

Ocado Group PLC

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Ocado earnings drop in 2018 as it invests in technology and warehouses

Ocado Group PLC (LON:OCDO) posted a 20.7% drop in 2018 earnings and expects another decline this year as it invests in developing its technology and opening new warehouses.

The online grocer said earnings (EBITDA) fell to £59.5m in the year to December 2 from £75m a year ago, reflecting increased spending on its Ocado Smart Platform (OSP), the opening of a new customer fulfilment centre (CFC) in Erith and hiring new IT staff to support the development of its technology.

The loss before tax widened to £44.4m from £9.8m last year.

READ: Ocado said to be considering replacing Waitrose with M&S as key grocery supplier
Total capital expenditure in 2018 amounted to £213.8m, up from £160.3m last year.

Revenues rise on growth in orders and net fees from clients
Group revenue increased by 12.3% to £1.6bn from £1.4bn a year ago.

IFRS 15 - new accounting measures that change the way companies can recognise revenues - carved £15.2m off revenue and £14.4m off EBITDA. That compares to a reduction in revenue and EBITDA of £9.3m the previous year when the group first adopted IFRS 15.

Ocado has its own grocery delivery service but has transformed into a technology firm by supplying its OSP and robotic warehouses to other supermarkets such as WM Morrison Supermarkets PLC (LON:MRW) in the UK, Kroger in the US, ICA in Sweden, Group Casino in France and Sobeys in Canada.

Retail revenue from Ocado's grocery delivery service rose 12% to £1.5bn as average orders per week edged up 12.1% to 296,000, although the average order size dropped 0.4% to £106.85. Active customer numbers grew by 11.8% to 721,000.

Solutions revenue from the technology side gained 15.8% to £123m, supported by fees earned from clients.

Further investment planned for 2019
Chief executive Tim Steiner said Ocado's growth story is "only just beginning".

"We now have in place a platform for significant and sustainable long-term value creation as the leading pure-play digital grocer in the UK, a world-leading provider of end-to-end e-commerce grocery solutions, and as an innovative and creative technology company applying our proprietary knowledge to a range of challenges," he said.RE

Price: 1152

Market Cap: £8.15 billion

1 Year Share Price Graph



Share Information

Code: OCDO

Listing: AIM

52 week High Low
1440.5 737.6

Sector: Retail

Website: www.ocado.com

Company Synopsis:

Ocado was launched in partnership with Waitrose in January 2002, and delivers quality groceries across selected areas of England and Wales. Our business was conceived with one simple objective in mind: to offer busy people a true alternative to going to the supermarket every week. By doing this, we created a totally new shopping experience, built entirely around our customers' needs.

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READ: Ocado shares gain as quarterly update gets analysts' nod of approval

Steiner added: "Our transformation journey is well underway with increased cash fees earned and greater investment as we execute on behalf of our partners.

"Creating future value now will involve us continuing to scale the business, enhancing our platform, enabling our UK retail business to take advantage of all its opportunities for growth, and innovating for the future. We look forward to fulfilling these opportunities with excitement and determination."

In 2019, Ocado expects EBTIDA to decline due to an estimated £15mIn-£20mIn in operating costs involved in building CFCs and adding features to its OSP. Total capital expenditure for the group is expected to be £350mIn.

The group predicts retail revenue will rise 10-15% as it expands its capacity and grows market share in the UK. Solutions revenue is expected to rise "well ahead" of retail growth.

Shares rose 1.3% to 1,005p in morning trading following an initial decline when the market opened.

Management has vision to turn Ocado into Microsoft of retail, says Peel Hunt

Peel Hunt maintained a 'buy' rating and target price of 1,700p on the stock, saying the results were broadly in line with expectations.

"Overall, the results do not change our core thesis: (1) Ocado is a unique profitable, pure-play online food retailer; (2) blue chips such as Kroger, Sobeys, and Casino have signed exclusive contracts to licence its tech; (3) the platform is agnostic, allowing it to expand into non-food and non-retail; (4) as the deals roll in, Ocado's supplier power grows; and (5) management has the vision and strategy to move Ocado towards becoming the Microsoft of retail."

No mention of M&S tie-up reports

Ocado made no mention of reports that it held "secret talks" with Marks & Spencer Group PLC (LON:MKS) about a tie-up that could result in dropping Waitrose as its key groceries supplier.

Laith Khalaf, senior analyst, Hargreaves Lansdown said a partnership between Ocado and M&S would make "some sense" for both parties.

"M&S basket sizes are relatively small, which makes the economics of online delivery particularly challenging. Clearly, Ocado can help out here, though any tie-up would raise questions over its existing partnership with Waitrose, which comes to a close in 2020," Khalaf said.

"Such high expectations baked into the share price raise the possibility of disappointment for investors. In this respect, Ocado is similar to Amazon, which likewise comes with a lofty price tag as the market has pencilled in high levels of future earnings growth. "

Khalaf said the future looks "extremely bright" for Ocado but the company needs to deliver on very high expectations.

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