WPP 2019 Full Year Preliminary Results

Morning Meeting Transcript

Thursday, 27th February 2020

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Overview

Mark Read

Chief Executive Officer, WPP

Good morning everyone, and welcome to Sea Containers, and welcome to WPP's 2019 Preliminary Results. So I'm going to give you an overview and then Paul will take you through the numbers, introduce John Rogers, our new CFO, who is with us today, and then I'll come back into the strategy overview and then we'll take questions. So we have to go through the obligatory Safe Harbor statement, which is up.

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So what I thought -- I thought as we start by looking at how we think about the year, in the context of what WPP needs to do in a three-year turnaround plan. And I think it's important for all of us to focus on those three years in stages. And we really see 2019 as a sort of foundational year, and I'd say, if we look back and try to be objective as we can, look we've done, we'd say that a solid foundation is built, on-track to deliver our 2021 targets. But obviously there is more work to do.

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And we sort of split out what we've done during this year in terms of strategic goals and financial goals. And strategically, I'd say we've made significant progress on simplifying WPP and on creating fewer, stronger agency brands. We've gone from 9 -- effectively 9 creative networks to 5. We brought together VMLY&R and Wunderman Thompson, I'll remind you, we said in the statement, the VMLY&R grew in the second half of the year and Wunderman Thompson had a much better second half than the first half. So I think that those process simplification and begin to comes together and work. We've made investments in technology, in our people, in clients, the new business teams, Jacqui Canney joined us from Walmart as our Chief People Officer; Laurent joined us from Publicis as our Chief Growth Officer; Lindsay, our Chief Client Officer; Stephan running technology. We made investments at the center of the company to enable us to grow faster.

We had a good performance in terms of new business wins during the year. I wouldn't say we won anything massive in 2019. We had a good solid new business performance. I think what's particularly important, we had good retention, and if you think about where we started in 2018, we had around $4 billion of billings, not revenue, billings under review at the beginning of 2018, that number at the beginning of 2019 was around $1 billion and the beginning of this year, as best as we can estimate is around half of what it was in 2019. And a lot of the commentary from the industry is from a number of pitches taking place at the beginning of this year. And I'd say that our new business pipeline is very solid and very little of that business under review is currently at WPP, which I think is good news. We have had good wins, in Instagram and Mondelez creatively, AXA, eBay, Hasbro in media, Centrica, the VodafoneZiggo sort of on an integrated basis, I think our performance with clients is good.

We completed the Kantar transaction. If I take you back 18 months, one of the concerns around WPP was our leverage. And we completed the Kantar transaction one year ahead of schedule. Got a very good price for the business. We have a strong partner in Bain Capital and we leave with a 40% shareholding that I think enables us to get the right balance between returning cash to our shareholders and giving the shareholders the benefit of upside from the future performance of the company. We've made significant progress in turning -- reducing the debt that we see financially.

I think also we've set out the new vision and purpose for the company through an Executive Committee, our companies such as here, helping to rebuild the culture of WPP that we're strengthening. I think strategically we've made good solid progress and I'd say the same is true financially. I remind you so December 2018 standing in this room, we set out our guidance for the year including Kantar of minus 1.5% to minus 2%. In the year, we delivered minus 1.2% on a -- including Kantar basis.

And the year fell, excluding Kantar, minus 2.5% in the first half, minus 0.7% in the second half. Now, when we gave the third quarter guidance, we did have, I'd say, a strong third quarter and slightly stronger third quarter than perhaps we expected, we maintained our guidance for the year. And I think you see that the fourth quarter, probably slightly weaker I think than maybe you expected, but it's broadly in line with what we expected, partially due to the tougher comparisons that we pointed out from the third quarter and the fourth quarter. I mean we're clear to people that we did expect the fourth quarter of this year to be negative.

But if you look at our organic growth performance, North America, we were minus 7.7% in the first half, minus 4.4% in the second half, so we made good progress. And if you look at the Company internationally, our business actually accelerated from plus 0.5% in the first half to plus 1.3% in the second. The issues that we're dealing with are getting smaller and the business is growing faster organically. We have strong working capital performance over GBP300 million working capital generated during the year and we significantly reduced the leverage in the business we started 2018. That's why 2019 was around GBP4 billion of net debt, we ended the year, minus GBP1.5 billion.

So I think net-net, looking at the year overall in as unbiased way as it's possible to do is the management team of the company have done a good job. We start 2020 in a much better place than we started 2019, we'll come on to the guidance for the year later and I'm sure you'll have questions around that. But I think we feel the guidance puts us on track to deliver the 2021 targets, which I think after all this is what it's all about. So good work, lots more to do.

And having done most of Paul's presentation, I'll let him cover it again and take you through the numbers. Paul?

Financial Outlook

Paul Richardson
Group Finance Director, WPP

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Thank you, Mark. Okay. So I'll take you through the detail. It is a little more complicated than usual these numbers. Really because of the Kantar disposal, so I will spend a bit of time trying to explain it. So the word on a continuing basis, means we, WPP on its own. So the full year highlights, so on a full year basis, our like-for-like revenues less pass-through costs were down 1.6%. If you were to include Kantar for the year, our revenue less pass-through costs would have been down 1.2%. In the fourth quarter, we were down 1.9% on a continuing basis and including Kantar would have been down 1.6%.

On the full-year operating margin, on a continuing basis, we were 14.4%, down 1.2 margin points on a like-for-like basis. It reflects the challenges faced by the specialist agencies, as well as investing for future growth with increased investments in technology, HR, client and new business teams. We did have a stronger balance sheet and we've commenced our share buyback program. Our first completion of the sale of 90% of Kantar was in December 2019 with net cash proceeds to-date of $2.8 billion out of a total of $3.1 billion. With debt to be reduced by approximately 60% of proceeds i,e., $2.1 billion and the share buyback of around 40% the proceeds, i.e., around $1.2 billion, of which about a quarter has been completed already so far.

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So turning now to the statutory income statement. This includes all the sort of statutory items and in terms of the difference of the continuing operations, GBP707 million reported for this year compared to the GBP1.02 billion last year there were differences in 2018 such as pretty significant exceptional gain of around GBP73 million in 2018 and a significant gain on revaluation of financial instruments in 2018 that did not occur.

Putting that to one side, we then shown here the discontinued operations added for Kantar, only adding GBP11 million to the statutory profit after tax. When you compare that to the PAT of last year of GBP138 million, there is a reconciling item in the back of the numbers, which shows that the actual profit after tax of the Kantar for this year was GBP189. But when you adjust the three items, which is goodwill, the gain on the sale, and the tax on the disposal, those three net down to GBP11 million. So, on a reported basis, the Kantar only added GBP11 million to PAT which then generated the 49.5p versus 84.3p last year.

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When I turn now on a headline basis, it is now on a comparable basis just WPP alone in 2019 with revenues of GBP13.2 billion, revenue less pass-through cost of GBP10.8 billion compared to 2018 also on WPP alone. So on a revenue basis, we were like-for-like flat and on revenue less pass-through cost basis, we were down 1.6%. On EBITDA, which was benefited by the IFRS-16 adjustment, we were down 5.3% at GBP1,829 million. And as I mentioned before, our operating profit margin of 14.4% compared to 15.2% last year on a reported basis was only down 0.8 margin points, because of the benefit we got this year of IFRS-16. But on a like-for-like basis, we were down 1.2%. You then flow through to the diluted EPS on WPP on a continuing basis 78.1p. You then add to that the Kantar earnings for 2018 that we've had to remove of 14.6p, you then get a comparison of the 92.7p this year compared to what we actually reported last year by 108p. So that helps you bridge the gap. And as you know we've declared a dividend of 60p for 2019.

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So, just turning now to like-for-like revenue growth by quarter. These are the four quarters shown down below, we were minus 3.3% in quarter one; we were minus 1.7% in quarter two, making minus 2.5% for the first half of the year on a continuing standalone basis. If we had included Kantar on the half year, the decline would be slightly less at minus 2%. In quarter three the Group grew 0.5%; and in quarter four we saw a decline of 1.9%. So in the second half the decline was 0.7% on a continuing basis. Hence on a full year basis, we were down 1.6% on a continuing basis and if you were to include Kantar, we'd be down 1.2%.

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Currency did have an impact throughout the year and ended up being slightly positive of 1.2%, being strongly positive in the first three quarters and then swung in the fourth quarter. If we were to run our budgets in 2020, at the end of the year exchange rates which in dollar-pound was GBP1.3250, we could see up to a 3% headwind in our budgeted numbers for 2020, although this is probably quite a conservative number on the pound-dollar exchange rate.

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So again, just revising again, and we gave this detail out at the third quarter. We've shown you each quarter on both bases, the continuing basis at WPP, the box that are circled, the half year being down 2.5%, after nine months, we were down 1.5% and with the final quarter, for the full year, we're down 1.6%. As Mark mentioned, in the first half we're down 2.5%, in the second half we're down 0.7%.

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So turning now to revenue less pass-through cost by region. And overall, we had a better second half as I'll come to explain in each of the regions and on a full year basis, three out of the four regions grew. So North America, which is 30% of our business had revenues less pass-through costs of just over GBP4 billion and on a full year basis was down 5.7%. The first-half being down 7.3%, the second half being down to 4%.

The fourth quarter was weaker in North America than quarter three, and whilst our global integrated agencies did have better performance in quarter four than quarter three, our public relations and specialist agencies were weaker in the fourth quarter than the third quarter in the USA. In the UK, which represents 13% of the business or GBP1.39 billion of revenue, we were positive for the year overall, plus 0.3%, having started strongly in the first half with a growth of 1.2% and in the second half we were minus 0.5%.

Again in quarter four, the global integrated agencies had had a very strong nine months, we were up almost 4% in the UK, but had a weaker fourth quarter including some weakness coming through in GroupM we had a strong prior-year. We were supported in the UK by a very strong performance in our specialist public relations business in the fourth quarter coming through.

In Western Continental Europe, which is 20% of our business, just over GBP2 billion of revenue less pass-through costs. Overall, the region grew at 0.7%, having been down 0.2% in the first half, we grew at 1.5% in the second half with strong growth in the fourth quarter coming through in Germany and in Spain.

In Asia Pacific, Latin America, Africa, Middle East and Central Eastern Europe, as a region overall, which is 30% of which our Asia-Pacific business is approximately 18% of our business, revenues in total of GBP3.2 billion grew overall by 1.4% for the year on a like-for-like basis, having grown 1.1% in the first half growing at 1.8% in the second half. So overall, the Group with GBP10.8 billion of revenue less pass-through costs was down 1.6% on the full-year basis; having been down 2.5% in the first half and down 0.7% in the second half.

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So turning now to revenue less pass-through costs by sector. If you look at the Global Integrated Agencies, which is around 75% of our business or GBP8.1 billion of the GBP10.8 billion of revenue less pass through costs in total. On a like-for-like basis, this Group is disciplined, had a like-for-like decline in 0.7%, having been down 1.8% in the first half, we grew 0.3% in the second half in these businesses. And GroupM continued to perform strongly and all networks had a better second half than the first half and in particular VMLY&R returning to growth in the second half of the year globally.

In public relations, which now represents 8% of our business or GBP898 million of revenue. Overall, we were down 1% for the year; having been down 1.5% in the first half, we were down 0.2% -- sorry, 0.4% in the second half, helped by that strong specialist public relations performance in the fourth quarter. The specialist agencies, which does include the specialist Ford agency GTB, which had lost the omni-channel work in the second half last year did affect the overall results in the discipline, in total at 17% of the Group, a GBP1.8 billion of revenue less pass-through costs. It was down 5.6% in the full year, having been down 5.7% in the first half, it was down 5.5% in the second half.

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So turning now to a margin bridge to help you move from the actual reported margins in 2018, the 15.2%. We do get a benefit at the operating margin line from the IFRS-16 of 0.6 margin points. We did have a margin deficit or loss from the non-Kantar acquisitions, disposals and foreign exchange impact on margin in total of minus 0.2%. So that takes us from the reported 15.2% to revised base for 2018 of 15.6%, that was a drop from that to 14.4% of 1.2%. We did have a higher staff cost ratio, higher by 1.3%, which includes the higher severance, pension and social security costs, as well as wage inflation. We did have an improvement in establishments and in establishment ratio by 0.3 margin points and with that investments in technology and IT we did have a margin of 0.2% impact as a result of that. Those three elements combined bring or constitute the 1.2% like-for-like margin decline from 15.6% to 14.4%.

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If I now turn to headline operating margin by geography, the US remains our strongest margin region and generates around 42% of the Group's profits at GBP662 million. Its margin declined from 17.5% last year to 16.4% this year. In the UK, which is GBP188 million operating profit, the margins improved in all three disciplines and the margins inched up from 12.9% to 13.6% this year.

In Western Continental Europe, we saw margins decline from 13.3% to 12%. We saw some softness in margins in three markets in Italy and Holland and Portugal in Western Continental Europe this year. And in Asia Pacific, Latin America, Africa, Middle East and Central Eastern Europe, again margins declined from 14.6% to 13.8% and we saw some softness in margins coming through in Japan, Korea, and Australia. Overall then, margins at 14.4% were down 1.2% geographically across the networks.

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Turning now to the disciplines. Looking at the Global Integrated Agencies, which is GBP1.2 billion at the operating profit, margins were basically flat moving down 15.2% to 15.0%. Public Relations, the same story. Margins broadly flat, moving from 15.8% down to 15.7%. And the Specialist Agencies in which obviously GTB sits, the main driver of the margin change is moving down from 14.7% to 10.9%.

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Turning now to trade estimates of new wins and losses since the third quarter trading update. There has been a modest amount in new business both won and lost, most recently two media wins coming through for GroupM on two clients, Hasbro and AXA, and one global creative win for one of our companies or some of our companies in Mondelez in Europe, no more than the usual rhythm of wins and losses so far year-to-date.

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Turning now to free cash flow and free cash flow conversion. This is the one area of the reports where both company's cash flows are included for the 12 months of WPP and 11 months of Kantar in these numbers. So you can see here in terms of the operating profit number the GBP1,580 million, you've got the continuing operations being WPP GBP1,296 million and the discontinued operations and operating profit level for Kantar of GBP284 million. You then have the various adjustments for adding back depreciation and amortization. You then see here the total working capital improvement of GBP350 million, both trade and non-trade, in fact the trade was closer to GBP500 million improvement in working capital year-on-year.

And also note here in the tax paid, this also includes GBP157 million of the gain on the disposal, we have to pay the taxes there on GBP157 million as part of that GBP536 million. The earn-out payments this year were GBP130 million and in total on the balance sheet remaining, we only now have GBP254 million of earn-outs to pay on all future acquisitions on the balance sheet. So free cash inflow for the year was GBP1,044 million, pretty similar to that we achieved in 2018, GBP1,093 million. In terms of a conversion number, based on the profits attributable to share owners for both Kantar and WPP would have been 89% conversion, well within our target range of 80% to 90%.

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So turning now to the uses of free cash flow. So, first of all, in terms of new acquisitions just GBP94 million was spent year-to-date or in 2019 on new acquisitions. And obviously disposals proceeds came through of GBP2.3 billion in total which I will go through an itemized list. So if I looked at the net cash available for distribution of the free cash inflow of GBP1,044 million, less acquisitions, it would have be GBP950 million, but with the disposal proceeds it's GBP3.2 billion. What we have spent or distributed to share owners in 2019 was GBP750 million dividend, and the GBP44 million of share buybacks in December of last year. So, total net cash generation GBP2.47 billion.

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When I look at the constitution of the disposal proceeds, you have the Kantar consideration received GBP2.3 billion, then the cash that was our balance sheet has really gone on to their balance sheet as part of the sale program, lesser transaction costs, totaling a net GBP1.97 billion. We then did the sale and leaseback of our freehold property, the 3 Columbus Circle were generating around GBP159 million, and the sum of the four other disposals listed out here totals GBP185 million. So in total for the year, we generated about GBP2.3 billion of disposal proceeds of which the vast majority was from the Kantar disposal.

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In total, over the last two years, where we have now substantially completed our disposal program, I know over 50 disposals have taken place, generating about GBP1.2 billion from these assets sold, which had a modest contribution to profit of around GBP19 million to GBP20 million in 2018. But including Kantar, with these disposals we've raised around GBP3.5 billion over the last two years.

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As Mark has mentioned that I've mentioned already as well, on the Kantar transaction, we have now successfully executed the transaction resulting simplification and deleverage, proceeds in total will be around GBP3.1 billion net of tax and disposal costs. The first completion stage was the 5th of December, around 90% of the transaction has now completed, raising GBP2.8 billion and subsequent completions will be this year raising around another $300 million. This will take our leverage to the low end of our targeted range, well ahead of our plan. Our plan was to bring the leverage to the 1.5% to 1.75% average net debt to EBITDA target by the end of 2021, we should achieve this by the end of 2020. And again, this measure is without lease liabilities included and this is resulting from using 60% of proceeds to pay down debt and 40% of proceeds as a share buyback program.

In terms of why this transaction has been somewhat difficult to report. Obviously, we've removed the earnings from the P&L in 2019 at 90%. We just received the cash in December. We've had a very limited impact on interest in 2019. If I look forward to 2020 on the interest savings we should generate from the disposal proceeds at the rate we've retired bonds, that's around GBP37 million in total. When I then add back the accelerated bond fees we had to pay in 2019 that won't reoccur, we should see an interest saving around GBP50 million appearing in the 2020 interest line as a result of this transaction. And then with the full execution of the share buyback program, it should generate somewhere between 7% and 9% reduction in share count throughout 2020. So when those things all take into account, that's in the full picture from an earnings perspective of the Kantar transaction.

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So following through on the net debt for the year, whilst we had other disposals going on, that did generate a reduction in net debt, so on the average for the year, the GBP743 million took our net debt from GBP5 billion down to GBP4.2 billion and only at the year-end, with the full proceeds coming in, you see the change in the year-on-year number from GBP4 billion last year to GBP1.5 billion this year. Interest cover remains strong at around 9.7 times. And when I look at the year-end net debt to the EBITDA, which is not the way we normally measure it, but you can see a significant difference at this time being year end at 0.8 times compared to last year-end with the year-end net debt at over 2 times.

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When I look at the uses of our free cash flow, the metric in terms of acquisitions as we like to spend what we can generate in disposals, this year we've obviously generated significant amount of disposals and spent a modest amount of GBP94 million. The share buyback program, in total, will be GBP950 million from the disposal proceeds from Kantar, of which GBP44 million was spent in December 2019. And there is strong headroom on facilities in our banking and bond Group.

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Finally for me, just conclude on what happened on IFRS-16. We adopted this during 2019. It is resulted in the gross up on our balance sheet as we anticipated, of GBP1.7 billion of right-of-use assets and GBP2.2 billion of lease liabilities, because this is all primarily real-estate related for ourselves. We also mentioned a year ago that actually there is an EPS impact which will probably be neutral in 2023, 2024,

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but if I turn the page, this really shows of two key impacts that have affected on us this year. So the margin has been benefited by 0.6 margin points, but the EPS has been impacted by 1.8p, which is actually worse than what I first predicted of a decline of 1.3p to 1.6p as a result of IFRS-16.

So with this, I'd like to hand over to John. I think he is best placed to take you through his CV.

Introduction / 2020 Financial Guidance

John Rogers
New Chief Financial Officer, WPP

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Thank you, Paul. Good morning, everyone. I'm pleased to be here for my first set of results for WPP. I thought I'd just -- I've been in the business now for four weeks, so still relatively early days, but I thought I'd share with you a little bit of my background, my CV and how that's relevant, I think, for what we have going forward in WPP. So in reverse chronological order, before I joined WPP, I was actually the CEO of Argos and also looked after Sainsbury's General Merchandise and Clothing business, we bought the Argos business back in 2016. And actually, I led as part of the management team, a major digital transformation of that business. And for those of you that don't know today, it's one of the most digital retailers in the UK with about 65% of sales coming online. So, I do know a little bit about digital marketing. Not only that, but we also took the business for a major transformation, so we actually integrated it with the Sainsbury's business delivering GBP260 million of cost savings through doing so, and actually we did that 10 months ahead of our three-year plan. So again, I've got some experience in understanding how we can transform businesses, which I think will be relevant to WPP going forward.

Prior to being CEO, I was the CFO of Sainsbury's, I had a broad remit as CFO, looking after not only the core finance functions, but I looked after online food business, procurement, property, also responsible for Sainsbury's bank, as well as our operational efficiency areas. So it's quite a broad remit as CFO. And then had a number of roles in the finance team prior to that. For those of you that don't know, actually I started my life out as a missile design engineer for British Aerospace, so it's amazing how your career takes different turns.

But it's a fantastic time actually to be joining WPP, it's an amazing business. One of the reasons why I joined was really the combination of the fantastic creative talent within WPP, but also the investments that we're making in technology. And I think some of you would have come along to the technology Investor Day that we ran three or four weeks ago would have seen evidence of how we're taking the business forward and I think giving us lots of opportunity for future growth.

It's also, obviously, the sector is going through a huge amount of change at the moment, and WPP itself is going through a lot of change in year one of a three-year transformation plan. I think one of the things that also appeals to me was the great progress that management has made in delivering against that three-year transformational plan. So simplifying the business, changing the culture to a more collaborative one, and also significantly strengthen the balance sheet I think are three great areas that the business has made progress on over the last year. But there is clearly, I think, more to come and I've only been in the business for four weeks, so it's early days, but I think, Mark, and Andrew in the past have talked about the opportunity that we have to make the business more efficient and simpler still. And my observations in my first four weeks is whether you look across finance for, and the ability to make the finance processes simpler, or indeed looking at HR and the way that we recruit, attract, retain and develop our talent, or the way we buy in procurement or indeed our IT systems. There are plenty of opportunities to make things simpler, bring things together and deliver cost savings going forward.

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Now obviously I'm not going to talk into too much detail about that today, but hopefully once I get the chance to get my feet under the table, and we can bring those plans back to you in a little bit more detail. But it's my job today to set out for you the guidance for the year ahead. And as we said in our statement, we do make this guidance without reflecting any impact from the coronavirus and the reason for that is just simply because at this stage, it's almost impossible to tell what the financial impact of that will be. So we thought it was sensible to base our guidance assuming no reflection of any impact. And of course we will come back to you with our trading statement, our Q1 trading statement, we'll update you in a little bit more detail.

But in essence the guidance for the year is like-for-like revenue less pass-through costs flat, albeit we do expect the performance of the business to improve throughout the year. And the headline operating margin to revenue less pass-through costs also being flat. So that's the guidance for 2020, but in so doing, we are also reiterating the guidance that we gave in relation to 2021.

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So we believe we're on track to deliver our financial targets by the end of 2021. And just to remind you what those are, that's organic growth in line with our peers. Headline operating margin of at least 15% and free cash flow conversion of 80% to 90%. So we're comfortable today to reiterate that guidance for you for those medium term targets.

So that was relatively short and sweet for me. I look forward to getting to know all of you better over the coming weeks and months ahead. I'll now hand over to Mark to take us through the strategic update. Thank you.

Progress on Strategy

Mark Read

Chief Executive Officer, WPP

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Alright, thank you John and it's great to have you onboard. So, and I think we'll take just a few minutes to go through the strategy and the process -- the progress we've made in the last year and how we see it really one year in. And I think, just to start with the market overall, I'd say, the structural changes that we talked about 15 months ago really have developed, I'd say, pretty much as we expected they continue. It's important to state that creativity, innovation growth, the things that WPP do best, remain critical to our clients, conversations I have with the Chief Executives and Chief Marketing Officers of our clients say that that is critical to their business and I think you see with the results from some companies the emphasis shifting from sort of cost reduction to growth.

But at the same time there is no doubt that the technology disruption in our business continues unabated, not only do analog media channels continue to decline, but this continued innovation in the digital media channels, the growth of SVOD and AVODs, so subscriber and advertiser funded channels, the launch of Netflix, Disney Plus, Peacock et cetera, are changing the media landscape. I think it's interesting, particularly in the case of Peacock to see more advertiser funded channels. And I think we would actually see a balance between advertiser funded and subscriber funded media channels.

And then if you look to the retail sector. All of the growth is in e-commerce. Direct-to-consumer brands are growing and our clients are concerned about the growth of Amazon and Alibaba and what it means to how they can reach the consumers, both in terms of, you know threat, but also in terms of opportunity. And all these areas are areas where we are advising our clients.

At the same time, clients in a more complicated world are looking for simplicity. How do they work more easily with WPP; speed, how can we work faster in a more agile way; cost efficiency, where do we do the work, how do we do it, how can we do it more cheaply and more flexible models you do, they do it with us. Do they do it in-house or is it a balance where actually our people are sitting in their offices which increasingly it gives them what they need with us as their partner.

The competitive landscape continues to shift. The technology companies I think are changing the world for everybody, but particularly for WPP. I'd say in good ways more than in bad ways some of these companies are, as we come on to our partners. And consultants are entering our business or have entered our business. I think we've been quite clear for the last 18 months that we do see the challenge to us from the consultants. But I would say that it shows the dynamism and opportunity that exists in our business and WPP we are well able to compete with them as they do that.

And there's no doubt that privacy is rising up the agenda, we can talk a bit about in the Q&A, if you like the Cookie, the Cookie Apocalypse that's coming and what that means.

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Now, our response to that, that we set out here December 2018 was a strategy that we called Radical Evolution and we talked about it being radical in a sense that there were no sacred cows and I think we've demonstrated that by the Kantar transaction, by bringing VMLY&R together, probably Wunderman and JWT together, so there have been no sacred cows at WPP.

And it's a process of evolution and we said at the time that we do this at the speed at which the business could absorb the changes and I think that we've moved probably faster than most people would have expected. So evolution is not a slow process. It's as fast as the business going to achieve and I think that's what we've done. We really set out five areas we want to tackle: the vision and offer for the company, investing in creativity, putting data and technology at the heart of WPP, simplifying what has become quite an unwieldy structure, and really building for the first time a culture at WPP for the company overall.

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And the vision that we set out for WPP was to be a creative transformation company. And each of those words is important, creativity talks to ideas innovation, growth and what clients want and what makes WPP special. Transformation talks to how we help our clients move from how they used to market in the past, way to market in the future, and we need to be a company not a Group. A company does things the same way not different ways. We have one IT function, one HR function, one finance function, as John said, not only does that simplify the organization, it should in time let us take out cost from the business.

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But within that sort of a new vision for WPP, we also laid out a new offer and that offer opens up new growth opportunities for the new WPP, allowing us to expand into the fast-growing areas of experience, commerce and technology. And I think the communications business is a good business, but it's a business that WPP needs to break out of, if you like, and I think that actually CMOs of large and small clients face a much broader set of challenges here. Not only is WPP being disrupted, but lives of our clients has been disrupted and they need a partner that can help them not just figure out how to communicate with their customers, but how to experience -- how to create experiences that they value how to sell online and how technology is changing and empowering marketing. And I think you can see some of those growth opportunities in the more encouraging growth areas within our business.

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If you look at our technology clients, they grew 10% in 2019, our luxury and -- luxury-goods clients grew 15% and actually packaged goods companies that many of the people have been under pressure, for the CPG clients in our top 200 actually grew at 3% in 2019. You can see some return to spending during the year, and India and Brazil were both strongly performing countries. I think it's important to sort of contextualize the situation at WPP. The reality is that the issues in our business are primarily in the United States and primarily within the specialist agency division. And if you look at the numbers they reflect that. And I think consistently during 2019 and during 2020 and 2021 we'll continue to address those issues.

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We did have problems with client retention and we started 2018 with our largest client under review and there were a number of what I call sort of one-off client losses during 2018, as I said in my introduction, and we had about $4 billion of business under reviewed beginning of 2018. That number is about $1 billion in 2019. And this year, as best we can estimate is around half of what it was a year ago. But we did have a solid track record of wins during 2019 and reduced losses.

If you look at the wins on the left hand side of the page, you can see this was nine wins of $100 million or more, and we do lose unfortunate business in our industry, one of the things that makes it fun as well as challenging are pitches and something I'd like to go to see how -- how we perform and how we perform with our best and also what clients want. So it's a great thing, but it's competitive. But I think WPP is now today a much more competitive company than it was two years ago and will be even more competitive in two years' time then it is today.

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Now we talk a lot about creativity and important to take some time to show you some work. We chose really three pieces of work to symbolize what we're doing, we are running in terms. So the first piece of work is for BT, it comes from Wunderman Thompson here in London, and we chose it, I think, because not only is BT a big brand, but because it shows what we can do when we bring a traditional sort of so-called traditional creative agency together with a so-called digital agency and BT was a client actually of Wunderman's historically, we won business about three or four years ago, we're helping them really more with their CRM and other areas and we started to work with BT Sport. But bringing the creative talent of J. Walter Thompson into the Company enabled us to do this type of work. If we could run the BT Sport please.

(Video Presentation)

Alright. So you can see what you can bring together and we’ll report back at the end of the year how the AI did, particularly in the season. And second piece of work is for the Super Bowl is for Budweiser. It was done by David an agency in the US. And I think that whilst creativity is changing, it's clearly still a role in our business for sort of big powerful creative ideas, particularly at sort of events like the Super Bowl, which is as much a television advertising event or marketing event as it is a sporting event these days. We'll run the Budweiser Spot please.

(Video Presentation)

And so that last spot is for Burger King and this is a piece of work, actually it's been three years in the making came out of INGO in Sweden which is a joint venture within Grey and Ogilvy, David in the US and actually interestingly there is a Publicis agency involved in its creation as well in the idea. So hopefully it won’t put you off your breakfast, but we'll run the Burger King Sport please.

(Video Presentation)

Alright. So you can imagine as well, a lot of people talking for some media budget and so I think you see across that work, one, how creativity is changing, some media events are still important and also how long and tortuous, sometimes the creative process could be. But I think it really is that what we do, is important for our clients. Ultimately, you know people succeed because they engage with other people creatively. now. The creativeness is changing because of technology and one thing we've been trying to do is really put technology much more at the heart of our business and I think we like to think is sort of three phases of technology at WPP.

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And I think that if you look at where we are objectively, we made the acquisition of 24/7 Real Media in 2007, so we have been investing in technology for a long time within our Company and I think particularly in the sort of MarTech and AdTech area, we started around 10 years ago to acquire companies, then we started in the last two or three years to integrate them into our businesses. What we need to do really now is transform WPP by making, having a much more coordinated approach to technology and scaled global programs.

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And I touched really on two of the things that we're doing, we've made progress on this year. The first really is driving growth with our strategic technology partners who really sits in the areas sort of media and commerce partners like sort of Google or Twitter or Snap, marketing and AdTech partners and then software and cloud vendor partners. And with each of them we have a sort of holistic partner strategy developing joint products and solutions, getting access on a preferential basis to their technology. We develop joint go to market opportunities with them. So, for example, with Adobe or Salesforce, we have a very clear plan for each of our major clients. How they can embrace and adopt their technologies.

And then important, we are investing on scale, global sort of training and enablement programs, much of which is done with our partners who provide a lot of the training to our people. And I think that in a world, that's being where seven of the top 10 companies by market cap are technology companies, being transformed by technology. Few companies are in the position of WPP to help our clients understand how those companies are changing the world and how they should adapt. So, partners, I think are a critical part of our strategy.

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The second is really also to invest in optimized innovation across the Group. And as part of being a company, the Group is to have a single technology platform, which we are calling WPP Open, so Open is one of the company's new core values that will connect the application data solutions that historically we've generated sort of individually across this Group into one platform. It should simplify and coordinate what we want to do and surface and stimulate organic innovations. We are not going to centralize technology developed within WPP, but we are going to leave it close to the business where innovation really happens, but centrally coordinated and integrated together. So really the goal is to sort of accelerate our knowledge sharing and collaboration, as well as sort of eliminate inefficiencies from duplicated efforts that can take place when things are not -- are not properly coordinated.

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So the other element of a simpler WPP is our organizational structure. We talked a bit about bringing the agencies together and I think that integration is critical to eliminate sort of the digital silos, eliminate their silos within the company. We also made a lot of progress on rationalizing the structure of the Group and reducing any spurious activities. I think that we have a simpler organization now focused around our clients, around our companies and around our countries with people responsible for each one of those areas.

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And then the last thing I want to touch on really is culture. One of the questions that we had to ask ourselves is why does WPP exist and provide that answer to our people. And I think we set out a purpose for WPP really to use the power of creativity to build a better future for our people, for our clients, and for our communities. For our people, we want to attract, retain, develop the best people in a culture that we define as being open, open to collaboration, optimistic, optimistic about the future and extraordinary in terms of the work that we do.

It is also important for our clients and we want WPP to be the destination for clients that want to put purpose, increasingly and correctly at the heart of the agenda for many of our clients. I want WPP to be the destination for clients who want to put purpose at the heart of their marketing and really deliver better work against that objective. I'd also want WPP to help in our communities I mean, as a company we're responsible in some way, in either media or creative for one in five, one in six of the world's creative messages. And I think more commercial messages. I think it's really motivating to the people inside the company to see how we can use that power to make the world a better place and not a worse place.

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And we talked in the statement about some of the work that we've been doing. We banned single-use plastic within all of our WPP's offices, opens up a number of conversations that we have with our clients around the world about how they can do the same thing. And as you know, this is increasingly on the minds of not just our people and our clients but also our investors and we set out here some of the recognition that we've had, both in terms of exclusivity and diversity and in the environment and in social goals for WPP overall. We're very pleased to be ranked by Tortoise, a number nine in the Responsibility 100 Index, which looks overall at the activities that we're doing. So that's the strategy and the process, how would I -- or how would we evaluate the progress on the key metrics?

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I think that we've made a lot of progress on simplifying WPP, we met all the targets we laid out 13 months ago for closures, disposals, mergers and the company today feels a lot simpler, easier to manage and easier for our clients to navigate than it did 13 months ago. We've made progress in returning the company to growth and I think that setting out guidance for 2020 of flat revenues and margins puts us on the path to deliver what we need to deliver in 2021. We had a stronger performance, as I said, in the second half of the year than we did in the first half.

In terms of margin. I think we are reinvesting for growth and we did reset the margin target to 15% for the long run. We have some work to do in that area. I think we've made -- if we're candid, somewhat slower progress on shared services, but with John joining, I think that will accelerate and in the long run will put us in a really good place from a finance and cost perspective. And lastly, I'd give us three ticks in terms of the leverage, we had really excellent progress, I think particularly important at the current time, to get our leverage to lower end of the target really a year ahead of plan. So that's sort of how we're doing strategically.

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Now quickly to touch on our priorities for 2020 before we get to the Q&A. I think we really see five priorities for the year. Continue to invest in client and new business teams for growth. To me, returning

WPP to growth is the most important thing. If we can get the company growing, all else will follow. And while the year is flat overall, we have said we expect the business performance to improve during the course of the year. We need to continue to work to bring new creative talent into the organization and lead our work with stronger ideas for our clients.

We have to continue to strengthen the collaboration and build the culture within WPP. In technology investment, and we had an Investor Day here a month ago that I think a number of you came to, and I think you can see the power of what we can do from a technology perspective. And I think industrializing WPP Open and really putting technology more at the heart of what we do will open up new growth opportunities for our clients and sort of enable us to break out of the sort of the communications market or break out further from that into new areas.

And then and this is a longer -- a longer term than just 2020. But I think we need to really to get started in a very firm way in 2020 to tackle duplication and inefficiency in much of the back office and shared services in the company and I know John is keen to do that. So in closing, I think we've done a lot, but there is a lot, still to do. And the core team is in place. And I'd say that we're optimistic about the future, we're motivated about the opportunity for WPP and ready to get on with it.

So thank you for listening and now it's time we'll take your questions. Go ahead. Here is the first question, Adrien.

Q&A

Adrien de Saint Hilaire (Bank of America): Yeah, good morning everyone, it's Adrien from Bank of America. So I've got a few questions please. To start off with your 2020 guidance. I think you're calling for an improvement throughout the year. So second half being better than the first half, why would that be the case given that the comparatives are quite significantly easier in the first half than the second half?

Mark Read: Well, yeah, I think this is the key, because that's what our - when we look at the businesses and look at what the businesses are saying - that's what our budgets call for. I think comparatives are only one of the things that matter and 2019 was impacted by a number of client losses. One, the Ford impact rolls over a little bit into 2020, not very much, but a little bit in the first quarter. So, I think overall -- that's what when we look at the businesses and how the revenues fall through the year, what they say.

Adrien de Saint Hilaire: Second question, there was an interview of Brian Whipple from Accenture in the FT about two days ago. Doesn't want to enter traditional media buying. But he says he is quite keen to go into programmatic advertising. Can you remind us, maybe what your exposure to programmatic advertising is at the Group level or at the GroupM level or maybe at the GroupM level, how much did that grow for you in 2018, 2019?

Mark Read: So I think the first thing to say is that our media business is a fantastic businesses. That all of the evidence to-date suggest that clients want to buy media or an integrated and not disintegrated business. And actually, if you look at the creative business, there's been a lot of digital creative agencies and traditional creative agencies. The same is not true on the media side of the business. I mean I challenge you to name very many digital-only media businesses of any size, I mean there are not -- there are none within, let's say, 5% the size of GroupM. So, I don't think that clients, yet, I would say never, I don't think that clients yet want to buy media on a digital-only basis and want to see their media integrated.

I think the second thing to say is that, if you look at GroupM, it's $50 billion of media, around, let's say, $20 billion of that is digital and the bulk of which is search and social and sort of the display bit will be probably about four of which half would be -- perhaps half would be programmatic. I think in a world without cookies programmatic becomes a little bit more difficult than a world with cookies. And so you have to think about what you do in that area and I think that actually in some respects the shift that is taking place in media gives incremental value to scale, to relationships with premium publishers to the ability to take data and integrate into those media channels. And I don't -- and I think that it's not quite so straightforward. The other observation I make is that, GroupM with Christian Juhl joining as CEO, who ran Essence. Essence, I remind you buy Google's media for Google. I think Christian has set out in his strategy for GroupM and he very clearly positions sort of collective intelligence at the heart of GroupM strength. I think the benefit our media business is not just scale in terms of buying power, it's scale in terms of data and insights into the performance and media across different channels. And I don't think those are easily replicated either by in-house media capability or to be honest, people going into it on a sort of single outsourced only basis.

GroupM does not have a media outsourcer, they run a media business that buys media on behalf of clients. It's a very different thing from taking individual client only media approach. So, I'm not in any way complacent, Accenture is an excellent company with very strong technology capabilities. But I think that our media business has a number of advantages and not least of which is that buys media across all of the channels, not just the so-called digital ones.

Adrien de Saint Hilaire: Okay. And I've got one last financial question maybe for John and Paul. What would be the sensitivity of your 2020 operating margin to organic sales growth. I.e., if we start placing in maybe slightly weak organic sales growth than flat, would you be able to hold the margin. Is there any flex in the P&L?

Paul Richardson: Well, it's really about anticipating the trends in revenue. I mean our business is not that complicated once you understand where the revenue is going. And so the worst scenario is if you get a very late in the year dramatic reduction in revenues and you've really had your cost built up for the first nine months. I mean the one beauty of what's going on right now is we -- everyone is very nervous about what will happen and so actions will be taken pretty early. I think if you can see even where we've had difficult territories before we've actually been pretty good at maintaining our margin across the board. So I think it's more about the surprise element and, we've always said, we have strong margin countries across the world, there is no regions where we lose money, there is actually no countries where we lose money. So, it's all relative to how we perform and the speed of action. That's really the key to this in my view.

Adrien de Saint Hilaire: Thank you.

Patrick Wellington (Morgan Stanley): Patrick Wellington with Morgan Stanley. You've reiterated your guidance for 2021, but you have had a 60 basis points benefit from IFRS-16 in that time, you probably had a bit offset from Kantar, but in fact it's not really a reiteration on the same basis, is that right?

Mark Read: Well, I think we had half, the 0.6 of a margin point on IFRS-16 and 0.3 on Kantar and Kantar was a little bit -- had a slightly higher margin than the rest of WPP. So, we could have made it 15.2%, I think we felt the 15 was a good approximation 15.2%, so I don't think we feel like we're changing it.

Patrick Wellington: Second one is, what gives you -- what are the levers, if you like, for an organic revenue growth upturn in 2021? We can see that obviously the GTB effect drops out a bit in 2020. But if I look at the wins on Page 36, it says nothing in the top 10 from VMLY&R and there is one from Wunderman Thompson. So what gives you confidence in the acceleration in 2021?

Mark Read: Yes, I think there's two ways to think about it. One is the wins that you've outlined are what we're able either reported in the press or that we're allowed to say. And there are other wins, many wins that we're not allowed to talk about increasingly as you get out of the sort of traditional advertising things aren't as well talked about, which is why a number of you have commentated, the wins is reported in the press don't always translate into net sales, net sales growth. I think that's one thing. And there are some things in the pipeline, that hopefully should be quite positive for WPP.

And I think the other way to look at it is, if you look at our performance, we have a sales decline in the US and we have growth outside the US. And if we could get, if in 2019 the US were flat and not where it was, we would have had, I think, an incremental 2.4 percentage points of growth, we'd be growing 0.8% for that. So we have issues that we're aware of that we need to fix. And if you look internationally, we were plus 0.5 in the first half, plus 1.3 in the second half. So I think we look at that, there are things that are going better. There are things that we need to fix that we are fixing, and net-net, that gives us the momentum going into 2020 and 2021 to get back to where we need to get to in 2021.

And you got to remember that 2019, we were impacted by a large number of losses from 2018. So I think the -- that would be the way I think about what we need to get -- what we need to get done.

Patrick Wellington: And just quickly, obviously I want to talk about coronavirus, but you normally give us a geographic sort of run through of your territories, China is your fourth largest market, I think it was doing quite well in the fourth quarter, because you said in the technology Investor Day that China has grown for the year. So, can you give us some parameters of the potential there?

Mark Read: China was 5.1% of our net sales. It's a very seasonal market. So the second half of the year or it starts off very slow and gets bigger as the year goes on. And as you know, February is Chinese New Year. So you can do sort of the mathematics if you like on that. And I think really at this time, given that we haven't seen February's numbers, we felt it's premature to try to quantify things and particularly in the current environment where things going beyond China, I think it's hard to exactly say that there is no -- we're not hiding anything and saying, that we're just telling you in a straightforward way as we like to do normally, how we see things, there is no -- there is no sort of no mystery behind if you know what I mean.

I mean over the last month, have been extremely impressed by the work that our people have been doing in China with helping a number of our clients, manage their own situations, communicate with their people, with their clients, with regulators, with government. All of the activities that they have been doing, they've done quite a lot of that from home. And they're starting to come back to work in China itself. And depending on what happens, we'll see how the rest of the year balances in China. How quickly things sort themselves out there and what the government would do to the economy.

So I think the reason we were not specific was just because I think at the moment, it's really just unknowable. It's more unknowable today than probably it was Friday. If we had this meeting Friday of last week, we may have given you a different answer then we give you today. So there is nothing -- there is no -- there's nothing mysterious behind what we say, and I think we just want to be straightforward to say that we'll quantify it as soon as we can. That in our view is, with the first quarter trading update, if it's something that we can say earlier, obviously we will.

Is there anything John you would like to add to that? No.

Julien Roch (Barclays): Good morning. Julien Roch with Barclays. Coming back on media, you already gave a bit of an answer and I know you have limited disclosure on divisional basis. But what can you tell us about media performance in 2019? I think GroupM had their best performance ever, you said like Xaxis grew in line with the first, i.e. 17%. IPG said it was their best performing assets, well above their 3% organic, so probably 5% plus. So what can you tell us. Did you do the same, how strong was media in 2019 is my first question?

Mark Read: I think the media business performed as well, maybe slightly better than 2018 and I say had a slightly better in the US than before. So I think it's pretty much consistent with the performance. I think we've always said, contrary to the expectations in some parts that the media business is being disintermediated, it remains a strong business for us on a global basis, both in terms of performance and client retention and quality of management and leadership.

Julien Roch: Second question is, do you think Wunderman Thompson will grow in 2020?

Mark Read: So we're not going to make projections on a company-by-company basis. I think that is a significantly bigger business than VMLY&R and significantly more complex and really 2019, the team have done a lot of heavy lifting. They've merged around 90 offices around the world collocated people, most of that actually 90% of that is now completed. I would say that the issues that are primarily, again in the US, and not in the rest of the world. And if we look at the performance, it continues to improve during the year and at the right time would tell you when it does return to growth.

Julien Roch: Next question is, what of the bottom three assets that cause Q4 to do worse than Q3? I know it's twist and turn, but who are the three biggest culprits?

Mark Read: Well, look, I think we talk about -- just talk about Q4 now, my colleagues can elaborate. When we gave you -- when we released our numbers at the Q3, we didn't change our guidance for the year and I think we were explicit that we expected Q4 to be negative and really the pattern is partly driven by sometimes by the comparisons, but also by the way the business ran during the year, I think if you look at it by region, there was some weakness in Asia and some more weakness in the UK, potentially that was economic. But UK was a little bit softer in Q4 than the rest of the year.

And Paul, do you want to add to that?

Paul Richardson: I think that we went through it sort of region by region and it was different businesses in different regions and partly it was the performance versus prior year comparatives, so GroupM which sort of singled out for having a weaker fourth quarter than Q3 in the UK had a very strong year-to-date and have an exceptionally tough quarter four to compete against. So that really to me explains why in the UK we were softer.

In the US, as I mentioned, the global integrated agencies actually were better in Q4 than Q3. But our specialists and other agencies had a more challenging time. Likewise as Mark said in Asia, we had some softness in some of our bigger markets in the fourth quarter. Much of it was anticipated, to be quite frank with you. And so there is no one or two single issues, and said, oh my god, this is a tremendous miss. We didn't anticipate it. This is very much in line with what the businesses were telling us they would deliver and really they actually kept to what they said they would do.

Mark Read: I mean we may have hoped that they have done better. But I think that it is pretty much as we expected. Now, in terms of the budgets, we sat down with the companies before Christmas and we sat down with them and reviewed the numbers again about two to three weeks ago. And the guidance is based on pretty detailed reviews, company by company and market by market over the last month.

Julien Roch: And last one, if you succeed admirably in tackling duplication and inefficiency which is your last priority, what is kind of the impact on margin? Can we see 100 basis point go as high as Publicis which on their country model claims it's 200 basis point? And then how much of that will you let go back through the P&L? Are we stuck at 15% forever or can we go back to the margin you used to have, which was 17%?

Mark Read: I think that in the short term the priority is growth. I think when we laid out the plan, you or one of your colleagues asked the same question. I think when we get to 15%, we'll see whether we can go further. But in our view, at this time, 15% is the number that we can get to, that enables us to invest in things we need to invest in and deliver the revenue growth that we need to. I mean you know the competitive margins. I mean some are lower than WPP, somewhere lower than WPP is today, not just lower than 15%, and some are higher. And I think there are some structural reasons why they are higher and I think that's something that we should emulate and get to and I think we can get to that. Then we'll tell you whether they'll be higher than 15%, but at the time if you like, but I think for now, 15% is the number that we're aiming for and the savings and structural savings, they are not quick. So I don't want to promise something that we can deliver in a realistic timetable.

Julien Roch: Thank you.

Lisa Yang (Goldman Sachs): Good morning. My first question is on your margin guide. So clearly for this year, you're going to flat margin, but then you expect at least 60 basis points of margin improvement for 2021. So I'm just wondering if you could give us more color in terms of the moving parts there? How much of those are driven by operational leverage as opposed to savings and maybe timing of your investments?

Mark Read: Paul?

Paul Richardson: Well, I think we have done the heavy lifting in a number of areas on bringing the businesses together, which can be slightly distracting from operation performance, but that really is now behind us and so I think this year it is about the focus on the revenue growth. We don't -- when we grow revenues, we get good conversion. I think 2019 has been a struggle because we've had a number of businesses with quite significant reductions in revenue and we have had to keep pace with that decline, while still aiming to keep margins broadly the same.

The vast majority of our businesses are what I call well set for growth and that operation leverage will come through. You then add to that, I say the initiatives on collaboration, through the co-locations, through the rollout of the programs that we are doing, we are rolling out a financial tool, an ERP system for the USA. It's trialled by one of our major networks, as soon as it's been adopted by that network, it is being adopted by the rest of our Group in the USA. We're looking at the shared financial service center onshore in the USA right now to develop it at the same time as we are rolling out the system.

We've got various shared service hubs up and running now in India. We're just coming live this year on China, we've been successful in Spain, we're going Great Guns Australia with the new management team and that's a big turnaround that they're aiming for. So when you look at the individual components, you can see the sense of the work to be done and the efficiencies at the moment haven't been fully materialized, partly because the operating companies haven't let go some of those functions themselves. As these become stronger in their own right, they will take on more of the duties operational, say, running of the businesses and leave the businesses themselves and just be focused on the commercial of the business.

And so at the moment there is a hesitancy for the businesses to fully let go with their finance functions even as a shared service center. As they mature and become more professionalized and it's much, much easier when you're in the same building with all your other staff in the same place to walk up and down the floors to get the information you need. We will then find the savings that come through. And just a really practical nature. We're just moving into a building in Hong Kong. We got 16 units going in there. They've all built their own IT lines going out to third-party providers for data and communications. We are going to have one big pipe into that building that will be about three quarters of the cost of the previous 16 lines. We've got shared facilities et cetera, et cetera, and that will have a shared financial team. So, these are the savings in the operating leverage elements of the building that will generate the growth with little bit of revenue behind us, growth, it will come through.

Lisa Yang: And my second question is on, I mean you talked a lot about your partnership with the tech companies and you're pretty well placed there, et cetera. But I'm just curious why the US agencies continued to perform better, especially in the US, and what would cause that performance to ever reverse?

Mark Read: So why, what --

Lisa Yang: US agencies just continued to do better, especially in the US, I mean what would cause that -- ?

Mark Read: Well, I think in many ways WPP's challenges are more in the sort of traditional part of the business, frankly, than they are in the new part of the business. I think that's something that's important to understand. We said from the beginning the problems within the creative agencies in the US and I think that remains the case. 2019 because of the specific losses we had in 2018 was particularly challenging in the US and that will stop, those losses will cycle out at the end of this year into the first quarter of 2020 which will lead to a step up in improvement in the US. I think together with the other actions that we're taking, we'll get the business back to growth.

I think there is no one single thing that we can do. I think we told you in 2018, I think that nine of our top 10 business units in the US were declining. So, I think it is a big business for us. I think the return to growth of our packaged goods clients is beneficial and I think it gives us a sort of a better backdrop overall to those companies, but it isn't any one single thing, it's about leadership, about structure, about creative talent, about investing in new business. And those are all things that people are working on, and I think we see some of that benefit coming through. I think we'll continue to see that in 2020 and even our budgets in 2020 are for a better performance in the US in 2020 than in 2019. I'm not going to give you a sort of specific date for when the -- everything crosses the X-axis, if you like, but we do expect continued improvement.

Lisa Yang: And you alluded earlier about the cookie change. Could you be more specific about the impact I guess on the overall advertising ecosystem, and more specific on WPP?

Mark Read: Look, I think as far -- as far as cookies concern, I think firstly it's simple to understand the background, and there is increasing concerns from consumers and regulators about data and about data leverage in the field in the third-party cookies will waive people to hoover up the data if you like across the Internet in a way that wasn't compliant with what people expected. I think it's right that we are controlling this, and consumers need to consent to what's going on with their data. And I think what's happened with cookies is symptomatic of a larger trend within the society for people to have greater control over their data how that's being used and this is just one example of it.

Secondly, we have to understand what's happening. So, Google announced that they will stop supporting third-party cookies inside Chrome, that's a position that has already been taken by Safari. And if you look at prices in programmatic auctions on Safari, they are lower than they are on Chrome already, because there's less data, there is less value in those impressions. So I think programmatic media will be negatively impacted by this change and that will make life harder for intermediaries, ad networks, affiliate networks, particularly people that rely on unit conversion, tracking, and cost per attribution, and cost per click pricing.

Now at the same time, Google has said that they're going to build functionality into the browser that will allow the basic premise of what we need in terms of ad tracking, say, ad-tracking, frequency capping, much of what we need to run a media campaign will be part of the browser, whether that will be an industry standard or Google standard, we don't know yet. Probably, this is most likely to be a Google standard, though we'd like it to be an industry standard, we are working closely with Google on what those standards will be.

So I think in terms of the impact for the industry. Clearly, I think it's going to be better for those companies that have logged in users. So that's Google, Facebook, premium publishers, people with mobile applications, able to some extent reduce the value of data, generally in the ecosystems is harder to execute and make life tougher for intermediaries and people that don't have third-party relationships. And I think the data owners, particularly those that rely on kind of cookies to value that data, I think it's going to make life sort of tougher. But what that is even tougher sort of the general trend towards regulation of how data will use it. And for WPP overall and I gave you the figures of what we have in programmatic. Programmatic per se that's heavily cookie dependent is a relatively small part of our business. And I think for Xaxis, I think we shared with you the work that we did at the Investor Day on co-pilots co-pilot is sort of an AI based system, but doesn't use cookies, but use contexts to track what's going on in media and the context of media. To some extent it's sort of turning digital media more back into analog media, and making the old fashioned skills of context and creative more important. So, I think that the work we've done in Xaxis, we have a business inside GroupM called Life Panel that use the surveys to collect data on context to consumer usage and conversion, I think that becomes increasingly important.

And then we also have been in Finecast, a connected television business and connected television, it doesn't use cookies. Finecast is growing strongly in the UK and around the world and I think actually as television overall become sort of more IP enabled, there's an opportunity there for us. So, I think in net-net, I don't think the cookie apocalypse has a major impact on WPP. I think we're pretty well prepared for what will happen. And overall for clients, I think that we need to focus on sort of attribution, context, creative.

I'll just make one last point, I think for those clients that are thinking of in-housing their media operations, it makes life more complicated, right, because they are suddenly going to have to figure out how to do this without cookies and lots of the sort of the simple forms of AdTech that in-house operations have been using are not going to work anymore. So, again, I think it demonstrates the value of working with the media partner with the scale and capability to invest in the technology and the publisher relationships that we need to deliver results. So apologies for the slightly long answer, but hopefully it helps.

Matthew Walker (Credit Suisse): Thanks. Just two questions from me please. The first is on the specialist agencies. As you noted, most of the decline came from those agencies about GBP1.8 billion. Can you just give us a little bit of a breakdown of what actually is in the specialist agencies? What sort of companies are in there? And how they're performing within that GBP1.8 billion? And then the second question is on, might sound a strange question, but now the balance sheet is more in shape, what sort of acquisitions, what scale of acquisitions, and what type of acquisitions should we be expecting?

Mark Read: Why don't I tackle the acquisition question, while Paul gives you some context on specialist thing. From an acquisition perspective, I think we don't need to make WPP bigger if you like. So we don't need a fourth Public Relations business in Guatemala, probably we might have three already. I think we're focused really on differentiating the company. And what were most differentiators are, I'd say primarily technology related acquisitions that sort of enhance our development skills and understanding of partners. I think there may be some things we could do creatively, do and enhance what we can do in an interesting way, but I think the primary focus will be on sort of the faster growing parts of our business, particularly in the technology area and there are a number of small things that we're looking at the moment that we can talk to you about at the right time. Paul?

Paul Richardson: So, let me go through the component parts. I haven't got something in front of me I particularly want to look at, but the elements of the specialist agencies that are well known is, AKQA is part of the specialist agency group, which obviously is a global network on its own right. Geometry, sort of our direct and digital marketing company is also a part of that group, again with the worldwide presence. GTB, the Ford agency is part of that group, again with presence principally in USA, but also in Europe and Asia as well, lesser in Latin America. The brand consultancies businesses are also nested within there. As are some specialists sort of in-country agencies one in particular that's quite sizable is Commarco in Germany, which actually this year is now being merged into VMLY&R.

So that's the sort of the Group of agencies that are in there. They've all had their different challenges in different marketplaces to be quite frank with you. And finally, sort of the Health and Wellness business internationally is in that Group of companies. And their performance has been either very strong or little bit mixed and that applies to both the revenue line, and sometimes the revenue line can be challenging, the profit line is very good or the revenue line is good and the profit line is a little bit disappointing, but that is -- that is the mix of businesses in that specialist agency group. As I said, mainly it is, GTB is very US weighted, it's had the most impact in the USA. That's what's really affected the margins overall for the Group.

Tom Singlehurst (Citi): Tom from Citi, I had a couple of questions. Firstly, obviously encouraging to see FMCG begin to stabilize within your larger clients. I know you're going to be very reluctant to blame your clients for the growth profile, but it does feel like exposure by client segment is still a big factor, explaining that differential in growth within, particularly the US agencies. Is there anything you can do about that other than just sit and wait? There is that scope to win more account in areas like healthcare, which are clearly doing very well for some of your US peers.

Mark Read: Yes, I think healthcare area is an area, I'd say, sort of largely self-inflicted damage, bringing our healthcare businesses together in the US, did not improve that performance, in fact substantially weakened their performance and we have not done as well as we should do in healthcare in 2018 and 2019. And I think I kind of explained quite a lot of the variance in our performance versus some of our peers, and that's something that we are -- we've addressed in part by bringing agencies back into their constituent way where they came from. And that's starting to have an impact, but again it will take time. So I think that's the primary sector, healthcare, I'd say in automotive, because of one client in particular where sort of sectorially we've had challenges. I think in finance we're under weighed and that's a growth opportunity for us in the future, but I think really investing more and fixing our healthcare business is something that's on -- very much on our agenda.

Tom Singlehurst: Second question is on the coronavirus effect. I know you haven't seen the numbers, that's impossible to comment, but just in terms of how you're thinking about it internally conversations with big advertisers. Do you think this will be a V-shaped, in fact if it was so danger, will be L-shaped?

Mark Read: Yeah, look, I think we just can't answer that. It's just we just can't answer that question unfortunately. I mean your estimate is as good as mine into what happened, I think we have to think about what happens to the economy overall. And WPP, no doubt impacted by developments in the global economy and our ability to control our cost, which I think in the past has been relatively good in that environment. As Paul mentioned, if we can get ahead of what's happening, we can move relatively quickly. We do have quite high staff turnover which naturally takes some cost out of the business on a month-by-month basis that helps us manage it. But I think that we will have to see how it develops.

Tom Singlehurst : And a final question maybe for Paul and/or John. The buyback, the current GBP300 million plus program done through to March. Can we just expect another one to be sort of rolled forward when that expires?

Paul Richardson: Yes.

Richard Eary (UBS): I think Tom and Matthew have stolen some of my questions anyway, but just to --

Mark Read: I'm sorry.

Richard Eary: That's okay. To get back to the specialist agencies slide --

I mean if we look through 2020, or presume that we've still got a headwind in GTB rolling out first quarter, are there any other things that within the specialist agencies we should really think about? Because I would have thought that AKQA is growing positively, Geometry has been repositioned, the healthcare businesses have been sort of broken up and put back in. So, is it really just GTB headwinds in the first quarter, and then the next three quarters specialists agencies get back to flattish growth with a trajectory to grow beyond that, is that how we think about it?

Mark Read: I mean I wouldn't think about it quite that literally because these things take more time. I mean Beth Ann started as CEO of Geometry, I think, in April of 2019. So it will take her some time to work -- she actually, I think, 12 of the 15 pitches in the US in the back half of last year. So, she has done a really a fantastic job of -- from a new business performance basis, but she did inherit quite a complicated situation as well.

The company was sort of a merger of two businesses, they made a number of acquisitions and there's just been a lot of moving parts for her to get our head around. So, but I think that we expect or hope should sort itself out during the year. We then had Superunion, which is another previous combination that had its challenges that has had a better 2019 and goes into 2020. So I think in general, during the course of the year and that's why when someone says, is it a sort of second half weighted year, we prefer to say, the business performance was improving during the year than thinking about sort of headwinds or tailwinds, as things sort themselves out, people get to grips with the management challenges that they have.

Richard Eary: But really between that, so GIA continues where we had left off in the second half, which was slightly positive. And then specialist agencies start to turnaround in the second half year and that's how we get a better performance in the second half.

Mark Read: I mean in the main.

Richard Eary: Right. The second question I had was just looking at the specialist agencies. I mean it looks like there was like GBP80 / GBP90 million drop through negative impact on revenues, but there was the same impact on operating profit.

Mark Read: Yes.

Richard Eary: So why do we not get any benefit when you were talking earlier about, I think, one of the earlier questions about and sort of you wouldn't have that leverage. So what was the issue in specialist agencies about operating leverage in 2019 and why won't that repeat?

Mark Read: Well, one of the challenges of running an agency with one client is that it's harder to reduce the cost in that agency when there's a revenue decline, if that answers part of the question.

Richard Eary: So the GBP100 million drop through from GTB went straight through to the bottom line?

Mark Read: No, not in its entirety. Obviously, there are a mix of issues with some things doing better and some things doing worse, but Commarco lost a significant client and the Ford loss - because of the way the agency is structured, makes it harder to make adjustments that you would do in an agency that has a larger number of clients.

Richard Eary: And just lastly on the healthcare. I mean healthcare has been an issue this year, it's been repositioned and put back into the original agencies. I mean if you look at the healthcare, as you mentioned, big outperformance by IPG and Omnicom, big driver of their outperformance. How do we think about WPP's healthcare assets going forward and there is obviously a big comp that we have to get through in the first quarter. So, do we see health back to growth in 2020 or is this a 2021, 2022 story? And what are the major differences as well between the assets?

Mark Read: I don't know that there are major sort of strategic differences between the assets. But clearly I think bringing the businesses together led to sort of a number of senior executives leaving the company that were not replaced, over the last three years. And we need to bring, and we have put new leadership into those businesses as part of the realignment that takes some time to bed down. So, I think the answer to your question, we know where -- we're going in terms of looking for new talent and that's something on our agenda to bringing to the business.

Richard Eary: It's another tough year this year, but 21 --

Mark Read: No, we are not saying another tough year this year, I think I wouldn't see it as a sort of growth in this year, but I'd see things sort of stabilizing this year. I mean if you think about the example of VMLY&R, one of the things that we do is take Sudler & Hennessey and bring that into VMLY&R Health. So one of the things that John Cook and his team have had to address is bringing Sudler in, in 2019. They did have a really tough first half in 2019, things are less tough and overall, within that context, the business is growing. The same -- to a lesser degree, the same is true to a less degree, Wunderman Thompson that took GHG. So, I wouldn't see it as a source of growth and I wouldn't see it as a major negative source, I think I'd see it as a source of stability in 2020. I think, overall, we are seeing 2020 is the year of stability, notwithstanding the broader economic environment.

Richard Eary: That's helpful, thanks.

Unknown (BNP Paribas):

Just one last question. (inaudible) from BNP Paribas. We've seen in 2018 and back again in 2019, North America not performing so well. I would like just if you could give some more color around what is being done, what is going to be done moving forward to bring that to at least flat in North America?

Mark Read: In North America, so I think that if I take it, what we need to do. So, I think I said in 2018, nine of our 10 businesses were declining in North America for the year overall. So I think we've brought new leadership into those businesses. So Mel Edwards is now running Wunderman Thompson; Shane Atchison came back to run the business in North America. John Cook is now running VMLY&R. Within Ogilvy there have been some changes in North America, and we're looking for a new CEO for North America. And at Grey, Michael Houston step much more back into the business in North America. And in GroupM, similarly there have been management change, interesting in sort of the leadership issues inside the business. We've been recruiting new and creative talent inside the company, so Taras Wayner joined us from R/GA to be the Creative Director at Wunderman Thompson and that's a pattern that repeated across the business.

Then there is a sort of the structural change we've made in two of our key agencies where we have had problems. And then the repositioning of the healthcare businesses. And Geometry also had a tough year and they have new leadership. And as we talked about, GTB and the Ford business, accounts for a significant proportion of the underperformance in the US in 2019 and that will start to roll away after the first quarter of 2020. So, I think we're doing all of the steps that we need to take as quickly as we can, both to fix the issues and then to capture the opportunities and I agree with people that asked about healthcare, I think that is an opportunity for us. And I think against what has until now remained a good economic environment in the US, and we can take steps that we need to take.

So, in closing I want to say a few things. First thank Paul, give him a round of applause. I'd like to thank Paul for his contribution to the Company over many years and welcome John to the team. I didn't actually know you are a rocket scientist. So clearly, I mean, everything will be fixed from now on. I'd just sort of reiterate why we are optimistic about the future for WPP and the turnaround as we are in one year and we have two years to go and the steps we need to take. We are, I'd say, a modern -- as I hope you could see a modern marketing company in a growth industry and something that clients need to succeed. We have a fantastic business, particularly in media, which is a scale business, business where scale mass I think is important.

We have unrivaled geographically -- sometimes geographic reach can feel like a weakness, but for people or investors looking for broad geographic reach, a third of our businesses in the US, two-thirds of our business is outside the US, I think that does position us well on a long-term basis for growth. And also growth with clients that also need to grow that businesses around the world. We are closely aligned to the world's leading tech companies who are changing the world. I think no one knows these companies better or better able to advise our clients what's happening than WPP. And I hope you've seen from the team a new strategy that's driving both sort of strategic and cultural change within WPP.

I think, particularly with the Kantar transaction done, well done, Andrew and his team and the disposals that we've made, we are well capitalized and cash generative company. So we're not complacent about what we need to do, because we know there is lot to do, but I think we've done a lot in a year and there is a lot more to do and we're getting on with it.

So thank you all for your questions and we'll be here for more. Thanks.

[END OF TRANSCRIPT]