



# Omnicom Group Inc. (OMC)

Updated November 13<sup>th</sup>, 2023 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$76	<b>5 Year CAGR Estimate:</b>	11.9%	<b>Market Cap:</b>	\$15B
<b>Fair Value Price:</b>	\$96	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	12/20/23
<b>% Fair Value:</b>	79%	<b>5 Year Valuation Multiple Estimate:</b>	4.8%	<b>Dividend Payment Date:</b>	01/07/24
<b>Dividend Yield:</b>	3.7%	<b>5 Year Price Target</b>	\$117	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## 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 17. The company reported revenues of \$3.6 billion for the quarter, which was up 4% compared to the revenues that Omnicom generated during the prior year's quarter. Omnicom's top line result beat the analyst consensus estimate by \$10 million, as analysts had predicted a smaller revenue increase compared to the previous year's quarter. Omnicom's margins declined slightly versus the previous year's quarter, as the company's operating income was up a little less than its revenue.

Omnicom's adjusted earnings-per-share totaled \$1.86 during the third quarter, which represents growth of 5% versus the previous year's quarter. Earnings-per-share were marginally higher than the consensus estimate. 2022 was a strong year for the company, with earnings-per-share rising by 8% versus 2021. It is expected that 2023 will be a year of even higher net profits for Omnicom, with earnings-per-share forecasted at \$7.40.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$3.85	\$4.24	\$4.41	\$4.78	\$5.14	\$5.83	\$6.06	\$4.37	\$6.39	\$6.93	<b>\$7.40</b>	<b>\$9.00</b>
<b>DPS</b>	\$1.60	\$1.80	\$2.00	\$2.15	\$2.25	\$2.40	\$2.60	\$2.60	\$2.80	\$2.80	<b>\$2.80</b>	<b>\$3.57</b>
<b>Shares<sup>1</sup></b>	258	247	240	235	230	226	219	216	213	205	<b>200</b>	<b>180</b>

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 has strongly recovered from this crisis, however, as earnings rose by almost 50% in 2021, while 2022 was another record year. Additional growth is expected in the coming years.

<sup>1</sup> In Millions

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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.3	17.0	16.7	17.1	15.4	12.5	13.4	14.2	11.2	11.8	10.3	13.0
Avg. Yld.	1.9%	2.5%	2.7%	2.6%	2.8%	3.3%	3.2%	4.2%	3.8%	3.4%	3.7%	3.1%

Omnicom has been valued at a mid-teens price to earnings multiple throughout most of the last decade. Based on current estimates for this year, shares are trading for around 10x net profits right now. We believe that this is a low valuation, as we think that a low-teens earnings multiple would be reasonable for Omnicom's shares. Headwinds for the industry will likely prevent Omnicom from trading at 15-17x earnings again where it traded at times in the past.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31.2%	42.5%	45.4%	45.0%	43.8%	41.1%	42.9%	59.5%	43.8%	40.0%	37.8%	39.7%

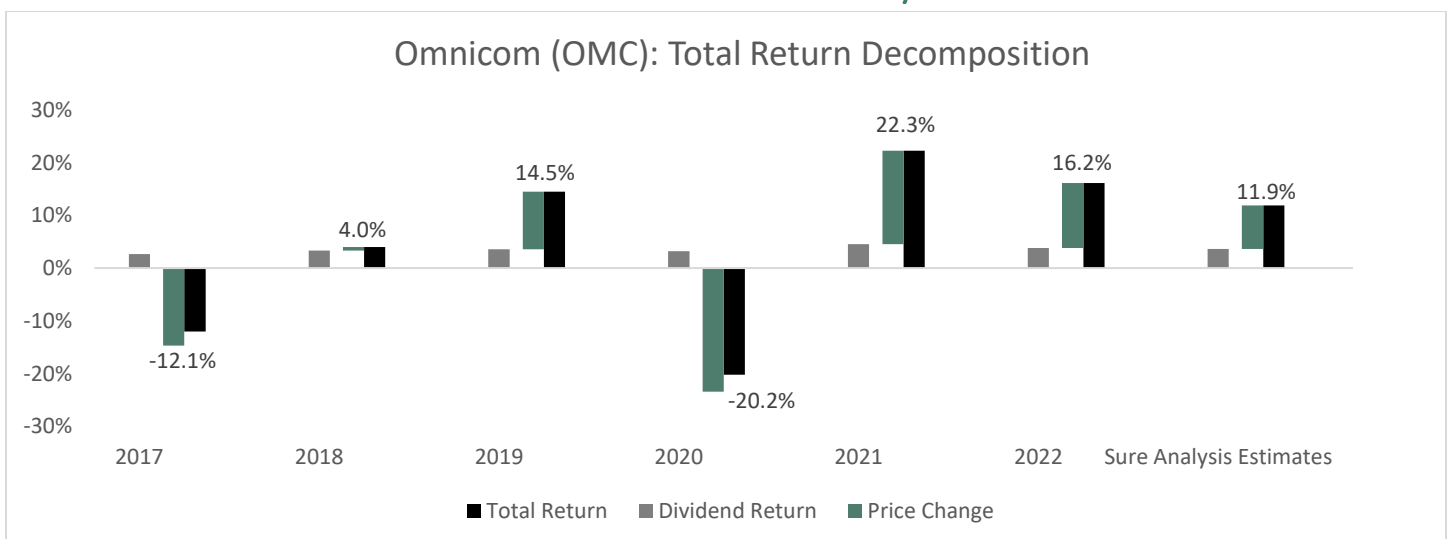
Omnicom has a relatively solid dividend growth track record over the last decade, although the company did not raise its dividend during the last financial crisis. Since then, the dividend has been raised relatively regularly, and at a solid pace, although there were years without a dividend increase. The dividend payout ratio is not high, at around 40%. 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 a solid dividend yield from Omnicom, and shares trade below fair value right now. We rate Omnicom a buy at current prices. Investors should note that Omnicom's stock can be volatile during economic downturns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2021	2022
<b>Revenue</b>	14,585	15,318	15,134	15,417	15,274	15,290	14,954	13,171	14,289	14,289
<b>Gross Profit</b>	3,860	2,716	2,643	2,767	2,806	2,853	2,760	2,182	2,790	2,681
<b>Gross Margin</b>	26.5%	17.7%	17.5%	17.9%	18.4%	18.7%	18.5%	16.6%	19.5%	18.8%
<b>SG&amp;A Exp.</b>	2,035	477	432	444	440	455	406	361	380	379
<b>D&amp;A Exp.</b>	285	294	291	293	282	264	232	223	212	219
<b>Operating Profit</b>	1,825	1,944	1,920	2,031	2,084	2,134	2,122	1,599	2,198	2,083
<b>Op. Margin</b>	12.5%	12.7%	12.7%	13.2%	13.6%	14.0%	14.2%	12.1%	15.4%	14.6%
<b>Net Profit</b>	991	1,104	1,094	1,149	1,088	1,326	1,339	951	1,396	1,299
<b>Net Margin</b>	6.8%	7.2%	7.2%	7.5%	7.1%	8.7%	9.0%	7.2%	9.8%	9.1%
<b>Free Cash Flow</b>	1,597	1,264	1,997	1,787	1,868	1,527	1,754	1,649	1,280	848
<b>Income Tax</b>	565	593	584	601	696	493	504	382	489	547

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	22,099	21,428	22,111	23,165	24,931	24,617	26,783	27,647	28,422	27,003
<b>Cash &amp; Equivalents</b>	2,711	2,388	2,605	3,002	3,796	3,652	4,306	5,601	5,317	4,282
<b>Acc. Receivable</b>	6,633	6,525	7,221	7,511	8,084	7,666	7,829	7,813	8,473	8,097
<b>Inventories</b>	1,288	1,167	1,123	1,125	1,111	1,162	1,258	1,101	1,201	1,255
<b>Goodwill &amp; Int.</b>	9,302	9,212	9,021	9,404	9,706	9,767	9,779	9,908	10,037	10,048
<b>Total Liabilities</b>	18,031	18,107	19,221	20,506	21,779	21,510	23,410	24,070	24,303	22,843
<b>Accounts Payable</b>	8,359	8,798	9,812	10,477	11,575	11,464	11,768	11,513	11,897	11,000
<b>Long-Term Debt</b>	4,040	4,550	4,571	4,949	4,925	4,892	5,144	5,811	5,694	5,594
<b>Total Equity</b>	3,582	2,850	2,452	2,162	2,615	2,547	2,854	3,084	3,270	3,252
<b>LTD/E Ratio</b>	1.13	1.60	1.86	2.29	1.88	1.92	1.80	1.88	1.74	1.72

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	4.5%	5.1%	5.0%	5.1%	4.5%	5.4%	5.2%	3.5%	5.0%	4.7%
<b>Return on Equity</b>	28.1%	34.3%	41.3%	49.8%	45.6%	51.4%	49.6%	32.0%	43.9%	39.8%
<b>ROIC</b>	12.0%	13.8%	14.3%	15.2%	13.9%	16.5%	16.2%	10.6%	14.5%	13.3%
<b>Shares Out.</b>	258	247	240	235	230	226	219	216	213	205
<b>Revenue/Share</b>	56.01	60.00	61.72	64.45	65.30	67.18	67.69	60.92	66.28	69.03
<b>FCF/Share</b>	6.13	4.95	8.14	7.47	7.99	6.71	7.94	7.63	5.94	4.10

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

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