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WPP.AX - Full Year 2020 WPP Aunz Ltd Guidance Call

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CORPORATE PARTICIPANTS

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Robert Wason Mactier *WPP AUNZ Limited - Independent Non Executive Chairman*

PRESENTATION

Operator

Thank you for standing by, and welcome to the WPP plc proposal and outlook for FY '20 and FY '21 conference. (Operator Instructions)

I would now like to hand the conference over to Mr. Rob Mactier, Chairman. Please go ahead.

Robert Wason Mactier - *WPP AUNZ Limited - Independent Non Executive Chairman*

Good morning, everyone. I'm Rob Mactier, Chairman of WPP Aunz, and I'm joined on the call today by our CEO and Managing Director, Jens Monsees; and Chris Rollinson, our Chief Financial Officer.

You will have already seen the ASX releases that we've made today in relation to the revised proposal and our trading outlook statement. We will talk briefly through those announcements, and then we will have a Q&A session for investors at the conclusion of the call.

Before I start, I actually want to pay tribute to our management team. This has been a year started with bushfires, dominated by COVID. And through that, we've been undertaking a transformation project. And then on top of that, when it's one of our busiest times of the year, we've prevailed upon the management team to help us in our response to the WPP proposal.

So on behalf of all investors, I thank management team for their incredible efforts, and particularly as people are actually out seeing clients and trying to enjoy holidays at the moment.

So turning to Page 2 of the presentation. You will have seen the revised proposal from WPP plc to acquire all of the shares in WPP AUNZ that they don't already own at a price of \$0.70 per share. This revised proposal, values, WPP AUNZ at an implied enterprise value of \$717 million, and it compares to the undisturbed price before receipts of their first proposal of \$0.41 per share. The independent board committee that was formed to consider the proposal comprising myself, Graham Cubbin and Kim Anderson has determined that it is in the best interest of the minority shareholders for us to seek to enter into a binding scheme implementation agreement.

Any transaction will remain subject to an independent expert affirming that the transaction is in the best interest of minority shareholders. With the exception of the increased offer price from \$0.55 to \$0.70, all other terms of the revised proposal remain the same as the original proposal received. The only conditions are regulatory approvals. And importantly, there are no due diligence or market out clauses as part of the proposal. You will have noted in our releases today that the Board of WPP AUNZ has indicated its intention and expectation that it would return to paying dividends next year, having -- unfortunately had to as a result of COVID canceled dividends at the start of this year.

The revised proposal of \$0.70 will be reduced by the cash amount per share of any ordinary or special dividend that is paid prior to completion. But the WPP AUNZ Board has determined subject to ACO Rulings, bank consents and our usual dividend considerations that we will seek to declare ordinary and special dividends of up to \$0.15 per share as part of this transaction.

That \$0.15 per share, depending on people's tax situation can deliver up to an extra \$0.06 per share in value as part of this proposal. And importantly, WPP has supported the payment of dividends up to that amount. The revised proposal is nonbinding at this stage, and therefore, WPP AUNZ shareholders do not need to take any action in relation to the revised proposal at this time.

Now the next part of the presentation, the purpose of that is to provide outlook information to our shareholders equivalent to that which WPP has access to. It is the best available information that the Board has in framing the outlook for next year. And importantly, the outlook information that we are providing is based on budgeted financial information that was finalized ahead of the receipt of the WPP initial proposal. And we provided the information today so that shareholders may fairly evaluate the revised proposal that is under considerable, is being planned to be put to shareholders.

So I'm happy to take any questions at the end of the presentation, but I'll now hand over to Jens.

Jens Monsees - WPP AUNZ Limited - CEO, MD & Director

Thank you, Rob. Well, a warm welcome also from my side to our investors today from Melbourne that I'm not presenting from Sydney is probably the best indication that Australia is opening up again. The clients are coming back of their offices, and we carried out 3 major pitches this week alone.

But firstly, I would like to acknowledge the extraordinary year we all had. We accelerated our transformation agenda and the pandemic, and I'm really proud what the team has achieved. The fast progress we have made on all fronts and the agility that the team showed by driving change and ensuring business continuity and uncertain times, that's a very strong response.

Beginning of 2020, pre COVID, we announced our transformation agenda to return to our business, at strong and sustainable profitability. A platform-based creative business empowered by tech. Our path to growth is being undertaken in three phases: first, transform and strengthen and then grow the business over the period of 3 years with an end of 2022.

2020 was all about transform, simplifying our offers and get our ships being ready to sail again in 2021. From an internal focus on our cost structure and investing in our digital capabilities, moving into 2021, we are now focused our initiatives on the top line to strengthening and growing our business. We are focusing on our clients and go into the next year with confidence.

On the next slide, you will see the great progress we have made this year so far. I don't want to go in every detail here as you are well informed, but we have achieved all our 2020 deliverables we outlined at the beginning of the year. And I would like to hand over to Chris, our CFO, to talk about what that means on our financials and our outlook for the next year. Chris? Over to you.

Chris Rollinson - WPP AUNZ Limited - CFO

Thank you very much, Jens. So turning to Page 5 of the presentation where we outlined the key financial messages, which are focused around our outlook for 2020 and the 2021 years. We also look at our year-end balance sheet and also the Board's recommendations around future dividend payments.

But firstly, to the outlook for 2020. So we have the benefit of actual trading results for October and November, and they're in line with our internal expectations. And for the full year ended December 31, 2020, we're forecasting net sales between \$607 million and \$610 million, and this translates into headline earnings before interest and tax of between \$59 million and \$62 million.

These are headline results, so they do exclude the impacts of significant and one-off items, such as impairment and amortization of intangibles. As a result of the impact of COVID on a net sales in 2020 and with alignment with our transformation strategy, we took action to reduce our cost base. We're on target to reduce our operating cost by \$7 million in 2020 compared to the cost base of 2019. And this comprises a mix of both temporary and sustainable cost measures.

As a result of these actions, we commence 2021 with a materially reduced cost base. The material reduced cost base, the sustainable cost-saving measures on an annualized basis are expected to provide the benefit of approximately \$65 million in the 2021 year.

Now looking at our 2021 forecast, we're expecting an improvement in our net sales. And when combined with the positive impact of our cost-saving program, they underpin a material improvement in profitability in 2021. So for the 2021 year, we're forecasting net sales between \$630 million and \$650 million and headline earnings before interest and tax between \$85 million and \$95 million.

We've seen improvement in the economic environment and momentum in our current client engagements, which provide the firm platform for revenue growth going into 2021. And further, as outlined by Jens, the growth outlook is expected to be enhanced by our ongoing benefits from the transformation strategy, which seeks to drive revenue growth.

Important to note, the 2021 outlook is predicated on the assumption that the economy continues on its strong recovery. And there's no new material COVID-related economic impacts or restrictions. Turning to our balance sheet at year-end. And the key measures that we're looking at is net debt and our leverage ratio. At December 31, 2020, we're forecasting our net debt position, including earn-outs to be approximately \$110 million and our leverage ratio between 1.4 and 1.5x. And this is at the lower end of our own internal targeted leverage ratio of 1.5x to 2x.

And finally, on this page as to our dividend. So the Board expects to return to paying dividends in 2021 and expects to declare a dividend part of its 2020 results. This is an outcome of the business having a much stronger financial standing as well as the expectation of improved economic environment.

So we have a stronger second half results in 2020 compared to our first half of the -- our cost-saving program delivering in 2020 means we head into 2021 a much leaner business. We've got a positive earnings outlook in '21 off the back of a stronger market outlook and our leverage ratios at the lower end of the targeted range.

And in determining the quantum of those dividends, the Board will consider the dividends were gone in 2020, our leverage ratio and of course, the economic outlook as well.

Turning now to Page 6, where we provide some recent data points just to outline some of the confidence in improving market environment. So on Page 6, the SMI data shows the total agency demand has rebounded since the low point in May 2020 and has improved considerably since that time with the November data showing a return to growth after almost 26 months.

Turning to Page 7 in the presentation, where we summarize the outlook for WPP AUNZ for 2020 and 2021 years. So to characterize the results in 2020, we have responded to the challenges presented by COVID and flexed our cost base accordingly. We entered '21 a much leaner business with a sustainably lower cost base. And when that's combined with improvement in our net sales, we see a return to profitability in this year.

And again, to further support these earnings as outlined by Jens, we enter the next phase of our transformation program, which is focused on strengthening and also growing our business.

To Page 8 of the presentation. And what we're doing here is just taking the midpoint of the guidance range to illustrate the net sales by quarter in 2019 compared to 2020. And the table highlights the material decline in quarter 2 net sales as a result of the impact of COVID. Many of our clients put brakes on their ad spend as part of their own remediation plans and there was immediate defer on cancellation of projects.

But since that time, we've seen a rebound in net sales and quarter-on-quarter growth in 2020. Quarter 4 remains our largest quarter in terms of net sales performance is in line with our expectations, given the high client spend during this key retail period. And the overall improvement in net sales is relative to the low point in quarter 2, 2020. And it's consistent with the market trends we've seen in media agency spend during the year.

Within our own brand, the strongest improvement in half 2 is being driven from our global integrated agencies, which comprise of media and creative agencies where we're seeing our clients spend returning.

To Page 9 of the presentation, we then take a midpoint of the guidance range to illustrate net sales and earnings before interest and tax for each half year of 2020 compared to 2019. And the table highlights a materially stronger earnings performance in the second half of the year, despite

the fall in net sales throughout the year, we are delivering an earnings before interest and tax margin in the second half of the year that's in line with 2019. And this has been achieved as a result of the actions taken on the cost base. We've commenced in quarter 2.

As I said previously, we'll enter 2020 with a much leaner cost base and the sustainable cost per savings on an annualized basis. We expect to provide a benefit of approximately \$65 million in 2021. Finally, to Slide 10 of the presentation, we look at our balance sheet, and we're in a solid position in terms of our net debt, our leverage ratio and also the available facilities.

So in 2020, we had strengthened our cash and liquidity position through improved cash collections and also extending our debt facilities. We're forecasting net debt to be approximately \$110 million at December 31, 2020. And our leverage ratio, as outlined early, between 1.4x and 5x. This is at the lower end of our target range and our banking covenants now require our leverage ratio to be below 3x.

And finally, we've got access to syndicated banking facilities of \$420 million, which were renewed and extended in August 2020.

So thank you very much. I'll now hand you back to Jens.

Jens Monsees - WPP AUNZ Limited - CEO, MD & Director

Thanks, Chris. We are now at Slide 11. And as outlined in our strategy, we will shift from the transformation phase into the strengthen phase in 2021.

2021 is all about growth in various areas. We have a number of initiatives from food to drive both greater revenue and profitability of our business. Focus is top line growth on a leaner cost base with a simplified and more automated business. We are now able to gain market share in a market that is forecasted to bounce back after COVID in Australia and New Zealand.

In 2021, we will grow based on our strong client's base from our core areas, communications into the growth areas of experience, commerce and tech. We currently have an increasing digital footprint accelerated by COVID in the dynamic market segments of experience, commerce and tech.

And these areas represent a double-digit growth opportunity for our company WPP AUNZ. On the next slide, you will see how we leverage our simplified and integrated offer via fewer and stronger brands. The next year, after COVID-19, CMOs and businesses will revisit their current marketing plans and the agenda.

They will focus on data and IT systems, one-to-one customer interactions and engagement and individualized content.

WPP AUNZ is after our transformation phase, now ready to deliver on this opportunity in our market-leading position. We offer a seamless integration of 3 areas, 3 major building blocks of modern advertising. The first one is IT implementation, seamlessly integrated them with media operations. And finally, for individualized media operations, you need content creation at scale.

On all three building blocks, we can now deliver. Our consolidated brand portfolio, we are in a unique market position to deliver on all 3 relevant areas. And you can see some example brands under the different building blocks. No one of our competitors has a wider service portfolio and can offer a similar level of integrated services.

In uncertain times, we are confident of our market position, the opportunity ahead of us and our ability to deliver growth in 2021.

Thank you all, and we will now open the line for taking any questions from your side.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jens Monsees - WPP AUNZ Limited - CEO, MD & Director

All right. Thank you. It appears that there are no questions, which I can only interpret as everyone being happy with the presentation and the announcements of today. So I wanted to thank people for their time and wish everyone a very happy holiday season, and we will be in touch when there's more information to provide. Thank you all.

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