J Sainsbury plc

J Sainsbury plc Fourth Quarter Trading Statement 2011-12

Wednesday 21st March 2012

Justin King – Chief Executive

Hello everyone. Thanks for coming on the line. I'm joined by John Rogers and Mike Coupe. We are announcing this morning our fourth quarter trading statement; that's the ten weeks finishing on Saturday 17th March. And as you will have seen it was a strong finish to a good year. Our total sales for the quarter are up 5.1% excluding fuel, and the like-for-like figure 2.6%; rounding out a year where we achieved 2.1%, excluding fuel, like-for-like. So, clearly a strong fourth quarter.

We are also able to confirm that during the year we achieved our space growth target, 7.3% growth. And our growth areas, convenience, online and non-food are all growing strongly and ahead of the market.

Our performance is underpinned by our delivery of universal customer appeal, something we've been delivering for our customers for many years now. Our own label ranges continue to help customers to save money and treat themselves as evidenced by the growth of our basics at 10%, and Taste the Difference at 20%. But we've added to that Brand Match, which is giving real reassurance in a very simple and straightforward way that our branded pricing is competitive. All of this under the banner of Live Well for Less, which has really captured our customers' imagination and describes exactly what they're trying to achieve, living well whilst saving money, and not compromising on their values or quality in any way.

Our ability to do this is underpinned by our Nectar loyalty programme. And we announced in the quarter the signing of a new long-term contract with Nectar's owners, which continues to give us this competitive advantage for many years to come.

The core of our performance, of course, is our quality food offer. We've invested over 85 million to support that in the last year; and that's delivering a great result. We see our own label participation, as I've already mentioned, continuing to lead the market and grow. And our fresh food business in particular supported by the training we've been delivering through our Bakery college and our six Food colleges; 18,000 colleagues trained in the last year. So, it's pleasing to note that our counters are now growing faster than at any other retailer.

Our values do make us different. And, as we've said many times, customers continue to be concerned about issues of sustainability. We launched back in the autumn our 2020 ((*sic* - see Statement)) sustainability plan, and our progress on that is listed in the separate 2020 announcement that we've made today. But I think we should note our performance in Fairtrade Fortnight just a couple of weeks ago, 12 million of Fairtrade sold and 11% growth than during Fairtrade Fortnight just a year ago demonstrating that customers are indeed staying true to their values.

In the quarter we made a small investment in Tamar Energy, which we hope will lead to a significant development of anaerobic digestion, supported by our organic waste stream and that of our suppliers. And of course Business in the Community again awarded us their Platinum Plus status – something very few companies achieve.

We're pleased to note that the quarter rounds out a year of strength in our growth agenda. Our non-food business is still growing ahead of the market, gaining market share. Our convenience business, which added 73 stores in the last year, in line with our guidance of one to two stores a week, growing at 20%, driven by both that new space and underlying like-for-like. And our online business, the fastest growing online grocery business at the moment, over 20%, serving 165,000 customers a week or so.

In the quarter we added 170,000 square feet of space, crowning out that achievement of 7.3% that I mentioned earlier, including two supermarkets, three extensions and 15 convenience stores. So in the year we've opened 1.4 million square feet of space; that's 19 new supermarkets with an average size of around 39,000 square feet, and 28 extensions, with an average size of around 15,000 square feet.

So looking forward we remain confident that the quality and value of our offer will remain compelling with customers. We believe the economic climate will remain challenging that 2012 will be much like 2011 in terms of an overall backdrop, but there are reasons to be cheerful, the Diamond Jubilee, the Olympics, the Paralympics – the first and last of which we are formally aligned with as sponsors – are wonderful opportunities for the country to join in and celebrate. And of course celebration occasions are very much when customers choose to trust Sainsbury's to help them make that celebration special. And that gives us confidence in our ability to continue to grow in the year ahead.

And with that I'll hand over to questions. Thank you.

<u>Question 1</u>

Jonathan Pritchard – Oriel Securities

Good morning, gents. A couple from me. Firstly, you obviously picked up a bit in like-for-like terms; did the market pick up similarly or has your pace of market share gain accelerated?

And secondly, I think it's widely been reported unofficially that Tesco are going to put more bodies into stores; has there been a degree to which you've got your retaliation in early and put some more service behind this and that's reflected in the stronger number? Or is that something we can look forward to in the balance of the year?

Answer: Justin King

Well, I think yes, our pick up is ahead of the market. I think that of course the wonder of annualising maths is you have to remember that there was this dramatic step-down in January 2011 when we came out of Christmas, quite an unprecedented step-down, you remember we talked about. So, although there has been, if you like, the normal January and February step off post Christmas this year, not quite as dramatic as it was 2010 into 2011. So, yes, I think the Kantar data would say that this quarter has been a little bit of a tick up, because that's the affect of that in the maths; but we've definitely widened our gap to the market in like-for-like terms. Of course in new footage terms Asda are still annualising their conversion of Netto, and more generally Tesco and others opened a lot of space in the early part of the year, so our new footage growth is about in line with the market. It's our like-for-like that's ticked up.

And the second half of your question, the bodies in stores, we shall see. Of course it takes time to hire people, train them and put them to productive use. We've always been very clear that we've kept focused on bodies in stores. I mentioned the investment that we have made in fresh food, 85 million; a good part of that of course in our counters is the bodies, our colleagues that work behind them. And it isn't just about having the individuals it's also about ensuring that they're well trained. And that's why the fact that 18,000 of them have been through our Food colleges is so powerful. And all of our measures of customer service, the availability of colleagues, the queue time at tills, customer service more generally which we audit independently and secretly, show that we've made really good progress in the last 12 months on customer service. So I think the question you ask in a way is a question for Tesco, why have they taken so long to respond to ours and others' initiative in improved service.

<u>Question 2</u>

Andrew Kasoulis – Credit Suisse

Morning guys. Two questions if I may. Firstly, on the growth areas; you seem to be, from your comments and from the press release, talking in sort of very upbeat terms on the growth areas. To what extent in online, convenience stores, clothing and more general merchandise are you beginning to see a change in profitability of those areas please?

Answer: Justin King

Well, it's a trading statement, Andrew, so we're not going to talk of any new news of profitability. I'm sure we'll get back to that when we get to the prelims in May.

But I think a couple of comments I would make. Firstly, I think we really want to note the fact that all of those businesses are now scale businesses. We have in non-food, whether it be in home or in clothing, significant scale businesses now. And of course convenience and online are scale business. We made an announcement only a couple of weeks ago about our online business being the number two grocery online business. So they are scale business, and so when they grow strongly, in the case of clothing and non-food, it's a strong growth relative to the market. But of course the market remains very weak. But in the case of convenience and online those are both strongly growing markets and we are outgrowing them, both at about 20%. Because they're scale and growing strongly they make a big contribution to overall like-for-like sales. So it's that emphasis really that we're making which is that our growth agenda, which of course has been our growth agenda for five years now – I think we first talked about our growth agenda, our five areas of focus back in 2007 – is now of a scale that it really makes a difference to the top line performance of the company. And of course, I'm sure we'll come back to this at the prelims, if the top line is growing strongly the opportunity is always there to improve the bottom line.

Answer: John Rogers, Chief Financial Officer

Andrew, it's John; just to add to that. We've been saying for some time now in relation to relative performance of the various investments that we're making, particularly on convenience we're seeing fantastic returns come through, and hence why we've accelerated the number of stores that we've opened, so 73 this year versus the 47 last year. If you remember the chart at the interim showed the great returns that we're getting from those investments. The same thing is true on extensions of course, which largely relate to your question on non-food, we continue to deliver above hurdle returns on our extensions which, in the context of a non-food environment which is pretty bleak at the moment for the market overall, we think represents very good performance.

Further Question

Thank you. The second question if I may, slightly unfair. I think we can all see how the summer could be a fantastic opportunity with all the various events but using your crystal ball do you see any longer-term signs of consumer recovery in the UK?

Answer: Justin King

No, I don't think we do. I think we've talked about 2012, if you take those events away 2012 will be like 2011. If you look at customer budgets if anything they've come under a little bit more pressure in the last quarter, most notably from fuel prices, we got used to fuel at around 130, 135 a litre it's kicked on again. Clearly we have the budget today, that may well provide some relief of pressure for the least well paid in our society, and that will be helpful.

So I think we see 2012 as being much like 2011. There is still, of course, if one looks at the public sector cuts, those will impact in terms of job losses this year so that's a downward pressure. And that's why I think we point to the events really being the lights on the horizon, if you like. And I think we saw with Christmas last year, and indeed the Royal Wedding last year, that one of the reasons that we're seeing this savvy shopper be very careful and clever about the way they save money week in, week out, shopping more frequently, buying a bit more own label, buying more promotions, buying Basics to save money and treating themselves to Taste the Difference, is they want to have enough money put by so they can spend on special occasions. You remember back in November I said almost an odd way the fact that we could see customers saving money in November was the confirmation that they probably were going to spend it come Christmas time; and indeed that's what came to pass. So I think that's what this year will be characterised by, periods where it looks like customers are saving money because they can see these events coming towards them and they want to be able to spend it when the events happen.

<u>Question 3</u>

David McCarthy – Investec

Good morning everyone. A couple of questions. Your gross space addition you gave us at 1.4 million, can you tell us what the net space addition was? Would it be around 1.2 million?

Answer: John Rogers

Net space was 1.25.

Further Question

And can you then give us an idea of the breakdown of that space between food and non-food?

Answer: Justin King

Well the breakdown overall is around 25% is convenience and we've given you the figures for the average new store and the average extension on the face of the announcement, Dave.

Answer: John Rogers

In term of supermarket space roughly 40% is non-food the rest obviously food. Obviously in relation to convenience all of that's food.

Further question

Right, okay. Alright, this then gets me to my point. If I then look at the sales contribution from new space it's 2.4% excluding fuel. Your weighted space increase is about 7%, maybe a touch more, but of course that includes extensions, so two ways we can do this, but let's just add back the benefit from extensions and we can see that new space plus extensions, about 3.5%, and your weighted space increase is 7.5%, so that's telling us that the average sales density of your new space is only 50% of the company average. And I know you've got a slightly higher proportion in there of non-foods, you've just given me the figures, but it still seems very low sales densities coming from your new space. I would just like your comments on it.

Answer: John Rogers

Dave, I think you've picked up on the key dynamics, the first of which is a lot of the space that we're putting down is non-food and that clearly tends to trade at about half the trading intensity of food space, so that explains some of it.

The second point is that the space that we're putting down is on a build up curve. As we said over time the space typically opens at around 70%, 75% of the mature level and that increases year on year over time, extensions building up slightly quicker than new stores, so that explains some of it.

And the third point is we're actually putting down space in those parts of the country where we don't currently have a presence. It tends to be in areas of the country like Scotland, for example, and the South West, where typically we're not going to be trading at the same level of intensity as we do in the South East. Now that's not a reflection whatsoever of the returns that we get from those investments, because the capital cost per square foot is much lower in those areas. So we've opened stores in Scotland, for example, where we'll be trading at £13, £14, £15 a square foot, which is clearly a lot lower than we'd typically trade in the South East, but in contrast the capital returns that we're getting from those investments are actually higher than some of the stores that we're opening in the South East because the capital cost per square foot is that much cheaper. So it's all those different dynamics there reflect the trend that you're outlining.

Further question

Yes, I mean I get that, but of course you've got a build up anyway taking place because you've had an aggressive opening programme for a few years, part of your company is already in non-food and that's an increasing proportion, and as you say your non-food is 50% of the average, and yet your new space in total, including food and non-food, is only 50% of the average. So it just... I'm just having trouble squaring the circle to what's really going on. And the only way I can do it is if the – let's call them the Northern stores – have got significantly lower sales densities than the Southern stores. Is that correct?

Answer: Justin King

Well I think John's just told you that. We're not going to go into individual store returns, but John was very clear that in places like Scotland we expect to achieve lower sales densities, but actually on average higher returns because of the lower capital cost of investment.

<u>Question 4</u>

Clive Black – Shore Capital

One question from me, if that's alright. To what extent are things as good as they're going to get for Sainsbury's? I mean it would be churlish not to say that you've done very well and your welcomed performance, but I'd be interested in your view as to what extent you have gained share because Tesco has simply been underperforming, and also with Asda announcing investment in their butchers and fishmongers and candlestick makers, and Morrison's about to roll out fresh formats, to what extent are people, the big four... the big three, sorry, in the rest of the sector, going to be moving in on your territory, and things get tougher for you in the next year or so?

Answer: Justin King

Well the kind of implication of the question, Clive, is that we're obviously poor old us are only capable of doing well when everybody else is doing badly, which I think we would sort of refute the central thesis of your question, Clive. We've had 29 consecutive quarters of like-for-like sales growth and despite the predictions and the expectations of many into the economic downturn have conspicuously been the best performing of the major grocers throughout the downturn. So I think we view our success as being entirely in our own hands. If we do a great job for customers, which we have been doing consistently over a very long period of time, then they'll continue to reward us by shopping with us. Clearly if the competitive dynamic increases, wherever it increases, whether it be on price and quality, we have to step up and fight. But I've said in the past that if the agenda in this marketplace, the conversation with customers in this marketplace, shifts to a conversation about quality, shifts to a conversation about sustainability, then I think we feel very well equipped to compete. We have real leadership on pretty much every dimension of quality and sustainability, and if that's the conversation, the competitive conversation, in the coming quarters and years, we'd feel very confident that our starting place is strong and that we can continue to invest, as we've shown in the last year, to ensure that we continue to win on that agenda.

Further question

Does that imply your expectation therefore, Justin, that you're going to outperform the big four in 2012?

Answer: Justin King

I'm not going to provide detailed level commitments like that, because in the cut and thrust of the market there'll be quarters that are up and quarters where perhaps you're not doing as well. But what we've achieved over the last number of years, that's what 29 quarters of like-for-like growth, is something very consistent with a goal that we laid out many, many years ago, which is that we ought to be able to match or beat the market consistently over time if we do a better job for customers. And we've done that for 29 quarters, last quarter probably represents the strongest beat to the market that we've had in the last year. But we've had, if you look back two or three years, we've had quarters where our beat was stronger. I'm sure we'll have quarters where our beat is less strong, that's the nature of competitive markets.

<u>Question 5</u>

Alistair Johnson - Citigroup

Morning everybody. I've got three questions. I guess the first one is probably most appropriate for Mike, and it's not really to do with the fourth quarter trading, but you did mention the fact that new stores open at around 75% maturity. Could you just give us an idea of how long it takes to get to maturity with a new store, and what the differences are between the maturity profile of non-food and the non-food extension, and convenience stores? So a little sort of talk about maturity profiles of stores, I'd be quite interested.

And the second question is about competition in the market. Obviously there was lots of noise at the beginning of the year about vouchering and deals on petrol and such like. Do you actually feel there is more pound kind of marketing expenditure in the market this year than last year or the year before, or do you think it's pretty much the same as usual?

And final question on food CPI, the usual question. Do you think the food CPI, the ONS, which is showing sort of 3% to 4% inflation is a fair reflection of inflation in the market generally?

Answer: Justin King

Thanks Alistair. I'll ask actually John to answer the maturity profile one, and then Mike can pick up the competition and the CPI question.

Answer: John Rogers

Alistair, hi, it's John. Yes, I made the comment on the 75%. If you actually refer back to the chart that we showed in our interim pack you've got a good indication there when you look at the build up of returns for the various investments that we make, that's a strong surrogate for the build up of sales. So if you look at new stores they will typically mature in about three to four years. Extensions tend to be a year or so quicker, and then that's fairly obvious because you're obviously dealing with an existing store, an existing location, which customers are aware of, and so you typically expect to see extensions return quicker. And then of course convenience stores even quicker, so that gives you a bit of a guide as to the build up curve on sales that you see for those various investments.

Answer: Justin King

And just before we go across to Mike, maybe this will be helpful to Dave from earlier, the maturity curve of stores in parts of the country where our brand is less well known generally is a slower and longer build up as brand awareness grows.

Answer: Mike Coupe, Commercial Director

Hi, it's Mike. On competition, it's always very aggressive as you know, but I guess in the last quarter we have seen particularly a step up in fuel promotion, so it actually sort of underlines the fact that our performance has been pretty strong in the quarter. Tesco ran a fuel promotion for three weeks and Morrison's ran probably the deepest discount we've ever seen at 15p off when you spent 60 quid, so quite heavy rates of activity, and we've managed to sustain our business despite the level of competition in the marketplace.

In terms of food inflation, we're talking about under three. It's reflective of the fact that our customers modify their behaviour, they dial out inflation by buying Basics, by buying promotions, and by managing their budgets very carefully. So we know that our customers look for value, we can see that in the way that they shop on Brand Match, for instance. And as a result of that the actual realised inflation is less than three.

<u>Question 6</u>

Gillian Robb – Morgan Stanley

Good morning. I just have a couple of questions on convenience. Obviously you've delivered convenience openings right in the middle of your target range and I just wanted to know if you're happy with that momentum, or whether there's any potential for that to accelerate?

And also whether Click & Collect, obviously you're offering that in 900 stores now, and whether that's particularly important in the convenience channel and whether there's any big changes in Click & Collect patterns between your larger stores and your smaller stores?

Answer: Justin King

Well, 73, as you say, we guided one to two a week and I think we're sticking now, and I would imagine we'll stick with guidance at one to two a week. Obviously getting to a place where you can deliver that number has taken many years, it's about understanding what a good site really is and it's about building the relationship with landlords, with property owners, confidence that you're able to move quickly, because these developments tend to come up at quite short notice. But of course convenience is, to some extent, dependent on market activity. We talked a year or so ago about the previous year, where we did 47 and we'd hoped to do more, but the market activity in property simply wasn't there. So I think the guidance of one to two is a sort of good balance between what we're able to do through, if you like, our own devices, but also the likely volume of opportunities that will come to market from property development activity.

In terms of Click & Collect, Mike should add some colour. 900 stores means we've got it more far-reaching than any of our competitors, putting it in convenience stores was a real step on from that that anything anybody else had done, and we've said recently that about half of our non-food orders are Click & Collect, and we do believe that that's the winning formula, if you like, the ability to order online but collect at a store local to you at a time that's convenient to you, and hence why it's around 50%.

Answer: Mike Coupe

Yes, and I think the balance of orders, the thrust of your question, is pretty broad. I mean clearly the larger stores tend to do more, but we also get a number of orders going through our convenience stores. I think the buzz-word at the moment is omnichannel, so we've gone from multichannel to cross-channel to omnichannel. And actually as a big retailer we are extremely well placed, so whether you shop online, whether you want to have it delivered to your home, or whether you want to pick it up at a local store, we can deliver all of those things. And actually our mobile website is also up now for non-food so you can even use your mobile phone to buy products in Sainsbury's, so there are a whole bunch of things that are coming down the track which puts us in a great position.

<u>Question 7</u>

James Tracey – Redburn Partners

Morning guys. Just further to Alistair's question, typically retail prices lag supply prices, it looks as though the supplier price increases are slowing do you think you'll benefit from that this year?

And could you also comment because your volumes have improved, is that a basket size or increased customer number phenomenon there? Thanks.

Answer: Justin King

Well, the question about whether retail prices lag supplier prices, whether on the up or the down, is one we're often asked. Of course the real question is what is being passed on to customers and the pressure that customers are put under. We're certainly not seeing any let-up in promotional opportunities, suppliers are still coming through the door with as many promotions as ever. If indeed it turns out to be the case that's there's genuinely less promotional pressure on the supply base from world commodities in the coming 12 months it's our job to sit round the opposite side of the table from suppliers and represent customers in that negotiation to ensure that inflation does come out of the mix, and quickly, because the best news possible for customers in the grocery market is low or no inflation, and that means there's no pressure coming from groceries in their household budget and they can perhaps spend more freely. So low to no inflation is good news for customers.

As far as the volume dynamic is concerned well obviously with a 2.6% like-for-like and a lower level of inflation, I mean the lower level of inflation in quarter four is I think in simple terms view it as the removal of VAT and that's pretty much the impact on inflation in quarter four versus quarter three, does mean that volumes are a little more robust. But we would see volumes in the market in the quarter as still being down, but not as much as they were during the whole of 2011.

Further question

Just a follow up on that would you see moving hypothetically if we moved to a lower level of inflation this year that would be positive for you and everybody else?

Answer: Justin King

Well a lower level of inflation's good news for customers and good news for customers is good news for us.

Further question

Okay. And also could you just mention the basket size what's happening with that dynamic as well.

Answer: Justin King

We're still growing customers in the quarter versus same quarter year ago a little bit less than a million extra customers a week. And that reflects... the reason we haven't commented on it in the statement is there's no new news in that, we're seeing a continuation of the trend, slightly smaller weekly shopping basket, and slightly more frequent shopping as a result. But actually in a basket size if you look on a kind of like-for-like store basis the basket size is up just a little bit below inflation so basket size volume would be slightly down.

<u>Question 8</u>

Jan Meijer - ING

Good morning gentlemen. Just a quick question on Click & Collect also; could you perhaps shed some light on your progress with Click & Collect for groceries please?

Answer: Justin King

Well we've noted some experiments by our competitors in that regard. It's not something that we're seeing customer demand for but I guess given that we've seen competitors experiment I would imagine we would probably do so, but it's not, we think, a particularly big deal. I think the dynamic in groceries is fundamentally different from the dynamic in non-food.

In groceries if you can attend the store, particularly if it's a fresh food shop that you're after it's much more convenient to actually select your own fresh food shop, you're through the till and gone very quickly. There's not really a time payback, nor is there a range payback. I think the power that Click & Collect works so well for known food if you think of it in the context of a convenience store is the customer has, not the whole, because clearly we won't deliver a garden shed Click & Collect to a convenient store, but a good bit of our non-food offer is available to a customer whose local Sainsbury's is a convenience store. So the dynamic for non-food on Click & Collect is very powerful, it's convenient and opens up a whole load of range that's not available in your local store. That dynamic doesn't exist in food so whilst there may be at the margins some demand for Click & Collect in food we don't see that as being a big dynamic.

Question 9

Nick Coulter - Nomura

Hi, good morning. Three if I may? Just firstly on industry volumes and your thoughts around how that's evolving, Justin? I think you've previously said that you see the potential for multi-year volume declines driven by people's propensity to waste less. And clearly we've gone through kind of a critical January or February period and it would be great to get an update on your views on how that evolved in your view.

And secondly, on online; clearly you're growing very strongly. How much investment are you actually putting behind that in terms of marketing and perhaps infrastructure and what are your thoughts on dark stores if you continue to grow at the rate that you are?

And then finally, on convenience could you confirm or give a sense in terms of your like-for-like it looks like you're growing at over twice the rate of core in the C stores. Thank you.

Answer: Justin King

I'll give your second and third questions to John and Mike can carve up between them. In terms of the industry volumes, I think what I actually said was I thought there was probably another year's worth of legs in customers actually dialling out volume through wasting less. And I stand by that. I think that it's very likely when we look at 2012 in the round we will see volumes for the industry down. That said, the step-down in January 2010 was very dramatic and ultimately... January 2011 rather, was very dramatic and when we look back at 2011 I think we're seeing industry volumes probably of the order of about minus 2% if you look at Kantar and Nielsen data. The step-down in January 2012 was more of what one might call a normal January step-down. So of course up against a more dramatic step-down the year before therefore has the sort of slightly odd effect of making it look as if the market's a bit stronger in the last quarter. I think that's what the Kantar data shows. But the way I'd think about it is that the step-down was less dramatic than a year ago rather than it's a kick on in any way.

And in the last quarter and then looking at the Kantar data volumes are still down but probably only at around 1%. But I think, therefore, my sort of centre of gravity thought would be volumes will still be down this year. If inflation remains on its current trend at or about its current levels probably less so than in 2011. If inflation kicks back in and of course as we move into the northern hemisphere and the UK domestic scene which... much discussion in the last fortnight about the impact of drought, it may well be that we see more inflation than was perhaps generally thought to be the case a few months ago. That might put further downward pressure on volumes. And of course the opposite is true if we see much less inflationary pressure maybe we'll see the pressure come off volumes. But I would assume industry volume's down but average industry like-for-like's up driven by there still being inflation for the year.

Answer: Mike Coupe

On online infrastructure and investment from a marketing point of view broadly speaking the marketing expenditure rises in line with sales but the key point to remember on marketing is through Nectar, particularly, we're able to really understand which customers have the highest propensity to move to online. So without giving away too many trade secrets there are a few moments in people's lives when actually online becomes very, very important to them and we're really able to understand that and target them at that moment. So we're getting more and more efficient in the way that we're spending our online marketing money. And we can manage the model very carefully and very specifically. So you can literally model on a week to week, day to day basis how much marketing you need to do in order to be able to drive sales.

In terms of dealing with that volume, we have online roughly 200 stores so we've still got plenty of opportunity to roll out some more stores. And a lot of focus at the moment is on increasing and improving our pick efficiency and van utilisation so we still think there's plenty of headroom in our current model to be able to deliver the gross ambitions that we have in the foreseeable future.

Answer: John Rogers

Nick, just to build on what Mike said I mean we don't specifically breakout the capital investment in online but clearly it's an important part of our overall investment programme, very much wrapped up with our new store programme obviously a lot of new stores also offer online as well as rolling back into our existing estate.

You talked a little about dark stores, it's certainly something we are looking at as an opportunity going forward but we'll talk more about that in the future. And it's important to remember that online of course is actually sales driving, I mean we've mentioned many times before that online particularly drives loyalty in our stores, so when we see customers switching from shopping in our stores to shopping online we actually see their overall spend go up because they tend to spend about the same amount, a little bit less in the store itself and obviously on top of that you have their online shop, so it's very much a sales driving activity. And, therefore, from that perspective, it delivers good capital returns.

Answer: Mike Coupe

And then the last bit of your question, Nick, was convenience and yes about twice the pace of the business would be a good rule of thumb.

<u>Question 10</u>

Sreedhar Mahamkali - Macquarie

Good morning all. A couple of questions from me, just three actually. Firstly quarter-on-quarter are you able to say if your spend on Brand Match is up and if it is in line with your expectations?

Second one, generally in terms of the trend within the estate are the 1,800 stores that you've got over 50,000 square foot are the sales trends in there any different? Any different patterns that you're seeing in those stores versus the rest of the estate, obviously taking convenience to one side?

And thirdly, core private label what's been the response... what's the growth rate in the quarter? You talk about the top and bottom ends but the core private label if you can talk about the trend in the quarter? And perhaps if you can also just give a bit of colour in terms of how the trading has progressed in the core private label through the year please? Thanks.

Answer: Justin King

Well in terms of quarter-on-quarter I don't think there's really anything to note on most of the questions you've asked actually. I think just to come to the second question in terms of the 50k store, because I guess the underpinning of that is where the big stores are having a torrid time. And we don't recognise a lot of the commentary that we've seen from others about the difficulty in their big stores. But there is potentially very good reason for that and I've talked many times in the past that our big stores are not like our competitors' big stores. Firstly they're not as big; we have a couple of 100,000 square foot stores but our centre of gravity for our big stores is 60,000 to 80,000 square feet. Secondly, in those stores food is much more dominant. And so as I've said if you take an 80,000 square foot store we would put 50,000 square feet of food in that, our competitors would put significantly less, and we think that big stores with non-food dominating may well be having some challenges but we have big stores with food dominating.

And then the third thing is we have a very wide and varied portfolio. So it's probably the widest and most varied of any of our competitors from convenience stores right up to those couple of 100,000 square foot stores. And we do see shifts over time. So, for example, at Christmas there is a tendency towards the bigger destination store for that Christmas shop, so they tend to trade quite strongly then. Whereas week in, week out maybe in the middle of the month it's our smaller, more local stores - both convenience and indeed our smaller high street supermarkets we have around 200 of our supermarkets on high streets that maybe trade more strongly during the month so we like to think of our portfolio as being really quite balanced and those sort of big trends that we've heard other people talk about, the death knell of the hypermarket that's been sounded by some, not just in the UK but internationally, is not a description that we recognise.

As far as private label, Mike, anything you add about our Buy Sainsbury's relaunch how it's going.

Answer: Mike Coupe

Yes I mean broadly speaking the core own label has grown in line with the business overall. But of course we're in the investment phase of By Sainsbury's so we're going through a huge amount of product churn at the moment, we're about half way through the range relaunch and we'll complete that by September. And you can see actually if you take Taste the Difference where we've gone through that investment phase, so we invested very heavily in Taste the Difference about 18 months ago, we've seen the continuation of that grow through not just last year but into this year as well, so what we'll see on the back of all the investment we've put into our core own label products, I believe, is a significant step on as we go through the year, but the underlying growth is broadly in line with the business overall.

Answer: John Rogers

And, Sreedhar, in terms of the - it's John here - if you look at the trend half-on-half we've seen a slight uptick in private label growth half-on-half which is obviously encouraging.

Answer: Justin King

And just back to your first question in terms of Brand Match I think we are, which you may as a group found frustrating, going to be quite circumspect in what we say about Brand Match because we think it's competitively very sensitive, we think it works very well for us. But to the specifics of your question in line with our expectations - yes absolutely. But I think what we can say is that we're winning a higher proportion of the baskets than we were when we first launched Brand Match and that's a recognition of the fact that we are in a very strong price position at the moment versus our competition, that's why we win when the customer gets the benefit of the coupon or the reassurance at the till. And that for our most loyal customers is very reassuring when they get a voucher which reminds them that their branded shop was in fact cheaper than had they gone elsewhere. So it's a good reinforcement of our strong price position.

Concluding comments, Justin King

Okay well I think that was the last question. Thank you very much for all coming on the line. And this is obviously the short gap of the year because we'll be talking to you again in the middle of May with our preliminary results. Look forward to seeing you then. Cheers.