J Sainsbury plc

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**Third Quarter Trading Statement for the 16 weeks to 8 January 2022**
**12 January 2022 - 9:15 am**

## Presentation

**Simon Roberts, CEO**

Thank you, well, good morning everyone. Happy New Year, and welcome to our Quarter Three Trading Statement Presentation, covering the 16 weeks to 8 January. I'm joined this morning by Kevin O'Byrne, our CFO, and James Collins, Director of Investor Relations.

I'm going to talk about our trading performance in the quarter, and then obviously, we will take your questions. I'm going to take about 15 minutes up front to talk to the slides that I hope you've been able to see this morning, just to give you some colour up front, and, as I say, we'll get into questions once we've done that.

So, to get us started, I'd like to start by giving really a huge thank you to my colleagues across the business, who worked extremely hard to deliver strong availability and service through the peak season, and who made our customers feel safe, as more and more customers returned to our superstores.

And of course, a big thank you, too, to our suppliers, for all their support, as we worked with them even more closely than usual, through what was a particularly challenging backdrop, to deliver a great customer offer.

Now, you will have seen that we have upgraded our profit guidance today. We're now expecting underlying profit before tax of at least £720 million, whereas at the beginning of November, we said that we expected at least £660 million. So, I thought it would be helpful first to give you some context behind this.

Now, the first thing to note is that we, and the whole grocery market, have seen some benefit from higher in-home food consumption, since the emergence of the omicron variant in the UK, towards the end of November, and the reintroduction of working from home guidance. Now, this is something that we expect to drop out of the sales base next year, if we trade through a year with fewer COVID-driven restrictions.

But more importantly, what we didn't know back in November, was whether the major calls we were placing on this Christmas and Quarter Three would pay off. We went big on colleague numbers, we went big on supporting maximum availability, on Christmas stock levels and on new products for Christmas, and we went big on value for Christmas - all to make sure we could deliver a really good Christmas for our customers.

And the good news is that our trading strategy paid off, and we saw a strong operating performance, with market share gains and strong sales over the peak days, as customers traded up to treat themselves over Christmas, and bought into our Christmas value campaign.

Now, this approach is absolutely in line with our Food First strategy, investing in value, innovation and service to drive volume, and the trading strategy has also delivered the profit outcome that we hoped for.

Now, I signalled back in November that sales would be tougher in General Merchandise than we forecast earlier in the year, but that we expected strong margin and cost delivery against a tougher sales backdrop, and that is how Christmas played out. As you can see, we saw a slightly better trend later in the Quarter, as availability started to improve.

So, let's turn now to the slides, and starting with Quarter Three retail sales growth.

We'll start first by looking at sales across the 16 weeks of Quarter Three. Grocery sales were stronger than we had anticipated earlier in the year, down just over 1% against a very strong lockdown-driven comparative from last year but up nearly 7% versus Quarter Three in the prior year.

General Merchandise sales were down significantly for both Argos and Sainsbury's, as we anticipated in November, reflecting the exceptional performance last year, supply chain challenges impacting availability, and some conscious choices we took on promotional participation and category participation to improve profit delivery.

Clothing sales reduced slightly, predominantly reflecting a further reduction in markdown and promotional activity, with full price sales up 38% versus two years ago, as we focus on offering good value all year round.

It's also just worth noting a 48% increase in Fuel sales, partially reflecting higher oil prices, but also normalisation of traffic volumes and market share gains.

Turning to the next slide, I think it's important to look specifically at trading over the Christmas period itself. Here you can see that sales were ahead of a strong Christmas last year, with sales up 0.1% year-on-year and nearly 7% versus two years ago, up 0.8% if you exclude the impact of the fact that we were closed for Boxing Day this year. We invested heavily and worked hard to make sure we could deliver a great Christmas for customers, and we were rewarded with strong volumes.

You can additionally see a better General Merchandise number, as some of the availability challenges eased a little heading into peak, but we would not be encouraging anyone to call the turn yet, given ongoing supply chain issues and a tough Quarter Four comparative ahead. The Clothing numbers, showing strong growth on a two-year basis in particular, are probably a better indicator of the underlying health of the business, in the absence of comparisons against prior year promotional activity.

Now, turning to the next slide, we've shown this chart of our supermarket basket size and transaction numbers every Quarter since the start of the pandemic. The story has been one of very gradual normalisation, as more customers return to superstores and shop more frequently, reducing basket size.

Broadly, this has continued through the Quarter, but with a positive seasonal uptick in basket size, at the same time as frequency has continued to improve. We've been really encouraged to see the number of customers who shopped Online at the height of the pandemic now returning to our superstores.

On the next slide, you can see here, as we headed into peak, we continued to see Supermarket transaction numbers recover, as well as Online Grocery order numbers growing.

We've been pleased with our Online operating metrics, despite availability and labour challenges, and we've seen a 36% increase in the average number of Delivery Pass holders, year-on-year in the Third Quarter, after the introduction of the monthly Delivery Pass subscription.

On the next slide, well, against last year, when digital was the only option for customers, particularly at Argos, we've seen some moderation of participation, but the picture remains one of a transformed digital business, with Groceries Online sales still nearly double the level of two years ago, total Digital sales nearly 50% higher and nearly 80% of Argos sales starting online, despite stores being open throughout the whole of the Quarter. And we're encouraged by SmartShop participation, suggesting that a very high proportion of those customers who tried it last year have stuck to the habit, and also reflecting some new users, following the launch of Nectar Prices.

Now, on the next slide, we're really pleased with the progress shown on this chart. There's a lot of noise in market share data, but we have consistently said that we believe Grocery volume market share is the key measure of our success, and this chart shows that in Quarter Three we continued to outperform the market on both a one-year and two-year basis.

What I want to do now is reflect a little on the drivers of that performance and how we are delivering against our strategy.

Now, on this next slide, you'll all be very familiar by now with the key priorities we set out in November 2020, putting food back at the heart of Sainsbury's with Food First, focusing on delivering for our customers and driving profit with our Brands that Deliver and lowering operating costs through Save to Invest, underpinned by being Connected to our Customers and our Plan for Better.

So, on the next slide, starting with Food First, we've been focused on improving value to customers, increasing the rate of product innovation and funding this through reducing our cost to serve and improving our buying benefits as we drive better volumes.

On the next slide, this chart is taken from Nielsen data and demonstrates our consistent delivery on investing ahead of our competitors in value, improving our price position and delivering better value for customers on the products that really matter most to them.

Now, Christmas was no exception, taking the strong improvement we've built in our base value position and then extending that to the all-important Christmas shop, where customers could rely on Sainsbury's quality at Aldi prices on the key items of the Christmas meal.

The numbers on this chart speak for themselves, with great volume uplifts on these products.

Our strategy is based on the belief that if we get prices right on the key items that matter most to customers, then those customers will buy the rest of their basket with us.

And we saw increased spend from secondary customers, those who typically spend less of their grocery shop with us. So, we saw frequency of visit growing ahead of the market, and crucially, many more shoppers' baskets contained all the key elements of a Christmas dinner than two years ago, with a really strong contribution from the Sainsbury's Quality, Aldi Price Match items shown here. The more that customers are able to trust on us delivering on the key fresh and centre of the plate items at the right prices, the more spend we will win from secondary customers.

Now, you may have already seen we are stepping on Aldi Price Match again this month, with our new offers having landed in store last Friday. And we're investing more, but focusing this investment on higher volume items, which show up in more customer baskets, and taking out some of the products which aren't as important to customers. So, as you can see here, there's a real focus on Fresh Food lines, accounting for 90% of the volume.

Now, on the next slide, at a time when rising prices are a concern for customers and cost price pressures are building, we've also reaffirmed our commitment that prices on over 2,000 products will be locked down, providing a level of reassurance that customers really need right now and we've had really great support from suppliers on this.

And this work on base prices, on Sainsbury's Quality Aldi, Price Match and Price Lock, is showing through in the consistent improvement of our price position versus key competitors. Not only on the centre of the plate meat, fish and poultry items, but across the wider basket, and we continue to build on the progress we've made over the last 18 months.

Now, on this next slide, as you know, we've committed this year to triple the rate of product innovation. We delivered 600 new lines in the third quarter, of which 300 were specifically Christmas products, and of these, 100 were Taste the Difference Christmas products.

Taste the Difference was our fastest growing product tier over Christmas. We're already the market leader in premium own label and have grown sales of Taste the Difference 13% over Christmas two years ago, driven by Fresh food categories like meat, fresh fruit, vegetables and bakery.

Our customers consistently respond well to new trade-up options, and through our work on value, we're making it easier for customers to save on the basics and treat themselves. We know we have a long way to go on this, with lots more opportunity.

Now, this next slide is perhaps the best demonstration of the fact that we're getting it right for customers.

Looking at the eight key weeks running into Christmas, customer satisfaction scores increased on availability, range, value and service. Of these, value is the one that is perhaps the most significant. It takes a lot of time and effort to change value perceptions, but this suggests we're landing some stronger progress here now, both on an absolute basis and relative to our competitors.

And in Supermarkets, we're maintaining a healthy lead versus our competitors on overall customer satisfaction. We still have work to do, to get back on top in online. We've not been helped by labour shortages impacting slot availability over peak, and some ongoing challenges on product availability. We know we can do even better here for customers.

Now, moving beyond the Grocery business, on the next slide, to General Merchandise and Clothing. It's worth going back to the priorities we set out for these businesses. Consistent with the idea that our Brands that Deliver need to be profit focused and to support the core Food business, we've been focused on reducing cost to serve and improving profit delivery.

Now, we've discussed at previous results and on earlier slides, some of the key drivers of the sales declines for Argos, and for the Sainsbury's General Merchandise business. Sales last year were exceptional, given the combined benefits of lockdown-driven demand, and a number of competitors who were unable to trade effectively.

Against that comparative, we've seen some very subdued markets. And in some areas, such as consumer electronics, this has been exacerbated by stock shortages and global supply chain issues. The chart on the right shows the importance of some of these categories to our sales base, particularly through peak in Quarter Three.

But turning back to prioritising profit delivery, we've made conscious choices aligned to our strategy to focus on profitable sales and profitable product categories.

At Argos, we reduced significantly the amount of promotional activity that we ran, which has impacted sales in some categories, like Toys, and we've stopped regular Clothing promotions in favour of a consistent, year-round focus on value.

Now, together with mix benefits from higher participation of stronger margin categories, like Home and Furniture, this is driving stronger General Merchandise and Clothing gross margins. Alongside the transformation of the Argos cost base, these stronger, more sustainable gross margins are making our General Merchandise and Clothing sales base a significantly more profitable and sustainable one.

Now, on the next slide, I've said that I will reference these key metrics every time we speak. Clearly, you would expect a full update with Results rather than at a Trading Statement but suffice it to say as I look at these today, I am pleased that we are very much on track for the full year.

So, in summary, we are delivering on the strategy we laid out in November 2020.

We've made bold decisions to make the business more efficient, through structural cost reductions and to improve the profitability of our Brands that Deliver, and we've made major calls investing those gains back into the core Grocery offer, into value, into product, and innovation, and into customer service throughout the year, and especially over Christmas. This is delivering volume market share gains, and it's strengthening our competitive position.

More customers shopped more frequently with us for food over Christmas and, as we improved our value this Christmas, we drove bigger baskets and trade up.

Now, clearly, we've also benefitted from the strength of Grocery sales as in-home food consumption has remained stronger for longer, and this has been a contributor to today's profit upgrade.

Looking ahead, we do expect some normalisation next year and life will get tougher for UK consumers as the cost of living rises, and we face our own cost challenges. However, we believe we are in a stronger position than we have been for some time, to offer great value for money, alongside an improved Food offer.

Finally, I would say we are moving with a new level of pace and agility, to be ready for the challenges ahead.

Importantly, this Christmas, we have further improved our momentum in Food, and at the same time we are continuing to build out the delivery of our cost savings programmes.

So, I hope that's been helpful in giving some colour to the slides that we shared before this morning's call and lets now open the call and take your questions. Thank you.

## Question and Answer Session

**Operator**

Thank you. If you do have a question at this point, please key star then one on your telephone keypad. If your question has already been asked, you can simply key star two, to remove it. Please stand by for your first question, now. If you have a question, it is just star then one on your telephone keypad now. Thank you.

First question, then, from Andrew Gwynn from BNP Paribas. Please go ahead.

**Simon Roberts**

Hello, Andrew. Good Morning.

**Andrew Gwynn, Exane BNP Paribas**

Good morning, Simon. Happy New Year.

**Simon Roberts**

Thank you.

**Andrew Gwynn, BNP Paribas**

Firstly, just, I mean, fairly boring questions, unfortunately, but the first one on inflation. Obviously, we've seen that tick up for the industry. It feels like everyone's being relatively well behaved, particularly, obviously, looking at that chart of Discounters, but just wondering on your perceptions of how food inflation is working its way through the mix.

The second question, and I'm sure it's going to be prodded and probed, but on the PBT for next year, I think you've given us a couple of moving parts, so plenty of cost saving, but obviously, some of the COVID volume dropping out. Perhaps - I appreciate you're not going to give us a number, but just help us with some of the moving parts, where your thought process should be. I suppose, very bluntly, should we expect profit growth in '22/'23?

Thank you very much.

**Simon Roberts**

Andrew, thank you. Well, let me start on the inflation question, and then we'll talk a bit about next year, and Kevin, I'm sure, will come in on that, as well.

Yes, in terms of what's happened in the quarter, as you can see, two key points. I mean, the first, as, I hope, we highlighted in the presentation there, on the top 100 products, as an indication, the products that customers buy most, the fact that we were deflationary in the Quarter, and clearly, as you can see, others inflated further. In fact, the Discounters inflated the fastest.

I mean, it's clear that there's low levels of inflation overall, in the offer, through Quarter Three, and as you can see, we've been working really hard, Andrew, as we navigate this period, to make sure that our relative value improves, and that's exactly what we did in Quarter Three, and we'll continue to do that as we look ahead.

I think it's really clear to us all, that the market is inflating. It's clear that challenges are there, but I think what we've done this Quarter is to do exactly what we said we'd do on strategy, which is to reinvest our cost savings in improving value, work really hard to improve our value perceptions. Value perceptions are up 4% year-on-year, and so we're growing our volumes, we're growing our volume market share, and as we grow volumes, we're working hard with suppliers to make sure we mitigate those headwinds.

So, on inflation, that's where we are. You can see, we've launched the new year with some strong value position. That's really important to us, relaunching Sainsbury's Quality, Aldi Price Match. A big focus on fresh products, big focus on products that customers buy the most often, alongside Price Lock. There will, clearly, be inflation flowing this year, but you can see us doing everything we can to mitigate that.

On next year, I mean, as you'd expect me to say, it's too early to talk about next year yet. We'll talk about that more once we've both completed this year and reported against it.

For all the obvious reasons, as we all look at it, there's a number of factors, clearly, as we think about the year ahead, the impacts on volumes and to what extent the omicron/pandemic factors will drive volume. Clearly, the inflation factors, and clearly, the whole cost environment we're thinking through.

So, we will come back, of course, and talk to you about that as soon as we can, but we'll finish the year first, is how we're thinking about it.

Kevin, anything to add on that?

**Kevin O'Byrne, CFO**

Only build, Andrew, as you can imagine - we always review this after the Christmas trading period we delivered. This year it’s a bit more complicated, lots of moving parts. We're pleased with the momentum in the business, we're really pleased with our costs, structural cost programmes, so there's lots of things to be positive about, but, as Simon said, there's a lot of uncertainty, and certainly some of the tailwinds in Grocery sales we'd expect to reduce as we go into next year, so we just need to reflect on where do we pitch that?

**Simon Roberts**

Thanks, Andrew.

**Andrew Gwynn, BNP Paribas**

Wait and see. Thank you very much. Cheers, guys.

**Operator**

Thank you. The next question then is from Andrew Porteous from HSBC. Please go ahead.

**Simon Roberts**

Hello, Andrew.

**Andrew Porteous, HSBC**

Hi, morning, guys, and a happy new year. Congrats on the upgrade.

A couple from me. Can you just talk about, I guess coming back to that inflation point, has there been anything that's really moved the picture in terms of what you're seeing away from that maybe low single-digit inflationary outlook? Is there anything more severe than that we can expect coming down the track?

Secondly, around Argos, can you just help us in how you're thinking about the year ahead? Obviously, a pretty tough year for the business this year, from a demand perspective. Are we expecting stabilisation? Or are we a bit more concerned, given the outlook for discretionary spend, there?

Then, lastly, can you just talk about the role that petrol's playing in the business, as a magnitude of improved profitability in the petrol industry, and whether that's fuelling price cuts?

**Simon Roberts**

Thanks. Let's take each of those in turn.

Just to reiterate, the point on inflation as you described, clearly some things we've been planning and seeing for a while. There's labour costs, inflation. We know that. You saw our colleague pay increase that we put in last week. Very important, we feel, to do that. We've had line of sight of that for a while, and so, as we think about labour inflation, we've been planning for that. Our costs plans, 200 basis points of cost reduction, so as we invest in things like colleague pay, so we drive efficiency and productivity in the business, and we're planning for that.

I think that when we think about next year, clearly, what happens with inflation and the extent to which that comes through, beyond what we are now, as I say, we're doing everything possible to mitigate that for customers. We've got very strong cost plans that we are ahead of, in terms of planning for next year. We continue to drive those plans through. So, as you would expect, that focus on Saving to Invest is such at the heart of our strategy, we think that's important preparation, given the environment that’s out there.

On Argos, let me just talk a little bit about Argos. I think I would describe an exceptional year last year, in the year that we've anniversaried. We'll remember, last year we were in lockdown over the Christmas trading period. That elevated volumes last year, so the comparatives are clearly tougher, and it's been an exceptional Quarter Three this year, predominantly because of the supply chain challenges that we've clearly faced.

I would just say, in terms of the top line, we wanted to guide you in November that the Quarter Three would be more challenging, and we did that. It was because the products at the heart of the Argos offer - TVs, Consumer Electronics and Toys, are clearly those categories that have been most impacted by the supply chain challenges.

I think it's important to say too, that the market in these categories has been subdued, too. Gaming down 10%, Technology down 11%, Toys down around 12% in the market data. So, I think the combination of the supply chain challenges, impacting availability, impacting the way in which the market has performed.

So, when we look out over the period ahead, a couple of things to say. The first thing you'll remember, we had a particularly strong Quarter Four last year. So, as the lockdown continued through this period, we saw strong sales, I think 17% we did in this Quarter last year. So, that's in front of us, to lap, but then, I would say that the comparatives get normalised significantly beyond that point. That's one point to say.

Second thing to say is clearly the choices we've made on the level of promotion we've run are now in the base, so, as we look further ahead, we're not going to be anniversaring those, in the sense that we've already put them in the base.

The third thing to say is I think it's, in our view, very early - too early to call a turn on availability. There are still challenges out there, for sure. They will continue. Some of the big Consumer Electronic brands are continuing to face those challenges, and so they'll play through, certainly well into this year.

On the other side of that, as you've seen us report today, and as we said in November, we knew the sales landscape would be challenging, but the work we've done on margin, the team have been working really hard on the margin in the GM&C business, and on our cost transformation programme. I would just stress the point that we're a year into that programme. It's a three-year plan, and we're in the first year of it, so there's lots in front of us to deliver, in terms of our structural cost savings, and we're pleased with the progress on more profitable margins.

Maybe on Fuel - Kevin, could I just maybe hand to you on the Fuel question?

**Kevin O'Byrne**

Yes, thanks, Simon.

Yes, just on Fuel, we're pleased with the sales performance, as you've seen, and we're pleased, also, with our relative sales performance. We've taken volume share, and we're very competitive on price. But it's just one product we sell. We don't disaggregate our products in that way, and, as you know, we balance margin across categories, and use stronger categories to invest in the Food offer. So, areas like Fuel, and another example would be Clothing, for example, will support our further investment in Food.

**Andrew Porteous, HSBC**

Thank you, guys.

**Simon Roberts**

Thanks, Andrew.

**Operator**

Thank you. The next question then is from James Anstead from Barclays. Please go ahead.

**Simon Roberts**

Hello, James.

**James Anstead, Barclays**

Good morning, Simon and Kevin. The two Andrews have both taken one of my questions, but I've got one left, which is just around your Net Debt target. I think you said this morning you're confident you'll deliver the £950 million Net Debt reduction ahead of your target, which I think is March '23?

So, I suppose my question is, given you only give us Net Debt numbers twice a year, do we assume that's essentially brought forward now to, what is it, September '22, or is that something you might even be able to hit by the time you report in April?

**Kevin O'Byrne**

Well, James, I couldn't be that precise, but it certainly has pulled forward and I'd be optimistic it'd be pulled forward to the first half of next year. Just in general, we're just very pleased with the business cash generation ahead of forecast and we'll keep focused on that. So, good news and the right time to update further on that will be at the year-end when we've closed out the trading period.

**James Anstead, Barclays**

Just to follow up with a little bit more colour, is that delivery ahead of schedule – I guess in part, that's a function of your better profitability, but is it – and I guess the hope is that Argos is generating quite a bit of working capital, is that one of the other reasons why you're ahead of where you expected to be?

**Kevin O'Byrne**

Well, there's three factors. There's two non-trading ones. We obviously settled some long-running legal disputes and got cash for that, which was very helpful, the hybrid bond converted, but the most important is that the business has been generating more cash and there's been strong cash conversion, so our free cashflow will be stronger from core trading and that will be a combination of working capital.

This year, our CapEx you'll see will be a little bit lower than we would have expected; because of COVID we've moved some projects into next year, but on average, our CapEx spend I'd expect to be broadly the same year-on-year. So, inevitably, we'll get to our leverage target sooner than we anticipated, which is great. Then we're just going to stand back with the Board and just consider what next from a free cashflow point of view.

We're very clear, free cashflow is for Shareholders and we'll obviously consider are there any investments we'd want to make to accelerate the strategy or drive better returns for Shareholders, and then we'll look at should we be increasing the cash distribution to Shareholders and if so, how much and how? But that's all a discussion for the end of the year, really.

**James Anstead, Barclays**

Okay, that's really helpful, thank you.

**Simon Roberts**

Thanks, James.

**Operator**

Thank you. The next question is from William Woods from Bernstein. Please go ahead.

**Simon Roberts**

Morning, William.

**William Woods, Bernstein**

Morning. Two questions from me. So, you've shown that you're not passing on as much inflation as peers and reducing that price gap. How much of that is driven by actively reducing prices, rolling out Aldi Price Match, or are you just not passing on that inflation, i.e., you're keeping all your prices locked? Then linked to that, you mentioned improving relative value over the next couple of quarters.

With inflation increasing in the next few months, do you still feel as though you need to bring your pricing down relative to the Discounters and Tesco over those next couple of months?

Then finally, just on your increase in expected profit, are you able to give a rough breakdown of how much you think is driven by volumes, cost reduction and the Bank going forward?

**Simon Roberts**

Thanks, William. Look, why don't I try to give you some sense on value to your point and Kevin in terms of the composition of the guidance there.

So, look, let's just maybe take a step back here in terms of on the value positioning and the inflation picture out there. As you'll remember, when we laid out our Food First plan, we were very clear that we needed to improve price perception, particularly for secondary customers, and when we think about what we're doing, our plan is all about focusing on the parts of the offer where that matters most. So, we've been very focused and targeted on where we've invested price investment.

We've invested at the centre of the plate. We've invested in Produce, we've invested in the key areas of the shop that most influence that secondary customer price perception, and one of the things we're encouraged by is that 4% improvement in price perception that we've seen come through.

As you know, these things take time; we're a year and a bit into this place now but we can see the momentum building and so the value investments that we've made and we're making at the start of this year are all congruent and absolutely lined up to that strategy. So, I guess just to your question, I'd want to be clear that we are not reducing prices across the whole store; we're focusing on the parts of the shop that really matter.

You can see – maybe just going back to the presentation for a minute, on Slide 14 where our relative value performance against the competitor set is clearly highlighted here and you can see the degree of improvement over the Quarter Three year-over-year, but the key point I would just pull out here is the centre of the plate.

You'll remember, we talked about meat, fish and poultry as being so important in driving price perceptions of that secondary customer, and for example, initiatives like the Sainsbury's Quality, Aldi Price Match over Christmas and as we start this year are very much anchored into making sure that as inflation pressures build, we can continue to deliver that value perception without having to over-invest in value and are getting all the value benefits in perception but doing it in a very targeted way.

So, when we look out over the course of this year, that's what we're going to continue to do and we're achieving that through two key sources. The first is, as you know, our cost saving initiatives, our structural cost saving plan, and just to stress the point again, we're a year into a three-year plan. So, as we take cost out of the business, we'll reinvest it in the offer in the areas that matter most to customers.

The other thing I would say which is really important here, particularly in the challenges in the market, is as we grow volumes, clearly, we're working with our suppliers to improve value. So, this all comes back to – in our minds – improving the volume market share, presenting better value to customers, investing where it matters, and driving that cost saving program to underpin what we're doing. So, I hope that helps give some backdrop to your question.

Kevin, do you want to talk about the composition of the relative element in terms of the profit number?

**Kevin O'Byrne**

Yes, thanks Simon. William, the improvement of about £60 million, it's roughly about £10 million from Financial Services, £50 million from the Retail business. On Financial Services, a combination of slightly better volumes than we expected, in areas like credit card loans et cetera, and improved bad debts. Some of that is the release of the COVID provisions that we took last year.

On the Retail side, its largely volume driven. Obviously, operational leverage kicks in but also combined with that is very tight cost control and the teams right across the business did a tremendous job in the last Quarter just protecting every pound from a cost point of view.

**Simon Roberts**

Thanks, Kevin. Just one last point, William, which might be helpful on your question about value which I think is an important part of the equation is our success in driving trade up. So, as we invest in value and improve perception with those secondary customers, we shouldn't underestimate the significance of the trade up that we've seen happen.

You heard me talk about Taste the Difference, it was our best performing product here on two years, 13% up, we added a lot more new products into that. So, we're coming back to this core principle, which is we present better value at the heart of the plate and then we encourage those customers to shop across the rest of the store, and that's exactly what happened this Christmas. That trade up opportunity is clearly a really important one for us.

**William Woods, Bernstein**

Excellent, thank you.

**Simon Roberts**

Thanks.

**Operator**

Thank you. The next question then is from Victoria Petrova from Credit Suisse. Please go ahead.

**Simon Roberts**

Hello Victoria, good morning.

**Victoria Petrova, Credit Suisse**

Hello. Congratulations on a guidance upgrade. I have only one question left. So, I'm looking at this £60 million increase in underlying PBT. Could you just – and obviously, I understand all the moving parts, but if you were to split this £60 million upgrade into external factors and completely Sainsbury-specific factors – I completely give you credit for taking advantage of external issues, but what would the split be?

**Kevin O'Byrne**

Victoria, really hard to call that one but a very good question. Look, there's got to be some and some, hasn't there? There's no question in the volume upgrade we benefitted from more customers eating meals at home, particularly probably in the run into Christmas, and the fact that people could then have a full Christmas and there wasn't a complete lockdown.

So, there's definitely a tailwind from the COVID situation which, as we say, we think would be a bit lower going into next year.

**Simon Roberts**

Just one other point, I think just to build on what Kevin said, which obviously is just worth being really candid with you. When we spoke to you in November – it seems a long time ago now, doesn't it – we were around 50 days from Christmas there, I think. As you can see, we placed some pretty major calls this Christmas. We recruited 22,000 colleagues into the business to make sure that both in our stores and Online we could give the service and availability. That was the highest recruitment drive we ever did.

As you can see in some of the key elements of product, we bought big. We made some really big calls and some of those decisions happened in February and March last year, so these were strategic calls we'd made early in the year, and as you can see, we invested in a very bold value platform.

Honestly, at that point in early November, we made the calls based on the insight and the opportunity that we saw, but we just didn't know how they were going to play out until Christmas happened. The other point I would just say, just in a bit of backdrop to Christmas, it was a really interesting way in which the consumer behaviour played out this Christmas. So, we saw customers shop early where they could guarantee certainty.

Things like food ordering, online grocery delivery shop, customers secured those very quickly because securing availability was very much front of mind for the consumer this Christmas. But then what we saw happen in the peak Christmas week is that it came very late. I think there was a real let's call it apprehension while everyone waited for any change in government guidance and so whilst 23 December is always the biggest day, it was a bit of a nailbiter that week, honestly. It came very late and what we saw happen therefore was all of the calls we placed in terms of fresh food, really gearing up the organisation and the operation to do that really came through.

I would just finish that point in terms of the upgrade. It was a really awesome team effort. Our teams in our Stores, Online, Supply Chain and Logistics, all of our Commercial teams, all our Technology teams, all of the support in the organisation really lined up to drive this plan. Kevin talked about the momentum in the business; we felt a new surge in our momentum in Christmas week as we landed that offer, and that was a key part of how our performance came through.

**Victoria Petrova, Credit Suisse**

Thank you very much.

**Simon Roberts**

Thanks, Victoria.

**Operator**

The next question then comes from Clive Black from Shore Capital. Please go ahead.

**Simon Roberts**

Morning, Clive.

**Clive Black, Shore Capital**

Morning, guys. Happy New Year, very well done on your update. Two quick ones from me. Aldi and Lidl have been out on the front foot, trying to put the fear of God into you in the last couple of days with their trading statements. I just wondered psychologically how you feel about the trading environment going into the much-vaunted cost of living crisis that is going to hit us.

Then secondly, just in terms of customer behaviour and what they put in their baskets, you've talked about mix a few times, around Taste the Difference, but it suggests that across the business shoppers actually look quite confident and were buying quite high value items as opposed to trading to the bottom. I just want a bit more colour on that point, please.

**Simon Roberts**

Yes, sure, thanks Clive. How do we feel as we look out in terms of the consumer environment? I think as I hope you hear in our tone and in our messages today that we're very focused on the value positioning of Sainsburys in Grocery and it's a year into our plan. If we can continue to drive confidence in that secondary customer, we see a lot of opportunity in front of us to continue to get that customer to want to buy across the wider store.

That's absolutely as you know at the heart of what we're trying to do here. That's what happened this Quarter, so whilst there will clearly be inflationary impacts out there presenting relative better value so we can drive volume share, more customers more frequently buying more of their food with us is at the heart of what our value play is.

Look, this Christmas it really worked, and I would just say that the Sainsburys Quality, Aldi Price Match plan, the team did a really brilliant job bringing that together and it was a real cross-business effort. The week before we launched that, the whole organisation was joined up in how we were going to land that. We think it was important to give customers the certainty of that value so they bought across the rest of the store.

So, when you think about the Discounters, as you saw in the presentation we've just shared, you can see on the top 100 SKUs in Quarter Three, the Discounters have actually inflated fastest on those products, and we were deflationary. So, that's the way we think about it and look, the cost saving program and the volume play is an absolutely key underpin so we continue to do that. So, as we look out, we're determined on value, Clive, to make sure that we put best foot forward and we continue that strategy.

On your second point, maybe a couple of data points that might just help give some sense and colour to what happened. Customers were looking to treat themselves this Christmas for all the reasons that I think we all expected, first time chance to get together, bigger groups.

We saw in elements of our trade up, 13% up as I say on Taste the Difference, 25% up on two years in meat, fish and poultry, 16% up in produce, 12% up in bakery. We saw our biggest ever period for champagne and sparkling wine. In fact, New Year was interesting. Actually, having closed on Boxing Day, we reset ourselves for New Year, which we thought was important, and we saw our biggest ever New Year and again, trade up was important then.

So, I think the core of the strategy for us here is, get real confidence at the centre of the plate and then with an assortment that we have across the store, customers shop that broader assortment, that's what happened this Christmas. And important to say as well, the great thing about Retail, isn't it, that you learn a lot every year and we think we've got more opportunities to keep pushing into that space and more opportunities to keep driving the trade up and to extend how customers treat themselves when they shop at Sainsburys.

**Clive Black, Shore Capital**

Just a quick follow-up, Simon. Are you particularly worried at this stage about – given the rhetoric around cost-of-living crisis et cetera, about trading down in the future this year?

**Simon Roberts**

I think maybe we would all, of course, caveat everything I'm saying with there's no room for complacency right now. The consumer environment's going to be challenging for all the reasons that we know, and, in the end, customers will be looking for certainty of good value for money. So, our objective here is to be really determined in what we're pursuing on value and to give accessibility to trade up.

I think we can do both, Clive. I think we can accentuate our value credentials and the team and I are very clear that we can also extend the reason why customers choose to shop at Sainsburys. So, no complacency in that at all, but a real determination to push forward on both fronts.

**Kevin O'Byrne**

Clive, it would be one of the factors why we'd put some caution into next year, I guess. It's just that uncertainty because there's no doubt we see – in the General Merchandise business we can see people moving to more premium products, larger TVs, 65-inch TVs, higher spec laptops, that kind of thing, and inevitably they are going to be using some savings they've had over the last couple of years. I expect that to change.

**Simon Roberts**

Yes, I think that's an important point. The distinction between the Grocery business to your first question and then as you say, Kevin, General Merchandise and Clothing and making sure we've got a plan that's right for both markets, because it will be different.

**Clive Black, Shore Capital**

Thank you, Gentlemen, thank you very much. Well done.

**Simon Roberts**

Thanks, Clive.

**Operator**

Thank you. The next question then is from Nick Coulter from Citi. Please go ahead.

**Nick Coulter, Citi**

Morning and Happy New Year. First, just a follow-up on Clive's trade down question, just to check that you're not seeing any evidence or forward-looking feelers with customer panels or any data that suggests you're seeing a trade down, either in Grocery or in General Merchandise, at this point in time.

**Simon Roberts**

No, and let's maybe try and just give as much colour as we can. What we've seen happen this Quarter – and I think a key feature of this is establishing stronger confidence levels on our core price offer, as I say. So, as we've built up the credibility of Sainsburys Quality, Aldi Price Match, we're coming up to nearly a year now since we launched that and as you've seen, what we're doing here is continuing to improve it based on customer feedback.

So, the reason I would highlight that is because 90% of the volume going through that platform is now Fresh and that's where customers are buying into those products and then buying a wider assortment and we're not seeing that drive a trade down because what that is, is a price match to Aldi that is then getting customers to put more items in their basket.

As you've seen us report on the Christmas activity, we actually saw more secondary customers shop across the rest of the store as they bought into those Price Match products. So, if anything, I think the focus for us here is create real certainty for customers, improve their confidence in our value perception, and then make sure we present both assortment and availability and service so they shop across the rest of the store.

**Nick Coulter, Citi**

I get that, but obviously, inflation is very uneven and we're seeing probably some very strong inflation coming through on particular lines in different areas, so you're saying you're not seeing people trading across and substituting between lines? Essentially, it feels like you're saying the consumer at this stage is very robust.

**Simon Roberts**

Yes. Clearly, we're all looking at a set of Christmas Trading Results here where the consumer has been looking at trading up and has been looking at all of the things that are consistent with a Christmas period. I guess what I'm trying to describe is, as we look out over the medium-term outlook and the inflationary pressures that are there and the pressure on consumer spending, we're very cognisant of that, which is why we're putting so much of our energy into value.

I would say on the General Merchandise and clothing business, I think clearly the rules are different between Food and General Merchandise, as Kevin was saying. So, we're paying very close attention to make sure that whilst there are inflationary pressures in that part of the business, again, we focus more on all year-round value. Look, this is a day-to-day, week-to-week focus.

We listen to our customers week in, week out. Every meeting we have in our business starts with what our customers are telling us, so we'll be very attuned to these dynamics over the Quarter and the First Half of '22 opens up.

**Nick Coulter, Citi**

That's why I'm asking. I wondered if there any customer panels that you're doing at the start of the year that are giving you pause for thought, but it doesn't sound like that at this stage, from what you're saying.

**Simon Roberts**

Absolutely, and just to assure on the point, one of the things that as a team we're very focused on is clearly listening to customers, as you'd expect. We have a whole range of mechanisms with which we do that. So as you can see in our presentation again today our in-house measurement of customer satisfaction across a whole range of measures; availability, assortment, service, value, ease of shop, and a whole host more, are absolutely the focus of our day-to-day, week-to-week focus in the business. Everything that we do is driven from understanding that. So, yes, absolutely as this year unfolds, we will be very close to what our customers are seeing, thinking, and feeling.

**Kevin O'Byrne**

Nick, just to give you a bit more comfort, you'll see in this Quarter that we've just started you'll see us investing more in value, you'll see us being more loud about that in our marketing, et cetera. So we're doing that anticipating the customers will be looking for more value against the backdrop that you're talking about.

**Nick Coulter, Citi**

Great, thank you. Then on GM and apologies it's a bit of picky one on Slide 20 but just to try and help understand the profit bridge. Are those charts on the right-hand side on gross margin and cost per sale, are they a zero axis? I assume they're not a zero axis on Slide 20.

**Kevin O'Byrne**

No, they are not.

**Nick Coulter, Citi**

Okay, well I mean I guess they'll be illustrative at best then…with no zero axis it's tricky to interpret.

**Kevin O'Byrne**

Yes, maybe that was the intention but look, no, joking aside Nick, what we are trying to say here is Argos cost to sale has materially reduced in the period we are talking about. Then if we look at the total GM and the gross margin and whether we are looking at gross margin across the categories within Sainsbury's, Clothing in particular, or across Argos, we have been trading in a more disciplined way and hence we are pleased with the margin delivery.

**Nick Coulter, Citi**

Okay, right, so it's just gross margin up costs down and that's as much as we can take from those charts.

**Kevin O'Byrne**

I guess the profit uplift supports that it's coming through in the bottom line.

**Simon Roberts**

Just one maybe ancillary point if it's helpful just on that slide and just back to my earlier comments on cost. We are one year into our three-year cost transformation programme in Argos. So if you think about the changes we are making on the store in-store from standalone stores and also the logistics network. Again just to underline the fact that what you are seeing there in terms of the cost changes is at the first part of a three-year plan.

**Nick Coulter, Citi**

That's great, if they were zero axis it would be pretty impressive but clearly not.

Okay, last one then maybe if I can. One of the newspapers reported that Supermarkets might consider entering the potential or reported auction for Boots. Can you comment in any capacity and maybe generic thoughts on M&A or if you would rule out any interest and why? I guess Simon, I know the Boots business is obviously one you know very well. Thank you.

**Simon Roberts**

Thanks. I mean I think on a couple things to obviously say here, of course lots of speculation in the market, we have all seen that. I think that clearly a lot of strength in that business and as you say a business that I have some knowledge of. I mean what I would absolutely say as you can hear in our plan this morning, we have got a lot in our plan, and we are very focused on it. We are incredibly focused on putting food back at the heart of Sainsbury's, and we are in year one of a three year transformation of our business and all of our focus is on that.

**Nick Coulter, Citi**

Got it, okay, and just from an M&A perspective, obviously Sainsbury's did do large scale M&A with Argos but there obviously are a set of criteria that you would use for large scale M&A, what would those broad criteria be?

**Simon Roberts**

Yes, I mean forgive me for repeating myself, but I am going to just repeat what I've just said, as you would expect. Look honestly, we as a leadership team we are 12 months, 15 months into a real focus on what we think this business is capable of. We have relaunched our strategy, we have got a bold transformation plan to really shift the gears of what we think we can do. As you know, we are very focused on putting food back at the heart of business, we are seeing the early and encouraging signs of what we think that can do. But we are in, as I say, year one, of a three-year plan so that's what we are focused on.

**Nick Coulter, Citi**

That's great, your repetition is informative, thank you Sir.

**Simon Roberts**

Thanks.

**Operator**

Thank you, the next question then is from Xavier Le Mene from BofA Securities, please go ahead.

**Simon Roberts**

Good morning, Xavier.

**Xavier Le Mene, BofA Securities**

Yes, thank you and Happy New Year to you. Three quick ones if I may. Just the first one on inflation to go back to the trading down and the question you already have but is there potentially a level of inflation, Food inflation, where you will be potentially a bit concerned on its impact on trading forwards? Or do you think, I don't know, above 4% potentially the market will struggle, and the consumer will be under pressure?

The second one is just promotional participations for going forward, do you think you will have potential to resume promotion in a more challenging consumer environment?

The last one just on Argos more specifically, are you about to track the loyalty and the number of regular customers you had before the pandemic, during the pandemic, and maybe today? So is it going up, down, so any colour on that would be quite helpful?

**Simon Roberts**

Okay, no problem, Xavier, well let's try and – without repeating myself and ourselves too much try and speak to inflation first and then promotion and then Argos to your question. I will be a little bit repetitive on the first point when I think, as I say, look I am not going to predict what I think Food inflation is going to do this year. I think there are lot of factors that make that an unclear picture yet but it's clear the pressures are there. You have heard us say this morning that one of the key features of our Christmas trading update has been the positive impact of improving our relative value.

So that's exactly what we will do in the challenges of the environment ahead. I am very clear, we are very clear as a team, that consumers are going to face more pressure in their purse and wallet. So our job is to make sure if that happens through energy prices and other factors that we put very best foot forward on value, and that's why Sainsbury's Quality, Aldi Price Match, forgive me for repeating it, Price Lock, is such an essential part of our programme and why as a team we are so focused on making sure that we shift value perceptions. Because in any scenario of an inflationary cycle, customers being confident they will be able to access better value at Sainsbury's is going to be key in how we navigate through that period of time.

In terms of your second question on promotion and when I think – I mean as you can see, we are very focused on the price on the shelf. The price on the shelf available to all customers and we are pleased as we have put in Sainsbury's Quality, Aldi Price Match, and Price Lock that customers are responding to that price We have also importantly launched Nectar Prices this Quarter, over 95 million permutations out there every week as customers can access, you know individual prices uniquely served up for them. That launched early in the autumn and that clearly has come through in the period as well.
So now our focus is on those key value programmes, Sainsbury's Quality, Aldi Price Match, Price Lock, and Nectar Prices.

Then on your third question on Argos, I mean I think one of the things that was important to us, and we are pleased that we did, is we launched Nectar in Argos just on the way into the pandemic. That has meant that we are able to get much more of an insight as to how those customers are shopping and of course Nectar is a source that links together all of the insights about how customers are shopping, both in Sainsbury's and in Argos. So Nectar is the way that we keep an eye on that. But you know I have put a big emphasis this morning on our profitability and our cost programmes in Argos and General Merchandise.

Of course we are very focused too on the proposition and making sure as the pandemic situation hopefully changes over the course of the year ahead, the areas that we can think we can push forward on. We think we have got opportunities in areas like Home and Furniture as we roll out Habitat. We are very focused on improving availability. Clearly the challenges in availability will continue in Argos in the short term for sure as the wider industry. But as availability improves, we think that will be important for customers in driving their stickiness.

Of course we are rolling out the Local Fulfilment Network as you will remember which will improve availability as more of the fulfilment goes through that model. So a lot in front of us to deliver that. I hope that gives some kind of backdrop on the Argos picture as we look further out.

**Xavier La Mene, BofA Securities**

Yes, thank you.

**Operator**

Thank you, the next question then is from Maria-Laura Adurno from Morgan Stanley, please go ahead.

**Simon Roberts**

Hello Maria.

**Maria-Laura Adurno, Morgan Stanley**

Hello, Happy New Year. Thank you for taking my questions. The first one is, with respect to Clothing and the fact that you actually had a higher proportion of items sold at full price I was just wondering if you could comment as you viewed – in terms of how you viewed this evolving into this year.

The second question I had is, looking at it slightly differently around the comments you made on inflation, how are negotiations with suppliers going for the year ahead? Has dynamic changed versus last year, so any comments would be helpful, thank you?

**Simon Roberts**

Sure. I mean let me just try and speak about Clothing and I'm sure Kevin will come in on this one as well. I mean I think as ever as you would expect we are making choices based on the environment that we are in right now. So of course the environment in Clothing has been different through the pandemic, which has meant that we have chosen to run less promotional days and that's worked for us as you can see.

We have been able to deliver 38% more full priced sales in the period. We have been very clean in terms of mark downs and important to say actually that some of the global shipping challenges have impacted Clothing as well. So we had products that we would have liked to have arrived a lot further before Christmas than they did. I certainly saw Christmas jumpers arriving quite close to Christmas.

So there have been some impacts there which is why when we talk about the overall performance of the Clothing business, we think less promotion has been the right thing to do. The team have done a brilliant navigating in what's been a pretty uncertain environment in terms of products across the world and into our business. Look, I think we will look at how the environment plays out. What I would say is we think we've got a great brand in *Tu*, customers really like the brands. We think there is real opportunity to continue to drive it and we'll adapt as the environment opens up. But less promotion has worked for us in this period, and we are confident we have taken a lot of learnings from that. Anything on clothing?

**Kevin O'Byrne**

Just the only thing to add Maria, our general direction of travel is fewer promotions sort of focused more on everyday value, that's sort of the general direction of travel. But of course trading is dynamic, and we would flex depending on the circumstances.

**Simon Roberts**

Then just – I mean just more broadly on value, I think we have hopefully tried to give you as much colour as we can on value but as I say come back to the sort of core principles. We are investing in value at the heart of the plate, you can see our relative improvement against competitors. You can see what we have done in the Grocery offer to make sure that we are putting best foot forward there and one of the features of that has been improved availability. You were asking me about suppliers, and I think that I just couldn't underscore enough the importance of as we improve value the partnership and the way in which we have been working with our supply base.

If you go back to September, four and a half months ago, and think about the challenges in the UK food supply chain at that point in time. We were coming out of a big staycation that had really impacted volumes, we had challenges with CO2, we had major challenges in the availability of the workforce in the meat processing and poultry industry. We had big challenges with having enough drivers to move products around. To get to the outcome that became possible, not just in Sainsbury's but across the industry, that has been a monumental effort of collaboration across the supply base, suppliers working together to drive the outcome. You know back to the first principle here; we want to grow volume in partnership with our suppliers so that their business wins and our business wins.

**Operator**

Thank you, the next question then comes from James Grzinic from Jefferies, please go ahead.

**Simon Roberts**

Hello James.

**James Grzinic, Jefferies**

Morning, Happy New Year. Just a couple of quick ones. Sorry to go back to inflation again but I guess it would be helpful to understand what your Q3 grocery inflation was? I take your point you were deflationary in the core 100 lines but if you can give us a broader picture. In your mind is the peak of that probably going to be a fiscal Q1 2022 dynamic, from your perspective, in terms of inflation pass through?

The second one is around temporary costs. Can you perhaps help us understand the scale of temporarily elevated costs that the business has been facing more broadly across the supply chain?

**Kevin O'Byrne**

James, just on the overall inflation in Quarter Three was around 1% so those core lines that we pointed out we deflated, but overall Food inflation was around 1%.

**James Grzinic, Jefferies**

Okay.

**Kevin O'Byrne**

We don't break out the temporary costs.  The only thing I'd probably guide on is you know COVID costs, and we can come back at year end and give you more detail. Obviously, this is just a Trading Update.  But we talked about 10% to 15% of last year's number. It's going to be at the higher end of that, given the recent outbreak and some of the additional costs that we had to incur because of that.

**James Grzinic, Jefferies**

Thank you for that Kevin. But more broadly on the supply chain, you know, the special rates that you had to pay for drivers et cetera, et cetera. I mean there's been a lot of dislocation inefficiencies in the supply chain above and beyond COVID. So I'm trying to understand how big that is.

**Kevin O'Byrne**

Yeah and we're not breaking that out this morning, James. We took a number of actions. You know we gave retention payments to our Grocery Online drivers, we gave a mixture of some pay rises and some retention payments right across our Logistics infrastructure. But we're not breaking out that number this morning.

**James Grzinic, Jefferies**

Understood. Thank you.

**Kevin O'Byrne**

Thank you.

**Operator**

Thank you, the next question then is from Sreedhar Mahamkali from UBS, please go ahead.

**Kevin O'Byrne**

Hello Sreedhar.

**Sreedhar Mahamkali, UBS**

Hi, good morning. A couple of quick maybe last ones then please. Firstly on Argos, as you look forward, I know you don't want to give us anything just yet in terms of outlooks and things like that for the year ahead, but just as you look ahead, do you plan for some consumer headwinds this year? As the supply chains ease, though you still have the benefit of easier comps, but from a demand point of view should we be thinking there'll be some headwinds, especially in the discretionary categories?

Again, sticking with Argos for a second. I'll be interested in if you are able to share what you're learning from the rollout of the Local Fulfilment Centres. I know you've talked about 32 Local Fulfilment Centres. So that will be very helpful just on Argos.

Secondly, I guess a little bit related to James's point a second ago on pricing. You've clearly shared very helpfully the Top 100 SKU's, but the overall chart, will that look broadly the same if we look for prices across the full stores?

**Simon Roberts**

Thanks Sreedhar, well let's take the questions in turn. So first of all just in terms of the GM&C - let's call it the demand outlook, given inflation. I think a couple of things I would just come back to. The reason we're so focused on our margin discipline and cost transformation plan is because we see the importance of those in mitigating the impacts of demand over the medium term.

So clearly there will be impacts as inflation passes through on discretionary spend. And therefore, delivering on Year 2 of the cost transformation plan, making sure we're really disciplined in our margin and choices on promotion, will be an important factor in ensuring what happens at the top line. We can mitigate that if there are impacts. We are planning for some, of course and we're confident in what we've learnt through this Quarter and the second half of this year is preparing us for that outlook.

I would come back to - you know one of the key parts of the Sainsbury's GM&C business and Argos is clearly to make sure we present good value. So in that environment, given that customers are back in Supermarkets more than they were a year ago, you know we're seeing a higher return, as you've seen, to customers in the store.

That's a real opportunity to make sure that we put best foot forward in terms of value and availability as availability improves. But we are, we're very alive to the impact, as I say, of discretionary spending and making sure that we're managing cost and margin to mitigate that as far as possible.

I think on the second point you raised. We are in the early phase of the Local Fulfilment Centre rollout. So as you say 32 by the time we get to the endpoint. So we've opened in Bristol and Leeds and we're pleased with how the programme's going. You know, as you say, the key feature of this is not only the reduction in cost as we become more efficient in our distribution. But also over time, as we get to more live locations, improvements in live availability, same day. And you know as a team were really focused on this because of course availability is really important to the Argos customer.

So let's hope the supply chain challenges, globally, improve as we get further into the year. And combined with this rollout, these two things together we think will be helpful. When we look at what customers say, availability is the biggest driver of the reasons they choose to shop with us, so we see opportunities as we roll that out to get those benefits.

Then I think in terms of inflation more broadly. I mean we've tried to answer as far as we can, I think this morning on what we see. As you say the value platform in grocery is essential. What I would just say is you know I draw attention again to the two key slides in the pack. Our relative value index against our key competitors and the improvement year over year, both in the overall basket and at the centre of the plate. And also, as you say Sreedhar, that on the 100 items we've been deflationary, and you can read into our results there. The fact we've grown volume market share on a one- and two-year basis ahead of the market points to the fact that customers are seeing better value in our offer.

**Sreedhar Mahamkali, UBS**

Thank you so much Simon.

**Simon Roberts**

Thanks a lot Sreedhar, thank you.

Okay, I think we've come to the end of all the questions. Thanks very much for joining us this morning, I hope we've been able to answer your questions as far as we can. Look forward to picking up again very shortly.

Just to finish the call by saying a huge team effort from the whole team to deliver what's been a pretty challenging environment out there this Christmas. The results and the upgrade we're pleased to share today and we're taking that momentum into this year.

Speak soon and thanks for joining us.  Thanks everyone.