Morrisons
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# News Release

Release date: 11 May 2021

**Q1 Trading Statement - 14 weeks to 9 May 2021**
**On track for strong future profit growth and low debt**

- Total sales up 5.3% (inc-fuel)
- Group LFL ex-fuel up 2.7%, and up 4.7% inc-fuel
- Two-year Group LFL ex-fuel up 8.7%
- Online sales up 113%, and wholesale LFL up 21%
- On track for 2021/22 guidance:
  - Year-end net debt/EBITDA to be no higher than the 2019/20 level of 2.4x
  - Profit before tax and exceptionals to be higher than the £431m we would have achieved for 2020/21 had we not waived the £230m business rates relief
- Significant further opportunities ahead to continue to build a broader, stronger new Morrisons for all stakeholders:
  - We now expect another year of meaningful profit growth in 2022/23
  - We now intend to refresh our long-term capital allocation plans, within the context of our capital allocation framework, at the time of the Interim results in September

For Q1 (14 weeks to 9 May), Group like-for-like (LFL) sales ex-fuel were up 2.7%, comprising contributions from retail of 1.6% and wholesale of 1.1%. Group LFL inc-fuel was up 4.7%, with fuel LFL up 17.5% and fuel volumes almost back to pre-pandemic levels by the end of the period (Figure 2). Total sales were up 3.3% ex-fuel (up 5.3% inc-fuel), with a 0.5% sales contribution from net new space. Despite some pressure from commodity and freight inflation, our continued investment in price for customers again led to year-on-year deflation during the period.

Against the volatile trading of the early stages of COVID-19 last year, we sustained a robust sales performance throughout Q1 this year, especially as all but the first four weeks of the period lapped the early stages of the pandemic during March and April 2020. Key seasonal events such as Mother's Day and Easter were particularly successful, and there has been a strong recent improvement in food-to-go sales (Figure 3). During the pandemic there has been a renaissance of the supermarket in Britain and customers are enjoying cooking at home more. Customers have also embraced shopping online, and both Morrisons.com and Morrisons on Amazon are now complementing our supermarkets well. Online sales during Q1 continued to be very strong, with year-on-year growth of 113%.

We benefitted too from our broader, stronger business with wholesale also adding to our supermarket and online scale. Wholesale contribution to Group LFL was 1.1%, equivalent to very strong wholesale LFL of 21%, primarily due to the c.230 extra McColl's stores that we started to supply in recent weeks. In addition, 25 McColl's stores were converted to Morrisons Daily during the period, taking the total to 56. We agreed several new supply arrangements, including with buying group Unitas; wholesaler Blakemore; and two other convenience forecourt retailers, Highland Fuels Ltd, based in Scotland, and Gardner Garages Ltd, in south-west England.

With 2021/22 starting in February, lockdown was a feature of the early part of our financial year. During Q1, we incurred a further £27m of direct COVID-19 costs, which is in line with our expectations when we announced profit guidance for the year. These costs were mainly incurred due to extra colleague absence and more marshals during the first few weeks of 2021/22 when the second COVID-19 wave was still prevalent and Britain remained under strict lockdown.

We again made substantial progress with the Sustain component of our Fix, Rebuild, Grow, Sustain strategy during the period. New initiatives included the acquisition of Falfish, a family-owned wholesaler of sustainably sourced seafood based in Cornwall. We also made two major new environmental commitments: to be supplied by 'net zero'-carbon British farms by 2030, and to remove all plastic bags from our stores over the next year.

In the year ahead, we will open two new stores in Kirkby and Chelmsford, and two temporary replacement stores in Camden and Little Clacton. As previously guided, we expect net new space sales contribution to be around 0.2%.

**Outlook**

We have made a good start to 2021/22, with robust LFL sales against tough year-on-year comparatives. In addition, as the period progressed there were encouraging signs both of significantly lower direct COVID-19 costs and of the recovery of profit lost due to the pandemic in areas such as fuel and food-to-go (Figures 2 and 3 show the recent sales improvement). We are also looking forward to the lost profit gradually returning at our cafés from when they reopen next week.

At the preliminary results in March, we guided 2021/22 year-end net debt/EBITDA to be no higher than the 2019/20 level of 2.4x. The recent recovery in fuel sales gives us high visibility and confidence that the temporary working capital impact will unwind, cash flow will be strong, and debt will fall.

In addition, assuming society continues to unlock in line with the government timeline, we guided 2021/22 profit before tax and exceptionals to be higher than the £431m* we would have achieved for 2020/21 had we not waived the £230m business rates relief. We retain that guidance and, with the material benefits in 2022/23 of both no direct COVID-19 costs plus the full recovery of lost profit, we are now confident of a year of meaningful profit growth for that year.

We have made excellent progress in recent months, and still have significant further opportunities to continue to build a broader, stronger new Morrisons for all stakeholders. As we make further progress towards our dual targets of low debt and higher profit, and with improved visibility around lower direct COVID-19 costs and recovery of lost profit, we now intend to refresh our long-term capital allocation plans, within the context of our capital allocation framework, at the time of the Interim results in September.

** Consensus for 2021/22 profit before tax and exceptionals is currently £435m (Source: VUMA. Published on Investor section of Morrisons website, 5th May 2021), up from £431m at the time of the 2020/21 Prelims in March.*

**David Potts, Chief Executive, said:**

"We've had an encouraging start to the year, with positive like-for-like sales and some good momentum across Morrisons both on a one and two-year view. We said back in March that we expected to grow profits and reduce debt in the current year and I'm pleased to be both reiterating that guidance today and looking forward to a year of meaningful profit growth in 2022/23.

"The pandemic is not yet over, but it is in retreat across Britain and there is much to be positive about as something approaching normal life begins to take shape. Our forecourts are getting busier, we are seeing encouraging recent signs of a strong rebound of food-to-go, take-away counters and salad bars, and our popular cafés will soon fully reopen. The nation has a summer of socialising and sport to look forward to and we'll all be able to rediscover the joys of meeting up and eating well together. Whichever way consumers choose to enjoy their renewed freedom, we will be there for them.

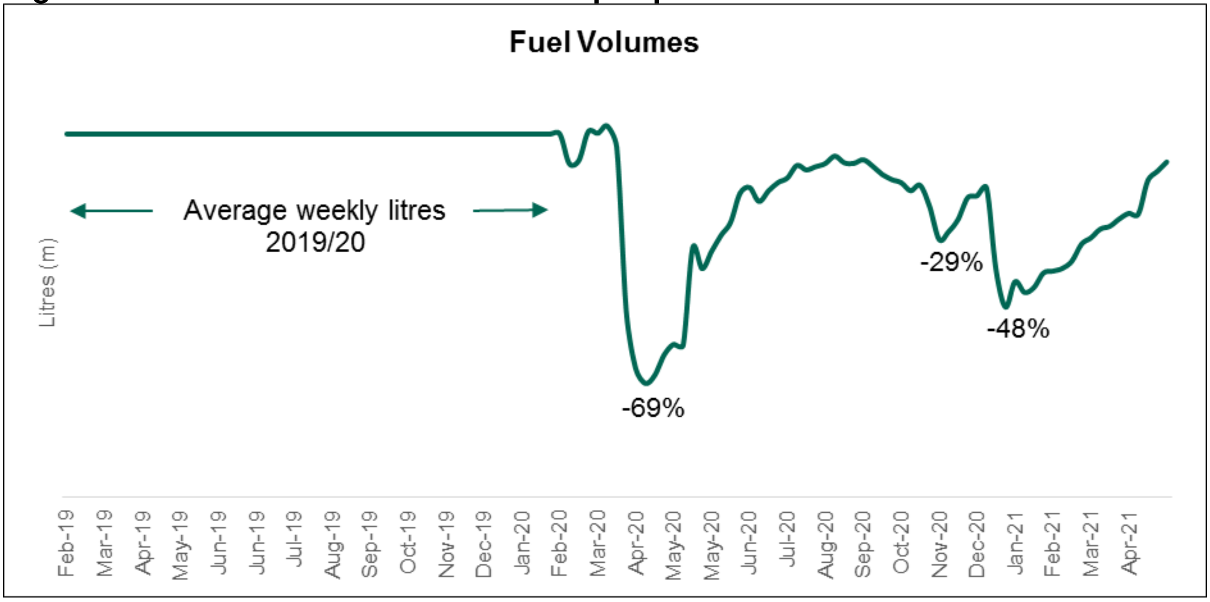
"We're looking to the future with confidence as we see the growing warmth and affection for Morrisons from our customers flow into every area of the business. Our increasingly special butchers, bakers, fishmongers and other food makers are helping to brighten shopping trips, and the growing reach of our online businesses is attracting new customers and broadening the appeal of new Morrisons."

## Figure 1 - LFL sales performance (ex-VAT, reported in accordance with IFRS 15)

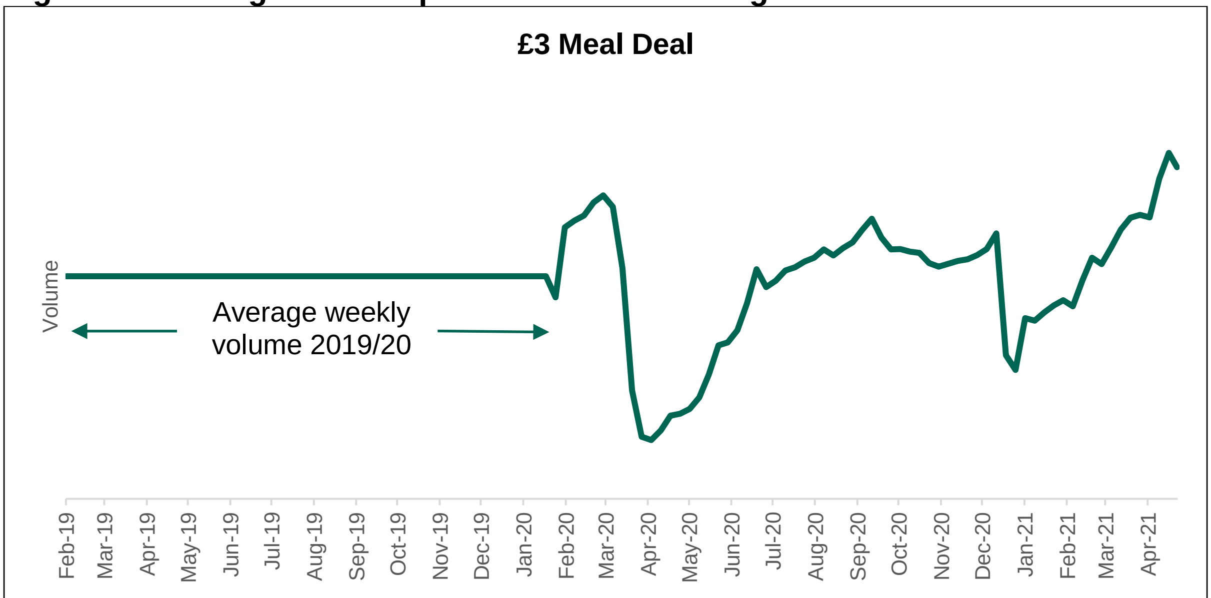
| | 2020/21 | | | | 2021/22 |
|---|---|---|---|---|---|
| | **Q1**** | **Q2** | **Q3** | **Q4** | **Q1**** |
| Retail contribution to LFL | 5.1% | 11.1% | 7.1% | 8.2% | 1.6% |
| Wholesale contribution to LFL | 0.6% | 1.2% | 0.7% | 0.8% | 1.1% |
| **Group LFL ex-fuel** | **5.7%** | **12.3%** | **7.8%** | **9.0%** | **2.7%** |
| **2-year Group LFL ex-fuel** | | | | | **8.7%** |
| Group LFL inc-fuel | (3.9%) | 2.1% | 2.2% | 0.7% | 4.7% |

*** Q1 2020/21 was extended by a week to 14 weeks due to a one-off move of the first May bank holiday from Monday to Friday to commemorate the 75th anniversary of VE Day. Q1 2021/22 is also 14 weeks to ensure comparable year-on-year trading periods. Q2 2021/22 will be 12 weeks, and will be reported within the first-half results as usual in September. From 2022/23 both Q1 and Q2 will revert to 13 weeks.*

## Figure 2 – Fuel volume almost back to pre-pandemic levels




## Figure 3 – Strong recent improvement in food-to-go: £3 Meal Deal sales



**Notes:**

This announcement includes inside information.

**Enquiries:**

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– ENDS –

There will be an analyst conference call at 9.00 a.m. today, the details of which are as follows:

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| Dial-in number: | +44 (0) 33 0551 0200 |
| Access Password: | Morrisons |

Replay facility available for 7 days:

| | |
|---|---|
| Replay dial-in number: | +44 (0) 203 451 9993 |
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