

Ocado: World's Largest Pure Play Online Grocery Retailer

Dan Abrahams presented his in-depth investment thesis on Ocado (London: OCDO) at European Investing Summit 2015.

Ocado is the world's largest pure play online grocery retailer. Grocery, the world's largest retail category, is moving online and the UK is at the forefront of this channel shift. Ocado is riding this wave by deploying a self-reinforcing business model, whereby its superior customer proposition is driving market share gains and economies of scale. This reduces Ocado's costs, supporting further improvements in its customer proposition. Insiders and well informed, long term shareholders hold over 40% of the outstanding shares at Ocado and the founding CEO's stake is worth more than the stakes of the CEO's of Tesco, Sainsbury and Morrisons combined. Ocado's competitors are faced with a dilemma: in the short term it is rational for them to fulfill online demand using their existing store infrastructure – but this leads them to become increasingly uncompetitive in the long term. However, Ocado remains a controversial stock. By some estimates more than 10% of Ocado's shares have been sold short and it trades on a trailing P/E of more than 250x. We are mindful of the mistakes that can result from heavy reliance on heuristics such as multiples of short term accounting profit. Dan primarily values businesses based on the cash flow they would generate if he owned them forever. On this basis, he sees Ocado as having multi-year, multi-bagger potential, with downside protected by the cash generated by its existing assets.

The following transcript has been edited for space and clarity.

John Mihaljevic: Its such a pleasure to welcome to the European Investing Summit Daniel Abrahams, Portfolio Manager at Alfreton Capital which advises a private investment fund focused on European equities. Previously Dan was a partner at Praxient Capital at the launch of that firm's first fund in 2007. Dan and his team spun out from Praxient to establish Alfreton in March of this year. Always a pleasure to have you ideas and insights for our audience and very much look forward to the idea you will present for us in the coming half hour or so. I may be back with a couple of questions following those remarks and should any of you listening have further follow up questions please feel free get in touch with us and we will pass those on to Dan. With that Dan the floor is yours. Please feel free to go ahead.

Dan Abrahams: Thank you, John, for that kind introduction. You know one reason we share our ideas is to test them out amongst smart investors. You're fantastic helping us with that and it's a real pleasure to be here.

So very briefly, who are we? We are European focused value investors. We run a research intensive process to concentrate capital into the cheapest opportunities we can find. Our strategy is long-biased with our five largest stakes typically account for about half our portfolio.

That's enough about us. Today I want to talk to you about Ocado, the world's largest pure-play online grocer. Its listed in London, a market cap of just under £2B. It pays no dividend, is yet to generate any significant cash flow for equity holders and trades on over 250x trailing earnings. The Financial Times recently reported that short interest in all four listed UK grocers has reached a record high. Some people estimate it would take more than a month's

trading for short sellers to cover their Ocado positions. So perhaps its an understatement to say our value thesis here is contrarian.

I think this newspaper quote from a couple of weeks ago sums it up. But we don't think we need to guess to answer this question. We think history already shows us the answer. So in this presentation John I want to set out the structure of the UK grocery, how the big supermarkets came to dominate it and what the implications might be for Ocado.

So some key points about this market. UK Grocery Retail. It accounts for about £175B of retail sales – so its a very large category. You know that's 80x larger than books, for example. Grocery accounts for around half of all UK retail sales. The UK is not unusual in that respect – grocery is the largest retail category in the world.

Secondly, on this chart we've broken out grocery spend by channel. You can see up at the top there online has a very small share – less than 5% of the market in 2014. This is because fulfilment is complex. Unlike other retail categories, a grocery basket contains many different products, each of which has a low price. And a grocery basket also spans three or four different temperature zones: chilled, fresh, ambient and frozen. So selling groceries online has been very difficult to get right.

You can see on this chart that grocery today is still dominated by the supermarkets. Stores of more than 3,000 square feet account for well over half of all grocery sales.

But things haven't always been this way.

Supermarkets came to Britain many years after they appeared in the US. Good sources are hard to find but this chart shows our estimate of the number of supermarkets in the UK since the 1960s. One thing all sources do agree on: once they arrived, they really took off. Supermarket numbers grew at a remarkable 22% a year for 35 years in the UK. And that growth was really driven by technology.

So here we have plotted the number of households with a car on the right hand axis with the light coloured line ... the car really transformed retailing, enabling consumers to shop at large, out of town supermarkets with a vast range of products sold under one roof. And for grocery in particular, owning a freezer was also essential ... so here we've shown freezers in the UK also on the same axis, in dark grey. So its really these two technologies that were critical in driving the channel shift in favour of the supermarkets. But as you know we're not tech investors.

We focus on microeconomics. And there are two microeconomic insights that are essential in the history of grocery retailing in understanding how supermarkets came to dominate. The first is understanding "what customers want". This survey data is from 2012, it's a Nielsen survey. But those same factors of convenience, price, freshness and range have topped customer wish lists for generations. When compared to walking down to the grocer, the greengrocer, the fishmonger, the ironmonger, the butcher, the baker every day ... a drive to the supermarket once a week offered lower prices, unbeatable range, better quality and greater convenience. And it was the supermarket's unbeatable customer proposition on these key metrics that set off a second important micro-economic concept: a virtuous circle of growth.

Their superior customer proposition resulted in market share gains and economies of scale, which reduced their average unit costs. The supermarkets could then reinvest this in further

improving price, range and convenience ... driving further share gains. When compared to independent store keepers, supermarkets achieved higher fixed asset turns, faster stock turns, greater revenues per employee, better payment terms, lower wastage and vast buying power ... and for almost fifty years they steadily drove tens of thousands of small, independent stores out of business.

Now critically here: a supermarket is not a particularly complicated technological concept but most independent shop keepers were unable to change their business model to compete with this new way of doing things before it was just too late ... and we see this as explaining the dominance of the Big Four supermarket groups today.

Sainsbury and Tesco were among the first in the UK to introduce self-service. Sainsbury 1950, Tesco '56. Sainsbury's market share has more than tripled since the '60s; Tesco's has quadrupled - and Tesco is now the market leader with over 27% of the market.

Now Ocado with less than 1% market share doesn't even show up on this chart - but our thesis is that technology is again driving a channel shift in grocery retailing and that the incumbents - this time the supermarkets rather than the independent shop keepers - will be unable to change their business model to compete effectively with a pure play operator like Ocado.

So let's take a closer look at Ocado. Firstly, just to explain how it creates value. Secondly, I'll look at why the incumbents can't just replicate what Ocado is doing. And then finally I'll wrap up this presentation looking at management alignment and valuation. So how does Ocado create value?

We like to keep things simple so let's look at three main drivers of returns: revenue minus costs over capital employed. So first of all, revenues.

A familiar concept in online retail: the long tail. The concept here is that given a large population and low inventory costs, demand typically exhibits a very long tail of low-volume items at the end of the demand curve. You can see on this chart that Ocado now stocks more items than most of the competition - and more than twice that of a typical supermarket. It's actually quite hard to build a long tail in grocery. Many items have a finite shelf life, making the costs of holding inventory prohibitively costly, but as Ocado builds scale in very dense facilities, the more range it can offer its customers whilst still avoiding high wastage costs. Today Ocado's wastage costs are 0.7% of revenue - that's less than half that of the supermarket groups. And Ocado continues to invest in range to improve the customer proposition. Ocado has scope to extend its range beyond 100,000 items. Importantly, this long tail - particularly those products that are only stocked at Ocado - helps Ocado navigate price competition in the industry. For some items in that long tail, Ocado faces no competition.

A second source of revenue advantage for Ocado is commercial income. This chart includes two main revenue lines: The first that we've included here is media income - similar to the income a supermarket receives for positioning products on prominent shelves on gondola ends. Except on a website the opportunity is far greater. Take an example, baby food promotion - only relevant to a few customers, but in-store that promotion has to compete with products that have much broader appeal. On a website, that situation is very different as each customer can have a personalised shopping experience. For example Ocado can tailor a baby food promotion so that it only reaches those customers that started purchasing nappies (or diapers) three months previously. That means a higher return on promotional spend for

suppliers, more targeted promotions for customers and higher revenues for Ocado.

The second revenue line item that we've included in this chart is technology income – or the revenue earned by powering third party websites. For example, Ocado provides online fulfilment for Morrisons, another supermarket chain in the UK, under a 25 year contract. This enables Ocado to spread R&D costs across a larger revenue base. Ocado is currently in negotiations to provide online fulfilment solutions to retailers outside the UK and management have guided that they expect to announce an international arrangement within the next few months. Japan, for example, with high customer and GDP density and a fragmented grocery industry strikes us as a particularly interesting opportunity for an online grocer like Ocado.

On costs, given the press comment it may surprise you that Ocado also enjoys some significant advantages. This shows the significant increase in Ocado's pick efficiency, or fulfilment efficiency, over the past 8 years. By this year, its second generation fulfilment centre was achieving more than 170 items per labour hour as a pick rate and Ocado is targeting more than 200 items picked per labour hour from its 4th generation centre, which comes online during 2017. That's a doubling in efficiency within a decade.

What does this actually mean in terms of costs? Well 150 items per hour – what Ocado was achieving during the first half of 2015 – is roughly the equivalent of three £100 orders being fulfilled every labour hour. So with labour costing about £12 per hour, Ocado is spending around £4 of labour per order, that's excluding delivery. This compares to a traditional supermarket which spends around 10% of revenues on labour ... so Ocado is already achieving a 60% labour cost advantage here. If Ocado reaches its target of 200 picks per hour, that labour advantage will extend to a 70% saving.

Competitor data is hard to obtain but we estimate this efficiency is well ahead of Tesco's fourth generation dark store, which opened a couple of years ago. We estimate this picks fewer than 100 items per labour hour at peak utilisation. In terms of those definitions of pick rates, its quite important here to understand that when Ocado defines picking rates it includes all the labour associated with fulfilling a customer order – right from receipt of goods from the supplier through to loading the picked order onto the delivery van. However, when Tesco defines picking rates it excludes the labour in getting the products from the supplier to the dark store, all those costs that sit further up Tesco's supply chain. We don't think many people analysing these stocks appreciate this difference in definition ... and the supply chain is actually another source of cost advantage at Ocado.

This is a simplified diagram of the supply chain for a typical supermarket group and for Ocado. A typical supermarket will have separate depots for goods stocked at different temperatures. The goods are received, they are broken down and then shipped to regional distribution centres. Here they are reorganised and shipped to the stores where they are unpacked and stacked onto the shelves. Pickers then pick the goods from the shelves for delivery to customers. The majority of online grocery in the UK is fulfilled in this way.

Ocado's supply chain is much shorter. Suppliers deliver directly to the fulfilment centre which stocks products across all temperature zones in one location. Customer orders are then picked at this same location, using many automated rather than manual processes and they are then delivered to customers – sometimes changing to a smaller vehicle en-route at a cross-docking facility. This means that Ocado can get fresh food into your kitchen faster than a supermarket can get it into their stores.

We expect Ocado's average cost per order to continue to fall as it gains scale. As drop density rises, average delivery costs should fall. The average cost of delivering to 20 customers on a one mile route is clearly less than delivering to only 1 customer on a one mile route. As Ocado builds more fulfilment centres, average costs should also fall. If you are trucking an average of 20 miles to reach your customer is more expensive than trucking only 2 miles to reach your customer. As Ocado fills capacity and inventory turns continue to accelerate, Ocado's shrinkage advantage over supermarkets should grow and fixed cost leverage should improve. And lastly on this list, technology. That's largely a fixed cost that should fall as a percentage of revenue as the business scales – and which should also deflate in absolute terms, unlike say real estate or labour which goes up over time. So those are some line items that differentiate Ocado's revenues and costs from the competition. Let's take a look at capital employed.

Real estate is a very significant capital cost for most grocery retailers. Here we've taken Ocado's latest fulfilment centre and a typical supermarket and we've compared weekly sales and annual rent per square foot. You can see the gap that Ocado enjoys here is large. The assumptions we've used for Ocado here in the footnote, are probably unduly prudent but at its simplest, the point here is that when compared to a supermarket, Ocado clearly occupies less real estate in less expensive locations.

The supply chain I mentioned earlier also has some additional implications for capital employed. Ocado's efficient supply chain means Ocado turns inventory faster than a supermarket. The chart on the left shows revenue as a multiple of average inventory for Ocado and its competitors. On the right you can see the impact of Ocado having less capital employed. To put some numbers to that, today Ocado achieves revenues of 3.4x capital employed – that's already approximately 10% greater than a supermarket.

Importantly, Ocado's figures here are understated as it has spare capacity in its current fulfilment centres which it is growing into. At full utilisation, the difference in asset turn at Ocado versus a supermarket should be far greater than last reported. This growth also throws off cash as Ocado's business model has negative working capital. Again, the numbers we've used here are our prudent estimates. As Ocado improves over time, Ocado's asset turns may well pass beyond these levels ... but these higher asset turns mean Ocado can earn a higher return on capital than a supermarket even if it tolerates much lower margins.

So let's go back to what customers want, what a customer wants, to see how Ocado stacks up. Convenience: over 50% of Ocado orders are made on a mobile or tablet and it offers more delivery slots than its competitors. On price: Ocado maintains a price match promise, whereby it matches the market leaders' online prices on equivalent products. We've already shown how Ocado's shorter supply chain results in fresher food and greater range to every customer every time they visit, but Ocado also offers greater availability, fewer substitutions and greater order accuracy. It is perhaps no surprise that Ocado has been ranked top in "Which?" independent customer surveys every year for the last 6 years ... And with all the data that Ocado has on its customers, and the ability that Ocado has to personalise the shopping experience through a website, Ocado's customer satisfaction is likely to further improve over time.

And we see that this has kicked off Ocado's own virtuous cycle of growth as improving utilisation and efficiency contributes to falling average unit costs. And whereas the incumbent grocers have reported flat or declining revenues in recent years, Ocado's revenue growth over the last five years has averaged 18% a year – and that's with price cuts. Ocado continues to take market share within online grocery ... Now we see the incumbent

supermarkets as facing the opposite ...

... a vicious circle of decline. As online cannibalises instore revenues, they face falling sales per square foot. We are seeing store closures, a mix shift towards smaller convenience stores, declining range, destaffing, declining service and deteriorating price competitiveness. The question is why can't they just replicate what Ocado is doing. Well we think a key insight here is that it seems irrational to them for them to do so.

Here we have set out four options that incumbents could choose from when facing a shift in channel to online grocery. Now we need to be clear here what we mean by some of the terms on the page. Do nothing - well its obvious what that means - but its really not a great option. They would lose customers to competitors, returns would fall significantly. In-store pick. So that's simply having employees walk the supermarket aisles picking an order alongside customers. Most online grocery in the UK is filled in this way. Dark stores. In most cases, this is very similar to in-store pick, its just that there are no customers in the store. It's a dedicated facility for online orders. In some cases, these stores have more automation.

An Ocado Customer Fulfilment Centre down there at the bottom. That's very different. An Ocado fulfilment centre is vast - at over £1.2B of revenues, its fourth generation CFC will do as much business as 30 or 40 [45] supermarkets. They involve a high level of automation and upfront R&D, they have a different supply chain and they require large volumes to operate economically. We think its actually most rational for the supermarkets to fulfil orders with in-store pick or dark stores rather than to replicate Ocado's model. Lets look at why that's the case.

The revenues from instore pick exceed the variable costs, so an instore pick model allows a supermarket to maintain revenues and to make a positive contribution to its fixed cost base. Of course it also makes use of the supermarkets existing supply chain and store network and so requires very little additional capital and can be ramped up very quickly. This is a rational option for supermarkets in the short term, whilst online penetration is still very low. But on a total cost basis, in-store pick is a loss making activity. There is quite a lot of confusion about this but think about grocery retail: it is a low margin business. A traditional supermarket makes £3-4 of profit on a £100 shopping order when the customer spends over an hour doing the picking and driving themselves. It is not feasible to profitably pick and deliver a customer's order manually in-store using an existing store network. But from the perspective of a supermarket with an existing store network, it still makes more sense in the short term than building an Ocado CFC.

That's because an Ocado-like CFC faces many years of development and fixed costs, a lot of incremental capex when compared to a dark store or in-store pick and many years of losses - either as the facility ramps up or as the supermarkets cannibalise their declining store estate. So when viewed through the eyes of a supermarket, building an Ocado CFC seems like a big risk and a big cost for tackling online retail ... which to date has only been a small opportunity

So given the efficiencies we have described a CFC may be rational for an executive looking decades into the future ... but its not rational for the average FTSE 100 CEO, whose tenure is typically less than 6 years. They are not incentivised to embark on loss making activities with significant execution risk that benefit the business only on a time horizon that extends beyond that six year tenure - and in the near term the supermarkets have many other big issues to contend with: the rise of discounters, rising wages, price wars and in some cases an international retreat. But the short term optimisation that is rational for a supermarket is in

stark contrast to the long term alignment we have at Ocado.

This is Tim Steiner, Ocado's founder and CEO. He owns approximately 5% of the company, worth around £100m at today's prices. Tim's ownership stake in Ocado is worth more than the ownership stakes of the CEOs of Tesco, Sainsbury and Morrisons combined and Tim's growth incentive plan pays out in full if Ocado delivers total shareholder returns that outperform the FTSE 100 by 20% a year for five years.

The man on the left is Jorn Rausing, a director of Tetra Laval, a business founded by his grandfather which today is the world leader in food packaging, processing and distribution. Not only does Mr Rausing and family know a lot about the grocery value chain but he has been a Board Member and major shareholder in Ocado since 2003. Today Rausing family trusts own just under 12% of the company.

Neill, on the right, is Ocado's legal and business affairs director and has been closely involved with Ocado since it was founded in 2000. Neill's shareholding is worth 14x his 2014 cash remuneration and – as you may have guessed – is worth more than the ownership stakes of the CEOs of Tesco, Sainsbury and Morrisons combined. Interestingly, the largest shareholder in Ocado with just under 13% of the register is Nick Roditi, a remarkable investor returning 39% per year during the 1990s. He is a long term investor holding his Ocado stock since IPO in 2010. And by coincidence he studied at Cape Town University at the same time as Neill Abrams' father in law.

So when you add these up shareholdings, the other founders, and employees, almost 40% of Ocado stock is tightly held by long term investors that deeply understand the business. This insulates Ocado from short term market sentiment or the threat of a hostile takeover, and it enables management to take a long term approach to managing the business without needing to worry about short term earnings expectations.

Finally, on earnings, I want to touch on that valuation – and that 250x P/E ratio. At 250x+ P/E you might be assuming that all the value in Ocado lies in the hope of future growth far into the future. But that's not actually the case. Ocado has two CFCs under construction, one of which comes online in a couple of months and the next in just over a year. These will roughly double sales capacity to £3bn, shown on this page. This incremental revenue will be higher margin than the existing business because the new warehouses are more labour efficient, fixed overheads will be spread across more revenue and the increase in customers will also improve drop density and utilisation. At that kind of level of revenue, Ocado will have the capacity to support more than £100m of EBIT within a couple of years and after tax, all those earnings could come back to shareholders in dividends, because this is a negative working capital business with a modest capital base and net cash balance sheet – and therefore very high cash conversion. That would imply a very reasonable 5% dividend yield at the current market price for Ocado, after adjusting for the value of the Morrisons contract. Just to be clear, we don't expect Ocado to pay a large dividend over that time frame. We expect it to continue to invest for growth for many years ... but the point is that at the current price, you're getting the long run growth opportunity for free ...

And to give you an idea of the size of that growth opportunity, this chart sets out Ocado's last reported revenues on the far left. It then shows the cumulative revenue opportunity for Ocado should the various grocery channels migrate online. We have assumed that Ocado maintains share within online grocery in this analysis. Although Ocado should continue to take share, as it has in recent years, as a result of its virtuous circle business model. We think hypermarkets are the most vulnerable to online disintermediation so we've listed them first.

If hypermarket sales move online, and Ocado maintains share, that would imply a revenue for Ocado of 14x last years levels.

If Ocado's addressable market were to include all UK grocery, that would support on the right hand side a 30x greater revenue for Ocado, assuming no market growth. Now that seem unlikely today - but as Ocado gains scale and its average costs fall, Ocado's addressable market will increase. Smaller, more frequent deliveries become more economic - and in time this will make lower income groups, and some elements of convenience grocery vulnerable to online disintermediation as well.

We've actually seen this dynamic before with the growth of the supermarket chains.

Of course we don't know precisely where Ocado may end up and so we can't precisely articulate what it is worth today. No one can.

But what we find compelling here is the contrast between the incumbents' dilemma and Ocado's virtuous circle and that implies to us that some outcomes for this industry seem far more likely than others and that today's prices offers great asymmetry in Ocado.

Finally John, I know you always like some book recommendations. Here are three that I am sure you have heard before but they are particularly relevant to thinking about Ocado for obvious reasons and we have been dipping back into them a few times as we've building our investment case for Ocado over the last ... well over the last five years actually. And with that, I'd be happy to take your questions now or feel free to get in touch with me by email.

Mihaljevic: Thank you so much for that very insightful presentation. I have perhaps a couple of questions and then I will encourage the listeners to follow up as well. How would you compare Ocado to Amazon.com, and I don't mean as a potential direct competitor but just in terms of what you've seen within the best practices or the efficiency, the technology platform of the two companies?

Abrahams: So, the main obvious and difference is the retail categories where they're operating in and there's some really important characteristics of grocery retail that really explain why grocery retail has taken longer to come online and why it's a harder business to get right. You know if you're thinking about it shopping for, I don't know, an electronic device on Amazon, a set of headphones, you're quite happy to spend 15-20 minutes browsing, reading the reviews, picking the right headphones for you. When you're doing your grocery shop, low value items, it's less about the reviews, it's more about having a very easy interface and being able to do a large shop very rapidly. So Ocado, if you're a regular user, you can do a typical grocery shop, fifty items, a hundred pounds, and you can do that order in about three minutes, but you can't buy fifty items on Amazon in three minutes ... and that's a very different set of skills and capabilities that Ocado developed there.

The second is just thinking about the nature of grocery retail, I mentioned the different temperature zones, but if you're aggregating fifty items all at low price and you're doing that across frozen, chilled, ambient and fresh food, and its food that damages quite easily, and you don't want bruised apples or damaged tomatoes, again that's a competence that Ocado now has that Amazon is in the process of developing.

In other respects the comparison goes the other way - Ocado differentiating itself on online grocery by having 50,000 items - that's certainly not a long tail when it comes to some of the categories that Amazon are operating in, but that really goes to the challenges of having a

long tail in a category where the products have a finite shelf life.

Ocado is clear that they see their competitive advantage as residing in those categories that are characterized by very low price point items, complex baskets with lots of small items ... which is why for example someone like Boots or Marie Claire in health and beauty – Marie Claire has got an arrangement with Ocado where they provide Marie Claire's online retail channel. We understand that Boots has explored that possibility with Ocado but Ocado has ruled it out at this stage.

So there are some important differences there [versus Amazon] but of course there are some obvious similarities as well.

Mihaljevic: Dan, could you compare a bit Ocado versus let's say Tesco's online presence in terms of size and market share trends.

Abrahams: Yeah, so Tesco is far larger online than Ocado is, with about 50% share in online in the UK but that really is because Tesco was first to ramp up and it was doing instore pick and it's obviously got a national store network. But Tesco has been losing share over time whereas Ocado has been supply constrained. It [Ocado] hasn't marketed aggressively because it hasn't historically had the capacity to fulfil all of the orders it would get were it to do so. That said, Ocado has grown revenues faster than the shift to online has happened and so Ocado has been taking share in online.

Ocado specifically has about a billion of revenues last reported, about half of which is all sourced within the M25, that is the orbital motorway that runs around London, so half of their business is still just London centric. They only cover $\frac{3}{4}$ of households in the UK. When you're looking at national market share, there's a quarter of the population of the UK that doesn't even have the option of choosing Ocado, so it's important to adjust for that when thinking about the business.

You also ask about Tesco Online and how their capabilities compare to Ocado's. Well the majority of online grocery in the UK is still done by instore pick or dark stores. Tesco doesn't have any facilities that compare in pick efficiency or loading efficiency with Ocado's fulfilment centres.

When you get into the details of this – there are lots of things you can focus on but it's probably inappropriate to run through here. To take one example though, if you're operating a fulfilment centre with a fleet of vans, you can optimize efficiency of your van fleet such that your delivery costs are going to be quite low, whereas if you're doing instore pick you can't optimize your fleet in the same way because every store is going to need to have a van ... you actually need $n+1$ delivery vans [per store] so that if a delivery van is broken you're still able to fulfil a delivery. That's an example of an efficiency that comes from aggregating scale in a small number of locations as Ocado does, and it's something Tesco cannot do and is not doing.

Aggregating scale at a small number of locations also impacts that long tail because if you have inventory distributed over a vast number of stores all around the country it's very hard to offer that full range with the same availability to your customers ... unless you have some customers that are going to be fulfilled by a dark store and some customer that are not. The level of complexity that goes into that is far greater.

We have our baskets set up on each of the online grocers to know how they work and the

search functionality, the website on Ocado, is far more efficient – you know you search for minced beef on Tesco.com and it will come up with chicken as one of the suggestions – you search for beans and it actually comes up with air freshener! So the search functionality is not quite as effective as it is for Ocado.

Mihaljevic: Finally Dan, in terms of customer satisfaction with Ocado, do you have some tangible data in the form of net promoter score or something similar?

Abrahams: We really like net promoter scores. Its a tool that we use across a number of our businesses. With Ocado we don't actually have a net promoter score but as I mentioned in the slide deck, "Which?" is an independent consumer focus group in the UK, they do a survey of online grocery customers and Ocado has been the top of the "Which?" survey every year for the last six years.

Mihaljevic: Wonderful, well, we'll leave it there. Thank you so much for your time and for sharing this idea with us and with our audience.

Abrahams: Thanks John.

Mihaljevic: To all of you thank you for listening. As I indicated earlier I would encourage you to follow up with any questions to Dan on his email address and with that, goodbye.

About the instructor:

Daniel Abrahams is the Managing Partner at Alfreton Capital, which advises a private investment fund focused on European equities. Previously, Daniel had been a Partner at Praxient Capital at the launch of that firm's first fund in 2007. Daniel and team spun out from Praxient to establish Alfreton Capital in March 2015. Earlier in his career, he spent four years in M&A at Deutsche Bank and he began his career at Arthur Andersen. Daniel graduated from the University of Oxford with a First Class degree in Economics and Management and was previously the co-chair of the Value Investing Special Interest Group of the UK CFA Society.