

Omnicom Group Inc. (OMC)

\$55.01 (As of 08/10/20)

Price Target (6-12 Months): **\$58.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/17/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: B

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.

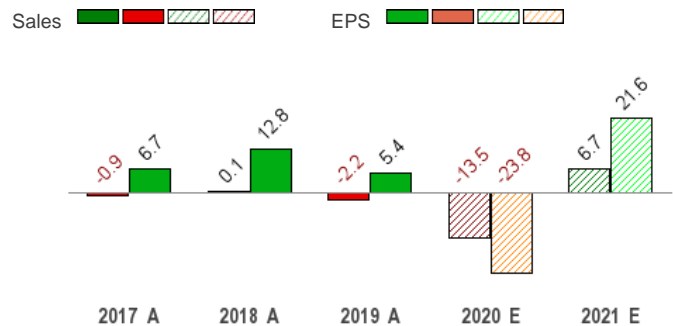
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$82.73 - \$46.37 |
| 20 Day Average Volume (sh) | 2,430,740 |
| Market Cap | \$11.8 B |
| YTD Price Change | -32.1% |
| Beta | 0.70 |
| Dividend / Div Yld | \$2.60 / 4.7% |
| Industry | Advertising and Marketing |
| Zacks Industry Rank | Bottom 17% (209 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 10.8% |
| Last Sales Surprise | -3.5% |
| EPS F1 Est- 4 week change | 6.5% |
| Expected Report Date | 10/20/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 10.3 |
| P/E F1 | 11.9 |
| PEG F1 | 2.5 |
| P/S TTM | 0.9 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2021 | | | | | 13,805 E |
| 2020 | 3,407 A | 2,801 A | 3,027 E | 3,771 E | 12,940 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 | | | | | \$5.62 E |
| 2020 | \$1.19 A | \$0.92 A | \$1.09 E | \$1.65 E | \$4.62 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 08/10/2020. The reports text is as of 08/11/2020.

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.

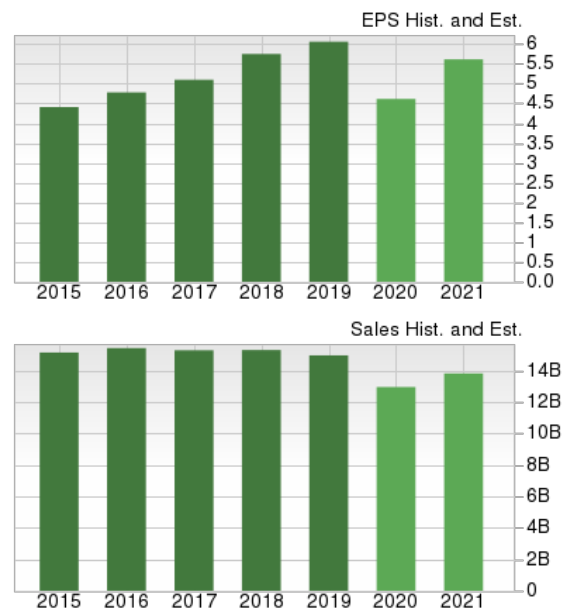
CRM Consumer Experience (18%): The segment includes Omnicom Precision Marketing Group's Digital / Direct agencies as well as Consulting & Branding agencies, Shopper Marketing agencies and Experiential Marketing agencies.

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 2019, 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's debt-to-capital ratio of 0.71 at the end of second-quarter 2020 was higher than the previous quarter's 0.68. The increasing debt to capitalization ratio indicates that **the proportion of debt to finance the company's assets is on the rise**. Higher debt as a percentage of total capital indicates that a company has a higher risk of insolvency. Further, cash and cash equivalent balance of \$3.3 billion at the end of the second quarter was well below the long-term debt level of \$6.9 billion, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$6 million.
- ▼ 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, Canadas, 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 2019, there was negative foreign exchange rate impact of 2.1% on revenues.
- ▼ The company's **CRM Execution and Support segment remains weak**. The segment's revenues decreased 28% in 2019. This might have negatively impacted the company's share price, that has declined 36.6% over the past year.

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Last Earnings Report

Omnicom Surpasses Q2 Earnings Estimates

Omnicom Group reported solid mixed second-quarter 2020 results, wherein the company's earnings surpassed the Zacks Consensus Estimate but revenues missed the same.

Adjusted earnings of 92 cents per share beat the consensus mark by 10.8% but declined 45.2% on a year-over-year basis.

Total revenues of \$2.8 billion missed the consensus estimate by 3.5% but decreased 24.7% year over year on a reported basis. This year-over-year decrease came in due to a negative foreign-exchange rate impact of 1.7% and a decline in acquisition revenues, net of disposition revenues of 0.1% and a decline in revenue due to negative organic growth of 23%.

Other Quarterly Details

Across fundamental disciplines, advertising edged down 26.6%, CRM Consumer Experience was down 25.6%, CRM Execution & Support declined 27.6%, Public Relations inched down 13.9% and Healthcare increased 3.2%, organically, year over year.

Across regional markets, year-over-year decline was 20.7% in the United States, 23.7% in the United Kingdom, 18.6% in the Asia Pacific and 29.6% in the Other North America. The Euro Markets & Other Europe, Latin America and Middle East and Africa were down 29.4%, 24.1% and 39.4%, respectively.

Operating profit in the first quarter came in at \$62.5 million, down 89.1% year over year. Operating margin decreased to 2.2% from the year-ago quarter's 15.4%.

Quarter Ending **06/2020**

| Report Date | Jul 28, 2020 |
|------------------|--------------|
| Sales Surprise | -3.53% |
| EPS Surprise | 10.84% |
| Quarterly EPS | 0.92 |
| Annual EPS (TTM) | 5.32 |

Recent News

On **Jun 18, 2020**, Porter Novelli, a leading Purpose communication consultancy and an Omnicom Public Relations Group (“OPRG”) firm, announced yesterday that it will form a strategic partnership with another OPRG firm, Rabin Martin, effective Jul 1.

On **May 28, 2020**, Omnicom announced quarterly dividend of 65 cents per share payable on Jul 10 to shareholders of record at the close of business on Jun 12.

On **Apr 6, 2020**, Omnicom Chairman and CEO John Wren announced resignation of Wendy Clark, President and CEO, DDB Worldwide.

Valuation

Omnicom shares are down 32.1% in the year-to-date period and 36.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 37.9% while those in the Zacks Business Services sector are up 2.2% in the year-to-date period. Over the past year, the Zacks sub-industry is down 36.6% but the sector is up 5.3%.

The S&P 500 index is up 3.9% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 10.53X price to forward 12 months' earnings, which compares to 12.91X for the Zacks sub-industry, 30.22X for the Zacks sector and 22.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.99X and as low as 7.56, with a 5-year median of 13.65X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$58.00 price target reflects 11.78X 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 | 10.53 | 12.91 | 30.22 | 22.75 |
| | 5-Year High | 17.99 | 16.45 | 30.22 | 22.75 |
| | 5-Year Low | 7.56 | 9.11 | 18.68 | 15.25 |
| | 5-Year Mediar | 13.56 | 12.79 | 20.96 | 17.58 |
| P/S F12M | Current | 0.88 | 0.62 | 4.2 | 3.66 |
| | 5-Year High | 1.31 | 1.38 | 4.2 | 3.66 |
| | 5-Year Low | 0.68 | 0.62 | 3.07 | 2.53 |
| | 5-Year Mediar | 1.12 | 1.11 | 3.6 | 3.05 |
| P/B TTM | Current | 4.13 | 11.29 | 4.81 | 4.67 |
| | 5-Year High | 7.75 | 17.98 | 6.72 | 4.67 |
| | 5-Year Low | 3.11 | 1.81 | 3.28 | 2.83 |
| | 5-Year Mediar | 5.79 | 6.6 | 5.22 | 3.74 |

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (209 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|---|------------|------|
| Nielsen Holdings Plc (NLSN) | Outperform | 1 |
| Clear Channel Outdoor Holdings, Inc. (CCO) | Neutral | 2 |
| Cognizant Technology Solutions Corporation (CTSH) | Neutral | 3 |
| DISH Network Corporation (DISH) | Neutral | 3 |
| FLUENT, INC. (FLNT) | Neutral | 3 |
| Interpublic Group of Companies, Inc. The (IPG) | Neutral | 3 |
| Publicis Groupe SA (PUBGY) | Neutral | 3 |
| WPP PLC (WPP) | Neutral | 3 |

| Industry Comparison Industry: Advertising And Marketing | | | | Industry Peers | | |
|---|-----------|------------|-----------|----------------|---------|---------|
| | OMC | X Industry | S&P 500 | IPG | PUBGY | WPP |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 3 | 3 |
| VGM Score | A | - | - | A | C | A |
| Market Cap | 11.82 B | 149.02 M | 23.56 B | 7.46 B | NA | 10.04 B |
| # of Analysts | 4 | 1.5 | 14 | 3 | 1 | 2 |
| Dividend Yield | 4.73% | 0.00% | 1.71% | 5.33% | 5.31% | 11.72% |
| Value Score | A | - | - | A | B | A |
| Cash/Price | 0.29 | 0.22 | 0.07 | 0.15 | NA | 0.38 |
| EV/EBITDA | 6.43 | 5.25 | 13.39 | 7.70 | NA | 5.25 |
| PEG Ratio | 2.61 | 1.36 | 2.92 | NA | NA | NA |
| Price/Book (P/B) | 4.13 | 1.27 | 3.18 | 2.99 | 0.96 | 1.01 |
| Price/Cash Flow (P/CF) | 7.67 | 4.97 | 12.69 | 6.60 | 3.24 | 4.97 |
| P/E (F1) | 12.34 | 12.30 | 22.16 | 13.47 | 10.05 | 12.30 |
| Price/Sales (P/S) | 0.85 | 0.56 | 2.55 | 0.77 | NA | NA |
| Earnings Yield | 8.38% | 1.80% | 4.33% | 7.43% | 9.95% | 8.13% |
| Debt/Equity | 2.41 | 0.14 | 0.77 | 1.91 | 0.88 | 0.71 |
| Cash Flow (\$/share) | 7.17 | 0.12 | 6.94 | 2.90 | 2.70 | 8.24 |
| Growth Score | C | - | - | B | B | C |
| Hist. EPS Growth (3-5 yrs) | 7.30% | -2.11% | 10.41% | 12.38% | NA | NA |
| Proj. EPS Growth (F1/F0) | -23.84% | -30.75% | -6.51% | -26.42% | -38.30% | -33.27% |
| Curr. Cash Flow Growth | -0.22% | -27.50% | 5.26% | 10.62% | 14.72% | -24.78% |
| Hist. Cash Flow Growth (3-5 yrs) | 2.46% | 7.22% | 8.55% | 11.98% | 14.09% | -2.36% |
| Current Ratio | 0.96 | 1.07 | 1.34 | 0.98 | 0.88 | 0.99 |
| Debt/Capital | 71.19% | 28.06% | 44.59% | 66.36% | 46.72% | 41.52% |
| Net Margin | 6.72% | -4.17% | 10.13% | 4.66% | NA | NA |
| Return on Equity | 38.27% | -8.22% | 14.59% | 25.72% | NA | NA |
| Sales/Assets | 0.58 | 0.80 | 0.51 | 0.60 | NA | NA |
| Proj. Sales Growth (F1/F0) | -13.46% | 0.00% | -1.54% | -11.58% | 0.00% | -28.45% |
| Momentum Score | B | - | - | B | F | C |
| Daily Price Chg | 3.27% | 0.41% | 0.91% | 3.86% | 2.82% | 1.59% |
| 1 Week Price Chg | -0.86% | 1.99% | 2.30% | 1.99% | 6.92% | 8.10% |
| 4 Week Price Chg | 0.88% | 2.86% | 8.54% | 12.60% | 18.27% | 11.34% |
| 12 Week Price Chg | 3.46% | 15.04% | 13.68% | 15.04% | 23.80% | 12.90% |
| 52 Week Price Chg | -29.35% | -19.71% | 3.71% | -8.67% | -25.43% | -29.66% |
| 20 Day Average Volume | 2,430,740 | 147,238 | 2,015,804 | 4,236,745 | 33,623 | 195,648 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 6.52% | 0.00% | 1.67% | 5.45% | 0.00% | 0.30% |
| (F1) EPS Est 12 week change | 4.77% | -13.47% | 2.27% | 4.67% | -4.40% | -4.72% |
| (Q1) EPS Est Mthly Chg | 36.25% | 0.00% | 0.67% | 27.78% | NA | NA |

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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 | C |
| Momentum Score | B |
| 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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