WPP 2020
Third Quarter Results

Transcript

Thursday, 29th October 2020

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Third Quarter Highlights

Mark Read

Chief Executive Officer, WPP

Operator:
Good morning, ladies and gentlemen, thank you for standing by and welcome to WPP 2020 Third Quarter Trading Statement Conference Call and webcast. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. (Operator Instructions) Today's conference is being recorded.
At this time, I would like to hand the conference over to WPP's CEO Mr.Mark Read. Please go ahead.

Mark Read, Chief Executive Officer:
Thank you very much, operator. Good morning, everybody, and welcome to our third quarter results. I'd like to start by asking you to read the statement on Page 2 of the presentation. And then if we turn to Page 3,

Slide 3

So briefly, I'm going to cover the highlights of the third quarter and then John Rogers, our CFO, will take you through the financial presentation and financial performance and then John and I will come back at the end to answer any questions that you have.

Slide 4

On Page 4 I think I would describe our performance in the third quarter as a resilient performance in a challenging environment, and as we expected, the second quarter was the toughest quarter of the year so far. And the third quarter came in I think slightly better than analysts' expectations, and obviously slightly better than we had expected at the end of the second quarter, with progression from minus 3.3% in Q1 to minus 15% to minus 7.6% in Q3 and we saw a good recovery in our integrated agencies particularly at Group M, driven by media spend, the public relations sector was the strongest performing sector in our business and we had a good performance from both BCW and Hill & Knowlton, but our specialized agencies did remain challenged, which reflects the nature of those companies in events or working with Airlines or in the branding identity business which by nature is a little bit project-based.
What we're most pleased about is the continued new business and momentum at WPP, which continued into the third quarter, with new wins at Zespri, Whirlpool, Alibaba and Uber, and last night we were able to announce that Walgreens Boots Alliance had renewed and extended our relationship with them, and that's a new relationship which will be focused on accelerating their digital transformation in extending our work from communications into public relations, with deep emphasis on data and on technology. We continue to put a major focus on cost because I still expect to come in at the upper end of our GBP700 to GBP800 million pounds savings range in 2020 and the progress that we've made on the balance sheet stays in place, the balance sheet remains strong, average net debt is GBP2.5 billion, down GBP2 billion year-on-year with good working capital. For the full year, we do expect to be in line with analyst expectations, and I would remind you that those expectations have improved somewhat since the last quarter, and that reflects a better momentum which will continue the momentum in the business overall, and our new business performance.

Slide 5

Turning to Page 5. We said before, in the long run I think one thing we can take as a positive in our results is the relationship and value that we have with our clients. We have seen our customer satisfaction scores improve over the course of the pandemic and I think our results demonstrate that we are a critical partner to our clients. If you look at the net sales from our top 200 clients, they improve from minus 8.1% in Q2 to minus 2.4% in Q3. We saw a balanced improvement really across most sectors of our clients. In those parts of our business the 21% that we classify significantly impacted, there was some improvement in automotive, luxury and premium although the travel and leisure sector continues to be impacted. So you saw that improvement minus 17.9% in Q2 to minus 9.7% in Q3. Those companies somewhere in the middle also improved but I think most importantly the clients we would describe as resilient, consumer packaged goods, technology, healthcare and pharma actually grew in the third quarter.
And we did see growth in the third quarter from 15 of our top 30 clients and that was most pronounced in the healthcare and pharmaceutical sector and consumer packaged goods.

Slide 6

And as I said on Page 6, we have seen continued new business momentum across the company. I think our new business pipeline as we speak today is probably somewhat stronger than it was three months ago. And we do expect to see a heightened level of new business activity into Q4 and Q1 of next year. I think we do find ourselves more competitive in new business pitches than perhaps we were a year or two years ago.

Most importantly, as I mentioned, last night we were able to announce the Walgreens Boots win. I think if you look at the wins we have had across the company several things I would point out. A number of them with technology companies like Uber or where the focus is really on data and technology and transformation like Walgreens Boots Alliance. A number of them are integrated across creative and media to clients looking for a sort of simplified integrated approach at the current time. We've also had a number of wins that I would say creatively focus for clients looking for really strong creative solutions, most notably perhaps McDonald's win in Germany at Schultz & Friends or the win of Carlsberg by Grey or the global business part of the Carlsberg win by Grey. So we are seeing continued strength in our new business approach across the company.

Slide 7

On Page 7, we are at this point confirming the date of our capital markets day, which will be the 17th of December. I think as we said on the last call, we do expect to update you on our strategic progress. We are two years into a three year plan. There's no doubt that COVID has accelerated many of the trends in our industry, and that's required us to accelerate our approach. We would like to update you on how we see that, as well as going into some detail on the longer term efficiency savings, and how we can reinvest them for growth, our longer term capital allocation and our medium term financial targets. So, we'll come back to you in December. So, I will turn over to John Rogers to take you through the financial performance of WPP.

Financial Performance

John Rogers

Chief Financial Officer, WPP

Thank you, Mark. Good morning, everyone.

Slide 9

So Mark's already taken you through the trends on the quarterly basis but just to reinforce, net sales obviously Q1 down minus 3.3% which was really reflecting the early onset of COVID-19, in particular the impact on China at that time, and Italy and then obviously moving into Q2 where we saw Like-for-like net sales down to 15.1% and clearly reflecting a lockdown across most of the western markets within which we operate, but as markets started to recover, we saw a steady improvement in performance in Q3. So minus 7.6% for the quarter and if you remember at the half, we reported a number for July at minus 9.2% so you can see that we've had some momentum building through the third quarter itself. So, I think we have some confidence about the momentum of the business going forward, but we remain sensibly cautious of course about Q4 given the uncertainty in the market.

Slide 10

Coming now to Slide 10 and looking at breakdown by segments. Again, you'll see here the breakdown of performance of the global integrated agencies. Again, the big impact in Q2 at minus 15.7%. But we're pleased with the recovery coming through into Q3 at minus 6.7%. And in fact, all our agencies showed sequential improvement Q2 into Q3. VMLY&R remains the strongest performing agency, only slightly down year-on-year and up in the US, albeit, the strongest recovery between Q2 and Q3 was actually seen at GroupM, reflecting the closer correlation to the uptick in client media spend that we saw come through in Q3. But as I say, all the integrated agencies recovering steadily.

Slide 11

Coming on now to Slide 11 and public relations. This was our best performing segment. It was the most resilient through Q2 at only down minus 7.5%, of course, reflecting the need for many of our clients to manage their messaging in these challenging times. And we saw that performance bounce back in Q3 to minus 2.9% -- real positive momentum.
We actually saw our specialist PR companies return to growth in the third quarter and BCW and H&K as Mark alluded to earlier on, both performing, both recovering well through Q3.

Slide 12

Coming on now to Slide 12 and specialist agencies, a slow recovery here. It is fair to say that this has been a more challenging sector. So, we've seen the impact in Q1 itself at minus 7.4%, minus 16.3% in Q2 and slightly disappointing minus 13.9% in Q3. So it's a much more challenged sector, although pleasing to see that GTB did improve for the second consecutive quarter as we start to annualise the impact of the major assignment ending, brand consulting itself was a challenging market, remains under pressure given the client budget cuts and sector exposure. So, some recovery in Q3, but perhaps not quite as strong as we would have liked.

Slide 13

Coming on now to the geographic performance on Slide 13, and just looking at our top 5 markets here. The USA the least volatile actually of all of our markets through the COVID-19 pandemic. So obviously down in the first quarter by 1.9%, down 9.6% in the second quarter, but Q3 we saw some good recovery at minus 5.5%.

The UK was more impacted in Q2. You see that's down minus 23.3% reflecting I think quite a hard lockdown that we saw in Q2, but very pleasingly actually and slightly better than we expected performance in Q3 at minus 6.5%. So a strong relative bounce back in the UK market. Germany was more robust as they didn't go down as much in Q2 only down 11.6%. And again, we've seen a strong bounce back in Q3 to minus 1.8%. So encouraging performance in Germany. Greater China a little bit more disappointing as we saw the full impact come through in Q1, when we saw a lockdown in China at minus 21.3% we thought better performance in Q2 at minus 3.1%, albeit that is significantly flattered by one-off contractual client payments. And then we saw performance in Q3 at minus 16.7%.

It is worth noting though that we reported at the half that China in July was down just over 18%, so we are seeing a relatively small slight improvement as we traded through Q3, and we would expect to see that trend continue into Q4. I think the main reason why we've been seeing slightly disappointing performance in China has been driven by our sectoral exposure in particular areas, like obviously automotive and luxury goods. We haven't seen those areas recover quite as strong as we would have liked, and therefore performance has been lagging somewhat. If we look at India, again, we saw the Indian economy impacted quite severely in Q2, and our own performance down minus 25.1%, and again, we've seen some recovery coming through in Q3, but not as much as we've seen in Western Europe and again, principally driven by the continued lockdown environment that we are seeing in India to date.

Slide 14

Moving on now to our some of our other major markets on to Slide 14 and looking at France, Italy and Spain or European markets, again we're seeing the trends of Q2 being quite severely impacted as a consequence of lockdown and seeing the recovery come through in Q3, that recovery has been more evident in Italy, which perhaps obviously is slightly earlier on in the recovery cycles than perhaps Spain or France, but nonetheless, we're seeing slow recovery come through into Q3. Brazil, in some ways not dissimilar to India, not so harshly impacted in Q2. We are seeing small recovery coming through in Q3, but again given the challenging environment in Brazil, that recovery is not perhaps as strong as we're seeing in some of the Western European markets.

Slide 15

So, coming on now to Slide 15. Just looking at our improvement in net debt year-on-year. So, we started out this time last year with net debt of 4.47 billion. We've seen improvements in trade working capital obviously allowing for CapEx and share buybacks and dividends and the benefits of course of the Kantar disposal reaching a net position of 2.3 billion net debt at this time as September this year. So strong overall balance sheet, we've got liquidity of Circa 5 billion, and so a very strong position year-on-year in terms of our balance sheet and liquidity position.

Slide 16

So, just coming now to the last Slide 16. Just to reiterate our guidance for the full year. 2020 financial performance expected to be within the range of current market expectations, and of course, that has improved since the half one in terms of the market expectations and that of course assumes no widespread lockdown across our major markets. So that implies like-for-like revenue less passed through costs between minus 8.5% minus 10.7%. And headline operating margin between 11.4% and 12.5%. We expect a small working capital outflow for the full year, and maybe a little bit better, but I think taking a conservative view, a small outflow on trade working capital and CapEx at circa GBP300 million. Average net debt over EBITDA in the range 1.5x to 1.75x by the end of 2021. And I would expect it to be on average just above that range for this year end. So probably about 1.8x for this year end, albeit at the balance sheet date itself as opposed to an average, I'd expect net debt to EBITDA to be 1.5 at the at this year end, so encouraging performance overall. So that concludes our presentation today, and I will hand back now to the operator so that Mark and I can take Q&A.

Q&A

Lisa Yang (Goldman Sachs): Good morning and congrats on the results. And thanks for taking my question.

I appreciate obviously the high level of uncertainty going ahead especially with COVID. But I'm just wondering if you can say anything on what you're seeing in October so far. I mean, looks like some of the other media owners have mentioned that October is still resilient. So just wanted to ask you can give a bit of update for WPP and how has the tone of conversation with advertisers evolved more lately?

The second question is on the cost saving. So I think in the press release you mentioned that all the revenue decline was offset by the cost saving in Q3. So I think it's around 600 million in the nine months. So could you confirm that? And then could you give a bit more color in terms of what are the main areas of cost savings left for Q4 and what sort of a underlying cost of inflation you're expecting for this year so we can see what could be the gross and net cost savings for this year?

And the third question is on the new business activity, which has been very good so far this year. You mentioned on the call that you expect more activity in Q1. So I'm just wondering like what sort of pitches or you're sort of expecting? Is it more like WPP defending accounts or is it more like, new opportunities and maybe can give a bit more color in terms of what sort of pitches are we talking about is that in media or digital data et cetera? Thank you.

Mark Read: Okay. I'll start and then turn to John-- about cost saving I will come back on new business. But I think -- we did say that we expect Q4 to be in line with the range of analysts' expectations. I think it's fair to say that we haven't seen anything -- we don't have our October results. I can't comment on our October results. But I think it's fair to say that we haven't seen anything from our clients in terms of a knee-jerk reaction like we saw in March, April, May, in terms of reducing their spend. And I would say that we do see governments steering a fine line between limiting the spread of the virus and protecting economic activity. We did say that we expect the second quarter to be the toughest quarter of the year, and I think it's fair to say that we do still expect that to be the case, okay. John, about the savings.

John Rogers: Yes, sure. So just in relation to cost savings. We did have a good quarter for cost savings as we highlighted. Obviously, I'm just going to reiterate the guidance that we've given for full year, which is we expect our total savings for the full year to be at the upper end of our GBP700 million to GBP800 million range. So we remain confident in our ability to deliver those cost savings to the full year. You asked the question specifically about cost savings year-to-date. I'm not going to get sort of drawn on giving cost savings by month, but obviously, if you extrapolate the GBP300 million, you roughly get to the figure that you reference. So give or take that would be round about right.

In terms of cost savings coming through in Q4, they remain a similar mix to those that we've seen so far during the year. So a combination of property savings, obviously travel and subsistence continues to come through. We don't see people doing much travel in the next three months or so and we continue to make savings with regards to our total headcount and salary cost again as a result of the actions that we took early given the impact of COVID-19. So no change in mix of those cost savings, but they will come through in Q4 in line we expect.

And then you asked also around inflation and was quite difficult to break out the impact of inflation by cost line and by geography, but as a broad guide, I think I would use a number between 1.5% and 2% coming through. Obviously, we've been able to hold back salary increases this year which would be a major source of inflation. We would expect to see that come through next year as we see the global economy start to recover, we would see that salary inflation come back in. But I'd say 1.5 - 2% for the purpose of your model.

Mark Read: Yes. And then on new business activity, that we said as we came into the year, we had a relatively strong new business pipeline. We had limited new business at risk, actually the key piece of business we had at risk was our work with Walgreens Boots Alliance, as you know, we announced last night that we both were retained and extended our scope with Walgreens Boots Alliance.
I think we are seeing a number of new pitch activity. It's primarily integrated pitches, so both media and creative and by far the bulk of that is net new business for WPP, we haven't seen anything specifically at risk in the last few weeks.

Lisa Yang: Thank you very much, Mark and John, very helpful.

Julien Roch (Barclays): Yes. Good morning. Three questions if I may. On GroupM you said good recovery, but industries spread is wide, IPG said media positive in Q3 for them, Omnicom said better, but only marginally better than their minus 11.7. So what about you? I don't know minus 7.6, I assumed better than minus 5, close to zero.
Coming back on Q3, as John highlighted, minus 9.2 in July, you finished at minus 6.7. So can we have an idea of the quarterly progression in Q3? Was it something like minus 9, minus 6, minus 3?
Then coming back on Lisa's question on October. Mark, you said you didn't have October yet. But I guess, now that you have restructured, simplified the offer, do you get some weekly indication of revenue? Publicis claim they have weekly revenue now, but for your major agencies, did you get weekly revenue and if yes, how much of revenue does that represent. And then maybe a quick last one, John having given lots of indication on net debt and working capital on page 16. Where do you think free cash flow is going to be roughly for the year, if you meet midpoint of consensus?

Mark Read: So I think I'll just take the October question. So on October, we don't see weekly revenue by agency. What I would say is that, none of the conversations we've had with leaders of our agencies or with clients have yet invited a massive pull back in spend in October. And so yeah.

John Rogers: Yeah. So in terms of GroupM performance, we did see a strong recovery come through between Q2 and Q3. So, I'll give you a little bit of an indication. We were down circa 17%, 18% or so in Q2 for GroupM and down about circa 4% in Q3. So we saw a good bounce back in GroupM, but equally we saw strong bounce back in other areas too across our Global Integrated Agencies. So it gives you a little bit of a feel for the weighting of performance.
You then asked the question about the second in terms of July and progressing through Q3. I'm not going to get drawn on giving you specifics for August and September. Obviously given July was minus 9.2 and the quarter's minus 7.6, and clearly we did see an improvement coming through the quarter. I wouldn't say it's quite as positive as your suggested trajectory of minus 9, minus 6 and minus 3, I think it's certainly a little bit flatter than that. But clearly, the numbers do suggest an improvement through the quarter. And in terms of weekly revenues, we do get some line of sights from the business in terms of forecasting revenues on a weekly basis, but we don't capture that information we generally get the monthly numbers coming through when we confirm the actuals. But we get some forecasting coming through. So we have a little bit of a line of sight on the weekly numbers and that's obviously helpful for understanding the truth to get view of the business.

And in relation to your question on free cash flow, I think the broad approximate, I would say for the full year excluding Kantar, we expect to see a couple of 100 million outflow in relation to from operations. That reflects, obviously, negative outflow in the first half what we reported at the half one followed by a positive inflow in the second half, but overall net-net slight outflow cash flow from operations for the full year. And then when you take account of acquisitions and disposals, would be broadly flat in terms of our cash flow before shareholder distributions for the full-year, to give you some guidance.
Thank you.

Julien Roch: Very good. Thank you very much.

Tom Singlehurst (Citi): Good morning, Mark. Good morning, John. So first question just a sort of philosophical one I suppose about the fourth quarter. The guidance implies a wide range. I appreciate that based on our forecast, not yours but I've just, the question is around sort of how 4Q is expected to work relative to history? I suppose you would say there's lots of project work. There's always a risk for budget flush, in the old days a company might use marketing as an adjustment act to make margins. I'm just wondering with a lot of your advertising clients possibly sitting on big T&E savings, whether there's any chance of the reverse coming through and seeing a budget flush? Yeah, obviously a positive spin, but I would be interested in on your view on that.
And then the second question just specifically on the UK, which is a very strong performance. I'm just wondering whether that's -- whether the UK operations are sort of sucking in work from elsewhere in the globe and that explains why it's so strong in relative terms both in terms of pickup and the absolute level of growth in the third quarter. Thank you.

Mark Read: Yes, look I think on Q4, I don't think we've ever really looked at Q4 on a basis of budget flushes or indeed it going the other way. I think it's just really a question of how clients are thinking about, how clients thinking about the full year, what the impact of the lockdowns will be, I mean, point out at its worst it was minus 15, which is above the upper end of your expectations. And don't I think currently, we expect the lockdowns to be as severe, as they were in March, April, May. But I don't think, we focus on sort of budget work or budget flushes in that way really.

John Rogers: I mean, I think just to build on what Mark just said, as you rightly highlighted Tom, there is a wide range of implied consensus for Q4, that range as I understand it goes between minus 6.8 to minus 12.5. And I think the reason why there's such a wide range in that consensus forecast is because there's such a wide range in potential outcomes. As we sit here today, we're not seeing any particular changes in client behavior. We've got positive momentum coming through in the business, but of course there's uncertainty out there. And if there are significant lockdowns across market economies, then we will see that impact our performance, and if there are lockdowns and the government does a good job of balancing the needs of the economy and the needs of restraining the virus then obviously performance will be stronger. But there remains uncertainty out there as we work our way through winter, and I think that justifies the very broad range of consensus outcomes. And it's a bit of a guessing game of where we will end up in those scenarios, but it does depend on these particular outcomes. The middle of the consensus range is about minus 9.4 and that's probably not an unreasonable average to assume.

Tom Singlehurst: Fair enough. One quick follow-up on that particular point. After Publicis detected, I think the phrase they used was a fighting spirit from the CEOs of some of the clients that he's been talking to. Do you see something similar in your discussion?

Mark Read:
I certainly think that clients are looking for growth. I think that those clients that -- look at the pattern that we gave you between the resilient and the balance in our business. There are clients who are seeing really strong growth in the packaged goods area, Reckitt, Unilever, a number of them have had strong -- P&G -- number of them had stronger growth in Q3. If you look at retail spend in the United States in September, you know you saw certain sectors, apparel and fast food and restaurants down close to 20%. But you did see growth in other areas. There's no doubt that -- the pandemic is, while it's having a negative impact on economic growth overall, it's causing some sectors to decline, it’s also causing spend to be increased and displaced into other sectors; retail and supermarkets, technology, healthcare, consumer packaged goods.
And so, I think it is a balanced picture. I think that clients are looking at growth. For every conversation I had with a client, it starts and ends with the word e-commerce and how they can shift their business online and how they can shift more budget into digital media and more sales driven digital media. And those are all areas where we can help clients and so I think even in those parts of the economy that are most badly affected, people are looking for light at the end of the tunnel. I mean if you read newspapers today, you'll see, three front pages that talk about a lockdown and you'll see two front pages that talk about vaccines.
And I think it is a careful balance between navigating our way through period of lockdown. But I think they will do -- governments will do their best to mitigate the economic impact and working our way through, I don’t want to use the words sunny uplands, but working our way through to the other side of this. And I think to some extent clients are holding their nerve to get through to that.

Tom Singlehurst: Okay. And does that e-commerce point feed through to the UK as a sort of export market?

Mark Read: I don’t know it’s an export market, but the UK is one of the world leaders in e-commerce. We, probably after China and South Korea, is the most advanced e-commerce markets than anywhere in the world. So, I think it is positive in parts for the UK, positive for our e-commerce companies. We did say sort of the last time we met about us helping our top 10 clients with ecommerce. We're seeing that feed through to our media business where we're shifting billings very rapidly. Amazon's one of our fastest growing media platforms, and I think you're seeing clients increase their sales targets on e-commerce. Some clients that were 10% or 12% sales for e-commerce are hitting close to 20%. I think in the UK outside of grocery, ecommerce is now 40% of retail sales. Many clients are increasing their targets to 50% plus. So I think there is a lot for clients to invest in and many of those clients find that a partner like WPP and our agencies can help them navigate their way through but many of the questions they need to do. How do they build the right e-commerce experience? How do they deal with Amazon, whether they want to build directly, whether they want to partner. We've been helping supermarkets to expand that capacity to give them more capacity to sell online with and helped change liquor stores in the US, build a curbside delivery platform in two weeks. So, there's a tremendous amount of activity going on in these newer areas, and I think summary of our results reflect both the more resilient pattern of many of our clients, and new activities that they're undertaking.

Tom Singlehurst: Thank you.

Adrien de Saint Hilaire (Bank of America): Yes. Good morning, Mark and John. Thanks for taking the questions. Hey, John. So first question is on China. So year-to-date one of the worst markets alongside France and Italy. John you've given some explanations in your prepared remarks. But if you look at these two sectors, they seem to be performing quite well in Q3, in terms of their actual sales. So can you be a bit more specific on the drivers of China and maybe local or multinational clients.
Secondly, on net new business, thanks for giving that KPI. Does it already have an impact on your 2020 P&L? Or do you think most of these wins will be felt in 2021 in terms of actual revenues? And also how does the $5.6 billion compare to nine months 2019?
And then thirdly, I think in your guidance you indicated that this guidance holds that there are no lockdowns in markets among the top four, but is there a risk that if some of these markets introduce lockdowns, as some of the governments introduce lockdowns that Q4 could actually be worse than Q2 or does your comment Mark that Q2 is worse would still hold. Thank you so much.

John Rogers: Yes. So just coming onto China. Look, I think it's said that we are little bit disappointed with performance in China. We haven't seen it recover quite as much as we have the other markets, but it is recovering and we would expect to continue to see that recovery come through in Q4. You're right to say that if you look at the automotive market, you look at the luxury market, they have recovered in Q3. However, the spend that we're seeing in those markets from an advertising and marketing perspective, we haven't seen recover as much. And in fact if you looked at our performance in China, vs our competition, you'll see that it's pretty comparable and actually China I think from a marketing perspective has been a relatively tough market to Q2, Q3 compared to some of our other markets. So our performance isn't really out of line with the market.
In relation to lockdown and sort of what we'll see in Q4, I think obviously if we see lots of lockdown, lots of the markets lockdown over Q4, then I think it is possible that we will see a slowing down of spend. I personally don't think we will get to the types of declines that we saw in Q2 even if we did see significant lockdowns across our global economies. I think to Mark's observations, I think Q2 will be seen to be our worst quarter. I actually think in practice most governments are trying to very sensibly and rather delicately balance the needs of the economy, and the need to hold back the spread of the virus. So, I think the sorts of lockdowns that we're most likely see through Q4 will tend to be a little bit more temporary in nature, the likes of two, three weeks or so four weeks maybe but I think we'll see a more measured response over Q4 and I think that measured response is certainly within the parameters of the breadth of consensus guidance that's out there. So, hopefully that helps you a little bit.

Mark Read: On the new business target Adrien, so our net new business of $5.6 billion were 43% up on the same period last year with over 3.9 so had a much stronger performance in new business. It is hard given the background of the pandemic to differentiate between, just to see the impact in the business and I would expect much of the impact to flow through into next year. What I would say, you can see is, if you look at our US numbers, year-to-date in the US we were down 5.5%, but on a full year basis last year, we were down 6%. So despite the pandemic, our business in the United States is relatively better than it was last year. And I think that reflects both a greater stability in our client base and the net new business wins. But you can start to see the positive impact flowing through into the business and it does give us continued confidence, the competitiveness of our offer and our ability to recover next year.

Adrien de Saint Hilaire: Thank you very much.

Tim Nollen (Maquarie): I think that's me, Tim Nollen from Macquarie. Hi, everybody. Question for you Mark. I saw -- I believe if I remember correctly, not too long ago, I saw a headline in some publication I forget which, talking about you WPP looking at acquisitions again. Could you just confirm if I read that correctly? And I'm just curious if so, is this a matter of your debt ratio having come down quite a lot, is it a matter of target pricing having come down quite a lot in this environment, and or is it a matter of needs to build out into more areas of data-driven marketing, a lot of privacy issues, a lot of changes coming with chrome cookies and apple idea phase and so on and so forth. Just any comments you could give on that front would be great. Thanks.

Mark Read: Yeah. So I think it reflects, first, the progress that we've made in the last two years in terms of streamlining the company, simplifying our structure, integrating the business and reducing our leverage. I'll remind you that we've raised GBP3.5 billion through the sale of Kantar. We've both focused our offer but also put our balance sheet in a much stronger position and that has enabled us to navigate the last seven to eight months with much greater confidence than if we hadn't done it. The observation I made and that you're referring to is that you have to build a house on firm foundations and I think our foundations are much more secure. And as we come through COVID-19 and start to focus on growth, we need to focus on both organic growth and growth by acquisitions which I described as selective acquisitions. What's much more valuable for WPP is to grow on top line, is to invest to grow business organically, and I think that has to be our priority. But there is room within that strategy of making acquisitions to complement our offer in areas that are important to our clients around technology, around data, around e-commerce. And so I think that's really going to be our focus. It will be a balanced approach but with a real emphasis on driving the top line, investors want to drive the top line, but making acquisitions where they make sense, and in, what I would describe, a selective way.

Tim Nollen: Perfect. Thanks.

Dan Salmon (BMO): Good morning, everyone.

Mark Read: Thanks for getting up early.

Dan Salmon: That's all right. We don't mind. I have children now. So this is standard for me. So Mark, I think, I've asked you about these sort of things a couple of times. But it seems timely to return to them in light of what you've mentioned a few times here, and I think that's the shift to e-commerce being sort of a profound move right now underneath what was being driven by COVID. So one, I just wanted to ask about the parts of your business doing ecommerce services, business transformation work where you often see the consultants, what are you hearing from those agencies in terms of demand?
And then second is we continue to see these retailers ad sales businesses take off, Walmart reported for a billion dollars of ad sales now the other day and the shift there is moving as well and I said, I think I've actually asked about this before is it, are you seeing an opportunity to tap into the trade promotion budgets with these retailers more. Would love to hear more on those two parts of the business. Thanks.

Mark Read: Yeah. I mean, I think if I just remind you of the capabilities we have in e-commerce, and

how far they go back, I think we bought what was then Salmon which was e-commerce company I think 8 or 9 years ago, at the time was 300 or 400 people. It's grown now to more than 1,000 people and beyond that in terms of after acquisition. So we have very strong ecommerce build capability in Wunderman Thompson Commerce, we actually built sainsburys.co.uk platform alongside our client. We just re platformed Net-a-Porter 60 different websites there, and we have really strong skills in all the major ecommerce platforms. Within VMLY&R we have a really strong commerce business. We bought a business called Rockfish in Arkansas, again about 10 years ago that had a strong relationship with Walmart. And for another company Art Touch which actually built much of the Walmart mobile application. Businesses like AKQA have strong commerce capabilities, helping companies like Hermes build e-commerce capability. Then in Geometry, we have strong capabilities in digital shopper marketing, helping clients navigate their way through Amazon. And obviously in GroupM, we're helping a large number of our clients to manage their digital media budgets -- with a lot of growth we're seeing in the ecommerce media budgets. And as you say that also relates to the work that they do managing trade budgets. I do think it's interesting, if you take a step back, what's happening in the world is, technology is causing the worlds of communication, what we've classical done, content and commerce to collide. The best example might be Net-a-Porter. If you look at Net-a-Porter, it's both an e-commerce site has a lot of content on its site some of which about is product mainly about things that people come back to look at but also a lot of communications reaching out to customers about what they can buy on the site. I think as you see those three worlds collide, I think you're seeing our clients trying to navigate their response between the marketing department, often the Chief Information Officer, often sales department figuring out how to allocate the budgets and optimize their presence on those platforms. And what we are able to help clients specially navigate and build strategies that cover not only how they should manage the retailers - how they should sell their product through Walmart or Sainsbury's, and how they should allocate their advertising spend, to your point about the Walmart's spend, but also what the right strategy is for Amazon, should they put their product on Amazon or not put their product on Amazon and same with the other marketplaces.
I think increasingly we're helping them build their own direct-to-consumer platforms. We're working with one of our top five clients, with a global rollout of a DTC platform based on Magento and in that instance and in the number of others, we do go head-to-head with Accenture and Deloitte Digital and other systems integrators on building those platforms in a number of cases we have been successful. So we have highly competitive systems integration capability in e-commerce able to help clients both define their strategy, define the technical architecture and build those platforms as well as what their platforms of built help to understand how to merchandise and how to drive traffic to those platforms and how to program them with the right content. I do think, this is a major area of opportunity and growth for WPP. And what we tried to do two years ago goes to lay out a strategy that re-focused our offer or broadened our offer into the faster growing areas then we'll talk to you a little bit more about that in December.

Dan Salmon: And maybe just one quick follow-up and John if you could add your thoughts on how you might be thinking your latest thoughts on real estate footprint. But Mark, what are you hearing from employees right now about views on hybrid work, and how maybe keeping certain parts of what pandemic life has been like versus getting back to normal seems to be very popular topic these days.

Mark Read: Yeah. I think by the time it's going back to normal we'll have forgotten what normal is. When we talk to our people, and I think we would accept this, we're not going to go back to working 5 days a week in the office in the way that we used too. Though we did have always had an element of flexible working. I think we're much more like to be in the office, 3 to 4 days a week and we need to work on that with our people to make sure that we're not all -- we're not all in the office Monday to Thursday and everyone's out of the office on Friday -- there won't be any savings from that. I think the changes are more fundamental that we've seen in the last six months, and whether we're working from home or whether we're working in an office, actually we're working in many different ways. And I think is most exciting is, how do we continue to work in more agile, more flexible and more collaborative ways, across WPP and with our clients. And no doubt, there will be a knock-on impact on our buildings, in our campus program which was designed to consolidate our footprint and consolidate our square footage anyway, we'll continue and John why don't you talk about how we're thinking about the financial impact of that.

John Rogers: Sure. I would just reinforce what Mark has just said. Yeah, it's absolutely clear that the way that we use our space going forward is going to change. It's going to be much more of a collaborative space as opposed to people sitting at desks on their emails, which you can clearly people can appreciate that you do as easily from home as they can from the office. So, the way that we use our space is going to change. And also, as Mark said, it won't be we don't accept we weren't expecting to be in the office for five days a week, but equally it won't be zero either -- so but it will be somewhere in between. So, when you add those two together, all of that means that we will need less space not more. Now the question is to how much less space? I think is there is a debatable point. We're doing some work at the moment, have done some detailed work looking across our portfolio as to the impact of changing working practices on our space requirements. And I think, you could say as a rule of thumb we will probably need somewhere between 10% to 20% less space going forward then we have today. What's really pleasing from a WPP perspective, is that our campus strategy actually lends itself to being able to accelerate the consolidation of our space. Because we are already planning to move many of our operating companies into a one or two tenancies within the cities that we operate within this actually allows us to do that quicker and actually come out of space within in historically, so we can accelerate those savings. And what we will do at Capital Markets Day in December is outline to you what quantity those savings are anticipated to be and the phasing of those savings over the next three to five years.

Dan Salmon: Yeah. Perfect. Thank you both.

Matthew Walker from Credit Suisse: Good morning both of you. Just I would just want one question actually really which is I also noticed your interview in the paper about resuming acquisitions. And I also noticed that you and John had raided your piggy banks and put quite a lot of money into WPP stock. So, it was really a question about when and how the Kantar buyback is going to be resumed. I just wanted your thoughts on the timing of that because it would seem like you're not giving your comments on trading in Q4 so far you're not -- you're not unconfident about Q4, even if there are some uncertainties. So maybe you could explain, how and when you're going to restart the buyback.

Mark Read: I mean, let me just comment on the article and then John can answer each question. And as you raised the -- my observation would be that headline and the text needs to be read carefully in coordination with each other.

John Rogers: Okay. Just answering your question on the Kantar buyback. Obviously, I think, you take it from a tone of voice, we are confident in our current momentum within the business. But there's no question. I mean, I didn't tell you this that Q4 remains uncertain. You need to pick a paper up every morning to see that uncertainty manifest itself. So Q4 remains uncertain. We very clearly stated at the first half that we would not resume the Kantar share buyback program, until we had a degree of line of sight over the future, and that remains the case. And we also said that we would cover clearly our capital allocation strategy, and also the share buybacks within that in more detail at our Capital Markets Day in December.

Matthew Walker: Do you think that's when you might have a line of sight, is that Capital Market day?

John Rogers: It's possible. I mean it largely depends on obviously what happens over the coming months. There is a possibility that we will have better line of sight in December. But we'll just have to wait and see what happens over the next couple of months. So I can't commit to saying providing definitive dates our Capital Markets Day in December. But there's a possibility depending on how we travel over the next couple of months we may be able to be more definitive there.

Matthew Walker: Okay. Thanks very much. Thank you.

Richard Eary (UBS): Morning Mark. Morning, John. A few questions. Just first of all in terms of the cost savings you've achieved in the business. Are you now getting questions or inquiries from clients about whether you need to pass some of those savings on to them. And whether as we step into cost-saving exercise in December, would some of those will actually be passed through to end clients. So that's just the first question.

The second question relates to actually John you talked about free cash flow numbers being approaching negative and a net debt number of 1.5 times EBITDA. Can you just go through some of the puts and takes within that number and maybe a guide for actually the actual net debt number in pounds at the end of the year so we can get a feeling in terms of the flow through effect. That would be great. Thanks.

John Rogers: Okay. So just maybe if I comment on both of those; in terms of the cost savings and the pass on and I guess, I would just draw your attention to the current situation in the market where some of our competitors are able to earn a margin which is a premium to our own. So I do believe and I have said this before that there's an opportunity within WPP to simplify what we do, to modernize and bring together, particularly our finance and HR, procurement, property, facilities management operations across our business. And I do think there are significant savings that arise as a result of that. Now, the debate as to whether those will get passed on to clients or not is obviously, a relevant one but I would argue that the market is very, very competitive. We compete very aggressively in the market for business. But there are examples, where some of our competitors are able to sustain high margins than we can sustain at the moment, and hence why I believe there's an opportunity to flow through that necessarily get passed on to clients. But I think anything that we want to do we will, and we will talk a little bit more about this Capital Markets Day. We will outline what we think the savings are from these opportunities, but equally will also outline the quantum of those savings that we believe need to be invested back into the business in order to grow in the areas that Mark's talked about on this call like e-commerce, transformation and technology and so forth, but we remain excited by the opportunity. It’s clearly there for us.

In relation to sort of free cash flow and net debt, I'm always a little bit reluctant to spell it out for you, but I’m feeling generous today. So I'll give you a little bit of a flavor. You know, I mean these things are always subject to movements, of course, but as I said, I expect, sort of cash flow from operations before net working capital adjustments and restructuring to be a positive of give or take around 600 million. Making adjustments then for restructuring and earn out and movements in both trade and non-trade working capital. I'd expect that to result in a circa 200 million outflow and a lot of that is driven by nontrade working capital as a result of differences in bonus accruals between year ends. And then as a consequence of the net of acquisitions and disposals, I expect to be roughly as a bit of roughly flat cash flow before shareholder distributions. And of course, you're aware of the dividends and the share buybacks that we've already performed today. So that's sort of a fairly detailed outline I think I've given you there as guidance. And I would expect all that to result in yearend net debt of around 2.2 billion.

Richard Eary: Okay. That's helpful.

John Rogers: I'm not going to give you that level of detail again.

Richard Eary: No, that's fine. That's fine. This year is obviously a different year.

Patrick Wellington (Morgan Stanley):
Hi, everybody. It's Patrick Wellington at Morgan Stanley. Just focusing on the Capital Markets Day, you talked about line of sight there with Matthew for capital allocation. I'm wondering, what line of sight you'll have for your medium term targets for growth and margin. At the moment, we're on I think a 15% pre-associates margin, and we're on a growth in line with peers. I mean, surely the latter is going to be very difficult to define in this COVID-19 environment when we get to December, and I'm not sure you can talk about a higher margin than 15% at that mid-term stage. So what's your thinking going to be around sort of setting those medium-term targets when you get to December?

John Rogers: Clearly, we will set medium-term targets and will set do so on a sort of the roughly a 2 to 3 year basis will be quite clear what we expect those targets to be on 2 year basis for both net sales and for operating margins will be absolutely clear on those expectations. But as we said, we will do that at the Capital Markets Day in December, so I'm still not going to get drawn on giving you any indications or clues at this stage, but we will set it out very clearly for you in eight weeks or so time on that basis. So you have that clearly laid out for you.

Mark Read: Mathematically our growth was in line with our peers in Q2 and Q3 of this year.

Patrick Wellington: That is indeed the case. The 15%, I mean given your starting point, would it be fair to say it's hard to imagine that you would have a higher margin on a what did John say a two to three-year basis and you might very well target a lower margin.

John Rogers: I think, it's Patrick. I know you are trying and I understand what's behind your question, but we will set it out for you very very clearly at the Capital Markets Day. There's all sorts of if you think there's different components. There's opportunities of course for us to save money and we talked about some of those on the call. There's equally opportunities for us to reinvest back in the business for growth in areas like e-commerce and technology. We will be very clear when we come to our Capital Markets Day in a few weeks' time exactly what we expect to deliver through cost savings and over what

time frame exactly where we think we're going to invest, and what quantum between organic and selective
acquisitions as Mark's already alluded too. So we will set out to you very clearly, but obviously it's pointless getting drawn on that detail today.

Patrick Wellington: Okay. That's great. Thank you.

Matti Littunen (Bernstein): A couple of questions on the business mix. So, you mentioned the strength of healthcare clients. Could you just give us a bit more color on the performance of the healthcare practice in the US relative to that market's overall improvement. Then the other one is within GroupM, behind the GroupM improvements could you give us a bit more color on the role of Essence and Xaxis please. Thank you.

Mark Read: So in healthcare, as you know, we restructured our healthcare businesses about two years ago back into the agencies they've been put in a sort of separate box, if you like. And I think that that's proven to be the right decision. We're seeing a much better improved performance in our healthcare businesses. So I think our improved performance in healthcare affects both the underlying health and spending of healthcare companies generally. Clearly they're playing a critical role in the pandemic and this is a time then to talk about what they do to work in plants like Pfizer on a major purpose campaign called Science Will Win. We've also won a number of major assignments in the healthcare business. It tends to be an industry where because of new drugs, new indications, there are relatively high level of pitching I think in our businesses have become more competitive. I'll let John talk about results from him within GroupM.

John Rogers: Yeah just on Xaxis we did see a very strong turn around between Q2 and Q3. So Q2 was actually down about 30% year-on-year, and Q3 was up 12% year-on-year. Well pretty remarkable turnaround frankly between Q2 and Q3. And of course, a lot of that is driven by the fact that programmatic campaigns are easier, quicker to turn on as the economies have started to recover.
We saw good demand in CPG and strong performances across all of our regions. Actually it was a fairly steady recovery in Xaxis across all of our different geographies. We see particularly strong growth in the channels of omni-channel video and influencer. So very strong performance in Xaxis.

Matti Littunen: Okay. Thank you. Very helpful. Just a quick follow-up on health. So should we take that to mean that healthcare grew in the US like-for-like?

Mark Read: Yeah. I mean, I think you can say that. Well, if we look at our top 200 clients, healthcare within our top 200 clients grew globally and in the US, Yes.

Matti Littunen: Great. Very helpful. Thank you both.

Sarah Simon (Berenberg): Yes. Hi, everybody. I've got a couple of questions. First one a very simple just because I'm not very good at modeling FX. John, can you give us an idea of if rates stay where they are, what you think the FX effect would be for the full year?

The second one was on bonuses. You alluded earlier on to salary inflation being kind of limited this year. How are you thinking about bonuses? And what have you been accruing so far if you think about it kind of year-on-year?
And then the third one, I am just interested if you have any thoughts on this sort of new independent identity graph plan let's say that's forming with some of the ad-tech guys. Is that something that you would participate in or are you going to leave people search kind of do that lobbying themselves given obviously you have a relationship with people who control identity already and who would kind of lose it under that plan. Thanks.

Mark Read: Let me just take the identity question first as it is top of mind. But I think that the important thing is not that there's going to be sort of one single source form of identity about how we can help our clients connect our identity from first-party data that they own into their marketing activities. And actually that was at the heart of the work that we want at Walgreens Boots Alliance. So, I think that we will expect to see a number of different identity graphs in the market and what's important is how we can lead them up really rather than being for or against any particular form of identity. John –

John Rogers: Yes. Just to come on to bonuses, obviously it's been a challenging year and we recognize that. But we do want to try and obviously reward our colleagues for their significant contributions this year, not least of which in terms of managing our cost base and driving performance in a very, very difficult market. So we do want to pay some form of bonus this year. Clearly that bonus will be lower than it's been in historical years for the obvious reasons but it won't be zero either. So, but obviously at this stage we can't really comment much more than that other than to say that we'll come back at the yearend and provide you with more detail on that.

Mark Read: But I think that's more for the company overall than it would be for the agencies.

John Rogers: Absolutely. Yes. I mean, I think Mark and I both accept the fact that it's challenging for the two of us, but we want to nonetheless reflect the performance of many of our more junior colleagues given the sacrifices and the contributions that they've made towards the business.
In relation to your first question on FX, it is actually clear, it is laid out for you in the slide pack in one of the supplementary slides. The overall FX impact for the full year is expected to be a headwind of minus 1.1% and that's largely -- I mean by quarter its minus 0.3 in the first quarter, an improvement of plus 0.4% in the second quarter, minus 3.9% in the third quarter. So we've had quite a headwind come through in this quarter and is expected to be minus 0.2% in the fourth quarter to roughly flat. All of that nets out for the full year at being a headwind of minus 1% for the full year compared to the tailwind of plus 1.2% for last year.

Sarah Simon: Thanks

Mark Read: Well, thank you everyone for your questions. It's been a challenging year, but I think we're pleased with the progress that we've made in the third quarter, and we can see the momentum in the business where we're cautious around the fourth quarter. We do see the momentum more broadly across WPP particularly in terms of our new business record, recent wins, new business activity that's coming up, and generally. Thank you all for your time, and we'll see you in a few months.

[END OF TRANSCRIPT]