

Omnicom Group Inc. (OMC)

\$68.12 (As of 03/05/20)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/13/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

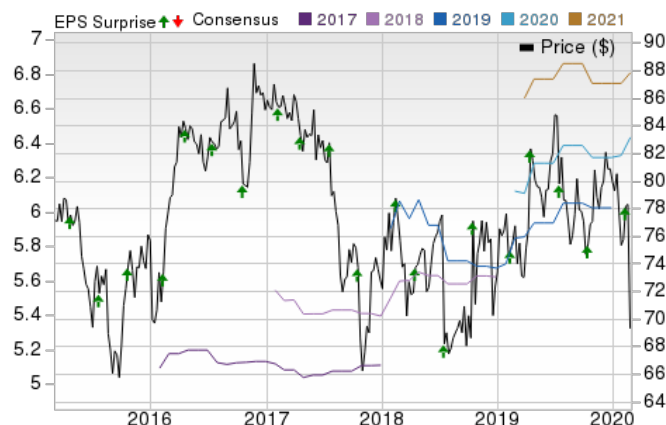
Growth: B

Momentum: C

Summary

Consistency and diversity of operations and increased focus on delivering consumer-centric strategic business solutions ensure persistent profitability for Omnicom. The company's bottom line is currently benefiting from ongoing operating efficiency initiatives in real estate, back office services, procurement and IT areas. Change in business mix resulting from disposition of some non-core or underperforming agencies over the past year, is also aiding the bottom line. Omnicom has a consistent record of dividend payment and share repurchases. However, global presence exposes it to foreign exchange rate risks. Dependence on information technology systems makes it vulnerable to cybersecurity threats. The company's CRM Execution and Support segment remains weak thereby impacting the share price that has declined over the past year .

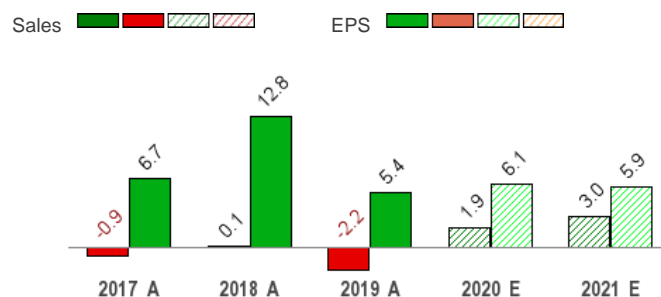
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$85.05 - \$64.77
20 Day Average Volume (sh)	2,536,044
Market Cap	\$14.8 B
YTD Price Change	-15.9%
Beta	0.67
Dividend / Div Yld	\$2.60 / 3.8%
Industry	Advertising and Marketing
Zacks Industry Rank	Top 17% (44 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	1.5%
Expected Report Date	04/21/2020
Earnings ESP	0.0%
P/E TTM	11.2
P/E F1	10.6
PEG F1	2.2
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					15,699 E
2020	3,512 E	3,804 E	3,739 E	4,234 E	15,235 E
2019	3,469 A	3,720 A	3,624 A	4,141 A	14,954 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.81 E
2020	\$1.26 E	\$1.77 E	\$1.45 E	\$1.97 E	\$6.43 E
2019	\$1.17 A	\$1.68 A	\$1.32 A	\$1.89 A	\$6.06 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/05/2020. The reports text is as of 03/06/2020.

Overview

New York based Omnicom is one of the largest advertising, marketing and corporate communications companies in the world. The company's agencies operate in all the major markets across the globe and provide an extensive range of services. Areas of operation include North America, Latin America, Europe, the Middle East, Australia, China, India, Japan, Korea, Africa, New Zealand, Singapore, and other Asian countries.

The company operates in a fiercely competitive industry and competes with global, national and regional advertising and marketing services companies. It also competes with technology, social media and professional services companies.

In 2017, Omnicom realigned its CRM (Customer Relationship Management) discipline into two separate categories, namely CRM Consumer Experience and CRM Execution & Support. Omnicom also realigned and renamed the Specialty Communications discipline as Healthcare. The operating segments of the company at present are:

Traditional Media Advertising (56% of total revenues in 2019): The segment includes three of the top ten global advertising brands - BBDO Worldwide, DDB Worldwide, and TBWA Worldwide.

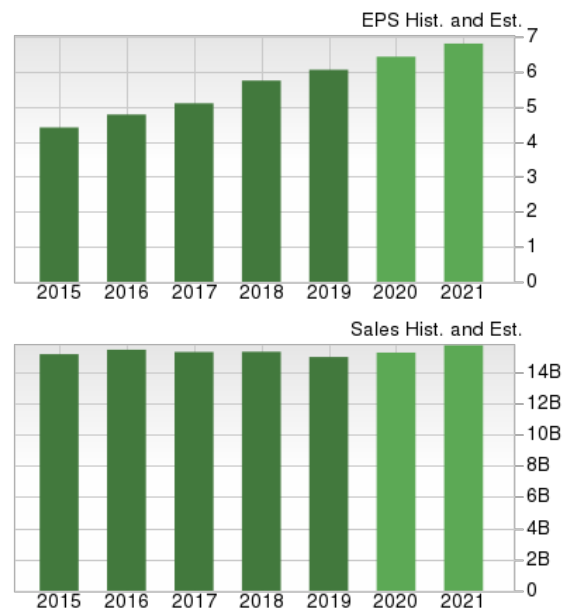
CRM Consumer Experience (18%): The segment includes Omnicom Precision Marketing Group's Digital / Direct agencies as well as Consulting & Branding agencies, Shopper Marketing agencies and Experiential Marketing agencies.

CRM Execution & Support (9%): The segment includes Field Marketing, Sales Support, Merchandising & Point of Sale and other Specialized Marketing and Custom Communications agencies.

Public Relations (9%): This group provides services through three of the top seven public relations firms in the world, Fleishman-Hillard, Ketchum Pleon, and Porter Novelli International, as well as specialist agencies including Brodeur Partners, Clark & Weinstock, Kreab Gavin Anderson, and Cone.

Healthcare (8%): The segment exclusively includes agencies offering Healthcare Marketing and Communication services.

Omnicom has its clients spread across the world. The company's 100 largest clients included the world's major marketers and comprised roughly 51% of its revenue in 2018. Each of these clients were served, on average, by more than 60 agencies.



Reasons To Buy:

▲ Omnicom's continues to focus on its **internal development initiatives**. To increase operational efficiency, the company has been making investments in real estate, back office services, procurement and IT. It is also investing in data, analytics and precision marketing. Driven by such positives, we expect Omnicom to witness higher revenues on the back of organic growth. Notably, in 2018, organic growth resulted in a 2.8% increase in total revenues.

Internal development initiatives ensure long-term profitability for this shareholder-friendly company.

▲ Omnicom's **bottom line is in good shape** as the company has been divesting underperforming and non-core businesses and reorganizing to meet clients' ever-changing needs. We believe that consistency and diversity of Omnicom's operations and increased focus on delivering consumer-centric strategic business solutions, ensures long-term profitability for Omnicom.

▲ Omnicom has a consistent record of **returning value to shareholders** in the form of dividend and share repurchases. In 2019, Omnicom paid \$571.2 million in dividend and repurchased shares worth \$610.2 million. Previously, Omnicom paid dividends of \$544.5 million and \$523.4 million to its shareholders, respectively in 2018 and 2017. The company repurchased shares amounting to \$581.3 million and \$568.4 million, in 2018 and 2017 respectively. Such moves not only instill investors' confidence but also positively impact earnings per share.

Reasons To Sell:

▼ Omnicom is a global enterprise and its international operations contribute around 46% to revenues. It operates in all major international markets including the Eurozone, the United Kingdom, Australia, Brazil, Canada, China and Japan, with business transactions occurring in more than 50 different currencies other than the U.S. dollar. The company's vast international presence exposes it to risks associated with **foreign exchange rate fluctuations**. In the fourth quarter of 2019, there was negative foreign exchange rate impact of 0.9% on revenues.

Foreign currency exchange rate risks and cybersecurity threats weigh on Omnicom's prospects.

▼ Omnicom depends on information technology systems and infrastructure to process, store and transmit data, manage business and maintain client advertising and marketing information. This makes the company vulnerable to **cybersecurity threats and attacks** like material security breaches, theft, modification or loss of data, employee malfeasance and other related threats. These activities can hurt its business as well as popularity. Additionally, the company's use of third-party service providers like cloud providers, to store, transmit and process data also increases cybersecurity risks.

▼ The company's **CRM Execution and Support segment remains weak**. The segment's revenues decreased 6% year over year in the fourth quarter of 2019. This might have negatively impacted the company's share price, that has declined 8.5% over the past year.

Last Earnings Report

Omnicom Surpasses Q4 Earnings Estimates

Omnicom reported solid fourth-quarter 2019 results wherein the company's earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings of \$1.89 per share beat the consensus mark by 1% and increased 6.8% on a year-over-year basis.

Total revenues of \$4.1 billion beat the consensus estimate by 1.5% and increased 1.3% year over year on a reported basis. The year-over-year increase was driven by organic revenue growth of 3.5%, partially offset by negative foreign exchange rate impact of 0.9% and a decline in acquisition revenues, net of disposition revenues of 1.2%.

Other Quarterly Details

Across fundamental disciplines, advertising increased 5.1%, CRM Consumer Experience was up 3.3%, CRM Execution & Support declined 6%, Public Relations declined 2.5% and Healthcare increased 12.9%, organically, year over year.

Across regional markets, year-over-year organic growth was 2.8% in the United States, 3.3% in the United Kingdom, 4.7% in the Euro Markets and Other Europe, 4.5% in Asia Pacific and 19.5% in Middle East and Africa. Other North America and Latin America were down 2.3% and 1.3%, respectively.

Operating profit in the quarter came in at \$646.4 million, up 3.1% year over year. Operating margin increased to 15.6% from 15.3% in the year-ago quarter.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	1.49%
EPS Surprise	1.07%
Quarterly EPS	1.89
Annual EPS (TTM)	6.06

Recent News

On **Mar 03, 2020**, FleishmanHillard, part of Omnicom Public Relations Group announced that the National Association for Female Executives (NAFE) has named it as one of the 2020 NAFE Top Companies for Executive Women.

On **Feb 11, 2020**, Omnicom announced quarterly dividend of 65 cents per share payable on Apr 8 to shareholders of record at the close of business on Mar 10.

Valuation

Omnicom shares are down 8.5% over the trailing 12-month period. The Zacks sub-industry is down 20.6% in the past year. The sector and S&P 500 index are up 10.3% and 8.7%, respectively in the same time frame.

The stock is currently trading at 10.48X price to forward 12 months' earnings, which compares to 8.98X for the Zacks sub-industry, 23.54X for the Zacks sector and 17.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.99X and as low as 10.48, with a 5-year median of 14.14X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$72.00 price target reflects 11.08X price to forward 12 months' earnings.

The table below shows summary valuation data for OMC

Valuation Multiples - OMC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	10.48	8.98	23.54	17.3
	5-Year High	17.99	17.63	25.25	19.34
	5-Year Low	10.48	8.98	18.76	15.18
	5-Year Median	14.14	13.23	20.56	17.44
P/S F12M	Current	0.96	1.08	3.72	3.19
	5-Year High	1.31	1.43	4	3.43
	5-Year Low	0.96	0.85	3.08	2.54
	5-Year Median	1.14	1.16	3.63	3.01
P/B TTM	Current	4.38	13.69	4.61	4.04
	5-Year High	7.75	17.53	6.7	4.54
	5-Year Low	4.38	2.47	4.12	2.85
	5-Year Median	5.89	10.33	5.24	3.63

As of 03/05/2020

Industry Analysis Zacks Industry Rank: Top 17% (44 out of 255)



Top Peers

DISH Network Corporation (DISH)	Outperform
Publicis Groupe SA (PUBGY)	Outperform
Clear Channel Outdoor Holdings, Inc. (CCO)	Neutral
Cognizant Technology Solutions Corporation (CTSH)	Neutral
FLUENT, INC. (FLNT)	Neutral
Interpublic Group of Companies, Inc. (The) (IPG)	Neutral
Nielsen Holdings Plc (NLSN)	Neutral
WPP PLC (WPP)	Neutral

Industry Comparison Industry: Advertising And Marketing				Industry Peers		
	OMC Neutral	X Industry	S&P 500	IPG Neutral	PUBGY Outperform	WPP Neutral
VGM Score	A	-	-	A	A	B
Market Cap	14.77 B	43.34 M	21.47 B	8.03 B	8.31 B	12.39 B
# of Analysts	4	1.5	13	3	1	2
Dividend Yield	3.82%	0.00%	2.04%	4.93%	5.06%	5.98%
Value Score	A	-	-	A	A	A
Cash/Price	0.29	0.18	0.05	0.14	NA	0.22
EV/EBITDA	6.78	3.42	12.81	7.64	NA	NA
PEG Ratio	2.22	2.27	1.88	2.27	5.83	NA
Price/Book (P/B)	4.38	1.09	2.95	2.84	1.03	1.15
Price/Cash Flow (P/CF)	9.50	4.81	11.75	7.14	3.89	5.64
P/E (F1)	10.46	10.59	17.19	10.17	6.99	8.42
Price/Sales (P/S)	0.99	0.44	2.32	0.79	NA	NA
Earnings Yield	9.44%	7.33%	5.81%	9.85%	14.30%	11.88%
Debt/Equity	1.72	0.01	0.70	1.49	NA	0.71
Cash Flow (\$/share)	7.17	0.38	7.01	2.90	2.35	8.24
Growth Score	B	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	8.06%	8.15%	10.85%	14.41%	NA	NA
Proj. EPS Growth (F1/F0)	6.15%	7.26%	6.27%	5.53%	-7.09%	10.62%
Curr. Cash Flow Growth	-0.22%	-2.23%	6.07%	10.62%	36.36%	-24.78%
Hist. Cash Flow Growth (3-5 yrs)	2.46%	3.15%	8.52%	11.98%	10.75%	3.15%
Current Ratio	0.91	1.20	1.23	0.93	NA	0.99
Debt/Capital	64.06%	21.23%	42.57%	60.71%	NA	41.52%
Net Margin	8.95%	-9.08%	11.69%	6.42%	NA	NA
Return on Equity	43.58%	-14.11%	16.66%	29.83%	NA	NA
Sales/Assets	0.59	0.79	0.54	0.62	NA	NA
Proj. Sales Growth (F1/F0)	1.88%	0.00%	3.90%	-6.43%	0.00%	-16.61%
Momentum Score	C	-	-	B	B	D
Daily Price Chg	-4.03%	-3.24%	-3.79%	-3.94%	-6.51%	-5.49%
1 Week Price Chg	-11.49%	-11.49%	-12.06%	-12.49%	-13.33%	-22.85%
4 Week Price Chg	-11.06%	-13.59%	-10.92%	-10.77%	-17.14%	-26.06%
12 Week Price Chg	-17.16%	-9.23%	-8.10%	-10.19%	-16.42%	-28.65%
52 Week Price Chg	-8.51%	-26.48%	4.09%	-7.34%	-34.38%	-17.62%
20 Day Average Volume	2,536,044	81,321	2,483,920	4,664,865	84,336	222,243
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.50%	0.00%	-0.06%	1.50%	-2.24%	-4.50%
(F1) EPS Est 12 week change	1.86%	0.00%	-0.42%	2.00%	2.34%	-7.30%
(Q1) EPS Est Mthly Chg	1.61%	-40.91%	-0.29%	NA	NA	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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