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


Private Investor Seminar

Income strategies for a low rate world


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**Lessons from recent dividend
disasters**


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- 19-years experience in financial journalism
- 10 years at Investors Chronicle
- Tips Editor since April 2013

 @AlgyHall

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Sources of cash can matter as much as cash itself:

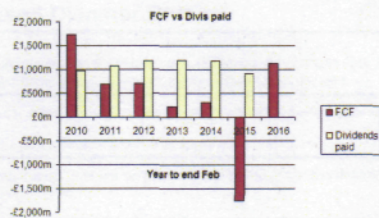
The trajectory of net debt and dividend cover give little serious cause for concern prior to the 2015 dividend cut.

Year to end Feb	2010	2011	2012	2013	2014	2015	2016
DPS	13.1p	14.5p	14.8p	14.8p	14.8p	1.2p	nil
Dividend cover	2.0	2.0	2.4	2.7	2.0	8.1	na
Net Debt	£7,829m	£6,790m	£6,838m	£6,587m	£6,587m	£8,481m	£6,110m

Source: Company, Ikonix Information/Sharepad

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But free cash flow tells a different story:



source: Company

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Where's cash coming from? Sale-and-leaseback and rising payables.

Year to end Feb	2010	2011	2012	2013	2014	2015	2016
Net Operating Cash*	£4,745m	£4,239m	£4,408m	£2,807m	£3,185m	£484m	£2,128m
Deprec**	£3,015m	£3,551m	£3,708m	£2,819m	£2,881m	£2,046m	£1,004m
FCF	£1,727m	£688m	£700m	£218m	£304m	£1,760m	£1,122m
Dividends paid	£960m	£1,081m	£1,180m	£1,189m	£1,184m	£914m	£0m
Change in payables***	£455m	£976m	£879m	£112m	£509m	£449m	£250m
Proceeds from disposals****	£1,820m	£1,906m	£1,141m	£1,351m	£588m	£244m	£350m
Net Debt	£7,829m	£6,790m	£6,838m	£6,587m	£6,587m	£8,481m	£6,110m

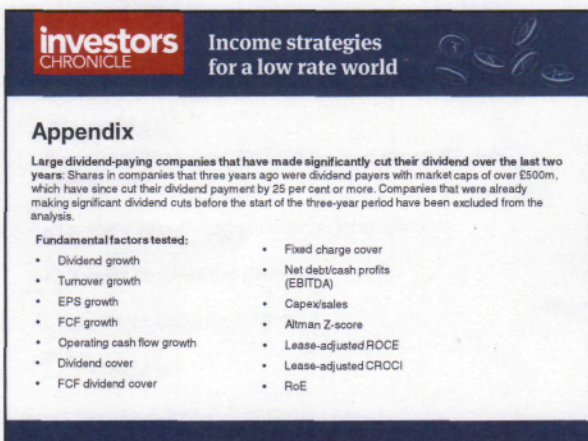
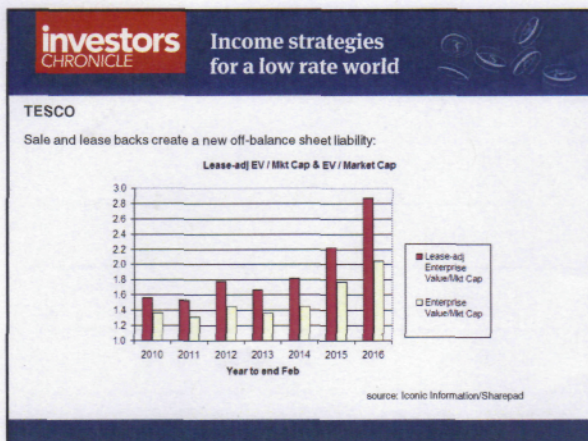
source: Company

*Tesco includes interest paid and received in net operating cash

**Purchase of: property, plant and equipment; investment property; non-current assets; and intangibles

***Excludes Tesco Bank

****Proceeds from: property, plant and equipment; investment property; and non-current assets held for sale



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The Altman Z-score aims to predict bankruptcy and was devised by accountancy professor Edward Altman in 1968. A score of below 1.8 signals distress, a score between 1.8 and 2.99 is Altman's grey zone, and companies scoring above 2.99 are considered safe.

The Z-score formula is:

$$Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + .999X5$$

Where:

- X1 = Working Capital / Total Assets
- X2 = Retained Earnings / Total Assets
- X3 = Earnings Before Interest and Taxes / Total Assets
- X4 = Market Value of Equity / Total Liabilities
- X5 = Sales / Total Assets

Tesco's total indebtedness

Year to end Feb	2016	2015	2014
Net Debt (ex Tesco Bank)	£5,110m	£8,481m	£6,697m
Discounted operating lease commitments	£7,814m	£9,352m	£9,419m
Pension deficit (IAS 19 basis (post-tax))	£2,612m	£3,885m	£2,559m
Total indebtedness	£15,536m	£21,718m	£18,675m

source: Company

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High Yield Low Risk picks

Name	TDM	Mkt Cap	Price	Prod NTM PE	DY
British American Tobacco	BATS	£77,048m	4,147p	18	3.7%
Chester	CSN	£389m	308p	17	6.2%
Headlam	HEAD	£427m	605p	15	4.1%
Hiscox	HSX	£2,807m	985p	17	4.1%
Strive	STR	£427m	334p	14	4.2%
The Go Ahead	GOG	£1,100m	2,563p	15	3.6%
XP Power	XPP	£316m	1,658p	16	4.0%

source: S&P CapitalIQ
