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Omnicom Group, Inc. (OMC)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Operator: ....Earnings Release Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [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 fourth quarter and full year 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 as well as a webcast of this call. An archived version will be available when today's call concludes.

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Before we start, I'd 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 September 2021 Form 10-Q. During the course of today's call, we will also discuss certain non-GAAP financial measures. You can find a reconciliation of these 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. And after our prepared remarks, we will open up the lines for your questions.

I'll now hand the call over to John.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

Thank you, Greg. Good afternoon everybody and thank you for joining today. We're pleased to share our fourth quarter and full year performance. We exceeded our expectations for the quarter and for the year. Our organic growth for the fourth quarter was 9.5% and was broad-based across geographies and disciplines. The full year finished at 10.2% organic growth. Our improved performance was underpinned by our Precision Marketing discipline, which is helping clients transform their business, so they can engage directly with their consumers through digital platforms.

We also benefited from the continuing rebound in our Experiential discipline as more in-person events resumed in Q4. Our revenue performance flowed through to our operating profit and bottom-line. Our operating profit margin for the fourth quarter was 16.1%, resulting in full year margin of 15.4%. Earnings per share for the quarter was $1.95, up 6% versus 2020. For the full year, EPS increased 49%.

Finally, our cash flow and balance sheet remained very strong. Overall, I'm very pleased with our financial performance for the quarter and year, and optimistic about our prospects heading into 2022. Looking forward, we're forecasting organic revenue growth of between 5% to 6% for the full year 2022 and we anticipate delivering the same strong margin that we delivered in 2021.

With the pace of change in the digital space accelerating, we've continued to evolve our existing capabilities and invest in new and innovative offerings to meet the needs of our clients and future prospects. These efforts have allowed us to be extremely competitive in the marketplace by providing a suite of services and capabilities that position us to reimagine and strengthen our clients' businesses, brands, services and products. Seamlessly connect them with their consumers across the marketing journey by leveraging Omni, our insights and orchestration platform, transform their marketing and customer relationship technology platforms and innovate in digital, e-commerce and new media channels.

One area where these investments are making a demonstrable impact is in our Omnicom Precision Marketing Group, which offers MarTech and digital transformation consulting, decision sciences, customer experience design and targeted customer marketing programs for our clients. In November, we closed on the acquisition of BrightGen, a Salesforce Summit Partner that will extend OPMG Salesforce capabilities and reach in Europe. The success of Omnicom's Precision Marketing offering is reflected by the group's wins with some of the world's largest brands such as Phillips, Mercedes, Nike and Diageo and by its financial results. The Precision Marketing discipline grew by 19% in 2021.

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Much of the work conducted within Omnicom Precision Marketing is supported by foundational AI decisioning layer and technology integrated with Omni, our open operating system that orchestrates better outcomes. Omni is built for collaboration across the entire company, acting as a single source of data and process workflow from insights to execution. It empowers our people and clients to make better and faster decisions, maximizing efficiency and ROI. A key emphasis for us going forward is to continue to fill the demand for services across the marketing journey by offering more services to our existing clients and winning new business relationships.

Our objective in part is to increase the number of clients who consolidate more of their services with Omnicom. These are significant growth opportunities for us where our suite of services, creativity and culture of collaboration, all supported by Omni give us a competitive advantage. In addition to our integrated wins, our world-class talent and agencies had numerous recent new business wins within their specialties and across geographies. Our success on our wins in 2021 has resulted in us expanding our services and continues to inform our priority investments and M&A strategies.

We are also increasing our investment in such areas as AI and automation, e-commerce, performance media, data and analytics as well as in high-growth industry opportunities such as gaming and the metaverse. We recently completed the acquisition of Propeller, a digitally-native engagement agency that specializes in healthcare, another area we expect will continue to see strong growth. Propeller is a fast-growing omnichannel strategy, content and delivery agency that embraces and mobilizes data to deliver meaningful results for its clients.

At Omnicom today, our emphasis is around developing our future talent and continuing our disciplined succession planning. With this in mind, we made important senior management changes this past quarter. Daryl Simm moved into the newly created position of President and Chief Operating Officer of Omnicom, after serving as CEO of Omnicom Media Group for more than two decades. Daryl will now work directly with me to oversee business operations across Omnicom. Florian Adamski, who was previously CEO of OMD Worldwide and helped the agency earn back-to-back Adweek Global Media Agency of the Year titles in 2019 and 2020, has succeeded Daryl as the CEO of the Omnicom Media Group.

After more than two decades of overseeing the growth of our DAS network, Dale Adams, as planned, stepped down as Chairman at the end of 2021. We are grateful for his many years of leadership and commitment to Omnicom and wish him all the best. Michael Larson and John Doolittle have been promoted to CEO of DAS and CEO of the newly created Communications Consultancy Network, respectively, reporting to me. Both of them have worked closely with Dale and have been a driving force within DAS for many years. They are highly talented executives who are skilled at managing agencies in a range of disciplines.

With these leadership changes, I couldn't be more confident about the continued success of our group. Our people are our greatest asset, and we are constantly looking to invest and create opportunities for them across the enterprise, especially during a time when the war for talent is fierce, attracting and retaining talent is a top priority.

We have made many changes. We've also instituted new programs that provide greater career mobility across our agencies, allow for agile and flexible work arrangements, and expand our investments in technology, learning and development programs, while maintaining competitive benefits and compensation programs.

We also want Omnicom to be a company that our people can be proud of and want to work for. Over the years, we've been focused on the role we play in critical areas such as environmental, sustainability and diversity, equity

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and inclusion. In 2021, we named new leadership and expanded our teams in these high priority areas so that we can continue acting on our goals and implement new initiatives.

In fact, this past year, we are the only company in our industry named to Newsweek's list of America's Most Responsible Companies. We aim to achieve more in the new year, so we can ensure Omnicom agencies are a destination of choice for top talent. We're entering the new year in a very strong position with a sharp eye on our key strategic initiatives, which remain our talent, dedication to creativity and building our already strong capabilities in precision marketing and MarTech consulting, e-commerce, digital and performance media, and predictive data-driven insights, all of which are fully supported by Omni.

In closing, I'd like to recognize and thank our people around the world. You are the reason we delivered such strong results this quarter and for the full year. You kept your focus and commitment to Omnicom's clients and operations, even with the ongoing challenges of the pandemic. Your efforts in these tough times are noticed and appreciated.

Thank you. 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. Thank you for taking the time to join us today. Our fourth quarter results continued the momentum of the third quarter and helped us finish the year in a strong position. While the world isn't the same as it was pre-pandemic, we are in a stronger position to serve our clients in 2022 and beyond.

Let's begin with a brief look at our income statement on slide 3. Growth in revenues and operating profit flowed through to net income for both the quarter and the year. Combined with the resumption of our share buyback program, we had 6% growth in diluted earnings per share. Dividends grew 7.7% in 2021, and we're pleased to resume this growth after maintaining our dividend payments throughout the pandemic.

Please turn to slide 4, and we'll go through our results in more detail, starting with revenues. Our total revenue growth in the quarter was 2.6%, while our organic growth for the quarter was 9.5% or $358 million. The impact of foreign exchange rates decreased our revenue slightly in the quarter by just 30 basis points. However, if rates stay where they were at January 31, we estimate that the impact of foreign exchange rates will reduce our revenue by approximately 2% in both the first and second quarters of 2022.

The impact on revenue from our net acquisitions and dispositions decreased revenue by 6.6%. This was consistent with our expectations and is primarily the result of disposition activity from Q2 of 2021. We have also acquired some excellent businesses in key growth areas, which I will discuss later. Based on transactions completed to date, we estimate the impact of acquisitions, net of dispositions, will reduce our revenue by approximately 9% in the first quarter and by approximately 5% in the second quarter of 2022, and we expect positive acquisition growth in the second half of 2022.

Slide 5 presents the changes in our total revenues by business discipline. Advertising, our largest category, posted 7.4% organic growth in the quarter. Both our media agencies and our creative agencies contributed nicely to this growth. Precision Marketing grew 19.6% organically in the quarter and is now 8% of our total revenues. As John discussed, the businesses in this discipline are doing exceptionally well and have a great pipeline for their work in digital and marketing transformation consulting services, e-commerce, marketing sciences and digital experience design.

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Commerce & Brand Consulting was up 12.4%, with widespread strength across our larger agencies. In Commerce, our agencies experienced strong growth, although off a reduced base. In Brand Consulting, we're seeing benefits and good activity in the technology sector and from corporate branding aimed at reputation, ESG and DE&I. Experiential's growth in excess of 50% benefited from a return of some in-person events throughout the fourth quarter before the Omicron variant took hold, and we expect continued growth in 2022, although likely choppy, as brands look to engage with consumers in person.

Execution & Support was up 5.2%, with growth in the US businesses exceeding the performance of our businesses in Europe, where our field marketing business was impacted by the new variant. PR was up 4.4% and Healthcare was up 4.5%. Both of these disciplines reflected strong performance across their agencies. It's worth remembering that they performed relatively well throughout the pandemic. So, we are pleased with the results.

Flipping to slide 6, you can see that we grew organically in each of our regions and growth came from most of our disciplines within these geographies. In the US, our 7.8% organic growth was slightly higher than last quarter, led by advertising and media as well as precision marketing, where growth remains over 20%. Also, results for our Experiential business in the US this quarter were quite strong, as I mentioned.

Outside the US, growth was led by the UK and the Asia Pacific region, with strong PR, media and commerce and consulting results in the UK and broad strength across the board in Asia. It's worth mentioning the strong organic growth of 48% for the Middle East and Africa, our smallest region. Revenue in Q4 of 2020 was down over 35%. In Q4 2021, advertising and media performance was strong. And this quarter's results were also positively impacted by experiential revenue related to the Dubai Expo, which was initially scheduled for 2020.

Looking at revenue by industry sector on slide 7. Relative to full year 2020, there was a two-point increase in our revenue mix from technology clients, offset by a one point reduction in the revenue mix from pharma and health.

Let's now turn to slide 8 for a review of our operating expenses. Salary-related service costs, our largest category, increased by 11.1%. As expected, these costs, which include freelance support, increased along with our increase in revenue as the travel and entertainment costs, which aligns with the fact that our people are slowly going out in certain markets and meeting with clients in person. The next line item, third-party service costs were down 11.2%. They decreased by approximately $220 million from dispositions and were offset by an increase of approximately $100 million from growth in our businesses.

Occupancy and other costs, which are less directly linked to changes in revenue, were up 4.2% year-on-year due to higher general office expenses as we return to the office, offset by lower rent and other occupancy costs as we continue to use our spaces more efficiently. SG&A expenses were up 8.4% on a year-over-year basis due to an increase in marketing, professional fees and new business costs. In total, our operating expense levels were up slightly, less than 3% from the fourth quarter 2020 to 2021. We're comfortable with this growth because it is linked to a return to the pre-pandemic environment as well as our continued revenue growth, new business opportunities and investments for future growth.

If you turn to slide 9, you can see our operating profit growth and our margin performance. For the quarter, operating profit increased 1.3% and represented a 16.1% operating margin. This is a slight margin decline from the fourth quarter of 2020, when expense levels were well below normal. Our fourth quarter EBITDA change and margin performance was similar. For the full year, operating profit was up 37.5% with a margin of 15.4% and EBITA was up 35.4% with a margin of 15.9%.

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As we look forward, while we expect to continue to see a return of certain costs to more normalized levels, we also expect that they will be offset in part by reductions in certain discretionary and infrastructure costs, resulting from new ways of working and efficiencies achieved during the pandemic. As John mentioned earlier, for the full year 2022, we anticipate delivering the same strong reported operating profit margin of 15.4% that we delivered in 2021. And as always, we will continue to focus on growing our operating profit dollars.

Let's now turn to our cash flow performance on slide 10. We define free cash flow as net cash provided by operating activities, excluding changes in working capital, which are generally positive for us on an annual basis. Free cash flow of $1.8 billion, grew 5.4%. We're pleased with the strength of this important metric. Regarding our uses of cash, we used $592 million of cash to pay dividends to common shareholders and another $113 million for dividends to non-controlling interest shareholders. We maintained our dividend throughout the pandemic in 2020 and increased it by 7.7% in 2021 to a quarterly rate of $0.70 per share.

I'm going to discuss capital expenditures in two pieces. Our normal capital expenditure levels were unchanged from 2020. Additionally, in the fourth quarter of 2021, we had a very unique opportunity to purchase our primary office building in London for approximately $575 million. Subsequent to the purchase during the fourth quarter of 2021, we issued £325 million notes due in 2033, with an attractive 2.25% coupon.

To give you some background, we have more than 5,000 people that work there for multiple agencies. It's our largest office building globally and our second largest market. We've been consolidating space in London for some time and have exited 31 buildings since 2015. London is a key market for our future. And this building is in the Southbank area, west of London Bridge near the Tate Modern, a culturally vibrant area of London key to attracting and retaining talent. Financially, it's an attractive opportunity for our business. And we will avoid expected market increases on our rent that didn't compare favorably to outright ownership. The purchase of this building has not changed our capital allocation strategy and did not impact our credit rating.

Acquisitions picked up relative to 2020 at $202 million. As we talked about last call, we are investing in the areas most important to our clients and therefore, to our future revenue growth. Two acquisitions in the fourth quarter of 2021 are highlighted at back of this deck. JUMP 450 Media, a performance media agency that is now part of Omnicom Media Group. And BrightGen, a digital business transformation specialist that is a significant implementation partner for the Salesforce marketing stack. BrightGen is now part of our Precision Marketing Group.

And lastly, we ramped up our stock repurchases during the fourth quarter, bringing the year to $518 million. As you know, our pre-pandemic annual range was $500 million to $600 million. So, we are solidly back on track with this important total return component for our shareholders. Our historical capital allocation has been very consistent. Using our free cash flow for dividends, stock repurchases, and acquisitions. We don't expect this to change going forward. Although we do see more opportunities for acquisitions similar to those we completed in 2021. These tuck-in type acquisitions are efficient for us because the acquired agencies and their service offerings can contribute across our group to serve an embedded base of clients and to help win new ones.

Slide 11 shows our credit and liquidity. Notwithstanding the sterling note I just mentioned, you can see that our other financing activities throughout the year lowered our outstanding debt from December 2020 to December 2021. At year-end, our total leverage was 2.4 times. In addition to the $5.3 billion of cash on the balance sheet at year-end, we also have a $2 billion commercial paper program backed up by our $2.5 billion revolving credit facility.

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I'll end my prepared remarks today on slide 12, which shows our strong return on invested capital of 33.4% for the fiscal year 2021 and 44.3% return on equity. Both of these took notable steps up from 2020 and remain very healthy indicators of the strength of our business and its attractiveness to shareholders.

At this point, operator, please open the lines for questions and answers. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we'll start with David Karnovsky. Please go ahead.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. John, I was wondering if you could provide some additional color around your organic outlook for 2022. What assumptions are you making around pandemic or supply chain headwinds? And does your outlook at this point account for a full return to events and execution businesses?

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

A

Okay. Well, certainly, we've taken all of that into consideration. I'll first start off with the last part of your question, which is the in-person execution type of event businesses. They're certainly – we anticipate that they're going to be a little slower in the first quarter, and possibly even in the first five months of the year because of the variant and that kind of put markets back on its heels a bit, but we see it fully coming back by the second half of the year.

So, we've taken that into consideration and given the guidance that we've given. We've also taken into consideration and we've looked very closely at our companies that service certain sectors that have had more difficult time with the supply chain than others. And we've been, I think, reasonable, if not conservative in our estimates of what kind of revenue we expect to see there. The growth that we're projecting really is a result of the many wins that we had this year of both new clients, but also expanding our services to existing clients. Does that answer your...

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Yeah. No, that was great. And then for Phil, wondering if you could just speak a little bit more to the puts and takes on the margin outlook. How does the purchase of your London headquarters impact that? And then just to confirm, is the guide for a consistent margin against your reported figure, I just wanted to check as you did have the $50 million gain from the ICON sale in there.

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

A

Yeah. In terms of the margin, I think we gave a number. So, I think the number is the number, and that's our expectation for 2022. You can view it as it happens to be the same number as 2021. What's in it in 2022 will be a lot different than what's in it in 2021.

There's going to be a lot of puts and takes in the cost structure as the business continues to ramp up and grow and some costs come back into the business that have taken a little time to get there, offset by some efficiencies

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from outsourcing and automation and other discretionary costs being controlled and reduced. So, there's going to be a lot of puts and takes in the cost structure in 2022 relative to 2021. But we're confident that we'll deliver what we delivered – sorry, in 2022 – we're confident we'll deliver in 2022 what we delivered in 2021 from a margin percentage perspective.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Very clear. Thank you.

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

A

Sure.

Operator: Next we'll go to the line of Jason Bazinet. Please go ahead.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Just had a question on the disposition headwinds. You talked about minus 9% in the first quarter, minus 5% in the second quarter. Does that assume more acquisitions sort of coming in? Or is that just the normal sort of seasonal profile of the businesses that were disposed of that accounts for that?

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

A

Sure. I'll take a stab at it and then Phil can add. As we've said I think on the last couple of calls, we more or less completed our review of – and actions taken on major dispositions by the second quarter of last year. And since then, we've been very actively engaged in trying to purchase services in the areas that we have outlined. So what you see in the first half of this year in Phil's comments is the residual of actions taken through June 30 of last year, for the most part. And we fully expect when you look at the second half and beyond that acquisitions will be what you see in our numbers.

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

A

There's some choppiness and/or seasonality in the dispositions in the first quarter of last year, while the number is a little bit bigger. But the way we calculate that number, we do an estimate based on transactions that have closed to date. So we certainly have a robust pipeline of acquisitions that we're looking at. Some of them we will do, some of them won't work out. But as we look out at the year, knowing what we know today in terms of what's been completed today, that's our expectation for the first quarter and the second quarter. We expect that number will change.

The net number will change as we complete some transactions, as we complete some acquisitions, I should say, throughout 2022. So, we expect acquisition growth net in the second half, in the third quarter and the fourth quarter. And if we close on some transactions earlier in 2022 that we've been negotiating, the negative number might come down a bit, but that's where we stand today.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

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Okay. That's very helpful. Thank you.

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

Sure.

Operator: And next, we'll go to the line of Ben Swinburne. Please go ahead.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Thanks. Good afternoon. John, 5% to 6%, obviously, very strong guide for 2022. I think that would be your highest organic growth year since – obviously, other than the COVID rebound in 2021 since back in 2015. When you step back and think about the repositioning of your portfolio, is that the biggest sort of difference between what we saw in the several years before the pandemic when growth was sort of 2% to 3% and what you expect now?

Would you chalk it up to sort of changes in product offerings? Or anything else you'd add? I'd be interested in sort of your high-level perspective on that. And then I just was wondering if you guys saw a lot of variability on that 5% to 6% through the quarters because the comps from 2021 are all over the place. So I was just wondering if you had any advice in thinking about the quarterly progression. Thank you.

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

Well, yeah, you've been on quite a few of our calls. So I know you've heard versions of this in the past. Starting 2015, our primary focus post that was looking at the portfolio and looking at the assets that we had and with the critical eye of would we want to own these assets five years from now? That was an ongoing process, and it resulted in us doing dispositions and being less focused, I would say, on acquisitions.

Two years ago now, that clarity during – actually during COVID, we were very happy that most of the dispositions that we had planned for, we were able to execute. And we started to gear up our M&A machine again, which had been dormant, I would say, in the 2016, 2017, 2018 period, and that includes both the efforts that are made here in corporate plus in certain select practice areas where we've decided to focus on growth because that's where we see the business going.

And in speaking to our largest clients, the types of services that are going to be required in the future and that they're very happy to extend their relationship with us on. And as you know, we've always had a very disciplined approach to this. And if we couldn't buy it at the right price, we'd build it. Sometimes that hurt our P&L. But I think we're in a very good position today, and we're very comfortable with the portfolio, and we're very purposefully looking at certain acquisitions in the areas that I kind of outlined because we think that's where the market is going.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Right. Got it. Anything for the quarters, I don't know if you or Phil had a comment or?

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

Yeah. As far as the quarters go Ben, I think at this point in time in the year, as you can imagine, we don't have a lot of visibility into certainly the fourth quarter and/or as much into the second half. We're certainly very comfortable with our expectations in the first half of the year. And I don't think I would look at the quarters right now based on what we know as varying significantly or bounce around a tremendous amount. Other than our typical approach, we're pretty conservative about the fourth quarter because we don't have as much visibility...

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Got it.

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

...or certainty until we get closer.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Thank you, both.

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

Sure.

Operator: Next, we'll go to the line of Michael Nathanson. Please go ahead.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC
Q

Thanks. Hey, John, I have two for you. Following up on Ben's question on organic revenue growth. I wonder if you can talk a bit about how do you think the impact of all these new privacy initiatives like IDFA, the end of cookies. How that's impacting your outlook for growth? Are you seeing a shift, a material shift in demand for your services in areas that address those shortcomings?

And if you would agree that we're seeing accelerated growth in behavior from clients and customers. How do you juggle maybe the big transformative acquisitions some of your peers have done versus the tuck-ins? And how would you – how do you balance the thinking on maybe doing a big deal that push you further along versus smaller tuck-in deals that maybe more accretive?

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

Well, I'm going to attempt to answer your questions best I can. I have enough trouble running Omnicom, so I don't really worry about the huge acquisitions that my competitors are making. When it comes to us, and I think there's an article in Forrester and some of the other magazines and other publications have picked up yesterday, with a client speaking to this subject more than – so it should carry more credibility than me saying something about it.

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

A

On Omnicom.

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

A

About Omni, about on the investments we've made, the transparency that we stayed absolutely committed to in an ever-changing environment where the transparency – I mean where privacy rules are changing and being reinterpreted as we sit here tonight, both outside the United States and even in certain of the larger states in the country. And we don't think that that's over. We think that's still an open subject.

But we think we're in a great position to not have to defend any moves that we've made or revenues that we've purchased, and we can adapt our services and our partners to whatever the current market conditions require. But we all would agree that this is something that governments that have been playing around with it and talking about it and courts in certain jurisdictions are actually starting to look at a lot closer than any time in the past. So, we're very, very happy with it.

I think the key takeaway, if you glance at that story that I referred to, is we've built Omni initially as a media product for audiences and other things. And what we've been able to successfully accomplish in the last several years as we've been rolling it out is it's become the operating platform which informs every aspect of the services that we provide to clients that allow us to deploy it.

And that's why in my comments, I noted that there are really two areas where we're going to get growth next year. One is in continuing to win new business, but as importantly, to extend services in areas that we're not currently servicing long-standing client relationships. So, the confidence is built on a pretty detailed look at ourselves versus our competitors in the marketplace, and we're very, very comfortable with the decisions that we've made.

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

A

Relative to your question and some of the prior ones, one thing not to lose track of is even though we were largely focused on or the results show, we certainly pruned the portfolio, did some dispositions over the last three or four years and less in the acquisition area, we've been investing pretty heavily in this space, data and analytics, and the Omni platform for well over 10 years – 10, 12, 14 years, making some significant investments.

So, we've been preparing and adjusting our approach all along. We didn't have a need to do a multibillion dollar acquisition from our perspective. Our focus has been on building a platform that gave us the flexibility that John was talking about and focusing on intelligence and decisioning and activation and outcomes, not just data ownership and/or first-party data management. There's a bit of risk there given all the changes in the privacy rules and regulations, but we'll certainly be monitoring those as things evolve at a pretty rapid pace.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Thank you both.

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

A

Sure.

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Operator: And next, we'll go to the line of Steven Cahall. Please go ahead.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Thanks. Maybe first just on compensation. I'm wondering what kind of salary and expense growth you've got baked into the flat margin guidance? And it sounds like with that really strong organic growth guide, you're going to be bringing a lot of people on board this year. So, we'd just love to get your view of what the wage inflation environment looks like?

And then related to that, Phil, I was wondering if you could help us with free cash flow conversion. Sometimes it's a little lower when you're growing and a little better in years when you might be shrinking. So, anything we should be mindful of in terms of working capital or anything like that as it relates to your free cash flow conversion in this high growth year? Thanks.

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

A

Sure. Let me take part of it and then Phil can supplement what I say and answer the specific question you addressed to him. I think we ended the year at the same employer – employee level as we were pre-pandemic. And I think in the last year 2020 to 2021, we went from about 65,000 folks to a little over 70,000 employees. So that growth is there.

There is no denying that there is wage inflation and that we've been coping with this and dealing with it. We're also not anticipating inflation, but anticipating how do we improve our productivity, we've been making investments, as Phil mentioned in his comments, outsourced, to automate, to look to the future in terms of AI and what contribution they can make. So there are quite a bit of puts and takes in terms of what we expect to face from a salary and wage inflation point of view. And we've been very careful before we got on this call and said that we could maintain our margins – our strong margins at last – the 2021 levels.

Phil, you might want to?

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

A

Yeah. Just one or two things to add on the margin front. As John said, we're back to pre-pandemic levels in terms of the employee base. We also wouldn't necessarily look at 2022 and the guidance we've given as far as margins and say, yeah, it's just flat. We think if you look at 2021, 2021 is still not a normal year, certainly, 2020 was not a normal year. Not all the costs have come back into the normalized business.

So there's some opportunities certainly that we're going to have to take advantage of for some cost reduction achievements in 2022 to kind of get to this normalized level, which is in a pretty meaningful way better than pre-pandemic margin levels. So we're pretty satisfied with the performance in 2021. We're looking at our expectations for 2022. We'd view them very positively in terms of the margins that we expect to deliver in 2022 as well.

And then specifically related to the free cash flow question, I think if you go back through our numbers historically, back to 2017 and prior, we've been delivering $1.6 billion, $1.7 billion up to about $1.8 billion this year in free cash flow very consistently. We don't expect a meaningful drop-off in our performance. And in fact, if anything, we think the pandemic period, our people performed very well in this area, and I think we've gotten even better through

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some of the things we've learned, managing our free cash flow during the pandemic. So we don't expect a meaningful drop-off at this point.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks for that context.

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

A

Sure.

Operator: Next, we have a question from the line of Tim Nollen. Please go ahead.

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

Q

Hi, thanks for taking the question. I've been jumping around a bunch of calls. So apologies if this question has already been asked or if you've addressed it. But on your last earnings call, you talked about a pretty decent pipeline of deals that you're working on. I do know you said a few in the quarter here. Just wondering if you could talk a little bit more about what other assets you might be looking to acquire? What the tuck-in looks like? And if there's any other divestitures in the works. You've done a number of these over the years. I think you're largely done with those, but if you could address that. And again, apologies if this has already been addressed.

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

A

No, it's okay. It's an important question to ask. We don't have any major dispositions under consideration. So that for now is in the rearview mirror. As we've said and we might have said it earlier, when maybe you were jumping around, we've been focused on the fastest-growing part of our business, which is the precision marketing, the data and analytics, business transformation consulting, e-commerce because everybody is doing, it's really commerce and performance media and healthcare and our acquisition pipeline is in those areas.

And there are a number of conversations that are ongoing and we fully expect that we'll be closing deals after this call and as we move through the rest of 2022, in these areas. If some other great opportunity pops up, thank God we have the financial resources to look at it and take advantage of it because we have not – we've maintained our agility and flexibility with respect to how we can view the needs of our clients and how we can best serve those.

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

Q

Okay. Thanks. And if I could just follow up quickly. I assume that the pricing environment is good enough for you now that there are opportunities to be had.

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

A

I've never been happy reaching into my pocket and paying a shekel more than I've had to. So the one thing that pivots off of the list of areas that I just recited is that the acquisitions we're looking at, we'll be able to look at them independently and be happy with them, but we'll also, more importantly, believe that we can leverage them with our existing client base and the existing needs of our clients.

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

Q

Thanks, John. Your history of the deals, I think, speaks for itself. So appreciate the color there. Thanks.

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

A

Yeah. But you watch every shekel as if it's my own.

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

Q

Thank you.

Operator: And next we go to the line of Craig Huber. Please go ahead.

Craig Huber
Analyst, Huber Research Partners LLC

Q

Thank you. John, my first question, just sort of big picture, I think most investors would be very happy if you guys delivered 5% to 6% organic revenue growth. Can you maybe share with us, if you would, the tone of the conversations with your clients as I sort of think about the marketing advertising budgets for this year, and how optimistic are they, are they leaning into brand awareness out there, driving transactions? Let me just touch on that first, please?

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

A

Sure. I mean, I think the focus of every CEO out there is how do they create better relations with their customers, gain better knowledge of what their customers' needs are and develop a relationship with them because that will not only add to their performance in 2022, but sets the foundation for their relationships going forward. No one is going to deny that there are challenges both in the correction of what – however long the supply chain takes to work its way through. I think we'll be at better place when that actually occurs and the fact that we're, at the moment, suffering from inflation that we haven't seen in quite a long period of time.

So our customers are very – our clients – I won't even call them customers, I'm sorry, are very focused on growth and also they're keenly aware that each one of their customers are being influenced by messages 24/7 and bringing clarity about their products and identification and reasoning why they should be selected is what we're expert in. And so there haven't been any celebrations or parties, but a lot of very strategic and tactical conversations about how we're going to grow the business and how they're going to grow their business. So it's not oddly enough, when you get on these calls or you get in front of a potential client, there's a tendency to talk about us, we're a service provider. We're here to sell our clients' products.

Craig Huber
Analyst, Huber Research Partners LLC

Q

John, as you know, ever since Facebook reported a few days ago, there's been a lot of talk after that about TikTok and taking a lot of share out there of users' time on their mobile devices and so forth. I'm curious from your standpoint, from advertising going to TikTok or similar platforms like a Snap, Snapchat or what have you. Are they sort of viewed out there by your customers as more of experimental? Or has it really started to pick up steam after the advertising revenue shifting there?

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

I can't really speak to Facebook's issues short-term or longer-term. But we are agnostic in terms of where we – who we partner with and where we get the information that we need in order to sell those clients products. And you look beyond the immediate to the impact of gaming and the impact of Metaverse whenever – and as that really folds out from just a word to really capturing the attention of consumers.

And the great thing about the position that we're in today, and I think the decisions we've made is we've remained incredibly flexible and not tied to any – I would say not only any single, but any multiple sources of gaining that data. And we – if it makes sense for our clients for us to have a relationship with TikTok, it gets stronger if it makes sense for us to spend more money with Google and some of the efforts that it's doing, we can easily do that.

We are an agent, but one that has built that flexibility and almost acknowledge that we can't accurately predict that. But what we can accurately predict is the fact that if we're flexible and we're not defending any previous decisions, we'll always be able to keep what's important in mind, which is the client and the client's requirements.

Craig Huber
Analyst, Huber Research Partners LLC
Q

Great. Thank you, John.

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

I guess it's coming up on – any other question?

Operator: And we have no other questioners in queue at this time.

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

I want to thank you all for joining us. We'll see on the next call.

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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