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## Transcription

# Tesco's proposed sale of their businesses in Thailand and Malaysia

{EV00102383} - {00:10:27}

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## Tesco Colleague Call

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# PRESENTATION

## Operator

Welcome to a call about Tesco's proposed sale of their businesses in Thailand and Malaysia. Throughout the call, all participants will be in listen only mode and afterwards they'll be a question and answer session. Just remind to you this conference is being recorded. I'll now hand the call to our first speaker Alan Stewart, Chief Financial Officer. Please begin your meeting.

## Alan Stewart

Thanks Mark. Good morning everybody and thank you for joining us on this morning's call. I appreciate that we haven't given you much notice but you will understand the reasons for that, and I also say that I'm here with Chris Griffith from IR on the call as well. I'm going to spend a few minutes walking through the headlines of what we've announced and then we'll do our best to answer any questions you may have. As you will have seen this morning, we've announced the proposed sale of our businesses in Thailand and Malaysia to CP group. Following inbound interest in December, we announced a strategic review of our business in Asia. We had a lot of interest and received a number of bids, but CP offered the most compelling value. The consideration represents an enterprise value of 10.6 billion dollars on a cash and debt free basis resulting in net cash proceeds of 10.3 billion dollars. In sterling terms, that's equivalent to 8.2 billion pounds and 8 billion pounds respectively. This values the business at an EBITDA multiple of 12.5 times, which we believe is a very attractive multiple and represents a higher value than we believe we could have achieved via our continued ownership.

Following completion of the disposal, the board intends to use the proceeds to return value to shareholders and to further de-risk the balance sheet by making a significant contribution to the pension. We've reached an agreement with pension trustees and also have pension regulatory clearance to make a one off pension deficit contribution of two and a half billion pounds. This combined with our plan payments this year will eliminate the current deficit and means that it is unlikely we will have to make any future payments. This will free up around 260 million of annual free cash flow going forwards. We are also proposing to return around 5 billion pounds to shareholders via a special dividend with share consolidation. The payment of the special dividend will enable us to quickly and efficiently return the excess cash to shareholders and ensure that we maintain an efficient balance sheet. The share consolidation will enable us to maintain the comparability of the group's share price and the per share metrics before and after the special dividend. Following completion of the disposal, pension funding and the return of capital, we will be targeting a leverage ratio of around 2.5 times, which is at the lower end of the current range and consistent with an investment grade rating. The transaction requires approval from our shareholders and is also subject to competition clearance. We expect to hold a shareholder meeting to approve the transaction in the second quarter of the year. We will then have a further shareholder meeting once competition approval has been received to approve the special dividend and the share consolidation. We are confident the transaction will be approved by the local competition authorities. TP group are primarily responsible for running this process, but we will work closely with them on it. Both parties have done extensive legal and economic analysis. The process will likely take several months and given this we anticipate the transaction completing during the second half of the year. Post the disposal, we will have a simpler more focused group, we will have returned 5 billion to shareholders, de-risked the balance sheet and will be focused on delivering excellent customer satisfaction, cash profitability, free cash flow and



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earnings growth in our UK, Ireland and central European businesses. We will continue to target a 50% powered ratio for the dividend and as I said earlier, we will target leverage of around 2.5 times. Our capital allocation policy will remain unchanged but given the strength of cash generation and the strength of the balance sheet, we expect to be in a position to supplement the ordinary dividend with share buybacks in the future. Before I close, I would like to thank all of our Thai and Malaysian colleagues for their dedication, professionalism and service to our customers which has resulted in the creation of such a strong business. I am confident that the agreement we've reached with CP presents an exciting opportunity for their continued its success. I'm now very happy to take any questions you have relating to this morning's announcement. I should just briefly remind you that as we are currently in our close period, ahead of the full year results in a few weeks' time, we will cover any questions relating to current performance of trading when we meet again then. Thanks, Mark over to questions now.



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## Q&A

### Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypads now to enter the queue. Once your name is announced you can ask your question, if you find it answered before it's your turn to speak, you can dial 02 to cancel. So once again that's 01 to ask a question or 02 if you need to cancel. There will be a brief pause now whilst we register your questions.

Our first question comes from the line of Clive Black at Shore Capital Market. Please go ahead, your line is open.

### Clive Black

Good morning gentlemen and a couple of questions from me if I may. Firstly, Alan, what does this mean for the ongoing freehold leasehold mix of Tesco, noting you had a lot of Mal assets in South East Asia? And Secondly, do you believe there are notable dis-economies of scale in losing the Asian operations other group level? Thank you.

### Alan Stewart

Clive, thanks and morning. In terms of freehold leasehold mix, the Thai and Malaysian business probably have a slightly higher freehold mix than the group as a whole. However, I think in terms of the overall group metrics, it's not going to be a significant movement in terms of those metrics. As well as regards the, sorry what was the second question? The diseconomy. Sorry I was thinking about mals as well. Have I asked answered about mals and come back if you want Clive? In terms of this economy is very, very, very, low diseconomies. These businesses, as you'll appreciate, really are operating in their local markets large and by far the majority of their sourcing is local, the way they operate is local and there's a small element of central technology and other services but nothing material that we would have to take into account.

### Clive Black

Sorry, just as a supplementary, if there were, for example, any areas where there was supply arrangements would you envisage some form of agreement between the two organisations once completed?



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### Alan Stewart

The CP all is, as you know, the CP Group is a major food supplier. We work with them across the group and we've established very good relationships and we are sure that that relationship and cooperation will continue in the future and it's certainly an opportunity to see if we can grow in that area.

### Clive Black

Okay, thanks Alan.

### Operator

Thank you, our next question comes from the line of Andre Gwynn at Exane. Please go ahead to your line is open.

### Andrew Gwynn

Hi good morning guys that just a warning, as you can probably hear I've lost my voice. Just on the pension with the significant payment towards it, is the intention for the pension scheme to continue to de-risk itself? Obviously that move away from equities towards those liability hedged assets. Thank you.

### Alan Stewart

Yes and as part of the, obviously it's a trustee decision and it's one which they make, but as part of the overall discussions we've been keen to understand their thinking in this area and with this significant one off payment, they will be able to accelerate their existing de-risking strategy and achieve it more quickly. And that was a key part I think in their thinking and equally in the regulation clearance. So, the same path that they and we were supportive of, but achieved more quickly. The overall path that they are working towards, this so-called Safe Harbour Plan, remains pretty much as we set it out a few years ago.

### Andrew Gwynn

Okay, that's great, thank you.



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### Operator

Thank you and just remind participants if you do wish to ask a question, please dial 01 on your telephone keypads now. The next question in the queue comes from the line of Xavier Le Mene of Bank of America Securities. Please go ahead, your line is open.

### Xavier Le Mene

Yeah, good morning, thanks for taking my question. Now that Asia is done actually you're getting Asia what does it mean potentially for Europe? Is it something that you would also consider putting the review or do you believe that you need to recover easy assets first and then potentially have a thinking later on? But interesting to get your view on that.

### Alan Stewart

Yeah, morning Xavier. I don't think it means anything for Europe, it's the same as what we've set out, the European business is one where we've been focusing through exactly the same measures, customer engagement, pricing for customers, the right service and value and exactly the same things as we've been doing across the whole of the group. And that's the focus obviously with Asia no longer there, the focus will be even more from our perspective in terms of that market, we've got strong and good positions and will continue to seek to serve customers and get attractive returns from those markets.

### Xavier Le Mene

Thank you.

### Operator

Thank you as there are no further questions on the line now, I'll hand back to our speakers for the closing comments.

### Alan Stewart

Great, well thank you everybody. I know it's a very busy day in the markets for other reasons but appreciate your time today and look forward to seeing you in a few weeks' time with our preliminary results.

### Operator

This now includes the conference. Thank you all very much for attending. You may now disconnect your lines.