

## J Sainsbury plc

**Interim Results Announcement 2023/2024 Presentation and Analyst Q&A**  
**Thursday, 2 November 2023 09:00am**

### Presentation

**Simon Roberts**  
**Chief Executive**

Good morning, everyone. Welcome to our 23/ 24 interim results presentation. Thank you for joining us today. Now, I'm going to start with a brief introduction to cover progress against the priorities we set out three years ago in our Food First plan. Bláthnaid is here with me, and she will then cover the financials and then I'll go into more detail on some of the strategic highlights from the first half.

Now, you will hopefully recognise our five priorities that we set out three years ago now back in November 2020. Since then, we have talked to you many times about the key pillars of Food First, Brands that Deliver, and Save to Invest, underpinned by being connected to our customers and delivering through our integrated Plan for Better.

Now, we've made strong progress, reigniting our passion for food, building resilience in our Brands that Deliver and making bold choices to reduce our cost base. This has provided us with the fuel to invest in our food offer, improving service, innovation and particularly, value. I'm pleased to say that our relentless focus driving these improvements have delivered, with food now firmly back at the heart of Sainsbury's. We're consistently delivering for customers on value, innovation and service, and they're noticing.

Now, as a result, we've seen a significant shift in our market share momentum, and we've grown Grocery volumes ahead of the market consistently since the start of the financial year. You can really see our progress here in the switching data, which shows volume gains and losses between different retailers. We are now gaining volumes from all of our Grocery competitors and we're the only full choice supermarket to be gaining volume from both Aldi and Lidl.

Now, of course, a big driver of this is the meaningful improvement in our value proposition. We said at the start of this strategy that we weren't where we needed to be on price. Quite simply, customers wanted to shop at Sainsbury's, but back then, we were too expensive. Through the significant investment we have made in value, our price match to Aldi, the introduction of Nectar Prices across the basket, and through continuously passing through less inflation than our key competitors, we are now at our most competitive on price, and customers are depending on us and now trusting us to deliver consistently great value.

Now, that consistency really shows through here – an update of a chart we have shown you previously demonstrating our progress from November 2020 up to now. The outcome, as you can see, is clear. We have improved our value position against all of our key competitors. The investments we have made across our food proposition are really being noticed by our customers, and as a result, they are rating us more highly.

We have consistently outperformed on overall customer satisfaction, but what you can see here is the progress we've made and how we show up for our customers across the full spectrum of the metrics that are really important to them. Now, we are particularly encouraged by the progress we've made so far this year on improving our value perception – a measure which you will all know is notoriously slow to move.

Now, alongside our progress in Food, we've transformed Argos into a fundamentally more resilient, profitable business and a leading digital retailer. When we talked with you at our Quarter 1 results in July, we flagged the tough comparatives that Argos faced this year after an exceptional summer last year.

At the time, we were optimistic about the weather for summer 2023, but as you all know, unfortunately the weather over the summer didn't go our way. As a result, we saw significantly weaker sales across the higher margin seasonal categories. Just to give you some examples, in the second quarter, paddling pool sales were down 74% year on year. Barbecue sales were down 46% and garden furniture sales were down 42%.

However, we continue to outperform strongly in the key electronics categories, with strong market share gains as customers have responded well to our improved availability and a greater range of more premium products. Just as an indication of the significant change in customer behaviour we saw this summer, gaming sales were up 20%.

So, while we took a hit on the top line and on gross margin mix, Argos continues to become a more efficient business, reducing the fixed cost base and therefore limiting the impact of revenue and mix shifts on the bottom line.

Now, before I hand over to Bláthnaid on the financials, I want to reflect on the eight key operational and financial metrics that we set out three years ago. I committed back in November 2020 that we would report on our progress every time we updated you.

So, as we look at the operational metrics, I am really confident in the progress we have made and in the strength of our delivery. Our momentum is continuing to build. We've made record gains in Grocery market share. Our customer satisfaction scores show that our customers are recognising the improvements we've made.

Significant progress, too, in our colleague engagement, and that's really helping to power our performance. And we're working hard on our Plan for Better objectives, making good progress in some key areas of our plan, but recognising too, there is still more work for us to do in others.

Now, on the financial metrics, as we look ahead, we expect our strong momentum to continue. We've upgraded our profit guidance today, despite the headwinds caused by a tough summer in our General Merchandise and Clothing businesses and with the reduction in Financial Services profits. Our Group UPBT is significantly higher than it was at the outset of the strategy, despite significant investment in the customer offer.

And we're on track to deliver the £1.3 billion of structural cost savings, the quantum associated with our original target of 200 basis points of cost of sales reduction and more than double the savings run rate of the prior three years.

We've increased our guidance on the amount of retail free cashflow we will generate. And as a team, we remain very focused on driving further improvements in returns, both in terms of capital discipline and profit evolution. This will be one of the key focus areas we'll talk about more when we get together in February as we look ahead towards the next phase of our strategy.

So, we've made a strong start to the year, and we're encouraged by the continued momentum we're carrying into the second half. I want to recognise every one of my colleagues and all of our supplier partners. They are continuing to do a brilliant job, driving forward our progress and enabling our success. Huge thanks go to all our team for all they're

doing every day to deliver for our customers. With that, I'll now hand over to Bláthnaid to cover the financials.

**Bláthnaid Bergin**  
**Chief Financial Officer**

Good morning, everyone. Thank you, Simon. I will now cover the financial highlights for the 28 weeks to 16 September.

Covering sales first, Grocery sales increased 10.1% in the half, with volume growth in both Q1 and Q2 despite tough comparatives. This was against last year's very warm summer weather and strong events performance. Growth eased a little in the second half as inflation slowed.

General Merchandise sales grew 1.1% or 2.5% excluding the closure of Argos in the Republic of Ireland. Sales of outdoor and seasonal products were down more than 30% in the second quarter, reflective of our very poor summer weather. This was offset by market share gains and strong sales growth in electricals, with Argos' Q2 sales down just 0.1%.

Weather also impacted Clothing sales, where we took a disciplined promotional stance. This had a significant impact on seasonal impulse purchases in a highly promotional market.

In total, H1 retail sales excluding fuel were up 7.7% year on year, or 8.4% on a like-for-like basis. Including the impact of lower fuel sales, primarily reflecting lower prices, first half sales growth was 2.6%.

Turning to the key profit numbers, retail operating profit was up just under 2%, with strong profit growth in Grocery, partially offset by the mix impact on General Merchandise gross margins as a result of lower seasonal sales.

Financial Services profits fell primarily due to lower net interest income.

After slightly higher underlying net interest costs, underlying profit before tax was flat year-on-year.

At a statutory pre-tax level, we reported a profit of £275 million. This is down £101 million against the prior year. Within this, restructuring costs were broadly unchanged year-on-year, and I'll cover the key movements behind this shortly.

Looking at the balance sheet, net debt including leases reduced by over £700 million from the year end. In addition to our strong cashflow, this reflects a net benefit of £372 million from the completion of the Highbury and Dragon property transaction.

As a reminder, we bought 21 of our best supermarkets back from a property investment pool which we part owned. This transaction completed earlier in the year, removing lease liabilities of just over £1 billion. The net cash cost of the transaction was £670 million. We funded this with cash and a term loan, and this is reflected in the movement of ex-lease debt position from net funds of £144 million to net debt of £231 million.

Net debt to EBITDA reduced to 2.6 times reflecting three things – the impact of Highbury and Dragon transaction on net debt, continued strong cash generation, and as normally the case, a strong seasonal working capital benefit, which we would expect to partially unwind in the second half.

You can see our return on capital employed improved to 7.9% from 7.7% at H1 last year, primarily driven by our continued focus on debt reduction.

We generated £520 million of retail free cashflow in the half – a strong performance, but this is down versus last year's exceptional level. We benefited from three things. First, strong working capital inflow driven by the seasonal timing benefit mentioned earlier. Secondly, Grocery inflation. Finally, strong stock control.

The reduction in underlying earnings per share after flat pre-tax profits is driven by the increase in the rate of corporation tax. We will pay a dividend of 3.9p per share, in line with last year, and with our practice of paying 30% of prior year's full dividend.

Turning to Financial Services, underlying profit was down £6 million year on year. Revenue growth was strong, driven by lending growth and travel money commissions. You can see net interest income reduced as the impact of significantly higher base rates on funding costs was not fully passed on to consumers. This reflects both the market dynamics, together with the nature of the products we have – specifically, buy now, pay later at Argos – a really important part of the Argos proposition.

We also continue to see a high proportion of both credit card and Argos card customers continuing to clear balances rather than incurring interest costs. Ultimately, it's a high-quality credit book with the low bad debt ratios being an indicator of this. However, this provides a margin squeeze in the current circumstances.

We completed the sale of the mortgage book during the period, reducing net lending by £449 million. The impact on total consumer lending was partially offset by growth in unsecured lending. We are focused on optimising the lending portfolio and on cost reduction, but we now expect Financial Services profits to be lower than last year's levels.

Returning to the Group P&L. In order to provide a clearer view, we exclude P&L items which do not reflect the Group's underlying performance. These are outlined on this slide. Restructuring costs of £32 million relate to the program announced in November 2020. Our guidance for the total restructuring charges for this program is unchanged. To date, the cost of the program has been £778 million, with cash costs of £243 million.

We expect a related cash outflow of around £20 million in the second half, which would mean total cash costs of a little more than £260 million through to the end of this financial year. The remainder of the one-off costs are primarily non-cash, including a loss on the disposal of the mortgage book, a year-on-year change in the movement of energy derivative positions and non-cash movements relating to the Highbury and Dragon property transaction.

Now, on to debt and cash. This table shows the key elements of the cashflow and movements in net debt this year and last. There are three main drivers of the differences in retail free cashflow – specifically the lower working capital inflow, higher Capex as guided, and last year's dividend of £50 million from Sainsbury's' bank that we don't expect to repeat. We have broken out the elements of the Highbury and Dragon for you here.

We continue to expect full year Capex of between £750 million and £800 million, and we now expect free cashflow of at least £600 million this year, higher than our original guidance of at least £500 million.

Just a quick reminder of our capital allocation framework. As outlined before, the cornerstone is targeting a solid investment grade balance sheet, through leverage

comfortably within the range of 2.4 times to 3.0 times. We then commit to paying a strong dividend to shareholders through a payout ratio of around 60% of underlying earnings. We then look to invest in high returning opportunities that generate future value. Finally, we are committed to return any surplus cash to shareholders. As we've said before, we will talk about this once we are comfortably within our target leverage range, and we will provide an update in February.

We are pleased with the performance delivered in the first half, with strong Grocery volume growth, good cost discipline, strong cash generation, and resilient profits despite seasonal headwinds and cost pressures. So, while Financial Services is a headwind for us this year, we're confident of delivering underlying profit before tax of between £670 million and £700 million – the top end of our guidance range.

Cash generation continues to be strong, and we now expect to generate retail free cashflow of at least £600 million for the full year.

Thank you for your time and I'll now hand back to Simon to cover the strategic highlights in more detail.

**Simon Roberts**  
**Chief Executive**

Thank you, Bláthnaid. I'm now going to review in some more detail the progress we've made during the first half of this financial year. But first, I'm going to share with you a brief film which really does set out our bold ambition in food to deliver Good food for all of us.

[Video Plays]

Now, as I hope you can tell, this is galvanising our entire team as we work towards the next stage of our ambitions for food at Sainsbury's. It is testament to the energy we've collectively put into our Food First plan, the passion we now have again for the food that we sell, and the joy for food that we want to inspire in all of our customers. So, as I hope you can tell, we think we have a lot further to go with our ambition here.

Now, as I've told you already this morning, our Food First plan is delivering. You can see that in our volume performance against the market. The next few charts really demonstrate what's driving the outperformance. We're growing customer numbers faster than our competitors, and secondary customers have been a key part of that.

We said back in 2020 that we were underperforming with secondary customers, and it was probably the clearest indicator of a price position that needed improving, as those customers, far more than was the case with competitors, were buying a few items at Sainsbury's but not trusting our prices to do more of their shop with us.

So, by focusing our investment on key centre of plate items and consistently delivering better value for customers on the products that they buy most often, we're now seeing more and more customers shopping with us across the full basket and trusting us for those big mission shops too. Not just popping in for a few items on their way home but choosing our supermarkets as the destination for doing their bigger shop for the full week.

For over two years now we've consistently inflated, month in, month out, behind key competitors. So we're delivering improvement on improvement.

The chart shows some big recent swings from some competitors, but what really marks us out, as we said before, is the consistency of our position and this is what our customers are recognising. We have a unique value proposition in the UK market across Aldi Price Match, Price Lock and personalised pricing through Your Nectar Prices.

Then in April of this year we launched Nectar Prices, discounts for everyone across our supermarkets and Groceries Online. We rolled out Nectar Prices at pace in a well-executed launch that saw us really connect with customers and deliver end-to-end, across the business. We now have more than 6,000 products available on Nectar Prices and customers have already saved over £450 million since April, and they're saving on average nearly £10 on an £80 weekly shop.

The customer response has exceeded our expectations, with the vast majority of customers now shopping Nectar Prices and more than three million new customers signing up to Digital Nectar since launch. We are excited to have just this week launched Your Nectar Prices, our personalised discounts on groceries online, just in time for this Christmas. We're looking forward to hearing how our customers find this addition to their online shopping experience.

Now you've heard me talk about the step change we've delivered in terms of innovation and I'm really encouraged to see our performance in premium own label volume growth against all competitors during the first half of this year. We launched almost 600 new products in the half, with more than 70% of those in Fresh Food, and we have refreshed all of our Taste the Difference packaging, with much improved product descriptions and visual impact.

As you know, we have been deliberate in our focus to win the big events, but customers are also choosing us more often for other dining in at home occasions, driving stronger Taste the Difference performance over the summer with volume growth in the second quarter of 8.4%.

We've also launched a new, high quality convenience food offer of premium sandwiches, salads and deli meals in supermarkets and convenience stores called Kitchen Deli. We are rolling out new displays to the back walls of many stores with Kitchen Deli and enhanced charcuterie and cheese displays replacing some of the closed counter space.

And we're stretching the offer further for this Christmas, with ambitious product innovation, including more than 170 new Christmas Taste the Difference products this year, such as our Slow Cooked Turkey Crown, our Bao's of Holly and our Topsy Toffee Pies, which I have to say taste amazing.

Our plans and innovation also extend into our Plan for Better, and the work we're doing to support British farming for the future. After a decade of development we have launched our new Taste the Difference Aberdeen Angus beef range. We are revolutionising beef production, reducing carbon through superior cattle breeding, to offer to our customers the largest lower carbon beef range in the UK, with a 25% lower carbon footprint than industry standard and at the same time we're giving greater security and stability to our farmers through the way that we pay. Now this is an industry first. Through this range we are now delivering much improved customer, producer and sustainability outcomes.

We also announced during the half an additional £6 million of support for dairy farmers, recognising the need for continuous investment in the sector to support them through rising costs and to help provide the necessary certainty and investment for making greater progress towards sustainability goals. Most recently we won the Marine Stewardship Council UK Supermarket of the Year and Aquaculture Stewardship Council UK Retailer of the Year titles; the first time a major retailer has won both awards.

As well as supporting our suppliers, we continue to put our people first. We have invested significantly in colleague pay and have extended our increased colleague discounts and free food during shifts indefinitely. I'm greatly encouraged by the further progress we've made in our colleague engagement, as you can see here. We know that this is driving lower absence and improved retention too.

At our year end results in April, I shared that our colleagues were at the very heart of delivering our future success, and delivering more for all of our stakeholders. It's our strong belief that higher colleague engagement drives greater productivity, as you can see here, and, most importantly, better customer service.

You can see that coming through here, on this slide. We continue to outperform on overall customer satisfaction in our supermarkets. We have also improved our Convenience customer service scores due in the half by 6 percentage points year on year, and a really sharp focus on improving the online customer experience has led us to move ahead of our competitors in Quarter 2.

This has been driven by our focus on greater levels of service and efficiency in Online. We have steered clear of additional sales driving activity and have focused instead on improving the offer and reliability for our Online customers. You can see that this focus is paying off, with improvements across the range of customer service metrics and continued productivity improvements.

So turning now to our Brands that Deliver. Remember our commitment here is to build more resilient businesses, profitable in their own right, and supporting the core Food business.

So starting with Nectar. Well we're well on track to deliver the incremental £90 million of profit contribution that we've targeted. Powered by our rapidly expanding digital customer base, Nectar360 remains at the forefront of retail media innovation in the UK, delivering high returning solutions for suppliers.

We've recently announced plans to build Sainsbury's Live, one of the UK's largest network of digital screens in supermarkets, extending the reach we can offer to our hundreds of brand partners.

Argos continues to gain market share with its leading digital first proposition. Unmatched convenience for customers through same day delivery to more postcodes than anyone else in the market and a network of more than 1,100 points of presence where customers can collect their orders.

We've continued to improve the customer experience in the first half, with clearer visibility of range availability and an e-mail me when back in stock option, delivering improved conversion rates. We're also getting more and more support from key suppliers, helping drive market share and expand our range of higher ticket, more premium brands and products.

Our Tu Clothing business had a tough summer with impulse purchases down significantly as a result of poor weather in July and August and a particularly warm early September. Perhaps most importantly though, a key consequence of the weather was the high levels of discounting and promotions across the market. We deliberately stayed away from this. Hence we saw a disproportionate impact on volumes relative to the market but good stock control and limited profit downside. Also, we know our ranges in Womenswear weren't quite on point this year, but as we regularly refresh our offer we expect to see improvements coming through soon. But all in, this is not a big issue for us and sales momentum has improved considerably over the last four weeks as the weather has normalised.

Save to Invest sits at the heart of our Food First strategy, simplifying the business, making it more efficient and reinvesting the benefits where it matters most to our customers. We've now delivered £1.1 billion of cost savings since March 2021 and we're on track to deliver our target of £1.3 billion of savings by the end of this year, double the prior run rate.

During the first half we've started work on migrating to a new, more efficient and consolidated network of data centres and we've launched a completely new way of working with partners across our logistics operations. We've also begun work on end-to-end redesign of product flows in Food and General Merchandise to reduce costs, and we've continued to reduce the fixed cost base of Argos and its network.

While many of these projects will be delivering over multiple years, we're not stopping there, with significant work also under way on end-to-end programs and unlocking structural cost reductions through investment in automation, machine learning and robotics. We will cover more on these opportunities as we look ahead at our strategy update in February.

In February, we will reflect on where we are as we look to the next phase of our strategy. The short answer is that we are a fundamentally stronger business than we were three years ago, with a significantly improved customer proposition, great momentum with customers and a far more resilient profit base, but we are also consistently proving to ourselves that having fixed a lot of the basics we have a lot more potential to deliver.

You know every time we challenge ourselves on where the ceiling is, we find that we can stretch further and find more upside. We know that we can keep building on this stronger platform for growth that we now have and the team and I look forward to covering much more on this with you early next year.

So, with just over 50 days to go, we're carrying fantastic momentum into this peak trading season. We have bold and ambitious plans to deliver another strong Christmas performance. Our value position is the strongest it has ever been relative to our competitors. We'll be bringing Nectar Prices to customers this Christmas for the first time and we've really pushed the boat out on innovation too. This means that our customers really can treat themselves and at great prices.

Argos is also really well set up to deliver for customers this Christmas. Investment in our website continues to make shopping easier and faster. Our ranges and availability are better than ever and we now have Argos stores in 431 of our 596 supermarkets and more and more customers are recognising the convenience of Argos inside Sainsbury's. Perhaps most important, we go into this peak trading period very well set up operationally and ready to really deliver for customers and provide outstanding customer service.

Thanks for listening and for joining us this morning. We look forward to updating you on our further progress at our trading statement in January, and we will now take your questions.

## **Question and Answer Session**

### **Operator**

Hello and welcome to the Sainsbury's 2023/24 Interim Results Analyst Q&A call. On the call this morning is Simon Roberts, Chief Executive, and Bláthnaid Bergin, Chief Financial Officer. For the Q&A section of today's session, we'll be utilising the raise hand feature. If you would like to ask a question, simply click on the raise hand button at the bottom of your screen. Once you've been invited to please unmute yourself and begin with your question. If



you have dialled in please press star 9 to raise hand and star 6 to unmute. Please make sure your mic is not muted locally on your phone. Thank you.

Our first question is from Freddie Wild at Jefferies. Please unmute yourself and begin with your question.

**Simon Roberts**

Hi, good morning.

We can't hear you Freddie.

**Freddie Wild, Jefferies**

There we go. Sorry, it was saying I couldn't unmute myself.

**Simon Roberts**

We can hear you now. Good morning.

**Freddie Wild, Jefferies**

Good morning, and congratulations on the results.

**Simon Roberts**

Thanks.

**Freddie Wild, Jefferies**

First of all, I don't suppose you could help us quantify the exact impact on H1 EBIT from the Argos profit dilution? Then secondly, on the leverage point, you obviously post the Highbury and Dragon transaction have seen leverage drop quite substantially. How do you think about the 2.4 times to 3 times range and what would make you – what catalyst would make you change your mind about how to change that leverage and get back towards the upper end? Thank you.

**Simon Roberts**

Okay, great. Well why don't I take your first question and then Bláthnaid will take the second? Just in terms of the first half, clearly we're really encouraged with our performance first of all, particularly our momentum in Grocery. What you can see is that volume momentum has really driven the profit performance in Grocery. As we've really driven our volume outperformance, that's converted into strong profit delivery in Grocery.

On the other side of the business of course, the summer was tough in GM and you know as we said in the presentation, there was a significant impact on both the mix and the gross margin therefore in GM as the weather impact, not only was tough in itself but in many ways it was a double whammy because it was up against such a strong, blistering heatwave through the summer last year.

So when we stand back and look at our results, you know the fact that we delivered a level UPBT year on year, I think just demonstrates the strength of the profitability in the food business. We had a tougher period in GM, you've seen that we've delivered lower profits in

the Bank and therefore, just the strength of how much Grocery came through in the margin. Bláthnaid.

## **Bláthnaid Bergin**

Great, well firstly, Freddy, I'm going to start with congratulations to you as well, I understand there's a new arrival in the house, a lovely baby girl.

## **Simon Roberts**

Oh, congratulations.

## **Bláthnaid Bergin**

So congratulations from myself and Simon on that. Just on the range, so look, we are now comfortably in that range of 2.4 to 3 times. I would not expect that to change between here and year end. We'll come back and update you in February on what the next steps are for us.

## **Simon Roberts**

Thank you, good to see you.

## **Operator**

Our next question is from Andrew Gwynn at Exane, please unmute yourself and begin with your question.

## **Simon Roberts**

Good morning Andrew. Andrew?

## **Andrew Gwynn, BNP Paribas Exane**

Right, there we are. Hopefully all good.

## **Simon Roberts**

Yes.

## **Andrew Gwynn, BNP Paribas Exane**

Yes, so firstly, well two questions indeed. Just give us a glimpse on the Strategy Update. I suppose - I hate to use the term but I suspect there's probably more evolution not revolution. Also maybe thinking a little less about cost saving opportunities, a little bit more about gross profit. Is that a sort of fair way of framing it?

The second actually just coming back to your slides. Slide 8, very interesting, obviously showing a very good progress with your customers. Obviously you've made some very good progress with those secondary customers. Can you give us an idea of what the customers who aren't shopping at Sainsbury's are wanting to see? Maybe actually also a relative indication of how big that pool might be. Thank you very much.

## Simon Roberts

Andrew, thanks. Let's take those questions in turn, starting with our update in February. Look, I think, as you know, it's actually three years to this point we announced our Food First Strategy in November 2020. So in February next year we just think it's a great opportunity to be able to look back and really reflect on where the business is at.

Of course, what we want to do is to share with you the progress we've made. But also importantly look ahead to who we see the opportunities ahead. We'll spend a lot of time as a team with you in February talking about that. And actually talking about the industry backdrop as we see it today and therefore as we make more progress with our strategy, where we see the next stage of that value. So, 7 February looking forward to that day with everybody.

In terms of your question on our profitability. Look, as we, I hope, described in our results today, we're really encouraged with our momentum, particularly in the Grocery business. The fact that we have been able to drive the volume performance in the way that you've see.

The fact that we've taken share from our competitors, and particularly for the first time in this half, from the limited choice discounters and the fact that that volume is driving the outperformance in terms of the performance of our food business and our profit delivery. That being achieved against a backdrop of a much tougher summer in GM, because of the weather, frankly. You know the momentum in the Argos business is strong. We're gaining share. But, of course, it was a really tough comparative that we anniversaried against and with the impact of the Bank. So, I think when you think about all of those things, the fact that the profitability was level year-on-year just points to the strength of the momentum in the food business.

In terms of your point to Slide 8. Yes, look, you'll remember back, I remember the conversation we had at the time, in November 2020. When we shared with you that the issue that we had to face into with our Food First Strategy is that we were simply too expensive. That was particularly the case with secondary customers who increasingly were doing the smaller part of their shop with us and the bigger part of their shop with somebody else. Really what we're seeing now is that's what's fundamentally changed - winning those secondary customers back, anchored in those investments we made at the centre of the plate.

You know I reflect back to a time when our meat, fish and poultry aisle and our produce, fruit and vegetable areas were just not abundant enough with stock. We weren't really driving the offer. When you look at those parts of the store now they're absolutely driving the core of our business. What we're seeing is that customers are buying into the really strong offer and shopping the rest of the basket too.

Look, I think on your final question. Always opportunities is the way I would frame it. We're growing our volume in food. We're continuing to build trust and confidence with our customer base, particularly on value. Look, as you can see in our charts today, you know it's all about the consistency of that value position month in, month out. We want to build real trust with our customers that they can always rely on our value.

And as we continue to do that we'll continue to keep pushing ourselves to win more customers back into Sainsbury's. There's always opportunities to do that. Thanks Andrew.

**Andrew Gwynn, BNP Paribas Exane**

That's all very clear, thank you very much. Apologies you can't see me but maybe that's a good thing! Thank you.

**Simon Roberts**

No, we could hear you well Andrew, thank you.

**Operator**

The next question is from Izabel Dobрева at Morgan Stanley, please unmute yourself and begin with your question.

**Simon Roberts**

Morning Izabel.

**Izabel Dobрева, Morgan Stanley**

Hello. Good morning, how are you?

**Simon Roberts**

Yes, good, thank you.

**Izabel Dobрева, Morgan Stanley**

Thank you for taking my question. So, I have two.

The first question is just around pricing. You have materially improved your price gap. Are you satisfied with where they sit now? Or should we expect you to continue the pace of inflating behind the market by say 100 to 200 basis points over the next 12 months? The reason I ask is because, of course, the pricing will likely come off at market level next year, so it may be more difficult to maintain that level of pace. That's the first question.

Then the second question is just going back to the profits. The retail EBIT was flat-ish, whereas one of your close peers reported retail EBIT of up about 17% over the same period. I appreciate that there is Argos in there, there is GM weakness. But it's still a little bit counter intuitive, considering the strength of your volumes. But also the savings programme. So could you give us some colour so that we can understand how your pure Grocery performance would have compared over that period?

**Simon Roberts**

Izabel, thank you. Well, why don't I speak to pricing and then Bláthnaid will share with us her views in terms of our sales and profit delivery.

Look, on pricing, a couple of really important things to say here. The first thing to say is, as I hope you can see, as a team we've been absolutely focused on converting a pricing position that three years ago was too high. Step by step through our Food First Strategy, that has been an absolute focus for the whole team. And what you can see now is how strong our pricing position is.

We always said there was a period of heavy lifting to do. We think we've done the vast majority of that. Because as you saw in the charts today, we've improved our pricing position against all of our key competitors. We are just much more competitive.

So our strategy, which has been about driving our cost saving programmes across the business, re-investing that as fuel for investment in price, has got us to that competitive position. Importantly, we're now regularly quoted in Kantar, Nielsen and in *The Grocer* as being the cheapest of the full choice supermarkets and customers are trusting us more.

So the key point here is we've done the heaviest part of the work. Of course, you know we continue to make sure that as inflation comes down, we pass on savings to customers just as soon as we can. We've closed, as you can see, the gap to the discounters significantly. Having done all of that work, the job now is to maintain the strength of that position.

But I think it's important to be really clear, we've done the vast majority of what we needed to do. As we look ahead, the reason our cost saving programmes continue to be so important, and as I hope you saw in the presentation, we're building the next phase of the work so we can continue to sustain the strength of our competitive position. Bláthnaid.

## **Bláthnaid Bergin**

Great, thank you Simon. So look on Grocery we're really pleased with the volume. We talked before that more volume over what is a largely fixed cost base should help drive our profitability. The other thing is we've seen inflation is starting to ease so we should see some of that margin coming back as well as inflation eases towards the end of the year.

Mix, again over the summer, we had a tough summer, so we saw some of that mix coming in as we sold a lot more tech versus the seasonal products. So again a little bit of a challenge there but nothing that we can't navigate through in H2 because we're fully locked and loaded for Christmas.

The other sort of things I'd point out is our Save to Invest Programme is on track to deliver £1.3 billion this year. We're continuing to drive that programme hard and we're starting to think about what the next phase of that programme looks like for us. But we are very focused on returns and on profitability in the business and you'll continue to see that drive and focus in the business.

## **Simon Roberts**

Thanks. Izabel, I mean just the last point to make to your question there I think is you know I can't think, we can't think, of a more important time to really be with customers on great value. That, as you can see, is what we've really focused on here. That's what's driven the volume. In the end more volume at a fixed cost, as Bláthnaid says, is a really important equation that we continue to work towards driving forward.

Thanks for your question.

## **Operator**

Our next question is from Sreedhar Mahamkali from UBS, please unmute yourself and begin with your question.

**Simon Roberts**

Hello Sreedhar, good morning.

**Sreedhar Mahamkali, UBS**

Hi, good morning, good morning. Couple of things really Simon on momentum, which is really important in retail business - you've talked about it a few times.

Maybe a near term one on momentum first. I think you talked about momentum building in the second half, you sound very confident on Christmas. What is giving you that confidence that this momentum and relative outperformance will sustain into Christmas? And also, talk a little bit about Argos? Because in that point about momentum - I just wonder if you're talking specifically about Grocery? That's a near term one.

Secondly, I think building on some of the comments you've made and the sort of hints you've given on the 7 February. A bigger picture one. As you sort of wrap up three years of Food First, significant price investments, volume growth that is now beginning to come through. Can you now target and achieve consistent market share gains and faster growth than in the past, on a sustainable basis? Is that something that we should be actually looking for?

Then finally, just on the profit outlook. I mean given your plans and momentum in Grocery, it certainly feels to me that you could have gone even a bit higher on the profit outlook. Is it reasonable to then say that you perhaps decided to return some flexibility in there and build some caution into it? Thank you.

**Simon Roberts**

Thanks Sreedhar. Okay, let's take each of those in turn. Look, on the first point we're what, just over 50 days to Christmas?

**Sreedhar Mahamkali, UBS**

Yes.

**Simon Roberts**

As you'd expect on this, you know we are going all out to give our customers the very best Christmas that we can. You know our focus is about really delivering for our customers. Delivering great value, delivery great products, and delivering through our fantastic teams, the very best service. The focus is all about customers.

That's what you can see we've driven in the first half of this year. It's the reason why we've done everything that we've done to really do the best we can to help customers through all the challenges of the first six months. It's rewarded us with the volume that we've had.

So strong plans going into Christmas both on Grocery and in Argos. To your question that we'd expect the Quarter 3 performance in Argos to be stronger than Quarter 2, of course we are up against a big effect last Christmas when the Royal Mail strikes gave us quite a tailwind in the last two or three weeks.

So some tough comps to anniversary as we get much closer. But we're going into this period on the GM side with great availability, you know stronger metrics in terms of customer satisfaction and a really, really strong assortment on the GM side. So although customers

are being cautious, of course they are, we think we're putting a strong foot forward there to really make sure we deliver.

On the Grocery side. Look, you can see in our presentation, we've gained volume every single week against the market throughout the half and we continue to build on that position. So our plan this Christmas is very much anchored on continuing to deliver for our customers what we think they're going to want to buy into. That's the value in the range, the innovation that you've seen this morning and then just being operationally really strong. Just as I said in the presentation, our teams are doing an absolutely fantastic job at the moment, really focused, really focused on customers and we're going to push ourselves to really deliver for them. So that's the near term.

I'll take your last question next in terms of the outlook for this year. Look, we've always said that retaining flexibility, agility in the moment's important to us. We've become a more agile business, we want to be able to respond to opportunities that we see as they come and that's why we retain flexibility.

Of course there's also a lot still to happen and there's absolutely no complacency in our business and our team about what we need to deliver. In the next seven weeks, Quarter 4, there's a lot still to do, there's a lot still to deliver and so we retain that flexibility because we want to make sure we make the right choices.

As you've said, if you look at the half, without the challenges in the GM business due to the anniversary of a very good summer and without the challenges in Financial Services our performance would have been, as you can see, quite a long way ahead of what we've talked about. So you can just see the strength of momentum in the Grocery offer.

Coming to your middle question, therefore, in February we'll talk about the next stage of our plan. Look, you wouldn't expect me to do a kind of version of that today. Wait until February, but what I hope you take from our update this morning is we've got strong momentum. We're really focused on how our strategy's delivering, we're really clear where the value is delivering, both for customers and for shareholders, and we look forward to sharing with you as a team where we want to take that next.

## **Sreedhar Mahankali, UBS**

Thank you Simon.

## **Operator**

Our next question is from William Woods at Bernstein. Please unmute yourself and begin with your question.

## **William Woods, Bernstein**

Good morning, both, thanks for taking the question.

A couple of questions, firstly on pricing and the pricing outlook. How much pricing do you think you're still getting from suppliers right now? Linked to that, in terms of the promotional environment, are you seeing an increase in promotional activity from your suppliers and how willing are you to take that promotional activity, given a stronger focus over the last couple of years on everyday low prices?

Then a slightly longer-term question just on range, do you think there's more work to be done on range optimisation, whether that's SKU count reduction or optimisation in certain categories? Thanks.

## **Simon Roberts**

Okay, thanks, William. Let's talk first of all, I guess the heart of your first question is on pricing, what's happening with inflation and what are we seeing in terms of inflation coming down and where's it come down more quickly and how are we working with suppliers on that. Then we'll pick up your point on promotion and then we'll finish on range.

I think the good news is inflation's coming down and it's coming down month on month. We've always said inflation at Sainsbury's is running at about half the headline rate that the ONS talk about. So you can see both in our performance but also in the strength of our Quarter 2 number actually, as inflation has come down how strong the underlying volume is that sits within that number.

Look, of course I would say that in fresh food inflation is coming down more quickly. Those were the categories and products where we saw inflation lift first and the most and as that has rolled over in a number of categories, meat, fish and poultry, bakery, dairy, we're seeing inflation come down more quickly in those categories.

In other categories it's not the same, some of the commodities, sugar and cocoa would be a good example where there's still upward pressure on those commodities. So, inflation overall coming down, different speeds of that depending on the category mix.

In terms of conversations with suppliers, look, as I said in the presentation, our supply base are doing a fantastic job with us, backing our Food First strategy. What we've seen is a real commitment to lean in to back the volume position that we're building. As we've launched Nectar Prices, that's come at a very good time, particularly on the big, branded products, to be able to bring great value to customers as some of our suppliers really want to drive their volumes on branded.

So we will continue to make sure at its heart we give customers great value, working closely with suppliers both on that level of value, but also very importantly, I think, on availability. We've had really strong support and availability is something that customers always value first.

On promotion, look, I think it's really important to say that participation is increasing a bit. We can see that, there's a bit more promotional mix out there. But importantly I think also to say still much lower than historically what we would have seen a decade or so back. So we don't see it returning to anything like the elevated levels that we saw. What we see is a bit more promotion in the market as value has been so important.

Then on your last question, I think one of the things that we are super proud of in Sainsbury's is our assortment. It's one of the things that makes our proposition for customers so strong and one of the things that we think we can do more of. Of course the team, Rhian and the team, are doing a brilliant job constantly looking at how we're evolving our assortment. You've seen this morning the new products, the new propositions that we're constantly bringing forward. These things take a long time to develop, as you know.

The new back wall solutions that we've shown you this morning, these things take a long time, the team's working really hard to do that. As we bring new propositions forward we're always looking at what we do with the tail, we're always looking at how we optimise our



assortment for more customers and we'll talk more about that. But range discipline is important - what we're really focused on here is how we make sure our assortment's driving even more value for us. Thanks, William.

## **Operator**

Our next question is from James Anstead from Barclays. Please unmute yourself and begin with your question.

## **Simon Roberts**

Hello, James, morning.

## **James Anstead, Barclays**

Morning, Simon and Bláthnaid, thanks for taking my questions. Three quick ones, firstly, I think you partly answered this a moment ago. I was just going to ask about customer behaviour changing in any respect. People have been perhaps surprised that customer spending has held up. You talked about promotions stepping up, but any other kind of changes in behaviour you're seeing?

Secondly, another one you've kind of touched on, but in terms of inflation/deflation, what do you think the chances are that the industry and you move into outright deflation at some point next year?

Then the third one, perhaps a little bit provocative, but you mentioned you think you've done most of the heavy lifting. Can we interpret that as you think there's an opportunity for margins to edge up a bit in the future? Thanks.

## **Simon Roberts**

Okay, James, well let me maybe talk on the customer behaviour point and where we are on deflation and maybe Bláthnaid in terms of where we are on the margin outlook, as much as we can say.

Look, I think on customer behaviour a couple of things are really important to say here. Look, of course it continues to be really tough and our primary focus, as I said a few minutes ago, is we can't think of there being a more important time to be really on the side of customers.

That's why our strategy started with being better value and has become even more the centre of our focus as the last six to 12 months has unfolded. What we can see is customers continuing to be cautious, right? They've got a fixed amount of money in their mind in terms of what they're going to spend.

That's on food and on GM and so what they're looking for is the real trust in the quality of the proposition in value. That's why I think we are delivering the volume performance that we are. Customers can see that our value is strong, they can see it's consistently strong and as a result of that, whilst they're still being cautious, they're spending more of their basket in Sainsbury's.

I think what we're seeing is definitely in terms of the weeks ahead, customers are clearly looking forward to Christmas. They want to celebrate Christmas, they want to trade up, but they want to again do it at really good value. So I guess this whole narrative really comes back to what we've said, James, which is we've got to be strong on value, we've got to be

really strong on quality. We've got to make sure that the service metrics are good and it's the combination of all of those things that customers are going to expect us to continue to do.

I think when we think about where we go next on all of this, Bláthnaid, do you want to speak a bit to the food margin?

## **Bláthnaid Bergin**

Yes, I think if we go back to what we've talked about in the past, we recognise that in Financial Year '20 we were too expensive. We've done a lot of the heavy lifting that we needed to do in resetting our prices, but we will continue to remain competitive on price. We also believe that the market will continue to behave and act rationally around this.

We are very focused on volumes and you'll see today some of the charts that we are winning back volume market share. Volume over our fixed cost base should help us drive probability into the business. And again, as we see some of this inflation unwind again, that should help our margins.

The other thing I would add on that is we are coming towards the end of our first phase of our cost saving programme that will deliver £1.3 billion by the end of this year. There are more costs for us to go after, there are some unique opportunities that we have at Sainsbury's that some of our other competitors and peers don't have. So we'll continue to drive that cost really hard and again that should drop through to our profitability.

We are very focused on returns and we're very focused on cash and you'll see that today. We increased our cash guidance to at least £600 million this year and we'll continue to have that cash focus in the business as well.

## **Simon Roberts**

Thank you. Then on inflation/deflation, James, I think a couple of things to say. The first thing is we don't see deflation. If we think about the amount of pressure that's still in the system, wage inflation substantially up, energy will get better but that's still a headwind.

So I think when you stand back what we'll see is a continual improvement in food inflation as we move forward – so that being the key basis rather than disinflation. Look, we've been very clear, we're going to pass savings through to customers, we're doing that. As you've heard me saying, our levels of inflation are about half the ONS. We've got that higher level of cost in energy.

So I think the key point really that sits behind your question is that this industry will continue to behave very rationally because there's lots of costs in the system that are going to maintain, pertain. What we all have to do and what we're very focused on as Bláthnaid said is continuing to find cost savings, which means that we can invest in the offer where we need to and that is the core of our improved competitive position.

## **James Anstead, Barclays**

Very helpful, thank you.

## **Simon Roberts**

Thanks, James.

## Operator

Just a reminder, if you would like to ask a question simply press the raise hand button at the bottom of your screen or press star-nine if you have dialled in. Our next question is from Nick Coulter at Citi. Please unmute yourself and begin with your question.

## Simon Roberts

Hello, Nick, good morning.

## Nick Coulter, Citi

Hi, good morning. Just I guess three quick ones to close the call. Firstly, just a follow-up, how do you judge the pricing position or gap that you need please? I guess over the last quarter you're almost a disruptive force in the market in terms of relative investment. I'm not asking what your absolute pricing target is, I'm sure it's relative to other names. But it would just be helpful to get a sense of how you think about that. What's good enough to obviously taking share, volume share from everyone is probably not achievable every quarter, so that would be the first one please.

## Simon Roberts

Thanks, well I think look, you'll know this when you look at the history, we've anniversary'd some tough comps in the quarter and actually as we look ahead, our comps position is increasingly tough. So the reason I say that is when you look at our Quarter 2 numbers, they come against a strong quarter last year. What I think it shows is that as our value becomes more trusted by customers and we're consistent with it, that enables us to build more momentum, even though we anniversary tough comps.

That's an important point to make because as we look ahead, look, our objective here is to make sure we give customers every reason to shop at Sainsbury's. Our objective is to be competitive, but as I've said in the previous question, we've done the vast majority of the heavy lifting on price, we think. We think this market will continue to behave rationally, it's a very, very intensely competitive market, we all know that, we're all facing the same challenges.

So the job for us is to make sure we can continue to find the differentiated cost savings that have been the core of sustaining that value position. As Bláthnaid's just said, we've come to the end of this three years having delivered so far £1.1 billion of the £1.3 billion we set out to deliver, remembering that was twice the run rate of our previous history. As a management team, we're very focused on the next phase of that, because that will be important to make sure that we can continue to maintain the strength of what we have now begun to sustain.

I make that point because honestly, Nick, we still see a lot ahead to do. We've begun to really transform the performance of our Grocery business and we want to talk with you in February about where we take that next. Because we think, in the context of the wider market at the moment, with a strong balance sheet and with the strength of our customer momentum, we've got more to do next.

## Nick Coulter, Citi

Is it that behaviour of the secondary customer that gives you the indication that you're where you need to be? Is that the kind of job done, box ticked kind of scenario?

## **Simon Roberts**

It's never a job done, is it? It's never a job done. I think the reality is that in 2020 we spent time doing two main things back then. The first thing we did was, as an industry we were all dealing with the demands of the pandemic. But in Sainsbury's we spent a good number of months having a really good look at how our customers were shopping our Grocery offer.

What we learnt back then was that actually customers wanted to shop at Sainsbury's. They liked the offer, they liked the assortment, they liked all of the things that we could deliver, but we were just simply too expensive. So that's why we made the core focus of our Food First plan, improving our competitiveness, as you say, particularly for Secondary Customers. Because they had too many easy choices to shop somewhere else. What we've begun to do is make those choices more towards us. As I say, I think there's still more to do.

It's the consistency that matters. We've done the majority of the heavy lifting. It's maintaining, week in, week out, so that when customers come to our stores, they see that our value position is as good as it is now and that's what we're working very hard to sustain.

## **Nick Coulter, Citi**

Great, thank you. Maybe one for Bláthnaid on working capital. Obviously, Grocery inflation perhaps lingering a little longer than anticipated. So maybe, based on what your thoughts might be for the year end out and for the working capital. Notwithstanding, it's always a little bit of a hard one to call.

## **Bláthnaid Bergin**

Nick, that's a great question, it is a hard one to call. We called the cash guidance up today because we are anticipating a little bit of upside coming from that inflation. We've also got a lot of discipline around our stock management at the moment and how we're managing our buys. So again, that's one of the reasons we upgraded our cash to at least £600 million. So you'll see some of that drop in at year end, as we're very focused and disciplined on how we're managing our working capital at the moment.

## **Nick Coulter, Citi**

Okay, but we should think of that being an inflow or how should we think of the working capital for the full year?

## **Bláthnaid Bergin**

I would think of it as an inflow. Within the, at least £600 million, we've baked in a little bit of an inflow into the working capital, through stock management actions.

## **Nick Coulter, Citi**

Okay super, thanks so much.

## **Simon Roberts**

Thanks Nick.

## Operator

Our next question is from Clive Black at Shore Capital. Please unmute yourself and begin with your question.

## Simon Roberts

Morning Clive.

## Clive Black, Shore Capital

Yeah thank you. Morning, well done on your hard work. A few from me, I'll try and keep them short. First of all, just for the purposes of clarity, because I think Izabel, William and Sreedhar asked the same question. Your Grocery business was materially profitable year on year wasn't it, given the sizeable headwind in Non-Food. Just want to be clear about that, yes?

## Simon Roberts

Absolutely, just for the absence of any doubt. The fact that we've delivered £340 million this year compared to £340 million last year, with one of the toughest summers impacting the GM business and the headwinds in Financial Services. We're really delighted with the Grocery performance. It's driven by volume, it's driven by more customers in our stores, it's driven by a brilliant job across our Food and Grocery teams right the way through the business. You can see that volume converting into that profit delivery. Yes, really encouraged by it and there's more for us to do.

## Clive Black, Shore Capital

In terms of – I know you'll talk about this in February but just to contextualise – where do you see the magnitude of the opportunity in automation, robotics and machine learning, in the next chapter of the business? Just to contextualise it at the moment.

## Simon Roberts

Thanks Clive. As you know well, we've got a very ambitious cost saving – more important than that – efficiency planning in our business. This is all about being more efficient. How do we spend time, resources, capital and our time on the things where we can add value to customers and shareholders? Of course, this area is one of the key ones. If I think about the way that our supply chain is now working, compared to two or three years ago, it's an absolute transformation.

Where we've moved onto a completely new platform, we are working in very different ways in terms of our ability to forecast more accurately and improve our availability. To do that with a completely different platform than we've had before. The same is happening in our logistics operations, you saw in the half, we confirmed our intention on the GM side to move to an automated capability there. I was in our warehouse in Daventry a couple of weeks ago. We're partway through the build, it's a highly intensive program that's going to transform the way that our logistics operations work.

In many areas of our business whether it be in Groceries Online, whether it be in our trading hours, whether it be in operations, we're using AI to really think differently about how we can automate our decisions. We're automating in physical space where there's real efficiency. We'll talk a lot more about it in February, but it's very much at the core of the way we're

thinking, and hand in hand with amplifying the role of our colleagues even more. I think these two things have to be thought about together.

How do we become more efficient and then how do we show up for customers in our stores, in a way where our brilliant people can be even more available for customers? Those two things are the way in which we'll talk more about this in February.

**Clive Black, Shore Capital**

Cool, and then just lastly, you're virtually, on the non-lease basis ungeared.

**Simon Roberts**

Yes.

**Clive Black, Shore Capital**

I just wondered whether you see that as a competitive advantage, in the present Grocery market.

**Simon Roberts**

Yes Bláthnaid, do you want to maybe speak on that?

**Bláthnaid Bergin**

We do Clive, it's great to have a strong balance sheet, it's great to have flexibility. We are comfortably inside that range and as I said earlier, I will update in February on what we're going to do. But we are really pleased with the strength of our balance sheet, it does give us comfort.

**Simon Roberts**

Yes and I think Clive, in the context of the wider market, there's a lot to be said for the moment, in having the flexibility and the strength in the balance sheet that we now have. We've worked very hard to get to this position. There's been a lot of changes in the nature of this industry over the last couple of years and we want to position ourselves, to be able to make the right choices for our shareholders and really deliver for our customers.

The strength of our balance sheet, the fact that we're in a much stronger position than we were, gives us lots to think about, as we look at the next phase of our value and growth.

**Clive Black, Shore Capital**

Yes, it's quite interesting that equity capital markets are much maligned. The three listed grocers, Marks and Spencer, Sainsbury's and Tesco, are by far the strongest of the UK grocers at the moment, compared to leveraged private capital, so worth thinking about. Thank you.

**Simon Roberts**

Thank you Clive.

## Operator

Our final question is from David Roux from Bank of America. Please unmute yourself and begin with your question.

## Simon Roberts

David, good morning.

## David Brew, Bank of America

Morning Simon and Bláthnaid. Well done on the results today, excuse the lack of video. I just had a couple of questions from my side. Just on Clothing, I appreciate it's a small part of the business but perhaps a market where your competitors don't act as rationally as your grocer competitors. Given the market's become more competitive over the quarter, do you think this may mean you need to step away from your full price strategy?

Then my second question is a bigger picture topic. We've obviously seen the introduction of the new, highly effective weight loss drug in the UK. Are there any discussions internally, going on in Sainsbury's as to what the bigger business impact could be, if consumer behaviour does impede change because of this? Thank you.

## Simon Roberts

Thanks for your question, let's take them in turn. On the first one, clearly Clothing had a tougher summer than we planned for. That was really driven by first point, the weather being so tough. It's worth saying, in supermarket Clothing it behaves much more on the basis of impulse than perhaps the high street does. So when the summer's cooler and wetter, as it was, what we saw was less impulse purchasing on the Grocery shop of Clothing.

The fact, as you say, that we very intentionally chose not to be promotional, or highly promotional, that was the right decision for us to take. We chose not to discount, we protected margins and we came out of the summer in good shape, in terms of stock. Net-net, I think we've navigated what was a difficult summer very well. That being said, I think there are some things that we could have done better.

Our Womenswear ranges in places, could be more on point. We very much recognise that and are working to improve it. Actually what we can see in the last number of weeks actually, as the weather has got better, we've seen our performance really pick up again. So Clothing's a key part of our supermarket proposition. We had a tough July, August, early September, some things that were macro, some things that we can improve.

But the last point to make is this. It's actually a small part of our business in terms of revenue, just under 3% of our revenue. Therefore the impact on profitability wasn't in any way significant, but always an opportunity for us to continue to improve.

On your point on the weight loss drugs. I think it's too early really, to talk about where this goes. What I would say is look, obviously we are very focused at Sainsbury's on healthy choices. One of the things that we're really proud of as a team, is that we have a very high benchmark for healthy choices. We continue to see customers really engage in a number of the activities that we do, for example the Great Nectar Fruit and Veg Challenge, would be a good example, where more customers are coming in to take part in activity and opportunities to eat more healthily.

So we continue to drive very hard there and we'll continue to monitor this issue and see how it develops. Thank you.

## **Operator**

That was our final question. I will now hand back to Simon Roberts, for closing remarks.

## **Simon Roberts**

Thank you, everyone for your time this morning. I know it's a busy time for you, so thank you for joining us. Thank you for your really great questions and we really look forward to seeing you in January. It's obviously a really big moment as we kick into our Christmas launch now, our TV ad goes live tomorrow, so look out for that, starring Sainsbury's colleagues. We look forward to seeing you in January, at the trading update. Thanks everybody, see you soon.

**End**