

Ocado Retail FY22 Q4 Trading Statement

FY22 performance in line with guidance; record Christmas providing strong momentum as we enter the new year

Ocado Retail Ltd (“Ocado”), a joint venture between Ocado Group plc (“Ocado Group”) and Marks & Spencer Group plc (“M&S”), today announces its trading statement for the 13 weeks to 27th November 2022

Highlights

4Q 2022

- **Q4 Retail revenue of £549.4m, up 0.3% versus the same quarter last year, a result of:**
- **Average orders per week (Ocado.com) of 382,000, up 1.9% year-on-year** and reflecting 940,000 active customers¹ at end Q4, up 12.9% year-on-year, offset by reducing frequency in customer shopping compared with the pandemic period and as customers respond to the cost-of-living crisis
- **Average basket value (Ocado.com) of £117, down 1.3% year-on-year** as a 7.6% increase in the average selling price² per basket item, the lowest price inflation of all major supermarkets, was offset by a 8.3% fall in average items per basket (to 45 items) versus the same quarter last year. Alongside these two major factors, small moves in a combination of other items³ resulted in the overall decline in basket value
- **Moves in other line items of -0.3%**, primarily driven by a normalisation in vouchering spend (revenue is shown net of vouchers) compared with the historic lows of the pandemic period

FY 2022

- **Full-year revenue of £2.2bn was down 3.8% from the prior year, up c. 40% from FY19.** While average orders per week (+5.8%) were up in the year, reflecting an increase in active customers, and full-year average selling prices have increased by 4.4% (from £2.44 to £2.55), an unwind of pandemic shopping behaviours, accelerated by the onset of the current cost of living crisis, resulted in lower basket volumes (-12.1%, 6 fewer items) and declining shopping frequency, in turn driving an overall year-on-year decline in revenue
- **Current headwinds related to inflationary costs, capacity investments to support future growth and higher marketing costs continued to weigh on profitability; for the full year, we expect close to break-even EBITDA, in line with guidance**

Christmas Trading

- **We have started FY23 strongly with record Christmas sales, up 15% over the five days before Christmas,** and orders up 13%, including the highest level of orders ever recorded in a single day (more than 72,000)

Key financials

	13 weeks Q4 2022	13 weeks Q4 2021	Growth v Q4 2021	3-Year CAGR
Retail revenue ⁴	£549.4m	£547.8m	+0.3%	+9.6%
Average orders per week ⁵	382,000	375,000	+1.9%	+5.1%

Hannah Gibson, Ocado Retail’s Chief Executive Officer, said:

"This year we delivered our biggest ever Christmas for our customers at Ocado. A huge thank you to all my colleagues for making this possible. We now have close to 1m active customers, our largest ever customer base and we see huge potential to convert those who have now trialled online shopping elsewhere to become Ocado customers.

The year ahead will set us up to deliver strong sales and profit growth over the mid-term. In 2023 we will continue to strengthen and improve our leading customer proposition, including investing in value to help customers manage cost of living pressures, while keeping tight control of our costs. We will also be doing much more to unlock the potential of our partners, combining the benefits of Ocado's technology with the magic of M&S products.

While the current market environment is challenging for everyone, I am very excited in the future for Ocado Retail. Building on 20 years of amazing service and innovation, we are confident of continuing to raise the bar in online grocery and working with our partners to deliver the very best experience for our growing customer base."

Strong growth in customer numbers

As reported by Nielsen, Ocado Retail continues to grow its share of online grocery, increasing to 12.3% by the end of the quarter, up from 11.7% in the prior year, as it attracts increasing numbers of customers who tried online grocery for the first time during COVID and who are now looking for the best customer experience online. As consumers continue to seek value online, the channel's share of the market appears to be stabilising around 11% - versus around 6% pre-COVID - and is expected to grow next year, according to IGD.

Ocado's active customer base was up 12.9% year on year, to 940,000 at the year-end, evidencing strong customer demand for the service and value offered by Ocado.

Total customer numbers have been stable during the quarter, but reflect an improving profile.

The active customer base includes both mature customers and those just starting out (within the first five shops) on their Ocado journey. Our mature customer base continued to grow in the quarter. By contrast, the absolute number of newer customers within the active base has reduced, as we have refocused our marketing strategy from driving acquisition volume to prioritising the acquisition of customers more likely to convert into the mature base.

Customers acquired in the second half of the fourth quarter are already evidencing stronger conversion to maturity, underpinning our expectations for continued customer growth going forward.

Delivering value for customers

We have beaten the market on inflation. Grocery price inflation across the 8 major UK supermarkets was 13.9% during the quarter to end November 2022 (source: Which? report of 7 December 2022), and the highest recorded rate for 30 years.

Ocado Retail has continued to work closely with its suppliers to deliver cost savings. These have been reinvested in price to support our customers as they manage rising living costs. The same Which? study shows that prices at Ocado Retail increased 9.4%, over four percentage points lower than the overall market and the lowest of all the major supermarkets.

As mentioned above, our own data shows average selling prices have increased by 7.6%, after a 1.8% impact from customers trading down within the basket. The pricing of our core range of Everyday Saver lines has remained consistent with, or below, Ocado's larger UK competitors.

Notwithstanding these actions taken to support our customers, the challenging consumer environment has driven a faster normalisation from the high volume customer baskets experienced during the pandemic. The 7.6% increase in average selling price recorded in the period was more than offset by a reduction in the

average number of items in the basket of 8.3% year on year, from 49 items to 45 items, in line with pre-pandemic levels. This saw the average value of a basket declining overall by 1.3% to £117.

The new generation of CFCs are improving operating costs and customer experience

Ocado's Customer Fulfilment Centres ("CFCs") orders continue to grow while achieving progressively higher rates of productivity. Average orders per week for Ocado.com during the quarter were 382k (versus an installed capacity potential of around 600k), equivalent to around two-thirds of installed capacity potential.

The level of capacity utilisation is expected to improve significantly during 2023 as customers and orders continue to grow.

Today, the latest generation of robotic CFCs are operating at increasingly higher levels of productivity, with Andover and Purfleet consistently achieving over 200 units picked per labour hour within the facility ('UPH'), and Andover achieving a peak of 220 UPH, compared to UPH of around 150 for our first generation CFC in Hatfield. The newest sites also have much lower energy costs.

Going forward, with the rollout of Ocado Re:Imagined innovations, we expect Ocado Smart Platform ('OSP') operated sites to see further UPH improvements to over 300. At the same time, these innovations will enable further improvements in customer experience, notably with increased capacity for same day deliveries.

Update on Zoom

In 2022, Ocado Retail expanded the reach of Zoom, its leading immediacy offering. We have now opened 4 sites, including the opening of Leeds at the end of November. Together, we expect these sites to represent around £80m of annual sales at maturity.

Zoom is successfully reaching new customers for Ocado Retail with more than half of Zoom customers acquired in FY22 having never shopped on Ocado.com. Of Zoom customers who are active Ocado customers, a high proportion of their spend on Zoom is incremental.

2023 guidance and outlook

We entered the New Year with strong momentum following a record Christmas.

In 2023 we will focus on our Perfect Execution programme: focusing on unbeatable choice and reassuringly good value, and with leading service, against the background of the cost of living crisis in the UK.

Key initiatives that we are driving include:

- Investing in great value for our customers including better prices and promotions
- Unbeatable choice and service to provide all the products that customers love, improved availability and deliveries back to the kitchen table
- Capitalising on the opportunity to leverage the M&S relationship with regards to customer growth and our customer proposition, and
- Driving efficiencies across our operating model, returning cost ratios as a percentage of revenue towards pre-pandemic levels across the business, including operations, marketing and central costs

We enter the year comparing against the larger volume basket shopping behaviours that remained in place last year (following the pandemic) and, as such, expect that the first half of 2023 will therefore see lower basket sizes than those of the first half of 2022.

In the second half of 2023 we will no longer be comparing against these larger basket sizes. This will support a return to volume growth, improved capacity utilisation and reduced costs relative to sales. Revenue growth will also reflect the impact of price inflation.

The shape of the year will reflect the factors described above. Though we expect positive and improving revenue growth as we progress through the year, it is likely that EBITDA will be negative in the first half and positive in the second half, reflecting trends in volume growth.

Putting this together, we expect full year revenue growth in 2023 to be in the mid-single digits. While there remain many uncertainties, we expect ORL to deliver marginally positive EBITDA in 2023.

The improving trajectory forecast for the second half is expected to underpin a strong recovery in 2024.

In the medium term, Ocado remains confident, in the light of strong customer acquisition and continued improvements to underlying productivity, that sales and EBITDA margin will recover strongly. We will further build on Perfect Execution by making the most of the product and customer opportunities with M&S, and with the benefits of Re: Imagined still to come. Growing customer numbers, orders and increased utilisation of available capacity will, together, underpin a recovery to high-mid single digit EBITDA margins.

Alongside this release, a short video is available on the Ocado Group website [here](#) in which CEO, Hannah Gibson, discusses recent performance, strategy, and the significant mid-term opportunities ahead for Ocado Retail.

Ocado Group, on behalf of the joint-venture, will be hosting an analyst conference call at 8.00am today.

Please use participant number: +44 (0) 330 551 0200 and confirmation code: 1220779. A replay facility will be available through an on demand link for 90 days following the announcement.

Contacts

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About Ocado Retail

Online supermarket Ocado.com was established in 2000 and is one of Britain's leading online retailers, now a 50:50 joint venture between Ocado Group plc and Marks & Spencer Group plc. Covering geographies comprising over 74% of UK households, every shopping bag is carefully packed in one of seven distribution centres using market leading software and technology. Shopping is then delivered directly to customers using a network of regional spokes in brightly-coloured vans. With award-winning mobile apps, Ocado Retail delivers over 50,000 products, including big-name brands, a range of quality M&S and Ocado own brand products and a non-food selection. Thoughtful service features such as colour-coded bags, digital receipts provided in date order, reminder texts with your driver's name, along with convenient hourly delivery slots complementing award-winning customer service on email, phone and social media.

Notes

1. Active customers are classified as active if they have shopped at Ocado.com within the previous 12 weeks
2. Average selling price refers to Ocado.com and is defined as gross sales divided by total eaches
3. Other items includes delivery income and smart pass, post-delivery adjustments and cancelled orders
4. Retail revenue comprises revenues from Ocado.com and Ocado Zoom and excludes revenues from Fetch in current and prior periods
5. Average orders per week refers to results of Ocado.com
6. Average basket size refers to results of Ocado.com
7. Growth percentage calculated on a rounded basis
8. The figures used in this announcement are unaudited
9. A copy of this trading update is available on www.ocadogroup.com and www.corporate.marksandspencer.com

Cautionary statement

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements. Persons receiving this announcement should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, Ocado does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.