

# Tesco Interim Results 2023/24.

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

4 October 2023





# 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



# Introduction.

Ken Murphy



# Introduction.

Winning with customers; improving satisfaction and growing market share

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Committed to doing everything we can to invest in value and lower prices

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Building on our strong foundations with further strategic progress





# Focus on customers has led to a strong performance.

Sales<sup>1</sup>

**£30.7bn**

+8.9% YoY

Profit<sup>2</sup>

**£1,482m**

+14.0% YoY

Cash

**£1.4bn**

+6.6% YoY

1. Group sales exclude VAT and fuel. Sales change shown at actual rates.

2. Group adjusted operating profit, comprises Retail adjusted profit (£1,417m, +13.5% YoY) and Bank adjusted operating profit (£65m, +25.0% YoY). Change shown at actual rates.



# Increasing customer satisfaction.

Brand NPS<sup>1</sup>



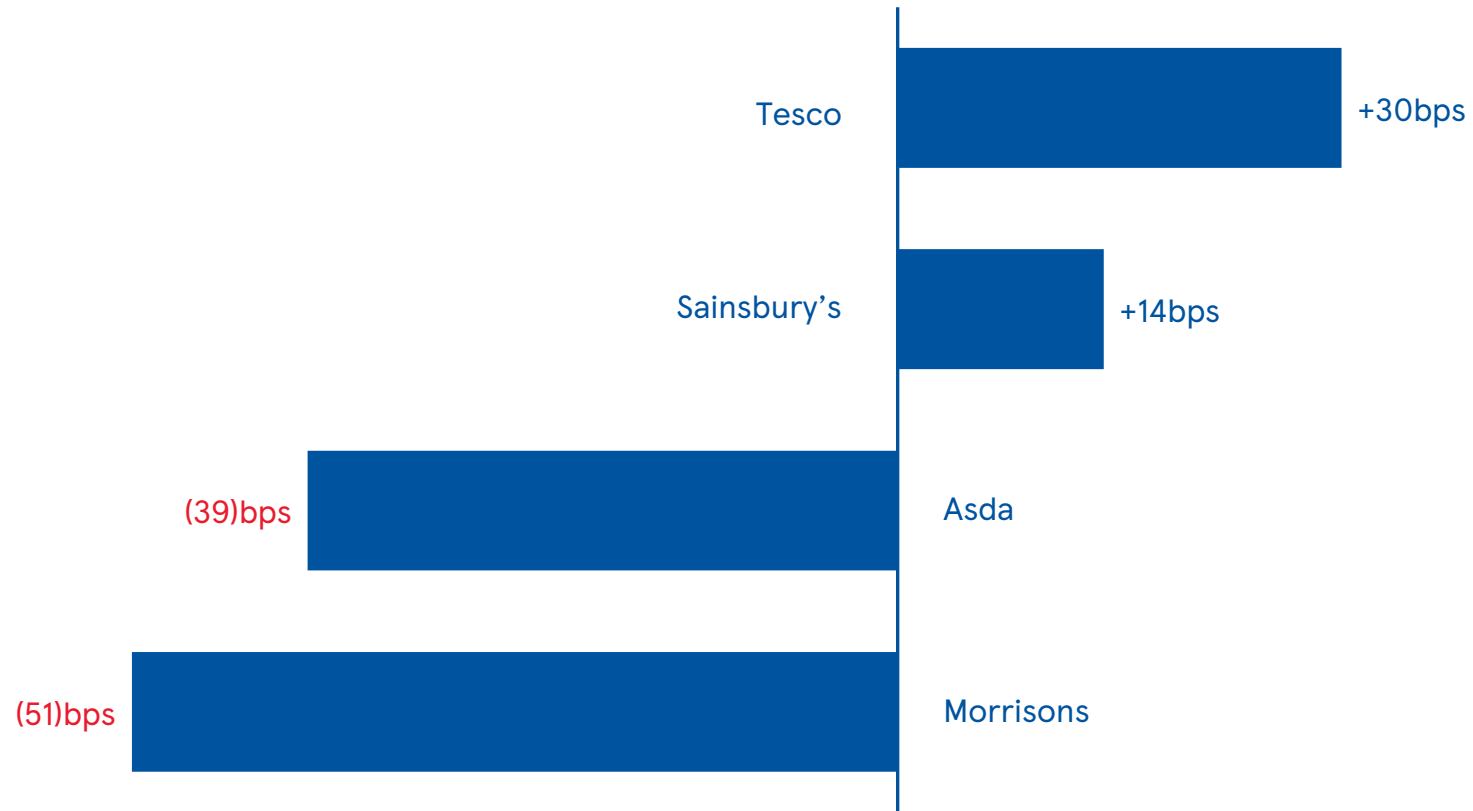
1. BASIS Global Brand Tracker NPS, three period rolling data.

2. Other full-line grocers refers to Sainsbury's, Asda and Morrisons.



# Growing UK market share.

## Largest market share gain of full-line grocers<sup>1</sup>





# Helping customers spend less.



**Tesco Broccoli 375g**

**72p**



Makes for a crispy  
Quiche Tray Bake.  
Delicious hot or  
cold to match the  
British summer.  
That's true value.

**Cut  
to the  
essentials**

**Price  
Cuts**

Was 80p  
**NOW 75p**

Was £1.66  
**NOW £1.45**

Was £2.00  
**NOW £1.90**

We've cut prices on 100s of products  
to help with your everyday essentials.  
Look out for these in-store and online.

**TESCO**  
*Every little helps*

## Kids eat free.



The  
**Café**



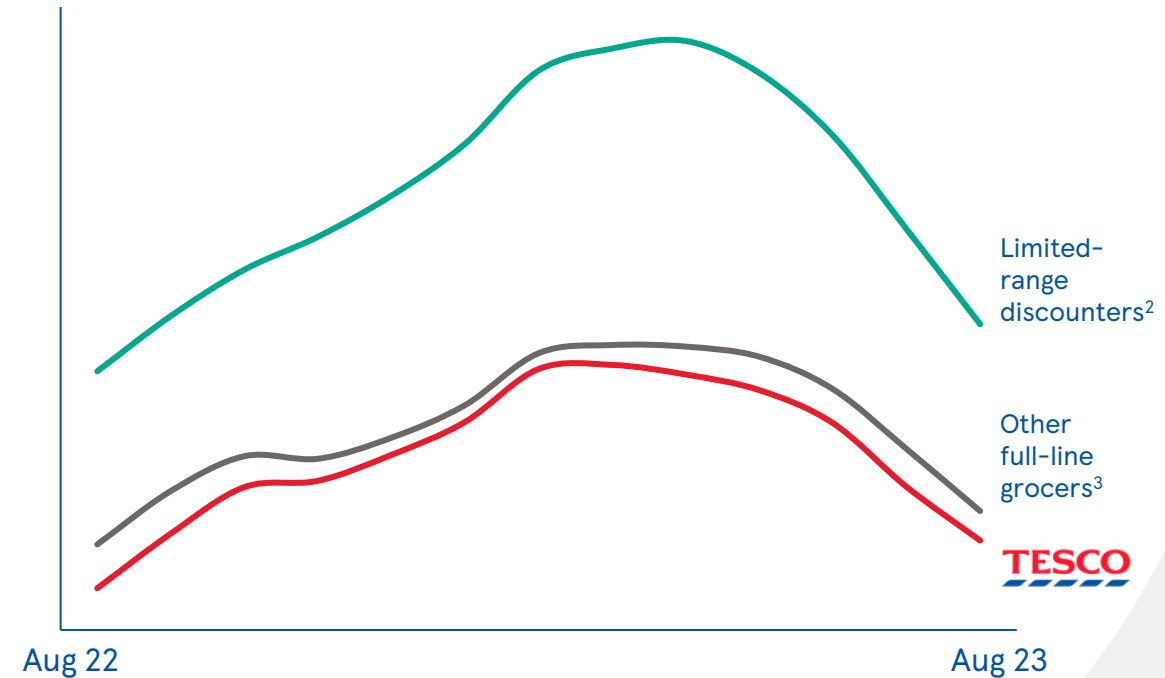
# Leading the way on value.

Working collaboratively with supplier partners to unlock cost savings as quickly as possible

Leveraging data and insight capabilities to reduce prices ahead of competitors

First to market with price cuts on key everyday items such as milk, pasta and cooking oil

Continuing to inflate behind the market<sup>1</sup>



1. Kantar 12 w/e inflation data to 3 September 2023.  
2. Limited-range discounters refers to Aldi and Lidl.  
3. Other full-line grocers refers to Sainsbury's, Asda and Morrisons.



# Combining great value with great quality.

335 new products launched in the half,  
improved a further 1,150

13 consecutive periods of switching gains  
from premium retailers<sup>1</sup>

Increased market share in 'Dinner for  
Tonight' mission





# Investing in our colleagues.

Record increase in colleague pay, c.£1bn investment since April 2021<sup>1</sup>

Enhanced Employee Assistance Programme, including access to virtual GP appointments

Focus on inclusion:

- First major supermarket to offer right to request flexible working
- Improved maternity, adoption & kinship leave



# Supporting our suppliers, communities & planet.



- Helping develop sustainable agriculture skills
- Additional £10m support for UK egg farmers
- 1<sup>st</sup> place Advantage supplier survey (8<sup>th</sup> year)



- £5m Stronger Starts grants scheme launched
- 21m meals donated to food banks & charities
- First retailer to cover VAT on period pants



- 1<sup>st</sup> retailer with SBTi<sup>1</sup> validated climate targets
- 500<sup>th</sup> electric delivery van rolled out
- Rapid expansion of low-carbon fertiliser



# Half year results.

Imran Nawaz



# Performance headlines.

Strong sales across the Group

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Profit growth supported by Save to Invest delivery and a resilient volume performance

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Another strong retail free cash flow performance

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Bought back £503m worth of shares across the half

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Net debt reduced by £0.6bn versus year-end

**Retail sales<sup>1</sup>**

**+8.2%**

Like-for-like +7.8%

**Retail profit<sup>2</sup>**

**£1,417m**

+13.5% vs. last year

**Retail free cash**

**£1,368m**

£85m vs. last year

**Net debt**

**£(9,888)m**

reduced by £605m vs FY23

**EPS<sup>3</sup>**

**12.26p**

+16.8% vs. last year

**Interim dividend**

**3.85p**

in-line with last year<sup>4</sup>

1. Sales exclude VAT and fuel. Sales change shown at constant rates.
2. Retail adjusted operating profit before adjusting items. Change shown at constant rates.
3. Adjusted diluted EPS excludes adjusting items.
4. In line with interim dividend policy of 35% of prior year total dividend.



# Segmental performance.

	Sales <sup>1</sup>	Change at constant rates <sup>2</sup>	LFL	Adjusted operating profit <sup>3</sup>	Change at constant rates <sup>2</sup>	Margin <sup>4</sup>
UK & ROI	£27,913m	8.8%	8.4%	£1,371m	17.2%	4.4%
Central Europe	£2,134m	1.4%	0.9%	£46m	(41.8)%	2.1%
<b>Retail</b>	<b>£30,047m</b>	<b>8.2%</b>	<b>7.8%</b>	<b>£1,417m</b>	<b>13.5%</b>	<b>4.2%</b>
Bank	£702m	16.5%		£65m	25.0%	9.3%
<b>Group sales</b>	<b>£30,749m</b>	<b>8.4%</b>		<b>£1,482m</b>	<b>13.9%</b>	<b>4.3%</b>

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

2. Comparatives have been restated for the adoption of IFRS17 Insurance Contracts, primarily impacting Tesco Bank.

3. Operating profit before adjusting items. Profit change shown at constant rates.

4. Margin % at actual rates.



# UK.

LFL sales +8.7%; Food inflation easing with volumes stronger than anticipated

Home & Clothing performance reflects decision to exit low-margin categories

Large stores performance driven by market leading availability and strong trade events

Convenience performance reflects YoY weather impact; City centre stores performing well

H1 LFL  
+8.7%

10.6%

Food

(4.8)%

Home  
& Clothing

9.3%

Large

5.1%

Convenience

10.0%

Online



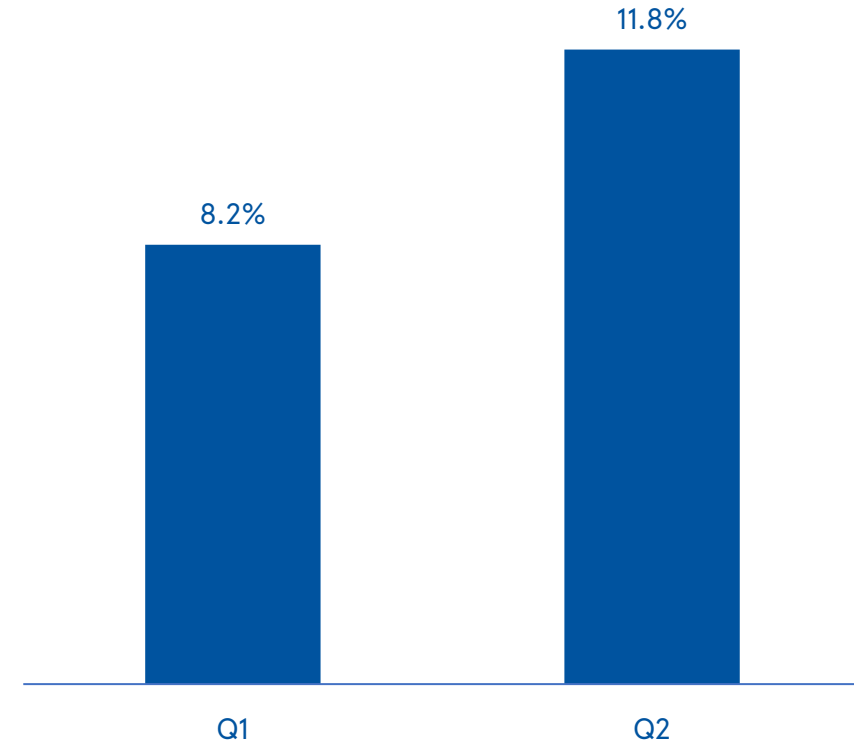
# UK – Online.

Stable online sales participation year-on-year at 13%, up +4ppts versus pre-pandemic

Online market share<sup>1</sup> up +71bps driven by significant availability improvements

Tesco Whoosh rolled out to over 400 further stores, taking the total number to 1,414

Online  
H1 LFL  
+10.0%





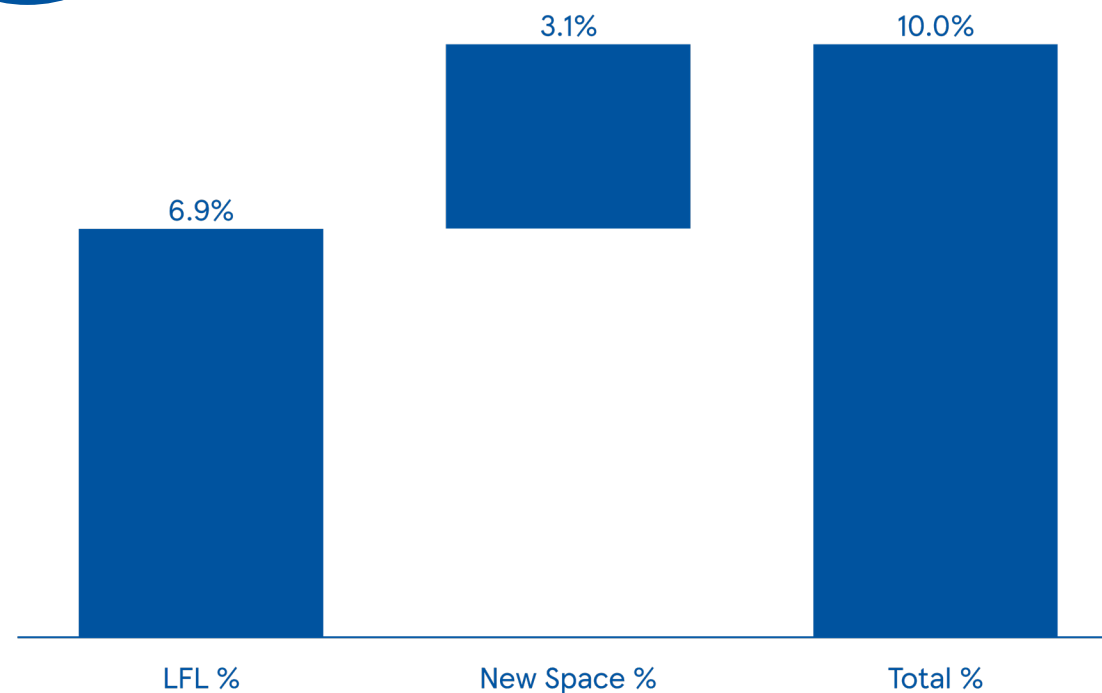
# ROI.

LFL sales growth of +6.9%, with volume up in the second quarter

Prices lowered on over 700 products through 'Price Cuts' campaign; Fresh food +8.9%

New space contributing +3.1%, primarily driven by acquired Joyce's stores

H1 growth<sup>1</sup>  
+10.0%



1. Growth shown at constant rates.



# Booker.

Strong performance in both catering and retail

Growth excluding tobacco of +11.5%

Retail growth supported by 143 new retail partners<sup>2</sup>

Catering driven by volume growth from independents and record high availability

	Sales	LFL
<b>Total<sup>1</sup></b>	<b>£4,704m</b>	<b>7.5%</b>
<b>Retail</b>	<b>£2,587m</b>	<b>6.0%</b>
Retail excl. Tobacco	£1,647m	14.2%
<b>Catering</b>	<b>£1,973m</b>	<b>9.1%</b>
Booker Catering	£1,194m	11.6%
Best Food Logistics	£779m	5.4%

1. Including small business £144m.

2. Booker retail partners includes: Budgens, Londis, Family Shopper and Premier fascias.



# Central Europe.

LFL sales +0.9%, reflecting market volume contraction due to sustained high inflation

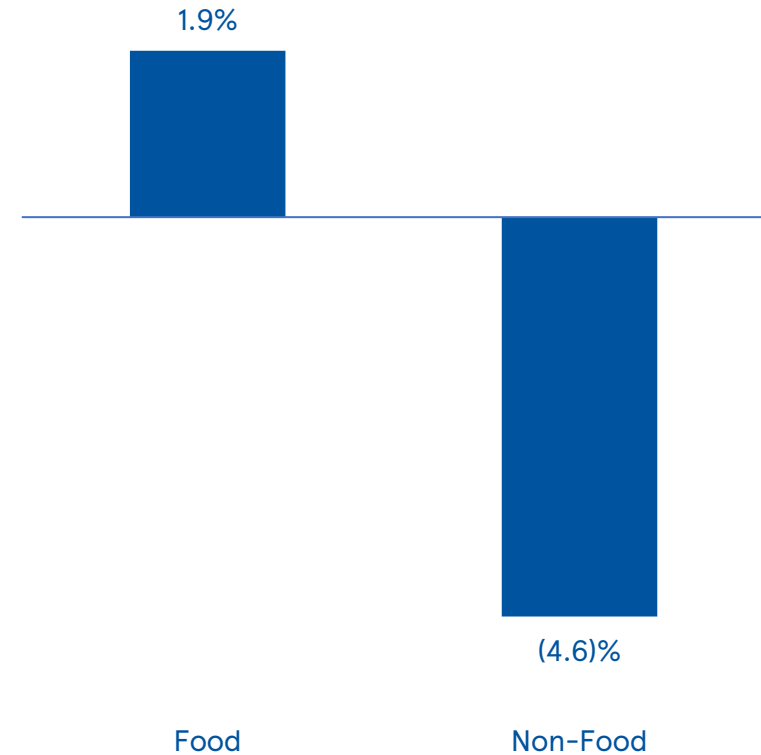
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Food sales up +1.9%, as we cut the price of thousands of products

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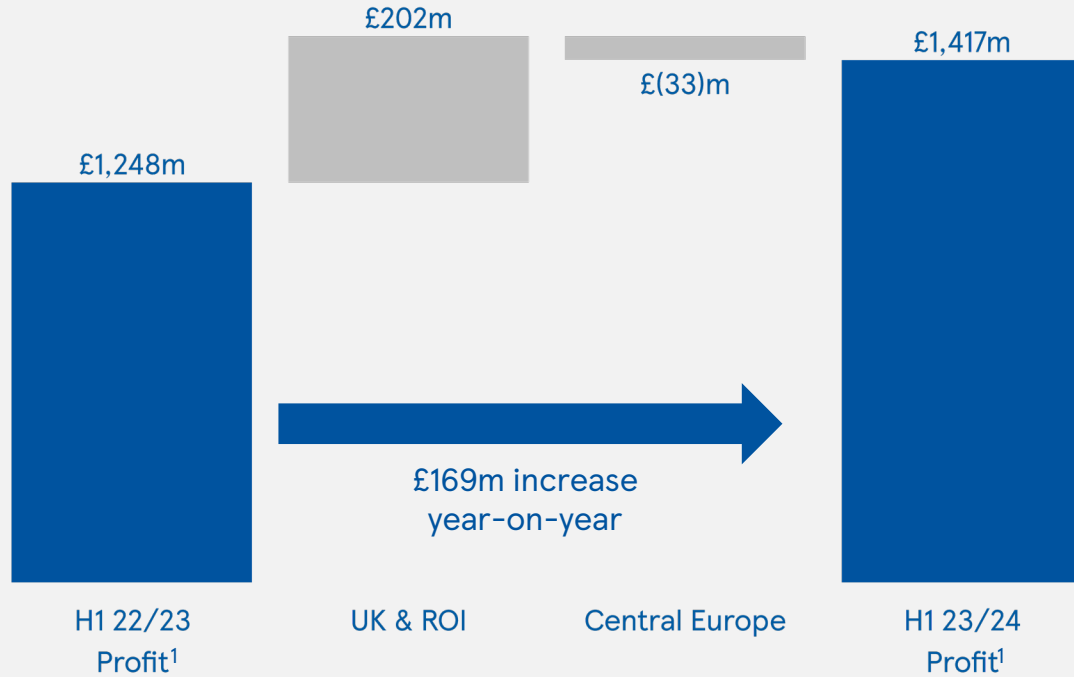
Non-food performance impacted by reduction in discretionary spending across the market

H1 LFL  
+0.9%





# Retail operating profit.

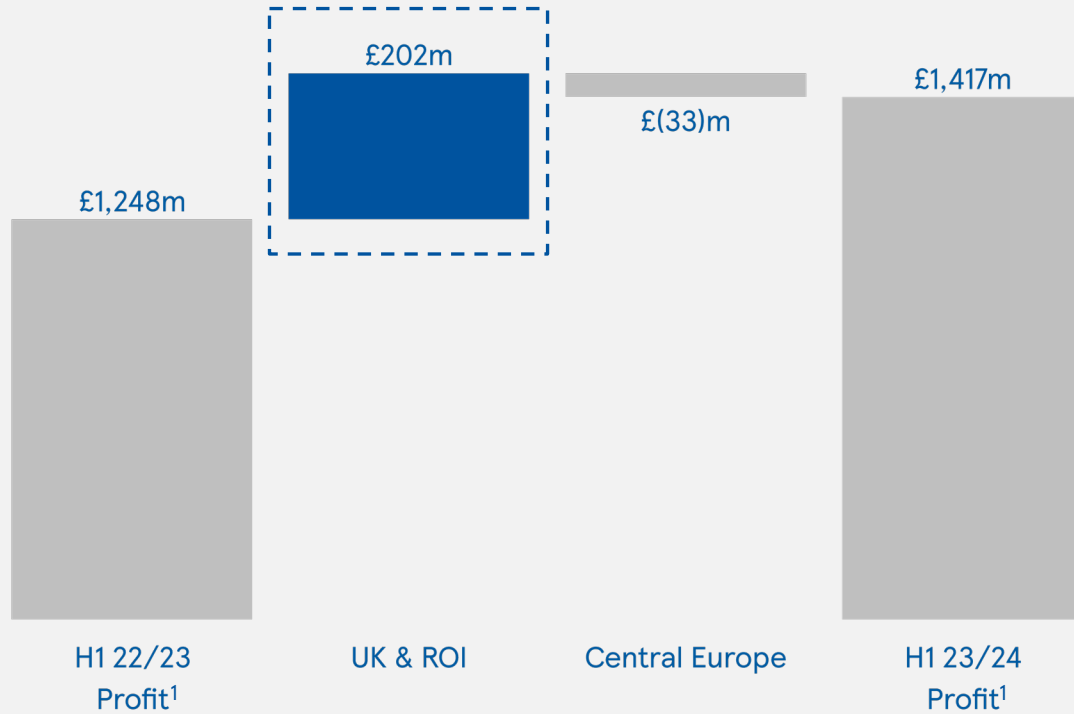


	UK & ROI	CE	Retail
Operating profit <sup>1</sup>	£1,371m	£46m	£1,417m
Margin <sup>2</sup>	4.4%	2.1%	4.2%
Margin YoY <sup>2</sup>	47 bps	(163) bps	33 bps

1. Retail adjusted operating profit before adjusting items at actual rates.
2. Margin % shown at actual rates.



# Retail operating profit – UK & ROI.

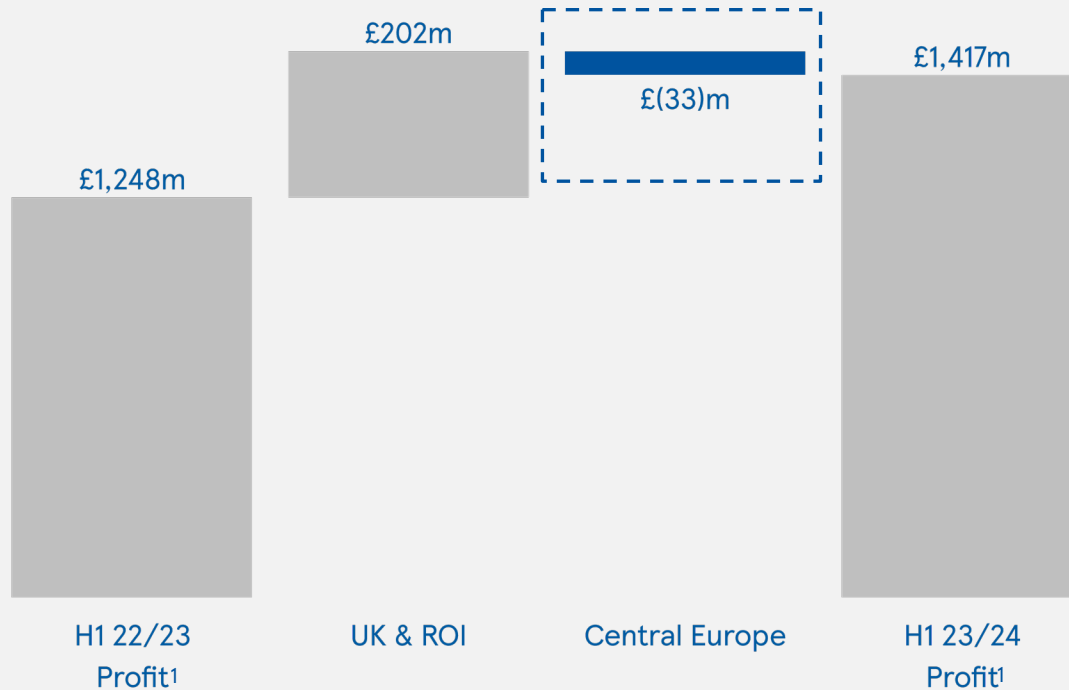


## Profit growth² of +17.2% reflective of:

- Another strong Save to Invest delivery
- Input and operating cost pressures well managed
- Volumes holding up well, reflecting ongoing customer investments
- Strong Booker performance and new space in ROI
- Margin³ restored to similar levels seen pre-pandemic

1. Retail adjusted operating profit before adjusting items at actual rates.  
2. Percentage change shown at constant rates.  
3. Margin % shown at actual rates.

# Retail operating profit – Central Europe.



## Profit step back<sup>2</sup> of (41.8)% reflective of:

- Challenging external factors in Hungary; currency devaluation, price caps and mandatory promotions
- Significant inflationary pressure within the cost base, driven largely by energy
- Partially offset by Save to Invest delivery

1. Retail adjusted operating profit before adjusting items.  
2. Percentage change shown at constant rates.



# Tesco Bank.

Strong revenue growth driven by higher credit card balances and yields

Profit growth reflects strong income performance and lower impairment charge

One-off special dividend of £250m paid to the Group, reflecting strength of the balance sheet

	H1 23/24	H1 22/23 <sup>1</sup>
<b>Revenue</b>	<b>£702m</b>	£603m
<b>Operating profit<sup>2</sup></b>	<b>£65m</b>	£52m
Net interest margin	<b>4.7%</b>	4.7%
Cost:income ratio	<b>72.6%</b>	72.2%
Total capital ratio	<b>20.4%</b>	25.5%
Bad debt coverage ratio	<b>5.7%</b>	6.4%

1. Comparatives have been restated for the adoption of IFRS17 Insurance Contracts.  
2. Operating profit before adjusting items.

# Statutory profit after tax.

- Statutory profit up £677m, driven by a £(626)m non-cash net impairment on non-current assets in the prior year
- No impairment charge in H1 – discount rates have been largely stable since February 2023
- Net finance costs down £58m year-on-year driven by fair value remeasurement of financial instruments
- Higher tax charge reflecting increase in UK corporation tax rate and growth in retail operating profit

	H1 23/24 £m	H1 22/23 <sup>1</sup> £m	YoY £m
<b>Adjusted operating profit</b>	<b>1,482</b>	<b>1,300</b>	<b>182</b>
Adjusting items:	–	(579)	579
Impairment	–	(626)	626
Restructuring costs	(37)	(38)	1
Other	37	85	(48)
Net finance costs	(269)	(327)	58
Joint ventures and associates	4	2	2
Group tax	(288)	(144)	(144)
<b>Statutory profit after tax<sup>2</sup></b>	<b>929</b>	<b>252</b>	<b>677</b>

1. Comparatives have been restated for the adoption of IFRS17 Insurance Contracts, primarily impacting Tesco Bank.  
2. Statutory profit after tax is from continuing operations.



# Retail free cash flow.

- Tracking ahead of full year target range £1.4bn – £1.8bn
- Working capital inflow of £368m driven by higher trade balances, due to strong sales performance and cost price inflation
- Higher capital investment, driven by earlier phasing of spend
- Net interest of £(273)m is lower year on year due to higher levels of interest on short-term cash deposits

	H1 23/24 £m	H1 22/23 <sup>1</sup> £m
<b>Retail cash generated pre-working capital</b>	<b>2,212</b>	<b>2,030</b>
Decrease in working capital	368	390
<b>Retail operating cash flow</b>	<b>2,580</b>	<b>2,420</b>
Cash capex <sup>1</sup>	(595)	(507)
Net interest	(273)	(294)
Tax paid	(38)	(45)
Dividends received	6	5
Repayments of obligations under leases	(306)	(292)
Own shares purchased for share schemes	(6)	(4)
<b>Retail free cash flow</b>	<b>1,368</b>	<b>1,283</b>

1. Capex excluding property buybacks and store purchases.

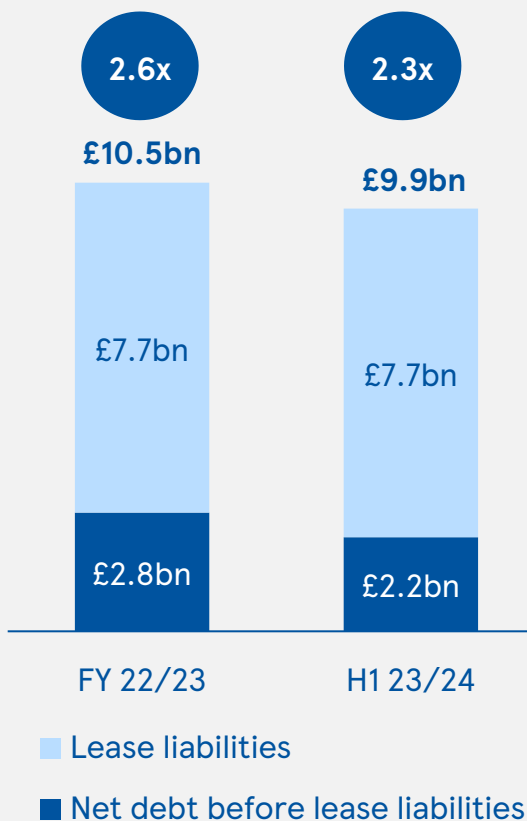
# Balance sheet metrics.

Balance sheet remains strong

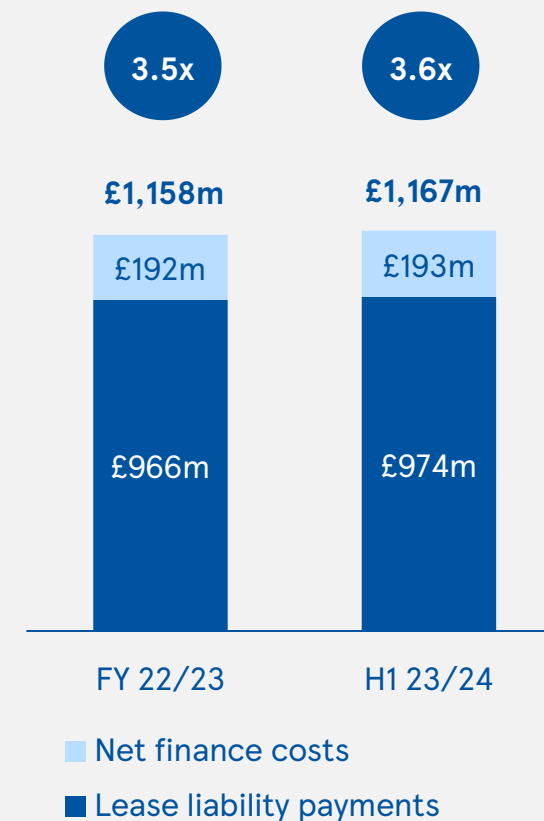
Net debt reduced £0.6bn, driven by strong retail free cash flow and receipt of a £250m special dividend from Tesco Bank

Net debt ratio 2.3x, within target range of 2.3 to 2.8 times

Net debt<sup>1</sup>



Fixed charge cover<sup>2</sup>



1. Net debt is inclusive of IFRS 16 lease obligations, but excludes Tesco Bank.
2. Fixed charge comprises net finance costs (excluding net pension finance income/costs, finance charges payable on lease liabilities, capitalised interest and fair value remeasurements) and total lease liability payments from continuing operations.



# FY 23/24 outlook.

Expect to deliver retail adjusted operating profit between £2.6bn and £2.7bn

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Retail free cash flow expected to be £1.8bn to £2.0bn, ahead of our medium-term guidance range

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Continue to expect Bank adjusted operating profit of between £130m and £160m

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£503m of shares bought back to date; £247m further shares to be bought back by April 2024



# Summary.

Strong sales growth across all businesses

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Solid profit delivery – supported by c.£290m Save to Invest

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Strong retail free cash flow, with guidance upgrade

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Interim dividend 3.85p, in line with policy

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Almost £1.6bn of shares purchased to date<sup>1</sup>; commitment to buy back a further c.£250m by April 2024





# Strategic progress.

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



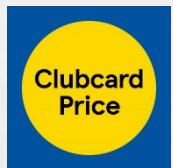
# Unrivalled value combination.



+12% increase in Aldi Price Match products distribution



Over 1,000 Low Everyday Prices locked throughout the half



>8,000 products on Clubcard Prices



Tesco Lentil & Vegetable Bolognese  
392g

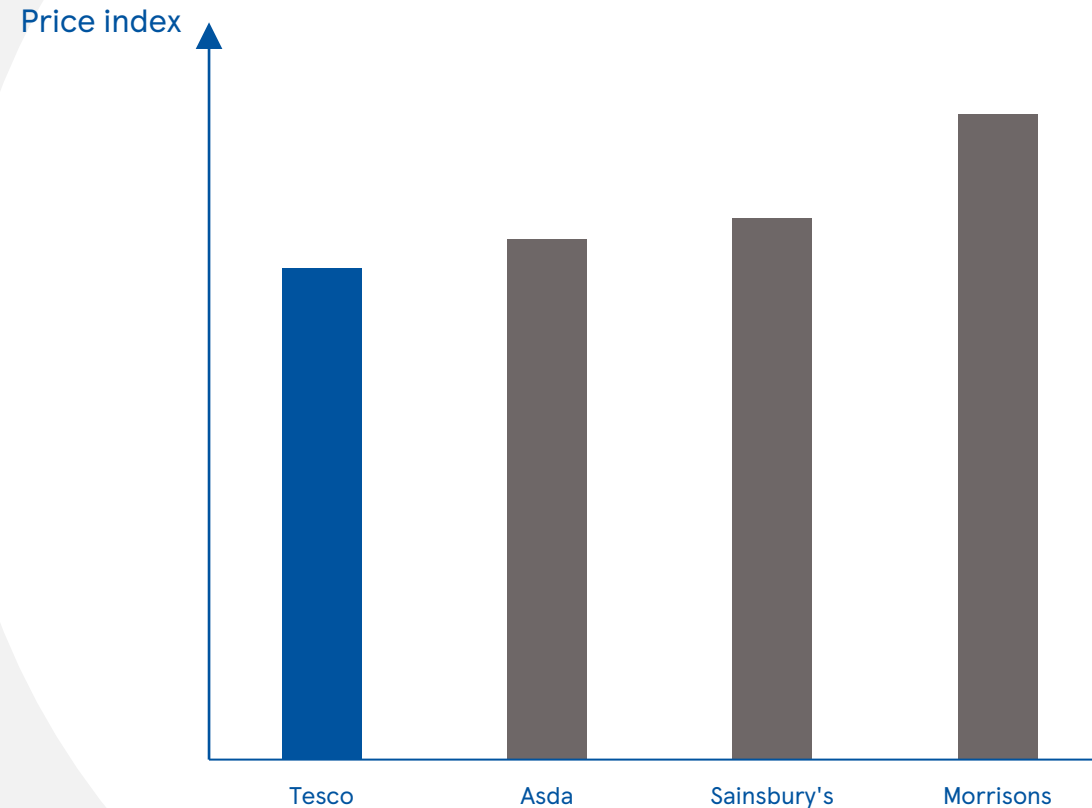
Was £1.75  
NOW £1.50

TESCO

# Our most competitive prices ever.



## Cheapest full-line grocer<sup>1</sup>



1. UK Price index is an internal measure calculated using the retail selling price of each item on a per unit or unit of measure basis. Competitor retail selling prices are collected weekly by a third party. The price index includes price cut promotions and is weighted by sales to reflect customer importance. Full-line grocers consists of Tesco, Sainsbury's, Asda and Morrisons.



# Unwavering focus on quality.



152 Finest products launched  
+4.1% volumes year-on-year



Making good progress towards our  
2025 target of 65% healthy sales<sup>1</sup>



goodfood

39 awards won, including IWC<sup>2</sup>  
'Wine Supermarket of the Year'

1. Tesco tracks the healthiness of its products and ranges using the UK Government's nutrient profiling model.
2. The International Wine Challenge.

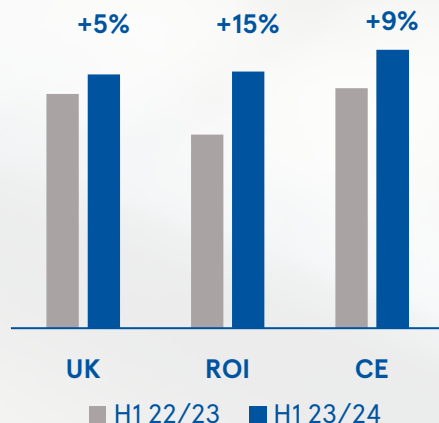
TESCO



# Unique & powerful digital platform.



Significantly increasing Clubcard sales penetration<sup>1</sup>



**16m**

Tesco app users across the Group

**7.5m**

Customers using digital Clubcard at till

**+20%**

Digitally engaged Clubcard customers



**TESCO**

1. Clubcard sales penetration across all formats in all three markets for August 2023.



# Engaging through personalisation.



>750

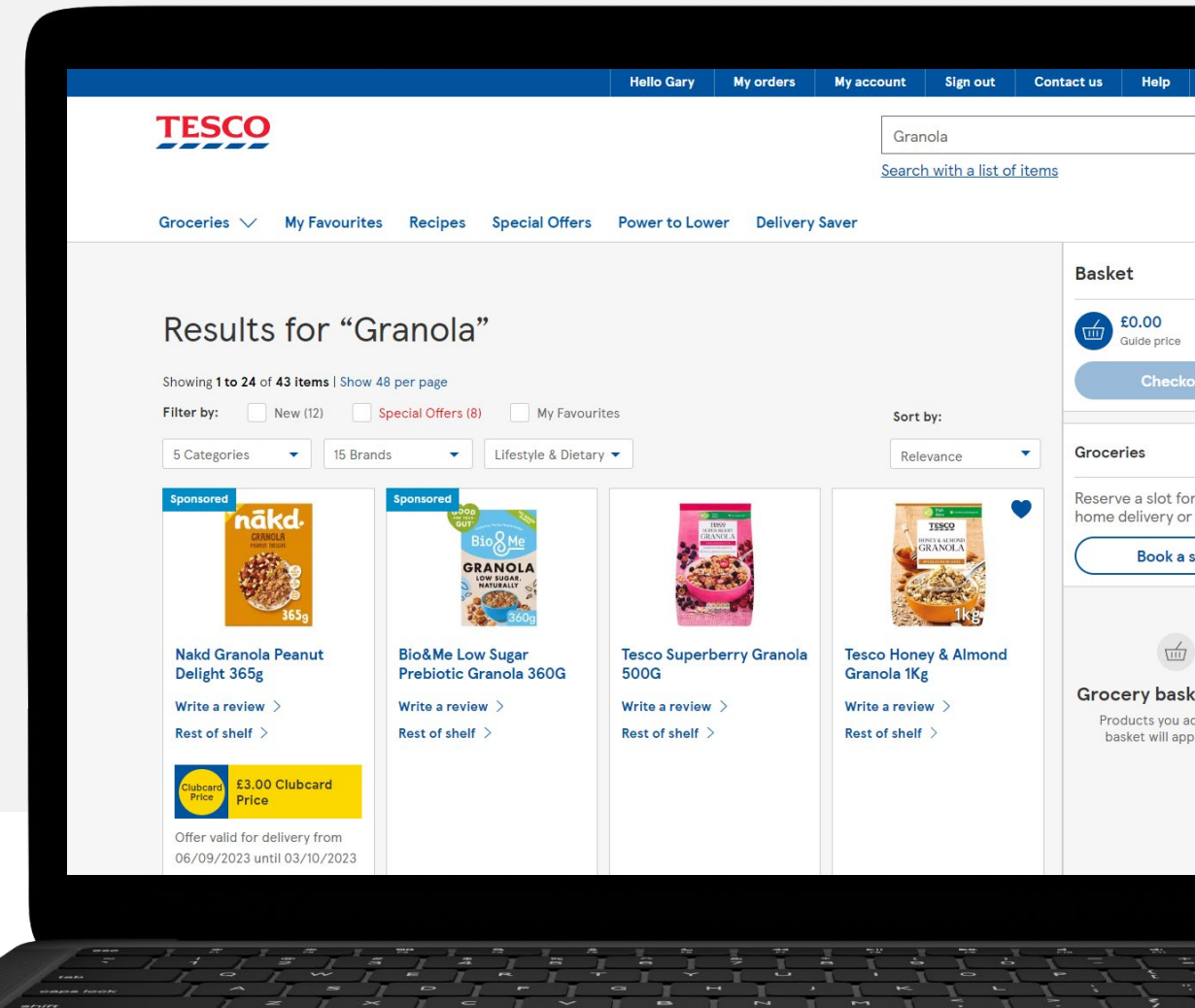
Additional digital advertising spaces in stores

77m

Daily sponsored search impressions on Tesco.com

4.2x

Higher sales to cost ratio from personalised coupons

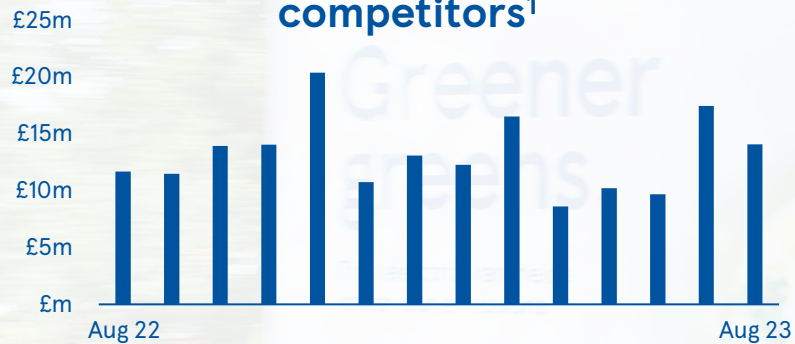




# Gaining through online.



## Switching gains from online competitors<sup>1</sup>



+71bps market share growth

Three new UFCs, +1m order capacity

'Perfect orders' up +12ppts YoY:



No substitute products



Delivered on time



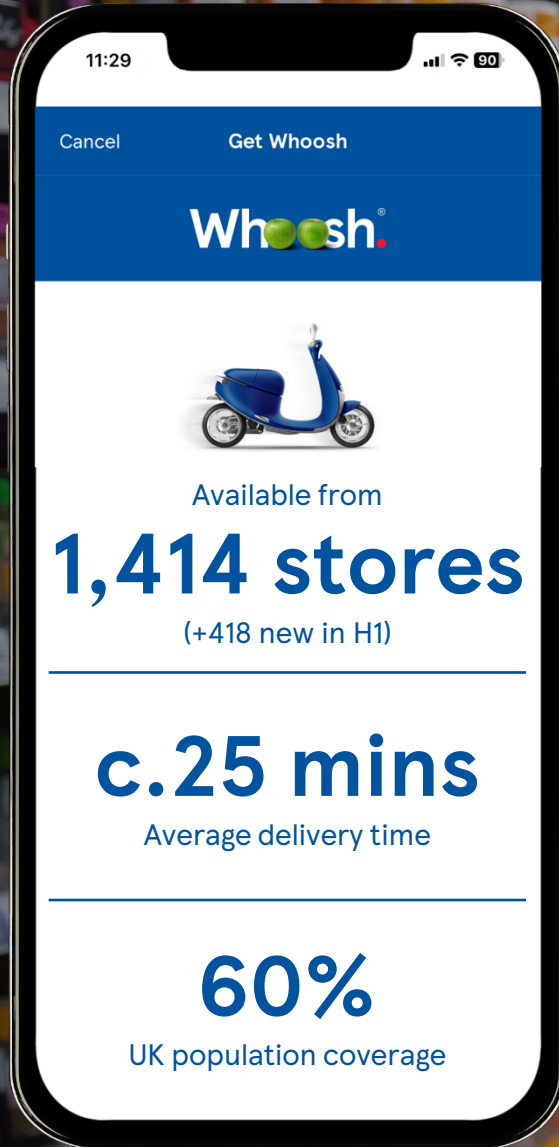
No contact required



1. Online switching gains based on Kantar net switching gains from: Asda online, Sainsbury's online, Ocado, Morrisons online and Amazon, on 12 week rolling basis to 3 September 2023.



# Expanding our Whoosh programme.





# Large store progress.



115

Stores updated through  
our refresh programme

+7ppts

“Everything I wanted was  
in stock”

402

Additional retail partner  
in-store offerings



*Papurchase*

Launching in 120 stores  
this November



**TESCO**



# Growing our convenience network.



- 16 Express store openings
- Extended ranging of own brand products
- Clubcard sales penetration +17% YoY



- 11 One Stop store openings
- Record fresh food sales participation
- 620 stores offering online ordering



- 143 net new Booker Retail Partners
- +20% YoY sales in entry level ranges
- Jack's ranged in c.40,000 partner stores



# Strong Booker performance.

Volume outperformance across both retail and catering<sup>1</sup>, supported by improved availability YoY

Growing dedicated 'Food Clubs', over 50,000 customers signed up

Launched 'Chef Central' offering great value, standardised menus to multi-site caterers

*Chef*  
**CENTRAL**



**TESCO**

1. Excluding tobacco and Best Food Logistics.



# Save to Invest.



Progress on all areas: goods & services not for resale, property, operations & central overheads

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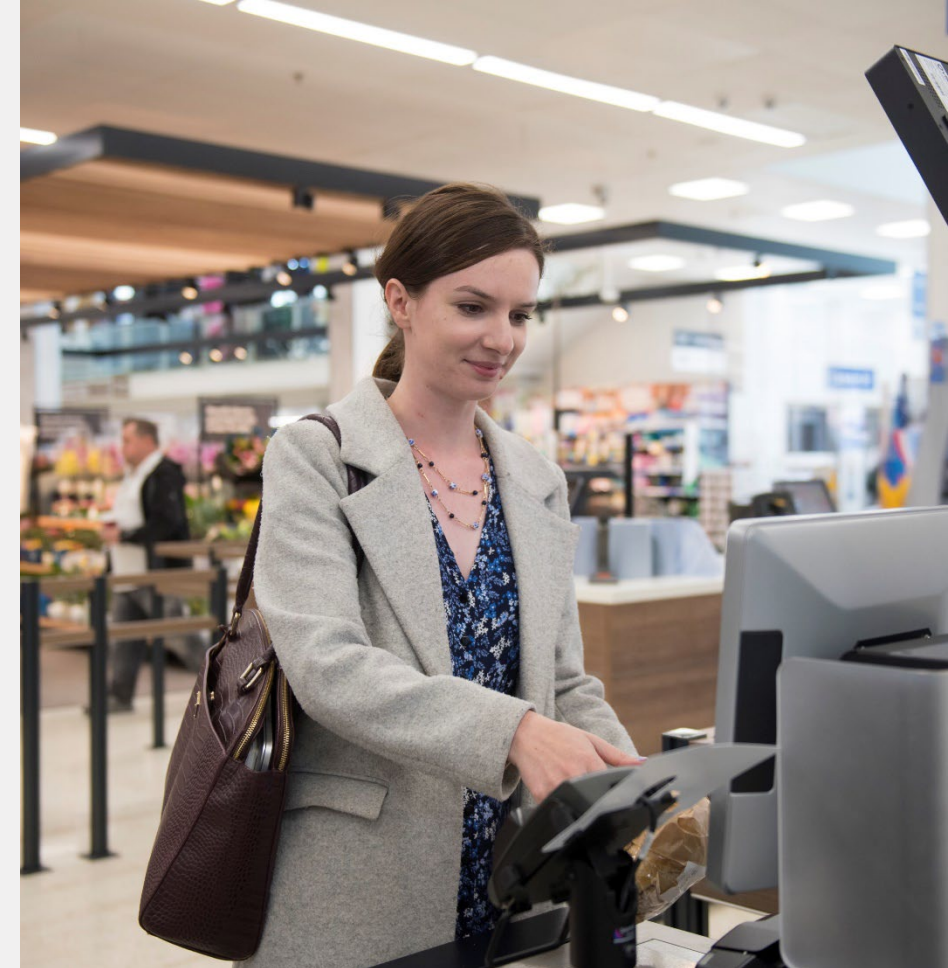
Streamlining of customer checkout experience in our biggest Express stores

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Optimised management structures in large stores; 1,700 Shift Leader roles introduced

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H1 savings of c.£290m; now on track to deliver at least £1.1bn cumulative between Feb 22 & Feb 24



# Summary.

Winning with customers through relentless focus on value and quality

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Committed to doing everything we can to drive down food bills

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Strategic priorities driving further progress across the Group

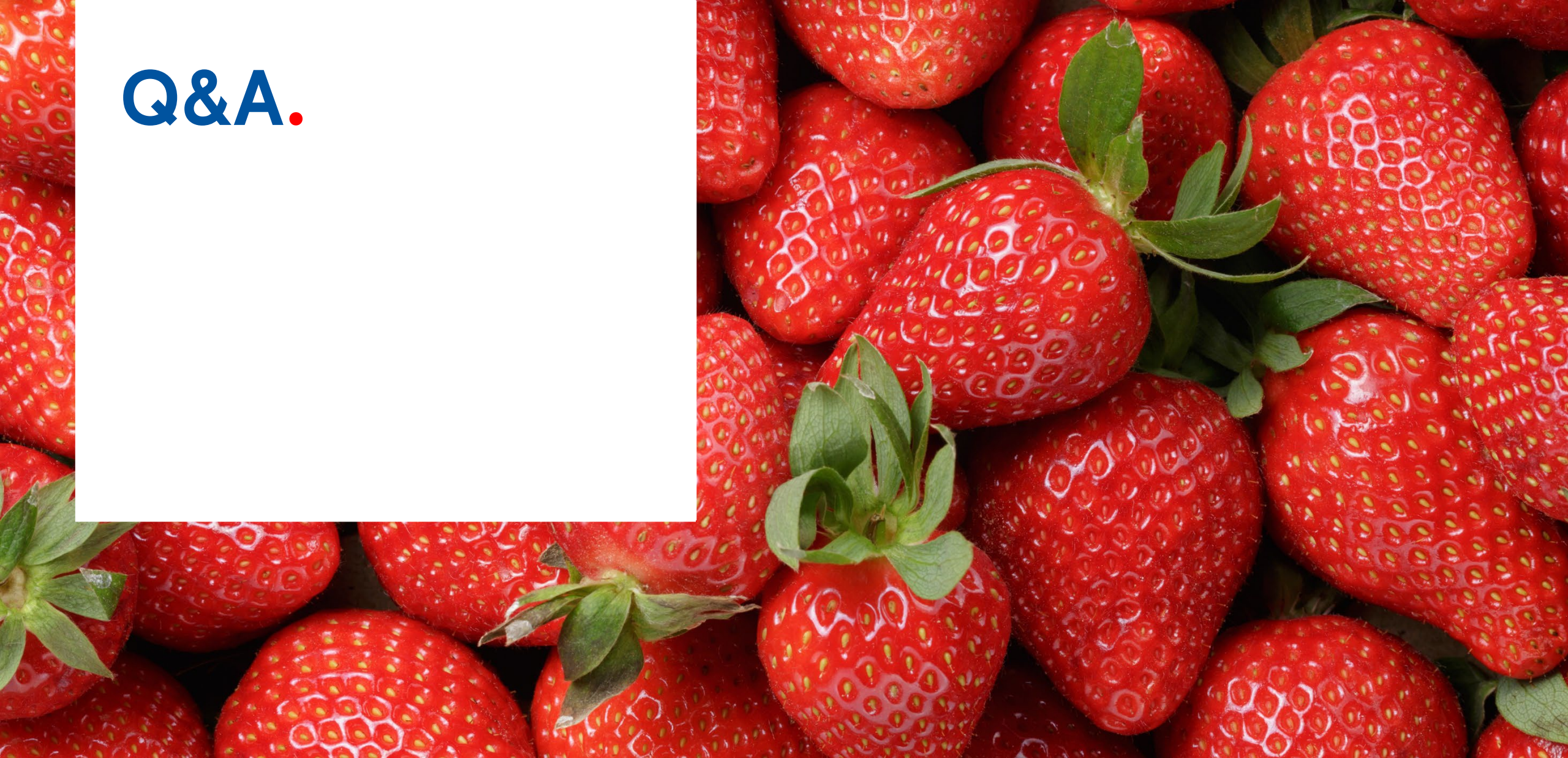
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In strong position to continue to deliver for all stakeholders





Q&A.





# Appendix.



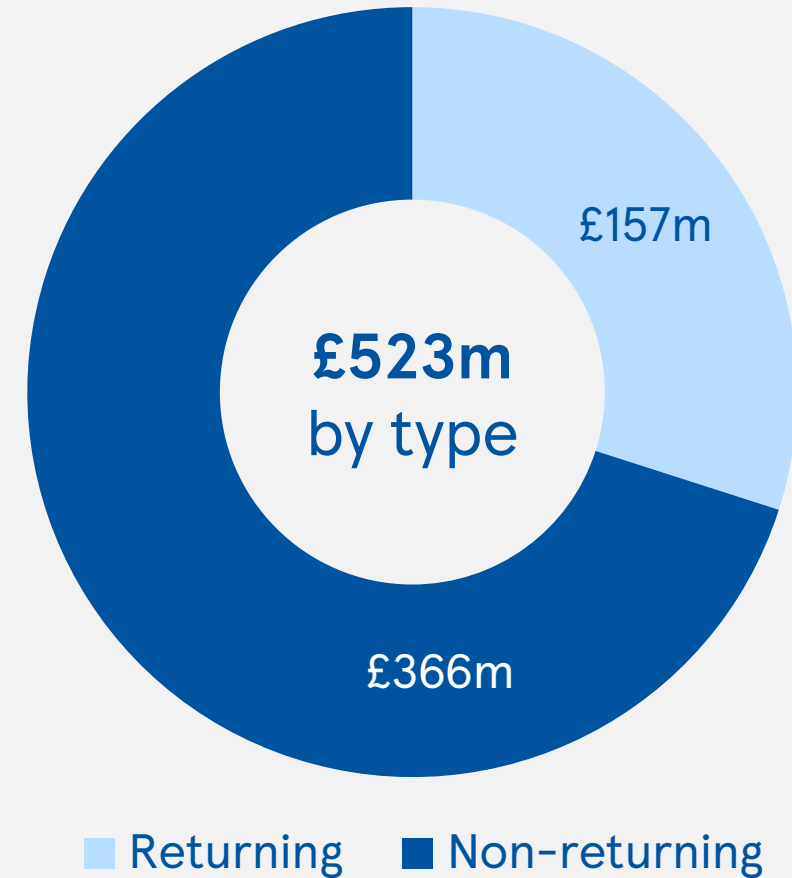
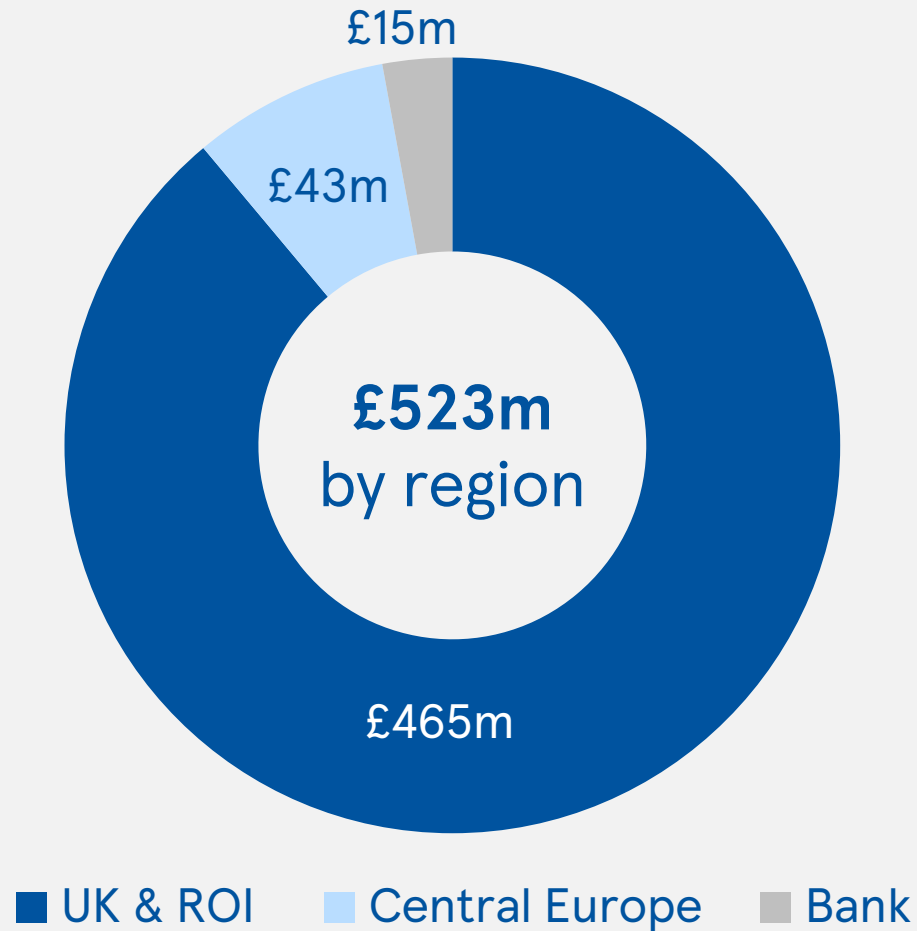


# Guidance.

Retail profit	Expected to deliver between £2.6bn and £2.7bn for FY 23/24
Bank profit	Continue to expect between £130m and £160m for FY 23/24
Retail free cash flow	£1.8bn to £2.0bn in FY 23/24, ahead of our medium-term guidance range
Capex	Expect FY 23/24 capital expenditure of c.£1.3bn
Net finance costs <sup>1</sup>	c.3.5% of long-term debt <sup>2</sup> p.a.
Leverage ratio	Targeting c.2.8 – 2.3 times Net debt <sup>3</sup> /EBITDA
Tax	Effective tax rate around 26% in FY23/24
Dividend	Progressive (broadly targeting c.50% of earnings) Interim dividend 35% of prior year full year dividend, in line with our policy
Share buyback	£503m of shares bought to date; £247m further shares to be bought back by April 2024

1. Guidance relates to net finance costs before adjusting items excluding finance charges payable on lease liabilities.
2. Long-term debt relates to medium term notes, loans and bonds.
3. Net debt is inclusive of IFRS 16 lease obligations.

# Capital expenditure – H1 23/24.





# Debt and liquidity<sup>1</sup>.

## Smooth debt maturity profile

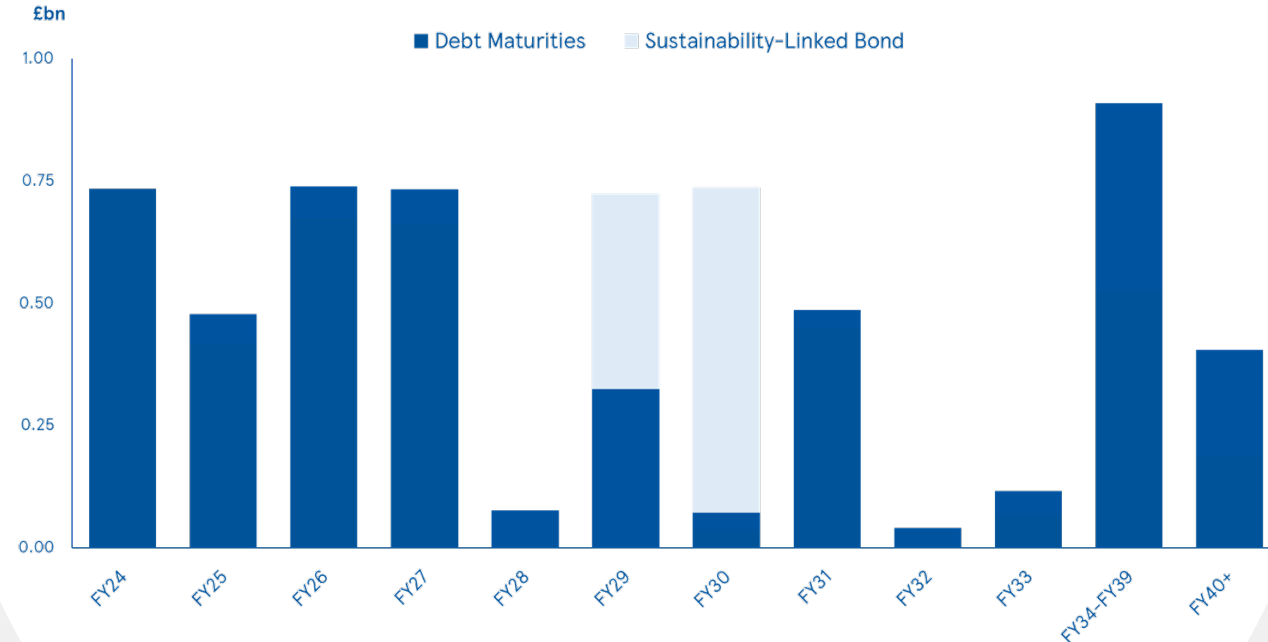
- Less than £1bn maturing in any year
- Weighted average maturity of c.6 years

Weighted average interest cost of 4.98%

## Strong liquidity position

- £3.8bn cash<sup>2</sup>
- £2.5bn of undrawn committed facilities

Debt  
maturity  
profile



1. Debt & liquidity metrics exclude Tesco Bank.

2. Fixed charge comprises net finance costs (excluding net pension finance income/costs, finance charges payable on lease liabilities, capitalised interest and fair value remeasurements) and total lease liability payments from continuing operations.

# Adjusting items – FY 23/24.

	H1 23/24	H1 22/23
	£m	£m
Net impairment loss to non-current assets	-	(626)
Property transactions	24	81
Amortisation of acquired intangible assets	(37)	(38)
Other <sup>1</sup>	13	4
<b>Total adjusting items in statutory operating profit</b>	<b>-</b>	<b>(579)</b>

1. H1 23/24 'Other' includes restructuring items and disposal of a subsidiary.



# Disclaimer.

Certain statements made in this document are forward-looking statements. For example, statements regarding future financial performance, 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.