Investing for the future: continued focus on long term growth


Financial highlights

- Sales up 8.0% to £3.016 billion (2017: £2.792 billion)
- Like-for-like sales up 2.3% (2017: 2.0%)
- Adjusted EBITDA* £157.1m (2017: £160.0m)
- Net cash inflow from operations £187.8m (2017: £195.1m)
- Continued long term investment in the business: net capex £81.3m (2017: £65.2m)

Operational highlights

- Multiple awards won for products, stores, website and leadership
- The Food Warehouse chain expanded to 59 stores through 23 openings
- New generation Iceland stores continuing to perform well: total of 51 refits completed
- Online business achieving market-leading growth
- Nine new stores opened in the Republic of Ireland
- Major sustainability initiative launched to remove plastics from own label range by 2023
- £10m donated to UCL Dementia Research by the Iceland Foods Charitable Foundation

Outlook

- Continued sales growth driven by store opening programme
- Further wins at The Grocer Own Label Awards, BFFF Awards and The Grocer Gold Awards
- Five new The Food Warehouse stores opened: 30 planned over year
- Eight more Iceland store refits completed
- Reactivation of Deeside depot on schedule: 240 new jobs to be created
- New partnership launched with JD.com in China; first Iceland store in Norway opened
- Palm oil removal initiative announced: 130 own label lines to be reformulated and 200 new lines launched by year-end
- Removing black plastic trays from own label frozen meal range by end of 2018

* EBITDA from continuing operations excluding amortisation of goodwill and loan fees and exceptional items
Iceland Group Managing Director Tarsem Dhaliwal commented:

This year we have continued to take a long term view and to invest for the future: expanding our store footprint, enhancing the appeal of our existing stores through a major programme of refurbishments, growing our award-winning Online business, continuing to roll out new and exciting food lines that are unique to Iceland, and developing our supply chain to support the growth of our retail estate. To these well-established initiatives we added in the final quarter of the year a revived focus on sustainability, with the launch of our world-leading initiative to eliminate plastic packaging from our own label range by 2023. We have since also taken a lead in the removal of palm oil ingredients, and have further sustainability plans in the pipeline. These actions are helping to set Iceland apart as a business that is truly different, and are increasing public awareness and enhancing respect for our brand and our values. Although our motivation in acting on plastics and palm oil is not primarily commercial, we believe that the positions we have taken can only enhance our appeal to consumers, and hence our sales, in the longer term.

Results

Sales for the 53 week period grew by 8.0% to £3,016.9m (52 weeks to 24 March 2017: £2,792.2m). Like-for-like sales were 2.3% positive over the year as a whole, following growth of 2.0% in the prior year. After a strong start to the year, with 6.4% like-for-like growth in the first quarter, core growth slowed through the second quarter (2.2%) and third quarter (0.3%) before we repositioned our marketing and in-store point of sale to focus more on the outstanding value we offer. Like-for-like sales growth of 1.8% in the final quarter reflected this repositioning as well as benefiting from the earlier date of Easter in 2018 compared with the prior year.

In addition to this core growth, we benefited from sales generated by the 30 net new stores opened during the year, and by the net 21 new stores opened in the previous financial year.

Adjusted EBITDA (excluding exceptional items) was £157.1m (2017: £160.0m), a reduction of 1.8%, reflecting the annualisation of the investment we have made in some of our central costs, and investment in marketing and price, together with problems in our supply chain infrastructure during December which caused poor overall availability in our key Christmas weeks, and inadequate supplies of some of our best-selling seasonal lines.

Exceptional administrative expenses of £14.0m (2017: nil) were incurred during the year, comprising business restructuring, compliance, property and other costs.

Finances

The business has remained highly cash generative, with cash inflow from operations during the year of £187.8m (24 March 2017: £195.1m). Cash balances at 30 March 2018 were £52.5m lower than at the same point last year at £140.7m (24 March 2017: £193.2m) largely due to the purchase and redemption of a nominal total of £75.0m of bonds at par during the period.

Net capital expenditure during the year totalled £81.3m (24 March 2017: £65.2m), including major investments in new stores and refurbishments.
Award-winning products, stores, website and leadership

We have continued to focus on accentuating the positives that make Iceland different from other food retailers: our focus on frozen food, exciting innovation, great quality and outstanding value. Together these combine to give customers a compelling reason to visit our stores or to shop on our website.

Our strong programme of innovation throughout the year delivered many exciting new products, notably under our distinctive Iceland Luxury label, and garnered us multiple awards including:

- The Grocer Food & Drink Own Label Awards: four wins
- Olive Magazine Awards: four wins and one highly commended
- British Cheese Awards: three Gold, three Silver and four Bronze awards
- British Frozen Food Awards: two Gold, two Silver and three Bronze awards
- Quality Food Awards for Christmas products: three wins, three highly commended and one commended
- BBC Good Food Magazine Christmas product recommendations: four highly commended
- Olive Magazine Christmas product recommendations: three products named the UK’s best, including Luxury Mince Pies, and one highly commended.

In addition to these many product commendations, our award wins during the year included:

- The Grocer Gold Awards: Online Supermarket of the Year, and Business Initiative of the Year for the Iceland Kitchen
- FreshAwards: Convenience Retailer of the Year for excellence in fresh produce
- Meat Management Industry Awards: Supermarket/Multiple Meat Retailer of the Year
- Retail Industry Awards: Outstanding Achievement Award
- IGD Awards: Online Retailer of the Year, and The Grocer Cup awarded to Sir Malcolm Walker
- Retail Week Awards: Outstanding Contribution to Retail Award to Sir Malcolm Walker, and Community Retailer of the year for our Beating Dementia campaign.

Pricing and marketing

Our expanding Luxury range offers exceptional quality but also represents great value: at Christmas the media noted that shoppers could assemble a hamper of Iceland Luxury products for £65, compared with the £175 price of a similar hamper at Fortnum & Mason.

At the same time, we have been careful to maintain our appeal to shoppers on tighter budgets, offering great ranges of pizzas and ready meals for just £1. In the second half of the year we increased our focus on value in our stores, and highlighted this by offering an outstanding Seven Day Deal on a selected product each week, supported by press advertising and door drops. We also made a popular 10% discount offer to workers in the emergency services for three weeks in the run-up to Christmas.
**Stores**

During the period the Group opened 27 new stores in the UK (including 23 larger stores under The Food Warehouse fascia) and closed six stores, giving us a net addition of 21 and a total of 905 (2017: 884) UK stores (including 59 The Food Warehouse stores) at the year-end. In our International business we opened nine new stores in the Republic of Ireland to give us a total of 21 there at the year-end, and continued to own and operate six stores in the Czech Republic. This gave us a net addition of 30 stores across the Group as a whole, and a Group total of 932 stores (2017: 902) at the year-end.

Notable store developments during the year included the opening in March 2018 of our first entirely new Iceland store in the UK for many years, at Enfield in north London (the other Iceland openings in the UK during the period were relocations of existing stores); and the opening in the same month of our largest-ever The Food Warehouse, a 23,500 sq ft purpose-built unit in Wolverhampton.

We have continued to invest in major refits of our core Iceland stores to create a bold and appealing new look, improved in-store navigation, presentation, checkout experience and staff facilities, and introducing an extended product range. By the end of the year we had completed 51 such refits, in the style pioneered at Clapham in October 2016, and this group of stores was consistently achieving a like-for-like performance ahead of the company average.

**Delivered sales**

A process of consistent redevelopment and enhancement of our Online product, both on desktop and mobile, has helped Iceland maintain its position as the UK’s fastest growing online food retailer. We gained almost 30,000 new registrations a week during the Christmas period, expanding our database to over three million customers. The business has also benefited from major investments in our website and head office team, and from growing awareness of the industry-leading levels of customer satisfaction we achieve.

Over the last two years, mobile has become increasingly important to our customers and in January 2018 revenue from mobile devices overtook that from desktops for the first time. This has been a direct result of our focus on mobile-first methodology.

The success of Iceland Online has been recognised by our being rated Britain’s top online store for the third consecutive year in the 2018 Which? supermarket survey, being named Online Supermarket of the Year in The Grocer Gold Awards in June, and winning Online Retailer of the Year at the IGD Awards in October: an award based on real customer satisfaction as measured by the IGD’s ShopperVista monthly shopping tracker.

Our Home Delivery service allows customers to buy items in our stores and have them delivered to their homes. This service, established in 1996, remains unique in the industry and we make over 150,000 deliveries per week.
The Food Warehouse

We have continued to expand our chain of larger stores operating under The Food Warehouse fascia, opening 23 new stores during the year to give us a total of 59 at the year-end. All these new stores are meeting our expectations, while established stores continue to achieve like-for-like sales growth.

Trading mainly on retail parks, The Food Warehouse stores are larger than 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.

The distinctive range and shopping experience offered by The Food Warehouse are successfully extending our appeal to many customers who have never shopped at Iceland before. While we expect to observe some cannibalisation of sales from neighbouring Iceland stores when a new The Food Warehouse opens, the expansion of the fascia is delivering a significant net increase in sales and profits in each area. This makes us increasingly confident of our ability to trade the two store formats alongside each other in a growing number of towns across the country.

Supply chain

We took immediate action in January to change the management of our supply chain, in response to the infrastructure failure we experienced over Christmas, and this has since operated satisfactorily. During the year we reactivated our Deeside depot, initially to warehouse and distribute chilled food and grocery lines for stores in North West England, Northern Ireland and our International business. The depot is operating smoothly, providing additional capacity to support our established multi-temperature regional distribution centres at Livingston, Warrington, Enfield and Swindon.

Customers

We have continued to win recognition for the quality of our customer service as well as our products. In addition to the multiple accolades won by our Online service, the 2018 Which? supermarket survey ranked Iceland ahead of Tesco, Asda, Morrisons and Sainsbury’s for in-store shopping experience, with four star rankings for value for money, quality of own label products and store appearance, and an overall customer score of 65%.

Our Iceland Bonus Card continues to gain new members by providing access to our Home Delivery service, exclusive offers and an outstanding return on our customers’ savings, paying a bonus of £1 for every £20 of savings loaded onto it – the best rate available on the UK high street.

International

The Iceland business in the Republic of Ireland has continued to achieve good like-for-like sales growth and its planned expansion remains on track, with nine new stores opened.
during the year to give us a total of 21 stores nationwide by the year-end. Our six company-owned stores in the Czech Republic are also performing satisfactorily. We continue to export our Iceland brand products to more than 40 countries around the world, including to our network of franchise stores in Spain, Portugal, the Channel Islands, Iceland (the country) and Malta. During the year we extended our franchise network with the opening of an Iceland store in Stornoway in the Outer Hebrides, and joined a Government-sponsored trade mission to India where we see significant opportunities for future development.

**Manufacturing**

Our Iceland Manufacturing facility in Manchester 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. The factory is continuing to perform well and in line with our expectations.

**People**

The Group employed an average of 24,316 people during the period (2017: 22,208). Our twice-yearly Straight Talk staff survey consistently records industry-leading response rates and levels of engagement, with an 85% overall positive score from our retail colleagues in January 2018, on a response rate of 87%. This places us in the top quartile of companies in the External Benchmark for Employee Opinion, topping comparative engagement scores in many categories within a peer group that includes Aldi, Asda, The Co-operative, Morrisons, Tesco and Waitrose as well as several leading non-food retailers.

In February 2018 Iceland was ranked No 8 in the annual Sunday Times Best Companies survey of the “Best Big Companies to Work For In the UK”. We have featured in this table for the last 12 consecutive years, and were ranked No 1 in both 2012 and 2014.

We remain committed to rewarding our people as well as we can, and have traditionally been among the very best payers of front line staff on the high street. Our front line colleagues benefited from a 3% pay increase in April 2017, keeping our pay rates for the financial year 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.

**Sustainability and corporate social responsibility**

Iceland has a long track record of ‘doing the right thing’ by initiating important changes to benefit both people and the environment. In the 1980s we were the UK leader in removing artificial colours, flavourings and non-essential preservatives from our own label food; and in the 1990s we led the world in introducing a ban on GM ingredients in our own label food, which was rapidly copied by the UK food retailing industry as a whole.

Continuing in this proud tradition, in December 2017 we announced our support for Greenpeace’s call for the introduction of a bottle Deposit Return Scheme across the UK to increase recycling rates and reduce plastic pollution. In January 2018 we followed this by announcing our intention to eliminate plastic packaging from our own label range by the end of 2023, and shortly after the financial year-end we also announced a programme to remove palm oil ingredients from our own brand food by the end of 2018.
Our plastics initiative is designed to tackle the scourge of plastic waste, particularly pollution of the world’s oceans, by turning down the tap of plastic production. It has generated massive media coverage and overwhelming public and political support, including endorsement by the Prime Minister, Environment Secretary and more than 200 MPs from all parties. We are pleased that many other retailers have since announced their own plans to reduce plastic usage, and to ensure that all packaging materials are fully recyclable or compostable.

We have also continued to make an important contribution to the community through the work of the Iceland Foods Charitable Foundation. In March 2018 the Foundation fulfilled its pledge to donate £10m to support the development of the hub of the UK Dementia Research Institute at UCL, a year ahead of schedule. A further £10m has been raised for this project by other leading retailers participating in the Dementia Research Retail Partnership, which was founded by our Chairman Sir Malcolm Walker. Together, these donations have helped to trigger additional funding that will ensure that construction of this vital new research centre goes ahead.

The Foundation donated a total of £939,540 to our charity partners for the year, The Alzheimer’s Society, including £594,000 raised by our store colleagues and customers during our annual charity week in August, and a further £150,000 raised at our Charity Golf Classic event in September. We also trained all our store colleagues to become Dementia Friends and supported the Alzheimer’s Society’s programme of fundraising Memory Walks across the country.

We were delighted to receive recognition for our Beating Dementia campaign, which has raised more than £14m for dementia research and support since 2011, when we were named Community Retailer of the year at the Retail Week Awards 2018.

Outlook

Overall Group sales continue to grow in the current year, driven by the expansion of our store estate. Like-for-like sales in the year to date are negative, against the very strong comparative of 6.4% growth in the first quarter last year, with a positive underlying performance adversely impacted by Easter falling earlier than in 2017. The UK food retail market as a whole has also slowed in this period, and so our performance is only slightly behind the market. We currently expect Group EBITDA in the first and second quarters to be lower than in the prior year as a result of sales performance, increased staffing costs driven by the rise of the National Living Wage, the effect of rising oil prices on both consumers’ disposable income and distribution costs, and the timing of our marketing expenditure. The third quarter gives us strong scope for profit recovery, due to the timing of investment and the poor performance in the previous year.

We have maintained a strong programme of product innovation, with recent major critical and commercial successes including our ground-breaking “No Bull” vegan burger. The quality of our own label food and the strength of our innovation continue to receive industry and public recognition, with Iceland winning in six categories at The Grocer Own Label Awards in May, including the two top overall awards: Champion of Champions for our Iceland Arctic Royal Salt Baked Sea Bass, and Innovation of the Year for Iceland Luxury Rose Veal Saltimbocca. Iceland again dominated the retail categories at the British Frozen Food Awards
earlier this month, winning two gold, three silver and one bronze awards, and the overall Retail Product of the Year Award for our Luxury Triple Dipped Salted Caramel Ice Cream Sticks. This week Iceland Luxury was also named Own Label Range of the Year at The Grocer Gold Awards.

While our TV advertising continues to focus on the outstanding quality and innovation of our frozen food, we also seek to demonstrate our exceptional value through our press advertising, leaflets and door drops. We have, in addition, placed press advertisements to highlight our plastics and palm oil initiatives, with the aim of reaching consumers who would never have considered shopping at Iceland before. We are confident that our established and forthcoming sustainability initiatives will strike a chord with many potential customers who remain unaware of who we are, what we stand for, and what we have to offer.

Since the beginning of the current financial year we have already opened five new stores in the UK under The Food Warehouse fascia. Our aim is to open a total of 30 of these new stores in total by the year-end, while continuing to drive like-for-like sales growth in established stores. We have also opened one new Iceland store in the UK in the current year to date and have a further eight stores in the pipeline, though we expect some of these to be offset by closures.

Our programme of major Iceland store refits in the UK continues with eight completed in the year to date and more to come.

Our Online business continues to enjoy strong growth, benefiting from our investment in people and technology and from positive customer feedback, most recently in the 2018 Which? supermarket survey.

During the current year we will complete the reactivation of our Deeside depot as a full multi-temperature regional distribution centre, creating a total of 240 jobs. Planning is well in hand to create a further new UK distribution depot within the next two years, to support the continued expansion of our Iceland and The Food Warehouse retail estate across the country.

In our International business, we have opened two new Iceland stores in the Republic of Ireland since the beginning of the financial year, and expect to open a total of eight new stores there by the year-end. We also plan to open two new stores in the Czech Republic. We have established a new partnership with JD.com to sell a range of Iceland branded groceries in China, and agreed a new franchise partnership for Scandinavia that has already resulted in the opening of the first Iceland store in Norway.

In April we announced our intention to remove palm oil as an ingredient from our own label food, in response to the continuing destruction of the tropical rainforests, particularly in South East Asia, that is being driven by growing global demand for this product. We have already removed palm oil from half our own label range and will have completed the reformulation of 130 products by the end of 2018. We will also launch a further 200 new products containing no palm oil ingredients by December, including our complete Christmas range. Our action is designed to give consumers a choice where none existed before, and has been very positively received by the UK public and media. We also hope to energise the palm oil industry to end rainforest clearance and deliver to the mass market the genuinely sustainable palm oil that has long been promised but remains elusive in practice.
We are progressing our plastics initiative and plan to eliminate black plastic trays from our own label frozen meal range by the end of 2018, removing 100 million of these non-recyclable items from circulation and saving 2,000 tonnes of plastic per year. In May we became the first UK retailer to agree to adopt the Plastic Free Trust Mark developed by the campaign group A Plastic Planet, and were also the first UK retailer to install a trial Reverse Vending Machine for plastic bottles, to improve our understanding of consumers’ perceptions and reactions ahead of the Government’s proposed introduction of a nationwide Deposit Return Scheme.

We fully support the Government’s introduction of the National Living Wage and made a 2.6% pay award to all our front line retail staff in April to keep pace with this. It should be noted, however, that the Government’s intention to increase the National Living Wage to £9 per hour by 2020 will impose substantial additional costs on us and other retail businesses in what remains a savagely competitive trading climate.

We believe that we must focus on running our own business rather than allowing ourselves to be diverted by external issues over which we can exert no control, whether those be Brexit or the proposed merger of Sainsbury’s and Asda. Clarity on the nature and timing of Brexit would be helpful to us as to every other business in the UK, but we are confident of our ability to trade successfully through any likely future scenario. Consolidation among the Big Four food retailers seems unlikely to add materially to the intense competitive pressure under which we already operate, and any store sales forced by the competition authorities may create additional useful opportunities for property acquisitions.

Iceland is a privately-owned British company with an immensely supportive external investor, and this ownership structure is critical to our ability to focus on, and invest for, the long term. We have the benefits of a great brand, unique products, outstanding people, a stable capital structure and a proven, strong cash generating capability. All these underpin our confidence in our ability to remain cash positive in the current year and to deliver profitable growth for the benefit of all our stakeholders in the future.

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