

Ocado Group

Modelling & Roadmap for Growth

25 May 2022



Objectives for the session

1. Provide **a better understanding** of the characteristics of the three underlying business models in Ocado Group
2. Provide a framework to assess **how revenue and returns** for each of these businesses, and Ocado Group as a whole, **might develop over the next 4-6 years ('mid-term') and beyond**
3. Take **a deeper dive into the workings of our Technology Solutions business**, the key future value driver for the Group; explore why, based on progress so far and current visibility, we have conviction that **investments today will drive attractive returns tomorrow**
4. Set out **a clear path to >£750m EBITDA in the mid-term** based on the **existing contractual commitments** from existing partners with a clear opportunity to grow well beyond this

Agenda

1. A review of current reporting and underlying business models:

1. Mapping current reporting to our three underlying business models
2. An illustrative representation of FY21 results

2. Exploring our underlying business models:

1. Ocado Retail
2. Ocado Logistics
3. Ocado Technology Solutions

3. Summary

1. Bringing it all together at Group level

Ocado Group

Changing the way the world shops for good

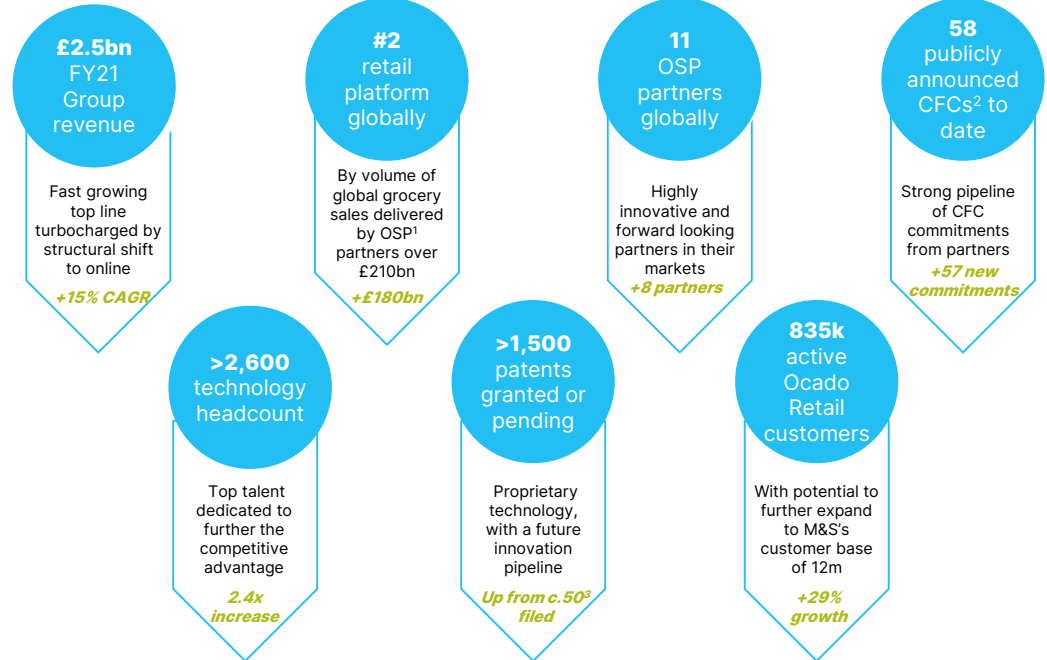
A technology-led, global, software and robotics platform business, with a strong retail heritage spanning over 20 years

Our Ambition:

"We are reimagining shopping. We are online shopping pioneers. We continue to make the delivery of consumers' essential groceries fit for modern lives and businesses. Our technologies, combined knowledge and 20 years of experience provide our client partners with exceptional efficiency and economics, and their consumers customer service that is among the best."

Our Core Activities:

- **Ocado Technology Solutions:** end-to-end online retail solutions from concept to implementation and maintenance, through to support, with a wide range of fulfilment formats enabling grocery e-commerce businesses globally
- **Ocado Retail:** A pure play online grocery retailer, serving customers in the UK enabled by Ocado Technology Solutions, now a 50:50 joint venture with M&S
- **Ocado Logistics:** Operates and optimises Ocado Group's platforms in the UK to deliver maximum client & customer value



Change vs FY17

**A review of reported and
underlying business models**

Mapping reported operating segments to underlying models

Reported operating segments

Ocado Retail
(100% consolidated, 50% owned)

UK Solutions & Logistics

International Solutions

Better reflected as 3 underlying business models

Ocado Retail
Online grocery retail business serving big basket and immediacy missions to customers in the UK

Ocado Logistics
Industry leading business, operating in the UK for Ocado Retail and Morrisons

Ocado Technology Solutions
Technology platform business providing the Ocado Smart Platform ('OSP') as a managed service to our (currently) 11 partners around the world

Solutions (revenues and costs) from reported UK segment naturally fits within global Technology Solutions umbrella

Underlying business models - overview

Ocado Retail (100% consolidated, 50% owned)

Revenues:

pure play online grocery business to >800k UK customers

Costs:

cost of sales, distribution & fulfilment costs, marketing and HO costs incurred to execute online business

Includes recharges of logistics costs and fees paid to both Ocado Technology Solutions and Ocado Logistics for provision of services to run online grocery platform

Ocado Logistics

Revenues:

recharge of costs incurred to execute logistics services for UK retail partners (Ocado Retail and Morrisons)¹ and fees for provision of logistics services

Costs:

incurred to execute logistics services for UK partners (and recharged) and an allocated share (c.30%) of total Group Operations costs

Ocado Technology Solutions

Revenues²:

primarily fees from global retail partners for the provision of OSP reflecting two key components:

- upfront fees recognised as revenue after CFCs go live
- recurring capacity fees

Costs:

incurred to provide and maintain OSP as well as a full allocation of Group Technology costs and (c.70%) of Group Operations costs

Underlying business models - pro forma FY21 results

		FY21A		FY21 pro forma ¹	
Revenue	Ocado Retail	2,290		2,290	
	UK Solutions & Logistics	710	UK Logistics	595	>90% recharges; remainder mgmt and capital recharge fees ³
	International Solutions	67	Technology Solutions	183	fees received from global retail partners
	Inter-Segment and Other	-569		-569	elimination of Ocado Retail related logistics and fee revenue
	Group	2,499		2,499	
EBITDA	Ocado Retail	150		150	
		6.6% margin		6.6% margin	
	UK Solutions & Logistics	69	UK Logistics	31	reflects pass through nature of cost recharges
		9.7% margin		5.2% margin	
	International Solutions	-119	Technology Solutions	-81	Includes an attractive positive contribution offset by full allocation of upfront investment in technology and head office costs to support future scale and growth
	(177.6)% margin		(44.3)% margin		
	Group & Other ²	-39		-39	
	Group	61		61	

Note: (1) indicative, unaudited (2) 'Group & Other' as per the FY21 reporting segment, primarily share based payments (£29m). Full detail in FY21 Annual Report (3) Recharges to ORL for capital assets (Hatfield, Dordon and Erith in particular)

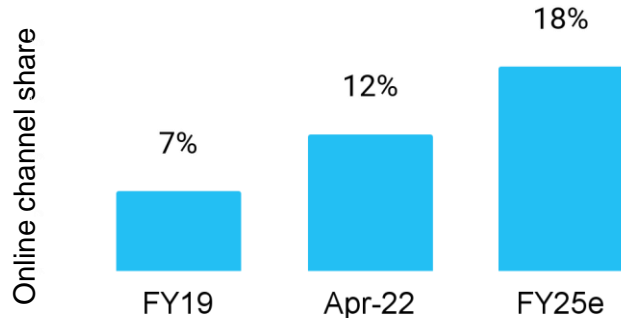
Exploring our underlying business models and their key drivers

Ocado Retail

Ocado Retail: Step change in long term opportunity

The market opportunity in online grocery in the UK has fundamentally reset post Covid

Online share of UK grocery remains 1.7x what it was before the pandemic, with outlook for continued growth



Customer penetration stable at 26% (Apr-22); recent volume declines driven by cost of living and normalisation of shopping behaviours

Ocado Retail sales evidence this step change; business gaining share of this bigger market

Ocado Retail revenue has seen a fundamental step change compared with before the pandemic

32%

Ocado Retail revenue growth 1Q22 vs 1Q20

And the business is taking share, with best in class offer and available capacity

+14ppts

Relative outperformance vs. UK online grocery channel in Q1 FY22

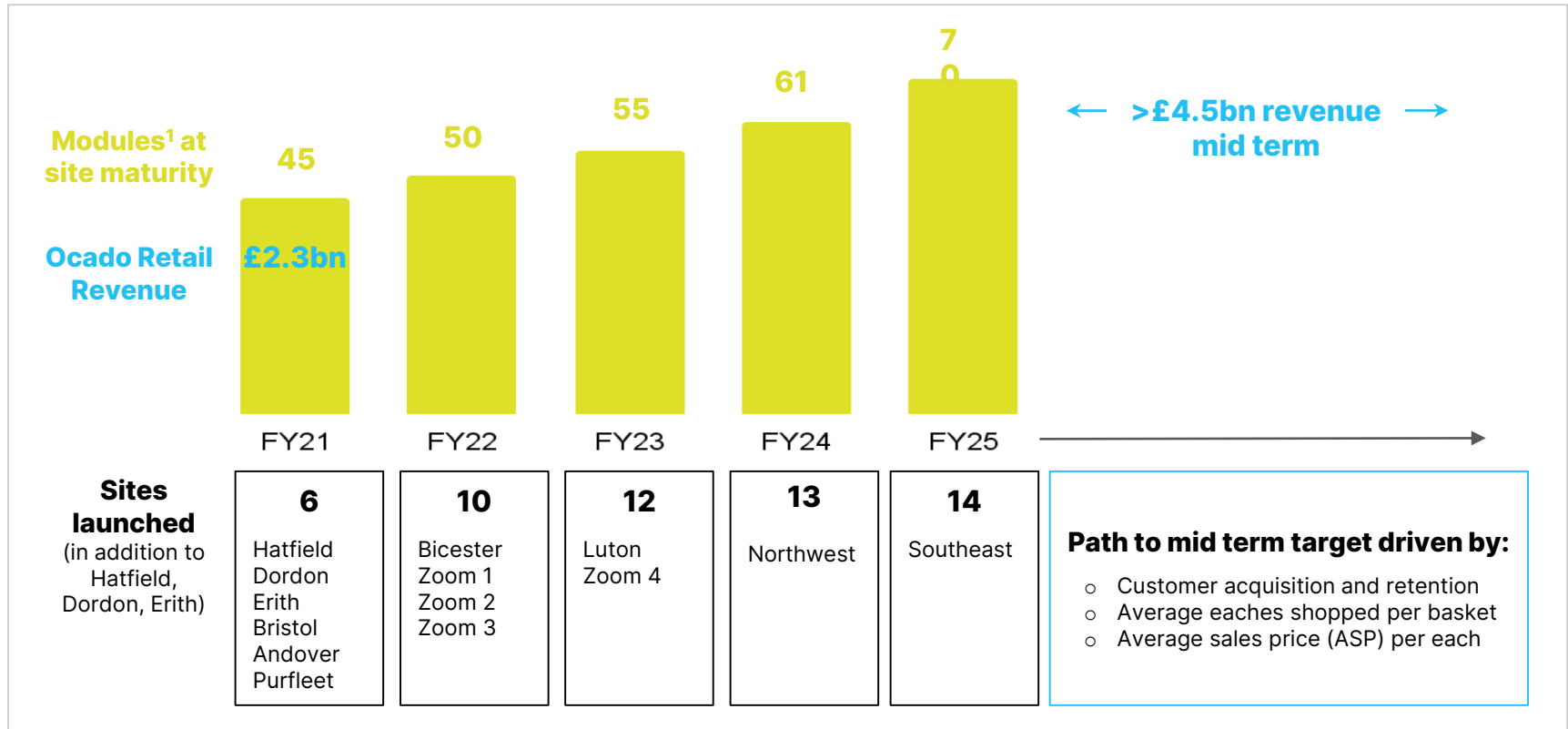
+25ppts

NPS score vs. other UK grocers

Ocado Retail is well placed to continue to win in a growing online channel in the long term

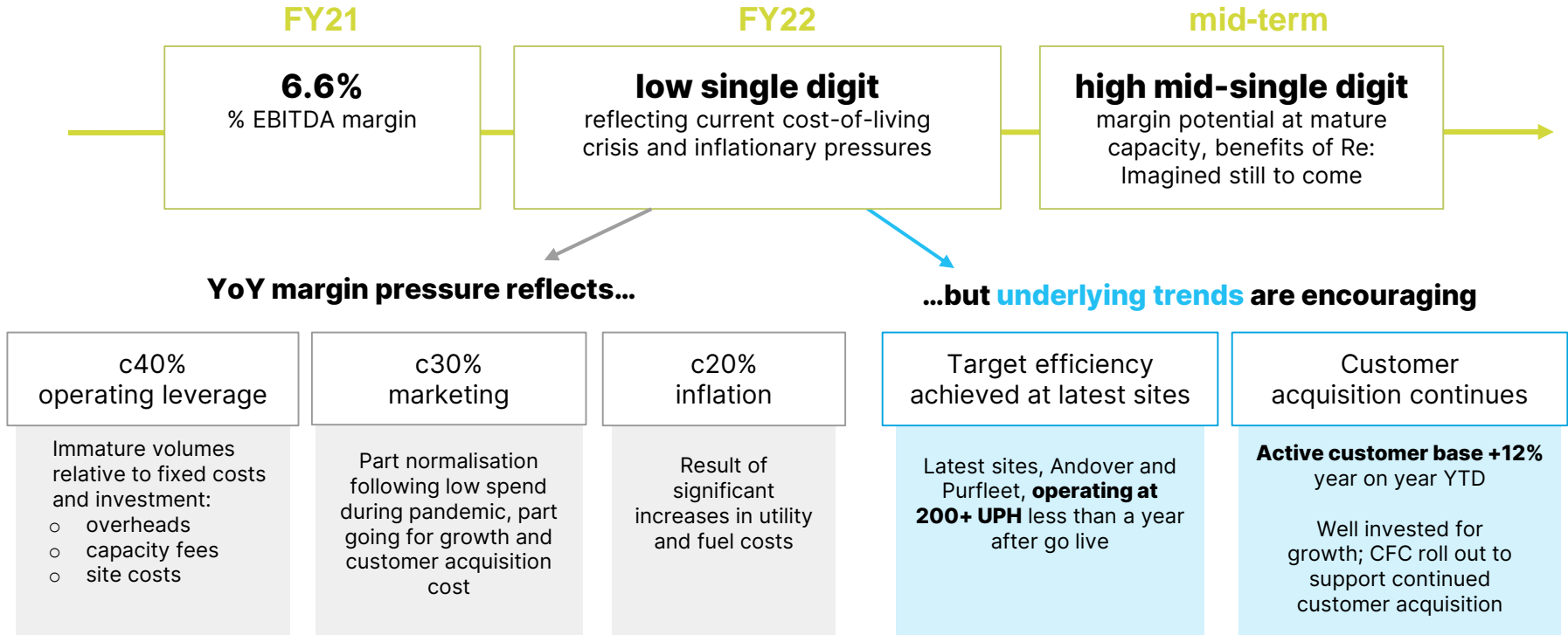
Ocado Retail: planned capacity roll out will take revenue to >£4.5bn

Steady growth sees path >£4.5bn in revenue in mid term



Note: (1) one module equivalent to c.£70m of sales at capacity

Ocado Retail: margin potential underpinned by operating leverage and technology



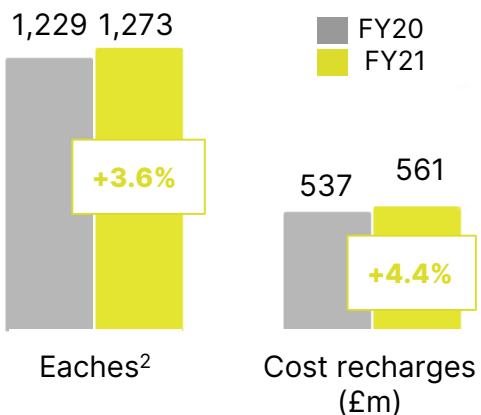
High mid-single digit EBITDA margin business in mid-term

Ocado Logistics

UK Logistics: Revenue and EBITDA to track UK partner volume growth

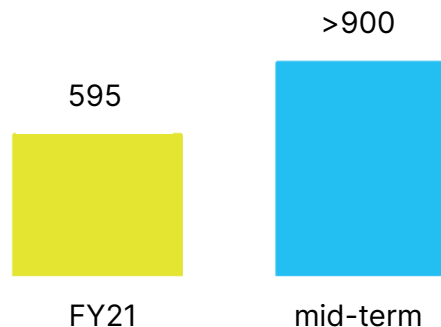
Eaches growth drives cost recharges and, in turn, revenue

- Cost recharges >90% of total UK Logistics revenue; remainder c. 4% management fee and capital recharge¹



Revenue to grow to >£900m; with partner volume growth

- 10%+ CAGR on revenue; eaches growth for clients in UK partly partly offset by improvements in efficiency



EBITDA to be broadly stable; impact of capital recharge fades

- Capital recharge to reduce by more than half in mid-term
- Margin to trend towards c. 3%, reflect underlying cost-plus model



Revenues of >£900m with EBITDA broadly stable at c£35m in mid-term

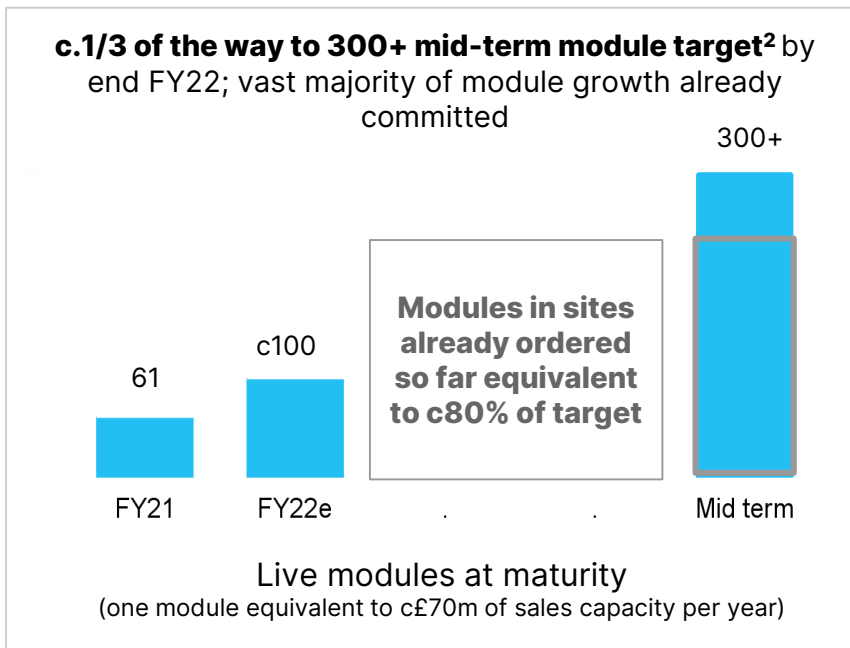
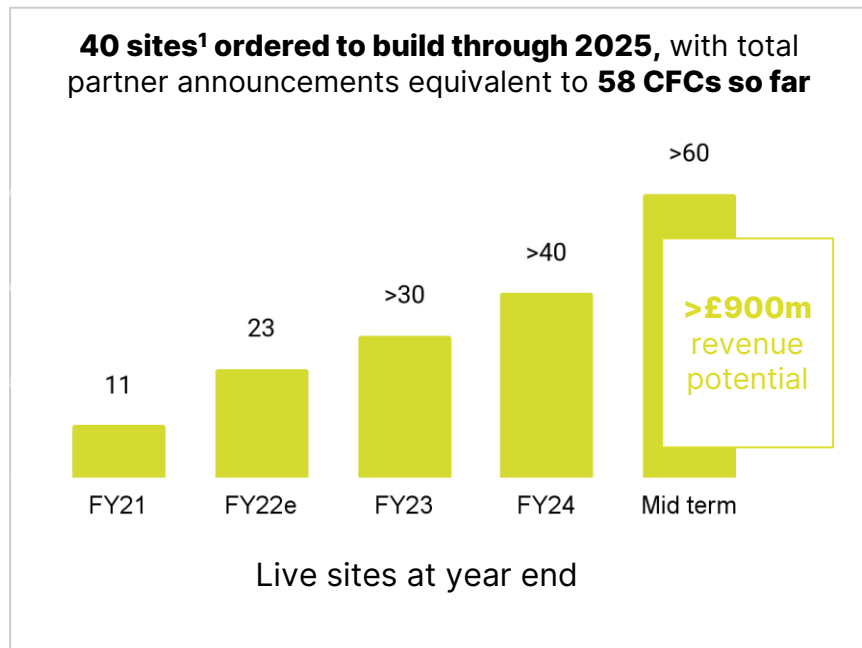
Ocado Technology Solutions

Ocado Technology Solutions

- **Leading solutions provider**, bringing world-class customer experience and proven operational economics to retailers seeking to win in online grocery
- Enabled through the **Ocado Smart Platform ('OSP')**; a proprietary suite of solutions combining end-to-end software systems with our physical fulfilment assets, which we provide as a managed service
- **11 grocery retail clients around the world so far**, representing a platform of **>£210bn of sales** in the markets in which we serve them, and **announced capacity roll out plans equivalent to 58 CFCs, or over £20bn in client sales**
- **Capacity roll out is picking up pace**; from 5 CFCs at the end of 2020 to an expected 19 by the end of FY22, with an expected 10+ sites p.a. run-rate in the years beyond
- As the assets that we are currently installing for clients go live and ramp **we expect strong returns for both Ocado Group and our partners**
- Those **returns will get even better**, as we iteratively continue to improve our operations; the Re:Imagined innovations are still to come

Technology Solutions: Revenue - strong ramp as CFCs rollout

Significant revenue ramp in mid-term driven by existing customer commitments



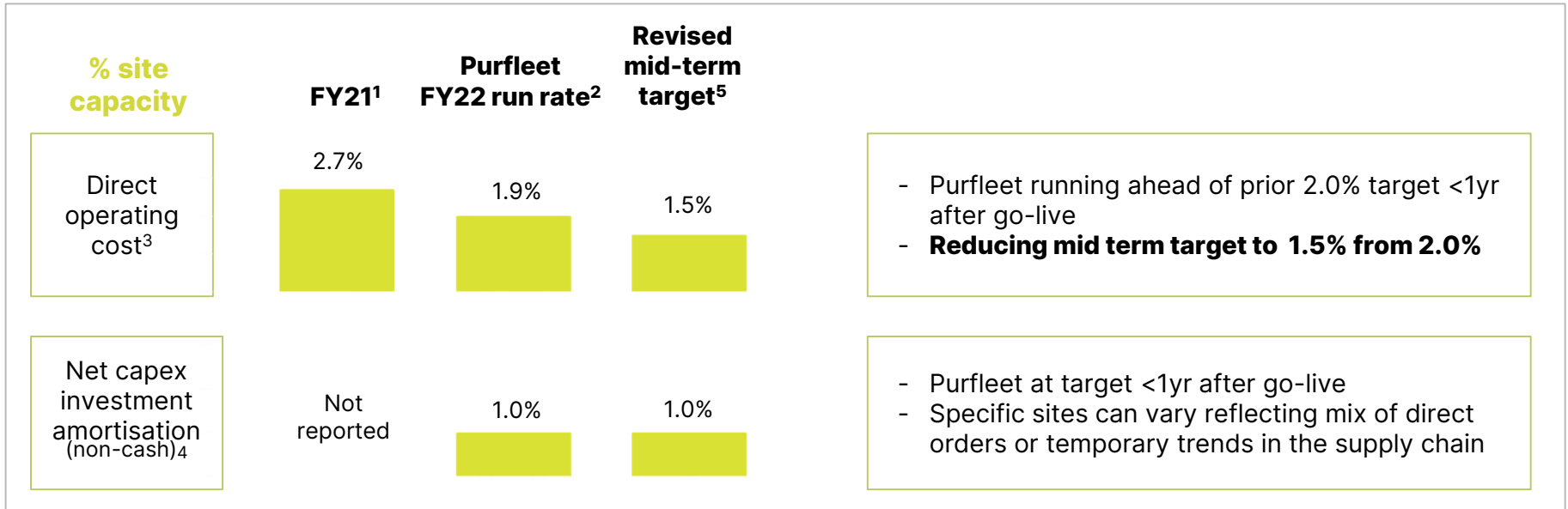
Clear path to >£900m revenue³ in the mid-term

Note: (1) Sites refer to CFCs, minis and micro sites (2) modules live assumes an average of 5 modules per site in mid term, reflecting a mix of larger CFCs (5+), as well as minis (2-4) and micro (<1) sites (3) Illustrative revenue calculations reflecting recurring capacity fee, but excluding the benefit of upfront fees received as cash and recognised as revenue over the accounting life of a CFC from go-live in accordance with IFRS 15

Technology Solutions: low Operating Costs deliver attractive returns

Achieving target CFC model at latest site

With reasons to have conviction in trajectory across broader CFC roll out



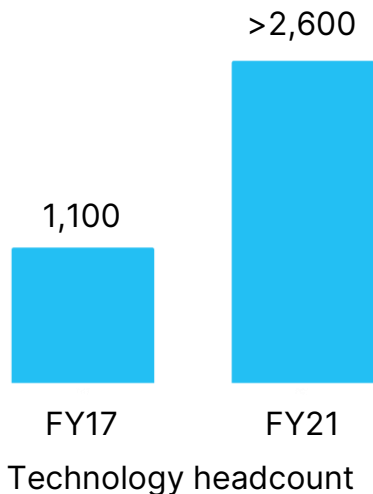
Mid single digit fee leads to attractive long term margins at both contribution and EBIT at the CFC level

Note: all figures as as % of mature client sales capacity (1) FY21 number reflects exit rate. (2) Purfleet run rate reflects current expected annualised cost at mature sales capacity (3) Direct operating costs include engineering, cloud, and other technology support costs (4) capex net of up front fees received; capex amortised over the 10 years determined to be the average useful life of the MHE within a CFC. Up front fees received as cash and recognised as revenue over the accounting life of a CFC from go-live in accordance with IFRS 15 (5) excludes Re:Imagined benefit 20

Technology Solutions: Technology Costs

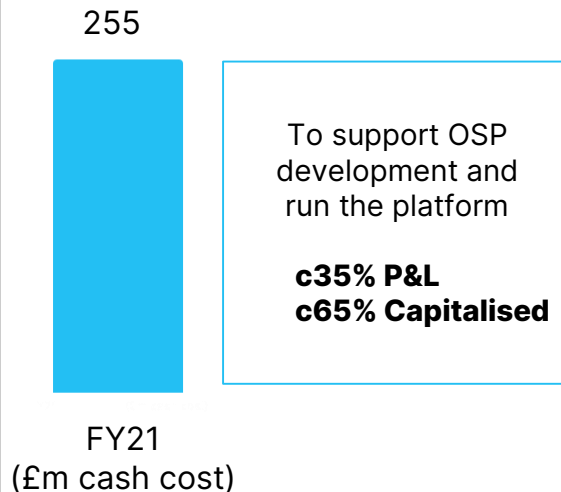
We have invested in our teams to support future scale and R&D

Significantly expanded Tech team to bring clients onto OSP whilst continuing to innovate at pace

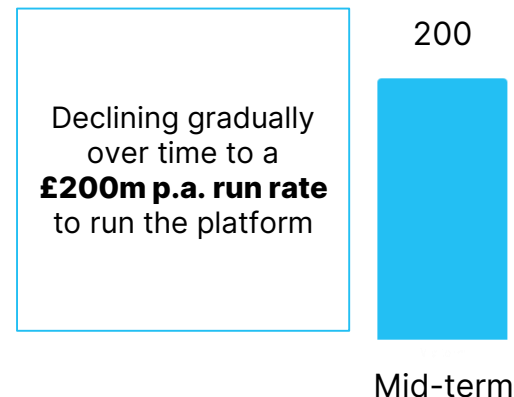


Current size and mix supports continued innovation while costs expected to reduce materially as share of revenue as platform scales

With 7 partners now live on OSP, a higher share of effort is on innovation



Costs to run OSP expected to reduce from end of 2023



Costs to run OSP platform reduce as revenue growth materially accelerates

Technology Solutions: Group Support Costs

Upfront investment in Group support teams to support early roll out



Teams	FY21 context	Outlook mid-term
Solutions	Growth on small base; increased account management with more partners on OSP platform	Flat to small increase in real terms to support growth
Other	Primarily Kindred as well as other venture related costs	Flat in real terms in absence of new investments
Client Services & Platform Implementation	Growth in recent years to support run rate go-live of client sites and to support knowledge sharing with clients in early years	Flat in real terms; leverage on scale as we benefit from experience and improved technology
Group support functions	c.55% of total support functions of c.£75m (eg. People, Legal, Finance), which have grown to support future scale and complexity of business	Flat in real terms; upfront investment in cloud infrastructure and teams

Group support costs expected to be broadly flat in real terms in mid-term

Technology Solutions: attractive returns as revenue ramps

£m	FY21	Mid term
Revenue	183	> 900
Contribution margin	103 56%	c. 70%
Group support costs	(89)	(90)
Technology costs (P&L)	(96)	(70)
EBITDA margin	(81) (44.3)%	c. 50%

**Significant evolution in margin;
underlying economics of the model come through**

Technology Solutions: Capex investments in CFCs deliver strong returns

A CFC is expected to deliver strong returns

As an example, for a 5 module site:

- **gross capex cost c£50m** for Ocado Group¹
- **net capex cost c£36m** after upfront fees
- go live in c. 2yrs after capex starts
- **go live with 2-3 modules** of capacity
- ramp to **capacity within 3 years** after go-live

From which we expect attractive returns

**Purfleet on track
22%+ ROCE^{2,3}**

**Excluding benefits of Re: Imagined;
clear line of sight to c30% ROCE**

Strong returns requires upfront investment

At least 65% of capex spent before go-live

Modules at go-live (end Year 2)	Annual capex phasing		
	Year 1	Year 2	Year 3-4
3	5%	70%	25%
2	5%	60%	35%

At a steady run rate, phasing is smoothed

**10x 5
module sites**

**c£500m gross
annual capex**

**c£360m net
annual capex
(inc. upfront fees)**

Some variation in cost can reflect
location specifics (eg. seismic) and size

As sites ramp, these returns will become evident

Purfleet: delivering attractive returns

Key characteristics

- **6.25 modules**
- **c85k orders per week:** capacity at maturity
 - average basket of 45 eaches

Build and ramp

- **22 months:** build commencement to go live
 - Nov-19 to Sept-21
- **c42k orders per week** run rate; fastest ever ramp

Investment

- **£55m MHE gross capex:**
 - Net capex £39m after upfront fees

Operating efficiency

- **200+ UPH:** achieved <9 months after go-live

Return on investment

- **22% ROCE²:** pre Re: Imagined impact



Technology Solutions: Capex summary

Driver of Ocado Group capex; reflects CFC roll out and ongoing innovation

	£m	FY21	Mid-term	Mid-term (Re: Imagined)
CFCs (MHE)		390	500 ¹	425
Technology		159	130	130
Other ²		47	45	45
Total Capex		596³	c.675	c.600

c.£600m in annual investments that we expect to deliver attractive returns

Note: (1) assuming 50 module/10 CFCs run rate build p.a (2) supply chain, pre go-live costs (cloud and platform implementation, retrofit capex) (3) of the £680m total capex reported at FY21 results; £84m Ocado Retail and Logistics

Technology Solutions: route to strong positive cash flows

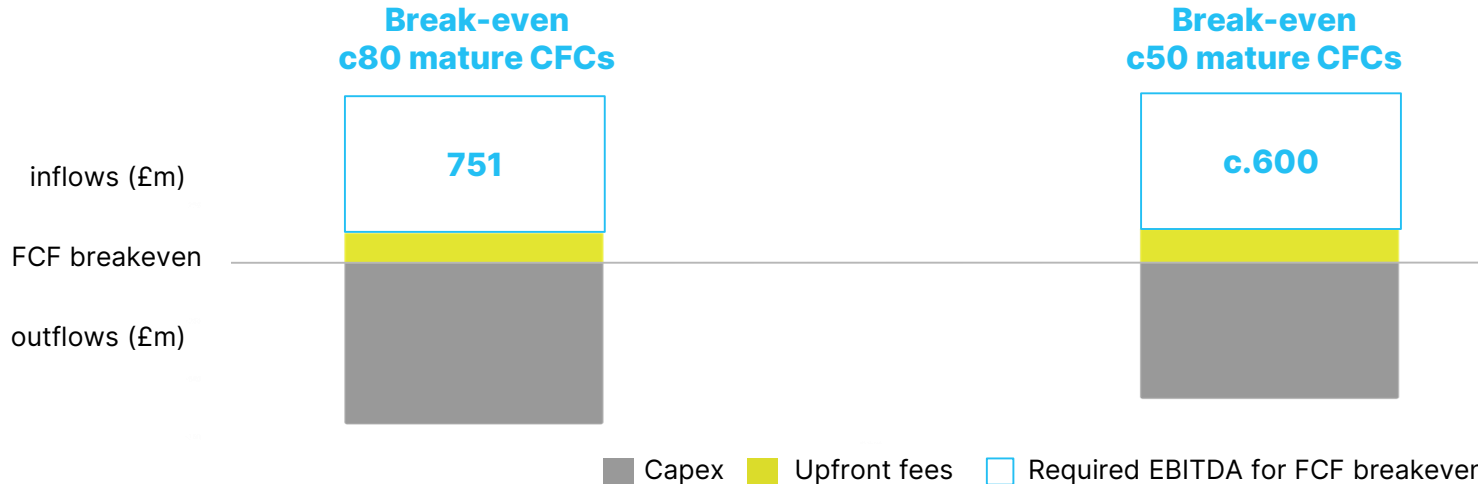
Improving operating efficiency and lower fixed costs reduce the number of CFCs operating at maturity required to reach FCF breakeven whilst funding 10 CFC build out per year

FY21 cost base and contribution profile

- 56% contribution margin
- £89m Central support costs
- £255m technology cost
- 14% of sales CFC capex intensity

Assuming target cost base and contribution profile

- 70% contribution margin
- c£90m Central support costs
- c£200m technology cost
- <12% of sales CFC capex intensity (Re: Imagined)



Note: assuming working capital impact not material in mid-term

Summary

Summary: bringing it all together

£m		FY21 Pro forma	Mid term	Outlook
Revenue (£m)	Ocado Retail	2,290	>4,500	growth into increasing capacity
	UK Logistics	595	> 900	in line with volume growth & efficiency gains
	Tech Solutions	183	> 900	>4x increase in revenue as capacity grows
EBITDA (%)	Ocado Retail	6.6% margin	high mid-single digit	enabled by tech and operating leverage
	UK Logistics	5.2% margin	towards 3% margin	reflecting the 'cost plus' business model
	Tech Solutions	(44%) margin	c.50% margin	to continue to rise as business scales
Capex (£m)	Group	680	c.700	Tech Solutions £600m plus Retail/Logistics
Cash flow² (£m)	Group	(698)	positive	reflecting strong ramp in EBITDA as live capacity builds

Revenues >£6.3bn and EBITDA >£750m; returns scaling significantly

Summary - the roadmap for growth

- Hopefully, the better you **understand the underlying business models in Ocado Group**, the easier it is to **forecast our roadmap for growth**
- The **principal driver of value creation for Ocado Group is our Technology Solutions business**, which is delivering OSP to currently 11 clients globally, helping accelerate channel shift online
- **Revenue growth from Technology Solutions is secure and visible. Existing customer commitments deliver a clear path to > £900m in revenue.** We have made good progress towards our target operating model which gives us conviction that the investments we are currently making **will produce attractive returns in the future**
- **Ocado Retail is well positioned to grow profitably in the UK.** Underlying trends in customer acquisition and productivity **validate the fundamental attractions and economic model of OSP to our partners** and give us conviction that sales growth and margins will recover once short term pressures ease
- **We have a clear path to >£750m EBITDA, positive cash flows, and strong returns in the mid term, built on existing commitments;** significantly greater incremental opportunities to grow with current and prospective partners; and further growth and margin benefits to come with the roll out of our Re:Imagined innovations. **We are excited about the future**