



# Preliminary Results

2015/16

J Sainsbury plc





**David Tyler**  
Chairman



**John Rogers**  
Chief Financial Officer



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# Financial highlights

- Maintained market share<sup>1</sup> with good growth in Convenience, Online and Non-Food
- Operational cost savings step-up to £225m  
3-year programme of £500m remains on track
- IAS 19 net pension deficit<sup>2</sup> reduced to £389m (March 2015: £651m)
- Pharmacy sale proceeds of £125m received
- Property profits of £101m realised in the year
- Liquidity position strengthened by issuance of perpetual securities  
£4.1bn of facilities, of which £2.9bn drawn down
- Net debt down to £1,826m (March 2015: £2,343m)<sup>3</sup>

<sup>1</sup> Kantar Worldpanel 52 week Total Till Roll data ending 28 February 2016

<sup>2</sup> Net of deferred tax

<sup>3</sup> Treating perpetual securities as debt (net of fees), net debt would be £2,320m

# Group performance

## Overview

£m	2015/16	2014/15	Change %
<b>Underlying results</b>			
Group sales (inc VAT) <sup>1</sup>	25,829	26,122	▼ (1.1)
Retail sales (inc VAT, inc fuel)	25,502	25,813	▼ (1.2)
Retail sales (inc VAT, ex fuel)			▲ 0.4
Retail operating profit	635	720	▼ (11.8)
Financial Services operating profit	65	62	▲ 4.8
Net finance costs <sup>2</sup>	(121)	(107)	▼ (13.1)
Share of JV profits	8	6	▲ 33.3
Profit before tax	587	681	▼ (13.8)
Tax rate	20.8%	25.8%	▲ 498 bps
Basic EPS	24.2p	26.4p	▼ (8.3)
Full year dividend per share	12.1p	13.2p	▼ (8.3)
<b>Statutory results</b>			
Items excluded from underlying results <sup>2</sup>	(39)	(753)	
Profit / (loss) before tax	548	(72)	

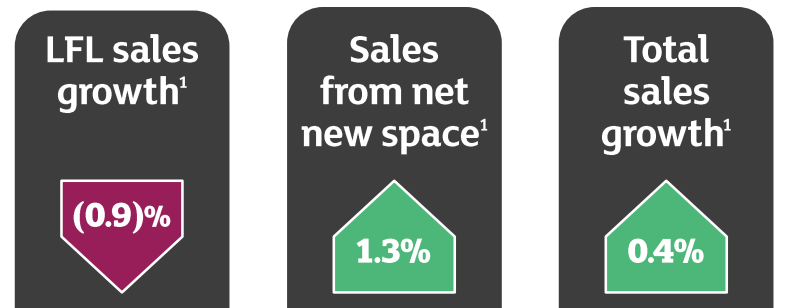
1 Underlying Group sales (inc VAT) excludes an £11m (2014/15: £23m) acquisition adjustment fair value unwind relating to Sainsbury's Bank

2 2015/16 net finance costs are stated inclusive of the 'perpetual securities' coupons (perpetual subordinated capital securities and perpetual subordinated convertible bonds) of £15m

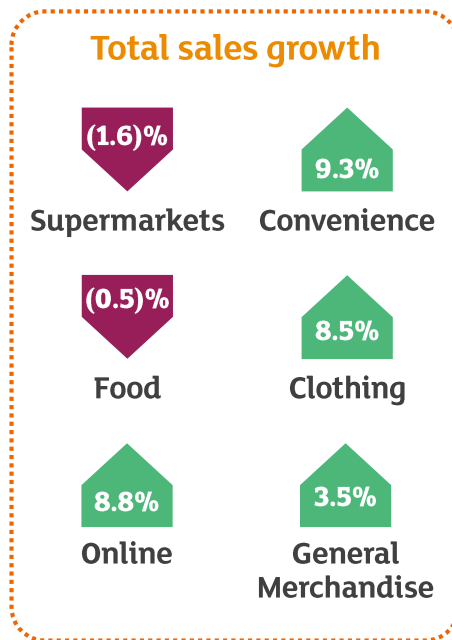
These are then added back to items excluded from underlying results in order to reconcile profit before tax with the statutory accounts

# Retail

Growth in like-for-like transactions but food price deflation continues



- Contribution from extensions 0.1%<sup>2</sup>



## 2016/17 FY Guidance

- Contribution from net new space (excluding extensions and replacements) expected to be around 1%
- Around 250,000 sq ft of gross new space, including 40 to 50 convenience stores and 5 new supermarkets

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

<sup>2</sup> Net of disruptions



# Retail

Step up in cost savings helps limit the impact of food price deflation

£m	2015/16	2014/15	Change %
<b>Retail sales</b> (inc VAT, inc fuel)	<b>25,502</b>	25,813	▼ (1.2)
(ex VAT, inc fuel)	<b>23,168</b>	23,443	▼ (1.2)
<b>Retail underlying EBITDAR</b>	<b>1,755</b>	1,819	▼ (3.5)
<b>Retail underlying EBITDAR margin %</b>	<b>7.58</b>	7.76	▼ (18) bps
at constant fuel prices	<b>7.42</b>	7.76	▼ (34) bps
<b>Retail underlying operating profit</b>	<b>635</b>	720	▼ (11.8)
<b>Retail underlying operating margin %</b>	<b>2.74</b>	3.07	▼ (33) bps
at constant fuel prices	<b>2.68</b>	3.07	▼ (39) bps

## 2016/17 FY Guidance

- We will remain competitive on price in the market
- Food price deflation is likely to continue into H2

# Sainsbury's Bank

Good trading performance supports expansion into mortgages

£m	2015/16 <sup>1</sup>	2014/15 <sup>2</sup>	Change %
<b>Total income<sup>3</sup></b>	<b>274</b>	260	▲ 5.4
<b>Underlying operating profit</b>	<b>65</b>	62	▲ 4.8
<b>Net interest margin<sup>4</sup></b>	<b>4.1%</b>	3.9%	▲ 24 bps
<b>Bad debt asset ratio<sup>5</sup></b>	<b>0.4%</b>	0.7%	▲ 22 bps
<b>Tier 1 capital ratio<sup>6</sup></b>	<b>15.8%</b>	12.7%	▲ 313 bps

1 12 months to 29 February 2016

2 12 months to 28 February 2015

3 Net interest, net commission and other operating income

4 Net interest receivable / average interest-bearing assets

5 Bad debt expense / gross average lending

6 Tier 1 capital / risk-weighted assets

## 2016/17 FY Guidance

- Underlying operating profit expected to be around 10% lower year-on-year, due to investment required to enter the mortgage market and the impact of reduced interchange fees
- Results prior to the impact of entering the mortgage market and the reduced interchange fees, would result in a year-on-year profit improvement



# Sainsbury's Bank

## Transition plan remains the main priority in 2016/17

- Focused on customer experience
- Migration of Savings customers expected by late Summer 2016
- Cards and Loans migration currently being re-planned
  - In light of the Group's proposed acquisition of Argos
- Total transition costs forecast to be at the top of the £340m - £380m range
  - Transition costs in 2015/16 - £59m
  - Capital costs in 2015/16 - £19m
- Capital injections to the Bank in 2015/16 - £137m
- Business case remains attractive

### 2016/17 FY Guidance

- Sainsbury's Bank transition costs are expected to be around £40m
- Capital costs relating to the transition are also expected to be around £40m
- Capital injections to the Bank are expected to be c.£20m

# Items excluded from underlying results

## Significant property profits realised in the year

£m	2015/16	2014/15
Profit on disposals of properties	101	7
Sainsbury's Bank transition costs	(59)	(53)
Impairment and onerous contract charge	(1)	(628)
Other items excluded from underlying results <sup>1</sup>	(80)	(79)
<b>Total</b>	<b>(39)</b>	<b>(753)</b>

<sup>1</sup> FY15/16 other items excluded from underlying results include:

- Internal restructuring £(15)m
- Transaction costs £(15)m mainly relating to the proposed acquisition of Argos
- Investment property fair value movements £(18)m
- Retail financing fair value movements £(22)m
- IAS 19 pension financing charge and scheme expenses £(28)m
- Perpetual securities coupons £15m
- Acquisition adjustments £3m

### 2016/17 FY Guidance

- Property profits mainly from mixed-use developments, are expected to be just over £100 million in 2016/17
- Sale of our pharmacy business to LloydsPharmacy is expected to complete in 2016/17, subject to Competition and Markets Authority approval. Expect to recognise a profit on disposal of around £100m

# Underlying finance costs

Includes perpetual securities coupons

£m	2015/16	2014/15	Change %
Net finance cost <sup>1</sup>	(121)	(107)	▼ (13.1)
Net interest cover <sup>1</sup>	5.9x	7.4x	
Fixed charge cover <sup>1</sup>	2.7x	2.9x	

- Capitalised interest £7m (2014/15: £17m)
- Perpetual securities coupons £15m (2014/15: £nil)

## 2016/17 FY Guidance

- Net finance costs to be slightly higher year-on-year
- Capitalised interest expected to be similar year-on-year
- Underlying tax rate to be between 22-23%

<sup>1</sup> Underlying finance costs and ratios are stated inclusive of the perpetual securities coupons of £15m. 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 £15m, net finance costs are £106m, net interest cover is 6.7x and fixed charge cover is 2.8x

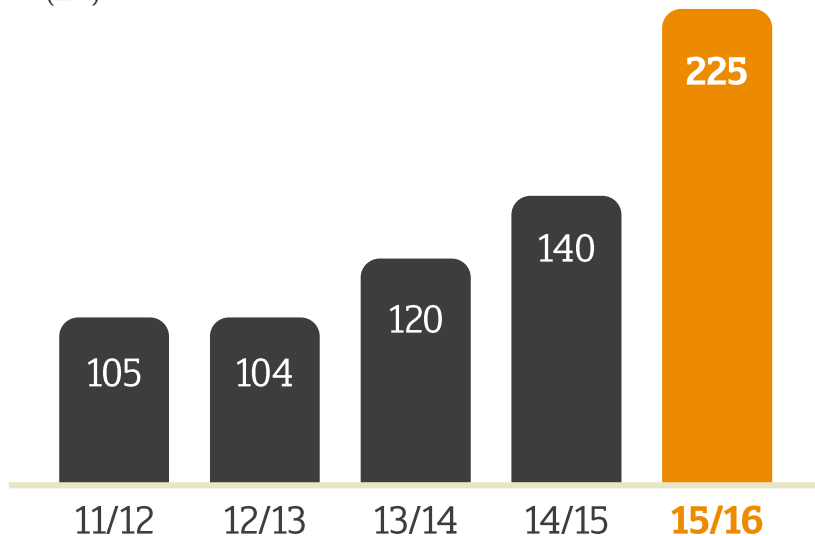


# Cost savings

A significant step-up on previous years

## Annual operating cost savings

(£m)



### 2016/17 FY Guidance

- Cost inflation at the lower end of 2-3% range
- Operational cost savings of around £120m
- On track to deliver our three-year £500m cost saving programme by the end of 2017/18

# Cost savings

## Good progress on our 3-year £500m cost saving programme

- Store support centre and retail management restructure
- Value simplicity driving in-store operational savings
  - Lower levels of waste
  - Less time spent managing inventory
  - Fewer price changes
- Improved vehicle fill across logistics network
- Energy saving initiatives
  - Investment in zero carbon technologies
  - Natural refrigerants now in 200 stores



# Cash flow and working capital

## New sources of financing raised in the year

£m	2015/16	2014/15
<b>Retail operating cash flow before changes in working capital</b>	1,126	1,085
Decrease in retail working capital	23	313
<b>Retail cash generated from operations</b>	<b>1,149</b>	1,398
Bank operating cash flow before changes in working capital	29	38
Increase in Sainsbury's Bank working capital <sup>1</sup>	(429)	(300)
<b>Group cash generated from operations<sup>2</sup></b>	<b>749</b>	1,136
Interest paid	(108)	(134)
Corporation tax paid	(124)	(91)
Proceeds from sale of pharmacy business	125	-
Net cash used in investing activities	(525)	(900)
Proceeds from issue of shares	8	19
Proceeds from issue of perpetual securities	494	-
Exceptional pension contribution	(125)	-
Dividends paid	(238)	(330)
Elimination of net increase in Sainsbury's Bank cash and cash equivalents	316	343
Other movements	(55)	(2)
<b>Movement in net debt</b>	<b>517</b>	41
<b>Net debt</b>	<b>(1,826)<sup>3</sup></b>	(2,343)

### 2016/17 FY Guidance

- A small improvement in retail working capital

<sup>1</sup> Increase in Sainsbury's Bank working capital reflects increased customer lending and diversified funding sources in line with the Bank's funding and liquidity strategy

<sup>2</sup> Statutory definition of cash generated from operations includes exceptional pension contribution of £125m

<sup>3</sup> Treating perpetual securities as debt (net of fees), net debt would be £2,320m



# Retail capital expenditure

## A significant reduction year-on-year

£m	2015/16	2014/15
Core retail capital expenditure	542	947
Acquisition of freehold and trading properties <sup>1</sup>	-	(9)
Debtor / creditor movements	1	3
<b>Net retail capital expenditure</b>	<b>543</b>	<b>941</b>

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



### 2016/17 FY Guidance

- Full year core retail capex of around £550m, excluding Sainsbury's Bank capex
- 2016/17 depreciation is expected to increase by around £20m year-on-year primarily due to investment in digital and technology assets that are depreciated over a short lifetime<sup>2</sup>

<sup>2</sup> 2015/16 year-on-year increase in depreciation was impacted by the impairment in 2014/15 (2015/16 retail depreciation: £552m)

# Balance sheet

## Reduction in net debt and strong levels of liquidity

- Net debt £1,826m<sup>1</sup> (March 2015: £2,343m)
- Facilities of £4.1bn (March 2015: £3.8bn) including the perpetual securities, of which £2.9bn drawn down
- Market value of property now £10.6bn (March 2015: £11.1bn)
- IAS 19 net pension deficit<sup>2</sup> reduced to £389m (March 2015: £651m)

Further £125m contribution will take place in August 2016

- No financial covenants across any of our borrowings

### 2016/17 FY Guidance

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

<sup>1</sup> Treating perpetual securities as debt (net of fees), net debt would be £2,320m

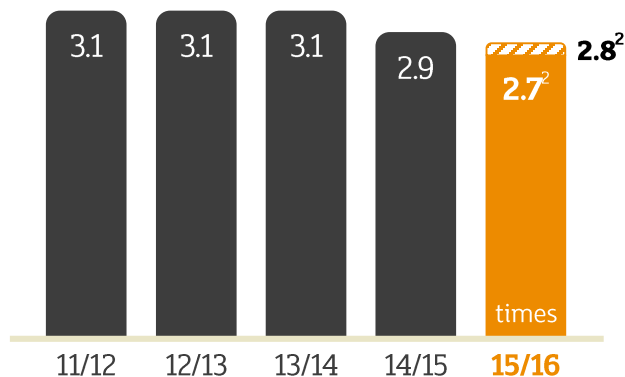
<sup>2</sup> Net of deferred tax

# Balance sheet

## Small impact on key metrics from reduction in profitability

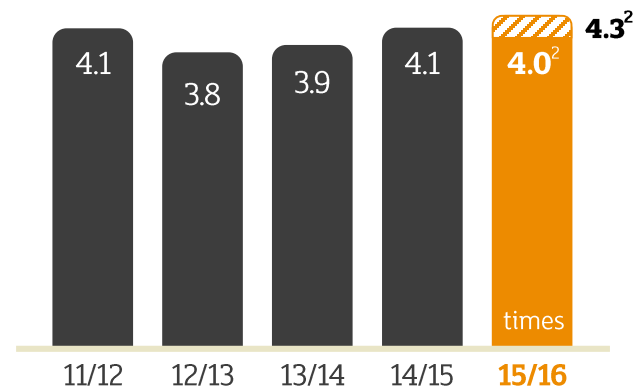
### Fixed charge cover<sup>1</sup>

(Group underlying EBITDAR / interest + rent)



### Lease adjusted

net debt / underlying EBITDAR<sup>1,3,4</sup>



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

<sup>2</sup> 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 £15m perpetual securities coupons as interest. Accounting for the perpetual securities coupons as a dividend, fixed charge cover is 2.8x

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

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

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



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# Dividend

We are committed to paying an affordable dividend

- Final dividend 2015/16 down 1.2% to 8.1p
- Full year dividend 2015/16 down 8.3% to 12.1p

## 2016/17 FY Guidance

- Dividend cover will be maintained at 2.0x underlying earnings

**Mike Coupe**  
Chief Executive



# Highlights

## Delivering against our strategy and planning for the future

- Good performance in a challenging market
  - Maintained market share<sup>1</sup>
  - Outperformed our major peers
- Volume and transaction growth
- Industry-leading service and availability
- Strong non-food and multi-channel growth
- Cost savings on track
- Good Bank performance
- Proposed acquisition of Argos accelerates strategy



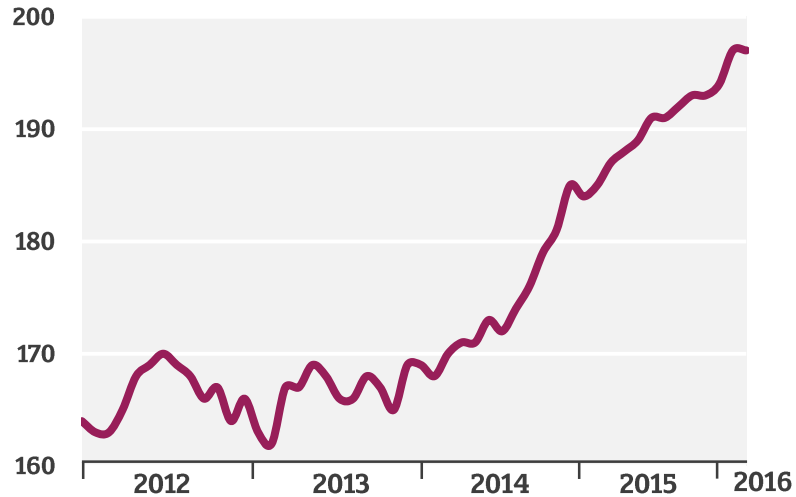
<sup>1</sup> Kantar Worldpanel 52 week Total Till Roll data ending 28 February 2016

# Market context

Grocery sector has yet to benefit from rising disposable income

## Household discretionary income

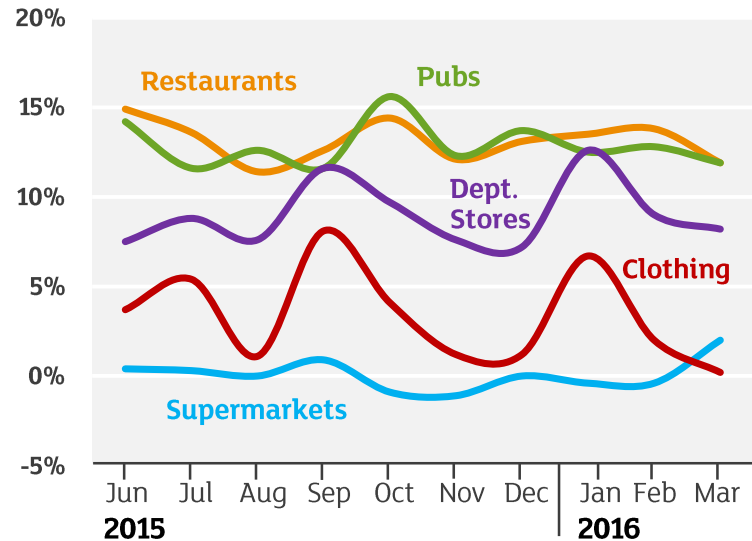
£ per week



Source: CEBR

## UK spend trends

2015 / 2016 (YoY increase)



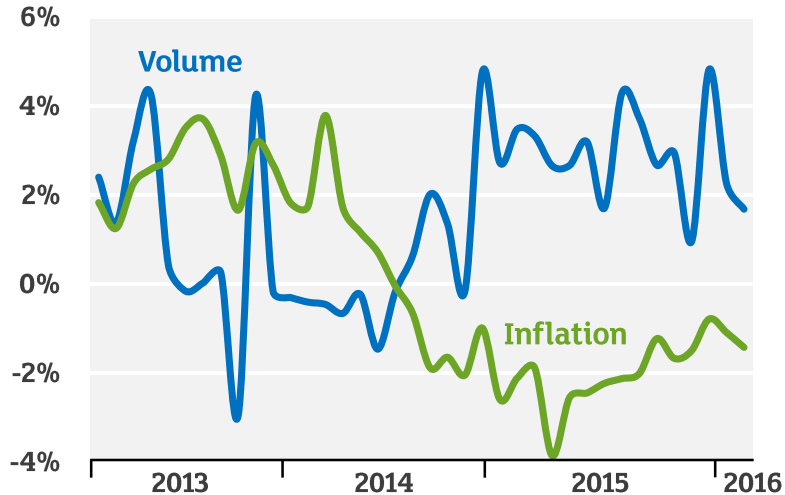
Source: Barclays Research, Barclaycard Spending Data - 12 October 2015 and 12 April 2016

# Market context

Food price deflation has persisted throughout the year

## Grocery market volume & inflation

YoY % Change



Source: Nielsen

- Volume recovery has remained stable
- Market will continue to be competitive in 2016
- Food price deflation likely to continue into H2



# Market context

We have the right strategy to meet the changing needs of our customers

- Changing the way they shop  
Shopping more frequently across more channels
- Changing the way they interact  
Sharing more data
- Disruptive impact of technology  
Seamless connectivity and disintermediation



# Great products and services at fair prices

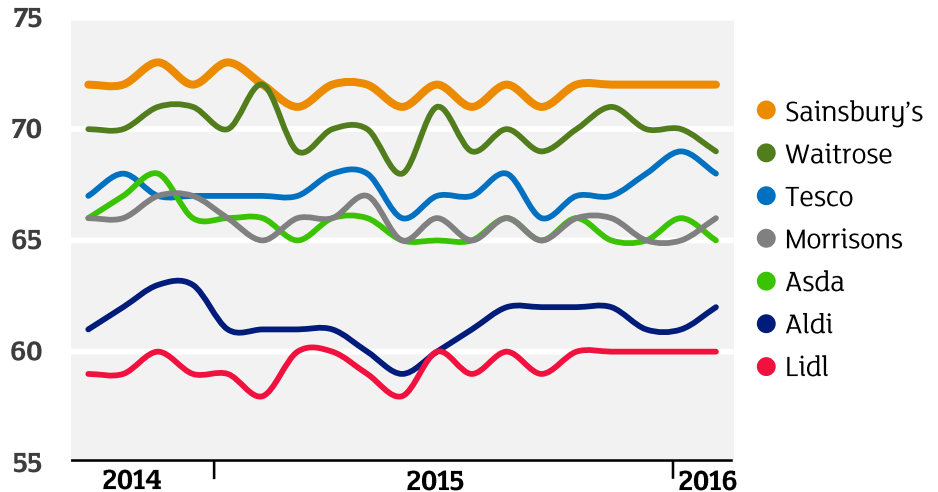
## Our quality perception gap has widened



- A programme to enhance the quality of 3,000 own-brand products
  - 750 products now complete
  - Rate of improvements will increase
  - Review of supplier base
- Value of quality highlighted as we have simplified our offer
  - Fewer distractions from pricing
- Innovations to inspire our customers
  - Little Twists* campaign

### 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

Improving quality in those categories that really matter to our customers



## Merchandising

### Range

50 new products

- Cape, hake, sea bream
- Party range, canapés and tartlets

### Specification

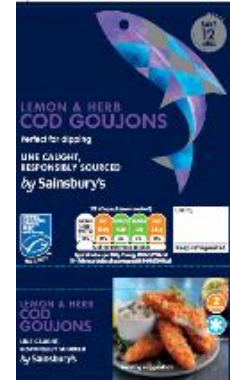
- Review of portion sizes
- UK's biggest retailer of MSC-certified seafood

### Packaging

Improved shelf ready packaging

### Design

Consistent design across the range



# Great products and services at fair prices

Recent quality investments support our commitment to healthy eating



## Prepared vegetables



- Innovative new recipes
- Celebrating popular products – cauliflower, sweet potato
- Ready to cook options for ease

## Healthy ready meals



- *Be Good To Yourself & My Goodness!* ranges
- More trend ingredients – grains, seaweed
- Improved packaging design
- Clearer calorie messaging

# Great products and services at fair prices

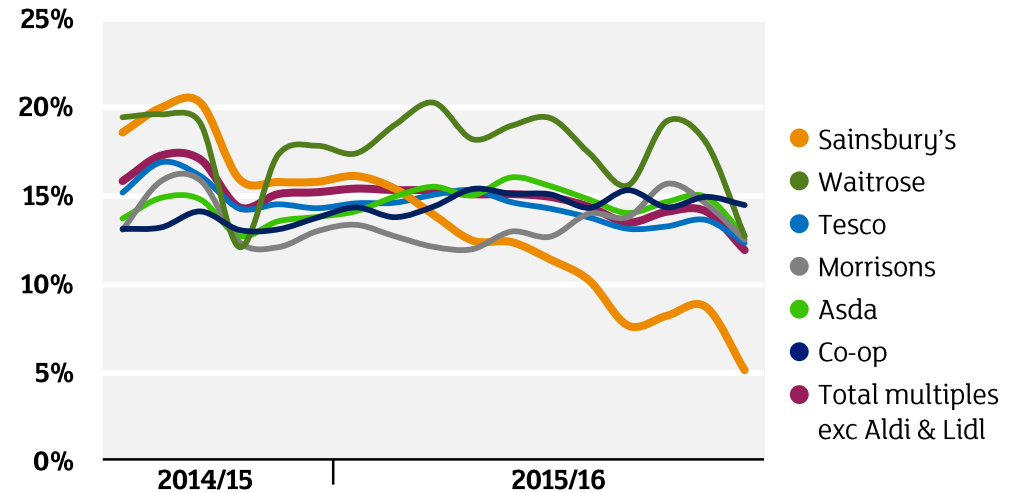
Customers have told us they want a simpler offer and lower regular prices



- Simplification of customer offer
  - Promotional participation down to 28%<sup>1</sup>
  - Vast majority of multi-buys to be phased out
  - Value of Nectar points issued reduced
  - Brand Match to be reinvested in lower regular prices
- Customer price satisfaction scores continue to improve<sup>2</sup>
- Volume and transaction growth

## Trended % of Total Value Sales sold on Multibuy

Total FMCG – 4 Weekly



Source: Nielsen Panel

<sup>1</sup> Nielsen Homescan, % Spend on deal (Total Business, four week data up to 13 February 2016)

<sup>2</sup> CSI Data – Customer Satisfaction Tracking for superstores 2015/16



# Great products and services at fair prices

Good progress on our £150m COGs recovery programme



- Delivering efficiencies in our end-to-end supply chain

- Pork

Optimised carcass handling across UK supply chain

Focus on best supplier for each pork product

Consolidation of secondary processing



- Cereals

Detailed ingredient and recipe review

Reduction in cost of packaging

Pan-European approach to sourcing

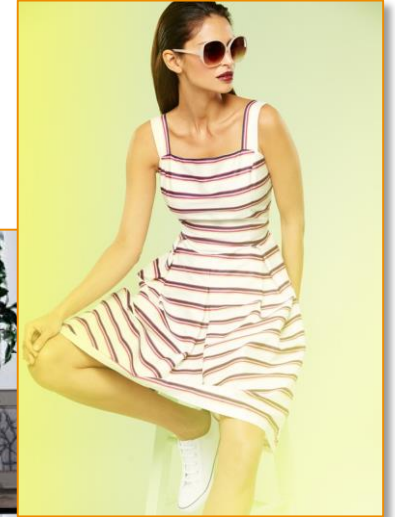


# Great products and services at fair prices

Strong growth in our Clothing and General Merchandise businesses



- Clothing growth of 8.5%
  - Now the 6th largest clothing retailer by volume in the UK
  - Fastest growing retailer in the top 10<sup>1</sup>
- *Tu* clothing website delivering ahead of expectation
  - Majority choose to Click & Collect
- General Merchandise growth of 3.5%
- Strong performance in seasonal events



<sup>1</sup> Kantar Worldpanel (24 weeks ended 14 February 2016)

# Great products and services at fair prices

Bank continues to expand even during transition



- Nearly 1.7m customer accounts
  - Travel money transactions up 30% YoY
  - Personal loans volume up 15% YoY
- Industry-low levels of customer complaint
  - Fewer than 1.3 complaints per 1,000 accounts
- Travel Money partnership with Western Union for money transfer services
- Planned introduction of mortgage products in 2017



# There for our customers

## Adapting our space and layouts to reflect changing customer needs



- ‘Mission-based’ store layout
  - New ‘food for now’ area
  - New counters – e.g. Patisserie and Take-away
  - More space for non-food offer
- Increased self-checkout solutions
- New service desk driving improved customer satisfaction
- Relaunch of colleague service training
- Roll-out of key learnings



# There for our customers

Convenience sales now >£2.3bn with opportunities to flex our format



- Convenience growth of over 9%
- 2<sup>nd</sup> micro store now open in Richmond
- ‘Convenience Retailer of the Year’ for the 6<sup>th</sup> consecutive year at the Retail Industry awards
- Sales impacted by price investment in Fresh categories
- Opened 69 stores during the year  
773 Locals at year-end





# There for our customers

## Groceries Online growth accelerates following our recent investments



- Sales growth of nearly 9% and order growth of nearly 15%
- Record week of 289,000 orders
- Click & Collect in 101 locations  
200 by the end of the new financial year
- New App in trial phase
- Online Fulfilment Centre due to open in late 2016 in East London
- Value of online customer through enhanced loyalty



# There for our customers

## Netto openings target achieved

- 15 stores now open
  - Variety of location types
- Perform business review
  - Trading performance and outlook
  - Discounter growth
- Further update at Interims 2016/17



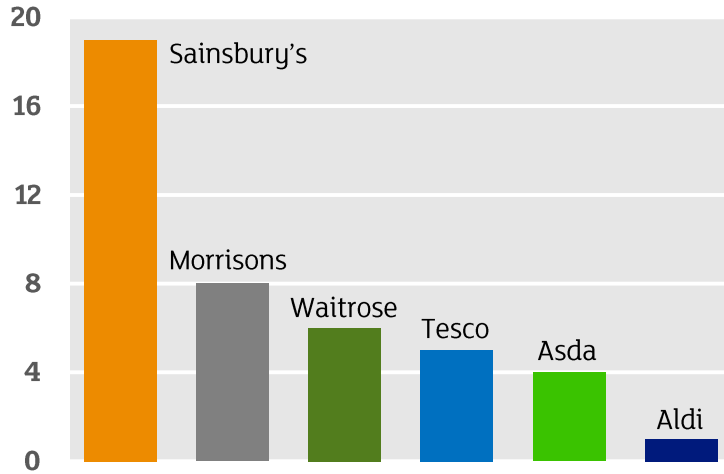
# Colleagues making the difference

Outperformance in service and availability increases year-on-year



## Service and availability leader

Grocer 33 Service & Availability wins this year



Source: The Grocer 33 Service & Availability wins year-to-date 2015/16

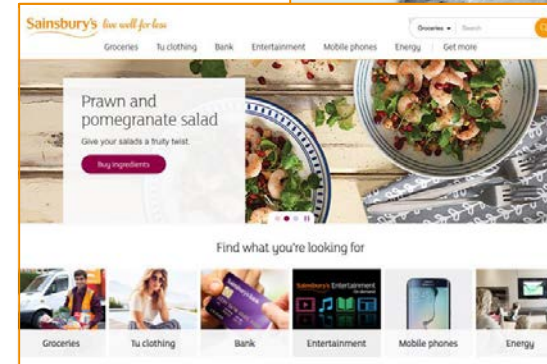
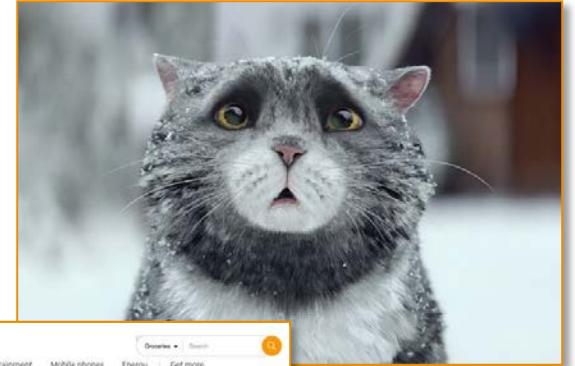


# We know our customers better than anyone else

Investing in the infrastructure to deliver leading customer insight



- Single view of the customer database now live  
Improved customer & household view
- New customer relationship management platform now live  
Personalised marketing campaigns
- Single sign-on due to go live Summer 2016
- *Mog's Christmas Calamity*  
The most popular campaign by online views



# Our values make us different

## Sustainability Plan is refocused



- Commitment to help households reduce waste  
*Waste Less, Save More* initiative in Swadlincote
- *My Goodness!* ready meals range review  
At least one 5-a-day fruit or veg serving
- Extension of the British lamb season for 822 farmers
- More than £1.5m raised for *Save the Children* with our partners from the *Mog's Christmas Calamity* campaign
- Raised over £100m for Comic & Sport Relief since 1999
- Climate Disclosure Leadership Index Award  
Only UK retailer to achieve Band A rating





# Argos summary

The proposed acquisition will create significant value for shareholders

- Board recommendation
- Class 2 Transaction
- Scheme structure
- Completion expected calendar Q3 2016
- Conditional upon (amongst other things):
  - Sufficient acceptances from HRG shareholders
  - CMA approval
  - FCA approval
  - Guernsey Financial Services Commission approval



# Summary

- Our strategy implementation is ahead of plan  
Market will remain competitive
- Differentiated position  
Continued outperformance of our major peers
- Opportunity to accelerate our strategy  
Proposed acquisition of Argos





Q & A

