

Tesco Preliminary Results 2013

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TF Philip Clarke, these look like difficult results for you. Why is profit down so much?

PC Well, a year ago we announced the intention to invest £1 billion in the UK and we've done that so that's one important reason and I'm pleased to say that's paying off because stores are better, our customers are noticing it and trade's improving with a lot more to come in the future.

But there've been two other effects to our trading profit. The first one of those is the regulatory impacts in South Korea. It's our biggest market outside of the UK and we've been unable to open on Sundays and trade 24 hours so that's had an effect on the trading profits. And the other is the Eurozone; consumers are finding it increasingly difficult to cope and so that's affected our central European businesses; so three impacts on trading profit.

But there've been two other substantial announcements today that have affected the shape of our balance sheet. The first is a consequence of our strategic review in the USA. We're announcing today that we intend to exit, that we expect to be able to sell the business on to another party and we're recognising the cost of that to the balance sheet. The assets that are there; we don't think we'll be able to realise the value that we put into them so that's a charge of around £1 billion.

And the final impact is, we said again a year ago that we were going to slow down our property, in fact, we were calling an end to the space race here in the UK and we've looked at all of the schemes that we have in the UK and we're pulling out of over 170 of them. And so we've announced that the value of those needs to be written down.

TF Last year you announced a six-part plan to build a better Tesco in the UK. What progress are you making?

PC It's good, really good, actually. We're here today in Kensington, one of the stores that we've refreshed and it's not just putting paint on walls. The product has changed significantly for the better, the service has improved. Our colleagues have really made what matters better, they have really started to focus on looking after product, looking after customers. There's a twinkle back in their eye and our online businesses are growing very strongly, most notably our food business. So good progress; we've done three years' work in one but we've got a lot, lot more to come and I'm very excited.

On customer insight, what we've been doing is using the Clubcard data and our capabilities from dunnhumby to personalise our voucher programmes for customers and that's been a really great success. So it's very targeted - giving people discounts on the products they buy every day, rewarding them for shopping with us. It's been great.

TF You're announcing a UK property write-down. Why?

PC Global internet retail revenues were \$1 trillion, but ten years ago hardly anybody did any shopping on the internet, it was in its infancy. Many of these write-

downs – in fact, nearly all of them – relate to properties that we bought five and ten years ago when we thought that big stores would be the future.

We'll be focusing much more on building our multi-channel credentials because customers in the future are going to want to buy what they want, when they want it, however they want it, from wherever they want. And so I think the winners in the future won't be the retailers who focus on purely online or purely on store, it'll be those who can put together a seamless, easy, simple offer for customers, backed by a great brand.

TF It's clear from what you say that stores of all formats are an important part of the multi-channel mix for you but what are your plans for larger stores in the UK?

PC Our strategy really for large stores is all about creating more of a destination. Thanks to Clubcard we really do understand the reasons customers come to our stores. So we've invested in Harris and Hoole, a coffee shop chain; great coffee and great pastries; We've been investing in Euphorium, the best of British baking; And we've bought 100% of Giraffe, a family restaurant chain; really does appeal to families and that'll be going into these stores too. Some of them will actually reduce in size and we'll put in other retailers alongside as well, complementary to what we do, so again you make it more of a destination. And one of the reasons these retailers want to come in with us is our locations are brilliant.

TF The horsemeat issue is clearly industry-wide but it must have affected the business.

PC Well, it had an impact on me. I was horrified when I heard, And you can see today, a few months later, how it's spread right the way across the Eurozone so the fact that four of our products had to be withdrawn – four out of 18,000 is four too many – meant that we felt we had to take a leadership position and that's why we've given so many undertakings, to bring the supply chain back, to do more testing, to invest more in British farming.

TF You announced a strategic review on the Fresh & Easy business in the US. What decision have you made on that?

PC Well, as part of the strategic review we've been talking to other parties about whether they'd like to buy Fresh & Easy from us and we've had quite an expression of interest. And that's prompted the board to decide that we would like to sell so we're going through that process now and when it's complete, we'll let people know absolutely what the end result is. For now, in the accounts that we've just released, we've reflected a write-down in the value of the assets and we've taken £1 billion of value and written them down.

TF Moving to Europe, it looks particularly tough there right now. Are you worried about the businesses there?

PC Imagine if you were a customer, a citizen of one of those countries; so much uncertainty, so little economic growth. Our businesses there are a victim of that and our people there are doing everything they can to, you know, improve performance but it's difficult when customers are constraining their expenditure.

Hungary and Slovakia are strong businesses with strong leadership, market-leading positions. Poland and Czech; it's a little bit more difficult for them. You know, they're in the pack, not leading. We hope that together those four countries, can make some

good progress in the years ahead and as I'm often saying to my team, when you're in the middle of something like the Eurozone crisis it never looks good because when you get to the end quite often it feels a lot, lot different and we expect that to be the case.

TF What have been the challenges and the highlights in Asia this year?

PC In three months, I've been to all of our markets in Asia and they're great businesses. Korea, Thailand and Malaysia; you know, market-leading or a close second, in the case of Korea and were it not for the regulatory challenges there, the trading hours restrictions, the Asian region would have driven great sales and profit growth for us. These are markets that are still fast-growing so I'm very excited about Asia.

China is a little bit different. Hypermarkets was the format that we went in with. We spread ourselves a little bit too thin so we're in probably too many provinces so we've scaled back our efforts in the last year to concentrate on building out profitable, sustainable businesses.

TF You've made absolutely clear your focus on multi-channel. What progress have you made this year on that?

PC I'm pleased to say, three billion of revenue online this year for the first time, mainly in the UK but also in Ireland, in Korea and now in Hungary, in Poland, in Czech, in Slovakia, in Bangkok, in Kuala Lumpur and, in a few months' time, in Shanghai; brilliant.

So our internet revenue's up 13%, I don't know how much we'll be taking online in five years' time. I know it's going to be more than we're taking today and we've got to prepare the company for that.

TF General merchandising continues to be a drag on retailers. Customers have got less money to spend. What's your plan for GM?

PC I have learned from some of the best retailers in the world that the way that you win is you differentiate and simply repeating, you know, the offer of five and ten years ago isn't going to get us very far. And I think in 2012 the brutal, honest truth is we did too much of going back, not enough of moving forward. I've had the privilege to see the ranges that are coming into general merchandise in the second half of the year. I think it will be a point of difference again of course, we did a great job 18 months ago in redefining the role of our clothing, of F&F and that's grown extremely well, up 9% in the year.

TF Turning to the bank now, what's the update there? Because it seems to be behind expectations.

PC Well, it's not done as well as we'd have hoped for two reasons. Payment protection insurance; in line with all the other banks, retail banks, we have to take another provision because claims were higher than expected, you know, and they relate to activities five and six years ago when we didn't actually own it completely. And then the insurance market's been difficult for us and actually for most insurers.

But I'm very pleased with the bank that we've built and I'm very excited about the potential it has to be another point of difference in the UK and to help us to get the UK back to leading. So, you know, we're going to open our own current accounts in

2014 and all this builds on the launch of ISAs and mortgages. You know, we said that we would do it. We've been able to and they're progressing quite nicely as well.

TF How will you continue to create value for shareholders?

PC Well, the first thing is, you know, we'll grow the company. Growth is in our DNA, it's what gets retailers out of the bed in the morning, taking more money in stores, online. But shareholders also want two other things; they want return on the capital they we employ and they want a good dividend and so we're going to create value by growing our top line, by delivering some profit improvement, by ensuring we give a dividend and by getting a return on capital employed. That's really the answer.

We invest a lot of money – last year £3 billion. Shareholders expect that to deliver a return which is why we talk so much now about the importance of capital discipline, of judicious investment and of ensuring a better return. That's what we're going to do. This is really all about balance, a balance between growth, dividend and returns and perhaps, you know, in the past we've focused a bit too much on growth, not enough on returns.

But having said that, you know, we've created extraordinary value over 15 years because we've driven growth hard. Now we're saying, you know, for the foreseeable future, more balance to it all. That'll be good for shareholders and it'll be good discipline for the company. Every penny counts.

TF What are you most proud of over the past year?

PC I'm always pleased when I see innovation and I look at all of our businesses and they're all really focused on it now. It's that point of differentiation that comes from doing new things. I think our resilience, the resilience of my colleagues; It's been a hard couple of years as we've, you know, changed the strategy, changed the management and people have bounced back very, very well.

There's more collaboration in the company now than there ever was. We're more open, we are taking leadership positions. It would have been very easy, with the horsemeat, equine DNA crisis to hide. What we did was we found out what the problem was and we came straight out and said, now we know, this is what we do.

That's probably the thing I'm most proud of; in a crisis our people really stepped up and, you know, I could talk about a lot of products and a lot of people but as the chief executive, it's much more about how the business is evolving so that it can be a winner in the future. It's already a winner. It'll be a winner in the future because of those.

TF And lastly, what's your message to colleagues all round the world?

PC Well, you know, you'll be reading headlines that profits have fallen substantially and you might be worried about that. Don't be worried about it. The trading profit reduction is a consequence of investment in the UK largely and the Eurozone dragging back Europe and regulatory challenges in Korea, three things that you all know about.

The company is still financially strong so whatever you read and whatever you hear, hear it from me; this is a strong business with a strong balance sheet and great capability. I think, for me, the important thing to remember is you, you know, our

colleagues are the people that make the difference. In a difficult time you've responded brilliantly well. Keep on doing what you do and we're going to be fine.

We've got great plans, we've got great people, we've got great capabilities, we're in some of the most exciting markets in the world, we've got the UK coming back, we've got a bank coming in, we're going to be a multi-channel leader. And it's all because of you, so thank you very much. Believe in yourself; I believe in you.

TF Philip Clarke, thank you very much.

PC Thank you.