CHIEF FINANCIAL OFFICER’S STATEMENT

Focusing on innovation, scale and efficiency to drive more profitable growth and higher cash generation

PROGRESS IN 2023
We delivered a resilient performance in 2023 – despite a challenging macroeconomic environment and lower spending from key technology clients – with top-line growth, an improved margin on a constant currency basis and stronger cash generation.

Our business in the US felt the most significant impact from lower spend from technology clients, with a decline in like-for-like revenue less pass-through costs of 2.8%. Outside the US our like-for-like revenue less pass-through costs grew 3.3%, with strong performance in the UK and India offsetting a decline in China.

Strong cost control and the benefits of our 2020 transformation plan enabled us to deliver a headline operating profit margin in 2023 in line with our original margin guidance of 15% margin on a constant currency basis. This represented an underlying margin improvement of 0.2 percentage points.

We also continued to prioritise organic investment in the business including in our client-facing technology and data offer delivered through our AI-powered marketing operating system, WPP Open.

Cash flow performance in 2023 was stronger than the prior year with adjusted operating free cash flow of £1.3 billion and adjusted free cash flow of £637 million, benefitting from a favourable movement of £113 million from trade working capital in the year.

In addition to organic investment, we invested a net £280 million in initial acquisition payments for strategic M&A including the acquisition of influencer marketing agencies Goat and Obviously.

During the year £423 million was paid in dividends. As we indicated earlier in the year, our average adjusted net debt to headline EBITDA was slightly above our target range of 1.5-1.75x, at 1.83x at year end. We are focused on bringing that metric back within our target range. We ended the year with net debt broadly flat year-on-year at £2.5 billion.

It has also been a period of strategic progress, with three key initiatives: we formed VML, the largest creative agency in the world, merging VMLY&R and Wunderman Thompson; announced the creation of a leading global PR agency, Burson, from the merger of BCW and Hill & Knowlton; and initiated the next phase of simplification at our media investment business, GroupM.

This step forward in leveraging scale and simplicity means that six brand networks will represent close to 90% of WPP’s revenue less pass-through costs. Our simpler structure and global, scaled capabilities will enable us to better serve our clients around the world, leveraging the depth and breadth of our creative, production, media and PR expertise, as demonstrated at our Capital Markets Day in January 2024. It will also deliver further structural cost savings for the business.

TRANSFORMATION
At our Capital Markets Day in December 2020 we set out a plan to deliver £600 million of gross savings against the 2019 cost base. We are pleased with the progress made and at the end of 2023 we had delivered around £475 million of gross savings.

Savings have come from three areas. Firstly, our operating model, where we have delivered around £152 million of savings from a simpler WPP and tighter control of personal costs. Secondly, a further £236 million of efficiency savings has been delivered from initiatives including our category-led and
global approach to procurement and our campus strategy. In the final area of savings, functional effectiveness, we have delivered £87 million of cost savings primarily as a result of our enterprise IT and finance transformation.

We continue to make good progress on our enterprise IT roadmap, including our migration to the cloud, enhancing our cybersecurity and investing in our digital workplace and IT infrastructure.

Our ERP consolidation is taking longer than we had originally anticipated, but we are encouraged by the business benefits we are starting to realise from the deployment of Workday in North America. We have evolved our ERP roadmap to reflect learnings from Workday in North America. We have evolved our ERP roadmap to reflect learnings from the past few years and we now expect the bulk of our ERP consolidation to be completed by 2026, with restructuring costs reducing accordingly.

MEDIUM-TERM FINANCIAL FRAMEWORK

At our Capital Markets Day in January 2024, we laid out a new medium-term financial framework, with four key pillars:

- accelerating our organic growth through scale and innovation
- delivering this growth more profitably from simplification and efficiencies
- consistent and stronger cash generation
- all executed within a disciplined capital allocation framework

We expect the output of this in the medium-term to be 3%+ like-for-like revenue less pass-through costs growth, 16-17% headline operating margin, and at least 85% operating cash flow conversion of headline operating profit. We will maintain our average net debt to EBITDA target ratio at between 1.5-1.75x and an investment grade balance sheet.

The strategic initiatives we are implementing – in particular the creation of VML and Burson and the further simplification of GroupM – will support our ambition to accelerate growth. We also continue to enhance and scale our global capabilities through our proprietary technology, data and AI tools, all delivered through WPP Open.

WPP has changed and developed significantly since the 2020 Capital Markets Day. Our Capital Markets Day in January 2024 was an opportunity to lay out an updated efficiency plan aligned to our new structure and building on some of the foundations laid over the past three years.

There are two key areas of savings. Firstly, structural cost savings from the creation of VML and Burson and the simplification of GroupM, which we expect to deliver around £125 million of annual net savings in 2025. Secondly, we are targeting £175 million of potential savings from efficiencies across both our back office and our commercial delivery.

Some of these efficiency savings will support continued investment in our business. Our 2024 plans include annual cash investment of around £250 million in proprietary technology including in Choreograph, our data product, service, and technology company, and further deployment of AI and other technology-led tools through WPP Open.

Cash will continue to be a key focus area for us, and the fundamentals of our business mean that we can deliver consistent and stronger cash generation. Improvement in our cash generation over the medium term will be supported by more profitable growth, lower annual capex and restructuring costs from 2025 and continued focus on our working capital management, partially offset by expected increases in cash tax.

CAPITAL ALLOCATION

We will continue to adopt a consistent and disciplined approach to our capital allocation. Our first priority is to invest in our business – particularly in technology, AI, data and in our talent – to drive organic growth.

We are maintaining our progressive dividend policy, which targets a payout of around 40% of headline EPS. To complement our organic investment, we will invest in targeted M&A opportunities that strengthen and accelerate our capabilities in high-growth areas. And finally, where we have excess cash, we will return it to shareholders, as we have demonstrated in recent years.

We are also focused on maintaining our investment grade balance sheet and a target leverage ratio of 1.5 to 1.75 times our average net debt (which excludes lease liabilities) to headline EBITDA.

In May 2023, we refinanced the November 2023 €750 million bond as planned, issuing a May 2028 €750 million bond priced at 4.125%.

In 2024, we refinanced our five-year $2.5 billion Revolving Credit Facility, and two bonds due September 2024 and March 2025, as planned. See Financial Review, page 92 for details.

For 2023, the Board proposes a final dividend of 24.4p which, together with the interim dividend of 15p paid in November 2023, would represent a full-year dividend for 2023 of 39.4p, in line with 2022 and representing around 40% of headline EPS, consistent with our policy.

Since joining WPP in April 2023 I have been struck by the relentless focus and excellence with which everyone across WPP and our agencies works to create value for our clients and shareholders. I believe we have a real opportunity to turn that into even greater value, and to execute more efficiently to deliver strong returns for our shareholders.

I would like to thank colleagues throughout WPP for their contribution in 2023 and for the tremendous support they have extended to me over the past year.

Joanne Wilson
Chief Financial Officer
21 March 2024