

WPP 2023 Second Quarter Trading Update

Teleconference Transcript

Friday, 4 August 2023

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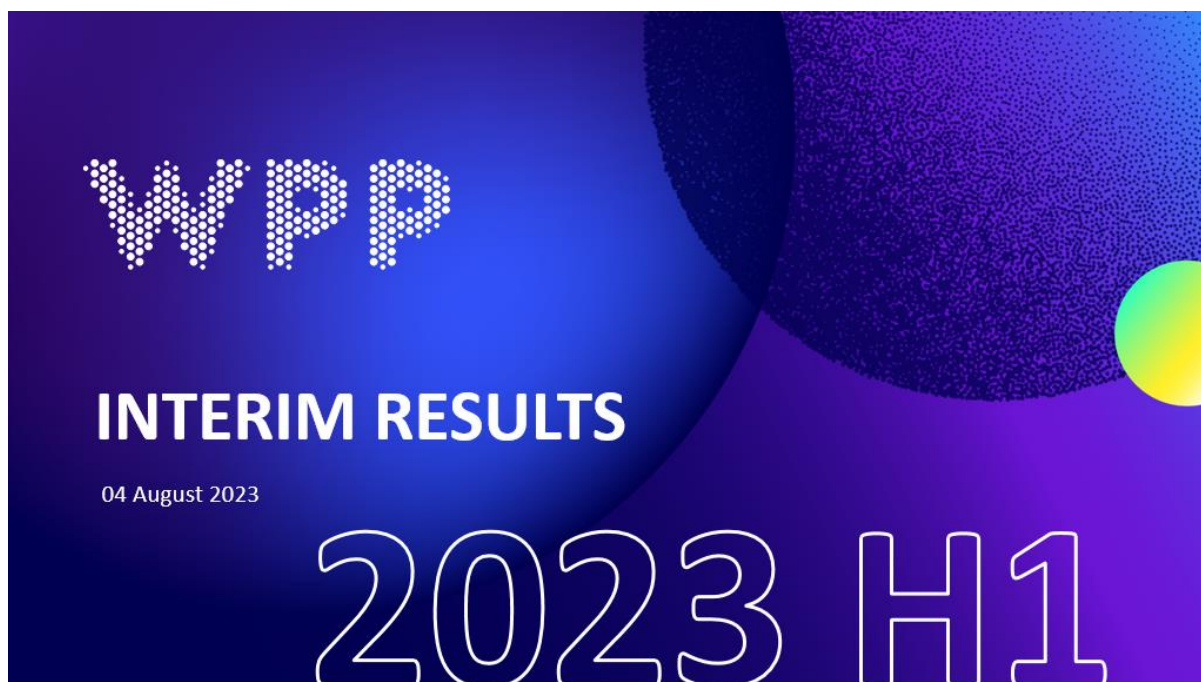
Forward-Looking Statements

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 'aim', 'anticipate', 'believe', 'estimate', 'expect', 'forecast', 'guidance', 'intend', 'may', 'will', 'should', 'potential', 'possible', 'predict', 'project', 'plan', '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, epidemics or pandemics including restrictions on businesses, social activities and travel; 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 Russian invasion of Ukraine; the risk of global economic downturn, slower growth, increasing interest rates and high and sustained inflation; supply chain issues affecting the distribution of our clients' products; 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). They use words such as 'aim', 'anticipate', 'believe', 'estimate', 'expect', 'forecast', 'guidance', 'intend', 'may', 'will', 'should', 'potential', 'possible', 'predict', 'project', 'plan', 'target', and other words and similar references to future periods but are not the exclusive means of identifying such statements. 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.



Operator

Good morning, ladies and gentlemen and thank you for standing by. Welcome to WPP2023 First Half Results Conference Call and Webcast. At this time, all participants are in listen-only mode. Today's conference is being recorded.

Now I would like to hand the conference over to WPP CEO, Mr. Mark Read. Please go ahead, sir.

Second quarter highlights

Mark Read

Chief Executive Officer, WPP

Thank you very much and welcome everyone to WPP's first half results. I'm here in London with Joanne Wilson, our CFO, at her first set of results, and Tom Waldron, who leads our Investor Relations team.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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including restrictions on businesses, social activities and travel; 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 Russian invasion of Ukraine; the risk of global economic downturn, slower growth, increasing interest rates and high and sustained inflation; supply chain issues affecting the distribution of our clients' products; 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; effectively managing the risks, challenges and efficiencies presented by utilizing Artificial Intelligence (AI) technologies and partnerships in our business; 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

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Please do read the statement from Page 2 of the presentation. It's important.

AGENDA

- First half highlights
- Financial performance
- Strategic progress
- Q&A

WPP 3

Now, in terms of the presentation on Page 3, I'll cover the highlights for the year. Then, Joanne will take us through the financial performance, and I'll come back at the end on our strategic progress and the opportunities ahead of us, before we take everyone's questions.

HIGHLIGHTS

- **Resilient growth** in H1 2023 with like-for-like growth +2.0% (Q2 +1.3%)
 - **UK, Western Continental Europe** and **Rest of World** delivered **improved performance in Q2**
 - Continued investment in media. **GroupM** maintained strong stable growth across H1
 - **North America** with reduced spend by **technology clients** and on technology-related projects impacting revenues at **integrated creative agencies**
- Continued to **strengthen offer** to clients and invest for the future
 - Strong creative and media results at Cannes Lions festival
 - **Growing AI-driven work** for clients supported accelerated by investments and partnerships
 - Acquisitions of GOAT and Obviously in the influencer marketing space
- **Disciplined cost control with H1 margin 11.5%** down 0.1pt, and on a constant FX basis improved by 0.1pt. Efficiency benefits offset by continued investment in IT and higher severance costs
- **Updated 2023 guidance:** LFL revenue less pass-through costs growth of 1.5-3.0% (previously 3-5%); headline operating margin of around 15%, excluding the impact of FX, (unchanged)

Turning to the highlights on Page 4, I'd say we had resilient growth in the first half overall, with growth of 2%, It's important to understand the breakdown of this growth so we can evaluate really what happened. To start with, we did see growth slow from 2.9% in Q1 to 1.3% in Q2 and the world outside the US represents around 63% of our business. We actually saw growth accelerate from 3.2% in the first quarter to 5% in the second quarter. And this reflects the pretty strong performance in the second quarter in the UK. In Germany 6.6%. We saw a recovery in China from negative to 4.8%, having been down 13% in the first quarter. All of this suggests actually a pretty robust client spending environment. Similarly, we saw continued growth in GroupM at 6.1% in both Q1 and Q2 globally, reflecting a strong client spending. And our Public Relations businesses grew perhaps somewhat more slowly, but actually fairly consistently at around 2% in both the first and second quarter.

Ogilvy in particular had a strong performance in the first half on the back of good client wins at the end of last year and really a recovery in the performance of that business after perhaps a couple of disappointing years. The part of our business where we have seen shortfall has been in the United States with the gap versus our expectations in the prior year really being focused on technology clients and technology-related projects. We did flag earlier this year that we've seen some slowdown in spending from technology clients on marketing, but this accelerated in the second quarter and perhaps took us maybe a little bit by surprise.

The reasons differ by clients and actually not all clients are down, but the general trends of, one, I think, cost control, focus on margins after a significant slowdown in their own rapid rate of growth and perhaps a different stage of the innovation cycle. As others have mentioned, we've also seen delays in decision-making on some technology-related projects, primarily in our creative agencies, that is Wunderman Thompson, VMLY&R, and AKQA. We saw work being pushed out and lower revenue in technology, consulting and development parts of these companies.

In this context, it's worth reminding ourselves that our creative agency is the broad service offer and increasing amount of their work comes from outside of the traditional agency remits in areas such as marketing, technology, e-commerce, data consulting and other technology-related services. Together, it's meant that our revenues in North America declined by 4.1% in Q2 having grown in Q1. There are some other minor elements impacting this from some weakness in the telco sector linked to technology delays and a client -- and also a client loss in the retail sector. But the primary explanation is the reduction in technology and telco spend. If you look at the overall, it had around 1.9% impact on WPP's revenues in Q2, but obviously a significantly bigger impact if you look at it just in the United States.

Now it's fair to say that we do see our technology clients as important long-term partners and drivers of our growth. It's not the case, as I mentioned, the revenues in all of them have declined. And we're not going to call them out one by one, but we are confident that our relationship is in a good place. It doesn't reflect the loss of assignments, but we don't see any reason why the spend should not recover in the future. Our clients in the sector are some of the world's largest companies by market capitalization. They are growing and investing in exciting new areas and we do believe that they need to put significant investments behind their brands and into their customer relationships in the future.

So, with that as background, at the same time, we have continued to strengthen our offer to clients and to invest in the future. We had a very strong performance at Cannes Lions, winning five Grand Prix and at total of 165 Lions. Mindshare was named media agency of the year. As importantly, the Effie Awards, which recognizes effectiveness in marketing, WPP was named the most effective communications company in the world with Ogilvy leading as well.

There was a little talk in our industry of partnerships around AI. We're doing an increasing amount of work in this area. Every week I see strong examples of the work we do for clients and we'll share some of that later on in the presentation.

We've also made a number of acquisitions. I'd like to highlight two, particularly in the era of influencer marketing, GOAT and Obviously.

So, turning to our profitability, given our revenue performance, we saw disciplined cost control. It's been important and as a result, we delivered an operating margin of 11.5%, which is up 1.1% on a like-for-like basis, albeit down 0.1% on last year due to FX effects. Our margin benefited from good control in staff costs. It was achieved despite higher IT costs from further investment in modernizing our platforms and higher severance costs. Taking that altogether, for the full-year, we considered our guidance, as you can imagine, very carefully and have decided to revise it to 1.5% to 3% for the year overall, while holding our margin guidance at around 15% for the year at '22 exchange rates. I'm sure we'll get into a discussion of our guidance in the Q&A, but it's worth saying, some of the reduction is due to the softness we saw in Q2. We've really taken three factors into account. First, we've been rightly cautious about the pattern of spending by technology clients and on technology projects in the second half.

Secondly, we have seen continued growth. As I pointed out, actually an acceleration in the rest of the world and the issues we've seen largely concentrated in the United States. But it's fair to say the economic environment does remain uncertain and while there are

some more positive signs in the US regarding the control of inflation, there are also issues around consumer spending as COVID savings gets spent. And then the third area that we are aware that comparisons in the second half of the year are somewhat easier in the first half of the year. So, taking these sort of pluses and minuses together, we think a range of 1.5% to 3%, while wider, we may like is probably the right place to guide you at this point in the year.

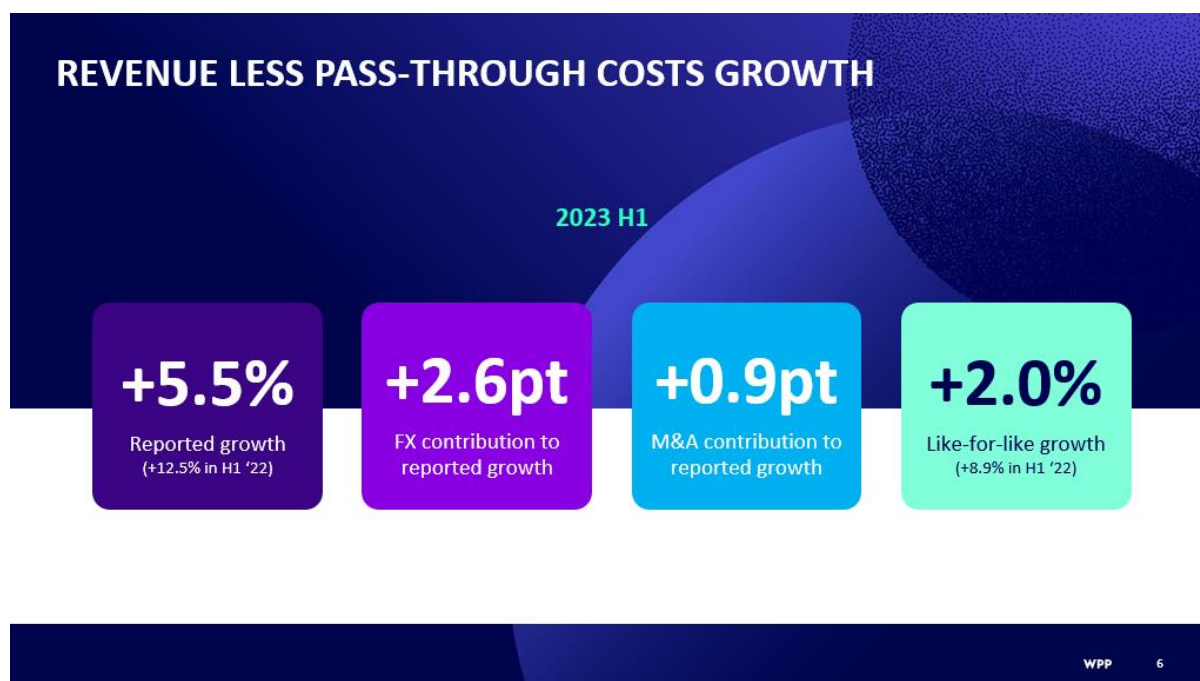
So, with that introduction, Joanne, why don't you want to take us through financial performance?



Joanne Wilson

Chief Financial Officer, WPP

Thank you, Mark, and good morning, everyone.



So let me take you through the financial results for the first half of 2023, and I'll start on Slide 6.

First half revenue less pass-through costs was up 5.5% on a reported basis and 2% on a like-for-like basis. Reported growth includes a 2.6 percentage point tailwind from FX due to sterling weakness on a 0.9 percentage point contribution from M&A. As Mark mentioned, this is softer like-for-like growth than we had anticipated, impacted primarily by a slowdown in spending at our technology clients in the US and delays in technology-related projects.

UNAUDITED HEADLINE¹ IFRS INCOME STATEMENT

HALF YEAR TO 30 JUNE	2023 €M	2022 €M	Δ REPORTED	Δ LFL ²
Revenue	7,221	6,755	6.9%	3.5%
Revenue less pass-through costs	5,811	5,509	5.5%	2.0%
Operating profit	666	639	4.3%	2.7%
Operating profit margin³	11.5%	11.6%	(0.1pt)	0.1pt
Income from associates	8	12	(38.2)%	
PBIT	674	651	3.5%	
Net finance costs	(128)	(89)	(43.5)%	
Profit before tax	546	562	(2.9)%	
Tax at 27.0% (2022: 25.5%)	(148)	(143)	(3.1)%	
Profit after tax	398	419	(5.0)%	
Non-controlling interests	(37)	(43)	13.7%	
Profit attributable to shareholders	361	376	(4.0)%	
Headline diluted EPS	33.1p	33.0p	0.3%	
EBITDA (including depreciation of right-of-use assets)	767	745	2.9%	

- Continued LFL growth in revenue and revenue less pass-through costs
- Foreign exchange** tailwind of 2.6pt on revenue less pass-through costs growth, **M&A** impact +0.9pt
- Operating profit** increased by 4.3%; reported margin 11.5%, down 10bps YoY; up 10bps on constant FX basis with efficiency benefits offset by continued investment in IT and higher severance costs
- Associate income** excludes Kantar due to nil carrying value (IAS 28)
- Headline tax rate** up by 1.5pt. FY guidance of around 27%
- Headline diluted EPS** broadly flat

¹ Figures before goodwill and intangible 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, 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 and the reclassification of certain businesses to associates in 2021 and the reassessment of agency arrangements under IFRS 15 for the commensurate period in the prior year

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

Turning to the headline income statement on Slide 7, overall revenue less pass-through costs, was £5.8 billion, an increase of 5.5% year-on-year with headline operating profit of £666 million, up 4.3% year-on-year. This resulted in reported operating profit margin of 11.5%, down 10 basis points year-on-year. We have seen an adverse FX impact on margin of 20 basis points as a result of the recent strengthening of sterling. On a constant currency basis, our margin improved 10 basis points year-on-year, reflecting improved staff and other costs, offset by planned higher IT investment and higher severance costs. Moving down the P&L, as shared at prelims, income from associates excludes any contribution from Kantar in 2023, under IAS 28 due to nil carrying value on our balance sheet. Net finance costs increased year-on-year due to higher levels of debt and lower investment income as a result of the disposal in 2022 and that was partially offset by higher interest income. Reflecting the tax rate of 27% for the half and non-controlling interests of £37 million, the profit attributable to shareholders is £361 million, resulting in a headline diluted EPS of 33.1 pence, which is broadly flat year-on-year.

RECONCILIATION OF HEADLINE OPERATING PROFIT TO REPORTED OPERATING PROFIT

	2023	2022	Δ
HALF YEAR TO 30 JUNE	£M	£M	£M
Headline operating profit	666	639	27
Goodwill impairment ¹	(53)	-	(53)
Amortisation and impairment of intangibles	(36)	(31)	(5)
Investment and other (write-downs)/reversals ²	(11)	-	(11)
Restructuring and transformation costs	(87)	(81)	(6)
Restructuring 2023 property review	(180)	-	(180)
Other	7	12	(5)
Non headline items	(360)	(100)	(260)
Reported operating profit	306	539	(233)

- **Restructuring and transformation costs:** include £54m in relation to the IT transformation programme and £24m in relation to the ERP programme.
- **2023 Property review:** FY impairment charge expected to be £220m (of which £200m is non-cash)
- Excluding the 2023 Property review restructuring costs in 2023 are expected to be £180m, consistent with previous guidance

¹ Goodwill impairments relating to two small CGUs, reflecting lower growth assumptions.
² Write-downs mainly relate to impairments over the Group's investment in an associate.

Moving to Slide 8 and the reconciliation between our headline and reported profits, as well as the usual amortization and impairment of intangibles, our headline operating profit of £666 million is adjusted for a goodwill impairment totaling £53 million, which relates to two of our smaller businesses within Specialist Agencies. In the half, we incurred restructuring and IT-related transformation cost of £54 million and ERP costs of £24million consistent with our full-year guidance of £118 million.

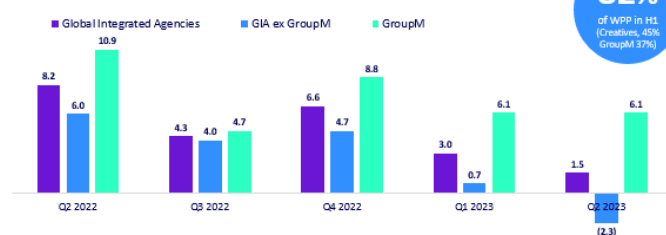
As indicated at the prelims, we have conducted a review of our property portfolio and as a result, we are consolidating our office space in the US and a small number of other markets. The full-year 2023 impairment costs related to this review are primarily non-cash and are expected to be £220 million, with £180 million in the first half. The expected cash impact of £20 million will be incurred as leases expired. The above, together with some

smaller items, results in an overall adjustment of £360 million and a reported operating profit of £306 million.

GLOBAL INTEGRATED AGENCIES

£M	H1 2023	Δ REPORTED	Δ VS 22 LFL
Revenue less pass-through costs	4,782	5.4%	2.2%
Headline operating profit	540	6.6%	
Headline operating margin	11.3%	0.1pt	

LFL REVENUE LESS PASS-THROUGH COSTS GROWTH (%)



INTEGRATED CREATIVE AGENCIES

- Continued growth at **Ogilvy**, reflecting client wins including H&R Block, Mondelez, Samsung, SC Johnson and Verizon
- Hogarth**: mid-single digit growth
- AKQA, VMLY&R, Wunderman Thompson**: lower spend from US tech clients, delays in technology-related projects and 2022 client losses in retail
- ECT¹ stable YoY at 39% of net sales

GROUPM

- Broad-based growth across US, UK and Europe
- Programmatic and connected TV driving double-digit growth in GroupM Nexus
- Digital now 49% of media billings (FY 22: 48%)

¹ Revenue less pass-through costs from higher growth areas of our offer in experience, commerce and technology in Global Integrated Agencies, excluding GroupM

WPP 1

Moving on to Slide 9, our Global Integrated Agencies grew 2.2% on a like-for-like basis. GroupM, our media planning and buying business grew 6.1%, with consistent performance across Q1 and Q2. This was offset by a weaker performance from our integrated creative agencies, which saw an overall decline of 0.8% in the half, with growth in Q1 being more than offset by a decline in Q2. GroupM benefited from growth across all regions and we saw the wrap-up of some good assignment wins including Discovery in the US, Flutter in the UK and Maruti Suzuki and Reckitt in India.

We also saw continued strong growth in programmatic and connected TV advertising, driving double-digit growth in GroupM Nexus. Digital is now at 49% of GroupM billings, up from 48% in full-year 2022.

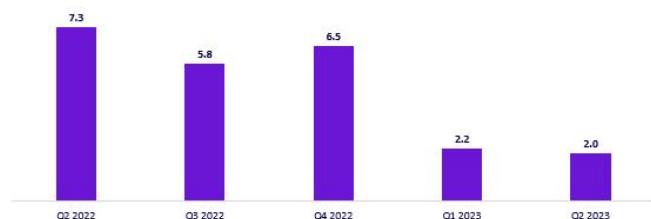
Across our integrated creative agencies, Ogilvy grew well, supported by recent new business wins, including Verizon and SC Johnson. Hogarth, our creative production agency also enjoyed strong growth and expanded its collaboration with other WPP agencies.

Our other Global Integrated Agencies Wunderman Thompson, VMLY&R and AKQA Group were adversely impacted in the first half by reduced spend across tech sector clients, predominantly in the US, longer lead times and technology-related projects, unexpected client losses in the US retail sector. For the Global Integrated Agencies as a whole, headline operating profit was £540 million, up 6.6% and the margin was broadly flat year-on-year at 11.3%.

PUBLIC RELATIONS

€M	H1 2023	Δ REPORTED	Δ VS 22 LFL
Revenue less pass-through costs	584	6.7%	2.1%
Headline operating profit	88	4.8%	
Headline operating margin	15.0%	(0.2)pt	

LFL REVENUE LESS PASS-THROUGH COSTS GROWTH (%)



- **H&K:** continued growth on double-digit comp
- **FGS Global:** strong performance. KKR acquired a 29% stake. Ranked #1 in PR by Chambers and Partners¹
- **BCW:** slight revenue decline; Corey duBrowa appointed new CEO

10%
of WPP in H1

¹ Chambers and Partners Recognises FGS Global with top honours in 2023 Crisis & Risk Management, Litigation and Public Affairs Guides

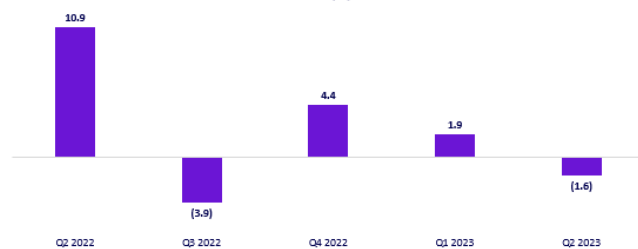
WPP 10

Moving now on to public relations on Slide 10, where we see continued demand for strategic communications with like-for-like sales up 2.1% overall. FGS Global, our leading strategic advisory and communications consultancy grew high single digits. KKR completed their minority investments in FGS Global last month, becoming a 29% shareholder in a transaction which valued the business at over \$1.4 billion. H&K also continued to grow while BCW saw a small decline in the first half. Headline operating profit of £88 million represented a margin of 15% and was slightly down year-on-year.

SPECIALIST AGENCIES

€M	H1 2023	Δ REPORTED	Δ VS 22 LFL
Revenue less pass-through costs	445	4.5%	0.2%
Headline operating profit	38	(21.2)%	
Headline operating margin	8.6%	(2.8)pt	

LFL REVENUE LESS PASS-THROUGH COSTS GROWTH (%)



- **Landor & Fitch** continued growth. Acquisition of sonic branding agency, amp
- **CMI**, specialist healthcare unit, maintained double-digit growth
- Smaller agencies declined on a tough comparison and delays in client decision making
- Margin impacted by the run-off of a Covid-19 related contract in Germany

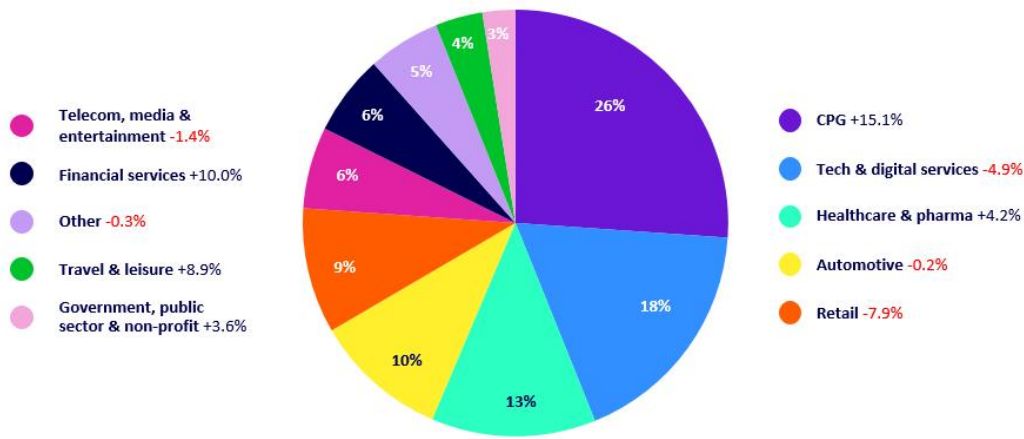
8%
of WPP in H1

WPP 11

And now turning to Specialist Agencies on Page 11, revenue less pass-through costs was up 0.2% on a like-for-like basis. CMI, our US specialist healthcare media agency delivered strong double-digit growth and Landor & Fitch saw an acceleration of growth. The performance of the longer-tail of smaller agencies in this segment was impacted by tougher comps and clients delaying projects. Operating margin of 8.6% was 2.8 percentage points lower year-on-year, primarily reflecting the run-off of a COVID-19 related contract in Germany.

DIVERSE CLIENT SECTOR MIX¹

LFL REVENUE LESS PASS-THROUGH COSTS (H1 2023)

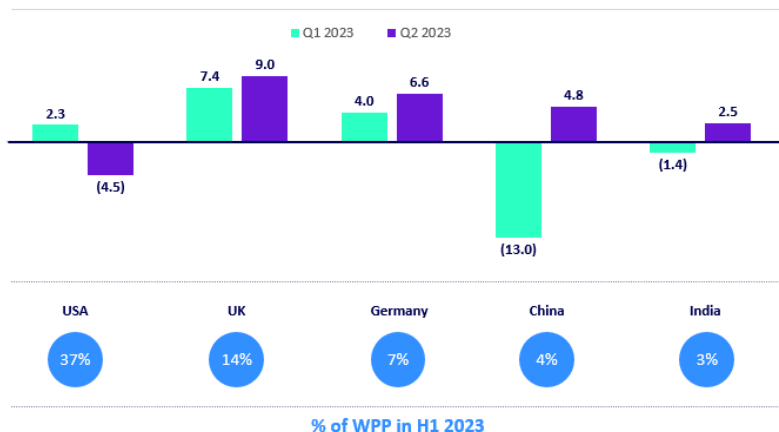


¹ Chart shows the proportion of WPP group revenue less pass-through costs in H1 2023 and YoY growth in H1 2023; clients chart made up of 1,423 clients representing 78% of WPP total revenue less pass-through costs. Growth rates shown are LFL growth in revenue less pass-through costs.

Turning now to trends across our key client sectors on Slide 12, we delivered strong growth in consumer-packaged goods, driven by our work with the Coca-Cola Company and we also saw good growth in the healthcare and pharma, financial services, and travel and leisure sectors. Against that, we saw declines in retail as expected, given the loss of a couple of clients in the US, one competitive and the other related to supermarket consolidation. Less anticipated was the reduction in spend from clients in the tech and digital services sector, which is down almost 5%, with most of the decline coming in Q2.

MAJOR MARKETS

LFL REVENUE LESS PASS-THROUGH COSTS GROWTH IN H1 2023 (%)

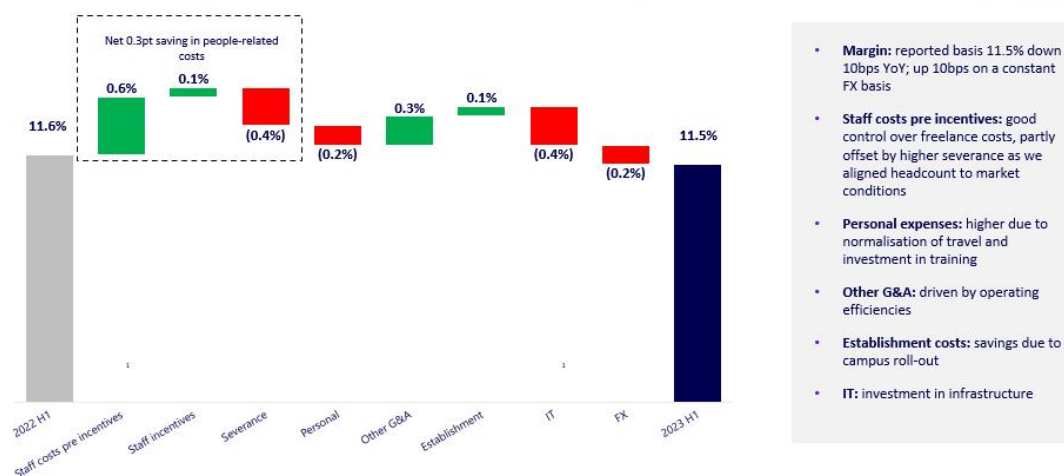


- **USA: H1 -1.2%** growth in CPG, healthcare and financial services; offset by lower technology and retail client revenues
- **UK: H1 +8.2%** strong performance from CPG and healthcare with double-digit growth in GroupM
- **Germany: H1 +5.4%** strong growth in travel & leisure
- **China: H1 -4.0%** growth due to economic recovery, improvement in GroupM and easier comparisons
- **India: H1 +0.8%** solid growth vs. a tough comparison (Q2 22: +48%) reflecting CPG client spending and new business in Media

In terms of our performance by market, on Slide 13, the US, our largest market saw a decline in net sales of 1.2% in the half, with a 4.5% decline in Q2. This is primarily driven by reduced spend from technology clients, unknown losses in the retail sector, together with delays in technology-related project spend which primarily impacted our integrated creative agencies. Excluding the US, we saw good growth in the first half and an acceleration of growth in Q2. The UK continues to show strong performance with 8.2% growth in the half and faster growth in the second quarter with particularly good performance in CPG and healthcare clients and across our Media business, which grew double digits.

Germany grew by 5.4% in the half, a strong performance in travel and leisure boosting our media business. And in China, we saw a 4% decline in the first half with growth recovering in Q2 to 4.8%, albeit slightly slower than we anticipated. We expect China's growth to accelerate in the second half, reflecting easier comps, our new business wins including Estee Lauder. Finally, India grew 0.8% in H1 with a tough comp of 37% growth last year. Like-for-like performance improved in Q2 to 2.5%, driven by CPG clients and media wins we expect a further acceleration in the second half, reflecting softer comps and recent new business.

CHANGE IN OPERATING MARGIN YEAR-ON-YEAR









1. IT includes the impact of movement in IT staff salaries as well as third party costs

WPP 14

As mentioned, first half operating margin reduced 10 basis points to 11.5%. Our headcount-related actions drove a 30 basis point improvement to margins. Our average headcount for the period was slightly lower year-on-year with freelancers over 20% lower, improving our overall mix. These savings were in part offset by higher severance payments, as we move to adjust our cost base in response to a more cautious client spending environment. Personnel costs were higher, driven by more in-person client meetings, increasing travel spend. Additional G&A savings came from operating efficiencies, in part relating to our transformation program and establishment costs fell as more of our people moved into campuses. IT cost rose as we previously flagged, reflecting investment in our IT infrastructure, cyber capability, and our move to the cloud, partly offset by offshoring savings. And finally, we saw an FX headwind of 20 basis points.

TRANSFORMATION PROGRAMME

PROGRESS IN H1

EFFICIENCY	OPERATING MODEL	FUNCTIONAL/SHARED SERVICES
 Property 5 more campuses in H1, total now 38. Right-sizing US properties	 Personal maintained tight controls on travel activity, still below pre-Covid levels	 IT 20% of IT staff based in 4 global engineering hubs driving savings in procurement and offshoring*
 Procurement new Flex Talent platform to improve transparency and controls on Freelance spending; Category-management led savings	 Simplification merger to form Design Bridge and Partners; reducing statutory entities by a further 200 in 2023	 ERP platforms: Maconomy deployed in 17 LATAM and APAC markets Workday: operational at Wunderman Thompson N. America, next deployment phase to commence by end 2023

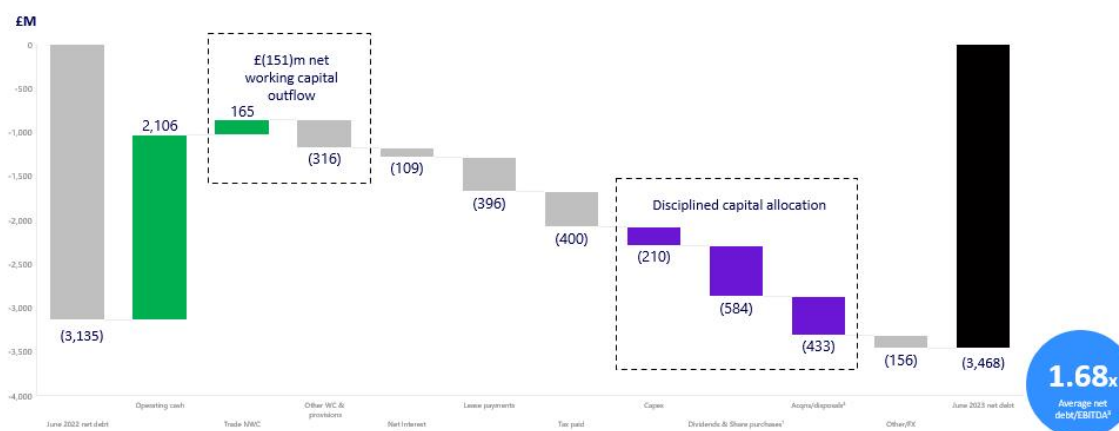
- Continued progress: to date mostly driven by property and personal costs
- On target to achieve annual savings of £450m by end 2023 (2022: £375m) and £600m by end 2025
- A further review of our property portfolio has resulted in further office consolidation

* Chennai, Mexico City, Kuala Lumpur and Bucharest
WPP 15

Turning now to our transformation program on Slide 15, overall transformation savings are on track to deliver at least £450 million of annualized savings in 2023 versus the 2019base by the end of this year. And we remain on track to achieve the targeted £600million by 2025. We are seeing further efficiency improvements, driven primarily from the consolidation of our office footprint. As mentioned, we continue to right-size our properties and we'll see further savings from actions taken this year to consolidate our offices in the US and elsewhere. In procurement, we are starting to see benefits from our category-driven model, which is helping to consolidate our supplier base and better leverage our global scale.

The secondary savings focus is on improving our operating model from simplifying our ways of working. And the final area is from our functional spend including shared services. In addition to the IT offshoring that I referenced, we continue to make progress with our ERP consolidation. Maconomy is now rolled out in 17 Latin American and APAC markets, and we continue to deploy Workday in North-America.

CASH GENERATION



1 Dividends to shareholders, share buybacks and share purchases for ESOP
 2 M&A excluding earnout payments. Earnouts are in operating cash
 3 Average adjusted net debt/EBITDA on a 12-month basis to June

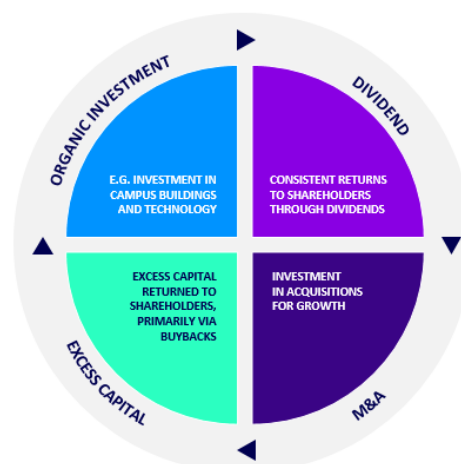
WPP 16

Moving to Slide 16 and cash generation and uses over the last 12 months. In June last year, our net debt was just over £3 billion, and since then, we generated £2.1 billion of operating cash and saw benefit from trade working capital of £165 million, with much of that coming through in the quarter just gone. Our non-trade working capital was an outflow £316 million, with the largest drivers being landlord incentives relating to our campus program, sales and other taxes and bonus accruals. Interest lease payments and corporate tax outflows were as normal and Capex was £210 million, with investment primarily in our tech capability on campuses.

Total cash returned to shareholders was £584 million in the form of dividends and share purchases and we saw acquisitions and disposals of a net £433 million. Other movements primarily include the impact of FX on our operating cash flows and earn-outs. Together, these increased our net debt by around £300 million on an average adjusted net debt to EBITDA ratio of 1.68 times.

CONSISTENT CAPITAL ALLOCATION POLICY

- **Organic investment:** in technology infrastructure, campuses and standardised systems
- **Acquisitions to enhance our offer:** in H1 2023 these included Goat (influencer), Obviously (influencer), 3K Communications (PR), amp (branding), and Majority (creative)
- **Dividends:** declared interim dividend per share of 15p, consistent with policy of around 40% of headline EPS
- **Excess capital:** will be returned to shareholders, in the event net debt/EBITDA is below the target range 1.5-1.75x range (H1: 1.68x)



And now turning to a reminder of our capital allocation policy on Page 17. Our first priority is organic investment to support growth, which includes investment in Choreograph, our data company and WPP Open, our AI-powered agency operating system as well as our IT infrastructure and campuses. Our dividend policy targets a payout of 40% of EPS and we've declared an interim dividend of 15 pence. We will also invest in acquisitions and attractive growth areas which accelerate our capabilities as recent examples being in influencer marketing, PR, and branding. And finally, we will seek to return any excess capital to shareholders. With our leverage ratio currently within our target range, we will limit the buyback of shares to cover the dilutive impact of our employee share program, which will be around £37 million in the first half.

GUIDANCE

**FY 2023 LFL revenue less pass-through costs growth of 1.5-3.0% (previously 3-5%);
FY 2023 headline operating margin of around 15% (excluding the impact of FX)**

- Mergers and acquisitions will add 0.5-1.0% to revenue less pass-through costs growth
- FX impact: current rates (31st July 2023) imply a c.2.0% drag on FY 2023 revenues less pass-through costs and a c.0.25pt drag on FY 2023 headline operating margin
- Headline income from associates is expected to be around £40m¹
- Effective tax rate (measured as headline tax as a % of headline profit before tax) of around 27%
- Capex of around £250m (previously £300m)
- Restructuring and property impairment charges of around £400m, consisting of costs of £180m detailed in prior guidance with the addition of £220m of cost relating to the 2023 property review (of which £200m is non-cash)
- Trade working capital expected to be broadly flat year-on-year, with operational improvement offsetting increased client focus on cash management
- Non-trade working capital expected to be an outflow of £150m
- Average adjusted net debt/headline EBITDA within the range of 1.5x-1.75x
- Year-end adjusted net debt flat year-on-year

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. WPP's cumulative reported share of losses in Kantar reduced the carrying value of the investment to zero at the end of December 2022.

WPP 18

And finally, from me, just to take you through the guidance for 2023 and Slide 18, as Mark has already said, we expect like-for-like revenue less pass-through costs growth of 1.5% to 3% for the full year. This compares to previous guidance of 3% to 5% growth for the year. Our expected M&A contribution remains at 0.5 to 1%. And we now expect a 2 percentage point headwind to net sales from FX over the full year. Previously, that was a 1% tailwind. FX is also expected to have an adverse impact of 25 basis points from the full-year margin based on 31st of July rates.

Guidance for headline income from associates of circa £40 million is unchanged, with no contribution from Kantar included in that figure. Headline tax rate of 27% is also unchanged, and we now expect Capex to be £250 million, down from previous guidance of £300 million. Restructuring costs, including property impairments, are now expected to be around £400 million, with restructuring and transformation-related spend of £180 million as previously guided, and approximately £220 million of costs relating to the impairment of right-of-use property assets, of which £200 million is non-cash.

Trade working capital is expected to remain flat, but the non-trade working capital outflow of approximately £150 million is consistent with previous guidance. And finally, our net debt, we expect our leverage ratio to be within our target range of 1.5 to 1.75 times with forecast net debt at the year-end expected to be £2.5 billion, consistent with the year-end 2022.

So, thank you and I will now hand you back to Mark to update you on our strategic progress.



Mark Read

Thanks very much, Joanne.

So, turning to our strategic progress, I wanted to update you on what we're seeing in the market, what we're hearing from our clients and also share some more progress on our investments in AI.

INCREASINGLY COMPLEX ENVIRONMENT

- Twitter to become 'accurate data source' in bid to woo advertisers, says new boss Yaccarino **The Telegraph** June 2023
- Retail media ad revenue forecast to surpass TV by 2028 **REUTERS** June 2023
- Apple Is Stepping Into the Metaverse. Will Anyone Care? **The New York Times** June 2023
- AI WILL IMPACT AT LEAST HALF OF ALL AD REVENUE IN 2023, GROUPM PREDICTS **AdAge** June 2023
- Netflix Password Sharing Crackdown Could Drive Ad-Supported Subs **VIDEOWEEK** May 2023
- Bud Light fumbles, but inclusive advertising is here to stay **CBS** April 2023
- With Help From Nvidia, WPP Is Becoming an AI Company **ADWEEK** June 2023
- Brands increase TikTok spending despite threat of US ban **FINANCIAL TIMES** April 2023
- Instagram's Threads: 'Almost every influencer will be hopping on it' **NEWS** June 2023
- Uber's about to stick video ads in its cars, apps, and anywhere else it can / 'We know where you are, we know where you are going to, we know what you have eaten.' **The Verge** June 2023
- U.S. data privacy laws to enter new era in 2023 **REUTERS** January 2023

So, on Page 20, it's clear that our clients are facing an ever more complex environment and leave aside the macro uncertainty and the need to spend behind their brands to

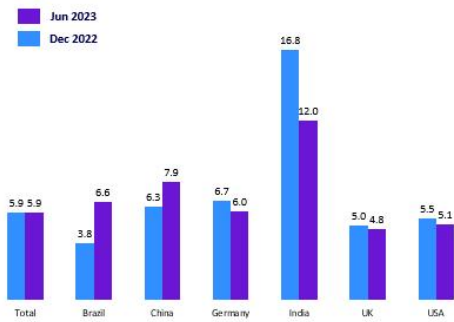
support price increases driven by inflation, the market environment just continues to pose more opportunities and challenges to name just three. And at first, there are many new ways to reach consumers from Netflix taking advertising, to Uber also building an advertising business. These present new opportunities to advertise, but also more fragmentation and complexity for clients. There's also more typical political environment where positions taken a year ago on social issues then have felt right, and now coming under question. And certainly, there is a whole topic of AI and how that may impact marketing and where clients need to invest.



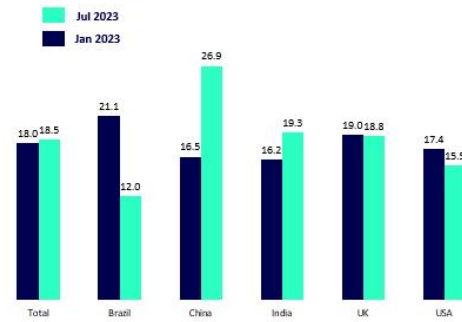
Faced with this, on Slide 21, we highlight what we see as our clients' priorities and let 'stake each one of these five priorities in turn.

CLIENTS ARE INVESTING IN THEIR BRANDS

GROUPM – THIS YEAR, NEXT YEAR
 MEDIA GROWTH FORECASTS FOR 2023 (%)¹



CITI CMO SURVEY – MARKETING INTENTIONS
 MARKETING BUDGET GROWTH OVER THE NEXT 2-3 YEARS (%)²



¹ GroupM's This Year Next Year 2023 Global Mid-year forecast for media spend (June 2023)
² Citi Research survey of 175 Chief Marketing Officers across five countries (July 2023)

First on Slide 22, it is evident that clients continue to invest in brands. Whether you look at the GroupM advertising spend forecast, or the recent Citi CMO survey, you can see that advertising expenditure paid media is continuing to hold up well. We're seeing this in GroupM where we achieved 6.1% growth in both the first and second quarters. And as we recover, we've seen some softness in Q2 in technology clients and technology-related projects. We don't see this as a broader pullback because clients understand the importance of supporting their brands.

CLIENTS ARE INVESTING IN THEIR BRANDS

NEW BUSINESS H1 2023

 Social Media Global	 Media India	 Media EMEA	 Media India	 Media UK	 Media Americas	 Media UK
 Creative Global	 Creative Global	 Production Global	 Public Relations Switzerland	 Public Relations UK	 Public Relations Australia	 CRM UK

And on Slide 23, we continue to do well in new business, winning assignments from many of the world's leading companies and brand owners. In the first half, these included new assignments from existing clients such as Ford, new clients such as easyJet where we won their European media, and Maruti Suzuki, India's second-largest advertiser, now takes us to work with, I believe, 48 of India's top 50 advertisers and marketers.

CREATIVITY & EFFECTIVENESS

RECOGNITION FOR OUR CREATIVITY



Cannes
Mindshare: Media Network of the Year



Effies
WPP named most effective communications company globally; Ogilvy ranked most effective agency network

The second priority highlighted on Slide 24 is creativity and effectiveness, which both remain probably our clients' number one priority. At Cannes Lions, WPP did very well, as I mentioned, winning five Grand Prix and 165 Lions in total, with MindShare being named media network of the year. But the other half of marketing is effectiveness. If you do great creative work for clients, it'll be reflected in the effectiveness of the work and results that clients see. And here, we also did well with WPP being recognized as the most effective communications company globally, and Ogilvy taking network of the year, the most recent Effie Awards.

SIMPLICITY & TRANSFORMATION

OPEN AGENCY MODEL CREATED FOR THE COCA-COLA COMPANY WITH CREATIVE EXCELLENCE AT THE CORE

FIRST OF ITS KIND AGENCY MODEL

A single integrated solution

ONE DATA AND TECHNOLOGY PLATFORM



GLOBAL SCALE AND LOCAL INTIMACY

Serving 200 brands in over 200 markets



WPP Open X

“Coca-Cola credits ‘world class marketing’ as it ups growth forecast”

Marketing Week July 2023

TO DRIVE REVENUE AND CONSUMPTION GROWTH

Converting through digital, social, PR, retail and live Experiences, consumption occasions, culture, sports, music, food

DELIVER EFFICIENCY

From c.7,000 agencies to one global marketing network partner

AND TRANSFORM FOR THE FUTURE

Integrating technologies across creative, production and media. Driving global partnerships

Thirdly, on Slide 25, in the face of this complexity and the need for big creative ideas to deliver effective marketing, clients are looking at their marketing partnerships and seeking simplicity transformation. Perhaps the most ambitious examples around the world is our relationship with the Coca-Cola company, which we believe is the first of its kind model, and in our view, not the last. At its heart is creative excellence, powerful creative platforms that leverage one data and technology platform, but also provide local intimacy with the benefits of global scale. These all focus on driving revenue growth and consumption growth, and top line growth for the client. But at the same time, there are two important principles. The first is to deliver efficiency. The company consolidated from really 7,000 agencies to one global marketing partner, and at the heart of it is also transformation where simple model allows the Coca-Cola company to transform how it's marketing while it's marketing, not as a separate exercise, but part of how it approaches the future. But we're now seeing nearly two years into this partnership, it's delivering great results, which you can see in this quote, but more importantly, in their financial results.

TECHNOLOGY & DATA: PARTNERSHIPS

NEW TECHNOLOGY CAPABILITY PARTNERSHIPS IN H1



first party data and listener intelligence



Customer engagement platform



Commerce and payments solutions



SaaS Ecommerce platform



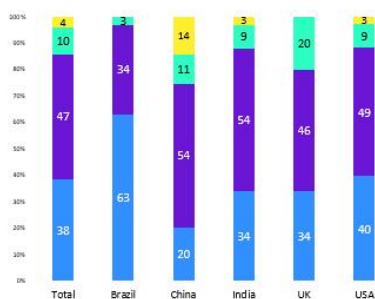
Content management systems

The fourth priority is technology and data on Slide 26, as these two elements really underpin modern marketing. Here you've seen yesterday our partnership Spotify, as well as other recent partnerships with leading data and technology partnerships. The Spotify partnership gives access to their rich insights into music, consumption and consumer trends. It also allows us to access their audiences without the use of cookies and to build innovative new products and creative platforms with them. It's a very broad and very deep partnership with one of the most important new platforms or fast-growing platforms.

EARLY CLIENT VIEWS ON GEN AI ARE POSITIVE

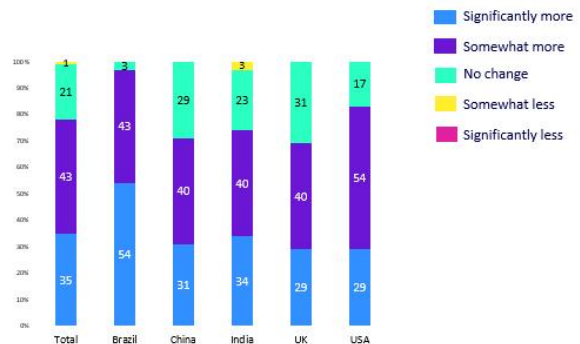
CITI CMO SURVEY – MARKETING INTENTIONS

IMPACT OF GENERATIVE AI ON OVERALL ADVERTISING SPEND¹



CITI CMO SURVEY – MARKETING INTENTIONS

IMPACT OF ON MONEY SPENT ON AGENCY SERVICES¹



¹ Source: Citi Research survey of 175 Chief marketing officers across five countries. Numbers may not sum due to rounding.

That takes us to Slide 27, and last but not least, the topic of AI. We thought it would be helpful to look at some data on the impact of AI on marketing. There isn't much, but this data taken from research by Citi, we think it's the first of its kind, but we do think it bears some consideration given the debates about the impact of AI on marketing and on the agency business. And what this data shows is that whether it's overall advertising spend on marketing attentions, or the amounts that CMOs believe they will spend on agency services, they don't see these amounts going down. In fact, 85% expect the amount they spend on advertising to go up significantly more or somewhat more. And 78% expect the same to be true of agency services.

And only a tiny number of clients expect their spent to be down somewhat less or significantly less. Now it's early days, but I do believe that the survey points to the understanding by CMOs that a lot of what we'll use AI for is to deal with complexity in their business, to help them overcome this complexity and produce the volume of assets that they need more cost-effectively, to target their media marketing more effectively, and to power their creative ideas. This investment in AI will allow them to succeed in this new environment, and that will allow them to significantly reduce their spend. And this really tallies with our experience to date with technology where the parts of our business that are most impacted by it, media production, have for some time been the fastest growing parts of the business.

AI: BROAD CAPABILITIES ACROSS WPP

CREATIVE



The Next Rembrandt | WUNDERMAN THOMPSON | ING



Utilising AI to power creativity since 2016

PRODUCTION



HOGARTH | WPP | NVIDIA | Satalia

AI and Omniverse-powered content engine for virtual production

MEDIA



groupm | nexus | Copilot | Satalia | GAIN THEORY | acceleration

AI-powered campaign performance enhancement

WPP 28

On Slide 28, we do have broad capabilities across WPP. If you look at what we're doing with clients today, creatively, we've been using AI to power our creative work for sometime. To give you an example, the Next Rembrandt from Wunderman Thompson for ING was back in 2016 to some seven years ago. In production, we'll talk later about our unique partnership with NVIDIA, but this really highlights the opportunity to use AI to create more personalized and relevant work, also much more cost-effectively. And lastly,

in media, as you'd expect, given the amounts that we're investing, AI is an extremely important lever driving up returns in a much more complex digital environment.

AI: DELIVERING WORK TO CLIENTS TODAY

SUPERCHARGING OUR CREATIVE WORK



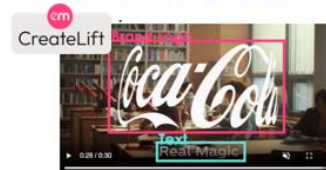
Meet Jen AI. An AI version of Jennifer Lopez - designed to invite your friends and family to a celebratory voyage

SCALING PERSONALISATION



AI tools to generate personalised Happy Birthday songs for everyone

MAXIMISING PERFORMANCE



AI-powered measurement and optimisation of media and creative performance

So, on Page 29, rather than announcements, let's talk about some of the work that we're doing today for our clients. The work really spans three areas of our business. First, supercharging our creative work, secondly, scaling personalization, and thirdly, maximizing performance. And taking each of these in turn, we've shared many examples with you or a few examples with you over the last few calls of how we're using AI to power our work from the Nike work featuring Serena Williams to the Nestle work for l'Atelier. This time, we'll share some work for Virgin Cruises starring JLo. And you can see how AI brings this idea to life. So please, would you play the film?

(Video Presentation)

Okay. So that's a fun example of using AI. I think what's important is it indicates how our creative teams are really embracing the technology to bring their ideas to life. I think that's a pattern that we see really across the business.

The second area of our work is really around scaling personalization. Personalization we found is really one of the greatest drivers of production, complexity, and cost. And this example related to the work we've been running for Cadbury's in India, shows how we can use technology to produce highly-scaled personalized work to reach millions of people. It uses AI to create personalized birthday songs for individuals, uses some key AI technology, so text to script to write the script, machine-generated generative AI to write the music, and also gen AI-based images for the video. We're not going to play it today,

but you can click on the link and see how we use these three different AI technologies to bring the idea to life.

And the last area of work we're delivering to clients is this Creative Lift product that's come out of our partnership with Google. This uses the Google Vision API to understand video, to understand the elements of the video, and really to figure out how to optimize those to drive performance. It's based on a benchmark database of 3,500 thousand videos, and rather than using A-B testing, really evaluates, uses AI to evaluate the elements of the video against previous work, allows us to drive the creative work, to optimize the various creative elements of the video, and drive performance.

AI: LONG-TERM PARTNERSHIP WITH NVIDIA

NVIDIA OMNIVERSE™ POWERED CONTENT ENGINE FOR VIRTUAL PRODUCTION



- A best-in-class creative production pipeline: connecting an ecosystem of 3D design, manufacturing and creative supply chain tools
- Based on copy-right safe content, including CAD/CAM data, Adobe Substance 3D and Adobe Firefly and generative AI models trained on Getty Images using Nvidia Picasso

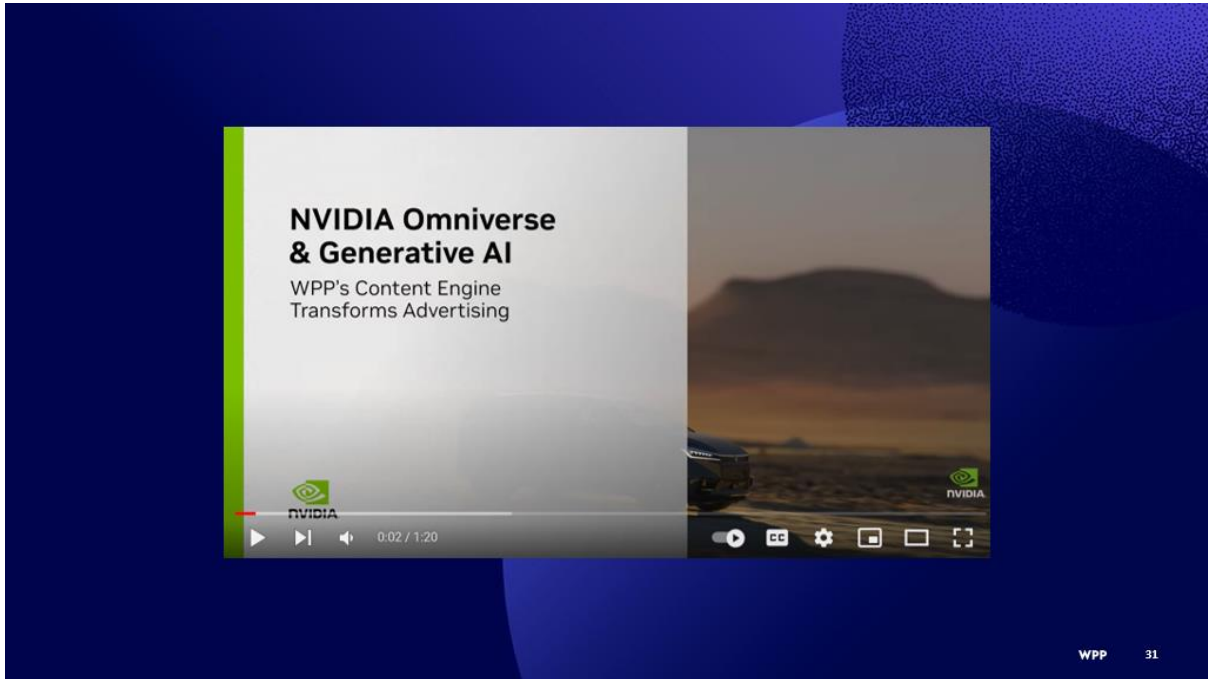
WPP



“Today we're announcing that WPP is partnering with Nvidia to build a content generation engine based on Omniverse and Generative AI”

Jensen Huang, NVIDIA CEO, Computex 2023

So, I touched on Page 30 earlier about our partnership with NVIDIA. This is something that we announced back in May. Actually, Jensen Huang announced it at their Computex event back in May. It's been a source of a lot of interest from our clients who are using – to use the power of generative AI but are concerned around copyright and using brand safe assets. At the heart of this partnership and the video do a better job than me of explaining it is the ability to combine generative AI images with brand-safe and product-compliant content that comes directly from a client's systems. It really brings us the best of both worlds that the film would highlight. And as you watch the film, please bear in mind that all of the video in it was generated by AI. So please would you play the film on Page 31.



(Video Presentation)

Thank you very much. As you can see, we're really bringing this type of technology used to create Hollywood movies to the advertising business. It solves a number of issues facing our clients, and we're starting to use that to produce work for clients.

ACQUISITIONS SUPPORTING AI STRATEGY: AMP

GROWING IMPORTANCE OF SONIC BRANDING



Sound is a key element of every marketing touchpoint: 75% of GenZ consumers say that music helps them to feel more connected to brands

AMP, THE WORLD'S LEADING SONIC BRANDING BUSINESS



Key clients



Deep expertise in music and sound, with extensive sonic branding data, and generative AI capabilities

SONIC HUB®: END-TO-END AI SOLUTION



Sonic Hub® an AI toolset to analyse, create and manage sonic assets, covering the entire lifecycle of a brand's sonic identity

So, lastly, it will be worth highlighting AMP, an acquisition of a Sonic brand we made in April last year. It's an excellent example of how generative AI can be used to build a business and strengthen one's relationship with clients, ensuring that we can build an enduring relationship rather than somehow being disintermediated by the technology. As a leading branding agency, AMP decided to approach the opportunity to Sonic branding from an AI perspective. And they use AI to understand a brand Sonic identity, and our clients are then able to use this to produce new Sonic branding elements like ringtones or jingles or background music or music for adverts themselves. The platform provides both governance of the brand and the branding, but also very low-cost assets. We license this platform to brands, then charge them to use the platform to create new Sonic elements. Now, at the heart is obviously the creative work, but AMP is also generating ongoing license fees and using their technology platform, and it's one of the models I think that's likely to proceed in the future.

So, I hope you can see we've got a very comprehensive approach to AI. These are many of the products and services that we're deploying today, and we have further products in development that we'll be able to talk to you about when they're ready.

SUMMARY

- **Mixed market environment:**
 - GroupM (Media) continues to perform well. Regions excluding the US saw strong Q2, with China recovering
 - Lower spend by technology clients and on technology-related projects impacted our US integrated creative agencies
- **Continued strategic progress:**
 - Investment in data and technology platforms - Choreograph and AI-powered WPP Open
 - Enhanced offer via bolt-on M&A, partnerships and investment in talent
 - Transformation programme savings on track
- **Disciplined cost control:** margin up 10pts excluding FX
- **Guidance:** FY 2023 LFL revenue less pass-through costs growth expected to be 1.5-3.0% (previously 3-5%); headline margin of around 15% (excluding the impact of FX, unchanged)

So, in summary, on Page 31, it's fair to say we're facing a mixed market environment. GroupM continues to perform well. The regions of the world outside of the US saw a good Q2 with growth accelerating, and China recovering will be maybe a little bit slurred than we had anticipated. At the same time, lower spending by technology clients and on technology where the project has impacted our business, primarily really in the United States. We can choose to make good strategic progress, and I think we have a particularly strong approach to the opportunities of AI, but we are a huge investor in data and technology to grow the capabilities in the business via bolt-on M&A, and our transformation program remains on track to deliver the savings. Through disciplined cost

control, we've been able to improve the margin by 10 basis points, excluding FX. As we said at the start of the call, we are revising our guidance for the year from a revenue perspective to 1.5% to 3%, and maintaining our margin, headline margin at around 15% excluding the impacts of FX.

So those are our formal remarks. We can now take questions. So if – we'd like to invite the first question, then Joanne and I will see how we can help.



Operator

Our first question today comes from Lisa Yang from Goldman Sachs. Lisa, please go ahead. Your line is open.

Q - Lisa Yang

Good morning and thanks for taking my questions. I've got three. The first one is on the weakness you are seeing from tech clients. I'm just wondering what has really changed in the last sort of one to two months that sort of caught you by surprise. What message are you getting from your tech clients in terms of when they would intend to basically resume spending? And I'm just wondering, like, how much is that weakness, is it more temporary and just a pure postponing of spending, as opposed to like a post-COVID reset and something a bit more structural. So, any colour on that would be really helpful.

The second question is on margin. Obviously, you did a great job at protecting the margin despite weaker growth. But just thinking longer term, I think question for Joanne, what makes you confident that you will still be able to achieve that 15.5% to 16%. I think previously, you said this could be achievable in 2024, 2025. So just wondering, like, based on your observation so far, what makes you confident you'll be able to get there? And what are the actions sort of in your view your sort of taking to improve your margin going forward?

And the third question is on net new business. Obviously, there's always some wins and losses. But could you maybe just help us quantify the potential impact on the net new business on the organic growth in H2 and also in 2024, based obviously on what has been announced so far? And you also said there's a larger pipeline of potential new business activity. So how well, how big of an opportunity do you think is that for WPP? Thank you.

A - Mark Read

Okay. So, I'll take the first and the third question and Joanne will add anything and then discuss the margin. I think on tech clients, we had flagged that we've seen a little bit of weakness earlier in the year. But I think it really accelerated in the second quarter and you can see that both in the numbers and also the impact really in the US. I'd say, I don't believe that it's a reset. I think others have said the same thing. I think those companies are some of the world's largest advertisers. And the impact on us is greater given that we have I think 18% of our revenues from technology companies.

So, by implication, we'd probably be a little bit more impacted than others. Again, I don't think that it's – I don't think we see it as a reset. I think that they faced both, two or three years of strong growth. They had their own cutbacks to make. And then at the same time, I think we're in an interesting point in the innovation cycle where there were a lot of products ready to market. But the business models are not the same entirely clear for them. And I think they've become clearer. I think that we'll see a greater volume of marketing around many of these new products.

On the net new business number, it is, as much as we'd like to win everything, that's impossible. And there's some things that we win and do well on, like Coca-Cola, and there's other things that where we do less well on. I'd say, it has been a little bit, being open with you, a little bit disappointing in the first six months of the year. We did have one loss in the healthcare sector. We'll have to see how that plays out over the balance of the year and into next year. It will be a little bit of a drag. So, we are expecting towards this with the fourth quarter and into next year. But as I said, we have a very strong pipeline. Perhaps some of that pipeline is built up because of the length of decision making in people, but we have got a strong pipeline. And we continue to have a strong offer. I think lead in many areas, there's many strengths in WPP's business that I think will be reflected in our new business in the future.

Joanne, why don't you take the margin question?

A - Joanne Wilson

Good morning, Lisa. Thanks for the question.

So, like just in terms of the medium term, 15.5% to 16%, look, I'd say three months in, there's nothing that I see in a reason why we won't get there within that timeframe. And what I would say is, more than that, we are incredibly focused as a business on delivering our medium-term margin targets. So, yes, for now, we're absolutely focused on that. In the first three months, reflection is, it is a flexible operating model. And we've shown that in the first half, in how quickly we've been able to respond to some of the cautious spending signals that we have seen from clients. We ended June with our, with our permanent head count down year-on-year. And our freelance is actually down 20%. So a mix benefit as well as an overall quantum. And that really helps us as we think about in a

cyclical business how we manage the margin around that. But looking more medium term, there are a number of areas where I see opportunities. And it's probably worth just giving you a little bit of flavour on that. In the back-office efficiencies, if I look at what the business has done in the last few years, I think a really great job in simplifying and driving efficiency across mostly our front office, including some of our long tail smaller markets. And we have done work on our back office as well, including some off-shoring. And we're on a program of ERP consolidation, which will be a key enabler to standardize, automate and then drive further efficiency. So that is going to be an unlock for us. But that is a multi-year program, as I think you know. And we always said that that would be towards the back end of our program through to 2025.

And the other area, we talked about the flexible operating model, I think as well there's more that we could probably do on utilization and pricing across all of our markets. So that will be another area for us to continue to work on. And we have done some country simplifications as I talked about, but there is more that we can do. So continuing on that country simplification will also help drive profitability. And in our front and medium office, we have done some off-shoring. So primarily around production in Hogarth and Wunderman Thompson and our commerce business and GroupM around our Ad Ops and other areas just to give you a flavour of what we've done. But there's more opportunity. We have now got scale across our offshoring hubs. And certainly, we'll be able to do more with that. And look to consolidate more of our production.

And then finally big opportunity for us is just really leveraging our scale better. So, we've started to do that with procurement on a category management approach. We've had some quick wins. And we'll continue to focus on that across both our IT, contract spend, travel and other areas of the business. So hopefully that gives you a flavour of how we're thinking about it. But I just leave you with, we are incredibly focused on it as a business. And I'm looking to deliver that by '24-'25.

Q - Lisa Yang

That's very helpful. Thank you.

Operator

Thank you. Our next question is from Julien Roch from Barclays. Julien, please go ahead. Your line is open.

Q - Julien Roch

Yes, good morning, Joanne, Mark, Tom, Caitlin and, Anthony and welcome Joanne to your first results call. Proper baptism of fire, I suppose. Now, for my sins, WPP has been one of my top picks. And today I'm not getting much love. So apparently your P&L are made up because you are more addicted to constant restructuring than I am to Grand Cru Burgundy. Believe me, that's not a good thing. And you generate poor cash flow because of working capital. Ouch! So that brings me to my first two questions. Joanne, can you tell us how do you feel about restructuring charges and your view of a normalized level of restructuring by 2025 once the heavy lifting is done? I'm hoping for zero as an answer.

And two, can you tell us what you can do to a working capital about zero like most other agencies? You are the only one splitting working capital between trade and non-trade with only one of the two at zero.

And then third unrelated question, what was the organic in the first half '23 of your – also in experience, commerce and technology? Thank you.

A - Joanne Wilson

Okay. Thank you, Julien, for that introduction. And let me just take your first question on restructuring. As we embarked on this program, I guess when Mark took over, we talked about the complex nature of WPP and the fragmentation across the business. And it would be a multi-year program to unlock some of that. As I said, I think we've made good progress on our front office, more to do on our back office.

And in answer to the question of what should normalize restructuring be, I agree that it should be nil in any business. And we have elevated restructuring costs this year, most of which or a large chunk of which are non-cash relating to the property impairment. The restructuring costs relating to really two buckets are IT transformation, IT infrastructure transformation, and our ERP program is £180 million and that is cash.

So through to 2025, I think we'll continue to see restructuring costs around IT and ERP program. I think most of the IT restructuring costs will finish in 2024 and the ERP ones will certainly go on to 2025. So, we'll see them for the next couple of years. But I mean, looking at our cash more generally, we are also focused on how do we improve our cash conversion. I think our Capex as well has been elevated in the last few years as we have embarked on our campus strategy, which has been a positive for the business. We've had to pivot a little bit with changes in ways of working post-COVID. But that is a much more efficient way of working for our people and that Capex will start to come down from 2024 onwards. So, we'll see Capex nudge down a bit.

In terms of working capital, so just starting with trade working capital, we saw a big outflow last year in 2022, which we talked about. But if you look at performance since 2019, actually, our trade working capital has improved by about £1 billion. Now we won't stop there and we had a better performance in Q2 this year where the business is very, very focused on it. And we will continue to be focused on that trade working capital in the back end of the year. As a reminder, our media business has billings of over \$60 billion a year. So, it is incredibly volatile and can be volatile quarter to quarter, but we need to be focused on our trade working capital to make sure that that's optimized and we continue to make progress on it.

Just on our non-trade working capital, I touched on some of the buckets that's within that. It really has our bonus accruals move year-on-year, our landlord incentives, which hopefully we run off as we come to the end of our campus program or it reduces slightly. And those incentives are where landlords pass back cash for building campuses. So, that's a big number within that. And then we have some sales and taxes relating to GroupM and that can fluctuate in a year-to-year. And the final one is around IT contracts where we have more prepayments. So, that will just give you a flavour of what's on -- in non-trade working capital. And that has been elevated in recent years. This year, we are forecasting 150million outflow. And again, that will be an area of focus for the business. So, overall

working capital and improvement this year versus last year, but still more to go and a big focus area for us as well, as is our overall cash conversion.

A - Mark Read

On the ECT, Julien, I mean, I think that it's basically flat in the first six months of this year. I think that probably shouldn't be surprising given what we talked about in terms of technology related projects. And I think that that -- the progress will return as that part of the business returns to growth as well. We continue to see it as a long-term driver of growth. I think what you've seen this year, actually, maybe the last 18 months is perhaps stronger growth in communications in the more traditional part of our business than people expected. So, the ECT sector has not progressed perhaps as we would have expected. But I think that it continues to be a long-term faster growth part of our business. And we shouldn't forget that there's many parts of our communications business that are increasingly digitally driven as well.

A - Joanne Wilson

Just to clarify, Julien, when Mark says flat, so it's flat as a percentage of our overall creative agencies revenue, so around 39%. So, we have seen some growth, but it's flat as a share of that revenue.

Q- Julien Roch

Thank you.

Operator

Thank you. Our next question is from Matthew Walker from Credit Suisse. Matthew, please go ahead. Your line is open.

Q - Matthew Walker

Thanks a lot. Hi, Mark. Hi, Joanne. The first question is on tech. Obviously, you don't have a crystal ball, but the tech actual advertising numbers are getting better in terms of their revenues. So, when do you think that they will start marketing again? Is it related to products innovation, or is it going to be related to their revenue growth? So could we see some in the second half of '23 or do you think it's more likely that they rebound from a marketing point of view in 2024? Second question was you mentioned margin and staff utilization hopefully getting better. Do you have something like [Publicis'] Marcel which can increase utilization? Are you working on anything like that or what is the sort of WPP solution to utilization?

And then the final question was on the property. Are you going to increase the £600million savings target as a result of the charges taken against property?

A - Mark Read

Okay. So, if I tackle technology clients, I mean, as you say, I don't have a crystal ball. I do think that there's a -- we're sort of at a unique point where growth has slowed, the companies have driven their share price by rebuilding margins. And we're at a point in the innovation cycle where there's an article in the FT today that talks about the number of new products being launched but clients not -- but technology companies not entirely clear on what the business model is associated with that. And that very much bears in

line the conversations that I've had with these companies around the product innovation. So I would expect that to revert.

But I think that we're rightly being cautious about the likelihood of that happening in the course of this year. And that's reflected in perhaps the range of the guidance, think about our guidance on a second half basis, it's sort of 1 to 4 in the second half. And that's reflected in that range. These clients haven't totally stopped spending, it's really that they've pulled back and I don't think that that will continue for forever.

On the topic of Marcel and staff allocation we do have systems in each of our businesses that help us identify staff. We are using AI to pull staff from our systems to put-on projects. Actually interesting, Satalia, the AI company we used is used by one of the big four accounting service firms to allocate their staff to projects. And we have had a lot of success. We some of the success we've had in reducing our freelance cost by better utilizing staff across the business, both within our agencies and across our agencies. And that is something that I think that we will continue to implement.

Joanne, do you want to take the...

A - Joanne Wilson

Hi Matthew. Just on the property savings, so this year certainly underpins the £450 million, which gives us confidence we'll deliver at least the £450million this year. But I mean, looking at real estate as a whole, there are other areas of inflation, energy is higher. As we open campuses, we see higher facilities costs associated with that. So, all of that savings this year, which we estimate to arrive £30 million doesn't necessarily flow to the bottom line. And in terms of the £600 million, the way I think you should consider it is it accelerates us towards the £600 million, rather than we'll overlay the £600 million and say the £600 million is a bigger number, but certainly it will help us accelerate to that target.

Q - Matthew Walker

Okay, thanks a lot.

Operator

Thank you. Our next question is from Tom Singlehurst from Citi. Tom, please go ahead. Your line is open.

Q: Tom Singlehurst

Good morning. It's Tom here from Citi. Thank you for taking the question. I've got two broad questions, although the first one is a two-parter. So, I'll just warn you on that.

Mark Read: That sounds like four, Tom.

Yeah, exactly. It's three questions really. First group of questions. If we characterize it as being sort of spend that is quasi-Capex that's being delayed and spend that is cost of goods sold that's continuing, I think that's possibly the way we interpret Group chunking along at 6 and some of the project-based work coming under pressure. I suppose the first question is, are you more exposed to Capex style work in the US and COGS like work

internationally? Is there a sort of structural exposure issue that explains the growth differential, or do you think it's macro? That was the first question.

And then the second one is linked to that. When you speak to your fellow CEOs, what is the factor that they're looking for to help get the confidence to turn the Capex style spend back on? So those are the first two questions.

And then the second one is or the third one is you are guiding to 1.5% to 3%, which is for the second half 1% to 4%. But given what's happening in the rest of the world and that's quite robust and possibly gets better, are you really just saying that the US could be anywhere between minus 5% and plus 1% in the second half? Is it all of that variance the US essentially? Thank you.

A - Mark Read

I don't even know where to begin, Tom. I think the answer to your first question is I think that's a good way of thinking about it in terms of sort of quasi-Capex and part of the Cost of Goods Sold and it kind of explains why GroupM just continue to grow. I think the reason the impact is in the US and in our integrated creative agencies is more to do with where those clients spend most money and where we do most work for them. And also, we happen to be probably stronger in our creative agencies. And we do some media for those technology companies, but not media for all of those technology companies. So, it's really question of where the balance of work has fallen.

I think if I talk about client confidence out of the CEO event earlier this week, I think the confidence is not bad, but not good. I think it's probably pretty much where it was three months ago. You've seen your peer Goldman reduce their recession risk. I think there's a sense that US inflation is a little bit back under control, but some nervousness instead of thinking about consumer spending. So, I think we're really seeing trying to evaluate what would happen to technology spend and technology related projects and how clients will start to sort of reinvest in the more, as you call it, Capex intensive parts of the business.

I'll let Joanne sort of talk to the guidance for consistency.

A - Joanne Wilson

Yeah. So, Tom, if you think about 1% to 4% in the second half, maybe let me start at the bottom end of that. So, in Q2, we saw our like-for-like drop to 1.3%. And as we roll forward, I mean, what are we seeing today? I think we'd say things feel like they are stabilizing, so they're not getting any worse, they're not getting any better. And if that like-for-like performance continued through the second half with a little bit more caution, would that be about 1%? So that's really how we think about that bottom end, albeit we do have softer comps in the second half. So, it does assume a further deterioration and it's probably a cautious bottom end of our range, as you'd expect.

In terms of the top end, the 4%, that reflects really the softer comps that we see in the second half. So, if you look at last year in H1, we grew at 0.9%. In H2, we grew 5.1%. So that should be a tailwind in the second half. And we have visibility over new business, some new business that we won only at 2022 that's ramping up. And we'll start to see more of a benefit from that as we go through the back half of Q3 and into Q4. And also some more recent new business wins from the last four to six weeks that we will ramp up

again sort of in that time period, to the end of Q3 and through Q4. So good visibility on that.

I think what is unknown, of course, is what stops. So, in the tech space, in Q2, we haven't lost clients. It's clients choosing to either reduce spend or delay projects across mostly ECT. And what happens to that in the second half, that's really the unknown. And then, of course, as Mark talked about in the macro, it's still very uncertain. Business doesn't like that. And that's really resulting in the caution that we're seeing across our client base, which our peers have talked about as well. So that's really how we're thinking about the 1% to 4% in the second half.

A - Tom Singlehurst

Very clear. Thank you.

Operator

Thank you. We have no further questions. So, I'd like to hand back the call to Mr. Mark Reed for further closing remarks.

Mark Read

Very good. Well, thank you very much, everybody, for listening. And as you can see, we did -- we had a mixed first half of the year, but I think we should take some comfort from the performance outside the United States. No doubt the United States was impacted, as we talked about, by the impact of technology companies. I think we should be pleased as well with the disciplined cost control and the improvement we made in the margin on a like-for-like basis in the first half of the year. We'll continue to focus on those elements in the rest of the year.

Thank you, everybody, for joining us.