WPP

2019 Interim Results Teleconference

Friday, 9th August 2019

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Introduction

Mark Read

CEO, WPP

Thank you very much and good morning, everyone. I'm here in Sea Containers House in London with Paul Richardson, and Andrew Scott and our IR team. I think I'll just start by really just outlining some key points from today's presentation. As you know, we don't go through the whole presentation today. That's available on the webcast. This is really to give people in the US an opportunity to ask questions.

So, in terms of a summary at the beginning of the call, we set out a three-year plan on December 11th last year to return WPP to growth in line with its peers. We are eight months into that three-year plan, and I think the first six months of the year show good strategic progress against the plan. It remains the case that our business this year was heavily impacted by client losses that took place really from the beginning of last year through until September; and we said when we gave you our guidance for the full year of -1.5% to -2% that they'd impact the first more than the second half, and we continue to believe that's the case. So, we saw first half revenue less pass-through costs of -2% in the first half, which is made up of -2.8% in the first quarter, -1.4% in the second quarter; so, a slightly better result in the second quarter than the first and slightly better than we were expecting at the beginning of the year. We do have encouraging areas of growth in our media business. GroupM have performed extremely well. We continue to see strong growth from our technology clients that make up a substantial part of our portfolio and in some of the faster-growing economies. There has been some choppiness in China, but Brazil and India where we have large businesses have done well.

The US is our key area of focus. It's the part of the business most impacted by the client losses we had last year; and I just remind everybody that we last saw growth in the US in the first quarter of 2016, so some three years ago. So, the issues there are really long-standing, and we have started to take, or have taken, the initiatives that we believe we need in terms of bringing in new leadership; reorganising and repositioning the company through the creation of VMLY&R, Wunderman Thompson, BCW; and we are starting to see a positive impact of those mergers. The business in the US declined by -8.8% in the first quarter, -5.4% in the second quarter, but it remains really a major area of focus for us.

I think more reassuringly, we've seen much stronger client retention. We haven't really had a significant client loss since around October of last year, so for some sort of seven or eight months. I think the new business environment generally has been a little bit subdued, but we have had a steady stream of new business wins and retentions. We retained the L'Oréal business in the UK with expanded scope. We won the eBay business. We have some business in Europe; we won the eBay business globally and Ogilvy were awarded the Instagram creative business. So, I think we have good progress in terms of client retention and new business wins.

One of the key elements of our strategy has been really to find a financial and strategic partner for Kantar, and Andrew really led that process which will complete by the end of the year with a transaction with Bain Capital where WPP will retain 40% interest in Kantar and we'll continue to accelerate its technological transformation. The benefit is that it further simplifies WPP's portfolio and has significant impact on our leverage. We will hit, once the transaction completes, our leverage target for 2020 one year ahead of the plan we set out in December. Talent acquisition remains a key priority: bringing new people into the group, promoting people from within and developing them. I think we've made more progress there and there will continue to be more progress.

So, that leaves us with the full year with our guidance unchanged at -1.5% to -2%. I think that we had some questions about changing that. I think we feel that we should leave it where it is for now. There are sort of macro challenges that are well known, but I think really at this point we have greater confidence in making our full year targets. We haven't seen any impact of those macro challenges on our numbers to date, but I'd say we remain rightly cautious.

So, a sort of summary of where we are, and I think from there perhaps we could take questions, Operator.

Q&A

Dan Salmon (BMO Capital): Mark, on your comments this morning you spent a lot of time on the importance of technology and in particular being a beneficiary of the major platforms' growth; and as an ad spending vertical, I think you noted that it was up 16%. My question is do you think that that can accelerate further? There has been a lot of focus on the big players in the space, and they're arguably still facing some of their biggest challenges to their consumer brand perceptions. They're launching a lot of new products. You highlighted some of your biggest players in your top 20 clients. How does that trend look down through the top 200? Are you seeing competitive reactions from mid to smaller consumer technology companies as well, and is that strength sort of broad-based? And then really, what I'm kind of getting to is over the mid- to long-term, do you think consumer technology is at a point where it should be considered amongst the most important advertising verticals, a level usually reserved for FMCGs and autos mostly?

Mark Read: Well, I think we focused on it because I think we need to be in the business of growing WPP for the next five to ten years, maybe even 20 years. If you look at consumer technology, someone was explaining to me the other day it's a $4 trillion business, 10 years ago it was a $400 billion business and in 20 years' time it will be a $40 trillion business. So, I think we want to position ourselves amongst the sectors that will continue to grow for the long term in a secular way. So, I think on that, I don't think we'll see that necessarily accelerate further, but I do think that part of our job is to position ourselves with the faster-growing clients in the faster-growing parts of the economy; and therefore work with those companies is very important to us. We may well see when I think three, four or five of the world's largest companies are technology companies, it wouldn't surprise you that they may also be the world's largest advertisers. Google is WPP's third largest client today, so it already has surpassed a number of the FMCG clients. So, I think that we are seeing a shift in economic power and a shift in spending; and we want to be on the right side of that trend.

Dan Salmon: Great. Maybe just one quick follow-up: I also saw in your remarks you mentioned Xaxis was up 16%. Can you just elaborate on the strength there?

Mark Read: So, I think broadly speaking its strength is outside of the US more than inside the US, but I think even in the US, the business has done well. We continue to deploy it around the world, and it continues to get traction with clients, particularly outside the US, who are attracted frankly to its performance.

Dan Salmon: Okay, great. thank you.

Mark Read: Thank you.

Michael Nathanson (MoffettNathanson): Thanks. Mark, I'm going to go in the opposite place to where Dan went. I want to ask you about FMCGs, and if you think about it, that was probably the beginning of a major change for you. There was a lot of pressure on their business model. So, I wonder what are you seeing in your conversations – from your conversations from those CMOs? Is there more price power within the model? I saw P&G had had good results. So, are you getting any sense that maybe there's a turn in their business projects, maybe reemphasising marketing spend? Anything on that would be helpful. And then to Paul, you've been CFO for a long time, and you guys changed the segments or the breakdown of the segments. What was the rationale for that, and what is – I would imagine it's differently based on looking at it, maybe presenting the data differently? So, those are my questions.

Mark Read: I think we might ask you to repeat Paul's question, but let me tackle the FMCG point first. I think that, as you say, there has been – FMCG companies do face disruption in the media channels and in the way they reach their consumers, in the retail channel the way they sell to consumers, and through sort of new kind of upstart brands. So, I think as a sector, quite frankly, like most of the economy, they have been disrupted; and obviously they've reacted, I think, in part by examining their spends in a more critical fashion and in part by shifting their spend into digital channels quite aggressively. What we have to do is move our business to serve them in those new channels; and we have had, I'd say, some success in that, and we expect to have more success in the future. I think we see probably a more mixed pattern across the FMCG companies, and I think that there's more of them coming out, let's say, coming out the other side of some of those shifts. But I think that those shifts sort of have persisted, and we've seen a fair amount in actually consumer healthcare as well as FMCG.

So, if we look at – we made a comment in the statement about a small number of our larger clients have had an impact on the revenue, I'd say that's across both FMCG, and consumer health and to some extent pharma clients where they're really restructuring their spend more aggressively than others. Now, there are some clients coming out the other side, and one client in particular that is looking to invest much more in creativity and put creativity much more at the heart of their model. So, I think there are some moves in-house to some services. I think in the long run, the trend in business is not in-house, but out-house, and we have to respond more effectively to that and help understand what it is that clients need and provide those services as WPP, which I believe that we can do. So, I think the headline would be a mixed performance, but maybe some more coming out the other side of the shift they want to do. Paul?

Paul Richardson: So, Michael, let me – a bit of history, as I have been around sort of a while. We started off with these four categories of marketing spend expenditure, and they held pretty well until really, I suppose, 2000 when we started to see digital emerge as its own independent category, albeit fairly modestly. What's really happened that made us change this approach is two things. One, there have been some genuine business combinations of what one would call traditional advertising agencies and traditional digital businesses, such as VMLY&R and such as Wunderman Thompson; and we have operationally merged the business. We have co-located the offices. We have merged the management teams, and actually we are reporting today in London just one P&L for the combined business, and we are doing so now across the world for these two businesses. So, what was becoming clear is if we were to stick with the old sectors, there was going to be too much approximation of the performance of one in the other sector. So, our approach has been to, I suppose, equip the businesses for growth; and this way, I think is – it's unfortunate that we've ended up with one quite significant sector, the global integrated agencies, but it is how the businesses have evolved. So, Ogilvy that traditionally was spread across three sectors in our portfolio: so, they had a healthcare business, they had a direct business at Ogilvy One which was the specialised business, they had a PR business in public relations and public affairs, and they had the advertising business in Ogilvy.

Obviously now, under the one Ogilvy approach, it is impossible actually for us to estimate the individual performances of those disciplines within the Ogilvy portfolio. So, it is only right and proper that we put it into one of the sectors. And really, with the acceleration of these changes, such as the VMLY&R and Wunderman Thompson, it really was time to make that change, plus it's how management here at the centre are now looking at the businesses and managing the P&L. So, really, it was just a function of this restructuring, the acceleration as these businesses came together made it a practical necessity to make the change to the sectors.

Michael Nathanson: Thanks, Paul. Thanks, Mark.

Richard Eary (UBS): Thanks. Just to sort of follow up, some just additional questions from answering this morning. Just the first one, Paul, just on in terms of as we look at the cash flow for second half, second half of last year was obviously impacted by the restructuring costs that came through. I'm just trying to think about where we're looking at cash flow and therefore net debt numbers for the full year and seeing if there's any sort of puts and takes, because it seems as though net debt numbers were £4.2 billion, £4.3 billion for the first half. There obviously could be a sizable de-gearing effect in the second half. I'm just wondering if I'm missing anything on that. That's the sort of first question. And then just the second question, just to pick apart sort of some of the negatives that were in the first – second quarter results, such as China, GTB and also maybe the drag from P&G. Would I be right if I was to take those three negatives out and suggest that organic growth would actually be close to flat if we adjusted for those three effects?

Paul Richardson: Do you want to deal with this next, Mark?

Mark Read: Well, I don't really want to go into kind of individual client amounts. I don't really think it's the right thing to do. But I'd say directionally, you probably can't go quite that far, and there's probably more of an impact in the US. I don't think if we just did that in the US, you'd get back to flat. So, it's sort of a little bit academic in your analysis really.

Richard Eary: No, it's just I'm just trying to sort of look at obviously what were the drags in the second quarter still. As as we extrapolate that going through, it seemed that GTB comes out in the numbers. As we go into next year, the drag from P&G may get less worse, and your comments about China hopefully getting an improvement in the second half with July up. As we start to cycle out those things, we can start to see some basically positive segue to –

Mark Read: I think one way to look about it is I think we said back in December the drag from client losses would be about -1.5% that we saw as being kind of – we always win business, we always lose business – but the drag from really what we ended up with in September was about -1.5%, and that's relatively consistent during the year. I'd say that that remains true. So, you can sort of do with that – you can sort of do the math with that. We'll have to see where we end up next year in terms of underlying spend; but I think that's probably one way of thinking about.

Richard Eary: Okay, thanks. Just on the second question.

Paul Richardson: Yes. Just on cash, you're right. I mean, there is some cash to be spent in 2019. It's from the restructuring. We mentioned on the day, or Andrew mentioned on the day, that the total commitment is around £300 million of spend, and I think we identified last year that we actually only spent £50 million last year. We had budgeted a certain amount in our cash flow projections of around a further £125 million this year, some of it spent in the first half, some of it spent in the second half. That really does make no material impact to the average net debt number. It's in our forecast. It's one of many variables, along with the CapEx and other commitments we have, which to a certain degree do fluctuate depending on performance. The averages we give you, I'd say standing back on net debt, I think we have two trends. One, we are a seasonal business, and our strongest quarter is the fourth quarter; and we do have strong cash generation in the second half, and in particular quarter four, which leads to a balance sheet debt on a point-to-point basis which is lower. The average which we give you obviously is over by the six-, nine- or 12-month period. The year-to-date performance, which is after the six-month being down £700 million is going to sort of let's say slow down because the vast bulk of the disposals have happened in the last 12 months. So, the average is going to continue to decline, but not at the same rate it has declined in the first half of this year. So, I do have a number in front of me that sort of shows an average net debt for the full year. It is lower than it is at the half-year point, which is a combination of both the seasonal factors and the full-year impact of some of those disposals that happened late last year. So, it's pretty much -- it is fairly modellable, but it's never instantaneous. So, we are looking for improvements in our gearing ratio at the end of the year based on what we see today on the average net debt and the earnings.

Richard Eary: That's helpful. Thanks, Paul.

Mark Read: Okay. Well, thank you very much, everybody, for listening, and we'll speak to you all again in a couple of months, if not before. Thank you.

Paul Richardson: Thank you.

[END OF TRANSCRIPT]