

# Preliminary Results 2014/15

J Sainsbury plc

**David Tyler**  
Chairman

**John Rogers**

Chief Financial Officer

# Group performance

## Highlights

<b>£m</b>			
<b>Underlying results</b>	<b>2014/15</b>	<b>2013/14</b>	<b>Change %</b>
<b>Group sales (inc VAT)<sup>1</sup></b>	<b>26,122</b>	26,353	<b>▼ (0.9)</b>
<b>Retail sales (inc VAT, inc fuel)</b>	<b>25,813</b>	26,328	<b>▼ (2.0)</b>
<b>Retail sales (inc VAT, ex fuel)</b>			<b>▼ (0.2)</b>
<b>Retail operating profit</b>	<b>720</b>	873	<b>▼ (17.5)</b>
<b>Financial Services operating profit</b>	<b>62</b>	6	<b>▲ 933.3</b>
<b>Net finance costs</b>	<b>(107)</b>	(111)	<b>▲ 3.6</b>
<b>Share of JV profits</b>	<b>6</b>	30	<b>▼ (80.0)</b>
<b>Profit before tax</b>	<b>681</b>	798	<b>▼ (14.7)</b>
<b>Tax rate</b>	<b>25.8%</b>	21.9%	<b>▼ 391 bps</b>
<b>Basic EPS</b>	<b>26.4p</b>	32.8p	<b>▼ (19.5)</b>
<b>Full year dividend per share</b>	<b>13.2p</b>	17.3p	<b>▼ (23.7)</b>
<b>Statutory results</b>			
<b>Items excluded from underlying results</b>	<b>(753)</b>	100	
<b>(Loss) / profit before tax</b>	<b>(72)</b>	898	

<sup>1</sup> Underlying Group sales (inc VAT) excludes a £23m (2013/14: £3m) adjustment for fair value unwind relating to the acquisition of Sainsbury's Bank

# Retail

## Sales impacted by challenging environment

**LFL sales growth<sup>1</sup>**

**(1.9)%**

**Sales from net new space<sup>1</sup>**

**1.7%**

**Total sales growth<sup>1</sup>**

**(0.2)%**

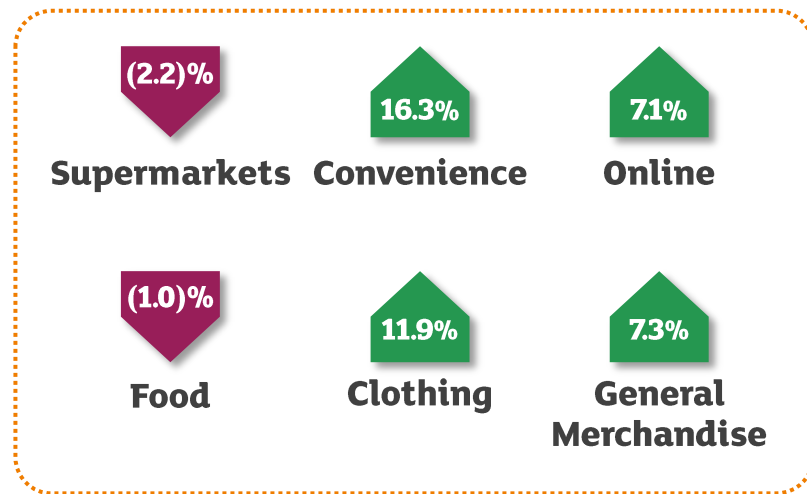
- Contribution from extensions 0.2%<sup>2</sup>

### 2015/16 FY Guidance

- LFL expected to be negative driven by challenging market conditions and food price deflation
- Contribution from net new space (excluding extensions and replacements) is expected to be slightly lower than 2014/15
- Contribution from extensions expected to be 0.1%

<sup>1</sup> Sales including VAT, excluding fuel

<sup>2</sup> Net of disruptions



# Retail

Margin impacted by price investment

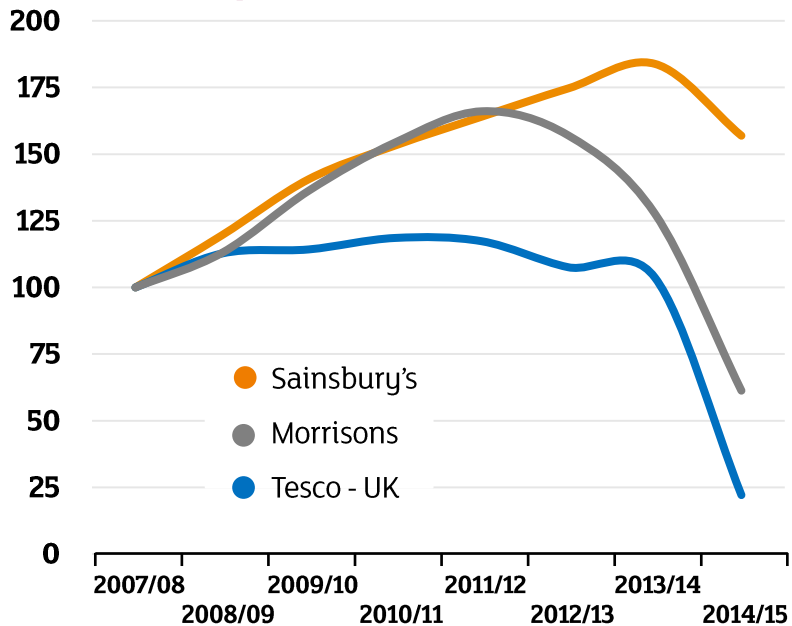
<b>£m</b>	<b>2014/15</b>	<b>2013/14</b>	<b>Change %</b>
<b>Retail sales</b> (inc VAT, inc fuel)	<b>25,813</b>	26,328	▼ (2.0)
(ex VAT, inc fuel)	<b>23,443</b>	23,921	▼ (2.0)
<b>Retail underlying EBITDAR</b>	<b>1,819</b>	1,926	▼ (5.6)
<b>Retail underlying EBITDAR margin %</b>	<b>7.76</b>	8.05	▼ (29) bps
at constant fuel prices	<b>7.66</b>	8.05	▼ (39) bps
<b>Retail underlying operating profit</b>	<b>720</b>	873	▼ (17.5)
<b>Retail underlying operating margin %</b>	<b>3.07</b>	3.65	▼ (58) bps
at constant fuel prices	<b>3.03</b>	3.65	▼ (62) bps

- Enhanced disclosure of commercial income provided in the Financial Review

# Retail

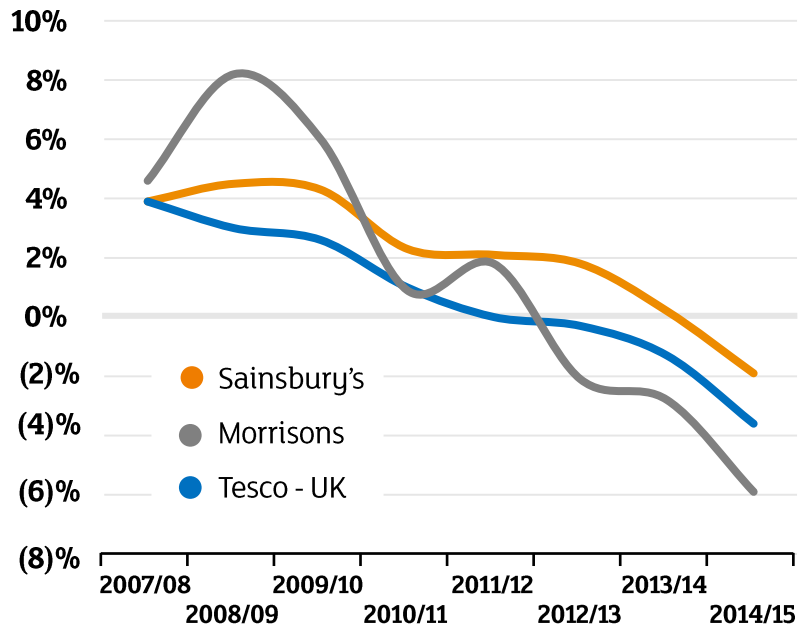
Our profitability and sales have shown good resilience relative to our listed peers

## Indexed profit<sup>1</sup> from 2007/08



<sup>1</sup> Sainsbury's - Underlying profit before tax  
Morrisons - Underlying profit before tax  
Tesco - UK Trading Profit

## Like-for-like sales<sup>2</sup>



<sup>2</sup> Sainsbury's - inc VAT, exc Fuel  
Morrisons - exc VAT, exc Fuel  
Tesco - inc VAT, exc Fuel

# Retail

## Price investment expected to step-up in 2015/16

- We have visibility of the following price investment in 2015/16

<b>£m</b>	<b>2014/15</b>	<b>2015/16</b>	<b>Total</b>
<b>Interims price guidance</b>	<b>(75)</b>	<b>(75)</b>	<b>(150)</b>
<b>Prelims price guidance</b>			
Gross price investment	(50)	(150)	(200)
Net price investment <sup>1</sup>	(40)	(110)	(150)
<b>Change in phasing</b>	<b>35</b>	<b>(35)</b>	<b>-</b>

<sup>1</sup> Net cost to the business after expected volume improvement

### 2015/16 FY Guidance

- Further price investment as required to remain competitive in the market



# Sainsbury's Bank

Good trading performance

<b>£m</b>	<b>2014/15<sup>1</sup></b>	<b>2013/14<sup>2</sup></b>	<b>Change %</b>
<b>Total income<sup>3</sup></b>	<b>260</b>	229	<b>▲ 13.5</b>
<b>Underlying operating profit</b>	<b>62</b>	53	<b>▲ 17.0</b>
<b>Recognised as joint venture</b>	-	18	
<b>Consolidated as subsidiary</b>	<b>62</b>	6	
<b>Impact on Group underlying profit</b>	<b>62</b>	24	<b>▲ 158.3</b>
<b>Net interest margin<sup>4</sup></b>	<b>3.9%</b>	3.1%	<b>▲ 79 bps</b>
<b>Bad debt asset ratio<sup>5</sup></b>	<b>0.7%</b>	1.1%	<b>▲ 40 bps</b>
<b>Tier 1 Capital Ratio<sup>6</sup></b>	<b>12.7%</b>	13.6%	<b>▼ (91) bps</b>

## 2015/16 FY Guidance

- Expect mid-single digit year-on-year growth in underlying operating profit

1 12 months to 28 February 2015

2 50 weeks to 28 February 2014

3 Net interest and net commission income

4 Net interest income / average interest-bearing assets

5 Bad debt expense / gross lending

6 Tier 1 capital / risk-weighted assets

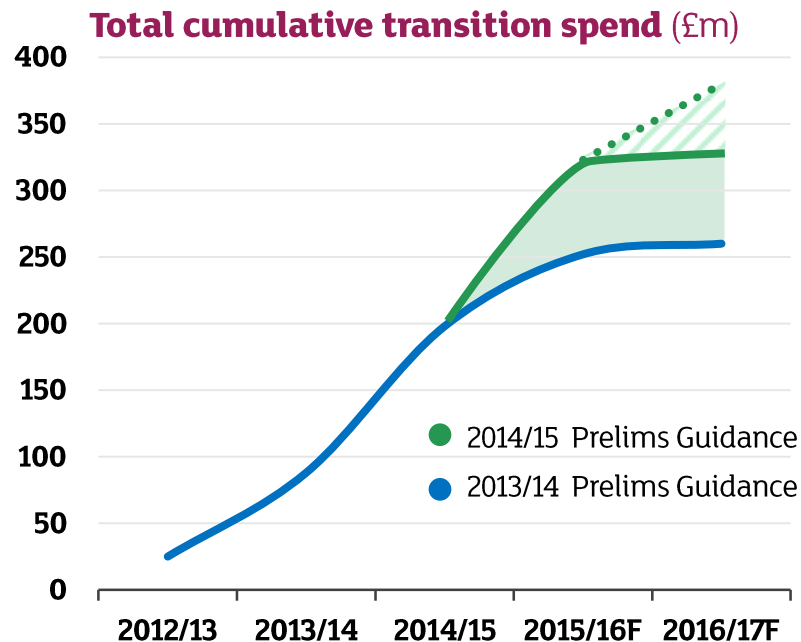
# Sainsbury's Bank

Transition costs increase but business case remains attractive

- Transition expected to complete in line with original timetable
- Total transition costs forecast to be in the range of £340m - £380m, £80m - £120m higher than original budget
  - £170m revenue (£50m in 2015/16)
  - £170m to £210m capital (£75m in 2015/16)

## 2015/16 FY Guidance

- Capital injection of c.£80m required in 2015/16 to reflect additional transition costs and other strategic investments



# Items excluded from underlying results

Impairment and onerous contract charge on trading stores and property pipeline

<b>£m</b>	<b>2014/15</b>	<b>2013/14</b>
Impairment and onerous contract charge	(628)	(92)
Sainsbury's Bank transition costs	(53)	(45)
Pension past service credit and past compensation payments	(17)	148
Other items excluded from underlying results	(55)	89
<b>Total</b>	<b>(753)</b>	<b>100</b>

## 2015/16 FY Guidance

- Sainsbury's Bank transition costs are expected to be c.£50m with c.£75m of transition capital expenditure
- Property profits expected to be c.£200m split over 2015/16 and 2016/17 from mixed-use developments

# Underlying finance costs

In line with guidance

<b>£m</b>	<b>2014/15</b>	<b>2013/14</b>	<b>Change %</b>
<b>Net interest cost</b>	<b>(107)</b>	(111)	<b>▲ 3.6</b>
<b>Net interest cover</b>	<b>74x</b>	8.2x	
<b>Fixed charge cover</b>	<b>2.9x</b>	3.1x	

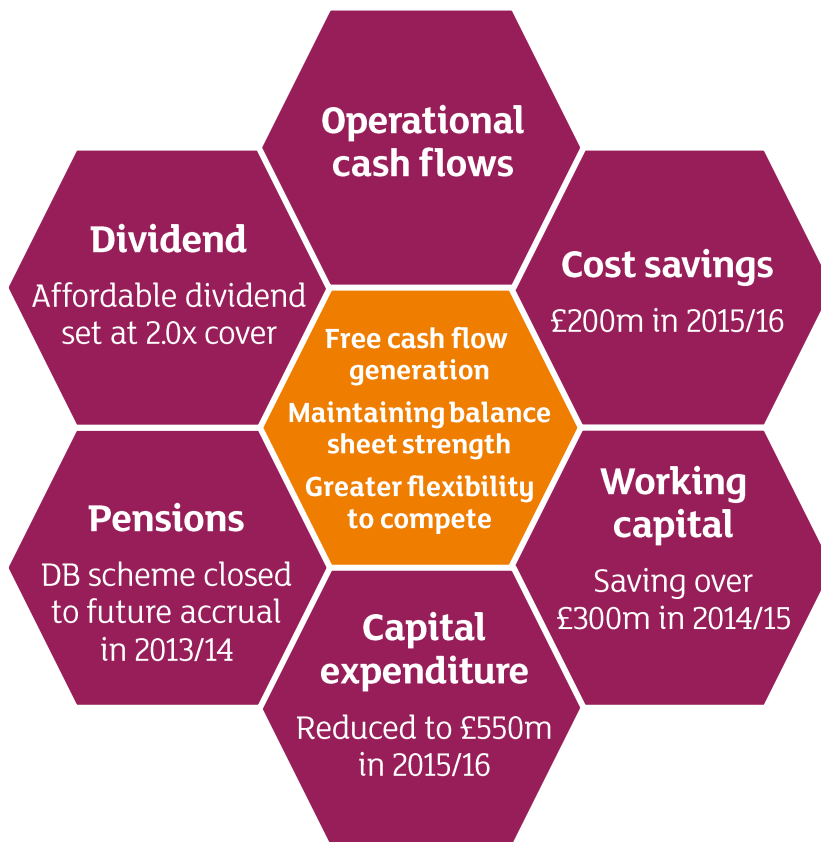
- Capitalised interest £17m (2013/14: £26m)

## 2015/16 FY Guidance

- Net finance costs to increase slightly year-on-year driven by lower capitalised interest
- Underlying tax rate to be similar to 2014/15

# Maximising our cash position

We have taken decisive action to give us flexibility to compete

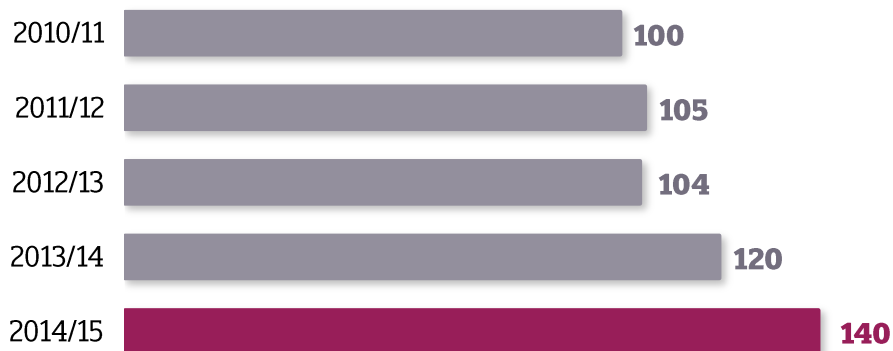


# Cost savings

Savings of £140m in line with guidance



## Annual operating cost savings (£m)



### 2015/16 FY Guidance

- Cost inflation at the lower end of the 2-3% range
- Efficiency savings of around £200m in line with our plan to deliver £500m of savings over the next three years

# Cost savings

Reducing our cost base without impacting the customer experience



- Energy
- Store operations and management
- Store support centres restructured
- IT outsourcing
- Supply chain and logistics
- In-store technology
- Procurement – goods not for resale



# Cash flow and working capital

## Strong retail working capital performance



£m	2014/15	2013/14
Operating cash flow before changes in working capital	1,123	1,366
Decrease / (increase) in retail working capital	313	(128)
Increase in Sainsbury's Bank working capital <sup>1</sup>	(300)	(11)
<b>Cash from operations</b>	<b>1,136</b>	<b>1,227</b>
Interest paid	(134)	(148)
Corporation tax paid	(91)	(140)
Dividends paid	(330)	(320)
Net cash used in investing activities <sup>2</sup>	(900)	(590)
Proceeds from shares	19	19
Other movements	(2)	(61)
Acquisition of Sainsbury's Bank net of cash acquired	-	1,016
Elimination of movement in Sainsbury's Bank cash and cash equivalent	343	(1,225)
<b>Movement in net debt from year end</b>	<b>41</b>	<b>(222)</b>
<b>Net debt</b>	<b>(2,343)</b>	<b>(2,384)</b>

### 2015/16 FY Guidance

- A small improvement in retail working capital

<sup>1</sup> 2014/15 increase in Sainsbury's Bank working capital reflects increased customer lending in line with the Bank's funding and liquidity strategy

<sup>2</sup> Excluding the acquisition of Sainsbury's Bank



# Retail capital expenditure

In line with guidance



<b>£m</b>	<b>2014/15</b>	<b>2013/14</b>
Core retail capital expenditure <sup>1</sup>	947	888
Acquisition of freehold properties <sup>2</sup>	(9)	41
Net disposal proceeds	3	(301)
<b>Net retail capital expenditure</b>	<b>941</b>	<b>628</b>

<sup>1</sup> 2014/15 includes £44m of BAU property disposal proceeds

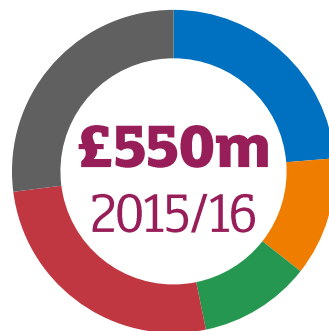
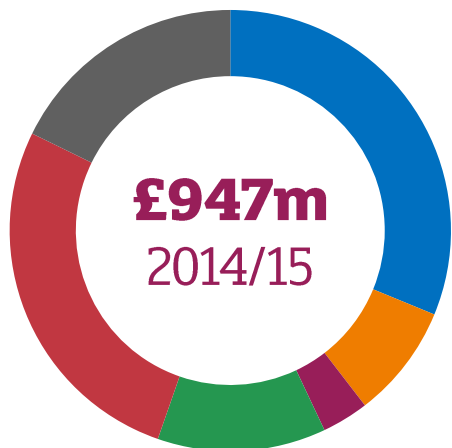
<sup>2</sup> 2014/15 includes income from Harvest, our JV with Land Securities, relating to the repayment of a loan

## 2015/16 FY Guidance

- £50m of BAU property disposal proceeds

# Core retail capital expenditure

Capital expenditure has reduced and its allocation is changing



- New supermarkets
- Convenience
- Extensions
- Refurbishments and retail FM
- Logistics and commercial initiatives
- IT

## 2015/16 FY Guidance

- Full year core retail capital expenditure of around £550m, excluding Sainsbury's Bank capital expenditure

# Pensions

## Proactive decisions taken to manage pension liability



- Closed defined benefit scheme to future accrual in September 2013
  - £20m annual cost saving compared to 2012/13 costs
- Since 2012:
  - Triennial valuation cash contributions of £49m
  - Contributions of c.£30m p.a. come from the property funding partnership
- Triennial valuation due in 2015
- IAS 19 net pension deficit<sup>1</sup> £651m (March 2014: £679m)

<sup>1</sup> Net of deferred tax

# Dividend

We are committed to paying an affordable dividend



- As announced in November as part of our Strategic Review, dividend cover now set at 2.0x
- Final dividend 2014/15 down 33.3% to 8.2p
- Full year dividend 2014/15 down 23.7% to 13.2p

## 2015/16 FY Guidance

- Dividend cover will be fixed at 2.0x underlying earnings

# Balance sheet

## Impact of decisive action protects the balance sheet

- Market value of property decreased to £11.1bn (March 2014: £12.0bn)
- Net debt £2,343m (March 2014: £2,384m)
- Facilities of £3.8bn
- Revolving credit facility restructured
  - £1.15bn facility
  - Secured funding
  - No financial covenants

### 2015/16 FY Guidance

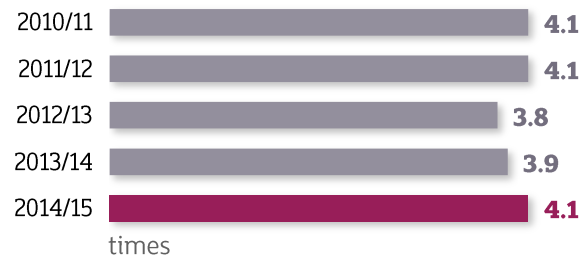
- Year-end net debt expected to reduce year-on-year

<sup>1</sup> 2010/11 and 2011/12 not restated for effects of changes to IAS 19

<sup>2</sup> Net debt plus capitalised lease obligations (5.5% discount rate) divided by Group underlying EBITDAR

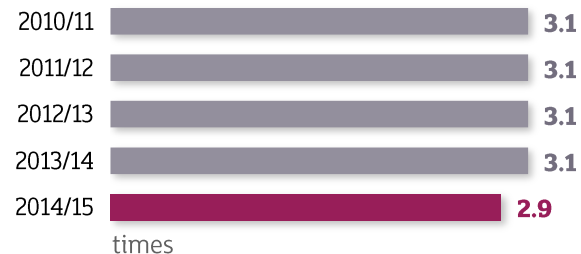
<sup>3</sup> 2012/13 onwards reflect changes in disclosure of lease lengths beyond five years

### Lease adjusted net debt/underlying EBITDAR<sup>1,2,3</sup>



### Fixed charge cover<sup>1</sup>

(Group underlying EBITDAR / interest + rent)



# Summary

## Trading and operations

- Food deflation and pricing pressures impact margins
- Strong growth from Clothing, General Merchandise, Convenience and Online
- Price investment driving volume growth
- Good progress on cost reduction initiatives

## Key financial measures

- Like-for-like sales declined by 1.9%
- Underlying profit before tax down 14.7% to £681m
- Impairment and onerous contract charge of £628m
- Total Bank transition costs increase by between £80m and £120m

## Balance sheet

- Net debt slightly better than expected
- Pension deficit down to £651m
- Property value decreased to £11.1bn
- Retail working capital improved by £313m
- Revolving credit facility restructured

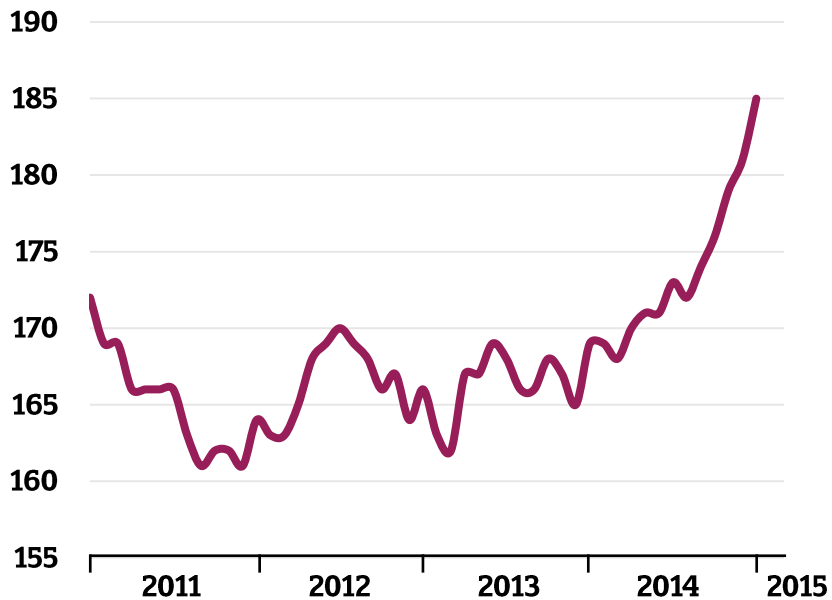
**Mike Coupe**  
Chief Executive

# Market context

Consumer confidence and spending power is improving

## Household discretionary income

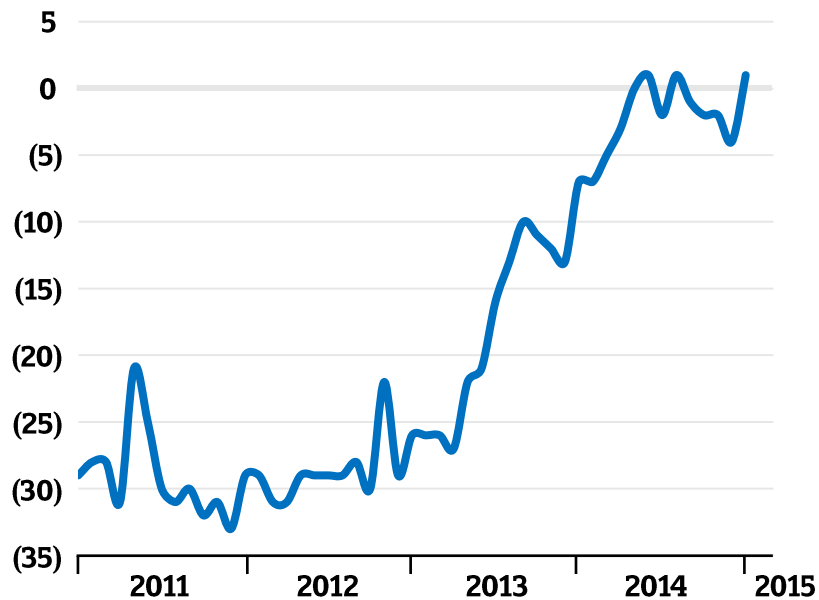
£ per week



Source: CEBR

## Consumer confidence

UK Consumer Confidence Index



Source: GfK

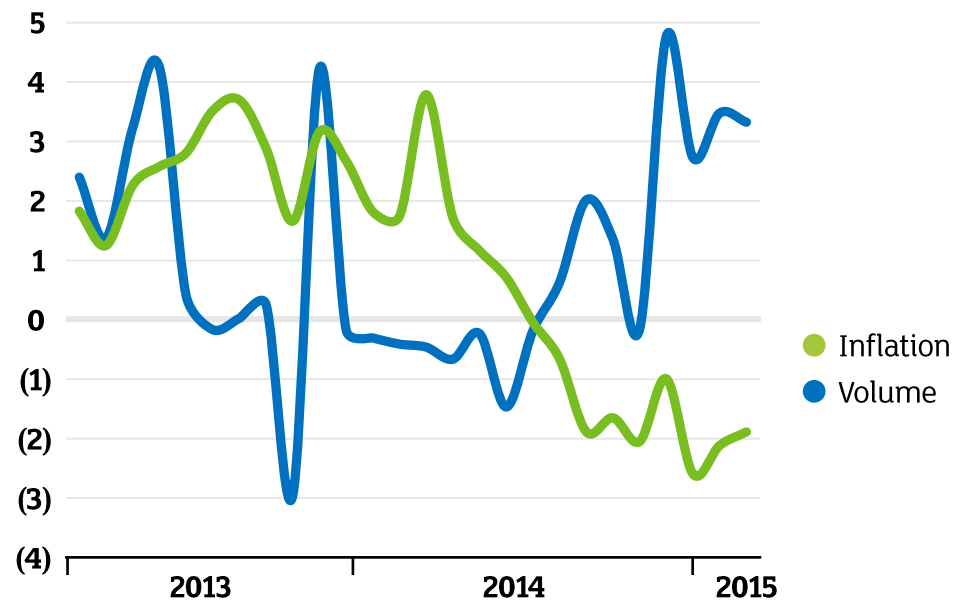


# Market context

The market has seen record levels of food deflation

## Grocery market volume & inflation

YoY % Change



Source: Nielsen

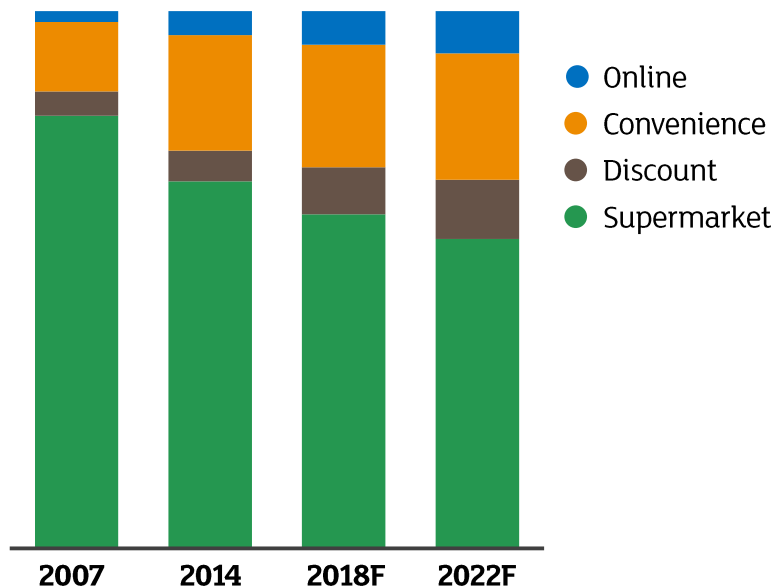
- Deflation
  - Input prices / commodities
  - Price investment
- Likely to persist throughout 2015
- Volume has started to recover

# Market context

The market continues to change

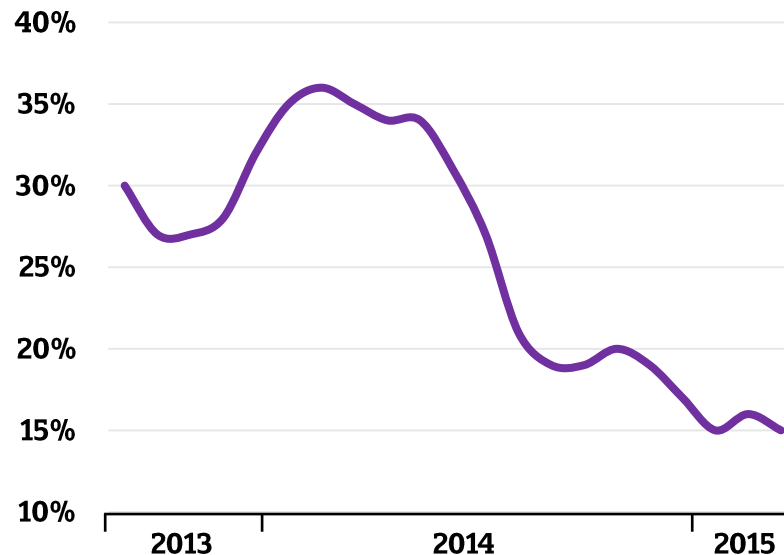
## Grocery market channel share

2007-22 % of market



Source: Company estimates

## Growth of Aldi and Lidl



Source: Nielsen Panel, 12 w/e rolling growth

# Building on strong foundations

## Sainsbury's has a differentiated offer



Committed to a strong set of values which resonate with our customers and colleagues



Quality leader and customers who care about quality



Strong value proposition underpinned by Brand Match



Growth opportunities in Clothing, General Merchandise and Sainsbury's Bank



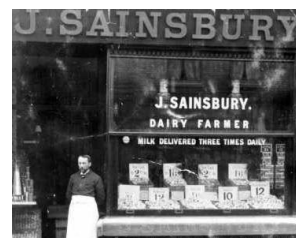
Competitively advantaged portfolio; smaller stores in more affluent, faster growing locations



Established Convenience and Online businesses growing strongly



Delivering great service to our customers



Strong brand heritage



We know our customers better than anyone else

# We are Sainsbury's

We are making progress implementing our new strategy



# Great products and services at fair prices

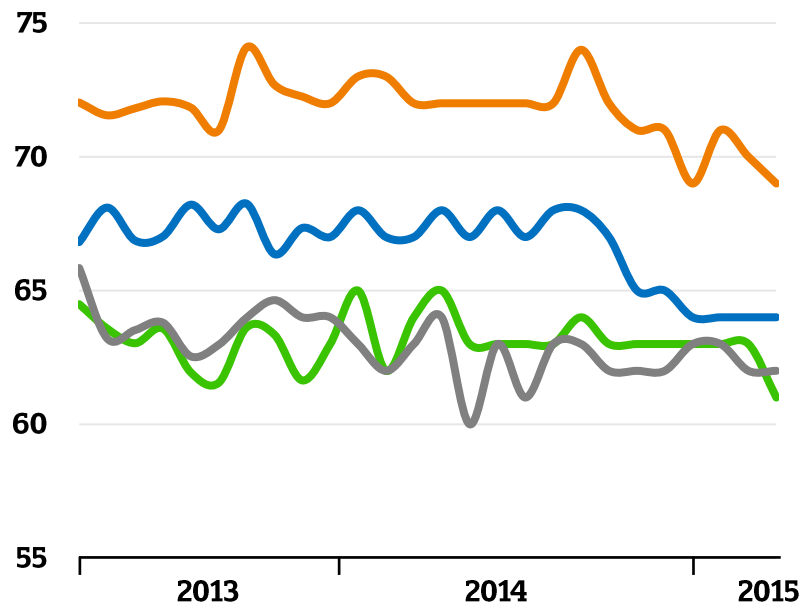
Investing in quality is key to maintaining our differentiated position



- Customers tell us they value our quality
- Our quality perception is better than that of our major competitors

## Quality perception

**Question asked:** On a 0-100 scale, how would you rate product quality of each of the following brands?



Source: HPI Brand & Communications Tracker

- Sainsbury's
- Tesco
- Asda
- Morrisons

# Great products and services at fair prices

Investing in the quality of 3,000 own-brand products



# Great products and services at fair prices

Targeted price investment to allow our customers to *Live Well for Less*

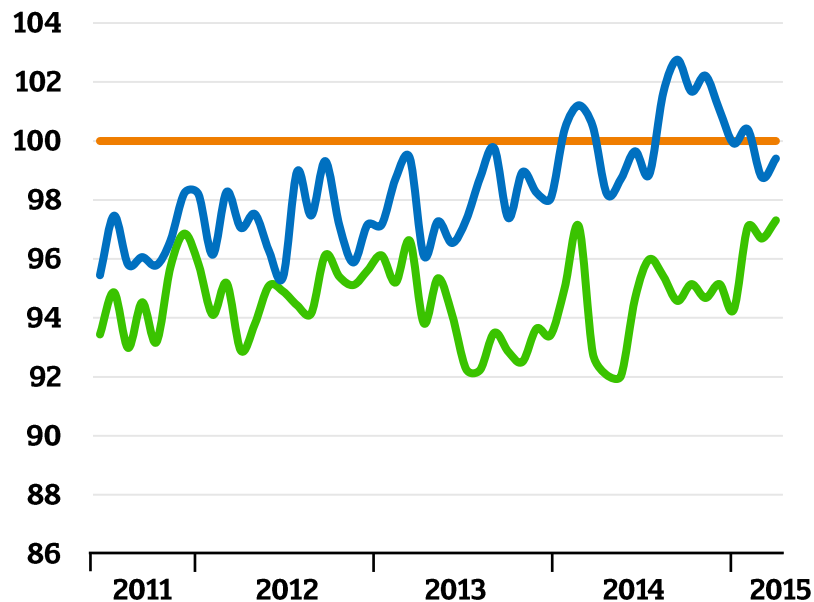


- Over 1,100 products lowered in price
- Investment focused on commodity products where customers value price more than quality
- Price position and value credentials have never been stronger

● Sainsbury's   ● Asda  
● Tesco

## Final price weekly basket

Indexed to Sainsbury's



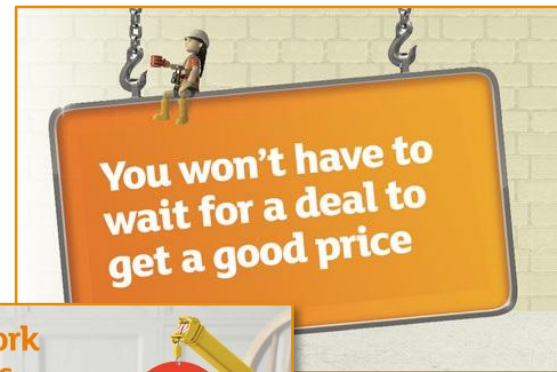
Source: Morgan Stanley Alpha Wise Survey April 2015

# Great products and services at fair prices

We have simplified our promotional offer and messaging



- Value Simplicity implemented across 80% of our range
- Volumes sold at regular price have grown steadily
- Promotional participation has reduced
- Waste and availability have improved as a result of better forecast accuracy





# Great products and services at fair prices

Early signs that these strategies are benefitting trade

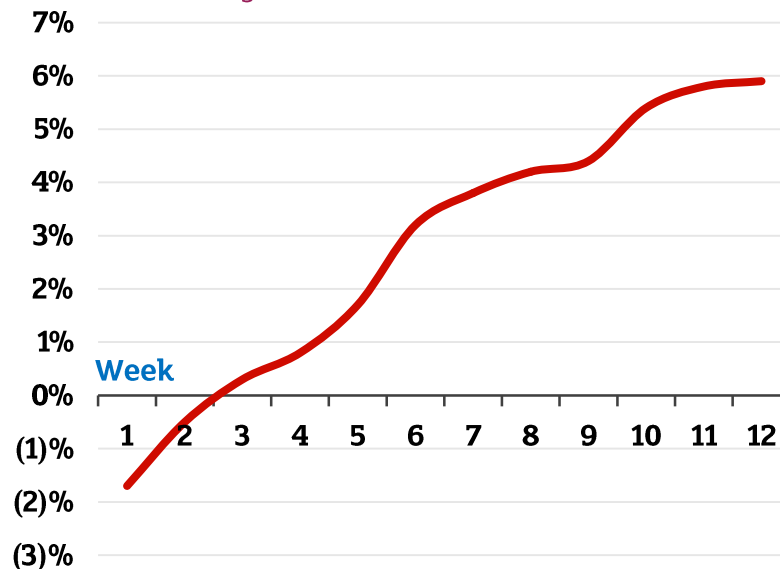


- Our price investment has driven a volume improvement on the 1,100 products
- Total volume has improved
- Like-for-like transactions increased in the final quarter

● 1,100 invested products

## YoY volume 12 weeks post price investment

YoY % Change



# Great products and services at fair prices

Collaborating with our suppliers to deliver value chain efficiencies



- Working with our suppliers to unlock shared value
- Aim to recover our price investment
- Not about harder negotiations or range rationalisation



# Great products and services at fair prices

Opportunities exist to optimise range



- Nectar data allows us to continually optimise range
- Like-for-like stocking points reduced by 2.9% for food
- Early evidence in non-food grocery suggests we are able to remove duplicate products
- Cutting range too deeply impacts the rest of the basket spend



# Great products and services at fair prices

Clothing and General Merchandise are experiencing significant growth



- Clothing growth of nearly 12%
- General Merchandise growth of over 7%
- One in five supermarkets range our full Clothing and General Merchandise offer
- Focus on department store look and feel
- Sourcing offices in Far East allowing us to achieve better margins
- Successful Clothing Online trial
  - Roll out to further regions in the UK



# Great products and services at fair prices

## Sainsbury's Bank delivers strong growth



- Strong performance
  - Credit cards sales volume up 50% YoY
  - Loans sales volume up 13% YoY
  - Travel money turnover up 24% YoY
- In-sourced our Travel Money business and opened our 168<sup>th</sup> Travel Money Bureau
- 1,575 ATMs, over 236 million transactions



# There for our customers

Well positioned to take advantage of the structural shift in the market



## YoY sales growth



# There for our customers

We have a competitively advantaged portfolio



- We have a structurally advantaged store estate in the right locations
- Trialling new supermarket formats focusing on ease of shop
- About one quarter of our supermarkets could have underutilised space in the future
  - 6% of total space
- Opportunity to fill underutilised space with:
  - Clothing and General Merchandise
  - Concession partners





# There for our customers

Convenience growth and returns remain strong



- Growth of over 16%
- Opened 98 stores during the year
- Will continue to open one to two stores a week
- Accretive investments with low capital cost
- Developing smaller and larger format stores





# There for our customers

## A clear plan to grow Groceries Online



- Growth of over 7%
- Record week of 245,000 orders
- Improving our website, freshness and substitutions
- Click & Collect launching in 100 locations
- Delivery Pass participation increasing
- 'Green van' option for already-scheduled deliveries
- Dark store to open in 2016



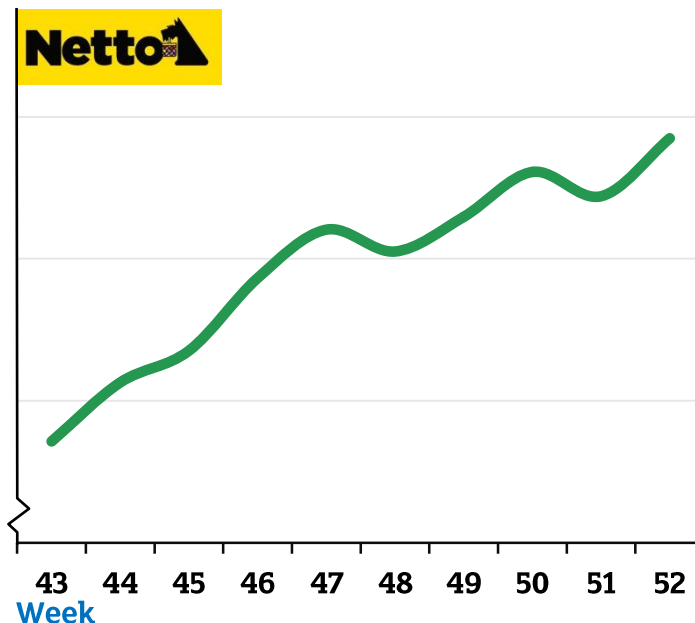
# There for our customers

Netto gives us access to the fastest growing channel in the market



- Announced a 15 store trial in partnership with Dansk Supermarked
- 5 stores now open
- Planned openings
  - Further 6 stores by Christmas 2015
  - Further 4 stores by March 2016
- Bakery and produce have been well received; our freshness and quality offer a point of difference
- Shared learnings

Sales (ex VAT)



# Colleagues making the difference

Consistently strong service and availability performance



- Mystery Shopper programme continues to perform strongly year-on-year
- Rated top of the *Advantage* survey
- 17 stores won the *Grocer 33* award for service and availability
- Yammer launched



# Colleagues making the difference

## Adapting our workforce and capabilities



- Organisational restructure in stores and support centres
- Convenience and supermarket support structures merged
- Continue to invest in training offer
- Building our digital resource, hiring 480 colleagues in London's growing tech hub and Coventry



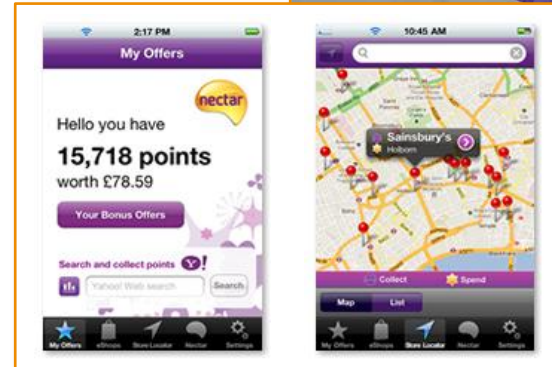
# We know our customers better than anyone else

Customers are at the heart of our business



- *Identity* – single sign-on
- Changing the way we reward customers
- Personalised marketing
- Trolley Talk

TROLLEY TALK



# Our values make us different

We are making good progress against our *20x20 Sustainability Plan*



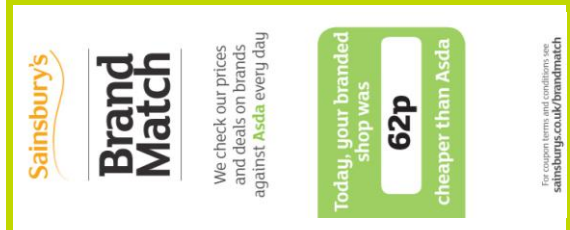
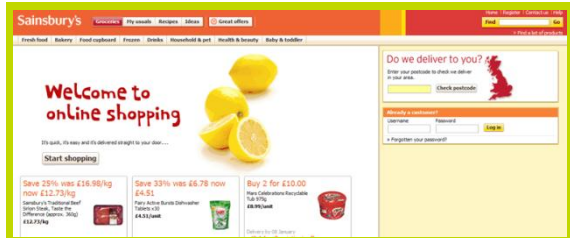
- 2,256 tonnes of sugar removed from our own-brand soft drinks
- 95% of the palm oil we use to make own-brand products is certified sustainable
- Our Cannock store is powered by food waste and is off the National Grid
- Raised £52m for charitable causes
- Active Kids recognised for Big Society Award





# We are Sainsbury's

We are a business with a unique combination of strengths



**We know our customers**



**Great products & services**



**Whenever & wherever**

# Q & A