J Sainsbury plc – First Quarter Trading Statement
Wednesday 3rd July 2019 – 8.45am

Mike Coupe
Chief Executive
Good morning everyone and welcome to the Quarter One Sainsbury's Trading Update Call. I am joined on the line by our CFO Kevin O'Byrne and I am going to ask Kevin to run through some of our Q1 highlights in a moment and then we will hand over to you for our Q&A.

So Kevin over to you.

Kevin O'Byrne
Chief Financial Officer
Thanks Mike and welcome everyone. I will now take you through the key numbers for our Q1 Trading Statement which covers the 16 weeks to the 29th June.

At a total retail level sales excluding fuel decreased by 1.2 per cent over the Quarter with like-for-like sales down 1.6 per cent. The contribution from new space was lower during the Quarter as the pace of Argos and Sainsbury's store openings slowed considerably.

Grocery sales were down 0.5 per cent. In a considerably weaker market this was a better performance relative to our competitors than Q4 with improved switching trends. We continued to gain share in premium food categories while also improving our value proposition over the Quarter, reducing prices on more than 1,000 every day food and grocery products and introducing some more promotional activity.

As we highlighted in May, we still have more work to do on our entry price point ranges and this is something that we will talk about at our Capital Markets Day in September. We will also talk more about customer service where we saw continued improvement in customer feedback scores over this Quarter.

Despite the tough comparatives against last year's heat wave and events like the Football World Cup and the Royal Wedding, our Convenience Business delivered good like-for-like sales growth with continued sales, total sales up 1.5 per cent and online sales up 5.1 per cent.

General Merchandise sales fell by 3.1 per cent with a reduced contribution from new space, quarter on quarter of about 1 per cent. Like-for-like declines were driven by weakness at Argos and Sainsbury's in key seasonal categories such as outdoor toys, garden furniture, gardening equipment and barbecues.

Argos continues to see very high and improving net promoter scores and continues to win market share in key categories. Fast track collection grew by 20 per cent and fast track delivery by 13 per cent.

Similarly in clothing the weather was very unhelpful with sales down 4.5 per cent. However our performance, relative to the overall clothing market was very strong with good switching gains from supermarket and department store competitors. We gained volume and value market share and became the UK's 5th largest clothing retailer by volume. Strong online growth was a contributor to this with online now accounting for nearly 8 per cent of clothing sales.

We continued our investment in technology during the Quarter, making shopping with us quicker and easier. 148 supermarkets now have smartshop self scan and sales penetration rates are rising rapidly. We now also have Argos pay at browse in more than 200 stores.

So overall a tough quarter in terms of the headline sales numbers and we had to navigate some significant market head winds. But we saw a better market share performance in the grocery business and continued market share gains in clothing and key general merchandise categories.

We look forward to providing a fuller update on progress at our Capital Markets Day in September and we will now open up the call for your questions.

<u>Question and Answer Session</u>

<u>Question 1</u>

Bruno Monteyne, Bernstein
Hi good morning. Just to confirm, I know you have got the prices on these top 1,000 products, but overall in the entire basket I presume you are still seeing overall inflation, of around 1 per cent. Would I be right with that? And if that's the case would I also be right to assume that your volumes in grocery in the supermarket are down somewhere in the order of minus 1 per cent? Just trying to check if that would be ballpark right.

And the second one is are you still completely comfortably with full year consensus of underlying PBT of about £630 million? Could you please confirm you are still okay with that?

Answer: Mike Coupe
Yeah I'll ask Kevin to comment on the second. And yeah I mean I think we point at Kantar Nielsen, I'm looking at James, we're sort of measuring inflation at one and a little bit. Inflation rates have come down a little bit quarter on quarter so the relative volume performance is better, but you can do the arithmetic so you can back solve it and imply that underlying volumes are down about 1 per cent in the grocery business.

Answer: Kevin O'Byrne
And Bruno just on consensus, you know it is obviously a Trading Statement. We don't routinely comment on consensus particularly given we are only 16 weeks into the year. But if there was something to say about consensus we would say it. It is probably also worth just noting because there were some questions this morning

about the relative comparative gets tougher in Quarter Two and it is worth just looking at the two year like-for-like in that case because the previous year we had a good early summer as well. So on a two year like-for-like the comparatives in Quarter Two don't look as demanding.

Further question
And one follow-up question on the entry price points, you talk more and more about and you say more at the Capital Markets Day. Can I just get the feeling for the timing, of you know how long will it take do you think to develop your ranges on pricing to get demand in stores until you would say you have a new better improved offer in store? Are we talking by the time it is Capital Markets Day in autumn they will largely be in the store? Will we be half-way? What are the timelines for this repositioning please?

Answer: Mike Coupe
We have a pretty comprehensive programme planned between now and Christmas. As we stand today we are round about a third of the products are in the business, you can actually see them, you can pick them up on shelf and by the time we get to the Capital Markets Day, assuming we deliver against the plan, it will be roughly two-thirds of the way through. So yeah, you will see progress and by then we will have better line of sight on exactly what happens in terms of volumes in categories and the relative up-trade and down-trade within categories, which is one of the reasons why having the Capital Markets Day in September will be helpful to kind of explain exactly how categories react to the changes we are making and then to re-confirm how we can afford to do this.

Further question
And are you largely following the rebranding approach of Tesco where they invented new brands or are you sticking largely with your existing Sainsbury's brand in the repositioning?

Answer: Mike Coupe
No you can go and find some of the new brands on shelf. They have been around for a while. So things like J James, Stanford Street, Dailys in bread. So there are a number of brands. We can probably show you some pictures if you can't pick them out yourself. But there are a number of different approaches depending on the category. But there is an element of rebranding.

Bruno Monteyne
Okay, thank you.

<u>Question 2</u>

Andrew Gwynn, Exane BNP Paribas
Morning everybody. Two questions from me. The first one is just on those entry price products. What proportion of the overall are they, sorry, so just to give an idea of where the investment is coming, what is the proportion of the sales?

And the second one is a much bigger picture question which is obviously taking a step back. Like-for-like this quarter a bit disappointing, presumably going to be quite soft again in Q2. But to what extent does that really trouble you? Is it just a function of difficult comparatives and actually long-term view the business is essentially unaltered and are we all getting a bit too excited about short-term trading? Thanks.

Answer: Mike Coupe
Of course you always get very excited about short-term trading, but I won't comment.

Further question
It's our job, it keeps us employed unfortunately.

Answer: Mike Coupe
But yeah the reality is that entry price points as we would define them account for relatively small percentage like 3-4 per cent of our total sales. Of course we have addressed pricing more widely than that so you know as an example we have got a market leading price on strawberries this week. And relative to the mainstream discount competition we are seeing our pricing indices at the best ever position that we have measured. So that would show our relative competitiveness and we have actually won the Grocer 33 for the last two weeks on price. So again that would suggest our relative pricing has got reasonably significantly better. But the actual entry price points account for a relatively small proportion of our sales, a high proportion of our volume for obvious reasons.

As Kevin has already commented on, we had a better second quarter last year, but it was against a worse quarter the previous year. So you kind of have to look through a couple of years. We have seen improving volume trends. You have seen that in the externally reported data during the course of the quarter we are reporting. So it's fair to say our performance has got better which would give us some encouragement that we are doing the right things. And we get to about the first week in August with the kind of weather headwinds that we have talked about in the first quarter, and after that it was pretty dreadful with the remainder of August and September. So who knows how that is going to play out.

So what would be the big picture? We have always said that our start point would be to maintain our volume share, that would be a good objective. How we get towards that objective, time will tell, but there are some encouraging signs in what we are seeing so far.

Further question
But even with that volume share and obviously there are elements of the volume that maybe aren't worth chasing, so alcohol a little bit maybe. I mean I suppose does the trading performance at the moment really trouble you or is it just a time, you know short-term blip as it were?

Answer: Mike Coupe
Well it always would be nice to be reporting positive underlying sales growth to your point, we are not going to chase as we have said previously volume for the sake of volume. But as we are 16 weeks into the year and as Kevin's as already commented, we are comfortable with consensus and we are comfortable with what we are seeing in reaction to the changes we have made. But we are only a third of the way through the year so there is plenty of space to go.

Further answer: Kevin O'Byrne
Andrew it is probably worth saying, we have factored in different, that we weren't going to have another stunning summer for this year and that was built into our plans. However we haven't had normal weather this year. So it has been worse than we would have expected and hence you have seen the impact on the seasonal lines. But there is still 80 per cent of the full year profits to be delivered and so some way to go for the full year obviously.

Andrew Gwynn
Alright, well thank you and the best of luck. Thanks.

Question 3

Nick Coulter, Citi
Hi good morning. Three for me if I may please. Firstly on grocery, can I ask about the improving volume performance in grocery that you reference. Are you able to quantify that given it must be reasonably marked against a backdrop of a weaker market in recent months?

And secondly on clothing, I know that the number of promotional days is static year over year. But can I ask about your sell through on spring summer versus a normal year?

And then lastly on general merchandise, I know you have taken share, but could you give a sense on the absolute trends for the non seasonal categories to get a view on the underlying health of the Argos offer? Thank you so much.

Answer: Mike Coupe
I am not sure I am going to be able to answer all of those, but I will have a go. I mean we don't quote a volume number directly but I guess you can infer it from the fact that inflation was about 1.5 per cent in the previous quarter and just over 1 per cent in this quarter so you can make the sort of direct comparisons. But if you then look at the underlying reported market data, the Kantar and Nielsen data you will see that our trend has got progressively better period by period as they have reported. So you can draw your own conclusions on volume, but you would see reasonably strong progression over the course of the quarter.

Further question
What's driving that Mike, what are the key factors that are turning that around?

Answer: Mike Coupe
As I have already said, we are making a number of moves. It is always difficult to disaggregate these things. We will talk more holistically about this at the Capital Market Day in September. But if you are more competitive, your store standards are getting better and you are investing in parts of your offer and we are also growing, as we have done in previous quarters, our added value food in the round, it is kind of moving in the right direction. So there is never a silver bullet, it is about lots of things on lots of fronts, but there is a degree of energy and confidence in the organisation. Celebrating our 150th birthday, that was a great fillip for us and broadly speaking that kind of signalled a seed change in the organisation and we built on that goodwill and

momentum. So as I say, there is never a silver bullet, if I could point at something, we would just do more of that one thing. It is a whole series of things on a number of fronts, but it is undoubtedly the case that we are more competitive on price. And as I said, the fact that we have won the Grocer 33 for two weeks running now, I think that is unprecedented in my time in the business. So it does happen occasionally, but it doesn't happen sequentially that often.

On clothing, clearly given it rains this year and was sunny last year, there is stock to be sold. It is still relatively early in the season, you know there is still a long way to go. We are not uncomfortable, if we have got another three or four weeks of rain it probably would start to get uncomfortable, but as we stand today we are not at the same sale through levels self evidently as we would have been last year. We are slightly behind where you might expect to be in a normal year, but there is still plenty of time to go.

And in GM, unsurprisingly things like tech and electricals going great guns. The seasonal categories, paddling pools and barbecues pretty dire. You know and I gave the example last week, the weather was actually not unhelpful but even then we sold about a third of the paddling pools that we did the previous year. And the Argos supply chain and the Argos customer proposition comes into its own during these seasonal peaks. You know if you want a swimming pool, if you want a fan, you want it now and the Argos machine is very, very good at delivering that and in the absence of some half decent weather that has clearly been a drag on the business.

Further question
I know it is somewhat academic, but if you backed out the seasonal, are you small up or small down? How would you view it?

Answer: Mike Coupe
Up and reasonably substantially up.

Further question
Okay that's that one. Then one last one if I may online in grocery, that is a decent clip of growth. What have you changed there or have you changed anything in grocery home shopping?

Answer: Mike Coupe
No, I like the term decent clip, that is a good phrase. Yeah I mean it is just a continuation of the trend. Again actually the online grocery business and the convenience businesses tend to be more impacted by weather. So it is really pleasing, you know particularly the convenience number because that business goes great guns when the sun shines because people tend to go out to buy their lunch more. So actually of the performance in the business overall I would point at our convenience stores being pretty stellar.

On groceries online it is pretty much a continuation of the previous trend, you know there is an intergenerational thing as people get used to online shopping, as the new generation grows up, more and more people will shop groceries online for the foreseeable future. Operationally we are about as good as we have ever been. We are about as efficient as we have ever been so our service levels are very high, but the growth is just a change in customer shopping habits which is largely, although not exclusively an intergenerational thing.

Nick Coulter
Perfect, thanks so much.

Question 4

David McCarthy, HSBC
Good morning gents. A couple of questions. First of all you gave us a net promoter score for Argos, can you give us the similar figure for Sainsbury?

And then you mentioned switching data. You have obviously still got an outflow so can you give us more colour and more background on that? You know are you winning share from anybody to any significant degree or is it just your reduction, there has been a reduction in your net outflow?

Answer: Mike Coupe
Yeah, I don't think we have ever quoted our headline NPS score, so I am looking around me and everybody is nodding their heads in the negative, so we won't. We may choose to at some point, but it is fair to say that the Argos net promoter score is pretty high and it actually improved and the Sainsbury's what we would call CSAT score has also improved in the quarter and that is showing an improving trend and we reference the fact that on the 13 of the 14 measures that we look at, we have got better in the quarter. But I don't think we have ever quoted a headline number Dave, and I am looking at James and John and both of them are nodding their heads saying no.

So as far as the switching is concerned, you know it is pretty much as you might expect, you know generally speaking the biggest impact on our business is from the discounters and that has been the case for a considerable length of time and it remains the case. So broadly speaking that is where we are losing volume too, albeit less than we were previously.

Further question
Okay so you are losing volume to the discounters, you have talked about you are going to have more work to do on entry price points. Does that mean that when we are looking at our models going forward we should be a bit more cautious on selling price inflation and that you will have some relative deflation versus your competition?

Answer: Mike Coupe
Maybe Kevin would like to comment, but of course it is difficult to predict that simply because we don't know what the competition would do. So in the way you frame the question, it depends on what the competition actually do relative to what we do. But we have seen as we have already referenced the headline inflation rates in the market came down by just under half a percent. So one would expect that.

Further question

The implication was that you are going to be doing more unless I have got this wrong. The implication was that you are going to be doing more on entry level pricing than perhaps most of your competition. So that is why I framed the question that way.

Answer: Mike Coupe
Yes so we are going to be doing more on entry level pricing that is for sure and we are doing more on pricing overall as I have already referenced. What I can't tell you is what our opposition may or may not do relative to that. So that is why I can't answer the question directly.

But the result so far would suggest our pricing is better, and that is particular relative to the discounters I have already referred to our price relative to Aldi and Lidl. Our prices relative to Aldi and Lidl being the best level we have ever measured, and we will see what sort of reaction that provokes from our competitors and we will talk more fulsomely about the interaction between volumes up trade versus down trade etc. when we get to the Capital Markets Day in September, because by then we will have a better line of sight on the reality of what happens in a less unstable trading period. Because at the moment the numbers are very heavily distorted by rain this year versus sunshine last year which inevitably as you all know has an impact on relative category performance.

So is there anything you would add Kevin?

Answer: Kevin O'Byrne
I would just, it was just building on what you said about the Capital Markets Day. We will have more experience Dave, of the work we are doing in improving value and how our customers are reacting. And the key thing will be the switching between the sort of entry price points into the mid-tier and the impact on premium. We are very pleased in the first quarter that we have grown the premium while investing and seeing improvements in the entry price. But clearly we have seen other players in the marketplace where you over index in the entry price point and you lose in the premium and then clearly that has quite an impact on your margin mix. So we will have more experience and be able to discuss that in more detail come September.

David McCarthy
Okay, thank you very much.

<u>Question 5</u>

Sreedhar Mahamkali, Macquarie
Yes good morning. I have just got one question actually, most of the questions have been asked already. I think at the Prelims, Mike I think you were fairly confident of securing improvements in COGs to fund your price investments, I think probably particularly entry point price investment. Has that actually been playing out as you expected? So that should really take care of your price investment plan for this year, the sort of pay to play you were talking about?

Answer: Mike Coupe

Yeah, I mean there are clearly a number of moving parts. Improving volumes help, you know we would always seek to negotiate with our suppliers and look for supply chain efficiencies and of course there would be self help with reducing costs within our business overall and those are all things that we are doing as part of this programme. Clearly we will have a better line of sight by the time we get to the Capital Markets Day in September so I will defer answering more fulsomely your question, but by then we will have a much better understanding of the interactions, you know recovery of costs etc. etc. So we can answer it better when we get to September given that we are only a few months into the programme that we outlined at our Prelims.

Sreedhar Mahamkali
Got you. Okay thank you.

Closing Remarks
Mike Coupe
I think that's it. So we have no other people on the line so thank you very much for listening and if I don't see you, all have a lovely summer. Thanks very much. Bye bye.

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