Risk Factors Comparison 2024-02-07 to 2023-02-08 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Adverse economic conditions, a reduction in client spending, a deterioration in the credit markets or a delay in client payments could have a material effect on our business, results of operations and financial position. Macroeconomic conditions have a direct impact on our business, results of operations and financial position. Adverse economic conditions, including high and sustained inflation, rising interest rates, supply chain issues affecting the distribution of our clients' products, or a disruption in the credit markets, pose a risk that clients may reduce, postpone or cancel spending on advertising, marketing and corporate communications projects. Such actions would reduce the demand for our services and could result in a reduction in our revenue, which would adversely affect our business, results of operations and financial position. A contraction **or disruption** in the ~~availability of~~ credit **markets** may make it more difficult for us to meet our working capital requirements ~~. In addition~~ **or refinance maturing debt** , **or negatively impact** ~~a disruption in the credit markets could adversely affect~~ our clients **'** liquidity ~~and~~ **that** could cause them to delay payment ~~for our services~~ or take other actions that would negatively affect our working capital. In such circumstances, we may need to obtain additional financing to fund our day- to- day working capital requirements, which may not be available on favorable terms, or at all. Even if we take action to respond to adverse economic conditions, reductions in revenue and disruptions in the credit markets by aligning our cost structure and more efficiently managing our working capital, such actions may not be effective. A period of sustained inflation across all the major markets in which we operate could result in higher operating costs. Our principal operating expenses are salary and service costs and occupancy and related costs. Inflationary pressures typically result in increases to our operating expenses. In cases of sustained inflation across several of our major markets, it **may** ~~becomes~~ - **become** increasingly difficult to effectively control increases to our costs. In addition, the effects of inflation on consumers budgets could result in the reduction of our clients' spending plans on the advertising, marketing and communication services we provide. If we are unable to increase our fees or take other actions to mitigate the effect of the resulting higher costs, our business, results of operations and financial position could be negatively impacted. In an economic downturn, the risk of a material loss related to media purchases and production costs incurred on behalf of our clients could significantly increase, and methods for managing or mitigating such risk may be less available or unavailable. In the normal course of business, our agencies enter into contractual commitments with media providers and production companies on behalf of our clients at levels that can substantially exceed the revenue from our services. These commitments are included in accounts payable when the services are delivered by the media providers or production companies. If permitted by local law and the client agreement, many of our agencies purchase media and production services for our clients as an agent for a disclosed principal. In addition, while operating practices vary by country, media type and media vendor, in the United States and certain foreign markets, many of our agencies' contracts with media and production providers specify that our agencies are not liable to the media and production providers under the theory of sequential liability until and to the extent we have been paid by our client for the media or production services. Where purchases of media and production services are made by our agencies as a principal or are not subject to the theory of sequential liability, the risk of a material loss as a result of payment default by our clients could increase significantly, and such a loss could have a material adverse effect on our business, results of operations and financial position. ~~In addition, our~~ **While we use various** methods ~~of managing~~ **to manage** the risk of payment default, including obtaining credit insurance, requiring payment in advance, mitigating the potential loss in the marketplace or negotiating with media providers, **these** may be insufficient, less available, or unavailable during a severe economic downturn. ~~The war in Ukraine has negatively impacted~~ **Geopolitical events, international hostilities or acts of terrorism could have a material adverse effect on** our business, results of operations and financial position **. Current or future geopolitical events** , ~~and~~ **international hostilities or acts of terrorism** could **impact global economies through, among other things, disruption of business operations and demand for client services, disruption in the credit markets, heightened risk of cybersecurity attacks and disruptions to our information technology infrastructure, increased energy costs and labor and supply chain disruptions. This could result in suspension of our, or our clients' businesses in the affected region, which could impact client spending on our services. These actions could have a significant and** ~~adversely~~ - - **adverse** impact our business, results of operations and financial position in the future. ~~Historically~~ **For example** , ~~we conducted operations~~ **as a result of the war** in ~~Russia and~~ Ukraine **,** ~~through local agencies~~ in ~~which we held a majority stake. During~~ the first quarter of 2022, ~~the war~~ **we suspended our business operations** in Ukraine ~~required us to suspend our business operations in Ukraine,~~ and ~~we~~ disposed of all ~~of~~ our businesses in Russia **. In addition, economic sanctions were imposed on Russia by the United States, United Kingdom, and the European Union** . The war in Ukraine is ongoing **,** and its duration is uncertain. We cannot predict the ~~outcome~~ **impact** of the war in Ukraine or ~~its impact on the~~ **other** ~~broader region~~ **international hostilities on our businesses and operations. Global public health crises or pandemics** , **such** as the ~~conflict and related government actions are evolving and are beyond our control. The extent and duration of the military action, sanctions and resulting market disruptions, which may include increased energy costs and further supply chain disruptions, could be significant and could adversely impact our business, results of operations and financial position in the future. Our clients' businesses, results of operations and financial position could also be adversely impacted by the war in Ukraine, which could impact client spending on our services. The~~ COVID- 19 pandemic ~~negatively~~ **, or other similar health crises could adversely** ~~impacted~~ -- **impact** our business, results of operations and financial position **. When a** ~~, and the COVID- 19 pandemic or other similar~~ public health ~~crises~~ **crisis** ~~could adversely impact our business, results of operations and financial position in the future. The COVID- 19 pandemic negatively impacted our business, results of operations and financial position beginning in 2020 and~~

~~continuing through the first quarter of 2021. Global economic conditions may continue to be uncertain as long as the COVID- 19 pandemic, or other similar public health crises~~ **arises** , ~~including the emergence of new COVID- 19 variants, remain or become a public health threat. Demand~~ **demand** for certain of our services may be adversely affected by government measures, including restrictions on travel and business ~~operation~~ **operations** and quarantine and stay- at- home orders arising from ~~a~~ **the** ~~recurrence~~ **occurrence** of a pandemic, or similar **global** public health crises. The extent of the impact on our business will depend on numerous factors that we are not able to accurately predict, including the geographic regions that may be affected. Business and Operational Risks Clients periodically review and change their advertising, marketing and corporate communications requirements and relationships. If we are unable to remain competitive or retain key clients, our business, results of operations and financial position may be adversely affected. We operate in a highly competitive industry. Key competitive considerations for retaining existing clients and winning new clients include our ability to develop solutions that meet client needs in a rapidly changing environment, the quality and effectiveness of our services and our ability to serve clients efficiently, particularly large multinational clients, on a broad geographic basis. From time to time, clients may put their advertising, marketing and corporate communications business up for competitive review. We have won and lost accounts as a result of these reviews. To the extent that we are not able to remain competitive or retain key clients, our revenue may be adversely affected, which could have a material adverse effect on our business, results of operations and financial position. Acquiring new clients and retaining existing clients depends on our ability to avoid and manage conflicts of interest arising from other client relationships, retaining key personnel and maintaining a highly skilled workforce. Our ability to acquire new clients and retain existing clients may, in some cases, be limited by clients' perceptions of, or policies concerning, conflicts of interest arising from **our** other client relationships. If we are unable to maintain multiple agencies to manage multiple client relationships and avoid potential conflicts of interests, our business, results of operations and financial position may be adversely affected. As a service business, our ability to attract and retain key personnel is an important aspect of our competitiveness. If we are unable to attract and retain key personnel, our ability to provide our services in the manner clients have come to expect may be adversely affected, which could harm our reputation and result in a loss of clients, which could have a material adverse effect on our business, results of operations and financial position. The loss of several of our largest clients could have a material adverse effect on our business, results of operations and financial position. In ~~2022~~ **2023** , our 100 largest clients represented approximately ~~53~~ **55** % of our revenue. Clients generally are able to reduce or cancel current or future spending on advertising, marketing and corporate communications projects at any time on short notice for any reason. A significant reduction in spending on our services by our largest clients, or the loss of several of our largest clients, if not replaced by new clients or an increase in business from existing clients, would adversely affect our revenue and could have a material adverse effect on our business, results of operations and financial position. We rely extensively on information technology systems, and cybersecurity incidents could adversely affect us. We rely on ~~information technology systems and infrastructure to connect with our clients, people and others, and to store and process business and financial data. Increased cybersecurity threats and attacks, including computer viruses, hacking and ransomware attacks, are constantly evolving and pose a risk to our systems and networks. Security breaches, improper use of our systems and unauthorized access to our data and information by employees and others may pose a risk that sensitive data may be exposed to unauthorized persons or~~ **our own** ~~to the public. We also have access to sensitive or personal data or information that is subject to privacy laws~~ and ~~regulations. Our systems and processes may be unable to prevent material security breaches, and such breaches could adversely affect our business, results of operations, financial position and reputation. Our~~ third- party service providers **' information technology systems and infrastructure to connect with our clients, people and others, and to collect, store, transfer, process and use business, personal and financial data. We face cybersecurity risks that threaten the confidentiality, integrity and availability of our information technology systems or data stored on such systems. Additionally, hardware, software applications or services that we develop or procure from third parties may contain defects in design or manufacture or other problems that could compromise the confidentiality, integrity or availability of our information technology systems or data stored on such systems. Cybersecurity threats and attacks, including computer viruses, advanced persistent threats, malware, hacking, ransomware or other destructive or disruptive activities or software, are constantly evolving and pose a risk to our information technology systems and data. There can be no assurance that our cybersecurity risk management program and processes will be fully implemented, complied with or effective in detecting and preventing such threats or protecting our information technology systems or data. Security breaches, improper use of our systems and unauthorized access to our data and information by employees and others may pose a risk that data may be exposed to unauthorized persons. Such occurrences could adversely affect our business, results of operations, financial position and reputation and could result in litigation or regulatory action, as discussed below. In addition, we make extensive use of third- party service providers** , including cloud providers, **that** store, transmit and process data. These third- party service providers are also subject to malicious attacks and cybersecurity threats that could adversely affect **our business** ~~us. In addition~~ , ~~during the COVID- 19 pandemic~~ **results of operations, financial condition and reputation and could result in litigation or regulatory action, as discussed below. Currently,** many of our ~~employees worked from home~~ **agencies operate in a flexible working environment that allows** for **partial remote** ~~all or part of the time. Currently, many agencies continue to operate on a hybrid~~ work ~~schedule where employees are working from home part of the time~~ . The number of ~~employees~~ **personnel** working **remotely** ~~from home~~ varies by market and is dependent on local conditions. **When our** ~~The increase in the number of~~ employees **work remotely** ~~working from home may increase certain business and process control risks~~ , **the** ~~including increased~~ risk of cybersecurity incidents and **attacks and unauthorized** exposure of sensitive business and client advertising and marketing information, as well as personal data or information **, increases. We and certain of our third- party providers regularly experience cyberattacks and other incidents, and we expect such attacks and incidents to continue. For example, we have experienced cybersecurity incidents that resulted in the disruption of our information technology**

systems and required us to engage third parties to remediate the issues. While to date no incidents have had a material impact on our operations or financial results, we cannot guarantee that material incidents will not occur in the future. Any attack or incident could result in legal claims or proceedings (such as class actions), regulatory investigations and enforcement actions, fines and penalties, negative reputational impacts, and / or significant incident response, system restoration or remediation and future compliance costs, which could materially adversely affect our business, results of operations and financial condition. We also cannot guarantee that any such costs or losses will be covered by our existing insurance policies or that applicable insurance will be available to us in the future on economically reasonable terms or at all. We are subject to risks related to our use of generative AI, a new and emerging technology, which is in the early stages of commercial use. We continually evaluate the use of AI in our business processes, and in 2023 we entered into strategic partnerships with leading AI technology companies, enabling enhanced product and service capabilities in generative AI. In recent years, the use of AI has come under increased scrutiny. This technology, which is a new and emerging technology in early stages of commercial use, presents a number of risks inherent in its use, including ethical considerations, public perception and reputation concerns, intellectual property protection, regulatory compliance and privacy and data security concerns, all of which could have a material adverse effect on our business, results of operations and financial position. Further, new laws, guidance and decisions in this area may limit our ability to use AI or decrease its usefulness. As a result, we cannot predict future developments in AI and related impacts to our business and our industry. If we are unable to successfully adapt to new developments related to, and risks and challenges associated with AI, our business, results of operations and financial position could be negatively impacted . Risks Related to International Operations Currency exchange rate fluctuations have impacted, and in the future could impact, our business, results of operations and financial position. In ~~2022~~ **2023** , our international operations represented approximately ~~48~~ **49** % of our revenue. We operate in all major international markets including the Euro Zone, the United Kingdom, or the U. K., Australia, Brazil, Canada, China and Japan. Our agencies transact business in more than 50 different currencies. Substantially all of our foreign operations transact business in their local currency and, accordingly, their financial statements are translated into U. S. Dollars. As a result, both adverse and beneficial fluctuations in foreign exchange rates impact our business, results of operations and financial position. In addition, funds transferred to the United States can be adversely or beneficially impacted by changes in foreign currency exchange rates. **We** ~~As a global business we face certain risks of doing business internationally, and we are exposed to risks from operating~~ **operate** in high- growth markets and developing countries, which **often carry greater risks and uncertainties that** could have a material adverse effect on our business, results of operations and financial position. The operational and financial performance of our international businesses are affected by global and regional economic conditions, competition for new business and ~~staff~~ **personnel** , currency exchange rate fluctuations, political conditions, differing tax and regulatory environments and other risks associated with extensive international operations. **We** ~~In addition, we~~ conduct business in numerous high- growth markets and developing countries ~~that~~ **. Such countries** tend to have longer billing collection cycles, currency repatriation restrictions and commercial laws that can be undeveloped, vague, inconsistently enforced, retroactively applied or frequently changed. **Our** ~~The risks associated with our international operations could have a material adverse effect on our business, results of operations and financial position. Additionally, our~~ operations are **also** subject to the United States Foreign Corrupt Practices Act and other anti- corruption and anti- bribery laws and regulations. These laws and regulations are complex and stringent, and any changes and violations could have an adverse effect on our business and reputation. **Our business, results of operations and financial position can be adversely affected if we are unable to effectively operate, or manage the risks associated with operating in these markets and countries.** For financial information by geographic region, see ~~Note~~ **Notes 3 and** 8 to the consolidated financial statements. Risks Related to Acquisitions We may be unsuccessful in evaluating material risks involved in completed and future acquisitions. We regularly evaluate potential acquisitions of businesses that are complementary to our businesses and client needs **, and in some cases, associated technological capabilities and assets** . As part of the process, we conduct business, legal and financial due diligence to identify and evaluate material risks involved in any particular transaction **, including business strategy and operational execution** . Despite our efforts, we may be unsuccessful in ascertaining or evaluating all such risks. As a result, the intended advantages of any given acquisition may not be realized. If we fail to identify certain material risks from one or more acquisitions, our business, results of operations and financial position could be adversely affected. Our goodwill is an intangible asset that may become impaired, which could have a material adverse effect on our business, results of operations and financial position. In accordance with generally accepted accounting principles in the United States, or U. S. GAAP or GAAP, we have recorded a significant amount of goodwill related to our acquisitions; a substantial portion of which represents the intangible specialized know- how of the acquired workforce. As discussed in Note 2 to the consolidated financial statements, we review the carrying value of goodwill for impairment annually **on May 1** ~~at the end of the second quarter~~ and whenever events or circumstances indicate the carrying value may not be recoverable. The estimates and assumptions about future results of operations and cash flows made in connection with the impairment testing could differ from future actual results of operations and cash flows. While we have concluded, for each year presented in the financial statements included in this report, that our goodwill is not impaired, future events could cause us to conclude that the intangible asset values associated with a given operation may become impaired. Any resulting non- cash impairment charge could have a material adverse effect on our business, results of operations and financial position. **Legal and** Regulatory Risks ~~Government~~ **Laws and** ~~regulation~~ **regulations** and **actions of** consumer advocates may limit the scope and content of our services, ~~which could~~ affect our ability to meet our clients' needs, ~~which could~~ **result in third- party claims, litigation, regulatory proceedings or government investigations, or otherwise** have a material adverse effect on our business, results of operations and financial position. Government agencies and consumer groups directly or indirectly affect or attempt to affect the scope, content and manner of presentation of advertising, marketing and corporate communications services, through regulation or other governmental action, which could affect our ability to meet our clients' needs. Such regulation may seek, among other things, to limit the tax deductibility of advertising expenditures by certain industries or for certain products and services. In addition, there has been a tendency on the part of businesses to resort to the judicial system to challenge advertising practices and claims, which could cause our clients affected by such actions to reduce their spending on our services **, and from time to time we may be subject to claims, lawsuits, regulatory proceedings or government investigations into whether our business practices comport with applicable law. Regardless of the merit of such claims, lawsuits, proceedings or investigations, defending against them could cost us a significant amount of time and money and result in negative publicity** . Any regulatory or judicial action that affects our ability to meet our clients ~~'~~ **'** needs or reduces client spending on our services could have a material adverse effect on our business, results of operations and financial position. **Compliance with ever evolving federal, state, and foreign** ~~Laws~~ **laws relating to the handling of information about individuals involves significant expenditure** and **resources, and any failure by us or our vendors to comply could materially adversely affect our business, results of operations and financial position. We, and third- party vendors on our behalf, process information related to individuals, including from and about individuals we may advertise to, actual and prospective clients, employees, and service providers. We and our vendors are subject to a variety of federal, state, and foreign laws, rules,** regulations **, industry standards, and other requirements** related to ~~user~~ privacy, use of personal information **, marketing** and **advertising, and** ~~Internet~~ **internet** tracking technologies ~~have been proposed or enacted in the United States and a number of international markets~~ . These **requirements, and their application, interpretation, and amendments are constantly evolving and developing. Among other things, such** laws **generally: require disclosures about the data collection, use, and disclosure practices of covered businesses, and provide individuals expanded rights to access, delete, and correct their personal information, and opt out of certain sales or transfers of personal information. Our obligations related to data privacy and security are quickly changing in an increasingly stringent fashion, creating some uncertainty as to the future legal framework governing such matters. Preparing for and complying with these obligations requires us to devote significant resources. These obligations may necessitate changes to our practices and to those of any third parties that process personal data on our behalf. In addition, these laws, rules,** and regulations could **also** affect the acceptance of new communications technologies and the use of current communications technologies as advertising media. ~~These~~ **Any failure or perceived failure by us, or third parties on which we depend, to comply with data privacy laws, rules, regulations, industry standards and other requirements could result in legal claims or proceedings (such as class** actions **), regulatory investigations and enforcement actions, fines and penalties, negative reputational impacts and future compliance costs, which** could **materially and adversely affect our business, results of operations and financial condition. We also cannot guarantee that any such costs or losses will be covered by our existing insurance policies or that applicable insurance will be available to us in the future on economically reasonable terms or at all. Any of the foregoing could also** affect our business and reduce demand for certain of our services, which could have a material adverse effect on our business, results of operations and financial position. Expectations relating to environmental, social and governance considerations expose us to potential liabilities, reputational harm and other unforeseen adverse effects on our business. Many governments, regulators, investors, employees, customers and other stakeholders are ~~increasingly~~ focused on environmental, social and governance considerations relating to businesses, including climate change and greenhouse gas emissions, human capital and diversity, equity and inclusion. We make statements about our environmental, social and governance goals and initiatives through information provided on our website, press statements and other communications, including through our Corporate Responsibility Report. Responding to these environmental, social and governance considerations and implementation of these goals and initiatives involves risks and uncertainties and requires ongoing investments. The success of our goals and initiatives may be impacted by factors that are outside our control. In addition, some stakeholders may disagree with our goals and initiatives and the focus and views of stakeholders may change and evolve over time and vary depending on the jurisdictions in which we operate. Any failure, or perceived failure, by us to achieve our goals, further our initiatives, adhere to our public statements, comply with federal, state or international environmental, social and governance laws and regulations, or meet evolving and varied stakeholder expectations and views could materially adversely affect our business, reputation, results of operations, financial position and stock price.