WPP 2020 Full Year Preliminary Results

Afternoon Teleconference Transcript

Thursday, 11 March 2021

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Opening Remarks

Mark Read

Chief Executive Officer, WPP

Thank you very much, and good morning to everybody that's listening to us from the United States. Welcome to our 2020 results presentation. I'm here in London with John Rogers, our CFO; and Peregrine Riviere, Head of our Investor Relations department. And as is customary, we're going to have a few brief opening remarks and then open up the floor to questions. You should look at the presentation that we made this morning, including the cautionary statement that was included within that presentation.

I think to start, it's now been actually exactly one year to the day since we asked everyone at WPP, some 100,000 people to work from home if they weren't working from home already. And it's been quite a year, but I think overall a very productive year, we entered 2021 in a good place, is clearly been an amazing effort from our people who have looked after each other very well. We've had a great deal of support from our clients and I'm very pleased with our client satisfaction scores and the new business that we've won, and actually as a company we've done a lot to help our communities to manage their way through COVID.

Overall, I think the performance we'd describe as resilient and we've made significant progress on our strategic goals and we're going to highlight some of the key themes that perhaps we can touch on in the Q&A.

The first is the sequential recovery in our business that we've seen since the initial lockdown. The second quarter we're down 15.1%, down 7.6% in the third quarter and down 6.5% in the fourth quarter. So we have seen an improvement throughout the year in our -- relative net sales performance on last year. We have got major parts of our business that are growing well for the year overall, indeed in Q4. So CPG, Tech, Pharma are about 57% of WPP's business and they have turned to us for help and advice during this period.

We're seeing growing demand for commerce services, working with 76 of our top 100 clients in that area, and that extends both to the work we do in helping them build websites, but also the work they do in digital media, where GroupM commerce media grew by 43% from the overall shift to GroupM's digital billings by 3.8%, billings mix over the year. Our new business performance been excellent. We've led all the new business tables, and I think it's going to be a busy year in 2021 for new business with both opportunities and challenges for all of us in our industry.

I talked about our people and we have really had a very fantastic effort from our people. We focused a lot as a company on their well-being, more as you would expect as the year has gone on and I think everyone's keen to get back into our offices; if not, five days a week for at least a fair part of the week, and we have had a great degree of success in attracting top talent into WPP over the last 12 months. I talked to a few people, Rob Reilly, who joined us as our Chief Creative Officer; Andy Main, CEO of Ogilvy; Kirk McDonald, running GroupM in North America; Devika Bulchandani, who's running Ogilvy in New York, heading up their advertising business; and also the work we're doing with Barry Wacksman and Saneel Radia back in Proto, their new digital transformation consulting. And I think talent is at the heart of our business, but we're really pleased to be able to attract top talent into WPP, but also pleased to be able to invest in talent of people who already work for us inside the company.

So the work we've done on the sort of the front end, if you like the client base in parts has been supported by the work that John and our finance teams have done. We've really shown I think a very strong financial discipline throughout the years, despite our net sales being down 8.2%, we saw 1.4% decline in operating margin and very pleasingly our net debt ended the year GBP700 million, the lowest since 2004.

So we made a lot of progress as I say during the year. We laid out in our Capital Markets Day our plans to accelerate our growth, to invest in the company while building an efficient platform and we can touch on some of those topics during the Q&A.
To end this opening remarks just by thanking all of our people and our clients for the work that they've done, and I'll give you the chance to ask any questions that you may have.

Q&A

Dan Salmon (BMO): Great, Hi Mark. Good morning. Good morning, good afternoon to you guys over there. Mark, I wanted to just start by tapping in a little bit more on the continued focus on growing commerce services, and one of the things that you talk a little bit more about lately is building more commerce services at the creative agencies. And I just wanted to hear a little bit more of an update on that and the traction that may or may be happening there in the short-term. And more about, how you think about that over the long-term, is - - should commerce see a certain mix of business at the creative agencies, I don't know if that's the right way to put it? And then just to follow on to that, how you think or how your recruitment of young talent right, maybe out of college and university is changing as commerce services, do they require a different talent set, loved to hear more about that as well?

Mark Read: Okay. So I think broadly speaking, at a group level, we have set targets to increase our commerce business and something that we're looking increasingly to track and to measure our investments to make sure that our investments are delivering revenue. I think our view is that the commerce services should be an integrated part of an agency's offer. I mean, what we're seeing in the market today is a confluence of communications and content and commerce on a device, largely the mobile device, and I think that needs integrated solutions to do that. I say the two agencies that are the most advanced would be Wunderman Thompson Commerce particularly on the web build side and VMLY&R Commerce where we brought Geometry to bear with VMLY&R to create VMLY&R Commerce. So we do have some strong commerce offerings inside AKQA and inside Ogilvy as well.
But my view is, as I said, I think it should be integrated. I mean, the services that we offer from a sort of integrated commerce creative perspective and it's a very broad definition quite frankly of creative- is everything from helping companies to build their own website. So, we built with the client, I would add, sainsburys.co.uk, net-a-porter.com, we're helping one of our top 10 clients with a roll out globally of a direct-to-consumer platform. We're helping clients to merchandise their product on retailer websites, so how they would sell through Walmart or Target or other retailers. And we're helping to think it through how they take advantage of the market places, Amazon and Alibaba, MercadoLibre. So we invested in a number of companies in that area. Plus commerce is part of what we do within GroupM. So our media business reached about a 40% increase in commerce billings. So increasingly, clients are looking at their media budgets whether brand or promotion or sales in one kind of bucket if you like, and that presents us with an opportunity to expand our trade media advice that we give to clients.
So -- and then I think we have to work together and collaborate at a group level to bring clients an integrated solution.
From a talent perspective, I don't think that the commerce part of business needs a different type of talent. What I would say on the talent front is we're very focused on bringing different types of people into WPP. Over the summer, we ran this NextGen Leaders program to bring in a new set of interns. We had 750 interns that joined and expanded this year and of those interns 57% came from diverse backgrounds. So we're attracting different types of people into the business. And I think naturally commerce will look at somewhat different types of people, but I wouldn't say substantially different from those that WPP has had traditionally.

Dan Salmon: And then if I can maybe sneak in one follow-up just latest views on Apple and Google's platform changes and maybe how you're helping clients prepare especially for Apple's ATT changes, which are expected to come into you shortly?

Mark Read: Yeah. Look, I think the -- from our perspective, I don't think it changes the overall attractiveness of digital media, which still provides greater targeting, greater measurability, and a greater variation of creative assets than traditional media. I think by protecting consumers' privacy, we do help sustain the long run viability of the media. So I think in that context, we would probably welcome the changes. But they do clearly have a different impact on different players in the value chain, they tend to benefit, those companies like Google, Facebook and Apple that have first-party relationships and a cynic might say that that's why they're doing it and not because doing that is the right thing to do.
But they're less advantageous to smaller publishers and to intermediaries that don't have direct relationships with consumers. I don't think that really applies to WPP. I mean our job is to help our clients activate their data in those channels and to an extent that becomes a harder proposition, they probably need our advice a little bit more than they did in the past. So I think probably at worst it's neutral; at best slightly positive to us to help our clients navigate what they're working through.

Dan Salmon: That's very helpful. Thanks Mark.

Tim Nollen (Macquarie): Hi, I've got a couple of questions just on the numbers, following on the broader stuff that Dan was asking on. Just to be clear, your guidance today is really no different from what you presented in December. Just want to make sure that if there are any differences in there first off, I don't think there are.

John Rogers: No, no differences. I suppose the only new news is the year-end net debt position of GBP27 billion which was better than we expected, as a result of the strong working capital management. As we said on the call earlier on today, we would expect some of that upside to reverse out this year about GBP200 million to GBP300 million or so, but we'll keep the vast majority of it. So it's a positive out turn, but would expect a small reversal into 2021. Aside from that, everything's consistent with what we said at the Capital Markets Day in December.

Tim Nollen: And could you remind us, was there a -- is there any more restructuring to be done in 2021 or is that all been taken care of in 2020?

John Rogers: It is little bit more to come through in 2021, probably GBP70 million to GBP100 million or so, half of which will be the remainder of the restructuring program we announced as part of the 2018 strategy review. The other half will be COVID-19 related, so there's a little bit to come this year.
And then going forward to 2022 to 2025, we anticipate up to another GBP100 million to GBP200 million or so spread over those years to reflect the transformation program that we're undertaking and we announced at the Capital Markets Day in December. But a significant drop-off from what we've seen over the last couple of years. So we've seen the -- if you like, the worst of the restructuring charges come through and we'll see a little bit in the future, but a lot lower than it's been historically.

Tim Nollen: Okay. Thanks. And then one more on cash and use of cash, you mentioned I think in your press release, which is new news, reinstating the buyback. Could you just run through one more time for us your priorities on use of cash? You do mention M&A. I think you say 0.5 point to a 1 point of acquisition growth per year. Just in general, what are the targets you might be looking for in M&A? What type of activity you think there might be and how much might you spend?

John Rogers: Yeah. So we said at the Capital Markets Day, we intend to spend between GBP200 and GBP400 million a year on M&A, the likely targets of course are going to be in the areas of commerce and experience and technology, those areas that we anticipate high growth occurring. In fact, the two relatively small acquisitions that we've done this year today absolutely fit in those areas, a small acquisition up in Scotland of an e-commerce consultancy business and then a digital consultancy business in Brazil, both of which are in line with those high growth areas. But in terms of our capital allocation, we said that we will -- as I said, we'll do GBP200 million to GBP400 million in acquisitions and then any capital above and beyond that we would intend to return to shareholders. And so if you apply the guidance that we gave for the Capital Markets Day in December, then it's easy to see in future years if we achieve those levels of growth and the cost savings that we've anticipated, there'll be further opportunities for share buybacks in 2022 and beyond.

Tim Nollen: Okay. Good. Thanks very much.

Doug Arthur (Huber Research): Yeah. Thank you. John, just I think you had reiterated at the Analyst Day that you expected to reach the upper end of GBP700 million to GBP800 million in cost savings pounds for 2020. Just specifically, do you have an updated figure on your total employment level right now?

John Rogers: Yeah. It's in terms of number of employees, is that the question?

Doug Arthur: Yes

John Rogers: Yeah. It is just under 100,000.

Doug Arthur: okay

John Rogers: And we delivered savings for 2020 of GBP810 million, so slightly higher than the GBP700 million to GBP800 million that we guided to.

Doug Arthur: Okay. And I would assume going into 2021, I mean you've talked about sort of the second round of kind of process rationalization, so there's more to go?

John Rogers: Well, in fact in headcount terms, we anticipate increasing headcount slowly over time, because obviously we anticipate growth to take place over the next year and the years ahead. So, we actually see our headcount going up slightly. However, obviously, as an offset of the gains there will be further efficiency savings that we think we can deliver frankly over the next three to four years. So we identified GBP600 million of savings to deliver over the next few years, that will net-net mean -- overall will mean headcount reductions. But when you pair them off against the growth that we're going to deliver and heads that we anticipate recruiting to deliver that growth, then the net net position will be an increase in headcount over time.

Doug Arthur: Okay. And then just sort of off the beaten path per se, but it's not -- it's still pretty important for you guys. Any comments on how Kantar is doing?

John Rogers: I think that there's information in the public domain a week or so ago. I think they did an update to their debt holders. They had a reasonably, had a slightly tougher year than WPP did in net sales terms. I think it's about 10% or 11% down for the year in net sales, but did a good job as you'd expect to manage their cost base and so their margin was down, but not by much. So they've had a reasonably good year and obviously they've got plans to consolidate costs going forward.

Doug Arthur: Okay. And then finally Mark, you probably touched on this in the earlier conference call which I haven't finished listening to, but any thoughts on China outlook for 2021?

Mark Read: Yeah. I think just to add to what John said on Kantar. I think we're very pleased that we did the transaction. I mean, I think navigating 2020 with both Kantar and the lack of reduction of debt that would have resulted, would have made very different outcomes. I think that Andrew and the team that worked on the deal did a fantastic job getting that done just at the right time. On China, I think that our business has been a little bit disappointing for us the last sort of 18 months, and we -- and I'd say our peers have been a bit more impacted by the pandemic than we would have liked. And I think we will see recovery in 2021, but it has probably some business-specific and client specific issues that we're going to work to address and invest in the business which we have got a fantastic business in China. A number of very, very strong clients both domestic and multinational. But we are probably a little bit more over indexed to the multinational clients than we would like to be, probably a little bit over indexed to traditional media than we would like, and while we've got a good commerce business there, we could probably invest a little bit more in that. And we are looking at investing behind it as sort of a China-based -- stronger China-based technology strategy, because really the technology footprint there is pretty much totally diverged from the rest of the world. So I think it does merit its own approach. And I say that's something that given our scale in the market, we should be in a good position to take advantage of.

Doug Arthur: Okay. Great. Thank you very much.

Mark Read: Well, thank you very much everybody and thank you for your questions and we'll see you on the next call in a couple of months.

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