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Omnicom Group, Inc. (OMC)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to the Omnicom Third Quarter 2024 Earnings Conference Call. Please note that this call is being recorded. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I will now turn the call over to Gregory Lundberg, Senior Vice President, Investor Relations. You may begin.

Gregory Lundberg

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

Thank you for joining our third quarter 2024 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, you'll find the press release and the presentation covering the information that we'll review today. An archived webcast will be available when today's call concludes.

Before we start, I'd like to remind everyone to read the forward-looking statements and non-GAAP financial and other information that we've 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 2023 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 overview of our business from John, then Phil will review our financial results for the quarter, and after our prepared remarks, we will open the line up for your questions.

And I'll now hand the call over to John.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

Thank you, Greg. Good afternoon, everyone, and thank you for joining us today. We're very pleased to share our third quarter results. Organic growth was very strong at 6.5% for the quarter with the US also growing at 6.5%.

Across our disciplines, Advertising & Media, as well as Experiential, had outstanding performances. Non-GAAP adjusted EBITA margin was 16% for the quarter. Non-GAAP adjusted earnings per share was \$2.03, up 5.7% versus the comparable amount in 2023. Our cash flow continues to support our primary uses of cash: dividends, acquisitions, and share repurchases; and our liquidity and balance sheet remain very strong.

We're very pleased with our financial results for the quarter and the last nine months, and are on track to achieve the higher end of our organic growth target of between 4% to 5% for the year. We're also maintaining our full year 2024 EBITA margin target of close to flat with 2023. Phil will cover our financial results in more detail during his remarks.

During the quarter, we announced the formation of Omnicom Advertising Group, a new practice area that aligns our creative agencies globally under one leadership team. OAG includes global advertising networks, BBDO, DDB and TBWA, as well as the Advertising Collective, which has agencies Goodby Silverstein & Partners, GSD&M, Merkle & Partners and Zimmermann, among others.

The group will be led by a strong core of executives, with Troy Ruhanen as Global CEO of OAG being joined by Nancy Reyes, who was recently promoted to Global CEO of BBDO, with Andrew Robertson becoming Chairman; Erin Riley, who is succeeding Troy and was promoted to the Global CEO of TBWA; Alex Lubar as CEO of DDB; and James Fenton as CEO of the Advertising Collective.

OAG aims to bolster Omnicom's advertising brands by scaling access to solutions, technology platforms, tools and investments across its creative agencies and clients globally. Additionally, as clients demand more integrated and tailored solution from agencies, OAG will help facilitate access to talent and teams across our networks while providing our talent with the mobility across our different agencies and client teams.

As with other practice areas, the creative networks within OAG will retain their unique brand, culture and people. In fact, we believe this new structure will strengthen our agency brands.

Late in the quarter, Omnicom Precision Marketing Group expanded its capabilities by acquiring LeapPoint, a digital advisory firm with expertise across the Adobe Content Supply Chain. The acquisition is part of our strategic efforts to offer the industry's most comprehensive end-to-end content solution, empowering marketers to accelerate workflows and deliver personalized experiences to their customers at speed and scale. LeapPoint's offering streamlined and automated processes, break down operational silos and improve team collaboration for large enterprise clients.

In digital commerce, we achieved an industry-first in the quarter. When we acquired Flywheel, we knew connecting marketing to sales would be a game-changer for our company and our clients. Leveraging and connecting the capabilities of Omnicom Media Group and Flywheel, we can now directly measure online retail sales generated from media campaigns across the full advertising journey from broadcast TV to upper funnel performance media and retail media. This is a significant development and unique to Omnicom. Our partnership with Amazon was instrumental in enabling this breakthrough.

As I mentioned in our last call, we consolidated our production units and formed Omnicom Production to capitalize on the significant market opportunity for production services. We are investing in scaled and high-quality capabilities in multiple ways. Omnicom Production inaugurated a new state-of-the-art content studio in New York and leveraged Omnicom's first-mover partnership in AI to develop innovative capabilities in content development.

The investment is already paying off, with Omnicom Production winning the Kenvue and Bimbo Bakeries USA production business. In the next several months, you will hear more about how we are using AI across our enterprise to drive more effective campaigns and marketing outcomes, to improve how our people work and to deliver efficiencies for our clients.

In addition to the production wins, we had a very strong new business performance across the group. After an extensive review process, Omnicom Media Group won the biggest pitch of the year by being awarded Amazon's media business in the Americas. We are incredibly honored to have been selected by Amazon and to have the opportunity to extend our strong partnership.

OMG also won Michelin global media business. Omnicom Media Group topped the COMvergence first half 2024 report with \$5.3 billion in total new business wins. Omnicom agencies collaborated to win integrated services pitches for Barclays and Bimbo Bakeries USA.

Corona Extra appointed GSDM (sic) [GSD&M] its lead creative agency; General Mills hired Goodby Silverstein & Partners for creative; Pepsi added BBDO to its creative agency roster; OPMG picked up Adobe's digital experience business; and RAPP was selected as Princess Cruises' precision marketing agency. Overall, we're very pleased with our new business wins, financial results and progress on our key initiatives. I want to thank all our teams for their terrific work.

While significant market uncertainties remain due to the upcoming elections in the US and the ongoing conflicts in the Ukraine and the Middle East, we are actively managing what we can control. We are focused on achieving our organic growth and margin targets for the year, and remain confident in our guidance.

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 John said, the third quarter performance of our business builds on the solid performance of the first half of 2024, and we continue to make the strategic investments needed to position Omnicom to meet the marketing needs of our customers through acquisitions like Flywheel and LeapPoint, and our ongoing investments in Omni, Flywheel Commerce Cloud, AI and other technology platforms and tools.

Let's review our business performance in the third quarter, beginning with our revenue change on slide 4. Organic growth in the quarter was strong at 6.5%. The impact on revenue from foreign currency translation was nominal, decreasing reported revenue by just 0.1%. Given recent changes in the relative value of the US dollar, if rates

stay where they are currently, we estimate the impact of foreign currency translation will be positive 1% for Q4 of 2024 and flat for the full-year 2024.

The net impact of acquisition and disposition revenue on reported revenue was positive 2.1%, due primarily to the acquisition of Flywheel in January, along with a few small acquisitions from prior quarters, which were partially offset by some smaller dispositions. Based on transactions completed to-date, we expect the impact of acquisition and disposition revenue will approximate 1.75% for Q4 and 2.0% for the full year.

Now, let's turn to slide 5 to review our organic revenue growth by discipline. During the quarter, Advertising & Media growth of 9% reflected continued strong growth in media and improved performance in advertising, including positive contributions from our production initiative.

Precision Marketing growth of 1% was similar to last quarter with continued strong growth at Flywheel and our Precision Marketing Group performance was driven by strong growth in the US at our customer experience agencies which was offset by lower client spending primarily concentrated in a few markets outside the US. With the full contribution from recent client wins, we continue to expect stronger performance in our Precision Marketing Group in the fourth quarter and beyond.

Public Relations grew 4%. This reflects growth related to US election spending, offset by softer performance internationally. Healthcare revenues were down 1%. By the end of this year, we will be lapping a significant client loss and recent wins should start contributing to improve performance.

Branding & Retail Commerce declined by 5%, resulting from reduced client spending in our Branding agencies and flat performance in Retail Commerce. Experiential growth was very strong at 35%, driven by activations for the Summer Olympics and Execution & Support was flat, reflecting good results in field marketing, offset by declines at our merchandising businesses.

Turning to geographic growth on slide 6. The US, our largest market, had organic growth of 6.5%, continuing strong performance trend this year. Performance in Europe was also strong in most markets. And the Asia Pacific, Latin America and Middle East regions all posted solid growth.

Slide 7 is our revenue by industry sector for the quarter and year-to-date, both of which maintain their historical stability with no significant changes in mix.

Now, let's turn to slide 8 for a look at our expenses. In the quarter, salary-related service costs grew with increased staffing levels, primarily reflecting our acquisition of Flywheel Digital in January. Year-over-year, as a percentage of revenue, these costs were down 1.5%, as we continue to nearshore, offshore and reposition our workforce toward the higher growth services that our clients need.

Third-party service costs grew in connection with the growth in our revenue especially in disciplines that have a higher level of these costs such as media, experiential and field marketing. Third-party incidental costs reflect out-of-pocket costs billed directly to clients and were up a bit.

Occupancy and other costs increased due to the Flywheel acquisition and greater in-office activity, partially offset by lower rent expense. SG&A expenses increased primarily from increases in professional fees and other costs related to our strategic initiatives.

Now, let's turn to slide 9 and look at our income statement in more detail. With no adjustments during the third quarter, EBITA and non-GAAP adjusted EBITA both grew 7.9% and the EBITA margin was 16.0% versus the comparable 16.1% margin last year.

EBITA reflects the addback to operating income for amortization of acquired intangible assets and internally developed strategic platform intangible assets. Approximately 85% of the amount added back relates to acquired intangible assets.

We expect similar levels of amortization in the fourth quarter. The EBITA margin reflects our performance and includes costs incurred in connection with our investments in Omni, Flywheel Commerce Cloud, AI and other technology platforms and tools, as well as costs related to the integration of Flywheel.

It also reflects the relative weighted performance of our disciplines. Year-to-date, our adjusted EBITA margin is 15.1% compared to 15.2% last year. For the full year 2024, we continue to expect this margin to be close to flat with our 2023 adjusted EBITA margin of 15.6% as we balance cost savings initiatives with strategic investment opportunities that we believe will drive strong future revenue and EBITA growth.

Moving down the income statement, net interest expense in the third quarter of 2024 increased \$2.1 million to \$40.4 million. The change was driven by a \$12.9 million increase in interest expense due to higher outstanding debt from the Flywheel financing and the recent note issuance and advance of our November maturity. The change in net interest expense also reflects a \$10.8 million increase in interest income due to higher average cash and short-term investment balances.

Our income tax rate of 26.8% was in line with our expectation of 27%. We also expect the rate for the fourth quarter to approximate 27%. Below the line, I'd like to point out that our strong growth in revenue and EBITA were driven in part and, as always, by some agencies that have minority interests including recent acquisitions. This resulted in higher minority interest expense in Q3 compared to last year.

Net income growth of 3.8%, coupled with fewer diluted shares outstanding from our buyback activity, drove a 4.8% lift in diluted earnings per share. On an adjusted basis, excluding after-tax amortization, diluted earnings per share was up 5.7% to \$2.03.

Now, please turn to slide 10. Free cash flow year-to-date is up 4% from last year. Our definition, like other peers, excludes changes in working capital. For the nine months ended September 30, our use of working capital improved by 8% as you can see in the appendix on slide 18. We remain focused on working capital management and continue to work towards our historically neutral annual level over time.

Regarding our uses of cash, we used \$416 million of cash to pay dividends to common shareholders and another \$64 million for dividends to non-controlling interest shareholders. Our capital expenditures were \$94 million which, as discussed on prior calls, reflects our investment in Flywheel and our strategic technology platform initiatives, as well as investments in our facilities.

Total acquisition payments, which include earn-out payments and the acquisition of additional non-controlling interests, were \$953 million which primarily reflects the \$845 million acquisition of Flywheel, net of cash acquired, in January and the late September acquisition of LeapPoint.

Finally, our share repurchase activity, net of proceeds from stock plans, was \$359 million year-to-date and \$113 million in the quarter. Our expectation for the year has been for annual repurchases in 2024 to be approximately

half of our historical average of about \$600 million. While we exceeded that level as of September 30, Q4, repurchases will depend on a variety of factors.

Slide 11 is a summary of our credit, liquidity and debt maturities. At the end of the third quarter of 2024, the book value of our outstanding debt was \$6.9 billion, which reflects a \$655 million euro financing, which we did earlier this year to fund a portion of the Flywheel acquisition and a \$600 million financing this summer to be used with cash on hand to repay our \$750 million notes due November 1, 2024. The effects of foreign currency translation also increased the book value of our debt by \$98 million.

Our cash equivalents and short-term investments at September 30 were \$3.5 billion, up from last year, primarily reflecting the \$600 million note issued this summer. We also have an undrawn \$2.5 billion revolving credit facility which backstops our \$2 billion US commercial paper program. After the November maturity, we have no further maturities until April of 2026.

The financing activity I just discussed has given us the opportunity to invest cash at favorable rates relative to the 3.65% coupon on our notes that are due in November. We will pay off the notes in November, and we currently estimate that net interest expense in Q4 will be a little higher than Q3 of 2024.

Slide 12 presents our historical returns on two important performance metrics for the 12 months ended September 30, 2024. Omnicom's return on invested capital was 20% and return on equity was 41%, both of which consistently reflect our strong performance and solid balance sheet.

I will now ask the operator to please open the lines up for questions and answers. Thank you.

QUESTION AND ANSWER SECTION

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

David Karnovsky

Analyst, JPMorgan Securities LLC

Q

Hey. Thank you. John, I wanted to check in on what you're hearing lately from clients. You've previously talked about the Fed a lot and what they might do as a point of hesitation. We have some clarity there now, but there's obviously other factors like the election creating uncertainty. So can you give an update on the tone of conversation and maybe how that's informing your view of Q4 or 2025?

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Sure. I don't think the Fed, in terms of the balance of the year, is much of a subject that we're currently discussing. It's turned primarily to the election and even that won't really significantly impact what typically happens in the fourth quarter, which is project spend, which God knows you've been on the call long enough, David, you hear me say this every time this year, we gain visibility as we go through the quarter to see what clients are going to spend. And that number goes from some number to \$250 million, depending upon client activity. I think that's more the case at the moment.

Depending on who you talk to, a lot of people are talking about we've achieved the soft landing. Our business reflects that. But who knows, [indiscernible] (00:22:37). I'd probably be doing something else if I actually could answer that question with some accuracy. I don't know if that's helpful or not?

David Karnovsky

Analyst, JPMorgan Securities LLC

Q

Yes. John, that's helpful. And then, I feel like I have to ask on Amazon, just given it's the largest media shift, at least in recent memory. Can you expand a bit on the winning factors you think kind of gave you an edge in the review, what that means for the wider media biz? And then, anything you can say on when you would expect that to start to flow through results?

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Sure. Well, Amazon was just the largest win in quite a while and it was quite phenomenal. And we're very, very happy to have been selected and proud of it. It proves a number of points. One is the solid relationship we had with Amazon coming off of the Flywheel acquisition which we did earlier in the year, but more important than that, as I think you'd see in the COMvergence reports, if you looked at them, our Media Group has been incredibly successful this year. And we have every belief that will continue to do that as opportunities come up. So the skills, the investments, Omni, all of that, it all adds to an extremely strong media offering.

And overall, from an Amazon point of view, this has created a real enterprise relationship between the two companies, and it's going to permit us to do other things as we go forward. So very, very proud of that. It was a complicated, long process because they were very thorough in what they did, and we invested a great deal of time and energy demonstrating to them what we could bring to the party.

David Karnovsky

Analyst, JPMorgan Securities LLC

Q

Great. Thank you.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

The one thing is, as you mentioned flow through or something along that line, when you're pitching a big piece of business like that, it's expensive. The revenue will start in the new year. What we're currently doing is making sure that we're staffing up properly so no balls are dropped, and that is something that will continue through the fourth quarter.

Operator: Our next question comes from the line of Cameron McVeigh with Morgan Stanley. Please go ahead.

Cameron McVeigh

Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Hey, John. As you think about growth over the next couple years with mid-single digit top line growth, can you hit the margin expansion and then back to being a double-digit EPS grower? In your view, what would need to go right to make that happen?

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Well, there's a number of things that are going on. There's what we've done in production earlier in the year, what we did with OAG just in the last quarter. Those are all efficiencies which are going to help us perform better as we go forward. What is unknown is the level of investments that we continue to make to get AI and all the associated benefits associated with that functioning at a level that is really bulletproof or tested to the point where it won't break if we deploy it to clients, and we're in the process of doing that right now. And that's a process that's going to continue through the balance of this year, where we've developed some incredibly interesting tools which should make us more effective going forward. But there's a cost associated with the development of those tools. And that's how you stay at top of that COMvergence list and the new business list by constantly making those investments while striving for the appropriate margins that we should be receiving.

So I'm bullish as we go forward because our guys have done amazing things so far, and now we're just testing its tolerance.

Cameron McVeigh

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thanks. And then, secondly, how has the integration of Flywheel been going and what have you learned? How are the potential growth and margin impacts trending as we head into the fourth quarter and looking to 2025? And do you still expect Flywheel to grow top line double-digit?

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

The answer to that question is yes, I do expect it to grow. There's no better demonstration of a collaborative effort than the Amazon win, which I just spoke about a second ago. I mentioned in my call that we're able to measure marketing spend for the very first time and that's done with a rather important CPG client that we have where we've proven that it's all measurable. And as we get other clients where we have the opportunity to do that, that's going to further distinguish Omnicom in terms of justifying media spend and ROI and investment in just the general area.

Philip J. Angelastro

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

A

I think the other thing that's helpful from a Flywheel perspective is the integration that's happened between Omni and the data and analytics platform that we have with Omni and the Flywheel data that now Flywheel Commerce Cloud data that that was part of that solution and service offering. So, having the behavioral data of an Omni which is very robust data set along with the Flywheel Commerce transaction data set is a very powerful proposition. Certainly, our clients are interested in that solution and we think over time there's going to be more and more examples of that really being a powerful tool for us with our clients and with new business wins going forward.

Cameron McVeigh

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Our next question comes from the line of Steven Cahall with Wells Fargo. Please go ahead.

Steven Cahall

Analyst, Wells Fargo Securities LLC

Q

Thank you. So, I think the higher end of the 4% to 5% guidance range that you've talked about implies like low-4s organic growth in Q4. So, just trying to think about whether that's an intentional walk towards that level for Q4 or with some of that uncertainty that always is there with project spend, if you just want to be conservative, as I know you often are, at this point. So, I think you've talked about a sequential acceleration and growth in the second half of the year. So, just want to think about how we can think about Q4 within that since that has bigger implications for 2025.

And then, John, I think a few quarters ago, when you closed on Flywheel, you talked about Precision Marketing possibly exiting this year at close to double-digit growth. So, I know you gave some reasons as to why it was a little slower and that you expect it to accelerate in Q4, but just wondering if you could go maybe a level deeper as to what you're seeing in the Precision Marketing segment and how we can think about maybe the longer term performance in that business? Thank you.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Sure. Well, I'm sticking with our guidance because I don't know the project spend in the fourth quarter. We're certainly trying to continue to win whatever business we can and to service our clients wherever we can profitably service them. So, there's no lack of effort going on anywhere within the four walls of this company. I'm not – I'll stick with my statement, I expect to be at the very high end of what my guidance has been for the year and I'm confident, as I sit here today, that I'm going to be able to achieve that. If I'm lucky and if there's more projects spend, obviously, that will flow through as well.

In terms of Precision, Phil can add to it, but the United States has been very strong and the shortfall, if there has been, it's been primarily in outside the United States. And, specifically, outside the United States, there were consulting businesses that was very tied to the UK government and the snap election that was called kind of suspended spending in the short run while that election was being executed. And we expect that they'll return to growth in the fourth quarter based upon everything we know as we sit here today.

Phil might have something to add.

Philip J. Angelastro

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

A

Yes. Our view of the Precision Marketing Group and that space hasn't changed. We think it's a strategic growth area for us, no question. We're committed to continuing to invest over the long-term in that space most recently through the acquisition of LeapPoint, which we closed just at the end of September. The growth prospects in that business are great both in the US and outside the US. They had some recent new business wins that have just started to kick in, GM in the US in particular as an example. And we expect excellent growth prospects in the relatively near term. And we're optimistic about its performance in Q4 for sure.

Steven Cahall

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Philip J. Angelastro

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

A

Sure.

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

Jason Boisvert Bazinet

Analyst, Citigroup Global Markets, Inc.

Q

I just had a question about your view of the overall industry. And I ask because your growth rate has been in this sort of mid-single digit range which is a bit better than it was maybe a decade ago. And do you think that this is a function of just your taking share from other holding companies? Or do you think that the overall industry is actually doing a bit better and growing a bit more briskly? Thanks.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Well, I think our product mix has certainly shifted. As we've made investments in things like Flywheel, things like Omni. We can measure better than we could a decade ago. And anything you can measure clients, typically, will sit and give you a very fair hearing about where to invest that money.

So I do think that the industry is in better shape than it was in the last five or six years. And I'm confident that that will only continue. And I think that the investments that we've made and where we've placed our focus have paid off and will continue to pay off because we can distinguish ourselves in ways that we've never been able to do five years ago.

So I remain bullish about our prospects. And as I enter into 2025, they get supported by the laundry list of wins that I've talked about in my prepared remarks, [they're not] really contributing revenue in this calendar year. They're contributing expenses as we get ready to service that revenue.

Jason Boisvert Bazinet

Analyst, Citigroup Global Markets, Inc.

Q

Right.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

So we should be off to a very solid start, I would think, as we get into 2025 and beyond.

Jason Boisvert Bazinet

Analyst, Citigroup Global Markets, Inc.

Q

That's great.

Philip J. Angelastro

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

A

Yes. In terms of the portfolio itself and where it stands today, we've done quite a bit of work over the last five, six years. To strengthen the portfolio, we've exited a few different businesses and service lines. And we're confident about the parts of the business we've been making investments in terms of their growth prospects. So certainly, the business we have today is quite a bit different than what we had just six, seven, eight years ago and the world is different.

But one of the other things that we think we've been able to capitalize on is the convergence or merging of certain budgets within the client that we have access to today because of the services and disciplines we offer clients

which we didn't necessarily have access to in the past. And that's opening up beyond marketing and advertising budgets and having access to services that we can provide to the CIO organization and the sales organization at our clients as well. So we've got a broader group of services and a broader group of clients to kind of potentially access if we're successful.

Jason Boisvert Bazinet

Analyst, Citigroup Global Markets, Inc.

That's great. Thank you.

Q

Philip J. Angelastro

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

Sure.

A

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

Tim Nollen

Analyst, Macquarie Capital (USA), Inc.

Thanks. I've got a couple as well separately. So first, John, could you explain a bit more about the Omnicom Advertising Group? You announced this, I think, over the summer after your last reported numbers. It seems to me like it follows a bit on what you did many years ago, putting Omnicom Media Group together, and then just last quarter, you announced the Omnicom Production studio, so kind of consolidating agency operations. And then you've got Flywheel in the mix now which I think is sort of tapping into all these things. So are you just kind of becoming one bigger, better integrated company now versus how do you service individual clients as individual agency brands? I guess that's the question. How integrated versus separate are you now?

Q

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

Sure. The short answer to that is we're much more integrated than we've ever been in the past. But the motivation for doing Omnicom Advertising Group was as you look into the technological changes which are impacting our business and the use of artificial intelligence and how it's going to be applied in efforts that we are engaged in, it is more sensible for us to be making those investments on a singular basis and then white labeling those products and deploying them to the various cultures that we have.

A

The move of OAG was really done on our front foot, saying that we can do a better job for our clients, a better deployment of our talent, a better creation and execution of tools if we look at those efforts singularly, but we're still very dedicated to the brands and the various cultures that the brands bring to the party because every one of our agency groups is somewhat different in their approach and how they go to market, and different clients have different needs for those approaches. So it puts us in a situation where I think we can optimize the best of both worlds, maintaining a very strong path, which allows us to continue to attract the strongest talent in the market, but yet concentrate and make meaningful investments in tools that are useful to every client and will create efficiencies in the case of many, many clients and improve the speed and the information that our knowledge workers, be they creative, be they strategic people, will have access to.

Tim Nollen

Analyst, Macquarie Capital (USA), Inc.

So is it more top line synergies, I guess, or is it more cost savings, or is it equally both?

Q

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

The cost savings are de minimis in terms of – it's waste avoidance more than anything else. Rather than listening to 75 different agencies' slightly variant approach towards AI, what we're able to do is to put them in a room and have them come up with a consensus as to what they think would be most useful for their clients, and then make those investments behind that.

Had we not put media together 20-odd years ago, we would have never been able to create Omni, if you had 14 different media groups. So nothing is the same as it was in the past, but it's very similar. And with the resources that we have and the intelligence that we have making those investments properly where they can be most useful to clients and most useful to us in terms of us being the group that gets selected when clients put their business up for review, it's a balance of both. So it's waste avoidance as opposed to cost synergy. We weren't looking to cut heads. We were looking to improve the quality of the products of our brands and the tools that those folks had available to them.

Tim Nollen

Analyst, Macquarie Capital (USA), Inc.

Q

Okay, got it. Thanks for that explanation. That's clear. My second topic I wanted to bring up is about retail media. You were talking a bit about Flywheel and how it helped with Amazon. And my question really is do you feel like you're active in both onsite as well as offsite retail media? And if you could talk about maybe what the opportunities are in each, on-site being bringing ads on to a retailer's website or apps, and then off-site being able to do what it seems to me is really what agencies should be good at is understanding where consumers are, how to reach them wherever they are, and bring them to the retailer site. I hope it's not too deep in the weeds, but I wonder if you could maybe talk about how Flywheel might help with your agency's abilities to do that.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Well, Flywheel is the leader, bar none, by multiples of activity in the leading online retail type of providers, be it Amazon, Walmart, you go down the list, Target. Outside of the United States, into China, which have some pretty cutting-edge things. We're engaged with them as well. So we were first to the market or they were first to the market before we acquired them. We have a great depth of knowledge. We have a lot of trust built up with the pioneers who have really blazed the retail trail because of our history. So I think we're in very good shape.

Now, does it mean to have a monopoly in it? No. There'll be other pretenders that come to the play to the market, and we'll compete against them, but we'll compete successfully. But Flywheel was, in fact, a decade ahead of the next closest thing. People will put together fancy press releases and say that they can accomplish things, but substantively Flywheel has done it. And we continue to make further investments in Flywheel. And the team that envisioned that before a marketplace really existed and the people responsible for it are the best in a relatively small industry in terms of where the talent lies. So I think we're very fortunate to have Flywheel, and it will contribute very strongly to our growth as we move forward.

Tim Nollen

Analyst, Macquarie Capital (USA), Inc.

Q

Thanks, John.

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

Craig Huber

Analyst, Huber Research Partners LLC

Thank you. We've got a couple questions. John, it's not often that we hear you use the word bullish to describe your business. I think I heard you say it twice in your business, in your outlook and stuff. So I'd love if you expand upon that please?

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

We haven't even gotten the transcript yet.

Craig Huber

Analyst, Huber Research Partners LLC

Well, listening here. Just a little more depth about what you're seeing in the marketplace in the US or overseas. Why did you use the word bullish? What's changed in your mind?

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

Well, I'm bullish about Omnicom, first and foremost, because of the level of wins that we've had in the last four months of the year, which will be contributing to revenues as we start into next year. I'm also bullish about our percentage of winning and our ability to compete in the marketplace and the sophistication of the clients that have selected us in this whole process. So I've got a lot of confidence in the beginning of next year. I have a lot of confidence in the teams that are out pitching. I have a lot of confidence in the tools that we've developed and the ones we're currently Beta-ing. So that's what really makes me bullish. And with each one of these technological improvements, we're able to increasingly optimize and measure our performance. And anything that can be measured can be sold to a sophisticated client. Are there going to be bumps in the road and interruptions in certain industries in the economy? Of course. But from an overall point of view, I am bullish. I'm very confident, but mostly confident in the team that surrounds me and the investments that we've made.

Craig Huber

Analyst, Huber Research Partners LLC

And my second question, John...

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

I mean, my wife would use the same thing, gee, I haven't been bullish about this either. But no, I am bullish. I did use it twice, but now I've used it five times.

Craig Huber

Analyst, Huber Research Partners LLC

Right. Good to hear. And then on margins, if one of you could comment, I mean, obviously, we have roughly, as you're saying, roughly 5% organic growth for the year. You're talking about margins close to flat with a year ago. Could you just go through for us what's holding back your margins this year, what's unique this year holding back? I mean, obviously, you guys invest very heavily every year. But is it significantly higher this year than prior

years? And then what's going to fall off potentially next year to help margins potentially next year if you have roughly similar growth?

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Well, I'll let Phil do this one, but I'll just add one or two small comments upfront. One is, to get business, you have to invest money. Two, to see the revenue from it, and I think I've said this 10,000 times before, not just twice, when you win a new piece of business, it's the most expensive time of your relationship because you're staffing up without the revenue. And unfortunately, when you lose business, we do counterintuitively, but you expect to see margin improvement because you can reduce your staff pretty quickly and the revenue is still coming to you contractually. So, don't be deceived by any 90-day period would be my word of caution.

We are trying to balance, in our judgment, where we should be making investments and how we make those investments internally through our P&L in order to develop the products which make us successful in the marketplace. So, it's a balance of delivering margin to the shareholder, but making sure that we're fit for purpose as we go forward.

And then, Phil, do you want to?

Philip J. Angelastro

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

A

Yeah. I think those are certainly a couple of the key parts of how we look at the margin profile overall and how we manage the company strategically overall. And 2024 is no different in terms of our approach. As we said throughout the year, we expect margins for the year to be close to flat. As John indicated, there have been a quite a few pitches that we've been successful in. Those pitches do require an investment. And then when you win them, staffing up requires an investment in the near-term.

We're going to continue to make strategic investments in the business, the Omni platform, Flywheel Commerce Cloud platform, and this year, certainly, there's been more of a focus on Gen AI. And there've been a number of initiatives that we've pursued and continue to pursue in a space that we think is going to be very important for our business going forward. And the goal ultimately is to make those investments to position us for sustainable future growth.

And we've done that in the past. We've seen it benefit us in terms of the Omni platform and the many wins we've had over the years because of the investments we've made. We look at the business long-term. We reevaluate the portfolio. But the goal ultimately is to grow, grow sustainably and over time grow margins.

So, we've got a number of efficiency initiatives that are well underway. We're going to continue to pursue the areas of offshoring and nearshoring. Automation certainly is a big push of ours. We continue to push that and look for efficiencies wherever we can find them. And ultimately, that's where some of these benefits in terms of margin improvement are going to come from.

But we're not going to be shortsighted, not make the investments that need to be made, to have sustainable growth, just because we want to maximize margins in the short-term. But certainly, we're going to continue to strive to improve margins over time. And we think we have a portfolio that's going to allow us to do that and some of the recent wins certainly are very encouraging towards that as we go forward.

Craig Huber

Analyst, Huber Research Partners LLC

Great. Thank you very much.

Q

Philip J. Angelastro

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

Sure.

A

Operator: Our next question comes from the line of Adam Berlin with UBS. Please go ahead.

Adam Berlin

Analyst, UBS AG (London Branch)

Yeah. Hi, good evening. Two questions, if I can. Very strong quarter with 6.5% organic growth and you mentioned there were some benefits from the US election cycle and the Olympics in there, but can this be a typical quarter? Is this the kind of growth you're looking to achieve, or should we just think of it as a bit of a one-off special quarter just given those special events? That's the first question.

Q

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

Well, the election probably contributed less than it has in prior presidential elections, but it did contribute something. And wherever there's an Olympics, we generally get a bump, and that's every two years or so. We also get a bump during congressional elections in the United States as well every two years. So I think there is some contribution in the 6.5% to those activities. But whilst they're not every quarter, they are ongoing because we have the best players servicing those areas, so.

A

Philip J. Angelastro

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

Yeah, I mean, we've grown a little over 5% through nine months. We expect to be at the high end of our range for the year. We grew 4.1% last year. Coming out of COVID, double-digits in 2021, 9.5% in 2022. We're certainly expecting to grow in the future. Is 5% a new normal? I think it's early to say that, certainly. But what we've made – we spoke a lot about the investments we continue to make. We expect that to be – we expect the business to be a good platform for growth into the future.

A

But when it comes to elections and the benefit we get in the Experiential businesses, along with the PR businesses from an election perspective, that's a two-year cycle. We'll take it when we can get it. We don't expect Experiential to grow at the same rate in a non-Olympic year, but it depends on other factors. Is there a World Cup? Is the – are the European Championships that year? Those businesses are going to grow. They're going to be a little choppy quarter-to-quarter.

I think we don't make conclusions based on any one particular quarter. But longer-term, we think the performance in 2024 and 2023 certainly is good performance. And we expect and strive to continue to grow at those rates going forward.

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Yeah. And the only thing I'd add, Andy (sic) [Adam], to the election is that money's being spent in very few states this time around, because the country, the United States anyway, is so divided that I think this election will get called based upon very thin margins, Adam, excuse me, in a number of places. And personally, I don't think the election's going to be known on November 5, but it will probably go on beyond that. But that's personal speculation, so.

Adam Berlin

Analyst, UBS AG (London Branch)

Q

Thanks. That's helpful. And I just want to ask one more, which is obviously you're outperforming some of your peers. I just wonder how that's impacting kind of talent. So are you looking to add talent into your organization from your peers? Is it helping you to retain talent? Just can you give some comments about how the strong performance is helping you with the people you have?

John D. Wren

Chairman & Chief Executive Officer, Omnicom Group, Inc.

A

Sure. No, we have a very strong bench of talent. I'm always open and we're always recruiting for more talent, especially as we win these businesses, staffing up for them. They're no small projects, they require a lot of people to be brought on board and in a relatively quick manner. So, some of them are coming from competitors, others are new entries into the marketplace. And as Phil said, we don't have the proof points yet, but we're well on our way towards automation. And we also think, AI, if we don't break the tools that we've been able to build through overcapacity, will help us attract more knowledge workers, as I refer to them, because the mundane tasks that some of these efforts require get eliminated through this new technology. So, the business is changing more rapidly than I think it has during my career, so, and all to the positive from my perspective.

Adam Berlin

Analyst, UBS AG (London Branch)

Q

Thank you very much.

Philip J. Angelastro

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

A

Thank you.

Operator: We have no further questions at this time. This will conclude today's conference call. Thank you all for your participation. You may now disconnect.

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