Trading update - 1 October 2018

01-10-2018

Royal Mail plc (RMG.L) is providing an update on trading for the half year to 23 September 2018 and on outlook for the 2018-19 financial year.

Rico Back, Group Chief Executive Officer, said: "In my first few months as Group CEO, a great deal of work has already been done to review our business and our strategic direction. Our focus on customer initiatives - particularly in UK parcels - is delivering benefits, with revenue and volume up six per cent.

"Trading conditions in the UK are challenging. Our letter volumes, especially marketing mail, are impacted by ongoing structural decline, business uncertainty and GDPR. While we now expect addressed letter volume declines outside our forecast range this year, we are maintaining our medium-term guidance. Our UK productivity and cost performance has been disappointing. Against this backdrop, we are lowering our targets for cost avoidance and productivity improvements for 2018-19.

"As we continue our strategic development, we will provide a further update at our Half Year Results and at a strategy seminar for our investors next year. At the same time, we remain focused on delivering parcel revenue growth and pursuing our strategy of targeted and focused acquisitions, through GLS, in growing markets."

The Company's broad strategic goals remain in place. Royal Mail will provide a further update on 15 November 2018 at its Half Year Results 2018-19, and at an investor seminar to be held in 2019.

Trading performance

The UK parcels business is performing well. Revenue and volume are up six per cent for H1 2018-19. Revenue and volume growth for 2018-19 is now expected to be better than 2017-18. Our continued focus on customer initiatives is paying off. GLS revenue is up an estimated nine per cent for H1 2018-19. However, labour market and other cost pressures are impacting GLS margins more than anticipated.

In the UK, letter volumes are being impacted by ongoing structural declines, business uncertainty and GDPR, such that addressed letter volume is down seven per cent in H1 2018-19. We anticipate a similar decline for the full year. Our medium-term outlook for addressed letter volume declines of between four to six per cent per annum (excluding political parties' election mailings) is unchanged.

Pay, Pensions and Pipeline Agreement ('the Agreement')

Our Agreement secured fair and appropriate pension arrangements for the Company and its people. Good progress has been made on the pension elements of the Agreement. Royal Mail has avoided an expected increase in cash contributions to around £1.2 billion per annum: an unaffordable increase. We are working closely with CWU to secure the introduction of the UK's first Collective Defined Contribution (CDC) scheme. The Company and CWU are pleased to see Government's recent commitment to a public consultation on the introduction of CDC schemes. This is expected to launch soon. The first hour of the Shorter Working Week is being implemented in the vast majority of units.

The operational elements of the Agreement are about new working conditions, new technology and digitisation, and growth initiatives. This is a challenging agenda. Following the industrial relations dispute, which concluded in March 2018, it is taking longer than anticipated to deliver the required productivity increases.

As a result, and partly driven by the decline in marketing mail, UK productivity is significantly below plan at 0.1 per cent for H1 2018-19. We therefore expect that productivity for 2018-19 will be significantly below our target, which was at the upper end of the two to three per cent range. Given the poor productivity performance, we are lowering our target for cost avoidance for 2018-19 from £230 million to £100 million. In addition, we are implementing a range of short-term cost actions. We are conducting an assessment of the efficiency and productivity opportunities under the Agreement.

Outlook for FY 2018-19

We have reassessed our expectations for 2018-19. We now expect Group adjusted operating profit before transformation costs to be in the range of £500 million to £550 million on a 52 week basis. Our strong balance sheet and long-term cash generation characteristics support our commitment to our progressive dividend policy.

Source: Royal Mail