Royal Mail plc
News Release

29 January 2019

ROYAL MAIL plc

TRADING UPDATE FOR THE NINE MONTHS ENDED 23 DECEMBER 2018

Royal Mail plc (RMG.L) today issued a trading update covering the nine months ended 23 December 2018.

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

“We have had a busy Christmas season. In the UK we recruited 23,000 seasonal workers and opened six temporary parcel sorting centres to make sure we had the capacity to handle the high volumes of parcels and cards through our network. In the December trading period alone we handled 164m parcels, up 10% compared with last year. Our people delivered a great Christmas. I thank them for all their efforts.

“Overall, our recent trading performance was broadly in line with our expectations. We now confirm that we expect to deliver adjusted Group operating profit before transformation costs of £500-530m for 2018-19.

"In the UK, our parcels business continued to perform well, with volumes and revenue in the nine months both up 6%. Addressed letter volumes, excluding the impact of elections, were down 8%, with total letter revenue down 6%, largely reflecting the continuing impact of GDPR and a relatively strong prior year comparative period.

“GLS delivered another good performance with revenue up 13% including acquisitions. Whilst GLS continues to see cost pressures, we confirm that we are targeting adjusted operating profit margins of over 6% for the full year. We will continue to focus on margin protection and as a result we expect to see a slowing in the rate of GLS volume growth next year.

“Due to our letters performance to date, we expect addressed letter volume declines, excluding elections, to be in the range of 7-8% for 2018-19. While the rate of e-substitution remains in line with our expectations, business uncertainty is impacting letter volumes. As a result, addressed letter volume declines, excluding elections, are likely to be outside our forecast medium-term range next year. Otherwise, we are reconfirming the outlook and other guidance for 2018-19 provided in our half year results.”

Summary operating performance

	Underlying change[1]
Group revenue	2%
UKPIL revenue	(1%)
Parcels volumes	6%
Parcels revenue	6%
Addressed letter volumes	(8%)
Letters revenue	(6%)
GLS volumes	5%
GLS revenue	8%

Key points

- Recent trading performance broadly in line with our expectations
- Now expect to deliver adjusted Group operating profit before transformation costs of £500-£530m for 2018-19 (52 week basis)
- Group revenue up 2%
- UKPIL parcel volumes and revenue both up 6%
- Addressed letter volumes (excluding election mailings) down 8% and total letter revenue down 6%
- GLS revenue up 13% including acquisitions and up 8% on an underlying basis
- Focus on margin protection expected to result in slowing in rate of GLS volume growth next year
- Addressed letter volume declines (excluding election mailings) expected to be 7-8% in 2018-19
- Addressed letter volume declines (excluding election mailings) likely to be outside forecast medium-term range next year
- Cost avoidance programme on target to deliver £100m costs avoided in 2018-19
- Otherwise, reconfirming outlook and other guidance for 2018-19 provided in half year results

Operating performance

UKPIL

UKPIL revenue declined by 1% on an underlying basis, as the increase in parcels revenue did not offset the decline in total letters revenue.

Our cost avoidance programme remains on target to deliver £100m of costs avoided in 2018-19. Costs avoided in the nine months largely comprised: savings in property, technology and central functions; benefits from the line haul review; modernisation of our Heathrow distribution centre; the flow through from last year's operational management headcount reduction; and absorption of the shorter working week. Our short-term cost actions, including a review of our organisational structure and management roles, discretionary spend and central costs, are being implemented.

The assessment of the productivity and efficiency opportunities under our Agreement with the CWU and the UK Network Review are ongoing. The findings from these reviews will help to inform the financial framework of our strategic plan.

Parcels

Our UK parcels business performed well over the Christmas period, with 164m parcels handled in the December trading period, up 10% over last year.

In the nine months, parcel volumes and revenue were both up 6% on an underlying basis. Royal Mail domestic account parcels volumes, excluding Amazon, were up 8%, partly reflecting our increasing focus on the fast-growing clothing and footwear sector of the e-commerce market. Royal Mail Tracked 24®/48® and Tracked Returns® volumes, our key e-commerce products, grew by 24%.

Cross-border volumes in our international parcels business continued to grow. We saw lower import parcel volume growth, excluding cross-border. This was largely offset by higher revenue due to increased import rates.

Parcelforce Worldwide volumes increased by 1%.

Letters
Addressed letter volumes (excluding political parties' election mailings) declined by 8% on an underlying basis, largely reflecting the continuing impact of General Data Protection Regulation (GDPR) and a relatively strong prior year comparative period which benefited from financial sector mailings (9M 2017-18: 5% decline).

Total letter revenue (including marketing mail) decreased by 6%. Excluding the benefit of political parties' election mailings in the prior year, total letter revenue decreased by around 5%. Price increases in business mail, which came into effect from January 2019, are expected to have a net positive impact on letter revenue going forward.

GLS

GLS continued to perform well in terms of revenue in the nine months. Including the impact of acquisitions, revenue was up 13% on a constant currency basis. Revenue increased by 8% on an underlying basis, 3 percentage points higher than volume growth, due to a combination of customer mix effects and price increases. Revenue growth was achieved in the majority of markets and from a broad customer base.

Volumes were up 5% on an underlying basis, with our focus on margin protection and continued good growth in international volumes. We will continue to focus on margin protection and as a result we expect to see a slowing in the rate of GLS volume growth next year.

Cost pressures in our European and US markets are continuing. However, through prudent pricing initiatives and cost mitigation actions we are continuing to target an adjusted operating profit margin of over 6% for the full year.

The transition of both GSO and Postal Express to an independent contractor model, as well as their integration, is progressing in line with our revised expectations. In Canada, Dicom is performing in line with our expectations.

Recent developments

On 17 January 2019 it was announced that unconditional contracts had been exchanged for the sale of Plot C at the Nine Elms site to Galliard Homes for a total consideration of £22.2m in cash.

The timing in relation to the planning consent process for Plots B and D at our Nine Elms site means that we now expect to receive the remaining £98m consideration in 2019-20.

Brexit

We are planning for all the main eventualities and for those areas within our control our state of readiness is on track. We believe that the immediate risk to our domestic operations is low. The shape of the future relationship between the UK and the EU continues to be unclear. It is therefore not appropriate, at this stage, to set out with any degree of accuracy the impact of various Brexit eventualities on the Group. As previously outlined, the main issues for the Group are expected to relate to any potential economic downturn and changes associated with customs and VAT processing.

Current trading and outlook

Overall, our recent trading performance was broadly in line with our expectations. We now confirm that we expect to deliver adjusted Group operating profit before transformation costs of £500-530m for 2018-19 on a 52 week basis.

Due to our letters performance to date, we expect addressed letter volume declines (excluding political parties' election mailings) to be in the range of 7-8% for 2018-19. While the rate of e-substitution remains in line with our expectations, business uncertainty is impacting letter volumes. As a result, addressed letter volume declines (excluding political parties' election mailings) are likely to be outside our forecast medium-term range of 4-6% in 2019-20.

In GLS, through prudent pricing initiatives and cost mitigation actions we are continuing to target an adjusted operating profit margin of over 6% for the full year. We will continue to focus on margin protection and as a result we expect to see a slowing in the rate of GLS volume growth next year.

Otherwise, our outlook and other guidance for 2018-19 are unchanged from that set out in our financial results for the half year ended 23 September 2018.

The results for the full year ending 31 March 2019 are expected to be announced on Wednesday 22 May 2019. The planned Capital Markets Day will be held shortly thereafter.

Conference call

A conference call for analysts and institutional investors will be held at 09:00 today and will be simultaneously webcast at: https://royalmailgroup.emincote.com/results/tradingupdate

Notes:

[1]All movements are on an underlying basis unless otherwise stated. Underlying revenue change is calculated after adjusting for working days in UKPIL, movements in foreign exchange, acquisitions and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days and exclude the impact of political parties' election mailings in UKPIL and exclude the impact of acquisitions in GLS. In the first nine months of 2018-19 there were 230.0 working days in UKPIL (9M 2017-18: 230.0). For 2018-19 the estimated full year revenue and profit impact of working days in UKPIL is a reduction of around £15m (52 week basis 2018-19: 304.5 days; 2017-18: 305.0 days). For comparison purposes all underlying adjustments are made to the prior period.

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Disclaimer

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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.