



Omnicom Group Inc. (OMC)

Updated October 22nd, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$71	5 Year CAGR Estimate:	11.5%	Market Cap:	\$16 B
Fair Value Price:	\$87	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/21/21
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.1%	Dividend Payment Date:	01/12/22
Dividend Yield:	3.9%	5 Year Price Target	\$106	Years Of Dividend Growth:	1
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	7.7%

Overview & Current Events

Omnicom is a holding company for advertising agencies. The company offers marketing and corporate communication services, including services such as media planning, digital & interactive marketing, sports & event marketing, brand consulting, public relations, customer relations management, and other marketing services. Omnicom was created in 1986 through a fusion of DDB Needham and BBDO, and is headquartered in New York City.

Omnicom reported its third quarter earnings results on October 19. The company reported revenues of \$3.4 billion for the quarter, which was 7% more than the revenues that Omnicom generated during the prior year's quarter. The comparison was a relatively easy one due to the impact the pandemic had on Omnicom's Q3 results during the previous year. Omnicom's top line result missed the analyst consensus estimate slightly, by \$20 million. Omnicom's profitability improved versus the previous year's quarter as well, as operating profit rose 8% year over year.

Omnicom's earnings-per-share totaled \$1.65 during the third quarter, which represents growth of 14% versus the previous year's quarter. Earnings-per-share also easily beat the consensus estimate, by \$0.28. 2020 was a down year for Omnicom, but the company will do significantly better this year. For 2021, a sizeable earnings recovery is expected, as the current analyst consensus estimate sees earnings rise even slightly above pre-crisis levels from 2019.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.33	\$3.61	\$3.85	\$4.24	\$4.41	\$4.78	\$5.14	\$5.83	\$6.06	\$4.37	\$6.20	\$7.54
DPS	\$0.95	\$1.20	\$1.60	\$1.80	\$2.00	\$2.15	\$2.25	\$2.40	\$2.60	\$2.60	\$2.80	\$3.66
Shares¹	273	262	258	247	240	235	230	226	219	216	215	210

Omnicom recorded solid growth in the past. Between 2008 and 2019, its earnings-per-share grew by 6% annually, even though its profits dropped by about 20% during the last financial crisis. Before the pandemic, Omnicom's earnings-per-share growth accelerated to a compelling pace of around 7% annually.

Organic revenue growth is generally higher than the reported revenue growth rate. During the last couple of years, organic revenues, excluding the impact of currency rates, M&A and accounting policy changes, were up, but asset sales and adverse currency movements lowered Omnicom's reported revenues during most years. Before the pandemic, Omnicom's profits grew relatively consistently.

Omnicom generates large amounts of cash, as free cash flows totaled \$1.5-\$2.0 billion a year before the pandemic. These high cash flows, relative to Omnicom's market capitalization, allow Omnicom to return a significant amount of cash to its owners via dividends and share repurchases. Over the last decade, Omnicom bought back close to 30% of its shares. Going forward, further share repurchases will likely be one of the key drivers for the company's earnings-per-share growth. Through ongoing low-single-digit organic revenue growth and the impact of buybacks, Omnicom should be able to overcome headwinds in the advertising industry. 2020 was a year of lower profitability for Omnicom, due to the recession caused by the current pandemic. Omnicom should be able to recover from this crisis, however, as earnings will start to rise again in 2021, with more growth being likely in the following years.

¹ In Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.5	13.6	16.3	17.0	16.7	17.1	15.4	12.5	13.4	14.2	11.5	14.0
Avg. Yld.	2.1%	2.9%	1.9%	2.5%	2.7%	2.6%	2.8%	3.3%	3.2%	4.2%	3.9%	3.5%

Omnicom has been valued at a mid-teens price to earnings multiple throughout most of the last decade. More recently, its shares became less expensive, as shares are trading for around 11-12x this year's earnings right now. We believe that this is below fair value, as we think that a low-teens earnings multiple would be fair for Omnicom's shares. Headwinds for the industry will likely prevent Omnicom from trading at 15-17x earnings again, but some upside potential exists.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	33.2%	41.6%	31.2%	42.5%	45.4%	45.0%	43.8%	41.1%	42.9%	59.5%	45.2%	48.5%

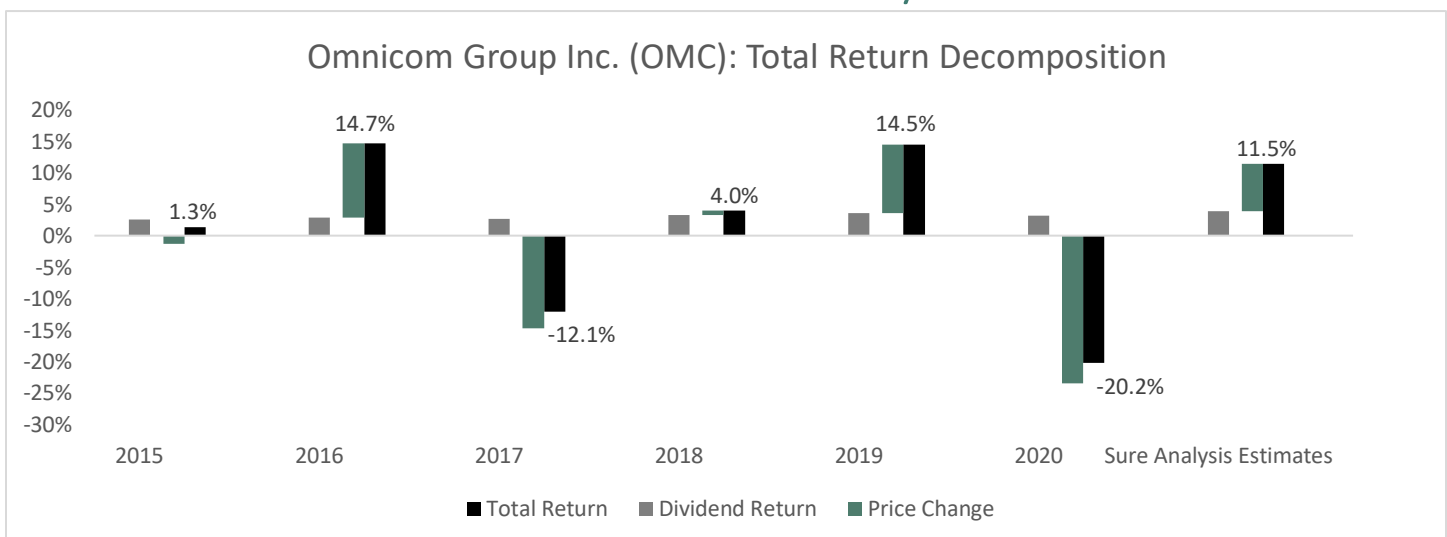
Omnicom has a relatively solid dividend growth track record over the last decade, although the company did not raise its dividend during the last financial crisis. Since then, the dividend has been raised relatively regularly, and at a solid pace. The dividend payout ratio is not high, at just around 50%. Omnicom maintained its dividend during the financial crisis, which is why the risk of a dividend cut seems quite low.

Demand for Omnicom's services is a bit cyclical, which is why it took the company until 2011 to hit a new earnings-per-share record following the financial crisis. Peak-to-trough earnings declines during the Great Recession were not overly large, however, and the company continued to generate ample profits and cash flows. In the US, Omnicom is the largest company in its industry, which results in considerable scale advantages over smaller peers.

Final Thoughts & Recommendation

Omnicom is not the only large advertising company in the world, but it holds the leadership position in its home market, the US. Advertising is not a high-growth industry, but through some organic revenue growth and share repurchases, Omnicom should nevertheless be able to grow its earnings-per-share meaningfully in the long run. Shareholders get an above-average dividend yield from Omnicom, and shares trade below our fair value estimate right now. We rate Omnicom a buy at current prices. Investors should note that Omnicom's stock can be quite volatile.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	13,873	14,219	14,585	15,318	15,134	15,417	15,274	15,290	14,954	13,171
Gross Profit	3,596	3,813	3,860	2,716	2,643	2,767	2,806	2,853	2,760	2,182
Gross Margin	25.9%	26.8%	26.5%	17.7%	17.5%	17.9%	18.4%	18.7%	18.5%	16.6%
SG&A Exp.	1,925	2,008	2,035	477	432	444	440	455	406	361
D&A Exp.	274	283	285	294	291	293	282	264	232	223
Operating Profit	1,671	1,804	1,825	1,944	1,920	2,031	2,084	2,134	2,122	1,599
Op. Margin	12.0%	12.7%	12.5%	12.7%	12.7%	13.2%	13.6%	14.0%	14.2%	12.1%
Net Profit	953	998	991	1,104	1,094	1,149	1,088	1,326	1,339	945
Net Margin	6.9%	7.0%	6.8%	7.2%	7.2%	7.5%	7.1%	8.7%	9.0%	7.2%
Free Cash Flow	1,130	1,225	1,597	1,264	1,997	1,787	1,868	1,527	1,754	1,649
Income Tax	506	527	565	593	584	601	696	493	504	382

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	20,505	22,152	22,099	21,428	22,111	23,165	24,931	24,617	26,783	27,647
Cash & Equivalents	1,781	2,678	2,711	2,388	2,605	3,002	3,796	3,652	4,306	5,601
Acc. Receivable	6,632	6,958	6,633	6,525	7,221	7,511	8,084	7,666	7,829	7,813
Inventories	1,018	1,008	1,288	1,167	1,123	1,125	1,111	1,162	1,258	1,101
Goodwill & Int.	8,925	9,300	9,302	9,212	9,021	9,404	9,706	9,767	9,779	9,908
Total Liabilities	16,526	18,196	18,031	18,107	19,221	20,506	21,779	21,510	23,410	24,070
Accounts Payable	8,060	8,297	8,359	8,798	9,812	10,477	11,575	11,464	11,768	11,513
Long-Term Debt	3,193	4,455	4,040	4,550	4,571	4,949	4,925	4,892	5,144	5,811
Total Equity	3,504	3,461	3,582	2,850	2,452	2,162	2,615	2,547	2,854	3,084
D/E Ratio	0.91	1.29	1.13	1.60	1.86	2.29	1.88	1.92	1.80	1.88

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.8%	4.7%	4.5%	5.1%	5.0%	5.1%	4.5%	5.4%	5.2%	3.5%
Return on Equity	26.9%	28.7%	28.1%	34.3%	41.3%	49.8%	45.6%	51.4%	49.6%	31.8%
ROIC	13.2%	12.8%	12.0%	13.8%	14.3%	15.2%	13.9%	16.5%	16.2%	10.6%
Shares Out.	273	262	258	247	240	235	230	226	219	216
Revenue/Share	48.97	52.66	56.01	60.00	61.72	64.45	65.30	67.18	67.69	60.92
FCF/Share	3.99	4.54	6.13	4.95	8.14	7.47	7.99	6.71	7.94	7.63

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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