

International Distributions Services plc

Half Year Results 2022-23

Connecting Customers,
Companies and Countries

17 November 2022



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Agenda

Keith Williams



IDS Independent Non-Executive Chair

Mick Jeavons



IDS CFO

Martin Seidenberg



GLS CEO

Simon Thompson



Royal Mail CEO

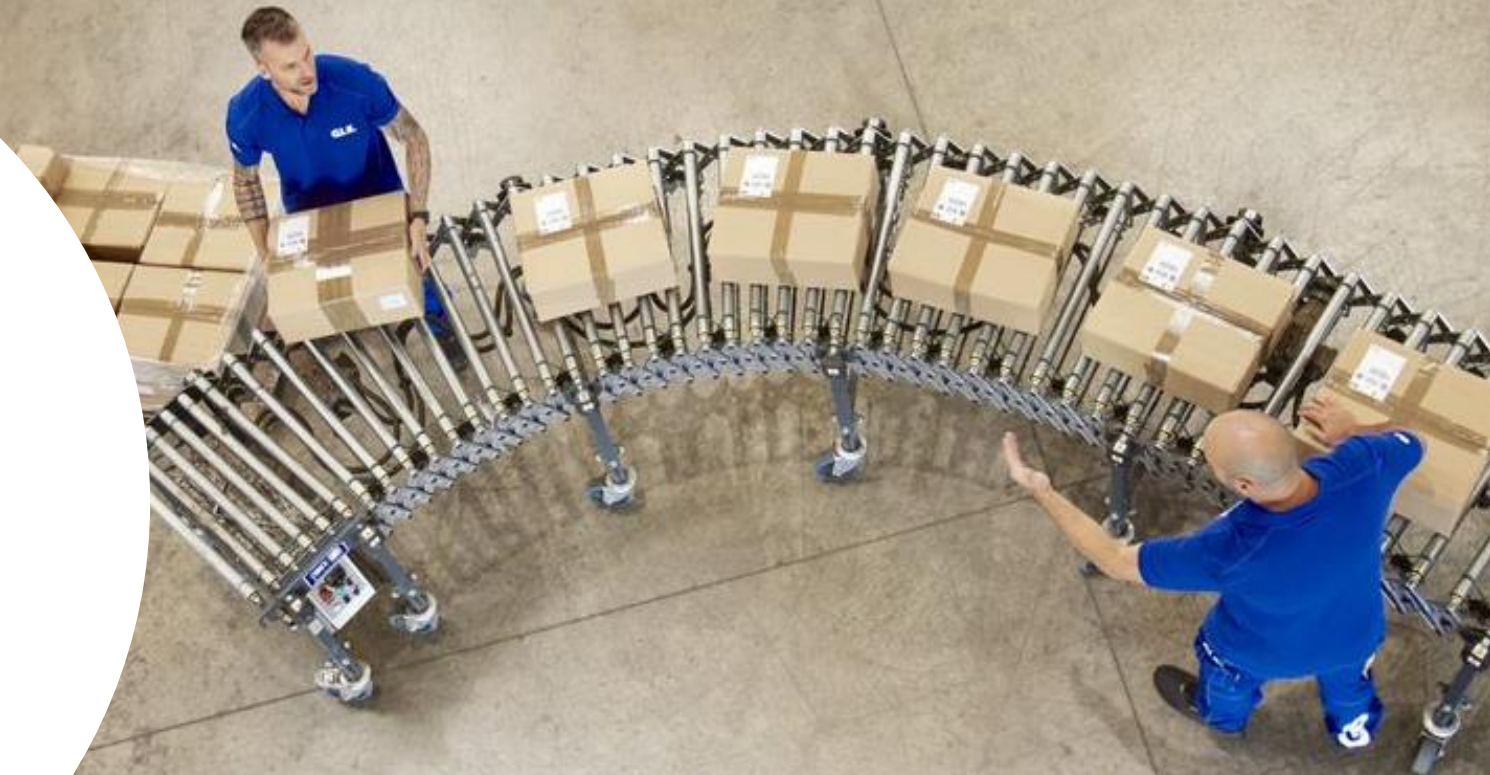
Q&A

International Distributions Services plc

Introduction

Keith Williams

International Distributions Services plc
Independent Non-Executive Chair



Summary



- 1** Business performance highlights we are at a crossroads
- 2** GLS' balanced and flexible business model showing its resilience
- 3** Royal Mail's lack of flexibility damaging both company and Group
- 4** All options remain open to protect the value and prospects of the Group, including separation

GLS

- Resilient performance despite macro-economic challenges
- Action taken on pricing levers, costs and efficiency
- Accelerate targets remain in place but delayed¹ given the macro-economic backdrop
- Investments focused on long term growth to be more global, digital and diverse

Royal Mail

- Required change in Royal Mail has started and it will return to profitability
- Talks with CWU continue
- All options remain open to protect the value and prospects of the Group, including separation in the event of a lack of operational change in Royal Mail
- Royal Mail balance sheet robust enough to withstand further industrial action

¹ €500m operating profit and €1bn accumulated free cash flow targets delayed by c.18-24 months. GLS Accelerate free cash flow is calculated as pre-IFRS 16 in-year trading cash flow plus disposal proceeds

Group

- Name change to International Distributions Services plc
- Strengthened Board - Jourik Hooghe joined
- Balance sheet robust - net debt of £150m (pre-IFRS 16) and available liquidity of around £1.7bn
- No interim dividend to be paid
- Potential for a final dividend for FY 2022-23 from earnings in GLS

International Distributions Services plc

Half Year Results 2022-23

Mick Jeavons

International Distributions Services plc
CFO



Group summary

- First half performance impacted by macro-economic challenges and unwind of temporary COVID-19 benefits
 - Royal Mail: £219m adjusted operating loss. Weak parcel volumes, inability to deliver the joint productivity improvements agreed with CWU under the Pathway to Change agreement and impact from strike action
 - GLS: €191m adjusted operating profit. Effective pricing and strong freight performance driving revenue growth and providing margin resilience but operating margin impacted by inflationary pressures
- Outlook
 - Royal Mail: continue to expect a full year adjusted operating loss of around £350m - £450m, including the direct impact of 12² days of industrial action (previously eight days, reflecting revenue resilience in strike action to date) which have taken place or have been notified to us, but excluding any charges for voluntary redundancy costs
 - GLS: maintaining full year guidance of high single digit % revenue growth in Euros and €370m – €410m adjusted operating profit, underpinned by flexible business model and strong portfolio. End state Accelerate targets delayed¹ due to macro-economic environment
- Capital allocation
 - Committed to maintaining a conservative balance sheet; tighter cash management measures in place in Royal Mail
 - No interim dividend to be paid – potential to declare a final dividend financed by earnings in GLS in May 2023
 - All options remain open to protect the value and prospects of the Group, including separation of the two companies

¹ €500m operating profit and €1bn accumulated free cash flow targets delayed by c.18-24 months. GLS Accelerate free cash flow is calculated as pre-IFRS 16 in-year trading cash flow plus disposal proceeds. ² 12 days of industrial action includes eight that have already taken place and four for which we have received formal notification.

H1 2022-23 Group financial summary

	Adjusted		% change
	H1 2022-23	H1 2021-22	
Revenue (£m)	5,838	6,072	(3.9)%
Operating (loss)/profit (£m)	(57)	404	(114.1)%
<i>Operating (loss)/profit margin (%)</i>	(1.0)%	6.7%	(770)bps
Earnings per share (basic)	(7.3)p	30.3p	(37.6)p
In-year trading cash flow (£m) ¹			
Post-IFRS 16	(143)	261	(154.8)%
Pre-IFRS 16	(235)	181	(229.8)%
Net (debt)	(1,472)	(540)	172.6%
Net (debt)/cash pre-IFRS 16 (£m)	(150)	685	(121.9)%
Dividend per share ²	-	6.7p (interim)	n/a

- Revenue fell 3.9% driven by challenging macroeconomic conditions and the prior period benefitting from COVID-19 lockdowns. For Royal Mail, the current period has also been adversely impacted by industrial action
- Parcel revenue accounted for 71.4% of total revenue (H1 2021-22: 70.9%)
- Group adjusted operating loss of £57m, driven by £219m loss in Royal Mail, only partially offset by £162m profit in GLS
- In-year trading cash flow deterioration almost entirely due to poor trading performance in Royal Mail. Cash conservation measures now in place in Royal Mail
- Balance sheet remains conservative, with net debt of £150m (pre-IFRS 16). Available liquidity of £1.7bn, including £925m Revolving Credit Facility
- Interim dividend will not be paid

Royal Mail results



		Adjusted		% change
		H1 2022-23	H1 2021-22	
Revenue	£m	3,647	4,074	(10.5)%
Operating costs	£m	(3,866)	(3,839)	0.7%
Operating (loss)/profit	£m	(219)	235	(193.2)%
<i>Operating (loss)/profit margin</i>	%	(6.0)%	5.8%	(1180)bps
Total parcel volumes	m units	613	725	(15)%
Addressed letter volumes (excluding elections)	m units	3,598	3,816	(6)%

- Revenue decline driven by weakening retail trends, lower COVID-19 test kit volumes, the impact of industrial action and a return to structural decline in letters
- Parcel revenue accounts for 54.2% of total Royal Mail revenue (H1 2021-22: 56.7%)
- Operating costs increased 0.7%, despite the fall in revenue, as we were slow to remove FTE costs in response to reduced volumes

£m	H1 2022-23	H1 2021-22
Adjusted EBITDA	(4)	434
Trading working capital movements ¹	(157)	(146)
Gross capital expenditure ³	(117)	(142)
Net finance costs paid	(18)	(22)
Other ²	-	7
Income tax received/(paid)	22	(17)
In-year trading cash flow	(274)	114
Capital element of operating lease repayments	(56)	(50)
Pre-IFRS 16 in-year trading cash flow	(330)	64

- Adjusted EBITDA lower largely due to adverse trading performance
- Trading working capital outflow driven by invoices received late in FY 2021-22 but paid in Q1 2022-23, voluntary redundancy payments and the settlement of international balances, partially offset by an inflow in relation to trade debtors due to the reduced revenues

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment ¹The comparative trading working capital movements and thus in-year trading cash flow have been re-presented to include deferred revenue movements (including Stamps In The Hands Of the Public (SITHOP)) which were previously presented in other working capital. This presentation is consistent with the presentation that has been adopted since the year ended 27 March 2022. ²Other consists of dividend from associate undertaking £nil (H1 2021-22: £5m) and Share based awards (LTIP and DSBP) charge adjustment £nil (H1 2021-22: £2m). ³Gross capital expenditure includes £7m for Estate Upgrade Programme

Royal Mail revenue and volumes – vs. H1 21-22



	Volumes (m units)			Revenue (£m)		
	H1 2022-23	H1 2021-22	% change	H1 2022-23	H1 2021-22	% change
Total Royal Mail	-	-	-	3,647	4,074	(10.5)%
Total Parcels	613	725	(15)%	1,975	2,308	(14.4)%
Domestic (ex. International) ¹	539	645	(16)%	1,635	1,911	(14.4)%
International ²	74	80	(8)%	340	397	(14.4)%
Total Letters	-	-	-	1,672	1,766	(5.3)%
Addressed letters	3,617	3,896	(7)%	-	-	-
Addressed letters (ex. elections)	3,598	3,816	(6)%	-	-	-

Parcels:

- Total parcel volumes down 15%; revenue down 14.4%
- Domestic parcels (ex. International)¹ volumes down 16%; revenue down 14.4%
 - Tracked 24[®] / 48[®] and Tracked Returns[®] volumes down 12% (5% excluding COVID-19 test kits)
- COVID-19 test kits accounted for c.2% of total parcel volumes (H1 2021-22: c.5%)
- International² volumes down 8%; revenue down 14.4%. Improving trend in the second quarter

Letters:

- Addressed letter volumes (ex. elections) down 6%, reflecting a return to the structural decline in the letters market
- Total letter revenue down 5.3%
- Business mail volumes down 6%, driven by the structural decline in this market; revenue up 0.9% due to price increases
- Advertising letter³ volumes were broadly flat. This category was particularly adversely impacted by the pandemic and only partially recovered in the prior period

¹ Domestic Parcels excludes Royal Mail and Parcelforce Worldwide import and export ² International Parcels includes Royal Mail and Parcelforce Worldwide import and export ³ Comprises addressed and unaddressed advertising letters products

Royal Mail revenue and volumes – vs. H1 19-20



	Volumes (m units)			Revenue (£m)		
	H1 2022-23	H1 2019-20	% change	H1 2022-23	H1 2019-20	% change
Total Royal Mail	-	-	-	3,647	3,649	(0.1)%
Total Parcels	613	613	-	1,975	1,727	14.4%
Domestic (ex. International) ¹	539	486	11%	1,635	1,334	22.6%
International ²	74	128	(42)%	340	393	(13.5)%
Total Letters	-	-	-	1,672	1,922	(13.0)%
Addressed letters	3,617	4,912	(26)%	-	-	-
Addressed letters (ex. elections)	3,598	4,731	(24)%	-	-	-

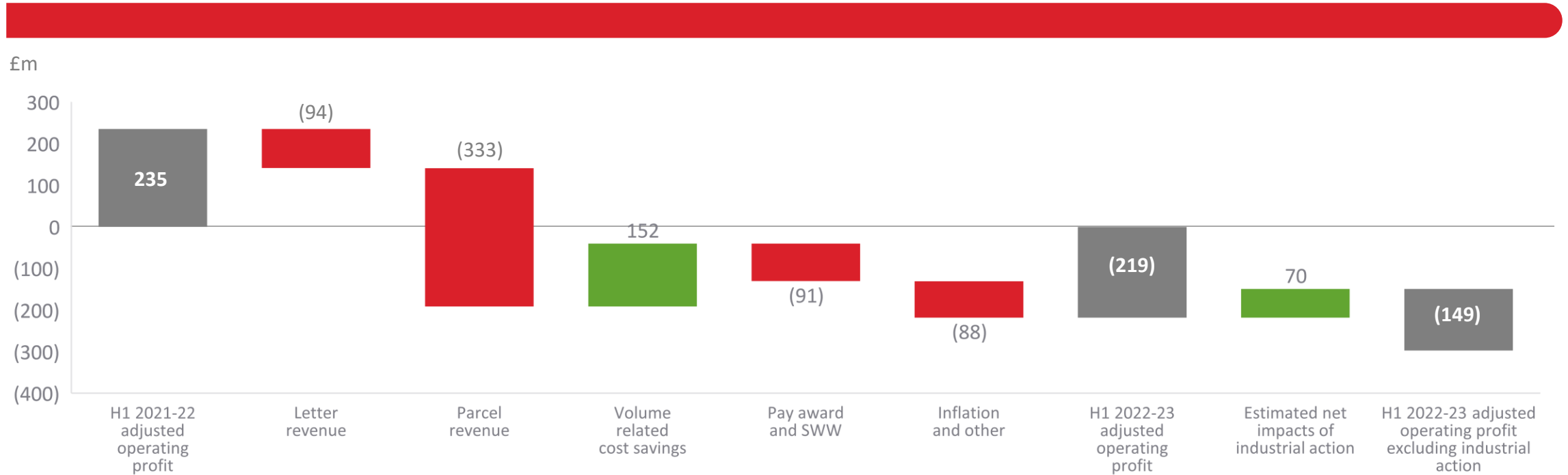
Parcels:

- Total parcel volumes flat; revenue up 14.4%
- Domestic parcels (ex. International)¹ volumes up 11%; revenue up 22.6%; estimated to be up 27.8% excluding the impacts of strike action
 - Tracked 24[®] / 48[®] and Tracked Returns[®] volumes up 82%
- International² volumes down 42%; revenue down 13.5%

Letters:

- Addressed letter volumes (ex. elections) down 24%, reflecting the continued structural decline in the letters market
- Total letter revenue down 13.0%

Royal Mail adjusted operating profit



- Parcel revenue impacted by weaker macroeconomic conditions, reduction in COVID-19 test kits and industrial action
- Net impact of industrial action in the first half estimated to be c.£70m (lost revenue and strike preparation costs partially offset by pay abatements and variable cost savings)
- Volume related cost savings relate to volume changes year on year in parcels and letters across Royal Mail, Parcelforce Worldwide, International and Ecourier. It also includes changes in sales related costs.
- Inflation and other includes a number of headwinds such as adverse productivity, increase in National Insurance social care levy, depreciation, uniforms, industrial action cost impacts and foreign exchange costs. These are partially offset by tailwinds including non people and COVID-19 savings.

Adjusted

£m	H1 2022-23	H1 2021-22	Change
Revenue	2,200	2,010	9.5%
Operating costs	(2,038)	(1,841)	10.7%
Operating profit	162	169	(4.1)%
<i>Operating profit margin</i>	7.4%	8.4%	(100)bps
Volumes (m)	410	417	(2)%
Average £1 = €	1.18	1.16	

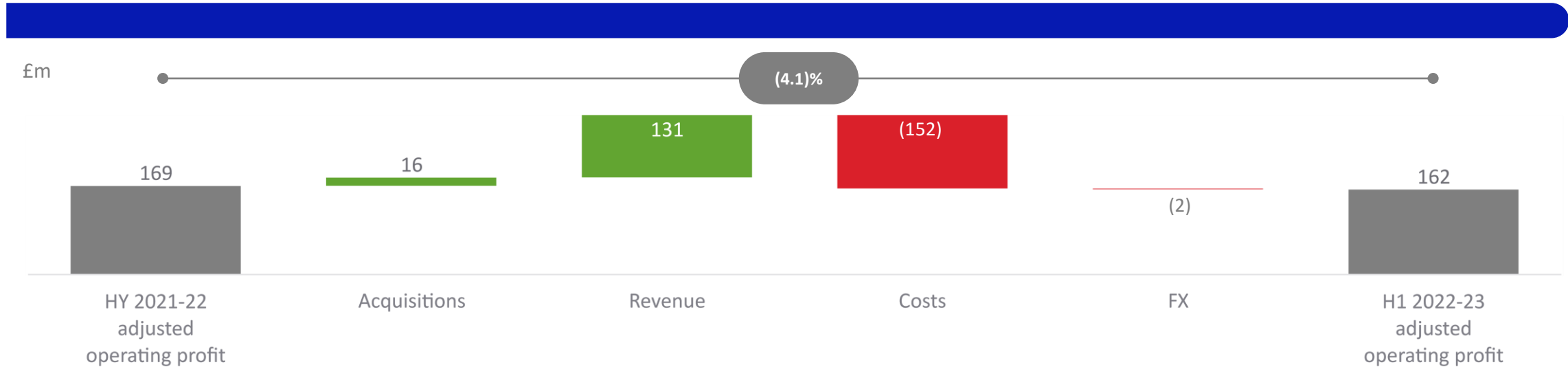
- Excluding acquisitions, revenue was up 5.5% in Sterling (6.5% in Euros)
- Underlying revenue growth was driven by higher prices, including the benefit from higher fuel surcharges and higher freight revenues
- Volumes declined 2%, development impacted by unwinding of temporary benefits from COVID-19 lockdown restrictions in the prior period and a general deterioration in economic conditions
- B2C volume share was 54%, one percentage point below H1 2021-22

Reported

€m	H1 2022-23	H1 2021-22	Change
Revenue	2,587	2,342	10.5%
Operating costs	(2,396)	(2,145)	11.7%
Operating profit before specific items	191	197	(3.0)%
Operating specific items	(50)	(9)	455.6%
Operating profit	141	188	(25.0)%

- Higher operating costs driven by higher subcontractor rates due to inflationary pressures impacting fuel and wages. Further impact on operating costs from higher utility costs and depreciation
- Operating profit development includes the benefit from acquisitions – principally the Rosenau transaction in Canada which completed 1 December 2021
- Operating profit margin of 7.4% was 100bps below prior year, but in line with expectations
- Operating specific items include a cost of €39m (£33m) in relation to the expected settlement of VAT adjustments in Italy, covering the years 2016 to 2021

GLS adjusted operating profit



- Revenue up 9.5% (10.5% in Euro terms), driven by better pricing including the benefit from higher fuel surcharges, acquisition effects and higher freight revenues, which mitigated a decline in volumes
- Revenue growth in Euros in almost all countries
- Germany revenue up 4.9% in Euros despite slow-down in the economy and strong competition. Revenue growth benefited from strong price increases implemented to mitigate inflationary pressures, including the impact from the higher German minimum wage. Overall operating profit decline as better pricing could not fully mitigate cost increases
- Italy revenue up 5.3% in Euros driven by better pricing and slightly higher volumes. Operating profit declined due to higher unit operational costs
- France revenue up 4.1% in Euros driven by better pricing which mitigated a decline in volumes. Losses narrowed slightly compared with the prior period
- Good performance in other developing markets, with revenues up 9.8% in Euros driven by a combination of higher volumes and better pricing. Double-digit revenue growth achieved in Poland, Croatia, Slovenia & Czech Republic
- Canada revenue up 30.1% in Euros (17.4% in CAD terms) on an organic basis, driven by higher yield including benefit from higher fuel surcharges. Rosenau business performing well and the securing of synergies with GLS Canada is on track
- US revenue up 10.0% in Euros driven by foreign exchange movements (down 4.0% in USD terms). Lower volumes partly mitigated by better pricing. Decline in revenues combined with higher unit operational costs resulted in a loss in the period

GLS in-year trading cash flow



£m	H1 2022-23	H1 2021-22
Adjusted EBITDA ¹	243	237
Trading working capital movements	(18)	6
Gross capital expenditure	(44)	(52)
Net finance costs paid	(8)	(8)
Income tax paid	(42)	(36)
In-year trading cash flow	131	147
Capital element of operating lease repayments	(36)	(30)
Pre-IFRS 16 in-year trading cash flow	95	117

€m	H1 2022-23	H1 2021-22
Adjusted EBITDA ¹	286	276
Trading working capital movements	(21)	7
Gross capital expenditure	(52)	(61)
Net finance costs paid	(10)	(9)
Income tax paid	(49)	(42)
In-year trading cash flow	154	171
Capital element of operating lease repayments	(43)	(35)
Pre-IFRS 16 in-year trading cash flow	111	136

- GLS in-year trading cash flow remains robust, but below prior year due to negative working capital development and higher income tax payments
- Working capital impacted by timing of receipts and payments around period end
- Higher income tax payments due to increased tax payments following the Rosenau acquisition and the timing of payments across other jurisdictions

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Outlook



Royal Mail outlook

We continue to expect a full year adjusted operating loss of around £350m - £450m, including the direct impact of 12² days of industrial action which have taken place or have been notified to us, but excluding any charges for redundancy costs

Headwinds

- Revenue decline expected:
 - Continued macro-economic pressures, UK domestic parcels market expected to decline
 - Reduced COVID-19 test kit volumes
 - Addressed letter volumes (ex. elections) expected to decline by high single digit %
- 2% CWU pay increase awarded, but improved pay offer made and talks with CWU continuing
- Fuel and energy inflation largely offset by hedging positions and fuel surcharges on some contract services
- Impact from industrial action not as significant as expected so far but risk of impacts from further industrial action remain
 - eight days of industrial action so far adversely impacted operating profit by an estimated c.£100m

Actions in progress

- FY 2022-23 capex reduced from c.£350m to c.£250m
- c.5k FTE¹ reduction by March 2023 and c.10k FTE reduction by August 2023 (on a rolling 12 month basis), as previously announced
- Price increases on letter services brought forward to November 2022
- Cost saving initiatives reduced to c.£200m
 - operational management restructuring
 - non-people cost savings in progress
 - removal of COVID-19 costs
 - failure to deliver on Pathway to Change savings
- Other initiatives include new T&Cs for new frontline recruits, new attendance policy, 25% cap on Parcelforce Worldwide owner-drivers removed and tighter cash management across the business

**Targeting recovery which will generate positive free cash flow in 2023-24 and a restore adjusted operating profit in 2024-25.
Balance sheet impairment avoided based on recovery plan**

GLS outlook

Short term headwinds being mitigated

Maintaining FY 2022-23 guidance of high single digit revenue growth in Euros and operating profit in the range of €370 to €410m

Headwinds

- Impact on parcel volume growth and margin from:
 - Unprecedented energy and fuel cost increases
 - High and sustained levels of overall inflation
 - GDP slowdown accelerating
 - Decreasing consumer confidence & spending
 - Continued driver and labour shortages
 - Increasing labour costs driven by minimum wage measures

Actions to offset headwinds

- Pricing: price increases instigated and under constant review, and fuel surcharge measures tightened
- Costs: cost containment measures intensified, optimisation of network and line haul, and prioritisation of efficient capital investment

Longer term focus remains

- Targeted network investments to increase efficiency and strengthen the network
- Investment focus broadening to adjacent markets to strengthen and diversify
- Strengthen the digital organization
- Improve performance in US and France

Macroeconomic conditions delaying¹ Accelerate targets of €500m operating profit and €1bn accumulated cashflow

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Capital allocation



Capital allocation and dividend policy

As a result of the ongoing uncertainty in Royal Mail and in order to further conserve the balance sheet position, no interim dividend to be paid

- Royal Mail in-year trading cash outflow of £330m (pre-IFRS 16), unable to fund its own investment needs and with ongoing uncertain outlook. Tighter cash management measures in place
- GLS in-year trading cash in flow of £95m (pre-IFRS 16)
- Uncertain outlook in Royal Mail has the Group on negative watch from BBB investment grade
- Focus is on transforming Royal Mail and returning the business to adjusted operating profitability in 2024-25
- As a result of the ongoing uncertainty in Royal Mail and in order to further conserve the balance sheet position, no interim dividend to be paid
- The Board will look at the potential to declare a final dividend financed by earnings in GLS in May 2023

As previously stated, in the event that significant change within Royal Mail is not achieved, all options remain open to protect the value and prospects of the Group, including separation of the two companies

Group summary

- First half performance impacted by macro-economic challenges and unwind of temporary COVID-19 benefits
 - Royal Mail: £219m adjusted operating loss. Weak parcel volumes, inability to deliver the joint productivity improvements agreed with CWU under the Pathway to Change agreement and impact from strike action
 - GLS: €191m adjusted operating profit. Effective pricing and strong freight performance driving revenue growth and providing margin resilience but operating margin impacted by inflationary pressures
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- Capital allocation
 - Committed to maintaining a conservative balance sheet; tighter cash management measures in place in Royal Mail
 - No interim dividend to be paid – potential to declare a final dividend financed by earnings in GLS in May 2023
 - All options remain open to protect the value and prospects of the Group, including separation of the two companies

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GLS

Martin Seidenberg

GLS CEO



Resilient results during H1



- Volumes impacted by slowdown in e-commerce and emerging recession
- Strong price increases driving revenue growth and partly mitigating inflationary cost pressure
- Higher freight revenues, including contribution from GLS Canada (Rosenau)
- Overall operating profit decline as trading conditions become more challenging

Current year performance (€m)	H1 2022-23	H1 2021-22	Change H1 22-23 vs H1 21-22
Parcels millions	410	417	-2%
Revenue €m	2,587	2,342	+10.5%
Adjusted operating profit¹ €m	191	197	-3.0%
Margin %	7.4%	8.4%	-100bps



¹ Adjusted operating profit excludes specific items

Robust performance in Europe and Canada but challenges in US



Western & Northern Europe

- Solid performance in Germany given market conditions:
 - Revenue growth despite slow-down in economy and strong competition
 - Margin below prior period despite strong pricing due to increase in minimum wage and cost inflation
- Favourable mix effects in Benelux (B2B parcel & freight)
- Denmark continuing to retain a leading B2C market position

Southern Europe

- Continued positive momentum in France
- Italy and Spain:
 - Low/mid-single digit revenue growth
 - Margin development broadly in line with overall Group

Central & Eastern Europe

- Sustained good overall performance despite war in Ukraine
- YoY volume and price improvements
- Only slight margin decline despite above average inflation

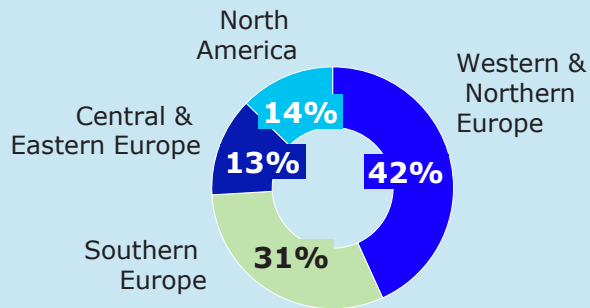
North America

- Integration and synergies on track in Canada
- Difficult market environment in US with inflationary pressures and volume slowdown
- US turnaround measures to mitigate impact in progress, but margin below prior year

Portfolio approach and flexible operating model underpinning performance

Diversified exposure

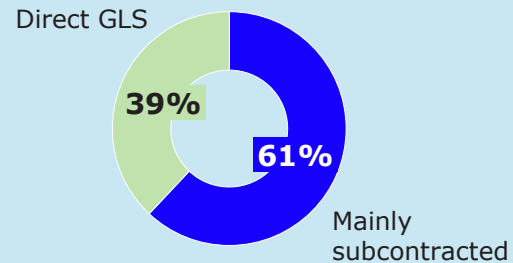
Less sensitive to economic downturn in a particular country or region



Revenue H1 2022-23 by geography¹ (€m)

Flexible operating model

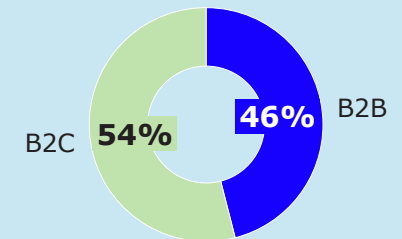
Agile business model allows swift response to changing market dynamics



Cost base H1 2022-23 by category² (€m)

Balanced customer mix

Downturn in one segment is compensated by stable performance in other segments



Domestic parcel volume mix H1 2022-23 (%)



Leveraging our strengths to mitigate headwinds

Economic headwinds are building

- Unprecedented energy and fuel cost increases
- High and sustained levels of inflation
- GDP slowdown accelerating
- Decreasing consumer confidence & spending
- Continued driver and labour shortages
- Increasing labour costs driven by minimum wage effects

Mitigation measures having positive effects

- Leveraging variable cost model
- Group-wide cost containment measures intensified
- Prioritising investments which provide efficiency savings
- Price increases instigated and under constant review
- Fuel surcharge measures tightened

FY 2022-23 outlook reconfirmed

2022-23

- Revenue growth: high single digit
- Operating profit¹: €370m - €410m

2023-24+

- Economic rebound in 2023-24 unlikely
- Mitigating actions will be intensified
- Accelerate 2024-25 targets delayed²
- Potential remains unchanged

¹ Includes Operating profit excluding specific items

² €500m operating profit and €1bn accumulated free cash flow delayed by 18-24 months

Focused investments continuing to push forward our growth ambition



Grow, automate & diversify

- Targeted investments to increase efficiency and strengthen the network
- Growing parcel locker presence
- Investment focus broadening to adjacent markets to strengthen and diversify



Digital transformation

- Continue development of digital customer solutions supporting customer convenience and operational excellence
- Logistics start-up investments and partnerships (Tousfacteurs)



Sustainable delivery model

- Zero and low emission fleet continues to grow
- Continue to invest in green building solutions

GLS.

- ● **Performance** Robust trading in H1 underpinned by flexible, balanced and diversified model
- ● **Headwinds** Mitigation measures intensified during H1; full year 2022-23 guidance reconfirmed with tighter economic conditions expected
- ● **Direction** Targeted investments pushing GLS further to become more global, digital and diversified

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Royal Mail

Simon Thompson

Royal Mail CEO



We have started turning the business around...



Five point plan to stabilise Royal Mail underway



Management actions minimising impact of industrial dispute



Infrastructure in place – now need changes to ways of working to deliver ROI

...and will do whatever it takes

Five point plan to stabilise Royal Mail underway

1

Rightsizing our business

2

Creating the headroom to invest

3

New resourcing models

4

Efficient use of our network and assets

5

Building management capability and effectiveness

1 Rightsizing our business



- c.5k FTE¹ reduction by end March 2023²
- c.10k FTE¹ reduction by end August 2023²

- Voluntary redundancy process commenced with preference exercise

- Revisions to align resource to workload

¹ FTE is defined as operational hours paid per week divided by a standard 37 hour week. ² On a rolling 12 month basis.

2 Creating headroom to invest



- Creating incremental liquidity to continue funding transformation

- Tighter cash management

- Capex reduction from £350m to £250m

3 New resourcing models



- 25% cap on owner drivers in Parcelforce Worldwide removed

- New starters already hired on new contracts

- New attendance policy

4

Efficient use of our network and assets

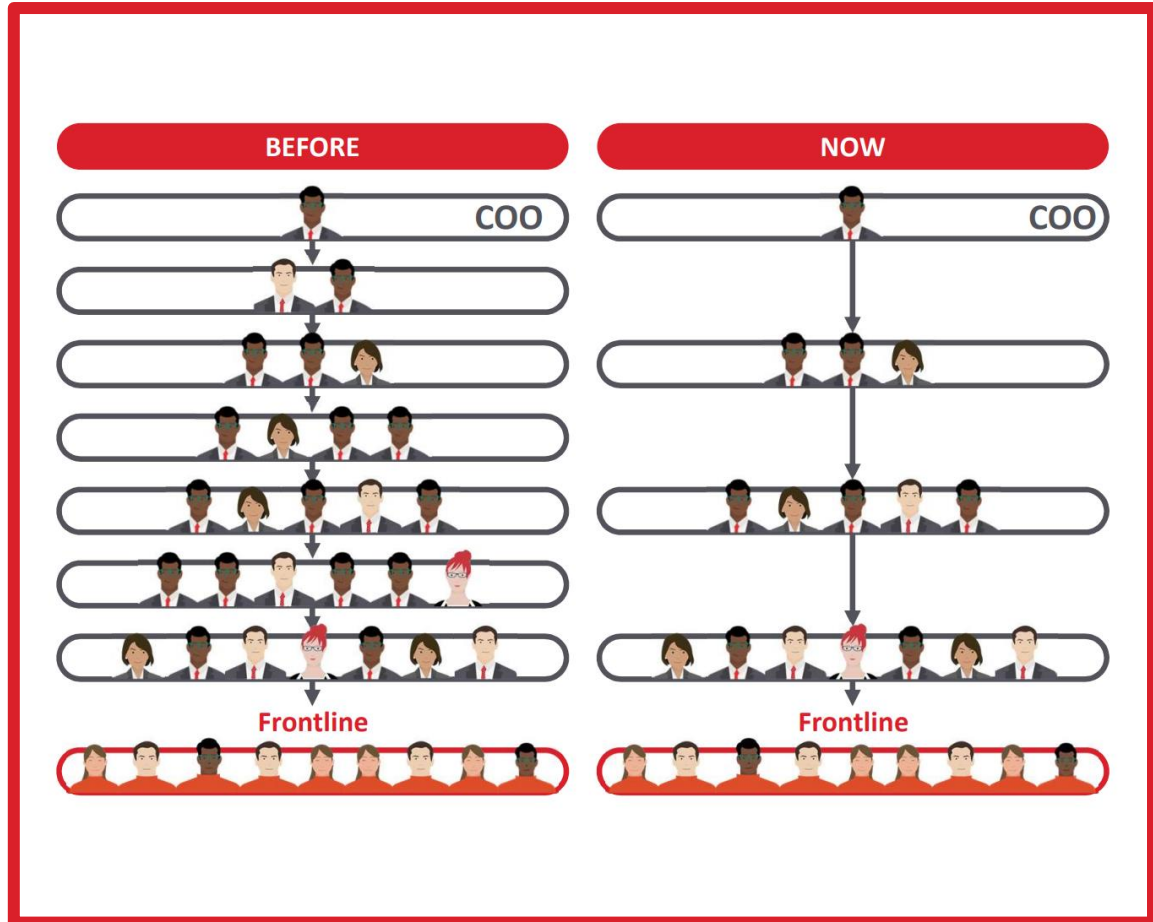


- Scan In, Scan Out deployed in all delivery offices

- National roll-out of c.350 dedicated parcel hubs

- Moving parcels from Mail Centres to Super Hubs

5 Building management capability and effectiveness



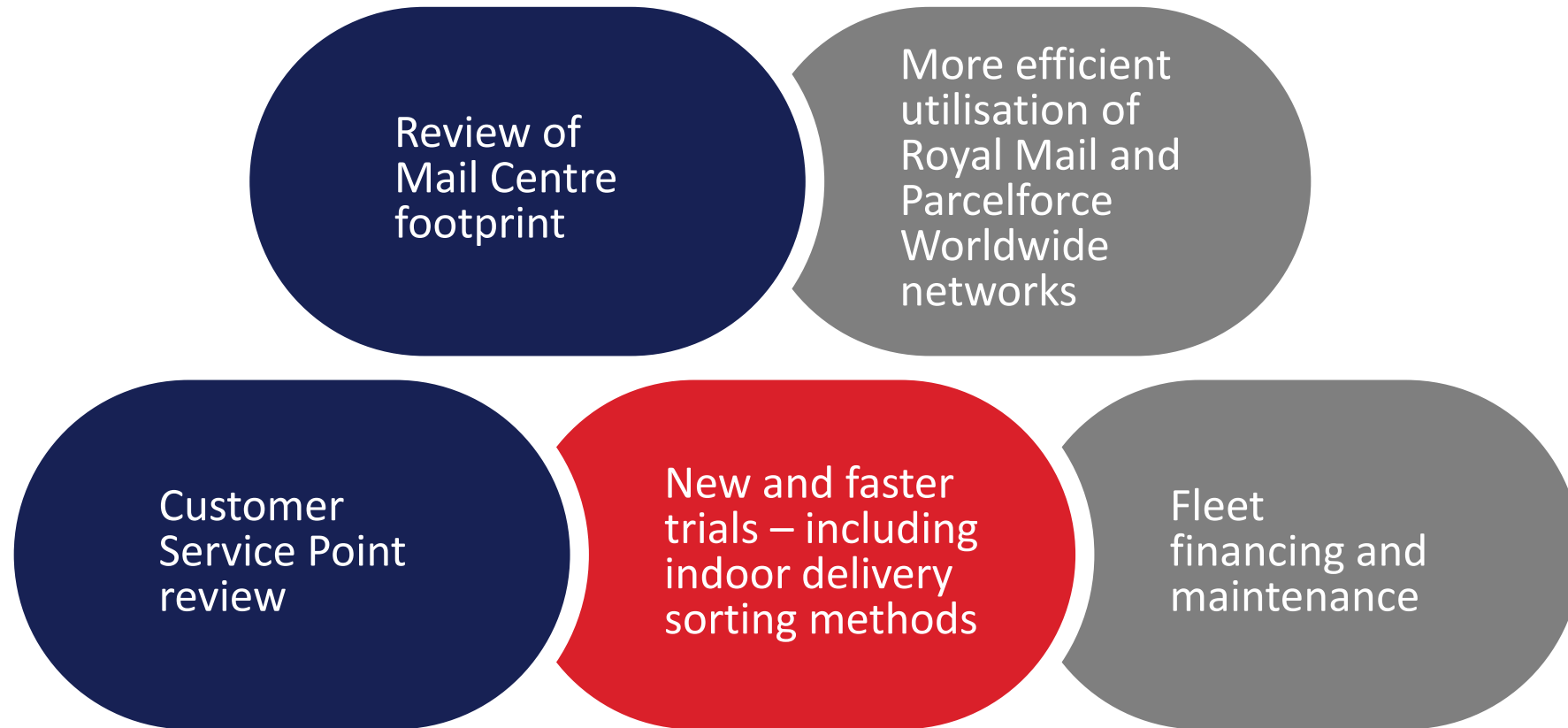
- Biggest change to operational management in 30 years complete

- Improved performance management of the operation

- Unite/CMA pay for change deal agreed in three weeks

- Investing in our managers: Royal Mail Academy launched

Further structural change

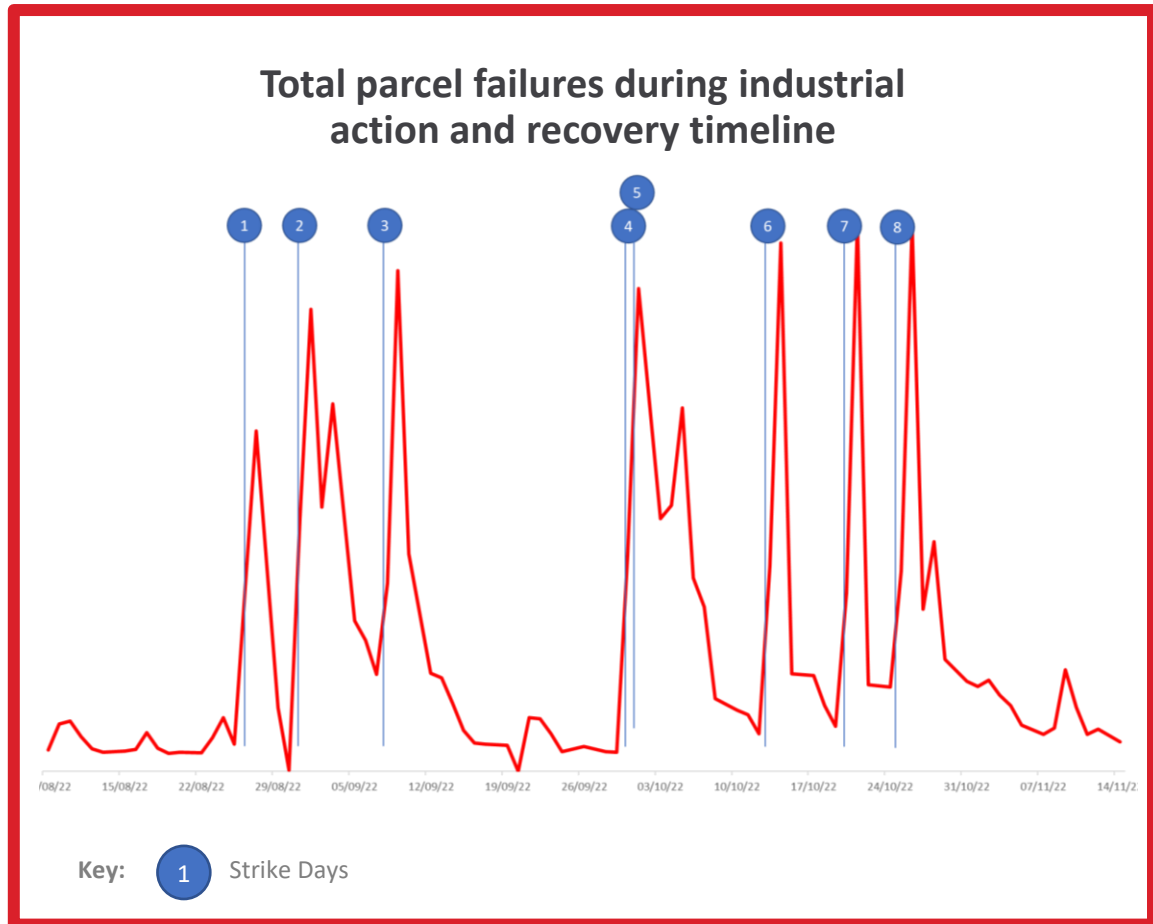


Regulatory reform

- Letter volumes declined more than 60% since their peak
- Ofcom research shows a five day (Mon-Fri) letters service meets needs of 97% of consumers and SMEs
- Ensuring future sustainability depends critically on urgent reform of the Universal Service
- Government approached to seek an early move to five day letter delivery



Impact of industrial action less than initially expected



- Robust contingency plans in place

- Retention of customers due to strong account management

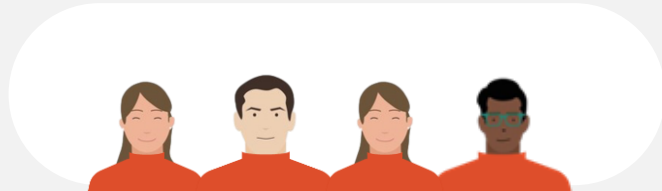
- Quick recovery from industrial action – improving each time

Talks with CWU continuing

2%
already awarded
from April 2022

3.5%
funded by change and
1.5% from April 2023

2%
lump sum
payment¹



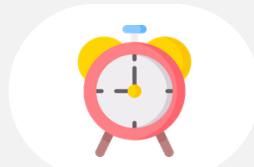
We recognise our people
deserve a pay rise



Normal duties
cover 24/7



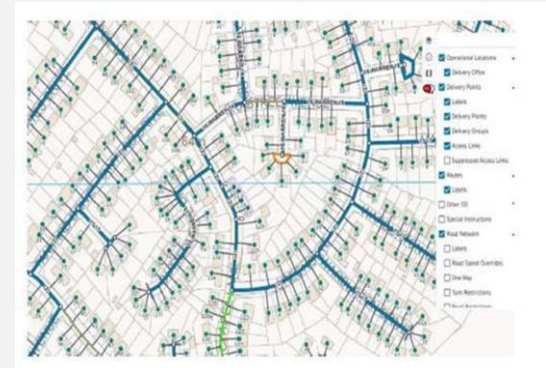
Flexi
working



Later start/finish
times



Absence
policy



In total, that is up to a 9% increase in earning potential over two years

¹ Paid upon the successful implementation of a local revision or other local change

Need to modernise ways of working with CWU



- Served notice on number of historic agreements

- Action now being taken to move ahead with required change

- Making the business more agile and competitive

Royal Mail can have a bright future



Royal Mail is a fundamentally strong business; brand, scale, trusted relationships at the doorstep



Achieving transformation is not optional; it is urgent



Management is committed to turning business around:

Targeting positive free cash flow in FY 23-24

Return to operating profit in FY 24-25

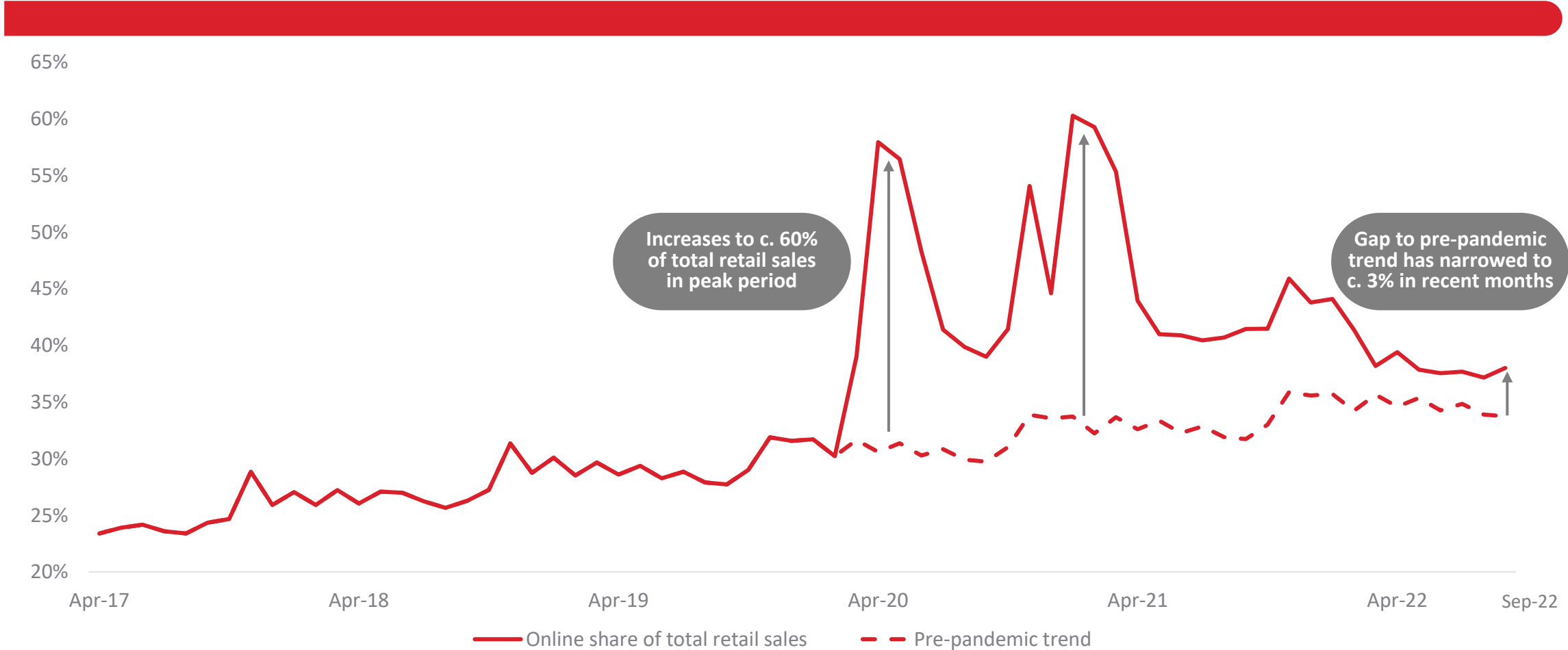
A landscape photograph of a valley with a winding road and a red van, overlaid with a red and blue graphic design. The scene shows a wide valley with a winding road and a red van driving away. The sky is blue with some clouds. The foreground is a grassy slope. The background shows distant mountains.

Q&A

Appendix




Online share of total retail sales – ONS data



Commodity exposure

Percentage of forecast volume hedged in Royal Mail as at 25 September 2022



	2022-23	2023-24	2024-25
Diesel (%)	92	72	23
Inland Jet (%)	84	70	30
Gas (%)	86	69	24
Electricity (%)	100	69	12

- Royal Mail operates a layered rolling approach to hedging its larger commodity exposure up to 36 months in advance of physical purchase
- The aim of the hedging programmes is to provide Royal Mail with a high degree of certainty over its forecast volume cost
- The programme has been in place for a number of years and covers diesel, inland jet and gas which are fixed via financial derivatives
- The price of Royal Mail's electricity has been fixed via a long term supply contract on which the fixing ends in March 2024
- Fuel costs for GLS are mainly managed indirectly via negotiations with subcontractors. Electricity and gas costs at GLS are not hedged

Specific items and pension adjustment

£m	H1 2022-23	H1 2021-22
Amortisation of intangible assets in acquisitions	(10)	(8)
GLS VAT adjustments	(33)	-
Legacy / other items	9	(2)
Total operating specific items	(34)	(10)
Profit/(loss) on disposal of property, plant & equipment	6	(2)
Net pension interest	53	32
Total non-operating specific items	59	30
Pension charge to cash difference adjustment (within people costs)	(72)	(83)
Total specific items and pension charge to cash difference adjustment	(47)	(63)

	H1 2022-23	
£m	Reported	Adjusted
Loss before tax	(127)	(80)
Loss after tax	(86)	(70)
Earnings per share (basic)	(9.0)p	(7.3)p

- Amortisation of acquired intangible assets largely relates to acquisitions made by GLS in recent periods in Canada, Spain, the US and Italy
- GLS VAT adjustment relates to the expected settlement of VAT adjustments in Italy, covering the years 2016 to 2021
- The legacy item relates to a £9m credit in respect of Industrial Diseases claims, the credit is as a result of an increase in the discount rate versus the prior period. The prior period charge of £2m related to employee share schemes and interest on the Ofcom fine
- The profit on disposal of property, plant and equipment primarily relates to the sale of a number of Royal Mail properties
- The decrease in the pension charge to cash difference adjustment is due to the increase in the net discount rate (versus CPI) between March 2021 and March 2022

Group in-year trading cash flow and capital expenditure

£m	H1 2022-23	H1 2021-22
Adjusted EBITDA	239	671
Trading working capital movements ¹	(175)	(140)
Gross capital expenditure	(154)	(194)
Estate Upgrade Programme ²	(7)	-
Net finance costs paid	(26)	(30)
Other ³	-	7
Income tax paid	(20)	(53)
In-year trading cash flow	(143)	261
Capital element of operating lease repayments	(92)	(80)
Pre-IFRS 16 in-year trading cash flow	(235)	181
Attributable to Royal Mail	(330)	64
Attributable to GLS	95	117

£m	H1 2022-23	H1 2021-22
GLS capex	44	52
Royal Mail transformation capex ⁴	63	73
Royal Mail maintenance capex ⁴	47	69
Gross capex⁵	154	194

- Pre-IFRS 16 in-year trading cash flow is a £235m outflow
- Lower adjusted EBITDA due to reduced profitability of Royal Mail
- Trading working capital outflow driven by payment of invoices received late in FY 2021-22 but paid in Q1 2022-23, voluntary redundancy payments and the settlement of international balances in Royal Mail, partially offset by an inflow in relation to trade debtors due to the reduced revenues
- Royal Mail transformation capex relates largely to investment in parcel Super Hubs and automation. Royal Mail maintenance capex reduced because the prior year included spend on a PDA refresh which was a one off programme
- Income tax paid £33m lower mainly due to a receipt in Royal Mail from HMRC following an agreement on patent box claims

¹ The comparative trading working capital movements and thus in-year trading cash flow have been re-presented to include deferred revenue movements (including Stamps In The Hands Of the Public (SITHOP)) which were previously presented in other working capital. This presentation is consistent with the presentation that has been adopted since the year ended 27 March 2022. ² Capital expenditure on the properties in this programme is funded via the disposal of other properties. The disposal proceeds are recognised outside of in-year trading cash flow. ³ Other consists of Dividend from associate undertaking £nil (H1 2021-22: £5m) and Share based awards (LTIP and DSBP) charge adjustment £nil (H1 2021-22: £2m). ⁴ H1 2021-22 capital expenditure re-presented to reflect the reallocation of certain projects from maintenance to transformation. ⁵ Gross capex does not include RM UK £7m for Estate Upgrade Programme

Group tax

£m	Reported HY 2022-23			Adjusted HY 2022-23		
	Royal Mail	GLS	Group	Royal Mail	GLS	Group
Profit before tax	(239)	112	(127)	(233)	153	(80)
Tax credit/(charge)	77	(36)	41	48	(38)	10
Effective tax rate "ETR"	32.2%	32.1%	32.3%	20.6%	24.8%	12.5%
Cash tax (payments)/receipts	22	(42)	(20)	N/A	N/A	N/A

Income statement tax

Royal Mail

- **Adjusted ETR:** not comparable to H1 2021-22 due to now being an ETR on a loss. ETR is higher than the UK statutory rate, mainly due to Super-deduction and patent box claims increasing the tax loss, partially offset by non-deductible expenditure
- **Reported ETR:** also on a loss, is higher than the adjusted rate due to the tax credit arising on the revaluation of the net deferred tax asset at the future corporation tax rate of 25% (effective 1 April 2023) and no tax charge arising on the net pension interest income.

GLS

- **Adjusted ETR:** higher than H1 2021-22 (23.3%) mainly due to higher losses in the US for which no deferred tax credit is recognised
- **Reported ETR:** is higher than the adjusted rate due to the expected settlement of VAT adjustments in Italy for which no tax relief is assumed

Cash tax

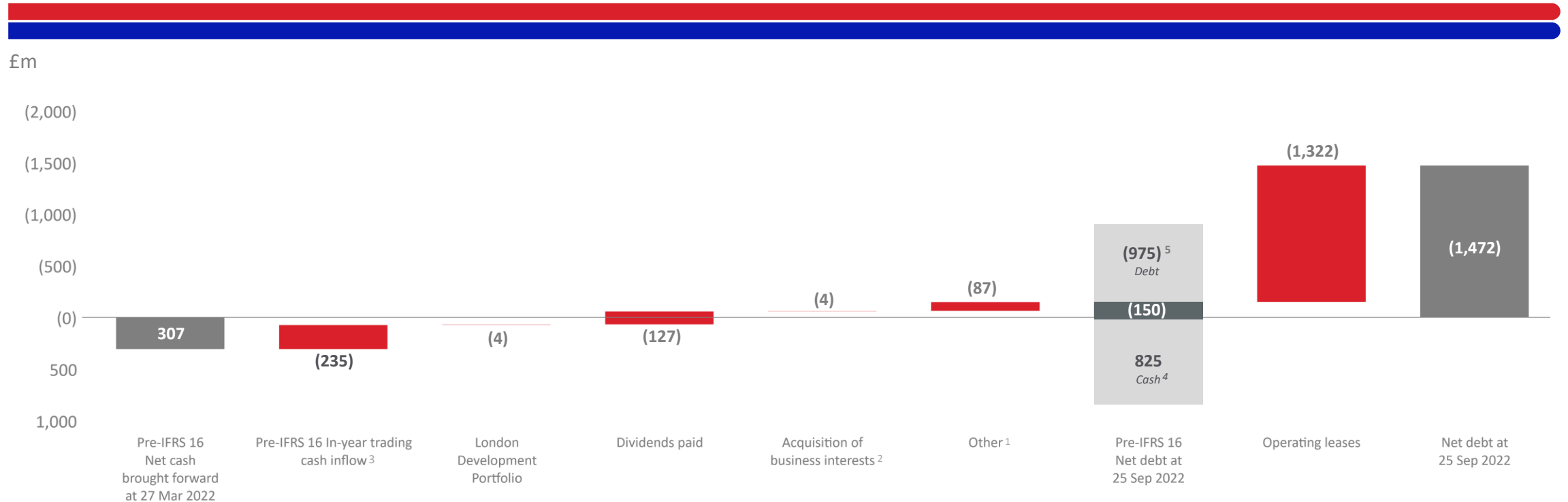
Royal Mail

- Cash tax receipt in period (£17m payment in H1 2021-22) due to the repayment of tax overpaid in previous years, as a result of the settlement of the patent box dispute

GLS

- Cash tax payments in H1 2022-23 are mainly based on FY 2021-22 profits
- Cash tax is higher than H1 2021-22 (£36m) mainly due to an increase in cash tax in Canada following the acquisition of Rosenau Transport

Net cash/(debt)



- Operating lease obligations of £1,322m. New/increased lease obligations during the period of £87m, of which £71m relates to properties. Lease obligations have also increased as a result of vehicle and plant/machinery additions
- Net debt position on a pre-IFRS 16 basis of £150m as at 25 September 2022
- S&P BBB rating affirmed; outlook updated to negative

¹ Other comprises of operating asset disposals +£10m, operating specific items -£54m, movement in GLS client cash (excluding revaluation) -£3m and foreign exchange movement excluding operating lease foreign exchange movements -£40m; ² Acquisition of business interests includes -£5m GLS acquisition of Tousfacteurs and +£1m inflow in relation to prior year acquisition of Rosenau Transport. ³ Includes capital element of operating lease repayments

⁴ Includes £21m of RMSEPP pension escrow and £36m of GLS client cash. ⁵ Includes Bonds of -£933m and finance leases of -£42m

Liquidity

Borrowings

Facility	Rate	Facility £m	Drawn £m	Facility end date
500m Euro bond ¹	2.5%	445	445	2024
550m Euro bond ²	2.7%	488	488	2026
Bank syndicate loan facility ³	SONIA+CA S+0.475%	925	-	2026
Total		1,858	933	

- S&P reaffirmed investment grade rating of BBB and revised outlook to negative

Net debt⁴

£m	25 Sept 2022	27 March 2022
Bonds	(933)	(872)
Leases ⁵	(1,364)	(1,341)
Cash and cash equivalents ⁶	768	1,171
GLS client cash	36	36
Pension escrow (RMSEPP)	21	21
Net debt	(1,472)	(985)

- Cash and cash equivalents decreased by £403m, largely as a result of free cash outflow of £195m, capital element of lease repayments £100m⁷ and the payment of £127m in external dividends
- Net debt increased also due to new/amended leases of £87m
- Bonds increased due to exchange rate movement against Sterling

¹ €500m liabilities net of discount and fees at spot rate £1/€1.123 revalued at balance sheet date ² €550m liabilities net of discount and fees at spot rate £1/€1.123 revalued at balance sheet date ³ The total margin over SONIA consists of a 0.40% margin plus Credit Adjustment Spread (using ISDA published 5 year historical mean on the fixing date 5 March 2021) and a utilisation fee of 0.075% (when the facility is under one third drawn). Interest is compounded daily and a credit adjustment spread (CAS) of between 0.0% and 0.3% is added ⁴ Net debt excludes £193m related to RMPP pension escrow investments which are not considered to fall within definition of net debt ⁵ Includes £1,322m operating leases at 25 September 2022 ⁶ Includes current asset investments of £70m at 27 March 2022 and £nil at 25 September 2022 ⁷ The capital element of lease payments is made up of the capital element of operating lease payments of £92 million and the capital element of finance lease payments of £8 million.

Pensions summary

Defined benefit £m	25 September 2022	
	Legacy RMPP ¹	DBCBS ²
Assets	7,337	1,463
Accounting liabilities	(4,440)	(1,651)
Surplus/(deficit) before IFRIC14 adjustment	2,897	(188)

Defined Benefit

- The legacy RMPP section shows a surplus of £2,897m on an accounting basis. This valuation is for accounting purposes only and could not be recovered by the Group
- Both the RMPP Section and DBCB Section are well funded with actuarial funding surpluses of £661m and £30m respectively at the last triennial valuation at 31st March 2021.
- The legacy Royal Mail Senior Executive Pension Plan (RMSEPP) which closed to accrual in 2012 was fully bought out in the period and is expected to be wound up in the coming months

Collective Pension Plan

- The Group aims to introduce a new scheme, the Royal Mail Collective Pension Plan (RMCPP) which will comprise a Collective Defined Contribution (CDC) section and a Defined Benefit Lump Sum (DBLS) section and the Trustee has now submitted an application to the Pensions Regulator
- The total employer contributions will be fixed at 13.6% of pensionable pay plus an additional 1% for employees who choose to save for an additional lump sum
- When the design of the RMCPP was agreed in 2018, the fixed employer contribution rate of 13.6% of pensionable pay was designed to be affordable and sustainable for Royal Mail. The expected cost of RMCPP based on pensionable payroll at that time was approximately the same as the cost of the existing schemes, at around £400m per year. The RMCPP is now expected to increase cash pay costs by c.£30m per annum, based on the prior year's payroll, when it is introduced. The main reason for the increase is that, although the estimated cost of the RMCPP as a percentage of pensionable pay will remain broadly the same as in 2018, payroll costs have increased. In addition, since the RMPP closed to accrual in 2018, the cost of existing plans has been reducing over time relative to overall pay costs, as DBCBS members leave and are replaced by new employees who join the RMDCP, at a lower employer contribution rate

Pensions

Total income statement charge

£m	H1 2022-23	H1 2021-22	
RMPP ¹	(5)	(5)	
DBCBS	(199)	(212)	
RMDCP ²	(64)	(56)	
GLS	(4)	(4)	
PSE ³	(96)	(90)	
Total EBIT pension costs	(368)	(367)	
Pension interest credit ⁴	53	32	
Total net PBT pension costs	(315)	(335)	
Pensionable payroll (£bn)	DBCBS	0.8	0.9
Income statement rate	DBCBS ⁵	23.3%	24.4%
	RMDCP ⁶	8.8%	9.0%
Number of active members	DBCBS	c. 68,100	c.72,600
	RMDCP	c. 60,100	c.53,600

Pension cash costs

£m	H1 2022-23	H1 2021-22	
DBCBS	(132)	(134)	
RMDCP ²	(64)	(56)	
GLS	(4)	(4)	
PSE ³	(96)	(90)	
Income statement cash costs	(296)	(284)	
Pensionable payroll (£bn)	DBCBS	0.8	0.9
Cash rate	DBCBS	15.6%	15.6%
	RMDCP ⁶	8.8%	9.0%

¹ Comprises pension administration costs of £5m. ² Royal Mail Defined Contribution Plan (RMDCP) excludes £8m insurance premium costs (2021-22: £6m) which are included in wages and salaries costs. ³ Under Pension Salary Exchange (PSE) the Group makes additional employee pension contributions in return for a reduction in basic pay. ⁴ Non-operating specific item. ⁵ Rate determined by real discount rate at end of March based on longer term RPI and appropriate AA corporate bond rates at the time. ⁶ Average employer contribution rate for the period, excluding benefits. Prior year average re-stated due to change in methodology.

International Distributions Services plc