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Omnicom Group, Inc. (OMC)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Omnicom Third Quarter 2023 Earnings Release Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded.

At this time, I'd like to introduce you to your host for today's conference, Senior Vice President of Investor Relations, Gregory Lundberg. Please go ahead.

Gregory Lundberg
Senior Vice President-Investor Relations, Omnicom Group, Inc.

Thank you for joining our third quarter 2023 earnings call. With me today are John Wren, Chairman and Chief Executive Officer; and Phil Angelastro, Executive Vice President and Chief Financial Officer.

On our website, omnicomgroup.com, we've posted a press release, along with the presentation covering the information we'll review today, as well as a webcast of this call. An archived version will be available when today's call concludes.

Before we start, I'd like to remind everyone to read the forward-looking statements and non-GAAP financial and other information that we've included at the end of our investor presentation. Certain of the statements made today may constitute forward-looking statements, and these statements are our present expectations. Relevant factors that could cause actual results to differ materially are listed in our earnings materials and in our SEC filings, including our 2022 Form 10-K.

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During the course of today's call, we will also discuss certain non-GAAP measures. You can find the reconciliation of these to the nearest comparable GAAP measures in the presentation.

We will begin the call with an overview of our business from John, then Phil will review our financial results for the quarter. And after our prepared remarks, we will open the line up for your questions.

I'll now hand the call over to John.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

Thank you, Greg. Good afternoon, everyone, and thank you for joining us today for our third quarter results. Before we discuss the quarter, I want to touch on something that is top of mind for many of us. The horrific attacks on Israel and the subsequent war have been devastating to witness. We've seen a complete lack of humanity to display and that hate has no place in this world. We mourn the innocent lives lost and our thoughts remain with all those personally impacted.

Turning to our results, organic growth was 3.3% for the quarter, which is in line with our expectations. Operating income margin was 15.7% and diluted earnings per share for the quarter was $1.86, up 5.1% versus the comparable period in 2022. Our results for the quarter keep us on pace to maintain our full-year organic growth target of 3.5% to 5% and our operating margin target of 15% to 15.4%. Phil will cover our results in more detail during his remarks.

Our cash flow continues to support our primary uses of cash. Dividends, acquisitions and share repurchases, and our liquidity and our balance sheet remain very strong. During the quarter, we continue to make solid progress on our key strategic priorities to position Omnicom for sustainable and profitable long-term growth.

Starting on the talent front, we made several key leadership changes as part of our succession planning. Alex Lubar was named Global CEO of DDB Worldwide. Alex served as the Global President and Chief Operating Officer of DDB and succeeds Marty O'Halloran, who will become Chairman. In addition, Glen Lomas, currently CEO of DDB EMEA, and has been elevated to Global President and Chief Operating Officer. in partnership with Alex.

Nancy Reyes is moving from her post as CEO of TBWA New York to become CEO of the Americas at BBDO. Nancy succeeds St. John Walshe, who has been with BBDO for 27 years. Guy Marks, previously Omnicom Media Group's CEO of EMEA, was named the CEO of PHD Worldwide. Guy succeeds Philippa Brown, who is leaving the media industry after nearly four decades. Dan Clays, who led Omnicom's Media Group UK as CEO, will fill the CEO of OMG EMEA's position.

I want to congratulate Alex, Glenn, Nancy, Guy and Dan and extend my gratitude to Marty, St. John and Philippa for their many years of service to Omnicom. This series of announcements is a testament to our emphasis on succession planning and ensuring our networks and practice areas have the right teams to lead them into the future.

During the quarter, we continued building our generative AI capabilities with the rollout of Omni Assist, our proprietary version of ChatGPT that enhances every task within Omni. Omni Assist is just one example of how we are improving our capabilities and efficiency with generative AI. We continue assessing how generative AI will affect the way we work across the organization and preparing ourselves for the future.

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We broadened our capabilities through strategic acquisitions in high growth areas in the quarter. In July, Omnicom Media Group required Outpromo and Global Shopper, two of Brazil's leading connected commerce and retail media agencies. These acquisitions create a dedicated end-to-end e-commerce and retail media performance agency in the Brazilian market for Omnicom Media Group.

OPRG strengthened its services through the acquisition of PLUS Communications, a top public affairs firm, and FP1 strategies, a leading political consultancy. The Beltway-based acquisitions further solidify OPRG's leadership position and portfolio in public affairs and crisis communications, particularly in the healthcare and technology.

We recently announced the formation of Omnicom Advertising Services India, comprised of Omnicom's creative agencies located in India, BBDO, DDB and TBWA. Omnicom Advertising Services will be able to offer the best creative capabilities and talent for our clients across the group. The formation of Omnicom Advertising Services India follows the launch of our global delivery services and centers of excellence in India, which we announced earlier this year.

Today, we have over 4,000 people in global centers of excellence in four major cities supporting our clients and agencies around the world. We are rapidly scaling the operations and expect to triple the size over the next 24 to 36 months. Our centers of excellence are helping our company transform from within, improving our client offerings and providing operating efficiencies.

While we position Omnicom for the long term or driving growth through significant new business wins, some of these wins this quarter include Omnicom Media Group won the global media business for Uber and HSBC. Beiersdorf selected OMD as its media agency of record for Europe and North America. On the creative front, Adam & Eve/DDB picked up Amazon's creative business in Europe. Omnicom Health Group and our advertising collective also continued to grow their relationship with Novartis, expanding in oncology and winning significantly in pharma, including their renal portfolio. Finally, TBWA was awarded the creative duties for Telstra, Australia's largest mobile network. Overall, we are pleased with our financial results and our progress on our key strategic initiatives.

While we remain optimistic entering the fourth quarter, as in past years, our performance in the fourth quarter will be impacted by the amount of year-end project spend that our clients execute and that our agencies are successful capturing. We continue to plan cautiously given the uncertainties in the macroeconomic and geopolitical environment, including higher interest rates, oil prices, instability due to the wars in Ukraine and Israel, and the continuing risk of a recession in the United States.

I will now turn the call over to Phil for a closer look at our financial results. Phil?

Philip J. Angelastro

Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.

Thanks, John. As John said, our business is solid despite the challenges of the current macroeconomic environment. Before we open the call up for questions and answers, let's go through our third quarter results in more detail.

Starting with the summary income statement for the second (sic) [third] quarter on slide 3. Reported revenue increased by 3.9% and organic growth was 3.3%. Reported operating income increased by 2.7% to $560.8 million and the related margin was 15.7%. Net interest expense was $38.3 million for the quarter, an increase of $9.2 million compared to the third quarter of 2022, due in part to lower interest income on cash and short-term

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investments. Q4, we expect that compared to the prior year, net interest expense will experience a similar increase.

Our reported income tax rate was 26%. This is lower than our 27% estimate from July due to a reduction in tax expense resulting from the vesting of share-based compensation. For the fourth quarter, we estimate our tax rate will be 27%.

Reported net income in Q3 increased by 2% and diluted earnings per share was up 5.1% driven by both higher net income and by lower shares outstanding resulting from share repurchases.

Let's turn to revenue on slide 4. As mentioned, organic growth in the third quarter was 3.3%. The impact from foreign currency translation reversed course in the third quarter, increasing reported revenue by 1.7%.

If rates stay where they are currently, we estimate the impact of foreign currency translation will be a benefit of approximately 0.5% for Q4 and a reduction of approximately 0.5% for the year. The impact of acquisition and disposition revenue was negative 1.1%, primarily reflecting the sale in Q2 of our research businesses.

We expect a reduction of 75 basis points for the fourth quarter and expect that the recent acquisitions will result in an increase in reported acquisition and disposition revenue next year.

As John discussed, our organic growth outlook for the year remains unchanged at 3.5% with a stretch target of 5%, which still factors in some uncertainty about the level of year-end incremental marketing spend and project work that we expect our agencies will be successfully capturing in the fourth quarter.

Now, let's turn to slide 5 to review our organic revenue growth by discipline. During the quarter, Advertising & Media posted 6.1% growth, its strongest this year driven by continued strength in our Media business globally. Precision Marketing grew 4.3%, solid performance given the comparison to the 16.2% growth it experienced in Q3 of 2022 and the challenging backdrop of certain of their technology and telecom clients that we discussed last quarter.

Commerce & Branding declined by 1.7%, driven by reductions at our shopper marketing agencies. Experiential grew 9.2%, led by Asia, Europe, and the UK, which offset negative growth in the US and the Middle East.

Execution & Support declined 3.6%, due primarily to declines in our merchandising business, and Public Relations was down 5.5%, reflecting difficult comps against the 12.6% growth we delivered in Q3 of 2022. Approximately half of the reduction relates to less revenue connected to the 2022 election cycle and the balance was due to the slowing of project spend in the quarter. We expect a similar headwind related to a reduction in revenue in Q4 compared to the benefit from the election cycle in Q4 of 2022.

Finally, Healthcare grew 3.8%, with good momentum at several large clients.

Turning to slide 6, we saw growth across our larger regions, offset by a decline in Canada as well as a decline in the Middle East and Africa, which grew by 12.2% in Q3 of 2022 caused in part by the cyclicality in Experiential.

Looking at the year-to-date revenue by industry sector on slide 7, compared to the third quarter of last year, we had higher relative weights in two of our larger categories, food and beverage and automotive, and as expected, a lower relative weight in technology and a reduction, although smaller, in telecom.

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Now, let's turn to slide 8, where you can see good progress on our expenses year-over-year. Salary-related service costs were down as a percentage of revenue year-over-year, driven by our repositioning actions and through changes in our global employee mix.

Third-party service costs increased in connection with the growth in our revenues. These costs include third-party supplier costs when we act as principal in providing services to our clients. They're an integral part of our service offering to our clients, and we generate profit on them.

Third-party incidental costs increased due to an increase in client-related travel and incidental out-of-pocket costs that are billed to clients directly at our cost at no profit. Occupancy and other costs were helped by reductions in our real estate portfolio in the first quarter of 2023. Reductions in rent expense were offset partially by an increase in operating expenses from higher levels of in-office work globally.

SG&A expenses were up a bit, primarily due to higher professional fees related to the acquisitions we recently completed.

Turning to slide 9, operating income in Q3 was up 2.7% on a reported basis and the related margin was 15.7%, down slightly as expected from 15.9% in the third quarter of 2022.

For the full year, we remain comfortable with the expected operating margin range of between 15% and 15.4%.

On a nine-month year-to-date non-GAAP adjusted basis, as presented here on slide 9, operating income margin was 14.8% compared to 14.9% in 2022. Our EBITA margin in Q3 was 16.2%, also down slightly from 16.4% in the third quarter of 2022. On a nine-month year-to-date non-GAAP adjusted basis, our EBITA margin was 15.3%, compared to 15.5% in 2022.

Slide 10 is our cash flow performance for the first nine months of the year. We define free cash flow as net cash provided by operating activities excluding changes in working capital. Free cash flow for the third quarter of 2023 was $1.3 billion, an increase of 9.4% from last year. We continue to expect changes in working capital to be close to flat for the year as it usually is.

Regarding our uses of cash, we used $424 million of cash to pay dividends to common shareholders and another $47 million for dividends to non-controlling interest shareholders. Our capital expenditures were $64 million, similar to last year. Total acquisition payments were $202 million, and our stock repurchase activity net of proceeds from stock plans was $530 million year-to-date. Most of this took place in the first half of the year.

Slide 11 is a summary of our credit, liquidity and debt maturities. At the end of the third quarter of 2023, the book value of our outstanding debt was $5.6 billion. There were no changes in outstanding balances during the quarter other than foreign exchange translations. Our $2.5 billion revolving credit facility, which backstops our $2 billion US commercial paper program, remains undrawn and our cash equivalents and short-term investments were $2.8 billion. Our next debt maturity is not until November of 2024.

Slide 12 presents our historical returns on two important performance metrics for the 12 months ended September 30, 2023. Omnicom's return on invested capital was 23% and return on equity was 47%. These metrics continue to be an excellent indicator of our conservative capital structure and the health of our business.

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In closing, despite a challenging macro environment, we're pleased with our financial results and our year-to-date organic growth of 4%. We believe we are positioned very well for strong growth in the future, when the caution in the macro environment clears.

Operator, please open the lines up for questions and answers. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Benjamin Swinburne from Morgan Stanley. Please go ahead.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. Good afternoon. John, I guess I'll ask you the standard fourth quarter question around the macro, and just trying to parse your words a little bit and understanding whether you're feeling that the caution that you guys referenced today has increased from earlier this year. Obviously, there's a lot of things happening in the world that would necessarily explain that. But I'm just wondering if you could add a little more color on how clients are feeling about Q4 and looking into next year?

And then I'll just ask my follow-up maybe for Phil or whoever wants to take it. Is it fair to call the tech sector a clear and sort of different headwind to sort of the overall business for Omnicom? I noticed, I think year-to-date that vertical's down 300 basis points year-to-year. It's been a big theme across the industry as sort of the year of efficiency. I'm just wondering if you think that's a fair way to think about what we're seeing in the business in 2023.

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

I do believe, yeah, I can probably go back 21 years where at this point in the year, I'm saying this very similar, if not the same thing. A very large part of the project work that occurs which adds to our growth or doesn't provide our growth comes from project spend and clients doing things that they've hesitated to do or push back throughout the year.

At this point, it's not a lot different than in past years in that we won't have clarity until probably Thanksgiving or thereabouts. And you're correct in what you said is there seems to be a lot more going on as we're entering this quarter, as we're going through it.

We were already facing the Hollywood strike, the auto strike, although that doesn't really impact us as much as it may others. And now what's going on in the Middle East and Ukraine continues as well. But – so none of these are great signs. And it depends on what the headlines are in the newspapers every day, which dictate some of the spend that occurs or doesn't occur.

So our people are very experienced at this. In those 20-plus years, we've only had two years where a significant part of the spend didn't actually come through, and both of those were around recessions in the 2008 and 2001 time frames. Rest of the times, it's eked out, although some years, you feel a little bit more confident about it because there aren't all these macro economic and geopolitical issues occurring.

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So having said that, and you're certainly aware of it, as I look past the quarter and past this project work to next year, with all the new business wins we've recently had and some of the signals that we're getting, I'm very confident or I'll say, confident about our performance for 2024 because I think we have the right products, and we certainly have expanded who our clients are. So some of those wins that I announced, we will not enjoy really any revenue in the fourth quarter. That revenue will principally start January 1, but it's a good tailwind to have.

Philip J. Angelastro A
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.

Yeah, I'd certainly echo John's comments as far as the Q4 outlook and the very typical process we go through to capture as much of that project spend as we can in the fourth quarter, agency by agency all across the world.

Regarding your tech question, Ben, I think from our perspective, given relative comps, we don't really see the tech headwinds as significantly different than the broader macro at this point in time, now that we're through nine months of 2023. Maybe they close out the year not as strong as they did last year as far as spending. But at some point in the near future, we don't see this as a permanent decline, we think they're going to come back and invest in their brands and begin to spend at a higher level at some point in the near future.

John D. Wren A
Chairman & Chief Executive Officer, Omnicom Group, Inc.

Yeah. And the only point I would add to what Phil's comments were is most of that decline is a decline with existing clients. So it's not because of client loss. So as the products get released into the marketplace and they get through whatever problems they've adjusted to during 2023, we're still very confident about the sector.

Benjamin Swinburne Q
Analyst, Morgan Stanley & Co. LLC

Sure. Thanks, John. Thanks, Phil.

Philip J. Angelastro A
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.

Sure.

Operator: Our next question comes from the line of Steven Cahall with Wells Fargo. Please go ahead.

Steven Cahall Q
Analyst, Wells Fargo Securities LLC

Thank you. So, John, when you think about the trends this year, it seems like tech and telco has been a headwind and maybe the overall macro and geopolitical environment that you talked about have cast some additional uncertainty more recently.

And then I think you have new business and maybe M&A as tailwinds. So heading into next year, where a lot of your clients are probably in their budget cycles now, do you feel like it's setting up for a more challenging industry backdrop? Or do you think that those tailwinds you have or the AI investments that you've been making can lead you to have some acceleration as you move into next year? That's the first one.

And then second, maybe for John or for Phil. I think you last raised the dividend in February 2021. Your dividend then was pretty competitive versus the rate environment. Obviously, the rate environment has changed a lot since

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then. So when you think about recommendations to the board about capital allocation, how are you thinking about what the right level of the dividend should be and whether this is an environment that you feel comfortable growing it? Thank you.

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

To answer your first question, we're not quite ready to give you guidance for 2024 just yet because our people are out doing a bottoms-up plan, as – which they won't present to us for another six to seven weeks, and then that gets tweaked throughout the balance of the year.

But with the experiences that I've had, with the new business wins that we've enjoyed, and the places where we faced headwinds this year, we're set up very well to have a very successful 2024 and that's what I anticipate to see when we actually get that bottoms-up review back from our companies.

So, I'm confident. And I don't see any significant adjustments that we have to make to our portfolio, which in and of itself is very flexible, to service those client needs and enjoy the growth that's associated with it. Do you want to take the second question...

[indiscernible] (27:32)

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

...the dividend too?

Philip J. Angelastro
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.
A

Yeah, go ahead.

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

The dividend's really a board matter, and it will come up in the board meetings that come between now and, say, February, we'll have more to say, as those meetings occur.

Philip J. Angelastro
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.
A

Yeah. I wouldn't take it, the fact that we haven't raised the dividend in 2023, as a lack of confidence in the business at all. Given the broader macro, I think we've always approached it and the board has always approached it with a level of conservatism and really continuing to keep the flexibility we have in the capital structure right now, given the broader macro, but it's certainly something that's on the agenda, and I would not view it as a, yeah, as a function of a lack in confidence in the business at all.

Steven Cahall
Analyst, Wells Fargo Securities LLC
Q

Thank you.

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Philip J. Angelastro
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.

A

Sure.

Operator: And our next question comes from the line of Tim Nollen with Macquarie. Please go ahead.

Tim Nollen
Analyst, Macquarie Capital (USA), Inc.

Q

Great, thanks very much. I'd like to pick up on one actual word that you used in your last comment, John, and that is flexibility. I saw this WFA survey recently talking about clients, I guess coming up with more reasons why they want their agencies to do more. And I'm sure this is an age-old discussion that you have.

But you've done a lot of work to reposition the business, reinvesting in data and technology and things over the years, divested assets. You just ran in your prepared remarks through a number of management changes internally that you've done recently.

We saw today WTP just merged a couple of its big agencies. I just wonder, John, if you could maybe expand a little bit on what this WFA report means and how Omnicom feels positioned given that commentary?

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Sure. I have to admit to not reading the report that you're referring to. But in terms of our portfolio, yes, there's been a significant expansion in our Media business, and that is growing. There's been quite a bit of success in that.

If you look at the convergence, or probably said that wrong, report. When you take Media wins versus Media losses, we continue to come out on top. And I'm confident that that is going to hold. There's a few opportunities which we expect to be asked to participate in reviewing, which are offensive opportunities where we're not defending existing business other than in some statutory audit reviews.

And our CRM business, which grew very strongly and hit a couple of road bumps in beginning of this year, has just come out of it very strong and just won a few very large and significant clients that are going to help us next year. It becomes an increasing part of our portfolio as well.

Our PR unit, even though it's suffering a little bit because of the comparables of not being in an election year, next year is an election year, so that same group will be benefited as a result of that.

So the portfolio has been tweaked. We've gotten rid of, in a very sensible way, assets in the past. And I think going forward, we've – I don't know if Phil commented on it or not, but I think where we were showing net divestitures for probably the last three years, we're now with the acquisition activity we had in adding to the portfolio, from a net perspective, we're growing those areas, and we're buying into those areas to support our companies where we see the greatest growth.

Tim Nollen
Analyst, Macquarie Capital (USA), Inc.

Q

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Yeah. Great. No, I think that answers it. The survey was basically talking about advertising clients looking for more flexibility and streamlined services from their agencies. It sounds very much like that's what you've been doing. And even your comments today about some of the changes you've made seem to support that. So, thanks.

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

Yeah. The only thing I would add to that is, as I get more people back into the offices, which we continue to have success with but there's still work to do, I think that will further support our growth.

Tim Nollen
Analyst, Macquarie Capital (USA), Inc.
Q

Collaboration is easier in person.

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

Yes, sir.

Tim Nollen
Analyst, Macquarie Capital (USA), Inc.
Q

Thanks a lot.

Philip J. Angelastro
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.
A

Thank you.

Operator: And our next question comes from the line of David Karnovsky, please – with from, I'm sorry, JPMorgan. Please begin.

David Karnovsky
Analyst, JPMorgan Securities LLC
Q

Thank you. John, we saw the uptick in Precision Marketing in the quarter. Wanted to see if you could provide more color there. Is that just comps? Or are you starting to see some movement on projects that maybe were paused previously?

And then for Phil, on principal costs, looks like – or sorry, third-party service costs, looks like growth accelerated there a touch in the quarter. Can you parse that out between maybe principal trading and other areas like events? And then just with principal trading generally, I don't know how much you're willing to quantify in terms of organic revenue contribution, but maybe you could discuss the business at a high level what the reception is from clients to the offer? Thank you.

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

Sure. [ph] Hang on to (33:30) your first question, some of the declines and challenges in the telecommunication and tech sector were probably more impactful to that practice area in – with the Precision Marketing practice area. And as Phil mentioned earlier, we think that – the good news is we didn't lose clients. We've continued to win clients in that area.

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And we think those companies have gone through their adjustments much – latter part of last year and early part of this year. So, we're ascending. This quarter was better than last, which was probably the toughest comparison we had. And with some of the new business wins that they've had very recently, 2024 sets up to be a very good year. I can't really comment on how many projects we're going to get in CRM in the next 90 days, but in terms of the business itself, its leadership and the products that we're offering to our clients, I'm very confident in our performance in that area.

Philip J. Angelastro
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.

A

Sure. Regarding the second question in third-party service costs, we don't really parse the number in the way that you've suggested. But we had strong growth, as we said, in our prepared remarks in the Media business, no question, as well as experiential. Both of those businesses do come with those third-party service costs as part of the business.

Certainly, a reference back to Tim's question regarding clients and the flexibility that they're looking for, they're certainly looking for a full suite of products from a media perspective and a wide range of marketing services that they'll avail themselves of, and our service offering can cover all of those things that they're looking for. So, some of that growth certainly is in media, experiential, field marketing as well, but we had strong growth through most of our disciplines in the quarter, and we're certainly happy with those results.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: And our next question comes from the line of Michael Nathanson with MoffettNathanson. Please go ahead.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Thank you. I have two for you, John. One is as you referenced before, you've had a very strong year in the Media business. You've taken a lot of big wins. You talk a bit about what's changed for the positioning of that business. What do you think are the factors driving some of these big wins that you've had versus your competitors?

And secondly, I've asked you in the past about acquisition opportunities. Given now maybe the fall – kind of the pressures in venture capital land and the higher rates, talk a bit about the pipeline opportunities you see to kind of buy more companies in 2024 and kind of your willingness to do that in 2024. Thanks.

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Sure. I think the success of the Media operation is down one to management of that specific operation. We've expanded the suite of services that we make available to clients in the Media area. It is – of all of our services, probably one of the most measurable in terms of when we utilize the data and the amount of data that we have, we're able to optimize for the benefit of the client how they spend their money and prove it. So, there's a great deal of analytics that are there today that weren't even possible four or five years ago. And I think, well, I do know this to be true. We have a reputation of delivering on what we promised when we're pitching for business. And I

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dare say we have the best reputation in the industry of delivering what we promised, and that has benefited us through this process.

Philip J. Angelastro
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.
A

Do you want to comment first on M&A and then I'll...

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

Sure. Yes. We've always had – the M&A pipeline remains very strong for us. We have a team that's constantly looking at opportunities. They have to meet all of our internal criteria. It has to typically be something that's additive to the portfolio of services that we offer our clients. If it's something that we can build and is expensive, we've steered away from it in the past. And we've been pretty consistent about that in the last – at least the 26 years that I've been the CEO. And – but there are opportunities, and some of them are in areas that we've had on our list for a very long period of time that look more reasonable than they did when the interest rates through zero.

Philip J. Angelastro
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.
A

Yeah. I think that what we've seen certainly is that sellers' expectations have kind of adjusted to the marketplace and to the macro environment that we're dealing with. So strategically, there are some opportunities out there that we've been looking at, some of which we've completed in the third quarter, that have been more attractive than they certainly were not that long ago.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC
Q

Okay. Thank you, guys.

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

Sure.

Operator: And the next question comes from the line of Craig Huber with Huber Research Partners. Please go ahead.

Craig Huber
Analyst, Huber Research Partners LLC
Q

Thank you. I've got a few questions. I'll maybe just go one at a time to make it easier. Can you just talk a little bit further about the tone of conversations with your clients as they – and then say to you what their thoughts are on a preliminary basis for 2024 at this stage maybe versus what the conversations were like roughly six months ago?

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

Well, I think – well, there's still a lot of uncertainty in the marketplace because of all the things we talked about in previous answers and in our prepared remarks. Having said that, clients are pretty sophisticated, and they know that no matter what the difficulties are, they have to continue to support their brands, because if they don't, when the good times return, they'll have a much more difficult time regaining or maintaining their market share.

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So as we look at clients in 2024 and – 2023 was a tough year for many sectors. And as we referenced a couple of times earlier, the tech sector, I would say in my opinion, 2023 was the first time the tech sector had to face readjusting its business. And people went – earlier in the year, went through massive layoffs and cutbacks of their own staffing, which they hadn't had any experience in their history of even needing to do with pure growth prior to this year. That's behind them now. They're a lot more experienced than they once were as we look forward. So, clients are – they know we're not through all the hurdles that exist out there, but they're confident that the brands and their positioning from their companies, they've taken a lot of pain and they're positioned well to go into the future.

Philip J. Angelastro
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.
A

Certainly, a lot's changed – it's been an odd year. Certainly, a lot has changed, especially if you compare things to the last six months. But as we were going into 2023, about a year ago, most of the conversations were about was there a recession coming, was it likely. And I think 12 months ago, it was more likely to happen in the first half. Then it changed to more likely it'll happen in the second half. It's kind of been happening in slow motion. So, the recent events in Middle East certainly have changed things versus six months ago. But yeah, I would echo John's comments in terms of our view on 2024 and client sentiment. They know they need to continue to invest in their brands, and I think that's been proven certainly throughout the COVID period.

Craig Huber
Analyst, Huber Research Partners LLC
Q

Thank you.

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

And you can't forget that you go back a year, interest rates were quite different for everyone. And so, there's been a lot of sudden change as the Fed has increased rates, and it takes people a bit of time to adjust what they're doing to those changing environments. But I think at this – everyone thinks they don't know when it's going to reverse itself, but they're adjusting to the current environment, and they don't think they're facing the same headwind in areas like that going forward. So again, it just adds to their confidence.

Craig Huber
Analyst, Huber Research Partners LLC
Q

Thank you for that. My second question, if I could, on a pricing – of apples-to-apples pricing for your clients, just in aggregate for your company for this year, how do you sort of think about it, your 3.5% to 5% organic growth target for the year with 5% being a stretch target? How much should we think about that pricing in terms of maybe basis points is adding to that? Is it roughly 100 basis points from pricing on apples-to-apples base, not just upselling, but pricing on apples-to-apples basis that you're increasing prices in your contracts and stuff, and whether that number is roughly for this year at that 3.5% to 5% target for this year? How does that compare to prior years? I'm trying to get at this, because obviously, it's a higher inflation environment.

John D. Wren
Chairman & Chief Executive Officer, Omnicom Group, Inc.
A

Sure. I don't think we've recovered completely the inflation that we faced. When you look at this from Western Europe, US and then emerging markets, inflation has been more severe. We haven't had some pricing flexibility,

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but not to the extent of how fast inflation has risen. Now, we're hoping that inflation has stabilized and we'll start to enjoy the benefits of that.

The other thing which impacts our business is actually an account day you win it, the next 90 days is probably the least profitable time that you'll have that account, because you're ramping up staff and you're changing organizations in order to accommodate and not drop any balls as the business has passed from one of our competitors to us. So, that has some kind – that has an impact not on unit pricing, but on the overall costs that we face as we adjust and staff up for these events. More precise than that, I can't really be – I don't have any hard data which supports specific areas in the company.

One of the reasons, though, that we've been able to expand our base in offshore and nearshore markets for more of the functions that we have to fulfill in order to complete our job. We've gotten better at that. We've grown the staff from – we've doubled it in this past year. And I think in my comments or we've said that we expect that to grow at two to three times over the next 24 months because we have the infrastructure now to accommodate that growth. That gives us a bit of relief on the inflation that we haven't been able to pass on to our clients. So – by doing things differently.

Craig Huber
Analyst, Huber Research Partners LLC

Q

And my final question, if I could, [ph] I see everybody has (47:47) questions on this project-related work in the fourth quarter, if historically, maybe the range is $200 million to $250 million in the fourth quarter, I'm curious, embedded in your 3.5% to 5% organic growth number for the year target, what are you guys assuming for project-related work in the fourth quarter versus the year ago number? Is that roughly flat on the bottom end of your 3.5% to 5% number? How should we think about that?

Philip J. Angelastro
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.

A

We don't really have a number, Craig. I think certainly, every one of our businesses has some expectations regarding project work in the fourth quarter. The key for us is when we meet with them, ensuring they're not keeping staff on hand, hoping to get new business as we head into the fourth quarter, and then the cost structure is out of whack with their expected revenues, they need to have some historical analysis and we've got plenty of that in order for our agencies to have certain amounts of project spend in their forecast.

But typically, they're incentivized to benefit from capturing that year-end project spend, and our clients, by and large, want to spend the rest of their budget and grow their businesses through the end of the year. So, those factors typically help us and help our clients to get to the point where we can capture a significant amount of that spend. But we don't have a hard and fast number blank percent of the $200 million to $250 million is in the forecast, but certainly, some of it in the forecast. But we're pretty conservative about how much our agencies can put in their forecasts, because the last thing we want is people to be hiring ahead of the revenue or keeping people around that don't necessarily have anything to do if the revenue doesn't come through. That's pretty consistent practice we followed for quite some time.

Craig Huber
Analyst, Huber Research Partners LLC

Q

Great. Thank you, Phil, and John. Appreciate that.

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Philip J. Angelastro
Executive Vice President & Chief Financial Officer, Omnicom Group, Inc.

A

Sure.

Operator: And with that, that does conclude our conference for today. Thank you for your participation and for using AT&T Teleconferencing Service. You may now disconnect.

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