J Sainsbury plc – Q1 Trading Statement
Wednesday 4th July 2018 – 8.45am

Mike Coupe
Chief Executive
Good morning everyone and welcome to Sainsbury's Quarter 1 Trading update call and I hope you all enjoyed the roller coaster ride last night. I am joined here today by Kevin O'Byrne our CFO and I am going to ask Kevin to run through the Quarter 1 highlights and then will hand over to you for the Q&A. Kevin.

Kevin O'Byrne
Chief Financial Officer
Thanks Mike and welcome everyone. I will take you through the key numbers. At a Group level total sales excluding fuel increased by 0.8% over the Quarter with like-for-like sales up by 0.2% against a tough comparative of 2.3% growth in Quarter 1 last year.

Grocery sales increased by 0.5% with a similar year-on-year volume trend to Quarter 4 but inflation significantly lower than in Quarter 4 and than that of our competitors. The £150 million price investment that we made in March improved our price position versus key competitors and produced encouraging changes in switching gains and in items per basket. We have seen some strong volume responses in a number of lower priced products, but we would always expect these to take time to fully feed through to off-set the deflationary impact.

Overall we are pleased with this outcome given that we additionally chose to change the timing of some key promotional activity in a crowded quarter of customer events in order to improve the return on investment on these promotions.

Within grocery we continued to see growth from our Convenience business with sales up 3.6% and online with sales up 7.3%. General merchandise moved back into sales growth despite a tough market backdrop with like-for-like growth at Argos offset by declines. And the Sainsbury's general merchandise business as we continued to reduce general merchandise space in Sainsbury's stores when we open an Argos.

As a reminder, the sales benefit of opening Argos stores in Sainsbury's is treated as new space, while the downside of reducing Sainsbury's general merchandise sales impacts like-for-like. This has now impacted more than a third of our Sainsbury's superstore space and we have now largely annualised the impact of Argos and Homebase store closures so the contribution to Argos sales growth from new space moved into positive territory in the Quarter.

Online participation in Argos stepped up another 4 percentage points year-on-year to the 58% mark. We continue to see strong growth of Fast Track collection service and delivery and we have seen our strongest ever net promoter scores as customers become more familiar with the great availability and Fast Track delivery and collection options. We remain pleased with the performance of Argos stores in Sainsbury's and we continue to see very strong growth in these stores as they mature. We now have

78 stores open for at least a year delivering average sales growth of 15% in the second year.

The clothing market remains difficult and we saw slightly stronger growth in the Quarter versus Quarter 4, whilst up against a tough comparative of 7% growth in Quarter 1 last year.

Lastly the Bank passed a key milestone this month with our credit cards business moving off the Lloyds bank platform onto our own systems. This is the last of the key product moves across and completes the major elements of the new bank programme.

So overall we made solid progress in the Quarter with good headline numbers for the general merchandise business in tough markets and from good underlying trends in the grocery business. Retail markets remain highly competitive but we remain confident both in our strategy and in the profit outlook.

We will now open up the call for your questions.

Question and Answer Session

Question 1

Charlie Muir-Sands, Deutsche Bank
Good morning guys. I have three questions please. Firstly on grocery. I wondered if you could confirm that volumes were positive in the Quarter?

Secondly, in general merchandise clearly that is a nice trend that you have got there and I note your comment about outperforming the market. I wondered if you could talk about the strength of any particular categories in particular there?

And then thirdly, I note that you have announced that you have put together your financing package for Asda. I wondered if you could talk about the terms and most specifically the interest cost that you would anticipate on those facilities? Thank you.

Answer: Mike Coupe
Maybe if I have a go at the first two and then Kevin can talk more specifically about the financing. The volumes would be slightly down year-on-year and the continuation of the trend we saw in the second half so not a return to volume growth as you have characterised it. And the point we would make and we stress is that there is about a 1.5% inflation difference between the two quarters, Quarter 4 and Quarter 1 and largely explains the difference in the headline sales performance. And as we would measure and indeed as most of you would measure it, we see that improvement in our relative price position relative to our mainstream competition.

In GM, categories like mobile have had a good period of time. We saw a lot of garden furniture and paddling pools so certainly in seasonal we have done well. And then some categories like audio and floor care have done well as well. So we are very pleased with the general merchandise performances you have highlighted and actually relative to the marketplace it is a pretty strong beat. So it shows that the overall proposition is working extremely well and we are very pleased with the growth of Fast

Track in growing at around 20% and again as indications of the world moving online is the fact that the online participation in Argos has moved up 4% so it would all point in the same direction.

Answer: Kevin O'Byrne
Charlie on the funding for the combination, we have put in two tranches of funding, one is about 3.5 years, one is for 5 years. We can't disclose the terms of that for confidentiality reasons, albeit it is probably worth saying that to some degree it is a little bit academic because the plan would be that on completion we would then refinance that and given you know the vehicle will be investment grade and a strong financial vehicle we would expect that to be at very competitive rates. Certainly the rates we have put in place for the temporary funding is very competitive. We were oversubscribed and we were very pleased with the outcome.

Charlie Muir-Sands
Great, thank you very much.

<u>Question 2</u>

James Anstead, Barclays
Good morning, just two questions from me. The first one would be, I don't know if you could just remind us, clearly there has been a benefit within the general merchandise number from the Homebase drag reducing. Can you give us some kind of idea what that drag has been in recent quarters and if that is essentially zero in the quarter that has just happened?

And secondly, might as well be the person to ask it, you mentioned early in May with the full year numbers you were still happy with the consensus I think £629 million PBT for this year. Is that still where you see the consensus and are you still happy with that number? Thanks.

Answer: Mike Coupe
Well I will ask Kevin to comment on the second point. As far as Homebase is concerned, there is about a 1% drag at its peak, which was the second and third quarter last year and it is now to all intents and purposes completely unwound.

Further answer, Kevin O'Byrne
And James on consensus yes, the consensus hasn't been updated. We don't think it would change materially if it was, but we are happy with the 629 that is in the market.

James Anstead
Okay, very clear. Thank you.

<u>Question 3</u>

Bruno Monteyne, Bernstein
Good morning. Two or three questions. The first one is, I note the amount of financing you raise is bigger than the cash component of the transaction. So you are actually raising additional debt above what you need for the deal. And Sainsbury's doesn't really have a strong record in reducing debt levels in the last few years, so why are

you raising more debt and what kind of signals does that set in terms of your deleveraging plans over the future, given you are raising more?

My second question is, if I look at the growth strategies of the different grocers in the UK, the quoted ones, Tesco's and Morrison's are going to wholesale in food related categories, they are growing at 3% total. You guys went into general merchandising and growing at zero percent like-for-like. So I would assume that these big other supermarkets are getting some buying benefits with growing at 3% like-for-like rather than the zero in their growth strategy. Are you still convinced that growing in general merchandising is a better way rather than their more wholesale oriented strategies?

And my third question is if you look at the explanation for the drop, you point a lot to the drop in like-for-like, the 1.5% you quoted and sort of saying you are in deflation or price cuts bigger than others. Whenever I sort of look at volume and price cuts in detail, whenever inflation goes up and down and consumers they are allowed quite a bit of that by doing more or less switching. So when inflation goes up they buy more private label than the reverse. When inflation goes up they buy less volumes. So normally you don't see the same impact of your deflation or inflation in the like-for-like. A lot of that gets cancelled out by the consumers. Why wouldn't you see the same, I mean the other retailers have also seen a big drop in inflation and they haven't seen the same like-for-like drop like you have. So does that argument really stack up? Thank you.

Answer: Mike Coupe
Well Kevin can answer the question on financing and I will have a go at the other two.

Answer: Kevin O'Byrne
Bruno I guess the simple answer is we just need to be prudent and make sure we have sufficient financing in place for any sort of working capital movements that might happen at the time. We are very clear on the record, our focus on generating free cash flow to one pay the dividend and cover it comfortably and two, pay down debt as evidenced by the last two years where we have paid roughly £100 million off each year. Also if you look at the gross debt, we have repaid Eddystone last year with savings of about £20 million a year in interest. So we are very clear that we will remain very disciplined on cash flow. And the new vehicle, the combination would focus initially on repaying some of that debt that we have just taken out certainly in the first 2-3 years to strengthen the balance sheet even further.

Further answer: Mike Coupe
I guess I would combine an answer for questions two and three. You would have to talk to the others about their overall growth strategy and the rights and wrongs of it. We have laid out our plans very clearly. We are adapting our business to a changing world and increasingly investing in the growth channels, online and convenience stores being two obvious examples. And if we look at the difference between our sales performance quarter on quarter, there is a one and a half percent reduction in inflation, much higher than our competitive set and you can see that in the external data. If you look to the underlying volume performance actually you would find it is remarkably similar between the mainstream grocers and so I would point you at that external data Bruno. So I am not sure I necessarily agree with the underlying premise of your question. It is quite an interesting underlying point that we have seen in the data which is, for the first time in a long time we have seen items per basket stabilising the last

quarter. Actually that is not just a short term trend that is like a 9 year trend where every year since 2009 we have actually seen the items per basket drop year on year on year. And that gives us some encouragement. It is only one quarter, but it gives us some encouragement that that particular trend might have stabilised.

And you are right there is an interaction between inflation and volume but there tends to be a lag as well. So judge us in the long term not on any individual quarter and whilst we see volume improvements in individual SKUs, and we have brought some of those out earlier on today. So a virtual doubling in sales of rump steak as a result of our price investment. It takes a while and you will see this in other competitors as well for overall volumes to come through as a result of price investments, typically a 3-6 month drag.

But I don't agree with the underlying premise of your question. If you look at the volume performance of the relative players and strip out the inflationary effects, I think you would find it is actually a lot more closer than you are actually characterising it.

Further question
Mike just following up on that you say that your items per basket has stabilised. You still have negative volume growth you said before as well. So it would indicate that you are having a decline in transactions, but at your last analyst session you sort of argued that the big thing that gave you confidence in your trading was the growth in transaction which was ahead of the other retailers. So has your transaction growth suddenly stepped back down again, and obviously with flat basket, items per basket?

Further Answer: Mike Coupe
You are talking about very marginal changes but you are right there and you got there very quickly Bruno. There has also been, we talked a little bit about this. We have made some deliberate changes in this Quarter. This has been through a huge amount of change. There isn't a single person in our stores, apart from our store managers that haven't been through or aren't currently in some form of personal consultation on their terms and conditions. And in effect we have made some choices. We won't be specific about those choices about promotions that we haven't run in this Quarter that we may or may not choose to run at a different time of year when there is less pressure on our store management implementing changes. And that would be directly related to transaction levels, but hopefully for obvious reasons if you actually pick through what we did this time last year.

So actually we have made some deliberate choices which would have had an impact on our headline performance and particularly our transaction levels. We haven't pulled that out particularly in the Statement because as I have already said, the main difference quarter on quarter, and indeed the main difference relative to our competition is that we have seen inflation fall by 1.5% and we have seen our relative price position to our mainstream competitors improve by over 1% and you can see that in any of the external data and we see it in our internal data.

Further question
Okay, but so when your Trading Director at the analyst session you organised said he would only start worrying when he saw transactions decline, although it is only one

quarter. How many quarters of declining transactions does your Trading Director need to see, back to that session, to start worrying about the trends?

Answer: Mike Coupe
I think he talked about share of transactions, but you are right, in the end transaction, well growth on any of the perameters whether it is value per item, items per baskets or transactions, are tests that we would look at constantly. There are some peculiarities in this quarter, there always are. Another example would be the fact that this quarter didn't have Mothers Day in and it did last year. We are not calling that out particularly because there are probably some upsides around weather. But we have made some deliberate choices on some promotional activity because of the amount of work that is going on in our stores. And judge us in the long term Bruno. I stand by our track record over many, many years. Of course quarters all bounce around and of course there will always be relative differences between the mainstream competition, but we believe we are making the right strategic choices for this organisation for the medium to long-term.

Answer: Kevin O'Byrne
And Bruno when Paul was referring to that, he was referring to the full financial year last year so I am guessing he is looking across a full year of trading rather than a quarter.

Bruno Monteyne
Thank you.

<u>Question 4</u>

Kiranjot Grewal, Bank of America
Morning. Just three questions from me. Firstly are you seeing any differences in the conversations you are having with suppliers since the announcement of the Asda deal? I mean particularly in regard to the larger suppliers. This is probably a long shot, but are you able to make any comments on the proposed Asda deal, how is it progressing and is it in line with your expectations?

And then lastly on the wages stepping up. How are you funding this and do you think this is going to continue the pressures on the wage front? Thank you.

Answer: Mike Coupe
We can't comment directly on suppliers and indeed as a result of the Asda transaction, our supplier relationships or the announcement of the ASDA transaction our supplier relationships can't and won't change simply because of the legal framework in which we have to operate so nothing will change until, unless and until the deal goes through. We can't comment above and beyond what is already in the public domain on the Asda transaction itself. We have said all that we can or would say on that.

And on the wage inflation, we have made a public statement that we have increased the overall wage deal for our colleagues to £110 million, but we are also looking at £200 million worth of savings in this year and we manage it in the round. So we are confident and have always been confident we can cover the inflationary pressures we get through wages. But it is important that we reset our terms and conditions to make sure that we are fit for the future. So we continue to be well ahead of the national living wage in terms of what we choose to pay our colleagues and indeed anticipate being at an industry leading rate of pay by the time we get to September. But we will absorb that in the overall scheme of things through lowering our costs in our business making ourselves more efficient.

Further question
Are you getting any comments from suppliers on the labour costs they are facing? I am just sort of thinking more along the lines of Brexit, we have seen some commentary in the press saying that it is getting tougher get certain types of labour. Are you hearing anything on that from the guys you talk to?

Answer: Mike Coupe
Well what I hear from business leaders more than anything is, we want clarity and it is pretty straight forward and I think there is a clarion call for all business leaders regardless of the shades of grey on their particular views of Brexit, that the one thing that we would all want is to have some sense of direction preferably sooner rather than later. And I think that would equally apply to businesses particularly in the agricultural sector that rely on a high level of migrant workforce, or high levels of migrant workforce to pick fruit and vegetables at particular times of year. So all of it is wrapped up in the underlying challenge which is to get to clarity on what happens next including free movement of labour and therefore the impacts that that would have on the food industry.

Kiran Nijher
Okay, perfect, thank you.

<u>Question 5</u>

Rob Joyce, Goldman Sachs
Morning guys. So just a couple from me. On the pricing level you are at now, can you quantify what that gap is versus say I don't know Tesco or whoever you are basing that comment on, that benchmarking?

And just within that, you used to say a couple of years ago that you were at your best price position versus the remaining big four competitors. So I wonder if you could give us an update on where that stands now?

And then the second area is just in terms of on the non food side. Are you seeing any of the benefit of the strengthening of the pound versus the dollar, is that coming through? And is there volume growth in that general merchandise or is it mainly currency based? Thanks a lot.

Answer: Mike Coupe
Well I will ask Kevin to comment on the second of those. I mean we don't quote an index rate to our competitors, but certainly in terms of measures we would look at, we are pretty much at price parity on mainstream goods versus our mainstream competition. And actually in my experience over the years we have held a price position relative to our competitors which is probably the best ever for a sustained period of time. So actually we feel pretty good about the changes that we have made

to our underlying pricing and believe that will have a long-term impact on the business. So hopefully that answers the question as far as I can. But as I say we don't quantify the headline basket because we all measure different things in different ways. I don't think there is any external commentary that wouldn't recognise the fact that our price position relative to our competition has improved.

On the other point, the dollar exchange rate, Kevin?

Further answer: Kevin O'Byrne
Rob, as you can imagine, it won't be a surprise to you that the margin across general merchandise is under pressure with such a competitive market. Individuals exiting the market and clearing stock etc. So that margin pressure continues and we are managing that by taking actions on sourcing, joint sourcing, actions etc from our Asian sourcing office. We hedge the dollar on a rolling 12 month basis in general merchandise. So the dollar impact comes through I think similar to the marketplace. It doesn't give us a competitive advantage or disadvantage but we are managing the margin carefully in a tough market.

Further question
And is that volume number or is there any inflation in there?

Further answer: Kevin O'Byrne
It is different by category. There is absolutely cost inflation in the numbers as well. I haven't got an exact number to share on volume growth.

Rob Joyce
Okay, thank you very much.

<u>Question 6</u>

Sreedhar Mahamkali, MacQuarie
Hi, good morning. Three questions as well please. Firstly I think Kevin you have finished your remarks talking about some good underlying trends in the grocery business. Was there anything other than the stabilising basket that you referred to later on? I am trying to understand what those good underlying trends are in Q1. That is the first one.

And the second one, do you have any view in terms of impact from shift in trade plans, i.e. your promotional calendar from Q1 to perhaps the rest of the year at some stage, the impact that might have had in Q1 would be helpful to know?

And third one, just a space growth for the year. Similar trajectory to Q1 or what should we expect? That would be helpful. Thank you.

Answer: Mike Coupe
I will ask Kevin to expand on the comments he made.

Answer: Kevin O'Byrne
In terms of things like items per basket, relative pricing position so some of the tough decisions we made to invest in the underlying value in the business are the right things

to do for the food business and we are starting to see that impacting whether it is items like issues, areas like items per basket and the relative price position which is healthy for the business.

Further question
There wasn't any consumer trends that you were picking up on yet?

Further answer: Mike Coupe
Well as you said, you can see it in the headline numbers relative to our competition. And if we look at things like net promoter scores for our pricing, we measure that every week and we see improvements in our net promoter scores as an example. So that would indicate there is some recognition. All my experience would say any relative price movement tends to take 3-6 months to come through in terms of volume increases. So we will see how that plays out over the next period of time.

It is clearly commercially confidential what we may end up doing in the next couple of quarters from a promotional point of view so I won't get drawn on an answer to the second question other than to say.

Further question
No my question was more just in terms of what might have been the impact in Q1 not when you will repeat them in the rest of the year but just direction?

Further answer: Mike Coupe
We would view that as being commercial confidential, it is material, but I won't be specific about the headline numbers because we wouldn't want our competitors getting too carried away and I will ask Kevin to come back on the space growth number.

Answer: Kevin O'Byrne
Yeah I mean you are seeing we opened relatively few stores in the quarter, one in convenience. We would expect to probably open around ten in the year. We would like to open some more but we are being very choosy on the sites and the rents that we are prepared to agree to. But it is that order of magnitude.

Sreedhar Mahamkali
Okay, thank you.

<u>Question 7</u>

Dan Ekstein, UBS
Thank you. Good morning everyone. Just a question really about the effect that the £150 million of price investments have had on your price position. I think when you announced those I spoke to you guys and you said there wasn't an objective in terms of where you would get to relative to the market in terms of pricing. It was more about just doing the right thing for the customer and for the business. But it actually seems like a lot of those price investments have pretty much dropped through into a better relative price point suggesting that perhaps there hasn't been as much of a competitive response from the rest of the industry as one might have expected. Is that how you would see things and are you surprised that it has had the effect that it has?

Answer: Mike Coupe
It is a fiercely competitive market as you know and we all watch each other like a hawk on our absolute and relative pricing. Yes I am pleased at a headline level that we have seen our relative price position improve versus our mainstream competitors. Of course that could all change next week, so we have to be careful not to get too carried away. But our objective has always been to make our business more efficient, lower our costs to serve and to find ways of reinvesting that back in our underlying proposition, not just in prices but also in service in the quality of the products that we sell and in the round, we make judgements on literally a week to week, day to day basis as to how exactly we will do that. But the fact that our relative price position has improved is encouraging. You would have to ask the others about whether or not they should or have reacted to it. But certainly any of the internal measures that we have and any external measures that we see, would suggest that our price position has improved and ultimately that should result in us being more competitive and will ultimately lead to volume improvements if we are able to maintain it.

Dan Ekstein
Okay, thanks a lot.

Question 8

Sonal Sodhi – Morgan Stanley
Yes hi, good morning. Just on the financing side, I want to understand, because I see the comments in the press you said 3.5 year and 5 year financing and then you made a comment and said this is temporarily before we finalise. So I just want to clarify is this permanent financing or is this a bridge to another finalisation?

Answer: Kevin O'Byrne
Just to be clear. It is permanent financing, it is in place. It is in place if we want to use it for 3.5 to 5 years we absolutely can. But we would envisage that probably we would do some bond issuance once we were complete and put something in on a more even longer-term basis.

Further question
So just as a follow-up, you said, so this is not like saying that we are going to go the bank route completely, there will be some mix of bank and own financing?

Answer: Kevin O'Byrne
That's right.

Sonal Sodhi
Okay, thank you so much, appreciate it.

Question 9

Nick Coulter, Citi Research
Hi, good morning. Three from me if I may please. Firstly on the £150 million investment. Are you able to talk about the sources of funding for those investments and the work you have done in the supply or value chain for the funding?

Secondly, could I just press you a little on the general merchandise performance. That does seem like a very sizeable outperformance versus a weak market. And I guess there must be some large standout cash pre-performances on a relative basis. And is that performance in part due to your mix shift of being away from Argos' historical areas of focus? So just to better understand where you have beaten the market?

And then lastly, on the various staff consultations that have been in process. Have they now all concluded or are some still ongoing? Thank you.

Answer: Mike Coupe
Yeah I mean in terms of our price investments, we would seek to recover that through the programmes we have on making our supply chains more efficient and reductions ultimately in cost of goods as a result of that. So we are working very collaboratively with our mainstream suppliers to bring down our cost for goods. So that is largely the source of funding for the price investments.

Further question
Can I ask you for any examples to bring that to light?

Answer: Mike Coupe
Not off the top of my head, but I am sure there are plenty of examples. I know that for instance we consolidated our fruit and veg volumes as one example. And we have a much more direct sourcing model for fruit and veg which has resulted in significant lowering of our cost of goods and ultimately passing that back to our customers. I mean our dairy development group would be another example where we work collaboratively with farmers on reducing their cost to serve our suppliers and ultimately their cost to serve us. So all of those things would climb their way through.

But it is literally dozens if not hundreds of projects, not any sort of silver bullet.

Answer: Kevin O'Byrne
Nick you will see less packaging for example in fruit and veg, that saving has gone into the price. We have renegotiated some of the terms of the bi-products of dairy, that has gone into the price. So it literally is across all the value chains.

Further question
It is outside of SGNA basically?

Further answer: Kevin O'Byrne
Yes correct.

Further answer: Mike Coupe
In terms of categories in growth, mobiles had a good period. Not surprising seasonal products. So we sold a hell of a lot of paddling pools and garden furniture in the last few weeks. Audio has had a good period. But I guess I would point at the overall strategy. In the end what we are trying to do is increase the points of distribution for Argos and the fact that we have got or on the way to the 250 that we talked about in stores in stores, the fact that they are growing and start making up a material part of the overall sales mix. And the fact that with the move to online we have seen the increasing participation by 4% within the Argos business and areas like FastTrack

which perform particularly well when the sun shines because people want their paddling pools now not in 3 days time, would suggest that the proposition works and that is what gives us confidence that we have made the right choice in terms of buying the Argos business. It sets us up for that future.

As far as consultations are concerned, there are two elements. One is the management teams and that process is completed. So that new structure was put in place a couple of weeks ago so we are already operating on the basis of the new management structures. For our colleague consultation we have completed the group consultation and you have probably read about that in the press. We changed a few things as a result of that consultation and our colleagues are broadly very happy with the changes we have made. We know they are into individual consultations. So every colleague has a right to three personal consultations and that is why it is a very significant management undertaking. That process will complete over the next 5 or 6 weeks. But as initial evidence to how our colleagues feel about it in their first few thousand consultations we are getting an 88% sign up rate to the new terms and conditions. So that would indicate that broadly speaking, our colleagues are pretty pleased about what we have offered them. But that process still has to be completed and the actual pay deal gets implemented in September.

Further question
Okay great, and just a quick one if I may on the general merchandise, Argos point. So basically what you are saying is that you are taking share across the categories. That this is basically due to greater distribution, convenience and not any standout performances within categories, so won't be any mix shift away from electricals into other categories?

Further answer: Mike Coupe
No, we have again made it a strategic direction that we want to change the mix within the Argos business. So for instance we are selling Sainsbury Tu clothing within the Argos business now. We are selling Sainsbury's homewares within the Argos supply chains. So over time you will see those changes coming through. The outperformance in the market is pretty significant. If you look at the general merchandise market, it is not particularly well recorded. There is not quite the same level of scrutiny that you get through things like Nielson and Kantar within the grocery market, but nevertheless the numbers that we look at would suggest that we have significantly outperformed the market. Yes we would like to change the mix. And it is all wrapped up in our overall strategy which is to increase the points of distribution, make the online offer as seamless and as friction free as it can possibly be. And actually the Argos business has recorded its best ever net promoter scores and they were already pretty high in the quarter. So again you know the relentless focus on the detail pays dividends. And it is particular the case at this time of year when the sun shines.

Nick Coulter
Great, thanks so much.

<u>Question 10</u>

James Grzinic, Jefferies

Yes good morning, two very quick ones actually just to clarify things. I was under the impression I guess from earlier in the call that part of that price cut asset had been funded by cutting back on promotional on your promotional programme, is that incorrect?

Answer: Mike Coupe
No, I mean the guide read through we have talked about already which is effectively reducing our cost of goods resulting in lower prices, we have made some deliberate choices as I said already around the timing of some promotions. In the overall scheme of things that wouldn't be particularly material relative to the investment in cost of goods and I won't be specific about what those promotions are, but I am sure that for those astute followers of Sainsbury's you can probably look at what we were doing this time last year and draw your own conclusions.

Further question
Great thank you. And second point, thank you for giving us the delta on food inflation, but can you tell us what food inflation was for you in Q1?

Further answer: Mike Coupe
We don't disclose that number. We would point you at the various market sources so you can look at Nielsen and Kantar, I am sure yourselves and work it out. I mean Nielson and Kantar does have a few anomalies in it as in it measures the average item price as opposed to inflation, deflation. But nevertheless as I said, we have lowered our prices more than our mainstream competition and we certainly see inflation lower in our business than our competition and to the question that Bruno was asking earlier, if you strip out the effective inflation you will find that the volume performance of the relative mainstream competitors is actually a lot more close than perhaps the headlines might suggest.

Further question
Great, but it is still inflation just to close this?

Further answer: Mike Coupe
Yes there is still inflation.

James Grzinic
Fantastic. Thank you very much Mike.

<u>Question 11</u>

Stewart McGuire, Credit Suisse
Morning guys. Two quick ones from me. Can you give us any idea of the quantum in the sales loss for the space that gets reallocated to Argos from the Sainsbury's supermarkets?

And then you said that you are going to open 19 new stores, Argos stores in Sainsbury's this year, that will take you to around 280. Is there any reason why we couldn't project that growth going forward into the rest of the Sainsbury's estate or is there a natural cap somewhere? And if there is a cap, can you give us an idea of what that number could be? Thank you.

Answer: Mike Coupe
Yeah, we don't disclose the amount of space that comes out. What we would say however is the least advantageous way of measuring the change for us. Because in effect we don't count the Argos sales that the new space provides in our like-for-like, but we take out the effect of the general merchandise business and the clothing business out of our like-for-likes. So it actually under represents you could argue on a true like-for-like basis. And if you looked at some other retail businesses, they have effectively attributed bringing a similar kind of change together in their underlying like-for-like. So we very deliberately as I say, do it differently and we in effect penalise ourselves at a headline level.

We will keep you updated on the number of stores. There is probably more than the 280 but you are starting to get into a sort of territory where it becomes increasingly difficult to find the right space in the right way. Inevitably you tend to do the easier ones earliest. I don't think 280 will be the final number and when we are ready to update on where we can go next we will do. It probably won't be more than 400 but it will be more than 280 just to give you an indication.

Further question
So about 350 then?

Further answer: Mike Coupe
I won't be drawn. That is not a number that is half way between is it, so I don't think you can do your arithmetic, but anyway let's not go there. But it is clearly likely to be more than 280. We think the formula works extremely well and of course one of our challenges and one of the things we are experimenting with is how small can you make the footprint. Because the smaller you can make the footprint, the more stores you can put it in. And typically we can certainly get it down to 1,000 square feet and get it to work which would be encouraging. And that is part of the experimentation we would be doing and one of the things that might lead you to be able to do more in the future. But it is too early to call exactly how you would do that and when you would do that and we will tell you next time we talk to you as to where we might take it next.

Further answer: Kevin O'Byrne
George another opportunity is the Convenience stores and the pick-ups. There is 37 of them being trialled at the moment. Clearly you would not imagine it ever being an 800 plus but it clearly can be in a lot more than 37 in due course.

Stewart McGuire
Great, thank you very much.

<u>Question 12</u>

Dusan Milo, Berenberg
Good morning. I have two questions please. The first one is just, you disclosed that concessions like-for-likes for the concessions between the second year of trading are up plus 15%. I just wanted to make sure that that is year-on-year so you are disclosing that those same concessions are up 15-20% on a like-for-like basis last year. So two year stats they are up 30%, I am just confirming that that is correct?

Answer: Kevin O'Byrne
Yes that is correct. There is a relatively small number where we have got the extra year so it is about 10 stores where we can see the third year and hence we have quoted the 15% because that is across a bigger group of stores, over 70 stores.

Further question
So okay the numbers you are disclosing now is across 70 stores?

Further answer: Kevin O'Byrne
It is about 74, yeah.

Further question
That is perfect thank you. And then the second question is, I can understand you don't want to talk about promotion and calendar effects in the quarter, but the first quarter of last year was by a mile the most difficult quarter in terms of comparatives. And if you look at your two year stacks, they are accelerating pretty materially relative to Q3, relative to Q4 on your inflation being significantly more. So is there a reason why we shouldn't be looking at your performance in terms of two year stacks is the question I guess? I mean is the same question that was asked, I am just trying to get some kind of answer.

Answer: Mike Coupe
I am not sure quite how to answer it. I mean you could look at it over 2 years, you could look at it over 3 years and we will stand by our track record over the long-term relatively speaking we have held onto more market share I don't know if you took a 5 year period than our mainstream competitors. And you know we manage the business for the long-term not for the headlines in a quarter like-for-like basis. So all the things I am talking about are broadly speaking tactical differences and help us manage the business particularly in a period of significant change. But I guess in the end you can stack it up and look at it however you choose. I am not sure I can add any more colour than the numbers we have already put out there as perhaps to give a little bit of explanation as to what differences exist between the Quarter 4 numbers and the Quarter 1 number.

Further question
Okay, I guess you can't add more on that. But I mean that's fine. And then the final question is just, I know that obviously you can't renegotiate any supplier terms as you are going through the merger process legally. But as some of your competitors have perhaps consolidating supply bases, you are talking to, are you looking to onboard new suppliers at the moment and do you see some kind of positivity in those negotiations as you talk to new suppliers?

Further answer:
You have to be very careful. So I reiterate what everybody said, we will run the business exactly as we have been running the business in the last number of years. The background noise of the potential Asda transaction will have no difference on what we were doing anyway in the way that we relate to suppliers including bringing new suppliers onboard and we have to be doubly, doubly, doubly careful that we don't do anything that prejudices our legal position so we are crystal clear with all the people

that interact with our suppliers that in no way, shape or form can the Asda transaction come into play in our discussions and negotiations. But it doesn't stop us doing all the things we do in the normal course of business and clearly regardless of the Asda transaction there is still a huge amount of change that this business needs to implement over the next period of time and as we talk about it in the face of our statement, this last quarter is probably or is the period of most change I have ever seen in this business. You don't go into a period of consultation with 130,000 colleagues without it being a significant undertaking. And that is something which should at least in part be recognising the underlying trading performance of the business.

Dusan Milo
Okay, thank you.

Closing Remarks
Mike Coupe
Thank you everybody. I think we are through. So we can all look forward to football coming home over the next few weeks. Thank you and goodbye.

End