

Nine Month 2019-20 Trading Update

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This announcement contains inside information for the purpose of Article 7 of the Market Abuse Regulation (EU) No 596/2014.

6 February 2020

ROYAL MAIL plc TRADING UPDATE FOR THE NINE MONTHS ENDED 29 DECEMBER 2019

Royal Mail plc (RMG.L) today issued a trading update covering the nine months ended 29 December 2019.

Rico Back, Group Chief Executive Officer, Royal Mail plc, said:

"We had a busy Christmas season, which coincided with a General Election for the first time in almost a century. We achieved a high quality service for customers across the UK due to additional investment and, more importantly, the commitment and dedication of our people - I thank them for all their efforts.

"Overall, our recent trading performance has been broadly in line with our expectations. We confirm adjusted Group operating profit is expected to be £300-340 million (before IFRS 16) for 2019-20.

"We are disappointed that the CWU has issued a timeline for a ballot of its members for industrial action. We stand ready to invest £1.8 billion to modernise and grow in the UK. We want to reach agreement with CWU; but we cannot afford to delay this essential transformation any longer. So we are proceeding with key national trials and local initiatives, to improve our customer offering and grow the business, whilst maintaining good quality jobs and delivering a sustainable Universal Service."

Summary operating performance

Performance in the period was impacted by 2.5 fewer working days in UKPIL compared to the prior year. This reduced UKPIL volume and revenue growth metrics by around 1 percentage point, on average. For the full year 2019-20, the working day impact will not be material.

	Change ¹ As reported	Change ¹ Working day adjusted
Group revenue	3.7%	4.5%
UKPIL revenue	1.0%	2.1%
Parcels volumes	3%	4%
Parcels revenue	3.7%	4.9%
Addressed letter volumes (ex. elections)	(9%)	(8%)
Letters revenue	(1.5%)	(0.4%)
GLS volumes	5%	-
GLS revenue	11.1%	-

Operating performance

Unless otherwise stated, results are provided for the nine months ended 29 December 2019.

GLS

GLS continued to perform well, with revenue growth of 11.1% (7.3% excluding acquisitions). In North America, Dicom, our Canadian business, continued to perform in line with our expectations. The turnaround of our US business remains in line with our plan for this year. In Europe, revenue growth was driven by strong performances in Germany, Belgium and Eastern European markets.

UKPIL

UKPIL revenue grew 1.0% (2.1% working day adjusted). Parcel revenue growth more than offset the decline in letters.

Parcels

Total UK volumes were up 3% (4% working day adjusted), and revenue increased by 3.7% (4.9% working day adjusted). Around Black Friday and Cyber Monday volumes were higher than expected. For the rest of the Christmas period² they were, on average, lower than anticipated. Due to the risk of industrial action, some customers switched volumes to other carriers. This reduced parcel revenue growth by approximately 0.5 percentage points.

Parcels performance in January was stronger than Q3, which underpins our confidence in a higher level of revenue and volume growth in Q4.

Royal Mail domestic account parcels volumes, excluding Amazon, were up 5% (6% working day adjusted). Royal Mail Tracked 24[®]/48[®] and Tracked Returns[®] volumes, our key e-commerce products, grew by 17% (18% working day adjusted). Quality over the Christmas period for our Tracked^{2,3} products was even better than last year.

Parcelforce Worldwide volumes increased by 1% (2% working day adjusted).

Letters

Total letter revenue decreased by 1.5% (0.4% working day adjusted). It benefited from targeted price rises from January 2019, the European Parliamentary Election in May and the UK General Election in December.

Addressed letter volumes (excluding political parties' election mailings) declined by 9% (8% working day adjusted), in line with our revised expectations for the full year.

Additional price increases in business mail came into effect from January 2020.

Operations and Transformation

We are disappointed CWU has said it is preparing another ballot of its members for industrial action.

We want to reach agreement to secure a successful and sustainable future for our UK business. Industrial action, or the threat of it, is damaging for our business and undermines the trust of our customers. We continue to offer CWU the opportunity for ongoing talks.

We have moved forward in key areas of our transformation plan:

- We have chosen the supplier for automation of our Warrington parcel hub, which will handle 40,000 items per hour when fully operational. We are finalising the lease for our 2nd parcel hub in the Midlands. It will be able to handle 60,000 items per hour when first operational. Both hubs have the option to increase capacity in the future. We are continuing to explore options for our 3rd (and final) hub.
- We continue to roll out small Parcel Sorting Machines (PSMs). Over the Black Friday and Christmas period, we almost doubled the number of parcels sorted automatically, to 39m from 22m last year.
- A further 7 letter sequencing machines were decommissioned in Q3, making total of 24 year to date, as we adapt our network to handle fewer letters and more parcels.
- We are deploying a range of much needed local change initiatives and key trials, which have been held up for many months.

Current trading and outlook

2019-20

As a result of additional investment to underpin our Quality of Service and protect deliveries over the General Election and Christmas, productivity improvement was 1.3% in the period. It is now expected to be around 1.5% for the full year, against our 2% target.

We confirm all other guidance for 2019-20:

- Adjusted Group operating profit is expected to be £300-340 million (before IFRS 16).

- Addressed letter volume declines (excluding elections) to be in the range of 7-9%.
- Cost avoidance programme is on target to deliver £150-200 million costs avoided.
- GLS adjusted operating profit margin of 6-7%.

2020-21

The outlook for 2020-21 is challenging. The Q3 run rate for addressed letter volumes (excluding elections) has not shown the expected level of recovery. This, coupled with the ongoing uncertain business environment, means that we now expect a 1 percentage point increase in the decline, to 7-9% for 2020-21.

Further, the ongoing industrial relations environment and delays to the delivery of our transformation plan, when combined with continuing economic uncertainty, increases the likelihood that UKPIL will be loss making in 2020-21. Unless we are able to make significant progress in delivering our transformation plan, our ability to meet the year 3 targets of our Journey 2024 plan will be compromised.

We are taking additional mitigating actions, and will provide an update on progress with these and further guidance with our 2019-20 full year results, which are expected to be announced on 21 May 2020.

We continue to execute on our Journey 2024 plan as the best way to deliver a successful and sustainable future for the UK business.

We expect GLS to perform in line with our plan.

Note:

¹ UK letters and parcels revenue and volumes have been allocated using a new methodology which reduces our reliance on sampling by using Post Office traffic data which has been tested for accuracy. This change only impacts the allocation of revenue between stamped letters and parcels, and some international export products. Total UKPIL revenue remains unchanged.

² Christmas period is 6 weeks from Black Friday.

³ Tracked includes Royal Mail Tracked 24®, Royal Mail Tracked 48®.

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About Royal Mail plc

Royal Mail plc is the parent company of Royal Mail Group Limited, the leading provider of postal and delivery services in the UK and the UK's designated universal postal service provider. UK Parcels, International & Letters (UKPIL) comprises the company's UK and international parcels and letters delivery businesses operating under the "Royal Mail" and "Parcelforce Worldwide" brands. Through the Royal Mail Core Network, the company delivers a one-price-goes-anywhere service on a range of parcels and letters products. Royal Mail has the capability to deliver to more than 30 million addresses in the UK, six days a week (excluding UK public holidays). Parcelforce Worldwide operates a separate UK network which collects and delivers express parcels. Royal Mail also owns General Logistics Systems (GLS) which operates one of the largest ground-based, deferred parcel delivery networks in Europe.

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