

# Debt Investor Call.

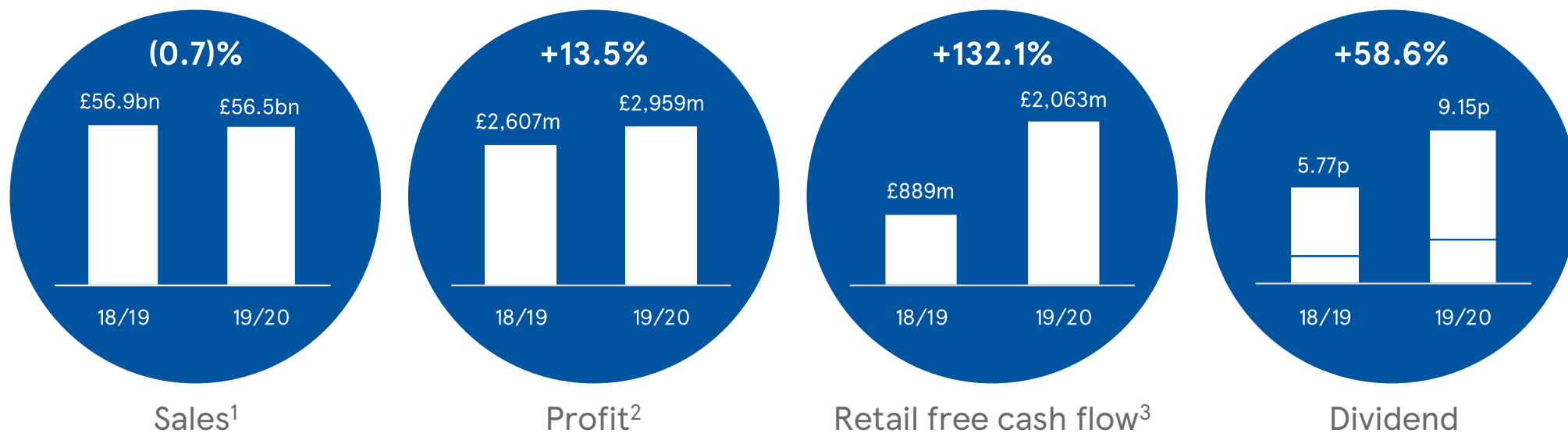
8 April 2020

Alan Stewart – CFO

Lynda Heywood – Group Treasurer



# Group performance



Note: For UK & ROI our reported statutory performance is for the 53 weeks ended 29 February 2020. For all other operations, these results are for the calendar year ended 29 February 2020. To aid comparability, headline results are shown on a 52 week basis.

1. Sales exclude VAT and fuel. Sales change shown at actual rates on a comparable days basis for Central Europe and Asia.
2. Operating profit before exceptional items and amortisation of acquired intangibles; change shown at actual rates.
3. Retail free cash flow excludes the impact of Tesco Bank.

# Segmental performance

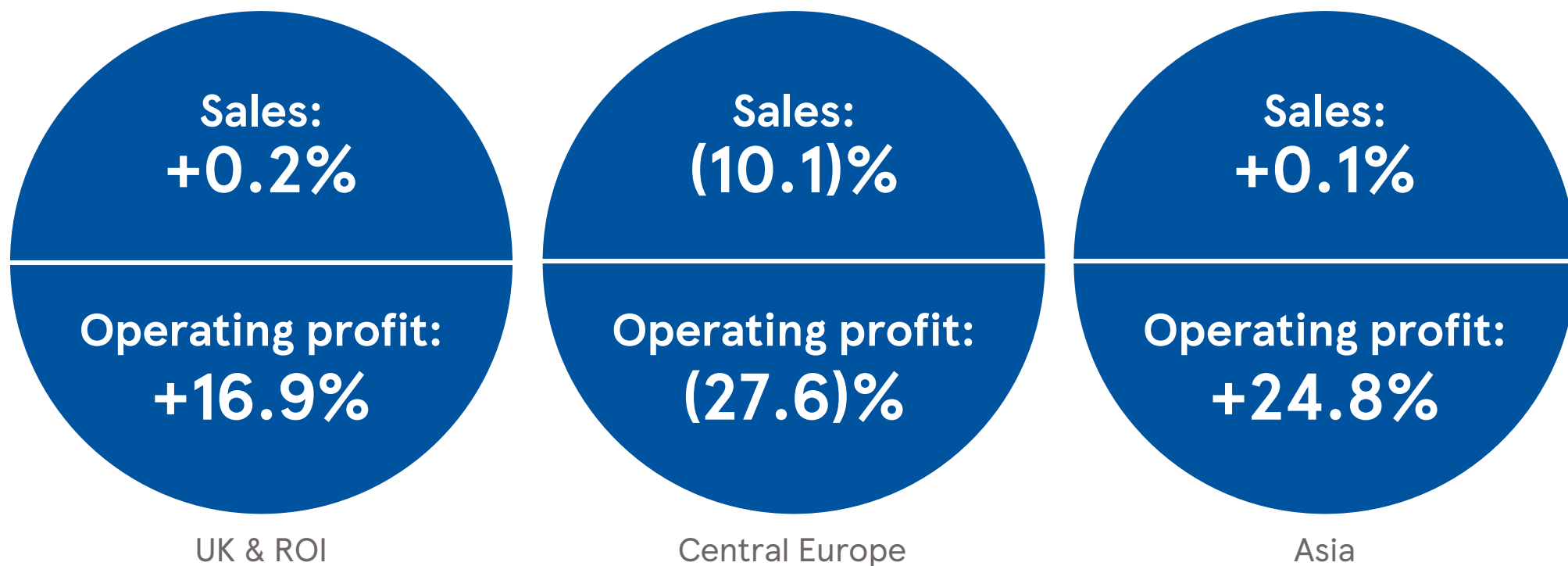
	UK & ROI	Central Europe	Asia	Total Retail	Tesco Bank
<b>Sales<sup>1</sup></b>	£44,909m	£5,332m	£5,218m	£55,459m	£1,068m
<b>change at constant exchange rates %</b>	0.2%	(10.1)%	0.1%	(0.9)%	(2.6)%
<b>Operating profit<sup>2</sup></b>	£2,184m	£156m	£426m	£2,766m	£193m
<b>change at constant exchange rates %</b>	16.9%	(27.6)%	24.8%	13.9%	(3.0)%
<b>Margin (%)</b>	4.2%	2.8%	8.2%	4.4%	18.1%

1. Sales exclude VAT and fuel. Sales change shown on a comparable days basis for Central Europe and Asia.

2. Operating profit before exceptional items and amortisation of acquired intangibles.

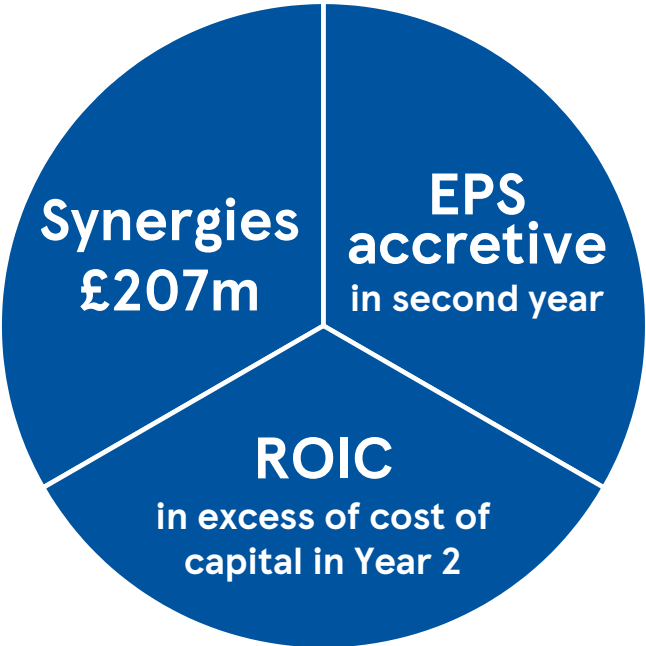


# Retail performance



Sales exclude VAT and fuel; change shown at constant rates on a comparable days basis for Central Europe and Asia. Operating profit before exceptional items and amortisation of acquired intangibles, change shown at constant rates.

# Booker



Merger benefits delivered

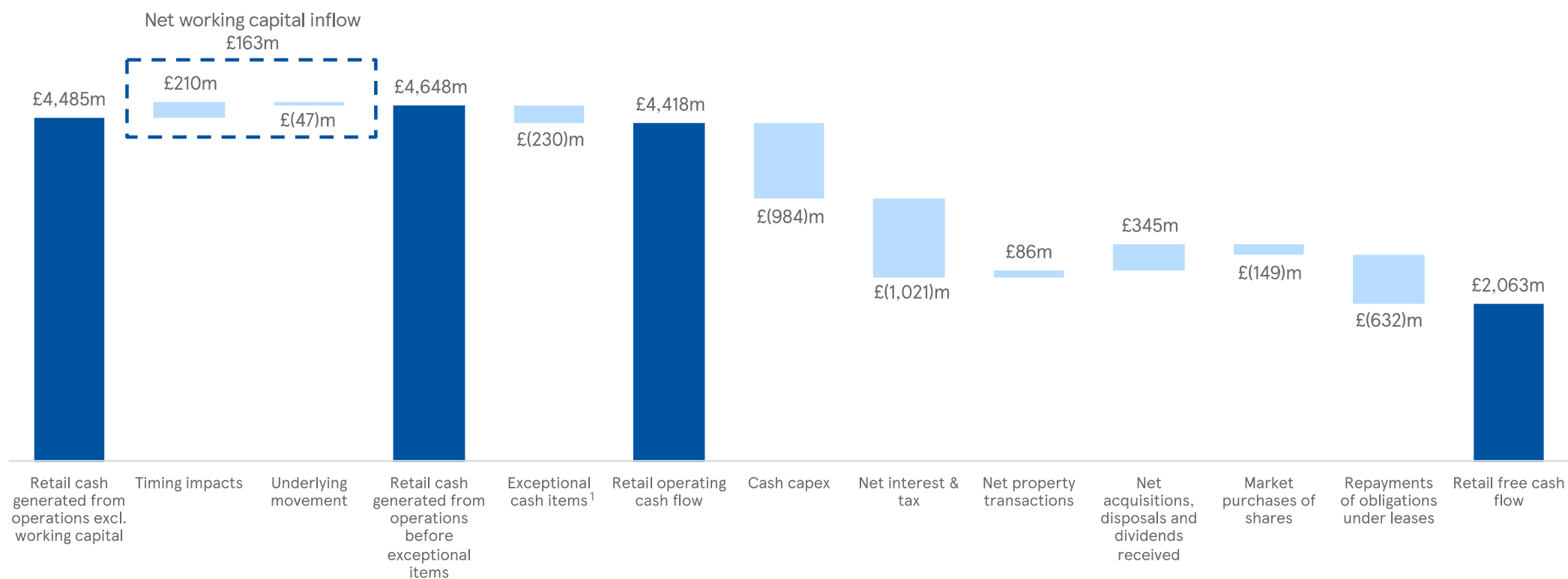


Best Food Logistics acquisition completed



Further opportunities

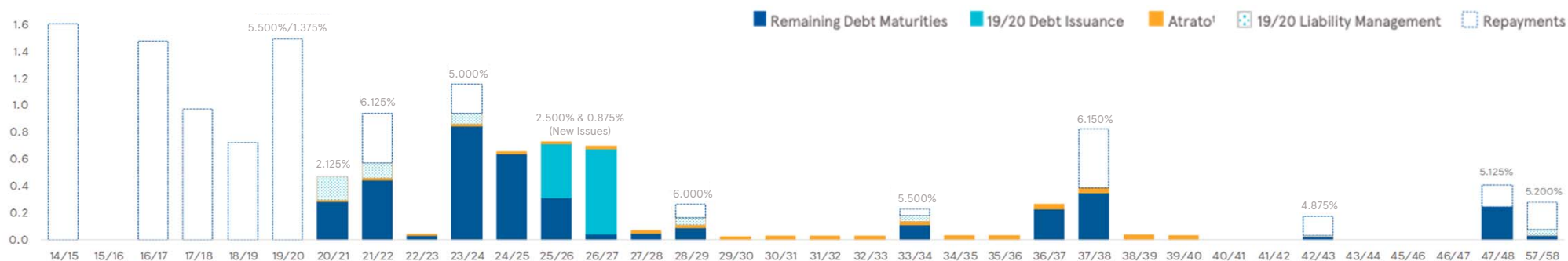
# Sources and uses of cash



1. Exceptional cash items comprise £(197)m of restructuring activity (of which £(133)m relate to prior year activity), £(23)m integration costs and £(10)m corporate costs.

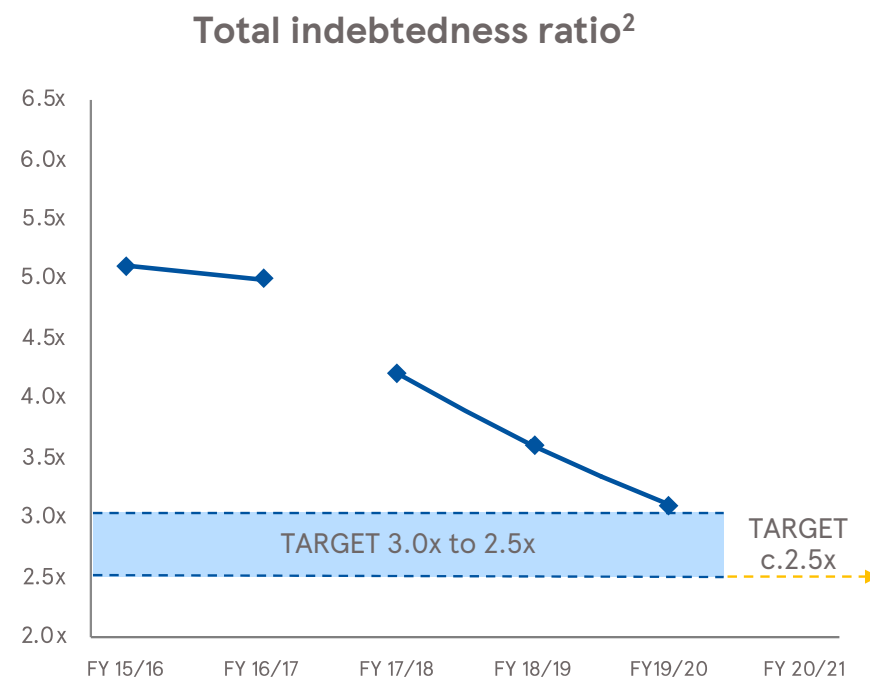
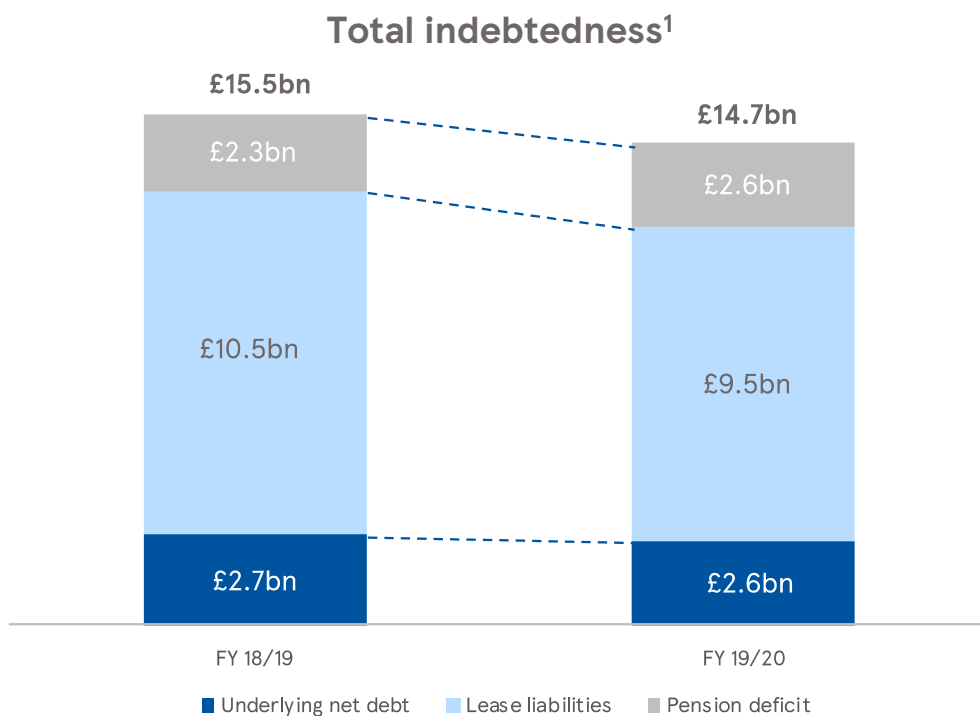
# Liquidity and debt profile

- Significant cash liquidity available
- £3.0bn of committed facilities undrawn
- Investment grade credit ratings with all three agencies
- Re-paid £1.3bn of outstanding debt during FY19/20, including £0.5bn bonds repaid early
- Issued 6 year GBP £0.4bn (2.5%) and 6.5 year EUR €0.75bn (0.875%)



1. Amortising debt relating to purchase of Atrato Property JV now on balance sheet after obtaining full control in September 2019.

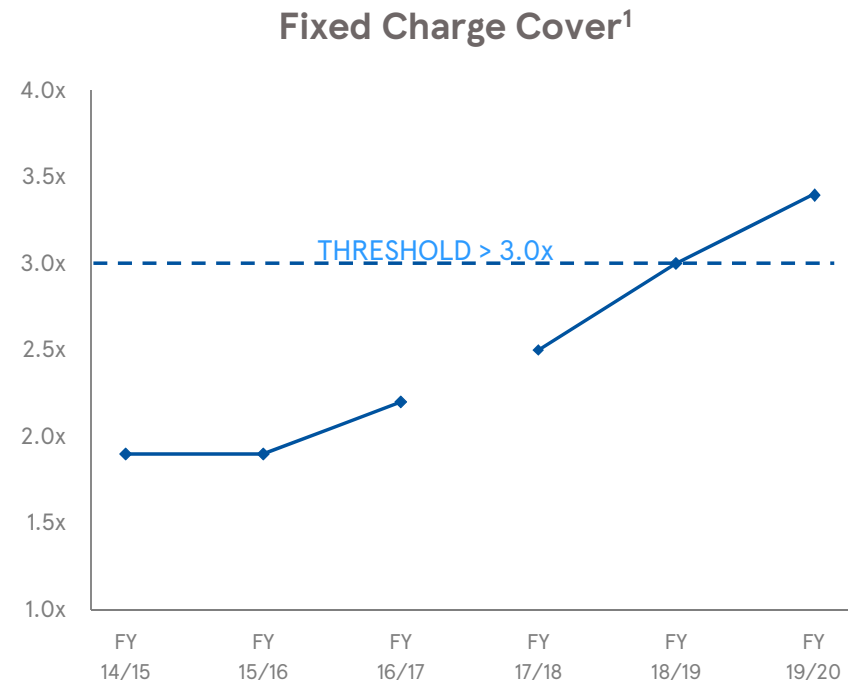
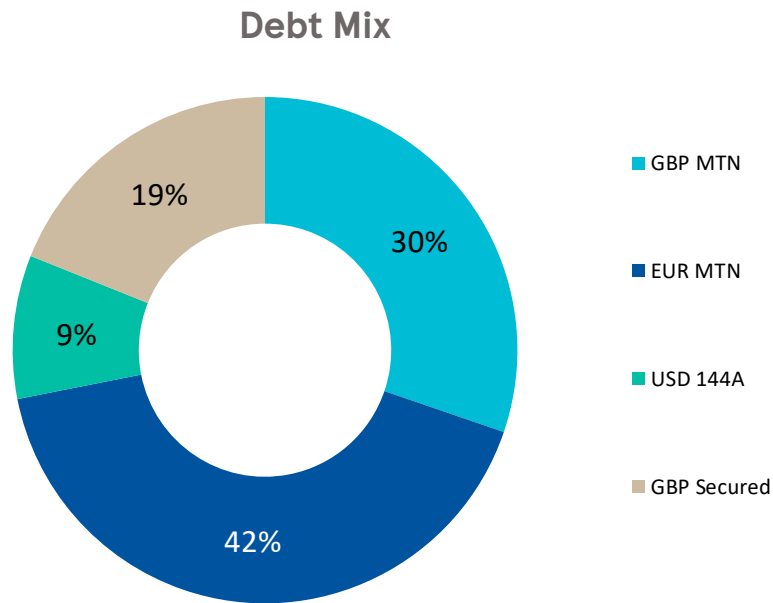
# Total indebtedness



1. Total indebtedness post-IFRS 16 comprises Net debt (inc. lease liabilities) plus the IAS 19 deficit in the pension schemes (net of tax).
2. Total indebtedness ratio pre-IFRS 16: Net Debt + defined pension deficit (net of tax) + discounted operating lease commitments / EBITDAR. Post-IFRS 16: Net Debt + defined pension deficit (net of tax) / EBITDA. Periods FY 15/16 to FY 16/17 inclusive are presented on a pre-IFRS 16 basis with subsequent periods presented on a post-IFRS 16 basis.



# Debt Mix & Fixed Charge Cover



1. Fixed charge cover pre-IFRS 16: EBITDAR / (Net finance costs (before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments) + Retail operating lease expense). Fixed Charge Cover Post-IFRS 16 : EBITDA/(Net finance costs (before exceptional charges, capitalised interest, net pension finance costs, fair value remeasurements of financial instruments and interest charged on lease liabilities) and Retail total lease liability payments).  
Periods FY 14/15 to FY 16/17 inclusive are presented on a pre-IFRS 16 basis with subsequent periods presented on a post-IFRS 16 basis.

# Credit ratings

Agency	Long Term Rating	Short Term Rating	Outlook
Fitch	BBB-	F3	Stable
Moody's	Baa3	NR	Stable
S&P	BBB-	A-3	Stable

## Investment grade rating from S&P (November 2019)

“Tesco’s operating results have improved consistently in recent quarters, while credit metrics also benefitted from a reduction in financial debt, operating lease commitments, and pension liabilities in the first-half of the financial year ending Feb.28,2020”

# Proposed sale of businesses in Thailand & Malaysia

- Proposed sale to CP Group:
  - \$10.6bn enterprise value, hedged on announcement
  - Implies 12.5x EV/EBITDA multiple
- Effective use of proceeds:
  - £2.5bn to eliminate pension funding deficit
  - c.£5bn special dividend
  - c.£0.5bn for general corporate purposes
- Broadly cash flow neutral:
  - Loss of operating cash flow from businesses in Thailand and Malaysia
  - Offset by £260m benefit as pension deficit contributions cease

# A simpler, stronger business

**£277m**  
proceeds

China JV disposal

Central Europe:  
**£167m**

of **£258m**  
proceeds

Realising value from property



Increased freehold proportion<sup>1</sup>

1. Represents Group freehold ownership by value for FY18/19 and FY19/20.

# Summary

- Strong financial performance in FY 19/20
- Robust liquidity and funding position
- Continuing to operate within capital allocation framework
- Proposed sale of businesses in Thailand and Malaysia<sup>1</sup>
- Well-placed in the short-term to support colleagues and customers, and in the long-term, to reinvest into the customer offer

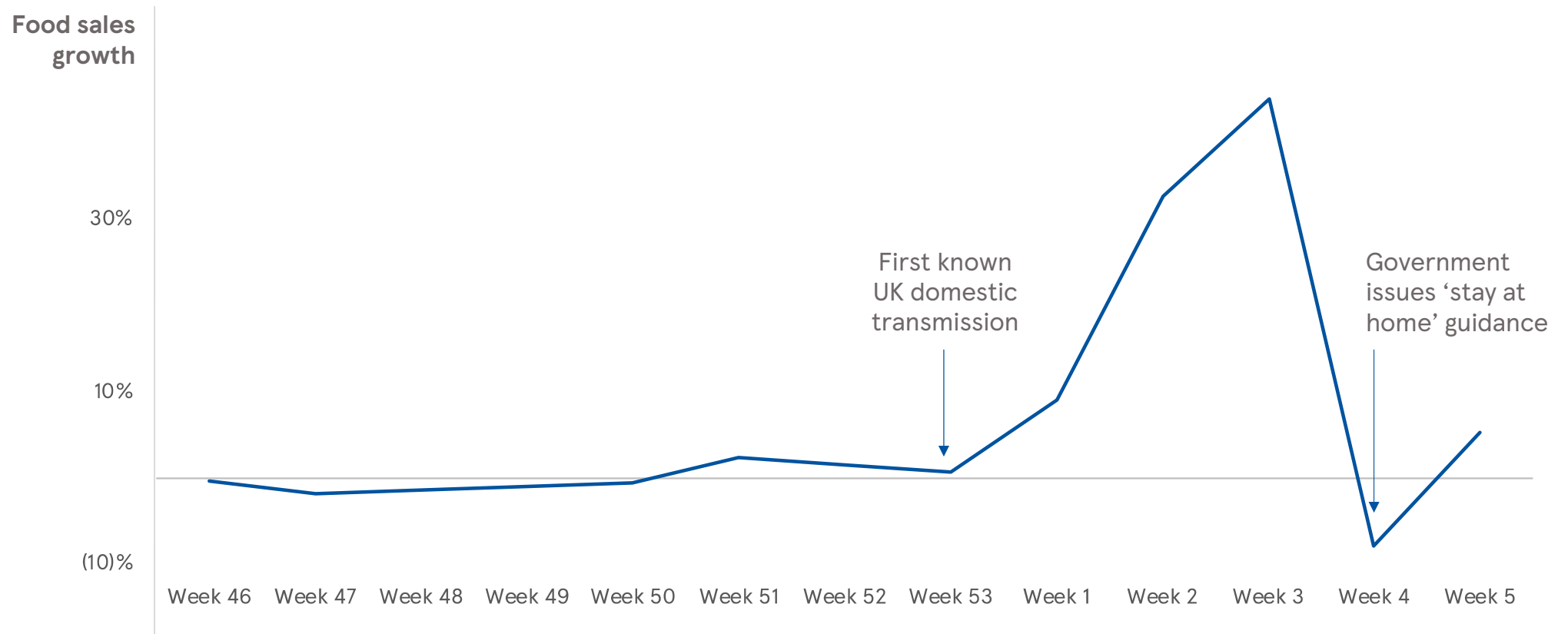
1. Subject to shareholder and regulatory approval.

# COVID-19.



**TESCO**

# Initial impact – sales shape



# Scenarios – sales drivers

	Base case	Further restrictions	Longer-term restrictions
Stockpiling	+		
Shift from eating out of home	+	+	+
Holiday cancellations	+	+	+
GM/Clothing	-	-	-
Fuel	-	-	-



# Together, we can do this

- 1 Food for all
- 2 Safety for everyone
- 3 Supporting our colleagues
- 4 Supporting our communities

# Q&A.



**TESCO**

# Appendix.



# Guidance

Capex	£0.9bn-£1.2bn per annum
Net finance costs <sup>1</sup>	Less than 4% of long-term debt per annum
Tax	Effective tax rate c.24% for 2020/21; c.21% over medium term Not taken option to defer VAT payments
Dividend	Full year dividend pay-out ratio of 50% Interim dividend 35% of prior year full year dividend
Debt metrics	Targeting leverage of c.2.5x Total indebtedness/EBITDA
Pension deficit contribution	Payments cease following lump sum payment from Asia disposal
Asia segment	Treated as a discontinued operation for FY 2020/21

Note: All guidance assumes completion of disposal of Thailand and Malaysia businesses during 2H 2020, which is subject to shareholder and regulatory approval.

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



# Proposed sale of businesses in Thailand & Malaysia

**9 March 2020**

**As soon as practicable**

Sale agreed

Circular and notice convening first general meeting

First general meeting

Competition approval

**2H 2020**

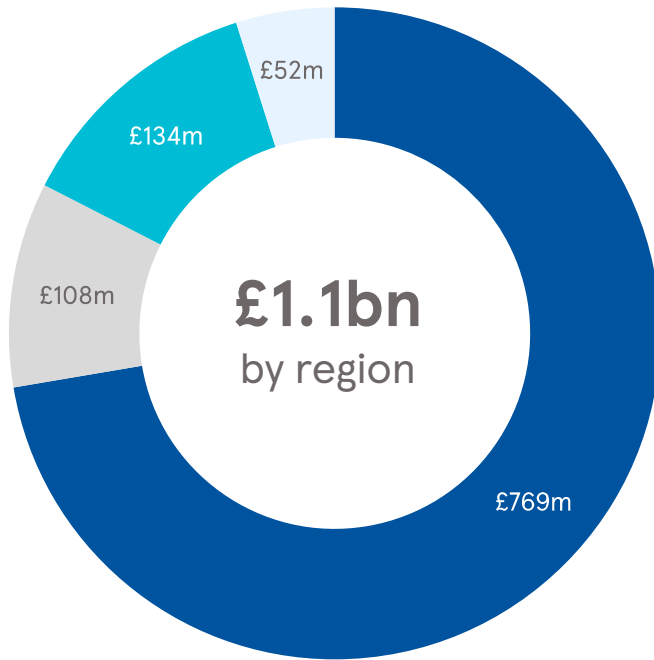
Sale completion

Notice convening second general meeting

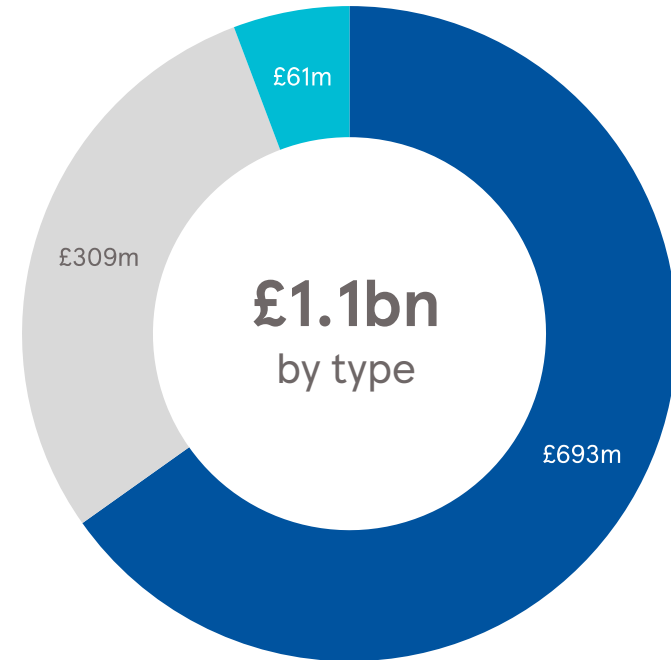
Second general meeting

Share consolidation and special dividend paid

# Capital expenditure



■ UK & ROI   ■ Central Europe   ■ Asia   ■ Bank



■ Maintenance/refresh   ■ IT/productivity   ■ New space/business

# Exceptional items

Net restructuring & redundancy costs	£(107)m
Net property disposals	£44m
Booker integration costs	£(23)m
Acquisition of property joint venture	£(136)m
Net impairment loss of non-current assets	£(15)m
Impairment of investment in India joint venture	£(47)m
Profit on disposal of Gain Land	£37m
Other corporate activity costs	£(22)m
Tesco Bank mortgage disposal	£(5)m
Closure of Tesco Bank current accounts to new customers	£(56)m
Provision for customer redress	£(45)m
<b>Total exceptional items in statutory operating profit</b>	<b>£(375)m</b>

# Impact of week 53

	2019/20 53 week basis	Exclude: week 53	2019/20 52 week basis	YoY 53 week change (actual exchange rates)	YoY 52 week change (actual exchange rates)
Group sales (exc. VAT, exc. fuel)	£57,370m	£(843)m	£56,527m	1.1%	(0.7)%
Group operating profit before exceptional items and amortisation of acquired intangibles	£3,005m	£(46)m	£2,959m	15.3%	13.5%
Exceptional items and amortisation of acquired intangibles	£(487)m	£34m	£(453)m	n/a	n/a
Group statutory operating profit	£2,518m	-	n/a	(4.9)%	n/a
Adjusted diluted EPS	18.23p	(0.31)p	17.92p	30.1%	27.9%
Dividend per share	9.15p	-	n/a	58.6%	n/a
Capex	£1.1bn	-	n/a	n/a	n/a
Net debt	£(12.3)bn	£0.2bn	£(12.1)bn	6.9%	8.4%
Retail free cash flow	£1.9bn	£0.2bn	£2.1bn	109.9%	132.1%



# Scenarios – UK costs

	<b>Base case</b>	<b>Further restrictions</b>	<b>Longer-term restrictions</b>
Payroll	£(280)m	£(335)m	£(405)m
Distribution	£(135)m	£(155)m	£(175)m
Store expenses	£(105)m	£(110)m	£(200)m
Property	£(65)m	£(75)m	£(80)m
Other (technology, communication)	£(65)m	£(65)m	£(65)m
<b>Total incremental costs</b>	<b>£(650)m</b>	<b>£(740)m</b>	<b>£(925)m</b>
<b>Business Rates Relief (England &amp; Scotland)</b>	<b>c.£585m</b>	<b>c.£585m</b>	<b>c.£585m</b>