



Tesco Investor and Analyst Seminar

Health and Safety



No scheduled fire alarm tests at any of our venues today

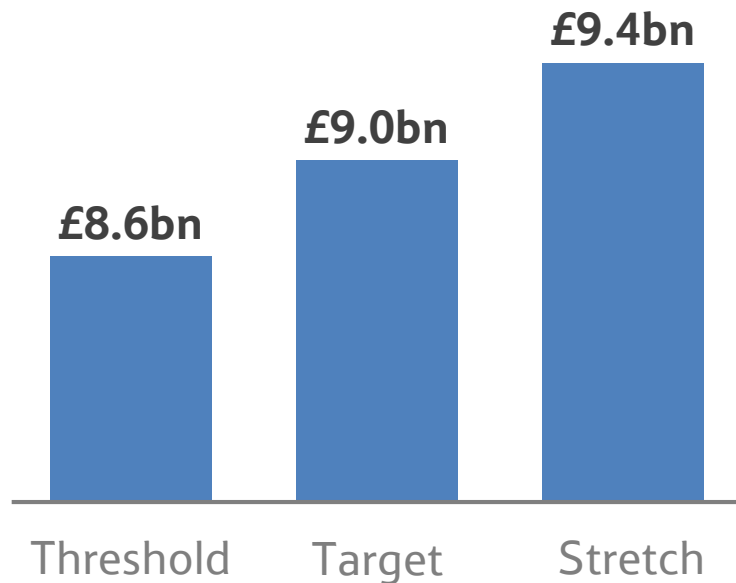


Generate £9bn cash from operations

Kate Koch, Bruce Marsh and Michael Snape

Three year objective

Cumulative retail cash generated
from operations¹

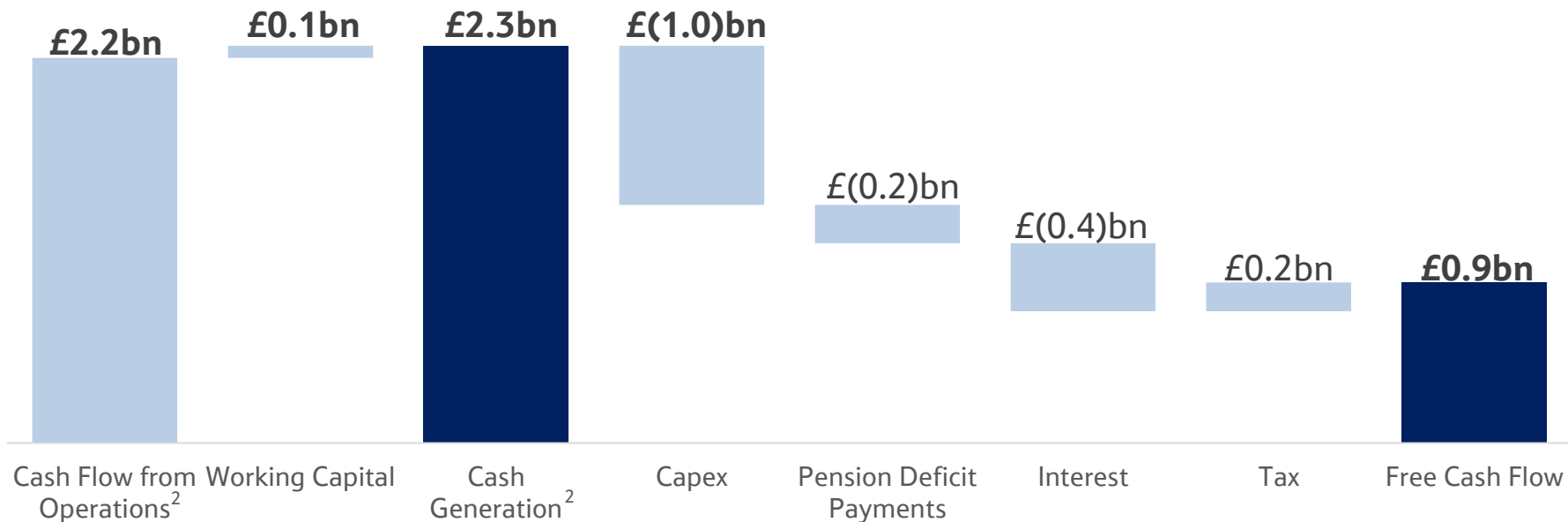


1. Cumulative retail cash generated from operations as outlined in our Annual Report and Financial Statements to FY 18/19.

Shape of our cash flow – 2015/16¹

How we generate cash

How we use cash

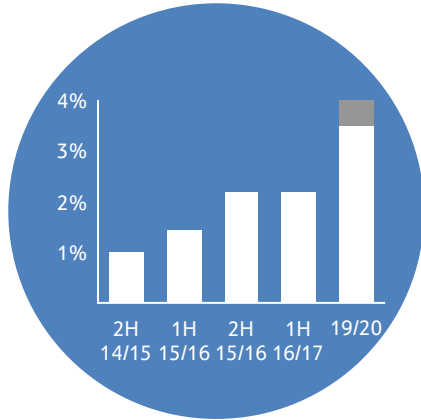


1. Data shown on a continuing operations basis.

2. Stated before additional contribution into the pension schemes of £(223)m.

Three key areas of focus

1. Improve profitability



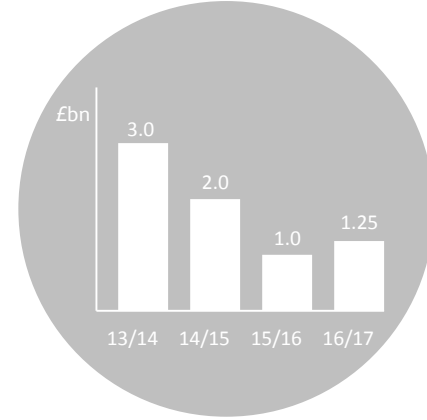
Operating margin
improvement

2. Optimise working capital



Better cash
conversion¹

3. Capital discipline

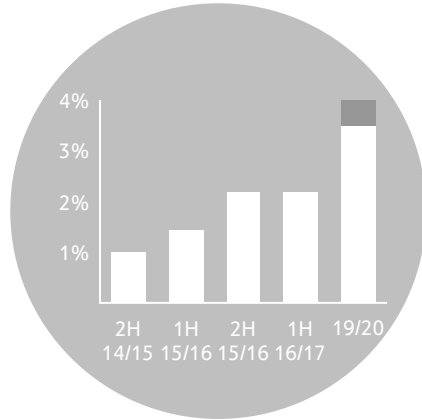


Refocus capital spend

1. Working capital days.

Three key areas of focus

1. Improve profitability



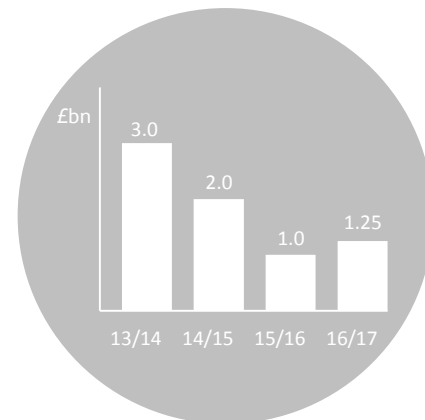
Operating margin
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2. Optimise working capital



Better cash
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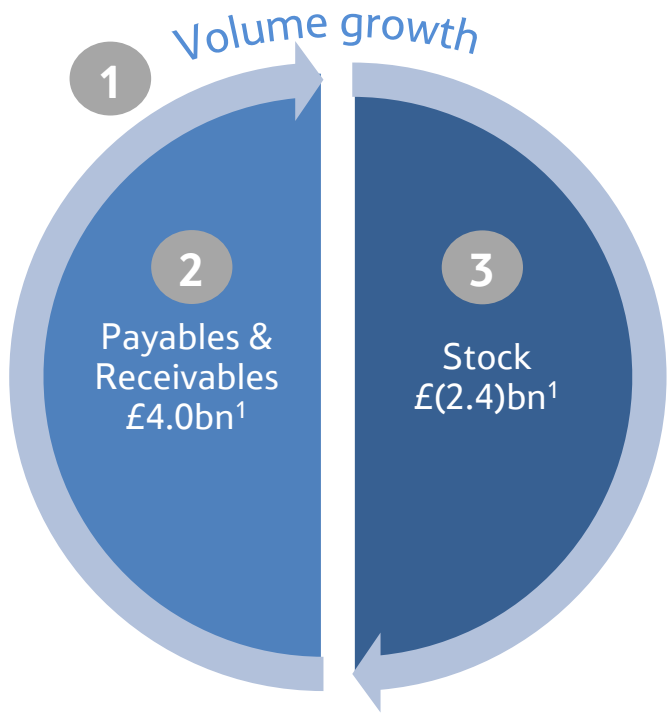
3. Capital discipline



Refocus capital spend

1. Working capital days.

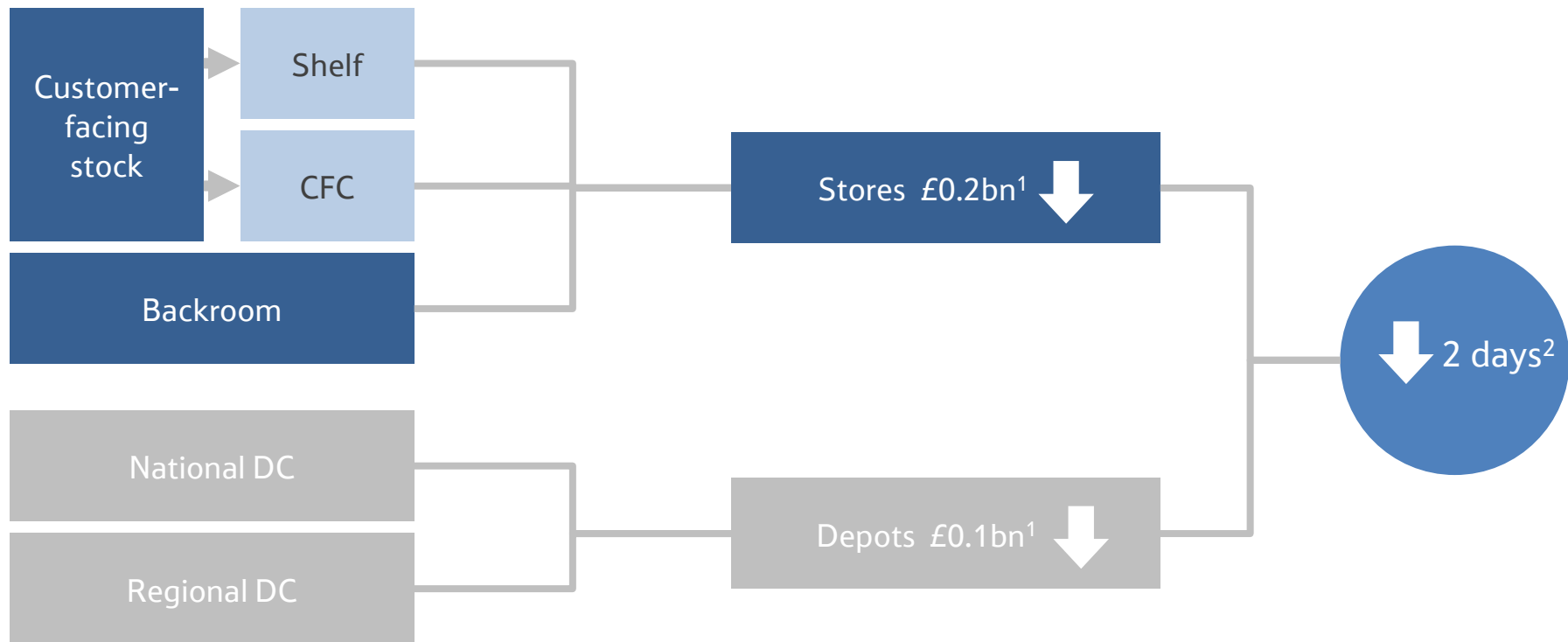
Optimise working capital



- 1 Volume growth benefits
- 2 Optimisation of trade balances
- 3 Improved stock turn

1. Group balances as at FY 15/16.

Improved stock turn in the UK



1. Depot and store reduction relates to gross reduction 1H 16/17 vs. 1H 14/15.
2. Stock days calculated on a net stock basis.

Reductions in backroom stock

Case study: Dry grocery



One touch
+2.4%



£19m stock
saving



£16m
replenishment
saving



32 fewer cages
per store

Improved sales forecasting

- Reduce safety stock cover end-to-end
- Better management of demand fluctuations
- Enhanced promotion management
- Supplier integration



1. Reflects a two year reduction from 1H 14/15 to 1H 16/17.

Reduced master assortment



Fresh



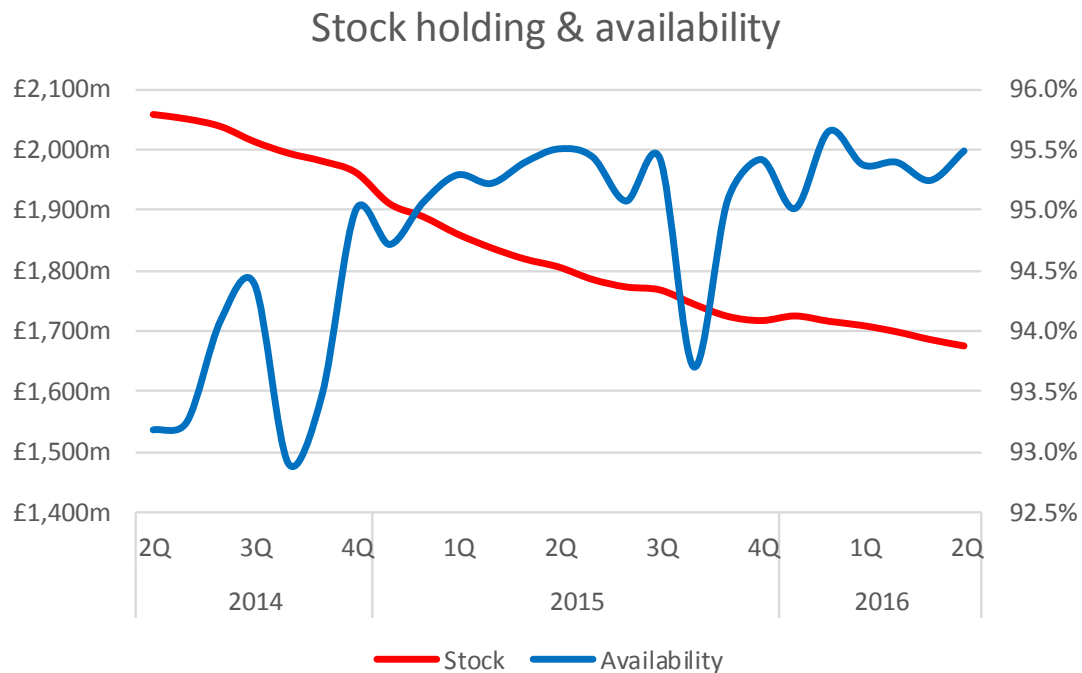
Packaged



Express



Record availability & stock



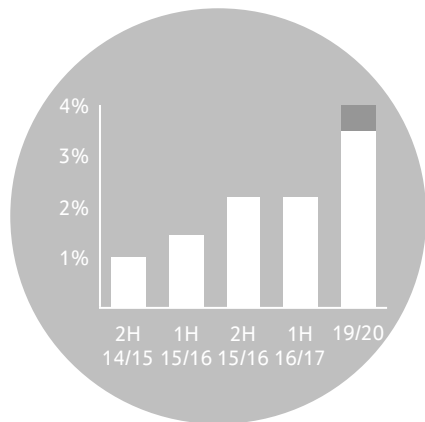
Availability
93% → 96%

19%
Stock
reduction¹

1. 12 month rolling average UK net stock from 2014/15 to 2016/17.

Three key areas of focus

1. Improve profitability



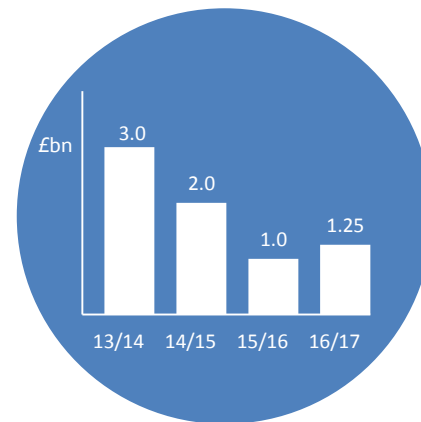
Operating margin
improvement

2. Optimise working capital



Better cash
conversion¹

3. Capital discipline



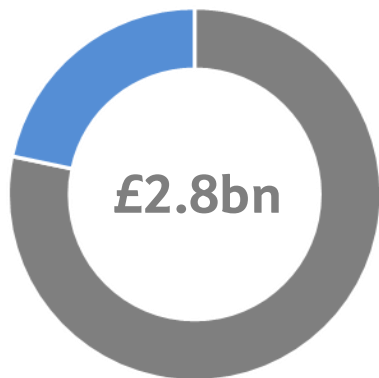
Refocus capital spend

1. Working capital days.

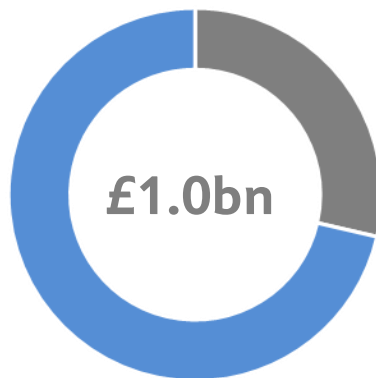
Capital allocation framework

- Rigorous hurdle rates
- Greater emphasis on cash payback period
- Application of ranking KPIs (e.g. NPVI) to maximise investment returns
- Post investment reviews

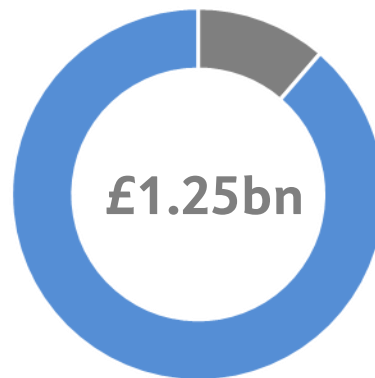
Refocusing capital



2011/12



2015/16

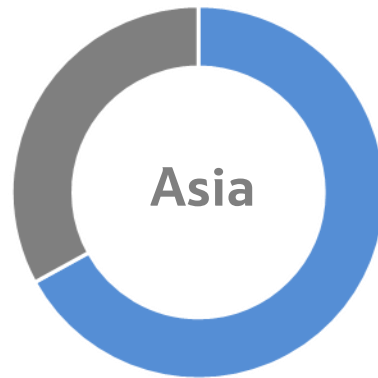
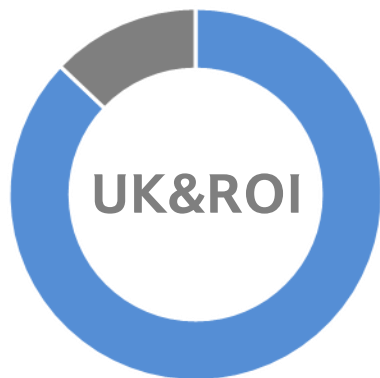


2016/17

- Capex on new space / new businesses
- Capex on existing space / existing businesses



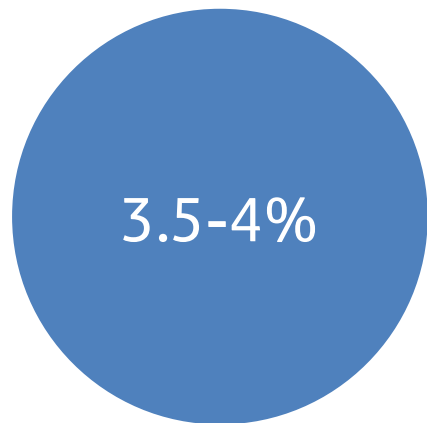
Current year capital



- Capex on new space / new businesses
- Capex on existing space / existing businesses



Summary



Margin



Working capital



Capital returns

1. Reflects expected return on capital (internal measure =IRR).





Maximising value from property

Steve Rigby

Maximising value from property

Progress

£176m p.a.¹
rent savings

Improving freehold/
leasehold mix

c. £0.45bn

Releasing value
2016/17

c. 1.7m
sq. ft.

Repurposing space

1. Cumulative annual rent savings delivered and/or identified to date.



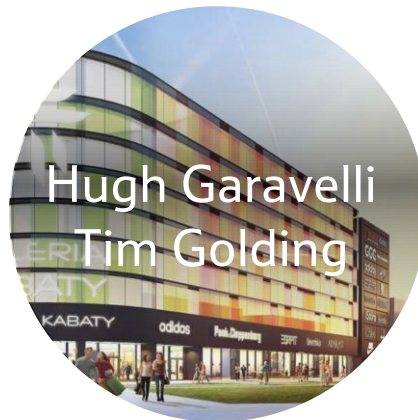
Breakout sessions



Optimising freehold
and leasehold mix



Releasing value from
the estate



Repurposing space –
International
and UK





Releasing value from
the Tesco estate

Our strategy: two streams

Group
1H 16/17
£240m

Surplus assets
disposed

Group
£0.4bn

New opportunities
for value release



What is property asset optimisation?

The review of our property estate to identify opportunities to extract value balancing capital receipts with timing, deliverability and proposition

Capital
receipts
through
improving
value

Simplify
portfolio
and reduce
costs

Developing
external
space

Minimal
capital
outlay/risk

No increase
in rent

How we are going to achieve this



Disclaimer

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