



ASX Release
23 August 2019

WPP AUNZ LIMITED – 2019 HALF YEAR RESULTS

WPP AUNZ Limited (“WPP AUNZ”, “the Company”, ASX:WPP), Australasia’s leading creative transformation company, today announced its financial results for the half year ending 30 June 2019.

Financial summary

- Results impacted by weakness across key segments:
 - Net sales of \$405.6 million, down 2.6% (2018: \$416.3 million)
 - Headline EBIT of \$43.6 million, down 12.6% (2018: \$49.9 million)
 - Operating margin 10.7% (2018: 12.0%)
 - Headline earnings per share of 2.7 cents, down 15.3% (2018: 3.1 cents)
- Interim dividend of 2.3 cents per share, in line with 2018 half year dividend (2018: 2.3 cents per share)
- Non-cash impairments of intangible assets totaling \$295 million in the Advertising and Media Investment Management and Data Investment Management segments

Operational summary

- The portfolio of businesses experienced a mixed performance
 - Encouraging performance from the Data Investment Management, Public Relations and Specialist Communications segments, delivering organic earnings growth.
 - Advertising and Media segment impacted by global and local account losses and a weak media market, with earnings 16.6% behind the prior year.
 - Large Format Production segment continues to undergo transformation, with cost and operational efficiencies on track to be realised in the second half of the year.
- The Company progressed its strategy to simplify the business to ensure a more integrated offering to clients, greater operational efficiencies and collaborative working environments for our people.
 - Undertook targeted disposals of assets, closed underperforming businesses and merged units to deliver enhanced services to our clients and reduce the cost base.
 - Invested in further campuses in Brisbane and Sydney to facilitate collaboration and present the best of WPP AUNZ to clients in one place.
 - Post half year, the Company announced sale of Kantar businesses in Australia and New Zealand, subject to shareholder approval. Proceeds to WPP AUNZ on completion are expected to be c.\$150 million, payable in cash. Completion is expected to be in early calendar year 2020.

Current trading and outlook

- The overall Australian and New Zealand markets media spend in 2019 is expected to be flat, with varied performance in individual market segments.
- Current expectation is to deliver earnings per share decline of 5% - 10% for the 2019 full year.

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Key financials

Key Measures	30 June 2018	30 June 2019	Change
Net sales	\$416.3m	\$405.6m	(2.6%)
Headline earnings before interest and tax	\$49.9m	\$43.6m	(12.6%)
Net sales margin	12.0%	10.7%	(1.3%)
Profit before tax	\$42.0m	\$35.4m	(15.6%)
Profit after tax and minorities	\$26.8m	\$22.6m	(15.3%)
Headline EPS (cents per share)	3.1 cents	2.7 cents	(15.3%)
Interim Dividend (fully franked)	2.3 cents	2.3 cents	
Leverage ratio (net debt/EBITDA)	1.9x	2.5x	

Reconciliation of Headline Profit to Statutory Profit/(Loss) After Tax and Minorities			
	30 June 2018	30 June 2019	
Headline Profit after tax and minorities	\$26.8m	\$22.6m	
AASB 16 Adjustments	\$1.0m	-	
Significant one-off costs			
Transaction related tax balances	(\$8.5m)	-	
Impairment expense (\$294.7m less \$33.0m tax)	-	(\$261.7m)	
Amortisation of acquired intangible assets	(\$6.9m)	(\$7.6m)	
Gain/(loss) on fair value adjustment of earnouts	\$0.7m	(\$0.6m)	
Business close down and other one-off costs	-	(\$6.2m)	
Statutory profit /(loss) after tax and minorities	\$13.1m	(\$253.5m)	

Commenting on the results John Steedman, Executive Director and Interim Chief Executive Officer said:

“We experienced a mixed performance across our portfolio of companies. Data Investment Management, Public Relations and Specialist Communications all achieved organic earnings growth in the first half, while the Advertising and Media segment faced headwinds due to global and local account losses, and a weak media spend market.”

“In order to deliver integrated solutions to our clients, we are progressing our strategy to simplify the business. In the first half of the year and post the half year end, we have entered into agreements to reduce the portfolio by 20 businesses through closure, merger of brands to enhance services to clients, or sale. This includes the recently announced proposed transaction to sell Kantar.”

“Within the business, we continue to bring our agencies together as part of our ‘campus’ strategy; where our goal is to integrate operations, facilitate collaboration amongst our people and present the best of WPP to clients in one place. In the first half of the year, we piloted ‘One Kent Street’ which formalises a working relationship across 12 businesses and over 500 people working within a campus and is already delivering pleasing incremental annualised net sales growth. We also invested in a new Brisbane Campus, bringing together 4 agencies and 110 people. Further consolidation will take place in the Sydney market in 2019.”



“As I’ve said before, attracting and retaining the best people in our industry is vital. To achieve this, we know our workplaces must be open, inclusive, respectful, collaborative and diverse in every sense. To this end, we have set a goal to have an equal gender representation in senior leadership roles by 2021. We have also established a Diversity and Inclusion Council comprising a cross section of representatives from around the company whose objective is to drive cultural change. I’m also very pleased that we committed to an industry leading parental leave policy as part of a revamped talent and retention plan.”

“At the Annual General Meeting we had forecast a flat earnings per share growth for the year. Based on trading results in the subsequent quarter we are now forecasting a decline in earnings per share of 5%-10% for FY19. The earnings of the company are traditionally weighted towards the second half of the year so we still expect a strong result for the second half. Our forecast is based on an expected improvement in performance from the Large Format Production segment as operational efficiencies begin to deliver earnings upside; and incremental earnings from new business wins in the Advertising and Media segment achieved in the first half of the year. Our trading result for July was ahead of forecast and the prior year comparison. We are however, conservative in our outlook given the heavy weighting of earnings in the second half.”

“The Board has appointed Jens Monsees as Chief Executive Officer, commencing 1 October. Jens has a strong international reputation for building brands and leading change. Together with the leadership team, he will be charged with developing a strategic plan to accelerate our positioning for future growth and to capitalise further on the many opportunities available through our scale.”

Segment Performance

There was mixed performance across our diversified portfolio of companies.

Our Data Investment Management, Public Relations and Specialist Communications segments all achieved organic earnings growth in the first half of the year.

As previously flagged to the market, the Advertising and Media segments faced headwinds in the first half of the year due to global and local accounts losses in 2018. Within the Advertising and Media segments, the global repositioning of creative agencies in VMLY&R and Wunderman Thompson are in their early stages of integration and we have seen pleasing new business performance. The full benefit of these mergers will develop over time. The strongest performing businesses in this segment are where there is a true end-to-end offer to their clients, and this is the model we will continue to extend across the segment.

Progress has been made in restructuring businesses in the Large Format Production segment. While earnings are behind the prior half year as a results of weaker net sales, restructuring actions have been taken in the first half of the year that will deliver cost and operational efficiencies in the second half of the year.

Proposed sale of Kantar

On 16 August 2019, WPP AUNZ announced that it has entered into an agreement to sell 100% of its interests in the Kantar businesses in Australia and New Zealand (Kantar). The transaction values Kantar at \$168 million, equivalent to a multiple of 8.2x Kantar’s 2019 budgeted EBITDA.

Proceeds to WPP AUNZ on completion, after transaction costs, and provision for restructure liabilities to the value of \$8.4million, are expected to be c.\$150 million, payable in cash. Completion of the transaction is expected to be in early calendar year 2020 and is subject to shareholder approval, completion of the WPP plc global Kantar sale and other customary regulatory and legal approvals.

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Assuming all proceeds were used to repay debt and no capital management initiatives were undertaken, the impact of the proposed transaction would have represented a c. 9.2% reduction on 2018 pro forma earnings per share.

The proposed sale of Kantar simplifies WPP AUNZ and is an attractive strategic and financial outcome for the company and its shareholders. It creates balance sheet flexibility to pursue growth and capacity to return funds to shareholders through dividends or capital management.

We expect to retain a close relationship with Kantar and work together, as we do now, to create better integrated solutions for our clients, particularly as our major shareholder, WPP plc, will continue to own 40% of the global Kantar business.

Impairment of Intangible Assets

During the half year, the company has recorded an impairment charge relating to intangible assets of \$294.7 million (before tax). This impairment charge relates to acquired intangible assets including brand names, customer relationships and goodwill. The impairment charge predominantly relates to the segments of Advertising and Media Investment Management (\$246.8 million) and Data Investment Management (\$44.3 million), as recently announced in the proposed Kantar transaction.

The impairment charge follows a review of the carrying value of the group's assets based on varied trading results. This has been driven primarily by the Advertising and Media Investment Management segment as a result of weak media spend and softening of the future outlook. Due to the ongoing repositioning of global brands including the potential sale of the Data Investment Management segment, customer attrition in some segments, and the slowdown in the overall Australian economy, management has reassessed its estimate of forecasted cashflows and growth rates to reflect the factors outlined above.

The impairment charges represents a write down of 25% of the intangible asset value contained in the balance sheet at 31 December 2018.

The impairment charges are non-cash in nature and have no impact on the company's debt facilities, compliance with bank covenants, payment of dividends or its ability to undertake capital management initiatives.

Net Debt and Leverage

The Company has access to debt facilities totalling \$520 million with a syndicate of 5 banking partners. The debt facilities maturity profile has \$370 million of debt expiring in June 2021, and a \$150 million overdraft working capital facility, expiring on 29 June 2020.

The Company's net debt, including earnout payments, totalled \$326.0 million as at 30 June 2019 (30 June 2018: \$305.0 million). As at 30 June 2019, the leverage ratio (measured as net debt plus future earnout payments / EBITDA) was 2.5x from 1.9x at 31 December 2018. This is outside of our targeted leverage ratio of 1.5x to 2.0x, however we are forecasting for this ratio to be at the higher end of the target range by 31 December 2019.



Dividends

The Directors of WPP AUNZ declared a fully franked interim dividend of 2.3 cents per share (2018: 2.3 cents per share). The dividend has been maintained on the basis of the Company's positive operating cashflow and anticipated proceeds from the proposed sale of the Kantar business.

The interim dividend will have a record date of 26 September 2019 and will be paid on 3 October 2019.

Results presentation

WPP AUNZ will hold a briefing of its full year results on Friday, 23 August 2019 at 9:00am (AEDT). To register and listen to the live (passive) webcast briefing, please go to <http://webcast.openbriefing.com/5347/>

Teleconference details are:

Dial-in number:

Australia	+61 2 9007 3187 or 1800 558 698 (toll free)
Canada	1 855 336 4664
China	4001 200 641
Hong Kong	800 906 986
India	0008 0010 08069
Japan	005 3116 1306
New Zealand	800 480 392
Singapore	800 852 3140
United Kingdom	0808 168 3761
United States	1 855 336 4664

Conference ID: 10001168

For more information about WPP AUNZ, please refer to our website www.wppaunz.com, or contact:

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