Ocado Group

Modelling Cash Flow
& Roadmap to Cash Flow Positive

22 November 2022

Objectives for the session

- Provide **a better understanding** of the key drivers of cash flows for each of the three underlying business models in Ocado Group

- Provide a framework to assess **how cash flows** for each of these businesses, and Ocado Group as a whole, **might develop over the next 4-6 years ('mid-term') and beyond** 2

- Take **a deeper dive into cash flows in the Technology Solutions business**, the key future value driver for the Group; explore why, based on progress so far and current liquidity position, we have conviction that **the business is fully funded on the road to cash flow positive in the mid-term** and to **demonstrate the market-leading returns on capital invested** that the Technology Solutions business delivers

Agenda

1. **Setting the scene: a reminder of the continuous improvement journey so far**

2. **Review of underlying business models**

    - Mapping current reporting to our three underlying business models

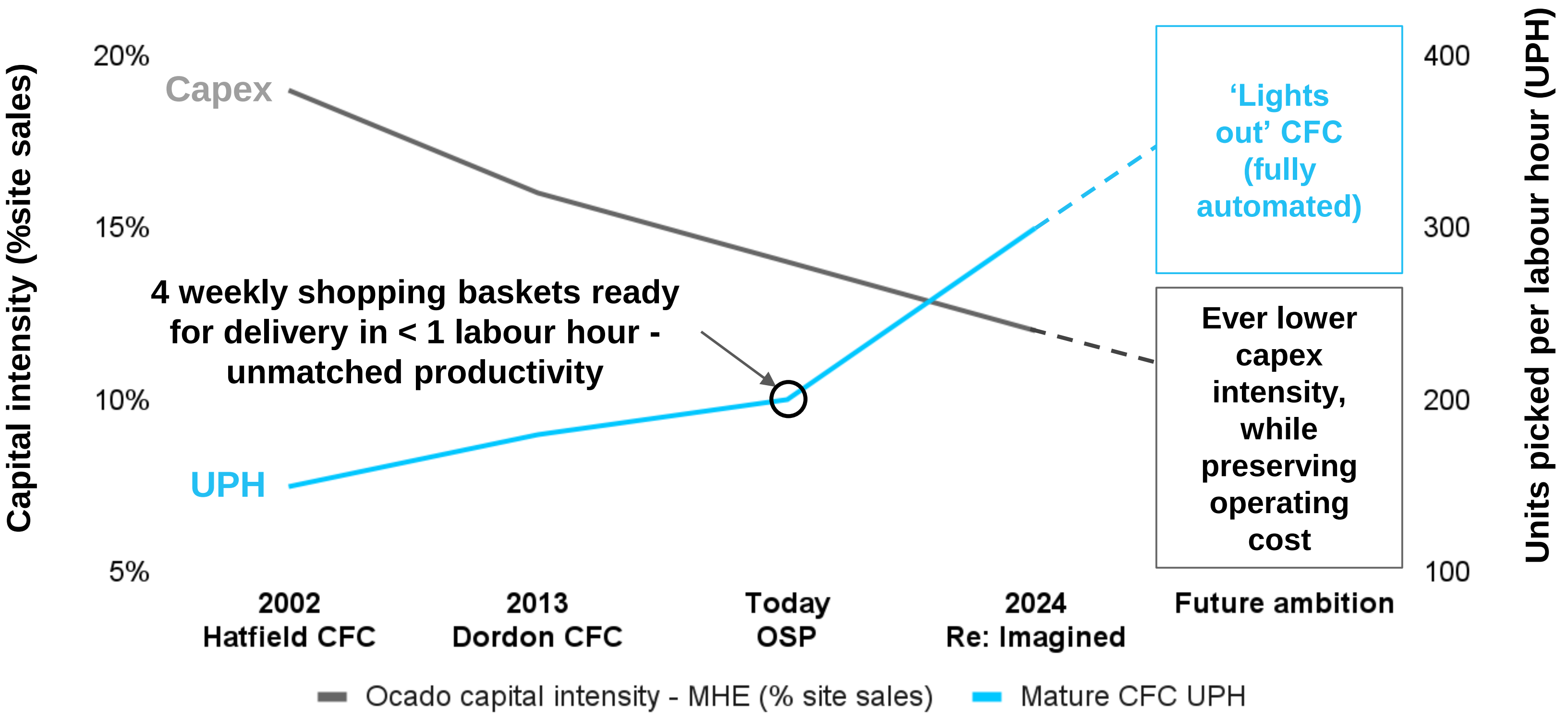
3. **Exploring key drivers of cash flows in our underlying business models:**

    - Ocado Retail
    - Ocado Logistics
    - Ocado Technology Solutions

4. **Summary**
    - Bringing it all together at Group level

1. A track record of continuous improvement

Strong track record of driving improved capital and operating efficiency from our CFCs, with more to come



Note: Hatfield capex best estimate

While innovations in site design and build also improve phasing of cash flows for both Ocado and our clients

Traditional MHE design

- Upfront capital 100% invested on go-live
- Hatfield and Dordon

Pre 2016
Legacy UK sites

OSP modular site design

- c.65% of capex invested in tranches ('modules')
- Phased to ramp profile
- Fees received upfront and on live modules
- OSP enabled partner sites

Today
OSP CFCs
ROCE 22%

Re:Imagined enabled optimised site design

- **For Ocado:** lower capex and higher fees
- **For client:** material reduction in capex and operating costs
- **Enabler of path to 'net zero'[1] cash outflow** for upfront investment in MHE in a CFC

2024+
OSP Re:Imagined
ROCE 40+%

Reducing peak cash outflows and improving timelines for payback on investment for clients and Ocado Group

Note: (1) meaning that upfront client contribution to capex is equivalent to the cost of capex invested in fixed MHE assets that are not immediately compensated by fees

2. A review of reported and underlying business models and cash flows

Mapping reported operating segments to underlying models

Reported operating segments	Better reflected as 3 underlying business models
Ocado Retail (100% consolidated, 50% owned)	**Ocado Retail** Online grocery retail business serving big basket and immediacy missions to customers in the UK
UK Solutions & Logistics	**Ocado Logistics** Industry leading business, operating in the UK for Ocado Retail and Morrisons
International Solutions	**Ocado Technology Solutions** Technology platform business providing the Ocado Smart Platform ('OSP') as a managed service to our (currently) 12 partners around the world

On track to commence reporting on this basis in FY23

Underlying business models - overview of key drivers of cash flows

Ocado Retail
(100% consolidated, 50% owned)

Inflows:

- Customer sales
- Media and data income
- Delivery fees

Outflows:

- Cost of sales
- Costs of services provided by Ocado Logistics
- Marketing costs
- Central costs
- Capital recharges from Ocado Logistics
- Fees paid to Ocado Group (OSP, management fees, TSAs)
- Leases
- Capex
- Tax

Ocado Logistics

Inflows:

- Recharges of logistics services provided to UK clients (Ocado Retail and Morrisons)
- Management fees received from UK clients on logistics costs
- Capital recharges to Ocado Retail

Outflows:

- Costs of logistics services provided to UK clients
- Central costs

Ocado Technology Solutions

Inflows:

- Solutions fees received from global OSP client base; upfront fees (one-off sign-on and upfront on each new site) and recurring fees

Outflows:

- Direct costs to run and maintain
- Capex investment in CFC MHE OSP platforms for clients
- Technology R&D investment
- Overhead costs related to Group support teams
- Other cash costs including Board costs, lease payments and other capex

Ocado Retail

Key messages for Ocado Retail

- Confident of **return to high mid-single digit EBITDA, with further potential margin expansion to c.7% with Re:Imagined** by the mid-term

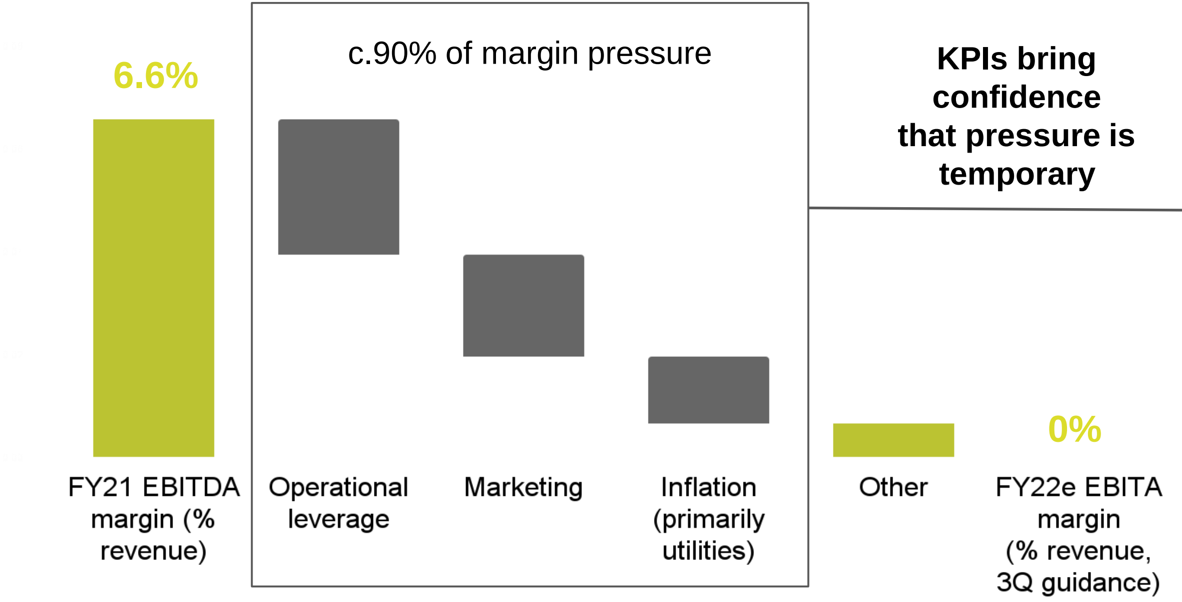
- Capacity **already installed and invested** to deliver by the mid-term:
  - **Revenues of £3.9bn**
  - **EBITDA of > £270m**
  - **Annual cash flows of > £160m**

- **A self-financing business in the mid-term**

- **Annual cash flows in mid-term sufficient to fund growth of >20%**

Ocado Retail: an attractive underlying margin profile opportunity

Vast majority of **current margin pressure is temporary**, with strong trends in customer growth and underlying efficiency underpinning **outlook for recovery of fixed costs at improving levels of profitability**



+23% active customers
y/y to **946k** 3Q22

>200 UPH
at latest sites,
before peak capacity

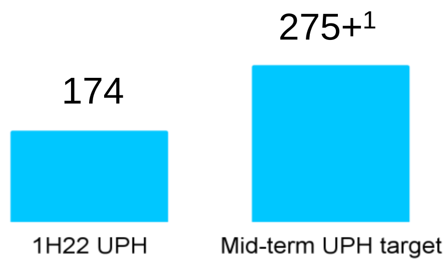
Recovery to high-mid single digit EBITDA margin expected in the mid-term; Re:Imagined savings will only improve margins further

Ocado Retail: Re:Imagined set to improve margin profile even further

Expect EBITDA margin to improve to 7%+ due to Re:Imagined benefits in the mid-term

Higher operational efficiencies from increased automation

On-grid robotic pick (OGRP) and automated frameload (AFL) to **drive UPH towards 300 in mid-term**



Increased automation expected to enable 1ppt of incremental underlying EBITDA margin post fees with further potential upside from increased throughput

Improved build flexibility as a result of 600s bot and grid to reduce costs of future sites (build and leases)

Reduced 1. size of footprint and 2. cement slab spec will drive **considerable savings in future builds**

20%

lease costs and build savings from smaller footprint for same capacity

20%

construction cost saving due to reduced spec and site size

New sites to reflect these improvements

Operating benefits retrofittable to live sites, with build benefits available on sites going-live from 2024

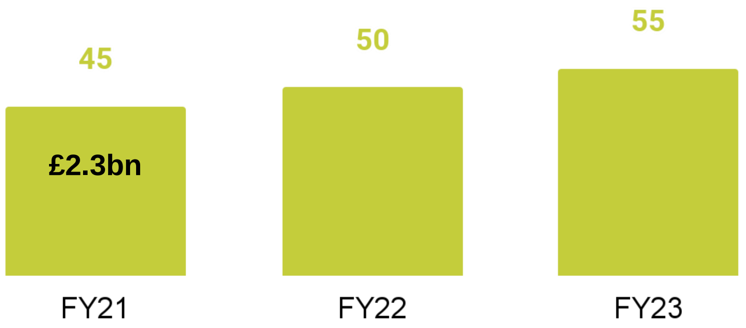
Note: (1) OSP sites >300 UPH, total Ocado Retail 275+ reflecting inability to retrofit legacy sites, Hatfield and Dordon

Ocado Retail: capacity investments <u>already made</u> underpin revenue growth to £3.9bn

Almost all of Ocado Retail capital already invested to drive >50% increase in revenues in mid-term

Modules[1] at maturity

Ocado Retail revenue



£3.9bn

Build of FY24/25 North West and South East sites paused reflecting a more prudent and disciplined approach to capacity roll-out

mid-term

# sites live (in addition to Hatfield, Dordon, Erith)	FY21	FY22	FY23
	6	**10**	**12**
	add:	**add:**	**add:**
	Bristol Andover Purfleet	Bicester Zoom 1 Zoom 2 Zoom 3	Luton Zoom 4

Path to mid-term target driven by:

- Customer acquisition and retention
- Average eaches shopped per basket
- Average sales price (ASP) per each

Path to >£270m EBITDA (7% margin) including expected Re:Imagined benefit from automation in live sites

Note: (1) one module equivalent to c£70m of sales capacity, excluding impact of inflation

Ocado Retail: bridging EBITDA to net cash flow in near to mid-term

£m	Mid-term	Driver of mid-term outlook
EBITDA	**>270**	**Expect c.7% EBITDA margin opportunity with Re:Imagined**
Maintenance capex	(15)	Asset replenishment, IT, spoke expansion and GM capex of c.£15m
Working Capital	15	Expect a cash flow benefit of +c.£15m p.a in mid-term
Leases	(65)	<2% revenue; c.75% property (rent and capital recharges), c.25% vans
Interest	-	Dependent on financing
Tax	(45)	Reported corporate tax rate over time
Net cash flow (ex growth capex) *(% sales)*	**>160** *>4%*	**Positive**
Cost of growth capex (% sales)	18%	Including land & build capex and client contribution to MHE
Implied potential growth rate	**>20%**	**Strong ability to self-finance future growth**

Capacity to self-finance >20% growth rate in mid-term

Ocado Logistics

Key messages for Ocado Logistics

- **Reliable underlying EBITDA generation of c.£30m in mid-term**
    - Driven by 4% management fee on 10%+ CAGR on volume growth for UK clients

- **Stable cash flow of c.£40m two key drivers:**
    - EBITDA growth as volume grows, offset by
    - Declining capital recharges by 50% in the mid-term

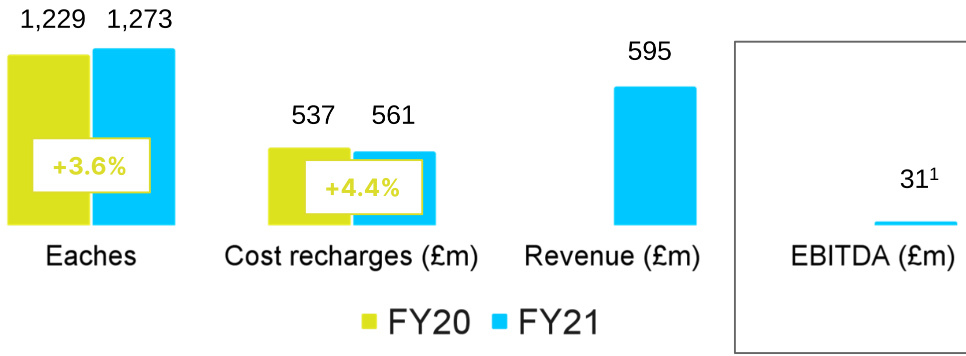
- **Capex is recharged to partners so no cash impact on Ocado Logistics**

UK Logistics: positive net cash flow operating model

EBITDA driven by eaches growth and management fee

- **Cost recharges >90% of total UK Logistics revenue;** remainder c.4% management fee and capital recharge for shared sites
- **FY21 EBITDA of £31m reflects:**
  - c.4% management fee on operational costs
  - capital recharges expected to fall by around half in mid-term

FY21: from volume growth to EBITDA (£m)



Cash benefit of capital recharges in finance income →

c. £40m net positive cash flow

Cash flow is higher than EBITDA due to capital recharge from Ocado Retail reported below EBITDA

- **Capex recharged** to partners
- **Capital recharges** of c.£20m for PPE, **in the mid-term, split as:**
  - c.30% in EBITDA for shared sites (c.£6m)
  - c.70% below EBITDA for exclusive-use sites (c.£14m)
  - to each fall by around half in mid-term

Note: (1) FY21 includes £16m of capital recharges in EBITDA, including Bristol and Andover sites. At 1H22, all lease costs for exclusive use sites were determined to be finance leases, accounted for as finance income. For 2022 this results in c.£9m of capital recharges related to Bristol and Andover being reported in finance income instead of EBITDA (2) individual picks of stock keeping units (SKUs)

UK Logistics summary: stable net cash flow generation in mid-term

£m	Mid term	Drivers
Revenue	**>900**	**10%+ CAGR**; eaches growth for UK clients (c. 1.3bn eaches in FY21 to >2bn in the mid-term) partly offset by improvements in productivity which are passed on to clients
EBITDA	**c.35**	**Reliable EBITDA generation of c.£35m;** growth in volumes partly offset by capital recharge on shared sites to fall by half
Capital recharges	c.7	Capital recharge on single-use sites to fall by half by mid-term
Net cash flow	**c.40**	**positive at >4% of revenue**

Broadly stable net cash flow as EBITDA growth (due to growing volumes) is offset by gradually reducing capital recharge income

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 (CFCs), **which we provide as a managed service to 12 global retail partners**

- **CFCs provide attractive returns and cash flows and Ocado Re:Imagined will see these improve even further,** as we share the benefits of our technology innovation with our clients

- Combined with **strong management of overheads** and other cash costs**, we expect to have the capacity to self-finance module growth of >20% by the mid-term**

- **Further cash opportunities beyond the core model, add flexibility** to deliver mid-term ambitions; **no additional Group financing expected to be required** before we become cash flow positive in the mid-term

Key messages for Ocado Technology Solutions

- **Unit economics on our CFCs are improving;** fees, capex and operating costs
- Driving **improved ROCE**
- Strong cash conversion; **quicker payback**
- **Rollout continues;** 64 committed sites, 19 CFCs (and 4 Zooms) live at end FY22
- **Clear roadmap to mid-term annual cash flows of >£350m** (pre growth capex)
- Current trajectory will be **sufficient to self-fund CAGR of >20% in mid-term**

Ocado Technology Solutions: an overview of key cash flow drivers

Technology Solutions cash flows will primarily reflect underlying trends in these key drivers:

Inflows	Outflows			
		R&D and Overheads		
CFC operations **Fees** related to upfront fees (platform and new sites) and recurring fees related to number of modules of drawn capacity less direct operating costs	**New CFC capex** Cash invested up front in **rolling out additional modules** (MHE) to drive future fees	**R&D** Cash invested in **Technology** for continuous development of the platform	**Overheads** **Group support** costs to run the business	**Other** **Other capex** (non CFC) **Financing costs** **Lease payments** **Board costs**

Sections in slides

1 - CFCs | **2 - Overheads** | **3 - Other**

Through **increased modules**, **iterative improvement in the returns profile of our CFC technology**, and **strong management of other costs**, **we expect to deliver attractive cash flows in the mid-term**

Ocado Technology Solutions
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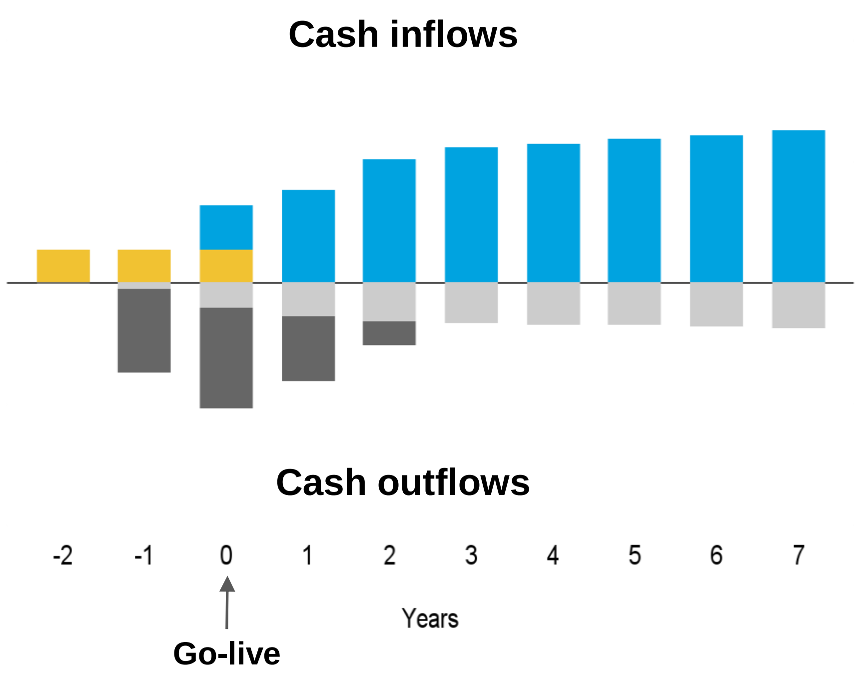
CFCs

The CFC - a recap of drivers of attractive returns at the unit level

Illustrative cash flows associated with key drivers of a ‘typical’ 5 module CFC



Upfront fees
- Equal payments over 3 years
- Client contribution to capex spent on fixed assets (grid, IT infrastructure etc)

Recurring fees
- Mid-single digit fee on installed capacity
- Monthly payments received post go-live

Capex investment
- Combination of investment in:
  - Fixed assets: grid, IT infrastructure etc
  - Variable assets: bots, peripherals

Ongoing operating costs
- Direct costs to run the platform; engineering (inc. parts replacement on bots) and data hosting

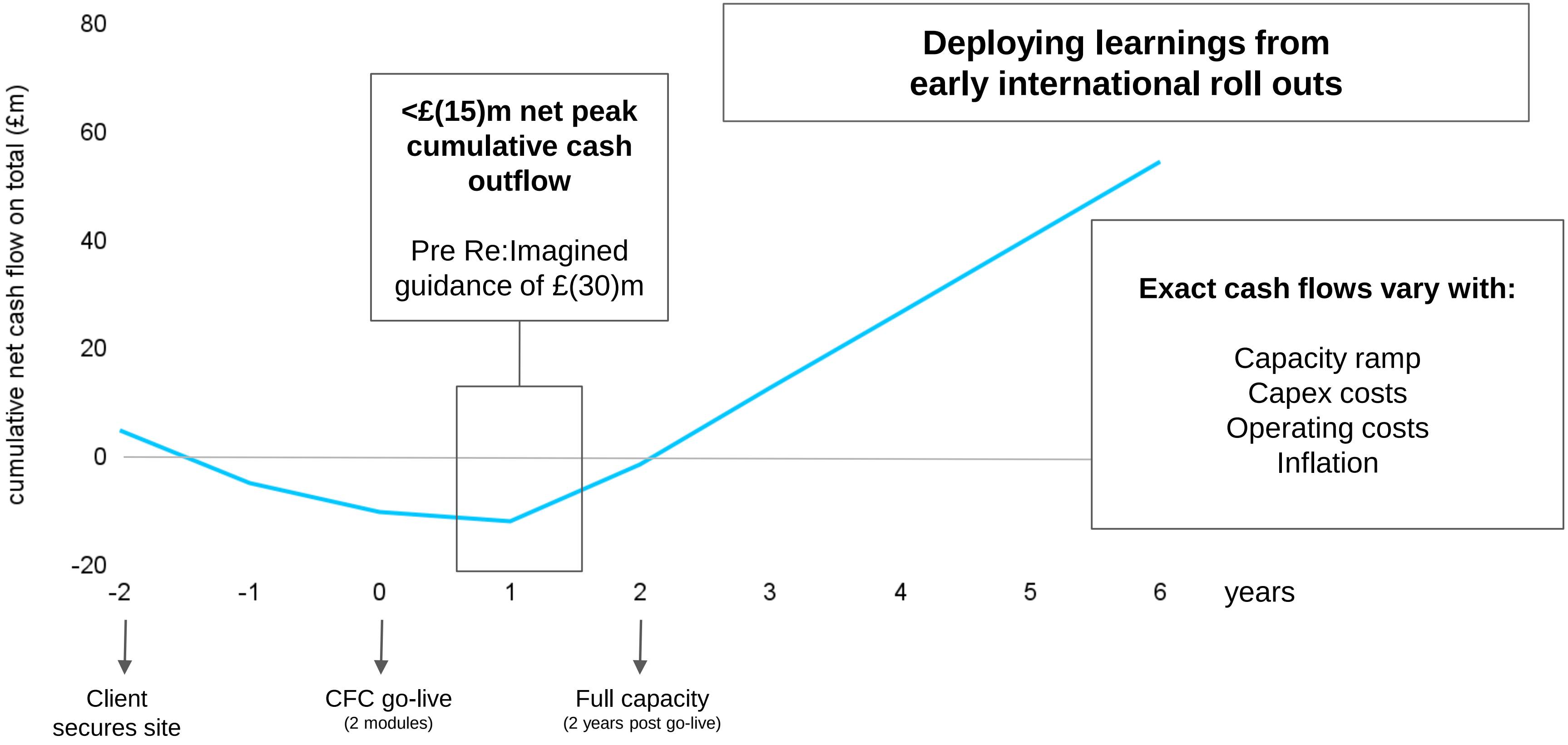
<u>Re:Imagined improves the underlying cash flow</u> of the CFC

Re:Imagined technologies underpin **<u>ambition to 40% ROCE</u>; <u>reduced capex investment overall</u>, <u>with reduced initial outflow</u>** and **<u>higher recurring cash flow returns</u>** per module

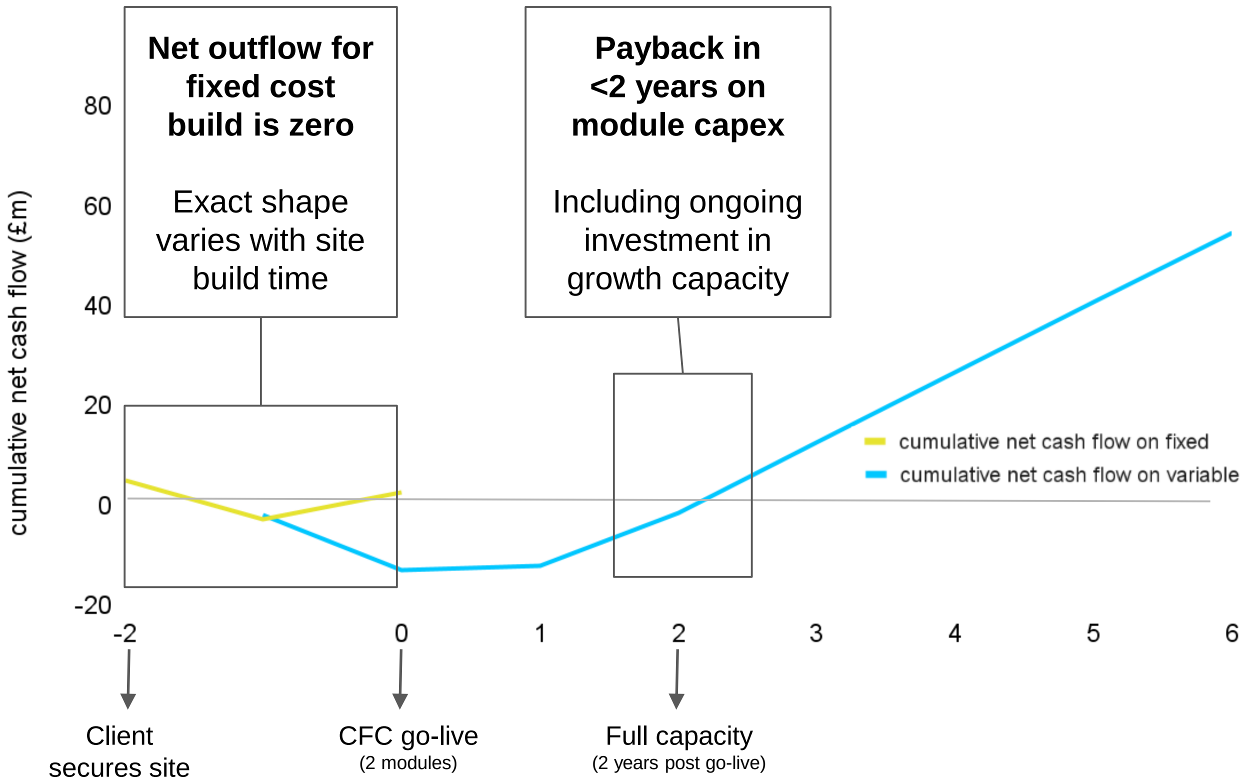
	Cash flow driver	OSP Today	Re: Imagined 2024+ base case	
Lower capex cost supports roadmap to neutral cash impact of zero module site	gross capex investment	14%	<12%	Ocado-owned and operated MHE in a CFC
	of which fixed	5%	4%	primarily grid, IT infrastructure
	of which variable	9%	8%	bots, peripherals
	fixed capex investment *after client contribution*	1%	0%	after deducting 4% client contribution (upfront fee)
More cash from modules deployed	recurring fees	5%	5.5%	Passing on most of operating efficiency benefit to OSP clients
	direct operating costs	1.5%	<1.5%	increased automation offset by ongoing cost-down improvements. Includes parts replacement on bots

All current and future OSP sites can be retrofitted for automation improvements,
with **majority of sites going live in 2024 and beyond** to include benefits to capital profile

Re:Imagined CFC: significant improvement in CFC peak cash outflow



Re:Imagined CFC: attractive cash flows; two distinct phases of build

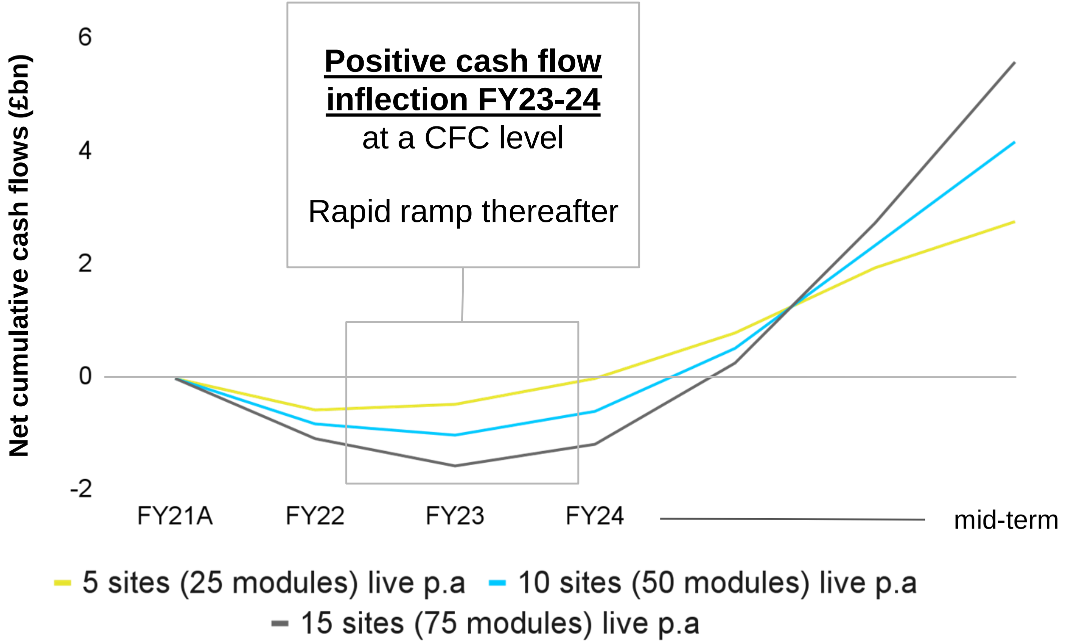


Key points

- **no capex spent** until after the client secures their site
- **zero net cash outflow** for initial capex; 'zero modules' concept
- **<2 year payback from 'go-live'** on each module

<u>Re:Imagined underpins mid-term trajectory</u> with strong build in cash flows as capacity ramps

<u>Pace of roll-out drives gradient</u> of net cumulative cash flow curve; depth of peak outflows and build of cash flows as capacity ramps



<u>Targeting >20% CAGR growth rate, self-funded, in mid-term</u>

Based on c.300 modules live at year-end and <£400m total cash cost base

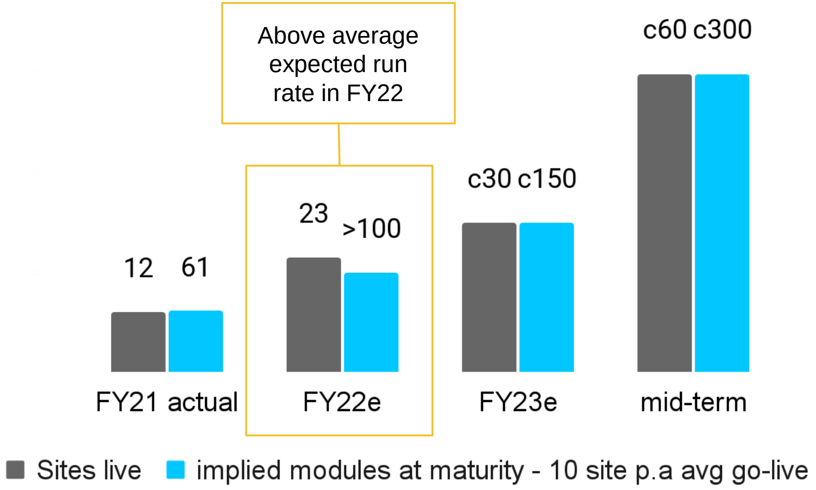
		live modules		
		200	300	500
Total costs (£m)	300	23%	32%	39%
	350	19%	29%	38%
	400	14%	26%	36%
	450	10%	23%	34%

Implied growth rate base on 300 modules:
£70m/module = £21bn sales @ 4% net fees = £840m less costs of £400m = £440m net cash flows = @£5.6m (net 8% of sales) per module = 79 modules = 26% of 300 modules

Committed capacity growth to drive significant ramp in cash flows

Around 300 modules of underlying capacity expected in mid-term, with an average of 10 sites going live per year; **incremental revenue potential as a result of Re:Imagined**

Partner announcements equivalent to **64 CFCs**; trajectory of planned site go-lives and implied modules at maturity broadly on track with average; **non-linear - FY23 lower than FY22**



Focused on supporting client ramp to successfully deliver mid-term revenue

- assume **average 3 year ramp to full capacity** following go-live in the mid-term
- **variability across early sites** reflecting market maturity and operational learnings
- **investment in on-the-ground client success team** to support optimal outcomes

Clear path to >£1.1bn in revenue (recurring fees)[1] in mid-term, with **>70% contribution margin**

Note: (1) Mid-term revenue outlook reflects average live modules during the year on ramp up to c300 modules

Ocado Technology Solutions

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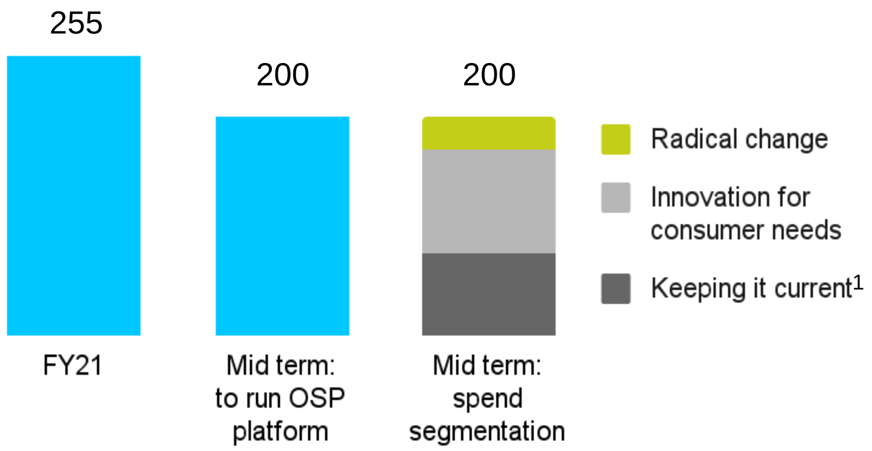
R&D and Overheads

1. Technology
2. Group Support
3. Other

1. Technology investment to <u>support growth and improving cash flow trajectory</u> in mid-term

<u>£200m to run OSP platform in mid-term</u> with <u>investment beyond this informed by underlying growth trajectory</u>

£200m estimated requirement to run and maintain best-in-class OSP platform; **c.40% to 'keep the lights on'**



Technology cash investment (£ million)

Tech investment to **<u>increase in near-term before trending towards mid-term target</u>**

Any further growth capex will be **to drive step-change innovations and to deliver growth opportunities:**

- **Accelerated growth** with current and new grocery partners
- **Expansion into non-grocery sectors**; whole new addressable market for Ocado
- **Margin enhancements** delivered by further automation of CFCs towards full 'lights out' (zero people) goal
- **<u>All self-financed by growth and returns</u>**

Note: (1) Including Software, IT, information security, patches, operating systems, hardware, bug fixing

2. Managing Group Support costs to drive long term success

Group support costs **flat in real terms in mid-term;** areas of **growth to support client success** in early CFCs

Recapping responsibilities of Group support teams

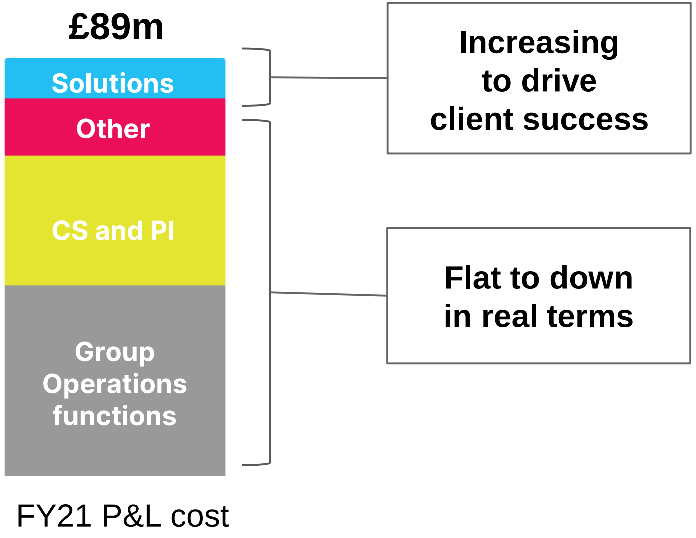
Solutions
Sales team, account management, central client success teams

Other
Kindred as well as other venture related costs

Client Services and Platform Implementation (CS & PI)
Implementation of OSP solution and provision of ongoing maintenance, support and services

Group Operations functions
People, legal, finance and property costs

We are managing for highest impact mix in the mid-term, as well as total level of cost



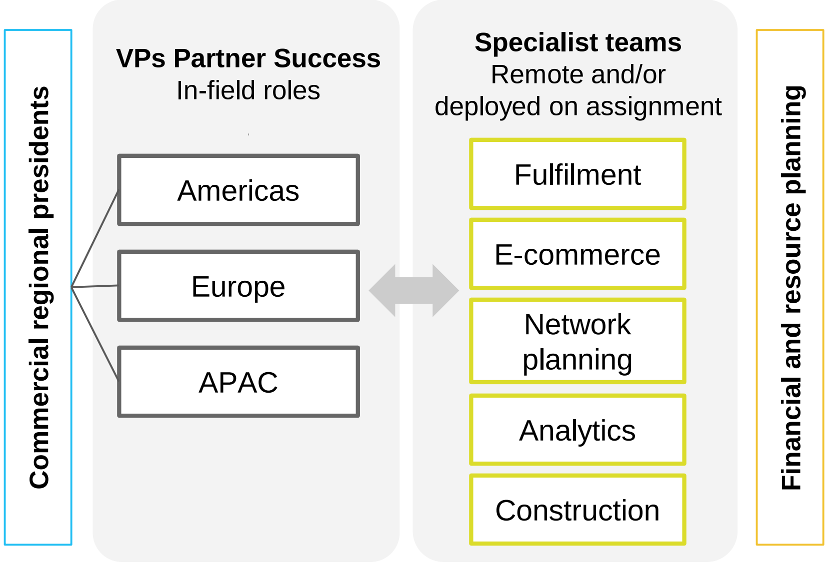
Total cash cost £94m including £5m net capitalised costs

Strong management of both level and mix to support business to deliver on its mid-term ambitions

2. Managing Group Support costs to drive client success

Growing our client success teams in Solutions to support clients in early site ramp and operations

Partner success operating model enables local and remote support, and short-term specialist deployments



Building on successful collaboration with clients already underway

Case study: CFC optimisation analysis

Goal:

Determine roadmap to optimise capacity required, and speed to, optimised CFC economics

Process:

- **Ocado-partner collaboration** across senior sponsors through operation teams
- **Deep-dive comparison of real-time partner site data** vs. operational data from similar locations
- Short-term deployment of **specialist team** to determine recommendations for focus actions

Outcome:

Agreed roadmap with steps to support implementation

We expect areas of early investment to drive significant value for the business in the long term

3. Other costs held steady at c. £100m

Underlying cash items ex financing costs expected to be **broadly stable or reducing**

£m	FY21	Mid term	Type of cost and outlook
Other capex	(47)	(45)	Innovation enablement in supply chain, IT upgrades, one-off retrofit, pre go-live costs
Interest	(17)	(27)	FY22e as steady state: actual dependent on financing
Board & other	(7)	(5)	Board, R&D credits
MHE JVCo	(9)	0	Lease on Dordon assets; zero in mid-term
Leases	(8)	(15)	Global offices; uplift reflects 3D printers for 600s bots
Net cash flow *(ex exceptionals)*	**(88)**	**(92)**	**Broadly stable**

Actively considering number of options to ensure optimal funding costs in mid-term

CFC financial profile potentially attractive:

CFC key credit attributes

- Predictable demand drivers
- Stable, growing cash receipts
- High quality customers

infra-like and asset based financing

Disciplined approach; only where clear pricing and strategic benefit vs. other sources of capital

Confident we will be **ready to take advantage** of the right opportunity at the right time

Ocado Technology Solutions
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Summary

Technology Solutions: Cash Flow Summary

£m	FY21	Mid term
CFC contribution	103	>750
Technology	(255)	c.(200)
Group Support	(94)	c.(100)
Other	(88)	c.(90)
Net cash flow ex growth capex	**(334)**	**>350**
Cost of growth capex (% sales)		8%
Implied module growth (self financed)		**>60**
% growth rate		*>20%*
Modules live at year end	61	c300

>£350m in net cash flow in mid-term expected to support self-funded capacity roll out of >20%

Ocado Technology Solutions: opportunities to deliver upside to underlying model

Other cash opportunities in the coming years

Revenues and margins		Working capital
ISF (store pick) solutions 7 partners plan to roll out across stores	**Growth beyond grocery** Self-financing venture with attractive margins	**Significant opportunities** Improved payment terms Better management

These opportunities expected to **provide additional flexibility** to deliver core mid-term outlook

Group Summary

Summary: bringing it all together

		Mid term	Outlook
Net cash flow (excl. growth capex) **(£m)**	Ocado Retail	**>160**	growth into increasing capacity
	UK Logistics	**c.40**	in line with volume growth & efficiency gains
	Tech Solutions	**>350**	>4x increase in revenue as capacity grows
Implied growth rate (self financed) **(%)**	Ocado Retail	***>20%***	enabled by tech and operating leverage
	UK Logistics	***n/a***	reflecting the ‘cost plus’ business model
	Tech Solutions	***>20%***	to continue to rise as business scales

Growth to >£550m in annual net cash flow means capacity to self finance rapid growth; no additional Group financing required in mid-term

Summary: path to strong positive cash flow to finance growth

- Hopefully, the better you **understand the cash flow drivers of each of the underlying business models in Ocado Group**, the easier it is to **forecast our roadmap to positive free cash flow**

- **It is clear that the investments we are making today will produce attractive returns in the future.** The revenue ramp of Technology Solutions is secure and visible and, with continued strong progress on operating costs and progress towards our target central cost base, following years of early build, gives us **conviction in the trajectory to >£350m in net cash flow in Technology Solutions to finance a >20% growth CAGR in the mid-term.**

- **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 >£550m in net cash flow available to finance growth, built on existing commitments;** significantly greater incremental opportunities to grow with current and prospective partners; and further growth and margin benefits expected to come with the roll out of our Re:Imagined innovations

Thank You

Appendix: CFC deal: summary of responsibilities of Ocado and partner

	Partner	Ocado Group
Key Responsibilities	- Source and ready site (per Ocado designs) for installation of OSP fulfilment assets - Management of online customer offer: marketing, pricing, ranging	- Integrate partner onto OSP platform, including development of any necessary software features - Install, operate and maintain OSP fulfilment assets (MHE) at the chosen CFC site - Provide ongoing tech support and insight to enable optimal results from solution - Ongoing R&D to support best in class platform

Value received	- End-to-end solution for fulfilment of online grocery ('OSP'), including software, fulfilment assets and support services
	- Shared learnings from Ocado and other partners
	- Early access to R&D developments
		- Two types of fees:
		  - Upfront fees to contribute to fixed asset investment in the CFC
		  - Recurring fee related to capacity installed in a site

Costs incurred	- Capex related to build of warehouse shell to house MHE - Labour costs associated with fulfilment in the warehouse and on the road	- Capex for mechanical handling equipment (MHE) in the CFC, and ongoing platform development - Operational costs associated with supporting and maintaining OSP solution

Appendix: key modelling assumptions used in Technology Solutions

Item	Pre Re: Imagined	Post Re: Imagined Mid-term base case
Sales per module (£m, excluding inflation)	70	70
Upfront fees per site (% sales): Client contribution to MHE cost	4.0%	4.0%
Recurring fees (% sales)	5.0%	5.5%
Direct operating cost (% sales)	1.5%	1.5%
Gross capex cost (% sales): MHE capital intensity	14.0%	12.0%
Net capex cost (% sales): MHE capital intensity minus client contribution	10%	8%
Split of total MHE cost: fixed assets modules	c.33% c.67%	c.33% c.67%
Net cash outflow for investment in fixed assets (% sales)	c.1%	0%