

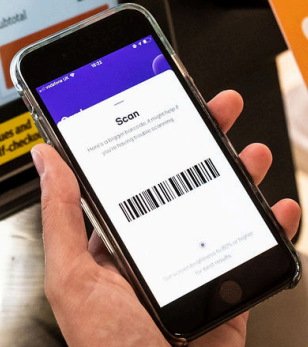
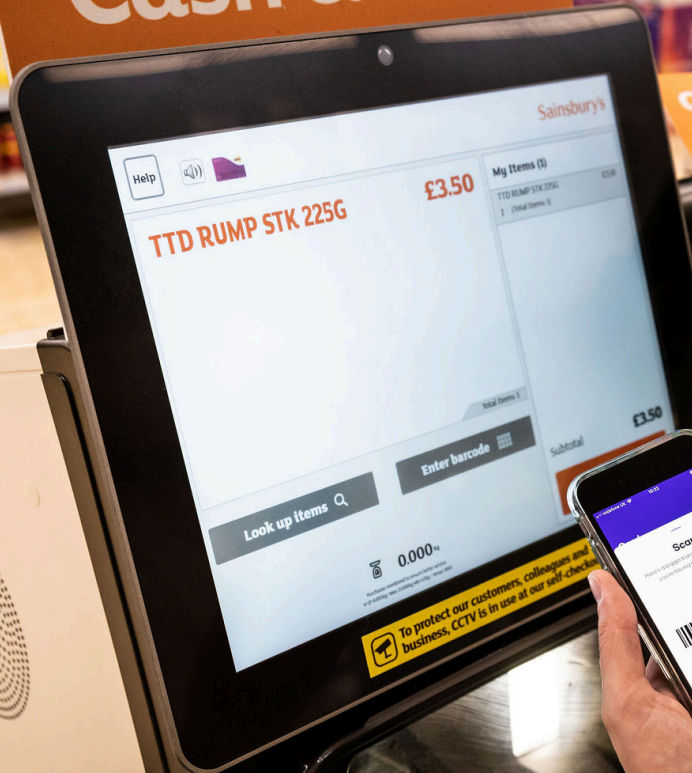


J Sainsbury plc

## Interim Results 2019/20

# Cash & card

J Sainsbury plc



**Kevin O'Byrne**  
Chief Financial Officer

# Financial overview

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- First period reporting on an inc. IFRS 16 basis
  - Material impacts on depreciation, finance costs and net debt
- UPBT £238m (H1 2018/19 £279m)
  - Phasing of cost savings, weather, higher marketing costs
  - Delivering on our cost ambitions
- Financial services profits up £4m. Modest underlying decline offset by change in transfer pricing
- £229m charges excluded from underlying profit
  - Largely non-cash relating to property strategy programme
- Strong retail free cash flow generation of £698m
- New longer term asset-backed pension plan agreed
- Interim dividend of 3.3p, +6%

# Group performance overview

£m	H1 2019/20	H1 2018/19	Change
<b>Underlying results</b>			
Group sales (inc VAT)	16,856	16,884	▼ 0.2%
Retail operating profit	437	487	▼ 10%
Financial Services operating profit	20	16	▲ 25%
Underlying interest costs	(219)	(228)	▲ 4%
Underlying profit before tax	238	279	▼ 15%
Underlying basic EPS	7.9p	9.4p	▼ 16%
Dividend per share	3.3p	3.1p	▲ 6%
<b>Statutory results</b>			
Items excluded from underlying results	(229)	(172)	▼ 33%
Profit for the financial period before tax	9	107	▼ 92%
Basic EPS	(2.2)p	5.1p	n/a

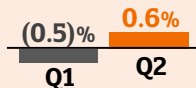
# Retail sales

**(1.0)%**  
LFL sales growth

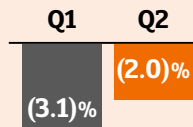
**0.4%**  
New space

**(0.6)%**  
Total sales growth

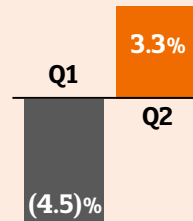
## Grocery



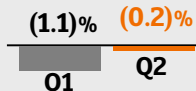
## General Merchandise



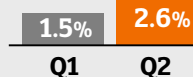
## Clothing



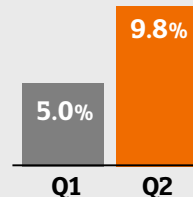
## Supermarkets



## Convenience



## Groceries Online

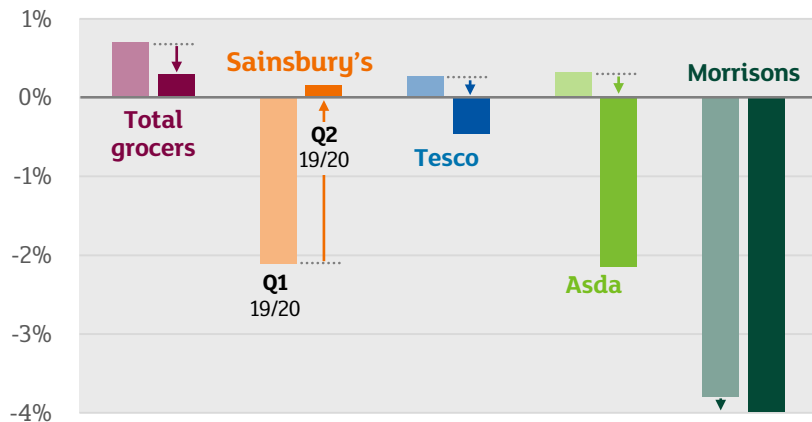


### 2019/20 FY Guidance

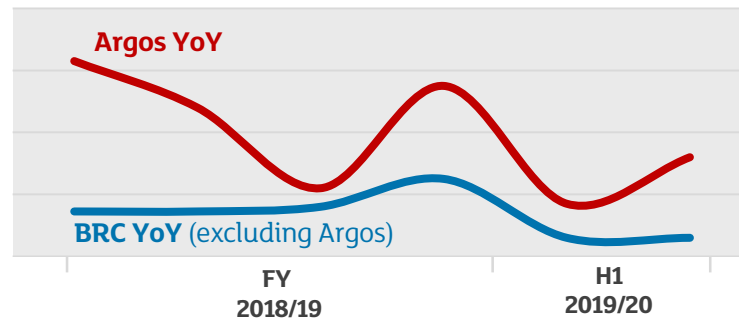
- Expect to open 2 new Sainsbury's supermarkets and up to 15 convenience stores
- Expect to open around 25 Argos stores in Sainsbury's (of which 11 are relocations) resulting in around 305 Argos stores in supermarkets
- Expect to close 2 supermarkets, around 25 convenience stores and around 20 Argos stores in FY2019/20, as part of announced property closure programme of 10-15 supermarkets, 30-40 convenience stores and 60-70 Argos stores

# Sales performance versus market

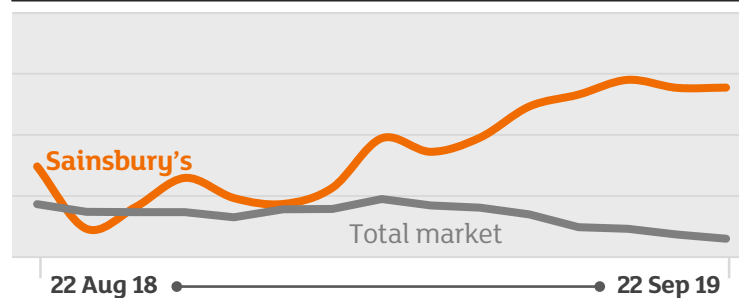
## GROCERY: Volume growth



## ARGOS: Sales growth v BRC



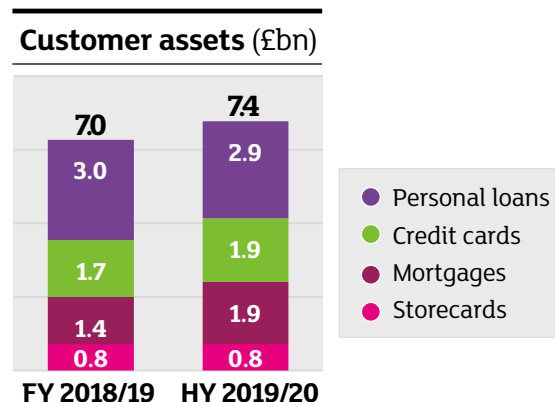
## CLOTHING: Value Growth (%YOY)



# Financial services

## Transfer pricing benefit, FY guidance unchanged

£m	H1 2019/20	H1 2018/19	Change
Total income	227	226	▲ 0%
Underlying operating profit	20	16	▲ 25%
Customer lending	£74bn	£6.2bn	▲ 19%
Customer deposits	£6.6bn	£5.6bn	▲ 18%
Active customers - Bank	2.10m	1.95m	▲ 8%
Active customers - Argos FS	2.20m	2.10m	▲ 5%
Cost/income ratio	70%	71%	▼ 100 bps
Net interest margin	3.5%	4.0%	▼ 50 bps
Bad debt as a percentage of lending	1.3%	1.6%	▼ 30 bps
CET 1 ratio	13.7%	12.7%	100 bps
Total capital ratio	16.7%	15.7%	100 bps



### 2019/20 FY Guidance

- Financial services underlying operating profit expected to be c.£45m, including a c.£10m benefit as a result of a change in transfer pricing between Argos and Argos Financial Services
- Financial Services non-underlying costs are expected to be around £30m
- No further capital injections into the Bank are expected, following £35m in H1 2019/20

# Financial services

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<b>Metrics inc. AFS £m</b>	<b>H1 2019/20</b>	<b>H1 2018/19</b>	<b>Change</b>
Total Financial Services UPBT	<b>30</b>	31	<b>▼ 3%</b>
Cost/income ratio	<b>67%</b>	66%	<b>▲ 100 bps</b>
ROCE <sup>2</sup>	<b>5.9%</b>	6.3%	<b>▼ 40 bps</b>



# Items excluded from underlying results

<b>£m</b>	<b>H1 2019/20</b>	<b>H1 2018/19</b>
Property strategy programme	<b>(203)</b>	-
Retail restructuring programme	<b>(25)</b>	(69)
Financial Services transition and other	<b>(15)</b>	(40)
Argos integration costs	-	(25)
Asda transaction costs	-	(17)
Other	<b>14</b>	(21)
<b>Total</b>	<b>(229)</b>	(172)

## 2019/20 FY Guidance

- In 2019/20 cash outflows as a result of items excluded from underlying results should not exceed £100m
- Property strategy programme one-off costs expected to be £230m-£270m (of which £30m-£40m cash)

## Sainsbury's Bank

- Financial Services non-underlying costs are expected to be around £30m

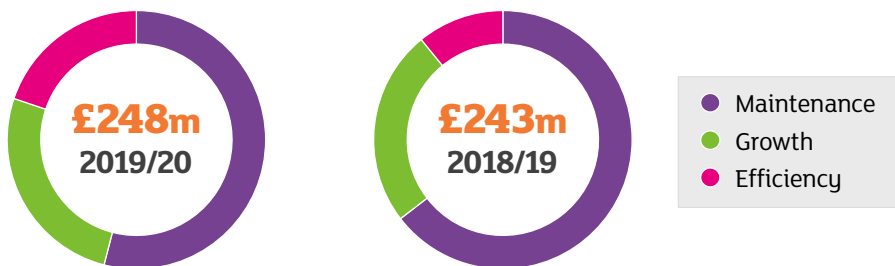
# Retail capital expenditure

£m	H1 2019/20	H1 2018/19
Core retail capital expenditure	248	243
Argos integration capex	-	31
Retail capital expenditure	248	274

## 2019/20 FY Guidance

- Retail capital expenditure to be around £550m
- Retail capital expenditure is expected to be around £550m-£600m per annum over the medium term

## Core retail capital expenditure



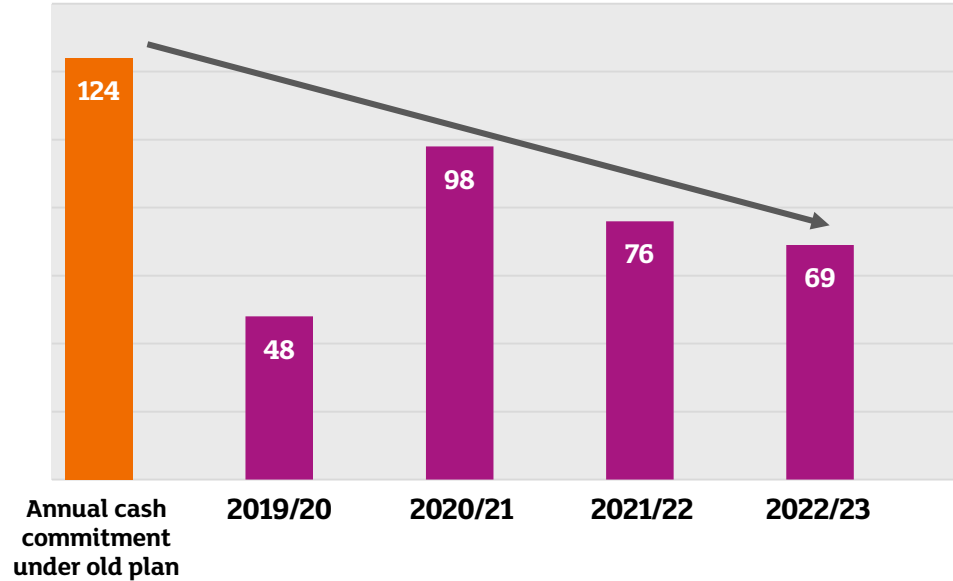
# Pensions

## Agreed long term sustainable and flexible funding plan

### Outcome

- 2018 triennial valuation deficit down to £538m, from £1,055m in 2015
- Greater asset-backed security for the Scheme
- Immediate cash payments reduced
- Reduced risk of over funding and trapped cash

### Annual cash contribution reduces by c.£50m



# Retail free cash flow

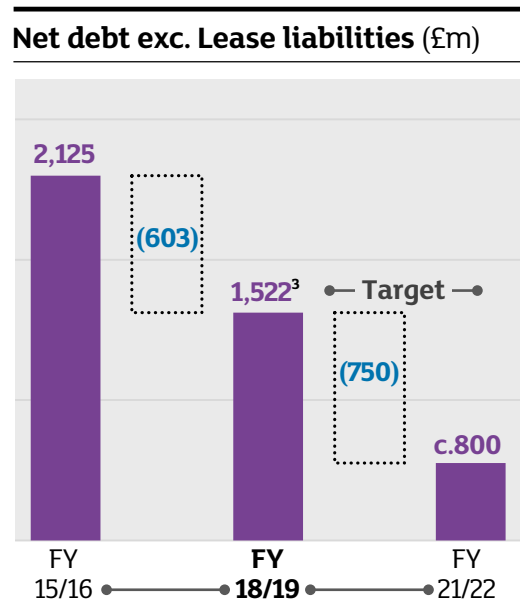
<b>£m – Restated for IFRS 16</b>	<b>H1 2019/20</b>	<b>H1 2018/19 Restated</b>
<b>Adjusted operating cash flow before changes in working capital</b>	<b>1,034</b>	<b>1,029</b>
Decrease in working capital	289	296
Pension contribution, net interest paid, corporation tax paid	(282)	(279)
<b>Net cash generated from operating activities</b>	<b>1,041</b>	<b>1,046</b>
Cash capital expenditure before strategic capex	(248)	(243)
Proceeds from disposal of property, plant and equipment	54	34
Repayments of lease obligations and right-of-use assets direct costs	(232)	(231)
Bank capital injections	(35)	-
Dividends and distributions received from JVs, net of capital injections	118	11
<b>Retail free cash flow</b>	<b>698</b>	<b>617</b>
Dividends paid on ordinary shares	(174)	(156)
Argos integration capital expenditure	-	(31)
Repayment of borrowings, other non-cash and net interest movements	44	-
<b>Movement in net debt</b>	<b>568</b>	<b>430</b>
<b>Opening net debt including perpetual securities as debt</b>	<b>(7,346)</b>	<b>(7,575)</b>
<b>Closing net debt including perpetual securities as debt</b>	<b>(6,778)</b>	<b>(7,145)</b>
<b>Of which:</b>		
<b>Lease Liabilities</b>	<b>(5,770)</b>	<b>(5,873)</b>
<b>Net Debt excluding Lease Liabilities</b>	<b>(1,008)</b>	<b>(1,272)</b>

## 2019/20 FY Guidance

- Capital injections into the Bank are expected to be £35m
- Proceeds from disposal of property are expected to be in line with 2018/19
- Expect underlying retail depreciation and amortisation of around £1.2bn, including c.£500m right of use asset depreciation
- Net debt before fair value movements on derivatives to reduce by at least £300m
- Net finance costs of around £405m, including £320m lease interest in 2019/20, following the introduction of IFRS 16

# Balance sheet targets

- Net debt reduction of at least £750m over the next three years
- Medium leverage reduction targets
  - Net debt/EBITDAR less than 3x
- Dividend policy changed to 1.9x underlying eps cover versus 2.0x
  - Adjusting for the impact of IFRS 16



£m	H1 2019/20	FY 2018/19
Net Debt	(6,778)	(7,346)
Of which lease liabilities	(5,770)	(5,824)
Net Debt exc. leases	(1,008)	(1,522)

# Summary and Outlook

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- Grocery sales improving relative to the market
- General Merchandise and Clothing outperforming a difficult market
- H1 profits down
  - Phasing of cost savings, weather, higher marketing costs
- H2 profits will benefit from
  - Annualisation of colleague wage increases
  - Normalisation of weather comparatives and marketing costs
- Material impact of property strategy programme exceptionals (largely non-cash)
- Strong free cash flow generation
- On track to deliver non-lease net debt reduction of at least £750m over the next three years



J Sainsbury plc

**Mike Coupe**  
Chief Executive Officer

# Key industry challenges

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**Low to no  
market growth**



**Growth of the  
discounters**



**Digitisation**





# We will help our customers live well for less

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# Our strategy



1

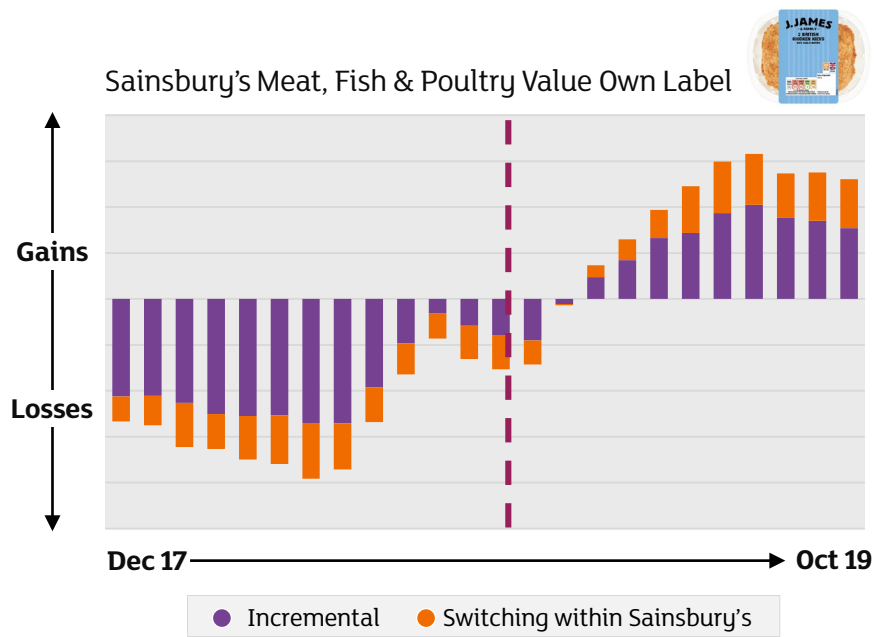
Be  
competitive  
on price



# Value brand investment

1  
Be competitive on price

120+ EPP SKUs launched in H1, 200 by end 2019/20



Bread: Investing across Own Label Tiers

New  
Repackaged and NPD within Premium

New  
NPD within Core+.  
Responding in Growth Areas

Improved  
Repackaged Core by Sainsbury's

Improved  
New Owned Brand Replacing Basics



+2% Sales  
+4% Volume

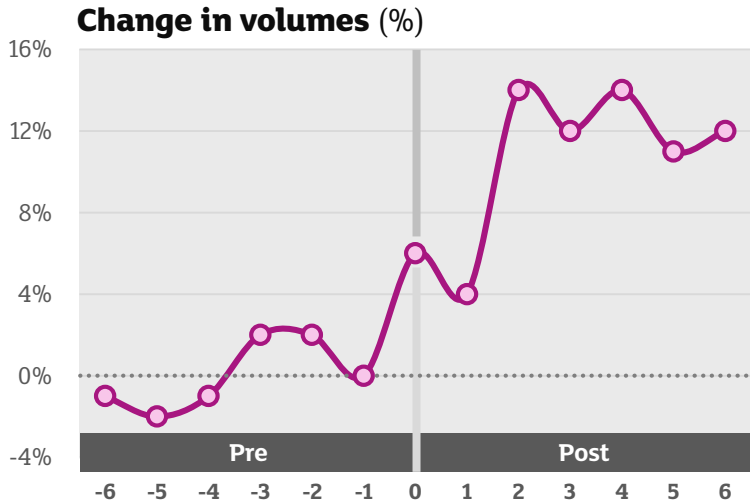
# Lower prices on key volume lines

1  
Be competitive on price

## In-Store



## Volume Returns



## Examples

**Chicken Wings 1kg**  
**+12% Volume**



**Chestnut Mushrooms 250g**  
**+45% Volume**

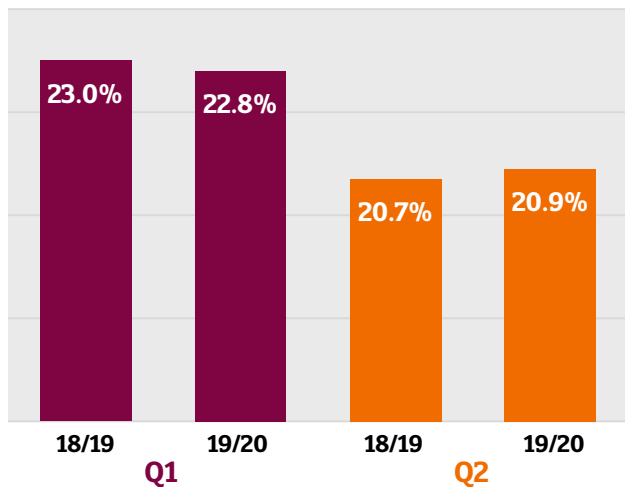


**White Pittas x6**  
**+15% Volume**

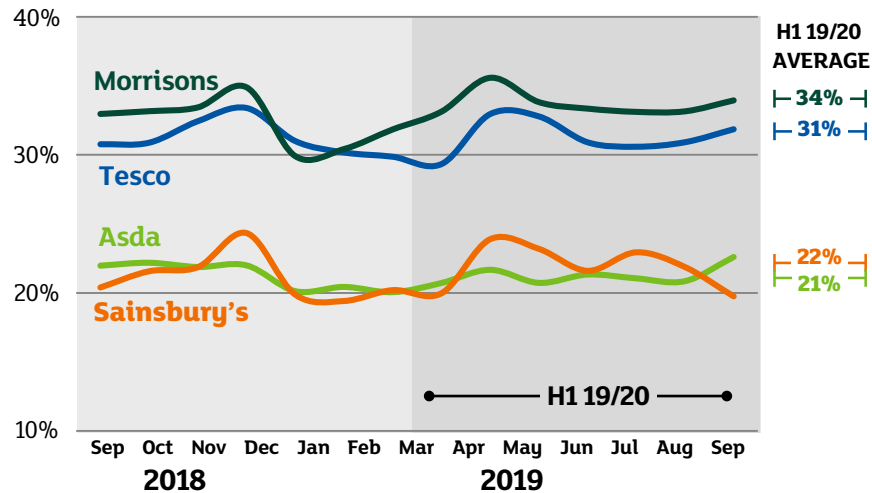


# We continue to be less dependent on promotions

## Sainsbury's Promotional Participation



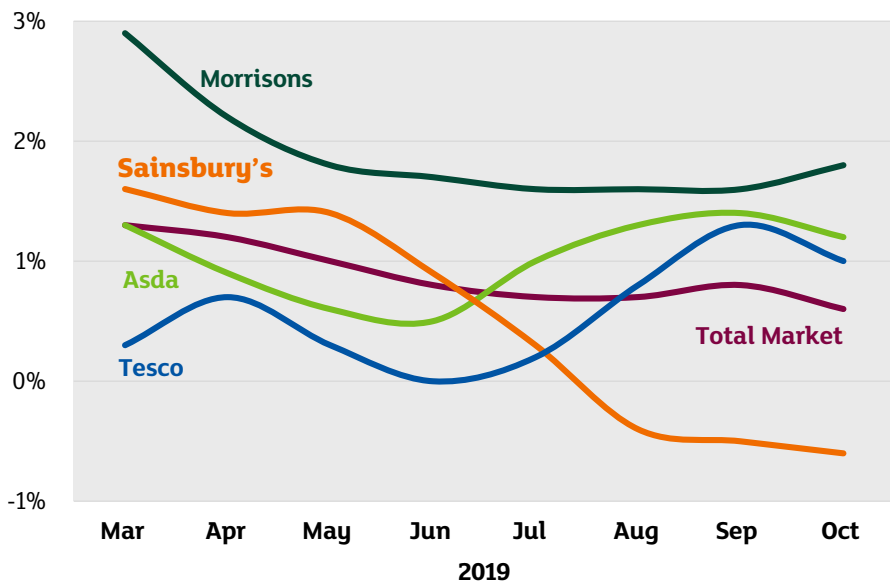
## Spend on Deal



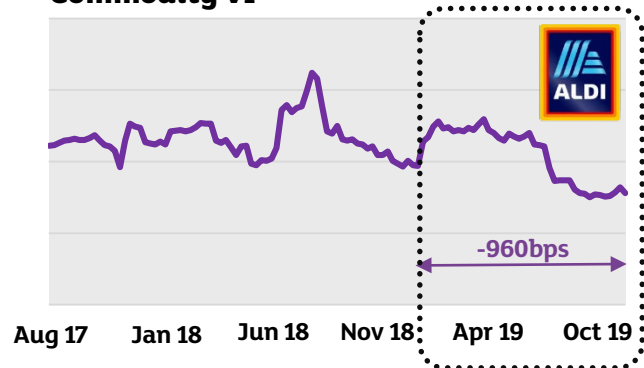
# Improved grocery value

1  
Be competitive on price

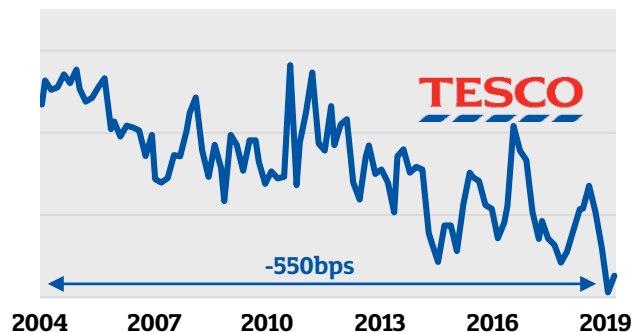
## Grocery inflation (Kantar)



## Commodity VI



## Base Price Index



2

Offer distinctive products and new categories



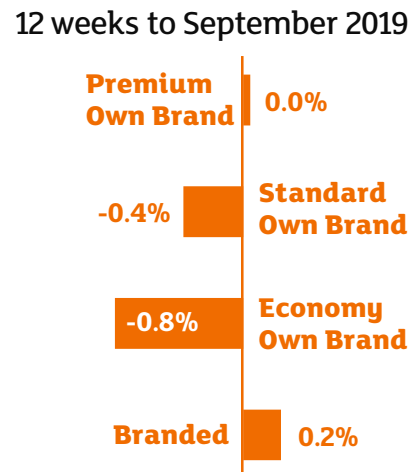
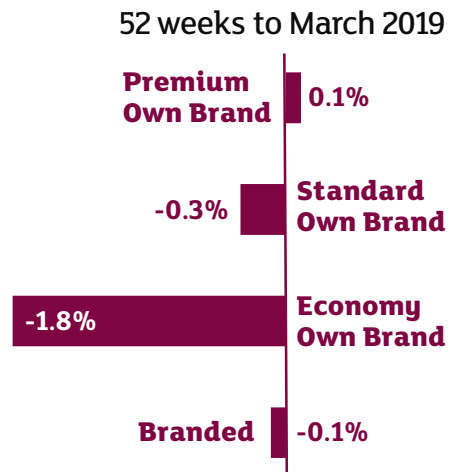


# Category tier performance

2

Offer distinctive products and new categories

## YoY value share change by tier

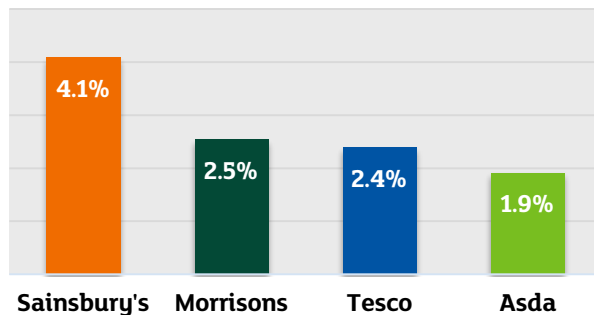


# Premium private label

## Taste the Difference re-launch

- Over 350 products new, repackaged or reformulated
- Premium ready meals growth now outperforming the market

## Premium Own Label volume share



# Distinctive brands

2

Offer distinctive products and new categories

- 57% of customers have bought Distinctive Brands since launch
- On track for £100m incremental sales
- 37 new brands in H1 across Fresh and Grocery
- 'Taste of the Future' bays launched in 70 stores
  - 67% incremental sales

## Leon

- 3 year exclusive partnership
- 14 products launched



# Beauty Rollout

2

Offer distinctive products and new categories

- Now rolled out to over 60 stores
  - Sales up over 40%
- Customer numbers up 7%
- Spend per customer up 25%
- Beauty range doubled, 1,200 additional lines
- Double digit growth differential against the market



# Our values make us different

## UK's first major retailer to make significant commitment to reduce plastic

- Committed to reduce plastic packaging by 50% by 2025
- First retailer to remove single use plastic produce and bakery bags from our stores
  - Launching reusable bags in fruit and veg aisles
- Investing in our loose produce offer
- Removed black plastic trays from ready meals
- Fresh water stands in cafés for customers to refill bottles



# Argos category and range focus

2

Offer distinctive products and new categories

- Availability improvement
  - Argos master range reduced by c.30% over 3 years
  - Eliminating duplication, removing low value items
  - Better availability of key lines in store
- Rebalancing into higher margin categories
  - Gaining share in Furniture
  - Higher quality lines introduced
  - Increase in weekend delivery slots
  - Changing customer perceptions



# Clothing

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2

Offer distinctive products and new categories

- Strong market share gains
- Tu online
  - Sales +52%
  - 800,000+ new customers, +31% YoY
- Margin rate improvement
  - Better buying and markdown management
- ‘Work It’ campaign
  - New seasonal, high quality value-led work wear ranges



3

Make shopping convenient, supported by great service

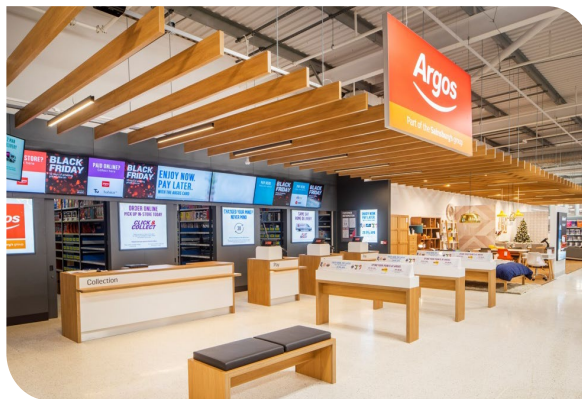




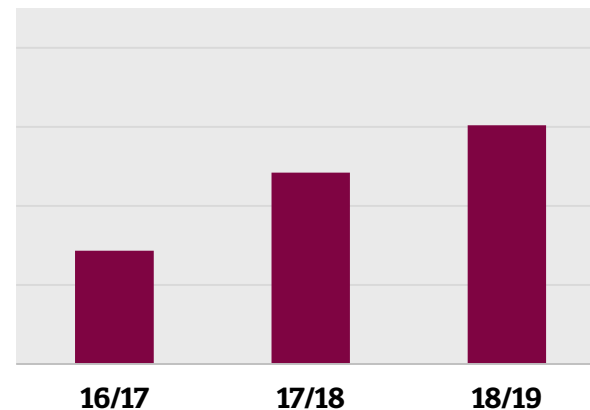
# Channels: Supermarkets

## Investing in stores

- Over 870,000 sq ft space repurposed since FY 2014/15
- Tailored, targeted investment
- Significant step-up in 2019/20
  - Investing in 450+ supermarkets
  - 172 delivered in H1



## Supermarkets Trading intensity



# Store investments driving customer satisfaction

## Checkout experience

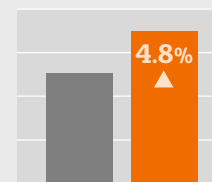
### Smartshop:

- 200+ handset stores
  - average sales participation c.15%
  - best stores >25%
- 160+ app-only (hybrid) stores

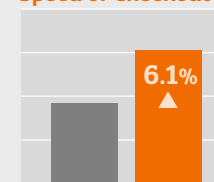
### Self checkouts:

- 2,600+ upgrades
- 10% improvement in speed

### Ease of Checkout



### Speed of Checkout

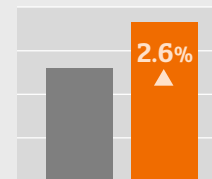


## Availability of products

### Connected colleagues

- Technology driving efficiency and availability
- Replenishment + stock apps

### Availability of products

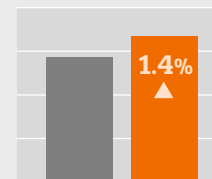


## Core investment

### Store fabric upgrades

- 70 stores in H1
- 250 by year end

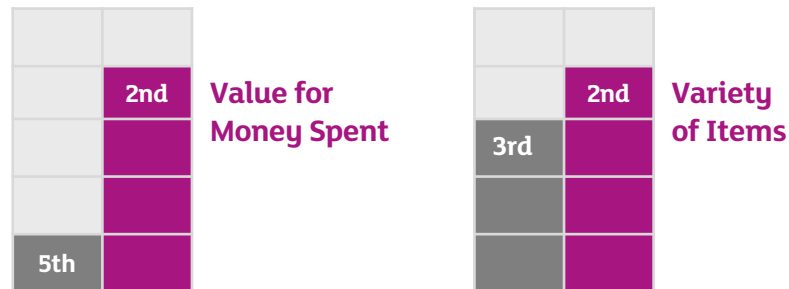
### Overall satisfaction in core investment stores



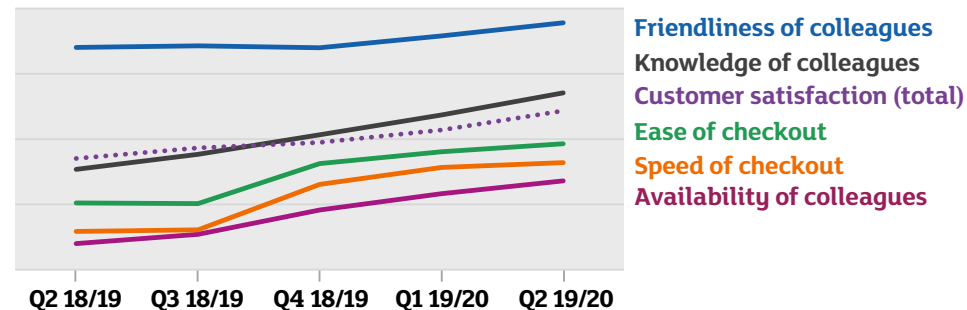
# Channels: Convenience

- 2 year capital light programme resetting range, space and pricing
  - 158 stores reset in H1
  - On track to deliver 200 in FY19/20
  - Around 15% SKUs standard to each store
- Upgraded Self Checkouts in 69 Convenience stores
  - Improved customer satisfaction
  - Ease of checkout up 7% YoY
  - Speed of checkout up 6% YoY

## Improved perceptions vs competitors



## Strong and improving customer satisfaction

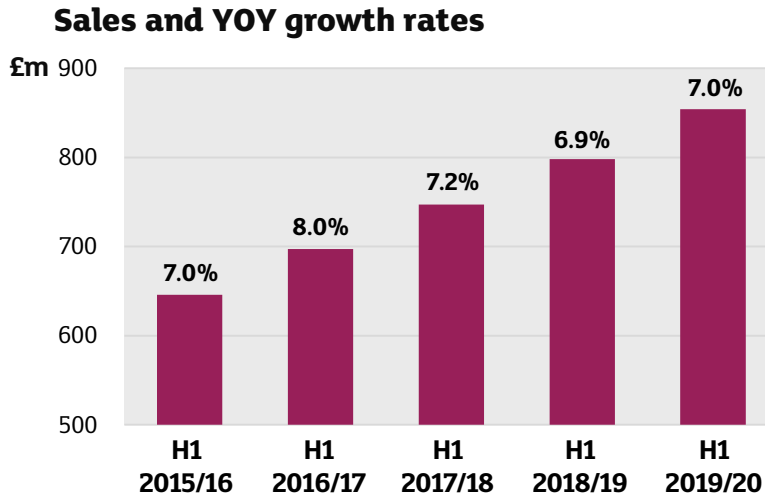


# Channels: Groceries Online

3

Make shopping convenient, supported by great service

- Sales growth 7%
- Same day delivery now covers nearly 60% of UK households
- Groceries Online app accounts for over 20% of orders
- Extended delivery slots
- Bagless deliveries

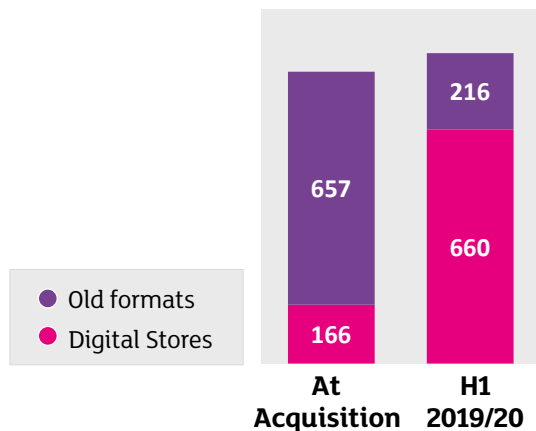


# Channels: Argos

Make shopping convenient, supported by great service

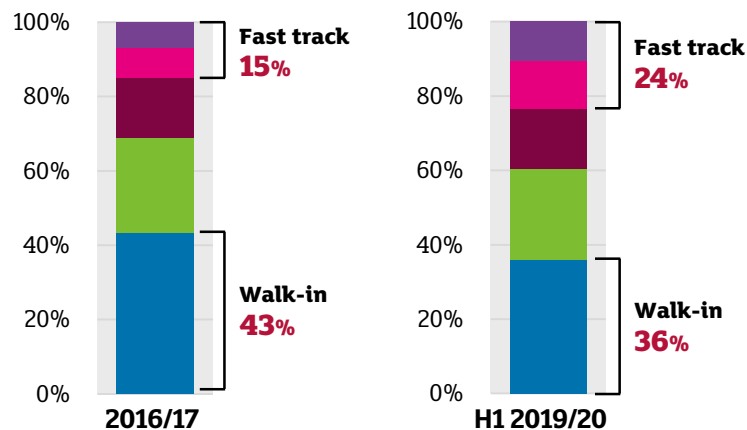
## Digital store investments

- 176 Digital conversions and 15 full store refreshes in H1
- Majority of remaining stores to be converted to digital in H2
- Pay @ Browse in 362 stores versus 162 at year end



## Strong Fast Track growth

- Fast Track collection growth 14% YoY
- Fast Track delivery growth 5% YoY



- Walk-in
- Check and Reserve
- Home Delivery
- Fast Track Click & Collect
- Fast Track Home Delivery

4

Drive  
efficiency  
to invest in  
the customer  
offer



# Product Quality Framework helps us fund investment

4

Drive efficiency to invest in the customer offer

**PQF activity to date covers**

**49%**  
of food volume



**Reduced SKU count**  
operational efficiencies



**Increased sales/volume intensity**  
operational efficiencies



**Improved Value Index**  
more competitive



**More distinctive range**  
more reason to shop at Sainsbury's



**Cash gross profit +3.5%**

# PQF cereals case study



**Reduced SKU count: -20%**  
operational efficiencies



**More distinctive range**  
more reason to shop at Sainsbury's



**Improved Value Index: >100bps**  
more competitive



**Volumes: +8%**  
operational efficiencies



**Higher cash gross profit: +2% YOY**



# BAU savings to offset cost inflation

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4

Drive efficiency to invest in the customer offer

**BAU savings  
H1 2019/20**

**Manages inflationary pressures**

**Procurement  
GNFR**

**Retail  
Technology  
Efficiencies**

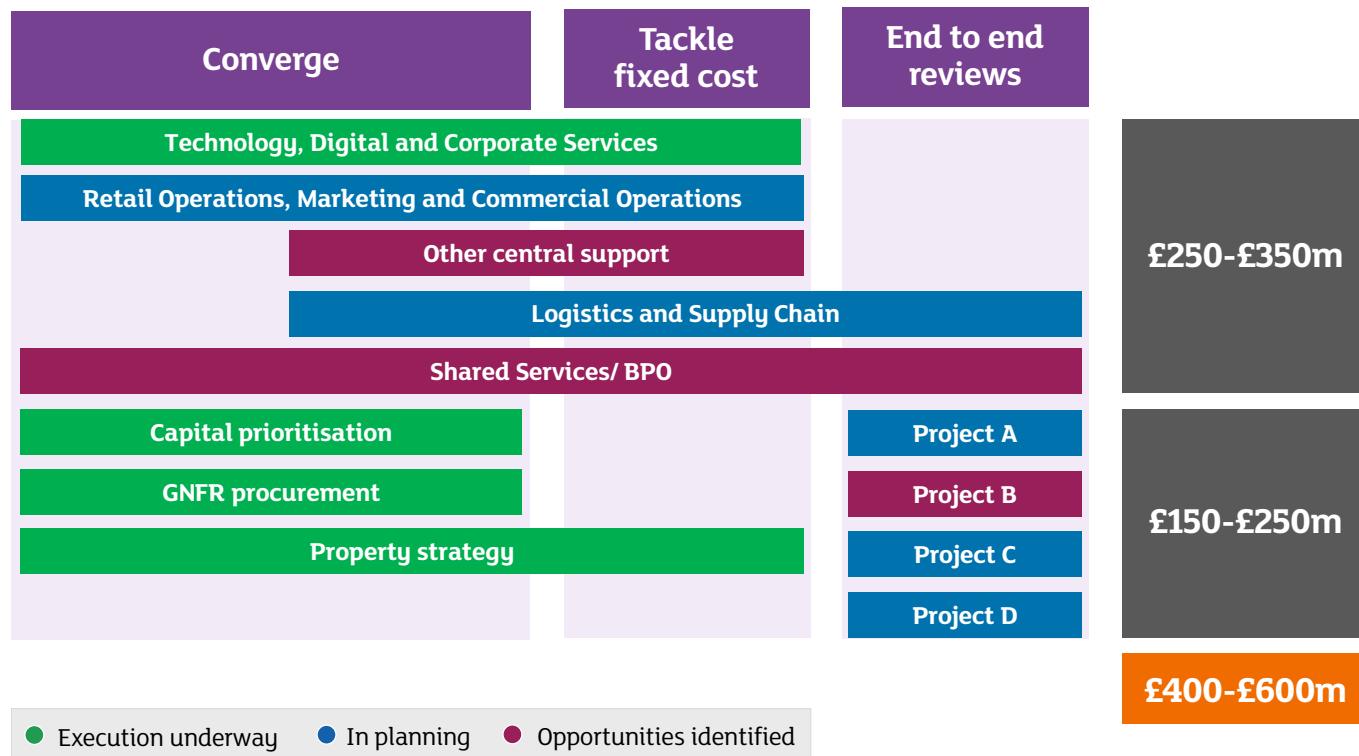
**Shrink Reduction**

**Retail HR**

**Retail  
management  
structures**

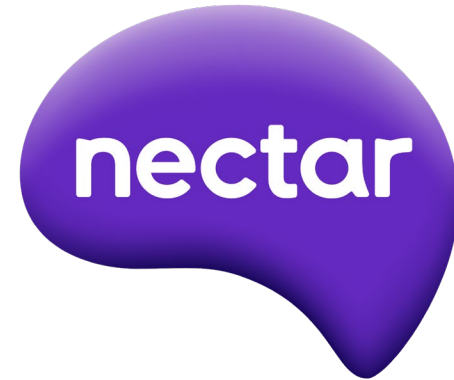
# Strategic cost transformation: 5 year plan

£5bn addressable cost base



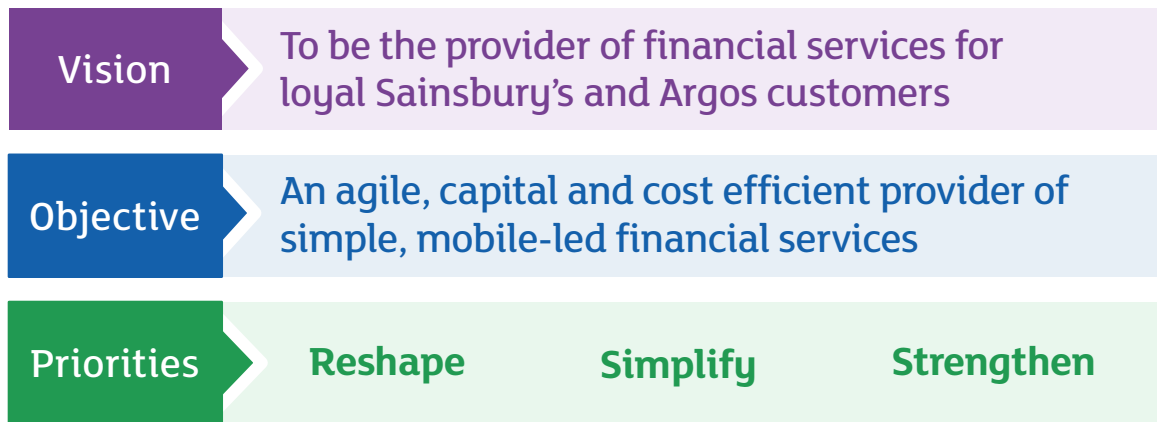
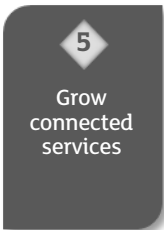
5

Grow  
connected  
services



# Financial Services: Priorities

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# Financial Services: reshaping the portfolio

	Current Customer Base	Customer Credit Risk	Balance Sheet	Earnings	
Balance Sheet	Argos Storecards	2.2m	Prime/ Near Prime	↗	↗↗
	Credit Cards	0.9m	Prime	↗	↗
	Personal Loans	0.5m	Prime	→	→
	Mortgages	9K	Exit	↘↘	↘↘
	Total Lending			↘	↗
	Deposits	0.3m		→	↗
Commission	Insurances	0.5m	Very Low Risk		↗↗
	Travel Money	266 Sites			↗
	ATMs	1,890			↘

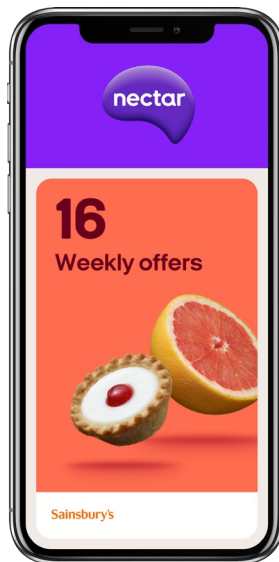
# Financial Services: key targets

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- 1 Stop putting cash in to Financial Services** → No capital input from the Group from now
- 2 Improve returns** → Double UPBT; double digit ROCE within 5 years
- 3 Financial services cash generative** → Upstream cash within 5 years
- 4 Transform the cost base** → Cost:income c.50% within 5 years
- 5 Reduce risk profile to Group** → Stop mortgage acquisition; review back book options
- 6 Focus on Sainsbury's customer base** → Increase connectivity and value for Group

# Nectar

- Biggest loyalty programme in the UK
- Over 18 million collectors
- Most recognised loyalty brand in the UK
- Launch of Nectar digital
  - 2.1 million app users
  - Increase in overall Nectar participation
  - Increased levels of personalisation
  - 138,000 new Nectar customers
  - #1 app on launch weekend
- Coalition strengthened with addition of Esso in June 2019



6

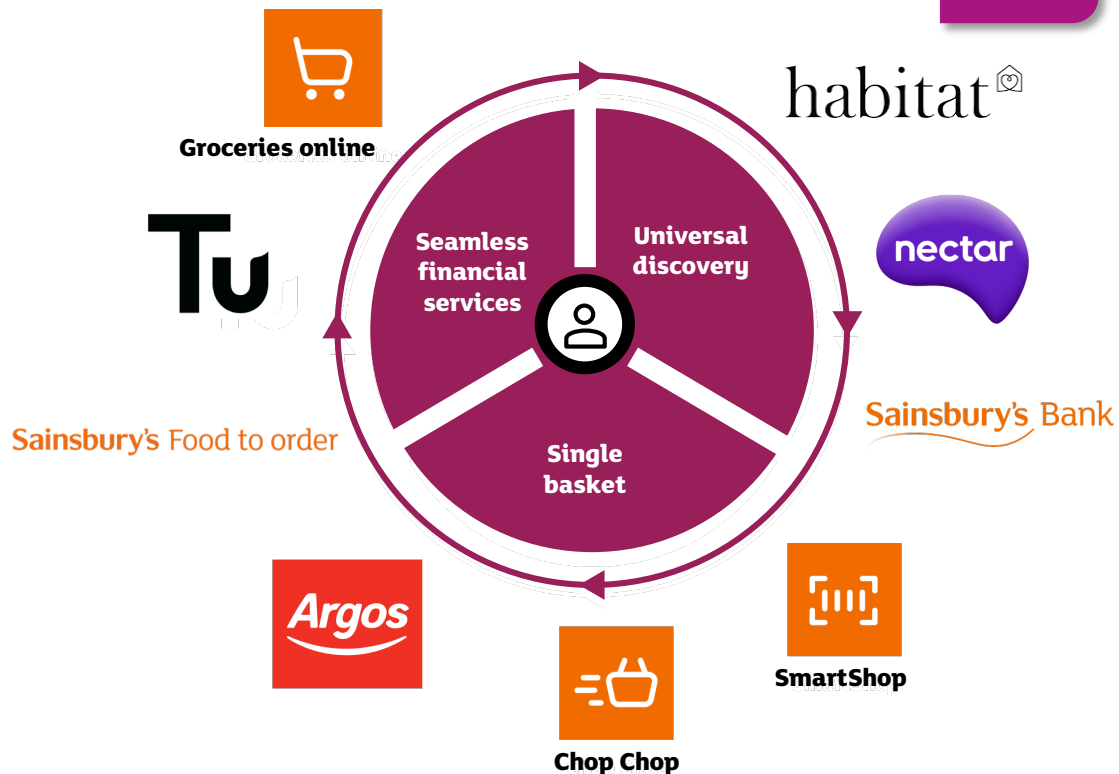
Provide a  
seamless  
customer  
experience





# Digital

- Groceries Online sales penetration of 8%
  - App accounts for over 20% of orders
- 2.1 million digital Nectar app users
- 1.4 million Argos Financial Services app downloads
- Smartshop rollout in over 350 stores

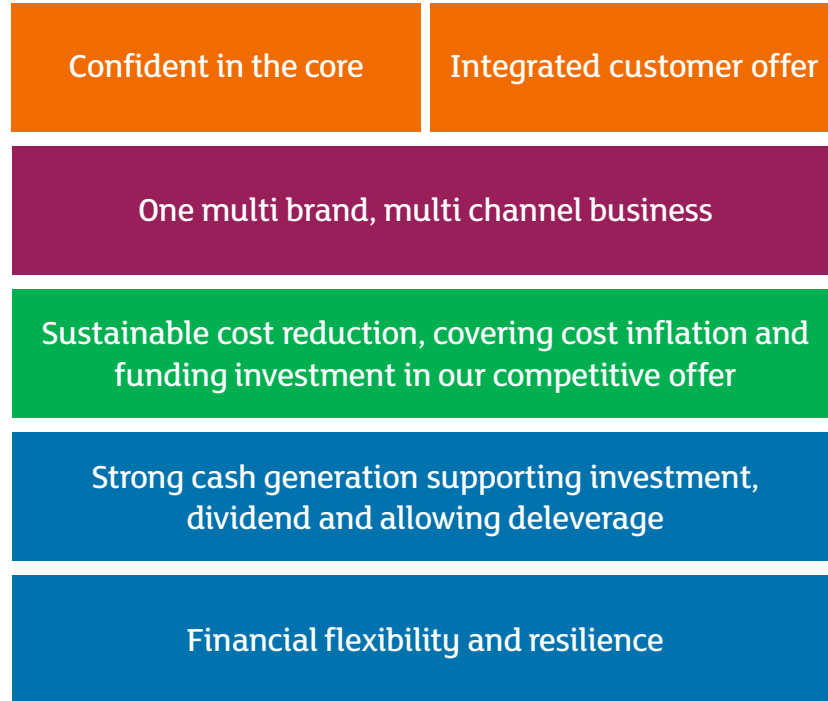


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Provide a seamless customer experience

# We will help our customers live well for less

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J Sainsbury plc

Q&A

