



# **Ocado Group plc 2015 Preliminary Results**

2 February 2016

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# Agenda

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



# Lord Rose Chairman



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# Introduction

- Robust trading performance in a challenging market
- Sales and profits grew ahead of the market
- Operating efficiency continued to improve
- Capacity projects progressing well
- Confidence to deliver international platform deals remains high

# Duncan Tatton-Brown

## CFO



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# Financial review introduction

- Solid trading performance in a challenging market
- Continued operational progress and improved UK retail profitability
- Investments in our capacity and our platform
- Strong financing position

# Financial summary<sup>1</sup>

	FY15 (£m)	FY14 (£m)	Variance (%)
Revenue	1,107.6	948.9	+16.7%
Gross profit	375.1	312.9	
EBITDA	81.5	71.6	+13.8%
<i>EBITDA %<sup>2</sup></i>	<i>7.4</i>	<i>7.5</i>	
Profit before tax	11.9	7.2	

1. Financial results are audited
2. EBITDA % based on Revenue

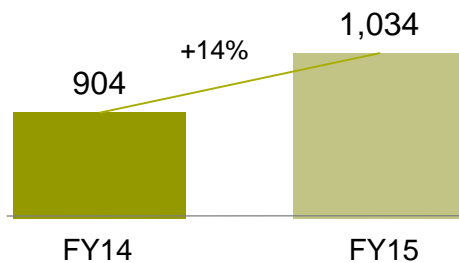


# EBITDA summary

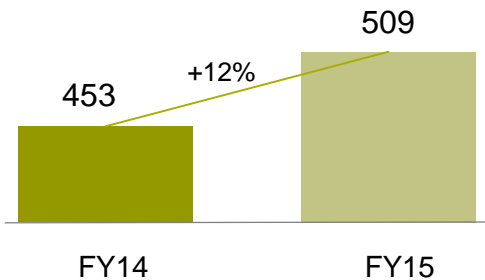
	FY15 (£m)	FY14 (£m)	Variance (%)
EBITDA	81.5	71.6	+13.8%
<i>Morrisons MHE JVCo impact</i>	13.5	11.3	
<i>Management share based charges</i>	(7.8)	(5.0)	
<i>Underlying EBITDA</i>	75.8	65.3	+16.1%
Depreciation and amortisation	(58.3)	(52.4)	
Financing costs	(9.5)	(9.1)	
Adjusted profit	13.7	10.1	
Impairments	(1.8)	(2.6)	
Exceptional items	-	(0.3)	
Profit before tax	11.9	7.2	

# Sales drivers (Retail)<sup>1</sup>

Revenue, £m



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



	Orders (v.LY)	Basket value (v.LY)
Total	17%	(2.1%)
Hypermarket (ocado.com)	15%	(1.3%)
Destination sites	156%	8%

- Number of items in Hypermarket basket stable
- Maintained competitive pricing position
- Hypermarket basket value impacted by commodity led deflation and market pricing
  - Price matched products impacted
  - Broad range provides some protection

1. Figures are for Ocado retail business only

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

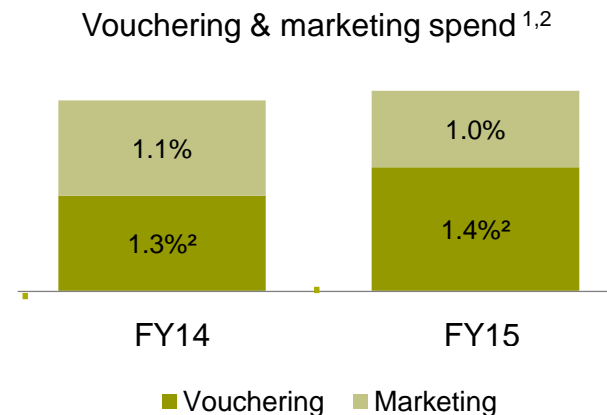
# Customers

## Customer Service

- High service levels maintained
- On time or early 95.3% (FY14: 95.3%)
- Items delivered as ordered 99.3% (FY14: 99.3%)

## Marketing

- Overall marketing spend grew in line with sales
- New customer acquisitions up +20%, with higher vouchering costs
- LPP costs up by less than 5bps

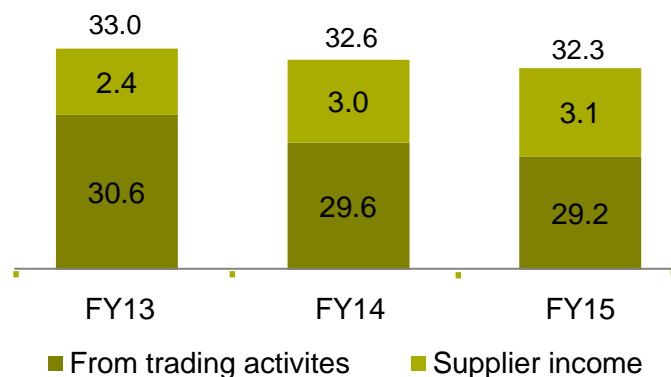


1. Cost expressed as a percentage of retail revenue

2. Vouchering spend including LPP ("Low Price Promise") cost

# Gross margin (Retail)

Gross margin<sup>1</sup> (incl. supplier<sup>2</sup> income), %



- Gross margin down c45bps, impacted by competitor pricing activity
- Partly offset by a further increase in supplier income



1. Expressed as a percentage of retail revenue

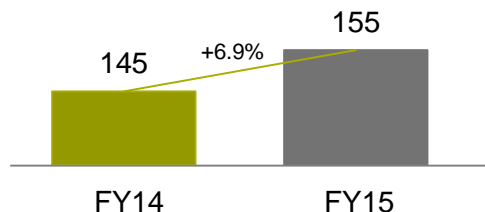
2. Includes media and other non-volume related income from suppliers

# Operating metrics



## Mature CFC Efficiency (UPH)

Units per hour of labour

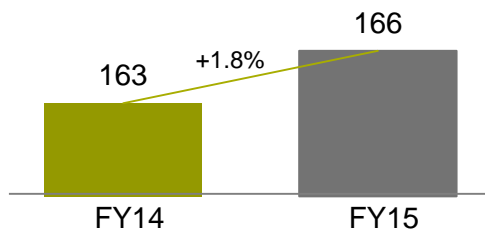


- Mature CFC UPH continues to strengthen, positively impacted by Dordon CFC
- Dordon CFC UPH 165 for the full year



## Delivery Efficiency (DPV)

Drops per Van

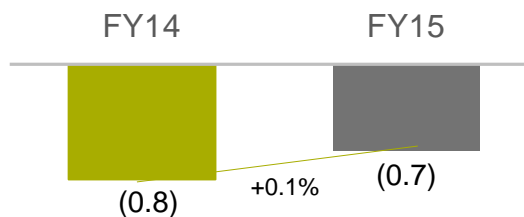


- Delivery efficiency improved further, driven by better customer density and optimised routing
- Three new spokes opened, one major spoke expansion



## Wastage

% of Sales



- Wastage improved supported by our efficient operating model

# Continued growth in UK Retail operating contribution<sup>1</sup>

	FY11 (% Revenue)	FY12 (% Revenue)	FY13 (% Revenue)	FY14 (% Revenue)	FY15 (% Revenue)	FY15 v. FY11 bps change
Gross margin	30.9	30.5	30.6	29.6	29.2	(170)
Supplier income <sup>2</sup>	2.1	2.5	2.4	3.0	3.1	+100
Trunking and delivery costs	(12.4)	(12.3)	(11.7)	(11.9)	(11.7)	+200
CFC costs <sup>3</sup>	(9.2)	(8.9)	(9.0)	(8.3)	(7.9)	
Other <sup>4</sup>	(2.3)	(2.1)	(2.5)	(2.3)	(2.2)	+10
<b>Operating contribution</b>	<b>9.1</b>	<b>9.7</b>	<b>9.8</b>	<b>10.1</b>	<b>10.5</b>	<b>+140</b>

1. Expressed as a percentage of retail revenue

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

3. CFC costs include rental income related to CFC Dordon

4. Other costs include marketing non voucher costs and other operating costs which mainly consist of payment processing and contact centre costs

# UK Retail administrative expenses

	FY15 (% Revenue)	FY14 (% Revenue)
Administrative expenses (£62.9m in FY 2015)	5.7	5.2
Directly attributable to UK Retail		
- Retail and Commercial	1.4	1.4
- Supply Chain and Business Planning		
- Operational HR		
Shared platform costs		
- Technology	4.3	3.8
- Fulfilment Development		
Overhead costs		
- Finance, Legal, Central HR	4.3	3.8
- Board		

# Capital investment

	FY15 <sup>1</sup> (£m)	FY14 <sup>1</sup> (£m)
Mature CFCs	8	23
New CFCs	53	16
Delivery	25	22
Technology	23	17
Fulfilment development	14	16
Other	4	4
<b>Total<sup>2</sup></b>	<b>127</b>	<b>98</b>
NBV of internally generated intangible assets	40	29

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 2015 of £4.4 million and in 2014 of £11.7 million



# 2016 Expected capital spend

	FY16 (£m)	FY15 (£m)	
Mature CFCs	5	8	Minor capacity and resiliency projects
New CFCs	70	53	Development of CFC Andover and CFC Erith
Delivery	25	25	Growth and replacement in our fleet to support the UK business
Technology	30	23	Support for our UK and international business growth
Fulfilment development	15	14	Development of our own proprietary solution
Other	5	4	Non-food and Head office expansion
<b>Total</b>	<b>150</b>	<b>127</b>	

# Liquidity

	Terms of Facility	Total Facility (£m)	Drawn (£m)	Committed & available (£m)
RCF	July 2019	210.0	-	<b>210.0</b>
Property finance	Sep 2018	8.2	8.2	-
Asset backed finance	2016 to 2025	72.0	45.1	<b>26.9</b>
		<b>290.2</b>	<b>53.3</b>	<b>236.9</b>
Cash				<b>45.8</b>

NB. External debt excludes £119.5m of MHE JVCo leases

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# 2016 Outlook

- Market environment remains challenging
  - Channel shift continuing
  - Range, growth and efficiencies improving UK economics
  - Expect sales growth ahead of online grocery market
- Continued investments to drive long term value
  - New CFCs
  - Technology and fulfilment platform

# Tim Steiner

## CEO



# Key messages

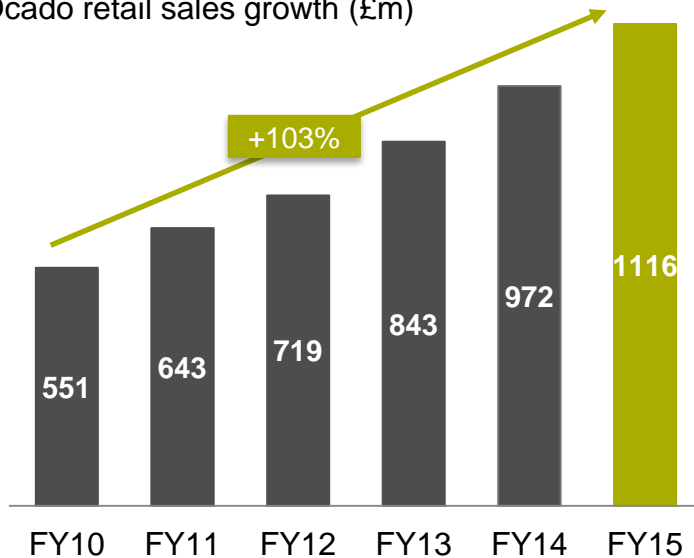
- Trading robustly in a challenging and competitive market
- We have enabled strong Morrisons online growth
- Significant progress in capacity projects
- New MHE solution in advanced testing
- Advancing multiple Ocado Smart Platform discussions



# Continued strong growth

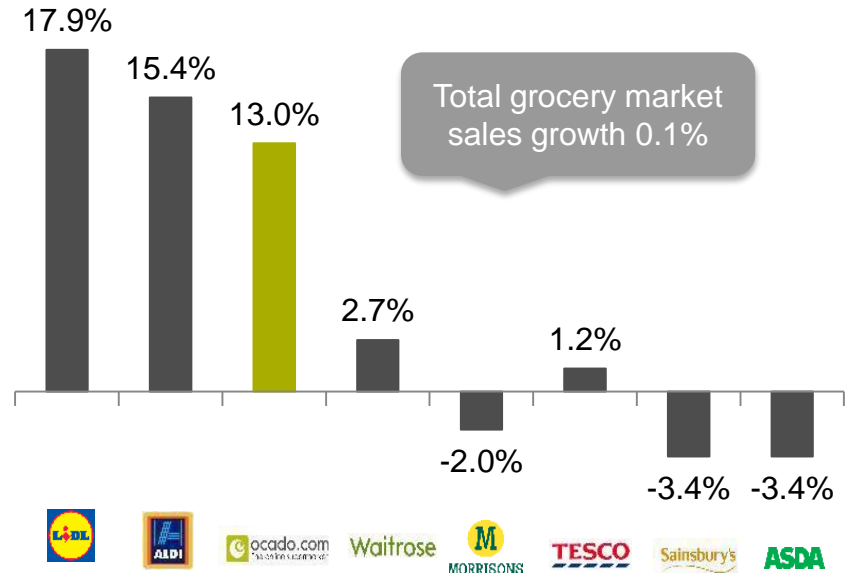
## Retail sales doubled since IPO

Ocado retail sales growth (£m)



## Current grocery market challenging

UK Grocery Sales (12 Weeks ending 6<sup>th</sup> December 2015<sup>1</sup>)  
Year-on-Year % Change

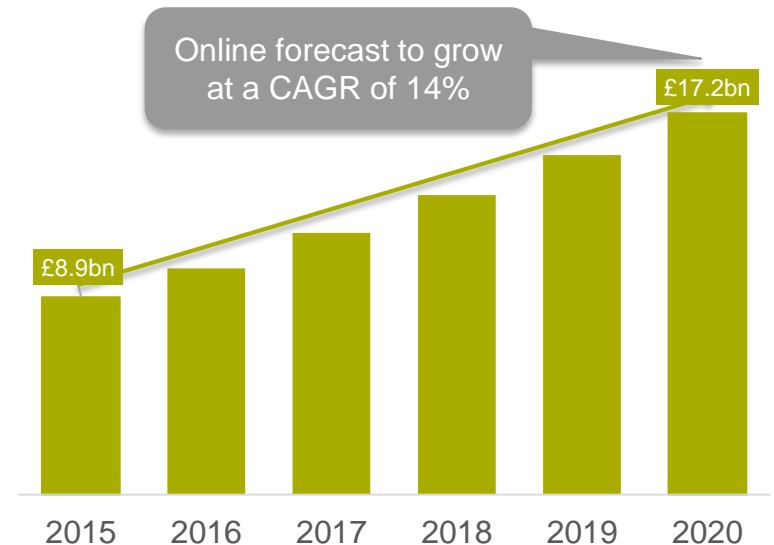


<sup>1</sup>Source: Kantar Worldpanel, Ocado (Q4 2015 figure) retail gross sales

# Well positioned for future growth

- UK online grocery market continues to grow
- Continued channel shift away from physical stores
- Online and discount to account for 80% of industry growth

UK online grocery market size by 2020 (sales, bn)



<sup>1</sup> Source: IGD, data is year to April 2015

# Clear and consistent strategic objectives

1



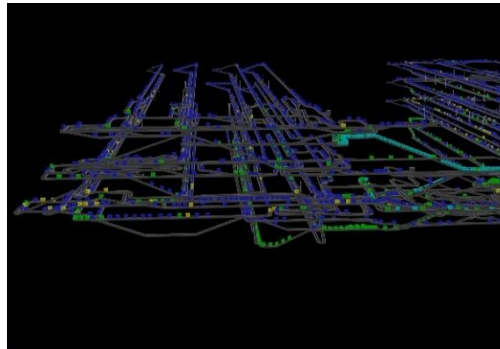
Driving  
growth



2



Maximising  
efficiency



3






Utilising  
proprietary  
knowledge





# Steady progress in 2015

	<u>Progress/ impact</u>	<u>Ocado.com</u>	<u>Morrisons.com</u>	<u>OSP customers</u>
				
Driving growth	Range and pricing	✓	Own proposition	Own proposition
	Strengthening brands	✓	Own brand	Own brand
	User improvements	✓	✓	✓
Maximising efficiency	Operating efficiency	✓	✓	✓
	Capital efficiency for new capacity	✓	✓	✓
Utilising knowledge	Innovation/ IP	✓	✓	✓
	Systems replatforming	✓	✓	✓
	Expansion of tech team	✓	✓	✓

# Driving growth (I) – customer proposition

Service



**95.3%**  
Orders  
on time or  
early



**99.3%**  
Item  
accuracy

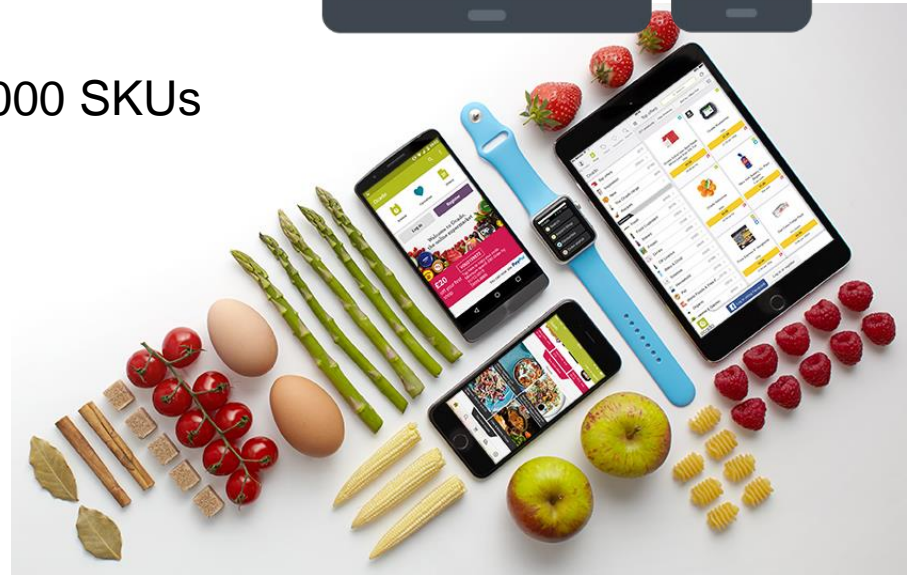


Range

Ocado.com >47,000 SKUs

Price

 **SMART PASS**



# Driving growth (II) – strengthen our brands

Customers continue to rate us highly,  
multiple **customer awards won in 2015**

‘Online Supermarket of the Year’



‘Best Retailer - Gold’



‘Best Online Grocer’



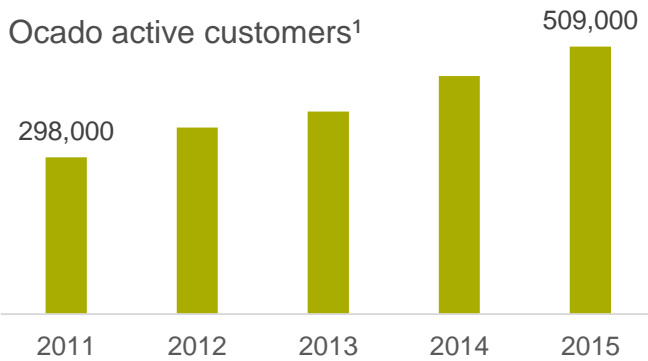
‘Best Online Retailer for Vegetarians’



Brand strength and recognition reflected in  
growing customer numbers



Ocado active customers<sup>1</sup>



<sup>1</sup>Shopped on ocado.com within the previous 12 weeks

# Maximising efficiency (I)

## 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 (due to open shortly)

- New proprietary equipment solution

### Erith (due to open in late 2017)

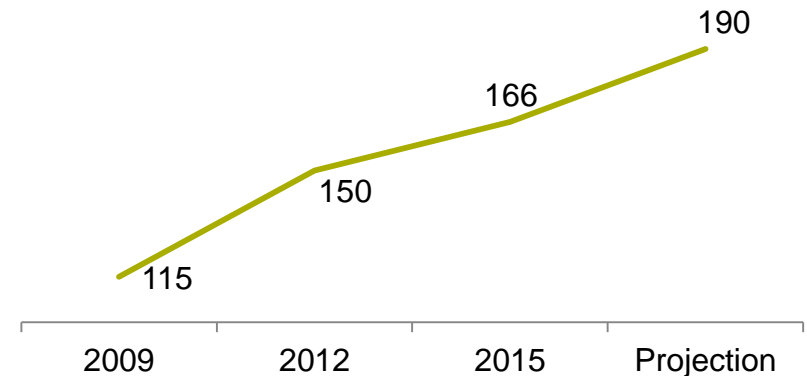
- Value engineering improvements

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

## Delivery – efficiency drivers

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

Drops per van/ week





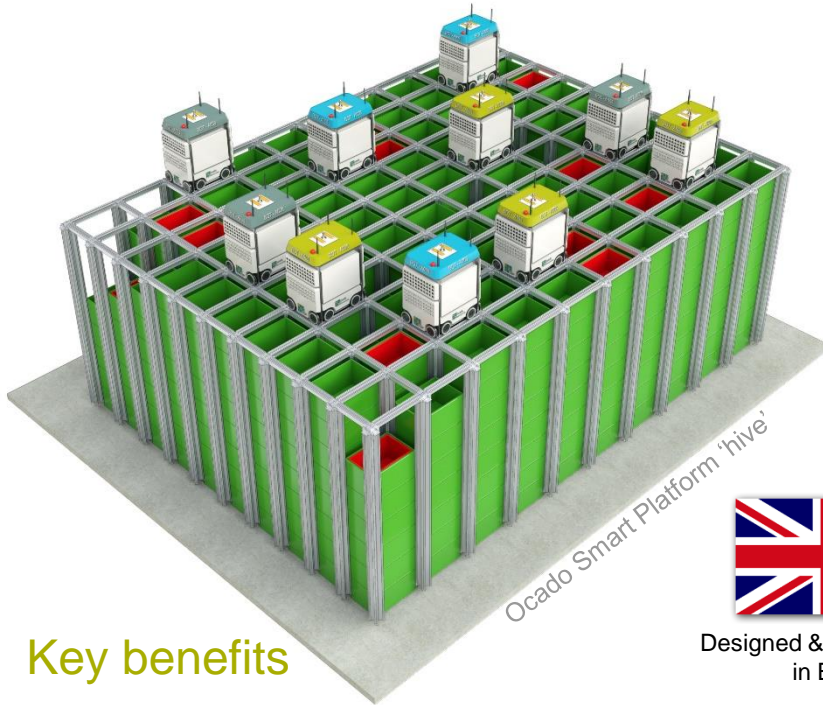
# Maximising efficiency (II)

## Andover CFC



- ✓ **Location** – Andover, Hampshire, England
- ✓ **Size** – 18+ acre site, 240k sqft, 8m+ (clear) height building
- ✓ **Capacity** – Approx. 65,000 orders per week or £350m in sales value
- ✓ **Spend** – Capital investments for MHE ~£45m
- ✓ **Go live** - Due to go live shortly
- ✓ **Equipment** - First installation of our next generation fulfilment solution

# New proprietary equipment solution



## Key benefits

- ✓ Scale within a site
- ✓ Lower capital and better productivity
- ✓ Shortened customer order lead-time
- ✓ Improved pick quality



Designed & manufactured  
in Britain

## Key attributes

- ✓ Complete 'fulfilment in a box' solution
- ✓ Modular (4 components)
- ✓ Fits into standard warehouses
- ✓ Compact storage
- ✓ Massive scale (Andover 1,000+ bots)



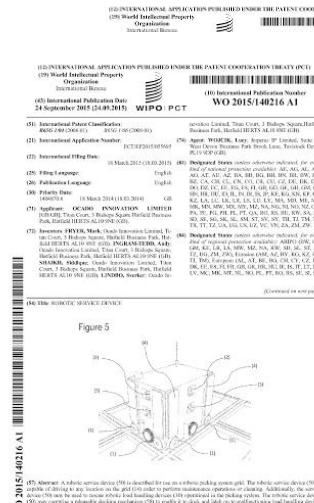
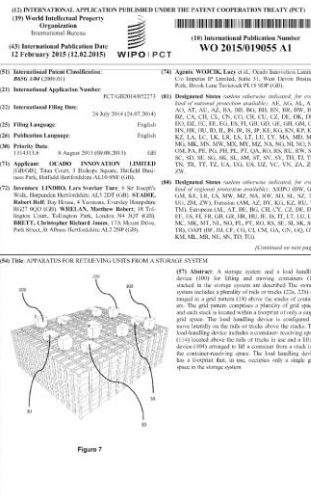
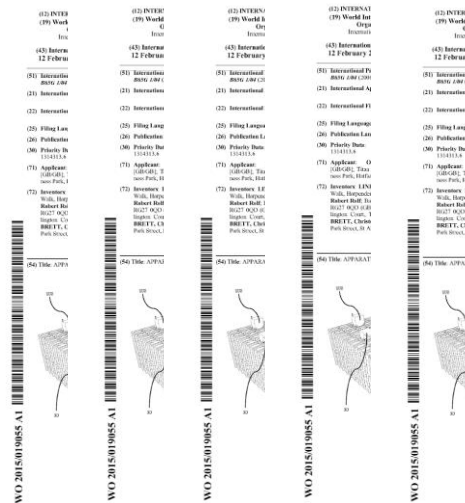
Ocado Smart Platform 'bot'

Allows for continuous development and addition of further future automation



# Intellectual property

- Patent applications filed covering 32 innovations (by end 2015)
- In aggregate 73 patent applications now filed
- Continue further patent filings in 2016



# System replatforming progressing well

## Replatforming



Runs on public or private cloud

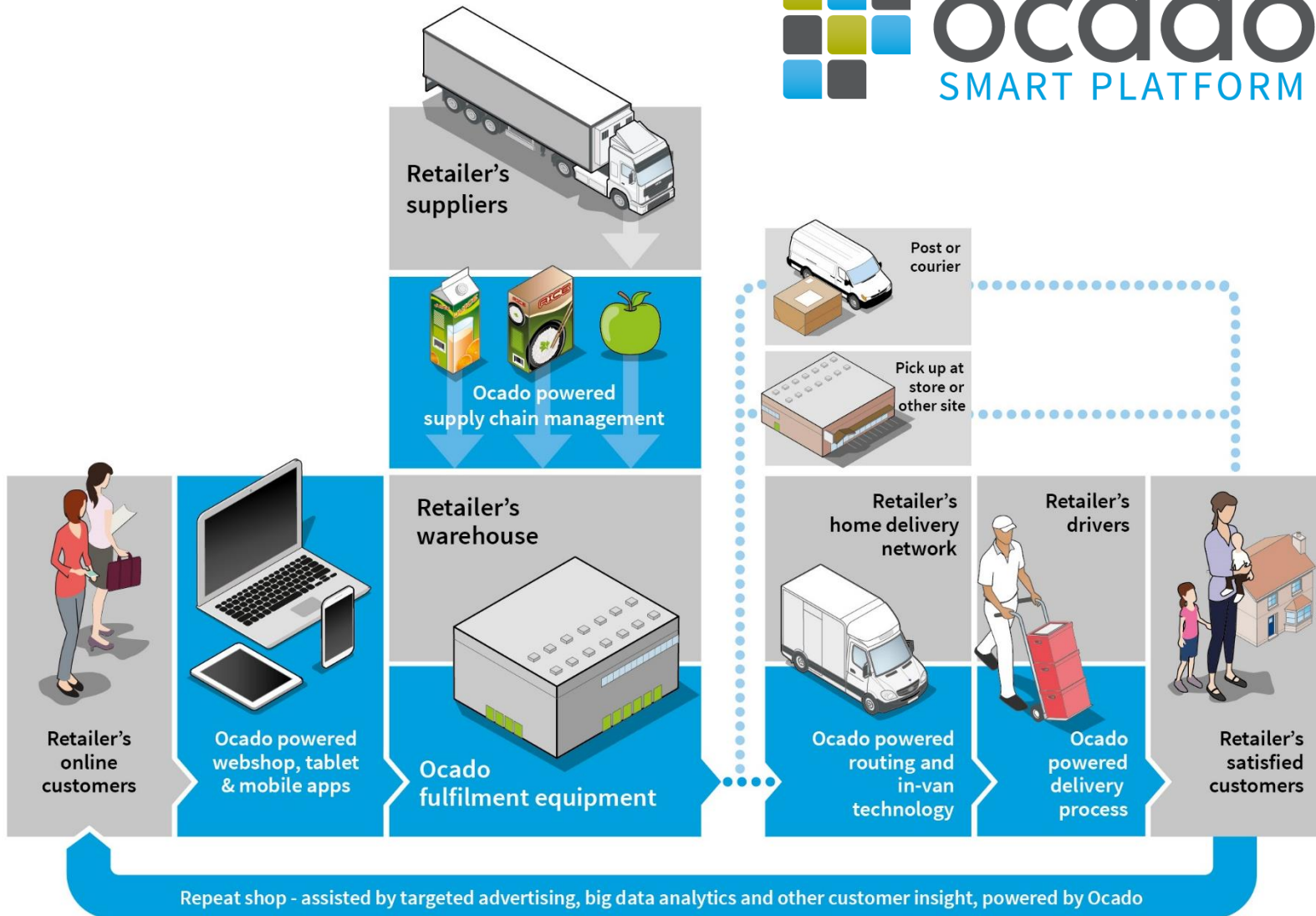


Micro-services

	EXISTING	NEW
<b>CFC software</b>	Hatfield Dordon	First installation in Andover in 2016 All future CFCs (Erith onwards) 2017+ Future OSP installations 2017+
<b>All other software</b>	Ocado.com	Modules added in 2015 Internal test operation in 2016 First OSP customer 2017+ Ocado.com transition 2018+
		2015 2016 2017 2018+



# Ocado Smart Platform



# Utilising proprietary knowledge (I)



“Online sales grew nearly 100%  
year-on-year”

Morrisons Christmas Trading Statement,  
(9 weeks to 03 January 2016)

“...we are most pleased with our consistently high levels of  
customer service... [with] industry-leading customer service  
metrics throughout our first year”

“... we exited 2014/15 with around £200m of annualised sales  
and near-50% coverage of all UK households, in line with our  
ambitious initial targets”

Morrisons Annual Report 2014  
(March 2015)

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# Utilising proprietary knowledge (II)



- No deal signed in 2015
- Confidence remains high
- Medium term target to sign multiple deals in multiple territories

# Key messages

- Trading robustly in a challenging and competitive market
- We have enabled strong Morrisons online growth
- Significant progress in capacity projects
- New MHE solution in advanced testing
- Advancing multiple Ocado Smart Platform discussions





# Q&A



# Appendix 1 - Total costs

	FY15 (£m)	FY14 (£m)	FY15 <sup>1</sup> (% Revenue)	FY14 <sup>1</sup> (% Revenue)
Total operating	227.1	205.6	20.5	21.7
Administrative expenses <sup>2,3</sup>	62.9	49.7	5.7	5.2
Morrisons <sup>4</sup>	54.9	27.8	5.0	2.9
Depreciation and amortisation and impairment	60.1	55.0	5.4	5.8
<b>Total</b>	<b>405.0</b>	<b>338.1</b>	<b>36.6</b>	<b>35.6</b>

1. Expressed as a percentage of Group revenue
2. Administrative costs less Morrisons costs, marketing (non voucher) costs, depreciation and amortisation
3. £2.4 million of reported administrative expenses in 2014 are now included as distribution costs
4. Morrisons costs include operating costs and administrative expenses

# Appendix 2 - Statutory cashflow

	FY15 (£m)	FY14 (£m)
EBITDA	81.5	71.6
Working capital movement	2.3	9.9
Exceptional items	-	(0.3)
Other non-cash items <sup>1</sup>	8.7	4.0
Finance costs paid	(9.7)	(9.7)
<b>Operating cash flow</b>	<b>82.8</b>	<b>75.5</b>
Capital investment	(99.1)	(78.8)
Dividend from joint venture <sup>2</sup>	8.1	-
(Decrease)/Increase in net debt/finance obligations	(26.8)	(34.6)
Proceeds from share issues net of transaction costs	4.5	3.7
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(30.5)</b>	<b>(34.2)</b>

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

2. Dividend received from MHE JVCo of £8.1 million (2014: nil)

3. Includes financing fees paid