

OMNICOM GROUP INC.  
Form 10-Q  
October 17, 2017

---

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, 2017

---

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 organization) (IRS Employer Identification No.)

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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2017, there were 230,532,661 shares of Omnicom Group Inc. Common Stock outstanding.



## OMNICOM GROUP INC.

## QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

## TABLE OF CONTENTS

	Page
PART I.	FINANCIAL INFORMATION
Item 1.	<u>Financial Statements</u>
	Consolidated Balance Sheets - September 30, 2017 and December 31, 2016
	1
	Consolidated Statements of Income - Three and nine months ended September 30, 2017 and 2016
	2
	Consolidated Statements of Comprehensive Income - Three and nine months ended September 30, 2017 and 2016
	3
	Consolidated Statements of Cash Flows - Nine months ended September 30, 2017 and 2016
	4
	<u>Notes to Consolidated Financial Statements</u>
	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	13
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	29
Item 4.	<u>Controls and Procedures</u>
	30
PART II.	OTHER INFORMATION
Item 1.	<u>Legal Proceedings</u>
	31
Item 1A.	<u>Risk Factors</u>
	31
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	31
Item 6.	<u>Exhibits</u>
	31
SIGNATURES	32
FORWARD-LOOKING STATEMENTS	

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements, including statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, from time to time, the Company or its representatives have made, or may make, forward-looking statements, orally or in writing. These statements may discuss goals, intentions and expectations as to future plans, trends, events, results of operations or financial condition, or otherwise, based on current beliefs of the Company's management as well as assumptions made by, and information currently available to, the Company's management. Forward-looking statements may be accompanied by words such as "aim," "anticipate," "believe," "plan," "could," "should," "would," "estimate," "expect," "forecast," "guidance," "intend," "may," "will," "possible," "potential," "predict," "project" or similar words, phrases or expressions. These forward-looking statements are subject to various risks and uncertainties, many of which are outside the Company's control. Therefore, you should not place undue reliance on such statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include: international, national or local economic conditions that could adversely affect the Company or its clients; losses on media purchases and production costs incurred on behalf of clients; reductions in client spending, a slowdown in client payments and a deterioration in the credit markets; ability to attract new clients and retain existing clients in the manner anticipated; changes in client advertising, marketing and corporate communications requirements; failure to manage potential conflicts of interest between or among clients; unanticipated changes relating to competitive factors in the advertising, marketing and corporate communications industries; ability to hire and retain key personnel; currency exchange rate fluctuations; reliance on information technology systems; changes in legislation or governmental regulations affecting the Company or its clients; risks associated with assumptions the Company makes in connection with its critical accounting estimates and legal proceedings; and the Company's international operations, which are subject to the risks of currency repatriation restrictions, social or political conditions and regulatory environment. The foregoing list of factors is not exhaustive. You should carefully consider the foregoing factors and the other risks and uncertainties that may affect the Company's business, including those described in Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the

year ended December 31, 2016 and in Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report. Except as required under applicable law, the Company does not assume any obligation to update these forward-looking statements.

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## OMNICOM GROUP INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In millions)

	September 30, 2017 (Unaudited)	December 31, 2016
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,843.0	\$ 3,002.2
Short-term investments, at cost	8.0	20.6
Accounts receivable, net of allowance for doubtful accounts of \$28.7 and \$24.9	7,045.7	7,510.8
Work in process	1,458.1	1,125.4
Other current assets	1,062.6	1,063.0
Total Current Assets	11,417.4	12,722.0
Property and Equipment at cost, less accumulated depreciation of \$1,301.1 and \$1,233.4	690.5	674.8
Equity Method Investments	129.1	120.4
Goodwill	9,323.0	8,976.1
Intangible Assets, net of accumulated amortization of \$860.5 and \$777.6	390.4	427.4
Other Assets	257.1	244.7
<b>TOTAL ASSETS</b>	<b>\$ 22,207.5</b>	<b>\$ 23,165.4</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 9,427.8	\$ 10,476.7
Customer advances	1,132.9	1,186.6
Current portion of debt	—	0.1
Short-term debt	38.7	28.7
Taxes payable	321.0	349.6
Other current liabilities	1,700.8	1,969.2
Total Current Liabilities	12,621.2	14,010.9
Long-Term Debt	4,927.4	4,920.5
Long-Term Liabilities	954.7	892.3
Deferred Tax Liabilities	472.5	480.5
Commitments and Contingent Liabilities (See Note 10)		
Temporary Equity - Redeemable Noncontrolling Interests	190.1	201.6
Equity:		
Shareholders' Equity:		
Preferred stock	—	—
Common stock	44.6	44.6
Additional paid-in capital	809.0	798.3
Retained earnings	6,095.1	5,677.2
Accumulated other comprehensive income (loss)	(958.2)	(1,356.0)
Treasury stock, at cost	(3,468.0)	(3,002.1)
Total Shareholders' Equity	2,522.5	2,162.0
Noncontrolling interests	519.1	497.6
Total Equity	3,041.6	2,659.6
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 22,207.5</b>	<b>\$ 23,165.4</b>

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

1

---

OMNICOM GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$3,719.5	\$3,791.1	\$11,097.1	\$11,175.1
Operating Expenses:				
Salary and service costs	2,770.5	2,851.6	8,200.8	8,298.9
Occupancy and other costs	316.7	309.2	915.7	925.8
Cost of services	3,087.2	3,160.8	9,116.5	9,224.7
Selling, general and administrative expenses	99.5	104.1	328.6	323.1
Depreciation and amortization	68.6	73.1	212.4	220.3
	3,255.3	3,338.0	9,657.5	9,768.1
Operating Profit	464.2	453.1	1,439.6	1,407.0
Interest Expense	59.0	52.9	169.2	157.6
Interest Income	12.6	10.9	38.0	30.6
Income Before Income Taxes and Income From Equity Method Investments	417.8	411.1	1,308.4	1,280.0
Income Tax Expense	132.0	134.3	406.7	417.7
Income From Equity Method Investments	1.1	1.4	2.7	4.0
Net Income	286.9	278.2	904.4	866.3
Net Income Attributed To Noncontrolling Interests	23.3	24.4	70.4	68.0
Net Income - Omnicom Group Inc.	\$263.6	\$253.8	\$834.0	\$798.3
Net Income Per Share - Omnicom Group Inc.:				
Basic	\$1.14	\$1.06	\$3.58	\$3.33
Diluted	\$1.13	\$1.06	\$3.55	\$3.31
Dividends Declared Per Common Share	\$0.55	\$0.55	\$1.65	\$1.60

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

2

---



OMNICOM GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income	\$286.9	\$278.2	\$904.4	\$866.3
Other Comprehensive Income:				
Cash flow hedge:				
Loss for the period	—	—	—	(48.8 )
Amortization of loss included in interest expense	1.4	1.4	4.2	2.6
Income tax effect	(0.6 )	(0.6 )	(1.8 )	19.2
	0.8	0.8	2.4	(27.0 )
Defined benefit pension plans and postemployment arrangements:				
Amortization of prior service cost included in periodic benefit expense	1.9	1.8	6.1	5.5
Amortization of actuarial losses included in periodic benefit expense	2.0	1.4	5.6	4.4
Income tax effect	(1.4 )	(1.3 )	(5.1 )	(3.9 )
	2.5	1.9	6.6	6.0
Available-for-sale securities:				
Unrealized gain for the period	—	0.1	0.5	0.1
Income tax effect	—	—	(0.2 )	—
	—	0.1	0.3	0.1
Foreign currency translation adjustment	159.6	(31.1 )	414.4	(36.2 )
Other Comprehensive Income	162.9	(28.3 )	423.7	(57.1 )
Comprehensive Income	449.8	249.9	1,328.1	809.2
Comprehensive Income Attributed To Noncontrolling Interests	32.6	24.3	96.5	85.2
Comprehensive Income - Omnicom Group Inc.	\$417.2	\$225.6	\$1,231.6	\$724.0

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

3

---

OMNICOM GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net income	\$904.4	\$866.3
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	125.6	134.6
Amortization of intangible assets	86.8	85.7
Amortization of net deferred gain from settlement of interest rate swaps	(13.7 )	(12.2 )
Share-based compensation	60.6	69.8
Other, net	7.6	(9.8 )
Decrease in operating capital	(1,327.3 )	(798.7 )
Net Cash (Used In) Provided By Operating Activities	(156.0 )	335.7
Cash Flows from Investing Activities:		
Capital expenditures	(108.3 )	(100.5 )
Acquisition of businesses and interests in affiliates, net of cash acquired	(27.3 )	(268.5 )
Sale (purchase) of investments	58.1	(16.4 )
Net Cash Used In Investing Activities	(77.5 )	(385.4 )
Cash Flows from Financing Activities:		
Change in short-term debt	7.5	(1.2 )
Proceeds from borrowings	—	1,389.6
Repayment of debt	—	(1,000.0 )
Dividends paid to common shareholders	(387.9 )	(374.2 )
Repurchases of common stock	(522.3 )	(463.8 )
Proceeds from stock plans	8.6	22.2
Acquisition of additional noncontrolling interests	(10.2 )	(59.8 )
Dividends paid to noncontrolling interest shareholders	(87.1 )	(71.1 )
Payment of contingent purchase price obligations	(107.7 )	(93.6 )
Other, net	(22.8 )	(24.7 )
Net Cash Used In Financing Activities	(1,121.9 )	(676.6 )
Effect of foreign exchange rate changes on cash and cash equivalents	196.2	57.7
Net Decrease in Cash and Cash Equivalents	(1,159.2 )	(668.6 )
Cash and Cash Equivalents at the Beginning of Period	3,002.2	2,605.2
Cash and Cash Equivalents at the End of Period	\$1,843.0	\$1,936.6

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

4

---

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

1. Presentation of Financial Statements

The terms “Omnicom,” the “Company,” “we,” “our” and “us” each refer to Omnicom Group Inc. and its subsidiaries, unless the context indicates otherwise. The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP” or “GAAP”) for interim financial information and 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 consolidated 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. These unaudited consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2016 (“2016 10-K”). Results for the interim periods are not necessarily indicative of results that may be expected for the year. Certain reclassifications have been made to the prior year financial information to conform to the current year presentation.

Accounting Changes

On January 1, 2017, we adopted FASB Accounting Standards Update (“ASU”) 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which requires additional tax benefits and tax deficiencies related to share-based compensation be recorded in results of operations effective January 1, 2017, upon vesting of restricted stock awards or exercise of stock options. In the prior year, tax benefits and deficiencies were recorded in additional paid-in capital. The additional tax benefit or deficiency is calculated as the difference between the grant date price of the award and the price of our common stock on the vesting or exercise date. As a result, we recognized an additional tax benefit of \$19.5 million for the nine months ended September 30, 2017.

ASU 2016-09 requires that cash flows related to the additional tax benefits or deficiencies be classified in operating activities. Accordingly, for the nine months ended September 30, 2016, we retrospectively adjusted the statement of cash flows to conform to the current year presentation, resulting in a decrease in net cash used in operating activities of \$19.1 million and increase in net cash used in financing activities of \$19.1 million. Further, ASU 2016-09 permits a policy election to either continue to estimate the number of awards that will be forfeited or to account for forfeitures as they occur. We elected to account for forfeitures as they occur. Accordingly, we recorded a cumulative catch-up adjustment to reduce opening retained earnings by \$4.5 million reflecting the estimate of unvested awards at December 31, 2016 that are not expected to vest.

On January 1, 2017, we adopted FASB ASU 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other than Inventory, which requires that the income tax effects of intra-entity transfers of assets other than inventory are recognized when the transfer occurs. ASU 2016-16 is applied on a modified retrospective basis with a cumulative catch-up adjustment to opening retained earnings. The adoption of ASU 2016-16 did not have a material impact on our financial position or results of operations.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment (“ASU 2017-04”), which simplifies the subsequent measurement of goodwill and eliminates the two-step goodwill impairment test. ASU 2017-04 is applied prospectively and is effective for fiscal years and interim periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We adopted ASU 2017-04 for our annual goodwill impairment test at June 30, 2017. The adoption of ASU 2017-04 did not have any impact on our financial position or results of operations.

2. New Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which will replace all existing revenue recognition guidance under U.S. GAAP. On July 9, 2015, the FASB approved a one-year deferral of the effective date of ASU 2014-09 to all annual and interim periods beginning after December 15, 2017. ASU 2014-09 provides for one of two methods of transition: retrospective application to each prior period presented

or recognition of the cumulative effect of retrospective application of the new standard as of the beginning of the period of initial application. We expect to

5

---

apply ASU 2014-09 on January 1, 2018 using the full retrospective method. However, the final determination of our method of adoption is subject to the completion of our analysis. Based on our initial assessment, the impact of the new standard will likely result in a change in the timing of our revenue recognition for performance incentives received from clients. Performance incentives are currently recognized in revenue when specific quantitative goals are achieved, or when our performance against qualitative goals is determined by the client. Under the new standard, we will be required to estimate the amount of the incentive that will be earned at the inception of the contract and recognize the incentive over the term of the contract. While performance incentives are not material to our revenue, this will result in an acceleration of revenue recognition for certain contract incentives compared to the current method. Additionally, in certain of our businesses we record revenue as a principal and include certain third-party pass-through and out-of-pocket costs, which are billed to clients in connection with our services, in revenue. In March 2016, the FASB issued further guidance on principal versus agent revenue recognition considerations. While our evaluation is ongoing, we do not expect the change in the principal versus agent determination, if any, to have a material effect on our results of operations. ASU 2014-09 also includes additional disclosure requirements. Currently, we provide comprehensive revenue disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits ("ASU 2017-07"). ASU 2017-07 requires that only the service cost component of periodic benefit cost will continue to be recorded in salary and service cost. All other components of net periodic benefit cost are to be presented separately in interest and other expense and are excluded from operating profit. ASU 2017-07 will affect operating profit but will not have any effect on income before income taxes and equity method investments, net income or earnings per share. ASU 2017-07 is effective for annual and interim periods beginning January 1, 2018 and will be applied retrospectively to all periods presented.

### 3. Net Income per Common Share

The computations of basic and diluted net income per common share for the three and nine months ended September 30, 2017 and 2016 were (in millions, except per share amounts):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Net Income Available for Common Shares:				
Net income - Omnicom Group Inc.	\$263.6	\$253.8	\$834.0	\$798.3
Net income allocated to participating securities	(0.3 )	(1.2 )	(1.4 )	(4.8 )
	\$263.3	\$252.6	\$832.6	\$793.5
Weighted Average Shares:				
Basic	231.2	237.4	232.6	238.4
Dilutive stock options and restricted shares	1.5	1.3	1.8	1.2
Diluted	232.7	238.7	234.4	239.6
Anti-dilutive stock options and restricted shares	1.0	—	1.0	—
Net Income per Common Share - Omnicom Group Inc.:				
Basic	\$1.14	\$1.06	\$3.58	\$3.33
Diluted	\$1.13	\$1.06	\$3.55	\$3.31

## 4. Goodwill and Intangible Assets

Goodwill and intangible assets at September 30, 2017 and December 31, 2016 were (in millions):

	2017			2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Goodwill	\$9,854.1	\$ (531.1 )	\$9,323.0	\$9,481.4	\$ (505.3 )	\$8,976.1
Intangible assets:						
Purchased and internally developed software	\$364.2	\$ (297.3 )	\$66.9	\$342.6	\$ (270.2 )	\$72.4
Customer related and other	886.7	(563.2 )	323.5	862.4	(507.4 )	355.0
	\$1,250.9	\$ (860.5 )	\$390.4	\$1,205.0	\$ (777.6 )	\$427.4

Changes in goodwill for the nine months ended September 30, 2017 and 2016 were (in millions):

	2017	2016
January 1	\$8,976.1	\$8,676.4
Acquisitions, net of dispositions	18.9	228.9
Noncontrolling interests in acquired businesses	20.3	66.0
Contingent purchase price of acquired businesses	26.9	150.9
Foreign currency translation and other	280.8	(76.1 )
September 30	\$9,323.0	\$9,046.1

## 5. Debt

## Credit Facilities

At September 30, 2017, our short-term liquidity sources include a \$2.5 billion revolving credit facility (“Credit Facility”) expiring on July 31, 2021, domestic and international uncommitted credit lines and the ability to issue up to \$2 billion of commercial paper. The uncommitted credit lines at September 30, 2017 and December 31, 2016 aggregated \$1.2 billion and \$1.1 billion, respectively. There were no outstanding commercial paper issuances or borrowings under the Credit Facility or the uncommitted credit lines at September 30, 2017 and December 31, 2016. Available and unused credit lines at September 30, 2017 and December 31, 2016 were (in millions):

	2017	2016
Credit Facility	\$2,500.0	\$2,500.0
Uncommitted credit lines	1,157.6	1,132.0
Available and unused credit lines	\$3,657.6	\$3,632.0

The Credit Facility contains financial covenants that require us to maintain a Leverage Ratio of consolidated indebtedness to consolidated EBITDA of no more than 3 times for the most recently ended 12-month period (EBITDA is defined as earnings before interest, taxes, depreciation and amortization) and an Interest Coverage Ratio of consolidated EBITDA to interest expense of at least 5 times for the most recently ended 12-month period. At September 30, 2017 we were in compliance with these covenants as our Leverage Ratio was 2.2 times and our Interest Coverage Ratio was 10.5 times. The Credit Facility does not limit our ability to declare or pay dividends or repurchase our common stock.

## Short-Term Debt

Short-term debt at September 30, 2017 and December 31, 2016 was \$38.7 million and \$28.7 million, respectively. The debt represents bank overdrafts and short-term borrowings of our international subsidiaries. Due to the short-term nature of this debt, carrying value approximates fair value.



Long-Term Debt

Long-term debt at September 30, 2017 and December 31, 2016 was (in millions):

	2017	2016
6.25% Senior Notes due 2019	\$500.0	\$500.0
4.45% Senior Notes due 2020	1,000.0	1,000.0
3.625% Senior Notes due 2022	1,250.0	1,250.0
3.65% Senior Notes due 2024	750.0	750.0
3.60% Senior Notes due 2026	1,400.0	1,400.0
Other debt	—	0.1
	4,900.0	4,900.1
Unamortized premium (discount), net	6.6	7.6
Unamortized debt issuance costs	(21.2 )	(24.2 )
Unamortized deferred gain from settlement of interest rate swaps	70.9	84.7
Fair value adjustment attributed to outstanding interest rate swaps	(28.9 )	(47.6 )
	4,927.4	4,920.6
Current portion	—	(0.1 )
Long-term debt	\$4,927.4	\$4,920.5

At September 30, 2017, we recorded a long-term liability of \$8.3 million in connection with the outstanding \$750 million fixed-to-floating interest rate swap on our 3.65% Senior Notes due 2024 (“2024 Notes”) and a long-term liability of \$20.6 million in connection with the outstanding \$500 million fixed-to-floating interest rate swap on our 3.60% Senior Notes due 2026 (“2026 Notes”). The liabilities represent the fair value of the swaps on the 2024 Notes and 2026 Notes, respectively, that was substantially offset by the change in the fair value of the notes. The fixed-to-floating interest rate swaps have the economic effect of converting our debt portfolio to approximately 75% fixed rate obligations and 25% floating rate obligations.

6. Segment Reporting

Our five branded agency networks operate in the advertising, marketing and corporate communications services industry, and are organized into agency networks, virtual client networks, regional reporting units and operating groups. Our networks, virtual client networks and agencies increasingly share clients and provide clients with integrated services. The main economic components of each agency are employee compensation and related costs and direct service costs and occupancy and other costs which include rent and occupancy costs, technology costs and other overhead expenses. Therefore, given these similarities, we aggregate our operating segments, which are our five agency networks, into one reporting segment.

The agency networks' regional reporting units comprise three principal regions: the Americas, EMEA and Asia Pacific. The regional reporting units monitor the performance and are responsible for the agencies in their region. Agencies within the regional reporting units serve similar clients in similar industries and in many cases the same clients and have similar economic characteristics.

Revenue and long-lived assets and goodwill by geographic region at and for the three and nine months ended September 30, 2017 and 2016 were (in millions):

	Americas	EMEA	Asia Pacific
2017			
Revenue - Three months ended	\$2,225.2	\$1,083.1	\$411.2
Revenue - Nine months ended	6,768.0	3,137.6	1,191.5
Long-lived assets and goodwill	6,657.0	2,801.3	555.2
2016			
Revenue - Three months ended	\$2,366.4	\$1,005.8	\$418.9
Revenue - Nine months ended	6,993.5	3,008.1	1,173.5
Long-lived assets and goodwill	6,577.0	2,606.7	541.3



The Americas comprises North America, which includes the United States, Canada and Puerto Rico, and Latin America, which includes Mexico. EMEA comprises Europe, the Middle East and Africa. Asia Pacific comprises Australia, China, India, Japan, Korea, New Zealand, Singapore and other Asian countries. Revenue in the United States for the three and nine months ended September 30, 2017 and 2016 was \$1,992.4 million and \$6,065.1 million and \$2,110.7 million and \$6,308.7 million, respectively.

#### 7. Income Taxes

Our effective tax rate for the nine months ended September 30, 2017, decreased period-over-period to 31.1% from 32.6%. The decrease in the effective tax rate was primarily attributable to the recognition of an additional tax benefit from share-based compensation of \$19.5 million resulting from the prospective adoption of ASU 2016-09 (see Note 1), which requires that additional tax benefits and deficiencies arising from share-based compensation be recognized in results of operations in the period when the awards vest or are exercised. In the prior year, tax benefits and deficiencies were recorded in additional paid-in capital.

At September 30, 2017, our unrecognized tax benefits were \$106.8 million. Of this amount, approximately \$73.3 million would affect our effective tax rate upon resolution of the uncertain tax positions.

#### 8. Pension and Other Postemployment Benefits

##### Defined Benefit Pension Plans

The components of net periodic benefit expense for the nine months ended September 30, 2017 and 2016 were (in millions):

	2017	2016
Service cost	\$7.8	\$6.1
Interest cost	5.4	5.3
Expected return on plan assets	(2.2 )	(2.2 )
Amortization of prior service cost	3.5	3.3
Amortization of actuarial losses	4.8	3.6
	\$19.3	\$16.1

We contributed \$1.1 million and \$0.8 million to our defined benefit pension plans in the nine months ended September 30, 2017 and 2016, respectively.

##### Postemployment Arrangements

The components of net periodic benefit expense for the nine months ended September 30, 2017 and 2016 were (in millions):

	2017	2016
Service cost	\$3.3	\$3.0
Interest cost	2.8	2.6
Amortization of prior service cost	2.6	2.2
Amortization of actuarial losses	0.8	0.8
	\$9.5	\$8.6

## 9. Supplemental Cash Flow Data

The decrease in operating capital for the nine months ended September 30, 2017 and 2016 was (in millions):

	2017	2016
(Increase) decrease in accounts receivable	\$645.3	\$818.1
(Increase) decrease in work in process and other current assets	(280.9 )	(212.3 )
Increase (decrease) in accounts payable	(1,310.8 )	(1,105.9)
Increase (decrease) in customer advances and other current liabilities	(367.9 )	(293.7 )
Change in other assets and liabilities, net	(13.0 )	(4.9 )
	\$ (1,327.3)	\$ (798.7)
Income taxes paid	\$398.0	\$427.6
Interest paid	\$168.6	\$158.5

## 10. Commitments and Contingent Liabilities

In the ordinary course of business, we are involved in various legal proceedings. We do not presently expect that these proceedings will have a material adverse effect on our results of operations or financial position.

In addition, in December 2016, two of our subsidiaries received subpoenas from the U.S. Department of Justice Antitrust Division concerning its ongoing investigation of video production and post-production practices in the advertising industry. The Company is fully cooperating with the investigation. While the ultimate effect of the investigation is inherently uncertain, we do not at this time believe that the investigation will have a material adverse effect on our results of operations or financial position. However, the ultimate resolution of these matters could be different from our current assessment and the differences could be material.

## 11. Equity

Changes in accumulated other comprehensive income (loss), net of income taxes, for the nine months ended September 30, 2017 and 2016 were (in millions):

	Cash Flow Hedge	Available-for-Sale Securities	Defined Benefit Pension Plans and Postemployment Arrangements	Foreign Currency Translation	Total		
2017							
January 1	\$(29.5)	\$ (0.8 )	\$ (90.6 )	\$(1,235.1 )	\$(1,356.0)		
Other comprehensive income (loss) before reclassifications	—	0.3	—	388.5	388.8		
Reclassification from accumulated other comprehensive income (loss)	2.4	—	6.6	—	9.0		
September 30	\$(27.1)	\$ (0.5 )	\$ (84.0 )	\$(846.6 )	\$(958.2 )		
2016							
January 1			\$(3.3 )	\$(0.9)	\$(87.9)	\$(923.3)	\$(1,015.4)
Other comprehensive income (loss) before reclassifications			(28.5 )	0.1	—	(53.4 )	(81.8 )
Reclassification from accumulated other comprehensive income (loss)			1.5	—	6.0	—	7.5
September 30			\$(30.3)	\$(0.8)	\$(81.9)	\$(976.7)	\$(1,089.7)

12. Fair Value

Financial assets and liabilities measured at fair value on a recurring basis at September 30, 2017 and December 31, 2016 were (in millions):

2017	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$1,843.0			\$1,843.0
Short-term investments	8.0			8.0
Available-for-sale securities	3.7			3.7
Foreign currency derivative instruments		\$0.4		0.4
Liabilities:				
Interest rate and foreign currency derivative instruments		\$29.7		\$29.7
Contingent purchase price obligations			\$261.0	261.0
2016				
Assets:				
Cash and cash equivalents	\$3,002.2			\$3,002.2
Short-term investments	20.6			20.6
Available-for-sale securities	4.3			4.3
Foreign currency derivative instruments		\$0.2		0.2
Liabilities:				
Interest rate and foreign currency derivative instruments		\$48.9		\$48.9
Contingent purchase price obligations			\$386.1	386.1

Changes in contingent purchase price obligations for the nine months ended September 30, 2017 and 2016 were (in millions):

	2017	2016
January 1	\$386.1	\$322.0
Acquisitions	41.7	156.0
Revaluation and interest	0.2	16.7
Payments	(182.9)	(86.8)
Foreign currency translation	15.9	(3.4)
September 30	\$261.0	\$404.5

The carrying amount and fair value of our financial assets and liabilities at September 30, 2017 and December 31, 2016 were (in millions):

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$1,843.0	\$1,843.0	\$3,002.2	\$3,002.2
Short-term investments	8.0	8.0	20.6	20.6
Available-for-sale securities	3.7	3.7	4.3	4.3
Foreign currency derivative instruments	0.4	0.4	0.2	0.2
Cost method investments	15.8	15.8	14.2	14.2
Liabilities:				
Short-term debt	\$38.7	\$38.7	\$28.7	\$28.7
Interest rate and foreign currency derivative instruments	29.7	29.7	48.9	48.9
Contingent purchase price obligations	261.0	261.0	386.1	386.1
Long-term debt, including current portion	4,927.4	5,080.6	4,920.6	5,035.1



The estimated fair value of the foreign currency and interest rate derivative instruments is determined using model-derived valuations, taking into consideration foreign currency rates for the foreign currency derivatives and readily observable inputs for LIBOR interest rates and yield curves to derive the present value of the future cash flows for the interest rate swap derivatives and counterparty credit risk for each. The estimated fair value of the contingent purchase price obligations is calculated in accordance with the terms of each acquisition agreement and is discounted. The fair value of debt is based on quoted market prices.

13. Subsequent Events

We have evaluated events subsequent to the balance sheet date and determined there have not been any events that have occurred that would require adjustment to or disclosure in the consolidated financial statements.

12

---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE SUMMARY

We are a strategic holding company providing advertising, marketing and corporate communications services to clients through our branded networks and agencies around the world. On a global, pan-regional and local basis, our networks and agencies provide a comprehensive range of services in four fundamental disciplines: advertising, CRM, public relations and specialty communications. Our business model was built and continues to evolve around our clients. While our networks and agencies operate under different names and frame their ideas in different disciplines, we organize our services around our clients. The fundamental premise of our business is that our clients' specific requirements should be the central focus in how we structure our service offerings and allocate our resources. This client-centric business model requires that multiple agencies collaborate in formal and informal virtual client networks that cut across internal organizational structures through our key client matrix organizational structure to execute against each of our clients' specific marketing requirements. We believe that this organizational philosophy and our ability to execute on it differentiate us from our competition. We continually seek to grow our business with our existing clients by maintaining our client-centric approach, as well as expanding our existing business relationships into new markets and with new clients. In addition, we pursue selective acquisitions of complementary companies with strong entrepreneurial management teams that typically currently serve or have the ability to serve our existing client base.

As a leading global advertising, marketing and corporate communications company, we operate in all major markets and have a large and diverse client base. For the nine months ended September 30, 2017, our largest client accounted for 3.2% of our revenue and our 100 largest clients, which represent many of the world's major marketers, accounted for approximately 51% of our revenue. Our business is spread across a number of industry sectors with no one industry comprising more than 14% of our revenue for the nine months ended September 30, 2017. Although our revenue is generally balanced between the United States and international markets and we have a large and diverse client base, we are not immune to general economic downturns.

As described in more detail below, for the nine months ended September 30, 2017, revenue decreased \$78.0 million or 0.7%, compared to the nine months ended September 30, 2016. Throughout 2016 and continuing into the second quarter of 2017, a substantial number of foreign currencies weakened against the U.S. Dollar. In the third quarter of 2017, the Euro and a number of other currencies strengthened against the U.S. Dollar compared to the third quarter of 2016; however, for the nine months ended September 30, 2017, changes in foreign exchange rates continued to have a negative effect on our revenue. For the nine months ended September 30, 2017, changes in foreign exchange rates reduced revenue \$59.2 million, or 0.5% compared to 2016. Acquisition revenue, net of disposition revenue, reduced revenue \$412.8 million, or 3.7%, reflecting the disposition of certain non-strategic businesses in the past year and organic growth increased revenue \$394.0 million, or 3.5%. As a result, the reduction in revenue from our disposition activity exceeded the revenue from our acquisition activity in the period, and based on our activities completed to date, we expect the net reduction in revenue for acquisitions and dispositions to be approximately 4% for the full year 2017.

Global economic conditions have a direct impact on our business and financial performance. Adverse global or regional economic conditions pose a risk that our clients may reduce, postpone or cancel spending on advertising, marketing and corporate communications services, which would reduce the demand for our services. In the first nine months of 2017, our agencies in North America continued their modest growth as activity in the United States varied across our service disciplines. Our businesses in the United Kingdom, or U.K., and Europe continued their solid performance and growth. However, the continuing uncertain economic and political conditions in the European Union, or EU, have been further complicated by the official notification from the U.K., to the European Council to withdraw from the EU. In Brazil, unstable economic and political conditions contributed to the continuing volatility in the market and our agencies experienced negative growth. Most of our businesses in Asia continue their modest growth consistent with recent periods. The economic and fiscal issues facing countries in Europe and Latin America continue to cause economic uncertainty in those regions; however, the impact on our business varies by country. We will continue to monitor economic conditions closely, as well as client revenue levels and other factors and, in response to reductions in our client revenue, if necessary, we will take actions available to us to align our cost



structure and manage our working capital. There can be no assurance whether, or to what extent, our efforts to mitigate any impact of future adverse economic conditions, reductions in client revenue, changes in client creditworthiness and other developments will be effective.

Certain business trends have had a positive impact on our business and industry. These trends include clients increasingly expanding the focus of their brand strategies from national markets to pan-regional and global markets and integrating traditional and non-traditional marketing channels, as well as utilizing new communications technologies and emerging digital platforms.

Additionally, as clients increase their demands for marketing effectiveness and efficiency, they require greater integration of their marketing activities and tend to consolidate their business with one holding company. We believe these trends and our virtual client network approach to collaboration and integration of services and solutions have benefited our business in the past and over the medium and long term will continue to provide a competitive advantage to us.

In the near term, barring unforeseen events and excluding the impact of changes in foreign exchange rates, as a result of continued improvement in operating performance by many of our agencies and new business activities, we expect our 2017 organic growth in revenue to increase modestly in excess of the weighted average nominal GDP growth in our major markets. We expect to continue to identify acquisition opportunities intended to build upon the core capabilities of our strategic business platforms, expand our operations in the high-growth and emerging markets and enhance our capabilities to leverage new technologies that are being used by marketers today. In addition, we continually evaluate our portfolio of businesses to identify non-strategic or underperforming businesses for disposition.

Given our size and breadth, we manage our business by monitoring several financial indicators. The key indicators that we focus on are revenue and operating expenses. We analyze revenue growth by reviewing the components and mix of the growth, including growth by principal regional market and marketing discipline, the impact from foreign currency exchange rate changes, growth from acquisitions and growth from our largest clients. Operating expenses are comprised of cost of services, selling, general and administrative, or SG&A, expenses and depreciation and amortization.

For the quarter ended September 30, 2017, our revenue decreased 1.9% compared to the quarter ended September 30, 2016. Changes in foreign exchange rates increased revenue 1.0%, acquisition revenue, net of disposition revenue, reduced revenue 5.7%, and organic growth increased revenue 2.8%. Across our principal regional markets, the changes in revenue were: North America decreased 6.5%, Europe increased 8.4%, Asia Pacific decreased 1.8% and Latin America increased 4.6%. The decrease in revenue in North America reflects the disposition of our specialty print media business, which was partially offset by modest growth in the U.S. and the strengthening of the Canadian Dollar against the U.S. Dollar. The revenue increase in Europe resulted from growth in the U.K. and substantially all markets in the Euro Zone and the strengthening of the Euro against the U.S. Dollar. The increase in revenue in Latin America was a result of growth in Mexico and our acquisition activity in Colombia, as well as the strengthening of the Brazilian Real against the U.S. Dollar, which partially offset negative growth in that market. In Asia Pacific, strong growth in most countries in the region, especially India, Japan and Singapore, was partially offset by disposition activity and negative growth in China. The change in revenue in the third quarter of 2017 compared to the third quarter of 2016, in our four fundamental disciplines was: advertising decreased 1.4%, CRM decreased 4.5%, public relations decreased 0.5% and specialty communications increased 4.2%.

For the nine months ended September 30, 2017, our revenue decreased 0.7% compared to the nine months ended September 30, 2016. Changes in foreign exchange rates reduced revenue 0.5%, acquisition revenue, net of disposition revenue, reduced revenue 3.7%, and organic growth increased revenue 3.5%. Across our principal regional markets, the changes in revenue were: North America decreased 4.2%, Europe increased 3.4%, Asia Pacific increased 1.5% and Latin America increased 20.6%. In North America, moderate growth in the United States and Canada was offset by our disposition activity. In Europe, growth in the U.K. and substantially all markets in the Euro Zone was offset by the weakening of the British Pound and Euro against the U.S. Dollar and negative performance in Turkey and The Netherlands. The increase in revenue in Latin America was a result of our acquisition activity in Colombia, and the strengthening of the Brazilian Real, as well as growth in Mexico. In Asia Pacific, growth in most countries in the region including Australia, India and Japan was offset by disposition activity and negative growth in China. The change in revenue in the nine months of 2017 compared to the nine months of 2016, in our four fundamental disciplines was: advertising increased 0.7%, CRM decreased 4.3%, public relations decreased 0.2% and specialty communications increased 3.9%.

We measure cost of services in two distinct categories: salary and service costs and occupancy and other costs. As a service business, salary and service costs make up the vast majority of our operating expenses and substantially all these costs comprise the essential components directly linked to the delivery of our services. Salary and service costs

include employee compensation and benefits, freelance labor and direct service costs, which include third-party supplier costs and client-related travel costs. Occupancy and other costs consist of the indirect costs related to the delivery of our services, including office rent and other occupancy costs, equipment rent, technology costs, general office expenses and other expenses.

SG&A expenses primarily consist of third-party marketing costs, professional fees and compensation and benefits and occupancy and other costs of our corporate and executive offices, which includes group-wide finance and accounting, treasury, legal and governance, human resource oversight and similar costs.

Operating expenses for the third quarter and nine months of 2017 decreased 2.5% and 1.1%, respectively, period-over-period from 2016. Salary and service costs, which tend to fluctuate with changes in revenue, decreased \$81.1 million, or 2.8% in the third quarter of 2017 compared to the third quarter of 2016 and decreased \$98.1 million or 1.2% in the nine months of 2017 compared to the nine months of 2016. Occupancy and other costs, which are less directly linked to changes in revenue than salary and service costs, increased \$7.5 million, or 2.4%, in the third quarter of 2017 compared to the third quarter of 2016 and decreased \$10.1 million or 1.1% in the nine months of 2017 compared to the nine months of 2016.

Operating margins for the third quarter and nine months of 2017 were 12.5% and 13.0%, respectively, compared to 12.0% and 12.6% for the third quarter and nine months of 2016, respectively. Earnings before interest, taxes and amortization of intangible assets, or EBITA, margins for the third quarter and nine months of 2017 were 13.2% and 13.8%, respectively, compared to 12.7% and 13.4% for the third quarter and the nine months of 2016, respectively. Net interest expense increased \$4.4 million to \$46.4 million for the third quarter of 2017 and increased \$4.2 million to \$131.2 million for the nine months of 2017 compared to 2016. Interest expense increased \$6.1 million to \$59.0 million in the third quarter of 2017 and increased \$11.6 million to \$169.2 million in the nine months of 2017. Interest income for the third quarter and nine months of 2017 increased \$1.7 million and \$7.4 million, respectively, compared to the prior year periods.

Our effective tax rate for the third quarter and nine months ended September 30, 2017, decreased period-over-period to 31.6% and 31.1% from 32.7% and 32.6%, respectively. The decrease was attributable to the recognition of an additional tax benefit from share-based compensation of \$19.5 million, primarily in the first quarter resulting from the adoption of FASB ASU 2016-09 (see Note 1 to the unaudited consolidated financial statements), which requires that beginning in 2017 additional tax benefits and deficiencies arising from share-based compensation be recognized in results of operations in the period when the restricted stock awards vest or stock options are exercised. In the prior year, tax benefits and deficiencies were recorded in additional paid-in capital. Because the income tax benefit is based on our common stock price on the vesting or exercise date, it is not possible to estimate the impact on income tax expense for the remainder of the year.

Net income - Omnicom Group Inc. in the third quarter of 2017 increased \$9.8 million, or 3.9%, to \$263.6 million from \$253.8 million in the third quarter of 2016, and net income - Omnicom Group Inc. in the nine months of 2017 increased \$35.7 million, or 4.5%, to \$834.0 million from \$798.3 million in the nine months of 2016. The period-over-period increase is due to the factors described above. Diluted net income per common share - Omnicom Group Inc. increased 6.6% to \$1.13 in the third quarter of 2017, compared to \$1.06 in the third quarter of 2016, and diluted net income per common share - Omnicom Group Inc. increased 7.3% to \$3.55 in the nine months of 2017, compared to \$3.31 in the nine months of 2016, due to the factors described above, as well as the impact of the reduction in our weighted average common shares outstanding resulting from repurchases of our common stock, net of shares issued for restricted stock awards, stock option exercises and employee stock purchase plan.

## RESULTS OF OPERATIONS - Third Quarter 2017 Compared to Third Quarter 2016 (in millions):

	2017	2016		
Revenue	\$3,719.5	\$3,791.1		
Operating Expenses:				
Salary and service costs	2,770.5	2,851.6		
Occupancy and other costs	316.7	309.2		
Cost of services	3,087.2	3,160.8		
Selling, general and administrative expenses	99.5	104.1		
Depreciation and amortization	68.6	73.1		
	3,255.3	3,338.0		
Operating Profit	464.2	453.1		
Operating Margin - %	12.5	% 12.0	%	%
Interest Expense	59.0	52.9		
Interest Income	12.6	10.9		
Income Before Income Taxes and Income From Equity Method Investments	417.8	411.1		
Income Tax Expense	132.0	134.3		
Income From Equity Method Investments	1.1	1.4		
Net Income	286.9	278.2		
Net Income Attributed To Noncontrolling Interests	23.3	24.4		
Net Income - Omnicom Group Inc.	\$263.6	\$253.8		

## Non-GAAP Financial Measures

We use EBITA and EBITA Margin as additional operating performance measures that exclude the non-cash amortization expense of intangible assets, which primarily consists of amortization of intangible assets arising from acquisitions. We define EBITA as earnings before interest, taxes and amortization of intangible assets, and EBITA Margin as EBITA divided by revenue. EBITA and EBITA Margins are non-GAAP Financial measures. We believe that EBITA and EBITA Margin are useful measures for investors to evaluate the performance of our business.

Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with U.S. GAAP. Non-GAAP financial measures reported by us may not be comparable to similarly titled amounts reported by other companies.

The following table reconciles the U.S. GAAP financial measure of Net Income - Omnicom Group Inc. to EBITA and EBITA Margin for the for the periods presented (in millions):

	2017	2016		
Net Income - Omnicom Group Inc.	\$263.6	\$253.8		
Net Income Attributed To Noncontrolling Interests	23.3	24.4		
Net Income	286.9	278.2		
Income From Equity Method Investments	1.1	1.4		
Income Tax Expense	132.0	134.3		
Income Before Income Taxes and Income From Equity Method Investments	417.8	411.1		
Interest Expense	59.0	52.9		
Interest Income	12.6	10.9		
Operating Profit	464.2	453.1		
Add back: Amortization of intangible assets	27.9	29.0		
Earnings before interest, taxes and amortization of intangible assets ("EBITA")	\$492.1	\$482.1		
Revenue	\$3,719.5	\$3,791.1		
EBITA	\$492.1	\$482.1		
EBITA Margin - %	13.2	% 12.7	%	%



## Revenue

In the third quarter of 2017, revenue decreased \$71.6 million, or 1.9%, to \$3,719.5 million from \$3,791.1 million in the third quarter of 2016. Changes in foreign exchange rates increased revenue \$38.9 million, acquisition revenue, net of disposition revenue, reduced revenue \$216.4 million, and organic growth increased revenue \$105.9 million.

The reduction in revenue in the third quarter resulting from our acquisition and disposition activity arose principally from the sale of our specialty print media business. Based on our acquisition and disposition activity completed to date, we expect the net reduction in revenue for acquisitions and dispositions to be approximately 4% for the year. For the third quarter of 2017, changes in foreign exchange rates increased revenue by 1.0%, or \$38.9 million, compared to the third quarter of 2016, primarily resulting from the strengthening of the Euro, Australian Dollar, Canadian Dollar and Russian Ruble against the U.S. Dollar, partially offset by the weakening of the British Pound and Japanese Yen against the U.S. Dollar.

The components of revenue change for the third quarter of 2017 in the United States (“Domestic”) and the remainder of the world (“International”) were (in millions):

	Total		Domestic		International	
	\$	%	\$	%	\$	%
September 30, 2016	\$3,791.1		\$2,110.7		\$1,680.4	
Components of revenue change:						
Foreign exchange rate impact	38.9	1.0 %	—	— %	38.9	2.3 %
Acquisition revenue, net of disposition revenue	(216.4 )	(5.7)%	(168.0 )	(8.0)%	(48.4 )	(2.9)%
Organic growth	105.9	2.8 %	49.7	2.4 %	56.2	3.4 %
September 30, 2017	\$3,719.5	(1.9)%	\$1,992.4	(5.6)%	\$1,727.1	2.8 %

The components and percentages are calculated as follows:

Foreign exchange rate impact is calculated by translating the current period’s local currency revenue using the prior period average exchange rates to derive current period constant currency revenue (in this case \$3,680.6 million for the Total column). The foreign exchange impact is the difference between the current period revenue in U.S. Dollars and the current period constant currency revenue (\$3,719.5 million less \$3,680.6 million for the Total column).

Acquisition revenue is calculated as if the acquisition occurred twelve months prior to the acquisition date by aggregating the comparable prior period revenue of acquisitions through the acquisition date. As a result, acquisition revenue excludes the positive or negative difference between our current period revenue subsequent to the acquisition date and the comparable prior period revenue and the positive or negative growth after the acquisition is attributed to organic growth. Disposition revenue is calculated as if the disposition occurred twelve months prior to the disposition date by aggregating the comparable prior period revenue of dispositions through the disposition date. The acquisition revenue and disposition revenue amounts are netted in the table.

Organic growth is calculated by subtracting the foreign exchange rate impact, and the acquisition revenue, net of disposition revenue components from total revenue growth.

The percentage change is calculated by dividing the individual component amount by the prior period revenue base of that component (\$3,791.1 million for the Total column).

Our results of operations are subject to risk from the translation to U.S. Dollars of the revenue and expenses of our foreign operations, which are generally denominated in their local currency. However, for the most part, because the revenue and expenses of our foreign operations are denominated in the same currency, the economic impact on operating margin is minimized. Assuming exchange rates at October 16, 2017 remain unchanged, we expect the impact of changes in foreign exchange rates to increase revenue approximately 2% for the fourth quarter, resulting in a slight increase for the full year.

Revenue for the third quarter of 2017 and the percentage change in revenue and organic growth from the third quarter of 2016 in our principal regional markets were (in millions):

	2017	2016	\$ Change	% Change	% Organic Growth
Americas:					
North America	\$2,107.5	\$2,253.9	\$(146.4)	(6.5 )%	2.1 %
Latin America	117.7	112.5	5.2	4.6 %	(5.4 )%
EMEA:					
Europe	1,017.7	938.6	79.1	8.4 %	6.3 %
Middle East and Africa	65.4	67.2	(1.8 )	(2.7 )%	(1.6 )%
Asia Pacific	411.2	418.9	(7.7 )	(1.8 )%	1.4 %
	\$3,719.5	\$3,791.1	\$(71.6 )	(1.9 )%	2.8 %

Our primary markets in Europe comprise the U.K. and the Euro Zone. In the third quarter of 2017, the U.K. comprised 9.6% of revenue and the Euro Zone and the other European countries together comprised 17.7% of revenue. In the third quarter of 2017, revenue, including the impact of foreign exchange rates, increased 2.8% in the U.K. and increased 11.7% in the Euro Zone and the other European countries.

The decrease in revenue in North America reflects the disposition of our specialty print media business, which was partially offset by modest growth in the U.S. and the strengthening of the Canadian Dollar against the U.S. Dollar. The revenue increase in Europe resulted from growth in the U.K. and substantially all markets in the Euro Zone and the strengthening of the Euro against the U.S. Dollar. The increase in revenue in Latin America was a result of growth in Mexico and our acquisition activity in Colombia, as well as the strengthening of the Brazilian Real against the U.S. Dollar, which partially offset negative growth in that market. In Asia Pacific, strong growth in most countries in the region, especially India, Japan and Singapore, was partially offset by disposition activity and negative growth in China.

In the normal course of business, our agencies both gain and lose business from clients each year due to a variety of factors. The net change through the third quarter of 2017 was an overall gain in new business. Under our client-centric approach, we seek to broaden our relationships with all of our clients. Our largest client represented 3.6% and 2.9% of our revenue for the third quarter of 2017 and 2016, respectively. Our ten largest and 100 largest clients represented 20.4% and 51.1% of our revenue for the third quarter of 2017, respectively, and 19.0% and 52.9% of our revenue for the third quarter of 2016, respectively.

Driven by our clients' continuous demand for more effective and efficient marketing activities, we strive to provide an extensive range of advertising, marketing and corporate communications services through various client-centric networks that are organized to meet specific client objectives. These services include advertising, brand consultancy, content marketing, corporate social responsibility consulting, crisis communications, custom publishing, data analytics, database management,

direct marketing, entertainment marketing, environmental design, experiential marketing, field marketing, financial/corporate business-to-business advertising, graphic arts/digital imaging, healthcare communications, instore design, interactive marketing, investor relations, marketing research, media planning and buying, mobile marketing, multi-cultural marketing, non-profit marketing, organizational communications, outsource sales support, package design, product placement, promotional marketing, public affairs, public relations, reputation consulting, retail marketing, search engine marketing, social media marketing and sports and event marketing.

In an effort to monitor the changing needs of our clients and to further expand the scope of our services to key clients, we monitor revenue across a broad range of disciplines and group them into the following four categories: advertising, CRM, public relations and specialty communications. Revenue for the third quarter of 2017 and 2016 and the change in revenue and organic growth from the third quarter of 2016 by discipline were (in millions):

Three Months Ended September 30,					
2017		2016		2017 vs. 2016	
\$	% of	\$	% of	%	



Edgar Filing: OMNICOM GROUP INC. - Form 10-Q

	Revenue			Revenue \$			Change %		
						Change		Organic Growth	
Advertising	\$1,946.1	52.3 %	\$1,972.8	52.0 %	\$(26.7)	(1.4)%	4.7 %		
CRM	1,149.4	30.9 %	1,203.8	31.8 %	(54.4 )	(4.5)%	0.1 %		
Public relations	345.9	9.3 %	347.6	9.2 %	(1.7 )	(0.5)%	(0.4 )%		
Specialty communications	278.1	7.5 %	266.9	7.0 %	11.2	4.2 %	5.1 %		
	\$3,719.5		\$3,791.1		\$(71.6)	(1.9)%	2.8 %		

18

---

We provide services to clients that operate in various industry sectors. Revenue by sector for the third quarter of 2017 and 2016 was:

	2017	2016
Food and Beverage	14 %	13 %
Consumer Products	10 %	10 %
Pharmaceuticals and Health Care	12 %	13 %
Financial Services	7 %	7 %
Technology	9 %	9 %
Auto	10 %	8 %
Travel and Entertainment	6 %	7 %
Telecommunications	5 %	5 %
Retail	6 %	6 %
Other	21 %	22 %

#### Operating Expenses

Operating expenses for the third quarter of 2017 compared to the third quarter of 2016 were (in millions):

	Three Months Ended September 30,					
	2017		2016		2017 vs. 2016	
	\$	% of Revenue	\$	% of Revenue	\$ Change	% Change
Revenue	\$3,719.5		\$3,791.1		\$(71.6)	(1.9)%
Operating Expenses:						
Salary and service costs	2,770.5	74.5 %	2,851.6	75.2 %	(81.1)	(2.8)%
Occupancy and other costs	316.7	8.5 %	309.2	8.2 %	7.5	2.4 %
Cost of services	3,087.2		3,160.8		(73.6)	(2.3)%
Selling, general and administrative expenses	99.5	2.7 %	104.1	2.7 %	(4.6)	(4.4)%
Depreciation and amortization	68.6	1.8 %	73.1	1.9 %	(4.5)	(6.2)%
	3,255.3	87.5 %	3,338.0	88.0 %	(82.7)	(2.5)%
Operating Profit	\$464.2	12.5 %	\$453.1	12.0 %	\$11.1	2.4 %

Operating expenses decreased 2.5% in third quarter of 2017 compared to the third quarter of 2016. Salary and service costs, which tend to fluctuate with changes in revenue, decreased \$81.1 million, or 2.8%, in the third quarter of 2017 compared to the third quarter of 2016. Occupancy and other costs, which are less directly linked to changes in revenue than salary and service costs, increased \$7.5 million, or 2.4%, in the third quarter of 2017 compared to the third quarter of 2016. Operating margin increased to 12.5% in the third quarter of 2017 from 12.0% in the third quarter of 2016. EBITA margin increased to 13.2% in the third quarter of 2017 from 12.7% in the third quarter of 2016. The increase in margins reflects our continuing effort to manage occupancy and other costs related to back-office and procurement functions and improve the operational efficiency of our businesses, as well as a positive impact resulting from the mix of business activity in the quarter and our disposition activity.

#### Net Interest Expense

Net interest expense increased \$4.4 million to \$46.4 million in the third quarter of 2017 from \$42.0 million in the third quarter of 2016. In the third quarter of 2017, interest expense increased \$6.1 million to \$59.0 million, primarily due to higher interest rates in the period, which reduced the benefit from the fixed-to-floating interest rate swaps and increased interest expense on commercial paper. At September 30, 2017, our debt portfolio was approximately 75% fixed rate obligations and 25% floating rate obligations, after taking into consideration our interest rate swaps, and was unchanged from December 31, 2016. Note 5 to the unaudited consolidated financial statements includes a discussion of our interest rate swaps. Interest income increased \$1.7 million in the third quarter of 2017 compared to the prior year period resulting from higher interest earned on the cash held by our international treasury centers.



#### Income Taxes

Our effective tax rate for the third quarter of 2017, decreased period-over-period to 31.6% from 32.7%. The decrease was primarily attributable to the recognition of an additional tax benefit from share-based compensation of \$4.8 million resulting from the adoption of FASB ASU 2016-09 (see Note 1 to the unaudited consolidated financial statements), which requires that beginning in 2017 additional tax benefits and deficiencies arising from share-based compensation be recognized in results of operations in the period when the restricted stock awards vest or stock options are exercised. In the prior year, tax benefits and deficiencies were recorded in additional paid-in capital.

Net Income Per Common Share - Omnicom Group Inc.

Net income - Omnicom Group Inc. in the third quarter of 2017 increased \$9.8 million, or 3.9%, to \$263.6 million from \$253.8 million in the third quarter of 2016. The period-over-period increase is due to the factors described above. Diluted net income per common share - Omnicom Group Inc. increased 6.6% to \$1.13 in the third quarter of 2017, compared to \$1.06 in the third quarter of 2016, due to the factors described above, as well as the impact of the reduction in our weighted average common shares outstanding resulting from repurchases of our common stock, net of shares issued for restricted stock awards, stock option exercises and the employee stock purchase plan.

## RESULTS OF OPERATIONS - Nine Months of 2017 Compared to Nine Months of 2016 (in millions):

	2017	2016		
Revenue	\$11,097.1	\$11,175.1		
Operating Expenses:				
Salary and service costs	8,200.8	8,298.9		
Occupancy and other costs	915.7	925.8		
Cost of services	9,116.5	9,224.7		
Selling, general and administrative expenses	328.6	323.1		
Depreciation and amortization	212.4	220.3		
	9,657.5	9,768.1		
Operating Profit	1,439.6	1,407.0		
Operating Margin - %	13.0	% 12.6	%	%
Interest Expense	169.2	157.6		
Interest Income	38.0	30.6		
Income Before Income Taxes and Income From Equity Method Investments	1,308.4	1,280.0		
Income Tax Expense	406.7	417.7		
Income From Equity Method Investments	2.7	4.0		
Net Income	904.4	866.3		
Net Income Attributed To Noncontrolling Interests	70.4	68.0		
Net Income - Omnicom Group Inc.	\$834.0	\$798.3		

## Non-GAAP Financial Measures

We use EBITA and EBITA Margin as additional operating performance measures that exclude the non-cash amortization expense of intangible assets, which primarily consists of amortization of intangible assets arising from acquisitions. We define EBITA as earnings before interest, taxes and amortization of intangible assets, and EBITA Margin as EBITA divided by revenue. EBITA and EBITA Margins are non-GAAP Financial measures. We believe that EBITA and EBITA Margin are useful measures for investors to evaluate the performance of our business.

Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with U.S. GAAP. Non-GAAP financial measures reported by us may not be comparable to similarly titled amounts reported by other companies.

The following table reconciles the U.S. GAAP financial measure of Net Income - Omnicom Group Inc. to EBITA and EBITA Margin for the for the periods presented (in millions):

	2017	2016		
Net Income - Omnicom Group Inc.	\$834.0	\$798.3		
Net Income Attributed To Noncontrolling Interests	70.4	68.0		
Net Income	904.4	866.3		
Income From Equity Method Investments	2.7	4.0		
Income Tax Expense	406.7	417.7		
Income Before Income Taxes and Income From Equity Method Investments	1,308.4	1,280.0		
Interest Expense	169.2	157.6		
Interest Income	38.0	30.6		
Operating Profit	1,439.6	1,407.0		
Add back: Amortization of intangible assets	86.8	85.7		
Earnings before interest, taxes and amortization of intangible assets ("EBITA")	\$1,526.4	\$1,492.7		
Revenue	\$11,097.1	\$11,175.1		
EBITA	\$1,526.4	\$1,492.7		
EBITA Margin - %	13.8	% 13.4	%	%



Revenue

In the nine months of 2017, revenue decreased \$78.0 million, or 0.7%, to \$11,097.1 million from \$11,175.1 million in the nine months of 2016. Changes in foreign exchange rates reduced revenue \$59.2 million, acquisition revenue, net of disposition revenue, reduced revenue \$412.8 million, and organic growth increased revenue \$394.0 million.

The reduction in revenue in the nine months of 2017 resulting from our acquisition and disposition activity arose principally from the sale of our specialty print media business. Based on our acquisition and disposition activity completed to date, we expect the net reduction in revenue for acquisitions and dispositions to be approximately 4% for the full year.

For the nine months of 2017, changes in foreign exchange rates continued to negatively impact revenue. The impact of changes in foreign exchange rates reduced revenue by 0.5%, or \$59.2 million, compared to the nine months of 2016, primarily resulting from the weakening of the British Pound and the Euro against the U.S. Dollar, partially offset by the strengthening of the Brazilian Real, Australian Dollar and Russian Ruble against the U.S. Dollar.

The components of revenue change for the nine months of 2017 in the United States (“Domestic”) and the remainder of the world (“International”) were (in millions):

	Total		Domestic		International	
	\$	%	\$	%	\$	%
September 30, 2016	\$11,175.1		\$6,308.7		\$4,866.4	
Components of revenue change:						
Foreign exchange rate impact	(59.2 )	(0.5)%	—	— %	(59.2 )	(1.2)%
Acquisition revenue, net of disposition revenue	(412.8 )	(3.7)%	(312.8 )	(5.0)%	(100.0 )	(2.1)%
Organic growth	394.0	3.5 %	69.2	1.1 %	324.8	6.7 %
September 30, 2017	\$11,097.1	(0.7)%	\$6,065.1	(3.9)%	\$5,032.0	3.4 %

The components and percentages are calculated as follows:

Foreign exchange rate impact is calculated by translating the current period’s local currency revenue using the prior period average exchange rates to derive current period constant currency revenue (in this case \$11,156.3 million for the Total column). The foreign exchange impact is the difference between the current period revenue in U.S. Dollars and the current period constant currency revenue (\$11,097.1 million less \$11,156.3 million for the Total column).

Acquisition revenue is calculated as if the acquisition occurred twelve months prior to the acquisition date by aggregating the comparable prior period revenue of acquisitions through the acquisition date. As a result, acquisition revenue excludes the positive or negative difference between our current period revenue subsequent to the acquisition date and the comparable prior period revenue and the positive or negative growth after the acquisition is attributed to organic growth. Disposition revenue is calculated as if the disposition occurred twelve months prior to the disposition date by aggregating the comparable prior period revenue of dispositions through the disposition date. The acquisition revenue and disposition revenue amounts are netted in the table.

Organic growth is calculated by subtracting the foreign exchange rate impact, and the acquisition revenue, net of disposition revenue components from total revenue growth.

The percentage change is calculated by dividing the individual component amount by the prior period revenue base of that component (\$11,175.1 million for the Total column).

Revenue for the nine months of 2017 and the percentage change in revenue and organic growth from the nine months of 2016 in our principal regional markets were (in millions):

	2017	2016	\$ Change	% Change	% Organic Growth
Americas:					
North America	\$6,422.5	\$6,706.9	\$(284.4)	(4.2 )%	1.1 %
Latin America	345.5	286.6	58.9	20.6 %	1.0 %
EMEA:					
Europe	2,917.8	2,822.0	95.8	3.4 %	7.6 %
Middle East and Africa	219.8	186.1	33.7	18.1 %	17.8 %

Edgar Filing: OMNICOM GROUP INC. - Form 10-Q

Asia Pacific	1,191.5	1,173.5	18.0	1.5	%	5.7	%
	\$11,097.1	\$11,175.1	\$(78.0)	(0.7)	%	3.5	%

22

---



Our primary markets in Europe comprise the U.K. and the Euro Zone. In the nine months of 2017, the U.K. comprised 9.2% of revenue and the Euro Zone and the other European countries together comprised 17.1% of revenue. In the nine months of 2017, revenue, including the impact of foreign exchange rates, decreased 3.0% in the U.K. and increased 7.2% in the Euro Zone and the other European countries.

In North America, moderate growth in the United States and Canada was offset by our disposition activity. In Europe, growth in the U.K. and substantially all markets in the Euro Zone was offset by the weakening of the British Pound and Euro against the U.S. Dollar and negative performance in Turkey and The Netherlands. The increase in revenue in Latin America was a result of our acquisition activity in Colombia, and the strengthening of the Brazilian Real, as well as growth in Mexico. In Asia Pacific, growth in the major economies, including Australia, India and Japan was offset by disposition activity and negative growth in China.

In the normal course of business, our agencies both gain and lose business from clients each year due to a variety of factors. The net change through the nine months of 2017 was an overall gain in new business. Under our client-centric approach, we seek to broaden our relationships with all of our clients. Our largest client represented 3.2% and 2.8% of our revenue for the nine months of 2017 and 2016, respectively. Our ten largest and 100 largest clients represented 19.7% and 51.4% of our revenue for the nine months of 2017, respectively, and 18.1% and 52.7% of our revenue for the nine months of 2016, respectively.

For the full year, barring unforeseen events and excluding the impact of changes in foreign exchange rates, as a result of continued strong operating performance by many of our agencies and new business activities, we expect our organic revenue growth to increase modestly in excess of the weighted average nominal GDP growth in our major markets.

Revenue for the nine months of 2017 and 2016 and the change in revenue and organic growth from the nine months of 2016 by discipline were (in millions):

	Nine Months Ended September 30,				2017 vs. 2016			
	2017	2016	2017	2016	\$	%	%	%
	\$	% of Revenue	\$	% of Revenue	\$	%	%	% Organic Growth
Advertising	\$5,884.7	53.0 %	\$5,842.0	52.3 %	\$42.7	0.7 %	5.0 %	
CRM	3,352.4	30.2 %	3,502.8	31.3 %	(150.4)	(4.3) %	1.9 %	
Public relations	1,013.8	9.2 %	1,016.0	9.1 %	(2.2)	(0.2) %	0.3 %	
Specialty communications	846.2	7.6 %	814.3	7.3 %	31.9	3.9 %	3.5 %	
	\$11,097.1		\$11,175.1		\$(78.0)	(0.7) %	3.5 %	

We provide services to clients that operate in various industry sectors. Revenue by sector for the nine months of 2017 and 2016 was:

	2017	2016
Food and Beverage	14 %	13 %
Consumer Products	9 %	10 %
Pharmaceuticals and Health Care	12 %	12 %
Financial Services	7 %	7 %
Technology	9 %	9 %
Auto	10 %	8 %
Travel and Entertainment	6 %	7 %
Telecommunications	5 %	5 %
Retail	6 %	6 %
Other	22 %	23 %



## Operating Expenses

Operating expenses for the nine months of 2017 compared to the nine months of 2016 were (in millions):

	Nine Months Ended September 30,				2017 vs. 2016	
	2017		2016			
	\$	% of Revenue	\$	% of Revenue	\$	% Change
Revenue	\$11,097.1		\$11,175.1		\$(78.0)	(0.7)%
Operating Expenses:						
Salary and service costs	8,200.8	73.9 %	8,298.9	74.3 %	(98.1 )	(1.2)%
Occupancy and other costs	915.7	8.3 %	925.8	8.3 %	(10.1 )	(1.1)%
Cost of services	9,116.5		9,224.7		(108.2)	
Selling, general and administrative expenses	328.6	3.0 %	323.1	2.9 %	5.5	1.7 %
Depreciation and amortization	212.4	1.9 %	220.3	2.0 %	(7.9 )	(3.6)%
	9,657.5	87.0 %	9,768.1	87.4 %	(110.6)	(1.1)%
Operating Profit	\$1,439.6	13.0 %	\$1,407.0	12.6 %	\$32.6	2.3 %

Operating expenses decreased 1.1% in the nine months of 2017 compared to the nine months of 2016. Salary and service costs, which tend to fluctuate with changes in revenue, decreased \$98.1 million, or 1.2%, in the nine months of 2017 compared to the nine months of 2016. Occupancy and other costs, which are less directly linked to changes in revenue than salary and service costs, decreased \$10.1 million, or 1.1%, in the nine months of 2017 compared to the nine months of 2016. Operating margin increased 0.4% to 13.0% in the nine months of 2017 from 12.6% in the nine months of 2016. EBITA margin increased 0.4% to 13.8% in the nine months of 2017 from 13.4% in the nine months of 2016. The increase in margins reflects our continuing effort to reduce occupancy and other costs related to back-office and procurement functions and improve the operational efficiency of our businesses, as well as a positive impact resulting from our disposition activity.

## Net Interest Expense

Net interest expense increased \$4.2 million period-over-period. In the nine months of 2017, interest expense increased \$11.6 million to \$169.2 million, primarily due to a reduced benefit from the fixed-to-floating interest rate swaps resulting from higher rates on the floating rate leg and higher interest expense on commercial paper. At September 30, 2017, our debt portfolio was approximately 75% fixed rate obligations and 25% floating rate obligations, after taking into consideration our interest rate swaps, and was unchanged from December 31, 2016. Note 5 to the unaudited consolidated financial statements includes a discussion of our interest rate swaps. Interest income for the nine months of 2017 increased \$7.4 million period-over-period to \$38.0 million resulting from higher interest earned on the cash held by our international treasury centers.

## Income Taxes

Our effective tax rate for the nine months of 2017, decreased period-over-period to 31.1% from 32.6%. The decrease was attributable to the recognition of an additional tax benefit from share-based compensation of \$19.5 million, primarily in the first quarter of 2017, resulted from the adoption of FASB ASU 2016-09 (see Note 1 to the unaudited consolidated financial statements), which requires that beginning in 2017 additional tax benefits and deficiencies arising from share-based compensation be recognized in results of operations in the period when restricted stock awards vest or stock options are exercised. In the prior year, tax benefits and deficiencies were recorded in additional paid-in capital. Because the income tax benefit is based on our common stock price on the vesting or exercise date, it is not possible to estimate the impact on income tax expense for the remainder of the year. However, excluding the impact of any stock option exercises, if the price of our common stock remains in the range it was during the nine months of 2017, we expect any additional tax benefits realized in the fourth quarter will be minimal.

## Net Income Per Common Share - Omnicom Group Inc.

Net income - Omnicom Group Inc. in the nine months of 2017 increased \$35.7 million, or 4.5%, to \$834.0 million from \$798.3 million in the nine months of 2016. The period-over-period increase is due to the factors described above. Diluted net income per common share - Omnicom Group Inc. increased 7.3% to \$3.55 in the nine months of 2017,

compared to \$3.31 in the nine months of 2016, due to the factors described above, as well as the impact of the reduction in our weighted average common shares outstanding resulting from repurchases of our common stock, net of shares issued for restricted stock awards, stock option exercises and the employee stock purchase plan.

24

---

## CRITICAL ACCOUNTING POLICIES

For a more complete understanding of our accounting policies, the unaudited consolidated financial statements and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, readers are encouraged to consider this information together with our discussion of our critical accounting policies under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2016 10-K. Acquisitions and Goodwill

We have made and expect to continue to make selective acquisitions. The evaluation of potential acquisitions is based on various factors, including specialized know-how, reputation, geographic coverage, competitive position and service offerings of the target businesses, as well as our experience and judgment.

Our acquisition strategy is focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of our various strategic business platforms and agency brands through the expansion of their geographic reach or their service capabilities to better serve our clients. Additional key factors we consider include the competitive position and specialized know-how of the acquisition targets. Accordingly, as is typical in most service businesses, a substantial portion of the assets we acquire are intangible assets primarily consisting of the know-how of the personnel, which is treated as part of goodwill and under U.S. GAAP is not required to be valued separately. For each acquisition, we undertake a detailed review to identify other intangible assets that are required to be valued separately. A significant portion of the identifiable intangible assets acquired is derived from customer relationships, including the related customer contracts, as well as trade names. In valuing these identified intangible assets, we typically use an income approach and consider comparable market participant measurements.

We evaluate goodwill for impairment at least annually at the end of the second quarter of the year and whenever events or circumstances indicate the carrying value may not be recoverable. As of June 30, 2017, we adopted FASB ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill and eliminates the two-step goodwill impairment test. Under FASB ASC Topic 350, Intangibles - Goodwill and Other, we have the option of either assessing qualitative factors to determine whether it is more-likely-than-not that the carrying value of our reporting units exceeds their respective fair value or proceeding directly to the goodwill impairment test. Although not required, we performed the annual impairment test and compared the fair value of each of our reporting units to its respective carrying value, including goodwill. We identified our regional reporting units as components of our operating segments, which are our five agency networks. The regional reporting units of each agency network are responsible for the agencies in their region. They report to the segment managers and facilitate the administrative and logistical requirements of our client-centric strategy for delivering services to clients in their regions. We have concluded that for each of our operating segments, their regional reporting units have similar economic characteristics and should be aggregated for purposes of testing goodwill for impairment at the operating segment level. Our conclusion was based on a detailed analysis of the aggregation criteria set forth in FASB ASC Topic 280, Segment Reporting, and the guidance set forth in FASB ASC Topic 350. Consistent with our fundamental business strategy, the agencies within our regional reporting units serve similar clients in similar industries, and in many cases the same clients. In addition, the agencies within our regional reporting units have similar economic characteristics. The main economic components of each agency are employee compensation and related costs and direct service costs and occupancy and other costs, which include rent and occupancy costs, technology costs that are generally limited to personal computers, servers and off-the-shelf software and other overhead expenses. Finally, the expected benefits of our acquisitions are typically shared by multiple agencies in various regions as they work together to integrate the acquired agency into our virtual client network strategy.

### Goodwill Impairment Review - Estimates and Assumptions

We use the following valuation methodologies to determine the fair value of our reporting units: (1) the income approach, which utilizes discounted expected future cash flows, (2) comparative market participant multiples for EBITDA (earnings before interest, taxes, depreciation and amortization) and (3) when available, consideration of recent and similar acquisition transactions.

In applying the income approach, we use estimates to derive the discounted expected cash flows ("DCF") for each reporting unit that serves as the basis of our valuation. These estimates and assumptions include revenue growth and

operating margin, EBITDA, tax rates, capital expenditures, weighted average cost of capital and related discount rates and expected long-term cash flow growth rates. All of these estimates and assumptions are affected by conditions specific to our businesses, economic conditions related to the industry we operate in, as well as conditions in the global economy. The assumptions that have the most significant effect on our valuations derived using a DCF methodology are: (1) the expected long-term growth rate of our reporting units' cash flows and (2) the weighted average cost of capital ("WACC").

25

---

The assumptions used for the long-term growth rate and WACC in our evaluations as of June 30, 2017 and 2016 were:

	June 30,	
	2017	2016
Long-Term Growth Rate	4%	4%
WACC	9.6% - 10.3%	9.7% - 10.3%

Long-term growth rate represents our estimate of the long-term growth rate for our industry and the markets of the global economy we operate in. For the past ten years, the average historical revenue growth rate of our reporting units and the Average Nominal GDP growth of the countries comprising the major markets that account for substantially all of our revenue was approximately 3.6% and 3.5%, respectively. We considered this history when determining the long-term growth rates used in our annual impairment test at June 30, 2017. We believe marketing expenditures over the long term have a high correlation to GDP. Based on our historical performance, we also believe that our long-term growth rate will exceed Average Nominal GDP growth in the markets we operate in, which are similar across our reporting units. For our annual test as of June 30, 2017, we used an estimated long-term growth rate of 4%.

When performing the annual impairment test as of June 30, 2017 and estimating the future cash flows of our reporting units, we considered the current macroeconomic environment, as well as industry and market specific conditions at mid-year 2017. In the first half of 2017, we experienced an increase in our revenue of 3.9%, which excluded our net disposition activity and the impact from changes in foreign exchange rates. Economic conditions in the Euro Zone are unsettled and the continuing fiscal issues faced by many countries in the European Union has caused economic difficulty in certain of our Euro Zone markets. During 2017, weakness in most Latin American economies we operate in has the potential to affect our near-term performance in that region. We considered the effect of these conditions in our annual impairment test.

The WACC is comprised of: (1) a risk-free rate of return, (2) a business risk index ascribed to us and to companies in our industry comparable to our reporting units based on a market derived variable that measures the volatility of the share price of equity securities relative to the volatility of the overall equity market, (3) an equity risk premium that is based on the rate of return on equity of publicly traded companies with business characteristics comparable to our reporting units, and (4) a current after-tax market rate of return on debt of companies with business characteristics similar to our reporting units, each weighted by the relative market value percentages of our equity and debt. Our five reporting units vary in size with respect to revenue and the amount of debt allocated to them. These differences drive variations in fair value among our reporting units. In addition, these differences as well as differences in book value, including goodwill, cause variations in the amount by which fair value exceeds book value among the reporting units. The reporting unit goodwill balances and debt vary by reporting unit primarily because our three legacy agency networks were acquired at the formation of Omnicom and were accounted for as a pooling of interests that did not result in any additional debt or goodwill being recorded. The remaining two agency networks were built through a combination of internal growth and acquisitions that were accounted for using the acquisition method and as a result, they have a relatively higher amount of goodwill and debt.

#### Goodwill Impairment Review - Conclusion

Based on the results of our impairment test, we concluded that our goodwill at June 30, 2017 was not impaired, because the fair value of each of our reporting units was substantially in excess of its respective net book value. The minimum decline in fair value that one of our reporting units would need to experience in order to fail the goodwill impairment test was approximately 72%. Notwithstanding our belief that the assumptions we used for WACC and long-term growth rate in our impairment testing are reasonable, we performed a sensitivity analysis for each of our reporting units. The results of this sensitivity analysis on our impairment test as of June 30, 2017 revealed that if the WACC increased by 1% and/or the long-term growth rate decreased by 1%, the fair value of each of our reporting units would continue to be substantially in excess of its respective net book value and would pass the impairment test. We will continue to perform our impairment test at the end of the second quarter of each year unless events or circumstances trigger the need for an interim impairment test. The estimates used in our goodwill impairment test do not constitute forecasts or projections of future results of operations, but rather are estimates and assumptions based on historical results and assessments of macroeconomic factors affecting our reporting units as of the valuation date. We believe that our estimates and assumptions are reasonable, but they are subject to change from period to period.

Actual results of operations and other factors will likely differ from the estimates used in our discounted cash flow valuation and it is possible that differences could be material. A change in the estimates we use could result in a decline in the estimated fair value of one or more of our

26

---



reporting units from the amounts derived as of our latest valuation and could cause us to fail our goodwill impairment test if the estimated fair value for the reporting unit is less than the carrying value of the net assets of the reporting unit, including its goodwill. A large decline in estimated fair value of a reporting unit could result in a non-cash impairment charge and may have an adverse effect on our results of operations and financial position.

#### NEW ACCOUNTING STANDARDS

See Note 2 to the unaudited consolidated financial statements for additional information.

#### LIQUIDITY AND CAPITAL RESOURCES

##### Cash Sources and Requirements

Our primary source of liquidity is operating cash flow. In addition to our cash and cash equivalents and short-term investments, additional liquidity sources include a \$2.5 billion revolving credit facility, or Credit Facility, uncommitted domestic and international credit lines, the ability to issue up to \$2 billion of commercial paper, and access to the capital markets. These sources of liquidity fund our non-discretionary cash requirements and our discretionary spending.

Working capital is our principal non-discretionary funding requirement. In addition, we have contractual obligations related to our senior notes, recurring business operations, primarily related to lease obligations, and contingent purchase price obligations (earn-outs) from prior acquisitions. Our principal discretionary cash spending includes dividend payments to common shareholders, capital expenditures, strategic acquisitions and repurchases of our common stock. As a result, we have a short-term borrowing requirement normally peaking during the second quarter of the year primarily due to the timing of payments for incentive compensation, income taxes and contingent purchase price obligations.

Based on past performance and current expectations, we believe that our operating cash flow will be sufficient to meet our non-discretionary cash requirements, and our discretionary spending for the next twelve months. Our cash and cash equivalents and short-term investments, access to the commercial paper market, Credit Facility, uncommitted credit lines and access to the capital markets provide additional sources of liquidity.

Cash and cash equivalents and short-term investments decreased \$1.2 billion and \$12.6 million, respectively, from December 31, 2016. During the first nine months of 2017, we used \$156.0 million of cash in operating activities, which included the use for operating capital of \$1.3 billion. Our discretionary spending during the first nine months of 2017 was: capital expenditures of \$108.3 million; dividends paid to common shareholders of \$387.9 million; dividends paid to shareholders of noncontrolling interests of \$87.1 million; repurchases of our common stock, net of proceeds from stock option exercises and related tax benefits and common stock sold to our employee stock purchase plan, of \$513.7 million; and acquisition payments, including payment of contingent purchase price obligations and acquisition of additional shares of noncontrolling interests, net of cash acquired, of \$145.2 million.

##### Cash Management

Our regional treasury centers in North America, Europe and Asia manage our cash and liquidity. Each day, operations with excess funds invest these funds with their regional treasury center. Likewise, operations that require funds borrow from their regional treasury center. The treasury centers aggregate the net position which is either invested with or borrowed from third parties. To the extent that our treasury centers require liquidity, they have the ability to issue up to a total of \$2 billion of U.S. Dollar-denominated commercial paper or borrow under the Credit Facility or the uncommitted credit lines. This process enables us to manage our debt more efficiently and utilize our cash more effectively, as well as manage our risk to foreign exchange rate imbalances. In countries where we either do not conduct treasury operations or it is not feasible for one of our treasury centers to fund net borrowing requirements on an intercompany basis, we arrange for local currency uncommitted credit lines.

We have policies governing counterparty credit risk with financial institutions that hold our cash and cash equivalents and we have deposit limits for each institution. In countries where we conduct treasury operations, generally the counterparties are either branches or subsidiaries of institutions that are party to the Credit Facility. These institutions generally have credit ratings equal to or better than our credit ratings. In countries where we do not conduct treasury operations, all cash and cash equivalents are held by counterparties that meet specific minimum credit standards. At September 30, 2017, our foreign subsidiaries held approximately \$696 million of our total cash and cash equivalents of \$1.8 billion. The majority of this cash is available to us, net of any taxes payable upon repatriation to

the United States. Changes in international tax rules or changes in U.S. tax rules and regulations covering international operations and foreign tax credits may affect our future reported financial results or the way we conduct our business.

27

---

Our net debt position, which we define as total debt, including short-term debt, less cash and cash equivalents and short-term investments, at September 30, 2017 increased \$1.2 billion as compared to December 31, 2016. The increase in net debt is due to a decrease in cash and cash equivalents and short-term investments of \$1.2 billion primarily arising from the unfavorable change in our operating capital of \$1.3 billion, which normally occurs during the first nine months of the year. As compared to September 30, 2016, net debt increased \$51.8 million. The components of net debt as of September 30, 2017, December 31, 2016 and September 30, 2016 were (in millions):

	September 30, 2017	December 31, 2016	September 30, 2016
Short- term debt	\$ 38.7	\$ 28.7	\$ 25.0
Long-term debt, including current portion	4,927.4	4,920.6	5,007.5
Total debt	4,966.1	4,949.3	5,032.5
Less: Cash and cash equivalents and short-term investments	1,851.0	3,022.8	1,969.2
Net debt	\$ 3,115.1	\$ 1,926.5	\$ 3,063.3

Net debt is a Non-GAAP liquidity measure. This presentation, together with the comparable U.S. GAAP liquidity measures (see Debt Instruments and Related Covenants), reflects one of the key metrics used by us to assess our cash management. Non-GAAP liquidity measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with U.S. GAAP. Non-GAAP liquidity measures as reported by us may not be comparable to similarly titled amounts reported by other companies.

#### Debt Instruments and Related Covenants

At September 30, 2017, our short-term liquidity sources include the \$2.5 billion Credit Facility, domestic and international uncommitted credit lines aggregating \$1.2 billion, and the ability to issue up to \$2 billion of commercial paper.

The Credit Facility contains financial covenants that require us to maintain a Leverage Ratio of consolidated indebtedness to consolidated EBITDA of no more than 3 times for the most recently ended 12-month period (EBITDA is defined as earnings before interest, taxes, depreciation and amortization) and an Interest Coverage Ratio of consolidated EBITDA to interest expense of at least 5 times for the most recently ended 12-month period. At September 30, 2017, we were in compliance with these covenants as our Leverage Ratio was 2.2 times and our Interest Coverage Ratio was 10.5 times. The Credit Facility does not limit our ability to declare or pay dividends or repurchase our common stock.

At September 30, 2017, the total aggregate principal amount of our fixed rate senior notes was \$4.9 billion and the total notional amount of the outstanding fixed-to-floating interest rate swaps was \$1.25 billion. The interest rate swaps have the economic effect of converting our debt portfolio to approximately 75% fixed rate obligations and 25% floating rate obligations.

Omnicom and its wholly owned finance subsidiary Omnicom Capital Inc., or OCI, are co-obligors under all the senior notes. The senior notes are a joint and several liability of us and OCI and we unconditionally guarantee OCI's obligations with respect to the senior notes. OCI provides funding for our operations by incurring debt and lending the proceeds to our operating subsidiaries. OCI's assets consist of cash and cash equivalents and intercompany loans made to our operating subsidiaries and the related interest receivable. There are no restrictions on the ability of OCI or us to obtain funds from our subsidiaries through dividends, loans or advances. Our senior notes are senior unsecured obligations that rank equal in right of payment with all existing and future unsecured senior indebtedness.

#### Credit Markets and Availability of Credit

We typically fund our day-to-day liquidity by issuing commercial paper. As an additional source of liquidity, we may borrow under the Credit Facility or the uncommitted credit lines. At September 30, 2017, there were no outstanding commercial paper issuances or borrowings under the Credit Facility or the uncommitted credit lines.

Commercial paper activity for the three months ended September 30, 2017 and 2016 was (dollars in millions):

	2017	2016
Average amount outstanding during the quarter	\$ 1,335.1	\$ 1,047.1
Maximum amount outstanding during the quarter	\$ 1,769.8	\$ 1,413.0

Edgar Filing: OMNICOM GROUP INC. - Form 10-Q

Average days outstanding	17.6	16.0		
Weighted average interest rate	1.45	% 0.74	%	

28

---

At September 30, 2017, our long-term and short-term debt was rated BBB+ and A2 by S&P and Baa1 and P2 by Moody's. Our access to the commercial paper market and the cost of these borrowings are affected by our credit ratings and market conditions. Our senior notes and Credit Facility do not contain provisions that require acceleration of cash payments in the event our debt credit ratings are downgraded.

We expect to continue funding our day-to-day liquidity by issuing commercial paper. However, disruptions in the credit markets may lead to periods of illiquidity in the commercial paper market and higher credit spreads. To mitigate any future disruption in the credit markets and to fund our liquidity we may borrow under the Credit Facility or access the capital markets if favorable conditions exist. We will continue to monitor closely our liquidity and conditions in the credit markets. We cannot predict with any certainty the impact on us of any future disruptions in the credit markets. In such circumstances, we may need to obtain additional financing to fund our day-to-day working capital requirements. Such additional financing may not be available on favorable terms, or at all.

#### CREDIT RISK

We provide advertising, marketing and corporate communications services to several thousand clients who operate in nearly every industry sector of the global economy and we grant credit to qualified clients in the normal course of business. Due to the diversified nature of our client base, we do not believe that we are exposed to a concentration of credit risk as our largest client accounted for 3.2% of our revenue for the first nine months of 2017. However, during periods of economic downturn, the credit profiles of our clients could change.

In the normal course of business, our agencies enter into contractual commitments with media providers and production companies on behalf of our clients at levels that can substantially exceed the revenue from our services. These commitments are included in accounts payable when the services are delivered by the media providers or production companies. If permitted by local law and the client agreement, many of our agencies purchase media and production services for our clients as an agent for a disclosed principal. In addition, while operating practices vary by country, media type and media vendor, in the United States and certain foreign markets, many of our agencies' contracts with media and production providers specify that our agencies are not liable to the media and production providers under the theory of sequential liability until and to the extent we have been paid by our client for the media or production services.

Where purchases of media and production services are made by our agencies as a principal or are not subject to the theory of sequential liability, the risk of a material loss as a result of payment default by our clients could increase significantly and such a loss could have a material adverse effect on our business, results of operations and financial position.

In addition, our methods of managing the risk of payment default, including obtaining credit insurance, requiring payment in advance, mitigating the potential loss in the marketplace or negotiating with media providers, may be less available or unavailable during a severe economic downturn.

#### ITEM 3. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We manage our exposure to foreign exchange and interest rate risk through various strategies, including the use of derivative financial instruments. We use forward foreign exchange contracts as economic hedges to manage the cash flow volatility arising from foreign exchange rate fluctuations. Additionally, we use interest rate swaps to manage our interest expense and structure our debt portfolio to achieve a mix of fixed rate and floating rate debt. We do not use derivative instruments for trading or speculative purposes. Utilizing derivative instruments exposes us to the risk that counterparties to the derivative contracts will fail to meet their contractual obligations. To mitigate counterparty credit risk, we have a policy of only entering into derivative contracts with carefully selected major financial institutions based on specific minimum credit standards and other factors.

Our 2016 10-K provides a detailed discussion of the market risks affecting our operations. No material change has occurred in our market risks since the disclosure contained in our 2016 10-K. See our discussion regarding current economic conditions in Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Executive Summary and Liquidity and Capital Resources sections.



#### ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports we file with the SEC is recorded, processed, summarized and reported within applicable time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is accumulated and communicated to management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, as appropriate to allow timely decisions regarding required disclosure. Management, including our CEO and CFO, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2017. Based on that evaluation, our CEO and CFO concluded that, as of September 30, 2017, our disclosure controls and procedures are effective to ensure that decisions can be made timely with respect to required disclosures, as well as ensuring that the recording, processing, summarization and reporting of information required to be included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 are appropriate.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management, with the participation of our CEO, CFO and our agencies, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our CEO and CFO concluded that our internal control over financial reporting was effective as of September 30, 2017. There have not been any changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

KPMG LLP, an independent registered public accounting firm that audited our consolidated financial statements included in our 2016 10-K, has issued an attestation report on Omnicom's internal control over financial reporting as of December 31, 2016, dated February 9, 2017.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

In the ordinary course of business, we are involved in various legal proceedings. We do not presently expect that these proceedings will have a material adverse effect on our results of operations or financial position.

In addition, in December 2016, two of our subsidiaries received subpoenas from the U.S. Department of Justice Antitrust Division concerning its ongoing investigation of video production and post-production practices in the advertising industry. The Company is fully cooperating with the investigation. While the ultimate effect of the investigation is inherently uncertain, we do not at this time believe that the investigation will have a material adverse effect on our results of operations or financial position. However, the ultimate resolution of these matters could be different from our current assessment and the differences could be material.

## Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A in our 2016 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Stock purchase activity during the three months ended September 30, 2017 was:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - 31, 2017	294,674	\$81.28	—	—
August 1 - 31, 2017	52,363	\$78.97	—	—
September 1 - 30, 2017	270,000	\$72.40	—	—
	617,037	\$77.20	—	—

During the three months ended September 30, 2017, we purchased 320,000 shares of our common stock in the open market for general corporate purposes and withheld 297,037 shares from employees to satisfy estimated statutory income tax obligations related to stock option exercises and vesting of restricted stock. The value of the common stock withheld was based on the closing price of our common stock on the applicable exercise or vesting date.

There were no unregistered sales of our equity securities during the three months ended September 30, 2017.

## Item 6. Exhibits

12 Computation of Ratio of Earnings to Fixed Charges.

31.1 Certification of the Chief Executive Officer and President required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

31.2 Certification of the Executive Vice President and Chief Financial Officer required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

32 Certification of the Chief Executive Officer and President and the Executive Vice President and Chief Financial Officer required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

101 Interactive Data Files.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OMNICOM GROUP INC.

Date: October 17,  
2017

/s/ PHILIP J. ANGELASTRO

Philip J. Angelastro

Executive Vice President and Chief Financial Officer (Principal Financial Officer and Authorized Signatory)