



# **Ocado Group plc**

## **2014 Half Year Results**

1 July 2014

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# Agenda

- Introduction – Sir Stuart Rose
- Financial Review – Duncan Tatton-Brown
- Strategic Review – Tim Steiner
- Q&A
- Appendices

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Sir Stuart Rose  
Chairman

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# Introduction

- Market environment competitive
- Robust trading performance
- Well positioned for future platform opportunities

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# Duncan Tatton-Brown

## CFO

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# Financial review

- Solid trading performance in tougher market
- Investing for UK capacity growth and strategic opportunities
- Improved balance sheet flexibility

# Financial summary<sup>1</sup>

	1H14 (£m)	1H13 (£m)	Variance (%)
Gross sales (Retail)	442.4	382.7	15.6%
Revenue (Group)	429.7	355.9	20.7%
EBITDA (pre-exceptional)	34.3	19.2	78.6%
<i>EBITDA %</i>	<i>8.0%</i>	<i>5.4%</i>	
Depreciation, amortisation and impairment <sup>2</sup>	(23.4)	(17.5)	33.7%
Operating profit before exceptional items <sup>3</sup>	10.9	1.7	-
Net finance costs	(3.4)	(2.7)	25.9%
Profit/(loss) before tax and exceptional items	7.5	(1.0)	
Exceptional items <sup>4</sup>	-	(2.8)	

1. All financial information presented is unaudited

2. 1H13 includes an impairment charge of £0.2m and 1H14 includes an impairment charge of £0.3m

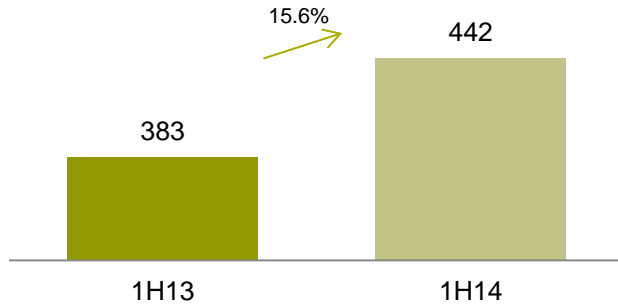
3. Operating profit includes share of results from joint venture and excludes exceptional items

4. Exceptional items also include exceptional finance costs

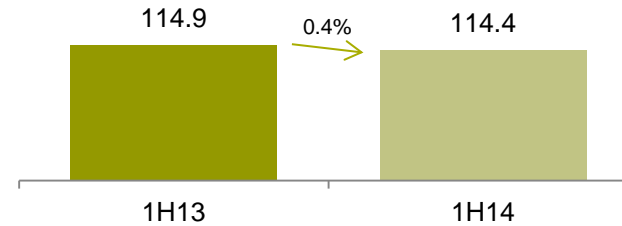


# Sales drivers (Retail)<sup>1</sup>

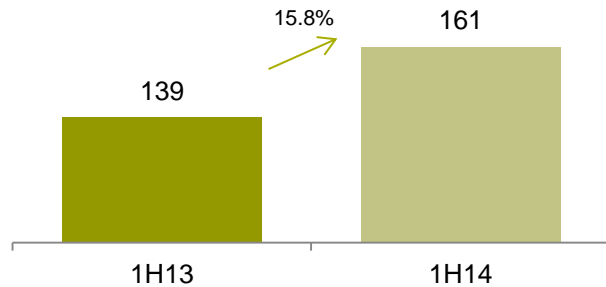
Gross sales, £m



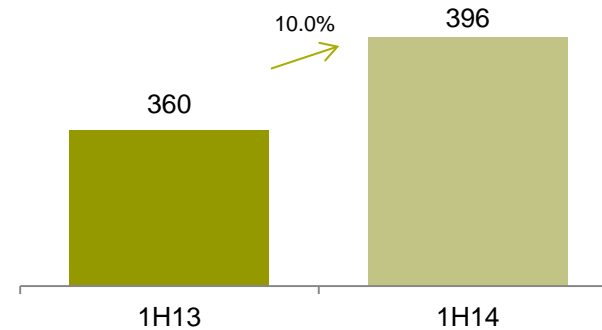
Average basket size, £



Average orders per week, 000



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



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

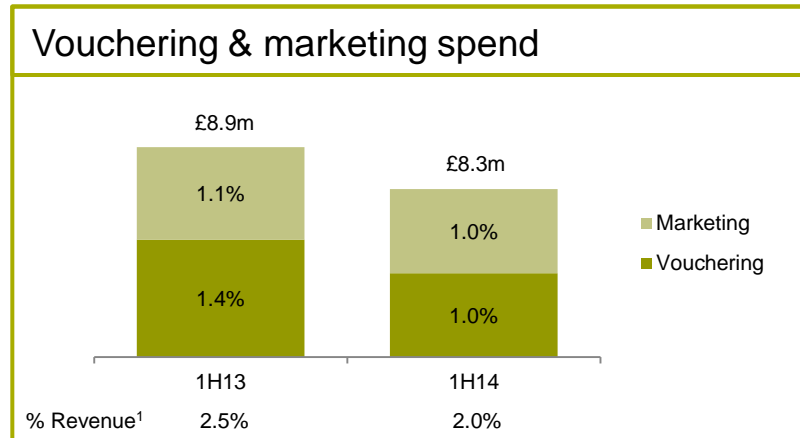
# Customers

## Customer Service

- Customer service improved
- On time or early: 95.7% (1H13: 94.4%)
- Items delivered as ordered: 99.2% (1H13: 98.9%)

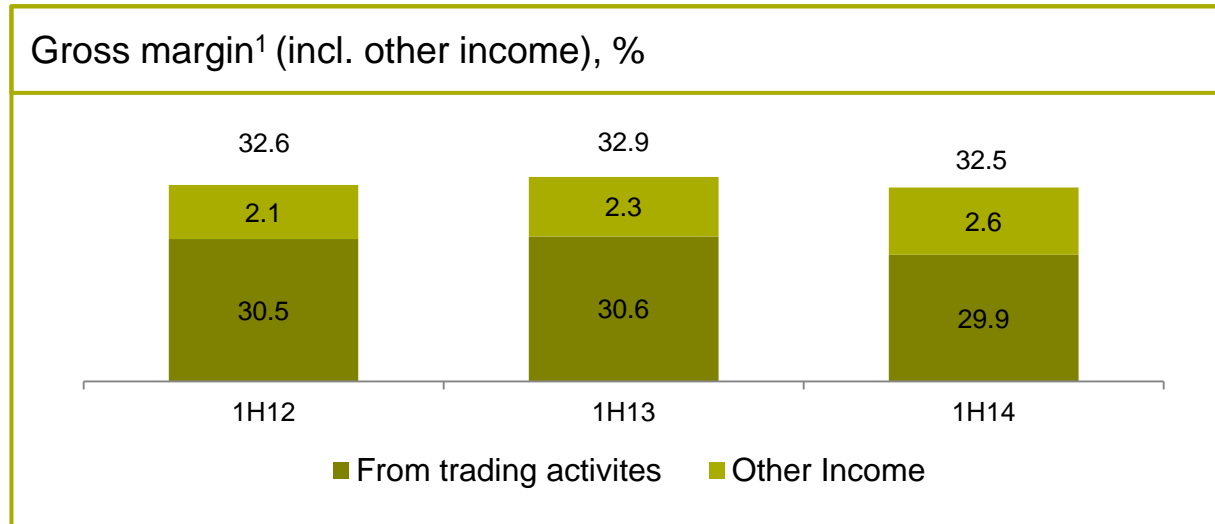
## Marketing

- Absolute marketing spend in 1H14 lower
- Increased marketing activity plan for 2H14
- Full year marketing costs between 2.3% and 2.5% of revenue



1. Vouchering and marketing spend including LPP ("Low Price Promise") cost, expressed as a percentage of retail revenue

# Gross margin (Retail)



- Gross margins lower
  - Increased promotional activity
  - Further reductions in delivery charges
  - LPP cost as a % of retail sales maintained
- Offset by increased other income

1. Expressed as a percentage of retail revenue

# Operating metrics

	1H14 <sup>1</sup> (£m)	1H13 <sup>1</sup> (£m)	1H14 <sup>2</sup> (% Revenue)	1H13 <sup>2</sup> (% Revenue)
Trunking and delivery	47.2	41.0	11.4%	11.5%
CFC	32.5	31.0	7.9%	8.7%
Other operating costs <sup>3</sup>	5.1	4.1	1.2%	1.2%
Marketing (non vouchering)	4.0	3.8	1.0%	1.1%
Total Operating	88.8	79.9	21.5%	22.5%
Service delivery efficiency	163	158		
CFC1 efficiency	142	132		
Wastage <sup>2</sup>	0.8%	1.0%		

1. Adjusted to exclude exceptional items and Morrisons costs

2. Expressed as a percentage of retail revenue

3. Other operating costs include all customer contact centre costs and include payment processing charges

# Total costs

	1H14 (£m)	1H13 (£m)	1H14 <sup>1</sup> (% Revenue)	1H13 <sup>1</sup> (% Revenue)
Total Operating	88.8	79.9	20.7%	22.5%
Administrative expenses	20.4	17.9	4.7%	5.0%
Morrisons <sup>2</sup>	13.8	0.0	3.2%	-
Depreciation and Amortisation	23.4	17.5	5.4%	4.9%
Total	146.4	115.3	34.1%	32.4%

1. Expressed as a percentage of group revenue

2. Morrisons costs include operating costs and administration expenses

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# Impact of Morrisons

Revenue	+	Fees
	+	Cost recharges
Cost of goods	=	
Other Income	+	Rental 50% of CFC and MHE
Costs	-	Operational costs (fixed & variable)
	-	Lease costs (excluding interest)
	-	Additional costs (mainly IT)
	+	Share of MHE JV Co results
Interest	-	Lease interest costs

# MHE JV Co impact

	Total 1H14 (£m)	Impact of MHE JV Co 1H14 (£m)	Underlying 1H14 (£m)
EBITDA Ocado businesses	33.2	3.9 <sup>1</sup>	29.3
Share of results from joint venture	1.1	1.1	-
Total EBITDA	34.3	5.0	29.3
Depreciation	(23.4)	Implied allocation (2.7)	(20.7)
Interest	(3.4)	(2.4)	(1.0)
Total PBT	7.5	(0.1)	7.6

1. £3.9m is the income generated from charging of MHE to Morrisons

# Capital investment

	1H13 (£m)	1H14 (£m)	Expected FY14 (£m)	
Existing CFCs <sup>1</sup>	28	17	30	CFC2 Phase 2 / efficiency and resiliency projects
Technology	7	7	25	People and hardware
Vehicles & spokes	4	7	20	Vehicles and spokes
Other	2	8	25	R&D, Non-food, Offices
Total	40	39	100	
Andover CFC			30	
Total			130	

1. This includes Ocado's share of MHE JV Co capital investment in 1H14 of £11.5m



# Underlying cashflow

	1H14 (£m)	1H13 (£m)
EBITDA	34.3	19.2
Adjustments for non cash and exceptional items	1.3	(2.5)
Capital spend	(24.9)	(43.2)
Working capital	(1.1)	13.2
Interest paid	(0.7)	(5.8)
<b>Cash movement excluding financing activities</b>	<b>8.9</b>	<b>(19.1)</b>
Net cash flows from financing activities	(8.9)	(7.5)
<b>Total movement in cash and cash equivalents<sup>1</sup></b>	<b>-</b>	<b>(26.6)</b>
<b>Net external cash/(debt)<sup>2</sup></b>	<b>64.1</b>	<b>(74.6)</b>

1. Excludes £0.2m exchange adjustment

2. This is debt excluding MHE JV Co obligations under finance lease

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# Debt facility

- New £100m unsecured 3 year RCF facility
- Bank group comprising Barclays, HSBC, RBS and Santander
- Typical covenants:
  - Net debt to EBITDA ratio
  - Interest cover
  - Capital expenditure
- Margins 175 – 275 dependant on leverage
- Increases financial flexibility to support UK expansion

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# Summary

- Solid trading performance in tougher market
- Investing for UK capacity growth and strategic opportunities
- Improved balance sheet flexibility

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# Tim Steiner

## CEO

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# Key highlights

- Progress on each strategic objective
- Solid trading growth:
  - Proposition enhancements
  - Improvements in operational efficiency
- New capacity plans in place
- Good progress on platform opportunities

# Strategy

## Strategic objectives

### Driving growth

- Developing proposition to customers
- Growing customer numbers and encouraging spend

### Maximising efficiency

- Optimising operations
- Enhance efficiency of future capacity and drive scale benefits

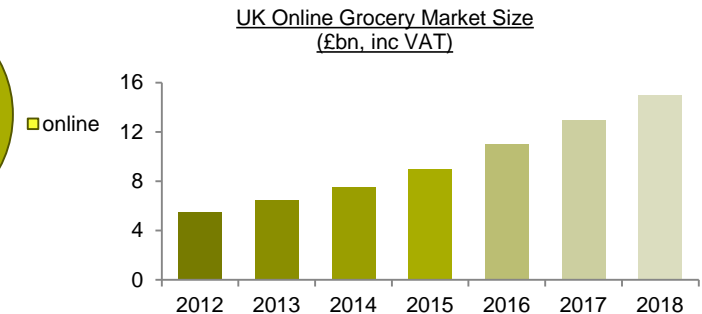
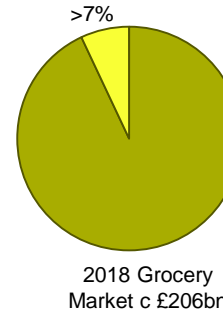
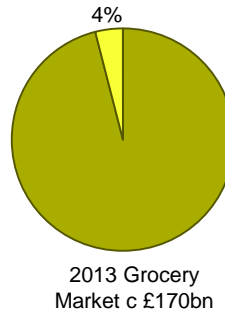
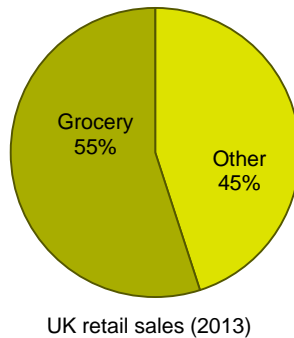
### Utilising knowledge

- Develop, leverage and commercialise the IP in our business

# Online grocery market development continues

IGD

“...online will be the fastest growing channel over the next five years...”

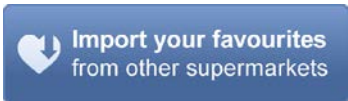

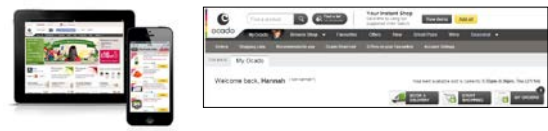
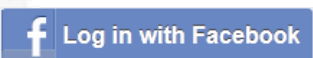
















Market development

- Latest entrant, Morrisons, growing rapidly (using Ocado technology and services)
- All major sector players investing significantly into online service provision
- Building more “dark” stores as online capacity in-store challenged
- Online proposition improving which will drive future segment growth

# Driving growth: growing customer numbers and spend

Retail sales up 15.6%	Active <sup>1</sup> customers now 396,000	Basket steady, down 0.4%
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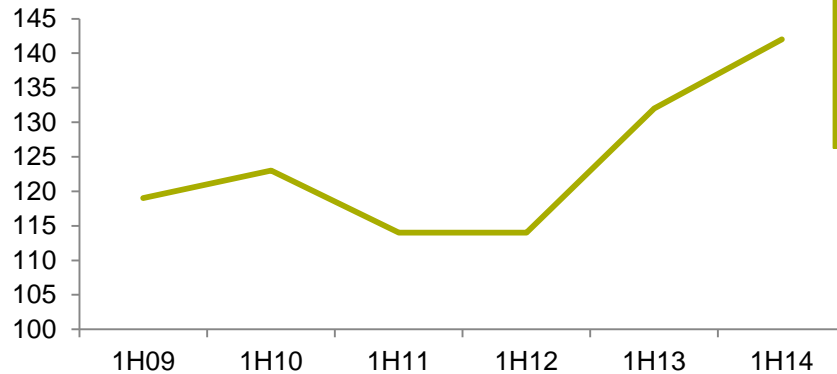
Proposition development		
Service	Range	Price
<p>Highest and improved service levels Quick and easy to use</p>    	<p>Wider range Expanding own label Fresher produce Non-food expansion</p>     	<p>More promotions Better value Price commitment Reduced delivery prices</p>       
 95.7% Orders on time or early  99.2% Item accuracy	<p>Ocado &gt; 35,000 SKUs Fetch &gt; 8,000 SKUs Own label sales growth &gt; 50%</p>	<p>LPP voucher costs remain low</p>

1. Customer who shopped at least once in last 12 weeks



# Optimising current operations

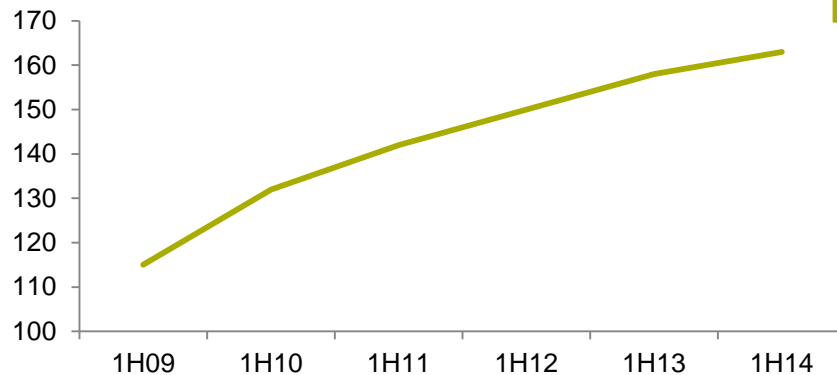
CFC1 UPH



CFC2 UPH  
exceeded  
CFC1 by  
period end



DPV/week



Long term  
target 175



# Driving future efficiency

Future fulfilment assets	
Priority attributes	Desirable attributes
<ul style="list-style-type: none"><li>• <b>More scaleable</b><ul style="list-style-type: none"><li>- Can build in multiple phases</li></ul></li><li>• <b>Modular</b><ul style="list-style-type: none"><li>- Different ultimate capacity for CFC3 65,000 OPW</li></ul></li><li>• <b>Faster to deploy</b><ul style="list-style-type: none"><li>- Start 2H14, go live end 2015</li></ul></li></ul>	<ul style="list-style-type: none"><li>• <b>More efficient</b><ul style="list-style-type: none"><li>- UPH target for CFC3 at least CFC2</li></ul></li><li>• <b>Cheaper</b><ul style="list-style-type: none"><li>- First version already expected to be cheaper than Dordon</li></ul></li><li>• <b>Less space</b><ul style="list-style-type: none"><li>- Smaller site</li></ul></li><li>• <b>More range friendly</b><ul style="list-style-type: none"><li>- Full grocery range available</li></ul></li></ul>
Good progress	Good progress

# Building future capacity



		Capacity
Feb 2013	Dordon go live	120,000 OPW
Jan 2014	Morrisons.com launched operating from Dordon	50% Ocado 50% Morrisons
Now	Dordon Phase 2 capex program to extend CFC2	180,000 OPW
	Work to commence on CFC3, subject to planning	65,000 OPW

# Strategic opportunities

## Morrisons

- Launched January 2014
- Ramp up progress good

## Replatform IT

- Progressing well

## Optimise CFC model

- Progressing well

## Platform as a Service

Partner gets:

- End to end technology solutions
- Best in class fulfilment assets

Partner pays:

- Up front fees
- Ongoing platform fees scaling with growth in capacity

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# Conclusion

- Trading robustly in challenging and competitive market
- Continued focus on proposition improvements
- Significant progress in projects to fulfil platform potential

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# Q&A

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# Appendices

- 1: Balance sheet
- 2: Capital spend, including MHE JV Co

# Appendix 1

## ■ Balance Sheet

	1H14	FY2013
Property, plant, equipment and intangible assets	255.2	251.3
Deferred tax asset	7.9	7.9
Available for sale financial asset	0.4	0.4
Investment in joint venture	66.5	58.9
Cash and cash equivalents	110.3	110.5
Working capital <sup>1</sup>	(65.4)	(61.1)
Provisions	(4.2)	(3.7)
Borrowings	(8.2)	(9.5)
Obligations under finance leases	(146.7)	(151.9)
Deferred tax liabilities	(0.4)	(0.4)
Net Assets	215.4	202.4

1. Inventories, trade receivables, trade payables and derivative assets/liabilities



# Appendix 2

## ■ Capital spend, including MHE JV Co

	1H14 Ocado <sup>1</sup> (£m)	1H14 MHE JV Co <sup>2</sup> (£m)	1H14 Total (£m)	1H13 Ocado (£m)
CFC1	3.8	-	3.8	3.9
CFC2	1.8	11.5	13.3	23.9
Vehicles and Spokes	6.7	-	6.7	3.9
Technology	6.7	-	6.7	7.3
Other	8.3	-	8.3	1.4
Total capital investment	27.3	11.5	38.8	40.4

1. Capital expenditure costs reported in Ocado Ltd
2. MHE JV Co Ocado share of capital expenditure costs