WPP 2021
Interim Results

Afternoon Teleconference Transcript

Thursday, 5 August 2021

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Interim Highlights

Mark Read

Chief Executive Officer, WPP

Thank you very much, and good morning, everybody. Welcome to our 2021 interim results. I'm here in London with John Rogers, our CFO; and Peregrine Riviere, who heads up our Investor Relations team. I'm going to make some opening remarks and then John and I will answer any questions that you have. There is a full set of slides in the presentation on the website.

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I just draw your attention to the cautionary statement at the beginning of the slide presentation and I will make some opening remarks on the first half overall.

FIRST HALF: STRONG PERFORMANCE

- H1 LFL revenue less pass-through costs +11.0% (H1 20: -9.5%)
  Q1 +3.1% (Q1 20: -3.3%), Q2 +19.3% (Q2 20: -15.1%)
- Strong growth across the board in Q2: GIA +19.2% (Q2 20: -15.7%), PR +12.9% (Q2 20: -7.5%), Specialist Agencies +27.8% (Q2 20: -16.3%)
- Business mix shifting to faster-growth areas:
  - 26% Experience, Commerce and Technology vs 25% in 2019
  - GroupM billings 43% digital, with 61% growth in commerce media
- $2.9 billion in net new business YTD: AstraZeneca, Bumble, JP Morgan Chase, Pernod Ricard; US Navy retention
- Leading in creativity: most creative company of the year at 2021 Cannes Lions
- Interim dividend +25% to 12.5p; £248m share buybacks in H1; further £350m in H2
- Guidance raised: LFL revenue less pass-through costs 9-10%; headline operating margin towards the upper end of 13.5-14.0% range
- Back to 2019 levels a year ahead of plan: H1 +0.5% on 2019, Q2 +1.3% on 2019; positive momentum

Slide 4. I think we saw a very strong performance in the first half, an acceleration in our growth from 3.1% in the first quarter to 19.3% in the second quarter on revenue less pass-through costs giving us 11% growth in the first half of the year, following a decline in the first half of last year's 9.5%. So net-net, plus 0.5 on a two year basis for 2019. This was like growth really across the board at 19.2% in our Integrated agencies. And GroupM was the standout performer, and had really very strong growth, particularly in the second quarter.

But we saw growth across all of our business sectors: 12.9% in public relations and 27.8% in our specialist agencies. That reflects both a shift into our experience, commerce and technology businesses now representing 26% of WPP. But also, strong growth in the communications area. And I'll remind everybody that we do have very strong growth opportunities in the communications area and digital media, around e-commerce media, programmatic and other areas.

I think we had a solid new business record, retained a $2.9 billion of net new business. I think compared to last year it probably slightly stronger creatively than it was on the media side of the business but remind you that we had really a standout year last year in new business, so we came into this year, probably with a little bit more at risk than we have done in previous years. That's just the way that things fall and we're pleased with the performance we've had so far this year and hopefully there'll be some more good news in the second half of the year.

We've invested a tremendous amount at WPP in our creative talent over the last three years. It has been a major area of focus not least with the recent hiring of Rob Reilly, our Global Chief Creative Officer and that investment was reflected in us winning most Creative Company of the Year at 2021 Cannes Lions, which comprises the last two years of work. The first time we've done that since 2017.

Taken together, this meant that we are able to raise our dividend by 25% to 12.5p and combine that with 248 million pounds in share buybacks in the first half of the year, with a further 350 million pounds to go in the second half of the year and we are raising our guidance for the second time this year to 9% to 10% growth in our revenue less pass-through costs on a like-for-like basis and headline, operating margin towards the upper end of the range that we set at the beginning of the year. I think very strong performance. We’re back to 2019 levels a year ahead of plan up 0.5% in the first half of the year on 2019, actually 1.3%in the second quarter, slightly improving on that.

I think taken together, our results reflect the resilience of WPP's business model, the strength of our client relationships, our adaptability in the face of significant change, and the long-term durability of the Company overall. So great results. Thank you to our clients for their support and to our people for their hard work and now we are available to take any questions that you have. And John and I will fill them together.

Q&A

Tim Nollen (Macquarie): Great, thanks a lot, and very nice to see a nice bounce back in the numbers. I wonder, I see your upgrades to the numbers for this year. And I just wonder if you could maybe give us an indication on what a post COVID 2022 or 23 kind of run rate revenue growth might look like? And in addition, it looks like your net debt has gotten such a nice low level now. And I always like to see low debt levels but that almost creates a lot of things you can do with your cash, wonder if you could talk about, beyond shareholder returns, what your M&A pipeline might look like? What types of things, you might want to look to acquire? Any comments would be great. Thanks.

Mark Read: Okay. I'll tackle the one on the M&A pipeline and John can fill you in on where we are on the guidance.
I think we've made a good start to the year in terms of our M&A versus our targets. We've probably done a smaller number of deals in a numerical sense, but I think we are on target to meet what we set out in December last year from an absolute quantum amount. And they are in the faster growing areas around technology and data technology, for example Numerator through Kantar. Our focus in M&A is very much on e-commerce, on marketing technology and on data and analytics. No doubt there'll be other areas of interest to us, but that's really where we are focusing most of our effort. We're seeing good sized opportunities, but I have to say valuations are high. Particularly when we can get into markets like Brazil, where we acquired DTI, we can get in a little bit more reasonable territory from that perspective. John, do you want talk to the upgrades and net debt?

John Rogers:
I'll comment on the point on growth first and then I'm not sure whether there was a follow up question on the net debt that Mark has already covered. But, on the growth side, we are reiterating our guidance in 2023 and beyond. If you remember the Capital Markets Day in December, we talked about like-for-like growth of 2.5% to 3% topped up by M&A of half to 1% so overall 3% to 4% long-term growth and we've reiterated that guidance today and where we have got line of sight and confidence against that with regards to 2023 and beyond. Obviously, today we announced for 2021 we are upgrading our guidance to 9% to 10% growth this year. We've stayed actually silent so far on 2022, largely because we've still got another six months to travel of this year, we had very strong momentum coming through in the first half upgrading our guidance. We think that momentum will maintain itself in the second half. And we think it will also maintain itself coming through into 2022. But we really want to experience the second half before we provide detailed guidance for 2022. At the moment we're not currently guiding for2022. But in relation to the long-term post COVID rate, if you like sustainable rate, we're reiterating in 2023 onwards 3% to 4% growth. So hopefully that covers that.
In relation to the net debt, obviously I think we've done a great job over the last year or so, managing net working capital, really squeezing our net debt position down, I think there is more that we can still do on that. All else being equal, as I said on the call this morning, we end up the year at a net debt to EBITDA ratio that's significantly below our guidance range 1.5 to 1.75 times. And so all else being equal, of course that then logically gives us scope for further share buybacks against the capital allocation policy that we outlined at the Capital Markets Day, where we said after organic investment, after dividend, after M&A. If we look if there is any capacity still left subject to that balance sheet requirement we would return cash to shareholders through share buybacks. And clearly, all else being equal, that there is, scope for that in 2022. But as Mark is highlighted, we are always proactively looking

at M&A opportunities, particularly in areas where we can accelerate our growth. And so it's always going to be subject to that.

Tim Nollen: And on the run rate growth, again this is a strange year just like last year was on the other side in terms of growth rates. But has the nature of client demand for your services changed in any way? It's been migrating over the last several years. I guess some things got accelerated during COVID but any further comments on the nature of the demand that clients have for your services that kind of affect your growth rate going forward?

Mark Read: Look, I think the growth rates are very much as we outlined in the Capital Markets Day. But I think they are underpinned by a fundamental change in what clients are looking for compared to ten years ago and even as we come out of the pandemic, we are seeing a much greater demand for, as we said, investments in e-commerce, in marketing technologies, in implementing solutions, data driven marketing and personalized marketing. It is fundamentally different. It's probably a little bit more of an accelerated evolution over the last three years, but I think that certainly as we look at our numbers, the fact that we've grown so strongly this year coming out of COVID I think reflects the changes that we've made to our offer, the way which we've integrated the company and the investments we've made in creativity and technology. Now, there's no doubt in my mind that we still have a business that depends on the so-called traditional creative skills and an understanding of consumers and marketing strategy, and there is no doubt there are still investments in traditional media from television to outdoor that are going to remain important. But if you look at where clients start now, they increasingly start with digital and not with analog and that's true for WPP's clients and it is also true for our companies in the way in which we've positioned our offer. I think things have changed fundamentally. We expect that to continue to shift. And the growth opportunity we see in the company in the areas of e-commerce, in digital media, in connected television. You saw the performance and the results for business like Finecast and Xaxis - they do reflect stronger growth in the newer areas than in the more traditional areas of our business.

Tim Nollen: Yes, that all makes sense. Thanks, Mark. Thanks, John.

Doug Arthur (Huber Research): Yes. Thanks. Mark, just to that point you focused, certainly in your written commentary on, as your business has evolved, the opportunity in sort of commerce services. now -- Criteo's focused on it. Publicis just made an acquisition in sort of retail media. How do you – The term commerce service seems a little nebulous to me. How do you define it? And is it really an e-commerce-driven business and how is WPP's position competitively there?

Mark Read: Yes, maybe I can sort of try to contextualize it for you. I think our focus is really in two areas. There is commerce services - we really start by advising clients on the ecommerce strategy, so how do they move more of their sales online and then help them implement that through their own direct to consumer channels. So we're building direct to consumer platforms, clients like Unilever through retailer websites, so how did they sell through a Walmart or Sainsbury's, or indeed how they sell through an Amazon or and Alibaba, MercadoLibre. We're running both strategy and implementation through to building enterprise level websites. We replatformed all of Net-a-Porter's websites. We built Sainsburys.co.uk. We build in platforms like Adobe who acquired Magento or SAP who acquired Hybris, or what was known as IBM WebSphere Commerce, enterprise level websites. We also create content that sits on those websites, particularly content that sits on your Amazon page to drive consumer demand, reviews and similar. That's sort of one I'd say major bucket of commerce services and that sits really within our creative agencies at Wunderman Thompson, VMLY&R in particular but also within Ogilvy and AKQA. And then within GroupM we have a big business that drives demand to those websites. So we said, we saw e-commerce media grew by 60% in the first half of the year. Part of that is spend on digital media, classic digital media -Google, Facebook, other programmatic media that sends demand to those websites. Part of it is also spend that goes through Amazon.com or Shopify that drives customers to those websites. Then within our data business within Choreograph, we have a lot of data on what consumers are purchasing online. To my mind commerce is part of an integrated offer and sits across multiple different WPP companies.

Doug Arthur: Yes, got it. That's very helpful. Thank you.

Michael Nathanson (MoffettNathanson): Thanks, hey Mark. A question for you, one of the things you've clearly noted is fundamental changes to your clients' requirements and to that point data and the use of first party data seems to be rising clearly. So can you talk a bit about the establishment of Choreograph, what capabilities will set it apart from others? And I wonder post this pandemic, has there been any change in your thinking - I mean part of the needs and data capabilities and data skill sets. So give us an update on that please? Thank you.

Mark Read: Yes. I say we established Choreograph, in our mind that would sit as sort of an offer alongside Epsilon, Acxiom and Merkle, to bring together the key data capabilities that clients need. They see their role as advising clients on data strategy, helping clients build programs that build them more first-party data. And then helping them enrich that data. And then thirdly, helping to deploy it through both the media channels and their own channels. And that's why we aligned Choreograph with GroupM because we see the benefit of aligning data very closely with media. Choreograph do work across multiple WPP agencies.
I mean, I think that one of the benefits of doing that, was that we were able to build a global business that operates in more than ten markets around the world from day one. It's not just a US business. And probably launching at a time where we're clearer than we were about the future of the Cookie and importance of privacy that cannot be brought into its operating system. I would say that we are looking for areas to invest and grow that business, primarily in the areas of sort of data management. My view remains that the clients don't want to work with us because we own a particular data set. They want to work with us because we can advise them on how to build their own first party data sets, how to bridge that with data around in the world more generally, and sort of first-party purchase level data is not the be-all and end all. Actually the real trick is being able to combine the multiple sources of data there are in the world in a way this privacy compliant. So if you go to a soft drinks client, how do you identify, using data, different occasions for soft drinks? It's not really a question of who buys one versus the other. And I think that applies in many categories. And so I think Choreograph's sort of degree of sophistication to thinking through client data strategy that differentiates in the marketplace.

Michael Nathanson: Okay. And then, can I just ask one more on GroupM. I think we've had this in the past, where logically people would have expected GroupM to slow down as budgets moved from TV to digital. And now the budget is moving to connected TV and AVOD. I wonder if you agree that the world is even more complicated in terms of how do you buy media? Anything you're seeing accelerating growth from just the complications in the marketplace? So, I wonder like when you step back and look at client by client behaviours at GroupM, those that are more advanced are actually spending more for your services because of the world becoming a lot more complicated and a lot more fragmented. I wonder like what are you observing on the ground, on a client basis at GroupM?

Mark Read: I think there is some basis [for that]. If you look at our statement, we gave a growth figure for Finecast, which is our connected TV business of 113%. That compares to digital media at 60% and GroupM less than that. I think we are seeing strong growth. 55% at Xaxis. We are seeing a strong shift to connected television and I think the Finecast is a strong business and gives us another leg up in terms of growth opportunity at GroupM. I agree with you, I think that, for as long as I've been doing this job, people have asked the "is GroupM being disintermediated?" question and we tried back in December to give you five year growth rates to persuade people that's not the case. I think it's a fantastic business and it's come through the pandemic in a very strong way. Yes, it was more badly impacted last year, but it's more than made up for that in the first half of this year is up 3.7% on a two year basis, which I think shows the long-term growth potential of the business in a more complicated world and despite the comments about insourcing, et cetera.
One final point - it relates to the data question on much of television, we're actually using the zip code or postcode level information in the UK to target media. So it's sort of almost going back to old-fashioned direct mail and it's more privacy compliant and we're generating strong returns and targeting for our clients using much more privacy compliant methods than perhaps we did when people were engaged in quite a lot of tracking on your re-targeting on the web. I think that offers both, it gives television a richer experience if you're watching it on the big TV, many of the benefits in terms of targeting through postcode level or zip level targeting as well as the speed and responsiveness that you get through digital media. I think we see that is a strong growth opportunity for us.

John Rogers: I think the other point is to build on what Mark said as well as the top line growth in GroupM as about five, ten years that run 3% to 5%. We've also seen very, very stable margins in that business as well. Actually, if not slightly increasing over time. It's both the combination of top line growth and very, very stable, slightly increasing margins.

Michael Nathanson: Okay, thank you guys.

Dan Salmon (BMO): How are you? And I apologize, guys, I've been bouncing around a few different calls but Mark I wanted to follow up on -- I think I caught a little bit of an answer a moment ago where you're addressing this a little bit but you were recently I think at an industry conference where you spoke a little bit about your views on I guess we'll call it alternate identifiers. I think you expressed the view, similar to what we heard from Google that maybe that there is-- these products don't necessarily align with consumer expectations on privacy and platform changes. So, I'd love to hear you just expand on that? Specifically, a little bit more, but then related to that, just talk a little bit about what WPP's role in the changing nature of identity should be. You spoke a moment ago about the importance of helping your clients leverage first party data in those changes and that's probably first and foremost. But should you be developing your own ID, we see that from some of your competitors. I'd love to hear more about that as well?

Mark Read: Yes, I'll sort of all roll it up into one answer. I think no one intended cookies to be used in the way in which the cookie ultimately was used. And no one intended it to be tracked online as much as they were. I mentioned on a previous call, the Washington Post study that said the journalist found out that his data was being sent to 5,400 different services over a week from his phone. I think in that context, an attempt to sort of re-create the cookie using alternative ID is ultimately not going to succeed. It will be very difficult to do in a way that secures the permission of consumers to do it. And so in the long term, I don't think it will be successful. I think, therefore the clients need to focus on as you say, their own first-party data. The information about their consumers, they have the right to have. We're working very closely with WBA and as you know we repitched WBA and they are one of the founding clients of Choreograph, look we're very pleased with WBA to look at what data they have on our consumers. Those people are opted in and then we can look at how we can enrich that with other privacy compliant data and how we can activate it on the platform. I think the key thing is, if you have two opted in solutions, then you can probably join them together.

But the notion of connecting them with an un-opted thing in the middle, I don't think it's going to work right. And now that actually gives more power to the platforms and makes life harder for intermediaries who didn't have permission. But I think from a WPP perspective, it increases the role and value of what we're doing for clients.

Now, I'd make one other comment. And we've been working with Google on a product they call Pegasus that allows contextual targeting and we're seeing very strong results for contextual targeting which as you would know is what used to be called old-fashioned media planning. But it's not just down to the audience. You think about the message and how you contextualize the message to the medium in which the consumer is working. I think there's going to be a more complicated environment. I think in that environment the advice that clients need is going to be more valuable and that puts us in a good position. And we're not planning to create the WPP ID, the wookie if you like on top of the cookie. But we are looking to help our clients maximize the value of the data that they can get and develop marketing programs and consumer value propositions where consumers are more willing on an opt-in basis to share that data with those clients, which I think many of them will be willing to do.

Dan Salmon: That's great. Thanks, Mark.

Mark Read: Well, thank you very much, operator, and thank you everyone for listening. And I think it's been a very respectable first half for us. It demonstrates, the power, the adaptability, the viability of our business and I think we've got work to do in the second half of the year but we're upgrading our guidance and we are going into it with some momentum. Thank you to our clients and for their support and our people through their hard work over the last six months in in delivering results. We will see everybody in a few months, if not before.

[END OF TRANSCRIPT]