



Ocado Group plc

# **2018 Half Year Results**

10<sup>th</sup> July 2018

# 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 2017 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.

# The Chairman's Overview

Lord Rose





# The Opportunities Ahead

Tim Steiner  
CEO



# Our virtuous cycle drives the group



Underpinned by our proprietary Technology

# Financial Review

Duncan Tatton-Brown  
CFO



# Financial Summary<sup>1</sup>

	1H 2017	1H 2018	Var %	
Revenue	Retail	659.6	736.6	11.7
	Solutions	54.2	63.3	16.8
	<b>Total</b>	713.8	799.9	12.1
EBITDA <sup>2</sup>	Retail	45.2	45.5	0.7
	Solutions	0.4	(2.0)	
	Other	(0.4)	(4.6)	
	<b>Total</b>	45.2	38.9	(13.9)
	Net Interest	(4.2)	(6.2)	
	Depreciation	(33.2)	(41.7)	
	<b>Profit/(Loss) before tax</b>	7.7	(9.0)	

1. All numbers rounded to 1 decimal place which may distort totals

2. EBITDA excludes exceptional items

# EBITDA Summary

	Retail			Solutions		
	1H 2017	1H 2018	Var %	1H 2017	1H 2018	Var %
Revenue	659.6	736.6	11.7	54.2	63.3	16.8
Operating contribution	67.2	70.1	4.5	11.4	16.1	41.2
Administrative cost <sup>1</sup>	(22.0)	(24.6)	(11.8)	(11.0)	(18.1)	(64.5)
<b>EBITDA<sup>2</sup></b>	45.2	45.5	0.7	0.4	(2.0)	

1. Administrative costs exclude depreciation, amortisation and marketing costs

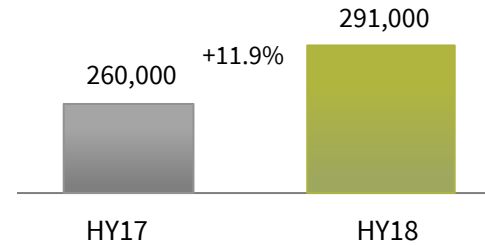
2. EBITDA excludes exceptional items



# Retail metrics stable or improving

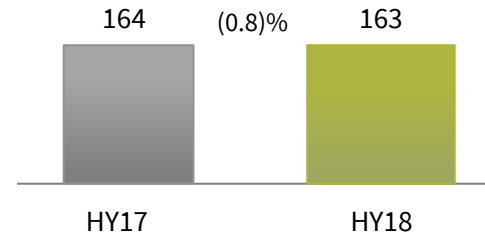
## Order Volumes

Orders per week



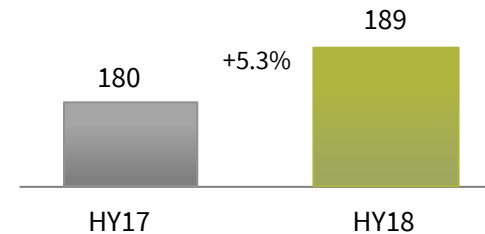
## Mature CFC Efficiency (UPH)

Units per hour of labour



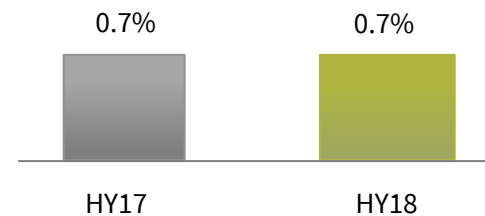
## Delivery Efficiency (DPW)

Drops per Van per week



## Wastage

% of Sales



- Ocado.com basket broadly stable
- Extra capacity from Andover ramping to 30k OPW

- Further growth in capacity
- Dordon regularly exceeding 180 UPH
- Future efficiency gains from new CFCs
- Andover UPH ahead of plan

- Increasing customer density
- Nearly at 190 target

- Maintained industry leading levels
- Waste to landfill of 0.02%

# Retail operating contribution<sup>1</sup>

	1H 2017 (% retail revenue)	1H 2018 (% retail revenue)	Var (bps)
Gross margin	29.4	28.6	(0.8)
Supplier income	3.1	3.6	0.5
Trunking and delivery costs <sup>2</sup>	(12.5)	(12.2)	0.3
CFC costs	(8.3)	(8.8)	(0.6)
Other operating costs <sup>2</sup>	(0.7)	(0.8)	(0.1)
Marketing costs	(0.9)	(0.9)	-
<b>Operating contribution</b>	10.1	9.5	(0.7)
Admin costs	(3.2)	(3.3)	(0.1)
<b>EBITDA</b>	6.9	6.2	(0.8)

1. All numbers rounded to 1 decimal place which may distort totals

2. 1H 2017 includes a re-categorisation of £2.6m of cost from other operating costs to trunking and delivery costs

# Capital expenditure<sup>1</sup>

	1H 2017 (£m)	1H 2018 (£m)
Mature CFCs	1	2
New CFCs	30	54
Delivery	7	4
Technology development	20	26
Fulfilment development	10	9
Other	6	7
<b>Total</b>	<b>74</b>	<b>102</b>

Full year outlook = £210m

1. Capex includes assets leased from MHE JV Co under finance lease arrangements

# Cash Position

	1H 2018 (£m)
Cash and cash equivalents FY17	150
Equity raise (February 2018)	141
Equity raise (May 2018)	183
Other movements	(26)
<b>Cash and cash equivalents</b>	<b>448</b>
Existing undrawn RCF	100
<b>Total headroom</b>	<b>548</b>

# Modelling Ocado Solutions

- Cashflows
  - Signing on fee
  - CFC preparation fees over c.2 years
  - Ongoing capacity fees, once live
- Revenue recognition using IFRS 15 principles
  - Signing on and CFC preparation fees
    - ✓ To partially cover costs of implementation
    - ✓ Balance over 5 - 7 years
  - Ongoing capacity fees as earned



## Working at pace

Tim Steiner  
CEO



*“Now is the time to take advantage of our growth opportunities. We will invest to ramp up our new solution in both Erith and Andover and to have the right resources in place to meet growing demand for the Ocado Solutions offer.*

*We believe that taking advantage of these international opportunities now will make our virtuous cycle turn faster in the years ahead and we expect that to translate into higher returns on capital.”*

**Ocado FY17 Results, 6th February 2018**

# What does going faster mean in practice?

- 1 Writing code faster
- 2 Bringing new capacity on line
- 3 Building Ocado Solutions capabilities
- 4 Improving our fulfillment solution
- 5 Innovation for the future

## 1

# Writing Code Faster

## We write quality code...

*“Ocado is one of the best in Europe for agile code writing”*

**Big Four Consultancy**

*“[We are working] in partnership with universities and major businesses such as Ocado, Amazon, Rolls Royce and others...ensuring we have the pipeline of talent we need to lead the world in AI.”*

**Greg Clark MP, Business Secretary, 13th June 2018**



## ...But we need to do it faster

- Aspiration to add 200 - 300 more software engineers in FY18
- New leadership structure for Ocado Technology



## 2

## Bringing new capacity on line

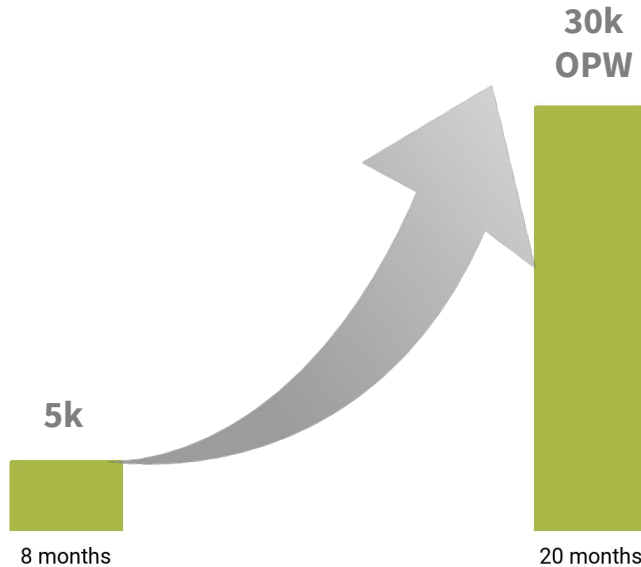
### Successful ramp up at Andover

- OPW: 30k
- 600+ bots on grid

Same solution,  
enhanced components

### Opening of Erith - world's biggest automated grocery warehouse

- Ramping much faster than Andover
- Redesigned grid
- Improved peripherals
- Delivered on time, on budget





2

## Bringing new capacity on line



# 3 Building Ocado Solutions capabilities

## Commercial teams

- Commercial Director, Ocado Solutions (ex-IBM)
- Internationally focussed team
- 11 languages

## CFC teams

- Dedicated CFC design and build teams
- Multiple teams to handle CFCs concurrently
- Internal experience with proven delivery
- Rapid growth in headcount

## Relationship management

- eg. SVP North America
- Internal expertise

## Product teams

- Chief Product Officer (former client, Morrisons - Online Food)
- Product roadmap and technology interface teams
- Technical expertise (eg. ex - Google, ex- Apple, ex-IBM)





# Improving our fulfilment solution

## New Generations

- 2nd generation of bots and grid operating in Erith
- Development testing of 3rd generation bots

## Testing Capabilities

- One test grid ➔ Six test grids
- 5 days a week ➔ 24/7
- 1000 bot hours live testing before deployment of software

## Increased...

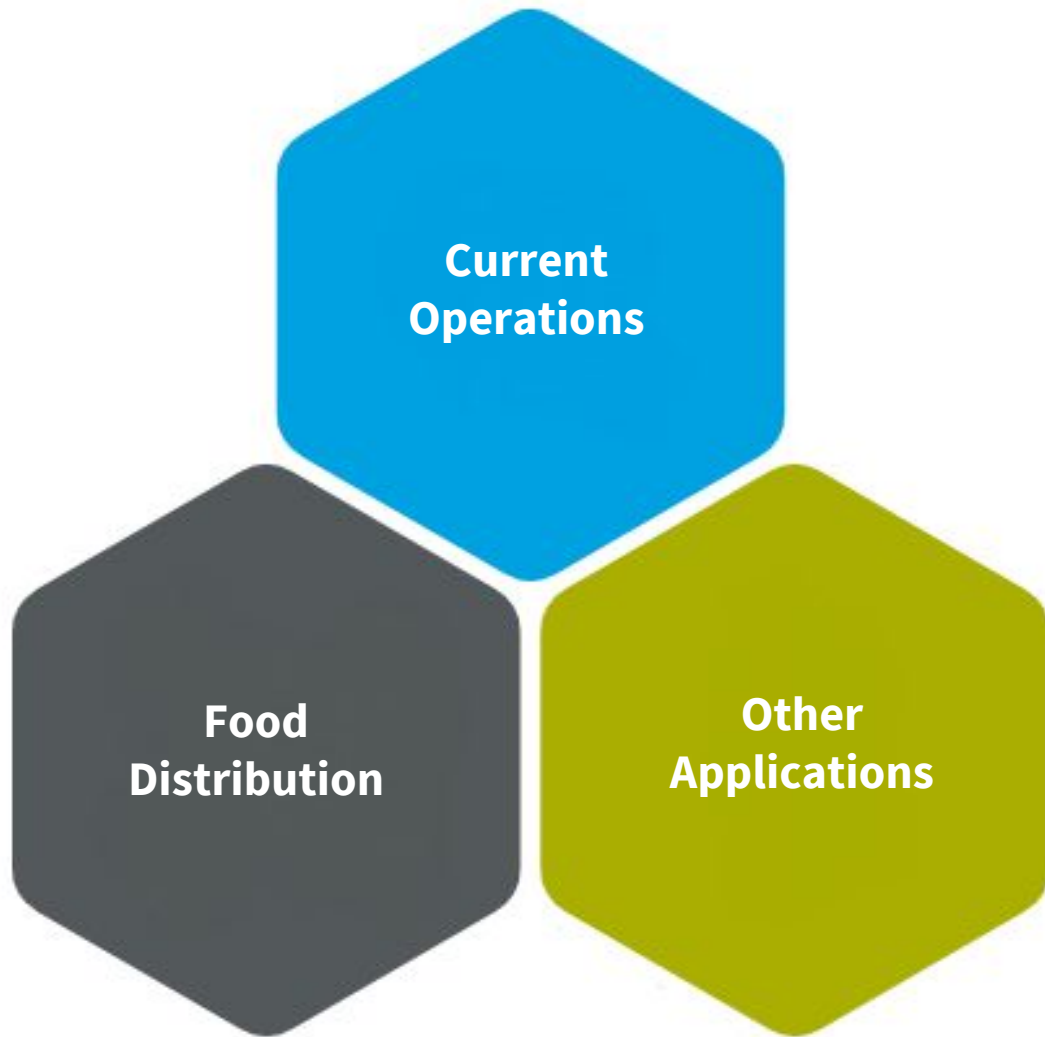
- Reliability
- Efficiency
- Manufacturability
- Serviceability
- Throughput

## Decreased...

- Capital costs

**Increased spending to deliver lower long term costs of ownership**





- Robotic picking
- Exploring opportunities in immediacy
- Over 300 patent applications
- Over 50 granted patents
- Applications outside retail



**No guarantees, but aspirations are huge**

# 2H 2018 platform and Solutions priorities

- Bed down new organisation and enhanced capabilities
- Ramp up new facilities
- Early stage implementation of current Ocado Solutions partnerships
- Write more code, faster
- Finalise a service agreement with Kroger
- Continue to build pipeline of potential Ocado Solutions partners



# Conclusion

- We are now contracted to power the online grocery business of seven of the world's biggest, best and most innovative retailers
- The Kroger partnership is a game-changer
- We are building the resources to execute well, and at speed
- Fulfilment solution progress - scale, productivity, engineering cost and rate of ramp
- Greater scale allows more innovation to improve the experience for our customers and clients
- The market opportunity is huge, as is our ambition

## Q&A

