# Debt Investor Call.

11 April 2018

Alan Stewart – CFO
Lynda Heywood – Group Treasurer

TESCO

# FY results.

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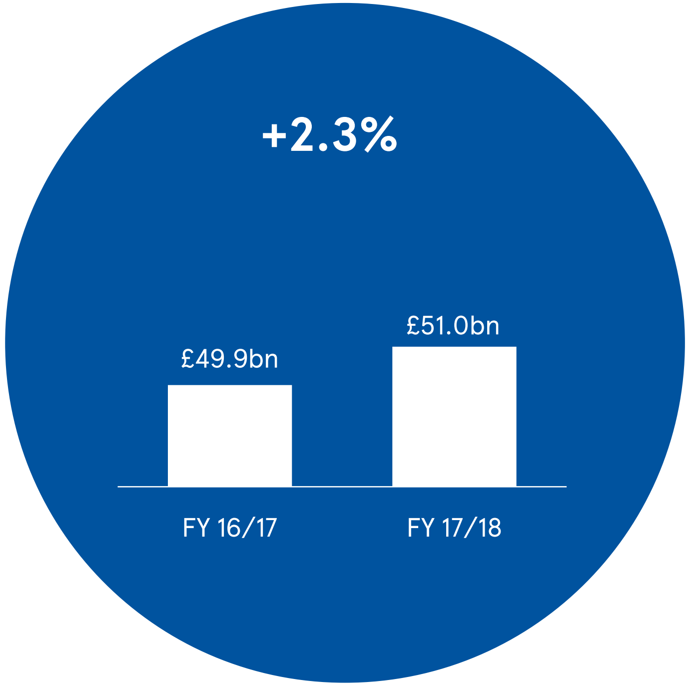
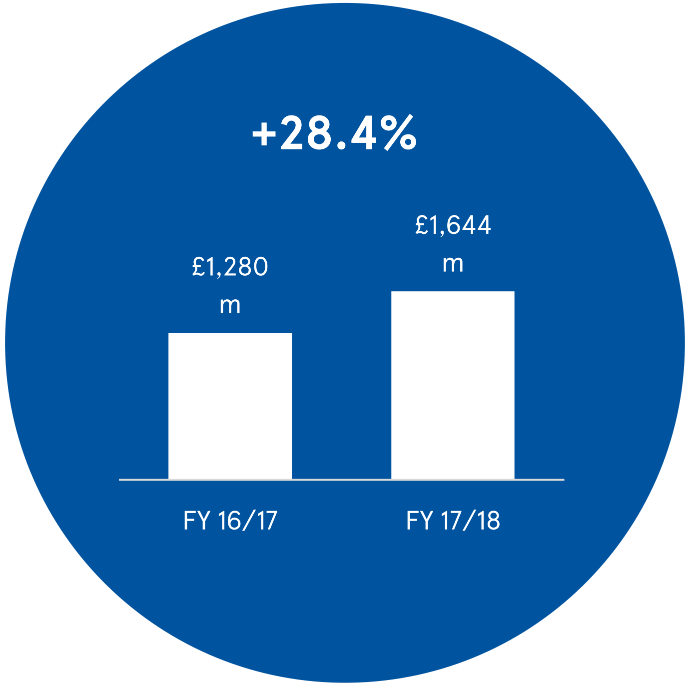
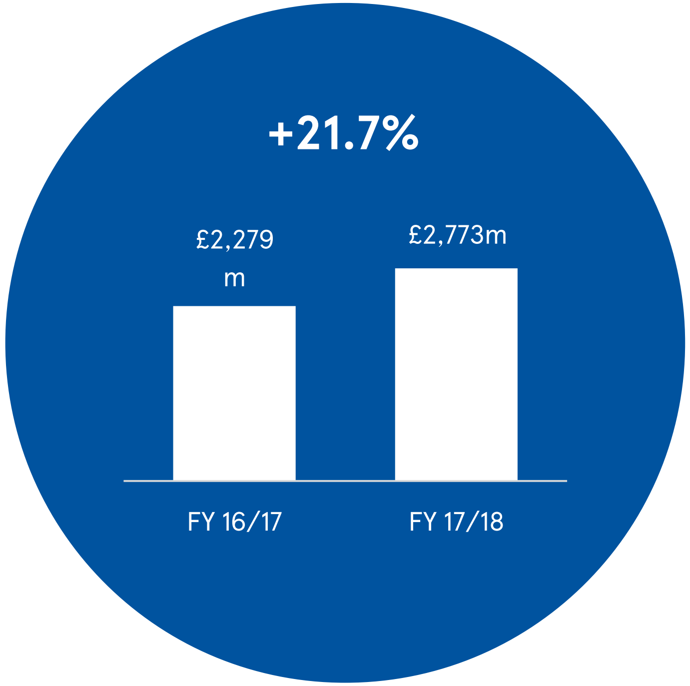
# A year of progress




Positive sales growth[1]




Strong profit growth[2]



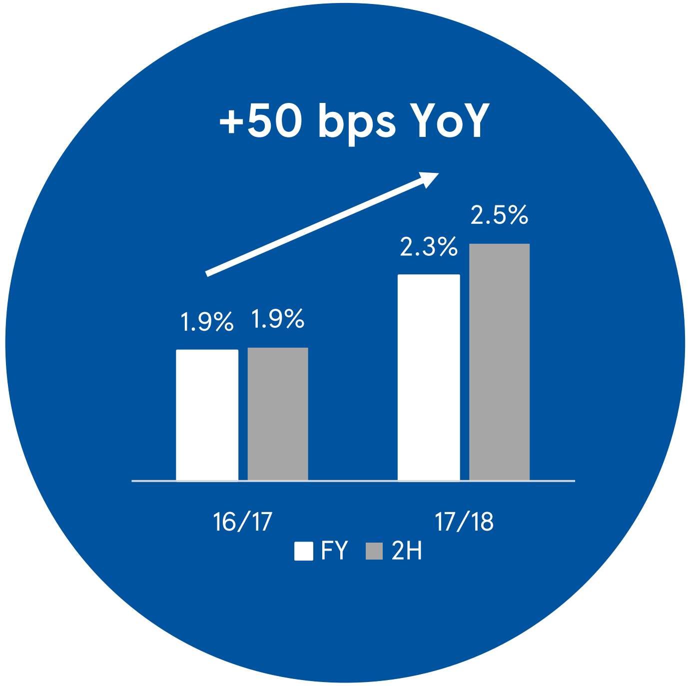

Strong retail cash generation[3]

1. Group sales growth at actual rates on a comparable days and a continuing operations basis.
2. Group operating profit before exceptional items on a continuing operations basis.
3. Retail cash generated from operations on a continuing operations basis.

# UK performance


Emphasis on fresh food volumes


More customers shopping with us[1]



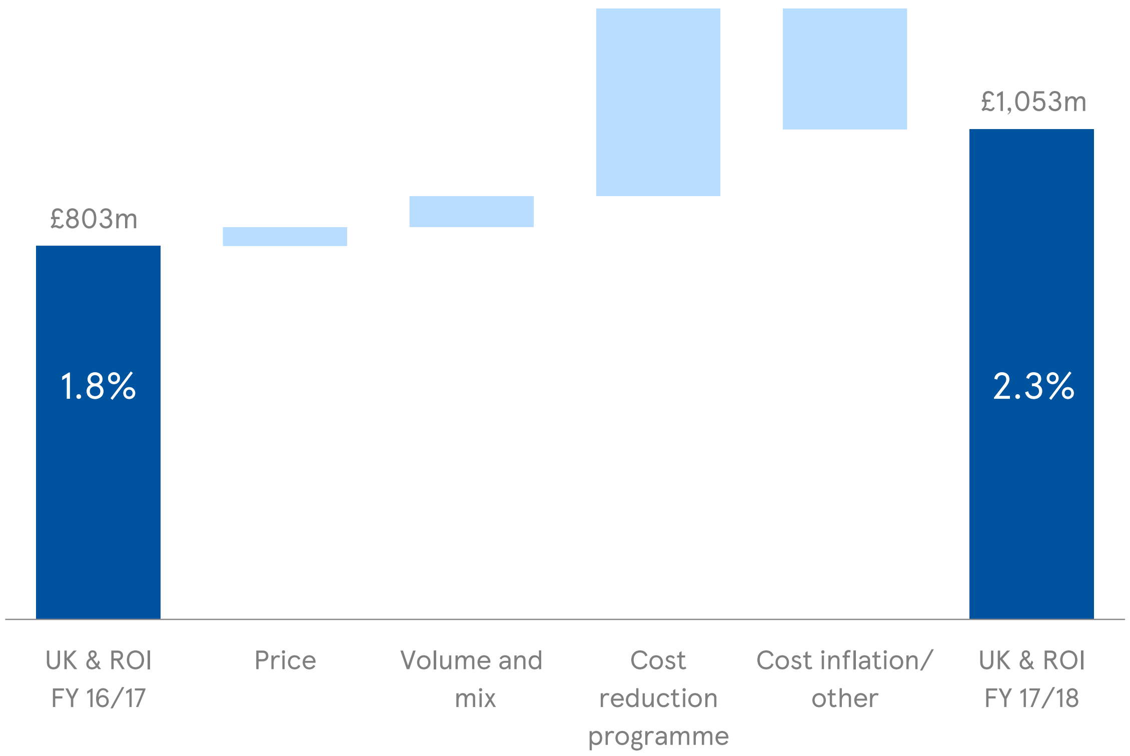

Improved profitability

1. Kantar data for the 52 weeks to 25 February 2018.

# UK & ROI

- Strong sales:
  - >2% LFL in every quarter; 2.4% in 4Q
  - UK fresh food volume up 0.7%, outperforming the market by 1.7%[2]
  - Own Brand increased to 51% of sales
- Improved profitability:
  - £404m saved through cost savings plan
  - 2H operating margin strengthened to 2.5%
- £1.9bn cash generated from operations

## Operating profit and margin[1]

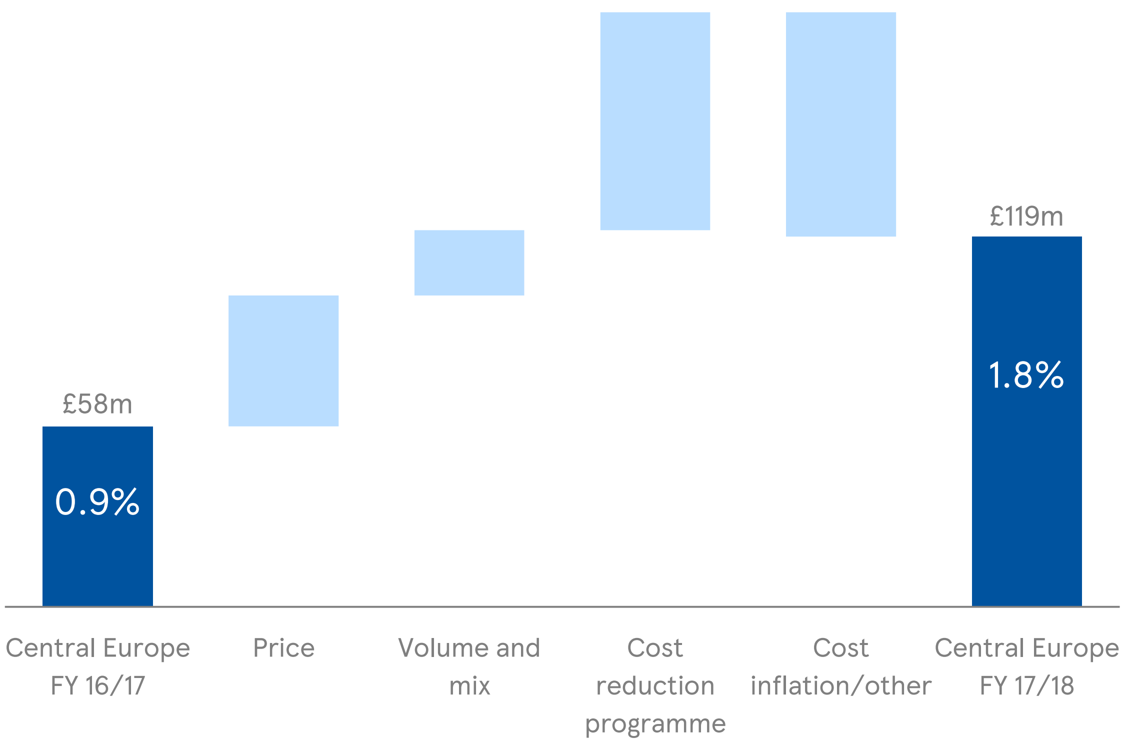



1. Before exceptional items.
2. Data is for the 52-weeks ending 25 February and is sourced from IRI Retail Advantage™, global insight providers to the retail industry. IRI market definition excludes Aldi and Lidl.

# Central Europe

- Focused sales growth:
  - Food like-for-like sales growth +1.2%
  - Small store like-for-like sales growth +3.2%
- Profit more than doubled to £119m
  - £70m saved through cost savings plan
- £389m cash generated from operations

**Operating profit and margin[1]**

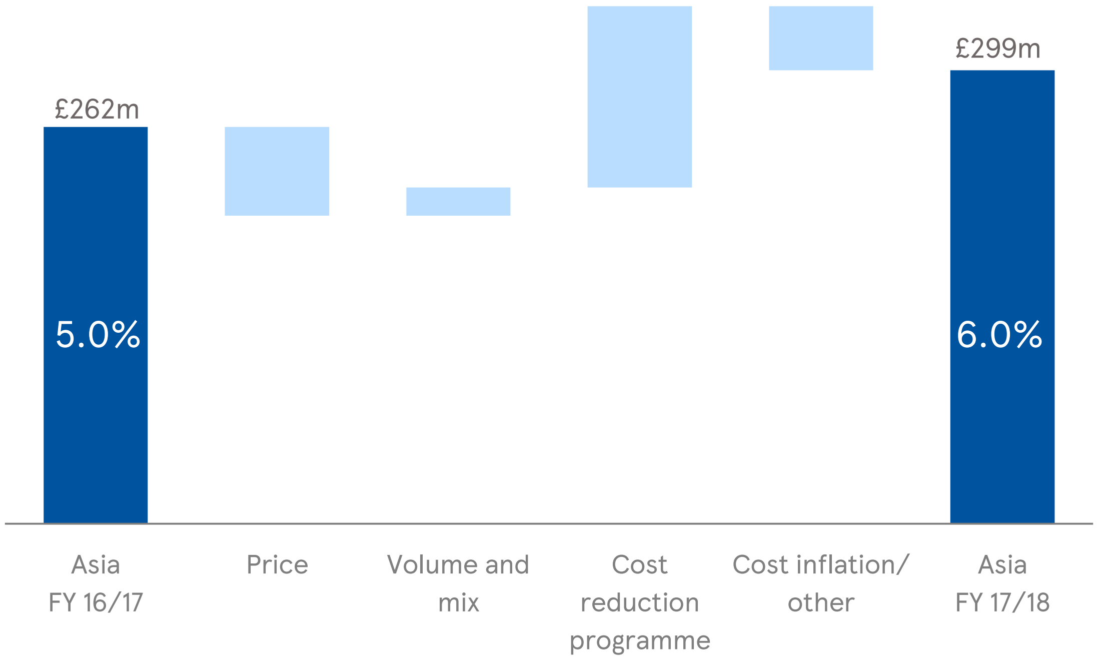



1. Before exceptional items.

# Asia

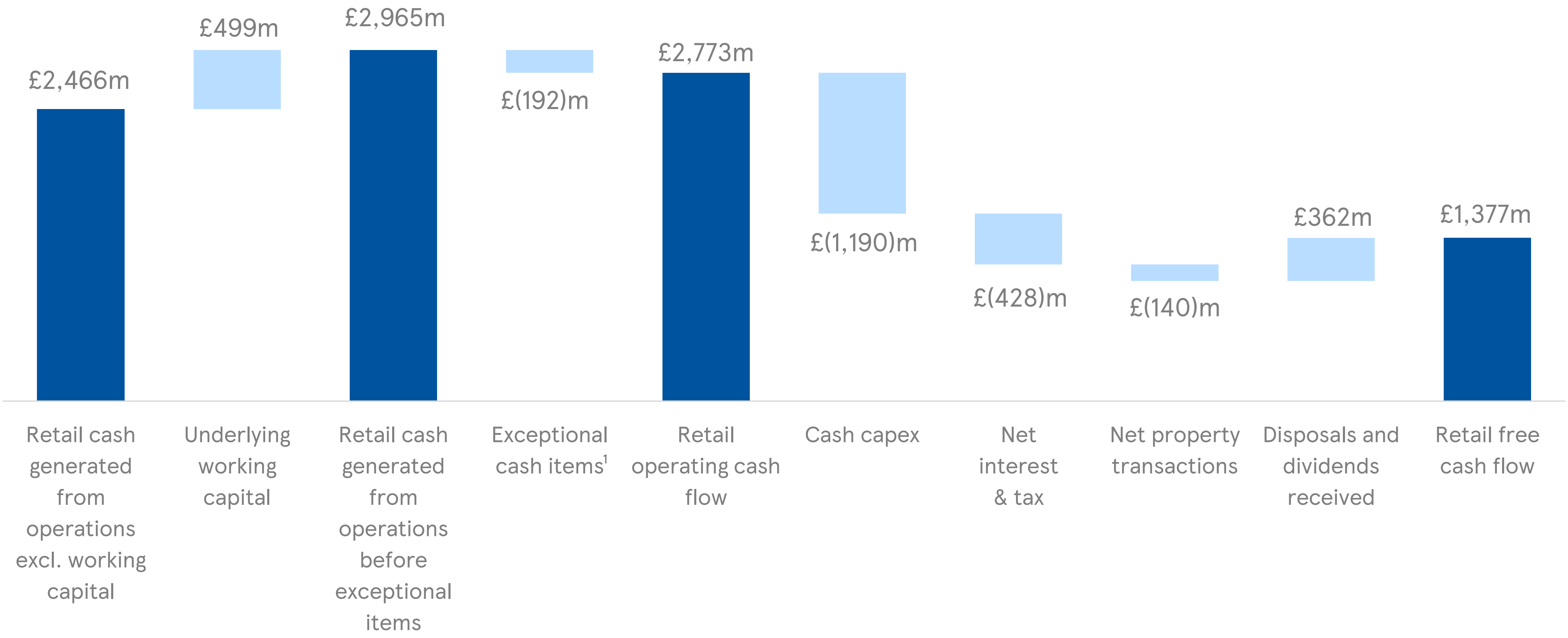
- Strategic actions to focus on sustainable, profitable sales growth
  - Bulk sales impact of c.(6)%
  - 44% reduction in short-term couponing
- Further improvement in profitability despite full year deflation of c.(1)%
  - Operating margin up 99b.p.
  - £120m saved through cost savings plan
- £490m cash generated from operations

Operating profit and margin[1]



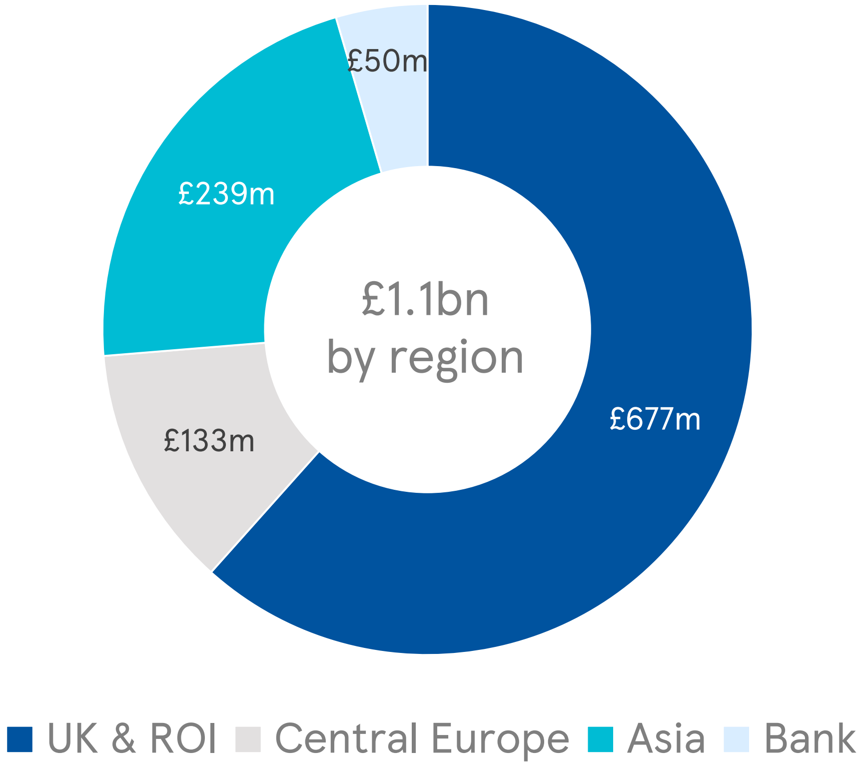

1. Before exceptional items.

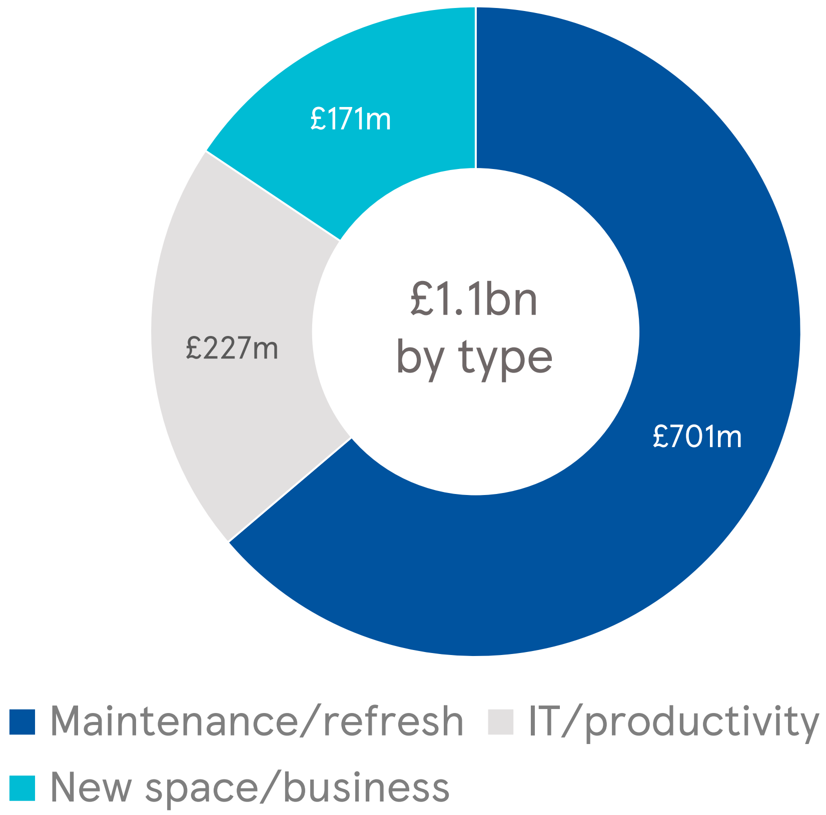
# Sources and uses of cash




1. Exceptional cash items includes £(120)m of restructuring payments, £(92)m utilisation of onerous leases, £(149)m for payments in relation to the Deferred Prosecution Agreement with the SFO and shareholder compensation payments, offset by a £160m VAT refund and £9m of other items.

# Capital expenditure




**FY 18/19 onwards capex guidance: between £1.1bn and £1.4bn**



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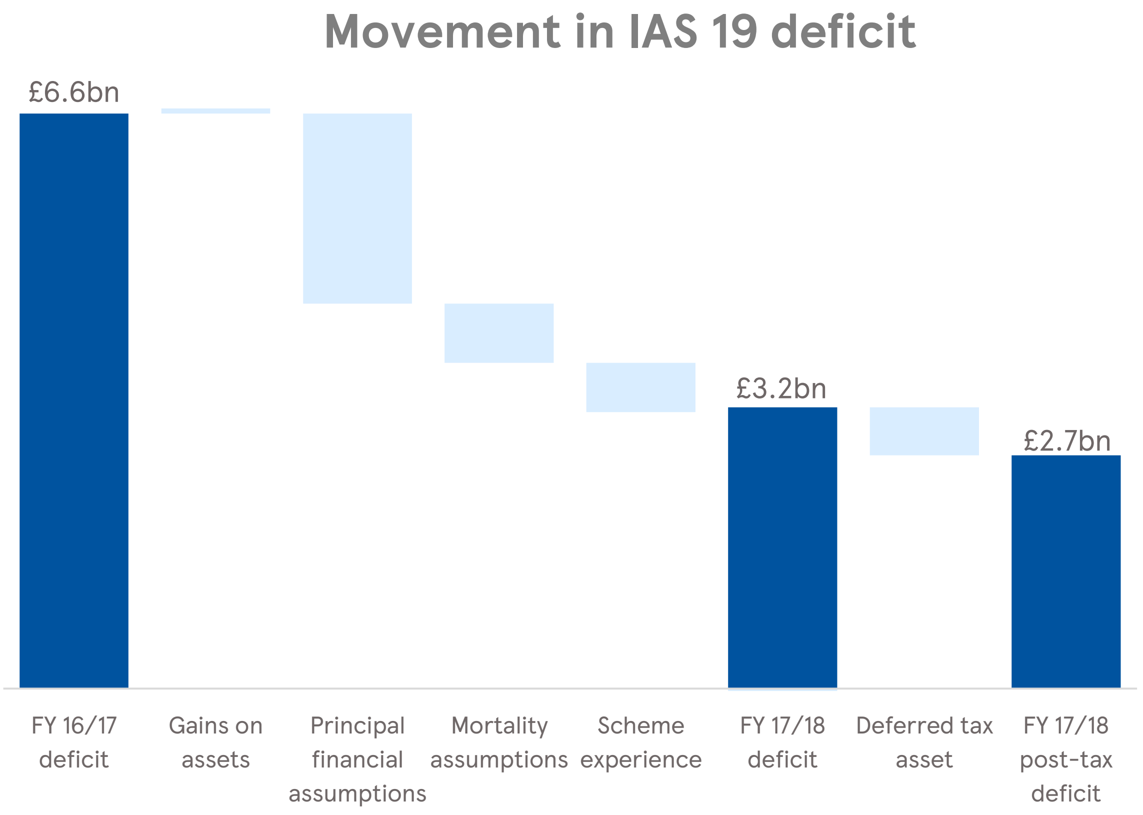
# Pension

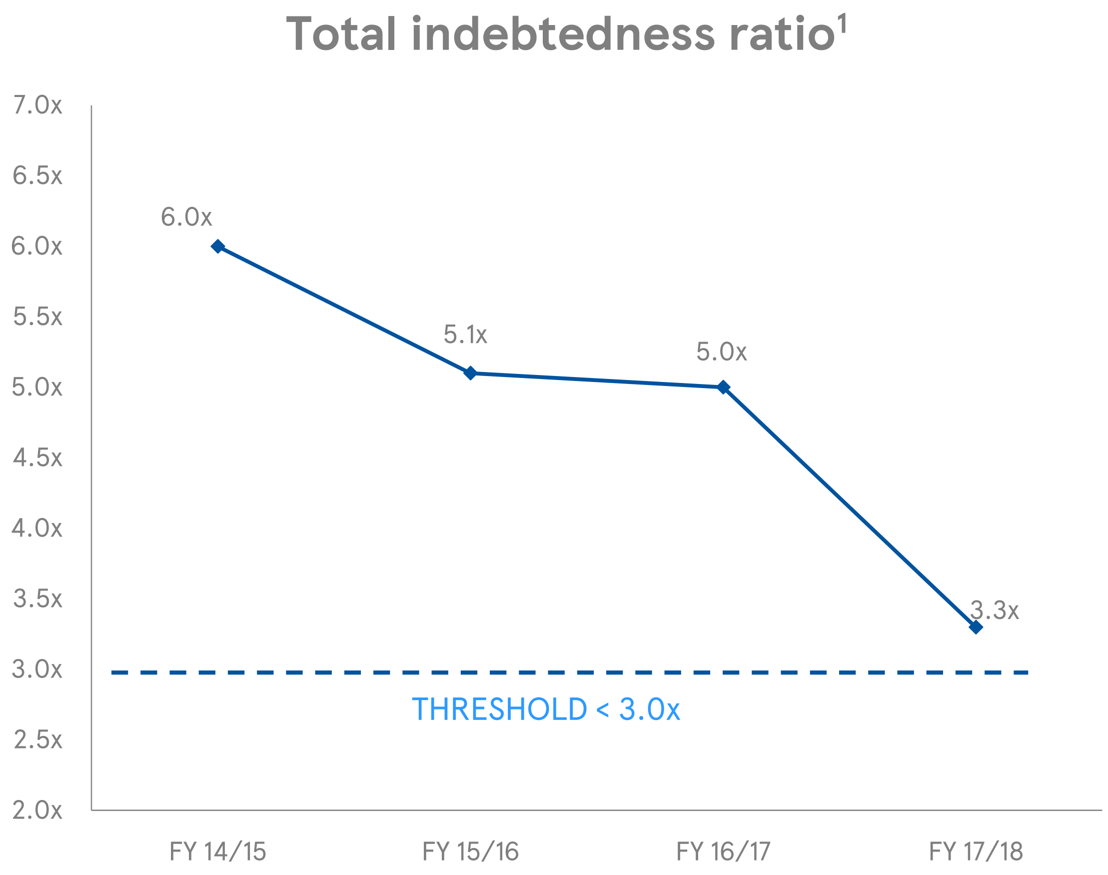
- Triennial pension review concluded
  - Small increase in annual contributions to £285m p.a. from April 2018
  - Actuarial deficit as at March 2017: £3.0bn
- IAS 19 pension deficit reduced to £2.7bn
- Discount rate more appropriately reflects corporate bond yields over life of liabilities

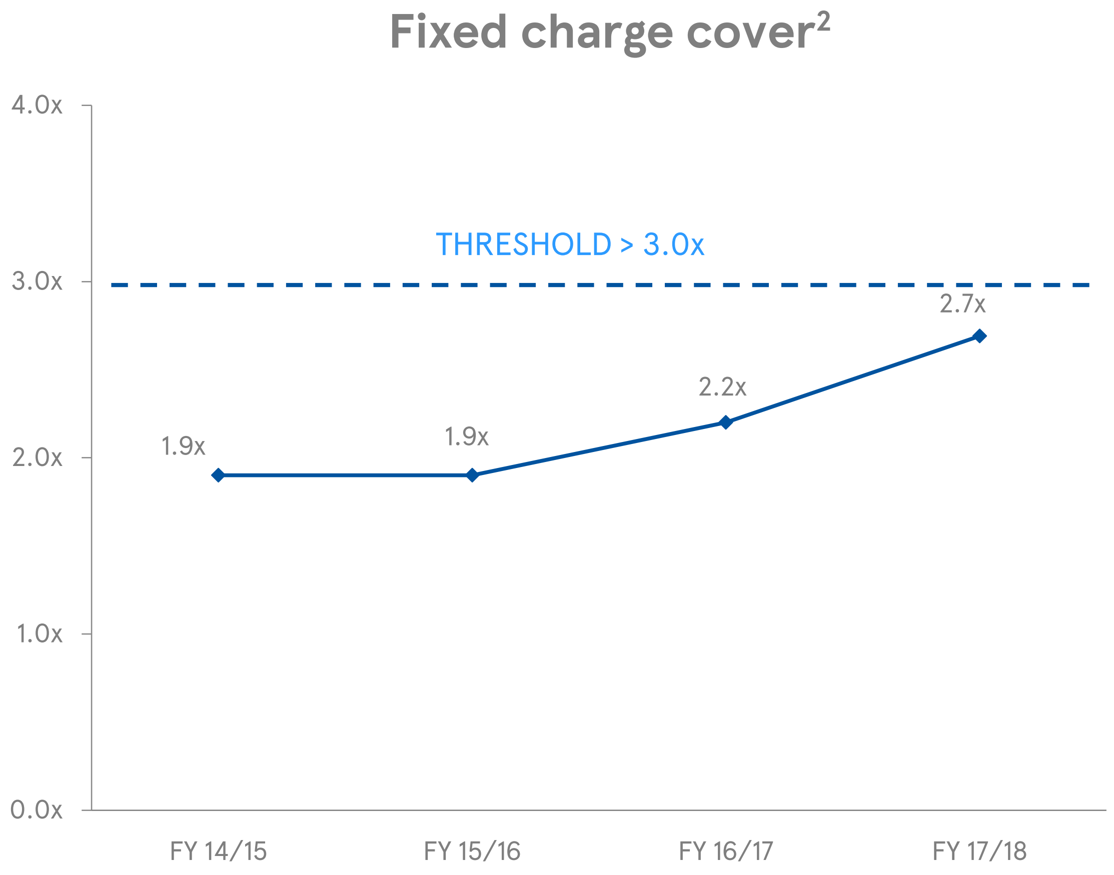


# Balance sheet progress


**Total indebtedness £12bn (down from £21bn in 2014)**

# Improving debt metrics




1. Net Debt + defined pension deficit (net of tax) + discounted operating lease commitments / EBITDAR
2. EBITDAR / (Net finance costs (before exceptional charges, IAS 19 net pension finance costs and IAS 30 fair value remeasurements) + Retail operating lease expense)



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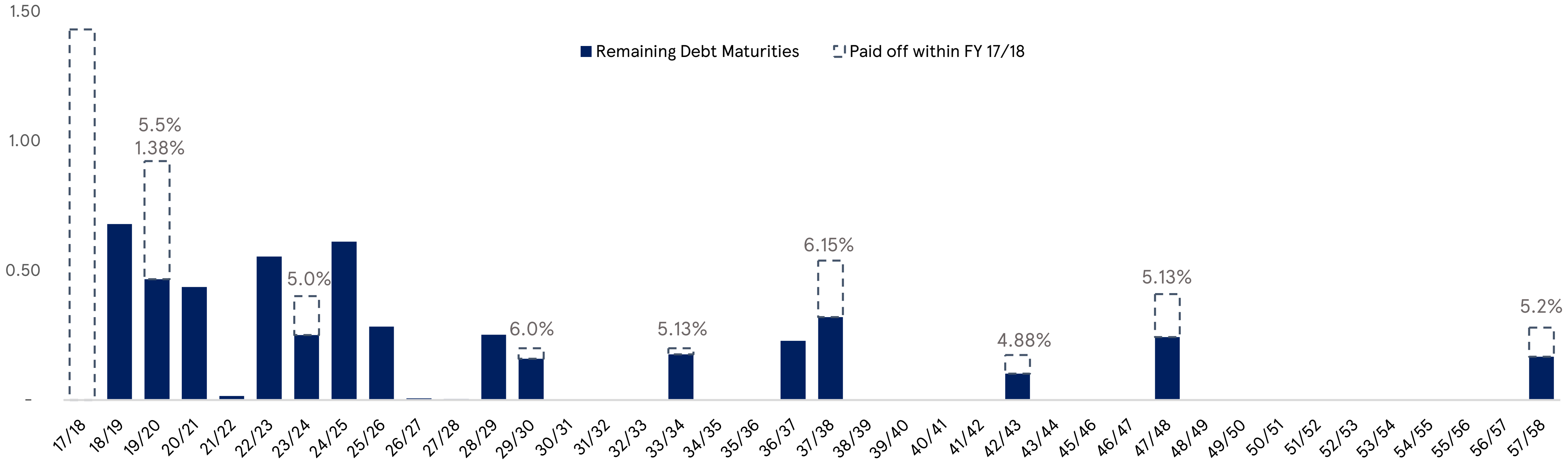
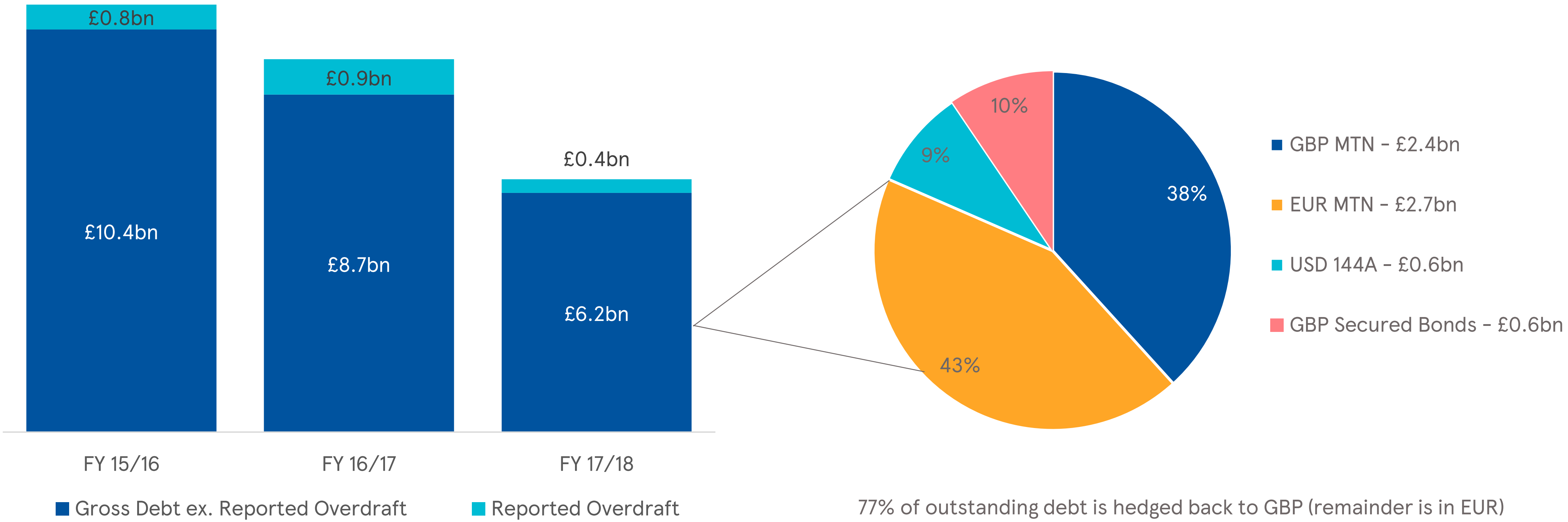
# Debt reduction

- Repayment of £2.7bn of outstanding debt during FY 17/18:
  - £1.4bn maturities
  - Tender offers in July (£500m) and October (£800m)
  - c.£50m annualised interest savings



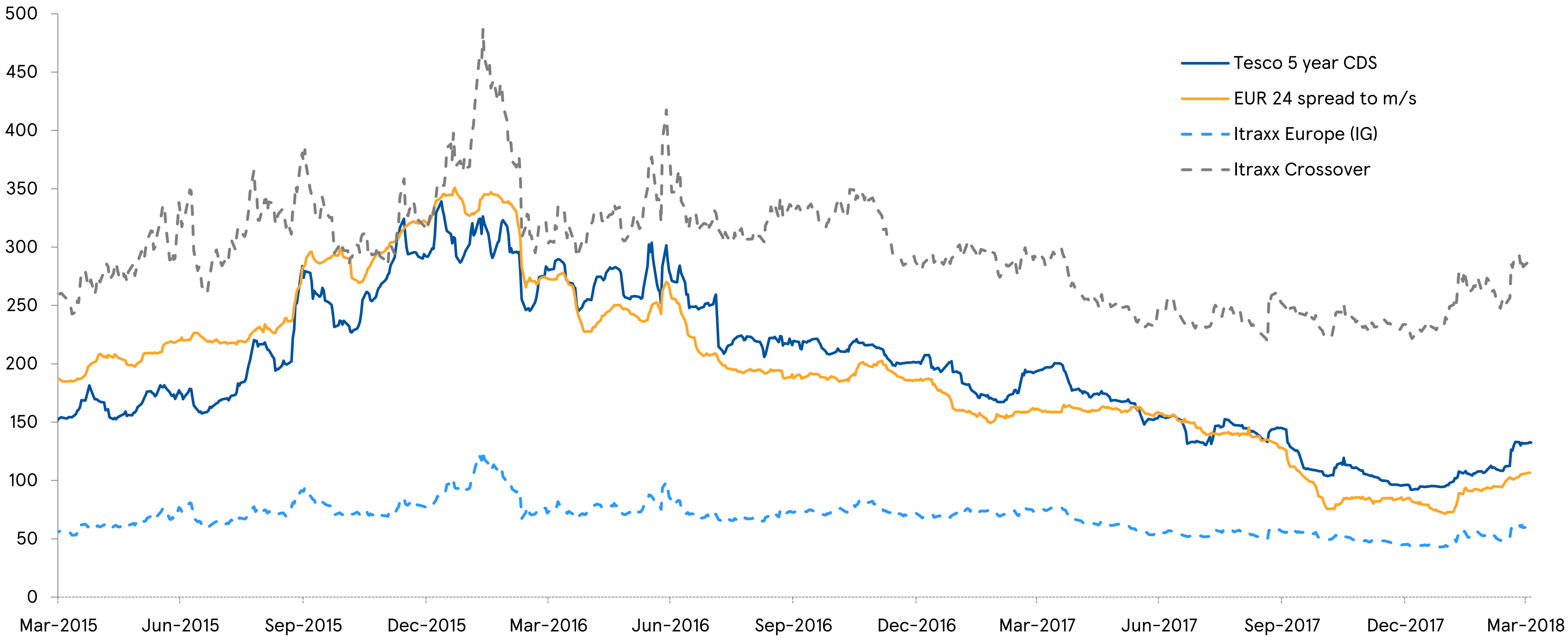
# Gross debt position and outstanding debt by type




77% of outstanding debt is hedged back to GBP (remainder is in EUR)

Gross Debt = Net Debt + Cash and Cash & Cash Equivalents and Short Term investments + Joint Venture Loans/Receivables

# Further tightening in credit spreads




Source: Bloomberg.

# Financial summary.

- Continued strong growth in sales (+2.3%), profit (+28.4%), cash (+21.7%) and earnings (+62.7%)
- Increased profitability ➡ 3.0% Group operating margin in second half
- £594m cost savings in year; £820m savings to date
- £2.7bn debt repaid in year
- Total indebtedness down £4.4bn to £12.3bn
- Dividend reinstated: interim 1.0p + final 2.0p

# In the UK, creating the leading food business.

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# Booker results (unaudited)

- Q4 customer satisfaction up further 0.3% on Q3, to 85.7%
- Q4 like-for-like sales up 9.9%
- c.£195m FY 17/18 operating profit before exceptional items
- c.£120m FY 17/18 net cash

# Joining forces

## Investors back Tesco's £4bn deal to merge with Booker

Gurpreet Narwan

Shareholders have backed Tesco's £4 billion takeover of Booker, effectively clearing away the final hurdle to the combination of Britain's biggest supermarkets group with the country's leading wholesaler.

Despite some opposition and boardroom divisions, investors on both sides supported the deal yesterday, paving the way for the formation of a grocery company with annual revenues of more than £60 billion.

Just over 85 per cent of Tesco's investors approved the deal and 83 per cent of Booker shareholders voted in favour. Last year the takeover sailed through a review by the Competition and Markets Authority, which concluded that it would not lead to

had raised concerns about the deal. Glass Lewis said last week that the premium offered by Tesco "clearly lags regional trends", and added: "We see little cause for Booker investors to support what appears to be a less-than-compelling control transaction."

Institutional Shareholder Services also recommended that Booker shareholders should reject the offer, under which, it said, Tesco "appears to be getting the better deal".

With the shareholders' support secured, Dave Lewis, chief executive of Tesco, will lead the enlarged business, while Charles Wilson, head of Booker, will run Tesco's British business.

Mr Lewis said: "This merger is about growth, bringing together our retail and wholesale skills to create the UK's leading food business. [It] opens up new

On time, as proposed

**At least £175m**

Significant cost synergy potential

**At least £25m**

Significant revenue growth potential

# Unlocking new growth


Range optimisation

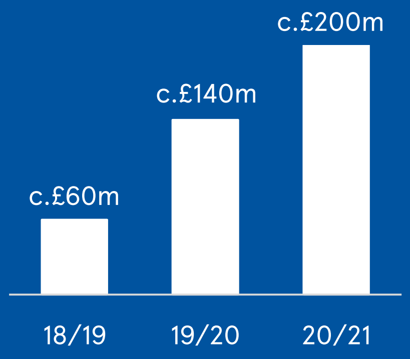

New innovative formats


Expanded delivered offer

Click & Collect, Mobile, Banking

# Synergies

**£200m**
over 3 years




Synergies

**< £145m**
over 3 years

Exceptional costs

**£2.5bn**

Revenue aspiration



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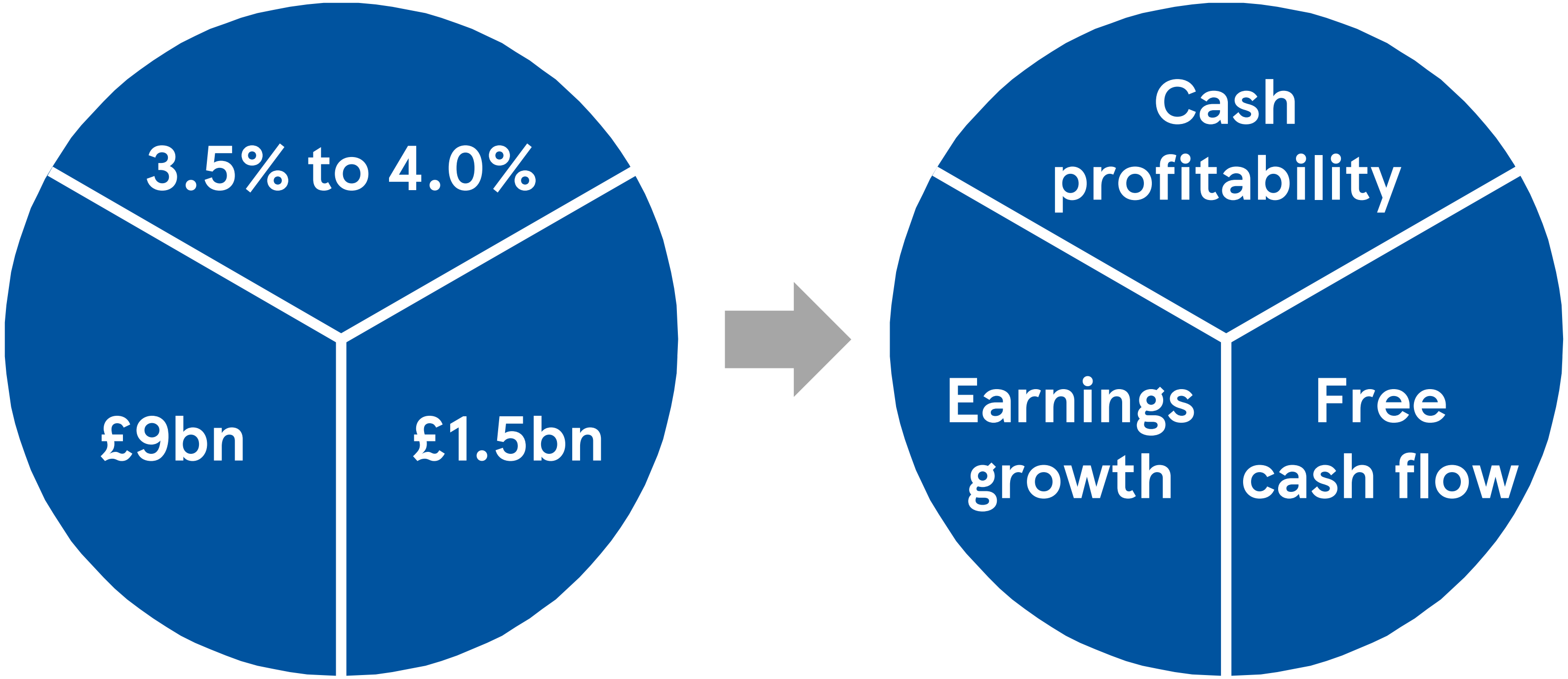
# Minimum change, maximum impact

| | |
|---|---|
| **Purpose** | ‘Serving Britain’s Customers a little better every day’ |
| **Values** | 1. No one tries harder for customers<br>2. We treat people how they want to be treated<br>3. Every little help makes a big difference |
| **Operating Principles** | Health Safe + Legal<br>Customer satisfaction<br>Cash profitability<br>20/80: Minimise change for maximum benefit<br>‘One Team’ with specialised channel expertise (Retail, Wholesale, Online)<br>YCDBSOYA – Speed |

# Sustainable value creation for shareholders




Tesco medium-term ambitions

Underlying philosophy

# Summary.

- Delivering against our six strategic drivers
- Continued momentum in our performance
  - Sales up, profits up, cash up, debt down
  - Shifting the mix and more customers are shopping at Tesco
  - Balance sheet significantly strengthened
- Very confident that the UK's leading food business can unlock significant future growth

# Q&A.

# Appendix.

# Guidance

| | |
|---|---|
| **Operating margin** | 3.5% to 4.0% Group operating margin by 19/20 |
| **Operating costs** | Reduce operating costs by a further £1.5bn by 19/20 |
| **Retail cash generation** | Generate £9bn of cash from operations by 18/19 |
| **Working capital** | Underlying decrease of around £0.2bn per annum |
| **Pension deficit contribution** | £285m per annum from April 2018 (previously £270m) |
| **Capex** | £1.1bn - £1.4bn per annum |
| **Net finance costs[1]** | c.4% of long-term debt per annum |
| **Effective tax rate** | Decreasing to c.20% over medium term |
| **Dividend** | Targeting cover of around 2 times EPS in medium term<br>Broadly one-third : two-thirds split between interim and final |
| **Debt metrics** | Total indebtedness less than 3.0x EBITDAR<br>Fixed charge cover greater than 3.0x |
| **Booker** | Consolidated from 5 March 2018 |

1. Before exceptional charges, IAS 19 net pension finance costs and IAS 39 fair value remeasurements.

# Credit ratings

| Agency | Long Term Rating | Short Term Rating | Outlook |
|---|---|---|---|
| S & P | BB+ | B | Stable |
| Fitch | BB+ | B | Stable |
| Moody's | Ba1 | NP | Stable |

**Stable outlook from all three credit rating agencies**



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# Disclaimer.

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