



Tesco Interim Results 2022/23. Debt Investor Call.

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Lynda Heywood, Group Treasurer

5 October 2022

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

Group performance.

Sales¹

+3.5%

Like-for-like +3.2%

Group profit²

£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 ¹	Change at constant rates	LFL
UK & ROI	£25,630m	2.6%	2.7%
Central Europe	£2,008m	9.5%	10.4%
Total Retail	£27,638m	3.1%	3.2%
Bank	£540m	24.6%	n/a
Group	£28,178m	3.5%	3.2%

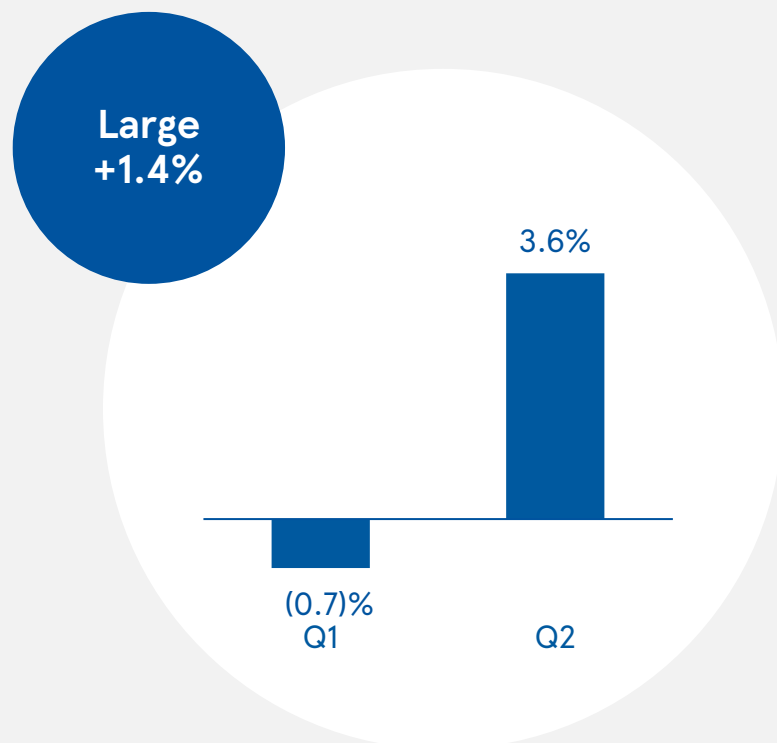
	Adjusted operating profit ²	Change at constant rates	Margin
UK & ROI	£1,169m	(11.5)%	3.9%
Central Europe	£79m	19.1%	3.7%
Total Retail	£1,248m	(10.0)%	3.9%
Bank	£67m	(6.9)%	12.4%
Group	£1,315m	(9.8)%	4.1%

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

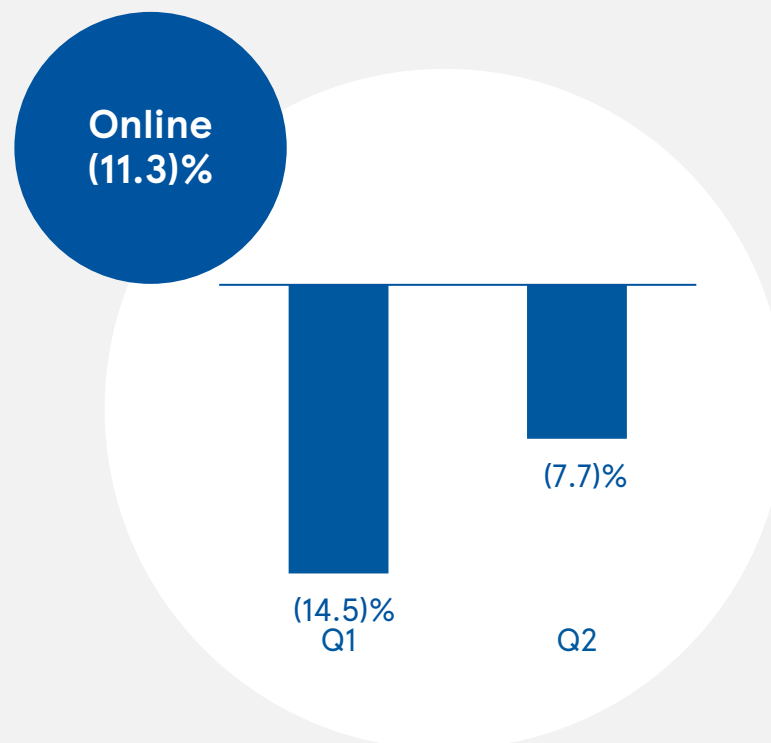
UK sales.

Like-for-like by channel

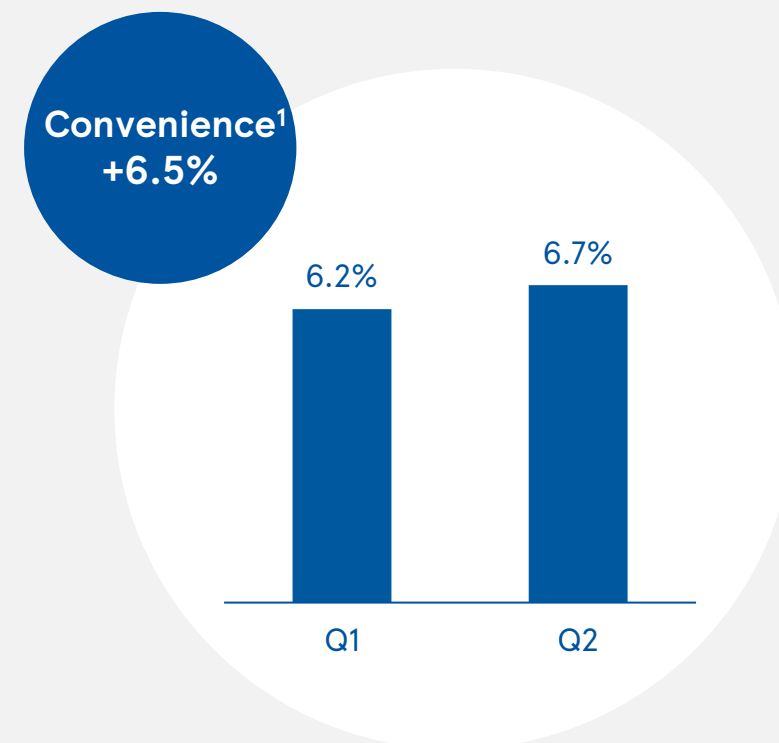
	Q1	Q2	H1
UK LFL	(1.5)%	+2.8%	+0.7%



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.

ROI.

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

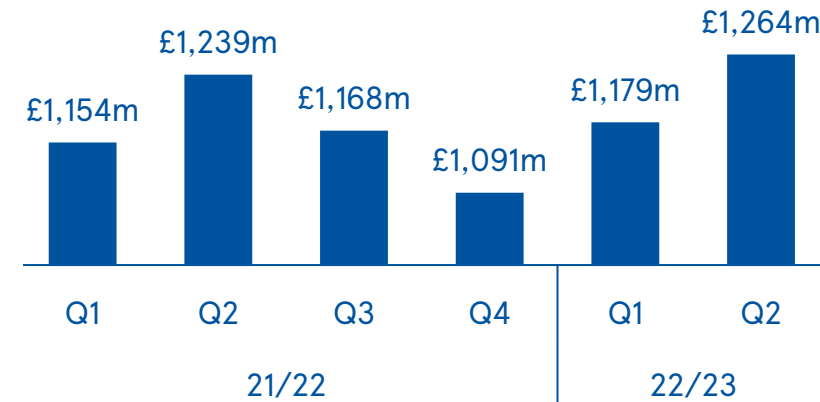
Further expansion of Online – now represents 9% of sales

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%

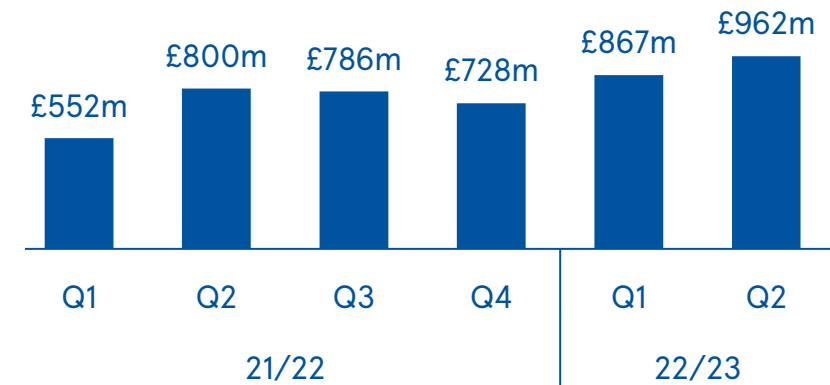
	Sales	LFL
Total	£4,399m¹	13.9%
Retail	£2,442m	2.2%
Catering	£1,830m	35.5%
Booker Catering	£1,090m	36.1%
Best Food Logistics	£740m	34.6%

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 +16bps¹ YoY driven by switching gains

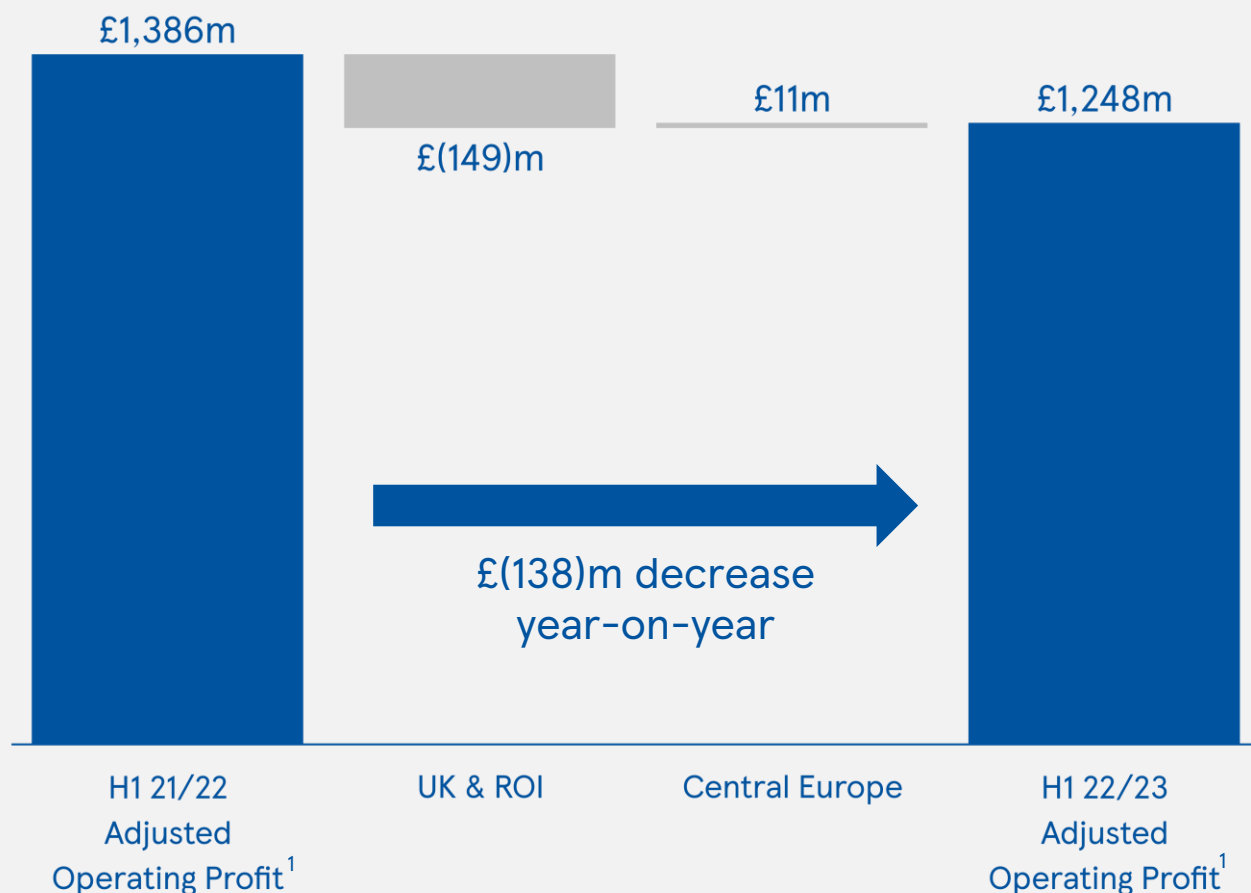
Clubcard Prices and Low Price Guarantee rolled-out across all countries

		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 ¹	£1,169m	£79m	£1,248m
Year-on-year	£(149)m	£11m	£(138)m
Change % ²	(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.

Statutory profit after tax.

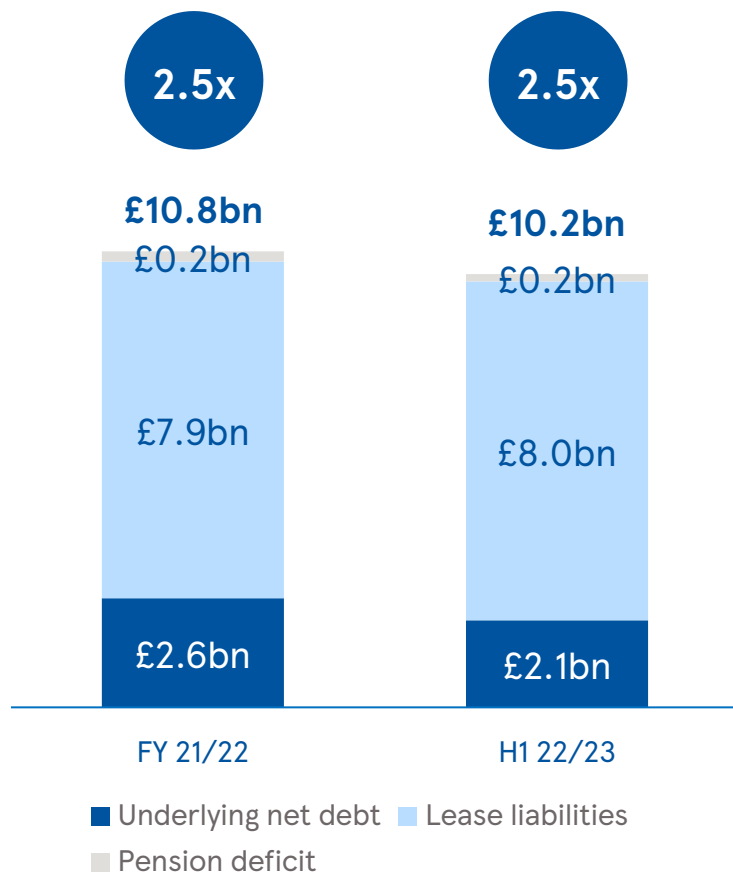
	H1 22/23	H1 21/22	Change %
Adjusted operating profit	£1,315m	£1,458m	(9.8)%
Adjusting items	£(579)m	£(154)m	
<i>Impairment of non-current assets</i>	£(626)m	£36m	Non-cash impairment charge in current year driven by increase in discount rates
<i>Litigation costs</i>	£0m	£(193)m	Prior year charge relates 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
Statutory profit after tax	£265m	£830m	(68.1)%

Retail free cash flow.

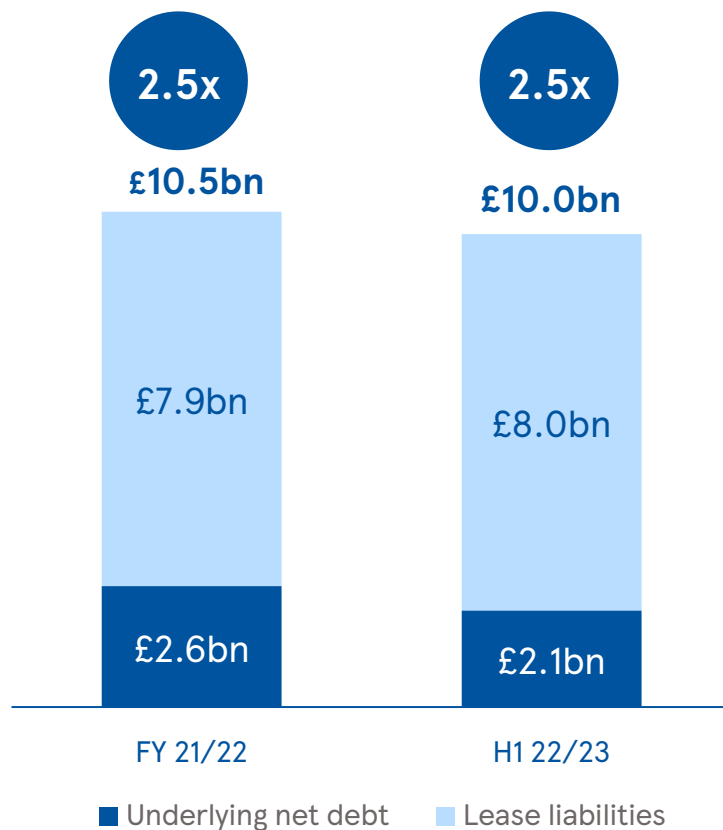
	H1 22/23	H1 21/22	YoY	
Retail cash generated from operations exc. working capital	£2,030m	£2,183m	£(153)m	Lower volumes and opex inflation, partially offset by Save to Invest
Decrease in working capital	£390m	£556m	£(166)m	Inflow from higher trade balances due to higher food cost prices
Retail operating cash flow	£2,420m	£2,739m	£(319)m	
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
Retail free cash flow	£1,283m	£1,543m	£(260)m	

Balance sheet metrics.

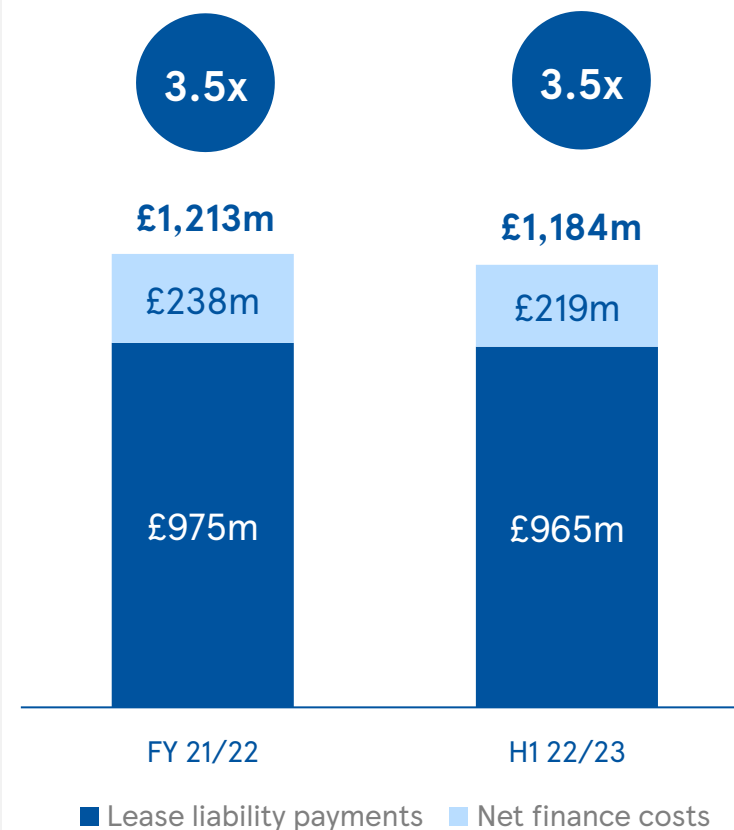
Total indebtedness¹



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, 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.

Debt and liquidity.

Smooth debt maturity profile

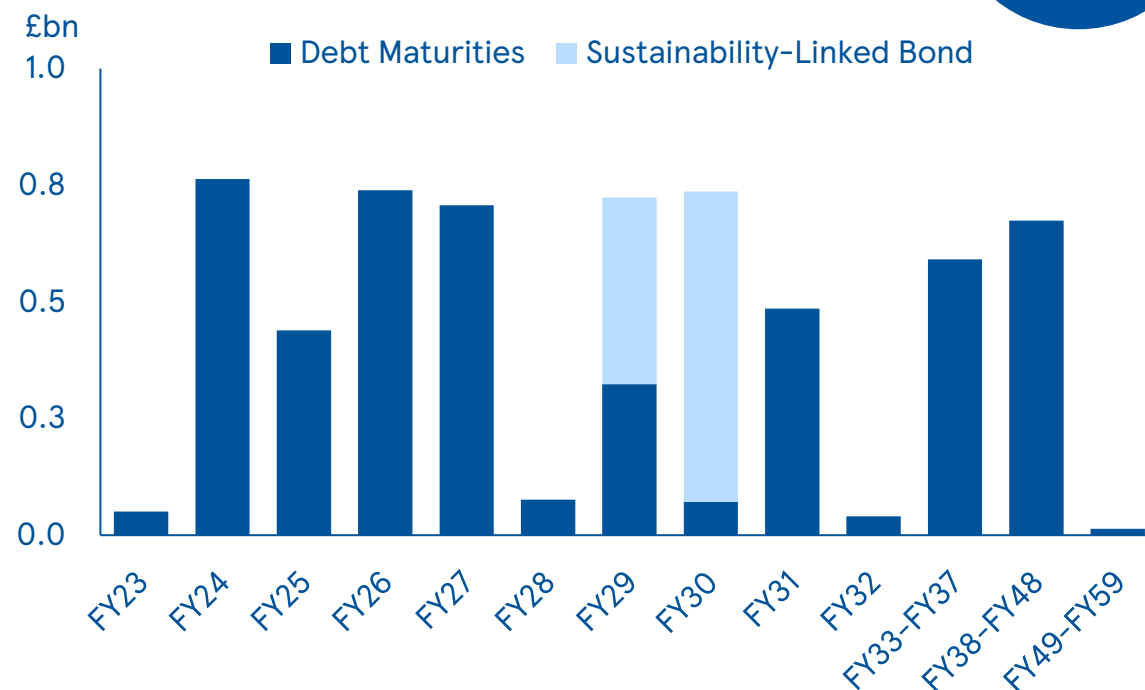
- Less than £1bn maturing in any year
- Weighted average maturity of c.8 years

Weighted average interest cost of 3.5%

Strong liquidity position

- £3.2bn cash¹
- £2.5bn of undrawn committed facilities

Debt
maturity
profile



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



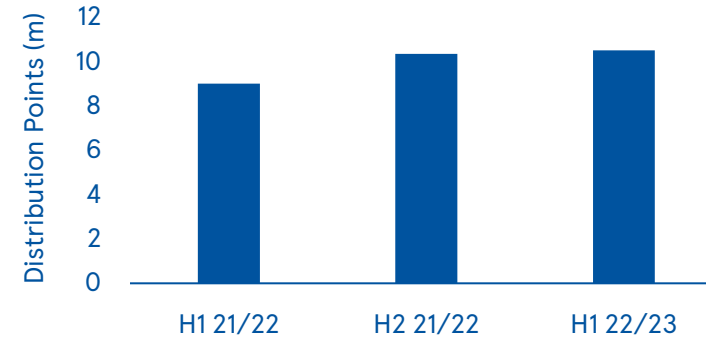
**Save to
invest**

Simplify, become more
productive & reduce costs

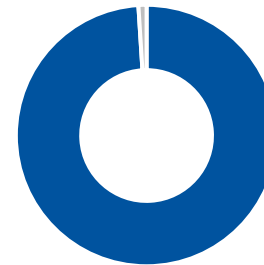
Great prices.



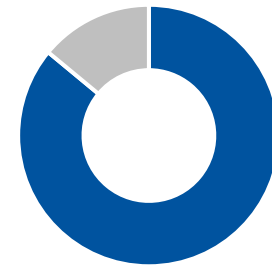
APM distribution



Aldi Price Match items in
99% of large baskets¹



Aldi Price Match items in
>80% of top up baskets²



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.

More engaging, relevant & personal.



Clubcard penetration¹



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&N summer wardrobe**.

Go to app

2m
Clubcard
holders

Clubcard app users

UK 10m

ROI 300k

CE 1.0m



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

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



Save to invest.



Ahead of original three year plan

On track for c.£500m this year

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



Summary.



A strong performance in a challenging market

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

Strategic priorities serving us well

Relentless focus on value, competitiveness and operational execution

Confident in our ability to generate and return cash

Q&A.



Appendix.



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

Fitch (February 2022)

“Tesco’s [rating] of ‘BBB-’ reflects its position as a leading European food retailer, characterised by a strong market position in its core highly competitive UK market.”

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.

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

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 ¹ /EBITDA
Tax ²	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.

Disclaimer.

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