

Ocado and M&S announce new joint venture

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THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

OCADO GROUP PLC

Bringing the Best Together: Transforming UK online grocery shopping, Ocado and M&S announce new joint venture

Highlights

Ocado Group plc ("Ocado") today announces the creation of a new 50/50 joint venture ("JV") with Marks and Spencer Group Plc ("M&S") that will transform online grocery shopping in the UK.

Ocado has agreed to establish a JV comprising Ocado's UK grocery retail business ("Ocado Retail"), supported by a new partnership for solutions services underpinned by Ocado Smart Platform ("OSP") and the provision of branding and sourcing from M&S. M&S has agreed to pay Ocado £750m (including deferred consideration) for a 50% share of the new JV with Ocado retaining 50% ownership.

The JV (trading as Ocado.com) will combine M&S's highly regarded branded food and beverage range with Ocado's existing range of Ocado own label and third party branded products to offer over 50,000 SKUs to consumers. M&S product will be available on the platform by September 2020 (the "Switchover Date"), replacing Ocado's current sourcing agreement with Waitrose Limited ("Waitrose"). The new solutions contract will result in the JV becoming one of Ocado Solutions' largest partners and will provide the JV with full access to Ocado's proprietary technology to continue to deliver a compelling online grocery retail offer. In bringing the best together, the JV will benefit existing and new customers, colleagues, suppliers and shareholders.

Ocado will receive consideration of £750m comprising £562.5m in upfront cash and a deferred cash payment of £187.5m, plus

interest, payable five years after completion depending on the satisfaction of certain financial and operational conditions. These conditions are based on figures that have been set below Ocado's current long term plans.

Ocado Retail generated £84.4m of EBITDA^[1] in FY18 before the costs of commercial arrangements for services provided by Ocado Group. The contracts being put in place for the JV to receive services, including solutions services, from Ocado Group would have reallocated more than £50m of EBITDA from Ocado Retail to Ocado Solutions.

From the Switchover Date, the new sourcing and branding contract with M&S will provide the JV with M&S product at cost, exclusive rights to sell M&S's full range of food and beverage products online and non-exclusive rights to sell M&S's general merchandise products online. The JV will also continue to source its wide range of third-party branded goods. Under the new sourcing contract, from the Switchover Date the JV will no longer incur sourcing fees payable to Waitrose, which were over £15m in FY18.

The proceeds will enable Ocado Group to fund fully the development of all Customer Fulfilment Centres ("CFCs") currently committed with Ocado Solutions' partners.

Tim Steiner, Chief Executive Officer, Ocado, said:

"We are delighted that our UK retail business will become a joint venture with M&S. This is a transformative moment in the UK retail sector with the combination of two iconic and much-loved retail brands set to provide an unrivalled online grocery offer. We believe that this is the best outcome for customers, offering even greater range, service, quality and value; the best outcome for our Ocado Solutions partners, creating a stronger platform from which to innovate and develop our unique and proprietary technology; the best outcome for Ocado Solutions with a further endorsement from another leading global retailer; and the best outcome for our financial stakeholders, unlocking the significant value embedded in Ocado Retail.

The combination of the qualities of Ocado and M&S will allow us to grow faster, add more jobs, and create more value, as we lead the channel shift to ecommerce in the UK. We are very excited by the many opportunities ahead."

Steve Rowe, Chief Executive Officer, M&S, said:

"I have always believed that M&S Food could and should be online. Combining the strength of our food offer with leading online and delivery capability is a compelling proposition to drive long-term growth.

Our investment in a fully aligned joint-venture with Ocado accelerates our Food strategy as it enables us to take our food online in an immediately profitable, scalable and sustainable way.

Combining the magic of M&S Food with Ocado's leadership in online technology allows us to transform UK online grocery shopping offering customers the broadest, most innovative and relevant range in UK food retail with award-winning service. Our partnership with Ocado will create shared value for our customers, colleagues, supplier partners and shareholders, operating with a common sense of purpose and values.

This is a transformational step forward in shaping the future of M&S and in becoming a truly digital first retailer with at least a third of the business online."

Creating a platform for Ocado Retail to grow faster

The grocery retail sector is undergoing significant and rapid change as customer expectations evolve and as spending shifts online. The JV will be optimally positioned to meet consumer demands as an online shopping destination of choice by:

- Offering consumers, for the first time, the opportunity to buy M&S-branded product within a full supermarket product range
- Providing M&S's existing 12.3m Food customers the opportunity to buy M&S product online with Ocado's high fulfilment standards
- Covering geographies comprising 74% of UK households with the opportunity for growth
- Ensuring customers have access to developments in the industry-leading Ocado service, including the potential roll-out of Ocado Solutions' new immediacy solution, Zoom, which fits well with M&S's well-established convenience and prepared food offerings
- Continuing to be a test-bed for Ocado Solutions' innovations allowing it to benefit from the early adoption of new and evolving technologies
- Presenting an enhanced market opportunity for Ocado Retail's suppliers, with strong growth prospects

Further validation and growth opportunity for Ocado Solutions

With more than 15 years at the forefront of innovation and success in grocery ecommerce, the agreements with M&S further cement Ocado Solutions as a global leader in the provision of end-to-end ecommerce grocery solutions. The JV is the next step in the evolution of Ocado Group's strategy, creating a new scale partner for Ocado Solutions, with strong embedded growth through a commitment on the part of the JV to order capacity equivalent to a further eight CFCs over the next 12 years. Ocado Solutions will retain the ability to test new technology for the benefit of the JV's customers as well as Ocado Solutions' partners.

Key Terms of the Transaction

Financial

- Total consideration of £750m
 - o Upfront cash payment at completion of £562.5m
 - o Deferred consideration of £187.5m, plus interest, payable five years after completion on satisfaction of certain financial and operational conditions
- Over £50m of annual EBITDA for Ocado Solutions under the new contracts with the JV to provide solutions and other services
- Ocado will retain a 50% shareholding in the JV
- Based on 2018 reported results adjusted for the contracts being put in place with Ocado, the JV would have had 2018 EBITDA of £34.2m, before fee savings associated with the replacement of Waitrose with M&S as a sourcing partner
- The gross assets of the JV perimeter as at 2 December 2018 were £164m

JV Governance and Management

- Ocado and M&S will have equal shareholder representation on the Board
- For at least five years, Ocado has the ultimate right to appoint the CEO and M&S has the right to appoint one of its shareholder directors as Chair
- The management team of the JV, other than the CEO, will be appointed by the JV Board, with Lawrence Hene, currently Ocado's Commercial Director, being appointed as interim MD of the JV to lead its establishment
- Ocado will continue to consolidate the JV in its Group financials

Completion and Timing

- The formation of the JV is a Class 1 transaction for Ocado under the Listing Rules and is therefore conditional on the approval of Ocado's shareholders at a General Meeting expected to be held in Q2 2019 and other customary completion conditions
- If Ocado does not meet its shareholder approval threshold, it will reimburse M&S for costs incurred up to that date, subject to a cap of £12m
- The current expectation is that the Transaction is expected to close in Q3 2019

A conference call for analysts and investors will be held at 9am:

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Enquiries

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Notes to Editors:

About Ocado Group

Ocado Group is a UK based company admitted to trading on the London Stock Exchange (Ticker OCDO). It comprises one of the world's largest dedicated online grocery retailers, operating its own grocery and general merchandise retail businesses under Ocado.com and other specialist shop banners, together with its solutions division, Ocado Solutions.

About Ocado Retail

Online supermarket Ocado.com was established in 2000 and is one of Britain's leading online retailers. Delivering to over 74% of the UK population, every shopping bag is carefully packed in one of three distribution centres using in-house designed software and technology. Shopping is then delivered direct to customers using a network of regional spokes in brightly-coloured vans.

With award-winning mobile apps for every platform, Ocado delivers over 50,000 products, including big-name brands, a range of Ocado own brand products and a growing non-food selection. Thoughtful service features such as colour-coded bags, digital receipts provided in date order, reminder texts with your driver's name, along with convenient hourly delivery slots complementing award-winning customer service on email, phone and social media.

About M&S

M&S is a unique retailer with a great heritage of brand values and customers who want to see it succeed again. M&S operates Food, Clothing & Home and other retail businesses using the M&S own-brand model, focused on delivering great value for money. Although primarily based in the UK, M&S sells into 57 countries from 1,463 stores and 20 websites around the world and employs 81,000 colleagues serving about 32 million

customers. M&S is committed to a programme of transformation to ensure that once again M&S can fulfil the potential of its brand and deliver long-term sustainable, profitable growth to investors, colleagues and the communities in which it operates.

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^[1]Adjusted to exclude Fabled, which is not part of the JV perimeter

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