J Sainsbury plc

J Sainsbury plc Preliminary Results 2012

Wednesday 13th May 2012

Justin King, Chief Executive

Hello everyone, thanks for coming on the call. I'm joined by John Rogers and Mike Coupe. Today is our first quarter trading statement, that's the 12 weeks that ended 9th June just last Saturday. And as you'll have seen it was a good sales performance in a challenging market. Our total sales for the first quarter up 3.6% or 3.8% excluding fuel, like-for-like sales up 1.4%, and in fact 1.4% excluding fuel as well.

You'll see from those figures of course new space continuing to contribute around 2.4% to sales growth and fuel for the first time in many quarters growing at roughly the same pace as the grocery business, inflation largely coming out of fuel over the quarter.

Of course the key figure I know you'll focus on, our 1.4% in line with our own expectations and a good beat to the market, we continue to grow market share. And of course its growth-on-growth, we grew strongly in the first quarter last year and this brings our two year like-for-like sales figure to 3.3%.

We've continued to observe in the quarter the customer trends that we've commented on previously, savvy shopping, saving money week in, week out, so customers can enjoy the special occasions, and of course the special occasion in the quarter was the Jubilee. But as you'll have seen in our statement, overall the quarter was very much like the first quarter last year, a royal event, an extra bank holiday, Easter, half term and of course some unseasonal weather.

Key to our success has been our own label ranges, by Sainsbury's, the core of our own label, now 75% relaunched and over two thirds of the product, around 70% new or reinvigorated. And we continue to gain market share in our general merchandise business, growing stronger than our core grocery business still. Key success in the quarter, our strongest ever sales week on clothing, and a part of that has been played by the Gok range, it goes from strength to strength, our fourth collection set to be the best ever.

Our growth areas continue to deliver for us, our convenience business up 16% in the quarter and our online business continues to grow ahead of 20%, reflecting the very high standards of customer service we now deliver and online. And convenience was of course the key space story in the quarter, we're now delivering one to two convenience stores each and every week, 63,000 square feet of space in total, 21 convenience stores added in the quarter.

So looking forward, we expect the market to continue to remain competitive, there are of course the summer events of the football, Olympics and Paralympics to look forward to, but we expect with our universal appeal which is supported by our unique own label ranges, the unique proposition that is Brand Match, and of course all underpinned with our loyalty insight through Nectar, will allow us to continue to help customers live well for less. So we remain well placed and confident that we will continue to outperform the market.

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

Question and Answer Session

<u>Question 1</u>

Andrew Kasoulis - Credit Suisse

Yes, morning guys. I've got a question on guidance. You're guiding 2% like-for-like for the full year, which now I guess implies a small acceleration from Q2 to Q4. Are you still happy with that 2% guidance, and similarly are you happy, presumably you are, with all the other components of your guidance that you set at the start of the year as well?

Answer: John Rogers: Chief Financial Officer

Andrew hi, it's John. Yes, we're very happy with the 2% guidance, the 1.4% that we reported today was bang in line with expectations, so very comfortable with the 2% guidance for the full year. You're right to highlight that all the guidance that we gave at the prelims holds true today.

<u>Question 2</u>

Gillian Robb - Morgan Stanley

Good morning everyone. I just have a couple of questions on online. So you talk about having grown 20% year-on-year and I was wondering if that's mainly food driven or has the strong general merchandise performance also translated in online? And do you think you're taking share in online grocery or is it just that the market's growing very strongly?

Answer: Justin King

Well, it is mainly food driven because our online business is mainly food, so well over 90% of our online business is food, so it can only be growing strongly if the food is. And yes, we're taking market share, of course we haven't seen the very latest market data, but the market data that we've seen to date shows us not just that we're taking share, but that we're the fastest growing grocery online business. So we believe that will continue to be the case when we see the latest data, but well ahead of 20% and, well you'll know from the figures that others have quoted, that's a significant beat to what most others are achieving.

<u>Question 3</u>

James Anstead - Barclays Capital

Two questions if that's okay. Firstly, I know this is looking forward and it's slightly speculative, but you mentioned first quarter on first quarter you've had a royal event in both years, but looking forward to the Olympics and Paralympics, what are you planning for, is the Olympics and Paralympics equivalent to two royal events? What kind of quantum improvement do you think that might help, very, very broadly?

And secondly on fuel, and again who knows quite what's going to happen to the oil price, but are you starting to see any benefit in terms of your food volumes from fuel prices declining and do you have a rule of thumb in terms of 10p on a price of, or 10p on a litre of petrol makes an X percent difference to food like-for-like, or is that too simplistic?

Answer: Justin King

That's too simplistic, but we'll come back to that. Well, as far as the forward outlook, I think from my point of view the Olympics and Paralympics, and indeed potentially the football, are mostly a story of what they do to the public mood, rather than them being specifically selling opportunities. It'll change the shape of what we sell, you know, beer and pizza always does well when there's a football tournament on for example. But they're not a huge sales opportunity, certainly nowhere near, for example, the scale of the royal events, but they are about helping lift and change the public mood. A big part of the challenge that we face is that the backdrop is of a very downbeat consumer, not just about the here and now but about the future. The biggest single news in the next eight to 12 weeks will be whether we get sunshine and a summer, and I'm sure we'll see the commentary come September and October from all retailers will pivot on whether or not the summer arrived.

As far as fuel is concerned, like a lot of these things, the response from consumers when it's bad news is pretty instant; if you go back to January 2011 when the fuel price spiked we saw that pretty much straight away in the weekly shopping basket, on a virtually pound for pound basis. It doesn't happen quite as quickly in the other direction because they have to get used to the idea and confident in the idea that they really are spending less filling up their cars. So if fuel prices don't move, and of course that is speculation, then some time during the coming quarter we would expect to see that reflect itself in a little bit less tight strings on the weekly grocery shop.

Mike, is there anything you'd add?

Mike Coupe: Group Commercial Director

No, I think that's a fair reflection.

Further question

And just to follow up quickly, I mean you've suggested that the impact of the Olympics, Paralympics, might be less dramatic than the royal event, but I mean I guess together they're spun out over five if not six weeks, so are you saying that on a kind of day by day basis the impact is less or for five or six weeks the total impact is less than a couple of days of royal celebrations?

Answer: Mike Coupe

Yes, it's Mike here. I mean the reality is that if we have a week of sunshine that coincides with England getting to the quarter finals of the EURO championships that's likely to lead to a sales spike. So the reality, as Justin has already said, is that these events have a cumulative effect on the public mood. The bigger influence on sales spikes and sales performance will be a reasonably consistent level of good weather when people expect it, i.e. during June, July and August.

<u>Question 4</u>

Alistair Johnson - Citigroup

Hi, morning everybody - a couple of questions. Justin's commented in the past that gross margin to some extent has to cushion the difficult sales environment in the UK. Would that be a valid comment for the year ahead and ongoing? Can gross margin kind of trickle up a little bit to offset sales weakness indefinitely?

And the second question's on fuel. In terms of profitability of fuel, has that been basically static for the last three or four years despite the inflation in fuel? Those are the two questions.

Answer: Justin King

Well, it's a trading statement so I don't think we will add a tremendous amount of colour other than to refer back to comments that we previously made I think, Al, as far as profitability is concerned. Clearly gross margin trajectory is a matter for each individual company and we have seen some commentary from some of our competitors about their intentions to widen gross margin. Only six weeks ago we reported on our full year results, in fact four weeks ago - time flies - on our full year results and we converted 2% underlying sales growth to around 7% profit growth by keeping a very, very tight rein on cost and ensuring that the sales leverage flowed through in profitability leverage, not through widening gross margin, and of course you saw the underlying margin accretion that we achieved through managing our business that way.

We guided differently this year as you know to roughly flat net margin. That reflected our expectation – well not our expectation, it's already in the marketplace – that at least one of our major competitors is going to see very significant net margin erosion and that clearly is a backdrop against which we have to manage our business. But the current expectations for our business for this year, which John has already said we're comfortable with, offer around 2% underlying sales growth, and again for that to have a good profit conversion and we expect that to be the case.

As far as fuel is concerned, fuel's a kind of forever state of affairs rather than the last three or four years, the margin doesn't wax or wane with the changes in prices, it waxes and wanes with the spurts of aggressive or less aggressive competitive activity on fuel pricing.

Further question

That's really helpful. Just finally, on the Jubilee week can you quantify what your sales were like relative to a normal week in that run-up to the Jubilee week?

Answer: Justin King

No, I don't think we're going to get into one week sales commentaries although we know others have, we think for their own reasons. We've commented on a whole quarter and, as we've said, if you take the quarter as a whole it's a very similar quarter in customer terms to the one in 2011 and that's why 1.4% is a figure we're happy with, it's a good figure and represents strong outperformance. And I think if you look below the headlines and look at the market backdrop, our own tougher comparatives, you'll see that 1.4% is probably a better beat to the market in quarter one than in fact our 2.6% was a beat to the market in quarter four.

Question 5

James Grzinic - Jeffries International

Good morning, I just had a couple of quick ones. The first one is if you can clarify what the extension contribution to your LFL was this quarter.

And the second one, just going back to the 2% like for like guidance, are you assuming the market will get stronger from here for you to get there, or for your performance to actually get stronger from here, or you're assuming both?

Answer: John Rogers

Just in terms of the contribution from extensions net of destructions, that's 0.8%. And I think in terms of the 2% guidance, we're not necessarily assuming the market is going to get stronger of course our Q1 figure this year is up against a relatively tough comparator to last year's Q1 and in fact if you look at the two year like-for-like it's pretty flat between Q4 of last year and Q1 of this year, so we're not necessarily expecting to see any improvement in the market, but the 1.4%, as I said previously, is bang in line with where we expect to be and that's why we're very comfortable confirming the 2% like-for-like guidance for the year.

Question 6

Matthew Taylor - Numis

Good morning. A couple of questions on non-food first. In the past you've given how that's performed in total terms and given a multiple of how that's gone relative to the average, do you have that figure?

Secondly, were the non-food sales up in like for like terms during the quarter? And then just on convenience, was the convenience number again ahead in like for like terms as well obviously absolute terms?

Answer: Justin King

Well quick fire, we've actually said in the statement non-food growing faster than food. We haven't given a multiple because it's not growing at a multiple, so just faster than. And yes and yes to the second question.

Answer: John Rogers

Just a bit of colour on that. Probably about one and a half times in terms of non-food growth versus food, so that's a trong performance in what is clearly a tough non-food market. Yes, we are seeing non-food like-for-like growth as well, which again I think is particularly pleasing against the economic backdrop. Not massive like-for-like growth to be fair, but nonetheless positive so very pleasing. And in terms of convenience, that's continuing to trade better than the supermarkets' business. In the past like-for-likes for convenience have been double those of that of supermarkets. That's not the case this quarter, that's come off slightly but nonetheless still trading at a premium to where the supermarket business is at.

Question 7

Clive Black - Shore Capital

Good morning gentlemen. You've got the slightly wiser, older and fatter one. The last time we spoke actually you were all sharing baths, so I'm very relieved that the rain has arrived in London and you can be by yourselves again, whereas in Merseyside it's beautiful at the minute.

A couple of questions. Firstly on inflation, has inflation eased for you through the first quarter, and with oil prices coming down and with harvest information would you change your expectation for full year inflation numbers of, I think you've talked around three, or circa three, at the moment.

And secondly maybe one just for Mike, you talk about the by Sainsbury programme which is obviously a very large proportion of your private label, are you able to elaborate at all what you think that's done for you from a trading perspective to date?

Answer: Justin King

Inflation in the quarter around three, about the same as it was in quarter four, and no I don't think we'd change our expectations on it. I mean the early doors of the British season hasn't been great from that point of view but I think we've got the bigger news still to come in the next 12 weeks, so about three and I think we'd still expect that to be the centre of gravity. The bigger inflation news is that fuel's now 'only' inflating at the same level as groceries and with the moves in the last week or so of fuel will actually probably be deflationary within a week or so. And, as I commented earlier, I don't think we'd see an instant benefit in terms of pressure on household budgets but that should have an effect if it remains within the next quarter one would expect.

Further question

Sorry Justin, but would you not expect if oil remains, for the sake of argument, below $100 a barrel on Brent that to feed into the oil related input costs of the manufacturers, and particularly in areas like household goods, personal care, therefore to be more deflationary than you might have thought a quarter or two ago for the full year.

Answer: Justin King

Well, it might, and of course we'll take what opportunity lies within our own label shopping basket. But I'm not expecting the doors to be beaten down by the Proctor's and Unilever's of this world offering to share great largesse with their reduced cost base as a result of oil prices reduced. And leaving that flippant remark to one side I would expect the vast majority of people have properly covered and hedged and therefore you're not going to see that kind of effect filtering through within a quarter or two. It would need to be consistently lower for a good piece of time before it truly affected people's underlying cost. And that would be true of course, because oil does feed through to things like animal feed as well, indirectly, and over the last few years with the volatility that we've seen in input prices most prudent businesses, including own label businesses, will have properly planned and hedged their businesses, so you're not going to see, perhaps, the kind of instant response you might have done in the past.

As far as by Sainsbury's is concerned, Mike?

Answer: Mike Coupe

Just one comment on inflation, there's also lots of currency movements going on as well so I think at this stage of the year, with a combination of weather, currency, oil, it would be almost impossible to predict what the outcome's going to look like later on, so I think there's still lots of moving parts.

Own label, we're three quarters of the way through the by Sainsbury's programme. As you'd have seen from our competitors there's a lot of activity in own label at the moment. We're pleased with what we're seeing, we're pleased with the results. You've seen it, for instance, from our Taste the Difference relaunch we've seen a couple of years of very consistent year-on-year growth and we'd expect to see the same kind of thing out of the by Sainsbury's relaunch. So we'll continue to drive forward on making sure that our own label offer is the best in the marketplace and that's recognised by our customers as we quite frequently comment on.

Concluding comments: Justin King

I think Clive was the last question. Thank you very much for coming on the line. Enjoy your summer breaks, we won't be talking to you until our quarter two results in October, so speak to you then. Cheers.

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