

WPP

FY23 first take: guidance implies c2-3% cut to FY24E EPS

Maintain Rating: UNDERPERFORM | PO: 630.00 GBp | Price: 780.40 GBp

Remain Underperform

Following a better than expected Capital Markets Day outturn in late January, we think today's results will dampen sentiment as most incremental information came in weaker than expected. More positively, the FY24 operating outlook was repeated, although we struggle to have full confidence it will be delivered given it is 2H weighted.

Additional details on FY23: weak US, low FCF

1) 4Q23 LFL growth came in at +0.9%, as had been pre-announced during the Capital Markets Day (CMD) on 30th January and better than the -0.5% expectations pre-CMD. Today's release gives us regional details. Relative to our forecasts, the beat was driven by UK (+5% vs BofAe 0%) and Emerging Markets (+5% vs BofAe -1%). Within the latter, China remains challenged (-1%) despite easy comparatives but India stood out (+22%). In contrast, North America (-4.1% vs -3.7%e) and Western Continental Europe (-0.8% vs +0.8%e) missed 2) Headline operating profit came in at £1,750m, 1% above pre-CMD expectations and implying 14.8% margin, as pre-released. This drove a 1% beat to FY23 headline EPS, still -5% YoY 3) Despite the P&L beat, adjusted FCF of £637m missed our £689m due to £260m working capital outflows (BofAe/guidance -£150m) 4) DPS was in line at 39.4p, flat YoY 4) Restructuring costs (booked below headline profits) were £196m in 2023, in line with our expectations 5) Average net debt £3.6bn a touch above BofAe £3.5bn

FY24 additional guidance points imply some 2-3% cuts

WPP repeated the guidance set at the CMD for 0-1% LFL growth and +20-40bp operating margin improvement (=15.0-15.2%). The median consensus is +0.6% and 15.0% respectively and was +1.0% and 14.9% pre-CMD. However, additional guidance points given today are set to drive 2-3% cut to FY24 EPS in our view 1) FX is seen having a 200bp drag on revenue (consensus -100bp). WPP says this has no negative bearing on margin. Yet, given non-UK profits represent 88% of the group, there could be downside risk to that assumption. Illustratively, in 2023, FX was a 130bp headwind to revenue and 25bp to margin 2) Headline finance costs £295m, versus consensus c£260m 3) Tax rate 28% versus consensus 27.5%. Taken together, WPP guidance implies ~92p EPS versus the latest company compiled consensus 94.4p or 2.5% lower. For the record, the median consensus stood on 95.9p pre CMD.

22 February 2024

Equity

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Stock Data

Price (Common / ADR)	780.40 GBp / 49.17 USD
Price Objective	630.00 GBp / 39.00 USD
Date Established	18-Jan-2024 / 26-Oct-2023
Investment Opinion	B-3-7 / B-3-7
52-Week Range	656.00 GBp-1,082 GBp
Market Value (mn)	8,488 GBP
Shares Outstanding (mn)	1,087.6 / 217.5
Average Daily Value (mn)	18.20 USD
Free Float	99.9%
BofA Ticker / Exchange	WPPGF / LSE
BofA Ticker / Exchange	WPP / NYS
Bloomberg / Reuters	WPP LN / WPP.L
ROE (2023E)	28.2%
Net Dbt to Eqty (Dec-2022A)	59.6%
ESGMeter™	High

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Timestamp: 22 February 2024 04:00AM EST

FY23 first take

Exhibit 1: As pre-released, 4Q/FY23 came in a little ahead of expectations but US performance was soft in 4Q

FY/4Q23 Actual vs expected

£m	2023 Actual	2023 Cons.	Actual vs cons.	2023 BofAe	Actual vs BofAe	2022 Actual	YoY growth
Revenues less pass-through costs	11,860	11,840	0%	11,845	0%	11,799	1%
LFL growth	0.9%	0.7%		0.4%		6.9%	
North America	-2.7%			-2.7%			
UK	5.6%			4.2%			
Western Continental Europe	1.8%			2.2%			
Asia Pacific, Latin America, Africa & ME, C&E	3.7%			1.9%			
Forex	-1.3%			-1.0%		5.9%	
Scope	0.9%			1.0%		0.7%	
Headline operating profit	1,750	1,735	1%	1,723	2%	1,742	0%
Headline operating margin	14.8%	14.7%		14.6%		14.8%	
Income from associates	36			40		74	
Headline PBIT	1,786			1,763	1%	1,816	-2%
Headline net financing costs	-261			-264		-214	
Headline PBT	1,525			1,500	2%	1,602	-5%
Tax	-412			-405		-409	
Minority interests	-87			-82		-93	
Headline Net Income, group share	1,026			1,013	1%	1,100	-7%
Diluted no. of shares	1,094			1,088	1%	1,116	-2%
Headline diluted EPS	93.8	92.6	1%	93.1	1%	98.5	-5%
DPS	39.4			39.4	0%	39.4	0%
FCF	637			689	-8%	53	

£m	4Q23 Actual	4Q23 Cons.	Actual vs cons.	4Q23 BofAe	Actual vs BofAe	4Q22 Actual	YoY growth
Revenues less pass-through costs	3,211	3,192	1%	3,197	0%	3,304	-3%
LFL growth	0.2%	-0.5%		-1.3%		6.4%	
North America	-4.1%			-3.7%		3.4%	
UK	5.1%			0.0%		11.8%	
Western Continental Europe	-0.8%			0.8%		8.7%	
Asia Pacific, Latin America, Africa & ME, C&E	5.3%			-0.9%		6.0%	
4Y CAGR	2.5%	2.3%		2.1%			

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Price objective basis & risk

WPP (WPPGF / WPP)

Our price objective of 630p (ADR \$39) is based on the average of a discounted cash flow (weighted-average cost of capital 9%, long-term growth 0.75%) and a target multiple of c7x 2023 FCF/share (= 9x 2024) + 30p/share for associates, a 30% discount to the market, reflecting the group's structural headwinds and unfavourable cyclical.

Upside risks to our price objective are if i) the global synchronized recovery leads to a relief on marketing spending, ii) WPP actively repositions its assets, simplifying its structure, tearing down silos, or selling non-performing units, iii) the secular wave of consolidation comes back, either between agencies or between consultancies and agencies, iv) assets, for example, are sold at better valuations than we expect.

Downside risks to our price objective are if i) WPP loses a big account and /or a large account decreases its media spend, ii) macro decelerates abruptly and consultancies have a bigger and earlier impact than expected, iii) asset disposals could prove more dilutive to EPS/FCF than we anticipated.

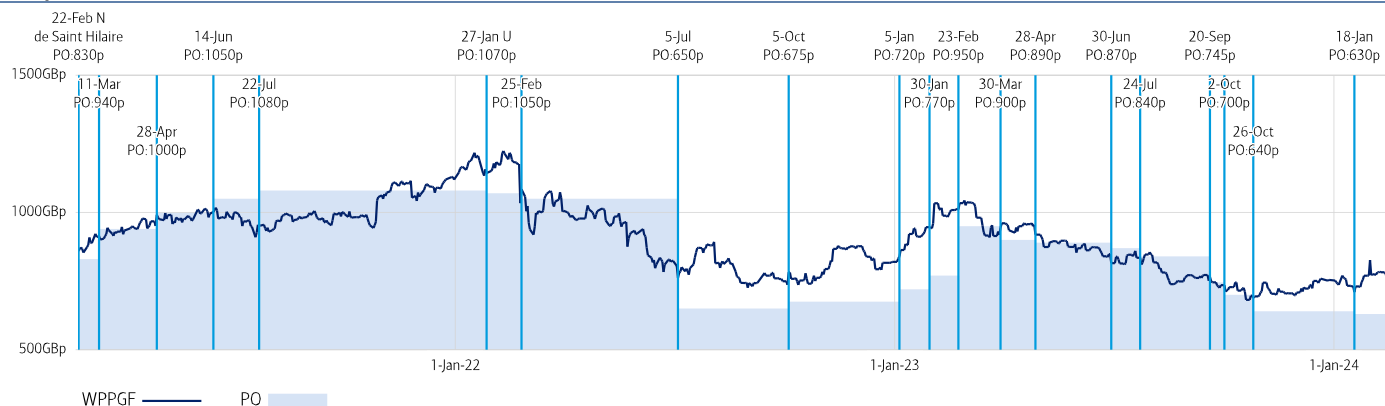
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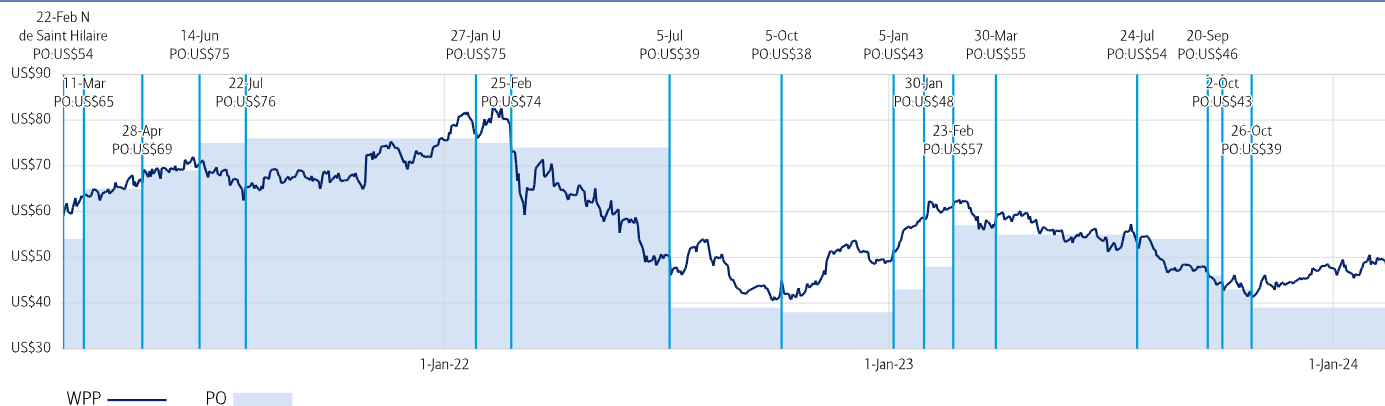
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WPPGF — PO ■
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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WPP Group (WPP) Price Chart



WPP — PO ■
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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