



This merger is about unlocking new growth.

Tesco, the UK's leading retailer, and Booker, the UK's leading food wholesaler, are merging to form what can become the UK's leading food business.

Together we can bring benefits for consumers, independent retailers, caterers, small businesses, suppliers, colleagues and shareholders.

The combined group will be well-positioned to provide a more innovative offer for customers and consumers in a larger, faster-growing market.



# Together, we can:

- **delight consumers** with better availability of quality food at attractive prices across retail and eating out locations
- serve better the **faster growing** 'out of home' food market
- **help independent retailers, caterers and small businesses** by further improving choice, price and service, with **enhanced digital and delivery service options**
- present a **broadier market opportunity for our suppliers**, with strong growth prospects and a clear opportunity to develop better own brand and fresh ranges
- **cut food waste and increase efficiency** by creating a broader, multi-channel partner who can work with producers across their full agricultural crop
  - create **significant opportunities for synergies** whilst retaining market-leading retail and wholesale expertise
  - create attractive **innovation opportunities** to serve customers and consumers better in a rapidly evolving market place



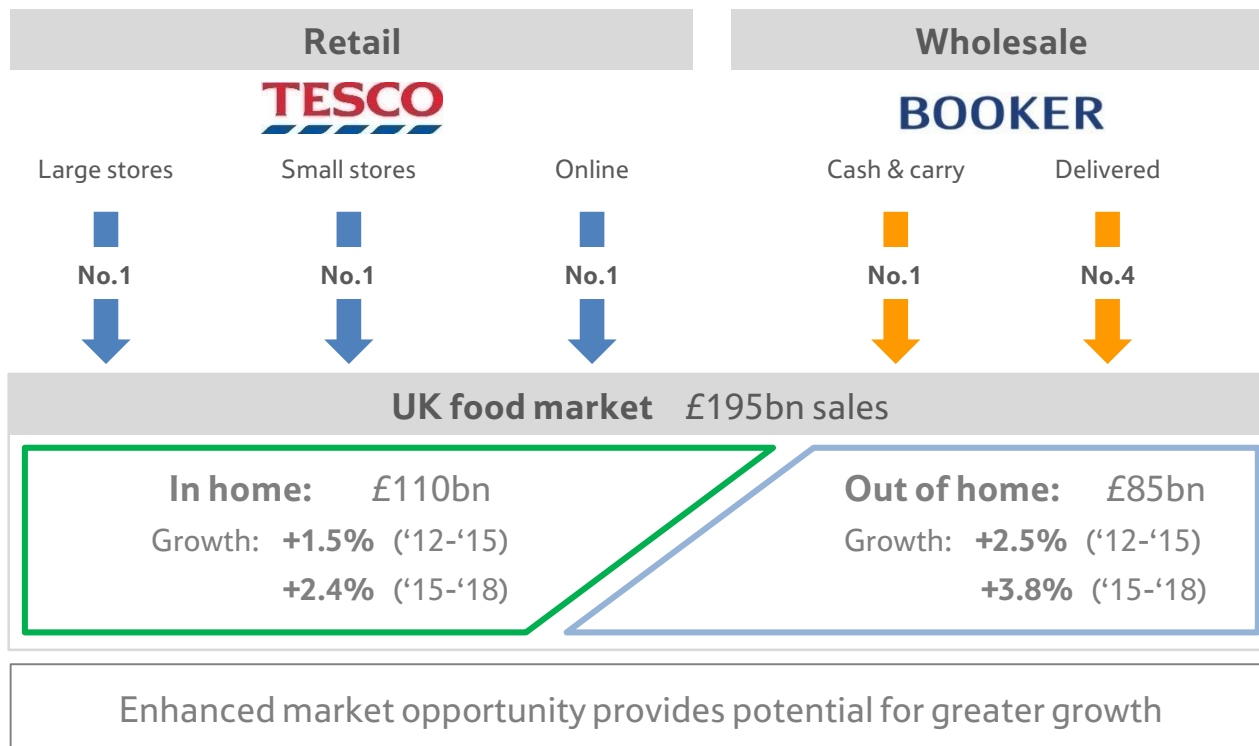


# The merger terms

- Each Booker shareholder will receive 0.861 Tesco shares and 42.6p in cash per Booker share
- Based on the closing price of 189.0 pence per Tesco share on 26 January 2017, this represents:
  - a value of approximately 205.3 pence per Booker share;
  - a value of approximately £3.7 billion for Booker's ordinary share capital;
- The merger will result in Booker shareholders owning c.16 per cent. of the Combined Group
- The merger terms represent a premium of approximately:
  - 15 per cent. based on the volume weighted average share prices of Booker and Tesco since 12 January 2017, being the date on which Booker and Tesco published their Christmas trading updates; and
  - 24 per cent. based on the three month volume weighted average share prices of Booker and Tesco
- The merger is unanimously recommended by both Boards
- On completion, Charles Wilson, Booker's CEO and Stewart Gilliland, Booker's Chairman, will join the Combined Group's Board
- Charles Wilson will also join the Combined Group's Executive Committee
- The merger is subject to regulatory approval and Tesco and Booker shareholder approval



# Together, we can serve a larger and growing market opportunity



# A compelling combination of capabilities



- Market leading **product development** (own label), and **procurement** expertise
- Extensive **market reach** across stores, Cash & Carry, home/business delivery and Click & Collect
- A **service** enhancing **digital** infrastructure
- The opportunity to leverage **financial services** and mobile for customers' and consumers' benefit
- An attractive opportunity for new **innovation**



# Significant benefits expected for all key stakeholders



Consumers



Independent retailers,  
caterers and small  
businesses



Suppliers



Colleagues



Shareholders

# Consumers



- Choice and convenience
  - the widest range of food available, from professional catering to core grocery
  - greater value via increased access to quality fresh foods at attractive prices across independent retailers and out of home caterers
- A network of up to c.8,000 neighbourhood Click & Collect points



# Independent retailers, caterers and small businesses



- Further enhances choice, price and service, enabling business customers to offer better value and quality to their consumers
  - An improvement in value equation via enhanced efficiency
  - A significant improvement in delivery service via utilisation of Tesco range and delivery fleet
  - Strengthens the Premier, Londis, Budgens and Family Shopper proposition
  - Access to Tesco banking, mobile and PayQwiq services
- A positive contribution to local communities through supporting small businesses

# Suppliers



- A broader market opportunity
  - Full crop procurement and utilisation – lower costs and reduced food waste
  - An integrated multi-channel supply chain driving further efficiencies
- Greater carbon effectiveness from the UK's most efficient buying, storage and transportation network

# Colleagues



- Potential new career opportunities as part of the UK's leading food business
- A richer learning experience base from a true multi-channel business
- A further opportunity to contribute to local communities

# Shareholders



- Growth
  - access to a larger, faster-growing market opportunity for the combined group
  - innovation and improved asset utilisation driving significant potential for revenue synergies
- Returns
  - total quantifiable synergies of at least £200m within 3 years
  - ROIC in excess of cost of capital by Yr 2 and significantly in excess by Yr 3
  - EPS accretive in the second full financial year
- Beneficial to Tesco's leverage metrics
- Reflecting Tesco's improved performance and confidence, Tesco intends to recommence dividend payments in the 2017/18 financial year; expected to grow progressively, with aim of achieving target cover of c. 2 times EPS over the medium term



# Synergies

- Expect synergies to reach a run-rate of at least £200m per annum by end Yr 3
- Opportunity for **meaningful revenue synergies**
  - at least £25m per annum incremental operating profit has been identified by end Yr 3;
  - further opportunities have not been quantified for reporting under the Code
  - includes improved proposition for existing / new customers, incorporation of a professional business customer offer in Tesco outlets plus significant innovation opportunities;
- **Significant cost synergies** of at least £175m per annum



Note: Please refer to Appendix 5 of the Announcement dated 27 January 2017 for further information on how the synergies have been calculated.

The global food market is changing. Core 'in home' consumption is significant and stable. Eating out will continue to increase; delivery and convenience will be key customer requirements.

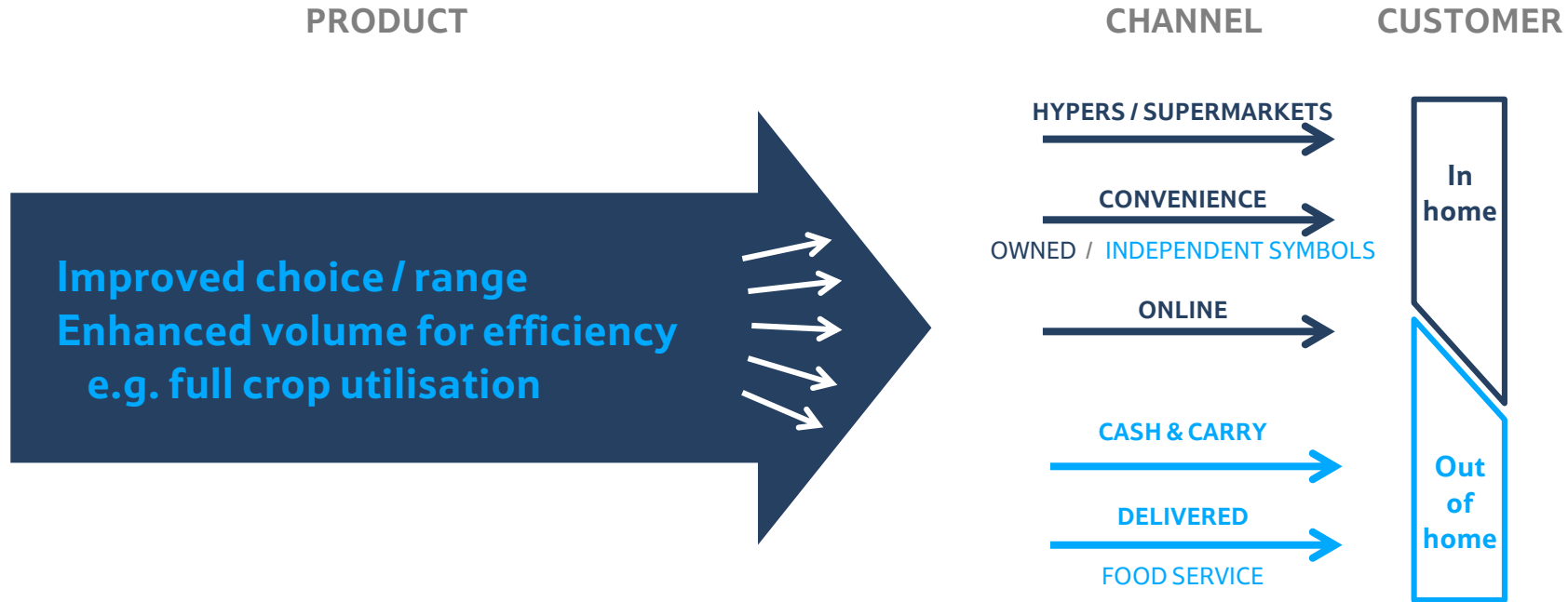
The combination of Tesco and Booker allows us to meet this market opportunity. Wherever food is prepared and consumed – 'in home', or 'out of home' – we will create a business with the widest choice and best service food offering bar none.

Higher efficiencies, asset utilisation, lower costs and a more complete digitally enabled service offering will increase customer choice and satisfaction.

Together we can lower waste and increase carbon efficiency as the marketplace continues to evolve.



# The UK's leading food business



# Creating the UK's leading food business for



Consumers



Independent retailers,  
caterers and small  
businesses



Suppliers



Colleagues



Shareholders



# Appendices

# Tesco is the UK's leading food retailer

- 50 million customer transactions per week
- 16 million active Clubcard customers
- Leading fresh, own-brand & branded ranges
- Proven leadership in grocery home shopping service
- Deep, long-standing supplier partnerships
- Global sourcing capability
- 330k skilled colleagues, serving shoppers a little better every day
- Delivered eight consecutive quarters of volume growth
- Recovery on track, with ambition to deliver 3.5 to 4.0% Group operating margin by 2019/20
- Recommencing dividend in 2017/18 given increased confidence

**TESCO PLC**

2016 sales = £48.4bn

UK £37.2bn			International £10.2bn	
 730 large stores	 2,839 small stores	 98% UK household coverage	One Europe 415 large stores	Asia 242 large stores

**TESCO Bank**

- 5.5m active customer accounts
- Mortgages, credit cards, personal loans, savings, insurance



**TESCO mobile**

- UK's 5th biggest mobile provider & largest MVNO
- No. 1 for customer satisfaction



# Booker is the UK's leading food wholesaler

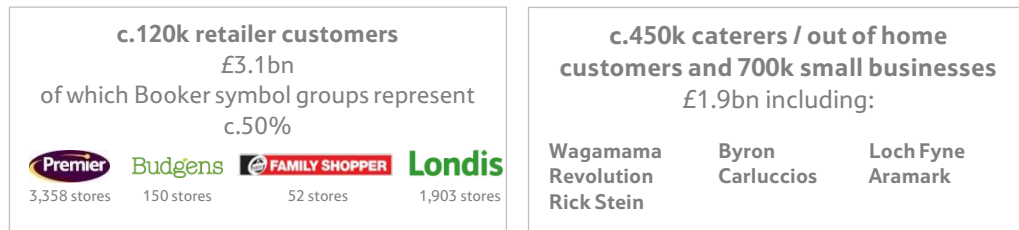
- Sales:
  - £3.2bn cash & carry via 200 sites
  - £1.8bn delivered via c.1,200 vehicle fleet
  - includes £1bn sales digitally
- Proudly serving 450k caterers / out of home customers, 120k retailers and 700k small businesses
- Nine years of strong sales and consistent EBIT growth through a focus on choice, price and service
- Low cost, low capex, efficient operation
- Grocer Gold “Wholesaler of the Year” for 4 of the last 5 years

## BOOKER Group PLC

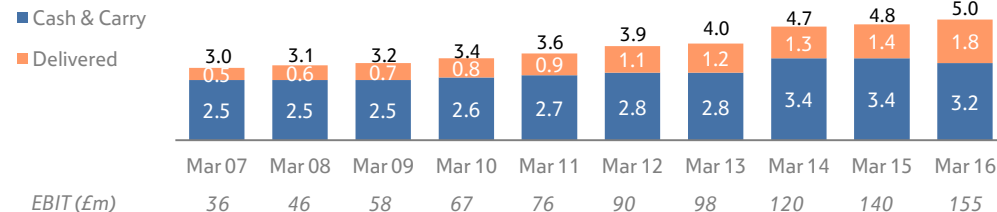
2016 sales = £5.0bn



serving:



### Sales (£bn) and EBIT (£m) development over time



# Indicative combined financials – based on 2015/16 published results<sup>(1)</sup>

	Booker	Tesco <sup>(2)</sup>	Combined
Sales	£5.0bn	£54.4bn	£59.4bn
EBITDA <sup>(3)</sup>	£180m	£2.2bn	£2.4bn
% margin	3.6%	4.0%	4.0%
Operating profit <sup>(3)</sup>	£155m	£944m	£1.1bn
% margin	3.1%	1.7%	1.8%
Capex	£(26)m	£(956)m	£(982)m
% sales	(0.5)%	(1.8)%	(1.7)%
Free Cash Flow <sup>(4)</sup>	£149m	£739m	£889m

**Notes:** (1) Booker financials shown are for the 52 weeks to 25 March 2016; Tesco financials shown are for the 52 weeks to 27 February 2016.  
(2) Financials relate to the continuing operations of the Tesco Group (including Tesco Bank). Sales are shown including fuel sales of £6bn.  
(3) Before exceptional items.  
(4) Defined as net cash generated from operating activities, less capex.



# Key transaction highlights

Key terms	<ul style="list-style-type: none"> <li>Each Booker shareholder will receive 0.861 Tesco shares and 42.6p in cash per Booker share</li> <li>Based on the closing price of 189.0 pence per Tesco Share on 26 January 2017, this represents: <ul style="list-style-type: none"> <li>a value of approximately 205.3 pence per Booker Share;</li> <li>a value of approximately £3.7 billion for Booker's ordinary share capital;</li> </ul> </li> <li>The merger will result in Booker Shareholders owning c. 16 per cent. of the Combined Group</li> <li>The merger terms represent a premium of approximately: <ul style="list-style-type: none"> <li>15 per cent. based on the volume weighted average share prices of Booker and Tesco since 12 January 2017, being the date on which Booker and Tesco published their Christmas trading updates; and</li> <li>24 per cent. based on the three month volume weighted average share prices of Booker and Tesco</li> </ul> </li> </ul>
Financing	<ul style="list-style-type: none"> <li>The cash consideration will be funded from existing cash resources</li> </ul>
Mix and match	<ul style="list-style-type: none"> <li>A mix and match facility will be made available for Booker shareholders</li> </ul>
Management	<ul style="list-style-type: none"> <li>On completion, Charles Wilson, Booker's CEO and Stewart Gilliland, Booker's Chairman, will join the Combined Group's Board</li> <li>Charles Wilson will also join the Combined Group's Executive Committee</li> <li>Charles Wilson has irrevocably undertaken to elect to receive 100 per cent. new Tesco shares in respect of his entire holding of Booker shares, subject to the elections of other Booker shareholders</li> <li>Charles Wilson has agreed not to dispose of his current holding of Tesco shares and the new Tesco shares he will receive pursuant to the Merger for a period of five years from the date of completion</li> </ul>
Dividends	<ul style="list-style-type: none"> <li>The Tesco Board has reviewed its dividend policy and intends to recommence paying dividends in the financial year 2017/18.</li> <li>The Tesco Board expects dividends to grow progressively from that financial year with the aim of achieving a target cover of c. 2x earnings per share over the medium term</li> </ul>
Board approval	<ul style="list-style-type: none"> <li>Unanimously recommended by Tesco and Booker's Boards</li> </ul>
Expected timeline	<ul style="list-style-type: none"> <li>Any merger is subject to regulatory approval and shareholder approval <ul style="list-style-type: none"> <li>As a Class 1 transaction for Tesco, shareholder approval will be required at an EGM; Booker shareholder approval required for Scheme</li> <li>Scheme expected to become effective in late 2017/early 2018, subject to the satisfaction or waiver of CMA Pre-Condition</li> </ul> </li> </ul>
Synergies	<ul style="list-style-type: none"> <li>At least £200m of annual run rate synergies expected by year 3 (see the announcement dated 27 January 2017)</li> </ul>
Financial effects	<ul style="list-style-type: none"> <li>ROIC in excess of cost of capital in 2nd year and significantly in excess in the 3rd year</li> <li>EPS accretive in the second full financial year (excluding the effect of implementation costs)</li> <li>Beneficial to Tesco's leverage metrics</li> </ul>

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