



**Full Year
Unaudited Results
2017/18**

**Combination of
J Sainsbury plc and Asda Group Limited**



David Tyler
Chairman









Kevin O'Byrne
Chief Financial Officer

Financial highlights

- UPBT £589m – a return to growth
 - H2 UPBT up 11%, with improved food margin trend
- Cost savings and Argos acquisition synergies ahead of plan
- Sainsbury's Bank profits up 11%
- Strong cash generation
 - Free cash flow £432m, up £113m year on year
- Lease adjusted net debt to EBITDAR down to 3.2x vs 3.7x a year ago
 - Net debt down £113m
- Final dividend of 7.1p per share, up 8% year on year
- Comfortable with FY 18/19 UPBT consensus

Group performance overview

£m	2017/18	2016/17	Change
Underlying results			
Group sales (inc VAT)	31,735	29,112	 9%
Retail operating profit	625	626	 0%
Financial Services operating profit	69	62	 11%
Underlying interest costs	119	119	 0%
Profit before tax	589	581	 1%
Underlying basic EPS	20.4p	21.8p	 6%
Dividend per share	10.2p	10.2p	
Statutory results			
Items excluded from underlying results	(180)	(78)	
Profit before tax	409	503	

Retail sales

Growth across all channels

▲ **1.3%**
LFL sales growth

▲ **0.3%**
Sales from
net new space

○ ▲ **1.6%**
Total sales growth

Categories

Grocery

▲ **2.3%**

General
Merchandise

▼ **(0.8)%**

Clothing

▲ **3.8%**

Channels

Supermarkets

▲ **0.5%**

Convenience

▲ **7.5%**

Groceries
Online

▲ **6.8%**

2018/19 FY Guidance

- Expect to open two new Sainsbury's supermarkets and around 15 convenience stores
- Expect to open around 90 Argos stores in supermarkets (of which around 50 are relocations) resulting in around 280 Argos stores in supermarkets
- Expect to close remaining Argos stores within Homebase in 2018/19

Grocery

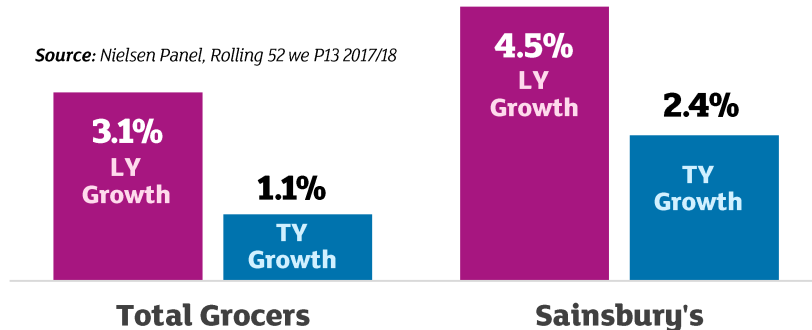
Strong performance

- Improved food margin trend, transaction growth
- Re-launched 128 food ranges
- March 2018 £150m price investment
- Grocer Gold Best for Service and Best for Availability for 5th year
- Proposed changes to the in store operating model

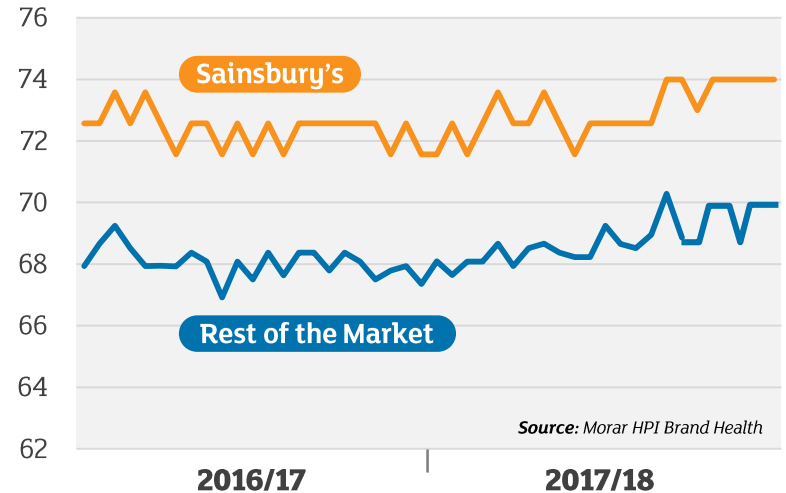
Total Grocery

YOY Transactions Growth % by Retailer

Source: Nielsen Panel, Rolling 52 we P13 2017/18



Product Quality Perception



Source: Morar HPI Brand Health

General Merchandise and Clothing

Continued market outperformance

Clothing

- Clothing sales growth of nearly 4%
 - Online growth of 45%

General Merchandise

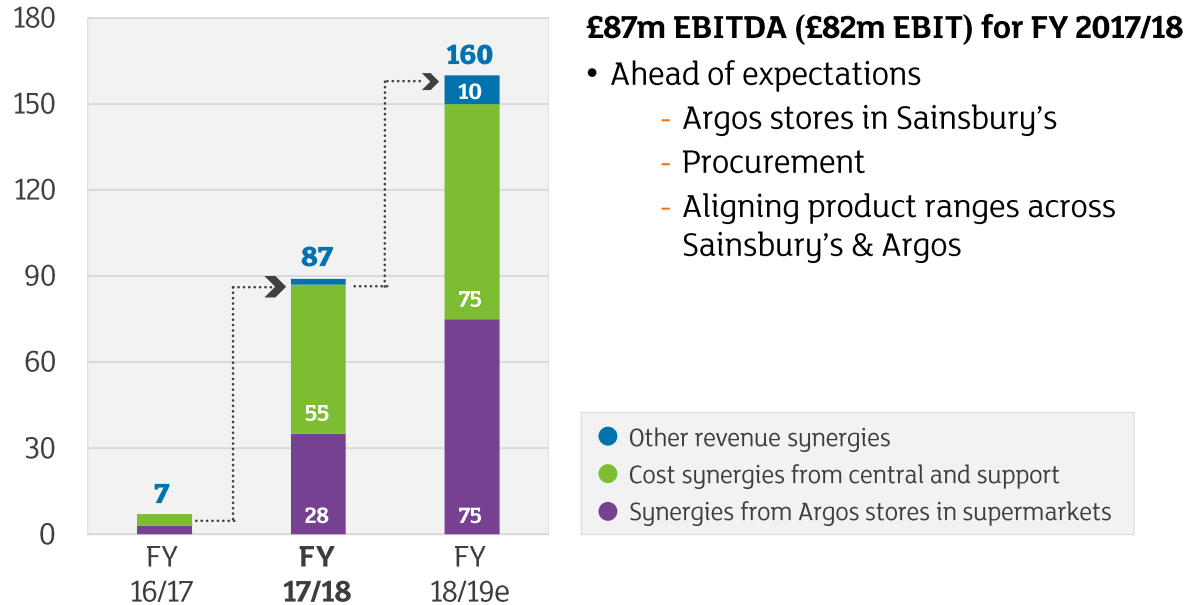
- Growing ahead of the market
- Strong Argos performance in key categories
 - Audio (+39%), Mobiles (+28%), Video Games (+15%)
- Fast Track delivery sales up 28% and Fast Track collection sales up 45%
- Over 40% of Argos sales start on a mobile device
- 191 Argos in Sainsbury's open, 280 by March 2019
 - Strong like-for-like performance



Synergies

Synergies ahead of accelerated plan

Expected EBITDA synergies phasing across financial years (£m)



2018/19 FY Guidance

UPBT impacts

- Incremental EBITDA synergies of £73m (EBIT £60m) will be realised in 2018/19

One-off costs

- Around £30m of integration costs expected in 2018/19

Integration capex

- Around £40m of integration capex expected in 2018/19

Sainsbury's Bank

Profit increase primarily driven by consolidation of Argos Financial Services

£m	2017/18	2016/17	Change
Total income	451	347	▲ 30%
Underlying operating profit	69	62	▲ 11%
Cost/income ratio	70%	72%	▼ 200bps
Active customers - Bank	1.92m	1.77m	▲ 8%
Active customers - Argos FS	1.95m	1.84m	▲ 6%
Net interest margin	4.9%	4.4%	▲ 50 bps
Bad debt as a percentage of lending	1.3%	0.8%	▲ 50 bps
CET 1 ratio	14.1%	13.3%	▲ 80bps
Total capital ratio	17.1%	13.3%	▲ 380bps

Excluding AFS

▼ 30 bps

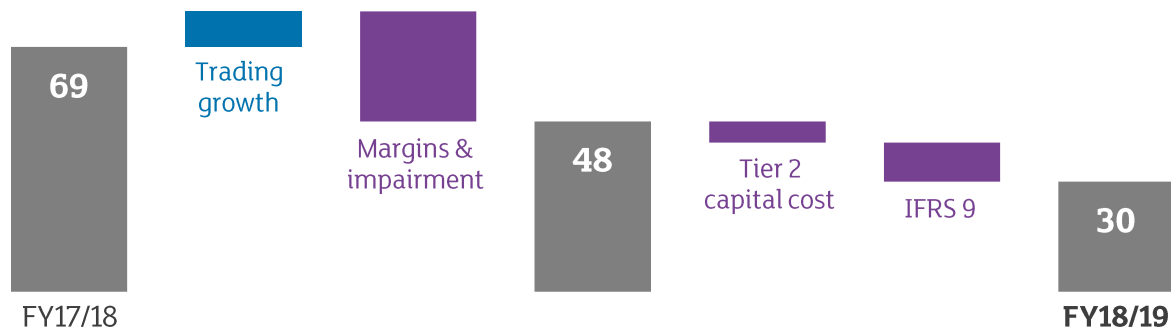
▲ 30 bps

Sainsbury's Bank

2018/19 FY Guidance

We expect underlying profit to fall to around £30m, driven by:

- Competitive conditions and a cautious approach impacting margins in unsecured lending
- Higher provisions assumed for bad debt as interest rates rise
- Interest costs of Tier 2 capital raised in November 2017 (£9m per year, £6m year on year)
- Additional £11m impairment as a result of IFRS 9 adoption



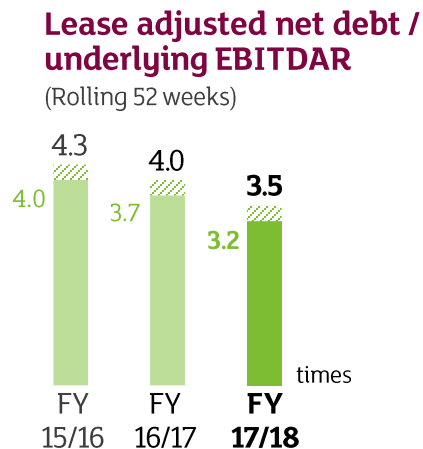
2018/19 FY Guidance

- Expect underlying profit of around £30m in 2018/19
- Capital injections into the Bank are expected to be £110m in 2018/19. This is to cover card and loan platforms, regulatory capital and growth in loan, card and mortgage balances
- Capital injections into the Bank from 2019/20 onwards to average £100m per year

Balance sheet

Cash flow stronger, net debt and leverage lower

- FCF more than £100m higher year on year at £432m
- Net debt down £113m to £1,364m with adjusted net debt/EBITDAR down to 3.2x
- RCF refinanced and £568m Eddystone CMBS repaid (post year end)
- Sainsbury's and HRG pension scheme combined
 - IAS 19 pension deficit £261m (March 2017: £850m)
- Medium term leverage reduction targets
 - Adjusted net debt/EBITDAR less than 3x
 - Fixed charge cover greater than 3x



2018/19 FY Guidance

- Net debt expected to reduce to by c. £100m
- Net debt reduction over the medium term
- Expect net finance costs of around £100m in 2018/19 following final repayment of the secured loan due 2018

Financial outlook

- Cost inflation around 3%
- Cost savings of around £200m in FY 18/19
- Incremental EBITDA synergies of £73m (EBIT £60m)
- Sainsbury's Bank guiding to reduction in profits next year to around £30m
- Comfortable with FY 18/19 UPBT consensus despite lower bank profits
- Expect net debt reduction of around £100m in FY 18/19
- Expect net finance costs of around £100m



Creating a dynamic new player in UK retail

Mike Coupe

ASDA

Walmart



Sainsbury's

The combination

- 1 Dual brand grocery strategy, sharpening distinctive customer propositions
- 2 Asda consolidated on a debt-free, cash-free and pension-free basis
 - Walmart receives 42% equity stake in the Combined business and £2.975bn cash
 - Walmart will hold 29.9% of the combined voting shares
- 3 Walmart will be a long-term partner with two Board seats at completion
- 4 Expect to fast track to CMA phase 2 review, with completion anticipated in H2 calendar year 2019

	Pro forma
Total Sales	£51bn
Total Operating Profit	£1.4bn
Colleagues	330,000
Total Locations	2,800

The market is more competitive than ever before



A great deal for everyone

More dynamic, more adaptable, more resilient

CUSTOMERS



- ✓ Lower prices
- ✓ Better quality
- ✓ Differentiated ranges
- ✓ More flexible ways to shop
- ✓ Major contributor to the British economy

COLLEAGUES



- ✓ Stronger business
- ✓ More opportunities
- ✓ Greater security for pension holders

SUPPLIERS



- ✓ Greater efficiency
- ✓ Differentiated ranges
- ✓ Opportunity to grow

SHAREHOLDERS

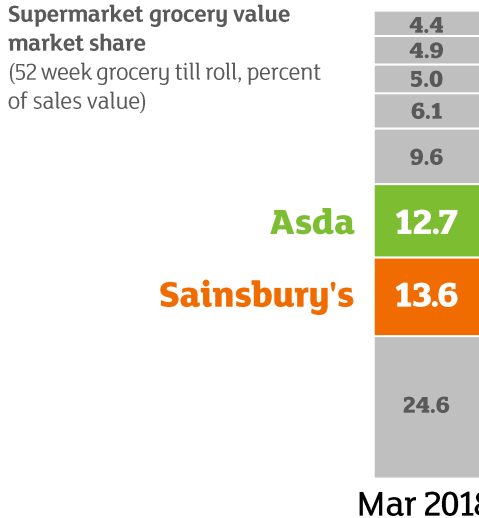


- ✓ Creating value
- ✓ Strong balance sheet
- ✓ Strong cash generation
- ✓ Investment grade credit profile

Creating a dynamic new player in UK retail

Materially enhanced scale. Strong, differentiated brands serving the widest possible market

Strong grocery market position

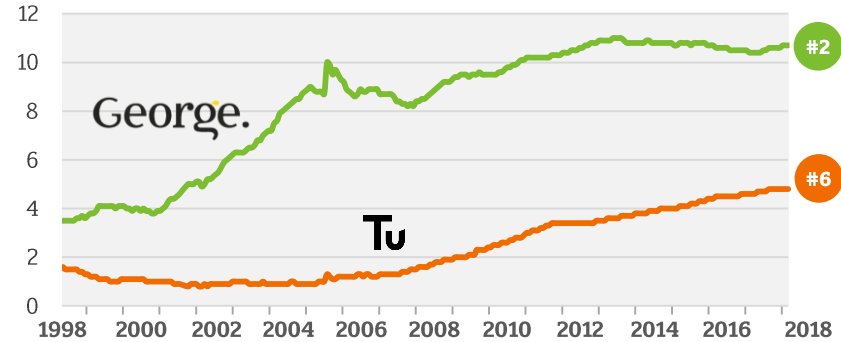


A leading general merchandise retailer

- Unique Argos distribution and logistics model
- Opportunities to open Argos within Asda stores
- Walmart/Asda scale can bring range and lower prices to customers

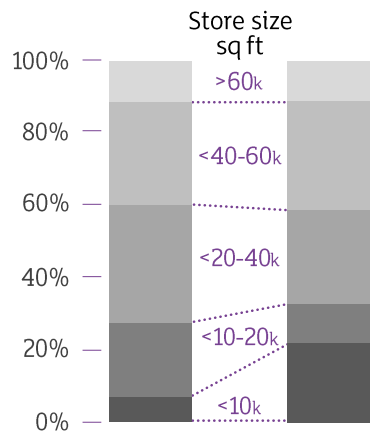
A leading UK clothing retailer

Volume share of total clothing (%)



Highly complementary store portfolios

Proportion of grocery stores (number)



Sainsbury's

>600

36k sq ft

Asda

>580

35k sq ft

Total # of grocery stores (ex Sainsbury's Local)

Average size

Sainsbury's



Areas of strong Sainsbury's coverage

Asda



Areas of strong Asda coverage



A great deal for everyone

Roger Burnley

ASDA

Walmart

Sainsbury's

Overview of Asda

A leading multi-format, omni-channel business with a strong value heritage



**Large scale
national business**



**Multi-format,
omni-channel offering**



EDLP heritage

The prices of some
of your favourite
brands are now
staying back.



**Strength in
general merchandise
and clothing**



**Food sourcing
strength**



Walmart support



**Talented
colleagues**

Asda financial overview

Asda has a healthy, strong financial position

Delivering
growth...

4

Consecutive
quarters of positive
like-for-like growth

...with healthy
profit margins...

3.5%+

Operating profit
margin

...and cash flow
generation...

£4bn

Operating cash
flow over the last
3 years

...with strong
asset backing

75%

Freehold property
estate

Delivering momentum at Asda

Consistent LFL sales growth driven by volume growth in key categories



Accelerate EDLP credentials



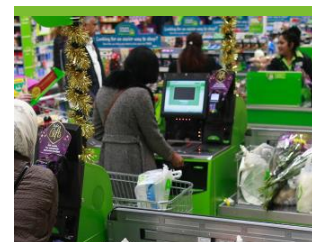
Enhancing the quality and value of own brand food & George clothing



1st choice destination for everyday and big moments



Further developing online and digital capability



Improving customer experience within a low-cost operating model



A great deal for everyone

Mike Coupe



A great deal for everyone

More dynamic, more adaptable, more resilient

1

Great for CUSTOMERS

Lower prices, better quality, differentiated ranges, more flexible ways to shop

2

Great for COLLEAGUES

Stronger business, more opportunities, greater security for pension holders

3

Great for SUPPLIERS

Greater efficiency, differentiated ranges, opportunity to grow

4

Great for SHAREHOLDERS

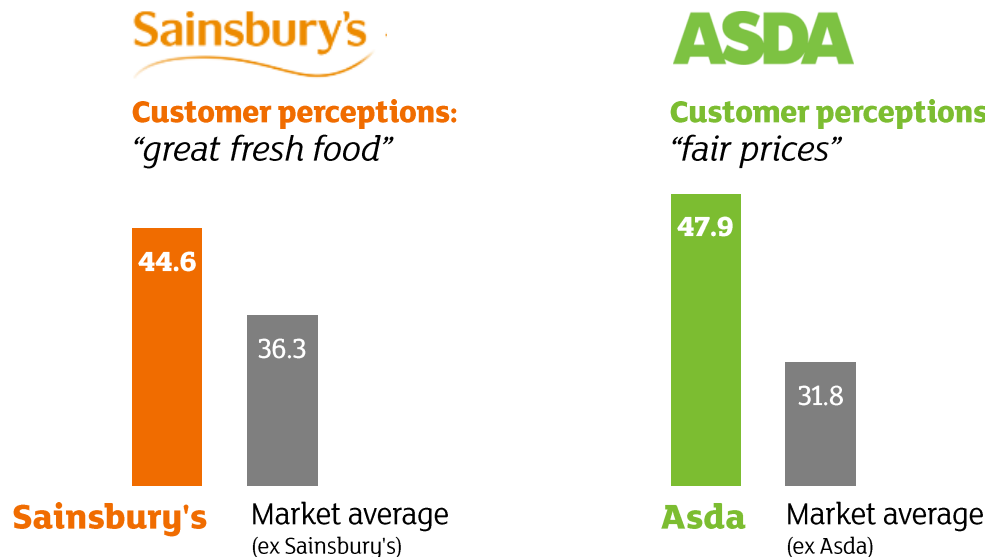
Creating value, stronger balance sheet, strong cash generation

Dual brand strategy, sharpen distinctive propositions

Enhanced ability to invest in the areas that matter most to customers

Investing a substantial proportion of the gross synergy benefits, across the group, in:

- 1 Price
- 2 Quality
- 3 More flexible ways to shop



More flexible ways to shop

Grocery

- Strong, fast-growing online businesses
- In store technology

Convenience

- Over 800 Sainsbury's Local convenience stores
 - Track record of growth
 - Market-leading sales densities



General Merchandise & Clothing

- Argos: A tech-led General Merchandise business
 - The UK's 3rd most visited retail website
 - 60% of sales online
 - >1,000 points of presence
- Strong, fast-growing online clothing offers
 - George and Tu



A stronger business

More opportunities within a larger group



Two great teams

- Dual-brand grocery strategy
- Opportunities for colleagues at all levels
- Run by the best leaders from both businesses
- Asda run from Leeds with own CEO



One set of shared values

- Built on similar values and heritage
- One of the largest employers in the UK and a major contributor to the British economy
- Stronger combination gives greater security to pension holders

Great opportunity for suppliers

Platform for growth

- Opportunity for suppliers to grow with us
- More streamlined supply chains
- Differentiated products
- Protecting choice



£500m net synergies post investment in the customer offer

£350m

Buying benefits

Harmonised buying terms



£75m
Property

Argos in Asda stores



£75m

Operational efficiencies

Costs and GNFR savings



Potential for further synergies - unquantified at this time

- Cross-selling within the Combined business
- Leveraging fixed assets, investments and capabilities
- Benefits from strategic partnership with Walmart

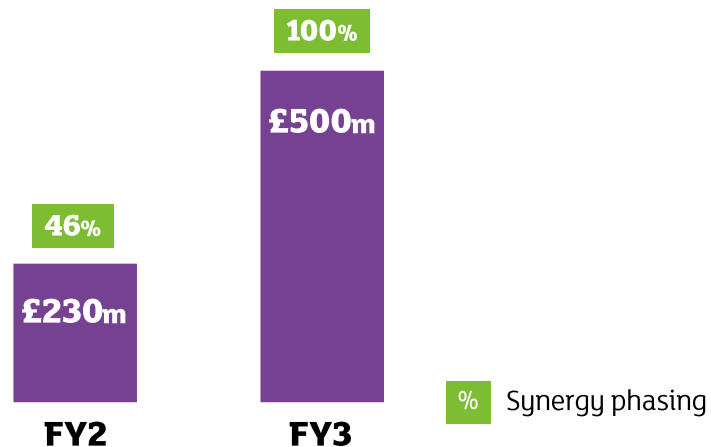
£500m of net synergies

Sainsbury's and Walmart have proven track records of synergy delivery

Overview of synergies

- £500m EBITDA synergies in the second full financial year post completion
- £150m opex implementation costs
- £600m capex implementation costs
 - System migration
 - Argos in Asda stores
- Phasing assumes completion in H2 calendar year 2019

Phasing of synergies



Delivering significant value creation for shareholders . . .

In the second full financial year post-completion:

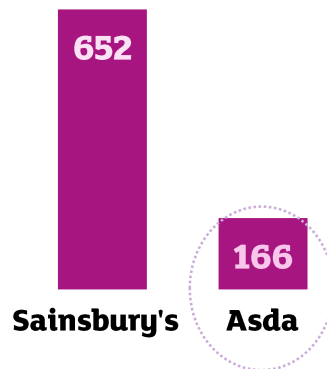


With a strengthened balance sheet and strong cash generation

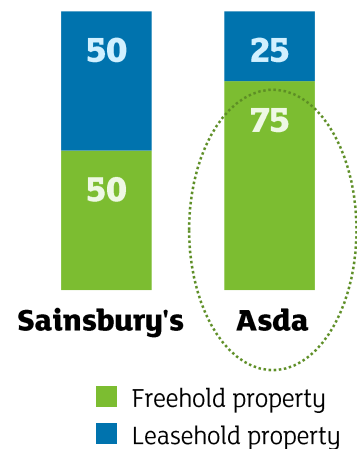
Investment grade credit profile on completion

- Asda's structurally lower leverage
 - Predominantly freehold property mix
 - Debt-free, cash-free, pension-free
- Walmart to retain Asda defined benefit pension scheme
- Lower lease adjusted net debt / EBITDAR
- Significantly cash generative Combined business

Last reported annual net operating lease charge (£m)



Freehold / Leasehold mix (%)



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SHAREHOLDERS



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- ✓ Investment grade credit profile



A great deal for everyone

Judith McKenna

ASDA

Walmart

Sainsbury's

Walmart overview

\$500 billion
revenues

\$258 billion
market capitalisation

28 countries

65 banners

c. 11,700 retail units

c. 270m customers served
every week

 **Rakuten**



Google



Role of Asda/Sainsbury's in Walmart's International Portfolio

Combination unlocks value for customers and shareholders

Walmart International strategy

- Being deliberate and thoughtful about the portfolio
- Transforming the business and making bold moves to do so
- Building innovative partnerships to deliver scale and capabilities
- Developing strong, agile and locally relevant businesses



Partnership objectives

- Shared values and cultures
- Commitment to deliver low prices
- Accelerating seamless, omni-channel, and convenience
- Long-term value creation



New dynamic player in the market

- A strong Plc with the backing of Walmart
- A stronger, more resilient and competitive business benefiting from Walmart's global expertise
- A winning combination with the scale and resources to deliver lower prices for customers



Q&A

ASDA

Walmart



Sainsbury's

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