



# Tesco Interim Results 2022/23.

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

5 October 2022





# Agenda.

01. Introduction

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02. Half year results

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03. Strategic priorities

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04. Q&A

# Six months of progress.



## Supporting customers with a relentless focus on value

Leading combination of Aldi Price Match, Low Everyday Prices & Clubcard Prices

Most competitive price index vs limited-range discounters to date

Brand NPS now ranked No.1 of full-line grocers

Focus on quality, with perception up +208bps YoY



## Rewarding loyalty through Clubcard

Over 20 million households now actively using Clubcard (up 3.3 million YoY)

Clubcard penetration increased in UK, ROI & all three Central European markets

Clubcard satisfaction up +505bps

Extended in-app personalised rewards to over two million customers



## Creating value for all stakeholders

Announced biggest single year investment in colleague pay in a decade at start of H1

Further increase for UK store colleagues announced today – to £10.30/hr

Daily donations to support unprecedented foodbank demand – over 20m meals in H1

Returned £450m to shareholders via ongoing buyback; £750m since Oct 2021

# A challenging backdrop.

**Customers  
under  
pressure**

**Changing  
shopping  
behaviours**

**Inflationary  
environment**

# Customer satisfaction.

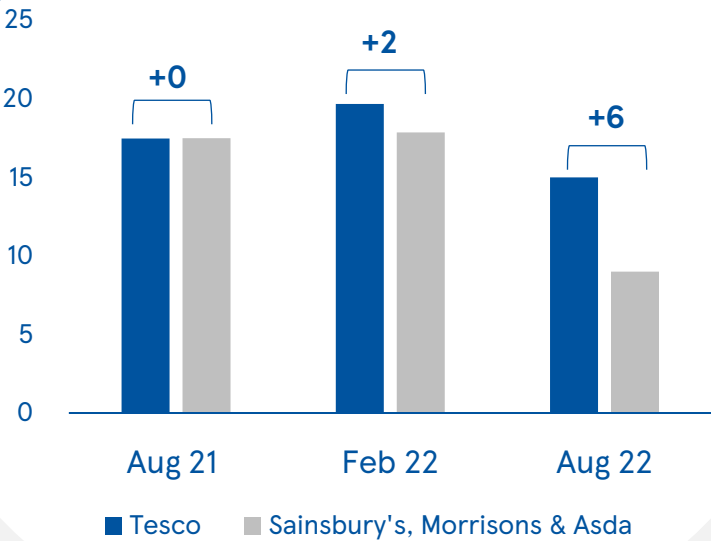
Customer Recommend<sup>1</sup>

Continued strength



Brand NPS<sup>2</sup>

Widening our relative outperformance



1. UK Multichannel Tracker. 3 period rolling data. Chart represents responses to the question, "Based on your most recent experience, how likely is it that you would recommend this store to a friend or colleague?"  
2. BASIS Global Brand Tracker. 3 period rolling data. Chart responses to the question: "How likely is it that you would recommend the following company to a friend or colleague?"



# UK market share.

## Market share<sup>1</sup>

## Market share change last three years

	Market share	bps change		
		1 YoY	2 YoY	3 YoY
Tesco	26.87%	(49)	+11	+3
Sainsbury's	14.65%	(33)	(27)	(65)
Asda	14.15%	(21)	(32)	(93)
Morrisons	9.08%	(75)	(105)	(86)

## 3-year market share<sup>1</sup>

## Tesco, only full-line grocer to gain share vs 2019



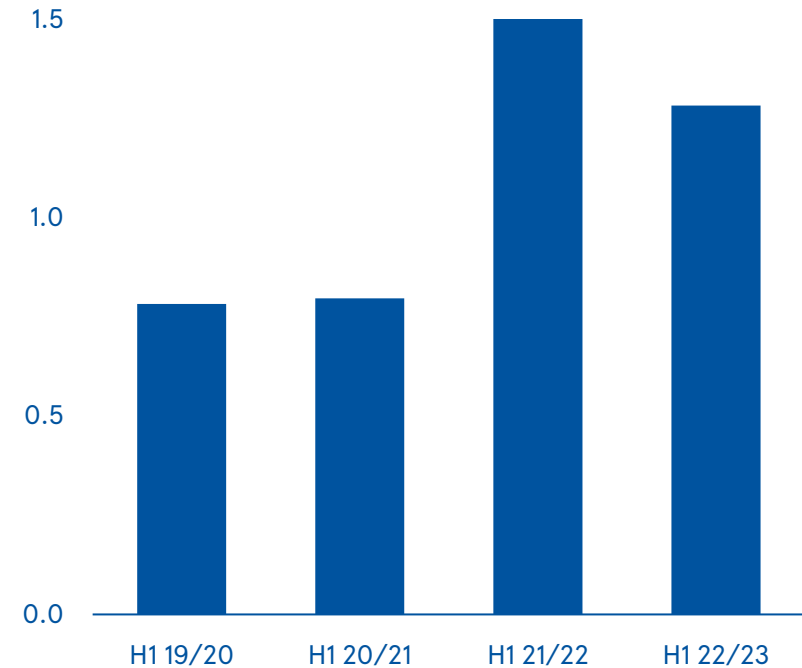
# Strong cash generation.

£1.3bn retail free cash flow in H1

Interim dividend 3.85p, in line with policy

£750m capital returned to date, including £450m since April 2022

H1 Retail free cash flow (£bn)





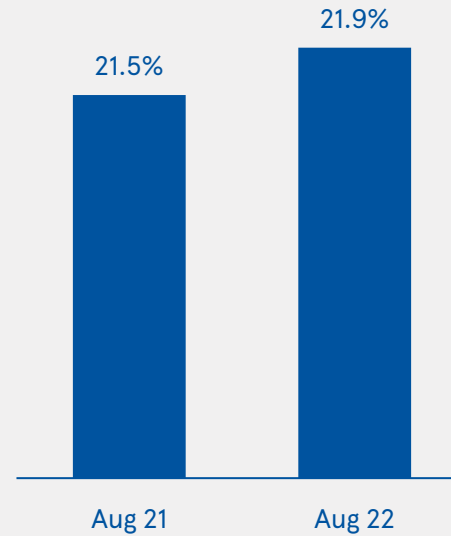
# Progress across the Group.

## Booker



Opened 69 Click & Collect sites;  
expanded 'Food Clubs' to 43,439 members

## ROI



Resilient performance with  
market share +43bps<sup>1</sup>

## Central Europe



Launched Low Price Guarantee &  
extended Clubcard Prices with  
Clubcard penetration now at 73%<sup>2</sup>

1. Kantar market share data on a 12 week rolling basis to 4 September 2022 vs 5 September 2021.  
2. Clubcard sales penetration across all formats in all three markets for August 2022.



# Unwavering support for customers.

Leveraging our scale and capability across every part of the Group

Helping customers spend less across even more of their household expenses

UK



**Spend less on your weekly shop.**

If you're looking to reduce your spend with us, from essentials to big brands, look out for our Aird Price Match, Low Everyday Prices and Clubcard Prices.

They're just a few of the things we're doing to help you spend less with us. Because right now, every little helps.



**TESCO**  
Every little helps

ROI



**We want you to spend less with us.**

We know it's tough right now. So we want to show all the ways we can help you spend less and use a Clubcard to get more for your money. From your food to fuel, to your phone and energy.

Because right now, every little helps.

**TESCO**  
Every little helps

Mobile



**Spend less with us.**

Earn Clubcard points on every mobile bill.

This is Supermarket Mobile



Bank



**Spend less on car insurance with your Clubcard.**

Clubcard members get a guaranteed discount.

**TESCO** Bank  
Every little helps

CE



**Záleží nám na tom, abyste platili méně.**

Ušetřete na základních potravinách i vašich oblíbených značkách. Hledejte produkty označené. Nízké ceny zaručeny a Clubcard cena.



**TESCO**

UK

**Helping you spend less with your Tesco Clubcard or App.**



**TESCO** Clubcard  
**THE POWER**  
TO LOWER PRICES

Download the Tesco Grocery and Clubcard app today

**TESCO**

# Half year results.

Imran Nawaz



# Group performance.

Sales<sup>1</sup>

**+3.5%**

Like-for-like +3.2%

Group profit<sup>2</sup>

**£1,315m**

(9.8)% vs. last year

Retail free cash flow

**£1,283m**

£(0.3)bn vs. last year

Net debt

**down £0.5bn**

EPS

**10.67p**

(4.9)% vs. last year

Dividend

**3.85p**

+20.3% vs. last year

1. Sales exclude VAT and fuel. Sales change shown at constant rates.
2. Operating profit before adjusting items. Change shown at constant rates.

# Segmental performance.

	Sales <sup>1</sup>	Change at constant rates	LFL	Adjusted operating profit <sup>2</sup>	Change at constant rates	Margin
UK & ROI	£25,630m	2.6%	2.7%	£1,169m	(11.5)%	3.9%
Central Europe	£2,008m	9.5%	10.4%	£79m	19.1%	3.7%
<b>Total Retail</b>	<b>£27,638m</b>	<b>3.1%</b>	<b>3.2%</b>	<b>£1,248m</b>	<b>(10.0)%</b>	<b>3.9%</b>
Bank	£540m	24.6%	n/a	£67m	(6.9)%	12.4%
<b>Group</b>	<b>£28,178m</b>	<b>3.5%</b>	<b>3.2%</b>	<b>£1,315m</b>	<b>(9.8)%</b>	<b>4.1%</b>

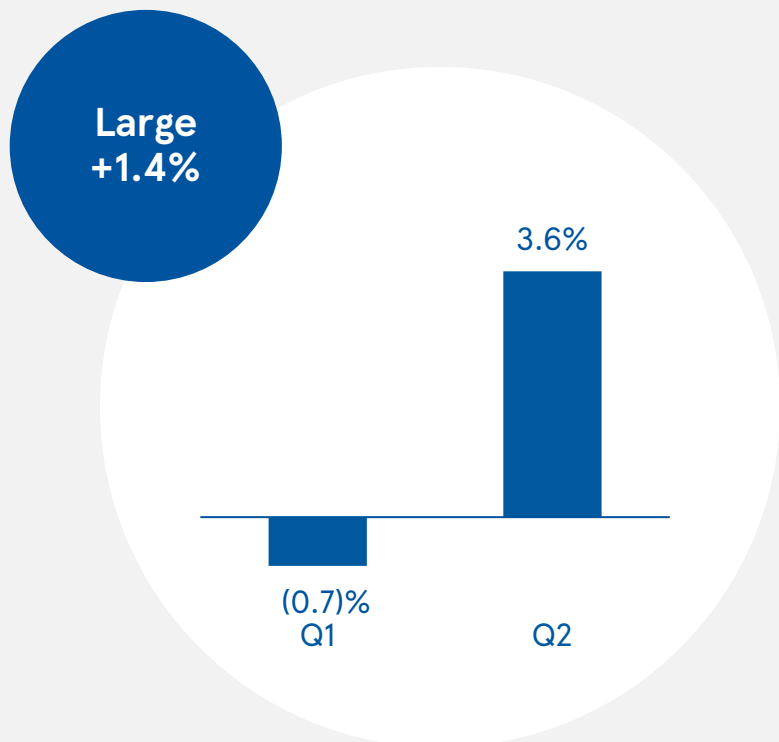
1. Sales exclude VAT and fuel. Sales change shown at constant rates.
2. Operating profit before adjusting items.



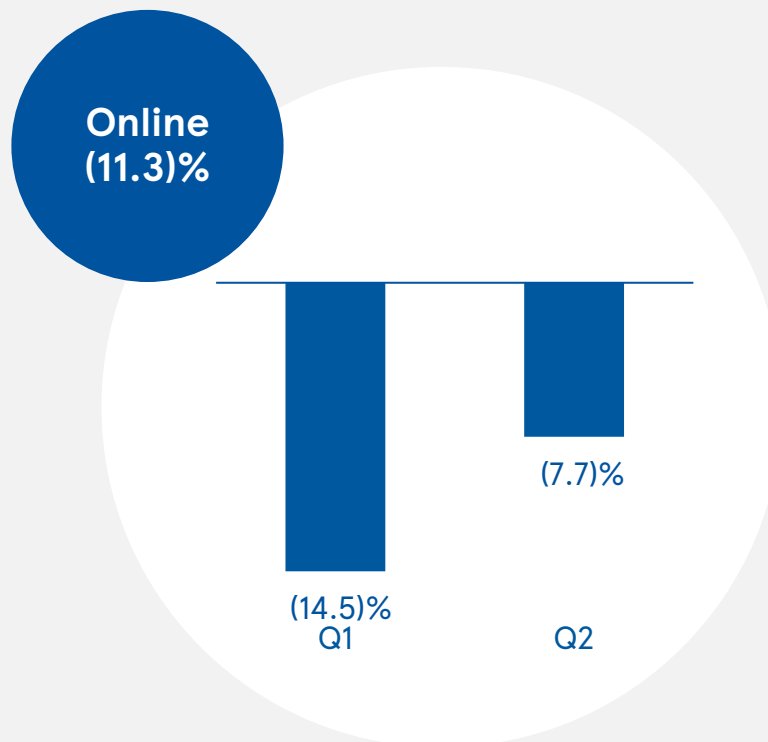
# UK sales.

Like-for-like by channel

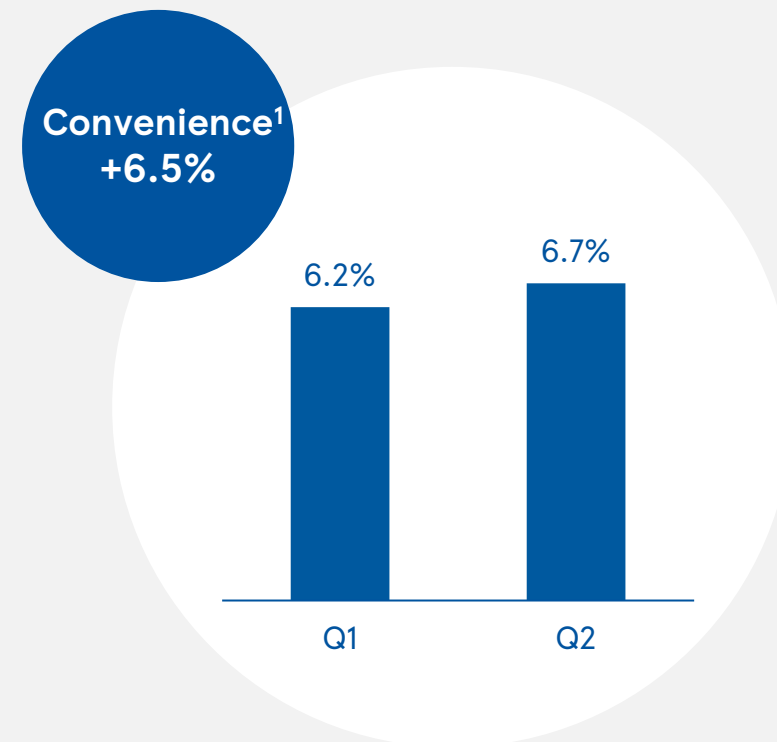
	Q1	Q2	H1
UK LFL	(1.5)%	+2.8%	+0.7%



Q1 reflects annualisation of COVID-19 benefit



Seeing some normalisation as customers switch back to stores



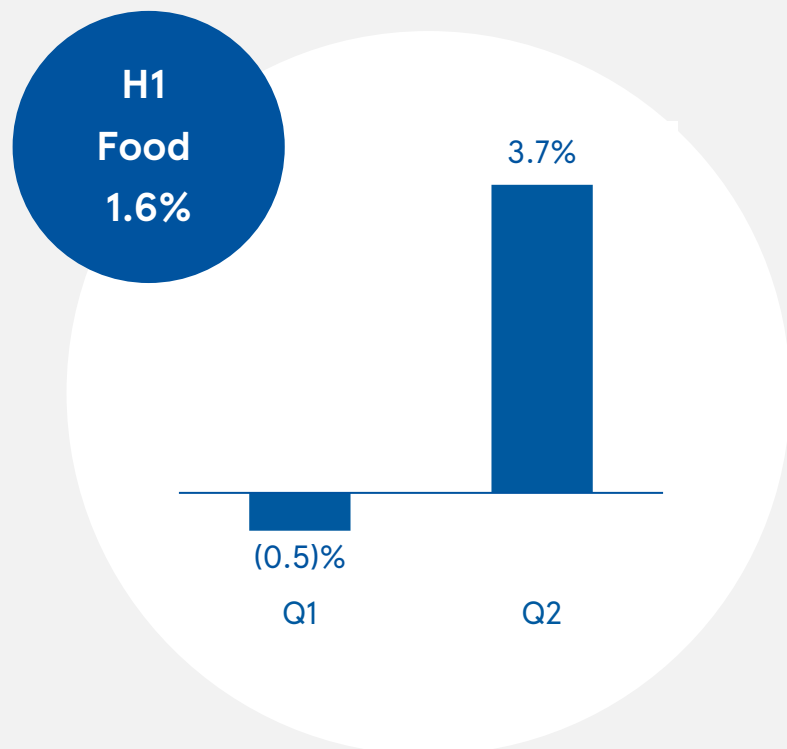
Strong footfall recovery in city and town centre stores

1. Convenience includes One stop.

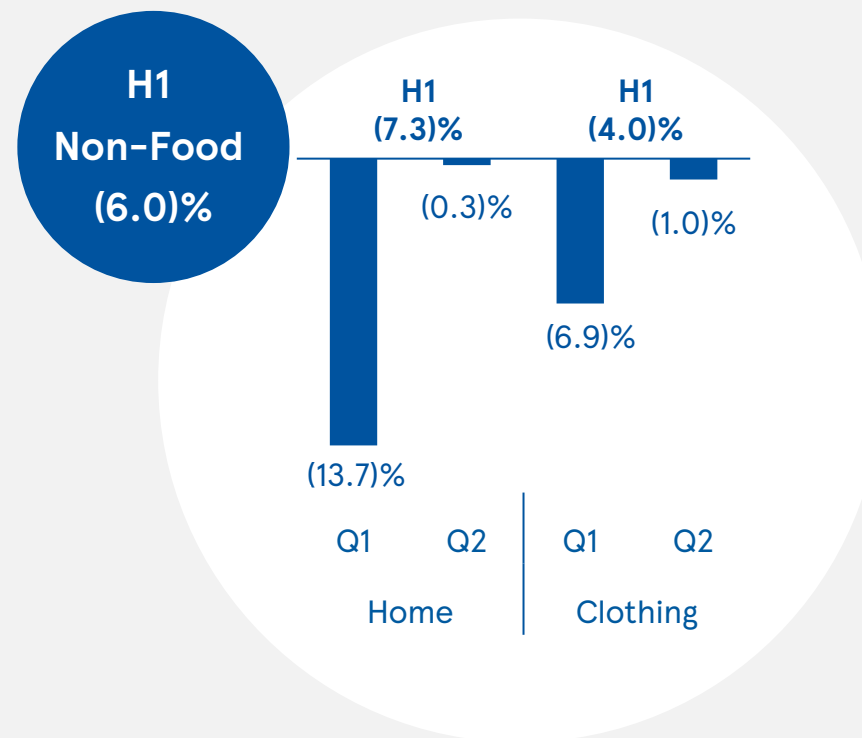
# UK sales.

Like-for-like by category

	Q1	Q2	H1
UK LFL	(1.5)%	+2.8%	+0.7%



Q1 reflects annualisation of higher in-home consumption



Trading over significant recovery in Q1 last year

# ROI.

Trading over highest level of COVID-19 restrictions in Q1 last year

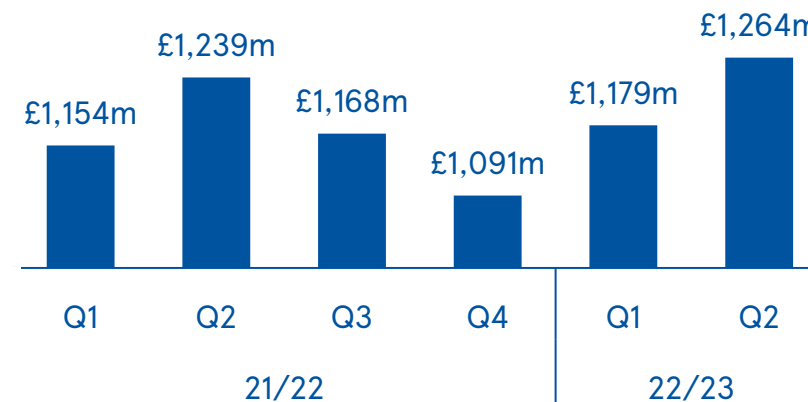
Further expansion of Online – now represents 9% of sales

Completed Joyce's Supermarkets acquisition in June

		LFL
Channel	Total	(0.1)%
	Large	(1.7)%
	Convenience	6.4%
	Online	5.9%
Category	Food	(0.7)%
	GM	(2.8)%
	Clothing	23.0%

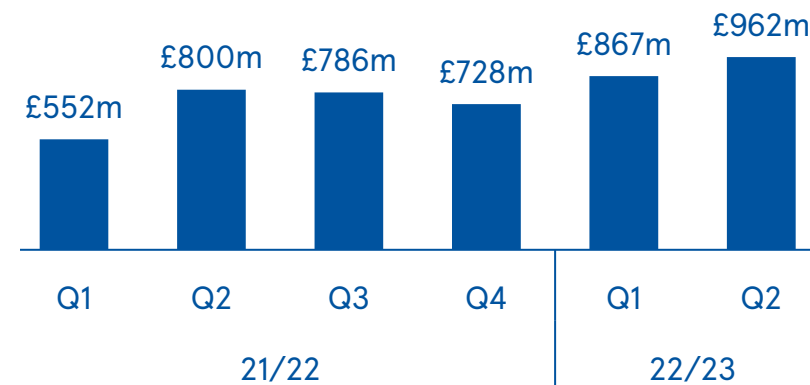
	Sales	LFL
<b>Total</b>	<b>£4,399m<sup>1</sup></b>	<b>13.9%</b>
Retail	£2,442m	2.2%
Catering	£1,830m	35.5%
Booker Catering	£1,090m	36.1%
Best Food Logistics	£740m	34.6%

## Retail Sales



**H1 LFL  
+2.2%**

## Catering Sales



**H1 LFL  
+35.5%**

1. Including small business £127m.



# Central Europe.

Significantly inflationary environment due to macroeconomic factors

Volumes resilient, market share up +16bps<sup>1</sup> YoY driven by switching gains

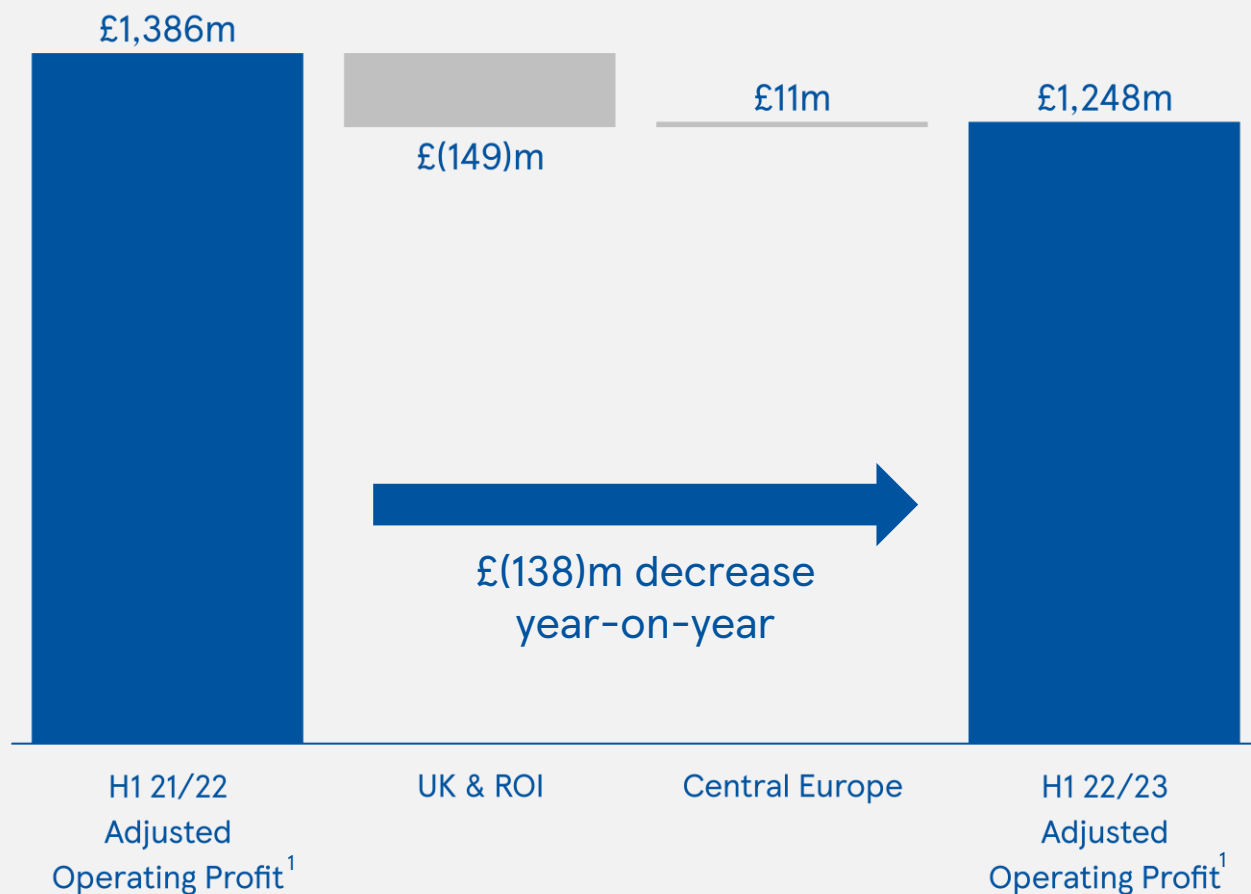
Clubcard Prices and Low Price Guarantee rolled-out across all countries

		LFL
Channel	Total	10.4%
	Large	10.6%
	Convenience	12.6%
	Online	(11.0)%
Category	Food	12.0%
	GM	4.6%
	Clothing	(4.9)%

1. GFK Household Food panel data for the YoY growth of the 22 week period between March and July 2022.



# Retail operating profit.



	UK & ROI	CE	Retail
Adjusted operating profit <sup>1</sup>	£1,169m	£79m	£1,248m
Year-on-year	£(149)m	£11m	£(138)m
Change % <sup>2</sup>	(11.5)%	19.1%	(10.0)%
Margin (%)	3.9%	3.7%	3.9%

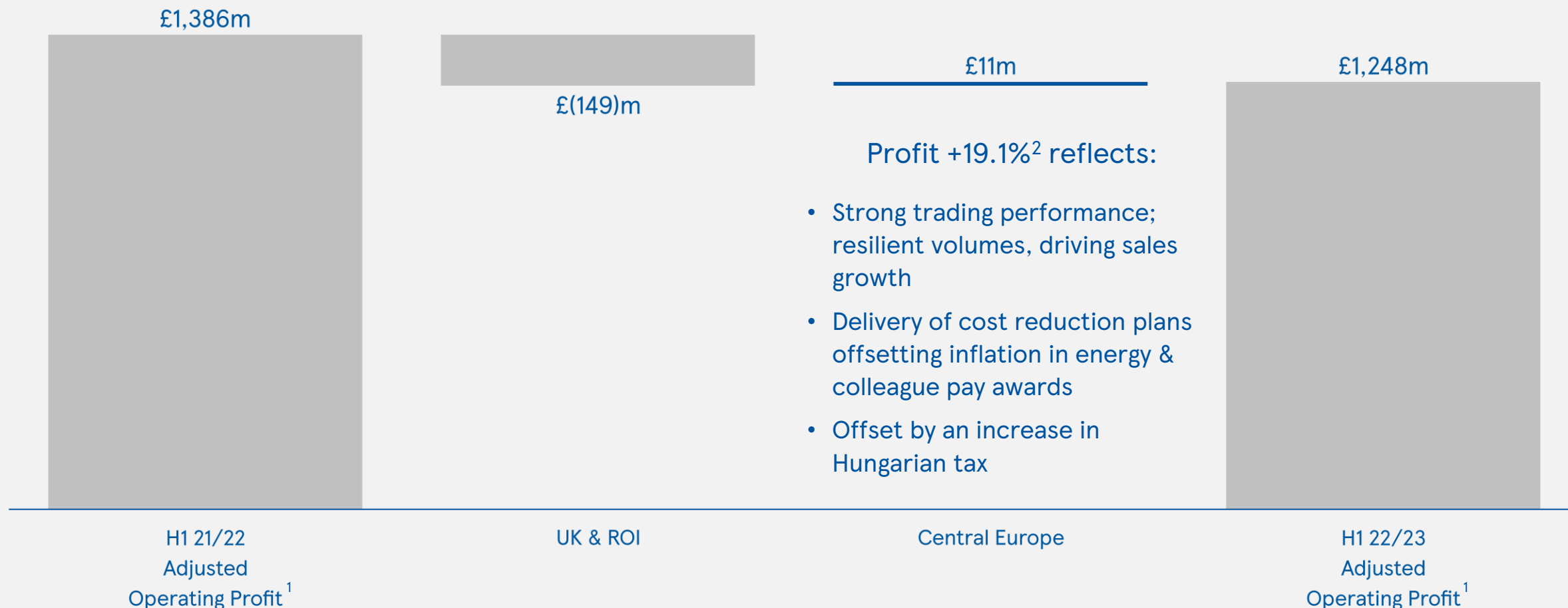
1. Operating profit before adjusting items.  
 2. Percentage change shown at constant rates.

# Retail operating profit – UK & ROI.



1. Operating profit before adjusting items.  
2. Percentage change shown at constant rates.

# Retail operating profit – Central Europe.



1. Operating profit before adjusting items.  
2. Percentage change shown at constant rates.



# Tesco Bank.

Strong revenue from increased retail spending, travel money & new credit card customers

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Profit reduced predominantly due to a higher impairment charge driven by:

- Up-front charges on new business
- Impact of a weaker macro-economic outlook

Tesco Underwriting Ltd £18m contribution (£12m LY)

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Balance sheet remains strong

	H1 22/23	H1 21/22
<b>Operating profit<sup>1</sup></b>	£67m	£72m
Net interest margin	4.9%	5.1%
Cost:income ratio	72.3%	71.3%
Tier 1 capital ratio	22.6%	23.9%
Bad debt coverage ratio	6.4%	8.3%

1. Operating profit before adjusting items.

# Statutory profit after tax.

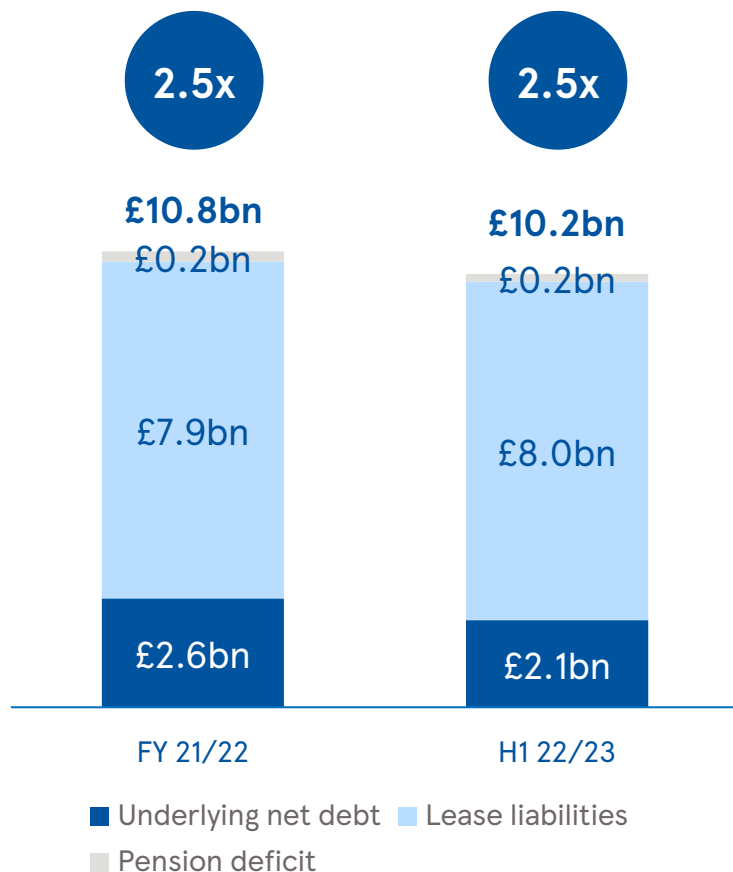
	H1 22/23	H1 21/22	Change %
<b>Adjusted operating profit</b>	<b>£1,315m</b>	<b>£1,458m</b>	<b>(9.8)%</b>
Adjusting items	£(579)m	£(154)m	
<i>Impairment of non-current assets</i>	£(626)m	£36m	Non-cash impairment charge in current year driven by increase in discount rates
<i>Litigation costs</i>	£0m	£(193)m	Prior year charge relates to historical shareholder claims
<i>Other</i>	£47m	£3m	
Net finance costs	£(325)m	£(158)m	
<i>Net finance costs before FV remeasurements</i>	£(250)m	£(338)m	Net pension finance income compared to charge last year and reduction in lease finance costs
<i>FV remeasurements</i>	£(75)m	£180m	Fair value remeasurement related to the mark-to-market movement on inflation linked swaps
Joint ventures and associates	£2m	£(3)m	Increase in profits from our UK property JV and a reduction in losses from our India JVs
Group tax	£(148)m	£(313)m	Reflects lower levels of operating profit and one-off charge LY related to the revaluation of deferred tax
<b>Statutory profit after tax</b>	<b>£265m</b>	<b>£830m</b>	<b>(68.1)%</b>

# Retail free cash flow.

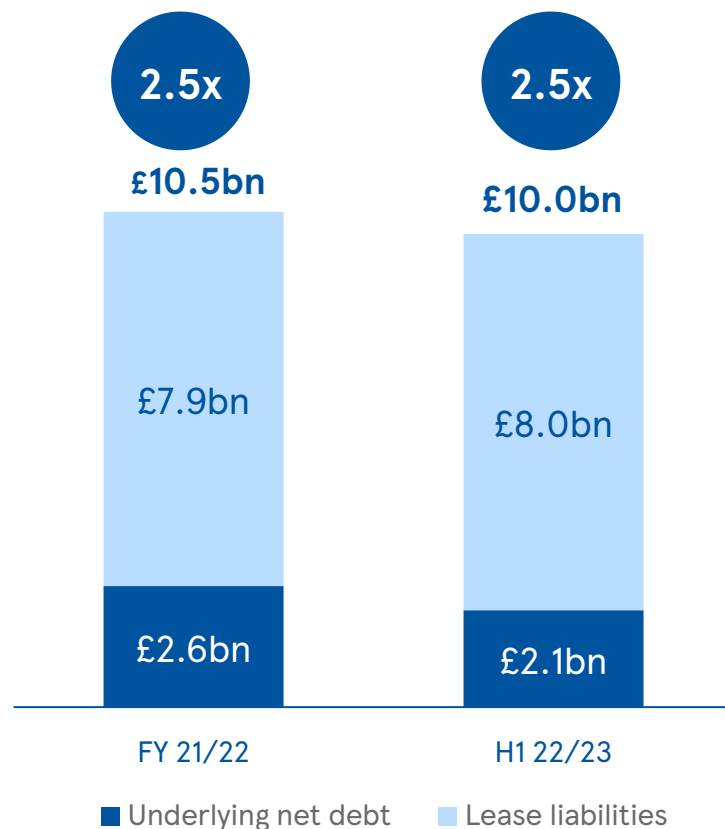
	H1 22/23	H1 21/22	YoY	
<b>Retail cash generated from operations exc. working capital</b>	<b>£2,030m</b>	<b>£2,183m</b>	<b>£(153)m</b>	Lower volumes and opex inflation, partially offset by Save to Invest
Decrease in working capital	£390m	£556m	£(166)m	Inflow from higher trade balances due to higher food cost prices
<b>Retail operating cash flow</b>	<b>£2,420m</b>	<b>£2,739m</b>	<b>£(319)m</b>	
Cash capex (exc. buybacks)	£(507)m	£(495)m	£(12)m	Cash capex on track for full year guidance
Net interest	£(294)m	£(314)m	£20m	Reduction driven by lower lease liabilities due to property buybacks
Tax paid	£(45)m	£(49)m	£4m	
Dividends	£5m	£3m	£2m	
Repayments of obligations under leases	£(292)m	£(286)m	£(6)m	
Own shares purchased for share schemes	£(4)m	£(55)m	£51m	Reflects timing of colleague contributions and purchases to settle colleague awards
<b>Retail free cash flow</b>	<b>£1,283m</b>	<b>£1,543m</b>	<b>£(260)m</b>	

# Balance sheet metrics.

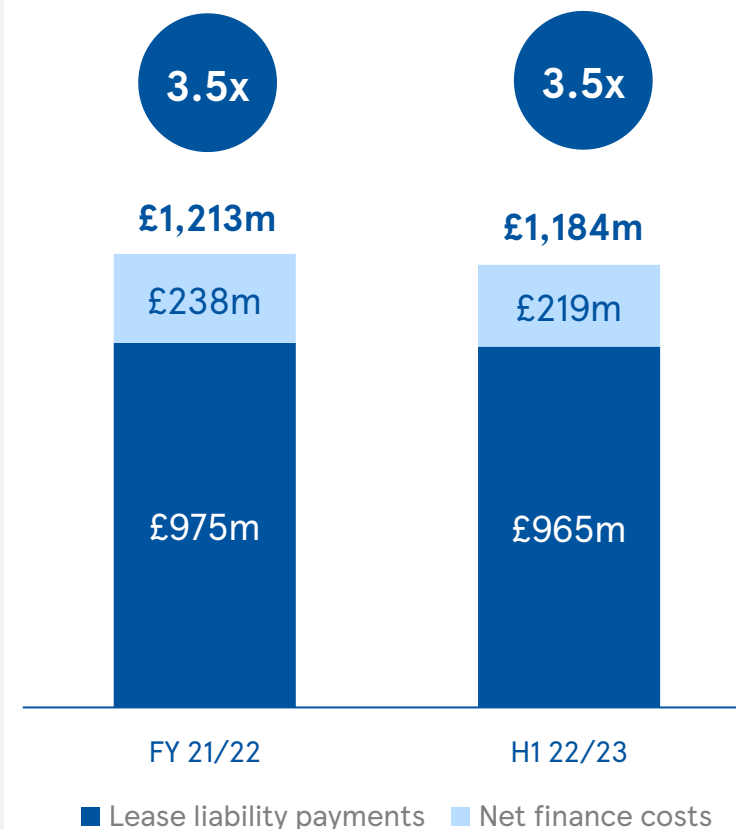
## Total indebtedness<sup>1</sup>



## 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, adjusting items, capitalised interest, fair value remeasurements of financial instruments and finance charges payable on lease liabilities, plus retail total lease liability payments.
4. Group pension surplus of £1.1bn at the end of the first half.



# Guidance.

Expect full year retail adjusted operating profit of between £2.4bn and £2.5bn

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Significant external uncertainties still exist, most notably evolving customer behaviour

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Upgrade in expectation for full year retail free cash flow to be at least £1.8bn

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Continue to expect Bank adjusted operating profit of c.£120m to £160m



# Summary.

Solid performance in challenging half

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Confidence in multi-year performance framework

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Half year dividend 3.85p, inline with policy

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Leverage currently 2.5x, within target range, with confidence in future cash flows

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£450m of shares repurchased since April 2022, contributing to £750m to date



# Strategic priorities.

Ken Murphy

# Our strategic priorities.



**Magnetic  
value for  
customers**

Re-defining value to become  
the customer's favourite



**I love my  
Tesco  
Clubcard**

Creating a competitive  
advantage through powerful  
digital capability



**Easily the  
most  
convenient**

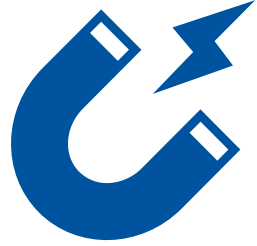
Serving customers wherever,  
whenever and however they  
want to be served



**Save to  
invest**

Simplify, become more  
productive & reduce costs





# Magnetic value for customers.



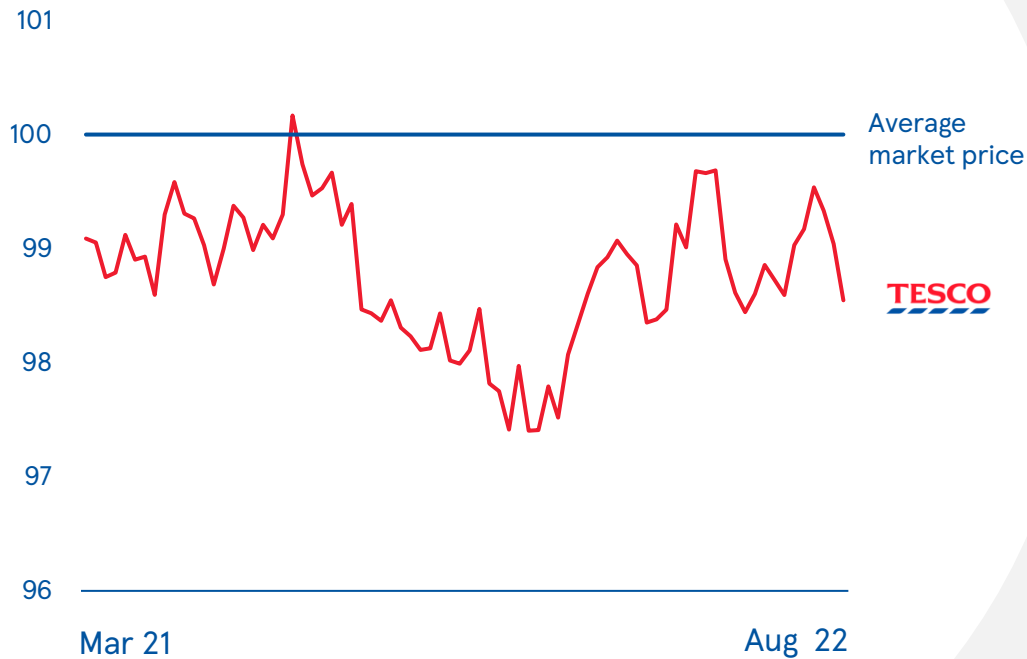


# Great prices.



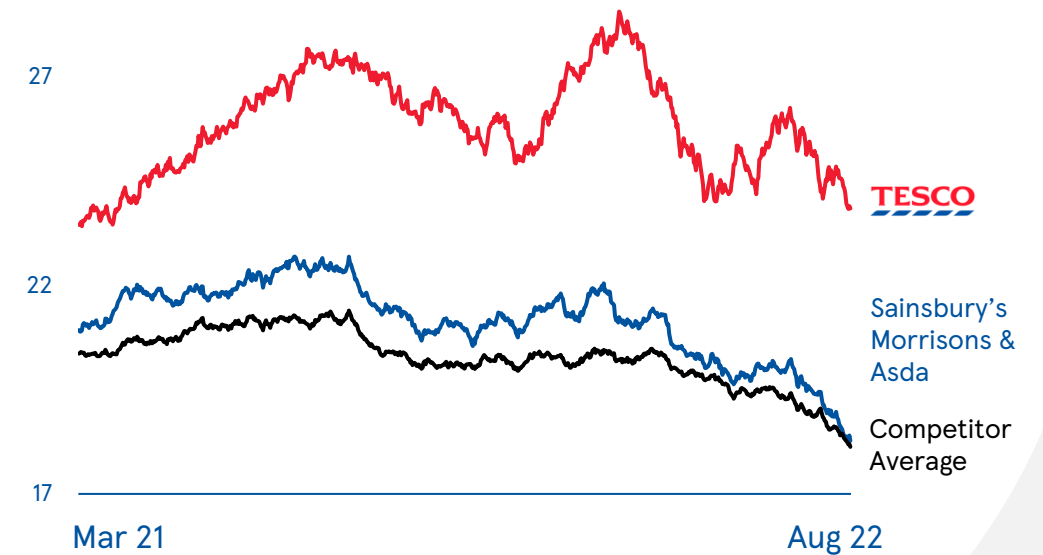
## Price position vs market<sup>1</sup>

### Lower prices relative to competition



## Value perception<sup>2</sup>

### Improved relative performance



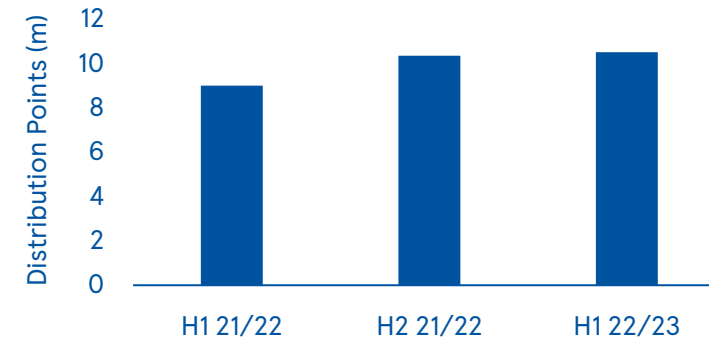
1. Calculated using the single retail selling price of each item, including price cut promotions; the index is weighted by sales and market share to reflect customer importance and competitor size. Competitor set consists of Sainsbury's, Morrisons, Asda, Aldi and Lidl.
2. YouGov Value perception on a 12 week rolling basis to 27 August 2022. 'Competitor average' consists of rest of Sainsbury's, Asda, Morrisons, Aldi, Lidl, M&S, Ocado, Co-op & Iceland.



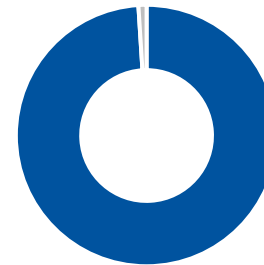
# Great prices.



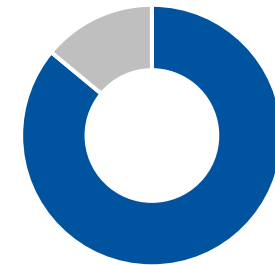
APM distribution



Aldi Price Match items in  
99% of large baskets<sup>1</sup>



Aldi Price Match items in  
>80% of top up baskets<sup>2</sup>



1. Percentage of baskets with over 30 items in Large stores that contained at least one Aldi Price Match product.
2. Percentage of baskets with between 10 to 30 items in Large and Express stores that contained at least one Aldi Price Match product.

# Great prices.

**TESCO**

Over 1000 low  
prices **locked**  
until 2023.

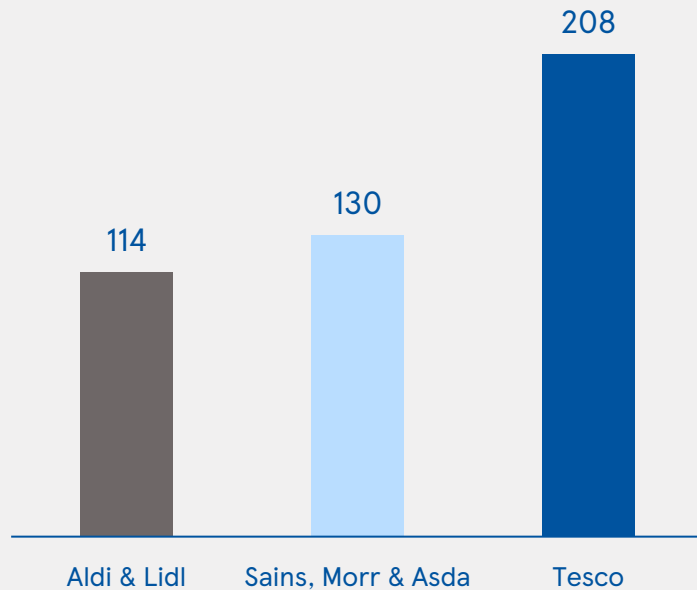
A circular logo with a thick red border. Inside the circle, the words "Low", "Everyday", and "Prices" are stacked vertically in a bold, black, sans-serif font. Below the text, centered at the bottom of the circle, is a black padlock icon with a white keyhole.

# Great quality.



## Quality perception<sup>1</sup>

YoY bps improvement



## New product development

**+13%**  
Tesco Finest  
SKU's



**1,612**  
product  
improvements



## Increased market share in Dinner For Tonight occasions<sup>2</sup>



1. YouGov quality perception on a 12 week rolling basis to 27 August 2022. YoY is comparing the 12 weeks to 27 August 2022 to the 12 weeks to 28 August 2021. 'Discounters' consists of Aldi and Lidl.  
2. Kantar 12w/e data to 4 September 2022, showing Tesco's share of the Dinner For Tonight market

# Health & Sustainability.



**Taking action to deliver against ambitious health targets**



**Electrifying our transport**



**Supporting British agriculture**



**Reducing food and packaging**





# I love my Tesco Clubcard.





# More engaging, relevant & personal.



## Clubcard penetration<sup>1</sup>



## Clubcard personalisation



### Coupons specially selected for you

Find them in the Tesco Grocery & Clubcard app for a great value summer\*. And you could win £100 off your F&M summer wardrobe\*\*.

Go to app

2m  
Clubcard  
holders

## Clubcard app users

UK 10m

ROI 300k

CE 1.0m



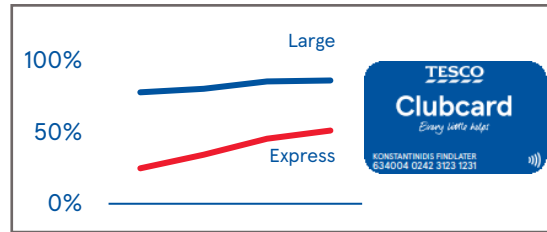
**TESCO**

1. Clubcard sales penetration across all formats in all three markets for August 2022.

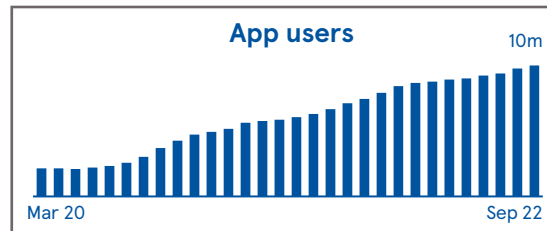
# Building a digital platform.



Customer proposition



Increasing penetration



Digital migration

Foundations



Personalisation

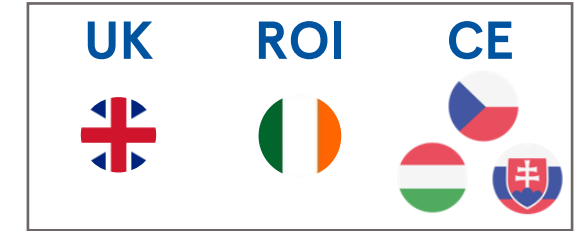


Digital experience

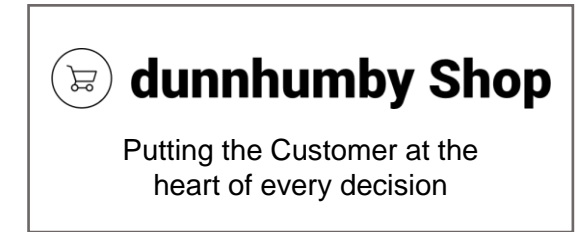


Data science

Capability



Group-wide



Working with suppliers



New opportunities

Application



**Easily  
the most  
convenient.**





# Online performance.

Normalisation in customer behaviour with significant switching into Tesco stores

Continuing net switching gains from all online competitors

Sales and orders both remain >50% ahead of pre-COVID levels

	22/23	1-year	3-year
LFL sales	<b>£2.7bn</b>	(11.3)%	53.4%
Orders/week	<b>1.13m</b>	(10.5)%	51.8%
Basket size	<b>£93</b>	(1.1)%	1.7%
% of UK sales	<b>12.9%</b>	(1.6)ppts	3.6ppts
Delivery saver subscribers	<b>666k</b>	(0.4)%	35.4%
Click & Collect locations	<b>530</b>	16.7%	61.0%

# Online performance.



Opened fifth UFC; two more later this year.  
Continuing to refine model



Click & Collect now within  
a 25min drive of >70% of  
UK households



More than doubled  
number of Whoosh  
sites to 442





# Enhancing our physical network.



New stores: 5  
New franchises: 28



**TESCO**  
*express*

New Express stores  
UK: 17  
ROI: 2  
CE: 1

Net new openings: 195



**TESCO**





# Save to invest.



# Save to invest.



Ahead of original three year plan

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On track for c.£500m this year

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Seeking to deliver c.£1bn by Feb 24 – one year early



# Summary.



A strong performance in a challenging market

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Investing for customers and colleagues at a time when they need us most

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Strategic priorities serving us well

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Relentless focus on value, competitiveness and operational execution

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Confident in our ability to generate and return cash



# Q&A.





# Appendix.



# Guidance.

Retail profit	FY 22/23 between £2.4bn and £2.5bn
Bank profit	c.£120m to £160m
Retail free cash flow	At least £1.8bn
Capex	At top end of guidance range of £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 <sup>2</sup>	Effective tax rate around 18% for FY 22/23; around 21% over medium term
Dividend	Progressive (broadly targeting c.50% of earnings) Interim dividend 35% of prior year full year dividend
Share buyback	Ongoing programme: £750m to be repurchased between April 2022 and April 2023

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

2. Tax guidance assumes the legislation is enacted ahead of our financial year-end. In the instance that this is not enacted by our financial year-end, our previous guidance for the current year, of between 21% and 22%, remains unchanged. Our guidance for the medium term of around 21% remains.



# 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**

# 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 debt<sup>1</sup>/EBITDA

=>

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

=>

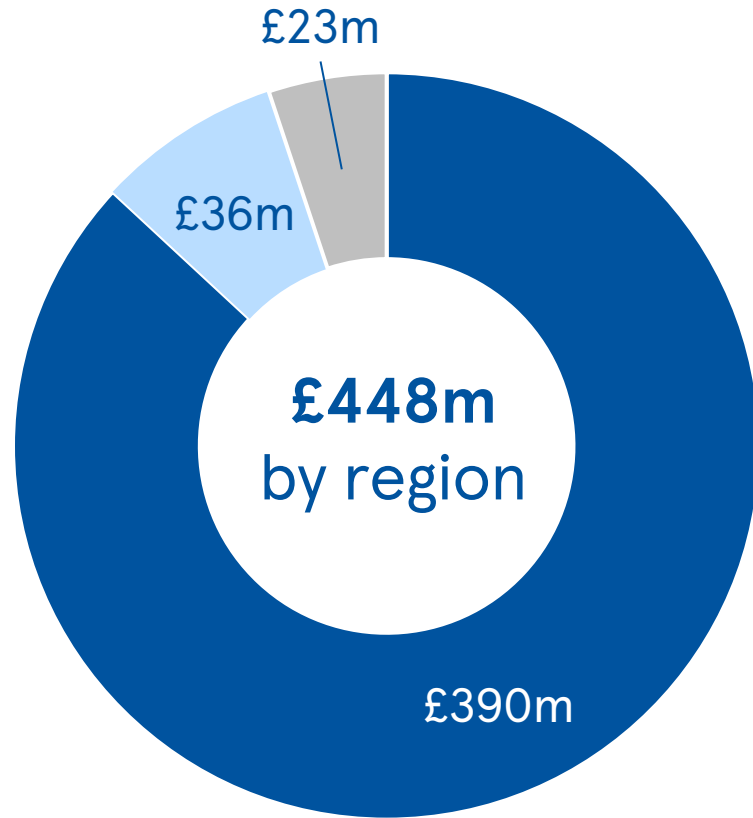
Include property buybacks where economically viable

=>

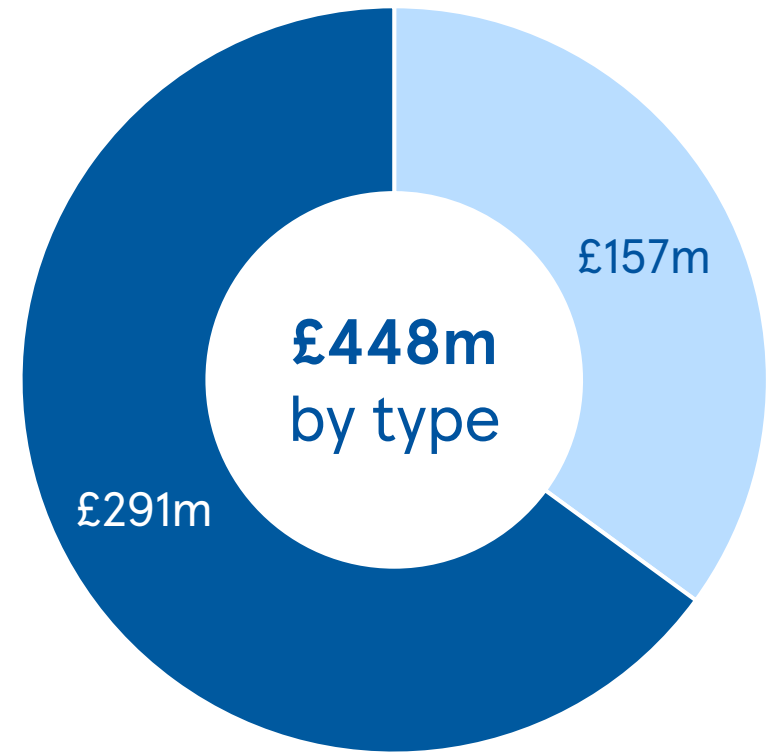
Likely to be in the form of share buybacks

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

# Capital expenditure – H1 22/23.



■ UK & ROI ■ Central Europe ■ Bank



■ Returning ■ Non-returning

# Debt and liquidity.

## Smooth debt maturity profile

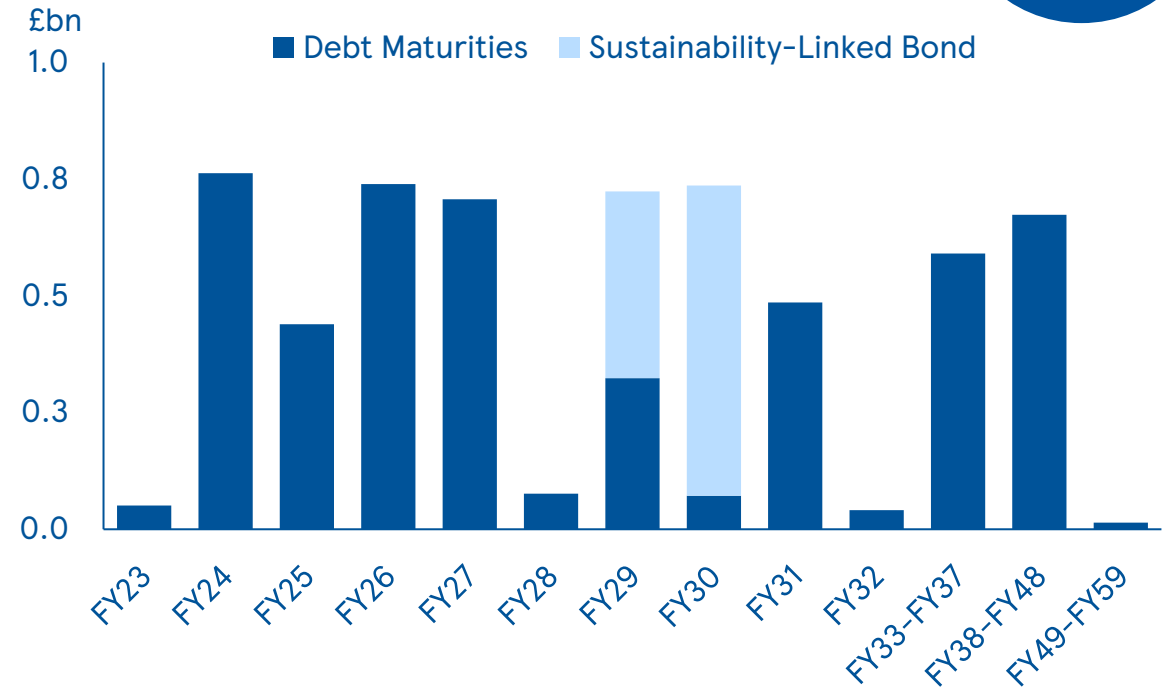
- Less than £1bn maturing in any year
- Weighted average maturity of c.8 years

Weighted average interest cost of 3.5%

## Strong liquidity position

- £3.2bn cash<sup>1</sup>
- £2.5bn of undrawn committed facilities

Debt  
maturity  
profile



# Adjusting items – H1 22/23.

	H1 22/23	H1 21/22
Net impairment reversal of non-current assets	£(626)m	£36m
Litigation costs	-	£(193)m
Property transactions	£81m	£21m
Amortisation of acquired intangible assets	£(38)m	£(38)m
Restructuring provision	£(7)m	-
ATM Business rates refund	£7m	-
Release of onerous contract provision	£5m	-
Disposal of Asia Operations	£2m	£19m
Fair value less cost of disposal movements on assets held for sale	£(3)m	£1m
<b>Total adjusting items in statutory operating profit</b>	<b>£(579)m</b>	<b>£(154)m</b>



# Disclaimer.

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