J Sainsbury plc
Sainsbury's Q3 Trading Statement 2022/2023 Analyst Q&A
Wednesday, 11 January 2023 – 9:30 am

Presentation

Operator

Hello and welcome to the Sainsbury's Q3 Trading Statement 2022/2023 Analyst Q&A call. On this call this morning is Simon Roberts, Chief Executive Officer, and Kevin O'Byrne, Chief Financial Officer. I will now hand over to CEO, Simon Roberts, for the presentation.

Simon Roberts
Chief Executive Officer

Well, thank you, good morning, and happy New Year, everyone, and thank you for joining us for our Quarter 3 Trading Statement, covering the period up until 7 January.

I am going to talk through our trading performance in the quarter, and then Kevin and I will both, of course, answer as many of your questions as we can.

Now, the webcast will show the slides I'm going to talk to in the first part of the presentation, over the next few minutes. We've also sent them round by email this morning, and, of course, they're available on our website too.

Okay, so to begin, and I want to start with a huge thank you, actually, to all of my colleagues right across the business, who worked really hard to deliver the performance across the Quarter that was announced this morning, and particularly during what was a huge week of Christmas trade.

It's really important to us that we've been able to recognise this and reward our Sainsbury's and Argos colleagues with the market-leading pay rise that we announced last week. We are really clear about taking care of our people. Taking care of our colleagues is really an investment in our business, it's not a cost, and it's really at the very centre of helping make sure we deliver a leading customer service.

Now, talking about how we set out to deliver the best possible Christmas. Heading into this Christmas we knew our customers were really feeling the pinch and they wanted to have, of course, the best Christmas possible, whilst spending carefully.

I think we did a great job across our business, helping our customers to achieve this balance. We developed strong momentum over the year, delivering value and innovation, and our Own Brand sales growth of over 10% came through during the peak trading period.

Of course, we really challenged ourselves to step up an extra gear for this Christmas, leading the market with deals like our £4 per person fresh food Christmas roast dinner, and our customers really shopped into this. They really responded well.

We also invested in service and availability, to make sure that we could show up well for customers, particularly over the long Christmas week, and we knew that customers wanted to really get back to going all out for their big Christmas dinner, with everyone back at home this year and celebrating together. We were well prepared for this. We planned for it, we set everything up to be really ready to deliver for our customers, and we also really focused on making sure customers could treat themselves and over half of our products this Christmas that were new were in Taste the Difference, as that treating and celebrating more at home really came through.

More and more customers also came back into our stores over the Quarter, too. Argos really came into its own in this regard, with strong availability on the fastest selling products that we saw, such as air fryers, clothes dryers, tablets and mobiles, and of course, customers really relied on the Fast Track Delivery and Click and Collect, at a time when they couldn’t rely on the postal network.

So, as a result of all of these things, walk-in sales in Argos stores in Sainsbury’s were 50% higher on the year in Christmas week. Really importantly to say here, too, that actually, what we saw in that Christmas week was a bigger level of sales than we had in Black Friday for Argos, and this was on top of what was already a really strong Black Friday performance.

So, in short, we showed up, we think, really well for our customers this Christmas, and we were rewarded with share gains in Food and in General Merchandise. Just to be really clear, this is no coincidence. We've been executing very consistently on our strategy for more than two years now. We've been driving cost out of our business and we've been investing those savings in value, in innovation and in service. So, this Christmas, it was really about our strategy meeting delivery of a really strong operation.

You will have seen today that we are expecting to deliver profits towards the upper end of the guidance range of £630 million to £690 million. We additionally expect to generate retail free cash flow of around £600 million. This is ahead of our previous guidance of at least £500 million, despite the cost of bringing forward the colleague wage award, and continuing to invest elsewhere in our customer proposition.

So, in summary, we believe we're delivering for our customers, we're delivering for our colleagues, and, very importantly, we're delivering for our shareholders, too.

So, let's now turn to the performance and to the financials, and look, first of all at our Quarter 3 and Christmas retail sales growth.

This chart shows the sales growth over the 16 weeks of Quarter 3, in the grey bars, but also the shorter six-week Christmas period in the orange bars.

As we can see, in all cases, growth was stronger over the Christmas period. In Grocery, this reflected better volume and mix trends, as customers traded up for Christmas, with growth of around 7% in the six-week period, and 10% in the four weeks running in to Christmas.

General Merchandise sales growth continued to reflect the improved product availability, particularly compared to last year, of course, when it was challenging, and that came through across on consumer electronics items, and also in the speed and certainty of Fast Track Delivery and Click and Collect, which, importantly, was available in over a thousand locations.

Meanwhile, Clothing benefited from the higher footfall in our stores too, and particularly from that colder weather snap in the run in to Christmas, with knitwear and loungewear sales notably strong.

Let's now turn and look at our performance, compared to the market. In terms of our Grocery performance, you will know, and you’ve heard me say a number of times that we believe that the most meaningful measure of our performance versus the industry is our volume market share.

Now, we stepped up our game for sure this Christmas, with really bold ambitions, and that's reflected in the performance that we've achieved. We outperformed the market for the third consecutive Christmas. We outperformed all of our full choice competitors, despite some pretty weak comparatives elsewhere.

And over the longer period, with this data covering as much of our Quarter as possible, we outperformed most of our full choice grocery competitors, and again, outperformed the market again.

The consistency of our outperformance also comes through in this third chart, which shows our volume growth versus the market compared to pre-pandemic levels.

Now, we think the customers are trusting us more than ever for our value, and we've made further significant improvements in our value position, compared to all of our key competitors. You will know, you’ve heard me say a number of times that our value investment has been focused very much on the key fresh food items at the centre of the plate, and that's been reflected in the market share gains we've achieved in meat and fish and poultry, and in fruit and vegetables.

We've also stepped up our Aldi Price Match proposition, still very much focused on fresh products, but also now bringing in some really important household items, like nappies, cereals and canned soups, and we've just launched our biggest ever Aldi Price Match, to start the New Year.

Now, on this next chart, we look here at the consistency of what we're doing on price, and it really comes through, I think, on this chart. We've shown you this before, and, clearly, we've updated it to reflect the last period. What you can see is consistently month in, month out, we're inflating behind our key competitors on the products that matter most to our customers.

We're really focused on the items that customers buy most often, hence the importance of this top 100 measure, but the trend is also the same across a full basket.

The key point here, of course, is that customers don’t just make their choices on where they do their Christmas shop, based on where everyone lands their price position into the last couple of weeks to Christmas. We've been delivering great value consistently, week after week, and so customers trusted us to deliver great value for their big Christmas shop.

Really important too, and absolutely key to our strategy, is innovation, providing opportunities for customers to trade up. We've built the team and the capabilities to really drive a strong innovation performance in our business now, and the results of that, I think really came through this Christmas.

Of course, the key at Christmas is that customers are looking to treat themselves and their families, and we put over 300 new Christmas products into our range this Christmas, and almost half of those products were in Taste the Difference - that was more than ever before.

As a result, we grew Taste the Difference sales by 10% in the period into Christmas, and this was a key driver, we believe, of our market outperformance.

Also, important to say that Taste the Difference sales over Christmas were 27% higher than pre-pandemic levels, showing just how strongly we're now growing this brand.

When you put together the progress, both on trade up and on value, you can see the results demonstrated, I think, in these charts, which we showed at the Interims, and again we've updated now. They continue to show our relative resilience, as customers adjust their shopping habits.

We're losing less to the limited choice supermarkets than our competitors. Our customers are dropping fewer items out of their basket, and we're seeing less impact from trading down. That's reflecting a more resilient customer base, and more offset from customers trading up, as well as trading down.

We're delighted that the investment we've been making in service and in our colleagues, continues to be recognised by our customers.

Now, I think it's well understood that the price inflation in the market is clearly putting customer satisfaction metrics under pressure across all the supermarkets, but we've grown our lead versus our full choice competitors, leading on the key areas that really matter to customers, as we can see here, like speed of checkout and availability of colleagues.

So, having looked at Food First, let's now turn to our General Merchandise performance, and look at what's been happening there.

The chart on the left here, shows the detail behind the Argos sales performance, with consumer electronics and technology the key drivers, as availability of tablets and phones stepped up significantly, year-on-year. But as the chart on the right shows, we've also gained share in these categories, given a strong reputation for value and an ability to offer key products faster, and more conveniently than our competitors.

I also want to call out our suppliers, who’ve really supported us, with more stock than our competitors in some of the most sought after energy saving items, like air fryers and heated blankets, and we also gained share in TVs, in the run up to the World Cup.

Customer satisfaction at Argos has been consistently running ahead of last year, and the benefit of improved availability came through here clearly, too. Now, this isn't just systemic availability. We've worked hard to capitalise on our scale, and we're getting, as I've said, really good supplier support, compared to some of our more structurally challenged competitors.

As we build our Local Fulfilment Centre network, we're starting to have more of the right stock available to customers faster, and we're better at showing this now, to our customers.

There's more to go for here, as this network develops further.

So, to summarise, we're really pleased with our performance over this Christmas, and for the Quarter, but I think, more than that, we're pleased that we're maintaining strong momentum, delivering for our customers, and executing at pace on the strategy we laid out in November 2020.

We're in a strong financial position, with continued delivery of those cost savings that are underpinning our investment in value, in innovation, in service and in availability, and this means that we can invest and deliver for customers and colleagues, while also delivering for our shareholders.

Now, as I said earlier we're updating our profit and cash flow guidance for this year. Of course, it's too early to provide financial guidance for next year, but as we said at the

Interims, there is good momentum in our business, and we remain confident in our strong competitive positioning.

So, with that, thanks for listening to those opening comments, and let's now open the call up with Kevin, and we'll take your questions.

Thank you.

Question and Answer Session

Operator

Welcome to the Q&A section of this call. If you wish to ask a question, we ask that you please use the raise hand function, which is located at the bottom of your screen. When called upon, please unmute yourself, and begin with your question.

The first question is from Andrew Gwynn from Exane. Please unmute yourself and begin with your question.

Simon Roberts
Chief Executive Officer

Morning, Andrew.

Andrew Gwynn, Exane

Hi, good morning, team. Morning. Happy New Year.

Simon Roberts
Chief Executive Officer

And to you.

Andrew Gwynn, Exane

First question, how much of the (oh, sorry, I'm emerging from the darkness here – I don't know why). How much of the performance do you think you can extrapolate into the next financial year? I suppose, better than feared, seems to be the main take away from Christmas, so, at what point do you start making maybe more constructive comments on the consumer?

Then, tied to that, obviously guiding towards the upper end of the guidance range for this year, how much of that should we extrapolate into next year? Mindful, of course, that you don't want to guide too precisely. Thank you.

Simon Roberts
Chief Executive Officer

Andrew, thank you. Good to hear from you. Thanks for your question.

You're going to absolutely know what I'm going to say, which is, we're not going to talk about next year's guidance today, and I know you'll understand the reasons for that. But just to try and put some context around that, I would say, there's nothing more to say, really, than we said at the Interims. We've got good momentum in the business, first of all, and you can see that's carried through the Quarter, both on Clothing and on General Merchandise, underpinned by the strength of our cost saving plan.

We believe we continue to be in a strong relative position, compared to our competitors, given those actions that we're taking. Of course, there's obviously inflation pressures, as we talked at the Interims, but as I said before, we've got good visibility of those choices that we're making. You've seen what we've done on colleague pay, and we've talked about the energy situation before. So, as we look ahead, it's exactly as we talked at the Interims, and obviously, we'll talk more at the end of the year.

I would just, to the second part of your question, of course, we've seen consumer demand come through at Christmas. Customers have balanced their spend choices really carefully, and I think, if we were to characterise how the consumer approached this Christmas, they spent carefully. They really looked for where the deals and the value were in the market, and they looked to make their budget stretch as far as possible.

We saw that play out for us, in the fact that customers came all in, for example, for the big Christmas dinner again. We saw millions of customers buy into that, but we also saw customers trade up, as well, as they wanted to treat themselves and their families.

So, as we come into the new year, as you'd expect me to say, value is going to be front and centre. That's why we've put our biggest value plan out ever, to start the new year, with around 300 products in our Price Match. It's the reason why we're doing everything we're doing to make sure we support our colleagues, and our customers, given the cost of living challenges, and of course, we'd be cautious about the consumer outlook for the year ahead, but we're focused on making sure we do the best job we can, to keep our momentum going.

Andrew Gwynn, Exane

Okay, that's all very clear. Do you think the consumer is healthier than maybe we do, or maybe the press headlines suggest? Could we take that away from Christmas?

Simon Roberts
Chief Executive Officer

I think – I mean, the inflation numbers in the market aren't what customers are actually spending. We all know that. At the end of the day, customers are making choices about how they make their budget go further, so the double-digit plus inflation numbers that are out there, 13%, 14%, isn't how behaviour in the end transpires to the actual spend at the end of the checkout.

Customers are buying much more into private label. We saw sales of our Own Brands go up 10% in the Quarter, and I think that reflects the fact that customers are very savvy, right? They've worked out they can get the great Sainsbury's quality at substantially lower prices, by buying into Own Brands.

They bought more into frozen food products on the way into Christmas. They're managing waste, to make sure that they shop frequently, and don't waste any product. I think they're just being really savvy, making that budget go further.

Against those double-digit inflation numbers in the market, we're comfortably below that. We're inflating behind the market, as you can see. So, I think it's just making sure we continue to deliver the best value we can.

We're consistent about that, and that consistency point is one I really want to stress this morning. You can't move your price position up and down, month-to-month. You've got to be consistently, month in, month out, building that trust. Customers are then shopping more with us, you've seen our volume performance as a result, and that's the approach we'll take.

So, customers are more savvy, we'll give them strong value, and we should be cautious about the outlook.

Andrew Gwynn, Exane

Okay. Very clear. Thank you very much.

Simon Roberts
Chief Executive Officer

Thanks, Andrew.

Operator

Our next question is from Izabel Dobreva, from Morgan Stanley. Please unmute yourself and begin with your question.

Simon Roberts
Chief Executive Officer

Moring, Izabel.

Izabel Dobreva, Morgan Stanley

Hello, good morning. Happy New Year.

Simon Roberts
Chief Executive Officer

And to you.

Izabel Dobreva, Morgan Stanley

Thank you for taking my questions. The first one is on the General Merchandise performance. If I look at how the print came in, it was probably slightly better than what you have guided us to in the past. I was wondering, could you give some colour on which components surprised you positively? Was it the volume? Was it the price? Also, how is that versus margin mix trending sequentially? As it looks like there was a bit of outperformance in the higher ticket categories? That's my first question.

Then the second one is just on the Food business. How should we think about the pace of your price investments over the next 12 months? Because on the one hand, the pricing position has been meaningfully reconfigured, but then, on the other hand, we have seen you step up the Aldi Price Match and the price investments over the last Quarter.

Simon Roberts
Chief Executive Officer

Izabel, thank you. Well, why don't I pick up how customers behaved in General Merchandise in Argos and how we delivered, and then maybe Kevin can talk about what we think that means, in terms of how the mix effect played through, and then I'll pick up on price investment?

I think the first thing to say is we're really pleased with the performance in Argos and General Merchandise this Christmas. We really delivered for customers, first and foremost, and we saw customers really buy in to the strength of our availability, the strength of our offer, in terms of value, and really importantly, as I mentioned in my opening comments, how convenient, particularly Argos now is, when you want to be absolutely sure you can get the products you need in time for Christmas. I think that really played through this Christmas.

Of course, availability was much better than last year. This time last year we were talking about major challenges in global supply chains, and this year we were just in a much, much better place. As I called out, we had really fantastic support from our suppliers, which meant on all the products that people really wanted to buy, this Christmas, both energy saving devices, TVs on the way into World Cup, and then Christmas gifts, we could really deliver in terms of availability. So, there was a lot of self-help we put in place, to make sure that we could really deliver that performance.

I think there was a couple of other things that helped; customers were looking for ways of saving energy. So, buying an air fryer, buying a clothes dryer, buying electric blanket – these were products we had in lots of depth of stock, and we could really fulfil against.

Secondly, of course, we had a World Cup. We haven't had a World Cup just before Christmas before, and that was an opportunity, obviously, to really make sure we were set for that. Of course, real challenge on spending, but we did pick up market share on the way into the World Cup in areas like TVs.

Then, of course, we had a national postal strike, which meant you couldn't get things across the UK. Argos really came into its own in that Christmas last kind of week, 10 days. As I said, for Argos to have achieved more sales in the Christmas week than in the Black Friday week, was quite something, and I think just showed the extent to which customers really trusted Argos when they really needed it before Christmas.

Should we talk about category performance and mix, Kevin?

Kevin O'Byrne

Yes, just building on what Simon said there, Izabel, and clearly we had very strong performance in things like small domestic appliances, which is a reasonable margin category, but the strongest performance in the larger categories, consumer electronics and technology performed very well, whether it was mobiles, mobile technology, wearables, et cetera. That is a lower margin category and hence there's a bit of a mix issue there but more margin but mixing into slightly lower margin categories,

But overall a really good performance, as Simon said, and– the interesting thing was, we saw a lot more people coming in and picking up instore than having home delivery, which again is good for our economics but just shows the importance of the model and the fact that you could pick up your products in over 1000 locations – really, really important this time of year.

Simon Roberts

Then your last question on pace of price investment, Izabel, into our fresh food or into our Food business as part of Food First. Let's just remind ourselves what we've done.

Now, we said in November 2020 we had to become much more competitive and we would really focus our value investment in the centre of the plate, in meat and fish and poultry and fruit and vegetables and dairy, and the reason that's so important is because if customers trust us in those key products they buy most often, they'll then shop the rest of the store with us.

That's exactly what's happened. That's the reason why our volume performance has really stepped on for the third consecutive year. When we think about our value investment, our original guidance was we would invest around £500 million in improving our competitiveness over two years.

As a result of our performance this year, we invested a further £50 million in November of this year, so the total investment is £550 million over two years to the March at the end of this year. This was all about getting us to a level of just being much better value and you can see on the chart I showed about us consistently inflating behind our competitors just how much that's working for us now.

Look, I think what I would say on this is two things. First of all, we don't want to be the cheapest in the market; we want to make sure we give customers value where it really matters. So, we think we've done a lot to get to that position and now it's about sustaining it. That's when our cost saving program is so important because this is providing the fuel to enable us to continue to be competitive.

As I said a number of times before, Save to Invest is an absolutely fundamental part of our strategy. We've raised our ambition to take significant cost and complexity out of our business, we're reinvesting that and being better value, and of course we'll continue to do that but it's about sustaining now a much stronger competitive position that we've created. Thanks, Izabel.

Izabel Dobreva, Morgan Stanley

Thank you very much. So should we read that it will be less than the past run rates we have seen?

Simon Roberts

Well, I think without repeating myself, sustaining what we've now got to is important and the last thing I would say is, look, there's a lot of inflation challenges in the market. We believe this market will continue to behave rationally. There's labour inflation, there's energy challenges to face and so holding our relative value position is what's going to be important to us and that's what we'll continue to do.

Izabel Dobreva, Morgan Stanley

Thank you.

Simon Roberts

Thank you.

Operator

Just a reminder, if you would like to ask a question, please raise your hand with the raise hand button at the bottom of your screen. Our next question is from James Anstead from Barclays. Please unmute yourself and begin with your question.

Kevin O'Byrne

Good morning, James.

Simon Roberts

Good morning, James.

James Anstead, Barclays

Good morning and Happy New Year, Simon and Kevin. Going back to Andrew's question – and sorry if I missed this in your answer but can you give us a sense of whether consumer trends changed after 25th December? It sounds like you're setting yourself up for consumers tightening their belts but were you seeing that happening already by the end of this period? That would be the first question.

Then for Kevin, I just wonder if you can just explain why your interest cost expectations have come down helpfully. You've also raised the free cashflow guidance from over £500 million to around £600 million. What's the delta there between what you're expecting now and what you were expecting back in November? Thank you.

Simon Roberts

James, thank you. Okay, well, look, I think the first point I would make: clearly, we're on 11 January, it's still very early in the fourth quarter to see how customers' shopping patterns are going to bed down. I think for all the obvious reasons, people are just assessing where their Christmas bills are at, so it's really too early to say if we're seeing any change one way or another post-Christmas.

What I would point to is the momentum we've brought into the new year. As I've said – and forgive me for repeating it – but this momentum on consistently inflating behind the market's really important to us. 1% to 2% behind the market is what we've consistently done, as you've seen, those cost savings enabling us to do that.

And look, at this time of year, everyone's even more focused, aren't they, on what the cost of their shopping is. So, that's why we've put in place our biggest ever value campaign focused on price match, focused on fresh food, focused on cupboard essentials, and we're pleased with the start that's made.

That being said, I think in terms of wider consumer spending – it's going to be the next four to six weeks before we see how the quarter beds down and I think we should expect customers to be cautious, for all the obvious reasons.

The reality of higher interest payments on mortgages will be feeling very stark for millions of households at the moment, paying for Christmas, inflation is clearly with us for a while yet, so our positioning is all about being our most competitive, making sure we give customers real reasons to trust our offer and making sure that we keep pushing delivery of our cost saving plans in the way we've set out, I hope really clearly with you, so we can underpin that position.

So, whatever plays out over the coming weeks and months, we're well prepared for it.

Kevin O'Byrne

James, on the interest, there's a couple of factors at play there. One is we've got more cash on deposit and we're actually getting interest on the cash on deposit, which is great. In fact, if you look at year on year, that's the biggest factor because of the change in the interest environment and our strong cash position.

The second factor is fees. We forecast higher fees for renegotiating our revolving credit facility. Now, we've gone from having a facility of £1.5 billion; we renegotiated and signed off just before Christmas to £1 billion, so it's a smaller facility. It's undrawn, by the way, it's just obviously an insurance policy. Undrawn, but fees were lower on that. Then there's probably an element of prudent forecasting which we probably need to improve a bit.

Just on the cashflow, the £500 million to £600 million, three factors in there. CapEx: we guided to £700 million, £750 million. We'll spend a bit less CapEx this year. That might see a little bit more next year, we'll have to see just on the timing of that but CapEx is an element of it. Performance: the profit feeding through to cash. It comes straight through to cash and then there'll be some working capital at the year-end, so it's those three elements.

James Anstead, Barclays

Okay. Very helpful, thank you.

Simon Roberts

Thanks, James.

Operator

Our next question is from Xavier Le Mene from Bank of America. Please unmute yourself and begin with your question.

Simon Roberts

Hello, Xavier. Good morning.

Xavier Le Mene, Bank of America

Yes, thank you very much. Good morning and Happy New Year. One question actually for me, just we understand your relative performance and the fact that you have been doing better versus your peers but in absolute terms, the fact that your volumes are negative, so how do you see that going forward? I mean it's offset by inflation, net-net you've got a positive sales growth, but I just want to understand what is the risk of volumes having a negative operating impact going forward and what are your expectations potentially for next year?

Linked to that, can you potentially comment on the kind of exit rate in terms of volumes trading down? That would be quite important. Also linked to that is what is – if you can estimate, the World Cup impact in December? Thank you.

Simon Roberts

Okay, well, let's try and have a go at giving you a sense of how we're thinking about the volume and Kevin, of course come in if there's anything to add on this. I think the first point to make here Xavier is that we've become much more competitive and as a result of that, our volume performance has responded encouragingly.

Actually, to have seen the performance that we've seen over three consecutive years now I think really points to how our Food First Strategy is working. It's working because customers are trusting our value and we, as you've seen in the slides I've just shared, particularly the one on resilience, we're seeing less switching to the limited choice supermarkets than any of our full choice competitors.

We are seeing customers buy into our private label Own Brand because of Sainsbury's quality, more so than others. We're dropping less items out the basket than others and we're also seeing customers trade up as well. So, as you rightly say, of course, inflation is driving a lot of the sales performance but in relative terms, we're really encouraged with our volume trends, given what we've seen in the wider market.

That's the first point to make and we think it's a direct result of the choices we've strategically made to improve our value position. I think in terms of how customers are behaving, as we've described, they're making very savvy choices to make their budget go further and that's why we've seen, for example, Own Brand products improve, 10% up in the Christmas period, ahead of our overall grocery performance as they manage their budgets. I think Sainsbury's is well positioned. We have a very strong private label assortment. It's one of the things that I think is a real point of difference for our brand. That really came through in this period and will continue to do so.

So, although volumes, as you say, are under some pressure as inflation takes impact, the question I think really is, how resilient is the Sainsbury's brand, is the Sainsbury's assortment, in giving customers real choice in what they want and therefore customers choosing to spend more of their shop with us?

That's what we've seen happen through this Christmas. Anything to add, Kevin?

Kevin O'Byrne

Maybe two minor points, but just if you look at it over the three years, obviously volumes is more resilient, building on Simon's point, and on the trade down point, we've seen entry price point grow percentage wise reasonably strongly but it's a very small part of our mix, which again helps our margin mix overall.

Simon Roberts

Then on the World Cup, I think I can't really break out a specific performance that it gave us, other than to say that I would say we set ourselves as a team up with a really bold plan for this Christmas and this Quarter 3, including making sure we could really deliver for customers through the World Cup period, however much progress we made, or each of the nations made, I should say.

Look, the reality of it was we saw – clearly in our Food offer, we saw a lot of strength come through in areas like pizzas and snacking food at home as people wanted to watch the match at home. We had a really strong proposition in beers, wines and spirits for the World Cup and customers came back more than once to make sure that they had everything they needed for the match.

As I said, we saw our market share in televisions be particularly ahead of the market on the way into the World Cup. So I guess the key question for us is did we set ourselves up for the opportunity that was there and I think we did. Thank you.

Xavier Le Mene, Bank of America

Thank you.

Operator

Our next question is from Nick Coulter from Citi. Please unmute yourself and begin with your question.

Simon Roberts

Hello, Nick. Good morning.

Nick Coulter, Citi

Hi, morning. Morning - Nick Coulter from Citi. Morning and Happy New Year to you.

A couple of quick ones, if I may, please. Firstly to follow up on your Own Label comments. Can I ask about the net mix shift pre-Christmas and then versus the peak? How much resilience did you see in mix across the peak and was that 10% - sorry, was that for the Third Quarter or for Christmas, because I'm assuming you saw a difference in behaviour between pre and peak.

Then on Clothing, it's a smaller part of the business but could you talk about your performance or the cadence of your performance through the Quarter? It looks like you were maybe lagging a little and then in line across peak but very interested in your take. Thank you.

Simon Roberts

Okay, well, let's take those one at a time. So, just in terms of the Own Label, maybe just to talk about what happened on the performance and then Kevin, anything you want to add on the mix, and then we'll come to your second question. Look, I think as I've just described, our private label is a real strength for us, Nick, and it really comes through at a time when customers are managing their budget choices really carefully.

Customers are looking at – they've got a fixed budget to spend, how can I make this go further, and the fact that customers would attribute really strong quality credentials to our private label offer really helped us to deliver for customers there.

We saw 10% sales on Own Label come through in the Quarter and it was a building performance as customers looked more and more to make their budget stretch further. So, the exact behaviour was, this is what I need for my everyday life, how do I find the money in my budget to treat up and trade up for Christmas?

Nick Coulter, Citi

My point was it seemed like there was a difference in volume performance between pre-Christmas and then peak. I'm trying to get to – was there a difference in mix performance as well or not?

Kevin O'Byrne

Not material. Nick, there wasn't a material change. There was a bit more Own Brand as we went through the Quarter in the mix, but it wasn't a material change. Where it was more material was Taste the Difference stepped up more at Christmas as people treated themselves.

Simon Roberts

Also on Taste the Difference, it's important to say a lot of the Taste the Difference products by their nature are fresh and therefore you see the step on in Taste the Difference as you get much closer to Christmas because the sheer scale of the assortment really steps up in the last couple of weeks.

Your second question again, Nick, in terms of performance changes, just repeat that for me?

Nick Coulter, Citi

Yes, on Clothing, thank you.

Simon Roberts

On Clothing, we're really encouraged with our Clothing performance through the period. When you look at what we achieved – and just referencing it in the charts as you can see – we saw strong full price sales first of all. We saw our Clothing sales in the Christmas period up 5.1% and for the six weeks to Christmas on a pre-pandemic basis, we saw Clothing sales up 14.6%. So, we were encouraged with our Clothing performance.

The team did a fantastic job to make sure we had great value, really stylish clothing, when customers clearly were looking for really good value. I think we really saw the strength of our *Tu* proposition come through this Christmas. As I say, we broke very clean as well, so we're happy with the way in which the stock commitment played through the peak period.

Nick Coulter, Citi

Do you think that's – versus the market, do you think you outperformed or underperformed and how did that phase through that period? It looks like implied from the figures you had quite a weak period pre-Christmas, then picked up across Christmas.

Simon Roberts

Yes, I think we should remember, of course, that this time last year there were a lot of effects of retailers that weren't trading normally, let's call it, as a result of Omicron and what was happening at the time.

So, obviously we had the benefit of being open throughout the period last year, so I would say in many ways it even strengthens the narrative about our relative performance because this was growth on normal trading, for want of a better description, and also I would say last year we probably saw some elevated performance given where others were at.

So, our position on Clothing is momentum keeps growing and we're really encouraged with the performance.

Nick Coulter, Citi

That's very helpful, thank you.

Simon Roberts

Thanks.

Kevin O'Byrne

Thanks, Nick.

Operator

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

Sreedhar Mahamkali, UBS

Hi, good morning Simon and Kevin.

Simon Roberts

Hi Sreedhar. Hi.

Kevin O'Byrne

Morning.

Sreedhar Mahamkali, UBS

Hello. A couple of questions, please. I think this is building on some of the things you've said. First one: in terms of pricing outlook, as you look ahead for this year - negotiations with suppliers, do you see the demands for price increases moderating, reflecting the commodity rollover, or is energy more than offsetting? How do you look at it? That's the first one.

Second one: from a shape point of view, inflation actually starts to moderate more meaningfully into second half, do you think volume comes back in the market or the pressures that you're talking to from a consumer point of view, all of that means any volume recovery is going to be very muted? Thank you.

Simon Roberts

Thanks, Sreedhar. Well, let's first of all talk about pricing and as you say, how we're navigating the environment in terms of battling inflation for customers. I think just to reiterate the point I made earlier, we are absolutely determined and clear in our focus as a whole team across the business that finding the cost savings and buying as best as we can given our improved volume performance, is fuelling our ability to be more competitive.

As you can see, if I was to draw one key message from our performance this morning, that our relative volume performance is really supported by the actions we've taken in our Food First strategy.

That being said, of course as you say inflation is still here for a while yet and so there's still a lot more to do to make sure that we keep that position.

Look, what are we doing here? Of course, we're working really closely with our suppliers and really working out together as we improve our relative volumes how can we make sure that we can keep prices as low as we can for customers. I think it's honestly too early to say in Food that there's any real change in commodities yet. It's early days. I'm sure we'll see some but not yet. Maybe as we've heard from other retailers a bit more in some of the General Merchandise commodities, it's starting to happen.

But I think in terms of the key question here as you say, it's on operating cost. Operating costs in food production, energy and labour are still to come through the pipe and are starting to do so and that's why, as you'd expect me to say, we've got to work really hard with our suppliers to make sure that we offset that as much as we can.

We're using our cost savings to make sure we inflate behind others. As I've said before, we don't want to be the cheapest in the market; we want to be really good, consistent value where it matters most. We have also got our own operating cost inflation, as you will know too. I think the market will behave very rationally on these factors.

Everyone's facing the same issues and so the key message from me is, we're using our strategy on Saving to Invest to make sure that we find those savings to invest in our offer and we'll keep working very hard with our suppliers to make sure that we negotiate the best prices we can for our customers.

Look, we'll see how the inflation picture plays out. I think it's going to be the middle of the year, honestly, before we see much change. Then to your question – look, I think it's too early to say what happens on volume as that changes. There's a lot to navigate between now and then, so let's talk about that as the year unfolds. Thanks, Sreedhar.

Sreedhar Mahamkali, UBS

Thank you.

Operator

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

Simon Roberts

Morning, Clive.

Kevin O'Byrne

Morning, Clive.

Clive Black, Shore Capital

Good morning, guys. Thank you for your presentation. A couple of questions from me therefore. First of all, maybe building on Sreedhar's question, how did the Save to Invest kick in to Q3 and what do you expect the workstreams to deliver in Q4? What are the workstreams in Q4?

Secondly, maybe a word on how Convenience and Online Grocery performed in Q3. Intrigued by your slide which said a lot of people turned up to shops.

Now, the train and postal strikers may have influenced that, but do you see something more fundamental in terms of stores versus online that influences your thinking in Q4 and then into 2023/24? Thanks.

Simon Roberts

Maybe if I talk to your second question first, Clive, and then maybe Kevin talks to where we are on our cost saving plans based on what we shared with you before.

So, the first thing to say – and just actually a big call out to our teams - we talk a lot about our Supermarket business and all of the work we put on there. We had a really, really strong performance in our Convenience business and that offer really came in this Quarter 3 when people were looking to shop more frequently, get really good availability and the job in convenience was a really good one, so we were pleased with that.

More specifically in what you describe in terms of Online, look, I think it's really clear, isn't it? Customers are making choices how to make their budget work and in Grocery, for obvious reasons, at this time of year I think people were just super savvy, honestly, about making sure they saw the offers that were out there. Often the easier way to do that is to go and see it in the shops versus try and necessarily second guess it or some of it from sitting at home and so that was a feature in terms of customers coming in weekly, daily, to see what our offers were compared to others.

I would say that we were much more agile this year at refreshing our offer week to week and we called them the Christmas Crackers, the big, all-out roast dinner, the ultimate Christmas Cracker. That was something about giving customers reasons to come back and come back more often.

But that being said, in terms of Online, let's just put a couple of numbers to the narrative here. So, Online orders in the quarter were down 12%, sales were down 7% and that's a feature of more customers coming back into store. We saw the participation levels come off a bit, around 13%.

Still well ahead of the industry at just over 10%, right, so I think the strength in relative terms of Sainsbury's Online continues but we got actually – from a customer point of view, customers saw our value, and clearly from a profitability point of view, it's more efficient for us to fulfil instore than it is delivering to customers.

A couple of things we did this year: we did Christmas Eve deliveries for the first time ever. Of course, there's some jeopardy in setting out to do that and making sure you can deliver availability and again, just to call out our team, they did an amazing job. Every part of the business really came together to make that happen and we were really pleased with how that landed, showing up for customers literally hours before Christmas Day with everything they needed for Christmas.

I think more broadly on the Argos side as we described, I think the fact that we saw higher sales in the Christmas week than the Black Friday week is a real call out, right, because customers really trusted the convenience that they could get in Argos by ordering on their tablet or device and picking up from their local store a few hours later and being sure they've got it.

So, I think the postal strike gave us a real tailwind there and I think to your broader point, gave more reasons for customers to come back into store with 50% more visits in that period.

Kevin O'Byrne

Clive, just picking up the cost side of things. Happy with our performance in Q3, delivering on our plans and on track and clear plans for Quarter 4, as you'd expect. Some of the things we've talked about on a number of occasions now, continuing on the Argos store program, logistics supply chain, store operations, lots of focus on productivity measures, energy utilisation. So, all the plans operating and of course, spending quite a bit of time in the coming weeks making sure we're really set up for the new financial year as well and the programs there, particularly the end-to-end work that we've talked about. So, all on track and lots to do.

Simon Roberts

Clive, one of the things we should just call out – we made a very conscious choice to reinvest some of our performance in our colleague pay award in this financial year. The absolute substance of that is we clearly announced last week to move to £11 market leading pay award for all the reasons I described. We really care about that.

That means that there's an extra month of that pay happening in this financial year compared to a normal year. That's about a £15 million cost and so as we balance the choices, as Kevin said, strong momentum in our cost program, and as a result of that; real investment in the balanced set of choices we've made in areas like service and availability, clearly being able to deliver that pay award for our people and also raise our expectations in the range of our guidance this year.

Clive Black, Shore Capital

That's a really good point to finish on there, Simon. Thank you for the clarity and actually, well done on the trading. Good to see.

Simon Roberts

Thanks, Clive. Thank you.

Operator

So, one last reminder for anyone who is wanting to ask a question, please raise your hand via the raise hand button at the bottom of your screen.

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

Simon Roberts

Okay, thank you everyone for joining us this morning. I'm conscious it's a really busy week for you with everyone reporting this week, so really appreciate your time in joining our call this morning.

Just before we dial off, I just want to note that this is Kevin's last results call with Sainsbury's and look, after six really fantastic years as part of our team, just a huge call out and a huge thanks to Kevin for all he's done for our business and just for being such a brilliant partner to work with.

Thank you, Kevin, and all the best wishes for you for the future.

Kevin O'Byrne

Thank you very much Simon

Simon Roberts

Thank you.

We're really looking forward to seeing many of you on the store visits coming up in the next couple of months and of course, for those of you there then you'll have a proper chance to say goodbye to Kevin before he leaves us at the beginning of March.

Thanks again for joining us this morning. Thanks to all of our team who've really delivered these results and look forward to catching up again soon. Thanks everyone.

End