



# Interim Results

2017/18



**David Tyler**  
Chairman



**Kevin O'Byrne**  
Chief Financial Officer

# Financial overview

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- Positive momentum across the business
- UPBT impacted by cost inflation, price investment and consolidation of Argos H1 loss
- Partially offset by synergies and cost savings
- Cost savings ahead of plan – reinvesting back into the proposition
- Headline PBT decline reflects last year benefits from one-off property gains and pharmacy sale
- Good progress for Sainsbury's Bank
- Strong balance sheet, lease adjusted net debt to EBITDAR down to 3.4x vs 4.0x a year ago
- RCF refinanced: increased facility, longer maturity
- Interim dividend of 3.1p per share
- Profit expectation remains in line with current market consensus

# Group performance overview

£m	H1 2017/18	H1 2016/17	Change
<b>Underlying results</b>			
Group sales (inc VAT)	<b>16,310</b>	13,923	▲ 17%
Retail operating profit	<b>272</b>	308	▼ 12%
Financial Services operating profit	<b>34</b>	29	▲ 17%
Profit before tax	<b>251</b>	277	▼ 9%
Underlying basic EPS	<b>8.7p</b>	11.2p	▼ 22%
Dividend per share	<b>3.1p</b>	3.6p	
<b>Statutory results</b>			
Items excluded from underlying results	<b>(31)</b>	95	
Profit before tax	<b>220</b>	372	

# Retail sales<sup>1</sup>

▲ **1.6%**  
LFL sales growth

▲ **0.3%**  
Sales from  
net new space

○ ▲ **1.9%**  
Total sales growth

## Categories

Grocery

▲ **2.3%**

General  
Merchandise

▼ **(0.1)%**

Clothing

▲ **6.8%**

## Channels

Supermarkets

▲ **0.7%**

Convenience

▲ **8.2%**

Groceries  
Online

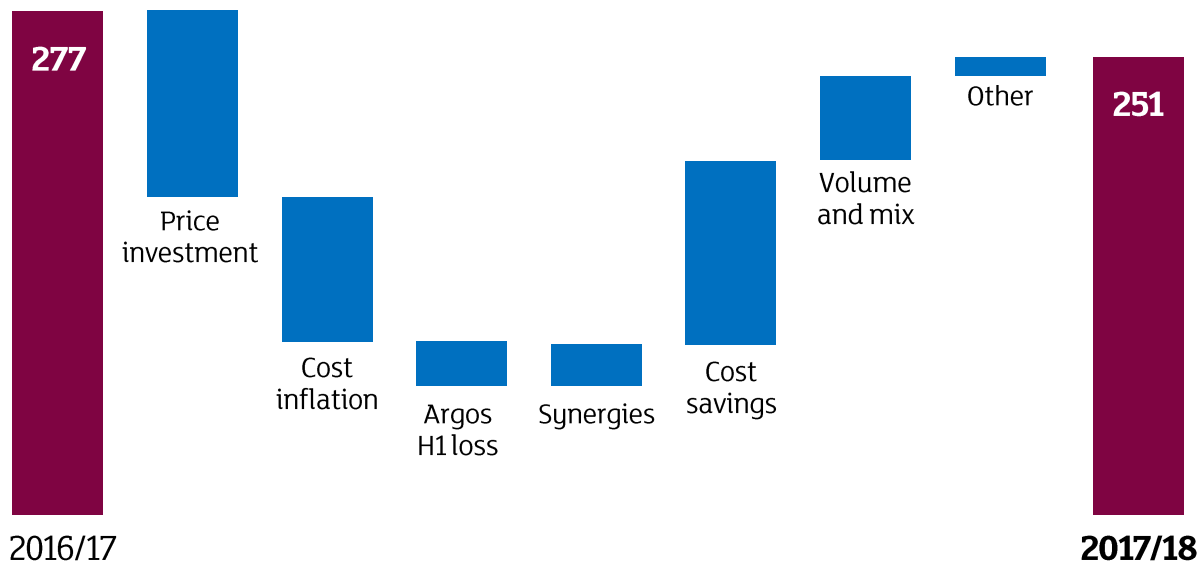
▲ **7.2%**

## 2017/18 FY Guidance

- Expect to open 3 new Sainsbury's supermarkets and around 25 convenience stores
- Expect to open around 145 Argos stores in supermarkets resulting in around 185 Argos stores in supermarkets
- Expect to close 41 Argos stores within Homebase in 2017/18, with 16 to remain open longer
- Expect to open 8 Habitat stores within supermarkets

# Profit waterfall

Year-on-year movement in UPBT (£m)



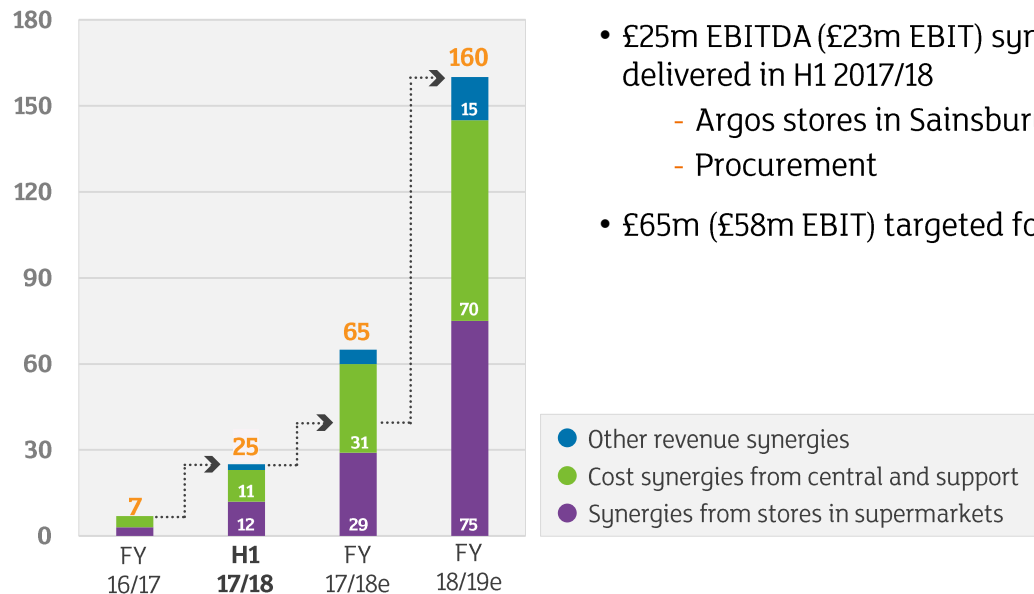
## 2017/18 FY Guidance

- Cost inflation in the 2-3% range
- Our full year underlying profit expectation for the combined Group remains in line with current market consensus

# Synergies

## Accelerated synergies on track

### Expected EBITDA synergies phasing across financial years (£m)



- £25m EBITDA (£23m EBIT) synergies delivered in H1 2017/18
  - Argos stores in Sainsbury's
  - Procurement
- £65m (£58m EBIT) targeted for FY 2017/18

### 2017/18 FY Guidance

#### UPBT impacts

- Incremental EBITDA synergies of £58m, resulting in total EBITDA synergies of £65m (EBIT £58m) since acquisition
- EBITDA synergies of £160m (EBIT £142m) will be realised in 2018/19

#### One-off costs

- Around £60m of integration costs expected in 2017/18

#### Integration capex

- Around £90m of integration capex expected in 2017/18



# Sainsbury's Bank

## Good progress

£m	H1 2017/18	H1 2016/17	Change
Total income	225	144	▲ 56%
Underlying operating profit	34	29	▲ 17%
Cost/income ratio	68%	74%	▼ 600 bps
Active customers - Bank	1.85m	1.72m	▲ 8%
Active customers - Argos FS	1.80m	n/a	n/a
Net interest margin	5.1%	3.8%	▲ 130 bps
Bad debt as a percentage of lending	1.4%	0.5%	▲ 90 bps
Tier 1 capital ratio	13.9%	14.4%	

### 2017/18 FY Guidance

- Expect 10% underlying profit growth
- Capital costs relating to the transition are expected to be around £30m (2016/17: £16m)
- Sainsbury's Bank transition costs are expected to be around £55m (2016/17: £60m)
- Capital injections into the Bank expected to be £190m (of which £110m H1)

# Items excluded from underlying results

## Prior year benefited from property profits and sale of pharmacy

£m	H1 2017/18	H1 2016/17
Sainsbury's Bank transition costs	(20)	(16)
Argos integration	(29)	(30)
Property related	5	69
Restructuring costs	-	(13)
Divestments	-	69
Other items excluded from underlying results	13	16
<b>Total</b>	<b>(31)</b>	<b>95</b>

### 2017/18 FY Guidance

#### Sainsbury's Bank

- Transition costs are expected to be around £55m

#### Argos

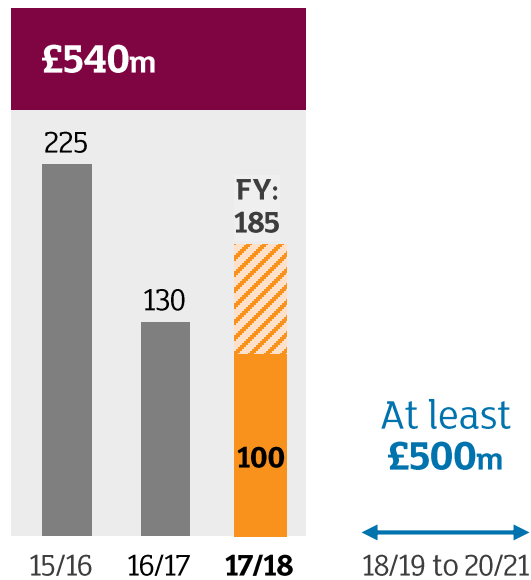
- Integration costs are expected to be around £60m

# Sainsbury's cost savings

£100m of cost savings delivered ahead of schedule, full year expectation increased

## Annual operating cost savings

(£m)



## Savings allowing reinvestment back into the business

- Customer offer: range, quality, price
- Colleague pay increase: 4.4% August 2017

## Key drivers 2017/18

- Simplifying in-store processes
- Transport network efficiencies
- Procurement savings

## Future savings opportunities

- In-store productivity
  - Top stock
  - Improved online picking processes
  - New labour management system
- Re-structuring

## 2017/18 FY Guidance

- Efficiency savings of £185m
- On track to deliver £540m over 3 years by the end of 2017/18

# Retail free cash flow

## Stronger cash flow

£m	H1 2017/18	H1 2016/17
<b>Operating cash flow before changes in working capital</b>	<b>629</b>	582
Decrease in working capital	269	222
<b>Cash generated from operations</b>	<b>898</b>	804
Pension contribution	(26)	(12)
Net interest paid	(61)	(64)
Corporation tax paid	(40)	(51)
<b>Net cash generated from operating activities</b>	<b>771</b>	677
Cash capital expenditure before strategic capex	(277)	(257)
<b>Free cash flow</b>	<b>494</b>	420

### 2017/18 FY Guidance

- We expect depreciation and amortisation of around £700m, an increase of around £70m as a result of the consolidation of a full year of Argos
- Continue to expect annual pension payments of £124m (Sainsbury's scheme: £84m and Argos scheme: £40m)

# Retail investing and financing activities

## Lower net debt

£m	H1 2017/18	H1 2016/17
<b>Use of free cash flow</b>		
<b>Free cash flow</b>	<b>494</b>	<b>420</b>
Dividends paid on Ordinary Shares	(144)	(151)
Exceptional pension contributions	-	(199)
Bank capital injections	(110)	(100)
Property related including strategic capex	25	(36)
Other	(17)	(13)
HRG acquisition and AFS loan book refinancing and acquisition movements	-	496
<b>Cash surplus</b>	<b>248</b>	<b>417</b>
<b>Movement in net debt</b>		
Cash	248	417
Fair value, other non-cash and net interest movements	(158)	68
<b>Movement in net debt</b>	<b>90</b>	<b>485</b>
<b>Opening net debt</b>	<b>(1,477)</b>	<b>(1,826)</b>
<b>Closing net debt</b>	<b>(1,387)</b>	<b>(1,341)</b>
<b>Closing net debt including hybrid securities as debt</b>	<b>(1,881)</b>	<b>(1,835)</b>

### 2017/18 FY Guidance

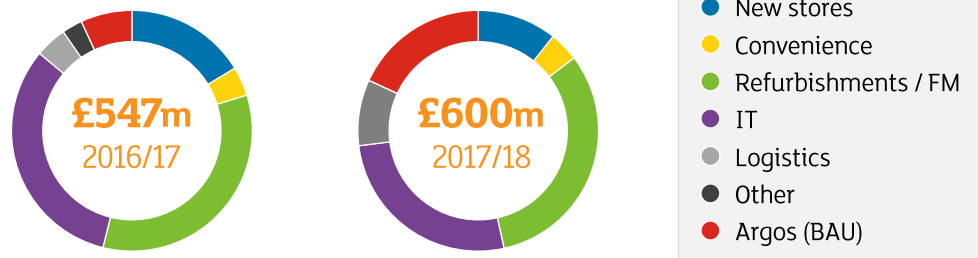
- Argos exceptional capex £90m
- Capital injections into the Bank expected to be £190m (of which £110m H1)
- Net debt expected to remain around £1.5bn

# Retail capital expenditure

Core retail capex (including Argos) broadly stable

£m	H1 2017/18	H1 2016/17
Core retail capital expenditure	239	236
Acquisition of freehold and trading properties	-	74
Argos integration capex	35	5
<b>Net retail capital expenditure</b>	<b>274</b>	<b>315</b>

## Core retail capital expenditure



## 2017/18 FY Guidance

- Core retail capex (including Argos business as usual Argos capex) expected to be around £600m, excluding Sainsbury's Bank capex and Argos integration capex
- Argos integration capex expected to be around £90m
- Core retail capital expenditure is expected to remain around £600m p.a. over the medium term

# Balance sheet

## Net debt to EBITDAR reduction

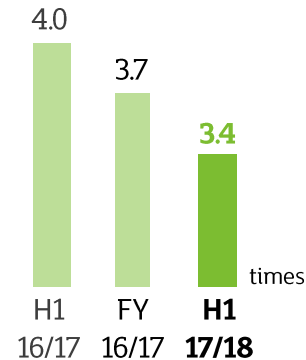
- Net debt £1,387m (March 2017: £1,477m), down £90m since March 2017
- Facilities of £3.9bn (March 2017: £3.9bn) including the perpetual securities, of which £2.6bn drawn down
- RCF refinanced in October 2017 with increased facility and longer maturity
- Market value of property £10.5bn (March 2017: £10.3bn)
- Combined Sainsbury's and HRG pension scheme IAS 19 pension deficit £723m (March 2017: £850m; Sept 2016 £1,312m)

### 2017/18 FY Guidance

- Net debt expected to remain around £1.5bn
- Net debt reduction over the medium term

### Lease adjusted net debt / underlying EBITDAR

(Rolling 52 weeks)



# Summary and Outlook

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## Positive momentum across the business

- Key margin movements as guided
- Strong progress on cost savings – improving the proposition
- Accelerated synergies on track
- Solid underlying cash generation

## FY 17/18 guidance

- Profit expectation remains in line with current market consensus
- Accelerated cost savings reinvested
- EBITDA synergies of £65m (EBIT £58m)
- Year-end net debt of around £1.5bn





**Mike Coupe**  
Group Chief Executive

# Realising the potential of the Group

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Multi-product, multi-channel retailer; focus on four key priorities

①

Further enhance our **differentiated food proposition**

②

Grow **General Merchandise and Clothing** and **deliver synergies**

③

Diversify and grow **Sainsbury's Bank**

④

Continue **cost savings** and **maintain balance sheet strength**

# Summary

## Positive momentum across the Group



### Grocery

Innovating at pace



### General Merchandise

Gaining market share in a challenging market



### Clothing

Continued strong growth



### Sainsbury's Bank

Good H1 performance

①

Further  
enhance our  
**differentiated  
food  
proposition**



# Accelerating the pace of change

## Enhancing our distinctive food offer

- 70 range reviews in H1, covering over 40% of food sales
  - A further 50 planned this year
- Own label growing share
  - Chilled Free From
  - Dairy alternatives
  - My Hair Matters
- Exclusive and innovative brands
  - Godiva
  - Off the Eaten Path
- Specialist food offers rolling out at pace
  - Sushi Gourmet now in 30 stores
  - Patisserie Valerie now in 28 stores

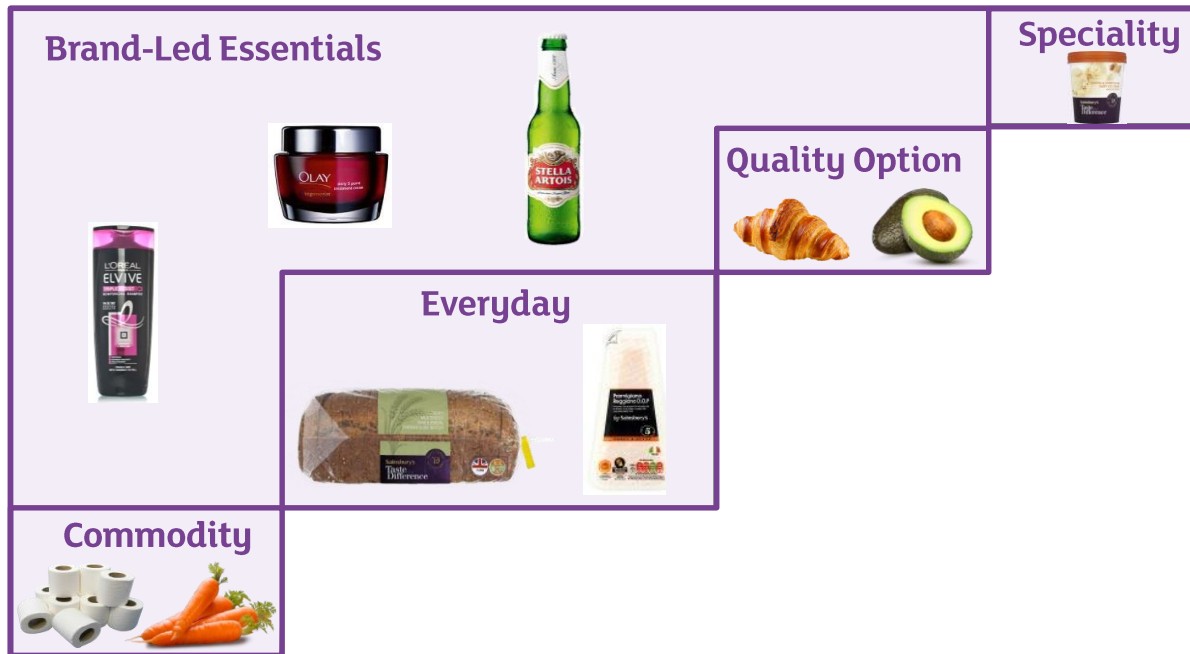


# Quality

Continue to invest in quality and price where valued most by customers

①  
Further  
enhance our  
**differentiated  
food  
proposition**

▲  
Importance of  
Emotional Quality



▶ Importance of Functional Quality

# Quality

## Case Study: Slow Cook

- Market worth £154m – current growth suggests 25% increase over the next five years
- 19 new and improved lines introduced in November 2016
- Further 19 new seasonal lines launched in Spring and Autumn 2017
- Market share now c. 11% from 2.5%
- 500,000 more customers now buy this range



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Further  
enhance our  
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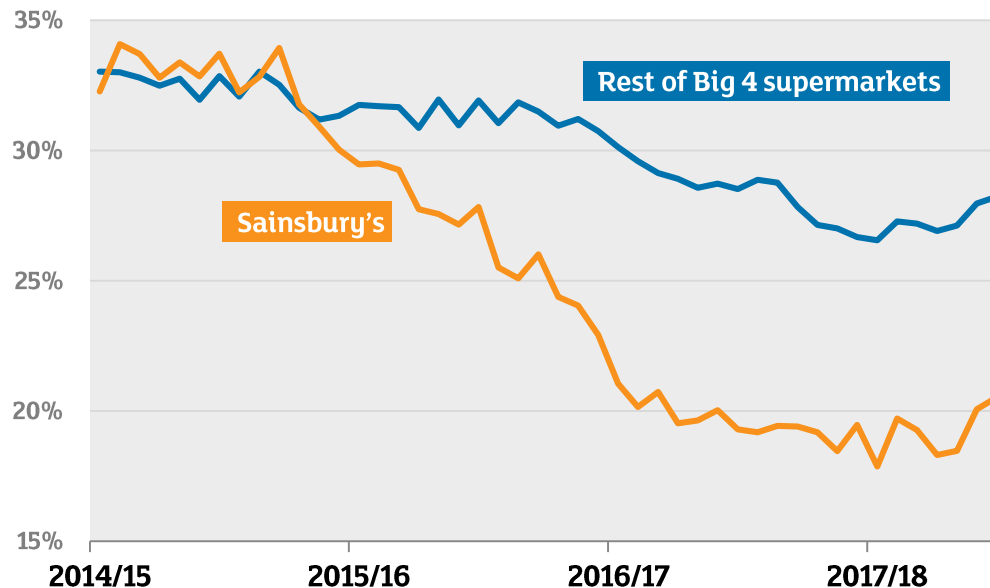
# Value

## Pricing simplification

- Improved price position
- Transaction growth ahead of the market

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Further  
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food  
proposition**

**% Spend on Deal (volume)**



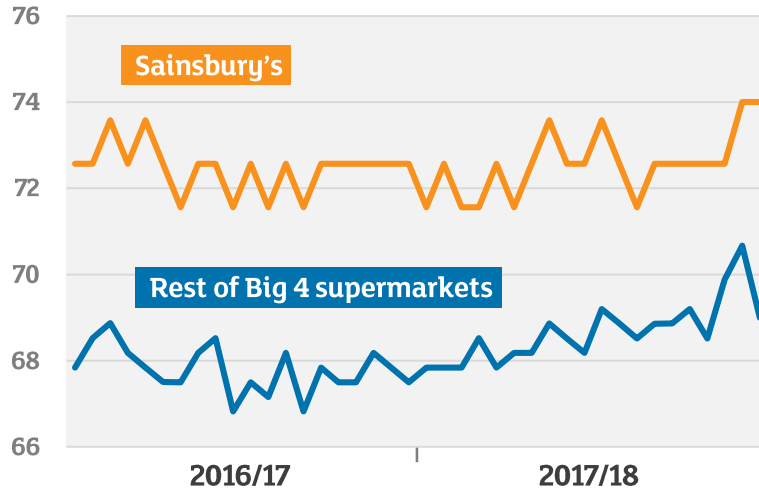
Source: Nielsen Panel, rolling 4 week to P7 2017/18



# Customer

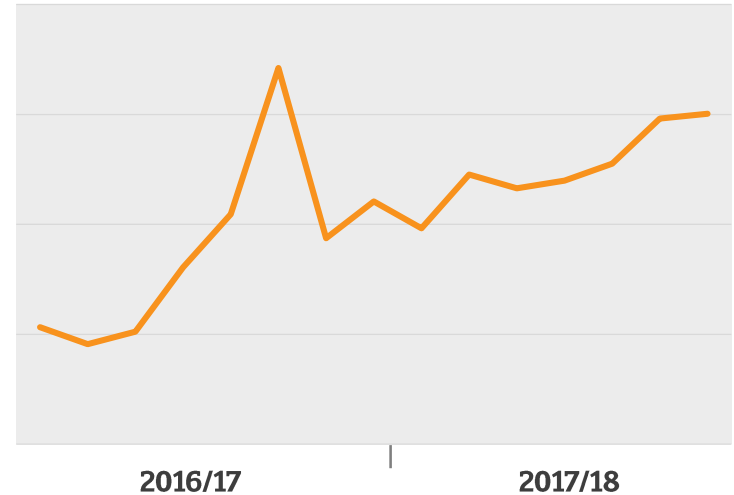
## Customer perceptions continue to improve

### Product Quality Perception



Source: Morar HPI Brand Health

### Net Promoter Score



Source: Tell Sainsbury's

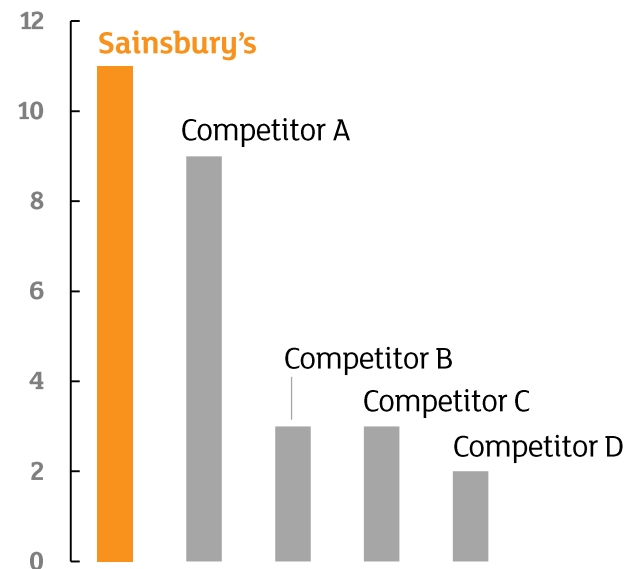
# Service

## Colleagues making the difference

- Grocer Gold Best for Service and Best for Availability for the 5th consecutive year
- Redhill won Grocer Gold Store Manager of the Year
- 11 Grocer 33 wins
- Re-launched colleague values across the group
- Investors in People Gold Accreditation for the 3rd consecutive time
- 4.4% pay increase for Sainsbury's store retail colleagues



## Grocer 33 Service and Availability H1 2017/18



Source: Grocer 33 Service and Availability wins

# Christmas 2017

①

Further  
enhance our  
**differentiated  
food  
proposition**



- **185 New Christmas food products across the store and online**
- **165 Argos stores in our Supermarkets vs. 30 last year**
- **218 Collection points in Sainsbury's vs. 36 last year**
  - **SmartShop in 45 stores**
  - **Argos fast track delivery sales 32% higher in H1**
  - **Online Grocery same day delivery: 93 stores this year (38% population) versus 29 (11% last year)**

# Channels

## Innovation across Supermarkets

- Improved customer proposition across 15% of our supermarket space
- Repurposed a further c. 170,000 sq ft of unproductive space
- Enhancing our distinctive offer
  - 112 Argos stores in supermarkets
  - almost 200 collection points
  - 30 Sushi Gourmet
  - 28 Patisserie Valerie
- More focused store refurbishments
  - smaller investments where customers notice
- Upgrading café offer
  - adapting to changing customer tastes
  - tailoring for different locations



1

Further enhance our differentiated food proposition

# Channels

## Convenience sales growth of over 8%

- Annualised convenience sales of around £2.6bn
- H1 market outperformance vs IGD
- Strong profit performance
- Store optimisation programme delivering significant incremental LFL sales growth
  - range and space refresh
- 10 major range reviews, refreshing c. 40% of the store proposition
  - more differentiated offers by catchment and mission
- Euro Garages trial continues with 9 Locals now open in petrol forecourt stations

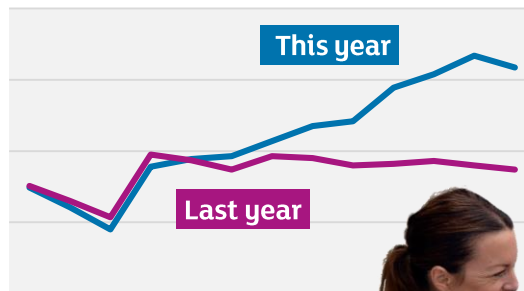


# Channels

## Groceries Online - growth, innovation, efficiency

- Around £1.4bn annualised sales
- Sales growth of over 7% and order growth of 7%
- New picking system and handsets have driven 10% improvement in pick-rate
- Same day delivery will be in 93 stores (c. 38% population) by Christmas 2017
- Groceries Online app now contributes around 15% of Groceries Online orders
- Chop Chop 1 hour delivery trial extended to 1.7 million customers

### Online items per hour pick rate



# The Living Well Index

Created by Sainsbury's, in partnership with leading researchers

- Unparalleled insight into our how our customers live and feel
- We speak to the same 8,000 people every six months
- To understand how their lives are changing and how we can help them live well
- Working with and taking advice from influential organisations
- Will help inform decisions around how we run our business

Sainsbury's  
**Living Well**  
index

**JRF**  
JOSEPH  
ROWNTREE  
FOUNDATION

  
Public Health  
England

**relate**  
the relationship people

**citizens  
advice**

**Resolution Foundation**  
*Analysis and action on living standards*

**LSE** THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE

 OXFORD  
ECONOMICS

**NatCen**  
Social Research

①  
Further  
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# Values

Our values help us to build a resilient business, society and environment

①

Further  
enhance our  
**differentiated  
food  
proposition**

## Sourcing with integrity

Piloting innovative new ways of supporting our farmers and producers – securing a sustainable supply chain

## Respect for our environment

Annual savings of £8.2m from emissions reduction initiatives in 16/17

## A great place to work

We're the largest UK employer to achieve the Investors in People Gold Accreditation for people management and the only retailer to achieve three consecutive Gold awards

## Making a positive difference to our communities

£11 worth of social impact for every £1 of investment

## Living healthier lives

Our allergen-free *Deliciously FreeFrom* range now includes over 100 lines



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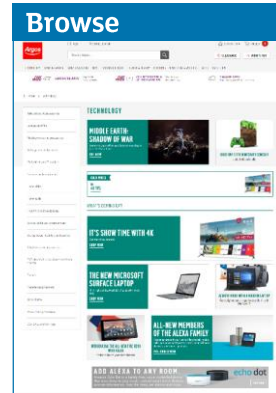
Grow  
**General  
Merchandise  
and Clothing**  
and  
**deliver  
synergies**



# General Merchandise

## Growing share in a challenging market

- General Merchandise sales flat year on year
  - Ahead of the market
- Strong performance in key categories
  - Mobile, Audio, Nursery
- New brands – Neff, Bodum, Joseph Joseph
- Improving the online customer experience
  - Browse, basket, checkout
  - Consistency across mobile and tablet
- Improving availability
  - Regional fulfilment centres
  - Better demand forecasting
- 56% of Argos sales start online
  - Fast Track delivery sales up 32%
  - Fast Track collection sales up 59%



# Investing in the customer experience

## Good progress with Argos integration:

- Opened 112 Argos stores in Sainsbury's  
- including 8 micro stores, 38 relocations
- Opened 195 collection points in Sainsbury's
- Trialled Argos collection points in Sainsbury's Local stores  
- now rolling out to 100 stores

## Performance

- 1-2% halo impact on Sainsbury's store sales
- Average c. 20% LfL sales growth across the 15 Argos stores open more than a year
- Sales in first 10 stores now c. 35% higher than 2 years ago;  
c. 15% year 2 LfL
- Improved trading intensity in Sainsbury's GM and Clothing through space reallocation



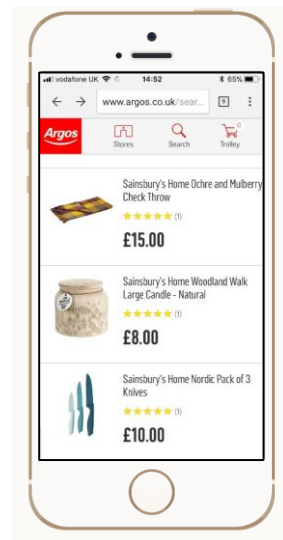
## Morecambe February 2017

- Closed 2 Argos stores (1 standalone and 1 Homebase concession)
- 88% of sales retained in the new store
- Sainsbury's GM and Clothing space reduced by 7%.  
Clothing sales up 7%, Kitchenshop up 8%

# Delivering synergies, joint commercial strategy

£25m EBITDA (£23m EBIT) synergies delivered

- Joint ranging and sourcing:
  - Sourcing offices merged and buying synergies identified
  - Master assortment planning
    - reducing combined range by 20% from January 2018
- Joint promotional planning and cross-selling of products:
  - Aligned Black Friday offer for Sainsbury's and Argos
  - Combined Halloween range across Sainsbury's and Argos
  - Selling Sainsbury's Home products on argos.co.uk
- Central Savings
  - Procurement synergies delivered at pace – ahead of schedule
  - Central functions merged



# Clothing

## Strong growth, continued market outperformance

- Clothing sales growth of 7%
  - Significant beat to the market
  - 6<sup>th</sup> biggest UK clothing retailer by volume
- Online growth of 54%
  - Improved customer journey and content
  - Enhanced Click & Collect proposition
- Investment in ranges and new brands
  - Menswear now c. 15% of sales
    - *Tu* Premium and *Tu* Formal launches
- New format trial
  - Improved customer experience



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Grow  
General  
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③

## Diversify and grow **Sainsbury's Bank**



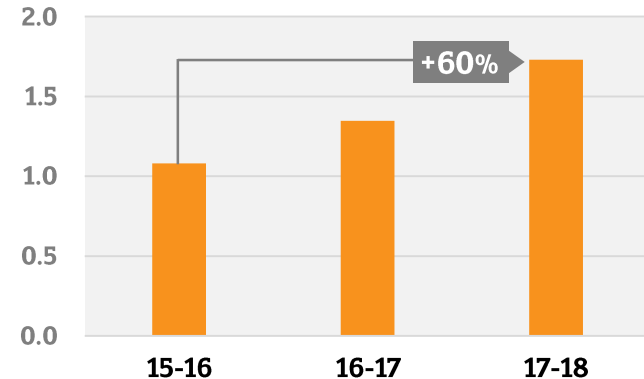
# Good Bank performance

## Diversification and growth

- Loans and Credit cards
  - Growth in loan sales
  - Credit card active accounts up
  - New loans platform on track
  - Credit card platform on track for Summer 2018
- Mortgages
  - Successful launch
  - c.£150m in applications received
  - Roll out to more brokers
- Savings: performing well on new platform, growth in new accounts
- ATMs: transactions up 3%
  - 9% of LINK ATM transactions in UK

### Travel money transaction growth (H1 only)

(Million)



④

Continue  
**cost savings**  
and  
**maintain**  
**balance sheet**  
**strength**





# On track to deliver savings

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## Savings delivered, balance sheet remains strong

- £100m cost savings delivered in H1 2017/18
- Three year £500m target increased to £540m
- Robust plan in place to deliver at least £500m cost savings target from 2018/19
- Net debt stable this year; reduction over medium term
- Increased focus on cash

# Summary

## Positive momentum across the Group



### Grocery

Innovating at pace



### General Merchandise

Gaining market share in a challenging market



### Clothing

Continued strong growth



### Sainsbury's Bank

Good H1 performance



**Q&A**

**J Sainsbury plc**