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Omnicom Group, Inc. (OMC)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Omnicom First Quarter 2022 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.

Good afternoon. Thank you for joining our First Quarter 2022 Earnings Call. With me today are John Wren, Chairman and Chief Executive Officer; and Phil Angelastro, Executive Vice President and Chief Financial Officer.

On our website, omnicomgroup.com, we've 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 An archived version will be available when today's call concludes.

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 2021 Form 10-K.

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During the course of today's call, we will also discuss certain non-GAAP measures. You can find the 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. After our prepared remarks, we will open the line up 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 are pleased to share our first quarter results.

Before I discuss our performance, I want to address the ongoing war in the Ukraine. We continue to be witness to this horrific war, and our focus remains the safety and well-being of our Ukrainian colleagues and their families. We've been in constant contact with our agency leaders in the Ukraine and continue to deliver needed humanitarian assistance and support.

I was privileged to meet our senior regional leaders in Warsaw a few weeks ago. I continue to admire the tremendous bravery of our Ukrainian colleagues as they defend their country and protect their families. Since the onset of the war, our teams in the region from Poland, Czech Republic, Romania, Slovakia, Bulgaria and Hungary have been providing extraordinary support to their co-workers from Ukraine. It was truly remarkable to see.

I'm honored to lead a Company with a culture of caring and compassion that displays such unity and strength. I want to extend my gratitude to our people around the world that have selflessly and tirelessly worked to help our Ukrainian colleagues. We hope for an end to these atrocities and a peaceful resolution to the war. Omnicom will continue to offer whatever assistance is necessary and will support our people for as long as needed.

Turning now to our financials, we increased our operating margin and exceeded our expectations for the quarter with organic growth of 11.9%. We made the decision to withdraw from Russia and dispose of our operations. As a result, the financials for the quarter reflect our Russian business only through the end of February. We also took a charge arising from the effects of the war in the Ukraine. Phil will provide more details during his remarks.

Our revenue growth and margin performance in the quarter was very strong across all geographies and disciplines. Our revenue performance reflects the continuing investments that our clients are making to strengthen their marketing, branding, consumer experience, e-commerce and digital transformation efforts in a rapidly evolving digital economy. Operating profit margin for the quarter excluding the charge arising from the effects of the war in the Ukraine was also very strong at 13.7%. This is 10 basis points higher than our margin in 2021. I want to compliment our agency management teams for growing their businesses while tightly managing costs, in line with revenue growth.

Earnings per share for the quarter, excluding the charge, was $1.39, up 4.5% versus 2021. Finally, our cash flow and balance sheet remain very strong and support our primary uses of cash: dividends, acquisitions, and share repurchases.

During the quarter, we continued to invest internally and through accretive acquisitions in high growth areas like CRM and Precision Marketing, digital transformation and MarTech, data and analytics, e-commerce, performance media, and the health sector.

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In the quarter, we acquired TA Digital, a leading global digital experience consultancy. The acquisition further expands the digital transformation, content management, commerce and customer experience capabilities within the Precision Marketing Group.

Throughout the group, our agencies are delivering connected consumer experiences across media and commerce platforms within owned, paid, and earned environments. All of this is enabled by Omni-ID, our proprietary person-based identity solution, delivering reach and precision that is part of our Omni open operating system.

Omni-ID is built to be privacy-compliant and is a future-proof framework for a post-cookie marketplace. It delivers the highest possible degree of first-party and CRM data management, control, and governance.

Our investments in these high-growth areas, in our data and technology capabilities and in our best-in-class talent, have positioned us extremely well to service our clients now and in the future.

I want to take a moment to welcome and congratulate two new members of our board of directors, Patricia Salas Pineda and Mark Gerstein. The diversity of Omnicom's board is something we take pride in, especially as we look to continue to improve diversity, equity and inclusion throughout our entire organization. At the end of 2021, we saw meaningful progress in our workforce diversity across all professional levels in the United States. We're not done, and we'll continue to drive improvements throughout 2022.

Overall, we're very pleased with our quarterly results. While we are off to a strong start in 2022, we continue to plan cautiously for the remainder of the year given the ongoing war in the Ukraine, the effects of the pandemic across markets, the continuing disruption of global supply chains, and the economic risks posed by higher inflation and oil prices.

With that said, given our strong performance in the first quarter, we are increasing our forecast for organic growth to between 6% and 6.5% for the full year 2022, and we anticipate delivering the same strong operating margins for the full year 2022 that we delivered in 2021. I'm confident we'll continue to operate at a high level through this business cycle as our agencies remain an integral partner in growing our clients' businesses.

I want to thank our people around the world for your compassion and dedication. You have continued to produce incredible work for our clients. Your resilience not only drives our financial success, it defines who we are as a company. So thank you once again.

I want to 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 first quarter results were very strong. It's good to see the continued momentum, which resulted in growth across every one of our disciplines.

Before we go into the details, please turn to slide 3, where I'd like to draw your attention to the fact that our operating profit and EPS were negatively impacted by the announcement of our withdrawal from Russia, as well as charges related to the effects of the war in Ukraine on our agencies there.

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We have sold or committed to dispose of all of our businesses in Russia; and during the quarter, these actions resulted in a pre-tax charge of $113.4 million. As a result, operating profit of $353 million was down $112.4 million or 24.1% compared to Q1 of 2021. Our tax rate was elevated due to the non-deductibility of the charges, plus an additional $4.8 million tax charge related to our withdrawal from Russia.

Reported revenues were down slightly as strong organic growth of 11.9% was offset by the negative impact of foreign exchange rates and disposition revenue in excess of acquisition revenue.

Turning to slide 4, which shows non-GAAP adjusted amounts. You can see, after adjusting for the charge, our first quarter operating profit was $466.4 million, slightly above last year. And our operating profit margin was 13.7%, also slightly above last year.

Amortization expense was flat year-over-year and, as a result, non-GAAP adjusted EBITA and EBITA margin were flat with last year. As a reminder, last year's 15.4% operating profit margin included a gain from the sale of a subsidiary of $51 million, which was recorded in the second quarter. As John said, we are still comfortable with our guidance of 15.4% for the full year 2022.

Slide 5 shows the non-GAAP adjusted amount for net income of $292 million for the first quarter and diluted EPS of $1.39 per share, up 4.5%. We are pleased with this underlying performance and the strong organic growth across our businesses and geographies, as well as a work and travel environment that continues to normalize.

Let's now go into some more detail, beginning on slide 6. Our organic growth was a strong 11.9% or $408 million. The impact of foreign exchange rates decreased our revenue by 2.5 percentage points. If rates stay where they were as of April 15, we estimate the impact of foreign exchange rates will reduce our revenue by approximately 3% in the second quarter and by 2% for the year.

The impact on revenue from our net acquisitions and dispositions decreased revenue by 9.9%. This was consistent with our expectations and is primarily the result of disposition activity from Q2 of 2021 in our Advertising & Media discipline in the US which we will cycle through after the second quarter. We expect this reduction from dispositions, including the disposition of our businesses in Russia, to reduce our revenue by approximately 6.5% in the second quarter of 2022, and we expect acquisitions net of dispositions based on deals completed to-date to be approximately negative 4.5% for the full year.

Now let's look at the changes in our total revenues by business discipline on slide 7. Advertising & Media, our largest category, posted 9% organic growth in the quarter with continued momentum in both our media and our creative agencies. Precision Marketing grew 20.3% organically in the quarter and is now approximately 10% of our total revenues, up 2 points from the first quarter of last year. Our strong growth is being led by demand for our capabilities in digital transformation, MarTech, data and analytics and activation. In particular, Credera continues to perform exceptionally well.

Commerce & Brand Consulting was up 13.8%, led by our branding agencies and continued benefits from corporate spinoffs, brand architecture work and widespread focus on corporate reputation around DE&I and ESG issues. We're also seeing increased demand from clients looking for retail media, e-commerce and DTC solutions.

Experiential had organic growth of 68% compared to negative 33% in Q1 of 2021, reflecting an increase in the number of global in-person events. These events are important to our clients' brands because they engage with customers and build loyalty in unique ways. Results were especially strong in the Middle East. As we look forward

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this year, we expect growth to continue but will likely be choppy by quarter as clients adjust to the post-COVID environment.

Execution & Support was up 6.3%, led by demand in field marketing and a pick-up in physical retail activity. PR was up a very strong 14%, reflecting growth from both long-standing and new clients and a pick-up in overall activity as clients adapt their post-pandemic positioning.

Healthcare grew 7.7% with strong performance across our agencies.

Turning to slide 8, we saw strong organic growth rates in virtually every region, and we're pleased that growth was solid within each of these regions and across all of our disciplines. In the US our 10.6% organic growth was led by Precision Marketing, Advertising & Media and Public Relations.

Outside of the US, growth was led by Europe, and its growth was driven by Advertising & Media, Experiential and PR. The Asia-Pacific region was also a key driver, as was the Middle East, which saw strong growth in Experiential and Advertising & Media.

Looking at revenue by industry sector on slide 9, relative to the first quarter of 2021, the broad distribution of our clients remained fairly stable. The only notable shifts were a 2-point increase in technology, offset by a reduction in revenue from clients in the travel and entertainment industry. This change was largely driven by the disposition of a business that had a high concentration of clients in this industry in Q1 of 2021.

Let's move down the income statement now on slide 10 and review our operating expenses for the quarter. In total, our operating expense levels were down by 20 basis points year over year despite the significant pick-up in our business activity and the continuation of our strategic investments in the business. When you look at operating expenses as a percentage of revenue, the year-over-year comparison is not comparable because of the impact of dispositions made subsequent to Q1 of 2021.

Salary and related service costs, our largest category, increased by 8.8%, consistent with growth in our revenues, excluding dispositions and acquisitions. Adjusting 2021 for amounts related to acquisitions and dispositions, salary and related service costs were 53% of revenue, roughly the same level as this year.

Third-party service costs were down $199 million or 22%. They decreased by approximately $315 million from dispositions and were offset by an increase of approximately $114 million from growth in our businesses. Adjusting 2021 for amounts related to acquisitions and dispositions, third-party service costs were approximately 19% of revenue, similar to the level this year.

Occupancy and other costs which are less directly linked to changes in revenue were up 2.9% year on year due to an increasing number of people returning to the office, partially offset by lower rent and other occupancy costs as we continue to efficiently manage our real estate portfolio.

The increase in SG&A expenses on a year-over-year basis was due primarily to a normalization of our business. At 2.8% of revenues this quarter, SG&A has been around this level for 12 months now and is in line with our pre-pandemic run rate.

There's one thing I would like to highlight regarding interest expense going forward. Please remember that our interest expense in Q2 of 2021 had a $26-million one-time charge related to the early redemption of our 3.625% notes. Our total interest expense that quarter was $80 million compared to just $51 million this quarter and $43

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million net of interest income. We expect net interest expense for Q2 and the remainder of 2022 to approximate that run rate. We expect our tax rate for the remainder of the year to approximate 26.5%, similar to our rate this quarter, after adjusting for the charges arising from the effects of the war in Ukraine. Our diluted share count was down 3.2% primarily due to our share repurchase activity in the second half of 2021 and in the first quarter of 2022.

Let's now turn to slide 11 for our cash flow performance. 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 $340 million was down $43 million. Adjusting for the cash-related portion of the charges arising from the effects of the war in Ukraine of $48 million, free cash flow was flat year on year. Regarding our uses of cash, we used $147 million of cash to pay dividends to common shareholders and another $14 million for dividends to non-controlling interest shareholders. Our capital expenditures of $23 million were back to normalized levels.

Acquisitions net of dispositions and other items were $259 million. As highlighted at the back of this presentation, this included the purchase of TA Digital and is aligned with our stated strategy of pursuing acquisitions in our faster-growing disciplines.

And lastly, our stock repurchases during the first quarter were $287 million net. This puts us on the way toward our historical annual range of $500 million to $600 million. This capital allocation mix may vary in emphasis as opportunities present themselves, but our overall approach and philosophy have not changed.

Slide 12 is an overview of our credit, liquidity and debt maturity schedule. There were no changes in our long-term debt outstanding during the quarter. As of March 31, our total leverage was 2.5 times. In addition to the $4 billion of cash and short-term investments on the balance sheet, we also have a $2-billion US commercial paper program backstopped by our $2.5 billion revolving credit facility.

I'll end my prepared remarks today on slide 13 which shows our strong return on invested capital of 26.4% for the 12 months ended March 31 and 41.7% return on equity. These returns are both extremely strong and are a reflection of our consistent operating performance and consistent approach to capital allocation.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator instructions] Our first question comes from the line of David Karnovsky of JPMorgan. Please go ahead.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Thanks for taking the question. Just on the outlook, given the really strong results in Q1, it does appear that you're assuming a not insignificant deceleration in organic for the rest of the year on what I think are relatively similar to your comps. Just wondering, John, if you could speak a little bit more to the conversations you're having with clients on inflation, supply chain and the economy, and kind of how that's impacting your view on guidance? Thank you.

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

A

Sure. Thanks for the question, David. Our guidance really is based, first, sort of on a bottoms-up review, company by company, sector by sector, practice area by practice area. I think just about every client I've spoken to, and I've spoken to quite a few and across the United States and Europe, recognize the uncertainty that's out there. They're not stepping back from their spending or their commitment to their brands at this point, but there is uncertainty. And we're confident enough in our performance and our forecast that we raised. And I think this is the first time in my 26 years, and you can multiply that by four, that's how many quarters I've been on this thing, that we've ever raised after the first quarter our estimates.

Now, it is conservative. You have to remember that there is a project work that comes up throughout the year. And the further you get out in the year, the more uncertain it is. You don't know how any of these things are going to end. I mean, if you look at the chatter in the US, there's a strong argument to be made that we're probably at peak inflation, but we don't know how long the wars are (sic) [war is] going to go or what the other impacts are going to be.

So we're very comfortable with the estimates for what we're going to do this year, which was, we said, between 6% and 6.5%; and that we were going to maintain, at least maintain, our margins that we achieved last year of 15.4%.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Okay. Maybe just a follow up on the outlook. Would be interested to get your views on areas like Experiential and Execution & Support. At the end of 2021, these segments were running still well below 2019 and we did see a big acceleration for events in the quarter, maybe less so for Execution. Just wondering how much of a lift toward pre-pandemic levels you're expecting or seeing as restrictions slowly go away?

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

A

Well, that's an interesting question and it ties exactly into the last question you asked. If I was answering this a month ago, I would have been extremely, extremely bullish. And then, they closed down Shanghai, right? So these things tend to be planned, but the windows between when you're assigned the business and when the

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execution occurs is generally not that long. It's generally no more than 12 to 14 weeks. And it's a little hard to believe that you can close down a city as large as Shanghai the way that the Chinese decided to do it.

So we're a bit conservative there. We are confident in our forecast for the US in this area. We're confident in most of our forecasts for Europe and the Middle East. But the Asian forecast that we've seen, we've discounted.

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

I think our expectations for those two disciplines are certainly more subject to – or – we've got less visibility is probably a better way to describe it when you get to the second half of the year.

Certainly, the businesses have done a good job getting ready to come out of COVID, and they've been growing coming out of COVID. So we're happy with their performance. But as we look at the second half of the year, since they're largely project-based, their forecasts are probably more conservative than most and, I think, subject to a little bit more uncertainty in terms of clients' spending plans, especially Experiential, given some of the changes that could occur, like the ones that are being experienced in China right now.

So those two disciplines, in particular, we're certainly happy with our operating performance. But in the second half, there's a little less visibility to how they're going to perform sitting here today.

David Karnovsky
Analyst, JPMorgan Securities LLC
Q

Got it. Thank you.

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

Sure.

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 guess I just – I'm going to ask this question because I'm going to get asked by a cynic, I'm sure, tomorrow if I don't ask it. So the increase in the outlook, which is unusual, as you said, usually don't do it in the first quarter with the sort of flat margins at 15.4% relative to your prior outlook. I think a cynic would say this is just because inflation ran hotter than you anticipated. Is that a wrong interpretation of the lift in the organic growth?

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

Yes. I'd say it is.

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

Yeah. One reminder, I think, in terms of the expectations of operating margin for the year, the prior-year baseline of 15.4% included a gain on sale of business of $50 million. So there is some operating performance improvement expected for the year, but I don't know if that's what you're after or you're just focused on...

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Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

No, no. That's perfect.

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

A

Yeah.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

That's perfect. Super helpful. Thank you.

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

Hi. Thanks very much. It's a very strong result in Q1. And if you look at the Q1 acceleration versus the Q4 number – and I don't normally do this – but if you look on a kind of a stacked basis, in Q4 2021 versus Q4 2020, you were basically flat organic. And in Q1 2022 versus Q1 2020, you were basically up 14%, if I'm looking at my numbers right. So it's a really surprisingly strong growth figure. And I just wonder, given a whopping year-over-year comparison coming up in Q2, you were up 24.4% last year, I wonder if you can give us any idea how to think about Q2, again, understanding everything you've said thus far on the full year outlook and all the uncertainties in the second half and so on? That would be very helpful. Thanks.

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

A

Sure. I'm not sure if this is a precise answer, but two things absolutely impacted it. When you look at just year to year, I think the impact of COVID added to that recovery at that rate. But also, I don't want anyone to forget that for the four years prior to COVID, we were cleaning up our portfolio. And we emerged from last year with a portfolio we feel very, very strongly about and we think is well suited to provide what our clients need today.

I don't know if that fully answers your question. If you can follow up, it's okay to.

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

Q

Yeah. Yeah. No, that's helpful. I mean, I understand there are a lot of other factors. It's just it's a very difficult comparison coming up in Q2, so I guess it's good to hear the optimism on the growth rate for the second half of the year. Just trying to understand how to think about the Q2 growth rate given that high base.

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

A

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Sure. Yeah. In terms of profit, Q2 has the proceeds from the sale – the gain from the sale that Phil mentioned when he answered the last question, so.

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

Yeah. I think from a revenue perspective, Tim, certainly the first quarter of 2021, as far as a baseline goes, that was the last quarter of some of the COVID hangover as we were coming out of COVID, principally starting in Q2 of last year. So the bar wasn't quite as high, relatively speaking, for this quarter's performance relative to last year. We're certainly very, very pleased with the results.

As we head into the second quarter, second quarter of last year was, again, the first quarter really post-COVID where performance jumped quite a bit because the 2020 numbers were down a great deal and weren't all that comparable. So it is a quarter where the business had kind of finally bounced back in terms of the baseline we're facing in Q2 of 2022, but certainly the performance in the first quarter is very encouraging, and we've got some momentum. We expect that momentum to continue as we look at the second half of the year. As John said, there's a little more uncertainty in the back half and a little less visibility from where we sit today.

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

Sure. Yeah. Understandable. No. If I look back at the last four quarters basically, well Q2, Q3 and Q4 of last year all more or less in percentage organic growth terms reversed the declines of the prior year almost precisely. And now just your Q1 was just such a stronger number versus that. So I'll leave it at that. That's good to see.

Could I just maybe tack on one other last thing? You said, John, that you're pretty optimistic, you're pretty confident in your forecast for Europe. I just wondered if you could comment a little bit more. Obviously, Russia and Ukraine aside, anything else you could comment on growth in the other regions, maybe the border regions, the neighboring countries, Poland, et cetera? And as you move further west, are you still that optimistic on the growth? Thanks.

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

Well, the one great thing in terms of numbers is that those are not a significant percentage of our business. And as I might have mentioned in my prepared remarks, I've had an opportunity two weeks ago to meet all of the leaders from all of the disciplines from Romania all the way up through Poland that border the Ukraine, and they're all bullish about their business. But their primary concern was taking care of the Ukrainians that were coming across the border because they've had surges suddenly in the populations and what their requirements are.

So our largest markets in Europe are the big five, which are the UK, Spain, France, Germany and Italy, although Belgium and the Netherlands are also very, very strong performers. And they're all, at the moment, in great shape.

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

Okay. Good. Thanks very much for the views.

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

Sure.

Operator: Next we'll go to the line of Dan Salmon with BMO Capital. Please go ahead.

Daniel Salmon
Analyst, BMO Capital Markets Corp.
Q

Okay. Great. Good afternoon, everyone. I have a couple questions. First, John, in the past, you've talked about it being important for Omnicom to remain agnostic to different technologies, whether that's ad tech or MarTech. You also, I think, generally held that view about third-party data assets as well. So my question is, does the Omni-ID represent a little step in that direction? I'd like to hear a little bit about it specifically, but it's more the bigger picture view that I'm interested in.

And then a second just for Phil. You mentioned the uptick in the technology vertical as a percentage of revenue. Is that just a matter of where the vertical landed this quarter? Or would you like to see that trend continue?

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

Well, Omni-ID is very unique. We've spent quite a bit of money on it over a very long period of time, testing it, proving it out, proving it to global clients that it actually works and works well.

When you look at the data that's available, given the various privacy laws, we have the same access if not better access to everyone else who touts that they own something. Well, they bought something that was a business that had revenue before they bought it. So they're not giving it away to their clients, and it's still for sale. So there's no particular secret sauce in what they have that we're missing. And the most important aspect that I'd be willing to share publicly about Omni-ID is the fact, because we've been at it for so long, we have over 40,000 of our staff around the world that are trained in utilizing it, and we've deployed it to a significant number of our most significant – our largest clients and the insights data for data's sake doesn't mean too much. It's what you do with the data and the insights that you can draw in properly analyzing the data for the benefit of the client and what they're wanting to sell.

So other than that, I would be describing what makes Coke Coke, and I'm not prepared to do that publicly.

Daniel Salmon
Analyst, BMO Capital Markets Corp.
Q

Yeah. Fair enough.

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

On the...

Daniel Salmon
Analyst, BMO Capital Markets Corp.
Q

So just on tech. Yeah. Technology.

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

Yeah. On the second question, Dan, so the tech vertical as a percentage of our overall revenues or the revenue of our clients in the tech industry relative to Omnicom's total revenues ticked up. I'd say it's a combination of two things. One is just the change in mix, as I indicated in my prepared remarks. Travel and entertainment went down largely due to the disposition of a business that had a high concentration in that space. And we've had some good growth across almost all of our disciplines with tech clients. I think we're happy to see any of those groups or any of those industry groups grow with us. We're happy for it to be tech. But certainly our offering has resonated with a number of clients in the tech space as well as healthcare and some others. And I think we'd love to see it continue to grow. And we expect overall though, when you talk about the 5,000-plus clients we have, those industry metrics don't move very often and I wouldn't expect they're going to move by percentage points consistently every quarter. It takes a lot to move those numbers. I don't expect them to move too much going forward.

Daniel Salmon
Analyst, BMO Capital Markets Corp.
Q

Okay. That's great. Very helpful. Thank you both.

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

Thank you.

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

Steven Cahall
Analyst, Wells Fargo Securities LLC
Q

Thank you. Maybe first I think historically the media-buying business has been a leading indicator of advertising inflection points and I know you gave a bit of a conservative guide for the outlook of the rest of the year, certainly makes a lot of sense given the macro is, that's why you've done that. So just wondering if there's been any evidence in your media buying business that things are either slowing down or inflecting or is it more just that you step back and you look at this overall picture and especially with a strong start to the year just warrants itself to be a little bit cautious.

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

Well, I agree with the last statement. But everything that's going on in the world, it warrants to be a little bit conservative but we're very happy with our media business overall and it's been very successful both with its existing clients and in new business opportunities that's been presented.

When you look at history, inflation has always been good for that element or part of the business and we don't see anything materially changing at the moment. The other thing which is yet to be seen, I've been predicting it since it really started, is what I'm anticipating to be the streaming wars. And in the environment where the consumer might have a little – has to be a little bit more cautious of the amount of money they spend to get what they want, I think you're going to see more and more advertising in some of these services.

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People like Hulu and others have proven that it works, and I think the others will adapt it. They were always – my view is they were always going to adapt it. I think the environment we're in today will speed that process up. So very comfortable with our portfolio, though.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Thanks. And then, maybe just a follow up. Your comment about inflation. I know that at times inflation has been a helper to growth whether that's in media buying or where your clients use revenue as a basis to set their ad spend. So at this point in the inflation cycle, do you view inflation as a risk to the business or is it helping your organic growth profile right now? Thank you.

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

A

Okay. Well, you asked me about a segment in my business and the impact of inflation. As I said earlier, we build our forecast from the bottom up, looking at what our reality is. And we're comfortable that we've taken it into consideration, and that's why we're holding – we're actually improving our margins by holding our margins the same as last year because of the unusual gain that we had from the sale of the subsidiary last year.

So there's an awful lot of moving parts and components. And we spend a great deal of detail – time testing the information that we're getting from our various subsidiaries in the markets that we operate in. I don't know if Phil wants to add anything.

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

A

Just a couple additions. So as John had said, our agencies have considered some of these challenges in this environment as they put together their forecasts. And certainly it's a challenge that our businesses are dealing with and addressing. But we continue to pursue efficiency plans related to outsourcing and offshoring and automation and a number of other initiatives because, ultimately, we've got a flexible cost structure. And our agencies have done a great job managing it relative to the revenue levels in their business.

Overall, we haven't seen any reductions in the spending plans of our clients at this point. And clients need to continue to sell stuff in an inflationary environment or in a non-inflationary environment. And we expect the clients that are going to be successful are going to continue to invest in marketing and branding and continue to invest in the services that we provide them, because they do want to continue to sell stuff and they're going to need to continue to invest.

So, overall, while we're somewhat cautious regarding the second half, we're still very optimistic in the performance of the business and where we're headed for the rest of 2022.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Thanks a lot for the color.

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 Ben Swinburne with Morgan Stanley. Please go ahead.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good afternoon. Just a couple of quick housekeeping on the guidance, and I have a question for John. Maybe, Phil, is the 15.4% including the Russia charge, the margin guidance for 2022? And I was just wondering, I don't know if you could answer this, but does your new guidance reflect any different outlook for your European business relative to what you guys gave us at the beginning of the year?

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

A

So specifically, with respect to Russia and the Ukraine, no, the 15.4% excludes the $113 million charge we took this quarter for Russia. We may be good, but we're not that good. So that was, obviously, totally unexpected when we were on the call in February. And it has not been an easy situation to deal with, largely because of the people and what John had mentioned in his prepared remarks and then earlier on this call. So the 15.4% excludes that charge.

And with respect to Europe, we haven't seen any meaningful or significant changes in our forecasts from Europe. We've had a number of conversations with people who run our businesses, and John can add some color on his conversations with clients in that region. But we haven't seen any big changes in our forecasts from our European businesses at this point.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And then, on another topic, John, I don't know if you saw this article in The Journal yesterday about e-commerce slowing and sort of a rebound in brick-and-mortar, which I thought was interesting. I'm wondering when you look at your businesses, you have exposure in both of those areas, I think field marketing is probably an area you guys over-index. Are you seeing some of this in the performance of your disciplines, sort of this normalization of e-commerce trends a bit and a rebound in sort of maybe more traditional retail activity? And is that something you see in your results and maybe you expect that to continue through the year? I'd be interested in your insights on that topic.

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

A

Ben, to be perfectly honest with you, I did not see that article yesterday. I will go back and read it now and see what it says. In the conversations that I've had with our clients, we see both being -- I have not noticed any deterioration at all in terms of e-commerce. So the quick answer to your question is I've not seen evidence today to support the article.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Anything on -- because in your Execution & Support business, is that a business you see growing faster, rebounding back to kind of pre-COVID levels? I wasn't sure what your outlook is for that discipline from a growth point of view.

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

I'll go first and comment.

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

Go ahead.

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

I think the direct answer is no.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Yeah.

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

We don't see significant increases in growth trends relative to what our expectations were the last few quarters. I think they're solid businesses.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Right.

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

They are in some respects project-based, and clients might change their investment a little bit more quickly than some of our other businesses, but they've done well. We expect them to continue to do well. Their growth profile though is probably a little lower than certainly other parts of our business. As you can see, when you look at the revenue breakout that we provide, our expectations for the rest of the year for them are not as robust as the rest of the business.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Yeah. Makes sense. Thanks, guys.

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

Thank you.

Operator: And next, we'll go to the line of Craig Huber with Huber Research Partners. Please go ahead.

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Craig Huber
Analyst, Huber Research Partners LLC

Q

Thank you. John, my first question, with all the privacy data changes out there both with iOS, for example, but also government-mandated privacy changes out there over the last couple years, is that good, bad or sort of indifferent for your business? How do you sort of view that right now?

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

A

Well, it's changing, you're absolutely right, very rapidly. As a matter of fact, I don't know that he's on staff, but we just brought on a very, very experienced, dedicated attorney who has spent his entire career working on just this – privacy issues, as well as the other people that were already within the company.

I think, net-net, we'll benefit from that because we haven't made any huge investments or put strong expensive stakes in the ground and we're pretty agile and we can adapt and adjust to whatever the environment is and whatever changes the various jurisdictions come up with. And I think this is going to be a constant theme for a good long time. And I'm much happier with our decision to be as agile as we are today than the day that we made that decision several years ago.

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

A

Yeah. I think the changes are only going to make it more complex for clients to reach the consumers they're trying to reach. And in that environment, we certainly think it benefits us because we're an independent third party with the skills and the tools and the technology to help them make the appropriate decisions they need to make to continue to find and reach those consumers. So the complexity, certainly, we view it as a positive.

Craig Huber
Analyst, Huber Research Partners LLC

Q

And also, John, you said 26 years helping run the company, this is the first time you can recall that you've raised your outlook for organic revenue this early on in the calendar year. Just maybe a little bit more meat on that. What exactly are you seeing out there, if you could just help us on why you felt compelled to change your outlook right now given all the huge number of macro issues out there that people grappling with?

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

A

There are several components to organic growth, one of which is new business wins and the other, which is inevitable in every one of us and our competitors periodically are losses that you experience at some point during the prior year because you haven't had yet a full year of either.

We've entered 2022 in a very strong position, having had a very successful 2021 and that's given us a lot of confidence. But this is not just us sitting here at corporate divining what's going on, on the ground. Our forecasts are built truly from the bottom up, and there's weekly dialogue with all the leaders of our practice areas and networks about changes, even subtle changes that are going on. So we're as close as we can be to what's going on.

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

A

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Yeah. And I think some of it is simple math. And when you look at the great performance in the first quarter, my guess is if we didn't address the guidance as we have for organic growth for the full year relative to where we were in February, you'd probably be asking us a different question regarding -- given the performance how come you haven't increased your guidance?

So it was a great performance in the first quarter, and I think the change was driven by our expectations that we're still optimistic about the rest of the year. Certainly, there is some uncertainty in the back half, but we're comfortable with where we are right now and how our businesses are performing.

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

A

And we're pretty damn good at math.

Craig Huber
Analyst, Huber Research Partners LLC

Q

Fair enough, guys. Thank you.

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

A

You're welcome.

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

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

Well, I really want to thank all of you for spending the time with us and speaking with us today, and we look forward to speaking with you in the coming weeks.

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

Thank you.

Operator: And 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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