WPP 2022
Preliminary Results

Morning Teleconference Transcript

Thursday, 23 February

Disclaimer

By reading this transcript you agree to be bound by the following conditions. You may not disseminate this transcript, in whole or in part, without our prior consent.

Information in this communication relating to the price at which relevant investments have been bought or sold in the past or the yield on such investments cannot be relied upon as a guide to the future performance of such investments.

This communication does not constitute an offering of securities or otherwise constitute an invitation or inducement to any person to underwrite, subscribe for or otherwise acquire or dispose of securities in any company within the WPP Group.

Non-IFRS Measures

Certain Non-IFRS measures included in this communication have been derived from amounts calculated in accordance with IFRS but are not themselves IFRS measures. They should not be viewed in isolation as alternatives to the equivalent IFRS measure, rather they should be read in conjunction with the equivalent IFRS measure. These include constant currency, pro-forma ('like-for-like'), headline PBIT (Profit Before Interest and Taxation), headline PBT (Profit Before Taxation), headline EBITDA (Earnings before Interest, Taxation, Depreciation and Amortisation), billings, estimated net new billings, free cash flow and net debt and average net debt, which we define, explain the use of and reconcile to the nearest IFRS measure in the WPP Annual Report & Accounts 2021 for the year ended December 31, 2021.

Management believes that these measures are both useful and necessary to present herein because they are used by management for internal performance analyses; the presentation of these measures facilitates comparability with other companies, although management's measures may not be calculated in the same way as similarly titled measures reported by other companies; and these measures are useful in connection with discussions with the investment community.

Forward-Looking Statements

In order to utilise the 'safe harbour' provisions of the United States Private Securities Litigation Reform Act of 1995 (the 'PSLRA'), WPP plc is providing the following cautionary statement. This presentation contains certain forward-looking statements – that is, statements related to future, not past events and circumstances, and including statements relating to the potential impact of the COVID-19 outbreak – which may relate to one or more of the financial conditions, results of operations and businesses of WPP plc and certain of the plans and objectives of WPP with respect to these items. These statements are generally, but not always, identified by the use of words such as 'will', 'expects', 'is expected to', 'aims', 'should', 'may', 'objective', 'is likely to', 'intends', 'believes', 'anticipates', 'plans', 'we see' or similar expressions.
Actual results may differ materially from those expressed in such statements, depending on a variety of factors including, but not limited to: the unanticipated loss of a material client or key personnel, delays or reductions in client advertising budgets, shifts in industry rates of compensation, regulatory compliance costs or litigation, natural disasters or acts of terrorism, our exposure to changes in the values of major currencies other than the UK pound sterling (because a substantial portion of our revenues are derived and costs incurred outside of the United Kingdom) and the overall level of economic activity in our major markets (which varies depending on, among other things, regional, national and international political and economic conditions and government regulations in the world's advertising markets). In addition, you should consider the risk factors set forth in our most recent Annual Report and Form 20-F under "Risk Factors" and in any of our more recent public reports. Nothing in this presentation is intended as a forecast, nor should it be taken as such.
Our most recent Annual Report and Form 20-F and other period filings are available on our website at www.wpp.com, or can be obtained from the SEC by calling 1-800-SEC-0330 or on its website at www.sec.gov.

We undertake no obligation to update or revise any such forward-looking statements, whether as a result of new information, future events or otherwise.

Operator

WPP would like to open the presentation with a short video. Thereafter, the management will present the interim results.

[Video played]

First half highlights

Mark Read

Chief Executive Officer, WPP

All right. So that's just some of the fantastic work that our agencies and people did throughout the year and really the reason why you see such a fantastic set of financial results.

So, good morning and welcome everyone here at Sea Containers. It's great to be back in person for the first time I think in three years.

John and I are here to take you through the results. For those of you in the room, there'll be an opportunity at the end to ask the questions. And for those of you watching online, you can ask questions through Teams and then we'll put them through to the audience.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains statements that are, or may be deemed to be, "forward-looking statements". Forward-looking statements give the Company's current expectations or forecasts of future events. An investor can identify these statements by the fact that they do not relate strictly to historical or current facts.

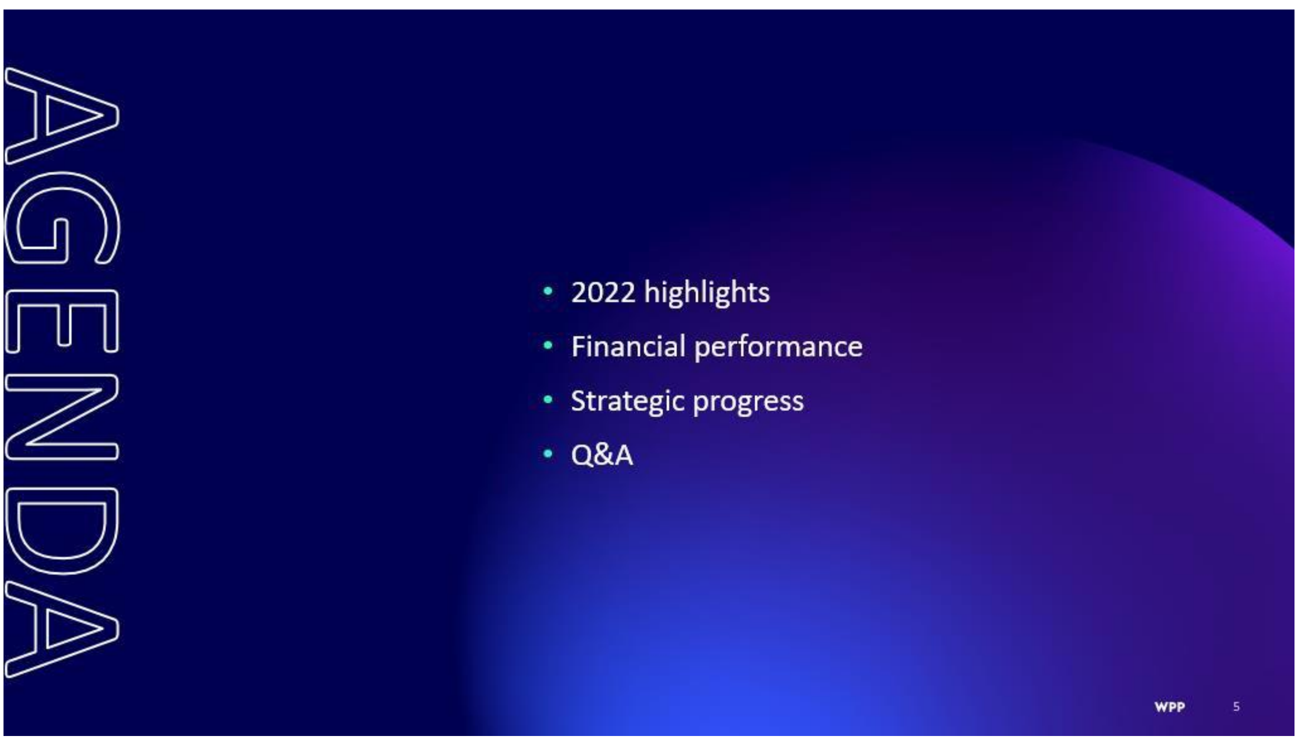
These forward-looking statements may include, among other things, plans, objectives, beliefs, intentions, strategies, projections and anticipated future economic performance based on assumptions and the like that are subject to risks and uncertainties. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as 'anticipate', 'estimate', 'expect', 'intend', 'will', 'project', 'plan', 'believe', 'target', and other words and similar references to future periods but are not the exclusive means of identifying such statements. As such, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Company. Actual results or outcomes may differ materially from those discussed or implied in the forward-looking statements. Therefore, you should not rely on such forward-looking statements, which speak only as of the date they are made, as a prediction of actual results or otherwise. Important factors which may cause actual results to differ include but are not limited to: the impact of outbreaks, epidemics or pandemics; the unanticipated loss of a material client or key personnel; delays or reductions in client advertising budgets; shifts in industry rates of compensation; regulatory compliance costs or litigation; changes in competitive factors in the industries in which we operate and demand for our products and services; our inability to realise the future anticipated benefits of acquisitions; failure to realise our assumptions regarding goodwill and indefinite lived intangible assets; natural disasters or acts of terrorism; the Company's ability to attract new clients; the economic and geopolitical impact of the conflict in Ukraine; the risk of global economic downturn; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; the Company's exposure to changes in the values of other major currencies (because a substantial portion of its revenues are derived and costs incurred outside of the UK); and the overall level of economic activity in the Company's major markets (which varies depending on, among other things, regional, national and international political and economic conditions and government regulations in the world's advertising markets). In addition, you should consider the risks described under Item 3D 'Risk Factors' in the Group's Annual Report on Form 20-F for 2021, which could also cause actual results to differ from forward-looking information. Neither the Company, nor any of its directors, officers or employees, provides any representation, assurance or guarantee that the occurrence of any events anticipated, expressed or implied in any forward-looking statements will actually occur. Accordingly, no assurance can be given that any particular expectation will be met and investors are cautioned not to place undue reliance on the forward-looking statements.

Other than in accordance with its legal or regulatory obligations (including under the Market Abuse Regulation, the UK Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to update or revise any such forward-looking statements, whether as a result of new information, future events or otherwise.

Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made and are based upon the knowledge and information available to the Directors on the date of this document.

WPP 4

So I'd just start with the customary statement. And be aware and read that.



Now turning to the agenda. I'll just talk you through briefly the highlights. Then John will cover the financial performance. I'll come back to look at our strategic progress and really answer, I guess, your question of what's changed, what's changed in the outlook for our business and why we're confident about our guidance for 2023. And then we can take your questions.

Turning to the highlights. Look, I think we had a continued strong and broad-based performance for the year. We had a strong 2022. We upgraded our guidance a number of times during the year and after perhaps a slightly slower Q3 in part because of comparatives. We had a good end of the year, 6.4%, really in line with the overall year, despite I think some fears that we'd see a much more of a slowdown.

Secondly, our performance is much more broad-based across all our major agencies, and of course, nearly all of our key markets.

Thirdly, the key point is we're in a much stronger competitive position. We'll come on to that. We'll talk about strategic progress the group has made. But I think a lot of the structural question sort of bedevilled our conversations with analysts and investors to some extent I think have been answered by set of numbers in 2021 and 2022 and give us confidence in our guidance for 2023. And that's down to the quality of the work, the work that you just saw, the size and scale of GroupM, our performance in new business of close to $6 billion won over the course of last year.

Fourthly, we continued to invest and enhance the offer, both through organic investments in technology through acquisitions, and through continuing to simplify and transform our businesses through creation of new companies such as EssenceMediaCom, Design Bridge and Partners and other changes in organization like the creation of GroupM Nexus. In terms of savings, the transformation plan remains on track with savings coming in ahead of target, and we're on track to deliver the aggregate savings by 2025.

And the last point, I think it'd be the focus for a lot of the questions is our guidance for the year of 3% to 5% top line growth and continued margin expansion to deliver headline operating margin of 15%.

So net-net, I'd say we had a productive year. We continue to transform and invest the business. And all of this gives us confidence in the year ahead.

So, with that as introduction, John will take you through the financial performance, and then we'll come back to the strategy and then to all of your questions. John?

Financial Performance

John Rogers

Chief Financial Officer, WPP

Thank you, Mark. And great to be here in person, as Mark says. So let me take you through the financial results for 2022.

UNAUDITED HEADLINE[1] IFRS INCOME STATEMENT

YEAR TO 31 DECEMBER	2022 £M	2021 £M	Δ REPORTED	Δ LFL[2]
Revenue	14,429	12,801	12.7%	6.7%
Revenue less pass-through costs	11,799	10,397	13.5%	6.9%
Operating profit	**1,742**	**1,494**	**16.6%**	
Income from associates	74	86	(14.2)%	
PBIT	**1,816**	**1,580**	**14.9%**	
Net finance costs	(214)	(215)	0.1%	
Profit before tax	**1,602**	**1,365**	**17.3%**	
Tax at 25.5% (2021: 24.0%)	(409)	(328)	(24.7)%	
Profit after tax	**1,193**	**1,037**	**15.0%**	
Non-controlling interests	(93)	(83)	(11.7)%	
Profit attributable to shareholders	**1,100**	**954**	**15.3%**	
Headline diluted EPS	**98.5p**	**78.5p**	**25.5%**	
Operating profit margin[3]	**14.8%**	**14.4%**	+0.4pt	
Headline EBITDA (including depreciation of right-of-use assets)	2,004	1,751	14.5%	

- Strong LFL growth in revenue and revenue less pass-through costs
- Foreign exchange tailwind of 5.9pt on revenue less pass-through costs growth (weaker £), M&A net of disposals impact of +0.7pt, mainly bolt-ons
- Operating profit +16.6%; margin improved, in line with guidance, driven by top line growth
- Associate income lower due to Haworth (loss of Walmart) and Imagina, offset by higher Kantar income
- Headline tax rate increased by 1.5pt, in line with FY guidance of around 25.5%
- Headline diluted EPS +25.5%, supported by share buyback

1 Figures before goodwill and intangibles charges, gains/losses on step-ups, gains/losses on disposals of subsidiaries and investments, investment and other write-downs, share of exceptional gains/losses of associates, restructuring and transformation costs, restructuring costs in relation to COVID-19, property related costs, litigation settlement and revaluation of financial instruments

2 Like-for-like growth at constant currency exchange rates, adjusted to reflect the results of acquisitions and disposals

3 Operating margin as % of revenue less pass-through costs

WPP 8

So overall, revenue less pass-through costs up 13.5% on a reported basis, up 6.9% on a like-for-like basis. And that was the top end of the guidance range that we gave you in Q3. That, of course, includes ForEx tailwind 5.9% and a contribution from M&A of 0.7%, which is really as a consequence of the SVC merger of creating FGS Global, a number of bolt-on acquisitions we'll take you through later on, and also, of course, the impact of divesting our Russian operations.

Overall, operating profit at GBP1.7 billion, up 16.6% year-on-year, delivering a margin of 14.8%, up 40 bps, and again, within the guidance range that we gave you. So taking account of income from associates, and obviously, net finance costs broadly similar to 2021. Tax at a rate of 25.5%, again, in line with the guidance that we gave you. Delivered an EPS 98.5p, up 25.5% year-on-year, helped, of course, by our share buyback program.

RECONCILIATION OF HEADLINE OPERATING PROFIT TO REPORTED OPERATING PROFIT

YEAR TO 31 DECEMBER	2022 £M	2021 £M	Δ
Headline operating profit	**1,742**	**1,494**	**248**
Goodwill impairment	(38)	(2)	(36)
Amortisation and impairment of intangibles	(91)	(98)	7
Investment and other (write-downs)/reversals	(48)	42	(90)
Restructuring and transformation costs	(204)	(146)	(58)
Restructuring costs in relation to COVID-19	(15)	(30)	15
Property related costs	(18)	-	(18)
Losses on disposal of investments & subsidiaries	(36)	(10)	(26)
Litigation settlement	-	(21)	21
Gain on remeasurement of equity interests	66	-	66
Non headline items	**(384)**	**(265)**	**(119)**
Reported operating profit	**1,358**	**1,229**	**129**

- Goodwill impairment across six small CGU's, reflecting slightly lower growth assumptions
- Restructuring costs in line with guidance
- £18m additional impairment on property estate relating to lower prospects for sub-let (Rights-of-Use) income
- Loss on disposal includes £63m from divestment of our Russian interests
- Investment write-down relates to a number of small associates, reflecting increased discount rates
- £60m gain in relation to the stepdown of Imagina in Spain from an associate to an investment

WPP 9

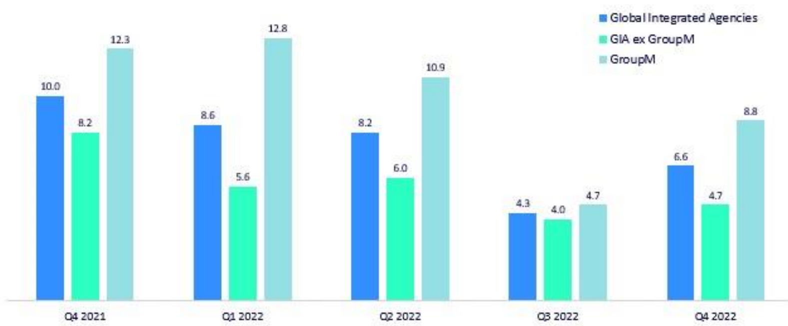
Coming on now to reconciliation between our headline operations and our reported profit. So at the headline level, a profit of GBP1.74 billion, again, adjusting for goodwill impairment and amortization of intangibles. Restructuring costs of 220 GBP219 million, in line with the guidance that we gave you at GBP220 million this time last year.

We've also revised our assumptions on some of our historical impairments in relation to our subletting assumptions, which has increased those impairments by a further GBP18 million. A loss of GBP36 million on disposals, which is a few gains from some disposals, offset, of course, by the GBP65 million on disposal. Our Russian operations that we took you through at the half. Step-down in our Imagina investment from associate to an investment, giving us GBP66 million back, leading to overall adjustment of GBP384 million, and a reported operating profit of GBP1.358 billion.

GLOBAL INTEGRATED AGENCIES: CONSISTENT GROWTH

£M	2022	2021	Δ REPORTED	Δ LFL
Revenue less pass-through costs[1]	9,742	8,683	12.2%	6.9%
Headline operating profit[2]	1,432	1,222	17.2%	
Headline operating margin	14.7%	14.1%	0.6pt	

LFL REVENUE LESS PASS-THROUGH COSTS GROWTH (%)



- GIA three-year LFL growth of 9.5% in 2022
- LFL sales remain strong, +5.0% in GIA ex GroupM, with growth across all creative agencies, and 9.1% at GroupM, with particular strength in commerce media and connected TV
- Strong performance at Ogilvy, reflecting investment in creativity and talent
- Hogarth: double-digit growth in Q4 and 2022 as clients invest in production
- Experience, commerce and technology 39% of net sales, (2021: 38%, 2019: 35%) in GIA ex GroupM

82% of WPP in 2022

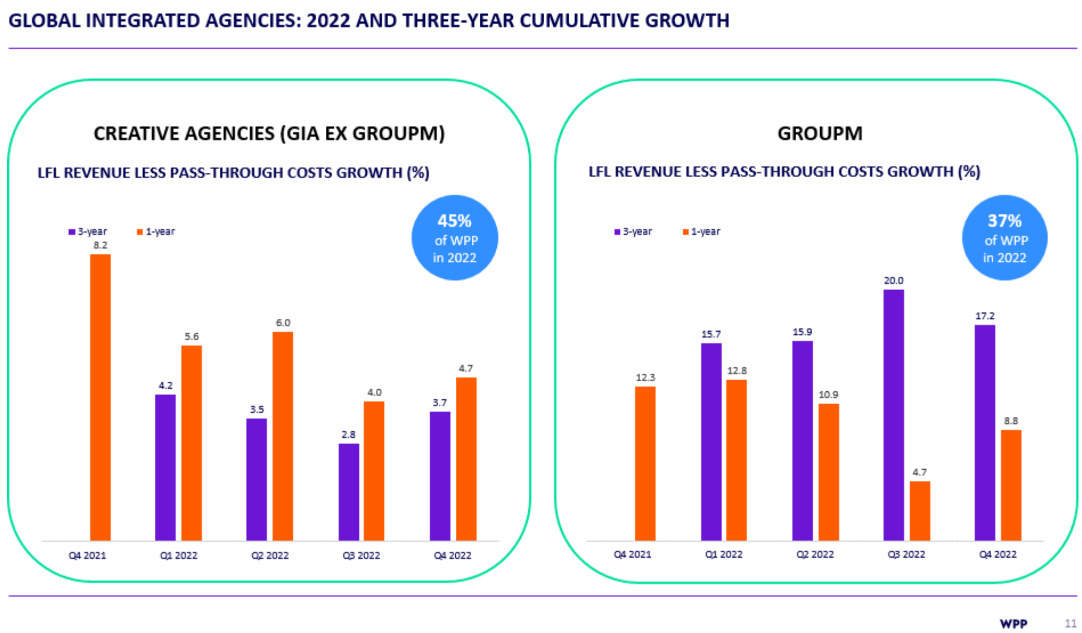
1. Prior year figures have been re-presented to reflect the reallocation of a number of businesses between Global Integrated Agencies and Specialist Agencies. This increases Global Integrated Agencies' FY 2021 revenue less pass-through costs by £44 million and reduces Specialist Agencies' by the same amount.
2. Prior year figures have been restated to reflect the reallocation of a number of businesses between Global Integrated Agencies and Specialist Agencies. This increases Global Integrated Agencies' FY 2021 headline operating profit by £6 million and reduces Specialist Agencies' by the same amount.

WPP 10

Coming on now to the performance of our Global Integrated Agencies.

Strong growth in the year, 6.9% like-for-like, in line with the rest of our business. Now that's split between our Creatives, Creative Agencies that grew at 5%, and GroupM that grew at 9.1%, a good bounce back in Q4. Particular mention to Ogilvy, had a very strong finish to the year in the second half; and also AKQA and Hogarth, both of which delivered double-digit growth in the year.

Overall headline operating profit of GBP1.4 billion, up 17.2% year-on-year, and a margin of 14.7%, up 60 bps. So good reversal of performance in the second half versus the first, strong margin accretion coming through.



Now looking at performance, that performance over a three-year basis.

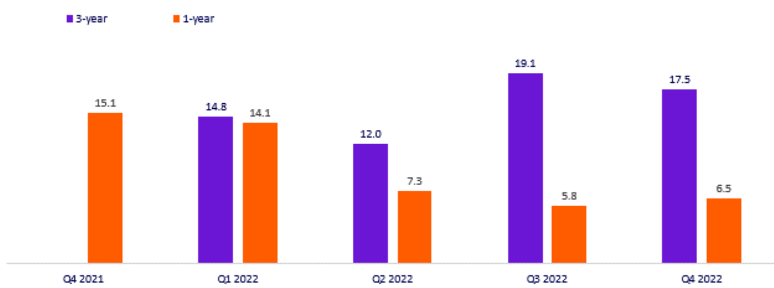
Again, we can see here on the right-hand side, very, very strong growth from GroupM. So up 17.2% over the last three years. And equally on the left-hand side, our Creative Agencies also up 3.5%.
And you can see given that the red bars are larger than the purple bars, a lot of that growth in our Creative Agencies came through in 2022.
So we got real momentum going into 2023 in relation to the performance of our Creative business.

PUBLIC RELATIONS: STRONG DEMAND FOR STRATEGIC COMMUNICATIONS

£M	2022	2021	Δ REPORTED	Δ LFL
Revenue less pass-through costs	1,157	910	27.1%	8.2%
Headline operating profit	191	143	33.6%	
Headline operating margin	16.5%	15.7%	0.8pt	

- The increasing importance of reputation, purpose-related and ESG assignments are key growth drivers
- All businesses grew in Q4 and 2022
- Strong performance from H+K; double-digit growth in 2022
- H+K now pre-eminent global player in Latin America following acquisition of JeffreyGroup

LFL REVENUE LESS PASS-THROUGH COSTS GROWTH (%)



10%
of WPP in 2022

WPP 12

Coming on now to public relations.

This has been a strong performer over the last three years given the need for strategic communications, and also a lot of the work we do, purpose related work, ESG work, we've seen very strong growth in those areas in particular.

So overall delivering 8.2% like-for-like growth. Worth calling out Hill & Knowlton who delivered double-digit growth in 2022. Overall headline operating profit of GBP191 million, up 33.6% year-on-year. And a margin of 16.5%, up 80 basis points, very strong performance.

SPECIALIST AGENCIES: GOOD GROWTH ACROSS ALL BUSINESSES

£M	2022	2021	Δ REPORTED	Δ LFL
Revenue less pass-through costs[1]	900	804	11.9%	5.6%
Headline operating profit[2]	119	129	(7.8)%	
Headline operating margin	13.2%	16.0%	(2.8)pt	

- Strong growth across all businesses
- CMI (Healthcare media) delivered double-digit growth in 2022
- Landor & Fitch: double-digit growth from CPG and Technology clients
- FY LFL growth +9.1% excluding impact of COVID-related contract in Germany in 2021
- Design Bridge and Superunion merged to create Design Bridge and Partners in January 2023

LFL REVENUE LESS PASS-THROUGH COSTS GROWTH (%)

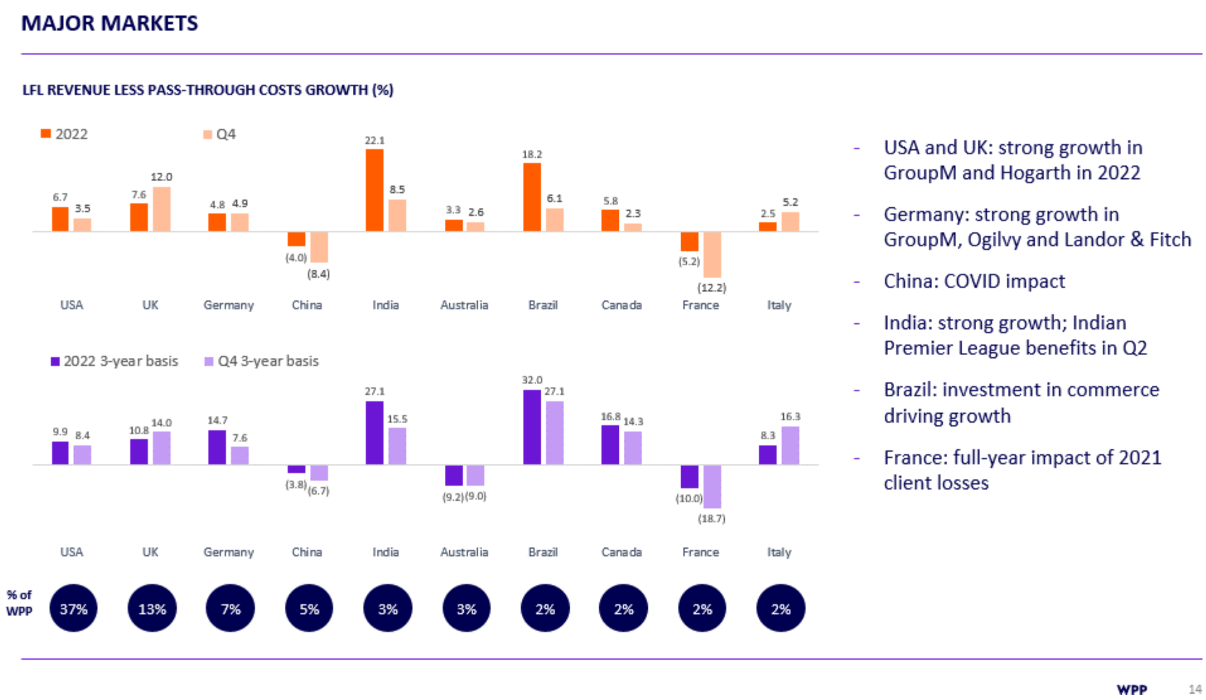
8% of WPP in 2022

1. Prior year figures have been re-presented to reflect the reallocation of a number of businesses between Global Integrated Agencies and Specialist Agencies. This increases Global Integrated Agencies' FY 2021 revenue less pass-through costs by £44 million and reduces Specialist Agencies' by the same amount.
2. Prior year figures have been restated to reflect the reallocation of a number of businesses between Global Integrated Agencies and Specialist Agencies. This increases Global Integrated Agencies' FY 2021 headline operating profit by £6 million and reduces Specialist Agencies' by the same amount

WPP 13

Moving on now to our Specialist Agencies. So we saw good growth across the business, actually delivering like-for-like growth of 5.6%. But if we reflect the fact that we had a one-off COVID related contract in 2021, which benefited that year, if we stripped out that one-off contract, then actually growth in 2022 would have been 9.1% on a normalized basis. So the underlying performance of this sector is very strong, particularly call out CMI, Landor & Fitch, both of which were up double digit year-on-year.

Headline operating profit of GBP119 million, down 7.8%, but again, reflecting the one-off contract benefit coming through in 2021. And the same on our margin, 13.2% year-on-year, declined given the COVID contract. Worthy of mention, again an example of simplifying our business, we combined Design Bridge and Superunion in the year to form Design Bridge and Partners.



Coming on now to our geographic performance across our major markets.

Good growth in the U.S., pretty much in line with the rest of the group. Worth calling out GroupM that saw double-digit growth in our U.S. market, and actually even moved from the third-place market position to the second-place market position.

The U.K. actually was very strong, up slightly higher than our overall growth, 7.6%, a really strong fourth quarter, surprising given some of the negative economic headlines at the time. And our PR business in particular with FGS, Hill & Knowlton, BCW, all delivering double-digit growth.

Germany was up 4.8%. But again, if you stripped out that COVID contract, would have been up on a normalized level by 8.4%.

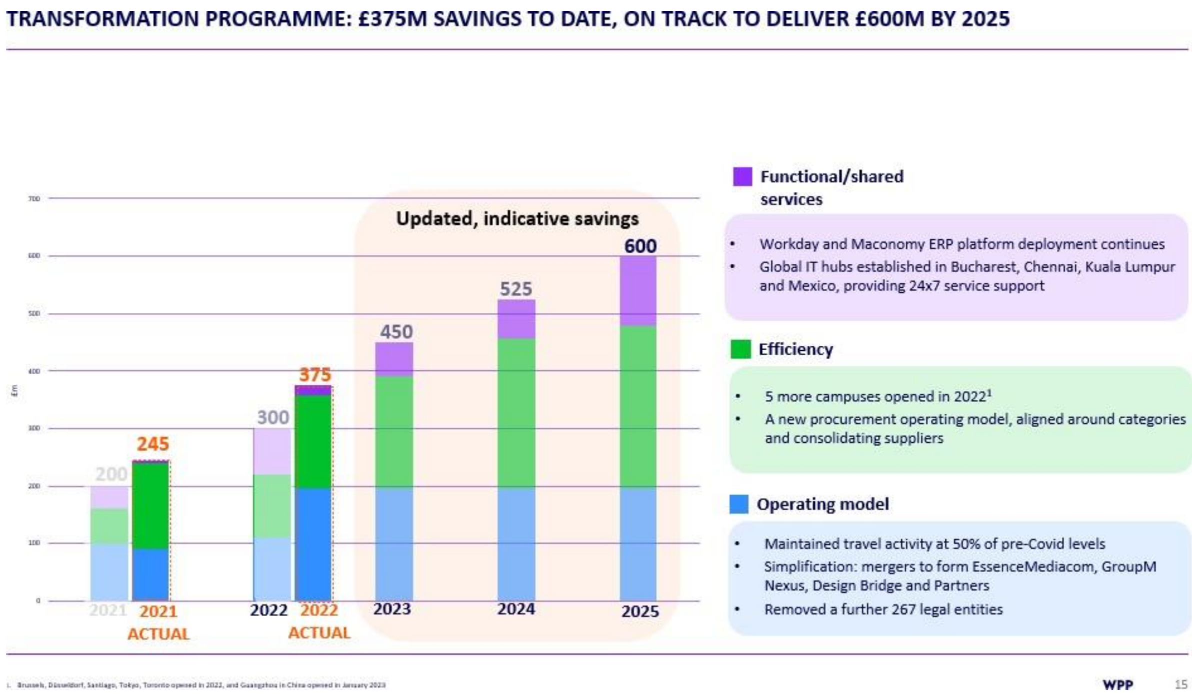
China clearly had a challenging year last year as a consequence of lockdown. So, we saw good growth in the first quarter actually, up 12%, but then the impact of lockdowns saw a decline, minus 6% in Q2, minus 9% in Q3, minus 8.4% in Q4 to deliver an overall negative minus 4% for the year. So, we expect to see a challenging quarter in the first quarter of 2023 given the very tough comp, but we'd expect the performance to bounce back from Q2 onwards.

India continues to deliver strong growth, double-digit growth, albeit slowing slightly in the second half. GroupM actually within India grew almost 30%. So really strong growth from GroupM.

And Australia, solid performance with double-digit growth from our PR businesses.

Brazil continues to be strong, particularly call out (inaudible) and DTI Digital. Actually on a year-on-year, we were up 18.2% in Brazil. And over the last three years, we've been up 32%. So that's been a really solid performance on a three-year basis.

And France continues to be challenging as we absorb some of the client losses that we saw in 2021.



Coming on now to our transformation program. As Mark mentioned earlier on, we've delivered GBP375 million of savings to date. That's ahead of our GBP300 million target. And we expect to deliver or we're confident to deliver the GBP600 million by 2025.

If you look at where these savings generate from, starting at the bottom with the blue bar, the operating model is really as a result of greatly simplifying our business over the last two to three years. And in the last year, continuing that journey with the creation of EssenceMediaCom, GroupM Nexus, again, joined together with Finecast and Xaxis, and Design Bridge and Partners I've already mentioned.

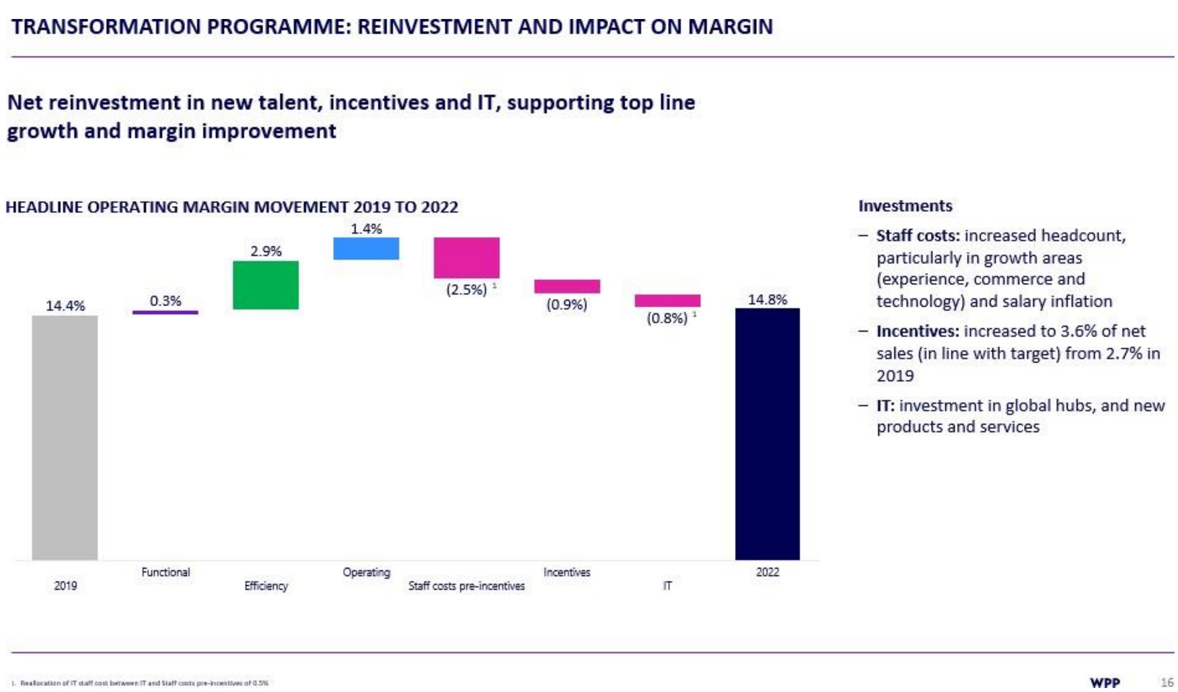
We've also significantly removed a large number of our legal entities as we continue to simplify the overall grid structure. And again, we've made changes to the ways of working, particularly as a consequence of reduced travel, all of which has contributed to those savings in that blue bar.

We also see savings as a consequence in the green bar, what we call our efficiency savings, as a result of investments in our campus program. We now have 37 campuses across our business, 5 new ones in 2022, and we think we'll do another 5 to 6 in 2023. And of course, by 2026, we anticipate having about 70%, 75% of our people all located in our global campuses.

We've made significant changes to the way we operate in our procurement function. We've now driven the organization towards a much more category-driven model, and we started to see the benefits of that come through in savings. And in particular in 2023, we expect to see more savings, particularly in the areas of flexible working, and of course, our IT infrastructure.

And we continue to, obviously, roll out new systems, our ERP program, combination of Maconomy, which we've rolled out in APAC in 2022, and we anticipate in 2023 we'll roll that out in South America. And Workday, of course, where we're rolling out Wunderman Thompson in North America, and we've also rolled out the people component of that package in the U.K. as well.

And at the same time, of course, is putting in place new systems. We're able to put in place shared services. We put shared services in operations in APAC as well as North America as a consequence of that systems investment.



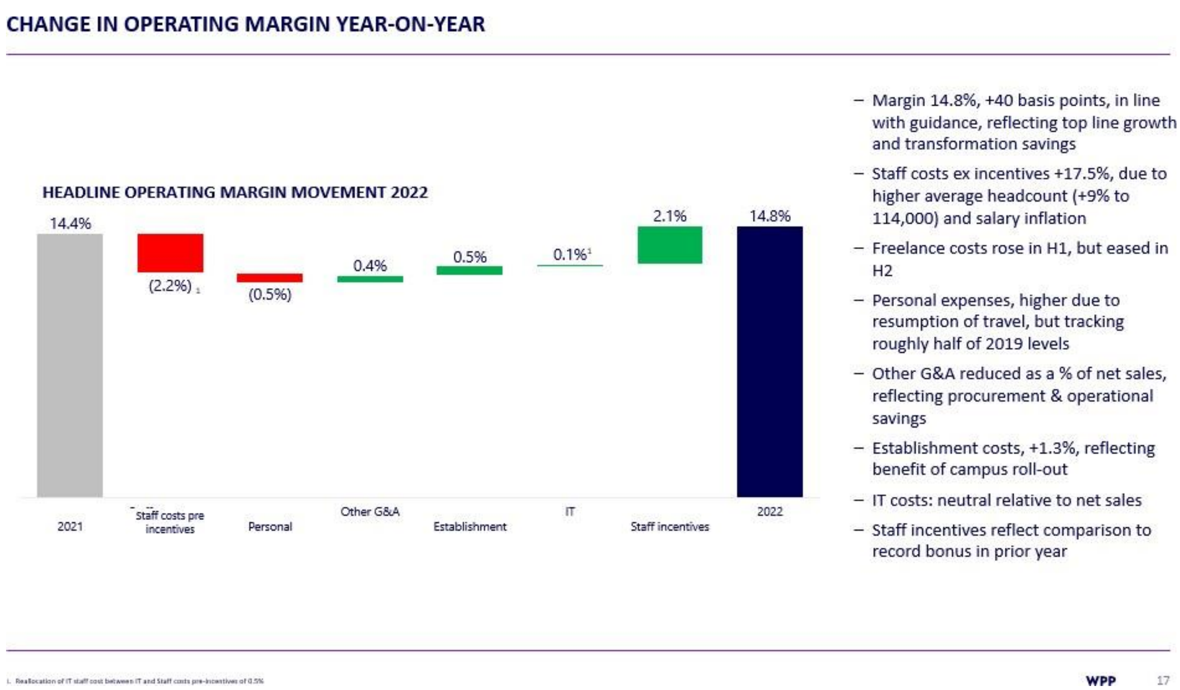
So, what does all that mean in terms of margin as consequence of these savings? And so you'll see when we set out our transformation plan back at the Capital Markets Day in December 2020, we talked about the ability to deliver efficiency in operational savings in our business, and that's clearly what's reflected on the left hand side of this slide and the numbers I've just taken you through.

We also talked about the need to invest in our business to grow our top line and to support our people. And this is what this chart sets out. You see on this chart investment very much in our people and our talent, reflected in that 2.5% shown on the chart. We've also invested in our incentive schemes, are going to normalize those to levels that we would expect to be paying out. And we see that and we talked very much about that in 2020.

And also in our IT infrastructure as well. There's an element, I say, of technical debt through years and years of underinvestment that we've had to play some catch-up on. We're investing in our IT systems in order to make the lives of our people easier and to free up their time so they can focus on actually supporting and working for our clients.

If we were to look at the shape of this, how this might change over time as we progress over 2024 and 2025, I'd expect to see that overall net investment in our people start to reduce somewhat as we start to see the payback of investing in our talent. We start to see the operational leverage come through. We're also getting more efficiency gains through a better balance of our freelance and our permanent mix, increasing offshore activities, for example, and also back-office efficiencies, all of which should to see start to pay dividends, and we'll see that net investment in our people start to reduce between 2024 and 2025.

I would say from incentives perspective, that will remain relatively static. We've now got our incentives on a broadly normalized level. So, we expect to see that investment to be consistent over '24 and '25. And on our IT, we'd expect to see that net investment reduce over time as a consequence of getting some of the payback on the investments that we've been making in 2022 and also in 2023. So, an overall improvement in margin. And in fact, from 2025 and 2026, we will start to see our IT costs come down as we see that investment pay back.



So, just showing the margin bridge between 2021 and 2022. So, 40 bps of margin accretion. Again, we saw the net investment in people come through, particularly in the first half of the year, where we were carrying quite a lot of freelance costs as a consequence of having to bring resource into the business to cope with higher-than-expected client demand. We saw an investment in our personal costs, reflecting the fact that people coming back to traveling in 2022 versus 2021. Albeit important to note, there are travel costs in 2022, we're still roughly half of what they were pre-COVID, so in 2019. So significant saving overall reflected in the previous chart that I've just taken you through.
Procurement savings and finance savings coming through, delivering 40 bps of upside in our D&A costs. And our campus program, again, continuing to pay back as we invest 50 bps of upside coming through

there. And given that our incentives in 2021 were so high, we had a record year of incentives in 2021. We also saw a benefit as a consequence of moving to a more normalized level of incentive pay out in 2022. Overall, though, the 40 bps of margin accretion that we guided to.

Just to give you a little bit of a view as to shape of 2023. We expect to see some relative improvements in terms of our staff cost investment, and probably offset a little bit by more investment into our IT infrastructure, particularly as we start to shift to the cloud and actually also drive improvements in our colleague experience. As I said, we expect to see that pay back in 2024 and 2025.

RESTRUCTURING: TOTAL COSTS IN LINE WITH GUIDANCE

YEAR TO 31 DECEMBER	2022 £M	2021 £M	Δ
Restructuring and transformation costs			
Severance	22	12	10
Establishment & other	47	40	7
Enterprise IT	38	31	7
Sub-total	**107**	**83**	**24**
ERP (Workday and Maconomy)	97	63	34
Total	**204**	**146**	**58**
Restructuring costs relating to COVID			
Severance	-	1	(1)
Establishment & other	15	29	(14)
Total COVID-related	**15**	**30**	**(15)**
Total	**219**	**176**	**43**
Total ex ERP (Workday and Maconomy)	**122**	**113**	**(9)**

- Restructuring excluding ERP costs in line with indication of £120m
- ERP (Workday and Maconomy) in line with indication of £100m
- Workday and Maconomy estimated at c.£80m for 2023
- Other restructuring cost estimated at c.£100m for 2023

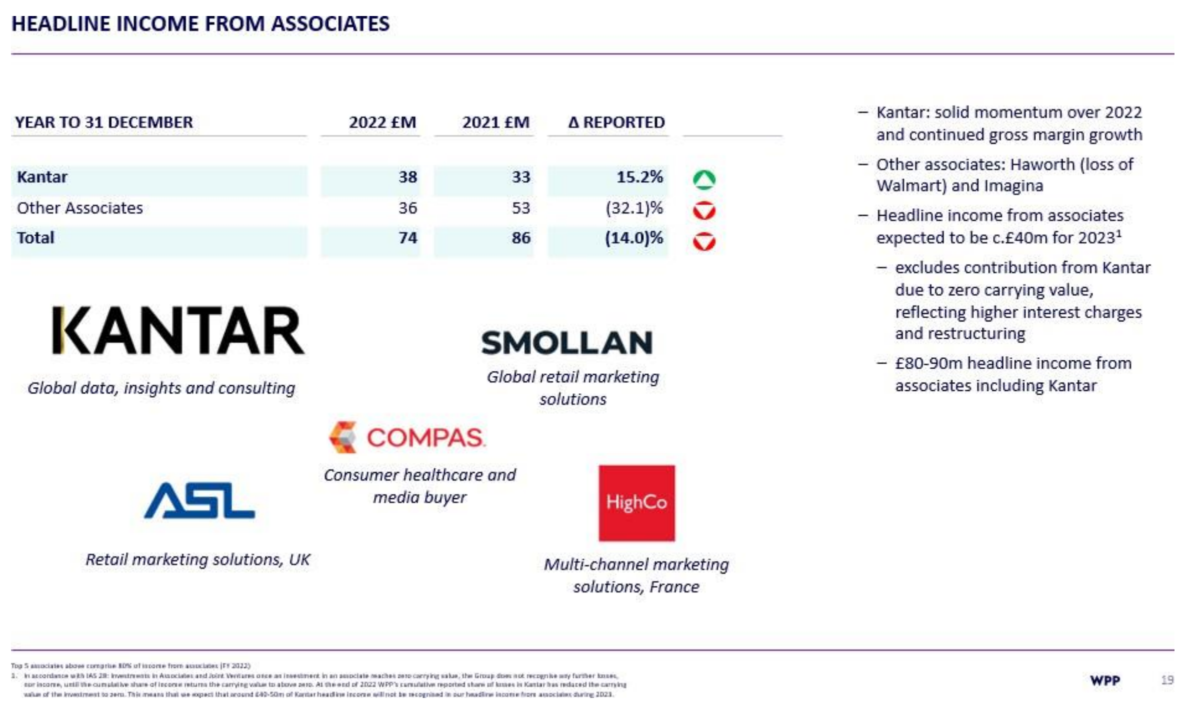
WPP 18

Coming on now to our restructuring costs. Again, in line with our guidance. Last year, we talked about Workday costs of GBP350 million between 2022 and 2025. In '22, we actually invested GBP100 million in Workday in line with the guidance. So that gives us GBP250 million to spend over 2023 to 2025. So roughly GBP80 million a year over the next three years.

In 2022, we had other restructuring costs of around GBP120, which are largely IT and property-related to deliver overall restructuring costs of GBP220 million, GBP290 million, in line with the guidance that we gave you.

For 2023, as I've said, expect another GBP80 million or so from Workday and another GBP100 million in other restructuring to give a total of GBP180 million. So down year-on year. So GBP180 million in 2023 versus the GBP220 million in 2022.

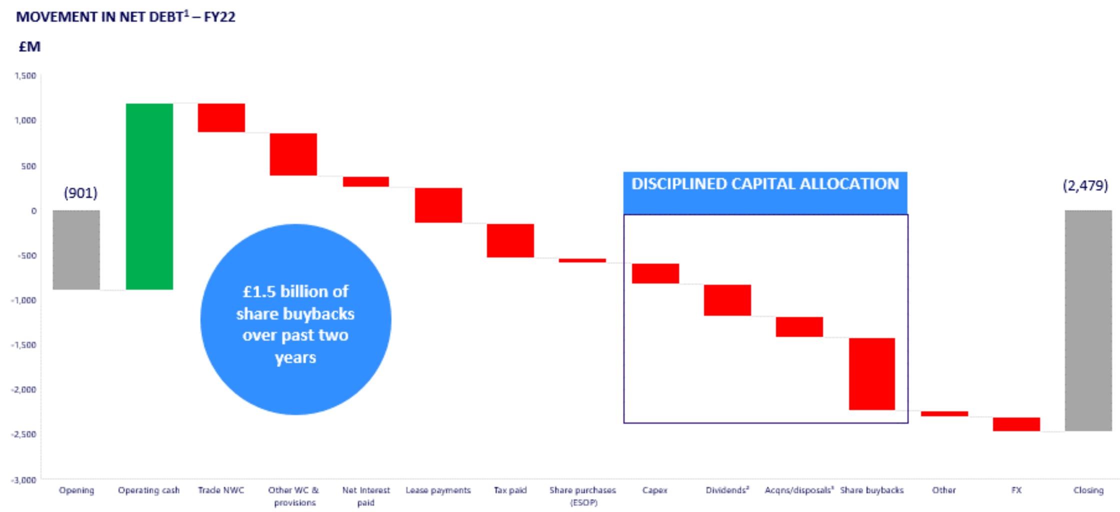
We will also conduct a broad review of our property portfolio through 2023, but with particular focus on the U.S. markets, giving the existing usage and also a change in the hybrid ways of working. And once we've completed that property review, we do expect further restructuring charges to come through in 2023, albeit they will largely be of an accounting nature, not a cash impact.



Coming on now to headline income from associates, GBP74 million versus GBP86 million in 2021, so a slight decline year-on-year. The movements there actually, Kantar has improved, it's gone up. And the rest has gone down slightly. So, a net reduction year-on-year. Our guidance actually for 2023 is GBP40 million of associate income. The reason why that's significantly lower than historically is because the carrying value of our Kantar investment has dropped to zero as a result of large restructuring costs and interest costs associated on the debt, which means from an accounting perspective, we cannot recognize that associate income from Kantar.

The GBP40 million is effectively net of that associate income from Kantar. If we were able to include that associate income, that number will be closer to GBP90 million to GBP100 million. It's important to recognize also that, that is an accounting adjustment, there are absolutely zero changes to any cash flows.

NET DEBT, CASHFLOW AND SHAREHOLDER RETURNS

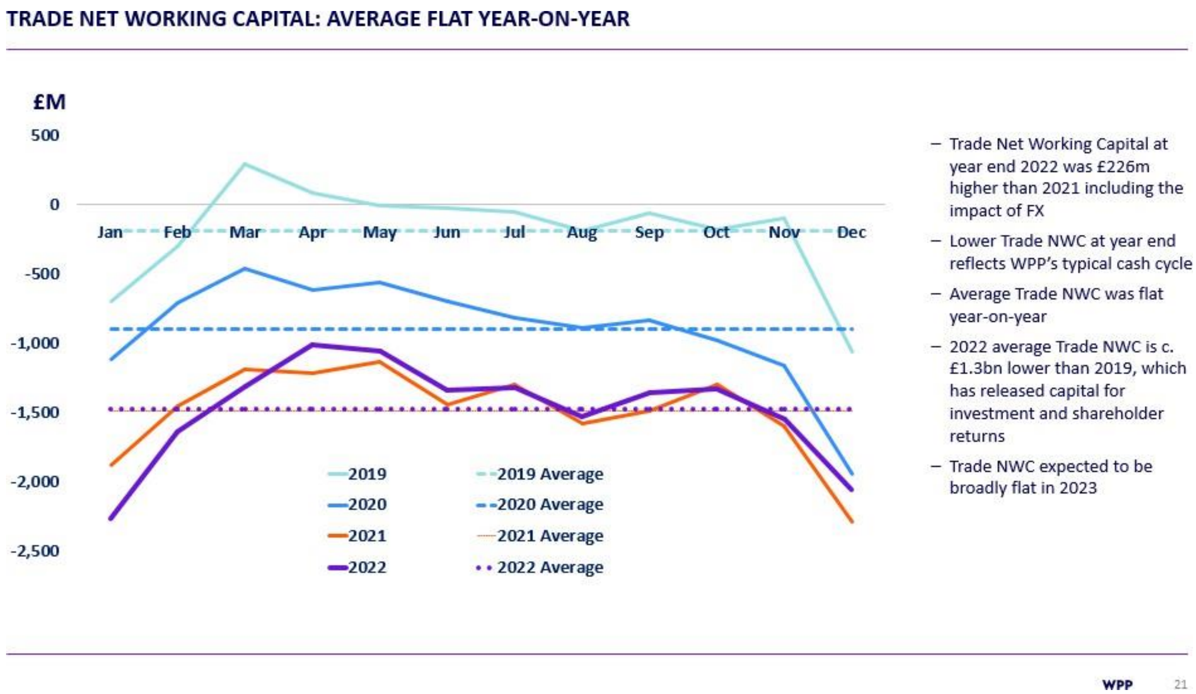


1 Itemised movements in adjusted net debt represent management figures, which may vary from the presentation of the cash flow under IFRS
2 Dividends to shareholders
3 Acquisitions/disposals exclude earnout payments

WPP 20

Coming on now to our overall cash position. Strong operating cash flow of over GBP2 billion. We did have outflow of net working capital at the year end, and I'm going to talk you through that in a second.

CapEx of GBP223 million was a little bit lower than what we guided to. Cash dividends. Obviously, net acquisitions and disposals of GBP237 million. And a share buyback of GBP800 million, which we signalled at the beginning of the year. And actually, that's if we look at the last two years, we've returned GBP1.5 billion of cash to our shareholders through share buybacks, all of which resulted in a year-end net debt of GBP2.48 billion.



Just coming to that net working capital position. You can see from the slide; this shows the net working capital position 2019 through to 2022. And you can see at the very bottom there, there between that blue and the red line at the bottom, we saw an outflow actually of about GBP230 million or so year-on-year between 2022 and 2021.

That said, if you look at the average performance, our average net working capital month by month through the year, you can see from the chart, and I can assure you mathematically that it is level year-on-year. So we really had some, I would say, timing differences at the year end. I think also our Creative Agencies grew better than we expected, and you saw that in the numbers. And our Creative Agencies tend to absorb working capital. And our media business, albeit grew well, didn't grow quite as well as we were expecting. And therefore, tends to be a generator of working capital. So
net-net, that's explains the year-end position.

But in terms of guidance for your models for 2023, we expect net working capital to be broadly flat. We do expect to see small operational improvements come through, offsetting the overarching continued growth of the business.

LEVERAGE METRICS

YEAR TO 31 DECEMBER	2022 £M	2021 £M	Δ £M
Average net debt[1] on constant currency basis	(2,928)	(1,572)	(1,356)
Average net debt[1] on reportable basis	(2,928)	(1,565)	(1,363)
Net debt[1] at 31 December on constant currency basis	(2,479)	(1,074)	(1,405)
Net debt[1] at 31 December on reportable basis	(2,479)	(901)	(1,578)
Available liquidity at 31 December	4,144	5,458	(1,314)
Headline finance costs[1,2]	(118)	(124)	
Interest cover[1] on headline operating profit	**14.7x**	**12.0x**	
Headline EBITDA[1]	2,004	1,751	
Average net debt/headline EBITDA[1]	**1.46x**	**0.89x**	

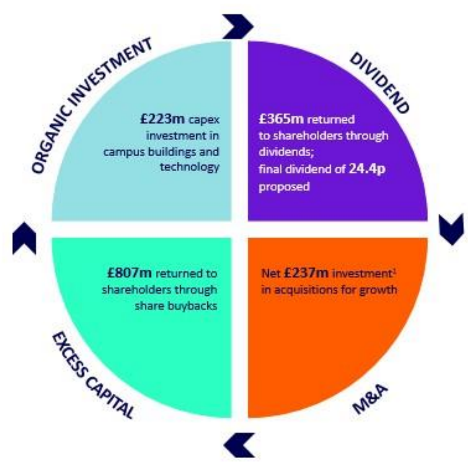
1. Net debt, headline finance costs, interest cover, headline EBITDA, exclude impact of IFRS 16
2. Headline finance costs of £118m (2021: £124m) excludes £96m (2021: £91m) IFRS 16 impact of all leases

WPP 22

Coming on now to our leverage metrics. Net debt just under GBP2.5 billion, an improvement in our interest cover. And our net debt to EBITDA ratio exiting the year at 1.46x, this is the average for the year, 1.46x, just below the 1.5x to 1.75x target range. So slightly better than the guidance that we gave you.

CAPITAL ALLOCATION : INVESTMENT IN GROWTH & SIGNIFICANT RETURN OF EXCESS CAPITAL

- Cash flow invested in growth, organically and through bolt-on acquisitions to expand in growth geographies and enhance our offer to clients
- Bolt-ons included Village Marketing, Passport Brand Design, Diff and Fenom Digital in North America; Bower House Digital in Australia; Corebiz and JeffreyGroup in Latin America; and Newcraft in the Netherlands
- Over £1.1 billion total cash returns to shareholders in 2022, including £807m buyback and £365m in dividends paid
- Over 25% growth in 2022 dividend year-on-year
- Strong and flexible balance sheet; FY22 average net debt/EBITDA at 1.46x (below the leverage target of 1.5 – 1.75x)



1. Excludes earnout payments

WPP 23

And again, just a reminder of our capital allocation strategy. So organic investment, the first priority, GBP223 million of CapEx, particularly into our campus and our IT program. But also P&L investment in areas like Choreograph and GroupM Nexus, for example. Cash dividends of GBP365 million. And we had investments in M&A of GBP287 million, offset by disposals of GBP50 million in the likes of Village Marketing and Fenom Digital and Bower House Digital and Corebiz, all of these in high-growth areas of commerce, experience and technology, helping that long-term growth of our business.

And then, of course, our strategy is to return any excess capital within the boundaries of our 1.5x to 1.7x range. Hence, the GBP800 million plus share buyback that we saw in 2022. Given that the average is now 1.46x, and we expect that to be 1.5x, 1.6x as we travel through 2023, we're not intending to buy back any shares this year other than those to cover the dilutive impact of our very share program, so about GBP50 million or so in total. This will enable us to capitalize, of course, on any M&A opportunities that come our way.

2023 AND MEDIUM-TERM GUIDANCE

2023 Guidance

Like-for-like revenue less pass-through costs growth of 3-5%;
further margin improvement reflecting continued operating leverage to deliver a headline margin of around 15% (excluding the impact of FX)

- M&A contribution will add 0.5-1.0% to revenue less pass-through costs growth
- FX benefit to revenue less pass-through costs of around 1% at current rates
- Headline income from associates expected to be around £40m[1]
- Headline tax rate (based on headline PBT including associates) at 27.0%
- Restructuring costs of around £180m
- Capex £300m
- Trade working capital expected to be broadly flat
- Average net debt/EBITDA within the range of 1.5-1.75x

Medium-term guidance:
- Revenue less pass-through costs growth of 3-4%, comprising 2.5-3% LFL growth and 0.5-1% contribution from M&A
- Headline operating margin of 15.5-16.0%

1. In accordance with IAS 28: Investments in Associates and Joint Ventures once an investment in an associate reaches zero carrying value, the Group does not recognise any further losses, nor income, until the cumulative share of income returns the carrying value to above zero. At the end of 2022 WPP's cumulative reported share of losses in Kantar has reduced the carrying value of the investment to zero. This means that we expect that around £40-50m of Kantar headline income will not be recognised in our headline income from associates during 2023.

WPP 24

And lastly, just to take you through the guidance for next year for 2023. So, like-for-like revenue less pass-through cost growth of 3% to 5%. And further margin improvement, reflecting continued operational leverage to deliver a headline margin of around 15%. And we've hopefully set out the rest of the detailed guidance for you on this slide. And we reiterate, of course, our medium-term guidance to get to 3% to 4% growth and 15.5% to 16% also in the medium term.

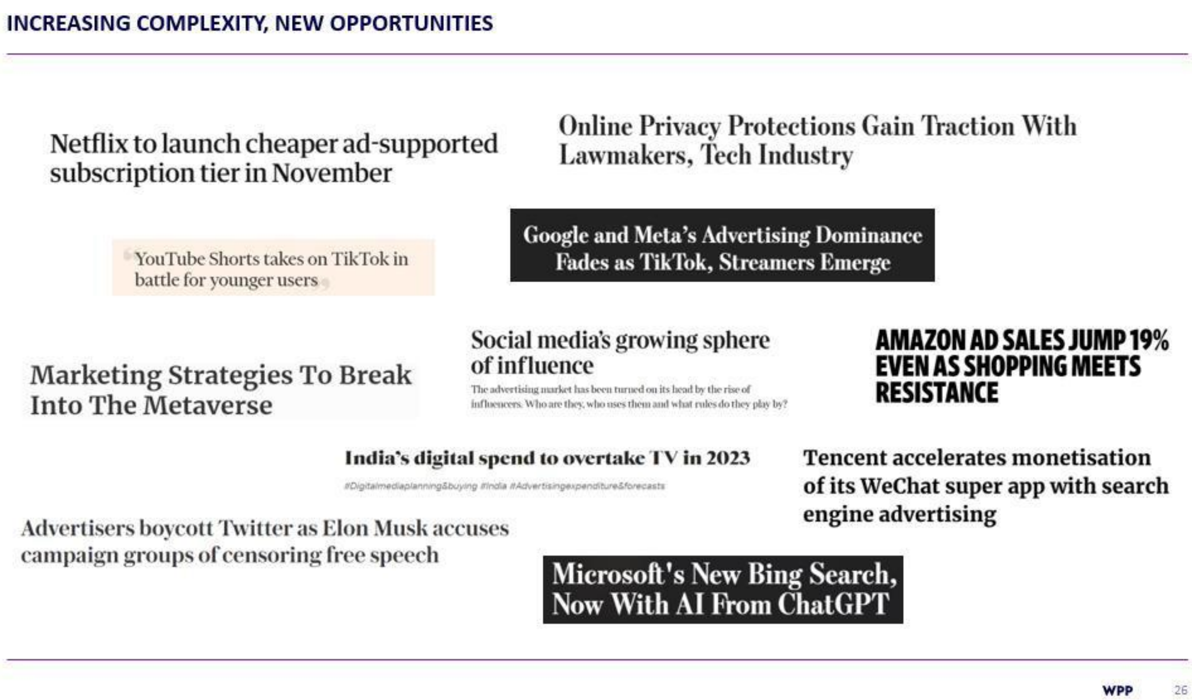
So that's it from me. Thank you, and I'll hand back to Mark to cover the strategic progress.

Strategic Progress

Mark Read

Chief Executive Officer

Very good. All right. So, thank you, John. And look, at the end of John's presentation, you shared the guidance of 3% to 5% for next year. And I think -- well, I'd like to just talk about our strategic progress in the context of the guidance or the guidance in the context of our strategic progress, what's changed to give us the confidence that we can deliver that growth next year. I think it's reasons that are external to the environment, so what clients are doing and what's happening in the market, and the number of reasons that are linked to WPP and the changes we've made at the company over the last four to five years.



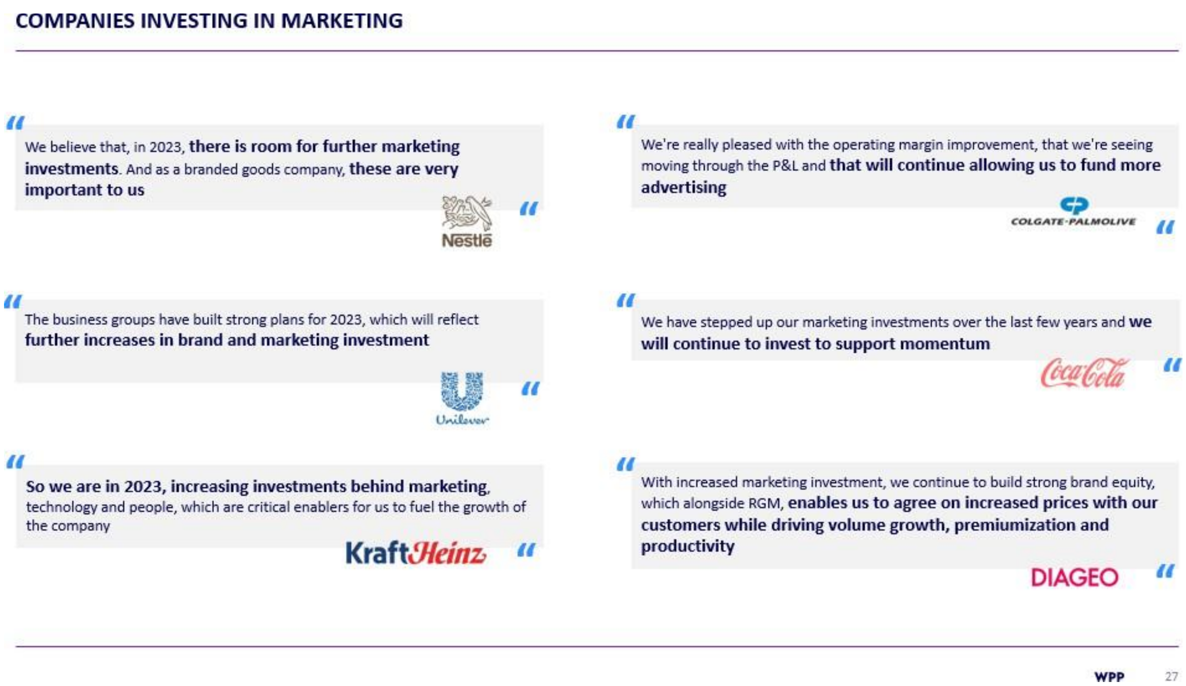
But if you look at the external environment, it's clear it's an environment of increasing complexity, but an environment where there's also new opportunities for our clients. We're operating in a more competitive media environment. New platforms like TikTok growing, YouTube launching Shorts, Meta launching Instagram Reels, WeChat taking search advertising for the first time. So, it's a more competitive media landscape, more choices for clients. Those channels are technology and data driven, so they need more analytics, they need more media savvy.

They also need new creative work and new creative opportunities. And all this complexity is driving new opportunities for clients. And I think there's new opportunities to advertise on platforms like Netflix or to invest behind TikTok. And all of these channels need new content and new ideas, and quite often, different types of content from other channels.

So that's leading our clients to look much more fundamentally at their investments and whereas perhaps four, five years ago, they look at television advertising and think about how much they should spend there. Today, they're faced with a plethora of choice, they need to maximize their choice.

And some of the questions we've had around the growth of the platforms, so the platforms disintermediate WPP. My view is they empower us. They empower our people to do different and better types of work, and they empower us to grow if we do our job correctly, and that ultimately is the critical point.

So, I think the external environment is more complicated.



And faced with that, I think clients are also investing more in marketing, and these are some of the statements we've seen from clients' reports over the last couple of months. And a number of you have analysts picked up on that. Ask yourself the reasons for that. Is it because they saw the renewed importance of communicating with their customers during COVID? It's certainly driven by their desire to invest in brands at a time of high inflation when clients are facing volume reduction and price increases. They understand they need to reinvest some of that margin back in brands to communicate with customers to secure their place in retailers. And you can see that in the results. You can see yourself what Coke is saying, we'll continue to invest to support momentum. Or Colgate, we'll continue to invest margin improvement in the P&L to allow us to fund more advertising. Or Unilever further investments in brand and marketing -- further increases in brand and marketing investments.

So consistently, and while most of the commentary is from consumer packaged goods companies, I think you're seeing this consistently across our client base. Amazon today is the world's largest advertiser from nowhere 10 years ago. I think clients understand the importance of marketing, they understand the importance of what we do, and they're continuing to invest despite the challenges of the global economy.

But it's not just the external environment that's changed. WPP has changed as well.

Today, we have a broader, a much more modern offering. We set out four years ago this new understanding of our offer from communications, experience, commerce and technology. And today, while about 75% of our business is in the communications business, 25% of our business is in experience, commerce and technology.

And I think maybe one thing that's changed is an understanding of the value of communications. When we set this out, we had a growth rate for communications of 0% to 3%, and 5%, 10%, 15% in the other areas. Actually, last year, while the experience, commerce and technology part of the business grew at 9%, the communications part of the business grew at 6% because there are big growth opportunities in communications, whether that's influencer marketing and social media. The example here of work we did for Ford in Europe, or retail media or programmatic media within communications. GroupM today get 48% of their business from digital media. That's up significantly over the last four years.

But there's also strong growth areas in experiences work we did for Haleon, the new AI-driven application that lets you look at packaging and see what's on the packaging, whether we build the Xbox e-commerce platform from Wunderman Thompson, or the work that Ogilvy and GroupM did together for Mondelez in India using AI to create millions of versions of commercial that Indians all across India put out across social media.

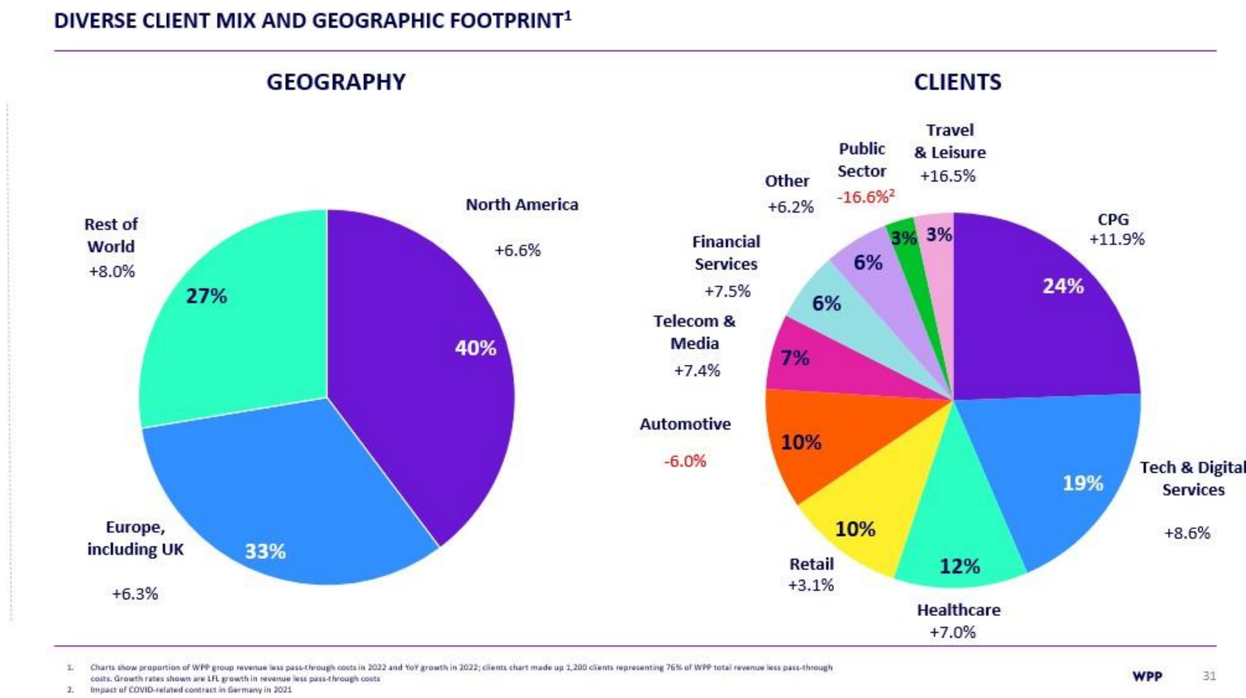
So, our offer is different. It's broader. It's more relevant to clients. And it's more integrated.

At the same time, as a company, we have a simpler business with stronger brands, whether that's great brands like Ogilvy or AKQA or Public Relations, FGS Global or BCW. And the simplification we've done in our design and brand identity. Our structure has changed. We go from hundreds of brands to really 12 or 13 key brands. And each of these brands are stronger, more relevant and more differentiated in the market, in my view, and our business is simpler and easier, somewhat easier to manage.

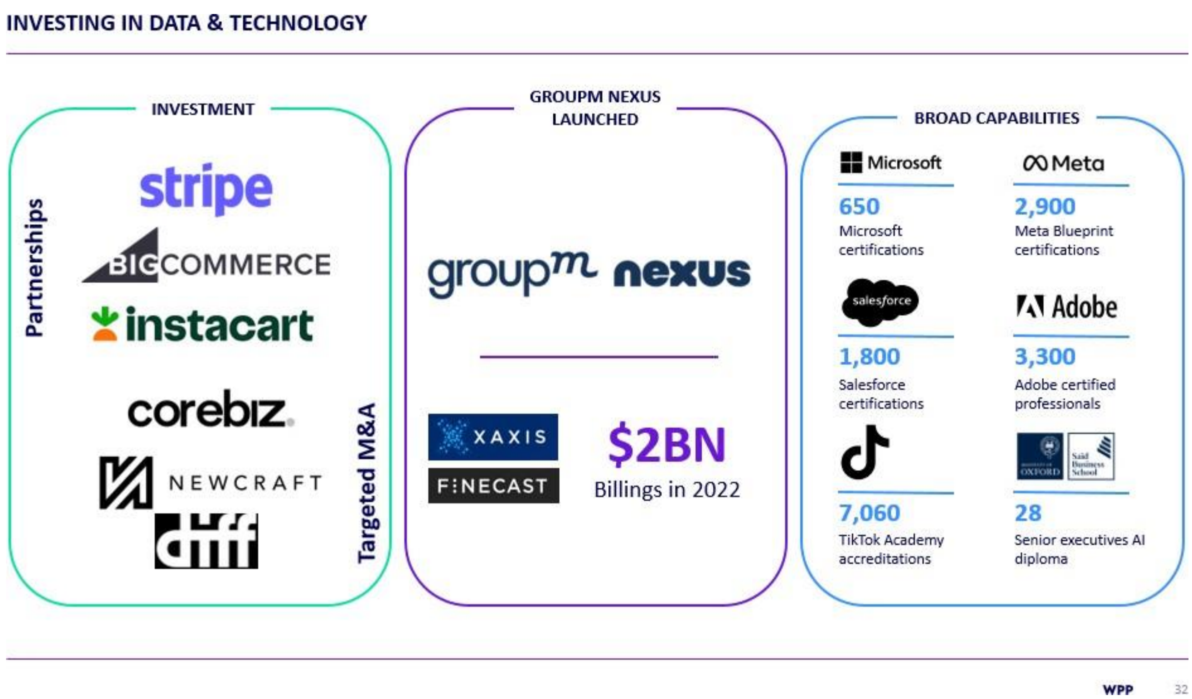
And those brands, I'd say, are delivering world-class work, and that work is recognized in our industry. At Cannes last year, WPP was Creative Company of the Year for the second year running. The last time we achieved that was 2017.

Ogilvy was Network of the Year. The last time that they did that was 2016. I think our work is getting better. It's getting more recognized.

Interestingly, FGS Global, of those of you who saw the Mergermarket table, FGS Global was the lead M&A advisor, not just globally, but in the U.S., in Europe, and in Asia. They're creating a powerhouse in strategic communications. Or the recognition of AKQA by Fast Company for the world-changing ideas that they create for their clients. Our work is better, it's better recognized.

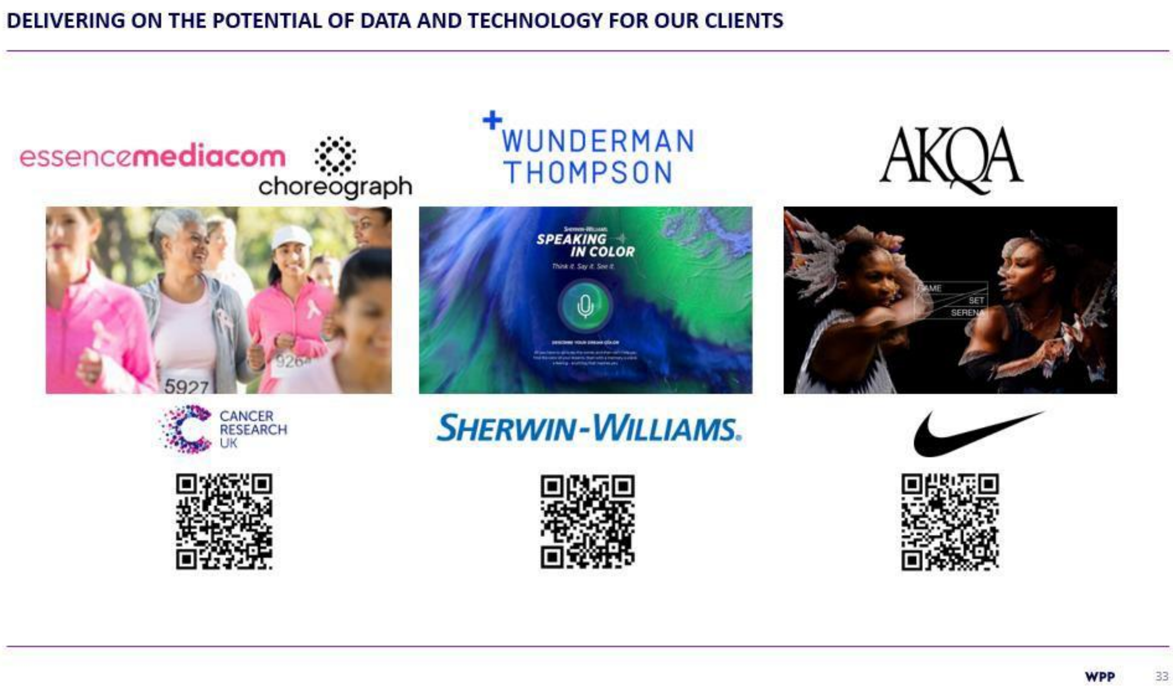


While our geographic position and client portfolio may not have shifted, I think it does give us confidence as we look at 2023, particularly the breadth of our geographic spread and the breadth of our client portfolio. In particular, I call out here our performance in the rest of the world. China is 5% of our business, it's not a major part of our business, but in the opening of China will help the result particularly from the second quarter on. But we have a broad-based business geographically and a broad-based business from a client perspective. And you can see our strength in CPG that perhaps four, five years ago, we've seen as a weakness, is perhaps now being perceived as a strength.



We're also continue to and have continued to invest in the business. We focus here a lot on our work around e-commerce partnerships with the likes of Stripe and Instacart, and acquisitions of Corebiz, Newcraft and Diff in the e-commerce space. We launched GroupM Nexus to bring a lot of our digital media operations together. That makes it easier to automate. It makes it easier to offshore, makes it easier to invest. And Xaxis and Finecast in programmatic media and connected television continue to grow, delivering $2 billion of billings last year and growing very strongly, particularly in connected television. But we continue to train and invest in people that can help our clients understand the platforms produced by the likes of Adobe and Salesforce and Microsoft and Meta. That's another big area.

There's been a lot of attention over the last few weeks on generative AI. And personally, I've sort of played around a lot with ChatGPT and whether or not it's going to fundamentally revolutionize search. It certainly captured the world's attention. I thought we'd talk a little bit about our work through the context of AI. It's an area we've been investing in for a number of years at WPP. We acquired Satalia, an AI company, two years ago here in the U.K., which is home actually a lot of the innovation that's going on in the AI sphere. And I thought we tried to bring to life what we do for clients using AI through a few examples.



The first example is work that EssenceMediacom did for cancer research in the U.K. And what's important about this work is the ability to use AI, not just to reach and target new audiences, but also to tailor the creative to those new audiences. And in this particular case, to use that not just across digital out-of-home, but also on connected television. So, if you're watching TV through your connected TV box in your living room that's connected by Wi-Fi, you'll see a different ad depending on what country you are in the world. We actually had to get those ads through the U.K. Clearance Authority, which I assure you is not easy because they like to see every word that's written. This notion of automating, delivering ads on the fly is difficult.

Let's see the work that EssenceMediaCom did for cancer research.

(Audio-Video Presentation)

Okay. So, you can see there how we're using AI to improve our media performance to tailor creative to particular audiences, all leading to better results and better performance to clients.

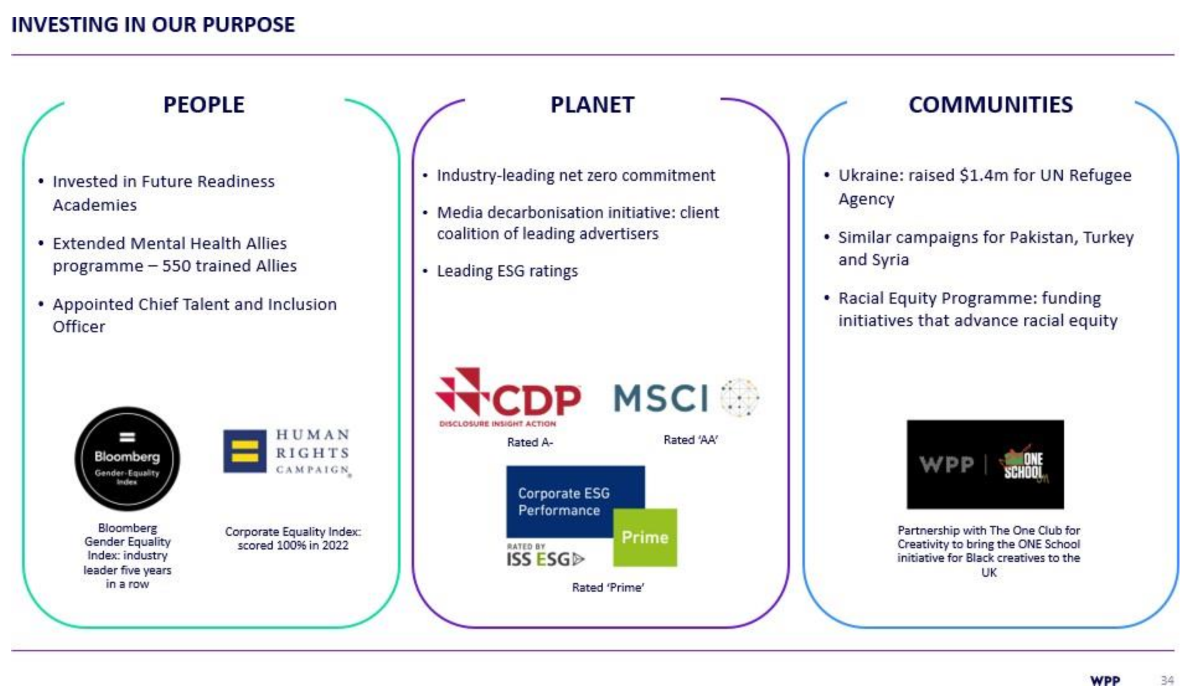
The next example is in e-commerce, and it's an example of why we think creativity can be applied in all areas of our business. So this is an example for paint. If you thought that watching paint dry was a boring experience, this shows how you can make the paint purchasing process more exciting and more interesting for consumers using the power of AI. So let's show this film.

(Audio-Video Presentation)

So that shows how consumer speaking, you couldn't hear them, will talk to different colors and produce those colors in the paint. Now the last example shows how we can use AI to bring something to life that wouldn't be brought to life. And this year was the last year of Serena Williams' career. And AKQA worked with Nike to bring Serena's matches back to life and have Serena play Serena over the last 27 years, analyzing 130,000 games that she plays. Let's see the work that AKQA did for Nike.

(Audio-Video Presentation)

So, I think that shows what AI can do in our business, whether it's targeting media, creating new customer experiences, or bringing ideas to life. And I don't think there's an area of our business or indeed any business that isn't going to be touched by it. For us, it's very relevant, as I said, in our media business. It's very relevant as an assistant in the creative process. I don't believe -- the good news is never going to replace creativity, but is an aid in the creative process. It can certainly aid in automating processes that are largely done by people. A lot of our production work will be more automated, and that will help us reduce cost to clients, bring our work to them more efficiently, and deal with a plethora of new channels that need to operate in and will help us in decision-making as well. So, we're really keen on applying that across our business.



Now the last point I want to touch on before wrapping up is our purpose. And we set out a new purpose for WPP five years ago to build a better future for our people, planet, clients and communities, and done a lot of work in this area. In people, I'd highlight the work that we've done in training people, investing in mental health allies, in diversity and inclusion. I'm very proud of the progress we've made as a company in promoting more women and more people from other ethnic backgrounds to leadership positions and other roles inside the company. Made tremendous progress there.

In terms of the planet, we've committed to be net zero in our own operations by 2025, and through the years of production and media by 2030 we're doing a lot of work internally and with other media partners to drive to those changes.

And lastly, sadly, many of the communities in which our people live and work have been impacted over the last few years. I'm struck that tomorrow is the anniversary of the Russian invasion in Ukraine. We're actually three years really from the start of the recognition of the challenge of COVID. We stand on the cusp on the reality of a disaster in Turkey and Syria. And our teams in Turkey are really helping to deliver creative work and creative campaigns to raise money for that region. We have 1,200 people in Turkey. We have 200 people in Pakistan. And while they haven't been directly affected, many of their families and friends have been impacted by the events there.

I think it's important for us as a company, and it's certainly important for our people, to feel that there's something that they can do, and that's an area we want to invest. I think it makes WPP a better destination for people, and I think it makes us a better partner to our clients. So, I think we should be proud of the work that we've done out of that area. So, a lot has changed. And I think as you look at our guidance, and I'm sure we'll come on to it in some detailed questioning shortly. I think that we are looking at good growth next year. I think it's well supported by the discussions and conversations we have from our clients who recognize the environment in which they operate and the importance of what we do. And we are in a position to deliver a strong set of numbers.

IN CONCLUSION: WPP POSITIONED TO DELIVER SUSTAINABLE LONG-TERM GROWTH

- Positive outlook for the industry driven by complexity, new opportunities and client demand
- Our client offer has delivered a three-year CAGR of 3.2% since 2019
  - North America 3.3%
  - Media 5.4%
  - Creative 1.2%
  - PR 5.0%
- Significant progress in transforming and simplifying our business to deliver margin improvement
- Outlook for continued growth and margin expansion in 2023

WPP 35

I think in conclusion, that's why I'd outline really, we're well positioned to deliver sustainable long-term growth. We have a good guidance in '23 on the back of a good year in '22 and a good year in '21. There's a positive outlook for our industry.

If you come back to our overall three-year growth that I think 2019 is really the right point in comparison, we delivered 3.2% growth over that period. And I remember being actually in this room in December 2018 and being asked by, I don't know, Tom or one of his colleagues, what will we deliver? And I think we sort of slightly ducked it by saying peer-level growth. But if you sort of pin me to the ground, I probably would have said 3%. And effectively, that's what we've delivered since 2019.

There were questions I think rightly over time about our growth in North America, which has delivered three-year growth of 3.3%. Remember, we hadn't grown in the U.S. since the first quarter of 2016. We've delivered 3.3% compound growth over the last three years. And there are questions about our Creative Agencies, which while they've grown 1.2% CAGR, that actually grew around 5% last year, and they hadn't grown for many years before 2016.

And our PR businesses have done extremely well, and that's often been a part of the business that are most impacted by this. So I think we can deliver consistent long-term organic growth. Made a lot of progress in transforming and simplifying our business. And we leave the last year and look forward this year for confident or quietly confident in continued growth and margin expansion in 2023.

So thanks you. We're done. And we're here to take your questions.

Mark Read

I think we'll probably take two or three questions from the room, and then Anthony will sort of field questions from the people who are watching us online. So why don't we start with Lina?

Q - Lina Ghayor

Hi. Lina from BNP Paribas. Congratulations on the results and thank you for having us in London. I have three questions.

The first one is on the top line guidance. Can you elaborate a bit more around what you have baked in, in terms of macro headwinds, new contract, cross selling, brands appetite? And what will make the difference between the 3% and 5%?

Second question, very similar on the margin. Can you explain a bit more the moving parts around the 15%, guidance on wage inflation, attrition levels, operating leverage, and benefits from the transformation plan?

And lastly, John, I guess, you mentioned offshoring. Can you elaborate where you stand as a percentage of headcounts currently in offshore centres? And how should we think about your offshoring strategy in the medium term?

A - Mark Read

Okay. So why don't I start on the guidance and let John finish that off, talk about the margin, and we'll come back to headcount in offshore.

Look, I think our budgets and our guide -- well, our guidance is based on our budgets, and our budgets are based on a detailed bottom-up view of what each of our agencies and each of our people have in terms of conversations with clients. I think they're also supported by the conversations we have at a senior level with clients and what you understand clients want to do. And I think we tried to say during the presentation, I think at the end of last year, I think clients were more confident in private than they were in public. So, when I talk to CEOs, they're a lot more positive than they would have been if they appeared on Bloomberg or CNBC about the outlook for the year, because I think everyone was rightly cautious. And I think the general view is the world economy is in a better place today than when people feared it would be back in October and November. And by the way, you hear that consistently across our peers, so our guidance is maybe not as much news to you as it would have been if it had come out a month ago.

I think the second reason is the reasons I talked, clients understand the value of investing. And if you're the CEO of a company, you're looking at, let's say, an FMCG company, looking at price is down 2% -- sorry, volume is down 2%, price is up, say, 7%, total revenue up 5%, you're probably not going to cut your spend. You're probably going to continue to invest in marketing to support the price increases, to support your revenue.

I think that investors are looking for, albeit this is the year of efficiency, store value revenue growth. And there's no doubt that we're a little bit helped, certainly in the top line, by inflation. And I don't mean inflation in terms of us putting our prices up for our clients, I mean inflation in terms of what's happening in terms of client budgets and client spend. So, I think broadly speaking, it's a positive environment for companies to continue to invest. I do think that consumers continue to spend, and that to some extent is behind this. And if there's a catastrophe this year, then things change. But I said back in, when we did our Q3 results, I don't think this year is going to be a catastrophe. And I still -- yes, I still have that view. There will be a slightly softer landing. It may take somewhat longer. You see interest rates -- interest rates and inflation tend to fight against each other. If inflation goes up, so does interest rates. Demand comes off a bit. Prices come off a bit. So, I think we're in for maybe a slightly longer, but a slightly more sort of resilient top line environment than perhaps we certainly would have feared back in October and November.

I don't know, internally, our view has substantially shifted since then. You saw Q4 came in better than people had feared, actually stronger than our Q3, although our Q3 was a little bit skewed by comparatives. So, I think we're pretty confident in the guidance for the year.

After that about margin?

A – John Rogers

Yes. Just maybe help you unpack the margin a little bit. So, in terms of 2022, we saw average sort of staff cost inflation of around 6% to 7%, which is really around 4% in our permanent headcount, but then our freelance inflation was somewhat higher. I think as we move into 2023, we'll see that inflation come off a little bit. So, for our permanent headcount, it will be broadly the same. But actually, we expect to see lower inflation in 2023 on freelance. So, I think average cost inflation on our staff costs will be about 4% to 5% in 2023 versus 6% to 7% in 2022. I think then you've got other investors. We talked about an investment in IT. So, we're going to have to invest in our IT, continue to invest in our IT infrastructure. You saw the investment that we've made over the last three years. We'll continue on that journey in 2023, and we'll start to see the payback in '24 and '25. You'll also see the transformational savings come through, so the GBP450 million that we showed on that chart, the progression towards the GBP600 million.

And then there's other components like, for example, we ought to see a bit of a bounce back, for example, in China. So, China was actually a drag of 20 bps of margin in '22. So, we may start to see, depending on how China fares through the year, some of that bounce back in '23. And we continue, of course, to make investments in Choreograph and other parts of our business.

When you net all of those different moving parts, we're expecting to see a drop-through on our net sales increase this year of the low twenties per cent. Now normally, in a normal year, we'd expect that to be 25% to 30%. It's a little bit lower in 2023 because of the somewhat higher inflationary environment and our desire to protect our clients from price increases as much as we possibly can. So that's why you see a slightly lower drop-through in '23. So that gives you a little bit of a shape on the margin for this year.

In terms of your question on offshoring, we offshore roughly about we got about 10,000 people, you described as being offshored, which certainly helps to mitigate some of our costs and mitigate some of that sort of 5% inflation that we're seeing on our permanent headcount. We'd expect to see that increase over time. We're not going to give any specific guidance on that. There are plans in place to see that increase over time. What we're also seeing increasingly is our agencies move to a much more what we call a distributed model, whereby we use resource in all geographies to serve clients in different parts of the world. So, where we've got low cost or lower cost resource, we're using that resource to help serve client, for example, in the U.S. or in the U.K. So, we're using a much more distributed model, which is not sort of offshoring in and of itself, but it's using the right resource to support our client work in a much more economically efficient way.

A - Mark Read

Adrien.

Q- Adrien de Saint Hilaire

Yes. Good morning, everyone. So, this is Adrien from Bank of America. Good to see you gentlemen. So, I've got a few questions if you don't mind. So, to follow up on Lina's question about '23, can you discuss a bit the phasing of that growth? Would you expect it to be second half weighted? Or do you expect performance to be equally based around the different quarters?

Secondly, I wasn't quite sure, John, why you mentioned that leverage would increase. You said 1.5, 1.6, but not quite sure why. And then to come back on the '23 guidance, Mark, you highlighted 3.2% three-year CAGR, you're guiding on 3% to 5%. I'm not quite sure I understood what's driving the acceleration from 3.2% to like 3% to 5%. Thank you.

A - Mark Read

Yes. I mean on the last point; we are in a more inflationary world in 2023 than we were the last three years. And that may contribute to part of it, I think, would be the simple answer.

And do you want to talk about the phasing, John?

A - John Rogers

Yes. In terms of phasing, it is broadly neutral across the year. I would say probably slightly lower in Q1 because, of course, we've got the comp on China. We saw China grow 12% in the first quarter of last year. So, we've got to annualize that comparative. So, I'd say Q1, possibly slightly lower, and then relatively consistent across Q2, Q3 and Q4. Any question to your point on leverage, I think, again, it's a reflection of the -- we will see a good bounce back in our free cash flow in 2023. We were impacted, of course, in 2022 as a consequence of the net working capital outflow as well as the bonus accrual for '21 and the cash payments coming through in 2022. We'll expect to see that all reverse in 2023. So, we see a strong bounce back to free cash flow generation. But of course, there's CapEx of GBP300 million, other investments, in M&A and so forth. And when you add all that together, I'd expect our net debt position to be somewhere between sort of GBP2.6 billion, so a little bit of an increase year-on-year, but certainly at the lower end of our 1.5 to 1.75 guided range.

A - Mark Read

Okay. Lisa and then Tom

Q - Lisa Yang

Thank you. Good morning. It's a Lisa from Goldman Sachs. Three questions, please.

Firstly, on your mid-term guide, and clearly, you're already at that 3% to 4% level in terms of growth or even outperforming that. So, I'm just wondering when should we expect to get to that 15.5% to 16% margin. Is that 2024, 2025? I think you did say, some of you are going to get some of the payback in the next one to two years. That's the first question.

Second question is on the interest cost. Obviously, a couple of moving parts. I think, given the movement in rates, you should be a net beneficiary because you're getting more interest on your cash. At the same time, you have also lot of maturities due. So, I'm just wondering what you're assuming in terms of, are you expecting to refinance that, or you're happy to be repay down the debt? So, any sort of color on the how should we think about interest cost in 2023, 2024 would be great.

And third question is on Kantar. I mean, clearly, it has performed really well. I think it looked like your guidance for 2023 implies an improvement from, I think, GBP38 million to GBP40 million to GBP50 million. So, can you maybe explain how -- what's underpinning that, like the organic growth expectations, margins, and any sort of plans for an imminent exit? Thank you.

A - Mark Read

Okay. I think, John, why don't you take that, and we'll talk about Kantar and the sort of round as well, I think.

A – John Rogers

So, in terms of your first question, which is when do we think we'll get to the 15.5% and 16%, I think we would say in the next one or two years. So '24, '25 would be what we see as being the medium term, which is about a year later than we guided to when we gave our Capital Markets Day in December 2020, obviously, as a consequence of events that have happened since then and the invasion of Ukraine by Russia. So, about a year later than we originally planned.

In relation to your question on interest. So, we had about GBP215 million of interest cost in 2022. We'd expect that to be about GBP250 million in 2023. It's important that we unpack that because actually that GBP35 million increase, about half of it is actually interest on net debt, and the other half is actually a reduction in income from investments. So, it just happens to be that we've got a whole plethora of investments. We think they will return less. So, we expect to see a reduction in net income. So that GBP18 million or so of the GBP35 million is actually an increase in our interest cost. And when you look at that GBP18 million, you break that down, about 2/3 of it is as a consequence of having slightly higher net debt and about 1/3 of it is as a consequence of increasing rates.

Now our average interest cost at the moment is 3%. We have to refinance a GBP750 million bond this year. We're likely to do that earlier than later. So that will increase our average interest cost to about 3.2%, hence why we're seeing that slight rate increase. But it's important to note that only half of that uptick in interest cost is actually interest on debt. The other half is reduction in investment income.

And in terms of Kantar, I mean I wouldn't want to talk too specifically in relation to the performance of Kantar overall, albeit other than to say that it's performed incredibly well, it has a headline EBITDA of about $750 million at the moment. So, it's performed incredibly well over the last couple of years and continues to grow.

In terms of obviously exits, I'm not going to give you any sort of indications as to when those meet. But I would look at Kantar and we often think of Kantar as being a hidden gem, if you like, in our business.

Again, if you sort of think about the value of Kantar, I mean I'll leave you to do your own modelling, of course. But if you think about the headline income of 750 million or so of EBITDA, and if you applied -- again, you talk a range of multiples, 8x to 12x, you choose your own range, but call that 10x, so that's sort of 7.5 billion. You take off the 3.4 billion or so of debt. That's about 4 billion of equity value. Our share of that is about $1.8 billion, call that GBP1.4 billion, GBP1.5 billion.

With that, that might give you some sort of ideas as to the way we think about the value of Kantar. Now there's lots of assumptions in there and you'll have to make your own assumptions as to that value. But I think it's quite in a way the fact that we're now stripping out, if you like, the income from Kantar from our associates line, makes it a little bit cleaner because you can take that straightforward income EPS, if you like, for the WPP business overall and apply whatever multiple you want to that. And you can then take the value of Kantar and apply whatever you want to, apply to our 40% of Kantar and add the two together.

A - Mark Read

I mean I'd add to that. I think as John said, in some ways, it's easy to look at the value of it. It's a financial investment. We're very pleased with the decision we made to retain 40%, and we're very aligned with Bain Capital loan on the investment. It may happen this year, it may not happen this year, but I think that, that's how we're looking at realizing the value of that investment.

Tom?

Q - Tom Singlehurst

Thank you. Yes. Tom here from Citi. Thanks for taking the questions. I've got a couple on capital allocation, if it's okay.

Maybe we could start with the buyback or lack of. I mean, obviously, the leverage is slightly raised this year for a number of reasons that you outlined. But I'm just interested in your sort of philosophical view on buybacks beyond for the ESOP. Is it -- should we anticipate you returning capital via that going forward in general? Or should we assume, that cash will be held back for M&A and other uses?

And then on that point, can you talk about plans for M&A? And can you talk in particular about retail media investment? Some of the other bigger agency groups have bought dedicated retail media investment-related platforms. I know you have those capabilities within your networks. But do you feel the need to have something dedicated and separate, and could that be part of the story?

A - Mark Read

I mean, I'll talk about how I feel philosophically about buybacks more than the policy, if you like.
Look, I think you can't shrink to grow at the end of the day, and I think there are attractive investment opportunities in our business. And that's what, as a management team, we should be focused on looking at. If after the results and after the acquisition we've been able to make, the dividend we've been able to pay to shareholders and there's money left over, then it makes sense to return that through a buyback. And the substantial buyback that we've done has really been to offset the impact of the Kantar transaction on earnings. So, I think that's really sort of philosophically how we use it.

And that's not to say there won't be buybacks in '23. But I think our priority has to be to invest in the business, to build the capabilities that our clients need, and to allow our companies and our brands to make acquisitions to grow. So that's the priority.

I think on M&A, I mean, I think the focus is clear and it has been. It's technology-related, technology-driven businesses that are sometimes creatively strong, sometimes strong in data. We're very focused on solidifying our partnership with companies like Adobe and Salesforce and Microsoft and Google because that helps strengthen our position with them.

I think we're very focused on the more major markets, so the U.S., Brazil, India, other parts of the world where we have a strong position where actually valuation is a little bit more realistic. But I think the U.S. is a big focus for us from an investment perspective. And here, some parts of the U.K. or the U.K. and some parts of Western Europe where we have a great businesses like Germany, I think, are interesting. So that will be the sort of functional and geographic mix. And I think I go into this year expecting sort of similar in '23 to what we did in '22, 6 to 10, 8 to 10 sort of acquisitions. But there may be we never rule out more interesting opportunities. In terms of retail media, we do have some capabilities in that area. And I think there's two sides, like every economy, two sides to retail media. There's what we do to help our clients invest in retail media. And we have very strong capability there. I believe we're Amazon's single largest retail media partner. We acquired companies like Market Ignition in Seattle I think seven or eight years ago. We acquired an Amazon expert in Luxembourg five years ago. We have been investing for some time in retail media and helping clients navigate that. And interesting about retail media, it's both a media problem as well as a creative problem, and then you have to understand distribution and supply chain and everything there.

I think the other side of the coin is helping retailers sell their media to clients. And there I think we're a little bit cognizant of the channel conflict issues. Are we sitting on both sides of the fence, if you like, in terms of retail media?

And we look at it with interest and we advise a number of clients what they should do. But we acquired a company called Triad six or seven years ago, was not a great success. And I think we're sort of wary of being on both sides of the fence from a retail media perspective and whether we need our clients to have confidence that the money that they invest in is not going through channels where we're on the other side of the transaction.

So, it is interesting, it's a massive growth area. It’s a conversation we have with we have with every client. And we're very, very well equipped to help clients, where they want to spend money on Amazon or on Walmart or on WBA or Target or any other major retail media platforms around the world.

Okay. Do we have any more questions in the room? You're in the room, you get priority. Okay. I think no. So, we're going to take questions from the webcast.

Operator

Thank you. Our first question comes from Richard Eary from UBS. Richard, please go ahead.

Q - Richard Eary

Yes. Good morning, everyone. I have a couple of questions, actually, if I can.

First one for John. Just going back to your comment about you expect net debt to increase slightly. Can you just walk us through again so I'm clear, the moving parts from what your EBITDA number is through to the increase in net debt? So I'm just clear we've got all the moving parts in there in terms of particularly around M&A, et cetera, and uses of cash flow. That's the first thing.

The second thing, Mark, just on guidance, is that can you maybe talk through a little bit -- I know you've given some discussion already, but talk through in terms of by drivers, by clients, by geography and by business lines, and whether that growth you're expecting of three to five is similar to what you articulated over the last two years by different business lines? That would be helpful.

And then just the last question. Just going back to, I think, a comment on Kantar. Can you just repeat what you said around the value of Kantar that you had on the books? I believe, within the balance sheet, it's been written down to zero. But what would be your current carrying value if it wasn't written down?

A - Mark Read

All right. Why don't I start on the guidance, and John can tackle net debt and how we account for Kantar.

In terms of the drivers, look, I think it's relatively broad-based, and I'd say, we're not seeing a big shift in the patterns that we saw before. So, I'd say by client, perhaps we're seeing consistent growth across our top 30 clients and across the client base, with one or two clients looking at reductions, but no major pullbacks, certainly no consistent pullback.

I'd say by business line, again, pretty consistently strong growth in businesses that are driven more by technology and data and commerce and technology services. Our media business, as it has historically tends to have a higher underlying rate of growth than, let's say, the so-called creative agencies. But the creative agencies, because they have strong capability in commerce and like AKQA and digital transformation, are seeing good growth. And then geographically, I'd say, again, a similar pattern. More resilient than we'd expected in Western Europe, a couple of markets a bit softer because of specific client issues. Solid growth in Brazil and India. China coming back from, let's say, the second quarter on that helped the profile overall.

So, I think that there's no single thing I would call out that our growth is dependent upon, other than the fact that the economy continues to be in a slightly better place than people expected perhaps three to four months ago. And I think as everyone else has realized, our industry is in a structurally better place than perhaps people had feared three to four months ago as well.

John, do you want to talk about debt?

A – John Rogers

Sure. And Richard, hi.

Q - Richard Eary

Can I just ask a follow-up just on that?

A – John Rogers

Yes.

Q - Richard Eary

Just with regard to the capital momentum in the business. Obviously, last year was softer than probably what it was in the previous year, given obviously the Coke win, but then the L'Oreal loss in the fourth quarter. Are we still expecting within that 3% to 5% growth tailwinds from account win momentum this year?

A - Mark Read

Yes. I think that our good new business performance last year, notwithstanding, sadly, we're not 100% perfect, notwithstanding some losses, I think definitely helps going into '23. But it's not the sole driver. I mean, we have a large number of clients that are planning double-digit growth and some that are lower, obviously, during any at this point, in any year.

So, I don't think that there's look, I think our new performance and our competitive helps us, but I don't think it's dependent on any one of those things.

All right, John.

A - Mark Read

Okay. Richard, at risk of doing all your modelling work for you, I'll try and take you through some of the numbers just to sort of help you out in terms of cash flow.

If you look at the headline EBITDA level, just over GBP2 billion in '22, we'd expect that to sort of, obviously, rise in 2023, so GBP2.1 billion, GBP2.2 billion, that type of direction.

We then got interest costs, again, on debt of around GBP150 million, GBP160 million, taxes of GBP450 million or so, reflecting the step-up in our tax rate that we've guided to the 27% versus the 25.5%. CapEx of around GBP300 million. And then, of course, we've got restructuring costs of GBP180 million, again that we guided to. We've got earnouts of around GBP80 million or so, similar to this year. We've got flat working capital movements. And then in terms of non-trade working capital, expect an outflow of around GBP150 million or so. And then we talk about M&A of GBP400 million or so. We don't assume any disposals within that, although there may be some disposals. GBP50 million on share buybacks to support different share schemes. And the dividend, of course, policy at 40% payout ratio.

If you add all of that together, and of course, there's lots of moving parts there, and it can move, that's roughly an outflow of GBP150 million, GBP200 million or so. That gets us to a net debt position of about GBP2.6 billion, GBP2.65 billion for the year end. So that's a fairly detailed overview. Of course, there are variabilities plus or minus around that, all of which would result in a net debt to EBITDA average for the year of about just over 1.5x. So again, 1.5x to 1.75x range. So hopefully, that sets out very clearly the expected cash flows for the year. Of course, they may well change.

In terms of your question on Kantar. Again, just to repeat, I mean, obviously, the complexities around -- I'm sure you're aware, around private equity sort of debt structuring are clear. But the carrying value of our investment in Kantar has dropped to zero, for two reasons principally. One of which is because of restructuring costs taken outside of headline to transform that business, and that is delivering great success in the performance of Kantar. We've seen a really step-up in EBITDA performance over the last couple of years as a consequence of that restructuring, that transformation.

And second, of course, is the interest cost on the leverage. So, all of which is technically taking the carrying value of Kantar in our books down to zero. That means that we cannot recognize the associated income. That's an accounting technicality. But of course, it doesn't mean there's no value associated or attached to Kantar. So then how do you think about what is the value of Kantar in our portfolio? And one way of looking at it, it's not the only way of looking at, one way of looking at it is the way that I outlined earlier on. And just to sort of, again, for your benefit, just to take you through that math, and it is subjective, and you have to do your own work and valuations. But the headline EBITDA is around 750 million. That's the bit -- that's been steadily improving, and that may well continue to improve. You can then look at whatever multiple you fancy to that, and it could be 8. If you look at (inaudible) type multiple, or it could be higher. If you looked at the high comparable, the 8 to 12. Again, you have to take your view.

And I can't comment on what the market would assume there, but let's just take as an illustrative example, 10x, that gets you to your 7.5 billion. You then take off the 3.4 billion of debt that Kantar has. That gets you to a net 4 billion. And our stake in there is $1.7 billion or so. So GBP1.3 billion, GBP1.4 billion.

I'm not saying that -- that's a one way of looking at the value of Kantar. You have to look at your own approach. You'll take your own assumptions around that. But that might be an illustrative way of looking at how do you think about the value of Kantar in our business. That's not value, of course, it's reflected in our books because the carrying value, as I said, is zero.

A - Mark Read

Okay?

Q - Richard Eary

Yes. That's super helpful. Thank you.

Operator

Thank you. Our next question comes from Matthew Walker from Credit Suisse. Matthew, please go ahead.

A - Mark Read

Hi, Matthew.

Matthew Walker

Thanks a lot. Good morning.

Q - Matthew Walker

Hey. Good morning. Hi. Yes. Thanks for taking the question, first of all. The first thing is that you mentioned a 9% growth of your business transformation assets in '22. Are you assuming a similar level of growth for business transformation in '23?

Second question would really be on in-housing. What are you seeing on the in-housing trend of the moment? And are you offsetting any of that with selling extra services like ECT and business transformation? Just wondering what your perspective on that was.

And then finally, just on the inflation point, which I guess is well taken about the client budgets. But I think, last year, you did put up your own prices to -- and got maybe a couple of percent of growth from putting on your own prices of your own workforce. Are we to assume that you're not doing any of that in 2023?

A - Mark Read

Okay. So why don't I start and then -- look, I think on the experience, commerce and technology area, we wouldn't necessarily define that as business transformation because transformation impacts everything we do with our clients. But we don't really forecast or budget in that way, so I can't give you a number of 9%. What I'd say is, broadly speaking, we would expect that part of the business to grow more strongly than communications in 2023, as it has done in previous years. But I would point out that the -- what we've seen is a relatively robust performance in communications because that business is not dead and actually is doing well, particularly as clients invest in marketing.

On in-housing, look, I think that clients have always brought sort of more commodity elements of what we've done in-house and -- or offshored it. And increasingly, we're offshoring it as well to reduce the cost of doing it. I don't think anything has substantially changed in that and a number of the sort of best known in-housing initiatives from clients are actually staffed and provided by agencies. And we have many examples of people across WPP and many of our clients, a growing number of clients who do work inside client operations.

I think it's a very fluid structure. And I think if I were a talented person looking for a job in programmatic media or e-commerce or data analytics, would I rather work in one of our agencies or work inside a client organization that makes sausages or a bank? I probably want to work in one of our companies.
So I think, clients are best off partnering with us in many of those areas, but there will always be sort of more commoditized areas of the work that they bring in-house. And our job is to make sure that we're always at the forefront of what we're doing and not in those more commoditized areas.
On your question on inflation, maybe John will answer. I think the simple answer is that we continue to put our – we continue to manage our prices. We have to pay our people more money. And that means we have to put our prices up to our clients to be able to attract and reward our people.

A – John Rogers

Yes. I guess, exactly. I mean, I guess, to put a bit of colour on that in terms of numbers, as you rightly highlighted in2022, we probably managed to put our prices up overall about 3% to 3.5% or so. But obviously, our cost inflation in 2022on our staff was 6% to 7%. So, we had to -- it's our job as a business to absorb that cost inflation and try and avoid passing it on to our client. We want to give them value for money. And we're able to do so by initiatives such as transformation, by initiatives such as offshoring, managing our cost base effectively and so forth. And so, I would say for the year ahead, we would probably expect to see similar types of price increases, and as I said earlier on, maybe slightly lower inflation on our staff cost, still 4% to 5% or so. So still above what we might put through in price increases. But nonetheless, we get a little bit of relatively margin relief in '23 because the inflationary pressures have eased. And we continue to push our prices up sensibly with our clients by about the same as we did in 2021.

Q - Matthew Walker

Do you mind if I have a quick follow-up, which is the U.S. was a little bit slower in Q4. Do you see U.S. being a little bit slower than some of the other geographies in '23? Or any comments around that?

A – John Rogers

No, I think you're right. It was a little bit slower in Q4. That said, we had some really good momentum in our Ogilvy business with some significant client wins, which will benefit us as we go into 2023.
I wouldn't want to give specific geographic guidance going into this year, but we feel confident about our ability to continue to perform in the U.S. market. And we've had some good success examples from Ogilvy in the last quarter.

Q - Matthew Walker

Okay. Thank you, both. Thanks a lot.

Operator

Thank you. Our next question comes from Omar Sheikh from Morgan Stanley. Omar, please go ahead.

Q - Omar Sheikh

Yes. Good morning, everyone. Just three quick ones for me maybe.

On margins, maybe John, first of all, you talked about the medium-term margin target being achieved in the next couple of years. Could you maybe talk about what you think might be the potential to raise margins beyond that? And are there any further efficiency savings that you think are possible within WPP? Are there some benefits from the investments that you made in technology that could maybe take margins up beyond that -- or meaningfully beyond that medium-term guidance?

And then maybe also on margin, John. You said 4% to 5% on staff costs, 4% to 5% overall growth in '23. But isn't the average headcount going to be going up? So just wondering what the kind of price and total headcount for '23 sort of mix looks like. If you could just maybe give some colour there, that would be helpful.

And then, secondly, maybe for Mark. Your comments just -- I mean, I think just following up on Matthew's question just now on the impact of inflation on client spending. Could you just maybe give us a sense of what clients are telling you about how much they're expecting inflation to play on their total spending for '23? And what happens if inflation comes down rapidly? Does that negatively impact how much they might spend? Or does that not really change things? That would be helpful.

And then just finally really quickly on Kantar. It sounds like -- well, let's not infer, but I guess the question is, if you were to decide to sell Kantar, what would you do with the proceeds?

A - Mark Read

Yes. Look, I think -- I'm going to take your questions in reverse order. On Kantar, I think we'd have to see. And we don't know when it would be or what the proceeds would be or what opportunity would be ahead of us at that time. So, we'll see that. In some ways, the situation we've got to now is somewhat cleaner in terms of the earnings that in some ways makes it easier.

On inflation, I mean, we don't have direct conversations with clients. My sense is that these things balance. If inflation comes down, interest rates will come down, and that will be positive. And if inflation goes up, interest rates will go up, and that's sort of a bit more negative. So, I think it's hard to say what's positive or negative. I just think that in an inflationary environment, clients don't slash spend. That doesn't mean if inflation starts to come down gradually, they are going to -- they are -- you're sort of looking for the negative on these things. I think the conversations we have are relatively robust, as the economy is in a slightly better place than people feared, and that sort of where we are now as we look ahead at the next 12 months. I can't really give you sort of more detailed insight into that, than that I'm afraid.

He had a question for you John on margin.

A – John Rogers

Yes. I think there were two questions on margin, if I understood correctly. Just in terms of your last question on margin, just to again give you a little bit of the shape of some of the dynamics, so just for comparison. So, for 2022, we saw, broadly speaking, staff inflation cost of about 6% to 7% as I said, and we also saw headcount increases on average of about 9% in 2022. Now the reality was we mitigated a lot of the impact of that inflation through transformation savings, through offshoring, through mix of resource and freelance and permanent and so forth. But that gives you a little bit of the headline to 2022. If you look for 2023, we would say, as I said earlier on, we'd say we expect the staff inflation around 4% to 5%. We'd actually expect our headcount increases to be around 2% or so, something of that order. So that gives you -- and then in both years, '21 and '22, sort of price increase of around 3% to 4%. So that helps you think about how you're doing your modelling. But important to highlight that a lot of the inflationary pressure coming through on staff cost, we managed to offset. You don't see that all flow through. There's a lot of work we do to offset that through mix, through offshoring, through using the right resource in the right places to support our clients. And then your first question, which was on margin beyond the medium-term guidance of 15.5% to 16%. Obviously, I'm not going to give any new guidance today beyond that medium term, which we hope to achieve in the next year or so, other than to say that WPP is a complex organization. It's a lot simpler today than it was four years ago. And in two, three, four years' time, it will likely be simpler still. And it's not a journey that's going to be finished in two, three, four years. This is a long journey of change. And I don't -- I suspect my successor and Mark's successor over the years will be talking about transformation in WPP for years to come. There is a significant opportunity in the business to simplify and improve the business. We've made good progress, I think, in the last four years in that direction. So, you can read into that what you will about longer-term margins. But certainly, we're very happy with the medium-term guidance that we set out.

A - Mark Read

All right. Next question.

Q - Omar Sheikh

It's very clear. Thanks both.

A - Mark Read

Thanks. One more.

Operator

Yes. We have one final question on telephone line from Silvia Cuneo from Deutsche Bank. Silvia, please go ahead.

Q - Silvia Cuneo

Good morning, everyone. Thanks for taking my questions. I just have two left.

One is on account reviews. What is your expectation for level of account reviews this year? How much could be up for renewal to defend and how much potentially up for grab? And do you have any big example that you might like to share on this?

Secondly, on digital advertising. Many of the platforms are sounding a bit mixed regarding performance and outlook for digital advertising. Can you please share your views as to why WPP does not seem to be that impacted? Is that more because of the turnover shift perhaps away from display to more retail media or your sectors of exposure? Thank you.

A - Mark Read

Okay. I mean, look, I think on account reviews, we have a pretty healthy new business pipeline. It's probably a little bit smaller than it was this time last year, though it increased significantly in the last 24 hours. So, I think there'll be reviews that take place. I think a lot of clients are looking at our work and our partnership with the Coca-Cola Company trying to -- in trying to understand how relevant that is for them, what are the benefits of really working with a partner who can help them transform their business and transform their marketing, help them deliver better work, and at the time, save money. I think that's quite attractive proposition to a large number of major clients who are struggling with thousands - in some cases, thousands and thousands of agency partners. And I expect that to continue this year.

On the digital advertising point, I mean it was interesting. We were looking at the growth of the FAANGs in Q4 was 1.2%, and WPP delivered 6.4%. Now, I will admit that on a three-year basis, they've certainly seen very strong growth. And probably, I'd rather have it on a three-year basis than for a quarter. But I do think that it does demonstrate the strength and resilience of our business. And I think it's a little bit a sample error. It's both -- it's a little bit a sample error problem, and it's a little bit a business mix problems.

The business mix problem is we tend to work with larger companies that have more consistent budgets that are less driven by customer acquisition and the vagaries of the private equity market. And many of the platforms have a different business mix, a lot of small and medium-sized businesses, a lot of companies.

I don't think FTX is a major partner to a lot of the platforms in a way it was perhaps a year ago. So, a lot of the venture-backed startups are spending less. So that's the sort of the business mix.

And then I think it's a little bit of a sample size error, which is a lot of the platforms where you're seeing growth, like TikTok or Amazon, are not measured in those models where you just add up, simplistically, Google, Meta, Twitter and Snap. So, you're seeing growth out of those four platforms. And that makes them more diverse media mix, more competition, more ways to reach consumers. I think that's better for our clients. It's better for WPP as well. So, I think that's the transformation we're seeing there, and I expect that to continue this year and into the future.

Okay. So, I hope that's the last of the questions. So, thank you for that. Thanks everybody for listening in, in the room.

Thanks, in particular to our clients whose trust in us we repay through our work; to our people, for the hard work they've done, they've created these results, not John or I; and also to our shareholders for their support for the years.

Thank you all, and we'll see you in Q1.

>End of transcript<

CONTACTS AND FURTHER RESOURCES

TOM WALDRON
Group Investor Relations Director
tom.waldron@wpp.com
Tel: +44 (0) 7788 695 864

ANTHONY HAMILTON
Investor Relations Director
anthony.hamilton@wpp.com
Tel: +44 (0) 7464 532 903

CAITLIN HOLT
Investor Relations Senior Manager
caitlin.holt@wpp.com
Tel: +44 (0) 7392 280 178

WPP INVESTOR RELATIONS
investor@wpp.com

INVESTOR WEBSITE
www.wpp.com/investors

WPP IQ
WPP's industry intelligence platform
www.wpp.com/wpp-iq

"THIS WEEK, NEXT WEEK" PODCAST
GroupM's Business Intelligence team discusses latest news and research in media and marketing
Listen here

SOCIAL CHANNELS

WPP 37