



Interim Results 2015/16

J Sainsbury plc

David Tyler
Chairman

John Rogers

Chief Financial Officer

Financial highlights

- Resilient sales performance in a challenging market
- Operational cost savings of £115m, increasing full year guidance to around £225m
- Pension deficit reduced to £473m (March 2015: £651m)
- Improved liquidity and financial flexibility through perpetual securities issuance
- Pharmacy sale: proceeds expected to be around £125m cash
- Balance sheet remains robust despite decline in profitability

Group performance

Overview

£m	H1	H1	Change
Underlying results	2015/16	2014/15	%
Group sales (inc VAT)¹	13,641	13,916	▼ (2.0)
Retail sales (inc VAT, inc fuel)	13,475	13,757	▼ (2.0)
Retail sales (inc VAT, ex fuel)			▼ (0.1)
Retail operating profit	332	388	▼ (14.4)
Financial Services operating profit	34	35	▼ (2.9)
Net finance costs²	(62)	(54)	▼ (14.8)
Share of JV profits	4	6	▼ (33.3)
Profit before tax	308	375	▼ (17.9)
Tax rate	25.3%	26.4%	▲ 108 bps
Basic EPS	12.0p	14.5p	▼ (17.2)
Interim dividend per share	4.0p	5.0p	▼ (20.0)
Statutory results			
Items excluded from underlying results	31	(665)	
Profit / (loss) before tax	339	(290)	

¹ Underlying Group sales (inc VAT) excludes a £5m (H1 2014/15: £11m) adjustment for fair value unwind relating to the acquisition of Sainsbury's Bank

² 2015/16 net finance costs are stated inclusive of the 'perpetual securities' coupons (perpetual subordinated capital securities and perpetual subordinated convertible bonds) of £4m

Retail

Core business impacted by food deflation but other areas continue to grow

LFL sales growth¹

(1.6)%

Sales from net new space¹

1.5%

Total sales growth¹

(0.1)%

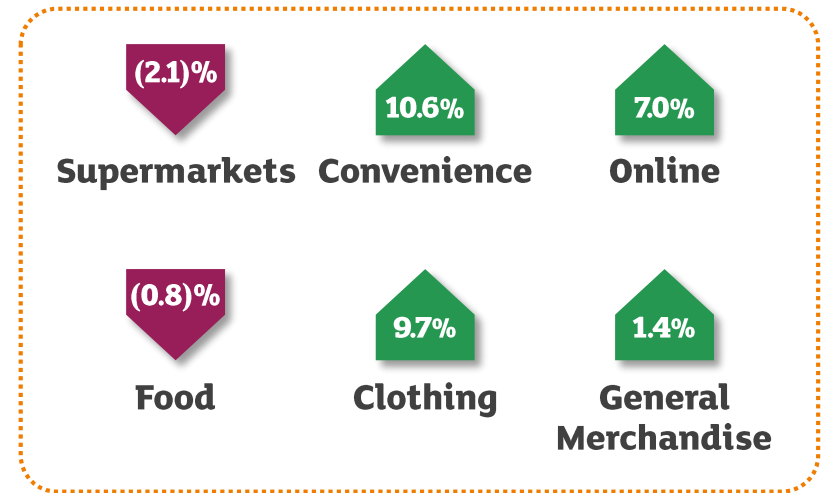
- Contribution from extensions 0.1%²

2015/16 FY Guidance

- Updated guidance:** H2 LFL expected to be similar to H1
- 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%

¹ Sales including VAT, excluding fuel

² Net of disruptions



Retail

Impact of £150m price investment and deflation reduce margins

£m	H1 2015/16	H1 2014/15	Change %
Retail sales (inc VAT, inc fuel)	13,475	13,757	▼ (2.0)
(ex VAT, inc fuel)	12,248	12,497	▼ (2.0)
Retail underlying EBITDAR	928	982	▼ (5.5)
Retail underlying EBITDAR margin %	7.58	7.86	▼ (28) bps
at constant fuel prices	7.41	7.86	▼ (45) bps
Retail underlying operating profit	332	388	▼ (14.4)
Retail underlying operating margin %	2.71	3.10	▼ (39) bps
at constant fuel prices	2.65	3.10	▼ (45) bps

Retail

H1 profitability impacted by £80m of the £150m price investment

£m	H2 2014/15	H1 2015/16	H2 2015/16	Total
Net price investment¹	(40)	(80)	(30)	(150)

¹ Net cost to the business after volume improvement

2015/16 FY Guidance

- **Updated guidance:** £30m profit impact in H2 from the 2014/15 £150m price investment
- We will remain competitive on price in the market

Sainsbury's Bank

Good trading performance

£m	H1 2015/16¹	H1 2014/15²	Change %
Total income³	139	131	▲ 6.1
Underlying operating profit	34	35	▼ (2.9)
Net interest margin⁴	3.9%	4.0%	▼ (10) bps
Bad debt asset ratio⁵	0.3%	0.8%	▲ 50 bps
Tier 1 Capital Ratio⁶	14.0%	13.5%	▲ 51 bps

¹ 6 months to 31 August 2015

² 6 months to 31 August 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

2015/16 FY Guidance

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

Sainsbury's Bank

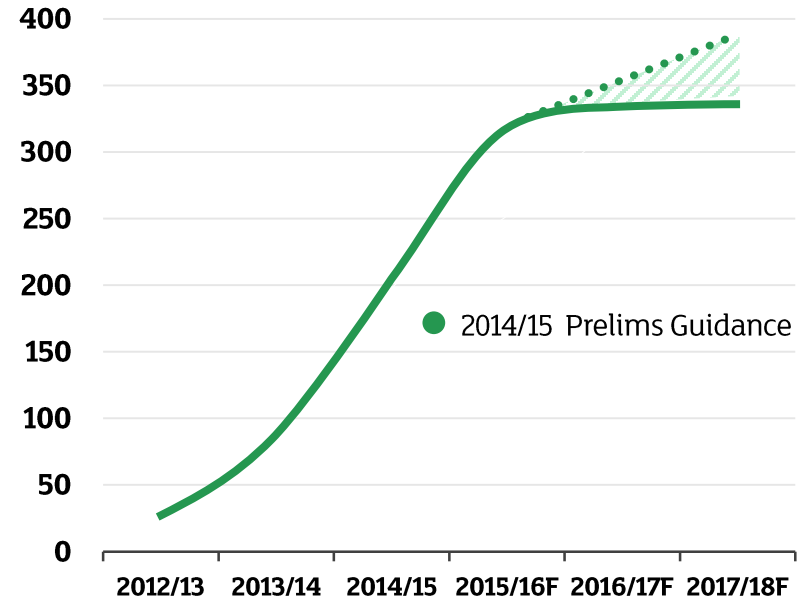
Complexity of migration has led to a delay

- Core banking platform built and in test
- Customer migration will be 6-9 months late
 - Spring / Summer '16 (Savings)
 - Spring / Summer '17 (Cards and Loans)
- Total transition costs forecast to be at the top of the £340m - £380m range previously guided at Prelims
- Business case remains compelling

2015/16 FY Guidance

- **Updated guidance:** Capital injections to the Bank are expected to be c.£160m

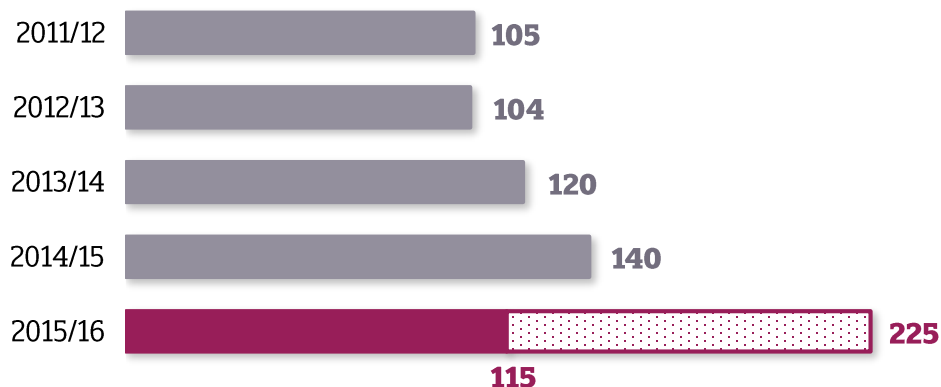
Total cumulative transition spend (£m)



Cost savings

Full year savings expected to be £25m ahead of our Prelims guidance

Annual operating cost savings (£m)



2015/16 FY Guidance

- **Updated guidance:** Cost inflation at the lower end of the 2% - 3% range, with a £13m step-up in H2, as a result of the 4% wage increase for store colleagues effective from 30 August 2015
- **Updated guidance:** Efficiency savings of around £225m - part of £500m cost saving programme announced in Strategic Review in November 2014

Cost savings

Efficiencies delivered whilst maintaining excellent customer service

- Organisational restructuring
 - Store support centres and retail hierarchies
- Electricity usage down 2.5% YoY
 - 44 stores converted to LED, saving 2.8m kWh
- Inventory management
 - Stock checking processes simplified
 - No impact on sales or availability
- Short life code checking
 - Automated code checking report
 - Reduction in waste



Items excluded from underlying results

Profits realised on mixed-use development schemes

£m	H1 2015/16	H1 2014/15
Profit on disposals of properties	94	4
Sainsbury's Bank transition costs	(25)	(23)
Impairment and onerous contract charge	3	(628)
Other items excluded from underlying results	(41)	(18)
Total	31	(665)

2015/16 FY Guidance

- **Updated guidance:** Pharmacy sale proceeds expected to be around £125m cash¹, around £100m profit – expected to complete in February 2016
- Property profits, mainly from mixed-use developments, are expected to be around £200m split over 2015/16 and 2016/17
- Sainsbury's Bank transition costs are expected to be c.£50m with c.£75m of transition capital expenditure

¹ Subject to a working capital adjustment

Underlying finance costs

Includes perpetual securities coupons

£m	H1 2015/16	H1 2014/15	Change %
Net finance cost¹	(62)	(54)	▼ (14.8)
Net interest cover¹	6.0x	7.9x	
Fixed charge cover¹	2.7x	3.0x	

- Capitalised interest £4m (2014/15: £12m)
- Perpetual securities coupons £4m (2014/15: £nil)

¹ Underlying finance costs and ratios are stated inclusive of the perpetual securities coupons of £4m. For statutory purposes the perpetual securities will be accounted for as equity and the coupons will be treated as dividends. Therefore, excluding the perpetual securities coupons of £4m, net finance costs are £58m, net interest cover is 6.4x and fixed charge cover is 2.7x

2015/16 FY Guidance

- **Updated guidance:** Net finance costs to increase by around £10m year-on-year as a result of lower capitalised interest and the perpetual securities coupons
- **Updated guidance:** Full year underlying tax rate expected to be c.22%, lower than the previous guidance due to the corporation tax rate changes announced in the July 2015 Budget

Cash flow and working capital

Good retail working capital performance

£m	H1 2015/16	H1 2014/15
Operating cash flow before changes in working capital	507	620
Decrease in retail working capital	191	312
Increase in Sainsbury's Bank working capital ¹	(323)	(408)
Cash from operations	375	524
Interest paid	(65)	(76)
Corporation tax paid	(63)	(50)
Dividends paid	(157)	(234)
Net cash used in investing activities	(313)	(555)
Proceeds from issue of perpetual securities	494	-
Proceeds from shares	7	8
Other movements	(30)	-
Elimination of movement in Sainsbury's Bank cash and cash equivalents	238	385
Movement in net debt from year end	486	2
Net debt	(1,857)²	(2,382)

2015/16 FY Guidance

- A small improvement in retail working capital

¹ Increase in Sainsbury's Bank working capital reflects increased customer lending in line with the Bank's funding and liquidity strategy

² Treating perpetual securities as debt (net of fees), net debt would be £2,351m

Retail capital expenditure

Year-on-year reduction in line with guidance

£m	H1 2015/16	H1 2014/15
Core retail capital expenditure	301	557
Acquisition of freehold and trading properties ¹	1	(2)
Proceeds from sale and leasebacks ²	(4)	7
Net retail capital expenditure	298	562

¹ 2014/15 balance includes income from Harvest, our JV with Land Securities, relating to the repayment of a loan

² Includes movement in timing of capital debtors and creditors

2015/16 FY Guidance

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

Balance sheet

We have improved our liquidity position and increased our financial flexibility

- Facilities of £4.1bn (March 2015: £3.8bn) of which £3.0bn drawn down including the perpetual securities
- Perpetual securities issued in July to fund the Pension Scheme and diversify capital structure
 - Senior only to share capital and ranks below pension fund liabilities
- £500m of capital raised
 - £250m perpetual subordinated capital securities have a coupon of 6.5% (until 30 July 2020)
 - £250m perpetual subordinated convertible bonds have a coupon of 2.875% (until 30 July 2021)
 - Blended rate of 4.69%
- Both instruments are fully tax deductible and accounted for as equity under IFRS
- £1.15bn revolving credit facility restructured in May 2015
- No financial covenants across any of our borrowings

Balance sheet

Balance sheet continues to be robust

- Net debt £1,857m¹ (March 2015: £2,343m)
- Market value of property decreased to £10.8bn (March 2015: £11.1bn)
- IAS 19 net pension deficit £473m (March 2015: £651m)
 - £125m contribution to Pension Fund
 - Further £125m contribution will take place next financial year

2015/16 FY Guidance

- **Updated guidance:** Net debt expected to reduce significantly year-on-year, due to the issue of the perpetual securities, partly offset by the £125m contribution to the Pension Fund and capital injections into Sainsbury's Bank
- **Updated guidance:** Treating the perpetual securities as debt, Sainsbury's still expects 2015/16 year-end net debt to reduce year-on-year

¹ Treating perpetual securities as debt (net of fees), net debt would be £2,351m

Balance sheet

Balance sheet metrics remain stable despite decline in profitability

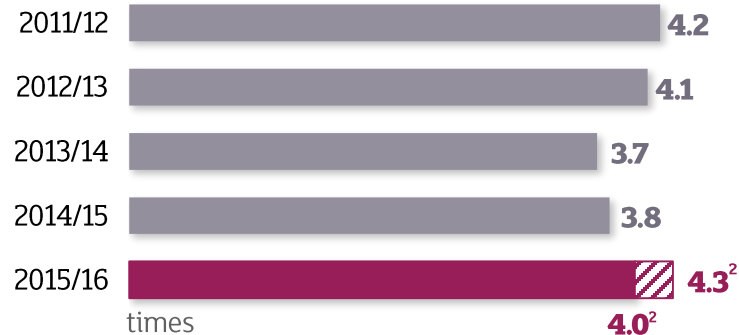
Fixed charge cover (H1)¹

(Group underlying EBITDAR / interest + rent)



Lease adjusted net debt/underlying EBITDAR^{1,3,4}

(Rolling 52 weeks)



¹ 2011/12 not restated for effects of changes to IAS 19

² For statutory purposes the perpetual securities will be accounted for as equity and the coupons will be treated as dividends
Fixed charge cover treats the £4m perpetual securities coupons as interest. Accounting for the perpetual securities coupons as a dividend, fixed charge cover remains at 2.7x
Accounting for the perpetual securities as equity, lease adjusted net debt / underlying EBITDAR is 4.0x. Treating the perpetual securities as debt, lease adjusted net debt / underlying EBITDAR is 4.3x

³ Net debt plus capitalised lease obligations (5.5% discount rate) divided by Group underlying EBITDAR

⁴ 2012/13 onwards reflect changes in disclosure of lease lengths beyond five years

Summary

Trading and operations

- Food deflation and pricing pressures impacting margins
- Strong growth from Clothing, Convenience and Online
- Price investment driving volume and transaction growth
- Cost reduction initiatives ahead of guidance

Key financial measures

- Like-for-like sales declined by 1.6%
- Underlying profit before tax down 17.9% to £308m
- Property profits of £94m

Balance sheet

- Pension deficit down to £473m
- Property value decreased to £10.8bn
- £500m of perpetual securities issued at blended rate of 4.69%
- Retail working capital improved by £191m
- Pharmacy sale proceeds expected to be around £125m cash

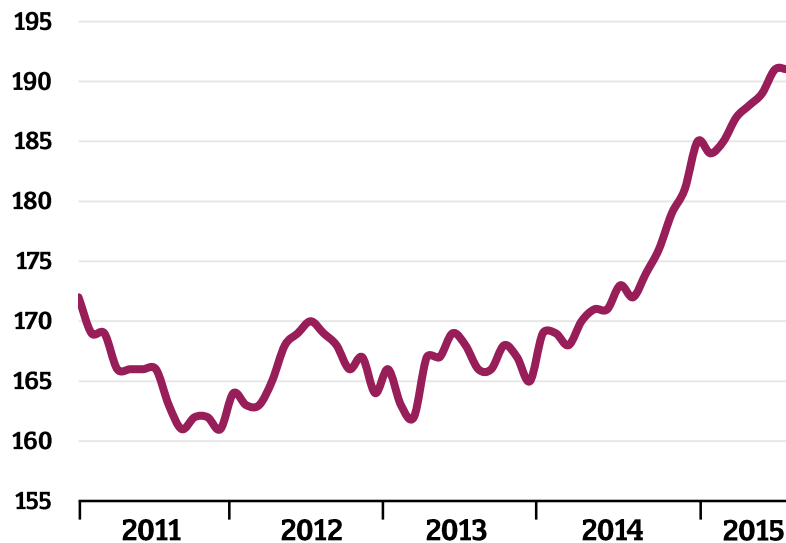
Mike Coupe
Chief Executive

Market context

Growth in disposable income not yet reflected in grocery expenditure

Household discretionary income

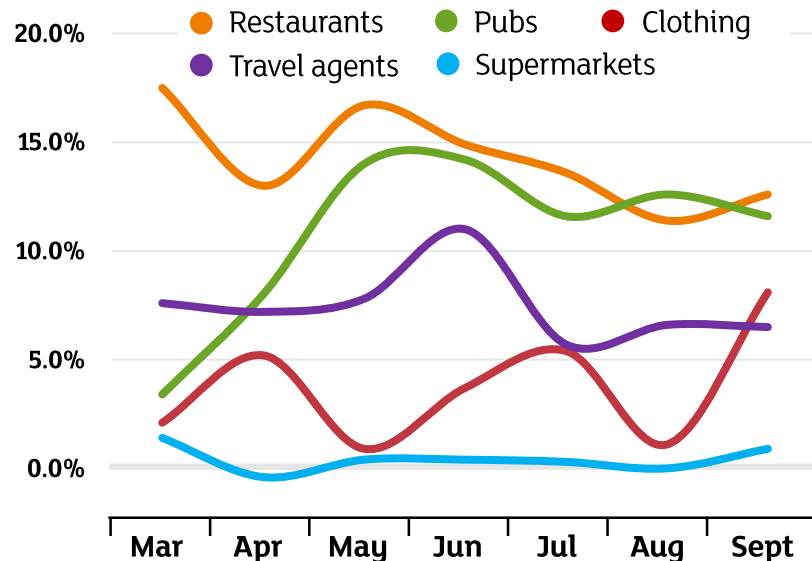
£ per week



Source: CEBR

UK spend trends

2015 (YoY increase)



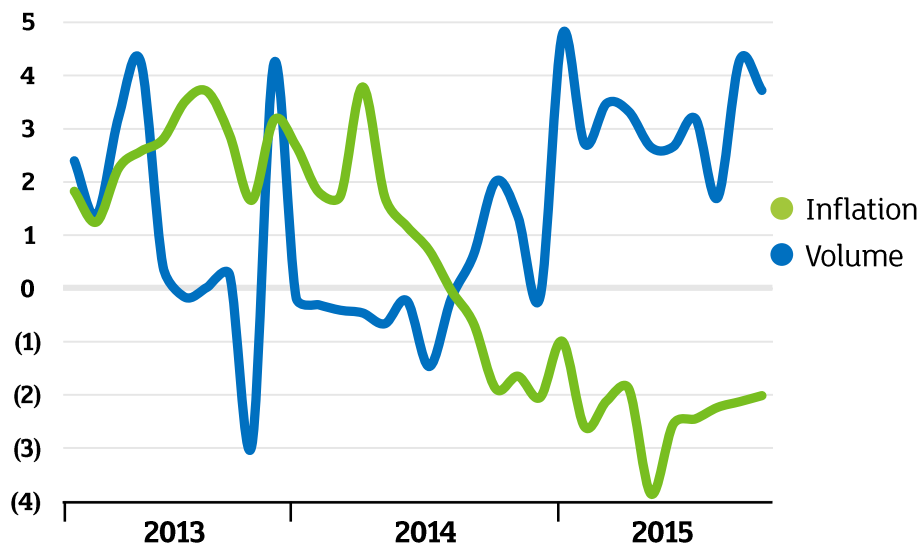
Source: Barclays Research, Datastream - 12 October 2015

Market context

Volumes are improving but food deflation continues to impact the market

Grocery market volume & inflation

YoY % Change



Source: Nielsen

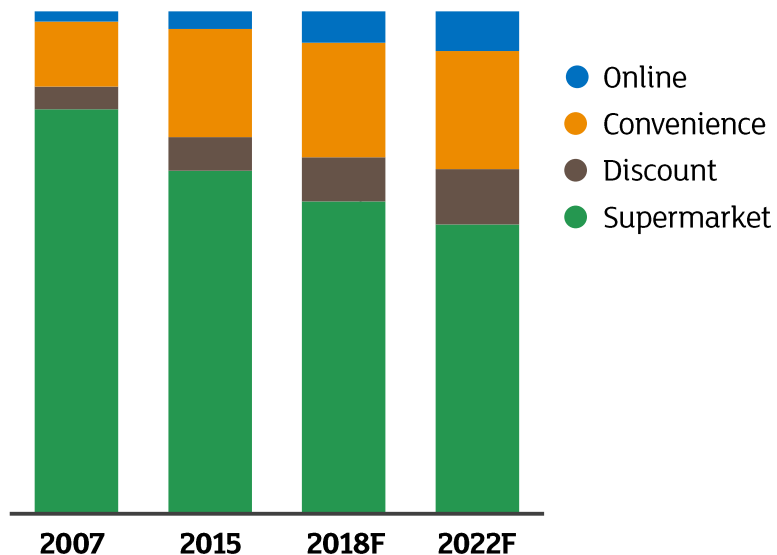
- Food deflation of (2.0)% for H1
- Remains most acute in those categories where we over-index to the market
 - Produce
 - Ready meals
 - Meat, fish and poultry
- Expect to see commodity price deflation ease next financial year

Market context

Trading environment will remain challenging

Grocery market channel share

2007-22 % of market



Source: Company estimates

- Consumer disposable income improving
- Growth in grocery expenditure remains subdued
- Volume growth has started to recover, but offset by food deflation
- Discounters continue to grow market share and increase space

Building a better Sainsbury's

We are making good progress implementing our strategy



Great products and services at fair prices

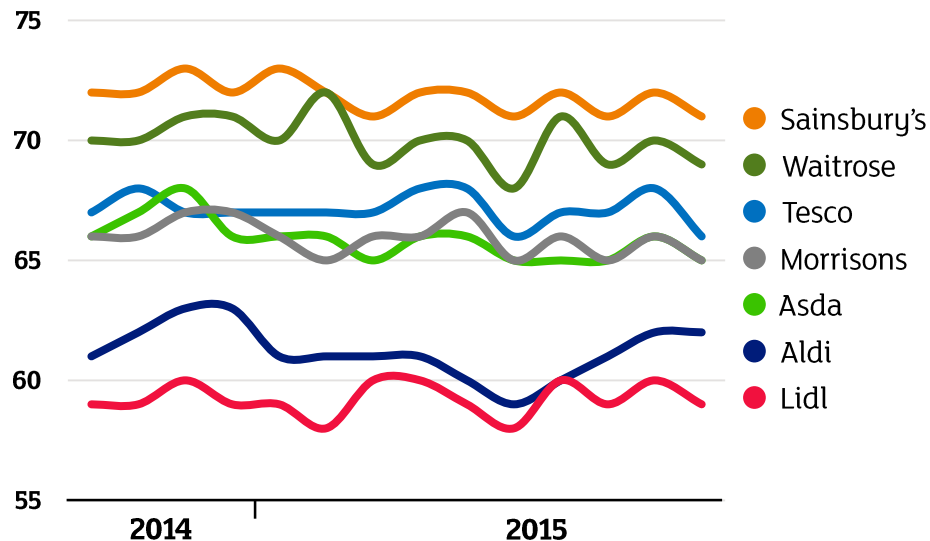
We continue to be regarded as a quality leader



- Strategic programme to enhance 3,000 products
- We know our customers better than anyone else and we know where they value quality
- Quality represents different things to different customers
- Some products require end-to-end improvements to change overall perception
- Greater utilisation of technology to measure consistency

Quality perception

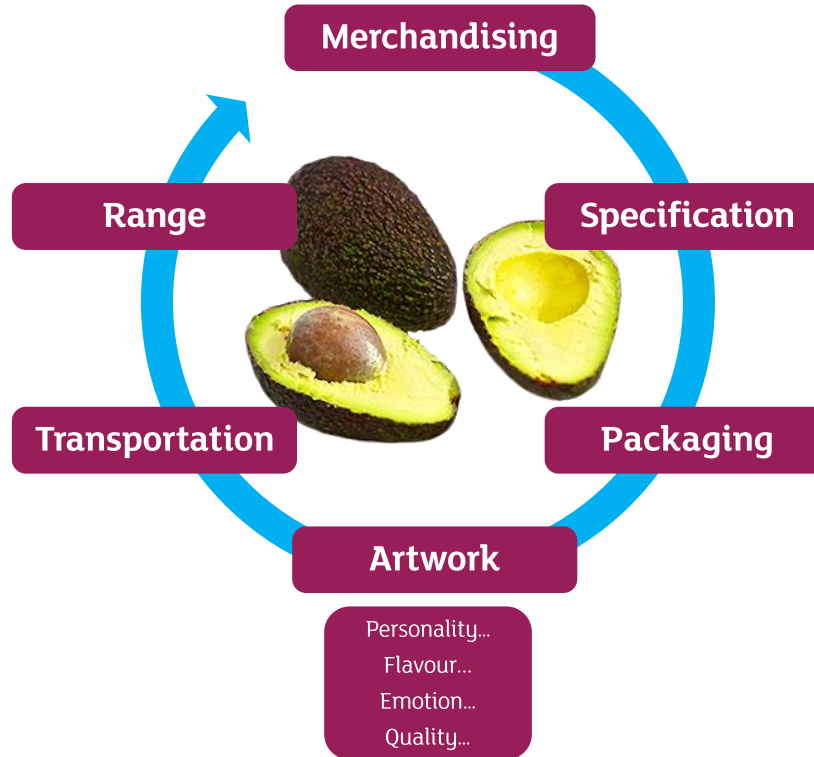
Question asked: On a 0-100 scale, how would you rate product quality of each of the following brands?



Source: HPI Brand & Communications Tracker – National sample data of Sainsbury's customers

Great products and services at fair prices

End-to-end approach to enhancing all aspects of quality



Pressure change to 1-4lbs
Dry Matter 21%
Fruit size increase
Min fruit & pack weight

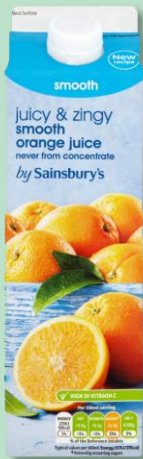


Great products and services at fair prices

Two further examples where we have listened to our customers



For juice it was consistency of flavour . . .



- 77 reformulated recipes
- Nearly 35 tonnes of sugar removed
- Gas technology to measure consistency
- Retention of essential oils to enhance flavour
- Orange juice beats brand equivalent in customer taste test

For bread it was breadth of range . . .



- 14 new products
- 45 improved recipes
- Healthier flours and grains
- 100% wheat in scratch bread
- Wave baking for freshness
- Simplified packaging

Great products and services at fair prices

Early signs that simplified trading strategy is resonating with customers



- We continue to reduce promotional participation in favour of lower regular prices
- Amendments to Nectar and Brand Match schemes
- Fewer price changes
- Pricing hierarchies review complete
- Customer satisfaction with our pricing and promotional messages has increased
- Volume and transaction growth in H1



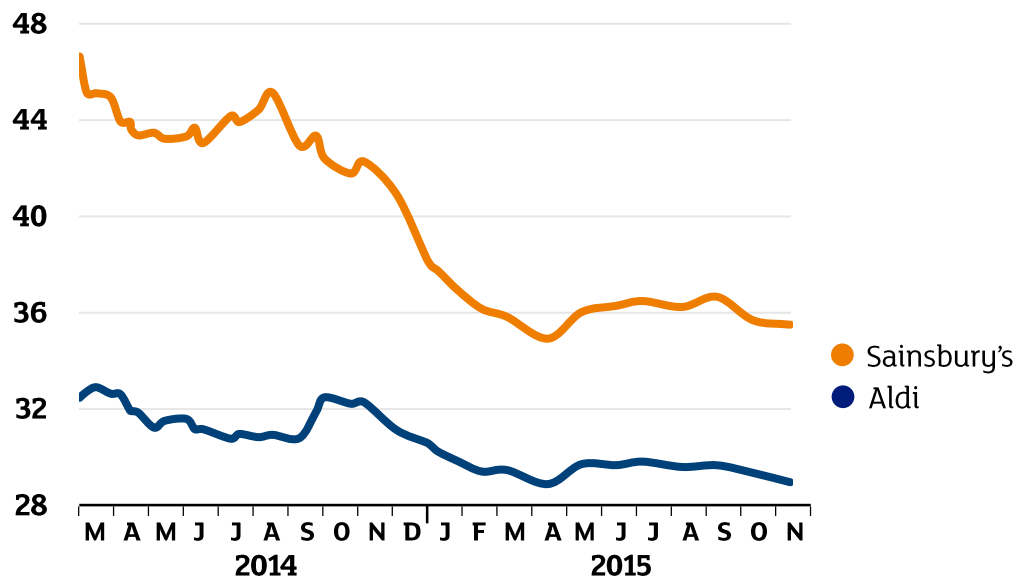
Great products and services at fair prices

Discounter growth remains strong but 'Big 4' have started to act on price



Exane 30 item price own-label basket by retailer

Total basket value (£)



Source: Exane BNP Paribas Research, mysupermarket.co.uk - 10 November 2015

- Discounter growth continues to be supported by strong price credentials
- 'Big 4' have started to reduce price gap
- Simplified trading strategy supports our capacity to invest in price
- Targeted investment into specific categories

Great products and services at fair prices

Promotional simplification complementing focus on waste and freshness



- Improved accuracy of demand forecasting is reducing waste
- Product pack sizes linked to store trade intensities
- Vacuum packaging expanded across ranges to improve freshness
- Supply chain fluctuations monitored in 14 weather regions
- Record levels of availability

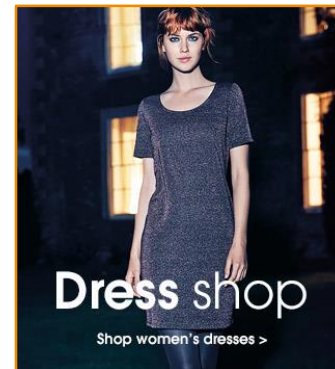


Great products and services at fair prices

We continue to grow our Clothing and General Merchandise offer



- Clothing growth of nearly 10%
- Successful nationwide roll out of our *Tu* clothing website
- Worked with *Admiral* to launch a new menswear collection
- General Merchandise growth of 1.4%
- Strategy to invest in higher margin categories with lower e-commerce participation



Great products and services at fair prices

Good performance from Sainsbury's Bank



- Continued strong performance
 - Loans sales volume up 18% YoY
 - Insurance portfolio sales up 11% YoY
 - Travel money transactions up 49% YoY
- Strong industry recognition
 - Best Telephone Customer Service - uSwitch
 - Best Online Personal Loan Provider - Your Money
 - Best Personal Loan Provider - Moneyfacts
- Opened our 200th Travel Money Bureau
- 1,622 ATMs (March 2015: 1,575)
 - £1 in every £11 dispensed via LINK ATMs is from a Sainsbury's Bank ATM



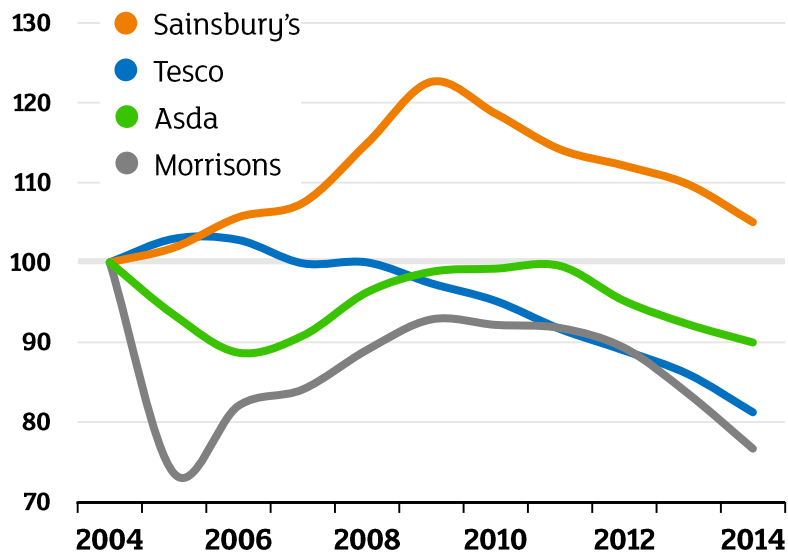
There for our customers

We are reviewing our use of space from a position of strength



Sales densities

Indexed at 100 in 2004



Source: Morgan Stanley Research - 6 November 2015

1 Evolve the supermarket for more convenient food missions



2 Allocate more space to Clothing and GM



3 Develop strategic partnerships



There for our customers

Evolving supermarket format to respond to changing shopping habits



- New 'mission-based' store layout
 - 'Food to Go' at front of store
 - Improved counter range and appearance
 - Fresh bakery brought to front of store
- New till formats and technology for faster checkout
 - Trial of SmartShop
- Greater focus on popular own-label clothing and homeware
 - 30% increase in trial stores
- Working with strategic partners
 - Jessops, Timpson and Argos



There for our customers

Disciplined investment to maximise returns



- Convenience growth of nearly 11%
- Format over-indexes in most deflationary categories
- Opened 37 stores during the first half of the year
- Flexing the format to access more sites
 - Large format and low cost / low takings
 - 1st micro store now open at Holborn Circus



There for our customers

We continue to invest in Groceries Online



- Sales growth of 7% and order growth of nearly 14%
- Record week of 256,000 orders
- Click & Collect now in 84 locations with 100 planned by the end of 2015
- Online Fulfilment Centre due to open in late 2016
- Brand Match extended to online
- Introduction of a bagless delivery option

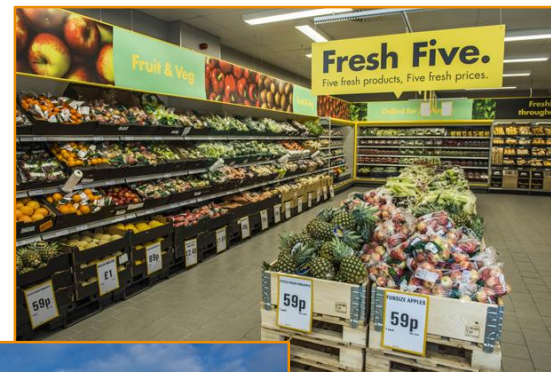


There for our customers

Netto trial continues to deliver in line with our expectations



- 9 stores now open
- Further 6 stores to be opened by March 2016
- Growth is being driven by a combination of customer numbers and basket size
- Customers are responding positively to our fresh offer



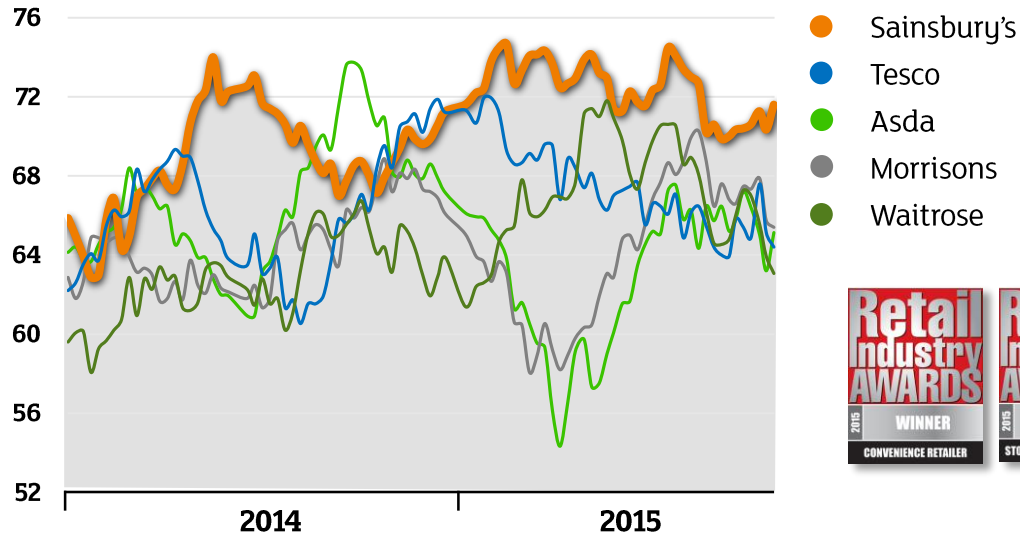
Colleagues making the difference

Industry leading service and availability performance



Service and availability leader

12 week rolling average



Source: The Grocer, Credit Suisse Research - 29 Oct 2015



Colleagues making the difference

National Living Wage



- 4% pay increase for 137,000 retail colleagues, effective from 30 August 2015
- Hourly rate of £7.36 - well above the Government's National Living Wage
- Applies to more than 40,000 colleagues under age of 25



We know our customers better than anyone else

Nectar is the most powerful customer loyalty scheme in the UK



- Single view of the customer
- Move to reward our most loyal customers in a more personalised way
- Trolley Talk
 - Now signed up 5,000 shoppers nationwide
- New digital lab open in Holborn
 - Enhancements to website user experience
 - Innovations in digital platforms

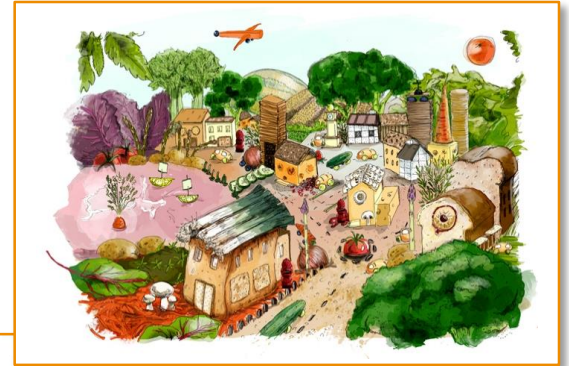


Our values make us different

Good progress against our *20x20* sustainability targets



- Launched £10 million 5 year community investment initiative Waste Less, Save More to help communities reduce waste
- 37 tonnes of sugar removed from our own-brand yoghurts
- Continued support of our 280 British milk farmers through the Sainsbury's Dairy Development Group
- Local Charity of the Year partners announced following colleague nominations and customer voting
- Co-sponsors of the BITC survey of race at work



Summary

- The market remains challenging
- Maintaining points of differentiation on quality, service, availability and our values
- We have invested in those categories most impacted by the growth of the discounters
 - Targeted approach to reduce the price gap further
- Good progress delivering our strategy



Q & A