



# **Ocado Group plc 2016 Half Year Results**

28 June 2016

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# Agenda

- Introduction – Lord Rose, Chairman
- Business update – Duncan Tatton-Brown, CFO
- Operational update – Mark Richardson, COO
- Outlook – Duncan Tatton-Brown, CFO



# Lord Rose, Chairman

## Introduction



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# Introduction

- Solid trading in a challenging market
- Significant volume growth through our operating platform
- Operating efficiency continued to improve
- Capacity projects progressing, Andover getting closer
- Remain confident in attractiveness of our platform

# Duncan Tatton-Brown, CFO

## Business update



# Leading the way in a tough market

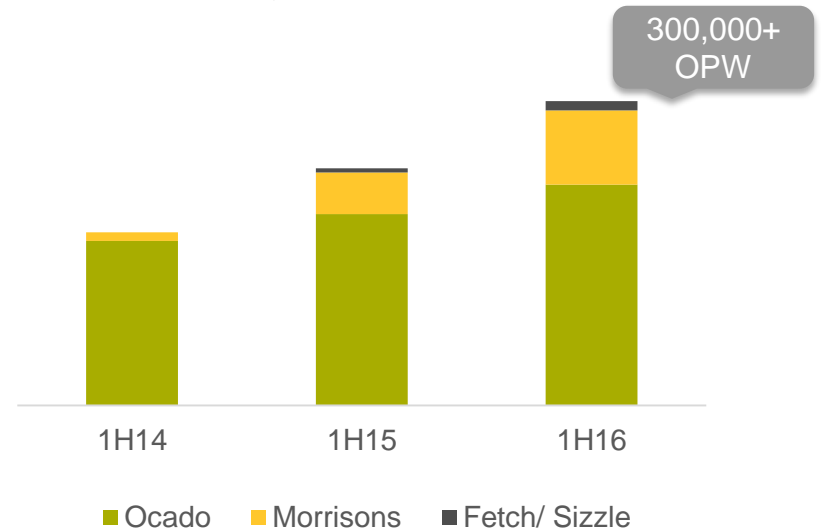
## Sales growth ahead of market

UK Grocery Sales (12 Weeks ending 22<sup>nd</sup> May 2016<sup>1</sup>)  
Year-on-Year % Change



## 2 year volume throughput growth of 75%+

Cumulative average orders per week (OPW)



<sup>1</sup>Source: Kantar Worldpanel weighted by market share, Ocado (1H 2016 figure) retail gross sales

# Constantly raising the bar

Service



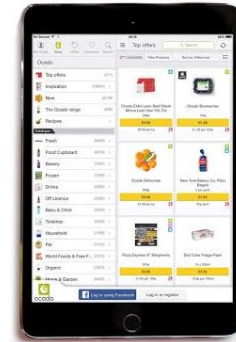
**94.9%**  
Orders  
on time or  
early



**99.1%**  
Item  
accuracy



**Best online supermarket  
(2015, 2016)**



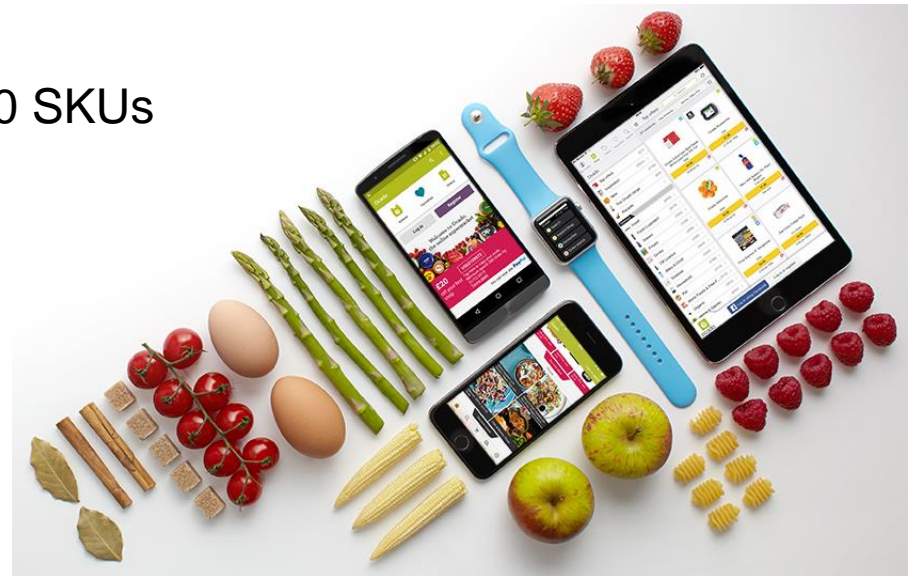
**> 55% mobile**

Range

Ocado.com >48,000 SKUs

Price

 **SMART PASS**





# Financial summary<sup>1</sup>

	1H16 (£m)	1H15 (£m)	Variance (%)
Revenue	584.2	507.7	+15.1%
EBITDA	40.4	38.2	+5.7%
<i>EBITDA</i> <sup>2</sup>	6.9%	7.5%	
Net interest	(4.3)	(4.6)	
Depreciation	(27.6)	(26.4)	
<b>Profit before tax</b>	<b>8.5</b>	<b>7.2</b>	

1. Financial results are unaudited

2. EBITDA % based on Revenue

# EBITDA summary

	Total			Retail			Morrisons fees and MHE JV Co		
	1H16	1H15	%	1H16	1H15	%	1H16	1H15	%
Revenue	584.2	507.7	15.1%	540.1	475.3	13.6%	44.1	32.4	36.1%
Operating contribution <sup>2</sup>	71.9	66.0	8.9%	56.4	51.0	10.7%	15.5 <sup>1</sup>	15.0	3.1%
% Revenue	12.3%	13.0%		10.5%	10.8%				
Total Administrative Cost <sup>3</sup>	31.6	27.8	13.4%						
EBITDA	<b>40.4</b>	<b>38.2</b>	5.7%						
	<b>6.9%</b>	<b>7.5%</b>							

1. This includes fees, MHE JV Co impact and other Morrisons related income

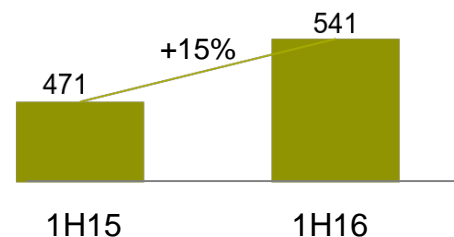
2. Operating contribution includes marketing costs

3. Administrative costs exclude marketing costs

# Retail Sales growth +14%

	Orders (% variance <sup>1,2</sup> )	Basket value (% variance <sup>1,2</sup> )
Hypermarket (ocado.com)	15%	(2.2%)
Destination sites	>80%	3.2%
Total	18%	(3.3%)

Active<sup>1</sup> customers, 000



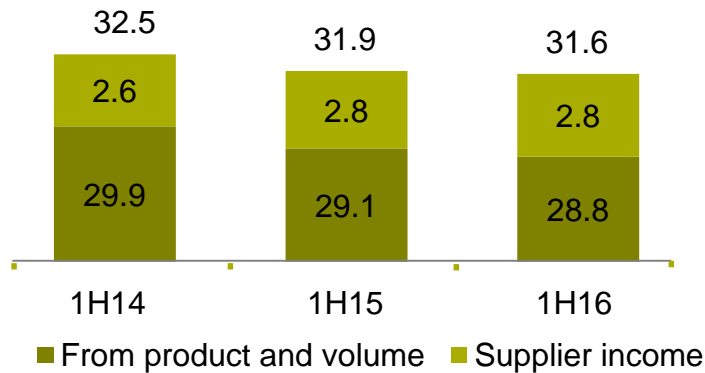
- Hypermarket basket value primarily impacted by competitive pricing
- Maintained competitive pricing position – LPP voucher costs per order down
- New customer growth +11% with stronger growth in active customers
- Marketing costs as % revenue flat

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

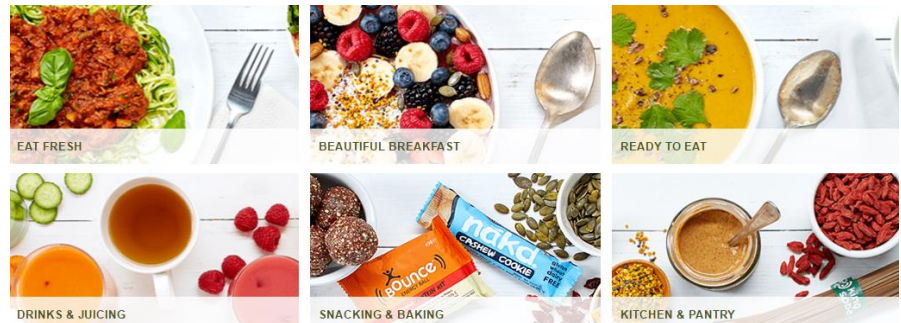
2. Percentage variance relates to year-on-year movement

# Gross margin (Retail)

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



- Trading margin was down 30bps
  - Competitor pricing activity
  - Deflationary pressure
- Maintained supplier income



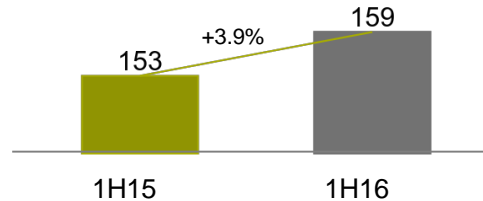
1. Expressed as a percentage of retail revenue

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

# Operating metrics



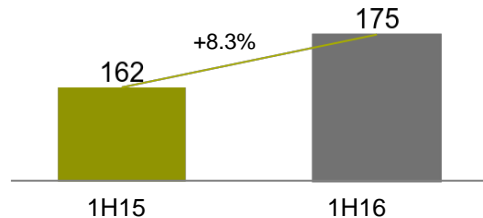
**Mature CFC Efficiency (UPH)**  
Units per hour of labour



- Dordon CFC UPH above 170



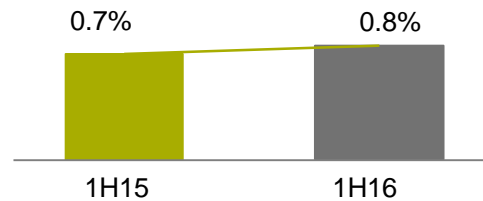
**Delivery Efficiency (DPV)**  
Drops per Van



- Better customer density
- Optimised routing
- Extended Sunday shift



**Wastage**  
% of Sales



- Slight increase due to bigger grocery range

# UK Retail operating contribution

	1H16 (% Retail Revenue)	1H15 (% Retail Revenue)
Gross margin	28.8	29.1
Supplier income <sup>1</sup>	2.8	2.8
Trunking and delivery costs <sup>2,3</sup>	(11.6)	(11.5)
CFC costs <sup>2</sup>	(7.8)	(7.8)
Other operating costs <sup>4</sup>	(0.9)	(1.0)
Marketing (non vouchering) costs	(0.8)	(0.8)
Operating contribution	10.5	10.8

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

2. £0.2 million of reported trunking and delivery costs in 1H2015 are now included as CFC costs

3. £0.2 million of reported administrative costs in 1H2015 are now included as trunking and delivery costs

4. This includes rent received from Morrisons for Dordon CFC and ad hoc property income

# UK Retail administrative expenses

	1H16 (% Revenue <sup>1</sup> )	1H15 (% Revenue <sup>1</sup> )
Administrative expenses	5.4	5.5
Directly attributable to UK Retail		
- Retail Commercial teams	1.4	1.4
- Supply Chain and Business Planning teams		
- Operational HR		
Shared platform costs		
- Technology		
- Fulfilment Development		
Overhead costs	4.0	4.1
- 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.

# Capital expenditure

	1H15 <sup>1</sup> (£m)	1H16 <sup>1</sup> (£m)	FY16e (£m)	
Mature CFCs	4	3	5	Minor capacity and resiliency projects
New CFCs	19	17	70	Development of CFC Andover and CFC Erith
Delivery	13	14	25	Increased growth in our UK fleet
Technology	9	13	30	For our Retail and Platform businesses
Fulfilment development	7	6	15	Development of our own proprietary solution
Other	1	2	5	GM and Head office expansion
<b>Total</b>	<b>53</b>	<b>55</b>	<b>150</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 2016 of £1.7 million and in 2015 of £2.4 million



# Debt Liquidity

	Terms of Facility	Total Facility (£m)	Drawn (£m)	Committed & available (£m)
Asset based Finance	2016 to 2025	68	50	18
Property finance	Sep 2018	8	8	-
RCF	July 2019	210	10	200
		<b>286</b>	<b>68</b>	<b>218</b>
Cash				<b>53</b>

NB. External debt excludes £121.6 of MHE JVCo leases

# Mark Richardson, COO

## Operational update



# Operational expansion and efficiency



CFC



Spoke

	CFC	Capacity (OPW)	Capacity uplift	Capital efficiency <sup>1</sup>	Operational efficiency <sup>2</sup> (UPH)
1	Hatfield	150,000	>10,000 OPW	N/A	~150
2	Dordon	90,000		16%	175+
3	Andover	~65,000		13%	180+
4	Erith	~200,000		11%	200+

<sup>1</sup>Ratio of MHE infrastructure cost to sales capacity

<sup>2</sup>Andover and Erith target UPH figures expected 3-4 years after CFC opening

# Andover CFC



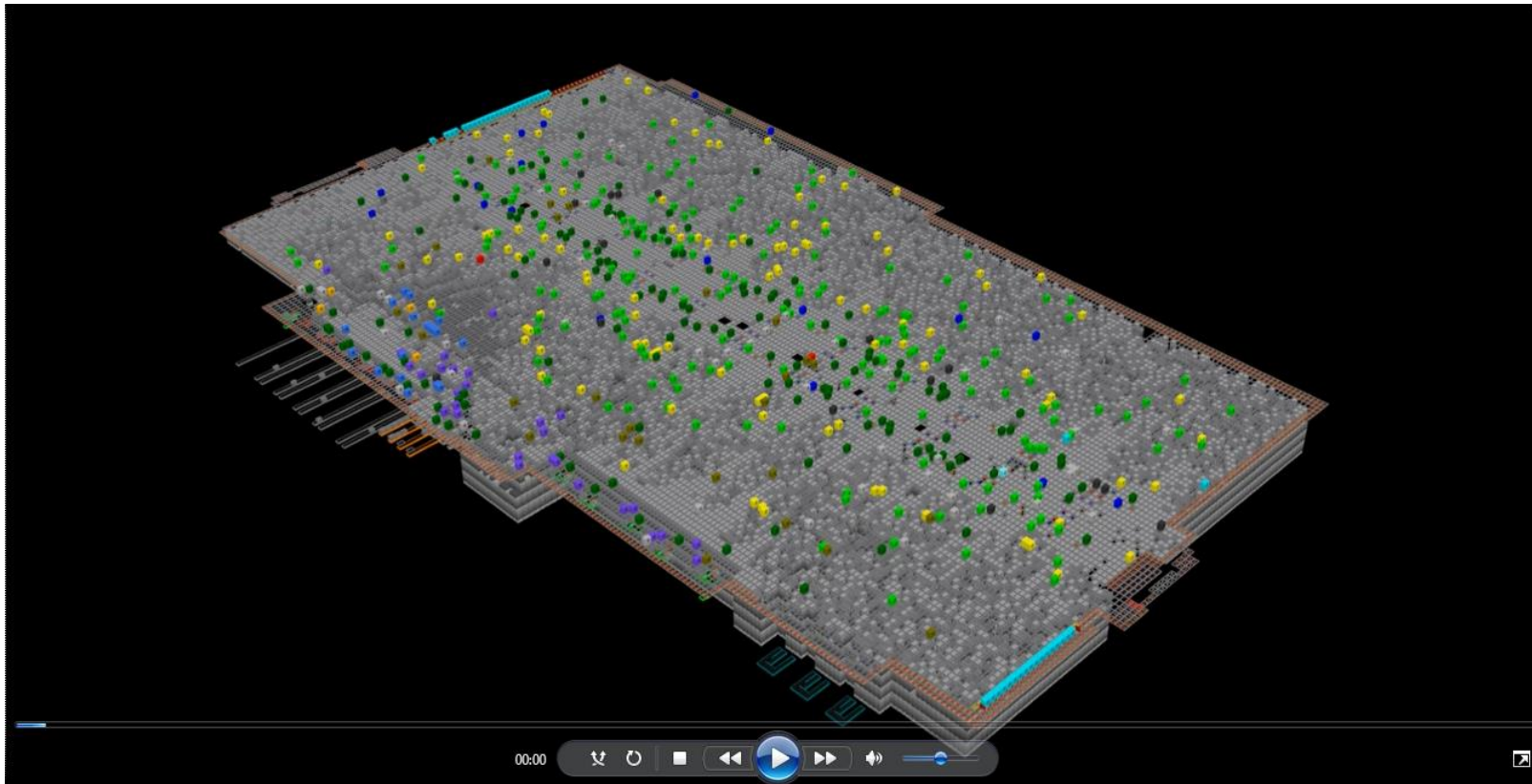
Decant station



Pick station

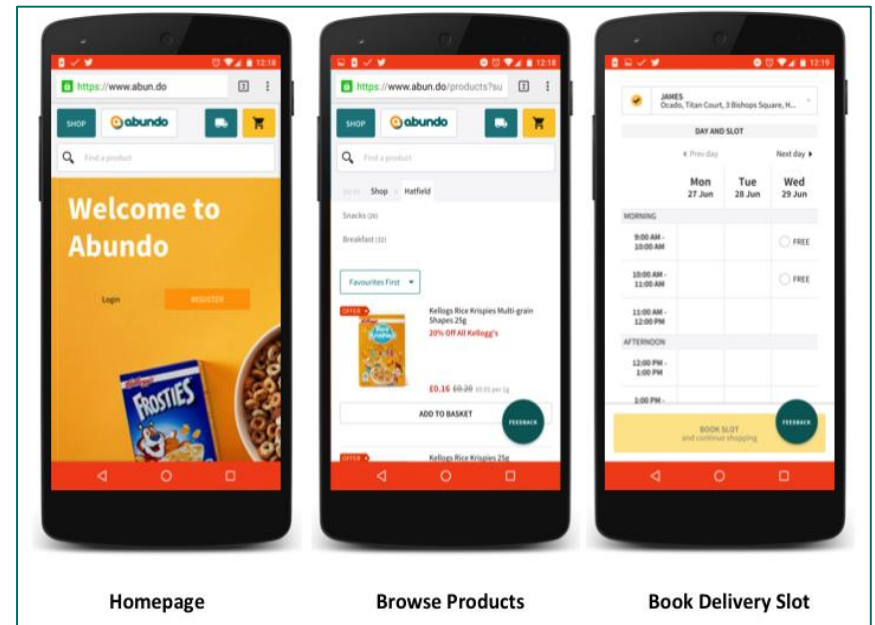
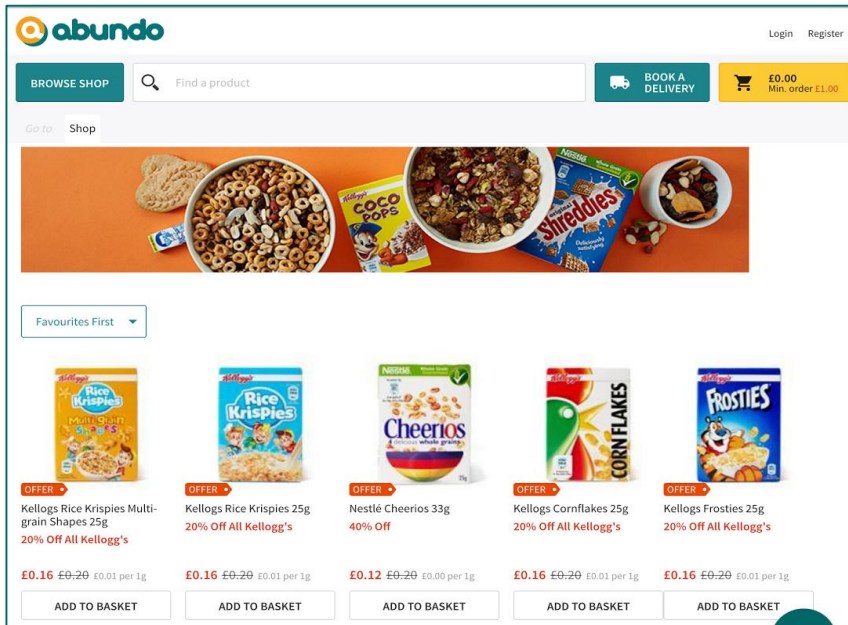
# Andover CFC (video)

## Software in action



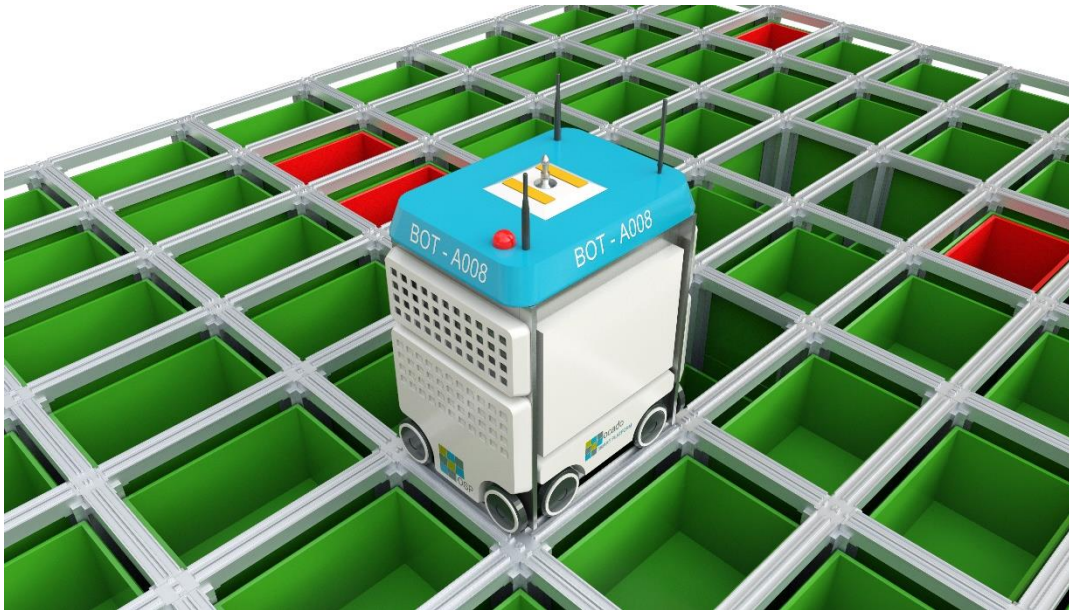


# Live testing of new software platform abundo

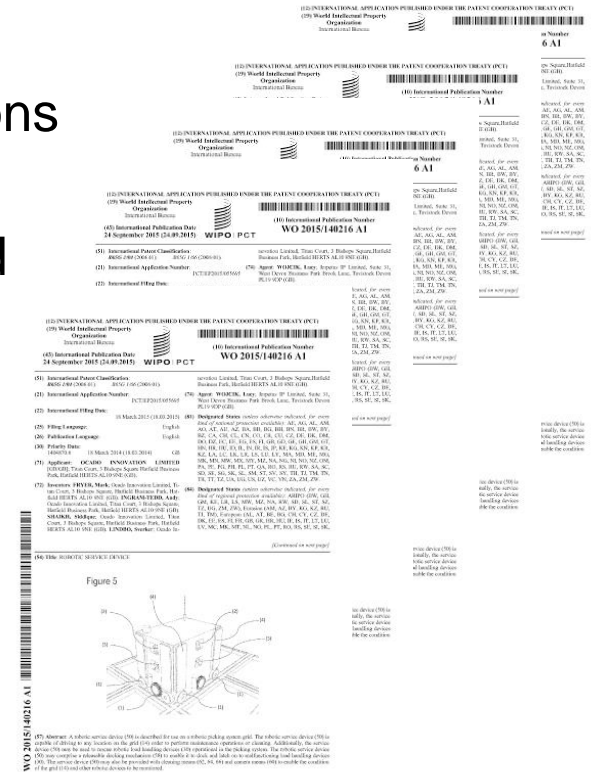


# Intellectual property

- Patent applications filed covering 46 innovations (by end 1H 2016)
- In aggregate 123 patent applications now filed
- Continue further patent filings in 2H 2016



Example: Ocado Smart Platform 'bot'



# Duncan Tatton-Brown, CFO

## Outlook





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# Retail

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

# Platform



- Strong sales after 24 months of operations
- Agreed in principle terms to expand capacity for online
- Enable both of our businesses to grow profitably



- Confidence remains high
- Medium term target to sign multiple deals

# Summary

- Leading the way in tough market
- Keep raising the bar on our proposition
- Culture of constant innovation
- Capacity set to increase significantly
- Excited by the opportunities to sell our platform



# Q&A





# Appendix 1 – Statutory cashflow

	1H16 (£m)	1H15 (£m)
EBITDA	40.4	38.2
Working capital movement	9.9	1.3
Other non-cash items <sup>1</sup>	1.1	3.7
Finance costs paid	(2.6)	(2.1)
Operating cash flow	48.8	41.1
Capital investment	(44.9)	(40.6)
(Decrease)/increase in net debt/finance obligations	2.5	(9.2)
Proceeds from share issues net of transaction costs	0.5	2.8
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>6.9</b>	<b>(5.9)</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

	1H16 (£m)	1H15 (£m)
Reported capital investments	56.4	51.7
Non cash additions of finance leases	(14.1)	(8.9)
Net movement in provisions and reserves	0.2	(0.2)
Net movement in invoices received, not paid	2.2	(3.5)
Net movement in accruals	0.2	1.5
<b>Cash capital investment</b>	<b>44.9</b>	<b>40.6</b>