Chief Financial Officer's review

"With a sales increase of 16.6% in 2011, we are confident that Ocado grew faster than other players in the sector. Due to our competitive advantage online we are well placed to deliver for shareholders as well as customers."

Andrew Bracey Chief Financial Officer

Ocado's sales growth and improved operational profitability continued in 2011. Gross sales grew by 16.6% from 2010. EBITDA margin as a percentage of revenue increased from 4.3% to 4.7%.

The balance sheet continued to be strong with net assets of £172.9 million, an increase of £1.1 million on 2010. Cash was well controlled in the period with net cash from operating activities of £20.1 million. At 27 November 2011 the Group had net debt of £19.2 million as it began to draw on the £100 million credit facility to grow the business. Cash and cash equivalents at the year end were £92.1 million.

Despite the uncertainty of the UK economic environment, the strength of the period end balance sheet combined with the operational improvements and continued sales growth leaves the Group well placed moving into 2012.

Revenue

Gross sales were up 16.6% to £642.8 million for the period. Growth continued to be driven by an increase in average orders per week to 110,219 from 92,916, an increase of 18.6%. This was offset by a slight decrease in the average order size of 1.7% to £112.15. This was mainly due to an increasing number of customers signing up to the Ocado Delivery Pass. The number of Active Customers increased by 13.5% to 298,000 at the year end. Revenue grew by 16.0% to £598.3 million. Spend on marketing vouchers, at £8.0 million equated to 1.3% of revenue, down from 1.6% in 2010 due to reduced use of vouchers as a marketing tool.

Gross profit

Gross profit increased 14.3% to £184.8 million; this equates to a 47 basis points decrease in gross margin percentage over the period to 30.9%. The decrease in gross margin was caused by a decrease in delivery income per order, changes in product mix and increases in product sourcing costs, as well as promotional activity and post-delivery adjustments during the period. The increased post-delivery adjustment costs were primarily due to the capacity constraints experienced in the year; since year end these have returned to previous levels. The reduction in gross margin was mitigated by an increase in other income from suppliers which increased significantly by 101.0% to £12.6 million.

This was driven by the increased sale of space on our new Webshop. In addition, a number of new initiatives in the second half of the period such as "shop in shop" (this provides suppliers with their own dedicated shop within Ocado's Webshop) have enabled increased revenue to be generated.

Operating costs

At £151.7 million, distribution costs fell as a percentage of revenue from 25.8% in 2010 to 25.4% in 2011. Distribution costs increased by 14.2% on the prior period. The two major components of distribution costs are CFC1 costs as well as trunking and delivery costs. CFC1 costs fell as a percentage of revenue from 11.5% in 2010 to 11.3% in 2011, and represented an increase of 13.9% on the prior period. Variable CFC1 costs increased slightly faster than revenue as a result of increased labour required to mitigate temporary capacity constraints. However, the operating leverage of the fixed cost base on increased volume combined with some savings in the fixed cost base meant that total CFC1 costs fell as a percentage of sales. Trunking and delivery costs fell as a percentage of revenue from 13.2% in 2010 to 12.9% in 2011, and represented an increase of 13.8% on the prior period with productivity gains more than offsetting inflationary pressures. Administrative expenses, including marketing costs, increased by 20.6% to £44.5 million; up by 28 basis points as a percentage of revenue to 7.4% largely due to an increase in other marketing activity to partly complement the reduced use of vouchers.

Operating profit/loss

Operating profit for the period was £1.1 million, compared with an operating loss of £5.4 million in 2010. This improvement is mainly attributable to the growth in revenue, contributing to profit and enabling greater operating efficiencies.

FACT

EVERY WEEK 450 SUPPLIERS DELIVER GROCERIES TO OUR HATFIELD CFC

Net finance costs

The reduction in net finance costs of 49.0% to £3.5 million was largely the result of the repayment of four long-term loans in the second half of 2010. A large proportion of the borrowing costs under the £100 million credit facility remain on the balance sheet as they have been accounted for as transaction costs and will either affect profit or loss over the remaining period of the loan, or be capitalised to property, plant and equipment to the extent that drawdowns directly finance qualifying assets.

Loss before tax

Loss before tax for the period was £2.4 million, an improvement of £9.8 million against 2010.

Taxation

Due to the availability of capital allowances and loss relief, the Group did not pay corporation tax during the year. A deferred tax credit of £1.9 million was recognised during the period as we begin to recognise more of the tax losses available for use against future taxable profits. Ocado had approximately £279 million of unutilised carried forward tax losses at the end of the period.

Loss per share

Basic and diluted loss per share decreased from 1.63p to 0.10p, primarily due to the improved financial performance of the Group.

Cashflow

Net operating cashflow before finance costs increased to £26.4 million, up 42.2% from £18.5 million in 2010. This increase is primarily driven by an increase in EBITDA and the fall away of the 2010 IPO costs. The net movement in working capital was an outflow of £2.6 million (2010: £0.4 million). The increase in trade and other receivables was due to amounts outstanding at the period end in relation to other income and an increase in VAT receivable due to the volume of invoices relating to capital projects in progress, this offset a significant increase in trade and other payables arising from business growth and capital projects in progress.

Balance sheet

The Group had cash and cash equivalents of £92.1 million at the period end, this was down 40.4% from the 28 November 2010 amount which included treasury deposits, due to the continued capital investment required to expand the business. The Group had net debt of £19.2 million at 27 November 2011 (2010: net cash of £80.5 million) as it began to draw on the £100 million credit facility to assist in funding capital investment. At year end Ocado has drawn £40.2 million of this facility. Total undrawn facilities at 27 November 2011, including this facility, were £78.8 million (2010: £117.3 million).

During the period the Group agreed with its banks to increase one of its covenant ratios in the £100 million credit facility for the remainder of the life of the facility, which runs to January 2014. Given the current difficult economic climate the Group continues to monitor closely its liquidity position for a range of scenarios for revenues, cost performance and capital spend.

Capital investment

In the period Ocado invested £126.1 million in capital items, an increase of 260% on the prior year. Of this, £27.7 million was on projects in CFC1 to expand capacity, the benefits of which will be realised from 2012 onwards. The amount spent on CFC2 in 2011 was £72.6 million including the acquisition of land. The work schedule and costs on CFC2 are in line with expectations. The project is expected to complete in the first quarter of 2013. Investment in new vehicles in 2011 was £7.1 million. Capital expenditure on the expansion of the delivery network was £4.7 million; two new spokes opened in the period, both of which are leasehold sites. An additional freehold site was purchased and partially developed in the period. The Group continues to develop the majority of its own software, and during the period £8.2 million of internal development costs were capitalised as intangible assets.

Andrew Bracey
Chief Financial Officer

Key performance indicators

The following table sets out a summary of selected unaudited operating information for FY11 and FY10:

	FY11 (unaudited)	FY10 (unaudited)	% Change
Average orders per week	**110,219**	92,916	18.6%
Average order size (£)[1]	**112.15**	114.06	(1.7%)
CFC efficiency (units per hour)[2]	**111**	121	(8.2%)
Average deliveries per van per week (DPV/week)	**145**	133	8.7%
Average product wastage (% of revenue)[3]	**0.70**	0.64	n/a
Items delivered exactly as ordered (%)[4]	**98.3**	99.0	n/a
Deliveries on time or early (%)	**92.3**	94.9	n/a

Source: The information in the table above is derived from information extracted from management accounts and 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.