

# Debt Investor Call.

7 October 2020

Alan Stewart – CFO

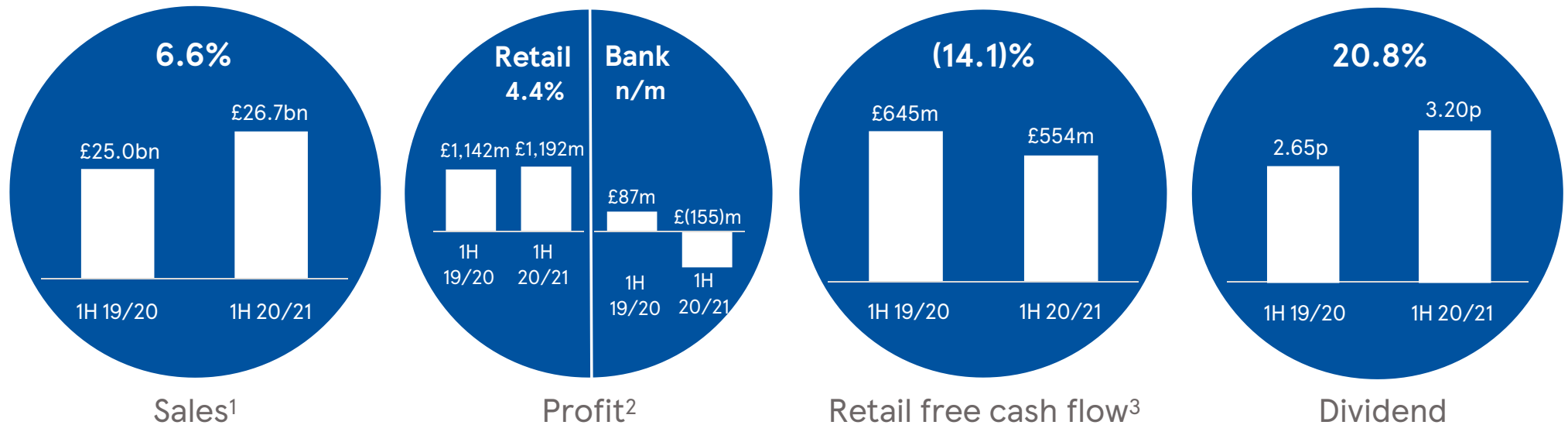
Lynda Heywood – Group Treasurer



# Highlights of performance

- Over a million customers more loyal to Tesco
- Net switching gains from Aldi for first time in over a decade
- Online capacity doubled in five weeks
- 12 weeks' pay for vulnerable colleagues; full pay for all from day one of absence
- Recruited 47,000 temporary colleagues in just two weeks
- Supplier viewpoint measure improved nearly 7% despite crisis
- Doubled food donations in time of need
- Booker - amazing supporter of small businesses and communities

# Group performance



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

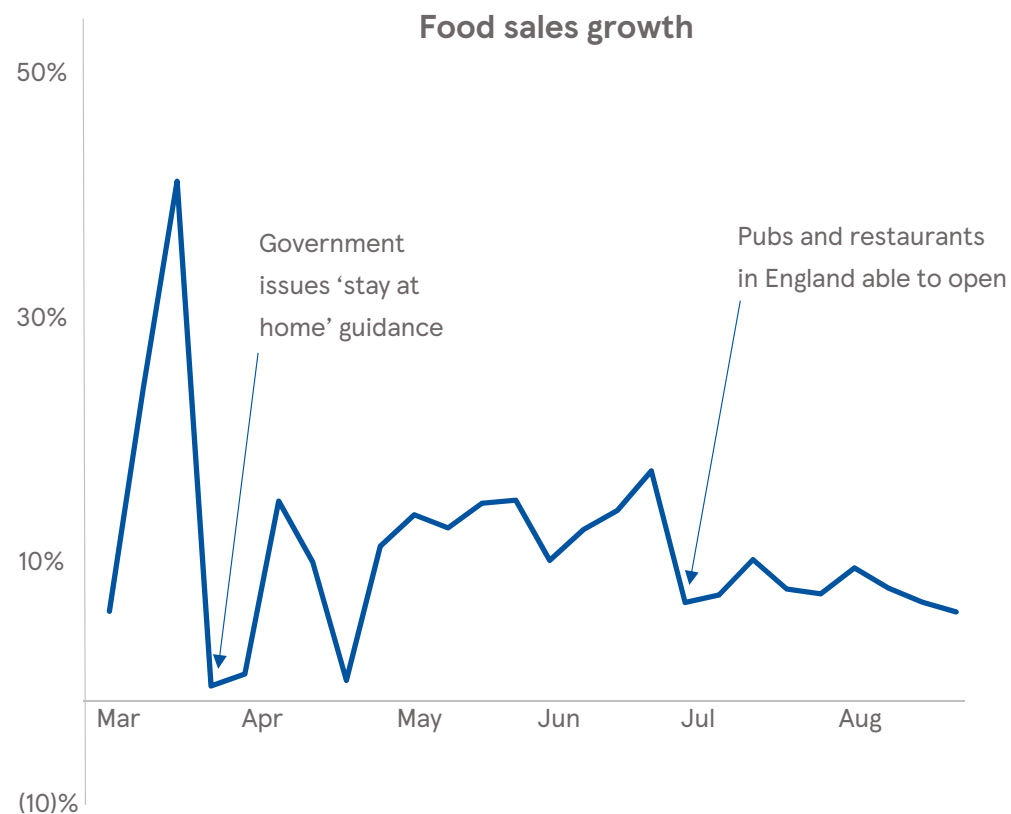
	UK & ROI	Central Europe	Total Retail	Tesco Bank	Group
<b>Sales<sup>1</sup></b>	£24,337m	£1,929m	£26,266m	£386m	£26,652m
<i>change at constant exchange rates %</i>	8.5%	(1.5)%	7.7%	(31.4)%	6.8%
<b>Operating profit<sup>2</sup></b>	£1,133m	£59m	£1,192m	£(155)m	£1,037m
<i>change at constant exchange rates %</i>	6.2%	(23.4)%	4.2%	n/m	(15.8)%
<b>Margin (%)</b>	4.3%	3.0%	4.2%	n/m	3.6%

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

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

# UK & ROI

- Strong top-line growth
  - LFL: 1Q +8.2%, 2Q +6.2%
- Significant stock-piling in early weeks
- Ongoing benefit of shift from 'out-of-home' consumption
- Major shifts in buying patterns
- Basket size up 56.2%, shopping frequency down (31.0)%<sup>1</sup>

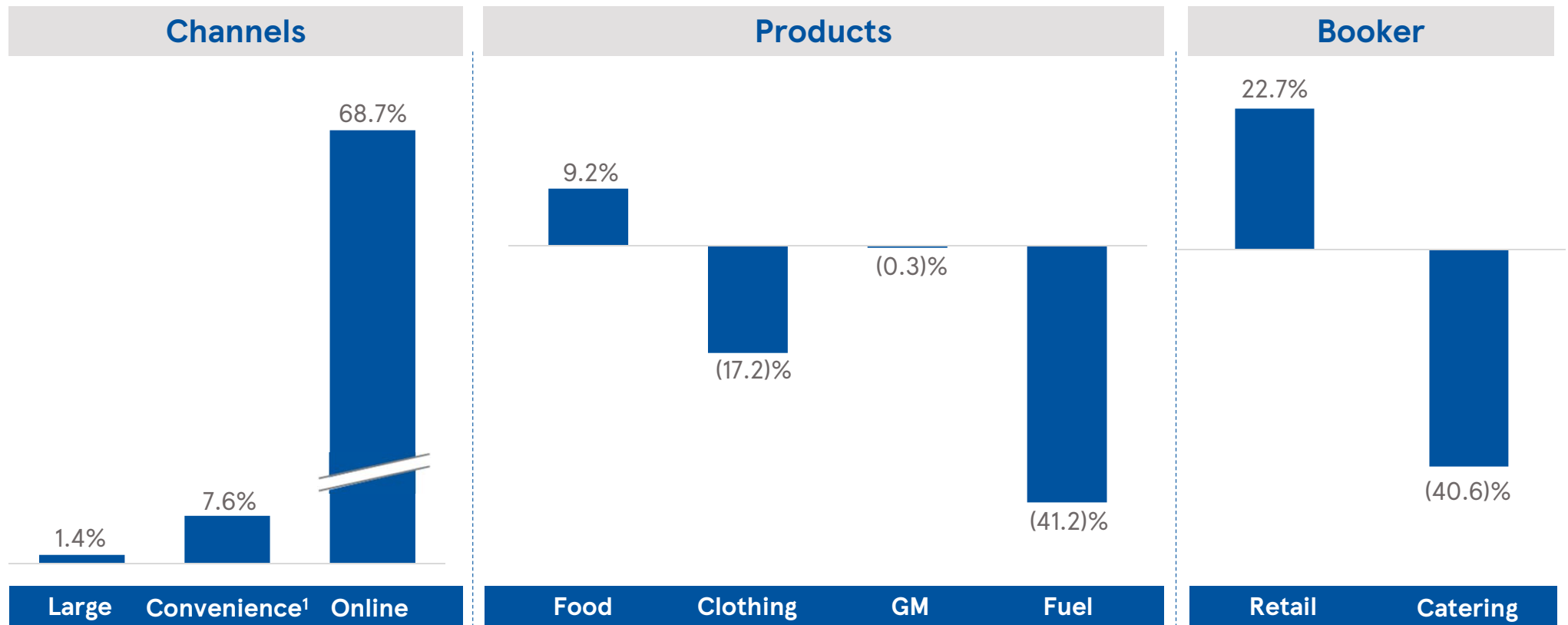


1. 1H 20/21 basket size and shopping frequency growth/(decline) vs. 1H 19/20.

# Our response to COVID-19

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

# Sales mix



Note: Sales change shown on a like-for-like basis  
 1. Convenience comprises Tesco Express and One Stop stores.



# COVID-19 costs

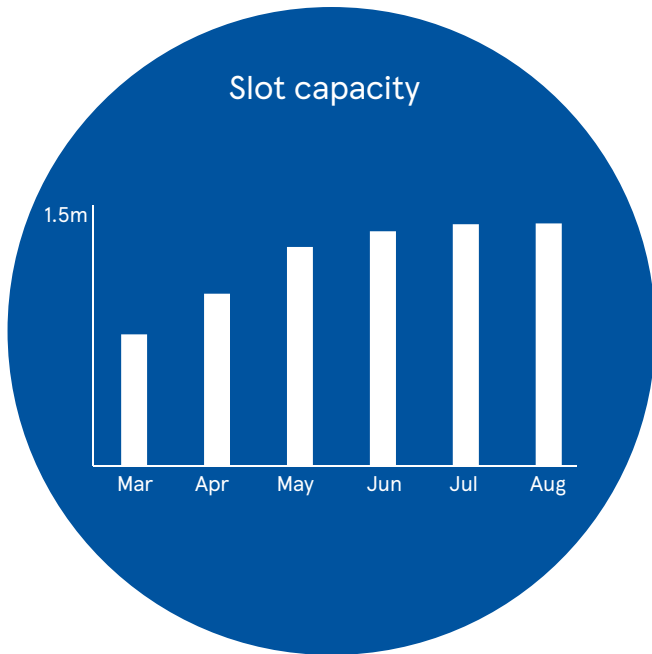
	1H	FY forecast <sup>1</sup> (illustrative)
12 weeks pay for vulnerable colleagues incl. pregnancy	£(60)m	£(70)m
Colleague absence / backfill / additional 47,000 colleagues	£(153)m	£(240)m
Safety consumables <sup>2</sup>	£(35)m	£(65)m
Additional distribution costs	£(23)m	£(23)m
Property costs	£(57)m	£(100)m
10% front line colleague bonus	£(78)m	£(78)m
Other costs	£(127)m	£(149)m
<b>Total UK incremental costs<sup>1</sup></b>	<b>£(533)m</b>	<b>£(725)m</b>
<b>Business Rates Relief (England &amp; Scotland)</b>	<b>£249m</b>	<b>£532m</b>

1. Full-year assumptions based on internal plans as at end-August 2020 and highly likely to change.

2. Safety consumables includes costs for masks, hand sanitiser, wipes, other GSNFR and additional use of carrier bags in online operations.



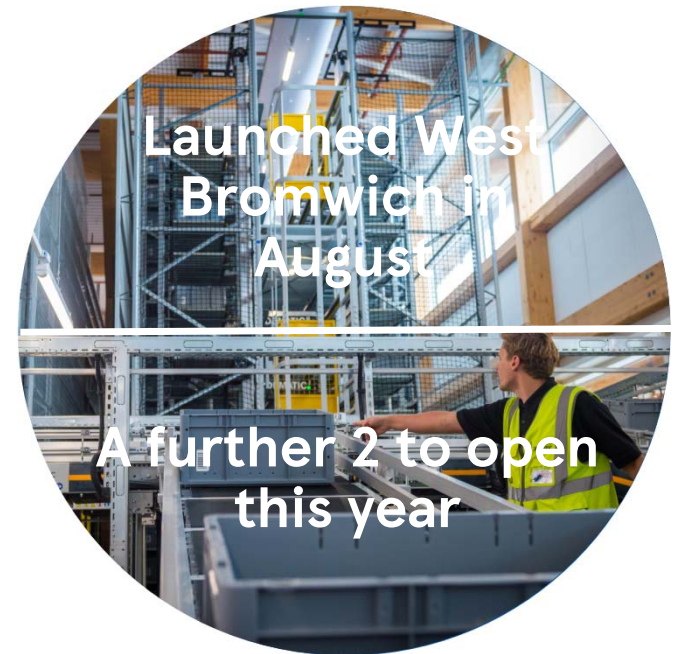
# Online



More than doubled capacity



Improved productivity



Additional opportunity through UFCs

# Booker



#1 Retailer  
#1 Delivered Wholesale  
#1 Caterer  
#1 Cash & Carry

Strong market positions



c.£1bn  
additional sales

**Best.**  
Food Logistics

Best Food Logistics  
acquisition completed



Bulk Buys  
Bulk buys in 300 stores

Started roll-out of Jack's products

Top-up at Tesco for caterers

Joining Forces

# Central Europe

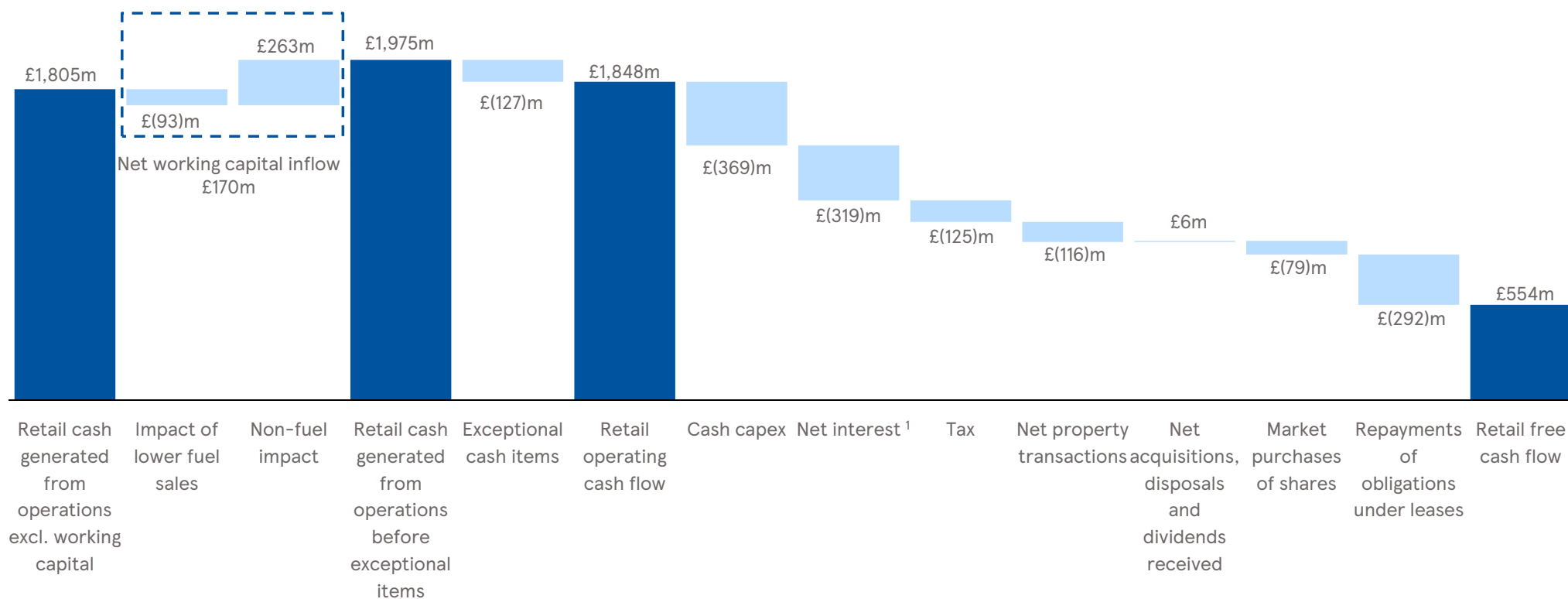
- Changes to customer shopping behaviour similar to UK
  - Strong online grocery demand
  - Shift in sales to more essential items
- Highly competitive markets with significant competitor price activity
- Positive underlying profit performance +4%, held back by:
  - Incremental COVID-19 costs
  - Temporary mall closures
  - Hungarian sales tax introduced in May

	1H 20/21
<b>Sales<sup>1</sup></b>	£1,929m
change at actual rates %	(4.3)%
change at constant rates %	(1.5)%
<b>Operating profit<sup>2</sup></b>	£59m
change at actual rates %	(23.4)%
change at constant rates %	(23.4)%
Margin (%)	3.0%

1. Sales exclude VAT and fuel. Sales change shown on a comparable days basis.

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

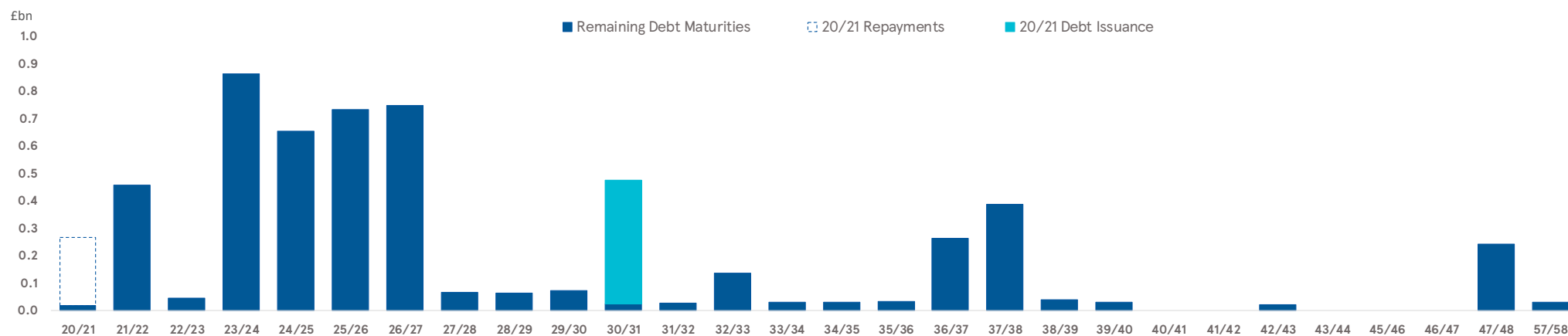
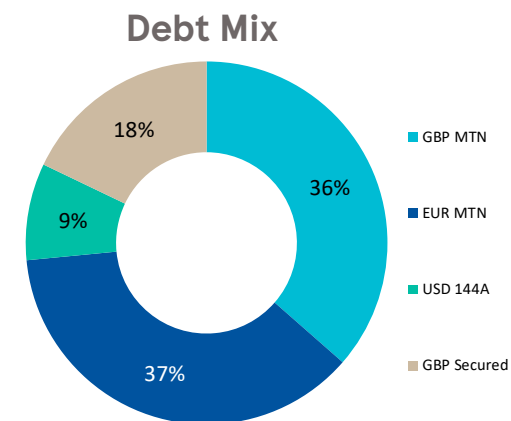
# Sources and uses of cash



1. Net interest paid of £(319)m includes £(228)m of interest related to finance lease obligations.

# Liquidity and debt profile

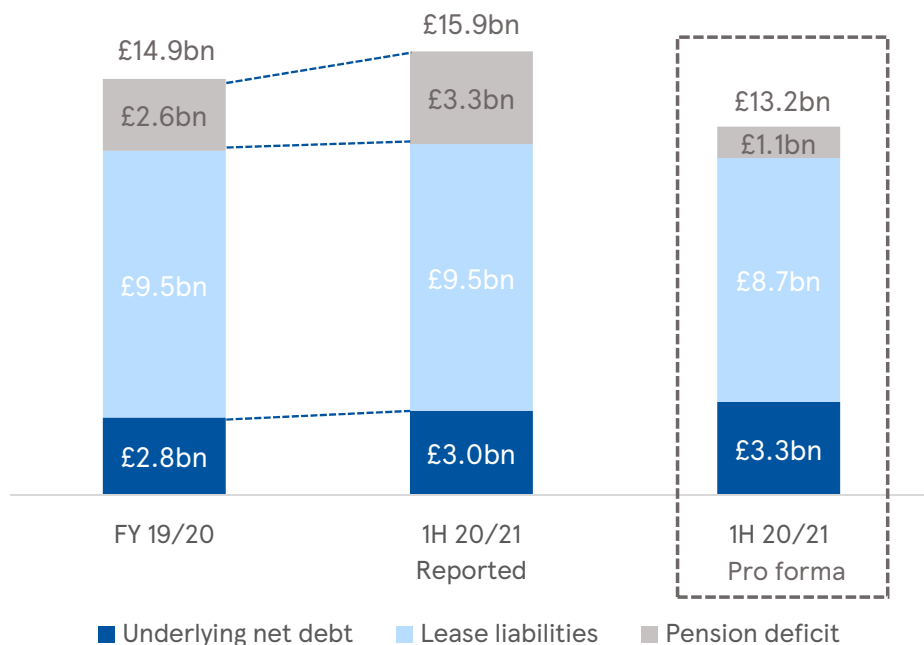
- Actions taken in 1H:
  - Early redemption of EUR 20 (£0.2bn)
  - Issued 10 year GBP £0.5bn (2.75%)
  - Committed facilities refinanced at £2.5bn for three years
- Significant cash liquidity of £2.0bn<sup>1</sup>



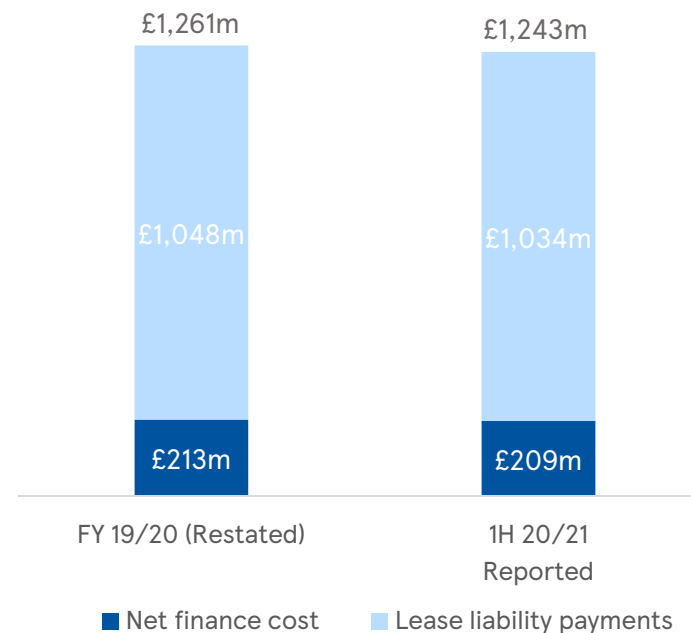
1. Cash and cash equivalents plus short term investments less reported overdraft (figure excludes Tesco Bank and discontinued operations).

# Credit Metrics

## Total indebtedness<sup>1</sup>



## Fixed Charge<sup>2</sup>



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. Fixed Charge comprises net finance cost excluding net pension finance cost, exceptional items, capitalised interest, fair value remeasurements of financial instruments and finance charges payable on lease liabilities plus retail total lease liability payments. FY 19/20 (Restated) and 1H 20/21 Fixed Charge is reported on a continuing operations basis.

# Credit Ratings

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

## Moody's (May 2020)

“Tesco’s issuer rating reflects the company scale, in particular as the market leader in the UK, and the sustained recovery in its operating metrics and profitability since the lows of 2015. This was achieved, despite a backdrop of an intensely competitive environment in the UK grocery market, due to the success of a renewed strategic focus on competitiveness”

# Sales of Thailand, Malaysia and Poland businesses

Asia disposal	<p>£8.0bn of net cash proceeds<sup>1</sup></p> <p>Approved by shareholders in May</p> <p>Regulatory approval and sale completion due by end of calendar year</p> <p>Followed immediately by shareholder meeting to approve return of capital</p>
Poland disposal	<p>c.£165m of proceeds<sup>2</sup> on completion</p> <p>Additional proceeds of c.£140m expected in 2021 from sale of residual properties</p> <p>Expected to complete by Spring 2021</p>

1. Under the terms of the disposal, net cash proceeds are expected to be \$10.3 billion (equivalent to £8.0 billion) before tax and other transaction costs. For more detail see Shareholder Circular dated 22 April 2020.

2. Net proceeds, excluding 19 retained properties.



# Summary

- Strong top-line growth
- Significant additional COVID-19 costs in Retail business offset by volume and business rates relief
- Strong liquidity position
- Sales of Thailand, Malaysia and Poland businesses progressing well
- Strengthening customer offer; will continue to invest in value proposition in 2H

# Q&A.



# 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.22% for 2020/21; c.21% over medium term No deferral of 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 & Poland	Treated as discontinued operations for FY 2020/21

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

1. Before exceptional charges, IAS 19 net pension finance costs and IFRS 9 fair value remeasurements.



# Sale of businesses in Thailand & Malaysia

**9 March 2020**

Sale agreed

**22 April 2020**

Circular and notice convening first general meeting

**14 May 2020**

First general meeting

**2H 2020**

Competition approval

Sale completion

Notice convening second general meeting

Second general meeting

Share consolidation and special dividend paid

# Exceptional items

<b>On a continuing operations basis</b>	<b>1H 2020/21</b>	<b>1H 2019/20</b>
Net restructuring and redundancy costs	-	(39)
Impairment of investment in India joint venture	-	(47)
Property transactions	(2)	14
Booker integration costs	(2)	(6)
Provision for customer redress	-	(45)
Bank Transformation costs	-	(12)
UK - ATM business rates	105	-
Litigation costs	(93)	-
<b>Total exceptional items in statutory operating profit</b>	<b>8</b>	<b>(135)</b>

# Disclaimer

Certain statements made in this document are forward-looking statements. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. Phrases such as "aim", "plan", "intend", "should", "anticipate", "well-placed", "believe", "estimate", "expect", "target", "consider" and similar expressions are generally intended to identify forward-looking statements. Forward looking statements are based on current expectations and assumptions and are subject to a number of known and unknown risks, uncertainties and other important factors that could cause actual results or events to differ materially from what is expressed or implied by those statements. Many factors may cause actual results, performance or achievements of Tesco to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. Important factors that could cause actual results, performance or achievements of Tesco to differ materially from the expectations of Tesco include, among other things, general business and economic conditions globally, industry trends, competition, changes in government and other regulation and policy, including in relation to the environment, health and safety and taxation, labour relations and work stoppages, interest rates and currency fluctuations, changes in its business strategy, political and economic uncertainty, including as a result of global pandemics. As such, undue reliance should not be placed on forward-looking statements. Any forward-looking statement is based on information available to Tesco as of the date of the statement. All written or oral forward-looking statements attributable to Tesco are qualified by this caution. Other than in accordance with legal and regulatory obligations, Tesco undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.