WPP (WPP.LN)

Climate Transition Analysis

Climate Action 100+ Focus Company

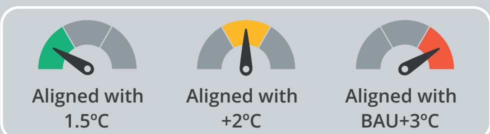
Overall Assessment

WPP is most likely heading towards a 2.0°C pathway by 2030.

Planet Tracker assessed WPP's Climate Transition strategy by analysing its GHG emissions trends from 2019 to 2023 and its alignment with the Paris Agreement. WPP has Science Based Target initiative (SBTi)-validated target to reduce its absolute Scopes 1 and 2 greenhouse gas (GHG) emissions by 84% by 2025 against a 2019 baseline and to reduce its Scope 3 emissions by 50% by 2030 against a 2019 baseline. Progress has been strong, so far, on the Scope 1 and 2 target, with a 76% GHG emissions reduction as of 2023 (against the 2019 baseline). However, it is unclear how WPP will continue to deliver further reductions in the medium-term and progress on Scope 3 reduction is also lagging (3% reduction as of 2023 versus the 2019 baseline).

The company has good management oversight of delivery on sustainability. The company acknowledges both risks and opportunities related to climate change and has a well-defined reporting structure internally for addressing these issues. We note that management incentive structures only include qualitative targets related to environmental goals.

In summary, we assess WPP as most likely heading towards a 2.0°C pathway by 2030. We call on the company to provide more detail on how it will continue to deliver emissions reduction over the medium term, particularly on Scope 3, and to address its Advertised Emissions.



Climate Alignment

- WPP has Science Based Targets to reduce its Scope 1 and 2 greenhouse gas (GHG) emissions by reduce its absolute Scopes 1 and 2 greenhouse gas (GHG) emissions by 84% by 2025 against a 2019 baseline, and to reduce its Scope 3 emissions by 50% by 2030 against a 2019 baseline. Our analysis suggests WPP is on track to meet its target for Scope 1 and 2, but will miss its Scope 3 target.

Policy and Governance

- WPP engages with its customers and suppliers to help with decarbonising. However, it provides limited details on how it will continue to drive Scope 3 emission reductions, which currently lag behind its targeted reduction.

- Management compensation includes qualitative climate-related incentives; however, executive incentives focus more on revenue and profit growth rather than explicitly linking pay to sustainability target progress.

Risk Analysis

- WPP uses scenario analysis to inform its corporate risk assessments, including the assessment of climate-related risks and opportunities. However, WPP does not currently quantify these risks. Providing more detail on the potential financial impacts would reassure investors.

Strategy Assessment

- WPP has driven its emission reduction to date through initiatives focused on efficient use of space, moving IT to the cloud and renewable energy. The company provides little detail on how further reductions will be delivered beyond the assumption that these initiatives will continue. Notably, details of how it will drive reductions in its Scope 3 footprint are needed.

Planet Tracker

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Company Overview

WPP is a UK-based "world leader in marketing services". Over the past five years (2020-2024), the company has reported an average annual revenue of GBP 13.8 billion.

WPP operates through three divisions, Global Integrated Agencies, Public Relations and Specialist Agencies. Global Integrated Agencies represents the majority of revenue – see **Figure 1**. A list of agencies under the WPP umbrella can be found here - WPP Agencies and Global Marketing Firms.

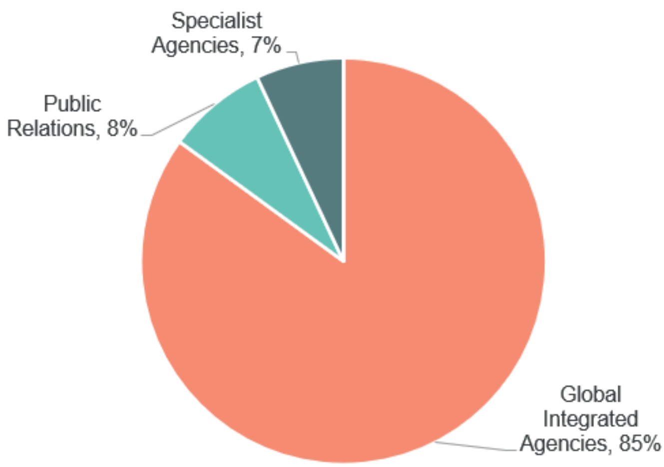

Figure 1: *Revenue - Breakdown by Business Segments (5Y Avg.). Source: WPP's Annual Reports 2020-2024.*

Geographically, WPP has established a significant presence in North America and Europe, but is active across the globe. The North American market constitutes the biggest portion of WPP's total revenue – see **Figure 2**.

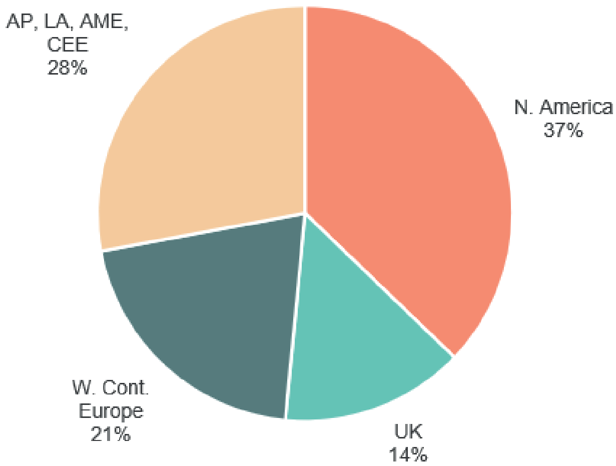

Figure 2: *Breakdown by Geography (5Y Avg.). Source: WPP Annual Reports 2020-2024.*

In summary, WPP's global operations in key developing regions like the Asia-Pacific and developed markets such as North America and Europe suggest that its climate transition risks and opportunities, along with regulatory impacts, are concentrated in these areas. These risks will be direct to WPP's own operations and locations and also indirect via impacts on its customer base.

Climate Alignment

EMISSIONS INVENTORY

Based on company data, total emissions decreased from 5,400 kilotons of CO_2 equivalent (ktCO_2e) in 2019 to 5,175 ktCO_2e in 2023 (-4%).

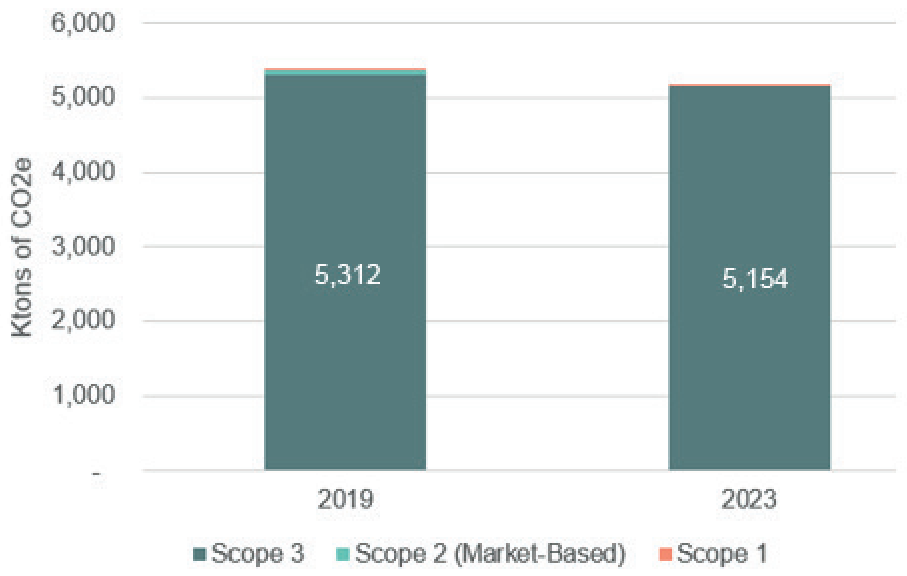

Figure 3: *WPP Reported Emission History (Source: WPP's Sustainability Report 2024).*

WPP's reported 2023 total GHG footprint broke down as follows:

- **Scope 1 emissions:** 11.4 ktCO_2e, 0.2% of total emissions.
- **Scope 2 emissions (market-based):** 10.0 ktCO_2e, 0.2% of total emissions.
- **Upstream Scope 3 emissions:** 4,514.1 ktCO_2e, 87% of total emissions.
- **Downstream Scope 3 emissions:** 639.6 ktCO_2e, 12% of total emissions.

Within the Scope 3 category, key contributors were:

- **Purchased Goods and Services** (upstream): 83% of total emissions.

For more details see **Figure 4**.

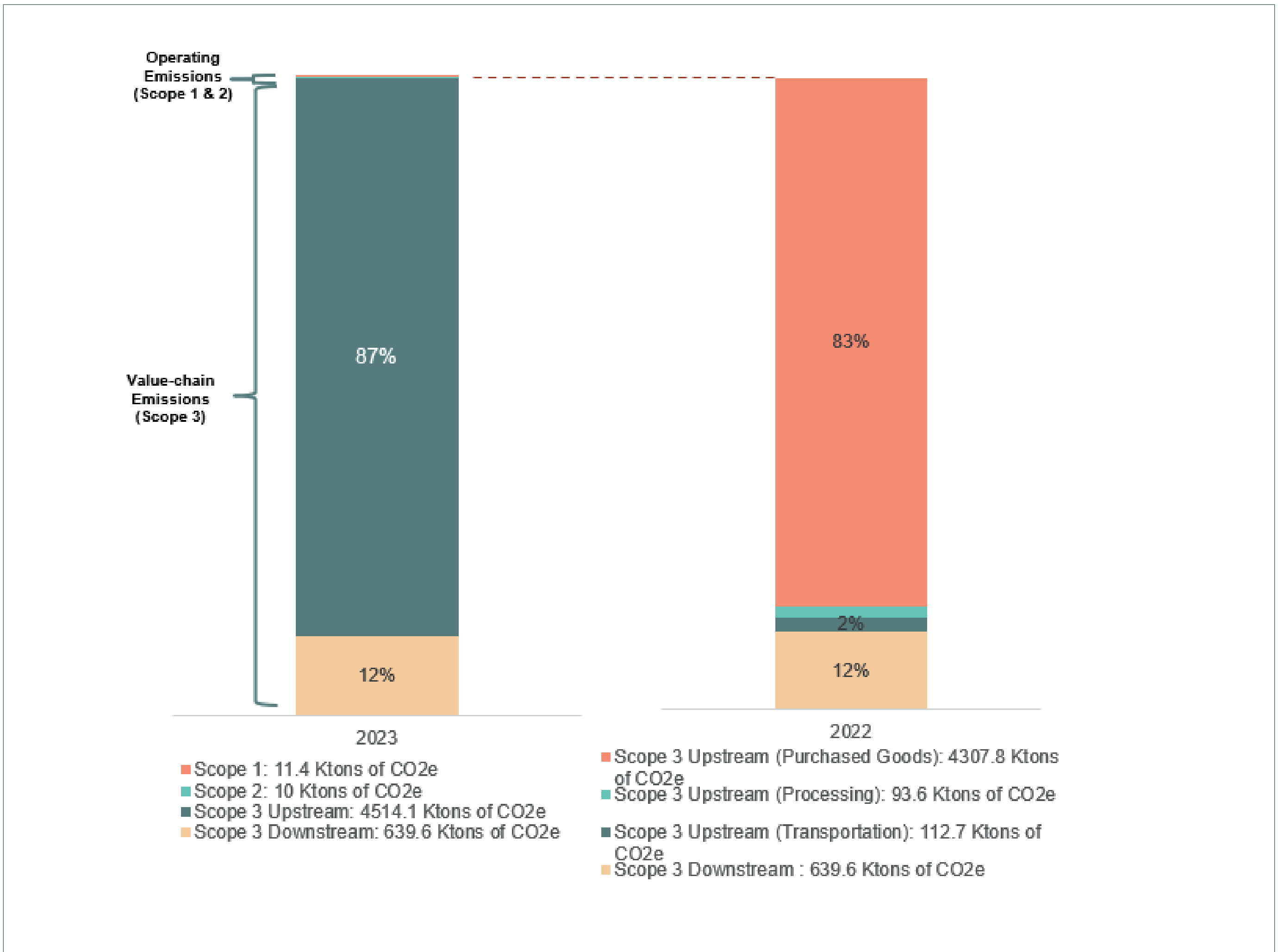

Figure 4: *Total GHG Footprint (2023) - Percentage Breakdown by Scope. (Source: WPP's Sustainability Report 2023).*

WPP includes emissions from media placement in its Scope 3 footprint, which make up the bulk of Scope 3 emissions. In **Figure 5** we show WPP's data on the split of its 2019 baseline footprint by Scope and area of business.

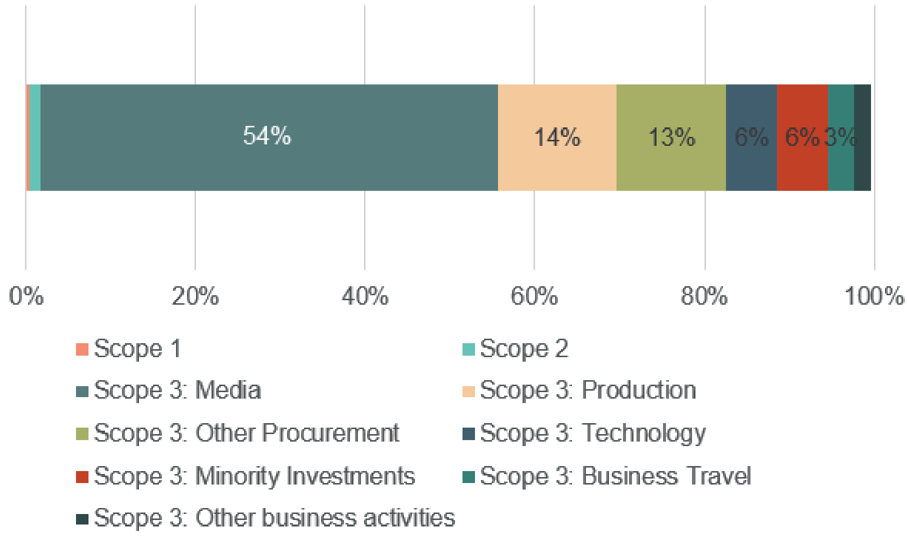

Figure 5: *Emissions from Media Placement Make up More Than Half of WPP's 2019 Baseline Footprint (Source: WPP Sustainability Report 2024).*

EMISSIONS TRENDS AND TARGETS

Historical and Expected Emissions

Between 2019 and 2023, WPP's total GHG emissions decreased by 4%. This fall was characterised by declining emissions for all scopes, led by Scope 2 (**Figure 6**).

	2019	2023 (ktons of CO_2e)	Change
Scope 1 (ktons of CO_2e)	25	11	-55%
Scope 2 (market-based) (ktons of CO_2e)	63	10	-84%
Scope 3 (ktons of CO_2e)	5,312	5,154	-3%
Total (ktons of CO_2e)	**5,400**	**5,175**	**-4%**

Figure 6: *Historic Scope 1, 2, and 3 CO_2e Evolution (2019-2023). Source: WPP Sustainability Report 2024.*

A high-level extrapolation model was employed to forecast WPP's emissions up to 2030. This model projects the annual emissions change rate from the past five years forward, assuming that the company continues its historical mitigation efforts while maintaining an intrinsic annual revenue growth rate in the low single digits.

According to Planet Tracker's extrapolation:

- **Scope 1 emissions** are expected to decrease by 89% by 2030 relative to 2019.
- **Scope 2 emissions** are projected to decrease by 99% by 2030 relative to 2019.
- **Scope 3 emissions** are expected to decrease by 7% by 2030 relative to 2019.

This would result in an absolute emissions decrease of 9%, with projected emissions (reaching 4,927.9 ktCO_2e by 2030, compared to 5,175.1 ktCO_2e in 2023). In this scenario, operational emissions (Scopes 1 and 2) would account for close to zero of the total footprint, as presented in **Figure 7**.

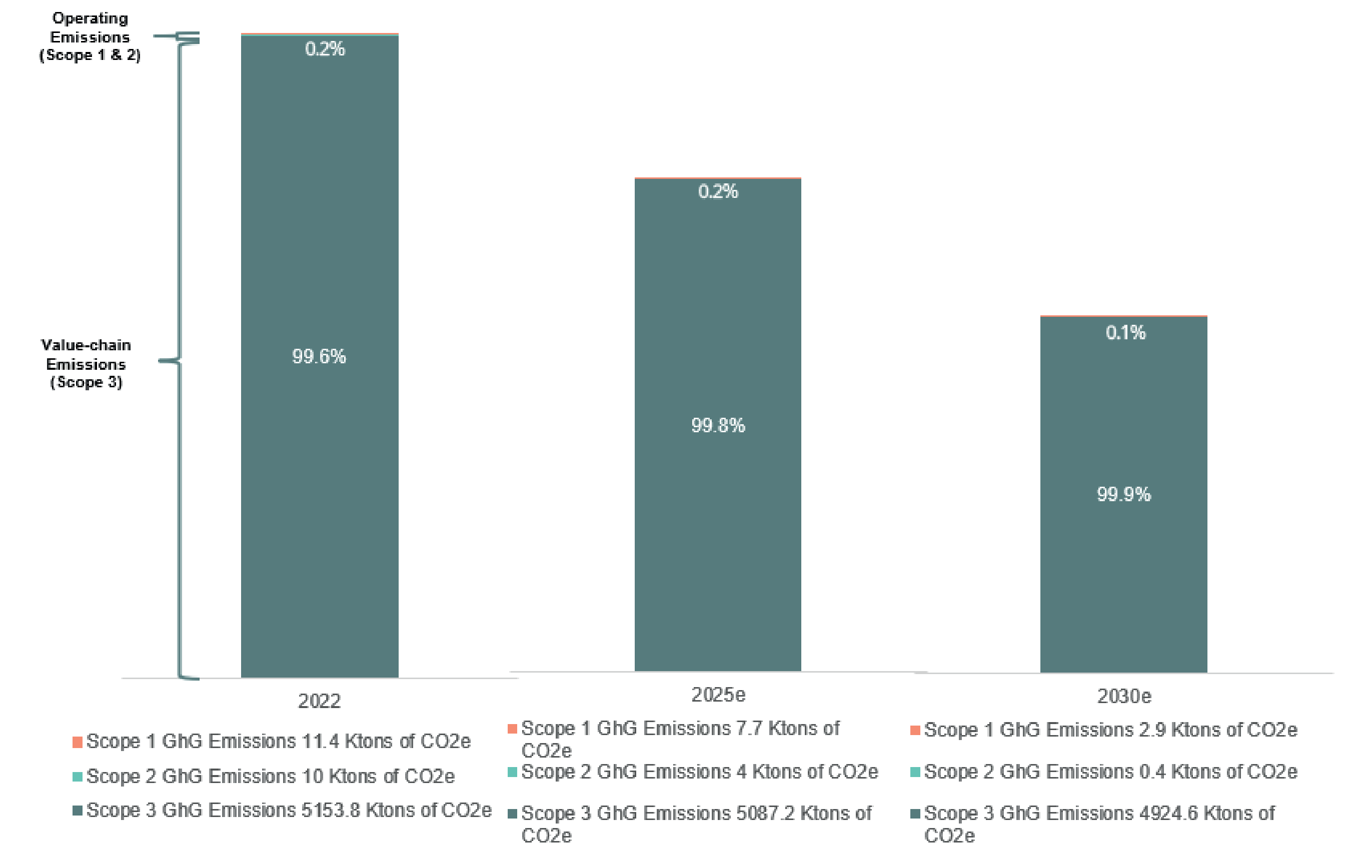

Figure 7: *Expected Scope 1, 2, and Scope 3 CO_2e Evolution (2025e & 2030e) – Percentage Breakdown by Scope. Source: WPP's Sustainability Report 2024 and Planet Tracker Calculations.*

Decarbonisation Targets

WPP has a goal to reduce its absolute Scopes 1 and 2 GHG emissions by 84% by 2025 against a 2019 baseline, and to reduce its Scope 3 emissions by 50% by 2030 against a 2019 baseline. These goals were validated in 2021 by the SBTi.

Progress has been strong so far on the Scope 1 and 2 target, with a 76% GHG emissions reduction as of 2023 (against the 2019 baseline). Progress has been helped by increased use of renewable energy with WPP publicly targeting 100% renewable energy use by 2025.

Progress on the Scope 3 target is proving more difficult, with only a 3% reduction achieved as of 2023.

Beyond its 2030 target, WPP is a part of the Ad Net Zero global group which aims to move the advertising industry towards a net zero future. However, WPP's net zero commitment with the SBTi has been removed, as it expired.

Policy and Governance

ENGAGEMENT AND INFLUENCE

Suppliers' Engagement

WPP has engaged with its suppliers as part of sizing its own Scope 3 footprint. This has included the development of internal processes for mapping suppliers' carbon footprints. This work showed that 138 suppliers contribute 56% of WPP total purchased goods and services emissions. WPP has launched an outreach and engagement plan to work with these suppliers on decarbonisation.

Customers' Engagement

WPP works with its clients to address their sustainability goals. In 2024, its GroupM agency launched a carbon calculator to allow clients to factor in channel-level carbon emissions data into its media planning.

WPP has produced a Green Claims Guide for clients with tips to avoid accusations of greenwashing in advertising. They offer green claims training to clients and partners.

What About Advertised Emissions?

Advertised Emissions are the greenhouse gas emissions that result from the uplift in sales generated by advertising. This can be a material source of emissions. Work by industry network purpose disruptors and econometrics firm Magic numbers in 2021 estimated Advertised Emissions in the UK market alone at 186 million tonnes of GHG, equivalent to the emissions of the Netherlands[i].

Asking Advertising holding companies to calculate and publish their Advertised Emissions reveals the climate impact of the incremental consumption they have generated on behalf of their clients. The more carbon intensive their clients, the higher a holding company's Advertised Emissions will be.

In 2024, Race to Zero[1], a global campaign led by the UN Climate Change High-Level Champions published a report setting out a six-point framework as to how service providers, like ad agencies, can be a key driver of the transition to net zero[ii]. Many large businesses already require their agencies to be a signatory to the United Nations-backed Race to Zero campaign.

In its 2024 Sustainability Report WPP sets out its policies regarding working with clients who are involved in the extraction, production, sale or distribution of fossil fuels. Considerations before taking on such client work include the nature of the intended assignment, whether it is truthful and whether the client has made a public commitment to net zero.

Influence on Policymakers

WPP is a member of advertising industry trade associations which engage in lobbying.

WPP states that its policy is not to take on any work, including lobbying, which is counter to the objectives of the Paris Agreement.

1 Race to Zero is a global campaign to rally leadership and support from businesses, cities, regions and investors for a healthy, resilient, zero-carbon recovery that prevents future threats, creates decent jobs and unlocks inclusive, sustainable growth.

MANAGEMENT ALIGNMENT

Sustainability Targets Oversight

WPP operates with a governance structure comprising a Board of 12 members, comprising eight independent Directors, the Chair and three Executive Directors, including the Group CEO. The Audit Committee, Compensation Committee, Nomination and Governance Committee and Sustainability Committee report to the board on their respective areas of focus.

The sustainability committee has four standing members drawn from the Board and is also regularly attended by Group executives including the CEO, CFO and Chief Sustainability Officer.

The remit of the Sustainability Committee includes: understanding sustainability linked risks and opportunities for WPP; assisting the main board in its oversight of sustainability, corporate responsibility and health and safety; assessing WPP's sustainability footprint and reviewing its targets and commitments; reviewing WPP's Transition Plan and other sustainability related policies.

The Chief Sustainability Officer is in overall charge of sustainability, including ensuring implementation of standards and identification of sustainability-related risks and opportunities. They disseminate this information to the business through briefings and programme meetings. Progress on sustainability metrics is communicated yearly.

Management Compensation

The CEO and other executive managers' compensation includes both a short-term and long-term incentive plan.

The short-term incentive plan is 75% weighted to financial targets and 25% to a scorecard of individual strategic objectives. For FY2025, the financial targets for executives are:

- **Headline Operating Margin Improvement**
- **Revenue less pass-through costs growth**

The 25% based on individual strategic objectives uses a qualitative scorecard focused on four categories; strategic priorities; client; people and culture; and purpose and reputation. The 2024 Annual Report states that progress on GHG emission reduction is "integrated into the CEO's incentive plan". The proportion of CEO pay tied to GHG emissions reduction is unclear.

The long-term incentive plan targets only financial metrics. For FY2025, these are Return on Invested Capital, relative Total Shareholder Return and Average Consolidated Cash Flow.

It is disappointing that there appears to be little to no tie between executive compensation and delivery of WPP's GHG emission reduction targets.

Risk Analysis

FINANCIAL IMPACT

WPP has not yet quantified the impact of any risks or opportunities arising from climate change. According to its reporting, climate-related issues are not expected to be material on a short-term time horizon.

WPP has used climate scenario modelling to inform its risk and opportunity analysis. Scenarios used are based on the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathways (RCPs).

WPP considers three time horizons in its modelling:

- Short-term – next annual reporting period
- Medium-term – 2025-2027
- Long-term – 2028-2030

Opportunities

WPP sees opportunities to grow revenue derived from the products and services it offers which assist clients looking to decarbonise their businesses. This includes low carbon marketing services. In the short-term, growth in these new areas would require some investment from WPP to develop sustainability related skills and products, but could deliver revenue growth over the longer-term. WPP is investing in AI as one means to reduce the carbon footprint of developing marketing campaigns.

WPP is working to reduce its carbon footprint by rationalising its office footprint and moving to a cloud-based software system. These moves could also reduce operating costs over time, boosting profitability.

Transition Risks

WPP acknowledges that achieving its Scope 3 reduction targets will rely on the development of innovative technologies and evolution of business model across its supply chain. The company expects that it may see a need for greater expenditure over time to engage with suppliers to help deliver the required innovation.

WPP uses carbon credits to help offset some of its emissions associated with business travel. The cost of offsets could fluctuate depending on demand and regulations.

WPP could face increased compliance costs from future environmental or financial reporting regulations. Carbon accounting for media and marketing is still new, and thus future requirements are unclear. Increased costs could come from investment in internal compliance functions.

WPP acknowledges the risk from being associated with misleading environmental claims made in marketing. WPP could suffer a reputational hit and associated loss of clients from such associations. It could also face significant fines from regulators.

Physical Risks

WPP acknowledges the risk from increased frequency of extreme weather and climate-related natural disasters. This could include damage to its own offices or employee homes which jeopardises the safety of employees or their ability to work. It notes that its locations in coastal cities such as Chennai, New York, Miami, Mumbai and Shanghai have a higher degree of physical risk.

It notes that increasing frequency of extreme weather may see a need for greater expenditure on its buildings, its business continuity procedures and employee support schemes. They may also need to provide support for employees to relocate in light of climate change induced threats.

RISK MANAGEMENT

Risk Management

WPP's risk committee assists the Board and Audit Committee in assessing the risks to the business including material sustainability linked risks. WPP states that it has not identified any "material" risk to the business from climate change[2]. Its analysis of risks and opportunities is updated annually.

Physical risks related to climate change, for instance extreme weather events, are included in WPP's business continuity planning. Its crisis management and business resilience strategies provide training and leads the response to any crisis events. An Employee Assistance programme is activated in response to extreme weather events.

Upcoming government and market regulations and policies are monitored by WPP with appropriate investment in internal capability made as a response.

WPP is developing an internal transition plan to set out how it will work towards its GHG reduction targets.

WPP has developed a Green Claims Guide to help clients avoid misleading sustainability statements. Its internal Code of Conduct and its due diligence process for new client work aim to reduce the risk from misstatements.

2 WPP Annual Report 2024 page 37.

Strategic Assessment

CAPITAL ALIGNMENT

As a service-focused industry where much of the value is in intangible assets, WPP's pathway to reducing GHG emissions is more driven by opex than capex over the medium to long term.

WPP targets an 84% reduction in its absolute Scope 1 and 2 GHG emissions by 2025, relative to a 2019 baseline, and a 50% reduction in its Scope 3 emissions by 2030, also relative to a 2019 baseline. This goal was validated in 2021 by the Science Based Targets initiative (SBTi).

To achieve these objectives, the company is continuing with projects which have already been implemented:

Efficient use of space – WPP has moved to rationalise its real estate footprint and to more energy efficient premises.

Proactive energy management – WPP estimates that 6% of its baseline footprint comes from technology use, such as data centres. They are moving to a cloud-based system and replacing older and less efficient hardware to reduce energy use. They estimate that the size of equipment rooms has been reduced by 75%, resulting in lower construction and power costs.

Renewable energy – WPP has a target to achieve 100% renewable energy by 2025. As of 2024, it was at 93%. WPP is a member of RE100, a global initiative that brings together businesses committed to 100% renewable electricity to accelerate change towards zero carbon electricity grids.

Hybrids and EVs – WPP has shifted towards the use of electric and hybrid models for its company cars.

Whilst the above initiatives have driven significant reductions in Scope 1 and 2 emissions, tackling Scope 3 emissions will be critical in the medium-term.

WPP notes that it has made strides in recent years in identifying the biggest contributors to its Scope 3 footprint for purchased goods and services, with 138 suppliers representing 56% of emissions. WPP intends to work with these suppliers to assess their emission reduction plans and work to bring down emissions.

WPP is also looking to reduce the footprint of filming adverts, which it estimates at currently around 14% of the supply chain carbon footprint. Its Hogarth production agency is investing in generative AI and virtual production to reduce the emissions cost of content production.

TRANSITION APPRAISAL

Planet Tracker assessed WPP's Climate Transition strategy by analysing its GHG emissions trends from 2019 to 2023 and its alignment with the Paris Agreement. WPP has Science Based Targets for emissions. These include to reduce its absolute Scopes 1 and 2 GHG emissions by 84% by 2025 against a 2019 baseline, and to reduce its Scope 3 emissions by 50% by 2030 against a 2019 baseline.

Planet Tracker's assessment also reviewed WPP's Governance, Risk Management and Capital Alignment to evaluate its ability to sustain its historical progress on emission reduction. The company has undertaken various strategic initiatives to reduce its emissions, including rationalising its office space and moving towards 100% renewable energy. Progress has been strong so far on the Scope 1 and 2 target, with a 76% GHG emissions reduction as of 2023 (against the 2019 baseline). However, it is unclear if they can continue to deliver further reductions in the medium-term and progress on Scope 3 reduction is lagging (3% reduction as of 2023 versus the 2019 baseline). Notably, WPP does not currently address its Advertised Emissions. This means that even if it does deliver on its own emission targets, it could still be considered misaligned with the Paris goals due to its development of advertising for other businesses which are not aligned.

Generally, WPP's Climate Risk Assessment and Management strategy reflects a commitment to managing key risks and leveraging opportunities. The company acknowledges both risks and opportunities related to climate change and has a well-defined reporting structure internally for addressing these issues. We note that management incentive structures include qualitative targets related to environmental goals. Making these goals quantitative and tied to an explicit proportion of compensation on both an annual and long-term basis would more directly align management with delivering on climate targets.

In conclusion, WPP demonstrates a good commitment to achieving its climate transition goals, supported by credible initiatives and a management structure and incentives which are supportive. While certain gaps remain, such as transparency on Advertised Emissions, greater clarity on management compensation alignment and detail on how it will drive Scope 3 reductions, in our view the company's efforts position it to align with a 2.0°C pathway by 2030.

Planet Tracker concludes WPP is likely to align with a +2.0°C pathway by 2030.

i Advertising adds 28% to the annual carbon footprint of every single person in the UK - Magic Numbers

ii The-role-of-professional-service-providers-in-realizing-a-net-zero-future.pdf

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ABOUT PLANET TRACKER

Planet Tracker is a non-profit financial think tank producing analytics and reports to align capital markets with planetary boundaries. We aim to create a significant and irreversible transformation of global financial activities by 2030. By informing, enabling and mobilising the transformative power of capital markets we aim to deliver a financial system that is fully aligned with a net-zero, nature-positive economy. Planet Tracker proactively engages with financial institutions to drive change in their investment strategies. We ensure they know exactly what risk is built into their investments and identify opportunities from funding the systems transformations we advocate.

PLANET TRACKER'S CLIMATE TRANSITION ANALYSIS

As part of its Influencers programme, Planet Tracker is examining the transition plans of the six major Advertising Agencies. Our goal is to provide investors with the key information and analysis they need to be able to hold the companies to account for the quality of their climate transition plans and their execution against those plans. We also encourage investors to use this information to engage effectively with these companies with the aim of driving the sustainable transformation of the advertising industry.

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