International Post Corporation

Royal Mail COVID 19 update

27-03-2020

Rico Back, Group Chief Executive Officer, Royal Mail plc, said: "We are focused on protecting our people, company and the communities we serve during this unprecedented crisis. We are putting the health and wellbeing of colleagues and customers first. At the same time, we are delivering the parcels and letters that are a lifeline for those who cannot leave their homes. "We are entering a period of significant uncertainty in a good financial position. We have a strong balance sheet. We have substantial levels of liquidity and low levels of debt. We are taking immediate steps to further reduce our costs and protect our cash flow."

Our operational response

During this challenging time, our priorities are protecting our people, company and customers. Postal services are a key part of national infrastructures. Across our Group, we are keeping mail and parcels moving.

As the UK's Universal Service Provider, we provide letter and parcel deliveries to over 30 million businesses and households. We are taking steps, in the workplace and on rounds, to limit contact between colleagues and with customers on delivery. We are working together with CWU to play our part in delaying or mitigating coronavirus. We welcome Ofcom's commitment to take a pragmatic view of changes to regulated services that protect our people, customers and services. In recent weeks, we have seen rising levels of sick absence as colleagues self-isolate or care for family members. We cannot rule out reductions to services as COVID-19 develops.

Recent trading

UKPIL

In the last two weeks advertising mail in particular has been significantly impacted due to the COVID-19 pandemic, as marketing campaigns have been delayed or cancelled, especially in the travel sector. Business mail volumes have been resilient to date and broadly in line with previous expectations, supported by recent customer mailings. We anticipate that recent restrictions on individuals and businesses will have a negative impact on unsorted and stamped mail, although we are unable to quantify it at this stage. Whilst it is difficult to accurately predict how letter volumes will evolve over the coming weeks we do expect downward pressure to continue.

In Parcels, business to consumer volumes have been strong during the last two weeks, supported by an increase in e-commerce as people have shopped more online. Royal Mail Tracked 24®/48® and other standard products have performed well. Tracked Returns® volumes have been lower than expected due to weaker volumes from the clothing sector. Volumes through the Post Office have seen declines in the past 7 days due to recent restrictions on movement and at this time it is difficult to assess how volumes will develop in the coming weeks. Business to business volumes have seen a significant negative impact, although this only accounts for a small proportion of our overall parcel volumes.

International has seen lower volumes given restrictions in certain countries, especially into and out of China, and reduced air freight capacity.

GLS

The impact of COVID-19 has been very challenging, although this differs from country to country. There has been disruption in key markets, particularly in Italy, France and Spain, where the most severe restrictions on movement have been imposed. In the last 2 weeks Business to Business (B2B) volumes have fallen significantly in some markets. Whilst we have seen growth in business to consumer volumes, driven by e-commerce, this has not offset B2B declines. We expect the declines in B2B volumes to continue.

In all our markets, we are following government and local authority guidelines and advice. While levels of sickness absence vary from market-to-market, the overall trend is an increase in absence from work due to the COVID-19 pandemic.

Business continuity

We are actively monitoring the rapidly evolving COVID-19 situation. We have implemented a comprehensive business continuity plan. We have established a daily committee to manage the crisis, chaired by Group CEO Rico Back and including key executives from Operations, Finance, and Human Resources.

We are reviewing the timing and phasing of the Group's investment programme. We are reviewing all capital expenditure, whilst being careful not to compromise the long-term prospects of the business. We are taking significant action to contain all costs and preserve cash.

Our financial position

The Group's current liquidity position is strong, with good levels of cash and limited financial debt. Currently the Group has in excess of £800 million in cash plus a £925 million Revolving Credit Facility. Both our leverage (net debt/EBITDA) and interest coverage (EBITDA/interest) covenants for our RCF are 3.5x (pre IFRS 16). There are no financial covenants on either the €550 million bond (maturing October 2026) or the €500 million bond (maturing July 2024). If current volume and revenue trends outlined above were to persist, the Group is confident it has sufficient liquidity and will be able to stay well within covenant limits. However, if trends remained unchanged, by the calendar fourth quarter the risk around covenants would increase.

The Board has also taken note of the emergency funding measures available to companies recently announced by the Government.

In the light of the current economic uncertainty, the Board believes it is prudent not to recommend a final dividend for the financial year 2019-20.

As part of the usual annual results process, we will conduct an impairment assessment based on updated forecasts which take into account COVID-19 impacts.

Directorate Change

Over the past 18 months Stuart Simpson has made a major contribution to Royal Mail's strategy and the day-to-day running of our business in his roles as CFO and COO. In order to allow Stuart to focus on his role as Chief Finance Officer at this critical moment, Stuart will hand over his UK operational responsibilities to Achim Dunnwald on 1 April 2020. Achim will be the COO of Royal Mail UK and will report to Rico Back. Achim is ideally placed to lead the UK operation, given his leadership role mapping out our Journey 2024 strategy.

Outlook

We continue to expect FY2019-20 Group adjusted operating profit (before IFRS 16) of £300 million - £340 million.

For 2020-21, there is the potential for sharp and sustained economic downturns in many of our core markets. Due to the rapidly-evolving and fluid nature of the COVID-19 pandemic, it is too early to accurately predict the impact. However, it is likely that UKPIL will be materially loss making in 2020-21, with profitability at GLS significantly reduced. The previously highlighted delays to our UKPIL transformation plan, when combined with uncertainty around the length and impact of the COVID-19 pandemic, means we now believe it will take longer than expected to achieve the targets laid out in our Journey 2024 plan. Therefore, the Board has taken the decision at this time to suspend guidance for 2020-21 and beyond. We are undertaking a review of our Journey 2024 plan and will update the market when practicable.

Further updates and full year results

Following guidance from the FCA and FRC, the Group plans to defer the announcement of its Full Year Results 2019-20, previously scheduled for 21 May 2020, and will update the market with a revised date in due course.

Source: Royal Mail