WPP 2021
First Quarter Results

Transcript

Wednesday, 28 April 2021

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First Quarter Highlights

Mark Read

Chief Executive Officer, WPP

Mark Read, Chief Executive Officer:
Thank you, and good morning, everybody and welcome to WPP's First Quarter 2021 Results. I'm here in Sea Containers in London joined by John Rogers, our CFO; Peregrine Riviere, who heads up Investor Relations. We're pleased to take you through, I think, a strong quarter for WPP this year.

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So on Page 2 of the presentation, we should read the cautionary statement and just pause on that.

AGENDA

1. Q1 HIGHLIGHTS
2. FINANCIAL PERFORMANCE
3. BUSINESS UPDATE
4. Q&A

So on Page 3, the agenda, I'll talk quickly through the highlights before handing over to John to talk in detail through our financial performance, then we'll come back at the end for a quick business update and then Q&A.

STRONG START TO THE YEAR

- LFL[1] revenue less pass-through costs +3.1%. Broad-based recovery:
  - Top 5 markets: US +0.7%, UK +3.9%, Germany +2.5%, Greater China +18.4%, India -0.5%
  - Global Integrated Agencies +2.8% (GroupM +5.8%), PR +2.0%, Specialist Agencies +7.5%
- Net new business $1.3 billion in Q1: Absolut, JP Morgan Chase, Salesforce, Sam's Club; retained US Navy
- Ongoing strategic execution:
  - Launch of Choreograph in data
  - Acquired DTI, NN4M; Kantar/Numerator
  - Buy-in of WPP AUNZ minorities
  - Net zero target for 2030
- 2021 guidance reiterated

1. Likefor-like. LFL comparisons are calculated as follows: current year, constant currency actual results (which include acquisitions from the relevant date of completion) are compared with prior year, constant currency actual results from continuing operations, adjusted to reflect the results of acquisitions and disposals for the commensurate period in the prior year.

So on Page 4, I think it's fair to say that we had a strong start to the year. We beat, I think, both the market expectations and our own expectations back in December in the first quarter with a pretty broad based recovery, as you can see across all of our markets -- across all of our regions, we grew in 15 of our top 20 markets and across the key business lines, particularly strong growth in GroupM and in our specialist areas. We'll come on to that in a little bit more detail.

It's going to be a busy year for new business, but we had a good start to the year winning the Absolut creative work, the JP Morgan Chase media business, some creative work for Salesforce on their technology, VMLY&R won the Sam's Club creative work, and we're very pleased that we've retained our relationship with the US Navy.

From a strategic perspective, we continue to execute against the commitments we made back in December. We launched Choreograph, a new data unit, bringing together our data capabilities across WPP into a new privacy-first data business, and we'll talk a bit about that later. We've made a number of acquisitions that are very much on strategy. We bought out minorities in Australia, again, delivering simplification for WPP, and we committed to deliver a net zero target for 2030, something that's very important to our clients and our people.

And we reiterated our 2021 guidance, which John will talk about that in a little bit more detail later. So I think a good start or strong start to the year, more work to do, but I think we remain positive about the outlook for the year overall.

So John, do you want to talk us through the details?

Financial Performance

John Rogers
Chief Financial Officer, WPP

Thanks, Mark, and good morning, everyone. I'd take you through quickly the financial results of the first quarter.

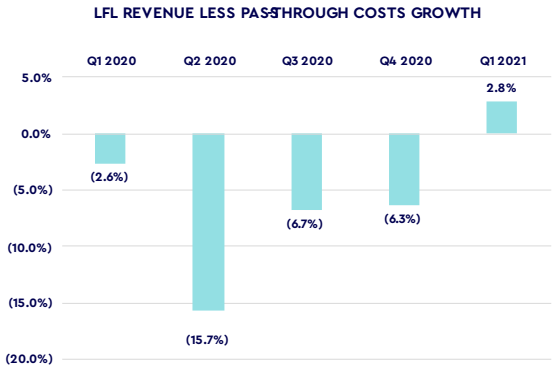
REVENUE LESS PASS-THROUGH COSTS BY QUARTER[1]

	£M	Δ REPORTED	Δ LFL
2020 Q1	2,366	(4.3%)	(3.3%)
2020 Q2	2,302	(15.6%)	(15.1%)
2020 Q3	2,401	(11.9%)	(7.6%)
2020 Q4	2,693	(7.8%)	(6.5%)
2021 Q1	**2,344**	**(1.4%)**	**3.1%**

1. Continuing operations.

So as Mark has already highlighted, pleased to report a 3.1% like-for-like growth on revenue less pass-through costs for the quarter, a step up from quarter four and actually almost flat on a two-year basis. So a strong performance. And on a reported basis, a decline of 1.4% reflecting, of course, a circa 4.3% drag due to foreign currency exchange adjustments as we indeed signaled at the prelims.

GLOBAL INTEGRATED AGENCIES: RECOVERY LED BY VMLY&R AND GROUPM



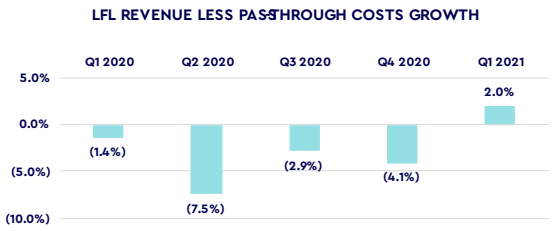
Note: 2020 growth rates have not been restated for the reassignment of AKQA, Geometry, GTB and International Healthcare from Specialist Agencies to Global Integrated Agencies from Q1 2021.

PERFORMANCE REVIEW

- GIA now includes AKQA Group, as well as Geometry and GTB as part of VMLY&R
- VMLY&R the best performer, continuing momentum from 2020
- GroupM +5.8%
- Wunderman Thompson returned to LFL growth
- Ogilvy and AKQA Group improving

So turning now to the Global Integrated Agencies, saw a strong recovery in this sector led by VMLY&R and GroupM delivering like-for-like growth of 2.8% in the quarter continuing the improving trend that we saw through 2020, and broadly flat on a two-year basis.
Important to note that this sector now includes AKQA Group, as well as Geometry and GTB, which now form part of VMLY&R. So those have come from the specialty agencies into the GIA sector.
VMLY&R was our best performer, continuing the strong momentum already established through 2020. And as Mark highlighted, GroupM was also strong, delivering a like-for-like of 5.8%. And as we've highlighted, we are intending to report our GroupM performance on a quarterly basis giving you that like-for-like number. Wunderman Thompson also returned to growth in the quarter whilst Ogilvy and AKQA Group were negative, but certainly demonstrating an improving trend.

PUBLIC RELATIONS: SOLID GROWTH

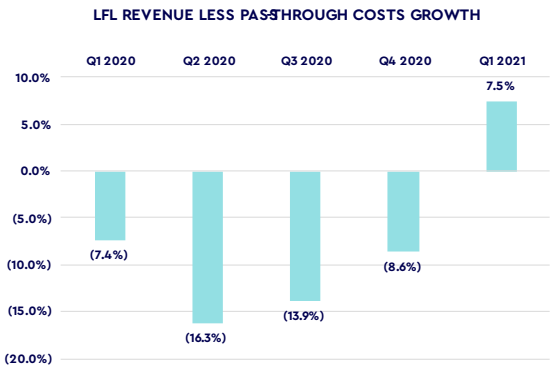


PERFORMANCE REVIEW

- Continuing good demand for strategic communications advice
- Growth led by H+K and Specialist PR (driven by Finsbury Glover Hering)

So, turning now to Slide 8, Public Relations delivered solid growth in the quarter of 2%. Actually, this was the least impacted, of course, of all our sectors through COVID as you can see from the chart. And indeed, we were able to demonstrate growth on a two-year basis in this first quarter of this year, principally driven by growth at Hill & Knowlton and also our Specialist PR business Finsbury Glover Hering, which showed very strong performance in the quarter.

SPECIALIST AGENCIES: STRONG REBOUND



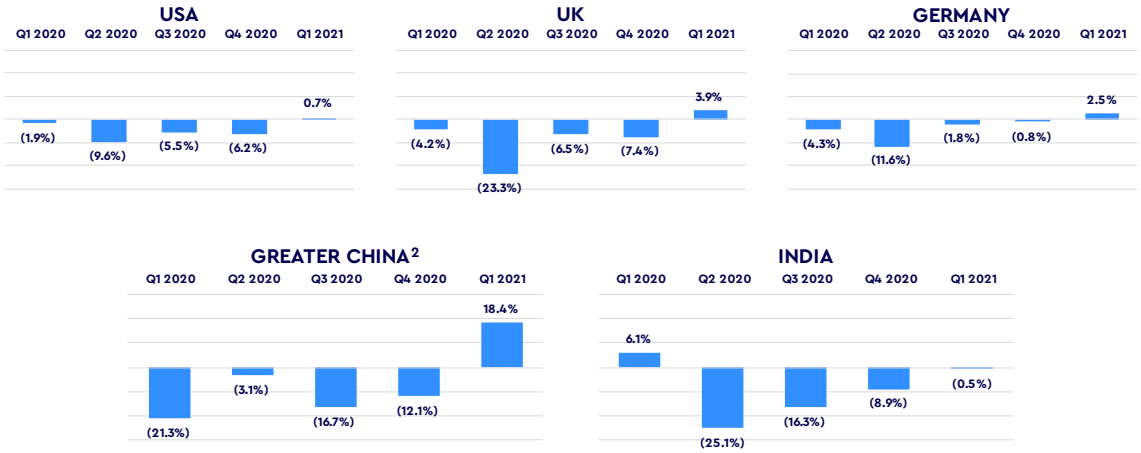
Note: 2020 growth rates have not been restated for the reassignment of AKQA, Geometry, GTB and International Healthcare from Specialist Agencies to Global Integrated Agencies from Q1 2021.

PERFORMANCE REVIEW

- All main agencies saw improving sequential performance
- Landor, Superunion and DesignBridge benefited from renewed demand for brand consulting
- CMI (healthcare media) grew strongly

So moving now to Slide 9, and our Specialist Agencies saw a strong rebound and this is in fact our most impacted sector through COVID, as you can again see from the graph, but pleased to report a strong rebound in the quarter of 7.5% like-for-like growth, particularly driven by our brand consultancy business, which saw a strong rebound in Landor and Superunion, and also by a specialist healthcare media business that we have called CMI, which grew significantly in the quarter. So solid performance in that sector.

TOP 5 MARKETS PERFORMANCE[1]



1. Like-for-like revenue less pass-through costs growth vs prior year from continuing operations.
2. Includes Hong Kong and Taiwan.

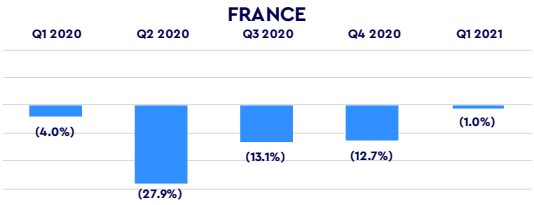
Coming on now to Slide 10, and looking across at our market performance. USA again was our least impacted market through COVID, it was relatively robust, and very pleasing to see growth in the first quarter of 0.7%, a solid improvement on Q4.

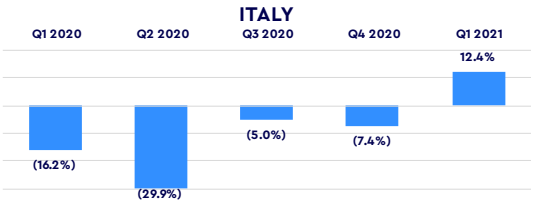
UK, in particular, was one of our best performing markets delivering like-for-like growth of 3.9% and actually almost flat on a two-year basis. So you see the 4.2% decline in Q1 of last year. We pretty much offset that in the first quarter of this year, so very encouraging performance.

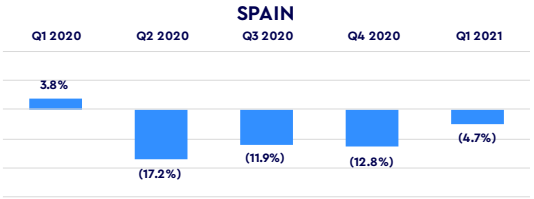
Germany, a little bit behind the UK growth at 2.5%, but nonetheless very pleasing trajectory. And then looking at Greater China, you can see, obviously, what is clearly a big bounce back there. Obviously, Q1 of last year, particularly impacted in China through COVID, down 21.3% and you saw us recover most of that lost volume in Q1 of this year with a plus 18.4% growth. So encouraging performance there.

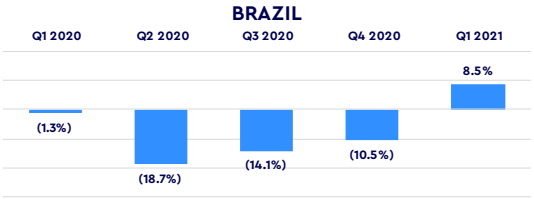
And of course, India showing steady recovery through 2020, slightly negative in Q1, but still moving in the right direction, albeit clearly, our main focus in this market at the moment is certainly how we look after our people given the challenges of COVID-19 that we're experiencing in that geography at the moment.

OTHER MAJOR MARKETS PERFORMANCE[1]





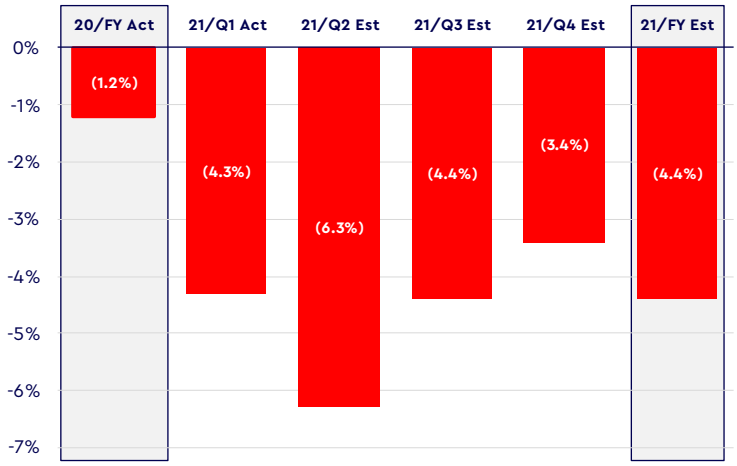




1. Likefor-like revenue less passthrough costs growth vs prior year from continuing operations.

So coming on now to Slide 11 and some of our other major markets. France delivering reasonable performance, maybe slightly disappointing, down minus 1% in the quarter, but it is showing good recovery through 2020 and into the first quarter. Italy was up 12.4% albeit partly reflecting the fact that, if you remember, this time last year, Italy was one of the first markets to be impacted in Europe by COVID-19, down 16.2% in this quarter last year. So we saw a bounce back come through in Italy.
Spain, perhaps slightly disappointing, again performance down 4.7% in the quarter, albeit with quite a strong comparator. So this time last year, we were up 3.8%. So, and again, but we are seeing consistent recovery evident through the back half of 2020 and coming into Q1. And then Brazil, particularly strong actually 8.5% growth in the quarter, very encouraging despite some of the COVID challenges that we are clearly facing in our operations in that part of the world. But good to see the recovery coming through in Q1, 8.5% growth.

IMPACT OF FX ON REVENUE LESS PASS-THROUGH COSTS[1]

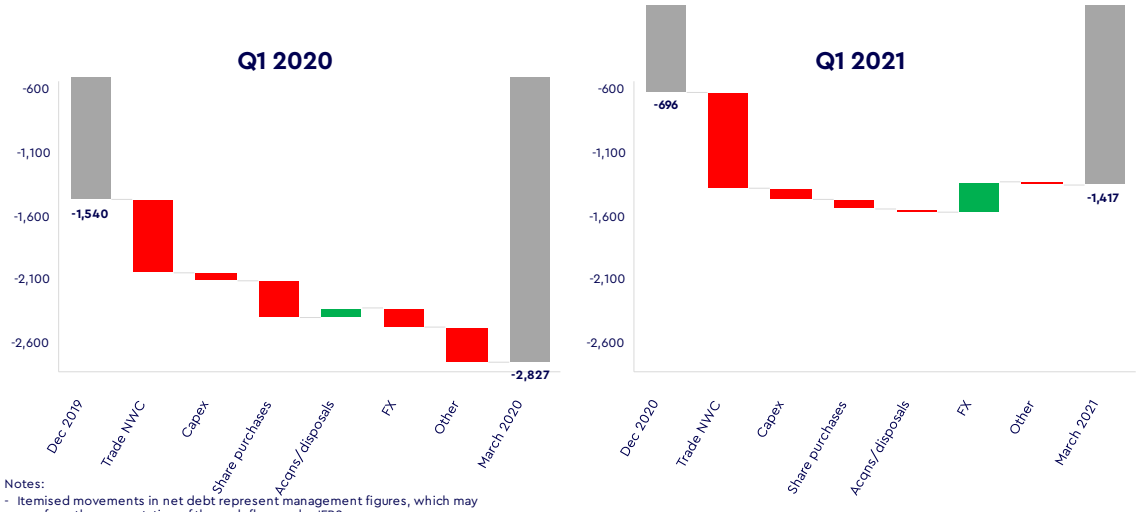


1. Continuing operations.
2. Q2-Q4 uses 24March 2021 exchange rates, including £:$1.37, £:€1.16.

- YTD currency headwind (4.3%)
- 2020 full year headwind (1.2%)
- 2021 full year currency headwind (4.4%) at latest exchange rates[2]

So turning now to Slide 12, and this is just a reminder of the foreign currency headwinds we are facing in this financial year that we signaled to you at the prelims. In fact, this is a reminder, we saw a 1.2% headwind in 2020 and we saw a 4.3% headwind in the first quarter of this year. And assuming those currency exchange rates maintained through the rest of this year, we'd expect that to translate into a headwind of 4.4% for the full year, again in line with what we signaled to you at our prelims. And because of course, the significant portion of our cost base is in sterling, we'd expect to see that have a small impact on our overall operating margin, as those sterling costs disproportionately drop through.

MAIN MOVEMENTS IN NET DEBT (£M)



Notes:
- Itemised movements in net debt represent management figures, which may vary from the presentation of the cash flow under IFRS.
- Acquisitions/disposals include earnout payments.

Coming on now to our movements in net debt shown on Slide 13, and you can see, the movement in net debt in Q1 of 2020 versus Q1 of 2021. Worth noting that the movement in trade net working capital in the first quarter of this year is slightly larger than the equivalent quarter for last year, albeit reflecting at least some of the unwind of the very strong position that we delivered at the year end in 2020. But it's very much in line with the guidance that we gave and we're now reiterating for the full year. Nonetheless important to note that actually the net debt of GBP1.4 billion as of the end of March is GBP1.4 billion less than it was at the same time last year. So significantly reflecting, as you're already familiar with the de-gearing -- deleveraging of the WPP balance sheet.

2021 OUTLOOK

Our financial targets remain in line with guidance:

- LFL revenue less pass-through costs growth of mid-single digits %
- Headline operating margin of 13.5-14.0%
- Capex £450-500m and net working capital outflow £200-300m
- Latest projected FX effects:
  - c. 4-5 percentage points headwind to reported revenue less pass-through costs
  - Small impact on headline operating margin

So moving to my final slide, Slide 14, which is the 2021 outlook and as Mark has already highlighted, our financial targets remain in line with guidance. So like-for-like revenue less pass-through costs growth of mid-single digit. Clearly, that's quite a broad range and given the positive performance in Q1, we would expect, all else being equal, to be towards the upper end of that guidance, but nonetheless within that guidance.
Headline operating profit margin of 13.5% to 14%. CapEx of GBP450 million to GBP500 million, and net working capital outflow of GBP200 million to GBP300 million, and again, you can see some of that outflow occurring in the first quarter as we start to unwind some of the very strong position at the year-end.
And then reiteration of the guidance on the FX effects of 4% to 5% headwind expected through the year and a small impact on headline operating margin because of our overweighting in sterling costs.

And with that, I'll hand back to Mark to take you through the business update.

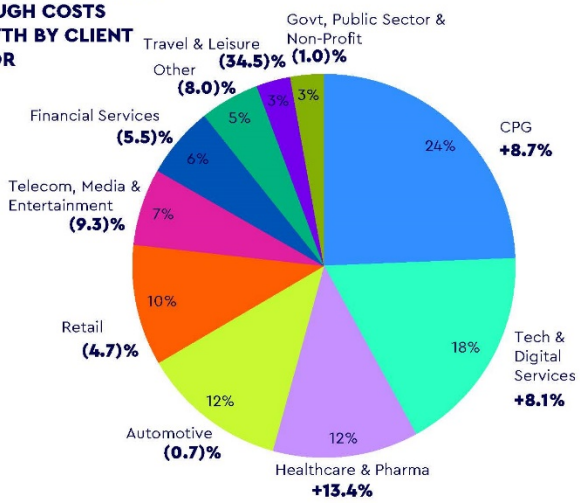
Business Update

Mark Read

Chief Executive Officer, WPP

RECOVERY UNDERPINNED BY CLIENT MIX

Q1 REVENUE LESS PASS-THROUGH COSTS GROWTH BY CLIENT SECTOR



- Growth driven by the leading sectors of 2020 – CPG, Tech and Healthcare (54% of 3,000+ clients' revenue less pass-through costs)
- Boosted by strong recovery in Automotive
- Travel & Leisure yet to show any rebound

% of total top designated clients attributable to each industry for continuing operations in the first three months, and includes an allocation of GroupM tracing revenue less pass-through costs. These clients comprise 77% of WPP total revenue less pass through costs.

Thanks very much, John. So I think if you turn to Page 16, it's not long since our preliminary results, but I think we have made progress since then and continue to execute the strategy.
You'll see that I think our recovery has been underpinned by client mix, on Page 16. It's really a continuation of the growth that we saw in the sectors of CPG, Tech and Healthcare towards the end of last year have really come strongly into 2021. Then boosted a little bit by the recovery in Automotive. But you can see that Retail down 4.7%, Telecom, Media & Entertainment down 9.3% driven by the lack of releases, and Leisure & Travel down 34.5% in the quarter, parts of the business are still hampered by the restrictions on the economy. And I think that does suggest, as those restrictions are lifted, it does really underpin the recovery during 2021 in our spend and talks to the growing confidence that consumers have and that clients have invested.

CONTINUED STRATEGIC PROGRESS

GROWTH INVESTMENTS

- DTI – Brazil
- NN4M – UK
- Kantar/Numerator

SIMPLIFICATION

- Choreograph
- BAV
- WPP AUNZ

SUSTAINABILITY

- WPP net zero by 2025
- Including supply chain, net zero by 2030

On Page 17, we just highlight some of the areas of continued progress against the strategy that we outlined in December 2020 and indeed December 2018 to continue to invest in the faster growing, and more technology driven areas of our business. We acquired DTI, very interesting technology company in Brazil, 800 people of whom 600 are technologists, really our first move into more of the application development part of the technology stack where we traditionally have been more involved in systems integrators implementing systems like Adobe and Salesforce. DTI possess application development capabilities that can build technologies from scratch for clients. And I think that was a very interesting capability to be able to deploy globally into our agencies and clients.

And then NN4M - a relatively small, but important mobile commerce business that we're working with for some time here in the UK. And you will have seen that Kantar acquired Numerator, strategically really interesting business in the purchase data space, actually a company that Kantar had invested in when it was InfoScout and has been a powerful combination with the Worldpanel business of Kantar, and we're very much supportive of the strategy there. And given our 40% investment in the business, keen to see that continue.
The simplification of WPP continues. We launched Choreograph this week and we'll come on to that on the next chart in the data area. We've relaunched BrandAsset Valuator. So we used to have two brand valuation studies at WPP, BAV and BrandZ, and after 15 years of trying, we managed to bring them together into BAV that will now be the default brand evaluation tool across WPP.
And we continued the simplification with the buyout of the minorities in Australia and delisting our Australian business, and that I think gives us the ability to integrate that more tightly into WPP while continuing to deliver a very relevant strategy in the Australian and New Zealand markets.

And then lastly, but by no important means least, we made an important commitment in the area of sustainability to be net zero within our own operations by 2025 and across our overall supply chain, primarily media and production by 2030, and that was very well received by our clients and indeed our people.

CHOREOGRAPH

WHAT IS CHOREOGRAPH?

- WPP's global data products and technology company
- Privacy-first approach to customer data
- Combines specialist data units of GroupM and Wunderman Thompson
- Led By Kirk McDonald,>700 people, 17 global offices

LAUNCH PRODUCTS/SERVICES

- Audience insights and planning
- Private identity solutions
- AI-based media spend optimisation
- Growth forecasts through population simulations
- Strategy consultancy, custom software development and operations

128M
households

68M
Addressable TV households

20,000
Data attributes

40+
Years of data expertise

So just to highlight, Choreograph on Page 18, what is it? It is really a global data products and technology company, it brings together our key data assets inside GroupM and Wunderman Thompson into a single business. It provides the foundation for us to be able to make further investments in data and technology. And I'd say that, just like our customers want to have a simple view of their consumers, I think WPP should have a single data view.

It's an interesting time to launch the business given recent moves around third party cookies and privacy and I think we're taking very much a privacy first approach to consumer data. We're not going to try to recreate the third-party cookie or take the legacy approaches like that. We're really working with customers to understand how they can use their data in a responsible way and how indeed they can build a data asset by using their products and services. It will be led by Kirk McDonald who joined us from Xandr, the AT&T media business and also heads up GroupM North America. While it will operate operationally within GroupM, it's really very much going to be available to all of WPP in the comprehensive way in which we work elsewhere.

So what does it do? I think there's really four key products within the company. Audience insights and planning that allows us to gain insight into consumers for media purposes to target media, but also to inform creative development. It sets a strong private identity solution based on 128 million households in the US that allows clients such as WBA, WBA is one of the launch partners, to look at their own first party data and connect that out into the walled gardens and into their marketing activities in a privacy compliant way.

A strong AI-based media spend optimisation tool. So much of the work that we've done within Essence looking at media optimisation, will now be brought into Choreograph. And then we've done some very interesting work around population simulations that basically enables us to model the impact of next best actions - If you did this, what would happen? It enables us to design promotions and measure spend for clients.

And that will be supported by services and strategy consultancy – what should client do in the data area; customer software development, how do we help them build their data operations and then we can help them run and operate those four categories. Again, an important move and we're very pleased to see WBA in public support of the launch.

SUMMARY

- Strong start to the year
- Continued progress on strategic execution
- 2021 priorities:
  - Managing continued COVID impact on people and clients
  - New business, new growth opportunities
  - Ongoing execution on December 2020 plan

So, summary of the first quarter. I'd say or we'd say a strong start to the year, continued progress on executing our strategy. And really the focus for the rest of 2021 is going to be managing the impact of COVID on our people and our clients. I'd point out that here in the UK and the US, we still only have 2% of our people back in the offices. Across WPP overall, about 10% to 15% of our people are working in the office any one day. We're keen to get people to come back when it's safe. But I think we also understand that people are not going to come back in the way they used to in the future.

The situation in India is very difficult, and we will talk to our leadership there about everything we can do to help. But it's a reminder that although we may feel sitting here in the UK, or in the US, somewhat as though COVID is behind us, it isn't in any case around the world. We need to be cognizant of that.

It's going to be a busy year for new business, but one that also will give us new growth opportunities. And then we need to continue to work on the transformation plan to deliver the savings that will allow us to reinvest in the growth areas of our business. So that's how we see the year. A good start, but more work to do and we're now, John and I, happy to take your questions.

Q&A

Lisa Yang (Goldman Sachs):
Good morning, Mark, John and Peregrine. Congratulations on the results. I guess, my first question is on the trading environment. I mean, you previously expected Q1 to be negative and at plus 3% you actually outperformed all the other agencies so far. So I'm just wondering what has really changed. Do you think it's just the market being much stronger than expected or you're benefiting maybe more from all the new business won last year? Or just thinking agencies, in general, will be capturing a bigger part of the of the value. So I'm just wondering like how do you explain such a good sort of outperformance. And how much of that could be sustained for the rest of the year?

The second question is on the new business. I mean, you mentioned, it's going to be a busy year and there has been a lot of noise in the press as well about account reviews, account losses. I'm just wondering if you can maybe help us slice the magnitude of how much of WPP's revenues will be at risk here? Are we talking about, 1, 2 or 3 percentage point of your revenue? And does that actually really differ from prior years, so we can be able to sort of compare?

And the third question is on the US. It's great to see US returning to positive growth. It still seems that it's lagging in the other regions and some of your peers. So I'm just wondering like how do you explain that? And what are you doing there, what are the actions you're taking there to potentially sort of narrow the gap versus other regions versus other peers? Thank you.

Mark Read:
Yes. So look, I think on Q1, it was a very broad based recovery really, it was across all parts of the business, across 15 of our top 20 markets, and across say, slightly more than half of our clients. I think it reflects all of the points that you mentioned, a little bit is the market. That's clearly come back perhaps more strongly than we would have expected. Part of it is our agencies. You know, we've seen good performance in GroupM at 5.8%, very strong performance in VMLY&R, a good performance from Wunderman Thompson returning to growth. I think those parts of the business where we've taken action and integrated are beginning to grow.
I mean, I think there is parts of our business in the sort of more technology driven areas. We saw 90% growth in our Connected TV business, we saw media spend for e-commerce up 50%, we see good growth in Xaxis and Finecast. So I think those parts of the business sort of functionally that you would expect to grow have also grown. So I think it's both what WPP has done and the market, I think it's a little bit of each, and it's a little bit of, as you say, positive from all of new business that we won in 2020 overall.
Turning to your new business question, I think that we can quantify the pluses and the minuses at this point, I'd say, there probably is more opportunity than there is risk for us, but there are both. And account reviews come around in cycles and we will probably start this year with a little bit more than we did last year. I would say, that the impact on our business will primarily be in 2022 for those account reviews – the major account reviews that are coming up will primarily be 2022 issues or opportunities for us. And I'd point out that we had a really strong run last year and a really good performance in our media businesses and many of the reviews are in media. But there's no doubt that we've got work to do to deliver them.
I think on the US, I'd point a little bit to the two-year stack. We could have I think US return to growth in January, February last year and I'd point to the sequential improvement in Q4 to Q1 and I think we'll see

a continued improvement in the US business in the rest of the year and perhaps a little bit -- we probably have been a little bit more driven in growth internationally than we have in the US.
But John, do you have anything to add to that?

John Rogers:
Yes, Lisa, just building on the US performance, I think actually if you look across the different agency performances in that market, you see quite stark patterns reflecting where those particular agencies are in their relative turnaround. So for example, VMLY&R in the first quarter in the US was very, very strong, just about double-digit growth. So fantastic performance from VMLY&R in the US. And again, reflecting, we think the success of bringing those two agencies together and that's now really starting to pay dividends.
Then you've got sort of Wunderman Thompson, for example, in the market, which was broadly flat, and again, reflecting it's been two years now since we bought those agencies together. We're now starting to see a turnaround in that business and really positive performance in the US and broadly flat quarter-on-quarter. And then you've got other agencies like Ogilvy, which were clearly negative in the first quarter, but very much part of the turnaround strategy being led, of course, by Andy Main, who has brought some fantastic creative talent into that business to drive that turnaround.
So I think that what gives us reasons to believe in the US market is that we've got some agencies that are perhaps more mature in their evolution, really performing very strongly and we've got every confidence that we can turn Ogilvy as an organization around given the investments that we've made in talent in that leadership team over the last six months.

Lisa Yang: That's very clear. Thank you.

Julien Roch (Barclays): Yes, good morning everybody. Thank you for taking my questions. The usual three. If I start with disclosure, thank you for delivering on better disclosure, having GroupM organic is very welcome. I'm greedy, so could I have an idea of the percentage of net sales represented by GroupM either in full-year '20 or Q1 '21.
Second question, I saw on Bloomberg that Mark said results closer to upper end of guidance. What does this mean? Organic margin seems to be organic based on what John said earlier. So what is lower and upper end of mid-single digit. Is it 4 to 6 or 3 to 7?
And then last one is on Choreograph, 128 million households. Can we have some idea of the geographical breakdown. And how many do you need in an ideal world? And any stark difference between Choreograph and Epsilon, Omni, Merkle and Acxiom. Thank you.

Mark Read: John, why don't you take the first?

John Rogers: Maybe if I pick up the first two and then Mark pick up on Choreograph. So on GroupM, I admire your tenacity, Julien in asking for this disclosure. I mean, I think what we would say is it's roughly -- GroupM is roughly 35% or so of net revenue less pass-through costs, that's the number that we've given in the past, and we will stick with that. It gives you a broad indication of the overall size of the business with respect to the other parts.
And your question on what does mid-single digit translate into in practice, I think I would probably say, 3% to 7% would be a generous range. And we might expect, of course, given the strong performance in Q1 to be towards the upper end of that range. But just to be clear, we still face significant uncertainty in many markets. Mark has already talked about the challenges we're facing in India, the same is true of

Brazil. Canada is going into -- has been into another phase of lockdown. So there remains a lot of uncertainty. So we need to be careful we don't get too carried away with ourselves. But I would say, if we define the range of say, 3% to 7% in its broader sense, we would hope to be towards the sort of the upper-end of that range 6% to 7% of that order if all other things remain equal.

Mark on Choreograph?

Mark Read: Yes, I think on Choreograph, the data that sits inside Choreograph came from Wunderman data I think, it's the only part of the proposition. The bulk of those 128 million households are in the US. But I think that we want to take a more agnostic approach to data, really building our own singular data asset. I don't want to sort of highlight differences with the other companies. What I'd say is that Choreograph is built on certain principles. The first, privacy at the heart. So, ensuring that we respect consumer privacy.

Secondly, we want to take an approach where we help clients build their own first party data assets and manage that through the products and services that they offer. So how do we - - for example with Walgreens, how do we enhance the My Walgreens offer so that consumers are more willing to share their data. We're not interested in rebuilding the cookie in other ways. We don't think that's a tenable strategy long term nor the right thing to do with our clients.

And then the third is, operationally we'll work in a very tight way between our media business and the rest of WPP to use data to integrate those activities more tightly. I think that's what clients really are looking to do. And I think we want to take a very broad approach to data overall. There's no doubt that first-party data is important, but there's many other forms of data. We are having good growth in our connected television business using geographical zip codes based targeting. So there's many other forms of data that are available to our clients and that's important.

And the last point I'd make is what's critical to us is how we integrate that into our partners and given our relationship with Google, Facebook, we're working really very tightly with them to help our clients get on-board data into those walled gardens seamlessly as well.

John Rogers: And just in terms of numbers, Julien, the Choreograph business has offices across 10 different countries. Clearly there is an initial focus towards the US and the UK, as Mark as highlighted, and that's clearly our biggest markets. But we do see an opportunity to expand the business and invest in the business over time. It's a critical area of service to our clients and we see a tremendous opportunity to grow that side of the business. And by bringing those data assets and capabilities together under the Choreograph name, we really believe that sets us a strong foundation for that future growth and also the possibility, of course, of adding to that business through M&A.

Julien Roch: Okay. Super clear. Thank you very much.

Tom Singlehurst (Citi): Hi. Thank you very much for taking the question. Yes, three questions, I'm afraid. The first one is on, I suppose the next step, which is the second quarter. China plus 18% organic. Is this what post-COVID recovery looks like and is therefore sort of generally applicable to what we should expect in the second quarter? That was the first question.

Second question was on Choreograph. I'm sort of anxious not to misrepresent you, but I think we've always interpreted your comments about not needing to own singular data assets, because you being sort of tacitly critical of some of the other agency groups having platforms like Epsilon and Acxiom. Is the

fact that you're creating Choreograph, an equally tacit admission that actually it makes sense to have a sort of centralized data asset that you can point to in pitch processes?
And then the third question on pitch processes. Just actually leaving aside the risk of losing accounts, is increasing pitch activity having a quantifiable drag on margin. Is there anything from that sort of activity that is going to weigh on the margin profile alongside currency and maybe a sort of mix shift away from the US? Thank you.

John Rogers: So maybe I'll take the first one and perhaps the last one as well. And then perhaps Mark comment on Choreograph. I think on the, is China sort of a signal of things to come in terms of recovery through COVID. I guess, the answer to that question is, possibly. I mean, I would point to the two key markets that were most impacted by COVID in the first quarter of last year, which was China, obviously, and Italy in Europe and we saw a strong bounce back in the first quarter in both of those markets. So would we expect that similar trend to translate into a bounce back for those markets, most impacted by COVID in the second quarter of last year, then I think the answer to that would be, yes.
And I think you probably look at the impacts across the various geographies, and you could make an assertion that we might expect to see most of the shortfall that we incurred in the second quarter last year, some of that's going to bounce back, and I think we'd expect to see a similar pattern, of course, is very, very difficult to predict these things. And again, I'll just reiterate the points I made here earlier on in the call that there is still a lot of uncertainty out there. So I think we're right to take a cautious tone. But I'd sort of expect most geographies to demonstrate similar patterns to that we've seen in Italy and in China in terms of the level of the bounce back that we've observed in Q1.
In terms of pitch processes and impacts on margin. The market is always competitive, and there is always pressure on pricing, and that's probably true in every single market not just marketing services. And it's right that we need to maintain that competitiveness in the market. I would say that we have certainly more -- a lot more margin upside opportunity in the form of how we transform the business and how we deliver efficiency savings than we necessarily have margin pressure in terms of pricing. But there will always be margin pressure in terms of pricing and clearly we will need to make investments where we need to make them, but those will more than be funded by efficiency opportunities that we've outlined to you historically in terms of transforming the business going forward.

Tom Singlehurst: But also thinking about just the simple volume of the pitching activity, I mean, obviously you're not flying around anywhere in the short-term. But there's just the distraction of time associated with pitching activity happening…

John Rogers: I think there are swings and roundabouts. You're right. I mean, there's a lot of pitch activity and there is as much opportunity as there is challenge through that, but there is a step up in pitch activity. But then you equally point to the other side of the equation, which is, well, we haven't got people flying around the world to deliver those pitches for obvious reasons and actually we've managed to maintain a very healthy control over our costs through the first quarter. So there is always going to be swings and roundabouts, but I don't see a particular margin drag as a consequence of the activity per se.

Mark Read: Yes, I'd agree with that, Tom. I think on Choreograph, you know, I think we saw the opportunity to bring together what we're doing today. And I think, to some extent, branding it Choreograph highlights our capability and we have strong capabilities in GroupM and Wunderman

Thompson. I think it's good timing given the regulatory and privacy changes to make this move. But I don't think that's really in response to anything. We've been busy from a structural perspective, and I think as we went through last year, we've been working on this really for the last six or seven months to bring the businesses together. We felt it was the right time to tackle that. I do think that the data ownership that you highlight is really related to iBehavior and KBM businesses that have been part of WPP for many, many years and I think there is a value in that, primarily in providing identity solutions to clients more than the data itself. And I don't think we change our view on that, but that was clearly an important part of the WBA presentation and one of the reasons why we retained and expanded our relationship with that client. So I think it gives us an opportunity and I think it is a good opportunity to combine those data asset and data capabilities with media, which clearly is rising up clients' agenda.

Tom Singlehurst: That's very clear. Thank you very much.

Matthew Walker (Credit Suisse): Thank you. Just a couple of questions on Choreograph. Could you just tell us -- you've got the 20,000 data attributes. Is that basically 20,000 attributes per household?
And then the products and services that you've got in that business, were those things that you were already doing as part of GroupM separately and in Wunderman Thompson separately, and you're kind of just bringing it together so that you were already doing those activities or are they new?
And then the last question is on how are you getting the permission of people on those households to what kind of tracking are you doing of those people? How many people have given permission to be tracked? And does it include, for example, their credit card and debit card spending online and offline? If you could give us a bit of a feel for what kind of tracking that you're doing that is permissioned by the consumer?

Mark Read: Yes. I think the 20,000 attributes are both demographic and purchase history and the database is primarily in the US, and so they're sort of consistently across those households in the US. We work with a number of other retailers and contributors to that co-op to do that with the permission of consumers from the data that they collect and we work carefully to make sure that those retailers and other contributors have consumer permission and that's given on the right basis. And it's really more based on that than it is on tracking the consumer. It's not a sort of a tracking system.
In terms of the products and services, yes, it includes both those that were being developed inside Wunderman Thompson, but combines them with many of the technologies that were or are being developed inside GroupM relating to the media business. And particularly, those technologies, that Essence were developing, allowing them to activate data inside of the walled gardens and to build bridges, if you like, between first-party data around Google and Facebook and other platforms. So it's both technologies we're already developing and technologies that we will continue to develop in the future. It's also very much a cloud-based solution, which gives us a lot of flexibility in terms of sort of hardware deployment and deployment into client situations as well.

Matthew Walker: All right. That's great. Thank you.

Richard Kramer (Arete Research): I'd like to ask one question about Choreograph and Finecast, but more about the business model. Is it your intention to build products where you would receive recurring license income as opposed to the traditional campaign based spending that WPP mostly addresses?

And then my other question is, I'm mindful that the top 3,000 clients represent about three quarters of sales. But when we step back and look at the fastest growing portion of digital ad spend, it's coming from smaller D2C brands and influencers and so forth. Can you talk a little bit about the role you would envision for WPP developing to provide maybe some sort of light services to those smaller pools of spend, which right now are largely captured by the self-serve platforms of walled gardens, but maybe there is some value, you have to add to that space. Thanks.

Mark Read: Yes. So I'd say within Choreograph, the revenues are a mixture of consulting fees when we provide consulting services. There are some license fees where we license data to clients.
And I think we would expect to build new business models with clients. And then there is also some fees where we provide data operations to clients. So there's a large healthcare company where we're managing all of the customer records with 250 million of their customers that's provided on a mix of license fee and consulting services. When we look at a business like Finecast, we act as a principal in that business and so we would take a margin on the media based on the results that we deliver to our clients. So it does, I think, take WPP into new areas from a fee perspective.
On your last question on smaller clients, it is something that's on our mind. The typical WPP clients are the world's 10,000 largest corporations, and we are cognizant that much of the growth is in the longer-tail of clients. And I think over the coming months, we are looking at how we can grow in that area. We do have a pretty successful Google marketing platform business that we help more medium-sized clients to implement Google marketing platforms that sits within Acceleration, and we are looking at how we can develop that inside GroupM. And I think there are some interesting opportunities in addressable television where we may be able to connect small and midsized businesses onto those platforms as well. So I wouldn't build it in your spreadsheet just yet,. but I think it's something that's on our mind, and there's certainly a tier between the very smallest businesses and the very largest business, where I think there probably is an opportunity for WPP longer-term to capture growth.

John Rogers: And Richard, just in response to your first question from a broader perspective as well. I think we are very interested in exploring different commercial models in terms of how we serve and support our clients. And our clients are often asking us, the extent to which we're willing to have performance-based on -- or have fees based on success and performance-driven fees. And so we are more broadly looking at how we can adapt our commercial models away from perhaps the traditional approach to looking at how we offer value to our clients, whether that is through licensing products, whether that's through more value-based fees or alternative models, and that is something that we are in the process of exploring.

Richard Kramer: Okay. Well, look forward to hearing more. Thanks.

Matti Littunen (Bernstein): Good morning. A very strong performance from a lot of your agencies, which do a fair bit of project-based work such as AKQA, VMLY&R and the brand agencies. I was just wondering, since last year, there was still a lot of project-based work that was still on hold due to the pandemic situation. Was a lot of this impressive Q1 performance perhaps pent-up demand from that period finally coming in?
And then the second question, you already provided a lot on Choreograph, so thanks for that. I just had a question specifically on the IDs, on those 128 million households and specifically the online ID for the individuals in them. You said you don't want to rebuild the cookie ID system. But to me, it seems like if you want to be able to activate data against those individuals and those households going forward with

all the changes, the cookies and the mobile IDs, you'd have to at least partner with someone who is trying to, say, rebuild an e-mail-based system or a second-party cooperative in order to be able to do that or otherwise do lots of probabilistic modeling. So could you give us a bit more detail on how you plan to maintain that sort of activation reach and accuracy for those households going forward, specifically outside the walled gardens and Connected TV? Thank you.

John Rogers: Okay. Maybe if I just comment on your first question on project work. I wouldn't necessarily ascribe that dynamic to the bounce back that we've seen in the likes of VMLY&R or AKQA for that matter, necessarily. I think the performance that we've seen in those respective agencies is very much sort of sustainable, ongoing work for clients. That said, I would agree with your point in relation to the brand consultancy businesses, say, Landor and Superunion where we've seen tremendous growth in the first quarter. But as you say, the nature of the work that they do is very much more project based for clients, and we saw quite a heavy decline this time last year as the impact of COVID immediately caused a squeeze on client spend. We've seen that bounce back very strongly and encouragingly in the first quarter of this year. So I'd certainly ascribe that dynamic to Landor and Superunion, not necessarily to VMLY&R and AKQA as you asserted.

Mark Read: On Choreograph, so we do have postal addresses and e-mail addresses for the vast majority of those households. So we do see good match rates from those identifiers into the walled gardens. I would say that enables us to target media inside the walled gardens, which I'd remind you is probably 80% of digital media spend and into other areas where there were logged in users from the New York Times to the Wall Street Journal to other publisher sites, but also into clients' own media, and that we'll be able to link them to a client identifier. So you could take client X and use the identifier to activate into Google. So I think we do see strong and very competitive match rates. And we are able to activate that in the sort of future likely privacy environment.

John Rogers: I think the other build that I'd make, Matti, as well, is just in terms of couple of areas that we are doing a lot of work on are on things like agent-based modeling, where we actually use computational models that attempt to simulate the interaction of individuals or groups based on a set of defined conditions in an environment; so moving away from the cookie world, but really looking at how we can predict an individual's behaviour based on some of this agent-based modeling. And also looking at things like what we call synthetic data. So it's not data that's been recorded by direct measurement, but instead, we've been able to run simulations or manufacture from the first testing that allows us to understand how different types of consumers will react and behave in certain types of environments. And the work that we're doing here, we see as being sort of really building on this move away from this cookie based world into a different way of targeting our customers, and there's a lot of work we're doing for our clients in this direction.

Matti Littunen: Very clear. Thank you, both.

Patrick Wellington (Morgan Stanley): Yes, morning, everybody. First question is on costs. We're at the end of April now. Still nobody is flying anywhere, as Tom has pointed out. You've talked about GBP200 million of your GBP810 million of COVID related cost savings being retained. But do you think it's time to start revising up that element of potential cost saving retention in 2021?

Secondly, again, in response to Tom's question, if we go for a sort of flattish two-year base, then we'd be looking at Q2 organic net sales growth of about 15%, should that be the benchmark?
And then thirdly, John, I mean, we've had some experience now over a few quarters. Would you say you're a bit of a serial under-guider when you look at WPP's performance?

John Rogers: Look, this is clearly a trading statement. So we're not going to get overly drawn in relation to costs or profitability, but we are reiterating the guidance that we gave at the prelims that we expect the operating margin to be in the range of 13.5% to 14%. So we're reiterating that guidance. I think that is very sensible. I think there are lots of movements. There's maybe some upside coming through in sales. There's some drag coming through in terms of foreign currency. I think at this stage of the year, it will be overly premature to be moving those numbers up, and there are as many potential drags on those costs, particularly as we expect markets to unlock through the next couple of quarters, people will start to return to traveling, and many of our clients will, of course, expect that to. So we will see some of those costs coming back in. Obviously, we will monitor those very closely, and we will keep a tight control of them. But I think at this stage, it would be far too premature to be pushing up our margin numbers. And indeed, there are as many drags on the margin as there are potential upsides. So hence, why we are reiterating guidance. I mean in some ways, I'm a bit more bearish on the margin than I am on the net sales, the net sales definitively towards the upper end of the range, but the margin guidance is still very much in line with what we've said. In terms of flattish on a two-year basis, yes, I wouldn't say -- I think, again, I'd point you to the response I gave to the previous question in relation to China and to Italy. In both of those markets, which saw the biggest, if you like, Q1 downturn last year and have seen the biggest bounce backs in Q1 of this year, in both cases, they were a shortfall on 2019. So in a way, we are still in both of those markets lagging 1% or 2% from where we were at 2019 levels of sales. And so t -- whilst flattish, I wouldn't use those terms. I would expect us to perhaps fall slightly short of the 15% that you discussed. But let's see. I mean, it's so difficult. We are genuinely dealing with unchartered territory here. We just really don't know. And I think we'll just have to wait to see how the market performs going forward. We've had a good start to the year. We've seen some examples of bounce backs in China and Italy. We would expect us to see similar trends, but I wouldn't expect us to fully recover the shortfall that we delivered in Q2 of last year. And in terms of am I a serial soft guide, I don't know. I mean it's difficult, I'd like to think not, but naturally, in an uncertain environment, which this is, and none of us have really navigated through this territory. This is -- it is genuinely unprecedented, often overused, but it's genuinely unprecedented. It's very difficult to predict what's going to happen going forward. I mean, remember, this time last year, we were forecasting all sorts of negative downturn scenarios. Now fortunately, those didn't come to pass and actually, performance was a lot better than we were expecting. But there was a very broad range of outcomes. And whilst we have got some history over the last 12 months of how things have performed, there is still a lot of uncertainty out there. And we are seeing -- and it's very important that we remember this, we're seeing a very challenging situation in India at the moment with our colleagues and our people. Similar circumstances in Brazil. So we are not through this yet. And therefore, I would tend to always try and under promise and over deliver. But it's really -- it's not reflective of my style, it's more reflective of the genuine uncertainty that's out there in the market.

Mark Read: Yes, I would add to that – look at our share price on the course of the year and the recovery, I think the speed of the decline surprised people, and the pace of recovery surprised people. I think it's more to do that. We try to guide as accurately as we can.

John Rogers: I mean, I think it's fair to say that this isn't meant as a dig. I mean, I think compared to

some of our peers, we have probably provided the clearest guidance in relation to the performance of the business going forward. So I think in that respect, we've tried to provide as much transparency as we possibly can in clearly what is a very uncertain world at the moment.

Patrick Wellington: No, that's great. As Julien said earlier, the transparency has improved. So very good. Just a quick one. Mark, do you feel with Choreograph the need to buy any extra data assets to go with what you have there or is that a complete set as far as you're concerned?

Mark Read: I think it's a complete set in terms of data assets or capabilities, but I do think that it's an interesting platform for which we can invest more in data. As I said, I don't think -- our transformation is never complete. So there will always be areas where we can invest organically or perhaps where we can make acquisitions. When we bought this business, as John mentioned, Sandtable in the UK which is focused on Agent Based Modeling as an additional capability. I think just as our clients want a single view of the customer, we needed a single view of the data. But it's an interesting foundation, I think.

Patrick Wellington: Great. Thanks very much.

Sarah Simon (Berenberg): Yes, hi. Couple of questions just on -- back on the data question. Firstly, are you supporting any of the various ID initiatives that are out there, like, obviously, Publicis talked about UID 2.0. But there's other ones out there. And second question was just on cookies, obviously, the EU is looking at that, and there's some question as to whether that may be deemed an antitrust issue. If for some reason, they -- Google were to delay or stop entirely the deprecation of third-party cookies, what would be your strategic response to that? Thanks.

Mark Read: So we are taking part in various industry initiatives around IDs, and I think that whilst those IDs are privacy compliant that our clients want to adopt, we're very happy to work with them. I think it's unlikely that there'll be a single replacement to the cookie, simply because the degree of tracking that we've allowed on the Internet is not something that we'd allow offline. I mean, as you saw the piece in the FT, where a Washington Post reporter said that he found 5,400 individual tracking applications on his phone in the course of a week. I don't think any of us would really want that in our lives. And whilst we can argue, I would argue that most of that tracking is for perfectly legitimate purposes and enables us to target advertising and measure results. I think the degree of it has gone beyond what the cookie was designed to do. I mean the cookie was not designed to provide ad tracking in the way that it develops. It's really a convenience, the original ad service, Double-Click, Open AdStream. Remember, actually WPP acquired 24/7 Real Media back in 2007, and we bought Open AdStream and Adserver into WPP for a number of years until we sold it to Appnexus. So I think in the long run, we are going to have to provide more privacy compliant ways of managing data. And I think the question is just being transparent. If consumers want to opt into third-party ad tracking, then it's fine for them to do, and they have the ability to do it. And there are indeed a number of scenarios where consumers may well want to do that. If they want to see more relevant advertising, they want to be frequency capped, they may well find that in their advantage.
When it turns to cookies, I think we'll have to see the outcome. I mean, I think the irony was that a lot of these privacy regulations were just to some extent by regulators seen as a way of, let's say, perhaps hindering the growth of the major technology companies and actually that had the reverse effect because the technology companies have the opted in relationships with consumers. But look, I think

net-net, it's neutral to positive to WPP and the clients need our advice, and that's what we need to give them.

Sarah Simon: That's great. And can I just ask a follow up? Given, as you said, cookies weren't designed for advertising and match rates are actually quite poor, do you think there is an argument to be made that some of these -- or clearly, there will be a low opt-in rate than is currently achieved in terms of overall tracking, but presumably a better match rate. Do you have a view as to what the breakeven point would be in terms of kind of better matching versus lower opt-in rate?

Mark Read: I think sometimes in business, there's an obsession with the measurable. And what's measurable is not always what's most important. And we spend a lot of time obsessing about programmatic media, which is maybe 10% or 15% of media spend. But we spend much less time thinking about creative optimization or the idea. I think we need to have a balance, whether a match rate is 80% or 85% or 80%, probably it's neither here nor there.
We don't know the -- we never statistically know the effectiveness of our work. So I think we have to see all these things in perspective - we have to spend as much time focusing on the idea and the creative work and the way we're reaching consumers as we do on the data and technology that underpins it. And I think that sort of we got very lazy in retargeting because of the ROI. But I think the consumers don't like it. And so we need to replace with something, which is a little bit more privacy friendly if we want to maintain the trust and confidence of consumers in advertising in the long run.

Sarah Simon: That's great. Thanks.

Mark Read: Thanks, everyone. Thank you for your questions. Thanks for listening. I think we said at the beginning, we had a strong start to the year, perhaps a little bit better than – or certainly a little bit better than we and you had expected, which is reassuring. We're not in any way out of the woods yet, but I think we do expect a strong 2021. And we'll see you again in August on this call, but no doubt, before then to discuss the results. Thank you.

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