

Omnicom Group Inc. (OMC)

\$80.91 (As of 12/30/19)

Price Target (6-12 Months): **\$86.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/13/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

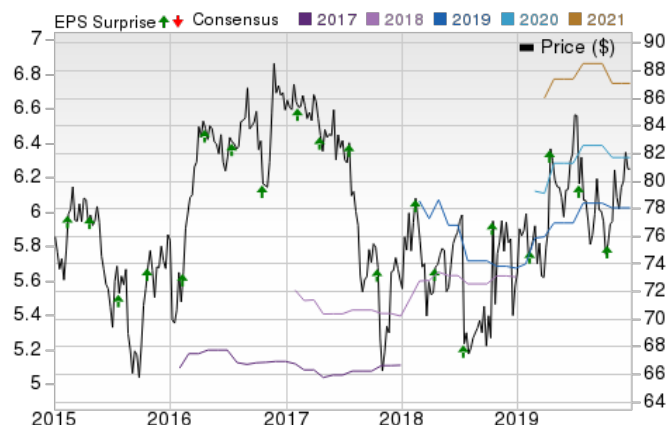
Growth: C

Momentum: D

Summary

Consistency and diversity of operations and increased focus on delivering consumer-centric strategic business solutions ensure persistent profitability for Omnicom, thereby positively impacting its share price, which has outperformed the industry in the past year. The company's bottom line is currently benefiting from ongoing operating efficiency initiatives, mainly in the areas of real estate portfolio management, back office services, procurement, and IT services. 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.

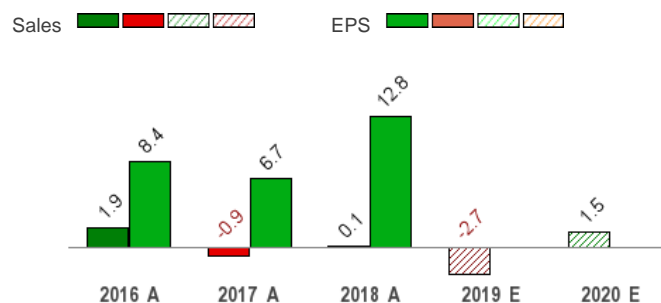
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$85.05 - \$71.50
20 Day Average Volume (sh)	1,241,729
Market Cap	\$17.6 B
YTD Price Change	10.5%
Beta	0.69
Dividend / Div Yld	\$2.60 / 3.2%
Industry	Advertising and Marketing
Zacks Industry Rank	Bottom 6% (237 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.5%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	13.6
P/E F1	13.4
PEG F1	2.9
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					15,107 E
2019	3,469 A	3,720 A	3,624 A	4,080 E	14,884 E
2018	3,630 A	3,860 A	3,714 A	4,087 A	15,290 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.86 E				\$6.02 E
2019	\$1.17 A	\$1.68 A	\$1.32 A	\$1.30 E	
2018	\$1.14 A	\$1.60 A	\$1.24 A	\$1.77 A	\$5.75 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 12/30/2019. The reports text is as of 12/31/2019.

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 (54.2% of total revenues in 2018): The segment includes three of the top ten global advertising brands - BBDO Worldwide, DDB Worldwide, and TBWA Worldwide.

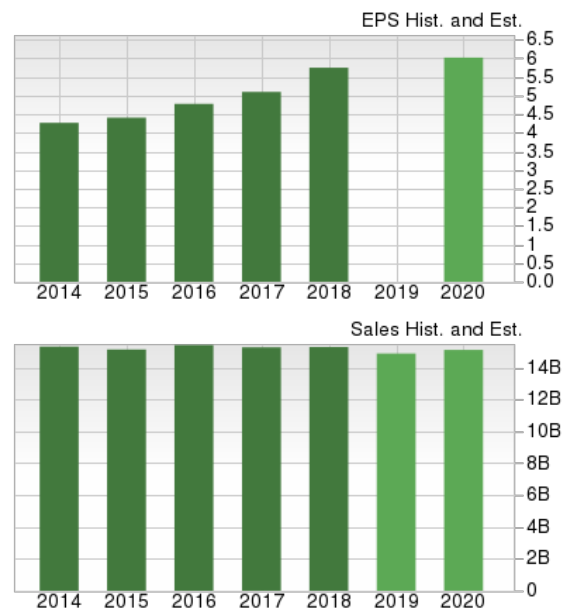
CRM Consumer Experience (17.1%): The segment includes Omnicom Precision Marketing Group's Digital / Direct agencies as well as Consulting & Branding agencies, Shopper Marketing agencies and Experiential Marketing agencies.

CRM Execution & Support (12.4%): The segment includes Field Marketing, Sales Support, Merchandising & Point of Sale and other Specialized Marketing and Custom Communications agencies.

Public Relations (9.4%): 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 (6.9%): 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 2.6% 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. This might have positively impacted the company's share price, that has improved 14.2% over the past year, outperforming the 10.2% rally of the industry it belongs to.

▲ Omnicom has a consistent record of **returning value to shareholders** in the form of dividend and share repurchases. In 2018, Omnicom paid \$548.5 million in dividend and repurchased shares worth \$581.3 million. Previously, Omnicom paid dividends of \$515.2 million, \$505.4 million and \$496.7 million to its shareholders, respectively in 2017, 2016 and 2015. The company repurchased shares amounting to \$568.4 million, \$602.2 million and \$727.5 million, in 2017, 2016 and 2015, 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 nearly 50% 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**.
- ▼ 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 11% in 2018. They decreased 1.5% year over year in the third quarter of 2019.

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

Last Earnings Report

Omnicom Surpasses Q3 Earnings Estimates

Omnicom reported mixed third-quarter 2019 results wherein its earnings beat the Zacks Consensus Estimate but revenues missed the same.

Adjusted earnings of \$1.32 per share beat the consensus mark by 2 cents and increased 6.5% on a year-over-year basis.

Total revenues of \$3.6 billion missed the consensus estimate by \$13 million and decreased 2.4% year over year on a reported basis. The year-over-year decrease was due to negative foreign exchange rate impact of 1.5% and decline in acquisition revenues, net of disposition revenues of 3.1%, offset by organic revenue growth of 2.2%.

Other Quarterly Details

Across fundamental disciplines, advertising increased 3.4%, CRM Consumer Experience was up 1.8%, CRM Execution & Support declined 1.5%, Public Relations decreased 3.8% and Healthcare increased 9.5%, organically, year over year.

Across regional markets, year-over-year organic growth was 2.7% in the United States, 2.7% for Other North America, 6.6% for Latin America, 3.0% in the United Kingdom, 1.6% for the Euro Markets and Other Europe and 0.4% for Asia Pacific. Middle East and Africa was down 4.5%.

Operating profit in the quarter came in at \$473.3 million. Operating margin increased to 13.1% from 12.7% in the year-ago quarter.

Quarter Ending **09/2019**

Report Date	Oct 15, 2019
Sales Surprise	-0.37%
EPS Surprise	1.54%
Quarterly EPS	1.32
Annual EPS (TTM)	5.94

Recent News

On **Dec 11, 2019**, Omnicom Media Group agency OMD Worldwide announced that it tops the COMvergence global billings ranking report based on projected 2019 media agency and group billings.

On **Oct 24, 2019**, Omnicom Precision Marketing Group's Credera announced that it has launched a new office in New York City.

On **Sep 10, 2019**, Omnicom's Omnicom Public Relations Group (OPRG) announced the appointment of Erin Lanuti as chief innovation officer. Lanuti will be reporting to OPRG CEO Karen van Bergen.

Valuation

Omnicom shares are up 14.2% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 10.2%, 34.5% and 30.7%, respectively in the same time frame.

The stock is currently trading at 12.81X price to forward 12 months' earnings, which compares to 12.03X for the Zacks sub-industry, 24.7X for the Zacks sector and 18.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.35X and as low as 11.6X, with a 5-year median of 14.69X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$86.00 price target reflects 13.61X price to forward 12 months' earnings.

Valuation Multiples - OMC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	12.81	12.03	24.7	18.77
	5-Year High	18.35	18.66	24.7	19.34
	5-Year Low	11.6	10.22	18.75	15.17
	5-Year Median	14.69	14.39	20.55	17.44
P/S F12M	Current	1.17	1.01	3.79	3.41
	5-Year High	1.31	1.5	5.13	3.41
	5-Year Low	0.96	0.86	3.09	2.54
	5-Year Median	1.15	1.23	3.63	3
P/B TTM	Current	5.9	17.98	5	4.42
	5-Year High	7.75	17.98	6.72	4.42
	5-Year Low	4.96	2.53	4.13	2.85
	5-Year Median	5.89	9.68	5.34	3.6

As of 12/30/2019

The table below shows summary valuation data for OMC

Industry Analysis Zacks Industry Rank: Bottom 6% (237 out of 253)



Top Peers

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

Industry Comparison Industry: Advertising And Marketing				Industry Peers		
	OMC Neutral	X Industry	S&P 500	IPG Neutral	PUBGY Neutral	WPP Neutral
VGM Score	C	-	-	B	B	A
Market Cap	17.62 B	71.16 M	23.75 B	8.95 B	10.34 B	18.65 B
# of Analysts		2	13		1	2
Dividend Yield	3.21%	0.00%	1.79%	4.07%	4.07%	3.97%
Value Score	B	-	-	C	A	A
Cash/Price	0.14	0.14	0.04	0.06	NA	0.15
EV/EBITDA	8.58	5.02	13.92	10.56	NA	NA
PEG Ratio	2.84	2.68	2.12	2.52	7.14	NA
Price/Book (P/B)	5.90	1.66	3.32	3.58	1.28	1.45
Price/Cash Flow (P/CF)	11.63	5.45	13.73	8.73	4.84	6.39
P/E (F1)	13.39	12.19	19.56	12.19	8.57	11.11
Price/Sales (P/S)	1.18	0.49	2.67	0.88	NA	NA
Earnings Yield	7.44%	5.92%	5.10%	8.19%	11.67%	9.00%
Debt/Equity	1.94	0.01	0.72	1.92	NA	0.72
Cash Flow (\$/share)	6.96	0.48	6.94	2.64	2.35	10.95
Growth Score	C	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	7.77%	7.84%	10.53%	14.82%	NA	NA
Proj. EPS Growth (F1/F0)	4.74%	0.76%	6.30%	1.79%	-2.21%	-12.62%
Curr. Cash Flow Growth	6.64%	1.92%	14.83%	26.29%	36.36%	11.82%
Hist. Cash Flow Growth (3-5 yrs)	4.07%	3.15%	9.00%	12.81%	10.75%	3.15%
Current Ratio	0.87	1.33	1.23	0.95	NA	0.95
Debt/Capital	66.79%	21.23%	42.99%	66.58%	NA	42.00%
Net Margin	8.88%	-7.66%	11.08%	6.42%	NA	NA
Return on Equity	44.02%	-6.97%	17.10%	31.19%	NA	NA
Sales/Assets	0.60	0.78	0.55	0.63	NA	NA
Proj. Sales Growth (F1/F0)	-2.66%	0.00%	2.86%	1.24%	0.00%	-18.75%
Momentum Score	D	-	-	C	F	A
Daily Price Chg	0.09%	0.00%	-0.43%	0.09%	-0.76%	-0.19%
1 Week Price Chg	0.01%	0.00%	0.13%	0.09%	1.40%	1.82%
4 Week Price Chg	1.94%	0.97%	2.78%	3.96%	5.41%	10.12%
12 Week Price Chg	5.08%	-1.82%	8.67%	9.33%	-2.69%	17.48%
52 Week Price Chg	10.47%	0.00%	27.07%	11.88%	-19.53%	27.70%
20 Day Average Volume	1,241,729	137,841	1,731,328	2,860,077	229,227	137,841
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	1.53%
(F1) EPS Est 12 week change	-0.45%	-5.60%	0.14%	0.18%	-3.62%	4.22%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	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	B
Growth Score	C
Momentum Score	D
VGM Score	C

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.