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OMC.N - Q4 2020 Omnicom Group Inc Earnings Call

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OVERVIEW:

Co. reported 4Q20 reported revenue of $3.76b, reported net income of $398.1m and diluted EPS of $1.84.

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PRESENTATION

Operator

(technical difficulty)

to the Omnicom Fourth Quarter 2020 Earnings Release Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. At this time, I'd like to introduce your host for today's conference call, 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 fourth quarter and full year 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'm pleased to speak to you this morning about our fourth quarter results. I'll first discuss our financial results, then I'll cover our performance with respect to our strategic priorities and operations and will end with our expectations for 2021.

We finished 2020 with organic growth continuing to improve sequentially. For the fourth quarter, organic growth was a negative 9.6% as compared to a negative 11.7% in the third quarter. The fourth quarter organic growth decline of $398 million included a decrease in third-party service costs of approximately $150 million. The U.S. decline was 9.4%, an improvement of about 200 basis points from the third quarter. In the U.S., PR, helped

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by election year spend, and Healthcare performed better than average, while CRM Consumer Experience underperformed as continuing headwinds in events and shopper marketing offset relatively better performance in precision marketing.

Third-party service costs represented more than half of the total decline in organic growth in the United States. Europe continued to face significant challenges due to COVID in the fourth quarter. The U.K. was down 12.4%, and the euro and non-euro markets were down 9.2%, similar to the level of performance that we experienced in the third quarter. Asia had organic growth of negative 3.9%, down from negative 12.8% in Q3. Australia and New Zealand saw mid-single-digit growth in the quarter as those countries have managed the pandemic relatively well.

Japan also saw a strong improvement sequentially, although it was negative overall. We're also pleased to see positive growth in our events operations in China during the quarter. Latin America experienced negative 9.2% growth in Q4, a significant improvement due primarily to better performance in Brazil, our largest market in the region. As we have experienced since early in the year, the hardest-hit client sectors in the quarter were travel and entertainment and oil and gas, while food and beverage, pharma and health care and technology performed relatively better.

On a positive note, EBIT margin in the fourth quarter was 16.4% as compared to 15.6% in the fourth quarter of 2019. The performance can be attributed to a number of factors, including savings resulting from our repositioning actions taken in the second quarter and our agency's ongoing management of costs in line with revenue, significant reductions in addressable spend and reimbursements and tax credits under government programs in several countries. These improvements were offset by asset impairment charges for certain underperforming businesses, which we plan to dispose of in 2021. Phil will cover this in more detail during his remarks.

Net income for the quarter was approximately $398 million, a decline of 4.1% from 2019, and EPS for the quarter was $1.84 per share, a year-over-year decline of 2.6%. Finally, for the full year, organic growth was negative 11.1% or $1.7 billion. Included in this is a decline of approximately $750 million in third-party service costs.

Turning to our liquidity. The refinancing steps we took early in 2020, combined with our enhanced working capital processes and the curtailment of our share repurchase program, have positioned us extremely well. For the year, we generated $1.7 billion in free cash flow and ended the year with $5.6 billion in cash.

Our primary use of cash in 2020 was the payment of dividends of $563 million. Given the continuing improvements in our operations, strong liquidity position and credit profile, yesterday, our Board of Directors approved an increase in our quarterly dividend of $0.05 per share or 7.7%. At this point, I'm optimistic about the company's return to growth and, as our performance improved during the course of 2021, we expect to resume our traditional uses of cash: paying dividends, pursuing accretive acquisitions and resuming share repurchases.

Turning now to our strategy and operations. In the midst of the pandemic, our key strategic objectives served us well. These strategies are centered around hiring and retaining the best talent; driving organic growth by evolving and expanding our service offerings; investing in areas of growth with a particular focus on CRM and precision marketing, performance media, commerce, data and analytics, digital transformation consulting and health; and remaining vigilant on managing our costs and improving operational efficiencies in areas such as real estate, back-office accounting, purchasing and IT.

While remaining very disciplined with respect to our cost structure, it's important to emphasize that we continue to invest in our businesses during a very difficult year in order to service our clients' needs. We are all aware that as a result of the pandemic, the velocity of digital transformation picked up this year. When the world went into lockdowns, consumers increasingly took to online services to interact with brands and businesses. As we emerge on the other side of this pandemic, it's clear this trend is here to stay. As a result, we now have a greater opportunity to help our clients accelerate their digital transformation initiatives and connect them more directly with their customers.

As an example, we are seeing significant growth in our mar-tech and IT consulting business. Credera, a firm we acquired in 2018, since joining Omnicom, they've expanded beyond their Dallas roots to the U.K., Chicago, New York and more recently to Los Angeles. This is just one highlight of many of the investments we've made to support our clients' needs as they look to accelerate growth by adopting new tools and capabilities that get them closer to their consumers.

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Omnicom's long-term strategy has always been to develop our people and embed digital and new skill sets across our portfolio, whether it's PR, creative, shopper marketing, media, events or any of our disciplines so that we can quickly and continually adapt to changing technologies and media. The pandemic has compressed years of digital adoption into a few months, and people are racing to keep up. So it is important to continue to train our people in a remote working environment.

For this reason, all of our agencies expanded their training programs as a priority in 2020. For example, during the year, BBDO became the first global network to achieve Blueprint Certification from Facebook and partnered with Google to develop virtual training sessions on using insights and analytics throughout the creative planning process. So far, over 3,000 people across 80 offices have completed this training.

In a similar effort, Omnicom Health Group provided over 300 all-virtual offerings. 96% of Omnicom Healthcare's employees engaged in these training programs, as did many of our clients, resulting in 11,000 combined hours of courses taken in 2020. The increase in virtual training sessions and employee participation reinforces our view that remote learning will have a permanent place in our future learning and development efforts. By evolving our challenge strategy and developing the digital offerings needed right now, we secured a number of recent new business wins, including OMD's win of Home Depot's media business, The Marketing Arm won all brand and product advertising for State Farm as well as for (inaudible) cards U.S. brand promotion and shopper advertising.

Sanofi awarded its global media count to Omnicom Media Group. TBWA\WorldHealth won one of the largest vaccine brands, Prevnar from Pfizer, and our agency won mandates on several COVID-19 campaigns, including TBWA\Chiat\Day's win of Moderna's first-ever consumer ad campaign. Gilead assigned the launch of Remdesivir to Harrison & Star. And Marina Maher continued its work with J&J's Road to a Vaccine project.

This year, our practice areas and GCLs have increasingly utilized Omni's flexible and open architecture to develop more relevant insights for their specific disciplines and clients. Omni integrates clients' first-party data with privacy-compliant data sets to map consumer journeys. It allows our agencies to optimize audiences, guide creative content development, target messages and plan media without compromising safety and data privacy.

A recent example of this was the launch of omniearnedID by Omnicom's Public Relations Group. omniearnedID allows our clients to evaluate the outcomes of earned media with the same precision as paid media. The first of its kind patent-pending solution was built on the power of the Omni platform. It connects Omni to the PR discipline through earned media lenses and a curated list of privacy-compliant data partners. These solutions are a result of the investments we've made in Omni for more than a decade. I'm very pleased that the platform is now deployed across most of our top clients and is used in more than 60 markets around the world to serve local, regional and global accounts.

Our focus on innovation and development of Omni also provides us a clear path to operate in an environment where digital media now dominates and where more stringent consumer-privacy requirements such as the phasing out of third-party cookies will take effect. It's worth noting that we've been anticipating privacy developments from the start. That's why Omni is an open-source platform created on the basis of data neutrality using an unbiased and ethically focused procurement process to create the most diverse compilation of data sets. It is also why we have a comprehensive privacy compliance and data risk management process for regulatory compliance and to anticipate data set suitability for our evolving technical standards.

While data and analytics remain a top investment and priority for us, we understand that data can only take us so far. It is the creativity and innovation skills of our people, supported by data and analytics, that truly set us apart and drive the best results for our clients. It's for this reason that we remain steadfast in investing in our leading brands and businesses and have strategically organized ourselves across practice areas and clients to maximize collaboration and expertise. In doing so, we can align our talent and tools in an optimal manner to deliver comprehensive solutions addressing the marketing and business needs of our clients.

While our organization allows our companies and their clients to easily connect and access deep specialist expertise from across the group, our success also requires that people have diverse backgrounds and experiences. With the recent social justice issues and the disproportionate impact of the pandemic on diverse populations, this has become even more of a priority for us. We took the time to evaluate our efforts thus far, recognizing our shortcomings and commit to progress ahead.

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OPEN 2.0, our strategy for achieving systemic equity across Omnicom, put us on a clear path forward, one that is defined not just by goals but by actions. One of the first actions within OPEN 2.0 calls for us to expand and empower those who are responsible for leading the plan's implementation. This is an important step because we recognize that our plan will only be successful if we have a strong base of DE&I specialists executing it throughout our agencies. Since last summer, we more than doubled the number of DE&I leaders throughout Omnicom. In fact, all of our networks and practice areas now have a dedicated DE&I leader reporting to their CEO.

At Omnicom Corporate, we hired Chief Equity and Impact Officer, Emily Graham, to lead and guide our group of dedicated leaders. This new team is an important first step. Additional progress will be made in 2021 and more action items will be executed, measured and considered in our compensation decisions. In the year ahead, our focus remains the same: protecting the safety and well-being of our people, continuing to effectively serve the business needs of our clients, and preserving the strength of our businesses.

Although we see hope as the vaccine rolls out, we know there are still significant challenges that will impact 2021. In evaluating 2021, the first quarter has difficult comps. COVID lockdowns did not meaningfully impact our operations until mid-March 2020. Looking beyond the first quarter, our current expectations for the balance of the year is that we will achieve positive organic growth.

While we hope the end is in sight, the virus has surprised us, so we must remain vigilant and adaptable in planning and managing our operations. And that is exactly what we're doing. Our agency leaders have done an excellent job of managing our cost base to be aligned with revenues and that the work continues into 2021. At the same time, we remain laser-focused on driving our strategic priorities to expand our client services and win new business.

Before I turn it over to Phil for a deeper dive into our results, I want to take a moment to thank all of our people. 2020 challenged everybody, both personally and professionally, and our performance in 2020 is directly tied to our perseverance. Everyone in our company can relate when I say the pandemic was and is all-consuming. We dealt with the effects at home, with our families and friends, and then at work, we yet again had to deal with its effects on our businesses and our clients. So I want to sincerely thank everybody for their hard work because I know it was more than difficult. I, and all the leaders across the group, appreciate what you did and are continuing to do to help us get through this.

I'll now turn the call over to Phil for a closer look at the results. Phil?

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

Thanks, John, and good morning. As John said, during the fourth quarter, we continued to see a moderation in the decline in business conditions when compared to the peak of the pandemic in Q2 of 2020. As a result, we saw less of a decline in our organic revenue performance when compared to the previous 2 quarters. Our operating margin improved compared to Q4 of 2019, benefiting primarily from the active management of our discretionary addressable spend costs, the repositioning actions taken in Q2 of this year and the alignment of our cost structure with the current realities of the economic environment.

Turning to Slide 4 for a summary of our revenue performance for the quarter. Our organic revenue performance was negative $398 million or 9.6% for the quarter. The decrease again represented a sequential improvement from the unprecedented decrease in organic revenue of 23% in the second quarter and 11.7% in the third quarter. And while we continue to experience declines across all regions and disciplines, most showed sequential improvement when compared to what we experienced over the previous 2 quarters.

The impact of foreign exchange rates increased our revenue by 8/10 of 1% in the quarter, slightly above the 50 basis point increase we anticipated entering the quarter as the dollar weakened against some of our larger currencies compared to the prior year. The impact on revenue from acquisitions, net of dispositions, decreased revenue by 5/10 of 1%, in line with our previous projection. As a result, our reported revenue in the fourth quarter decreased 9.3% to $3.76 billion when compared to Q4 of 2019. I'll return to discuss the details of the changes in revenue in a few minutes.

Turning back to Slide 1. Our reported operating profit for the quarter was $615 million, down approximately 5% when compared to Q4 of last year. Operating margin for the quarter increased 80 basis points to 16.4% compared to 15.6% in Q4 of last year. Our operating profit and the 80 basis

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point improvement in our margins this quarter was again positively impacted from our actions to reduce payroll and real estate costs in the second quarter as well as the larger-than-expected cost savings from our discretionary addressable spend costs, including T&E, general office expenses, professional fees, personnel fees and other items, including cost savings resulting from the remote working environment.

Operating profit for the quarter also included a $44.7 million reduction in salary and related costs, resulting from reimbursements and tax credits under government programs in several countries, including the U.S., Canada, the U.K., Germany and France as well as other markets. These benefits were offset by an asset impairment charge of $55.8 million related to certain underperforming assets. Our reported EBITDA for the quarter was $635 million, and EBITDA margin was 16.9%, also up 80 basis points when compared to Q4 of last year.

On Slide 3 of our investor presentation, we presented the details of our operating expenses. As we've discussed previously, we have and will continue to actively manage our costs to ensure they are aligned with our revenues. In addition to the overarching structural changes we made during the second quarter, we continue to evaluate ways to improve efficiency throughout the organization, focusing on our real estate portfolio management, back-office services, procurement and IT services.

And as for the details, our salary and service costs are variable and fluctuate with revenue. Salary and related costs declined by $162 million in the quarter, reflecting the net impact of staffing actions we undertook in the second quarter as well as the impact of benefits from government reimbursements and tax credit programs, which were offset by the impairment charge.

Third-party service costs, which are directly linked to changes in our revenue, include expenses incurred with third-party vendors when we act as a principal when performing our services for our clients. These costs decreased by $152 million in the quarter or 12.7%. In comparison, the year-over-year decrease in third-party service costs was nearly 40% and 20% in the second quarter and third quarter, respectively. Occupancy and other costs, which are less linked to changes in revenue, declined by approximately $41 million, again, reflecting the ongoing efforts to reduce our infrastructure costs as well as reductions in general office expenses related to the majority of our staff continuing to work remotely during the pandemic.

Net interest expense for the quarter was $48 million, up $9.4 million compared to Q4 of last year and down $500,000 versus Q3 of 2020. When compared to the fourth quarter of 2019, our gross interest expense was up $3.3 million primarily resulting from additional interest on the incremental $600 million of debt we issued in early April at the onset of the pandemic, partially offset by the reduction in interest expense from having no commercial paper borrowings in Q4 when compared to 2019.

Net interest expense was also negatively impacted by a decrease in interest income of $6.1 million versus Q4 of 2019 due to lower interest rates on our cash balances. When compared to the third quarter of 2020, interest expense increased by $900,000, while interest income increased by $1.4 million on higher cash on hand when compared to the previous quarter.

Our effective tax rate for the quarter was 25.1%, which was slightly lower than Q4 of 2019, primarily due to the lower effective tax rate on our foreign earnings resulting from a change in legislation. For the full year, our effective tax rate was 27.1%, an increase from 26% for the 2019 full year rate. The effective rate for 2020 reflects an increase from the nondeductibility in certain jurisdictions of a portion of the repositioning costs reported in Q2, which was offset by the lower effective rate on our foreign earnings, as described previously.

In addition, our effective tax rate in 2019 reflected a benefit of $10.8 million primarily related to the net favorable settlement of uncertain tax positions in certain jurisdictions. Excluding the impact of these items from each period, the effective rate for 2020 would approximate the 2019 rate. We anticipate that our effective tax rate for 2021 will remain between approximately 26.5% to 27%, excluding the impact of share-based compensation items, which we cannot predict because they are subject to changes in our share price.

Earnings from our affiliates totaled $3.3 million for the quarter, up versus Q4 of last year. And the allocation of earnings to the minority shareholders in certain of our agencies was $30.4 million during the quarter, down when compared to last year. As a result, our reported net income for the fourth quarter was $398.1 million, down 4.1% or $16.9 million when compared to Q4 of 2019. Our diluted share count for the quarter decreased 1.5% versus Q4 of last year to 216.1 million shares, resulting from share repurchases prior to the suspension of our program in mid-March. As a result, our diluted EPS for the fourth quarter was $1.84 versus $1.89 per share when compared to our Q4 EPS for last year.

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On Slide 2, we provide the summary P&L, EPS and other information for the year-to-date period. Primarily due to the negative effects on our revenue arising from the pandemic, worldwide revenue for the 12 months ended December 31, 2020 decreased 11.9% to $13.2 billion. Negative organic growth decreased revenue 11.1% for the year, while FX reduced revenue 0.4%, and acquisitions net of dispositions decreased revenue by 0.4% as well.

As a reminder, in response to the pandemic, during the second quarter, we took repositioning actions, including severance actions to reduce employee headcount, real estate lease impairments, terminations and related fixed asset charges that will allow us additional flexibility to match our anticipated changes in the need for space based on our headcount as well as the disposition of several small agencies. These repositioning charges totaled $278 million, which reduced our year-to-date net income by $223 million.

The full year results also include the impact of an asset impairment charge of $56 million we recorded in the fourth quarter. Lastly, our full year results include the benefit of reductions in salary-related costs of $163 million related to reimbursements and tax credits under various government programs. Additional details regarding the impact of these items on our operating expenses are presented in the supplemental slides that accompany the presentation. And our full year reported diluted EPS for 2020 was $4.37 per share.

Returning to the details of our revenue performance on Slide 4. While the decrease this quarter was an improvement from the reductions in client spending we experienced during the last 2 quarters, we continue to see marketers across a wide spectrum of geographies and industries adjust spending levels versus prior years as they continue to assess the continuing impact of the pandemic on their businesses. Our reported revenue for the fourth quarter was $3.76 billion, down $384 million or 9.3% from Q4 2019.

In summary, as we've discussed in our last 2 calls, regarding our performance by client sector, we see certain industries, particularly T&E, continue to be more negatively affected than others. Regarding our performance by discipline, CRM Execution & Support continues to be negatively impacted from reductions in client activity in certain areas, including field marketing and research. And CRM Consumer Experience was also negative, but performance within this discipline was more mixed. The events businesses continue to face significant declines, while our commerce and branding disciplines continue to lag.

These declines were somewhat offset by relatively strong performance in our precision marketing businesses. Our Healthcare discipline also performed well. However, it faced a difficult comparison back to Q4 of last year, when it delivered organic growth of 12.9%. It was down slightly for the quarter. And PR had marginally positive organic growth due in part to election-year spending in the U.S.

Turning to the FX impact. On a year-over-year basis, the impact of foreign exchange rates was mixed when translating our foreign revenue to U.S. dollars. The net impact of changes in exchange rates increased reported revenue by 8/10 of 1% or $32 million in revenue for the quarter. While the dollar weakened against some of our largest major foreign currencies, we also saw some strengthening against others.

In the quarter, the dollar weakened against the euro, the British pound, the Chinese won and the Australian dollar. And the dollar strengthened against the Brazilian real, the Russian ruble and the Turkish lira. Projecting the FX impact for the upcoming year is challenging. But in light of the recent strengthening of our basket of foreign currencies against the U.S. dollar and where rates currently are, our current estimate is that FX could increase our reported revenues by over 2.5% in the first quarter, by over 4% in the second quarter and then moderate in the second half of 2021, resulting in a full year projection of approximately 2.5% positive. These estimates are subject to significant adjustment as we move forward in 2021.

The impact of our disposition activities over the past 12 months, reduced somewhat by our relatively recent acquisition in the U.K., decreased revenue by just over $19 million in the quarter or 5/10 of 1%, which is consistent with our estimates. Inclusive of the disposition activity through the end of 2020, we estimate the projected net impact of our acquisition and disposition activity will reduce reported revenue by approximately 40 basis points in the first quarter of 2021, 25 basis points in Q2, with marginal reductions in the second half of 2021. However, we continue to evaluate our portfolio for both potential disposition opportunities and acquisition targets.

During Q4, we recorded asset impairment charges of approximately $56 million related to businesses that we expect to dispose of in the first half of 2021. Organic revenue increased just under $400 million or 9.6% in the third quarter when compared to the prior year. As mentioned earlier,

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our revenue once again was down across all major geographic markets. But overall, percentage decreases in organic revenue continue to improve when compared to those we experienced over the previous 2 quarters.

Turning to our mix of business by discipline on Page 5. For the second quarter, the split was 58% for advertising and 42% for marketing services. As for the organic change by discipline, advertising was down 9.7%. Within the discipline, our media businesses have continued to see sequential organic improvement over the past 2 quarters. And our global and national advertising agencies also showed improvement this quarter, although that was certainly mixed by agency.

CRM Consumer Experience was down 15.8% for the quarter. As previously discussed, this was primarily due to a large year-over-year decline at our events businesses, which continue to face significant obstacles due to many restrictions resulting from the pandemic. CRM Execution & Support was down 13.7% as our field marketing and research businesses lagged for the quarter. PR, buoyed by increased activity in the quarter related to the U.S. elections, was marginally positive in Q4. And our Healthcare agencies, facing a very difficult comparison back to Q4 2019 when they generated double-digit organic growth, were down 2%. But the performance of the underlying businesses remained solid across all geographies.

Now turning to the details of our regional mix by business on Page 6. You can see the quarterly split was 52% in the U.S., 3% for the rest of North America and 9% in the U.K., 20% for the rest of Europe, 12% for Asia Pacific, and 2% each for Latin America and Middle East and Africa. In reviewing the details of our performance by region on Slide 7, organic revenue in the fourth quarter in the U.S. was down $202 million or 9.4%. For the quarter, our domestic events business has once again experienced our largest organic decline. And while we again saw year-over-year decreases in our advertising and media activity, they continued to have sequential improvement when compared to the previous 2 quarters.

Our precision marketing businesses continued to perform well, and our domestic PR businesses were positive in the quarter, again, resulting primarily from election-related activities in the U.S. Outside the U.S., our other North American agencies were down 3.2%. Our U.K. agencies were down 12.4%, continuing solid performance from our precision marketing and Healthcare agencies was offset by reductions from our Advertising and field marketing businesses. The rest of Europe was down 9.2% organically.

In the Eurozone, among our major markets, Germany, Belgium, Ireland and Italy were down single digits, while Spain and France experienced double-digit reductions. Outside the Eurozone, organic growth was down around 3% during the quarter, with decreased activity in Russia and Sweden offsetting improved performance elsewhere in Continental Europe.

Organic revenue performance in Asia Pacific for the quarter was negative 3.9%. Positive performance from our agencies in Australia and New Zealand were more than offset by decreases in Greater China and Singapore, while our Indian agencies were effectively flat. Latin America was down 9.2% organically in the quarter. Although our agencies in Brazil continue to feel the effects of reduced activity, the single-digit reduction in organic growth was an improvement. And lastly, the Middle East and Africa was negative for the quarter due to a significant reduction in project revenue.

As you can see on the revenue by industry information that will be presented on Slides 8 to 10, certain client sectors continue to be more negatively affected than others. In particular, our travel and entertainment and energy clients are continuing to curtail their marketing expenditures to match the significant decline in business activity in those sectors, while spending by clients in the technology industry was up versus Q4 of 2019. Client spend in other industries such as autos, food and beverage and consumer products continue to be lower when compared to the prior year but improved from the lowest levels we saw back in the second quarter.

Turning to our cash flow performance on Slide 11. You can see that in 2020, we generated nearly $1.7 billion of free cash flow, excluding changes in working capital, down when compared to 2019 but less than the year-over-year decrease in our net income. The $558 million generated in the fourth quarter was up $35 million versus the $523 million generated during the fourth quarter of 2019.

And as for our primary uses of cash on Slide 12, dividends paid to our common shareholders were $563 million, effectively unchanged when compared to last year. Dividends paid to our noncontrolling interest shareholders was down slightly year-over-year to $96 million. Capital expenditures for the year were $75 million, down when compared to last year. As we previously discussed, we've reduced our capital spending in the near term to only those projects that are essential or were previously committed.

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Acquisitions, including earnout payments, totaled $117 million and stock repurchases, net of the proceeds received from stock issuances under our employee share plans, totaled $218 million, down compared to last year due to the suspension of our share repurchase program in mid-March. As a result of our continuing efforts to prudently manage the use of our cash, we were able to generate $625 million of free cash flow during 2020 with approximately $340 million generated in the fourth quarter.

Turning to our capital structure as of year-end. Our total debt was just over $5.8 billion, up around $670 million since last year. The major components of the change were the issuance of $600 million of 10-year senior notes due in 2030, which were issued in early April at the outset of the pandemic, along with the increase in debt of approximately $100 million resulting from the FX impact of converting our $1 billion of euro-denominated borrowings into dollars at the balance sheet date.

Our net debt position as of December 31 was $211 million, down $624 million from last year-end. Year-on-year, the improvement in net debt is primarily due to our positive free cash flow of $625 million and positive changes in operating capital of $31 million. As for our debt ratios, our total debt-to-EBITDA ratio was 3.2x, and our net debt-to-EBITDA ratio was 0.1x.

And finally, moving to our historical returns on Page 14. For the last 12 months, our return on invested capital ratio was 23%, while our return on equity is 31.8%, both reflecting the decline in operating results driven by the economic effects of the pandemic as well as the impact of the repositioning charges we took back in the second quarter.

And that concludes our prepared remarks. Please note that we've included several of the supplemental slides in the presentation materials for your review. But at this point, we're going to ask the operator to open the call for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question. Your first question comes from the line of Alexia Quadrani from JPMorgan.

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

Thanks for your comments on the outlook, but I just wanted to clarify on a couple of points. The -- for Q1, understanding it will likely still be negative, but are you seeing ongoing improvement? I mean can the declines continue to moderate? And just to clarify, Q2 should return to positive growth? And any color, I guess, you can provide us on the full year. Are clients -- how are clients approaching spending? Are you seeing pent-up demand? If there's a range you can give us for how we should think about potential organic growth for the full year?

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

Sure. I'll take a stab at it and then Phil will add to whatever I leave out. The first quarter, we still see as challenging but sequentially, probably better than what we saw in 2020. We fully expect, based upon the plan reviews that we've done, even though they're not final with our operating companies, that we'll return to positive organic growth in the second quarter and for the balance of the year. I saw this morning that there were some -- possibly some confusion out there in some of the writings that were there. But that's what's really going to happen.

In terms of specific industries and specific responses, we see an improving positive attitude, but COVID is still here. Progress is getting made with the vaccine as it rolls out, but it's going to take a little bit of time. And I don't think anybody has baked in the stimulus payments into their spending habits. But if that occurs, I'm sure it will only be a positive -- have a positive effect on what happens as we get into the second quarter and beyond. I don't know if you want to add, Phil?

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

I don't have too much to add. I think that clarifies things. Certainly, in the first quarter, given COVID didn't really hit our business until kind of mid-March in any meaningful way, the comps in the first quarter were challenging. So while there's still some uncertainty in the first quarter regarding COVID, first quarter in particular, we do expect some improvement relative to Q4's performance in terms of organic decline.

But at some point in the second quarter, we do expect to rebound, especially given the comps in the second quarter are much easier as well as the third quarter. So I think we definitely expect to return back to growth mode in Q2 and likely for the first 6 months based on that Q2 performance. We'll be back in growth mode and more optimistic about the rest of the year. Although there are some things that are still out of our -- certainly out of our control with COVID and the vaccination take rate, et cetera.

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

I'm sorry, and I assume it's a bit too early, given all that's going on, to give us a range for the full year. And then just also following up on maybe on margins. Phil, you've done a great job in terms of cutting cost and keep surprising us on the upside on the profitability. I'm wondering if the benefits of the restructuring actions you took in 2020 are enough to kind of offset maybe more costs coming online as business picks up. Or how should we think about margins for the year?

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

I think the way we're looking at it internally is 2019's margins are the best proxy for what we expect in 2021. We continue to try and be more efficient all throughout the organization. So we're certainly striving to do better, but we think that's a good proxy in terms of the underlying operations of the business. We believe some of what we did back in Q2, especially as it related to our real estate portfolio, will be -- will generate meaningful sustainable cost savings.

But as we get back into growth mode, we're going to welcome back the variable costs that come with it because we're going to be growing. So there may be increases in people costs, there may be some travel and related costs that go up. We don't think we're going to be back to traveling like we did in '19 as a proxy. But some costs are going to come back because we're growing, and that will be fine.

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

I'm just crossing the line into Phil's area here a little bit. And if you look a little longer term, we're in the process of planning and looking at our staff, how we house our staff and support our staff. It's not going to be earth-changing, but some of the experiences that have occurred during the last 11 months will continue well into the future and should provide some benefit on the cost side.

Operator

Your next question comes from the line of Craig Huber from Huber Research.

Craig Anthony Huber - *Huber Research Partners, LLC - CEO, MD and Research Analyst*

Great. John, I guess, in your judgments, as you think out beyond COVID-19 and once we -- say, more than a year has gone by once we end this darn pandemic, in your judgment, what do you think is a reasonable expectation for your revenue growth long term? And obviously, there's a lot of debate out there. Is it positive 3%, 4%? Is it negative? I'm trying to get to, in your mind, do you think there's any permanent damage to your business going through this pandemic? Does this put you in a worse position on the back end of this or the opposite? The first question.

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

Thank you. Sure. I certainly don't see anything that's specifically going to make anything more difficult than any time in the past. I still firmly believe, Craig, that the company will return to, on an annual basis, a GDP plus 1% or whatever. That's the objective. I know that, that is not only an objective of mine but that of my entire management team in terms of the way we view our business and we review our responsibilities. So that's how I -- that's the only goal I focus on. Anything less is something that we take action against. I don't know if that is...

Craig Anthony Huber - *Huber Research Partners, LLC - CEO, MD and Research Analyst*

John, when you say GDP, just to be clear, you talk about real GDP or nominal GDP on a global basis?

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

I think if we carve out FX, that's what we're focused on.

Craig Anthony Huber - *Huber Research Partners, LLC - CEO, MD and Research Analyst*

So nominal, excluding FX...

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

Yes.

Craig Anthony Huber - *Huber Research Partners, LLC - CEO, MD and Research Analyst*

Global basis, exceed that, okay, so sort of get back to your historical growth rates and stuff. Okay. And then the other thing I want to ask you, John, if I could please. With all the movement out there in the marketplace, the more and more e-commerce and some moving away from brick-and-mortar, of course, are you viewing that as a net positive, neutral or the opposite for your business?

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

Sure. We see it as a real positive. The executional parts of our business were getting smaller over the last several years prior to COVID. That trend certainly continues into COVID. And that will probably be the slowest part of returning. Everybody, almost every single one of our clients, sped up, invested more in their digital transformation, as did we. And in that environment, we're deploying more strategic, more talented people to resolve issues and create opportunities and insights for our clients. So this change, which I do believe is permanent, will be very positive for the organization.

Operator

Your next question comes from the line of Julien Roch from Barclays.

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

Apologies, I'm probably -- I don't know if I'm the only one who created confusion, but reading your statement, I thought when you said negative, that was versus '20, and it's clearly versus 2019. So I blame my poor mastery of the flowery English language. My first question will be, how much of your 2019 revenue needs an open economy to function? So still like field marketing, events, so any business impacted by virus from a lockdown

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and reduced mobility? So we can have an idea because I would think that your percentage is higher than other agencies. And therefore, when things recover, you should grow faster than the others. That's my first question.

The second one is you generated good cash flow in '20, but -- and you end up with not a lot of debt or net debt of $0.2 billion. But you do have $5.8 billion of debt and $5.6 billion of cash. And the debt clearly costs more than the cash yield. So anything you can do to reduce gross debt and gross cash and benefit the P&L through lower interest? That's my second question. And then the last one is anything you can tell us about media performance in 2020. I assume it's better than the average of the group, but some color would be appreciated.

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

All right. Phil, do you want to?

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

Sure. I'll start. So specifically, with respect to events and field marketing, they've certainly been challenged, and events, for certain, even more so in 2020. And I think we saw a slow pickup in China, which got hit first, which is when we saw it first in the first quarter of 2020. We saw a little bit of a pickup in the fourth quarter of 2020 as well. But our events business is somewhere around 3.5% or 4% of the business and field marketing might be 2% to 3%. So those certainly are 2 of the most affected.

I think many of our businesses, though, even the creative agencies and throughout the portfolio, branding businesses, et cetera, we rely on project work. We think that will pick up more as the economies come back. But I think the most sensitive to an open economy, no travel restrictions, those kinds of things and being able to go to live sports and things, events is going to be on the top of that list. Field marketing, because much of it happens in day-to-day life, grocery stores, et cetera, we expect that will come back sooner.

And as far as debt and cash and reducing interest, I think our performance certainly has been very good from a cash flow perspective or a cash management perspective during the pandemic. We took out the additional $600 million of debt in early April as kind of a liquidity insurance policy. We will be evaluating internally with our Board our approaches as we get past the first quarter and things stabilize more as to what alternatives we're going to pursue.

From a cash perspective, right now, we're comfortable where we are, but it is on our list to address what the alternatives might be to more efficiently and effectively use that cash. And then in terms of media, as far as 2020 goes, I think the media business certainly sequentially improved throughout the year, Q4 versus Q3 and versus Q2. We do expect improvements as we head into 2021. But I think we're optimistic about the business in 2021. And certainly, we've won more than our fair share of pitches, and we're in more as we head into the early part of the year here. So our expectations are certainly positive.

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

Yes. Just one thing I might add on the media answer is we clearly think '21 is going to be better. Some of our clients, and this is quite understandable, are committing for shorter durations because of the experiences they've had in the last 14 or 15 months. But as things improve, there is a vaccine, there are positive things occurring, some slower than not. We think that unless something drastically changes, everything will be more positive.

Operator

Your next question comes from the line of Steven Cahall from Wells Fargo.

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Steven Lee Cahall - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Maybe first, just a follow-up on margins. So if 2019 is a good proxy for 2021, I guess that assumes that margins are a little higher. So as we think forward to next year, when you have revenue that might look more like 2019, does that higher margin hold through? Or do you expect to be investing some of that savings as you roll into higher-growth mode? And then maybe just a follow-up on the cash question. You are sitting on a lot of cash. Does the Board think about something like an accelerated buyback? Your shares have underperformed some of your peers this year. I know you look at return on equity and the total share price performance. So maybe just help us think about return to share repurchases and any potential uses there.

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

Yes. Let me take the cash buyback question from you first. As you saw last evening, we -- our Board increased our dividend 7.7%. That's part of an ongoing process. Our traditional uses of cash have been to increase, protect and defend and pay our dividends. Second is using our funds for acquisitions which will add to our growth in an accretive fashion. And last but not least has been the repurchase of our shares. Those are the -- that capital structure and approach has served us very, very well over the last 30 years. So at this point, I don't see us tempted by short-term moves to accelerate or disproportionately look at buybacks in advance of looking at the other 2 priorities the company has.

And in all manners, we're always looking to protect and defend our investment-grade rating. So that's the context in which these conversations occur. So I don't see any, at this point, acceleration of what would have been a normal program. Phil?

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

And as far as your margin question, I think we will -- we expect and did, frankly, in 2020 as well to continue to invest in the business and invest in our data analytics capabilities, in particular, Omni platform and the components of that platform. So that will continue. I think to the extent that our performance exceeds 2019 from a margin perspective, hopefully, that will be the case. And if that's the case, we'll deliver more.

But at this point, we think '19 is the best proxy. As the business comes back into growth mode, we're going to continue to invest. Most of our investments have run through our P&L over the years. But I think as the performance there -- as the performance is there, we may have some opportunity for margin improvement. But certainly, right now, our goal and our targets are using '19 as a proxy.

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

Yes. And I mean just going to pile on there. It's a proxy. If we were at the beginning of '19, we'd be endeavoring to improve the prior margins we experienced. So we're just simply looking at proxies and saying when the business fully restores, that would be a good North Star to start from.

Operator

That question comes from the line of John Janedis from Wolfe Research.

John Janedis - *Wolfe Research, LLC - MD & Senior Media Analyst*

John, just maybe to wrap up. You talked about digital adoption being compressed and the mar-tech growth. As that continues or accelerates, how does it impact organic growth over the long term? And is that an area where you're seeing competition from nontraditional players?

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

That does contribute to growth over the long term because the more complex the problem, the smarter the people and solutions are that we are able to offer to our clients. And we've prepared the foundation for a tool set that we've been at for a long time. We probably talk about it on every call, but that's because it's legitimate. And for an organization this size to be functioning based on the same tool set is quite an accomplishment. And it will add to our abilities as we move forward.

Will competition come from different areas? Absolutely. I think one great differentiation we have from the normal big players who are out there is that we don't only analyze and tell you the solution you should go away and implement. We have the creative horsepower and the people that climb into the trenches with our clients along the journey, and we feel responsible for not only its design and intelligence but for its execution. So we're adapting and we adapt very, very quickly or -- and increasingly quickly because of COVID.

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

Yes. I mean our approach has always been about generating ideas, our people in our business generating ideas for our clients. And our focus has always been on insights and outcomes as it relates -- and that applies as it relates to technology and data, not data management or compilation. So I think idea generation and insights and outcomes is what adds the value. And that applies to whatever the level of complexity of the solution. So we think we're in a good place competitively as a result.

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

The market's already open so...

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

Thank you all for taking the time to join us today.

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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