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Omnicom Group (OMC) CEO, John Wren on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-15-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.32 beats by $0.02 | Revenue of $3.62B (-2.44% Y/Y) misses by $-15.21M

Earning Call Audio

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00:00 -59:17

Omnicom Group Inc. (NYSE:OMC) Q3 2019 Earnings Conference Call October 15, 2019 8:30 AM ET

Company Participants

John Wren - Chairman, Chief Executive Officer

Philip Angelastro - Executive Vice President, Chief Financial Officer

Shub Mukherjee - Senior Vice President, Investor Relations

Conference Call Participants

Alexia Quadrani - JP Morgan

Julien Roch - Barclays

Craig Huber - Huber Research Partners

Tim Nollen - Macquarie

Ben Swinburne - Morgan Stanley

Michael Nathanson - MoffettNathanson

Operator

Good morning ladies and gentlemen and welcome to the Omnicom Third Quarter 2019 Earnings Release conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. To enter the queue for questions, please press one then zero. If you need assistance during the call, please press star then zero. As a reminder, this conference call is being recorded.

At this time, I'd like to introduce you to your host for today's conference, Senior Vice President of Investor Relations, Shub Mukherjee. Please go ahead.

Shub Mukherjee

Good morning. Thank you for taking the time to listen to our third quarter 2019 earnings call. On the call with me today is John Wren, Chairman and Chief Executive Officer, and Phil Angelastro, Chief Financial Officer. We hope everyone has had a chance to review our earnings release. We have posted to www.omnicomgroup.com this morning's press release along with the presentation covering the information that we will review this morning. This call is also being simulcast and will be archived on our website.

Before we start, I've been asked to remind everyone to read the forward-looking statement and other information that we have included at the end of our presentation, and to point out that certain of the statements made today may constitute forward-looking statements and that these statements are our present expectation and that actual events or results may differ materially. I would also like to remind you that during the course of the call, we will discuss some non-GAAP measures in talking about Omnicom's performance. You can find a reconciliation of those measures to the nearest comparable GAAP measures in the presentation materials.

We are going to begin this morning's call with an overview of our business from John Wren, then Phil Angelastro will review our financial results for the quarter, and then we will open the lines for your questions.

John Wren

Thank you, Shub. Good morning. I'm pleased to speak to you this morning about our third quarter results. Organic growth for the quarter was 2.2%. Growth in the United States and several practice areas, core to our business, performed better than our overall results reflect. I'll provide more color on this in just a few moments.

As a reminder, in the third quarter of 2018, we recorded a net gain from the sale of Sellbytel, offset by charges related to several dispositions and repositioning actions as well as certain 2017 Tax Act provisions. Phil will provide more details during his remarks. My remarks will exclude the impact of these items in comparing Q3 2019 results to Q3 2018.

Third quarter EBIT margin was 13.1%, an increase of 40 basis points versus the prior year, which was a bit better than our expectations, and EPS for the quarter was up 6.5% to $1.32 per share. Overall, our results continue to demonstrate the consistency and diversity of Omnicom's operations, our ability to deliver consumer-centric strategic business solutions to our clients, and our best-in-industry creative talent combined with market-leading digital, data and analytical expertise.

Turning to our organic growth by discipline, advertising and media was up 3.4%. Our advertising and media agencies continue to rapidly evolve their offerings in a manner that has allowed them to remain highly relevant for their clients. Healthcare had another very strong quarter with growth of 9.5%. Omnicom health group has some of the top agencies in the world serving the healthcare and pharmaceutical industries, and the group is very well positioned for continued growth.

CRM consumer experience, which includes digital and precision marketing, events, branding, and shopper marketing was up 1.8% in the quarter. Our precision marketing and digital agencies had high-single-digital growth in the quarter. This growth was offset by a reduction in project revenues in our events and shopper agencies. As expected, CRM execution and support was down 1.5%. Within this group, field marketing performed well in the quarter, while the not-for-profit specialty production and merchandising and point of sale businesses had negative growth.

Finally, PR was down 3.8% in the quarter. While some areas of PR faced difficult comps, our PR business underperformed. We are committing significant resources to improving the operations in our PR group.

Looking at our performance by geography, the U.S. was up 2.7% in the quarter. Our advertising and media, healthcare and CRM experience business performed very well, and as a whole had mid-single-digit growth. This growth was offset by weak results in CRM execution and support, which we had expected and had discussed in past calls, and our PR business declined more than we expected.

Beyond the United States, the North American region, primarily consisting of Canada, was up 2.7% in the quarter. The U.K. was up 3%. Our agencies in the U.K. had very strong results across advertising and media and healthcare, partially offset by declines in CRM consumer experience and CRM execution and support.

Overall growth in the euro and non-euro regions was 1.6%. In the euro markets, Italy, the Netherlands, and Spain performed well. France had negative growth as it continued to be impacted by the loss of a specialty print production client, and our events business also had negative performance due to difficult comps. The non-euro markets overall performed quite well, led by the Czech Republic, Poland, and Russia.

Asia Pacific organic growth was 0.4%. India, Japan, and New Zealand had double-digit growth. Australia and China were negative in the quarter.

Latin America was up 6.6%. With the exception of Colombia, all of the countries in Latin America performed well in the quarter.

Our smallest region, the Middle East and Africa, was down 4.5%, primarily due to weak performance in South Africa.

Looking at our cash flow in the nine months of 2019, we generated just over $1.2 billion in free cash flow and returned approximately $960 million to shareholders through dividends and share repurchases. Our use of cash remains unchanged: paying our dividend, pursuing accretive acquisitions, and repurchasing shares with the balance of our free cash flow. Our balance sheet and liquidity remain very strong.

Overall, we're pleased with our financial performance in this quarter and remain on track to achieve our full-year targets of 2019.

Turning now to our strategy and operations, I'm pleased to report that we're in a very strong competitive position. We've remained focused on our key strategic objectives that have served us well. These strategies are centered around hiring and retaining the best talent, driving organic growth by evolving our service offerings, improving operational efficiencies, and investing in areas of growth. As part of this process, we are continually making internal investments in our agencies across all of our practice areas as well as pursuing acquisitions particularly in the areas of data analytics, digital transformation, precision marketing, and healthcare.

Over the past few quarters, we have made good progress on enhancing our capabilities in digital transformation, machine learning, and audience-centric services. In the third quarter, Omnicom Precision Marketing Group, which manages our CRM and digital agencies, acquired a majority stake in Smart Digital. Smart Digital services and technology platforms are used to deliver large-scale, real-time personalization solutions that enable individual brand experiences and increase loyalty across all consumer touch points. It significantly strengthens OPMG's offerings in decision sciences, automation, and machine learning.

Smart Digital follows on the heels of the Group's acquisition of Credera. Credera overlays management consulting and digital transformation on top of OPMG's existing CRM and digital offerings. In a little more than a year, Credera has helped us forge stronger relationships and partnerships with many of our multinational clients. We have continued to invest in its growth and are currently launching new offices in New York and Chicago.

The acquisitions of Smart Digital and Credera have built upon OPMG's already strong ability to work with clients from the very beginning of developing a marketing transformation strategy all the way through to campaign execution. These investments in OPMG are fully aligned with our investments in Omni. In order to execute CRM campaigns, OPMG agencies leverage their clients' first party data and combine it with third-party data available through Omni to create powerful end-to-end individualized customer experience solutions.

As you are aware, Omni is our world-class, people-based data and analytical service platform. OPMG is one example of where our agencies are using Omni to enhance their offerings using data-driven solutions. Omni's tools and applications are used by agencies across the group to deliver growth, efficiency, and scale to our clients. In fact, we're very pleased that our ability to integrate data into the creative process was cited in a recent analysis from leading research and advisory firm, Forrester. When comparing data and technology platforms across the various holding companies, the report states that the Omni platform offers the most creative integration of agency platforms. This advantage was achieved because our investments in Omni were made for the purpose of servicing the specific needs of our agencies and clients. It cannot be achieved simply by buying legacy data platforms that weren't built with the flexibility required to meet the rapidly changing demands of today's marketers.

At Omnicom, creativity is at our core. We were founded by creators and it's part of our DNA. Omni is used by our creative agencies to employ data-driven insights for developing the most effective marketing and advertising content for clients. While we continue to stress the importance of data analytics and technology, we also realize that they can only take us so far. As I've said before, these are tools in service of creativity and content, which is also why it's critical that all of our agencies, from CRM to creative to media to PR, healthcare, experiential, and shopper leverage Omni.

To date, we have scaled Omni by training over 4,000 employees worldwide. This training is critical to our strategy because we know a platform is only as good as the people in our agencies who use it. As has been our long-held view, which Forrester eloquently stated in its report, it's a combination of humans and machines that will give CMOs the data-driven execution they desire and agencies the new capabilities they need to remain relevant.

I now want to highlight a few new business wins that have come organically from existing clients as well as adding new marketers to our roster of clients. In the third quarter, we deepened and expanded our existing engagements with some of the largest clients, including AstraZeneca, Novartis, Wells Fargo, and Unilever, who awarded us two of their product lines: Rexona to BBDO, and Sunsilk to adam&eveDDB. We also won several new client engagements from world-class marketers during the quarter. Kroger, the largest grocer in the United States and the second-largest retailer behind Wal-Mart, named DDB

New York as its first ever creative agency of record. OMD won the global Boehringer Ingelheim animal health account, and Aliance [ph] named a number of Omnicom agencies for an integrated offering which will include creative media branding and PR. These results can only be obtained by having the best talent in the industry, who continue to be recognized by winning more of their share of industry awards.

After winning big at the Cannes Lions Festival, seeing our agencies continue their winning streak at the 2019 Spikes Asia Festival of Creativity was especially gratifying. Here are a few highlights from Spikes, which is often referred to as the Cannes of Asia. We had two networks within the top three with BBDO being named Network of the Year for the sixth year in a row and TBWA placing third. BBDO also had a strong performance in the APAC Agency of the Year category with Colenso BBDO coming in first and BBDO Pakistan coming in third. Due to the outstanding work of our agencies, we walked away from the festival with over 120 Spike awards, 12 of which were Grand Prix which translates as the highest honors in over half of the Spike categories.

In summary, we made significant strides in evolving our services, capabilities, and organization to better service our clients and their growing data needs while remaining grounded in our core business, creativity. We're pleased with our financial performance in the third quarter which continued to reflect the benefits of our strategies. As we move forward in the fourth quarter, I'm confident that we are well positioned to deliver our internal targets for the full year 2019.

I'll now turn the call over to Phil for a closer look at the third quarter results. Phil?

Philip Angelastro

Thank you John, and good morning. As John said, we had a solid quarter as our agencies continue to find a good balance between meeting the needs of their clients and managing their cost structures.

Before I start and as a reminder for comparison purposes, there were a number of items that impacted our prior year third quarter 2018 results. They included a pre-tax gain of $178 million on the disposition of Sellbytel, our European-based sales support business, along with a number of other small transactions; a pre-tax charge of $149 million related to repositioning actions primarily resulting from incremental severance and lease terminations; and additional tax expense of approximately $29 million resulting from adjustments for the provisional amounts originally recorded in connection with the 2017 Tax Act. As we reported last year, the net impact of these items increased our reported Q3 2018 operating profit by $29 million, net income by $18.2 million, and diluted earnings per share by $0.08; therefore, we will present our 2019 results in comparison to 2018 both with and without these items.

The non-GAAP adjusted amounts on Slides 5 through 8 present last year's results excluding these items and show how our underlying business performed year-on-year on a comparable basis, which we believe is a meaning presentation for investors and is consistent with how management analyzes our 2019 operating performance.

For the third quarter, organic revenue growth totaled 2.2% or $83 million. The continued strength of the U.S. dollar over the past 12 months created an FX headwind which reduced our reported revenue by $57 million or 1.5%. The reduction in revenue from dispositions made during the last 12 months primarily in our CRM execution and support discipline exceeded revenue from acquisitions in the quarter. As a result, our third quarter revenue was reduced by $117 million or about 3.1%. In total, our reported revenue decreased 2.4% or $3.6 billion in the quarter. We will discuss the drivers of the changes in revenue in more detail in a few minutes.

Moving to Slide 5, our operating profit, or EBIT for the quarter was $473 million with an operating margin of 13.1%. In comparison to last year's non-GAAP adjusted results, operating income in total was effectively flat while operating margin was up 40 basis points. Q3 EBITDA was $495 million with a corresponding EBITDA margin of 13.6%, up 20 basis points versus the adjusted 2018 Q3 results. The improvement in margins when compared to last year continued to stem from our ongoing efforts to improve efficiency throughout the organization, particularly in the areas of real estate portfolio management, back office services, procurement, and IT services, as well as the change in business mix resulting from the strategic disposition of several non-core or underperforming agencies over the past year.

Net interest expense for the quarter was $49.3 million, down $7.4 million compared to the third quarter of 2018 and down $900,000 versus Q2 of this year. Most of the decrease was a result of our refinancing activity this quarter; however, the full effect of the resulting decrease to interest expense will not occur until Q4. I'll summarize the activity for you.

In early July, we issued €1 billion of senior notes in two parts. We issued €500 million of eight-year senior notes due in 2027 at an effective rate of 0.92%, and an additional €500 million of 12-year euro senior notes due in 2031 at an effective rate of 1.53%. Together, the euro note issuance, after deducting the underwriting discount and offering expenses resulted in net proceeds of $1.1 billion at an average rate of 1.23%. Part of the proceeds were used to retire the $500 million of 6.25% 2019 senior notes came due in mid-July. In addition, we called $400 million of the 4.45% 2020 senior notes for redemption on August 1.

As a result of the refinancing activities this past quarter, our expected ongoing long-term debt portfolio will be comprised of $4 billion in U.S. dollar-denominated debt and €1 billion in euro-denominated debt. In addition, with the drop in long-term interest rates we opportunistically settled our fixed floating rate interest rate swaps at a small gain. As a result, our debt portfolio is now 100% fixed rate debt at very attractive rates.

Total third party interest expense for the quarter decreased by $4.7 million when compared to Q3 of 2018. Interest income increased slightly by less than $1 million period over period. Interest expense on our debt decreased $3.9 million versus Q2 of 2019 and was also driven by the refinancing activity in the quarter, while interest income decreased $2.9 million. In Q4, we expect interest expense savings of approximately $9 million from the refinancing activities; however, total interest expense for Q4 and going forward will be subject to the translation of our newly issued euro note interest expense into dollars.

Regarding income taxes, our reported effective tax rate for the third quarter was 26.5% and our year-to-date rate for 2019 now stands at 26%. We anticipate that our effective tax rate for the fourth quarter will be a little bit higher, approximately 27%, excluding the impact of share-based compensation items which we cannot predict because they are subject to changes in our share price and the impact of future stock option exercises.

Earnings from our affiliates totaled $500,000 for the quarter, down slightly versus Q3 of last year, including the effect of FX rates, and the allocation of earnings to the minority shareholders in our less than fully owned subsidiaries was $22 million during the quarter, down $3.5 million versus the adjusted Q3 2018 amount. The gain on the Sellbytel disposition included about $7 million allocated to minority shareholders in Q3 2018.

For the quarter, after adjusting to exclude the net impact of the gain on the dispositions and repositioning charges and the additional tax expense recorded in connection with the Tax Act of $18.2 million, our net income was $290.2 million, which represented an increase of $9.5 million or 3.4% versus last year's adjusted non-GAAP amount of $280.7 million. On a reported basis, our net income decreased by $8.7 million year-on-year.

Now turning to Slide 6, our share repurchase activity over the past 12 months decreased our diluted share count for the quarter by 2.9% versus Q3 of last year to 219.4 million shares. Diluted EPS for the quarter was $1.32 per share, up $0.08 or 6.5% versus our non-GAAP diluted EPS of $1.24 in Q3 2018. Since these adjustments added $0.08 to last year's quarterly diluted EPS, on a reported basis EPS was flat versus Q3 of last year.

On Slides 3 and 4, we provide the summary P&L, EPS, and other information for the year-to-date period. We've also provided the non-GAAP adjusted presentations for the nine months results on Slides 7 and 8, which also excludes the third quarter items that we separately reported last year. Since the year-to-date results are in line with our Q3 performance, I will just give you a few highlights.

Organic revenue growth was 2.5% during the first nine months of the year and in line with our expectations. FX translation decreased revenue by 2.5% and the net impact of acquisitions and dispositions reduced revenue by 3.5%. For the year-to-date period, reported revenue totaled $10.8 billion, a decrease of 3.5% compared to the first nine months of 2018. EBIT totaled a little under $1.5 billion and our year-to-date operating margin of 13.6% was up 40 basis points when compared to last year's adjusted nine-month numbers. On a reported basis, EBIT margin was up 20 basis points and our nine-month diluted EPS was $4.17 per share, up $0.19 or 4.8% versus the adjusted diluted EPS of $3.98 and up $0.11 compared to the amount reported of $4.06.

Returning to the details of our revenue performance in the third quarter, starting on Slide 9, because of the dollar's continued strength in the third quarter, the FX impact on our reported revenue again created a headwind to our quarterly performance. The impact of changes in currency rates decreased reported revenue by 1.5%, $57 million in revenue for the quarter. The impact was once again widespread. On a year-over-year basis, the dollar strengthened against most every one of our major foreign currencies, except the Japanese yen and the Russian ruble.

The largest FX movements in the quarter continue to result from changes in the dollar compared to the euro, the U.K. pound, and the Australian dollar. Looking forward, if currencies stay where they currently are, we anticipate that the FX impact will again reduce our reported revenue by approximately 1.5% for the fourth quarter. For the full year, we're currently estimating that the FX impact will be negative by approximately 2.25%.

The impact of our recent acquisitions net of dispositions decreased revenue by $117 million in the quarter, or 3.1%. As we have mentioned, we completed the disposition of Sellbytel, our European-based sales support business, at the end of August 2018, so we have now cycled through the impact of that disposition. During the quarter, we acquired Smart Digital, a marketing technology agency based in Germany and welcome addition to our best-in-class precision marketing and digital transformation capabilities. Based on transactions completed to date, we estimate the impact of our acquisition activity net of dispositions will be a net negative of about 1.5% for the fourth quarter, resulting in a net negative impact of 3% for all of 2019.

Finally, while remaining mixed by geography and by discipline, our organic growth for the third quarter was up 2.2% or $83 million. Geographically, our strongest performance was from our agencies based in the U.S., the U.K., Japan and Spain. Regarding our disciplines, our healthcare and advertising disciplines had solid performances and our CRM consumer experience discipline also performed well, while our PR and CRM execution and support disciplines lagged.

Slide 10 shows our mix of business by discipline. For the third quarter, the split was 56% for advertising and 44% for marketing services. As for their organic growth by discipline, advertising was up 3.4%. Our media businesses and advertising agencies continued to deliver solid performances, particularly domestically and in the U.K.

CRM consumer experience was up 1.8% for the quarter. Once again, precision marketing had a very strong quarter, offsetting slightly sluggish performance elsewhere in the discipline which faced difficult comparisons to the prior year, especially in our branding businesses, while CRM execution and support was down 1.5%. PR, while mixed by market, was down 3.8%, and healthcare continued to turn in a very strong performance, up 9.5%. Once again, we saw solid growth across our agencies and the geographies they operate in.

On Slide 11, which details the regional mix of business, you can see during the quarter the split was 55% in the U.S., 3% for the rest of North America, 10% for the U.K., 17% for the euro zone and the rest of Europe, 12% for Asia Pacific, with the remaining 5% split between our Latin America and Middle East and Africa markets.

Turning to the details of our performance by region on Slide 12, organic revenue growth in the third quarter in the U.S. was 2.7%, led by our advertising and media agencies and our healthcare and precision marketing agencies. Partially offsetting this was the performance of our PR agencies as well as our CRM execution and support agencies, including our not-for-profit and merchandising and point of sale agencies. Our other North American businesses were up 2.7% with media driving the organic growth.

The U.K. was positive again this quarter, up 3% driven by strong performance from our advertising, media and healthcare agencies. The rest of Europe was up 1.6% organically in the quarter. The performance remains decidedly mixed by market and by discipline.

In the euro zone, our strongest markets were Italy, the Netherlands and Spain. Germany was slightly positive in the quarter while France, driven by weak performance in our CRM execution and support businesses locally, once again lagged. Our organic growth in Europe outside the euro zone continues to be positive across most markets.

Several of our largest markets in Asia Pacific are facing difficult comps versus Q3 of 2018, when the region's organic growth was in excess of 14%. Organic growth this quarter was a modest 4/10ths of a percent. Our Greater China agencies were down mainly due to decreases at our media agencies. As was the case in the second quarter, China was facing a difficult comparison to Q3 of 2018 when its growth was also double digits. Elsewhere in the region, we saw strong performance from our agencies in India, Japan and New Zealand.

Latin America was up 6.6% organically in the quarter. Mexico and Chile were positive, while Colombia was down organically. Brazil had positive organic growth but our businesses there continue to encounter significant macroeconomic issues.

Lastly, the Middle East and Africa, which is our smallest region, was down for the quarter.

Turning to Slide 13, we present our mix of revenue by our clients' industry sectors. In comparing the year-to-date revenue for 2019 to 2018, we continue to see a small shift in our mix primarily as a result of the reduction of the contribution from our technology clients resulting from the Sellbytel disposition.

Turning to our cash flow performance on Slide 14, you can see that in the first nine months of the year, we generated just over $1.2 billion of free cash flow excluding changes in working capital for the first nine months of 2019. As for the primary uses of that cash on Slide 15, dividends paid to our common shareholders were $423 million, up slightly versus the first nine months of the last year. As you recall, we increased our quarterly dividend by $0.05 per share effective with April's payment. The increase in the cash payment was partially offset by a reduction in common shares over the past 12 months. Dividends paid to our non-controlling interest shareholders totaled $72 million.

Capital expenditures were $77 million year-to-date, down compared to 2018 due to less leasehold improvement activity this year as well as an increase in our equipment leasing program. Acquisitions, including earn-out payments, totaled $76 million, down when compared to last year when we executed on several acquisitions. Stock repurchases net of proceeds received from stock issuances under our employee share plans increased to $540 million. All-in, we generated a little over $20 million in net free cash flow year-to-date.

On Page 16, we present our capital structure as of September 30, which reflects the changes we discussed earlier regarding the refinancing actions we took in the quarter. Regarding our capital structure at the end of the quarter, our total debt is just a little over $5.1 billion and our net debt position at the end of the quarter was in line with our expectations at $2.67 billion, down $90 million from this time last year and up $1.4 billion compared to the year end 12/31/2018.

Over the first nine months of the year compared to year end, the increase in net debt was primarily the result of the typical uses of working capital that historically occur as we progress through the year. Year-on-year, improvements in net debt are primarily due to improvements in our working capital management. As for our debt ratios, they remain solid. Our total debt to EBITDA ratio was 2.2 times and our net debt to EBITDA ratio was 1.1 times. While our interest coverage is 9.6 times, down due to the increase in interest expense and a reduction in reported EBITDA, we anticipate that our refinancing activity will positively impact this ratio going forward.

Finally on Slide 17, you can see we continue to manage and build the company through a combination of well focused internal development initiatives and prudently priced acquisitions. The last 12 months, our return on invested capital ratio was 23% while our return on equity was 54.6%.

That concludes our prepared remarks. Please note that we have included a number of other supplemental slides in the presentation materials for your review.

At this point, we are going to ask the operator to open the call for questions. Thank you.

Question-and-Answer Session

Operator

[Operator instructions]

Your first question comes from the line of Alexia Quadrani from JP Morgan. Please go ahead.

Alexia Quadrani

Hi, thank you very much. I guess first off, just maybe for John, any color you can give us on how the advertisers you are always dealing sort of are feeling about the overall outlook? Are they incrementally nervous about the economy or is it more business not more so than usual? Just any update on the tone of business would be great.

John Wren

I'd suggest that it's business as usual. There are always macro concerns and they change from quarter to quarter or period to period, but there's always something out there. Our folks are focused on our clients' needs, and we don't see any significant change for them.

Alexia Quadrani

Then on the CRM execution business, it sounds like it's remaining weak in the U.S., and I think also you mentioned in the U.K. Is that a business that you should ultimately see turning or improving, or is it maybe something that you're still assessing for potentially picking up more potential divestitures?

John Wren

We're constantly--that's the one sector we've been focused on over the course, really over the last two and a half years, and we continue to evaluate properties in that particular sector. Many of the companies there are affected by changes in technology, and that has an impact on the growth that we experienced, so that's something – having said that, we continue to look at the entire portfolio, but--

Philip Angelastro

Yes, there's certainly some good businesses in the portfolio and several categories that we think are promising. They may not be on the top of our list of categories that we're going to actively pursue acquisitions in, but there are parts of the portfolio that we continue to work very hard with management on to improve, and there are other parts of the portfolio that are doing just fine.

Alexia Quadrani

I guess just lastly, just overall in the U.K. with just a little bit of a softening of the otherwise good growth you've seen, are you thinking anything sort of Brexit-related or is it just more kind of normal course of business?

John Wren

This quarter, I couldn't attribute it to Brexit. It's just some of the events businesses and some things that--projects and timing was off in terms of when they hit.

Philip Angelastro

Yes, we really haven't seen any negative impacts of Brexit in our businesses at this point. We still certainly with our management teams keep a close eye on what the impacts might be, but nobody knows really when or if, never mind what the impact is going to be on our agencies themselves. But overall, we have a great portfolio of companies in the U.K. and they've been doing a great job for quite a while.

Alexia Quadrani

All right, thank you very much.

Operator

Your next question comes from the line of Julien Roch from Barclays. Please go ahead.

Julien Roch

Yes, good morning. Thank you for taking the question. The first two for John, the last one for Phil. John, are you seeing any slowing in media like Publicis, or was it specific to them because that's one of the three reasons they said that their organic was poor in Q3, that media was starting to slow? That's my first question.

The second one is Q4, in the past you've always talked about it as an adjustment quarter. How do you see the adjustment this year - again, business as usual, or will macro make advertisers more nervous? That's the second one.

Then for Phil, just a housekeeping question on the Accuen impact, and then on the net interest guidance, you said $9 million savings, did you mean quarter on quarter or year on year? Thank you.

John Wren

I haven't read the Publicis transcript, but our media business continues to perform very well as reflected in our numbers. It's a very vibrant business and we continue to win our fair share, more than our fair share of accounts.

With respect to the fourth quarter, I think I'll say something very similar to what I've said the last 22 or 23 years of fourth quarters, and that is there's always unidentified projects in the fourth quarter. They generally in our case start off looking like they're $200 million around the end of September, and I think all but one of the years, with [indiscernible] with Great Recession, we've been able to fill those gaps in through projects and budget releases from clients who might have been holding back as of September 30. So, we're cautiously optimistic as usual, and our people are very focused on gleaning that revenue.

Philip Angelastro

On your last question, Julien, on net interest expense, the reference was quarter on quarter for Q4. We anticipate savings in 2020 as well, but I think that might vary a little bit for each of the quarters in 2020, based on how much of the benefit we had already achieved. So as we get closer to starting to plan for 2020, we'll be a little more definitive on what those numbers are as far as an expectation in 2020.

Julien Roch

And Accuen?

Philip Angelastro

Oh, Accuen is just about flat. I think the number overall was down about $4 million.

Julien Roch

Okay, fantastic. Thank you very much.

Operator

Your next question comes from the line of Craig Huber from Huber Research Partners. Please go ahead.

Craig Huber

[Indiscernible] question. John, what's your updated thought right now on the U.S. economy as [indiscernible]?

John Wren

I don't know if it's a cell phone. You're breaking up a little bit. Can you please repeat it?

Craig Huber

Yes, it is a cell phone, I'll speak a little slower, maybe. What's your thought, John, on the U.S. economy? Do you feel like that's holding you back on your organic revenue in the U.S.?

John Wren

I think the U.S. economy is strong. I think, as I said in my remarks, when we look at our core businesses, the ones that we anticipate growth from, they grew very well, mid-single digits. They were dragged down by events and some projects which did not come through in the quarter, and there has been some variance in that business this year, also some impacts in the shopper marketing area which we expect will grow through at some point. Then as Phil was mentioning before in an earlier question, some of the CRM execution businesses were a bit challenged, and as I mentioned in the call, our PR business was challenged this quarter. If that had simply been flat, our reported organic growth would have been a lot higher, so you can do the math simply by looking at our presentation and we're working on that.

Craig Huber

Also John, could I ask [indiscernible].

John Wren

I’m sorry, Craig--

Philip Angelastro

Yes, we’re having trouble hearing you, Craig.

Craig Huber

I’m not sure what’s going on. Is there much difference in each of the three months for your organic growth in the third quarter versus that 2.2% overall?

Philip Angelastro

I think I heard that. I think the question was, was there much of a difference month by month in our organic growth?

Craig Huber

Yes.

Philip Angelastro

I think the answer is we don’t really look at it that way. Each month, we don’t do a hard close like we do each quarter and at year-end, so while directionally we certainly are focused on the monthly results that our agencies submit, we’re also looking at their forecasts for full quarter and the year as we review the results with the companies, because the timing might vary month by month of when a project was completed or how the month played out versus last year, so we’re really focused on the quarterly results and the full year.

I don’t think I would say there was anything significantly different month by month or year on year relative to each month in terms of how we look at the business.

Craig Huber

But another question, if you can hear me, for the consumer packaged goods clients -CPG, are you seeing any stabilization there with the revenues?

Philip Angelastro

I think in our case, CPG relative to some of our competitors is not as large a component of our portfolio of clients, and I think our results are probably mixed with our CPG clients. Some of them have in fact--some of our revenues have in fact come down, and some of our revenues on other clients in the CPG space have gone up a bit, so I think it's probably a mixed performance for us as opposed to one overall trend for all of our clients in that space.

John Wren

The only thing I would add to that, Craig, is we've been fortunate to be winning business in that category. As I mentioned in my comments, Unilever signed two of its previous brands to us just recently, so net-net-net, we're okay.

Philip Angelastro

Thanks Craig.

Operator

Your next question comes from the line of Tim Nollen from Macquarie. Please go ahead.

Tim Nollen

Hi, thanks. A couple things, please. First off, can you remind us, maybe Phil, what the timing is on rolling off of the effect of the dispositions? It looks like the effect is slowing into Q4 with less of a negative impact. Do you cycle through that as of Q1? Relatedly, is there any impact on the organic growth that you could call out as it refers to that, i.e. has them coming off this year helped raise your organic growth a little bit this year?

Secondly and more broadly strategically on the data driven businesses, the digital transformation businesses you talked about, you've mostly built these and you've talked about these quite a bit the last few quarters. You've now referred to a couple of acquisitions, I guess they're relatively small. I just wonder if there's any shift in strategy towards more acquisitions in this space and if you could comment, maybe, on where you see this line of business going. You're talking a bit more about IT, a bit more about consulting. What kind of work may be emerging in this area? Thanks.

Philip Angelastro

Sure. I'll start with the dispositions and then I'll pass your second question onto John. As far as the impact in 2020 and 4Q19, 4Q19 I think in our prepared remarks, we said we expect dispositions to outweigh acquisitions by about 1.5%, so 1.5% negative in the fourth quarter. In the first quarter based on dispositions and acquisitions we've completed to date and in the past, the first quarter we expect probably is going to be somewhere around negative 0.5% and after that, it kind of flattens out. Our expectation is similar to our strategy that we've been pursuing pretty consistently, we're going to continue to try and find accretive acquisitions and as many as we can find that are in line with our criteria in terms of it being a good fit with our existing portfolio of businesses and/or clients, it's on strategy, and the pricing is fairly reasonable. We're going to pursue those acquisitions and if we can do more, we want to do more.

The expectation, though, is--or the number is just based on what we've completed to date. Our expectation is we're going to continue to pursue those acquisitions and the goal would be for that number to turn positive again.

In terms of just the second part of that question, the impact of those dispositions on our organic growth in the quarter in '19, I'd say it really hasn't impacted our organic growth one way or the other in a meaningful way. There might have been a little bit of a benefit, but not meaningful enough to call it out.

Tim Nollen

Okay.

John Wren

In terms of our focus, I'll refer you back to my prepared remarks where I said that our primary focus in pursuing acquisitions is in the area of data analytics, digital transformation and precision marketing across most of our practice areas. But to echo

Phil's point, we won't throw reckless money at things we're capable of building, so we're very disciplined about the acquisitions we make.

Philip Angelastro

Just one last point. I think in terms of some of the deals we completed recently, Credera, which has been with us for a little while now, has really worked out well. It's been integrated into our precision marketing group and has grown quite nicely. To the extent that, as John said, we can find more deals in the areas that we're particularly interested in, we're going to pursue them.

Operator

Your next question comes from the line of Ben Swinburne from Morgan Stanley. Please go ahead.

Ben Swinburne

Thank you, good morning. Two questions. One, I was curious--John, I know you mentioned you didn't read or listen to the Publicis call, and I feel bad asking you about someone else's comments, but one of the things they've talked about for a long time has been the impact of attrition in the U.S., sort of in-housing or in-sourcing particularly around media. They're obviously a large company. I'm just curious if you see that as a trend; if you do, it doesn't seem to be impacting your financials, so how are you offsetting that, or maybe you just don't see it as much of a factor in the business as they do.

Then I just wanted to ask about the Disney win. I know you guys don't like to talk about specific account wins and losses too much, but that's a sizeable one. I'm just curious if you could help us think about how incremental that is to the existing Disney business and when we might see that start impacting your results.

John Wren

Again, I haven't studied Publicis' media business. I was a little bit shocked to see it was in decline because earlier in the year, they won a couple of very large accounts. I'm not on the inside of it, so I can't tell you the answer. They probably have suffered more than we certainly have because of their CPG clients and some of the changes that are happening there, but again I can't speak for Publicis with any accuracy, so you have to take that comment with a grain of salt.

The Disney win is very important, but part of that win was business we already had, so it was incremental business that we received but we were able to defend our business very well. We're very pleased with our relationship there and look forward to it growing as we go forward.

Philip Angelastro

As far as when the transition exactly is going to benefit us, I'm not sure that it's going to be any different than any other client situation. There will be a transition period and I think our intention will be to help transition what we don't have as quickly as we can. A lot of that is based on how quickly the client wants the change to occur.

Ben Swinburne

Maybe just John, as a follow-up, is bringing more and more media in-house a CPG specific trend in your mind, or do you think it's broader? You mentioned that piece of the puzzle before.

John Wren

I haven't truly studied it that closely. I mean, technology changes what comes in house and what stays out at an agency. Oftentimes somebody was doing something with us and they decide to in-house, we follow them in-house to help them set up and grow, and that just enhances the relationship. But I think the most dramatic changes that we've noticed on in-housing has really been in the CPG area. Others do it, but they do it for a while, some of them do it for a while and then decide that they can't do it and come back to us. It's just a constant--

Philip Angelastro

Yes, I mean, clients have been experimenting with in-housing for years. We expect they'll continue to do so. With your question specifically geared toward media, there are some significant investments required and we made them and we've been making them over the last 10-plus years, and they're not easy to duplicate. In our business, we've been looking to do more outsourcing to specialists who can do some of the functions that we've been performing internally more efficiently and effectively, so we don't see this trend as much different than ultimately clients eventually going back to the specialists and the people that have made the necessary investments and that can get the scale and the skills to help them achieve what they're trying to achieve.

I think given the timing and the market is about to open, we have time for one more call.

Operator

That question comes from the line of Michael Nathanson from MoffettNathanson. Please go ahead.

Michael Nathanson

Thanks, appreciate it. I'll be quick. One for John, one for John and Phil. So John, given the problems that these European competitors of yours have in North America, it's pretty obvious they're losing a lot of share here to you. Are you seeing any change in the competitive pressure to either retain talent or on deal terms, or anything that y9ou see happening in the marketplace due to their weakness?

John Wren

Not that I could call out individually. We have always--in terms of talent, we're always in search--we think we have the best talent in the industry and we're always in an effort to acquire more of that better talent. In that regard, there's a lot of recruiting that goes on within the industry. I don't know if that quite fully answers your question, but--.

Philip Angelastro

Yes, I don't think we've seen dramatic changes in terms of deal terms, and it certainly hasn't eased if--you know, as a result of our competitors maybe being less active on the acquisition front.

Michael Nathanson

Okay, and then let me ask you both, on dividends versus buybacks, you've called out where you've financed your long-term paper at - it's incredibly cheap how low rates are. Is there any internal thinking about maybe positioning more of your capital returns to dividends versus buybacks as time goes on, I guess to make the stock more attractive? Is that a conversation that you guys have entered into at all?

Philip Angelastro

Dividends are a matter that our board considers on a periodic basis, and it's something that we certainly discuss a few times a year. The board looks at it very seriously. We certainly want to be as consistent as we can in terms of our dividend policy and our capital allocation policy, and I think we think we've certainly done that. I don't think we have any intentions of changing it in any significant way, but it is more of a board decision.

Michael Nathanson

Okay, thank you.

Philip Angelastro

Thank you all for taking the time to join us on the call.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.