

Chief Executive's statement



“During the year, the tough trading conditions weighed on sales, but we kept focussed on our customers and our priorities – investing in the Morrisons price list, delivering good quality, improving availability, and closely managing our costs.”

David Potts, Chief Executive

Momentum maintained in a more challenging year

2019/20 was our fourth year of turnaround and, in many ways, proved to be our most challenging to date. In more difficult conditions, I was pleased with the further progress we made, continuing the momentum of our Fix, Rebuild and Grow strategy.

However, at the time of writing in mid-March we are facing into a very rapidly developing crisis, the COVID-19 pandemic. It is a time of unprecedented challenges and we are managing the business through the crisis with the welfare of colleagues, customers and all stakeholders at the front of mind.

The last year

The very favourable summer weather and events such as the football World Cup in 2018, we always knew we were going to make for tougher year-on-year sales comparatives in 2019, but we also faced added challenges. Prolonged and unprecedented political debate over Brexit, plus a mid-December general election during our peak trading period, meant elevated levels of customer uncertainty throughout the year which weighed on shoppers' confidence.

In 2019/20, the food retail market, always very competitive, became collectively more so with much higher levels of promotional activity.

So, after three years of positive like-for-like, it was disappointing to report lower sales for the year. We will, of course, take some learnings into the new year.

However, despite the tough trading conditions weighing on sales, we kept focussed on our customers and our priorities – investing in the Morrisons price list, delivering good quality, improving availability, and closely managing our costs – and it was particularly pleasing to both grow profits for the fourth consecutive year and pay another special dividend.

Important plans

We are confident we have some important plans for the year ahead and beyond. We have introduced a fourth phase of our strategy – ‘Sustain’ – emphasising the critical importance of our broader societal and environmental responsibilities, and also striving to sustain the strong momentum of the turnaround so far and take opportunities to differentiate Morrisons.

Further progress is on many fronts: We are continuing to invest in the Morrisons price list, and are becoming cheaper across a basket of our customers' favourite items, both Morrisons own-brand and manufacturers' brands. For example, our basket of hundreds of Christmas items was once again very competitive, with most prices the same or lower than last year. We will keep on investing – lower prices mean more customers coming to Morrisons more often and more volume through our stores, both of which are key for the continued momentum of the turnaround.

Morrisons unique brands are taking shape. 'Morrisons Makes It', 'Naturally Wonky Naturally Wonderful', 'Best', 'Free From' and our vegan range, 'V Taste', are all going from strength to strength and are good examples of our great value, authentically British fresh food, made by our skilled team of food makers. In non-food 'Nutmeg' clothing is growing very rapidly, as too is Home and Leisure.

In addition, we are unique in owning our own fresh food businesses and brands, including International Seafoods Ltd, based in the port town of Grimsby, and Woodhead Bros, our fresh meat business. We are introducing low price, great value ranges under these and other exclusive Morrisons brands.

On Market Street we employ thousands of butchers, bakers, fishmongers, florists, and other highly skilled food specialists. Throughout the whole store, our knowledgeable and friendly colleagues are part of what makes us different from other supermarkets, and something our customers love most about Morrisons. We recently announced that we would be investing in 4,000 net new frontline jobs, all aimed at serving our customers better. We are removing over 3,000 managerial roles and creating 7,000 new customer-facing roles. This new colleague structure is exactly aligned with our food maker, shopkeeper credentials, and will put more pairs of hands on the shop floor, helping us stand out from the retail crowd and realise some of the productivity opportunities in our stores.

New format innovation is also beginning to come through, creating further opportunities for us. Our new store in Canning Town is our first with a Market Kitchen food-to-go offer, and we opened our first smaller community store, in Bolsover. We hope to develop many of these format and property learnings across our store estate over coming years. We were also very pleased to achieve a total consideration of around £120m for our store and site in Camden, which will be re-developed into a new Morrisons store, residences and businesses.

4,000

Net new front line jobs

38

Stores picking online orders

7th priority

Digitalising all aspects of our business is becoming increasingly important. Naturally digital has become our seventh priority

Broader, stronger, naturally digital

Away from our supermarkets, we are also making further good progress towards becoming a broader and stronger business.

In wholesale, with McColl's we are trialling the conversion of some of its shops to Morrisons Daily convenience stores. Sales so far are strong, and we are currently further tailoring and testing the proposition as we begin to transition McColl's remaining ex-Co-op stores to Morrisons wholesale supply. We are growing sales with all our other wholesale customers, including with Amazon, where the Morrisons store on Prime Now, our ultra-fast, same day online grocery home delivery service, has now extended to eight cities across the UK.

In online, we continue to grow quickly. We have deferred our entry into Ocado's Erith Customer Fulfilment Centre (CFC) until early-2021, when we expect reduced start-up costs. In the meantime, our part of the existing Dordon CFC is running at near-capacity and we are now picking Morrisons.com orders from almost 40 of our stores, and have extended our coverage area to over 90% of British households. In addition, we have begun a click and collect trial for customers in six stores, and have recently launched our 'Nutmeg' clothing offer online.

As we plan progress across many fronts, digitalising all aspects of our business is becoming increasingly important and relevant. So much so that 'naturally digital' has now become our seventh priority. We have set up a team to identify opportunities and act at pace to create value for all stakeholders by building digital solutions which will help us organise our colleagues and processes: to simplify all aspects of Morrisons, eliminate wasted effort, improve the shopping trip, and become more popular and accessible for customers. It will involve working with existing teams and infrastructure to improve or accelerate what we have, rather than invest significant new capital.

Sustainability spotlight Our sustainability focus

'Sustain' is a core priority of our business and underpins everything we do.

A key part of this is the role Morrisons is playing in helping lower the use of carbon, and reducing our business and customers' reliance on plastic. It also means supporting British farmers, reducing food waste and supporting our suppliers to source responsibly. We are committed to being a positive force in the communities we serve, and are working towards making our business truly integrated locally.



www.morrisons-corporate.com/cr/corporate-responsibility/

A strong team

In the end though it's about people. Digital technology plays a key part, but Morrisons people are making the difference. We were delighted to welcome Michael Gleeson to the Board as Chief Financial Officer and Trevor Strain to his new role as Chief Operating Officer. We have also recently made some changes to the Executive Committee, which is responsible for day-to-day operations and strategy of the business. Andy Atkinson is now Group Commercial Director and David Lepley, an experienced retailer, has been promoted to the role of Group Retail Director. I am excited as these new generations of talent rise through the Morrisons ranks.

Most importantly though, I would like to thank all our colleagues – in the stores, manufacturing, distribution, and offices. Last year was more difficult, and recent weeks facing into COVID-19 have been incredibly testing for all, but our colleagues have been exceptional in their flexibility, professionalism, resourcefulness and positivity. We promise to keep working as hard as we can for all stakeholders as we overcome this virus together.

David Potts, Chief Executive