Chief Financial Officer's review

"We have worked hard at improving overall efficiency in our operations and margins are improving. The introduction of a significant increase in fulfilment capacity this year to meet growing demand, and our continued efforts to drive efficiency, will enable us to demonstrate the longer-term benefits of our business model."

Duncan Tatton-Brown
Chief Financial Officer

Ocado's financial performance for the period to 2 December 2012 was underpinned by continued sales growth; improving profitability and a strengthening of the balance sheet.

The current period results comprise 53 weeks, and for comparison purposes, 52 week data which excludes the final trading week of the 2012 financial year, is disclosed where relevant. To provide a meaningful comparison, a summary of the financial performance on a 52 week basis is provided below and all year-on-year growth data referred to below is on a 52 week basis unless stated otherwise.

	53 Weeks 2012 £m	52 Weeks 2012 £m	52 Weeks 2011 £m	% 52 week Variance
Gross sales	731.9	716.2	642.8	11.4%
Revenue	678.6	664.0	598.3	11.0%
Gross profit	207.3	202.8	184.7	9.8%
EBITDA	34.5	33.5	27.9	20.4%
Adjusted operating profit[1]	5.4	4.9	1.1	354.3%
Adjusted profit/(loss) before tax[1]	1.8	1.3	(2.4)	n/a
Exceptional items	(2.4)	(2.3)	—	n/a
Loss before tax	(0.6)	(1.0)	(2.4)	57.1%

[1] Adjusted to exclude exceptional items.

Revenue

Gross sales increased 11.4% to £716.2 million for the period (53 week: 13.9%). Sales growth continued to be driven by rising demand with average orders per week of 123,000 up from 110,000 in 2011, an increase of 11.4%, and average order size in line with last year. At the period end the number of Active Customers was 355,000 (2011: 298,000).

Revenue grew by 11.0% to £664.0 million, (53 week: 13.4%). The rate of increase was below that of gross sales due to increased use of vouchers which are excluded from the definition of revenue but included in gross sales.

Gross profit

Gross profit rose 9.8% to £202.8 million. Gross margin was 30.5% of revenue (2011: 30.9%), lower than 2011 predominantly due to the increased voucher activity. Spend on marketing vouchers, at £11.2 million equated to 1.7% of revenue, up from 1.3% in 2011. The cost of vouchers is charged to gross profit, whereas other types of marketing spend, which declined in 2012, are administrative expenses.

Other income increased to £16.3 million (53 week: £16.7 million), reflecting a 30.2% uplift on 2011 driven by an increase in media income of £3.4 million which now stands at 2.3% of revenue versus 2.0% in 2011 as supplier demand increases for website related activities.

Operating profit

Operating profit for the period was £4.9 million before exceptional costs (53 week: £5.4 million), compared with an operating profit of £1.1 million in 2011. This improvement reflects both growth in revenues and greater operating efficiencies as outlined below.

At £166.2 million (53 week: £169.8 million), distribution costs have increased by 9.6% compared to 2011. This represents a year-on-year improvement as a percentage of revenue from 25.4% in 2011 to 25.0% in the current period, with efficiencies in both the CFC and delivery operations. The improved performance within CFC1 is a result of the investments made in the latter part of 2011 and early 2012 to increase both capacity and overall operational performance; as a result CFC1 costs are now 8.8% of revenue, down from 8.9% in 2011.

Administrative expenses, including marketing costs, were £48.0 million (53 week: £48.8 million), an increase of 7.9% but a reduction as a proportion of revenue to 7.2% (2011: 7.4%). This reflects the switch in marketing activity, offsetting the increased voucher activity reported within gross profit. Payroll costs were higher due to additional support for the set-up of CFC2 and non-food businesses.

Exceptional items

Exceptional items of £2.3 million (53 week: £2.4 million) include staff and other operational costs associated with the opening of CFC2 and a non-food distribution centre in Welwyn Garden City. In addition there is a £0.9 million impairment charge for the Coventry spoke which will be closed shortly after the opening of CFC2.

Net finance costs

Net finance costs of £3.6 million (53 week: £3.6 million) in the period are in line with 2011, despite higher borrowings and lower average cash balances. This is a result of a reduction of £11.2 million in finance lease obligations coupled with lower interest rates being charged on both new and existing loans and finance leases.

Profit/loss before tax

Adjusted profit before tax for the period was £1.3 million (53 week: £1.8 million), an improvement of £3.7 million against 2011. Loss before tax for the period was £1.0 million (53 week: £0.6 million), an improvement of £1.4 million against 2011.

Taxation

Due to the availability of capital allowances and loss relief, the Group did not pay corporation tax during the year. A deferred tax charge of £1.7 million was recognised in the period to reflect lower corporation tax rates and the adoption of a more conservative forecasting approach. Ocado has approximately £279.5 million of unutilised carried forward tax losses at the end of the period.

Loss per share

Basic and diluted loss per share increased from 0.10p to 0.46p, with sales growth and underlying conversion improvements being offset by the impact of the deferred tax charge.

Capital expenditure and cash flow

Capital investment for the period of £124.5 million included capitalised borrowing costs of £4.1 million and is summarised below.

	53 Weeks 2012 £m	52 Weeks 2011 £m	Variance £m
CFC1	15.6	27.7	12.1
CFC2	80.4	72.6	(7.8)
Delivery	8.9	11.8	2.9
Technology	14.4	12.7	(1.7)
Other	5.2	1.3	(3.9)
Total	124.5	126.1	1.6

Expenditure of £15.6 million has increased capacity and improved resiliency within CFC1 enabling Ocado to deliver over 140,000 orders in its peak week during 2012.

The work programme and project costs for CFC2 are in line with expectations. The first deliveries to customers from CFC2 were made on 24 February 2013. Total expenditure on CFC2 incurred to date is £155.0 million inclusive of £4.5 million capitalised borrowing costs. Phase 1 capital in CFC2 is in line at £190 million pre-capitalised interest.

Investment in new vehicles in 2012 was £7.4 million (2011: £7.1 million). Investment in Ocado's spoke network was £1.5 million (2011: £4.7 million) with one new site, near Oxford, opening in January 2012 bringing the total spoke network to ten.

As the Group continues to develop the majority of its own software, £11.5 million (2011: £7.9 million) of internal IT staff costs were capitalised as intangible assets, with a further £2.9 million (2011: £4.9 million) spent on computer hardware and external software.

In total, £13.6 million of internal development costs have been capitalised in the period (2011: £8.2 million) as intangible assets.

This year has seen the further development of the non-food strategy with £3.9 million being spent primarily on a dedicated distribution centre (included in Other above).

Net operating cash flow after finance costs increased to £32.0 million, up 59% on a 53 week basis from £20.1 million in 2011 as detailed below:

	53 Weeks 2012 £m	52 Weeks 2011 £m	Increase/ (Decrease) £m
Adjusted operating profit[1]	5.4	1.1	4.3
Depreciation and amortisation	29.0	26.7	2.3
Impairment and other non-cash items	0.1	0.1	—
EBITDA	34.5	27.9	6.6
Working capital movement	6.7	(1.6)	8.3
Exceptional items (excl. exceptional impairment)	(1.5)	—	(1.5)
Finance costs	(7.7)	(6.2)	(1.5)
Operating cash inflow	32.0	20.1	11.9
Capital investment	(96.8)	(114.2)	17.4
Increase in net debt/finance obligations	27.1	60.0	(32.9)
Proceeds from share issues net of transaction costs	35.1	1.3	33.8
Movement in cash and cash equivalents	(2.6)	(32.8)	30.2

[1] Adjusted to exclude exceptional items.

The overall improvement in operating cash flow is primarily driven by an increase in EBITDA and an improvement in working capital of £6.6 million and £8.3 million respectively. The net movement in working capital is due to an increase in trade and other payables in line with business growth and capital projects in progress; and to a reduction in trade and other receivables outstanding as a result of process improvements in both billing and collection of monies. Some of this improvement

Chief Financial Officer's review continued

has been offset by increased stockholding at the period end in line with business growth and by an increase in VAT receivables due to the volume of invoices relating to capital projects in progress.

During the year the Group extended the maturity of its £100 million credit facility by 18 months to 6 July 2015. The extended facility now comprises a capital facility of £90 million and a working capital revolving credit facility of £10 million.

At the same time as the facility extension, Ocado raised gross proceeds of £35.8 million through a placing of new equity at a premium to the most recent closing market price of the Company's shares. The placing comprised 55,875,557 new ordinary shares at a price of 64 pence per share, representing approximately 9.99% of existing issued share capital. The proceeds from the placing have strengthened the Group's balance sheet which, combined with the extension of the credit facility, will ensure that the Group has the resources available to continue the expansion of its business as planned.

Balance sheet

The Group had cash and cash equivalents of £89.6 million at the period end, a reduction of £2.6 million on the 2011 position. The underlying reduction relates to the continued capital investment of £96.8 million, offset by proceeds received from the equity placing, the increase in debt and improvements in operating cash flows.

Gross debt at the period end was £144.8 million (2011: £111.3 million). During the year a further £45.0 million was drawn down on the Group's £100 million credit facility to fund the investment in CFC2. Debt repayments during the year were £23.7 million. Total undrawn facilities at 2 December 2012, including this facility, were £24.1 million (2011: £78.8 million).

Key performance indicators

The following table sets out a summary of selected unaudited operating information for FY12 and FY11:

	FY12 53 Week (unaudited)	FY12 52 Week (unaudited)	FY11 52 Week (unaudited)	% Change 52 Weeks[5]
Average orders per week	123,000	123,000	110,000	11.4%
Average order size (£)[1]	112.17	112.13	112.15	—
CFC efficiency (units per hour)[2]	120	120	111	7.9%
Average deliveries per van per week (DPV/week)	151	151	145	4.2%
Average product wastage (% of revenue)[3]	0.7	0.7	0.7	n/a
Items delivered exactly as ordered (%)[4]	98.3	98.3	98.3	n/a
Deliveries on time or early (%)	92.7	92.7	92.3	n/a

Source: The information in the table above is derived from information extracted from internal financial and operating reporting systems and is unaudited.

1 Average retail value of goods a customer receives (including VAT and delivery charge) per order.
2 Measured as units dispatched from the CFC per hour worked by CFC operational personnel.
3 Value of products purged for having passed Ocado's "use by" life guarantee, divided by revenue.
4 Percentage of all items delivered exactly as ordered, i.e. the percentage of items neither missing nor substituted.
5 Percentage change based on unrounded numbers.

Duncan Tatton-Brown
Chief Financial Officer


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