

OMNICOM GROUP INC
Form 10-Q
October 18, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

Commission File Number: 1-10551

OMNICOM GROUP INC.
(Exact name of registrant as specified in its charter)

New York 13-1514814
(State or other jurisdiction of incorporation or (IRS Employer Identification No.)
organization)

437 Madison Avenue, New York, New York 10022
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 415-3600

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 12, 2012, there were 264,180,600 shares of Omnicom Group Inc. Common Stock outstanding.

OMNICOM GROUP INC. AND SUBSIDIARIES
 QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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Forward-Looking Statements

Certain of the statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, from time to time, we or our representatives have made or may make forward-looking statements, orally or in writing. These statements relate to future events or future financial performance and involve known and unknown risks and other factors that may cause our actual or our industry's results, levels of activity or achievement to be materially different from those expressed or implied by any forward-looking statements. These risks and uncertainties, including those resulting from specific factors identified under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," include, but are not limited to, our future financial position and results of operations, global economic conditions and conditions in the credit markets, losses on media purchases and production costs incurred on behalf of clients, reductions in client spending and/or a slowdown in client payments, competitive factors, changes in client communication requirements, managing conflicts of interest, the hiring and retention of personnel, maintaining a highly skilled workforce, our ability to attract new clients and retain existing clients, reliance on information technology systems, changes in government regulations impacting our advertising and marketing strategies, risks associated with assumptions we make in connection with our critical accounting estimates and legal proceedings, and our international operations, which are subject to the risks of currency fluctuations and foreign exchange controls. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential" or "continue" or the negative of those terms or comparable terminology. These statements are our present expectations. Actual events or results may differ. We undertake no obligation to update or revise any forward-looking statement, except as required by law.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

OMNICOM GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	September 30, 2012	December 31, 2011
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,956.3	\$ 1,781.2
Short-term investments, at cost	16.5	23.8
Accounts receivable, net of allowance for doubtful accounts of \$37.8 and \$40.6	6,260.2	6,632.0
Work in process	700.2	640.3
Other current assets	1,463.9	1,344.2
 Total Current Assets	 10,397.1	 10,421.5
 Property, Plant and Equipment at cost, less accumulated depreciation of \$1,235.4 and \$1,186.1	 700.0	 682.9
Investments In Affiliates	192.5	184.2
Goodwill	8,728.6	8,456.3
Intangible Assets, net of accumulated amortization of \$477.4 and \$416.9	446.8	468.4
Other Assets	333.0	292.1
 TOTAL ASSETS	 \$20,798.0	 \$20,505.4
 LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	\$ 7,430.2	\$ 8,060.0
Customer advances	1,191.5	1,225.3
Current portion of debt	0.4	0.7
Short-term borrowings	11.1	9.5
Taxes payable	128.5	237.0
Other current liabilities	1,940.5	2,138.5
 Total Current Liabilities	 10,702.2	 11,671.0
 Long-Term Notes Payable	 3,791.2	 2,523.5

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Convertible Debt	659.4	659.4
Long-Term Liabilities	653.4	602.0
Long-Term Deferred Tax Liabilities	948.4	867.6
Commitments and Contingent Liabilities (See Note 11)		
Temporary Equity - Redeemable Noncontrolling Interests	196.7	202.1
Equity:		
Shareholders' Equity:		
Preferred stock	—	—
Common stock	59.6	59.6
Additional paid-in capital	919.0	1,043.5
Retained earnings	8,168.1	7,724.1
Accumulated other comprehensive income (loss)	(120.7	) (191.7
Treasury stock, at cost	(5,667.4	) (5,131.2
)
Total Shareholders' Equity	3,358.6	3,504.3
Noncontrolling interests	488.1	475.5
Total Equity	3,846.7	3,979.8
TOTAL LIABILITIES AND EQUITY	\$20,798.0	\$20,505.4

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

OMNICOM GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	\$3,406.6	\$3,380.9	\$10,274.8	\$10,019.6
Operating Expenses	3,019.3	3,007.5	9,018.6	8,835.9
Operating Income	387.3	373.4	1,256.2	1,183.7
Interest Expense	47.8	39.8	130.3	118.6
Interest Income	7.5	7.9	26.0	26.8
Income Before Income Taxes and Income From Equity Method Investments	347.0	341.5	1,151.9	1,091.9
Income Tax Expense	118.7	117.1	389.9	349.0
Income From Equity Method Investments	5.3	4.5	11.9	10.3
Net Income	233.6	228.9	773.9	753.2
Less: Net Income Attributed To Noncontrolling Interests	29.7	25.2	82.7	72.5
Net Income - Omnicom Group Inc.	\$203.9	\$203.7	\$691.2	\$680.7
Net Income Per Share - Omnicom Group Inc.:				
Basic	\$0.75	\$0.73	\$2.51	\$2.41
Diluted	\$0.74	\$0.72	\$2.49	\$2.37
Dividends Declared Per Common Share	\$0.30	\$0.25	\$0.90	\$0.75

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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OMNICOM GROUP INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2012	2011	2012	2011	
Net income	\$233.6	\$228.9	\$773.9	\$753.2	
Foreign currency transactions and translation adjustments, net of income taxes of \$53.2 and (\$136.7) for the three months and \$36.9 and (\$38.5) for the nine months ended September 30, 2012 and 2011, respectively	103.2	(265.1) 71.3	(74.4)
Defined benefit plans adjustment, net of income taxes of \$0.9 and \$0.6 for the three months and \$2.5 and \$1.8 for the nine months ended September 30, 2012 and 2011, respectively	1.3	0.9	3.7	2.7	
Other Comprehensive Income	104.5	(264.2) 75.0	(71.7)
Comprehensive Income	338.1	(35.3	) 848.9	681.5
Less: Comprehensive Income attributed to noncontrolling interests	38.7	(0.5	) 86.7	59.1
Comprehensive Income - Omnicom Group Inc.	\$299.4	\$(34.8	) \$762.2	\$622.4

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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OMNICOM GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net income	\$773.9	\$753.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	135.4	135.9
Amortization of intangible assets	75.2	67.7
Amortization of deferred gain from termination of interest rate swaps	(5.5)	(0.9)
Income from equity method investments, net of dividends received	(1.6)	3.8
Remeasurement gain, equity interest in Clemenger Group	—	(123.4)
Provision for doubtful accounts	5.3	4.0
Share-based compensation	63.1	52.7
Excess tax benefit from share-based compensation	(79.8)	(27.4)
Proceeds from discontinuation of interest rate swaps	—	38.8
Change in operating capital	(665.9)	(903.9)
Net Cash Provided By Operating Activities	300.1	0.5
Cash Flows from Investing Activities:		
Payments to acquire property, plant and equipment	(158.7)	(114.2)
Payments to acquire businesses and interests in affiliates, net of cash acquired	(117.3)	(314.8)
Payments to acquire investments	—	(11.6)
Proceeds from sales of investments	8.4	27.9
Net Cash Used In Investing Activities	(267.6)	(412.7)
Cash Flows from Financing Activities:		
Proceeds from (repayments of) short-term debt	1.4	(35.7)
Proceeds from borrowings	1,273.2	0.3
Repayments of convertible debt	—	(0.1)
Payments of dividends	(235.4)	(199.0)
Payments for repurchase of common stock	(1,001.6)	(717.9)
Proceeds from stock plans	207.6	104.7
Payments for acquisition of additional noncontrolling interests	(19.2)	(28.0)
Payments of dividends to noncontrolling interest shareholders	(78.9)	(69.8)
Payments of contingent purchase price obligations	(30.6)	(8.9)

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Excess tax benefit on share-based compensation	79.8	27.4	
Other, net	(86.9)	(17.7))
Net Cash Provided By (Used In) Financing Activities	109.4	(944.7))
Effect of exchange rate changes on cash and cash equivalents	33.2	(31.2))
Net Increase (Decrease) in Cash and Cash Equivalents	175.1	(1,388.1))
Cash and Cash Equivalents at the Beginning of the Period	1,781.2	2,288.7	
Cash and Cash Equivalents at the End of the Period	\$1,956.3	\$900.6	

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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OMNICOM GROUP INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

1. Presentation of Financial Statements

The terms "Omnicom," "we," "our" and "us" each refer to Omnicom Group Inc. and our subsidiaries, unless the context indicates otherwise. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP" or "GAAP") for interim financial information and in accordance with Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosure have been condensed or omitted.

In our opinion, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation, in all material respects, of the information contained herein. Certain reclassifications have been made to prior year balances to conform to the current year presentation. These unaudited condensed financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011 ("2011 Form 10-K"). Results for the interim periods are not necessarily indicative of results that may be expected for the year.

2. New Accounting Standards

On January 1, 2012, FASB Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment ("ASU 2011-08") became effective. This standard gives an entity the option of either performing step 1 of the goodwill impairment test or performing a qualitative assessment to determine whether performing step 1 of the goodwill impairment test is necessary. An entity may choose to perform the qualitative assessment for some or all of its reporting units or an entity may bypass the qualitative assessment for any reporting unit in any period and proceed directly to step 1 of the impairment test. We performed our annual impairment test at the end of the second quarter (see Note 5).

3. Net Income per Common Share

The computations of basic and diluted net income per common share - Omnicom Group Inc. for the three and nine months ended September 30, 2012 and 2011 were (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income Available for Common Shares:				
Net income - Omnicom Group Inc.	\$203.9	\$203.7	\$691.2	\$680.7
Net income allocated to participating securities	(4.5	) (2.3	) (15.4	) (7.3
Net income available for common shares	\$199.4	\$201.4	\$675.8	\$673.4
Weighted Average Shares:				
Basic	266.6	277.1	269.6	279.8
Dilutive stock options and restricted shares	1.9	4.3	1.9	4.5
Diluted	268.5	281.4	271.5	284.3
Anti-dilutive stock options and restricted shares	0.2	2.1	0.2	1.6

Net Income per Common Share - Omnicom Group Inc.:

Basic	\$0.75	\$0.73
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