WPP 2021 Preliminary Results

Afternoon Teleconference Transcript

Thursday, 24 February 2022

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2021 Highlights

Mark Read

Chief Executive Officer, WPP

Thank you very much and welcome everyone, thank you all for joining us. On this call we wanted to make some brief introductory remarks and then focus it on the Q&A. You can get the transcript of the call from this morning in the slides if you like. I'm here in London with John and with Peregrine. Before we start the sort of formal remarks, just a few comments on the news that I think we will work up to. I don't think it's something that we look at with great concern. We have around 200 people who work for us in Ukraine, we have been in touch with them for some time on contingency plans, I don’t know that we expected what happened today to happen, but we have been in touch with them on contingency plans and providing them with financial and other assistance. I'm sure we'll get on to the broad impact on our results in the call. I think we should acknowledge the situation there right from the beginning.

VERY STRONG GROWTH DRIVEN BY DEMAND FOR DIGITAL SERVICES, ECOMMERCE AND TECHNOLOGY

- FY LFL revenue less pass-through costs growth more than double initial expectations: +12.1% vs mid-single-digit guidance; +2.9% on 2019
- Strong growth across the board in Q4: GIA +10.0%, PR +15.1%, Specialist Agencies +13.9%
- Performance driven by faster-growth areas:
  - Global Integrated Agencies (ex GroupM) 38% Experience, Commerce and Technology vs 35% in 2019
  - GroupM billings 43% digital, with 41% growth in commerce media
- Success with three of the world's biggest marketers, Coke, Google and Unilever; total net new business of $8.7 billion
- Leading in creativity: most creative company of the year at 2021 Cannes Lions
- Over £1 billion returned to shareholders in 2021: £729 million share buybacks; final dividend +33.6% to 18.7p
- Good momentum into 2022: guiding to LFL growth of around 5%; improvement in headline operating margin of around 50 basis points; further buyback of £800 million planned

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So, if we turn to our results and just how we think about the year. We had a very strong performance. 12.1% net sales growth- more than double the guidance we gave before the beginning of the year and close to 2.9% increase on 2019 so effectively, we more than recovered our growth. Actually, if you do the math, we outturned 2021 roughly the level of net sales that we expected it to be in 2023 back in December 2020. It was a much stronger competitive performance by WPP on top of a broader a stronger economic recovery than perhaps that we expected. We had strong growth across the board in our Global Integrated Agencies both media and creative. I think it's important to think about the strong performance of our creative agencies up 7.7% in the year, a really good performance from our public relations property businesses and indeed from our specialist agencies and especially against probably a slightly tougher 2020, but the PR businesses against relatively resilient 2020.

The faster growing parts of our business are becoming strategically and financially more important to us, both in the areas of experience commerce and technology, but also the digital parts of group with a 41% growth in commerce media.
I think we're particularly pleased with the competitiveness of our offer, reflecting the investments we've made in the networks, investment we've made in creativity, the investments we've made in data and technology. I think what's most reassuring or the most validating to our approach is the fact that Google, The Coca-Cola Company, Unilever all really increased and strengthened that partnership with WPP.
I think that's very important to see - three of the world's top companies and three of the world's marketers really strategically in-line with much of what they do with us as a company. Part of that, but not all of it, is down to the progress we're making creatively. We still believe that creativity is at the heart of WPP's business. We won holding company of the year -- creative company of the year at the Cannes Lions in 2021, the first time done so since 2017. And that reflects the strength of the business, not just in our creative agencies within our media businesses and our PR businesses and our other agencies. We had

strong returns from the business, not just a GBP1 billion return to shareholders, but the money we've been able to invest inside the business organically and in acquisitions, in refilling our incentives, in share buybacks, and in the dividend.

So net-net, that gives us good momentum going into 2022 with guiding to like-for-like growth of around 5% for the year, again what's important is that it's very broad-based. Geographically, the US which as you know, has been a strategic priority- to improve the performance of our businesses in the US - is going to contribute around 5% for the year. Our creative agencies again are areas where we haven't seen strong growth for a number of years will contribute around 5% in 2022 against an increase of 7.7% in 2021.

So, growth on very good growth 2021 to 2022. And again, we haven't seen growth at those levels in the US or in our creative agencies since 2010. It's the first time since 2010 that we expect growth of above 5% and further continued margin improvement and then, given the strength of our balance sheet and our financial performance, have the ability to make a strong share buyback that we announced today. So net-net, we are going into the year with confidence.
Before we turn to Q&A, one thank you I'd like to make to thank Fran Butera. Most of you on the call know Fran has been working for us for more than 20 years. He's retiring I am sad to say next week. The heart of our Investor Relations efforts, as I said for a long time in the US, a great support to me and to the rest of our management team and I know to our investors and to our analysts. He knows our business and industry very well, so we wish him all the best and thank him for everything he has been contributed and I'm sure many of you will want to as well.

So with that as opening remarks, John and I are here to take any questions.

Q&A

Tim Nollen (Macquarie):
Hi everyone. Thanks for taking the question. Could I ask two questions actually please, first off, on the recovery that you guys have come through, nice organic growth in 2021, 5% looks like a good number for 2022. I think you said your run rate organic growth from 2023 and on should be 3% to 4% including M&A, which I think means you're talking about an organic growth rate of 2.5% to 3% if I'm reading that right from 2023 on. That I think it's a couple of years ago, people might have said that's a nice return to kind of more normalized growth, but I'm wondering if that's actually almost a conservative number given how strong the recovery has been and the many things that you've done to improve the business. So, I wonder if you could comment on potential upside to that number from 2023 on?

And then secondly, I saw a couple of announcements today from Magnite and PubMatic talking about alignments with GroupM about sell side platform relationships and I wonder if you could just talk a little bit about how that might improve programmatic buying market for WPP? Is it about efficiency? Is it about pricing and what is the role of Xaxis in this working with the SSPs and working with the DSPs that you'd worked with for many years, kind of, how does the value chain evolve? Thanks.

Mark Read:
Okay, John why don't you talk him through the first, and then...

John Rogers:
Sure. Tim, as you rightly summarized here, we haven't changed our medium-term guidance today that we issued initially at the Capital Markets Day in December of 2020 and we reiterated that guidance today and as you rightly say it does imply a 2.5% to 3% like-for-like growth from 2023 onwards. Look,

we're not changing that guidance today but as you highlight, we've had a very strong year in 2021. We are projecting healthy growth in 2022 at 5% and it's really clear that we are investing in many of the growth platforms in our business. So we've always talked about investing into Xaxis, Finecast, Choreograph and data for example. And at the same time, we're investing in those parts of our business that we know we'll see strong growth going forward.

We're not updating the guidance to date, but we are confident that the business is moving in the right direction. We also provided the data point around the percentage of our business within our global integrated agencies, excluding GroupM in terms of the work that they do on commerce, experience and technology. And again that increased from what would have been 36% of our business, two years ago to 38% of our business today. So, we're clearly making good progress in investing in those parts of the business that we know to be high growth.

So I guess in that sense, we are confident in our business, we are confident in the growth projections, but we are choosing today, not to update the guidance for 2023 so you can read into that what you like, but we are doing all the right things to build that foundation for growth for the future.

Mark Read:
Maybe I'll comment on the GroupM announcement. I think really what we’re trying to do is get access to premium inventory to improve the transparency of the supply chain, and to improve the cost effectiveness to make sure, more of our clients' investments go towards publishers and less goes to intermediaries, and the two announcements we designed to do that, both in broader programmatic media, but also in connected television. I think the key benefit of really aligning, and a strategic partnership, allows us to concentrate our spend, secure inventory and pricing advantage for our clients and those benefits will be felt by GroupM clients more broadly as well as by Xaxis as well as by Finecast.

We have a very strong and growing Connected TV business around the world and I think that consolidation - like we see consolidation in many markets - should give us a trading and a competitive advantage that will benefit our clients, as I say, both from a pricing perspective, but also from a transparency and from a technology integration, so we can activate our data in those platforms, more effectively and from an efficiency perspective by reducing the intermediary costs in those markets. So, that's really the strategic goal.

Tim Nollen (Macquarie):
Great. Thanks Mark and thanks John.

Michael Nathanson (MoffettNathanson):
Thanks Mark. I have a couple for you, and Fran wishing you all the best. Thanks for the many years of help. So, more quickly we get this all the time is it's going to Tim's question, how do you think -- how would you balance this answer, which is some of the growth in North America is just due to pent up spending post pandemic versus a broader need for transformation. So, as you think about like the long term let's say next 3 to 5 years, why isn't this the beginning of maybe a structural change in how companies have to go to market versus just simply a catch up. So I wonder what, when you evaluate your view of North America anyway, what's the sustainability of what we see and what your guide is? And then, just taken together, I want to understand everyone's focused on the same areas of growth -- it's obvious to listen on every recall. It's direct marketing, it's precision marketing, it's data, it's

connected TV. Could you talk a bit about your interest in more M&A in the space or any type of inflation around people who are experts within those lines of work? So those are my questions. Thanks.

Mark Read:
Okay. A complex set of questions I'll try to get my head around. On the first point I think the recovery we've seen goes beyond just the cyclical recovery and we guided at 5% to 6% for the year. It's come out at 12%. I think there are many people that thought that if we did well in 2021 we'd be sort of robbing 2022 and that, I do think, is not the case. I think we expect a strong 2022 notwithstanding events in Ukraine and then, like you and like the previous question I think if we could do better in 2023 that would be our aspiration. The way we look at it today I think is to get greater visibility into the year rather than to make a commitment to do better.

I do think that clients' perceptions of importance of what we do have shifted during the pandemic. I think to some extent because the markets transform so quickly, both as a result of clients shifting demands and frankly the actions we took ourselves at WPP have made us more competitive and have accelerated that shift and made us stronger and better capable of growing in the areas where clients' budgets are shifting and that's always been our goal. And I do think that WPP's relative underperformance in 2016, 2017, 2018 was not felt by all of the players in the market and so required us to make the investments that we've made in creativity and talent to improve the performance of the business.

I think you're seeing several things in our performance and more competitive WPP that is performing above peer level average. Let me remind you, I think in the middle of 2019, we were close to 3.5% below the peer level average. That's improved to between 1% and 1.5% above the peer level average, and that's a 4% to 5% delta in performance in the business. 4.5%, the 5% delta in performance in the business that's a bigger shift to improving our competitive performance.
I think the second thing, as you rightly observed, is if the industry players have tended to guide to around 5% for the year, frankly that's not a bad thing. I'd rather lead a business in an industry where we can all grow 5% and we can aspire to do better than one where we're not performing.

So, I think clients are looking to maintain and enhance their spend. If you look at it, Brian Wieser has done some work on advertising intensity and I was looking at the statistics and I think amongst packaged goods, advertising and promotion as a percentage of sales has increased by 17, 18, 19 having declined, 17,18, 19 has turned around a little bit and our observation would be that those companies, like a Mondelez, that have tended to increase their ad spend above sales have done relatively better and those companies, like a L'Oreal, who have a higher degree of advertising intensity have also done better and some of those clients -- those owned by the more aggressive private equity companies who have cut their spend and spent less have done worse.
So I think the clients' growth is what the market values and transformation is what clients need to do.

So, I think that that is good for us. I think turning to the question around, which I think is around relative competitive capability, I think we're pleased with the competitiveness of our offer and the right mix between creative and media, data and technology. We have a very strong business geographically -- so in years like the last two, our relative overweight -- not necessarily overweight relative to the global economy but maybe overweight relative to our peers outside the US because sometimes be a disadvantage when the US is outperforming the rest of the world. But in the long run, it will be a source of competitive advantage.

It is certainly important with our clients. These businesses tend to look for growth outside the US, I think our ex-US business makes us very strong. And I think that we have really strong competitive business in areas like public relations and public affairs, look at BCW, Hill & Knowlton and Finsbury Glover Hering. In e-commerce, I think we've made more investments than average and I think again that can be a major driver of growth for WPP. I think the same is true of the content area for GroupM where we're really strong and interesting for the Content and Entertainment business. Again, as well Xaxis and Finecast. We have a number of important growth drivers that should lead to a differentiation in competitive performance.

I think that turns to M&A, which is, that's where we would like to grow both M&A and also organic investment, I mean I think a company we'd like to increase the rate of organic investment where our aspiration is to grow faster organically and be able to develop these capabilities organically, not just by acquisition. The cost of acquisition actually makes that even more compelling to do and what we have to do is set out in the business in a way where we can leverage the savings we're making through the transformation programs, very important to us and then reinvest in the business to grow the top-line.

Doug Arthur (Huber Research):
Thank you very much. And I'm playing a little bit of catch up here, and Fran, suffice to say there's been a few twists in terms of the WPP story over the last decade and thanks for all your help in guiding us through that and I'll try to catch up with you later today.

Mark, I'm sure you covered this in the early morning call which I've not listened to yet, as you look at this Ukraine situation. I mean, it's like the world just got through a pandemic more or less, and here we are dealing with like the potential cold war return and you sort of look at where China is positioned to Russia and so, potential fallout there, how do you sort of assess the risk to the 2022 outlook at WPP if this confrontation gets worse in Eastern Europe.

Mark Read:
I think it's very hard on the day to answer that question in a way that's truly informative. I'll just make some observations. One observation is we've been living with this sort of expansion in geopolitical tension for the last 5 to 10 years, so Russia did invade Ukraine in 2014. So we have had geopolitical tension for a number of years.

And my second observation would be Russia is at less than 1% of global ad spend and less than 1% of WPP's business. Ukraine is about a sixth of 1% of global ad spend, so the direct at, let's say, economic impact on our business is not necessarily that great. I think our biggest concern fact is for our people there. You rightly say it's really a question of what the broader impact would be. And I think it wouldn't be right for me to really say what that would be at this time. I think we're going to have to see how events unfold and how people will react.

What I would say as we go into this year with some confidence in the strength of the recovery underpinned by our budgets for the year, underpinned by the new business that we've won, notwithstanding the events today, the global economy is expanding. Inflation is the result of pent up consumer demand and shortages in a number of markets.
And I think that talk to very healthy consumerled recovery during the year with challenges around topics like inflation in supply chain, none of which by themselves are negative to advertising spend. So I think

we're just going to have to see over the next few days and weeks how events unfold. And what happens is obviously great concern to us, but I think. Notwithstanding that, we still have great confidence in the guidance that we've given for the year.

Doug Arthur (Huber Research):
Fair enough. And just on sort of a detail, you have a slide on your leadership and new business wins now Publicis when they reported a couple of weeks ago had a slide that showed sort of net wins and had WPP kind of at the bottom, given the loss of a lot of business as wins versus losses. So can you comment on sort of the net gains in new business going into 2022?

Mark Read:
Yes. I still feel that we've had net gains, strong net gains. If you look at our business across media and creative during the year. I haven't analyzed the Publicis chart in great detail, but the R3 numbers, looked at more than 4,000 accounts. Media and creative. I'm comfortable with the numbers that we've given for the things they've looked at, it's been relatively accurate, and even if you were to take out the retentions, the competitive performance is sufficiently strong. But I feel they underpin our budget is pretty well.

Doug Arthur (Huber Research):
Okay, terrific. Congrats on a great end to the year.

Mark Read:
Yes. Thank you. I think, just one last point on that, I think some of these charts have different accounts in different years. If you, for example to include a GBP1.4 billion account in 2021 or in 2020 depending on who you are, it would lead to a very big swing in competitive performance which may explain some of the variances of the things that you're looking at. That might help you get your head around.

Doug Arthur (Huber Research):
No doubt. Thank you.

Mark Read:
Well, thank you very much everybody. And as I said, it's a concerning time but notwithstanding that we're very pleased with the performance of the business. Thank you to all of our clients for their confidence in us to our people for their hard work and to you, investors and analysts for your continued interest in the company and John, Peregrine, and I and Fran for the rest of the week are here to talk to you.

Thanks everybody very much and thank you Fran.

[END OF TRANSCRIPT]

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