

Trading Update

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Connect Group PLC
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This announcement contains inside information

Connect Group PLC
("Connect Group" or "the Group")

TRADING UPDATE

Connect Group PLC is today issuing its Trading Update covering the 19 week period to 13 January 2018.

Overview

Total Group revenue for continuing operations of £564.5m (FY2017: £584.9m) has decreased by 3.5% year to date, with the anticipated decline of newspaper and magazine sales more than offsetting revenue growth in Mixed Freight and Pass My Parcel (PMP). While overall revenue performance has been in line with our expectations, a combination of delays to contracts in PMP, weaker margins and market uncertainty in Mixed Freight, and slower than anticipated realisation of cost reductions from the Group's integration strategy in order to preserve current service levels, mean that we now expect full year adjusted profit before tax for the continuing operations to be in the range of £42m to £45m, with current dividend expectations underpinned by a continued good cash performance.

Early Distribution

Total revenue in News Distribution and Media (comprising Smiths News, PMP and DMD) was £500.4m, a decrease of 4.1% (FY2017: £521.7m), in line with our expectations.

Newspapers and Magazines

The overall sales decline of newspapers and magazines remains within our medium term forecasts, with newspapers continuing to perform more strongly than magazines. We do expect stronger magazine and sticker sales as we approach the FIFA World Cup in June 2018, enhancing margin in the second half of the year. The overall profit and cash from newspaper and magazine sales is performing in line with our expectations.

Pass My Parcel

Volumes in Pass My Parcel of 1.3 million units have grown 347% year to date, and we start the new calendar year with a run rate up 740% on January 2017. Overall, volume growth is in line with our plans and we are pleased with this aspect of progress, which demonstrates an increasing consumer awareness of PMP, and the range and availability of its services. Year to date revenue of £2.5m is up 222%, representing strong growth.

Despite these positive indicators, forecasted margins and costs have been adversely impacted because the primary driver of growth has been a rapid increase in lower margin customer returns through parcel shops, with further acceleration over the Christmas peak. Ongoing delays to the implementation of new contracts and the roll out of new B2B services means that the margin mix is unlikely to improve in the near term. As a consequence, we do not now expect full year losses from PMP to reduce from those incurred in FY2017.

Media

DMD media distribution to airlines and travel points continues to perform in line with our expectations.

Mixed Freight

External revenue of £63.9m (FY2017: £63.1m) increased by 1.3% with the volume of consignments up by 3.6% on last year.

Our desire to protect service levels in what remains a highly competitive market has required some of our forecasted cost reduction plans to be re-phased, and the national shortage of LGV drivers has also added cost and impacted efficiency of operations. Overall, the combination of cost headwinds and the increasing market uncertainty towards the end of the calendar year has had an adverse impact on profitability to date.

Actions to address performance shortfalls are underway, including the introduction of new organisational structures that will improve efficiency of operations and depot management. We are also restructuring our commercial functions and making investments in additional experienced sales capability to drive profitable growth and enable opportunities arising from the Group's integrated capability.

In January 2018, we appointed Stuart Godman to the Executive Leadership Team as Commercial Director. Stuart joins from DX (Group) plc, bringing a wealth of experience in Mixed Freight to the Group. He will play a key role in the commercial development of the integrated business, focussing in the first instance on driving margin growth in Mixed Freight and PMP.

Looking ahead, we are confident that our profit recovery actions are gaining traction, however demand remains uncertain. As a result, the medium-term outlook continues to reflect both risk and opportunity in the wider market.

Integration and business transformation

The Group continues to make good progress with its integration and business transformation strategy.

In light of market conditions, we have determined that the new structures and ways of working associated with the business integration require careful introduction so as to ensure that there is no impact in the quality of our service. As a consequence, we have revisited the time frames for realising initial savings; while we remain confident of achieving our £15m targeted efficiencies over two years, we now expect the weighting to be greater in year two of the plan.

Work on reviewing the Group's longer term network and operating model is continuing. The next phase of the review will determine the optimum network for greater efficiency and growth, providing a clear picture of additional savings and business opportunities of a fully integrated operation. We expect to have completed this work before the end of the current financial year.

There has been no change in the underlying financial condition of the Group since the Preliminary financial results announcement on 26 October 2017.

The Group will announce its interim results for the six months ending 28 February 2018 on 1 May 2018.

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About Connect Group

Connect Group PLC is a UK based specialist distributor and a leading provider of distribution solutions in complex and fragmented markets. The Group's networks are focused on serving high drop density early morning deliveries, and the demands of mixed and irregular sized freight.

The Group's core businesses are each leading players in their markets:

Early Distribution

Smiths News is the UK's largest newspaper and magazine wholesaling business with an approximate 55 per cent. market share. It distributes newspapers and magazines on behalf of the major national and regional publishers, delivering to approximately 27,000 customers across England and Wales on a daily basis. The speed of turnaround and density of Smiths News' coverage is critical to one of the world's fastest physical supply chains.

Pass My Parcel is a wholly owned Click & Collect service which leverages our combined networks to provide efficient solutions for online and high street retailers. Its network of parcelshops provides national consumer reach for deliveries and returns. Bespoke services for larger clients, serving their early morning and in-store requirements are a recent development in this rapidly evolving sector.

Dawson Media Direct supplies newspapers, magazines and inflight entertainment technology and content to over 80 airlines in 50 countries. Delivering to strict time windows with security accreditation, DMD serves the specialist needs of airlines and travel points in the UK and worldwide with printed and digital media.

Mixed Freight

Tuffnells is a leading distributor of mixed and irregular freight, serving approximately 5,000 small and medium sized enterprises across the UK. Its network of 37 depots collects and delivers mixed parcel freight consignments, specialising in items of irregular dimension and weight ("IDW"), examples of which include bulky items, building materials and automotive parts. With a mix of local and national clients, Tuffnells completes up to 70,000 daily deliveries, offering a range of timed services that are responsive to customer demand.

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