



22 April 2015

## PRELIMINARY RESULTS

Dave Lewis – CEO, Alan Stewart – CFO

**TESCO**

# Agenda

- Since we last met
- Update on three key priorities
- Results: 4Q and full year
- Next steps



# Since we last met

- 8<sup>th</sup> January – 3Q and Christmas trading  
Update on priorities  
Guidance re-iterated
- 22<sup>nd</sup> April – Full year results  
Transformation programme progressing well  
New team in place



# Three priorities

- 1 Regaining competitiveness in our UK business
- 2 Protecting and strengthening the balance sheet
- 3 Rebuilding trust and transparency



# Investing in our customer offer



Service



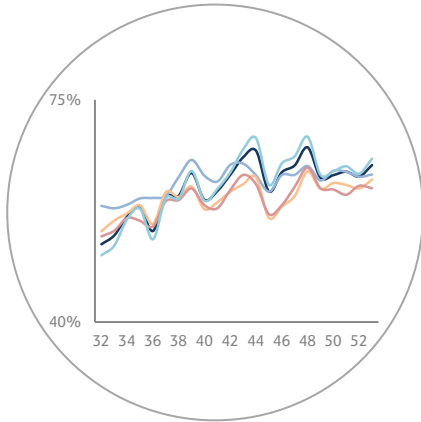
Availability



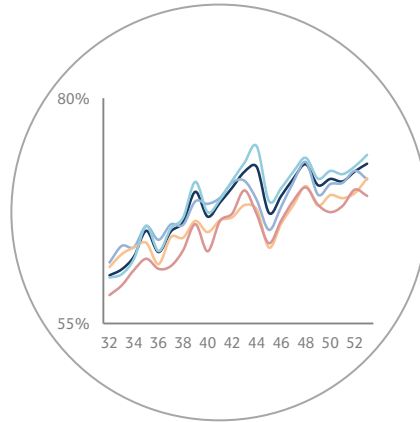
Price



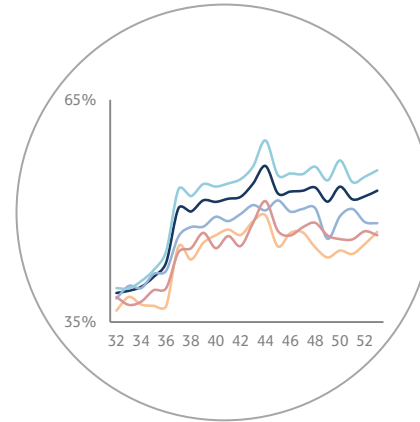
# Investing in our customer offer



Service



Availability



Price

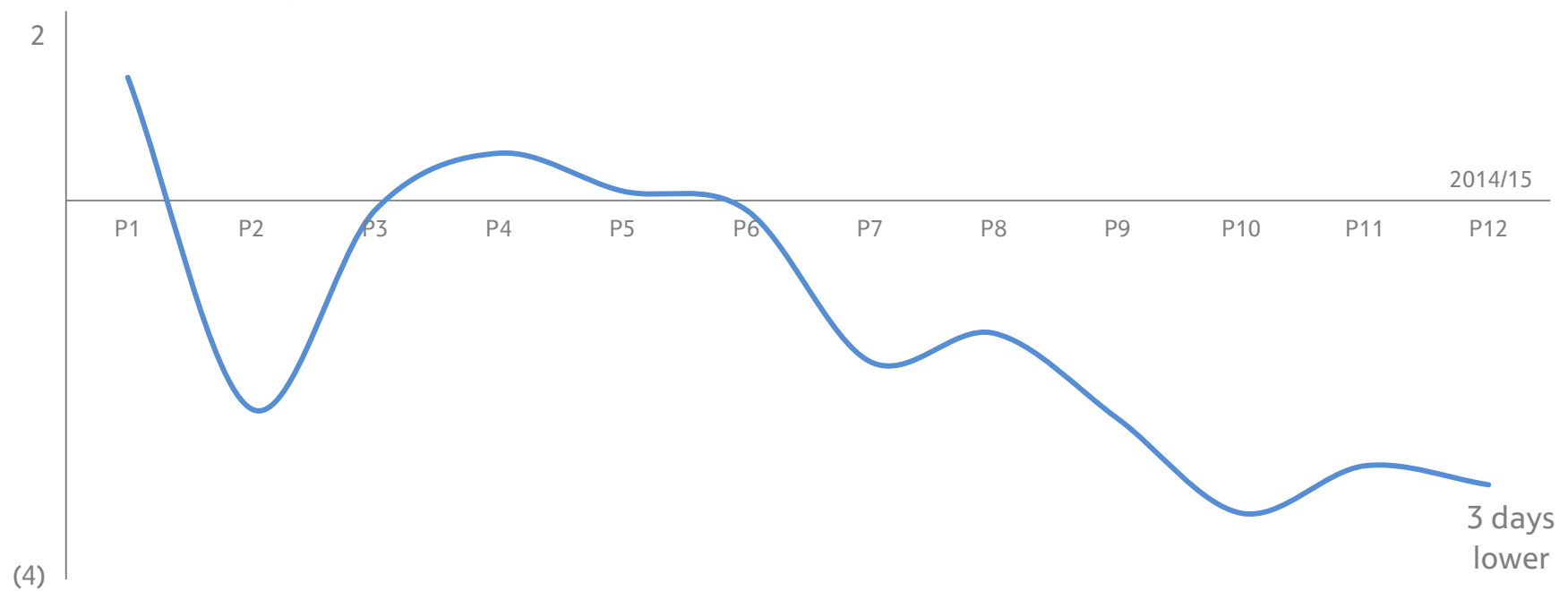
Source: Customer Viewpoint Survey

Note: Service chart reflects % customers rating overall service and colleague helpfulness as excellent. Availability chart reflects % customers who were strongly satisfied with overall availability. Price chart reflects % customers very satisfied with prices paid.



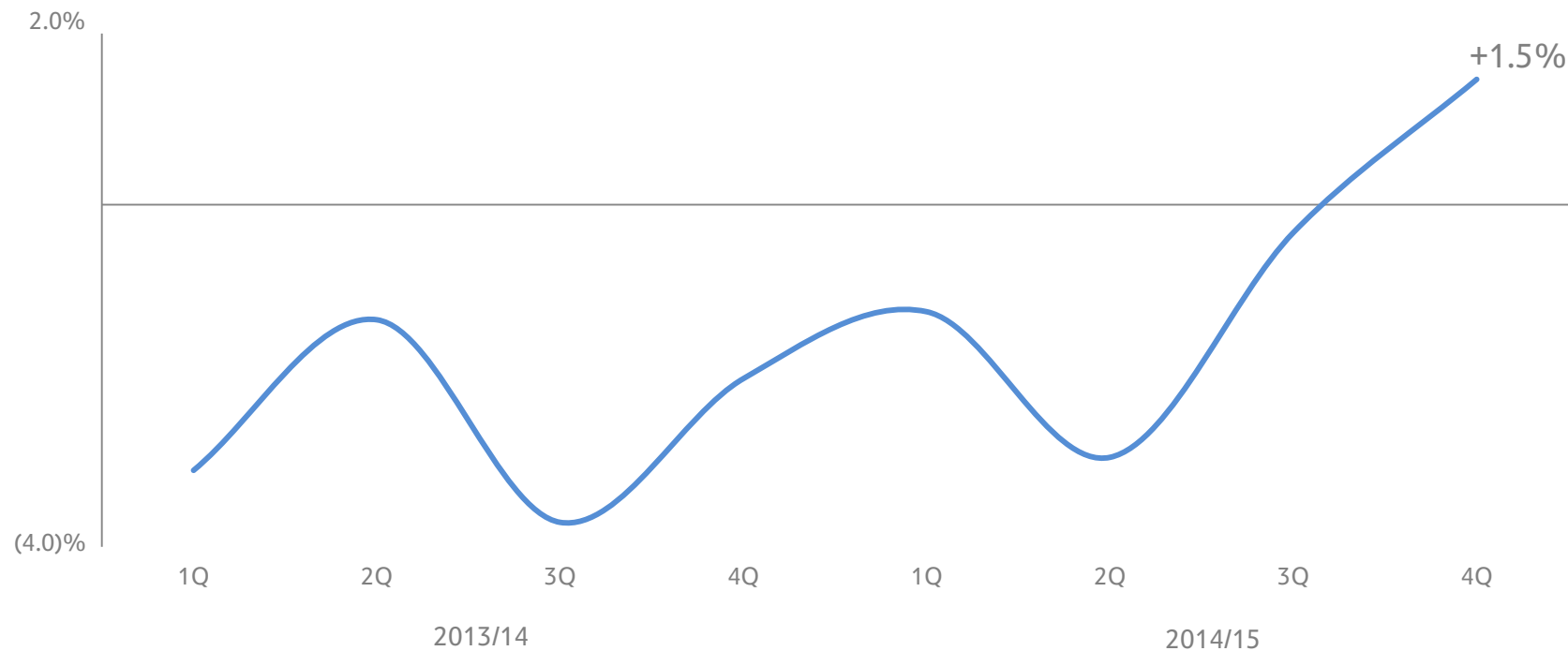
# Stock

Year-on-year change in UK stock days



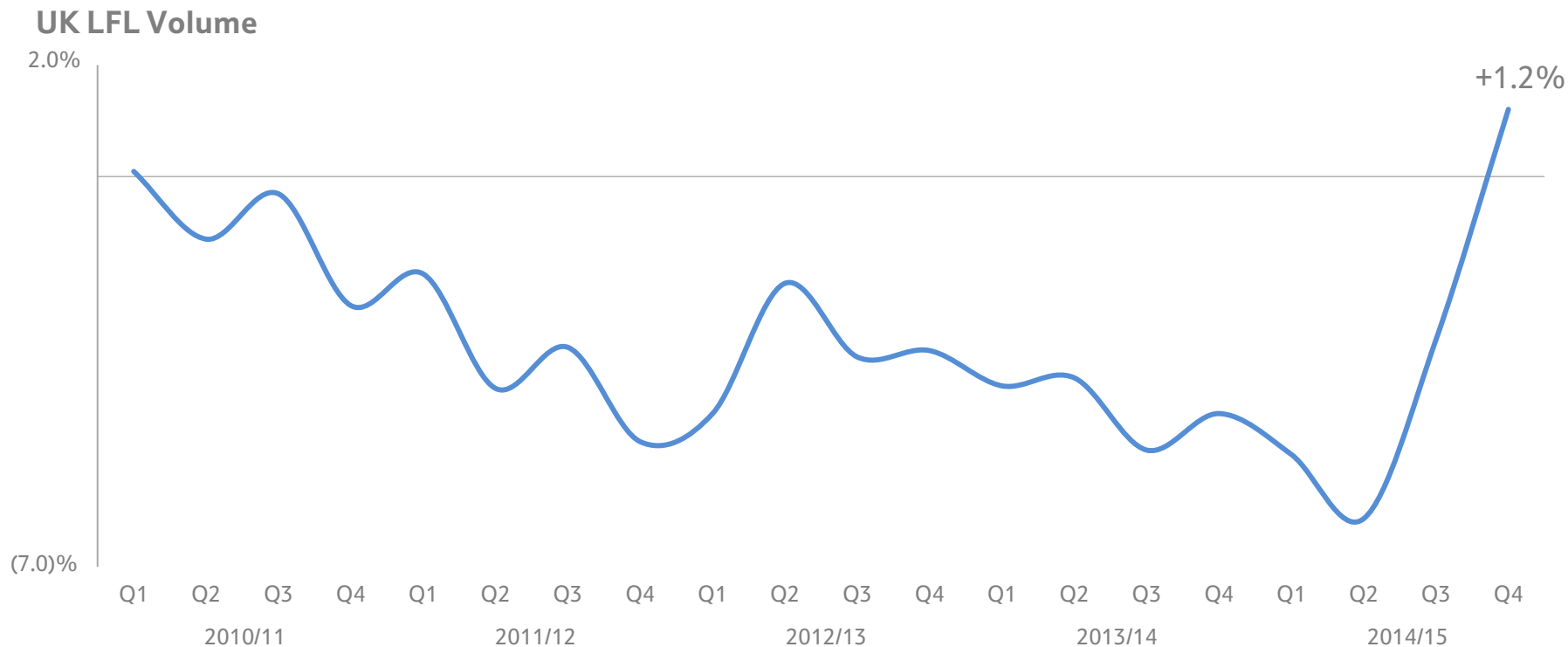
# Transactions

Year-on-year change in UK transactions by quarter %





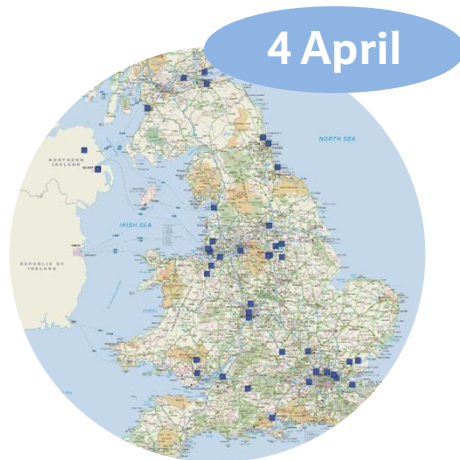
# Volume-based recovery



# Store closures



Closure of 43  
unprofitable stores



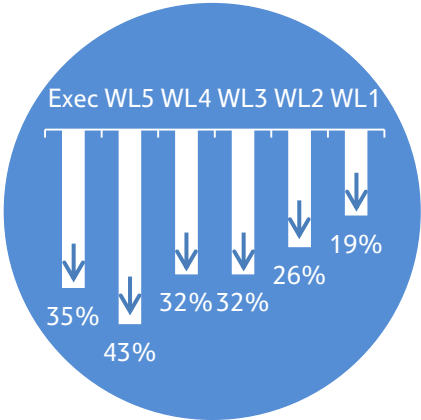
7 Superstore  
12 Metro 6 Homeplus  
18 Express



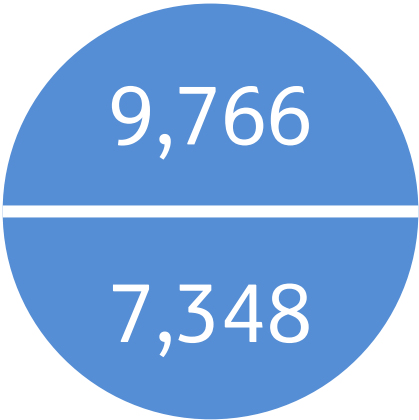
Effect on 15/16



# Simple, agile, lower cost – office



30% leaner  
office structure



Minus 2,418



Welwyn Garden  
City



# Simple, agile, customer focused – stores

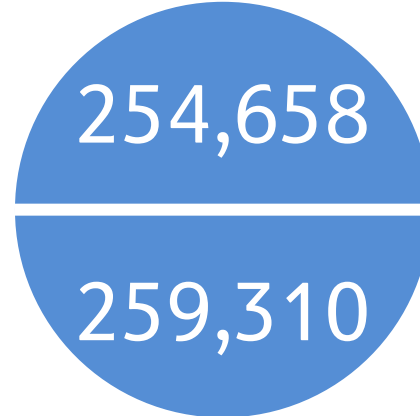
March



Simpler store  
management  
structures



Flexible working  
hours



Plus 4,652



# Simple, agile, lower cost – Central Europe



4 → 1



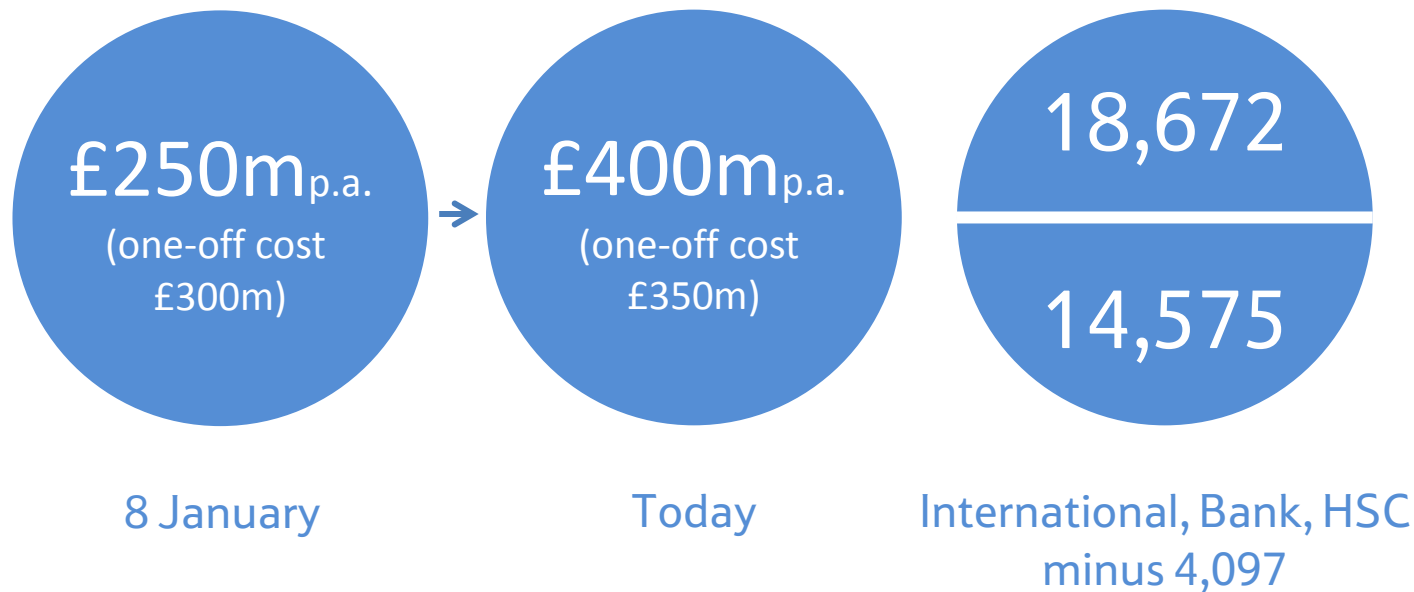
Leveraging  
expertise

Focus on fresh  
New ranges  
Great service  
Trusted on price

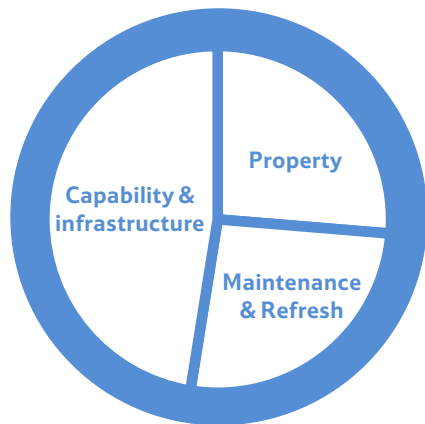
Reinvest in  
customer offer



# Simple, agile, lower cost



# Strengthening the balance sheet



Reduction to  
£1bn capex



2014/15



Pension consultation  
started



# Strengthening the balance sheet



49 sites exited



Full ownership of 21 superstores regained





# Reshaping the portfolio



Portfolio review  
ongoing



On track



Continue to review  
full-value options



# Building trust and transparency



Code of Conduct



Active in communities



Partnership



# New commercial approach

24→3

Ways of  
negotiating

110

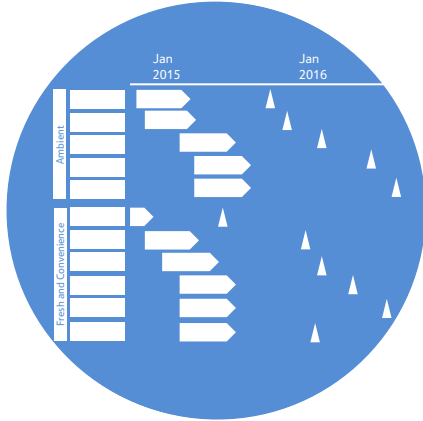
Listening and  
understanding



Supplier Helpline



# New commercial approach



Range Review



Clearer, lower,  
stable prices



Market leading  
choice



## So far:

- Volume-based sales recovery beginning
- Active engagement with suppliers, redefining our relationship
- Aggressive cost reduction underway
- Active balance sheet management

## Going forward:

- Working through many challenges – expect volatility
- Invest all gains in improving the customer offer





# Full year results

# Group performance

Continuing operations	14/15 53 wks	Change % 53 wks	Change % 52 wks
Group sales	£69,654m	(1.7)%	(3.0)%
Group trading profit	£1,390m	(58.1)%	(58.2)%
One-off items	£(7,022)m	(776.7)%	-
Operating loss	£(5,792)m	n/a	n/a
Group losses before tax	£(6,376)m	n/a	n/a
Underlying profit before tax	£961m	(68.5)%	(68.4)%
Diluted losses per share	(70.24)p	n/a	n/a
Underlying diluted earnings per share	9.42p	(70.6)%	(70.5)%

# Segmental performance

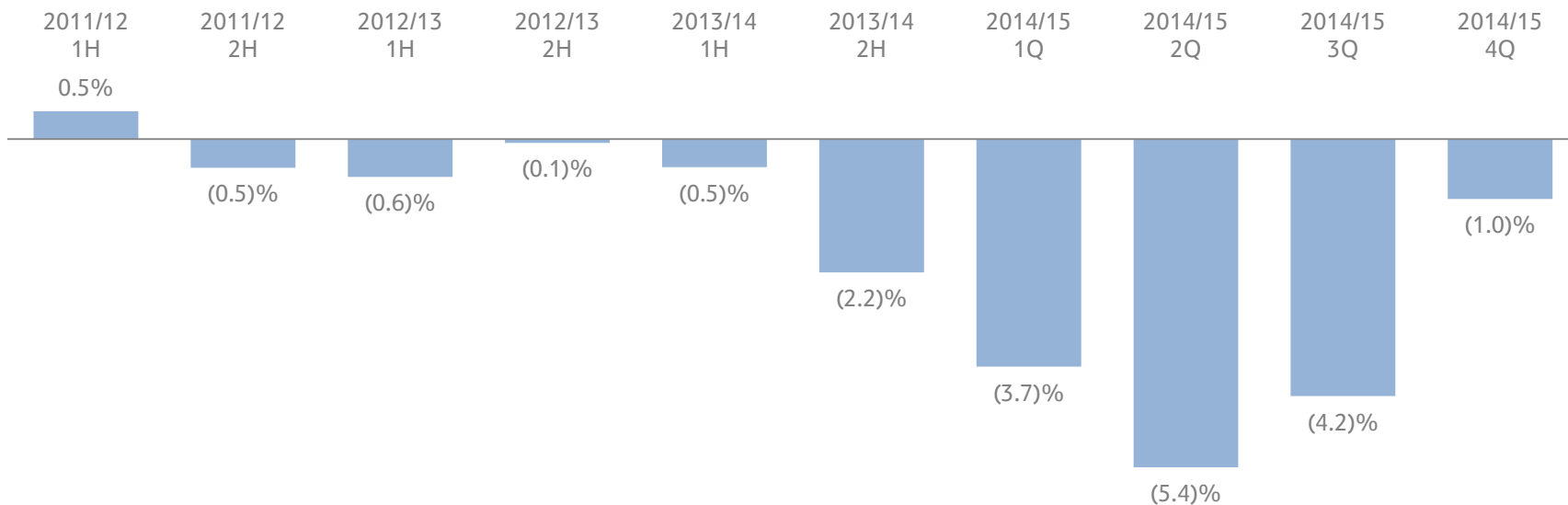
	Sales 14/15	Change* 52 wks	Trading profit 14/15	Change* 52 wks
UK	£48.2bn	(1.7)%	£467m	(78.8)%
Asia	£10.5bn	(0.9)%	£565m	(15.3)%
Europe	£9.9bn	(0.6)%	£164m	(31.1)%
Bank	£1.0bn	2.1%	£194m	0.0%
<b>Group</b>	<b>£69.7bn</b>	<b>(1.3)%</b>	<b>£1,390m</b>	<b>(57.5)%</b>

\* At constant exchange rates.





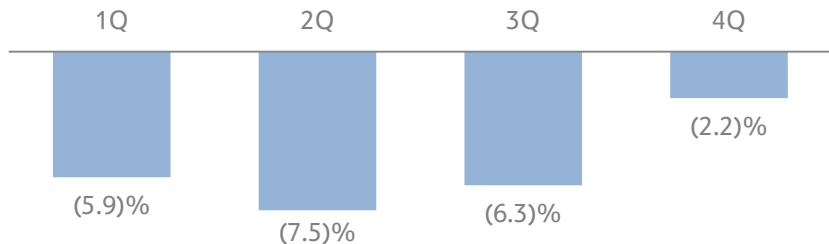
# UK like-for-like sales performance\*



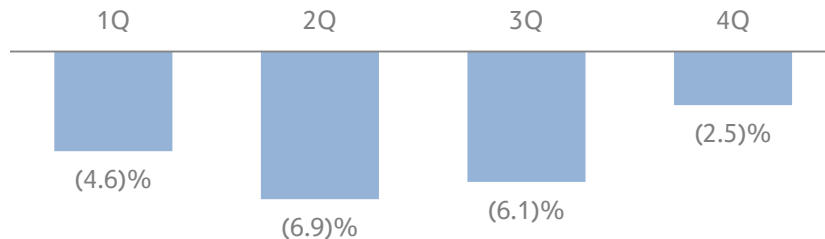
\* Inc. VAT, Exc. Fuel.

# UK like-for-like sales performance\*

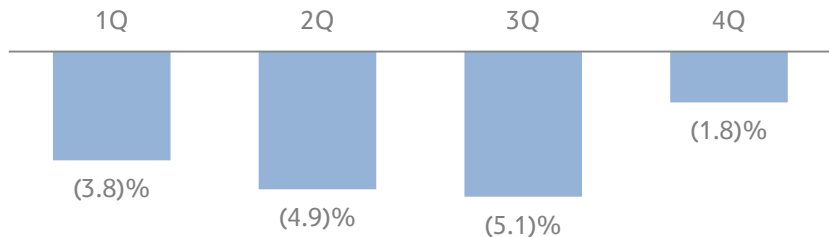
## Extra



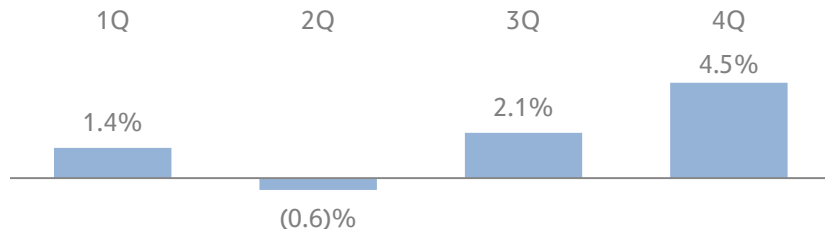
## Superstore



## Metro



## Express



**Online:**

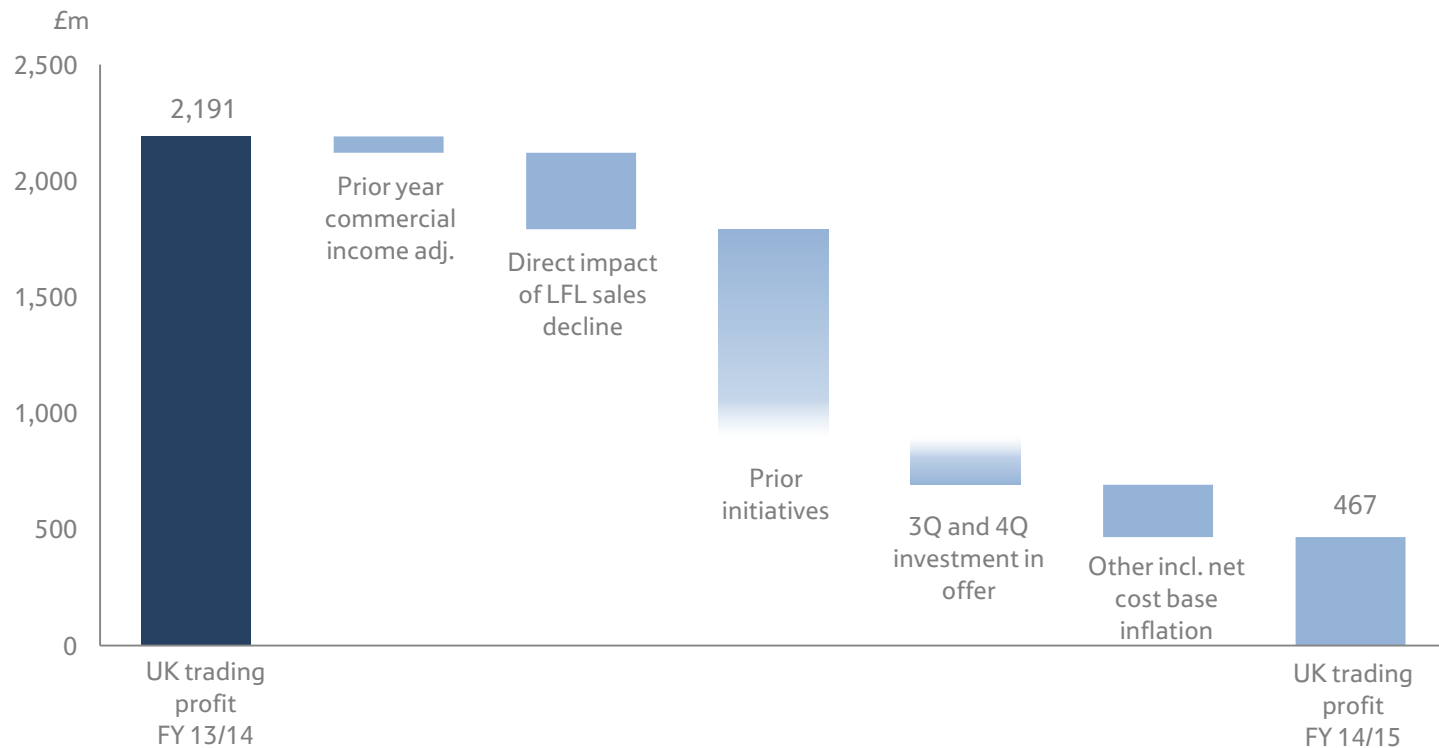
**Grocery +11.5%**

**General Merchandise +14.3%**

**Clothing +28.5%**

\* Inc. VAT, Exc. Fuel. Excludes statutory adjustments.

# UK trading profit



# Asia

	Actual exchange rates	Constant exchange rates
<b>Sales</b>	<b>£10,501m</b>	<b>£10,850m</b>
Total change	(4.1)%	(0.9)%
LFL	n/a	(4.4)%
<b>Trading profit</b>	<b>£565m</b>	<b>£586m</b>
Change	(18.4)%	(15.3)%
Trading margin	5.72%	5.74%
bps change	(100)bp	(97)bp



# Europe

	Actual exchange rates	Constant exchange rates
<b>Sales</b>	<b>£9,898m</b>	<b>£10,750m</b>
Total change <sup>*</sup>	(8.1)%	(0.2)%
LFL <sup>*</sup>	n/a	(0.8)%
<b>Trading profit</b>	<b>£164m</b>	<b>£166m</b>
Change <sup>**</sup>	(31.9)%	(31.1)%
Trading margin <sup>**</sup>	1.91%	1.78%
bps change <sup>**</sup>	(66)bp	(64)bp

\* Excluding Fuel; total change is on a 52 week basis.

\*\* On a 52 week basis.



# Tesco Bank

- Revenue up 2.1%
- Customer deposits up 13.7%
- Profits stable at £194m
- Improvement in bad debt asset ratio
- Capital and liquidity position remains strong

	14/15 No. accounts	14/15 Change %
Banking	5.4m	+11%
Insurance	2.0m	No change*
<b>Total</b>	<b>7.4m</b>	<b>+5%</b>

\* Excluding the impact of discontinued products.

# JVs, interest and tax

	14/15	13/14
JVs and associates*	£(20)m	£54m
Net interest cost*	£(409)m	£(315)m
Tax*	£(199)m	£(469)m

\* Underlying.



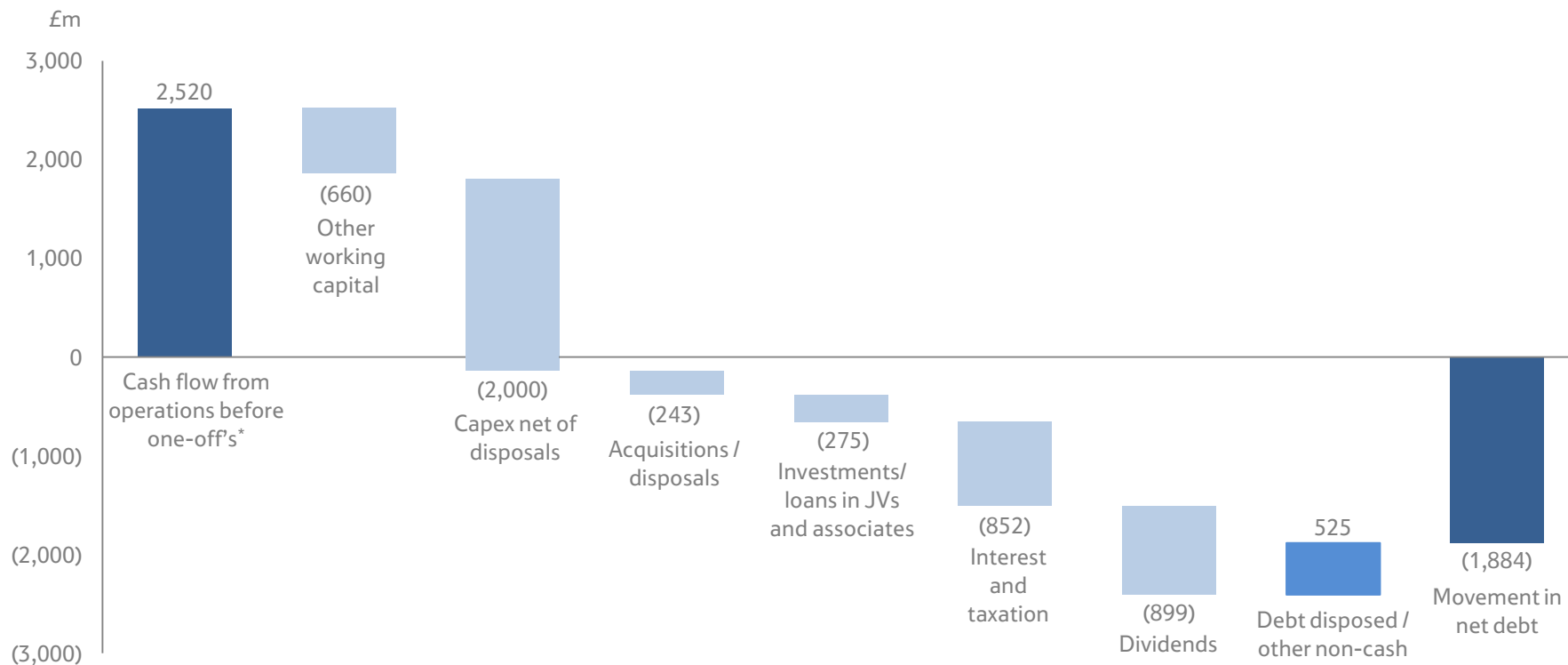
# One-off items

Property impairment and onerous lease charges	£(4,727)m
Goodwill and other impairments	£(878)m
Stock	£(570)m
Restructuring	£(416)m
Commercial income adjustment (prior years)	£(208)m
Other	£(223)m
<b>Total one-off items</b>	<b>£(7,022)m</b>





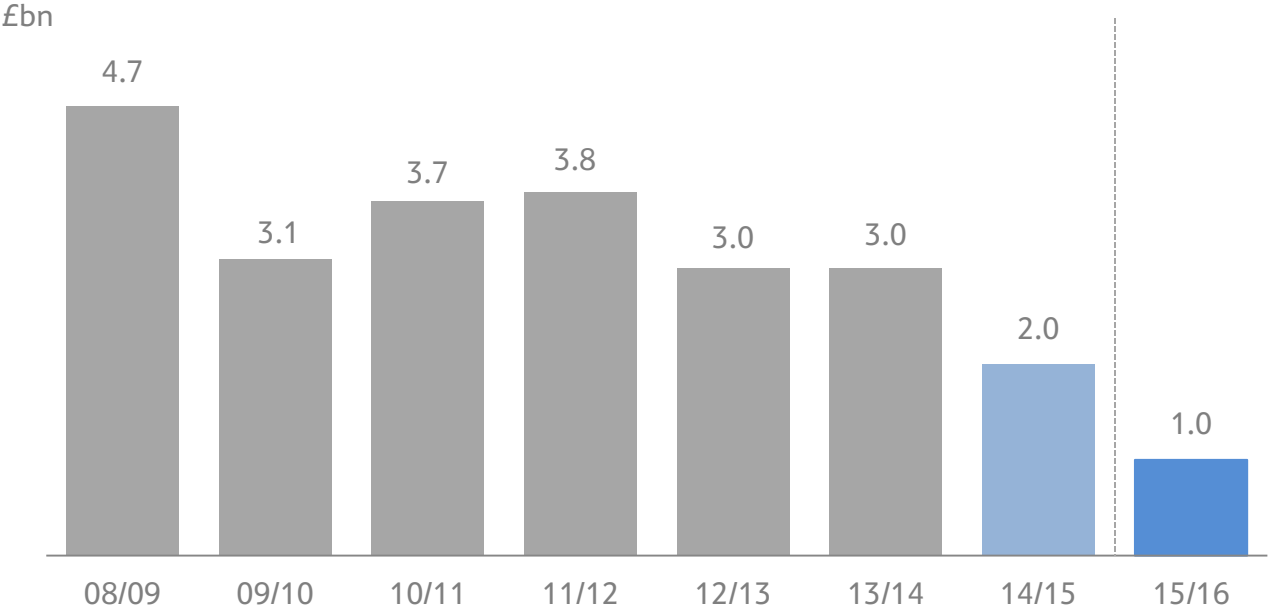
# Retail cash flow



Reflects reported cash flow from operations £715m adjusted for the working capital impact of one-offs of £1,805m as detailed in Note 14 of the preliminary results statement.

This working capital impact of one-offs of £1,805m comprises stock (£569m), onerous lease and restructuring provisions (£964m), commercial income adjustment (£208m) and other items (£64m).

# Capital expenditure



# Liquidity and funding

£2.2bn

Nov 2017

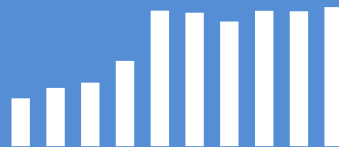
Bilateral  
facilities

£2.6bn

Nov 2019  
+ 1 year  
+ 1 year

Committed  
facilities

£22bn



Leverage



# Pensions



- Agreed £270m per annum plan to fund defined benefit (DB) pension deficit with Trustee
- March 2014 triennial actuarial valuation deficit of £(2.8)bn
- Consultation to replace DB scheme with defined contribution scheme
  - Announced 8 January
  - Commenced 20 April



# Trust and transparency

- Immediate steps in today's release
  - Commercial income
  - Property NBV and estimated market value by segment
  - Retail and Bank net debt
- Next steps
  - Progressive improvements
  - Simpler headline profit measure



# Commercial income

- Currently 24 categories
- Mostly standard unit price variations
- Year-end receivables primarily due to invoice timing
- Agreements across period ends can require judgement
- Typically in accrued income

2014/15	Group	UK
Inventories	£(93)m	£(67)m
Trade & other receivables:		
- Other receivables	£97m	£54m
- Accrued income	£158m	£117m
Trade & other payables:		
- Trade payables	£347m	£173m
- Accruals & deferred income	£(53)m	£(53)m

# Property

- £22.9bn owned property valuation
- £0.9bn JV property valuation net of debt

	UK	Asia	Europe	Group
Property* – wholly owned				
- Estimated market value	£10.5bn	£8.3bn	£4.1bn	<b>£22.9bn</b>
- NBV**	£10.5bn	£6.1bn	£3.7bn	<b>£20.2bn</b>
% net selling space owned	41%	66%	75%	<b>59%</b>
% total property owned – by value***	40%	71%	74%	<b>53%</b>

- British Land asset swap completed post year-end

\* Stores, malls, investment properties, offices, DC's, fixtures and fittings and WIP. Excludes JVs.

\*\* Property, plant and equipment excluding vehicles.

\*\*\* Excluding fixtures and fittings.

# Profit measure

- Removal of trading profit and underlying profit before tax measures
- Operating profit to become key headline performance measure
  - Only adjusted by exception for large and distorting impacts
  - Full and clear disclosure for all adjustments
- Adopted from 1H 2015/16





# Summary

- Facing into consequences of a tough market and lower profit delivery
- Pension deficit funding plan agreed
- Disciplined approach
- Strong funding and liquidity position



# Priorities

- 1 Regaining competitiveness in our UK business
- 2 Protecting and strengthening the balance sheet
- 3 Rebuilding trust and transparency



# Biggest challenges

Market  
volatility

Reshaping  
Tesco  
business  
model

Managing  
through  
change



# Priority is reinvestment in customer offer



Service



Availability



Price



# Clear KPIs

Annual

Group Sales (£) 50%	Group Profit (£) 30%	Individual 20%
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Long-term  
(3 yr)

TSR 70%	Cash generation (£) 30%
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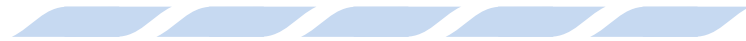
# Summary

- Facing into reality
- Transformation programme progressing well
- Customer offer improving
- Volume-driven recovery beginning
- Active balance sheet management
- Rebuilding trust and transparency in our business
- Unprecedented pace of change
- Reinvestment, reinvestment, reinvestment





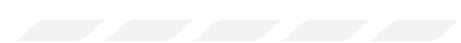
# PUTTING OUR CUSTOMER FIRST







Q & A



# Disclaimer

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