ASX Release
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WPP AUNZ LIMITED – 2020 FULL YEAR RESULTS

WPP AUNZ Limited ("WPP AUNZ," "the Group", ASX:WPP), Australasia's leading creative transformation company, today announced its financial and operational results for the year ending 31 December 2020.

Results in line with market guidance

- Continuing[1] business earnings before interest and tax (EBIT) of $61.9 million, down 32.6% (2019: $91.8 million) but at the upper end of guidance of between $59 million and $62 million.
- Continuing[1] business net sales of $612.3 million, down 14.1% (2019: $712.5 million), better than total ad market spend which was down 15%.[2] The result was slightly ahead of guidance of between $607 million and $610 million.

Significant and lasting improvement in operating efficiency

- Delivered $71 million in cost savings for 2020, inclusive of government subsidies of $13.6 million.
- On an annualised basis, the sustainable cost measures are expected to provide a benefit of approximately $65 million in FY21.

Strong cash collection and working capital underpin substantial reduction in Net Debt

- Significantly reduced net debt from $121.4 million in 2019 to $17.2 million in 2020, driven by strong cash collections and tight working capital management. We expect the benefit of early collection of media payments to partially unwind in Q1 2021.
- Renewed and extended $420 million in banking facilities in August 2020.

Transformation strategy ahead of plan – FY21 moves into the 'strengthen' phase

- Transformation strategy involves three phases: transform, strengthen and grow. All key 'transform' deliverables have been achieved ahead of plan.
- The strategy is being implemented over a three-year period to the end of 2022 and focuses on four areas of the market: communications, technology, experience and commerce.
- The Company will move into the 'strengthen' phase of its strategic roadmap in FY21. The focus in this phase is topline growth and includes initiatives to drive client engagement and expand in growing areas of the market.

Return to paying dividends and Outlook

- Given the improvement in market conditions and substantially stronger financial position, the Board has declared a total dividend for the 2020 year of 4.4 cents per share, fully franked. This comprises a final ordinary dividend of 2.9 cents per share, fully franked (representing a payout ratio of 71% of headline earnings per share), and the reinstatement of the special dividend payment of 1.5 cents per share, fully franked, in recognition of the Kantar sale proceeds.
- The Company is budgeting a material improvement in profitability in the 2021 financial year. Headline EBIT is expected to be between $85 million and $95 million.

1) The Headline financial results are presented excluding the impact of significant, non-recurring and non-cash items such as amortisation of acquired intangible assets and impairments. With the completion of the sale of 100% of the Group's interest in the Kantar Australian and New Zealand businesses on 6 December 2019, together with the sale of the Group's interest in Ogilvy NZ on 9 August 2019, the Group is now reporting its results on a Continuing Business basis which excludes the results of both Kantar and Ogilvy NZ.
2) SMI Agency Report – January 2021.

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In announcing the results for 2020, Jens Monsees, Managing Director and CEO, said:

“Reflecting on the year gone by, I am extremely proud of all that our team has achieved through what has been a volatile operating environment. We are working in new ways, both as a result of the pandemic environment, but also because of the transformational initiatives we have rolled out to bring together our businesses more closely and collaboratively to better service our clients.

“Our transformation strategy means WPP AUNZ taps further into growing areas of the market like e-commerce, personalised advertising and digital consumer experience. Clients are looking to us to provide them with the skills, creativity and ideas they need to match the changing needs of their consumers.

“The feedback from our clients on the new ways we are serving them has been fantastic and makes us proud and confident in our own growth agenda in the region.

“We now move into the ‘strengthen’ phase of our transformation strategy. This is about embedding a strong foundation in our business to support growth. Our focus is on clients, talent, tech, solutions and operational excellence.

“With our creativity and technology capabilities we are well-placed to drive growth as the leading creative transformation company in Australia, New Zealand and South-East Asia” said Mr Monsees.

TRANSFORMATION STRATEGY: TRANSFORM, STRENGTHEN AND GROW

WPP AUNZ announced a transformation strategy in February 2020 to return its business to strong, profitable and sustainable growth. The strategy is being implemented in three phases: transform, strengthen and grow, over a three-year period to the end of 2022.

The strategy enhances core creative capabilities and brings together the collective talent, resources and skills to provide an integrated offer of communications, experience, commerce and technology to clients.

As consumers increased their time at home, there has been heightened levels of consumption of media and a rapid expansion of ecommerce activity. As a result, future demand for our experience, commerce and technology services is expected to be strong, with clients looking to adapt rapidly to permanent changes in consumer behaviour.

In 2020, WPP AUNZ set out key deliverables for the year, which have all been completed ahead of plan. Key achievements in 2020 included:

- Launched a centralised tech hub, the Centre of Excellence, with partnerships with Adobe, Microsoft, Salesforce and Sitecore. This consolidates the technology and data consulting operations of the group.
- Added additional capabilities in technology through the acquisition of Dominion in New Zealand and Meerkats in Australia.
- Formalised 10 top client leaders to better serve top clients across the WPP AUNZ brands and capabilities.
- Introduced performance driven KPI and remuneration schemes for all leaders.
- Successfully consolidated the support services: HR, IT and Finance.
- Successfully restructured New Zealand operations and materially improved profitability.
- Announced the global partnership between AKQA and WhiteGREY, enhancing technology and creative assets of the Group.
- Announced the global merger between VMLY&R and Geometry to create VMLY&R Commerce and bolster the service offering in commerce and retail.

After successfully completing the first chapter of its strategy, the Company will now move into the 'strengthen' phase of its strategy in FY21. This phase sees a focus on clients, solutions, talent and operational excellence.

It includes the following initiatives:

- **Clients:** expansion of the client leaders' program to drive stronger client engagement and focus on scale growth in top clients; ensure service quality and retention by monitoring and reviewing NPS scores; and leveraging the new CRM system established in 2020.
- **Solutions:** continuing to drive growth opportunities through the Centre of Excellence, by enhancing digital and tech capabilities and through focused M&A; strengthening the portfolio through integrated offerings; and establishing a sustainability and purpose practice to capture growing demand for advice in these areas.
- **Talent:** establishing an agile and flexible working model; investing in the development of WPP AUNZ's talent pool; and further implementing consistent KPIs across the Group.
- **Operational Excellence:** involves continued consolidation of the Group's property footprint, portfolio rationalisation, and expanding the SE Asian footprint while also tapping into global resources offshore. It also includes driving further efficiencies in the operating model through shared services in HR, IT and Finance.

The financial objectives include a net sales target of 3% - 5% growth and an improvement in operating margin of 3%-4% in FY21. These are consistent with the FY21 earnings guidance provided to the market today.

FY20 RESULTS SUMMARY

The financial results of the Continuing Business are presented excluding the impact of significant and non-cash items and excluding the results of the two major units disposed in 2019 - Kantar and Ogilvy NZ.

Key Measures – Continuing Business	31 December 2019	31 December 2020	Change
Net Sales	$712.5 million	$612.3 million	(14.1%)
Headline Earnings before interest and tax	$91.8 million	$61.9 million	(32.6%)
Headline Profit before tax	$77.8 million	$53.0 million	(31.9%)
Net sales margin	12.9%	10.1%	(2.8%)
Headline Profit after tax and minorities	$51.2 million	$34.9 million	(31.9%)
Headline EPS (cents per share)	6.0 cents	4.1 cents	(31.9%)
Total dividends for year (fully franked)	2.3 cents	4.4 cents	
Leverage ratio (net debt/Headline EBITDA)	1.1x	0.2x	

Continuing Business contributed net sales of $612.3 million converting to Earnings Before Interest and Tax of $61.9 million at a margin of 10.1%. Continuing Business Headline earnings per share was 4.1 cents which was a decline of 31.9% on prior year.

The Group's 2020 financial performance has been impacted by the unprecedented economic, logistical and market challenges faced dealing with the COVID-19 pandemic. The market in the first two months of 2020 progressed in line with expectations, before the impact of COVID began to be widely felt from March onwards. The immediate impact of COVID was on net sales, with clients reducing their marketing and communications expenditure as part of their own remediation actions. This was most prevalent in the media spend in Q2 2020.

Net Sales by Quarter

The table below outlines net sales by quarter compared to the prior year corresponding period.

Quarter	Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec	Full Year
Net Sales	151.9	144.1	153.6	162.7	612.3
% Change v prior year period	(6.1%)	(21.5%)	(14.3%)	(13.5%)	(14.1%)

Overall, net sales in 2020 were down 14.1% against the prior corresponding period. There was a material impact on net sales in Q2, which were down 21.5% on 2019, driven by COVID related client cancellations and deferrals. While economic conditions and business confidence improved in the second half of the year, the Company experienced improving net sales results in Q3 and Q4, albeit, net sales remained weak and down 13.9% in the second half of the year.

The Company saw an improvement in revenue off the lows earlier in 2020 and the December month delivered the largest revenue contribution for the group in the 2020 year. The improving economic environment and current client engagement and momentum provide confidence in achieving revenue growth in FY21.

The media agency market spend, as measured by SMI Total Ad Spend, reached a low point for the year in May 2020 and has improved considerably since that time with data showing a return to growth in the final quarter of 2020.

Driving Operational Efficiency

During the year, WPP AUNZ implemented a program to reduce our operating costs, in alignment with the transformation strategy and in response to the COVID related net sales declines. In FY2020, operating costs were reduced by $71 million compared to 2019. This cost reduction includes a benefit of $13.6 million in relation to government subsidies to support jobs.

As a result of these actions, 2021 is expected to have a materially reduced cost base. The sustainable cost saving measures, on an annualised basis, are expected to provide a benefit of approximately $65 million in 2021.

Result by Segment

The table below outlines the results by operating segment of the Group.

$AUD'M	NET SALES			HEADLINE EBIT			HEADLINE MARGIN	
	2020	$ CHANGE	% CHANGE	2020	$ CHANGE	% CHANGE	2020	% CHANGE
Global Integrated Agencies	425.8	(49.6)	(10.4%)	47.6	(12.1)	(20.3%)	11.2%	(1.4%)
Public Relations & Public Affairs	44.5	(11.9)	(21.0%)	6.8	(4.7)	(40.6%)	15.3%	(5.1%)
Specialist Communications	130.7	(31.0)	(19.2%)	12.4	(14.7)	(54.3%)	9.5%	(7.3%)
Large Format Production	11.3	(7.7)	(40.7%)	(4.9)	1.6	25.0%	(43.2%)	(9.0%)
Total Continued Operations	612.3	(100.2)	(14.1%)	61.9	(29.9)	(32.6%)	10.1%	(2.8%)

Global Integrated Agencies (GIA) is the Company's largest segment and comprises brands that provide media and creative services. GIA net sales were down 10.4% for the year. The segment was immediately impacted by a decline in net sales as a result of COVID related slowdown as clients reduced or deferred media spend and agency productions. In the second half of the year, there was an improvement in net sales as a result of renewed client confidence, easing of government-imposed restrictions and enhanced economic activity.

The performance of the Public Relations segment was a result of client losses and deferral and cancellation of projects. This segment contains a number of strong brands and their operating margins are the highest in the Group. The outlook for the segment remains positive, with the expectation it will return to growth as clients turn their focus back to profile building and stakeholder engagement.

The Specialist Communications segment comprises digitally focused businesses and brands delivering branding and experience; and training and events.

The digital businesses contained within the Specialist Communications segment are delivering a strong margin and are well positioned for further growth, both locally and in South East Asia. On the other hand, there was pressure on project-based work in branding and identity as clients have cut costs. Further, the brands delivering specialist services in training and events have been faced with restrictions on face-to-face gatherings and have pivoted to digital means of reaching their clients and target audience.

Progress has been made in restructuring the Large Format Production segment. The improvement is reflected in the earnings, which was primarily driven by a strong second half performance and is a result of restructure actions delivering cost and operational efficiencies. The largest of these savings were generated through property consolidation and improvement in its overall supply chain. The benefit of the initiatives is an improvement in the quality of its operations and enhanced customer experience, that will drive client retention and growth in the future.

STRONG BALANCE SHEET POSITION

A key focus during the year has been on the financial strength and sustainability of the business. There has been a focus on strengthening the cash and liquidity position of the Company through improved cash collections and extending our debt facilities.

Net debt at 31 December 2020 is $17.2 million (2019: $121.4 million). This reduction in net debt at year end has been achieved through strong cash collections, along with early collection of media payments. The benefit of early collection of media payments is expected to partially unwind in Q1 2021.

Renewal and extension of debt facilities

In order to provide financial stability and flexibility, the Company's debt facilities were proactively renewed and extended.

The renewed and extended facilities, as announced on the 17 August 2020, are:

- $270 million 3-year revolving term facility maturity extended from June 2021 to August 2023
- $150 million rolling annual working capital facility extended from June 2021 to August 2021

The unchanged banking covenants require a leverage ratio of less than 3.0x and an interest cover ratio (EBITDA to Net Interest Expense) of not less than 4.0x. The leverage ratio is calculated as Net Debt including earnouts divided by Headline EBITDA excluding AASB16 Leases. The group leverage ratio sits comfortably under both covenant limits.

Impairment of Intangible Assets in the first half of 2020

As announced as part of the half year results, the Group recorded an after-tax impairment charge of $172.1 million relating to intangible assets. The impairment charge relates to acquired intangible assets including brand names, customer relationships and goodwill. It is non-cash in nature and has no impact on the company's debt facilities and compliance with bank covenants.

The impairment of Goodwill and Brand Names has been driven by a re-assessment of future cashflows and growth rates, reflecting the segments current performance and future earnings outlook. The impairment of Customer Relationships reflects the reassessment of the length of customer engagements.

RETURN TO DIVIDEND PAYMENTS

On 24 March 2020, WPP AUNZ announced the cancellation of the 2019 final dividend of 2.9 cents per share, along with a special dividend of 1.5 cents per share relating to the proceeds from the sale of the Kantar business. At the time, given the high level of uncertainty as to impact and duration of the pandemic, the Board's view was that preserving liquidity and maintaining lower leverage were the key financial priorities.

Since then, the Board has continued to review the impact of COVID-19 on operational performance and liquidity, as well as the medium-term outlook for the broader economy. Given the improving economic environment, stronger second half earnings, expectation of better trading conditions in FY21 and a stronger financial position with reduced net debt, WPP AUNZ will return to paying dividends in the 2021 year.

The Directors have declared total dividends relating to the 2020 year of 4.4 cents per share, fully franked. This comprises a final ordinary dividend of 2.9 cents per share, fully franked (representing a payout ratio of 71% of headline earnings per share), and the reinstatement of the special dividend payment of 1.5 cents per share, fully franked, in recognition of the Kantar sale proceeds. The dividend has a record date of 31 March 2021 and will be paid on 7 April 2021.

WPP PLC TRANSACTION

On Friday, 25 December 2020, WPP AUNZ entered into a Scheme Implementation Deed with WPP plc under which it is proposed that WPP plc will acquire all of the issued capital of WPP AUNZ that it does not already own via a scheme of arrangement, subject to regulatory, Court and shareholder approvals.

If the Scheme is approved and implemented, eligible shareholders will be entitled to receive $0.70 per share, reduced by the cash amount per share of the ordinary dividends paid and any special dividend paid in 2021 prior to the completion of the transaction. A special dividend contemplated in connection with the Scheme will only be paid if WPP AUNZ so determines and the Scheme proceeds.

WPP plc has agreed to WPP AUNZ declaring and paying total ordinary and special dividends of up to $0.15 per share prior to completion of the transaction and subject to regulatory requirements.

WPP AUNZ has appointed an Independent Expert to assess whether the transaction is in the best interests of shareholders. The Independent Expert report, along with the Scheme Booklet, is expected to be provided to shareholders in late March.

SUMMARY AND OUTLOOK

The Company reaffirms its outlook and is budgeting a material improvement in profitability in the 2021 financial year, as the economic environment strengthens leading to improved client spend, particularly in WPP AUNZ's media investment management and creative businesses. The Company will provide an update on its full year outlook in early April 2021.

WPP AUNZ's GroupM business predicts a bounce back in media market demand in FY21, with total market demand expected to increase by 15% in FY21, returning to 2019 levels of activity at the end of FY21.

Additionally, this growth outlook is expected to be enhanced by the ongoing benefits from the transformation strategy which seeks to drive revenue growth in the areas of communications, technology, commerce and experience.

The table below outlines the headline results for 2019 and 2020 with the outlook for 2021. This excludes the impact of significant and non-cash items and the results of two major units disposed of in 2019, being Kantar and Ogilvy NZ.

Metric	FY19 Actual	FY20 Actual	FY21 Guidance
Net sales	$712.5m	$612.3m	$630m - $650m
Headline EBITDA	$106.5m	$77.4m	$100m - $110m
Headline EBIT	$91.8m	$61.9m	$85m - $95m

In commenting on the outlook, Mr Monsees, said, "The market is bouncing back. We are seeing optimism return and excellent momentum in client engagements. January earnings were ahead of budget and above levels in January 2020 and January 2019, providing further confidence in the budgeted improvement in earnings for 2021. We are well positioned to continue to execute on our transformation strategy and drive growth and operational excellence."

Results presentation

WPP AUNZ will hold a briefing of its full year results today at 10:00am (AEDT).

To attend the video briefing, please register via the following link. Registered participants will receive a calendar invite and a link to the event which will be hosted via Microsoft Teams.

There will be a live Q&A function where investors can submit their questions. Questions will be moderated.

For those unable to access Microsoft Teams, a dial-in is available by registering via the following link.

About WPP AUNZ
WPP AUNZ is Australasia's leading creative transformation company. You can read more at wppaunz.com or follow us @WPP_AUNZ

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