OMNICOM GROUP INC.
Form 10-Q
October 16, 2018

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, 2018

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 þ No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 þ	Accelerated filer o	Non-accelerated filer o
Smaller reporting company o		Emerging growth company o

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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of October 11, 2018, there were 224,105,675 shares of Omnicom Group Inc. Common Stock outstanding.

OMNICOM GROUP INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018
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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," "forec "guidance," "intend," "may," "will," "possible," "potential," "predict," "project" or similar words, phrases or expressions. Thes 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, 2017 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, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,099.1	$ 3,796.0
Short-term investments, at cost	6.7	0.4
Accounts receivable, net of allowance for doubtful accounts of $26.6 and $32.1	6,811.0	8,083.8
Work in process	1,359.2	1,110.6
Other current assets	1,299.3	1,125.2
Total Current Assets	11,575.3	14,116.0
Property and Equipment at cost, less accumulated depreciation of $1,212.4 and $1,279.2	673.1	690.9
Equity Method Investments	118.9	120.3
Goodwill	9,420.3	9,337.5
Intangible Assets, net of accumulated amortization of $730.1 and $879.9	387.7	368.4
Other Assets	312.3	298.1
TOTAL ASSETS	$ 22,487.6	$ 24,931.2
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 9,568.2	$ 11,574.6
Customer advances	1,142.5	1,266.7
Current portion of debt	499.4	—
Short-term debt	11.3	11.8
Taxes payable	283.1	330.0
Other current liabilities	1,775.6	1,925.8
Total Current Liabilities	13,280.1	15,108.9
Long-Term Debt	4,357.8	4,912.9
Long-Term Liabilities	1,276.4	1,091.2
Deferred Tax Liabilities	398.9	483.6
Commitments and Contingent Liabilities (Note 12)		
Temporary Equity - Redeemable Noncontrolling Interests	228.7	182.4
Equity:		
Shareholders' Equity:		
Preferred stock	—	—
Common stock	44.6	44.6
Additional paid-in capital	743.3	828.3
Retained earnings	6,751.7	6,210.6
Accumulated other comprehensive income (loss)	(1,186.2)	(963.0)
Treasury stock, at cost	(3,971.7)	(3,505.4)
Total Shareholders' Equity	2,381.7	2,615.1
Noncontrolling interests	564.0	537.1
Total Equity	2,945.7	3,152.2
TOTAL LIABILITIES AND EQUITY	$ 22,487.6	$ 24,931.2

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

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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,	
	2018	2017	2018	2017
Revenue	$3,714.3	$3,719.5	$11,203.5	$11,097.1
Operating Expenses:				
Salary and service costs	2,834.2	2,764.5	8,319.9	8,184.6
Occupancy and other costs	376.8	316.7	1,016.7	924.5
Net gain on disposition of subsidiaries	(178.4)	—	(178.4)	—
Cost of services	3,032.6	3,081.2	9,158.2	9,109.1
Selling, general and administrative expenses	113.5	99.5	336.3	318.2
Depreciation and amortization	65.9	68.6	202.7	212.4
	3,212.0	3,249.3	9,697.2	9,639.7
Operating Profit	502.3	470.2	1,506.3	1,457.4
Interest Expense	69.4	65.0	198.1	187.0
Interest Income	12.7	12.6	42.0	38.0
Income Before Income Taxes and Income From Equity Method Investments	445.6	417.8	1,350.2	1,308.4
Income Tax Expense	115.3	132.0	343.0	406.7
Income From Equity Method Investments	1.0	1.1	3.6	2.7
Net Income	331.3	286.9	1,010.8	904.4
Net Income Attributed To Noncontrolling Interests	32.4	23.3	83.6	70.4
Net Income - Omnicom Group Inc.	$298.9	$263.6	$927.2	$834.0
Net Income Per Share - Omnicom Group Inc.:				
Basic	$1.33	$1.14	$4.08	$3.58
Diluted	$1.32	$1.13	$4.06	$3.55
Dividends Declared Per Common Share	$0.60	$0.55	$1.80	$1.65

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

OMNICOM GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income	$331.3	$286.9	$1,010.8	$904.4
Other Comprehensive Income:				
Cash flow hedge:				
Amortization of loss included in interest expense	1.4	1.4	4.2	4.2
Income tax effect	(0.4)	(0.6)	(1.2)	(1.8)
	1.0	0.8	3.0	2.4
Defined benefit pension plans and postemployment arrangements:				
Amortization of prior service cost	2.0	1.9	5.9	6.1
Amortization of actuarial losses	2.0	2.0	6.2	5.6
Income tax effect	1.5	(1.4)	(0.9)	(5.1)
	5.5	2.5	11.2	6.6
Available-for-sale securities:				
Unrealized gain for the period	—	—	—	0.5
Income tax effect	—	—	—	(0.2)
Reclassification	—	—	0.3	—
	—	—	0.3	0.3
Foreign currency translation adjustment	(30.3)	159.6	(267.4)	414.4
Other Comprehensive Income	(23.8)	162.9	(252.9)	423.7
Comprehensive Income	307.5	449.8	757.9	1,328.1
Comprehensive Income Attributed To Noncontrolling Interests	27.5	32.6	53.9	96.5
Comprehensive Income - Omnicom Group Inc.	$280.0	$417.2	$704.0	$1,231.6

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

OMNICOM GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2018	2017
Cash Flows from Operating Activities:		
Net income	$1,010.8	$904.4
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	123.0	125.6
Amortization of intangible assets	79.7	86.8
Amortization of net deferred gain from settlement of interest rate swaps	(9.6)	(13.7)
Share-based compensation	53.9	60.6
Net gain from disposition of subsidiaries	(178.4)	—
Impact of Tax Act	28.9	—
Other, net	24.7	7.6
Use of operating capital	(1,371.6)	(1,327.3)
Net Cash Used In Operating Activities	(238.6)	(156.0)
Cash Flows from Investing Activities:		
Capital expenditures	(116.2)	(108.3)
Acquisition of businesses and interests in affiliates, net of cash acquired	(326.3)	(27.3)
Proceeds from disposition of subsidiaries and sale of investments	310.5	58.1
Net Cash Used In Investing Activities	(132.0)	(77.5)
Cash Flows from Financing Activities:		
Change in short-term debt	3.2	7.5
Dividends paid to common shareholders	(413.7)	(387.9)
Repurchases of common stock	(526.7)	(522.3)
Proceeds from stock plans	8.8	8.6
Acquisition of additional noncontrolling interests	(41.3)	(10.2)
Dividends paid to noncontrolling interest shareholders	(104.7)	(87.1)
Payment of contingent purchase price obligations	(66.4)	(107.7)
Other, net	(35.8)	(22.8)
Net Cash Used In Financing Activities	(1,176.6)	(1,121.9)
Effect of foreign exchange rate changes on cash and cash equivalents	(149.7)	196.2
Net Decrease in Cash and Cash Equivalents	(1,696.9)	(1,159.2)
Cash and Cash Equivalents at the Beginning of Period	3,796.0	3,002.2
Cash and Cash Equivalents at the End of Period	$2,099.1	$1,843.0

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

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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 th context indicates otherwise. The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP or GAAP, for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission, or SEC. 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, 2017, or 2017 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

Except for the changes discussed below, Omnicom has consistently applied the accounting policies to all periods presented in these unaudited consolidated financial statements.

Effective January 1, 2018, we adopted FASB ASC Topic 606, Revenue from Contracts with Customers, or ASC 606. In accordance with ASC 606, we changed certain characteristics of our revenue recognition accounting policy as described below. ASC 606 was applied using the modified retrospective method, where the cumulative effect of the initial application was recognized as an adjustment to opening retained earnings at January 1, 2018. Therefore, comparative prior periods have not been adjusted and continue to be reported under FASB ASC Topic 605, Revenue Recognition, or ASC 605.

The impact of the adoption of ASC 606 on revenue, operating expenses and operating profit for the three and nine months ended September 30, 2018 was (in millions):

	Three Months Ended September 30			Nine Months Ended September 30		
	As Reported	Adjustments	Amounts without the Adoption of ASC 606	As Reported	Adjustments	Amounts without the Adoption of ASC 606
Revenue	$3,714.3	$ 17.1	$3,731.4	$11,203.5	$ 108.5	$11,312.0
Operating Expenses	3,212.0	20.7	3,232.7	9,697.2	98.1	9,795.3
Operating Profit	502.3	(3.6)	498.7	1,506.3	10.4	1,516.7

The impact of the adoption of ASC 606 on net income - Omnicom Group Inc., diluted net income per share - Omnicom Group Inc. and the unaudited consolidated financial statements was not material.

Upon adoption of ASC 606, we changed our accounting policy for certain third-party out-of-pocket costs, which are incurred in connection with our services and are billed to clients. We also changed our policy for performance incentives (variable consideration) included in certain client contracts. The inclusion of third-party out-of-pocket costs in revenue depends on whether we act as a principal or agent in the client arrangement. Under ASC 606, the principal versus agent assessment is based on whether we control the specified goods or services before they are transferred to the customer. As a result of the adoption of ASC 606, certain third-party costs are no longer included in revenue and cost of services. This change was the principal adjustment to our reported revenue and operating expenses included in the above table. However, the change had no impact on operating profit.

In addition, performance incentives included in certain client contracts can increase revenue if we meet certain quantitative or qualitative objectives in delivering our services. Under ASC 606, performance incentives are now treated as variable consideration. Prior to the adoption of ASC 606, performance incentives were recognized in revenue under ASC 605 when specific quantitative goals were achieved or when our performance against qualitative goals was acknowledged by the client. Under ASC 606, variable consideration is estimated and included in total consideration at contract inception based on either the expected value method or the most likely outcome method. These estimates are based on historical award experience, anticipated performance and our best judgment at the time. As a result of this change, we recorded a cumulative effect adjustment to increase opening retained earnings at January 1, 2018 by $19.5 million, to reflect the transition requirements of ASC 606. The effect of this change on our financial position and cash flows was not material.

Effective January 1, 2018, we adopted ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, or ASU 2016-01, which revised the classification and measurement of investments in equity securities. ASU 2016-01 requires that equity investments, except those accounted for under the equity method of accounting, be measured at fair value and changes in fair value are recognized in net income, and provides a new measurement alternative for equity investments that do not have a readily determinable fair value (cost method investments). These investments are measured at cost, less any impairment, adjusted for observable price changes and, upon adoption, we elected to record our equity investments that do not have a readily determinable fair value using the alternative measurement method. We adopted ASU 2016-01 using the modified retrospective method and, accordingly, we recorded a cumulative effect adjustment to increase opening retained earnings at January 1, 2018 by $4.1 million.

Effective January 1, 2018, we adopted ASU 2017-07, Compensation - Retirement Benefits, or ASU 2017-07, which requires that only the service cost component of periodic benefit cost is recorded in salary and service cost. All other components of net periodic benefit cost are excluded from operating profit. The adoption of ASU 2017-07 increased operating profit for the nine months ended September 30, 2018 by $18.4 million but had no effect on income before income taxes and income from equity method investments, net income - Omnicom Group Inc. or net income per share - Omnicom Group Inc. ASU 2017-07 was applied retrospectively, and accordingly, for the nine months ended September 30, 2017, we reclassified $17.8 million from salary and service costs to interest expense.

2. Revenue

We provide advertising, marketing and corporate communications services on a global basis to a broad range of clients. Our principal source of revenue is derived from fees for services on a rate per hour basis. We also earn revenue from commissions and placement of advertising in a few markets primarily related to our strategic media planning and buying businesses. Revenue is recorded net of sales, use and value added taxes. Our customer contracts are usually short term, typically for one year or less, and may be canceled on 90 days' notice.

Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration we expect to receive in exchange for those goods or services. We measure revenue based on the consideration specified in the client arrangement, and revenue is recognized as the performance obligations are satisfied. A performance obligation is a promise in a contract to transfer a distinct service to the customer. If the services are not distinct or a series of services are substantially the same, they should be combined as a single performance obligation. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as, the customer receives the benefit of the performance obligation. Clients typically receive and consume the benefit of our services as they are performed. Substantially all our client contracts provide that we are compensated for services performed to date.

For short-term contracts, generally 90 days or less, we do not consider the underlying services as separate or distinct performance obligations because our services are highly interrelated, occur in close proximity, and the integration of the various components of a marketing message is essential to our services. As described below, in certain long-term client contracts, generally up to one year, the performance obligation is a stand-ready obligation, because we provide a constant level of similar services over the term of the contract. When our services are not a stand-ready obligation, we consider our services distinct performance obligations and allocate the fee to each separate service based on their stand-alone selling price and recognize revenue as these services are performed, typically on a rate per hour basis. Substantially all our revenue is recognized over time, as the services are performed because the client receives and consumes the benefit of our performance throughout the contractual period. For fixed fee contracts with either a single performance obligation, or multiple performance obligations, revenue is recognized over time using input measures that correspond to the level of effort expended, including direct labor and materials and third-party costs to satisfy the performance obligation, which often coincide with the right to invoice the customer. For certain retainer contracts, we have a stand-ready obligation to perform services on an ongoing basis over the life of the contract, typically for periods up to one year. The scope of these arrangements is broad and generally there are no significant gaps in performing the services. In these instances, we recognize revenue using a time-based measure resulting in a straight-line revenue recognition. From time to time, there may be changes in the client service requirements during the term of the contract and the changes could be significant. These changes are typically negotiated as new contracts covering the additional requirements and the associated costs, as well as additional fees for the incremental work to be performed.

For certain other contracts where our performance obligations are satisfied in phases, we recognize revenue over time using certain output measures based on the measurement of the value transferred to the customer, including milestones achieved. Revenue for commissions on purchased media is recognized at a point in time, typically when the media is run, including when it is not subject to cancellation by the client or media vendor.

In substantially all our businesses, we incur third-party-costs on behalf of clients, including direct costs and incidental, or out-of-pocket, costs. Direct costs incurred in connection with the creation and delivery of advertising or marketing communication services include, among others: purchased media, studio production services, specialized talent, including artists and other freelance labor, event marketing supplies, materials and services, promotional items, market research and third-party data, and other related expenditures. Out-of-pocket costs include, among others: transportation, hotel, meals, and telecommunication charges. These costs are included in revenue since we control the goods or services prior to delivery to the client.

However, the inclusion of direct costs in revenue depends on whether we act as a principal or as an agent in the client arrangement. In the majority of our businesses, we act as an agent and arrange, at the client's direction, for third-parties to perform certain services. In these cases, we do not control the goods or services prior to the transfer to the client. As a result, revenue is recorded net of these costs, equal to the amount retained for our fee or commission. In certain arrangements, we act as principal when contracting for third-party services on behalf of our clients in our events, field marketing and certain specialty marketing businesses within our customer relationship management, or CRM, disciplines, as well as certain media buying efforts. We act as principal when we control the specified goods or services and we are responsible for directing and integrating third-party vendors to fulfill our performance obligation at the agreed upon fee. In such arrangements, we typically take pricing risk under the terms of the client contract. Therefore, we record revenue at the gross amount billed, including out-of-pocket costs.

Some of our client arrangements include variable consideration provisions, which include performance incentives, tiered commission structures and vendor rebates in certain markets outside of the United States. Variable consideration is estimated and included in total consideration at contract inception based on either the expected value method or the most likely outcome method. These estimates are based on historical award experience, anticipated performance and other factors known at the time. Performance incentives are typically recognized in revenue over time. In some cases, primarily related to variable fee structures in our media businesses, the amount of variable consideration is considered to be constrained and is not recognized in revenue until the point in time it is determined that a significant reversal of revenue will not occur. Variable consideration for our media businesses in a few markets, includes commission and rebate revenue, and is recognized when it is probable that the media will be run, including when it is not subject to cancellation by the client. In addition, when we receive rebates or credits from vendors for transactions entered into on behalf of clients, they are remitted to the clients in accordance with contractual requirements or retained by us based on the terms of the client contract or local law. Amounts passed on to clients are recorded as a liability and amounts retained by us are recorded as revenue when earned, which is typically when the media is run.

Nature of our services

We provide an extensive range of advertising, marketing and corporate communications services through various client-centric networks that are organized to meet specific client objectives. Our branded networks and agencies operate in all major markets and provide services in the following fundamental disciplines: advertising, CRM, public relations, and healthcare. Advertising includes creative content development, as well as strategic media planning and buying and data analytics. CRM is grouped into two separate categories: CRM Consumer Experience, which includes Omnicom's Precision Marketing Group and digital/direct agencies, as well as our branding, shopper marketing and experiential marketing agencies; and CRM Execution & Support, which includes field marketing, sales support, merchandising and point of sale, as well as other specialized marketing and custom communications services. Public relations services include corporate communications, crisis management, public affairs, media and media relations services and content marketing. Healthcare includes advertising and media services to global healthcare clients. At the core of all our services is the ability to create or develop a client's marketing or corporate communications message into content that can be delivered to a target audience across different communications mediums. Our client-centric business model requires that multiple agencies within Omnicom collaborate in formal and informal virtual client networks utilizing our key client matrix organization structure. This collaboration allows us to cut across our internal organizational structures to execute our clients' marketing requirements in a consistent and comprehensive manner. In addition to collaborating through our client service models, our agencies and networks collaborate across technology platforms. Annalect, our data and analytics platform, serves as the strategic foundation for all of our agencies and networks to share when developing client service strategies across our virtual networks. Omni, our people-based precision marketing and insights platform, identifies and defines personalized consumer experiences at scale across creative, media and CRM, as well as other practice areas.

Revenue by discipline for the three and nine months ended September 30, 2018 and 2017 was (in millions):

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2018 Excluding Impact of Adoption of ASC 606	2017	2018	2018 Excluding Impact of Adoption of ASC 606	2017
Advertising	$1,992.1	$1,988.1	$1,952.9	$5,961.0	$5,970.8	$5,909.0
CRM Consumer Experience	637.7	658.7	634.2	1,932.7	2,031.1	1,902.6
CRM Execution & Support	465.6	465.6	541.0	1,472.8	1,472.7	1,547.7
Public Relations	356.0	356.1	353.4	1,065.0	1,065.3	1,038.8
Healthcare	262.9	262.9	238.0	772.0	772.1	699.0
	$3,714.3	$3,731.4	$3,719.5	$11,203.5	$11,312.0	$11,097.1

Economic factors affecting our revenue

Global economic conditions have a direct impact on our revenue. Adverse economic conditions pose a risk that our clients may reduce, postpone or cancel spending for our services, which would impact our revenue.

Revenue in our principal geographic markets for the three and nine months ended September 30, 2018 and 2017 was (in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2018 Excluding Impact of Adoption of ASC 606	2017	2018	2018 Excluding Impact of Adoption of ASC 606	2017
Americas:						
North America	$2,095.5	$2,118.8	$2,107.5	$6,178.6	$6,286.1	$6,422.5
Latin America	102.0	101.6	117.7	325.6	325.0	345.5
EMEA:						
Europe	1,015.2	1,010.5	1,017.7	3,227.9	3,231.3	2,917.8
Middle East and Africa	63.7	63.7	65.4	207.2	207.2	219.8
Asia Pacific	437.9	436.8	411.2	1,264.2	1,262.4	1,191.5
	$3,714.3	$3,731.4	$3,719.5	$11,203.5	$11,312.0	$11,097.1

The Americas comprises North America, which includes the United States, Canada and Puerto Rico, and Latin America, which includes South America and Mexico. EMEA comprises Europe, the Middle East and Africa. Asia Pacific comprises Australia, China, India, Japan, Korea, New Zealand, Singapore and other Asian countries. The reduction in revenue in 2018 for North America primarily reflects the sale of our specialty print media business in the second quarter of 2017.

Contract assets and liabilities

Contract assets (work in process) and contract liabilities (customer advances) at September 30, 2018, December 31, 2017 and September 30, 2017 were (in millions):

	September 30, 2018	December 31, 2017	September 30, 2017
Contract assets (Work in process):			
Unbilled fees and costs	$ 710.9	$ 546.3	$ 799.9
Media, production and other costs	648.3	564.3	658.2

	$ 1,359.2	$ 1,110.6	$ 1,458.1
Contract liabilities (Customer advances)	$ 1,142.5	$ 1,266.7	$ 1,132.9

Contract assets consist of accrued costs incurred on behalf of customers, including media and production costs, and fees and other third-party costs that have not yet been billed. Media and production costs are billed during the production process in accordance with the terms of the client contract. Unbilled fees and costs are in the process of being billed to clients, typically within the next 30 days or in accordance with the terms of the client contract. The contract liability represents advance billings to customers in accordance with the terms of the client contracts, primarily for the reimbursement of third-party costs that are generally incurred in the near term. There were no impairment losses to the contract assets recorded in 2018.

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3. New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases, or ASU 2016-02, which will supersede the current guidance for lease accounting and will require lessees to recognize the right-to-use assets and related lease liabilities on the balance sheet. We expect to adopt ASU 2016-02 on January 1, 2019, using the modified retrospective application for leases existing at, or entered into after, the earliest comparative period presented in the financial statements. Based on our initial assessment on ASU 2016-02, we expect that the impact of recording the lease liabilities and the corresponding right-to-use assets will have a significant impact on our total assets and liabilities with a minimal impact on our equity and no effect on our results of operations.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, or ASU 2016-13, which changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019 and early adoption is permitted for annual and interim periods beginning after December 15, 2018. We expect to adopt ASU 2016-13 on January 1, 2020. However, we are not yet in a position to assess the impact of the new standard on our results of operations or financial position.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax effects from Accumulated Other Comprehensive Income, or ASU 2018-02, which requires the reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects arising from the change in the reduction of the U.S. federal statutory income tax rate to 21% from 35%. The tax effects of items included in accumulated comprehensive income at December 31, 2017 do not reflect the appropriate tax rate. ASU 2018-02 is effective for interim and annual periods beginning after December 15, 2018. We will adopt ASU 2018-02 on January 1, 2019. The adoption of ASU 2018-02 will result in a reclassification between accumulated other comprehensive income and retained earnings, and will have no impact on our results of operations or financial position.

4. Net Income per Share

The computations of basic and diluted net income per share for the three and nine months ended September 30, 2018 and 2017 were (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income Available for Common Shares:				
Net income - Omnicom Group Inc.	$298.9	$263.6	$927.2	$834.0
Net income allocated to participating securities	—	(0.3)	(0.1)	(1.4)
	$298.9	$263.3	$927.1	$832.6
Weighted Average Shares:				
Basic	224.8	231.2	227.2	232.6
Dilutive stock options and restricted shares	1.1	1.5	1.3	1.8
Diluted	225.9	232.7	228.5	234.4
Anti-dilutive stock options and restricted shares	1.0	1.0	1.0	1.0
Net Income per Share - Omnicom Group Inc.:				
Basic	$1.33	$1.14	$4.08	$3.58
Diluted	$1.32	$1.13	$4.06	$3.55

5. Goodwill and Intangible Assets

Goodwill and intangible assets at September 30, 2018 and December 31, 2017 were (in millions):

	2018 Gross Carrying Value	2018 Accumulated Amortization	2018 Net Carrying Value	2017 Gross Carrying Value	2017 Accumulated Amortization	2017 Net Carrying Value
Goodwill	$9,940.2	$ (519.9)	$9,420.3	$9,871.8	$ (534.3)	$9,337.5
Intangible assets:						
Purchased and internally developed software	$354.9	$ (304.4)	$50.5	$368.2	$ (303.0)	$65.2
Customer related and other	762.9	(425.7)	337.2	880.1	(576.9)	303.2
	$1,117.8	$ (730.1)	$387.7	$1,248.3	$ (879.9)	$368.4

Changes in goodwill for the nine months ended September 30, 2018 and 2017 were (in millions):

	2018	2017
January 1	$9,337.5	$8,976.1
Acquisitions	232.5	18.9
Noncontrolling interests in acquired businesses	111.7	20.3
Contingent purchase price of acquired businesses	60.2	26.9
Dispositions	(141.9)	—
Foreign currency translation	(179.7)	280.8
September 30	$9,420.3	$9,323.0

6. Debt

Credit Facilities

At September 30, 2018, our short-term liquidity sources include a $2.5 billion revolving credit facility, or Credit Facility, expiring on July 31, 2021, uncommitted credit lines aggregating $1.2 billion and the ability to issue up to $2 billion of commercial paper.

There were no outstanding commercial paper issuances or borrowings under the Credit Facility or the uncommitted credit lines at September 30, 2018 and December 31, 2017. Available and unused credit lines at September 30, 2018 and December 31, 2017 were (in millions):

	2018	2017
Credit Facility	$2,500.0	$2,500.0
Uncommitted credit lines	1,249.5	1,181.0
Available and unused credit lines	$3,749.5	$3,681.0

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, 2018 we were in compliance with these covenants as our Leverage Ratio was 2.0 times and our Interest Coverage Ratio was 10.2 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, 2018 and December 31, 2017 was $11.3 million and $11.8 million, respectively, consisting of 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, 2018 and December 31, 2017 was (in millions):

	2018	2017
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
	4,900.0	4,900.0
Unamortized premium (discount), net	5.3	6.2
Unamortized debt issuance costs	(17.4)	(20.3)
Unamortized deferred gain from settlement of interest rate swaps	52.6	66.4
Fair value adjustment attributed to outstanding interest rate swaps	(83.3)	(39.4)
	4,857.2	4,912.9
Current portion	(499.4)	—
Long-term debt	$4,357.8	$4,912.9

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 primarily 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.

At September 30, 2018, we recorded a long-term liability of $39.4 million in connection with the $750 million fixed-to-floating interest rate swap on our 3.65% Senior Notes due 2024, or 2024 Notes, and a long-term liability of $43.9 million in connection with the $500 million fixed-to-floating interest rate swap on our 3.60% Senior Notes due 2026, or 2026 Notes. The liabilities represent the fair value of the swaps on the 2024 Notes and 2026 Notes 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.

7. 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, 2018 and 2017 were (in millions):

	Americas	EMEA	Asia Pacific
2018			
Revenue - Three months ended	$2,197.5	$1,078.9	$437.9
Revenue - Nine months ended	6,504.2	3,435.1	1,264.2
Long-lived assets and goodwill	6,930.2	2,611.1	552.1
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

The Americas comprises North America, which includes the United States, Canada and Puerto Rico, and Latin America, which includes South America and 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, 2018 and 2017 was $1,992.7 million and $5,864.6 million and $1,992.4 million and $6,065.1 million, respectively. The reduction in revenue for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 for the Americas primarily reflects the sale of our specialty print media business in the second quarter of 2017.

8. Income Taxes

Our effective tax rate for the nine months ended September 30, 2018, decreased period-over-period to 25.4% from 31.1%. The decrease was primarily attributable to the reduction in the U.S. federal statutory rate, resulting from the Tax Cuts and Jobs Act, or Tax Act, enacted in December 2017. Additionally, income tax expense reflects a reduction of approximately $19 million, primarily as a result of the successful resolution of foreign tax claims, a reduction of $25.0 million related to the net income tax effect of the net gain on disposition of subsidiaries and repositioning actions (see Note 10), and additional income tax expense of $28.9 million in connection with a revision to the provisional estimate of the effect of the Tax Act, as described below.

In addition to reducing the U.S. federal statutory rate, the Tax Act made several changes to existing tax law which affected our tax assets and liabilities related to previously reported taxable income. As a result, in 2017, we recorded tax expense on accumulated earnings of our foreign subsidiaries and adjusted our previously reported deferred tax assets and liabilities to reflect the impact of the revised statutory federal rate as of the enactment date. In December 2017, the SEC issued Staff Accounting Bulletin 118, or SAB 118, which provided guidance on accounting for the impact of the Tax Act. SAB 118 provided that provisional amounts should be recognized in our financial statements where the accounting for certain effects of the Tax Act is not complete and a reasonable estimate of the effects of the Tax Act can be made. Income tax expense for the fourth quarter of 2017 reflected a net increase of $106.3 million related to the impact of the Tax Act. During the third quarter of 2018, we updated certain provisional amounts in consideration of recent guidance and additional information regarding the tax on our accumulated foreign earnings. which resulted in additional income tax expense of $28.9 million. We are still finalizing certain provisional amounts.

At September 30, 2018, our unrecognized tax benefits were $153.2 million. Of this amount, approximately $140.2 million would affect our effective tax rate upon resolution of the uncertain tax positions.

9. Pension and Other Postemployment Benefits

Effective January 1, 2018, we retrospectively adopted ASU 2017-07 (see Note 1). As a result, only the service cost component of periodic benefit cost is recorded in salary and service cost and all other components of net periodic benefit cost are included in interest expense.

Defined Benefit Pension Plans

The components of net periodic benefit expense for the nine months ended September 30, 2018 and 2017 were (in millions):

	2018	2017
Service cost	$6.4	$7.8
Interest cost	5.1	5.4
Expected return on plan assets	(1.8)	(2.2)
Amortization of prior service cost	3.3	3.5
Amortization of actuarial losses	4.9	4.8
	$17.9	$19.3

We contributed $1.3 million and $1.1 million to our defined benefit pension plans in the nine months ended September 30, 2018 and 2017, respectively.

Postemployment Arrangements

The components of net periodic benefit expense for the nine months ended September 30, 2018 and 2017 were (in millions):

	2018	2017
Service cost	$3.6	$3.3
Interest cost	2.7	2.8
Amortization of prior service cost	2.6	2.6
Amortization of actuarial losses	1.3	0.8
	$10.2	$9.5

10. Dispositions of Subsidiaries and Repositioning Actions

During the three months ended September 30, 2018, we disposed of certain businesses and recorded a net gain of $178.4 million primarily related to the sale of Sellbytel, our European-based outsourced sales, service and support company. Additionally, during the third quarter, we took certain repositioning actions and we recognized charges of $149.4 million in an effort to continue to improve our strategic position and achieve operating efficiencies.

A summary of our repositioning actions for the three months ended September 30, 2018 is (dollars in millions):

Severance	$68.4
Office lease consolidation and terminations	73.5
Asset write-offs related to disposals and other costs	7.5
	$149.4

We expect that substantially all the incremental severance charge of $68.4 million will be paid over the next nine months. We expect that substantially all the charges related to the office lease consolidation and terminations of $73.5 million will be paid over the next two years. The remaining $7.5 million of other charges is primarily comprised of non-cash items.

The impact of the repositioning actions and net gain on disposition of subsidiaries, which were recorded in the third quarter of 2018, on operating expenses for the three and nine months ended September 30, 2018 was (dollars in millions):

	Increase (Decrease)		
	Repositioning Actions	Net Gain on Disposition of Subsidiaries	Total
Salary and service costs	$73.7	$ —	$73.7
Occupancy and other costs	73.5	—	73.5
Net gain on disposition of subsidiaries	—	(178.4)	(178.4)
Cost of services	147.2	(178.4)	(31.2)
Selling, general and administrative expenses	2.2	—	2.2
Depreciation and amortization	—	—	—

$149.4	$ (178.4)	$(29.0)

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11. Supplemental Cash Flow Data

The use of operating capital for the nine months ended September 30, 2018 and 2017 was (in millions):

	2018	2017
(Increase) decrease in accounts receivable	$ 1,027.5	$ 645.3
(Increase) decrease in work in process and other current assets	(522.7)	(280.9)
Increase (decrease) in accounts payable	(1,745.5)	(1,310.8)
Increase (decrease) in customer advances, taxes payable and other current liabilities	(114.8)	(355.5)
Change in other assets and liabilities, net	(16.1)	(25.4)
	$ (1,371.6)	$ (1,327.3)
Income taxes paid	$ 276.4	$ 398.0
Interest paid	$ 177.4	$ 168.6

12. 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 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.

13. Equity

Changes in accumulated other comprehensive income (loss), net of income taxes, for the nine months ended September 30, 2018 and 2017 were (in millions):

2018	Cash Flow Hedge	Available-for-Sale Securities	Defined Benefit Pension Plans and Postemployment Arrangements	Foreign Currency Translation	Total
January 1	$(26.3)	$ (0.3)	$ (88.4)	$(848.0)	$(963.0)
Other comprehensive income (loss) before reclassifications	—	—	—	(237.7)	(237.7)
Reclassification from accumulated other comprehensive income (loss)	3.0	0.3	11.2	—	14.5
September 30	$(23.3)	$ —	$ (77.2)	$(1,085.7)	$(1,186.2)
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)

14. Fair Value

Financial assets and liabilities measured at fair value on a recurring basis at September 30, 2018 and December 31, 2017 were (in millions):

2018	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$2,099.1			$2,099.1
Short-term investments	6.7			6.7
Investment in equity securities	1.6			1.6
Foreign currency derivative instruments		$0.3		0.3
Liabilities:				
Interest rate and foreign currency derivative instruments		$83.5		$83.5
Contingent purchase price obligations			$225.0	225.0
2017				
Assets:				
Cash and cash equivalents	$3,796.0			$3,796.0
Short-term investments	0.4			0.4
Investment in equity securities	1.4			1.4
Foreign currency derivative instruments		$1.0		1.0
Liabilities:				
Interest rate and foreign currency derivative instruments		$39.5		$39.5
Contingent purchase price obligations			$215.6	215.6

Changes in contingent purchase price obligations for the nine months ended September 30, 2018 and 2017 were (in millions):

	2018	2017
January 1	$215.6	$386.1
Acquisitions	84.1	41.7
Revaluation and interest	8.7	0.2
Payments	(66.4)	(182.9)
Foreign currency translation	(17.0)	15.9
September 30	$225.0	$261.0

The carrying amount and fair value of our financial assets and liabilities at September 30, 2018 and December 31, 2017 were (in millions):

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$2,099.1	$2,099.1	$3,796.0	$3,796.0
Short-term investments	6.7	6.7	0.4	0.4
Investment in equity securities	1.6	1.6	1.4	1.4
Foreign currency derivative instruments	0.3	0.3	1.0	1.0
Investment in equity securities without readily determinable fair value	11.8	11.8	14.4	14.4
Liabilities:				
Short-term debt	$11.3	$11.3	$11.8	$11.8
Interest rate and foreign currency derivative instruments	83.5	83.5	39.5	39.5
Contingent purchase price obligations	225.0	225.0	215.6	215.6
Long-term debt, including current portion	4,857.2	4,840.3	4,912.9	5,056.9

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.

15. 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.

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 the following fundamental disciplines: advertising, CRM, which includes CRM Consumer Experience and CRM Execution & Support, public relations and healthcare. 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. Our fundamental business principle is that our clients' specific marketing requirements are the central focus of how we structure our service offerings and allocate our resources. This client-centric business model requires that multiple agencies within Omnicom collaborate in formal and informal virtual client networks utilizing our key client matrix organization structure. This collaboration allows us to cut across our internal organizational structures to execute our clients' marketing requirements in a consistent and comprehensive manner. 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 could 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, 2018, our largest client accounted for 2.9% 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, 2018. 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, 2018, revenue increased $106.4 million, or 1.0%, compared to the nine months ended September 30, 2017. Changes in foreign exchange rates increased revenue $168.0 million, or 1.5%, acquisition revenue, net of disposition revenue, reduced revenue $225.6 million, or 2.0%, reflecting the disposition of certain non-strategic businesses and organic growth increased revenue $272.5 million, or 2.5%. In addition, the impact of the adoption of ASC 606 (see Note 1 to the unaudited consolidated financial statements) reduced revenue by $108.5 million.

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. Revenue is typically lower in the first and third quarters and higher in the second and fourth quarters, reflecting client spending patterns during the year and additional project work that usually occurs in the fourth quarter. In the first nine months of 2018, our agencies in North America continued their uneven performance across our service disciplines. Our businesses in Europe had improved performance. However, the continuing uncertain economic and political conditions in the European Union, or the EU, have been further complicated by the United Kingdom's ongoing negotiations with the European Council to withdraw from the EU. In Brazil, unstable economic and political conditions contributed to the continuing volatility in the market. Most of our businesses in Asia continue their modest growth consistent with recent periods. The economic and fiscal issues facing the countries we operate in can cause economic uncertainty and volatility; however, the impact on our business varies by country. We 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. As clients increase their demands for marketing effectiveness and efficiency, they have made it a practice to consolidate their business within one service provider in the pursuit of a single engagement covering all consumer touch points. We have structured our business around these trends. We believe that our key client matrix organization structure approach to collaboration and integration of our services and solutions have provided a competitive advantage to our business in the past and we expect this to continue over the medium and long term. In addition, we continued the process of forming practice areas within our global network structure to bring together agencies operating in common disciplines to leverage existing resources and to create, in close coordination with our key client matrix organization, additional custom client solutions. We expect to complete this process in 2018.

In the near term, barring unforeseen events and excluding the impact of changes in foreign exchange rates, because of continued improvement in operating performance by many of our agencies and new business activities, we expect our revenue to increase modestly for the remainder of 2018 and over the long term to be 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 disciplines and business platforms, expand our operations in high-growth and emerging markets and enhance our capabilities to leverage new technologies that are being used by marketers today.

We continually evaluate our portfolio of businesses to identify areas for investment and acquisition opportunities, as well as to identify non-strategic or underperforming businesses for disposition. During the quarter ended September 30, 2018, we disposed of certain businesses, primarily in our CRM Execution & Support discipline, and recorded a net gain of $178.4 million primarily related to the sale of Sellbytel, our European-based outsourced sales, service and support company. Also, during the third quarter, we took certain repositioning actions and we recognized charges of $149.4 million for incremental severance, office lease consolidation and terminations, asset write-offs and other charges in an effort to continue to improve our strategic position and achieve operating efficiencies. We expect the reduction to our earnings for the disposition activity to be substantially offset by the savings achieved from the operating efficiency and cost reduction activities, as well as any incremental earnings from new acquisition activity. In addition as a result of our disposition activity, we expect a net reduction to revenue in the fourth quarter of 2018 to be between 2.5% and 3% and 2.25% for the full year 2018, and a reduction of approximately 3% in the first half of 2019.

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, net of dispositions and growth from our largest clients. Operating expenses are comprised of cost of services, selling, general and administrative expenses, or SG&A, and depreciation and amortization.

For the quarter ended September 30, 2018, our revenue decreased 0.1% compared to the quarter ended September 30, 2017. Changes in foreign exchange rates reduced revenue 1.7%, acquisition revenue, net of disposition revenue, reduced revenue 0.9%, and organic growth increased revenue 2.9%. Across our principal regional markets, the changes in revenue were: North America decreased 0.6%, Europe decreased 0.2%, Asia Pacific increased 6.5% and Latin America decreased 13.3%. In North America, modest growth in the United States was offset by a decrease in revenue primarily resulting from the impact of the adoption of ASC 606, the weakening of the Canadian Dollar against the U.S. Dollar, and negative performance in Canada. Organic revenue growth in the United States was led by our CRM Consumer Experience and healthcare businesses, and was substantially offset by a decrease in organic revenue growth in our CRM Execution & Support discipline. Certain of our advertising and media businesses experienced lackluster organic revenue growth due to client losses in prior periods, reductions in scope, as well as, for our media businesses, a change in mix in our programmatic media planning and buying business, as some clients shift their preference to purchase this service on an unbundled basis rather than a bundled basis. In Europe, strong organic growth across the region was offset by the weakening of the Euro against the U.S. Dollar, moderately negative organic growth in the United Kingdom, or the U.K., negative performance in Germany, and disposition activity. The decrease in revenue in Latin America was primarily a result of the weakening of the Brazilian Real against the U.S. Dollar, which offset modest growth in that region. In Asia Pacific, growth in most countries in the region, especially Australia, China and New Zealand, was partially offset by the weakening of all major currencies in the region against the U.S. Dollar and net disposition activity. The change in revenue in the third quarter of 2018 compared to the third quarter of 2017 in our four fundamental disciplines was: Advertising increased 2.0%, CRM Consumer Experience increased 0.6%, CRM Execution & Support decreased 13.9%, Public Relations increased 0.7% and Healthcare increased 10.5%.

For the nine months ended September 30, 2018, our revenue increased 1.0% compared to the nine months ended September 30, 2017. Changes in foreign exchange rates increased revenue 1.5%, acquisition revenue, net of disposition revenue, reduced revenue 2.0%, and organic growth increased revenue 2.5%. Across our principal regional markets, the changes in revenue were: North America decreased 3.8%, Europe increased 10.6%, Asia Pacific increased 6.1% and Latin America decreased 5.8%. In North America, modest growth in the United States was offset by a decrease in revenue primarily resulting from the impact of the adoption of ASC 606, the disposition of our specialty print media business in the second quarter of 2017, and negative performance in Canada. Organic revenue growth in the United States was led by our CRM Consumer Experience, public relations and healthcare businesses, and was substantially offset by a decrease in organic revenue in certain of our advertising and media businesses due to client losses in prior periods, reductions in scope, as well as a change in mix in our programmatic media planning and buying business, as some clients shift their preference to purchase this service on an unbundled basis rather than a bundled basis, and negative performance in our CRM Execution & Support discipline. The revenue increase in Europe resulted from strong growth across the region, particularly in France, Spain and the Czech Republic and the strengthening of the Euro and the British Pound against the U.S. Dollar in the first half of the year. The decrease in revenue in Latin America was primarily a result of the weakening of the Brazilian Real against the U.S. Dollar, which offset modest growth in most countries in the region. In Asia Pacific, organic growth in most countries in the region, especially Australia, China, New Zealand and India, was partially offset by disposition activity. The change in revenue in the nine months of 2018 compared to the nine months of 2017, in our four fundamental disciplines was: Advertising increased 0.9%, CRM Consumer Experience increased 1.6% CRM Execution & Support decreased 4.8%, Public Relations increased 2.5% and Healthcare increased 10.4%.

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 significant portion 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, which included the net gain from the disposition of subsidiaries and the repositioning charges (as described below), decreased 1.1% in third quarter of 2018 compared to the third quarter of 2017. Salary and service costs, which tend to fluctuate with changes in revenue, increased 2.5%, or $69.7 million, in the third quarter of 2018 compared to the third quarter of 2017. The period-over-period increase reflects the incremental severance and other charges of $73.7 million incurred in connection with the repositioning actions taken in the quarter. Excluding the impact of the incremental severance and other charges, salary and service decreased $4.0 million or 0.1% primarily as a result of our disposition activity in the quarter and the impact of the weakening of substantially all foreign currencies against the U.S. Dollar. Occupancy and other costs, which are less directly linked to changes in revenue than salary and service costs, increased 19.0%, or $60.1 million, in the third quarter of 2018 compared to the third quarter of 2017. The period-over-period increase reflects $73.5 million of repositioning charges primarily related to office lease consolidation and terminations. Excluding the impact of the repositioning charges, occupancy and other costs decreased $13.4 million or 4.2% primarily due to the weakening of substantially all foreign currencies against the U.S. Dollar. Operating margin and EBITA margin increased period-over-period to 13.5% and 14.2%, respectively. Excluding the impact of the net gain on disposition of subsidiaries and repositioning expenses, operating margin increased period-over-period to 12.7% from 12.6% and EBITA margin remained flat period-over-period at 13.4%.

Operating expenses increased 0.6% in the nine months of 2018 compared to the nine months of 2017. Salary and service costs, which tend to fluctuate with changes in revenue, increased 1.7%, or $135.3 million, in the nine months of 2018 compared to the nine months of 2017. The period-over-period increase reflects the incremental severance and other charges of $73.7 million. Excluding the impact of the incremental severance and other charges, salary and service increased $61.6 million or 0.8%. Occupancy and other costs, which are less directly linked to changes in revenue than salary and service costs, increased 10.0%, or $92.2 million, in the nine months of 2018 compared to the nine months of 2017. The period-over-period increase reflects $73.5 million of repositioning charges primarily related to office lease consolidation and terminations. Excluding the impact of the repositioning charges occupancy and other costs increased $18.7 million or 2.0%, primarily due to the unfavorable impact from changes in foreign exchange rates in the first nine months of the year. Operating margin increased period-over-period to 13.4% from 13.1%. EBITA margin increased 0.3% to 14.2% in the nine months of 2018 from 13.9% in the nine months of 2017. Excluding the impact of the net gain on disposition of subsidiaries and repositioning expenses, operating margin increased period-over-period to 13.2% and EBITA margin remained flat period-over-period at 13.9%.

Net interest expense increased $4.3 million to $56.7 million for the third quarter of 2018 and increased $7.1 million to $156.1 million for the nine months of 2018 compared to 2017. Interest expense on debt increased $4.3 million to $63.3 million in the third quarter of 2018 and increased $10.5 million to $179.7 million in the nine months of 2018. Interest income for the third quarter and nine months of 2018 increased $0.1 million and $4.0 million, respectively, compared to the prior year periods.

Our effective tax rate for the nine months ended September 30, 2018, decreased period-over-period to 25.4% from 31.1%. The decrease was primarily attributable to the reduction of the U.S. federal statutory income tax rate to 21% from 35% resulting from the Tax Cuts and Jobs Act, or Tax Act, which was enacted in December 2017. Additionally, income tax expense for the nine months of 2018 reflects the following: a reduction of approximately $19 million, primarily as a result of the successful resolution of foreign tax claims; a reduction of $25.0 million related to the net income tax effect of the net gain on disposition of subsidiaries and repositioning actions (see Note 10 to the unaudited consolidated financial statements); and additional income tax expense of $28.9 million, which reflects a revision to certain components of the provisional estimate of the effect of the Tax Act recorded in the fourth quarter of 2017 (see Note 8 to the unaudited consolidated financial statements).