J Sainsbury plc
Q3 Trading Statement
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Presentation

Operator

Hello and welcome to the Sainsbury's Q3 Trading Statement 23/24 Analyst Q&A Call. On the call this morning is Simon Roberts, Chief Executive and Blathnaid Bergin, Chief Financial Officer.

I will now hand you over to Simon Roberts for the presentation.

Simon Roberts
Chief Executive

Thank you, Olivia. Well, happy new year everyone and good morning and welcome to our Quarter 3 presentation of Results covering the 16 weeks through to 6 January.

I am going to talk for a few minutes about our trading performance in the quarter and then of course, as always, Blathnaid and I will take as many of your questions as we can. Now, the webcast is going to show the slides I am going to refer to over the next 10 minutes or so. We've also sent them around this morning by email and, of course, they are available on our website too. So, let's get stuck in!

So, we talked, clearly, at our Interims about our plans and our bold ambitions for Sainsbury's in the all-important third quarter of this financial year. These really delivered through the whole of the period and we carried the strong momentum into the six weeks of Christmas, with customers recognising our great value right across the store and across the offer, really engaging with Nectar Prices, the first Christmas with Nectar Prices, but also treating themselves by trading up more and more to Taste the Difference.

Now, Argos outperformed what was a weak and highly promotional general merchandise market, with a great performance particularly over the Black Friday period, but sales did decline ahead of Christmas and that was against an exceptionally strong performance last year.

I do just want to give a huge thank you to all of my colleagues. Not only those in stores who delivered outstanding service but also to everyone working in our depots, throughout every part of our operation, and right across our store support centres, where the task of delivering on our bold ambition and maintaining our fantastic momentum really has required a huge step up right across the business.

Against tough comps, we really did step up our Grocery volumes and this was only possible through really deliberate and focused planning and then really backing ourselves to really deliver, particularly over the peak Christmas period.

Now, in stores this translated into a further widening of our lead versus competitors in overall customer satisfaction and we saw significant switching gains from all of our largest competitors.

Now, looking at the some of the detail behind this, you can see on this chart that that leading position is a result of being number 1 on the metrics that really matter most across the product offer, across customer service and across store standards. Ultimately, this really does reflect the fact that however hard we plan and however well we deliver products into our stores, it’s the 120,000 colleagues in our stores and out on the road in our delivery vans who really make the difference to customers, as you can see on this chart.

Now, I’ve talked before about the very deliberate choices we’ve made to deliver growth and improve our business. Last week we announced another key strategic investment, with a 9% pay increase for all of our hourly paid colleagues, taking the hourly wage rate to an industry-leading £12 an hour from the start of the new financial year. Now, this is really important to us because engaged and motivated colleagues are a key driver of how we expect to continue to deliver sales and profit growth.

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

Looking at Grocery first, well, Quarter 3 growth of 9.3% was slightly higher than Quarter 2 and that was despite inflation roughly 250 basis points lower, so really a fantastic volume performance through the whole of the quarter. The headline Christmas growth rate was a touch slower, but with inflation falling through the quarter year-on-year, actually the volume growth over in the six-week period was slightly higher than the Quarter 3 average overall, so a really fantastic performance against very tough comparatives.

General Merchandise growth, excluding the impact of the Republic of Ireland closure, which is shown on the right hand side of the middle box, shows that we grew sales over the quarter but we saw a weaker performance in the run up to Christmas. This was against a period last year when you may remember we benefited significantly from the Royal Mail strikes and also at the same time, we saw strong demand last year for energy saving devices like air fryers and electric blankets.

Clothing sales in the quarter regained some of the momentum in what was still a very heavily promotional market, but they were weaker over the Christmas period, against a time when the weather was colder last year.

Now, we showed you these charts at our interims back in November, really highlighting that we'd outperformed the market on volume growth every week since the start of the financial year. Against some tough comparatives over the key events in particular, we're really proud of having maintained this track record. The right hand chart here shows the switching gains that we have achieved from all of our biggest competitors. This means that over the course of the quarter we grew volumes faster than four out of these five largest competitors.

I think it's also worth noting that the Nielsen numbers showed a much tighter spread of growth rates over the period, with our performance being very close to the strongest in the market.

Now, the consistency of the proposition we're delivering for customers, across value, quality, innovation and service then really pays dividends when you head into key events like Christmas, where we maintained this outperformance, as you can see.

This slide I think really demonstrates the consistent momentum since we reset our Grocery business in 2020, when we look at our volume outperformance at Christmas in the last four years. Despite some really tough comparatives, this was our fourth consecutive year of outperforming the market but also the strongest period of outperformance of those four years.

Now, we've continued to improve our value relative to the market, which has been a significant driver of the consistent volume share gains we have delivered. The numbers in the left hand box showing further year-on-year improvement in our pricing index compared to key competitors.

Now, this was our first Christmas of Nectar Prices and that really delivered for customers too across more than 6,000 products, unlocking our best ever Christmas roast, at under £3 per person, and driving Nectar participation on big basket shops to 90%.

We've started the new year with an extension of our Aldi Price Match campaign. Now with 550 of the products customers buy most often matched on price, customers are trusting us more than ever to deliver consistently great value.

Now, we're proud of the work we do in our communities and our Christmas Nourish the Nation initiative was a great example of this, with all the proceeds from the sales of our 15p and 19p Christmas vegetables going to support communities in need over Christmas. This helped contribute to total fundraising of £6 million in the quarter, to help tackle food poverty. 14% of adults in the UK have experienced food insecurity and we are focused on ensuring that no good food goes to waste. In the quarter we donated more than four million meals through our partnership with Neighbourly and our front of store donation program.

Now, alongside value, we've continued to extend our ambition and our delivery on innovation. We’re really encouraged by the progress we continue to make in bringing bold, new innovation for the key events. This Christmas we launched 170 new Taste the Difference products. Taste the Difference already has the biggest premium own label participation of all the full choice grocers, as you can see.

So the fact that the volumes grew faster than anyone else in the market over Q3 and Christmas tells you that more customers are choosing Sainsbury’s when they want to put something special on the table for a big family event. Again, this is growth-on-growth, with 13% Taste the Difference sales growth this year on top of a very strong growth last year too.

So, turning now to Argos. As you can see in the chart here, we outperformed the market for the majority of the period, with a particularly strong Black Friday performance. But as I mentioned earlier, the market was also heavily promotional, bringing some margin cost to those sales. In addition, you will see that we dipped below the market in the three key weeks just before Christmas.

So when we then look at last year’s sales trend shown here in the dotted line, we knew we had a tough comparative against the Royal Mail strike last year when we really benefited in the run-up to Christmas from our click and collect and store walk-in proposition in particular, but the impact was a bit more year-on-year than we had anticipated.

This is also clear in the difference between the performance in the first 10 weeks and second six weeks of the quarter last year, shown on these charts on the right hand side. This was probably amplified by the relatively warm weather this year too against a period last year when the weather was colder and customers were focused, particularly at that time, on energy saving products. You can see the bounce back since Christmas, but the market remains tough, with customers spending cautiously and a high level of promotional activity in the market.

So, wrapping up, we’re really pleased with the momentum that we’ve built at Sainsbury’s and we’re winning customers from our competitors and customers are doing more of their Grocery shopping with us.

Having lifted our guidance to the top end of the range in November, we are reiterating our full year guidance on both profit and free cash flow today, with a very strong Grocery performance offsetting a weaker performance from Argos in what was a very promotional general merchandise market and against strong Christmas performance last year.

We continue to think that we’re getting the balance right for customers, colleagues and shareholders, investing to maintain momentum at a time when not everyone in the market is in a position to invest. This is helping to lay the foundations for further growth and as a team we're really looking forward to talking to you about the next phase of our strategy in February.

So, thank you for listening to that. I'm now going to open up the call for Blathnaid and I to 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, please use the raise hand feature, which is located at the bottom of your screen. If you've dialled in, please press star 9 to raise hand and star 6 to unmute. When called upon, please unmute yourself and begin with your question.

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

Simon Roberts

Andrew, good morning. Happy new year.

Andrew Gwynn, Exane

Hi, morning, Simon, morning, Blathnaid. Happy new year to you as well.

Blathnaid Bergin

Morning.

Andrew Gwynn, Exane

Two questions if I can. So firstly, again, just unfortunately on Argos, just help us understand a bit more about the market, I suppose, why is there so much more discounting? Is it an inventory position for the industry? Maybe just comment on your inventory position as well as we head into 2024.

Then the second question, Nectar Prices, obviously an important part of the performance during this year. I don't know if it's possible, but is it possible to pull out the potential kind of contribution to sales growth? Perhaps as much helpful next year as we cycle that comparative. Thank you.

Simon Roberts

Andrew, thank you. Well, why don't maybe Blathnaid give us a sense on Argos and then I'll talk to Nectar. Blathnaid.

Blathnaid Bergin

So if we stand back and look at Argos, Andrew, it was a really tough comp. I think that's the first thing we need to bear in mind. There was weather, World Cup, postal strike, and it remains a tough comp as we move into Q4, but that was very much within our guidance, so we're comfortable with that.

Argos has consistently outperformed this year, and if we look at the last two weeks again, it's still outperforming the BRC, so we're comfortable with its performance. Our view on the consumer, it hasn't changed. What we're seeing is consumers are spending cautiously, they're spending what they need to spend, and they're also spending for events, on that as well. What would change our position? Look, if the weather changed and it turned a little bit colder, we might see increased demand there, particularly on some of your electric blankets, your home heaters - so we'll be keeping an eye out for that.

On the stock position, the market is more promotional. We're comfortable with where we are. We cleared as we went through, so we reacted to what we were seeing going on in the market, what we were seeing going on with weather and we cleared our stock as we went through the season as well so we're pretty comfortable with how we've exited on that one.

Simon Roberts

Thanks, Blathnaid. Okay…

Andrew Gwynn, Exane

Is it possible to pull out – sorry, I was going to say, is it possible to pull out an approximate profit impact of where General Merchandise is versus say budget, just so we can understand how much the drag is on the Group performance?

Simon Roberts

Yes, maybe just to come in on that, you'll remember, Andrew, at the Interims, I remember saying at the time, when we started the year, we said to you the range was £640 million to £700 million. We said that things would all have to go our way in GM to get to the upper end of our range. I think in November, we said, look, it was a pretty soggy summer. So we didn't have the benefit of a strong or even an average summer.

As Blathnaid's just said, a combination of a highly promotional market – I mean we should be honest, the customer in GM is still highly cautious. There's a real caution in spend there. The fact that this morning we can confirm that we raised our guidance in November to £670 million to £700 million, we're very comfortable with that range, and we've come through now a tougher Christmas period with particularly exceptional performance last Christmas we anniversaried, I think that just shows the strength of the performance in the Grocery business. You know too that we had some headwinds in Financial Services. So in terms of overall the performance of the business, we remain on track for the upper end of the guidance that we described. Should I come on to Nectar?

Andrew Gwynn, Exane

I'm sorry, I interrupted on Nectar Prices. Sorry.

Simon Roberts

Yes, just to come to that. So Andrew, thanks for the question on Nectar. Look, I think the key point we'd want to make here is we are really delighted with the launch of Nectar Prices. It's been an absolute game changer. If we think we launched Nectar Prices at the end of April on 300 products and this Christmas it was available on over 6,000 products across our assortment. And customers have really bought into Nectar Prices. They love it.

This Christmas on an average £80 Christmas shop, customers were saving £16. It really gave customers reasons to shop with us. You can see in our volume performance – I would stress the point, I showed the chart there on how much we've outperformed the market. Our volume is approaching mid-single-digit growth there and Nectar Prices is really helping to drive that performance for us.

I think, look, in terms of the progress here, really pleased we've been able to land it so well. The team have done a fantastic job in scaling in nine months so extensively. Customers are really buying into it; 18 million customers now. I'm sure we'll talk next month about the progress we've made on Nectar and where we see the further potential.

Andrew Gwynn, Exane

Okay, thanks very much. Catch up in a few weeks.

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. Thank you for taking my questions. Three are questions then, please. I think Simon, just as you finished, you talked about further growth to come, encouraging us to come to the strategy update. So I was just wondering if you could build on a little bit to give us a sneak preview of what we should expect at the strategy update in three weeks or something from now. That's the first one.

Secondly, on Grocery, clearly very strong performance. Any comments on the market as we enter 2024? Clearly we're seeing some moves from Aldi, Lidl price matches, people replicating your strategy, but does it, big picture, feel like a normal January cut and thrust, or is there anything more to it at this point? Clearly, industry has been very rational through the last number of years now, two, three years.

The third one, just on Food First strategy. Clearly it’s very visible for us all, the share gains and the price improvement, price perception improvement, they're all coming through. Talk a little bit more about in terms of trade-offs in brands that deliver more broadly, maybe GM and Argos, given the recent performance is there anything in your mind that's changing your view on Argos’ ability to contribute sustainably to profit growth in the mid-term?

Simon Roberts

Sreedhar, thank you. Okay, let's take those questions in the order that you've asked them.

So first of all, yes, we're really looking forward to being together with you and everyone on 7 February. Look, our intention on our strategy update is to give you a really good insight into how we're intending to build upon the progress we've made over this period and really importantly to focus on where we see the opportunities, how we're preparing for them, how we're preparing as a business for them and what it will mean for our customers and our colleagues and, of course, our shareholders.

Just as you've made the question, we’d really make the point we've got a lot to talk about, so look forward to seeing everyone on 7 February to take that conversation further.

In terms of the market, look, I think we're seeing much of what we've described through ‘23. This, as we all know, is an incredibly competitive, intense market. I think that really showed up through Christmas. Everybody really came to the market with something to try and win customers. We are really pleased with how we've performed. As I say, the fact our volume growth was so strong, the fact that we have taken share and the fact that it was our fourth consecutive Christmas.

I think what we're seeing is a market that continues to behave very rationally. I don't think we're seeing anything this beginning of ‘24 that's any different to we've seen before. Value is always front and centre as we break into a new year. You can see from the Sainsbury's team, a big focus on the price match, our biggest ever, a £23 million investment this January, but you can also see others deploying their plans as well. I think that continues that theme of rational behaviour in presenting value to customers at this time of year.

We start the new year with fantastic momentum. We are really encouraged by our Grocery performance, not just over the Christmas period, not just over the quarter three period, but throughout the year, and we carry that momentum into this year.

As we come to your question on the broader Brands That Deliver, let's just be really clear, as Blathnaid said, it was a tough comp for us, particularly in Argos, because we had such an exceptionally strong benefit last year from the post strike. We didn't mention actually in the run in, we had a World Cup last year we shouldn't forget too. People bought a lot of big televisions for the World Cup last year, and in the energy challenges of this time last year, people bought a lot of personal devices to keep warm, whether that was an electric blanket, whether it was a jumper, whether it was an air fryer to cook more efficiently.

So there was quite a lot of one off effects last year that we've anniversaried and actually to have come through the quarter and sales overall in GM were up 1.5% I think just shows that customers are very confident in coming to us for those products and actually we took a lot of share, as you've seen, in the quarter as well.

So we come into this year with that momentum and we'll talk to you next month about all the things in all parts of the business that we can see as opportunities to drive forward.

Blathnaid Bergin

Yes, the only other bit that happened that is look, Argos is a cyclical business. We've had the weather we've had over the summer and into Christmas and those tough comps, but it is a big contributor to our business overall. Next year, let's hope we get a warm summer and a cold winter on it, and see where we end on that one. But it is cyclical, so we've got to ride it as it comes.

Sreedhar Mahamkali, UBS

Thank you both.

Simon Roberts

Thanks, Sreedhar.

Operator

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

Simon Roberts

Freddie, good morning.

Freddie Wild , Jefferies

Good morning, both, and happy new year. First for me, could we please get some more colour on Sainsbury's basket inflation versus industry inflation in the quarter, and then maybe within the quarter, how your pricing versus peers changed throughout the period?

Secondly, with the cold weather coming back and the toughest comps now past, can we assume there's been some recovery in Argos later on, and that we might now move to a less promotional industry stance?

Finally, are you seeing a difference in how the consumer is spending in Clothing versus General Merchandise and about how promotional those two industries relatively are? Thank you.

Simon Roberts

Thank you, Freddie. Okay, so let's start with inflation. Look, I think the most important thing to recognise is how significantly food inflation came down through the second half of ‘23 and particularly accelerated into Christmas. You heard me say in the presentation that when you look at our Grocery performance, so 9.3% over the full quarter, 8.6% over the six weeks to Christmas, actually, when we look at what happened in the six weeks to Christmas, volume actually improved there as a function of the fact that inflation came down even faster.

Our volume growth actually in the quarter overall was about 2.5% higher than it was in Quarter 2, which just shows the rate of progression of the declining inflation impact and our relative improvement in volume as the year progressed.

Look, I think our clearly stated strategy has been, since we launched Food First, that we wanted to really make sure we had a very competitive offer for customers. That was at the source of driving our volume. What you've seen us do out throughout 2023 is make sure that we give customers really compelling reasons to shop at Sainsbury's. That's played out in the way in which as inflation has come down we've passed savings back to customers.

But really importantly, I just want to make the point here, that absolutely central to our strategy and our approach is more volume over fixed costs. So as inflation has come down our volumes have grown so we’ve put more volume through the Food business. Look, it won't have escaped your, or I'm sure anyone else on the call’s notice, that our retail margins will be up in the second half of the year.

Given that we've had some drag from Argos, as we've described, I think what that shows is that volume growth is really translating into a good rate of profit growth as well. So inflation coming down, passing pricing benefits onto customers, getting the benefit in our business of more volume over fixed costs.

In terms of the weather, yes, I'm very conscious that weather is often a thing we talk about as retailers, but as Blathnaid just said, it was a very soggy summer, which we talked about in November, and that meant we didn't sell as many paddling pools and barbecues last summer. It was a very warm Christmas and that meant that, definitely on the energy saving products from last Christmas, heaters, blankets, that kind of thing, electric blankets and clothing, it was a softer Christmas.

So the market was highly promotional because of that. Sales were brought forward into the Black Friday weekend. And look, I think, the cold weather snap started at the weekend and, it's always striking how fast customers respond when the weather turns colder. We want to make sure that we can serve customers with what they want as that happens.

Then on Clothing specifically, to your last question, look, I think we talked about at the Interims in November that we would need to adapt to a more promotional market. We've done that. We also said that we had work to do to improve our ranges and we're working on that.

You can see in the improvement in the clothing performance in the quarter how much that's improved since Quarter 2, but there's still more to do and I think this market will continue to be highly promotional and therefore, we've got to make sure our product offer is the best it can possibly be and that we clearly make sure we're promotional enough, given the context of still a very cautious customer.

Freddie Wild , Jefferies

Great, thank you very much.

Simon Roberts

Thanks, Freddie.

Operator

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

Nick Coulter, Citi

Hi, good morning.

Simon Roberts

Morning, Nick, how are you?

Blathnaid Bergin

Morning, Nick.

Nick Coulter, Citi

Happy new year. Morning. So two for me, if I may, please. Apologies, a follow up on Argos. It feels like from a gross margin perspective at least a bit of a subpar Christmas and maybe a subpar year, but is there any way for us to get a sense of what it's cost you from a profitability perspective relative to a weather normal year, if such a thing indeed exists, or a mid-cycle year, just to try and get a sense of the headwind that you've experienced. I appreciate there's a mix and a category overlay and also you're on a journey with Argos at the same time.

Then secondly, I think I asked a similar question on the call last time, but your volume performance is notable. You're taking volume switching from folk who are laying space, but what's the algorithm from here, please and should we expect some operating leverage to play through or will it all be reinvested to drive the offer? Thank you.

Simon Roberts

Nick, look, thank you for your questions. Maybe Blathnaid, do you want to pick up on the Argos question and then we'll come back to your volume question, Nick.

Blathnaid Bergin

So what I'd say is we don't actually break out the margin, Nick, but what I would say in Argos is, if you think about what we've done in the last three years, we've talked a lot about what we've done on costs and resetting that cost base. So that means that Argos is a far more resilient business today than it would have been. So it's in a better position to weather some of this ups and downs and this volatility that you see with the weather and everything in the market.

So it has been a little bit of a drag, but overall, when we stand back and look at how we've performed in Food and GM, we're exactly where we'd anticipated we'd be and where we'd expect to be within the guidance range, and we're very comfortable in that £670 million to £700 million range that we've talked about today.

Simon Roberts

Thanks. I think just as we link from first point to second point, look, Nick, it hasn't escaped your notice, I know, that as I said earlier when you stand back and you look at that range of £670 million to £700 million and the fact that we've had a tougher summer on the comp, and then some of the issues that we've lapped this Christmas, that we're still at the upper end of our range. I think just to your second question, that really points to the profit conversion of the volume.

I think, when you remember our setup of this year, I think I said at the time for us to get to the upper end of our range we’d need a strong GM year and actually we've had a tougher range of weather comps on GM, we've had some headwinds in Financial Services and yet we're still very comfortable at the upper end of the range we set out in April.

That's because that volume in Grocery, which consistently has built through the year, and as we've come into the quarter, as I described, stepped up about 2.5% on Quarter 2. That was as the combination of customers trusting us more on value, price perceptions continuing to improve and on all the elements, frankly, of the Food offer - availability, service, innovation, brilliant service in stores and online for customers, that meant that our volumes into the last six weeks to Christmas stepped up again and that's why you can see that in the market data.

Look, as you'd expect, next month, we will talk to you about how we see this in the next phase. Our job in Food First was to reset the competitive reasons for customers to shop with us more often. We think we've done the lion's share of that work. We're winning share from all our major competitors and we're improving the mix in the offer through trade up and that volume and clearly as we look ahead, we want to talk about the next phase of opportunities with that.

Nick Coulter, Citi

Okay, super. Thank you.

Simon Roberts

Thanks, Nick.

Operator

Just a reminder, if you would like to ask a question, please use the raise hand feature, which is located at the bottom of your screen. If you have dialled in, press star 9 to raise hand and star 6 to unmute. Our next question is from Izabel Dobreva from Morgan Stanley. Please unmute yourself and begin with your question.

Simon Roberts

Hello, Izabel, happy new year.

Izabel Dobreva, Morgan Stanley

Hello, happy new year. Good to see you both. So I had three questions, my first one was to follow up on some of the earlier questions on pricing. When we look at the various market data indicators, it looks like your inflation rate has converged more or less with what the market is doing. So when we think about the next 12 months, should we assume that you are allowing a greater level of volume drop through to the PBT level, given that the price investment should normalise? Is that a fair assumption?

Then my second question relates to Nectar. Could you give us a sense of where promotional activity is in grocery at the moment and at what level do you think this becomes disruptive to the overall price image and starts to add unnecessary complexity? My question is very much thinking about the context of the recent CMA probe into the matter.

Then my final question is a short one. Thinking about your free cash flow guidance, you have reiterated £600 million and the dividend is more or less half of that. So could you just remind us what conditions have you set for yourself for year-end which means that you can or cannot launch a buyback with the full year numbers?

Simon Roberts

Okay, thank you for your three questions. Why don't I talk about pricing and promotional activity and then Blathnaid talk about, as much as we can, your last question there.

Okay, look, on pricing without repeating myself, hopefully, I think that the key point here is good news, inflation has come down probably faster than we all thought into Christmas. As inflation has come down, clearly that's being passed on to customers. As I've always said, as we've always said, our job of work was to get our value position into a competitive position and that's happened more and more through the last year. We don't want to be the cheapest in the market, what we want to be is the best value on the things that customers really expect from us and we continue to behave very rationally on price as the market does.

So, when we look at the year ahead, we think we've done the lion's share of our value investment. You can see that in the charts this morning, you can see that in our volume position. So, one of the things we'll talk about next month, as I just said to Nick's question, is how we want to continue to drive our volume in Food because volume over fixed cost, as I say, is so important in terms of the economic equation, and make sure that we continue to leverage all elements of the offer.

One of the things I would just draw attention to on pricing and mix is that strong trade up that we're securing. So we're really winning the basket through the strength of our pricing. We're continuing to give customers trust in the value in our offer. But we had actually an outcome this Quarter 3 where Taste the Difference was our fastest growing product tier. I think that's really important in how we - as we look ahead, how we leverage that volume and how we make sure that we make the investment we've made already work but also make the mix work across the basket for us.

On promotional activity, look, I think it's important to say promotional activity in the market, and you'll know this, is elevated from what we've seen recently. The overall level of promotion has gone up. We've gone up a bit. We haven't gone up as much as some others have. We have a very clear policy on multi buys. We've been very clear on that for a number of years. We take a disciplined approach on promotions, albeit in a market where there has been more promotions.

What I would say on loyalty quite specifically is that Nectar Prices is really working for customers. You can see how we're using Nectar Prices across 6,000 plus SKUs in the offer now, up from 300 in April. I think we just need to be really clear that customers love these loyalty programs because at Sainsbury's in the Christmas week, customers were saving £16 on an £80 spend. We're rewarding loyal customers. On top of that, we have Your Nectar Prices for those shopping on SmartShop and on Grocery Online.

Of course, to your question, we look forward to working with the CMA as they want to look at this area, but we've really seen customers buy into the benefits of Nectar Pricing this Christmas, and it's really been a key part of their confidence in value.

Let's talk about the free cash flow.

Blathnaid Bergin

Yes, just to build on Simon's, before I move on to free cash flow, we have done the lion's share of the heavy lifting on price, but we will remain sharp on pricing. So we will absolutely keep an eye on where our pricing is and where our value is versus our competitors on that. That's really important to us.

Just moving on to cash and capital allocation, we've repeated the guidance today of £600 million and we're happy that we're on track to deliver that. We are still comfortably within our target range, we set the leverage range 2.4x to 3x, we're at 2.6x, we're still tracking on that, so comfortably inside that range, and we'll update on our capital allocation framework at our Capital Markets Day in February. So you won't have to wait until year-end, we'll give you an update in early February on what we plan to do there.

Izabel Dobreva, Morgan Stanley

Great. Thank you very much.

Simon Roberts

Thank you.

Operator

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

Simon Roberts

Hello, Clive.

Clive Black, Shore Capital

Good morning, team.

Blathnaid Bergin

Hi.

Clive Black, Shore Capital

I had various instructions before the meeting. I didn't know how to put no background on my background, so you've got a background. Some questions, if I may. Firstly, can you just give some colour to the mix of sales in Argos; toys, games, electrical items, et cetera, that that would be helpful.

Secondly, amazingly, the word online has not been used in this this update. Across the Sainsbury's business how did Online perform for you in Q3?

Then you've used the word AI, acronym AI, in your statement. Firstly, what did that contribute to you? But secondly, given the circa £200 million increase in wages you've flagged, where does technology play a part in mitigating costs going forward? Because I'm assuming, Simon and Blathnaid, that you're not guiding profits down for 2024/2025 on the back of business rates and labour at this stage. Thank you.

Simon Roberts

Thank you, Clive. Okay, well, given Blathnaid's been giving us such a clear picture of the Argos category position, Blathnaid, maybe to pick up on the mix of sales and then we'll talk about Online, AI technology and everything that followed, Clive. Blathnaid.

Clive Black, Shore Capital

Thank you.

Blathnaid Bergin

So what we're seeing in Argos sales, we've seen that continued mix into consumer electronics. We've continued to outperform on that. We've seen electricals under pressure and promotional as well. So we've seen a little bit of downturn there. Kids and celebrations broadly performed exactly where we expected them to perform but furniture is - we're seeing that under pressure. We think that's the consumers, they make some of those choices and trade-offs. So the electricals is, we're not seeing the heaters, the electric blankets coming through and on the furniture we think it's just spending choices, which we had expected.

So within our range of the £670 million to £700 million, we're seeing some of that play out as to how the consumer is behaving as well and we'd expect that to continue in Q4 in line with our expectations.

Simon Roberts

Thanks, Blathnaid. Online, thanks for raising it, Clive. If you think two and a half years, three years back in the middle of the pandemic, we started every one of these presentations talking about the change in Grocery Online.

Look, I think two points to make. We're actually really encouraged with our Grocery Online performance. The team did a fantastic job into this Christmas making sure we could give customers exactly the service slots and availability that they expected. That resulted in the fact that we saw Grocery Online sales delivered broadly in line with the Food performance actually over the period and we held our participation as well.

We saw a step up in orders in Quarter 3, over 600,000 orders a week through Quarter 3, and actually, you'll remember me saying this at the Interims, our big focus here was on the quality of the experience. So rather than over promoting to drive more volume, what we did here was really focus on availability, really focus on making sure we could fill more baskets. We released slots earlier, as you saw in our statement, and customers really bought into that. I think we really delivered on Grocery Online and held that 13% participation on the way through.

Yes, the point you make on our statement about a big change for us this Christmas was that our supply chain and logistics team did actually a really phenomenal job in managing the stock flow through the system, as it were, into our shops. If you step back and think, we put the highest volumes through our business this Christmas, we ever have. But actually when you were in our stores and operations this Christmas, the big change that our store managers were noticing was the fact that we just managed the stock flow much better because all of our forecasting on Grocery was driven by our new AI platform on Blue Yonder.

That really has given us a very different capability. That means we're getting stock in the right place at the right time. It means we can really deliver stock to forecast, but also decongest the warehouse and the stock flow into store, which just means we can get product on shelf for customers in a better way and also be more efficient with our working capital.

It was one of the biggest changes year-on-year for us that really underpinned our ability to operate so much better. Look, as you'd expect, the broader point of your question, we're going to want to talk with you about the capabilities that we're building as we think about the next generation of Grocery. I think the role of bringing the best people in the industry, that's one of the reasons we invest in pay, alongside leading technology, is going to be a key component of the way that we think about that going forward.

Then specifically on your question, look we really think it matters in a business that's putting Food first and people first to lead the industry with the investment in pay that we continue to make. I'd make the point this isn't something we've just done this year, this is something we've done consistently over the last number of years.

Pay at Sainsbury's has gone up 50% since 2018 and that's exactly the right thing to happen. Our people work incredibly hard doing a brilliant job for customers. That's why we make this investment, because having motivated, engaged, brilliant colleagues serving customers is our core philosophy in driving our sales and ultimately our profit growth, as I said in the presentation.

So again, when we talk next month we'll talk about our growth plans going forward. We've got immense momentum at the moment and we certainly intend to take that forward into the financial commitments we expect to make and the further momentum we want to develop.

Clive Black, Shore Capital

Good. Thank you, Simon, thank you Blathnaid.

Simon Roberts

Thank you, Clive, thank you. Okay, well, if there aren't any more questions – I'll just check there are no more questions - then just to say, look, thank you very much for joining us this morning. I know it's a really busy week for you. Lots of companies reporting this week. So we really appreciate the time. Thank you for joining us and very much look forward to seeing everyone on 7 February in Holborn for our strategy update. So we'll see you then. Thanks everybody.

End