WPP 2019
Third Quarter
Trading Update

Afternoon Teleconference Transcript

Friday, 25h October 2019

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Overview

Mark Read

Chief Executive Officer, WPP

Good morning everyone. I'm here in London with Paul Richardson, our CFO; and Andrew

Scott, our COO; and other members of team. So thank you for joining us. Briefly, to make sure people have read safe harbour statement before we start. I think as before in these quarterly updates, so the first quarter and third quarter updates we do calls and for the U.S., we really wanted to offer you an opportunity to ask questions directly, but we take it that you would have the opportunity to listen to the presentation before and not want to have to go through that again. I think given the Kantar transaction, we'll take a little bit longer to explain what's going on, and Paul will add some comments to mine before we turn to the Q&A.

SLIDE 3

I think that we saw in the quarter, a slightly better performance into Q3, actually slightly better performance than we had expected with like-for-like revenue up 0.7% including Kantar compared to I think to consensus of negative 0.6%, and 0.5% excluding Kantar. The results were really strong across both the geographic and functional areas of the company.

And in the U.S., which is the key metric that I think you have been focusing on and we have been focusing on, the revenue performance improved. I wouldn't say we're happy with it being negative, but improved from minus 5.9% in Q2 to minus 3.5% in Q3.

The U.K. held 3.1% growth and Mainland China, which we had some discussion about the second quarter was really flat, effectively flat at minus 0.4% after declined by more than 10% in the second quarter. Again pleasingly, our Global Integrated Agencies that's broadly speaking, our creative and media networks grew like-for-like at 1.7%, did reflect to some extent the client losses lapping and better retention. We had some good wins in the quarter, Mondelez creatively, eBay, from a media perspective and importantly we've retained our business at Wunderman Thompson post merger with the U.S. Marine Corps, and an integrated WPP team include including The&Partnership were successful in retaining and expanding the relationship. Yesterday, Kantar transaction was approved by 99.98% of the shareholders that voted. And so from now on we're showing Kantar really as an asset held for sale not just for this quarter, but for the year and Paul will explain that. I think just to touch briefly on the guidance for the year ahead of the sort of inevitable questions before Paul's comments. We are holding our guidance for the year of minus 1.5% and 2%, including and excluding Kantar. I think, to some extent, the right way to look at that is excluding Kantar and those of you that can -- that do the math will see that implied a negative quarter in Q4, which is what we're expecting, which is why despite the fact that we've had a good quarter three, we're not declaring victory at this point. We're really focused on our 2021 targets. And also the guidance that we gave you at the end of last year that the second half would be slightly stronger than the first half, which I think is the way to think about it. We were trying to set ourselves up for a better year in 2020. So I think that's what I'll sort of and stop. Paul, who will just take you through some commentary on the numbers and the impact of Kantar.

Financial Outlook

Paul Richardson

Group Finance Director, WPP

SLIDE 6

Thanks, Mark. So, I'm actually going to refer to one of the pages in the deck, if it's helpful, to turn to Page 6, which goes through the revenue costs. So the revenue less pass-through costs by quarter for the year. So, obviously in the first half, before any deal have been signed, it was signed on July, the 12th, we reported our business including the Kantar operation as normal, and just to give you the numbers -- to remind you the numbers that we did report. So on the first quarter, a like-for-like decline was minus 2.8%. Within that Kantar grew in quarter one by plus 0.3. So on what we call continuing operations basis, the first quarter will be restated to minus 3.3%. Likewise in on a like-for-like basis it's not a restatement, it's just really giving you the updated like-for-like number having to exclude Kantar for that quarter.

Likewise, in the second quarter, under full ownership, we reported minus 1.4% like-for-like. Kantar grew again in the second quarter by plus 0.5%, and when you adjust to that excluding Kantar on a continuing0 operations basis, this is our second quarter, decline was 1.7.

So at the half year stage, whilst we're still fully owned Kantar, we disclosed a like-for-like decline in revenues the first half of minus 2%. Kantar in the first half had grown by 0.4%. So excluding Kantar from the first half, the decline was minus 2.5%. With the deal being announced on the 12th of July, not only do we have to take the Kantar numbers out formerly for quarter three and quarter four, we actually have to reverse out or take the numbers out for whole year. So, in one sense, the way we'll end up reporting the full year will be on the continued operations basis, i.e. the global integrated agencies, the Public Relations business and the specialist agencies excluding Kantar in total for the full year. So, we are fortunate to be able to at least continue to disclose both sets of growth rates, whilst the asset itself for and in quarter three Kantar had a strong quarter. So the group including Kantar in quarter 3 grew by 0.7, Kantar itself grew by 1.6%. So the group excluding Kantar, i.e. on a continuing basis grew at 0.5. Now just to finalize. So on a year-to-date basis, on what I call the new basis for the continuing operation basis excluding the Kantar operations, the decline for the year-to-date is minus 1.5 and including Kantar for the nine months, the year-to-date decline will be 1.1%. So, that's really all I wanted to say, a lot of the charts have reflected the group on the new basis of continuing operations. We have disclosed to you in the quarter both the revenues of the continuing operations, i.e., for the third quarter. The continuing operations have revenue less pass-through cost of 2.7 billion and Kantar had a revenue less pass-through cost of 492 million, making a total of 3.2 billion. We've also done exactly the same analysis for the nine months. So you are going to have a pretty good idea of how the group is performing with and without Kantar for the full 12 months. So, on a sort of comparable basis, we have to disclose the revenues on a continuing basis only. So that's really all I wanted to say.

Obviously, at the year-end, we'd have to adjust the balance sheet as well, assuming the sale takes place. And we'll have a net assets calculation to disclose on the discontinued operations, i.e., the assets held for sale. We will come more to that in February. There'll be quite a few pro forma adjustments we want to give you about what the interest impact would be, what the share count impact would be, once the sale is concluded. So that was really just a summary of how the Kantar transaction will affect this year's numbers.

Q&A

Tim Nollen (Macquarie): Good morning, here from New York. Thanks very much. I have one question which maybe has a couple other bits embedded in it. It's about your North America growth getting much, much better in the third quarter, still negative. But I wonder, if you could help explain why it has gotten to a better spot and what it will take to get that to a positive spot going forward? I think, the gist of the problem in the last couple of years has been more in the creative and the media side. I think the FMCG sector has weighed on that in particular. I wonder, if you could just discuss maybe broadly, what it is that's getting better? What you're doing that has improved things? And what it takes to get to positive? Is it new business wins? Is it FMCG spending turning positive on a net basis? Maybe that already has, and so forth. Kind of a broad question, but I think those all tie into that factor.

Mark Read: Yes. Let me -- let me try and give you some context. Look, I think the first thing to remember is that we last had a quarter of positive growth in the U.S., fourth quarter of 2016. So, this is sort of not a -- it's an issue that goes back some time, despite growth in the media business. I think the issues were in actually large number of parts in the business. I think a year ago only one of our 10 biggest businesses in the U.S. was actually growing a year ago. And so, we had a fairly broad set of challenges, different, but a fairly broad set of challenges across the business.

I think you're right, that one sense is in the -- the so-called creative agencies, particularly the traditional advertising parts of the business, where I think a mix of -- client mix we did have a very heavy bias towards FMCG. And I think historic an under-investment in the creative capability had made those businesses less strong than they needed to be, and they'd suffered revenue pressure.

I think the second challenge was that our healthcare businesses… the sort of combination of our healthcare businesses into a single entity had not been successful, and we have now realigned them back with and the mainly historic agencies with which they were aligned. So, Sudler & Hennessey with VMLY&R Health, Healthworld or Ogilvy Health back into Ogilvy, and GHG into Wunderman Thompson. I think the third challenge was really within Kantar and the insight business, which had come under pressure. And then we have some specific issues in our shopper marketing business and in the event space, I think as have others.

I think the media business, I say, it has always been strong in North America, perhaps not as strong as other parts of the world, but has been a good business in North America, but not strong enough to compensate for the challenges in the creative business. I think the improvement that we've seen in the course of this year has been a couple of things. I think the -- one is the client losses really started to impact the creative agencies towards the end of last year and into this year, we'll sort of run through the course of this year we will be hit the first half, the last quarter of last year, the first half of this year towards the end of this year a bit heavier than the other places. So that's part of it.

I think, so that's the bit -- I guess, you could say we have no control over though through better retention and lack of reviews that are in our control. I think secondly, bringing the healthcare business back in line with the agencies has sort of stemmed the challenges there, and we'll take some time to turn it around, but I think we're seeing some of the challenges in our healthcare business. We're seeing a stronger healthcare offer and great success in healthcare reviews. I think, a little bit that you see in the performance of Kantar overall, I think clients, particularly packaged goods clients feel some instances that they've cut their -- some of their research budgets, maybe too far, with the CEO of one of our larger clients, Friday last week, who said he felt that they'd cut market research too much and they'd like to invest more and a question whether they can afford to invest more and they wanted to invest more.

So, I think that you're seeing that problem with the business, but it will take some time and we did lay out a three-year plan to growth. As I said on the earlier call, in simplistic terms it's kind of nine, six, three in Q1, Q2, Q3, and I wouldn't draw the conclusion that Q4 is zero. That's not what we're expecting. But I do think that we talk in terms of halves and we expect -- we do expect the second half to do better than the first half.

Tim Nollen: That's very helpful. Thank you, Mark.

Dan Salmon (BMO Capital Markets): Hey, everyone. Mark, I had a couple questions to go into one sort of specific area, not a region, but a client vertical and just FMCGs. Any update on sort of current trends is great. But what I was hoping you could expand on a little bit more is sort of your longer term view on that group of clients. Obviously, their industry is changing a lot.

Yeah, we can talk about benefits of ZBB or otherwise. But what I'm thinking about more is now their business switches to more direct-to-consumer, how maybe trade promotion and vendor strategy start to look like, online adds a little bit more. So either through your media operations or e-commerce services, do you look at that client base and say that there's a real opportunity to actually change the way that you engage with them a little bit more and really become a deeper strategic partner as they -- so really go through some fundamental changes to their business. I'd love to hear just a little bit more about that. And just, one quick follow-up. Obviously, you announced Paul is moving on as previously announced John Rogers joining as CFO, we'd just love to -- I'm sure your investors in Europe are bit more familiar with him -- with him than those of us over here. Just maybe a little bit background what you're looking forward to having him join the team in January? Thanks.

Mark Read: Okay. Yeah. So on the package goods example, I think if we'd gone back a couple of years, you'd found that the preponderance of our packaged goods clients spend was under pressure. And if we look to Q3 this year of a sort of nine packaged goods clients in our top 30 clients, six grew in Q3 and three declined. So, I think you can see a little bit like you're saying, shift towards a more expansive, sort of more expansive budgets. I thought you put it very well. What we're trying to do is shift the offer to work with those clients with a broader offer and to position ourselves to grow. So, why did we -- if you think about the offer, if historically we've been in the communications business and today we setup our offer for communications, experience, commerce and technology, the sort of the three newer parts of our offer -- that -- to be fair, we've invested in for the last 10 years, but to sort of call them out and focus on them more, I think those three areas are where we're going to be looking to grow with packaged goods clients. And we may be under more pressure in the communications area, certainly the traditional in analog advertising part of the communications area. But I think that our job, if we run the company properly is to position ourselves in the faster growing parts of the business, and I think that we can be a partner that helps those clients. We -- and should be a partner to help those clients market in a -- in a modern way. I mean, the challenge we face frankly is not just that our business is being disrupted, but that our clients' businesses are being disrupted. When clients' businesses are being disrupted, they look to do things in different ways and look new answers from us and we have to provide it to them. And the package goods clients face the disruption of mass media. They just face the disruption of mass retail, and then they face the disruption of mass production with more organic and natural brands. So, there's a lot of -- they've got a lot of things on their plate. And I think while they focused ZBB purpose on the cost line, we need to help them to grow the top line. So, that's what I would like them to do.

Turning to John, we hope he'll start with us at the end of January, and Paul is sitting with me - not to compare the two of them in any way. But I think what John will bring us his experience of an industry. Yeah, a good head and a cooperative team player, with good experience of the finance side of a -- of a large complex business. He has more international experience than you would sort of see at first glance, and he has strong experience in the technology area. Most recently from this time in Sainsbury's Argos, and I'm pleased to have someone with sort of broader CEO experience coming into the CFO role as well.

So, we're clear, we have a lot of transformation on our side to do in shared services, in technology, and I think that's the experience that we're looking for him to bring for the next five to 10 years. So, that I think is -- you'll get a chance to meet him as soon as we can make that happen.

Dan Salmon: Great. Thank you, Mark. I appreciate it.

Michael Nathanson (MoffettNathanson): Hey, thanks. And Mark, in answering Tim's question and now getting Kantar separated out. I wonder, how do you think about future M&A? Is there a new set of companies that maybe you have to bolt-on to as you move away from your traditional analog communication skills? Or how do you think about the next three to five years on M&A? And to that, are there more divestments that you can make on a small scale to maybe trim the portfolio the way some of your peers are doing in the U.S.?

Mark Read: Yeah. I don't think we'll go as far as some of our peers. I think there's a little bit of tidying up that we can do. And -- but primarily that will focus on the investment side of the business. I think that when we look at acquisitions, depending on the outlook, I think our focus will be really more kind of bolt-on than the major acquisitions. And we're looking at those areas of experience, commerce and technology to build out our capability. To some extent, I'd say, we are in a very strong position in the U.K., and a fairly strong position in the U.S. But there's still opportunities for us in Latin America and Asia in those areas. And -- but I think that, our real focus is going to be on acquisitions, not for scale, if we have three PR firms in the country, we don't need to have a fourth PR firm. It's really about differentiating our offer and buying capability that can add functionality and scale across the world. So, that's very much the focus.

I think data and analytics is an important area. Ecommerce is an important area. Adobe is largest or single largest partner, I believe with a largest Salesforce partner in the marketing cloud area. We're one of Google's largest technology partners as well. So I think, part of it will be investing behind those relationships, which are already very strong. But I think it can be stronger.

Michael Nathanson: Okay. And can I just ask about the fourth quarter guide? Again, we've always heard about a lumpiness about project revenue from some of your competitors. How's the visibility in the fourth quarter? Is there just a lot of late quarter bookings that's -- it's hard to get a handle on? And thus the improvements you've seen you just want to hold back until you get a full quarter under your belt? Is that why you're assuming more of a cautious view in the fourth quarter?

Mark Read: Well, I think, in part, we didn't want to get into the process of giving quarterly forecast. I think secondly, we gave our guidance for the year, and if we had needed to change it materially then we would have changed it. I think that to some extent we focus half-by-half, and we will give you guidance half-by-half. But I think you can do the math, you'll see that as I said at the beginning we are, if we grew in the third quarter, we are expecting a decline in the fourth quarter. To some extent that comparators make things a bit tougher in the fourth quarter.

No, I don't think there's a particular sort of lumpiness. I just think forecasting to the precision we require not to disappoint you one quarter out particularly in the fourth quarter. It's not a straightforward -- it's not a straightforward thing to do and I think so we prefer to stay -- to stay where we are. It's a point in time when I think people are naturally, our people, correctly and naturally conservative. And so, last year I'd say, we outperformed our expectations a little bit in the fourth quarter. We'll see where we get to in this fourth quarter.

Michael Nathanson: Okay. Thank you. And I wish Paul all the best.

Mark Read: Thank you.

Doug Arthur (Huber Research): Yes, thanks. I'm just looking at Mainland China and Germany. It's been sort of up and down in 2019, but it looks like both markets improved here in the third quarter. Perhaps it's impossible to say but do you feel like you're on the right trajectory in both markets? I know there were some account issues in Germany, but it looks better and I'm just wondering about your confidence of some kind of continuation of that.

Mark Read: Yeah, look I think the second quarter was -- ironically, in both cases, the second quarter 2019 year-on-year was a little bit the implications of the second quarter for 2018. You know we had a big transaction M&A transaction in Germany in a second quarter of 2018. We had a strong performance in our media business in China in 2018. So, that made the comparators tougher and I think we explained to you, we expected to get more back to normal business. So, the challenges we face giving you guidance for one quarter, a magnified when go down to an individual country level particularly when we have businesses like financial M&A. So, I think, I feel that we are on in both countries broadly speaking in the right trajectory, though I would like in both countries to do better. I think, if we were being tough on ourselves. We should grow more strongly in China. And I think that we have a good business in Germany actually.

There are number strong creative agencies in Germany, Thjnk and Scholz & Friends and Hirschen and it's little bit disconnected actually from other broader global agencies and we have opportunities there. So I think I'd say in both markets where we should be doing better.

Doug Arthur: Okay, great. Thank you.

Mark Read: All right. Well, thank you all very much for listening and I expect to see you soon over the next few weeks in the run-up to Christmas. Thanks very much.

[END OF TRANSCRIPT]