the name Code and Theory suggests, unlike other creative agencies, we double down in technology and make sure it's a real strong force in the services we deliver. Integrated marketing. This really is about the communication downstream. First touch, way we communicate. Right message, right time, right device. And products, platforms, and services, which talks about the infrastructure that we put in place that are the owned platforms to create a deeper and meaningful, more engagement.

Dan Gardner:

Our clients are diverse of across all industries from CPG to financial services, to government, to consumer brands, to sports. I'm going to go into a couple of these in a second. One logo I'll highlight on here is Washington football team. We were behind the rebranding and the reaming of the Washington football team. And the reason I call that out, because why would a rebrand go to a digital first agency to do that? Because the reason is very simple. As the first sports franchise to do an equitable and inclusive team brand, it was important to have deep rooted insights and do a digital, both research approach to understanding how and this resonates with different consumers. But when it manifests itself into digital expressions, most people, even though it's on the field, engage with their brands and sports brands in a digital first way.

Dan Gardner:

Here are a couple examples. Amazon is a recent win this year. We were awarded Amazon ads, AOR, Amazon ads for those who don't know is actually one of the leading advertising platforms in the world. We did their first hero campaign as well as year to date, over 20,000 assets experiential out of home and everything in between. ConEd, we have a similar agency of record relationship where we're helping them on their journey to be a sustainable energy company. And Adidas is a multiyear relationship where we're not only digital agency of record for their originals, which is their lifestyle and fashion label, but we work on their performance. And more importantly, not just the contextual cultural relevant stuff, but we also help with their B2B infrastructure stuff. For example, we built their B2B selling platforms to local retailers. Media and publishing. This is an area that we are pretty dominant on. I think we have a stat of over 150 media newsrooms we've been in over the last decade. We've really pushed innovation across the media and publishing perspective. Here's a couple examples. Eurosport where we help work on their international sports packages. WWE when they were going over the top. BBC, we've been working for years thinking about how they tell stories in an innovative way, how they do video first as an organization. Or The Scene, which is a brand we launch for Condé Nast. We've worked with Condé Nast on several titles, including Vogue and others. It's an aggregated video platform. But we've worked across the chasm of everything from Hearst Magazine to Guardian, to Bustle News Group, which we've been doing recently.

Dan Gardner:

But one I really want to specifically zoom in on is the CNN data visualization ecosystem because this is a great example of true transformation. We started this project about five years ago. When we first started this project, we displaced Microsoft who has been working on it for 10 years prior to us. We had to within six months, build a parody product for the midterm 2018 elections. From doing that experience, we realized how unbelievably manual and challenging it is to build this product because it's all done in Excel sheets. So we did three things after the midterm election. One, we built a data cloud and a platform. Two, we built producer tools. So not only for the data magic wall that John King went on, but across all their channels, producers can create data stories and be differentiated as the data is storytelling and rebuild out the experience they culminated in the 2020 election.

Dan Gardner:

And for this magic wall, we were able to tell any type of story from balance of power to redistricting, to historical elections from not only the previous year, but forever. So basically any way you wanted to tell a story, we were able to tell the story. When John King did this in the election, we were up for 400 plus hours without a glitch. Some of our broadcast competitors went down. It's been wildly, almost parody, even on SNL that John King was the one that actually won the election and we were pretty proud that we were able to do that. Here on the left, you could see an example of the data cloud product and the right, some of the producer tools. And more recently, we've been working with them to extend it, not only from the broadcast magic wall, but into consumer channels like mobile and web. And now even take it further to data storing, and use the data cloud for other verticals outside of politics like sports and news.

Dan Gardner:

So switching gears, financial service is something we are pretty deep in. I think we have nine plus active financial service clients right now. Here's some of our previous ones from life insurance, like New York Life where they still have traditional means of agents. So we created a platform so the agents can have more meaningful follow up and connected relationships with their clients. American Express, where we did some card conversion work. We've helped launch the NASDAQ, not only the physical market side and the connected experience when a company like Stagwell could go public, but also driving to listings on their NASDAQ.com own platform and Nuveen, which was an asset management.

Dan Gardner:

But one client I want to go a bit deeper is JP Morgan because I think this client we've been working for about five years for now is a great example of true transformation across an entire business from real estate to consumer banking, to asset management and credit card, to everything in between. Here's an example of something we did for Chase Sapphire, which is one of their premier cards. With any credit card, even the premier ones, getting people to use the loyalty points is imperatively important because that becomes a differentiation for them. So we created a service layer that focused on interest to drive more value for people's points. Here's an example for the private banking. Similar to life insurance, it still has some traditional bankers that work with their clients. So not only did we drive leads for bankers, but when they had the first touch with that banker, the profiles were already set so it wasn't starting from scratch. The banker actually understood the qualified leads to help sell them through.

Dan Gardner:

Here's an example of the commercial real estate platform we built, which was a thought leadership platform, which differentiated them from other commercial real estate and even working within their innovation department for everything. For example, what we're looking here is their service bots, so they can have a more meaningful relationship. So that was actually perfect. Two seconds there. That is digital transformation and that is Code and Theory. So thank you. Back to Jay.

Jay Leveton:

Thanks, Dan. Staying in the digital transformation vein, I wanted call up Ashish Toshniwal who runs Y Media Labs based in Silicon Valley. While Dan has talked a lot about Fortune 100 companies, Ashish works with Fortune 100 companies, but also has a specialty in startup companies that many are becoming billion dollar unicorns and public companies themselves. So Ashish, we'll take it with you.

Ashish Toshniwal:

Thank you, Jay. Hi everybody, Ashish, CEO, co-founder at YML. Before we talk about the future, I think it's very important to talk about the present. Our mission is to export Silicon Valley to the world. And what does that mean? It's not a zip code, but it's a mindset. Most of our work today, the final output is in the form of recommendation engine, using machine learning, apps, websites. And generally speaking, the business metric which we influence with our engagement is conversion rates, increase in loyalty, increase in average order value or revenue or decrease in operational cost. Across the board, the common theme is a better customer experience across digital channels.

Ashish Toshniwal:

So today, YML by the numbers, we are a little over 500 people. And this year, we are expected to grow close to 60%. Again, this is projection. In the age of great resignation, our retention rate is still 85% considering we are in Silicon Valley and Bangalore, those are our two biggest offices, I think that's a pretty phenomenal feat. And the last two metrics, 65% of us are engineers, probably the hottest pool of talent out there. And we take lot of pride in being a diverse, inclusive and providing equal opportunity across the board. Close to five to six years ago, only 2% of YML was women. And today, very proud to say that 46% of YML is women.

Ashish Toshniwal:

We were founded in 2009, close to six months after the app store was launched in Redwood City, California, which is close to seven mile radius of Facebook, Google, Tesla, Apple. And something very special happened around on the time when we started. It's very hard to say, when does your life change? But I can pinpoint all of you to a date and time. This is when it happened for me. This is an email which we got from Steve Jobs on August 1st, 2010 at 2:58 AM. We were designing and engineering an app to teach kids ABCD 1, 2, 3, 4. This was app number 54 on the app store and working closely with a Montessori school. Regard this email, "I love what you're doing. Thank you. Let me know if we can help. Steve." And after this email, the trajectory of YML has changed for good. Our work has been featured by Apple over 600 times with our clients, and Apple has also been a client since then. It's very important to talk about our early work, which is also our secret sauce. There may be a lot of digital agencies out there, but very few, in fact, I can't name any who has a track record of creating more than 10 unicorn or a billion dollar company working with founders directly. And over the years, we have worked with them. I remember with Credit Karma, we launched their first product and I was offered equity instead of cash. And that was probably one of the most expensive mistakes of my life.

Ashish Toshniwal:

And this is what the big companies are looking for. And now, one of our clients Thrive Market is our ninth either a unicorn or going to go IPO. This is exactly what the big companies... We have been working with over 50 Fortune 500 companies. And today, our work with Home Depot has made them the category leader in digital retail experience. And this is the sixth year we have been working with State Farm across different digital channels. And State Farm has been regarded as the best digital experience in insurance by Forrester.

Ashish Toshniwal:

Why clients hire us. Today, what we see is whether you are a retailer or whether you are a healthcare company or a bank, you know that Amazon is coming after you. This is a big challenge with a lot of our non-tech clients today they're facing. Consumer expectation is changed for good when a typical consumer, their expectation is formed by what they use every day, which is iPhone, Tesla, Airbnb, Uber, and they expect the same experience from their healthcare service provider or bank or retail organization. And two things which they lack most of the time, one is they can't move fast enough and second, they don't have the right team. That is where the answer is YML.

Ashish Toshniwal:

I want to jump into what we have done over the past 18 months or so. In fact, we have powered a lot of the pandemic trends, which you may have experienced. For instance, grocery shopping was never a mainstream thing on digital. However, over the pandemic, it has gone mainstream. We partnered very closely with Albertsons to launch their unified app, which is combining loyalty, clipping on deals. You can order grocery. It will be delivered to your doorstep. In fact, launching their Fresh Pass program, which is a membership program. Once you sign up for it, you don't have to pay any delivery fees. This is a very big part of Albertsons' omnichannel strategy, which is again, a big part of their growth. Again, their digital sales have been up close to 250% over the past two years. And they are also trying to drive loyalty and Fresh Pass adoption through this.

Ashish Toshniwal:

The next one is our work with Kaiser. Extremely proud of what we have achieved here. Kaiser serves close to 13 million customers across the country, and we worked with them closely on designing and engineering this product. It is an app. Also worked on their website. Kaiser rolled out very effectively their vaccination program. In fact, one of the things which we are very proud of launching is the virtual on demand hospital visit. No matter where you are in the country. It's been a pretty big hit across the board in Kaiser. I'm very proud of what we have done here. Kaiser very recently, they got the rank of second by Gartner Digital Intelligent Rank Index. And two years ago, they were 58.

Ashish Toshniwal:

And the last one is we worked very closely with Polestar. It's an electric car company. And another trend which we are experiencing is gone are days when people go to a car dealership and then make up their mind which car they want to buy. They want to experience the car at home, all the features and functionality, and they expect the car to show up at their doorstep. And that's what we are doing with Polestar right now. If you want to order a Polestar for trial, you can go online and within seconds, you will be scheduled for a trial with the car.

Ashish Toshniwal:

This is probably one of the most favorite slides for Frank, our CFO. We have delivered close to 59% growth, and this is across two years so that it doesn't show any one year pandemic bump. Last year was a big year for us. This year is turning out to be a pretty solid year as well. This one is a very important metric. Even though we have hired more than 300 people in the past 12 to 16 months, our revenue per employee across two years have continued to go up by 20% each year. One of the big reason is that even though we were in Silicon Valley before the pandemic in a big way, we have gone remote first. So we are not just expanding in the US, but also gone offshore in a big way. The last metric is we are doing more and more with our clients and our client longitivity is increasing. And every year, we have delivered over a hundred percent growth across each account on an average for the past two years.

Ashish Toshniwal:

And for the future, our strategy is to grow with the rise of Chief Digital Officer. So what we are seeing is across the board, the Office of CIO is losing traction and the Office of Chief Digital Officer, Chief Data Officer, Chief Product Officer, they're getting more and more budget because they are responsible to compete against the big tech, especially for the non-tech companies. We are investing more and more in in-house IP, which will help us deliver things faster with our clients. And the last one, which I'm very excited about, is how we can work closely with the Stagwell corporate team to make sure M&A can happen. And we are just getting started. Thank you.

Jay Leveton:

Thank you, Ashish. Just to now finish up our growth engine presentation. The section's going to switch to something completely different. We're going to talk about digital communications and fundraising led by Zac Moffatt, the founder and CEO of Targeted Victory, which is the preeminent Washington DC based fundraising and a digital communications company, I would say in the country. So Zac, over to you.

Zac Moffatt:

Thanks. Thank you. Perfect. Hi, I'm Zach. I'm one of the founders of Targeted Victory and currently serving as Chief Executive Officer. You will notice I'm going to get more and more excited about this, so I'm going to go quickly. So bear with me. We're going to go through a lot right now. Targeted Victory was really excited to join Stagwell because we shared a vision with Mark on two fronts. One, we knew he had the confidence to understand that advocacy in the political market was going to be a massive market that people are under appreciating. And two, we shared his vision that the right ad to the right person, the right message at the right time is the differential because that's how we win our campaigns. And we wanted to take that work and bring it to the corporate sector. So we thought this was the right vehicle through which to do that.

Zac Moffatt:

COVID obviously pulled forward. As a digital native firm, we were able to use the speed of politics to kind of continue to grow. And we've grown 150% during this time of the last year and a half. You can see from our key stats what we are used to is iterating at scale, placing things quickly. Our campaigns last one week often at times, so we're moving very, very quickly. And that's both online and offline. We work with clients in the digital transformation on campaigns. We work with offline public affairs campaigns. We have multiple Fortune 50 companies working with us to identify how to do online and offline action and to change across the board.

Zac Moffatt:

What we're going to get into specifically though is talking a little bit about digital marketing at scale because this is an underappreciated part of the political marketplace. What you see here is Targeted Victory's numbers. In 2018, we raised 125 million for our clients off a staff base of about 65 people. Fast forward to today, we'll have over 300 staff this year and we'll raise close to 1.2 billion. So we're an end to end service on that. We're writing the content, we're helping them with the execution. So what this does and the reason this is important is to understand just what is going on in the political sphere.

Zac Moffatt:

What I wanted to do is take a quick second and walk people through the history of how we got here. 2008 was amazing on many fronts, but it wasn't just hope and change. It was actually Team Obama opting out of campaign funding. What that did is instead of taking 80 million from the federal government, they raised 300 million. It fundamentally changed the trajectory of politics. If you go look at the numbers in 2010, only about a $4 billion industry was political. 2012, up about 10% because it was a presidential. 2014, stayed around the same. But suddenly during that time, the low dollar fundraising program was compounding on itself and you started to see in 2014 and '16, this massive growth.

Zac Moffatt:

So in the last six years, political spending has gone from 4 billion to 14 billion. And if you even look in 2020, which is our estimates, it'll get up to 15 billion, which is not only 600 million more, but if you back up Mike Bloomberg and Tom Steyer, it's 2.6 billion dollars. So we're starting to see at scale people being activated and they're being activated in $30 increments. We're seeing the money raised online and we're seeing the contributions. People are more active than they've ever been before.

Zac Moffatt:

So I wanted to dive specific billion into these numbers to understand where is this growth coming from. 2014, 4 billion spent. Less than 9% was raised online. 2020, we're at 14 billion with almost half coming in online. This cycle will be a 15 billion dollar industry with over 60% coming in through low dollar fundraising agents on both the right and the left. And that's a massive opportunity because it means people who are being activated at scale and all the technology necessary for that to be successful is being implemented across the board.

Zac Moffatt:

When people ask me, "I care about the general numbers, but I really care about my company. What does it look like?" And the thing is you often see the future is here, just not evenly distributed. On the left, these numbers are ActBlue. ActBlue is the payment processor of the left. And what has happened is what we talked about in 2008, the left was about four years ahead of Republicans in terms of low dollar fundraising. So while Republicans are growing faster cycle over cycle, it's off a smaller base number. But what we're able to do is go look at what numbers have come before us on the left and kind of map our trajectory as a result. If you look at their 2018 numbers for ActBlue, those are almost identical to those on the right in 2020. So what we saw in 2018 to 2020 on the left is the growth went from 300% for all intents and purposes. It went from 1.6 billion raised to 5 billion. More impressively, 71% of those people donated for the first time.

Zac Moffatt:

So what that means is not a lack of demand. There's more demand than there is. It's just about activating people. Who can get involved and get more people to come and get involved into the overall process? We look at it though, the total addressable market. 18 year olds plus, about 210 million here in the United States. About 158 million voted in 2020, less than 20 million gave last cycle. And donors who gave over to $200 constituted just 2% of the population. When you put it in comparison, 73% of

Americans gave to charity last year. So in a two year cycle, less than 20 million gave. In one year in America, 73% give to charity and they gave individuals 324 billion. So we think that we're still in the second ending of just what's coming to political spending.

Zac Moffatt:

And that tailwind will not only be in fundraising, but it'll impact everything from paid media to creative, to field programs. There's a huge tunnel of money coming into politics that will all be driven from a 30 foot dollar donation. The day of 500 families being the determination of where the money is going has tapped out. So all the growth is going to be on the tail of politics.

Zac Moffatt:

How were we able to capture this? Well, not only do you have more activation than ever, but now because of mobile reducing friction and the cloud computing coming in to allow us to capture these data points, we're able to actually transform how successful we can be. We have different journeys for different individuals and help them identify what they want to give to, what message they react to. And what we're able to do is to build a technological infrastructure to support a presidential, but then scale it to the long tail of politics. So you're looking at the Senate races, at House races and state and local races. There's an unlimited amount of campaigns running every time. People often talk about federal elections and talk about the presidential. That's really just the tip of the iceberg. It represents only about 20% of the total market that's out there.

Zac Moffatt:

I thought to share this just so people have a frame of reference. House is the new Senate. Senate is a new presidential. Presidential is a new Fortune 50. An average house race now at top tier will do 10 million dollars in a cycle. A Senate race is a hundred million dollar business. A presidential is a billion dollar plus business. So you look through the numbers you say, "Okay, in 2021, we're already seeing on both the right and the left there's double the amount of donors right now than two years ago. There's three times the contributions." Look at candidates across the board. You're seeing the underlying numbers. Tim Scott goes from 2 million cash on hand six years ago to 20 million now. Young Kim is raising 250% more than she did just two years ago. The National Republican Congressional Committee is up 300% with 360% more contributions.

Zac Moffatt:

Everywhere you look, people are seeing and embracing the trend and getting more and more involved. We wanted to break out that this is not just a federal phenomenon. We looked at the RSLC, which the Republican State Leadership Conference. They, when COVID came, decided to build a low dollar program from scratch in April of 2020.

Zac Moffatt:

2020. In just that year, they were able to raise over $4 million from 110,000 donations. Already this year, they're at $6 million and they were very active in New Jersey, Virginia, and Pennsylvania. What they're doing is they're using these dollars to change how we leverage time on a campaign. They're pulling forward future demand much sooner. So you're going to see people buying TV commercials sooner, you're going to see people in the field sooner. It's going to impact all these adjacent industries that right now are working backwards. Most of the analysis you're seeing, people are doing it based upon what they think consumption will be. This is a bottom up. This is actually how much will be raised. Campaigns have no use to have money in the bank on election day. They will be spending sooner and they will be pulling forward future demand, and you're seeing right now at the local level, five campaigns a week are being onboarded on all these platforms. So we're going to see this just keep further and further down the stack as people get involved.

Zac Moffatt:

What's next for us after this? Well, obviously, we're capitalizing on the fundraising approach. We believe we're only in the second inning of where political giving is giving. We went from a $4 billion industry to a $14 billion industry. We think it probably normalizes much, much higher from here. We expanded to right of center nonprofit. We talked about those numbers before. $324 billion on individual giving and charitable giving. Huge opportunity for us to move our technology stack into.

Zac Moffatt:

International campaigns, obviously people are being active across the world. People are seeing more and more people, but they're looking to United States to see what is best in class, what future trends look like. Then finally, hyper-local engagements for Fortune 100 companies. What we are finding is that it's so difficult right now to break through in national audiences. It's so formulaic in the way that people are approaching things, that things are being broken down to the local level. The insight that the future of trust is local and communications is personal is going to drive so many future trends for how messages are delivered and what that success looks like. What companies are looking for is someone who can come in and take that relationship from the local level and work it all the way through the national.

Zac Moffatt:

So, those are the four trends that will drive us from here, but I wanted to make sure that we walk people through just how big this market is and how much people are under-appreciating where it's going from here. So, I appreciate your time. Thank you very much.

Zac Moffatt:

I had more time. I apologize. We have actually two pieces of creative that we're going to share with you now, before Jason comes up. So with that, I'll turn it over.

Damaune Journey:

We're 72andSunny. We're a global, full service creative agency that thrives on deep relationships with our clients with the purpose of developing un-ignorable creativity.

Evin Shutt:

The first thing you should know is the name 72andSunny is not about the weather, it's actually a statement of optimism, and to us, optimism is when you are presented with a problem, seeking out the opportunities. It's how we approach both the work and our relationships. Optimism to us is way more than just a positive outlook. We find it an incredible source of creative inspiration and competitive energy.

Matt Murphy:

It's all about the work and the creativity required to make sure that your brand wins. We really pride ourselves in not having a house style, but rather creating bespoke solutions to reach your brand's ambition.

Carlo Cavallone:

One of our guiding principles is to provide creativity that wins. We pride ourselves to find the truth in a brand, and use it to put it at the heart of culture to drive business results, like we did for Tinder, for Adidas, and for the NFL.

Speaker 13:

Who got my back?

Speaker 14:

I got your back.

Jimmy Fallon:

Tinder just announced that it will be making its own-

Speaker 15:

Interactive adventure called-

Speaker 16:

White Knight.

David DeMuth:

Doner is a rather unique agency founded and still headquartered in Detroit. Our agency operates at what we call the intersection of modern and main street, meaning we help main street brands compete and win in the modern marketplace by unleashing all of the tools of modern marketing, and we help born modern brands connect with and scale with everyday Americans. Modern and man has helped to track diverse talent to the agency and one of the most diverse client rosters of any agency in America, and we've done it with smart, efficient, data-driven digital campaigns and work that gets noticed, then amplified by the media.

Katie Walton:

So today, everyone's talking about data, and for us to be modern driven agency, it's critical that we use data to really inspire creativity. So for a brand like ZYRTEC, we tracked CDC data, weather data, allergy data, even pet adoptions, and the result? This J&J brand is now number one in its category.

Tito Melega:

What I love about Doner is that it's all about ideas that connect consumers with culture. We believe in a transcultural approach that builds brands for inclusivity and find places where brands can help solve real problems.

David DeMuth:

As Doner approaches its 85th anniversary, we're proud to have built a creative agency that's modern, efficient, and performance-driven.

Jason Reid:

Those are some really hard acts to follow, but I'll try my best not to bore you with the next financial section. I am Jason Reid, I'm the chief investment officer of Stagwell, and I'm here to talk to you about sustainable value creation on the Stagwell platform.

Jason Reid:

Let's talk about the Stagwell investment premise. We are seeking to acquire $450 million in new revenue by the year 2025. Why are we doing it? We've got four reasons. We're running a value-added investment platform that accelerates growth in the businesses that we acquire. There is ample opportunity to deploy capital in a large and growing marketplace, and we have a scalable sourcing, targeting, and execution platform on which we operate. But most importantly, we have a proven track record of generating returns.

Jason Reid:

What are the capital deployment marketplaces that we are attacking? First and foremost is the core, marketing services, and occasionally, the digital media platforms on which they operate. You know the big ones: Google, Facebook, and Instagram. Second is digital transformation, which oftentimes includes the implementation of core enterprise software services like Salesforce, Magento, and Shopify. Third is data and software products, which the Stagwell marketing cloud already participates in through products like Cue, Qualifyed, and Profit. We have a roadmap for global expansion. Stagwell today is a very small fraction of the overall U.S. marketplace, and an even smaller fraction of the international one. As you can see from the map, our affiliate partners provide a direct pipeline for international investment.

Jason Reid:

Let's do a quick case on scaling digital transformation. In 2020, we acquired Truelogic Software and added it to Code and Theory. It brought core Latin American digital transformation capabilities and clients. That business grew 130% in the most recent quarter, and has almost 300 engineers, adding 15 more every month. In the same year, we acquired Kettle, which added core design and content practices to Code and Theory as well, and blue chip West Coast clients. That business grew 80% in the most recent quarter, and has over 50 user experience and content specialists. These are two prime examples of accelerating growth internationally and domestically through the Stagwell platform.

Jason Reid:

So how do we do it? We've got a synchronized and scalable pipeline. We start with 75 global intermediaries, I'm talking investment banks, that we commune with on a regular basis. We've deputized 12 network heads across the system to source, target, and execute deals on our behalf. As I mentioned earlier, we have 30 affiliates that create a direct investment pipeline internationally. We manage the entire process through a centralized corporate CRM, which we manage end-to-end. We've got a great track record of execution. Since we started in 2015, we've made 35 direct investments, seven bolt-on investments with network CEO support, and five incubator investments. As you can see from the illustrative pipeline on the left, which is actually the pipeline that we executed on in 2019, we looked at

200 companies, brought 100 of them to our investment committee, submitted bids on 40, and acquired five. The chart on the right shows you that the targets that we are putting forward are highly achievable based on our historical track record.

Jason Reid:

We've got a very simple rubric for evaluation and execution. We're looking for blue chip clients and those operating in great secular markets. We look for great capabilities in talking about the high value add strategic consultants, some of which you heard from today, that operate in rapidly growing marketplaces. We look for great teams, ones with balanced responsibilities and great chemistry, and most importantly, a great second let next generation of leadership. We like to manage the balance sheet by minimizing liabilities, preferring simple buyouts, and option structures to reduce deferred acquisition consideration.

Jason Reid:

Let's do another case. How we scaled the global media group. We started in 2016 by buying PMX Agency in the United States. In 2017, we added a UK footprint through Forward3D. In 2018, we added both social and global travel media through MMI and introspectively. In 2019, we added B2B and a West Coast presence through Multiview and The Search Agency. Finally, in 2020 and 2021, through the integration of MBC partners, we became a $5 billion global media powerhouse.

Jason Reid:

So why does any of this matter? Based on our historical track record, for every $100 million that we invest, we can generate between 40 and 80 cents in incremental shareholder value. With the hundreds of millions of dollars that this platform will generate in free cashflow in the next few years, this is a meaningful lever to drive the stock appreciation from here.

Jason Reid:

A final case on Reputation Defender. In 2018, we bought Reputation Defender from reputation.com at the behest of one of our CEO's recommendations. In 2021, we received an unsolicited offer from a strategic buyer to acquire these assets. During the time that we owned it, we accelerated the company's growth by optimizing the media mix and creating new products such as executive privacy. The net-net is we bought a company for $4 million and we sold it for $40, a 10X return in three and a half years. I know all of our investments will not be this successful, but we will certainly try.

Jason Reid:

With that, I'd like to pass the mic off to Frank Lanuto, our CFO, if he is in the room. All right.

Frank Lanuto:

Thank you, Jason. Good afternoon everyone, and thank you for joining us here today. I'm going to spend the next few minutes taking you through our recent operating performance, some of our cost initiatives, and a look at key balance sheet metrics for the company.

Frank Lanuto:

Should I just put this down?

Speaker 17:

[inaudible].

Frank Lanuto:

All right. Okay. Closer? That close. All right. Even closer? Okay, here we go. Sorry.

Frank Lanuto:

Okay, so I need to take you through the formal forward looking statement comments. You're all familiar with those. Most of the information that I'm going to be talking about is built on a pro forma basis as if the combined company was together as of the beginning of 2019.

Frank Lanuto:

So just some quick highlights again. I think if you all listened to our earnings call the other day, you might be familiar with some of these numbers. For the quarter, we posted almost $500 million of net revenue. That was approximately 23% organic net revenue growth over the same period a year ago. We importantly increased adjusted EBITDA by about 12 and a half percent to $100 million and delivered it all at a 20% net revenue margin. Similarly, if you look for the nine months year to date, net revenue was a shade over $1, 400,000,000. The organic revenue growth was about 15.5% on a net revenue basis. The adjusted EBITDA growth was 33.5%, improving to $275 million, and again, all delivered at just under 20% net revenue margin.

Frank Lanuto:

If you take a look at our performance over the most recent quarters broken down on a pro forma quarterly basis, I just wanted to point out a couple of trends to you that are important. Since Q2 of 2020, our trailing 12 month adjusted EBITDA has increased in each and every quarter through Q3 of 2021. Importantly again, we've increased our adjusted EBITDA margin from 16% at the end of 2019 to 20.5% ended in Q3 2021. Net revenue growth, since the pandemic lows, has increased in each of the three quarters in 2021 on a trailing 12 month basis as well.

Frank Lanuto:

Many of you have asked us questions about our advocacy business. Zac was giving you some color on the trends in that space. In the spirit of transparency, we wanted to provide you information here for the last three years for this business for Q3 and for the nine month period, respectively. There were two offsetting trends that you see here. First is the more common one that everyone talks about, which is the cyclical trend of the business tied to the election cycles. Yes, that's true. But importantly, there is also a counteracting secular trend growing here, and the business is growing on a secular basis also. If you take a look at the growth in our net revenues in two off-cycle years, 2019 to 2021, you'll see that both for the three month period for the quarter and for the nine month period, net revenues are up approximately 90%.

Frank Lanuto:

Switching to a different view of the business, our revenues from a geographic mix, the company on a combined basis has been predominantly North American-based, with approximately 85% of the revenues being generated in North America, to a lesser extent in Europe, and then smaller pieces in the rest of the world. You've heard Mark and Jason talk to you about our desire to increase our participation in global contracts and winning global contracts, and also growing our international footprint to balance out our portfolio.

Frank Lanuto:

So, how are we going to do that? We did that with the deployment of an affiliate network. To date, we have 30 affiliate relationships, and are well on our way to achieving our goal of 50 affiliate relationships in the next year. This provides us with three distinct advantages. The first is our speed and ability to actually service global contracts as they are won. The second is that it's a low-cost method of gaining access to international markets and serving those international clients without requiring significant amounts of capital be to be deployed. Then third, it permits us the ability to cultivate these business relationships with these affiliate networks before we decide to acquire them to make sure that it's something that both parties really want to do and gives us a greater degree of confidence in our ability that we've made a good investment.

Frank Lanuto:

Looking at our business from another cut, from a line of business standpoint, we think that our current portfolio provides us a distinctive advantage over some of our competitive set. Approximately 48% of our business is in faster growing digital-based businesses, including digital-based business transformation and performance media, digital research, and the category that you see here as other, which includes select pre-revenue digital SaaS products, as well as our travel business. Together, it's 48% of our portfolio and a higher proportion than most of our competitive set, and we believe that will allow us to grow more quickly than our competitors.

Frank Lanuto:

All of this leads us to increase our 2025 revenue target from $3 billion, previously stated, to now $3.4 billion, and that's built on four elements. The first is the higher proportion of fast-growing digital businesses. Overall, on a completely blended basis, we believe that our digital businesses will grow approximately 10% to 15% annually. Second, the topic that Jason spoke to about we expect to use more of our free cash flow to increase the level and increase the speed with which we will deploy capital to make acquisitions, which should give us a total of $450 million between the acquired and organic growth component of those revenues by 2025. Third, we believe that our legacy portfolio of traditional marketing assets will be able to grow more quickly, particularly with the increased growth in our global contracts. We believe that they'll be able to participate in that and will enjoy higher rates of growth than they might have otherwise. Then fourth, the topic that Zac spoke to about, our targeted victory business, our advocacy business, where we see strong secular trends there, and we expect that growth to continue into the foreseeable future.

Frank Lanuto:

Just switching to our synergies, we talked about the fact that the combined company should be able to achieve somewhere in the neighborhood of $30 million in synergies over a two year period. We continue to believe that, and that we will experience those savings over six categories: media, shared services, benefits, real estate, corporate, and other. The media group should make up approximately 30% of those savings, and it comes from the redeployment of resources to lower-cost markets for the consolidation of the media platform and buying and the like, the reduction of duplicate tools that we use in the media business to run the business, and then finally, a reduction in duplicate roles that we may have at some of the senior levels. For shared services, we are accelerating the deployment of our

Maconomy ERP system globally. This will allow us to A, reduce costs from the technology standpoint, but more importantly, it also permits us to accelerate the consolidation of the back office and AR, AP bill pay functions, and to redeploy that talent to lower-cost markets and achieve even greater savings. Finally, we think we can also use the platform to reduce third party spending in legal.

Frank Lanuto:

Real estate. We see further opportunities in real estate. You're sitting in a One World Trade Center space today. This is the project which was our real estate transformation project, which we completed in the third quarter of 2020, which has allowed us to save approximately $10 million a year in real estate, but we see additional opportunities for maybe another $3.5 to $5 million across North America in markets like Los Angeles, Denver, Minneapolis, Toronto, and even more opportunity in New York, where we haven't consolidated as much as we think we can.

Frank Lanuto:

Benefits. The size of the company is significantly larger now. We believe increased scale will allow us to do two things. One, lower the cost of our employee benefit programs because of that scale, self-insurance, and the like, and also the deployment of a common HR and payroll system, which will reduce our technology costs and admin costs.

Frank Lanuto:

Nothing is left untouched. There are opportunities in corporate as well to reduce duplicative roles and to reallocate resources to other areas of the business where the talent could be used more efficiently. Then finally, third party spend recapture and G&A. This really comes from enterprise-level contracts that we enter into for technology, hardware, software, business insurance, and the like. We believe that we can use the scale to reduce the spend in all of these areas. So, shifting to our balance sheet. The combination provided a significant de-leveraging event for the company. Prior, MDC had approximately 3.9 times leverage at June 30th. The merger now on a post combination basis as of September 30th, we are at three times leverage. We have significantly improved the strength of our balance sheet with this transaction. The rating agencies seem to agree. They have both increased their ratings for us by one notch and have us on positive outlook for the future. We continue to believe that we can run the company at three times based on some of the remarks that Mark made, but we believe we have significant cash flow that we can use to fund the activities and the M&A that we'd like to do with that cash flow, as well as our existing facilities.

Frank Lanuto:

Just looking at our debt and our capital structure, our net debt today is as of June 30th is approximately $1,270,000,000. Importantly, as soon as we consummated the merger, we went out and we immediately took advantage of the interest rate environment, and we refinanced our existing senior notes and expanded it with a new $1.1 billion issue of eight year notes. This did two important things at the same time. The first is it lowered our annual interest costs by approximately $17 million on a comparable balance basis, but it also increased the stability of our balance sheet with permanent, low-cost, eight year notes on the balance sheet.

Frank Lanuto:

Shifting to our capital structure, we've done some extra things to improve the balance sheet further here. We recently called our convertible preferred notes and converted them into approximately 33 million common shares. This, again, improved the balance sheet in two ways. The first: it eliminated future accretion on the convertible preferred notes, basically mitigating the possibility of up to $23 million more of accretion that could have taken place over the remaining period of the notes. Secondly, it's simplified our balance sheet structure and our capital structure. On a fully diluted basis, we're at approximately 295 million shares, including outstanding awards to employees in the company.

Frank Lanuto:

So, just to reiterate in conclusion, a couple of things that we want to just revisit on the targets. Our annual revenue growth is now set at 7% to 9% organically. We expect to acquire and grow organically with $450 million in acquisitions. We have targeted revenue for 2025 of $3.4 billion. We expect that we can continue to run free cash flow at approximately 50% of adjusted EBITDA... Excuse me, 50% to 55% of adjusted EBITDA. We think there's more opportunity from more margin expansion, and we think that over this time period, we can expand margins by 25 to 50 basis points a year, and we expect to run with cash taxes over the next couple years of somewhere in the neighborhood of 21% to 24% of pre-tax income.

Frank Lanuto:

We'll continue to communicate with you frequently and transparently. We've listed the KPIs here that we think that are important to measure our progress and our success, and that brings me to close of my prepared remarks. With that, I'm going to turn it back over to our CEO, Mark Penn.

Mark Penn:

Thank you.

Mark Penn:

Yeah?

Frank Lanuto:

Yes.

Mark Penn:

All right. I just wanted to point out in conclusion before we take some Q&A that you should think about, we're not up to providing guidance into the next year, but I think we should definitely point out some of the obvious in terms of what's coming up for us.

Mark Penn:

Obviously we're going through the down part of the cycle. In the next quarter, you'll have the absence of the political cycle, but going into 2022, you will have what promises to be a fulsome cycle of advocacy. I think we're seeing continued demand in the digital transformation area. We don't see any real let-up in the kind of growth that we've seen coming out of the pandemic. That there's been, as you can tell from this meeting, we have people here, but we have many more people not here on the web stream, and the hybrid life that still accelerates digital and means that every company has to put more into adaptation seems to be continuing.

Mark Penn:

The integrated offerings on digital media continue to scale up. As they scale up, we have more scaled clients. More scaled clients, greater efficiency, greater margin, greater ability to grow. Our current numbers still have travel mostly depressed. So as you recall, we have a travel business. It has relationships with 22 airlines. It actually, during the pandemic, as people moved off of magazines, has created a new database product, which takes airline passenger information for retargeting, and we're rolling that out to airlines, and we picked up most of the CNN screens across the country in key locations, and so we now have reach TV, are basically our own TV channel that goes through the 3,500 screens and now is open for advertising. As travel comes back next year, that business will resume.

Mark Penn:

Finally, experiential, although experiential is a small part of the business, that is also a business that will spring back in 2022.

Mark Penn:

So I just wanted to point out that if you like this year's numbers, we have a bunch of stuff coming for next year that I think promises to continue the kind of growth that we've shown. So with that, let me get everybody up to take some Q&A. Are we taking three minutes to set up, or we're just Q&A-ing?

Jay Leveton:

I think we're taking questions from the livestream and also in the room, and I think Michaela, you're filtering the questions? Oh, sorry. Beth is filtering the questions. My apologies.

Beth:

Okay. First question from RBC. You've laid out a very attractive path ahead towards executing against your 7% to 9% long term organic growth target. Whether it's with a large and growing TAM or continuing to grow your share, how should we think about what specific drivers could drive upside beyond your best-case organic growth outlook?

Mark Penn:

Ooh, I like that. So, I think there are a couple of things that would drive above expectations. One would be snowballing of large-scale contracts. Number of individual contracts we have in the $25 to $50 million category right now? Zero. Number of growing contracts in the $10 million category, pretty rapidly growing. We've had four or five wins in that come now. So, once we get into $25 million chunks, those snowball, because every win is a stream of multi-year, and the larger the stream, the more difficult it is to untangle, so the longer actually the longevity is.

Mark Penn:

Second, we could have a hit in the Stagwell cloud. If you think about it, if I got to $100 million of revenue, that probably would create about a billion dollars of value by itself, because of the way that SaaS revenue in that space has typically been valued.

Mark Penn:

The third thing is really just the continued digital expansion. I have us at 7% to 9%, you've seen a lot of agencies have been growing here 50% and 40% to 60%. If we're able to execute some continued expansions as we scale up in that way, we are still far removed from the biggest agencies that have those capabilities. I don't know if anyone else wants to throw in another above average? I don't think there can be more spending in advocacy than Zac has predicted.

Jason Reid:

Okay. From Mayborn, please provide more specifics on the changes in incentive programs and earn-ins versus historical earn-out philosophy slash obligations.

Jay Leveton:

That's a good question. I think what we've seen in legacy MDC group was a heavy focus on deferred acquisition consideration, even as opposed to legacy Stagwell, where there was not a lot of focus on that. We've primarily done buyouts, as Jason mentioned, at scale, at closing. I think what we're now looking at in terms to the incentives going forward is really this idea of an earn-in, and I think Mark mentioned that on the slide, is that a sharing of the growth that these entrepreneurs put up and that they receive primarily in the stock of the company. I think you're looking at a group of people who own a lot of shares of the company right now. I think as you saw from the transaction closing, the legacy Stagwell managers

Jay Leveton:

Earned about $19 million of the shares in the company, so there's a large incentive for them to continue. Some of the other people that came from the other side also have large amounts of shares in the company. So, we're moving away primarily just from DAQ at scale, and then moving to something that is more earn-in oriented, less earn-out oriented, and I think that is actually hopefully more attractive and something that drives the behavior of more integration and more cooperation than just focusing just on their own PNLs and businesses.

Mark Penn:

That was 19 million shares.

Jay Leveton:

19 million... Did I say 19 million shares.

Mark Penn:

Yeah.

Speaker 18:

Okay. We have a three-part question from Steve [inaudible] at Wells Fargo, so I'll read individually. First, I know the 7% to 9% is a target and not guidance, but given your digital foundation, I think that's what investors will expect. So are you confident in growing 7% to 9% or better near term, since that's likely to be the benchmark for gaining investor confidence?

Mark Penn:

Well, I think that since I really became CEO of these assets [inaudible], we have really taken what I think has been an on target approach to predicting as compared to I think the past. So, I felt comfortable when you analyze the situation, run through the numbers. I didn't take seven to nine, after having sat through six to 10 review meetings, having gone through the percentage of high growth digital, and having gone through the marketplaces. Yes, I'm confident in the seven to nine as a benchmark. Again, people are interested in upside. People always want more. I always resist promising more. I think that we're showing really strong winds coming out of the gate in the merger. But I think that's where I'm quite comfortable with a really substantiated prediction. I think the 5% before was even more conservative given that we see the kind of growth drivers that we really have here. So, I feel confident in it or I wouldn't have done it, and you're not going to get me to say something more because I would've said it, but I'm not.

Speaker 18:

Second question from Steve. How do you think about balancing de-leveraging versus your 450 million M&A target? Is de-leveraging the number one priority, or only after debt reduction?

Mark Penn:

You want to take that? Look, I think what I said, if I can borrow money at 4% or 5% and I can invest it at 20% to 40%, or in the example, 10 to one, are there investment opportunities for us to grow this network? We can't sit here at $2 billion. We have to get to three, four, and five. We have to continue to scale up to get in as one of these five to 10 of these top pitches that we're not in, and so that means scaling this out and investing wisely.

Mark Penn:

I think as Jason illustrated, we have a very good track record. I don't like to overpay. I like to have judicious elements that promote common growth. I'm not creating a bunch of competitors so that you drop new business in and it's piranhas fighting for it. Instead, it's a collegium and a cooperative team.

Mark Penn:

So, bottom line is I think we don't want to do what was done in the past and over-leverage, we don't want to under leverage, because there are real growth opportunities here in the marketplace. There's an entire international marketplace that the big companies have not made much investment in. Why? Because they bought their Dubai affiliate 40 years ago. Well, since then, there were tremendous new digital first opportunities in these countries that we can now scour for fresh investment and add to a platform, because A, they need to be added to a platform to grow, and B, there's nobody else out there in that marketplace right now.

Mark Penn:

So I think the opportunities are really strong and sound, and I think the balance... Look, and you saw with Stagwell, we came in with relatively low debt despite the fact that we were in the business of acquiring, investing, and growing, because I manage this stuff prudently. You also look at P&L, in which we're achieving right now a 20% margin, and you have EBIDA approaching $400 million.

Mark Penn:

So I like not only to grow a company, not only to find serious growth avenues, but I also like to make profits and cash, because we can take that cash, and we can continue to grow this from a $2 billion platform on in this marketplace that needs transformation.

Speaker 18:

Got it. The third question is, do you feel as though any of the legacy MDC agencies have been negatively impacted by the merger and uncertainty of the last few years?

Mark Penn:

Well, I think that they've been positively impacted. I think that when we came, a lot of the founders were leaving, there was talk of breakup. I think the founders have come back and been re-energized, they've got broader jobs, I think a lot of the companies have been re-energized. I think it's been a strong positive for those companies. The fact that they can go in now, combined with media, combined with the digital expertise that they need also I think has re-energized them.

Mark Penn:

Now, not every company has done perfectly, but by and large, and I think you saw a very strong presentation from Carl Johnson Anomaly, very strong emphasis on optimism out in 72. I think you've seen Donor hit the main street stuff. I think every one of these assets has its particular strength and specialty, and we work to get the maximum out of them and to promote a positive culture. Crispin obviously was an agency that didn't continue to perform as strongly, but the attitude we've taken is to bring in a new team, bring in a new management, and we're confident that we're going to see that one be revived. I know Jay, if you want to add?

Jay Leveton:

We have some people who came over from legacy MDC. I don't know if they want to comment?

Ashish Toshniwal:

I think one thing I'm particularly interested is the whole M&A thing is becoming a reality. I came from the MDC side, YML, worked with MDC for four or five years, and there was a lot of conversation with very little action, and I can see how that is changing, and I'm pretty optimistic and excited about that.

Brad Simms:

I mean, the only thing I would add is that in the new world that we're in right now, we're really seeing a more collaborative environment for the CEOs that were on the MDC side. We were really at arm's length, I think, the way that we have been engaged in our opinions and the meetings and the business leadership team that Mark showed really allows us to contribute more to the future direction, which, frankly, just means we're more bought in to what we're creating together.

Speaker 18:

Okay. Our next question, the company has already reached its objective for an approximately 3X leverage ratio, and will generate significant free cash flow over the 2021 to 2025 period at an approximately 55% conversion ratio on adjusted EBITDA. Does the M&A contemplated in your plan utilize all of this expected free cash flow? If not, where might excess free cash flow be deployed? Mic?

Mark Penn:

I think it's a good question. I think it's a little premature for me to answer that. I think our first emphasis here is on scoping out M& A, and obviously things will then automatically fall to reduce the debt ratio. Whether we do anything else, I think it's premature to speculate on that.

Speaker 18:

Okay. Can you talk more about the broader M &A landscape as the bigger holding companies look to sustain if not accelerate their own growth and better compete with the Stagwells of the world through acquisitions, does that make executing on deals more challenging overall? What's Stagwell's edge as a partner?

Speaker 19:

Yeah, no, the landscape has really evolved over the last couple years. The larger players largely remain out of the market. As you can see, they're solving their internal problems, and that's given us a great opportunity to acquire assets. As Mark mentioned earlier, the international landscape is ripe for opportunities. In speaking with our affiliate partners, they're very eager to work with us and very eager to be acquired and be part of the network. We are having some ongoing conversations with many of them. U.S. private equity has stepped into the market in a decent way, but I think what you'll see happen there is they just don't have the same platform to realize the returns that we do to grow through back end and front end synergies. So it's a constantly involving marketplace. I think we're in a highly competitive position. We have kept our promises to our CEOs. We run a non-competitive platform where we encourage growth and incentivize internally. Quite frankly, I think we have the best story in the marketplace right now.

Speaker 18:

Okay, next question. You talk about the opportunity to grow much larger client budgets. How have you or do you compete with much larger ad holding companies for these?

Julia Hammond:

Well, it depends, is really the answer to that question. Certain clients that we've worked with require deep transformation at the center. You heard a lot of our partners talk about digital transformation. We also talk a lot about data infrastructure and data transformation. That's usually our best foot in the door, because those are the stickiest capabilities that we can put into a client and then build from.

Julia Hammond:

So oftentimes, when we have our partner agencies working deeply inside of client organizations, those are the kinds of immediate issues that they find problems with. A lot of our client partners are far behind, and so in the competency of these people that you heard from today embedded inside of their organizations start to unlock more and more opportunities for growth.

Julia Hammond:

I know we have a financial services company that both Brad's team over at GALE, Dan's team over at Code and Theory, teamed up together in order to make significant change in the way that they go to market inside of a core division, asset management. What we're seeing is a land and expand just across the board with that one client partner, because we're able to make one plus one equal three, I think, in that essence. So we're able to really connect the dots and build from a solid foundation that's anchored in our ability to drive growth. That's one way to do it.

Mark Penn:

[inaudible]?

Julia Hammond:

That's right. What Mark just asked is, in those kinds of situations, what are we replacing? A lot of times, it's the Accentures, the Deloittes of the world, the management consulting firms that get in and traditionally are the first phone call for those things. What makes us different is we're able to connect that to content in a much more clean and strategic way. So we're able to really build that foundation and then level up with the way that Brad's company can create 10,000 different assets in the matter of weeks, not months, and Dan's company is able to really understand the connected consumer experience and find the right person to serve the right message to at the right moment in time across an entire connected digital ecosystem.

Dan Gardner:

Yeah. I mean, we partnered with Donor, so it actually addresses a couple issues. One, the M&A side of things. We have a culture... I've been on the independent side and obviously sold to Stagwell, and one of the unique things is as an independent agency, you don't have the depth of skill to round out your services, and the culture of Stagwell has allowed us to integrate, we talked about integration so many times in all our decks, seamlessly. So J&J, for example, we co-pitched with a donor, a very successful, large account that we've been able to grow, it's been a couple years now, actually, we've been able to grow pretty significantly across the different business lines.

Dan Gardner:

That just wouldn't happen without the integration. We've almost worked with, I don't know, a dozen of the integrated agencies across the Stagwell network that's complementary.

Mark Penn:

[inaudible].

Dan Gardner:

Oh yeah. In that case, J&J was unseating WPP. That was, I think a 50 plus year relationship if I got my number correctly. So, that was a stronghold that we were able to not only displace, but grow since then over the last couple years.

Speaker 18:

That leads to a specific question about Code. Who are Code's biggest competitors and how do you win versus them?

Dan Gardner:

Yeah, I mean, I think to the point of the consultancies are probably more recently our biggest competitors. Because of the type of services we do, it does touch everything from a WPP or traditional holding company to now more the consultants. I think the main area of our difference is how we're able to connect it, where consultancies start and really stop after just the big level strategic thinking. But when you're talking about digital transformation or true transformation, the technology and creative connections are imperative to long term success, and because it doesn't start and stop from a singular moment of time, it's an ongoing agile sort of approach to solving the problems. That's really where our differentiation against them become key, because it's not just the singular PowerPoint in a given point, this is where your business needs to go. It needs to take more of the Silicon Valley approach, which is, hey, here's where it's going, here's the infrastructure we're going to be, and here are how we're going to pivot over time and put all that in place.

Speaker 18:

Okay, next question. You're guiding to a 3X leverage target. How high are you willing to take it for a big acquisition?

Mark Penn:

Again, I think that's a premature question. Look, I have resisted, look, when we ran Stagwell and grew it, and even when we did this combination, obviously I'm really very sensitive to not creating a company that is burdened by debt to the extent that it then threatens your model. It's just not the way I'm going to run things, because I could sleep at night. Look, we went through the first worst pandemic, and because of the prudent steps that we took in the year and a half before, everybody thought, "Oh my god, what's going to happen during the pandemic," right? I bought shares and bought bonds to send out the signal that this is well financially managed.

Mark Penn:

So, I always think there could be big deals, but I will always look for structures that do not generate debt that becomes a real burden to the company, and I think that was one of the problems that the old company had that we obviously didn't have at Stagwell, And I have no interest in recreating that kind of scenario.

Speaker 18:

You provided revenue guidance for 2025, but what can you say about margins for 2025? Also, how scalable is your business model given what would seem like labor intensiveness?

Frank Lanuto:

I think we said that we can expand our margins by approximately 25 to 50 dips a year over that timeframe. We're currently at 20 and a half percent. If you take the low end, you've got 21 and change, if you take the upper end, it's 22 and change. But we think that's achievable.

Mark Penn:

Yeah. I mean, I also think there's another factor that the combined company requires a central operation that will be able to grow a lot slower than what it will manage. If you look at my executive team and the BLT, I could double, and I don't have to add a single person to that chart. So I'm expecting that there'll be also a considerable efficiency in the ability of the management team and structure that we have created to manage a larger operation, and that that will grow at a considerably smaller level, creating another opportunity of the fixed cost for additional margin.

Speaker 18:

Another margin question. As you increase the size of the contracts and accounts you want to work with, how does that change the margin profile of the business, and are the smaller clients less profitable?

Mark Penn:

Bigger is usually better, right, and bigger is usually better because the cost of marketing is so high. I always used to joke that it takes exactly the same time to do the paint store down the corner is to work for Bill Gates, only Bill Gates paid more. So, I think that holds true. Bigger clients will put in more restrictions, they may even put in more cost controls, but net, the fact that that's going to be likely a three to six year assignment because it's going to take six months to pitch it out, six months to integrate it in, that's a year process. Whereas people can bring you in and out of a project overnight, that's not something they can do in these larger accounts. So the upfront marketing expense, I think, is amortized, and that is a considerable expense in these businesses that drops to the bottom line.

Mark Penn:

So I'm encouraging the organization to go into that direction. I think it means overall better margins, greater stability for the workforce, and greater integration of the services, all of which greatly reduces the cost of marketing the work, and lets you to put all the effort in terms of doing it.

Speaker 18:

Is the marketing cloud solution intended to compete with Adobe, Oracle, and Salesforce marketing cloud solutions?

Mark Penn:

They're slightly different in that there will be some overlap in some of that, but I think we're going to really focus on the brand marketer who's working in house, and then needs a set of solutions in order to effectively create, manage, and execute those campaigns. We'll have proprietary data like our stream of research that others really won't, we'll have the ability to add the other data I think efficiently. So I think there will be some overlap and competition, but we will carve out the space as being more designed for B2B, that is for businesses doing their marketing internally, and I think that will set to differentiate us and to make us a product of choice.

Speaker 18:

If all, parentheses many, Stagwell agencies lead with or are adding digital expertise, how are conflicts managed, e.g. Code and Theory versus YML?

Mark Penn:

Well, I think that by and large, the quote holding company system was actually engineered in the business to deal with conflicts. So, obviously the fact that one group is doing one car and another group is doing another car, if you didn't have those walls and if clients didn't accept that having Code do it versus Donor wasn't acceptable. Occasionally, there are some clients that are so big that they'll accept that. But 90%, I'd say about 95% of all clients recognize that, and if they didn't recognize it, there would be no WPP, there would be no Omnicom.

Mark Penn:

So it is core to what the clients recognize is or is not a conflict, and what the clients recognize is the proper structure administratively and technologically to ensure that their business is safeguarded.

Dan Gardner:

Also, I mean, although there's a gray area of overlap between even our two companies, there's different philosophies and approaches in tackling problems. So, depending what the problem is, it could make more sense versus a Code and Theory. That exists, and there's also opportunity because mobile engineers is a specialty, and there's deep scale where we don't have as much of that depth that it's actually complimentary that we've even talked about how we can partner up. So, it's not like a one to one, even if you look at Anomaly or 72, it's not one-to-one. Some of the outputs may look similar, and that's what I was trying to get in my presentation, that outputs don't necessarily mean competition, because approach and strategy may be different.

Ashish Toshniwal:

I just want to add one more thing, that...

Speaker 18:

Get closer.

Ashish Toshniwal:

That the competition, actually, the way to grow, and especially digital product design engineering business, the pie is not limited. In fact, we are limited by how fast we can hire, and that is the challenge right now we are facing, more than like, we are competing on the same clients or not.

Speaker 18:

Can you talk about the financial arrangements with your affiliate partners? Minority stakes, JV, please explain.

Mark Penn:

Yeah. The financial arrangements are largely revenue sharing back and forth in terms of referrals and contracts. We have entered into a joint venture in Latin America between Grupo Garnier and Allison+Partners, and that one represents somewhat more of a dedication of resources against an expansion in Latin America. Neither have required CapEx at this point.

Speaker 18:

This question is for Brad. The creative slash media re-consolidation effort is intriguing. Can you talk about how hard it's been to combine creative with business transformation and digital capabilities?

Brad Simms:

Well, I would say that what we're seeing is a shifting CMO group. There are some CMOs that are still looking for single point solution agencies. Really, where we work best, as Dan and Ashish have been talking about, is when we find that CMO that realizes that median data are core to strategy, and strategy leads all execution. So, really moving data and media forward in the conversation is really critical in order to be able to execute, whether it's creative, whether it's PR, whether it's your earned strategy.

Brad Simms:

I would also say that GALE is a small example of what we do in a transformational way across Stagwell. GALE offers this integrated offering that does media and creative and brand and tech, and it is a small footprint, but as you get outside of an agency, or as you get outside of a client that wants to deal with just one agency and you bring scale to it, I think the thing that I would comment on is, at this table, you're sitting with a lot of founders, right? These are folks that have started agencies, and we are all, as Jay talked about, 100% aligned with what we're now growing together, which I think is one of the biggest differences between MDC before. So our interests in aligning and collaborating for clients when GALE can't scale there and we need to collaborate with Code or we need to collaborate with YML means that our incentives are aligned, and when our incentives are aligned, it drives really easy collaboration to drive those integrated solutions.

Brad Simms:

We are beating the Publiuses, the WPPs, the Omnicoms all last year, and the way we are doing it is by not bringing a patchwork of solutions to clients, but rather one client solution that is built for them by either GALE or by agencies that are conceptually aligned as to where we're going.

Speaker 18:

All right, we've got a political question. Did 2024 Q advocacy have as much impact as 3Q, or did it ramp because the elections are in November? How should we think about 4Q year-over-year comparison?

Mark Penn:

Ramped is the answer to that question. I don't know, Frank, if you want to say anything further?

Frank Lanuto:

Yeah, I think you can expect that Q4 is significantly stronger than Q3, so you would expect that trend to continue.

Speaker 18:

How do you anticipate the return to normal operations post-COVID to impact your digital-heavy projections?

Mark Penn:

Again, you can see it from Ashish, but what I think the pandemic did is it took what was happening anyway, accelerated it three to five years, and then we're on that path. As I always say, the Instacart was here, but we didn't use it. Zoom was here, but we didn't use it. Peloton was here, and we were just learning how to use it. So, I don't think there's any moving backward from that. It's like, is somebody going to put in box TVs instead of flat screens? Is somebody going to go in and put rotary phones in? No, it's only going to move in this direction, and it's moving in this direction in a way that's growing and expanding.

Ashish Toshniwal:

In fact, I would add, Mark, that I am seeing with clients, they're expanding more and more budgets towards digital in a way where earlier, there used to be a lot of discussion on how fast to move, how fast they can move on budgets, and now the discussion on that is a lot less. The conversation around how to grow in digital and when to grow is almost obvious at this point, especially given what they have experienced. A lot of our clients have experienced efficiency in operations, increase in customer experience, and again, increase in digital channel sales, and they're not going to reduce investment in that direction.

Dan Gardner:

Yeah, and the thing I'll add is whenever there's change, that's good for our business, and as I said, change is the constant, and behaviors are changing. These opportunities, platforms are changing. We see Facebook changing their name on opportunities that are changing. All of these things translate for us into a tremendous amount of work.

Speaker 18:

Our final question before we turn to our panel discussion. What technologies are you tracking as the future of marketing?

Mark Penn:

Yeah, well, obviously Mark Zuckerberg has laid down the marker, right? So, right now, advertising's in the real world. When you move into the metaverse, advertising's going to be in the metaverse, right? It's not like you're going to drive your car in the metaverse and there aren't going to be any digital signs and ads. So an entire new ecosystem of advertising and marketing has to be built for the virtual and the augmented reality world. I think you're seeing all the signage go to be digitized, I think you're seeing all TV becoming connected TV. I mean, who wants to watch some show at 4:00 when you can watch at any time you want? Nobody's going to go back to that.

Mark Penn:

At the same time, the ability for us to put in individualized, tailored marketing. So, I think that underscores that we are somewhere in the middle to early innings of the full transformation here, that as you transfer over to online shopping, that's just a small piece of the online or digital layer experience.

Mark Penn:

Remember, I did serve with Satya as chief strategy officer of Microsoft and did evaluate hundreds of these ideas and where things are going. So that's why we're investing in the AR marketing with the Around product. That's why I think it's going to be an important part. That's why I think NFTs are going to be interesting. That's why I think we could create a marketplace around QR codes. I think this company's not going to stand still. It's not going to just do 30-second TV ads, right? It's not even just going to do coordinated digital marketing campaigns. We're going to continue to grow with this marketplace as it goes. That's the whole idea behind Stagwell and transforming marketing.

Jay Leveton:

I think that wraps up the Q&A session. I think we're going to take five minutes to take a quick break, and then we'll have the treasury secretary come in, Jerry Baker will come in, and then we'll start that up. Okay? Thank you.

Speaker 20:

[inaudible].

Speaker 21:

If everyone can resume, take their seats, we will resume our programming momentarily.

Speaker 21:

Welcome to the stage, Mark Penn, former secretary of the treasury, Lawrence H. Summers, and wall street journal editor at large Jerry Baker.

Speaker 21:

Please, welcome to the stage Mark Penn, former secretary of the treasury, Lawrence H. Summers, and Wall Street Journal editor at large, Jerry Baker.

Jerry Baker:

Reminds me of that moment during the Republican primary in 2016, when Jeb Bush had a particularly disappointing moment and nobody said anything and Jeb Bush just turned to the audience and said, please clap. Which summed up Jeb Bush's campaign really in 2016. But anyway, not for us. It's a great pleasure to be here. Thank you to Mark for inviting me. Thank you to all for being here for Larry, of course, for joining us. I'm Jerry Baker, I'm editor at large for Wall Street Journal. I was editor in chief until a few years ago. Now I just spend my time writing and commenting and I'm allowed to do it these days without getting into any trouble. So I generally prefer that existence, but anyway, as I say, it's a real pleasure to be here to talk about, I think we're going to talk about the consumer economy, the outlook for the economy, but I think also about consumer trends.

Jerry Baker:

And since we've got such a extraordinarily distinguished couple of people with us immersed in both, not only obviously economics, particularly in Larry's case as a former treasury secretary, but also in politics, Larry, again, having served in two administrations and of course Mark with his exceptional breadth of political expertise, having various campaigns, administrations, and various other political manifestations. So it's going to be a pretty free form discussion. I'm hoping we're going to get a bit of a conversation going and we'll have time for questions and answers at the end. So I'm going to start off, Mark with you, but again, I'm sure you've been talking about some of these things during the course of the day, but we're all trying to get to grips as we emerge, we hope, from this pandemic with what the world is going to be like post pandemic. What returns to something like normality?

Jerry Baker:

What resumes the kind of patterns and trends of everyday life or the economy and of business that we had before March, 2020?And what has changed permanently, and what changes we can expect to be embedded and what that means for as all of us. And again, we've seen some of that right now, the accelerated use of certain types of technology changes to the way people work, working from home, all of those kind of things. And I wonder if you could give us your overall assessment, from the point of view of your considerable experience in both in business and consulting and politics, but also from the specific perspective of Stagwell, of what are you expecting to be the permanent restructuring, if you like, the permanent changes that we could expect to see in business and the economy as a result of what's happened in the last two years?

Mark Penn:

Yeah. I mean, look, when I was at Microsoft, we used to really analyze every business in terms of how does it operate today? And what is the digital layer that could be put into place that would change how it operates? So when you're in newspapers, it operated today with paper newspapers and the digital layer was it could be in a website that people could go to, right? If you were in the taxi business, radio based taxis were the innovation until people realized that they could have a digital layer that had involved hailing and mapping the closest car to you. So, when you look at this, every business now goes through the process of what's technologically feasible and what makes sense for consumers, and some of these things have already been developed, but have a long time for consumer acceptance.

Mark Penn:

I mean, I remember when I bought the iPhone and buying the iPhone against the Blackberry at the time, people forget, it's like people with Blackberries would simply laugh at you. Right? And they would never believe that the iPhone was going to supplant the Blackberry. It was totally impossible. So what you really had though, eventually, was that the iPhone and touch became something, in fact, Bill Gates didn't even think touch should be on phones with, by with your hand and gave you little pens. Okay? So, my point being, we are seeing companies find the digital layer, find the digital layer that works faster. And we're seeing consumers who, Hey, I use used the Microsoft equivalent Teams, and Skype for business for five years earlier when I had split teams, but no client ever would. So a lot of the Zoom and other technology that we think of was sitting around there. Nobody used Instacart.

Mark Penn:

I mean, that was not something that anybody... Of course they wanted to go to the store. So digital habits, like the iPhone, like Instacart, like online shopping, right? They... And eventually online advertising and what it means. It took us a long time to figure out what were the best TV ads. I think we are a long way from the best online ads. And I think that's going to take a developmental process, but I think where we are is, there's been a three to five year acceleration of digital usage. I think that you can see physical person meetings and perhaps the wall street journal CEO conference will come back. And I think people are in fact yearning for them. And I think more people will come back to work in the office than is expected.

Mark Penn:

But I think that people now accept... Business travel, I think is permanently reduced somewhat. Because people accept that, there's unless there's a really important reason, I'm not going to visit there. And the question of course we're going to hear from Larry is, are things in the technological world going to be more expensive rather than cheaper for the first time in a generation?

Jerry Baker:

So I want to ask Larry that.

Lawrence H. Summers:

Can I just say one thing?

Jerry Baker:

Yeah.

Lawrence H. Summers:

I think... I agree with almost everything Mark said, and I think it's important. Because I think your question, respectfully, misframed what I thinks going on. You said what's happened that's going to revert back to normal. And my take would be, we've had eight years of technical progress in becoming more digital and digital being more accepted in two and a half. And that's being in part it's forced by the fact that I kind of didn't have a choice, but to learn how to Zoom. And then once I had the habit, it stuck, there are a variety of other things to track it. So I think it is less that some stuff is going to stick and some stuff isn't, than that it forced a whole set of changes that are going to stick.

Lawrence H. Summers:

And of course more people are going to be at work than six months from now than are physically at work now. I think a thing that's underrecognized, and I might be wrong about this, but I think all kinds of people are going to go back to three or four days a week at the office. And I think Friday we're going to get... Make more progress towards the four day work week than anybody ever imagined that we would for better or for worse. And we're going to have longer days in the office, and then we're going to have softer Fridays than we did. I think Mark's right about the Wall Street Journal business council. But I think people are going to go to fewer meetings, but if I'm going to go to fewer meetings, I want more time to mingle with the people there, since I'm only having 10 mingle moments a year rather than 25 mingle moments a year.

Lawrence H. Summers:

So I think there are going to be changes like that. I think healthcare is going to be much more changed than people realize. My brother is a psychotherapist. He has... His life has profoundly changed. His plan going forward is now going to be in his home in Cape Cod for three months in the summer, because it's now a reasonable thing for him to tell his patients, I'm going to take three weeks off. And for the other two and a half months, you don't have a choice. Your appointment is going to be by Zoom. And there's just going to be huge amounts of that thing across many different areas.

Jerry Baker:

Let's look then, Larry, at the macro economic picture, because I think you can offer some particularly interesting insights on that. And you've been very vocal on this, particularly over the last, over, the particularly, the rising threat from inflation. But I want to ask you to sort of give us your broader sense. I mean, on one level there is a general sense that things are not... If you look at opinion polls, Mark knows this very well, there's a general sense of the country that businesses, the economy's not doing very well. There's a lot of gloom about the state of the economy. In some ways, we had a relatively disappointing third quarter GDP number seems that the accelerator growth is decelerating. On the other hand, you actually have seen if you compare the recovery in the labor market to previous recoveries, the recovery in the labor market from the trough of, whatever it was, late spring of last year has been remarkable.

Jerry Baker:

It took us, as Larry well knows, it took years to get back to this level after the recession of 2007 to 2009. We've come back much more quickly. Obviously at the same time, there are issues about labor force participation, which is extremely low and all of that. But you can paint that picture that while it's not going as well as perhaps initially at the beginning of this year, people thought we were going to accelerate very rapidly out of this trough. It's not gone quite as badly as perhaps some of the headlines suggest. But, of course, the big thing that I think everybody is very focused on, Larry, to his credit, was focused on it perhaps more than others were at the start of the year, was the threat from inflation. And we all saw this, the rising prices in many sectors of the economy in the early part of the year.

Jerry Baker:

Many people dismissed it as trans... Not dismissed it, but at least characterize it as transitory that we... That it was all manageable, that we come through it and it wasn't going to get embedded. And we wouldn't have a risk from it, any significant risk to the economic performance from it. I think as we go along more and more people are coming around to Larry's point of view that maybe that's not true, but so Larry, give us your sense of where we stand now. We've had, as I say, more than a year of sustained growth, we have an unemployment rate at least, which is now below five, the labor force participation rate obviously suggests there's much more slack in the economy than that, but we have seen mounting evidence, continued mounting evidence of this rising inflation. How do you summarize where we are right now?

Lawrence H. Summers:

So let me say three things, Jerry. First, inflation is mostly about too much demand relative to the amount of supply and too much money demand. It's not really about a lot. It's a lot more complicated than that. We've pursued, in the United States, for the last two years, a fiscal policy that is about 60% of the way from normal to World War II. And at the same time, we've had a zero interest rate. And at the same time, we've caused people to build up pent up savings. Because they couldn't take a vacation in the summer of 2020, and they couldn't go to the theater or whatever. So it stands to reason that there's going to be massive demand for stuff. A lot of the reason why they're bottlenecks is not COVID. A lot of the reason for bottlenecks is the demand for durable goods is 20% greater than the pre-COVID trend would tell you that it was going to be right now.

Lawrence H. Summers:

So if you stimulate the hell out of spending and you don't change supply a lot, then you're going to get a big increase in prices. And if there some stuff happening that's hurting supply, it's going to be even worse. And that's what we did. And that's why this is happening. The difference between high unemployment and low unemployment is the difference between seven and four. That's 3% of the people who otherwise would be working, not working. The difference between high inflation and low inflation is, say 4.5% versus 2%. It's a hundred percent of the people thinking they're getting 2.5% Of their incomes taken away from them. Now I can explain as an economist, and I do in my classes and I even do occasionally on television, that the only reason you're getting a higher wage increase is because we have inflation and higher wage increase in higher price increase are both part of the same inflation process.

Lawrence H. Summers:

And it doesn't mean that you're behind. I can explain that. And that is mostly right. It is not what anybody thinks however. Everybody thinks that every penny they get as a raise is not due to goofiness by Jay Powell. It's due to their extraordinary merit. Every penny they lose because of inflation is due to the goofy government screwing up. And so the politics of inflation, relative to the politics of unemployment, are terrible. And that is the basic problem that, the administration can explain all at once and it's right, that high pressure economy is really good. And the people who get hired when we have a really strong economy, are the people who were most disadvantaged before, and so forth. That is actually true. And it's a reason why we should try to have a high pressure economy to the extent we can.

Lawrence H. Summers:

It's also true that the people who are at the margin mostly don't vote. And so the politics are that inflation has a political salience. That goes way beyond the salience of economic slowdown. So right now our challenge is going to be over the next year or two, can we sort of weather this? Can we achieve a soft landing where we come out of this, a price stable economy without any market having cracked, and without alerts towards recession? And can we bring it under control? And there's certainly a real chance that we can, but I unfortunately, think it's less than 50/50, how much we've heated things up. And we've heated things up really a lot. And the fact that we don't acknowledge what I just said, contributes to the development of an inflationary psychology. I mean, I would say the most significant thing that happened last week that didn't get commented on was the negotiations on the John Deere contract. John Deere negotiated with its union.

Lawrence H. Summers:

The union was striking. They voted down the first contract. They actually voted down the second contract as well. But what was significant was that the cost of living escalator that was a standard feature of every union contract 35 years ago, that got taken out in 2012, got put back in to that John Deere contract. And that is all coming down the road. I mean, people say... Allen Greenspan actually had it exactly right. He said he did not want to have numerical inflation targets. He said price stability is when people aren't thinking about the changing price level all the time. And if people aren't thinking about it then it's okay. And if people are thinking about rising prices all the of time, then it's not okay. And 1.7, 2.3, it's all the same, is what people are thinking about. And no one can look at today's America and say, we have not lost price stability by that stand. Now we may get it back, but we've lost it.

Jerry Baker:

That is the question. I actually, so looking around the room, I can see I'm old enough, and I think all three of us are old enough here to remember, most of you are not old enough to remember what destabilizing inflation really is like. I grew up in England in the 1970s, and I remember particularly well, it was worsening in England than it was in the U.S., but it was pretty bad. It was extremely bad in the U.S. too with double digit inflation and interest rates in double digits too. And I think perhaps one of the things people are having a difficulty adjusting with this is that there are so few people around, relatively speaking, who have such a vivid memory of what that was like and how damaging. And Larry's absolutely right about the political implications. We saw what happened in Western Europe and in the U.S. as well.

Jerry Baker:

But Larry, I want to come to Mark more on the politics of this and the politics of the economy. But I just want to quickly come back to you on... So as you say, your last point is, how embedded does this become and what is the risk? Now markets still... Markets at least still seem to be relatively relaxed. I mean, 10 year bond yields have gone up, sure, in the last few months, but they're still only back to, they're certainly not at levels that would suggest real long term alarm about sustained medium term inflation. They're back to levels that they were two years ago when everybody was expecting 2% inflation forever and ever, and ever. You could take more technical market measures of five year, five year forward rates. So this... The transitory story, which Jay Powell, Janet Yellen, others have been pushing for a long time, maybe has been adapted to transitory a little bit longer than we thought, but we don't see broad concern among people who are paid to have these concerns that we are on the verge of an inflationary breakout.

Lawrence H. Summers:

So first, if you look at five year projected inflation from the index bond market, it had almost a record increase last month by about 40 basis points. So you're starting to see some real stuff going on. Second, I don't usually make investment recommendations to people. I just don't. But out of the money bond puts, seems to me to be the investment for the moment. I find it very surprising where interest rates are. Third, if you look at bond movements, there's a very interesting pattern, which is, it looks like all the strength in the bond market comes between about six o'clock in the evening, New York time, and about six o'clock in the morning, New York time, which tells you that there's basically a wall of money coming from Asia. And that anytime bonds get very cheap, anytime yields get up, that wall of money that has no other place to go starts coming in.

Lawrence H. Summers:

And so, is that money all shrew about inflation risks or does that money have a lot of different motivations? I'm not all together sure. But I agree with you that it's surprising. And if you ask me to make a case against my views, the best case I could make against my views would start with the market. But I think if you look at all the other things, the preponderant probability is that we will either entrench inflation north of three, or that we will have some meaningful economic or financial disturbance on the way to preventing that from happening.

Mark Penn:

Not to make your case for you, but you could actually... I did this recently, you can go back and look at where bond yields were in 1967, 1968, 69. And they similarly didn't suggest that anybody was remotely conscious of the, or prescient about the rapid run up in inflation that we saw in the five, seven years after that. Anyway, but Mark, I want to come back to you, particularly about the politics and the political climate were in. We had these elections last week off year elections, most... Strikingly Virginia, New Jersey, but a lot of local elections too, which had real significance. They did all seem to be pointing in one direction.

Mark Penn:

You wrote a very interesting op-ed in the New York Times today, warning the Democrats that they are... They're very much in the situation that Bill Clinton was in, in the 1990's. And the question is whether they will heed the same lessons. Give us a sense of, first of all, what you made of those results last week and where you think we are. Are we seeing a dramatic swing of the pendulum back towards the Republicans? And can the Democrats heed your advice? Are they able to heed the advice you gave them in the New York Times today and arrest that slide?

Mark Penn:

Great. Let me just say, Larry. The last time I had a economist address, the group of, at that time, it was the CEO's of all the marketing companies, the economists then predicted within a year, we would have an economic catastrophe. That was Rob Shapiro, who you would know, and everybody left completely dispirited. Fortunately, Rob was completely wrong. I called him up a year later and said the catastrophe had not happened. So I don't think you predicted catastrophe. I think what you said is there's a heightened probability that if policy makers and the economy doesn't function in ways to head off a potential crisis, I, myself, don't see how you have a policy that deliberately raises gasoline prices and not expect to perpetuate inflation because to bridge from economics to politics, if you're an average person out there, gasoline prices, food prices, housing, and rent, those are the three basics, right?

Mark Penn:

And if you see... To go through where Larry is on the psychology of inflation, taking off, since there's a signpost on every street corner, outside of urban areas with a gas price, it's a very visual signal, right? That people feel in their pocketbook and what's happened polling wise in the last 60 days, is that the virus, that was the number one issue for the last two years, became the number two issue. And the economy became the number one issue. And by economy, they were no longer talking about jobs. They were really focusing in 9 out of 10 people now are concerned about inflation. And that's an enormous number when you consider we've gone through a decade in which the price of things have been brought down through technology. The cost of buying a home is brought down through low interest rates.

Mark Penn:

Some of the food deals of our clients are, frankly, amazing in terms of number of calories that you can get of quality food percent are really astounding. And the price of energy has been falling. And so middle class voters have been seen... Maybe wage is not growing as fast as they would've liked, but they didn't see this whole cost factor coming up. And now they're seeing exactly what Larry said. Wow, I don't know. And then remember that the country has never been older. So consequently, we have more voters over 65 who live on more fixed incomes. And if you're on a fixed income and you can't get a benefit out of negotiating that next wage contract, you are even more concerned.

Mark Penn:

So bottom line, the change that we saw in this election was primarily among suburban voters. And suburban voters are going to be the ones with property taxes, with families, with responsibilities, with budgets that are primarily from what they earn, as opposed to government assistance. And those voters in the rural areas went even more Republican than they did under Trump. 10, 15 point additional advantage. And those I think were largely on cultural issues. But if you look at the Virginia suburbs, they were 53, 46 for Biden. They were 53, 46 for Youngkin, just a complete switch. And then the urban voters stayed about the same. And those two switches produced a 12 point swing, and a 12 point swing is enough to create a political catastrophe of

Mark Penn:

... the midterms. And particularly, if you think about where the electorate has been changing, Trump essentially moved a lot of more working class voters over to the Republican column. And he held on initially to the suburban vote and then increasingly lost the suburban vote.

Mark Penn:

And then the Democratic Party had the working class vote that it lost. Was replacing it with increased both urban voters and better educated, better income voters it didn't have, plus an increasing share of the suburbs. The Democratic Party needs the suburbs to be a majority party. If the Republicans get the suburbs, the working class, the rural voters and older voters concerned about inflation, that is a recipe for catastrophe.

Jerry Baker:

And just quickly, because I want to come to questions, but what's the relative saliency of all these issues, from the polling that you see, from those results you saw last week? Because that seems to me to be key, to understanding what will happen in the next couple of years.

Jerry Baker:

I mean, clearly voters are unhappy about the economy, particularly. You talk about particularly gas prices, particularly prices overall. They're unhappy to some extent about COVID, especially some of the continuing COVID restrictions. There's some lingering, obvious, I think approval about Afghanistan and what happened there. Especially in places like Virginia, as we saw, there's this concern about what we can call the woke agenda and what's happening in schools.

Jerry Baker:

But it seems to be, I mean, you could imagine a scenario in the next year where we finally do get through COVID one way or another. That we may be finally coming out of it and it's more manageable in a year's time. Maybe because of that, the economy is performing more strongly. Maybe these inflation fears have eased and unemployment is even lower than it was. And people are coming back into the workforce. People have forgotten about Afghanistan.

Jerry Baker:

I mean, there seems to me to be reason for Democrats not to think that the results on Tuesday are necessarily going to be replicated in a year's time, because there are ways in which these issues that matter right now just may have less saliency in a year's time. Or am I drinking Nancy Pelosi's Kool-Aid?

Mark Penn:

I mean, look, the op-ed says, "look, basically, we faced a similar situation in the 90s. We made some changes. We moved to the center. We also dealt with a Republican Congress and then were able to do compromises. At the time we actually restored a balanced budget."

Mark Penn:

Look, most people, well, of course, they want more paid leave. Or of course, they want more healthcare. Of course, they want more of everything. That's natural. But the swing were orders want it to be fiscally constrained. They want it to go to people who really need it, not to everybody. And most importantly, they are not willing to pay for it with inflation. Because you can say that you're going to do all the tax increases for billionaires and centimillionaires or whatever that you say. But ultimately, to reinforce Larry's point, 97% of the people view inflation as a tax on them.

Mark Penn:

And so if you say to me that you're going to do all these wonderful things, but it's going to be so big that it's going to stimulate inflation. And you think the American public's not sophisticated. They are sophisticated. They do see these connections. And an administration's got to break the cycle.

Mark Penn:

I don't see, there's 550 billion towards climate change and 3 billion towards pandemics in this bill. And if I look at it to go the next issue now, after the virus, is immigration. And immigration approval of the administration's policies is 33%. The administration, if they're going to continue this, that policy alone, let's say you are right. You get rid of, you improve what's happening with the pandemic. You magically tame inflation. It can't sit there with immigration crime and these other issues really coming up.

Jerry Baker:

I want to, Larry.

Lawrence H. Summers:

Can I say something?

Jerry Baker:

Very briefly because I want to ask you one more question and then I do want to get questions from the audience.

Lawrence H. Summers:

Absolutely. I think there's a broad aspect, which is people want daddy to be home. People want there to be a sense that things are in control. Inflation has extra significance when things feel like they are out of control. Inflation in 1984, when Ronald Reagan got elected, was 4% higher than it probably will be next year. But it was coming down, not going up and there was a sense that things were in control.

Lawrence H. Summers:

Inflation. They told us, we could take our masks off, but then we had to put our masks back on. They told us it was two shots and we're done. Then they told us there have to be boosters. Crime, immigration. I'm not allowed to say pregnant women anymore. I have to say pregnant people.

Lawrence H. Summers:

Things just feel not in control. And what Bill Clinton did. Bill Clinton's National Health Insurance at the beginning felt not in control. What Bill Clinton pivoted to and welfare as we know it. Make it so the HVAC system in your kids' chemistry lab works. He pivoted to get things under control and get you ready for your problems agenda. And broadly, I think things need to feel under control. And I think that concept is bigger in a way than any specific issue or pair of issues.

Jerry Baker:

Just quickly. Larry, I want to ask, get your sense of what's happening in Washington right now. We saw, obviously, the house passed the bipartisan infrastructure bill, which the Senate had already passed. The president will be signing that into law.

Jerry Baker:

Now, attention turns to this reconciliation Build Back Better plan, which has obviously been significantly slimmed down. There's going to be back and forth on that. The house has got to come up with legislation first. It's likely to be completely rewritten by the Senate. Who knows what's going to happen?

Jerry Baker:

But I think I'm right in saying, Larry, certainly on the bipartisan infrastructure and even on a lot of the Build Back Better plan, you've actually been pretty supportive of it because you think it will actually, I mean, if you think the problem is a lack of supply in the economy, it will help to increase supply in the economy. Do you still think that about the measures as you've seen them?

Lawrence H. Summers:

Look, 2.8 trillion this year of fiscal stimulus. All the other stuff is less than 2.8 trillion over the next 10 years. So it's an order of magnitude lower and it's paid for. So I don't think it's right to say it's highly inflationary. A lot of it is about things that are real in people's lives, taking care of their kids, going to community college, fixing the potholes. I think the impulses behind it are broadly right.

Lawrence H. Summers:

I wish there was more sense of caring about how the money was spent, as well as how much money was spent. That we were going to not spend six years citing the infrastructure projects, that we were going to worry about how many kids got childcare, rather than how many benefits childcare workers got. That across the board, there's a lot of question to be asked about how well this money is being spent. And I wish the administration looked more interested in all of that, but I think the impulse is broadly right. And I think there's a 75% chance that it'll happen.

Jerry Baker:

Okay. Good. We got 10, 15 minutes time for some questions, please. I'm sure you'll have some interesting questions. Comments, observations. Yes. Gentleman at the back, please.

Speaker 22:

Just overseas and Sweden. [inaudible]

Lawrence H. Summers:

They have oil prices like we do and commodity prices like we do. They did not have nearly as large a wall of money in terms of fiscal expansion as we did. And right now they are not in a situation where every employer has a vacancy they can't fill.

Lawrence H. Summers:

The incipient inflation pressure there is less than the incipient inflation pressure here. But there is a tendency for the rest of the world to follow the United States in these things, but I would say with a lag. Who knows what's going to happen with respect to the dollar? My general view about the dollar is that we are incredibly fortunate in the alternatives to it. Europe is a museum. Japan is a nursing home. China is a jail and Bitcoin is an experiment.

Jerry Baker:

Well, he probably talks about the international business. And I don't know how much and what proportion is, how much is affected by exchange rate fluctuations. But anything you want to talk about there?

Mark Penn:

No, I mean, our goal frankly, is to expand out more internationally because we're 85% [crosstalk].

Jerry Baker:

Do you like the museum, the nursing home, or the jail? [crosstalk] or maybe the experiments.

Mark Penn:

Look, as Larry said, the US oftentimes leads. And so, I think when you look at the digital economy, where is the digital economy going? It's got to lead from the US to every place around the world. And to the extent it does that, that benefits the trend.

Mark Penn:

I don't see in terms of our business, inflation is a neutral to maybe a slightly positive. If everybody's buying more and there's more demand for goods and there's more competition in the marketing, our problems come into the car industry more from the shortages. If they're not making cars, they're not going to advertise for them.

Mark Penn:

But if there's a lot of money that people are trying to capture and a margin that people are trying to capture, then generally, that's going to be good for us. And a little inflation will make a little bit more room for some of the marketing. I don't see that. Now, if you get into an economic downturn, because government has mismanaged the policies, then of course, that's not good for anybody, including us. It's up to our political biz.

Jerry Baker:

One question. Yes, gentlemen there at the back, please.

Speaker 23:

[inaudible]

Lawrence H. Summers:

Not for several years. I mean, I think the right model is the 1930s. The term secular stagnation, which I have been associated with in economic debates, was originally coined in the late 1930s to refer to a situation where you just couldn't get enough demand. And so, you didn't get prices rising, you didn't get to full employment.

Lawrence H. Summers:

And then we fought World War II and that wasn't our concern anymore. And then there were a set of issues after World War II. But I think we're a couple years away from any concern about a return to the kind of deflationary pressures of the last few years. I would not rule out the possibility that that's where we are three or four years from now. But I don't think that's given that we've had this incredible event.

Lawrence H. Summers:

I mean, we are relative to... Here's another way to understand what's going on. If you look at the size of the shortfall in the economy and you look at the size of the new government spending. Depending on how you do the calculation, it's five to 10 times as large now as it was after the 2008 Financial Crisis.

Lawrence H. Summers:

We've just done an immense thing and it's still working its way through the system. I don't see it as deflationary for the next couple years. After that, after the next recession, after the next, whatever. Yes. I think that kind of thing is a possibility.

Mark Penn:

Larry, let me just probe further on something you've said, see if I'm reading this correctly. I think what you're saying is that high inflation and low interest rates cannot coexist. That either inflation has to come down or interest rates have to go up in that situation. Is that what you're saying more or less?

Lawrence H. Summers:

Yeah, I think that we probably can have lower real interest rates, that is interest rates minus inflation, than we used to have, but I think there are very substantial limits on how much it's likely to happen. Let me say one other thing, answering what Mark said. And I'm not involved with Mark's company. But it seems to me that it used to be the old joke that half of advertising was terrific and half of advertising was useless and the problem was you didn't know which was which.

Lawrence H. Summers:

And it seems to me, there's a revolution going on in a combination of data science and transformation in the way advertising is delivered, that is causing the capacity to target to be immensely better. And I think one of the aspects of IT that is underappreciated, is that everything can be targeted much better.

Lawrence H. Summers:

Instead of one drug for your cancer, we test genetically which type of cancer of whatever part of your body it is. And we give you the right drug for that. There's a different position where the baseball team should play for every hitter based on the pattern of their hitting. And so, it seems to me that a lot of activities are really being transformed by this ability to better target. And that that's going to be a central part of the economics of all of this going forward.

Jerry Baker:

But I want to ask Mark a question coming off of that, if I may. Obviously, that's true that the digital advertising model is much more effective at targeting advertising to an extraordinary degree. But the flip side of that, and I think it's fair to say, that our friends at what we must now call Meta, have seen the backlash that can occur when you have the amount of data that you have that enables you to target content advertising, whatever it is, to particular audiences. And the backlash against the privacy issues that Facebook/Meta have had, I think are reverberating through this whole business.

Jerry Baker:

And I want to get your sense of what you think about that and whether or not we're going to reach some sort of new equilibrium. And whether it's through regulatory or through other, maybe through market solutions, there's going to be more pressure on that data rich, highly targeted, but highly privacy, problematic kind of advertising and kind of business model.

Mark Penn:

I mean, I think the answer to your question is shown in the economic reports of Facebook and Google. Which is to say, no matter how many reports you have of a controversy around Facebook, their earnings come out and they've sold more digital ads and more digital ads and more digital ads. Look, I did in an op-ed recently, are you Coke or are you diaper. Right.

Mark Penn:

And what I meant by that was if you're Coke and you are selling to 150 million customers, it makes sense for you to use primarily broad scale, television-based advertising, and maybe do some digital or online. If you sell diapers, when the three or 4 million people are having a child in a year, some of them are having their second child. You have maybe 3 million customers out of 330 million. It really doesn't make sense for you to ever have a TV ad again. Right.

Mark Penn:

You would focus 100% of your marketing. And then where are you on this continuum of diaper and Coke, should determine a lot of what you do. Now, when you think about it, the internet provided exactly, as Larry said, more effective, targeted marketing. That marketing should have been fundamentally much less expensive, and it's not much less expensive. And so, because in order for Facebook to run a different ad for us, the marginal cost of that is zero. In television, they couldn't do that, no matter how much money you gave them. With connected TV, you can. I do think the question is, how do we get more of that revolution into the pockets of the client's we serve? Right. Because clearly, I don't know what you think of the advertising market itself, but the profit margins and the online advertising producers who run 60 or 80% of the market is pretty significant. And therefore, we would have a more lower cost online advertising would dramatically increase what a smaller and smaller business can do to reach marketplaces. It helps the economy thrive.

Lawrence H. Summers:

Can I indulge myself in getting educated about advertising by asking a question that what you just said made me wonder? You just said the bit about Coke and diapers that made a lot of sense to me. And then I thought to myself, I like to watch CNN. And half the ads on CNN seem like they're for inflammatory liver disease type two prescription drug, which it must be that only one in 2,000 people have. Can you explain to me why there are so many television ads for such specific diseases?

Mark Penn:

Well, it's interesting. We actually have a company that does rare disease marketing. And more and more of the rare disease marketing is actually moving online, for the reasons that you say. Are you are broad based disease? Should you see a diabetes?

Lawrence H. Summers:

No, I understand that.

Mark Penn:

Should see that.

Lawrence H. Summers:

No, I understand that. [crosstalk] But when I see ads for diseases I've never heard of, and I'm not a doctor or anything, but I'm not an uneducated person either. I'm sure you've all had the experience. When you see ads for diseases you've never heard of, you got to wonder.

Mark Penn:

Part of that is a function.

Lawrence H. Summers:

Maybe there's a big opportunity for you.

Mark Penn:

No. Part of that as a function is that ad rates are largely set for people 18 to 49. And everyone above 49 is basically free. When you go into a CNN or a Fox, what you have are incredibly lower ad rates to reach older people, who may or may not have a disease related to aging. I think you see more advertisements.

Mark Penn:

And then the second, we're just developing all the data to figure out who has those things. I mean, you have to go online. Typically, when I was at Microsoft, you didn't actually need a weather map. If you actually just follow who searches for rain, you could absolutely build the weather map. Disease maps are just like that. The first thing somebody does when they suspect they have a disease. [crosstalk]

Jerry Baker:

I'm going to have to. I'm particularly sorry to have to draw a line on the conversation as we are getting to the topic of inflammatory liver disease.

Mark Penn:

We're getting to the heart. Just as it's getting good.

Jerry Baker:

Especially as we are approaching the cocktail hour and inflammatory liver disease is no doubt waiting for some of us. But beyond that, we've had a fascinating discussion. I'm enormously grateful to Larry and to Mark. Given us plenty to think about, plenty to stimulate our minds, as well as perhaps, other parts of the anatomy. And I'm grateful to have the opportunity to be with you and to speak here. And so, thank you all very much. Thank you. Goodbye.

Mark Penn:

And cocktails are next. For those of you who are streaming, thank you.

Lawrence H. Summers:

Mark, we got more applause on the way out than on the way in. That's a good sign for us. (silence)