International Post Corporation

International Distributions Services results

17-11-2022

- International Distributions Services (IDS) revenue down 3.9% period-on-period, driven by weakness in Royal Mail - IDS reported operating loss of £163 million (H1 2021-22: £311 million profit); adjusted operating loss of £57 million (H1 2021-22: £404 million profit) - Material adjusted operating loss in Royal Mail of £219 million (H1 2021-22: £235 million profit), driven by weak parcel volumes, inability to deliver productivity improvements and impacts from industrial action

- GLS adjusted operating profit of £162 million (€191 million), down 4.1% (down 3.0% in Euros), with 7.4% adjusted operating margin (down 100 basis points), driven by inflationary pressures
  Royal Mail:
- Revenue 10.5% lower period-on-period. Due to management action, strike impact has been contained. Revenue flat vs. H1 2019-20 (pre-pandemic)
- Five point plan to stabilise the business already underway with a focus on rightsizing the business, tighter cash management and improving operational grip
- Successfully completed Delivering for the Future management change and agreed a new pay deal with Unite/CMA
- Talks with CWU continue although we are already moving ahead with required changes. Talks will cease if further industrial action goes ahead
- Ensuring future sustainability depends critically on urgent reform of the Universal Service. Government has been approached to seek an early move to five day letter delivery, whilst we continue to improve parcel services
  GLS:
- Robust trading in the first half with pricing initiatives helping to mitigate inflationary cost pressures. Investment focused on growth, efficiency and digitalisation
- Revenue up 9.5% in Sterling (10.5% in Euros), driven by better pricing, higher freight revenues and contribution from acquisitions
- Parcel volumes declined 2% due to unwinding of temporary benefits from COVID-19 lockdown restrictions in the prior period and current macro-economic environment
- Group in-year trading cash outflow pre-IFRS 16 of £235 million (H1 2021-22: £181 million inflow), driven predominantly by the decline in trading performance in Royal Mail
- Royal Mail £330 million in-year trading cash outflow pre-IFRS 16 (H1 2021-22 £64 million inflow)
- GLS £95 million in-year trading cash inflow pre-IFRS 16 (H1 2021-22: £117

million)
- Despite increase in net debt, strong balance sheet remains with net debt £150 million (pre-IFRS 16)
- No interim dividend to be paid. We will look at the potential to pay a final dividend for FY 2022-23 from earnings in GLS
- As previously stated, in the event that significant change within Royal Mail is not achieved, all options remain open to protect the value and prospects of the Group, including separation of the two companies

Outlook:
- Royal Mail FY 2022-23: We continue to expect a full year adjusted operating loss of around £350 million to £450 million, including the direct impact of 125 days of industrial action (previously eight days, reflecting revenue resilience in strike action to date) which have taken place or have been notified to us, but excluding any charges for voluntary redundancy costs
- Targeting Royal Mail to generate positive free cash flow in FY 2023-24 and return to adjusted operating profit in FY 2024-25
- GLS FY 2022-23: maintaining guidance of high single digit % revenue growth in Euros and adjusted operating profit in the range of €370 to €410 million
- GLS Accelerate4 targets (€500 million operating profit and €1 billion accumulated free cash flow4 in FY 2024-25) delayed by c.18-24 months given current worse than anticipated macro-economic backdrop

Keith Williams, Non-Executive Chair, commented:

“The difference between the performances of our two companies could not be more stark. GLS has adapted well to inflationary pressures across its geographies. However, we have been standing at a crossroads with CWU in the UK for several months. We are now heading in a clear direction in light of the substantial losses in Royal Mail.

“Whilst our frontline management population under Unite/CMA has agreed both pay and change in the last few months, progress on a deal for frontline employees has been blocked by the actions of CWU. Accordingly, we have started to implement the change needed to rightsize Royal Mail which will ensure that it is both better placed to serve our customers’ needs in parcels, as well as letters, bring it back to profitability and provide a sustainable future. We believe that this is the best course of action for the long-term survival of Royal Mail even if it results in short-term disruption. A sustainable future must also include urgent reform of the Universal Service. Government has now been approached to seek an early move to five day letter delivery, whilst we continue to improve parcel services.

“The Board reiterates that in the event of the lack of significant operational change in Royal Mail it will look at all options to preserve value for the Group including the possibility of separation of the two businesses."

Simon Thompson, Chief Executive, Royal Mail said:

“We have always been clear we need change to survive. We have started turning the business around and will do whatever it takes. We have worked hard to deploy our contingency plans to minimise disruption to customers and impact on revenue. Our infrastructure plans are on time and we are now making the operational changes to turn Royal Mail into a thriving business that will provide great service for our customers at a competitive price and long-term job security for our people.

“We would prefer to reach agreement with the CWU, but in any case we are moving ahead with changes to transform our business.”

Martin Seidenberg, Chief Executive, GLS added:

“We delivered a robust performance in the first half against a challenging macro-economic backdrop, underpinned by our flexible business model, balanced B2C and B2B portfolio, and diversified geographic exposure.

"Despite the weakening global economic conditions, GLS is maintaining its full year revenue and adjusted operating profit guidance.

“We continue to focus our efforts on pricing strategies and cost measures to mitigate short term headwinds, while focusing our investments on long-term growth and efficiency, pushing GLS to become more global, digital and diverse."

Source: Royal Mail