



13 June 2019

## **Profitability stabilised after disappointing first half: over £100m invested for future growth**

Iceland Foods today announces the results of its holding company Iceland Topco Limited for the 52 weeks ended 29 March 2019 (2018: 53 weeks ended 30 March 2018).

### **Financial highlights**

- Sales up 4.5% to £3.084 billion on comparable 52 week basis (53 weeks 2018: £3.016 billion): ahead of UK grocery market as a whole
- Adjusted EBITDA\* £140.1m, down £13m on comparable 52 week basis (53 weeks 2018: £157.1m): shortfall entirely in first half
- Stable profit performance in second half
- Continued heavy investment for the future: net capex £101.1m (2018: £81.3m)
- Net cash at year-end £111.1m (2018: £140.7m) after £9.45m bond redemption

### **Operational highlights**

- 43 net new stores opened: The Food Warehouse chain expanded to 90 stores (2018: 57)
- Strategic alliance formed with The Range: Iceland food offer added to nine stores
- New website launched: Online business continuing to achieve market-leading growth
- Multiple accolades for products, service and CSR initiatives
- Palm oil ingredients removed from Iceland own label food: Rang-Tan animation becomes the most viewed Christmas commercial of all time
- Plastics removal initiative progressing: 1,500 tonnes saved during 2018
- Iceland Foods Charitable Foundation donates £3.1m to good causes; new partnerships established with Surfers Against Sewage and the UK Sepsis Trust

### **Outlook**

- Continued sales growth driven by store opening programme
- 14 new stores opened to date (7 Iceland, 7 The Food Warehouse): 50 planned over year
- Continuing to enhance Iceland shopping experience through store refits
- Rolling out Online picking across The Food Warehouse stores
- Confident of ability to make scheduled bond redemptions from internally generated cash

\* EBITDA from continuing operations excluding amortisation of goodwill and loan fees and exceptional items

## **Iceland Group Chief Executive Tarsem Dhaliwal commented:**

Within an intensely competitive UK market place, adversely affected by consumer uncertainty and the well-known pressures of changing shopping habits on the high street, we have continued to focus on investing for the future: expanding our store footprint, enhancing the appeal of our existing stores, growing our award-winning Online business, continuing to roll out new and exciting food lines that are unique to Iceland, developing our supply chain to support the growth of our retail estate, and finding new channels to sell our food through The Range in the UK and a growing global franchise and export business.

Our sustainability initiatives over the last year have substantially raised public awareness of Iceland and enhanced respect for our brand and its values, and we are confident that this can only enhance our prospects in the longer term.

## **Results**

Sales for the 52 week period grew by 2.2% to £3,084.7m (53 weeks to 30 March 2018: £3,016.9m). Adjustment to a comparable 52 week basis shows growth of 4.5%, ahead of the UK grocery market as a whole. Our underlying growth was 0.5% better than this as we were adversely impacted by the timing of Easter in the period.

Our total sales benefited from the opening of 43 net new stores during the year, and the 30 net new stores opened in the previous financial year.

Adjusted EBITDA (excluding exceptional items) was £140.1m (2018: £157.1m), a reduction of £17.0m, or 8.7% (£13.4m) when adjusted to a comparable 52 week basis. This reduction occurred entirely in the first half of the year and reflected sales performance, increased staffing costs as a result of the rise in the National Living Wage, increased distribution costs as a result of both higher fuel prices and the need to adapt our network to accommodate growing demand, investment in price, notably in our Seven Day Deal great value offers, and the timing of marketing expenditure.

Exceptional administrative expenses of £14.9m (2018: £14.0m) were incurred during the year, comprising business restructuring, compliance, property and other costs.

## **Finances**

The business has remained strongly cash generative, with cash inflow from operations during the year of £140.7m (30 March 2018: £201.0m). The reduction year on year was primarily a result of additional stockholding and the lower reported EBITDA. Cash balances at 29 March 2019 were £111.1m (30 March 2018: £140.7m), after the redemption at par of £9.45m of Senior Secured Floating Rate Notes, Due 2020, on 20 March 2019.

Net capital expenditure during the year was £101.1m (30 March 2018: £81.3m), principally reflecting a substantial increase in our expenditure on new stores; the total exceeded our previous estimate as the result of accelerated investment in our distribution network.

## **Products, pricing and marketing**

We have continued to develop and launch a wide range of innovative products, aided by our investment in Europe's best retail development kitchen at our head office in Deeside, Flintshire.

The quality of our products was underlined by a number of TV programmes during the year, notably BBC2's *Inside the Factory*, which showcased the production of our stone-baked, wood-fired £1.59 pizzas, produced for us by a family business in northern Italy.

For Christmas 2018, we developed a unique and emotional advertising campaign that focused on the plight of orangutans endangered by expanding palm oil production. Clearcast, the body that approves UK advertising for TV broadcast, refused to allow this Rang-Tan animation to air because it had originally been created by Greenpeace, which is deemed to be a political advertiser. As a result, the ad went viral on social media, attracting more than 80m views and making it the most-watched Christmas TV commercial of all time. A petition calling for it to be shown on TV attracted more than one million signatures, and we gained further attention through a series of stunts around the UK involving an animatronic orangutan. All this created unprecedented levels of media and public interest in Iceland, and a significant improvement in perceptions of our business. For Christmas 2018 we not only offered customers a 'no palm oil' range in our own stores but also retailed our own label mince pies through Selfridges, where they sold out.

While we have continued to expand our Luxury own label range, offering exceptional quality at great value prices, we have also been careful to maintain our appeal to shoppers on tighter budgets, offering great ranges of pizzas and ready meals for just £1. Our Seven Day Deals offering unbeatable value on selected products each week continued to be supported by press advertising and door drops. We also repeated our popular 10% discount offer to workers in the emergency services both in July and in the run-up to Christmas.

## **Awards**

We have continued to win multiple awards for the quality of our products and service. Successes during the year included wins in six categories at The Grocer Own Label Awards, 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. We won two gold, three silver and one bronze awards, including the overall Retail Product of the Year for Iceland Luxury Salted Caramel Ice Cream Sticks, at the British Frozen Food Awards; while Iceland Luxury was named Own Label Range of the Year at The Grocer Gold Awards. We also earned PETA's Best Vegan Burger accolade for our 'No Bull' burger.

In January The Institute of Customer Service named Iceland as the UK's top supermarket for customer satisfaction for the second time, while our Fulham store manager was named Store Manager of the Year at the Retail Week Awards in March.

We were also delighted to be recognised for our CSR initiatives with a number of awards, including the FT ArcelorMittal Boldness in Business Award for Corporate Responsibility/Environment, and the CIPR Award for Best Social Responsibility Campaign.

## **Stores**

The Group opened 45 new stores in the UK during the period (including 31 larger stores under The Food Warehouse fascia) and closed eight stores, giving us a net addition of 37 and a total of 942 (2018: 905) UK stores (including 90 The Food Warehouse stores) at the year-end. In our International business we opened five new stores in the Republic of Ireland to give us a total of 26 there at the year-end, and opened one new store in the Czech Republic to give us a total of seven stores there. Across the Group as a whole there was therefore a net addition of 43 stores to produce a total Group estate of 975 stores (2018: 932) at the year-end.

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. The pace of this work slowed during the year as we focused on our accelerated store opening programme, both within our own estate and through our new strategic alliance with The Range. Nevertheless we completed 30 major refits during the year, in the style pioneered at Clapham in October 2016, to give us a total of 81 such stores at the year-end.

## **Delivered sales**

Major investment in our Online offering over the past 12 months has continued to support its rapid growth, maintaining Iceland's position as the fastest-growing online grocer in the UK. Over the Christmas period, over 80,000 new customers shopped with Iceland, growing our active database to 3.6 million.

In March 2019 we launched an entirely new, state-of-the-art Iceland Online website, designed and built from the ground up. The new website offers a significantly improved mobile experience, a radical new look and feel, and new features including the ability to add to a basket without booking a slot and to shop directly from the search popup. The launch has delivered significant increases in average order value and in mobile sales. A new payment model, giving customers more payment options, has resulted in more than a 50% reduction in the number of declined and failed payments.

The installation of this new Online platform builds a solid foundation for further growth for the next 5-10 years.

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.

## **The Food Warehouse**

The Food Warehouse has grown from a single store in September 2014 to 90 stores across England, Wales and Scotland by the year-end, with 31 added during the period. Most stores are 10 – 15,000 sq ft in size, but we have enjoyed success with 'supersized' stores that allow us to carry an even wider product range. In November we opened our largest store to date, a 27,000 sq ft former Whole Foods unit in Cheltenham; this includes a specialist section called The Wine Warehouse offering an expanded range of quality wines at outstanding prices. All stores carry the complete core Iceland range plus extended ranges of luxury and speciality frozen food, chilled meat and fresh produce, plus value bulk packs of grocery products, together with selected homeware, electrical goods and other general merchandise lines.

The Food Warehouse continues to trade well, generating considerably larger average transactions than our core Iceland stores, while its new stores attract the vast majority of their customers from competing retailers, rather than from Iceland. Accordingly we remain confident of our ability to trade these two complementary store formats alongside each other in a growing number of towns across the country.

### **The Range**

In August 2018 we announced that we had formed a strategic alliance with The Range that would see the introduction of the Iceland food range into The Range's home, garden and leisure stores to make these a true 'one stop shop'. For Iceland, this represented an opportunity to make our food available in a new type of location, with the aim of extending our appeal by reaching people who had not shopped at Iceland before. An initial trial in three new and refurbished The Range stores in the Midlands and North West achieved encouraging results, and our food was on sale in a total of nine stores by the year-end.

### **Supply chain**

Our supply chain continues to operate smoothly through five multi-temperature regional distribution centres at Livingston, Warrington, Deeside, Enfield and Swindon. We have secured additional warehouse capacity in Swindon to accommodate the planned growth of our business through store openings.

### **International**

We have continued to achieve sales growth both through our company-owned stores outside the UK, and through our expanding export business. Our planned expansion in the Republic of Ireland remained on track, and we added five new stores during the year to give us a total of 26 at the year-end. We also grew our small chain in the Czech Republic with the opening of one new store, giving us a total of seven at the year-end. We continue to export our Iceland own label products to more than 40 countries around the world, including to our network of franchise stores in the Channel Islands, Spain, Portugal, Malta, Iceland (the country) and Norway. Our new franchise partner in Norway opened its first store in Greater Oslo in May 2018 and had a total of four trading by the year-end. During the year we launched a new partnership with JD.com to sell a range of Iceland branded groceries in China, and established a new subsidiary in India to develop our export business there. We continue to pursue discussions with a range of retail partners around the world with the aim of making Iceland's unique food available to the widest possible global audience.

### **People**

The Group employed an average of 25,181 people during the year (2018: 24,316). We are proud to have created some 800 new jobs through our store opening programme; we are also proud of the fact that more than 70% of our store colleagues live within three miles of work, making us a true community retailer and champion.

Our twice-yearly Straight Talk staff survey consistently records industry-leading response rates and levels of engagement, with an overall positive score from our retail colleagues in January 2019 that 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 Lidl, Morrisons, Waitrose and Greggs, as well as several leading non-food retailers.

In February 2019 Iceland was again ranked No 8 in the annual Sunday Times Best Companies survey of the “Best Big Companies to Work For In the UK”, maintaining the same position as in 2018. We have featured in this table for the last 13 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 2018 and a further 2% pay award in October to increase the differential between our pay and the National Living Wage for those aged over 25; unlike many of our competitors, Iceland continues to pay the same rate to employees of all ages, including new starters.

### **Sustainability and corporate social responsibility**

During the year Iceland progressed two industry-leading sustainability initiatives: our promise to remove plastic packaging from our own label range by the end of 2023, and our pledge to end the use of palm oil ingredients in the manufacturing of all Iceland own label products by 31 December 2018.

Our palm oil pledge generated an extraordinary level of public interest, reaching a global audience of 7.6 billion people through press and broadcast media, while our planned Rang-Tan Christmas advertisement became the most-watched Christmas advert of all time without ever being shown on commercial TV.

In total we launched a total of around 450 Iceland own label lines without palm oil as an ingredient during the year, either by reformulating existing lines or by launching completely new ones, including many seasonal summer and Christmas products. We fulfilled our pledge to end the use of palm oil ingredients in the manufacture of our own label products by 31 December, though we temporarily removed the Iceland own label from 17 ambient, chilled and frozen lines where exceptional technical challenges made it impossible for our suppliers to meet this deadline; all but four of these were relaunched under the Iceland own label by April 2019.

By the first anniversary of our plastics pledge on 16 January 2019 we had reduced our use of own label plastic packaging by some 1,500 tonnes per annum, out of a total of 13,000 tonnes, publishing full details in our plastics annual report: <https://sustainability.iceland.co.uk/wp-content/uploads/2019/04/Iceland-Plastic-Annual-Report-2019.pdf>

In February we launched a plastic-free fresh produce trial in a The Food Warehouse store in Liverpool, which has generated valuable learning on a number of alternatives to plastic packaging, and on customer reactions. We continue to work with our suppliers to switch all of our Iceland own label and exclusive brand frozen meals out of black plastic trays into sustainable paperboard or foil alternatives during 2019; eggs and a number of fresh produce lines will also move out of plastic during the year.

During the first six months of our industry-leading trial of reverse vending machines we scanned and recycled 311,500 plastic bottles through four stores in England, Scotland and Wales; we have extended the trial for a further six months and expanded it to include the first in-store trial of the technology in Northern Ireland. We have shared our learning from the initial trial with the UK and devolved governments as they move towards the promised introduction of an official Deposit Return Scheme. This has our strong support though we continue to stress the importance of adopting a uniform scheme across the UK, and have serious concerns about the complexities and costs that will be imposed on all retailers and drinks manufacturers if the Scottish Government presses ahead with its own planned scheme in advance of a launch in England. We also strongly oppose the inclusion of glass bottles within the proposed Scottish scheme, not only on the grounds of customer convenience and health and safety, but also because this requires the installation of very large reverse vending machines that could only be accommodated in large supermarkets or retail parks; this would be a further blow to the already struggling high street.

The Iceland Foods Charitable Foundation donated a total of £3.1m to good causes during the year. Its primary focus remained on fundraising for dementia research, and the Foundation donated a total of £1.9m to our two principal charity partners: The Alzheimer's Society/Alzheimer Scotland for 2018, and Alzheimer's Research UK for 2019. In addition to this, it formed new partnerships with the environmental charity Surfers Against Sewage to support its Plastic-Free Communities campaign, Big Spring Beach Clean: Summit to Sea, and Plastic-Free Communities Awards; and with the UK Sepsis Trust to raise awareness of this life-threatening condition through education programmes in schools and stores, and by placing sepsis information on Iceland's own label milk bottles. The Foundation also made a donation to Prostate Cancer UK that raised the total given to this charity to £1m.

## **Outlook**

Group sales continue to grow in the current year, and to outperform the market, benefiting from the opening of new Iceland and The Food Warehouse stores.

Since the beginning of the current financial year we have already opened 14 new stores in the UK: these comprise seven new core Iceland stores and seven larger stores under The Food Warehouse fascia. We expect to open a total of 50 new stores (including 34 The Food Warehouse stores) over the year as a whole.

We are also continuing our programme of store refits; in the financial year to date we have completed ten 'mini refits' that deliver many of the benefits of full 'Clapham-style' refit in terms of range extension and customer experience, but involve considerably lower expenditure and a much reduced closure period for each store. These refits have been concentrated in the Greater Manchester area, with the aim of bringing all our stores in the locality up to our latest standard.

The Range has added Iceland food sections to four more of its stores in the year to date, making a total of 13, with opportunities for further additions in the pipeline.

In our Online business, we are extending the range we can offer to customers and expanding our reach by rolling out Online picking across our The Food Warehouse stores. Our customers' shopping experience will be further enhanced by the comprehensive rollout of a new text service, which will be completed this summer. Customers will receive live order

updates, giving them a 30-minute delivery window. Feedback from customers in trial areas has been overwhelmingly positive and has significantly reduced customer enquiries into our Contact Centre.

The current rapid pace of store openings means that we will incur a high proportion of our annual capital expenditure in the first half of the financial year but we remain committed to making bond redemptions, notably of the £45m of Floating Rate Notes due in July 2020, from internally generated cash flow.

We fully supported the Government's introduction of the National Living Wage and are committed to keeping our own pay rates ahead of this. Accordingly we made a 4.75% pay award to all our front line retail staff in April, following an interim 2% award in October, substantially increasing the costs of operating our business in what remains a savagely competitive retail climate.

Prolonged uncertainty over the nature of timing and Brexit continues to dampen consumer confidence, but we are confident of our ability to trade successfully through any likely future scenario.

Iceland is a privately-owned British family 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.

**ENQUIRIES:**

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