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EDITED TRANSCRIPT

OMC.N - Q2 2020 Omnicom Group Inc Earnings Call

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PRESENTATION

Operator

(technical difficulty) and welcome to the Omnicom's Second Quarter 2020 Earnings Release Conference Call. (Operator Instructions) As a reminder, this conference 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, Shub Mukherjee. Please go ahead.

Shub Mukherjee - *Omnicom Group Inc. - VP of IR*

Good morning. Thank you for taking the time to listen to our second quarter 2020 earnings call. On the call with me today is John Wren, our Chairman and Chief Executive Officer; and Phil Angelastro, our Chief Financial Officer.

We hope everyone has had a chance to review our earnings release. We have posted to www.omnicomgroup.com this morning's press release, along with the presentation covering the information we will review this morning. This call is also being simulcast and will be archived on our website.

Before I start, I've been asked to remind everyone to read the forward-looking statements and other information that we have included at the end of our investor presentation and to point out that certain of the statements made today may constitute forward-looking statements and that these statements are our present expectations and that actual events or results may differ materially.

I would also like to remind you that during the course of the call, we will discuss some non-GAAP measures in talking about Omnicom's performance. You can find the reconciliation of those measures to the nearest comparable GAAP measures in the presentation material.

We are now going to begin this morning's call with an overview of our business from John Wren, then Phil Angelastro will review our financial results for the quarter. And then we will open the line for your questions.

John D. Wren - *Omnicom Group Inc. - Chairman & CEO*

Thank you, Shub. Good morning. I hope everyone on the call is staying safe and healthy. I'm pleased to speak to you about our second quarter 2020 results. The quarter posed extraordinary challenges and our management teams responded with a focus on our people, our clients and our business. The effect of COVID and related lockdowns were unprecedented.

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Additionally, communities around the world felt the weight of the acts of racism in the United States and the protests that resulted from them. During these difficult times, the health and the safety of our people remains our top priority, and we are committed to providing the support they need.

In the midst of these events and with the substantial majority of our staff continuing to work from home, we delivered outstanding work for our clients and had several key new business wins. This speaks to the resiliency of our people, and our clients more than ever are seeking our creativity, partnership and support to develop responses for their recovery and growth plans as we operate in the new normal.

The financial impact of COVID and stay-at-home orders was significant during the quarter. With few exceptions, the effects were broad-based across disciplines, industries and geographies. Negative organic growth reduced our revenue by 23%, which includes the decline in our third-party service costs.

As you may or may not know, our organic growth is based upon reported revenue and is therefore not comparable to the organic growth or other financial calculations reported by our competitors which are based upon net revenue. The subdisciplines that were most negatively impacted by COVID were events, field marketing and merchandising and media.

The majority of the revenue decline from these businesses is the result of the reduction in third-party service costs incurred when performing services for our clients when we act as principal. Phil will discuss our second quarter revenue performance in more detail during his remarks.

In response to the decline in spend by our clients, we took very difficult and permanent actions during the quarter to reduce our costs and preserve the strength of our business. They include: aligning our staff levels agency-by-agency with client demand for our services; reducing our real estate in line with headcount and begin to prepare for changes in how we use space in the future; and divesting several small noncore and underperforming businesses.

Regrettably, we had to reduce our employees by 6,100 people. We also shed over 1 million square feet of space. These actions resulted in repositioning costs for the quarter of $278 million, which are expected to generate approximately $500 million in annualized savings.

In addition, we took numerous temporary actions to reduce our costs beginning late in the first quarter and in the second quarter. To preserve jobs where possible, we participated in government and wage subsidy programs across 35 markets; we froze new hires and salary increases; we significantly reduced or eliminated the use of freelances; we cut discretionary costs and capital expenditures wherever possible and took voluntary pay cuts across our corporate groups as well as our network and agencies. Overall, these costs will, in part, offset the decline in revenue we expect will continue in the second half of the year.

Excluding the impact of the repositioning costs, our second quarter operating profit declined by approximately 40% to $340 million, and our operating margin was 12.2%. Net income for the quarter was $199 million, and EPS was down 45.2% year-over-year to $0.92 per share. Our free cash flow for the first half of the year was $724 million, and we paid over $282 million in dividends to our shareholders. As we stated last quarter, we have stopped our share repurchases.

Our liquidity and balance sheet remain extremely strong. As of June 30, we had nearly $3.3 billion in cash. We also have $2.9 billion in available revolving credit facilities, and our nearest long-term notes are not due until May 2022. Importantly, the underlying fundamentals of our business are solid.

COVID has rapidly changed consumer behavior, and many of our clients have, in turn, fast-tracked their digital transformation initiatives. We are very well prepared to advise and serve our clients in managing this change. Over the past several years, we've made significant investments to enhance our capability in digital transformation services, data-driven solutions and customer-centric offerings. We have leveraged these investments to deliver seamless solutions for our clients across brand building, CRM, media, e-commerce and performance marketing, and it has resulted in several recent client wins.

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Just yesterday, we further expanded our capabilities in these areas through the acquisition of DMW Group in the U.K. DMW will become part of Credera, which offers management consulting, digital transformation and marketing technology implementation services.

We acquired Credera in 2018. And since then, it has rapidly expanded its client relationships and integrated with many Omnicom teams. The company will now further expand its capabilities into Europe. We look forward to continuing to invest and grow the company into a top-tier consulting and marketing technology arm for Omnicom.

Our most critical investment are in our people, and I'm pleased to report that last week, we named two exceptional internal candidates to lead DDB worldwide. Marty O'Halloran was named Global Chief Executive of DDB Worldwide. Most recently, Marty served as Chairman and CEO of DDB Australia and New Zealand.

Marty will be partnering with Justin Thomas-Copeland who is promoted to CEO of DDB North America region. Justin is widely regarded as a disruptive leader in data and analytics, with a passion for creativity and is a pioneer in connecting creative ideas with insights and customer experiences that effectively drive outcomes for clients. Both Marty and Justin are well known within Omnicom as transformative leaders, and I'm confident that DDB is well-positioned for success with them at the helm.

Chuck Brymer did an exceptional job as the interim CEO in the midst of this crisis. He will now return to his role as Chairman of DDB Worldwide and will Support Marty and Justin in their new roles.

These changes once again demonstrate we have a deep bench of capable leaders within Omnicom, which is a direct result of our focus on developing exceptional and diverse talent.

As we move forward into the second half of the year, we will continue to navigate through the impact of COVID across markets throughout the quarter and into July as many markets around the world ended lockdowns and we reopened several of our offices in parts of Asia Pacific, Europe and the Middle East and the U.S. following a capitally planned process and phased reentry approach.

While we are pleased with these reopenings, we recognize that some of our staff will continue to work from home for a considerable longer period of time. We are fortunate that we have the capabilities and technology that allow our people to service clients from home while doing our part to stop the spread of coating.

Our people's ability to work effectively from anywhere is demonstrated by our recent new business success and the industry accolades we received over the past few months. In July, Peugeot chose Omnicom's O.P.E.N., which is an acronym for Omnicom for Peugeot Engine, as its new agency of record.

Following a successful virtual pitch, creative precision marketing and strategy teams from across 17 different markets put together the winning proposal. It was an outstanding team effort and demonstrated our ability in this new virtual world to bring together the best marketing, intelligent communication strategy, creativity and technology for our clients.

In June, Air France selected Omnicom's dedicated agency called Aura as its creative and media agency of record. The win was also the result of a collaborative effort of agencies, including TBWA, Omnicom Media Group, Precision Marketing and EG +.

In addition, Playstation assigned EG + its global production account, and Clorox consolidated its U.S. media business with OMD. These are just a handful of the wins during the quarter.

We've also seen our agencies' collaboration and ingenuity recognized in industry awards campaign named adam&eveDDB Agency of the Year for the sixth year in a row. Manning Gottlieb OMD won Media Agency of the Year. During 2020 ADC Awards, TBWA was named Network of the Year for the second year in a row. BBDO was named Cannes Lions' First-Ever Network of the Decade.

For Agency of the Decade, AlmapBBDO took the title in Latin America. Adam&eve won it for Europe and Colenso BBDO in the Pacific region.

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Finally, Marina Maher Communications was named Agency of the Decade by PRovoke.

I want to congratulate and thank our teams for their new business wins and the industry recognition.

As I mentioned when I opened, we are grappling with the recent acts of racism and violence that have called to like inequalities and injustices experienced by black and diverse communities around the world. Since the formation of Omnicom, diversity, equity and inclusion have been a part of our core values. We do not tolerate racism or discrimination in any form against any person.

Our DE&I strategy aims to create supportive environments and is led by the Omnicom People Engagement Network, or OPEN. OPEN provides structure, counsel and visibility to our DE&I initiatives and policies throughout our organization. Over the last decade, our chief diversity officer and the open leadership teams have made tremendous progress and brought significant changes to Omnicom and our agencies.

During these difficult times, they've also led discussions on what more we can do to support our black colleagues and people of color. These discussions played a key role in the development of OPEN 2.0, a strategic framework that will strengthen and expand our DE&I initiatives and advance the OPEN tenets of culture, collaboration, clients and community.

OPEN 2.0 will be launched in the third quarter and will establish specific action items across our group to drive increased representation and retention of all people of color. The degree of success of OPEN 2.0 will be measured in the aggregate across all Omnicom agencies and will be an important factor in the compensation of the executive officers of Omnicom and the CEOs of our networks and practice areas.

OPEN 2.0 will build upon the base we've already created at Omnicom, accelerate our progress and ground us in accountability. We look forward to updating you on these efforts and sharing additional details moving forward.

Before turning the call over to Phil for a more in-depth look at the numbers, let me provide some context of our expectations for the second half of the year.

Overall, visibility has improved in the past couple of months but remains low as we and our clients consider the continuing effects of COVID across markets, including the possibility of second wave, the effects and timing of government stimulus programs, changes in consumer habits and spending and the overall rate of economic recovery. With that in mind, our agencies have developed their second half plans based upon these and other important factors, such as the health and safety of our people, the services they provide and the client industries they serve.

A key part of their plans is having contingency actions that are dependent on how the situation evolves in their local markets. That said, and based upon current marketing conditions, we think the worst is behind us, with Q2 being the low point for year-over-year revenue declines in 2020.

Over the second half, we expect our performance to vary by geography depending on how effective local governments have responded to COVID, and in turn, in reopening their economies. Additionally, we expect some industries that have been hit the hardest, such as travel and entertainment as well as our event businesses, will likely continue to be challenged while other industries such as retail, food, beverage, autos as well as our media buying business will likely see improvements.

As a result of the repositioning actions we took in Q2 and with continuing but lower benefit from our temporary cost actions, we expect our margins in Q3 and Q4 to be approximately in line with those in the prior year.

In closing, we remain confident that we will weather this period and emerge a stronger organization.

I want to thank our people for their tireless efforts, dedication and commitment, and our clients for their partnership and confidence during these truly unprecedented times.

Let me now turn the call over to Phil for a closer look at our results. Phil?

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Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

Thanks, John, and good morning. As John said, since the outset of the pandemic, our leadership teams across our networks, practice areas and agencies have been focused on aligning our cost structure and business model with the changes impacting us and our clients around the globe. This required our agencies and their client service teams to focus their efforts on delivering meaningful insights and solutions to help our clients prepare for and respond to a rapidly changing consumer landscape.

Although we faced an unprecedented business environment this quarter and the near-term outlook continues to include quite a bit of uncertainty, we believe the actions our agencies have taken to date will allow us to weather the current environment and emerge as a stronger organization. Throughout the second quarter, we took numerous actions to align our operations in response to changes in client demand. They included severance actions to reduce employee headcount, which resulted in an incremental charge of $150 million; real estate lease impairments, terminations and related fixed asset charges of $103 million that will allow us more flexibility to match our headcount; and anticipated changes in the use of space as well as the disposition of several small noncore underperforming agencies, which resulted in a loss of approximately $25 million.

In the quarter, these repositioning charges totaled $278 million, which reduced our net income by $233 million and diluted earnings per share of $1.03. We presented our 2020 results to also separately show the impact of the repositioning charges and disposition actions.

The non-GAAP adjusted results on Slides 5 through 8 show how our underlying business performed year-on-year on a more comparable basis. I will detail the impact of the projected future benefits of these actions in a few minutes.

During the second quarter, we also continued to take proactive steps to strengthen our liquidity and financial position. These actions serve to provide additional liquidity insurance as we move forward. On April 1, we issued $600 million of 10-year 4.2% senior notes, which will mature in June 2030. Also in April, we entered into a $400 million, 364-day revolving credit facility. The 364-day facility is in addition to our existing $2.5 billion revolving credit facility that we renewed in the first quarter of 2020 for an additional 5 years. We have not drawn down on either facility in 2020.

We closed the quarter with $3.28 billion in cash. And during Q2, in a difficult operating environment, we generated over $330 million of positive working capital. The actions we've taken throughout the year as well as the fact that we have no long-term debt maturing until May of 2022, we believe, leaves us well-positioned to manage our liquidity and ongoing capital requirements.

Turning to the actual results slide for the second quarter. Our organic revenue performance was negative $855 million or 23% for the quarter. The decrease was unprecedented, and we experienced declines across all markets and disciplines, except for our specialty health care businesses.

The impact of foreign exchange rates reduced our revenue by 1.7% in the quarter, a little less negative than we estimated on our February earnings call. And since almost all of our Q2 2020 disposition activity took place towards the end of the quarter, the net impact from dispositions and acquisitions was only slightly negative in the quarter.

As a result, our reported revenue in the second quarter decreased 24.7% to $2.8 billion when compared to Q2 of 2019. I will discuss the components of the changes in revenue in further detail in a few minutes.

Turning to Slide 6. Our reported operating profit for the quarter, including the impact of the $278 million of repositioning charges and loss on dispositions, was $62.5 million. Excluding the impacts of those charges, our non-GAAP adjusted operating profit, or EBIT, was $340.4 million. That resulted in an operating margin for the quarter of 12.2%, down from our Q2 2019 operating margin of 15.4%.

We estimate that the severance and real estate actions taken in the second quarter will generate approximately $230 million in savings over the second half of 2020. We also expect to generate additional savings in excess of $75 million in the second half of 2020 compared to the second half of 2019 from reductions in discretionary costs.

On Slide 3 of our investor presentation, we presented the details of our operating expenses. Our salary and service costs are variable and fluctuate with revenue. Salary and related service costs declined by $235 million in the quarter. Third-party service costs, which include expenses incurred

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with third-party vendors when we act as a principal when performing services for our clients primarily related to our events, field marketing and merchandising and media businesses, they declined by almost $400 million in the quarter.

Occupancy and other costs, which are less linked to changes in revenue, declined by approximately $25 million, and SG&A expenses also declined by approximately $25 million in the quarter. As we move forward to the second half of 2020, we will continue to actively manage our costs to ensure they align with our revenues.

Net interest expense for the quarter was $47.2 million, down $3 million versus Q2 of last year and up $1.4 million compared to Q1 of 2020. When compared to Q2 of 2019, our gross interest expense was down $12.9 million, resulting from several debt refinancing actions over the past 12 months. These actions included the issuance in July of 2019 of EUR 1 billion aggregate of Eurobonds due in 2027 and 2031, which resulted in net proceeds of $1.1 billion at an average rate of 1.23%; the retirement of our $500 million of 6.25% 2019 senior notes also in Q3 of 2019; the early redemption of our $1 billion 4.45% 2020 senior notes, which was done in 2 steps, part in Q3 of 2019 and the remainder in the first quarter of 2020; the issuance of $600 million of 10-year 2.45% senior notes during the first quarter of 2020 used to redeem the balance of our 2020 notes, which were due in Q3; and the issuance of an additional $600 million of 10-year 4.2% senior notes in early April.

As a result of these actions, our long-term debt is comprised of $4.6 billion in dollar-denominated debt and EUR 1 billion in euro-denominated debt. These actions have decreased the effective interest rate on our senior debt by over 100 basis points Q2 2020 when compared to Q2 of 2019. They have also allowed us to reduce our commercial paper and other short-term financing activities, further reducing our interest expense when compared to last year.

This reduction was offset by a decrease in interest income of $9.9 million versus Q2 of 2019. While our average cash on hand balance during the quarter was higher than it was last year, interest rates were lower, resulting in a decrease in interest income. When compared to the first quarter of 2020, interest expense decreased $4.8 million driven by the incremental charges to interest expense incurred in Q1 for the early redemption of the 2020 notes. And interest income was down $6.2 million, again primarily due to a decrease in rates.

For the remainder of the year, we expect that our refinancing activity in 2019 and 2020 will more than offset the increase in interest expense from the issuance of the 4.2% notes in April of 2020. We believe adding this additional liquidity, while maintaining our interest expense levels, was a prudent step to take. We expect net interest expense in Q3 2020 to be approximately flat with Q3 of 2019. We expect net interest expense to increase in Q4 2020 by approximately $10 million compared to Q4 of 2019 primarily due to an estimated reduction in interest income.

Our effective tax rate for the 6 months ended June 30, 2020, increased to 30.6% from 25.7% for the comparable period in 2019. The increase was primarily attributable to the nondeductibility in certain jurisdictions of both a portion of the repositioning costs and the loss on dispositions.

Excluding the impact of these items, the effective rate for the 6 months ended June 30, 2020, was approximately 26%, which was in line with our expectations. For reference purposes, the prior period's income tax expense included a reduction of $10.8 million from the net favorable settlements of uncertain tax positions in certain jurisdictions.

At this time, excluding the impact of the nondeductible expenses, and before considering the impact of the tax effect from our share-based compensation, which is subject to changes in the value of Omnicom stock price, we are forecasting our effective tax rate will be approximately 26.5% for the rest of the year.

We recognized a loss of $7.8 million from our equity in affiliates in the quarter. The allocation of earnings to the minority shareholders and are less than fully owned subsidiaries decreased $13.6 million to $9.8 million, reflective of the decreased performance during the quarter. So for the quarter, including the impact of the repositioning actions and the loss on dispositions described earlier, which totaled $223.1 million during the period, we reported a net loss of $24.2 million. Excluding these items, our non-GAAP net income for the second quarter was $198.9 million.

Our diluted share count for the quarter decreased 2.5% versus Q2 of last year to 215.4 million shares, resulting from share repurchases over the past 12 months prior to the suspension of share repurchases in mid-March. Our reported EPS for the quarter, reflecting the net impact of our repositioning actions and the loss on our disposition activity, was an $0.11 loss per share. The impact of the repositioning items and the loss from

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dispositions reduced our diluted EPS by $1.03 per share. As a result, our non-GAAP diluted EPS for the quarter, excluding the impact of those items, would have been $0.92 per share.

On Slide 2, we provide the summary P&L, EPS and other information for the year-to-date period. We've also provided the non-GAAP adjusted presentation for the 6-month results on Slides 7 and 8, which excludes the second quarter items that we identified. Since the changes in the year-to-date results versus the prior period are almost entirely driven by the activities that we discussed from the second quarter, I won't review the year-to-date slides in detail.

Returning to the details of our revenue performance on Slide 9. Overall, while we have a diversified portfolio of clients, disciplines and service offerings as well as geographies that we operate in, demand for our services declined as marketers reduced expenditures in the short term due to the impacts of the pandemic and related lockdowns. Our reported revenue for the second quarter was $2.8 billion, down $854 million organically or 23% from Q2 2019.

Certain client sectors were affected more significantly than others as you can see on Slide 14. Our clients in industries such as travel, lodging and entertainment, energy, nonessential retail and the auto industry sought to cut their costs quickly in Q2, including postponing and/or reducing their marketing communication expenditures, while clients in certain other industries such as health care and pharmaceuticals, technology and telecommunications have fared somewhat better to date.

The disciplines that were most negatively impacted were: CRM Consumer Experience, primarily due to our events businesses; Advertising, primarily due to some of our media businesses; and CRM Execution & Support, primarily due to our field marketing and merchandising businesses. The majority of the revenue decline in these businesses is the result of reductions in third-party service costs incurred when providing services for our clients when we act as principal. These third-party service costs, which fluctuate directly with changes in revenue, declined by approximately $400 million in Q2 of 2020 versus Q2 of 2019.

Turning to the FX impact. On a year-over-year basis, the U.S. dollar's continuing strength again created a headwind in our reported revenue. The impact of changes in exchange rates decreased reported revenue by 1.7% or $62 million in revenue for the quarter.

And continuing with the recent pattern, the strengthening was widespread. The dollar strengthened against practically every major foreign currency. In the quarter, only the Japanese yen strengthened against the dollar. The largest FX movements in the quarter were from the U.K. pound and the Brazilian real.

As for our projection of the FX impact for the remainder of the year, if currencies stay where they currently are for the balance of 2020, the negative impact of FX may moderate during the final two quarters of the year: be flat year-on-year in Q3; and slightly negative by less than 50 basis points in Q4, resulting in a negative impact of around 1% for the full year.

The impact of our recent acquisitions, net of dispositions, decreased revenue by 1/10 of 1%, which was in line with the estimate we made entering the quarter. Since our Q2 2020 disposition activity took place towards the end of the quarter, there was a little impact from that activity on our Q2 revenues. Inclusive of the disposition activity through June 30, and not including any acquisitions or dispositions we may complete later this year, we estimate the projected net impact of our acquisition and disposition activity will reduce reported revenue by approximately 50 basis points in the second half of 2020. And finally, our organic revenue decreased approximately $850 million or 23% in the second quarter when compared to the prior year.

As I previously mentioned, our revenue was down across all major geographic markets, with the percentage decreases in organic revenue in the U.S. and in Asia Pacific being a little less negative than the rest of our regions. Within our service disciplines, our health care agencies continue to see an increase in activity primarily here in the U.S. and in Asia, resulting in organic revenue growth within the discipline, while our CRM disciplines, particularly our events and field marketing businesses and our advertising discipline particularly in some of our media businesses, saw significant declines primarily from reductions in third-party service costs.

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Turning to our mix of business by discipline. For the second quarter, the split was 54% for advertising and 46% for marketing services. As to the organic change by discipline, our Advertising, CRM Consumer Experience and CRM Execution & Support disciplines were all down between 25% to 30%. PR was down about 14% and our Healthcare businesses were up 3.2% organically. Both of these disciplines were positively impacted by continued spend by our pharma clients and negatively impacted by the reduction in client events that they help execute. PR also benefited from demand for crisis management and communications and public affairs services.

Now turning to the details of our regional mix of business. You can see during the quarter, split was 57% in the U.S., 3% for the rest of North America, 9% in the U.K., 16% for the rest of Europe, 11% for Asia Pacific, 2% for Latin America and the remainder for our smallest region, the Middle East and Africa. That mix is in line with what we saw by region in Q1 of 2020.

In reviewing the details of our performance by region, organic revenue in the second quarter in the U.S. was down $414 million or 20.7%, with the largest decreases coming from our advertising, media and events businesses. As previously mentioned, our domestic health care businesses were positive organically for the quarter while our precision marketing agencies, though negative organically, performed reasonably well considering the circumstances.

Outside the U.S., our other North American agencies were down just under 30% or $35 million. Our U.K. agencies were down $85 million or 23.7%. The disciplines that had led to growth over the past several quarters in the market, including Advertising and Healthcare, performed relatively well, with events, media and field marketing lagging. The rest of Europe was down nearly $200 million or 30% organically in the quarter. In the Eurozone, most of our major markets, including Germany, the Netherlands and Spain were down in excess of 20%, and France was down over 40% as our events, field marketing and other CRM execution businesses were significantly impacted by the pandemic.

Our performance outside the Eurozone was somewhat better, with organic revenue down about 23%. Organic revenue in Asia Pacific for the quarter was down about 18%. Our greater China agencies were down just over 20% in the quarter while our agencies in Australia, Japan and India did a bit better. Latin America was down 24% or $25 million organically in the quarter, with weakness once again in Brazil. And lastly, the Middle East and Africa was negative again for the quarter primarily resulting from the continued cancellation of events as well as other reductions in client spend.

Turning to our cash flow performance on Slide 16. You can see that in the first 6 months of 2020, we generated almost $725 million of free cash flow, excluding changes in working capital, down versus last year, but a solid performance under the circumstances.

As for our primary uses of cash on Slide 17, dividends paid to our common shareholders were $283 million, up slightly versus last year due to the impact of the $0.05 per share increase in our quarterly dividend payment effective in April of last year partially offset by a reduction in our outstanding common shares due to repurchase activity over the past year. Dividends paid to our noncontrolling interest shareholders totaled $35 million.

Capital expenditures were $34 million, down versus the first 6 months of 2019. As we mentioned on the Q1 call, we are limiting our capital projects in the near term to only those deemed essential to our ongoing operations. Acquisitions, including earnout payments, totaled just under $26 million, and stock repurchases, net of the proceeds received from stock issuances under our employee share plans, totaled just over $200 million, and again reflect the suspension of our share repurchase program in mid-March. As a result of our heightened efforts to prudently manage the use of our cash, we were able to generate $143 million in free cash flow during the first 6 months of 2020.

Turning to our capital structure as of June 30. Our total debt was $5.72 billion, up $187 million since this time last year and reflecting the debt restructuring activities we've completed over the past year. Over the past year, we retired $1.5 billion of dollar-denominated senior notes. Replacing those borrowings was $1.2 billion of 10-year senior notes due in 2030 and EUR 1 billion of euro-denominated notes due in 2027 and 2031.

Additionally, as you may remember, the Q2 2019 debt balance included EUR 520 million of short-term noninterest-bearing senior notes from a private placement to an investor outside the U.S. We repaid those notes in the third quarter last year.

First, at December 31, 2019, gross debt at the end of the quarter was up $576 million primarily due to the issuance of the $600 million in senior notes in April of this year. Our net debt position at the end of the quarter was $2.44 billion, up about $1.6 billion compared to year-end December

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31, 2019. The increase in net debt was a result of the use of working capital of about $1.6 billion, which is typical of our working capital requirements during the first half of the year, plus the negative impact of exchange rates on our cash and debt balances of $130 million. Partially offsetting those increases was the free cash flow we generated in the first half of the year of $143 million.

Over the past 12 months, our net debt is down $190 million primarily driven by our excess free cash flow of approximately $500 million. Offsetting this was the reduction in operating capital during the past 12 months of approximately $150 million and the negative impact of FX on our cash balances, which totaled around $90 million. As for our debt ratios our total debt-to-EBITDA ratio was 3.1x, and our net debt-to-EBITDA ratio was 1.3x.

As you will recall, this past February, we amended and extended our 5-year credit facility. In line with market standards, the credit facility was modified to increase the leverage ratio to 3.5x and provide for add backs for noncash charges. For covenant purposes at the end of Q2, our leverage ratio was approximately 2.9x.

As a reminder, our leverage calculation also reflects the incremental $600 million of senior notes we issued in early April this year for the purpose of providing additional standby liquidity during the pandemic.

And finally, moving to our historical returns. For the last 12 months, our return on invested capital ratio was 17.8% while our return on equity was 38.9%, both reflecting the decline in operating results driven by the economic effects of the pandemic as well as the repositioning charges we took this quarter.

And that concludes our prepared remarks. Please note that we have included several other supplemental slides in the presentation materials for your review.

But at this point, we are going to ask the operator to open the call for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Michael Nathanson from MoffettNathanson.

Michael Brian Nathanson - *MoffettNathanson LLC - Founding Partner & Senior Research Analyst*

I appreciate your disclosure on the added third-party service costs. And I guess I have a couple of questions for you there. One is are those essentially just pass-through costs where there's no profits generated by it? And why wouldn't you show that as a revenue item that netted against the gross to get to a net revenue?

And then can you help me -- I understand the third-party service cost and CRM experience, if that makes sense, but what type of third-party service costs would there be in the advertising line?

Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

Sure. So in the context of COVID, given the size of our overall cost decline in the P&L, we thought it was meaningful to provide some additional details of the components of that cost decline. So we added a third-party service cost line because they're directly linked to reductions in our revenue and for changes in client spend, so that drove the additional information.

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But from our perspective, we don't pick and choose what cost to include or exclude from a hybrid or net revenue number or an EBIT number for that matter. So while some of those costs might be directly pass-through without any potential margin on them, there are components of those costs that ultimately are part of our overall business.

So in the events business, as an example, if we negotiate a bundled deal or a bundled package for delivering an event and we act as a principle on that event, all those costs go in our P&L. And by definition, there's some margin on the overall project, so it's built into the estimates of what those costs are going to be when we negotiate what the fee is going to be. We also think -- it's important that our managers are accountable for managing a full P&L and the cost base rather than only the net numbers. And if you manage to a net number, ultimately, it can lead to some bad habits or bad decisions.

For example, if certain costs are going to be excluded or netted out and the managers of the business aren't accountable for them, yes, there's a risk that those costs ultimately aren't managed, and what you get over the long-term is more of those costs because they're netted away and people aren't accountable for them.

So we don't believe that the right approach is to kind of net those numbers, take a portion of the P&L, set it aside and say, "You can ignore these costs." So that's why we've approached it that way. And we've laid out the fact that it's impacted three of our disciplines: CRM Execution & Support, CRM Consumer Experience, and some of the media business and the Advertising discipline also has some of those proprietary third-party service costs on them.

Alexia Skouras Quadrani - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Okay. And then, Phil, just in media, would that be more on the trading line in media where basically you're taking a position in principal media and -- because I'm trying to figure out -- I understand the events side of it, but I'm trying to figure out on the media side. What's third party? Is there anything you can help us with there?

Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

Yes. So if you take, which we've talked about a number of times, the programmatic business, there's two alternatives in terms of how we approach the programmatic business: There's programmatic in the traditional sense, handled as a traditional agency for the bulk of our media business; and then there's a bundled solution if a client is focused on achieving a particular ROI or particular metric.

And this is true with a lot of performance marketers. They know what they're comfortable paying per -- whatever that metric might be. And they want to fix that cost. So if they fix that cost, they choose the bundled product. They opt into our bundled approach. We deliver that bundled media for fixed price, and the risk of delivering at that price, better or worse, we bear. So those costs end up in our P&L on a gross basis as opposed to a net basis when we act as an agent.

Operator

Your next question comes from the line of Alexia Quadrani from JPMorgan.

Alexia Skouras Quadrani - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

I have a couple of questions. The first is, can you isolate roughly what percentage of your business is events and field marketing, business segments that were essentially 0 in the quarter or really hit very hard, I should say? I just want to get a rough idea of more comparable performances to your peers. And do you think they can return those businesses at least in some part or in some regions by the end of the year?

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Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

Could you say that last part again, Alexia?

Alexia Skouras Quadrani - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Just curious if you're anticipating any of the events business or field marketing businesses coming back at least in parts or in some regions in the -- by the end of the year?

Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

I think when it comes to events, I don't think we anticipate any meaningful turnaround in the second half with that business, in particular. I think there's still an awful lot of uncertainty even with respect to live sports as to what's going to come back and how long it's going to stay back and what it's going to look like. So events is tied into live sports a lot of times. How the pandemic is going to play down or play out and when government is going to open up to the point that large gatherings will be back again, we just don't know. And we're not anticipating in the second half that there's going to be a meaningful rebound. I guess I'd describe it that way.

And with respect to the field marketing business and the events business, field marketing and merchandising is probably half or a little more -- probably more than half of the CRM Execution & Support discipline. In the events business, it really depends on which year in particular you're looking at. And the current environment events is probably in the neighborhood of, I'd say, broadly 20% to 30% of the CRM Consumer Experience discipline.

John D. Wren - *Omnicom Group Inc. - Chairman & CEO*

The only caveat I'd put that, Alexia, is in the case of the Olympics, which is postponed, clients who are major sponsors stopped work when the Olympics got moved. We'll start commencing, planning and doing some other work at the end of the third quarter or the beginning of the fourth quarter. And in very -- only a couple of instances, we have clients that have people who have been trained on those clients or on extensive period of time. And the talent is very hard to find and the clients continue to pay us to make sure that those people stay at home employed and working on projects for them. But to Phil's point, that's most negatively affected. Other examples are we have people that are dedicated, not that it's a big number, to the theater business. And that's not coming back this year.

Alexia Skouras Quadrani - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

And then thank you, guys, also for your color on revenues in your opening comments, but I was hoping you could give us a little bit more information in terms of how much organic revenue growth improved, if at all, in June in the quarter? I know you don't necessarily like to dissect it month-to-month, but just here, just give a sense if there's a little bit of the trend that's seeing some better performance as the quarter progress, that would be helpful. And when you mentioned hopefully getting flattish margins in the back half of the year, I guess, what sort of organic growth assumptions are you sort of looking to, to achieve that?

John D. Wren - *Omnicom Group Inc. - Chairman & CEO*

The most drastic change we saw actually occurred in the first -- in March. January and February were fine. March is where we saw the first real decline. There hasn't been a discernible marked difference in what happened in April, May and June. There was some differences, but not enough for me to declare a trend at the moment.

What we've been doing, and probably greater accuracy than when people were working in the office, is working with our folks who've been really doing an excellent job in terms of forecasting, in terms of month by month, what they see based upon what we know. I'm not prepared to say

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much more than what I said in my prepared remarks because, you tell me, is America going to stay open? Is it going to open further? Is it going to close further?

It's -- we're working. We're working pretty hard. We're doing whatever we can from wherever we can, but a lot is going to have to do with our clients. So I can't -- we'll give you more color as the year goes on as we know it, but I'm not going to sit and try to be more specific than it was.

Phil, you can add with...

Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

Yes. Just in terms of the second half and our outlook in terms of margins. I mean, we're going to continue to focus on operating profit dollars, not necessarily margins. But we've done an awful lot of work, and our agencies have done a lot of work trying to get the cost base in line with current revenue, not based on a bunch of assumptions around when the -- when certain markets are going to open up.

And assuming that they're going to get back to a revenue growth mode, we've tried to be very realistic and somewhat conservative in the forecast for the second half of the year. But to the extent we had to take cost actions, we took them now. That doesn't mean that there's certainty that we're not going to have to take more actions in the second half because we'll continue to aggressively monitor that. But we certainly want and expect our people to be realistic about their forecasts. And I think we have some confidence, although there's quite a bit of this that's out of our hands in terms of what's going to happen with client spend and the overall economic environment. But we are confident that our people have done a good job managing the cost base.

Alexia Skouras Quadrani - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Okay. I just -- I totally understand the inability to forecast given how much is changing daily. But maybe put a different way in the markets where you have seen reopening maybe outside of the United States, have you seen a pickup in business there?

John D. Wren - *Omnicom Group Inc. - Chairman & CEO*

Yes. Yes, is the answer. But China, which opened first, we've seen it open and close partially and open and close partially.

Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

Same for Australia.

John D. Wren - *Omnicom Group Inc. - Chairman & CEO*

Same for Australia. So -- and not to the point that on this call I can predict with any confidence what's going to happen. If you told me what was going to happen, I'd have more confidence.

Operator

That question comes from the line of Ben Swinburne from Morgan Stanley.

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Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Just on the cost action, which is obviously substantial and taken quickly. Yes. I think back in April, John, you were talking about trying to balance, reducing costs, reducing heads and also keeping the right people and resources in place for the business to recover.

So can you help us think about maybe both the 6,000 heads and also the real estate savings that you guys outlined today or at least real estate charges you took and how we should think about those as the business comes back whenever it comes back? Because obviously, you took those actions in reaction to the COVID crisis, but maybe some of those are permanent or structural reductions. So if we think '21 is a rebound year of some magnitude, how should we think about expenses coming back in the business as you rebound off of 2020?

John D. Wren - *Omnicom Group Inc. - Chairman & CEO*

Well, just -- the quick answer is I think we said the annualized impact of the actions that we took is about $500 million. That $500 million won't come back into our system unless the revenue is coming back. So we feel pretty deliberate about that. And the only thing that altered the way we took actions around the world, one of the government programs that were in place. Europe had more furlough possibilities where we kept employees [tethered] to the company.

And in the U.S. simply because the only way people could get the benefits the government was offering was to actually make them redundant. That's what we did. So that's what motivated a lot of the actions.

In many instances, across almost all of our companies, people took voluntary take-offs in order to preserve jobs. So there's a lot of moving parts. And our -- as Phil mentioned, and I think I might have, for the second half, our -- each one of our individual offices has created contingency plans that flex up and flex down depending upon what they see with their clients.

Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

But there will be some -- as the revenue grows, some of the costs that are indirect or -- sorry, some of the costs that are direct, they're going to come back, and we'll be happy to have them back.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Right. And then just a -- quickly follow-up on your point. I think, John, you said that the organic declines you think has peaked or -- the organic pressures. You see the second half top line improving from Q2. I just want to make sure that's accurate. And I think you said there was no real discernible trend for the months of the second quarter. So is the improvement based on sort of what your agency CEOs are telling you to your point about forecasting? Is that sort of how we should interpret those comments?

John D. Wren - *Omnicom Group Inc. - Chairman & CEO*

Yes. So based on the most recent forecast that our individual companies have done.

Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

Bottoms up.

John D. Wren - *Omnicom Group Inc. - Chairman & CEO*

Bottoms up. So it's all bottoms up.

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Operator

(Operator Instructions) Your next question comes from the line of Julien Roche from Barclays.

Julien Roch - *Barclays Bank PLC, Research Division - MD & European Media Analyst*

The first one is just a follow-up on the EUR 500 million of cost saving. If in, say, 2022, revenue is back to 2019 level, how much of the EUR 500 million will go back in? That's my first question.

And then the second question is -- the third-party service cost as a guide was very helpful. And if you use that, I kind of calculate that net sales were down 17% in Q2. But some colors on net sales in Q2 because we live in external times and there's usually not that much different between revenue and net sales.

And then lastly, working capital was by EUR 280 million in the first half. Any color on the full year?

John D. Wren - *Omnicom Group Inc. - Chairman & CEO*

Well, Phil will covered some of these. We don't believe in net sales so -- as a concept, so we're not going to comment on that. Not being difficult, that's just true.

Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

Yes. So on the working capital front, Julien, I think the expectation is that our performance from the second quarter will continue. And it's a day-to-day grind, three yards and a cloud of dust. We're happy with the performance in the second quarter for sure. It's been a challenge in this environment, but we're going to do our best to continue those trends.

As far as the first part of your question, with respect to -- if revenue got back to a normalized situation in, say, in the future, 2022 or whatever period in the future, I think the -- probably the majority of those cost savings are salary-related-driven and the majority of those costs are going to come back, no question. The real estate piece, we expect to sustain -- what the real estate piece of the annualized savings is a much more smaller portion of that hole.

Julien Roch - *Barclays Bank PLC, Research Division - MD & European Media Analyst*

Okay. Very clear. Maybe just the real estate, is it, what, $50 million savings, $100 million savings?

Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

On the real estate front?

John D. Wren - *Omnicom Group Inc. - Chairman & CEO*

A little less than that.

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Philip J. Angelastro - *Omnicom Group Inc. - Executive VP & CFO*

Yes. It's probably less than $50 million on an annualized.

Thank you all for taking your time to join us.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T TeleConference. You may now disconnect.

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