

## Combination of J Sainsbury plc and Asda Group Ltd

*Proposed combination of J Sainsbury plc and Asda Group Limited*

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**THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION**

30 April 2018

Further to the announcement made on 28 April 2018, J Sainsbury plc ("**Sainsbury's**") and Walmart Inc. ("**Walmart**") are pleased to announce that they have agreed terms in relation to a proposed combination of Sainsbury's and Asda Group Limited ("**Asda**"), a wholly owned subsidiary of Walmart, to create an enlarged business (the "**Combined Business**") (the "**Combination**").

### **Key highlights**

The Combined Business will create a dynamic new player in UK retail with an outstanding breadth of products, delivered through multiple channels. Enhanced scale and a strengthened balance sheet will deliver a great deal for customers, colleagues, suppliers and shareholders of both businesses. The retail sector is going through significant and rapid change, as customer shopping habits continue to evolve. This has led to increased competition across grocery, general merchandise and clothing, as customers seek ever greater value, choice and convenience. Bringing Sainsbury's and Asda together will result in a more competitive and more resilient business that will be better able to invest in price, quality, range and the technology to create more flexible ways for customers to shop.

The Combination will result in Walmart holding 42 per cent<sup>[1]</sup> of the issued share capital of the Combined Business and receiving £2.975 billion of cash (subject to customary completion adjustments), valuing Asda at approximately £7.3 billion<sup>[2]</sup> on a debt-free, cash-free and pension-free<sup>[3]</sup> basis. At the time of completion of the Combination, Walmart will not hold more than 29.9 per cent of the total voting rights in the Combined Business<sup>[4]</sup>.

### **The Combination will:**

- Create one of the UK's leading grocery, general merchandise and clothing retail groups, with combined revenues of c.£51 billion for 2017<sup>[5]</sup>
- Maintain both the Sainsbury's and Asda brands and enable them to sharpen their distinctive customer propositions and attract new customers
- Combine a complementary network of more than 2,800 Sainsbury's, Asda and Argos stores and several of the UK's most visited retail websites, to create greater choice for customers through more store formats and channels, with a combined 47 million customer transactions per week
- Enable investment in areas that will benefit customers the most: price, quality, range and creating more flexible ways to shop in stores and through digital channels, across Sainsbury's, Asda and Argos. We expect to lower prices by c.10 percent on many of the products customers buy regularly. Generate net EBITDA synergies, post investments in price, across the enlarged group of at least £500 million. These synergies are comprised largely of buying benefits, opening Argos in Asda stores and operational efficiencies. There are no planned Sainsbury's or Asda store closures as a result of the Combination
- Deliver benefits to the Combined Business through a close relationship with Walmart, both as a strategic partner and long-term shareholder, allowing the business to share knowledge and technology developments between Walmart, Sainsbury's and Asda
- Offer more opportunities for over 330,000 colleagues at all levels within the enlarged group, drawing on the shared values and heritage of both businesses
- Create significant opportunities for suppliers to develop differentiated product ranges, become more streamlined and to grow their businesses as the Combined Business grows
- Deliver substantial value creation for shareholders of Sainsbury's, through double digit EPS accretion and low double digit ROIC by the second full financial year post-completion
- Reduce Sainsbury's lease-adjusted leverage, benefiting from Asda's high freehold property ownership<sup>[6]</sup> and pension-free balance sheet, protecting the interests of hundreds of thousands of Sainsbury's and Asda pension holders
- Be highly cash generative, enabling a faster de-leveraging profile. The Combined Business is expected to have an investment grade credit profile on completion

Walmart will be a long-term shareholder and partner and will leverage its global scale and investment to support the Combined Business. Upon completion, two Walmart representatives will join the Board of the Combined Business as nonexecutive directors.

The Combined Business will be chaired by the Sainsbury's Chairman and led by the Sainsbury's CEO and CFO. Asda will

continue to be run from Leeds with its own CEO, who will join the Group Operating Board of the Combined Business.

The Combined Business will be run by the best leaders from both businesses, supported by highly capable Sainsbury's and Asda colleagues.

### **Asda current trading**

During the first quarter ended 31 March 2018, Asda delivered its fourth consecutive quarter of positive like-for-like sales growth as its offer continued to resonate with customers. Asda's disciplined focus on Every Day Low Cost enabled it to return to profit growth in the first quarter[7].

In the financial year to 31 December 2017, Asda saw a 2.6 per cent growth in estimated sales to approximately £22.2bn and a return to positive like-for-like growth for the full year. This was driven by a return to volume growth in own label grocery and fresh food, supported by price and quality investments.

Asda also experienced strong growth in online, both groceries and clothing, driven by improvements in customer proposition and customer experience.

Investments in price and overall customer proposition led to a planned reduction in operating margin for the year to 31 December 2017. This resulted in Asda Operating Profit of approximately £720m (2016: £845m)[8]. Free cash flow generation continued to be strong in 2017.

The Asda Group Limited financial information for the financial year to 31 December 2017 mentioned here are unaudited estimates and subject to change. Upon completion of the audit as of and for the year ended 31 December 2017, the Asda Group Limited financial statements will be filed with Companies House and publicly available at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk).

### **Commenting on the Combination, David Tyler, Chairman of Sainsbury's, said:**

*"We believe that the combination of Sainsbury's and Asda will create substantial value for our shareholders and will be excellent news for our customers and our colleagues. As one of the largest employers in the country, the combined business will become an even greater contributor to the British economy. The proposal will bring together two of the most experienced and talented management teams in retail at a time when the industry is undergoing rapid change. We welcome Walmart as a significant shareholder and look forward to working closely with them."*

### **Commenting on the Combination, Mike Coupe, Chief Executive Officer of Sainsbury's, said:**

*"This is a transformational opportunity to create a new force in UK retail, which will be more competitive and give customers more of what they want now and in the future. It will create a business that is more dynamic, more adaptable, more resilient and an even bigger contributor to the UK economy. Having worked at Asda before Sainsbury's, I understand the culture and the businesses well and believe they are the best possible fit. This creates a great deal for customers, colleagues, suppliers and shareholders and I am excited about the opportunities ahead and what we can achieve together."*

### **Commenting on the Combination, Judith McKenna, President and Chief Executive Officer of Walmart International, said:**

*"This proposed merger represents a unique and bold opportunity, consistent with our strategy of looking for new ways to drive international growth. Asda became part of Walmart nearly 20 years ago, and it is a great business and an important part of our portfolio, acting as a source of best practices, new ideas and talent for Walmart businesses around the world. We believe this combination will create a dynamic new retail player better positioned for even more success in a fast-changing and competitive UK market. It will unlock value for both customers and shareholders, but, at the same time, it's the colleagues at Asda who make the difference, and this merger will provide them with broader opportunities within the retail group. We are very much looking forward to working closely with Sainsbury's to deliver the benefits of the combined business."*

### **Commenting on the Combination, Roger Burnley, Chief Executive Officer of Asda, said:**

*"The combination of Asda and Sainsbury's into a single retailing group will be great news for Asda customers, allowing us to deliver even lower prices in store and even greater choice. Asda will continue to be Asda, but by coming together with Sainsbury's, supported by Walmart, we can further accelerate our existing strategy and make our offer even more compelling and competitive."*

*"From my six years with Asda and ten years with Sainsbury's, I know first hand that both organisations are fortunate to employ some of the most talented and customer-focused colleagues in this market and I am excited by the opportunity of the two coming together."*

## **Analyst presentation and conference call details**

Sainsbury's will host a presentation for analysts and investors at UBS, 5 Broadgate, London, EC2M 2QS, with a conference call and webcast at 09:30am today.

**To view the slides of the presentation and the webcast:** We recommend that you register for this event in advance. To do so, visit [www.j-sainsbury.co.uk](http://www.j-sainsbury.co.uk) and follow the on-screen instructions. To participate in the live event, please go to the website from 09:00am on the day of the announcement, where there will be further instructions. An archive of the webcast will be available later in the day.

**To listen to the presentation:** To listen to the live presentation by telephone, please dial 0800 783 0906 (or +44 (0)1296 480 100 if you are unable to use the primary number). The passcode for the event is 471 558. A transcript of the presentation and an archive recording of this event will be available later in the day at [www.j-sainsbury.co.uk](http://www.j-sainsbury.co.uk).

A presentation to the media will take place on 30 April 2018 at UBS, 5 Broadgate, London, EC2M 2QS from 11:30am to 1:00pm.

**To listen to the media conference call:** To listen to the live media conference call by telephone, please dial +44 (0)1296 311 600. The pass code for the event is 763 962.

### **For further information please contact:**

#### **Investor Relations, J Sainsbury plc**

James Collins +44 (0)7392 105 164

#### **Media Relations, J Sainsbury plc**

Rebecca Reilly +44 (0) 20 7695 7295

**UBS** (Lead Financial Adviser, Corporate Broker & Sponsor to Sainsbury's) +44 (0) 20 7567 8000

Hew Glyn Davies

Ian Hart

Anna Richardson Brown

**Morgan Stanley** (Financial Adviser & Corporate Broker to Sainsbury's) +44 (0) 20 7425 8000

Paul Baker

Nick Bishop

Anthony Zammit

**Brunswick** (Public Relations Adviser to Sainsbury's) +44 (0) 20 7404 5959

Susan Gilchrist

Laura Buchanan

#### **Investor Relations, Walmart Inc.**

Michael Brigance +1 (479) 204 5646

#### **Media Relations, Walmart Inc.**

Marilee McInnis +1 (479) 204 5099

Kevin Gardner +1 (479) 204 6143

Greg Hitt +1 (479) 204 7373

#### **Media Relations, Asda Group Limited**

Tori Pourzand +44 (0)7779 701 602

Russell Craig +44 (0)7772 226 727

**Rothschild** (Financial Adviser to Walmart) +44 (0) 20 7280 5000

Majid Ishaq

Christopher Lawrence

Lauren Cowan

**Finsbury** (Public Relations Adviser to Walmart) +44 (0) 20 7251 3801

Rollo Head

Jenny Davey

## **Terms of Combination**

Under the terms of the Combination, Sainsbury's will, in exchange for the entire issued share capital of Asda:

- Issue to Walmart (i) Sainsbury's ordinary voting shares representing 29.9 per cent of Sainsbury's enlarged ordinary voting share capital; and (ii) ordinary non-voting shares, which are convertible into ordinary voting shares (together "Consideration Shares"), such that Walmart will hold 42 per cent of the issued equity share capital of the Combined Business, based on Sainsbury's issued share capital as at 26 April 2018; and
- Pay £2.975 billion in cash to Walmart, with the ultimate cash consideration paid by Sainsbury's subject to customary completion adjustments.
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The cash element of the consideration will be covered initially by third party bank finance and, in time, replaced with longer term funding.

Based on the closing price of one Sainsbury's ordinary share of 269.8 pence on 27 April 2018, the value of the Consideration Shares expected to be issued to Walmart is approximately £4.3 billion, valuing Asda at approximately £7.3 billion on a cash-free, debt-free and pension-free<sup>[9]</sup> basis, implying an EV / FY17 EBITDA multiple of 5.8x<sup>[10]</sup>.

The interests of pension holders will be protected, with Walmart retaining the Asda defined benefit pension scheme, along with any ongoing defined benefit pension related obligations. The Combined Business will continue to operate the existing Asda defined contribution scheme.

Completion of the Combination is expected in the second half of calendar year 2019. The Combination is conditional upon, amongst other things, Sainsbury's shareholder approval, Competition and Markets Authority approval, approvals in connection with the Asda defined benefit pension scheme and other regulatory approvals. The Qatar Investment Authority, Sainsbury's largest shareholder, has confirmed its current intention to support the Combination.

Subject to certain customary exceptions, Walmart will be subject to a lock up for the first two years following completion for its full 42 per cent shareholding. In years two to four post completion, Walmart will be able to sell down to a minimum of 29.9 per cent. The lock up will expire four years after completion. Walmart will also be subject to a standstill<sup>[11]</sup> from signing to completion and for a period of two years after completion. The standstill will fall away in certain circumstances including in the context of a third party making a formal announcement under the City Code on Takeovers and Mergers (the "**Code**") of a firm offer or possible offer for Sainsbury's.

A Rule 9 waiver will not be sought for the conversion of the ordinary non-voting shares into ordinary voting shares, reflecting the fact that the ordinary non-voting shares cannot be converted into ordinary voting shares if such conversion would trigger a requirement for the holder to make a mandatory offer pursuant to Rule 9 of the Code. Accordingly, the transaction is not subject to the Code and consequently the provisions of the Code applicable to a "whitewash transaction" will not apply.

## **Overview of the Combination**

The Combined Business will bring together:

- Three well-known and trusted UK retail brands in Sainsbury's, Asda and Argos, operating a dual-brand strategy in grocery, with the scale to invest in the areas that matter most to customers: price, quality, range and more flexible ways to shop across stores and through digital channels
- A complementary portfolio of more than 2,800 stores across the UK and Ireland, a strong digital offer, and more than 330,000 colleagues, servicing 47 million customer transactions per week
- A comprehensive range of channels and formats across supercentres, superstores, supermarkets, convenience stores and digital

Sainsbury's today separately reported its full year unaudited results for the 52 weeks to 10 March 2018. Sainsbury's continues to deliver on its strategy and has reported underlying profit before tax for the period of £589 million. There is positive momentum across the Sainsbury's Group with good food performance and growth across groceries online, convenience and clothing. The Argos integration, delivery of synergies and Sainsbury's cost savings are all ahead of plan.

Asda continues to deliver against its strategy, focused on: Every Day Low Prices; enhancing the quality and value of its own brand food and George clothing; being the first choice destination for customers' every day and big day moments; further developing online and digital capability; and improving customer experience within a low-cost operating model. Continued progress has been made with four consecutive quarters of positive like-for-like growth across stores and online

as Asda's offer continued to resonate with customers. Its disciplined focus on everyday low cost enabled it to return to profit growth in the first quarter[12].

## **Compelling strategic and financial rationale for the Combination**

1. Create a leading UK retail group across grocery, general merchandise and clothing, with the benefit of enhanced scale.

The Combination will:

- Have an enhanced customer offering in the UK multi-channel retail market across grocery, general merchandise, clothing and financial services, with combined revenues of c.£51 billion for FY17
- Create a leading UK grocery business, with Sainsbury's and Asda operating as separate brands to serve the widest possible market in the UK
- Create a leading general merchandise retail group, with an established presence through Argos, Asda and Sainsbury's brands and creating additional opportunities to open Argos within Asda stores
- Bring together leading UK clothing brands, in George and Tu, creating an opportunity to sell both brands to a wider audience across the enlarged group
- Walmart will be a long-term shareholder in the Combined Business and will also be an important strategic partner, allowing the Combined Business to benefit in areas such as enhanced global buying scale and technological developments from the global Walmart portfolio
- Provide opportunities for colleagues, building on the shared values and heritage of both businesses
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2. Generate synergies that will allow for significant price investment across the Combined Business. The Combination is expected to deliver net-synergies, post re-investment in the customer offer, of at least £500 million. There are no planned store closures as a result of the Combination

- Approximately £230 million of the estimated net EBITDA synergies are expected to be realised in the first full financial year after completion, with the full £500 million net EBITDA synergies expected to be delivered in the second full financial year post-completion[14]
- The net EBITDA synergies comprise of the following elements:
  - o Approximately £350 million of the identified synergies are expected to be generated predominantly from access to better harmonised buying terms
  - o Approximately £75 million of the identified synergies are expected to be generated from property, including opportunities for Argos within Asda stores
  - o Approximately £75 million of the identified synergies are expected to be generated from operational cost efficiencies
- It is expected that the realisation of the identified synergies will require one-off exceptional operating costs of approximately £150 million
- It is also expected that incremental capital expenditure of approximately £600 million will be incurred, primarily relating to IT system migration and property opportunities for Argos within Asda stores
  - o Depreciation resulting from the IT system investment will be offset by operating cost savings when charges for access to Walmart systems cease at the end of the transitional services period
- Sainsbury's has a proven track record of synergy delivery and expects to deliver £160 million of Argos EBITDA synergies six months ahead of schedule

There is the potential for further synergies, which are unquantified at this time, including cross-selling products and services across the Combined Business, leveraging fixed assets and investment capabilities and benefits from the strategic partnership with Walmart

3. Enhance the ability of the Combined Business to invest in areas that matter most to customers: price, quality, range and more flexible ways to shop across Sainsbury's, Asda and Argos. The Combined Business will:

- Make substantial investments:
  - o In price, to benefit customers and to ensure the brands of the Combined Business are well-positioned in dynamic and highly competitive marketplaces
  - o In quality and range, to enable the businesses to offer a wide variety of high-quality grocery, general merchandise and clothing products at attractive prices
  - o In technology, to create more flexible ways of shopping across stores and through digital channels
  - o In service, by investing in colleagues to build on the shared values and heritage of both businesses and deliver best-in-class customer service

- Have complementary geographic coverage across the UK, combining Sainsbury's strength in London, the Midlands, the South of England and Northern Ireland with Asda's strength in the North of England, Scotland and Wales
- Offer a comprehensive range of channels in the UK market, including large and small stores, a leading convenience offering and leading combined online capabilities, capitalising on expertise across both businesses
  - o The Combined Business will have a strengthened ability to invest in both stores and through digital channels

#### 4. Deliver substantial value creation for shareholders of Sainsbury's

- Based on anticipated completion in the second half of calendar year 2019, the Combination is expected to result in:
  - o Double-digit earnings per share accretion (excluding the effects of implementation costs) in the second full financial year following completion
  - o Low double-digit return on invested capital (inclusive of implementation costs) in the second full financial year following completion
  - o Significant cash generation, which will further improve the deleveraging profile of the Combination and enhance distributions to shareholders
- Sainsbury's expects the Combination to strengthen its balance sheet and that its leverage position, as measured by Lease Adjusted Net Debt / EBITDAR, will be lower as a result of the Combination
  - o This will benefit from an improvement in the freehold / leasehold mix. 75 per cent of the square footage of Asda's property estate is freehold, compared with 50 per cent of Sainsbury's total estate
  - o The Combined Business is expected to have an investment grade credit profile on completion

#### **Governance and Management**

Sainsbury's intention is to remain in compliance with the UK Corporate Governance Code following completion of the Combination. The existing Sainsbury's Board members will continue to serve on the Sainsbury's Board.

Walmart will be entitled to two non-executive board seats post completion of the Combination for as long as it holds 25 per cent or more of the issued share capital of Sainsbury's and one non-executive board seat for as long as Walmart holds 10 per cent (but less than 25 per cent) of the issued share capital of Sainsbury's. In due course, Walmart representatives to be appointed to the Sainsbury's Board will enter into appointment letters on the same terms as Sainsbury's other non-executive directors.

It is the intention that, upon completion, the Combined Business will be chaired by the Sainsbury's Chairman and run by the Sainsbury's Chief Executive Officer and Sainsbury's Chief Financial Officer. The Asda Chief Executive Officer will join the Group Operating Board of the Combined Business. The Combined Business will be run by the best representatives from both Sainsbury's and Asda, with the senior management team continuing to be supported by highly capable Sainsbury's and Asda colleagues.

#### **Further details**

On 30 April 2018, Sainsbury's and Walmart entered into a merger agreement ("**Merger Agreement**"), which sets out the terms upon which the Combination will take place. The Combination will be structured as an acquisition by Sainsbury's of the entire issued share capital of Asda.

The Merger Agreement contains customary mutual warranties made by Walmart and Sainsbury's, and also contains customary pre-completion covenants in respect of the Asda and Sainsbury's businesses, including covenants to operate the respective businesses in the ordinary and usual course as carried on in the last twelve months and to refrain from taking certain actions without the other party's consent.

Under the Merger Agreement, completion of the Combination is conditional upon satisfaction or, in certain cases, waiver of the following conditions:

- Sainsbury's shareholder approval;
- Approval from the Competition and Markets Authority ("**CMA**");
- Change in control approval from the Prudential Regulatory Authority in respect of Sainsbury's Bank;
- Change in control approval from the Financial Conduct Authority ("**FCA**") in respect of certain Asda and Sainsbury's regulated entities;
- Financing of the cash consideration payable by Sainsbury's and approval from certain lenders under Sainsbury's current financing arrangements;

- Reaching agreement with the Trustees of the defined benefit Asda Group Pension Scheme to allow this scheme to remain with Walmart, along with any related defined benefit pension obligations, following completion of the Combination;
- The entry into certain ancillary agreements, including a transitional services agreement (covering predominantly IT related services), a co-operation agreement and a trade mark licence agreement; and
- Admission (as defined below) of the Combined Business to trading.

Completion of the Combination is expected in the second half of calendar year 2019. If the above-mentioned conditions are not satisfied or, where capable of being waived, waived by 30 April 2020 (or such later date as the parties may agree), either Sainsbury's or Walmart may terminate the Merger Agreement.

The Merger Agreement contains certain termination rights for each of Sainsbury's and Walmart, including in the event that: either of them determine that CMA approval will not be provided on satisfactory terms after issuance of the CMA's final report; there is a material breach of warranty; Sainsbury's financing (and approval from current lenders) is not obtained within an agreed period following announcement; the Sainsbury's Board fails to recommend the Combination or changes its recommendation prior to the Sainsbury's shareholder meeting; or a recommended takeover offer for Sainsbury's is announced (or a non-recommended takeover offer subsequently becomes recommended or unconditional) prior to completion.

In addition, Walmart may terminate the Merger Agreement if there is a material adverse change prior to the Sainsbury's shareholder meeting.

A break fee equal to 1 per cent of Sainsbury's market capitalisation as at 27 April 2018 will be payable by Walmart (in case Walmart terminates the Merger Agreement as a result of a material adverse change) or Sainsbury's (in case, amongst other things, the Merger Agreement is terminated by Sainsbury's (or Walmart) due to the Sainsbury's Board failing to make or otherwise changing its recommendation, a recommended takeover offer for Sainsbury's being announced or a non-recommended takeover offer subsequently becoming recommended or unconditional).

### **Impact on Sainsbury's shareholders**

The Merger will require the approval of Sainsbury's shareholders. A shareholder circular containing further details of the Combination, the Sainsbury's Board's recommendation in respect of the Merger, the notice of general meeting and the resolutions required to approve the Merger is expected to be sent to shareholders after publication of the CMA's final report.

It is proposed that the Combined Business be listed on the official list (the "**Official List**") of the FCA and traded on the London Stock Exchange plc's main market for listed Securities. The Combination is classified as a reverse takeover of Sainsbury's under the Listing Rules of the FCA and applications will need to be made in due course to the FCA and the London Stock Exchange for the enlarged ordinary voting share capital of the Combined Business to be admitted to the Official List and to trading on the London Stock Exchange, respectively ("**Admission**").

The eligibility of the Combined Business to be admitted to the Official List has not yet been agreed with the FCA, although a submission regarding the eligibility of the Combined Business shall be made in due course. It is expected that Admission will become effective and that dealings, for normal settlement, of the Combined Business' securities will commence on the day the Combination is completed.

Should the Combination proceed, a prospectus will be required to be published in relation to the application for Admission. In accordance with the Listing Rules and the Prospectus Rules of the FCA, such a prospectus will include audited financial statements of Asda. It is possible that the financial information contained in any such prospectus may differ from the financial information for Asda set out in this announcement.

### **Information on Sainsbury's**

Sainsbury's commitment to helping customers live well for less has been at the heart of what Sainsbury's does since 1869. Today that means making its customers' lives better and easier every day by offering great quality and service at fair prices across groceries, general merchandise, clothing and financial services - whenever and wherever they want to shop.

As its customers' lives change, so will its business. Sainsbury's acquired Home Retail Group plc, the owner of Argos and Habitat, on 2 September 2016, creating one of the UK's leading groceries, general merchandise and clothing retailers - a multi-product, multi-channel business with fast delivery networks. Sainsbury's operates over 600 Sainsbury's supermarkets and more than 800 Sainsbury's Local convenience stores, as well as over 800 Argos stores - more than 2,200 locations in total. In addition, Sainsbury's has major online channels for groceries, general merchandise,

clothing and financial services. Sainsbury's employs 185,000 colleagues across the UK and Ireland. The iconic Habitat furniture and home furnishings brand operates out of five stand-alone stores in London, Leeds and Edinburgh as well as six Mini Habitat stores in Sainsbury's supermarkets.

Sainsbury's Bank offers accessible financial services products such as credit cards, insurance, travel money and personal loans that reward customers. Sainsbury's vision is to be the most trusted retailer where people love to work and shop. Sainsbury's colleagues, strong culture and values are integral to achieving this vision and driving Sainsbury's success - now and in the future.

### **Information on Asda**

Asda is a UK retailer founded in 1949 serving around 19 million customers a week and currently employs over 146,000 people across the UK. It has a multi-format, omni-channel offering, selling its products through a network of 584 grocery stores, 18 standalone petrol filling stations and 33 Asda Living stores and also online. In addition to grocery and general merchandise, Asda also operates George, a leading UK clothing retailer by volume, with both an in-store and online offering. Asda has a significant property portfolio, of which 75 per cent of the square footage is freehold.

For the year ended 31 December 2017, Asda generated revenues of approximately £22.2 billion and operating profit of approximately £720 million (2016: £845 million)[15]. The Asda Group Limited financial information for the financial year to 31 December 2017 mentioned here are unaudited estimates and subject to change. Upon completion of the audit as of and for the year ended 31 December 2017, the Asda Group Limited financial statements will be filed with Companies House and publicly available at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk).

Asda is owned by Walmart. Walmart meets the needs of nearly 270 million customers every week, with over 11,700 retail units under 65 banners in 28 countries and eCommerce websites in various international markets. For the year ended 31 January 2018, Walmart had revenues of \$500.3 billion with operating income of \$20.4 billion[16]. As at 27 April 2018, Walmart's market capitalisation was approximately \$258 billion.

### **Accounting policies and historical financial information relating to Asda**

Asda has submitted its full year statutory audited consolidated accounts for each of the last three financial years to the UK Companies House in accordance with the UK company reporting requirements. Both Sainsbury's and Asda prepare their consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

No key differences between the accounting policies adopted by Sainsbury's and those adopted by Asda for the three years to 31 December 2016 have been identified.

A summary of Asda's results for the three years to 31 December 2016 is provided in Appendix 2 of this announcement.

### **Other**

The information contained within this announcement is inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement this inside information is now considered to be in the public domain. The person responsible for this announcement on behalf of Sainsbury's is Tim Fallowfield, Company Secretary and Corporate Services Director of Sainsbury's.

Further announcements will be made as appropriate.

### **IMPORTANT NOTICE**

*UBS Limited ("UBS"), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting exclusively for Sainsbury's and no one else in connection with the matters referred to in this announcement. In connection with such matters, UBS, its affiliates, and its or their respective directors, officers, employees and agents will not regard any other person as their client, nor will they be responsible to any other person for providing the protections afforded to their clients or for providing advice in relation to the contents of this announcement or any other matter referred to herein.*

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*Neither this announcement nor any copy of it may be taken or transmitted directly or indirectly into Australia, Canada, the Republic of South Africa, Japan, the United States or to any persons in any of those jurisdictions, except in compliance with applicable securities laws. Any failure to comply with this restriction may constitute a violation of Australian, Canadian, South African, Japanese, or US securities laws. The distribution of this announcement in other jurisdictions may be restricted by law and persons into whose possession this announcement or other information referred to herein comes should inform themselves about, and observe, any such restrictions.*

*Completion of the Combination is conditional on, among other things, the approval of Sainsbury's shareholders, approval from the Competition and Markets Authority, approvals in connection with the Asda defined benefit pension scheme and other regulatory approvals.*

*This announcement does not constitute or form part of any offer, invitation to sell, otherwise dispose of or issue, or any solicitation of any offer to purchase or subscribe for, any shares or other securities nor shall it or any part of it, nor the fact of its distribution form the basis of, or be relied on in connection with, any contract commitment or investment decision.*

*This announcement has been prepared for the purpose of complying with the applicable law and regulation of the United Kingdom and information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws and regulations of jurisdictions outside the United Kingdom.*

*This announcement does not constitute an offer of securities for sale in the United States of America or an offer to acquire or exchange securities in the United States of America. No offer to acquire securities or to exchange securities for other securities has been made, or will be made, directly or indirectly, in or into, or by use of the mails, any means or instrumentality of interstate or foreign commerce or any facilities of a national securities exchange of, the United States of America or any other country in which such offer may not be made other than (i) in accordance with the tender offer requirements under the US Securities Exchange Act of 1934, as amended, or the securities laws of such other country, as the case may be, or (ii) pursuant to an available exemption from such requirements.*

*This announcement may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "envisages", "plans", "projects", "anticipates", "targets", "aims", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts and involve predictions. Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements reflect Sainsbury's and Walmart's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to Sainsbury's or Asda, results of operations, financial position, liquidity, prospects, growth or strategies and the industry in which it operates. Forward-looking statements speak only as of the date they are made and cannot be relied upon as a guide to future performance. Save as required by law or regulation, Sainsbury's and Walmart disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements in this announcement that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement. Nothing in this announcement should be construed as a profit forecast and no statement in this announcement should be interpreted to mean that earnings per share of Sainsbury's for the current or future financial years would necessarily match or exceed the historical published earnings per share of Sainsbury's.*

*This announcement is not a prospectus and has been prepared solely for the Combination referred to in this announcement. A prospectus and circular will be published by Sainsbury's in connection with the Combination in due course.*

*Certain figures contained in this announcement, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this announcement may not conform exactly with the total figure given.*

*Except as explicitly stated, none of the content of the Sainsbury's, Walmart or Asda websites, nor any website accessible by hyperlinks on the Sainsbury's, Walmart or Asda websites, is incorporated in, or forms part of, this announcement.*

## APPENDIX 1

### SOURCES AND BASES OF INFORMATION

Unless otherwise stated in this announcement:

1. The Last Practicable Date before this announcement is 27 April 2018, except for the issued ordinary share capital of Sainsbury's, as per note 2 below, which is 26 April 2018;
2. The value of consideration is calculated using the closing price of Sainsbury's ordinary shares per the Daily Official List as at the Last Practicable Date and the issued ordinary share capital of Sainsbury's of 2,196,433,316 ordinary shares as at 26 April 2018;
3. Combined revenues calculated as Sainsbury's of £28.5 billion per the unaudited full year results for the 52 weeks to 10 March 2018 and Asda of approximately £22.2 billion for the year ended 31 December 2017;
4. Asda reported revenue of c.£22.2 billion represents Asda Group Limited reported revenue of approximately £22,220 million for the year ended 31 December 2017;
5. Asda EBITDA for the year ended 31 December 2017 of approximately £1,249 million is calculated as Asda Group Limited reported IFRS operating profit of approximately £720 million, adjusted by adding back Depreciation and Amortisation of approximately £449 million and c.£80m of charges which, under the structure of the transaction, are not expected to continue post-completion; and
6. The Asda Group Limited financial information for the financial year to 31 December 2017 referred to in this announcement are unaudited estimates and subject to change. Upon completion of the audit as of and for the year ended 31 December 2017, the Asda Group Limited financial statements will be filed with Companies House and publicly available at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk).

## APPENDIX 2

### ASDA AUDITED FINANCIALS

#### 2.1 : CONSOLIDATED INCOME STATEMENT

31st December Y/e, £m Dec-14 Dec-15 Dec-16

Revenue	23,232.4	22,374.8	21,666.3
Operating costs	(22,219.8)	(21,329.0)	(20,821.0)
<b>Operating profit</b>	<b>1,012.6</b>	<b>1,045.8</b>	<b>845.3</b>
Financial income 2.8 3.7 3.0			
Financial costs	(94.8)	(74.6)	(56.6)
<b>Profit on ordinary activities before tax</b>	<b>920.6</b>	<b>974.9</b>	<b>791.7</b>
Income tax expense	(140.5)	(154.8)	(134.5)
<b>Profit for the year</b>	<b>780.1</b>	<b>820.1</b>	<b>657.2</b>
<b>Profit for the year attributable to:</b>			
Owners of the parent	761.1	795.0	655.9
<u>Non-controlling interests</u>	19.0	25.1	1.3

**APPENDIX 2**  
**ASDA AUDITED FINANCIALS**  
**2.2 : CONSOLIDATED BALANCE SHEET**

<b>31st December Y/e, £m</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9,023.6	9,079.0	9,036.3
Intangible assets	651.4	711.2	684.0
Operating lease prepayments	49.2	47.9	45.8
Deferred tax asset	-	-	31.7
	<b>9,724.2</b>	<b>9,838.1</b>	<b>9,797.8</b>
<b>Current assets</b>			
Inventories	1,167.6	1,156.8	1,090.3
<b>Trade and other receivables</b>	<b>316.3</b>	<b>251.1</b>	<b>281.5</b>
<b>Intercompany receivables</b>	<b>2,424.1</b>	<b>2,767.7</b>	<b>2,764.0</b>
<b>Cash and cash equivalents</b>	<b>1,163.1</b>	<b>1,556.4</b>	<b>1,862.7</b>
Operating lease prepayments	1.3	1.3	1.3
	<b>5,072.4</b>	<b>5,733.3</b>	<b>5,999.8</b>
<b>Total assets</b>	<b>14,796.6</b>	<b>15,571.4</b>	<b>15,797.6</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to the shareholders</b>			
Called up share capital	783.9	783.9	-
Share premium account	568.4	564.4	-
Other reserves	437.1	441.1	441.1
<b>Cash flow hedge reserve</b>	<b>24.0</b>	<b>16.2</b>	<b>36.8</b>
Retained earnings	5,558.5	6,340.4	7,641.7
<b>Total equity attributable to the shareholders</b>	<b>7,371.9</b>	<b>8,146.0</b>	<b>8,119.6</b>
Non-controlling interests	45.3	61.0	-
<b>Total equity</b>	<b>7,417.2</b>	<b>8,207.0</b>	<b>8,119.6</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
<b>Borrowings</b>	<b>128.8</b>	<b>156.0</b>	<b>165.9</b>
<b>Employee benefits</b>	<b>711.3</b>	<b>652.8</b>	<b>920.7</b>
Deferred tax liabilities	6.4	16.3	-
	<b>898.6</b>	<b>874.4</b>	<b>1,208.6</b>
<b>Current liabilities</b>			
<b>Provisions</b>	<b>52.1</b>	<b>49.3</b>	<b>122.0</b>
<b>Trade and other payables</b>	<b>3,078.4</b>	<b>3,048.2</b>	<b>3,207.2</b>
<b>Intercompany payables</b>	<b>3,132.3</b>	<b>3,337.4</b>	<b>3,102.0</b>
<b>Income tax liability</b>	<b>53.3</b>	<b>75.4</b>	<b>64.0</b>
<b>Borrowings</b>	<b>157.3</b>	<b>9.5</b>	<b>10.6</b>
<b>Employee benefits</b>	<b>59.5</b>	<b>19.5</b>	<b>40.9</b>
Provisions	-	-	44.7
	<b>6,480.8</b>	<b>6,490.0</b>	<b>6,469.4</b>
<b>Total liabilities</b>	<b>7,379.4</b>	<b>7,364.4</b>	<b>7,678.0</b>
<b>Total equity and liabilities</b>	<b>14,796.6</b>	<b>15,571.4</b>	<b>15,797.6</b>

**APPENDIX 2**  
**ASDA AUDITED FINANCIALS**

**Cash flows from operating activities**

**2.3 : CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>31st December Y/e, £m</i>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16</b>
Profit after tax from continuing operations	780.1	820.1	657.2
<i>Adjustments to reconcile profit after tax to net cash flows:</i>	405.5	422.9	413.4
Depreciation of property, plant and equipment			
Amortisation of intangible assets	5.4	21.3	30.6
Impairment of property, plant and equipment	4.3	3.7	2.8
Financial income	(2.8)	(3.7)	(3.0)
Financial costs	94.8	74.6	56.6
(Profit)/loss on sale of property, plant and equipment	(16.1)	(25.0)	(0.7)
Tax on continuing operations	140.5	154.8	134.5
Excess contributions over pension service cost	(65.0)	(65.1)	(65.2)
Other non-cash income statement items	(0.4)	(0.7)	2.1
<i>Changes in working capital and provisions</i>	(43.2)	65.2	(30.4)
Decrease/(increase) in trade and other receivables			
Decrease/(increase) in inventories	(40.2)	10.8	66.5
Increase in trade and other payables	174.7	23.5	152.6
Increase/(decrease) in provisions	7.5	(2.8)	117.4
Increase/(decrease) in share based payment liability	(5.9)	(58.7)	30.2
Tax paid	(172.9)	(133.3)	(152.0)
<b>Net cash flows from operating activities</b>	<b>1,266.3</b>	<b>1,307.6</b>	<b>1,412.6</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment	56.5	42.4	31.0
Purchase of property, plant and equipment	(736.8)	(567.6)	(334.0)
Purchase of intangible assets	(2.1)	(40.8)	(28.5)
Interest received	2.8	3.7	3.0
<b>Net cash flows from investing activities</b>	<b>(679.6)</b>	<b>(562.3)</b>	<b>(328.5)</b>
<b>Cash flows from financing activities</b>			
Acquisition of non-controlling interests	-	-	(55.3)
Interest paid	(57.7)	(43.1)	(24.3)
Decrease/(increase) in intercompany receivables	(304.9)	(343.6)	3.7
(Decrease)/increase in intercompany payables	163.0	205.1	(235.4)
Payment of finance lease obligations	(7.1)	(11.0)	(9.5)
Dividend paid to parent	-	-	(450.0)
Dividend paid to non-controlling interest	(10.0)	(9.4)	(7.0)
Repayment of Eurobond	-	(150.0)	-
<b>Net cash flow from financing activities</b>	<b>(216.7)</b>	<b>(352.0)</b>	<b>(777.8)</b>
Net increase in cash and cash equivalents	370.0	393.3	306.3
Cash and cash equivalents at start of year	793.1	1,163.1	1,556.4
<b>Cash and cash equivalents at end of year</b>	<b>1,163.1</b>	<b>1,556.4</b>	<b>1,862.7</b>

[1] Based on Sainsbury's issued share capital as at 26 April 2018 and comprising Sainsbury's ordinary voting shares representing 29.9% of Sainsbury's enlarged ordinary voting share capital with the balance being ordinary non-voting shares which are convertible into ordinary voting shares

[2] Based on the closing price of one Sainsbury's ordinary share of 269.8 pence on 27 April 2018, being the last practicable date prior to this announcement

[3] Subject to completion of the Combination, Walmart will retain the Asda defined benefit pension scheme as part of the Combination, along with any ongoing defined benefit pension related obligations. The last IFRS reported liability for defined benefit obligations for Asda Group Limited as at 31 December 2016 was £893.5 million

[4] A Rule 9 waiver will not be sought for the conversion of the ordinary non-voting shares into ordinary voting shares reflecting the fact that the ordinary non-voting shares cannot be converted into ordinary voting shares if such conversion would trigger a requirement for the holder to make a mandatory offer pursuant to Rule 9 of the Code. Accordingly, the transaction is not subject to the City Code on

Takeovers and Mergers (the "Code") and consequently the provisions of the Code applicable to a "whitewash transaction" will not apply

[5] Based on the unaudited full year results for the year ended 31 December 2017 for Asda and the unaudited full year results for the 52 weeks to 10 March 2018 for Sainsbury's. The Asda Group Limited financial information for the financial year to 31 December 2017 included here and elsewhere in this announcement are unaudited estimates and subject to change

[6] 75 per cent of the square footage of Asda's property estate is freehold

[7] Calculated based on US GAAP for Broadstreet Great Wilson Europe Limited ("BGWE"), the top UK holding company for Asda Group Limited. Asda will announce its quarterly trading update on 17 May 2018 as part of Walmart's first quarter results

[8] Asda operating profit includes c.£80m of charges (2016: c.£75m) which, under the structure of the transaction, are not expected to continue post completion

[9] Subject to completion of the Combination, Walmart will retain the Asda defined benefit pension scheme as part of the Combination, along with any ongoing defined benefit pension related obligations. The last IFRS reported liability for defined benefit obligations for Asda Group Limited as at 31 December 2016 was £893.5 million

[10] Based on Asda operating profit of approximately £720m, after adding back depreciation and amortisation of approximately £449m, and adjusted for c.£80m of charges which, under the structure of the transaction, are not expected to continue post-completion. The Asda financial information for 31 December 2017 are unaudited estimates and subject to change

[11] The standstill provisions (among other things) will restrict Walmart from acquiring any further shares in Sainsbury's, making a general offer for all (or part) of the shares in Sainsbury's or otherwise taking any step as a result of which Walmart will become obliged or required under the Code to make any such offer, except in certain limited circumstances

[12] The Asda financial information for the first quarter ended 31 March 2018, is calculated based on US GAAP for Broadstreet Great Wilson Europe Limited ("BGWE"), the top UK holding company for Asda Group Limited

[13] Based on the unaudited results for the year ended 31 December 2017 for Asda and the unaudited full year results for the 52 weeks to 10 March 2018 for Sainsbury's. The Asda Group Limited financial information for the financial year to 31 December 2017 mentioned here and elsewhere in this announcement are unaudited estimates and subject to change

[14] Financial year of completion is based on an estimated completion date of second half calendar year 2019

[15] Asda operating profit includes c.£80m of charges (2016: c.£75m) which, under the structure of the transaction, are not expected to continue post completion

[16] Walmart figures are prepared in accordance with accounting principles generally accepted in the United States

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