



Interim Results

2018/19



David Tyler
Chairman



Kevin O'Byrne
Chief Financial Officer

Financial overview

- UPBT up £51m
 - Synergy delivery, solid food performance, lower interest costs
- Good progress on cost savings
- Financial services profits down, in line with guidance
- Continued focus on cash generation; retail free cash flow £619m
- £170m charges excluded from underlying profit
- Interim dividend of 3.1p per share
- Remain on track to deliver current market consensus

Group performance overview

£m	H1 2018/19	H1 2017/18	Change
Underlying results			
Group sales (inc VAT)	16,884	16,310	▲ 4%
Retail operating profit	335	272	▲ 23%
Financial Services operating profit	16	34	▼ 53%
Underlying interest costs	(53)	(62)	▼ 15%
Profit before tax	302	251	▲ 20%
Underlying basic EPS	10.3p	8.7p	▲ 18%
Dividend per share	3.1p	3.1p	
Statutory results			
Items excluded from underlying results	(170)	(31)	
Profit for the financial period after tax	144	166	▼ 13%

Retail sales

Solid sales growth

▲ **0.6%**
LFL sales growth

▲ **0.6%**
Sales from
net new space

○ ▲ **1.2%**
Total sales growth

Categories

Grocery
▲ **1.2%**

General
Merchandise
▲ **1.5%**

Clothing
▼ **(1.0)%**

Channels

Supermarkets
▼ **(0.5)%**

Convenience
▲ **4.3%**

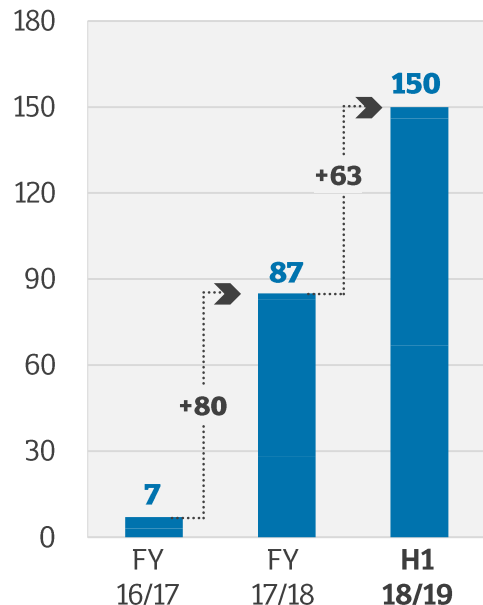
Groceries
Online
▲ **6.9%**

2018/19 FY Guidance

- Expect to open three new Sainsbury's supermarkets and up to 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

Synergies

Delivered ahead of plan



£63m EBITDA (£58m EBIT) for H1 2018/19

- £150m cumulative
 - 251 Argos stores in Sainsbury's
 - 233 collection points
 - joint commercial operating model now embedded
 - continue aligning product ranges across Sainsbury's and Argos

£160m EBITDA target delivered (post period end)

- 9 months ahead of original schedule

Financial Services

Profit decline in line with guidance

£m	H1 2018/19	H1 2017/18	Change
Total income	226	225	▲ 0%
Underlying operating profit	16	34	▼ 53%
Cost/income ratio	71%	69%	▲ 200bps
Active customers - Bank	1.95m	1.85m	▲ 5%
Active customers - Argos FS	1.94m	1.80m	▲ 8%
Net interest margin	4.0%	5.1%	▼ 110bps
Bad debt as a percentage of lending	1.6%	1.4%	▲ 20bps
CET 1 ratio	12.7%	13.9%	120bps
Total capital ratio	15.7%	13.9%	180bps

H1 18/19 performance

- Underlying profit decline driven by:
 - additional bad debt charge as a result of IFRS 9 adoption
 - competition and mix impacting lending margin
 - interest costs of Tier 2 capital raised in November 2017
- Partially offset by growth in card and mortgage balances

Items excluded from underlying results

£m	H1 2018/19	H1 2017/18
Sainsbury's Bank transition costs	(40)	(20)
Argos integration costs	(25)	(29)
Property related	(14)	5
Retail restructuring costs	(69)	-
Asda transaction costs	(17)	-
Other items excluded from underlying results	(5)	13
Total	(170)	(31)

2018/19 FY Guidance

Sainsbury's Bank

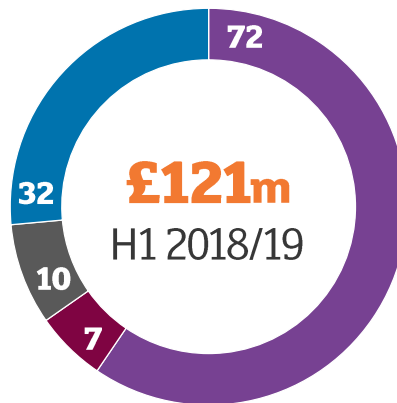
- Transition costs are expected to be around £80m

Argos

- Integration costs are expected to be around £40m

Sainsbury's cost savings

- **Changing the store operating model**
 - Simplifying how we run our stores
 - Leaner structure, fewer managers
- **Technology**
 - Upgraded online picker handset
 - Voice picking in depots
 - Aero foils – 10% saving on refrigeration electricity consumption



2018/19 FY Guidance

- Efficiency savings of £200m
- Robust plan in place to deliver at least £500m cost saving target by 2020/21



- Retail operations
- D&T
- Logistics and distribution
- Commercial operations

Retail capital expenditure

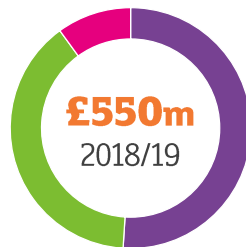
Reduction in core retail capex

£m	H1 2018/19	H1 2017/18
Core retail capital expenditure	216	239
Argos integration capex	31	35
Net retail capital expenditure	247	274

2018/19 FY Guidance

- Core retail capex expected to be around £550m, excluding Sainsbury's Bank capex and Argos integration capex
- Argos integration capex substantially complete in H1
- Core retail capital expenditure is expected to remain around £550m p.a. over the medium term

Core retail capital expenditure



- Maintenance
- Growth
- Efficiency

Retail free cash flow

£m	H1 2018/19	H1 2017/18
Adjusted operating cash flow before changes in working capital	623	629
Decrease in working capital	291	269
Cash generated from operations	914	898
Pension contribution	(25)	(26)
Net interest paid	(55)	(61)
Corporation tax paid	(15)	(40)
Net cash generated from operating activities	819	771
Cash capital expenditure before strategic capex	(245)	(277)
Proceeds from disposal of property, plant and equipment	34	44
Bank capital injections	-	(110)
Dividends and distributions received from JVs, net of capital injections	11	8
Retail free cash flow	619	436

2018/19 FY Guidance

- Capital injections into the Bank are expected to be £110 million in 2018/19. This is to cover card and loan platforms, regulatory capital and growth in loan, card and mortgage balances
- We expect depreciation and amortisation of around £700m

Use of free cash flow

Repayment of secured loan in April 2018

£m	H1 2018/19	H1 2017/18
Use of free cash flow		
Retail free cash flow	619	436
Dividends paid on Ordinary Shares	(156)	(144)
Strategic capex	(31)	(35)
Repayment of borrowings including finance leases	(567)	(81)
Other	(1)	(9)
Net (decrease)/increase in cash and cash equivalents	(136)	167
Decrease in debt	567	81
Other non-cash and net interest movements	(8)	(14)
Movement in net debt before fair value movements on derivatives	423	234
Fair value movements on derivatives	107	(144)
Movement in net debt	530	90
Opening net debt	(1,364)	(1,477)
Closing net debt	(834)	(1,387)
Closing net debt including hybrid securities as debt	(1,328)	(1,881)

2018/19 FY Guidance

- Net debt before fair value movements on derivatives to reduce by around £100m from the 2017/18 year end position of £1,364m
- Net debt reduction over the medium term

Balance sheet

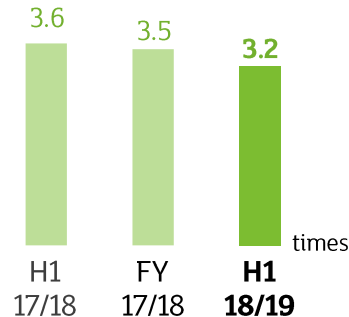
- Medium term leverage reduction targets
 - Adjusted net debt/EBITDAR less than 3x
 - Fixed charge cover greater than 3x
- Net debt £834m (March 2018 £1,364m), down £530m since March 2018
- Adjusted net debt/EBITDAR down to 3.2x
- Sainsbury's and HRG pension scheme combined
 - IAS 19 pension surplus £168m
(March 2018: £261m deficit; Sept 2017 £723m deficit)

2018/19 FY Guidance

- Expect net finance costs of around £100m in 2018/19 following final repayment of the secured loan due April 2018

Lease adjusted net debt / underlying EBITDAR

(Rolling 52 weeks)



Summary and Outlook

- Solid food performance
- General Merchandise outperforming a difficult market, margins pressured
- £63m EBITDA synergies delivered in H1 (£150m cumulative). £160m target subsequently achieved
- Good underlying cash generation
- Remain on track to deliver current market consensus



Mike Coupe
Group Chief Executive

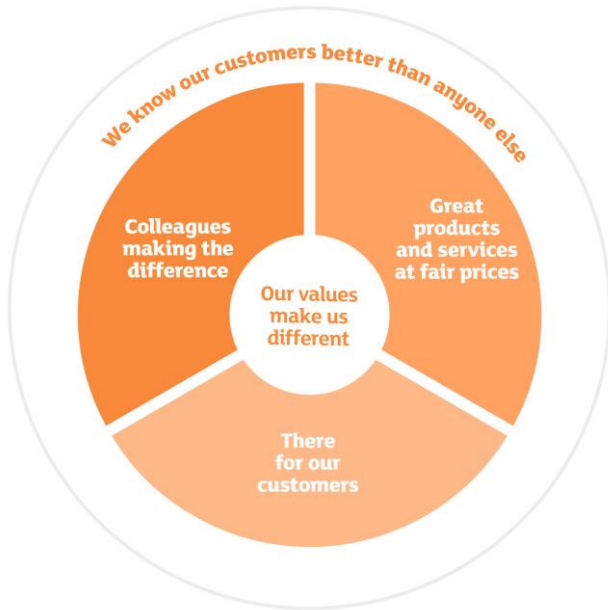
Proposed combination with Asda

CMA Phase II administrative timetable was published in September



Note: The CMA has the ability to extend the timeline by up to eight weeks

Our strategy



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**

①

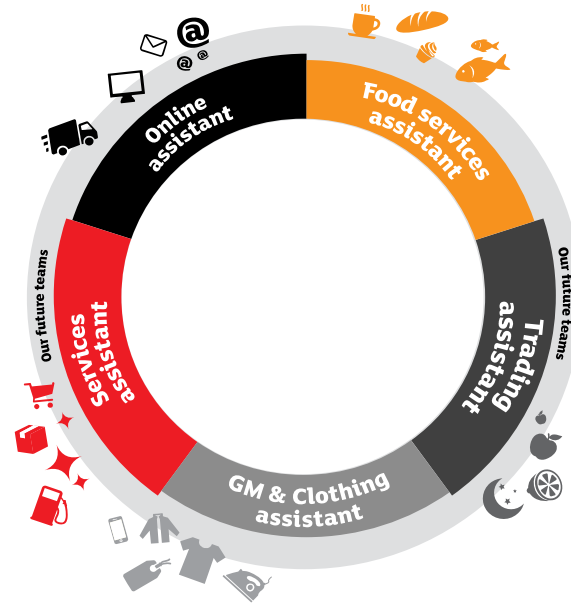
Further
enhance our
**differentiated
food
proposition**



Colleagues making the difference

Changing the in-store operating model

- Over 135,000 managers and colleagues consulted
- 9,000 new leadership roles
- New, leaner management structure creates significant savings
- One fair, consistent and more flexible contract for all Sainsbury's store colleagues
 - market leading rate of pay of £9.20 an hour
 - over 9% average pay increase from September 2018; 30% pay increase over 4 years



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Further enhance our differentiated food proposition

Colleagues make the difference with personal service

Service

Colleagues making the difference

- Grocer Gold Best for Service and Best for Availability for the 6th consecutive year
- 12 Grocer 33 service wins

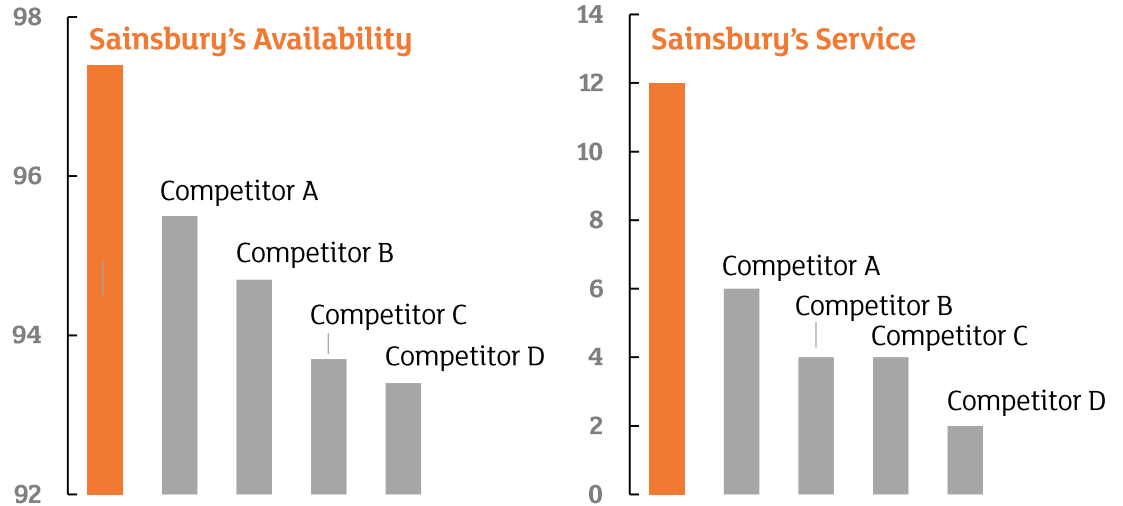


- Lettuce Know customer feedback
- WOW customer service
- Investors in People Gold Accreditation

① Further enhance our differentiated food proposition

Colleagues make the difference with personal service

Grocer 33 Availability and Service H1 2018/19



Source: Grocer 33

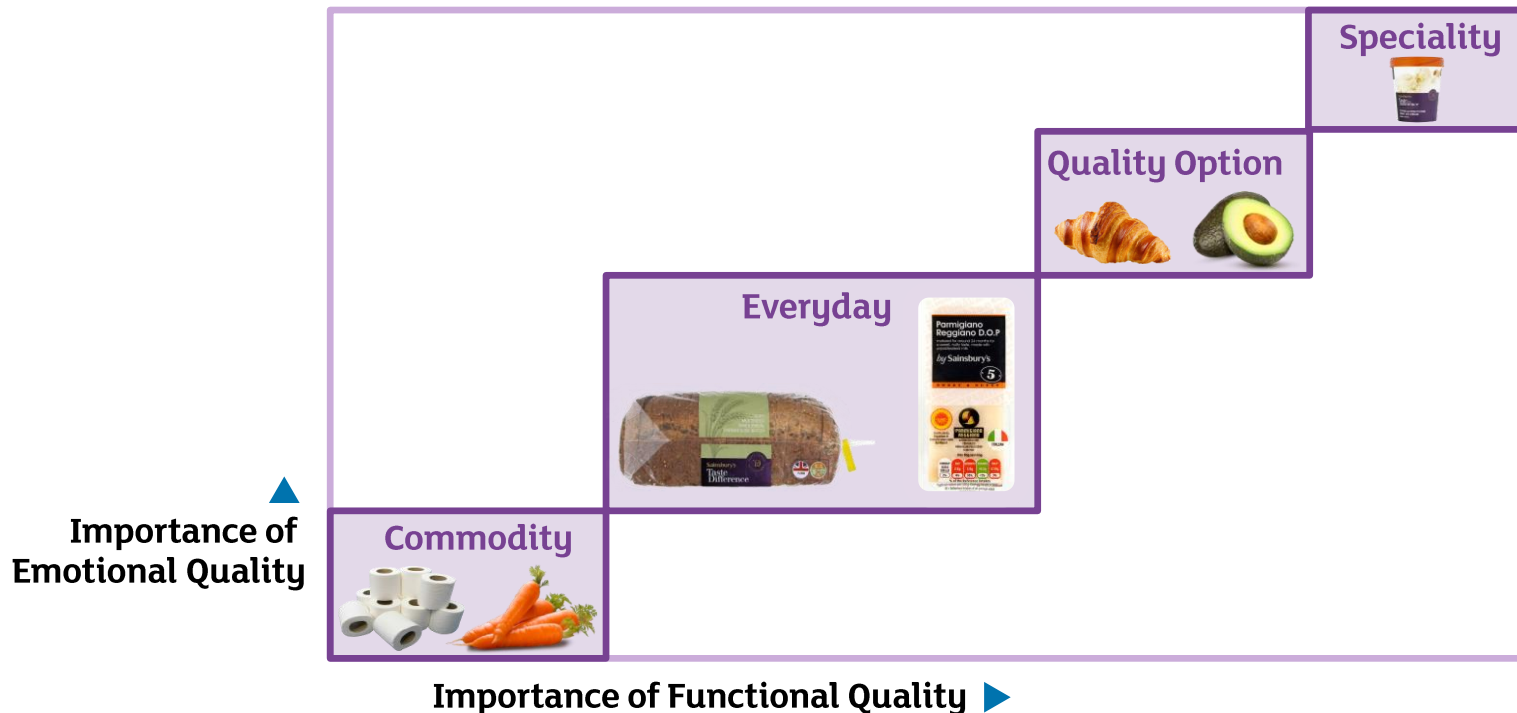
Product Quality Framework

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

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Further enhance our **differentiated food proposition**

Be competitive on commodity product



PQF in action – cheese case study

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Further enhance our differentiated food proposition

Be competitive on commodity product

More competitive on **Price** than ever before

COGS savings invested back into price

+6%
volume growth

Rationalised **Range** for ease of shop

Range optimisation

19%
reduction in SKUs

Deliver **Quality** and distinctiveness

Category redesign



Clear pricing hierarchies in tiers

Sainsbury's
Taste *the*
Difference

by Sainsbury's

Sainsbury's
basics

New fixture flow, mission based



Ease customer shop and improve availability

Flagship TtD range



New products



Distinctive products

Investing in growing market trends

Love Meat & Veg

- Flexitarian market predicted to reach **£658m by 2021**
- Inspired by on trend vegetable and flavour combinations
- A balanced mix of meat and vegetables, high in protein and gluten free



Love Your Veg

- 18 own brand products in the range
- Out performing the growing meat free market

Naturli

- Exclusive to Sainsbury's in the UK
 - Vegan spread, plant based 'burger patty' and 'mince'



1 Further enhance our differentiated food proposition

Deliver distinctive and exclusive product

Distinctive products

1

Further enhance our differentiated food proposition

Deliver distinctive and exclusive product

Little Ones

- Nearly 50 lines across cereals, fruit pots, pouch food and ready meals
- 26% volume share of baby food (excluding milk and snacks)



Hyde & Wilde

- Launched in June
- Already our second biggest craft beer brand



The British Quinoa Company

- Partnered with the only quinoa farmer in Britain
- Exclusive to Sainsbury's



Merchant's Heart

- Premium spirit enhancer



Trading intensity

Over 700,000 sq ft now repurposed

①

Further enhance our differentiated food proposition

Serve new food and grocery missions

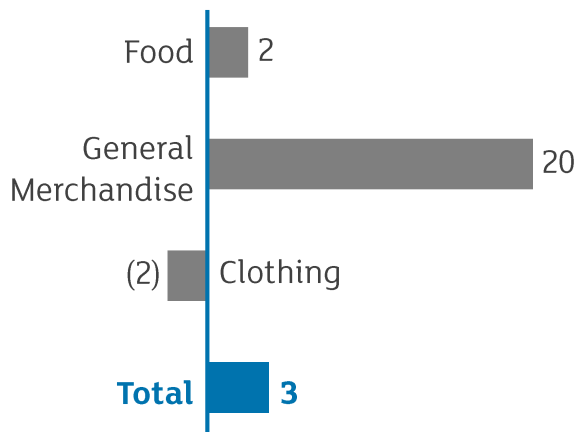
YoY Space Change

2017/18 - 2018/19 (%)



YoY Sales Change

2017/18 - 2018/19 (%)



YoY Sales per sq ft Change

2017/18 - 2018/19 (%)



Serve new grocery missions

Winning new customers in Beauty

Beauty

- 7 trial stores live
- Price points up to £50; early trading encouraging
- Over 1,400 new beauty products
- Specially trained colleagues
- Strong customer metrics



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Further enhance our differentiated food proposition

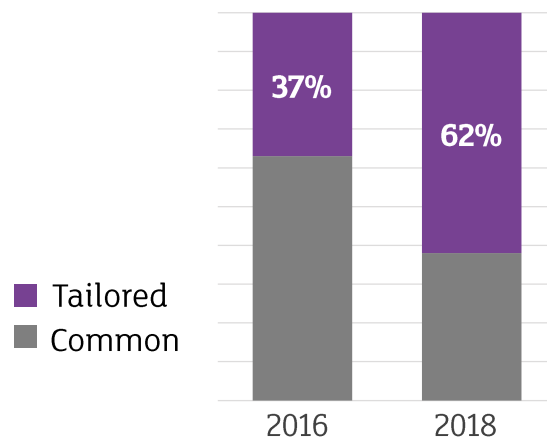
Serve new food and grocery missions

Channels

Convenience sales growth of over 4%

- Sales up over 25% in the last 3 years
- Market-leading sales densities
- Store optimisation programme delivering incremental LFL
 - range reviews
 - 3rd party brand trial
- Strong price position

Tailoring ranges to local needs



①

Further enhance our **differentiated food proposition**

Consistent experience across channels

Digital

Growth, innovation, efficiency

Groceries online

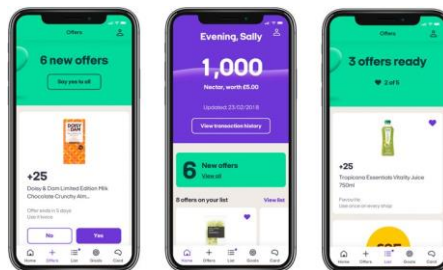
- Sales growth nearly 7%
- Continued improvement in pick rate
- Same day delivery now covers c. 57% of households from over 170 stores
- SmartShop in almost 70 stores
- Mobile pay in Clapham North
- Single sign-on

Nectar

- 19 million collectors, largest loyalty programme in the UK
- 4 major partners re-signed and 3 new partners joined since the acquisition
- App base 1.2 million regular users, +11%YoY
- Digitalisation trial

Argos

- Improving the online customer journey
 - App enhancements, checkout and availability view
 - Voice shopping through Google Assistant



① Further enhance our **differentiated food proposition**

Consistent experience across channels

②

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



General Merchandise

General Merchandise outperforming in difficult market

- General Merchandise sales growth of 1.5%
- Growing ahead of the market
- Fast Track delivery sales up 18%, Fast Track Click & Collect sales up 21%
- Strong Argos performance in electricals, weaker performance in home and furniture
- Market conditions and mix putting pressure on margins

Argos SiS performance

- Sales in stores open more than 3 years now c. 45% higher than year one
- Sales in stores open more than 2 years now c. 35% higher than year one
- Sales in stores open more than 1 year now c. 10% higher than year one



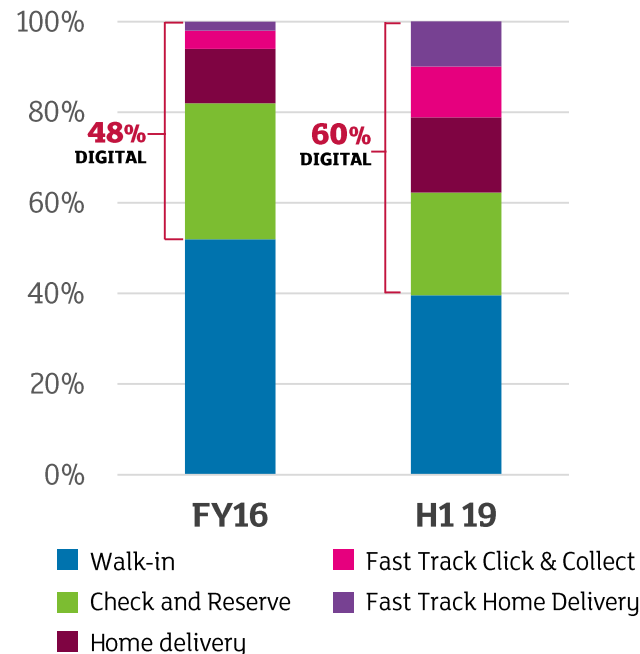
Tech-driven retail

Greater convenience for customers

	At acquisition	Q2 18/19	
Argos stores	726	-122	604 -17%
Argos in Sainsbury's	13	+238	251
Argos in Homebase	97	-85	12
Total Argos stores	836	+31	867 +4%
Collection points	3	+230	233
Total Argos points of presence	839	+261	1,100 +31%
Habitat	4	+12	16

- 108 of the collection points are in Convenience stores

Argos channel shift towards online



Improving customer experience

Online and in-store

Improving in-store customer experience

- 613 digital stores, up from 514 at end of FY18
- Introducing pay @ browse

Improved availability

- Immediate availability + 5% YoY
- Out of stocks - 2% YoY

Net Promoter Score



Source: Net promoter score

Clothing

Sales decline reflects reduced promotional activity

- Clothing sales down 1%
 - primarily driven by change in promotional phasing
 - growth in Menswear
- Strong online growth
 - *Tu @ Argos*
- New Petite range launch online, coming to stores in H2



2

Grow
General
Merchandise
and Clothing
and
deliver
synergies

③

Diversify and
grow
**Sainsbury's
Bank**



Financial Services: strong customer growth

Delivering for Sainsbury's Group customers

Argos Financial Services

- 10% growth in penetration of Argos sales to 19%
- Argos Card mobile app
 - 1 million customers now registered
 - 60% of app users have switched to paperless statements
 - 40% of all payments made via the app



Bank

- Mortgages performing well - balances approaching £1bn
- Travel money sales up 16%
- Car and home insurance sales have doubled
 - >90% of customers are linked to a Nectar card



Summary

Solid first half performance



Grocery

Distinctive products; solid performance



General Merchandise

Outperforming on sales; margin mix effect



Clothing

Changing promotional phasing



Sainsbury's Bank

Growing customer numbers; profits in line with guidance



Q&A

J Sainsbury plc