WPP 2023 First Quarter Trading Update

Teleconference Transcript

Thursday, 27 April 2023

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Operator

Good morning, ladies and gentlemen and thank you for standing by. Welcome to the WPP 2023 First Quarter Trading Update conference call and webcast. At this time all participants are in listen-only mode. After the speakers' presentation, there will be a Q&A session. Today's conference is being recorded.
Now, I'd like to hand the conference over to WPP CEO, Mark Read. Please go ahead sir.

First quarter highlights

Mark Read

Chief Executive Officer, WPP

Good morning everybody and welcome to our 2023 First Quarter Results Call. I'm here in Sea Containers with John Rogers, Tom Waldron and our Investor Relations team. And I'll just take you briefly through the highlights before John takes you through our financial performance, and we'll come back close to the end and take your questions.

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On page two of the presentation, you should note our cautionary statement which is important.

AGENDA

- Q1 highlights
- Financial performance
- Q&A

WPP 3

HIGHLIGHTS:
CONTINUED MOMENTUM AND INVESTMENT

- Q1 2023 like-for-like revenue less pass-through costs growth **+2.9%**
- **Growth in all segments:** GIA +3.0%, PR +2.2%, Specialist Agencies +1.9%
- Strong performance from GroupM +6.1%
- Winning work: topped WARC 2023 rankings; **$1.5 billion** of net new business in Q1
- Continued investment in client offer: acquisitions in data and media-led influencer capabilities, and establishment of new tech partnerships
- KKR to take minority investment in **FGS Global** at a valuation of **$1.425 billion**
- 2023 guidance unchanged: LFL revenue less pass-through costs growth **3-5%**; headline operating margin of **around 15%**[1]

1. Excluding the impact of FX

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Turning to page 3 and then 4, highlights of the first quarter. I think we had a positive start to the year reflecting continued momentum in the business and continued investment in our offer. We delivered first quarter growth of 2.9%, I think pretty much in line with our expectations or maybe even very slightly ahead. Again, probably the toughest comp of last year. We saw growth across the business at 3% in our integrated agencies, 2.2% in our public relations, public affairs and 1.9% in our specialist agencies. And I should just call out a strong performance from GroupM at 6.1% and also strong performance from Ogilvy.

We continued to improve our work. We topped the WARC, the World Advertising Research Council ratings in media, in creative, and effectiveness in all three categories and delivered $1.5 billion in net new business in Q1. I should also point out Ogilvy won the agency of the year at the Clios two nights ago, reflecting continued investments in our creative capability. That's been supported by acquisitions particularly in influencer marketing as we made two acquisitions and will come on to this later and a series of partnerships.

KKR took a minority interest in FGS Global, and I will talk a little bit about that later on and what that means for us. And then overall after positive first quarter we're leaving our guidance for the year unchanged, which remains at like-for-like revenue at 3% to 5% and a headline operating margin of around 15%. So those are the highlights.

John, you want to take us through the financial performance in more detail.

John Rogers

Chief Financial Officer, WPP

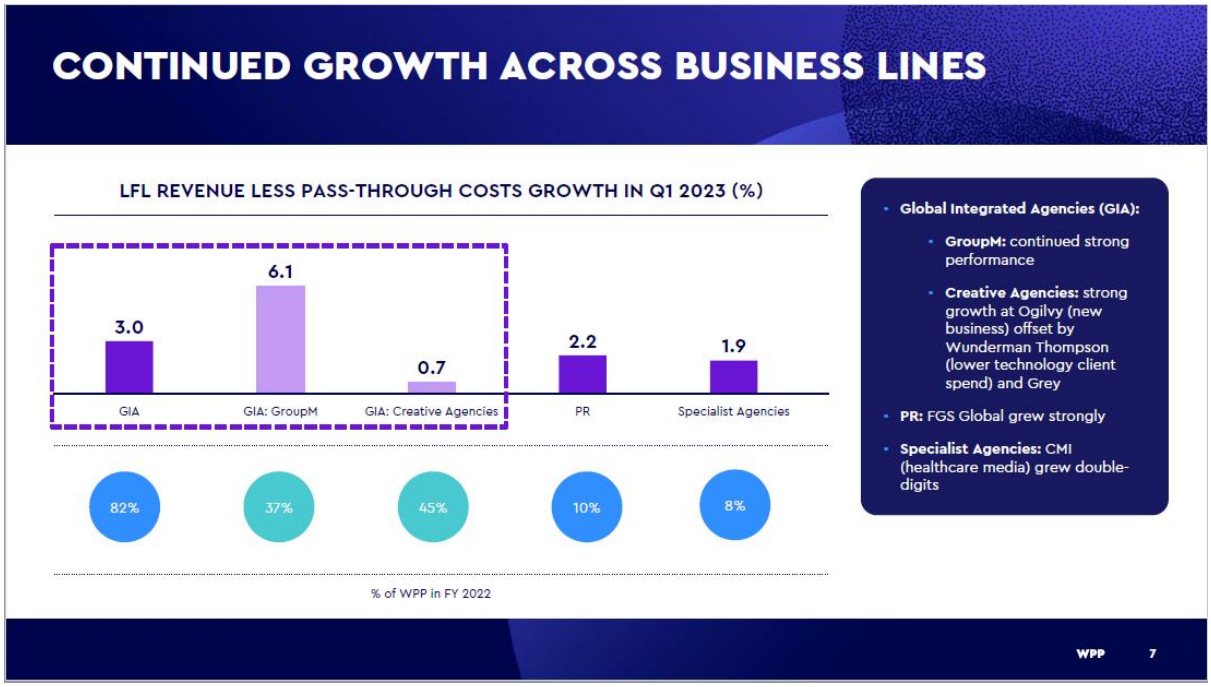
Thank you, Mark. So, moving to the financials for the first quarter of 2023.

So, coming first to slide 6, revenue less pass-through costs. At the reported level we have seen an increase of 9.9% for the quarter. This is supported by 6.3 % tailwind in relation to FX, due to the weakness in Sterling relative to last year. And also, our targeted M&A strategy over recent quarters,

that Mark's just referred to, added 0.7% to reported growth and actually stripping out the impact of the disposal of our business in Russia last year, the contribution was 1%.

On a like-for-like basis we saw 2.9% growth against the 9.5% growth in the same quarter last year– very much in line with our expectations and slightly ahead of consensus forecasts and looking forward, we've reiterated our guidance for 3-5%, growth for full year 2023.

Moving now on to slide 7, and business sector performance.



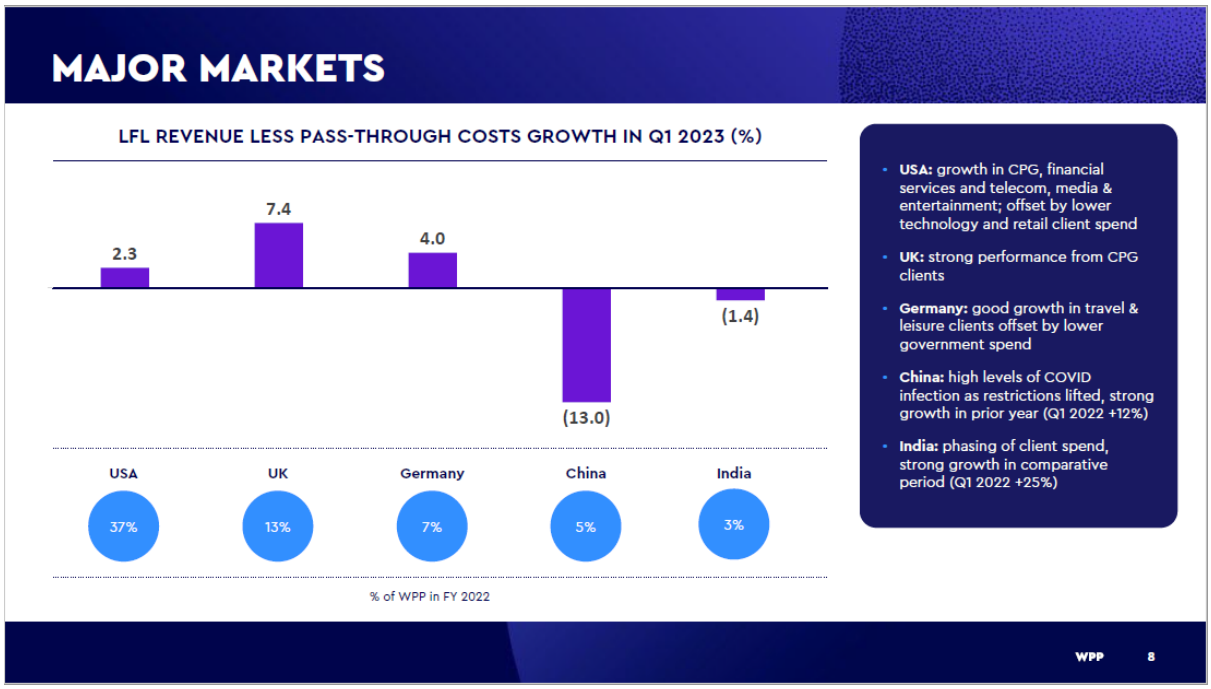
We continue to see broad-based growth across all our business lines. It is starting with integrated agencies at +3.0%, on top of the very strong 8.6% growth this time last year. And as Mark just called out, GroupM, in particular, showed strong growth of 6.1%, on the back of 12.8% growth in Q1 last year.

Our creative agencies had a slightly slower start to the year, +0.7%, compared with 5.6% a year ago. Within this we saw strong growth at Ogilvy, driven by exposure to CPG clients, who increased their spend by 15% across WPP in the quarter, and also driven by recent new business wins.

However, this is partially offset by a slower start to the year at Wunderman Thompson, reflecting lower spend from some technology clients, and a softer start to the year at Grey.

In our PR businesses we saw like-for-like growth of 2.2% compared with 14.1% a year ago. FGS Global performed particularly strongly, but we saw a slightly softer performance at BCW and H+K.

Finally, Specialist Agencies saw growth of 1.9% vs 13% in the same quarter last year, with particularly strong growth in CMI, our specialist healthcare media agency, and strong growth at Landor & Fitch.



So, turning now to slide 8, and our top five markets, representing two-thirds of overall net sales.

The growth in the US of 2.3% was driven by growth in spending from clients in the consumer packaged goods and financial services sectors, offset by weaker spend by clients in the technology & digital services and retail sectors.

In the tech sector, clients have now adjusted budgets to post-COVID levels of spending on some categories of hardware. And in retail we've seen an impact from recent consolidation in the US supermarket sector.

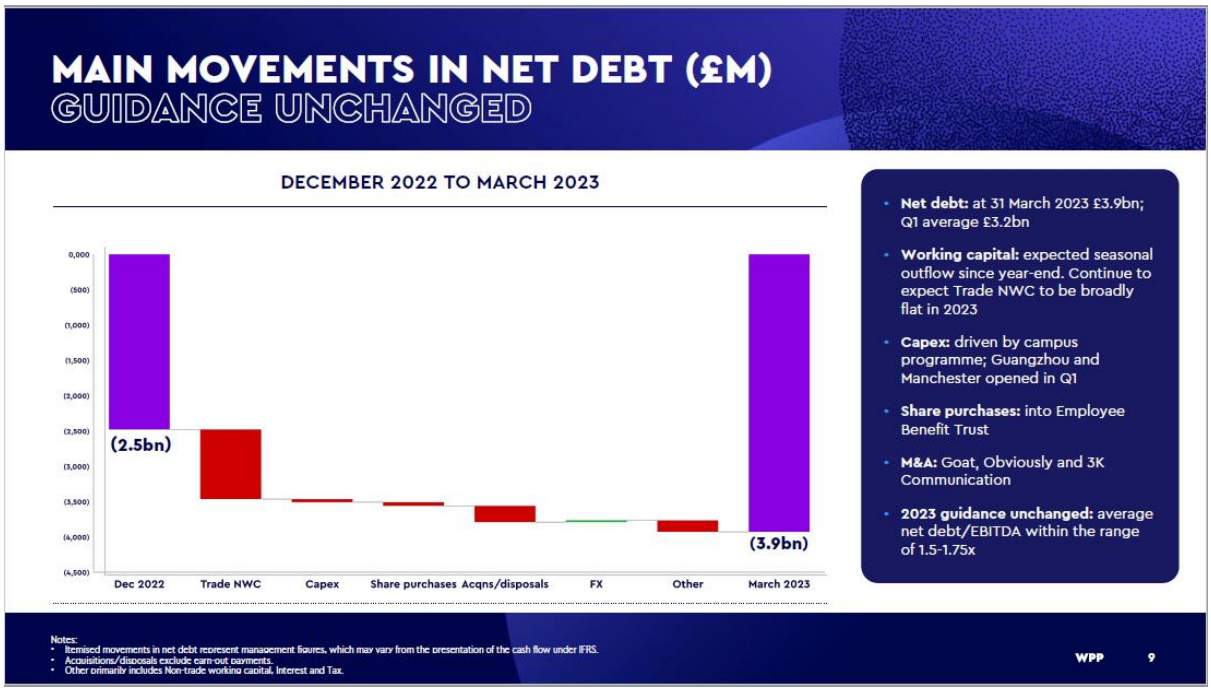
In the UK, growth was 7.4% on top of 8.1% in Q1 2022 – with particularly strong demand from CPG clients.

Germany, our biggest European market, was up 4.0%, compared with 16% this time last year, with broad growth in media and strength in the travel & leisure segment, partially offset by the run-off of a COVID-related government contract in Germany at one of our specialist agencies.

As we signalled at the Prelims call, China, continues to be a challenging market, declining 13.0% in Q1, as we flagged. We faced a tough comparison in China, with 12% growth this time last year. Q1 also began with high levels of COVID infection as restrictions were lifted late last year. Towards the end of the period, we are encouraged by initial signs of recovery in the media market in China and economic indicators are actually positive, so we expect to bounce back in Q2 against easier comparatives. Excluding China, our overall like-for-like growth would have delivered like-for-like growth of 3.6% in Q1.

India was also a little bit more challenging, down 1.4% in the first quarter, reflecting a tough comparison against Q1 2022 which grew 25% and there was some macro uncertainty at the beginning of the year.

We expect the recovery to happen through the rest of the year, particularly around events such as the Cricket World Cup and against easier comparisons in the second half.



Coming on now to slide 9 and looking at the main movements in our net debt through the quarter.

So, net debt at 31st March 2023 was £3.9 billion, that represents an increase of £1.4 billion from the year end, driven by the usual net working capital movements, capex consistent with our FY guidance, investment in the three M&A transactions that Mark already mentioned, and a slight strengthening of Sterling year to date.

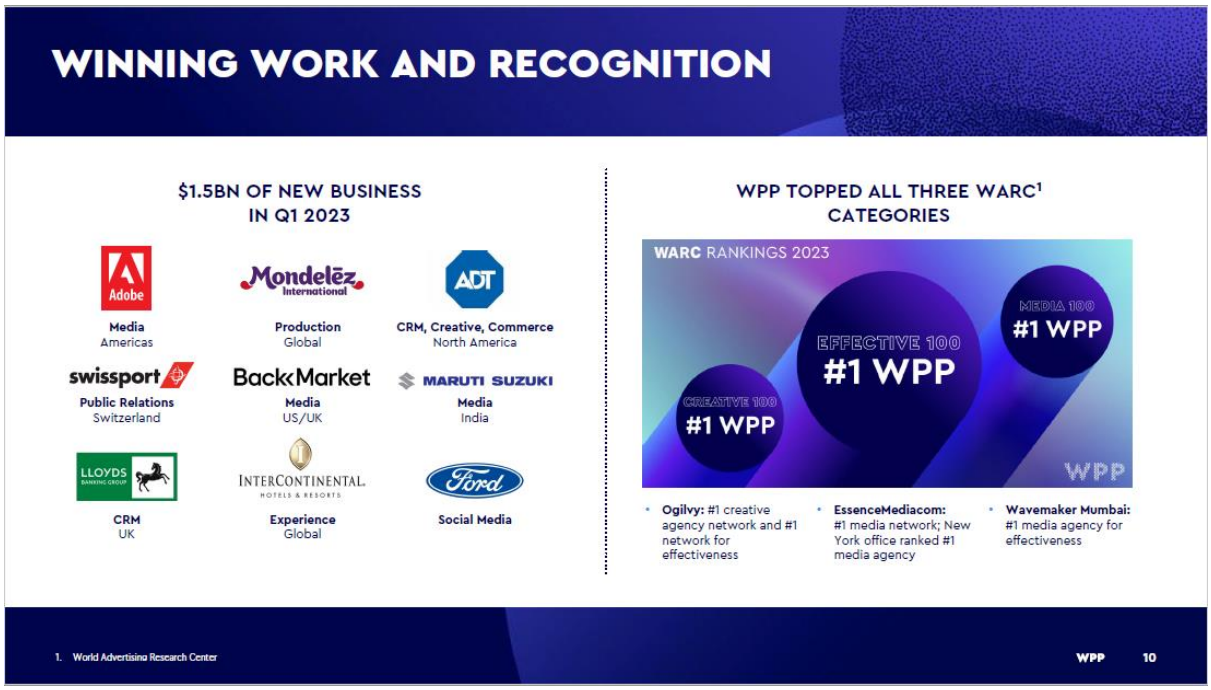
The typical seasonal outflow of working capital since the year end reflects a small underlying improvement versus the same period last year, benefiting from operational improvements and some reversal in the timing and mix factors that impacted our year end position that we discussed in detail at the Prelims. And we remain confident that we can deliver a flat trade working capital performance in 2023.

That, combined with a small outflow on non-trade working capital of around £150m or so, as I guided to on the Prelims call, will result in a significant improvement in cash generation in 2023 over 2022.

Moving to the other items in the bridge:

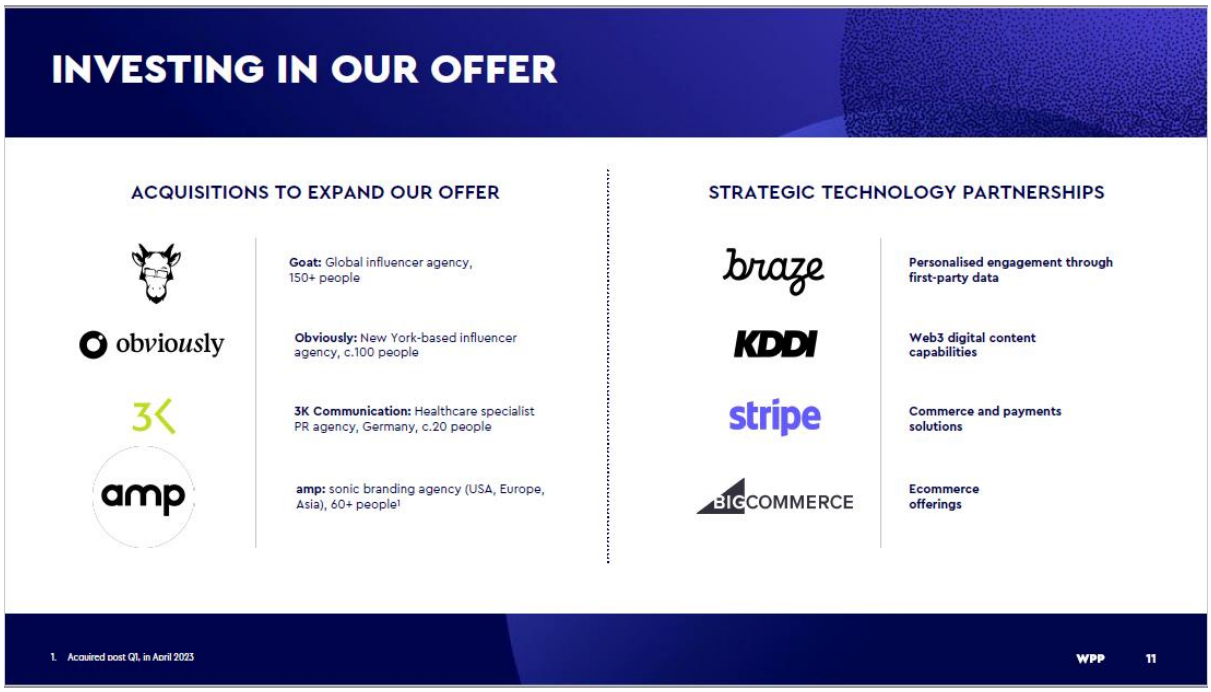
On Capex, we maintained our focus on organic investment, including our Campus programme - opening new sites in China and Manchester. And as I said before, we continued to make bolt-on acquisitions (Goat, Obviously and 3K) to strengthen our offer – in the growth areas of influencer marketing and healthcare.

With that I'll hand you back to Mark



Thank you, John. I'll touch on a few of the business drivers at the moment.

On page 10 I think I'd call out that we had a strong start to the year in terms of new business and in terms of the recognition of the quality of our work. I'd highlight a few of the new business wins: the Adobe Media win in the Americas, a win of production work alongside another partner at Mondelez and then particularly the Maruti Suzuki win in India. That is actually India's second-largest advertiser. I'd point out that India is now think the world's most populous market, we now work with 45 out of the top 50 clients in India. Our business was recognised by WARC in all 3 categories in media, in effectiveness and in creative as were our agencies actually, Ogilvy, EssenceMediacom and Wavemaker and I mentioned earlier, Ogilvy topped the Clios - agency network of the year - at the Clios two nights ago in New York.



On top of the organic investments in business on page 11, we did make three acquisitions in the quarter, and one subsequent to the quarter. We acquired two businesses in the influencer marketing space, given the amount of time consumers are spending on the social media platforms, our clients are increasingly looking for ways to reach them and many of those ways do involve influencers. Both of these businesses enable clients to invest more money behind influencer marketing, its probably been the biggest challenge that they face through maintaining relationships with several hundreds of thousands of influencers, understanding their performance, their relevance and helping clients use them in their marketing.

We also acquired a small healthcare specialist in PR, this is in Germany to further invest behind that fast-growing sector. And then in April, Landor & Fitch acquired amp, a really interesting creative sonic branding agency based in Germany but with some operations around the world. And those acquisitions are supported by strategic partnerships, we continue to develop our relationships with technology partners in a positive direction. I think I'd highlight that these span primarily the areas of CRM, through Braze and e-commerce, and also are both global in nature and then a very interesting partnership in Japan with KDDI, and that represents Kyoko Matsushita, our new Japanese Country Manager's, first major partnership in that market. It shows how we can bring the strength of our global offer there in that country.

On page 12, it's worth briefly touching on the FGS Global transaction. KKR took a strategic investment in the company in March. And maybe just go back in history to the creation of FGS Global and on what this means for us strategically. Back in January 2021, we brought together Finsbury, Glover Park and Hering Schuppener. They were three public relations or financial PR firms operated totally independently within WPP based in the UK, the US and Germany, respectively. One of the businesses had a minority employee investment. We bought those businesses together on a transaction with management heading towards an IPO with WPP as the majority owner.

In October 2021, we saw the opportunity to bring that business together with Sard Verbinnen probably the leading US Investor Relations Financial Communications company. In the US we formed FGS Global back in October 2021. That business has really performed extremely well. If you look at the Merger Market tables for last year, they were number 1 by some region, by some measure in each region of the world in terms of deal volume and deal values for M&A transactions. That was recognised by KKR who've come in to take out in part Golden Gate Capital, one of the investors in Sard Verbinnen, provide some liquidity to the management of the company, which is naturally changing somewhat, and we remain in a partnership with WPP owning a majority stake with the management of that business and with KKR now a strategic investor online to develop our company over the next few years. So, it really highlights the value inside that company and accelerates the progress that we're making.

Touch briefly on AI on page 13. I know it's a topic of a lot of interest to people. I think that at WPP we've been using AI extensively in our business for a number of years, primarily in our media business in GroupM and through Xaxis and in other parts of the company. We use it to target media, to optimise campaigns, to create audiences, and in the production part of the business. Hogarth use AI extensively to create, to produce work, for all of the channels that consumers need. I think what's changed over the last six months is the application of AI, through generative AI into the creative process of the production of language, video, imagery through AI and that's really allowed us the opportunity to use it much more creatively in the company. There are many examples of the work we've done. It goes actually goes back to 2016, a campaign that J Walter Thompson then did for ING in Holland, all the work we did last year in India for Cadbury's Mondelez on Diwali.

So, I think we'd highlight three examples: the work that Ogilvy did, the Mondelez work which I'll show you in a second, AKQA Bloom have been using it to promote the NotCo plant-based meat company from Chile actually, use it to show what would happen as animals age, great work from AKQA Bloom. And then Wunderman Thompson have been doing some work with Iranian Democracy Council to highlight the futures of women in Iran, and you can look at each of those pieces of work offline, but before we go on, I think we should show the work that Ogilvy did for the Mondelez Brand, Lacta in Greece.

So could you play the film please operator.
(Video is being played)

SUMMARY

- A positive start to the year, in line with our expectations
- Strong demand for our services from clients and progress against our own strategic plan
- Continuing to invest both organically and through acquisitions in growth areas
- KKR to invest in FGS Global, demonstrating its growth potential
- We remain on track to deliver on our 2023 financial guidance
- We are well placed, in an environment of increasing complexity, as a trusted partner, with a modern, future-facing offer

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Very good, so I hope there's something useful in that for everyone on the call. So, in summary, I think we had a positive start to the year, very much in line with our expectations and we saw a strong demand for our services from clients. We made good progress against our strategic plan in the areas of creativity, through AI, acquisitions and continue to invest both organically and through acquisition in those areas. The FGS Global transaction with KKR does highlight the value and growth potential of that company within WPP. So, net-net, I'm sure we'll get onto this in the questions, but we remain on track to deliver our guidance and looking forward longer-term we're well placed in an environment of increasing complexity as AI changes our industry in a fundamental way as a trusted partner to our clients and a more modern future facing offer to prosper.

Thank you very much. Now, before we take questions there is one topic, one person I'd like to thank and that's John Rogers. This is John's last call with us. John joined back in January 2020 just eight weeks before COVID struck, and we were all locked up. And I'd say, he steered us through COVID extremely well, coming up to speed with a very complex business, I'd say, in record time and helping us navigate that very successfully financially. We had the same later with the challenge we faced following the Russian invasion in Ukraine. So, as he moves on, I'd say, he leaves us in better shape financially and better shape strategically. So, John thank you very much. Thank you for your contribution. I wish you all the best in your next endeavours.

So, thank you, John, and I think we'll now open the line up to questions.

Operator

Our first question of the day is from the line of Lina Ghayor of BNP Paribas. Lina, please go ahead, your line is open.

Q – Lina Ghayor

Hi everybody, Mark, John, congratulations on the results and John, wish you all the best for you. I have three questions. The first one is obviously on the guidance, sorry not very original, but could you perhaps give a bit of colour around Q2 and more generally, how we should think about the trajectory of growth throughout the year. And the second question is some kind of a follow-up to that where it would be useful for us to understand visibility and how much of the year is already known or guaranteed. I know it's never really guaranteed but some ideas, if you could quantify how many months you have now for example. And my third question is on margins. I know, this call is not about the margins, but could you give us some elements around where you stood in recruitment in Q1 and your head count plans for the next coming months. Thank you.

A – Mark Read

Okay, why don't I give you some colour in terms of sort of the guidance overall and what we're hearing from clients, and John can talk about sort of specifics on the phasing. I think we'll take the first two questions really as one question and then John can talk about the margin. I think overall we're three months into the year, we're six weeks away from giving you the guidance. I think we remain confident of being within the range of 3% to 5%. I don't think at this point, we'd say that's changed really in any way from last six weeks ago despite some turbulence in the financial system. When we gave the guidance, we knew that Q1 would be the toughest comp because of the strong comparative last year, I think we flagged that at the time. I don't think anything's really changed we've come in Q1, I'd say, very-very marginally ahead of our expectations, which gives us confidence to make the numbers for the year.

I think overall in my discussions with clients, I didn't see any major change in client sentiment or client spending. I think those are the areas of the business that we knew would be slightly more challenged this year, like technology has continued to be very slightly more challenged. They've not become more positive or more negative over the period, perhaps in the stronger earnings from Google and Meta in Q1 than expected gives us some confidence that they're not going to deteriorate further. So, I think things are really very much as we thought, Lina. I mean, John can talk more about what that means for you to understand is sort of Q1 in the second half and we understand the challenges of looking at an acceleration during the year as well.

A - John Rogers

Yes, hi, Lina and thanks, Mark. And so just in terms of phasing, I mean I think the key message is no new news. It only six weeks since we last gave the guidance and we were very clear on the Prelims call that we thought Q1 would be a little bit softer. And so hence mathematically, we expect the second half to be a little bit stronger than the first half. I mean, I think it's simple as that and as Mark has said, we delivered Q1 pretty much in line with expectations, maybe a little bit better than we thought, but not significantly, and I think if you think about the range that we have given. If you look at the two-year wrap, which is about 11% to 12% or so, and if you maintain that through the year, then you'd end-up at the top-end of our range, that would give us an out turn of about 5%. And if we were to maintain Q1 performance through the rest of the year, that would obviously put us at the bottom of our range at 3% That I guess gives you one way at least of bounding the range, but 3% to 5% I think we are very comfortable with albeit we expect the second half to be a little bit stronger than the first.

In terms of visibility, again, I don't think any new news here. Typically, we have visibility of 80% to 90% of our spend. Looking forward 12 months, it very much varies business-by-business while PR agencies would typically have good visibility going out three months or so. Our creative agencies will have visibility going out a little bit longer, but there's no material changes in our visibility from, for example, this time last year.

And in terms of margin, I'd say one way to think about it is that I think partly because of the phasing of our investment in IT, which I talked about at the Prelims, which is largely front-end loaded and also because we expect the second half on a net sales basis to be slightly stronger than the first. Then I think we'd expect directionally in the first-half margin to be flat, maybe a little bit negative year-on-year in the first half and we'd expect to outperform the second half but all of which would net out to a margin of around 15% on a constant currency basis at the year end. So entirely consistent with the guidance that we gave at the Prelims call, and I would say by and large in all aspects actually, nothing unfortunately much has changed since the Prelims in terms of the underlying dynamics of the business, we're pretty much in line with where we thought we'd be. One thing I'd say on the head count, just you asked the detailed question there. We are actually, I think in the quarter itself where we've got 1,000 fewer people at the end of the quarter than we had at the beginning of the quarter. That I think shows good disciplined about keeping control over our cost base actually 800 fewer permanent people and about 200 fewer freelance people. Good control over our costs and actually if you look at the year-on-year position in terms of our permanent headcount, we're probably up at around 3%, so quarter-on-quarter we're up at around 3% and on a freelance basis we're down at around 15%. So, if you remember this time last year, we had to employ quite a lot of additional freelancers because net sales was ahead of expectations. And so, we had to support that client work with freelance resource. This year, we've kept very good control over our freelance spend, so in terms of our numbers, where we're down about 15% year-on-year in terms of number of freelancers. When you aggregate those two together, so the 3% increase in our permanent and the 15% reduction in our freelancers we're up roughly 1% just over 1%year-on year in terms of number of people, which again is entirely consistent with the guidance that I gave on the previous call only six weeks ago.

Q: Lina Ghayor
Understood. Thank you very much.

Operator

Thank you. Our next question is from the line of Tom Singlehurst from Citi. Tom, your line is now open.

Q: Tom Singlehurst

Good morning and thank you very much and a big thank you to John. The level of transparency and communication disclosure that has come on leaps and bounds. So, it's very much appreciated and all the best for what comes next but three questions to keep you busy in the meanwhile.

First one, China heavily negative in the first quarter but going into the second quarter, the comp is I think something like 18 % points easier. I suppose the question is, does this all work through in the second quarter. And does that mean I know you specifically said second half just then in terms of the growth profile, but does that growth profile kick off immediately in the second quarter. I suppose, in contrast to that, the India comp gets a lot harder and so the question there is, when you did your deep dive on India and Brazil. I think at that point, Stefano or maybe even you, John mentioned that you had aspirations for India and Brazil, both to grow. So, the question is, do we think overall that's still on track. And then the third question is on the FGS Global stake sale. I mean I know you mentioned some of the mechanics of the deal. I just wondered whether that actually means anything concrete will change in how that business is run, and I suppose whether it presages scope for more minority stake sales in sort of discrete business units elsewhere in the organisation because the multiple is off the charts relative to the multiple that you yourself are trading at. So those are the three questions. Thank you.

A: Mark Read

Well, let's start with the FGS question. I think the answer is, it doesn't presage any more stake sales. I mean, it was a unique situation in that we put together three businesses and I highlighted that there was already an employee investment management investment in that. Then, we did the transaction with Sard Verbinnen where we brought a financial partner and an equity management, equity stake significant amount of equity stake from the Sard Verbinnen partners into the overall structure. So, I think from a structural perspective, it's the same post this transaction. First is prior to this transaction, perhaps with changes in the percentages. WPP is the majority investor, there is a significant financial partner and there is a significant management investment in the company, so I don't think anything in reality has changed apart from the fact that it's shined, I think as you say a multiple disparity on the overall value of WPP versus to maybe versus the private market and the growth potential of the business and I don't think we expect, we have no plans and I don’t foresee any plans to do a similar transaction in other parts of the business. It is really a unique situation given the starting point and the opportunities ahead of us. Which have been significant, really bringing you know Sard Verbinnen is a fantastic business. We might not know it well in the UK but it's a very very strong business in the US and we've created with Roland Rudd and Alex Geiser and the team there a very strong and effective partnership. That's going to attract some of the best people from that industry into the company.

On China, I think our broad expectation is China will go from being a drag in Q1 to a positive impact having a positive impact in WPPs growth in the rest of the year. The situation is complicated by a strong comparative last year and by lockdowns in China in January, which obviously have eased, and

we are starting to see improvements in the media market in March and April that we expect to flow through into our business in the rest of the year. And in India, I'd say that we did a deep dive, you saw the strength in that business, but we do expect it to grow on the balance of the year despite the comparatives.

A: John Rogers

Just to build on Mark's comments and I think across India, China and Brazil for the full year, we expect all of those markets to be good growth opportunities for WPP as they have been in the past. To your point, you've highlighted issues on phasing, and we've covered China I think already, but the comp gets a lot easier in Q2 and then even easier in Q3 and Q4. So, we'd expect to return to growth in Q2 and indeed in Q3 and Q4 maybe step up a little bit more because the comps get comparatively easier. In India, I think you raised the point the Q2 comp is pretty tough. I think we were up about 45% last year. So that was also lapping pretty strong growth in Q2, but we really would expect to return to growth in India in the second half when the comps do get somewhat easier. And on Brazil I think we'd get some small growth in Q2 and again, stepping up again growth higher in half two on the back of a slightly easier comps, but overall good growth across all of those markets for the full year because they've been and continue to be good growth engines for our overall business.

Q: Tom Singlehurst

That's super. Thank you very much.

Operator

Our next question today is from the line of Julien Roch from Barclays. Julien, please go ahead.

Q: Julien Roch

Yes, good morning, Mark, John, Tom, Caitlin and Anthony. Thank you, John for being so transparent on numbers, the bar is very high for your successor. So, first question, coming back on FGS, can you give us some numbers because I calculate that KKR paid 17x PE when you trade on 9x, so is it because FGS is expected to grow well above WPP going forward. What have they grown out annually on organic basis and pro-forma since 2019, for instance, you told us 18% in '21 but what about '20 and '22. That's my first question.
The second one, sorry to come back on China again. So, you say, we've turned around in Q2, but are we talking 0 to 5, 5 to 10 more than 10 some numbers there.
And then the last one on AI, a long question, sorry. So, say you win a content creative budget where client will spend 100. Historically, you run your business on a cost-plus basis, so you take your 15% margin, spend 85 on delivering what the client wants. Thanks to AI, it will cost you far less. So, let's say you only spent 40, don't you think the client will let you get 60 margins rather than 15, so they're going to say, why don't we share this and we're going to pay you 60 to 70 and your margin is higher. So, what do you think about this specific point AI could lead to higher margin, but lower revenue for content and creative budget. Thank you.

A: Mark Read

Okay, so on FGS. I think we've given you the disclosure that we're going to give you at this point. I wouldn't want to be drawn into further details of their performance and I think we'll have to see how the business continues. But I just agree with your points about the comparative valuations.

On AI, I saw you asked the question before, so on one level I hate to disagree with you Julien, but I don't totally follow the point. I mean, if you think about how we do work, there's creative process, there's the production process and there's the media process, if you are thinking about it simplistically, all underpinned by data and technology. I think as it relates to the creative process distinctly from the production process, I don't think AI is going to make people suddenly more creative or shorten that process. So, I think the amount of work we get paid, the money we get paid for that ideation, the strategy, for account management, all of those things are substantially I think going to be unchanged. If anything, it might be increased by the application of AI because it's going to demand greater volume of assets. I think on the production process, there is a question there around volume versus price. We need a greater volume of creative assets to be produced, a much greater volume by the way is the number of channels explode and the formats explode. And by the way, when you can combine media and creative, we're going to be choosing millions of different types of creative assets in relation to the data signals that we get from our technology, the media. Much of that work is, some of that work is done on an hours basis but much of that work is done on a fixed-price basis, and so it's not going to be directly comparable, and I think the jury is out whether the explosion in volume offsets the sort of reduction in price. In all of our experience with technology to date in WPPs businesses, it tended to create more jobs than it has destroyed and so I don't think net-net, one can come to the conclusion you come to. There are also, by the way, the opportunity for us to gain market share by investing more and being more competitive and I think some of what you're seeing in terms of clients looking to streamline their partners and work with partners that have the wherewithal to invest in this indicates the opportunity for us to gain market share by better applying AI through our work.

Q: Julien Roch

OK. Thank you. Clear.

A: John Rogers

Just on China I mean obviously we've given quite a lot of guidance already and really trying to avoid getting into guidance on a quarterly basis, but I guess mathematically, if you looked at the two-year wrap and you have that consistent Q2 versus Q1 then you'd be much more likely to be in the range of 5 to 10 than in the range of zero to five which were the two that you sort of suggested on in your question. So that may be one way of looking at it.

Q: Julien Roch

Okey, thank you.

Operator

Thank you. Our next question today is from the line of Lisa Yang of Goldman Sachs. Lisa your line is now opened.

Q: Lisa Yang

Good morning, and all the best John and thank you for all your input.
Couple of questions please. So firstly, on the full year guide, I think you said that the full year results of the 3% to 5% pricing will be 3% to 4%, and rest is volume. Could you talk about the evolution of that mix in the first quarter. I guess, you probably didn't have the 3 to 4. So how do you, what would you expect basically the pricing contribution to-- say for the year. So that's the first question.

Secondly, on the performance in Q1. I mean, the UK was very strong. So just wondering like what's going on there. I think Publicis's UK numbers were also very strong. That's going to be stable for the rest of the year.
And third question is on the restructuring. I think you said, the GBP180 million it doesn't include any potential additional restructuring coming from the property review. When should we expect to hear on that property review. Can you maybe give us any sense of like the size of potential additional restructuring that could be coming this year related to that. Thank you.

A: Mark Read

John, why don't you take that. I think for just on the UK to make the sort of qualitative point I think we have a very strong business here in the UK. I think that the growth reflects the breadth of our business beyond traditional media advertising, certainly outperforming the kind of classic advertising market and I think it also reflects, through the importance of the UK is a creative and a media hub, but John, why you take these specifics on pricing in the UK.

A: John Rogers

Sure, okay, well, just at least in terms of your question on pricing. We said at the Prelims that we expected price increases to be roughly 3% in 2023 and we maintain that guidance, that still holds. I would say in terms of Q1 the benefit of pricing in our number would be 1.5% to 2%. So, we are seeing volume growth in our Q1 and probably pricing around 1.5% - 2%. Why is that different? Well, because it's largely down to the timing of price negotiations with clients that impacts when we put price increases through and so that's why you see it's slightly different through the year, but we are very comfortable with the guidance that we gave of around 3% or so. In terms of restructuring from our property review, again which we discussed at our Prelims, which largely focuses on the US as a market, where we hold a lot of property, and we would expect to update the market at our Interims on that in terms of some of the details there. I don't want to be drawn at the moment in terms of quantum. I think we need to do the full review first and then we'll update in detail at the Interims.

Q: Lisa Yang:

May I ask a follow-up question. So I think clearly Mark you're very confident on today's call. It doesn't look like anything has changed versus the full year results. It does look like Publicis and Omnicom were slightly more cautious in tone, so just curious, like any maybe reason why I don't know, you are maybe not seeing what they're saying. It may be different in geographic mix and specifically Omnicom said it will be a stretch to reach to the top of the guidance, which is 5%. Do you think the same would apply to WPP or would you say you're as comfortable with 5% as you are with 4% or 3% at this point.

A: Mark Read

I don't know that our tone is necessarily different from theirs. I mean, we're just we're saying as we see it, which is there's no real change from the last six weeks ago and they've always been challenges in the economy for the year. And so, the things that we knew about remain the things that we knew about. We knew technology will be a little bit softer. We knew China would improve a little bit over the year. I don't think anything has really changed. The one way to think about and it might help you, Lisa, is we did 9% last year in Q1 and 3% in Q1 this year as that sort of simplistically 12% and we did 7% for the year. If we continue to deliver 12% on a 2-year basis that would take us to 5% and I think we're confident of being in that range of 3% to 5% and that's sort of a simple, maybe too simple way of looking at it, but I think that's why we will be in that range.

Q: Lisa Yang

OK, thank you.

Operator

Our next question today is from the line of Adrien de Saint Hilaire of Bank of America. Adrien, please go ahead now.

Q: Adrien de Saint Hilaire

Thank you very much and indeed godspeed John for the future. Thanks for the help. A few questions, then. I'm a little confused with trends in the ad market right now. We've heard some of the digital guys talk about an improvement and some acceleration into Q2, but then we're also seeing weakness elsewhere and caution elsewhere. What do you observe on your end and how do you think this plays out for GroupM and the broader WPP. That's the first question.
Then secondly, you gave us some interesting colour about what you expect for Brazil, India, China for the rest of the year. Could we do the same exercise with some of the bigger markets like US, UK and Germany. Thank you.

A: Mark Read

Okay. I mean, look, I'll take the first question. Maybe John can take the second question.
I think that GroupM expect media advertising to be ad spend to be around 6% in 2023, very-very slightly down on 2022, and they grew GroupM at around 6% in Q1. So, I'd say that the tech companies have very tough comparatives. I think Google if you say were up 3%, Google and Meta as well at 3% in Q1, but Google's comparative, I believe it was 23% last year. So, they're facing sort of a somewhat different situation comparatively and our comparatives get slightly easier as the year goes on but not significantly. I think if you look at the year overall as being a little bit softer than last year, maybe the comparison is driving the quarterly trends, but I'll come back to where John started you know, we are in the range of 3% to 5%, I would say that 5% is better than 3% but not necessarily tougher than 3%, by definition. And we are sort of confident that's where we'll be really.

A: John Rogers

Yes, so Adrien, again I don't want to get drawn into market-by-market and country-by-country quarter-by-quarter. Look I think what I would say is that if you look at the numbers for the US market in Q1, for the US just north of 2% and then the UK the strong at 7% and then Germany at 4% as it happens, they are all, I would say pretty good indicators in terms of our forecast for the year. Now, there is some phasing in there, etc through the quarters, which I won’t got through in detail, but they’re not bad indicators of the direction of travel for the full year out turn for those specific markets.

Q: Adrien de Saint Hilaire

Okay and if I can just squeeze one more last quick question for you, John. On the working capital stuff, it seems that you’re highlighting a new release that clients are now demanding maybe longer payment terms. Is that something which you’ve seen change in the last few weeks, maybe few months.

A: John Rogers

No, I mean, we're always under pressure. It is always a big part of our negotiation with clients. We've always been actually pretty robust in terms of holding our trading terms, so there has been no material changes, I would say in the nature of that negotiation over the last six months or so and probably actually in the last year or so, it's always been a hot topic for debate. The pressures is there today as it was, to Mark's point, 5, 10 years ago.

Q: Adrien de Saint Hilaire

Okay, thank you.

Operator

Our next question today is from the line of Omar Sheikh of Morgan Stanley. Omar, please go ahead, your line is open.

Q: Omar Sheikh

Yeah, great, thanks, good morning, everyone. Just got a couple.
Maybe if I could start on the creative business. It looks like that slowed quite a bit in the quarter. I mean, despite the fact the comps were actually a bit easier so I just wonder whether you could give us a bit of colour on what's going on there. You called out Wunderman Thompson and Grey, is it kind of client losses, is there something competitively going on, is it just the client mix. Just some help there would be helpful.
And then secondly, just looking at your organic growth over the last three or four quarters, there is a bit of a kind of a gap opening up between your peers between the big five holding companies and you are slightly underperforming. So can you -- how would you explain that gap. Is it business mix, is it sort of a bit less exposure to consulting, data analytics, is it geographic mix. Just some help there would be good. Thank you.

A: Mark Read

Okay. I think, look, on the first question, media versus creative. I think GroupM's business we've always been clear our media business is a fantastic business and I think particularly in times sort of nominal advertising growth, GroupM's top line is probably more driven by ad spend you know, if the market is growing at 6% this year, GroupM have done 6% in Q1 I don't think that should surprise us. Our creative businesses have somewhat different dynamics and so I think there have been a little bit softer in Q1 and as you rightly point out, we've had some businesses like Ogilvy do well, some businesses like Wunderman Thompson and Grey have a slightly slower start to the year. I think if you look at the account wins that we've had, we've had a good performance there. In terms of the organic gap, I'd encourage you one, to wait until all the companies have reported and secondly to be careful in comparing revenue and net sales, and I'd point out that our revenue performance is similar to one and our net sales performance is slightly lower than another. So, I think we're not yet through the reporting system and I'd say we feel good about our top-line performance. We would like it to be stronger, but I think we feel good about our top-line performance.

Q: Omar Sheikh

Thanks a lot.

Operator

Our last question today is from the line of Silvia Cuneo from Deutsche Bank. Silvia, please go ahead.

Q: Silvia Cuneo

Thank you. Good morning, everyone. Thank you to John. Best of luck in your next journey.
My first question is also on the creative agency performance. Just a follow-up to the prior one. You talked about some areas of slowdown already, but just wondering if you could talk a bit more about net sales, some areas like experience, commerce and technology within that mix. Is that still close to 40% of that segment ex GroupM.
And then just second question on the FX impact to date. So, if we take the current FX rates for the rest of the year, what sort of impact we expect for revenue and margin. Thank you.

A: Mark Read

Hey, John, do you want to tackle those?

A: John Rogers

Yes, so on the FX. I would say we saw you see in the first quarter, effectively a tailwind of 6% and we'd expect if you translate the current rate through to the full-year, we see a sort of headwind of flat to 1% something of that nature on the FX and in terms of your question on the split between experience, commerce and technology. We don't actually report on that on a quarterly basis. We'll will give you a further update on that split at the interims but I wouldn't expect any of those trends in the growth of those areas to differ markedly from what we reported at the Prelims, six weeks ago.

Q: Silvia Cuneo

Thank you.

Operator

And there are no further questions at this time. So, I'd hand the call back over to Mr. Mark Read for closing remarks.

Mark Read

All right, well thank you all and thank you all for joining. As we said, we had a good start to the year and remain on track to meet our guidance. I'd like to thank John for his contribution and say that Joanne started last week, she is here listening to the call and she'll be on the next call at the half year. So, thank you everybody and we will all be here to answer any of your questions in more detail offline. Thank you.

John Rogers

Thanks everyone.

End of transcript.