Transcript of Investor & Analyst presentation

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Friday, 27th January 2017

Dave Lewis

Chief Executive Officer, Tesco Plc

Good morning, everybody, and thank you for making it here at such short notice. Obviously, we were not able to tell you before 07.00, but we are hugely appreciative that you were able to change your schedules to join Charles and myself this morning.

We are going to share with you a short presentation, but in terms of context, I just want you to think about one thing, if I may. There is a near-£200 billion food market in the UK. The British public is absolutely passionate about food. And that market is not only very large, it is also fast evolving, ever changing. And what we see is customers who are now looking to buy, prepare, consume, receive food in very different ways to how they were historically. Now, when either Charles talks to them about his business or we talk about it through Tesco, we get a very consistent bit of feedback. The consistent feedback is, as that passion is expressed, customers are looking for more choice. They are looking for better quality, they are looking for even more affordability, and increasingly looking for service. And if you keep that market context in your mind, it will help you understand everything that is driving this merger, and what it is Charles and I are going to share with you over the next 15 or 20 minutes or so. And then obviously we will take any questions you have for either of us.

In the context of what I have just said, for us, this merger is all about growth. It is absolutely all about growth. Now, in the context of a takeover panel[?] you would understand all of this. We have quantified some of that, but the innovation opportunities we will talk to you about later. We think there are many more, but we will share with you what we have quantified thus far.

Hopefully most of you in the room will know Tesco is the country's leading food retailer. Booker is the UK's leading food wholesaler; a fantastic business built by Charles and his team. And we think that when you put those businesses together, you combine a set of capabilities that can create the UK's leading food business, bar none. The benefit of that is for consumers, for customers – be they how we might describe customers, or indeed the independent customers that Charles and Booker serve. So that is retailers,that is caterers. Small businesses. An increasing and a very large part of the Booker operation is obviously serving small businesses. But we also think this is very good news for our suppliers. The enhancement of the market size is an opportunity for our combined suppliers, and you will see us talk about what it means for colleagues, and ultimately what it means for shareholders.

So going back to my point about the market, we think that by coming together, this merger positions this group very well against that market opportunity that I have just outlined. It is a large, fast-growing market. If you were to have listened to the wirescript[?] this morning, Charles and I talked about what it is we think together we can bring to that market opportunity. We will talk to you about the delight that comes to customers from that better availability of a broader range of higher quality, better value food across both the retail and indeed eating out occasions. And we will talk about how it is we can, together, serve that fast-growing, out-of-home food market better.

We believe – and I am sure we will talk about this a lot – that by coming together we help independent retailers, caterers and small business. We will be able to improve choice and price and service. That helps them yet serve their customers even better, but we will be able to serve them better, because when you think about that digital capability of Booker and that of Tesco, we have a very well-built digital infrastructure that can enhance that service.

I have said it is a broader market opportunity for our suppliers. We do see a bigger opportunity for our suppliers. We also see a bigger opportunity in terms of the efficiency of how we work with suppliers, and we will give you some examples of that as we go. Importantly for both of us is the opportunity to work with suppliers to cut waste. Food waste will be one of them; something both Charles and I are passionate about. The ability to buy the whole crop from our agricultural suppliers is something where there is a clear opportunity for everybody. But we will also talk about the impact of this merger on efficiencies around CO_2 emissions, transport infrastructure and the like.

There are significant opportunities for synergies, and we will talk about them in a second. The critical thing – and I can tell by the questions we have had so far this morning – is that while we look at synergy, it is very important that we keep the retailing expertise that we have in Tesco and the wholesaling expertise and food service business which is in Booker and Charles' team. That is very, very important.

And lastly, as always, I will be guarded in terms of what innovation opportunities we share until we are ready to bring them into the marketplace. We are very excited about what bringing those capabilities can create in terms of opportunities to serve the UK food market yet better.

Now, the details of the merger terms are here, and do not, you will be pleased to know, intend to go through each and every one of them. You will know that we are talking about 80% paper, 20% cash. You will know that the Booker shareholder receives 0.861 Tesco shares and £0.426 in cash. You will also know that the valuation of the total business is at around £3.7 billion.

The premium represents 15%[?] against the volume-weighted share price since 12th January. The merger is unanimously supported by both boards. Important to share with you is when the merger is completed, both Charles and [inaudible] will join the Tesco Plc board, and Charles will join me and colleagues on the Tesco executive committee. Now, obviously the merger is subject to the regulatory approval, and that will determine the time on which we are able to progress things, and we will also be subject to the Tesco and Booker shareholder approval.

Importantly, if there was on chart to really focus on, I suspect it would be this one. Together, we believe we can serve a larger growing market opportunity. Most of you are very familiar with the Tesco operation. We have a number-one operating business in large stores, in small stores and online. You are also familiar with what it is we have been doing in terms of how it is we serve our customers a little bit better every day. But we serve a market predominantly, which is the in-home market. That £110 billion that I talked about before. You have seen what the growth rates are, you are familiar with that market dynamic. We believe that we have a capability in that market which is second to none. We serve 45 million transactions a week. We have 16 million loyal club card users. We have a unique insight into the customers we serve when we think about the capability in retail, but also in banking and in mobile. So that is the part of what it is we as Tesco bring to this merger, but what I am going to do now is ask Charles to talk about what it is he and his team bring.

Charles Wilson

Chief Executive Officer, Booker

Brilliant job. Most of you know me. I am Charles, Chief Executive of Booker. And most of you are familiar with our business. We are very privileged to serve 120,000 independent retailers, the biggest of those being the Londis, the Premier, the Budgens and the Family Shopper, and they are all independent business, and it is our privilege to serve them. But we also serve 450,000 catering businesses: pubs, restaurants, fast food outlets, workplaces, independent businesses as well as the national chains. We supply Aramark which supply JPMC[?]. So the food you are eating today does come from Booker. We supply Wagamama, we supply a whole range of chains, too. And that growth in out-of-home is a key part of the opportunity here.

How do we serve it? As you know, we have really 200 cash and carries, where customers come and collect the product from us. But then we also deliver. We have a big delivery operation with £1.8 billion of deliveries. And within our business, when you put together the catering side and the small business side, that is £2 billion of our business retail. When you power that up with some capabilities that Dave and the team have got at Tesco, it will continue to accelerate the growth into that market. So that is why growing in home, growing out of home. Big opportunity for the UK's leading food group.

Dave Lewis

Chief Executive Officer, Tesco Plc

So, as Charles says, and coming back, the two things that we realise as we have explored the merger together – the merger obviously being something we have been working on together for quite a while now – the fact that food and customers are at the heart of both of our businesses is what really unites us. But when we look at the combined set of capabilities, we believe that we have that market-leading capability in product development, and you will see that in the [inaudible] that we can develop, but also in terms of procurement expertise.

Now, principle among those would be in the fresh area, which is relevant in the way that Charles mentioned before, but we also have very extensive market-reach capabilities, be that the stores, be that in cash and carry, be that in the home or indeed the business delivery that you are familiar with, and indeed in terms of click and collect infrastructure. We have that ability to enhance services through our digital operation. Of the £5 billion of turnover that is in the Booker business, £1 billion of that is already online.

The opportunity to leverage some of the expertise that we have in financial services to offer greater services is clearly there. You will have noticed we rolled out just a week ago the PayQwiq application to all of the Tesco stores. So there is an opportunity to leverage financial services across the group in a way that would be new and attractive to Charles' customers, and that attractive innovation opportunity.

Charles Wilson

Chief Executive Officer, Booker

What it means is, with that combination of both being centred around food, both being centres around customers, we can bring benefits for all stakeholders, benefits for the consumers, benefits for caterers and independent retailers, benefits for the suppliers, for the colleagues, and through to the shareholders.

In terms of the consumer, it is about choice and convenience, whether it is in home or out of home. Giving them the widest range of food from professional catering products all the way through to the best fresh in the country. It gives us great value which allows us to continue to improve the choice, price, service and quality for the consumer, and it opens up at least 8,000 click and collect points, where we can combine to give better availability of home and out of home food available for everybody.

In terms of independent retailers, caters and small businesses, for the Booker customer in particular, it further enhances our choice, price, service and quality. Now, a lot of you know, we have been on this journey, we have been surveying customers for a long time. You have seen that customer satisfaction improve for our choice, price and services. This is the next big move forward. This allows us to do even fresher fruit and vegetables with the scale that Tesco has got. This allows us to complete the meat offer, this allows us to really power up and strengthen our offer into catering, and also into the retail sector.

It also allows us to use the combined fleet. Tesco has 5,200 vans, we have 1,200 delivery vehicles. Put those together with a smart digital front end, and we can do a better job for the consumer, a better job for our customers. It strengths up the Premiere, the Londis, the Family Shopper and the Budgens brands, because it helps them compete in what is a very, very competitive market.

Importantly, it also gives us access to banking, digital solutions, mobile solutions, and pay equipment. And making that available to all pubs, to all restaurants, to all convenience stores starts to take that out, and really will be exciting for us. And by strengthening up those customers, doing a better job for those 120,000 independent retailers, 450,000 caterers, 700,000 small business, that helps communities up and down the land. It helps them do a better job, and prosper.

Dave Lewis

Chief Executive Officer, Tesco Plc

And the ability to prosper is something we think is there for our suppliers. It is clearly a broader, bigger market opportunity. One of the things we have talked about in other presentations is that ability to utilise full crop when we have agricultural fresh food partners. This will be something that is fantastic in terms of utilisation, fantastic in terms of waste, but also ought to be able to provide enhanced returns for the supplier, as well as better value for customers.

Now the idea of what it is we can do in terms of integrating that multi-channel supply chain again is full of efficiency and service opportunities. I mentioned very briefly in the introduction that one of the things we are very conscious of is what that means in terms of carbon efficiency, and how it is we build the most efficient buying, storage and transportation infrastructure to support the UK's leading foot business.

Charles Wilson

Chief Executive Officer, Booker

It also creates big opportunities for colleagues. This, as David said, is about growth. It is about growth into out-of-home, growing in the food market. Tesco is already a big employer, with 300,000 people. At Booker, we only employ 13,000 colleagues. But the combination of the two really does allow us to present opportunities for our colleagues to help them grow by becoming the leading food group, the best multi-channel operator.

Dave Lewis

Chief Executive Officer, Tesco Plc

Clearly the growth is the driver, and we have an access to that larger, faster growing market for the combined group. There is innovation, there is improved utilisation; we will talk about that a little in a second. And we believe there is a huge opportunity for revenue synergies.

Now obviously, the barrier and the hurdle for articulating those in a takeover is very important, so we have been really clear about some. There is still more for us to do, and we will do that at as we progress the merger going forward, but we are both committed to the growth that we think is very inherent in the merged business.

The returns for our shareholder are attractive. We have quantified at least £200 million of synergies, £25 million of that revenue, £175 million of that in cost. We will talk about it a little in a second.

Importantly, the return on investor capital is positive. It is in excess of the cost of capital by the second year, and significantly in excess by year three, and the EPS is accretive in the second full financial year. You will see as you look through the detail, it is also beneficial to all of our Tesco leverage matrices.

The final thing that I should point to is reflecting the improvement in the Tesco business proposition, but also the confidence in the turnaround of the business. The Tesco Board recommends recommencing dividend payments in 2017 and 2018. Now those dividends will grow progressively, but our aim is that we get in the medium term to a target cover of around two times EPS over that time period. So just to give you that context as well.

When it comes to synergies, I have talked about the growth once, I have touched on it. If you think about it, just to bring that alive for you, the idea that we might in a large Tesco store take some of the professional range that is available within Booker in order then to offer seven day delivery service to Charles' customers, we see that as a really key growth opportunity, as we do around how it is we might use the fleet in the way that Charles has said.

So the ability to improve the core offer of both the retail operation, but also the independent and small business operation that Charles currently serves is definitely going to drive growth. That better choice, better range, better value, better price that Charles talked about, we see that driving those growth synergies. But there are also some savings, and I will let Charles talk about the savings part.

Charles Wilson

Chief Executive Officer, Booker

You know, we put a lot of work into the synergies. We have had good teams working on it on both sides, coming together. And what we have signed up for is £175 million of cost synergy. Where does it come from? Procurement is a big part of it: 55%. Through better utilisation of the supply chain. We can go to the suppliers and say we want full trunk of loads[?], we can actually improve their productivity, and that really works for them and really works for us.

In terms of the distribution of the supply chain, it is great. 5,200 delivery vans, 1,2000; that is a big, big network. And by optimising every single mile, you save carbon, you save fuel, you save wastage, that is good for everybody.

And in terms of central, what we have been looking at is particularly goods and ops-retail[?]. Some really good opportunities there in terms of working smarter, working better right across the group, which saves the money there.

So that is where we are very comfortable that we are in good shape in terms of the synergies.

That is all very important, but actually what is more important is where Dave started. That we all know this global food market is changing. And with the growth of home, which is still in good shape, but the growth of out-of-store as well, that is a huge opportunity for everybody. And you have got to be able to do both. Consumers are just mixing and matching all the time, saying, 'I will buy this from my convenience store, but I am going to have this delivered to home for me,' and you are seeing the superstores responding to that.

So the combination of Booker and Tesco allows us to address that market opportunity. It allows us to say, wherever the food is produced, we will be able to do a great job for the consumer and for the customer. Offering the best choice, value, quality, service, allows us to get more efficiencies, we have talked about the synergies, and use the assets better. Nobody wants a truck running empty anywhere. Nobody wants a shed not fully utilised. And so sweating the capacity allows us to build a more efficient business which, with a good digital front end on, becomes a really compelling offer for everybody to improve choice and improve satisfaction. And that is why together we can build something which is actually a better, more efficient supply chain which is good for all parts of the channel.

Dave Lewis

Chief Executive Officer, Tesco Plc

Thank you. So, the last couple of slides because of the questions that one anticipates around, 'Dave where does this fit in, in terms of the Tesco business?' I thought I would take you back to something we shared at the Capital Markets Day and it is a way of showing how the merger has an impact on the Tesco operation but it also then shows you what the merged business looks like. If you remember, I talked about those three differentiating capabilities, which are around product, around how it is one operates within channel in order to understand and serve customers better.

So if you take that as the base, the dark blue is where Tesco started from. What you see in the light blue is that which comes, that expertise and opportunity from the Booker operation. So we improve the choice and the range for everyone, in terms of product; we can enhance efficiency via volume and that is the full crop example that I have given. But when you look at the channels, the complementarity within the channels is really important. Yes, through that independent symbol and franchise operation we add to our reach and convenience but, very importantly, the addition of cash and carry and delivered food service fills out that multi-channel business that I was talking about and you look at serving customers with fantastic food, whether they want to eat it in their home, have it delivered or indeed eat it on the go. So in one chart we show you why we think we have the potential to become the UK's leading food business by bringing the unique set of skills and capabilities of Charles and his team together with that of the Tesco operation.

And that leads us to the final slide which is this is all about driving benefit for these five very important and key stakeholders in the combined business, UK's leading food business.

And with that, we will stop and we will take your questions.

Dave McCarthy (HSBC): You have outlined your synergy benefits, particularly in procurement. I am assuming that they are the net synergies and that there are gross synergies on top; I am not going to ask you to quantify them. That is for us to do the work. However, I want to know how you are going to make the decision on where to allocate those synergies? So if you get 100 million, whatever, that you are going to reinvest, how much of it will go into Booker pricing and how much will go into Tesco pricing? Because, of course, the more that goes into Booker pricing, the more you are helping a competitor.

Dave Lewis: I have known Charles for a very long time, and in the time that we have been debating to us, it is pretty clear to us that we are quite logical, quite analytical and quite objective about how it is we look at investment and return. So I suspect, as we generate yet more opportunity as a result of the merger, we will be sitting down and looking at the totality and saying, 'What is the best investment return for the stakeholders that we talked about?'

Dave McCarthy: Okay and a related question is: in terms of own label, you both have your own labels, how is that going to work? I am assuming you will keep the Booker labels separate but in terms of procurement and recipes and ingredients, will they all go to a standard version?

Dave Lewis: Why do I not start and then Charles can augment? I think what we are talking about is we know that we have procurement expertise that we can leverage across the group, but the thing that your question allows me to say is there is no intention at all to be changing brands or removing brands. So you allow me to say it is absolutely we want to keep the expertise and we want to keep building the expertise.

If there are opportunities where that procurement and product development expertise can come together to enhance either of the brands in any direction, I am sure we will be keen to take them. I do not know if you want to add to that.

Charles Wilson: I think there are a couple of things there. Number one, going back to the first point, Dave, we are keeping, as Dave says, the expertise of retail, the expertise of wholesale. And what you see within the group is clear accountabilities, our organisation structure of how procurement works with the channels, with the consumer. And therefore, can you see where the savings are? Yes. Can you see how that is reinvested back? Yes, we will be able to manage that very effectively.

Dave Lewis: That is right.

Charles Wilson: What is brilliant about some of the Tesco scale is it can really help some of our private label, because the volumes that they buy to with suppliers is great. The branding is different because when I am doing the Chef's Larder catering packs it is a different configuration.

Dave McCarthy: Indeed.

Charles Wilson: But it does say anything where you can say to the supplier, 'We just want to run this line for the next six days and we are putting the Booker volume on the back of that,' we all know that is big win-win in terms of quality, choice and also pricing and efficiency.

James Grzinic (Jefferies): I had a couple. The first one is: you talk about a revenue synergies deal, but synergies coming out of revenue are only 12.5% by year three. Should we think that post-year-three, there is a massive bump up on the synergies, because otherwise 12.5% is just a very small minority of the financial reasoning behind it? The second one is should we overlay another 50 bps to your margin ambition for Tesco, given this? Are we going 4–4.5 now?

Dave Lewis: I will take it in order. I think you know for a 2.7 submission and takeover panel the hurdles of satisfaction that we would have to be able to prove. I understand why everybody would be and should be sceptical about EBIT that comes from revenue of things that have not yet happened, so we think that that hurdle rate is higher and it should be higher, and we are fine with that. Do we have an aspiration for it to be more than that? Yes we do. Do we have ideas about how it can be more than that? Yes we do. Have we yet been able to quantify that in a way that we would satisfy all advisers? No, because that is where we are in terms of the merger. To really prove that out we need our teams to be actually exploring it together. So I think that is just a function of how one puts together these proposals, but we believe that there is more opportunity.

To your second question, no, we are not changing anything about the Tesco aspiration at this stage. We are well on our way. We will be able to say when this deal is complete when we know from regulators and the others. And then post that time there will be a chance for Charles, myself and the new executives to sit down and see what that means to the longer-term guidance that we have given you but at this stage we are not changing anything.

James Grzinic: Sure.

Rob Joyce (Goldman Sachs): A couple from me, firstly just on the Booker business and Charles, if you do not mind. How is Booker going to be run within Tesco? Will it be run independently and what is your kind of role in the new organisation?

Charles Wilson: Rob, in terms of the organisation, I am really privileged; I am going to be sitting on an executive team with some really high-class individuals and sitting on the Plc board, which is a real honour, along with Stewart Gilliland. In terms of the precise roles, that is going to be defined much closer to completion. However, will I keep a very close eye on Booker? You bet. And therefore I am going to be very involved in making sure that all of the synergy and all the opportunity is unlocked.

Rob Joyce: And Booker itself, will it be run pretty independently still?

Charles Wilson: We have been saying we see wholesale expertise, retail expertise, and this is why we have Dave's channel map of, actually, this is what we do online, this is where the cash and carry wholesale, keeping the accountabilities where they need to be is critical.

Dave Lewis: So, Rob, if you think back to the detail that we shared at the investor day. We have a team which is responsible for running the hypermarkets because we know that that shopping mission is different, the operation is different so we have that chart. We have the same for our existing convenience offer, we have it for online, so keeping that channel specific. So, in a way exactly, the wholesale operation fits exactly into that model. And that is why we are not talking about people synergies in the way that some people do because we want to keep Charles' expertise and the team driving those two channels.

So we think it fits absolutely and it allows Charles to do the focused job that he mentioned in answer to your first question.

Rob Joyce: Thanks a lot. And the second one is just a couple on dividends. Obviously, the dividend is quite important to the Booker shareholders. Can you be a little bit more precise on how you see the dividend in the first year, 2017–2018?

Charles Wilson: What we are expecting is we pay the main dividend and the special dividend this year for this financial. Going into next year, then we will be paying the core dividend until it completes. And so that is why you will see that continue to come through. You have seen Dave give guidance in terms of the dividend that Tesco is expecting to pay. So by the time it completes, then you will see that transition through from our dividend onto the Tesco dividend.

Rob Joyce: So that is an incremental dividend Tesco will be paying effectively from 2017–2018; it is not the legacy Booker dividend?

Charles Wilson: What you will see is no shareholder gets paid twice so it just depends on the completion and making absolutely sure. So once you handover, then you will get the Tesco dividend from then on.

Rob Joyce: And Dave, sorry, anything on the Tesco dividend? Can you give us a bit more precision?

Dave Lewis: The precision is that we have decided with the board to be resuming dividend in 2017–2018. We thought it was important to share that now given what it is we are talking about. And what we have said is that will be a progressive build to a place where, in the medium term, we see ourselves getting around 2% EPS cover. So that is the guidance I can give you, two times, yeah. Okay. Important key word there.

Xavier Le Mené (Bank of America Merrill Lynch): Two quick questions, if I may. The first one: how are you going to run, actually, the convenience store businesses because that is where Booker is bringing something as well as Tesco? So how does it work in terms of logistics, distribution centres, so can you explain us a bit more what is the plan here to merge these two business into one?

And the second one: in terms of property, looking at Tesco, is the merger changing anything, in your view? So are you still going to buy more property if you can? So what is the plan there? Is it still the same?

Charles Wilson: Keeping wholesale, keeping retail expertise is important, but nobody likes waste. And that is where, if you have a van and you can put another load on it, that is the way that the Tesco and the Booker accountability works. It becomes very clear for us to say it makes sense to actually use this van to actually do a couple of Booker jobs as well as the Tesco deliveries they are doing.

Likewise on the sheds, if we can take direct loads through from suppliers, you really want to use the same shed efficiently so you can then start to say, 'This is how the supply chain constructs,' to minimise waste right the way through the chain. And so that is why keep the accountabilities, keep the expertise, but also sweat the assets.

Dave Lewis: That is right and when it comes to property, I think we are certainly not in a place where we are acquiring property. What we do see, Charles and I, is the opportunity for us to think about how it is that we can use the space that we have, particularly in some of our larger stores, to offer an increased range that might include the professional products that Booker are famous for in a way that adds value to the customer offering in those Tesco stores. So there is not a property acquisition part to the merger, but there is definitely a property utilisation aspect, which is all about improving the quality of the offer and the quality and the level of the return.

Bruno Monteyne (Bernstein): Three for me please. I know of a few Budgens that have a Tesco Express next door or in front. They are plainly not going to be happy, I would imagine, so what do you think is going to happen to these relationships and how will you manage that?

The second is: Tesco Express, should we expect that you will try to grow the convenience channel less through Express, the current fully-owned format but more through franchisees, so less growth in that channel?

And the third one is: you said something about no new guidance on the Tesco business but I am correct that this deal is completely separate and potentially additional to the guidance that you have given already. It is not a component of what you were trying to achieve in the previous guidance.

Dave Lewis: The answer to number three is yes, you are correct. I will let Charles talk about the first and then I will come back to Tesco Express.

Charles Wilson: In terms of the first one, to put a scale on it, we supply 120,000 independent retailers, 450,000 caterers. With those retailers we supply 3,300 Premiers, 1,500 Londis customers and 136 Budgens stores. Within the Budgens empire we only operate nine stores. Out of all of those 120,000 independent retailers, we only operate nine.

Now, by some quirk of fate, there are, when we have done all the mapping, a couple of competing and overlapping stores, but what the Budgens customers are saying to me is, 'What we want, Charles, is – you have made major progress in the last 18 months since we have owned the business,' they have seen better choice, better price, better service, they are making more money than they have made. I will be saying to them, 'Hey, with Tesco, we can give you more better choice, better price, service, you will make more money going forwards.' And we can do some things on banking and what we can do on PayQwiq and we are really excited. So the overall overlap, actually, is very small. And the opportunity to help those customers, be they caterers or retailers, is very big.

Dave Lewis: I think that is right. I think the thing linking to that – and I will come to your Express question in a second – is when you talk to the independent entrepreneurs that own the stores that Booker serve, we are talking about really very savvy switched on entrepreneurs. And their recognition of choice, quality, value and service is very acute, right? Charles talks about the things that we can add. I think it was on one of our charts. But they will also, I think, recognise that new opportunities come by being part of the merger that were not there before. So consider the idea that through this merger and through that network we could have close to 8,000 click and collect points that would drive traffic to those independent stores as a way of giving more service that can come from the combined operation. Those are new business opportunities that Charles' customers are particularly attuned to. So actually, whilst they may have some first reaction, we hope that we they will see is that actually we bring something which makes them much more competitive than they would be even with the great service they have been getting up to now.

When it comes to Tesco Express I think what we will do is we look at the portfolio of businesses that we have. We think that convenience is large, it is fast-growing, it is a fast-growing part of the market because of that consumer dynamic I talked about before in terms of food and the home. So we will continue to develop the Tesco Express and indeed the one-stop format. So it does not change any of that. The portfolio we think is a rich portfolio; some of it is owned and run by ourselves and some of it is served through the wholesale business and we do not see that changing materially.

Molly Johnson-Jones (Exane): Hi, I have three questions if I may? First of all, do you see any risk of a counterbid for Booker? Secondly, with the CMA assessment, if you have to divest stores, do you see that as having any significant impact to your plan? And thirdly, a lot of people have been asking us, so I think I will dare to ask this question, is this a way, Dave, of you preparing for Charles to be CEO?

Dave Lewis: We believe that the combination is a compelling combination. We think that there is something very unique that comes from bringing these businesses together. And we are clear, and our boards have obviously supported; we think this is a full and fair value for the transaction. So the answer to your first question is no we do not, we think that this is the right pairing of leading retailer and leading wholesaler, which clearly nobody else could match.

I think in terms of competition, we have done the work, we did our own work before we go to this stage to check out. I think the thing that I know Charles would emphasise but I would emphasise as well is it really is very important from a competition review that we understand that we are not buying stores here. Booker does not run stores, the nine that are operated by

Charles and his team. And therefore when it comes to testing competition, we do not have any increase in influence of local price, or the things that the Competition Authority would be particularly focussed on. So actually when we test it, we do not see that, but we need to go through a full review with the CMA.

And I understand the third question. I have a huge amount of respect for Charles; I have known him for a very long time. I think he will be a fantastic addition to the Tesco team, I have nothing but respect for him, his team and the business that he has built. But the critical thing is we will lead the combined business together. He has told me he is very happy to work for me and I trust him and believe him on that, but you can ask him yourself. He is sitting right here.

Charles Wilson: I have known Dave a long time and he is a great leader and it is a real privilege to work for and with him. The leadership team at Tesco is very strong and we have some great people at Booker and that is why it is a full team effort. I am very excited. I know I was number two at Marks & Spencer, number two at Arcadia Group and can very comfortably fit into a role which works supporting Dave do what he has to do. So we are really excited by it.

Molly Johnson-Jones: Thank you.

Simon Brazier (Investec): A Booker shareholder, not Tesco, but I think many in the room probably heard an excellent lecture given in 2014 entitled Growth Outside The Supermarkets. I was wondering, Charles, whether you could explain what has happened since and why growth within the supermarkets is maybe the way forward for Booker?

Charles Wilson: Well, Simon, I am really glad you thought it was a good lecture, and it is still up on YouTube, or somewhere. What it was saying, to paraphrase, was a lot of the growth is going into eating out, it is going into discount, it is going into digital, going into new channels, and some of it is going international. And I was making the case to suppliers of, hey, why do you not give a bit of your terms to Booker rather than just putting it into the multiples? That was the pitch. Very kindly some of them helped and supported, but, hey, there is an easier way to get there in the end, which is to team up with Tesco, because they have got some great assets there. So can we then address those opportunities of eating out, of digital, can you really compete strongly for the future? Yeah, this is very compelling. So that is why being together, I think, we can do something which will become UK's leading food company.

Question (JP Morgan): Just a couple from me. Do we think there is an excess of capacity industry wide? And if that was the case, why should that not be the case at the combined entity, too? And the secondly, how do we think about the optimal capital structure of the new group here, or...? Just trying to get my sense around merging a business that has typically been cash-profit oriented with Tesco that has been more levered. Thank you.

Dave Lewis: Well, I do not think it is arguable that there is an excess of retail capacity in the UK market versus the market size. So that, I think, is a fact that is recognised by us, and is recognised, I think, more broadly. And we talked about what it is as Tesco we intend to do about that. To repeat what I said earlier, I think that actually by coming together with Booker we give ourselves new opportunities about how it is we might use the space that we have. And I think, look, it comes back to – you will allow me to say something about the competition part. You know, that excess of capacity is also because an awful lot of things have changed in the UK retail market over the last decade. It is as competitive as it has ever been. There is certainly no restriction of competition; if anything, be they limited range retailers, be they online, there has been an awful lot of competitive activity in the marketplace.

When it comes to capacity, we think that together we can our capacity better than if we are standalone, so we see an improvement for us. But your point about the market I would not argue.

I think in terms of capital structure, I understand what you say about the history of Tesco, but I am really very clear through all the conversations that we have, we are both extremely tight on capital, we are both extremely focused on cash. You will see that in the combined group going forward, you see it in the way we set out the plan for Tesco, so I will buy it in terms of the way that the historical Tesco you referred to, but it is not at all the aspiration for how it is, so actually the combined business allows us to be more capital efficient. You know, better in terms of asset utilisation and more cash generative than we can be on our. So actually I think it will improve both – I do not know if there is anything you would like to –

Charles Wilson: I would just put it in a bit of a historic context, which is in 1919 Jack Cohen set up, and he started, really, as a wholesaler before he was a retailer. Then when you read what he was saying in 1954, he was saying the market is too competitive. There is too much capacity, da, da da, but it is going to change. And he interpreted that change better than anybody.

Dave Lewis: It is true.

Charles Wilson: In 1971 he wrote a fantastic book, *Pile it High, Sell it Cheap*, and the last chapter of that was basically saying this is how retail is going to change in the next 50 years. And he called it exactly right. Now, one of the compelling things of here we are in 2017, Tesco coming up to its anniversary, laying down the plan to say, how does this business continue to prosper in this market, and do a really better job for the consumer, for our customers all the way through? This is why it is very compelling and exciting. So I hope that just flavours why there is some history behind this, too.

Edouard Aubin (Morgan Stanley): Just a question for Charles, I guess. In the past in Europe we have seen supermarket chains owning cash and carry operations focus excessively on trying to generate synergies on the buying side and that came at the expense of their customer proposition, because obviously the [inaudible] customers are quite different from household. So how can we make sure that you guys stay focused on the cash and carry side on the – and relevant to your customers?

Charles Wilson: It is absolutely a key question. That is why this expertise retail, expertise catering, making sure you have very clear accountabilities and you focus on the results. And Tesco and Dave have a great track record of that. We at Booker have a great track record of delivering against that, so yeah, but because when Dave says we are food obsessed, we are customer obsessed, we are not going to let those go.

Dave Lewis: Indeed. Could not endorse that more.

Dave McCarthy: Are there any changes to CapEx here? Any kind of CapEx synergies?

Dave Lewis: Carry on with the assumptions.

Dave McCarthy: And then at the Capital Markets Day you talked a lot about the cost of goods sold and synergies there. Are there additional synergies? Because obviously Booker a big supplier of goods not for resale, so will you effectively move some of your buying of goods not for resale to Booker?

Dave Lewis: So if you look in the synergy bubble, and when Charles talked about that £15 million, he talked about goods not for resale; that was pretty much in terms of how we run the current operation. If we are able to identify more there, David, then obviously we will be looking. But no change to the capital at this stage, and yes, we can see opportunities to look at goods not for resale across the two businesses for sure. What we have been able to identify we have put in the document at this point.

So ladies gents, thank you very much, indeed. We are very conscious that we surprised you at 07.00 this morning and you have had to change your diaries to be here, and now we have probably given you some work to do in terms of getting your own opinions together, but thank you very much, indeed. On behalf of Charles and myself, we are obviously excited about what it is we are announcing today. We have an absolute commitment to build the UK's leading food business, but we will do that by being customer obsessed, by being food obsessed and by being service obsessed. So with that, I will say thank you very much, indeed, and see you later.

[END OF TRANSCRIPT]