# WPP 2020 Interim Results

Morning Teleconference Transcript

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**Overview**

**Mark Read**

***Chief Executive Officer, WPP***

Thank you very much, operator; and good morning to everyone and welcome to WPP's interim results call for 2020. I'm here in Sea Containers with John Rogers, our CFO; and Peregrine Riviere, heads up our Investor Relations department and will take you through the numbers.

On Page 2, I think we should all just take the time to read our Safe Harbor statement.

SLIDE 3

And then move on to Page 3 to our agenda today, so I'll briefly take you through the highlights of our results in the first-half and then John will take you through the financial performance of the company before we come back to an update on the business and how we see it and then some time for people to ask questions.

SLIDE 4

On Page 4, I think if we had to describe the first-half, I think, we would say that we had a resilient performance in what no doubt has been a challenging environment. It's clear that COVID-19 had a significant impact on WPP and on society as a whole, and we shouldn't forget the impact on people's lives and people who have lost their life as a result.

But turning to our business, in the first-half, we saw like-for-like revenue less pass-through costs down 9.5% in the first-half. I'd say that May was the toughest month and we started the year positively with growth outside the Greater China of +0.4% with overall results minus 0.6%. In March, we started to see the impact of COVID-19, really kind of half-a-month impact, of minus 7.9% and then a decline of 15.1% in the second quarter, and we'll come on to that, but I think I'd say it's significantly better than perhaps we had anticipated. And then a gradual recovery of minus 9.2% in July. So you can really see the pattern to our results, we'll come on to the full year expectations later. That reflects, I'd say a resilient performance particularly from our top clients, our top 200 clients. And if we go into that in some detail, you can see in just over half of our business, 56%, is in consumer packaged goods, technology and pharma, actually the decline was minus 0.7% in the first-half, and only minus 4.4% in the second quarter relative to 15.1% for the business overall. But the automotive, luxury, travel sector much more impacted, minus 11.7% for the first half and 18.7% in the second quarter. So I think that demonstrates the resilience and breadth of our business and we see that as well in the services that we offer.

We have had I'd say a very different working relationship with our clients over the last six months, and we've seen parts of our business in marketing, technology and e-commerce in greater demand, public relations much less impacted. And I think we are particularly pleased with the new business performance of the Company overall, market-leading new business performance with wins from Intel, HSBC and Unilever where we won the media business in China.

I think the way that our people have responded has been fantastic. And that goes beyond building and strengthening relationship with the clients, looking after their team, working from home I think selectively people have really come together over the last six months.

Financially, and John will go into this in more detail, we've had good progress on cost savings. And I think we've got the right balance between temporary and permanent cost savings that we set out at the beginning of the pandemic to really mitigate as much as we could the permanent headcount reductions that we need to take, although regrettably, there have been some. With the strong liquidity position, our net debt is down significantly year-on-year and from our peak of approximately GBP5.7 billion around three years ago. We're pleased that the Board was able to recommend that we could reinstate our dividend and we have had a goodwill impairment that we'll talk about of GBP2.5 billion.

I think lastly and perhaps most importantly, COVID-19 has accelerated trends, I think, trends that were existing in our industry before but have really been accelerated that calls for and we are accelerating our strategy. We certainly haven't stood still over the last six months. We'll talk to you about the actions we've taken in terms of investing in brand, investing in talent and investing in training over the last six months. So I think like many companies and people, we probably prefer not to have been in the situation that we've been in for the last six months. But I'd say that we performed resiliently and done well.

So I turn it over to John who will take you through the financial performance.

**Financial Performance**

**John Rogers**

***Chief Financial Officer, WPP***

So, thank you, Mark. Good morning to everyone. I'm going to take you through the first half results for 2020.

SLIDE 6

So, turning to Slide 6 and starting with the headline income statement. The revenue less pass-through costs, down 10.2% on a reported basis; down 9.5% on a like-for-like basis, obviously, reflecting the impact of COVID-19 particularly in the second quarter. Disposals account for 0.8% reduction in revenue less pass-through costs and with currency being 0.1% favorable. All of which has delivered an operating profit of GBP382 million, down 38.1% year-on-year with associate income down GBP15 million, as the benefit of the Kantar investment is offset by COVID-19 related downsides, that delivered a PBIT for the year of GBP382 million, down 39.6%.

With net finance costs down year-on-year to GBP106 million, obviously, reflecting an improvement in our net debt position that Mark's just referred to, that's limited profit before tax to GBP276 million and with tax at 23.1%, broadly in line with the same figure last year, delivering a profit after tax of GBP212 million, deducting non-controlling interests delivers profit attributable to shareholders of GBP191 million and a diluted earnings per share figure of 15.4p. Worth highlighting that our operating margin for the first-half was 8.2%, down 3.7 percentage points year-on-year, but better than the market was expected.

SLIDE 7

So moving on now to the reconciliation of our headline operating profit to our reported operating profit.

So you see here the headline operating profit of GBP382 million I've just made reference to. Obviously taking account of the goodwill impairment charge of GBP2.5 billion that I'll come on to in a second in more detail. Amortization and impairment of intangibles and also the investment write-down of associates, which is largely Imagina at GBP210 million, GBP220 million in total and then reflecting restructuring and transformation costs which relate to the ongoing costs that we talked about in our restructuring plan first outlined in December 2018 of GBP18 million this year compared to GBP34 million last year.

And then also more specifically COVID-19 restructuring costs relating to severance actions that Mark just referred, taken in the second quarter as a response to the pandemic. And then reflecting a gain on disposals, largely in relation to our sports agency Two Circles, all of which is delivered when added together and reported operating loss just over GBP2.4 billion.

SLIDE 8

So now coming on to the impairment charge in a little bit more detail. So impairments of GBP2.74 billion, which includes the goodwill impairment and also the impairment in relation to our associate, now you see the breakdown here by company and you'll notice that most of the impairments largely relate to an acquisition of the Y&R Group that was made back in 2000, so 20 years ago, when the businesses acquired in a stock-for-stock transaction on the basis of 23 times PBIT multiple at the peak of the dotcom bubble. So valuations were very high.

The impairments are actually driven by a combination of higher discount rates used to value the cash flows, a lower profit base and recovery from 2020 through to 2021 and then lower industry terminal growth rates. Just as an indication at the sensitivities to these assumption changes around GBP2 billion to GBP2.1 billion of the GBP2.5 billion goodwill impairment relates to changes in the discount rate assumptions, about GBP300 million or also relates to a change in the terminal growth rate of the industry and about GBP100 million or so relates to a lower profit base in 2020 and then recovery through 2021. So, by far, the bulk of the impairment is related to a change in the discount rates.

SLIDE 9

So just moving on now to a breakdown of our performance by sector. First, the global integrated agencies; reported revenue less pass-through costs down 10.3%, down 9.5% on a like-for-like basis. So exactly in line with the overall Group, delivering an operating profit margin of 7.4%. VMLY&R was by far the best performer, really encouraging performance, close to flat like-for-like in the first-half, reflecting improving business momentum since the merger of those businesses. And our second best performing global integrated agency was Wunderman Thompson. Again, benefited from the creation of an integrated agency in the last couple of years.

And Hogarth production also in strong demand. GroupM, as a whole, underperformed the overall GIAs due to the fact that its performance is more closely correlated to client media spend, which has clearly been significantly impacted as a result of COVID-19. If you look at the graph, you'll see the trajectory by quarter, the significant step-down in Q2 to minus 15.7%. But encouragingly, performance in July has bounced back and we've delivered improvement to minus 9.2%. So we've got some positive momentum, some recovery as we go into the second-half.

SLIDE 10

Coming on now to our public relations businesses. These have been our strongest performing sector. So, reported revenue less pass-through costs down 3.6% and on a like-for-like basis down 4.5%, delivering a very strong operating profit margin of 16.9%, which is actually up 1.5 percentage points year-on-year. So

very encouraging performance from our public relations businesses. We've seen a lot of good demand from clients who particularly looking at how they want to engage with their strategic stakeholders, how they communicate to their stakeholders, we've seen very encouraging performance from our specialist PR companies where we've actually seen a like-for-like growth half-on-half and H+K has been the strongest performing of our major agencies.

We've also seen in the first half the formation of Finsbury Glover Hering to create a global leader in strategic communications is significantly simplified our overall portfolio. And again, if you look at the trends on the graph, you've seen a dip down in Q2 of minus 7.5%, but again in July recovery back to minus 2.7%. So encouraging momentum again as we go into the second-half.

SLIDE 11

Coming on now finally to our specialist agency, where it's fair to say we've seen a bit more of a mixed performance. Overall revenue less pass-through costs down 13.3% on a reported basis and down 11.8% like-for-like, and overall operating margin at 7%. AKQA and Geometry have been a relative outperformers given their focus on experience and commerce where we've seen good growth. GTB is broadly in line despite the ongoing drag from the assignment losses that we've communicated historically. And it's really been our Brand Consulting businesses that have suffered from short-term budget cuts through this period. And of course our events businesses and our specialist agencies have been heavily impacted in the second quarter, resulting in a decline in overall net sales by 16.3% that you see on the chart. But again, we have seen some relative improvement coming into July where we saw net sales down 12.5%.

SLIDE 12

So now moving on to our overall geographic performance, starting off with our top 5 markets. Looking at the USA, North America, we've seen actually a relatively robust performance in the USA. So the first quarter being down minus 1.9%, the second quarter down minus 9.6%, but some recovery coming through in July at minus 6.1% and it's been a much shallower dip that we've seen in the US compared to many other of our global markets.

Coming on to the UK, which is perhaps more characteristic of what we've seen through most of our geographies through COVID-19, we saw a decline in Q1 of minus 4.2%, a big step-down in Q2 of minus 23.3%, reflecting the impact of lockdown in the UK economy. But then we're starting to see recovery as things start to ease, conditions start to ease and we saw minus 10.5% in July.

Germany, which is perhaps the strongest performer of our European countries, again, relatively robust against the impact of COVID-19, minus 4.3% in the first quarter, minus 11.6% in the second quarter and then some recovery into July at minus 7.2%.

Coming on now to Greater China, slightly unusual figures here. So obviously, China itself was impacted by the impact of COVID-19 earlier than any of our other global markets and you see that reflected in the Q1 numbers that were down minus 21.3%. We did see some recovery come through in Q2, which saw net sales down minus 3.1%, but they're somewhat flattered to be fair by one-off revenue adjustments in Q2 and then also coming up against a very tough comparator in July, where we saw net sales declined by 18.6%, but largely as a result of quite a strong comparator for the same time last year. When you actually look at the underlying trend in China, it's much more positive than it's necessarily portrayed by these headline numbers.

And then, lastly, coming on to India, where the pattern in India is much more characteristic to what we've seen across many of our other markets with some recovery coming through in July.

SLIDE 13

Coming on now to our major other markets, France, Italy, Spain and Brazil, and again, we've seen quite typical patterns across these respective geographies. Interestingly, looking at Italy, which is one of the first European countries impacted by COVID-19, we saw the impact come through quite heavily in Q2, minus 29.9%. We are now seeing positive growth in Italy in July, which is a very encouraging sign, clearly one month and we can't be too complacent, but it's good to see positive growth coming through.

And at the same time, less we forget, if you look at Spain, again, we're seeing the impact coming through in Q2 minus 17.2%, but actually not so stronger recovery coming through in July, minus 14.3% and perhaps the consequence of local lockdowns in Spain. So we need to be sensibly cautious about our outlook for the second-half. Clearly, there are some encouraging signs with some momentum coming through, but equally the impact of local lockdowns clearly could have further effects as we travel through the second-half, and hence we need to be sensible -- sensibly cautious about the outlook for the second-half.

SLIDE 14

So coming on now to our overall costs and our change in our headline operating margin. So, as you know, we reported net sales down by GBP531 million or down 10.2% on a reported basis. But as Mark's already highlighted, we've taken significant cost actions particularly in the second quarter in order to mitigate that downside on the net sales. So staff costs are down just under 5%, with most of the actions coming through in the second quarter. Establishment costs down just over 5%, albeit we've had some investment in our IT, reflecting an ongoing investment in our IT platforms going forward, which will deliver longer term savings.

The biggest saving we see in those have been in our personnel cost, which obviously reflects reduced travel and hotel expenses and other operating expenses down 12.2%. So an average, for the first-half, our operating expenses are down 6.5%, delivering total saving of GBP296 million, which is actually 56% of our net sales decline we've been able to offset by operating cost savings to deliver the operating profit as reported here and the margin of 8.2% as we already discussed.

SLIDE 15

moving on to the next slide, it's important to look at the run rate here on our operating cost savings, because of course most of our cost actions were only taken in the second quarter, and we only got up to a full run rate coming through in May and June. So you'll see here that actually the first quarter, relatively minimal cost savings with COVID-19 not hitting net sales until March onwards.

And then we've seen significant cost reductions take place from April through May and June with immediate reductions taking place in relation to obviously personnel expenses and staff cost and salary cuts and so forth. And then, slightly more permanent cost savings coming through towards the end of June in terms of permanent staff reductions taking place. So if you look at the ongoing run rate in May to June and you extrapolate that towards the end of the full year, we are confident that we are on track to deliver towards the upper end of GBP700 million to GBP800 million target savings that was communicated to you previously. And we also believe that when you look at these savings, approximately, one quarter of these savings will be permanently retained when we return back to 2019 net sales levels. So particularly in areas where we've had savings on travel and hotel costs, some of our establishment cost saving and some of our staff cost savings will be permanent in nature, which leads us to believe that about GBP200 million of these savings will be permanently retained in our business going forward.

SLIDE 16

So coming on now to the free cash flow and the free cash flow conversion. You'll see we start off with the headline, so with the statutory reported operating loss of GBP2.4 billion, adding of course back to that depreciation, adding back the impairment, all of which of course are non-cash items, reflecting lease payments and outflow of working capital, which is very typical for the first-half. We've actually seen an improvement in working capital, if you look at the year-on-year position, but we all see an outflow of working capital in the first-half, reflecting the interest payments, tax, capital expenditure, which again is in line with the guidance that we gave that we've cut back our capital expenditure, we expect to outturn about GBP300 million for the year and earn-out payments, all of which has resulted in a cash outflow of GBP825 million compared to GBP513 million for the same period last year.

SLIDE 17

And then when we look at the uses of that cash flow, again, on the next slide, you will see that obviously with disposals of GBP207 million compared to GBP304 million in last year, slightly lower and also acquisitions of GBP46 million, a little bit higher than last year, but not by much and taking account of course the distribution to shareholders of the GBP286 million now reflecting the share buyback program that we made in the first quarter of this financial year, has seen an overall net cash outflow of GBP950 million compared to GBP235 million for the same period last year.

SLIDE 18

So coming on now to our net debt waterfall chart on Slide 18, you'll see that we've seen a significant improvement in our net debt position from GBP4.2 billion to GBP2.7 billion as of June 2020, obviously reflecting the operating cash flows that we've delivered during that time offset by lease payments CapEx and tax paid. We then have the benefit of the obviously the disposal in relation to Kantar coming through. And as I mentioned earlier, we've seen an improvement June -- on June in our trade net working capital of just over GBP400 million, offset by the share buybacks and dividends that we paid last year and some other FX adjustments to deliver a significant improvement in our net debt position to GBP2.7 billion.

SLIDE 19

And then coming over now to look at our overall leverage metrics, again, you'll see the net debt number four lines down on that page to GBP2.7 billion I've just made reference to. Important to highlight in the line below our available liquidity at the 30th of June to GBP4.7 billion. And if you remember back to at the same time last year, it was GBP3.5 billion. And in fact, if you remember back to our discussions at March at the outset of COVID-19, we had available liquidity of GBP4.4 billion. So we've actually improved our liquidity over what's been clearly a tough trading period. Taking account of headline finance costs, in other words, stripping out the impact of IFRS 16 on that charge has delivered an interest cover of 6.8 times, which is broadly similar to the same point last year. And again looking at the rolling average net debt to headline EBITDA, we've come down from 2.5 times to 2.1 times and so an improvement year-on-year. And we would expect by this financial year end to come down to a level between 1.8 times and 1.85 times at the end of this year. So again further improvement. And ultimately, we expect to get down to our target level of between 1.5 times and 1.75 times by the end of 2021.

SLIDE 20

So coming on now to dividend and buyback, as we said, we've canceled the 2019 final dividend in order to maintain our desired leverage ratio, offsetting, of course, the impact on profitability and cash flow that we've seen in the first half of this year. That said, we are pleased to be able to announce the reinstatement of our interim dividend of 10p being declared reflecting our greater visibility in the second

half of the year on our earnings, future performance and clearly our strong liquidity position, and the fact that we are forecasting a positive cash flow in the second half of the year. The share buyback remains under review, although it will be our intention to restart that when the environment stabilizes further and of course Mark's already talked about, we've got Capital Market Day planned towards the end of this financial year, where we will update the market on our future capital allocation plan.

SLIDE 21

And so, last but by no means least, coming on to our 2020 guidance for the full year. So guidance, we expect financial performance to be within the range of the current market expectations. So like-for-like revenue less pass-through costs between minus 10% and minus 11.5% down, headline operating margin between 10.4% to 12.5%. We expect a small working capital outflow for the full year, reflecting the fact that there was a real stretch of the line this time last year, but overall, I think I've been very pleased with our working capital performance clearly at what is quite a tough time for the industry for industry more broadly to maintain broadly speaking maintain or expect to maintain our working capital position for the full year, I think is a very good result. CapEx at GBP300 million, slightly lower than our usual number, again, reflecting savings that we've made. And as I've already talked about, our average net debt to EBITDA in the range of 1.5 times to 1.75 times by the end of 2021 and 1.8 times to 1.85 times at the end of this financial year.

And with that, I'll hand back to Mark to give you a business update. Thank you.

## Business Update

**Mark Read**

***Chief Executive Officer, WPP***

SLIDE 23

Great. Thanks very much, John. And I would say that I think our financial results do reflect a tremendous amount of hard work by our people, and particularly our finance people around the world and discipline in how we manage the business. And I'll try to give everyone a little bit more color to what we've seen in the first half and then talk maybe about some of the implications for how we see the strategic opportunities for WPP.

So turning to Page 23. I think, the first point to make is that we have not stood still and during the lockdown we've continued to make really solid progress on our strategy and our turnaround does remain on track. If you look at the new vision and offer that we set out for WPP, I think, that's been very much validated by the trends that we've seen in the market. Our strong performance in digital media and in commerce and indeed in marketing technology reflects that as does our new business performance and greater retention of existing clients that have no doubt been reviewed over the first six months of the year.

In terms of our focus on creativity, which as you know, has been a big emphasis for us, we have continued to hire new creative talent. Walter Geer has joined us at VMLY&R in New York and we've had an excellent

creative team join Ogilvy New York a couple of months ago to strengthen our creative work there. And I think really across our agencies, particularly in North America, we have been able to attract excellent creative talent, which I think reflects renewed emphasis on the quality of the work that we've been able to demonstrate and commitment to creative excellence really across the Company. I can't underestimate how important that is. That's reflected the fact that we've won the global Effie for the ninth successive year, actually every year in which they've given out this award and the Cannes Lions recognized WPP as the holding company of the decade in June of this year.

Alongside creativity, the data and technology is clearly -- it's critical to us. And Forrester recognized the quality of our work with Adobe. In any one year, we're probably Adobe's largest or second largest partner, and the same would be true of Salesforce, certainly in the marketing cloud area. And we recognized as the leader in the implementation services ways. And I think it's particularly important that we've taken the time during COVID, not -- I think that many of our people had much free time, but to train our people and we received 20,000 -- more than 20,000 partner accreditations from Adobe, Amazon, Facebook, Google and Salesforce in the first six months of the year. And I think it's critical that we do equip our people with the skills that they need for the future.

As you know, a big emphasis over the last two years has been simplifying the structure of WPP that really got too complicated. And the integration of the traditional or so-called traditional creative and digital has been validated really by the results; VMLY&R, it grew in the first half of this year. And Wunderman Thompson and VMLY&R was collectively two of our best-performing integrated agencies. And I think that really shows that sort of traditional siloed approach to marketing doesn't work.

With the creation of Finsbury Glover Hering, we've created a global powerhouse in strategic communications and bought together three businesses that never really operated together in the past, to form a single powerful company alongside management has invested in the company and I think that's again provide us with the interesting opportunities for the future. We've continued the program of disposals, maybe the lower level with seven further disposals in the first six months of the year.

I think culture has been critical to us. And the new WPP has been able to hire really excellent talent, Andy Main joined us from Deloitte Digital as the CEO of Ogilvy, and we're really pleased that Kirk McDonald who has joinedGroupM as their North American CEO from Xandr and probably one of the appointments, where we see the most recognition from peers in the industry I've seen for some time.

And then we set out really comprehensive inclusion and diversity strategy; we formed our first global Inclusion Council and this is an area which I'm personally very committed to making progress over the next few months and in the years.

SLIDE 24

When you look at that, I think, it's important to think a little bit about what we saw in the performance from our clients. On page 24, we looked at our top clients and the second quarter performance I'd say was probably significantly better perhaps than we had expected, and I think significantly better than our worst fears when we were doing our scenario planning back in March. And I think if you look at the explanation for that, you can see that in the results from our largest client. So our top 200 clients grew by 1.4% in the first quarter, and were only down by 8.4% in the second quarter compared to 15.1% for WPP overall.

So part of the resilience of our business has come from the strength of our top 10 clients. I think part of that is because unfortunately the pandemic has impacted smaller businesses and businesses that don't tend to be WPP clients more than it has our client base. I think, we do take -- we are confident in the future because of the resilience of our client base. And if you look at our clients in consumer packaged

goods, technology, healthcare and pharma, their performance in the second quarter minus 4.4% compared to minus 15.1% overall. So we have seen relatively strong performance.

And as you would expect, those sectors of the economy that been most impacted by COVID, automotive, luxury goods, travel and leisure were down by 18.7% in the second quarter. So really across the board you see, to some extent, a pattern that you would expect, but I think it demonstrates the continued relevance of our offer to clients and the opportunity to bounce back as the economy comes back strongly in those sectors more impacted by the lockdowns and by the economic impact.

SLIDE 25

Our new business track record has really been excellent over the first six months of the year. And it's important to say that despite the lockdowns, new business has continued. Our pipeline probably dipped a little bit in in May-June. But if we look at our pipeline today, it's back at the levels that it was at the beginning of the years is really very strong.

And if we look at where we are in terms of new business, we've had a really strong record of wins with the global Intel business or the Unilever media business in China or Novo Nordisk global media account. But I think equally reassuring we had a pretty strong track record on retaining clients. We did lose the digital media business for Clorox and the production business for GSK, but those are really the only significant losses that we had in the first half of the year.

SLIDE 26

And that's reflected in how independent analysts view the competitive new businesses that are on Page 26. You can see the R3 new business statistics. And overall we've done excellently in terms of our new business.

SLIDE 27

Clearly, on Page 27, COVID-19 is accelerating existing trends that we've seen and we've observed that we've seen a decade's innovation in a few months. And there's really three trends that I think we'd like to highlight. The first is the growth in e-commerce. The second is the accelerating shift to digital. And the third is the increased -- rising up the agenda of purpose in ESG.

In e-commerce today, we're now seeing e-commerce is about 30% of UK sales, up I think 54% year-on-year and that's continued into July. So despite the easing of the lockdown, patterns of behavior have shifted permanently. And I think that that is what we'll see packaged goods companies e-commerce can now represent 10% to 15% of sales and they're seeing 50%-plus growth in e-commerce as e-commerce clearly is important to us.

Secondly, this is the first year in which digital now dominates media. Until today you may logically start the media plan with a traditional media plan. Today you have to start a media plan with a digital approach. And we are seeing continued shift in consumption, but again, I think it's been accelerated by the pandemic, the growth in streaming services, the success of Disney+, the success of Peacock, all of those will lead to permanent changes in media consumption. And I don't think that we expect media consumption habits to return or revert to where they were pre-pandemic, just like in '08-'09, the impact on newspaper spend did not revert when it came back.

And then lastly, I think clearly we've seen purpose and ESG rise up the corporate agenda. Chief Executives can no longer ignore the issues facing society, the need to tackle them head on, whether that's COVID-19, whether that's racial justice or whether that's the safety of social media platforms. And all of these are

topics where we've increasingly been advising our clients over the last six months, and I think demonstrate the continued relevance of the types of services that WPP companies offer. We need to give our clients not just an understanding of technology and how the bits and bytes work, but also an understanding of human behavior of emotion, how people think, why people think what they do and what they can do to communicate in a relevant way that positions to their customers and it's clear that consumers will judge companies by how they respond not just what they say, but most importantly, what they do. And all of these trends talk to WPP's continued relevance to our clients.

SLIDE 28

And as a result, on Page 28, we're seeing an accelerating demand from our clients in the areas of experience, commerce and technology and increasingly those are the areas of our business we laid out two years ago, where we are focusing our initiatives.

SLIDE 29

And I think it's important to highlight some of the work that we're doing on Page 29. The e-commerce business within WPP, I think, is something that probably -- well, not probably, certainly, insufficiently recognized by analysts and certainly increasingly we are engaged with our clients in this area, actually engaged with 8 of our top 10 clients on e-commerce, and we want to give you some context of the types of the services and offerings that we do.

For example, for BAT, we're undertaking one of the world's largest rollouts of Adobe's B2C commerce platform, they bought the Marketo platform couple of years ago. We're one of Marketo's largest partners. They're looking at building a direct-to-consumer offer in a new category. And WPP companies are delivering not just the technology, but also the organization enablement, the integration of the platform into their systems and a creative expression of that platform and its experience.

For Ford, they launched the new Bronco earlier this year in the United States. And we led the launch of that new vehicle across media in terms of creative, but also in terms of building the customer experience, the user experience that allowed consumers to register car at a time when they couldn't visit dealers. They had taken a 165,000 pre-orders and really the Bronco is now sold out. That's leading to a totally new automotive buying experience. The dealer is clearly still important, but Ford is driving sales and registration to dealers.

In the consumer packaged goods area, as I mentioned, consumer packaged goods are seeing 10% to 15% of their sales now coming through e-commerce channels and increasingly they're seeking new ways to invest to build direct-to-consumer capabilities. But we've been supporting Unilever on the launch of lever.com, which features trusted Unilever brands in the cleaning area. Our support really being around the content and making sure the user experience works. And this is going to be an increasing area I think of support to packaged goods.

And the last area of focus on really marketplaces. So we advise clients both on building their own websites on dealing with traditional retailers, but increasingly what they can do in marketplaces like Amazon or Alibaba. For Adidas, the beginning of the pandemic, there was really a very rapid pivot in our support from them from traditional media into performance marketing and into media that could drive e-commerce sales, particularly on Amazon where our working encompasses not just how we drive traffic to an Amazon page, but also what content sits on that page and how to optimize the spend and availability, and that Adidas store, the growth in e-commerce sales of 93% in the second quarter.

SLIDE 30

Not only is e-commerce driving experiences and platforms, is also increasingly driving our media spend. On Page 30, you can see the growth in e-commerce that we've experienced in the first half of the year. GroupM, today, 39% of our billings are digital, that's up 5.5 points from the first half of last year. In the first half this year, we spent around $7.4 billion on digital media. We are the single largest partner to Google, Facebook and Amazon on the media front. What we've seen particularly from packaged goods clients is a massive increase in spend on e-commerce. And I think it makes sense to the time when clients need to drive sales to shift them to channels that can drive sales, and that's increasingly a multi-platform strategy across all of the platforms that exist.

SLIDE 31

And the third key thing we want to highlight was the importance of purpose, clearly rising up the corporate agenda. We've been working with Pfizer since the beginning of the year to lift their reputation as a patient-focused scientific leader. We launched a new campaign, Science Will Win, a couple of months ago, it's been extremely well received in the market and demonstrated results. We'd like to share that film with you. So would you please play the first video?

(Video Presentation)

So that work was created by a multi-agency WPP team, comprising of Grey, Landor, Hill+Knowlton really to come together to build and promote Pfizer's reputation.

SLIDE 32

Second piece of work I'd like share is work we did for Procter & Gamble around pride this June as part of a campaign called Can't Cancel Pride. We teamed up with iHeartRadio really to talk about the challenges that the members of the LGBT community face in the every day life. So perhaps play that film as well.

(Video Presentation)

So that film was Procter & Gamble's third highest film since 2016. And I think it illustrates the challenges that that community faces.

SLIDE 33

On Page 33, I think, I'd point out that all of this work was produced under lockdown. So we have been able to produce work to the very highest quality under lockdown. And I think it illustrates that what we've seen over the last five months is not the sort of trivial debate between whether people are working from home or working for the office, but something much more fundamental. We've seen it change in the way that we work where we've embraced increased speed and agility in a way we work with clients. We have more engagement with clients, less travel, much faster delivery. We're doing work, we're making films for clients in 16 days that may perhaps previously taken 16 weeks or indeed in many cases longer.

We've seen a huge uptake of collaborative tool; 6 times increased in the usage across WPP of Microsoft Teams. And when we survey our people, 91% of people believe they have the resources and technology available to do their jobs. And it's been really important for us over the last six months to look after the well-being of our people. And I think, I've certainly been extremely impressed by the way our people have stepped up to look after each other and to look after their clients. But it's increasingly clear that people's well-being and effectiveness is being impacted. And I think we are looking gradually over the next few months increasingly to get people back into our offices, but in new way. I think we ever go back to ways we've worked in the past, we want to make sure that we incorporate the lessons in the new ways of working in the way that we come back to work.

SLIDE 34

So on Page 34, if I were to summarize how we feel about the results, I'd say, despite the challenges, we look back at the last six months as a time where we've made really continued progress and we had a resilient performance. And we do see second quarter the toughest quarter of the year that we do remain cautious on the speed of our recovery. We do see COVID-19 very much as accelerating the changes. I think that we are pleased with the strategy that we laid out two years ago, which is under two years in December 2018, and the decisions that we've made since then that I think have very much been validated by the decision to focus on reducing our debt and ensuring that WPP was financially resilient, decisions to simplify the structure of the Company, to integrate our offer to invest in creativity and to invest in technology have all been proven beneficial over the last six months.

But at the same time, we are looking to embed the lessons of the lockdown to ensure that we work faster and more agile ways that we travel less which will be better for our personal lives and for the environment and to make sure that we lock-in where we can the permanent cost reductions.

So my conclusion of the last three months, we performed extremely well in many ways that we've worked in the last months that we will continue to use and there will be opportunities such as that and we intend to come back to you in November or December to update you two years into the strategy on progress that we've made and the further opportunities that we see in terms of advancing our strategy, looking for long-term effectiveness and our capital allocation plan.

So, thank you very much for your time and attention. And now we will turn to questions.

## Q&A

**Q - Tom Singlehurst (Citi)**

Hi. Good morning. Thank you very much for taking the question and thanks for doing the call. Yeah, I've just wanted to go back on that theme of the current environment accelerating changes, because obviously early in the presentation, you mentioned within global integrated agencies we've seen GroupM underperform the broader group and that feels like a sort of new development, historically media has always somewhat outperformed. I suppose I hear the point you're making about it just being naturally more exposed to media spend, but what line of sight do we have that that will sort of revert to being a sort of outperformer within GIA and how comfortable are you that there isn't a sort of negative acceleration happening there that will have a longer term impact? So that was the first question.

Second question, very briefly on the cost saves. Great that it's the top end of the GBP700 million to GBP800 million figure and obviously even better that you're going to retain some of that. But I'm just interested, sort of worried about whether that constrained your ability to rebound next year when recovery becomes broader based.

And then the final question on the re-initiation of the dividend, which is obviously helpful. I'm just interested why -- it's GBP120 million or so you're going to be returning via the dividend. Why didn't you just fire up the buyback, because surely you get more bang for you buck out of that and it's more sort of temporary and flexible? I'm just intrigued why you chose the dividend over the buyback, given the shares of what they are. Thank you.

**A - Mark Read**

Yeah. Well, I'll take the first question and John can take the last two. Look, I think that I'm very comfortable with the strategic performance of our media business. And I think maybe instead of saying GroupM underperformed, maybe we should think about as GroupM was most impacted. I mean, clearly, that business is most linked to advertising expenditure. And sure in the second quarter in some markets ad spend was down as much as 30% or 40%. In the United States, advertising spend was down 22%. I think, in the UK, it was closer to 40% in the second quarter. So I think in that context is not surprising that GroupM was most impacted. But I think, just as your analysts that follow media companies would expect, advertising spend to bounce back more quickly. I think that we'll see the rebound in GroupM the other way. So I don't think we have any particular strategic concerns. I think it's naturally just an impact of -- but what one would expect and I think more broadly in our business model the fact that we have a blended business model that's less linked to advertising spend has made up our revenues that's volatile, which I think, again demonstrates sort of the strength, if you like, of our business model.

John?

**A - John Rogers**

And Tom, just in relation to your question around cost savings, potentially constraining our ability to rebound next year, I think far from it actually, we've been very careful about the blend of our cost

savings. Obviously, some of those cost savings are temporary in nature, so things like freezing on new hires or delaying salary increases or indeed reduction in our freelancers, some of the cost savings are more permanent in nature in terms of some of the severances that we've announced. But we've tried to get a blend between those two buckets right in order to ensure that number one, we are rightsizing the business for the new world going forward, but equally, we've got the flexibility bring back resource particularly for example freelance resource as and when the market starts to recover.

So we are very, very comfortable that we can respond to the market as and when it starts to recover in terms of our ability to resource. Of course, some of the savings that we've announced are, we think, are permanent in nature, and I think reflect a change in the ways of working going forward. So if you look at things like our travel expenses and our hotel expenses and some of our staff costs, we very much see going forward that we will not return to the same level of travel, the same level of hotel expenditure and there will be long-term cost savings that will be available and we sort of given an estimate of those at around GBP200 million or so. So they will be permanent savings.

To be absolutely clear though, they do not reflect what I've talked about in the past, which is more structural savings in the context of things like, for example, long-term rent savings, for example, as a result of COVID-19 or shared service savings through finance and HR or better procurement savings. Those are more longer term structural savings, we are in the process of quantifying, and we will come back and update you on those longer term savings towards the back end of this financial year.

In relation to your question on the dividend, why dividends, why not the share buyback, well, we wanted to communicate a confidence to the market in terms of the sustainability of cash flow returns to shareholders. And we know that our shareholder base very much values our dividends. And given that we've got better visibility, not complete visibility of performance into the second half, but certainly better visibility than we had three or four months ago, we've got a very strong balance sheet, we've got a very strong liquidity position, better than it was in March of this year at the start of COVID-19, we want to be able to signal to the market a degree of confidence by reinstating that dividend on a more sustainable basis.

Obviously, we will come back to the share buybacks at a point in time when we have seen a further improvement in that visibility of performance over 12 -18 month basis.

**Q - Tom Singlehurst**

Is there any inference from the level you selected for where the full dividend will come back at as and when?

**A - John Rogers**

No, not at all. I mean, we made the interim dividend on the basis sort as I've just described confidence in our performance over the next six months or so. And the fact that it's affordable given our liquidity, but I would not read anything whatsoever into interpolating from that interim dividend what our ultimate dividend policy may or may not be. That is something that we will definitively come back to at our Capital Markets Day towards the back end of this financial year.

**Q - Tom Singlehurst**

Very clear. Thank you.

**Q - Julien Roch (Barclays)**

Yes. Good morning. Thanks for taking my question. The first one is on the cost savings, so upper end GBP200 million will be permanent. GBP200 million equates to 184 basis point of 2019 margin, your margin target was around 15%. Should we add the whole 1.8 to that or are those gross savings and you will reinvest somewhere else? And if you reinvest somewhere else, can we have an idea of how much of the 184 basis point we should keep? That's my first question.

The second one is coming back on Page 29, you're highlighting e-commerce as one of your strengths. Would it be possible to have an idea of how much that represents as a percentage of net sales approximately in either 2019 or an estimate for 2020? That's my second question.

And then the last one is the GBP2.5 billion of goodwill impairment, does it create tax loss carry-forward? And if yes, how much? Thank you.

**A - Mark Read**

I'll let John do the first and the third. On e-commerce, clearly it's difficult to identify specific e-commerce projects and we're not organized around those four areas. But we've done some work and we believe it's around 8% of our net sales generated from the e-commerce area.

John...

**A - John Rogers**

Yeah. So just, Julien, in response to your question on cost savings, your math is impeccable, so all else being equal, you will see that fall through. But of course the big caveat there is all else being equal and that may or may not necessarily be the case. We will come back to this at our Capital Markets Day when we hope to be able to set out in more detail as a consequence of an update to the strategy, what the future financial targets and projections for the business are going to be going forward.

I think it's fair to say at this stage so that all else equal, we will see that benefit flow through to the bottom line. Now, we need to go through the detail and obviously talk about where we might want to invest that or whether we let it drop through. So I wouldn't want to be too prescriptive at this point, but the math is right and the benefit is clearly there on a permanent basis. And as said already, that doesn't -- that benefit doesn't reflect further upside in related to, I might describe as more structural cost savings. This is very much taking out cost on a BAU basis, we're going to update the market within this year on the more structural cost savings.

In relation to the GBP2.5 billion impairment, that's a non-tax item, so that -- where that won't create a tax loss carry-forward to be clear.

**Q - Julien Roch**

Thank you.

**Q – Matti Littunen (Bernstein)**

Good morning. Within your online media business during COVID-19, do you see any shift between open exchange programmatic and the more closed walled garden platforms like Facebook?

And the other question, speaking of Facebook, how do you see the impact of their IDFA changes on your online media business? Thank you.

**A - Mark Read**

Yeah. So, I think, broadly speaking, I'd say we've seen continued growth in spend on Facebook and Google, and probably a little bit more resilience there than we have on the exchanges. I think, on the Facebook front, we're going to have to see how that works through. But I would expect that if they're limited in ability to use data, then that would naturally impact the spend that goes through those platforms, if not in terms of volume of impressions, certainly in terms of value, and they're talking about sort of data less impressions when you lose that data signal the value of an impression declines by 40% to 50%. So I think we would see some reduction in absolute spend. Question is where -- how and where one would divert that spend to and where it would go and what Facebook would do in other ways. I would say, generally, we are moving to a world where we do rely less on cookies and where we are targeting media in different ways, increasingly building, have our own source of data around media, increasingly moving to contextual targeting. I want to be very much like traditional media. We look at the content of the page and decide what message to serve on the content of the page, and increasingly understanding how we take clients' own first-party data and activate that in a secure way and privacy-compliant way on media channels.

So I think that it's the sort of moving feast. And net-net, the sort of interaction between the platforms and the competitiveness of that is going to drive how spend. But I don't think one can sort of take a linear influence from those changes to how spend will flow.

**Q - Matti Littunen**

Very helpful. Thank you.

**Q - Richard Eary (UBS)**

Yeah, good morning. Thank you. Sort of three questions. Firstly, I think you provided some detailed obviously breakdowns in terms of how things have trended through first quarter, second quarter and in July. And it seems that from looking at the numbers in the appendices, China and Russia had sort of deteriorated in July with all other markets you had presented had actually got better. So I'm just trying to understand, is there anything in that and is that the reason why you're probably bit more cautious around not changing full-year expectations and where the market sits today? That's the first line.

The second question was more about top 200 clients versus smaller clients and whether you could give us a little bit more color in terms of what the top 200 clients represent of the total revenues and whether there is any signs of recovery in the smaller clients, which was significantly underperforming the bigger client sets?

And then just lastly on the cost side, I know, John, you're going to come back to at the Capital Markets Day, but I think when you hosted the analyst session a couple of months ago, you seemed pretty optimistic about back office and middle office and even sort of front office savings. I just don't know whether you can share any more color in terms of what you -- what's happened in the last two months as you've evolved your thoughts?

**A - Mark Read**

Okay. So I'll tackle the client question and John can talk about the outlook and costs. Look, I think, our top 200 clients are 64% of our revenue. So it's a pretty representative mix of large organizations. I would say that, given the nature of those businesses, they tend to sit inside categories like healthcare, technology, consumer packaged goods, so they tend to sit in the more resilient categories. And the other -- if you were a restaurant chain or relatively smaller business, they sit in the other side.

So I think I would take from that they've been more resilient. Actually if you go back 3 or 4 years ago, we said we were losing share from our largest clients, if you remember versus WPP overall. So I think we are reassured with continued spend from our largest clients, but it's, yeah, it's about 64% of our spend. So it's a pretty representative sample of the business overall.

John?

**Q - Richard Eary**

So, Mark, I was going to say, just if you look at the improvements in trends into July, is that mainly driven by the top 200 clients or basically, other categories coming back or smaller clients coming back into the fold?

**A - Mark Read**

I haven't looked at that, but we can get back to you on that.

**A - John Rogers**

Yeah. So, Richard, just in relation to your question on sort of China and Russia, you are right to highlight that those two markets do seem to be sort of bucking the trend so to speak in terms of recovery coming through in July, but I'd make the following observation. First, it's very dangerous and we shared July numbers with you, but it's a month's worth of data, and it's certainly encouraging and indeed we saw just a sort of shared little bit of color on the performance in the second quarter. May was our worse month and we saw improvements come through in June and then further improvements coming through in July. So overall we feel positive about the direction of travel.

I think if you look at China just specifically, first and foremost, the number for Q2, the minus, I think, 3.1% it was, is flattered by some one-off adjustments. And actually if you stripped out those one-off adjustments for net sales, then you'd probably be at an underlying rate of about somewhere between minus 10 and minus 15. And indeed if you look to July, where we’re down 18, we came -- it's up against a very tough comparator last year where we were up 9%, 10%. So again, I think, if you look at the underlying rate coming through for China for the second half, I'm expecting to be around minus 10, maybe a little bit better. So I'm really comfortable with the direction of travel moving in the right direction for China.

And then specifically in relation to Russia, again, it's a relatively small market for us. And I wouldn't -- I've gone into the details of those numbers. I wouldn't read much into that at all. But to your broader point around the caution in relation to the second-half, I just think we need to be -- we just need to be careful. We take some encouragement from the fact that we got positive momentum coming through in June and July, but equally there are areas where Spain is a great example where we haven't seen quite the same recovery in July come through, because of the consequence of local lockdown. And we are not through this pandemic yet clearly. We've got a winter and autumn and winter to trade into when there is a possibility of further local lockdowns coming through. So I think we're being sensibly cautious about the outturn for the second half, but clearly takes some encouragement from the positive momentum that we've seen in the business over the last couple of months.

In relation to the cost line and about can we shed more light on that, obviously I want to keep my powder dry for our Capital Markets Day in November/December. But what I will say is, I remain optimistic about the opportunity. So I have talked in the past about finance shared services, about procurement, about HR shared services, about some of our production capabilities. And I remain optimistic that those are areas that we can go to to seek further what I would describe as being structural cost savings.

I think the one that I would add to that list now, which is, if anything, we've seen a potential uptick in saving would be in the area of our property costs. And clearly as a consequence of COVID-19 and the new ways that the new very much agile ways of working that we started to operate under. And, to Mark's point, it's much more about that agility than is necessarily about for the people who are in the office or not. But nonetheless, I think we are going to move into a new world where people have that right balance, that right combination with working from home, working in the office, I think all else being equal, that will mean that we need less office space going forward and indeed our campus strategy that was embarked on a year-and-a-half or so ago gives us a real opportunity to better flex our space across our different agencies and look to absolutely deliver further cost savings on our property side in a way that perhaps wouldn't necessarily be available to others, because we've got that flexibility of exiting some longer term leases. And so, I do feel that there's an opportunity there that perhaps wasn't available previously. But again, we'll come back to the detail of that when we update you at our Capital Markets Day.

**Q - Richard Eary**

Thanks. Just on that last point, not to obviously probe into actually numbers, which you may give out later in the year, but if you look at the categories that you mentioned, where do you think is the biggest opportunity now? Is that property?

**A - John Rogers**

I wouldn't want to get drawn on that, because of the influences that you might make from it. So let us do the detailed work. The teams are working hard now to pull all those numbers together and we'll update you on the detail of that when we come back to the market in November/December.

**Q - Richard Eary**

Great. And thank you very much indeed.

**Q - Matthew Walker (Credit Suisse)**

Hi. Yeah, congratulations on the results. I've got two questions. The first is on revenue improvement. I mean, I guess, obviously none of us know what's going to happen in H2, but given you've set out your cost saving target, how would you characterize the drop-through if revenue did improve from what you're expecting? So, let's say for every GBP100 of improvement in revenue, how much of that will drop through to the operating profit line?

And then the second question is on the, obviously due at Capital Markets Day on the structural cost savings. But with the structural cost savings, do you think that there will be cost to achieve those savings and will you put those into operating profit line or will you take those as exceptionals? Those are the two questions.

**A - John Rogers**

Yeah. Thanks, Matthew. So in relation to your first question, how much of any future revenue improvement will drop through to the bottom line. When we sort of roughly set a target -- and I've talked about this before, we set the teams an overall target to try offset 50% of any net sales decline in the form of cost savings, and that's the target that we set our teams. Now, the reality is as we've exited the first-half, we've been doing a little bit better than that, sort of 60%, 60% or so, north of 60%. So that's encouraging. And let's see whether we can maintain that momentum through into the second-half. But as a guide, I think, somewhere between 50% and 60% of any net sales decline we would hope to be able to offset in terms of cost savings, that should give you some indications as to drop through.

And in relation to structural cost savings, will that incur any one-off costs, it's possible, for sure. And so, for example, if we are investing in shared service systems and so forth that will indeed require further investment. Other areas I just made mention to property costs, there may be some sort of early exit costs from some leases. But let's see where we get to, but there won't be any other one-off costs. I think, some of the procurement savings, I think will not require one-off costs. There will be a little bit of a blend of both, but we'll set that out very clearly when we come back to the market in November/December in terms of what we think the cost savings are, the timings of those cost savings on a year-on-year basis, and also if there's any one-off costs associated with having to deliver those savings.

**Q - Matthew Walker**

Okay. I just want to quickly follow-up on the first one. I get what you are saying about you want to may be offset the revenue drop this year by 50% or 60%. But isn't the issue that you've actually given already an absolute number for cost savings and therefore any incremental revenue improvement should actually drop through 90%, 100% to the operating profit...

**A - John Rogers**

You're right. I mean, the assumption there though in your math is that the cost savings are static versus the top line. Of course, the reality is that's not the case. And so, you're right on the margin, the way it works is, any improvement in revenue above and beyond our forecast would generally drop through at a higher rate than the 50% or 60%, because what happens in practice is you sweat the assets slightly, the resources, the people slightly hard so you tend to get a better drop-through. And so, for example, in June and July, we did deliver better net sales than we were forecasting, the cost savings were

delivered and so we saw most of the upside versus our forecast drop-through into profitability.

What I'm trying to give you though when I talk about the sort of 60% -- 50%, 60% is just a rough guide on if you wanted to forecast the numbers forward. The rough guide is to what the actual overall drop-through will look like, which will be sort of 50% to 60%. But you're absolutely right, on the margin, generally speaking, any upside just drop through a little bit quicker.

And again, we might expect -- as we start, one of the things I'm very keen to do is as we start to see recovery come through next year, as we start to recover from COVID-19, the big challenge that will have, of course, is to hold on to as many of those cost savings as possible now, we've been very clear that we think there is around GBP200 million that we will hold on to on a permanent basis. But in theory, there's another GBP600 million that will come back into our P&L. And of course, the task there is how do we delay that GBP600 million coming back into the P&L as much as possible, and of course they will be -- we'll try and make those savings as sticky as possible. So we'll try and work our business hard as we go through next year as we start to recover to try and hold on to as much of those savings as possible, but it's inevitable that all costs in some way is a combination of fixed and variable and some are more variable than others and inevitably as we start to recover, we will see costs coming back in, but rest assured, we'll hold on to as much of it as we possibly can.

Hopefully, that gives you a little bit of a flavor. I don't know whether I answered your question or not.

**Q – Matthew Walker**

Yeah. I think I'll leave it there for now. Thanks.

**Q - Patrick Wellington (Morgan Stanley)**

Yeah. Good morning, everybody. Not to harp on about the GBP200 million, but on Slide 15, you say that the savings will be permanently retained when we have returned to the 2019 net sales levels. So I just want to check what the implication on that statement is. Does that imply that if net sales don't return to 2019, then you might retain more than the GBP200 million. So what's the relationship that you're trying to hit there?

My second question, because we must have three, is what's going to make you turn the share buyback back on? I mean, you can see your financial situation at the half year we got your forecast for the full year, you've just paid an interim dividend. I mean, are you going to sit there when you get a good revenue number in August or September and say, well, now I feel more confident in my forecast I turn it on now. What's going to be the trigger, I guess, is the question.

And then my third one is more for Mark and I think it's part of Julien's question earlier on. You described 8% of your business is being in e-commerce. If you take those four sort of growth segments that you described, comms and experience and commerce and tech, I think they are overall about 25%, 30% of the total. So I guess the question is, this depiction of acceleration in e-commerce and digital, do we have the traditional analog decline on the other side? And how does WPP navigate that process? Is it all incremental, is it partly substitutional, is there a risk that you -- I mean, people think you have assets if you like towards legacy businesses? How will that be managed?

**A - John Rogers**

Okay. Just in response to your first question, obviously, if we see -- what we're trying to say here is an over-simplification of our cost base. But what we're saying of the GBP800 million savings is GBP200 million is sort of fixed or permanent and GBP600 million is variable, now it's never quite that black and white as you I'm sure appreciate, but so in other words adds on net sales do return back to 2019 levels. And by the way, we do anticipate that happening at some point. Those costs, GBP600 million of those costs will come back in at any point in time if our net sales numbers are less than the 2019 level, then clearly we will have the, what we call, the permanent savings of GBP200 million, plus an element of the GBP600 will still be available to us on the grounds of they are variable saving. So that's the way I would look at it frankly. It's, as I said, it's an oversimplification with the way our business works, because not all costs are full fixed, not all costs are fully variable. But hopefully that gives you a little bit of a flavor.

In relation to your second question on the trigger for share buyback, I think, it's simply a question of we need to recognize that we are not through COVID-19 by any shock at the moment, there remains uncertainty out there. And I think for me the key trigger that we would look to before we reinstated the share buyback is having visibility of our performance over the next 12 to 18 months. Now, there's no question that the visibility of our performance has improved from where it was three or four months ago, when there was huge uncertainty of the impact of COVID-19. We've now traveled through these three or four months, we've delivered a stronger performance than expected. We've been pleased with our performance over that time, but we are not through the impact of this pandemic, not least of what the longer term economic impacts of COVID-19 on consumer and consumer spend and consumer confidence. And so, I think, until we are -- until we've got better line of sight over 12 to 18 months, we won't be reinstating the share buyback.

When do I think that's going to happen, I think is too premature to say at this point. I don't think it would be before our Capital Markets Day and it may not be even at our Capital Markets Day. So, I think let's just wait and see how we perform over the coming months or so and the extent to which we have visibility into the future before we reinstate that share buyback.

**A - Mark Read**

All right. On your question about growth, I think the first thing to say is -- firstly, we see growth in all four areas of communications, experience, commerce and technology. We may see slightly stronger growth in experience, commerce and technology, but the communications business, we do see continue to grow, but I think within it, there is as you point out that shift between from analog to digital within communications, which is sort of, by definition, more pronounced there, then it is in other areas.

I think the second observation I'd make is, it's not as simple as saying that WPP didn't grow historically, because the analog portion was declining faster than the digital portion. The challenges we faced were around the way we were organized, the complexity of our organization, fact that our analog and digital capabilities were integrated, the performance and quality historically of our business is in the United States and lack of growth in the US and those are all issues that we've been working and making pretty good progress on in the last two years.

So I think that we will in a steady-state see growth -- our goal will be to see growth in all four areas of our business. Today you can't run a business where the long-term potential for it is to decline and so we're really organizing for the whole Company to grow. Does that help understand where we're going?

**Q - Patrick Wellington**

That's good. Thank you.

**A - Mark Read**

I think our clients need service. Clearly the online portion of the business is growing more quickly, but I think our clients need service. No one lives in an -- even my eight-year-old son doesn't live in a digital-only world that he'd like to try to do so. I think that we do live in an omnichannel world, clearly the pandemic has increased the shift to digital. But I think as we've seen through the integration of VMLY&R, the fact that it grew in the first half of the year, that we can integrate our capabilities to grow in the world in which we live.

**Q - Patrick Wellington**

That is great. I mean, I suppose the -- so it's too simple a narrative if you'd like to do the digital-analog acquisition. Do you think you've got the weighting of your people right to people naturally transition across from dealing with TV and stuff like that into the digital markets or do you need a bigger shift in the balance of your -- in your people at some stage?

**A - Mark Read**

Clearly we need to continue to shift. Clearly we need to train our people for the skills that we need for the future. But I think if you were to sit through a client presentation or if you were to sit through the meetings that we have, it's not Mad Men. We're not sitting there thinking about 30-second television ads. When we help Ford launch the new Bronco through really not just a primarily online launch, but when dealers were closed, that work was totally digitally focused. When we help our clients launch films where when a cinema, the movie theaters are closed and clearly we're driving people to online platforms. We've done a lot of work in the commerce area, helping clients, for a chain liquor store in US that has 60 liquor stores - in two weeks spun off a curbside delivery platform for a company that had no e-commerce presence whatsoever.

So I think the work that we do is a blend and clearly television advertising or videos, as they call today an important part of what we do in a way it's a shame that we show you films on these presentations, because you take away, that's what we do. But it is in many ways the best way to encompass the work, but I'd say we have a very, very broad range of skills. And I think that our people, the average age of someone that works for WPP is less than 30, they don't hark back to the 1980s luckily.

**Q - Patrick Wellington**

Thank you.

**Q - Sarah Simon (Berenberg)**

Yes. Good morning. I've just got one question actually. And it was really you've made comments in the release about sort of thinking about capital allocation and kind of suggesting that your dividend policy is going to be reviewed. And I'm just wondering if you think, given the shifts we've seen and the

acceleration and what was happening already, do you -- is there anything you can say in terms of whether you feel like you need to shift more towards M&A now you've got the balance sheet in good shape? Or if you can do this more organically and just anything you can say in terms of what you mean by those comments. Thanks.

**A - Mark Read**

I don't think now. I think, we'll come back to you in November on that.

**Q - Sarah Simon**

Okay. Thanks.

**A - Mark Read**

Thank you. Thank you very much, operator. So I think just to summarize, I think it has been a challenging six months for the Company, but we haven't stood still, we've made significant progress against our strategic objectives and I think demonstrated the resilience of our business model, the strength of our relationships with our clients and I just put on the record thanks to all our people who have worked hard in extremely challenging circumstances to deliver to our clients and in particular to look out for each other at a time that has not been easy. So thank you all for listening and we'll see you I guess for the quarterly results later in a couple of months' time.

[END OF TRANSCRIPT]