

J Sainsbury plc

Preliminary Results

2020/21



J Sainsbury plc

Simon Roberts
Chief Executive Officer



J Sainsbury plc

Kevin O'Byrne
Chief Financial Officer



Agenda

01



Financial highlights

02

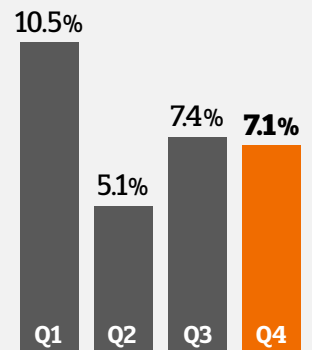


Operational performance

Retail sales growth by category

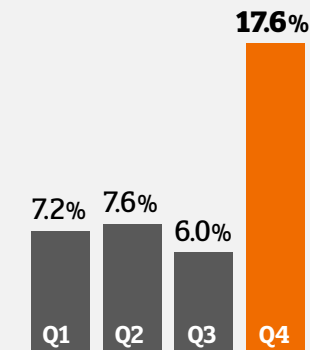
Grocery

FY Sales
up **7.8%**



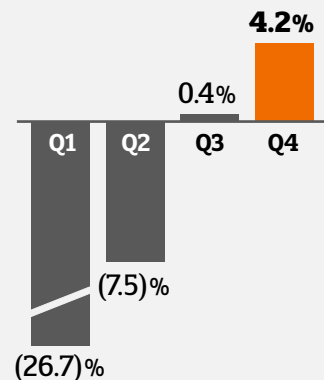
General Merchandise

FY Sales
up **8.3%**



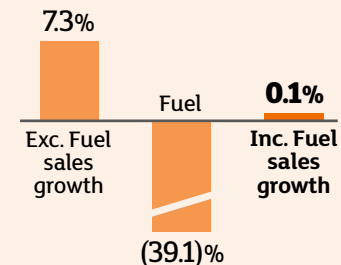
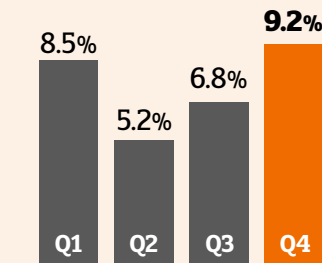
Clothing

FY Sales
down **8.5%**



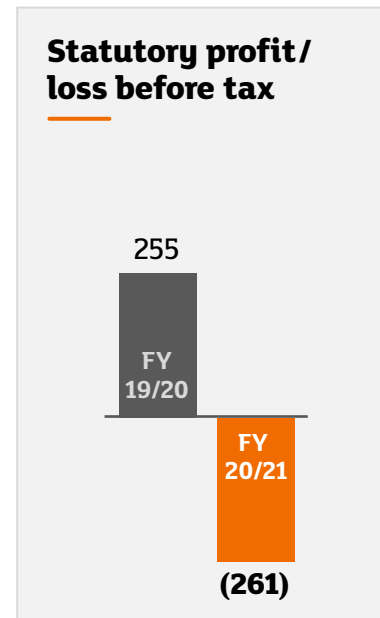
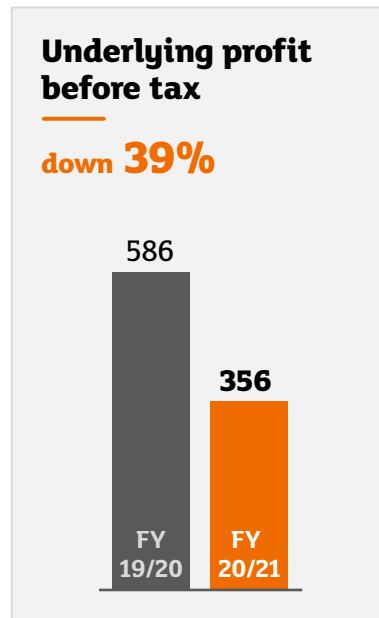
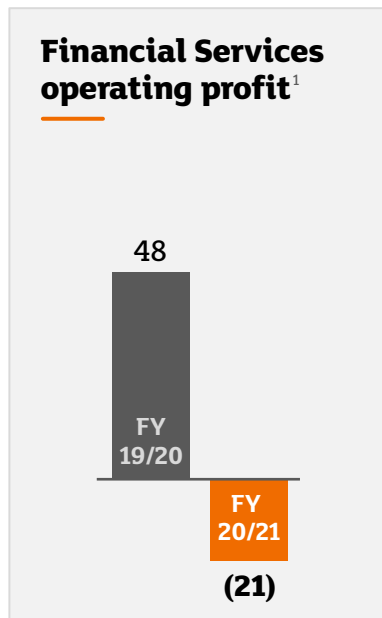
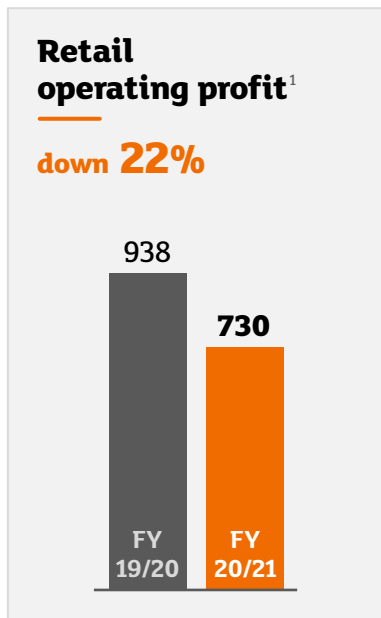
Total Retail

FY Sales growth¹
up **7.3%**



¹ Exc. fuel

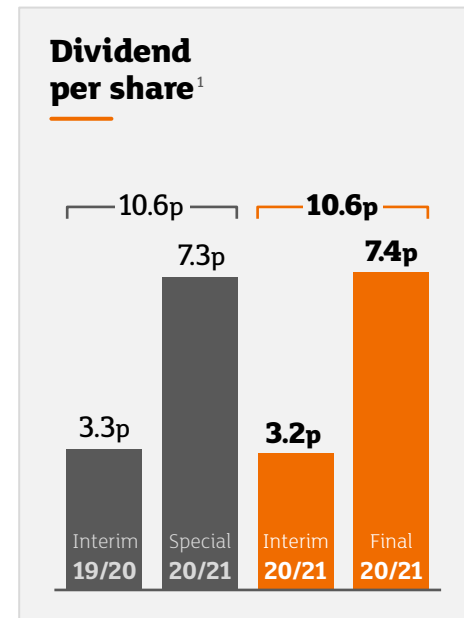
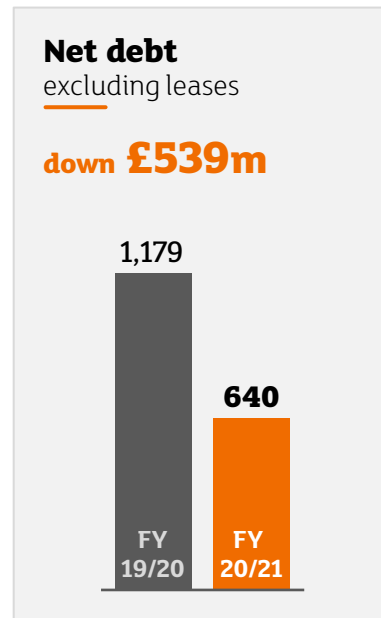
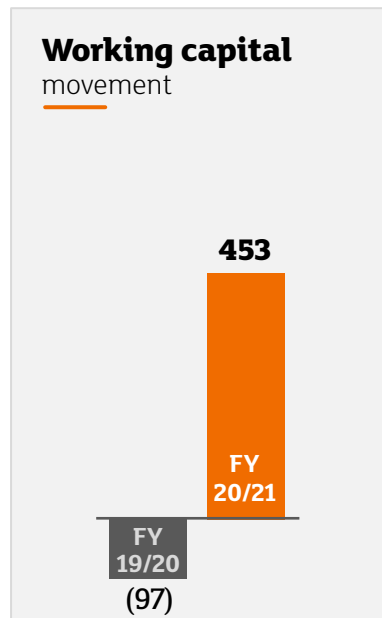
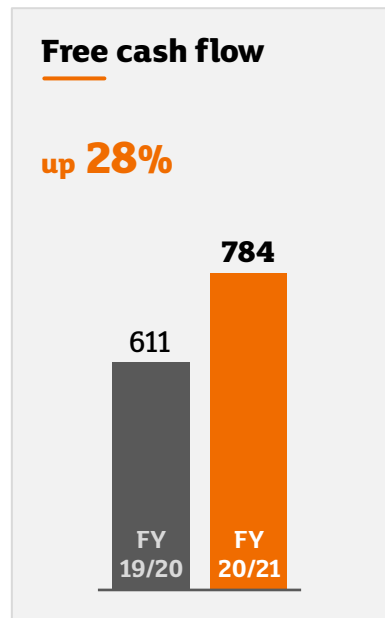
Group performance overview



All figures £m

¹ Underlying

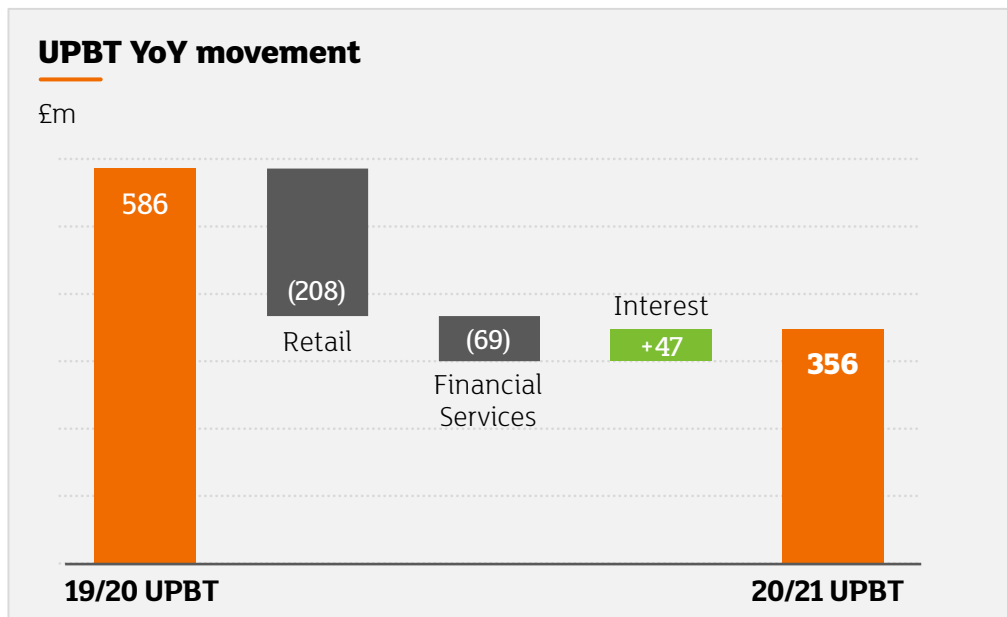
Group performance overview



All figures £m

¹ Special dividend in 2020/21 paid in lieu of final dividend for 2019/20 following the deferral of dividend decision. The total dividend paid in respect of each year is equal at 10.6p per share

Underlying profit before tax



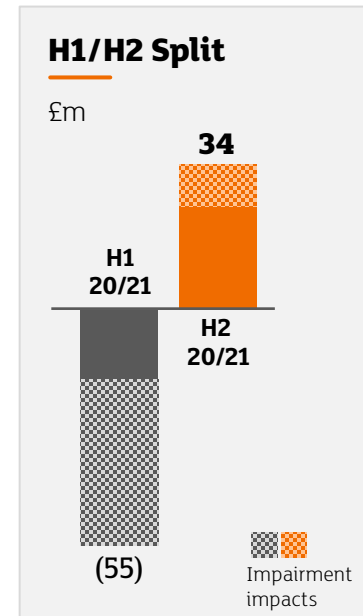
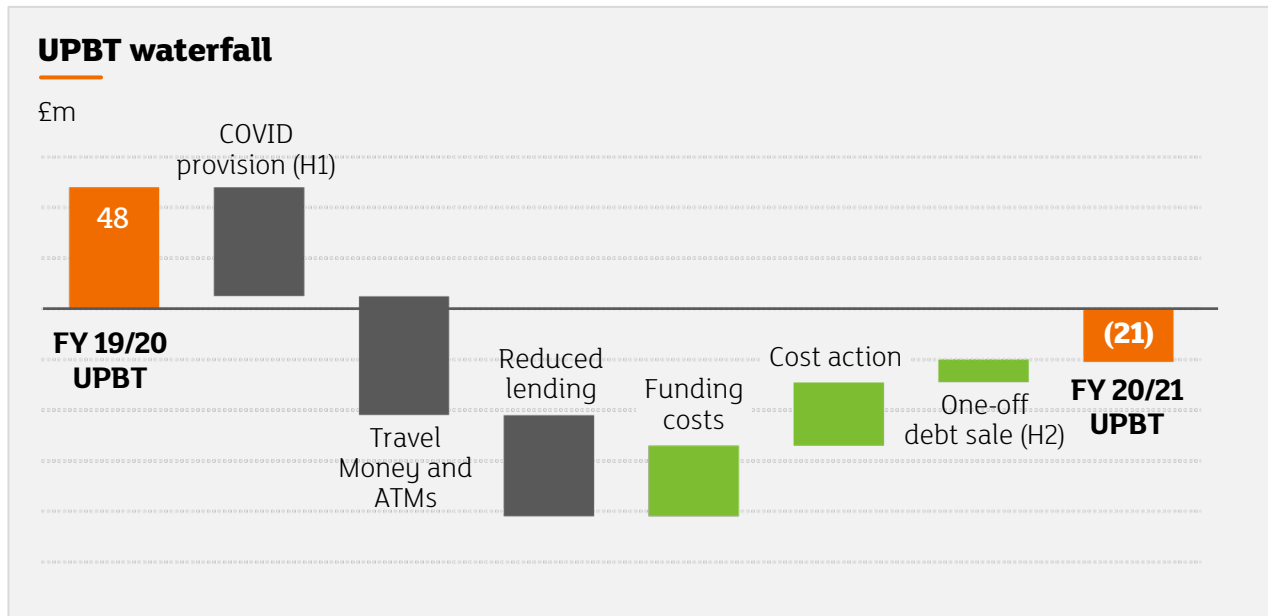
| Retail COVID costs £m | H1 20/21 | H2 20/21 | FY 20/21 |
|---|--------------|--------------|--------------|
| Colleague costs ¹ | (179) | (139) | (318) |
| Operating costs ² | (84) | (29) | (113) |
| Other | (28) | (26) | (54) |
| Total Retail COVID costs³ | (291) | (194) | (485) |

1 Higher absence costs, pay for vulnerable colleagues isolating, front line colleague bonus

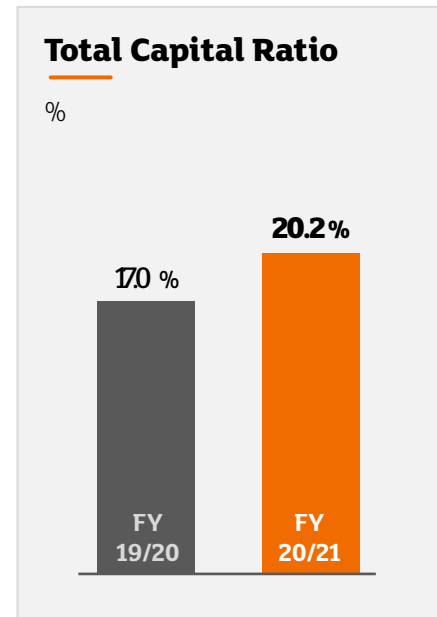
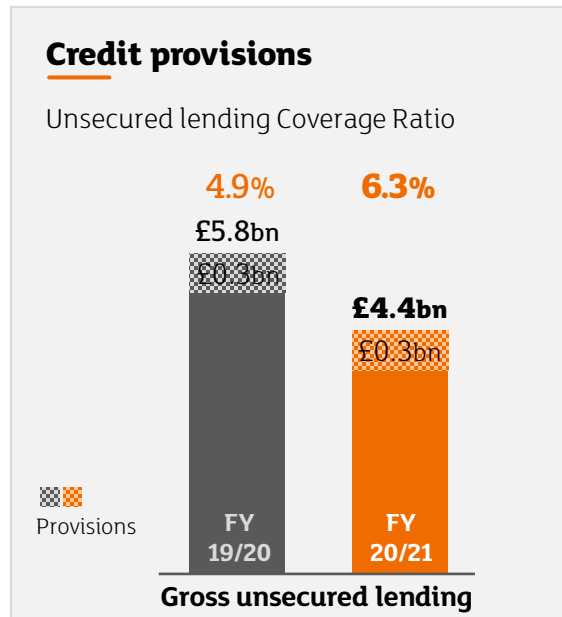
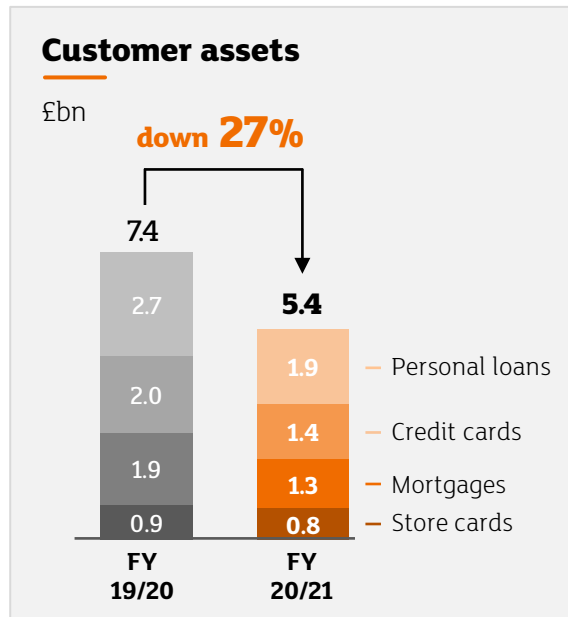
2 Customer and colleague protection measures, distribution costs, reduced rental income

3 Does not include business rates relief of £43m for closed Argos stores in FY20/21

Financial Services: UPBT bridge



Financial Services: performance drivers and coverage



Items excluded from underlying results

| £m | FY 2020/21 | FY 2019/20 |
|---|---------------|---------------|
| Restructuring programmes ¹ | (423) | (202) |
| Impairment charges (Retail and FS) ^{2,3} | (220) | (126) |
| Financial Services transition and other | (17) | (29) |
| ATM business rates reimbursement | 42 | - |
| IAS 19 pension income/(expenses) | 6 | 19 |
| Property, finance and acquisition adjustments | (5) | 7 |
| Total items excluded from underlying results | (617) | (331) |

Of which cash **£(54)m**

Guidance

- Restructuring, impairment and integration one-off costs of £900m-£1bn from FY20/21 to FY23/24 (c. £300m cash). Of this, £643m incurred in FY20/21
- We expect to incur the remaining costs evenly over the next 3 years, including £125m of restructuring cash costs in 2021/22

¹ PY restructuring includes Property Strategy Programme and Retail Restructuring. Impairment charges and closure provisions relating to Argos store closures and logistics integration

² The effect of COVID-19 and accelerated structural integration programme are deemed an impairment indicator in line with IAS 36.

A full review has therefore been performed covering Retail and Financial Services assets

³ PY impairment charges were reported within the Property Strategy Programme

Net debt and Retail free cash flow

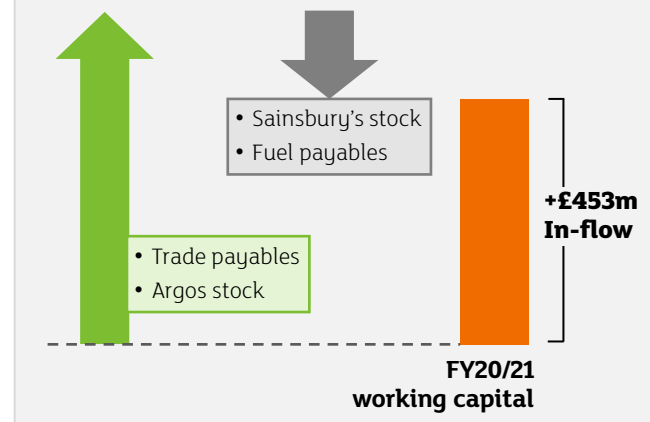
| £m – IFRS 16 basis | FY 2020/21 | FY 2019/20 |
|---|----------------|----------------|
| Net cash from operating activities | 1,809 | 1,453 |
| <i>of which working capital movements</i> | 453 | (97) |
| Capital expenditure | (568) | (599) |
| Disposal proceeds ¹ | 49 | 224 |
| Bank capital injections | - | (35) |
| Lease repayments ² | (506) | (432) |
| Retail free cash flow | 784 | 611 |
| Dividends paid on ordinary shares | (232) | (247) |
| Other ³ | (74) | 35 |
| Movement in net debt | 478 | 399 |
| Opening net debt⁴ | (6,947) | (7,346) |
| Closing net debt⁴ | (6,469) | (6,947) |
| Of which: | | |
| Lease liabilities | (5,829) | (5,768) |
| Net debt excluding lease liabilities⁴ | (640) | (1,179) |

▲ 356

▲ 550

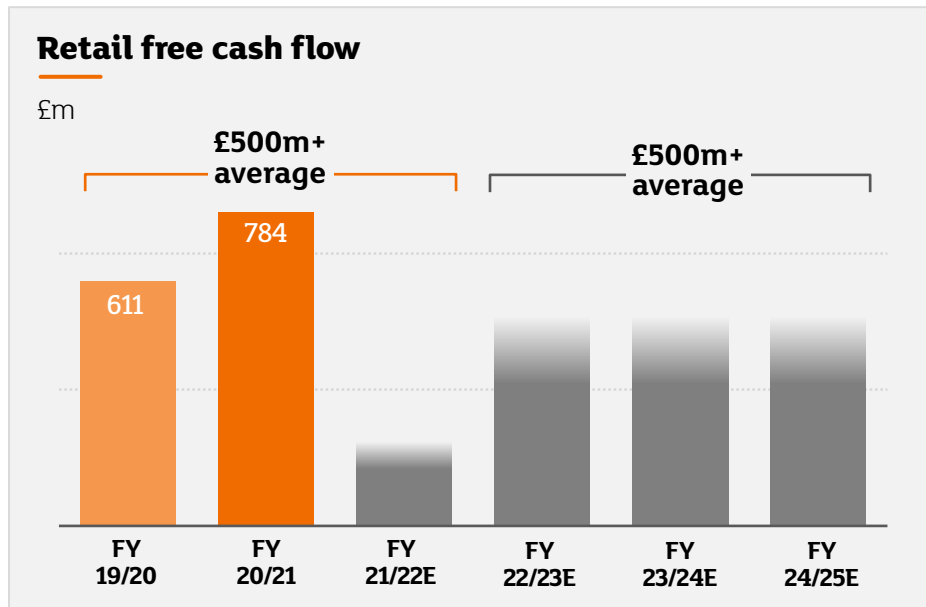
▼ (539)

Working capital movement



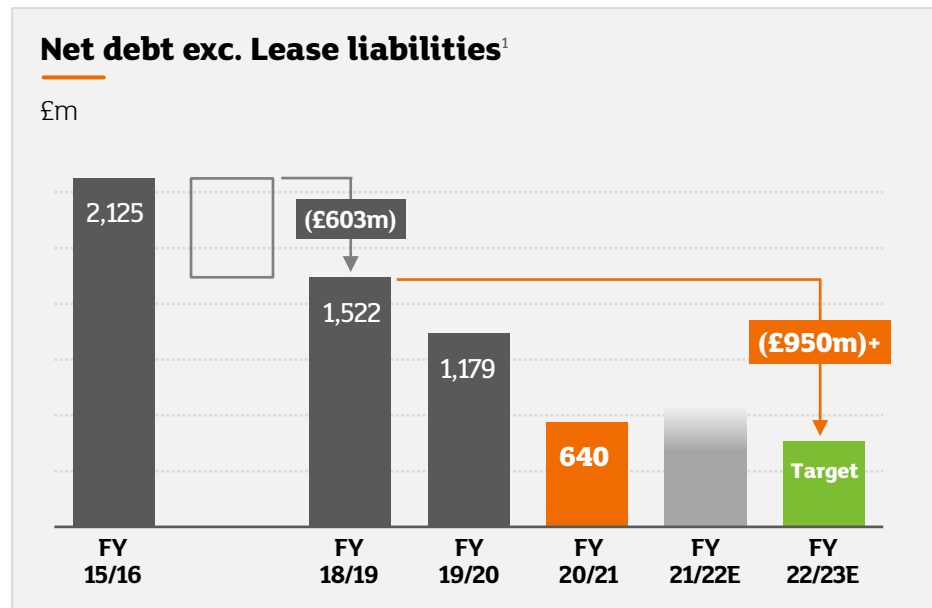
- 1 Includes dividends received from JVs, net of JV capital injections. FY19/20 included £143m of dividends received following sale of British Land
- 2 Includes initial direct costs on right-of-use assets
- 3 Includes the net movement to lease liabilities, reflecting non-cash additions in the period offset by payments made. Also includes cash impact of share purchases and share issuances.
- 4 Net debt definition excludes derivatives not linked to borrowings, and includes perpetual securities as debt

Retail free cash flow



Balance sheet targets

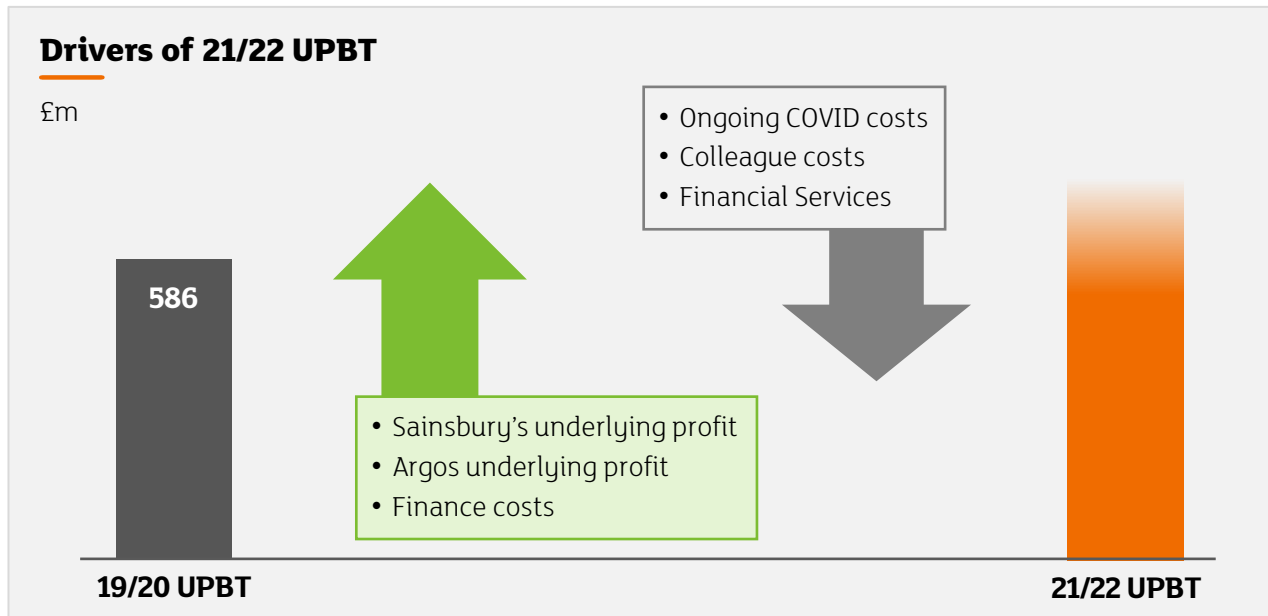
- Previous net debt reduction of £750m+ from 18/19 to 22/23 updated to **£950m+** reduction by 22/23
- Medium leverage reduction target: Net debt/EBITDA² less than 3x



¹ Net debt definition excludes derivatives not linked to borrowings, and includes perpetual securities as debt

² Net debt (inc. perpetual securities) on a post-IFRS 16 basis divided by Group underlying EBITDA. Net debt/ EBITDA for FY20/21 was 3.4 times

Bridge to 21/22 UPBT



Guidance

- 2021/22 UPBT ahead of 2019/20, comfortable with consensus of around £620m¹
- Financial Services to return to profit in 21/22
- Net finance costs of around £340m-£350m, including around £290m-£300m lease interest

¹ Analyst consensus published on our website as at 9 February 2021

Summary and Outlook

Strong performance

- Excellent execution through a challenging year
- Strong, profitable digital sales growth in both Sainsbury's and Argos
- Offset by material COVID costs
- One-off costs reflecting accelerated ambition and change within strategy update
- Good underlying free cash flow generation
- Stable dividend payment

Outlook

- 2021/22 UPBT ahead of 2019/20, comfortable with consensus of around £620m¹
- Average free cash flow £500m+ p.a. 3 years to March 2025
- Upgrading net debt reduction target to £950m+ for four years to 22/23 (previously £750m+)

¹ Analyst consensus published on our website as at 9 February 2021

J Sainsbury plc

Simon Roberts
Chief Executive Officer



A year that has made us stronger



A year trading through COVID



A strong operating performance



A strong start towards delivering on our priorities

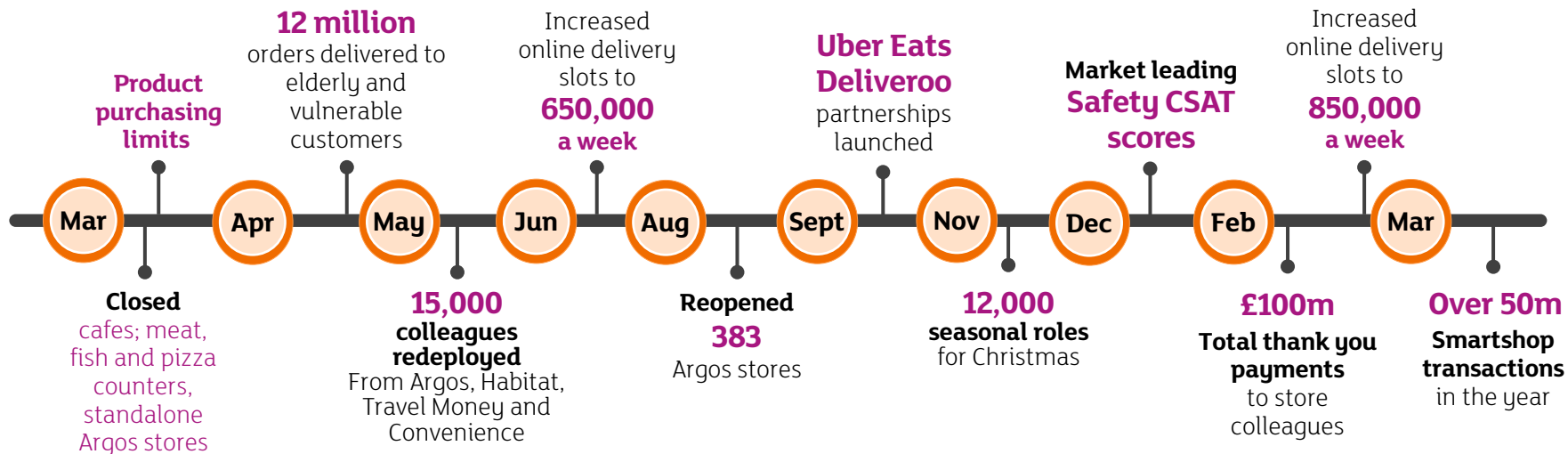
Food First
Brands that Deliver
Save to Invest



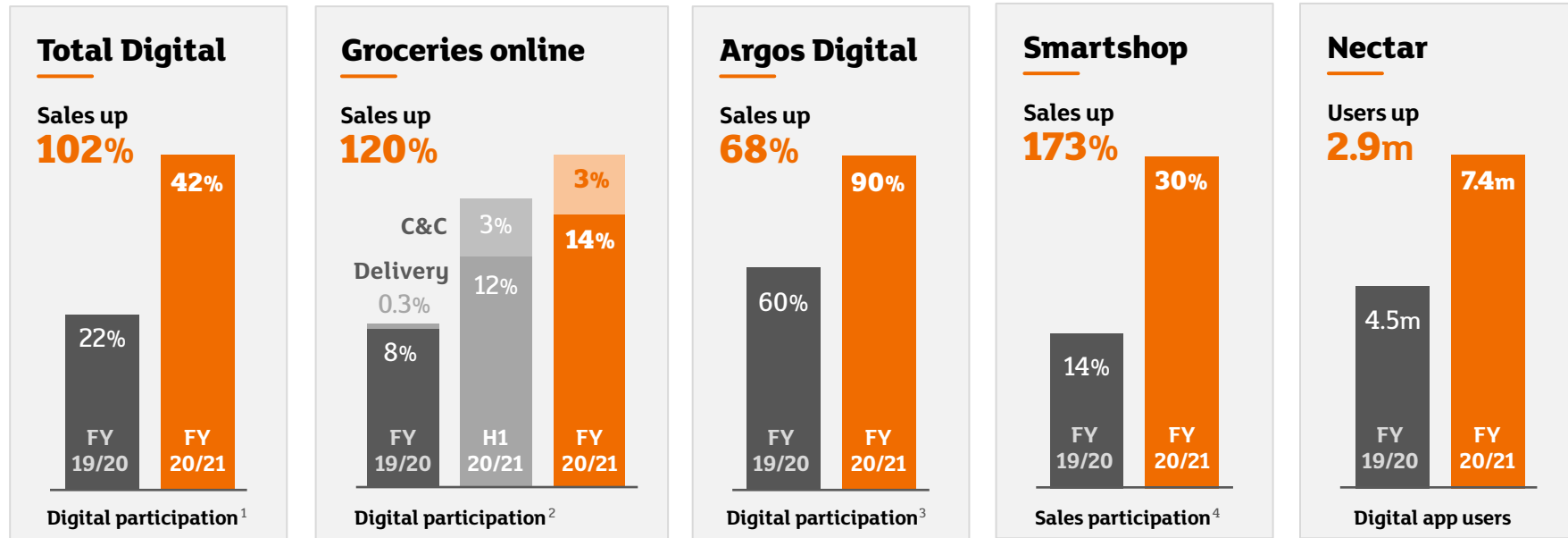
Bolder choices, bigger decisions, good momentum

More competitive and better positioned for a rapidly changing retail environment

Building momentum, closer to customers



Strong digital platform, enabling scale transformation



¹ Of total Retail sales exc. Fuel. Includes SmartShop sales

² Of total Grocery sales

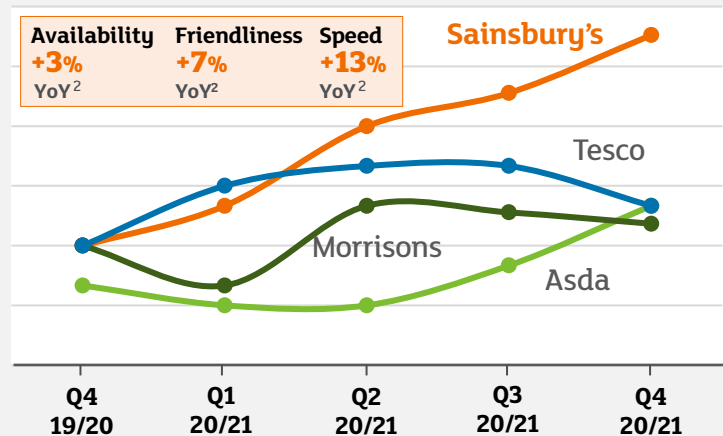
³ Of total Argos and Habitat sales

⁴ Participation in stores with handsets

Strengthened customer satisfaction

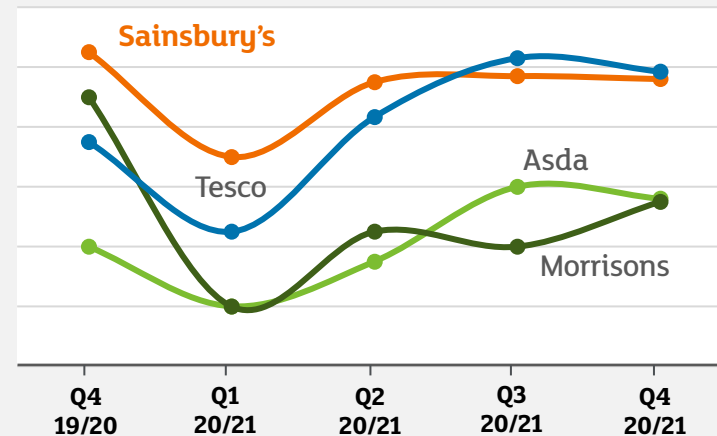
Supermarkets

Customer satisfaction index¹



Online

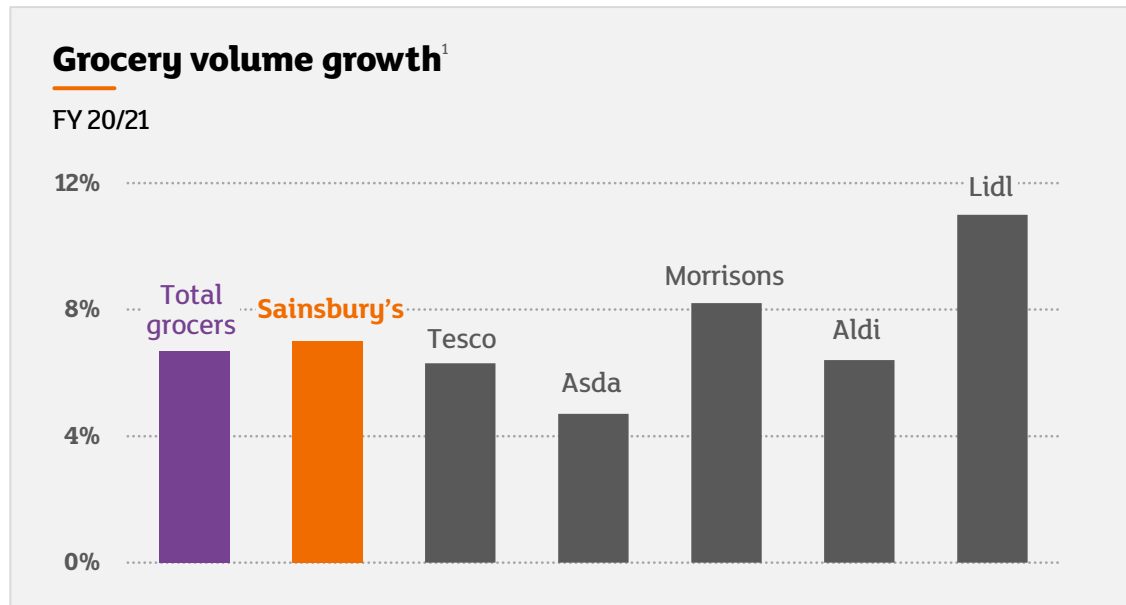
Customer satisfaction index¹



¹ Supermarket and Online customer satisfaction %. Source: Competitor benchmarking survey. Rolling 12 weekly scores

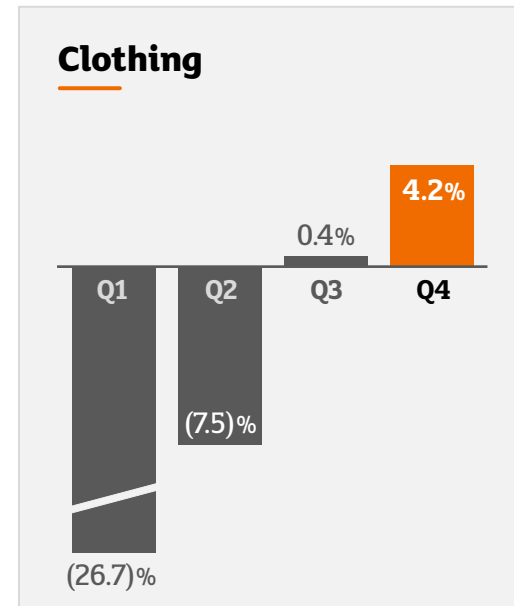
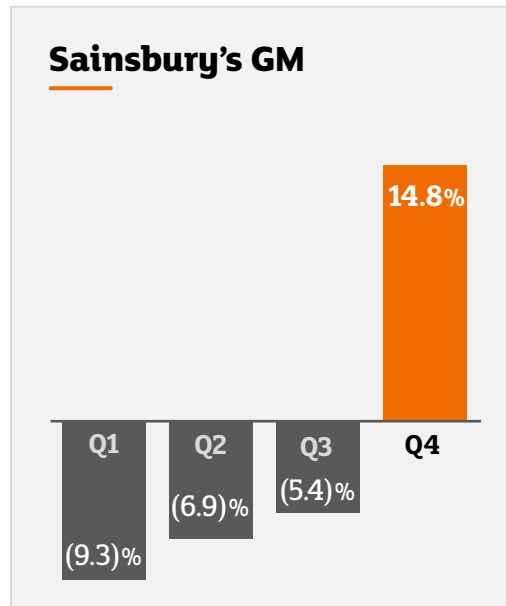
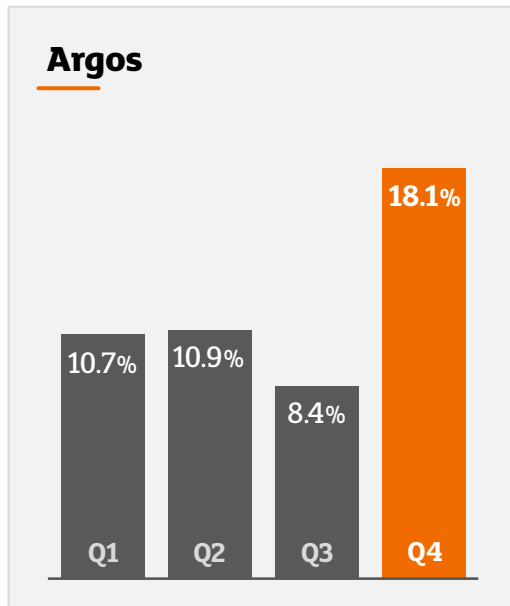
² Source: Lettuce Know

Growing ahead of the market



¹ Nielsen Panel volume growth YoY. Total FMCG (excluding Kiosk & Tobacco), 6 March 20/21 52 week data. Market Universe: Total Outlets.

General merchandise growth, clothing momentum



Driven by our passion for food

Together we
serve and
help every
customer



In the next 3 years we will transform our business

We are clear on our priorities



- Better value and innovation
- Underpinned by buying benefits and lower cost to serve



- Customer and profit focus
- Supporting the core food business



- Structurally lower operating costs to fuel investment in the core
- Cutting complexity and increasing pace of execution



Connected to Customers

Know and serve our customers better, use the power of Nectar



Net Zero 2040

Become net zero by 2040

Delivering against our plan

- » **Food back at the heart** of Sainsbury's
- » Portfolio brands supporting food, delivering for **customers and shareholders** in their own right
- » **Structurally lower cost to sales ratio** (by at least 200bps)
- » **Pursue partnerships** or outsource where faster
- » **Robust profit delivery**, consistent dependable cashflow
- » **8 key metrics**, consistent reporting, linked to incentives



8 key metrics

Delivering for customers and driving stronger financial outcomes

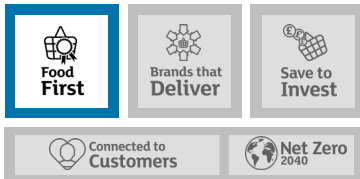
Operational

- Grocery market share performance
 - Strong customer satisfaction scores
 - Maintain strong colleague engagement
 - Deliver our Net Zero commitment
-

Financial

- UPBT growth
 - 200bps+ reduction in retail operating cost to sales
 - Dependable retail free cash flow: £500m+ pa average
 - Increase Return on Capital employed¹
-

¹ ROCE: return divided by capital employed. Return is defined as a 52 week rolling underlying profit before interest and tax. Capital employed is defined as group net assets excluding the pension deficit/ surplus and excluding net debt. The average is calculated on a 14 point basis



- Better value and innovation
- Underpinned by buying benefits and lower cost to serve

- Improve real and perceived **value for money**
- Increase **innovation** pace
- Grow **Online** capacity and extend routes to market
- Expand physical points of distribution, focusing on **Convenience**
- Deliver **Net Zero** commitment
- **Tailor** price, proposition and operations to catchments and local customers
- Adapt **supermarket formats** for changing role and to drive efficiency
- Focus **customer service and operational excellence** on what matters for customers

Delivering better value to customers: Price Lock

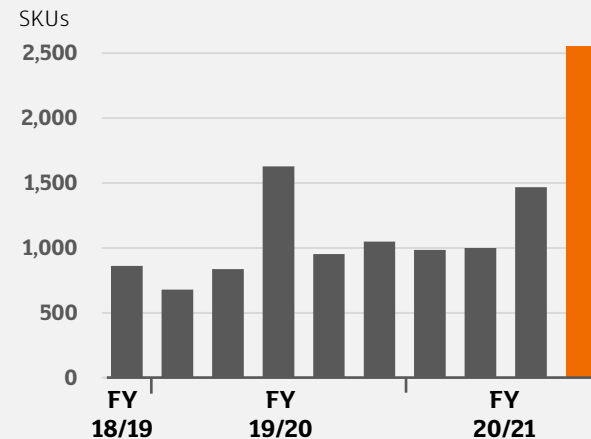


Price Lock

2,500+
SKUs

- Focus on stability of **everyday prices**
- **Primary** customers

Biggest ever Price Lock in Jan 2021



Delivering better value to customers: Centre of plate



Core, high volume investment

Halo driving categories

- Focus on core own brand products, especially **Fresh** categories, e.g. **Meat, Fish and Poultry**
- **Primary** customers





Delivering better value to customers: Sainsbury's Quality, Aldi Price Match

Rump steak,
expertly
matured
for 21
days



Sainsbury's
live well for less



Sainsbury's Quality, Aldi Price Match

250+
SKUs

- Focus on **Fresh**: over **80%** of volume
- **Low Prices and Entry Price Point**
- **Secondary** customers





Early results: Significant improvement in value, strong customer response

Price index¹

vs



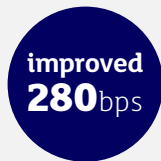
Total
FY 21 vs FY20



Centre of plate²
FY 21 vs FY20

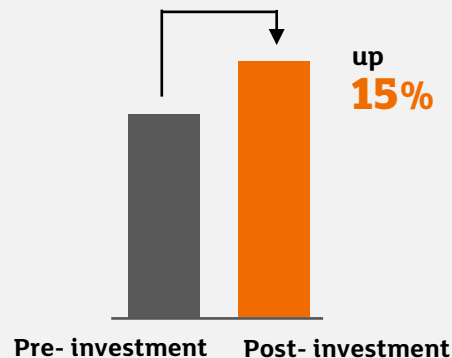


vs



Volume uplift³

Meat, fish and poultry



1 Value Reality. Jan-Apr 2021 vs Jan-Apr 2020; Edge by Ascential; internal modelling

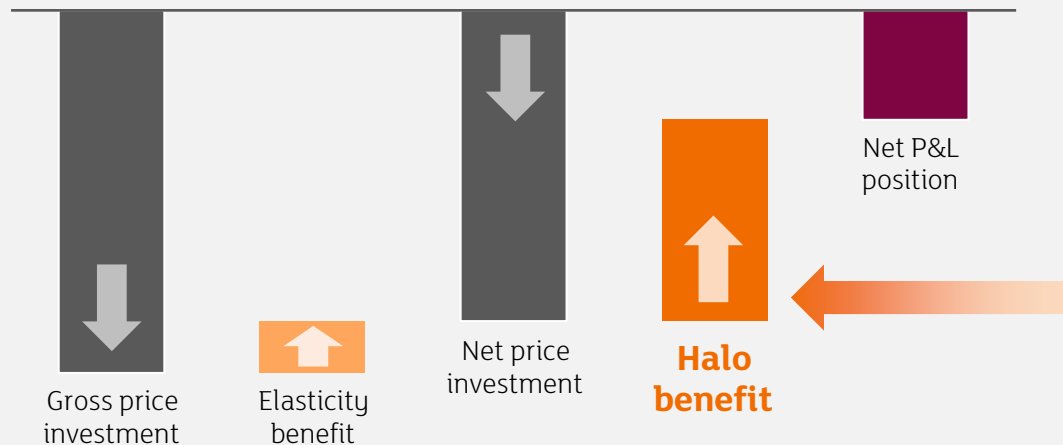
2 Meat, fish and poultry

3 LFL volume growth of Q3 invested SKUs, pre vs post-investment, 8 weeks of post-launch data



Early results: Price investment driving volume uplift

Halo benefit from price investment



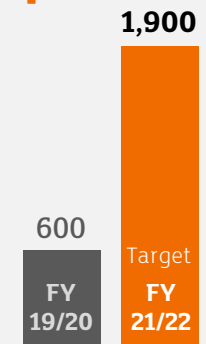
Key drivers of halo



Food Innovation: Transforming new product development

Tripling innovation

New own brand SKUs
more than
triple



Delivering across Food First

Trade Up



Value



Net Zero



Food Innovation: Spring / Summer launches



Suppliers supporting innovation and value

Transforming supplier relationships:

- Stronger partnerships
- Increased investment behind Sainsbury's
- Higher volumes
- Responsiveness to innovation

Top 10 supplier:

*"We have jointly demonstrated that we can **launch projects at pace** by taking complexity out"*

*"Sainsbury's have been able to launch products in areas where they can **differentiate their offer** versus the other Big 4 and particularly discounters"*

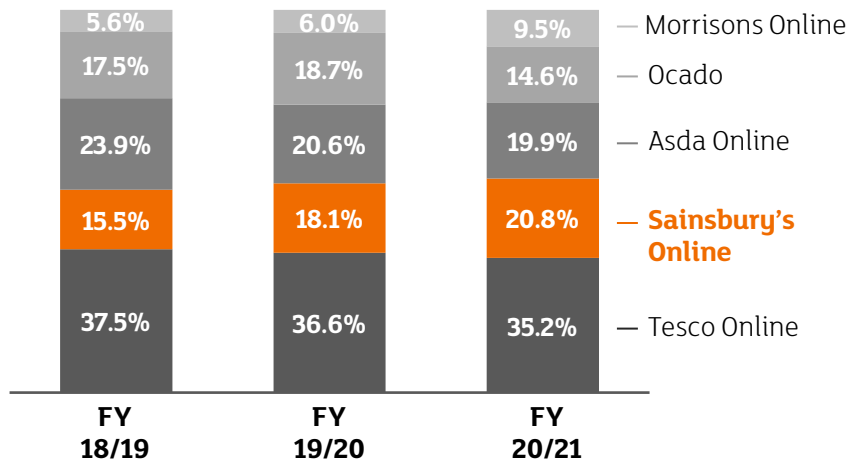




Strong online market share gains

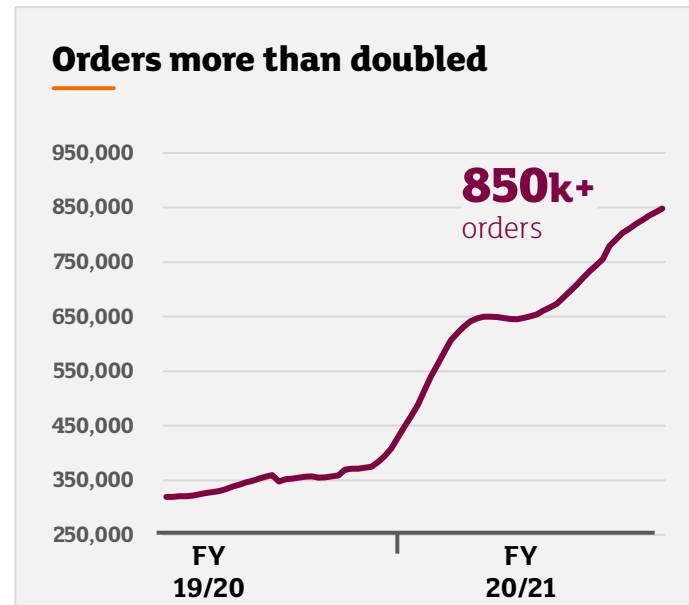
Biggest online market share winner¹

Share of top 5 competitors



¹ Source: Nielsen panel data, Value share of top 5 competitors

Orders more than doubled





Unique breadth of online grocery options for customers



GOL Delivery



GOL Click & Collect



Chop Chop



Deliveroo / Uber Eats

Stores

253

321

43

c.200

Cities & towns

98% UK population

98% UK population

17

37

Average basket size

c.£100

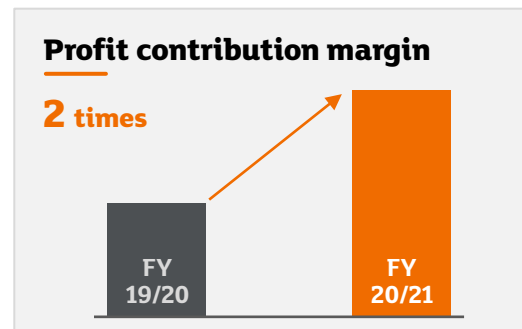
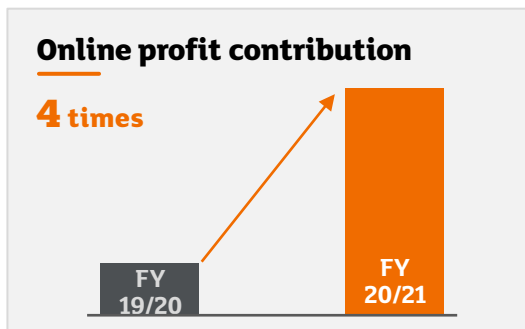
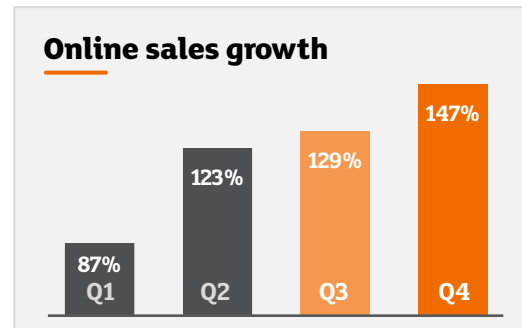
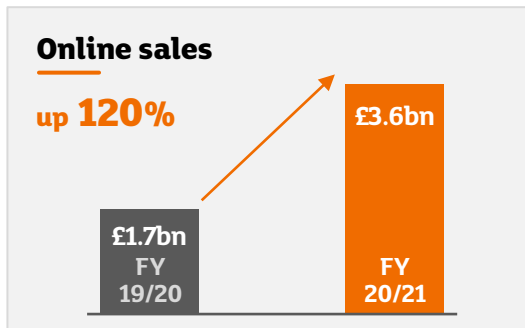
c.£100

£30-£35

£20-£25

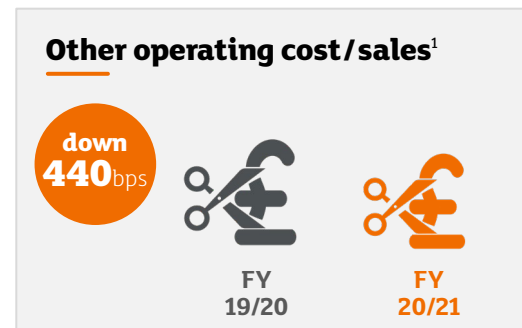
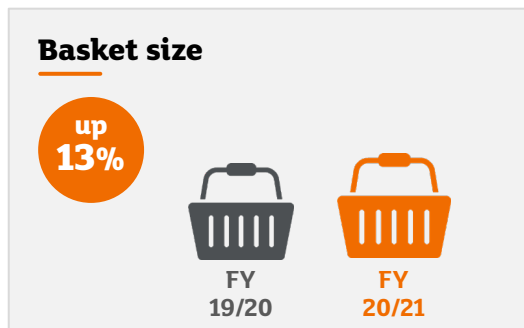
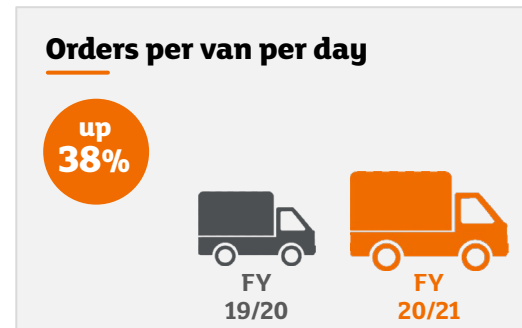
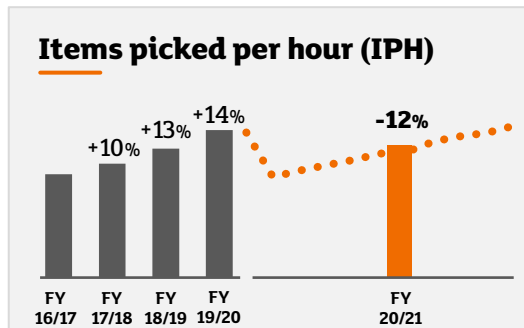


Growing online momentum, growing profitably





Stronger online grocery economics



¹ Excludes labour, shrink and waste costs

We make eating well
affordable, easy
and the best thing you've ever tasted

Healthier, tastier,
more sustainable food
cooked at home, enjoyed together

Help everyone eat better

Because all of us could eat a little better
No matter how much time or money people have





Net Zero

Reduce carbon emissions

within own operations to Net Zero by 2040

GHG emissions

 **Down YoY**
3%

down 14% from 18/19 baseline

Healthy & sustainable diets

for all

Healthy products sold

 **Flat YoY**
55.3%

19/20 baseline

Reduce food waste

by 50% by 2030

Food waste

 **Down YoY**
16%

19/20 baseline

Reduce plastic packaging

by 50% by 2025

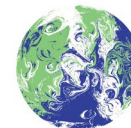
Food plastic packaging

 **Up YoY**
3%

down 1.7% from 2018 baseline

- **Value chain target:** reduce absolute GHG emissions by **30% by 2030**
- Working closely with our **global supplier base** to develop and meet their own targets
- We will **hold an ESG Day in June**

Sainsbury's




PRINCIPAL PARTNER
**UN CLIMATE
CHANGE
CONFERENCE
UK 2021**

IN PARTNERSHIP WITH ITALY



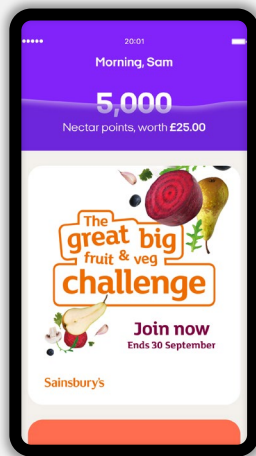
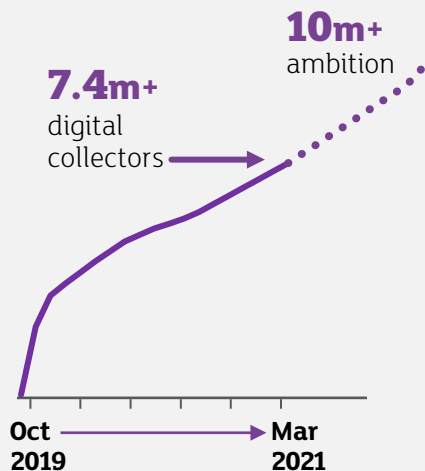
Brands that Deliver

- Customer and profit focus
- Supporting the core food business

| | | |
|---|---|--|
|  <p>Focus on food, coalition and data monetisation</p> |    <p>Reduce cost to serve Improve profit delivery</p> |  <p>Deliver 5 year plan</p> |
|---|---|--|

Nectar: strong digital platform, growing digital customer base

Digital Nectar



Nectar360: delivering for suppliers



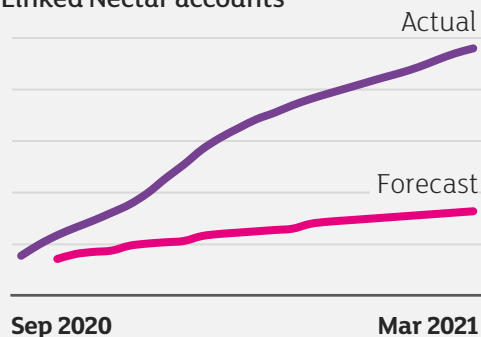
6 million impressions served to
119 thousand households with
7.78% conversion to brand
£1.25 ROI

Nectar: extending reach and strengthening the coalition

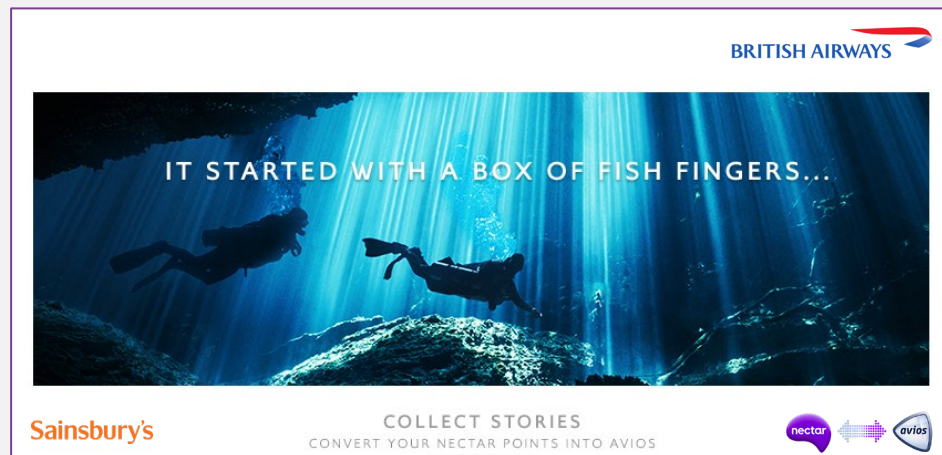
Integration of Argos

Argos Nectar spend participation ahead of plan

Linked Nectar accounts



Launch of British Airways partnership



BRITISH AIRWAYS

IT STARTED WITH A BOX OF FISH FINGERS...

Sainsbury's

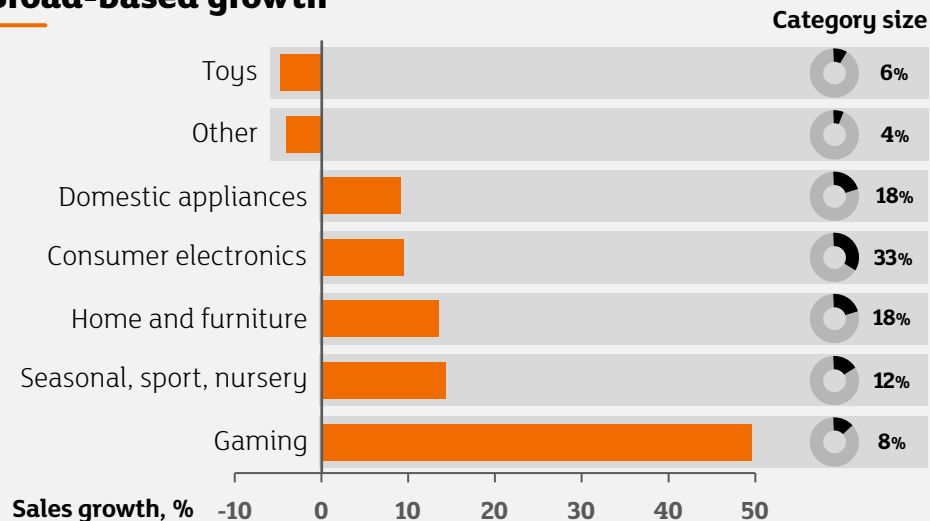
COLLECT STORIES
CONVERT YOUR NECTAR POINTS INTO AVIOS

nectar avios

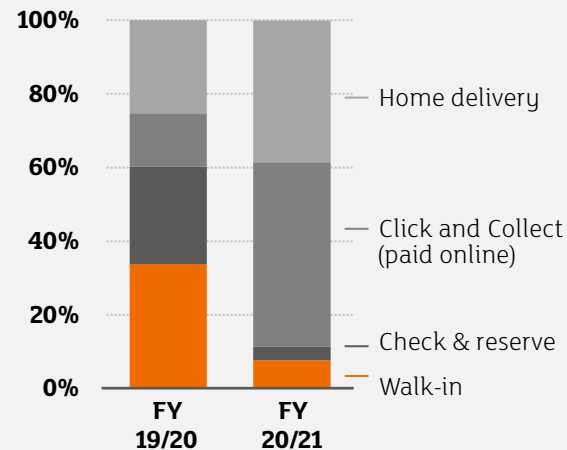


Argos: Over 3 million new customers

Broad-based growth



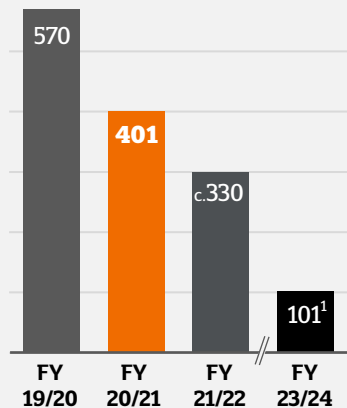
Flexible fulfilment options



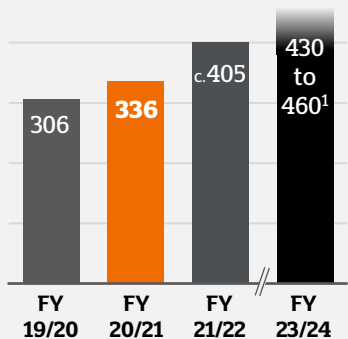


Argos transformation: lower cost to serve by £105m

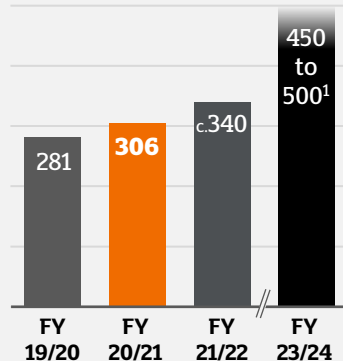
Standalone stores



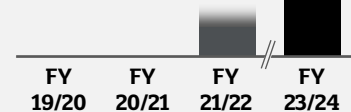
Argos stores in Sainsbury's



Collection points



Local fulfilment centres



¹ exc. Republic of Ireland stores

Argos 2021/22: prudent sales outlook, higher profits



Drivers of 21/22 UPBT

£m

Sales:

- Caution on consumer spending
- Focus on profitable sales and categories
- Disciplined promotional strategy

Improved margin rate: proposition benefits

Cost transformation:

- Reduced rent and rates
- Lower Habitat operating costs
- Catalogue
- Check and Reserve

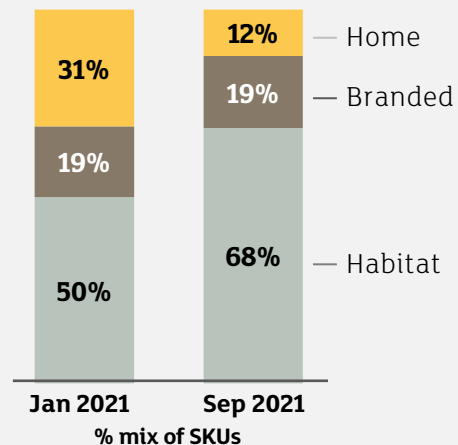


Transforming Habitat reach and scale

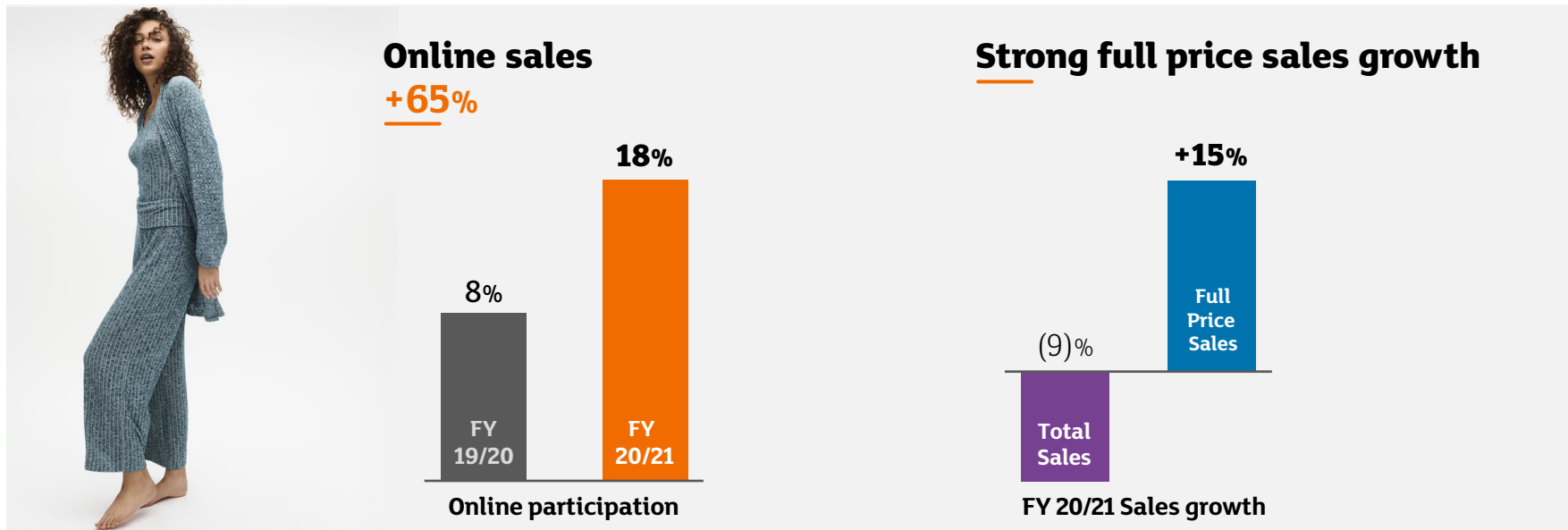


- Habitat brought together with Sainsbury's and Argos
- Lead Home and Furniture brand
- Over 1,000 new Habitat SKUs
- Improved market position for home and furniture
- Strong start: home and furniture sales up over 30% in February

Increase in Habitat Mix



A stronger clothing business





Financial Services

Material short term COVID-19 impact but on track to deliver FY24 strategic commitments

| | | | | | |
|--|--|---|--|--|---|
| <p>1</p> <p>Stop putting cash into Financial Services</p> | <p>2</p> <p>Improve returns</p> | <p>3</p> <p>Financial services cash generative</p> | <p>4</p> <p>Transform the cost base</p> | <p>5</p> <p>Reduce risk profile to group</p> | <p>6</p> <p>Focus on Sainsbury's customer base</p> |
| <p>No capital input from the group¹</p> | <p>Double UPBT³; double digit ROCE within 5 years</p> | <p>Upstream cash within 5 years²</p> | <p>Cost to Income c.50%³ within 5 years</p> | <p>Mortgage acquisition ceased; stable balance sheet</p> | <p>Increase connectivity and value for group</p> |







1 Subject to regulatory changes/ requirements

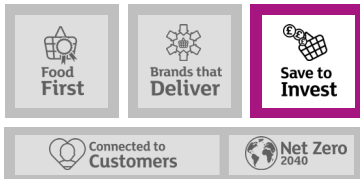
2 Subject to regulatory approval

3 On a Group contribution basis



Strong Financial Services platform

| | | |
|--|---|--|
| <p>Customer NPS top quartile for Banks</p>  | <p>Over 77% Bank customers have a nectar card</p>  | <p>Argos Financial Services funded over £1bn Argos sales</p>  |
| <p>Two thirds Bank customers registered with online banking</p>  | <p>60% of Car and Home insurance customers self-serve online</p>  | <p>98% of Storecard sales through digital channels</p>  |



Save to Invest

- Structurally lower operating costs to fuel investment in the core
- Cutting complexity and increasing pace of execution

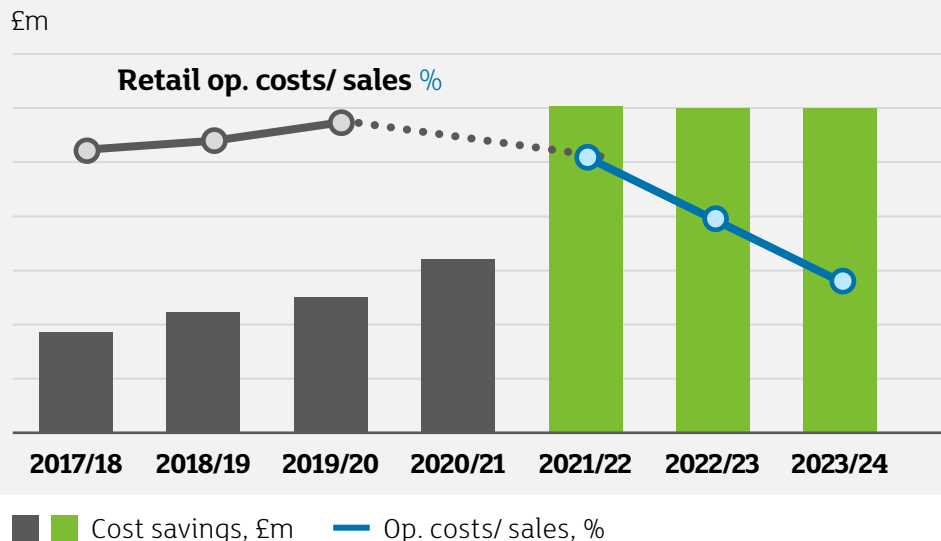
Structural change to accelerate cost reduction

- Reduce operating costs to **fuel investment in the core**
- Transform our approach to costs and radically simplify our organisation
- Reduce retail operating costs to sales by more than **200bps**
- Work with suppliers to drive value



Strategic cost reduction

Reduce retail operating costs/ sales % by 200 bps+



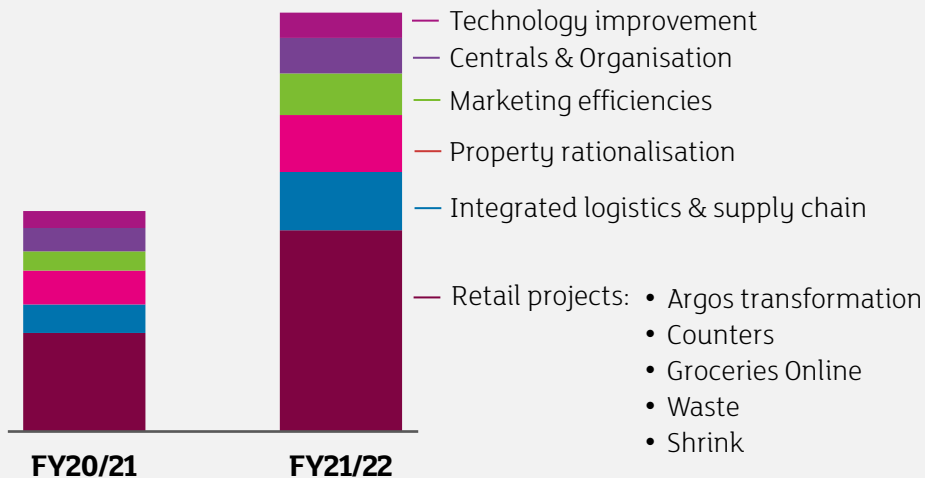
Accelerated cost saving plans

- Addressing inflationary cost pressures and volume related increases
- Meeting increased groceries online demand
- Creating additional annualised capacity creating firepower to invest in the offer and drive returns
- Key programmes underway



Ambitious cost programme on track

Key cost savings programmes





Key cost saving programmes

£105m

Argos store transformation and fulfilment model

- Store rationalisation
- Local Fulfilment Centre programme

£70m-100m

Centrals and Organisation support costs

- Reduction of central support roles
- Office space reduced
- New ways of working

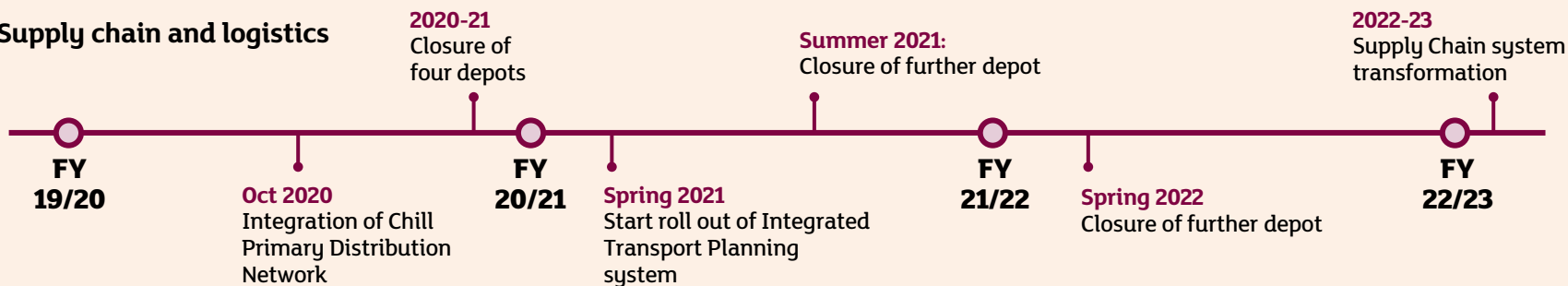
£60m

Counters

- Lower cost to serve
- Reduced waste

£150m

Supply chain and logistics



Moving at pace to change the business

- » **Food back at the heart** of Sainsbury's
- » Portfolio brands supporting food, delivering for **customers and shareholders** in their own right
- » **Structurally lower cost to sales ratio** (by at least 200bps)
- » **Pursue partnerships** or outsource where faster
- » **Robust profit delivery**, consistent dependable cashflow
- » **8 key metrics**, consistent reporting, linked to incentives



Delivering for shareholders

Profit inflection

- Cost transformation: 200bp+ reduction in cost to sales
- Working with suppliers to unlock value
- Funding stronger food performance
- 2021/22 UPBT higher than 2019/20¹

High returning capital projects

- Reducing cost to serve and improving working capital
- Argos transformation capital cost £143m, annual cost reduction £105m²
- Logistics and infrastructure capital cost £209m, annual cost reduction £150m²

Strong free cash flow

- £950m+ net debt reduction March 2019 to March 2023
- £500m+ average FCF for the three years to March 2025
- Sustainable, well covered dividend

8 key metrics

Delivering for customers and driving stronger financial outcomes

Operational

Grocery market share performance

Strong customer satisfaction scores

Maintain strong colleague engagement

Deliver our Net Zero commitment

Financial

UPBT growth

200bps+ reduction in retail operating cost to sales

Dependable retail free cash flow: £500m+ pa average

Increase Return on Capital employed

In the next 3 years we will transform our business

We are clear on our priorities



- Better value and innovation
- Underpinned by buying benefits and lower cost to serve



- Customer and profit focus
- Supporting the core food business



- Structurally lower operating costs to fuel investment in the core
- Cutting complexity and increasing pace of execution



Know and serve our customers better, use the power of Nectar



Net Zero 2040

Become net zero by 2040

J Sainsbury plc

Q&A

