



# Tesco Interim Results 2021/22.

## Debt Investor Call

Imran Nawaz, Chief Financial Officer

Lynda Heywood, Group Treasurer

6 October 2021



# Introduction.

Joined a brilliant business

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Refreshed capital allocation framework

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Announced ongoing share buyback programme

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Driving transparency and simplicity in all we do

# 12 months of progress.

## Growing UK market share

Improved customer satisfaction across all areas

Strongest price position<sup>1</sup> for five years

Expanded Aldi Price Match to c.650 products

Rolled Clubcard Prices out to all stores

Gained customer missions<sup>2</sup> 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



# Group performance.

Sales<sup>1</sup>

**+3.0%**

+10.0% vs. 19/20

Group profit<sup>2</sup>

**£1,458m**

+41.0% vs. last year

Retail free cash flow<sup>3</sup>

**£1,543m**

+£0.7bn vs. last year

Dividend

**3.20p**

in line with last year

EPS<sup>4</sup>

**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. 'Adjusted' operating profit excludes 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. Adjusted diluted EPS in the prior year is adjusted for share consolidation to aid comparability, as the sale of our businesses in Thailand and Malaysia and the share consolidation and special dividend which followed distorted our financial results. As such, this metric is presented on a basis other than in accordance with IAS33 and captures the full impact of the share consolidation as if it took place at the start of the 2020/21 financial year.

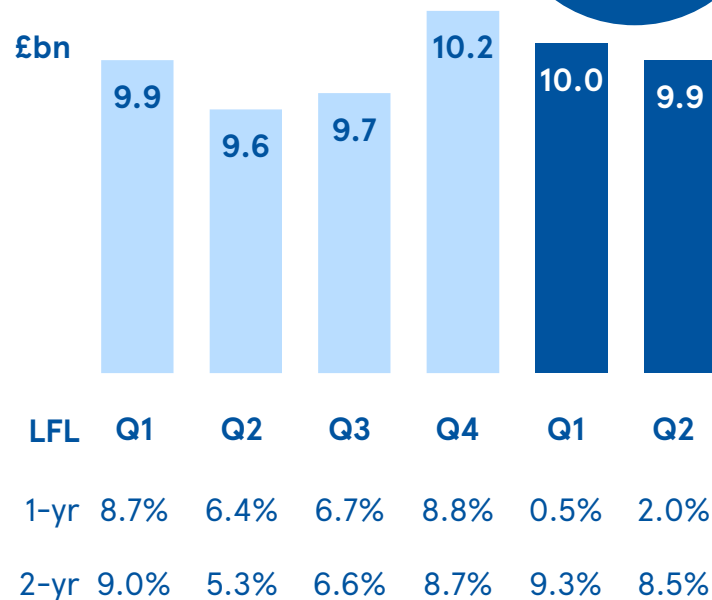
# Segmental performance.

	Sales	Change at constant rates	One-year LFL	Two-year LFL <sup>1</sup>	Adjusted operating profit <sup>2</sup>	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%
<b>Total Retail</b>	<b>£26,898m</b>	<b>2.9%</b>	<b>2.3%</b>	<b>8.4%</b>	<b>£1,386m</b>	<b>16.6%</b>	<b>4.6%</b>
Bank	£433m	12.2%	-	-	£72m	146.5%	16.6%
<b>Group</b>	<b>£27,331m</b>	<b>3.0%</b>	<b>2.3%</b>	<b>8.4%</b>	<b>£1,458m</b>	<b>41.0%</b>	<b>4.8%</b>

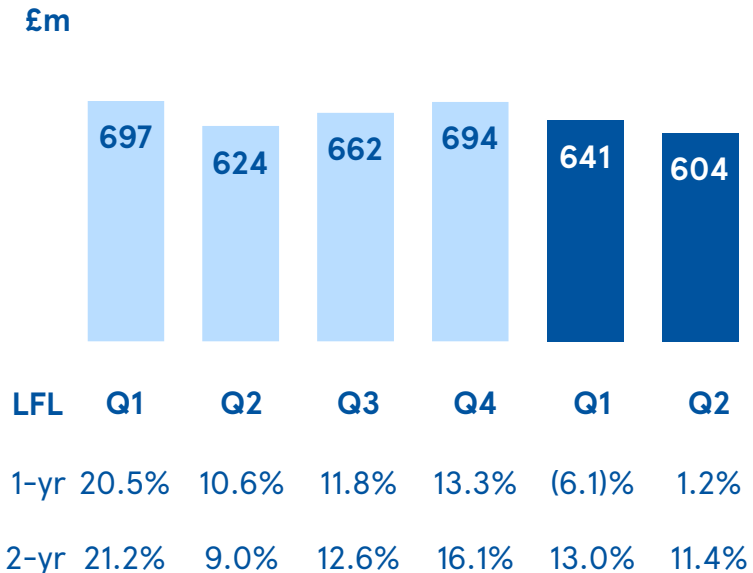
1. Two-year LFL sales growth is calculated by comparing current year sales to sales in 2019/20, including sales from those stores which were trading in both years.
2. Operating profit before exceptional items and amortisation of acquired intangibles.

# UK & ROI sales.

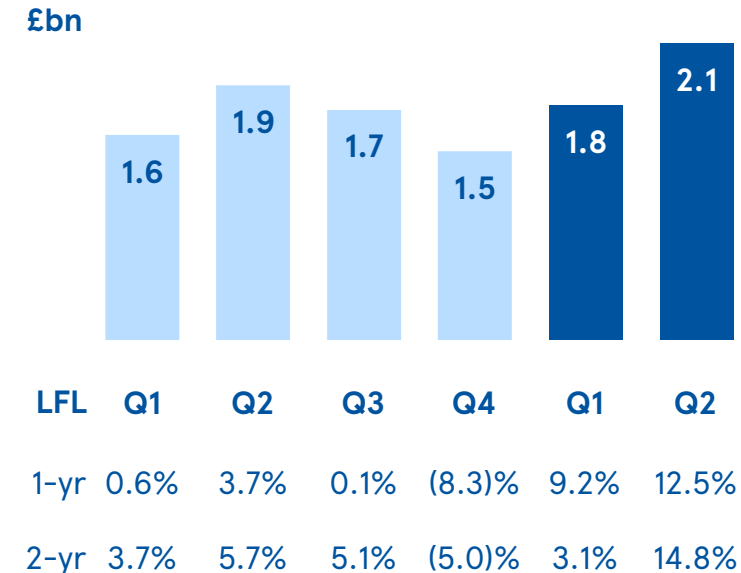
## UK<sup>1</sup>



## ROI



## Booker

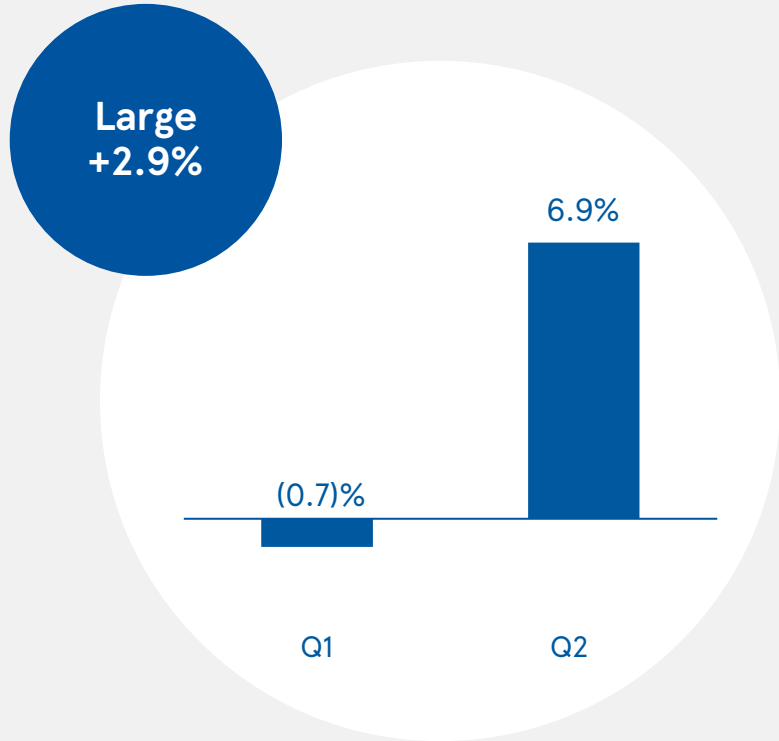


2020/21 2021/22

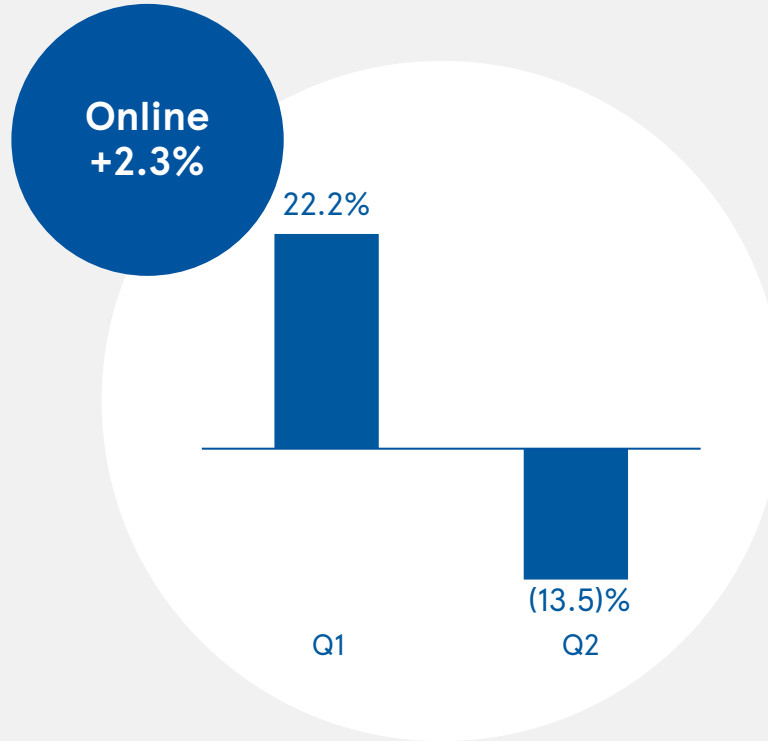
1. UK includes Tesco UK retail business, One Stop and dunnhumby.

# UK sales.

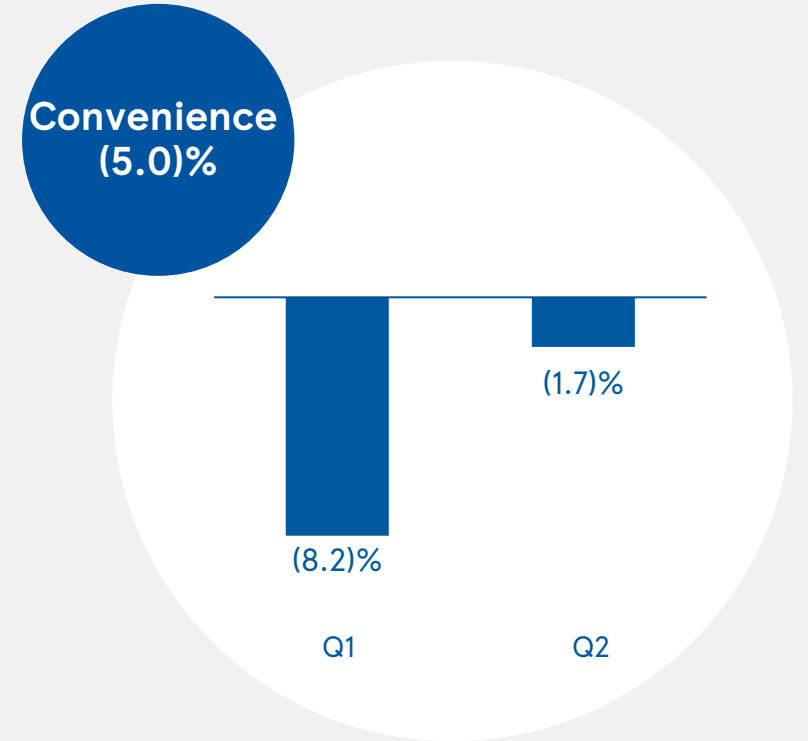
One-year like-for-like sales by channel



Strong large store growth in Q2



Q2 online performance reflects capacity ramp-up last year



Strengthening sales reflects improved 'city centre' stores

# Central Europe.

One-year LFL sales growth +1.4%

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

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All markets growing in Q2 as customers returned to large stores

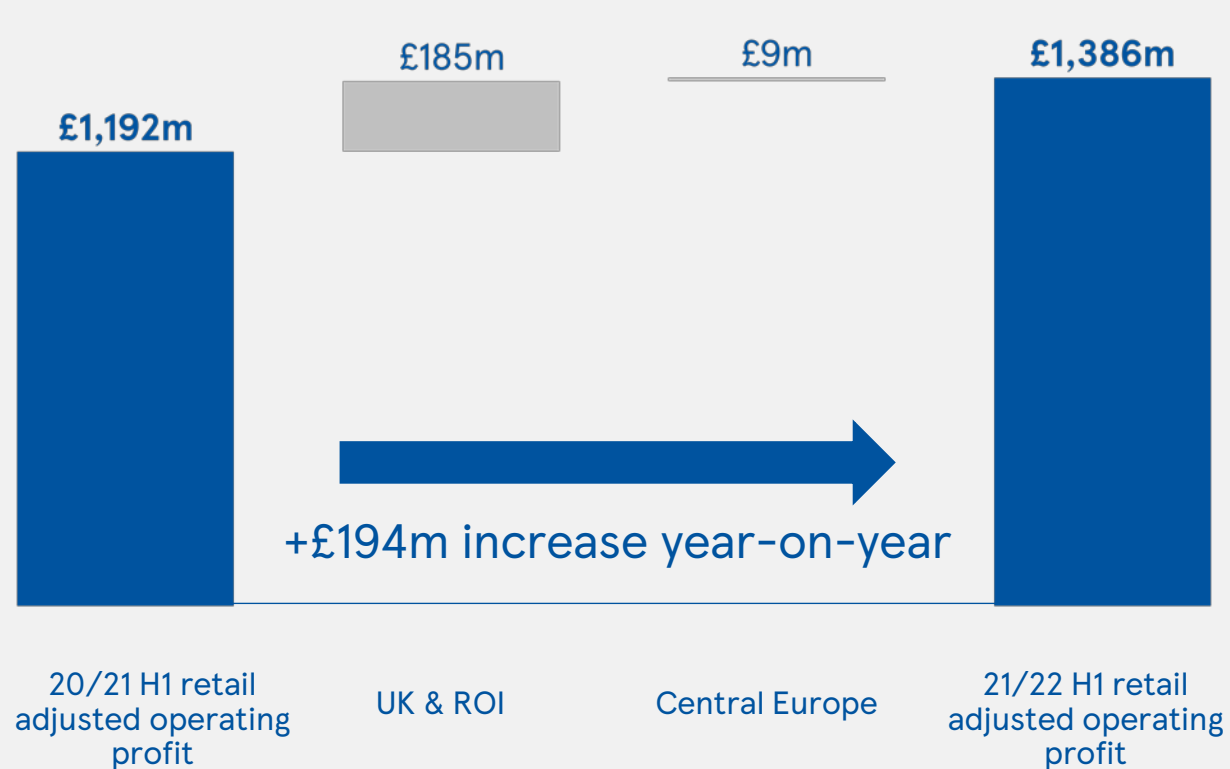
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Market-leading online positions in Slovakia and Hungary

		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 <sup>1</sup> %	16.5%	18.6%	16.6%
Margin (%)	4.7%	3.4%	4.6%

1. Change shown at constant rates.

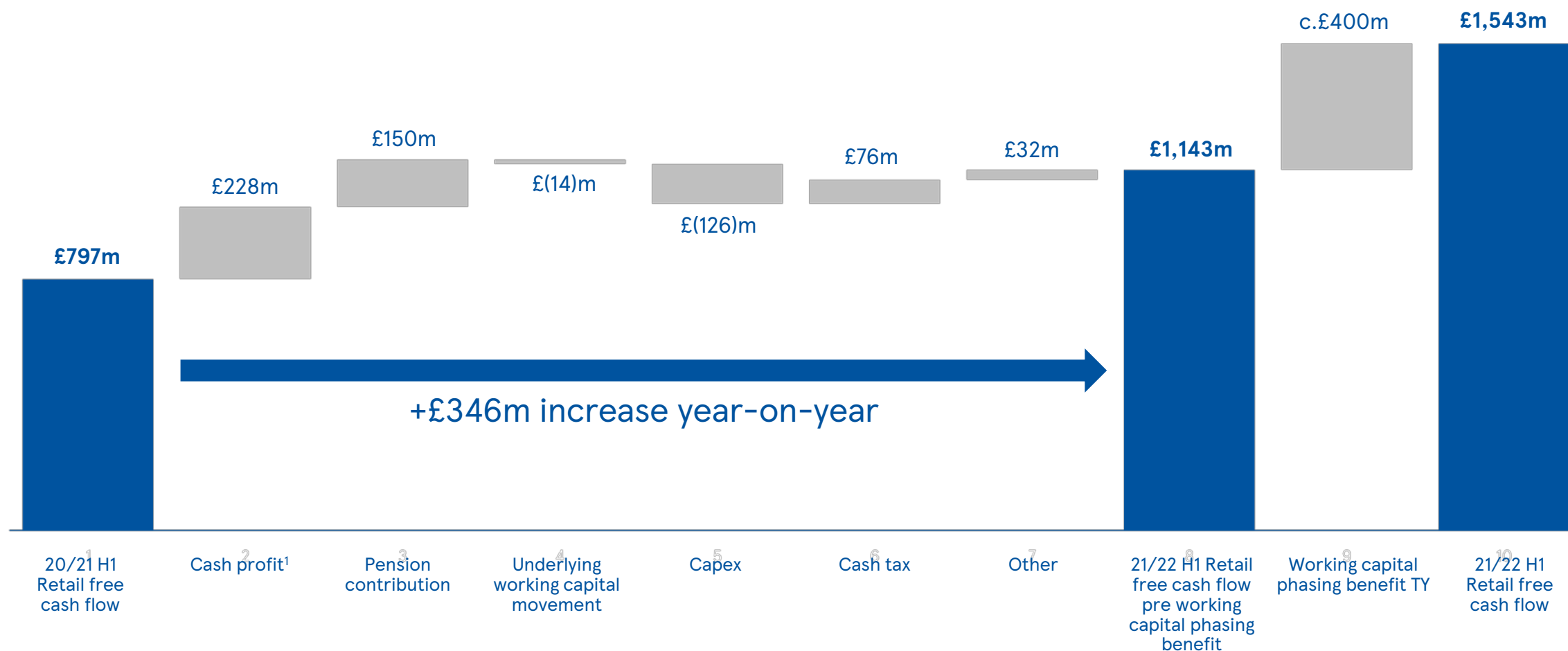
# Statutory profit after tax.

	H1 21/22	H1 20/21	Change %	
<b>Adjusted operating profit</b>	<b>£1,458m</b>	<b>£1,037m</b>	<b>40.6%</b>	
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
<b>Statutory profit after tax</b>	<b>£830m</b>	<b>£397m</b>	<b>109.1%</b>	

# Retail free cash flow.

	H1 21/22	
<b>Retail cash generated from operations exc. working capital</b>	<b>£2,183m</b>	
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
<b>Retail operating cash flow</b>	<b>£2,739m</b>	
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
<b>Retail free cash flow</b>	<b>£1,543m</b>	<b>Simplified definition of retail free cash flow – better reflecting operational cash performance</b>

# 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	
<b>Retail free cash flow</b>	<b>£1,543m</b>	<b>£797m</b>	
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
<b>Retail free cash flow after acquisitions, property &amp; exceptionals</b>	<b>£1,625m</b>	<b>£554m</b>	

# 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

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Target/maintain leverage at c.2.8-2.3 times Net debt<sup>1</sup>/EBITDA

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

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Include property buybacks where economically viable

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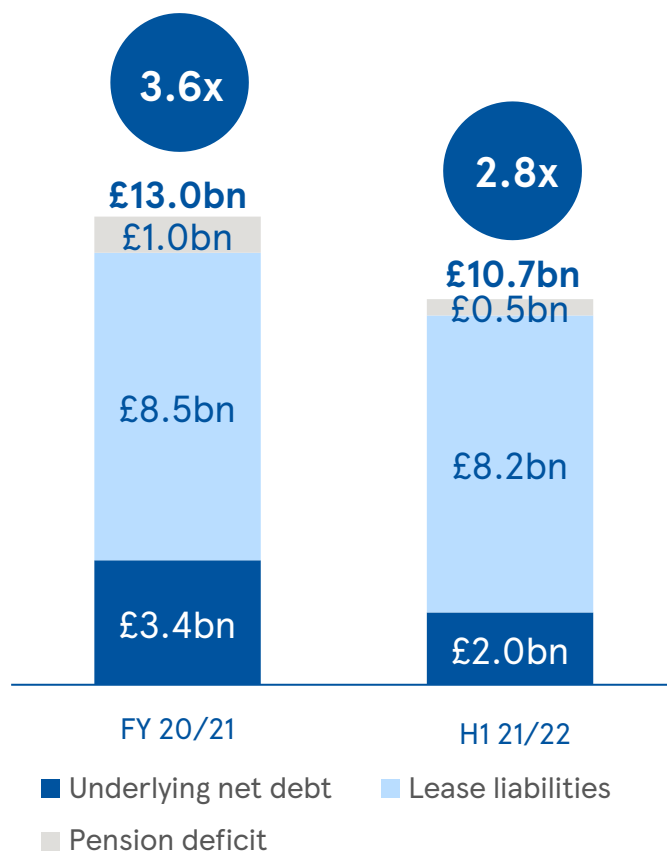
Likely to be in the form of share buybacks

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

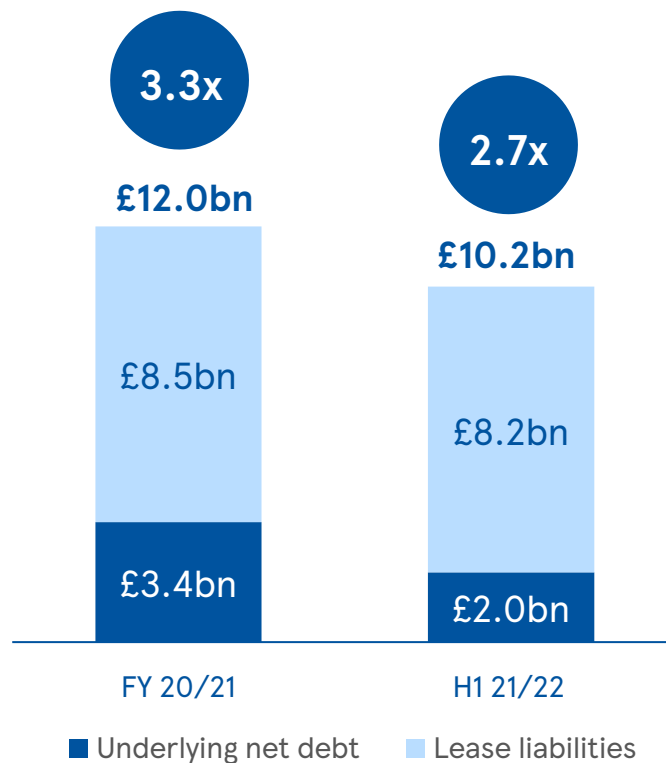


# Balance sheet metrics.

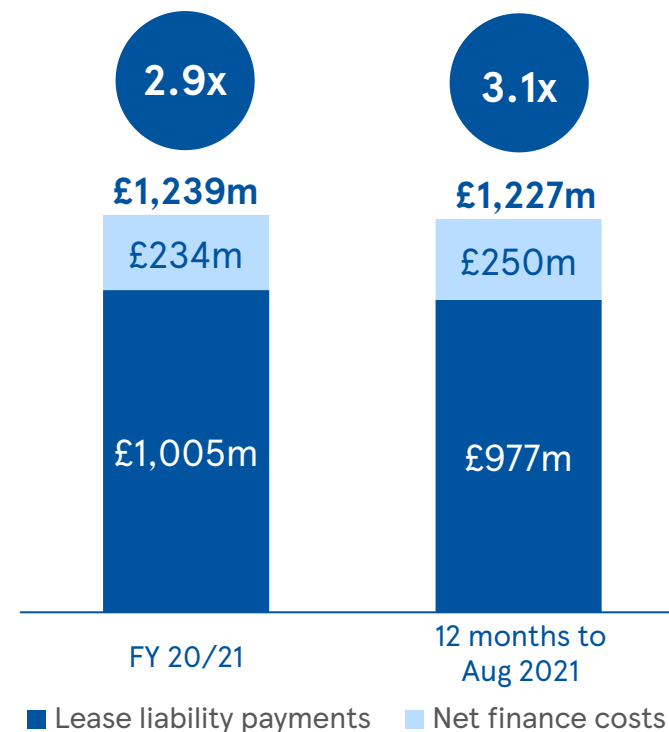
## Total indebtedness<sup>1</sup>



## Net debt<sup>2</sup>



## Fixed charge cover<sup>3</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) 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.

# Debt and liquidity.

Debt  
maturity  
profile

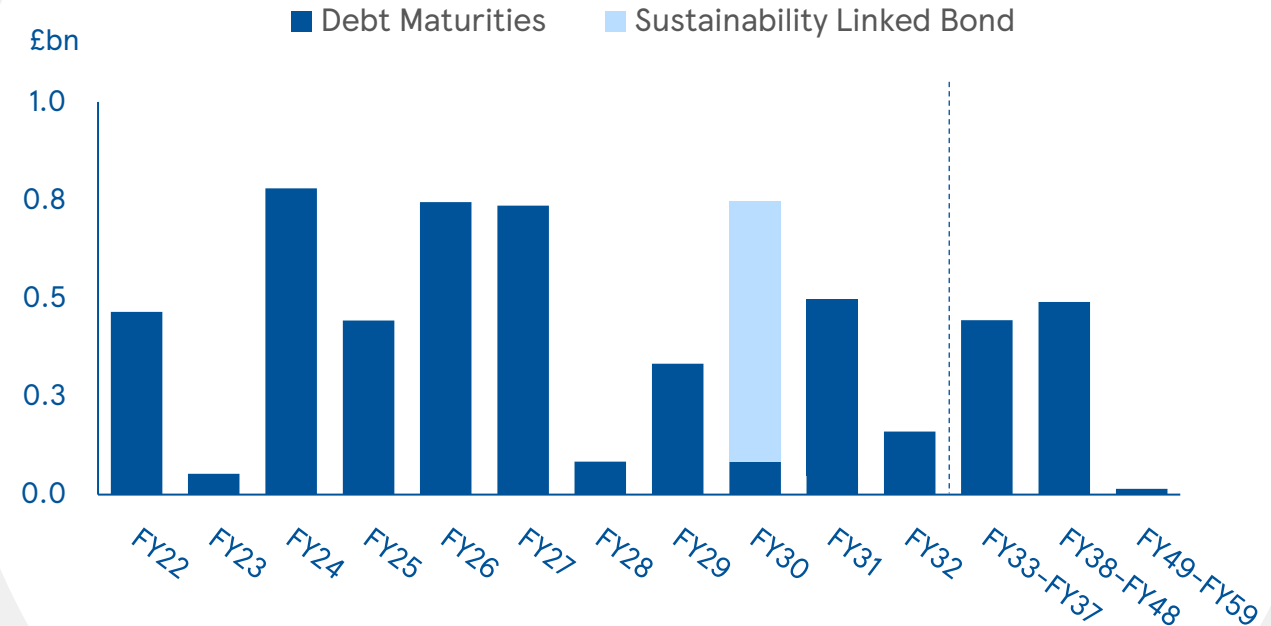
## Smooth debt maturity profile

- 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 cash<sup>1</sup>
- £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).

# 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 2021)

“Tesco Plc's issuer rating reflects its large scale and market leading position in the stable, albeit very competitive UK grocery sector.”

# 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

# Multi-year performance framework.

## **Drive top-line growth, underpinned by:**

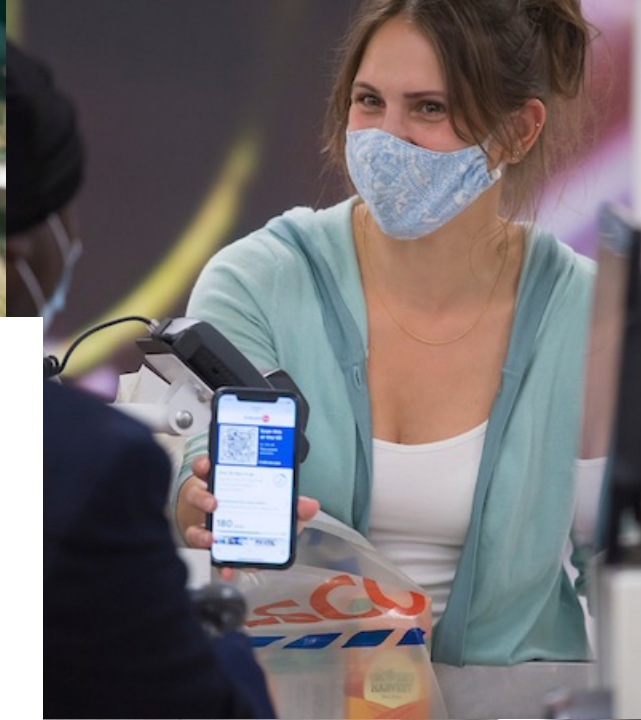
- Increasing customer satisfaction relative to the market
- Growing or at least maintaining our core UK market share

## **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

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Strategic priorities to enhance competitiveness, accelerate growth and generate cash

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A clearer investment proposition, underpinned by ongoing capital returns

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

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Serving our customers, communities and planet a little better everyday

# Q&A.



**TESCO**



# Appendix.



# 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 <sup>1</sup> /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.



# Share buybacks.

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

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

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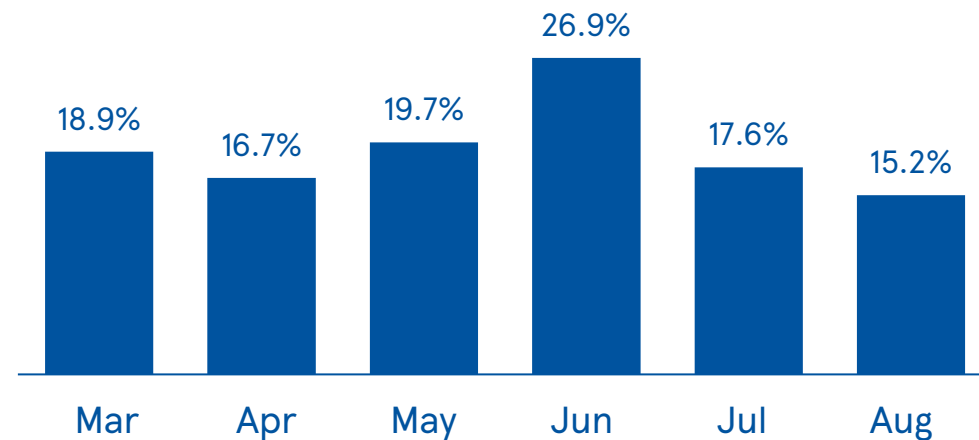
First tranche of £500m of shares to start imminently

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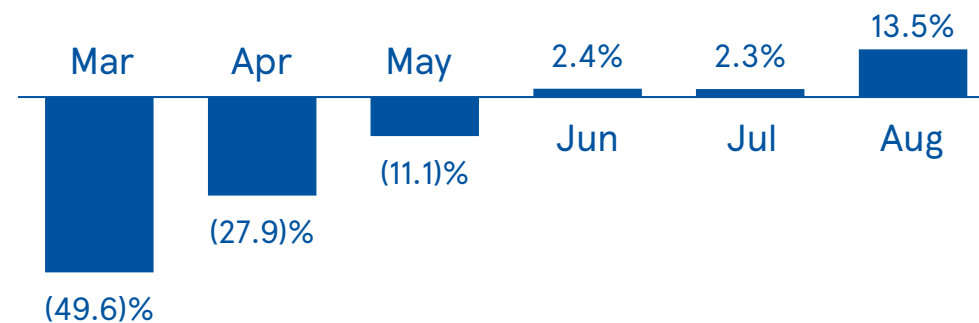
To be repurchased by no later than October 2022; progress update in April 2022

	Sales	1-yr LFL	2-yr LFL
<b>Total</b>	<b>£3,865m</b>	<b>11.0%</b>	<b>9.1%</b>
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





# ROI.

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

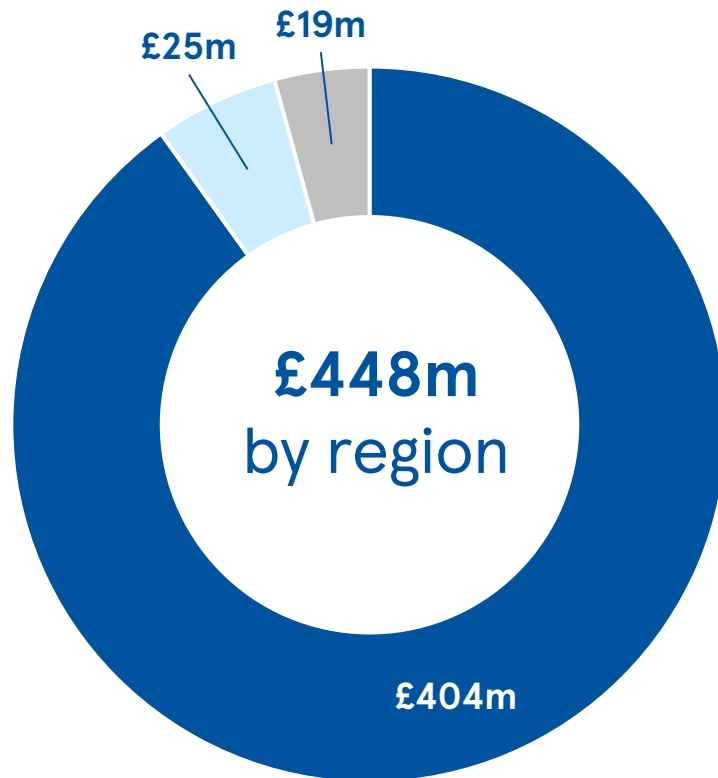
One-year performance reflects particularly high impact of stockpiling LY

Clear market leader in online

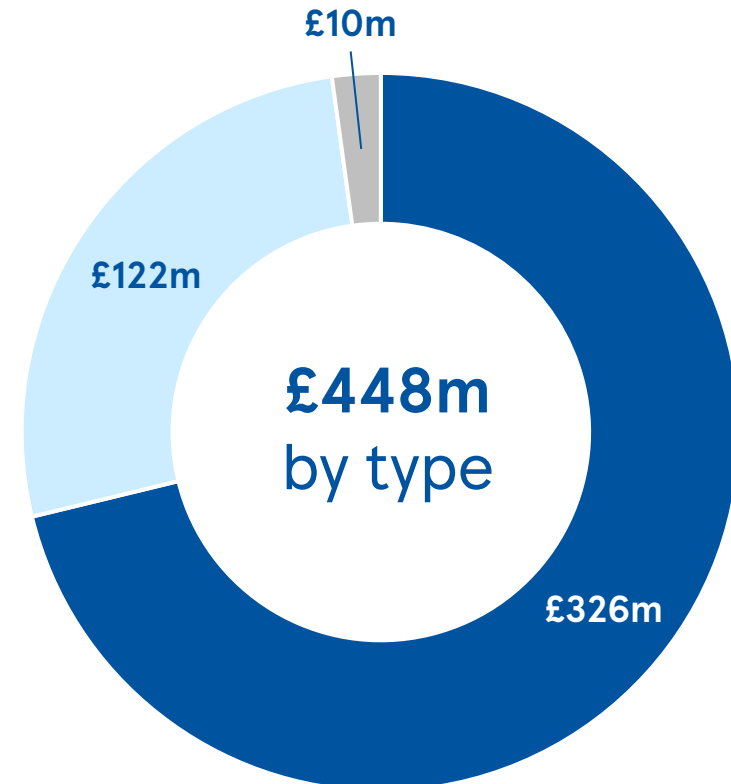
- Grown market share
- Increased geographic coverage
- Expanded Click & Collect from 28 to 36 stores

		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%

# Capital expenditure – H1 21/22.



■ UK & ROI    ■ 3 CE    ■ Bank



■ Asset Replacement    ■ Returning    ■ New Space

# 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	
<b>Total exceptional items in statutory operating profit</b>	<b>£(116)m</b>	<b>£8m</b>

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