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Omnicom Group, Inc. (OMC)

JPMorgan Global Technology, Media & Communications Conference

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CORPORATE PARTICIPANTS

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Chairman & Chief Executive Officer, Omnicom Group, Inc.

OTHER PARTICIPANTS

David Karnovsky
Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

David Karnovsky
Analyst, JPMorgan Securities LLC

We're going to get started. Very happy to have back at the conference from Omnicom, Chairman and CEO, John Wren; and EVP and Chief Financial Officer, Phil Angelastro. Guys, thanks so much for being here.

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

Thanks for having us.

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

Our pleasure.

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QUESTION AND ANSWER SECTION

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

John, maybe we'll just start it off a high level, tremendous amount going on right now in the marketing and advertising world, both cyclical and structurally, how are you kind of thinking about setting key priorities for Omnicom at the moment?

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

A

The environment, you're right is challenging. It's challenging in different ways than at prior times. Omnicom, we're very happy with our portfolio and our ability to service clients through this process. As you probably – many of you who follow us probably remember that pre-pandemic for the most part, we went through a period of about four or five years where we divested ourselves of parts of our portfolio, which we didn't think were forward-looking. We completed that 18 months ago. And towards the end of that, again pre-pandemic, we started focusing on acquisitions of companies we thought and believed were going to be appropriate moving forward. And it's proven to be true that with the changes in the marketplace and the acquisitions that we've made, we've seen quite a bit of growth and we're going to continue to see quite a bit of growth in the portfolio based upon our monthly review of every one of our forecasts. Our forecasts, and I've been CEO of Omnicom, I think, for close to 27 years. I think the first quarter of this year was the very first time that we ever gave a revenue estimate for what we would do this year because we just got away with not having to do it in the past. And then we were able to increase that in our first quarter call and the confidence comes from the portfolio, the client list that we have, in a bottoms-up approach of what's going on.

Having said that, there's no doubt that being in an inflationary period, I'm probably the only one in the room old enough to have been working, at least at a managerial level, the last time we saw an inflationary type of period. Remotely similar to this, and even though I learned a lot then, will not necessarily think it's going to be a complete repeat. It's tough on the consumer out there, but brands having been through what they've been through and the digital transformation that is actually going on in many large enterprise companies that make up our client list are still on that journey know better than to walk away from those brands. So, we haven't seen – and again, this is a bottoms-up type of conclusion, we have not seen clients walk away from their marketing spend in total and our objective is share of wallet. Our objective is not any particular area and our objective – our philosophy, our strategy all along has been to be as agile as one could be being a large company.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

And, let's dive a little bit more into the macro since it's top of mind for investors right now. You said you haven't seen clients kind of change their outlays or budgets with that kind of commentary applied to the subsequent months since you reported. Have you seen any kind of indication of softness either by region or vertical that you would call out?

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

A

The answer is no. I mean, FX, the strength of dollar until yesterday was going in the wrong direction. It's changed, how long it stays who knows. We fully expect even though we haven't seen reports of it, that Europe certainly will

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weaken in many ways. Even though Germany hasn't called a recession, we think it's most challenged because of the current situation that's going on in Europe. We think the US is still going to get through this and we haven't seen any pullback from our clients. Going into the year, I would have thought an important segment of ours is auto. I would have thought with supply chain problems, we would have seen a pullback in auto and auto spending. Oddly enough, we haven't. Principal reason we haven't is when the market was flooded with cars, every car company was deeply discounting their product in order to move it off the lots. When supply tightened, those discounts went away. Clients found those profits falling into the bottom line and have been able to shift from promotional advertising to protecting their brand.

So within, I guess, every cloud, every storm, if you properly prepare and you have people that can identify these things early enough, you can pivot and shift with agility to protect that spend. And also, since the last time we went through a significant recession and I'll put with COVID aside, because that was unusual at every level and it was supported by a lot of government and flooding the market with financing. But if you go back even to 2007, 2008, 2009, people were panicked. They didn't know what to do. But the measurement systems weren't there to prove that if you invested $1, you get X back in return. Things have moved along. Systems have improved. We're able to increasingly with certainty, prove that if you invest money, what you're going to get back in exchange for it. And that makes – that breeds confidence.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

And that dynamic that you just mentioned for auto, are you kind of seeing that broadly across categories and that even if there's some softness on performance media, a lot of that gets allocated back to brands. So from your standpoint, it's just moving kind of that spend from one area to another?

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

A

Yeah. I mean, the reality is inflation is good for no one, right? And you take the average American CPG is not a large part of our portfolio and that's where I expect to see maybe some of the greater impact. But if people need their vehicles to drive to work and they're paying $6 a gallon to get there and their incomes have not increased, inflation really is harming them. And so, you're going to see a negative impact and a more careful impact in the way that they spend their money. CPG companies I think would probably see you get [ph] rapped (00:08:36) harder initially. You see it in the Walmarts, the Targets and others that have reported their higher margin business, which is clothing, not necessarily food. You see lower ticket prices because people are making better choices. You see the streaming wars that are going on, which are actually good for us because those platforms, which was subscription-based are increasingly becoming advertising based. And Hulu, even though people dismissed it in the past, proves that it can be done. Now, creative won't come back in the same way as it serves linear TV, but creative will be an important element because ads are going to be an important element in order to lower the cost to the consumer, so they can be more sensible in how they spend their money.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Got it. And John, since you mentioned FX before, I feel like I have to ask Phil, pretty substantial move since you reported, any kind of update on FX impact revenue for the year?

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

A

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Yeah. So, the first thing to keep in mind is we're certainly a global company. We collect our revenue overall on the same currencies that we pay our people. So, we're naturally hedged but from a financial reporting perspective and the translation difference that will be reflected in our results, yeah, we've seen a change. It's hard to say what's going to happen with rates for the rest of the year, but our expectation is for the quarter, the second quarter were more likely going to be in the range of a negative 4% to 5% as opposed to around 3% which is what our expectation was in mid-April and for the year, probably closer to 3% to 4% instead of 2.5% to 3%.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

And John we did hear some caution on revenue yesterday from a digital advertising platform that presented at the conference, kind of wondering what you think drives the disconnect between what they're seeing relative to you. How much of that is explained by your exposure to multinationals versus digital platform exposure to SMB's, but is there also some market share shifts going on if you're in the position to kind of talk about that?

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

A

Well, I know that I have people who absolutely know the answer to that question. But I'm not one of them. We did do a little bit of an inquiry this morning of some of them to find out what's what. I think the first thing you all have to put into perspective is that the company you're referring to is a small company. It's a $4 billion and if you do the math and you get percentages over your head, you're talking about $50 million or $60 million, right. I know that from our media spending and this is indicative in one or two months doesn't mean a damn thing. We've seen a much greater spend level with TikTok than with the other company you're referring to. We've seen a migration from YouTube as well to other digital platforms.

So, I'm fascinated at least at this morning's reaction. But I guess it's – coming on the back of the past three weeks or four weeks of hard terrible markets that it's had such a tremendous impact in the way that people are panicking or – and hopefully at least the capitulation which allowed us to get to the other side. But no, there has not been. There has been a shift in the medium. And that becomes important for Omnicom because the one thing that you need to understand and god knows, we try to explain it and don't do a perfect job at it because not everybody gets it is agility. We're agnostic to how we spend our clients' money. We're looking always for the most efficient ROI we can get for spending on the client and it's not limited to any specific company and/or media platform. So, that's important. We intentionally built the company, so we have that agility and that's what the preliminary reports this morning are demonstrating is going on.

Now the other criticism and again, I've been the CEO for a very, very, very long time. I think it's the fantasy of the reward system that was in place pre the last couple of weeks that somebody makes fantastic predictions about what the revenue growth is going to be without really understanding its own core and what the hell he's talking about because nothing goes in half overnight unless you've had some executional or structural problem and we've not seen any indication of that. So – but I can talk more as an authority on Omnicom than I can anybody else, I mean any other company and anybody else.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Maybe kind of sticking with something you just said about [ph] outlaying (00:14:59) the different platforms. I mean, one of the things you've heard from this conference and more recently is just more and more companies trying to sell advertising, act as an ad network and then that comes on what you were talking about, right, just money moving from linear TV to connected TV, people rolling out more ad tiers. So, how does this landscape play into

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your favor on the media side of your business relative to just a few years ago, where it almost looked like everything was just converging to two places?

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

A

Sure. Well one is we've changed the portfolio quite a bit. Again, it happened systematically. It was done pre-pandemic and pandemic confused everybody about everything. We're more focused. I mean, the areas of growth in the company and where they're coming from are in digital transformation of not companies that are starting with a clean sheet of paper, but enterprise companies, which are our largest clients, which are still on the journey and then having the smart people that once that architecture is built to assist the clients in getting to the next level, not dissimilar to some of the things that an Accenture would do, but doing them deeper because where they're actually performing the tests after the fact. Our healthcare practices stood up incredibly well. We have the largest ethical pharmaceutical practice in the world as the population ages and innovation occurs, that's continued to progress. We've seen public relations change its product and maybe use of social media and other things. It's certainly grown consistently over the past three years, much more than it did in the last 20 years. And there's also a change in leadership during that period of time that probably contributed to its forward-looking ability to gain new clients. And our growth really is based upon a couple of different things. When we use the word organic growth, it's our clients spending more or are they spending less. That impacts it. Are we winning business and taking share or are we losing business, right. And our track record is we've been batting much better than 500. So that's adding to growth and our clients as they make this transition have been constantly protecting their brands and not spending less in the areas that we can best serve them.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

As clients go through that business transformation journey, what opportunity do you see to not only kind of expand the scope of services that you're providing, but to consolidate a lot of that work at the holding company level?

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

A

Yeah. Well, one of the – it would be remembered, by the way, as a strategy, even though when it initially started, it was just an idea. But a good decade ago, we started creating Annalect, which was our ability to, in a very agile fashion, go to the best sources information from a data point of view and then glean and hire people that can glean insights from the manipulation to that data. That led to the creation of a platform, which we've talked about on our conference calls quite a bit called Omni, which is in constant change in two ways. We are constantly adding to services to that system and we're constantly making it more user-friendly. At this point, there's over 40,000 employees within Omnicom that are on and using Omni. And by making it more customer-friendly, more usable, more and more clients are using it, too, and there's a stickiness that's associated with that. But what I might say is before we started the divestiture process and as you got through COVID, our employee base was 70,000 to 80,000 people. Today, it's approaching that again. And I'd say, five, six, seven years ago, we probably had less than a 1,000 engineers in the company. Today, we're going to have, this year we will have in excess of 10,000. So the population has changed. We've kind of divested and gotten rid of the people that were purely executional which generated good profit, but not much growth to the more intelligent people that are making real strategic ads to our clients' needs and I think that's benefiting us quite a bit in terms of our growth.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

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What role does creative continue to play in this process, right? Is it differentiator to win or retain relationships and I'm not just talking relative to your holding company peers, but as you compete against kind of consultants or MarTech around the edge?

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

A

Sure. First of all, creative is kind of our IP. It's how we were founded and now it's changed in how you would define it, because your engineers can be as creative in the manipulation of data as your once great Ad Men were in creating advertising. With media and the social media with all the digital platforms out there, creative content becomes more disposable, because you can measure very quickly whether or not you're having the right impact in selling and reaching the consumer and creating a dialogue and if that creative doesn't work, you dispose of it and you – and you try something different.

But the philosophy of creativity and how it touches CRM as well as precision marketing versus general media advertising is our IP. It's not something that you can go out, acquire and add to a otherwise functioning consulting company. It has to be part of the philosophy of the company and it's not good enough for the buy-in to be just at my level or at the corporate level, it has to be buy-in throughout the group in order for it to survive for decades like it survived within Omnicom, so...

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

A

Yeah, certainly, a key part of our culture. And when you think about technology, you can find the consumer in more and more sophisticated ways to help your client find the consumer they're trying to reach. But you still have to have a compelling idea to get them to buy something or interact with the brand. So, if you don't have creativity as part of that equation integrated, you're kind of missing a key component.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Yeah. And as you noted, you made substantial changes to the portfolio over the last few years on the disposition side. This has shifted to acquisitions more recently. You've been as active as I've seen you in many years. Can you kind of discuss your current appetite for M&A? Can we expect this pace to maybe continue? Is it kind of most would be smaller stuff? Would you ever do larger scale M&A?

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

A

Sure. Well, I think first, you have to always look at the portfolio. We're always looking at it. The good news is, our divestiture period for the most part, as far as I can see, is finished. There's a couple of things that are small, but they're irrelevant to the picture. So, then you look at the portfolio and is it servicing our clients in all the areas it needs to be? The answer is, we're in the best shape, I think, we've ever been. The answer also is, I've never been satisfied and I never will be satisfied. We kind of articulate in our calls the areas that we're more focused on and we have an M&A process that is constantly looking at what's new and what's existing and I'd say, if I was rating myself, in truth, I have 90% of what I believe I wish I had today and if the other 10% comes up, we can act on it. We've been very conservative and always have been in the financial disciplines we use the capital. I think, some of the tumult and stuff that's going on in the current marketplace is going to create even greater opportunities for us to take advantage of it and to increase maybe some of the acquisitions that we've made in areas that we were identified that we think are going to be appropriate to complete the customer journey. And now, we wouldn't do anything that would ever hurt our credit rating. So, I don't know what you would define as large and small, but we

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have a very defined point of view as to what we want to acquire. What we do, do even if you know three, four weeks ago, when prices were insane and before the Fed started to act. All we could do is be friendly with those people. The good news is they know who we are. We know who they are. We're in constant dialogue with them. And if the right moment presents itself, we will act. But we will act in the same responsible way we've acted for the last several decades. Phil might...

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

No, I think that's right. I think if the market tightens up a bit, we think there might be more opportunities out there for us. We're always careful about finding the right strategic fit and the right cultural fit. And certainly, we'll look at all deals small, big, medium and consider what's best for our shareholders in the end. But certainly, we've been more active looking at acquisition opportunities both with an M&A team we have, as well as the operating companies in the businesses that we see as future growth opportunities, including precision marketing, performance media, the healthcare space, et cetera. So, we'll continue to do more of the same.

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

And just one final point on that. One of the major benefits of having as a client list, the leading companies in just about every sector in the world is, what – as you're developing your strategies of where you want to go, what you can do is, you can test those strategies by looking at how those clients are viewing the marketplace and how they intend to spend their money going forward. And it becomes confirming in a way there's always the possibility of executional mistakes. But we're very careful in what we're looking at and how we're going about it.

David Karnovsky
Analyst, JPMorgan Securities LLC
Q

If we have any questions in the room, I think there's a mic. So just raise your hand. Phil, you're guiding to 15.4% margins for 2022. I think that's a 40 basis point increase over 2021, once you strip out the ICON sale. Maybe walk through some of the drivers of that margin gain maybe as a lot lot of normalized costs come back and you kind of deal with inflationary pressure.

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

Sure. So there's certainly some costs coming back into the business from being in a more normal business environment. Travel, for example, and probably the easiest one to see and understand.

David Karnovsky
Analyst, JPMorgan Securities LLC
Q

Conferences.

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

Conferences like this one, exactly. So there's certainly that to manage. But at the same time, we've achieved and expect to continue to maintain some cost efficiencies from new ways of working that have evolved coming out of the pandemic. And at the same time, we're going to continue to push and push pretty hard. Certainly John's a big proponent of this, continuing to find ways to outsource, offshore and, in particular, automate. And, some of those benefits we expect to achieve in the near-term. Others, we expect, take a little bit longer. But those are initiatives

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that we expect to continue to pursue to make sure that we're as efficient and effective as possible. And all those things when you bring them together again are going to help offset some of the challenges we have in the post-pandemic world as some costs come back into the infrastructure.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

With some of the hiring freezes or layoffs that we're seeing with tech firms where you compete with digital talent, would that sort of ease things up for you somewhat?

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

A

You go first.

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

A

Yeah. I mean, in certain segments of our business, our only limitation isn't client need, it's how do you get the talent in order to service it. I think, what we learned during COVID is how different people can function remotely. We're looking and recruiting in areas and parts of the country and parts of the world that we would have never entertained in the past. But there's their talent bases and folks who were the managers that we depend upon who had to see their staff every day in the office in the past, have learned that that's not the case anymore and the book is still to be written, but there's a great deal of flexibility that can occur with the right people.

So, yes, as others suffer and since we – I've got a very defined view of what our clients are spending on, what they need and the complexity in the marketplace. We'll be hiring those people. The other thing that benefits not only Omnicom, but the industry itself is The Great Recession, The Great Resignation. Our clients have suffered them too. And many of them have become aware of the skills that they don't have and how they can complement them by hiring the correct vendor or supplier.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

You recently raised guidance to 6% and 6.5% from 5% to 6%. That's an organic. You did acknowledge a fair amount of conservatism in that in any given year. You always have to be cautious about year-end project work. Just kind of how heightened is that cautiousness just kind of given all the uncertainty that we are having in this environment.

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

A

Before you do, I've been CEO for close to three decades. This was the first two quarters...

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

I know.

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

A

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I've done over 100 of them where I give you guidance at all. So don't expect anything other than conservative guidance from me, number one and then I am going to let Phil properly answer that question.

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

As John said earlier, I think that our forecasts are certainly bottoms up. We go through that process on a monthly basis. Certainly we're comfortable with the numbers that we've provided and the adjusted numbers that we've provided. We didn't put the forecast together with, you know, no view of what the second half might hold. Certainly, we don't have as great a visibility looking out at the third and fourth quarter in particular at this time of the year, but we're pretty comfortable and confident with the guidance we've given for the year and, you know, we've seen nothing from our clients and heard nothing from our clients that would cause us to change those expectations.

David Karnovsky Q
Analyst, JPMorgan Securities LLC

How do you think about... No, go ahead, John.

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

No, the only thing I'd say is, working for me is probably not the easiest thing in the world because if you have a great quarter. I congratulate you and tell you to go into the lavatory, look in the mirror, pat yourself on the back and tell me how you're going to do this again when this quarter recycles next year. So, it's like, okay, celebration's over. Let's move on, let's adjust the business, so it's properly.

David Karnovsky Q
Analyst, JPMorgan Securities LLC

Got it.

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

Attuned.

David Karnovsky Q
Analyst, JPMorgan Securities LLC

[indiscernible] (00:33:10) Phil for his reaction.

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

He knows.

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

Well, I know it. I have seen it.

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David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Got time for maybe one more. Just wondering how you're thinking about kind of your events or field marketing businesses in this environment. Saw a really strong growth in Q1. Does seem like we're living in a world now of sort of periodic COVID waves. Obviously, that's more pronounced in a place like China. How does that kind of impact your view on the business, these businesses kind of long-term?

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

A

Long-term, we're coming from a very low base, so growth...

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

... [indiscernible] (00:33:37). The shutdown in China is a problem. I hope many of you don't go home with my monkeypox.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Monkeypox, yeah.

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

A

Because, I got an alert last night that Boston was the city to be careful about. But I think events will continue and the segments that we're in and the areas that we serve, you can see, conferences like this and see every sporting event. I mean, it's within human nature. Going back to the Roman Colosseum that people instinctually want to get together and communicate and do things. The pace of which that happens or whether or not there's governmental interruptions to that, since we're coming off of such a low base, we're confident that we're in the right place.

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

A

Yeah, the people who manage those businesses have done a great job through the pandemic, very challenging times, but clients are very interested in getting back into that kind of an environment and we've seen that in the results. But we do expect it to be a little more choppy going forward, but longer term, certainly great businesses that we're happy to have.

David Karnovsky
Analyst, JPMorgan Securities LLC

Good. All right. We're just about out of time. Thanks so much.

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

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Thank you.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

That's it? Thank you, guys. Thanks everybody.

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