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EDITED TRANSCRIPT

OMC.N - Q1 2021 Omnicom Group Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Omnicom First Quarter 2021 Earnings Release Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

At this time, I'd like to introduce you to your host for today's conference, Chief Communications Officer, Joanne Trout. Please go ahead.

Joanne Trout - *Omnicom Group Inc. - Chief Communication Officer*

Good morning. Thank you for taking the time to listen to our first quarter 2021 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 that we will review this morning. This call is also being simulcast and will be archived on our website.

Before we 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 materials.

We are 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, Joanne. Good morning. I hope everyone on the call is staying safe and healthy. I'm pleased to update you on how we continue to respond to and overcome the challenges of the pandemic. I'll first discuss our financial results. Then we'll cover our performance with respect to our strategic priorities and operations, and we'll end with our expectations for the remainder of 2021.

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For the first quarter, organic growth was negative 1.8%, which positions us for a very strong recovery for 2021. Going forward, we expect to see positive organic growth.

Before I go into our results in more detail, as you have seen in our investor presentation slides, we have provided a further breakdown of our CRM discipline. The new disciplines we have disclosed are as follows: CRM Precision Marketing, which includes our MarTech consulting, digital and direct marketing agencies; CRM Commerce and Branding Consultancy includes our branding consultancies, shopper marketing and specialty production agencies; CRM Experiential includes our events agencies; and CRM Execution & Support is unchanged for the most part from our prior reporting and includes primarily our field marketing, research agencies and our agency servicing the not-for-profit sector.

We believe this additional level of disclosure will allow you to have a better understanding of our operations, getting back to our organic growth by geography. In the United States, organic growth was down 1%, an improvement of over 8% from the fourth quarter. Advertising and Media and CRM Precision Marketing were positive in the U.S., while the rest of our disciplines continue to be negative, with CRM Experiential having the largest negative impact on our growth.

Europe continued to face significant challenges due to the pandemic in Q1, although overall, the markets continue to improve. While the rollout of vaccine in Europe lags that of the United States and the U.K., some countries like Germany and the Netherlands are starting to make progress. The U.K. was down 6.4%, about half the decline in the fourth quarter. CRM Precision Marketing, CRM Commerce Branding Consultancy and Health were all positive in the U.K., primarily offset by a significant reduction in CRM Execution & Support due to our field marketing operations.

The Euro and the non-Euro markets were down 3.2% as compared to a negative 9.2% in Q4. Multiple countries had positive growth in the quarter, and the majority continued to improve sequentially. Asia turned positive in Q1, with organic growth of 2.5%. Australia continued to perform well, and we saw a significant return to growth in our events business in China, which combined with improvements in the other operations in the market resulted in double-digit growth. Latin America experienced negative 2.4% growth in Q1, a meaningful sequential improvement compared to the fourth quarter.

EBIT margin in the first quarter was 13.6% as compared to 12.3% in the first quarter of 2020. EBIT improved due to the repositioning and cost management actions we took in 2020. In 2021, our management teams are continuing to align costs with revenues, and we're also seeing continued benefits from reductions in addressable spend. While we expect addressable spend will not return to pre-COVID levels, travel and certain other addressable costs will likely increase during the course of 2021 as conditions improve.

Overall, our expectation is that operating margins for the full year of 2021 will exceed our 2020 operating margin, excluding repositioning costs incurred in Q2 of 2020. Net income for the quarter was $287.8 million, an improvement of 11.5% from 2020; and EPS was $1.33 per share, a year-over-year increase of 11.8%.

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. We generated $383 million in free cash flow in the quarter and ended with $4.9 billion in cash.

Given the continuing improvements in our operations, strong liquidity and credit profile, our Board has approved the resumption of our share repurchases beginning in the second quarter. This follows our recent decision to increase our dividend by 7.7% to $0.70 per share. Both actions are a testament to the steady improvement in our results and our expectations for further improvement for the remainder of 2021.

Our traditional uses of our free cash flow: paying dividends, pursuing accretive acquisitions and using our remaining cash for share repurchases is now fully back in effect. Phil will cover our first quarter performance in more detail during his remarks.

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 our service offerings, improving operational efficiencies and investing in areas of growth.

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As part of this process, we continue to make internal investments in our agencies across all practice areas during a very difficult year. We made good progress on enhancing our capabilities throughout our portfolio, and we continue to pursue investments with a specific focus in precision marketing, MarTech and digital transformation, commerce, media and Healthcare. We are also accelerating our pursuit of acquisitions in these areas, and we've recently completed 2 transactions.

Omnicom Health Group acquired U.S.-based Archbow Consulting. Archbow helps pharmaceutical and biotech companies design, build and optimize market access operations, product distribution and patient access hubs. These capabilities will deepen Omnicom Health Group's consultative services to biotech and pharma companies across a broad spectrum from operations to marketing.

Also in the quarter, Credera, our MarTech and digital transformation consulting business and part of Omnicom's Precision Marketing Group acquired Areteans. Areteans will extend Credera's depth in digital transformation, digital marketing and e-commerce. The company specializes in the design, delivery and implementation of real-time interaction and digital customer relationship management for some of the world's largest brands. It expands our operations in Australia, India, New Zealand, Singapore and the U.K. I want to welcome both companies and their entire teams to Omnicom.

Turning to Omni, our data and insights platform. As I've mentioned in our last call, looking beyond our media business, our practice areas are increasingly leveraging Omni to identify insights for their specific disciplines and clients. Last quarter, Omnicom Public Relations Group launched omniearnedID, a solution that allows clients to evaluate the outcomes of earned media with the same precision as paid media.

More recently, our Health Group launched Omni Health, which integrates key health care data sets within a privacy-compliant ecosystem. Thanks to this momentum, the Omni platform has trained 20,000 users in more than 50 markets, and it has become the foundation of our agency operating systems company-wide.

Since we launched Omni 3 years ago, we've continued to invest in its credentials as the industry's leading marketing orchestration and insights platform. As compared to other solutions built on limited proprietary data sets, Omni's open source approach connects more data sources across more media and commerce platforms to deliver better outcomes to our clients.

In Q2, we will be launching Omni 2.0 using next-generation API connections to seamlessly orchestrate identity sources and platforms in one collaborative workspace and at greater speed. Better and faster orchestration of data leads to more actionable insights and superior decisioning for our clients across all our networks and practice areas.

Just as important, Omni 2.0 continues to build on our commitment to consumer privacy and transparency. Our data-neutral approach, which results in the most diverse compilation of data sets, continues to be rooted in a robust data privacy compliance methodology. This approach puts us in a strong position for a post-cookie world. A few points on this are: through our pioneering work creating data clean rooms, we have direct connections to the first-party data of many of our clients. Because we are open source and data neutral, Omni works seamlessly across walled garden environments as well as the broader ecosystem. At the same time, we orchestrate data sets from about 100 privacy-compliant sources to provide a comprehensive view of the consumer across devices.

As the marketplace and technologies continue to rapidly advance, we are confident our talent, platforms and strategies built on a foundation of our creative culture give us a competitive advantage in effectively serving both new and existing clients. As testament to this success, we've had several key new business wins this past quarter, including a multiyear agreement with Allianz, a leading financial services provider for creative development and production services. Through this master framework agreement, Omnicom will produce work for Allianz on a global and local level, offering creative solutions to activate the global brand strategy for more than 70 countries where Allianz operates.

In addition, after recently selecting OMD as its U.S. media agency of record, Home Depot has named BBDO as its creative agency of record. Avocados From Mexico hired GSD&M as its agency of record. TBWA\Chiat\Day LA was named agency of record for 3 new clients: Behr Paint, Moderna and Schwan's Company. [Dream] has picked up the strategic and creative accounts for [Vanguard Advantage], and OMD won the media business for Dr. Scholl's.

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In summary, we made significant strides in evolving our services, capabilities and organization to better service our clients with data science and technology, while remaining grounded in our core strength of creativity. I'm proud to lead the company with an extraordinary group of people who continually deliver the best creative work in our industry, from their unwavering dedication, creativity and innovation came a number of industry awards and recognition. Here are just a few highlights.

For the Drum's World Creative Rankings, Omnicom was the #1 holding company for the fourth year in a row, and BBDO won the network category. Goodby Silverstein & Partners was named Campaign US's 2020 Advertising Agency of the Year. Critical Mass was named Ad Age's 2021 Best Places to Work list. BBDO, TBWA and Goodby Silverstein & Partners were all named to Fast Company's prestigious list of Most Innovative Companies for 2021, making Omnicom the only holding company that have 3 agencies ranked in the top 10 in the advertising sector. And PHD was named EMEA's Media Network of the Year and U.K. Media Agency of the Year and Campaign's UK Agency of the Year award.

Our people have a wealth of knowledge, experiences and perspectives that lead us to this innovation and forward-thinking work. The diversity of our group is something that needs to be celebrated, prioritized and improved upon, and it's a strategic focus for us in the year ahead.

With our launch of OPEN 2.0 last year, we have made a clear action plan for achieving systemic equity across Omnicom. We have more than doubled the number of DE&I leaders throughout Omnicom, and we are establishing specific KPIs for our networks and practice areas to deliver on and to be measured by.

I look forward to sharing the progress we are making on DE&I on our future calls. As I discussed earlier, we're confident in both our organic growth expectations and EBIT performance for 2021. It has taken some time to turn the corner, and we are now on a clear path to return to growth. At the same time, we know that we must continue to monitor the COVID-19 situation and to adapt to any unforeseen challenges that may arise. If 2020 taught us anything, it's to expect the unexpected and we will move forward maintaining our vigilance.

As we continue to enhance our operations, we are also evaluating what the future of work looks like at Omnicom. Our leadership on a local and office level are working on gathering feedback from employees and clients to help us decide what the new normal will be, one where we can service our clients efficiently while also connecting with colleagues in the safest and most flexible way possible.

The incredible talent within Omnicom has helped us maintain business continuity through the lows of 2020 and overcome its challenges. We would never be here without their dedication, so a sincere thank you to everyone as we are at the beginning of the end of the pandemic.

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

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

Thanks, John, and good morning. As John said, as we move through the first quarter of 2021, we continue to see an improvement in business conditions, particularly when compared to the peak of the pandemic during the second quarter of 2020. As we anticipated, we again saw sequential improvement in our organic revenue performance, a decrease of 1.8% in the first quarter of this year, which is a considerable improvement in comparison to the last 3 quarters of 2020.

And now that we've cycled through a full year of operations since the start of the pandemic, we expect to return to positive organic growth in the second quarter and for the full year. We continue to see operating margin improvement year-over-year, resulting from the proactive management of our discretionary addressable spend cost categories and the benefits from our repositioning actions taken back in the second quarter of 2020.

Turning to Slide 3 for a summary of our revenue performance for the first quarter. Organic revenue performance was negative $60.6 million or 1.8% for the quarter. The decrease represented a sequential improvement versus the last 3 quarters of 2020, including the unprecedented decrease in organic revenue of 23% in Q2, 11.7% in Q3 and 9.6% in Q4. Regionally, although we continue to experience declines in the Americas, we continue to see improvement when compared to what we experienced over the previous 3 quarters. In Europe, FX gains helped to offset negative organic growth, and our Asia Pacific region saw positive organic growth with a mixed performance by country.

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The impact of foreign exchange rates increased our revenue by 2.8% in the quarter, above the 250 basis point increase we estimated entering the quarter, as the dollar continued to weaken against some of our larger currencies compared to the prior year. The impact on revenue from acquisitions, net of dispositions, decreased revenue by 0.4%, in line with our previous projection. And as a result, our reported revenue in the first quarter increased 0.6% to $3.43 billion when compared to Q1 of 2020. I will return to discuss the details of the changes in revenue in a few minutes.

Returning to Slide 1. Our reported operating profit for the quarter was $465 million, up 10.8% when compared to Q1 of 2020. And operating margin for the quarter improved to 13.6% compared to 12.3% during Q1 of 2020. Our operating profit and the 130 basis point improvement in our margins this quarter was again positively impacted from our actions to reduce payroll and real estate costs during the second quarter of 2020 as well as continued savings from our discretionary addressable spend cost categories, including T&E, general office expenses, professional fees, personnel fees and other items, including cost savings resulting primarily from the remote working environment. Our reported EBITDA for the quarter was $485 million and EBITDA margin was 14.2%, also up 130 basis points when compared to Q1 of last year.

On Slide 2 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 current 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 real estate portfolio management, back-office services, procurement and IT services. As for the details, our salary and service costs are variable and fluctuate with revenue. They increased by about $7 million in the quarter, but excluding the impact of exchange rates, these costs were down by about 2.6%. While there was a reduction in base compensation overall from the staffing actions we undertook during the second quarter of last year, it varies by agency, and certain of our agencies have added people as business conditions improved in their markets.

In addition, third-party service costs were effectively flat on a reported basis and down slightly on a constant currency basis. In comparison, these costs, which are directly linked to changes in our revenue, decreased nearly 40% in the second quarter of last year, 20% in the third quarter and 12.7% in the fourth quarter of 2020, consistent with the decline in our revenues across all of our businesses in those quarters. Occupancy and other costs, which are less linked to changes in revenue, declined by approximately $18 million, reflecting our continuing efforts to reduce our infrastructure costs as well as the decrease in general office expenses since the majority of our staff has continued to work remotely. In addition, SG&A expenses declined by $15.2 million in the quarter. And finally, depreciation and amortization declined by $3.7 million.

Net interest expense for the quarter was $47.5 million, up $1.7 million compared to Q1 of last year and down $500,000 versus Q4 of 2020. When compared to the fourth quarter of 2020, our gross interest expense was down $1.5 million, and interest income decreased by $1 million. When compared to the first quarter of 2020, interest expense was down $4.7 million, mainly resulting from a $7.7 million charge we took in Q1 of 2020 in connection with the early retirement of $600 million of senior notes that were due to mature in Q3 of 2020. That was offset by the incremental increase in interest expense from the additional interest on the incremental $600 million of debt we issued at the onset of the pandemic in early April 2020.

Net interest expense was also negatively impacted by a decrease in interest income of $6.4 million versus Q1 of 2020 due to lower interest rates on our cash balances. Based on our current debt portfolio structure and FX rates, we are anticipating net interest expense to be relatively flat in 2021 when compared to 2020. Our effective tax rate for the first quarter was 26.8%, up a bit from the Q1 2020 tax rate of 26%, but in line with the range we estimate for 2021 of 26.5% to 27%.

Earnings from our affiliates was marginally positive for the quarter, representing an improvement compared to last year. And the allocation of earnings to the minority shareholders in certain of our agencies was $18.2 million during the quarter, up about $4.6 million when compared to Q1 of last year, reflecting the improved performance this year in our less-than-fully-owned subsidiaries. As a result, our reported net income for the first quarter was $287.8 million, up 11.5% or $29.7 million when compared to Q1 of 2020. Our diluted share count for the quarter decreased 0.3% versus Q1 of last year to 216.8 million shares. As a result, our diluted EPS for the first quarter was $1.33, up $0.14 or 11.8% from the $1.19 per share when compared to our Q1 EPS for last year.

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Returning to the details of the changes in our revenue performance on Slide 3. Organic revenue performance improved again compared to the reductions in client spending we experienced during the last 3 quarters. We continue to see our clients across a wide spectrum of industry sectors and geographic regions modify spending as they assess the continuing impact of the pandemic on their businesses. While helped by FX, our reported revenue for the first quarter was $3.43 billion, or up $20 million or 0.6% from Q1 of 2020.

As part of our continuing efforts to provide meaningful information to our investors, we've expanded the presentation of our CRM disciplines to give additional detail regarding the performance of these agencies, which are now grouped within 4 disciplines: CRM Precision Marketing, which includes our precision marketing and digital direct marketing agencies, which were previously included in our CRM Consumer Experience discipline; CRM Commerce and Brand Consulting, which is primarily comprised of the Omnicom Commerce Group and our brand consulting agencies, both previously included in CRM Consumer Experience; CRM Experiential, which includes our events and sports marketing businesses, which was also included in CRM Consumer Experience; and our CRM Execution & Support discipline, which includes our field marketing, merchandising and point of sale, research and not-for-profit consulting agencies and remains largely unchanged.

Turning to the FX impact. On a year-over-year basis, the impact of foreign exchange rates was mixed when translating our foreign revenues to U.S. dollars. The net impact of changes in exchange rates increased reported revenue by 2.8% or $95.7 million in revenue for the quarter. While the dollar weakened against some of our largest major foreign currencies, we also saw some strengthening against a handful of others. In the quarter, the dollar weakened against the euro, the British pound, the Chinese yuan and the Australian dollar; while the dollar strengthened against the Brazilian reais, the Russian ruble and the Turkish lira.

In light of the recent strengthening of our basket of foreign currencies against the U.S. dollar and where currency rates currently are, our current estimate is that FX could increase our reported revenues by around 3.5% to 4% in the second quarter and moderate in the second half of 2021, resulting in a full year projection of approximately 2% positive. These estimates are subject to significant adjustments as we move forward in 2021. The impact of our acquisition and disposition activities over the past 12 months resulted in a decrease in revenue of $15.1 million in the quarter, or 0.4%, which is consistent with our estimate entering the year.

Our projection of the net impact of our acquisition and disposition activity for the balance of the year, including recently completed acquisitions and dispositions, is currently similar to Q1. As previously mentioned, our organic revenue decreased $60.6 million or 1.8% in the first quarter when compared to the prior year. The impact of the COVID-19 pandemic on the global economy and on our clients' planned marketing spend appears to be moderating in certain major markets. As long as the COVID-19 pandemic remains a public health threat, global economic conditions will continue to be volatile. We expect global economic performance and the performance of our businesses to vary by geography and discipline until the impact of the COVID-19 pandemic on the global economy moderates. We expect to return to positive organic growth in the second quarter and for the full year.

Turning to our mix of business by discipline on Page 4. For the first quarter, the split was 59% for advertising and 41% for marketing services. As for the organic change by discipline, advertising was up 1.2%. Our media businesses achieved positive organic growth for the first time since Q1 of 2020. And our global and national advertising agencies again showed improvement this quarter when compared to the last 3 quarters, although performance remains mixed by agency.

CRM Precision Marketing increased 7.2% on continued strong performance and the delivery of a superior service offering. CRM Commerce and Brand Consulting was down 4.2%, mainly related to decreased activity in our shopper marketing businesses due to client losses in prior quarters. CRM Experiential continued to face significant obstacles due to the many restrictions from holding large events. In the quarter, the discipline was down over 33%.

CRM Execution & Support was down 13% as our field marketing, non-for-profit and research businesses continue to lag. PR was negative 3.5% in Q1 on mixed performance from our global PR agencies. And finally, our Healthcare agencies, again, facing a very difficult comparison, back to the performance of Q1 2020 when they experienced growth in excess of 9%, were flat organically. But the businesses remained solid across the group.

Now turning to the details of our regional mix of business on Page 5. You can see the quarterly split was 54.5% in the U.S., 3% for the rest of North America, 10.4% in the U.K., 17.1% for the rest of Europe, 11.7% for Asia Pacific, 1.8% for Latin America and 1.5% for the Middle East and Africa.

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In reviewing the details of our performance by region, organic revenue in the first quarter in the U.S. was down $18 million or 1%. Our advertising discipline was positive for the quarter, on the strength of our media businesses and our CRM Precision Marketing businesses, while our Healthcare agencies facing a very difficult comp to Q1 of 2020, were down 2.4%. Offsetting these performances was our events businesses, which once again experienced our largest organic decline, over 34% in the U.S., while our other disciplines were down single digits organically.

Outside the U.S., our North American agencies were down 3.2%. Our U.K. agencies were down 6.4% organically. Our CRM Precision Marketing, CRM Commerce and Brand Consulting and Healthcare agencies continue to have solid performance. They again were offset by reductions from our Advertising, CRM Experiential and CRM Execution & Support businesses. The rest of Europe was down 3.2% organically.

In the Eurozone, among our major markets, Belgium, Italy and the Netherlands were positive organically. Germany, Ireland and France were down single digits, while Spain was down double digits. Outside the Eurozone, organic growth was up around 5% during the quarter. And organic revenue performance in Asia Pacific for the quarter was up 2.5%. Positive performance from our agencies in Australia, Greater China and India were able to offset decreases in Japan, New Zealand, Singapore and Indonesia. Latin America was down 2.4% organically in the quarter. While our agencies in Mexico and Colombia were positive in the quarter, a double-digit decrease from our agencies in Brazil offset that performance. And lastly, the Middle East and Africa was down 10% for the quarter.

On Slide 6, we present our revenue by industry information for Q1 of 2021. Again, we've seen general improvement in the performance across most industries when compared to the previous few quarters. But the overall mix of revenue by industry was relatively consistent to what we saw in prior quarters.

Turning to our cash flow performance on Slide 7. You can see that in the first quarter, we generated $382 million of free cash flow, excluding changes in working capital, which is up about $20 million versus the first quarter of last year. As for our primary uses of cash on Slide 8, dividends paid to our common shareholders were $140 million, effectively unchanged when compared to last year. The $0.05 per share increase in the quarterly dividend that we announced in February will impact our cash payments from Q2 forward.

Dividends paid to our noncontrolling interest shareholders totaled $14 million. Capital expenditures in Q1 were $12 million, down as expected when compared to last year. As we mentioned previously, we reduced our capital spending in the near term to only those projects that are essential or were previously committed. Acquisitions, including earn-out payments, totaled $9 million. And since we stopped stock repurchases, the positive $2.7 million in net proceeds represents cash received from stock issuances under our employee share plans. As a result of our continuing efforts to prudently manage the use of our cash, we were able to generate $210 million of free cash flow during the first 3 months of the year.

Regarding our capital structure at the end of the quarter, our total debt is $5.76 billion, up about $650 million since this time last year, but down $50 million as of this past year-end. When compared to March 31 of 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 $80 million, resulting from the FX impact of converting our EUR 1 billion euro-denominated borrowings into dollars at the balance sheet date, while the change from December 31 was the result of just the FX impact of converting the euro notes.

Our net debt position as of March 31 was $863 million, up about $650 million from last year-end, but down $1.5 billion when compared to Q1 of 2020. The increase in net debt since year-end was a result of the typical uses of working capital that historically occur in our first quarter, which totaled about $840 million and was partially offset by the $210 million we generated in free cash flow during the past 3 months.

Over the past 12 months, the improvement of net debt is primarily due to our positive free cash flow of $860 million, positive changes in operating capital of $537 million and the impact of FX on our cash and debt balances, which decreased our net debt position by about $190 million. As for our debt ratios, our total debt-to-EBITDA ratio was 3.1x, and our net debt-to-EBITDA ratio was 0.5x.

And finally, moving to our historical returns on Slide 10. For the last 12 months, our return on invested capital ratio was 19.9%, while our return on equity was 34.5%, 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 of 2020.

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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're 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 Alexia Quadrani from JPMorgan.

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

My first question really is on, I guess, the progression of the recovery. I mean if you can elaborate a little bit on sort of how you saw it in Q1. I'm not asking for like month-to-month, but just sort of any trends you saw. And if you saw a faster pace of improvement maybe than you expected? Anything surprised you?

And then given -- I guess given what you know year-to-date, I'm curious if any more color about Q2. I know you said that there should be growth in the second quarter. But given the super easy comps, I guess, shouldn't we see outsized growth sort of at least mid-teens, not higher in Q2? So any color you can provide would be really helpful.

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

Phil, I'll give it to you first.

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

Sure. As far as the months, Alexia, I'm not sure. We focus on them and treat the trends that we might see as meaningful, especially given COVID. But I think given the comps in Q1 going into the quarter, we expected the first quarter to be a challenge. But things -- broadly speaking, things have been improving throughout the end of the second half of 2020 and into 2021 pretty consistently. So we've seen those trends improve. We've seen it in our results as we've gone through the year and as we've gone through the quarter, which is why we're optimistic about the rest of 2021.

As far as Q2 growth, from the data we have to date, and we'll be getting an update again over the next 2 weeks in our meetings with our operating companies, but we're certainly optimistic that our growth expectations are not going to be what we would consider a normal or typical quarterly growth pattern. Given the comps of Q2 of 2020, we certainly expect to do better than we normally would. And there's a lot of positive trends. There are some things that are happening or could happen that are out of our control in terms of some of the larger markets in Europe and some of the challenges they've been having with COVID. But as the vaccine continues to roll out in the U.S. and globally, our growth expectation certainly for Q2 are pretty robust.

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

And then just a follow-up, if I may. Thank you for giving us further detail on CRM. That's very helpful in the release and then in the commentary. I'm just curious though given the outsized decline in experiential, even before the pandemic, it looked like it was underperforming. I'm curious what your thinking is about that business long term?

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

The business that we have, Alexia, I really like it long term to tell you the truth. Domestically, our clients are generally big events, Olympic type of events and very well-established events that aren't going to decline once people can actually return to attending activities and is also -- when it's looking at the domestic market, the things that we do with respect to recruiting people for the U.S. government, which will keep us on the road for quite a while. I mean so positive in the U.S. once movement and schools reopen and people are allowed -- increasing number of people are allowed back into long-standing events.

And with respect to our international business, that's very exciting. I mean the biggest aspects of that business when it returns is China, which has already started; established clients, big car companies; very well-established, very well-financed markets in the Middle East; and just the biggest markets in Western Europe. So it's a business that we've held on to, and we've kept all the critical people. And in some instances, our individuals have expertise in certain categories that their clients have continued to pay us at least something with the promise that we keep them on board and don't lose them because the clients feel that they have great knowledge of their products and what their strategies are. So I mean it's not a huge business. It's big enough to hurt you in downtimes and makes a contribution both from a profit EBIT point of view as well as a revenue point of view when things open up.

And since we are positive about it, probably more positive than other people and some of their competitors, there might even be an additional boost when things do open up because a lot of people haven't had the staying power to continue those businesses during this period of time.

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

The only thing I would add, Alexia, is that there -- as we've gone through the pandemic, I think we've found out that -- or the numbers have demonstrated internally that there's quite a bit, especially in the domestic business, strategic work that our businesses are doing for their clients, not just purely big event driven. So there's a base of business that clients find strategic value and engaging with our businesses that has been -- leads us to kind of conclude that, yes, there's a little more downside in the type of environment we've just been in, but there should be even more upside as we get back to a more normal environment in the future.

Operator

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

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

Thank you very much for the better disclosure and the recasting of CRM from 2 to 4, to continuing this theme of improved disclosure, Publicis now gives me the organic for the U.S., 60% of the revenue was up mid-single digit in Q1. Specifically, media organic for the group and then to give media organic for international. So could we get other media organic for Q1 or indication of what media did in Q1? And approximately how much is media out of total revenue? My first question.

The second one is John said in his opening remarks that margin will be up year-on-year ex last year repositioning costs. So can we have more color? I mean is it up 10 basis points, 20 basis points, 30 basis points? And then last one is another welcome news, resumption of buyback. Can we have an idea of the kind of size you're going to do for the next quarters?

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

So I'll start, Julien, but could you just repeat the margin question for clarity?

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

Yes. So John said margin will be up. So can we have some more color? I mean what does up mean? Does that mean 10, 20 basis points?

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

Okay. So just to start on the media point. We don't break out media specifically. And frankly, when you go through the practice areas and the disciplines that we report, the vast majority of those disciplines actually have media in their numbers. So we don't carve it out and look at it that way. Essentially, businesses like PR and Healthcare and Precision Marketing, there are media components to those businesses. They're integrated into those businesses. Several markets throughout the world, advertising and media are integrated, and it isn't as simple as just pulling out a media number. Certainly, we did indicate that media grew in the first quarter, not -- I would say, not robustly relative to the first quarter of last year. But we're comfortable with the disclosures we make as far as adding the disciplines and providing what we think is very useful and helpful information similar to how we look at the business from a management perspective.

As far as margins go, I think what we've said, we still hold to, which is we look at 2019 as the best proxy of what ongoing margin expectations should be for our business. I think we look at the first part of coming out of the pandemic when it's likely to travel and related and some of the other controllable costs can continue to be reduced relative to past -- relative to the past as likely benefiting our margins in the near term.

But in terms of looking at the business prospectively, '19 is probably the best proxy. And I can tell you what we've always said, which is we always are looking for efficiencies and trying to expand our operating margins, but we're mostly focused on our operating EBIT dollars and the margins kind of fall into place. We're going to continue to invest where we believe the best organic growth opportunities are, and we're going to continue to drive operating profits. And our margin performance, we think, will be a positive result if we continue that approach.

Last question on the buyback front. I don't think we have today sitting here a margin -- sorry, a buyback dollar amount in mind. I think we certainly expect to continue with a very consistent approach to capital allocation. We'll continue to pay a healthy dividend. We're going to be more aggressive in pursuing acquisition opportunities in the areas where we think there's the most promise in our disciplines that we're in today, as we've said before, and the amount of money we spend on buybacks is going to be the residual. If we can find more acquisitions, we're going to put more of our free cash flow in any 1 year into those acquisitions that we less for buybacks as a result. And certainly, that approach and that strategy, we're planning on consistently following that as we emerge from the pandemic and get back into growth mode.

Operator

Your next question comes from the line of Michael Nathanson from MoffettNathanson.

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

I have one for John and one for Phil. John, I know we're still early in our recovery, but I guess I want to take you to whatever the new normal looks like. And I wonder what's your view of organic growth for your company when we get out of this, right, all the structural changes we've seen in digital and consumer behavior. So what's your view? Will Omnicom grow faster because of that when we get back to whatever phase they look like? That's one. And Phil, can you just talk a bit about the impact of the pandemic on the field marketing business, right? It's down a ton. And anything you'd share about maybe the cadence when that returns back to normal, that's hurting the institutional support business, that would be helpful, too.

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

Sure. I don't know absolute proof points to this, but I've been in the business, as you know, forever. And I'm really confident that because of changes, minor strategic, but shifts in our portfolio, doubling down and focused on area growth that emerging from COVID, we will see, when you compare it to the past couple of years, continued growth at a faster pace for certain. And as we've always said on for a number of years, this was difficult to

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achieve over -- our objective is GDP plus. And I really think that, that is what's in our future over the -- I'm very bullish as we emerge from COVID on the positions, the strategies we've put in place, some of the other actions that we've taken. And so there's a lot of confidence. Now mind you, against that when we get into that accelerated growth going out 18 months, 24 months, I'd probably expect wage pressures too, to go up for certain key positions and things that we want to focus on. So without being terribly specific, I'm very -- I feel very, very confident about the near term and the near longer term, us getting back to better growth rates.

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

On the field marketing front, I think the business -- our business is largely pan-European. We've done some dispositions over the years throughout the group and really streamlined the group quite a bit. We expect the field marketing business to be back in growth mode as well, just like the rest of our business. I'd say if we're looking at the 9 months beginning April 1, we expect field marketing to grow for the rest of 2021. It might be a bit choppy in the 3 quarters. I'm not quite sure I'd commit to every quarter being kind of sequential growth. But the field marketing business, given it's pan-European, they've had some setbacks recently in some of their key markets because of some of the shutdowns that happened recently in Europe. But we do expect them to get back into growth mode. And I think that we were confident that the business itself will perform once some of the external factors are kind of removed that have held it back throughout the pandemic. We also have part of the business in India that seems to be holding up pretty well right now.

Operator

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

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

So maybe first, I wanted to just touch on that M&A commentary that you made. It sounds like your -- you said you wanted to be a bit more aggressive in certain areas. I think that commentary it might just maybe sound a little stronger than the way you've discussed it in the past. So I'm just curious if there's some more sizable acquisition opportunities out there the last few years. It's rarely exceeded a few hundred million in a single year. So just curious if you're seeing some things that might be a little bit more strategic than the tuck-ins that you've done more historically?

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

Yes. I think your read in that is correct. We've certainly got more of an emphasis and more of a focus that we've been placing on not just dealing with inbound M&A candidates, but also seeking appropriate opportunities in the areas that we want to invest in. And we've been, I think, clear on our last call, in particular, where we're focused. Certainly, broadly speaking, the Precision Marketing space, e-commerce, media and Healthcare. And in John's prepared remarks, he commented on that specifically.

So yes, we do currently plan to be a little more aggressive in terms of looking for the right opportunities. We won't lose our discipline in terms of pricing expectations, but we will be more aggressive in terms of pursuing those opportunities. I don't think there's going to be a dramatic change though. While we'll look at big deals, the deals we can successfully integrate with our existing platforms are the ones that we found work best. We're going to consider any and all deals in the areas that we're committed to and want to invest in. But we are going to do -- we are going to pursue acquisition opportunities in a variety of sizes, and to the extent that we can do more rather than less. That's certainly our intention.

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

Yes. The only thing I might add is I'm happy today with our M&A team and the efforts that they're going through than -- certainly than any other time in the last decade. And just to echo what Phil said, having that positive outlook, we'll look to do only accretive acquisitions, and there is a lot of silly money that sometimes we're competing against. So we're not planning to get silly and try to explain it to you as strategic.

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

That's great. And I'm really...

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

Go ahead. Sorry.

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

Sorry, I just had a quick follow-up on the media side. Maybe not necessarily giving specific color on it. But I'm just curious if that's been a leading indicator of growth to come, so maybe growing a little faster than the group? And I think we've seen a couple of media -- big media accounts come up for review this year. I'm just wondering if we're sort of back on the cycle where you think there's going to be a lot of media business up for grabs this year?

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

Sure. Media will grow faster this year based upon the forecast we've seen to date. The mix may change. It won't change our mix dramatically because we're so big. But digital has really taken over, and we've crossed the threshold that that's never really going to change. Phil might want to comment 1 or 2 things on that. And what was the second part of your question? I'm sorry.

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

I think we're comfortable with the media business and the media assets we have. We certainly think that we're close to being past the very difficult year that we've been through because of the pandemic. So we do expect the media business continue to grow as we head into growth mode here starting in the second quarter, and we're comfortable with the assets we have.

I don't think we would describe what we'd expect to see in 2021 as Mediapalooza 3. But we have seen quite a bit of activity and interest from marketers across a bunch of different industries, frankly because during the pandemic, it was difficult for them to make a change in their service providers, especially their media service providers. It's a disruptive process for them internally throughout their organization. But I think as things normalize and they come out of it, we do expect activity in terms of new business opportunities to pick up.

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

Yes. One final point on this that I want to add, which is really a fundamental point, is when we look at our Omni product, as you hear us talking about, that we started really in earnest 3 years ago. It started primarily in the media area and we've been very successful. And I think in some ways, COVID has helped us in moving its use and as a fundamental base operating philosophy across all practice areas, which really allows the benefits that it brings to work very closely with our creative assets in a way that in the past was a more forced outcome. It's now become more of a natural outcome across the practice areas that we're functioning in. And I think that will -- it makes us more competitive going forward.

Operator

That question comes from the line of Tim Nollen from Macquarie.

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Timothy Wilson Nollen - *Macquarie Research - Senior Media Analyst*

I just wanted to ask a question about your CRM Commerce business, if I could. Could you just explain a little bit more about what that business entails? I know you mentioned the shopper marketing component was led to that business being down 4%. But what are the other things you do there? And what might the growth be in that division if you were to take shopper marketing out?

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

So on -- in CRM Commerce and Consulting, our brand consulting businesses are in there. And we've got some specialty production assets, which are relatively small in that group. I think we've seen growth in the quarter in the specialty production assets. The Brand Consulting business, we expect, once we're through Q1, to get back into growth mode. And we expect the shopper commerce businesses to get back to growth mode. But the challenges they need to overcome relate more to, I think, some of the client losses they've had recently that they need to cycle through. So we're comfortable with the assets that we have. We're going to continue. One of the areas we're focused on as far as potential acquisition opportunities as e-commerce to build on that business. But we think the commerce and consulting discipline, the components of it are businesses that we have high expectations for in terms of their future growth profiles.

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

I think we are running out of time.

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

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

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

Thanks, everybody. Stay safe.

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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