

Ocado and Kroger sign Master Services Agreement

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Ocado Group plc / The Kroger Co.

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Ocado Group plc ("Ocado") and The Kroger Co. ("Kroger") announce that they have signed service and operational terms including how Kroger will order Customer Fulfilment Centres ("CFCs") and the basis on which Ocado will now develop and operate those sites. This is the future services agreement referred to in the announcement made on 17 May 2018.

Under the terms of the agreement, Kroger is expected to order 20 CFCs over the first three years of the agreement, and order the first three CFCs by the end of 2018. The terms and fee structure are similar to those for other transactions to-date combining up-front fees and ongoing capacity fees.

As with other recent deals, Ocado has agreed to install and maintain modules of Mechanical Handling Equipment ("MHE") sufficient to provide an agreed level of throughput. The target is for Kroger's CFCs to go live within approximately two years of each order being placed.

In order to expedite the opening of CFCs in the US, the first CFCs ordered in 2018 will have funding requirements similar to earlier deals.

The two parties remain committed to exploring value-neutral alternative structures that would result in a lower capital commitment per CFC by Ocado in order to ensure that future CFCs are funded in a way that makes best use of the funding capacities of both parties. Discussion on these revised payments terms has now started and a further agreement is expected to be announced in due course.

Further details on the location of the first three CFCs will be made public by Kroger within the next several weeks.

Expected financial impact for Ocado

Ocado expects the earnings impact of the Master Services Agreement to be neutral in FY18. Up to the point when the final funding structure has been finalised, Ocado will finance Kroger's CFCs in a similar basis to previous deals. We do not expect that this will involve more than the first three CFCs.

The expected peak cumulative net outflow for Ocado of these initial three CFCs is £90m. With over £500m of financing headroom, Ocado has more than sufficient funds to cover this.

Luke Jensen, CEO of Ocado Solutions, said:

"We are delighted to have signed this services agreement with Kroger which sets out the key parameters for our working relationship going forward. The Kroger and Ocado teams have been working hard for some time to prepare for the opening of the first CFCs in the United States. We are very excited at the prospect of helping Kroger bring new services and value to its customers and transform the food retail market in the US".

Alex Tosolini, Kroger's Senior Vice President of Business Development, said:

"This is a significant step toward both solidifying our partnership with Ocado and redefining the Kroger customer experience. The alliance will bring to the U.S. Ocado's unparalleled innovation and technologies. This is exciting news and will help accelerate our vision to serve America through food inspiration and uplift."

There will be a conference call for analysts held at 7.30am GMT.

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A replay will be made available shortly afterwards on the website.

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Notes to editors

About Ocado

Ocado 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.

About Ocado Solutions

Ocado Solutions is responsible for corporate partnering, which began with its agreement to operate the online business of Wm Morrison Supermarkets plc in the UK, and more recently with agreements with Groupe Casino, Sobeys and ICA Group to develop their online businesses in France, Canada and Sweden respectively. The agreement with Kroger to provide it with the OSP suite of products to massively expand its online grocery business in the USA is Ocado Solutions' largest and most recent partnership transaction.

OSP is an enabling platform provided as a service to retailers. It comprises access to Ocado's physical infrastructure solutions to run highly efficient warehouse operations for the single pick of products, together with the entire end-to-end proprietary software applications required to operate an online grocery business - from user interfaces, through warehouse operating and control systems, to logistics, route planning and optimisation. It is underpinned by Ocado's expertise and experience as a dedicated online grocery operator in the UK.

OSP provides multiple advantages to retailers wishing to operate online including:

- enables retailers to own, control and operate their own online businesses
- based on proven systems and infrastructure which Ocado uses in its own retail business
- both modular (size flexible) and scalable (can start smaller and scale up on short lead times), and supports a large range
- significant operational cost benefits
- entire seamless proprietary software provision updated alongside Ocado's own development programme, providing "best in class" service for customers
- flexible agreement terms with low entry cost and ongoing fees linked to installed capacity
- Ocado does not compete with grocery retailers outside of the UK.

About Kroger

At The Kroger Co. (NYSE: KR), we are dedicated to our Purpose: to Feed the Human Spirit™. We are nearly half a million associates who serve nine million customers daily through a seamless digital shopping experience and 2,800 retail food stores under a variety of banner names, serving America through food inspiration and uplift, and creating #ZeroHungerZeroWaste communities by 2025.

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Certain statements made in this announcement are forward-looking statements. Such statements are not intended to be a profit forecast or estimate and are based on current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements. Persons receiving this announcement should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, Ocado does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

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