



Preliminary Results

2018/19



Martin Scicluna
Chairman



Kevin O'Byrne
Chief Financial Officer

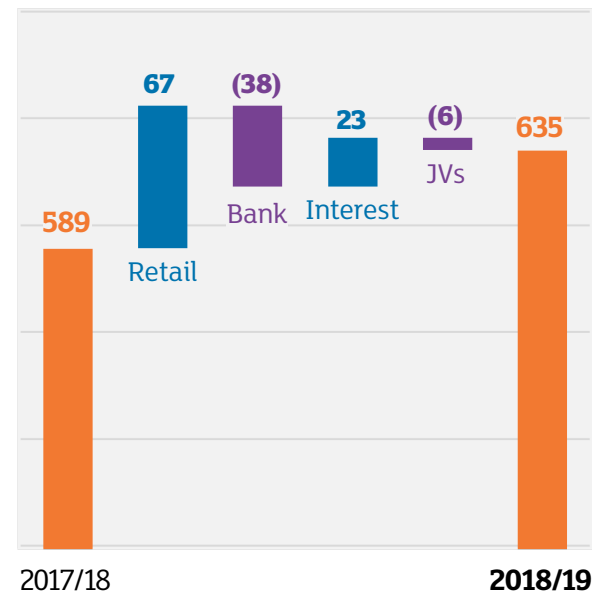
Financial overview

- UPBT up 8%
 - Synergy delivery, food performance, lower interest costs
- Delivered £220m cost savings
- Financial services profits down, in line with guidance
- £396m charges excluded from underlying profit
- Gross capex £554m
- Continued focus on cash generation; retail free cash flow £461m, up 7%
- Net debt £1,636m, ahead of guidance, down £222m since March 2018
- Full year dividend of 11.0p per share, up 8% year on year

Group performance overview

£m	2018/19	2017/18	Change
Underlying results			
Group sales (inc VAT)	32,412	31,735	▲ 2%
Retail operating profit	692	625	▲ 11%
Financial Services operating profit	31	69	▼ 55%
Underlying interest costs	(96)	(119)	▼ 19%
Underlying profit before tax	635	589	▲ 8%
Underlying basic EPS	22.0p	20.4p	▲ 8%
Retail free cash flow	461	432	▲ 7%
Dividend per share	11.0p	10.2p	▲ 8%
Net debt (including perpetuals)	(1,636)	(1,858)	▼ 12%
Statutory results			
Items excluded from underlying results	(396)	(180)	
Profit for the financial period after tax	219	309	▼ 29%

UPBT waterfall (£m)

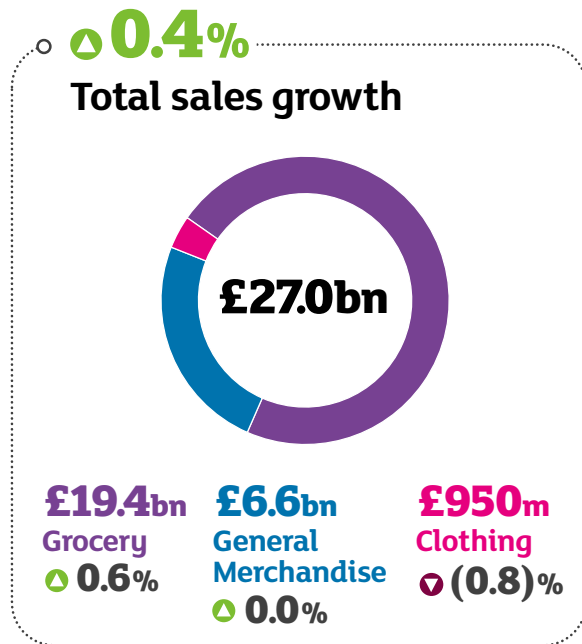


Retail sales

Strong convenience and online growth

▼ **(0.2)%**
LFL sales growth

▲ **0.6%**
Sales from
net new space



Channels

Supermarkets

▲ **1.0%**

Convenience

▲ **3.7%**

Groceries
Online

▲ **6.9%**

2019/20 FY Guidance

- Expect to open two new Sainsbury's supermarkets and around 10 convenience stores
- Expect to open around 10 Argos stores in supermarkets (of which three are relocations) resulting in around 290 Argos stores in supermarkets

Financial services

Profits in line with guidance

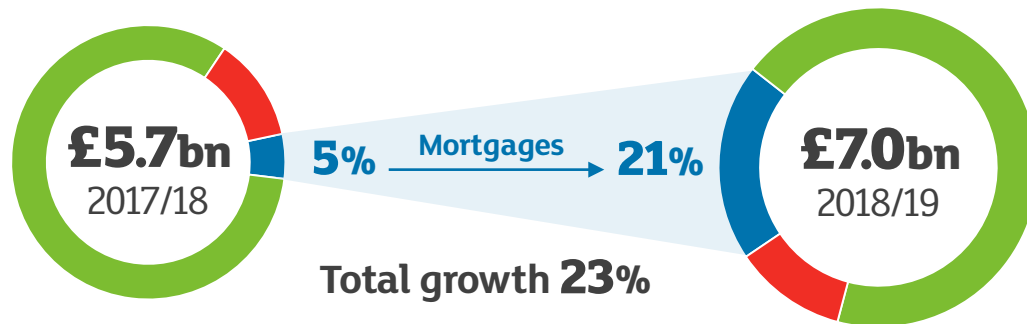
£m	2018/19	2017/18	Change
Total income	439	451	▼ 3%
Underlying operating profit	31	69	▼ 55%
Customer lending	£7.0bn	£5.7bn	▲ 23%
Customer deposits	£6.0bn	£5.0bn	▲ 19%
Active customers - Bank	2.02m	1.92m	▲ 5%
Active customers - Argos FS	2.06m	1.95m	▲ 6%
Cost/income ratio	71%	70%	▲ 100 bps
Net interest margin	3.8%	4.9%	▼ 110 bps
Bad debt as a percentage of lending	1.6%	1.3%	▲ 30 bps
CET 1 ratio	13.7%	14.1%	40 bps
Total capital ratio	16.7%	17.1%	40 bps

2019/20 FY Guidance

- Financial services underlying operating profit expected to be c.£45m, including a £10m benefit as a result of a change in transfer pricing between Argos and Argos Financial Services
- Transition costs are expected to be around £30m
- Capital injections into the Bank are expected to be £80m

Lending

Mortgage growth boosts secured lending proportion



Mortgages

- Strong growth of £1.1bn in year
- Conservative risk appetite
- LTV of new lending 61%, book 55%

Unsecured

- Selective growth
- Loans balances down slightly - focus on Nectar card holders with lower default rates

Argos cards

- Strong balance growth of 11% driven by an increase in Argos sales penetration
- Funding £1bn of Argos sales
- Average balance c.£400

Items excluded from underlying results¹

£m	2018/19	2017/18
Defined benefit pension expenses	(118)	(5)
Asda transaction costs	(46)	-
Argos integration costs	(40)	(85)
Sainsbury's Bank transition costs	(70)	(38)
Property related	(22)	12
Retail restructuring costs	(81)	(85)
Other items excluded from underlying results	(19)	21
Total	(396)	(180)

2019/20 FY Guidance

- In 2019/20 cash outflows as a result of items excluded from underlying results should not exceed £100m

Sainsbury's Bank

- Transition costs are expected to be around £30m

Retail capital expenditure

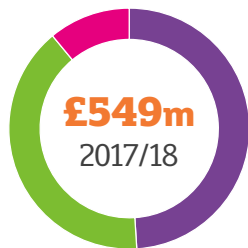
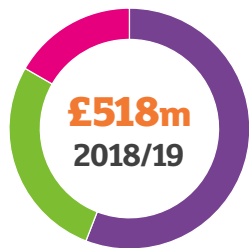
Disciplined spending

£m	2018/19	2017/18
Core retail capital expenditure	518	549
Argos integration capex	36	80
Gross retail capital expenditure	554	629
Proceeds on disposal	(64)	(54)
Net retail capital expenditure	490	575

2019/20 FY Guidance

- Gross retail capital expenditure to be around £550m
- Proceeds from disposal of property are expected to be in line with 2018/19
- Gross retail capital expenditure is expected to be around £550m per annum over the medium term

Core retail capital expenditure



- Maintenance
- Growth
- Efficiency

Retail free cash flow

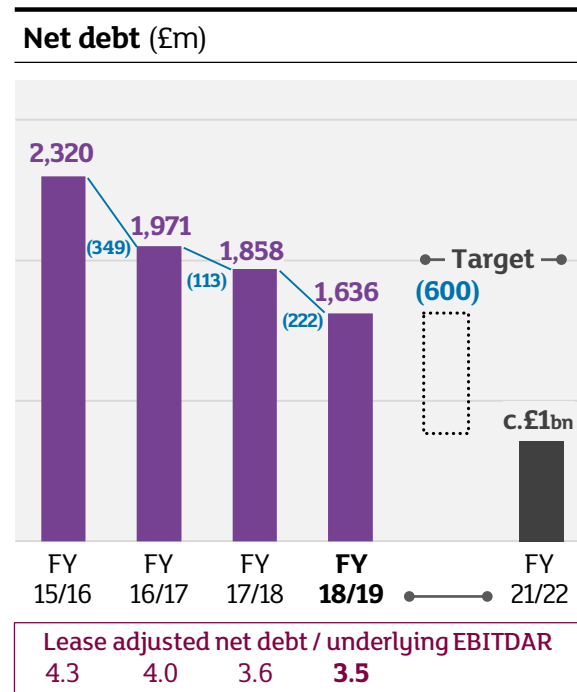
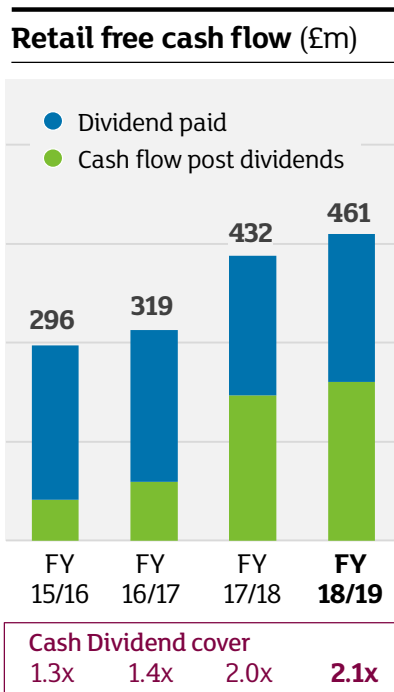
£m	2018/19	2017/18
Adjusted operating cash flow before changes in working capital	1,264	1,193
(Increase)/decrease in working capital	(45)	196
Cash generated from operations	1,219	1,389
Pension contribution, net interest paid, corporation tax paid	(213)	(307)
Net cash generated from operating activities	1,006	1,082
Cash capital expenditure before strategic capex	(512)	(542)
Proceeds from disposal of property, plant and equipment	64	54
Bank capital injections	(110)	(190)
Dividends and distributions received from JVs, net of capital injections	13	28
Retail free cash flow	461	432
Dividends paid on ordinary shares	(224)	(212)
Argos integration	(36)	(80)
Other	(8)	133
Other non-cash and net interest movements	(31)	(37)
Movement in net debt before fair value movements on derivatives	162	236
Fair value movements on derivatives	60	(123)
Movement in net debt	222	113
Opening net debt including perpetual securities as debt	(1,858)	(1,971)
Closing net debt including perpetual securities as debt	(1,636)	(1,858)

2019/20 FY Guidance

- Capital injections into the Bank are expected to be £80m
- Expect underlying retail depreciation and amortisation of around £720m
- Net debt before fair value movements on derivatives to reduce by at least £200m
- Finance costs in line with 2018/19

Balance sheet targets

- Net debt reduction of at least £600m over the next three years
- Medium leverage reduction targets
 - Lease adjusted net debt/EBITDAR less than 3x
 - Fixed charge cover greater than 3x



IFRS 16 update

- Fully retrospective transition approach
- No impact on cash or how we run the business
- Opening impacts to 2017/18 balance sheet
 - Recognise lease liability £5.9bn
 - Recognise right of use asset £5.1bn
 - Retained earnings adjustment £0.9bn
 - De-recognition of other balance sheet items £0.1bn
- No impact on leverage
 - IFRS 16 net debt to EBITDAR expected to be in line with previously disclosed lease adjusted levels
- Estimated reduction in 2018/19 underlying UPBT of c.£30m, smaller reduction in outer years

Next steps

- During Q2: Pro forma H1 2018/19 and FY 2018/19 key financial statements
- November 2019: Interim results prepared under IFRS 16 basis

Summary and Outlook

Good progress

- Underlying profits up 8%
- Retail free cash flow up 7%
- Net debt reduction ahead of target

Outlook

- Net debt reduction of at least £600m over the next three years
- Increased investment in core supermarket estate



Mike Coupe
Group Chief Executive

Our strategy



Sainsbury's
live well for less

608
Supermarkets

820
Locals

c.£1.5bn
Online sales

c.£2.8bn
Convenience sales

Argos

1,200
Argos points of presence

58%
Sales start online

3rd
Most visited ecommerce website in the UK

nectar

habitat 

Sainsbury's Bank

Tu

Our strategy

Priorities

As shopping habits continues to evolve, we are updating our strategic priorities

1

Differentiate food and grocery through **quality, value** and **service**

2

Grow **General Merchandise and Clothing**

3

Offer our customers **easy access to financial services**

4

Generate **efficiencies to invest in our digital future**

5

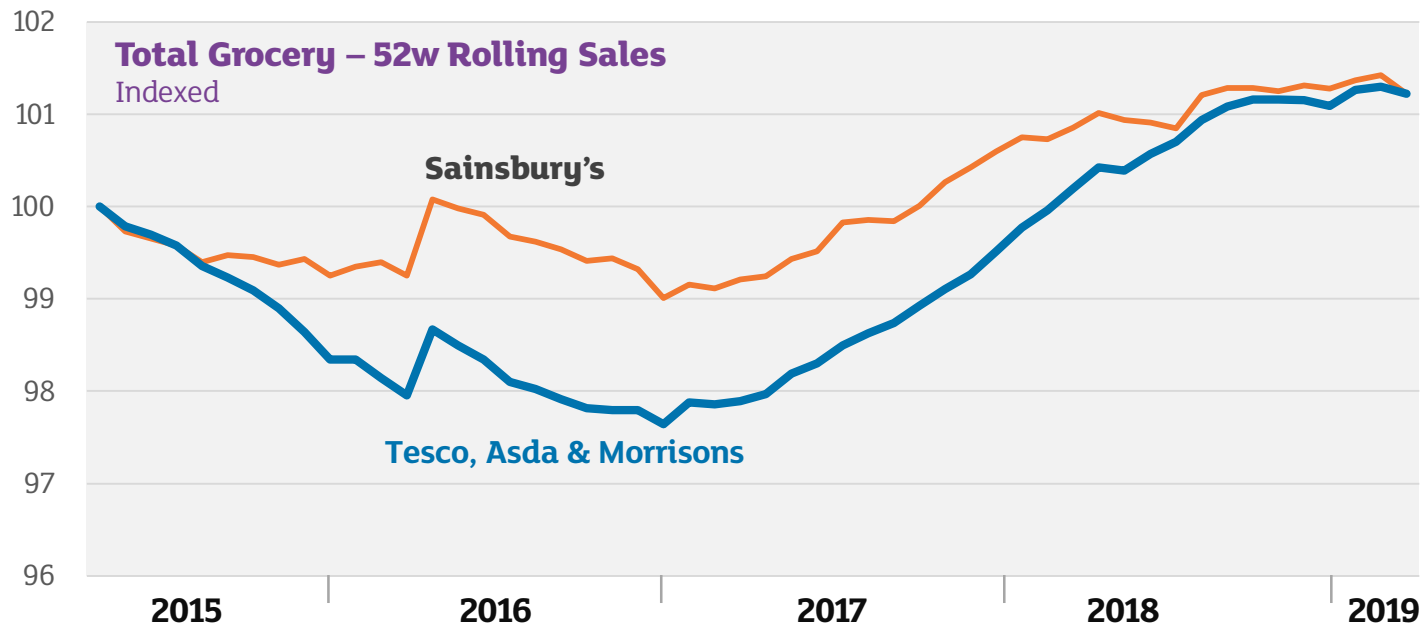
Strengthen the balance sheet

1

Differentiate
food and
grocery through
quality,
value and
service

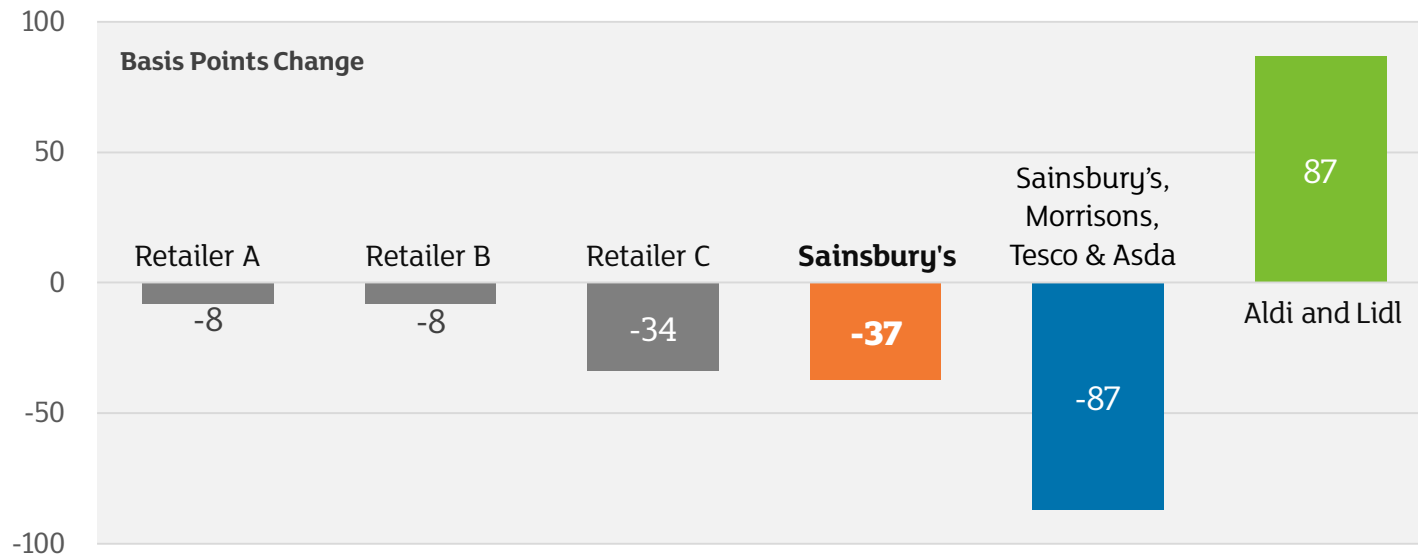


Resilient sales performance



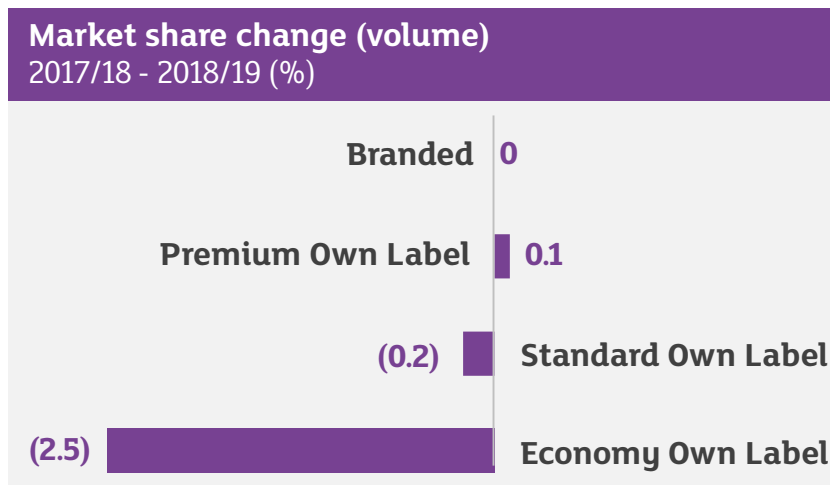
Source: Nielsen Panel, Rolling 52 we 9 March 2019

Kantar market share 1 year



Source: Kantar Worldpanel, Till Roll, 52 we 24 Feb 2019

Market share performance by product tier



Source: Nielsen Panel, Total FMCG, Market universe; Total Outlets, 52 weeks data to 9 March 2019

Product quality framework

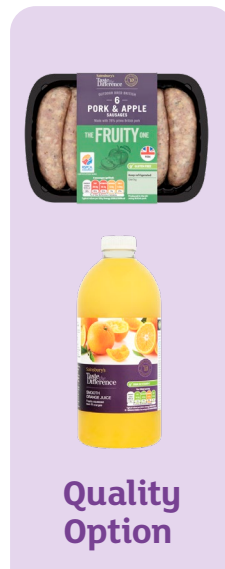
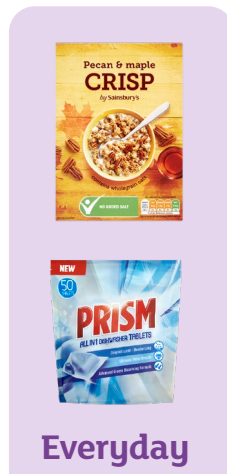
Continue to invest in quality and price where valued most by customers

1

Differentiate food and grocery through **quality, value** and **service**

Deliver distinctive and exclusive products

▲
Importance of Emotional Quality



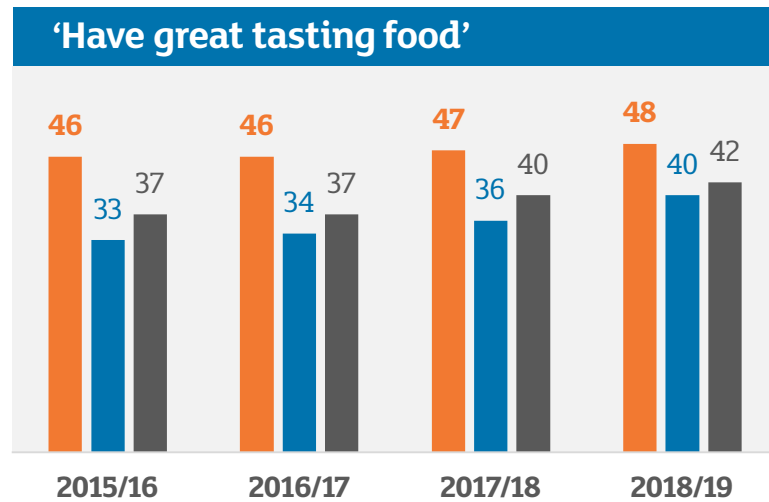
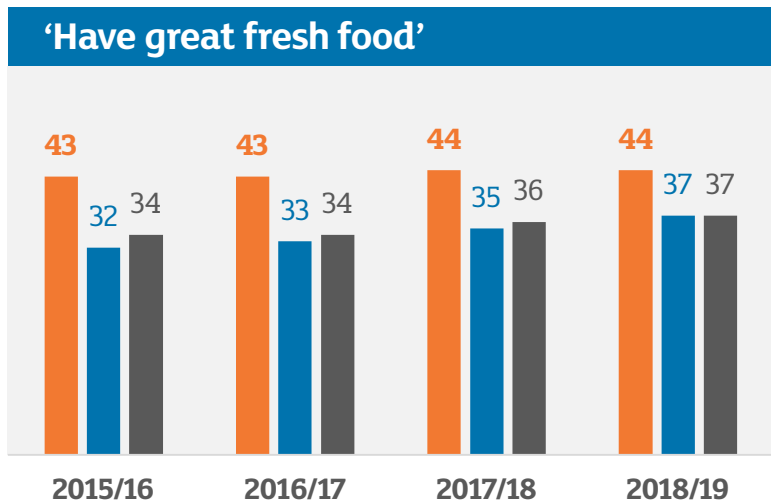
▶ Importance of Functional Quality

Food quality perceptions

1

Differentiate food and grocery through **quality, value and service**

Deliver distinctive and exclusive products



● Sainsbury's ● Core competitor average ● Competitor average

Source: Sainsbury's Brand Tracker

Base Per period – Total sample (c.1,000) Shopper profile weighted to Nielsen

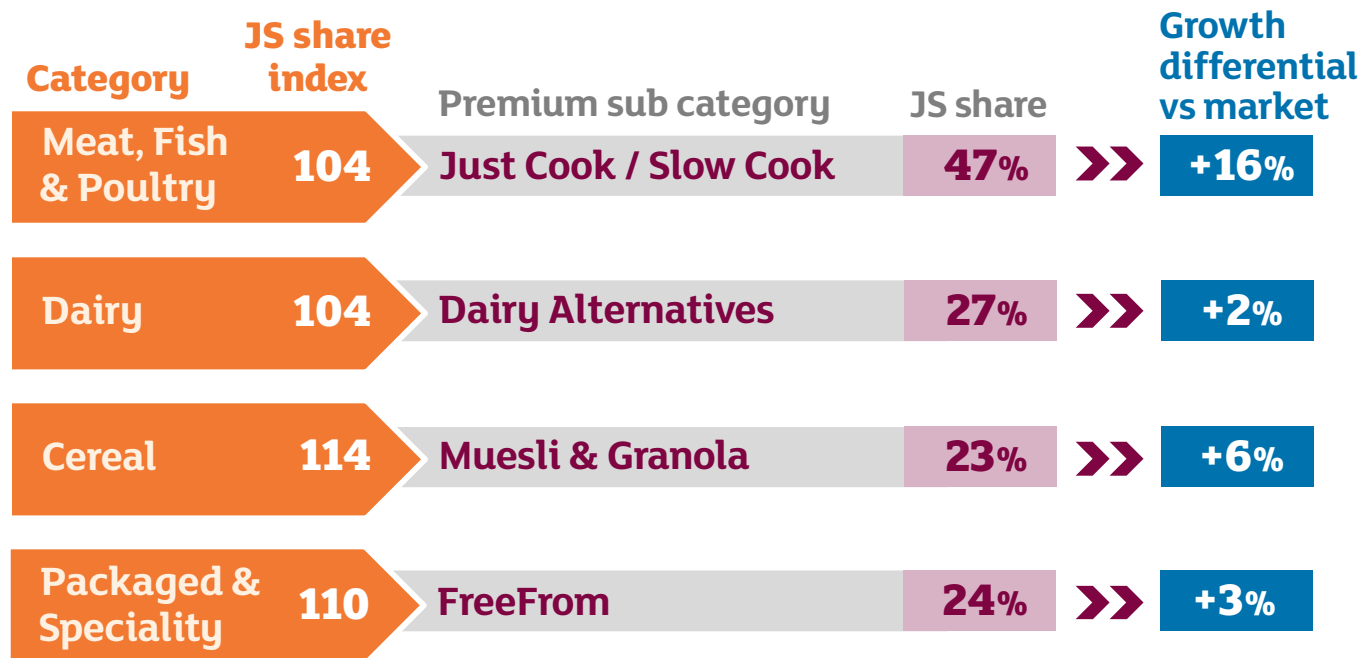
Q10 Thinking about the following supermarket brands, which supermarkets do you think... [tick all that apply]

Core competitor average: Tesco, Asda, Morrisons, Aldi & Lidl

Competitor average: Tesco, Asda, Morrisons, Aldi, Lidl, Waitrose & M&S

Outperformance in premium products

Driving ASP and strengthening margin mix advantage



1

Differentiate food and grocery through **quality, value** and **service**

Deliver distinctive and exclusive products

Source: Nielsen EPOS Data Market Universe: Grocery Multiples, 52 wks data to we 9 March 2019

Quality

Market leading quality at competitive prices

Taste the Difference

- £1.2bn brand
- 2% volume and value growth

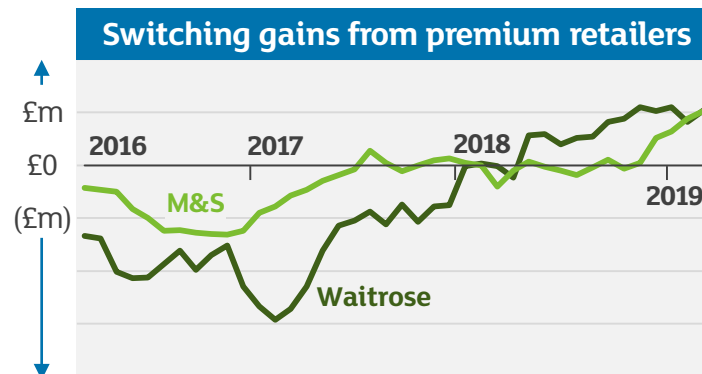
Owned brands

- Boutique cosmetics
- Sales +80% since 2018 relaunch
- Winning with a younger demographic



Distinctive brands

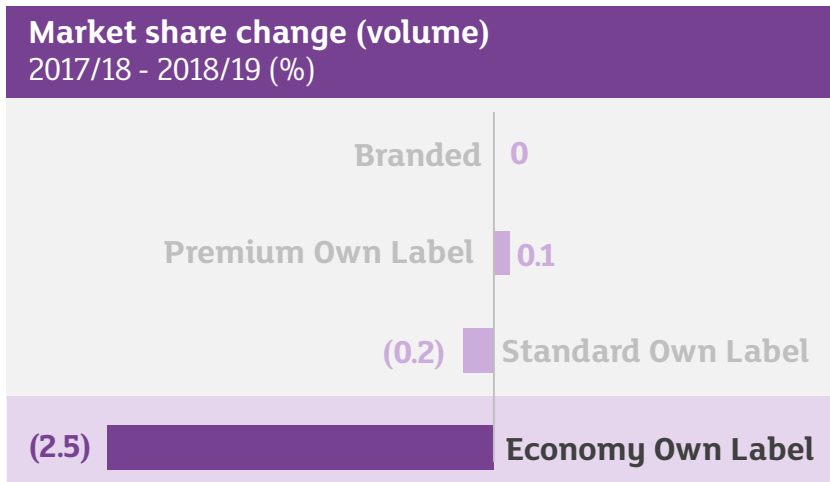
- 126 Distinctive Brands now in stores
- c.£130m annualised sales
- Exclusive, highly incremental (>50%)



Source: Kantar Total FMCG, 52we 24 February 2019

Value

Entry price point



Source: Nielsen Panel, Total FMCG, Market universe; Total Outlets, 52 weeks data to 9 March 2019

J. JAMES
— & FAMILY —

Case study

Two new breaded chicken products

- 30% of volume from new customers to the category
- 50% from customers switching down from standard products
- Total breaded chicken sales up 9%
- Volume and profits both up double digit
- Products over-index with “value for money” shopper group



1

Differentiate food and grocery through **quality, value and service**

Be competitive on commodity product

Supermarkets

800,000 sq ft repurposed in the last four years

Investing in stores

- Tailored, targeted investment
- Significant step-up in 2019/20
 - Investing in 400+ supermarkets
 - New format, concession or upgrade

Serving new customer missions

- Beauty trials
 - 8 stores live, sales +40%
 - Roll out to at least 90 stores in 2018/19
- Wellness aisles
- Food service investments
- Integrated general merchandise and clothing

YoY Sales per sq ft Change 2017/18 - 2018/19 (%)



1

Differentiate food and grocery through **quality, value** and **service**

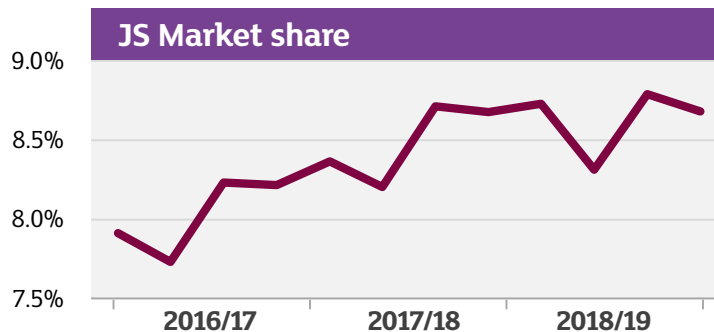
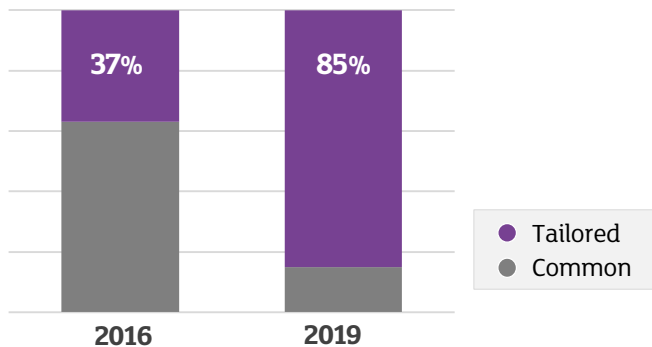
Serve new food and grocery mission

Channels

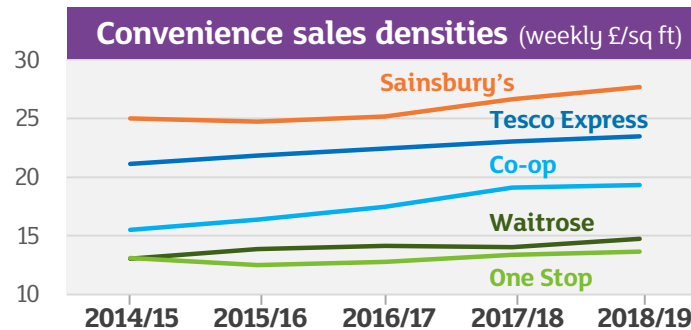
Convenience

- Advantaged store estate
- Market-leading sales densities
- 2 year capital light programme resetting range, space and pricing
 - Driving strong LfL and market outperformance
 - Sales growth of 3.7%

Tailoring ranges to local needs



Source: Nielsen EPOS Convenience Total Business, Quarterly data to Q4 18/19, Units



Source: IGD

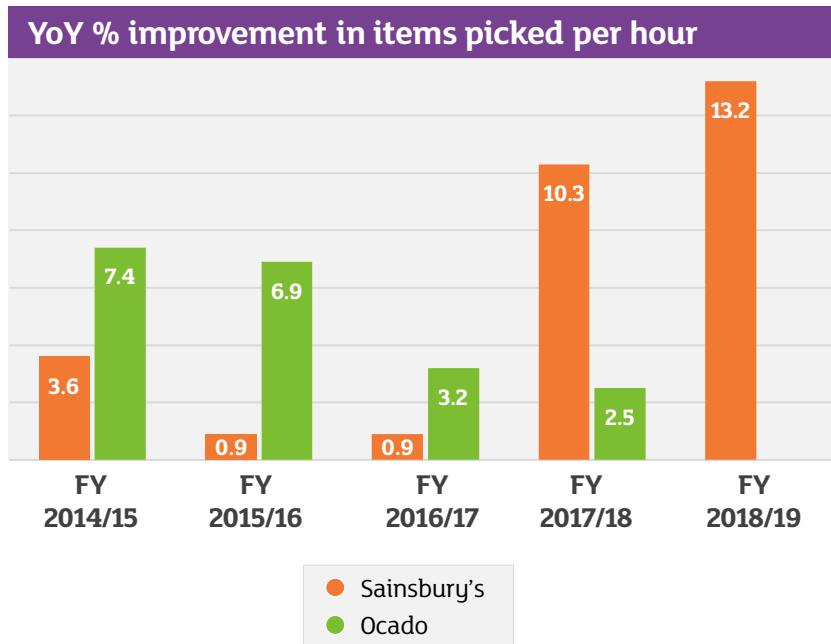
Channels

Groceries online

- Sales growth of 6.9%
- Same day delivery now covers nearly 60% UK of households
- GOL app accounts for over 20% of orders

Improving productivity

- Over the last five years:
 - 32% improvement in pick rate
 - Total cost per order 9% lower
 - Delivery cost down
 - Labour cost down despite wage inflation



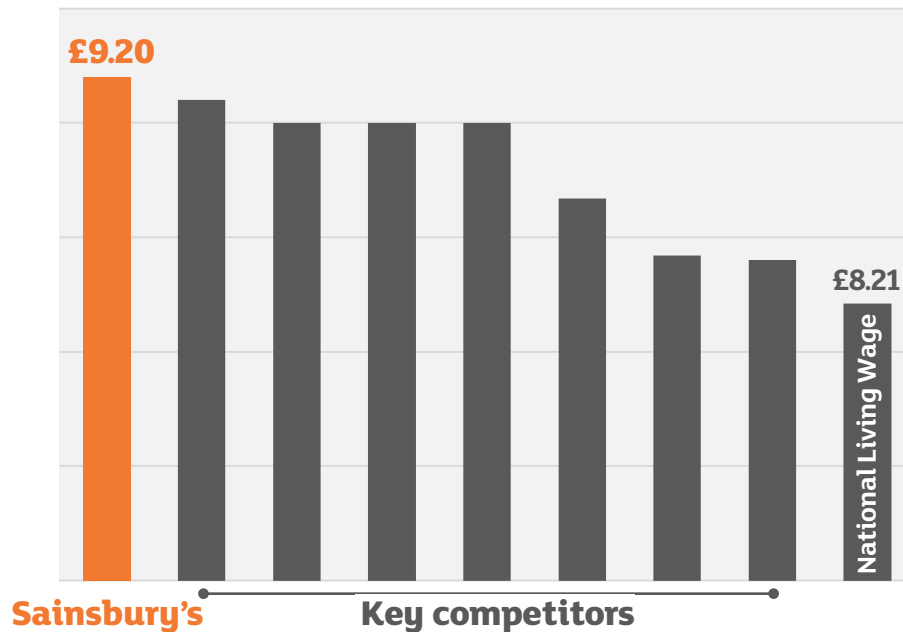
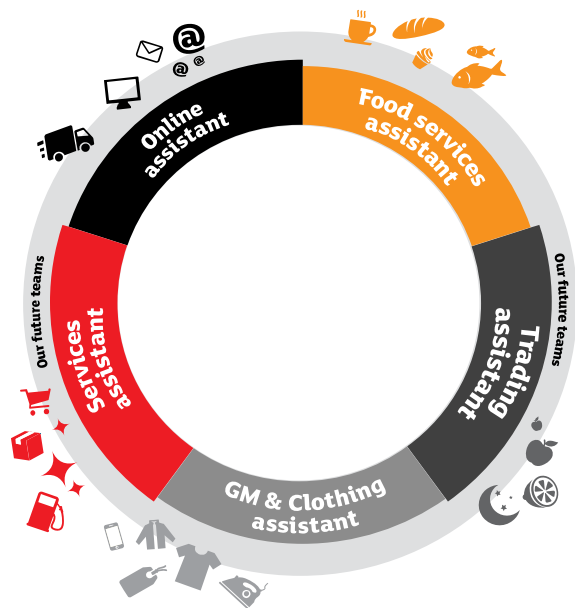
Colleagues making the difference

Changing the in-store operating model

1

Differentiate food and grocery through **quality, value and service**

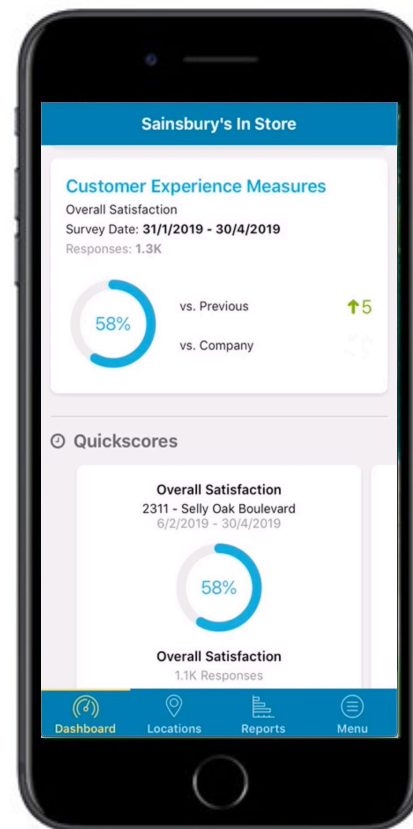
Colleagues making the difference



Future fit

Reset our in-store operating model

- Lower cost to lead
- Customer-focused leadership teams
- More flexible, simple structures
- Strong levels of colleague and leader engagement
- Lettuce Know
 - Real time, detailed customer feedback on in store service
 - 1 million points of customer feedback since November
 - Replaces single monthly mystery shopper visit



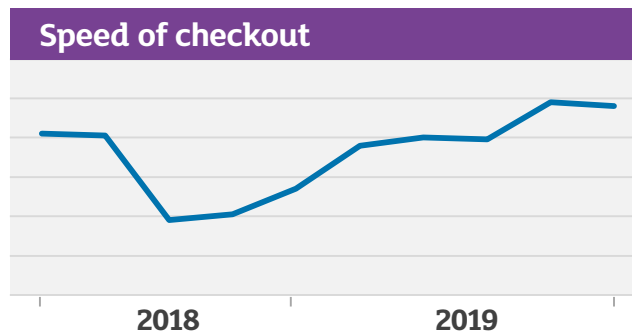
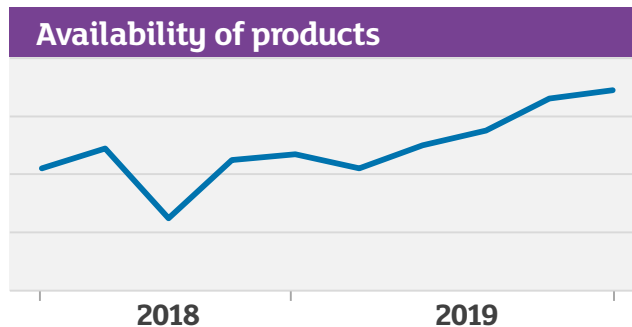
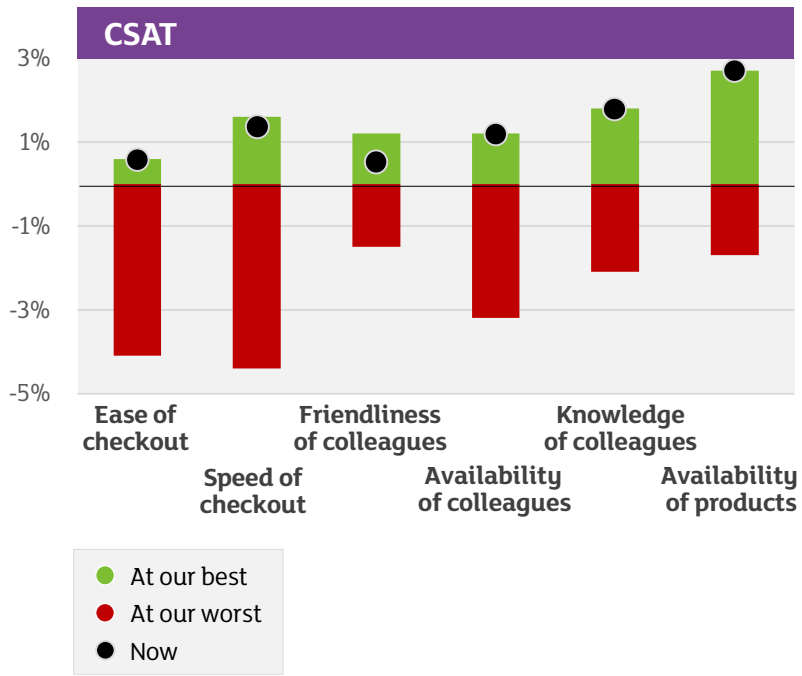
1

Differentiate food and grocery through **quality, value and service**

Colleagues making the difference

Customer service

Customers are telling us we are improving



Source: Lettuce Know customer satisfaction programme, date range: August 2018 – April 2019.

Our values make us different

2018/19 progress on our 2020 commitments includes

Living healthier lives

78% of our own brand products are labelled with Green and amber traffic lights

Sourcing with integrity

Winner of the Marine Stewardship Council's UK Supermarket of the Year for the fifth year

Respect for our environment

100 million+ items sold with reduced or zero plastic packaging through design changes, with further reductions in the pipeline

Making a positive difference to our community

Great place to work

150 Sainsbury's
Est. 1869

Colleagues will be getting out into their local community to make a difference to the causes that matter most to them – building on what our business has done since its founding in 1869

And there will be celebrations in store for customers to get involved with too



Summary

1

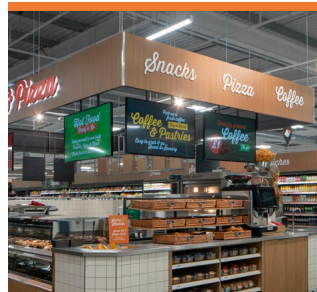
Differentiate food and grocery through **quality, value and service**



Be competitive
on commodity product



Deliver distinctive and exclusive products



Serve **new food and grocery missions**



Consistent experience
across channels



Colleagues make the difference
with personal service

2

Grow

General Merchandise and Clothing



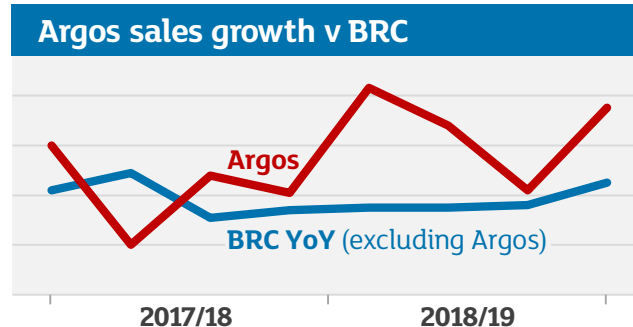
General Merchandise

Strong Argos performance, Sainsbury's ranging optimised

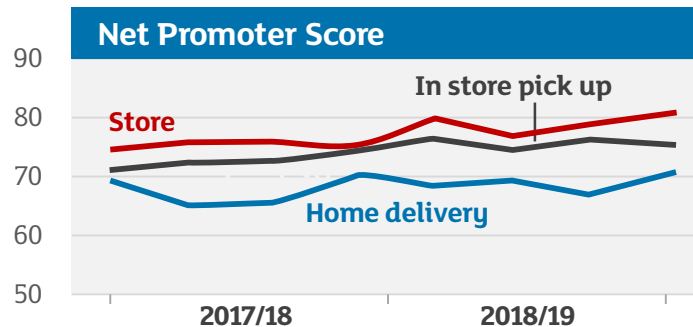
- Strong Argos sales performance in a weak market
 - Electricals, Toys, Leisure & Nursery strong
 - Home and Furniture challenging
- Sainsbury's General Merchandise sales down
 - Replacing space with Argos stores
 - Rebalancing ranges away from lower margin products

Argos

- Improved availability
 - Breadth of choice immediately versus depth
 - More range available immediately across the estate
- Growth in customer satisfaction scores
 - Up to 8th from 46th in the ICS Index



Source: Argos v BRC non-food non-clothing market, 52 weeks to 9 March 2019



Source: Net promoter score

Argos

Enhancing the customer proposition

Range

- Argos master range reduced by 26%
 - Eliminating duplication, removing low value items
- Leveraging group assets
 - 4,000 lines now common across Sainsbury's and Argos

Technology

- 476 digital stores
- Pay @ Browse in 162 stores
- Visual search, voice enabled shopping

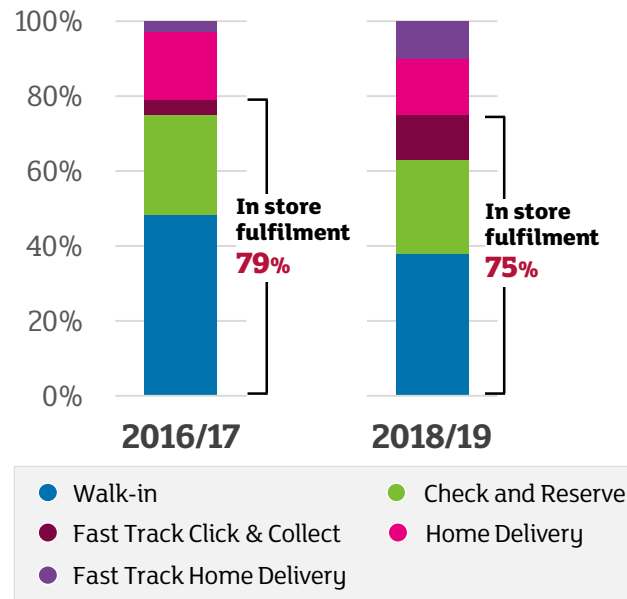


Continued transformation of the store estate

1200 Argos points of presence

	At acquisition		FY 18/19	
Argos stores	823	-221	602	-27%
Argos in Sainsbury's	13	+268	281	
Total Argos stores	836	+47	883	+6%
Collection points	3	+314	317	
Total Argos points of presence	839	+361	1,200	+43%

Argos fulfilment by channel



Clothing

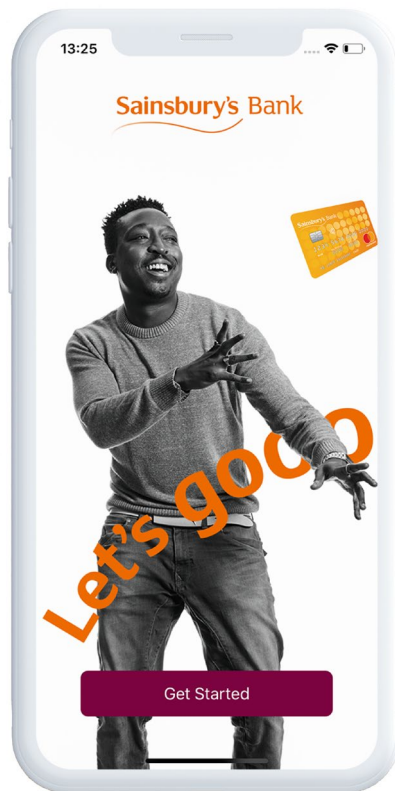
Strong full price sales growth

- Gaining market share
- Strong online growth
 - Launch of *Tu@Argos*
- Full price sales growth 12%
 - 20% fewer promotion days year on year
 - total sales down 0.8%



3

Offer our customers
easy access
to financial
services



Financial services

Offer Sainsbury's and Argos customers easy access to financial services

- Well positioned
 - Customer data
 - Group value from integrated proposition
- Technology helping our customers manage their money better
 - Apps for Argos store card, credit card, car and home insurance
- Capital light income growth; travel money, insurance, cards and ATMs

Mortgages

Simple, flexible and with great shopping rewards too

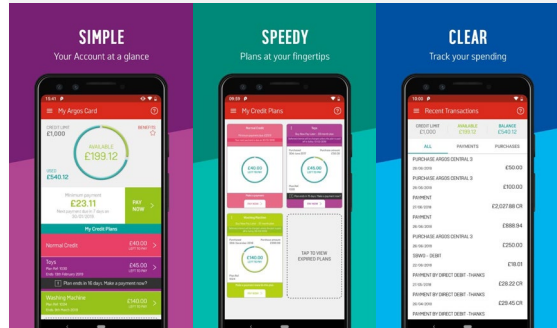


Bliss



Argos storecard app

- Over 1.2m registered customers
- Digital statements launched July with 0.6m active customers
- 45% of all repayments



4

Generate efficiencies to invest in our digital future



Generating efficiencies

Reducing operating costs to invest in our customer proposition

£220m of cost savings delivered in 2018/19

- Labour
- Marketing
- Digital & Technology
- Logistics

Further opportunities; bringing our businesses closer together

- Delivering cost savings, making us more effective

Digital

Investing in our digital proposition

SmartShop

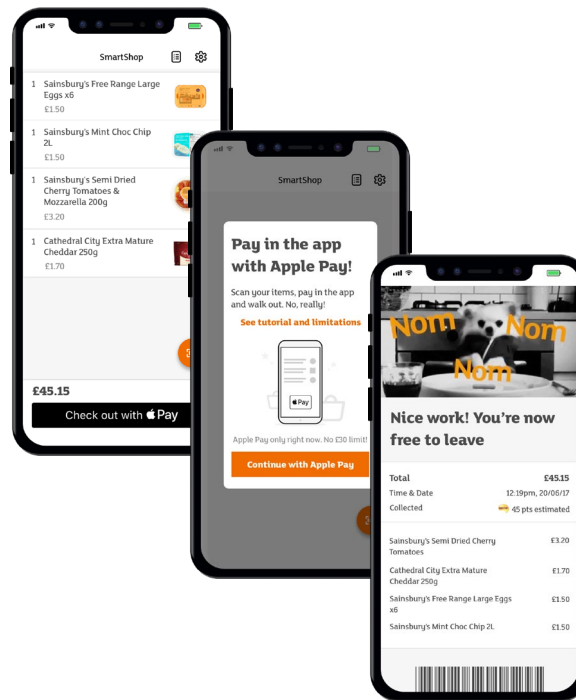
- SmartShop in over 100 stores
- Now rolling out nationally
- Mobile pay in 8 convenience stores
- Scaling across the country over the next year

Argos

- Pay @ Browse in 162 stores
- 650 digital stores by the end of 19/20

Unique depth of customer data

- Single sign on
- 33m unique customer records
- Nectar allows incentivisation across the Group

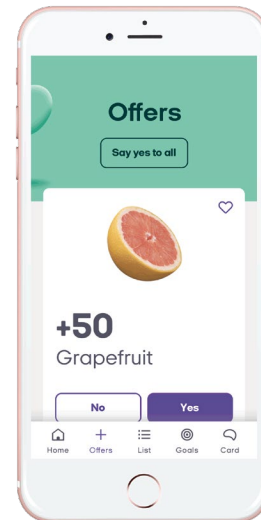


Nectar

We know our customers better than anyone else

Nectar

- Biggest loyalty programme in the UK
- 18.5 million collectors
- Most recognised loyalty brand in the UK
- App base 1.2 million regular users +8% YoY
- Digitalisation trial in Wales – personalised rewards; roll out planned
- 5 major partners re-signed, new partners joined through the year, including
 - Esso
 - Lloyds Pharmacy
 - EE
 - Europcar



5

Strengthen the balance sheet

98 Financial Statements

J Sainsbury plc Annual Report 2019

Consolidated balance sheet

At 9 March 2019 and 10 March 2018

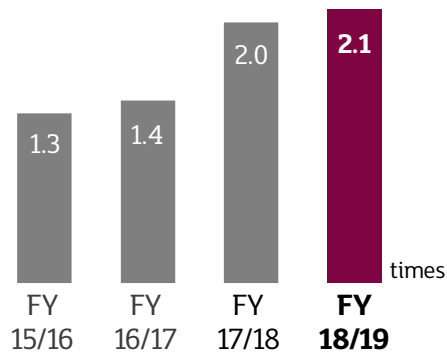
	Note	2019 £m	2018 £m
Non-current assets			
Property, plant and equipment			9,898
Intangible assets		1,044	1,072
Investments in joint ventures and associates		205	232
Financial assets at fair value through other comprehensive income		645	540
Other receivables		33	44
Amounts due from Financial Services customers		3,349	2,332
Derivative financial instruments		9	17
Net retirement benefit surplus		959	-
		15,952	14,135
Current assets			
Inventories			1,810
Trade and other receivables		1,929	744
Amounts due from Financial Services customers		661	3,360
Financial assets at fair value through other comprehensive income		3,638	203
Derivative financial instruments		211	10
Cash and cash equivalents		21	1,730
		1,121	7,857
Assets held for sale		7,581	9
		8	7,866
		7,589	22,001
Total assets		23,541	22,001

Strengthening the balance sheet

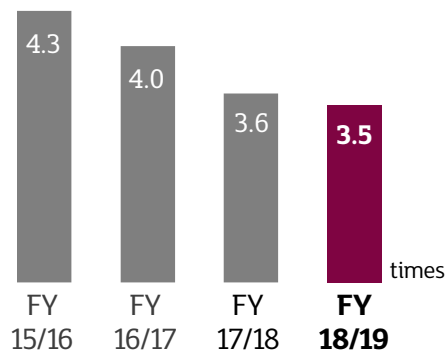
Stronger dividend coverage, reduced leverage

- Net debt reduction of at least £600m over the next three years
- Strong cash dividend cover
- Accelerating disciplined, targeted investment in core supermarket estate

Improving cash dividend cover



Reduced leverage



**Lease adjusted net debt /
underlying EBITDAR**
(Rolling 52 weeks)

Summary

1

Differentiate food and grocery through **quality, value** and **service**

2

Grow **General Merchandise and Clothing**

3

Offer our customers **easy access to financial services**

4

Generate **efficiencies to invest in our digital future**

5

Strengthen the balance sheet

150 Sainsbury's

Est. 1869



Q&A

J Sainsbury plc