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# Half Year Results

30 June 2016

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## Half Year Results – 30 June 2016

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# Key Highlights

Mike Connaghan

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## Key Highlights – 30 June 2016



- Merger with WPP plc's business in Australia and New Zealand approved by shareholders on 4 April 2016.
- Change of name and branding to WPP AUNZ reflecting the closer alignment with WPP plc.
- Initial stages of the merger implementation - positive beginning with strong engagement and collaboration from local business units. Support from WPP global operations, Clients very positive.
- Tough trading conditions across Australia and New Zealand.
- Headline trading performance presented as if all businesses were owned from 1 January and excludes one off and significant items incurred during the period.
  - Headline Net Sales of \$407.3 million, flat on prior period (2015: \$407.5 million).
  - Headline profit before interest and tax of \$47.2 million, flat on the prior period (2015: \$47.4 million).
  - Headline PBIT was delivered at a margin of 11.6%, in line with the prior period.
- Strong operating cash flow exceeding EBITDA cash conversion target.
- Interim dividend of 2.1 cents per share,
- New debt facilities of \$520 million, drawn to \$370million. Net debt at 30 June 2016 of \$317million and a leverage ratio of 2.2x. No maturity until August 2019. Debt facilities on materially enhanced terms.
- Synergy opportunity affirmed and enhanced.
- New client wins encouraging. Pipeline building well.
- Full year outlook to deliver headline PBIT between \$140million and \$147million (2015, \$137million).

## Like-for-Like<sup>1</sup> Results – 30 June 2016



30 June 2016 \$AUD'M	30 June 2016	30 June 2015	% Change Fav/(Adv)
Net Revenue <sup>2</sup>	407.3	407.5	-0.1%
Net Sales Margin	11.6%	11.6%	-
Headline <sup>1</sup> PBIT	47.2	47.4	-0.4%
EBITDA	54.5	54.9	
Headline Diluted EPS <sup>6</sup>	2.7 cents	2.6 cents	
Dividend per share <sup>5</sup>	2.1 cents	2.1 cents	
Net Debt <sup>3</sup>	318.2	204.9	
Net Debt / EBITDA [Rolling 12 months] <sup>4</sup>	2.20	2.52	

1. Headline Results are presented before goodwill and intangibles charges, gains/losses on step-ups from associate to subsidiary, gains/losses on disposals of subsidiaries and investments, investment write-downs, share of exceptional gains/losses of associates, restructuring costs, IT asset write-downs and revaluation of financial instruments.
2. Net Sales inclusive of Other Income
3. Refers to Net Cash, Bank Debt, Finance Leases and Earnout Liabilities
4. Net debt/EBITDA for 12 months to 30 June
5. The 2016 Interim Dividend is payable on 20 September 2016, with record date of 6 September 2016
6. Headline EPS calculated as headline NPAT / current shares on issue. Pro-forma 2015 NPAT adjusted for change in capital structure and service fees

## Headline Profit & Loss – 30 June 2016



<b>30 June \$AUD'M</b>	<b>2016</b>	<b>2015</b>
Net sales	407.3	407.5
Income from associates	2.5	2.0
Staff Costs	(268.0)	(263.8)
Establishment Costs	(28.6)	(30.3)
G&A Costs	(66.0)	(68.0)
<b>Total Operating Costs</b>	<b>(362.6)</b>	<b>(362.1)</b>
Profit before interest and tax	47.2	47.4
Net finance costs	(12.0)	(13.5)
<b>Profit before tax</b>	<b>35.2</b>	<b>33.9</b>
Tax	(10.1)	(9.3)
<b>Profit after tax</b>	<b>25.1</b>	<b>24.6</b>
<b>Profit after tax and minorities</b>	<b>23.4</b>	<b>23.2</b>

## Interim Results<sup>1</sup> by Segment – 30 June 2016



SAUD'M	Net Sales			Headline PBIT			Headline Margin %		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
<b>Advertising, Media Investment Management</b>	210.2	208.2	1.0%	21.7	22.8	-4.5%	10.3%	10.9%	-0.6%
<b>Data Investment Management</b>	52.2	51.7	0.9%	10.9	8.9	21.7%	20.8%	17.3%	3.6%
<b>Public Relations &amp; Public Affairs</b>	31.3	28.7	9.3%	4.0	2.1	82.2%	12.7%	7.6%	5.1%
<b>Branding &amp; Identity and Specialist Communications</b>	113.6	118.9	-4.6%	10.6	13.5	-21.6%	9.3%	11.4%	-2.0%
<b>Total</b>	407.3	407.5	-0.1%	47.2	47.3	-0.4%	11.6%	11.6%	0.0%

1. Headline trading performance presented as if all businesses were owned from 1 January 2016 and excludes one off and significant items incurred during the period.
2. Head office costs allocated to segments based on headline PBIT contribution

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# Key Financial Impacts

Chris Rollinson



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## Interim Results – 30 June 2016



- Results materially impacted by the WPP transaction.
- Reported statutory results positively impacted by \$0.9 million. Net positive impact of \$5.6 million relating to the WPP transaction, less \$4.7 million of amortization and other one off items.
- Transaction synergies of \$15 million per annum over a period of 3 years achievable.
- Operating cashflow strong and exceeding EBITDA cash conversion target. Further opportunity for working capital improvement.
- New debt facilities of \$520 million.
- Leverage ratio at 30 June 2016 of 2.2x.
- Target leverage ratio of 1.5x to 2.0x to be achieved by 31 December 2016.

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## Cost Synergies

- WPP Transaction estimated to deliver cost synergies of at least \$15 million per annum over a 3 year period.
- Post transaction investment in validating, challenging and refining cost and revenue synergy assumptions.
- Enhanced confidence in reaching and exceeding projected cost out synergy targets.
- Limited synergy benefits in 2016. Investment in people, systems and structures providing a platform to achieve sustainable synergy achievement.
- Meaningful cost synergies to flow from 2017 .



## Cost Synergies

Synergy	Category Detail	Original 3 year Target	Current Expectation	Implementation Progress
Corporate and Administration	Cost reductions in relation to corporate and administrative costs such as audit and insurance	1.8	↑	<ul style="list-style-type: none"> <li>• Transition to WPP global insurance policy</li> <li>• Corporate reorganization to simplify structure and reduce compliance costs</li> <li>• Debt restructure on materially enhanced debt terms</li> </ul>
Property Rationalisation	Consolidation of property footprint, better space planning of selected business units into campuses	2.5	↑	<ul style="list-style-type: none"> <li>• Fast forward with campus strategy</li> <li>• New Sydney campus identified and will deliver material savings from mid-2017</li> <li>• Assessing opportunities in Melbourne</li> </ul>
IT and Shared services	Consolidation of duplicated infrastructure, operating costs and restructure of back office support functions	2.9	-	<ul style="list-style-type: none"> <li>• Engaged with WPP global IT to leverage scale of the group</li> <li>• Key hires in Head of Finance Transformation</li> <li>• Commenced combining legacy shared services finance functions</li> </ul>
Operating Efficiencies	Local management oversight and driving integration of services across the group	7.9	↑	<ul style="list-style-type: none"> <li>• <b>Talent</b> - Established WPP AUNZ Group Talent – focus on recruitment, on-boarding, training and retention</li> <li>• <b>Production</b> - Investment in production systems to capture production spend</li> <li>• <b>Procurement</b> – new head of procurements to develop capability aligned with a group of our size and scale</li> </ul>
TOTAL		15.0		

## Reported Cash Flow



	30 June 2016	30 June 2015	Last 24 month total
Statutory EBITDA (adjusted for non-cash significant items)	90	80	162
<b>Operating cashflow pre interest and tax</b>	<b>113</b>	<b>81</b>	<b>194</b>
<i>EBITDA conversion to cash flow</i>	<i>124%</i>	<i>113%</i>	<i>119%</i>
<b>Tax paid</b>	<b>(23)</b>	<b>(17)</b>	<b>(40)</b>
Net Interest	<u>(14)</u>	<u>(13)</u>	<u>(27)</u>
<b>Operating Cashflow</b>	<b>75</b>	<b>52</b>	<b>127</b>

- Reported statutory cash flow
- Strong cash flow conversion
- Cash flow impacted by the fluctuations in the timing of media payments.
- Average EBITDA cash conversion of 119%.
- Targeted EBITDA conversion to cash of 100%
- Focus on efficient and effective working capital management practices

## Balance Sheet



	Reported 30 Jun 2016	Pro-forma 31 Dec 15	Reported 31 Dec 2015
Cash <sup>(a)</sup>	71.5	201.3	26.9
Net working capital	[62.5]	[66.9]	23.1
Investments	17.2	19.5	90.7
Intangibles	1,246.5	1,083.2	522.7
Other Assets	128.4	83.5	61.8
<b>TOTAL ASSETS</b>	<b>1,401.1</b>	<b>1,320.6</b>	<b>725.2</b>
Bank Debt	[370.0]	[489.1]	[227.1]
Lease Liability <sup>(b)</sup>	[4.2]	[4.7]	[4.7]
Earnouts	[15.5]	[19.0]	[15.1]
Other Liabilities	[178.6]	[43.1]	[23.6]
<b>TOTAL LIABILITIES</b>	<b>[568.3]</b>	<b>[555.9]</b>	<b>[270.5]</b>
<b>NET ASSETS</b>	<b>832.8</b>	<b>764.7</b>	<b>454.7</b>
Net debt including earnouts <sup>(b-a)</sup>	318.2	311.5	220.0

### KEY THEMES:

- Net working capital comparable to Dec-15
- Reduction in investments is primarily due to jointly owned companies moving from associate to subsidiaries as a result of the merger.
- Intangibles have increased significantly as a result of WPP companies now joining the Group.
- Current drawn bank debt of \$370M under the syndicated facility agreement. Total debt facilities of \$520M mature in April 2019.

## Debt Facilities and Gearing



### Australia Core Debt Facilities at 30 June 2016

- Complete refinance of facilities to meet the requirements of the merged group.
- Debt facilities of \$520 million.
- Conscious strategy of single maturity on April 2019 with larger syndicate of banks
- Materially improved terms and covenants reflecting scale and reduced leverage
- Leverage ratio of 2.2x at 30 June 2016.
- Target leverage ratio of 1.5x to 2.0x by 31 December 2016

	Calculation	30 Jun 16
Leverage	Net Debt <sup>2</sup> /EBITDA	2.20x
Interest Cover	EBITDA/Net Interest	5.74x

1. 31 December 2015 multiple is for the STW legacy group only.
2. Net debt, plus finance leases and earnouts

Australia core debt facilities maturity	30 June 2016 \$million
April 2019	\$520
Total Group Facilities	\$520
Total Group Facilities - Drawn	\$370
Total Group Facilities - Headroom	\$150



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# Harnessing the power of WPP AUNZ

Mike Connaghan

# The combined WPP AUNZ Group

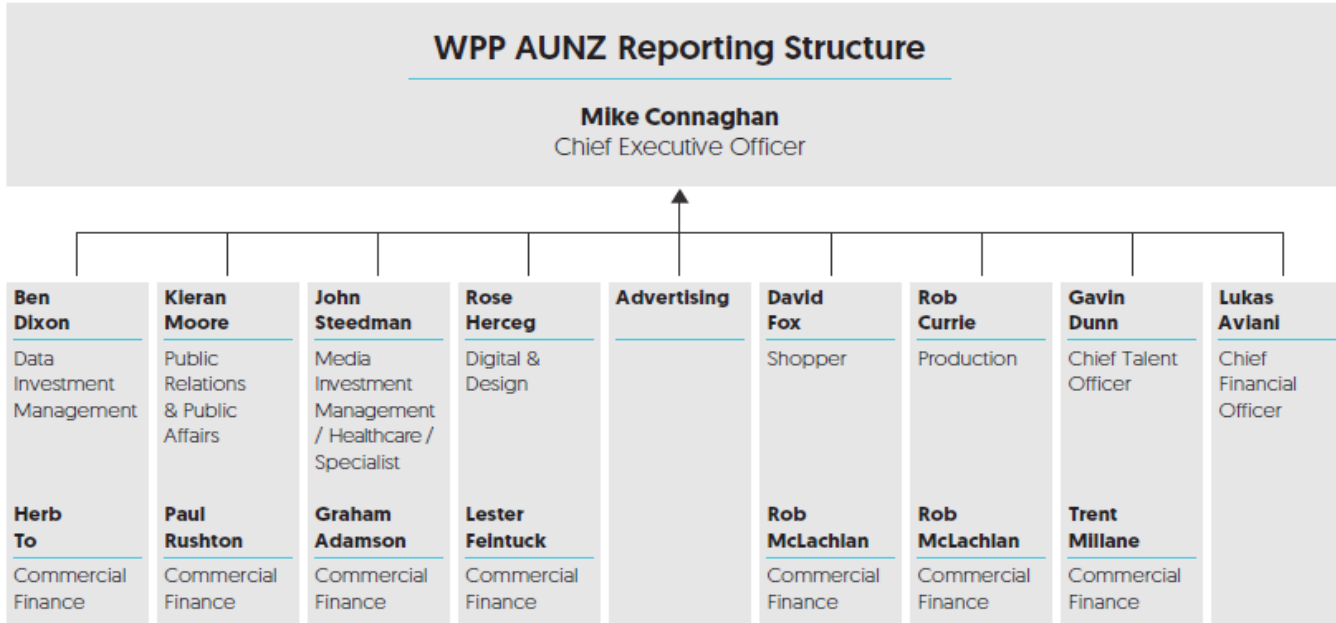
- Clear market leader in AUNZ.
- 2015 revenues of circa \$850M.
- Circa 5,000 employees.
- 5th biggest market for WPP globally.



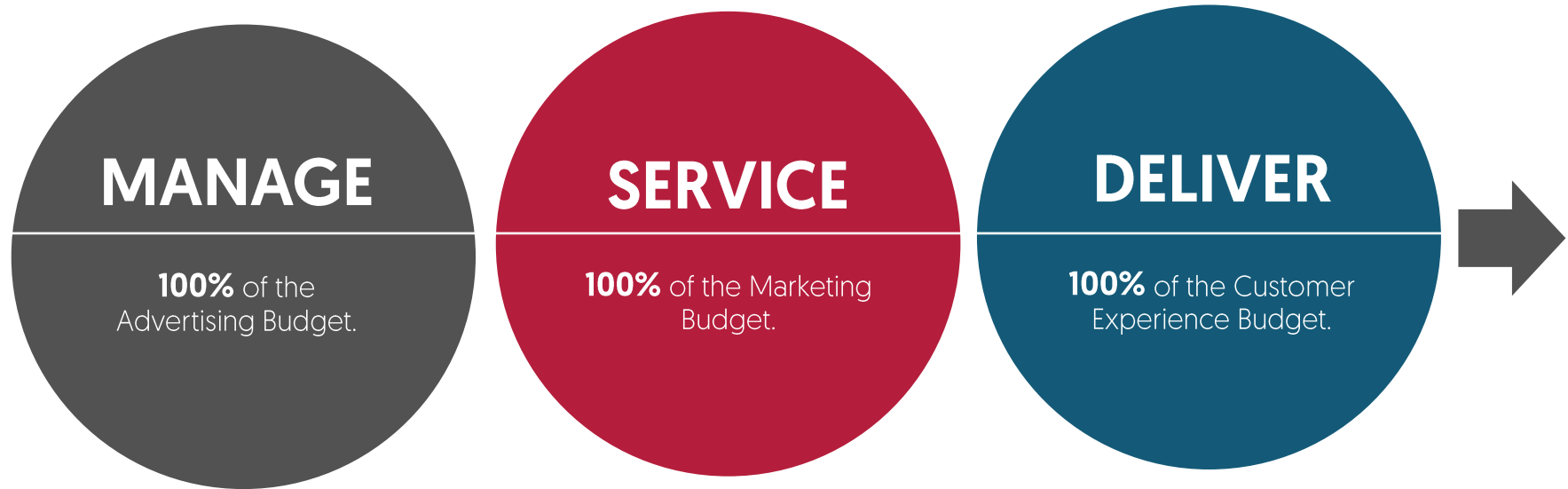


# WPP AUNZ Group Operating Structure

## A Structure to support growth & drive efficiency



- From 2017 incentivisation of key executives based on local brand, global brand and overall WPP AUNZ performance.
- Global Leadership of operating companies engagement has been outstanding. Formal visits to AUNZ by many including Sir Martin Sorrell.
- Staff and Client engagement around our 'new' story is very positive.
- Opportunity to bring companies closer together via a combination of property strategy, affiliations, co-operatives, and mergers.



- The rapid change that has shaped and continues to shape our industry brings challenges that are much better faced with the support and backing of an international partner.

## Strategic Pillars



### Big at Home

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Maintaining leadership in our core businesses of media, advertising and PR.



### Future-proof

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Future-proof the group through technology, content, mobile and proprietary offerings.



### Leverage the power of WPP globally

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Leveraging our expertise in data management, digital and content.



### Drive collaboration

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Driving collaboration across our group for the benefit of our people, our companies and our clients.



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## 1. Big at home

Maintaining leadership in our core businesses of media, advertising and PR.



## New Business Wins/ Organic Business Growth



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## Big at home - Value Capture/Driving Growth

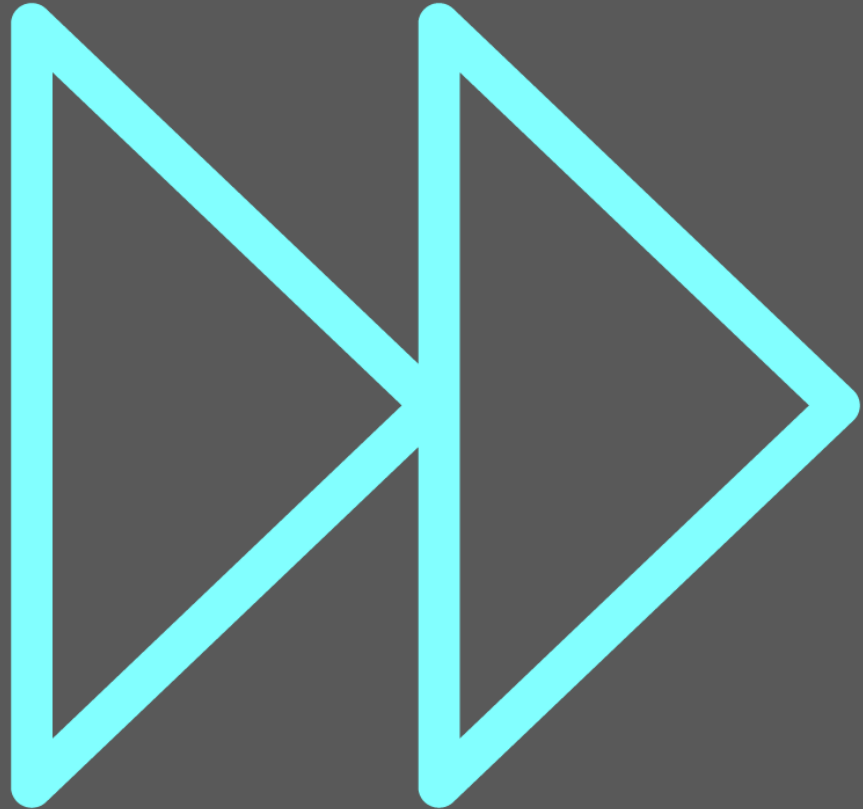
- Australia and New Zealand – mature low growth.
- We must take market share!
- ‘Group Supply Mandate’ to halt supply leakage from group.
- Production work on WPP side to flow through STW’s strong production and shopper companies.
- Enhance performance of global brands.
- Look to consolidate local operating companies with global brands.
- Embed our local digital strength further across group.
- Horizontality will allow us to better capture bigger piece of client customer journey budget.
- Careers Hub: internal training and recruitment service to save headhunter and training fees.



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## 2. Future-Proof

Future-proof the group through technology, data, content, mobile and proprietary offerings.



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## Future Proof



- WPP AUNZ has a significant lead in the Digital specialists space via, DT, VML, White, Fusion, Webling, HeyDay and Aleph just to name a few.
- Further embedded digital expertise across wider group.
- Invest in data capability in AUNZ and leverage global power of WPP through data alliance.
- Consolidating our shopper assets and building business of scale for ANZ remains a big opportunity to grow our share of burgeoning customer journey spend.
- Continue to build proprietary tools and partner with clients in helping them transform their business model for the Digital age.
- Development of proprietary offerings via cross group co-operation - Data Hub, Kent St Consulting, CX Hub, HR Hub, Marketing Infrastructure Hub.
- As marketing departments transform themselves, a new focus on Marketing Technology is occurring. Immediate opportunities exist around platforms and ecosystems [DT, Wunderman-Bienalto, One20, Adcast, Fusion, VML]



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### 3. Leverage the power of WPP Globally

Leveraging WPP's IP, tools, expertise in data management, digital and research.



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## Leverage Power of WPP Globally – Early wins



- ANZ serious market for WPP – engagement from Global CEO’s outstanding.
- Establish the Data Alliance along with access to new proprietary tools to grow our share of data dollars.
- 5<sup>th</sup> Global WPP market for Data Alliance.
- Buchanan - Kantar global collaboration piloting Home Tester Club across simulated test markets for new FMCG products. If successful this format will form part of the standardised Kantar approach globally.
- The Brand Agency - partnering with Hogarth to deliver full service agency for Bunnings push in the UK.
- DT - able to launch office in Singapore in partnership with Ogilvy.
- The Store WPP AUNZ - partnering with Geometry and Ogilvy to service key client in Australia, Asia Pacific and now Japan.

## Digital, Content and Data

- WPP has invested deep and wise in Digital, Content and Data.
- AUNZ harnessing the insight, data, tools, and relationships provides a clear strategic advantage.



appnexus

VINE



essence.

Percolate

plista

COMSCORE.

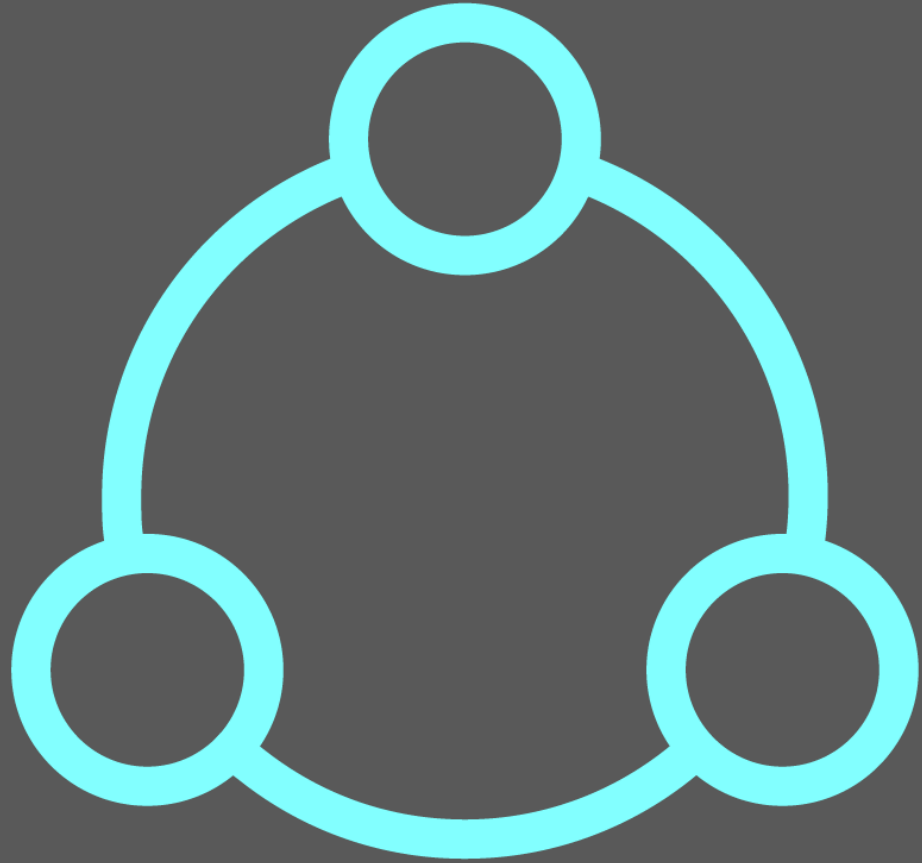
BRANDZ™



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## 4. Drive Collaboration

Driving collaboration and horizontality across our group for the benefit of our people, our companies and our clients.



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# Driving Collaboration/Horizontalty



## Partnership / Collaboration / Horizontalty

- Marketing communications moving fast forward.
- Leverage power of group wide resources and relationships.
- Build bespoke client teams/ reduce complexity.
- Reward partnership.
- We believe that AUNZ can be the Gold standard in WPP world for horizontalty.
- Better outcomes for clients, our people and our companies.
- Automated onboarding/Continuous learning by mid year so all staff know the group's strategy, breadth of capability and supply mandate.
- New 'Central Support' team formed to foster connectivity, collaboration and horizontalty.
- Enhanced campus strategy fosters connectivity and collaboration by locating complementary businesses in key locations.
- Geographic hub leaders to drive connectivity and connect sessions e.g. Perth, Adelaide, Brisbane, Canberra and NZ.



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# Outlook and Summary

Mike Connaghan

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## Outlook and Summary



- Must gain market share in low growth environment.
- WPP AUNZ expects to deliver headline profit before interest and tax of between \$140 million and \$147 million [2015: \$137.0 million].
- This translates to headline like for like net profit after tax between \$82 million to \$86 million and earnings per share between 9.6 and 10.1 cents per share.
- This represents mid to high single digit organic growth in 2016.
- The outlook is presented as if all businesses were owned from 1 January and excludes one off and significant items incurred during the period.
- Capturing synergies of cost out.
- Capturing revenues from exiting clients imperative.
- Driving better collaboration [horizontality] and growing organic revenues a priority.
- Pushing hard into growth areas of data, marketing infrastructure and shopper marketing.



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# Appendix



## Half Year Results 2016 Full Year Pro-forma Outlook



Pro-forma EPS	Range		31 Dec 2015
	31 Dec 2016	31 Dec 2016	
PBIT	140	147	137
NPAT (\$million)	82	86	78
Number of shares (million)	851	851	851
EPS (cents per share)	9.6	10.1	9.2
EPS Growth (Pro-forma 2015)	5%	10%	

## Statutory Profit & Loss



<b>30 June \$AUD'M</b>	<b>2016</b>	<b>2015</b>
Net revenue	306.3	194.7
Income from associates	2.7	5.0
<b>Profit before interest and tax</b>	<b>38.5</b>	<b>30.5</b>
Net finance costs	[8.4]	[6.6]
<b>Profit before tax</b>	<b>30.1</b>	<b>23.9</b>
Tax	[8.6]	[4.8]
<b>Profit after tax</b>	<b>21.5</b>	<b>19.1</b>
<b>Profit after tax and minorities</b>	<b>18.8</b>	<b>15.1</b>
Net Gain - WPP Business merger	5.7	-
Goodwill/ intangible and other one off charges	[4.9]	[88.5]
<b>Reported net profit after tax</b>	<b>19.6</b>	<b>[73.4]</b>

## One-off costs

30 June \$AUD'M	2016	2015
Net Gain - WPP business merger		
Transaction costs	6.6	-
[Gain]/Loss on revaluation of associates (non-cash)	(12.1)	-
<b>Total Net Gain - WPP business merger</b>	<b>(5.5)</b>	<b>-</b>
Amortisation, Impairment and other non-cash items		
Impairment charges (non-cash)	-	78.3
Amortisation of Intangible Assets (non-cash)	5.0	1.2
Lease accounting (non-cash)	-	1.8
Loss on fair value accounting of non-current liabilities (non-cash)	1.0	2.1
<b>Total Amortisation, Impairment and other non-cash items</b>	<b>6.0</b>	<b>83.4</b>
Strategic review costs		
Centralised cost restructuring	-	1.3
Operating restructure & staff efficiency measures	-	6.5
<b>Total Strategic review costs</b>	<b>-</b>	<b>7.8</b>
Business close down and other one-off costs		
Property rationalisation	-	2.4
[Gain]/Losses in closed and merged business	0.3	3.6
<b>Total Business close down and other one-off costs</b>	<b>0.3</b>	<b>6.0</b>
<b>Total: PBT @ WPP AUNZ share</b>	<b>0.8</b>	<b>97.2</b>
<b>Total: Income Tax Benefit &amp; Non-Controlling Interests</b>	<b>(1.7)</b>	<b>(8.7)</b>
<b>Total: NPAT @ WPP AUNZ share</b>	<b>(0.9)</b>	<b>88.5</b>

## Aggregate Earnout Position



	<b>Total Earnouts</b>
	[\$M]
31 December 2015 @ Present Value	15.1
Payments made in 2015	(5.8)
Assumed as part of the WPP Transaction	3.5
Net revisions to prior earnout estimates	2.7
30 June 2016 @ present value	15.5

<b>Expected Settlement</b>	<b>Maturity Profile</b>
	[\$M]
2016	3.3
2017	7.1
2018+	5.1
Total @ present value	15.5



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Thank You.