

News Release

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COVID-19 and Q1 sales update Playing our full part in feeding the nation

Strong Q1 LFL sales performance

	2020/21	
	Q1 Weeks 1-14*	Q1 Weeks 12-14
Retail contribution to LFL	5.1%	9.6%
Wholesale contribution to LFL	0.6%	1.2%
Group LFL ex-fuel	5.7%	10.8%

Reported in accordance with IFRS 15

COVID-19 update

COVID-19 has created unprecedented challenges and changed both our near-term priorities and how we operate. In responding to the crisis we have adopted an interim core purpose: 'To play our full part in feeding the nation – it's more than our job'.

All our efforts are currently focussed on protecting our colleagues and customers, and working together with our own food makers and our other suppliers to ensure food is available to all across Britain, especially the vulnerable and most in need.

David Potts, Chief Executive, said:

"We are facing into the unprecedented current challenges and are playing our full part to help feed the nation: working with determination, creativity and pace to serve customers as well as we possibly can.

"The professionalism, enthusiasm and resourcefulness of our frontline key worker colleagues is extraordinary and is showing Morrisons at its very best. I'd like to thank every single colleague: you are Morrisons most important and most valued assets and are making a vital difference to so many people and communities across Britain."

Protecting our colleagues and customers:

- Protective screens introduced around the till area of almost 6,500 main bank checkouts in ten days, plus further screens introduced in front of checkouts, pharmacy counters and customer service desks
- Social distancing measures at all Morrisons sites, including marshal-controlled entry and reconfigured customer flow at all our stores
- Hand sanitiser, gloves, and masks available for all store colleagues
- Increased cleaning and other health and safety initiatives at all our sites
- Temporarily closed all our in-store cafés, food-to-go and service counters
- Contactless in-store card payment limit lifted from £30 to £45

Supporting colleagues, customers, suppliers, local communities and the NHS:

- Enhanced pay guarantees for sick, self-isolating and affected colleagues, plus greater flexibility around shifts and annual leave
- A 6% 'thank you' guaranteed annual bonus for all frontline colleagues, up threefold on last year, and payable quarterly rather than at year end
- Colleague in-store discount increased
- A hardship fund to support colleagues in financial difficulty due to the crisis
- Recruited over 25,000 new colleagues in stores, manufacturing, supply chain, and in online and home delivery as we significantly expand capacity
- No colleagues furloughed
- A new bulk delivery service for local councils, care homes and charities
- Immediate payment to all our c.3,000 small suppliers, which we estimate will be a temporary working capital investment of c.£50m
- A 5% Morrisons discount for our c.3,000 British farmer suppliers
- £10m of food to be distributed by Morrisons Community Champions to help re-stock Britain's food banks
- £500,000 of emergency funds being donated by the Morrisons Foundation to homeless charities to help them through the extra demands of the crisis
- NHS workers' hour early in the morning, allowing queue-free access to Morrisons stores when our shelves are fully stocked
- NHS workers' 10% Morrisons discount
- NHS workers' click-and-collect food boxes delivered to hospital car parks

Feeding the nation:

- Over 100,000 Morrisons colleagues on the frontline, in stores, manufacturing, supply chain and home delivery, recognised by government as key workers
- Morrisons store on Amazon Prime Now going nationwide, up from 17 stores to over 40 in the coming weeks, covering most British cities and over 90% of Greater London postcodes
- Morrisons.com online home delivery slots more than doubled through a significant increase in store pick, and a new click-and-collect service at almost 280 stores by mid-June
- Ten types of home delivery food box introduced, initially providing essentials for the vulnerable and self-isolating, and now expanding into new options
- A telephone order grocery doorstep delivery service introduced at all our stores for the most vulnerable and elderly without access to online or help
- A partnership with Deliveroo to deliver groceries in as little as 30 minutes to customers by courier from 130 Morrisons stores

Q1 sales update

Trading during the individual weeks of Q1 was highly volatile, with stocking up, then the initial impact of lockdown and weak Easter trading, followed by a significant improvement in recent weeks.

For Q1 (the 14-week period from 3 February to 10 May*), Group LFL excluding fuel was up 5.7%, comprising contributions from retail of 5.1% and wholesale of 0.6%.

Inflation during the period was broadly flat. Group LFL including fuel was down 3.9%, with fuel LFL down 39.3%, and down c.70% since lockdown, as customers are currently taking significantly fewer car journeys. Total sales were up 5.7% excluding fuel, and down 4.0% including fuel. Two new stores were opened in the period, in Amble and Bradwell.

As previously announced, retail contribution to LFL was 5.0% for the first six weeks of 2020/21. Sales had been on an improving trend since the start of 2020 and improved again, before the impact of COVID-19, to flat for the first four weeks of 2020/21. For our weeks five to seven during early/mid-March there was considerable stocking up and sales pull-forward.

Lockdown began in our week eight, with reduced trading hours plus extensive social distancing and reconfiguration measures introduced. This included capping in-store customer numbers, and temporarily only opening every second checkout. In addition, Easter in lockdown was not the normal occasion, so sales were significantly down year on year. As a result, retail contribution to LFL was negative for weeks eight to 11.

In the most recent weeks, we have gradually returned to normal trading hours, introduced more protective screens to enable all checkouts to open safely at the same time, and availability has continued to improve. Customers have become more accustomed to the social distancing protocol in stores, and are spreading their shopping trips throughout the week rather than focusing on the traditional weekend peak. Retail contribution to LFL for weeks 12–14 was 9.6%.

Our online offer is expanding significantly and at pace, providing different home delivery options especially for those customers most vulnerable and in need.

For Morrisons.com, we have more than doubled the number of weekly home delivery slots, well in excess of the 60% increase we initially planned for. This has been achieved, together with our partner Ocado, through a substantial increase in the number of store-pick stores. We have also further stretched the capacity of the Dordon customer fulfilment centre. In addition, from a trial of just six stores in March, we will offer click-and-collect pick-up from almost 280 Morrisons stores by mid-June. We are confident we can again significantly increase the number of Morrisons.com home delivery slots over the coming weeks.

Home delivery for customers has been further extended beyond Morrisons.com. We very quickly set up production facilities at four of our food manufacturing sites to prepare food boxes, which are delivered direct to customers' houses by a third party. Ten different home delivery food boxes have been introduced so far, available either online or via a telephone call, aimed initially at providing essentials to vulnerable and self-isolating people, and recently extended to other options such as British meat, gluten free, BBQ, and Ramadan. In addition, we have formed a partnership with Deliveroo to deliver groceries in as little as 30 minutes to customers by courier from 130 Morrisons stores. The service is proving popular with customers, and has been extended to more deliveries and items, including a selection of beer and wine. During the period, we also significantly expanded the Morrisons store on Amazon Prime Now, the ultra-fast, same-day online home delivery service. At the time of the

2019/20 preliminary results in March, the service operated from 17 Morrisons stores in eight cities. By the end of May, it will have been extended nationwide to over 40 stores, covering most major cities and many towns. New areas covered include Edinburgh, Cardiff, Bristol, Portsmouth, and most of the major conurbations of the West and East Midlands. In addition, more London stores have been added, now expanding delivery coverage to over 90% of Greater London postcodes.

In wholesale, there has been a significant recent increase in our sales to our convenience store operator partners, particularly since the start of the lockdown period. Also, we have recently started to supply local councils, care homes, and some charities (such as The Salvation Army) across Britain with great-value bulk supplies for distribution to those in need in the local community.

Within the 0.6% wholesale contribution to Group LFL in Q1, weeks 1–6 were 0.2% and weeks seven to 14 were 0.9%. In addition, as we stated at our recent preliminary results, McColl's has over 240 remaining ex-Co-op stores, which will transition to Morrisons wholesale supply during 2020.

Throughout the period our manufacturing businesses and supply chain coped well, often under extreme pressure, with the unprecedented volatility of demand, colleague absences, and the challenges of so many new initiatives.

Morrisons continues to operate from a very robust financial position, with a strong balance sheet, low debt and strong debt maturity profile. During Q1, we took the opportunity to further improve our liquidity. On attractive financial terms, we extended one £100m revolving credit facility (RCF) from July, and put in place another three new £100m RCFs, taking our total RCF facilities from £1.45bn to £1.75bn. Of the £1.75bn, £1.35bn runs until 2024 with an option to extend by a year, and the four £100m facilities run for a year with two having options to extend by six months. As at the end of Q1, we were £70m drawn on our RCF and, while we expect this to increase during Q2, all our scenario planning suggests we will sustain very significant liquidity headroom.

Outlook

All our efforts are fully focussed on deploying our assets in the best way to enable our colleagues to help feed the nation. Our longer-term strategy remains to continue building a broader, stronger, and more popular and accessible new Morrisons, and to be guided by the principles of our capital allocation framework.

At this stage, the impact of COVID-19 remains uncertain. The outlook for our sales is also uncertain, although we are adapting well to the new day-to-day circumstances, while being both proactive and reactive in taking new opportunities. In addition, we are confident that we can satisfy any ongoing increased demand if the eat-at-home market continues to be temporarily larger than usual.

Day-to-day operations and challenges are currently very different from normal, and we are operating in a more volatile trading environment, which is costly. In addition, many of the payroll, bonus, seasonal waste and markdown, distribution, community, and colleague and customer protection initiatives described above come at

considerable cost. For example, at times we have been experiencing temporary absence rates running at up to 20,000 colleagues.

We continue to monitor various 2020/21 sales, profit and cash flow scenarios, but have minimal certainty or visibility around a precise outcome. At this stage, our best estimate is that the 2020/21 costs relating directly to COVID-19 are likely to be broadly offset by the in-year business rates cost saving**, but the actual net effect is highly dependent on the length of the crisis and how customers respond as lockdown eases. In addition, there are other current impacts on profit such as the temporary closure of our significant café business, and the considerably lower fuel sales. As these costs and profit impacts are more weighted to the first half of our financial year and the rates relief benefit more to the second half, we expect the net adverse impact on profit to be considerably more weighted to the first half.

As we stated at our preliminary results in March, with sales on an improving trend, profit growing for a fourth consecutive year, and both free cash flow and liquidity continuing to be strong, we had anticipated announcing another special dividend for 2019/20. Instead, given the unprecedented nature of events around COVID-19, we determined it would be prudent to defer the decision. This continues to be the case, and we are keeping our capital allocation options under review, giving us maximum future flexibility around how we prioritise uses of our strong cash flow. In the near term, the negative fuel LFL is having a temporary impact on working capital and net debt, which we expect to reverse quickly when fuel sales normalise.

Figure 1 - LFL sales performance (ex-VAT)

	2019/20				2020/21
	Q1	Q2	Q3	Q4	Q1*
Retail contribution to LFL	0.2%	(2.4)%	(1.1)%	(2.2)%	5.1%
Wholesale contribution to LFL	2.1%	0.5%	(0.1)%	0.1%	0.6%
Group LFL ex-fuel	2.3%	(1.9)%	(1.2)%	(2.1)%	5.7%
Group LFL inc-fuel	2.7%	(2.2)%	(2.5)%	(2.4)%	(3.9)%

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* As previously announced, Q1 2020/21 was extended by a week to 14 weeks and compares with the same 14 weeks last year, to allow for the later May bank holiday this year and to ensure comparable trading periods. Q2 will be 12 weeks in duration, and will be reported within the first-half results as usual in September.

** On 18 March 2020, after the government announced business rates relief for all retailers, we announced that we paid business rates in the UK of £308m for our 2019/20 financial year, of which c.£290m related to stores. For our 2020/21 financial year, we estimate April to January business rates relief of £228m in England and Scotland (the Welsh authority has subsequently reversed its decision since the original announcement), of which four monthly instalments would have been due in the first half and six in the second half. For 2021/22, we will receive business rates relief for February and March, and resume payments in April.