

J Sainsbury plc



Preliminary Results

2019/20

J Sainsbury plc

Frozen food

Kevin O'Byrne
Chief Financial Officer

Agenda

01

Financial highlights

02

19/20 performance

03

COVID-19 update

Group performance overview

£m	2019/20	2018/19	Change
Underlying results¹			
Group sales (inc VAT)	32,394	32,412	▼ 0%
Retail operating profit	938	981	▼ 4%
Financial Services operating profit	48	31	▲ 55%
Underlying profit before tax	586	601	▼ 2%
Underlying basic EPS	19.8p	20.7p	▼ 4%
Retail free cash flow	611	456	▲ 34%
Net debt ²	(6,947)	(7,346)	▼ 5%
Non-lease net debt ²	(1,179)	(1,522)	▼ 23%
Statutory results			
Items excluded from underlying results	(331)	(399)	▼ 17%
Profit for the financial period before tax	255	202	▲ 26%
Basic EPS	5.8p	7.6p	▼ 24%

¹ Full breakdown of definitions available in the Alternative Performance Measures

² Including perpetual securities

Retail sales

▼ **(0.6)%**
LFL sales growth¹

▲ **0.2%**
Sales from
net new space¹

▼ **(0.4)%**
Total sales growth¹

Categories

- ▲ **0.4%**
Grocery
- ▼ **(2.9)%**
General Merchandise
- ▲ **1.2%**
Clothing

Channels

- ▼ **(0.1)%**
Supermarkets²
- ▲ **1.3%**
Convenience
- ▲ **7.6%**
Groceries Online

2020/21 FY Guidance³

- Expect to open around 2 new Sainsbury's supermarkets and around 15 convenience stores
- Expect to close around 8 supermarkets and around 14 convenience stores, as part of announced property closure programme
- Expect to open 35-40 Argos in Sainsbury's and close around 50 Argos standalone stores

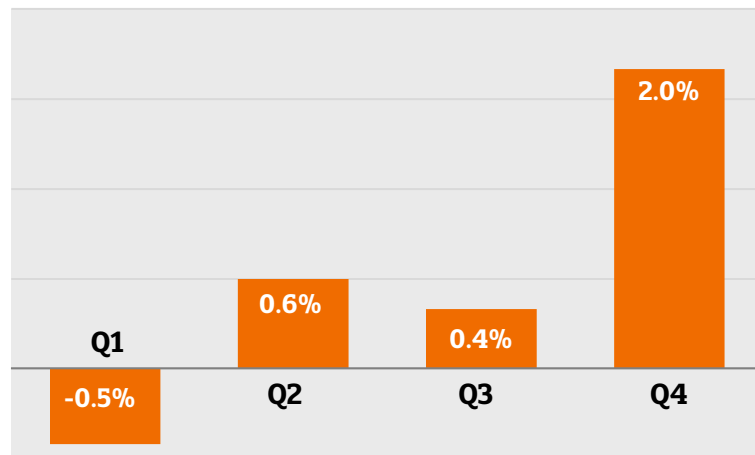
¹ Sales including VAT, excluding fuel

² Supermarket sales include Argos stores in Sainsbury's sales

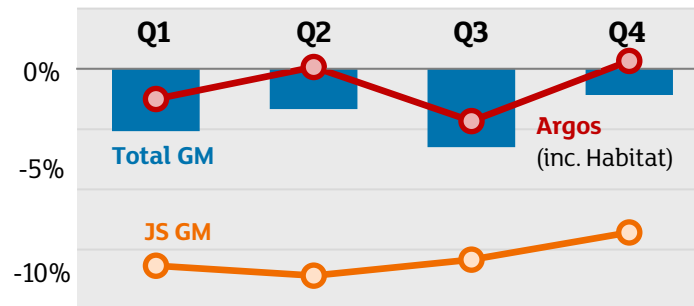
³ Guidance on openings and closures is subject to potential disruption from COVID-19

Sales Momentum

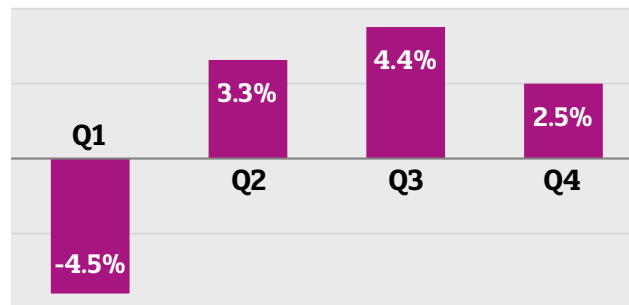
Grocery: Total sales growth



General Merchandise: Total sales growth

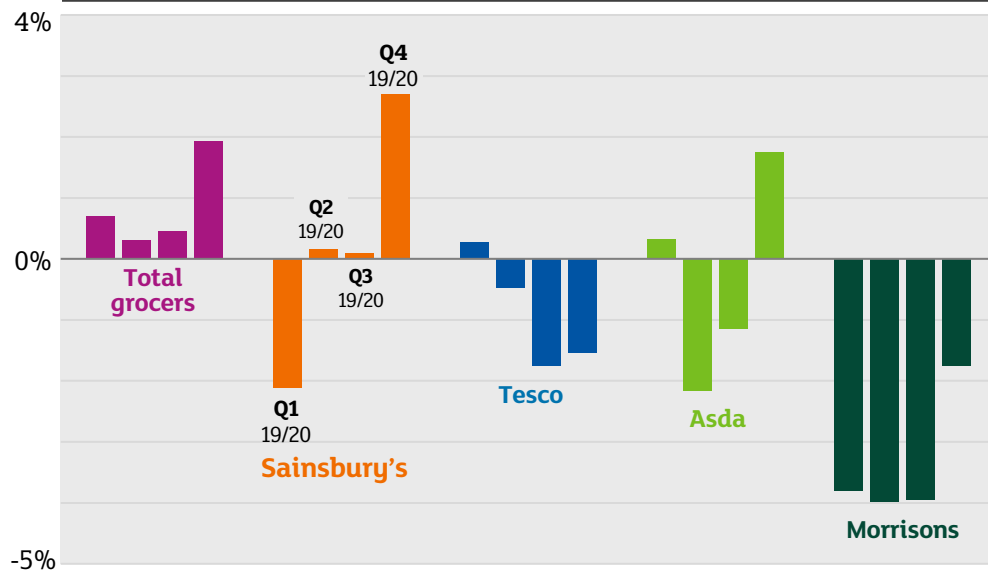


Clothing: Total sales growth



Sales performance versus market

Grocery: Volume growth¹

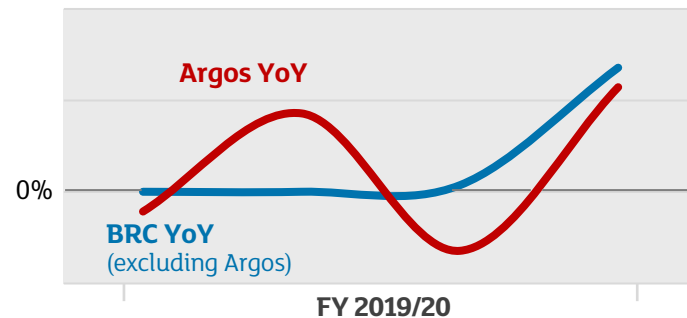


¹ Kantar unit growth YoY. Q1: 11 Mar - 30 Jun 2019, Q2: 1 Jul - 22 Sep, Q3: 23 Sep - 5 Jan, Q4: 6 Jan - 8 Mar 2020

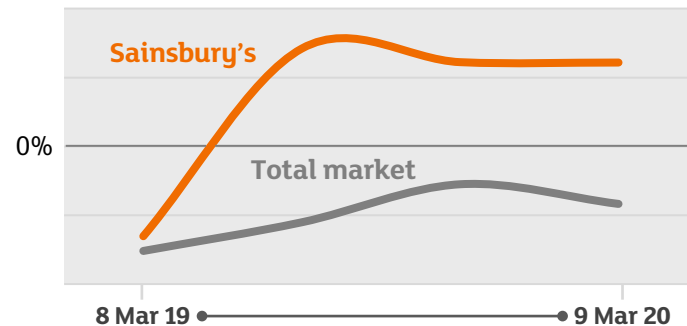
² Argos vs BRC non-food non-clothing market, 52 weeks to 7 March 2020

³ Kantar world panel 52 weeks to 8 March 2020

Argos: Value growth v BRC²

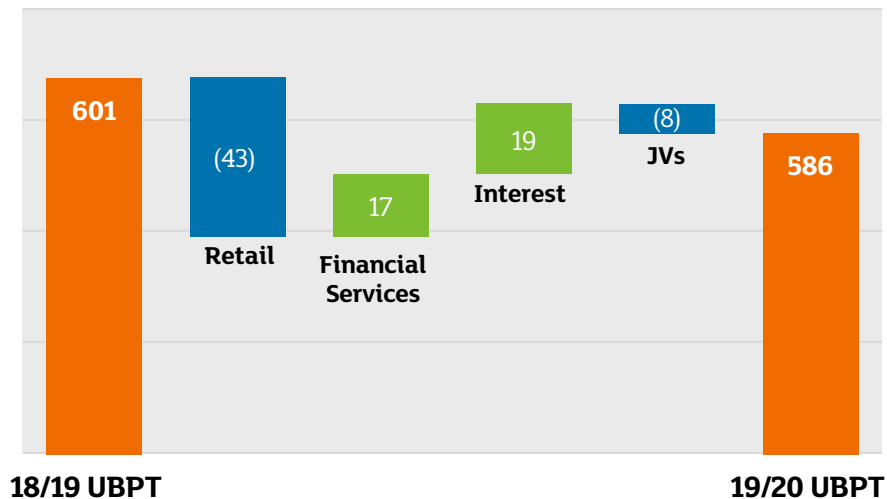


Clothing: Value Growth (%YOY)³

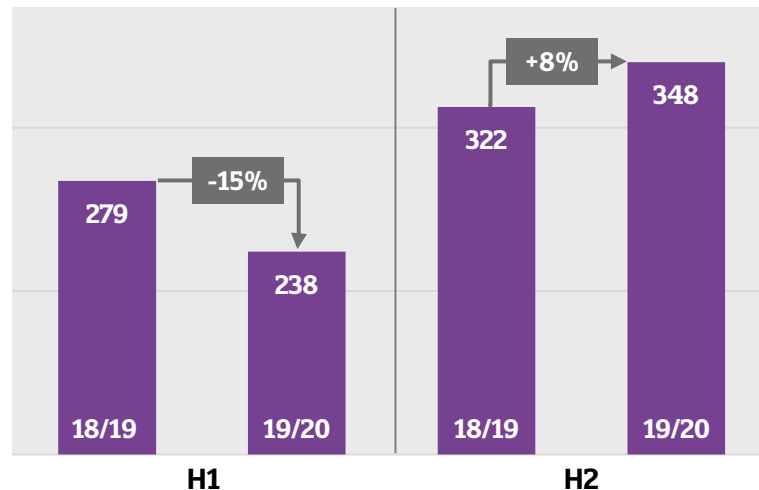


Underlying profit before tax

UPBT Waterfall (£m)

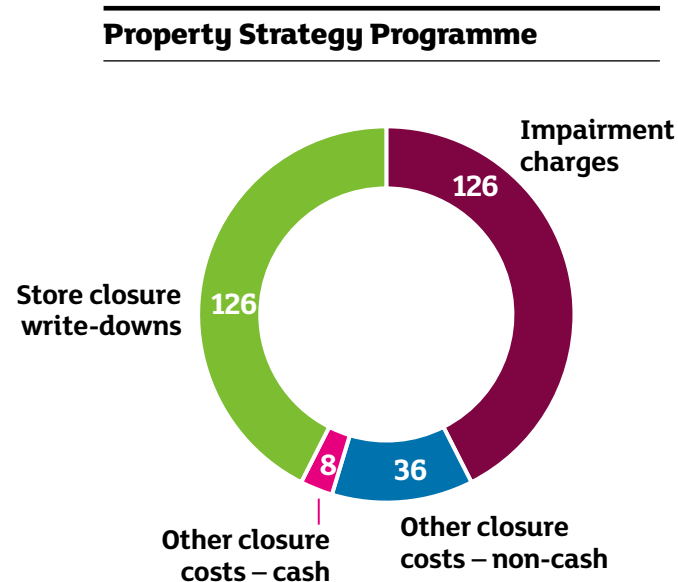


H1/ H2 UPBT



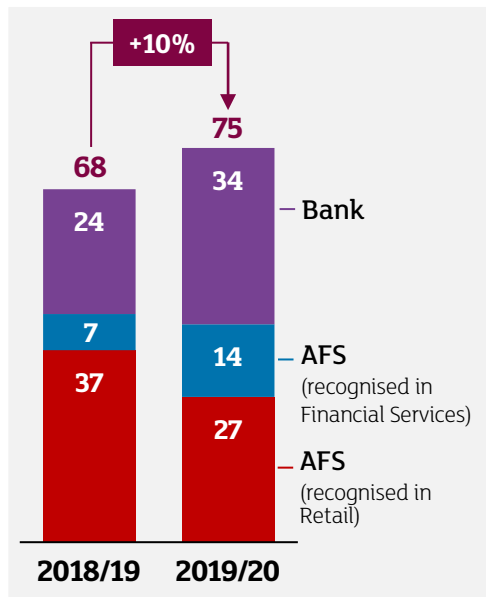
Items excluded from underlying results

£m	2019/20	2018/19
Retail restructuring programme	(32)	(81)
Financial Services transition and other	(29)	(70)
Argos integration costs	-	(40)
Asda transaction costs	-	(46)
Defined benefit pension expenses	19	(118)
Other	7	(44)
Total ex. Property strategy	(35)	(399)
Property strategy programme	(296)	-
Total	(331)	(399)

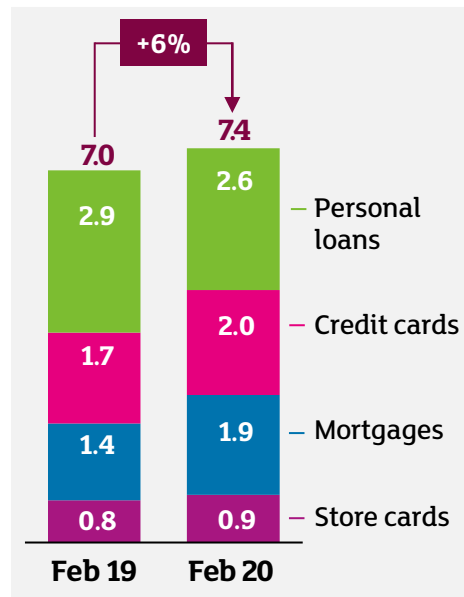


Financial services

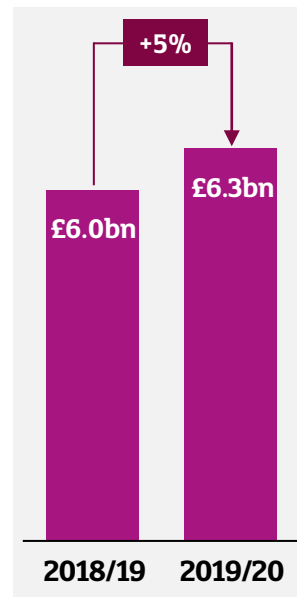
Financial Services UPBT (£m)



Customer Assets (£bn)

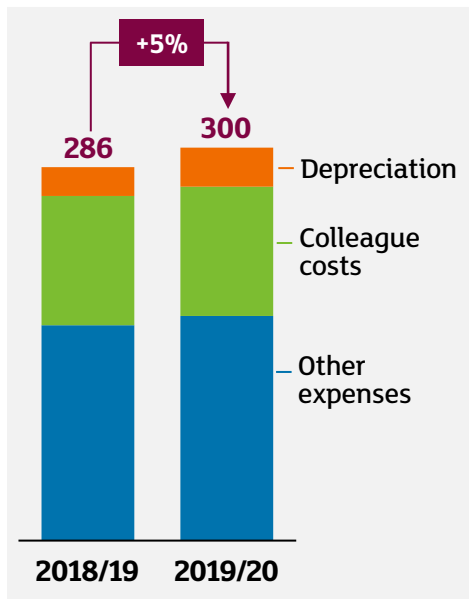


Deposits

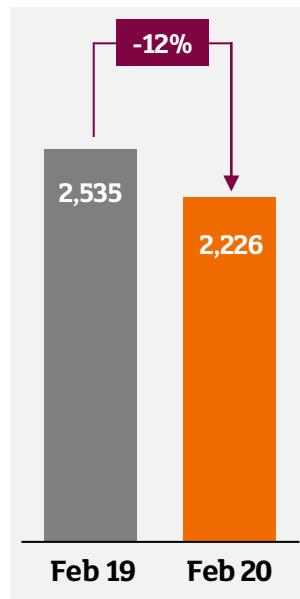


Financial Services Costs

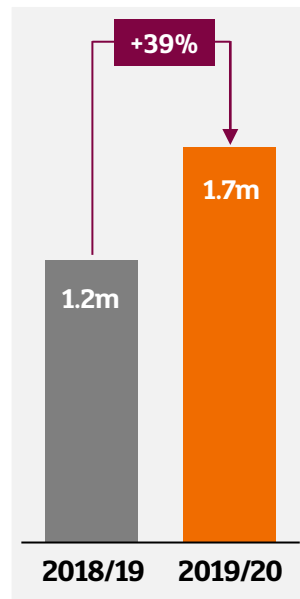
Costs¹ (£m)



Headcount



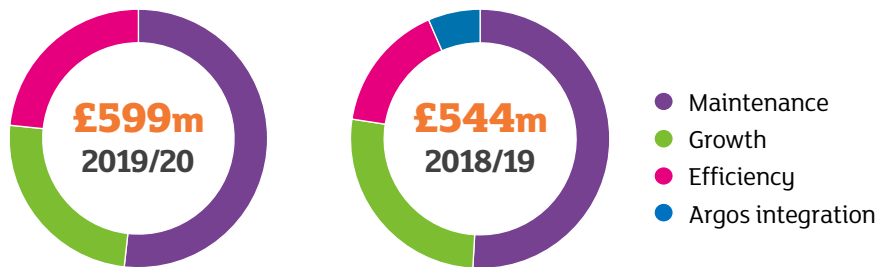
No. of registered customers to AFS mobile App



¹ Group contribution basis

Retail capital expenditure

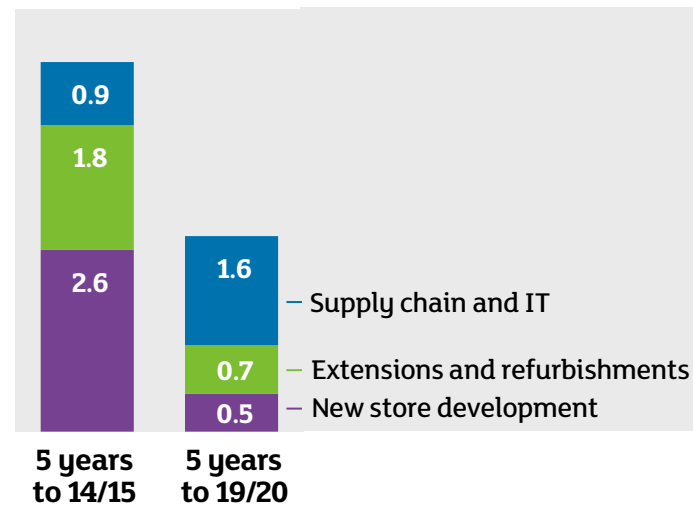
Retail capital expenditure



2020/21 FY Guidance

- Retail capital expenditure is expected to be around £550m-£600m per annum over the medium term
- Update on 2020/21 to be given at Interim Results in November

Core retail capital expenditure (£bn)



Net debt and retail free cash flow

£m – Restated for IFRS 16	2019/20	2018/19
Net cash from operating activities	1,453	1,437
Capital expenditure ¹	(599)	(508)
Disposal proceeds ²	224	78
Bank capital injections	(35)	(110)
Lease repayments ³	(432)	(441)
Retail free cash flow	611	456
Dividends paid on ordinary shares	(247)	(224)
Other	35	(3)
Movement in net debt	399	229
Opening net debt⁴	(7,346)	(7,575)
Closing net debt⁴	(6,947)	(7,346)
Of which:		
Lease liabilities	(5,768)	(5,824)
Net debt excluding lease liabilities⁵	(1,179)	(1,522)

▼ (343)

2020/21 FY Guidance

- No capital injections into the Bank are expected
- Expect underlying retail depreciation and amortisation of around £1.2bn, including c.£500m right of use asset depreciation
- Net finance costs of between £370m-£380m, including c.£310m lease interest in 2020/21, following the introduction of IFRS 16

¹ Excludes Argos integration capital expenditure in 18/19

² Includes dividends received from JVs, net of JV capital injections

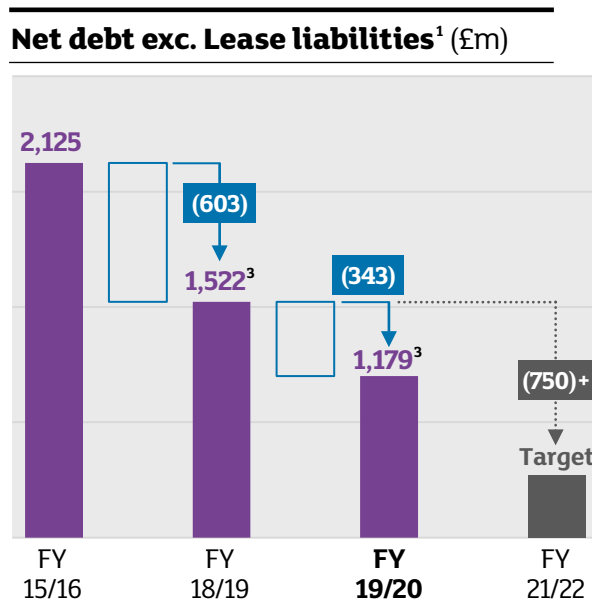
³ Includes initial direct costs on right-of-use assets

⁴ Net debt definition excludes derivatives not linked to borrowings, and includes perpetual securities as debt

⁵ FY18/19 Net Debt exc. Leases of £1,522m compares to the previously reported Net Debt of £1,636m less £(122)m of finance leases, plus £8m other (predominantly derivatives no longer reported within net debt)

Balance sheet targets

- Non-lease net debt reduction of at least £750m over the three years from 18/19 to 21/22
- Medium leverage reduction targets
 - Net debt/EBITDAR² less than 3x



£m	FY 2019/20	FY 2018/19
Net debt	(6,947)	(7,346)
Of which lease liabilities	(5,768)	(5,824)
Net debt exc. leases ¹	(1,179)	(1,522) ³

¹ Net debt definition now 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 EBITDAR. We previously disclosed adjusted Net debt/ EBITDAR, but net debt on a post-IFRS 16 basis now includes lease liabilities

³ FY18/19 Net Debt exc. Leases of £1,522m compares to the previously reported Net Debt of £1,636m less £(122)m of finance leases, plus £8m other (predominantly derivatives no longer reported within net debt)

Summary

- Strong customer response to changes in our Grocery business
- General Merchandise remained tough
- Good progress on Financial Services
- H2 profit growth
- Strong free cash flow, net debt reduction in line with guidance



J Sainsbury plc

Mike Coupe
Chief Executive Officer

J Sainsbury plc

 SmartShop

Exit area



Scan the QR code to finish your shop

Here's how to
shop
smarter

- 1 Download the SmartShop app
on your phone (available on
both iOS and Android)
- 2 Add your card!
It's a 30-second job and so easy
- 3 Scan the barcode and pay on
your phone with Apple Pay
or Google Pay
- 4 Get one of the QR codes to
finish your shop

 Pay  Pay

Performance

Our purpose – To help our customers live well for less

Our priorities



**Be competitive
on price**



**Distinctive
products and
categories**



**Personalised
and seamless
physical and
digital**



**Fast, friendly
and convenient**



**Drive
efficiency
to reinvest**



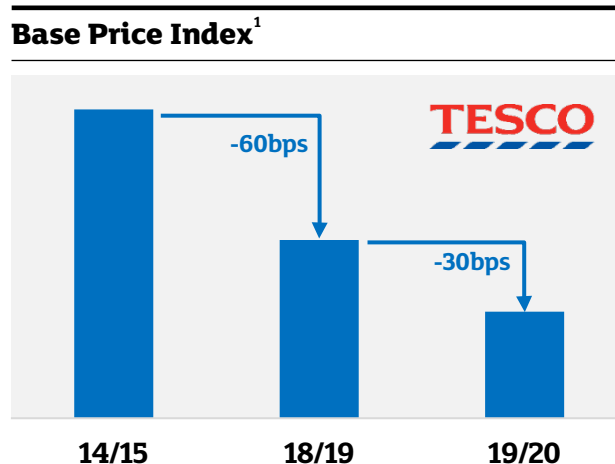
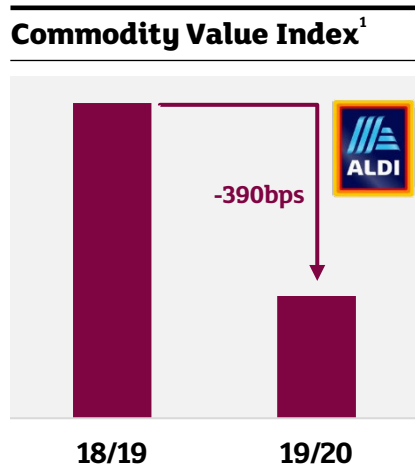
**Be a place
where we all
love to work**



**Net Zero
by 2040**

Improved grocery value

1
Be
competitive
on price



¹ Sainsbury's value index, based on Edge by Ascential SKU matching data, to March 2020

Major growth initiatives delivered in FY19/20

4

Fast, friendly
and
convenient

12,500
investments

£164m
Invested in 19/20

More than **1,000** major store projects

Invested in
451
supermarkets

Beauty **124**
Rapid Exit & SmartShop **118**
Tu features **110**
Food Partners & Concessions **93**
Wellness **42**
GM rebalance **40**

Invested in
362
convenience

Food to go **210**
Ambient **250**

Invested in
398
Argos stores

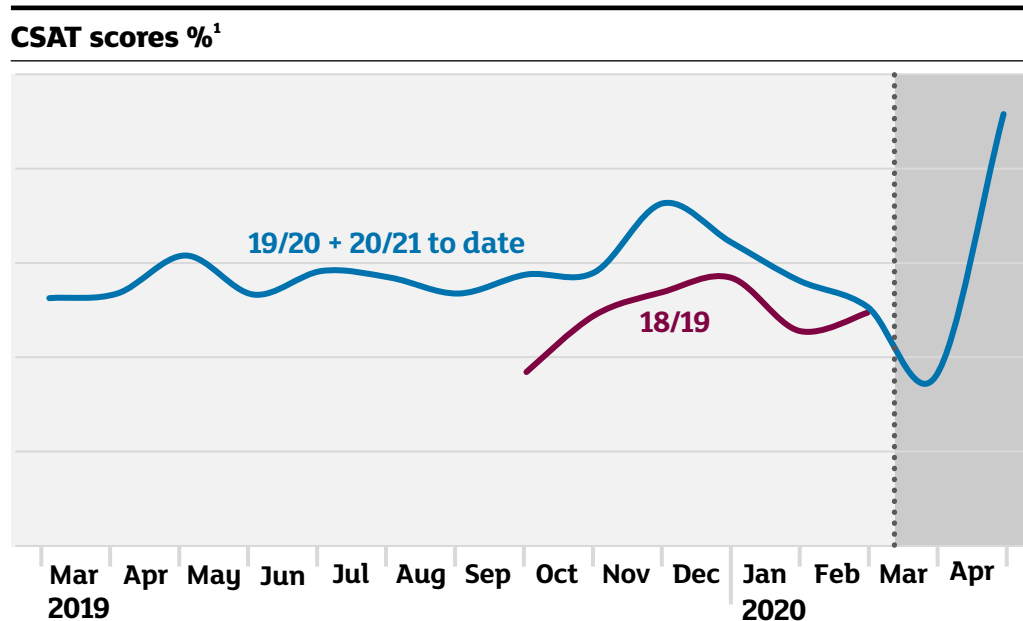
Digital **256**
Argos in Sainsbury's **25**

Improving customer satisfaction ranking

All supermarket measures improved year on year

4

Fast, friendly
and
convenient



¹ Lettuce Know in-store programme, combined Food Business

Channels: Convenience

4

Fast, friendly
and
convenient

On the Go



Neighbourhood hub

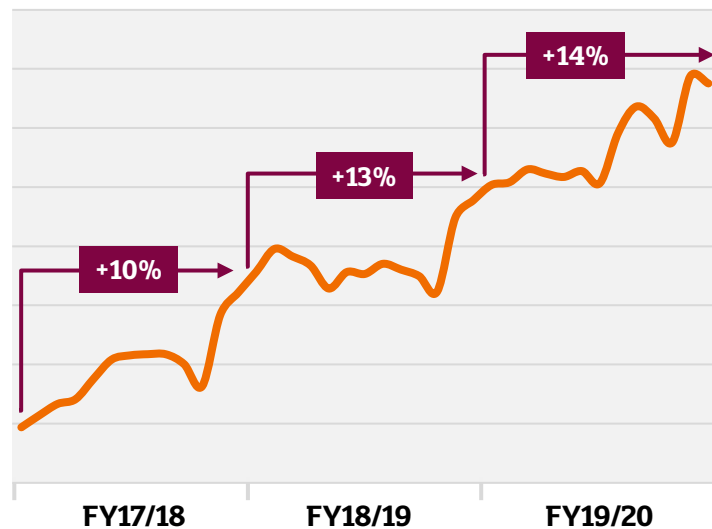


Channels: Groceries Online

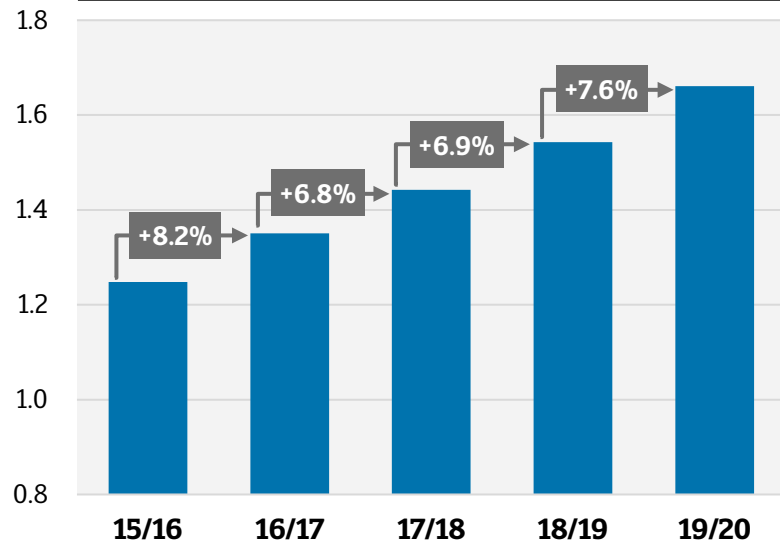
4

Fast, friendly
and
convenient

Items picked per hour improvement



Sales (£bn) and YOY growth rates



Financial Services Priorities

3

Personalised
and seamless
physical and
digital

Reshape the balance sheet

- Stop mortgage origination
- Develop AFS proposition
- Improve margins
- Improve card and insurance momentum

Simplify the organisation

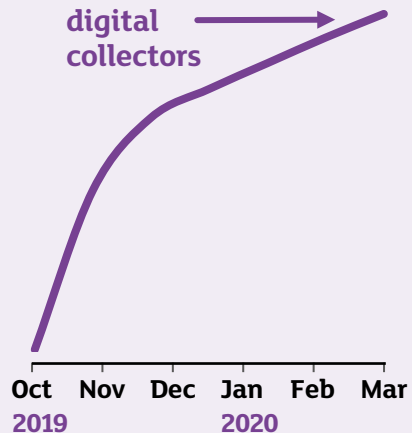
- Right size the cost base
- Rationalise product offering
- Review vendor/supplier arrangements
- Optimise cross-business synergies

Strengthen the business

- Focus on:
 - Operational resilience
 - Conduct
 - Capital efficiency
- Build core competency in:
 - Customer experience
 - Digital
 - Data and analytics
 - Credit/ operational risk
 - Partnerships

Digital Nectar

4.5m+
digital
collectors



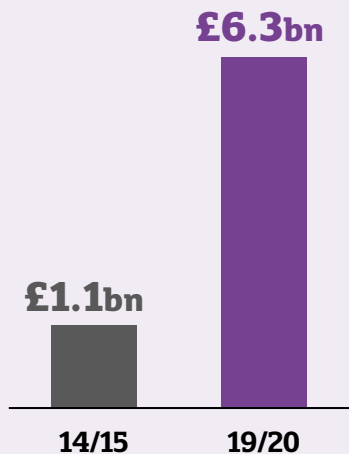
Coalition strengthened



Nectar 360

N E C
T A R
3 6 0

Digital Sales

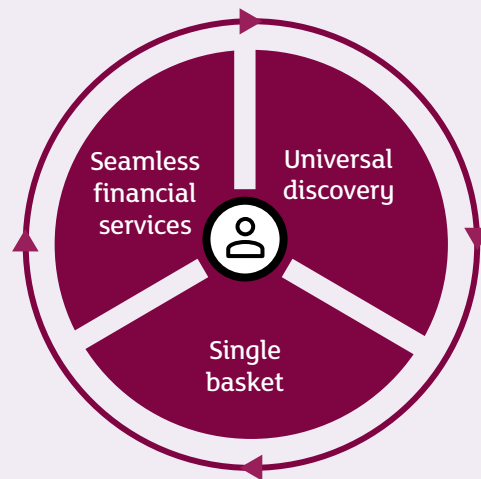


SmartShop

- Rolled out to all supermarkets
- Sales participation in handset stores: 18%

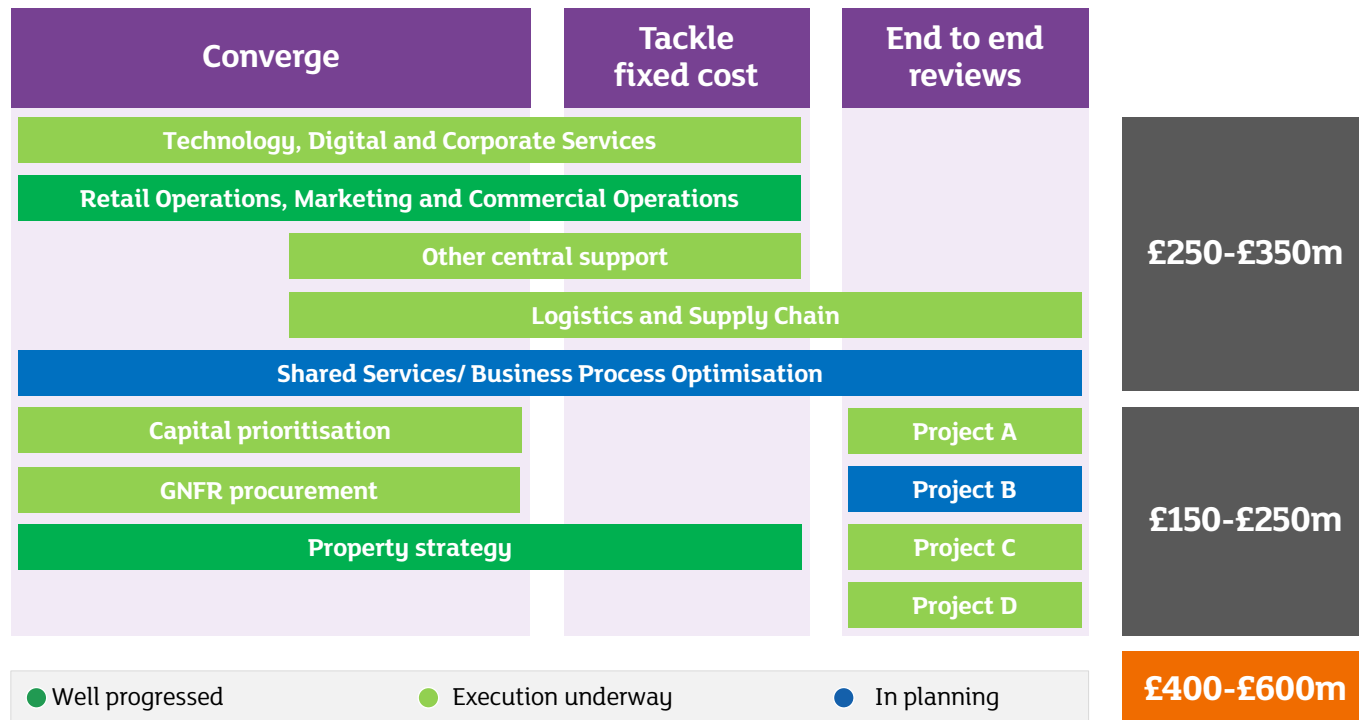


Single Search



Strategic cost transformation: 5 year plan

All programmes largely in execution



Seven key areas of focus

We will invest £1bn over the next 20 years



We will use science based targets and report progress against these every six months



J Sainsbury plc

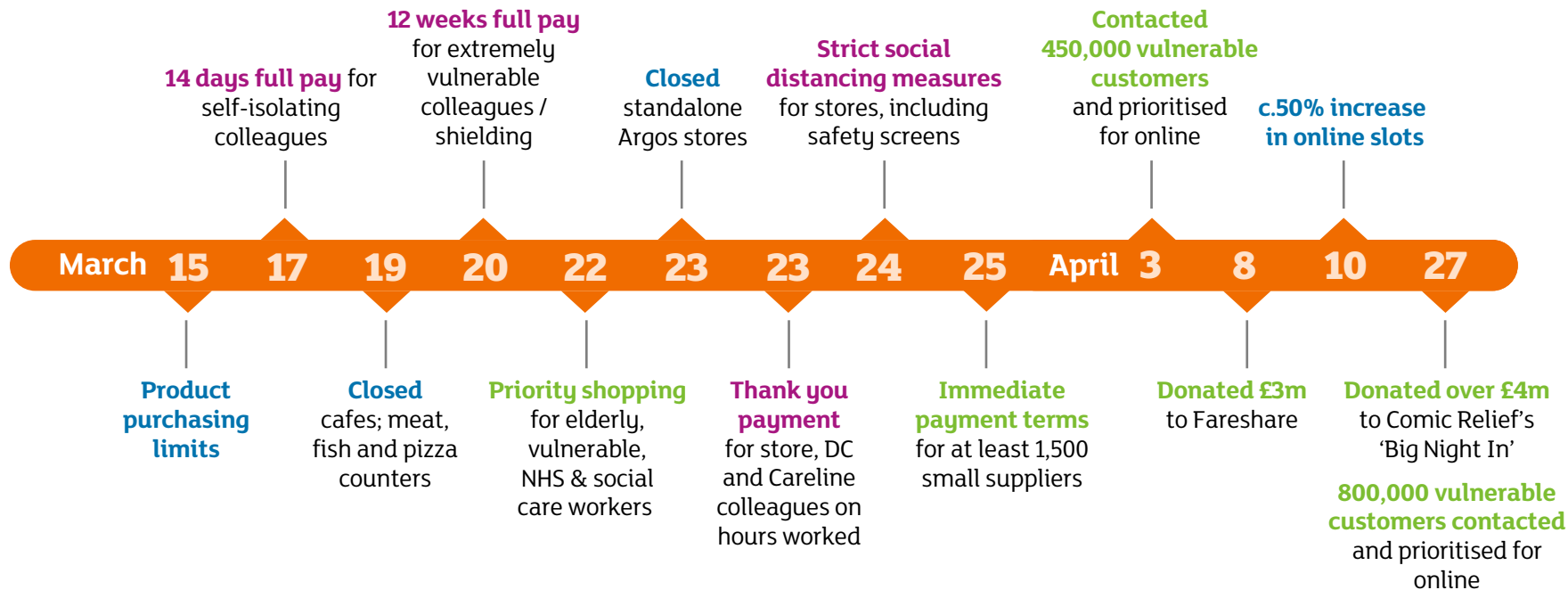
COVID-19

COVID-19: Sainsbury's Timeline

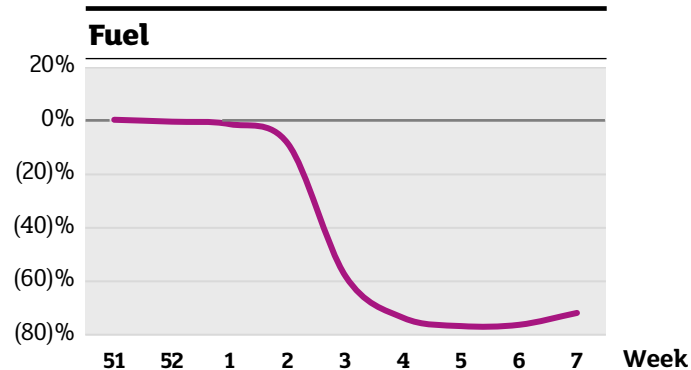
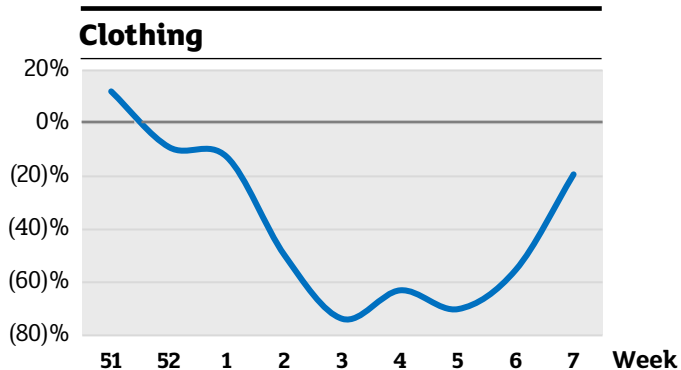
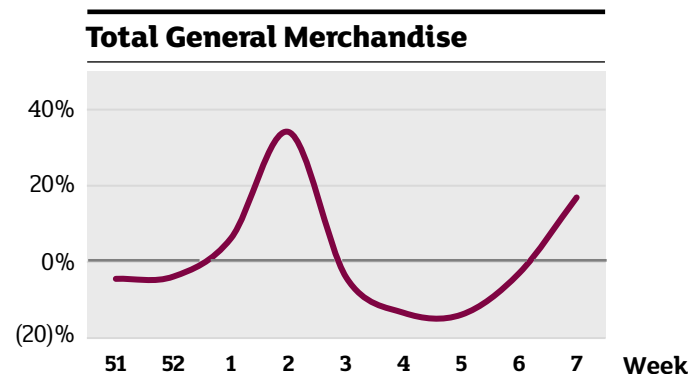
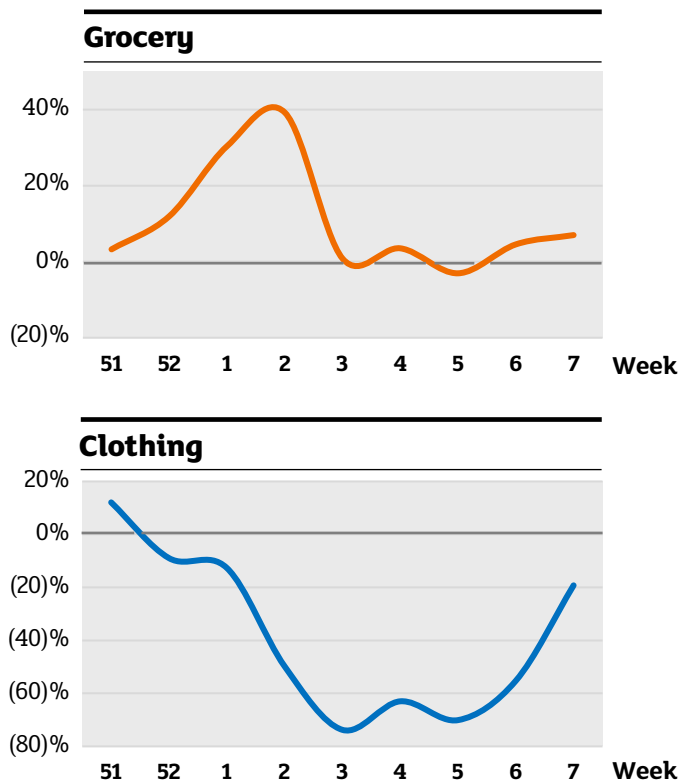
Feeding the nation

Keeping our customers and colleagues safe

Supporting our communities

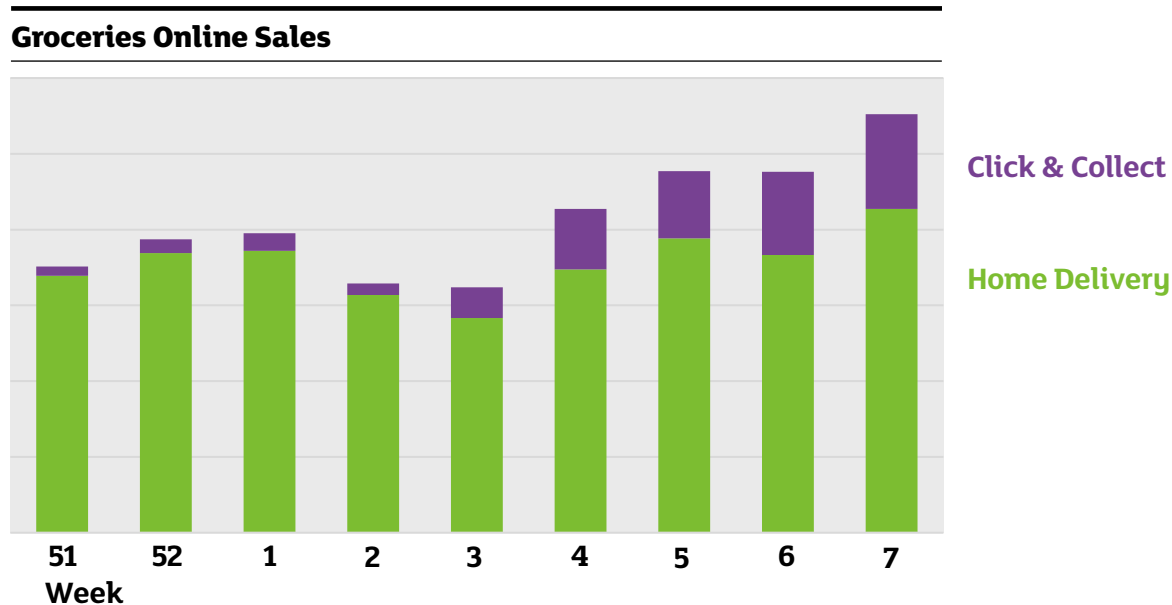


Initial Impact: Sales Shape

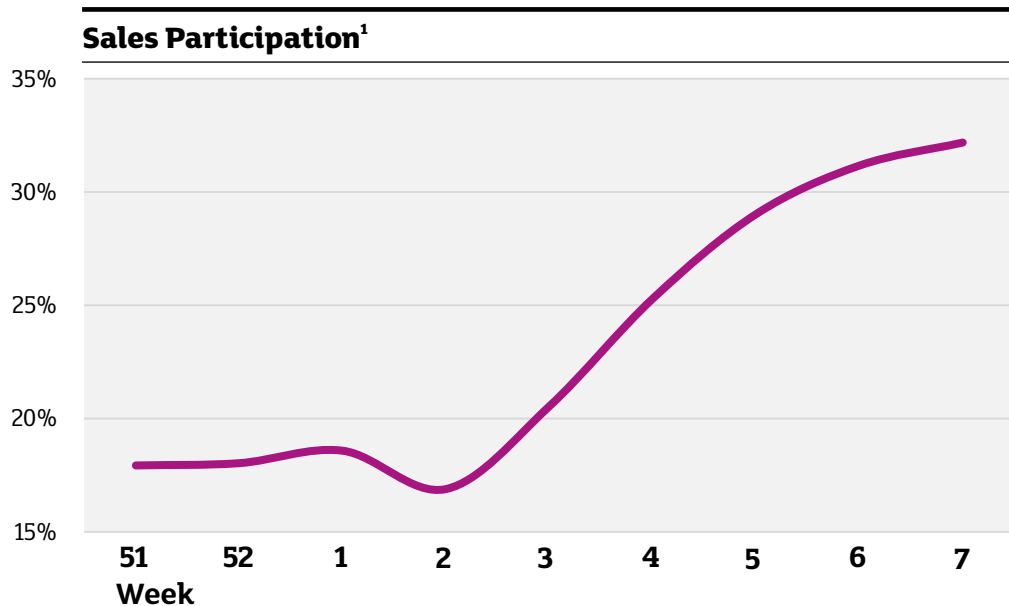


Sales figures have been seasonally adjusted

Initial Impact: Groceries Online

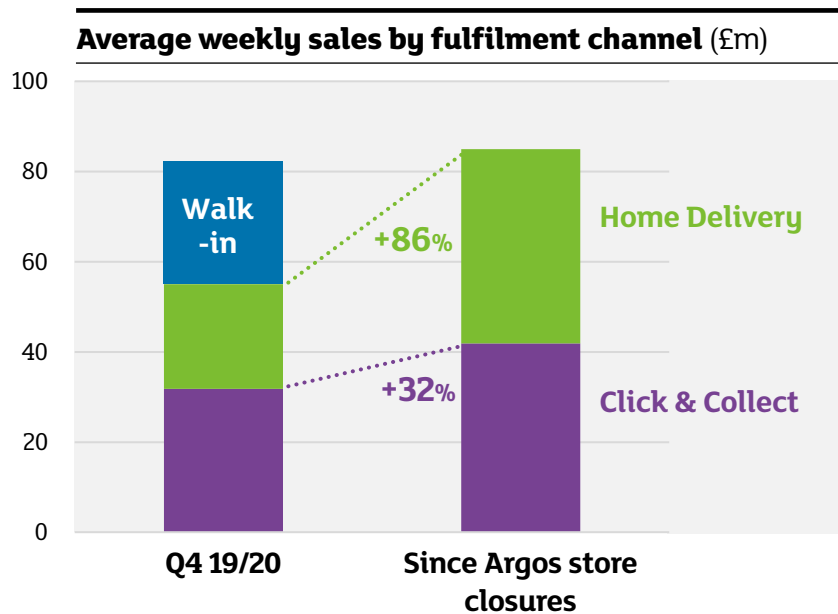


Initial Impact: SmartShop



¹ Average sales participation of handset stores

Initial Impact: Argos



Sales Outlook

Base case

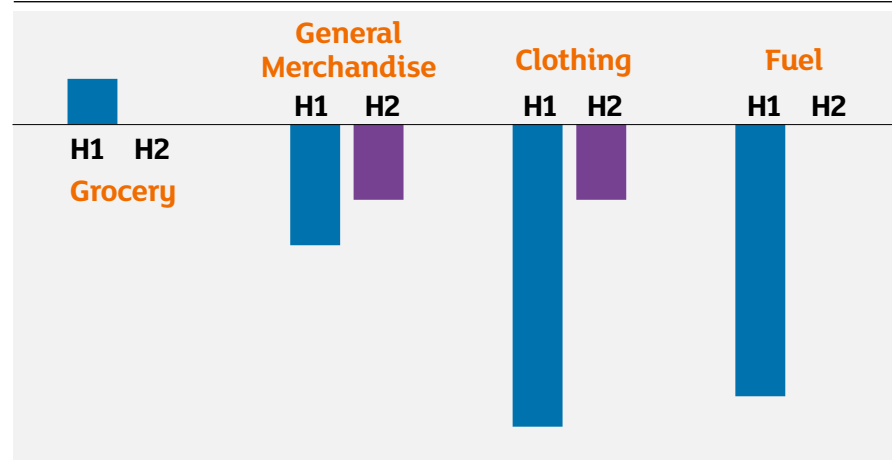
Key assumptions - sales

- **Q1:** Lockdown
- **Q2:** Continued disruption
- **H2:** Normalisation but a weaker economy

Net FY impact

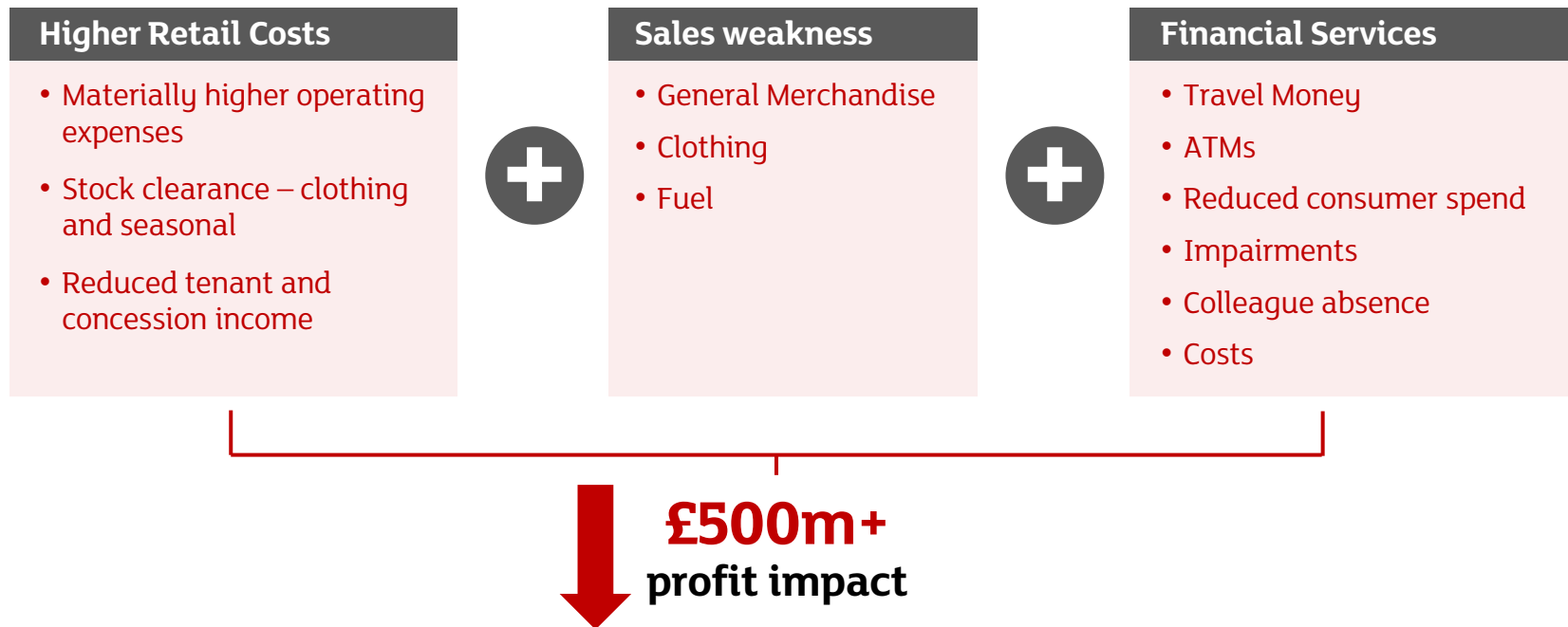
- Grocery positive
- General merchandise, clothing and fuel volumes negative

Sales Growth Assumptions (%)



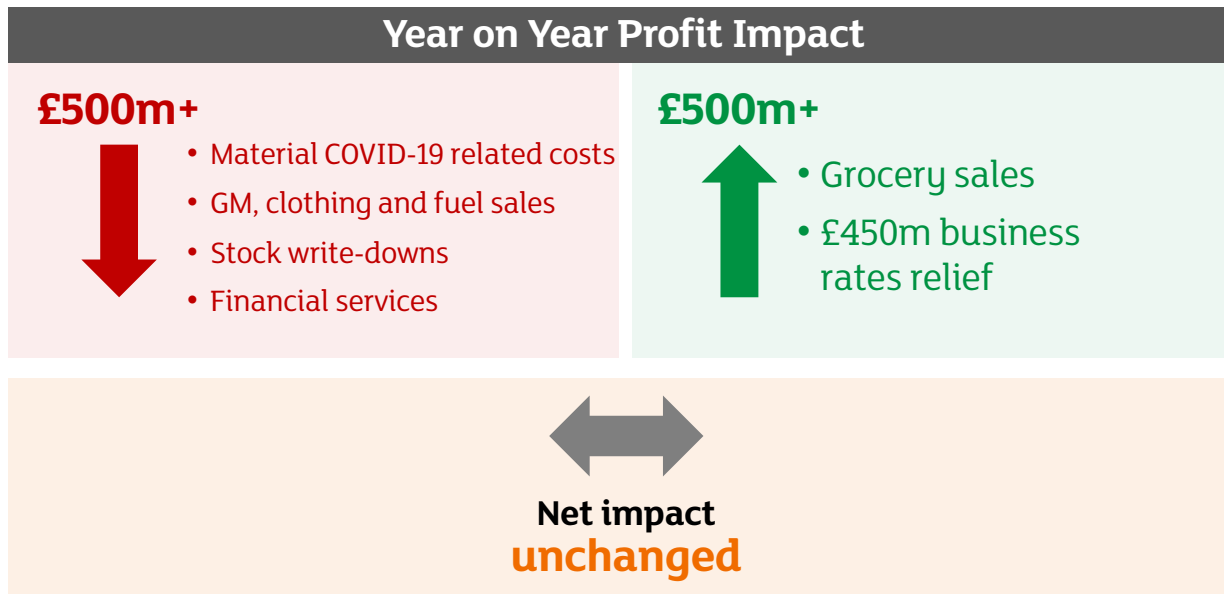
Profit Outlook

Base case



Profit Outlook

Base case



Liquidity

Significant financing headroom

Financial resilience stress testing

Significant headroom – cash and committed funding:

- £1.45bn RCF undrawn at March year end
 - £500m now drawn down for prudence
- Capex H2 weighted

Financial Services balance sheet is strong

- Regulatory capital surplus, significant excess liquidity
- Confident that business will not require capital from Group

Dividend

**Dividend
decision
deferred**

Prudent approach

- Wide range of potential outcomes
- Visibility on full impact of COVID-19 will be greater later in the year

Summary

Results

- Good momentum in our Grocery business
- Coming together as one multi brand, multi channel business
- Strong cash generation

COVID-19 Response

- Great response across the business to COVID-19; supporting customers, colleagues, communities and suppliers
- Strength and flexibility of the multi brand multi channel platform
- Balance sheet strength helping support suppliers, tenants and concessions

Outlook

- Significant incremental costs associated with COVID-19 response
- Business rates relief and uplifts in grocery sales likely to broadly offset incremental costs and weaker general merchandise, clothing and financial services contributions
- Balance sheet strong, liquidity good, prudent deferral of dividend decision



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Q&A