

Trading Statement

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OCADO GROUP PLC

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Ocado Retail Q3 Trading Statement

Strong customer growth as consumers seek value online; cost-of-living crisis weighing on customer spend

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 28th August 2022

Highlights

- Q3 sales of £532m, were up 2.7% compared with the same quarter last year (and 42% up on Q3 FY19 pre-COVID, excluding Fetch), a significant improvement versus the decline in Q2, and with even stronger growth expected in Q4
- Record numbers of new customers are now shopping at Ocado. Active customer numbers grew 23% year-on-year to 946,000, driving an increase in average orders per week of 10.7%
- While customers and orders have grown, consumers are shopping smaller baskets and seeking value-for-money items as they respond to inflationary pressures
- As a result, the value of the average basket was down by 6% in the period, to £116, with a greater decline experienced later in the quarter during the peak summer holiday season
- Cost headwinds (predominantly energy and dry ice) are likely to weigh on profitability in Q4
- We continue our efforts to help our customers keep their food bills low including investment in price and expansion of the value-for-money own label range
- Notwithstanding positive customer growth, the accelerating trading down and smaller baskets, particularly over the last few weeks, mean that we now expect to see a small sales decline in FY22 and close to break-even EBITDA

Key financials

	13 weeks Q3 2022	13 weeks Q3 2021	Growth ⁴
Retail Revenue ¹	£531.5m	£517.5m	2.7%
Average orders per week ²	374,000	338,000	10.7%

Tim Steiner, Chairman of Ocado Retail, said:

"We remain focussed on providing Ocado Retail customers with the best possible value to help them navigate the cost of living crisis, and are encouraged by the positive underlying trends in the business which underline the value of Ocado's differentiated proposition to customers.

Our online grocery model, which creates efficiency through advanced technology, offers customers a combination of competitive prices, the widest ranges, and industry-leading service. As we have seen in Q3, customer numbers are sharply up as consumers either switch from other providers or try online grocery for the first time; underlying productivity in fulfilment and the last mile continues to improve; and the new CEO of Ocado Retail, Hannah Gibson, brings fresh vision and energy to the business. As consumer spending stabilises, we expect Ocado Retail will again deliver attractive and accelerating growth in sales and a strong recovery in profitability.

For all these reasons, we are optimistic for the future even while recognising the challenges that higher energy bills and other inflationary pressures are creating for our customers today."

Channel shift and customer acquisition

Channel shift from bricks and mortar retailing to online remains an important feature of the food retail industry in the UK, evidenced by the ability of Ocado to attract new customers, many of whom shopped online for the first time through the COVID period.

Record customer numbers reflect the efforts Ocado has made to promote its brand through television and radio advertising combined with renewed vigour in below-the-line marketing to drive traffic to Ocado.com.

In the last twelve months Ocado Retail has grown the active customer base by 23% to 946k. Customer acquisition continues to trend at record rates. With a fast-growing customer base, the business should see an outsized benefit as and when customer spending stabilises.

The trading environment and cost headwinds

The impact of energy prices and other inflationary pressures has led to customers trading down and putting fewer items in their basket as they manage total cash spend.

Against a backdrop of reported double digit food price inflation for the market as a whole, Ocado Retail has been working closely with suppliers to provide value for customers during this challenging time. The business has grown the Ocado own-label range, a 750 strong selection of entry level priced goods, by 75 products, and continues to ensure that the core range of anchor products remains in line, or below, pricing represented at our larger UK competitors. These initiatives come in addition to the

ongoing popularity of the M&S own-label which continues to make up around 30% of the customer basket.

Ocado's average selling price has increased by 5% year on year, which is the net of a 7% inflationary increase in food price offset by a 2% decrease related to customers choosing lower priced alternative products.

In addition to trading down, customers are adding fewer items to their baskets. Average eaches (individual stocking keeping units) per basket during the quarter was 45, down 10% compared with the same quarter last year, and now in line with pre-pandemic shopping patterns.

While ASP was up 5%, lower eaches in the basket, down 10%, resulted in a 6% decline in the value of the average basket, from £123 to £116. This was offset by a 10.7% growth in customer transactions, resulting in sales growth in the period of 2.7%.

Ocado is not immune to the impact of inflationary pressures on the cost base. With respect to energy, the cost of electricity is around three times what it was in the prior year with fuel costs for the year also expected to be around 15% higher. At similar levels of use, this represents a £20-25m increase to the FY22 cost base compared with that of FY21. At the same time, largely as a result of knock-on effects of the energy crisis, the price of dry ice has sharply increased, adding a potential £15-20m in annualised cost compared with FY21. The business is exploring alternatives to dry ice. These impacts are expected to further weigh on profitability in the fourth quarter.

Ramping capacity

The Bicester customer fulfilment centre is now open, adding 30k orders per week at maximum capacity. New sites opened in FY21 continue to ramp up. The opening of four CFCs since the beginning of 2021 will ultimately bring total capacity for Ocado Retail of around 600,000 orders per week. With the 374,000 orders per week in Q3, this leaves Ocado Retail with capacity to add over 200,000 orders per week to meet expected future strong demand for the service. This growth capacity, however, represents a cost to the business in the short term.

The Zoom facility opened in Canning Town town earlier in the year is ramping in line with plan, with strong feedback from customers, and a new site in Leyton, East London, successfully opened in early September. Two further sites are planned for other UK cities in the next 6 months.

Outlook

In Q4, we expect a combination of continued strong growth in customer numbers and orders to result in mid-single digit sales growth for the quarter. This Q4 growth in revenue is not, however, expected to be sufficient to generate full-year growth year-over-year and we now expect to see a small sales decline in FY22 and close to break-even EBITDA.

In the medium term, Ocado is confident, in the light of strong customer acquisition and continued improvements to underlying productivity, that sales and EBITDA margin will recover strongly. This will be driven by growing customer numbers, orders, ongoing cost discipline and as we fill the available capacity. These dynamics underpin a recovery to high-mid single digit EBITDA margins in the mid-term.

Ocado Group, on behalf of the joint-venture, will be hosting an analyst conference call at 7.30am today. Please use participant number: +44 (0)330 165 4012 and confirmation code: 8476357. 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 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 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. *Retail revenue comprises revenues from Ocado.com and Ocado Zoom and excludes revenues from Fetch in current and prior periods*
2. *Average orders per week refers to results of Ocado.com.*
3. *Average basket size refers to results of Ocado.com.*
4. *Growth percentage calculated on a rounded basis.*
5. *The figures used in this announcement are unaudited.*
6. *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.

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