WPP 2022
Interim Results

Afternoon Teleconference Transcript

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Highlights

Mark Read

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Thank you very much, and good morning, everybody. I think we'll take this morning's presentation as viewed. If you want to look at it, it's available online. In the interest of efficiency, I'll make a few opening remarks, then we’ll turn to questions.

So, I think if we look at the first half of the year, we had continued strong demand from our clients, we had a good growth in the first half, 8.9%, and 8.3% in the second quarter, so only slightly lower than the first quarter despite somewhat tougher comparatives, and that reflected strong growth across all of our business. The GIAs, the integrated agencies up 8.2%, with perhaps a slightly stronger performance in media, but actually a very creditable performance in our creative agencies across the board around 6% in Q2.

Public relations up 7.3%. PR has been our standout performing business through the pandemic, reflecting the supporters to clients. And then on to our specialist agencies, up 10.9%, so better than the average overall.

Geographically, good growth across all our major markets, notably the US, which in the first half accelerated WPP's growth. So, I think we're seeing an outperformance relative to the rest in the US. Again, a marked turnaround from where we were, sort of pre-pandemic, mind you our last quarter growth before the recent outperformance was Q1 2016. And growth in all markets except for China, we obviously due to the impact of lockdowns there.

I think that our business is stronger creatively. We were the most creative company of the year at Cannes in 2022, and Ogilvy was named Network of the Year. In our media business, we're ranked by

Comvergence, as the world's leading media group and that's reflected in a very strong new business performance, $1.6 billion in the second quarter. With good wins in the likes of Audible, Danone, Audi, and Nationwide. Actually a very solid group of wins across both our creative in our media business, probably a little bit more evenly split, creative and media this year than compared to last.

We continue to invest in the business both organically just like Everymile and Choreograph our data business, and through M&A - Bower House Digital, a salesforce marketing cloud company in Australia; and Corebiz, really a significant e-commerce company in Brazil and in simplifying the business to make it easier for our clients and to improve integrated service with the creation of EssenceMediaCom and Design Bridge and Partners.

The transformation program is on track, and we expect to deliver GBP300 million of savings this year, and given the position of the balance sheet, the strong position of the balance sheet, we were able to execute GBP637 million of our GBP800 million of program for share buybacks of the year, in the first half as well as raise our guidance. So, net-net, that means we are able to increase our guidance for 2022 net sales from 5.5%, 6.5% to revised guidance of 6% to 7%, really taking into account the outperformance in Q2, leaving our expectations for the balance of the year unchanged with the headline operating margin up around 50 basis points.
So that's our net summary for the first half, I'd say good start to the year, confident in delivering the balance of the year.

At that point, why don't we turn to any questions you have?

Q&A

Tim Nollen (Macquarie):
Hi, Mark, thanks for the comments. I'll ask, I guess, the obvious question which is your results seem fine, your guidance seems fine, and yet everyone is worried about what's going to happen next year, understandably I guess? But I guess, one number that sticks out to me from your slides, is the digital growth, I think if I got this right, was up 12% in the first half versus up 32% a year ago. So, what I'm wondering is – and you know, we've heard some comments from a number of ad-related businesses in the US who are talking about slow downs, whether already beginning in Q2 or hoping to happen in H2. So, I guess my question is, is this a quick cut to some spending in some digital categories that you may be seeing as well? However, your growth looks solid, because you have these general budgets, you do a lot of brand advertising, big blue chip advertisers that are continuing to spend.
Is this kind of the breakdown sort of quick digital cuts versus general marketing plans from global advertisers continuing? I'm just trying to understand the difference between your comments and outlook versus several other companies. Thanks.

Mark Read:
So, what we've said about this year, and what we said about next year is not dissimilar from what our peers said, which is broadly speaking, a strong demand in the first half of the year, no significant cuts by clients, likely to be a somewhat slower second half than the first half, and an uncertain 2023. And I think, I characterise that as pretty consistent across what our peers are saying.

In the first half of the year, WPP delivered 8% net sales growth, Google delivered 16%, Meta delivered 3%. So, within that context, I don't think that you can say, I think you would say that those companies that are facing a few more headwinds from a net sales perspective to my mind is more to do with either competitive dynamics, the nature of the clients that they have, or it is a result of a broader macro slowdown. If you look at the comments from Google, and they said things looks pretty stable. Amazon, I think they characterised market as strong, Comcast characterises as choppy, by which they meant some ups and some downs, but no overall slowdown. I think those companies that tended to do worst were - perhaps for obvious reasons - those companies who are most like to point to the broader macro slowdown.

So, I don't know that it's a broader macro slowdown or results in the competitive dynamics of those companies? But I think it's more like to be the latter than the former. Now that’s not to say that we aren’t facing more uncertain times in 2023. And I think as I said, we and most of our peers are looking for a slowdown, we are looking for things to be somewhat slower in the second half of the year than they are in the first, but I don't think you can say that those companies that have seen cuts in their budgets is down to sort of due to being cut more quickly or not, and maybe some of that may be.

So I think some of the froth has come out of the market and maybe some of those companies are a little bit more reliant on venture capital or venture capital-backed, app downloads, that type of nature of business you know the Gorillas or the – you know, those types of things, that might be it, but I think it's more like to be that, then it is macro slowdown so far.

John Rogers:
I think, Tim, this is John, just to build on Mark's comments. So that sort of 32% digital growth coming down to 12% digital growth. I think to your point also reflects SMEs, and also reflects the Chinese market, both of which from a market perspective, we sort of under-indexing relative to the size of the market. So that might suggest why our figures have been a little bit more robust than perhaps the broader market.

Tim Nollen (Macquarie):
Okay. I got it.

John Rogers:
Makes sense?

Tim Nollen (Macquarie):
Yes. Thank you, both.

Doug Arthur (Huber Research):
Good morning. We did a call with Brian Wieser, a month ago, and he was making the point and I don't know if you said this morning, it was a little early for me on the earlier call, but that China's weakness in the first quarter could provide a tailwind in the second half as it reopens and trade picks up. So I'm wondering if that's sort of something you’re expecting? That's question one.

Mark Read:
I don't think it's something that we're -- I think we're baking slightly better second half than first half in China, but I don't think our numbers depend on a massive change, in relatively small part of our business. It doesn't depend on a massive change in the Chinese situation really, no.

John Rogers:
I mean, there was a very stark contrast in performance between Q1 and Q2. So, the Mainland China Q1, we were up 11.9% and for Q2, we were down 6.1%. So that just showed the marked impact of the lockdowns in the second quarter. I think it's fair to say we would expect to see some recovery of that,

not probably to the levels seen in Q1, but certainly some degree of bounce back in the market in the second half given that contrasting performance Q1 to Q2.

Doug Arthur (Huber Research):
Okay.

John Rogers:
It's about 5% -- as Mark said, it's about 5% of our overall business. So, it's not insignificant, but it's not a large percentage.

Doug Arthur (Huber Research):
Got it, okay. And this second question which is probably more difficult to answer. But obviously, given all the work you've done on first party data, Choreograph client demand for solving-the-cookie issue, now that chrome is delaying the elimination of third-party cookies again. Does that help you? Hurt you? Or is it sort of a neutral You continue to work with your clients on new solutions regardless of -- under the assumption third-party cookies will be eliminated, it's not when it's just if?

Mark Read:
No, I think it doesn't change things really for us one way or another. It’s just another uncertainty, another change in the market that means clients need more help to navigate it. I think remain of a view that protecting consumer privacy is going to be an increasing part of the political or data protection landscape. I don't think we’re going to replace the cookie with another form of identity owned either by one ad tech company or something else.

I think it's pretty clear that the kind of wild west of data collection isn't right. And the data collection needs to be done with the permission of the consumer, so we're not looking to replace the cookie with another sort of unified ID system, and the data-driven marketing requires the integration of all sorts of data, not just sort of PII or purchase behaviour. So I think that’s a more complex data landscape, which clients need more advice. I think there are companies in the automotive, travel, financial services sector, that where a PII will be very important, and retail where PII is very important and that’s a lot of the work we do with WBA, and there will be other companies in packaged goods and pharma and healthcare where it will be less relevant. And we need to be able to serve both those sorts of client. But I think that broadly speaking the sort of extension of cookies on Chrome hasn't really been the major issue. The major issue has really been data collection on the iPhone, really. And what would happen if Android and the iPhone both coalesce to a much more strict.... because the interesting activity today is happening on web browsers, is happening on the mobile device. I think that's much, much more significant and that's what people have pointed to as the change.
So I would say, it's either one thing or the other for us in the main.

John Rogers:
I think just to add to that, I mean, the fact that the ecosystem is forever dynamic and changing and delays or no delays, I just think adds to the complexity and we've always said, the complexity, within the ecosystem, generally speaking, is good for us because we can help our clients navigate through that complexity. And the fact that the cookies are maybe around for another year longer, gives us more time to help our clients prepare for the new world. And obviously, we are doing a lot of engagements with the clients at the moment, looking at how they transition from the world of cookies to a different way in which we can target customers, going forward.

Doug Arthur (Huber Research):
Got it, okay. And if I could just sneak one more in, John in terms of margin performance, great revenue growth, the first half margins down, which is kind of what you've guided towards. 50 bps still the guidance improvement for the year. So what are the key parts of the operating leverage in the second half?

John Rogers:
Yes. So, as you said, the guidance that we gave in Q1 and the prelims is very much around 50 bps, being down year-on-year for the first half. I guess in a way the mix of that was probably a little bit different than what we expected. So a little bit tougher in relation to staff costs, a little bit better vis-a-vis the establishment costs, pretty much bang in line with where we expected on personnel costs and a little bit more recovery through the staff incentives. But the shape for the first half was maybe a little bit different. But when it all sum together down 50 bps in line with what we guided.

To get to our sort of 40 bps to 50 bps for the full year, requires the second half to be up roughly 120 bps again as we guided at the Q1 Trading Statement. And I think the shape of that will be, albeit there is margin for error of course in this, would expect on staff costs, pre-incentives, to see about a 75 bps decline impact on margin in the second half. We see establishment costs, maybe we'll see some upside of about 10 bps in the second half. On IT, maybe down about 10 bps or so in the second half. Personnel costs, probably an impact of about 20 bps down in the second half of the year. That’s clearly less than the 70 bps in the first half, because we're starting to annualise some of the travel that took place in the second half of last year. Probably an upside of about 10 bps so in other G&A. And then the consistent 200 bps on the staff incentives.

When you add all of that together that gets to roughly your 120 bps in the second half, which when you combine that with your 50 bps down in the first half, gives you an overall increase in margin of 40 bps to 50 bps for the full year. So that's sort of the shape of it.

I mean the one thing I'd caveat of course is there is always lots of moving parts and we adapt and we're very agile in our response to the market. We navigate our way through, so the shape can change, but we're pretty reasonably confident we can deliver that full year margin guidance that we've given

Matthew Walker (Credit Suisse):
Thanks a lot. I've got three questions, if that's okay. Hi, Mark. Hi, John.

John Rogers:
Hi there.

Mark Read:
Hi.

Matthew Walker (Credit Suisse):
First is -- hey, guys. The first is on the price rises that you talked about to offset inflation, you mentioned in the presentation. I think roughly 1% to 2% price rises -- or 1% to 2%benefit from price rises, I should say. And I think in the past, when we've talked, you said you’ve been able to get some increases through maybe one-third of the client base.

Maybe you could update us there, because I guess that suggests for the clients who are accepting a price rise, then that's roughly a sort of 3% to 6% increase for them. So maybe the percentage of clients who have access to the rise has expanded. So maybe you could talk about that a little bit. The second question was on -- obviously, the market seems a little sceptical or maybe not reacting that well to the uncertainty around 2023.

But John I was just thinking that the percentage of business coming from transformation. Maybe you could update us on that because let's say you have a, I don't know, I'm making it up now, but maybe a sort of 10% double-digit increase in transformation for your business that will provide a long way to the 3% growth, which would allow other areas to be flat to '23, and so maybe you could sort of talk us through your transformation business and how well that might grow and what percentage it is at the moment.

And then, finally on the buyback, obviously you look a little cautious in just maintaining it at the moment. Can you give us an update on what you expect your average net debt-to-EBITDA to be for the full year and any sort of big acquisitions. Well, not to tell us what the acquisitions are, but do you anticipate large acquisition spending in the second half?

Mark Read:
Why don't tackle you tackle the price rise stuff, and we can talk about acquisitions together. I mean, on acquisitions. I think we'll see what happens, I don’t think there is much more to say than that, we don’t anticipate large ones any more than we anticipate doing them or not doing them. John, why don’t you talk about prices and then I’ll talk about transformation spending as best we can.

John Rogers:
Sure. So, maybe if I think the buyback point price and leave you the transformation. Look, on buyback as we've very clearly said, we always planned to do GBP100 for the year. We've done GBP630 in the first half, we’ll do GBP170 in the second half, we'll likely do that GBP170 in Q3, I would imagine. And then we keep our options open. Mark has already alluded to the point around M&A, but again we'll keep our options open, at that point, we could do more buybacks. We could keep our powder dry and look for M&A opportunities.

In terms of where we'll exit the year from a net debt-to-EBITDA. I mean obviously there is lots of moving parts here and not least of which, what was already referred to with regards to acquisitions, but broadly speaking if you apply our guidance in relation to Capex, in relation to M&A, then we ought to get to a position at the year-end with a net debt of about GBP2.2 billion, GBP2.3 billion something of that order and a net debt-to-EBITDA, maybe 1.3 times, 1.4 times, maybe the bottom end of our 1.5 times to 1.75 times range. But that would be where we'd expect to get to for the full year, if you apply the guidance that we give, accepting the fact of course that M&A by stage can be lumpy. And so, we obviously will be partly driven by that.

On price rises. We've seen sort of the price increase probably 1.5% to 2% flow through, and to your point I think your math is right, when we talk about for roughly a third of our clients. Therefore, on average 3% to 6%, and I think that probably be about right. I think if you split it roughly a third, a third, a third. Third, we've managed to negotiate through. A third are sometimes contractual in nature, so we can effectively push price increases through straight away, and there is probably maybe just under a third to still go after, so we have a concerted effort to push price increases through in the second half building on what we've achieved in the first half. We can't do that on all clients because there are clients where it's largely fixed contractually over a period of six years, and you know until those contracts unwind, we won't be able to push further price increases through. But there is a little bit more work to do so, we will expect to see some upside on price increases come through in the second half.

Mark Read:
I mean on transformation, I was just trying to figure out how to answer your question. It's not, to be candid, sort of on its own a definition we look at. I think, maybe, the best way to think about it is if you look at our experience, commerce, and technology business; that's largely what people would call transformation, creating experiences, building ecommerce platforms, and implementing technology solutions for our clients. And that's about, we said 39% of our GIAs ex GroupM, they are 45% to 50% of the business. So 40% of 45% to 50% is about 20% of our business. So if you want to look at that as 20% of the business, I think you wouldn't be far wrong.

Now is that recession-proof? I don't think anything in the world is recession-proof to be blunt. So I think that, yes, it will grow. Yes. You know and we recently said that the future is uncertain because it's uncertain. I think that some clients will continue to invest in that area through what happens, and to the extent that these are multi-year programs, some of them are -- we have multiyear programs for some of our clients that will, that will persist.

In other cases, clients will put big projects on hold. So I wouldn't, you know, I think that it's good that we have a significant business in that area and I think that does put us in a good position, but I don't -- I wouldn't want to rely on that. I think what I'd look at it is, I think what we’ve said is not that different from our peers, and I think that's the way to think about it, really.

John Rogers:
I mean we have seen an increase in the GIAs over the last half on half of just under 1%. They said 38% to sort of 39%. I mean that's encouraging. And obviously it’s in these higher growth areas, which protects – all else being equal - protects our top line growth. I guess, we would probably make the case that potential volatility in the top line driven by the business cycle is likely to probably happen quicker than we're going to make the shift across into these higher growth sectors. So, to Mark's point, we can’t completely protect ourselves against the business cycle. But every move in that direction, every incremental piece of work we're doing in these higher growth areas, helps.

Matthew Walker (Credit Suisse):
Maybe if I can just follow-up with one quite briefly, which is Unilever has been an example of someone investing in the brand building to support price rises, if you look across your client base by, in terms of revenue, what percentage of clients do you think are taking that attitude and what percentage of your clients do you think are sort of more in wait and see mode?

Mark Read:
Well, I think continuing to invest. Actually, if I look across our major clients, and if I were to list them, let's say; Unilever, Coca-Cola, P&G, L'Oreal, Mondelez in the FMCG category. If I'd look at those in the technology category: Google, Microsoft; or in Pharma, Pfizer. I think they are all strong companies with desire to build their brand and continue to invest. And I think the commentary if you read through the earnings transcripts of the CPG companies, I think to a person, they talk to a desire to continue marketing investment and through, but we're not using that to convince ourselves that we are immune in the cycle either.

I do think that clients have recognised the danger of coming in and out, and I think they've also seen the benefit for those companies that invested consistently during the pandemic, came out in a much stronger position, so that's positive as well. And I think that's why we characterised 2023 as uncertain, because we have to see the breadth and depth of what happens and I think if it's a relatively soft landing then spend will continue relatively well, and it was a much tougher situation then perhaps it won't, but I think we were -- we called it uncertain for a reason because it is uncertain. I know it's not very helpful but I think it is what other people have said and we'll come back and tell you what we think it will be at that time. But I think the important point is that, compared to previous cycles, clients have a greater appreciation to the value of marketing. I mean, I heard the CEO of a company that was well known for ZBB just this week, regretting, saying that they have been over focused on cost reduction at the expense of building brands and marketing. They wanted to correct that. So I think the clients do understand that and that's one material difference.
I think the second material difference is the point you made about digital transformation, the need to engage in multi-year projects, the need to invest in some of these areas like commerce, transformation. I think that's very different from where we were in the past. I think the importance of data and ROI, and the ability, let's be honest, for clients to shift money from just building a brand into driving sales and it's much easier for clients using, let's say, retail media to drive sales. And so when times are tough, you might see clients invest more in marketing to drive sales, not just cut it because it's -- they can't see the ROI, which I think a better ROI would lead clients to invest more money. I think these are all reasons to believe that we might be more resilient in a future economic cycle than we have been in a previous economic cycle.

John Rogers:
I mean if you think about, first and foremost, if think about sort of short-term agility. I think, we were able to demonstrate through COVID for example how we can respond very quickly to external market changes. We are very good looking forward, we are very good and agile adapting our cost base in terms of hirings, indexing into freelancers, et-cetera. So we've got a good ability to manage the business from a cost perspective, whatever the business cycle may throw at us.

And then to Mark's point, on long-term perspective, I think we just very well positioned from where we were four or five years ago, the business has been restructured, we brought together our digital and creative agencies. We've got a much stronger balance sheet, the business is simpler. We've got continued structural cost-saving opportunities going forward in terms of our back office. We're facing into more and more attractive sectors. And as we highlighted the beginning of pivoting into the high-growth areas of commerce, experience and technology. So yes, I think we feel it is certainly an uncertain business environment facing into in the next 12 months, but I think we're very well positioned to face into that.

Matthew Walker (Credit Suisse):
Okay. That's very clear. Thank you, guys.

Tim Nollen (Macquarie):
Thanks for letting me ask one more. I'm afraid I've got a very boring dry modelling question if you wouldn't mind helping me with something, John.

Mark Read:
Oh, I am delighted. It's a real warm up to a question, describing it as very boring.

Tim Nollen (Macquarie):
That's why it's a follow-up there. And I know this came up on the call in London this morning. It's about the share of associates result line, I think you were saying -- that number was on a headline basis I think down pretty sharply.

John Rogers:
Yeah.

Tim Nollen (Macquarie):
I think you were saying this morning on the call that that was related basically to higher interest expense at Kantar. Can you just maybe elaborate on that? And then, what numbers should be used for the remainder of this year and next year for that line in our model? Thanks.

John Rogers:
Yeah. Look, I think -- to answer the question in reverse order. I think for the full year I would work on a number between GBP40m to GBP50m, which is clearly down year-on-year, but it is, as I said, primarily down to as a consequence of the acquisition of numerator by Kantar, obviously bringing on more debt, more interest cost and that's meant that the overall associate line has come down, but it's not reflective of an underlying performance business, actually the Kantar business is doing incredibly well. But it does mean mechanically and from a numbers perspective the associates line will be lower, I would say somewhere between GBP40m and GBP50m at the year-end.

Tim Nollen (Macquarie):
Okay. And for next year, we're back to a more normal level. I think that number was GBP80m or so last year, are we back to that given number, next year?

John Rogers:
Yeah. I mean, I'm very cautious about giving guidance into next year, simply because it is effectively driven by events. I guess all else being equal, it might normalise around that level but as we've evidenced in this year, events change that. So I think, to be honest I want to keep my powder dry there Tim. And I mean, we can give more specific guidance at the right time.

Tim Nollen (Macquarie):
All right. Yes, no, I didn’t mean to hold you to a '23 guidance. Just to make sure, its GBP40m to GBP50m this year versus GBP86m I think it was last year. Just want to make sure I've got the numbers right.

John Rogers:
Yeah, that's correct.

Tim Nollen (Macquarie):
Great. Thanks.

Operator:
Thank you. We currently have no further questions. So I hand the call back over to Mark for any closing remarks.

Mark Read:
Very good. So, thank you everybody. Thanks for your questions. Just one final comment to make, as we end the call, I thank Peregrine to his contribution in the last three years and he bows out over the next half hour. And thank you all for listening. I think it's been a good start to the year and we've got work to do in the second half as well. So thanks everybody. We'll see you on the next call or before.