WPP AUNZ

2018 FULL YEAR RESULTS

22 February 2019

FINANCIAL REVIEW 2018 FULL YEAR

- Headline full year financial performance
  - Net sales of $857.3 million, down 1.4% (2017: $869.9 million)
  - Headline EBIT of $121.0 million, down 12.8% (2017: $138.7 million). Operating margin 14.1% (2017: 15.9%).
  - Headline earnings per share of 8.4 cents, down 14.5% (2017: 9.8 cents)

- Mixed performance across the portfolio
  - Growth in Media, Digital and Public Relations
  - Global repositioning of creative agencies - VMLY&R / Wunderman Thompson

- Strong cashflows and improved banking facilities
  - New debt facilities of $520 million with a syndicate of 5 banks. Facilities better aligned to cashflow
  - Leverage ratio 1.9x (Dec 17: 1.6x), within targeted range of 1.5x to 2.0x, albeit at the higher end of the range.
  - Final dividend of 4.0 cents per share fully franked. Total full year dividend of 6.3 cents (2017: 6.3 cents). Payout ratio 75% of headline earnings

OPERATIONAL OVERVIEW OF 2018

WPP GLOBAL LEADERSHIP

- New global leadership with a clear direction for WPP as a creative transformation company
- Moving more quickly to respond to sector structural change; not structural decline
- Integrating agencies with complementary strengths to deliver clients a better team and outcome

POSITIONING WPP AUNZ FOR GROWTH

- Leadership changes
- Evolving services to better serve customer needs
- Wunderman Thompson - effective Q1 2019
- VMLY&R – effective Q1 2019
- Investment in WPP aligned businesses - Essence, Lightspeed
- Established Melbourne Campus, 15 companies – better collaboration

SIMPLIFYING

- Speeding up the rationalisation of the portfolio where it makes strategic sense
- More clarity around offering to clients
- Taking quick action to remedy underperforming segments in our business

KEY FINANCIALS

HEADLINE RESULTS – FULL YEAR 2018

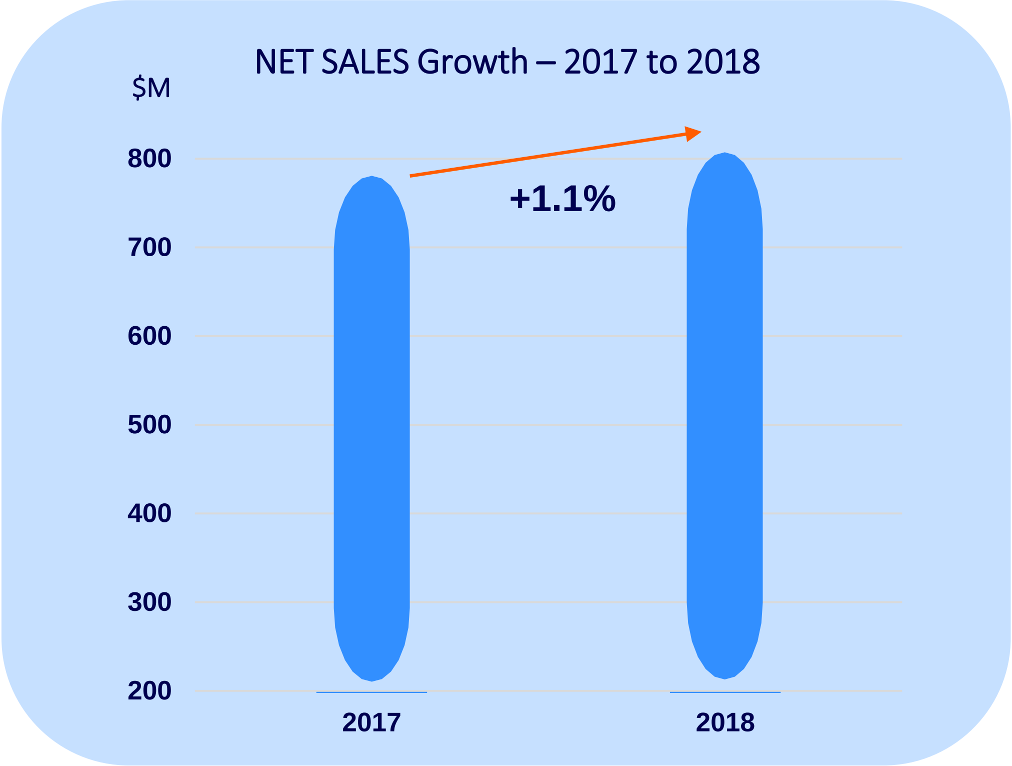
KEY MEASURES ($AUD'M)	31 DEC 2017	31 DEC 2018	% CHANGE
Net Sales	869.9	857.3	(1.4%)
Earnings Before Interest and Tax	138.7	121.0	(12.8%)
Net Sales Margin	15.9%	14.1%	
Profit Before Tax	125.0	107.9	(13.7%)
Tax Rate	*27.2%*	*26.7%*	-
Profit After Tax	91.0	79.1	(13.1%)
Earnings Per Share	9.8 cents	8.4 cents	(14.5%)
Full Year Dividend Per Share	6.3 cents	6.3 cents	
Net Debt	250.0	270.3	
Leverage Ratio (Net debt / EBITDA)	1.6x	1.9x	

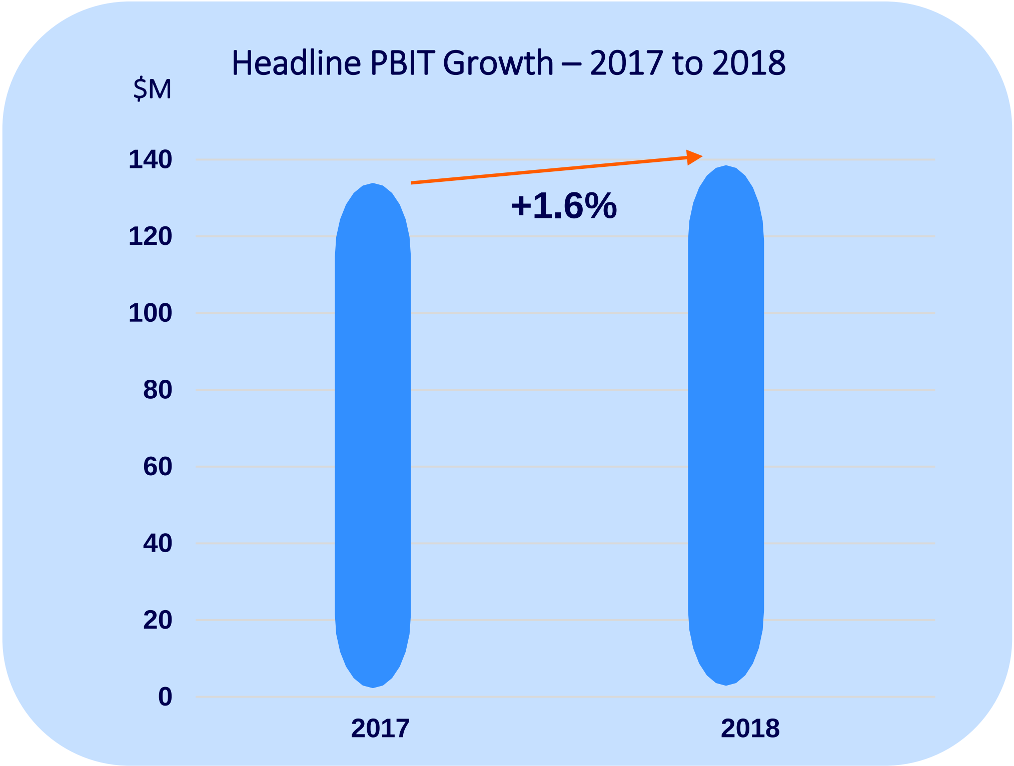
FULL YEAR RESULTS BY SEGMENT 31 DECEMBER 2018

$AUD'M	NET SALES		HEADLINE PBIT		HEADLINE MARGIN	
	2018	$ CHANGE	2018	$ CHANGE	2018	CHANGE
Advertising, Media Investment Management	481.1	(14.3)	68.6	(10.0)	14.3%	(1.6%)
Data Investment Management	105.2	5.7	19.5	(0.4)	18.6%	(1.4%)
Public Relations & Public Affairs	60.3	2.4	12.1	2.8	20.0%	4.0%
Branding & Identity and Specialist Communications	190.7	2.8	28.5	(2.1)	14.9%	(1.3%)
Large Format Production	20.0	(9.2)	(7.7)	(8.0)	-38.6%	(39.7%)
Total	**857.3**	**(12.6)**	**121.0**	**(17.7)**	**14.1%**	**(1.8%)**

Large Format Production separated as a cash generating unit in 2018 results

HEADLINE RESULTS EXCLUDING 3 CHALLENGED OPERATING UNITS





- Challenged operating units are a large format production unit and two Advertising business units.
- These units represent 7% of Net Sales.

HEADLINE EARNINGS

31 DECEMBER $AUD'M	2017	2018	CHANGE
Net sales	**869.9**	**857.3**	**(1.4%)**
Income from associates	6.5	6.6	
Staff Costs	(549.9)	(555.0)	
Establishment Costs	(53.0)	(56.4)	
General & Administration Costs	(134.8)	(131.5)	
Total Operating Costs	**(737.7)**	**(743.0)**	
Earnings before interest and tax	**138.7**	**121.0**	**(12.8%)**
Net finance costs	(13.7)	(13.1)	
Profit before tax	**125.0**	**107.9**	**(13.7%)**
Tax	(34.0)	(28.8)	
Profit after tax	**91.0**	**79.1**	**(13.1%)**
Minority Interests	(7.4)	(7.6)	
Profit after tax and minorities	**83.6**	**71.5**	**(14.5%)**
EPS	**9.8 cents**	**8.4 cents**	**(14.5%)**

31 DECEMBER $AUD'M	2017	2018
Staff Costs to Net Sales %	63.2%	64.7%
EBIT to Net Sales Margin %	15.9%	14.1%
EBITDA ($'million)	154.1	139.3

- Staff costs to Net Sales impacted by a decline from Large Format Production and creative agencies
- Office consolidation in Melbourne and acquisitions in 2018 drive increase in Establishment costs
- Reduced interest expense through better cash collection and improved debt margin

HEADLINE TO REPORTED EARNINGS

31 DECEMBER $AUD'M	2017	2018	CHANGE
Headline profit after tax and minorities	83.6	71.5	-14.5%
Significant one-off costs			
Transaction related tax balances	7.4	(8.5)	
Impairment expense	-	(62.5)	
Amortisation of acquired intangible assets	(13.5)	(14.1)	
(Loss)/gain on fair value adjustment of earnouts	(3.6)	0.6	
Business restructure and other one-off costs	(0.6)	(4.1)	
Reported profit after tax and minorities	73.3	(17.1)	-123.3%

- Transaction related tax balances is the Right To Future Income Tax deduction relating to the merger Transaction that was received in 2017 but then re-paid due to legislation change in 2018.
- The impairment expense in 2018 relates to the impairment of goodwill, acquired intangible assets and other balance sheet items in relation to entities within the Large Format Production segment.
- The Business restructure costs relate to the merger of under-performing units, co-location of offices, and right-sizing of operations.

BALANCE SHEET, DEBT & LEVERAGE

BALANCE SHEET ($M)

	REPORTED 31 DEC 2017	REPORTED 30 JUNE 2018	REPORTED 31 DEC 2018
Cash (a)	111.2	129.4	63.5
Net working capital	(40.6)	(32.7)	(62.8)
Investments	23.4	25.8	21.9
Intangibles	1,235.4	1,238.5	1,187.5
Other Assets	126.7	120.6	117.6
TOTAL ASSETS	1,456.1	1,481.6	1,327.7
Bank Debt (b)	(338.8)	(412.6)	(315.0)
Lease Liability (b)	(2.7)	(2.3)	(1.7)
Earnouts (c)	(19.7)	(19.5)	(17.1)
Other Liabilities	(235.0)	(218.1)	(217.1)
TOTAL LIABILITIES	(596.2)	(652.5)	(550.9)
NET ASSETS	859.9	829.1	776.8
Net debt (b-a)	230.3	285.5	253.2
Net debt including earnouts (b+c-a)	250.0	305.0	270.3

Key Themes

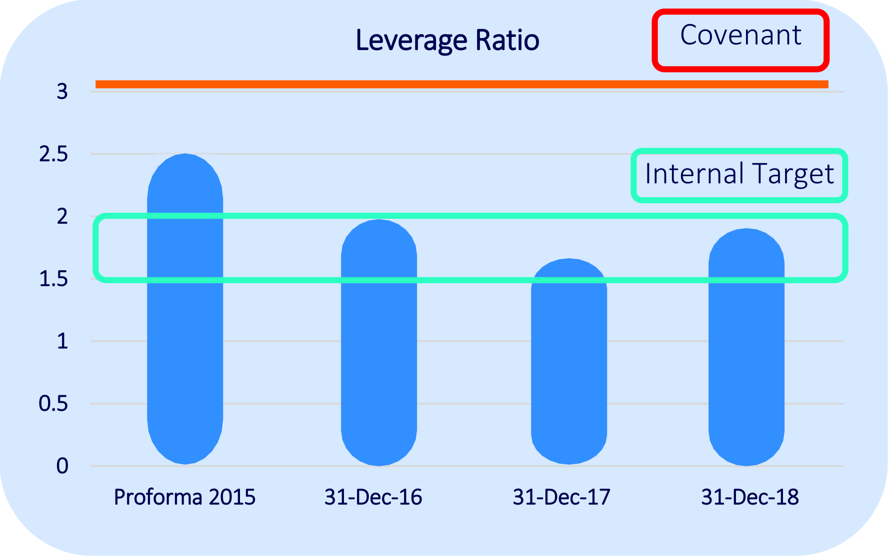
- Negative net working capital of $62.8 million (Dec 2017: $40.6 million). Strong working capital performance across the year.
- Net debt including earnouts of $270.3 million (Dec 2017: $250.0 million). Increase in net debt of $20.3 million.
- Investments represents investments in associated entities.
- Intangibles of $1,187.5 million (Dec 2017: $1,235.4 million) – decrease mainly due to the impairment of the Large Format Production segment.

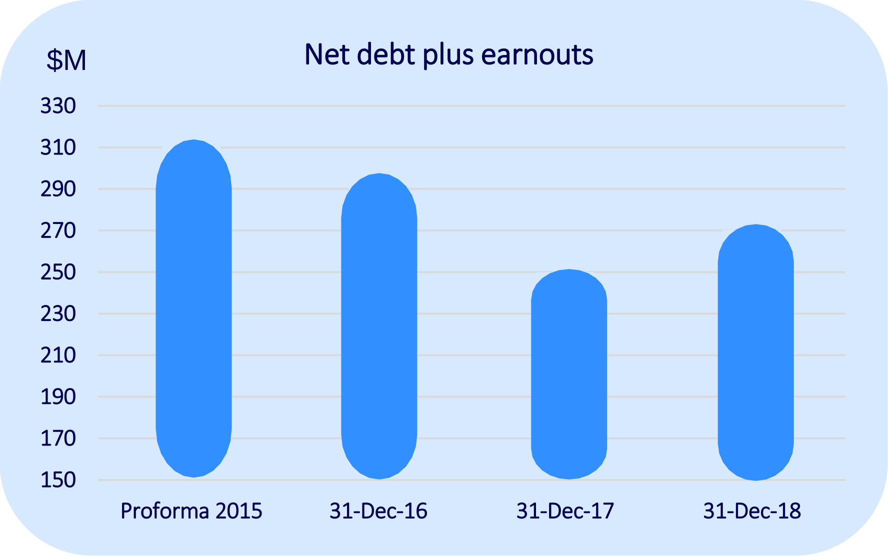
DEBT FACILITIES

- Entered into new core debt facilities in June 2018

- New Syndicated Debt Facility
  - Maintained access to debt facilities of $520 million with a syndicate of 5 banking partners.
  - Maturity profile:
    - $370 million – 3 year term maturing June 2021
    - $150 million – Rolling annual working capital facility expiring 29 June 2019
      - We expect to roll-over this facility for a further one year period.

- Leverage ratio
  - Leverage ratio of 1.9x at 31 December 2018 (1.6x at 31 December 2017) – within targeted leverage ratio of 1.5x to 2.0x
  - Leverage ratio calculated as Net Debt including earnouts/EBITDA
  - There is material headroom in the banking covenants due to the requirement for a leverage ratio of less than 3.0x.





USE OF CASHFLOW

KEY MEASURES	31 Dec 2017	31 Dec 2018
EBITDA (excluding impairment and amortisation)	151.3	133.3
Net change in working capital and non-cash items	(20.5)	24.6
Dividends received from associates	2.9	3.1
Net interest expense	(13.7)	(13.1)
Tax received/(paid)	8.6	(53.9)
Net cash generation from operating activities	128.6	94.0
Capital expenditure and Loans	(21.0)	(27.0)
Acquisitions		
- Net initial receipts/(payments)	0.7	(20.8)
- Earnout payments	(10.8)	(3.1)
Net cash flow before financing and distributions	97.5	43.1

Key Themes

- Improvement in working capital in 2018 had positive impact on operating cash flows.
- Significant tax cash outflow due to change in tax legislation and tax payments for both 2017 and 2018 being made in the 2018 year as a result of timing changes from the 2016 merger.
- Investment in capital expenditure include investment in new campus in Melbourne and investment in expanding production capabilities.
- Net acquisition payments in 2018 mainly driven by acquisition of Essence and Lightspeed as well as step up acquisitions in relation to Aleph, Colmar Brunton, Designworks NZ and PPR.

DIVIDENDS

DIVIDENDS

Dividend payout ratio increased to 75% of underlying earnings

- Targeted payout ratio – 60% to 70% of earnings
- Increase full year payout ratio to 75% of earnings (2017: 64%)
- Final dividend of 4.0 cents per share (2017: 4.2 cents per share)
- Full year, fully franked dividend of 6.3 cents (2017: 6.3 cents)
- Dividend record date of 29 March 2019, dividend payment date of 5 April 2019

	31 Dec 2016	31 Dec 2017	31 Dec 2018
Interim dividend	2.1	2.1	2.3
Final dividend	3.9	4.2	4.0
Total Dividends per share (cents)	6.0	6.3	6.3
Earnings per share (cents)	9.5	9.8	8.4
Payout ratio %	63%	64%	75%
Total cash outlay ($ million)	51.1	53.6	53.6

PORTFOLIO MANAGEMENT

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Acceleration of Portfolio Rationalisation

Portfolio Rationalisation

Investment, consolidation and repositioning

Global Repositioning

- **Wunderman Thompson / VMLY&R**
- Combined Net Sales of $110 million between units
- Global mergers – Enhanced creative and digital capabilities

Acquisition of WPP Aligned Businesses

- **Lightspeed** - Global online research panel - 100% acquisition
- **Essence** – Global digital media planning and buying - 100% acquisition

Buyout of existing shareholding

- **Colmar Brunton** – Research and Insights business. 18% acquisition to move to 100% ownership
- **Aleph** – Digital business based in South East Asia. 10% acquisition to move to 75% ownership

Net sales defined as revenue less pass-through costs

KANTAR

- WPP AUNZ owns Kantar in Australia and New Zealand, a data investment management company.

- WPP AUNZ's major shareholder, WPP plc have previously announced their intention is to develop Kantar through a strategic or financial partner, with WPP plc retaining a significant minority interest and strategic links with Kantar.

- As an owner of Kantar businesses in Australia and New Zealand, WPP AUNZ are in discussions with WPP plc regarding our strategic options for the Kantar business.

- The Data Investment Management segment in 31 December 2018 contributed net sales of $105 million and earnings before interest and tax of $20 million. The Kantar businesses account for the significant majority of this segment.

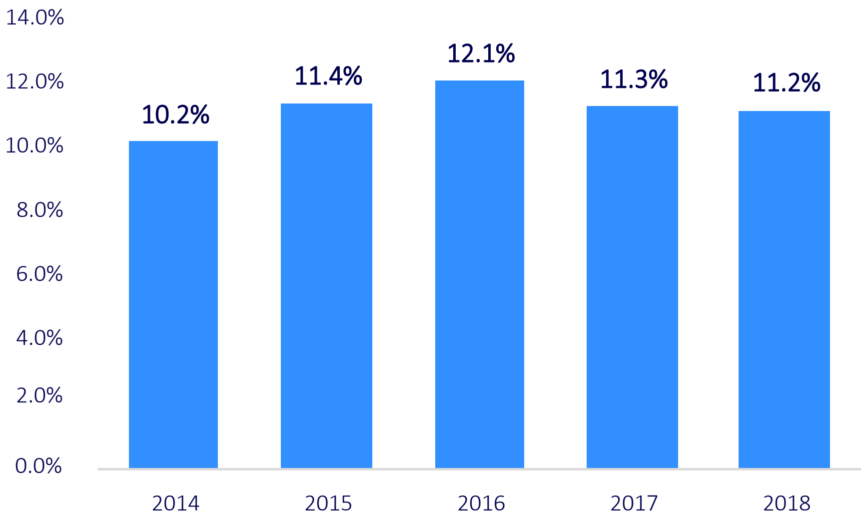
THE NEW WPP AUNZ

Rose Herceg
Chief Strategy Officer

TECHNOLOGY IS FUNDAMENTALLY RESHAPING OUR INDUSTRY

CLIENTS ARE NOT CUTTING SPEND, BUT LOOKING FOR BROADER PARTNERSHIPS

INDUSTRY MARKETING EXPENSE AS % OF REVENUE*



- CREATIVITY
- MEDIA INSIGHT AND PERFORMANCE
- DATA EXPERTISE
- TECHNOLOGY

*Source Gartner: October 2018
CMO Budget Allocation – Mean Percentage of Budget Shown
* Survey of 353 marketing executives in North America and the UK at companies with more than $250 million in annual revenues

OUR INDUSTRY IS FACING STRUCTURAL CHANGE, NOT STRUCTURAL DECLINE

KEY CHALLENGES

1. Role of “traditional” creative agencies challenged
2. Our clients are being disrupted
3. Consultants competing for technology and talent
4. Facebook, Google etc vying for talent and attention
5. Trust paramount

THE NEW WPP AUNZ STARTS WITH SUBSTANTIAL ASSETS

CLIENTS AND PARTNERSHIPS

- Key partner to AUNZ's largest companies
- Partner to AUNZ's media and technology companies

SCALE

- Global networks
- #1 media buying scale

CREATIVITY

- Partner to the business
- Understanding of consumers

TECHNOLOGY

- Growing CIO relationships
- Significant marketing technology offer

WE ALSO NEED TO ADDRESS LEGACY ISSUES

1. Clarify our vision and brand position
2. Invest more in creativity and talent
3. Make it simpler for clients to access our best resources
4. Increase our investment in technology
5. Simplify our structure, making WPP AUNZ easier to manage
   Make WPP AUNZ more efficient and effective

WPP AUNZ

WPP AUNZ IS A **CREATIVE TRANSFORMATION COMPANY**

WE WILL EXPAND OUR OFFER IN HIGH GROWTH AREAS

COMMUNICATIONS

EXPERIENCE

COMMERCE

TECHNOLOGY

COMMUNICATIONS

EXPERIENCE

COMMERCE

TECHNOLOGY

WHAT WE OFFER

- Advertising
- Content
- Media
- Public Relations
- Healthcare

OPPORTUNITY

- Media: programmatic, search and innovation
- Content creation
- Social media/influence
- Healthcare

COMMUNICATIONS

EXPERIENCE

COMMERCE

TECHNOLOGY

WHAT WE OFFER

- Customer experience design
- Platforms and websites
- Mobile applications
- Innovation: voice, augmented reality

OPPORTUNITY

- Integration of online and offline experience
- Innovation, particularly in devices
- Experiences, e.g., in-car, product, voice

COMMUNICATIONS

EXPERIENCE

COMMERCE

TECHNOLOGY

WHAT WE OFFER

Direct-to-consumer

Omni-channel retail

Marketplaces, e.g.
Amazon, eBay, AirBNB

OPPORTUNITY

- Grocery
- Direct-to-consumer
- Non-retail, e.g., airlines, banks, etc.
- Marketplaces

Google

Bunnings Warehouse

amazon

MARS

COMMUNICATIONS

EXPERIENCE

COMMERCE

TECHNOLOGY

WHAT WE OFFER

Data management

Marketing Technology Consulting

Systems integration

OPPORTUNITY

- Adobe and Salesforce practices
- Agnostic Consulting on technology choice
- CMO / CIO alignment

SUMMARY AND OUTLOOK

SUMMARY AND OUTLOOK

- **Overall market conditions in 2019 are expected to show low growth with varied performance in individual segments:**
  - Media market driven by digital and outdoor
  - Challenging market for retail and consumer facing brands
  - High growth in e-commerce, digital transformation and marketing infrastructure
  - The market is moving, and we are responding to our clients' changing needs

- **Leadership**
  - Search for new Chief Executive Officer progressing
  - Experienced leadership team remains in place and is empowered

- **Portfolio**
  - Continue to explore opportunities to strengthen and simplify the portfolio of companies
  - Supporting outperforming companies to accelerate their growth potential with investment for scale, talent and a differentiated service offering

- **Fundamentals of the Company**
  - Better collaboration across the Company to create more client facing partnerships and unlock value for all businesses
  - Investment in our people and culture – training

Q&A

TOTAL MEDIA MARKET - 2018 VS 2017 DEMAND FORECAST

- In H2 the results reduced significantly in the final quarter reducing the overall annual forecast to +2.7%.
- Whilst the two largest categories, Automotive & Retail, are expected to show record Pre-Christmas spends, the release of the interim Banking Royal Commission report in September put a halt to spending in the Financial & Insurance categories.
- The growth in Outdoor is anticipated to be double digit and exceed that of Digital.
- Within the Agency Media Market the strong 4%-5% growth in the first half of the year halted in the final quarter (-3%) resulting in +2% growth overall for 2018.

MEDIA TYPE	2018F vs 2017
Television	-2.9%
Digital	+7.4%
Outdoor	+10.4%
Radio	+3.0%
Print	-9.6%
Cinema	-3.4%
Market	**+2.7%**

SOURCE: GroupM Forecast

TOTAL MEDIA MARKET - DEMAND OUTLOOK FORECAST

- Whilst growth is still anticipated, the Demand Outlook Forecast has contracted given the economic uncertainty both globally & locally.
- The wealth effect appears to be having an impact and several key categories will undergo pressure due to the Financial Services Royal Commission.
- The Federal Election and Tokyo Olympics will stimulate the market in 2019 and 2020 respectively delivering positive market growth.

MEDIA TYPE	2018F	2019F	2020F
Television	-2.9%	-2.4%	-3.1%
Digital	+7.4%	+5.1%	+3.8%
Outdoor	+10.4%	+7.6%	+6.0%
Radio	+3.0%	+2.5%	+1.2%
Print	-9.6%	-8.5%	-6.7%
Cinema	-3.4%	+2.3%	+2.1%
Market	**+2.7%**	**+1.9%**	**+1.3%**

SOURCE: GroupM Forecast

SEGMENT RESULTS
1ST HALF 2018 – 6 MONTHS TO 30 JUNE 2018

$AUD'M	NET SALES		HEADLINE PBIT		HEADLINE MARGIN	
	2018	$ CHANGE	2018	$ CHANGE	2018	CHANGE
Advertising, Media Investment Management	232.8	(1.1)	28.1	0.8	12.0%	0.4%
Data Investment Management	50.1	1.5	8.3	(1.2)	16.6%	(2.9%)
Public Relations & Public Affairs	29.0	0.4	4.6	1.0	16.0%	3.3%
Branding & Identity and Specialist Communications	93.8	7.2	10.6	(0.3)	11.3%	(1.3%)
Large Format Production	10.6	(1.7)	(2.0)	0.1	-19.0%	(1.7%)
Total	416.3	6.3	49.6	0.5	11.9%	(0.1%)

SEGMENT RESULTS
2ND HALF 2018 – 6 MONTHS TO 31 DECEMBER 2018

$AUD'M	NET SALES		HEADLINE PBIT		HEADLINE MARGIN	
	2018	$ CHANGE	2018	$ CHANGE	2018	CHANGE
Advertising, Media Investment Management	248.3	(13.2)	40.5	(10.8)	16.3%	(3.3%)
Data Investment Management	55.1	4.2	11.2	0.8	20.3%	(0.1%)
Public Relations & Public Affairs	31.3	2.0	7.5	1.8	24.0%	4.5%
Branding & Identity and Specialist Communications	96.9	(4.4)	17.9	(1.8)	18.5%	(1.0%)
Large Format Production	9.4	(7.5)	(5.7)	(8.1)	-60.6%	(74.8%)
Total	441.0	(18.9)	71.4	(18.2)	16.2%	(3.3%)