



Tesco Preliminary Results 2022/23.

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

13 April 2023



Agenda.

01. Introduction

02. Full year results

03. Strategic progress

04. Q&A

Introduction.

Ken Murphy

Introduction.

Strong performance, reflecting continued investment for customers and colleagues

Resilience and agility becoming sustainable competitive advantage

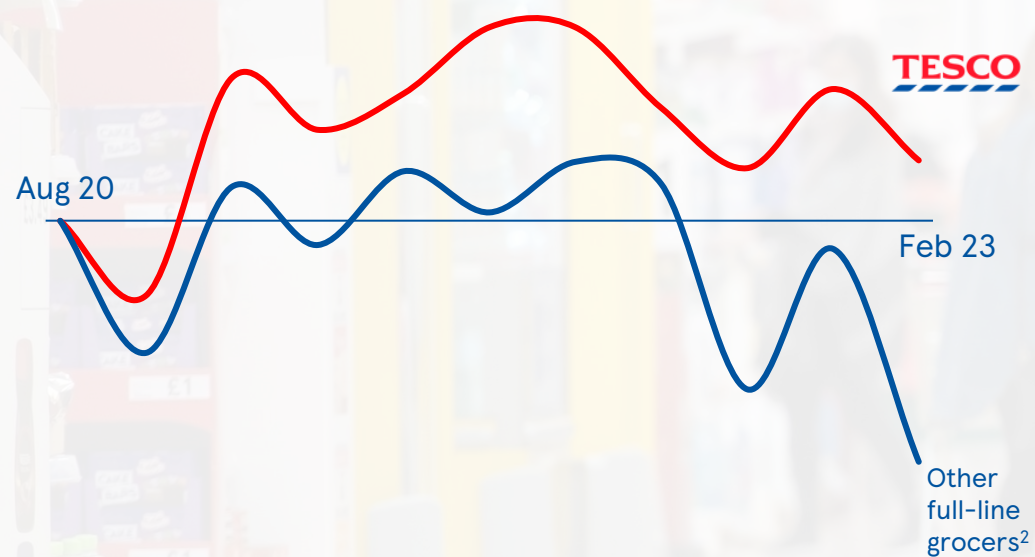
Making strategic progress

Delivering for all stakeholders



Customer satisfaction.

Improving NPS index¹



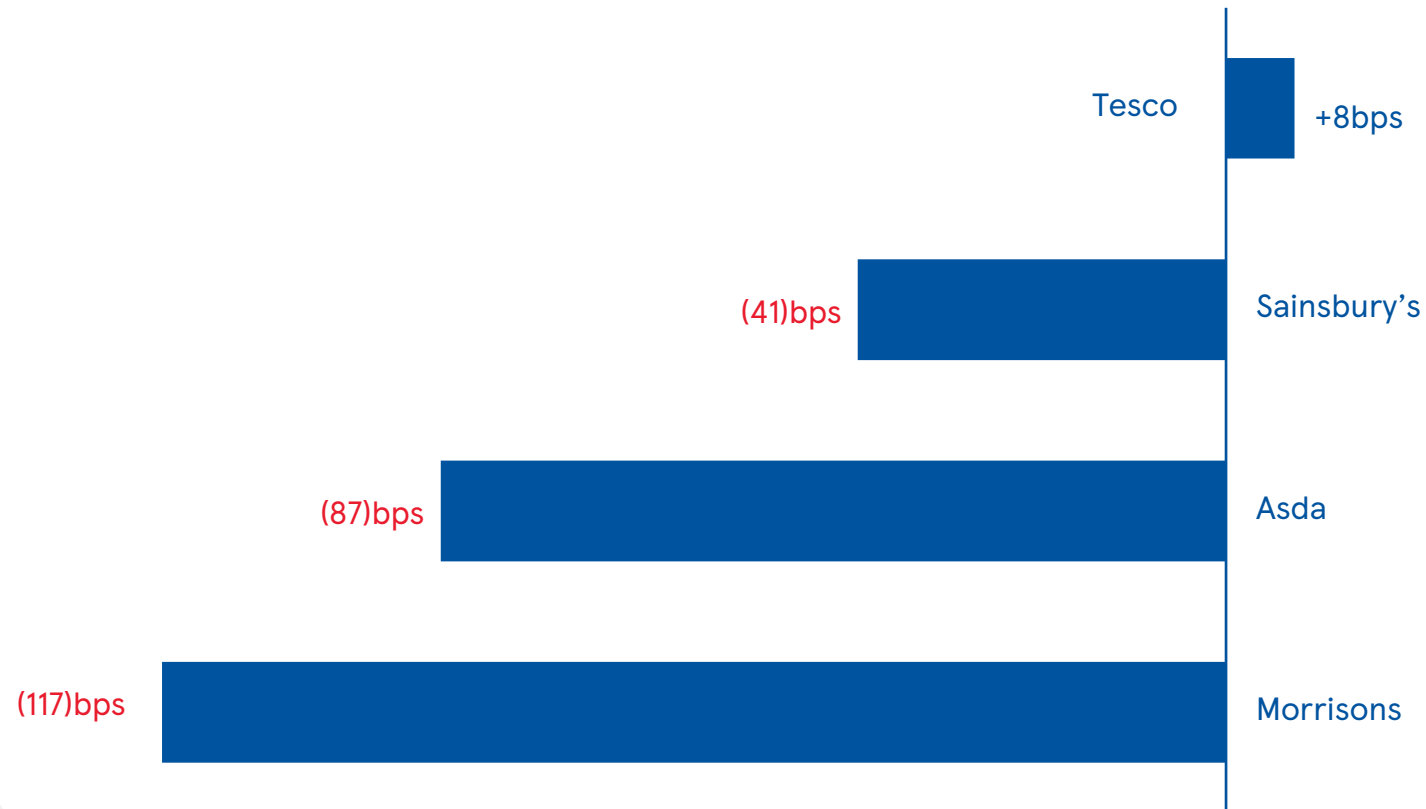
1. BASIS Global Brand Tracker. Indexed movement in NPS vs. Aug-20 based on three period rolling data.
2. Other full-line grocers refers to Sainsbury's, Asda and Morrisons.



TESCO

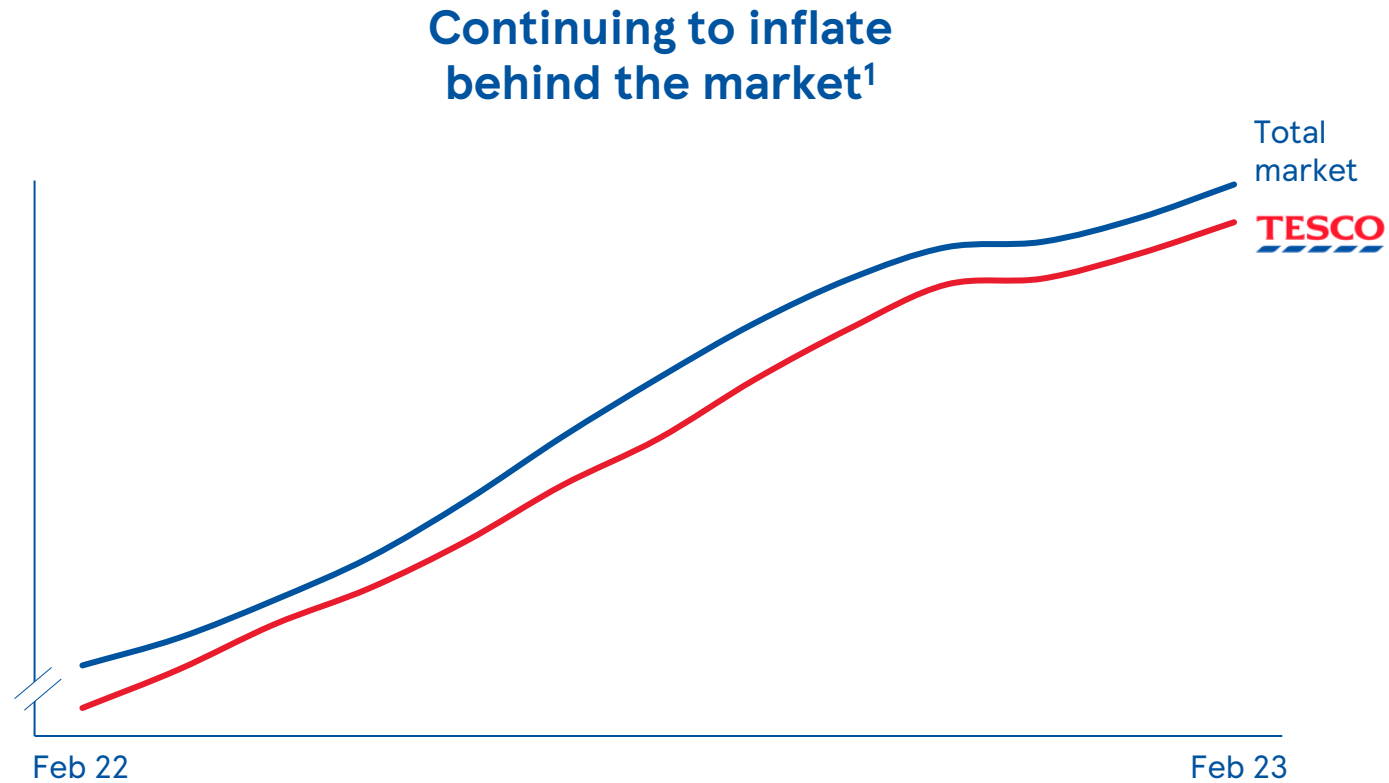
UK market share.

Only full-line grocer to gain market share¹ over 3 years



1. Tesco share of Total Grocers Till Roll sales on a 12 week rolling basis to 19 February 2023 vs 23 February 2020.

Managing inflationary pressure.



1. Kantar 12 w/e inflation data to 19 February 2023.
2. 'Total Market' consists of Sainsbury's, Morrisons, Asda, Aldi and Lidl.

Helping customers spend less.

Pie and mash dinner for four,
£4.52.



Kids eat free.

Keep that festive feeling going with
a free kids' meal anytime until 6th January,
with any purchase by an adult in The Café.

Just show your Clubcard or app.

TESCO The
Every little helps Café



TESCO
finest★

Meal Deal
£12
Clubcard
Price

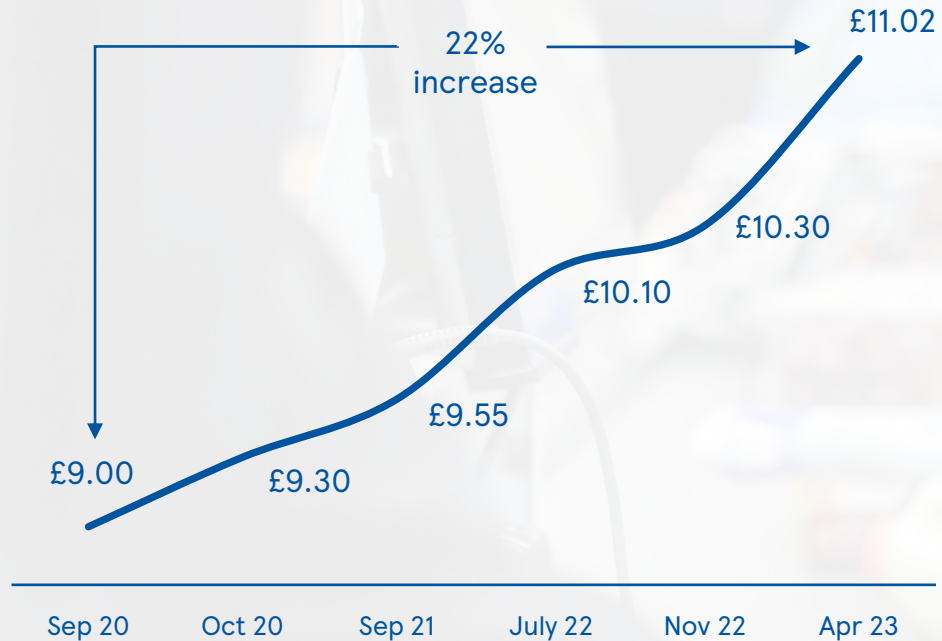


That's dinner sorted.

TESCO

Investing in our colleagues.

UK store colleague
hourly pay rates



Supporting our suppliers.



- Over £30m extra for UK pig farmers¹
- Launched 'I Love British' brand
- £28m invested in UK egg sector¹



- Over 20% higher price paid for milk
- Helping over 500 dairy farmers
- TSDG² guaranteeing stable price



- #1 Advantage supplier survey (7th yr)
- Record 86.6% supplier satisfaction
- Immediate terms for small suppliers

1. Additional investment from March 2022.
2. Tesco Sustainable Dairy Group ('TSDG').

Supporting our communities.



- 52m meals donated this year
- Inc. 2.4m Winter Food Collection meals
- Partnering with FareShare, Olio and Trussell Trust



- £37m for CRUK's Race for Life since 2002
- £25m for health charities since 2018
- £8.5m donated to the Ukraine Appeal from Tesco and customers



- Nationwide community grant programme
- >£100m grants supporting over 50k groups²
- £5m new grant programme for schools focusing on food and healthy activities

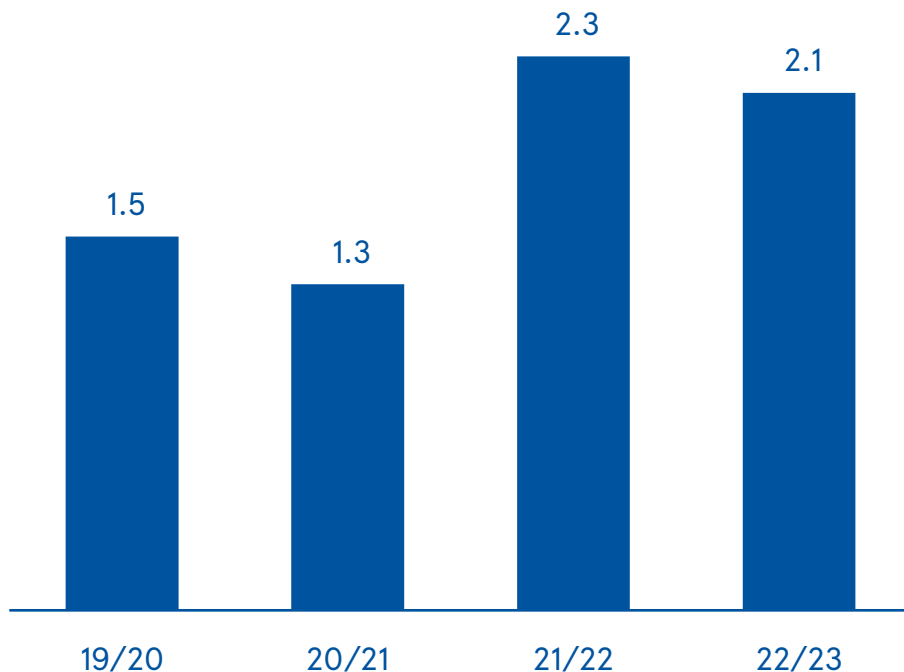
Supporting our planet.



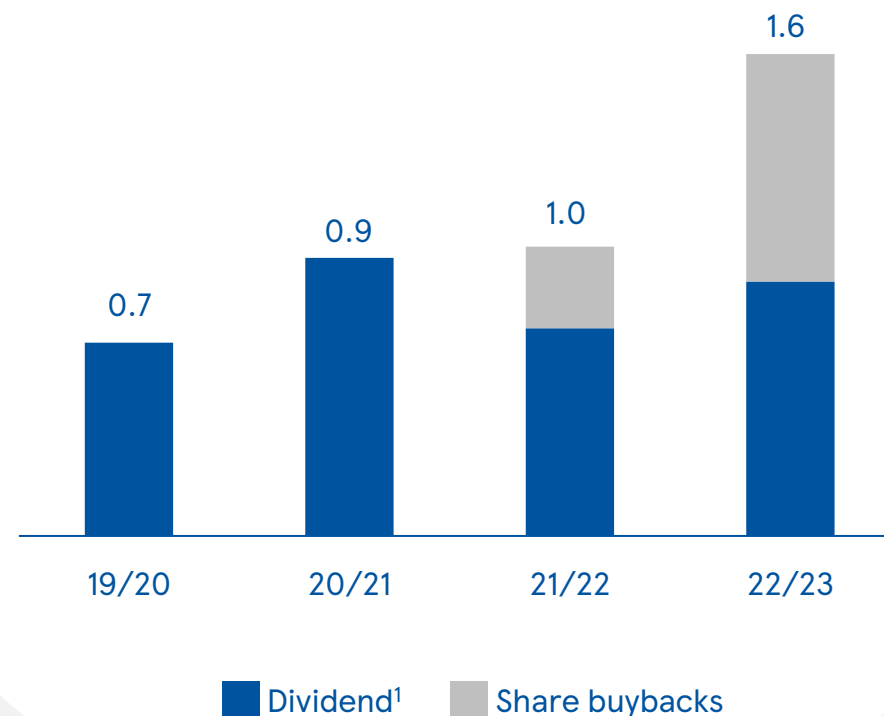
TESCO

Strong cash generation and returns.

Retail free cash flow (£bn)



Shareholder returns (£bn)



1. Dividends paid, excludes £5.0bn special dividend paid in February 2021.

Full year results.

Imran Nawaz



Performance headlines.

Growth across all businesses

Delivered profit towards top-end of guidance range

Another strong year for retail free cash flow

Delivered £1.6bn of shareholder returns⁴

Net debt flat year-on-year

Retail sales¹

+5.1%

Like-for-like +5.1%

Retail profit²

£2,487m

(6.3)% vs. last year

Retail free cash

£2,133m

£(0.1)bn vs. last year

Share buybacks

£750m

since April 2022

EPS³

21.85p

Full year dividend

10.90p

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. Shareholder returns defined as combination of dividends paid and £750m share buyback.

Segmental performance.

	Sales ¹	Change at constant rates	LFL	Adjusted operating profit ²	Change at constant rates	Margin ³
UK & ROI	£52,369m	4.7%	4.7%	£2,307m	(7.0)%	3.8%
Central Europe	£4,181m	10.0%	10.4%	£180m	3.6%	4.1%
Total Retail	£56,550m	5.1%	5.1%	£2,487m	(6.3)%	3.8%
Bank	£1,106m	20.1%		£143m	(18.8)%	12.9%
Group	£57,656m	5.3%		£2,630m	(7.1)%	4.0%

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

2. Operating profit before adjusting items.

3. Margin % at actual rates.

UK sales.

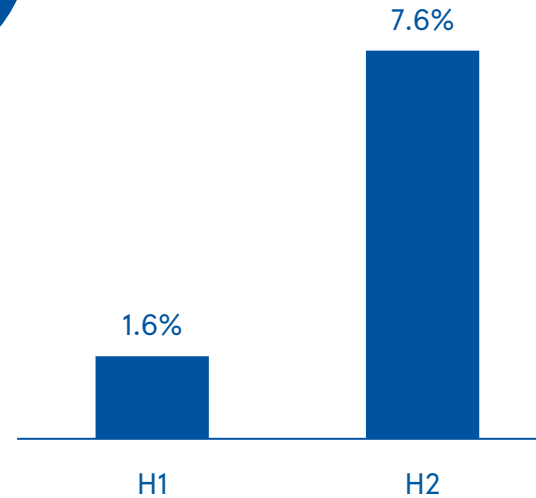
LFL sales +3.3%, driven by food; general market inflation rising across the year

In-home consumption normalised in H1

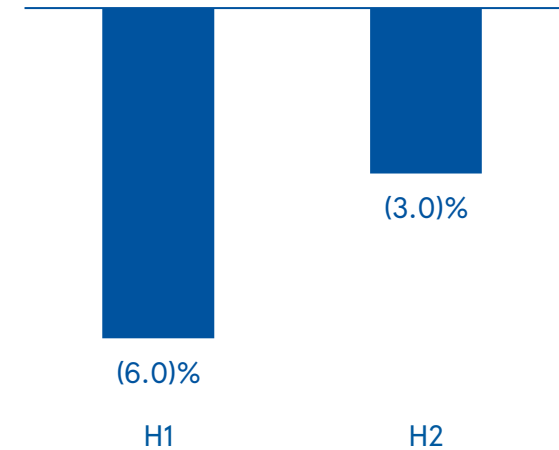
Strong performance across key trade events

Non-food decline reflective of strength of last year's performance

Food
+4.6%



Non-Food
(4.5)%



UK sales – Online.

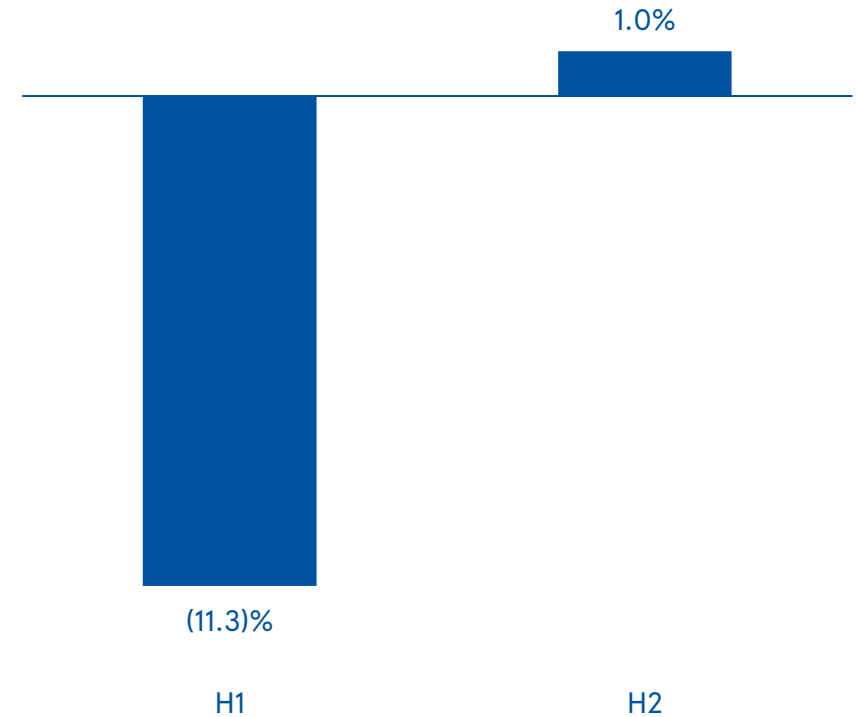
Sales and orders both remain >50% ahead of pre-pandemic levels

Online sales participation stabilised at c.13%

Returned to growth across second half

Tesco Whoosh now available in 1,000 stores

Online
(5.4)%



ROI.

Delivering growth on last year's strong base,
including food LFL +3.8%

Online orders +8.8%pts across Q4

Joyce's store conversions delivered ahead of
schedule – performing well

		LFL
Channel	Total	3.3%
	Large	2.2%
	Convenience	5.7%
	Online	8.2%
Category	Food	3.8%
	Home	(0.2)%
	Clothing	12.9%

Booker.

Exceptionally strong performance in both catering and retail

Growth excluding tobacco of 18.4%

Market outperformance in catering with sustained demand across the year

Retail growth with over 450 new retail partners²

	Sales	LFL
Total¹	£8,684m	12.0%
Retail	£4,796m	3.2%
Retail excl. Tobacco	£2,888m	9.9%
Catering	£3,629m	26.7%
Booker Catering	£2,109m	25.2%
Best Food Logistics	£1,520m	29.0%

1. Including small business £259m.

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

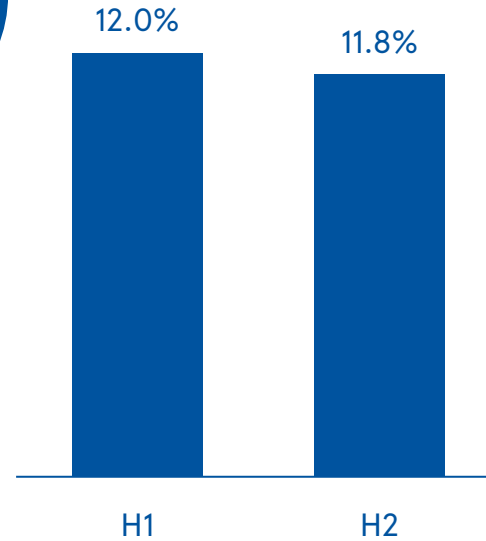
Central Europe.

Food
+11.9%

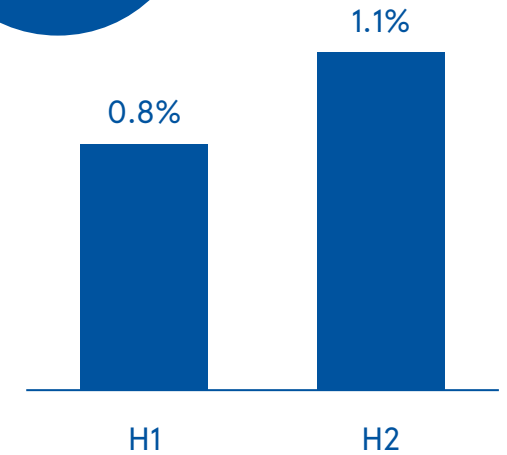
Strong growth across all three countries,
with total LFL of +10.4%

Resilient volumes in the face of significant
general market inflation

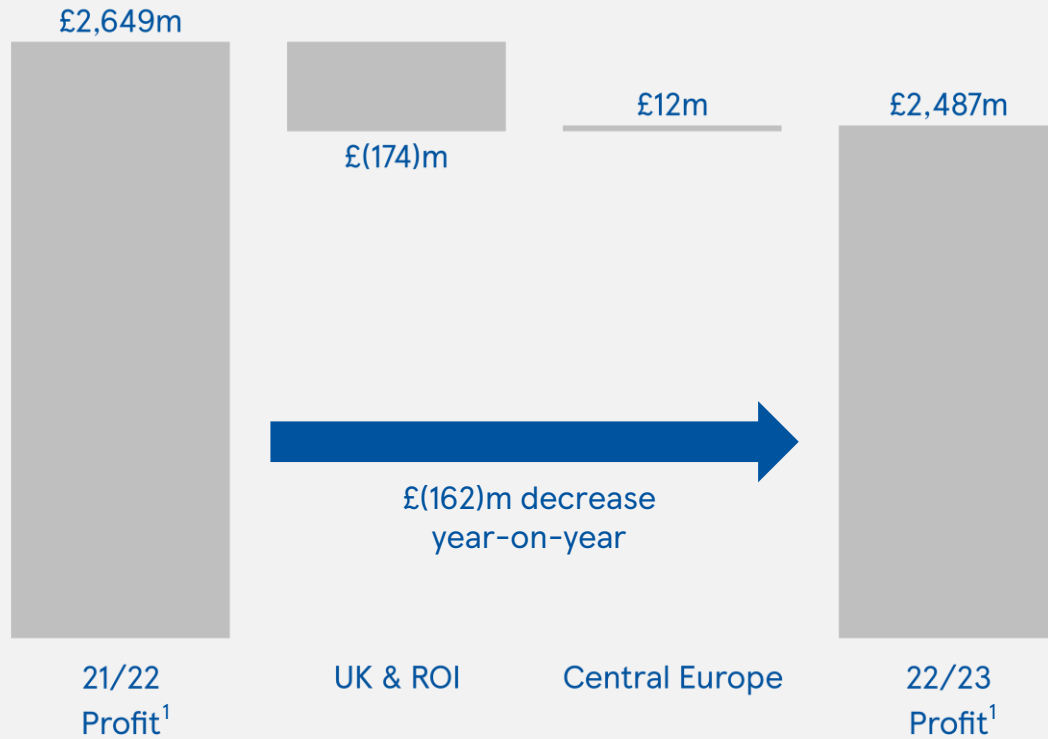
Food growth across both fresh and
packaged categories



Non-Food
+1.0%



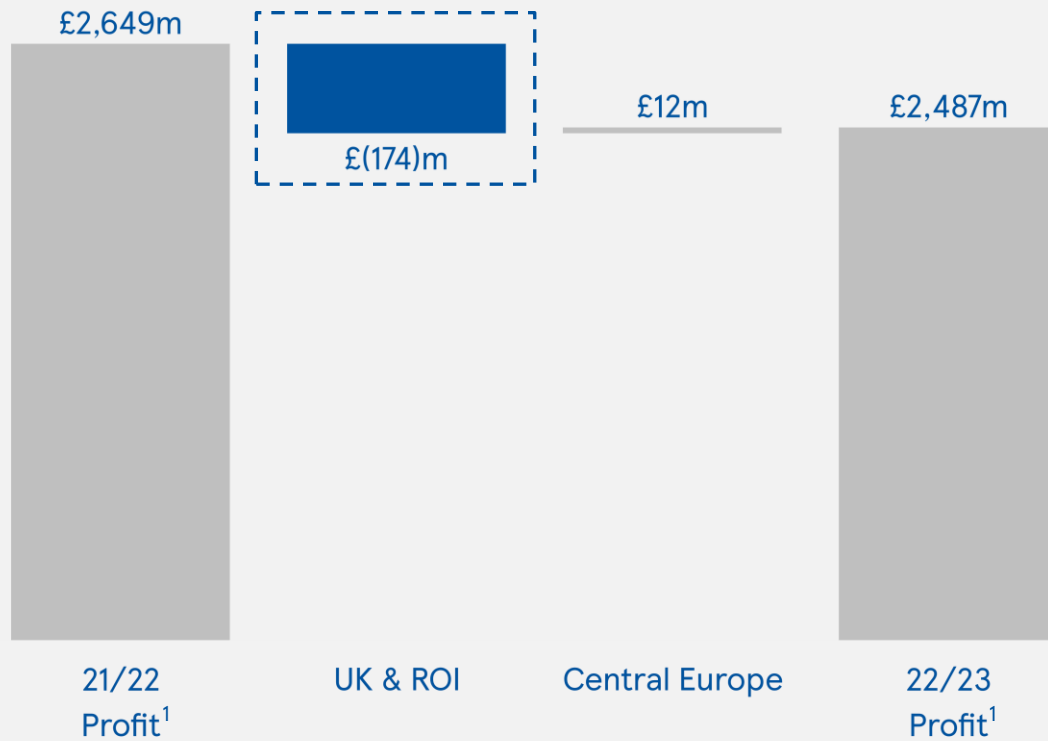
Retail operating profit.



	UK & ROI	CE	Retail
Operating profit ¹	£2,307m	£180m	£2,487m
Change % ²	(7.0)%	3.6%	(6.3)%
Margin ³	3.8%	4.1%	3.8%
Margin YoY ³	(57)bps	(10)bps	(54)bps

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 – UK & ROI.

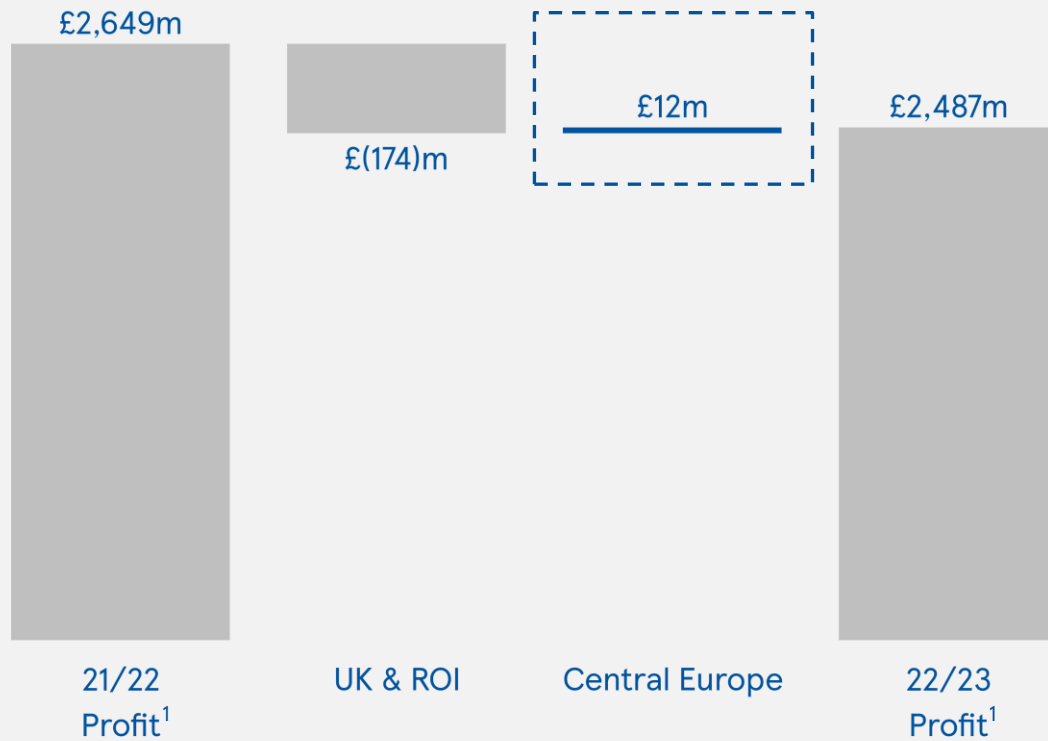


Lower profit in UK & ROI driven by:

- Post-pandemic volume normalisation
- Increasing pressure on customer spend
- Continuing to invest in our customers & colleagues
- Exceptionally strong Booker performance
- Save to Invest largely offsets opex cost inflation

1. Retail adjusted operating profit before adjusting items.

Retail operating profit – Central Europe.



Profit growth² of +3.6% reflective of:

- Significant levels of general market inflation
- Cost management was a key focus for second half as volumes softened
- Strong delivery of Save to Invest plans largely mitigated cost pressures & new Hungarian ‘extraordinary retail tax’

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 spend, travel money recovery and higher ATM usage

Profit decline reflects provision release in prior year driven by macroeconomic recovery

Balance sheet remains strong with low levels of customer defaults

	22/23	21/22
Revenue	£1,106m	£922m
Operating profit¹	£143m	£176m
Net interest margin	4.9%	5.0%
Cost:income ratio	73.5%	77.0%
Total capital ratio	25.7%	27.2%
Bad debt coverage ratio	6.1%	7.0%

1. Operating profit before adjusting items.

Statutory profit after tax.

- **Adjusting items up £(840)m driven by:**
 - Higher impairment charge primarily driven by an increase in discount rates
 - Restructuring costs associated with in-store changes
- **Net finance costs broadly flat year-on-year**
- **Group tax reduction reflects:**
 - Lapping one-off deferred tax charge related to increase in UK corporate tax rate
 - Lower adjusted operating profit
 - Increased non-current asset impairment charge

	22/23 £m	21/22 £m
Adjusted operating profit	2,630	2,825
Adjusting items:	(1,105)	(265)
Impairment	(982)	(115)
Restructuring costs	(138)	(44)
Other	15	(106)
Net finance costs	(533)	(542)
Joint ventures and associates	8	15
Group tax	(247)	(510)
Statutory profit after tax¹	753	1,523

1. Statutory profit after tax is from continuing operations.

Retail free cash flow.

- Significantly ahead of target range £1.4bn-£1.8bn
- Working capital inflow of £468m driven by higher trade payables balances due to cost price inflation and improvement in largest suppliers' payment terms
- Tax paid of £(107)m is after benefit of:
 - Super-deduction allowances
 - Relief on the £2.5bn one-off pension contribution made in 2021
- Higher capital investment year-on-year
- Reduction in own shares purchased reflects timing of purchases to settle current year maturities

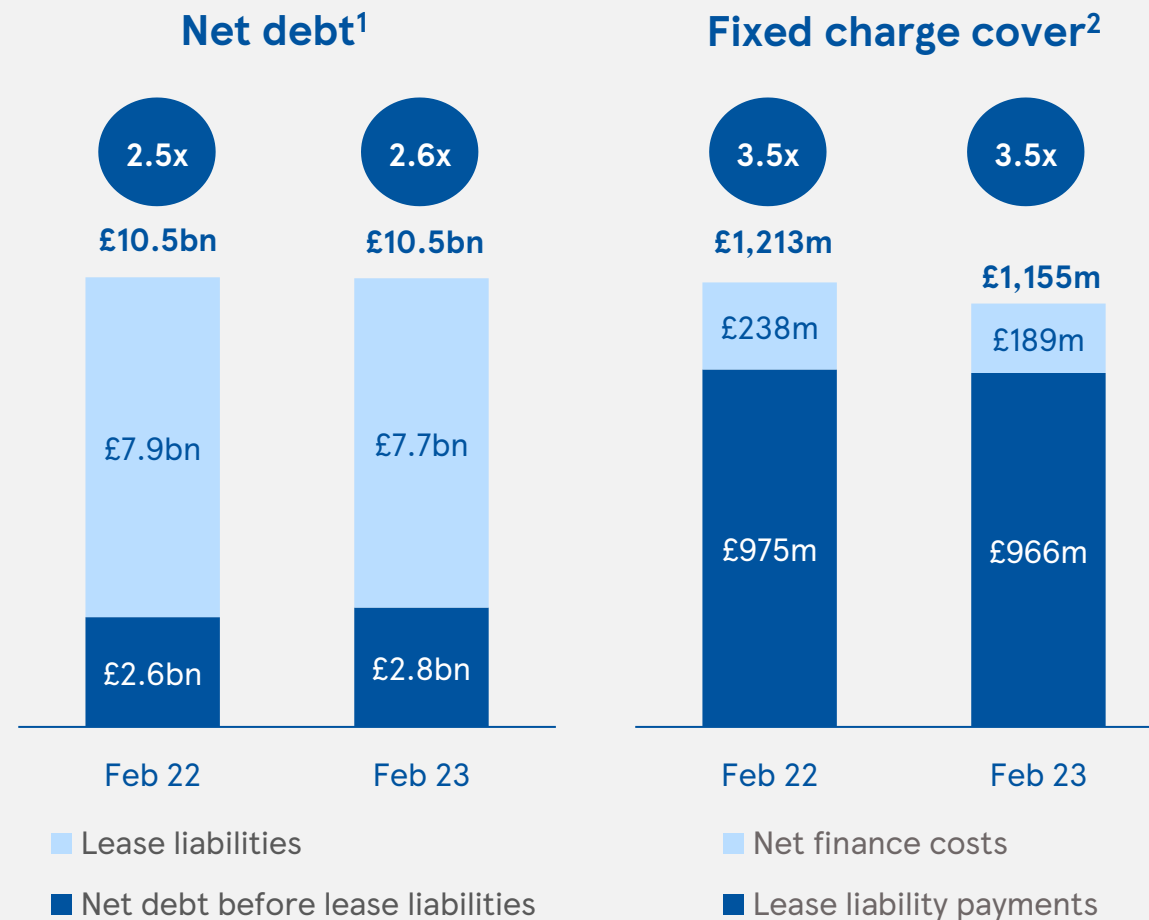
	22/23 £m	21/22 £m
Retail cash generated pre-working capital	4,095	4,268
Decrease in working capital	468	501
Retail operating cash flow	4,563	4,769
Cash capex ¹	(1,143)	(1,050)
Net interest	(573)	(641)
Tax paid	(107)	(195)
Dividends received	68	109
Repayments of obligations under leases	(589)	(571)
Own shares purchased for share schemes	(86)	(144)
Retail free cash flow	2,133	2,277

1. Capex excluding property buybacks.

Balance sheet metrics.

Balance sheet remains strong

Net debt ratio 2.6x, within target range of 2.3 to 2.8 times



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 a broadly flat level of retail adjusted operating profit

Retail free cash flow within our target range of £1.4bn to £1.8bn

Expect Bank adjusted operating profit of between £130m and £160m

Commitment to buy back £750m worth of shares over the next twelve months



Summary.

Strong sales growth across all businesses

Solid profit delivery – supported by Save to Invest

Retail free cashflow ahead of expectations

Confidence in multi-year performance framework

Full year dividend of 10.90p

Over £1bn of shares purchased to date; commitment to buy back a further £750m 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



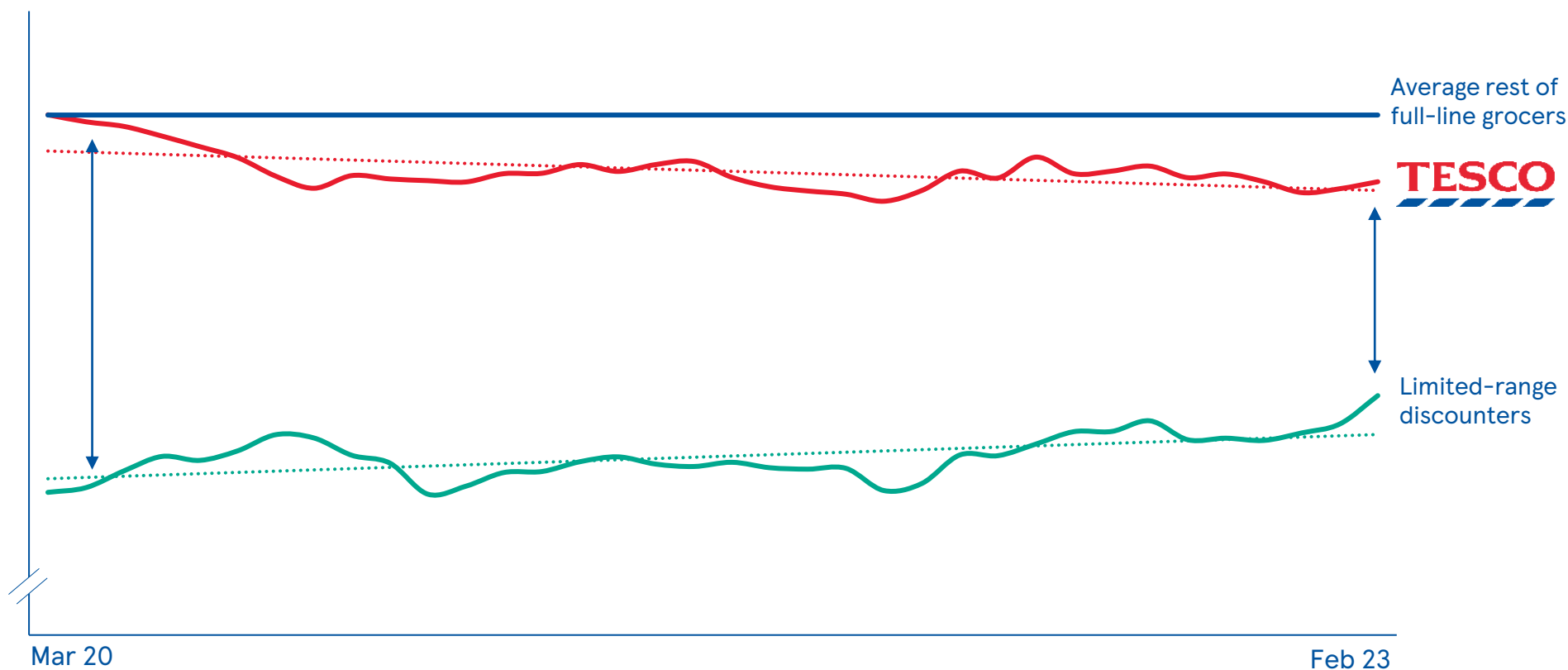
**Save to
Invest**

Simplify, become more
productive & reduce costs

Fundamental repositioning of price.



Price position vs market¹

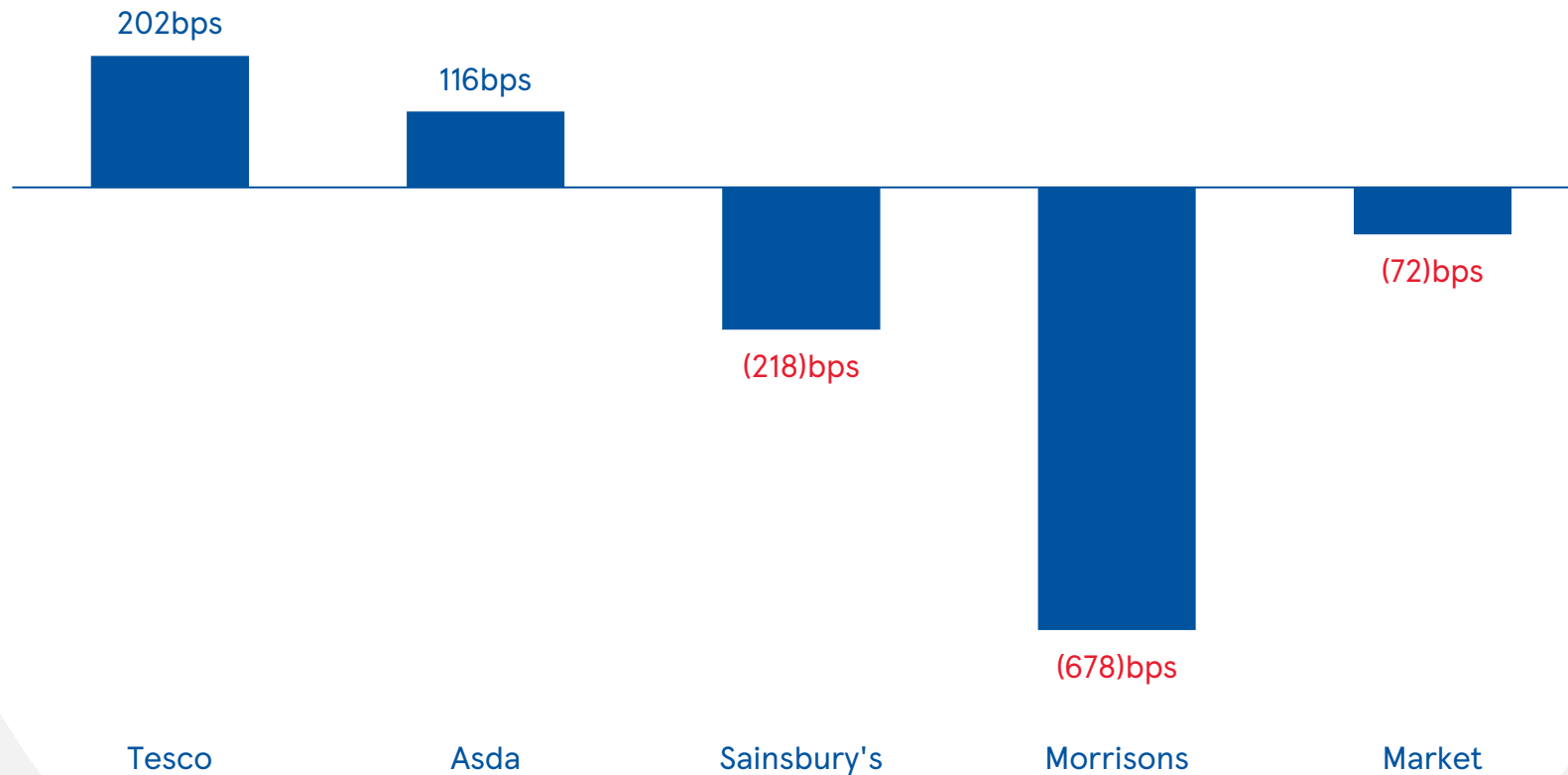


1. Calculated using the single retail selling price of each item, including price cut promotions; the index is weighted by sales and market share to reflect customer importance and competitor size. 'Rest of full-line grocers' consists of Sainsbury's, Morrisons and Asda; Limited-range discounters refers to Aldi and Lidl.

Transformed value perception.



Value perception¹ change over 3 years



1. YouGov Value perception on a 12 week rolling basis to 26 February 2023 vs 26 February 2020. 'Market' consists of Sainsbury's, Asda, Morrisons, Aldi, Lidl.

Winning on quality.



+89
bps

Year-on-year increase
in quality perception³;
(153bps) reduction for
other full-line grocers

#1

For quality¹ vs all other
full-line grocers and
limited-range
discounters²

44
awards



goodfood



1. BASIS Global Brand Tracker. Quality perception based on three period rolling data.
2. Full-line grocers refers to Tesco, Sainsbury's, Asda and Morrisons; Limited-range discounters refers to Aldi and Lidl.
3. YouGov quality perception on a 12 week rolling basis to 26 February 2023.

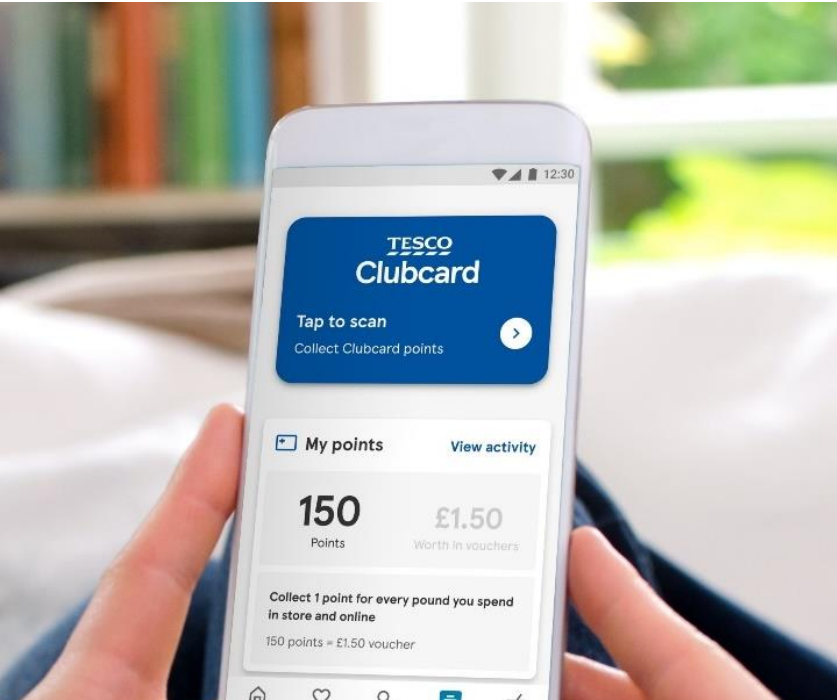


TESCO

Unique and powerful digital platform.



Foundation



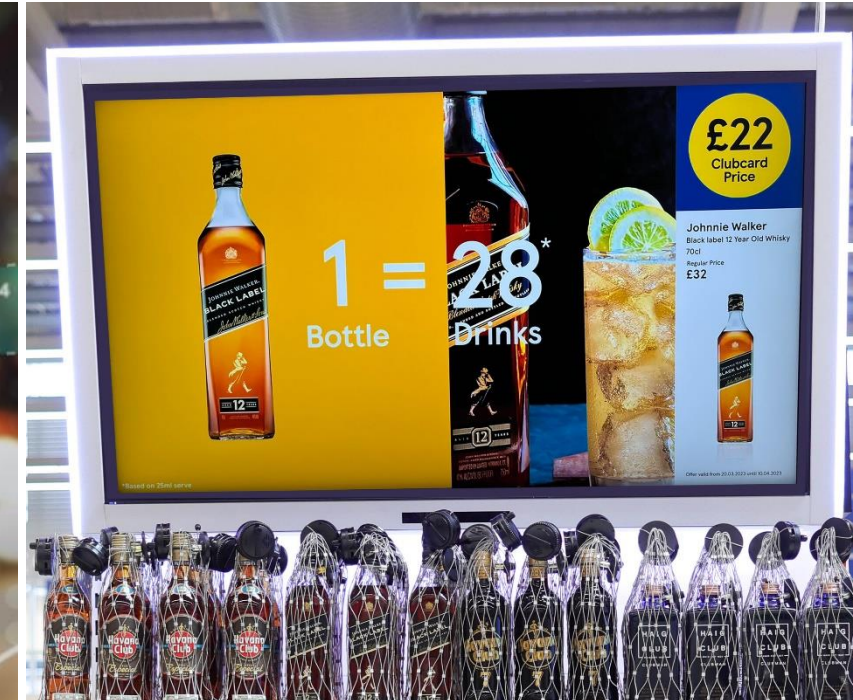
- Over 14m Clubcard app users across the Group
- c.80% Clubcard penetration across the Group
- Over 50m weekly transactions

Capability



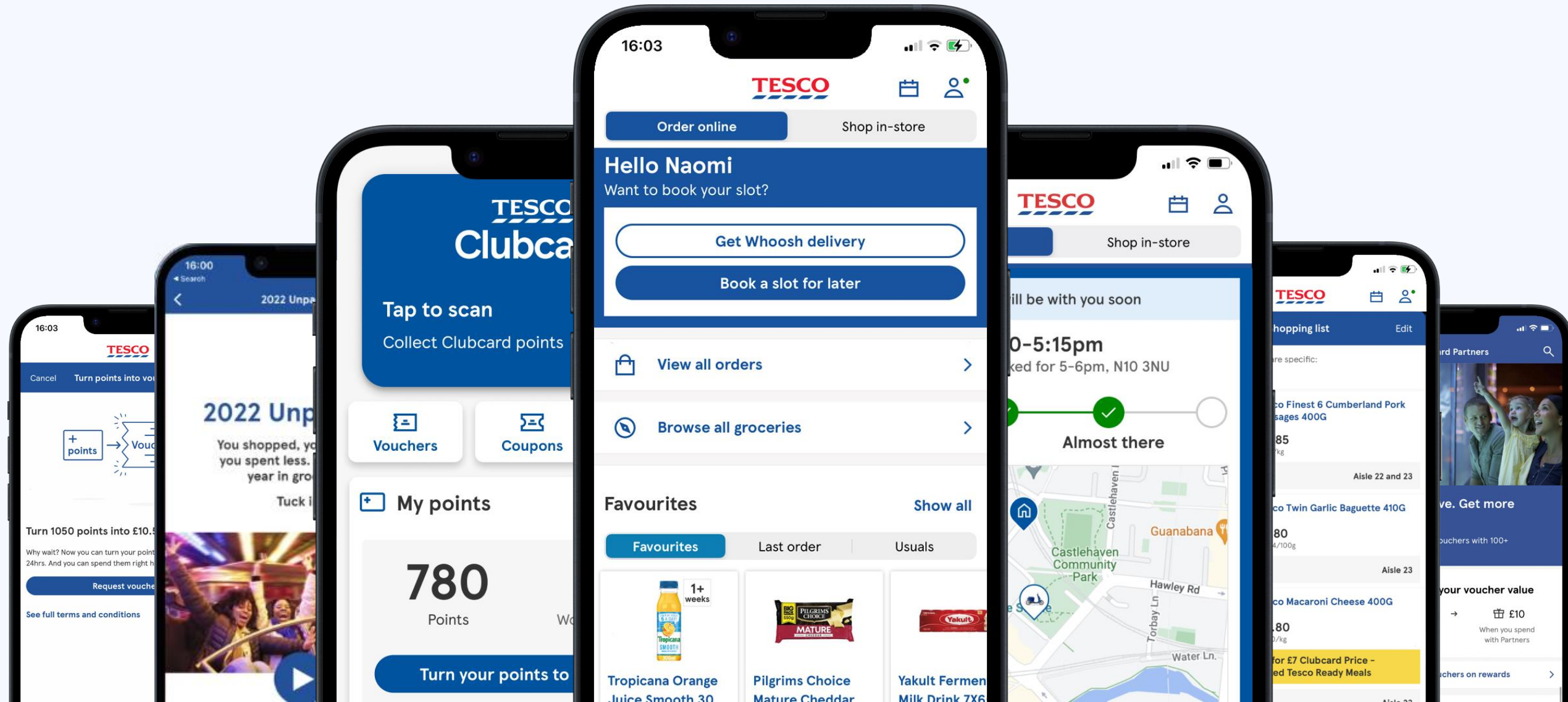
- Over 30 years of experience
- c.400 data analysts
- Globally recognised capabilities
- Partnering with over 500 CPGs

Application



- Largest closed loop grocery media platform
- Powering over 6,500 campaigns per year
- Media screens in over 500 stores

World-class integrated app.

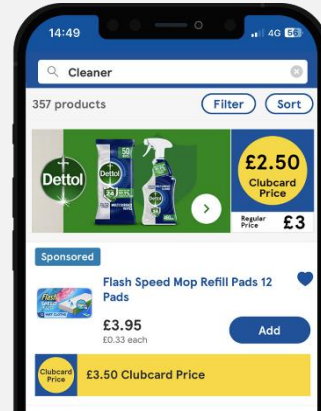


The personalisation opportunity.



Personalised offers

- 4m customers
- 89m coupons



Have you forgotten?

- 62% participation
- App use 1.3x higher¹

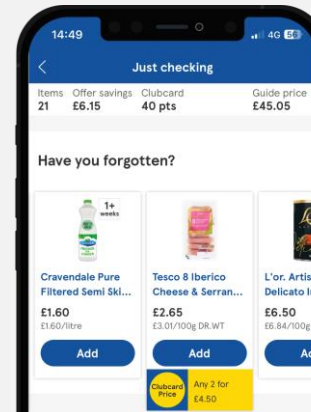
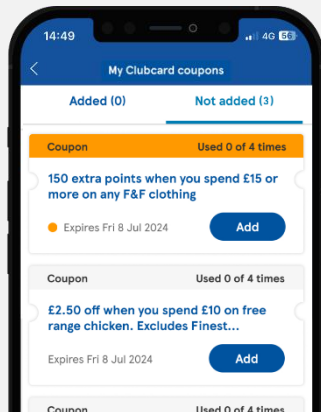


/LiveRamp



Sponsored search

- 408 suppliers
- Over 5,000 campaigns to date



Redefining our largest store ranges.



+731

New retail partner
in-store offerings
(across food, drink, home and
clothing & essential services)

9.8%

Reduction in low
margin home ranges

Paperchase

Acquired the
Paperchase brand

TESCO

TESCO

Convenience growth.



- 2,000th Express Stores
- Sales nearly £7bn
- Clubcard penetration +10% YoY



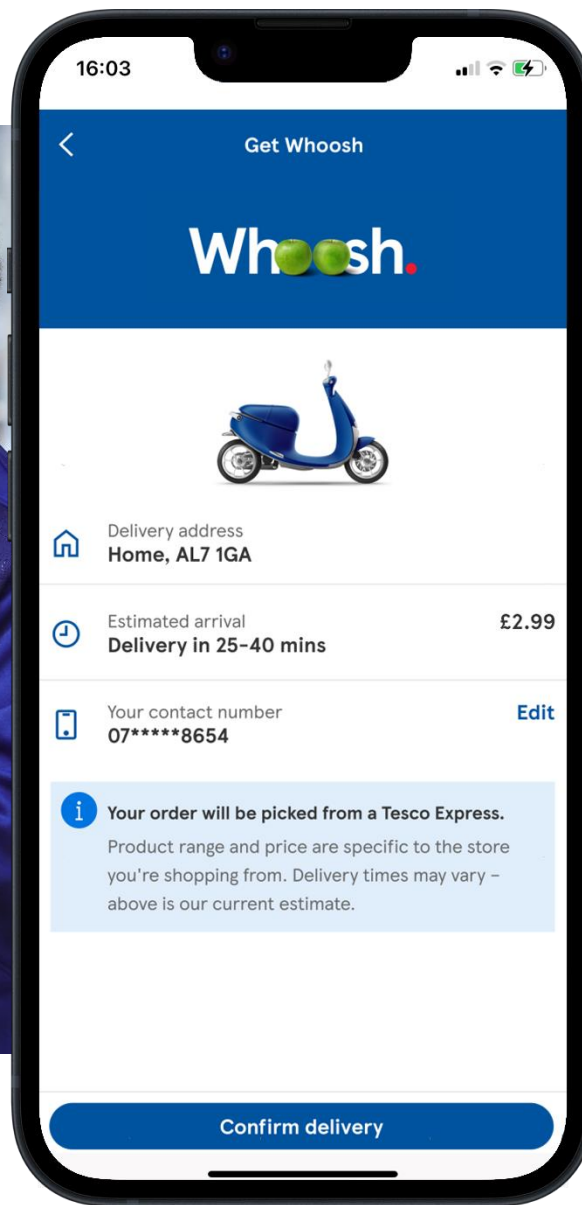
- 1,000th One Stop store
- 606 stores with home delivery
- Convenience retailer of the Year¹



- Opened 4,000th Premier store
- 451 new Booker retail partners²
- Over 500 Jack's lines on offer

1. Retail Industry Awards 2022.
2. Booker retail partners include: Budgens, Londis and Family Shopper and Premier facias.

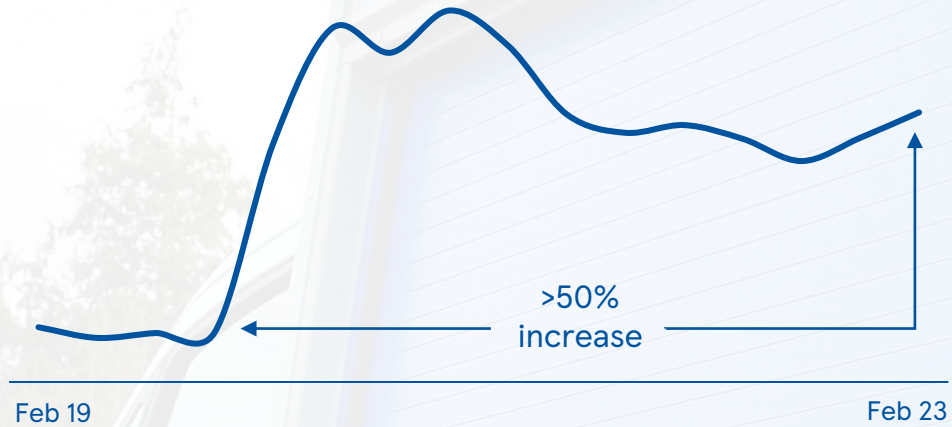
Leveraging our network, accessing new growth.



TESCO

Online.

Online sales



Sales participation stabilised at c.13%

Orders now at 1.1m per week

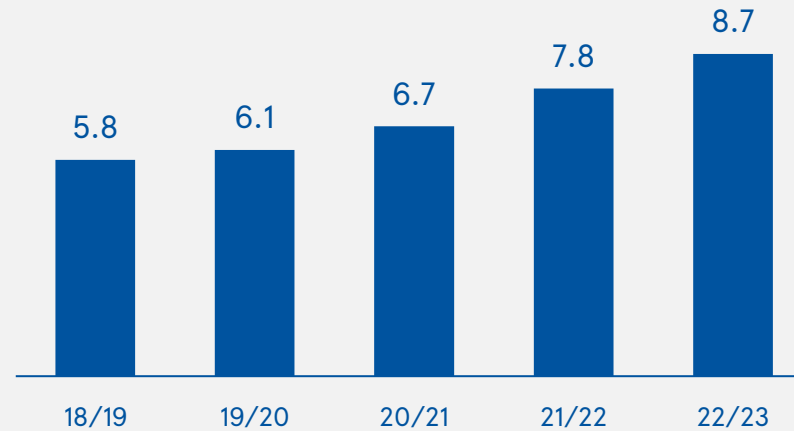
Market share remained strong at c.35%



Outstanding BOOKER performance.



Highest sales to date (£bn)



- Strong, profitable growth
- Gaining share in catering
- 451 new Booker retail partners¹



1. Booker retail partners includes: Budgens, Londis and Family Shopper and Premier facias.

Save to Invest.



Accelerated original three year plan to two years

Delivered in excess of £550m savings this year, ahead of target

On track to deliver at least £1bn by Feb-24



Delivering for our stakeholders.

Customers

- Most competitive offer, #1 for quality and transformed value perception
- Customer satisfaction significantly outperforming other full-line grocers



Colleagues

- Biggest single year investment in colleague pay
- Leading and comprehensive package of benefits



Suppliers

- #1 in Advantage supplier survey for 7th consecutive year
- Supporting our farmers & growers with the challenge of rising input costs



Shareholders

- Operating profit towards top of guidance range & exceeded cashflow guidance
- Returned over £1bn through share buyback; full year dividend at 10.90p



Planet

- Good progress towards 2035 carbon neutral own operations commitment
- Accelerated aim to halve food waste by 2025, five years earlier than planned



Q&A.

Appendix.

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 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.

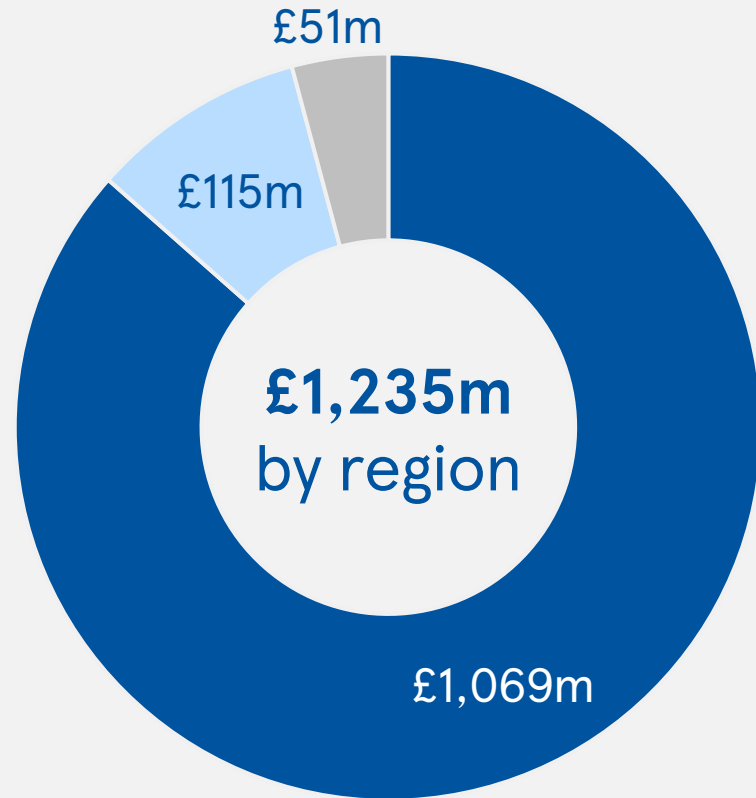
Guidance.

Retail profit	Expect to deliver a broadly flat level of retail adjusted operating profit in FY23/24
Bank profit	Expect Bank adjusted operating profit of between £130m and £160m
Retail free cash flow	Within our target range of £1.4bn to £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 ¹ p.a.
Leverage ratio	Targeting c.2.8 – 2.3 times Net debt ² /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
Share buyback	Commitment to buy back £750m worth of shares over the next twelve months

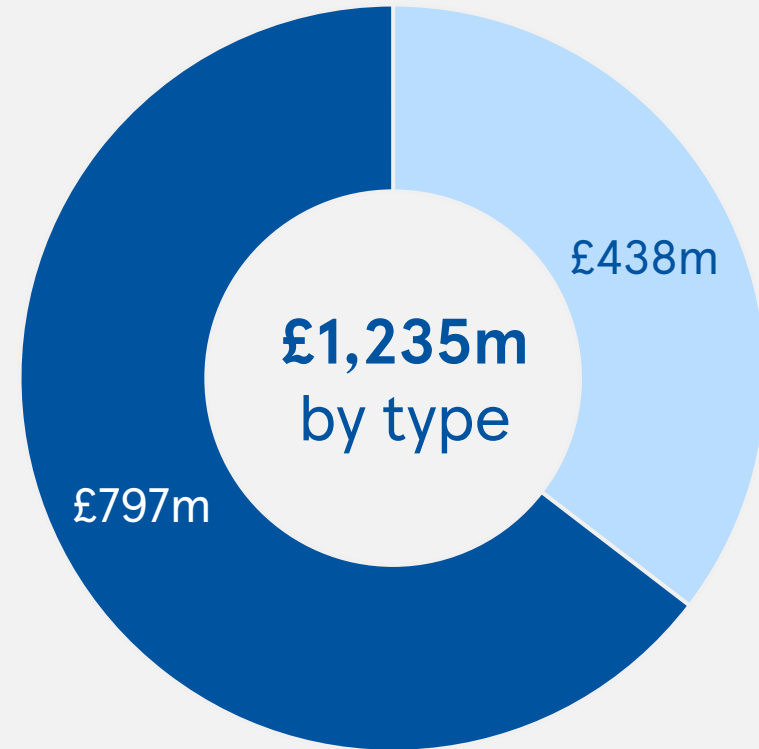
1. Long-term debt relates to medium term notes, loans and bonds.

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

Capital expenditure – FY 22/23.



■ UK & ROI ■ Central Europe ■ Bank



■ Returning ■ Non-returning

Debt and liquidity¹.

Smooth debt maturity profile

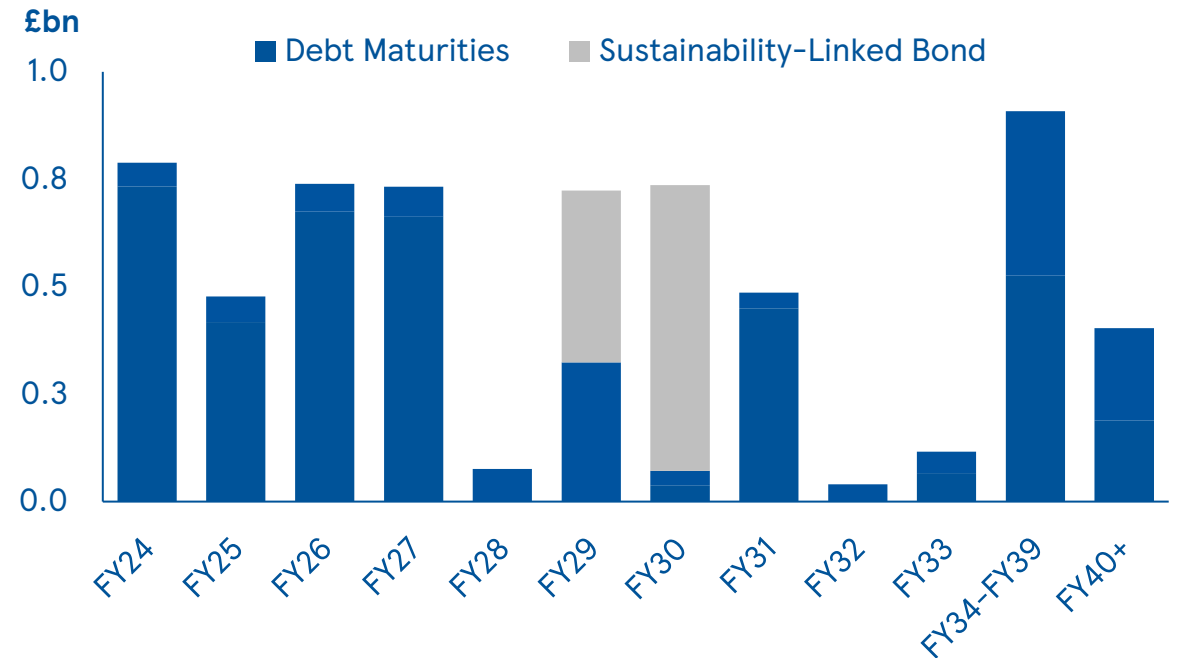
- Less than £1bn maturing in any year
- Weighted average maturity of c.8 years

Weighted average interest cost of 4.2%

Strong liquidity position

- £2.7bn cash²
- £2.5bn of undrawn committed facilities

Debt
maturity
profile



1. Debt & liquidity metrics exclude Tesco Bank.

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

Adjusting items – FY 22/23.

	22/23	21/22
	£m	£m
Net impairment charge on non-current assets	(982)	(115)
Save to Invest restructuring provisions	(138)	(44)
Property transactions	91	128
Amortisation of acquired intangible assets	(76)	(76)
Disposal of Asia operations / China associate	2	41
Other ¹	(2)	(6)
Litigation costs	–	(193)
Total adjusting items in statutory operating profit	(1,105)	(265)

1. Other includes fair value less cost of disposal movements on assets held for sale, ATM business rates refund, and release of onerous contract provision.

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.