



# Ocado Group plc **FY19 Results**

11th February 2020

# The Chairman's Overview

Lord Rose



# Forward-looking statements

## DISCLAIMER

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# Introduction

Tim Steiner  
CEO



*“We are pleased to report results which show strong momentum in the business. Although statutory results reflected a combination of factors, including the impact of the Andover fire, the underlying performance of Ocado Retail and the successful growth of Ocado Solutions were very encouraging.*

*Our progress over the last twelve months, which includes signing our eighth and ninth Solutions clients, Coles in Australia and Aeon in Japan, and successfully maintaining strong growth post-Andover, has demonstrated many of Ocado Group’s most important characteristics: resilience, innovation, focus and execution. It is these qualities that will enable us to continue to develop the Ocado Smart Platform to meet the evolving needs of our partners at the cutting edge of online grocery retail.”*

**Tim Steiner, CEO**



# Financial Review

Duncan Tatton-Brown  
CFO



# Financial Summary

	£m	FY 2019 Pre-exceptionals	FY 2018	Var (%)
<b>Group Revenue</b>		<b>1,756.6</b>	<b>1,598.8</b>	<b>9.9</b>
<b>Group EBITDA</b>		<b>43.3</b>	<b>59.5</b>	<b>(27.2)</b>
Depreciation, amortisation, impairment		(136.1)	(91.4)	
Net Interest		(27.6)	(12.5)	
<b>Loss before tax</b>		<b>(120.4)</b>	<b>(44.4)</b>	

1. Revenue is online sales (net of returns) including charges for delivery but excluding relevant vouchers/offers and value added tax. The recharge of costs to our UK Solutions clients and International Solutions clients are also included in revenue with the exception of recharges to Ocado Retail which are eliminated on consolidation
2. EBITDA excludes exceptional items. Group EBITDA in 2019 includes the EBITDA impact of IFRS 16 of £25.4m

# Reviewing exceptionals impact

	£m	Exceptionals Impact	
<b>Loss before tax pre exceptionals FY 2019</b>		<b>(120.4)</b>	
Andover CFC		(111.8)	<ul style="list-style-type: none"> <li>• Write off of Andover CFC tangible assets, inventory and additional operating costs</li> </ul>
Insurance reimbursement		23.8	<ul style="list-style-type: none"> <li>• Insurance income recognised out of £74m received in the period</li> </ul>
Disposal of Fabled		(1.1)	
Joint Venture with M&S		(3.4)	
Litigation costs		(1.3)	<ul style="list-style-type: none"> <li>• proceedings against T0day and others for IP theft</li> </ul>
Other		(0.3)	
<b>Loss before tax post exceptionals FY 2019</b>		<b>(214.5)</b>	



# Segmental Summary

	Revenue <sup>1</sup>			EBITDA <sup>2</sup>			
	FY 2019	FY 2018	Var %	FY 2019 Post IFRS16	FY 2019 Pre IFRS16	FY 2018	Var % Pre IFRS16
£m							
<b>Retail</b>	<b>1,617.5</b>	1,466.6	10.3	<b>35.0</b>	<b>20.2</b>	30.1	(33.0)
<b>UK Solutions &amp; Logistics</b>	<b>583.2</b>	541.1	7.8	<b>84.8</b>	<b>74.2</b>	67.5	10.0
<b>International Solutions</b>	<b>0.5</b>	0.5	-	<b>(62.1)</b>	<b>(62.1)</b>	(28.4)	-
<b>Other</b>	<b>9.8</b>	9.2	6.5	<b>(14.4)</b>	<b>(14.4)</b>	(9.7)	-
<b>Total</b>	<b>1,756.6</b>	<b>1,598.8</b>	<b>9.9</b>	<b>43.3</b>	<b>17.9</b>	<b>59.5</b>	<b>(69.9)</b>

1. Group totals include eliminations

2. EBITDA excludes exceptional items and excludes the impact of IFRS 16

# Cash fees show progress building International Solutions

	FY 2019	FY 2018	Var %
Revenue	0.5	0.5	-
EBITDA	(62.1)	(28.4)	-
<b>Fees invoiced</b>	<b>81.4</b>	<b>58.8</b>	<b>38.4</b>

- Fees invoiced from international partners up significantly
- Immaterial revenue recognised under IFRS 15
- Cumulative unrecognised cash fees of around £140m of by end of 2019
- Significant growth in costs to support client requirements

# UK Solutions: progress in underlying efficiencies

	FY 2019	FY 2018	Var %
Revenue	583.2	541.1	7.8
EBITDA*	74.2	67.5	10.0

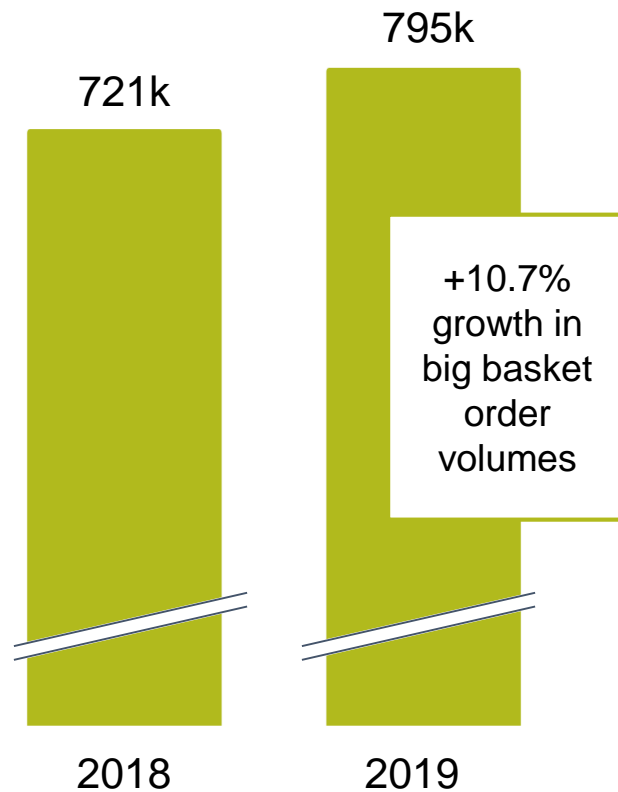
- Revenue growth lower due to part year of Morrisons “holiday”
- Improvement in underlying efficiencies:
  - DPV<sup>1</sup> up to 196, approaching new target of 200
  - Mature UPH improved to 168, with Erith UPH now regularly above Hatfield
- Full year of fixed costs at Erith
- Significant progress in engineering costs; average cost per order down by a third across the year, with the new generation robot to come

\* Pre-IFRS16 impact

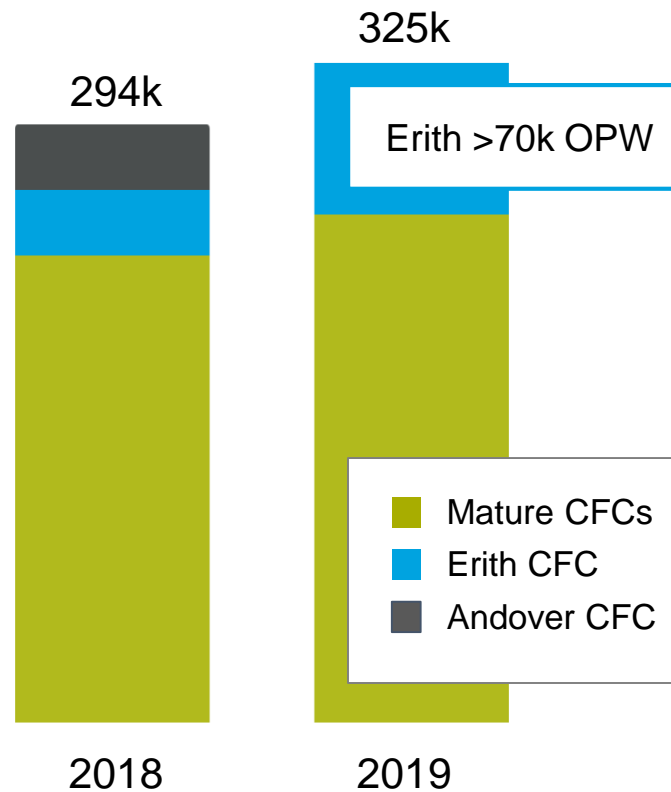
1. DPV is for Ocado Retail only

# Ocado Retail: growth to bring improving efficiencies

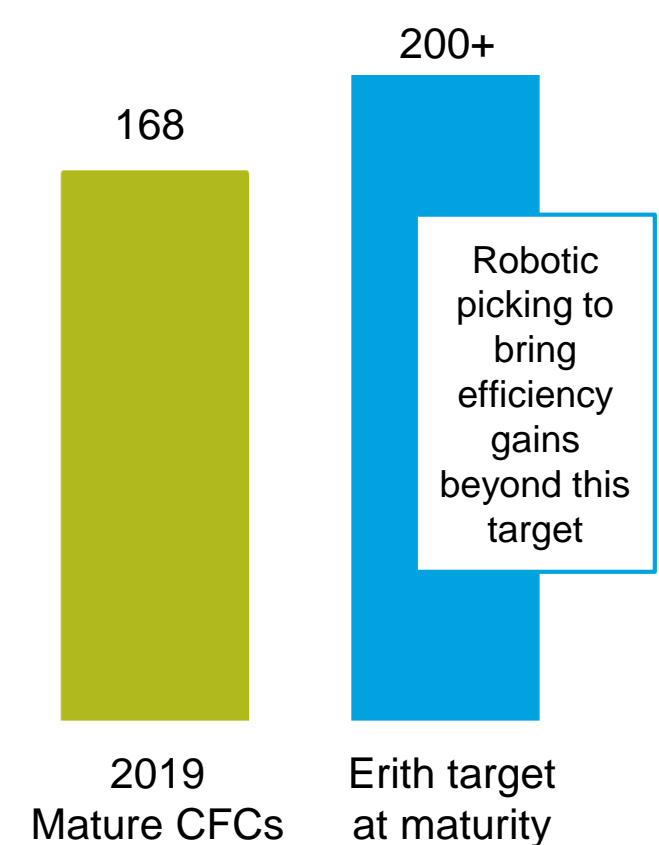
10.3% growth in active customers drives order volumes



With growth in orders coming through new generation facilities



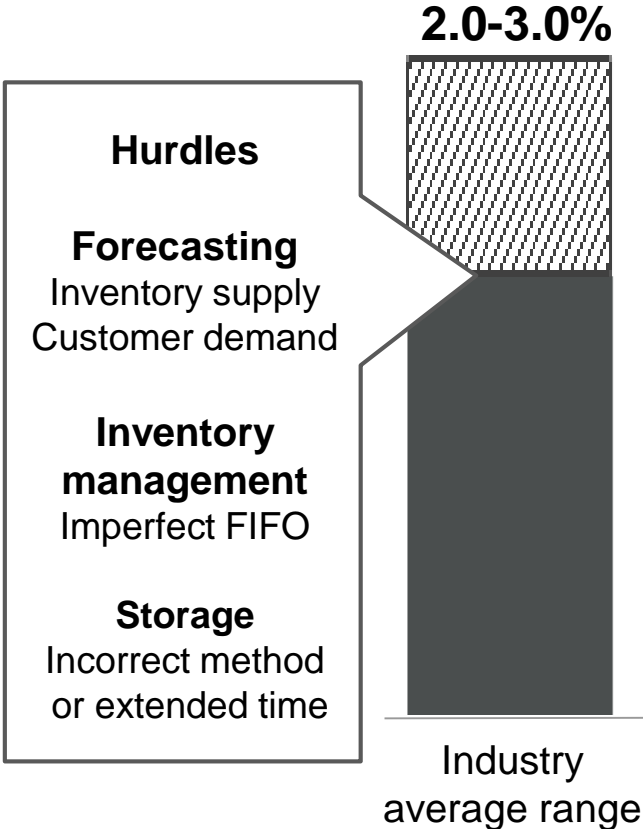
Which will drive material CFC efficiency increases (UPH) at scale



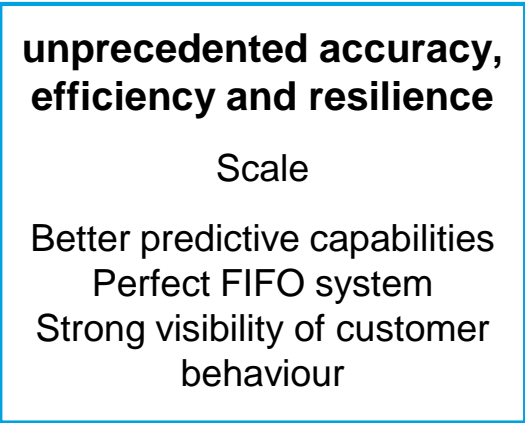


# Wastage: technology drives continuous operational improvement

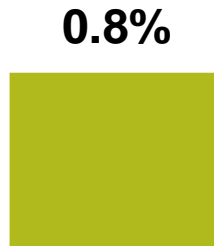
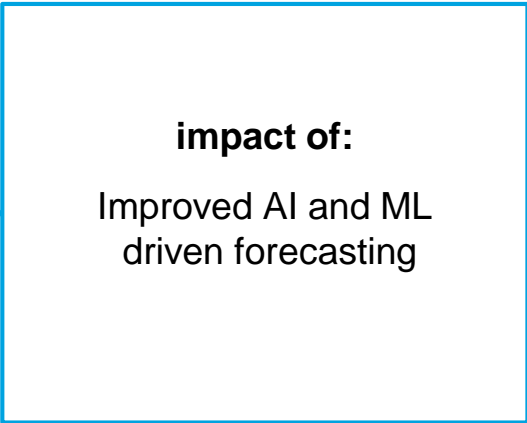
Wastage<sup>1</sup> is a huge operational challenge for the grocery industry



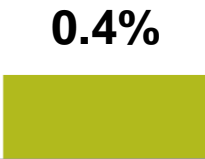
OSP enables market leading performance...



...and is still improving







2018  
Ocado Retail



2019  
Ocado Retail

1. Food items not sold as a % of sales Food that goes to landfill is only 0.02% of sales

# Ocado Retail performance

	2019 <sup>1,2</sup> (% Retail Revenue)	2018 <sup>1,2</sup> (% Retail Revenue)	Var (%)		
Gross margin	32.9	33.0	(0.1)		
Trunking and delivery costs	(12.2)	(12.4)	0.2		Continued underlying progress, fixed costs of Erith
CFC costs	(8.9)	(8.4)	(0.5)		
Other operating costs	(0.6)	(0.7)	(0.0)		Increased marketing costs following Andover fire and with offline trial
Marketing costs	(1.3)	(0.9)	(0.4)		
Fees	(5.1)	(5.0)	(0.1)		Fees paid to Ocado Group for the OSP and logistics solutions to operate online offer
<b>Operating contribution</b>	<b>4.8</b>	<b>5.6</b>	<b>(0.8)</b>		
Admin costs	(3.5)	(3.5)	0.0		
<b>EBITDA</b>	<b>1.3</b>	<b>2.1</b>	<b>(0.8)</b>		

1. Excluding exceptionals and pre-IFRS16.

2. The costs of Ocado Retail's operation in 2018, and in 2019 prior to the formation of the joint venture with M&S, have been allocated between the Retail Segment and UK & Logistics segment in order to be broadly comparable to the current contractual arrangements now in place

# Ocado Retail: considerations versus other partners

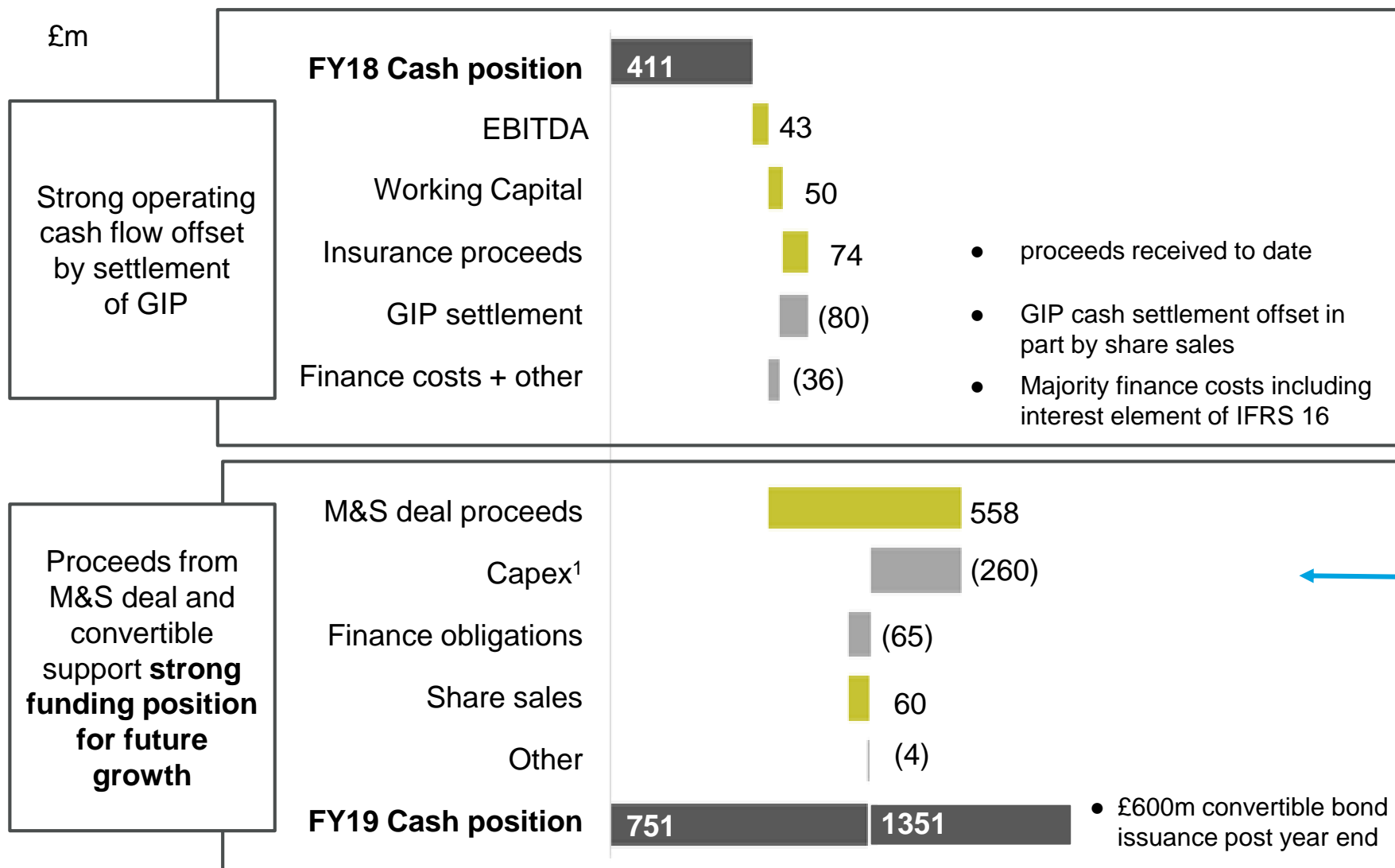
	2019 <sup>1,2</sup>	
P&L	(% Retail Revenue)	Consideration v. client P&L
Gross margin	32.9	Includes Waitrose sourcing fee and without scale advantages
Trunking and delivery costs	(12.2)	
CFC costs	(8.9)	Lower efficiency due to legacy assets
Other operating costs	(0.6)	
Marketing costs	(1.3)	Includes impact of Andover fire and without benefit of existing brand
Fees	(5.1)	Includes 3PL fees but lower OSP fee reflecting lower efficiency assets
<b>Operating contribution</b>	<b>4.8</b>	
Admin costs	(3.5)	Higher admin fees due to set up and smaller scale
<b>EBITDA</b>	<b>1.3</b>	

Client business with higher EBITDA margin at scale and low capital costs

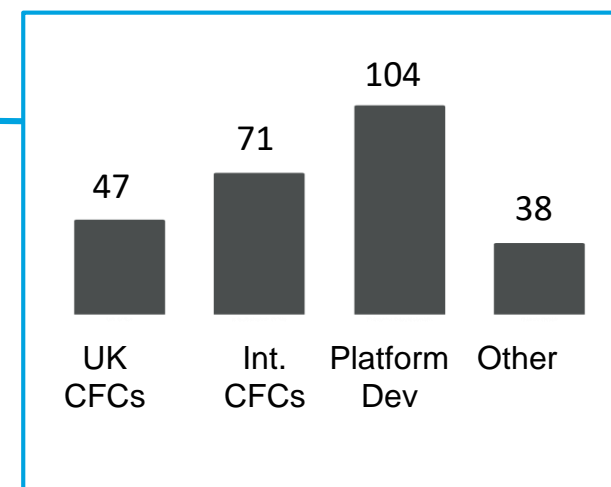
1. Excluding exceptionals

2. The costs of Ocado Retail's operation in 2019 prior to the formation of the joint venture with M&S, have been allocated between the Retail Segment and UK & Logistics segment in order to be broadly comparable to the current contractual arrangements now in place.

# Group net cash flow development



## Capex split<sup>1</sup>



1. Variance is the difference between accrued capital expenditure and cash capital expenditure



# Outlook for 2020

- Revenue growth:
  - Retail 10-15%
  - UK Solutions & Logistics below Retail reflecting full year impact of Morrisons' "holiday" from Erith
  - International Solutions expected to be <£10m
    - International fees start to be recognised once operations commence
    - part year operations for Casino and Sobeys
- International Solutions fees invoiced > 40% growth

# Outlook for 2020 (continued)

- EBITDA:
  - Retail above revenue growth, reflecting improved operating margins as Erith scales
  - UK Solutions and Logistics to decline due to Morrisons' "holiday" from Erith, with insurance benefits recorded in exceptionals
  - International solutions to decline due to continued investment in build of the business and increased support costs with launch of initial CFCs
- Continued insurance receipts
  - Partly funds UK CFCs
  - Both rebuild and business interruption recognised as exceptional income
- Capex forecast £600m
  - International CFCs - £225m
  - UK CFCs - £225m; Andover (c.40% of total) to be funded from insurance proceeds
  - Development and other - £150m

# Financial Review

Duncan Tatton-Brown  
CFO





# Building for tomorrow, at pace

Tim Steiner  
CEO

**Groupe Casino: Fleury-Mérogis, France**



**Sobeys: Vaughan, Ontario, Canada**





# Four key elements to the Ocado story in 2020

1. Developing the Ocado Smart Platform
2. Managing greater velocity in the business
3. Enhancing the customer experience at Ocado Retail
4. Creating the future, today: transformative innovation in the pipeline

1

# OSP: reliably providing the best customer outcomes...



## Range

58,000 SKUs  
8 products<sup>1</sup> in  
average basket  
only at Ocado



## Service

95% of orders  
delivered on time  
99% order accuracy



## Ease of Use

Order through app,  
website, and on  
chosen device  
Always improving



## Price

Flexibility to price our  
range so that we  
offer the most value  
for customers

**A market leading customer offer**

1. Meaning any third party branded product that cannot be found elsewhere, including entire brands or different versions of a given product

# 1 ...while producing the best economics

Centralised fulfilment has fundamental characteristics	That drive economic benefits	
1. Large scale, centralised operations	Margin benefit (long tail)	
	Improved efficiencies	Inbound
		Picking
		Waste
2. Reduced supply chain	Minimal supply chain cost	
3. Use of own, purpose-built technology and IP	Flexibility to pursue iterative and step change innovation	
Operating cost result	Best in channel	

Typical micro fulfilment centre	Leveraged in our Zoom model
✗	✗
✗	✓
✓	✓
✗	✓
✗	✓
?	✓
Materially higher	Slightly higher

# The last mile

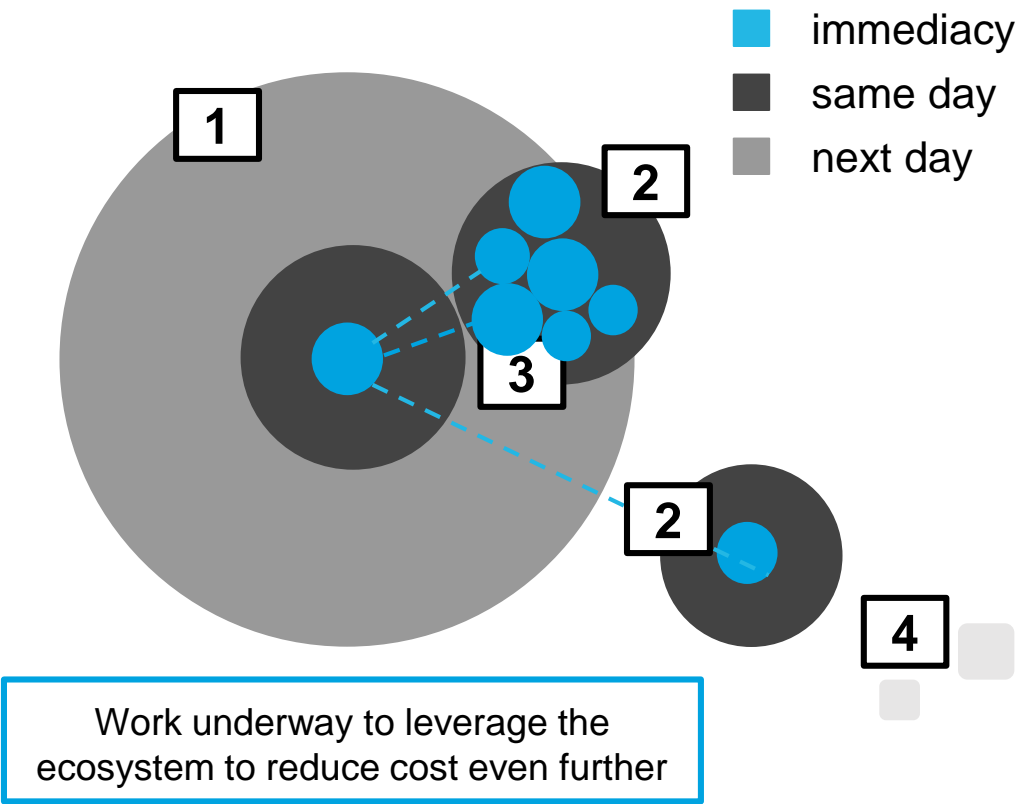
1	Scaled, centralised planning drives benefits	<ul style="list-style-type: none"><li>• Strategic spoke network enables improved last mile efficiency, including disbenefit of longer stem time</li><li>• <b>We estimate that central planning brings an operating benefit of around 0.5% of sales</b></li></ul>
2	Trunking is a small part of delivery expense	<ul style="list-style-type: none"><li>• The theoretical 'gain' to be made from closer start location to customer</li><li>• <b>Trunking costs 1.2% of sales for Ocado Retail</b></li></ul>
3	Operating click & collect is not 'free' for a retailer	<ul style="list-style-type: none"><li>• A store can service a limited amount of online sales</li><li>• Needs staff to operate; more required as scales</li><li>• <b>We estimate click and collect could cost 3-4% of sales to operate</b></li></ul>

The benefit of proximity alone is minimal in the context of the operational benefits of the CFC model



# 1 The OSP ecosystem

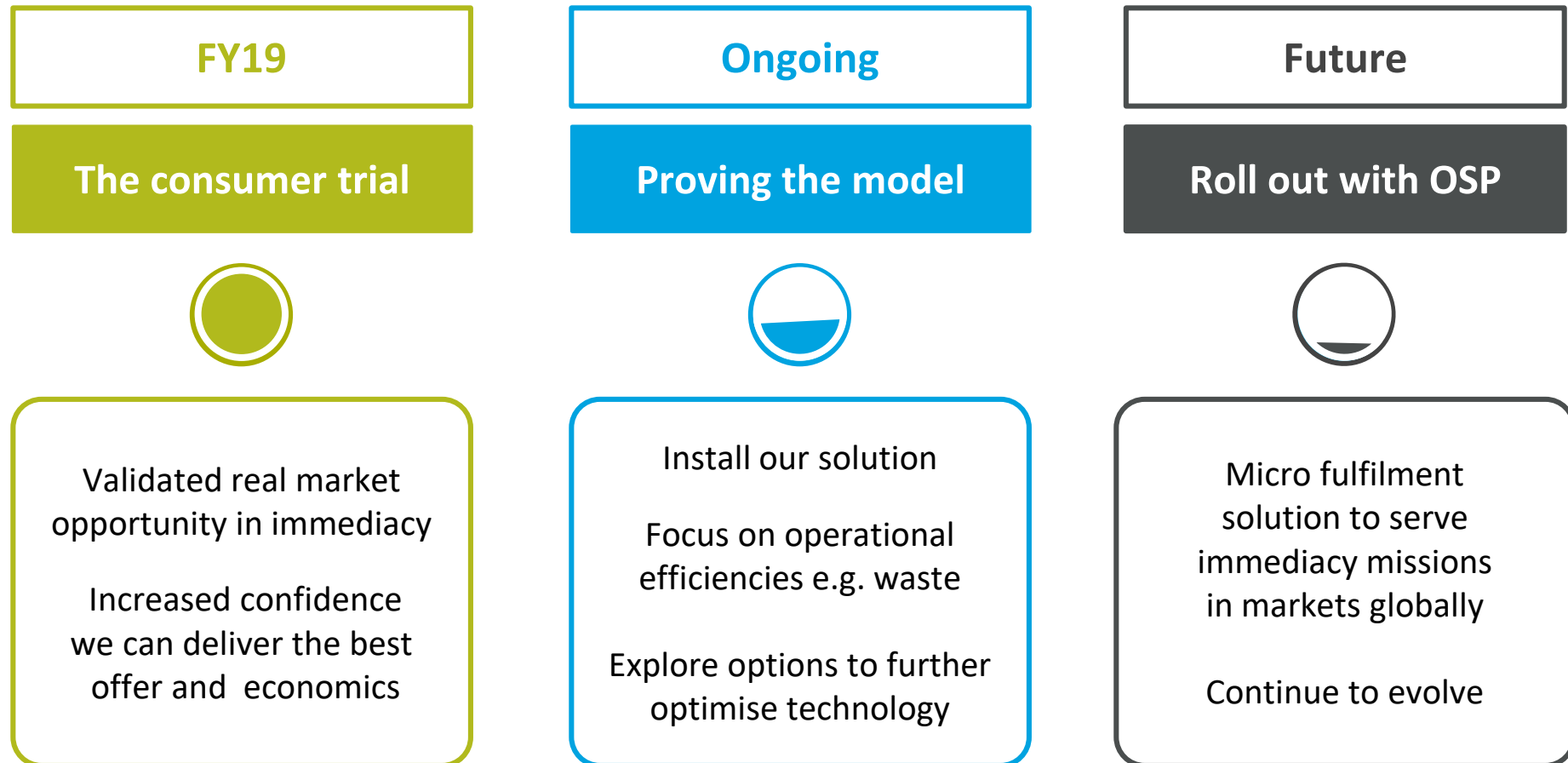
## An illustrative example



	Key	Module	Primary mission	size (sq ft)
1		Standard CFC	Full basket shop; large direct and spoked catchment	200k+
2		Mini CFC	Full grocery shop; shorter lead times or to connect lower density areas to network	50-160k
3		MFC	Immediacy	5-25k
4		Store pick software	Best fulfilment in remote areas	n/a

OSP has the flexibility to develop bespoke networks to serve the unique needs of each market

# 1 Ocado Zoom: next steps in immediacy



Working on plans for second site

1

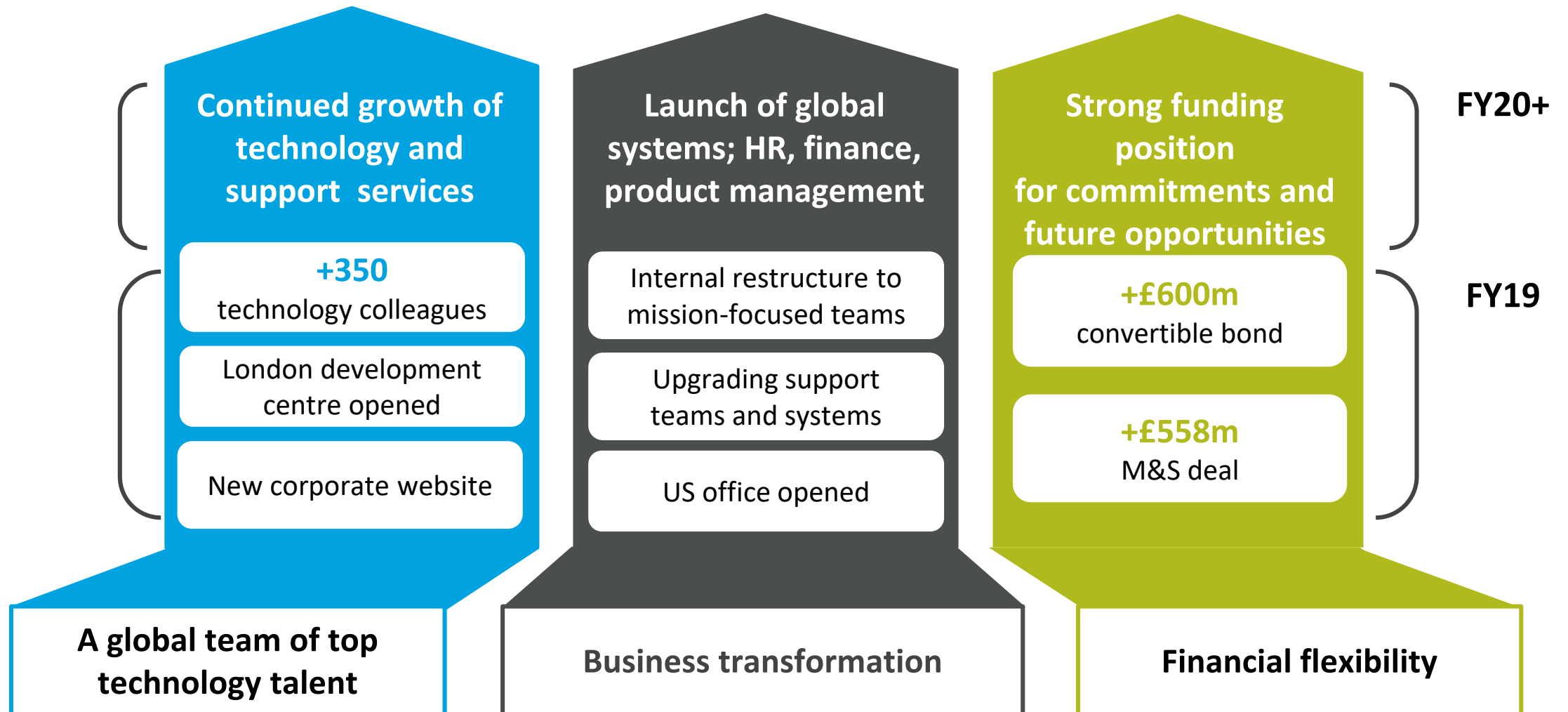
# Exploring the benefits of being a ‘member of the club’



A collaborative and future-focused network for forward-looking retailers

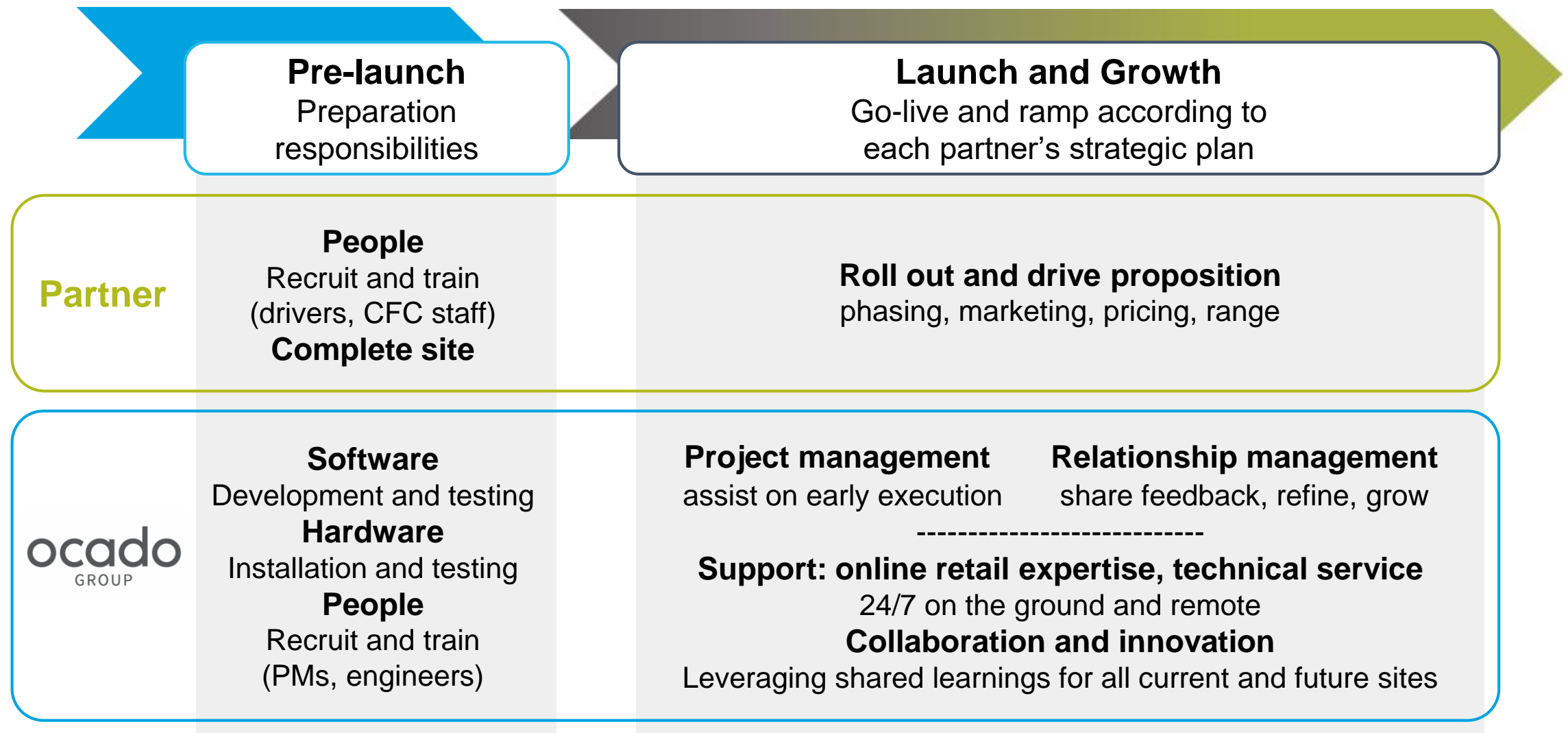
2

## Managing greater velocity in the business



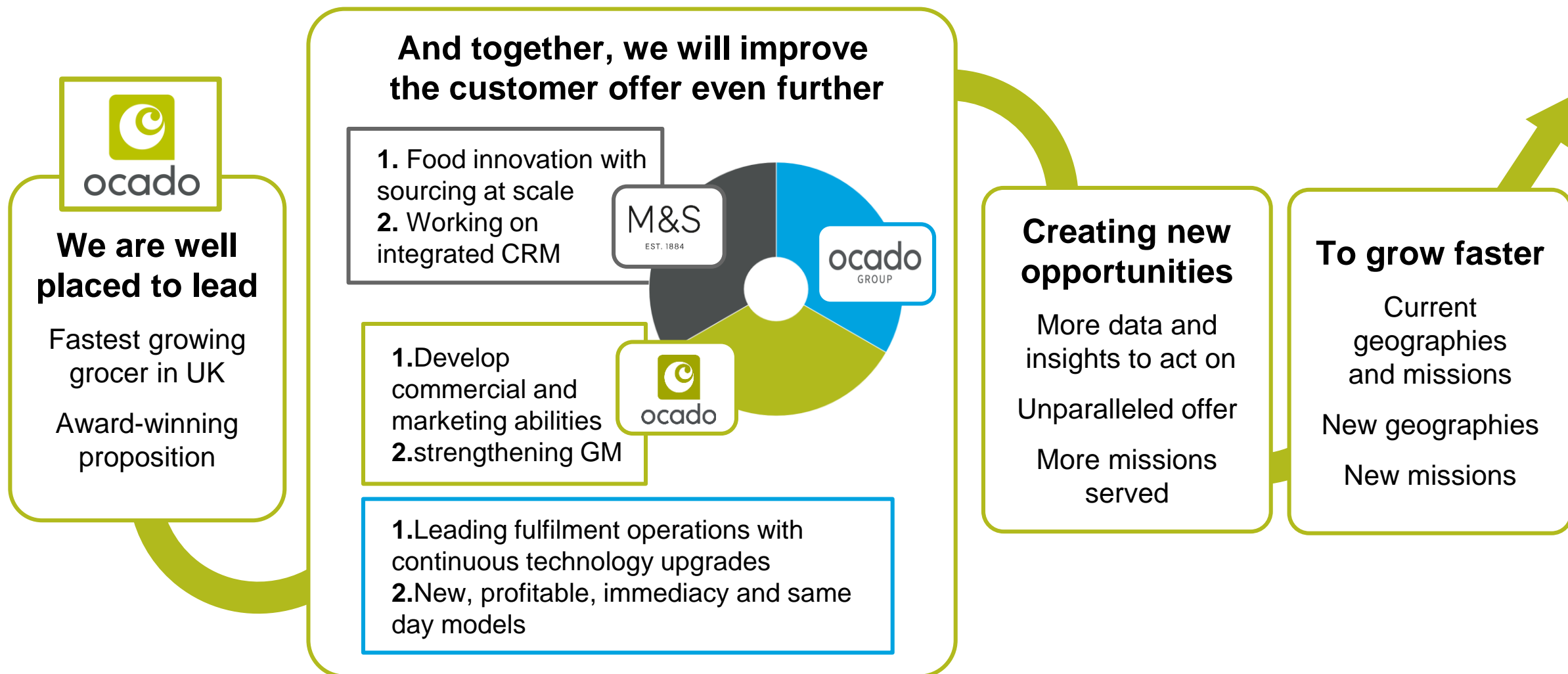
First two international CFCs to open in 1H20, with over 30 operational in the next few years

# First CFCs opening - creating a template for execution



Enabling our partners to grow on their own terms, in and across markets

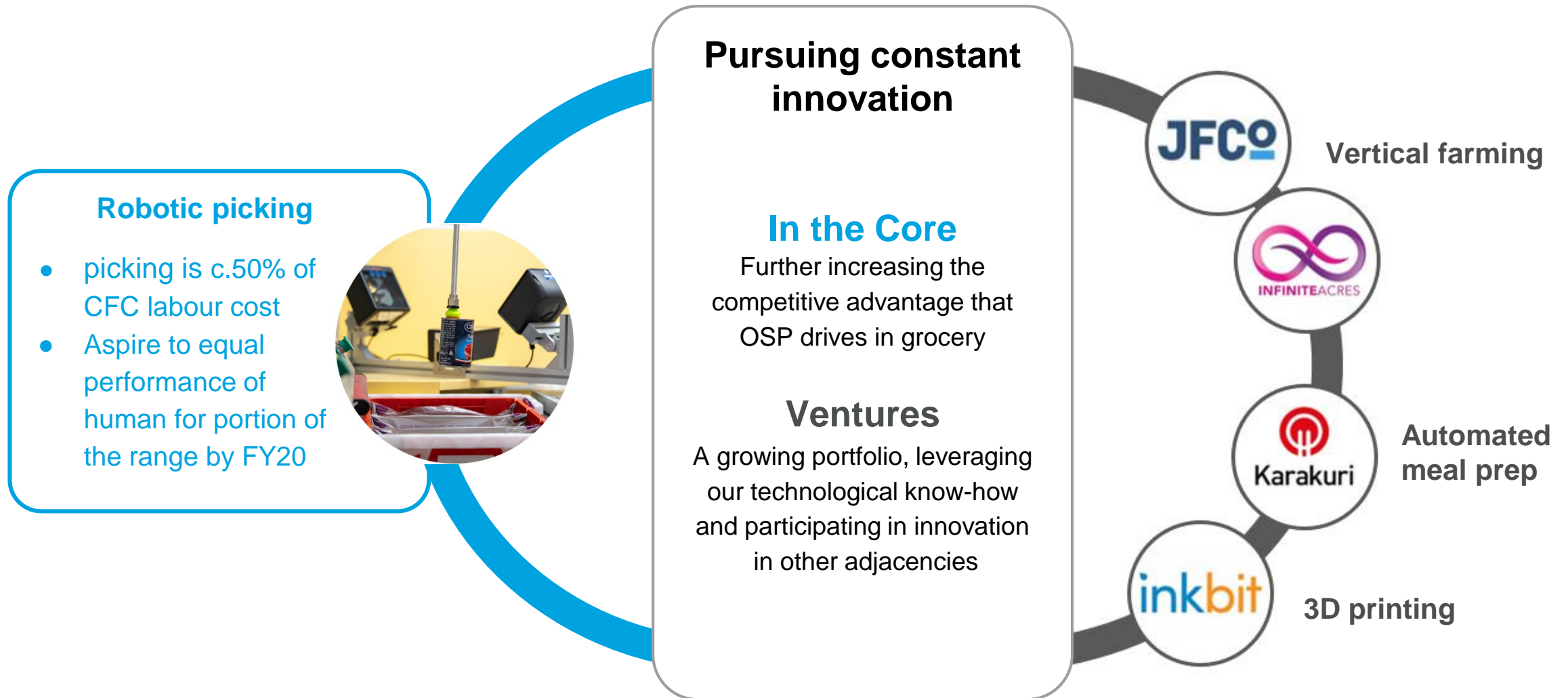
# Enhancing the customer experience at Ocado Retail



Preparing for faster growth after near term capacity constraints ease



# Creating the future, today

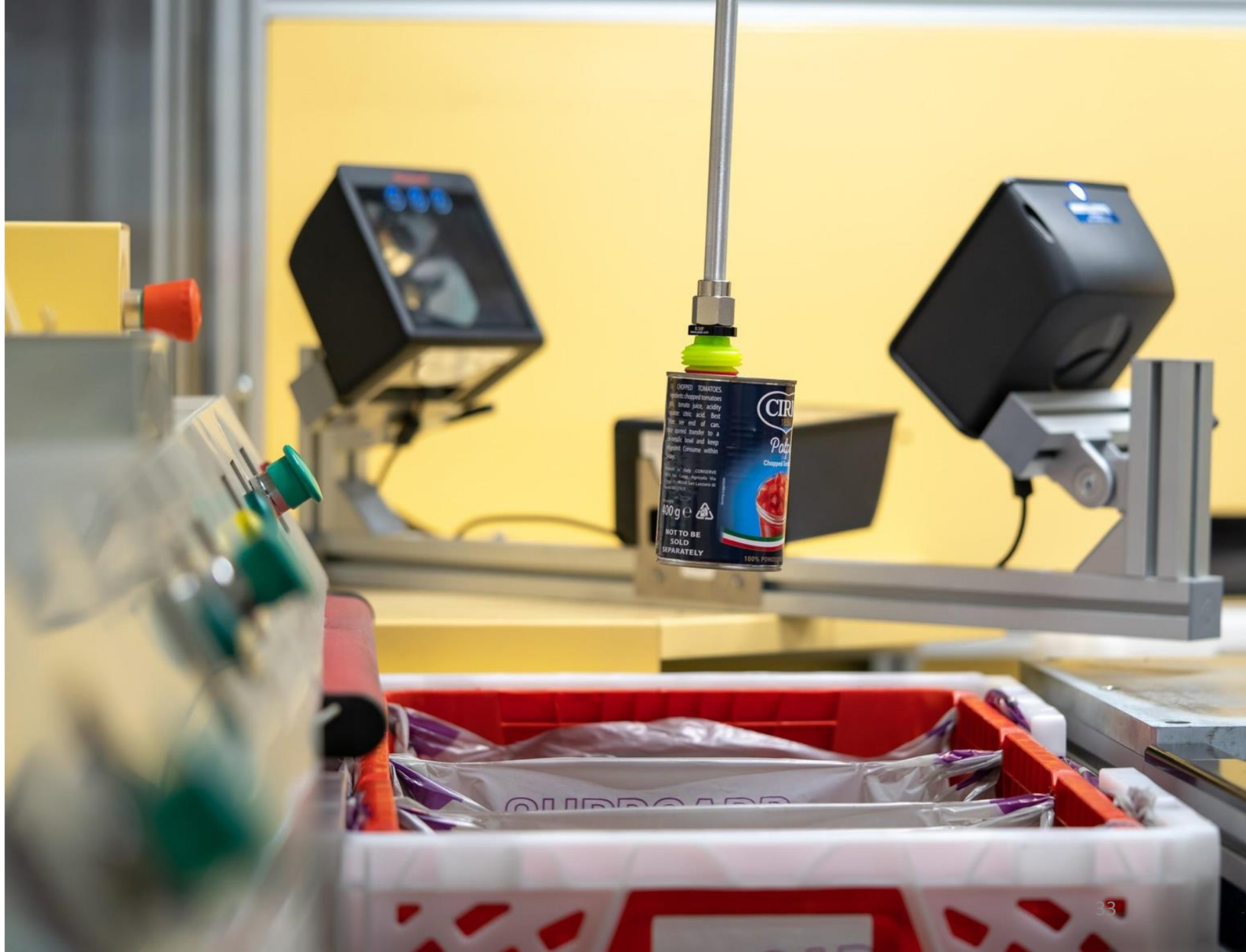


Parallel streams of innovation creating future value for the medium to long term

# Conclusions

- OSP is a flexible model, with leading economics, that will help our partners to win in online grocery across all missions and markets
- The model is always evolving and improving
- We are ready to work at even higher velocity
- Ocado Retail is poised for even faster growth in the UK
- We are innovating to drive future value, in grocery and beyond

# Q&A



# Appendix

# Cash Position

	2019 (£m)
Cash and cash equivalents FY18	411
Net cash flow	(218)
Proceeds from creation of JV with M&S	558
<b>Cash and cash equivalents</b>	<b>751</b>
Existing undrawn RCF	100
<b>Total headroom</b>	<b>851</b>

>£1.4bn in total headroom inclusive of £600m convertible bond issued after year end

# Capital expenditure<sup>1</sup>

	FY 2019 (£m)	FY 2018 (£m)
Mature CFCs	5	6
New CFCs	42	80
International CFCs	71	11
Delivery	17	22
Technology development	71	55
Fulfilment development	33	21
Other	21	18
<b>Total</b>	<b>260</b>	<b>213</b>

1. Capex excludes assets leased from MHE JV Co under finance lease arrangements



# Impact of IFRS 16 on FY19

<b>IFRS 16 Impact</b>	<b>FY 2019 (£m)</b>
Ocado Retail	14.8
UK Solutions & Logistics	10.6
International Solutions	-
Other	-
<b>EBITDA</b>	<b>25.4</b>
<b>Depreciation, amortisation and impairment</b>	<b>(19.8)</b>
<b>Net Finance Costs</b>	<b>(14.9)</b>
<b>Total</b>	<b>(9.3)</b>