16 November 2017

Royal Mail half year results 2017/18

Overview

On 16 November Royal Mail published their financial results for the first half of the financial year 2017/18. Commenting on the results Royal Mail Chief Executive Moya Greene said that "we had a good start to the year despite the headwinds we are facing" and that the company's priority "is to reach agreement with the CWU to help underpin the sustainability of the business." She also said "We are determined to provide the best pay and terms and conditions in our industry. We believe that good labour standards lead to good service standards for consumers." In regard to the parcels market she reiterated the company's aim "to be the strategic partner of choice for the UK's e-retailers" while also "maximizing the value of letters for our customers and our business."

Group operating profit before transformation costs rose by seven per cent to £323m, reflecting the impact of cost-avoidance measures including improved core network productivity, headcount reduction and IT transformation. The company's cost avoidance programme remains on course to deliver around £190m in operating cost savings by the end of 2017/18

The company's full year performance will of course be dependent on the important upcoming Christmas period. In preparation the company is recruiting over 20,000 staff and opening six temporary parcel sorting centers.

Royal Mail Group

Key figures for Royal Mail Group for the first half of 2017/18 compared to the same period in 2016/17 are:

- Revenue was up two per cent to £4,829m. Strong growth in GLS more than offset broadly unchanged revenue at UKPIL.
- Adjusted[1] operating profit before transformation costs was £323 million, up seven per cent.
- Adjusted operating profit margin after transformation costs increased by 30 basis points on an underlying basis.
- Reported[2] operating profit before transformation costs was £89 million.
- The company is targeting net cash investment of around £450 million in 2017-18 compared to £492 million in 2016-17 and £656 million in 2015-16.
- In-year trading cash flow increased to £125 million.

[1] Adjusted results exclude the pension charge to cash difference adjustment and specific items, consistent with the way financial performance is measured by Management and reported to the Board.
[2] Reported results are prepared in accordance with International Financial Reporting Standards (IFRS).

- The Board has declared a dividend of 7.7 pence per ordinary share for the half year ending 24 September 2017, which will be paid on 10 January 2018 to shareholders on the register as of 8 December 2017. The dividend amounts to £77m.

UK Parcels, International and Letters (UKPIL)

- UKPIL revenue was flat at £3,624m, having declined by two per cent in 2016/17.
- Good growth in account parcels, including Amazon, and import parcels contributed to a six per cent increase in overall UKPIL parcel volumes. Parcel revenue was up by five per cent.
- Addressed letter volumes declined by five per cent (excluding political parties' election mailings). A better than expected revenue performance, principally due to election mailings, meant that total letter revenue declined by three per cent.
- The company's "strategic focus on costs" drove a one per cent underlying reduction in adjusted UKPIL operating costs (before transformation costs).
- People costs were flat, largely driven by improvements in core network productivity.

General Logistics Systems (GLS)

- GLS, Royal Mail's European parcel business, performed strongly. Revenue was up nine per cent due to its strategic focus on growth in existing markets.
- Volumes grew by nine per cent, excluding the impact of recent acquisitions. Volume growth is being driven by GLS' comprehensive geographical footprint and a continued focus primarily on B2B and selective B2C growth.

Outlook

- The company maintains its outlook for addressed letter volume declines of between four to six per cent per annum (excluding political parties' election mailings) over the medium term. There is an expectation that Royal Mail will be at "the higher end of the range of decline for the full year if the current climate of business uncertainty persists."
- The "industrial relations environment" is cited as an area of potential difficulty. In particular, it is suggested that "material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action."
- However, Moya Greene argues that "we remain committed to resolving the key issues with the CWU in a way that appropriately balances the interests of all our key stakeholders."

Shares

The Royal Mail Board has declared a dividend of 7.7 pence per share for the half year (up from 7.4p for the same period last year), which will be paid in December 2017. All employees with 832 free employee shares will therefore receive an interim dividend payment of little over £64.