18-Oct-2022

Omnicom Group, Inc. (OMC)

Q3 2022 Earnings Call

Copyright © 2001-2022 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Steven Cahall
Analyst, Wells Fargo Securities LLC

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

David Karnovsky
Analyst, JPMorgan Securities LLC

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Craig Huber
Analyst, Huber Research Partners LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Omnicom Third 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 third 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 the 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 An archived version will be available when today's call concludes.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 would like to remind everyone to read the forward-looking statements and 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.

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

Copyright © 2001-2022 FactSet CallStreet, LLC

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 line 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 us today for our third quarter results. I'm pleased to report that in the third quarter, we continued the very strong performance we've had throughout 2022. We exceeded our expectations with organic growth of 7.5%, which was broad-based across our agencies, disciplines, regions and client sectors. Year-to-date, organic growth is 10.3%.

Operating profit margin for the quarter was 15.9%, 10 basis points higher than our comparable margin in 2021. Earnings per share for the quarter was $1.77, up 7.3% versus 2021. The negative currency impact on EPS of the strong US dollar was approximately 5%. On a constant currency basis, EPS would have increased approximately 12.3%.

Our cash flow, liquidity and balance sheet remain very strong and continue to support our primary uses of cash: dividends, acquisitions and share repurchases. Phil will cover our financial results in more detail during his remarks.

On last quarter's call, we mentioned several first-of-a-kind e-commerce collaborations with Amazon, Instacart, Kroger and Walmart. This quarter, we expanded and enhanced our e-commerce capabilities by announcing Transact, a dedicated practice focused on connected-commerce consulting and e-retail execution services. Transact will capitalize on the unique partnerships we've entered into, and we'll focus on driving sales for clients and growing market share on e-retail platforms. Transact adds to our best-in-class e-commerce services in digital transformation and MarTech consulting, CRM and precision marketing, media, campaign activation and creative content.

We also continue to invest in our iconic agency brands. A recent example was TBWA\Worldwide, which recently acquired innovation agency, dotdotdash. Dotdotdash builds future forward brand experiences at the intersection of culture and technology, a valuable addition for the total brand experience company like TBWA.

We will continue investing to enhance our capabilities in high-growth areas, including CRM and precision marketing, digital transformation, performance media and e-commerce. Our investments in these areas to-date have been very effective and are reflected in third-party validations.

A few weeks ago, we were named leader in Forrester's Wave assessment for global marketing services. We received the highest scores possible in five criteria: creative content and services, media management services, integration services, global client teams and innovation roadmap.

Our performance highlights our ability to deliver creative and strategic solutions to our clients through integrated multidisciplinary teams. One way we do this is through our Global Client Leaders Group, which has led the industry in developing innovative service solutions for our largest clients.

Since 2014, our GCL Group has been led by Peter Sherman. After a successful 25-year tenure at Omnicom, Peter has made the decision to become a full-time undergraduate professor, teaching marketing and

Copyright © 2001-2022 FactSet CallStreet, LLC

communications at a top-ranked university. I want to thank Peter for his countless contributions at Omnicom and wish him the best of luck.

We are expanding on the foundation Peter helped build to further enhance the services we deliver to our largest clients and to pursue new business opportunities aggressively. As a first step towards that goal, we announced the appointment of Andrea Lennon to the new role of Chief Client Officer. Andrea has a strong track record in marketing transformation at Critical Mass, Omnicom's digital experience design agency, where she spent seven years working in Asia, Europe and the United States prior to being named President two years ago.

Andrea will focus on transformative marketing solutions and capabilities that drive business results for our global enterprise clients. In partnership with the GCL team, she will accelerate solutions that draw on the group's best talent, integrating Omnicom's leading capabilities in data, creative, media, communications and technology.

We will be sharing more updates on our client solutions strategy and new business team in the coming weeks. We are fortunate to be making these changes from a position of strength. We were recently recognized by the Effies with one of the industry's most prestigious honors, identifying "ideas that work", the 2021 Global Effie Effectiveness Index, named Omnicom the most effective marketing communications company in the world.

Four of our agency networks, BBDO, DDB, OMD and TBWA placed in the top six of the most effective agency network category. In addition, OMD was named the most effective media agency network. These notable rankings demonstrate our standout talent. I want to congratulate all of our agencies and people on executing the most effective and creative work in the industry for the benefit of our clients.

Overall, we're very pleased with our quarterly and year-to-date financial results, as well as our progress on our key strategic initiatives. Based on our strong performance this quarter and for the first nine months of the year, we are increasing our prior organic growth forecast from 6.5% to 7%, to 8% to 8.5% for the full year 2022. We also continue to anticipate delivering the same strong operating margin of 15.4% for the full year of 2022 that we achieved in 2021.

While we are confident in our forecast, we retain a healthy level of caution due to macro factors, including the ongoing war in Ukraine, the continuing disruption of global supply chains, the economic risk posed by rising interest rates here in the United States, and higher inflation around the world.

In light of these risks, we are actively taking actions to mitigate the potential negative effects of these macro factors on our business. I'm confident we are well equipped to handle any economic downturn and have the leadership teams in place to minimize the impact on our top and bottom lines.

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

Philip J. Angelastro

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

Thanks, John. As you just heard from John, our third quarter results were solid, reflecting growth across all our disciplines. While the rate of growth, as expected, is below our first half results, we feel very good about the competitive position of our company, leading us to raise our guidance for full year 2022 organic growth and we have a positive outlook for 2023 and beyond.

Further down the income statement, our cost management has resulted in strong operating performance and operating profit margins. And our disciplined approach to capital allocation and investment has led to both

Copyright © 2001-2022 FactSet CallStreet, LLC

improved service offerings and increased shareholder returns through dividends and buybacks, all while maintaining an excellent credit and liquidity position.

Let's go into the financial details of the quarter, beginning on slide 3. Reported total revenue in the third quarter was flat year-over-year at $3.4 billion. Organic growth was 7.5% for the quarter. However, as I'm sure you're aware, the US dollar has strengthened significantly and almost half of our revenue is outside the US. In dollar terms for the third quarter, this drove the largest negative quarterly impact from foreign currency translation so far this year, $216.6 million or 6.3% reduction of revenue.

With most of our expenses incurred in the local markets, where our revenue is earned, foreign currency translation impacted our profits as well. Reported operating profit for the third quarter increased around 1%, while on a constant currency basis, it increased 6%. Below the line, higher interest income helped lower our net interest expense, and we benefited a bit from the translation impact of our euro and British pound-denominated debt.

Overall, our net income rose 2.5% on a reported basis. Combined with a 4% reduction in shares year-over-year, diluted EPS rose 7.3% after a negative 5% headwind from foreign currency translation.

On a year-to-date basis, it's helpful to turn to slide 4, where we show adjustments to make the current and prior year-to-date periods more comparable. None of these adjustments are new this quarter. They were discussed earlier this year and last year.

For the year-to-date 2022 period, operating expenses and income taxes were impacted by charges in the first quarter arising from the effects of the war in Ukraine. For the year-to-date 2021 period, operating expenses benefited from a gain on sale of a subsidiary. And both interest expense and income tax expense reflect the impact from the early extinguishment of debt.

Similar to the quarterly results we just discussed, the strength in the dollar this year also impacted our year-to-date results. Foreign currency translation reduced revenues by 4.5%. Operating profit on a non-GAAP adjusted basis was up 1.9%, and on a constant currency basis, was up 6.1%.

For a more detailed look at our results, let's now turn to slide 5, and begin with an analysis of the changes in our revenue. As discussed, the quarterly impact from foreign currency translation was negative 6.3%. The impact of acquisition and disposition revenue was negative 1%, primarily reflecting the disposition of our businesses in Russia during the first quarter. Organic growth was 7.5% for the quarter and 10.3% year-to-date.

Looking forward, if FX rates stay where they were as of October 12, we estimate that the impact of foreign exchange rates will reduce our revenue by approximately 6.5% in the fourth quarter.

Based on deals completed to-date, we expect the impact from net acquisitions and dispositions will result in a reduction of our revenue of approximately 1.4% in the fourth quarter, primarily resulting from the disposition of our businesses in Russia.

Turning to slide 6, for the quarter, we once again showed growth across all of our disciplines, with double-digit growth in three of them. Advertising & Media, our largest category, posted 6% organic growth in the quarter, led by strong media results. Precision Marketing continued its strong performance with 16% organic growth as clients turn to us for digital transformation, digital customer experience and data and analytics services.

Copyright © 2001-2022 FactSet CallStreet, LLC

Commerce & Brand Consulting was again up 11% organically on the strength of our branding and design agencies. Experiential organic growth slowed to 2% as we continue to experience declines in China. As expected, growth in this discipline will remain choppy.

Execution & Support, which we also expected would grow slower in the second half, had organic growth of 4%. Public Relations grew a strong 13% organically, reflecting client demand across many industries and geographies. And lastly, Healthcare delivered solid organic growth of 5%.

Turning to slide 7 for organic growth rates by region, it's clear that growth was solid overall, but vary widely by region and, as expected, each region grew a bit less than they did in the second quarter. Both in the US and internationally, in Q3, organic growth was primarily driven by revenue growth in Advertising & Media, Precision Marketing, Commerce & Consulting and Public Relations. Organic growth in the US was strong at 7.6%. And outside the US, the organic increase in revenue was led by the UK at 11.5% and Europe at 6%.

Looking at revenue by industry sector on slide 8, relative to the third quarter of 2022, the broad distribution of our clients remain very stable.

Let's now turn to slide 9, and look at our operating expenses for the quarter. For your reference, a slide in the appendix also presents this on a constant currency basis. Our total expenses, exclusive of depreciation and amortization, were flat at $2.8 billion, down 10 basis points as a percentage of revenue.

Salary and related service costs were fairly constant at 50.8% of revenue compared to 50.4% last year. The slight increase was due primarily to the increase in organic revenue, an increase in head count and a return to more normal business conditions. Third-party service costs were flat at 21% of revenue.

Occupancy and other costs were also flat at 8.2% of revenue. They decreased due to lower rent and other occupancy costs, partially offset by an increase in office expense and other costs resulting from the return of our workforce to the office. SG&A expenses were down year-over-year as a percentage of revenue, due primarily to decreases in professional fees and third-party marketing costs.

Turning to slide 10, our third quarter operating profit was $546 million, a 1% increase from last year, net of a reduction of 5.2% due to the impact of foreign currency translation. Our operating profit margin of 15.9% on total revenue was 10 basis points above last year's result.

Please turn now 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 for the first nine months of 2022 was $1.23 billion compared to $1.25 billion for the first nine months of last year, a small reduction year-over-year. However, as a reminder, we note that $48 million of the charges we've recorded in the first quarter of 2022 for the effects of the war in Ukraine were cash related.

Regarding our uses of cash, we used $438 million of cash to pay dividends to common shareholders, and another $63 million for dividends to non-controlling interest shareholders. Our capital expenditures of $66 million were at normal levels. Acquisition spend, net of dispositions and other items was $330 million.

And lastly, our net stock repurchases during the third quarter were $486 million. We continue to expect total repurchases for the year at our historical annual range of around $500 million to $600 million.

Copyright © 2001-2022 FactSet CallStreet, LLC

Slide 12 is an overview of our credit, liquidity and debt maturities. During the quarter, the impact of foreign exchange rates on our euro and sterling-denominated debt caused the book value of our outstanding debt to decrease to $5.5 billion from $5.7 billion, as of December 31, 2021. There were no changes in outstanding balances during the quarter. And our $2.5 billion revolving credit facility, which backstops our $2 billion US commercial paper program, remains undrawn.

Our cash and equivalents were $3.3 billion, flat with our balance at June 30, 2022, reflecting an increase in net free cash flow during the quarter, which was offset by the negative impact of foreign currency translation.

Turning to slide 13, our operating capital discipline consistently drives above-average returns on both invested capital and equity. For the 12 months ended September 30, 2022, we generated a solid return on invested capital of 25% and a strong return on equity of 43%. We're confident that the outlook for our business growth and our prudent process for capital allocation will lead to increasing returns as they have historically.

Operator, please open the lines up for questions and answers. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Steven Cahall with Wells Fargo. Please go ahead.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Yeah, thanks. John, maybe one for you and then one for Phil. Rather than asking for you to prognosticate on organic growth, which I know is hard, maybe to ask it a different way, how are you thinking about the cost base and being proactive in a pretty volatile revenue environment? I think when we last spoke, you mentioned that there maybe could be some real estate opportunities or some opportunities in things like hiring and incentive comp. So, I'm just thinking about when you look at the environment right now, is it a time to be very proactive or based on the good growth that you put up in the third quarter, do you actually feel like things are pretty stable and that proactive cost management is more something you can think about in the future?

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

A

Thanks for the question. We're being – we are internally acting as if the markets are going to be extremely difficult. Increasing our productivity in a couple of different areas is extremely important. And we're in the process of taking action and having very detailed conversations on a couple of fronts.

One is correct is real estate. We have real estate, which leases expire throughout 2023 and 2024. And with a new approach towards flexible working hours, where we believe we're going to be able to reduce our real estate footprint globally, that's in the process. We'll see what the market does. Additional opportunities may come up, where we'll be able to take advantage of lower prices in other markets where leases maybe are a little longer. So, that's number one.

In terms of people and payroll, we're taking it seriously to look at our processes at very granular levels through each of our subsidiaries, looking to offshore where it's appropriate. And there's a big push on automation in terms of some of the things that we can do from an automated basis that in the past we couldn't. All of these – we've

Copyright © 2001-2022 FactSet CallStreet, LLC

recently met with all of our management teams together, where we, frankly, discussed all of these things and they're part of our weekly agendas in terms of the progress that we're making. And as we get into profit planning for next year, we'll be setting targets and expectations for each of those companies.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Great. And then, Phil, kind of a similar flavor to the same question. This year, growth is strong and operating margins are guided to kind of flat year-on-year. Does the same logic hold that if growth slows down, operating margins stay pretty consistent? Or if we do get into a tougher growth environment, do you expect there to be some downward pressure to operating margins? Thank you.

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

A

Sure. I think if the environment is challenging, it's certainly a challenge that we're going to meet face on or head on but the flexible cost structure that we have, which includes still, as of now, some open positions, we're going to take advantage of that. I think maybe the most instructive thing you could do is take a look at our performance prior to and subsequent to prior recessions or business disruptions like COVID, and you get the sense that we've been through this before, not just people on the call, but the people who are managing the company all around the world.

So, we've got the experience managing through these types of disruptions or uncertainties. We're going to be aggressive about it and act accordingly to make the adjustments we need to make as quickly as we can make them to right size businesses to the revenue outlook for that business. That being said, we don't know what 2023 is going to hold at this point, but we're certainly preparing for it to be ready to manage through any disruptions that might occur.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

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

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

So, I just have a quick question. If you guys deliver on your guidance this year and organic growth slows to like 3% or something next year, I think it would be the best three-year stacked organic growth rate that you guys have put up since 2006 or maybe 2007, a long time ago.

So, I guess, in very simple terms, can you just help us understand what has made your business so much better? And I'll offer up a couple of hypotheticals that you can react to. One would be disposition of your slower-growing businesses, another would be inflation, another would be sort of the privacy changes that were put in by Apple that might all provide tailwinds. But any sort of color to help us understand why your business is doing so much better than it's done in a very, very long time? Thanks.

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

A

Copyright © 2001-2022 FactSet CallStreet, LLC

Yeah, sure. Our portfolio today isn't comparable really to what our portfolio was three-and-a-half, four years ago. That – the instances you referred to, 2019, 2020 was the end of a five-year period in which we were disposing things that contributed to our profit, but didn't necessarily contribute to our growth. And we were able, in good times, to find buyers who were interested in those companies, and we offloaded them.

Similarly, we made investments in areas where we believe that growth would be consistent in good times and in bad. You can see that reflected in our Precision Marketing assets, you can see that in the changes that were made in our public relations category and also the expansion of services in the health area. So, as well as more traditional areas, we cleaned up low growth geographies and/or what we felt were product lines.

It's a process which has served us well. It will continue to serve us well, I believe, as we face more challenging times if they come. And we're planning that more challenging times aren't – we're facing more challenging times because of inflation and some of the macro factors that are out there in the marketplace.

And we're also very comfortable, I'd say, in the upgrades we've made to our management and our leadership throughout the world over the same period of time. So, everybody on the team is aware of those many, many steps that we have to go through in order to be successful, period.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

Can I just ask one follow-up?

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

A

Sure.

[indiscernible] (00:29:27)

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

A lot of those things that you cited were very Omnicom-specific, but we're seeing broad-based strength across all of your competitors, too. So, it seems like there's an industry overlay on top of the things that Omnicom has done. Is that wrong?

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

A

No, I don't think it's wrong. I think that the marketplace complexity has increased, which makes not only Omnicom, but our competitors important. I think the Great Resignation, which had an impact on some of our businesses, but we're able to manage through, also had an impact on how our clients face that complexity.

And I don't have the evidence to back this up, but I believe it to be true, is in the last two recessions, it's been pretty evident that companies that continue to market through those recessions prospered and came out of them more quickly than ones that just focused on cutting costs and indiscriminately.

So, it's a combination of factors. And technology is different. There's a revolution going on. We're moving to electric cars. We're moving to more efficient ways of doing business. All those things means that you want your

Copyright © 2001-2022 FactSet CallStreet, LLC

brand known and supported by the marketplace and known as being progressive in addressing issues, which are going to face businesses, recession and in good times.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

Very helpful. Thank you.

Operator: And the next question comes from the line of David Karnovsky with JPMorgan. Please go ahead.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Hi, thanks for taking the question. John, just wondering if you could speak a little bit to what you're hearing from clients right now in terms of how the kind of balancing perceived or real macro risk against kind of the need to invest in brands and performance.

And then with regards to year-end project work, any early view into how this potentially looks? And Phil, I'm wondering if you could say kind of what you've assumed within your guidance out of that sort of $200 million to $250 million you've historically flagged?

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

A

Sure. I mean, I think every intelligent company is seeing that globally, these macro factors are a mixture for further confusion in a complex environment at one level. At another level, there's new areas that are coming on stream that didn't exist before.

If you look at media, you look at all the providers that are out there that have decided to go to add an advertising model to the products that they offer. You see our automotive manufacturers promoting their progress that they're making with the car of the future being communication device driven by electric power as opposed to gasoline power.

So, it's – there is many difficult things that are out there. There's enough fundamental changes that are going on in the marketplace that have kept the marketers keen and very interested in making certain once again that their brands are recognized and differentiated so that when consumers make choices, that their brands are seriously considered.

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

A

And on the year-end project front, I'd say, we're in a similar situation that we've been in every October for quite some time. We don't have a lot of visibility yet into how much year-end project work or agencies are going to capture. Typically, they're after, a number which is in the neighborhood of $200 million to $250 million of potential project spend. Some years, we get it all, some years very rarely, I would say, we don't get much, if any of it.

I would say, we don't expect to get it all this year. But as we've gone through the process of looking at the fourth quarter with our companies, agency by agency bottoms up, there's a number of companies that have an expectation based on their past history of what they could capture. They've made an estimate, probably a conservative estimate. And as we look out into the fourth quarter, we've kind of considered that in our guidance.

Copyright © 2001-2022 FactSet CallStreet, LLC

So, we do expect that we'll be successful. We don't expect we'll get it all this year, but we're pretty optimistic. Or the one thing we know is that people are going to be out there working on getting it, because their incentives are aligned with ours, and it'll drive incremental profit and incremental bonus for them as well.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Maybe if I could just squeeze in one more, John. PRs continued to perform really strongly. I think it's like six quarters at this point, and it didn't really drop even that much during the pandemic. Just wondering if you could kind of speak to some of the factors that have just kind of driven the strength in that business?

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

A

There's no alchemy. We did change leadership. In recent conversation with some of my other management, I'm extremely proud of the leadership that we have of that group. It's craft-driven and craft led now. And I know that in the past, when it was run or managed by people who didn't have such a deep understanding of the craft, the performance was different. The gentleman and the team that leads it now is very proactive, very hands-on, very close to its clients and its people. And I think that's paying huge dividends. And it's hard to measure, but it's easy to see.

I think the product is also much closer and much more important in the consumer journey and probably more relevant in terms of brand awareness as well as the actual completion of a sale. Influencers didn't exist in 2016, they exist today. PR takes a leading position in things like that. So, I don't have the precise answer, but I do know that we have the right people, I think, doing the right things and adjusting our product appropriately for the current circumstances that we're operating in.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Thank you.

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

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Thanks. John, a question for you and one for Phil. I think, John, there's a thesis emerging that the complexity of digital, beyond Facebook and Google, is really driving demand for digital media business across everyone's business at this point. Can you talk a bit about what you've seen [ph] and what (00:37:49) isolate on the media buying front, planning front, just on digital and just the addition of retail media, TikTok, Apple, Amazon, Netflix to come, what do you see in terms of like the growth rates rolling it down to there?

And then, Phil, if there's a concern with the model, it's just rising inflation on – for salary and services. Can you talk a bit about what you're seeing kind of on a point-to-point level on inflation and how that could be managed, wage inflation in the next 12 to 14 months?

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

A

Copyright © 2001-2022 FactSet CallStreet, LLC

Sure. I mean in terms of digital, digital has taken over the majority portion of how we speak to various groups of consumers. And there's been an ever-increasing number of providers of interesting digital sites, information, which have their own following, which our Omni product and some of our early concerns in involvement in how we'll refine and identify potential customers in a privacy-compliant manner has put us in a position where we've been very agile and been able to react to changes as they happen, I was going to say, market by market, but in the United States, even state by state.

And the retail media is a new – relatively new entry into the marketplace. And during COVID, it had an explosion. And people in your business measure that the way you measure it because I guess you do it comparably, but when you think about it, it's been a lot more platforms out there, right? You have Amazon, you have Walmart, you have Kroger, you have Target. You have – I'm missing some others, I'm sure. We've entered into serious partnership arrangements with all these folks so as to be able to assist the consumer and consult with our clients about which platform, at which moment or which product is the appropriate platform to be used.

And we've been able to incorporate that into our Omni product and make it available to our practitioners who are consulting with clients on a day-to-day basis on the best way to achieve their KPIs.

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

On the inflation or managing inflation in the context of our business, it's a combination of things. Certainly it's a reality of what everybody is dealing with today, ourselves and our agencies, along with our clients. And frankly, we're – well, as we've said before, we continue to look for efficiencies in the cost structure. It's a flexible cost structure. We've been pursuing opportunities for off-shoring, outsourcing automation, as John mentioned earlier.

And we've got a number of open positions and access to a flexible workforce that we could fill those positions if we need to with contractors and a flexible workforce rather than with permanent people in some cases.

We're also having discussions with our clients on an ongoing basis. And those discussions continue. The results vary. Some of them result in increase in our rate card changes in scope of work, incremental work, et cetera. So, there's no one silver bullet to deal with inflation in our cost base. But it's a combination of things that really we need to do at the detailed agency-by-agency level.

But we're certainly driving a number of initiatives to make sure that we take advantage of whatever opportunities we have to find efficiencies, and new ways of working. Coming out of COVID is certainly helpful in that respect.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC
Q

Yeah. Thanks guys.

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

Thank you.

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

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Copyright © 2001-2022 FactSet CallStreet, LLC

Thanks. Good afternoon. Just keeping with the theme of trying to think about the strong results you continue to deliver and the macro, we're all worrying about, could you talk to us a little bit, John, about the performance of the company this year thus far in the UK and the euro markets, where arguably the macro maybe is the most concerning and yet you're doing double-digit growth. Is there anything you would add to the comments you've made already on this call about sort of what's driving that performance? And then I had a quick follow-up for Phil.

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

A

Sure. Well, I just got back last week, I spent a week in Europe. I was in Germany, I was in Italy, I was in Warsaw and a few other places and interfacing with quite a number of our leaders. We're very fortunate where – and it shifts market-by-market a little bit. But you take the UK, for instance, our Healthcare businesses were outstanding this particular quarter. Our Precision Marketing business has been outstanding consistently throughout Europe on systems work as well as lower funnel type of work. And we are a needed consultancy and needed skill set by many of our clients for them to obtain and achieve their objectives.

Plus, I'm very happy with, again, and you said referencing in my prior comments, I have to go back to them, the portfolio that we have of assets throughout the world, but especially in Europe. We've taken a lot of actions over the last several years, finishing up a lot of those actions, thankfully, right before COVID and probably equivalent of spending every day in the gym, we've toned up the assets that we have and have added a lot of people with a lot of very specific, but appropriately specific skills.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Got it. So, do you think there's some share gain in there, too, it sounds like?

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

A

Yeah. I mean, I think, yes, share gain is certainly part of it. But I think these assets have allowed us to expand the budgets that we were previously – were probably more limited in terms of the things that we could properly service our clients. I think the addition of many of these assets that we've made in the last several years, especially in Precision Marketing and some of the more refined nuances of Healthcare, just to name two, have allowed us to enjoy or compete for budgets that prior to this, I mean, in the old pre-COVID days weren't necessarily available to us. So, our marketplace has expanded.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Right. And then, Phil, I guess, technically, this is two. I wanted to just, again, come back to the implied fourth quarter and your guidance, I think would be, I don't know, something 3% or 3.5% organic, you already talked about the project work. Anything else you'd call out that would suggest that growth would step down that much from Q3 to Q4?

And then anything on the buyback? The buyback was a little lower this quarter than last quarter. Is that just sort of being a little more conservative given everything we're reading and seeing out there? Or anything you want to say about capital allocation as we look forward, given the strong balance sheet and cash flow?

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

A

Copyright © 2001-2022 FactSet CallStreet, LLC

Sure. I'll take capital allocation first. So, as far as the buyback, I think what you've seen so far through the first three quarters of 2022 is probably relatively consistent with our pre-COVID approach. We tend to be in the market a little more in the first half of the year. And in the second half of the year, the third and the fourth quarter, we typically aren't in the market as much. That trend, I think, is consistent in 2022. We've said we intend to buy probably between $500 million and $600 million, we're close to the bottom of that range. We expect to still have some activity in the fourth quarter. We haven't made a decision on how much yet, but we're going to stick to that $500 million to $600 million for the year.

And as far as capital allocation overall, I think you should expect us to continue to be consistent with our approach. We'll continue to pay an attractive dividend. We're going to seek to do M&A to the extent it meets our strategic goals and our financial requirements, most probably small tuck-in acquisitions that worked very successfully for us over the years. And then we'll use the balance of our free cash to buy shares. So, you can count on seeing consistency from that perspective.

And then lastly, to go back to your other question, I think the numbers, the range is – would lead you to somewhere between 2% and 3.5%...

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Yeah.

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

...growth in the fourth quarter, which we're certainly comfortable with. And I think there is an expectation given the lockdowns in China and some other general uncertainty that our Experiential business will probably take a step back in Q4, it's a choppier business. It's a great business for us. It's performing well. The people managing the business or businesses have been doing a great job, but we expect it will take a step back in the fourth quarter. Some of our Execution & Support businesses may do the same. But we expect good performance and good growth out of the rest of the portfolio, which has had a great year so far and we're hopeful we'll finish strong in the fourth quarter as well.

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

Yeah. The only thing I would add, I think implicit in the numbers that you can look at, the overall project work that we always refer to is still out there. We've spent the last several weeks going company by company, looking for people who had more certainty about the projects that would be coming through, and there's still some portion of that, that as we continue to make inquiries and weeks go by, we'll get more and more clarity.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Thanks, guys.

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

Thank you.

Copyright © 2001-2022 FactSet CallStreet, LLC

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

Craig Huber
Analyst, Huber Research Partners LLC

Q

Great. Thank you. My first question, I mean, given these I think they're very strong results during the quarter and year-to-date, and you compare that to the macro headwinds out there that we all know about, can you maybe just talk about maybe the tone of the conversations you're having with maybe your major European and US clients here to help account for the fact that your numbers are seemingly so much stronger than what the macro environment is shaping up as?

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

A

Well, yeah. I think at the risk of repeating myself, I think all of – all the factors that we've talked about throughout the call are at play. There are new retail marketplaces that didn't exist in the past. We offer incredibly new services, which especially in Precision Marketing and those consultancy type of activities, which have made budgets, which prior to this, weren't available to us. We've been able to successfully compete and get our share of those projects. And often times those projects are multi-quarter type of projects in terms of from start, which is design of them, to execution and delivery of them. And just the healthier shape of the portfolio.

I think, as Phil mentioned, some of our Execution businesses, I think, are ramped up and ready to respond to the demand that's out there, but there's been – it's been a bit choppy, because of things like the China shutdowns or different interruptions, which have happened from time to time. But we have several of the best assets in the marketplace.

And as I look forward, I see a loosening of that. We have Olympics that will be coming up. We have FIFA, the World Cups that are coming up. We have a lot of different activities that we prosper from. And so, it's a combination. I wish it was as simple as six things I could just rattle off and satisfy your question. But I think it's a combination of all of these things that have made it – have made us more important to clients who are forced – as these become new opportunities to us, it increases the complexity that a CMO or a CIO or a CEO has to go through in order to reach their customers and achieve their objectives. And we are an excellent provider of assisting them and simplifying that complexity and bringing the best-in-class services and making them available to them.

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

A

Certainly, from a macro perspective as well, in terms of the first nine months of the year, the consumers continue to spend, clients have continued to spend. I think we're talking about what happens at the – if and when the environment changes, hard to gauge how much it's going to change by. But the environment certainly has been a positive in the context of the types of services that we provide.

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

A

And maybe like – unlike some of the other abrupt recessions, which have happened in the past, this one has been a little bit slower rolling. We've all been anticipating it. Especially as central banks raise interest rates and create different macro issues and God knows what's going to happen in the war in Ukraine, and people have worked through and have been working through their supply chain issues. So, we've been able to adapt as all of that, and we'll continue to adapt, as that continues.

Copyright © 2001-2022 FactSet CallStreet, LLC

Craig Huber
Analyst, Huber Research Partners LLC

Q

That's very helpful. My follow-up question, if I could, with the very high inflation rates out there, do you feel that that's helping your organic revenue growth here that you're able to pass on higher cost here, in a material way much more so than in the past?

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

A

That's certainly not wholesale across the board, we have been able to get improved pricing on some clients, but it's certainly not an assumption that we make because that same inflation cost causes inconveniences for our clients. And at the end of the day, we're partners. So, the ones that prosper, we prosper; the ones that suffer, we suffer with because we have long-term relationships with.

So, we're trying wherever it's sensible to get paid fairly for the services we provide. And our clients are very much aware of the fact that we all face similar problems and we're doing our level best client-by-client to address ourselves and adjust appropriately, whether it's scope of work, whether it's at a rate card, the list goes on.

Craig Huber
Analyst, Huber Research Partners LLC

Q

Great. Thanks a lot.

Operator: And at this time, we have no one else in the queue. We'll turn the call back over to management. Please go ahead.

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

Yeah. Listen, I'd like to thank all of you for joining us today to discuss our very strong third quarter results, and we look forward to seeing many of you over the coming weeks and months in conferences and in calls. Thanks, again.

Operator: That does conclude our conference for today. Thank you for your participation and for using AT&T Conferencing Service. You may now disconnect.

Copyright © 2001-2022 FactSet CallStreet, LLC

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.

Copyright © 2001-2022 FactSet CallStreet, LLC