

Trading update for the nine months ended December 2020

12-02-2021

An unprecedented third quarter. The busiest quarter for parcels in Royal Mail's history with 496 million parcels handled. On our busiest day we delivered 11.7 million parcels, 32% more than our busiest day during the first national lockdown in 2020. Combined with increased absence rates due to COVID-19, these exceptional volumes impacted on service quality. Investing in quality improvements: retained around 10,000 of the 33,000 flexible workers from the Christmas peak, 6,000 additional vehicles and four temporary Parcel Sort Centres kept open. Addressed letter volumes (ex. elections) improved, declining by 14% in Q3 compared to around 33% at the beginning of FY2020-21. Royal Mail has now delivered around one billion items of PPE; we continue to prioritise vaccination letters and COVID-19 test kits. GLS continued to perform strongly driven by growth in B2C and international volumes. Group adjusted operating profit expected to be well in excess of £500 million for FY2020-21.

Unless otherwise stated, Royal Mail results are for the nine months ended 27 December 2020. GLS results are for the nine months to 31 December 2020.

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shopping and the peak Christmas period, with 496 million parcels handled, the busiest in our company's long history. The decline in addressed letter volumes slowed to 14% in Q3, with a decline of 9% in December, compared to around a third earlier in the year, excluding the impact of elections.

GLS also saw elevated volumes and delivered 228 million parcels in the third quarter, growth of 27%.

Keith Williams, non-Executive Chair, commented:

"The third quarter saw unprecedented parcel volumes in Royal Mail, driven by online shopping and the peak Christmas period, with 496 million parcels handled, the busiest in our company's long history. The decline in addressed letter volumes slowed to 14% in Q3, with a decline of 9% in December, compared to around a third earlier in the year, excluding the impact of elections.

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GLS also saw elevated volumes and delivered 228 million parcels in the third quarter, growth of 27%. Our colleagues have worked incredibly hard to deliver these exceptional volumes at a time when many units have

experienced rising levels of COVID-19 related absences, including necessary self-isolation. I want to thank them for their extraordinary dedication.

At Royal Mail our busiest day during the quarter saw 32% more parcels delivered than our busiest day during the first national lockdown in 2020. Given these record volumes, we recognise that at times our service during the period was not always as we would have wished. But thanks to the efforts of our team, the retention of around 10,000 of the 33,000 flexible workers from the Christmas peak, and the introduction of new processes, we have been making encouraging progress. We are resolutely focused on delivering a comprehensive service despite the challenging circumstances.

We are proud to be working closely with the public health authorities to ensure the vital and timely delivery of vaccination letters and COVID-19 test kits. This all forms part of our dedication to serving our communities. We understand the importance of this mission. At all times, the safety of our colleagues and customers is our utmost priority.

Given the stronger than anticipated trading, primarily driven by further COVID-19 restrictions and improved letter volumes, we now expect group adjusted operating profit to be well in excess of £500 million for FY2020-21."

Royal Mail

Royal Mail revenue growth of 9.3% (Q3: 16.5%) was stronger than anticipated and the highest since privatisation in 2013, with parcel revenue growth more than offsetting the decline in letters.

Parcels: total volumes were up 31% (Q3:

30%) and revenue increased by 37.0% (Q3: 43.3%), reflecting positive price/mix.

Growth was again driven by e-commerce and the period included Black Friday and Christmas, as well as the introduction of tighter COVID-19 restrictions regionally across the UK, which was not built into our Scenario published in November.

Royal Mail domestic account parcels volumes, excluding Amazon, were up 50%. Tracked 24®/48® and Tracked Returns® volumes, our key e-commerce products, grew by 73%.

January trading has remained robust with parcel volume growth of 37%, with the re-introduction of nationwide COVID-19 restrictions and a peak in the volume of items being returned to retailers following Christmas playing a part.

Royal Mail continues to be a key partner for the Government's COVID-19 testing programme, delivering and collecting tens of millions of COVID-19 tests across the UK. We are also proud to have delivered around one billion items of Personal Protective Equipment (PPE) to care homes, GP surgeries and social care providers since April 2020.

To date the impact of the new trade agreement with the EU has been limited. We have seen a reduction in international volumes broadly as expected, due to the requirement for customs forms and/or taxes and duties to be paid for imports and exports to and from the European Union. We also saw an impact in December when borders were temporarily closed because of concerns over the spread of COVID-19 giving rise to some disruption to channel crossings. However, given it is only one month since the agreement with the EU came into effect the future trend is still somewhat unclear.

Letters: total letter revenue decreased by 16.0% (Q3: 8.5%). Addressed letter volumes (ex. elections) were down 23% (Q3: 14%), helped by more robust volumes in December (decline of 9% in the month). Nationwide COVID-19 restrictions had a negative impact and January volumes declined by 24%, around the level seen in the second quarter but still an improvement compared to the start of the financial year when volumes were down by around one third. Annual price increases were introduced in January 2021.

The ongoing structural decline in letter volumes, and growing parcel volumes, continue to demonstrate the need to rebalance the Universal Service in line with growing consumer demand for parcels, and lower usage of letters.

Transformation and Industrial Relations

We are pleased that CWU members have voted to accept the framework agreement reached with the union on 22 December 2020. We now need to work together with CWU to implement the changes we need, in order to capitalise on the significant growth we have seen in parcels. Planning on local revision activity and our review of the operational network, due for completion in April, has commenced. We continue to work with CWU to operationalise and finalise the detail on a number of aspects of the agreement.

Construction of our largest and second parcel hub is now underway in the Midlands. Royal Mail has also signed a contract with Beumer Group for the construction of a fully-automated parcel sorting system (APSS) to be housed within the Midlands hub. Once complete, it will be Royal Mail's largest parcel hub with capacity to process over 1 million parcels per day. This further underlines our

commitment to transform our company to meet the changing needs of our customers.

GLS

GLS continued to perform strongly, with volume up 23% (Q3: 27%) and revenue up 24.4% (Q3: 29.4%) driven by growth in B2C and international volumes, including increased volume as a result of new lockdown restrictions across our footprint. Spain, Europe East and Denmark in particular saw strong revenue and volume growth in the first nine months of the year. Revenue growth in Q3 benefitted from the strengthening of the Euro compared with the prior year, which contributed 5.1 percentage points to the reported Q3 growth rate.

Performance in previously underperforming "focus countries" - France, Spain and the US - remained on an improved trajectory, both in terms of revenue growth and also profitability.

Ongoing volume growth has resulted in the scale effects seen in the first half of the year continuing into the third quarter, with a positive impact on margin.

January trading remained robust with working day adjusted volume growth of 28%.

Outlook for FY2020-21

Within Royal Mail trading over the third quarter and into January was stronger than anticipated, primarily driven by the reintroduction of nationwide COVID-19 restrictions which was not built into our Scenario from November, and more robust letter volumes. We now believe that Royal Mail revenue growth for the full year 2020-21 will be significantly beyond the top end of the scenario presented in November of £380 million to £580 million.

We are investing more in Quality of Service in the fourth quarter, including retaining around 10,000 flexible workers taken on over the peak period, hiring 6,000 additional vehicles and keeping four temporary Parcel Sort Centres open.

The reintroduction of tighter COVID-19 restrictions will continue to add additional costs, for example from employees self isolating and operational changes to maintain social distancing.

The higher than anticipated parcel volumes will also incur additional handling and sortation costs.

GLS continues to trade well with full year revenue growth now expected above the top

end of the 21%-23% range from the Scenario presented in November. Full year adjusted operating profit margin is expected to be broadly in line with the first half of 8.9%.

Whilst significant uncertainty remains, we now expect that Group adjusted operating profit for the full year 2020-21 will be well in excess of £500 million.

Royal Mail plc will issue a pre-close announcement around the end of the current financial year. GLS remains an important part of the Group and a business update on GLS will also be provided at that time, followed by an update on Royal Mail in the UK alongside FY2020-21 results on 20 May.

Source: [Royal Mail Group](#)