WPP

# First Quarter 2018 Trading Update

London

30 APRIL 2018

# Safe Harbour Statement

The following cautionary statement is included for safe harbour purposes in connection with the Private Securities Litigation Reform Act of 1995 introduced in the United States of America. This presentation may contain forward-looking statements within the meaning of the US federal securities laws. These statements are subject to risks and uncertainties that could cause actual results to differ materially including adjustments arising from the annual audit by management and the Company's independent auditors. For further information on factors which could impact the Company and the statements contained herein, please refer to public filings by the Company with the Securities and Exchange Commission. The statements in this presentation should be considered in light of these risks and uncertainties.

# Highlights

- Reported revenue down 4.0% at £3.555 billion, currency headwinds of 6.0%, constant currency up 2.0%.
- Reported revenue less pass-through costs[1] down 5.1% at £2.948 billion, currency headwinds of 6.1%, constant currency up 1.0%.
- Like-for-like revenue up 0.8% and revenue less pass-through costs down 0.1%:
  - United Kingdom, Asia Pacific and Latin America up strongly, offset by declines in North America and Western Continental Europe.
  - Media investment management, public relations & public affairs and specialist communications (including direct, digital & interactive) performed well, advertising and data investment management more difficult.
  - Constant currency net debt of £5.20bn at 31 March 2018 up £354 million on same date 2017, average net debt of £4.77bn for first quarter of 2018 up £357 million over same period 2017.
- Net new business $1.737 billion won in first quarter.

1 The Group has changed the description of 'net sales' to 'revenue less pass-through costs' based on the adoption of new accounting standards and recently issued regulatory guidance and observations. There has been no change in the way that this measure is calculated

# Implementation of IFRS 15 From 1 January 2018

| | REVENUE | | REVENUE LESS PASS-THROUGH COSTS | |
|---|---|---|---|---|
| £M | Q1 2018 | Q1 2017 | Q1 2018 | Q1 2017 |
| **Pre IFRS 15** | **n/a** | **3,597** | **n/a** | **3,100** |
| Impact of IFRS 15 | n/a | 107 | n/a | 7 |
| **Post IFRS 15** | **3,555** | **3,704** | **2,948** | **3,107** |

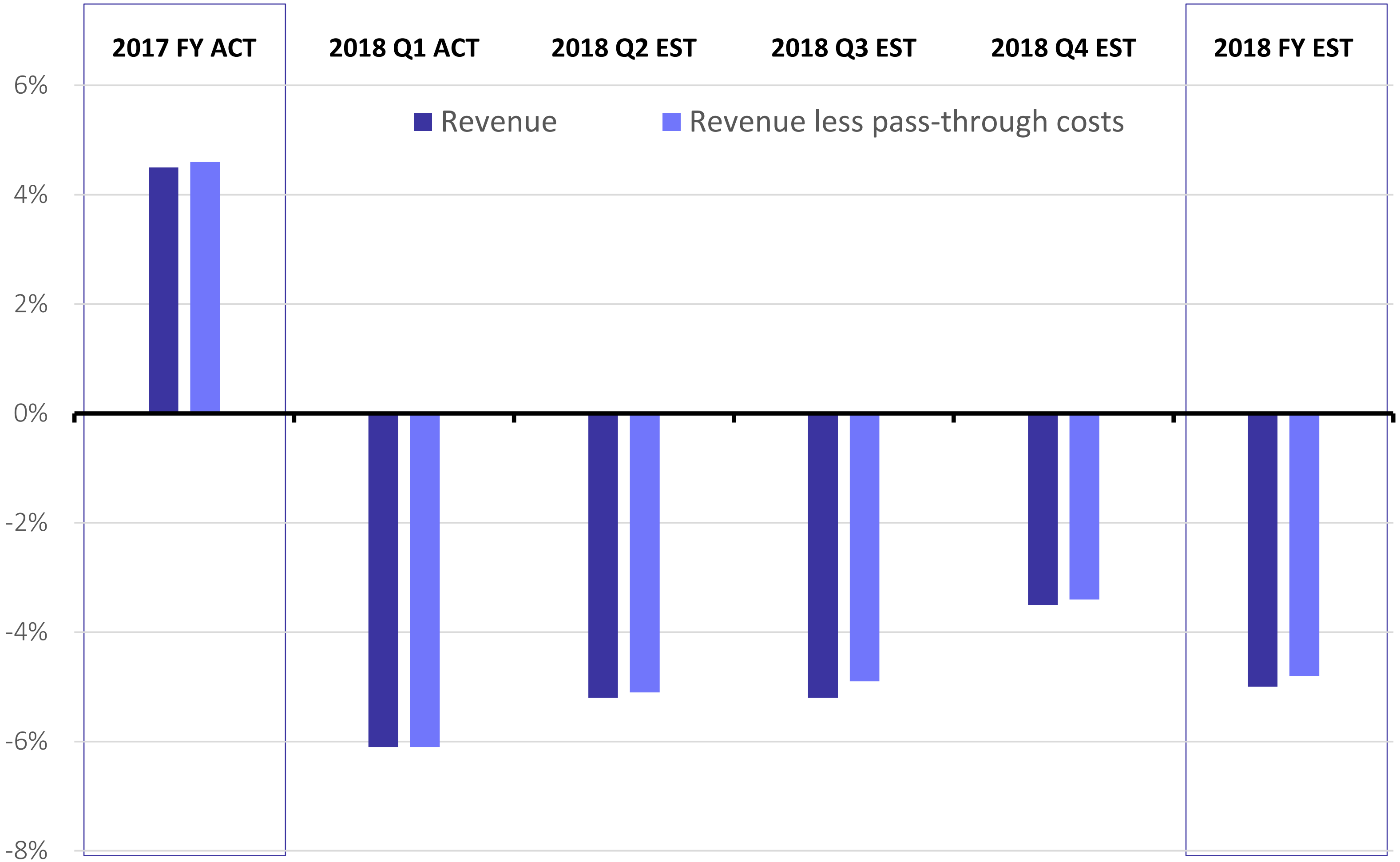
**Implementation of IFRS 15 *Revenue from Contracts with Customers*:**

- Implemented from 1 January 2018.
- 2017 results restated resulting in an increase in revenue of £107m and revenue less pass-through costs of £7m.
- Certain third-party costs are now included in revenue where the Group acts as principal with respect to services provided to clients under IFRS 15.

# Summary – Revenue and Revenue Less Pass-Through Costs Growth

| % GROWTH | REVENUE | REVENUE LESS PASS-THROUGH COSTS |
|---|---|---|
| **Like-for-like** | **0.8** | **-0.1** |
| Acquisitions | 1.2 | 1.1 |
| **Constant currency** | **2.0** | **1.0** |
| Foreign exchange | -6.0 | -6.1 |
| **Reportable sterling** | **-4.0** | **-5.1** |

# Impact of Foreign Exchange



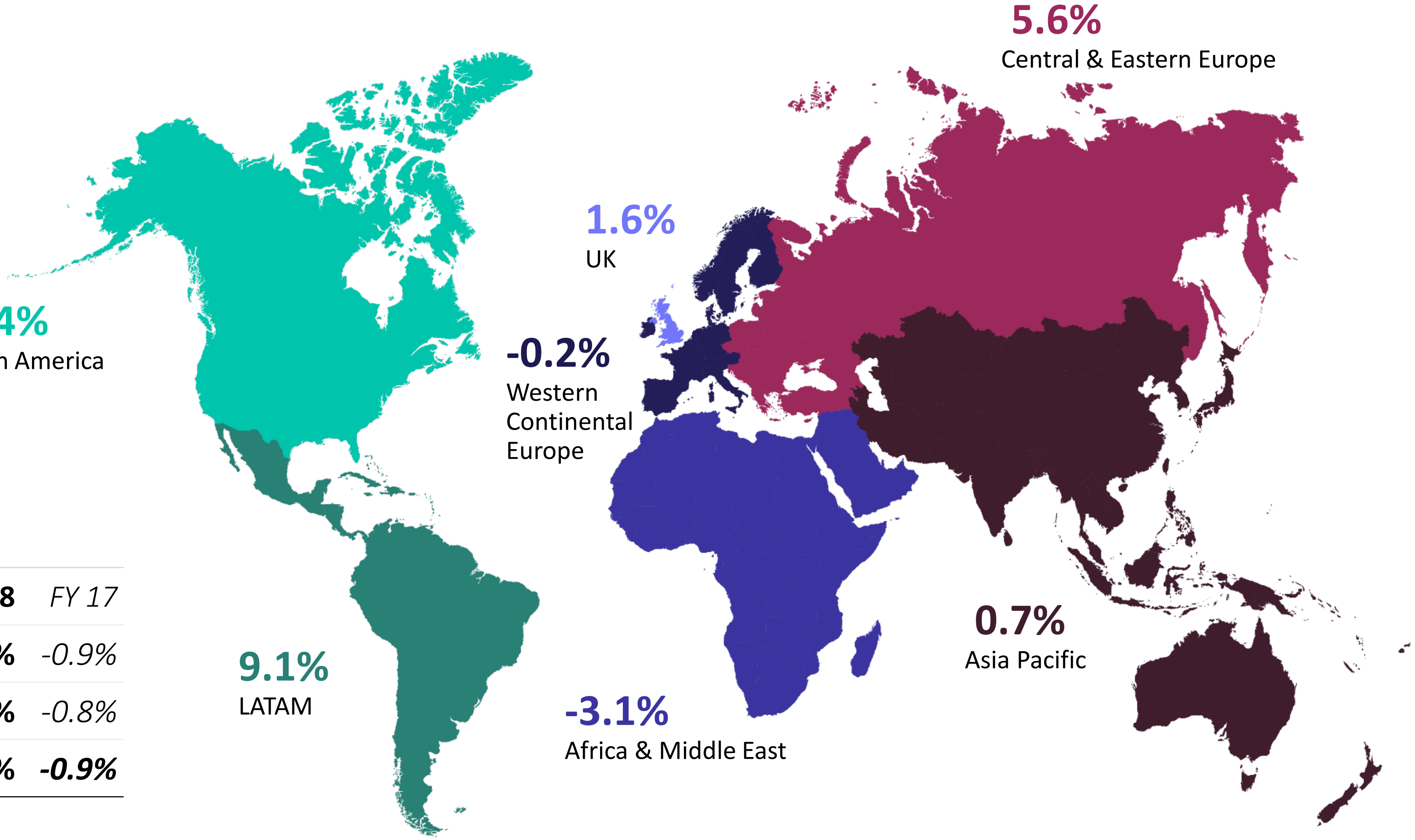

- Q1 headwind -6% revenue and revenue less pass-through costs.
- Full year headwind -5% revenue and revenue less pass-through costs.
- Q2-Q4 run at £/US$ 1.40 and £/€ 1.14.

# Revenue Less Pass-Through Costs by Region

| | | REVENUE LESS PASS-THROUGH COSTS | | | | |
|---|---|---|---|---|---|---|
| | | | | % CHANGE | | |
| | % GROUP | **2018 £M** | **2017[1] £M** | REPORTED | CONSTANT CURRENCY | LIKE-FOR-LIKE |
| North America | 35.9 | 1,055 | 1,203 | -12.3 | -1.7 | -2.4 |
| UK | 13.7 | 405 | 396 | 2.1 | 2.1 | 1.6 |
| Western Continental Europe | 21.2 | 626 | 600 | 4.4 | 2.7 | -0.2 |
| Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe | 29.2 | 862 | 908 | -5.0 | 2.7 | 2.3 |
| **Total** | **100.0** | **2,948** | **3,107** | **-5.1** | **1.0** | **-0.1** |

1 2017 restated for the implementation of IFRS 15

# Revenue Less Pass-Through Costs Growth[1] by Region



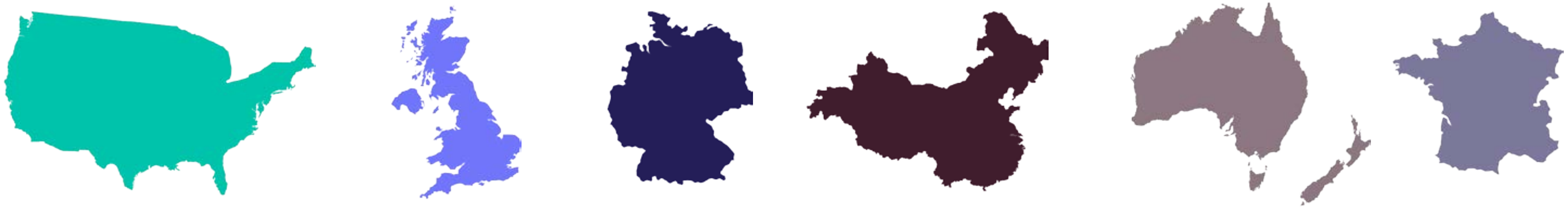

| | **Q1 18** | *FY 17* |
|---|---|---|
| Mature Markets | **-1.0%** | *-0.9%* |
| "Faster Growing" Markets | **2.3%** | *-0.8%* |
| **Total** | **-0.1%** | ***-0.9%*** |

1 Like-for-like growth vs. prior year

# Top 6 Markets

REVENUE LESS PASS-THROUGH COSTS GROWTH[1]

| | USA | UK | Germany | Greater China[2] | ANZ | France |
|---|---|---|---|---|---|---|
| **2018 Q1** | -2.2% | 1.6% | -5.7% | 2.1% | n/a[3] | 0.7% |
| **2017 FY** | -3.2% | 4.8% | -1.3% | -3.2% | -0.9% | 0.4% |



1 Like-for-like growth vs. prior year
2 Includes Hong Kong and Taiwan
3 WPP AUNZ listed company

# BRICs Markets

REVENUE LESS PASS-THROUGH COSTS GROWTH[1]

| | Mainland China | Greater China[2] | Brazil | India | Russia |
|---|---|---|---|---|---|
| **2018 Q1** | 3.6% | 2.1% | 6.0% | 0.3% | 0.6% |
| **2017 FY** | -1.8% | -3.2% | 1.6% | 1.1% | -15.4% |

1 Like-for-like growth vs. prior year
2 Includes Hong Kong and Taiwan

# Revenue Less Pass-Through Costs by Sector

| | | REVENUE LESS PASS-THROUGH COSTS | | | | |
|---|---|---|---|---|---|---|
| | | | | % CHANGE | | |
| | % GROUP | **2018 £M** | **2017[1] £M** | REPORTED | CONSTANT CURRENCY | LIKE-FOR-LIKE[2] |
| Advertising, Media Investment Management | 42.7 | 1,257 | 1,373 | -8.4 | -2.8 | -0.9 |
| Data Investment Management | 15.4 | 455 | 484 | -6.0 | -1.1 | -1.7 |
| Public Relations & Public Affairs | 8.9 | 263 | 282 | -7.1 | 0.0 | 1.1 |
| Brand Consulting, Health & Wellness and Specialist Communications | 33.0 | 973 | 968 | 0.6 | 7.8 | 1.5 |
| **Total** | **100.0** | **2,948** | **3,107** | **-5.1** | **1.0** | **-0.1** |

1 2017 restated for the implementation of IFRS 15
2 Digital revenue less pass-through costs like-for-like growth 3.0%

# Trade Estimates of Major New Business Wins

| WPP AGENCY | INCUMBENT | ACCOUNT | OFFICE | BILLINGS $M |
|---|---|---|---|---|
| MediaCom | IND | Hotels.com | N America | 175 |
| <u>MediaCom</u> | <u>DEN</u> | <u>Sky</u> | <u>Europe</u> | <u>169</u> |
| Wavemaker | DEN | Danone | N America | 118 |
| <u>Wavemaker/Y&R</u> | <u>IND</u> | <u>Altice</u> | <u>USA</u> | <u>110</u> |
| Team Amplify | IPG | Bose | Global | 80 |
| MediaCom/Y&R | OMC | Office Depot | NAFTA | 62 |
| Wavemaker | OMC | Adobe | Global | 55 |

<u>Underlined are wins since 1 April</u>

# Trade Estimates of Major New Business Losses

| WPP AGENCY | WINNING AGENCY | ACCOUNT | OFFICE | BILLINGS $M |
|---|---|---|---|---|
| Wavemaker | PUB | Campbell Soup Co. | USA, ANZ, Indonesia | 189 |
| Wavemaker | PUB | Marriott | Global | 140 |
| JWT | IPG | Edgewell | Global | 50 |

Underlined are losses since 1 April

# Uses of Free Cash Flow

| CATEGORY | FY TARGET | MARCH YTD 2018 | MARCH YTD 2017 | FY 2017 |
|---|---|---|---|---|
| Acquisitions (excluding earnouts)[1]: | | | | |
| Gross | £300-£400m | £80m | £129m | £326m |
| Less proceeds | - | £(44m) | £(3m) | £(296m) |
| Net acquisitions | - | £36m | £126m | £30m |
| Share buy-backs:<br>% of issued share capital | -<br>2%-3% | £145m<br>0.9% | £180m<br>0.8% | £504m<br>2.5% |
| Headroom: Undrawn facilities & surplus cash | - | £2.62bn | £3.10bn | £3.23bn |
| Average net debt at 2018 exchange rates | - | £4.77bn | £4.41bn | £5.14bn[2] |

Revised target range of average net debt/EBITDA ratio lowered to 1.5-1.75x, to achieve over next 12–18 months.

1 Acquisitions are initial payments, net of cash acquired and disposal proceeds, and include other investments and associates
2 FY 2017 average net debt stated at 2017 actual exchange rates

# Outlook

- Financial guidance remains unchanged for 2018.
- Our quarter one preliminary revised forecasts are in line with budget, with a slightly stronger second half, at revenue less pass-through costs level and show:
  - Flat like-for-like revenue and revenue less pass-through costs.
  - Revenue less pass-through costs operating margin flat on constant currency basis.

# Last Two Weeks

- Established and communicated clear roles:
  - Mark: clients, companies and people.
  - Andrew: commercial management, portfolio optimisation.
- Spoken to our key clients – very reassured by their response, but not complacent:
  - Personally to CEO/CMO of our top 20 clients (23% revenues).
  - 52 WPP global client team leads to their clients (33% of revenues).
  - Operating company leads spoken to clients across the Group.
- Communicated with our people:
  - Meetings and calls with 25 operating company leaders.
  - Group-wide communications.
- Executive Chairman has visited or called all our top 20 shareholders (35% of our shareholder base).

# WPP has Tremendous Talent, Resources and Capabilities

- Strong company and client team leaders; primary holders of relationships with clients.
- Powerhouse of talent; most creative group at Cannes for last seven years; people with unparalleled knowledge and expertise around the world.
- Number one media buying and planning business globally.
- Leading research, data and insight businesses.
- Strong public relations, health & wellness and brand consulting agencies.
- Very strong market positions in Asia Pacific, Latin America, Africa & Middle East.
- Leading digital brands such as AKQA, Essence, Mirum, POSSIBLE, VML and Wunderman.
- Strong mutual relationships with technology companies.

# How We See the World

- Continued growth in demand from clients for marketing and communication services, as clients need to:
  - Drive their top-line growth.
  - Build and manage direct customer relationships.
  - Transform their customer experiences.
  - Sell in a multi-channel environment.
- However, we need to recognise the challenges facing our industry:
  1. Structural rather than cyclical shifts in the market as clients react to the new environment.
  2. WPP and consulting companies starting to compete in the faster-growing segments.
  3. Amazon, Facebook, Google et al. competing for talent, client attention and seeking more direct relationships.

# Path to Growth for WPP

- Focus on our clients – provide faster, more agile, more effectively integrated solutions.
- Look at our offering and focus our investments in the faster-growing parts of our business.
- Continue to simplify our organisation to make it:
  - easier for clients to access our talent, creativity and capabilities.
  - easier for us to manage.
- Embed data and technology much more deeply into our offer and the way we work – while retaining our creative edge.
- Invest in talent that represents our changing world.

# Financial Management, Operations and Portfolio

- Align how we run the business commercially to support our growth strategy.
- Address under-performing parts of the Group more proactively to focus on growth and free up resources for investment.
- Accelerate strategies that support growth and drive efficiencies:
  - Co-locations, shared services, global platforms.
- Evaluate the shape of the overall portfolio with an open mind:
  - Focus on growth and maximising shareholder value.
  - Release capital from our portfolio of minorities and associates.

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# Other Financial Information

# Revenue Less Pass-Through Costs Growth by Country

| REVENUE LESS PASS-THROUGH COSTS GROWTH[1] | TOP COUNTRIES[2] |
|---|---|
| More than 10% | Argentina, Mexico, Poland |
| 5% to 10% | Brazil, Japan, Norway, South Korea, Sweden |
| 0% to 5% | Greater China[3], Mainland China, Denmark, France, Netherlands, India, Italy, Russia, Spain, South Africa, Thailand, Turkey, UK |
| Less than 0% | Belgium, Canada, Dubai, Germany, Indonesia, Philippines, Singapore, Switzerland, USA |

1 Like-for-like growth
2 Australia not disclosed as WPP AUNZ a listed company
3 Includes Hong Kong and Taiwan

# Revenue Less Pass-Through Costs Growth by Category

| REVENUE LESS PASS-THROUGH COSTS GROWTH[1] | CATEGORIES |
|---|---|
| More than 10% | Retail |
| More than 5% | Automotive, Electronics |
| 0% to 5% | Oil, Travel & Airline |
| Less than 0% | Computers, Drinks, Financial Services, Food, Government, Media & Entertainment, Personal Care & Drugs, Telecommunications |

1 Like-for-like growth

# Effects of Currency

| | Q1 2018 | Q1 2017 | STERLING STRONGER/(WEAKER) |
|---|---|---|---|
| US$ | 1.39 | 1.24 | 12% |
| € | 1.13 | 1.16 | -3% |
| ¥ | 151 | 141 | 7% |
| Chinese Renminbi | 8.9 | 8.5 | 5% |
| Brazilian Real | 4.52 | 3.89 | 16% |
| Australian $ | 1.77 | 1.63 | 9% |
| Canadian $ | 1.76 | 1.64 | 7% |
| Indian Rupee | 90 | 83 | 8% |
| Singapore $ | 1.84 | 1.75 | 5% |
| Russian Rouble | 79 | 73 | 8% |
| South African Rand | 16.6 | 16.4 | 1% |

- Currency movements accounted for 6.0% decrease reported revenue and 6.1% decrease revenue less pass-through costs.
- Reflects strengthening of £ sterling against most currencies.

# Debt Maturity Profile £m at 31 Mar 2018

| | £ TOTAL CREDIT | £ TOTAL DRAWN |
|---|---|---|
| £ bonds £400m (2.875% Sep '46) | 400 | 400 |
| US bond $500m (5.625% Nov '43) | 356 | 356 |
| US bond $300m (5.125% Sep '42) | 214 | 214 |
| Eurobonds €600m (1.625% Mar '30) | 527 | 527 |
| Eurobonds €750m (2.25% Sep '26) | 659 | 659 |
| **Eurobond €500m (1.375% Mar '25)/£444m Swap[1]** | **444** | **444** |
| US bond $750m (3.75% Sep '24) | 534 | 534 |
| Eurobonds €750m (3.0% Nov '23) | 659 | 659 |
| US bond $500m (3.625% Sep '22)[2] | 356 | 356 |
| **Eurobond €250m (3m EURIBOR + 0.45% Mar '22)** | **220** | **220** |
| US bond $812m (4.75% Nov '21)[3] | 579 | 579 |
| £ bonds £200m (6.375% Nov '20) | 200 | 200 |
| Eurobonds €250m (3m EURIBOR + 0.32% May '20) | 220 | 220 |
| Eurobonds €600m (0.75% Nov '19) | 527 | 527 |
| **Debt Facilities** | **5,895** | **5,895** |
| Bank revolver[4] WPP ($2,500m Jul'21) | 1,781 | 1,024 |
| Bank revolver[4] WPP AUNZ (A$520m Mar'19) | 284 | 218 |
| Net cash, overdrafts & other adjustments | – | (1,939) |
| **Total Borrowing Capacity / Net Debt** | **7,960** | **5,198** |

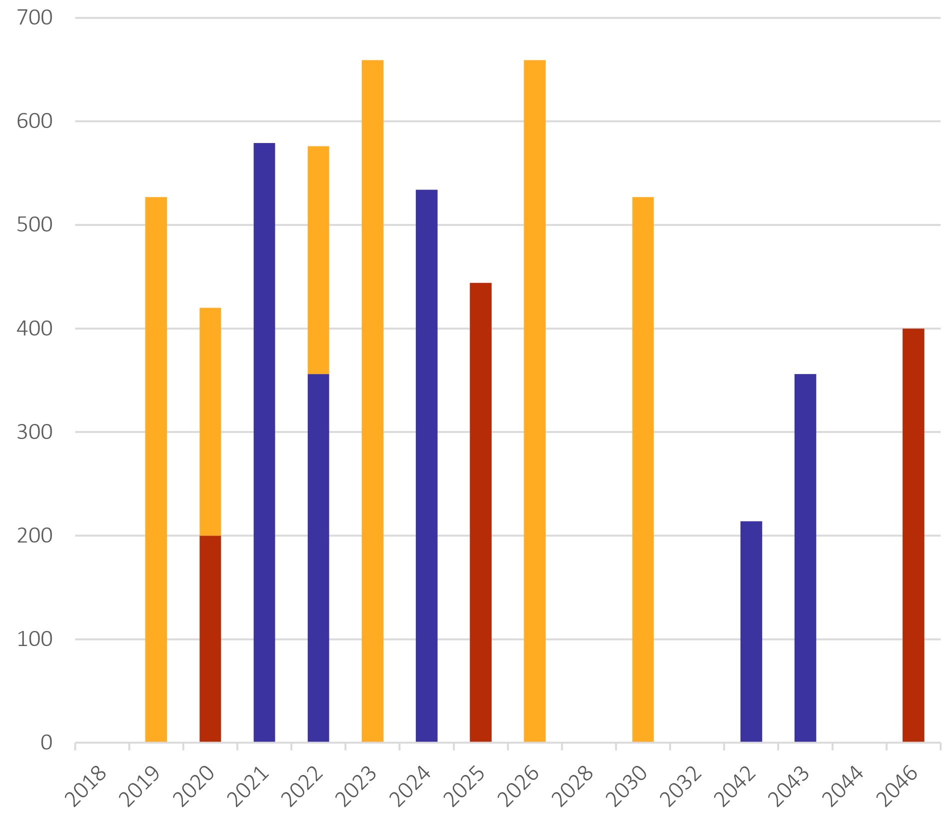
Exchange Rates £/$ 1.4034 £/€ 1.1386 £/A$ 1.8261

1 Swapped to £444m at 2.61%

2 Swapped to 6 month $Libor + 1.52%

3 Swapped to 6 month $Libor + 2.34%

4 These instruments are subject to financial covenants




Weighted Average Coupon 3.0%

Weighted Average Maturity 9.2 years

Available Liquidity £2,622m

# Acquisitions Since 1 January

**BAR – Portugal (Ogilvy)**
BAR is a leading independent creative agency in Portugal. BAR will merge operations with Ogilvy & Mather Portugal, with the combined business trading as BAR Ogilvy. It will be managed by the founders of BAR: Jose Bomtempo, Diogo Anahory and Miguel Ralha. Founded in Lisbon in 2009, BAR is an integrated agency with a strong creative reputation. Clients include Sagres, Millennium BCP, CUF, Nowo, TAP and Nespresso.

**The Glitch – India (GroupM)**
The Glitch is a digitally-led creative agency. The Glitch was founded in 2009 and employs around 200 people in Mumbai and Delhi. The Glitch's full-service capabilities include digital, video and content strategy, interactive design technology, e-commerce, branding and media planning. Clients include Unilever, Netflix, OYO Rooms, Shutterstock, Tinder and others in the entertainment, beauty and FMCG sectors.

**Mash Strategy – UK (Kantar Consulting)**
Mash is a London-based brand strategy and growth consultancy. Mash provides integrated consulting services covering growth strategy, insight, innovation and brand transformation. Clients include Johnson & Johnson, Samsung, Unilever and PepsiCo. Mash was founded in 2010 and employs around 25 people in London and New York.

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