

# Ocado Group plc 2013 Half Year Results

2 July 2013

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# Agenda

- Financial Review – Duncan Tatton-Brown
- Business Review – Tim Steiner
- Q&A

# Duncan Tatton-Brown

## CFO

# Introduction

- Steady performance in H1 2013
  - Stronger sales growth
  - EBITDA improvement driven by solid operational performance
- CFC2 and NFDC ramp-up partially offsetting productivity gains but positions Ocado for future growth
- First strategic customer - Morrisons

# Financial summary<sup>1</sup>

	1H13 (£m)	1H12 (£m)	YOY Growth	1H13 (% Revenue)	1H12 (% Revenue)
Gross sales	382.7	332.3	15.2%		
Revenue	355.9	308.0			
Gross profit	108.9	93.8		30.6	30.5
EBITDA	19.2	14.9	28.7%	5.4	4.8
Depreciation, amortisation & impairment	(17.5)	(12.9)		(4.9)	(4.2)
Operating profit <sup>2</sup>	1.7	2.0		0.5	0.6
Interest	(2.7)	(1.6)		(0.8)	(0.5)
(Loss)/profit before tax and exceptional items	(1.0)	0.4		(0.3)	0.1
Exceptional items <sup>3</sup>	(2.8)	(0.3)		(0.8)	(0.1)
EBT	(3.8)	0.2		(1.1)	0.1

1) All financial information presented is unaudited

2) Adjusted to exclude exceptional items

3) Exceptional items in 1H13 include costs relating to the opening of CFC2 and the non food distribution centre and professional fees associated to the Morrisons agreement

# Operational KPIs

	1H13	1H12
CFC efficiency (units per hour) <sup>1</sup>	132	114
Average deliveries per van per week	158	150
Items delivered exactly as ordered (%) <sup>2</sup>	98.9	98.3
Deliveries on time or early (%)	94.4	93.2
Average product wastage (% of revenue) <sup>3</sup>	1.0	0.7

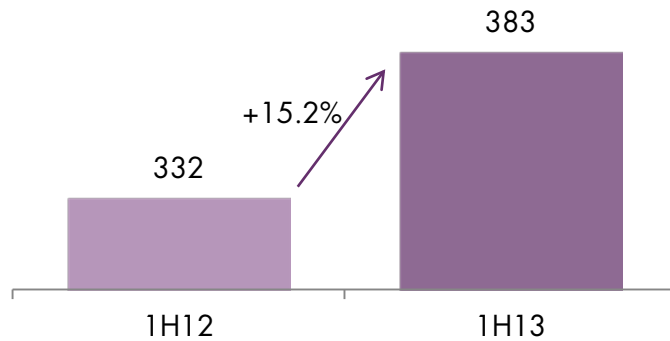
1) Measured as units dispatched from the CFC per hour worked by CFC operational personnel

2) Percentage of all items delivered exactly as ordered, i.e. the percentage of items neither missing nor substituted

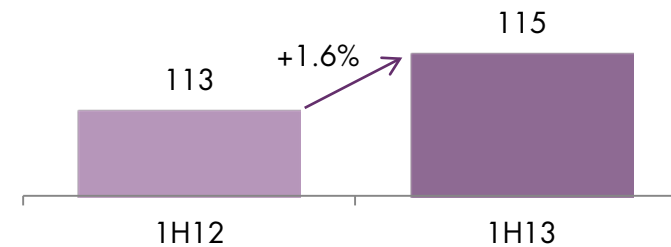
3) Value of products purged for having passed Ocado's "use by" life guarantee and stock adjustments, divided by revenue

# Sales drivers<sup>1</sup>

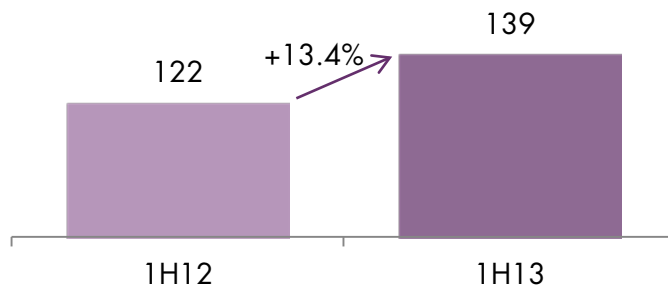
Gross sales, £m



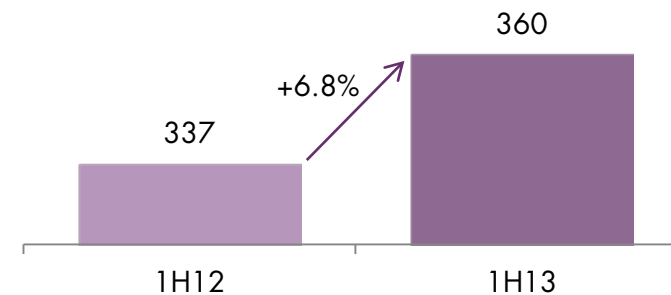
Average basket size, £



Average orders per week, 000



Active customers<sup>2</sup>, 000

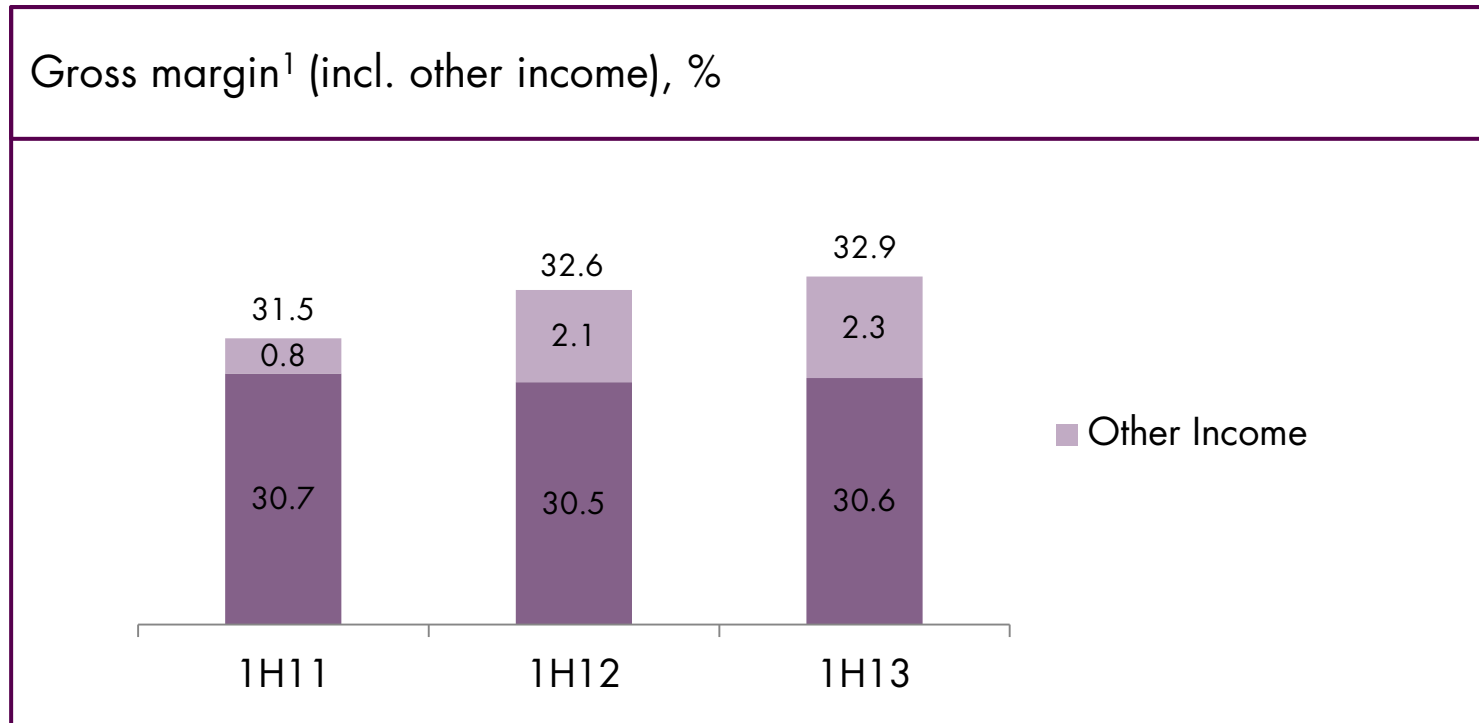


1) Percentage movements are based on unrounded numbers

2) A customer is classified as active if they have shopped within the previous 12 weeks. Data shows active customers at each period end.



# Gross margin



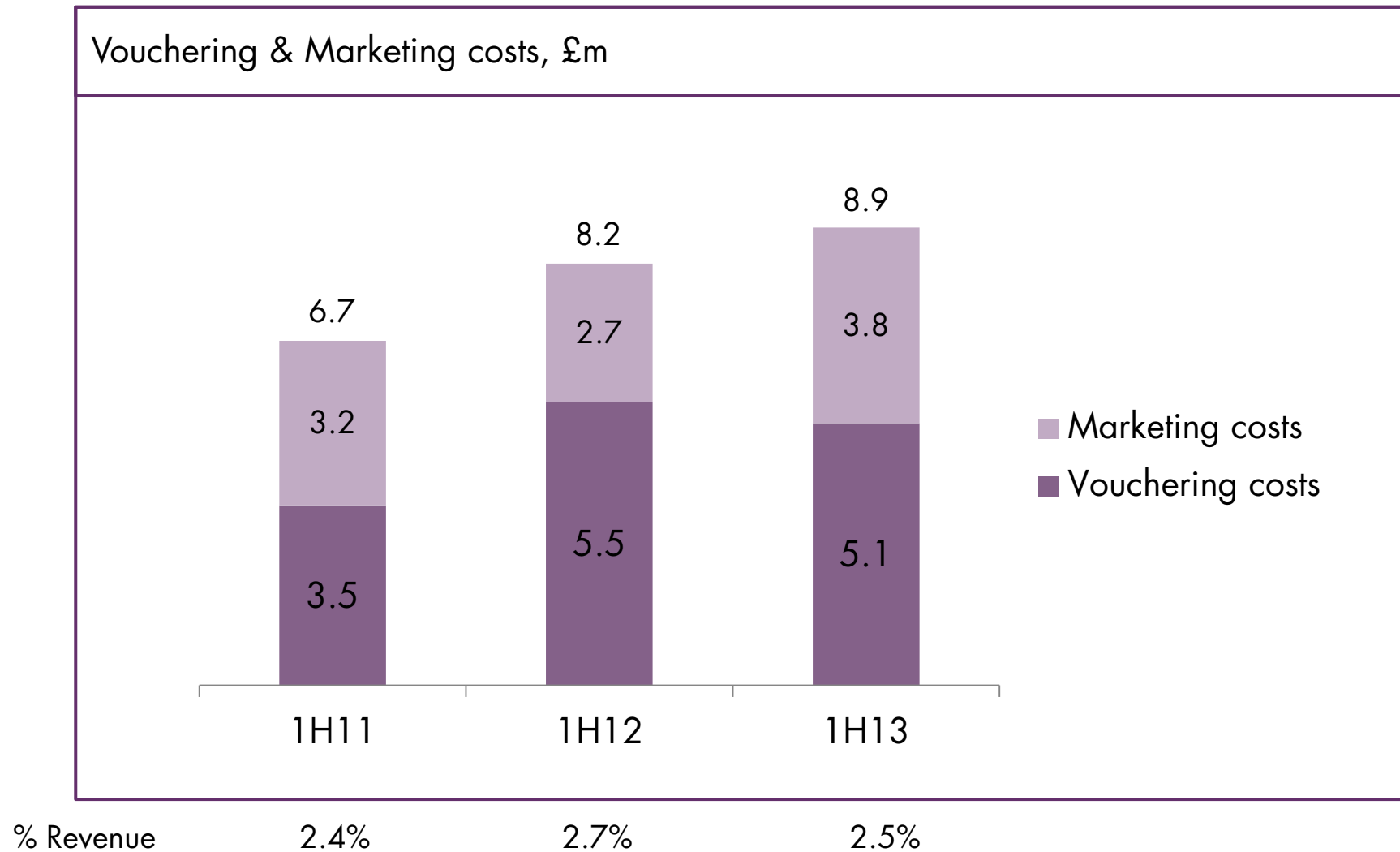
1) Expressed as a percentage of Revenue

# Operating costs

	1H13 (£m) <sup>1</sup>	1H12 (£m) <sup>1</sup>	Growth (£m)	1H13 (% Revenue)	1H12 (% Revenue)
Trunking & delivery	41.0	37.5	3.5	11.5	12.2
CFC	31.0	27.3	3.7	8.7	8.8
Other operating costs	4.1	3.5	0.6	1.1	1.1
Administrative expenses	17.9	14.4	3.5	5.0	4.7
Marketing	3.8	2.7	1.1	1.1	0.9
Depreciation & amortisation	17.5	12.9	4.6	4.9	4.2
Total	115.3	98.3	17.0	32.3	31.9

1) Adjusted to exclude exceptional items

# Marketing



# Statutory summary

	1H13 (£m)	1H12 (£m)
Operating profit <sup>1</sup>	1.7	2.0
Adjusted <sup>1</sup> (loss)/profit before tax	(1.0)	0.4
Exceptional items	(2.8)	(0.3)
(Loss)/profit before tax	(3.8)	0.2
Tax	-	-
(Loss)/profit per share	(0.66p)	0.03p

1) Adjusted to exclude exceptional items

# Capital investment

	1H13 (£m)	1H12 (£m)
CFC 1	3.9	9.0
CFC 2	23.9	49.7
Vehicles	3.9	2.9
IT	7.3	7.2
Other <sup>1</sup>	1.4	2.6
Total capital investment <sup>2</sup>	40.4	71.4

1) Includes non-food distribution centre spend of £1.1m in 1H13, capitalised staff costs of £1.9m in 1H12

2) Includes capitalised interest of £1.1m in 1H13, £1.9m in 1H12

# Cashflow

	1H13 (£m)	1H12 (£m)
EBITDA	19.2	14.9
Exceptional items	(2.8)	(0.3)
Capital spend <sup>1</sup>	(43.2)	(63.8)
Working Capital movements	13.5	-
Interest paid	(5.8)	(2.8)
Cash movement excluding Financing activities	(19.1)	(52.0)
Financing activities <sup>1</sup>	(7.5)	25.3
Opening cash	89.6	92.1
Closing cash	63.0	65.4

1) Assets purchased with lease finance of £3.8m (2012 £3.2m) have been included in capital spend and the equivalent amount included in financing activities

# Morrisons' agreement - key accounting impacts (1)

## Operating arrangements

- Initial fee - amortised over 5 years
- Cost sharing - charged as service as incurred
- Technology and management fees - charge in year they occur

## Sale of Last Mile Developments

- Reduces external debt, increases cash on balance sheet
- Operating lease established for rental of Dordon CFC from Morrisons, 50% recharged to M.com

## Transaction costs

- Treated as exceptional as incurred

# Morrisons' agreement - key accounting impacts (2)

## Commercial impact

Joint Venture Company ("JVco") set up to own the MHE assets

- Reduces external debt, increases cash on balance sheet
- Reduces assets and costs of assets by 50%
- No ongoing cash effect for initial assets
- Future investment in Dordon will be 50:50 (via JVco)

## Accounting impact

- Increases reported debt due to inclusion of 100% of finance lease liability
- Retains 100% assets
- Depreciation is offset by service fee income
  - 50% lease payment charged to Morrisons
  - Capital element of lease payment equates to depreciation charge
  - 100% interest element of lease payment included in interest line
- 50% share of JVco profit

Ongoing reporting under consideration - likely to disclose "External Borrowings" to exclude internal finance lease liability



# Morrisons' agreement - impact on 2014 revenue & profits

	<b>Impact on revenue</b>	<b>Impact on profitability</b>
Initial fee <sup>1</sup>	+	+
Technology & management fees	++	~
Bonus fee	-	-
Cost recharging	++	+
Property Transaction	++	+

1) Amortised over 5 years, no cash effect in 2014

# Capital spend

£m	Additional 2014 investment	Notes
CFC1	+10	Adding additional capacity and resiliency
CFC2	+10	Dordon Phase 2 in 2014 (Ocado share), also +£10m in 2013
Non Food	+5	Additional NFDC
Technology	+5 to 10	Faster investment in technology developments, split between P&L and capital still to be confirmed
<b>Total</b>	<b>+30 to 35</b>	

- Possible commencement of CFC3 during 2014 has not been included above
- No significant impact on Vehicles or Spokes

# Summary

- Steady performance in H1 2013
  - Stronger sales growth
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- First strategic customer - Morrisons

# Tim Steiner

## CEO

# Strategy

## Strategic objectives

Update for the period

### Developing the proposition to customer

- Additional service and usability enhancements
- Continued range expansion
- Price initiatives gaining recognition

### Growing customer numbers and spend

- Active customers grown
- Rate of new customer acquisition stable at higher levels
- Loyal customers growing faster
- Basket growing modestly

### Optimising operations

- Operational efficiency improving

### Building capacity

- CFC2 opened in February 2013
- Non-food distribution centre opened in January 2013

### Commercialising IP

- Signed 25 year agreement with Morrisons
- Licensing IP and provision of operating services
- Validation of operating model

# Developing the proposition to customers

Improving our offer to customers – service, range and price



# Developing the proposition to customers

Making it easier for our customers with new developments and excellent service



"After months of problems, cock-ups, bad substitutions and late deliveries from another home shopping company, my first two Ocado home deliveries have been on-time and all good. No substitutions at all this week also which is excellent."

Rob

"Fantastic service again from @ocado delivery team. Only supermarket to deliver to the door when you live in an apartment! #fantastic!"

@gemma\_glossop

"checkouts on apps now over 30%"

"Total checkouts across mobile over 40%"

"Everyone wants great service"

"reducing the barriers for first time shopping and switching to Ocado"



# Developing the proposition to customers

Range expanded to over 31,000 SKUs – Ocado private label and niche branded products gaining traction

Ocado  
Own  
Label

"I try to buy everything in the ocado range."

Caroline



"Sorry should have put that Ocado white sliced bread is a real hit in our house as it is dairy and soya free. Well done guys 😊"

Antonia



"Can't fault any Ocado own brands products. My favourite is . . . Hmm tough choice. Perhaps balsamic vinegar?"

Claire



"Large vine tomatoes and the fresh tuna but all Ocado products are the best quality around. I can't fault any of your own label products."

Lynda



Specialist  
products

A TASTE OF SWEDEN

"@babybrained plopp and marianne sweets??? I know where my next weekly shop will be done. Sweden rules! @Ocado"

MrsMummyMe



"Uh oh. I discovered the American shop @ocado: <http://t.co/Z4UU5kNRRG>"

@bookn3rd



"Just wanted to say thank you for stocking the Lindahl's lactose free Turkish yogurt - come upon it by accident and it has really cheered me up, as it's been a long time since I was last able to buy a natural yogurt I could safely eat. Thank you sooo much!"

Melanie





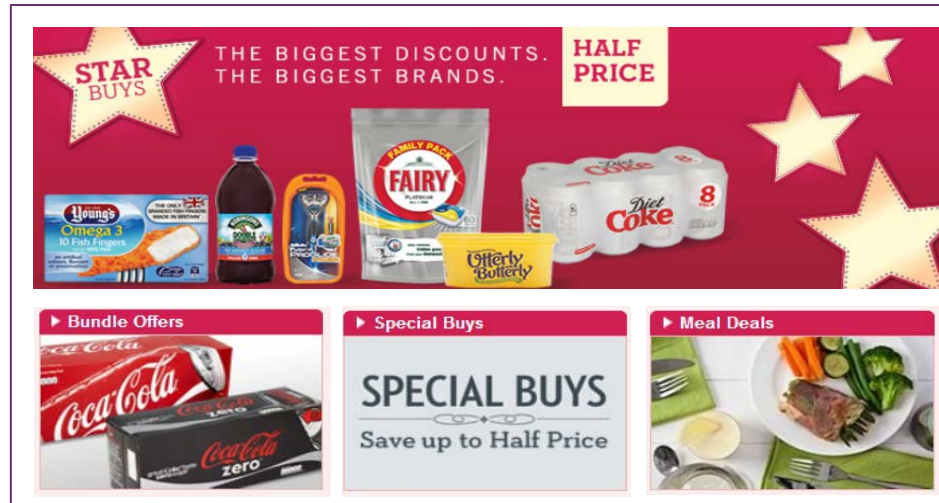
# Developing the proposition to customers

Price initiatives gaining recognition – value is important



**Low price promise**

**Cheaper than Tesco**  
or we'll give you a voucher



**STAR BUYS** THE BIGGEST DISCOUNTS. THE BIGGEST BRANDS. **HALF PRICE**

Products shown: Young's Omega 3, Coca-Cola, Fairy, Diet Coke, Offertory Butter.

► Bundle Offers  
► Special Buys  
► Meal Deals

**SPECIAL BUYS**  
Save up to Half Price



**SMART PASS**

**Be happy. Shop SMART.**

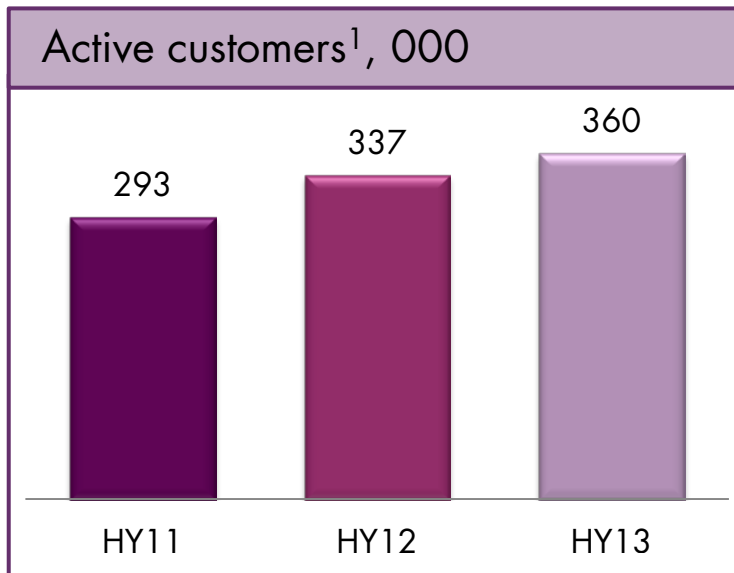
Wave goodbye to delivery charges and save at least 10% on your favourite brands. Get a Smart Pass today and make your weekly shop something to smile about.

See all Smart Pass benefits >

You could **SAVE** up to **£246.50\*** a year

# Growing customer numbers and spend

Active customers growing, new customer growth maintained, retention and basket growing modestly



## Customer

- New customer growth maintaining momentum, above 50%
- Reduced retention vouchering

## Basket

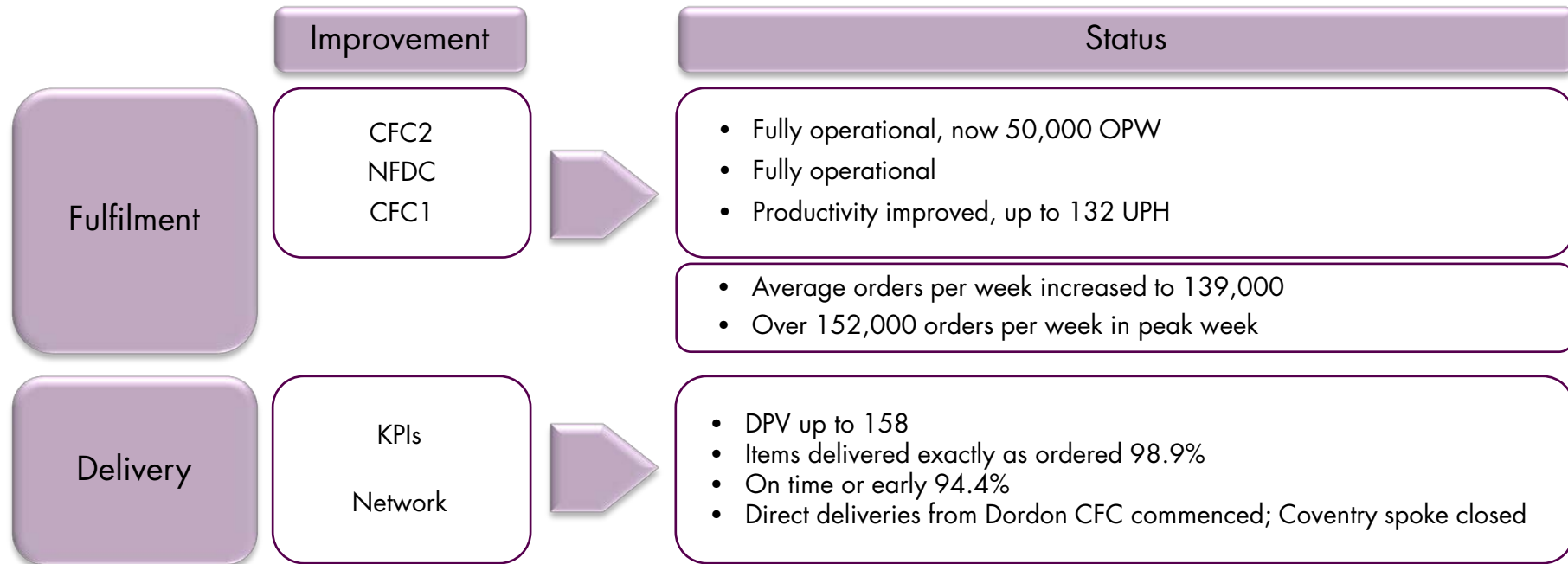
- Basket growing modestly
- Downward pressure of new customers and Smart Pass outweighed by range extension impact

Growth in frequent shoppers over 8% faster than growth in infrequent customers

<sup>1</sup>) A customer is classified as active if they have shopped within the previous 12 weeks. Data shows active customers at each period end.

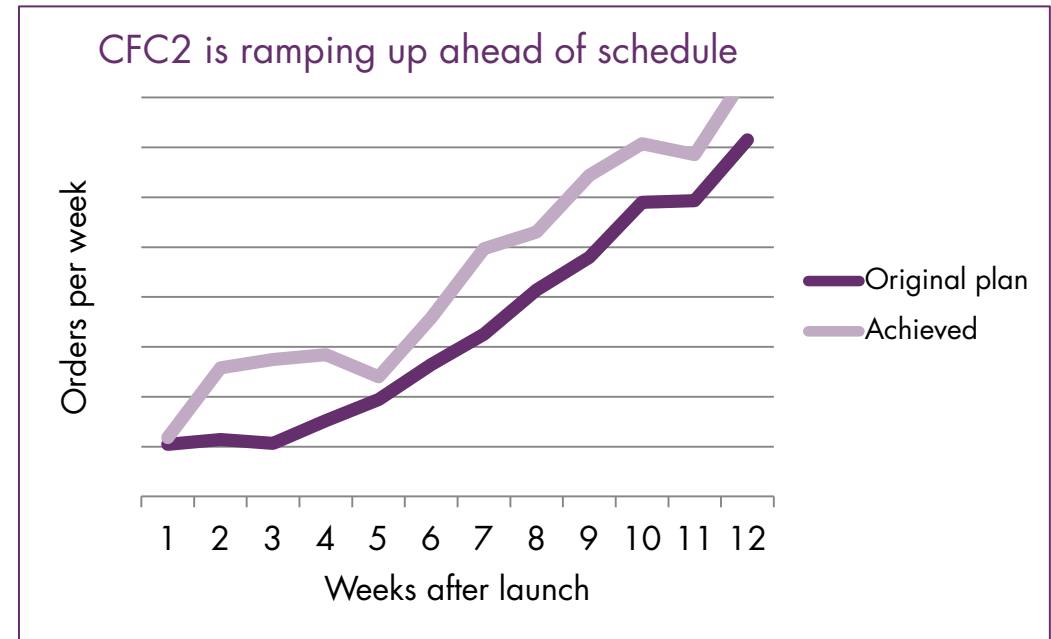
# Optimising operations and building capacity

Increasing capacity, efficiency and resilience



# Optimising operations and building capacity

CFC2

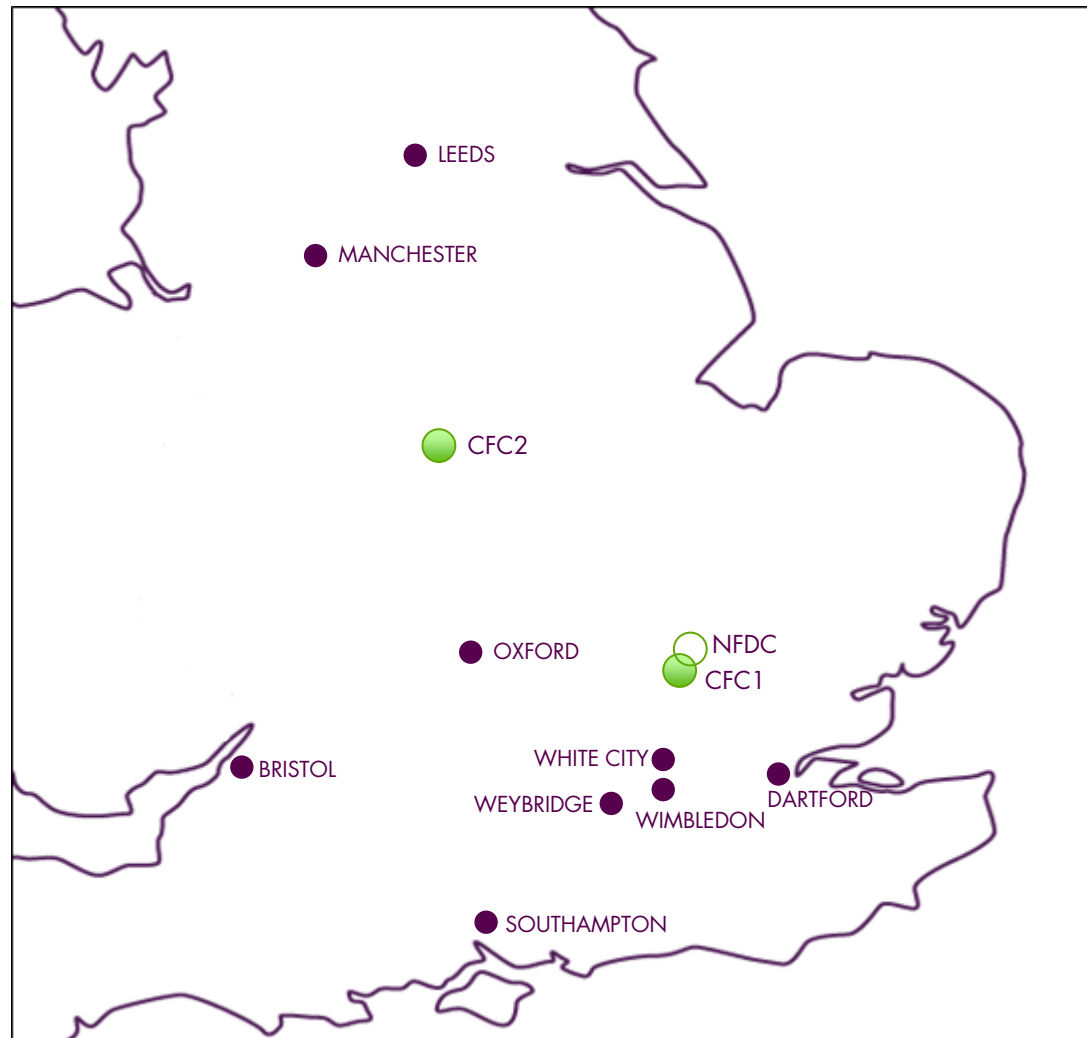


- Fully operational
- First order delivered February 2013
- On budget
- Now at 50,000 OPW

# Optimising operations and building capacity

Delivery catchment area does not change, efficiency and capacity improve

Ocado coverage – over 70% of UK population



- Fulfilment Centre
- Spoke location

# Commercialising intellectual property

Our first strategic customer





# Commercialising intellectual property

Why is this agreement attractive to Ocado?

- Enables greater investment in R&D
- Improves Ocado's economic model with sharing of costs and faster utilisation of fulfilment capacity
- Validates Ocado's operating model and provides template for future deals
- Strengthens balance sheet and reduces finance costs
- Leaves existing retail business and Waitrose agreement unaffected
- Long term nature of relationship (25 years +)



# Summary

## Customers

- Proposition improvements continue
- Customers growing in number, loyalty and spend

## Operations

- Productivity improved
- Customer service improved

## Development

- CFC2 and NFDC fully operational
- Commercialising IP with first strategic customer



# Q&A