JOHN LEWIS & PARTNERS

JOHN LEWIS PARTNERSHIP

WAITROSE & PARTNERS

UNAUDITED RESULTS FOR YEAR ENDED 25 JANUARY 2020

Thursday 5 March 2020

A glossary of financial and non-financial terms is included on pages 7-11 of this document.

LETTER FROM SHARON WHITE TO PARTNERS

Dear Partner,

I am writing to you today as a fellow co-owner of the John Lewis Partnership to share our financial results for 2019/20.

We are the largest employee-owned business in the UK and amongst the largest in the world. We are to all intents and purposes a social enterprise; the profits that we make are reinvested into the business - for our customers and our Partners.

Our constitution requires us to make sufficient profit to keep the Partnership going, not the highest amount possible, and to put our customers and our Partners ahead of profit.

Throughout 2019 Partners right across the business have shown incredible passion for and commitment to our customers, and continue to do so. I have seen this first hand in all the visits I have made since I became Chairman - from our contact centre in Hamilton to our textile mill at Herbert Parkinson; from our distribution centre at Magna Park to our Waitrose store in Mill Hill.

FINANCIAL PERFORMANCE AND BONUS

With the hard work of Partners, we made £123m of profit[1] in 2019/20, which is 23% less than we made in 2018/19. This is a weaker performance than we had hoped for, driven by significantly reduced profitability in John Lewis. Despite a solid performance in Waitrose, it is our third year of declining profit across the Partnership as a whole. This year we saw a one-off reduction in the value of our John Lewis shops of £123m, principally as a result of shops playing less of a role in driving online purchases.

Profits in 2019/20 were at the lower end of what we had forecast. We are, therefore, awarding a bonus this year of 2%. I believe this is prudent and affordable and it recognises the contribution made by Partners working in the business today without creating risk for our future sustainability. The result is that we are able to continue to invest in our customers and pay down more of our debt - this year our total net debts has fallen as a ratio of cash flow from 4.3 to 3.9 times.

THE PARTNERSHIP'S STRENGTHS

We have considerable strengths as a business:

- *We have passionate and committed Partners who have huge creativity and innovation.*
- *We have two of the best loved brands among UK customers. Waitrose is the Which? supermarket of the year[2] and John Lewis recently topped a YouGov poll[3] for the high street's most recommended brand.*
- *We are a 'purpose-led' business that aims to put people and the planet before profit. We do not make out to be perfect but we do seek to take an ethical approach to business and help our customers to shop more sustainably.*
- *Our co-ownership model means we can invest for the long-term benefit of our customers.*

Looking back on the last year, I am particularly proud of the investment we make each year in community and environmental projects. Examples include our 'Unpacked' trial that reduces the amount of plastics used for fresh food and staples in our Waitrose shops, which we will be extending this year, and our partnership with the charity Fareshare that gave festive meals to more than 1,500 people who might otherwise have gone without.

PRIORITIES FOR THE YEAR AHEAD

There are areas of the business where we know we need to serve customers better. In John Lewis we will be refreshing our home offering, introducing more inspirational and contemporary ranges with improved pricing and delivery. We will also be making improvements to John Lewis online to make it easier to shop.

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[1] Profit before Partnership Bonus, tax, exceptional items and IFRS 16
[2] Which? annual supermarket survey - Published 22 February 2020
[3] YouGov High Street Recommended Rankings - Published 19 February 2020

We will be investing significantly in Waitrose.com, ahead of our partnership with Ocado ending in September. Sales growth through Waitrose.com was 13% up in 2019/20. We are also recruiting 2,400 new Partners and building a new fulfilment centre in Enfield to meet increased demand for Waitrose products online.

All of us are aware of the challenges in retail. New technology means that shoppers have never had so much choice, value and convenience. That is to be celebrated. And there is great opportunity for retailers who have an intimate understanding of their customers to respond to them in an agile fashion. Every Partner can make a difference this year by focusing relentlessly on service - wherever they are in the business. If we get it right, customers will return to shop with us and we'll earn their lifelong loyalty.

Future Partnership will slim down our head office functions and promote closer working between Partners in Waitrose and John Lewis. It will cut costs and over time make it easier for customers to shop across the two brands. As we restructure, we will take care not to lose the distinctive nature of the two brands.

STRATEGIC REVIEW

We need to reverse our profit decline and return to growth so that we can invest more in our customers and in our Partners. This will require a transformation in how we operate as a Partnership and could take three to five years to show results. We are stepping into a vital new phase for the Partnership and I have no doubt we will come through it stronger.

Last month I spoke at Partnership Council about the Strategic Review of the Partnership that we are now launching. The review is being led by the executive team but all Partners - those of us who are active in the democracy and those who are not - will have the chance to contribute and shape our future. Further details will follow.

The Strategic Review will focus on how we strengthen our core retail business and develop new services outside retail. As part of this we will also look at 'right sizing' our store estate across both brands, through a combination of new formats and new locations; repurposing and space reductions of existing stores; and closures, where necessary. Over the last few years we have reviewed Waitrose stores that were no longer viable and today we are announcing three Waitrose stores that will close later this year at Helensburgh, Four Oaks and Waterlooville. These decisions are never taken lightly and every Partner who wishes to stay in the Partnership will be actively supported to do so.

At the outset of the Strategic Review I want to make clear that we will:

- *Continue to be an employee-owned Partnership.*
- *Retain our two brands - John Lewis and Waitrose.*
- *Put exceptional customer service at the heart of what we do - whether in store, online or in customers' homes.*
- *Focus on quality and value, with Partners empowered to offer products and services that are more local.*
- *Put even greater emphasis on sustainability.*

The Strategic Review will be completed by the autumn and we will give a further update with our half year results. At the end of the review every Partner will be clear on the concrete plan and what the future means for their area and for the Partnership.

These are the most challenging but exciting times in retail for a generation. Together we have the opportunity to secure the Partnership not just for the next five years but for the next 100.

Best wishes

Sharon
Partner & Chairman

FINANCIAL OVERVIEW

	2019/20 £m	2018/19 £m	*Change %*
Gross sales	11,545	11,724	*(1.5)%*
Profit before PB, tax, exceptional items and IFRS 16	123	160	*(23.1)%*
Adjusted cash flow	621	618	*0.5%*
Total net debts	2,451	2,682	*(8.6)%*
Revenue	10,151	10,317	*(1.6)%*
Profit before tax	146	117	*24.8%*
Cash generated from operations before PB	713	611	*16.7%*

Throughout this document, alternative performance measures related to profit for 2019/20 are presented before IFRS 16 adjustments related to depreciation expenses on right-of-use assets and, where relevant, interest charges on lease liabilities, and before the removal of operating lease rental expenses. This is to provide a more meaningful comparison to 2018/19. A glossary of financial and non-financial terms is included on pages 7-11 of this document.

Our Partnership profit before Bonus, tax, exceptionals and IFRS 16 was £123m, a weaker performance than we had hoped for, driven by significant operating profit decline in John Lewis, which was partly offset by operating profit growth in Waitrose, and lower net Group costs and finance costs.

John Lewis operating profits before exceptionals and IFRS 16 were down £75m to £40m, driven by weaker sales in Home and Electricals, IT investment to enable accelerated development of our customer proposition, and growth in non-management Partner pay well ahead of inflation, which was only partly offset by productivity improvements.

Waitrose operating profits before exceptionals and IFRS 16 grew by £10m to £213m. After excluding property profits of £16m (2018/19: £nil), it was down £6m, with the improvement in gross margins and a strong operational performance being offset by cost inflation, including investment in non-management Partner pay.

This year we adopted IFRS 16, the new accounting standard for leases, using the modified retrospective approach on transition. Our last year results are therefore not restated. Whilst IFRS 16 has decreased our reported Profit before tax by £53m, primarily due to the length of our lease portfolio, it does not change the underlying economics of our business and it has no impact on cash flows. Further details of the impact of IFRS 16 were included in our half-year results statement issued in September 2019.

After including exceptional income of £107m (2018/19: £2m), Partnership Bonus and the charge for adopting IFRS 16, our Profit before tax was £146m, up £29m or 25% on last year. Further details of exceptional items are included on pages 5-6.

Continued cash generation alongside our decision to close our final salary defined benefit pension scheme, enabled us to reduce total net debts by more than £230m. Our Debt Ratio improved to 3.9 times and we remain on track to reduce it to around three times cash flow within four years. We have also maintained a strong liquidity position at over £1.4bn, despite repaying our £275m bond in April 2019.

OUTLOOK

We are confident that our new products and services and focus on outstanding customer service will reinforce the strength of our brands. We are planning for the market to remain volatile, but expect continued cash generation, allowing us to further strengthen our balance sheet and maintain our level of investment.

ADDITIONAL FINANCIAL INFORMATION

	Waitrose			John Lewis		
	2019/20 £m	**2018/19 £m**	***Change %***	**2019/20 £m**	**2018/19 £m**	***Change %***
Gross sales	6,760.1	6,835.0	*(1.1)%*	4,784.7	4,889.1	*(2.1)%*
LFL sales(i)	(0.2)%			(1.8)%		
Revenue	6,369.7	6,429.5	*(0.9)%*	3,781.6	3,887.2	*(2.7)%*
Operating profit/(loss) before PB, exceptional items and IFRS 16	212.7	203.2	*4.7%*	39.5	114.7	*(65.6)%*
Operating profit/(loss) before PB(ii)	211.9	199.2	*6.4%*	(37.0)	92.6	*n/m*

Note (i) Waitrose like-for-like sales excludes fuel
(ii) Operating profit/(loss) before PB is after including exceptional items and the adjustment for IFRS 16

EXCEPTIONAL ITEMS

Exceptional income totalled £107.4m (2018/19: £2.1m) with £30.6m charge in Waitrose (2018/19: £4.0m), £101.0m charge in John Lewis (2018/19: £22.1m) and £239.0m income in Group (2018/19: £28.2m). Further detail is included in the following table:

	2019/20 £m	**2018/19 £m**
Strategic restructuring and redundancy programmes (a)		
Head office reviews	(35.6)	(19.3)
Physical estate	(27.4)	(5.1)
Shop operations	(0.7)	(6.7)
	(63.7)	(31.1)
Branch impairments - Waitrose (b)	13.3	-
Branch impairments - John Lewis (c)	(110.3)	(12.6)
John Lewis supply chain (d)	9.1	0.5
Pay provision (e)	-	30.3
Defined benefit pension closure (f)	249.0	-
Legal settlement (g)	10.0	15.0
	107.4	2.1

(a) Net charge of £63.7m (2018/19: £31.1m) for redundancy costs, project costs, onerous contract, asset impairments, accelerated depreciation and closure costs in relation to either the transformation of pan-Partnership functions and other head office operations, the programme of optimising our existing estate, or the review of our shop operating models.
(b) In 2017/18 a charge of £35.7m was recognised for branch impairments in Waitrose. A credit of £13.3m has been released as a result of improved branch performance.
(c) Net charge of £110.3m in relation to a £122.9m charge for branch impairments in John Lewis, principally reflecting a reassessment of the role that shops play in driving online purchases, and a credit of £12.6m for the release of an impairment charge previously recognised in 2018/19.

(d) Net income of £9.1m principally in relation to the disposal of a property as part of the John Lewis supply chain restructure.
(e) In 2018/19 there was a release of £30.3m following rectification payments and discussions with HMRC, from a provision recorded in 2016/17 to cover the potential costs of complying with the National Minimum Wage Regulations.
(f) Income of £249.0m for the reduction in pension obligations following the decision to close the defined benefit pension scheme. This removed the future link with final salary and instead increases in future pensions up to retirement will be in line with inflation.
(g) Income of £10.0m (2018/19: £15.0m) following the Partnership reaching a settlement in relation to an ongoing legal dispute.

Further disclosure of exceptional items will be included in the Annual Report and Accounts 2020 which will be published in April.

NET FINANCE COSTS

Net finance costs increased by £94.6m to £161.6m, principally due to the interest charge on outstanding lease liabilities following the adoption of IFRS 16 this year. Excluding the impact of IFRS 16, net finance costs reduced by £8.9m to £58.1m. This reduction is principally driven by reduced interest costs on borrowings following the repayment of financial debt and reduced pension finance costs due to a lower pension accounting deficit at the beginning of the year compared to the beginning of the previous year, partly offset by higher long leave finance costs arising from volatility in market driven assumptions.

ENQUIRIES

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John Lewis Partnership

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GLOSSARY OF FINANCIAL AND NON-FINANCIAL TERMS

This glossary gives an explanation of financial and non-financial terms included in the results statement

TERM	DEFINITION
Above market reward	These are Partner benefits which are higher than those typically paid by our competitors, as a result of the Partnership model. Above market reward principally includes pensions, long leave, Partner discount and costs of our democracy. This measure is important for adjusting our financial Key Performance Indicators (KPIs) to be able to assess them against our competitors.
Adjusted cash flow	Operating profit before PB, exceptional items, depreciation and amortisation, but after IFRS 16, interest and tax. 2018/19 definition, which is before IFRS 16, is operating profit before PB, exceptional items, depreciation, amortisation and average one year lease payments, but after lease adjusted interest and tax. This measure is important to assess our Debt Ratio.

	2019/20 £m	2018/19 £m
Operating profit before PB and exceptional items	231.5	227.0
add back:		
Depreciation, amortisation and write-offs	552.7	414.4
Average one year lease payments	-	190.7
less:		
Lease adjusted interest	(145.1)	(175.1)
Tax	(18.1)	(39.2)
Adjusted cash flow	**621.0**	**617.8**

TERM	DEFINITION
Average NMP hourly rate of pay	Average non-management Partner hourly pay for Partners on permanent contracts and aged 18 years old and over.
Capital investment	Cash outflows in relation to additions to tangible fixed assets (property, plant, and equipment), and intangible assets (IT software) recognised on the balance sheet.
Debt Ratio	Comparison of our Total net debts to Adjusted cash flow. This measure is important as it provides an indication of our ability to repay our debts.

	2019/20 £m	2018/19 £m
Total net debts	2,451.2	2,682.2
Adjusted cash flow	621.0	617.8
Debt ratio	**3.9**	**4.3**

TERM	DEFINITION
Exceptional items	Items of income and/or expense which are significant by virtue of their size and nature are presented as exceptional items. The separate reporting of exceptional items helps to provide an indication of the Partnership's underlying business performance.
Full-time equivalent (FTE)	The hours worked by one Partner on a full time basis. The concept converts the hours worked by several part-time Partners into the hours worked by full-time Partners to enable like-for-like comparisons of resource.

TERM	DEFINITION
Gross sales	Total sales of goods and services including sale or return sales and VAT, net of Partnership discount. | | **2019/20 £m** | **2018/19 £m** | Gross sales | 11,544.8 | 11,724.1 *less:* Sale or return sales | (275.6) | (259.0) Value added tax | (1,117.9) | (1,148.4) **Revenue** | **10,151.3** | **10,316.7**
IFRS 16 adjustments	The 2019/20 year end is the first year in which the Partnership has adopted the new accounting standard IFRS 16 – Leases. The adjustments required to reflect the pre-IFRS 16 profit measures are set out below. The Partnership adopted the modified retrospective approach on transition to IFRS 16 and therefore the 2018/19 year end measures have not been restated. | | **2019/20 £m** | **2018/19 £m** | Add back of operating lease rental expenses | 185.5 | - IFRS 16 depreciation expenses | (134.7) | - **IFRS 16 operating adjustment** | **50.8** | **-** IFRS 16 interest charges | (103.5) | - **IFRS 16 adjustment** | **(52.7)** | **-**
Impairment	A reduction in the value of an asset due to fall in the expected future economic benefits generated by the asset.
Like-for-like (LFL) sales	Comparison of sales between two periods in time (e.g. this year to last year), removing the impact of branch openings and closures. Waitrose like-for-like sales excludes fuel.
Liquidity	The cash and undrawn committed credit facilities we have available to us, which we can use to settle liabilities as they fall due.
Market comparator	John Lewis - British Retail Consortium (BRC) market. Waitrose - Kantar Worldpanel.
n/m	Not meaningful.
Non-management Partners (NMP)	Level 9 and Level 10 Partners, excluding Assistant Section Managers in Waitrose.

TERM	DEFINITION
Operating profit before PB, exceptionals and IFRS 16	Operating profit before PB, exceptionals and IFRS 16. This measure is important as it allows for a comparison of underlying operating performance.

2019/20	Waitrose £m	John Lewis £m	Group £m	Partnership £m
Operating profit/(loss) before PB, exceptionals and IFRS 16	212.7	39.5	(71.5)	180.7
IFRS 16 operating adjustment	29.8	24.5	(3.5)	50.8
Operating profit/(loss) before PB and exceptionals	242.5	64.0	(75.0)	231.5
Exceptional items	(30.6)	(101.0)	239.0	107.4
Operating profit/(loss) before PB	**211.9**	**(37.0)**	**164.0**	**338.9**

2018/19	Waitrose £m	John Lewis £m	Group £m	Partnership £m
Operating profit/(loss) before PB, exceptionals and IFRS 16	203.2	114.7	(90.9)	227.0
IFRS 16 operating adjustment	-	-	-	-
Operating profit/(loss) before PB and exceptionals	203.2	114.7	(90.9)	227.0
Exceptional items	(4.0)	(22.1)	28.2	2.1
Operating profit/(loss) before PB	**199.2**	**92.6**	**(62.7)**	**229.1**

TERM	DEFINITION
PB	Partnership Bonus
Profit before PB, tax, exceptional items and IFRS 16	Profit before PB, exceptionals and IFRS 16. This measure is important as it allows for a comparison of underlying profit performance.

	2019/20 £m	2018/19 £m
Profit before PB, tax, exceptional items and IFRS 16	122.6	160.0
IFRS 16 adjustment	(52.7)	-
Profit before PB, tax and exceptional items	69.9	160.0
Exceptional items	107.4	2.1
Partnership Bonus	(30.9)	(44.7)
Profit before tax	**146.4**	**117.4**

TERM	DEFINITION
Profit per average FTE	Profit before PB and exceptional items but after IFRS 16 and tax, adjusted for above market reward, divided by the average number of full-time equivalent Partners. 2018/19 definition is before IFRS 16. This measure is important as it provides the best indication of Partner productivity.

	2019/20 £m	**2018/19 £m**
Profit before PB, tax and exceptional items	69.9	160.0
Tax	(18.1)	(39.2)
Above market reward	160.0	183.3
	211.8	**304.1**
Average FTEs	**59,700**	**60,800**
Profit per average FTE (£k)	**3.5**	**5.0**

Profit per average FTE declined by £1.5k, with £0.9k due to the impact of the adoption of IFRS 16 in 2019/20.

TERM	DEFINITION
Return on invested capital (ROIC)	Operating profit before PB and exceptional items, but after IFRS 16, adjusted for above market rewards and a notional tax charge (at the statutory marginal tax rate for the year), as a proportion of average operating net assets. 2018/19 definition, which is before IFRS 16, is operating profit before PB and exceptionals, adjusted for above market rewards, a notional interest on leases (at a 5% interest rate on lease liabilities) and a notional tax charge (at the statutory marginal tax rate for the year), as a proportion of average operating net assets, adjusted to reflect the value of leased assets. The measure is important as it demonstrates how effectively we are utilising our assets.

	2019/20 £m	**2018/19 £m**
Operating profit before PB and exceptional items	231.5	227.0
Above market rewards	160.0	183.3
Notional interest on leases	-	105.1
Notional tax	(74.4)	(97.9)
	317.1	**417.5**
Net assets	2,543.5	2,620.0
add back:		
Borrowings and overdrafts	762.6	1,047.2
Finance lease liabilities	-	21.1
Pension deficit (net of deferred tax)	378.0	404.7
IFRS 16 lease liabilities	2,094.9	-
Present value of operating leases	-	2,076.4
Operational cash	489.0	479.8
less:		
Cash and short term investments	(915.5)	(982.2)
Operating net assets	**5,352.5**	**5,667.0**
Average operating net assets	**5,512.2***	**5,684.5**
ROIC	**5.8%**	**7.3%**

* includes increase in opening net assets of £4.8m on adoption of IFRS 16

ROIC declined by 1.5%, with 0.8% due to the impact of the adoption of IFRS 16 in 2019/20.

TERM	DEFINITION
Revenue investment	Investment spend recognised directly in the income statement.
Total net debts	The Partnership's borrowings and overdrafts, lease liabilities, derivative financial instruments and IAS 19 pension deficit (net of deferred tax), less any liquid cash, short-term deposits and investments. The 2018/19 figure has not been restated for IFRS 16 and instead includes the comparative figures for finance lease liabilities and the present value of future rentals payable under operating leases calculated using a 5% discount rate.

	2019/20 £m	**2018/19 £m**
Borrowings and overdrafts	762.6	1,047.2
Finance lease liabilities	-	21.1
Derivative financial instruments	17.7	2.5
Pension deficit (after deferred tax)	378.0	404.7
IFRS 16 lease liabilities	2,094.9	-
Present value of operating leases	-	2,076.4
Liquid cash, short-term deposits and investments	(802.0)	(869.7)
Total net debts	**2,451.2**	**2,682.2**