WPP 2023
Third Quarter Trading Update

Teleconference Transcript

Thursday, 26 October 2023
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Operator

Good morning, ladies and gentlemen and thank you for standing by. Welcome to WPP 2023 Third Quarter Trading Update Conference Call and Webcast. At this time, all participants are in listen-only mode. Today's conference is being recorded.

At this time, I would like to hand the conference call over to WPP CEO, Mr. Mark Read. Please go ahead, sir.

Mark Read

Chief Executive Officer, WPP

Thank you very much, and good morning everybody, and welcome to our third quarter results. I’m joined here in London by Joanne Wilson, our CFO, and Tom Waldron from our Investor Relations team and we’ll just take you through the presentation before, before answering questions.
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On Slide 2 is our cautionary statement. I'd just like to draw your attention to this and ask you to read it.

On Slide 3, in terms of the agenda, I'm going touch briefly at the beginning on the highlights of our third quarter results. Before Joanne covers the financial performance in some detail, we'll take some time to go through the strategic update and then Q&A.
So highlights on Slide 4. I’d say that our third quarter was somewhat below our expectations with net sales down 0.6% taking us to around 1.2% growth on a year-to-date basis. We had expected performance in Q3 to improve somewhat on Q2 in part due to the easier comparatives. But we did see a continuation of the pattern of spending that we saw in the second quarter, you know, in particular reduction in spend by our technology clients. In fact, they were slightly worse from minus 9% in Q2 to minus 13% in Q3.

We also saw somewhat slower growth in GroupM, primarily in the U.S. and the U.K., a little bit in Germany due to a mix of factors, some technology impact, some around the new business performance in the U.S., and some client softness in the U.K. As a result, although the U.S. performance in Q3 is broadly the same as Q2, around minus 4.2%, minus 4.5% had a slower growth internationally from 5% in Q2 to 1.8% in Q3 taking down the overall performance. That’s really the key drivers of our top line for the year.

In terms of new business in a somewhat better Q3 after probably a tougher start to the year than we would have liked with wins in Estee Lauder in media, Nestle in media in Europe, Unilever, and Verizon. Importantly, we’re making two important moves to strengthen our offer, the creation of VML and the simplification of GroupM. I’ll come onto them intend to deliver around GBP100 million of in-year savings by fiscal year ’25 together with stronger revenue growth. We are making ongoing investment in AI to enhance our offer.

In terms of our guidance, given the results in Q3 and the desire to be cautious of the year overall, we’re lowering our net sales guidance to 0.5% to 1% for the full year with a headline operating margin excluding FX of 14.8% to 15%, i.e., an underlying improvement of 0 to 20 basis points on a like-for-like basis from last year.

Lastly, we do think it’s the right time to come back to you with a more comprehensive picture of our plans in action. The world is changing fast, a lot of developments, and we’re
at a point where there are many opportunities ahead of us, particularly with the application of AI to marketing that will drive revenue growth. We want to share those with you in a comprehensive way. So we’ll do that with the Capital Markets Day in January 2024 and at the same time address the actions we’re taking to deliver further efficiencies, including and on top of the steps we’ve announced today in the last few weeks, as well as margin improvement, which are equally important.

So that’s why I say by introduction of the overall results, just to touch quickly on the two major strategic developments, the creation of VML that we announced last week and the continued simplification of GroupM. The VML launch is something we’ve been working on for the last three or four months. It will be the largest creative agency in the world.

The goal is to bring together two strong creative agencies. These two agencies have significant capabilities in data, digital marketing, technology, and e-commerce. We believe the combined company with 30,000 people will have to scale, deliver a stronger and more integrated offer to clients. They’re also two very complementary companies, VML, Y&R probably stronger in the U.S., Wunderman Thompson probably stronger internationally, and it’s quite a complementary footprint.

They do serve a number of the same clients and this will make it easier for those clients to have an integrated offer. And VML will be stronger in creatively and in experience and Wunderman Thompson in data and commerce, again, on a complementary basis. And importantly, it means that our ongoing investments in AI and technology capabilities will be made once and not twice.

The second development is part of the ongoing synergy program that GroupM have been tackling. Again, it's not totally new, but an acceleration the plan have been working on that's designed to refocus the business and improve service to clients, ensure we’re more competitive. It’s very important right now, particularly in the United States. I’d make the point that GroupM really is a very strong company. We’ve seen 23% total growth on a
four-year basis for 2019. So we’re dealing with one of the stronger parts of our offer. But we believe, and so does the GroupM leadership, that we can do better, and we’re determined to do so. The basis of simplifications really to continue to have the same three client-facing agencies, Essence, MediaCom, Mindshare, and Wavemaker, but have them focus on clients while drawing on a more common set of products and a common technology platform that serves each of the agencies or all of the agencies.

From a client perspective, it shouldn’t be a radical move, but it will allow us to invest more effectively in the offer to simplify the business, to put our best people against our biggest opportunities, as well as easily unlocking further efficiencies in our back office.

The last point to make, these two agencies represent about 62% of our business, so it’s pretty significant in the context of the group overall.

So, with that as an introduction, I’ll turn to Joanne to take us through the financial performance.

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**FINANCIAL PERFORMANCE**

**Joanne Wilson**

*Chief Financial Officer, WPP*

Thank you, Mark, and good morning, everyone.

I’ll talk a little bit more about the expected financial benefits from VML and the further integration of GroupM later. But first, let me take you through the financial results for the third quarter.
So, starting on Slide 7. Revenue less pass-through costs fell 5% on a reported basis and was down 0.6% on a like-for-like basis. Reported growth includes a 5.5 percentage point headwind from FX due to sterling strengthening year-on-year and a 1.1 percentage point contribution from acquisitions.

As Mark shared, the quarter was impacted by a continuation of the cautious client spending patterns we saw in Q2, particularly at technology clients, and also weaker quarter-on-quarter performance in media.

Moving on to Slide 8. Global Integrated Agencies were broadly flat year-on-year in the quarter with growth of 0.1%. Within this, GroupM, our media planning and buying...
business grew 1.6%, a slowdown versus H1 as a result of lower spend from technology clients and the impact of client losses in retail and CPG in the U.S.

Together, these contributed to low single-digit growth in the U.S. and the U.K. in the quarter. GroupM grew well in Asia, and we saw continued strong growth in digital programmatic and connected TV advertising, driving the share of digital to 51% of billings in Q3, up from 48% a year ago.

Across our integrated creative agencies, we saw a like-for-like decline of 1.1%, a slightly better performance quarter-on-quarter. Ogilvy benefited from new business wins and delivered continued strong growth, offset by declines at our other creative agencies. As in Q2, those agencies continued to be adversely impacted by reduced spend, primarily across tech sector clients and longer lead times for new business and project-related work.

Moving to public relations, which is around 10% of WPP, revenue less pass-through costs declined 0.9% in the quarter. Within this, FGS Global, our leading strategic advisory and communications consultancy, continued to deliver strong growth. However, this is more than offset by a decline in BCW and Hill & Knowlton, which saw broad-based cautious spending patterns from clients. And finally, our specialist agencies, around 8% of WPP declined 6.8% with CMI’s continued strong growth offset by declines in smaller agencies.

Slide 9 highlights performance across our geographic segments. North America declined 4.1%, consistent with Q2 performance and with similar client spending drivers, reduced spend from technology clients and client losses in the retail sector. This is despite good growth in some other sectors, such as CPG, healthcare, and financial services.

The U.K. slowed in Q3, growing at 1.1%, with a broad-based slowdown across our media and creative agencies. CPG and healthcare led growth offset by weakness in tech and retail compared to Q2. In Western Continental Europe, strong performance in Spain and
some smaller markets offset declines in Germany as a result of the macro weighing on client spending, and France due to client losses.

The rest of world saw continued growth in the quarter led by India, where like-for-like growth accelerated to 7.3% with a strong performance in media, on new business wins, and in Ogilvy.

We also saw continued growth in Latin America, Central and Eastern Europe, and the Middle East and Africa. China, like-for-like net sales fell 4.2%, a weaker-than-expected result due to the uncertain economic environment which primarily impacted our integrated creative agencies.

Now moving to trends across our key client sectors on Slide 10. We again delivered strong growth in consumer-packaged goods, our largest sector, which grew 14.5% in Q3, driven by both our work with Coca-Cola Company and other CPG clients.

Across other sectors, telecom, media, and entertainment, and automotive improved in Q3 delivering year-on-year growth. Healthcare slowed a little and retail remained a drag, reflecting client losses. Technology and digital services continued to dominate the overall picture, falling 12.7% versus 8.7% year-on-year in Q2, as we saw a small number of U.S. tech clients also cut spend in media.
Moving on to guidance for 2023 on Slide 11. We are now expecting like-for-like revenue less pass-through costs to grow by 0.5% to 1% for the full year. This compares to previous guidance of 1.5% to 3% and reflects the continued challenging macro environment and more cautious client spending patterns, which have impacted our Q3 performance more than we anticipated. We expect these trends to persist in Q4.

We remain focused on delivering margin progression with full-year margins now expected to be between 14.8% to 15% on a constant currency basis. Previous guidance was around 15%. We expect a 1 percentage point headwind to reported net sales from FX over the full year on profit or mixed means. We still expect to have an adverse impact of 25 basis points on full-year margin based on current FX rates.

We continue to expect around GBP400 million in restructuring and property impairment costs in FY ’23. This assumes a small amount of costs associated with the creation of VML, which we expect to be sub GBP10 million. Net debt at the end of Q3 was GBP3.9 billion compared to GBP3.5 billion at Q3 2022.

Consistent with the seasonal nature of our business, we expect net debt to fall to around GBP2.6 billion by the end of the year, which would leave a broadly flat year-on-year. Within that, we expect trade working capital to be flat and nontrade working capital to be GBP150 million outflow at the end of the year.

We expect our average leverage ratio to land slightly above our target range of 1.5 times to 1.75 times as a result of lower profit and timing cash flows throughout the year. Guidance on associates, tax, and CapEx is unchanged.
Moving on now to Slide 12 on our VML and GroupM strategic initiatives. Mark will talk more about the strategic rationale for these initiatives and how they build on the simplification and the transformation work our teams have done over the last five years.

VML will be the world’s largest creative agency, and the actions at GroupM will make its business simpler for our clients with a stronger go-to-market proposition and a more efficient operating model. Together, these two businesses will account for over 60% of WPP’s net sales and headcount.

These initiatives will enable us to unlock scale benefits and optimize our back office across both our creative and media businesses. Scale benefits will come from three main areas, a simplified and scaled organization structure as a result of consolidation of units in each market and across regions, optimization of how we utilize resources across our front and middle offices, and finally, from enhanced offshoring operations.

We will also optimize our back office and support functions by centralizing and consolidating some of our finance, HR and IT support further simplification across our smaller markets, including reducing our legal entities and better leveraging our back office shared services.

We expect to deliver net annualized cost savings of at least GBP100 million in 2025 as result of these actions with around half of this landing in 2024. We will share further details on those savings at our Capital Markets Day in January.

So thank you, and I will now hand you back to Mark to update you on our strategic progress.
Thanks very much, Joanne.
So, turning to our strategic progress on Slide 14. We talk to the evolving needs of clients, and we continue to involve our offer, the creation of VML, the simplification of GroupM, the recent acquisitions in the area, influencer marketing, the continued investment we’re making in production through Hogarth. All of these are shaping our offer to meet changing client needs.

Secondly, creatively, because you invested our creative product. Here, I’d pulled out the success of Ogilvy under Devika and Lisa’s leadership, its recent win of the Verizon business both B2B and now B2C and its recognition of Adweek’s Global Agency of the Year, always growing well between 3% to 4% year-to-date. And this is in large part down to its creative rejuvenation under their leadership, and many of the talented executives that they brought in, as well as those that are already in the business.

Thirdly, technology and AI are increasingly important to our work and to our clients. We’ve shared with you on these calls over the year many examples of work that we’re doing, and we continue to have examples. What we’d like to do now is come back to you in January with a much more comprehensive view of our overall approach and investment roadmap in AI and demonstrate how we can really transform the work that we do with clients using these new tools.

Fourthly, we continue to be focused on simplifying WPP structure and gaining the benefits of scale. And the announcements today mean that our last five largest companies, GroupM, VML, Ogilvy, AKQA and Hogarth now represent about 82% of the Company's significant progress in terms of simplifying the business, providing us with the benefits of scale, and supporting the transformation program on the back end of those businesses.

And lastly, people, we continue to attract top talent. Corey duBrowa is really making progress at BCW, bringing new talent into that public relations, public affairs company, and I expect we'll see the impact of that on the business over the coming months.
Returning to new business. We said at the first half of the year we did have a tougher new business performance in the first half. Part of that was down to a series of ongoing reviews in media. Probably had more than our fair share of business up for review, but we didn’t win everything that we would have liked to win. It’s going to have an impact on the business, but we’re very focused on improving our competitiveness. I don’t believe there are systemic or structural issues, nor does it reflect our talent and capabilities. And we can and we will do better.

I would note a couple of wins, both creatively and in media. Particularly important was the Nestle Europe win against, you know, really very tough competition and a very demanding set of requirements from the client, from media partner to really help them transform their business across Europe.

I’d also note the win that was announced yesterday is the PayPal media business in the U.S., which demonstrates what our business can do in terms of new business scripts.

As I mentioned, you know, our work in creatively and effectively has been recognized. You can see on Slide 16 Ogilvy’s recognized Global Agency of the Year, the Game Theory Recognition, and the VML, Y&R Network, Network of the Year at the New York Festivals.
So, turning on Page 17 to VML. You know, I would say that the launch has been very well received by our clients and the markets. There are two quotes here from respected industry analysts and point to the need for simplification. There was also a WFA report a few weeks ago that made the same point.

You know, the creation of VML is very different from the VML, Y&R Wunderman Thompson mergers that took place nearly five years ago in 2018 that brought together analogue and digital agencies. This is really about bringing together two of our most successful agencies, each of which has a broad set of capabilities that are complementary and will build a stronger Company. We’re looking forward to sharing the capabilities of new agency at our Capital Markets Day and demonstrating what they can deliver to clients. This offer does go a long way beyond traditional creative advertising. We did talk long and hard about changing the term creative agency to better describe the broad range of work that they do, and I think you’ll see that in their expertise across e-commerce, data management, experience, CRM, influencer marketing.

It’s a very different business from the sort of idea of, you know, TV and press ads, a very strong capability around the world, strong partnerships and particular strength in ecommerce, proficiency in technologies, in Shopify, Adobe, and Salesforce. In talking to clients, they’re very interested in the opportunity that the new agency can deliver to them and keen to see how it can help them to build their business. It will launch in January 1, 2024, and the teams are working hard now to bring the offer together.
On Slide 18, we talk to the continued evolution of GroupM. As I mentioned at the start, GroupM has been on a journey of simplification, and we've decided to accelerate our plans. GroupM will remain a structure very much led by agencies dealing with clients and ensuring that client conflict can be managed. But the products, media platforms, technologies and back-office services such as finance and HR will be consolidated into one organization. We can see significant potential in this to refocus resources on client facing activities with our best people and our biggest opportunities. We have great talent, we will have greater talent fluidity across our organization and also accelerate our ability to standardize, automate, and offshore activities. Again, we'll show further details of this move together with the cost efficiencies at our Capital Markets Day.

**SUMMARY**

- **Continuation of Q2 client spending trends**
  - Performance in Q3 impacted by the cautious spending trends we saw in Q2, particularly across technology clients
  - Greater impact felt in GroupM than in H1 from these trends

- **Continued strategic progress:**
  - Creation of VML as a powerhouse of creativity, data and technology
  - Simplifying GroupM to leverage scale in media
  - Focused investment in enhancing our AI offer

- **Capital Markets Day in January 2024** to focus on our strategic roadmap over the next three to five years
So, in summary, on Page 19, it was, as I said at the start, a quarter where we didn’t meet our expectations we had earlier in the year. We have seen a continuation of the trends that we saw in the first half with cautious spending from technology clients in particular, continuing from Q2 to Q3 with some softness, although still growth at GroupM in Q3 after a very strong first half.

We are though continuing to make strategic progress because we think these are the right moves as well as because they will address some of the challenges, we’ve seen in the last six months. We’ll come back to you in January with a comprehensive plan that will tackle the opportunities ahead of us and how we can deliver sustained organic growth, the efficiencies we can make in the business. Because the actions we’ve covered today as well as the other steps that we’re taking and the net impact that these would have on our operating margin.

Lastly, before I finish, I do want to reference recent events in China. We’ve been asked by the authorities in China not to comment on the specifics, so I’m limited in what I can say at the current time. But I can assure you we take it very seriously and take an immediate action. We have dismissed the Executive involved who work for us and stopped dealing with the third parties who are alleged to be involved. We have senior leaders both from within China and outside China who have stepped in to manage it and instructing independent experts to carry out an independent investigation. At this point, that’s all that we can say.

So, thank you for listening and we’ll now take your questions.
Q: Tom Singlehurst

Thank you. It's Tom here from Citi.

I am going to start with the VML, GroupM reorgs. Because obviously, you know, in the short term, we're obviously very focused on the savings impact. But I'd love to get your sense of how we should think about the impact on revenue and how that's phased.

Firstly, in the short term, is there, you know, a likely revenue dis-synergy from any potential client conflicts? Or is that less of an issue than it might have been in the past? And then, and then secondly, on the basis that this drives a better operating model stroke go-to-market, you know, will that revenue benefit be dependent on client account win? So it's going to be pushed out till 2025? Is that how we should think about the, you know, the phasing of revenue?

A - Mark Read

Yeah. So, I think that, you know, the world is changing rapidly, and I think that scale matters in marketing more than it did, you know, one year ago or indeed five years ago. So, I think further action was needed. In the previous combinations that we did, albeit they were different, we saw very little in the way of client losses actually. And we have actually virtually no client losses at either VML and Y&R or Wunderman and J Walter Thompson. If anything, the moves there stabilized both businesses enabled us to get our hands around the clients much more effectively. This is different in the sense of bringing in case of VML two complementary companies together. But again, the reaction from clients has been very interested. They're keen to see what new capabilities they can have access to. Because the businesses, you know, they're similar, but somewhat different in terms of their strengths. And I think that this will enable us to get our hands around those clients, bring them new capabilities, and have different conversations. A chance in a way for clients to reevaluate the work that they do. And in an environment where clients are looking to simplify their own relationships, I think it puts us in a stronger position. I don't want to talk about the sort of timing of revenue benefits, but I would say that it is intended to bring revenue benefits.

Again, when we went through sort of 2021, the consolidation of a number of our long tail offices, combining smaller businesses in the sort of far-flung parts of the world, we did see those combined agencies grow faster with higher margins after the event. So, I do think we will create, particularly in the case of VML, a stronger business.

From a GroupM perspective, I think it will be a question of, over time, shifting our resources from some of, let's say, the back-office activities that are duplicated across three agencies to providing stronger and more competitive media products and technology platforms into those businesses will take some time for that to work its way through. But I do think that we'll see improved new business performance from, as a result, and that will continue over time. So, I would stress that we're doing this to make the offer more competitive. We do believe that will, that will support stronger revenue growth, but there are, you know, cost savings, at least GBP100 million, and we'll come back to you at the Capital Markets Day with a bit more detail on that. And I stress again that those are, those are net savings, rather than gross savings.
**Q: Tom Singlehurst**

Very clear. And one quick follow-up. I mean, coming back to new business. I mean, as you mentioned, you’ve had maybe a tough run of luck in terms of defending more than you’re attacking, if that’s the right terminology. But should we think about the new business challenges as purely a sort of U.S. new business challenge and then linked to that, I mean, you talked about GroupM and the benefits of simplification. But if you really need to drive scale, is there anything else you can do to try and, you know, fundamentally address that sort of lack of scale in U.S. media?

**A - Mark Read**

Yeah. I think that the issues you had in your business are primarily in the U.S., and, you know, without blaming GroupM, primarily at GroupM in the U.S. We had a tough few months, you know, really, April, May, you know, for the next three or four months. I point out that we won, the PayPal business in the U.S. yesterday. And the Nestle win by GroupM in Europe obviously demonstrates the strength of that business. So, I think that there’s work to be done. You know, GroupM, North America is about 12% of the Company overall. I think on a combined basis, the offer is very strong. So, I think it’s really about execution.

**Q: Tom Singlehurst**

Very clear. Thank you very much.

**A - Mark Read**

Thanks, Tom.

**Operator**

Thank you. Our next question comes from the line of Julien Roch of Barclays. Your line is now open. Please go ahead.

**Q – Julien Roch**

Good morning, Mark. Good morning. Good morning. First question is on account wins and losses. You had a couple of big ones. But a lot of small ones, sorry, a couple of big losses, but a lot of smaller wins. So, when we put everything together, what do you think will be the impact on organic next year of the ’23 wins and losses? That's my first question.

The second one in answering Tom, you highlighted some losses at GroupM in the U.S. And you said you had work to do. So, could you give us a bit more detail on what you need to do to go back to being best-in-class in U.S. media?

And then lastly, on the Investor Day, will we have some mid-term financial target? Or will it be more of a qualitative review of the business? Thank you.

**A - Mark Read**

Yeah. So I think on the accounts and wins and losses, you know, as things stand today, it’s probably a slight headwind, there is a strong pipeline. There’s a lot of opportunities
in the pipeline, and, you know, we have had success. We lead the new business table in media in Asia. You know, we're in a very good position in the new business table in media in Europe. And I will point out that all these new business tables primarily really just apply to media, which is only about 37% of our business.

From a GroupM perspective, if I’d say the changes that we’re announcing sort of publicly today, but underway, will start to address those issues in North America. And for the Investor Day, we’ll give you, you know, a full meat and potatoes presentation, everything that you will need, Julien.

Q - Julien Roch

Okay. I love meat and potatoes. Thank you very much.

A - Mark Read

Thank you.

Operator

Thank you. Our next question comes from the line of Lisa Yang of Goldman Sachs. Your line is now open. Please go ahead.

Q - Lisa Yang

Yeah, good morning. Thanks for taking my, my questions. Yeah, I appreciate you’re going to talk about the plans and actions at the CMD in more detail, but just, you know, at this point what you can share with us in terms of your plan, the timing of return to growth in the U.S. It feels like, you know, based on what you're doing so far, the issue is more about the simplification execution rather than the capabilities. So, could you confirm that and can you confirm you don't need to go out and maybe reinvest more or buy something to improve your capabilities? So that's the first question.

The second one is, I just wonder what has sort of really changed in terms of a client conversation since, you know, you cut the guide already early August and what sort of feedback you’re getting from clients for the rest of the year, how they think about 2024? Are you seeing any signals of bottoming out, for instance, in China or in tech?

And the third thing is I noticed you haven't reiterated your midterm target. So maybe to go back to Julien's question, just wondering like do they still hold, or we should basically just wait for the CMD and look for an update? Thank you.

A - Mark Read

Okay. Can you just clarify the last question, Lisa? An update on what?

Q - Lisa Yang

Yeah, I just noticed you haven't reiterated your midterm targets, you know, 3% to 4% net sales growth and 15.5%, 16% margin with today's press release. So just wondering do
they still hold? Or are you just working away or we just -- you know, we should be waiting for an update at the CMD?

**A - Mark Read**

Yeah. I think, I think that they stand as they are today, and we'll update the midterm targets at the CMD. In terms of new business, I think that our capabilities are strong. I think it's really a question of execution and we need to improve, you know, our execution on the day.

In terms of client conversations, I'd say that it's pretty clear that spending by tech companies has been significantly impacted. I'm sure you saw Meta's results last night. They announced a 24% reduction in their marketing spend and we've seen that across a number of technology clients. So that has undoubtedly impacted us. And we saw the impact of technology spend down 9% in Q3, down 13%, sorry, down 9% in Q2, become down 13% in Q3, and some of that spread from the U.S. more internationally. So that has been probably the major impact that has weighed on us.

I don't think that the macro environment has improved. I describe client conversations as in the main cautious. At the same time, you know, as we discussed in the past, there are a number of clients, particularly in the consumer-packaged goods area, that continue to invest. Our CPG spend was up 15%. Seven of our 10 client categories increased their spending in the year.

**A - Joanne Wilson**

Yeah. Hi, Lisa. Just in terms of the guidance, so we've reduced it, as we said, to 0.5% to 1% for the full year. And what does that mean for Q4 so at the bottom end, minus 1% like for like and at the top end plus 0.5%. So, you know, as Mark said, we've been cautious on the bottom end. So, you know, our performance in Q3 was below where we were expecting to. We've reflected some of that into the guidance. So, continuation of trends that we've seen in Q3 guide into Q4 and we've got tougher comps in Q4. So that reflects that.

And at the top end, you know, it's really an improved performance and that's off the back of an acceleration in GroupM, which we expect to see quarter on quarter, and we continue to see, you know, within that top end some of the trends persist in Q4. So that's really how we're thinking about the balance of year. I mean, you asked about 2024. Of course, we'll give fuller guidance on that early in the new year. But in terms of how we're thinking about it at the moment, we have seen a, you know, a tougher second half than we've seen in the first half. And therefore, you know, the macro and tech coming back will be important considerations. Obviously, in Q2 next year, we'll start to lap that sharp fall-off in tech that we have seen this year. Mark has talked about some of the, you know, the net client wins and losses, and we were encouraged by new business in Q3. So, as I said, we'll give a fuller update on 2024 early in the new year.
A - Mark Read

I mean, I'd add to that, Lisa. You know, tech has definitely weighed on us this year and weighed on us, you know, increasing as we go through the year. I would expect it to reverse next year, and the question is going to be at what point in the year, you know, it reverses. But I do think that, you know, these are significant companies. They're making major investments, have a lot of new product launches ahead of them, and they are major advertisers and need to communicate to customers, both business and personal, and indeed, to regulators and decision-makers around the world. So I think that they will come back to investing in marketing. What's happening today is really a combination of sort of an efficiency play by some of them, and then a pause around new product launch and new product development, you know, by others.

Q - Lisa Yang

That's really helpful. And quickly on China, are you seeing any signs of that market bottoming out?

A - Mark Read

No, I think that we saw, you know, a better Q2, a worse Q3, and I'd say the macro environment in China is, remains, cautious and uncertain. I saw reports yesterday, maybe they hit their 5% growth target. That would imply a little bit of a rebound in Q4, but I think the range of our guidance reflects, you know, the range of outcomes in China along with everything else.

Q - Lisa Yang

Okay. Very helpful. Thank you.

Operator

Thank you. Our next question comes from the line of Adrien de Saint Hilaire with Bank of America. Your line is now open. Please go ahead.

Q - Adrien de Saint Hilaire

Thank you. Good morning, everyone. So, I've got a few questions, please. So, first of all, I know this is a Q3 call, and it's probably premature to talk about '24, but do you think that Q3 and the Q4 guidance that you gave, is that a good way to think about the start of 2024 as well?

Secondly, could you comment how much like-for-like growth you'd need in '24 in order to grow your margins? And then, so leverage is ticking up and it's now guided to be at the upper end or above the range. Does that change your capital allocation strategy and how you think about spending on M&A dividends, et cetera? Thank you.

A - Mark Read

Joanne, why don't you tackle that.
A - Joanne Wilson

Yeah. So, yeah, let me just explain the leverage point. So obviously, as you all know, our ratio is an average leverage through the year. We expect that to be slightly outside the top end of our range, and that's really driven by timing of cash flows through the year, but also just the lower profit than what we were anticipating at the start of the year.

In terms of a quantum net debt, we expect it to be broadly flat, maybe slightly up on last year. So based on that and as we look forward, I would expect leverage to come back within the range in 2024, Adrien.

In terms of our capital allocation, you know, we, as we look at it, I would like our leverage to be down more towards the lower end of the range. And so we're focused on that and our cash conversion to support that. And we are very happy with our dividend policy of, you know, 40% payout and not reviewing that.

And then on M&A, I would say that we've been disciplined on M&A. So, we talk about spending GBP300 million to GBP400 million a year on M&A. We tend to buy in high growth businesses which enhance our capability, and there are, you know, revenue synergies as we integrate those businesses into our agencies. Great example of that is the influencer marketing businesses we've bought today. And so, we will continue to focus on those, I guess, smaller opportunities in the next 12 months.

And then let me just take your next question in terms of what like-for-like do we need in 2024 to grow our margin. I mean, that's not really how I look at it. And we'll give fuller guidance on 2024, you know, in next year, early next year. But we've talked about VML and GroupM. We should see those, or you should consider those in the way that we do as an opportunity to accelerate our growth.

And we'll talk about that at Capital Markets Day, give a little bit more colour on that, but also to deliver efficiencies across the business. And I shared where those efficiencies will come from. Some of it will be from our regional or market structures, but also it will accelerate what we're trying to do on our back office and across finance, HR and IT, and improve utilization. So as we look at that, we'll see, we'll get a benefit, a part benefit from that in 2024. And there are other initiatives that we're looking at to improve our overall margin so that we're not dependent on like-for-like to continue to progress our margin. You know, as we look at it over the next kind of one to three years, we're very focused on accelerating our top line, but growing our bottom line faster. And as Mark said, we'll share a little bit more of that at the CMD.

In terms of, you know, your first question you asked about 2024, maybe I'll just go a bit deeper into some of the things I shared with Lisa on how we're thinking about 2024. So obviously, we're going to be exiting this year. You know, our second half has been weaker from a top-line point of view than the first half. And that's really been, you know, as we've talked about the macro and tech clients weighing on our top line. And so, you know, key determinants will be, you know, what happens to macro and what happens tech clients will start to lap that tech client drag from Q2. And also with some of the, we've talked about some of the notable losses this year, but we've also seen more new business wins in Q3. So we would look to mitigate those losses from new business wins. And we've got
a strong pipeline and a stronger pipeline than we had last year. And Mark talked about some of the recent new business wins.

And so as I think about 2024, I think the actions that we're taking and the momentum that we've gotten business as part of that will really help drive that top-line growth. And we'll give more detail in January at the Capital Markets Day. So really that’s I guess how you should think about 2024 and some of the levers and we'll give fuller guidance early in the new year.

Q - Adrien de Saint Hilaire

Thanks, Joanne.

A - Mark Read

Thank you, Adrien.

Operator

Thank you. Our next question comes from the line of Richard Kramer at Arete Research. Your line is now open. Please go ahead.

Q - Richard Kramer

Thanks very much. It's Richard Kramer from Arete. Hello, Mark. Two things. You mentioned growth in programmatic and CTV and there's a lot of focus on transparency in the ad tech supply chain. As you merge functions into GroupM, do you think you can grow by taking DSP or other ad tech functions in-house and take more of that supply chain value?

And maybe a second quick one with the tech client spending declines you've cited, can you talk about whether that extends to retail media, which seems to have been one of the rare bright spots in tech spending, or maybe that's reflected in the very good growth you're seeing in CPG? Thanks.

A - Mark Read

So, I think the first question is an interesting one and I hadn't thought about it directly in those terms, but I think that you're right. I think that, you know, within Nexus, by having a common technology, you know, common set of media products and a common technology platform, we will be able to better serve our clients in the programmatic and tech-driven media space. I mean, one of the reasons we're doing it is that effectively all media will be digital. You go to China today, only 3% of media is traditional television. And so we are going to need to have common systems that apply across all of those channels. And one of the things we've done in Nexus is, you know, we used to have Xaxis that did programmatic display, Finecast that did connected television. Another group that did digital out-of-home makes no sense whatsoever, right? They're all just digital channels addressed through, effectively, the Internet. And so, I think that the reorganization will enable us to provide a common technology platform to allow clients to optimize their media across all of those platforms in the right way, and at the same
time to capture spend that may go to outside technology providers. And by better investing in technology to support that business, there will be, there will be opportunities.

In terms of the tech client retail media platform, look, I don't think in the main technology companies are major spenders on retail media. You know, some of them do have product-related businesses, you know, Oculus-es and Nest's and other, you know, phones. But in the main, they're really supporting their services businesses and their brand and their services business. So, I don't think it really had a major impact and maybe one of the reasons why retail media is growing. I think a lot of what's going on through retail media is really just a reclassification of spend from sort of traditional sales channels, which we may not have captured into retail media. Not, in fact, totally different from what happened, 25 years ago in Search, where what used to go on Yellow Pages, if you remember them, went to Search. So, I think you're seeing some of the same trend really happen in retail media.

**Q - Richard Kramer**

Okay. Thanks very much.

**A - Mark Read**

Thanks.

**Operator**

Thank you. As there are no additional questions waiting at this time, I would now like to hand the conference back over to Mark Read for closing remarks.

**Mark Read**

Thanks very much. Thanks, everybody, for listening. We look forward to seeing you again in January. We'll come back to you with a comprehensive picture of the opportunities ahead of us, particularly the impact of AI in our industry, what that means for WPP, and how we can help our clients. We'll also address the need for further efficiencies and margin improvement and demonstrate how, in an integrated fashion, we can deliver stronger returns to our shareholders. Thanks everybody for listening, and you can follow up with us directly if you've got any questions.