



Ocado Group plc 2016 Preliminary Results

31 January 2017

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Agenda

- Introduction – Lord Rose
- Financial Review – Duncan Tatton-Brown
- Strategic Review – Tim Steiner



Stuart Rose, Chairman

Introduction



Introduction

- Market share gains in a challenging market
- Significant volume growth supporting Ocado and Morrisons.com
- Further improvements in operating efficiency
- Andover commenced operations
- Remain confident in attractiveness of our platform



Duncan Tatton-Brown, CFO

Financial Review



Overview

- Robust trading performance in challenging market
- Continued operational progress and investments for growth
- New capacity coming on stream
- Strong financial position



Financial summary¹

	FY16 ¹ (£m)	FY15 ¹ (£m)	Variance (%)
Revenue	1,271.0	1,107.6	+14.8%
EBITDA	84.3	81.5	+3.3%
<i>EBITDA</i> ^{2,3}	6.6%	7.4%	
Net interest	(9.5)	(9.5)	
Depreciation	(60.3)	(60.1)	
Profit before tax⁴	14.5	11.9	+21.8%

1. Financial results are audited

2. EBITDA % based on revenue

3. Pre exceptional EBITDA

4. Pre exceptional profit before tax

EBITDA summary

	Total			Retail			Morrisons (fees and MHE JVCo)		
	FY16	FY15	Variance %	FY16	FY15	Variance %	FY16	FY15	Variance %
Revenue	1,271.0	1,107.6	+14.8%	1,171.6	1,033.7	+13.3%	99.4	73.9	+34.5%
Operating contribution	154.8	144.1	+7.4%	117.8	108.5	+8.5%	37.0 ¹	35.6 ¹	+3.9%
Administrative ² cost	(70.5)	(65.8)	+7.1%						
Spoke surrender income	-	3.2							
EBITDA	84.3	81.5	+3.3%						

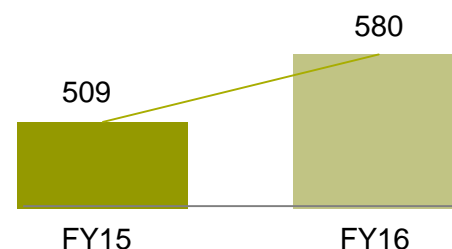
1. This includes fees that we earn and the accounting impact of the MHE JVCo structure

2. Administrative costs exclude depreciation, amortisation, marketing costs

Retail sales growth +13%

	Orders (% variance ¹)	Basket value (% variance ¹)
Hypermarket (ocado.com)	15.8%	(2.7)%
Destination sites	79.6%	4.1%
Total	17.9%	(3.7)%

Active² customers up 14%



- Hypermarket basket value primarily impacted by sales price deflation
- Maintained competitive pricing position; LPP voucher costs remain low
- Smart Pass sales continued to grow
- Marketing costs³ remain in line at 1.0% of retail revenues

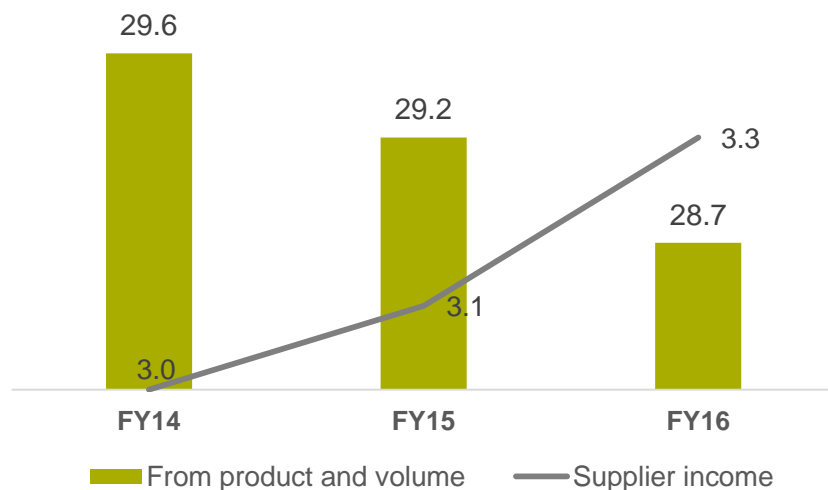
1. Percentage variance relates to year-on-year movement

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

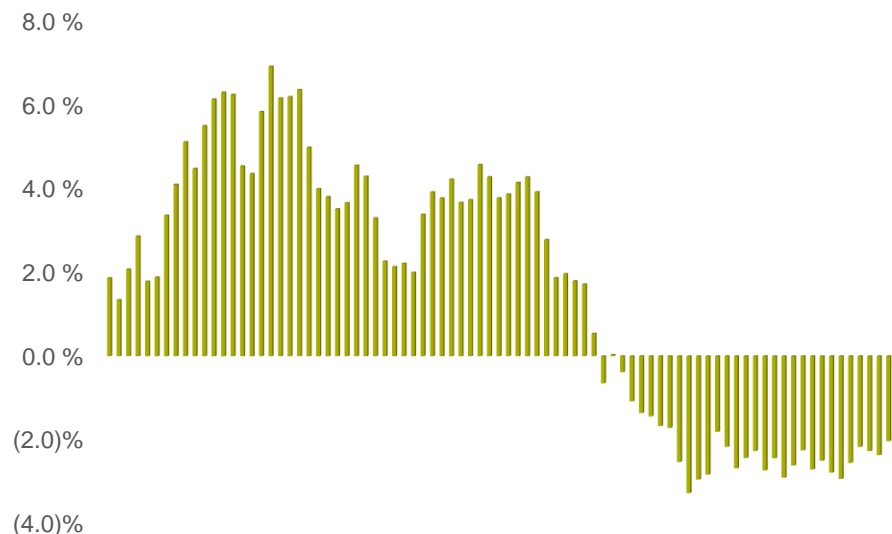
3. Marketing costs exclude vouchers

Gross margin impacted by deflation

¹Gross margin down, ²supplier income up (%)



Price deflation³ (Jan 2010 to Dec 2016)



- Gross margin down 50 bps
 - Deflationary pressure
 - Competitor pricing activity
- Supplier income ahead



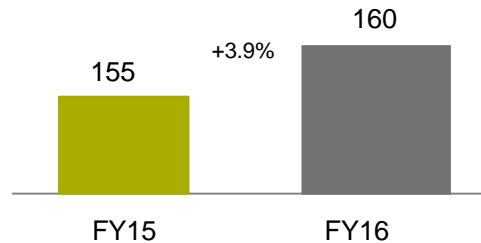
1. Expressed as a percentage of retail revenue
 2. Includes media and other non-volume related income from suppliers
 3. Source: CPI Food and non-alcoholic beverage YoY%

Operating metrics continue to improve



Mature CFC Efficiency (UPH)

Units per hour of labour

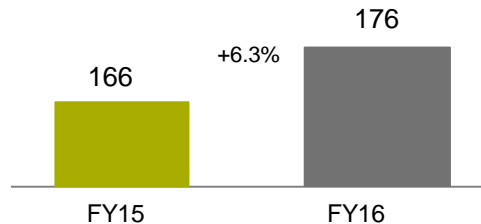


- Positive impact from Dordon
- Dordon UPH regularly >180



Delivery Efficiency (DPV)

Drops per Van

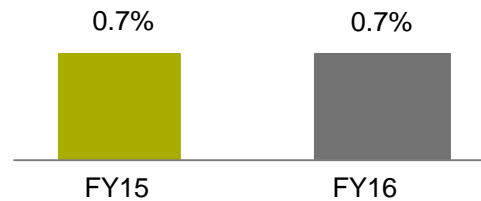


- Better customer density
- Increased Sunday deliveries
- DPV now above original target
- Target remains 190



Wastage

% of Sales



- Maintained industry leading levels

UK Retail operating contribution

	FY16 (% Retail revenue)	FY15 (% Retail revenue)	FY16 v FY15 (bps)
Gross margin	28.7	29.2	(50)
Supplier income ¹	3.3	3.1	20
Trunking and delivery costs ^{2,3}	(11.9)	(11.6)	(30)
CFC costs ²	(7.7)	(7.9)	20
Other operating costs ^{2,3}	(1.3)	(1.3)	-
Marketing costs ⁴	(1.0)	(1.0)	-
Operating contribution	10.1	10.5	(40)

1. Includes media and other non-volume related income from suppliers

2. There is a minor reclassification of costs between trunking and delivery, CFC costs, other operating costs and administrative costs

3. This includes annual property income

4. Marketing costs are non voucher costs

Capital expenditure guidance

	FY15 ¹ (£m)	FY16 ¹ (£m)		FY17 ¹ (£m)
Mature CFCs ²	8	7	Minor projects	5
New CFCs	53	65	Andover and Erith CFCs	80
Delivery	25	21	Replacement and growth	20
Technology development	23	34	Existing and new platform	45
Fulfilment development	14	20	Onward development	15
Other	4	10	GM and head office	10
Total	127	157		175

1. Capital expenditure includes tangible and intangible assets

2. Mature CFCs include investments relating to Ocado's share of the MHE JVCo capital expenditure, in 2016 of £3.9 million and in 2015 of £4.4 million

Significant liquidity headroom

	Terms of facility	Total facility (£m)	Drawn (£m)	Committed & available (£m)
RCF	July 2019	210	53	157
Asset based finance	2016 to 2025	67	41	26
Property finance	Sep 2018	15	15	-
		292	109	183
Cash				51

NB. Gross external debt excludes £108.7 million of MHE JVCo leases

Ocado model¹: attractive ROI

	Contribution (% revenue)		Projection
Current operating contribution	10.1%	Implied model contribution	11.6%
Benefit of existing efficiency targets	+1.0%	CFC gross sales	£1.2bn
		Operating contribution	£125m
Market neutral ² operating contribution	11.1%		
Improvement from 200 UPH	+0.5%	MHE capex	£135m
		Building/IT	£60m
Implied model contribution	11.6%	Delivery capex less W/C	£30m
		Total capital ³	£225m
		Pre-tax ROI	>50%

1. Projected estimates based on CFC4 operating efficiencies and delivery economics at scale

2. Assumes the long term relationship with prices and cost inflation returns to normal conditions

3. Pre platform technology costs

2017 Outlook

- Market environment uncertain but channel shift continuing
- UK business robust
 - Growth and efficiencies to improve UK economics
 - Expect sales growth ahead of online grocery market
- Continued investments to drive long-term value
 - Customer experience
 - New CFCs
 - Technology and fulfilment platform

Tim Steiner, CEO

Strategic update



Highlights

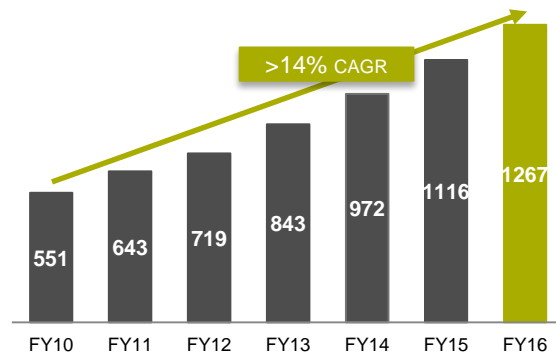
- Trading robustly in challenging and competitive market
- Enabled strong Morrisons online growth
- Commenced operations at Andover
- Advancing multiple Ocado Smart Platform discussions
- Investing to create competitive advantages



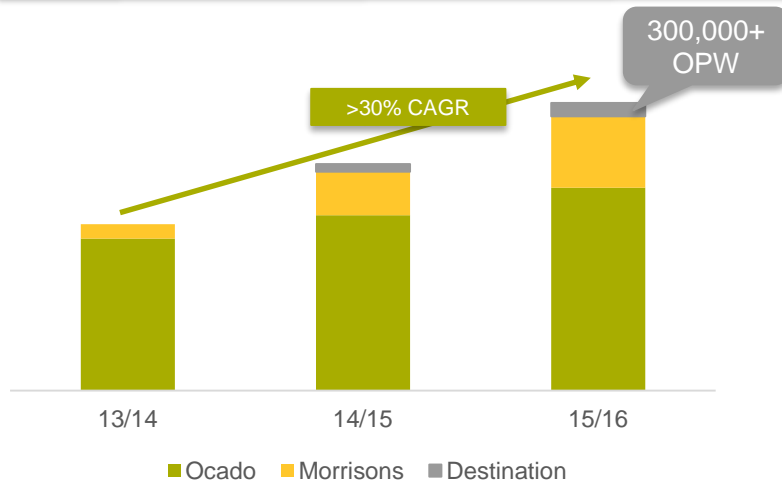
Continued strong growth

Retail sales continue to grow since IPO

Ocado retail sales growth (£m)

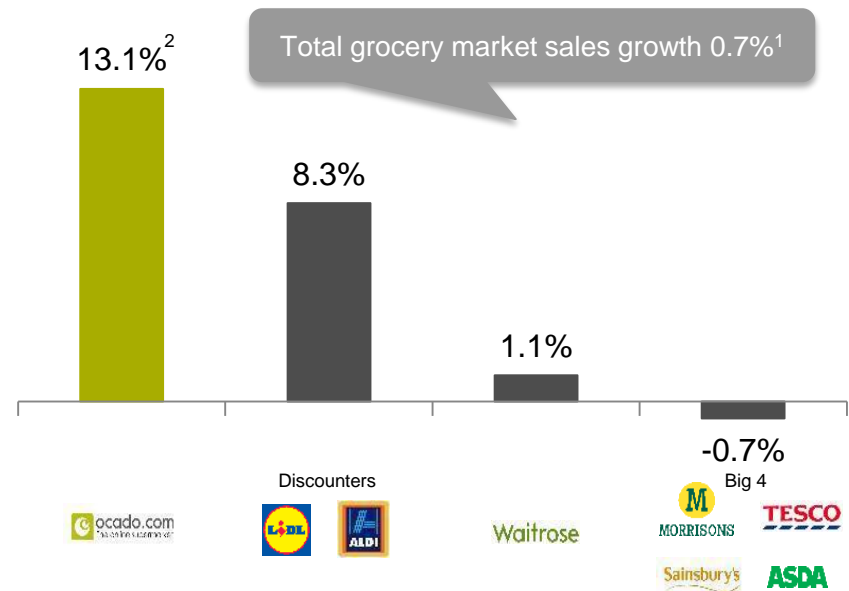


Cumulative average orders per week (OPW)



Progress in a challenging grocery market

UK Grocery Sales (12 weeks ending 4 December 2016¹)
Year-on-Year % Change

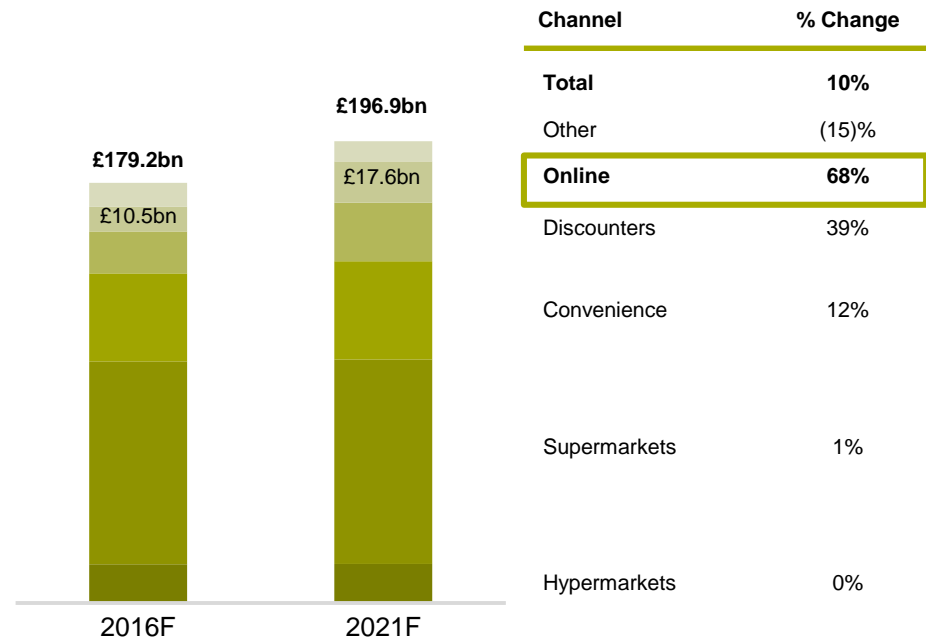


1. Kantar Worldpanel
2. Ocado (Q4 2016 figure) retail gross sales

Well positioned for future growth

- UK online grocery market grows as channel shift continues
- Online and discounters the fastest growing channels

UK online grocery market size by 2021¹ (sales, £bn)



1. IGD (April 2015)

Clear and consistent strategic objectives



Driving growth



Maximising Efficiency



Utilising Proprietary Knowledge





Customer proposition

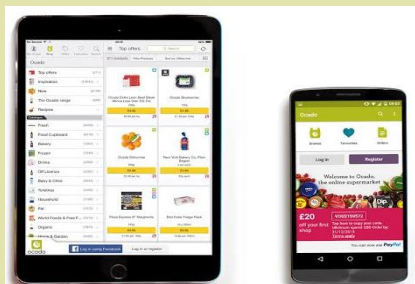
Service



99.0%
Item
accuracy



94.9%
Orders
on time

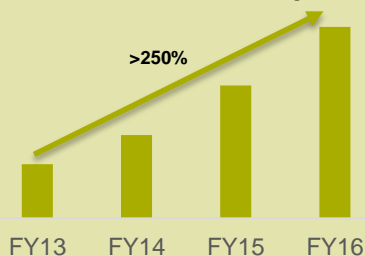


Range



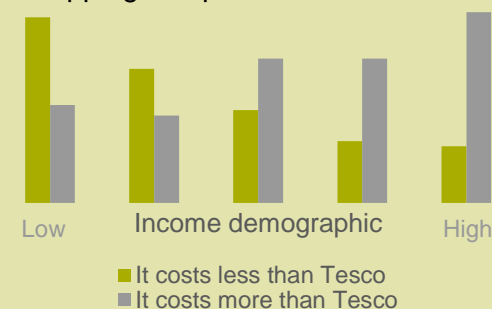
>50,000 Ocado.com SKUs

General Merchandise sales growth



Price

¹How do you think the price of your shopping compares with tesco.com?



¹Average saving vs Tesco, as a fraction of spend



1. Ocado customer satisfaction survey April 2015



Interface development

Coupons

Add one product from this Flash range and get **£1.50** off the price shown. Hurry – order by 20/09/16.



Flash Cleaning Wipes
Antibacterial
90 per pack



Flash All Purpose Liquid
Cleaner Lemon
1.5L



Flash Wipes
Mediterranean Lemon
90 per pack



Flash Liquid Gel Cleaner
Cotton Fresh
520ml

Calorie Saver

STEP 2 A Checkout - Calorie Saver *Beta*

Swap products below and you could save up to **431** calories.

Cal 431 kcal.
Saved

140 min.
Walk

44 min.
Run

✓ 367 calories saved



✓ LIFE 1 MONTH+
Cathedral City Mature Cheddar



✓ LIFE 1 MONTH+
Cathedral City Lighter Mature Cheddar

✓ 64 calories saved



✓ LIFE 7 DAYS+
Muller Corner Crunch Banana Choco Flakes



✓ LIFE 7 DAYS+
Muller Corner Fruit Yogurt with Blackberry & Raspberry

Related Search

The screenshot displays the Ocado website interface for related search results. At the top, there's a search bar with a magnifying glass icon and a shopping cart icon showing a total of £60.18. Below the search bar, a dropdown menu shows 'Are you looking for...' with suggestions: 'Whole Chicken', 'Cooked Chicken', and 'Chicken Thighs'. The main content area lists several products with their prices and offers:

- Ocado British 3-5 Chicken**: £4.49. Below it, a star rating of 4.5 out of 5.
- Mini Chicken Breasts 350g**: £4.00. Offer: 'Mix & Match: Buy any 3 for £10'. Below it, a star rating of 4.5 out of 5.
- 3-5 Chicken Breast Fillets 500g**: £3.32. Offer: 'Half price, was £6.65'. Below it, a star rating of 4.5 out of 5.
- Ocado British 3-5 Chicken Breast Fillets 650g**: £4.49. Price per kg: £6.91. Below it, a star rating of 4.5 out of 5.
- Mini Chicken Breasts Fillets essential Waitrose 350g**: £4.00. Offer: 'Mix & Match: Buy any 3 for £10'. Price per kg: £11.43. Below it, a star rating of 4.5 out of 5.
- 3-5 Chicken Breast Fillets essential Waitrose 500g**: £3.32. Offer: 'Half price, was £6.65'. Price per kg: £6.64. Below it, a star rating of 4.5 out of 5.

Each product listing includes an 'Add to trolley' button. The interface is clean and modern, with a focus on product images and clear pricing information.



Strengthen our brands

Customers continue to rate us highly,
multiple **customer awards won in 2016**

'Online Supermarket of the Year'



'Best Retailer - Gold'



'Best Online Retailer'



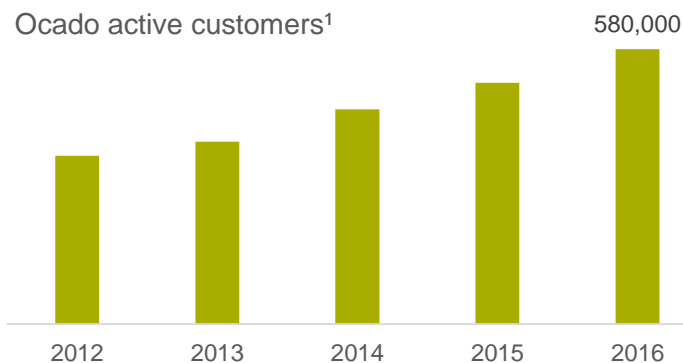
'Best Online Retailer'



Brand strength and recognition reflected in
growing customer numbers



Ocado active customers¹



¹Shopped on ocado.com within the previous 12 weeks



Andover CFC



Key benefits

- ✓ Modular – can be built different sizes
- ✓ Scale within a site
- ✓ Lower capital and better productivity
- ✓ Shortened customer order lead-time
- ✓ Improved pick quality
- ✓ Allows for continuous development and further automation

Key attributes

- ✓ Complete proprietary 'fulfilment in a box' solution
- ✓ Fits into standard warehouses
- ✓ Compact storage
- ✓ Scale (Andover 1,000+ bots)

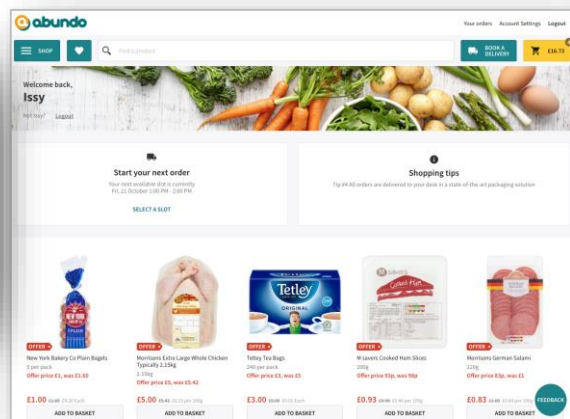
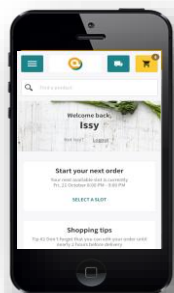
Progress

- ✓ Commenced operations
- ✓ Ramping as planned

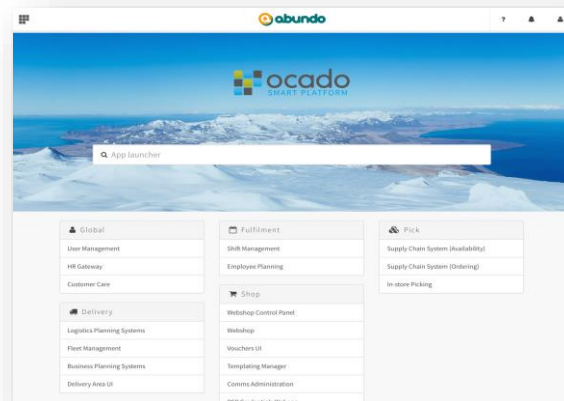


Live testing of new end-to-end software

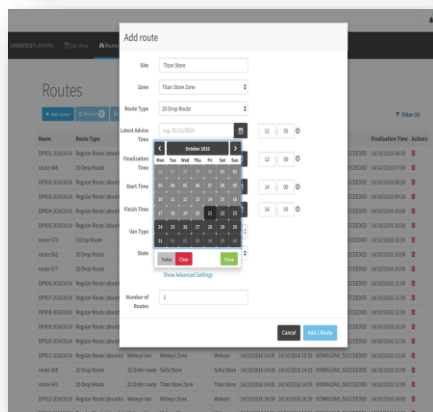
Webshop



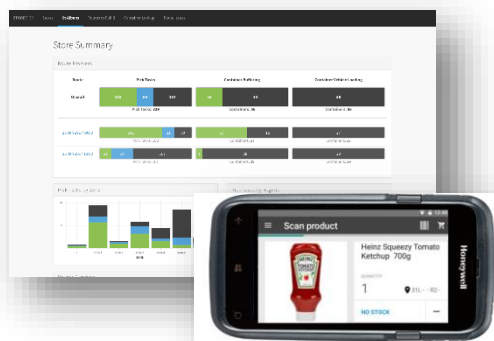
Backend Systems



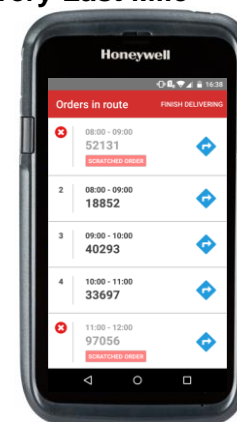
Slot Booking and Route setup



Store-picking



Delivery Last Mile





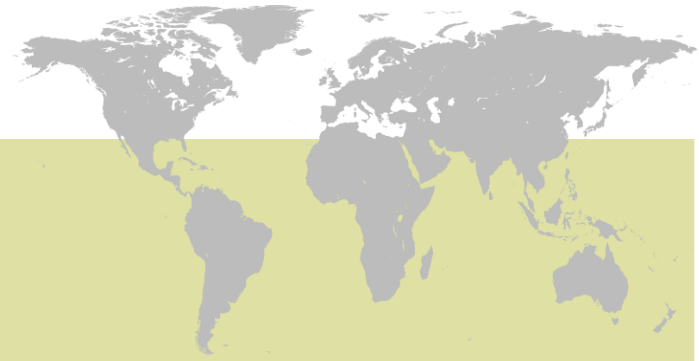
Morrisons.com

- Continued strong growth
- Extension to our platform agreement
- Key services include:
 - Additional capacity (Erith)
 - Store picking module
 - GM supply agreement
- OSP style fee structure





ocado
SMART PLATFORM



Front end



Fulfilment



or



Last mile



or



or



or...

Medium term target to sign multiple deals in multiple territories



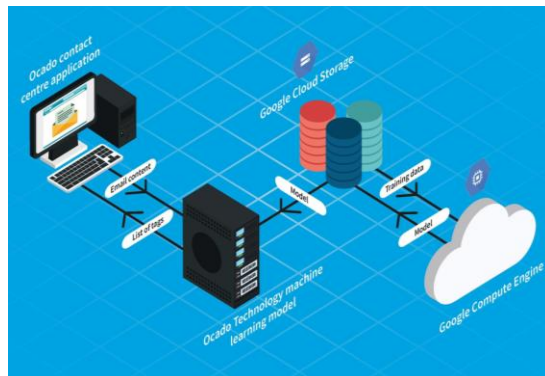
Investing to create competitive advantages

- Targeted investment in significant capabilities to transform our industry
 - > 950 technology team
 - > 200 qualified engineers

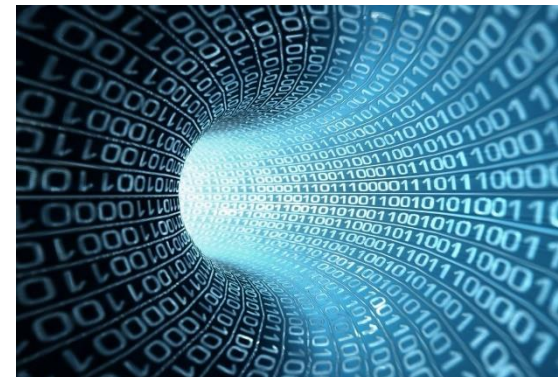
Robotics



Artificial Intelligence

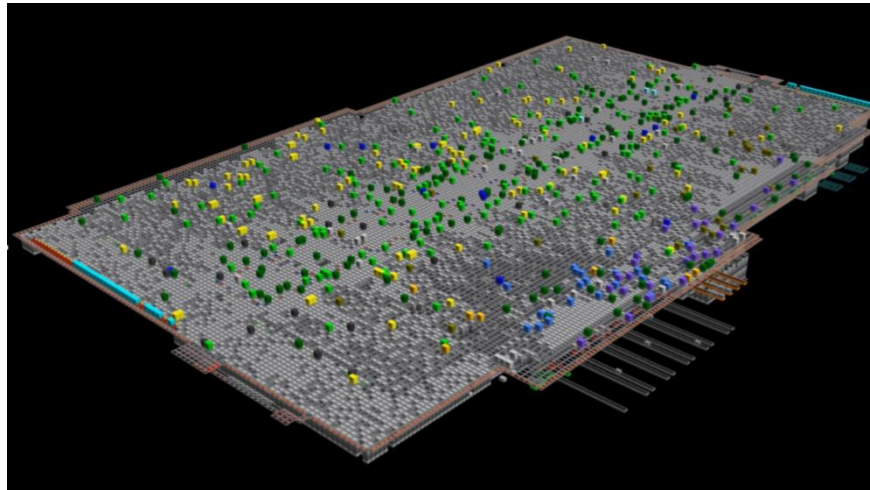


Big data



Summary

- Trading robustly in challenging and competitive market
- Enabled strong Morrisons online growth
- Commenced operations at Andover
- Advancing multiple Ocado Smart Platform discussions
- Investing to create competitive advantages



Q&A



Appendix 1 – Statutory cashflow

	FY16 (£m)	FY15 (£m)
EBITDA	84.3	81.5
Working capital movement	18.5	2.3
Exceptional items	(1.7)	-
Other non-cash items ¹	4.9	8.7
Finance costs paid	(9.1)	(9.7)
Operating cash flow	96.9	82.8
Capital investment	(123.9)	(99.1)
Dividend from joint venture	8.4	8.1
Increase/(decrease) in net debt/finance obligations	22.2	(26.8)
Proceeds from share issues net of transaction costs	1.1	4.5
Other investing and financing activities	0.4	-
Increase/(decrease) in cash and cash equivalents	5.1	(30.5)

1. Other non-cash items include movements in provisions, share of income from MHE JVCo and share based payment charges

2. Dividend from joint venture relates to dividends from MHE JVCo of £8.4 million (2015: £8.1 million)

3. Total exceptional items of £2.4 million (2015: nil) includes £0.7 million impairment charge to property, plant and equipment which is a non cash item

Appendix 2 - Capital spend, accruals v cash, Morrisons adjusted

	FY16 (£m)	FY15 (£m)
Reported capital investments	157	127
Non cash additions of finance leases	(18)	(20)
Net movement in provisions and reserves	-	(1)
Net movement in accruals and payables	(15)	(7)
Cash capital investment	124	99

Appendix 3 - UK Retail administrative expenses

	FY16 ¹ (% Revenue)	FY15 ¹ (% Revenue)
Administrative expenses	5.3	5.7
Directly attributable to UK Retail		
- Retail Commercial teams	1.4	1.4
- Supply Chain and Business Planning teams		
- Operational HR		
Shared platform costs	3.9	4.3
- Technology		
- Fulfilment Development		
Overhead costs	3.9	4.3
- Finance, Legal, Central HR		
- Board		

1. Expressed as a percentage of Group revenue

2. Administrative expenses includes an allocation of the Retail Trading, Supply Chain and Business Planning departmental costs. This excludes Technology and other head office general departmental areas for simplicity. Share scheme costs are allocated with the associated people cost.

Appendix 4: Operating efficiencies

Warehouse (CFC) – efficiency drivers

Hatfield (opened in 2002)

- Custom design for kit and layout
- Wrote control and management software for CFC to improve flow & throughput

Dordon (opened in 2013)

- Benefitted from 10+ years of learning

Andover (opened in 2016)

- New proprietary equipment solution

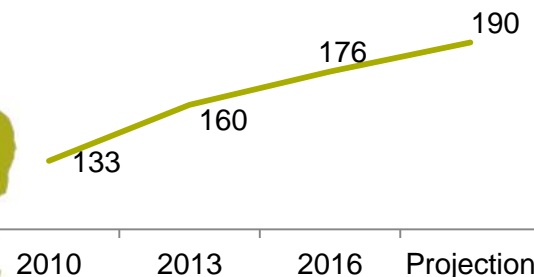
Erith (due to open in FY2018)

- Value engineering improvements

Delivery – efficiency drivers

- Customer density – growing customer base
- Network – more spokes, shorter stem times
- Routing efficiency – improved routing software

Drops per van/ week



	Historic	Erith ¹
Capex (to sales capacity)	16%	11%
Opex (UPH)	150+	200+

1. Anticipated