



Omnicom Group Inc. (OMC)

Updated October 26th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$101	5 Year CAGR Estimate:	7.2%	Market Cap:	\$20B
Fair Value Price:	\$104	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/20/24 ¹
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	01/07/25 ²
Dividend Yield:	2.8%	5 Year Price Target	\$127	Years Of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

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 16. The company reported revenues of \$3.9 billion for the quarter, which was up 9% compared to the revenues that Omnicom generated during the prior year's quarter. Omnicom's top line result beat the analyst consensus estimate by \$100 million, as analysts had predicted a smaller revenue increase for the quarter. Omnicom's margins declined versus the previous year's quarter, however, which is why the company was not able to translate its nice business growth into equally strong earnings growth.

Omnicom's adjusted earnings-per-share totaled \$2.03 during the third quarter, which represents growth of 6% versus the previous year's quarter. Earnings-per-share were in line with the consensus estimate. 2023 was a good year for the company, with earnings-per-share rising by 7% versus 2022. It is expected that 2024 will be a year of even higher net profits for Omnicom, with earnings-per-share forecasted at roughly \$8.00.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.24	\$4.41	\$4.78	\$5.14	\$5.83	\$6.06	\$4.37	\$6.39	\$6.93	\$7.41	\$8.00	\$9.73
DPS	\$1.80	\$2.00	\$2.15	\$2.25	\$2.40	\$2.60	\$2.60	\$2.80	\$2.80	\$2.80	\$2.80	\$3.57
Shares³	247	240	235	230	226	219	216	213	205	200	195	180

Omnicom recorded solid growth in the past. Over the last decade, its earnings-per-share grew by 6% annually, even though its profits dropped by about 30% during the COVID pandemic. Apart from that, earnings-per-share growth was relatively reliable throughout the years.

Organic revenue growth is the key growth driver for Omnicom's earnings-per-share. Due to some asset sales, Omnicom's reported revenue growth sometimes is lower than its organic revenue growth rate, but those asset sales free up cash for other purposes such as buybacks.

Omnicom generates large amounts of cash from its business model. 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 more than 20% of its shares. Going forward, further share repurchases will likely impact Omnicom's earnings-per-share growth positively as well. We believe that Omnicom will deliver a mid-single-digit earnings-per-share growth rate in the coming years, thanks to a combination of some organic revenue growth and some buybacks, although growth will not be ultra-high due to headwinds in the traditional advertising industry stemming from online competition.

¹ Estimated date

² Estimated date

³ 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.0	16.7	17.1	15.4	12.5	13.4	14.2	11.2	11.8	11.7	12.6	13.0
Avg. Yld.	2.5%	2.7%	2.6%	2.8%	3.3%	3.2%	4.2%	3.8%	3.4%	3.2%	2.8%	2.8%

Omnicom has been valued at 11 times to 17 times net earnings throughout the last decade. Based on current estimates for this year, shares are trading for around 12x to 13x net profits right now. We believe that this is a relatively fair 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	42.5%	45.4%	45.0%	43.8%	41.1%	42.9%	59.5%	43.8%	40.0%	37.8%	35.0%	36.7%

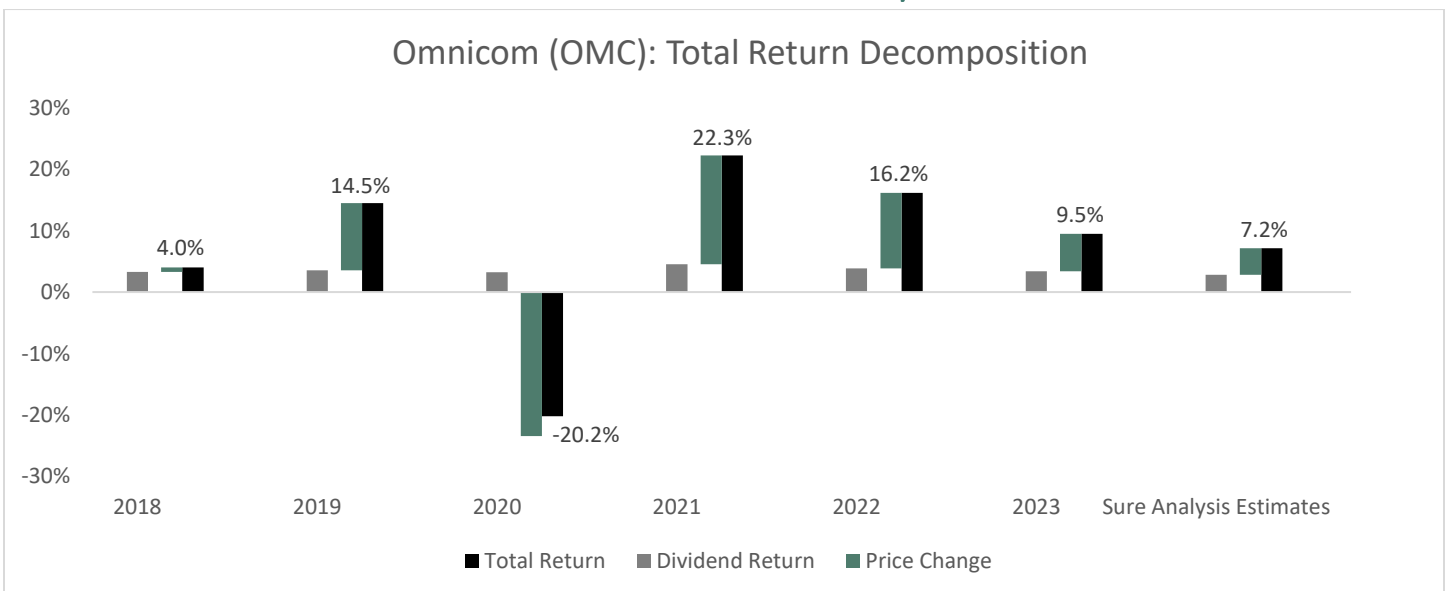
Omnicom has a reasonable dividend track record, although the company does not increase its dividend every year. There are some years without a dividend increase, but at least Omnicom has not cut its dividend in recent memory, delivering dividend increases from time to time. The dividend payout ratio is not high, at around 35%. Omnicom maintained its dividend during the Great Recession, 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 a while to hit a new earnings-per-share record following the Great Recession. 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 ~3% dividend yield from Omnicom, and shares trade slightly below fair value right now. We rate Omnicom a hold 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	2015	2016	2017	2018	2019	2020	2021	2021	2022	2023
Revenue	15,318	15,134	15,417	15,274	15,290	14,954	13,171	14,289	14,289	14,692
Gross Profit	2,716	2,643	2,767	2,806	2,853	2,760	2,182	2,790	2,681	2,710
Gross Margin	17.7%	17.5%	17.9%	18.4%	18.7%	18.5%	16.6%	19.5%	18.8%	18.4%
SG&A Exp.	477	432	444	440	455	406	361	380	379	394
D&A Exp.	294	291	293	282	264	232	223	212	219	211
Operating Profit	1,944	1,920	2,031	2,084	2,134	2,122	1,599	2,198	2,083	2,105
Op. Margin	12.7%	12.7%	13.2%	13.6%	14.0%	14.2%	12.1%	15.4%	14.6%	14.3%
Net Profit	1,104	1,094	1,149	1,088	1,326	1,339	951	1,396	1,299	1,303
Net Margin	7.2%	7.2%	7.5%	7.1%	8.7%	9.0%	7.2%	9.8%	9.1%	8.9%
Free Cash Flow	1,264	1,997	1,787	1,868	1,527	1,754	1,649	1,280	848	1,344
Income Tax	593	584	601	696	493	504	382	489	547	525

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2021	2022	2023
Total Assets	21,428	22,111	23,165	24,931	24,617	26,783	27,647	28,422	27,003	28,045
Cash & Equivalents	2,388	2,605	3,002	3,796	3,652	4,306	5,601	5,317	4,282	4,432
Acc. Receivable	6,525	7,221	7,511	8,084	7,666	7,829	7,813	8,473	8,097	8,660
Inventories	1,167	1,123	1,125	1,111	1,162	1,258	1,101	1,201	1,255	1,343
Goodwill & Int.	9,212	9,021	9,404	9,706	9,767	9,779	9,908	10,037	10,048	10,449
Total Liabilities	18,107	19,221	20,506	21,779	21,510	23,410	24,070	24,303	22,843	23,405
Accounts Payable	8,798	9,812	10,477	11,575	11,464	11,768	11,513	11,897	11,000	11,634
Long-Term Debt	4,550	4,571	4,949	4,925	4,892	5,144	5,811	5,694	5,594	5,651
Total Equity	2,850	2,452	2,162	2,615	2,547	2,854	3,084	3,270	3,252	3,616
LTD/E Ratio	1.60	1.86	2.29	1.88	1.92	1.80	1.88	1.74	1.72	1.56

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2021	2022	2023
Return on Assets	5.1%	5.0%	5.1%	4.5%	5.4%	5.2%	3.5%	5.0%	4.7%	4.7%
Return on Equity	29.9%	35.2%	41.4%	37.5%	42.4%	41.3%	27.4%	36.3%	31.4%	29.6%
ROIC	13.8%	14.3%	15.2%	13.9%	16.5%	16.2%	10.6%	14.5%	13.3%	13.0%
Shares Out.	247	240	235	230	226	219	216	213	205	200
Revenue/Share	60.00	61.72	64.45	65.30	67.18	67.69	60.92	66.28	69.03	72.95
FCF/Share	4.95	8.14	7.47	7.99	6.71	7.94	7.63	5.94	4.10	6.67

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

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