News Release

Release date: 5 January 2021

Sustaining strong momentum: 9.3% Group LFL over Christmas and New Year

Throughout recent weeks we have remained focussed on playing our full part in feeding the nation amidst the ongoing extremely difficult period for all. Sales have continued to be strong, particularly over the key Christmas and New Year period when Group like-for-like* (LFL) ex-fuel sales improved to 9.3%. Our amazing colleagues have continued to rise to the unprecedented challenges and have been key in further driving the momentum of the business. Underlying performance was again very strong throughout the whole period, with significant operational gearing offsetting both the extra COVID-19 costs and other profit impacts that have increased further since the introduction of the most recent tier systems in early December. All customer and brand metrics have improved, market share has grown, and our online and wholesale channels are growing very rapidly as we develop as a multi-channel business. We look forward to sustaining this strong momentum into the new year.

For the first 22 weeks of H2 to 3 January, Group LFL sales ex-fuel were up 8.1%, comprising contributions from retail of 7.2% and wholesale of 0.9%. Group LFL inc-fuel was up 1.9%, with fuel LFL down 23.1% again temporarily impacted by the various new lockdowns and tier restrictions implemented during H2. Total sales* were up 8.7% ex-fuel (up 2.3% inc-fuel), with a 0.6% net new space contribution. Three further new stores were opened during the period, at Helensburgh, Glenfield and Dalton Park, bringing the total to six this year. We again invested in cutting prices for customers, with deflation a continuing feature for the whole period and volume growth exceeding sales growth.

Breaking down our retail performance during the period, for Q3 (3 August to 1 November) LFL ex-fuel was 7.1%. Sales then briefly increased further at the start of the second England lockdown, before broadly resuming earlier growth levels and culminating in a strong Christmas and New Year. For the nine weeks of Q4 to date, retail LFL exc-fuel was 7.3%, and the December three weeks over Christmas and New Year improved to 8.0%.

Shopping patterns and customer behaviour were different this year as the COVID-19 restrictions made larger gatherings of family and friends more difficult. In the lead-up to Christmas we saw more customers shopping earlier than in previous years and a renewed focus on traditional Christmas fare. Champagne sales were up 64% compared to last year, whole salmon up 40% and Free From mince pies up 14%. Our new doorstep delivery service completed over 35,000 orders in the two weeks before Christmas, delivering to the vulnerable, the elderly, the isolating and the isolated to make sure no-one was left behind. The feedback from these customers, their families and communities for this service has been amazing.

Online was again very strong as we continued to adapt well to the sustained increase in customer demand, with sales more than tripling so far in Q4 across all our channels year-on-year. Sales growth continued to accelerate at both Morrisons.com and 'Morrisons on Amazon', the same-day delivery service recently newly available on Amazon.co.uk. Store pick home delivery, click & collect, our relationship with Deliveroo, food boxes and our doorstep delivery service are all new for Morrisons. We are still learning and growing online, but it is already profitable and we expect it to become more so as we continue to develop our offers for customers.

Wholesale is also profitable and sales growth was strong throughout the period, stepping up further at the start of Q4 as the remaining McColl's stores not so far covered by Morrisons wholesale supply began to transfer over to us. During the period we started to supply 130, with another c.100 more to come by March 2021. Together with growth in our other wholesale channels, wholesale LFL is 24.4% so far in Q4, contributing 1.2% to Group LFL. In addition, McColl's has recently reported that it is experiencing significant LFL sales growth at the 31 Morrisons Daily conversions and is reviewing the opportunity to convert further stores in the first half of 2021.

David Potts, Chief Executive, said:

"The pandemic has had a severe effect on people and communities around Britain for nine months now but it has been especially hard at Christmas time. I'm very pleased with the way the Morrisons team has helped our customers across the nation enjoy their Christmas in the best way they could - with safe shopping, great service and outstanding stores even in the most difficult circumstances. But I'm even more proud of the broader contribution that the Morrisons team has made to the communities we serve - through foodbank donations, doorstep deliveries to the vulnerable, discounts for key workers, the work of our 500 community champions and the countless small acts of kindness that have made a particular difference this year.

"We will carry on listening, responding and growing, and take all the positive learnings and momentum of the most challenging of years into what we believe will be a better 2021 for all.

"I would like once again to thank everyone at Morrisons for their hard work, dedication and resourcefulness under the most testing and extreme conditions, which has been inspirational even beyond this business and the stakeholders we serve."

Outlook

While the extremely unpredictable current circumstances, and the consequences for both consumer behaviour and our COVID-19 costs, make precise guidance difficult, we still expect 2020/21 profit before tax and exceptionals to be in line with our expectations, in the range £420m – £440m** prior to the rates payment of £230m.

Since our last update in early December, the government has introduced further new tier systems and other restrictions. As a result, as well as the extra £40m direct COVID-19 costs we announced in early December, we now expect to incur a further c.£10m before year end to cover costs such as additional colleague absence, meaning total direct COVID-19 costs of c.£280m for 2020/21. In addition, the extra restrictions mean all our cafés are again closed, and areas such as fuel and food-to-go are once more affected, with a further profit impact before year end similar to the extra COVID-19 costs we are announcing today. However, we expect the sustained and significant operational gearing from the strong sales growth to offset these extra COVID-19 costs and profit impacts.

As recently guided, we expect year-end net debt to be around £1.7bn pre-IFRS 16. Debt continues to be temporarily adversely affected by: the impact on working capital of the ongoing lower national demand for fuel and fuel deflation (currently c.£220m); investment in higher levels of stock availability both during COVID-19 and in our preparations for Brexit (c.£65m); and the extension of the scheme to pay our smaller suppliers immediately during the crisis (c.£60m). We expect the Brexit and smaller suppliers impacts to reverse during Q1 2021/22, and fuel to reverse as trading conditions normalise.

Reflecting our strong underlying cash flow and balance sheet, and guided by our continued adherence to the principles of our capital allocation framework, we recently announced a previously deferred special dividend for H2 2019/20 of 4.00p per share, which is to be paid on 25 January 2021 to those shareholders who were on the register as at close of business on 18 December 2020.

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

	2019/20			2020/21					
	Q3	22 wks to 5 Jan	Q4	Q1	Q2	Q3	22 wks to 3 Jan	9 wks to 3 Jan	3 wks to 3 Jan
Retail contribution to LFL	(1.1)%	(1.7)%	(2.2)%	5.1%	11.1%	7.1	7.2%	7.3%	8.0%
Wholesale contribution to LFL	(0.1)%	0.0%	0.1%	0.6%	1.2%	0.7	0.9%	1.2%	1.3%
Group LFL ex-fuel	**(1.2)%**	**(1.7)%**	**(2.1)%**	**5.7%**	**12.3%**	**7.8**	**8.1%**	**8.5%**	**9.3%**
Group LFL inc-fuel	(2.5)%	(2.8)%	(2.4)%	(3.9)%	2.1%	2.2	1.9%	1.5%	3.5%

* Reported ex-VAT and in accordance with IFRS 15
** Consensus profit before tax, exceptionals and rates payment is £433m (Source: VUMA. Published on Investor section of Morrisons website, 13 October 2020). As already announced, we will pay rates of £230m for 2020/21 and £44m for February and March 2021.

Notes:

This announcement includes inside information.

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There will be an analyst conference call at 8.30 a.m. today, the details of which are as follows:

Dial-in number:	+44 (0) 20 3003 2666
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Replay facility available for 7 days:

Replay dial-in number:	+44 (0) 20 8196 1480
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