

Making Sainsbury's Great Again: The CFO's Perspective

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Making Sainsbury's Great Again

The CFO's Perspective

- A £20bn business
- A textbook turnaround?
- A strategy for recovery to growth
- Our results and critical success factors

Making Sainsbury's Great Again

£20bn business with a unique history



WE PROVIDE
HEALTHY, SAFE, FRESH
AND TASTY FOOD



Making Sainsbury's Great Again

Challenges faced in 2004/2005

Customer proposition

- Brand unique and well positioned
- Under investment in customer offer

Store portfolio

- 721 stores including 461 supermarkets
- Under invested / complicated formats

Retailing basics

- Automated depots not fully operational
- Store / IT operations too complex

Organisation and people

- Committed colleagues but low morale
- Bureaucratic process driven culture

➡ Brand great, assets good but business had lost its way

Making Sainsbury's Great Again

What the press were saying

J Sainsbury will make the first pre-tax loss in its 135-year history, after the struggling supermarket group yesterday gave its fourth profits warning since March.

Daily Telegraph, October 2004

The new distribution system doesn't work, the outsourcing of IT has been a disaster, the non-foods strategy has been so badly handled that the company finds itself massively overstocked, and everything from brand positioning to price, range, supply chain, promotional activity, capital spending and quality is up for review

The Independent, July 2004

Sainsbury's is driving up costs and wastage, while giving poor value for money and making an incoherent presentation for the customer...The supply chain is causing huge problems. You go into a store and there are huge empty spaces on the shelves

BBC, October 2004

Making Sainsbury's Great Again

MSGA plan

- A sales led profit recovery
 - ➔ restoring universal appeal
 - ➔ fixing the basics
 - ➔ customer focused culture
- A focus on profit delivery
- Long term sustainable asset base

Making Sainsbury's Great Again

Restoring universal appeal

- Food offer investment (price & quality)



- Building online capability



- Complementary non-food



- Integrating convenience



➡ One business, one offer with universal appeal

Making Sainsbury's Great Again

Fixing the basics

- Simpler range and offer



- Rationalise supply chain



- New process for availability



- IT in-sourced



➔ Processes that work each day, every day - efficient and cost effective

Making Sainsbury's Great Again

Customer focused culture

- More in-store colleagues



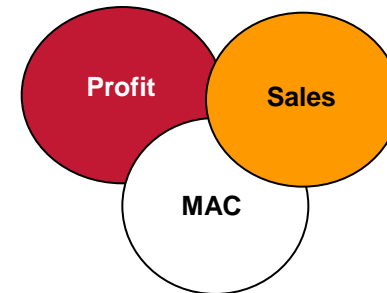
- Smaller central functions



- Less measures, simpler to understand



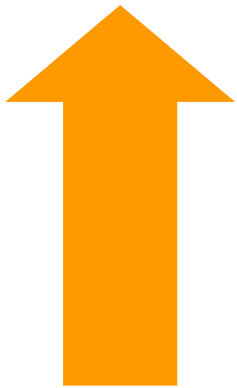
- All colleagues incentivised on Sales/Availability/Service



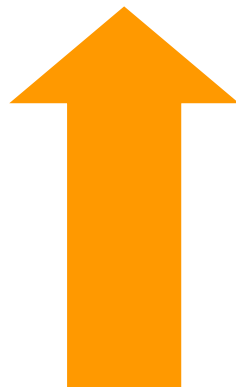
➔ Everything we do has a customer impact

Making Sainsbury's Great Again

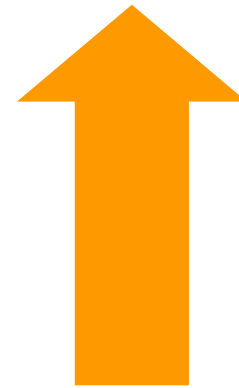
Delivered 05/06 to 07/08



**Market leading
service
indicators**



**12 quarters
of sales
growth**



**£2.8bn of
incremental
sales**

Making Sainsbury's Great Again

A focus on profit

Offer and service investment of >£450m

Funded by operating efficiencies of £440m

Hence £2.8bn of sales growth Delivering operational gearing

➔ Profits more than doubled in 3 years (04/05 to 07/08)

Making Sainsbury's Great Again

Long term sustainable asset base

- Maximise property asset
- Pension deficit plugged
- Long term asset backed debt
- Working capital focus



Making Sainsbury's Great Again

Accelerating our growth plans

- Great food at fair prices
- Accelerating the growth of complementary non-food and services
- Reaching more customers through additional channels
- Growing supermarket space
- Active property management

Making Sainsbury's Great Again

Great food at fair prices

- The best for fresh food
- Focus on value
- Rewarding loyalty



FEED YOUR FAMILY FOR A **FIVER**



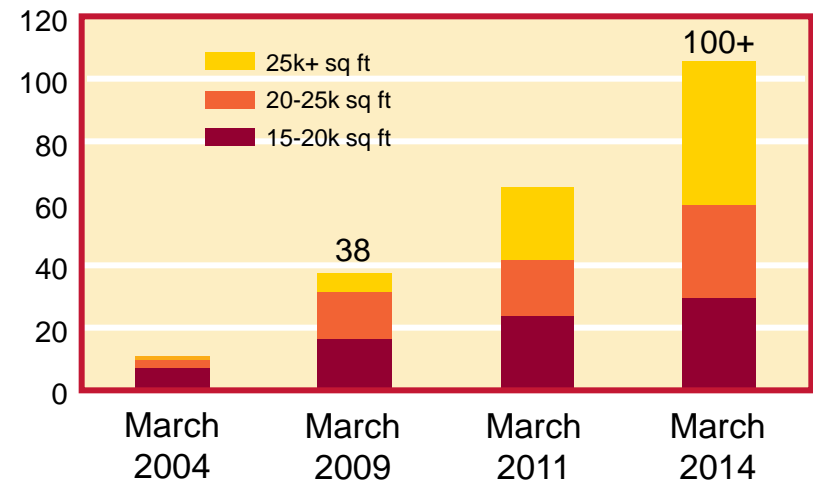
Making Sainsbury's Great Again

Accelerating the growth of complementary non-food and services

- High street style at supermarket prices
 - TU clothing
 - TU home & lifestyle
 - entertainment & electricals
- Investment in infrastructure
 - people
 - Far East sourcing / supply chain
 - IT
- Growing to over 100 large non-food stores by 2014



of stores



Making Sainsbury's Great Again

Sainsbury's Bank, convenience & online channels progressing well

Sainsbury's Bank

- Integrated customer offer - focus on rewarding Sainsbury's customers
- Successful launch of double - Nectar point campaign

Convenience

- Operating model working well - 'neighbourhood' and 'food on the move' formats
- Plans for 50 new stores in 2009/10, 100 new stores in 2010/11

Groceries online

- £500+ million business - available to nearly 90% of UK households
- Record service metrics, rollout of large store model to grow future capacity

Non-food online

- Successfully launched on time and to budget in July 2009
- Gives customers nationwide access to over 8,000 non-food products

Making Sainsbury's Great Again

Growing supermarket space

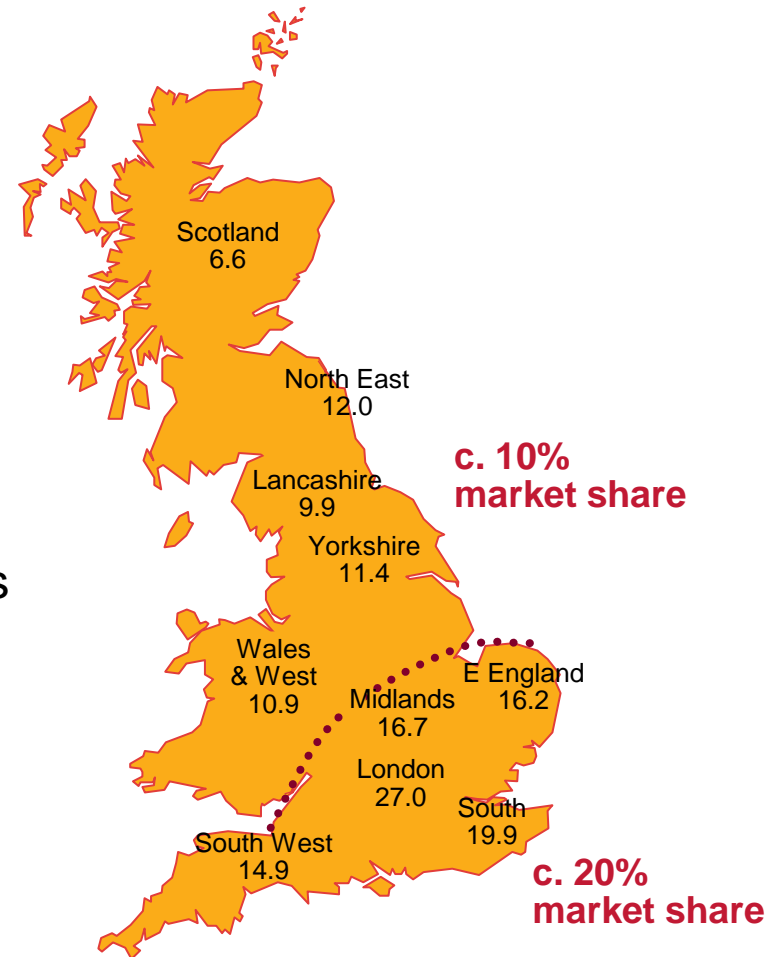
Sainsbury's has 16% market share in UK
- under represented in many areas

Today:

- Around 40% of UK population not within a 10 minute drive of a Sainsbury's

Future:

- Plan to add 50 new supermarkets in 2 years to March 2011
- Pipeline established to add 15 to 20 new stores per annum ongoing



Source: TNS Total Till Roll 52 weeks to 4 October 2009, % share of total grocery

Making Sainsbury's Great Again

Active property management

- Estimated market value of properties was £8.5bn at October 2009

110 on development plan consent for over 60 extensions obtained

20 mixed use scheme 8 on development plan, 12 longer term projects

150 longer term potential subject to planning, economic and physical viability etc⁽¹⁾

30 dry candidates for disposal if yields attractive

⁽¹⁾ Estimated market value of freehold and long leasehold properties including share of JV properties

Making Sainsbury's Great Again Today - surviving the downturn

Customer offer

- Growth of basics lines
- Incremental promotions on big brands
- Helping customers to save

➔ Shop and Save



➔ Switch and Save



➔ Cook and Save



Making Sainsbury's Great Again

Today - surviving the downturn

Operating base

- Acceleration of cost efficiency programme
- Launched supplier payment platform
- Increased hurdle rates on capex
- Communicated the impact of the downturn

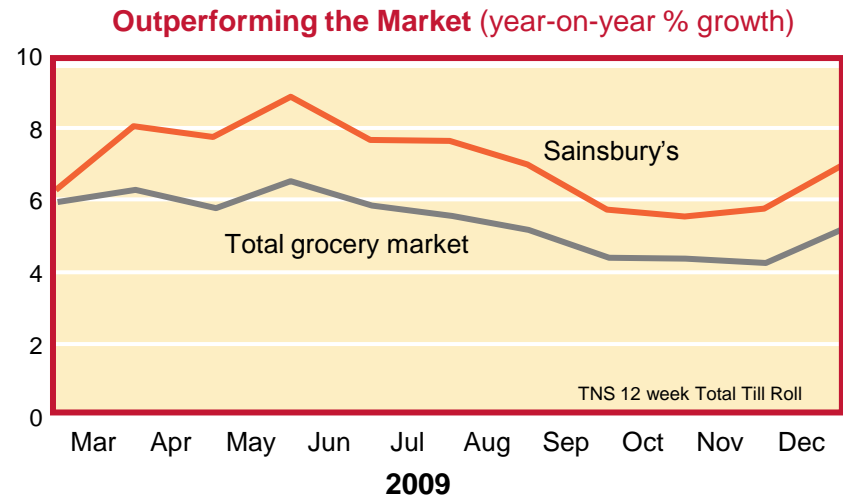
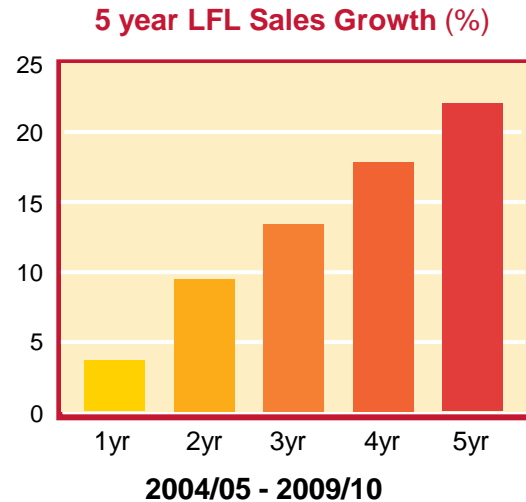
Business in good shape operationally and well placed to 'dial up' or dial down' the customer offer
(Morgan Stanley Jan 2010)

We sense the Sainsbury business is effectively positioned for 'whatever comes'
(Shore Capital Jan 2010)

Making Sainsbury's Great Again

Today - continued strong trading performance

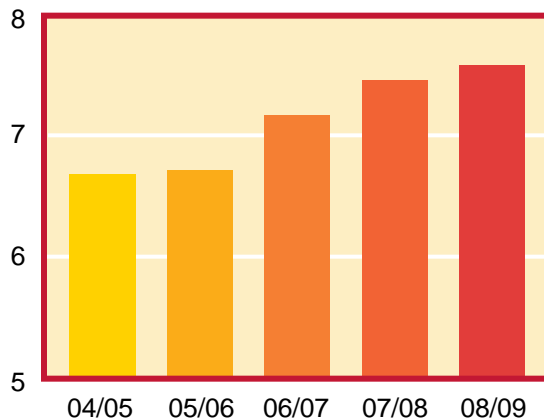
- Fifth year of consecutive like-for-like sales growth



Making Sainsbury's Great Again

Today - continued strong trading performance

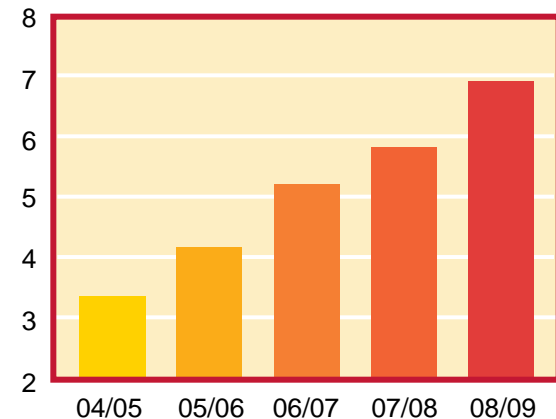
EBITDAR Margin (%)



EBITDAR margin:

Underlying operating profit before depreciation, amortisation and rent divided by Group Sales ex VAT

Post tax Return on Capital Employed (%)



Return on Capital Employed:

Underlying profit after tax excluding property profits divided by Shareholder Funds plus Net Debt

Source: Company accounts

Making Sainsbury's Great Again

Today - operating from a strong position

Customer proposition

- Universal customer appeal caters for full range of needs and budgets

Store portfolio

- 803 stores, including 525 supermarkets
- Property asset-backing

Retailing basics

- Best-ever service and availability
- Operating costs benchmark well

Organisation and people

- Engagement high / low turnover
- £205m of bonus paid out

Making Sainsbury's Great Again

Key to success

- Focus on S&P and 3 Cs
 - sales, profit and costs, capex and cashflow
- Incentives linked to this
 - bonus - sales, profit, availability and service
 - LTIP - ROCE, cash flow per share
- Customer focused business
 - our values make us different
- Colleague engagement makes a real difference
 - leadership behaviours and values