



Tesco Interim Results 2021/22.

Ken Murphy, Chief Executive Officer
Imran Nawaz, Chief Financial Officer

6 October 2021



Agenda.

01. Introduction

02. Financial performance

03. Strategic priorities and
performance framework

04. Q&A

12 months of progress.

Growing UK market share

Improved customer satisfaction across all areas

Strongest price position¹ for five years

Expanded Aldi Price Match to c.650 products

Rolled Clubcard Prices out to all stores

Gained customer missions² from competitors each period

Driving digital platform forward

Added £2.8bn annual online sales

Gained 700,000 online customers

Doubled the proportion of Click & Collect

Increased Clubcard to >20m households

More than doubled regular app users to 6.6m

Continued leadership in ESG

Launched new Group Health & Climate commitments

Removed 1 billion items of plastic packaging

Launched soft plastic recycling in all large stores

Launched UK's biggest electric car charging network

Donating 3m meals via 'Buy One to Help a Child' campaign

1. Shelf price index vs Aldi, Lidl, Sainsbury's, Morrisons and Asda; the index is weighted by sales and market share to reflect customer importance and competitor size

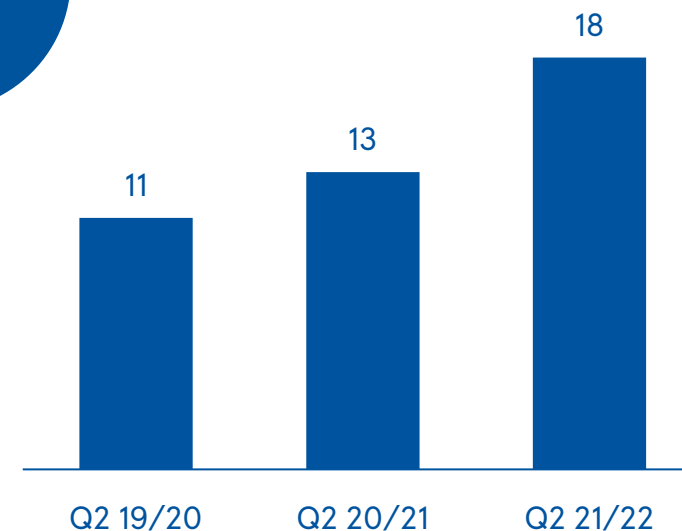
2. Kantar switching gains 12 w/e for the last 12 periods

Increased customer satisfaction.

Customer shopping metrics¹

Easy Shopping Trip	Total Business	YoY
Ease of shop	86.7%	+4.8%
Clean and tidy	88.3%	+0.8%
Get what I want	79.7%	+1.9%
Prices are good	74.9%	+4.9%
I don't queue	83.4%	+3.0%
Colleagues are helpful	83.9%	+1.0%

Brand NPS²



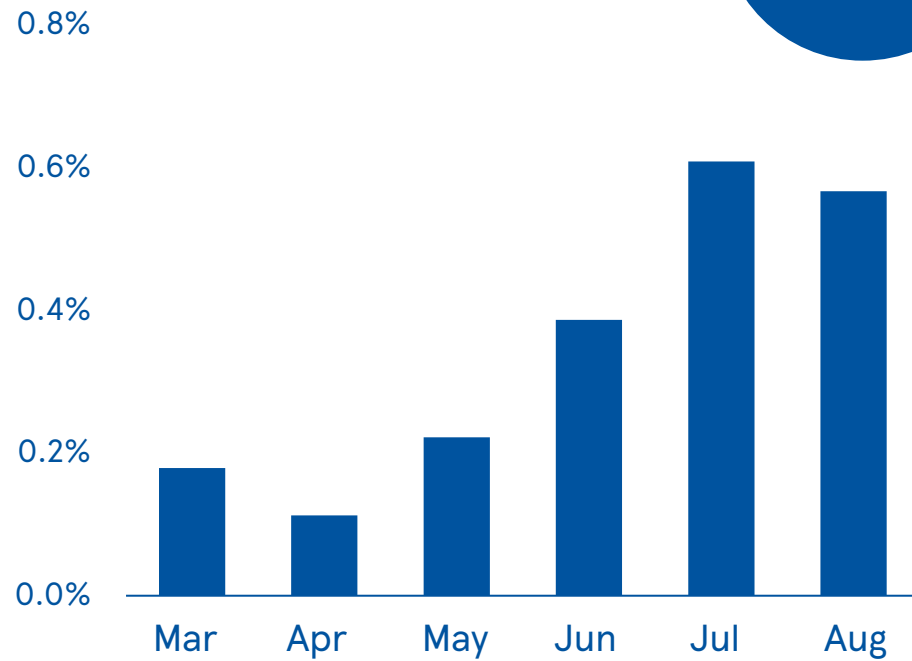
1. UK Multichannel Tracker. Total UK Business %s represent 3 period rolled data to P6 2021/22.

2. BASIS Global Brand Tracker. Chart represents responses to the question: "How likely is it that you would recommend the following company to a friend or colleague?"

Market share gains.

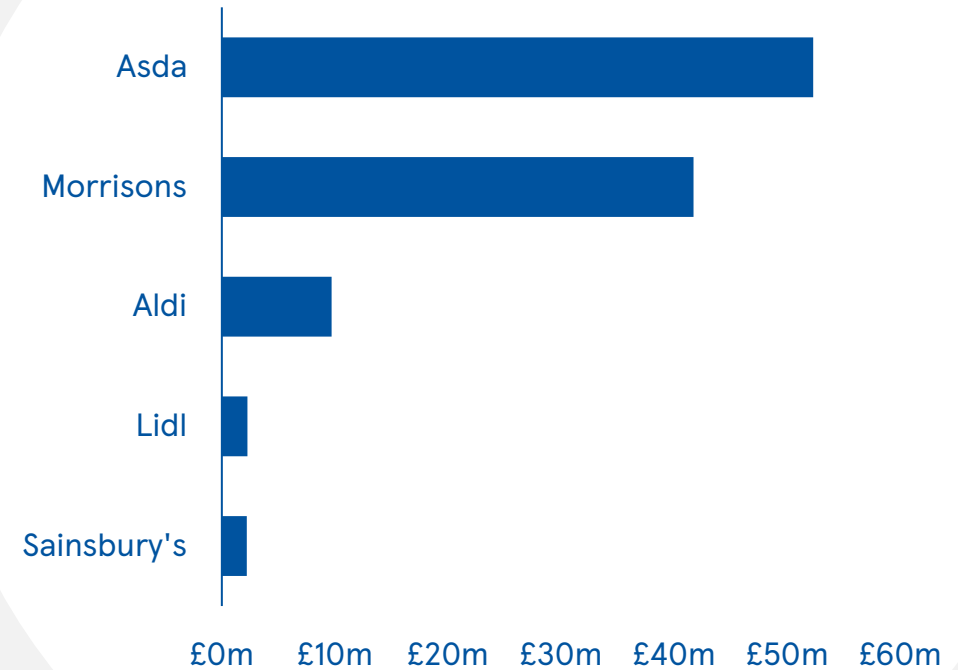
YoY market share

Market share gains¹



Switching gains

Gaining from all key competitors²



1. Kantar Total Tesco year-on-year market share gains of Grocers Total Till Roll on 12 week rolling basis.

2. Kantar switching gains 12 w/e 5 September 2021.

Creating value for shareholders.

Strategic priorities set out

Multi-year performance framework in place

- Driving growth
 - Generating £1.4bn – £1.8bn retail free cash flow per year
-

Capital allocation refreshed

£500m buyback announced

H1 Results.

Imran Nawaz



Introduction.

Joined a brilliant business

Refreshed capital allocation framework

Announced ongoing share buyback programme

Driving transparency and simplicity in all we do

Group performance.

Sales¹

+3.0%

+10.0% vs. 19/20

Group profit²

£1,458m

+41.0% vs. last year

Retail free cash flow³

£1,543m

+£0.7bn vs. last year

Dividend

3.20p

in line with last year

EPS⁴

11.22p

+54.0% vs. last year

Net debt

down £1.7bn

1. Sales exclude VAT and fuel. Sales change shown at constant rates.

2. Operating profit before exceptional items and amortisation of acquired intangibles. Change shown at constant rates.

3. We have amended the definition of our retail free cash flow APM in order to provide a more consistent and predictable view of free cash flow generated by the core retail operation. It now excludes cash flows from business acquisitions and disposals, investments in joint ventures and associates, cash flows from the sale or buyback of property, and other exceptional cash flows.

4. The share base used in adjusted diluted EPS in the prior year is restated to capture the full impact of the share consolidation which followed the sale of our businesses in Thailand and Malaysia, as if it took place at the start of the 2020/21 financial year. As such, this metric is presented on a basis other than in accordance with IAS33.

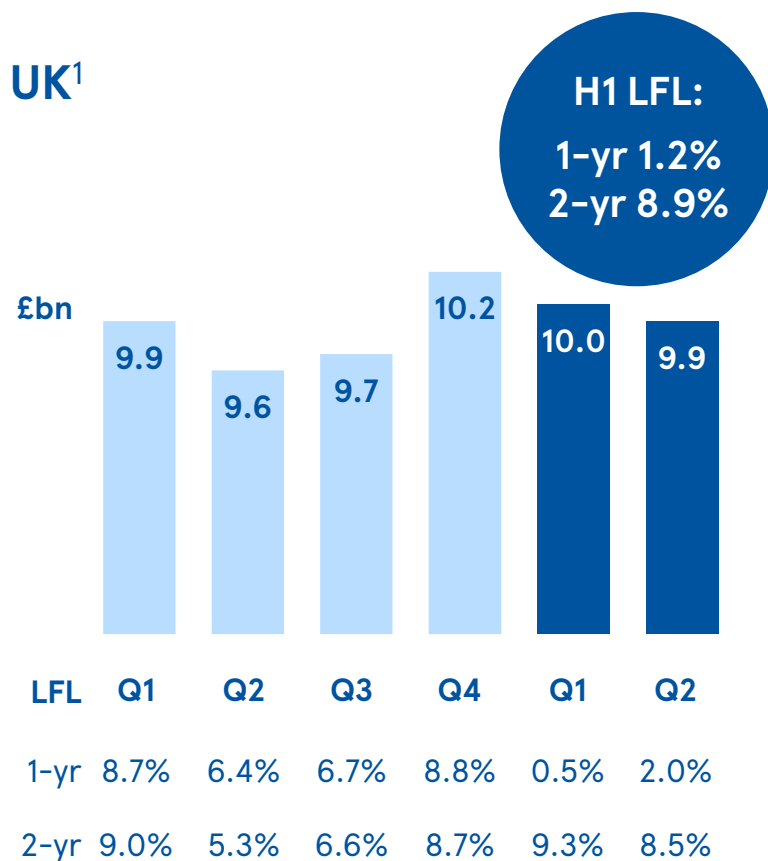
Segmental performance.

	Sales	Change at constant rates	One-year LFL	Two-year LFL ¹	Adjusted operating profit ²	Change at constant rates	Margin
UK & ROI	£24,993m	2.9%	2.4%	9.1%	£1,318m	16.5%	4.7%
Central Europe	£1,905m	2.6%	1.4%	0.3%	£68m	18.6%	3.4%
Total Retail	£26,898m	2.9%	2.3%	8.4%	£1,386m	16.6%	4.6%
Bank	£433m	12.2%	-	-	£72m	146.5%	16.6%
Group	£27,331m	3.0%	2.3%	8.4%	£1,458m	41.0%	4.8%

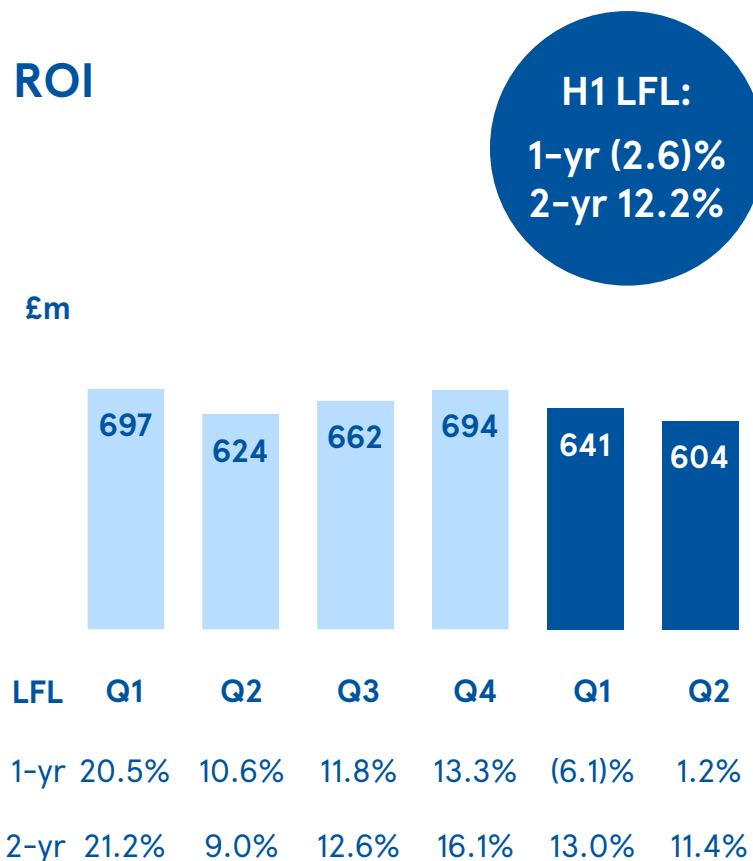
1. Two-year LFL sales growth is calculated by comparing current year sales to sales in 2019/20, including sales from those stores which were trading in both years.
2. Operating profit before exceptional items and amortisation of acquired intangibles.

UK & ROI sales.

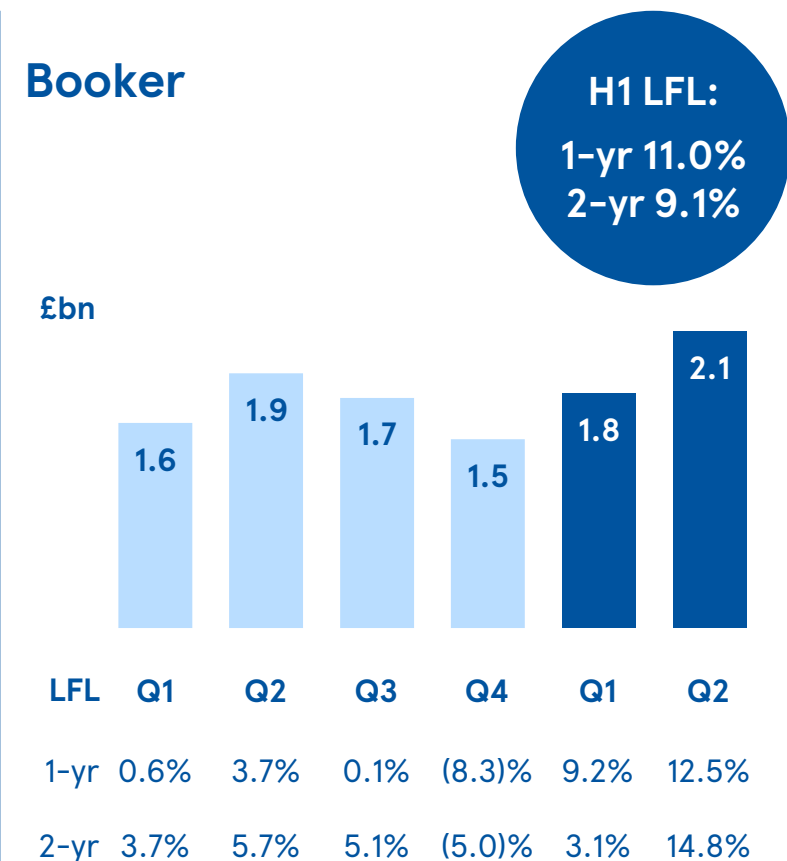
UK¹



ROI



Booker

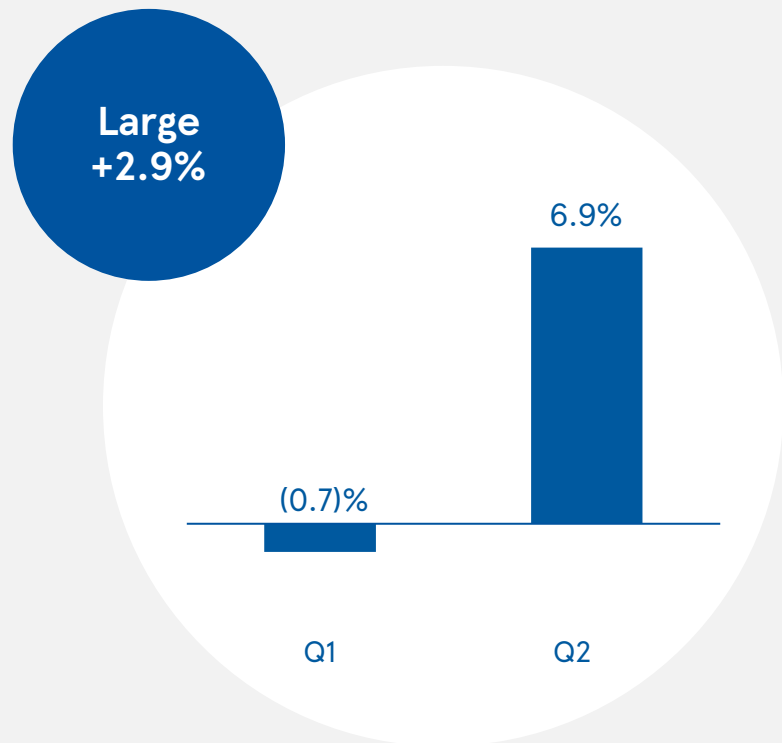


2020/21 2021/22

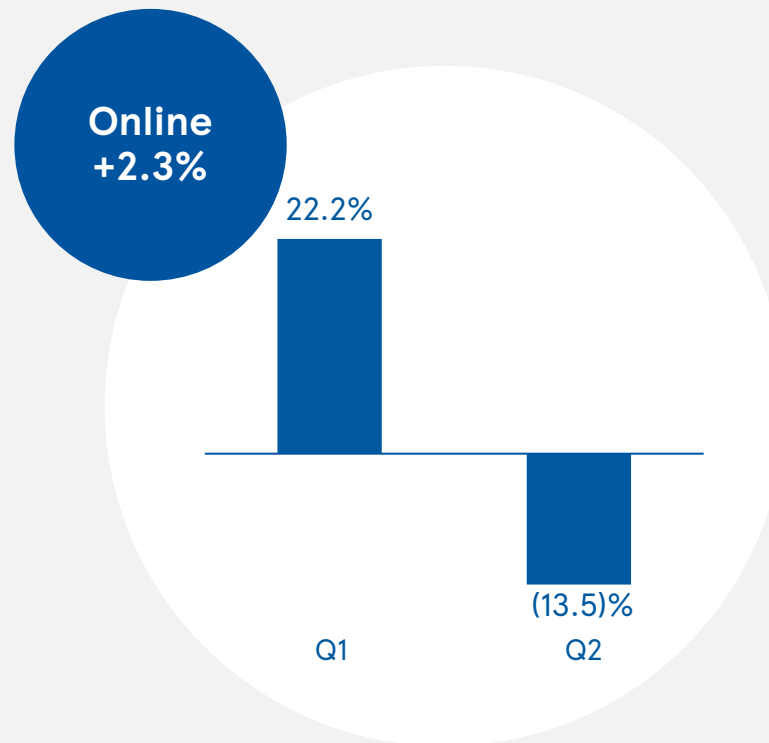
1. UK includes Tesco UK retail business, One Stop and dunnhumby.

UK sales.

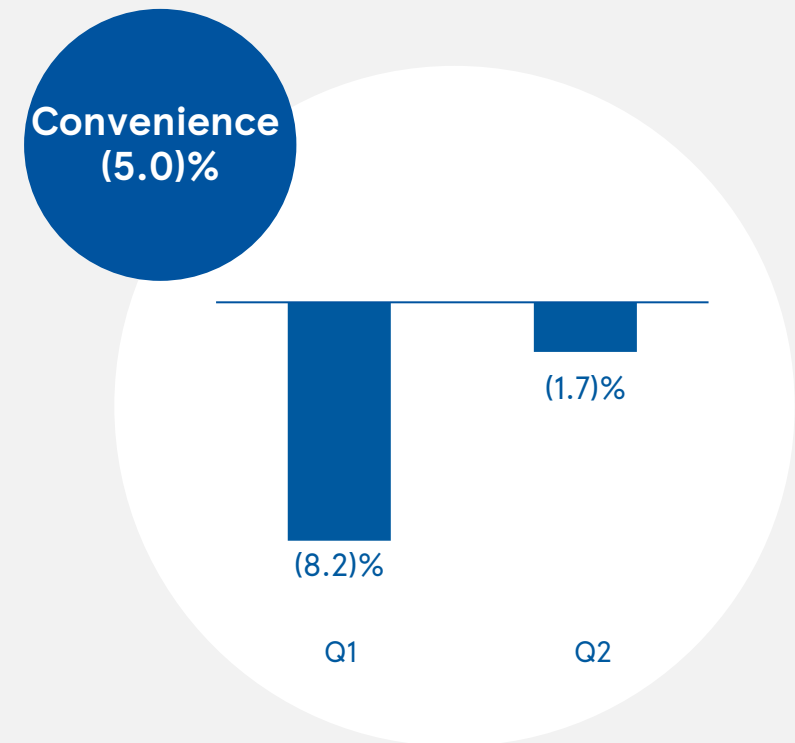
One-year like-for-like sales by channel



**Strong large store growth
in Q2**



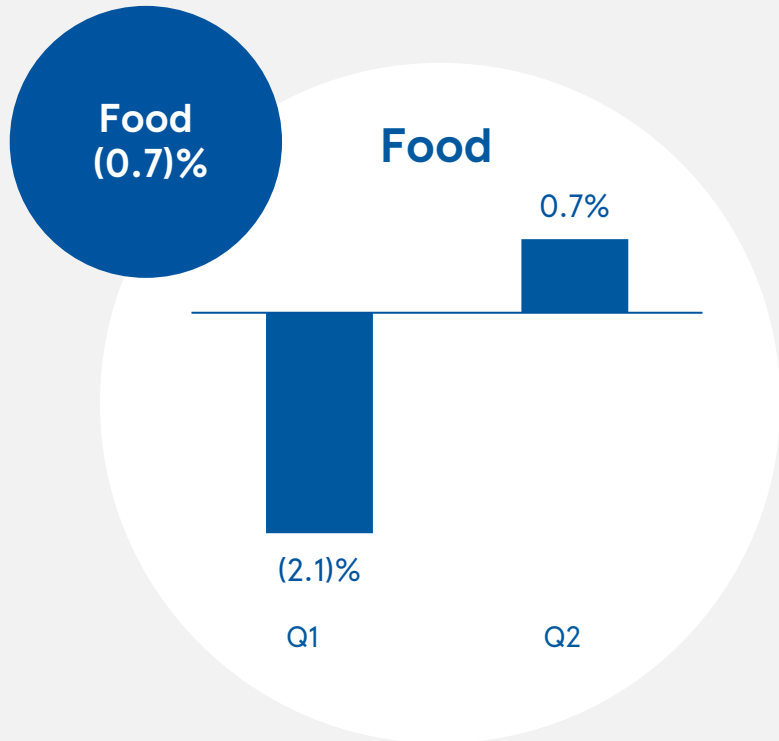
**Q2 online performance reflects
capacity ramp-up last year**



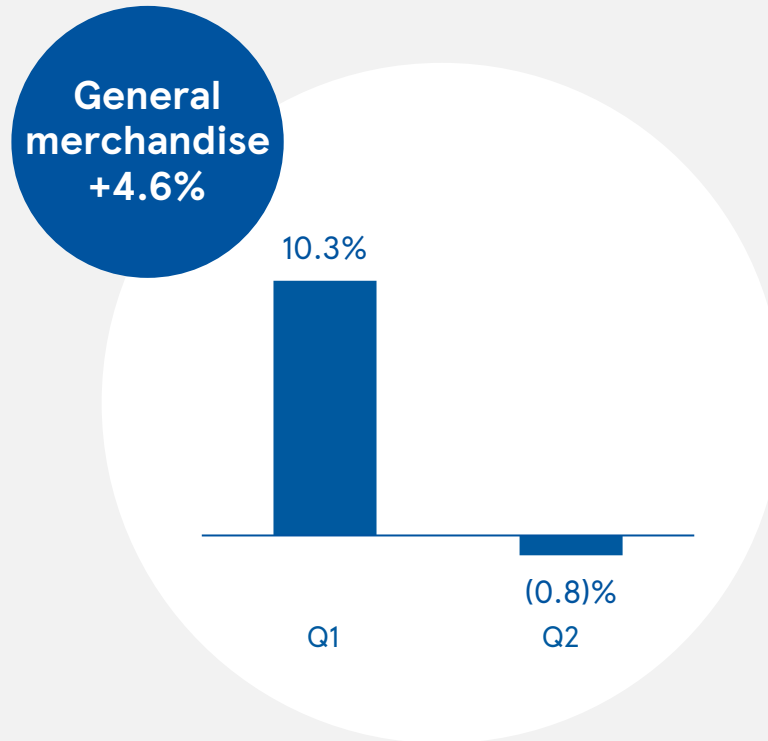
**Strengthening sales reflects
improved 'city centre' stores**

UK sales.

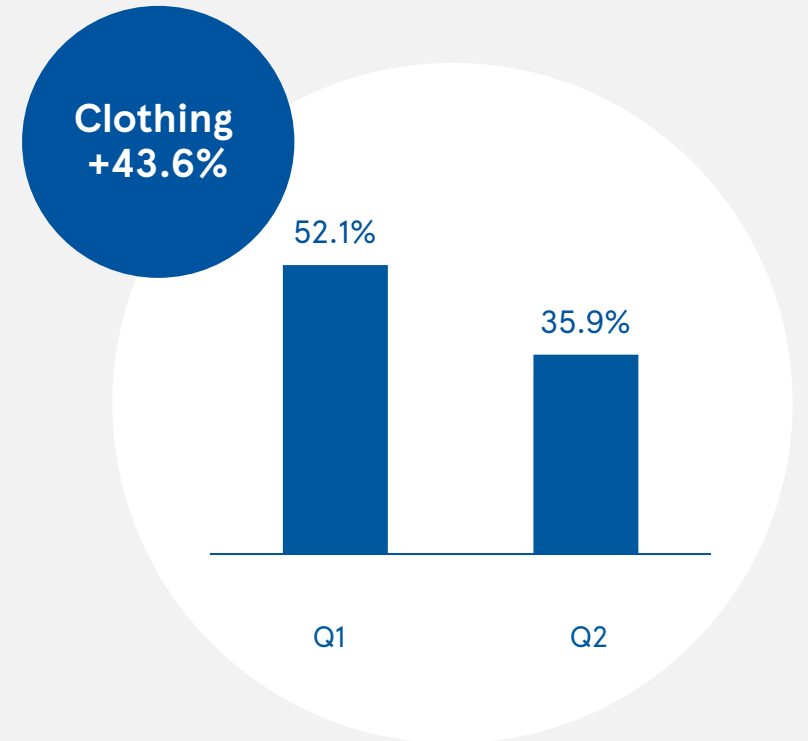
One-year like-for-like sales by category



Food growing in Q2 with stockpiling impact in Q1 last year



High contribution from general merchandise in Q1



Very strong clothing sales as customers reappraise offer

ROI.

Exceptional growth on a two-year basis across all categories and channels

One-year performance reflects particularly high impact of stockpiling LY

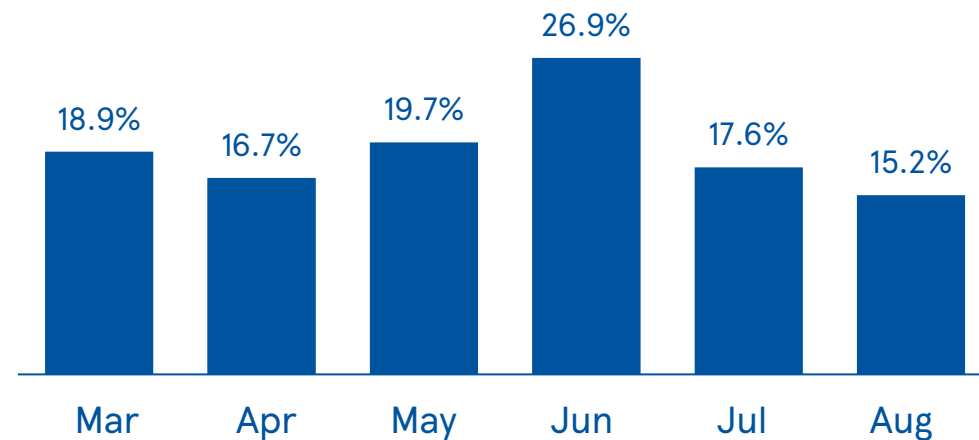
Clear market leader in online

- Grown market share
- Increased geographic coverage
- Expanded Click & Collect from 28 to 36 stores

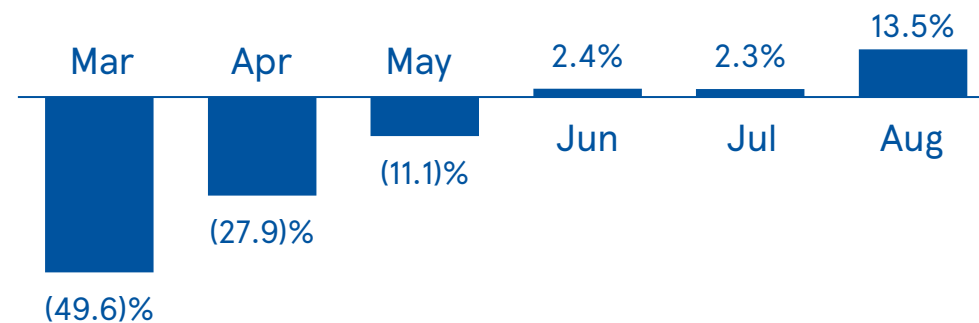
		One-year LFL	Two-year LFL
Channel	Total	(2.6)%	12.2%
	Stores	(3.8)%	8.9%
	Online	10.8%	74.8%
Category	Food	(3.4)%	12.1%
	GM	(5.4)%	17.4%
	Clothing	11.5%	11.3%

	Sales	1-yr LFL	2-yr LFL
Total	£3,865m	11.0%	9.1%
Retail	£2,392m	(2.8)%	19.4%
Catering	£1,352m	54.4%	(11.6)%
Booker Catering	£802m	37.5%	(11.6)%
Best Food Logistics	£550m	89.3%	n/a

Retail two-year LFL



Catering two-year LFL



Central Europe.

One-year LFL sales growth +1.4%

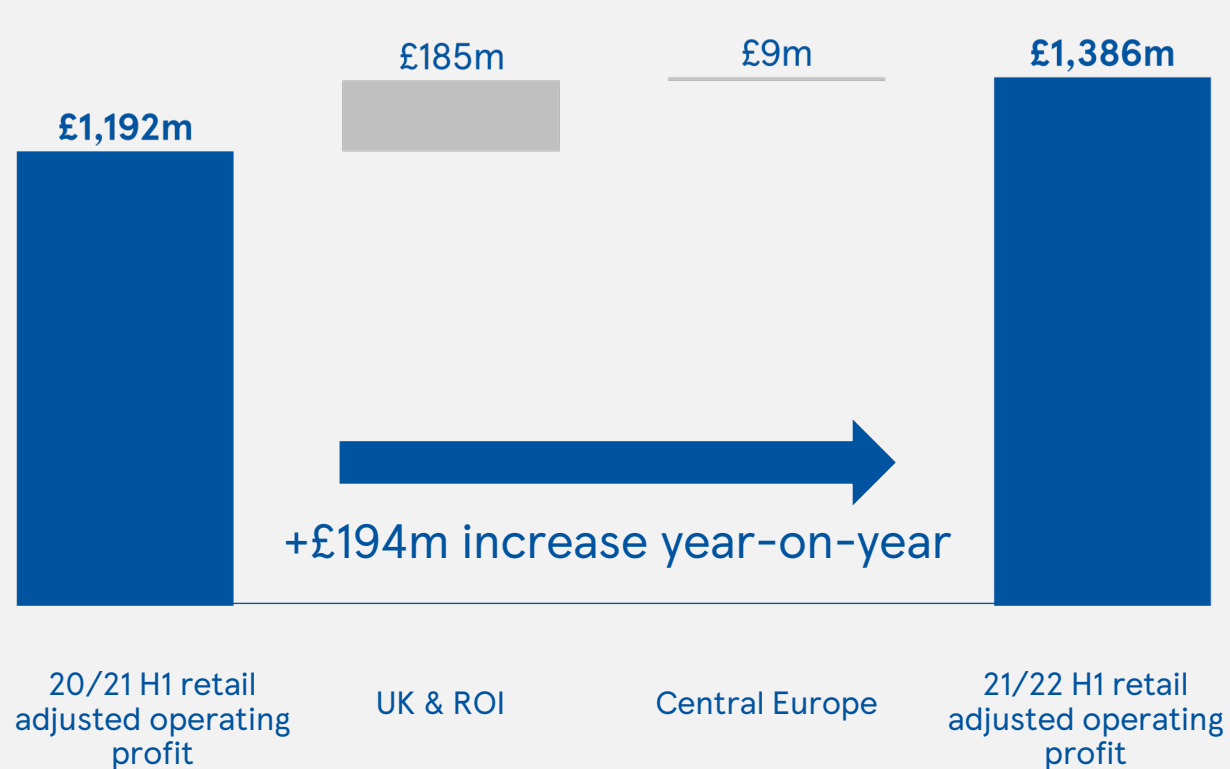
- Strong Hungary and Slovakia performance
- Non-food restrictions impacting Czech Republic in Q1

All markets growing in Q2 as customers returned to large stores

Market-leading online positions in Slovakia and Hungary

		One-year LFL	Two-year LFL
Channel	Total	1.4%	0.3%
	Stores	0.7%	(1.1)%
	Online	24.7%	118.0%
Category	Food	(0.9)%	(0.5)%
	GM	8.2%	5.8%
	Clothing	24.0%	13.2%

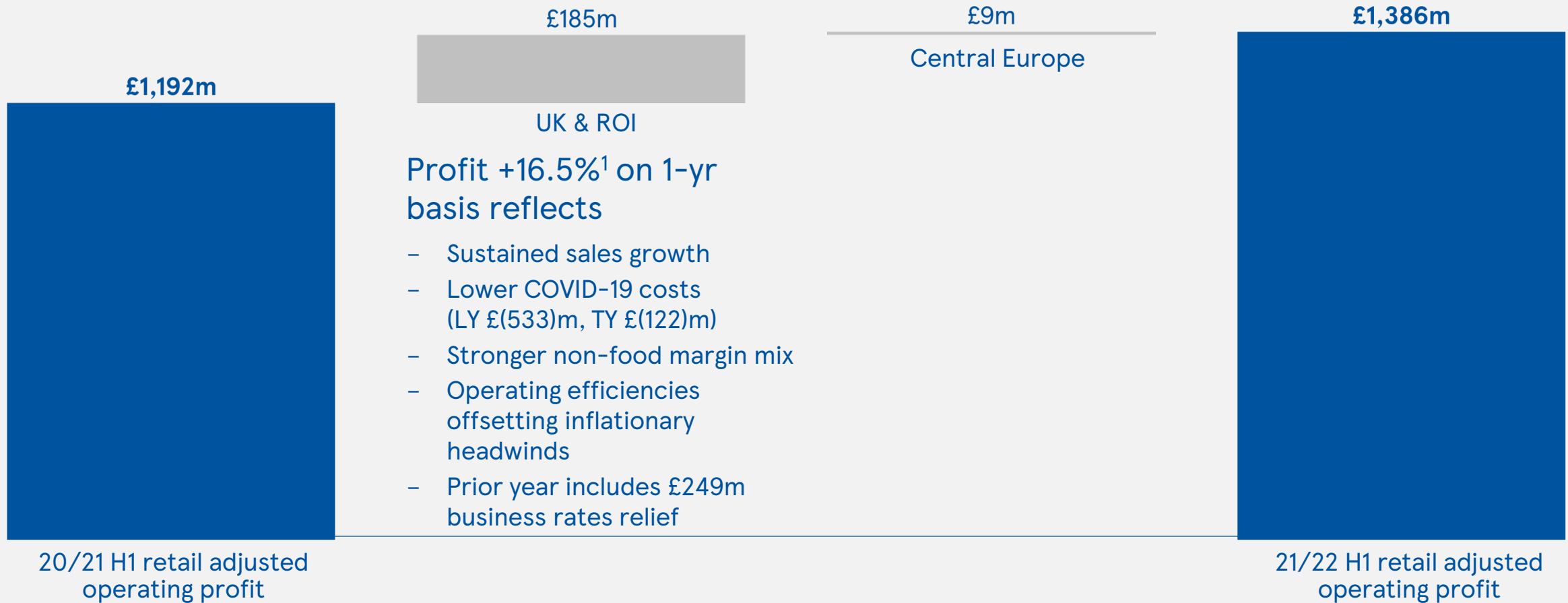
Retail operating profit.



	UK & ROI	CE	Retail
Adjusted operating profit	£1,318m	£68m	£1,386m
Change ¹ %	16.5%	18.6%	16.6%
Margin (%)	4.7%	3.4%	4.6%

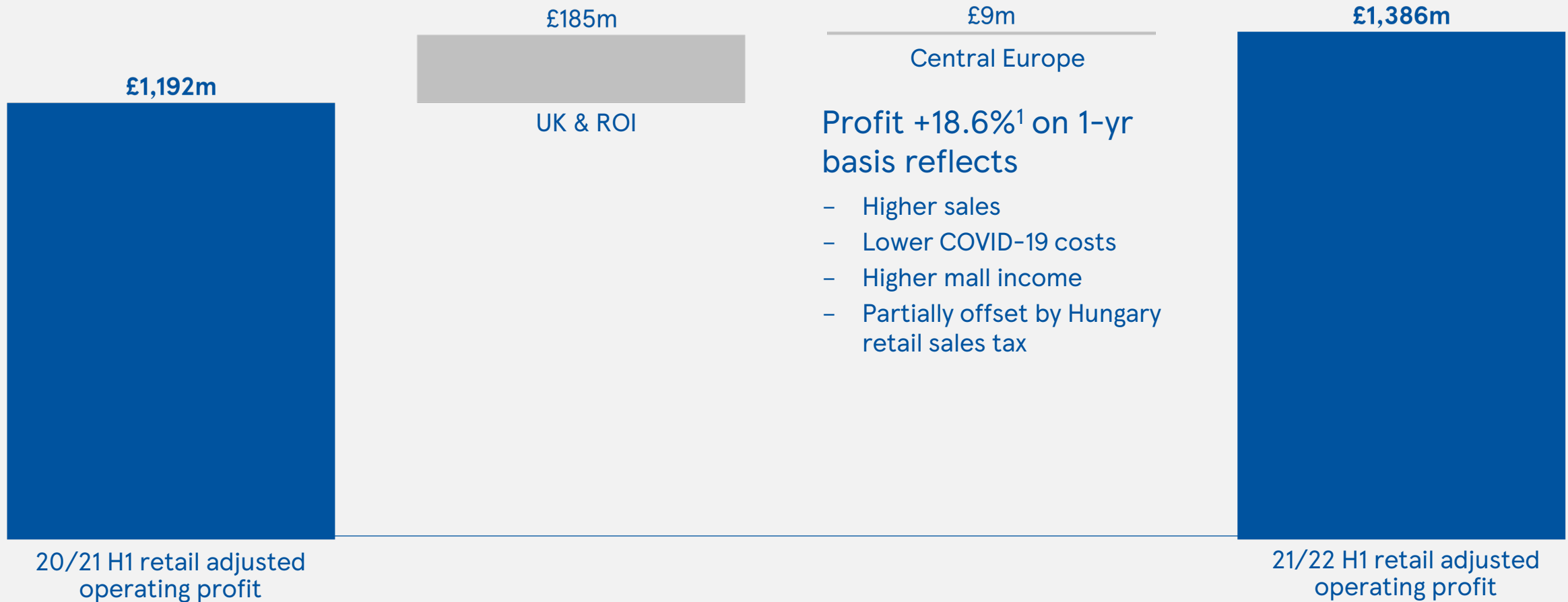
1. Change shown at constant rates.

Retail operating profit – UK & ROI.



1. Change shown at constant rates.

Retail operating profit – Central Europe.



1. Change shown at constant rates.

Tesco Bank.

Return to profitability

- Prior year reflects COVID-19 impact on provision for potential bad debts
- Includes Tesco Underwriting contribution

Balance sheet remains strong

New products and services for customers, inc. Clubcard Pay+ and travel insurance re-launch

	H1 21/22	H1 20/21
Operating profit	£72m	£(155)m
Net interest margin	5.1%	4.6%
Cost:income ratio	71.3%	67.9%
Tier 1 capital ratio	23.9%	21.6%
Bad debt coverage ratio	8.3%	8.2%

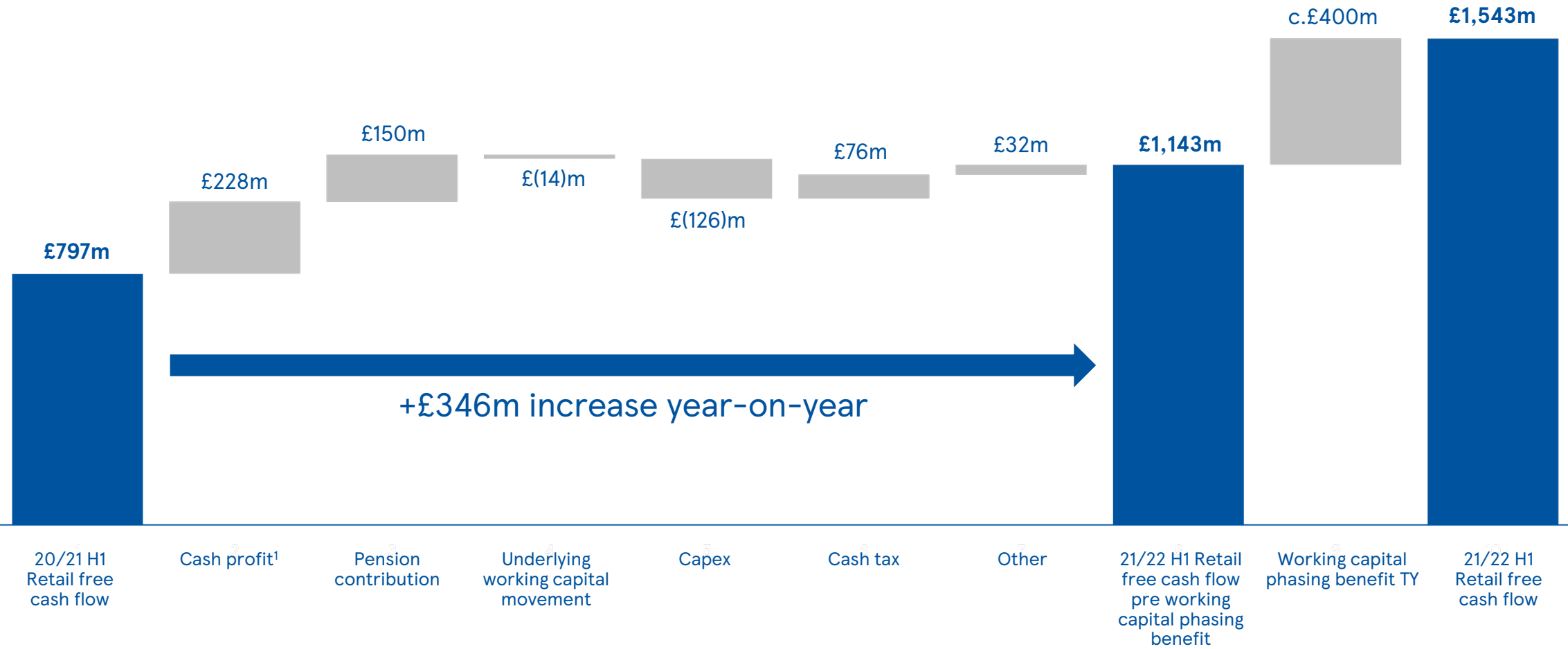
Statutory profit after tax.

	H1 21/22	H1 20/21	Change %	
Adjusted operating profit	£1,458m	£1,037m	40.6%	
Exceptional items & amortisation of acquired intangibles	£(154)m	£(30)m		This year's number includes £(193)m of historic shareholder litigation claims
Net finance costs	£(158)m	£(469)m		
<i>Net finance costs before FV remeasurements</i>	<i>£(338)m</i>	<i>£(361)m</i>		Actively managing our debt portfolio enabling us to achieve lower rates of interest
<i>FV remeasurements</i>	<i>£180m</i>	<i>£(108)m</i>		Fair value remeasurement credit this year vs. debit last year, in relation to inflation linked swaps
Joint ventures and associates	£(3)m	£13m		YoY change driven by acquisition of partner's stake in Tesco Underwriting in May 2021
Group tax	£(313)m	£(154)m		Reflects higher operating profit and deferred tax revaluation due to corporation tax change
Statutory profit after tax	£830m	£397m	109.1%	

Retail free cash flow.

	H1 21/22	
Retail cash generated from operations exc. working capital	£2,183m	
Underlying working capital benefit	c.£156m	Working capital inflow driven by significant recovery in fuel & Booker catering sales
Working capital phasing benefit	c.£400m	Expected unwind in second half
Retail operating cash flow	£2,739m	
Cash capex (exc. buybacks)	£(495)m	Cash capex on track for full year guidance
Net interest	£(314)m	Comprises lease interest of £(207)m and £(107)m interest on debt
Tax paid	£(49)m	Cash tax paid reflects ongoing benefit from one-off pension contribution in prior year, utilisation of prior year losses and super-deduction on capital investments
Dividends	£3m	Dividends received from UK property joint ventures
Market purchase of shares (net of proceeds)	£(55)m	Purchase of own shares to offset dilution from colleague awards
Repayments of obligations under leases	£(286)m	Settlement of capital element of lease liabilities
Retail free cash flow	£1,543m	Simplified definition of retail free cash flow – better reflecting operational cash performance

Retail free cash flow year-on-year.



1. Cash profit is defined as retail adjusted operating profit excluding the impact of depreciation & amortisation and other reconciling items.

Other cash items.

	H1 21/22	H1 20/21	
Retail free cash flow	£1,543m	£797m	
Acquisitions & disposals	£117m	£0m	Proceeds from sale of Polish business to Salling Group A/S in March
Property proceeds & purchases	£72m	£(116)m	Property inflow includes disposals primarily in Poland net of one store buyback
Exceptional cash items	£(107)m	£(127)m	Exceptional cash items include historic shareholder litigation settlements
Retail free cash flow after acquisitions, property & exceptionals	£1,625m	£554m	

Capital allocation.

Principles

1

Reinvest in business and customer offer

2

Maintain a solid investment grade balance sheet

3

Pay a progressive dividend

4

Consider inorganic growth opportunities that may arise

5

Return surplus cash to shareholders

Parameters

=>

Capex within range of £0.9bn to £1.2bn per year

=>

Target/maintain leverage at c.2.8-2.3 times Net debt¹/EBITDA

=>

Target a pay-out ratio of c.50% of earnings

=>

Include property buybacks where economically viable

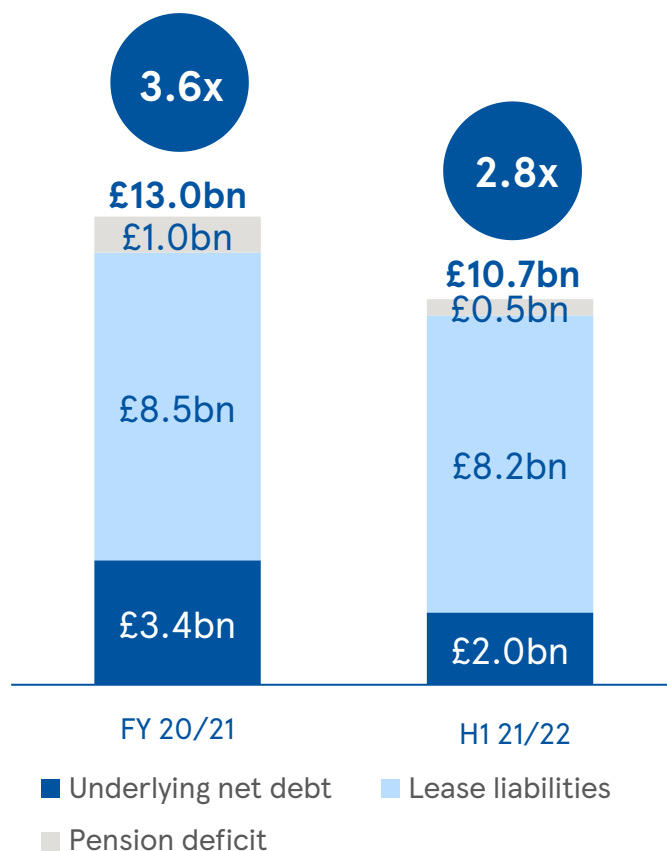
=>

Likely to be in the form of share buybacks

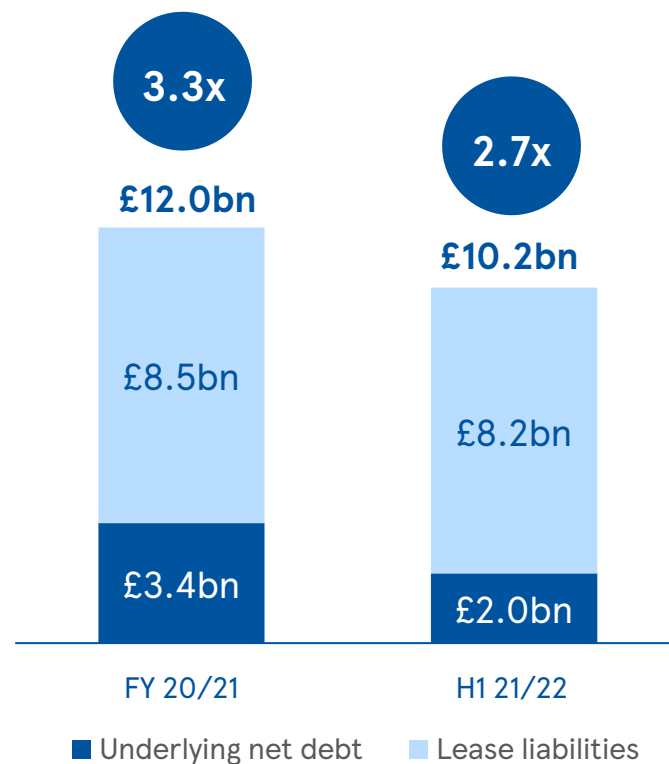
1. Net debt is inclusive of IFRS 16 lease obligations.

Balance sheet metrics.

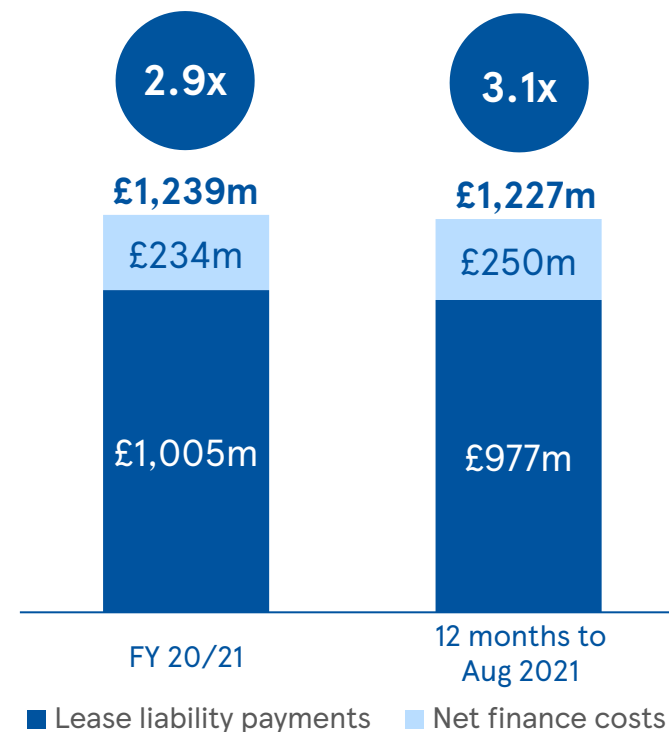
Total indebtedness¹



Net debt²



Fixed charge cover³



1. Total indebtedness post-IFRS 16 comprises net debt (inc. lease liabilities) plus the IAS 19 deficit in the pension schemes (net of tax) for both continuing and discontinued operations.

2. Net debt is inclusive of IFRS 16 lease obligations.

3. Fixed charge comprises net finance costs 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.

Guidance.

Retail profit	Now expecting to deliver between £2.5bn – £2.6bn in FY 21/22
Bank profit	Expect profitability of at least £120m in FY 21/22
Capex	£0.9bn-£1.2bn per annum
Net finance costs	c.3.5% of long-term debt p.a.
Leverage ratio	Targeting c.2.8 – 2.3 times Net debt ¹ /EBITDA
Tax	Effective tax rate c.23% for FY 21/22; 26% – 27% over medium term
Dividend	Progressive (broadly targeting c.50% of earnings) Interim dividend 35% of prior year full year dividend
Share buyback	Ongoing programme, with the first tranche of £500m in shares to be repurchased by no later than October 2022

1. Net debt is inclusive of IFRS 16 lease obligations.

Strategic priorities & performance framework.

Ken Murphy, CEO

Our strategic priorities.



**Magnetic
value for
customers**

Re-defining value to become
the customer's favourite



**I love my
Tesco
Clubcard**

Increase loyalty and access
new sources of revenue



**Easily the
most
convenient**

Incremental, capital
light growth



**Save to
invest**

A cost efficient retailer

Magnetic value for customers.



Great prices.



c.650
products



c.1,600
products



2,742
stores

Continuing investment in value proposition

Maintaining overall competitiveness

Sustaining promotions at lower levels

Committed to removing price as reason to shop elsewhere

High quality.



New
ranges



Finest*
innovation



Quality
promise

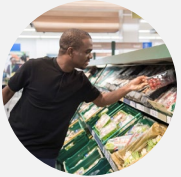
Led by a high quality fresh offer

Renewed focus on premium products

Innovating at pace with supplier partners

Protecting quality from farm to fork

Leading on health and sustainability.



530m more fruit & veg portions sold



Plant Chef (12)% price reduction¹

Launched health commitments across UK&ROI, Central Europe & Booker

Helping customers to achieve their 5-a-day

Extending ranges of healthier foods

Making healthy foods more affordable



Reuse launched in 10 stores



Soft plastic recycling in all large stores

Ambitious net zero goals across own operations (2035) & entire value chain (2050)

Removing, reducing, reusing and recycling packaging wherever we can

Creating the largest EV grocery home delivery fleet in the UK

Halving the environmental footprint of the average shopping basket



1. Average price investment across Plant Chef lines in the Meat, Fish, Poultry and Prepared categories; price matched by pack to a meat equivalent product.

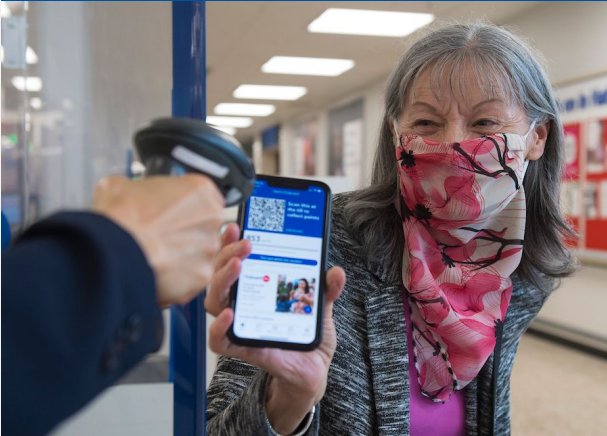
I love my Tesco Clubcard.



Migrating Clubcard to a digital platform.

Clubcard penetration¹

Large stores: 67% → 80%
All stores: 56% → 70%

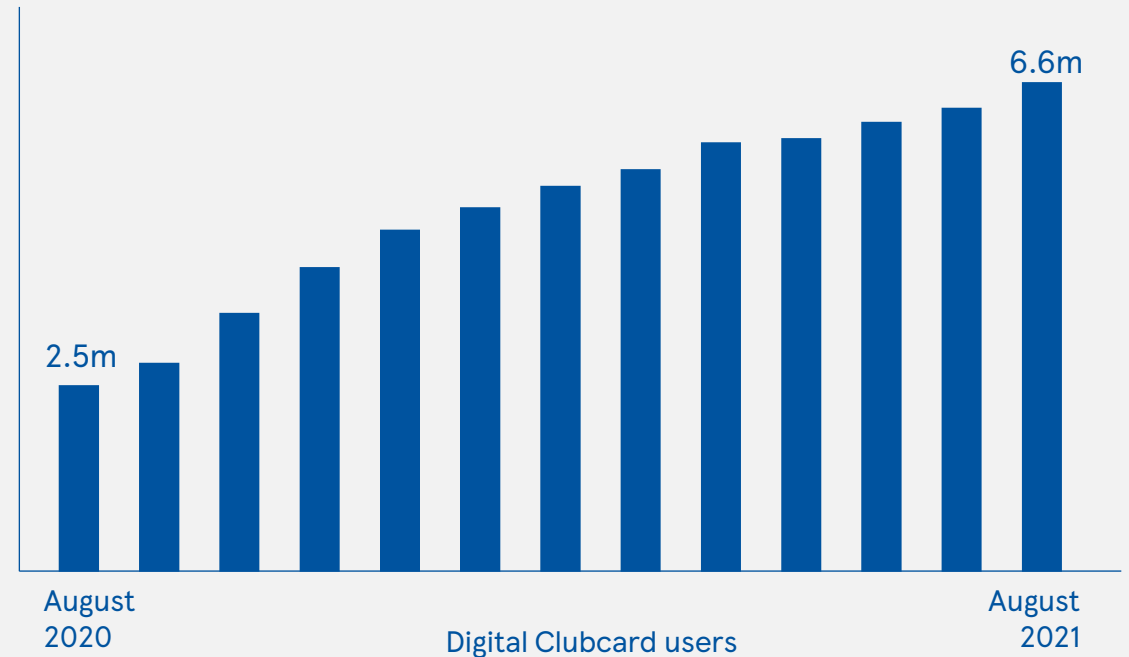


Improved Clubcard perception²

+5% Personalised to me

+8% Maximises the value of my points

Regular app users



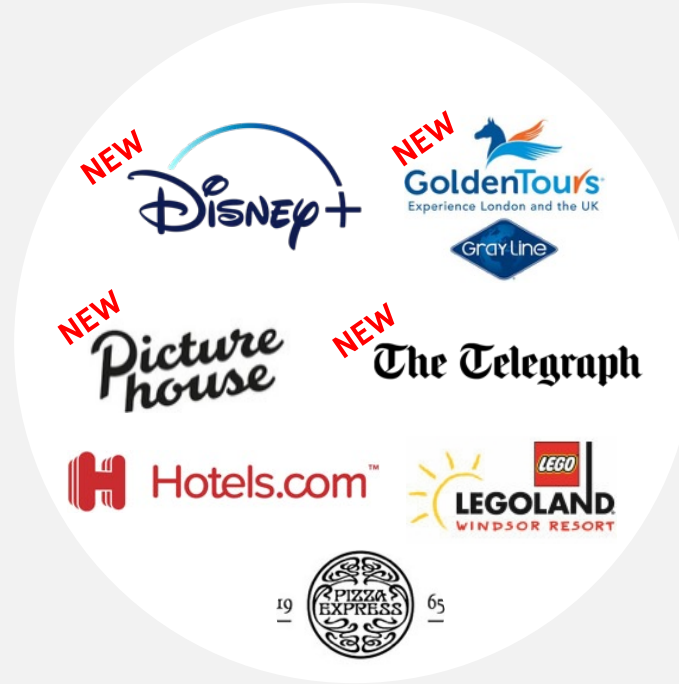
1. YoY Clubcard sales penetration in large stores and all stores (excl. PFS) from P6 2020 to P6 2021.

2. P6 Clubcard Loyalty Sentiment Tracker - YoY.

Increasing personalisation and reward.



Over 4.5 million
personalised offers



3x the value now
across all partners



Clubcard Prices now
on services

Powered by dunnhumby

Insight gained from >700m consumers

Analysing >18bn data records/week

Partnering with > 70 retailers in 29 markets

Driving joint growth for retail partners and
1,250+ consumer goods companies
including through media activation



L'ORÉAL



TESCO



MONOPRIX

metro

meijer

Raleys



DANONE

TESCO

Reinventing our supplier strategy.

New opportunity to access incremental income streams

Supporting our economics as we navigate profound shifts in retail

Competitive advantage created by combination of Clubcard, online grocery, apps & dunnhumby with unrivalled physical network

For suppliers:

- New marketing opportunities
- Offering tailored range of products direct to customers
- Improving innovation effectiveness



Easily the most convenient.



Accelerating online

Annual online sales already >£6bn

Sales growth on top of exceptional performance last year

Online market share > traditional

Unrivalled customer proximity










Click & Collect participation now 20%

UFC productivity benefits on track

	H1 21/22	Two-year
LFL sales		+74.1%
Orders/week	1.27m	+69.0%
Basket size	£94	+2.9%
% of UK sales	14.6%	+5.2% pts
Delivery saver subscribers	668k	+34%

Testing and learning on-demand.



	Proposition	Number of stores	Number of products on offer	Launch date	Delivery platform	Delivery charge
	Within an hour	>50	c.1,700	May 2021	Tesco App and GHS website	£5
	As quick as 20 mins	c. 450	c.800	December 2020		£2-£3 on average
	Varies by Booker customer	Varied	Varied	Varied	    	Varies by store and platform

Enhancing our physical network.

Store
conversions

TESCO
Metro



TESCO
express

89 stores

Now in
1,941
Express
stores



Openings
this year

35 **TESCO**
express

c.100

one|stop

350+

Budgens **Londis**
Premier

Save to invest.



Realising cost savings.

Aim to at least offset cost inflation

Significant opportunities to simplify, be more productive and reduce costs

- More cost-efficient goods not for resale
- Improved productivity
- Optimising our delivery network
- Reducing central overheads

Leveraging Tesco Business Services

Automating processes and routines

c.£1bn savings identified



Creating long-term, sustainable value.



**Magnetic
value for
customers**

**Doing the basics brilliantly
& efficiently**



**Save to
invest**



**I love my
Tesco
Clubcard**

**Growth through unbeatable digital,
convenience & loyalty platforms**



**Easily the
most
convenient**

Multi-year performance framework.

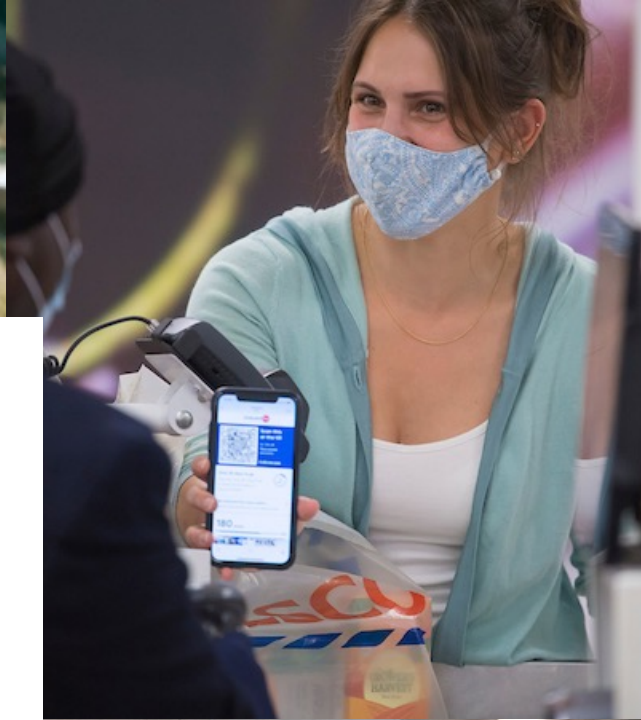
Drive top-line growth, underpinned by:

- Increasing customer satisfaction relative to the market
- Growing or at least maintaining our core UK market share

Grow absolute profits whilst maintaining sector-leading margins through:

- Leveraging our assets efficiently across all channels
- Accessing new revenue streams across our digital platform
- Targeting productivity initiatives to at least offset inflation

In doing so, generate between £1.4bn and £1.8bn retail free cash flow per year



**Serving our customers,
communities and planet
a little better every day.**





Summary.

Strong performance to date leading to increased full-year guidance

Strategic priorities to enhance competitiveness, accelerate growth and generate cash

A clearer investment proposition, underpinned by ongoing capital returns

Aim to create sustainable long-term value for every Tesco stakeholder

Serving our customers, communities and planet a little better everyday

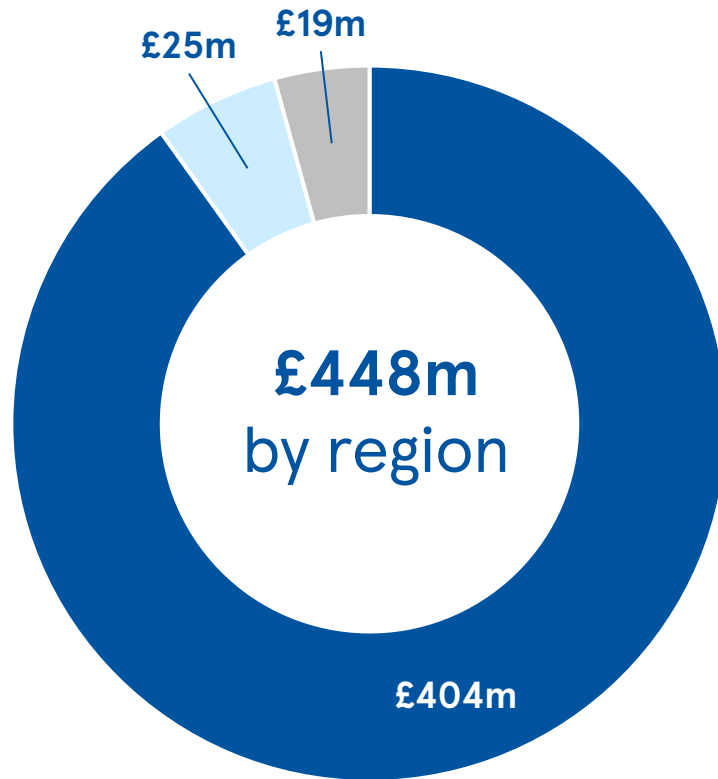
Q&A.



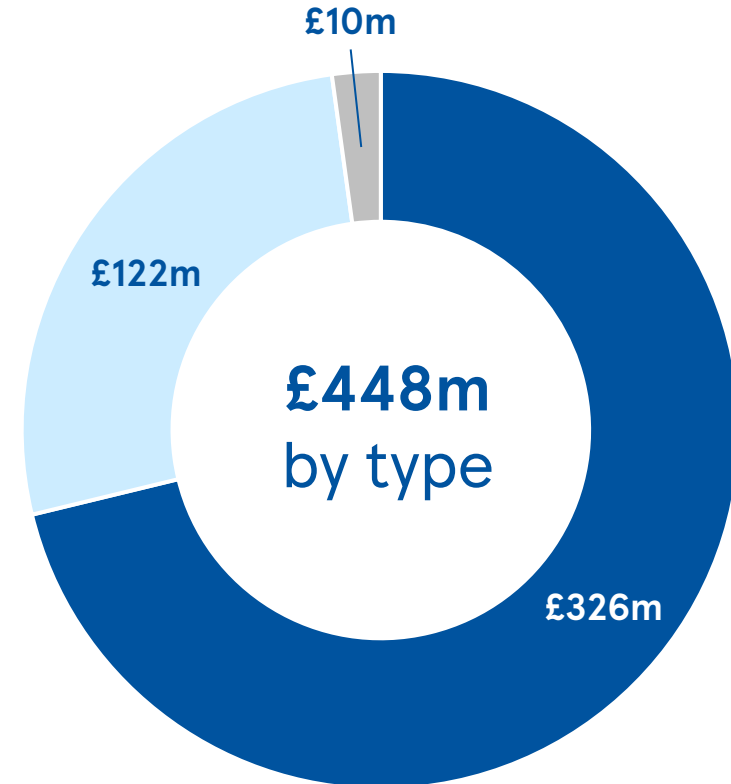
Appendix.



Capital expenditure – H1 21/22.



■ UK & ROI ■ 3 CE ■ Bank



■ Asset Replacement ■ Returning ■ New Space

Debt and liquidity.

Debt
maturity
profile

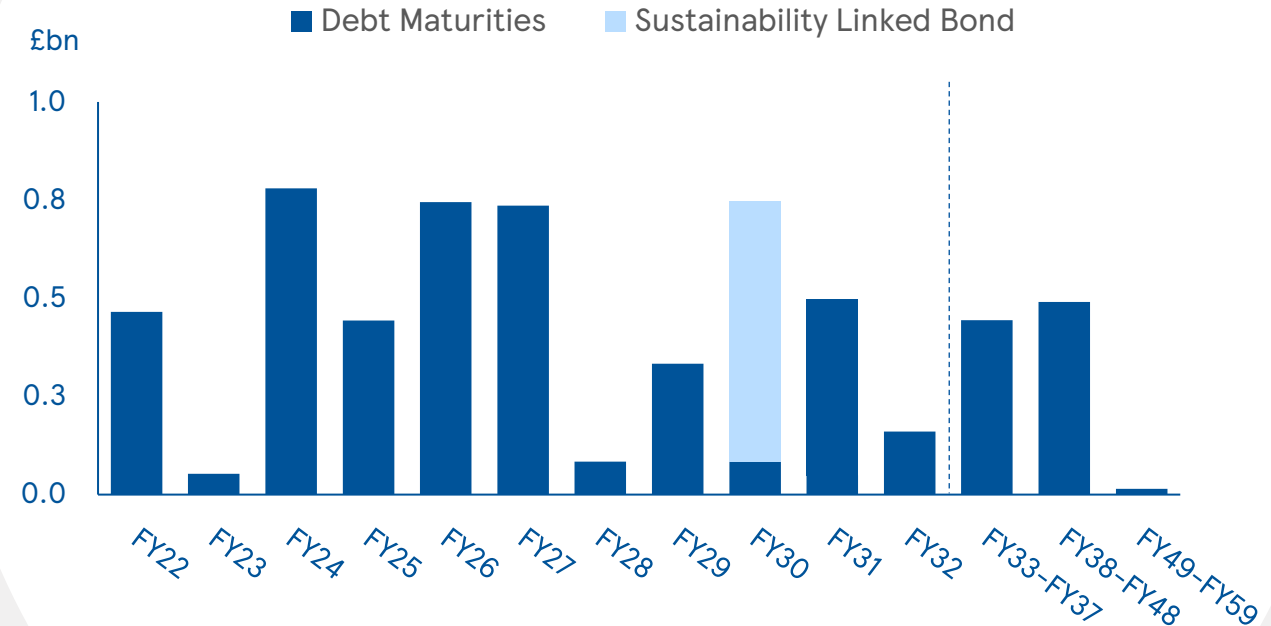
Smooth debt maturity profile

- Less than £1bn maturing in any year
- Weighted average maturity of c.7 years

Weighted average interest cost of 3.5%

Strong liquidity position

- £3.3bn cash¹
- £2.5bn of undrawn committed facilities



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



Share buybacks.

Policy to return cash below leverage of 2.8 times Net debt/EBITDA

Currently 2.7 times Net debt/EBITDA, with confidence in future cash flows

First tranche of £500m of shares to start imminently

To be repurchased by no later than October 2022; progress update in April 2022

Exceptional items – H1 21/22.

On a continuing operations basis	H1 21/22	H1 20/21
Litigation costs	£(193)m	£(93)m
Property transactions	£21m	£(2)m
Booker integration costs	-	£(2)m
UK – ATM business rates	-	£105m
Asia licence fee income	£19m	-
Net impairment reversal of non-current assets	£37m	-
Total exceptional items in statutory operating profit	£(116)m	£8m

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.