19-Oct-2021

Omnicom Group, Inc. (OMC)

Q3 2021 Earnings Call

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CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Craig Huber
Analyst, Huber Research Partners LLC

Daniel Salmon
Analyst, BMO Capital Markets Corp.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

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

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Omnicom Third 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, Senior Vice President of Investor Relations, Gregory Lundberg. Please go ahead.

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

Thank you for joining our third quarter 2021 earnings call. With me today are John Wren, our Chairman and Chief Executive Officer; and Phil Angelastro, our Chief Financial Officer.

On our website, omnicomgroup.com, we posted a press release along with a presentation covering the information we'll review today. A webcast of this call is also available there. And an archived version will be available when today's call concludes.

Before we start, I would like to remind everyone to read the forward-looking statements, non-GAAP financial and other information that we have included at the end of our investor presentation. Certain of the statements made today may constitute forward-looking statements and these statements are our present expectations. Relevant factors that could cause actual results to differ materially are listed in our earnings materials and in our SEC filings, including our 2020 Form 10-K and our June 2021 Form 10-Q.

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Also, during the course of today's call, we will discuss certain non-GAAP measures in talking about Omnicom's performance. You can find a reconciliation of these measures to the nearest comparable GAAP measures in the presentation materials.

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

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

Thank you, Greg. Good afternoon, everybody, and thank you for joining today. We're very pleased to report that, in the third quarter, we continued our year-over-year double-digit growth in our key financial performance metrics led by a very robust top line.

As you can see on slide 4 of our presentation, organic growth for the third quarter was 11.5%. The top line results were broad-based across our agencies, geographies and disciplines. Our growth was especially strong in CRM Precision at 24%. Our CRM Precision Group is helping clients on their martech transformation, digital and e-commerce communications and direct-to-consumer marketing. The group has played a key role in many of our recent new business wins where, overall, we continued our very strong momentum in Q3.

Broadly, across our group, growth was driven by improved economic conditions. Omnicom's suite of services and capabilities are positioning us to be extremely competitive in the marketplace to reimagine and strengthen our clients' brands, seamlessly connect them with their customers across the marketing journey, transform their marketing technology platforms and innovate in e-commerce and new media channels.

Our revenue performance flowed through to our operating profit in bottom line. Our EBIT margins for the third quarter were 15.8%, which exceeded our 2020 margins and significantly outpaced the comparable period in 2019.

Net income and EPS for the quarter grew by more than 13% versus 2020 and were also significantly above our 2019 results. As we head into the fourth quarter, we are well positioned competitively and expect to benefit as economic growth continues to improve globally and from ongoing cost management. We currently expect our full year organic growth to be approximately 9% and our full year EBIT margin to exceed our year-to-date margin for the nine months ended September 30, 2021 of 15.1%.

Going forward, we remain focused on our key strategic initiatives, which is centered around our talent, dedication to creativity and building on our already strong capabilities in precision marketing and martech consulting, e-commerce, digital and performance media and predictive data-driven insights.

In the third quarter, we made progress across these strategic initiatives as we announced three acquisitions. Omnicom Media Group acquired Jump 450 Media, a performance marketing agency. The company leverages algorithmic scaling strategies, rapid creative testing and data analytics to optimize digital media spend and drive customer acquisition. Jump 450 will form the foundation for a dedicated performance media platform and business operation within OMG. Its focus on e-commerce and pure performance marketing will strengthen and add a distinct set of capabilities to OMG's existing performance media offerings.

Also, in late September, we announced the acquisition of two German-based companies, antoni and OSK. antoni is one of the most innovative and creative agencies in Europe and was born with data and digital capabilities at its core. antoni's creative leadership and depth of talent will significantly strengthen our capabilities in Europe and around the globe. OSK has been in the top 10 of PR and comms agencies in Germany since 2008 and is the

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undisputed number one for automotive. It provides a broad portfolio of services at the intersection of PR and social media and excels in the convergence of technology, mobility and communications. Our ability to bring together the brightest talent and data-driven consumer insights from across our organization to deliver holistic and integrated brand experiences is proving to be highly successful in our new business opportunities, as well as in servicing our existing clients.

Following on the heels of Philips naming Omnicom their global integrated service partner for creative and media communications, in the third quarter, Mercedes-Benz appointed Omnicom its global marketing communications partner. One of the world's most iconic brands, Mercedes-Benz, is today the leading luxury automotive experience company.

TMX, a dedicated team from across our groups, will bring together the best-in-class talent and capabilities across Mercedes-Benz' customer journey with expertise in media and CRM, brand and performance creator, web personalization and content automation, public relations and events as well as paid and organic social. And just last week, we won the Chanel media business globally, adding another iconic global brand. As in all our significant wins as well as for our existing clients, our teams are able to showcase our creativity, data analysis and predictive insights and technology capabilities to deliver connected, personalized and seamless brand experiences for their respective customers at all touch points of the consumer journey.

One key differentiator for Omnicom in servicing our clients is our cohesive culture that binds us together. It's a culture of creativity, flexibility and caring that are common values shared across our group. I often hear from clients that a deciding factor in the decision to hire Omnicom is that our people who bring distinct specialized skills to them know and respect one another and genuinely collaborate. Our ability to integrate services from across our marketing disciplines is underpinned by Omni, our open operating system that orchestrates better outcomes. Omni is built for collaboration, acting as a conductor between different specialists using a single processing workflow from insights to execution. It empowers our people and our clients to make better and faster decisions, maximizing efficiency and ROI.

Omni also provides better intelligence by orchestrating first-, second- and third-party data sets to present a single comprehensive view of consumers. Our teams can then develop insights to create, plan and deliver the most impactful messages, content and communications to them at each stage of the consumer journey.

Omni is a unique and powerful tool for us. And we now have over 40,000 Omnicom colleagues provisioned on the platform in over 60 countries. Hundreds of our clients, including all of our top 20, utilize Omni. Moreover, the open-source system enables our practice areas like commerce, health and PR to customize Omni with different data sources for their clients.

For example, Omnicom Health Group created a custom offering called Omni Health. Since rolling it out in April of this year, OHG has leveraged the platform to play a key role in expanding the group's omni-channel offering with new and existing clients, including AstraZeneca and Janssen XARELTO, to name a few.

In summary, even during the pandemic, we accelerated the strength of our services, capabilities and organization to deliver better outcomes for our clients and win new business. Our offering is powerful and differentiated. We have best-in-class talent and creativity using best-in-class operating systems and technologies. It's a formula that will continue to win for us.

Before I turn it over to Phil, I want to spend a few moments on our relentless focus on talent. Throughout one of the most difficult times in recent history, our people have shown ingenuity, resilience and strength. We continue to

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spend and invest in training and development programs for all of our people, from basic skills training, all the way through the advanced programs of Omnicom University. We recently expanded the curriculum for our DE&I and OPEN 2.0 strategies.

As the pandemic continues to present a substantial health risk, the well-being of our colleagues remains our top priority. We are ensuring we have a safe work environment and are offering a variety of programs for managers and individuals to support their wellness, resilience and health at work.

I recently traveled to several of our US and European offices and have met with many colleagues and clients who are happy to be back in the office. We are looking at many alternatives to provide our people a safe return back to the office. For example, this week, we're testing a private transportation service for New York City-based colleagues.

In the months ahead, we look forward to welcoming more of our staff back with a continuing priority on their safety and flexibility. It is truly our world-class talent and our dedication to creativity and innovative solutions that drive real business outcomes for our clients. A key recent proof point reflecting the quality of our talent is Omnicom being named the Most Effective Holding Company in the US by the 2021 Effie Awards.

Overall, we're extremely pleased with the third quarter and proud to see that our strategic focus and the decisions we made throughout the pandemic are now leading to positive results. Our results once again reflect Omnicom's ability to adapt and respond to the changes in the market and deliver through economic cycles.

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

Philip J. Angelastro

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

Thanks, John, and good afternoon. While the impact of the pandemic continues to be felt across the globe, that impact has continued to moderate significantly, as evidenced by our continued growth in the third quarter.

Slide 3 shows our third quarter improvement across our income statement, where our revenue growth and expense control drove an 8% increase in operating profit. Our effective tax rate for the third quarter was 24.1%, down from our estimated effective rate for 2021 of between 26.5% and 27%. This was primarily due to the favorable settlement of uncertain tax positions in certain jurisdictions, the impact of which was approximately $10 million.

These items positively impacted net income and diluted earnings per share, which was $1.65, up $0.20 or 13.8% versus Q3 of last year and up $0.33 versus the third quarter of 2019. So our growth continues on this important metric as well. And finally, our $0.70 quarterly dividend, which was raised back in February, is 7.7% higher than last year.

Let's now flip to slide 4 and look at the quarter in more detail, beginning with revenues. Our total revenue growth was 7.1%. Organic growth for the quarter was 11.5% or $367 million, which represents a significant improvement compared to Q3 of 2020 when the pandemic drove an organic revenue decline of 11.7%.

The impact of foreign exchange rates increased our revenue by 1.6% in the quarter as the dollar continued to weaken against most of our larger currencies compared to the prior year. If FX rates stay where they were on October 15, we expect foreign exchange to decrease our reported revenue by approximately 1% for the fourth quarter and increase our reported revenue by 2% for the full year.

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The impact on revenue from net acquisitions and dispositions decreased revenue by 5.9%. Based on transactions that have been completed through September 30, 2021, our estimate is the net impact of our acquisition and disposition activity for the balance of the year will decrease reported revenue by approximately 7% in the fourth quarter and by approximately 4% for the full year.

While we will continue our process of evaluating our portfolio of businesses as part of our strategic planning, as John has said regarding dispositions, we are substantially complete.

If you turn to slide 5, you can see our organic growth by discipline. Advertising, our largest discipline, at 53% of our total revenues posted 8.6% organic growth, with very strong performance from both our creative agencies and our media agencies. Please note that reported Advertising growth is down 0.4% due primarily to the disposition of ICON in Q2 of 2021.

Our agencies focused on direct, digital and marketing transformation consulting services in our precision marketing discipline also posted strong organic growth of 24.3%. With the exception of the second quarter of 2020, this discipline has been a consistent grower for some time and has become a larger portion of our business each quarter.

CRM Commerce and Brand Consulting was up 18%, with our branding agencies leading the discipline's performance. CRM Experiential was up 50%. This business declined far more than our other disciplines in the third quarter of last year during the pandemic and has not yet recovered to pre-pandemic levels due to various global restrictions. However, this remains an important area for our clients and we look forward to further growth as global economies continue lifting social distancing restrictions.

CRM Execution & Support was up 8.3%, reflecting a recovery in client spend compared to the prior year in our field marketing businesses, while our research businesses continued to lag. PR was up 10.5%. We have a positive outlook for the discipline, especially within our global agencies, as clients adjust to the new post-pandemic realities.

And finally, our Healthcare discipline was up 6.6% organically. Healthcare was the only one of our service disciplines that had positive organic growth during the depths of the pandemic and continued to perform well.

Flipping to slide 6, our revenue by region. The key takeaway is that all of our geographies again posted solid organic growth. This growth was driven by virtually every discipline within each region. Outside the US, where total organic growth was 16%, double-digit growth in each region was led by Germany, the UK, Canada and Australia.

Our advertising, media and PR agencies performed well with double-digit growth. And our Precision Marketing agencies were sizable contributors and also posted strong double-digit growth. In addition, Experiential growth outside the US was over 100% in total.

In the US, we generated 7.7% organic growth, which was boosted by strong double-digit growth in our Precision Marketing and PR disciplines as well as solid growth at our Healthcare agencies. Our Advertising and Experiential disciplines also grew in the US, but at a slower rate than the growth outside the US.

The last revenue view I'd like to share with you is by industry sector on slide 7. The change in mix by sector in the portfolio was small on a year-to-date basis when compared to last year. In summary, our revenue performance

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was very strong across the board on both a reported and organic basis and when analyzed by discipline, geography or industry sector.

Let's now turn to slide 8 and look at our operating expenses. To make the analysis more relevant, we have also included a supplemental slide in the appendix that shows the 2021 amounts presented in constant dollars. Beginning with our largest category, salary and service costs, these costs increased by 7.6% in total. And they tend to fluctuate with the change in revenue. We would also note that the Q3 2020 salary and service cost amounts were reduced by reimbursements received from government programs of $68.7 million. As we continue to look forward, we expect the healthy advertising and marketing spending outlook and strong demand from our clients will necessitate an increase in staffing. The tight labor market will create challenges in the near term that we are confident our management teams will overcome.

Moving down the P&L. Third-party service costs, which fluctuate with changes in revenue, decreased 6.9% during the quarter due to our net disposition activity primarily related to the disposition of ICON and partially offset by the organic growth in revenue as well as the effects of foreign currency exchange rate changes. Occupancy and other costs, which are not directly linked to changes in revenue, were up 4.5% year-on-year or 2.9% when excluding foreign exchange rate translation impacts. As expected, these good results continue to reflect our efforts to reduce infrastructure costs and also benefited from a decrease in general office expenses as the majority of our staff continue to work remotely in Q3.

SG&A expense levels were up 5.3% on a year-over-year basis or 4.2% when excluding foreign exchange rate translation impacts. We are beginning to see a return of travel and certain other addressable spend costs as pandemic-related government restrictions ease. However, based on our use of technology during the pandemic, we're developing practices, particularly with respect to travel, that we expect will allow us to continue to retain some of the benefits we achieved in reducing addressable spend during the pandemic. Overall, we expect that the increase in addressable spend for the balance of the year will be mitigated in part by the benefits we will continue to achieve from a hybrid and agile workforce.

As we think about our future expense levels, we certainly expect that some areas will increase in line with our business as activity picks up and life returns to normal. But at the same time, we will also continue to evaluate ways to improve efficiency throughout the organization by continuing to focus on real estate portfolio management, back-office services, procurement and IT services. With the strong revenue growth we discussed earlier, coupled with good expense control, you can see a notable improvement in our operating profit on a year-over-year basis at the bottom of the slide, up 8% for the quarter and 60.1% year-to-date.

Growing our operating profit dollars remains one of our most important areas of focus. This strong growth in operating profit was also accompanied by improved margins, which you can see on slide 9. For the third quarter, our operating profit margin was 15.8% as expressed in terms of our reported total revenues. We continue to see operating margin improvement year-over-year, resulting from the proactive management of our discretionary addressable spend cost categories, including a reduction in travel and related costs, reductions in certain costs of operating our offices given the continued remote work environment as well as benefits from some of the repositioning actions taken back in the second quarter of 2020.

Lastly, on this slide, our reported EBITDA for the quarter was $560.3 million, up 7.4% for the quarter and 56.3% year-to-date. EBITDA margins also remained strong for the quarter and have expanded nicely year-to-date compared to last year. And we expect this strong performance to continue through the rest of this year.

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Let's now turn to our cash flow performance on slide 10, where you can see that in the first nine months of 2021, we generated $1.2 billion of free cash flow, excluding changes in working capital, a $114 million or 10% increase versus the same period last year. There were no material year-over-year changes for CapEx or acquisitions as we continue to conservatively manage our cash. While stock repurchases are down relative to pre-pandemic periods due to a curtailment during the pandemic, we resumed our activity during the second and third quarters of this year and we expect to continue in Q4 and beyond.

You should not expect a change in our historical approach to capital allocation and the use of our free cash flow in the future. We will continue to pay an attractive dividend. We have indicated that we increased our focus on acquisition opportunities and are in the process of closing on several acquisitions. Importantly, our acquisition strategy is focusing on the faster-growing disciplines in our portfolio and driving future organic growth for the company. And we will use the balance of our free cash flow to repurchase our stock.

Our strong cash generation again enhanced our credit and liquidity, which you can see summarized on slide 11. Our total debt was down about $500 million since this time last year as we eliminated the extra liquidity we added early on in the pandemic. We did this through the early retirement in Q2 of $1.25 billion of our 3.65% senior notes, which were due next year, partially replaced with the issuance of $800 million of 2.6% 10-year notes due in 2031.

As you can see in the slide, our maturities are well laddered with nothing due until late-2024 as we de-levered to pre-pandemic levels. As for our debt ratios, due to our overall operating improvement versus Q3 of 2020 and our recent refinancing activity, we've reduced our total debt-to-EBITDA ratio to 2.2 times and our net debt-to-EBITDA ratio to 0.4 times.

I'll end our prepared remarks today on slide 12, where you can see for the 12 months ending September 30, 2021 we generated a strong return on invested capital of 26.4% and a return on equity of 47%. Both metrics increased substantially over the 2020 levels. While these are just two points in time, it's important to remember our long-term track record of providing solid returns to shareholders through business execution and the resulting consistent allocation of capital to dividends, strategic acquisitions and share repurchases.

And that concludes our prepared remarks today. Operator, please open the lines up for questions and answers. Thank you.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Alexia Quadrani with JPMorgan. Please go ahead.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you very much. I guess my first question is on the overall advertising market. John, I'm not really asking about organic growth outlook, but more about the underlying state of the marketplace. Are you still seeing kind of an acceleration in growth or recovery? Are we sort of more at a steady state? I'm trying to get a sense if there's some verticals, whether it's entertainment or maybe auto that haven't fully recovered and therefore there's still better days ahead in theory ahead of us in terms of where we are in the recovery. And any thoughts, staying on that vein, of how we should think about the project-based business at the end of the year? I know you don't usually have a lot of insight this early on. But if you have any thoughts on that, I'd appreciate it. Thanks.

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

A

Sure. There are still some areas to come that clients would like to deploy money to, especially when it comes to live events and execution type of activities. We saw that start up again very robustly in China in the beginning of the third quarter slowdown in China as China continues to have some problems. But wherever it's possible, you can see that we're coming back. And companies like the insurance companies or some of our government accounts would like to get back out on the road and visit with people constantly. So, there's more to come, I think.

Having said that, our underlining – underlying growth areas have been, as I said in the call, CRM Advertising and Media, they've been strong and they're more than compensated for the not-yet-returned segments where people will, in fact, spend money as we move forward as more people get back to a regular schedule. And I think it's been 20 months since most people have shut down and it's – without any severe disease setbacks, I think we'll increasingly see more and more people back in offices and – because they're already going to sporting events and dinner and enjoying themselves. So, more to come, and I'm pretty bullish about the future.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

And just on the project – yeah.

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

A

Yes. On the project business, in truth, at this point, we have forecasted what our folks have told us. As you know, that changes and can change quite a bit as you go through the quarter. We are being a bit conservative this year because there have been supply chain concerns throughout this pandemic. They have gotten a bit more severe, but not outrageously more severe. And we know that clients will continue to spend at the level they're currently spending at. We just don't know if there'll be those year-end situations where they can deploy more dollars. So, I think it was pretty clear that we believe that – I think, for the first time, I didn't warn about that in all the calls that you listened to and probably for the first time I told you what we believe organic growth can be for the full year in terms of what we see right now.

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Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Yes. That's really helpful. I appreciate that. And maybe just one follow-up for Phil, if I may. On margins, sort of longer term – and I'm not looking for guidance for next year, but just more of a quality commentary. Shouldn't we see margins – not necessarily higher than this year obviously. But when you look versus a normalized year like 2019, should EBITDA margins be maybe a little bit better in theory? Just you have more of a normalized cost structure, but maybe not 100% back to the way it was pre-COVID. And, of course, you have some of the benefits of the divestitures and the restructuring. I'm curious how we should think about profitability versus, again, pre-COVID going forward?

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

A

Sure. In summary, I think, based on everything we know today, as we look out into the future beyond what John said in his prepared remarks, which was essentially we're comfortable that through nine months we're at an EBIT margin of 15.1%. We expect for the year, we will be 15.1%.

I think as we look out into the future, we don't expect that our margins are going to deteriorate from that. It's too early to forecast 2022, but we're optimistic that we'll be able to maintain those levels. There's an awful lot of unknown at the moment with COVID and returning to travel.

We have benefited from a reduction in travel expenses and some of the other addressable spend costs that our agencies have done a great job managing. We do expect to maintain some of that permanently. But as we grow, costs are going to come back. And the challenge for us is going to be to maintain them relative to a growing cost base. And we're confident that our performance through nine months will be sustainable, and our expectations for this year will be similar from a margin perspective going forward.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Thank you very much. Very helpful. Thank you.

Operator: And the next question comes from the line of Jason Bazinet with Citi. Please go ahead.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

I just had a simple question on slide 6, the disparity in organic growth between the US and the rest of world. Is the right way to interpret that, that the ICON disposition is [indiscernible] (00:34:21) in the US? Or is there other [indiscernible] (00:34:24) organic growth rate? Thanks.

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

A

ICON itself, you're correct, is a US-based business. So, certainly, that is a part of it. When you look at the components of our growth in the Experiential discipline, the growth outside the US was significantly higher than the growth inside the US. Both the US Experiential business and the international Experiential business grew rapidly in the quarter, which was certainly a positive. But the growth outside the US, which is more, say, large event-driven as opposed to the US business having some component of a consultative part of the business grew less rapidly. It grew great. Its performance was really good. But the US business grew at a less rapid rate than the

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international business. And we're happy with the performance of both. And then, in the US, as you said before, ICON, the disposition is largely a US-based business.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you very much.

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

A

Sure.

Operator: And the next question comes from the line of Ben Swinburne. Please go ahead – with Morgan Stanley. Please go ahead.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good afternoon, guys. I have two questions. The first for one or both of you, really, on using your balance sheet and cash flow sort of more aggressively. John, you talked about M&A last quarter and wanting to be more active. You guys have picked up the pace there a bit. But I'm just wondering if you think – if you would like to do larger deals if you can find them and they make sense financially, particularly in areas like precision marketing or if that's just a business where you're generally either building organically or buying kind of tuck-ins.

And, Phil, the same kind of question on the buyback. I mean, you guys bought back – you picked up the pace this quarter. But your balance sheet is in great shape. You don't have any maturities any time soon. Money is pretty cheap. Business is growing. Just curious if you guys think that the balance sheet should be a more offensive weapon, for lack of a better phrase, than what we've seen recently?

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

A

Let me see if I can answer your first question. The size of the opportunity really has never gotten in our way, one way or the other, in terms of our affordability for what we believe is a strategic and an accretive transaction. What is different – and I did mention it in the last call, you're right, was we went from a mode of cleaning up the portfolio to really reactivating our people that are looking for certain acquisitions in the areas that I outlined.

And the practice – in addition to the corporate effort that's going on there, each one of the practice areas that we're focused on for acquisitions has a similar group to the corporate group out scouring the market to find out if we can find partners that we want to do business with going forward.

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

A

So just to continue on what John had said and then talk about capital allocation more broadly. Certainly, our preference, as we've indicated, is to spend more of our free cash flow on acquisitions that meet the characteristics that we've typically described and that John touched on.

So we're very confident in the areas that we want to grow in and where we're looking for acquisitions, the faster growth areas and businesses that are going to contribute to an acceleration of organic growth in the future. But I

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don't think you should expect anything to change significantly in our approach to capital allocation. We'll continue to look at our free cash flow and pay an attractive dividend. We're going to continue, as we said, more aggressively to pursue acquisition opportunities in those higher-growth areas. And we expect to continue to be successful on that front.

We did start to get back in the market a little bit in the second quarter, more in the third quarter of this year in terms of buying back shares and using our free cash flow for buying back shares. That will continue in Q4. We don't set and won't set an acquisition bogey for 2022 in terms of a dollar amount or a percentage of free cash flow. And if there are more attractive deals available, we're going to pursue them. And if we overspend or under spend our free cash flow, we're going to do it for the right reasons. And our share buyback approach won't change in that broader context either.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

And then, if I could just ask a follow-up to Alexia's question on the revenue guidance for 2021 of 9%, I think that implies something like 5% or 6% for the fourth quarter roughly. John, you mentioned you were being conservative or the – your colleagues conservative on project. Is that sort of why we're seeing sort of a deceleration relative to last year's still pretty favorable comp in the fourth quarter? Or anything else you'd add about supply chain or anything else in Q4 that you'd want to highlight?

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

A

Sure. In answering Alexia's question, that forecast – that implied forecast I believe you've calculated to be pretty accurate, any projects that we have been able to forecast are included in that – in what we're saying. So, it's not without some activity. And each year, normally, as you know, I get on the call and say, well, growth, who knows what's growth's really going to be and what day because we don't know what the budget flush project spending is going to be.

We've taken a real hard look at it this year, and we've probably done a better job of ferreting out some of those unknowns than we have in past years. So, it's a fairly – based upon everything we know sitting here right now, it's a very reliable outlook.

Having said that, that's what we expect and that's what we are hiring for and planning day-to-day as we go through the tactics of running a business. If something were to come in, so be it. But at this point, I don't think it would be reasonable or responsible to forecast more.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Understood. Thank you.

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

Craig Huber
Analyst, Huber Research Partners LLC

Q

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Thank you. I have a few questions. First one, John, if you could just touch on – curious in your general conversations with your clients. What is the general tone of business from their end and how you think that's going to translate here into their marketing advertising spend that will go through Omnicom?

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

A

Sure. Most of the conversations that I've been having with our clients have been multifaceted. I mean, they're generally very optimistic that as people return to the workplace and start to spend money and start to get out of the house that we'll see more and more spending in growth, at least in the near-term. It's probably tempered by the supply that some of our clients can come through with in terms of the goods that are held up in port or they know will come – they'll be able to market, but they're not certain that they'll have them in their parking lots or stores to sell today. That's their issue for the most part.

We've spent a great deal of time looking at this and talking to people about it to find out what the impact is from those issues on the current level of spending that we're seeing. And we're very comfortable that we don't see any real cutbacks from what we're currently projecting for you so – and it's the great unknown. Everybody covers every bit of the news and all the rest. And I think all responsible people are focused on it daily so...

Craig Huber
Analyst, Huber Research Partners LLC

Q

Then, John, we've talked about this in the past. I mean, long term, once we get through the pandemic here that the economy normalizes out here, you've expressed optimism to get your organic growth rate back to global nominal GDP-type growth rates and stuff. Just go through for us why you're so optimistic you'd be able to get back to that, please.

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

A

The reason I have been optimistic is that in the three years leading up to the pandemic, what we would do will be strategically and I think sensibly and responsibly trimming and reshaping our portfolio for companies that we believe were going to contribute to our growth longer-term. And we finished for the most part that process at the end of last year – the beginning of the – I guess this year, forgive me. And last year, we started to truly search for and support using our acquisition dollars some of the areas that we have decided will be large contributors to growth going forward.

And so, the – our portfolio has changed, I guess, over the last several years. And we've been very deliberate during the pandemic to not take our foot off of the accelerator. And so, I think the portfolio we're left with matches what our clients need and they're going to spend their money now and for the foreseeable future. And we'll keep working at it and trying to grow it and make certain that we can provide services that, in the aggregate, I'm confident that we're going to get back to GDP-plus.

Craig Huber
Analyst, Huber Research Partners LLC

Q

And then, my final question. John, as you kind of look back on those three years or so prior to the pandemic where your organic revenue growth lagged global normal GDP, what else would you point to why that actually happened if you've had time to look back on that?

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

I just gave you what I think was the real principal reason. I'm sure there are many other factors. But I'd have to think more before I could point to any other single thing that will materially have impacted it. The reshaping of the portfolio is terribly important.

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

Yes. Certainly, we try not to dwell too much on the distant past either.

Craig Huber
Analyst, Huber Research Partners LLC
Q

Very good. Thanks, guys.

Operator: And the next question comes from the line of Dan Salmon with BMO Capital Markets. Please go ahead.

Daniel Salmon
Analyst, BMO Capital Markets Corp.
Q

Hey. Good afternoon, everyone. I wanted to return not – maybe not specifically to the Jump 450 acquisition. That made a lot of sense for OMG, retail media is a really hot space right now. What I wanted to ask about, John, was really how you feel about your e-commerce capabilities across the entire portfolio. Presumably, the accelerating shift to e-commerce is relevant to a lot of your agencies. So, would love to hear how you're capitalizing that across the group. Thank you.

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

Certainly. For a good part of 2020 and the earlier part of 2021, there was concerted effort, especially focused out of our media and retail shopper marketing practice areas to take a very hard look into skill sets and capabilities that we had within Omnicom and how we could ensure and accelerate our knowledge and importance to our clients as they depend more and more on e-commerce solutions to interface with their consumers and their customers. And we're very bullish that we have a pretty significant set of resources out there that are able to respond to that need. And it's one of the areas that we've identified and we continue to search for sensible acquisitions which will enhance the skills that are already within the company.

Daniel Salmon
Analyst, BMO Capital Markets Corp.
Q

If I could slip in one follow-up for Phil. With maybe the worst of the pandemic behind us, can you comment just a little bit on the type of leverage levels that you – and, John, maybe you could comment as well and the board are looking at over the near to midterm?

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

I think, after we recently de-levered, as we referenced, I think you can expect us to stay in and around our historical levels on a gross debt basis, so 2.2, 2.3, 2.4, in that neighborhood. I think the board certainly is

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comfortable with that. We, as a management team, are relatively conservative about our leverage levels. And I think you can expect to see us in and around those levels going forward.

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

I couldn't agree more with him. And if you looked historically, there have been two times when we've intentionally de-leveraged and taken any insurance out. One was after the Great Recession in 2008 and one was after the pandemic here. So, the management has been terribly consistent for a very long period of time.

Daniel Salmon
Analyst, BMO Capital Markets Corp.
Q

Thank you. Appreciate it both.

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

Sure.

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

Michael Brian Nathanson
Analyst, MoffettNathanson LLC
Q

Thanks. I have two for you guys along the same line. I wonder, over the past 18 months or so, what have you learned about your cost structure and client services that you can internalize and maybe save going forward. So, there has to be something that may have surprised you about how you went to market and maybe things that you could capture going forward. And then, the flip side of that is, John, there's always been times of hiring challenges. Could you talk a bit about either the wage pressures you're seeing or maybe the lack of candidates and the pressure to find good people? And is this time any different than prior times on those counts? Thanks.

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

Sure. And do you want to take the first part or I can...

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

Yeah. I'll start with the first part and then you can add. So, certainly, we learned quite a bit about our people and our businesses. Communication was certainly critical and continues to be critical with all constituencies that make up our businesses. So our employees, the people that manage our individual agencies, our clients, staying close to them throughout the pandemic, was certainly made possible by the technology investments we had made over the last several years. And we're able to do so without a hitch. So technology played a large role.

I think we've learned that there's an awful lot that we can do as a business and our people can do to service their clients using that technology to do things that we never thought were possible before. That's going to enable us, going forward, to look at the business a little differently and our infrastructure a little bit differently so that we can continue to get the most out of those technology investments going forward.

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We also think, from a people perspective, mentoring our people, especially our younger colleagues, it works best when people are together. Creativity works best when people are together. There's an awful lot we can do remotely, no question. We proved that out. But, over time, we're a culture that works best when we're together.

Certainly, the pandemic proved that we need to be flexible in that approach, and it may differ market by market or business by business. But I think we are a culture of collaboration. And while we can utilize technology to take advantage of a number of opportunities, we do work best and look forward to our people coming together to collaborate, again, in person.

And certainly, the acceleration of digital and e-commerce broadly in the marketplace and each of our clients pursuing their own strategies, our agencies have done a great job in helping them deal with all the changes that come with that. And certainly, our Precision Marketing Group has done extremely well in that area, helping its clients on a number of initiatives that they're pursuing in digital and e-commerce. And we're optimistic that that growth will continue at an accelerated pace.

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

I only have a couple of points to make in trying to answer your question, but feel free to come back if I don't cover it.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC
Q

Okay.

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

I would say, almost at any point in time, there's always a challenge to get more of the best and the brightest. This period of time has not made that any easier. And we continue to go out and search and try to bring into Omnicom those people who possess those skills and are looking for a place that has a truly defined culture that will offer them career paths that they can look forward to and a diverse set of clients in different industries that they can practice their craft on.

As Phil said, we also spend – as part of that culture, very dedicated, and we never cut back a penny on this on what we dedicate to training and the development of our younger staff. So that challenge is ever-present. Now, we, like everybody else, are faced with some nuance and some different challenges during this period, but we're also – as we faced some salary increases for certain things. We're a very highly incentive compensation type model. So in terms of what we pay out in total comp, we're well within our capability of dealing with any challenges that we've seen thus far and can anticipate in terms of the inflation and salary costs. So environment and culture becomes terribly important.

The other thing when looking at groups like ours which can't be overlooked is that our clients in their marketing departments are facing more severe challenges of losing talent and requiring our assistance in certain areas that maybe, in more comfortable times, they wouldn't have been as keen to buy or as wanting to be first in the queue to make sure that we can reserve those people to service their needs. So for everything that makes the glass half empty, we've been able to – and been blessed with being really half full.

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Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Okay. Thanks, guys.

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

A

Sure.

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

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

Q

Thanks. I've got a macro question and a business question. The macro question is about inflation actually. So we've talked about supply chain issues a fair bit on this call. But in previous macro cycles, inflation has often been a good thing for ad spending and, therefore, for your business. And I wonder if you have any thoughts on that, how that looks now, or if that maybe is a negative indication of some of the supply chain issues now instead?

And then, the business question – you're talking a fair bit about precision marketing here, which is great to hear. I wonder if you can give us a bit more color maybe on what are some of the M&A opportunities. It seems like that's the areas that you're looking at to bolster your Precision Marketing business. What kind of areas do you feel like you would like to fill out better? And how you would then look versus your peers? Thanks.

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

A

I don't know where to start. I mean, I can't predict inflation. But my CFO probably will take a shot at it.

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

A

So there's certainly been lots of press on inflation for quite a while now. Is it transitory? Is it not transitory? Plenty of people have an opinion, many of which are different. The Fed has their own opinion as to whether it's transitory. But certainly, sectors like CPG, auto, food have been impacted. And we'll see how it plays out over time. But to-date, the feedback we've gotten in our discussions with clients, it really hasn't been a negative or positive in having any kind of a meaningful impact at this point on their spending plans near term. So, we haven't seen and don't expect significant reductions in consumer spending in the near term. And ultimately, I don't think there's a definitive answer that anyone has at this point in time. We're just going to have to see how it plays out.

And then, regarding the precision marketing space, we've done a few deals of some business transformation consulting firms and also some martech consulting firms that have been quite successful. And we've built out Credera, the initial acquisition we did several years ago. It has some global offices now and more offices in the US than it had before, extremely successful. And we expect that that success will continue. And certainly, those are areas within Precision Marketing that we're looking for opportunities and we expect to find some additional opportunities. There's some other strategic areas within what could be viewed as a relatively broad category. But we haven't finalized any of those transactions. And we're not sure whether we'll be successful or not. But certainly, we've got our eye on a few different opportunities.

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Tim Nollen

Analyst, Macquarie Capital (USA), Inc.

Q

Thank you very much.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

At this point, I've been asked to thank everybody. And we're sorry if we couldn't get to all of your questions. And we hope to see you and speak to you very soon.

So, with that, I just want to say thank you for joining us and giving us your time.

Philip J. Angelastro

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

Thank you.

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

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