J Sainsbury plc

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Preliminary Results 2023/24
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Presentation

Simon Roberts
Chief Executive

Good morning, everyone, and thank you for joining this call to talk through our results for the year to 2nd March. I'm going to kick off with an explanation of some very good results, tell you how we got here and lay out where we're going. Bláthnaid will then take you through the financials and then I'll spend some more time on the highlights of the last year and look at the momentum we're taking with us into this new financial year.

Now today's results are all about Sainsbury's winning in food. Really good food at really good prices. Food is three quarters of our business and it's now firing on all cylinders. We've made record market share gains; our volume growth has accelerated every quarter and we've been winning customers from all our key competitors.

When we launched our Food First strategy three years ago, our goal was to have the best combination of value and quality. We've really delivered on that and customers looking for the best value – that's our quality and prices – are turning to Sainsbury's for their weekly shop and especially trusting us for all the big events, for Christmas, for Easter, for every special occasion. And we've significantly improved our lead in customer service.

All of this reflects the hard work and commitment of all of my colleagues, and I'd like to thank every one of our team for everything they've done in achieving these results.

We've delivered financially as well, with higher profits, lower debt and strong cash generation, in part driven by our very determined and consistent delivery of a much higher level of structural cost savings.

Now we've achieved the balance of financial delivery and strong trading through deliberate, balanced choices for our customers, colleagues, communities, suppliers and shareholders. This has been the case over the last year, with another £220 million investment into price, delivering a further strengthening of our value position against competitors.

We've also continued to lead the market on investing in our people, with another £200 million investment in colleague pay, announced in January. We've put £36 million back into communities, and we've continued to tackle food poverty and reduce food waste through our partnership with Neighbourly. And we continue to reshape the way we work with our suppliers, providing more support to British farmers, and building longer-term, more strategic partnerships, bringing benefit to us and them.

Now we are constantly asked whether we can win from the middle of the market, and this slide shows that's exactly what we're now doing. We're the only full choice retailer gaining from both the premium grocery retailers and the limited choice supermarkets. While we've driven a real shift in customer perception of value at Sainsbury's, this hasn't impacted our reputation for quality.

You'll remember when we set out our plan back in 2020, we were too expensive, and we were losing market share. We knew that to make real progress, we needed to fundamentally reset our value position and then significantly shift customer value perceptions. Having invested £780 million over the last three years, we are at our most competitive on price ever.

As you can see in the left-hand chart, we're now really seeing the impact of this investment with a step change in value perception. We always knew that it would take time for customer perceptions to catch up with the improved reality, but value perceptions are now at their strongest in six years. The right-hand chart shows the feed through to volume market share gains, and increasingly value market share gains, as the extent of the catch up in value investment starts to ease.

So, we're now in a really strong place to build on this position. We're a business with momentum, and our customer base is growing. We have reset the efficiency of this business, and the strength of our financial position provides the opportunity to invest to become more efficient and drive growth, widening the gap versus competitors who aren't in a position to invest.

We are investing in areas where we have clear visibility of very fast paybacks. In putting more food range into our highest potential stores. In building our network of highly productive convenience stores where we typically see a two-year payback. In our front of store technology, giving a payback of less than two years on a significant scale investment, and in Nectar, building on the strength of Nectar360, with investment in new tech platforms giving clients easier access to high-returning retail media opportunities.

As you'll remember, these are the eight commitments that we laid out with our Next Level Sainsbury’s strategy in February, and very consistent with the last three years, we will report against these commitments every time we talk with you.

Now looking to the year ahead, our guidance on both cash and profit reflects those commitments. This business is in the strongest position as a team we can remember. As a result, we are confident of delivering strong profit growth over the year ahead.

We expect to continue to deliver grocery volume growth ahead of the market. Along with resilient Argos profit delivery and a growing contribution from Nectar, we expect to grow underlying retail operating profit faster than sales, with growth of between 5% and 10%, so delivering on the commitment to drive profit leverage from volume growth.

To be clear, this is an ambitious range, it's not us aiming low with the intention of raising over the course of the year. It assumes some better Summer weather, but just a normal Summer, this will provide some support to Argos sales and margins, but also to Sainsbury's sales. We know our grocery business will face tougher comps through the year as we annualise the success of Nectar prices.

But, given the strong momentum we have, we are assuming in our central case that we can continue to out-perform against those tougher comps.

I'm now going to hand over to Bláthnaid, to cover a bit more detail on the numbers.

Bláthnaid Bergin
Chief Financial Officer

Good morning, everyone, and thank you, Simon. I'm going to take you through the results from last year and also run through some of the details behind our guidance for the year ahead, covering sales first.

Grocery sales increased 9.4% in the year with volume growth in every quarter, accelerating significantly in the second half as inflation slowed. General merchandise sales declined by 0.5% but grew 1.2%, excluding the closure of Argos in the Republic of Ireland. Argos sales in the year were impacted by poor seasonal weather against tough comparatives.

Weather also impacted clothing sales throughout the year, where we took a disciplined promotional stance. This position had a significant impact on the seasonal impulse purchases in a highly promotional market, but we've protected profitability and maintained good stock management. In total, full year retail sales, excluding fuel, were up 6.8%. Including the impact of lower fuel sales, primarily reflecting lower input prices, sales growth was 3.2%.

Turning to retail underlying operating profit. This was up 4.3% in the year. We committed at our Capital Markets Day to delivering profit leverage ahead of sales growth. As you can see in the left-hand chart, we were pleased to deliver retail underlying operating profit ahead of sales growth in the second half. In fact, with stronger profit growth, despite weaker topline growth.

This was primarily driven by momentum in the grocery volume growth, as you can see on the right, as well as continued delivery of cost savings, partially offset by weaker general merchandise profits. This strong momentum means we enter the year ahead with confidence. Consistent with our commitment on profit leverage, we expect to grow retail underlying operating profits ahead of sales, driven by grocery volume growth ahead of the market and another step up in profit contribution from Nectar.

Moving on to cost savings. We've achieved the £1.3 billion savings target we laid out as part of our Food First strategy, including savings of around £350 million in the year, and reduced our operating costs to sales percentage by 165 basis points since FY19/20.

We have committed to a further £1 billion of cost savings over the next three years, and we are well underway with many of these savings' initiatives, which Simon will talk about later. In the year ahead, the major drivers of operating costs inflation are higher wage costs, with our hourly wage 9% higher than last year, and higher business rates, with some very modest offset from lower energy costs.

There are three elements to our financial services business. First, core banking products, that is loans, credit cards and deposits. Second, commissions, insurance, travel money and ATMs, and finally, consumer credit, that is Argos Financial Services (AFS) incorporating warranty products.

In January, we announced a phased withdrawal from core banking, and a move to a model where financial services that are complementary to the retail offer will be provided by third parties. We are continuing to work through this process, and I will update you once we are further along.

Looking now at the financial services results. Underlying profits fell 37% to £29 million. The decline is predominantly driven by the core banking products, and is reflective of our funding model, where we are unable to fully pass higher funding costs from increased interest rates onto customers.

As you know, our banking business is subscale, and while we will continue to manage our risk carefully as seen in the bad debt ratio flat at 2.1%, we have found it difficult to achieve the cost savings required to keep our cost ratio flat, and it has increased to 70% this year. This has meant that we've seen reduced profits in our core banking products, such as credit cards, moving from profits to losses during the year. This year-on-year move offset relatively resilient profits from our commission and Argus Financial Service businesses.

Looking to the year ahead, we expect continued healthy profit contribution from the commissions businesses, which we will retain, but expect continued losses from the core banking products, impacted by higher funding costs and by preparations for the phased withdrawal from these products. Hence, we expect a further reduction in the net financial services contribution in the year ahead, with underlying profit of between breakeven and £15 million.

The withdrawal process means that the scope of our financial services business is likely to change over the course of the year, and we hope to provide further update at Interims in November. As we work through this exit path, there are £273 million of non-underlying restructuring costs associated with the phased withdrawal from our financial services division.

These costs comprise of impairment of non-financial assets, additional allowances relating to effective interest rates, onerous contracts and impairment of the remaining goodwill held in the bank. We should expect further restructuring costs over the next two years as we execute the withdrawal.

Underlying profit before tax was up 2% to £701 million, just above the top end of our guidance range, with growth in retail profits more than offsetting declines in financial services profits and higher finance costs. We have a higher underlying tax charge this year, driven by the increase in the corporation tax rate, but including a 3% offset from beneficial prior year adjustments, leading to underlying earnings per share reducing by 3.9% year-on-year to 22.1p.

Moving onto statutory profit before tax, this fell by 15% year-on-year, primarily driven by non-cash one-off costs. Excluding the financial services restructuring costs that I went through earlier, we recognised £95 million of retail restructuring costs in relation to the structural integration of Sainsbury's and Argos, announced in November 2020. The majority of this programme has now completed.

The £86 million of adjustments shown at the bottom of the table are primarily non-cash, specifically a year-on-year change in the movement of energy derivative positions and non-cash movements relating to the Highbury & Dragon property transaction.

Now looking at our cashflow metrics. Retail free cashflow of £639 million was broadly flat year-on-year and comfortably above our guidance range of at least £600 million. Working capital inflows of £262 million were driven by higher payables, alongside some of our stock control programme delivering early. We'll continue to be very tightly focused on working capital opportunities and expect another inflow in the year ahead.

Net debt including leases reduced by £790 million over the year. In addition to strong cashflow, this reflects a net benefit of £372 million from the completion of the Highbury and Dragon property transaction. As a reminder, we bought 21 of our best supermarkets back from a property investment pool which we part owned. This transaction completed earlier in the year, removing lease liabilities of just over £1 billion.

The net cash costs of the transaction were £670 million, we funded this with cash and a term loan, and this is reflected in the movement of ex-lease debt position from net funds of £144 million, to net debt of £200 million. This table shows the key elements of the cashflow and movements in net debt this year and last.

There are a few moving parts within the broadly flat retail free cashflow position versus last year. Stronger operating cashflow, offset by higher CapEx as guided, and the non-repeat of last year's dividend of £50 million from Sainsbury's Bank. We have broken out the elements of the Highbury and Dragon transaction for you here.

For the year ahead, and as already laid out in February, we expect CapEx of between £800 million and £850 million, with an additional £70 million of spending on EV rollout. We continue to expect free cash flow of at least £500 million this year, with higher capital expenditure and cash tax costs only partly offset by higher retail EBITDA and continued working capital inflows.

Here we lay out our balance sheet metrics. Net debt to EBITDA reduced to 2.6x, reflecting the impact of the Highbury and Dragon transaction on net debt and continued strong cash generation. You can see our return on capital employed has improved from 7.6% to 8.3%. We have committed to delivering higher return on capital employed over the next three years and the profit and cash guidance we have set out today clearly implies another good step up in the year ahead.

We are proposing an unchanged dividend year-on-year, with the payout ratio increasing to 59%. The increase in payout ratio offsets the impact of higher corporation tax on net earnings. We are commencing our £200 million buyback programme tomorrow, as previously announced, and we are moving to a progressive dividend policy.

So, in summary, we are pleased with the performance delivered in the year with a very strong grocery performance throughout the whole year, but particularly in the second half where we saw higher volume growth delivering profit leverage with improved retail operating margins. With continued good cost discipline, we delivered underlying profits at the top end of our guidance range, despite both financial services and Argos profits being lower than we originally anticipated. We had another good year of strong cash generation.

In the year ahead, the continued momentum in the business means we enter this financial year with confidence. We expect a strong grocery performance to drive healthy retail operating profit growth of 5% to 10% and for that to feed through to strong free cash flow generation. Thank you for your time.

I'll now hand back to Simon to cover the strategic highlights in more detail.

Simon Roberts
Chief Executive

Thank you, Bláthnaid. I'm now going to cover each of our four strategic outcomes in turn, touching on where we are, what we've delivered over the last year, and what we're focusing on in the year ahead, starting with First Choice for Food.

The key aim here is getting many more people to choose Sainsbury's as their destination for good food. We've already made strong progress here. Price is no longer a barrier to shopping at Sainsbury's and more people are choosing Sainsbury's for the reason we've always been famous – our range, our quality, and our service.

We will bring more of that great range and quality to more customers as we allocate more space to fresh food. I'll talk some more about this later. But first, this chart shows the extent of the progress we've made over the last year. Growing customer numbers significantly faster than all other full choice competitors, particularly primary customers, who do the majority of their grocery shopping with us.

This is reflected in the type of baskets they're shopping too, where we're seeing the strongest growth in big basket destination shops, not just top-ups. This is because customers are trusting us more and more on the consistency of our value and the way we deliver it. We have a winning value proposition, Nectar Prices, Aldi Price Match, and Low Everyday Prices.

The fact that these products are in the vast majority of customer shops show that we're delivering value on the items that matter most to our customers. This year, we've actually doubled the number of products in our Aldi Price Match, meaning we now have over 600 products included across fresh, grocery and household ranges.

We're also delivering personalised value at scale with 85% of Nectar collectors shopping into Your Nectar Prices when shopping online.

The Sainsbury's brand is built on its reputation for quality and we continue to be the destination for customers wanting to trade up for a special night in or a big event when they get all the family together. Our outperformance versus the market across all the key events has continued, and we've also annualised some strong performance last year.

Easter was outstanding with our biggest ever Easter grocery sales and we performed well ahead of the market. We sold more than one million legs of lamb, with sales of items that make up the centre of Easter Sunday dinner up 10% year-on-year. Taste the Difference continues to be a key part of our success, with sales up 12% over the last year. Taste the Difference sales have grown by 30% to £1.6 billion since 2019/20.

As you can see, we are really outperforming on trade up. Our growth has been strengthening over the course of the year and we're building on an already strong position.

We continue to give customers more and more choice of innovative and high-quality products at the right time, with our level of seasonal innovation driving really strong sales. We're also being bolder and more targeted behind key destination categories, rapidly rolling out new merchandising schemes after strong trial results.

In Free From and Pet, we're rolling out multi-temperature aisles, helping customers much more easily shop the full range. I think we surprised a few people back in February when we said that only 15% of our 600 supermarkets carry our full food range. We also said that it's often in fresh food where we're simply not giving enough of our customers the best of our offer.

So, we're already underway, making very focused investments in around 180 of our highest potential supermarkets over the next three years. We expect this to be a key driver of volume growth. Making these improvements to our offer in so many stores will also bring more assortment and more ranges to online shoppers in many locations.

While we're making these changes, we'll also be updating the look and feel of many stores, upgrading technology too and making some end-to-end operating model changes to make these stores more efficient.

We've already been testing in a number of stores and learning from this process, and we've had the good fortune recently of opening two brand new supermarkets in Southport and Talbot Green near Cardiff. The timings of these store openings have allowed us to bring the benefits of these test and learn trials to these stores. They've only been open for a few weeks but both stores are trading well ahead of expectation. It's not just supermarkets where we're seeing strong growth, with convenience sales up 9%.

We're pleased, too, with our online performance. Customers are really noticing the improvements in both our availability and service online, both the key drivers of another big step up in our customer satisfaction and market share gains. We've been leading the way in On Demand for some time, learning as we've grown and refining the fulfilment operating model in our convenience stores. We've taken a big step on over the last year as we've rolled out now to well over 1,100 locations.

We spent some time at our update in February explaining how we're resetting the general merchandise and clothing offer within Sainsbury's stores to be more complementary to the food offer with a tighter, more relevant range, and more focus on key seasonal events. This is consistent with the direction of travel for our clothing business over the last three years. We have been more focused on a tighter product range, with less markdown, higher average selling price, and a better margin, delivering higher profit with less stock.

This has helped us over the last year, which has been heavily impacted by seasonal challenges, and hence a very promotional environment. But equally, there are aspects of the past year where we could have done better on our range and availability, so we've made some changes here. We're clearly focused on the opportunity in the year ahead.

Checking on our progress here against our Plan for Better targets. First, on both healthy and sustainable diets and food waste, we are making progress. But we do have more to do here, and we have some very clear action plans as we look ahead. Looking at carbon, we've made strong progress, accelerating our targets for reducing the level of both Scope 1 and Scope 2 greenhouse gas emissions in our own operations, and Scope 3 emissions within our value chain. Importantly, these targets have also now been verified by the SBTi.

We have strong, long-term relationships with suppliers and farmers. We work with over 15,000 British farmers, sourcing £2 billion of fresh products each year. These relationships put us in a unique position to play a leading role in building a more resilient and sustainable food system in the UK. We're working more closely to support farmers, adapting cost models where necessary to offer greater security, and in many cases, enabling smaller growers to be part of our supply chain.

Now, as I covered earlier, we're also increasingly committing to longer term partnerships with key suppliers to support them investing for the future with confidence, bringing commercial benefits, as well as driving sustainability progress. We're starting to tell customers about the work that we do that makes us different through our Good to Know campaign.

Turning now to Nectar. We've supercharged the power of Nectar in terms of what we can now deliver, what it brings to customers, and our value proposition over the last year. In turn, the stronger engagement with millions of customers every week in stores and across our websites is supporting the growth of our world class Nectar360 platform, offering significant media opportunities for suppliers, and putting us in a really strong position to capture more share of a rapidly growing retail media market.

We launched Nectar Prices in April last year, scaling up over the course of the Summer to the current level of around 7,000 Nectar Prices offers in store and online. The execution has been outstanding, and customers love it. It's driven a very significant ramp up in participation and it's building long term loyalty. We now have over 17 million digital subscribers. That's five million more since we launched Nectar Prices. Our customers have made savings of more than £1.3 billion since launch and we just saw a new highest sales participation level over Easter.

Nectar Prices is live across most of our offer now, but we will be extending to some more areas over the next 12 months and as we laid out in February, we will be rolling out a new Nectar app later in the year so there is more to go for here in terms of building customer engagement.

Now, this slide speaks both of the scale of the Nectar360 business and the scale of our capabilities and the reach we've been building across Nectar. This means we punch well above our weight, given the strength of our digital capability, and our relationships with the 870 brands and clients we work with, and key agencies in digital media. That translates into very strong returns on investment for clients who are working with us across grocery and increasingly now general merchandise. You can see this in the examples shown here, with high returns on advertising spend being realised.

We expect to generate really strong returns as we invest targeted capital into Nectar360 to keep innovating and to lead the market. We are investing in people capabilities, in our media and agency relationships, into digital screens, and in the tech platforms that make it easy for our brands and clients to access the best media opportunities. As an example, we have just launched a key pillar of growth for Nectar with The Trade Desk, creating a supply hub on our digital trading platform. This will help clients target very effectively specific Nectar audiences and then enable them to measure and optimise performance of their campaigns.

We are focused now on driving the targeted investment necessary and delivering fast payback and strong levels of return. We are very confident we will deliver at least £100 million of incremental profit contribution from Nectar360 over the next three years.

Let's turn now to More Argos, more often – our plan to continue to transform Argos with a focus on range, convenience and value so that more customers buy more complete baskets, more often. When it comes to Argos, our focus has been on creating a more resilient business. We've talked to you over the course of this year about the influence of seasonal patterns on Argos.

You can see in the sales performance on the left-hand side of this slide how the poor Summer weather impacted some of the higher margin seasonal categories. But the work we have done to transform the Argos operating model, reducing the standalone store estate, and driving greater operating efficiency, means we have reduced operating costs by more than 300 basis points over the last three years.

On average, Argos' profits over the last three years, importantly excluding the year when we saw significant lockdown benefit, were three times the level of the prior three years.

This year is a case in point, where we were able to better protect profits when sales were skewed to lower margin categories, like consumer electronics. We are confident this profit resilience will continue in the year ahead, helped by our continued focus on cost savings and based on our expectation of more normal seasonal weather.

Now, when we announced the next phase of our strategy in February, you'll remember I told you our key focus for Argos will be driving more frequent customer engagement and bigger baskets. Half of UK households shop at Argos. They know that we are here for them when they need us and our ease, value, and convenience are key drivers of our high customer satisfaction. But Argos isn't the go-to destination for enough shopping missions, and we aren't inspiring customers enough when they're shopping with us, so they only add to their baskets the one item they originally came to us for.

More Argos, more often will focus on better inspiring customers, widening the range of premium brands we have on offer, and better showcasing our own label products. We will also drive greater awareness of our market leading Click & Collect and delivery propositions, further building on customers' love of our famously convenient service, and we will ensure we are always delivering great everyday value.

Another key focus area of our strategy is supercharging our digital capabilities to deliver online growth at Argos. Now, our team our well underway with a number of activities to adapt the way we attract traffic to the site, such as enhancing our search engine optimisation activities and growing organic traffic through introducing leading CRM capabilities.

At the same time, we're really improving our customers' digital experience when they reach our site. We're making enhancements to browsing, personalisation and payment options, and we're increasing the relevancy and value of our attach recommendations. We're also continuing to invest in our Argos app, with an ambition to double app participation.

Transforming our operating model has been a big part of the story in Argos over the last three years, and that isn't going to change. As I've said to you before, the job of transforming and improving Argos is very much a continuum. Having largely redefined the store network, the next phase of transformation is about refining our store operating model, taking the opportunity to move from a one size fits all approach, to using a store clustering strategy to tailor stores by proposition type.

This will ensure we have the right sized store and model for each location, be that fast collection, or more engaged service requirements. As you can see here, we're already seeing the benefits of our rightsizing work, for example, in our Croydon store.

Looking at the Argos model end-to-end, we see a number of efficiency opportunities still to come. Our big focus is primarily on optimising the amount of stock we hold. Part of this focus on efficiencies will be delivered through consolidating and automating our general merchandise distribution network. We are well progressed with the build of the new automation and the programme remains on track to open in FY25/26.

This brings us to our final strategic outcome – Save and Invest to Win, which combines how we continue to drive more cost out of our business with how we are investing capital, with a clear focus to enable our growth and drive efficiency. Our ambitious cost saving plan over the last three years has delivered £1.3 billion of savings and has been key to fuelling the investments we've made in our proposition.

This focus on minimising costs and driving efficiencies is now embedded in our culture. We're confident we can maintain our current rate of cost savings over the next three years, targeting a further £1 billion of savings, more than offsetting the level of inflation we anticipate.

We've achieved some significant structural changes during the course of Food First in our retail proposition, as we've closed our fresh food counters and cafés and in Argos, as we've moved from standalone stores to stores inside Sainsbury's and transformed our logistics network.

But as we look ahead, our focus is increasingly on automation and end-to-end productivity, taking costs out of an entire cross functional chain of cost rather than looking at more siloed divisional savings. We are also investing capital in a very targeted and focused way into the high returning projects that will really power our growth and efficiency. There are some examples here of the key capital projects we are already underway with.

You would have heard me talk about our Future Front End programme, which we have now completed in 390 stores. This is an investment which has enabled delivery of more than £50 million of cost savings. This programme yields a sub two-year payback and has transformed the way we operate our checkouts, driving higher customer satisfaction, at the same time as saving costs and improving productivity.

Now, there is more we can do here. The next phase of optimising our checkouts is focused on building an even more seamless, personalised, and efficient experience for customers through further technology development.

Underpinning our growth agenda is the work we're doing to simplify our logistics network and drive better availability for customers and greater efficiency within our operations. We are on track with transferring our logistics operations to our three strategic partners, GXO, Wincanton, and DHL, with the implementation due to complete this Summer.

Of course, getting availability right is critical to delivering for our customers and we're really seeing the benefit of working with Blue Yonder to migrate our food supply chain to machine learning based forecasting. We have already migrated 100% of our ambient grocery products, resulting in an increase in availability of 170 basis points year on year, which is the equivalent of 150 more products available in each of our supermarkets.

We're on track with our fresh food migration too, due to complete this Summer with clear opportunities in the future to extend to our clothing and general merchandise businesses.

Alongside this, we have conducted a forensic assessment of where colleagues are spending most of their time and the value that time adds to customers. For those tasks that are adding less value, we're really questioning, can we remove them, can we optimise them, or can we automate them?

We are using data science to predict availability and identify stock gaps which helps colleagues to prioritise when they replenish items, and we're using a model to optimise product date checking and price reductions to enable more targeted use of retail labour. Both trials are saving colleague time, whilst really improving the experience and availability we offer for our customers.

Coming back to our purpose and the Next Level Sainsbury's Strategy that we're focused on delivering. We are really clear as a team on how we're setting ourselves up to build on the great momentum we have as we move into this next phase of our strategy. As I said to you in February, this is a real moment in time for Sainsbury's.

We've reset our value position and continue to outperform on quality, with more and more customers shopping our food offer. We're building on our world class capabilities in Nectar. We're continuing our transformation in Argos, now a much more resilient business, and our unique cost saving opportunities continue to be a significant competitive advantage as we get underway with a programme of high returning investments to power our growth.

We've started this year with strong momentum in grocery, and while we will face tough comparatives, we expect to continue to generate volume growth and outperform the market. Consistent with our commitment to deliver profit leverage from sales growth throughout the life of this plan, we are confident of delivering strong profit growth.

We think we're well placed to navigate the year ahead by continuing to make consistent and balanced choices for all our stakeholders, and as a result, delivering more for our shareholders. Every part of the business is very focused on the opportunities ahead and what we need to do to deliver this year, to deliver on our plan, and take Sainsbury's to the next level. Thank you for listening.

Question and Answer Session

Operator

Hello, and welcome to the Sainsbury's 2023-2024 Preliminary Results Analyst Q&A call. On the call this morning is Simon Roberts, Chief Executive, and Bláthnaid Bergin, Chief Financial Officer.

We will now begin 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 have dialled in, press star, nine to raise hand, and star, six to unmute. When called upon, please unmute yourself and begin with your question.

The first question is from Izabel Dobreva from Morgan Stanley. Please unmute yourself and begin with your question.

Simon Roberts

Good morning, Izabel.

Bláthnaid Bergin

Good morning.

Izabel Dobreva, Morgan Stanley

Hello. Good morning. Thank you for taking my questions. I have three questions. The first one is just margin development in the back half. It was up about 10 basis points. Could you help us understand how that looks between grocery and non-food? Because I would imagine your grocery margin was up quite a bit more, considering your volume performance in market share gains.

Then I have a question on your outlook for Argos. In your remarks, you talked about a resilient profit outlook but then we know that there are easier comps from weather and seasonal, plus there's the savings from the cost. How should we spread that against the resilient profit? Are you implicitly guiding for volumes to be down for the year ahead or maybe you expect more markdowns? Any colour there would be helpful.

Then my last question is just your longer-term guidance, which is to crystallise operating leverage. Do you have a particular profit margin in mind as what you consider to be the steady state profitability of this business?

Simon Roberts

Izabel, thank you. Well, shall I talk to your first and second question, and then maybe between Bláthnaid and I, we'll talk to our guidance and how we think about margins going forward. Actually, in the presentation this morning, I think we gave – and hopefully you saw it in the slides – just the balance of the first and second half. To your question on what happened in the second half, the really important thing was that volume growth for us continue to accelerate through the year. We grew volume in every quarter, but you can see that the growth of volume in the second quarter particularly stepped up.

When you look at the presentation this morning, what happened was in the second half, grocery sales growth was 8.7% but volume was a much bigger component of that. So, I think what we're seeing here is exactly the key point in our go forward position, which is we expect to drive profit leverage from sales and volume growth. What we've seen in the second half of this year is a very strong performance in grocery. As you saw in the Kantar numbers this week, we're taking share from all of our competitors.

That equation of putting more volumes through the business as more and more customers see the value that we're offering is really working for us and it's now dropping through into our profit growth. As you saw in the first half, sales growth grew 7.7% and profit was up 1.7%. In the second half, sales up 5.9% and profit was up 7.1%, so you can see that shift coming through in the way that we're converting.

On your second question, look, I think the key point to make in Argos here is we've spent the last three years really focused on Argos becoming a more resilient business. We've taken a lot of cost out of the business, but at the same time, improved the customer proposition as we've brought Argos store in stores inside Sainsbury's supermarkets and we've reset the whole operating model of Argos.

So, the key point here is when we think about the year just finished and the year beginning, really, the key point is the year just finished was a tougher year because Argos is a very seasonally driven business. The key peaks in Argos are really all about the Summer and then all about Black Friday into the key points of the second half. What happened for us this year was it was such a washout of a Summer, frankly, that the higher margin product categories in Argos just didn't come through. So, the headwinds in Argos were more about margin, than sales. As you can see, you know sales for the year are actually 1.6% up if you take out the effect of the closure in the Republic of Ireland.

So, actually what we're thinking here is in a more normalised year – and look, none of us can forecast this Summer, right, but I think if we looked at a more normal Summer ahead, let's hope, that would certainly bring some support to the year-on-year comparative.

Then more broadly I think, look, general merchandise markets are just going to take longer for customer confidence to build. So, we are looking at general merchandise in a more cautious way, despite the fact we've got a much more resilient platform now.

Then when we think about the look ahead, maybe just in terms of the key point first, which is that we're really confident that we've got such momentum in our food business now, it really is firing on all cylinders, that we can continue to grow volume. We don't expect to grow volume at the same rate we have been.

I mean, if you look over the last period of time, through the second half we've been approaching mid-single digit volume growth. Now we're not going to continue to put on that level of volume, but we would expect to grow volume low single digit as we look out and particularly as we face into tougher comparatives. Therefore, we expect that to continue to convert to profitability.

You've seen us signal, both in February and today, that we expect our margin conversion to follow as we do that. So, in our recent operating profit guidance today, you can see that we're guiding up there from where we may have been before as that conversion of volume to profit comes through.

Blathnaid Bergin

I wouldn't build on that too much more because I think Simon has covered it, but I would say is we have started this year with fantastic momentum. You can see that in the Kantar data that was out on Tuesday. So, we feel really confident in what we're going to deliver this year.

The 5% to 10% is the guidance. We can see the building blocks and how we're going to deliver that. We'll guide in future years when we see where the market is. But this is a growth plan and we're looking at profit leverage over the life of the plan.

Simon Roberts

Thanks Izabel.

Operator

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

Simon Roberts

Hello Freddie, good morning.

Freddie Wild, Jefferies

Good morning, Simon and Bláthnaid, good to see you. Three quick ones from me, please. First, has there been any change in the consumer tempo so far in Q1, particularly for your non-food businesses?

Second, could you provide a little more detail about the range you provided for retail EBIT and just what you see at either extreme - to get to either extreme?

Then finally, so you've said that you're at low single digit volume for food in the year ahead. Where are you thinking about basket inflation and just wider industry food inflation as well? Thank you.

Simon Roberts

Freddie, great, thank you. Well, why don't I take one and three, Blathnaid can take us through the guidance in terms of how we're thinking about the ups and the range of our guidance.

So, look, I think in terms of the customer – actually to your question on general merchandise, let me just start there, and then I'll add a bit on food. So on general merchandise, look, I think, as I said to Izabel's question, there's no doubt the customer continues to be more cautious in GM. I think until we see further out in the year hopefully some interest rates change, I think that that environment is going to continue.

Now that's one of the reasons why we think Argos is well placed, because Argos is seen primarily as about great value and a great choice. So, as you'd expect as we go into, let's hope, a more normalised Summer, we're certainly going to put our best foot forward in making sure that our offer really delivers for customers, given the context of a more cautious consumer outlook.

It continues to impact particularly categories like furniture and home, whereas consumer electronics we've actually seen perform actually very well through this period. So that would be our view on general merchandise.

I would just want to add on food – because I think there's some important shifts on food that are happening – but one of the things I think we're seeing as inflation has sequentially come down and 3.2% as you've seen in this week's Kantar reads, is customers actually are starting to shift their shopping habits.

What we're seeing is a couple of important changes. First of all, this continuation of actually trade up and Taste the Difference is really working for us in our assortments. We grew sales 12% over the last year and actually when you look at the Quarter One, Taste the Difference sales up 14.8% in Quarter One so far this year. That would contrast against our Stamford Street, our entry price point range, which is growing at just under 4%.

So, I think what you can see is customers wanting to trade up into the quality in our offer. We see a continuation of eating at home rather than a big reverse to eating back out of home, because of course, inflation there has really come through.

I think in the food business, a more positive outlook in terms of how customers are behaving as they start to both really buy into value but also look for the great quality and value in our trade up.

So, I hope that gives you a good sense on the consumer. Right, let's talk to the guidance.

Blathnaid Bergin

I'll take guidance. So, hello Freddie, how are you doing today?

Freddie Wild, Jefferies

Good, thank you.

Blathnaid Bergin

Good. It's a range for a reason and it's an ambitious range. So, this is not us aiming low with the intention of raising the range as we travel through the course of the year. But at the moment, we're firmly of the view that we'll land in the middle of the range and that's probably the most likely outcome for us.

Within that, we're banking on a few things going right. So, we're looking for a more normal Summer. That is not what we had last Summer, not a complete washout but a normal Summer for us. That would really give us some support with the Argos sales and the Argos margins.

But also, as you look at the Sainsbury sales as well, we've got the Euros and we've got the Olympics, we've baked in something for that as well to reflect that.

So, look, if the weather goes our way we'll be heading towards the top of that range. But we're just hoping for the weather to come in and give us all a few days in the garden, I would say with that.

We are going to have some tough comps as well coming in in grocery, as we bump up against some of those Nectar prices that we launched, in particular. But at the moment we're feeling really confident. You can see the momentum in the business. You can see what's coming through, I talked about Kantar earlier, what's coming through in the Kantar data. So as a team we're feeling confident in our delivery to certainly get to the middle of that range.

Simon Roberts

Thanks, Blathnaid. Look, I think it's not going to take a lot for the customer to want to get outdoors if the sun does start to shine. I think there's a lot of pent-up demand, actually. So, as Blathnaid's just said, our offer, both in food and in general merchandise is really well set for the Summer.

The teams have done a fantastic job actually on our whole set up for Summer 2024, both in terms of innovation and making sure that we've got great availability, fingers crossed, on some better weather this year, compared to last.

So, third question, Freddie, on inflation and what we're seeing happening here. So, look, I think, as we've seen, inflation is clearly back around just north of 3%. We'd expect inflation to stay in the low single digits, low to mid-single digits.

I think there's lots of reasons to believe that that's a solid position. We don't see deflation but what we do see is that level of inflation being sustained. There's still a couple of effects to feed through. We shouldn't underestimate there's near on 10% wage inflation still to pass through the pipe. That's beginning to happen now.

There's some commodity issues in one or two areas. We're seeing some of the challenges on the back of the weather in the UK on root veg, for example, so there's plenty in the system that would bring a little bit of pressure here. But on the other side, energy costs, clearly a tailwind more than a headwind this year. Overall, on commodities we're through all of the challenges.

So, I think we would see low single digit inflation, market continuing to behave very rationally as it has done, and customers seeing the benefits of a bit more in their pocket as inflation levels come down.

Freddie Wild, Jefferies

Fantastic, thank you so much.

Simon Roberts

Thanks, Freddie.

Operator

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

Simon Roberts

Good morning, Clive.

Blathnaid Bergin

Morning.

Clive Black, Shore Capital Group

A couple from me, if I may, really around timescales. Firstly, maybe just remind us of how the store repurposing programme is expected to come through over the next three years, in terms of its build up and therefore its realisation.

Then secondly, maybe one a little bit more for Blathnaid, just the timescale around the evolution of the financial services strategy and again the dynamics around that.

I guess, just as an afterthought, also what do you see the drivers in terms of priority of an increase in return in capital as well? I said two questions, but I can't count, there is three.

Simon Roberts

All right Clive, thanks. Well look, let me give you a sense on actually what we call "more for more" in terms of how we're going to use our space even more effectively. Blathnaid, you stay on the bank and then we can talk on returns together because it's an area we're very focused on.

So, look, I think the key point here is that we've now got a food formula that is really working for us, the combination of customers really seeing the value in our food offer, and that's played through into our best perceptions of value at Sainsbury's in six years plus. You can see the volume story.

So, we've got a platform now to really build from. The thing we feel really excited about actually is we've got a fantastic store estate. One of the things that Sainsbury's has from brilliant decisions made in the past is supermarkets in fantastic locations. Actually, one of the things that we are now very focused on, as you say, Clive, is about 15% of our supermarkets today carry our full range.

As customers want to buy into our quality and value, there's more we can do to extend that. So, over the next there years in 180 stores, the highest potential stories, we're going to invest in a very focused way on rebalancing our space. That means particularly more space to fresh food, because that's where we're seeing the greatest opportunity to bring more of our products and ranges to customers.

We're starting that programme now. As you saw in our release this morning, we've actually just recently opened two new stores, quite an unusual thing to do in this sector, but the timing of that's worked well for us because we're testing and learning in these stores all the time. It's all about how do we get maximum customer impact in the most efficient way of spending capital.

So, we opened in Talbot Green and Southport. Both stores performing well ahead of expectations. We're taking the learnings from those and the others that we've done. So, this programme's underway. It will deliver - the momentum will step up over the three years and I think it will be into next year before we see a critical mass of stores really performing.

But we see this as the key underpin of our volume story. We expect to continue to grow volume low single digit. As we convert space, it will help us do more. By the way, we shouldn't underestimate we think we can do an even better job in general merchandise. So this isn't about doing a less good job there. This is about using our space better, driving our trading intensities up and actually improving our general merchandise mix as we do it.

Just one other point to make, which is important. Of course, in a business like this you've got interventions at scale, but you've also got programmes that you're rolling back just across the estate. One of things we're really encouraged by, not only our product innovation but in areas like beers, wines and spirits, a category that Sainsbury's customers really buy into. Pet food, we've got a lot of customers – we've a big overtrade in Pet, and we have a big overtrade too in Free From.

So, you'll see in our stores this year, those programmes are rolling out very fast. In Free From, for example, it means bringing all of the fresh, frozen and grocery products together. Much better for customers, huge conversion shift we're seeing there and in the other two as well. So, we're very, very excited about the work going on in the physical space. Blathnaid?

Blathnaid Bergin

Why don't I pick up the bank? So, we announced in January, it's pretty early days yet, so what I'd say is we're currently in the middle of a number of discussions. I wouldn't rule anything out at the moment, Clive. We're looking at what do we do with those core banking products, how do we protect the commissions business that we have and what would the shape of that look like in the future.

Then, as you know, AFS is a really important part of our business because we fund 20% of our Argos sales go through a credit offering. So, we're working all three pieces of that at the moment.

What I would say is look, it's difficult to give exact timing and it's also difficult to say what that shape will look like. I will give a very clear update in November when we get there. We'll give a very clear path as to what it would look like.

Just to give you some timings. I think this is probably a two year process for us, maybe even a little bit longer either side of that. We would anticipate - I spoke earlier about the write-offs, I would anticipate a similar level in this financial year and then a dividend returned at the end of the process. So very focused on – that is shareholders' money and that needs to go back to shareholders when we wind up this process.

Simon Roberts

Thanks, Bláthnaid and let's cut to your extra question, Clive, so on capital and returns. I think as we laid out in February at our market update, we've been very focused in the parts of our business where we think it's right to invest for growth or invest for improved efficiency and cost saving. As we now, a number of weeks on from that, begin to launch these programmes we're, as a management team, super focused on what are the areas that we're deploying against and how do we make sure we not only deliver them on-plan and to time, but also we drive our return to mix as we do it.

So, to your question – and you'll have maybe seen in the presentation upfront – there's a whole number of areas we're already doing this. You take our Future Front End work, for example, where we've fundamentally revolutionised the front end of hundreds of supermarkets. We've seen our customer service scores improve as we've done that. That's happened within a two-year payback and is giving us a lot of cost saving that we can reinvest in the proposition.

You've seen what we're doing in areas of our logistics transformation, where in that regard we're building scale automation in our Daventry depot. That clearly has a longer payback, but it is going to drive a real shift in the way this business runs our fulfilment and logistics operations in general merchandise. So, both on fast returning near-term payback and on scale transformation we've got a lot of activity in this space.

Because you know, to the last part of your question, we've particularly focused our investment in four areas. The first we've spoken of already, which is using our high-quality retail space to convert more to food and driving an improvement in our trading intensity, 180 stores. The second is in fast returning efficiency and automation programmes, which means we can save operating costs in the business and get a fast return on that investment.

The third is what we're doing specifically in terms of making sure that Nectar has the capabilities it needs to deliver fast returns as we generate more operating profit from Nectar. £100 million over three years we've committed to. Nectar actually is one of the fastest returning investments we can make.

Then you’ve heard us talk about Argos as the fourth area. We're improving our digital capabilities so we can improve search, get more customers into the Argos ecosystem and again drive more resilience from that business. So, we're really focused on the areas and we're really focused on how we're running the returns programme, aren't we, Bláthnaid?

Bláthnaid Bergin

Correct, yes, so just to step back and build on what Simon has said on ROCE. Look, ROCE takes time to build. We're pleased this year, year-on-year of 7.6% to 8.3%. We've been very focused on resetting our price over the last three years, that was the £780 million investment. Now we're on with three things and Simon has given you a summary of them. Profit leverage, this is a growth plan, we want to grow profit over the life of the plan.

There's incremental CapEx being invested, that is going into returning areas and there is an incredible amount of discipline around where that CapEx is going to make sure that we're getting returns in one year, two years and three years. So that'll start to come through over the life of the plan as well.

Then finally, we've got our cost saving programme, £1 billion of cost savings. We've got a track record of delivering cost savings in this business. So, you put all of those together, we are very much expecting ROCE to rise over the life of this plan, we're very committed to that, alongside the cash agenda that we've talked about as well. So really driving that retail free cash flow as well on that one. Thank you, Clive.

Clive Black, Shore Capital

Excellent answers, thank you.

Operator

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

Simon Roberts

Good morning, Sreedhar.

Sreedhar Mahamkali, UBS

Good morning. Thanks for taking my questions, really three quick ones. I think, Simon, you've talked about earlier in the call the strong grocery momentum continuing in the current year. Can you flesh that out a little bit? Which areas are you continuing to drive volume? Because I'm also conscious in a few months you'll start annualising some of it, as you've said.

Then that volume growth you've been able to drive through the business, is that existing customers doing more of their shop with you? Or actually you're genuinely recruiting new customers away from others? That's the first one.

Secondly, sorry to just go to bank or financial services more broadly, a couple of quick questions there, please. I guess one is I'm trying to understand in terms of the financial services underlying basis, the retained commission-based products. When you actually eventually return to them, post the phased withdrawal, is it reasonable to think we will get back to that £20 million to £30 million profit contribution from those commission-based businesses that you will retain?

The second one, more just also following up on Clive's question earlier about the bigger picture for value crystallisation. You've talked about dividend there, Bláthnaid. More broadly, is it reasonable to think potentially you could be crystallising maybe around £200 million-plus value from this process over time, from this phased withdrawal?

Simon Roberts

Okay, Sreedhar, great. So upfront question on grocery momentum and our outlook and then two elements on bank, (1) how we're thinking about the medium term here and (2) at the end of the process where we might get to. So, I'll take one and Bláthnaid will take two and three together.

Bláthnaid Bergin

Why don't I start? Look, Sreedhar, we're in the middle of a process at the moment. It's pretty commercially sensitive for us, there's lots of discussions going on. I can't give exact guidance and timing or magnitude, but I think your assumptions are pretty reasonable, if that's helpful.

Sreedhar Mahamkali, UBS

That's a very helpful and quick answer, so thank you.

Simon Roberts

All right, on grocery, the big story today, Sreedhar, we think at the end of this three years is the transformation of Sainsbury's grocery performance. Look, we all know this is one of the most intensely competitive markets in the world, so there's no complacency from us at all on where we've got to. We think we've come through a period of reset, we've reset our competitive position.

The whole team are completely focused on how we drive our food business in the next phase and to your question, therefore, what are the underpins of that? Well, we definitely have had, I would say, an even stronger level of grocery momentum, particularly in the second half, than we might have expected, and you can see that coming through particularly in Quarter Four at how much our volume has stepped up.

The Easter moment's significant because we're starting to lap some pretty tough comps there and you can see the level of outperformance that we had. So, the big areas of looking out here are we see underlying volume growth continuing, but as I said earlier, at a lower level because of course as we get further into this year the impact, for example, of Nectar Prices become tougher on our comps, as Bláthnaid said earlier on and just our natural underlying momentum, particularly through the back of the Summer and into H2 was much stronger.

So, volume continues but it continues at a lower level. We've planned for that and the central assumption in our guidance at the middle of that range assumes low single-digit volume growth. If things go more our way, then we'll move further up that range. A lot obviously depends on how the Summer plays out, as Bláthnaid said and how much of a tailwind or not we get from all the things that may or may not happen through the Summer.

So, I think what does that then mean in terms of customers, to your question, well, the big change for us has been we're winning way more of the big weekly shop. So, we've won a lot of primary customers back in to do their main shop with us. That's clearly as a result of our value investment, it's as a result of I think this combination of value and quality.

The big question we had to solve for was could we address the real issue, which was we were too expensive, whilst at the same time becoming even more famous for our quality. I think as you saw in the chart I shared this morning, the fact that we're now winning share from all of our competitors, we're winning share from the limited choice supermarkets, as you've seen, but we're also winning share, I would say, from the more expensive grocery retailers as well.

That's something that really, I think demonstrates now that customers can come to Sainsbury's, get everything they want under one roof or in one order. That's really powering that volume growth that we've seen that we expect to continue albeit at a lower level as we start to comp.

Sreedhar Mahamkali, UBS

Got it, thank you very much.

Simon Roberts

Thanks, Sreedhar.

Operator

Just a reminder, 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, press star-nine to raise hand and star-six to unmute. Our next question is from James Anstead from Barclays. Please unmute yourself and begin with your question.

Simon Roberts

James, good morning to you.

Bláthnaid Bergin

Morning, James.

James Anstead, Barclays

Morning, Simon and Bláthnaid, two questions please. The first one, Simon, I think you said you're the most price competitive you've ever been, but price perception is the best in only six years. So perhaps this is a bit of an open goal question, but do you think there's a lot of scope still for price perception to improve? How much of a lag do you think there is generally between perception and catch-up with reality?

Then a question for Bláthnaid, I think you mentioned that you're expecting a modest benefit in the year ahead from energy costs being lower. I just wonder, given how dramatically energy costs shot up, why there isn't a more dramatic benefit as they come down again. Perhaps some more colour on that would be helpful, thank you.

Simon Roberts

James, thanks. Let's take on the first open goal question. The short answer, yes, we think there's a lot more volume to come from the price perception catch-up. I say that because, as you know, it takes time for perceptions to catch up with reality. It's interesting actually, in the last year it was the lowest level of price investment of the three years and yet it was the most significant period of perception catch-up. So, we think there's more of that still to come, it's one of the things that underpins our belief we can continue to take volume.

Certainly, as we look out over the next year, we've got all the activity that you'd expect us to have to continue to amplify the strength of our offer. I would just make the point that we really think we have a winning value platform now across the price match, across Nectar Prices and now across Low Everyday Prices. Particularly on Nectar Prices you can see in our presentation today the scale of ramp up of customers buying into Nectar Prices, customers love it, they really love it.

We actually had our highest participation at any point over Easter as customers could see just the value in the offer in buying in for that big occasion. So, there's still some more of that fully to come, so lots of good progress here we're really encouraged by, but a lot more for us to target as we look out over the next year. Bláthnaid.

Bláthnaid Bergin

Great and on the energy costs, that we lock in our hedging well in advance, that's protected us in the past. So, we followed our policy again this year and we locked in a lot of our hedging in advance. We have pretty much the buy for this year done and we're starting to think about next year's buy, hence why it's only a modest tailwind for us. It offset some of that wage inflation we've talked about, a 9% wage increase, so it's helping us to offset some of that inflation we're seeing coming through in the wages line. Great, thanks, James.

Simon Roberts

Thanks, James.

James Anstead, Barclays

Thank you.

Operator

Our next question is from Anna Schumacher from BNP Paribas. Please press star-six to unmute and begin with your question.

Simon Roberts

Hello, Anna.

Bláthnaid Bergin

Hi, Anna.

Simon Roberts

Are you there, Anna? Can you hear us?

Anna Schumacher, BNP Paribas

Hi, everyone. Thank you for taking my questions, I have two if that's okay. The first is on non-food. It has a noisy base of comparison, where do you think the underlying trends are? Can you also give a comment on discounting in the general merchandising sector?

My second was on there was a disrupted weekend for payment in the new financial year. Presumably there's nothing to announce in trading, but can you just help us understand what happened and what you've learnt from it?

Simon Roberts

Yes, for sure. Thanks, Anna. Okay, so let's talk non-food first of all. I think as we've shown in our results today, food was the real driving force of our improvement year-on-year because general merchandise definitely saw two things happen. One was a more subdued customer, for all the obvious reasons and then given the seasonality, as I described earlier, particularly of the Argos business, that held us back a bit in the Summer and through the second half.

I think in terms of what's been going on in this market, we definitely have been putting a lot of focus into how we improve search, how we make sure we really give customers availability and certainty and surety when they want to shop Argos with us. That we expect to play through into this financial year in what's going to continue to be, as I said earlier, quite a subdued consumer environment, we think, certainly until there's some easing in interest rates or consumers start to feel the benefit of inflation coming through more.

That being said, there are a couple of things that I think are worth drawing attention to. We had actually in the first half of the year a very effective method of managing through the effect of last Summer. So, although in the clothing business we had a tough year overall, we managed the first half of the year well actually because we didn't have to discount like others. That's why our volumes weren't as high, we didn't invest in driving the sales, we didn't need to because our stock management was in pretty good shape.

In the second half of the year, there's some recovery over Christmas but in the fourth quarter, two things happened there. One was that our ranges in some areas just weren't good enough, we're on with sorting that and we had some availability impacts for all the reasons you'll be aware of in terms of getting products around the world. So, we come into this year with the general merchandise business in resilient shape and as you heard at our Capital Markets Day, a lot of focus in making sure we continue to be resilient there. Whatever the sun does in terms of the weather, we're ready for it this Summer.

On your question about the tech incident we had back in March, it was a half day but a significant issue for us because it meant we couldn't deliver to customers in the way we wanted to and we couldn't take payment in the way we wanted to. What I would say is two things. One, our team just came together brilliantly to resolve that. Obviously, the key priority was reaching customers as quickly as we could.

What it meant was that we then had a fast ramp into the Easter, and you've heard me say this morning we had our best Easter on record. So, after what was a tough few hours on that day in March, that Saturday, the team did an awesome job and we came through and delivered our best Easter ever. So that's encouraging that that happened. Thanks for your question, Anna.

Anna Schumacher, BNP Paribas

Thank you.

Operator

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

Simon Roberts

Great. Well look, thank you very much, everyone, for joining us for our results call this morning. It's been really good to hear your questions. Thank you for all the questions. As I hope you can hear and see, we're really focused clearly now on our Next Level Sainsbury's plan.

We've taken a lot of momentum into this new year and our whole team are really focused now on how we move to the next level in terms of our performance, how we focus on driving against the eight commitments that we've said. We look forward to talking again early July, I think, when we update on our Quarter One. Talk again soon, thanks very much, everyone.

Bláthnaid Bergin

Thank you.

End