STRATEGIC INITIATIVES DELIVERING GOOD RESULTS

Iceland Foods today announces the results of its holding company Iceland Topco Limited for the 52 weeks ended 24 March 2017 (2016: 52 weeks ended 25 March 2016).

Financial highlights

- Sales up 4.4% to £2.792 billion (2016: £2.675 billion)
- Like-for-like sales up 2.0% (2016: decline of 2.7%)
- Improving trend in like-for-like sales during the year: fourth quarter like-for-like sales up 4.9%
- Adjusted EBITDA* up 6.3% to £160.0m (2016: £150.5m)
- Year-end cash balances increased to £193.2m (2016: £164.9m) after £38.8m of bond redemptions
- Continued long term investment in the business: capex £66.9m (2016: £63.5m)

Operational highlights

- Senior management team strengthened
- New Iceland Kitchen opened: pace of product development increased
- “Power of Frozen” marketing campaign changing perceptions of frozen food
- The Food Warehouse chain trebled in size through 24 new store openings
- New generation of core Iceland stores proven to extend their appeal
- Further strong growth in online sales: again voted the UK’s best online store
- £3.3m donated to good causes through the Iceland Foods Charitable Foundation

Outlook

- Positive like-for-like sales performance continues
- Further benefits from strong product innovation and “Power of Frozen” marketing
- Five Iceland stores refitted in new format: national roll-out planned
- Four new The Food Warehouse stores opened: 25 planned over year
- Continued strong growth in Online sales: second pick centre to open in summer
- Two new stores opened in Republic of Ireland: nine planned over year
- Confident of ability to meet internal targets for EBITDA and cash generation

* EBITDA from continuing operations excluding amortisation of goodwill and loan fees and exceptional items
Iceland Founder & Executive Chairman Malcolm Walker CBE commented:

The set of strategic initiatives we began in 2015, with the aim of differentiating Iceland, changing consumer perceptions and so restoring growth to our business, bore fruit in the year under review. Like-for-like sales performance improved throughout the year to make us one of the UK's fastest-growing food retailers by the year-end. We increased the pace and enhanced the quality of our new product development, reflected in the multiple product awards we won during the year, and opened a new £2m development kitchen at our head office in Deeside to drive further improvement. At the same time we reinforced our value credentials through a programme of outstanding value deals, made our stores more relevant and accessible to customers by extending and standardising their opening hours, and continued to open profitable new stores under both The Food Warehouse and Iceland fascias. We also devised a new store format for our core Iceland stores which extends their appeal and offers significant potential for the future, while our Online business was re-affirmed as the best in the UK and continued to grow strongly.

All our initiatives were successfully communicated through our distinctive “Power of Frozen” marketing and PR campaign, across both traditional and social media, which is playing a significant role in changing public attitudes to frozen food, increasing appreciation of its many advantages, and identifying Iceland as the natural place to buy it.

After a record Christmas, Iceland ended the financial year with its best-ever product offer, strengthened management, high morale and growing confidence in our ability to achieve continued growth by simply being ourselves: a unique British business focused on high quality, innovative and exciting food, with a real commitment to contributing to the communities in which we operate.

Results

Sales for the year grew by 4.4% to £2,792.2m (2016: £2,674.7m). Like-for-like sales were 2.0% positive over the year as a whole, following a decline of 2.7% in the prior year, and showed an improving trend throughout the year: our strong Christmas trading performance was reflected in a like-for-like sales increase of 4.9% in the final quarter. This like-for-like performance principally reflected growth in total transactions as we attracted new customers and re-energised dormant ones while maintaining our appeal to established shoppers; we also saw an increase in average basket values. In addition to this core growth, we benefited from sales generated by the 20 net new stores opened during the year, and by the net five new stores opened in the previous financial year.

EBITDA (excluding exceptional items) increased by 6.3% to £160.0m (2016: £150.5m), driven principally by sales growth while maintaining good control of operating costs.

There were no exceptional administrative expenses during the year, compared with £9.0m incurred during the prior year in relation to business restructuring costs.
Finances

The business has remained highly cash generative, with net cash inflow from operations during the year of £195.1m (2016: £148.8m). Cash balances at 24 March 2017 were £28.3m higher than at the same point last year at £193.2m (25 March 2016: £164.9m).

By the end of the financial year we had purchased and redeemed a nominal total of £38.8m of bonds at a discount of £3.6m.

Capital expenditure during the year totalled £66.9m (2016: £63.5m), including major investments in new stores and refurbishments, EPOS and IT systems, the completion of our factory upgrade at Iceland Manufacturing, the construction of the new Iceland Kitchen, and improvements to working conditions for our expanded head office team.

Products, pricing and marketing

In a UK food retail market that has remained intensely competitive and keenly focused on price, we have sought to differentiate Iceland through our focus on frozen food, exciting innovation, great quality and outstanding value – all of which combine to give customers a compelling reason to visit our stores or website.

An exciting programme of product innovation throughout the year has been key to driving sales. We have enjoyed particular success in frozen fish and seafood, where we have firmly established Iceland as the UK’s leading specialist, and with other new ranges such as Luxury meats and “Takeaway” prepared meals. We have also benefited from further growth in the exclusive branded ranges we are able to offer through our partnerships with Slimming World™, Greggs, Millie’s Cookies and Pizza Express. Innovation in our core frozen food offer has been complemented by substantial improvements in our chilled and ambient grocery ranges.

Our food won a total of 44 gold, silver and bronze awards and a further 19 commendations during the year, including 11 British Frozen Food Awards and numerous wins at the SuperMeat & Fish Awards and Quality Food Awards. We topped three key categories in the Good Housekeeping magazine’s annual Christmas taste tests, with our Luxury Mince Pies also beating both upmarket specialists and mainstream supermarkets in many other independent assessments. In addition, more than 60 of our products have been independently tested and approved by the Craft Guild of Chefs. Iceland’s own brand cheese won a total of 13 awards during the year, including three golds at the International Cheese Awards, and we were also named Produce Convenience Retailer of the Year at the Fresh Produce Awards.

Our continuing multi-media “Power of Frozen” marketing and PR campaign continues to change perceptions of Iceland and frozen food by underlining the many advantages freezing can offer. It enables us to bring our customers top quality food with authentic provenance from around the world at truly amazing prices. Frozen food can also be “ fresher than fresh”, locking in vitamins and nutrients that are liable
to degrade in the fresh food supply chain. It minimises the need for artificial additives and preservatives, helping our customers to eat more naturally and healthily, and it benefits both household budgets and the environment by reducing food waste.

While maintaining the strong “Power of Frozen” TV campaign focusing on the reactions of real families to our food, we gave additional weight during the year to press, leaflet and door drop advertising that underlined our outstanding value, with a programme of Seven Day Deals that helped to drive traffic through our stores.

**Stores**

During the period the Group opened 28 new stores in the UK (including 24 larger stores under The Food Warehouse fascia) and closed eight stores, giving us a net addition of 20 and a total of 884 (2016: 864) UK stores (including 36 The Food Warehouse stores) at the year-end. In our International business we opened two new stores in the Republic of Ireland to give us a total of 12 there at the year-end; opened two stores and closed one store in the Czech Republic to give us a total of six there; and transferred two stores in Iceland (the country) from company ownership to a franchisee. This gave us a net addition of 21 stores across the Group as a whole, and a Group total of 902 stores (2016: 881) at the year-end.

In October we trialled a new format store in Clapham Common, London, which featured a bold new look, improved in-store navigation and presentation, and an extended product range. A positive sales performance demonstrated the success of the new concept in extending Iceland’s appeal, and we have since enjoyed a similarly positive response to the refit of our stores in Chester and Worcester Park (Surrey).

**The Food Warehouse**

We have continued to expand our chain of larger stores operating under The Food Warehouse fascia, opening 24 new stores during the year to give us a total of 36 at the year-end. All stores are trading successfully, with established stores continuing to achieve like-for-like sales growth.

Trading mainly on retail parks, The Food Warehouse stores range in size from 10,000 to 15,000 sq ft, compared with the average 4,900 sq ft of a traditional Iceland store. This additional space allows them to stock extended ranges of luxury and speciality frozen food, chilled meat and fresh produce, plus value bulk packs of grocery products, in addition to the complete core Iceland range. All stores also sell homeware, electrical goods and other general merchandise at outstanding value prices, with an extended range on offer in the larger stores.

Because all store locations provide ample car parking Home Delivery is not offered by The Food Warehouse, and replenishment systems and checkouts have been designed to ensure that The Food Warehouse operates at a lower cost to sell than the traditional Iceland store model. The stores have proven valuable test-beds for new product ranges and operating initiatives that we have then been able to roll out successfully across the core Iceland estate.
Delivered Sales – In-Store and Online

Our Online business has continued to achieve strong like-for-like growth, benefiting from both national TV advertising and industry-leading levels of customer satisfaction; we were delighted to be named Britain’s top online store for the second consecutive year in the Which? annual supermarket survey published in February 2017. We have supported the continuing growth of this business by appointing a new Online Director, who joined the business in August 2016, and making significant investments in our website and head office team. The opening of our first ‘dark store’ online order fulfilment centre in the West Midlands in August has met all our objectives in extending the range available to customers in the region, enhancing the efficiency of picking and delivery, and freeing our local stores to focus on the development of their traditional Home Delivery business for in-store purchases. This service, established in 1996, remains unique in the industry and has benefited from the reduction in our sales eligibility threshold to £20 during the year.

Customers

We have continued to win recognition for the quality of our customer service as well as our products. As noted above the annual Which? supermarket survey named Iceland as Britain’s top online retailer for the second year in succession, with a customer score of 77% and five star ratings for product availability, the quality of our own label, value for money and convenient delivery slots. This placed Iceland ahead of all the Big Four food retailers plus Ocado and Waitrose. In the same survey Iceland was ranked ahead of Sainsbury’s, Tesco and Asda for its in-store shopping experience, with a customer score of 69%. Iceland was also named in the top ten UK organisations delivering the highest levels of customer satisfaction in the country in the January 2017 UK Customer Satisfaction Index (UKCSI) published by The Institute of Customer Service.

Our Iceland Bonus Card was relaunched in March 2017 as a Home Delivery and savings card and now offers a bonus of £1 for every £20 of savings loaded onto it – the best rate available on the UK high street. It also provides access to our unique Home Delivery service and exclusive cardholder offers throughout the year.

International

The Iceland business in the Republic of Ireland has continued to trade very successfully and operated in 12 locations at the year-end following two new store openings during the year. Our fledgling business in the Czech Republic, where we added a sixth store during the year, is beginning to achieve popular recognition and is delivering sales growth. We continue to export Iceland brand products around the world, including to our network of franchise stores.

Manufacturing

During the year we completed the major capital investment programme at our Iceland Manufacturing facility in Manchester and this is delivering all the expected benefits of increased capacity and substantially improved efficiency through automation, while enhancing product quality and consistency. The factory is dedicated to the production of frozen prepared meals, soups and sauces for
Slimming World™, with which we enjoy a long-term exclusive brand partnership.

Management

During the year we significantly strengthened our operational management through the recruitment of a new Online Director and International Director, and the appointment of new senior executives to head our Frozen, Chilled and Grocery buying teams. This followed the recruitment of leading industry figures as our Head of Product Development and Development Chef at the end of the previous financial year. Since the year-end we have appointed a new Marketing Director with extensive retail experience. We have also restructured our senior executive team with the appointment of Tarsem Dhaliwal (formerly Chief Financial Officer) as Group Managing Director, and Ewan McMahon (formerly International Director) as Operational Director. Nick Canning and Nigel Broadhurst continue as Joint Managing Directors of Iceland Foods, Richard Walker as Managing Director of The Food Warehouse, and Richard Ewen as Trading Finance Director.

People

The Group employed an average of 22,208 people during the period (2016: 22,327). Industry leading engagement figures continue to put Iceland significantly ahead of the retail benchmark; the 2017 Straight Talk survey of employees returned an overall satisfaction score of 85% on a response rate of 95%.

In February 2017 Iceland was ranked among the “Best Big Companies to Work For In the UK” for the 11th consecutive year, retaining the 11th place in the league table held in 2016.

We remain committed to rewarding our people as well as we can, and all our front line retail colleagues benefited from a 3% pay award in April 2017, keeping our rates of pay ahead of the National Living Wage for those aged over 25; we also pay the same rate to employees of all ages, including new starters.

Corporate social responsibility

Iceland continues to make a great contribution to the wider community through the active involvement of our people in charitable activities and our commitment to a range of important good causes.

Our main focus during the year has continued to be fundraising for research into dementia, which represents one of the biggest medical, social and economic challenges of our time yet receives only a small fraction of the funding devoted to cancer or heart disease. In January 2017 the Iceland Foods Charitable Foundation donated £3m to support the development of the hub of the UK Dementia Research Institute at UCL, the first tranche of a total of £10m we have pledged to the project. This was raised through the sale of 5p single-use carrier bags in Iceland stores in England, Scotland and Wales, and through the fundraising efforts of our people, customers and suppliers. UCL Dementia Research has also benefited from substantial donations generated by single-use carrier bag sales by other members of the UCL Dementia Retail Partnership, the unique coalition of UK retailers that Iceland inspired and helped to assemble in October 2015.
We have also instituted a programme of staff training to make all our stores in the UK Dementia Friendly, working closely with our principal charity partners for 2017/18, the Alzheimer’s Society and Alzheimer Scotland.

Other beneficiaries of the total of £3.3m donated to good causes by the Iceland Foods Charitable Foundation during the year included the new Defence & National Rehabilitation Centre, Vision4Children and the Outward Bound Trust.

**Outlook**

We have made a solid start to trading in our new financial year and are confident of our ability to achieve further benefits from the proven strategic initiatives we have in place. Our management team is the strongest it has ever been in our 47-year history, and we anticipate increasing contributions from the many senior personnel who have joined us since the beginning of 2016.

Like-for-like sales growth remains positive, continuing the trend of the last financial year, with performance in the first quarter to date benefiting additionally from the later date of Easter in 2017.

Strong product innovation continues, giving consumers compelling reasons to shop at Iceland by presenting them with unique, great-tasting quality food that they simply cannot buy anywhere else. Major launches in the new year to date include our World Famous range of slow-cooked meats, which may be cooked from frozen but also offer customers the flexibility and convenience of keeping chilled in their fridge for up to seven days. We have also launched our best-ever summer and barbecue range, including Red Shrimps, Belgian Blue Steaks, Ultimate Steak Miso Burgers, Purple Fries and Dirty Wedges.

We continue to enhance customer perceptions of frozen food and Iceland through our “Power of Frozen” marketing campaign, with TV advertisements that capture the genuine reactions of real families to our products, and with leaflets and door drops, while reinforcing our value credentials through a rolling programme of outstanding deals.

We are also changing perceptions of Iceland by improving our stores. Since the beginning of the new financial year we have refitted five Iceland stores in our new format, in Greater London, North Wales and Northern Ireland, and we will roll the new concept out across the country as part of our ongoing programme of store refurbishment.

Our online business continues to enjoy strong growth, benefiting from our investment in people and technology and from positive customer feedback, not least in the 2017 Which? supermarket survey. We will build on our success in the West Midlands by opening a second dedicated Online picking centre in Greater Manchester during the summer.

We have already opened four new stores under The Food Warehouse fascia since the beginning of the new financial year and aim to open 25 new stores in total by the year-end, while continuing to drive like-for-like sales growth in established stores.
Internationally, our main focus will be on expanding our business in the Republic of Ireland, where we have already opened two new stores since the beginning of the financial year and plan to open a total of nine by the year-end.

The fall in the international value of sterling since the EU referendum last June has created upward pressure on some food prices, and on packaging and distribution costs, for us as for all other UK food retailers. We continue to work with our suppliers to mitigate these pressures as far as we can, so as to minimise the impact on consumers, but the economic environment will clearly remain uncertain until we achieve clarity on the timing and nature of Brexit. Nevertheless, we are confident of our ability to meet our internal targets for EBITDA and cash generation in the current year.

Iceland continues to plan and invest for the long term. Our strong brand, unique products, outstanding people, stable capital structure and strong cash generating capability all underpin our ability to continue delivering profitable growth for the benefit of all our stakeholders in the future.

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