



# **Ocado Group plc 2017 Half Year Results**

5 July 2017

---

# Forward-looking statements disclaimer

This presentation contains oral and written statements that are or may be “forward-looking statements” with respect to certain of Ocado’s plans and its current goals and expectations relating to its future financial condition, performance and results. These forward-looking statements are usually identified by words such as ‘anticipate’, ‘target’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’ or other words of similar meaning. By their nature, all forward-looking statements involve risk and uncertainty because they are based on current expectations and assumptions but relate to future events and circumstances which may be beyond Ocado’s control. There are important factors that could cause Ocado’s actual financial condition, performance and results to differ materially from those expressed or implied by these forward-looking statements, including, among other things, UK domestic and global political, social, economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, the possible effects of inflation or deflation, variations in commodity prices and other costs, the ability of Ocado to manage supply chain sources and its offering to customers, the effect of any acquisitions by Ocado, combinations within relevant industries and the impact of changes to tax and other legislation in the jurisdictions in which Ocado and its affiliates operate. Further details of certain risks and uncertainties are set out in our Annual Report for 2016 which can be found at [www.ocadogroup.com](http://www.ocadogroup.com). Ocado expressly disclaims any undertaking or obligation to update the forward-looking statements made in this presentation or any other forward-looking statements we may make except as required by law. Persons receiving this presentation should not place undue reliance on forward-looking statements which are current only as of the date on which such statements are made.

# Agenda

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



# Stuart Rose, Chairman

## Introduction



---

# A busy period of growth and investment

- Significant growth through our platform for Ocado and Morrisons.com
- Further improvements in operating efficiency
- Andover continues to scale as planned
- Announced first international partnership

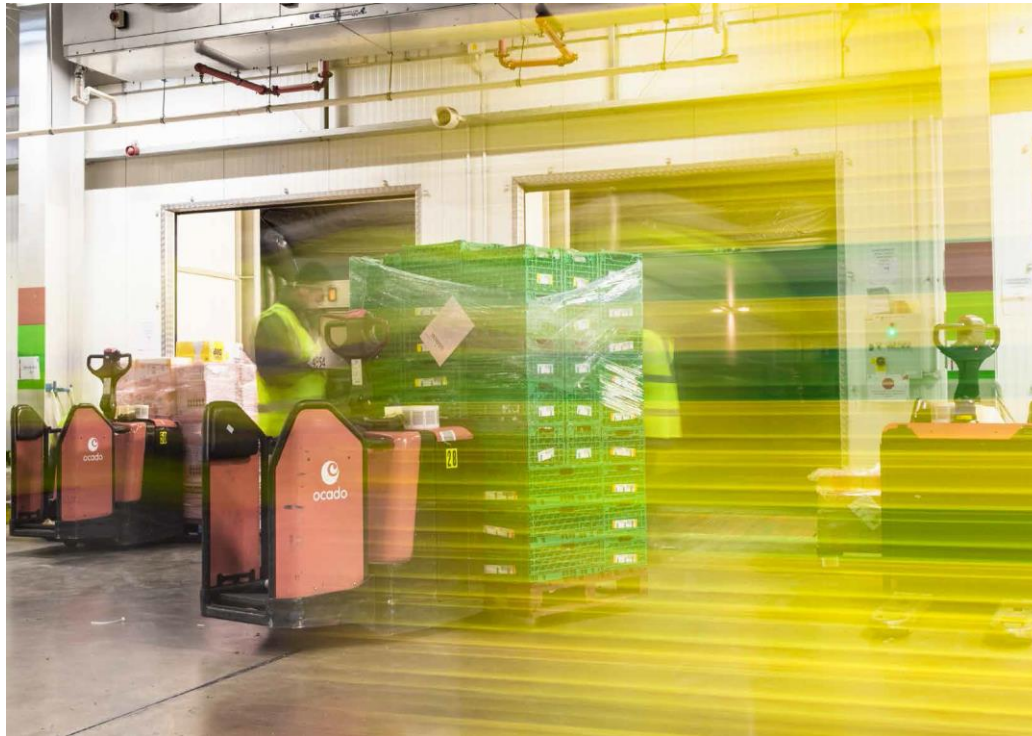




---

# Duncan Tatton-Brown, CFO

## Financial Review



---

# Overview

- Market share gains in a competitive market
- Continued operational progress
- Investments in capacity and the platform
- Strong financial position supported by new financing



# Financial summary<sup>1</sup>

|                              | 1H17 <sup>1</sup><br>(26 Weeks)<br>(£m) | 1H16<br>(26 Weeks)<br>(£m) | Variance<br>(vs. 26 Weeks)<br>(%) | 1H16<br>(24 Weeks)<br>(£m) |
|------------------------------|---|----------------------------|-----------------------------------|----------------------------|
| Revenue                      | 713.8                                   | 634.4                      | +12.5%                            | 584.2                      |
| <b>EBITDA</b>                | <b>45.2</b>                             | <b>44.0</b>                | <b>+2.7%</b>                      | <b>40.4</b>                |
| <i>EBITDA</i> <sup>2,3</sup> | 6.3%                                    | 6.9%                       |                                   | 6.9%                       |
| Net interest                 | (4.2)                                   | (4.7)                      |                                   | (4.3)                      |
| Depreciation                 | (33.2)                                  | (29.9)                     |                                   | (27.6)                     |
| <b>Profit before tax</b>     | <b>7.7</b>                              | <b>9.4</b>                 |                                   | <b>8.5</b>                 |

1. Financial results are unaudited

2. EBITDA % based on revenue

3. Pre exceptional EBITDA



# EBITDA summary

|   | 1H17<br>(£m) | 1H16 <sup>2</sup><br>(£m) | Variance %    |
|---|--------------|---------------------------|---------------|
| Retail revenue                                      | 659.6        | 586.2                     | +12.5%        |
| <b>Operating contribution</b>                       | <b>66.5</b>  | <b>58.6</b>               | <b>+13.5%</b> |
| Morrisons fees and MHE JV<br>Co impact <sup>1</sup> | 15.2         | 16.7                      | (8.9)%        |
| Central costs <sup>3</sup>                          | (36.5)       | (31.3)                    | (16.6)%       |
| <b>EBITDA</b>                                       | <b>45.2</b>  | <b>44.0</b>               | <b>+2.7%</b>  |
|   | <b>6.3%</b>  | <b>6.9%</b>               |               |

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

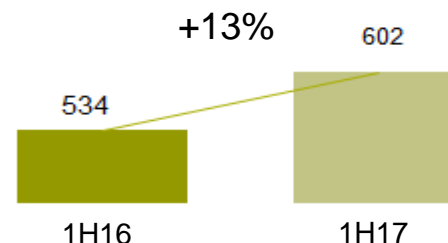
2. Based on 26 weeks ended 29 May 2016 ("1H16")

3. Central costs exclude depreciation, amortisation and marketing costs

# Retail sales growth up 12.5%

|                   | Orders<br>(% YOY <sup>1</sup> ) | Basket value<br>(% YOY <sup>1</sup> ) |
|-------------------|---------------------------------|---------------------------------------|
| Ocado.com         | +13%                            | (1.3)%                                |
| Destination sites | +62%                            | +6.7%                                 |
| Total             | +15%                            | (2.3)%                                |

## Active<sup>2</sup> customers



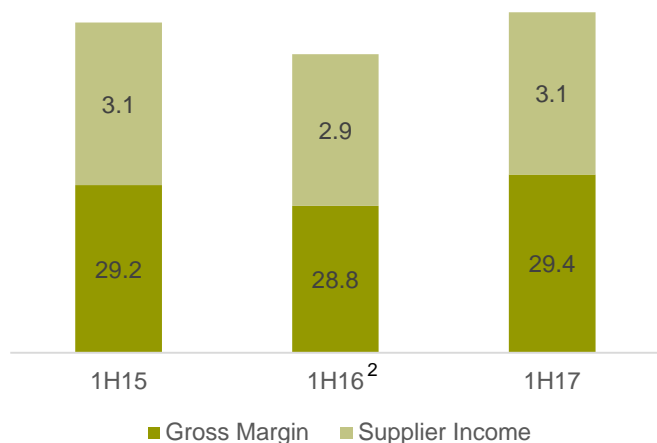
- Continued strong growth in orders
  - active customers up 13%
  - stronger order growth from loyal shoppers
- Destination orders gaining share
- Overall basket size impacted by destination orders

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

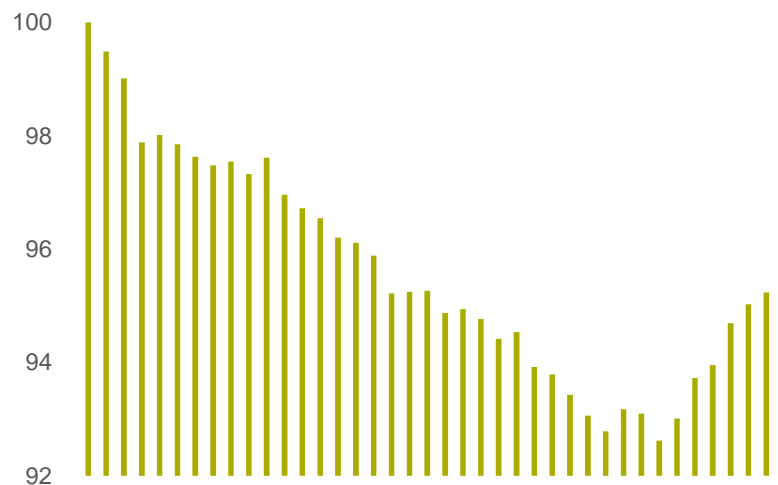
2. A customer is classified as active if they have shopped on our hypermarket website within the previous 12 weeks. Data shows active customers at each period end

# Gross margin – deflation starting to ease

<sup>1</sup>Gross margin (incl. supplier income<sup>3</sup>), (%)



Price deflation<sup>4</sup> (Feb 2014 to May 2017)



- Gross margin up 60 bps
  - reduced multi buy promotional activity
  - reduced leakage
- Supplier income up 20 bps

1. Expressed as a percentage of retail revenue

2. Based on 26 weeks ended 29 May 2016 ("1H16")

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

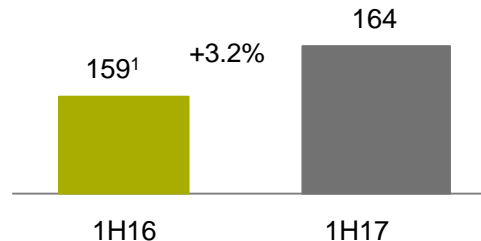
4. Source: CPI Food and non-alcoholic beverage NBA 02/2014 = 100

# Operating metrics continue to improve



## Mature CFC Efficiency (UPH)

Units per hour of labour

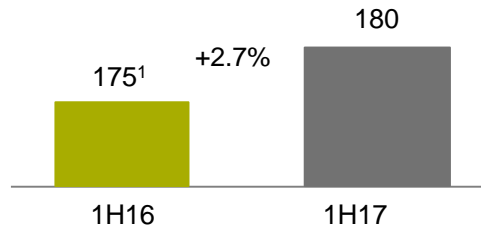


- Dordon UPH regularly >180



## Delivery Efficiency (DPV)

Drops per Van

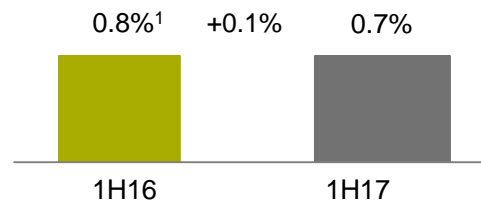


- Better customer density
- Increased Sunday deliveries



## Wastage

% of Revenue



- Maintained industry leading levels

1. Based on 24 weeks ended 29 May 2016 ("1H16") as a % of Retail Revenue

# UK Retail operating contribution

|  | 1H17<br>(% Retail Revenue) | 1H16 <sup>1</sup><br>(% Retail Revenue) |
|--|----------------------------|---|
| Gross margin                             | 29.4                       | 28.8                                    |
| Supplier income <sup>2</sup>             | 3.1                        | 2.9                                     |
| Trunking and delivery costs <sup>3</sup> | (12.0)                     | (11.7)                                  |
| CFC costs <sup>3,4</sup>                 | (8.3)                      | (8.0)                                   |
| Other operating costs                    | (1.2)                      | (1.2)                                   |
| Marketing (non vouchering) costs         | (0.9)                      | (0.8)                                   |
| Operating contribution                   | 10.1                       | 10.0                                    |

1. Based on 26 weeks ended 29 May 2016 ("1H16")

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

3. 1H16 include a re-categorisation of £2.6m of cost from administrative expenses to trunking, delivery and CFC costs

4. CFC costs include the operating costs of the Fabled store

# Central costs

|  | % Revenue <sup>1</sup> |
|--|------------------------|
| <b>1H16<sup>2,3</sup></b>                                | <b>4.9</b>             |
| Impact of growth in:                                     |                        |
| Retail, Supply Chain, Business Planning & Operational HR | -                      |
| Technology and fulfilment development                    | 0.2                    |
| Finance, Legal, Central HR and Board                     | -                      |
| <b>1H17</b>  | <b>5.1</b>             |

1. Expressed as a percentage of Group revenue

2. Based on 26 weeks ended 29 May 2016 ("1H16")

3. 1H16 include a re-categorisation of £2.6m of cost from administrative expenses to trunking, delivery and CFC costs



# Capital expenditure guidance

|                          | 1H16 <sup>1,3</sup><br>(£m) | 1H17 <sup>1</sup><br>(£m) |                           | FY17 <sup>1</sup><br>(£m) |
|--------------------------|-----------------------------|---------------------------|---------------------------|---------------------------|
| Mature CFCs <sup>2</sup> | 3                           | 1                         | Minor projects            | 5                         |
| New CFCs                 | 17                          | 30                        | Andover and Erith         | 80                        |
| Delivery                 | 14                          | 7                         | Replacement and growth    | 20                        |
| Technology development   | 13                          | 20                        | Existing and new platform | 45                        |
| Fulfilment development   | 6                           | 10                        | Onward development        | 15                        |
| Other                    | 2                           | 6                         | GM and head office        | 10                        |
| <b>Total</b>             | <b>55</b>                   | <b>74</b>                 |                           | <b>175</b>                |

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 1H17 of £0.5m and in 1H16 of £1.7m

3. Based on 26 weeks ended 29 May 2016 ("1H16")

# Successful refinancing

| <b>External Debt<sup>1</sup></b> | Pre financing<br>1H17<br>(£m) | Post financing<br>1H17<br>(£m) |  |
|----------------------------------|-------------------------------|--------------------------------|--|
| Asset based finance              | (41)                          | (25)                           |  |
| Property finance                 | (14)                          | (9)                            | ■ Historic lows in public debt markets |
| RCF                              | (85)                          | -                              | ■ Cost effective longer term structure |
| Bond                             | -                             | (242)                          | ■ Increased flexibility                |
| <b>Total</b>                     | <b>(140)</b>                  | <b>(276)</b>                   |  |
| <b>Cash</b>                      | <b>38</b>                     | <b>174</b>                     |  |

1. External debt excludes £108.1m of MHE JVCo leases

# Mature CFCs highly cash generative

|                                   | New CFCs (Erith)<br>(£m) |  | Mature CFCs<br>(£m) |
|-----------------------------------|--------------------------|--|---------------------|
| Gross Sales                       | 1,200                    | Revenue                                    | 1,250               |
| Operating contribution<br>(11.6%) | 125                      | Operating contribution<br>(10.1%)          | 126                 |
| Invested Capex                    | 225                      | Annual Capex                               | (5)                 |
|                                   |                          | Annual cash generation                     | 121                 |
| <b>ROI<sup>1</sup></b>            | <b>&gt;50%</b>           | <b>Cash generation as %<br/>of revenue</b> | <b>9.7%</b>         |

**2017 Andover EBITDA impact of £(5-10)m**

1. ROI assumptions and calculations outlined in appendix 3

---

# Summary

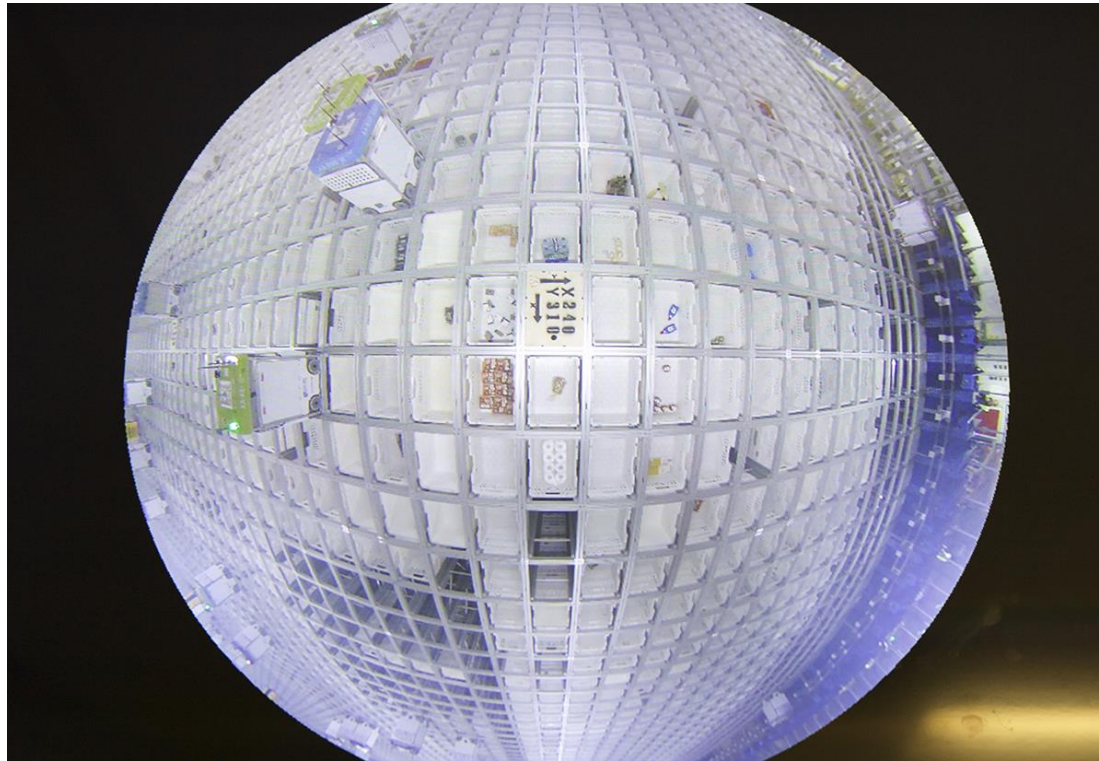
- Market share gains in a competitive market
- Continued operational progress
- Investments in capacity and the platform
- Strong financial position supported by new financing



---

# Tim Steiner, CEO

## Strategic update



# Highlights

Driving growth

Maximising efficiency

Utilising proprietary knowledge

## Ocado Retail



F A B L E D  
— by marie claire —

- Trading well in competitive market
- Model driving continued efficiency gains
- Andover CFC scaling and Erith on plan

## Ocado Solutions

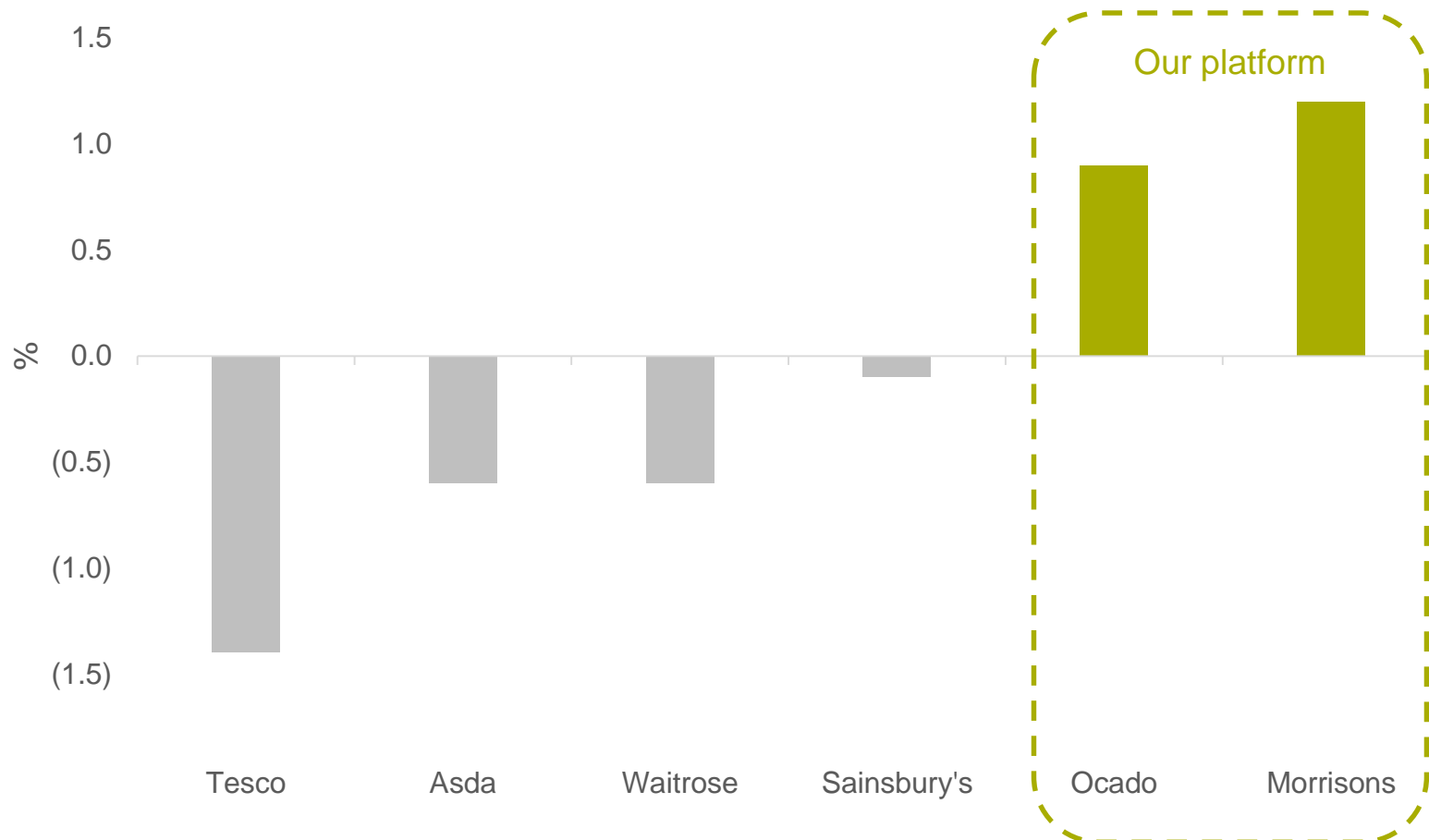


- Continuing investment to build further competitive advantage
- Enabled strong growth of Morrisons.com
- First international partnership announced



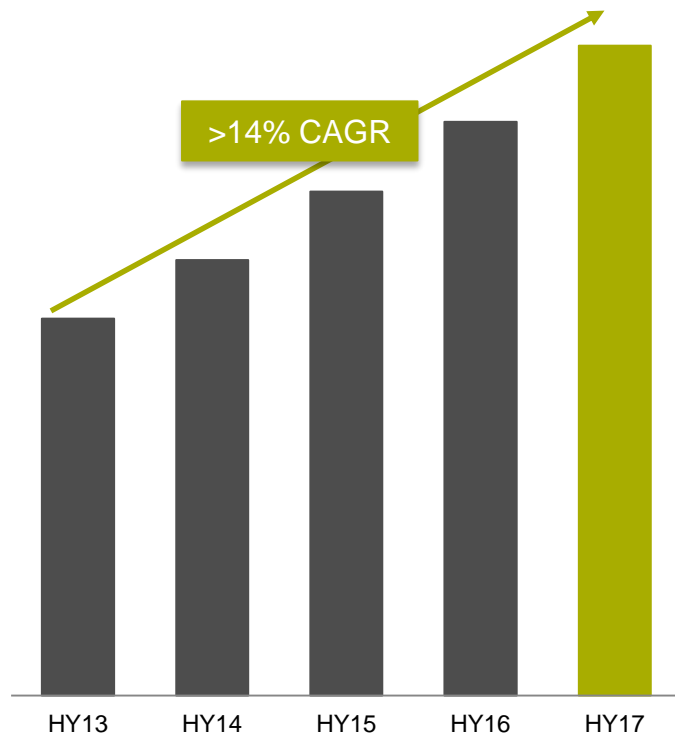
# Our platform is taking share

2014-2016 online grocery market share movement

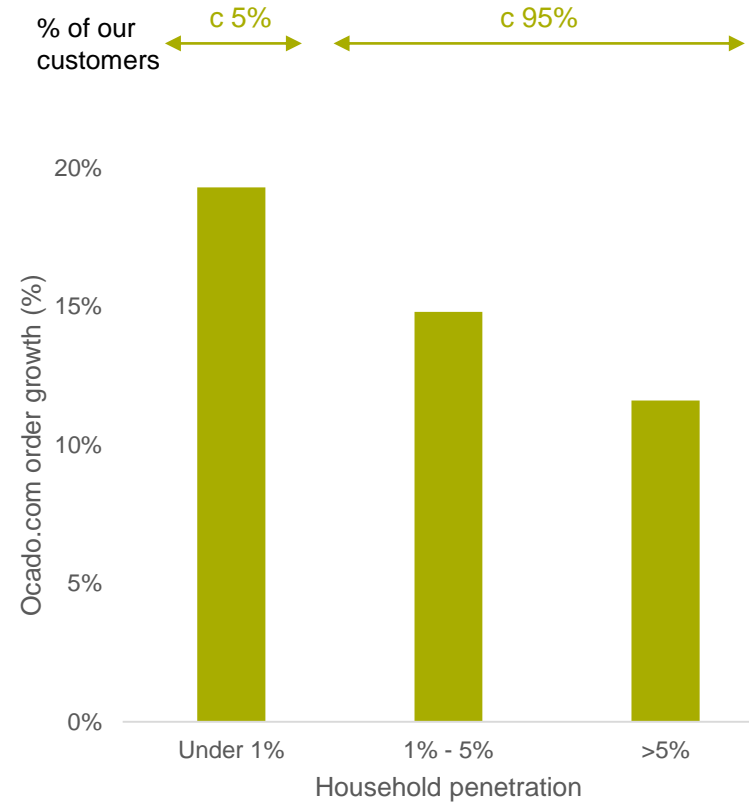


# Robust trading in a competitive market

## Continued strong retail sales growth



## Double digit growth even in our most penetrated catchment areas



# Continuously improving our customer proposition

## Service



**98.9%**  
Item  
accuracy

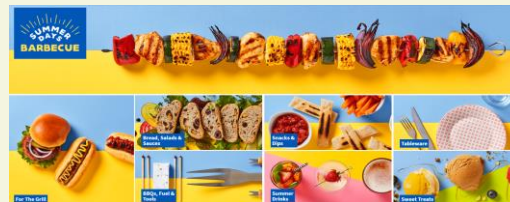


**95.0%**  
Orders  
on time

### High customer rating<sup>1</sup>



## Range



New



The Garlic Farm Vampire  
Botherer  
150ml

New



The Garlic Farm Black  
Garlic Vodka  
20cl

## Price



**SMART PASS**  
Be happy. Shop SMART.



### MORNING

|                 |
|-----------------|
| 10:00 - 11:00am |
| 10:30 - 11:30am |
| 11:00 - 12:00pm |

### Tuesday 4th Jul

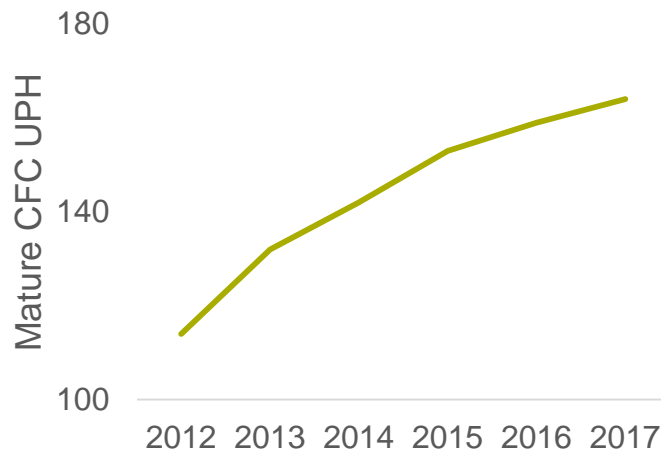
|       |
|-------|
| £0.00 |
| £0.00 |
| £0.00 |

1. Trust Pilot reviews dated July 2017 (based on over 10,000 reviews)

# Good progress on our capacity projects and mature CFC efficiency improving

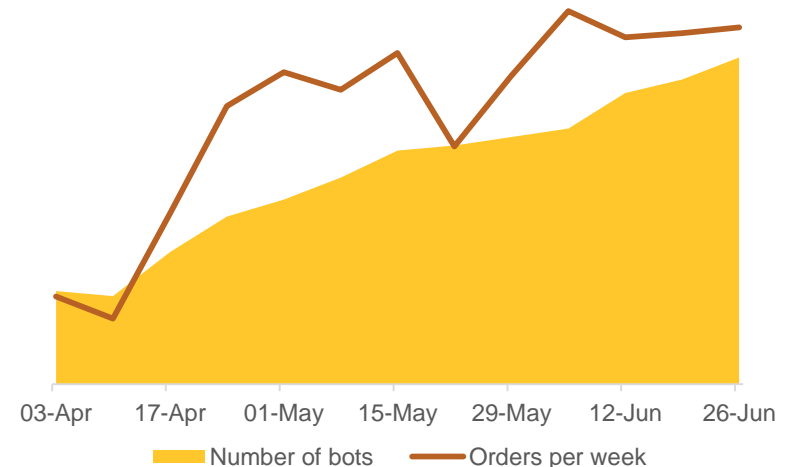
## ■ Mature CFCs:

- Continued to enhance efficiency in mature CFCs
- Over 10% more throughput in the first half



## ■ New CFCs:

- Andover scaling as planned
- Value engineering
- Continued build out of Erith, due to open 2018



# Exciting developments for Ocado Solutions



- Announced first international partner
- Full software platform, know-how and support services
- Potential to install automated MHE in warehouses in the future
- Progressing discussions with multiple retailers



- Continued strong growth of Morrisons.com
- More CFC capacity once Erith CFC live
- Live testing of store picking solution

# Investing in innovation



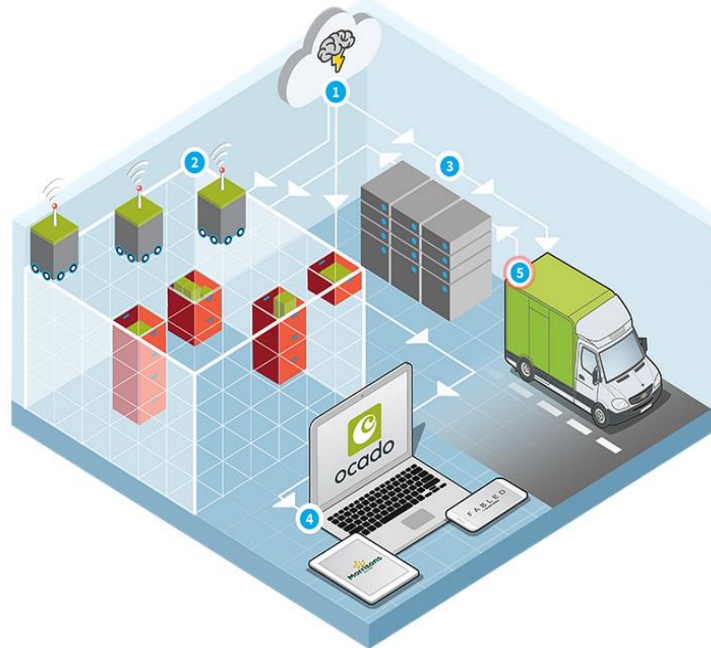
## Automation and Robotics

*EU-funded research, plus thousands of warehouse bots communicating over our proprietary solution*



## Big data and the cloud

*Advanced data analytics and cloud storage allow the processing of massive quantities of data*



## Data science and AI

*Prediction, advanced monitoring, and real time optimisation*



## The Internet of Things

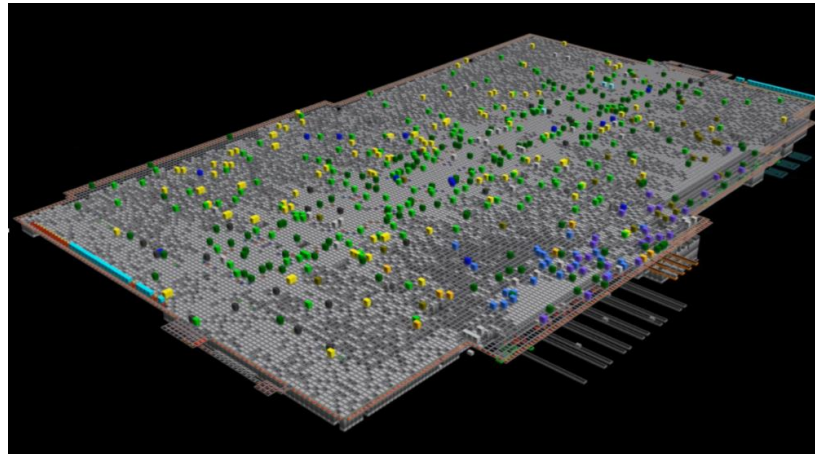
*Systems and hardware are in constant communication and collaboration, from vans to bots*



---

# A busy period of growth and investment

- Trading well in competitive market
- Model driving continued efficiency gains
- Andover scaling and Erith CFC on plan
- First international partnership announced
- Enabled strong growth of Morrisons.com
- Continuing investment to build further competitive advantage



# Q&A



# Appendix 1 – Statutory cashflow

|   | 1H17<br>(£m)  | 1H16<br>(£m) |
|---|---------------|--------------|
| EBITDA  | 45.2          | 40.4         |
| Working capital movement                                | 5.3           | 9.9          |
| Other non-cash items <sup>1</sup>                       | 2.0           | 1.1          |
| Finance costs paid                                      | (4.4)         | (2.6)        |
| Operating cash flow                                     | <b>48.1</b>   | <b>48.8</b>  |
| Capital investment                                      | (88.7)        | (44.9)       |
| (Decrease)/increase in net debt/finance obligations     | 27.0          | 2.5          |
| Proceeds from share issues net of transaction costs     | 0.5           | 0.5          |
| <b>Increase/(decrease) in cash and cash equivalents</b> | <b>(13.1)</b> | <b>6.9</b>   |

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

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

|  | 1H17<br>(£m) | 1H16<br>(£m) |
|--|--------------|--------------|
| Reported capital investments   | 74.1         | 56.4         |
| Non cash additions of finance leases   | (7.0)        | (14.1)       |
| Net movement in provisions and reserves  | -            | 0.2          |
| Net movement in (invoices received, not paid)/ previously accrued and now paid | 21.6         | 2.2          |
| Net movement in accruals   |              | 0.2          |
| <b>Cash capital investment</b>   | <b>88.7</b>  | <b>44.9</b>  |

## Appendix 3 - Ocado model<sup>1</sup>: attractive ROI

|  | Contribution<br>(% 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 <sup>2</sup> operating contribution | 11.1%                       |                            |                |
| Improvement from 200 UPH                           | +0.5%                       | MHE capex                  | £135m          |
|  |                             | Building/IT                | £60m           |
| <b>Implied model contribution</b>                  | <b>11.6%</b>                | Delivery capex less W/C    | £30m           |
|  |                             | Total capital <sup>3</sup> | £225m          |
|  |                             | <b>Pre-tax ROI</b>         | <b>&gt;50%</b> |

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