J Sainsbury plc

Summary of J Sainsbury Capital Markets Day

Confident in the core as we create one multi brand, multi channel business

- Investing in our customer offer: value, service, store estate and digital
    - Continued improvements in grocery value, strong customer response
    - Fit for the future store operating model driving greater customer satisfaction
- Confident in our ability to sustainably fund this investment
- Unique opportunity to structurally reduce costs by c.£500m over five years as we bring our businesses together, in addition to ongoing cost savings to cover the impact of cost inflation
- Financial Services five year plan:
    - immediately stop new mortgage sales
    - no more Group capital injections after £35m in 2019/20[1]
    - reduce cost: income ratio to c.50%
    - double UPBT, deliver double digit ROCE and return cash to the Group[1]
- Store estate review and growth plans will result in: c.10 new supermarkets and 10-15 closures; c.80 new Argos in Sainsbury's and 60-70 Argos closures; c.110 new convenience stores and 30-40 closures
    - We expect the closures to deliver an ongoing net operating profit benefit of c.£20m per year. We expect the one-off cost of closures and impairments to be £230m to £270m, of which the cash cost will be £30m to £40m
- New longer-term asset-backed pension plan agreed, providing greater security to the Scheme
    - Cash contributions reduced immediately by c.£50m p.a. on average
    - 2018 triennial valuation deficit down to £538m, from £1,055m in 2015
- Three year net debt reduction target increased to at least £750m, from £600m
    - Reduction of at least £300m expected in 2019/20

We are confident that we can grow sales and sustainably fund investment in our value, service, store estate and digital proposition. This drives our confidence in strong ongoing free cash flow generation, which will continue to support dividend payments (policy unchanged at 2x cover) and net debt reduction, improving financial flexibility and resilience.

[1] Subject to regulatory approval

Capital Markets Day

J Sainsbury plc today hosted a Capital Markets Day in Southampton. Sainsbury's management team hosted a store visit in the morning and delivered a series of presentations in the afternoon. Presentation materials are available on https://www.about.sainsburys.co.uk/investors/results-reports-and-presentations

Our Capital Markets Day covered six priorities:

1. Be competitive on price

- We have improved our value proposition and the customer response has been strong
  - We are more competitive on price than we have ever been. We have made focused price reductions on high volume own brand products, highlighting these through our Price Lockdown campaign
  - We now have 120 entry price point (EPP) "owned brand" products in stores and will have around 200 by the end of this financial year. Sales have been strong and the margin impact is in line with expectations
  - J James is our most developed EPP range, with 24 meat, fish and poultry products. Incremental J James sales outweigh those from customers trading down by 2 to 1. Customers are either switching their spending in this category to us from competitors and/ or increasing their overall category spend
- We can sustainably fund our competitive offer
  - We have reduced our switching losses to discounters, continue to gain spend from premium retailers and continue to win market share in premium food categories
  - These gains are driven by a clear commercial strategy and a well-established and effective range review process, which will help sustainably fund our competitive offer
  - This funding is further supported by continuing gains from "buying better for less", our own brand value chain analysis programme. By the end of this financial year, we expect this programme to have delivered average buying gains of 7% over £4bn of purchasing costs over the last four years
  - We have a strong track record in reducing operating costs and have an additional unique opportunity to structurally reduce costs as we bring our businesses together

2. Offer distinctive products and new categories

- Customers recognise Sainsbury's for the quality of its products and its distinctive ranges and we continue to grow incremental sales from new and distinctive brands that are exclusive to Sainsbury's
- We are also investing to improve the appeal of our supermarkets and make them more convenient, by increasing our ranges in areas such as beauty, wellness and Food to Go

3. Make shopping convenient, supported by great service

- We are investing in our supermarkets, driving consistent improvements in our customer satisfaction scores. We have significantly improved our rankings relative to our competitors
- Our new store operating model and investments in technology are delivering consistent improvements in store standards and customer service while lowering our cost to serve
- We will invest to improve more than 450 supermarkets, 200 convenience stores and 250 Argos stores this year
- Targeted customer-driven investment allows us to invest in more of our supermarkets more often. This improves the customer offer, focusing on what customers care about most, and generates higher returns

4. Drive efficiency to invest in the customer offer

- We have a strong track record in reducing costs to offset cost inflation and we have a strong platform to continue to generate cost savings
- We have an additional unique opportunity to structurally reduce costs by c.£500m over five years as we bring our businesses together, lowering costs and providing a better integrated customer offer
- We have an advantaged store portfolio and channels to market which provide significant opportunities for:

- Growth: continued expansion of our convenience estate by c.110 new Sainsbury's Locals, c.80 more Argos in Sainsbury's and c.10 new supermarkets. These new stores and incremental concession income will deliver c.£120m of incremental profit over the next five years
- Efficiency: store estate review will result in closure of 10-15 supermarkets, 30-40 convenience stores and 60-70 standalone Argos stores. We expect the closures to be phased over two years and to deliver an ongoing net operating profit benefit of c.£20m per year. We expect the one-off cost of closures and impairments to be £230m to £270m, of which the cash cost will be £30m to £40m
- Value creation: opportunity for 12 mixed use development projects with potential net capital receipts of £270m to £350m, of which £150m to £200m in the next five years

5. Grow connected services

- We have completed a strategic review of our financial services and we are re-shaping the business to create a more agile, capital and cost-efficient provider of simple, mobile-led financial services
    - We will immediately stop mortgage sales, improving margins and cash flow
    - We anticipate no need for further capital injections after £35m in H1 2019/20[1]
    - We will simplify the business and transform the cost base, aiming to reduce the cost:income ratio to c.50% within five years
    - We expect to double UPBT, deliver double digit ROCE and return cash to the Group within five years[1]
- Nectar drives value and is a platform for profitable growth
    - Nectar underpins commercial decision-making across Sainsbury's
    - We will shortly launch a fully digitised version of Nectar nationwide after successful regional trials, providing a platform for greater personalisation
    - We can improve monetisation of Nectar data through new data and digital services

6. Provide a seamless customer experience

- We have invested heavily in our digital platform and capabilities, creating a source of growing competitive advantage as we actively progress the integration of our digital and physical propositions
- Integrating our assets will enable us to serve customers whenever and however they want
    - Linking our proposition through a single account platform
    - Enabling universal discovery to make all of our products and services accessible throughout our ecosystem
    - Integrating financial services and seamless payment
    - Using Nectar to engage and reward our customers' for shopping with us

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Notes

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