J Sainsbury plc

Fourth Quarter Trading Statement

Tuesday 19 March 2013

Justin King – Chief Executive

Good morning, I'm joined here by John Rogers and on the line by Mike Coupe. We're reporting this morning, as you know, our fourth quarter trading statement; that's for the ten weeks ended 16th March, last Saturday. And as you will have seen, we've delivered strong sales, which reflect a continued outperformance in what remains a challenging market place.

Total sales for the fourth quarter up 7.1%, or 6.3% excluding fuel. And like-for-like sales up 4.2%, or 3.6% excluding fuel. And of course being quarter four that brings to close the year. Our full year figures, like-for-like sales up 2.1%, or 1.8% excluding fuel. Demonstrating therefore that quarter four has been a strong finish to the year of outperformance.

A key part of that story has been customer transaction growth, up 800,000 a week year-on-year. And of course the addition of new space reflected in that top line figure of 7.1%, we delivered against the 5% space growth that we targeted.

And as I've said, we think quarter four represents outperformance in what remains a tough marketplace: 22.9 million customers a week now, reflecting that 800,000 increase. And in the quarter we note particularly strong trading periods around the key events of Valentine's Day and Mother's Day, and of course we closed out the quarter with Red Nose Day, delivering a record cheque of £10.5 million on behalf of our customers and colleagues – something of which we are very proud.

Of note in the performance for the quarter is the performance of our own-label, in particular *by Sainsbury's*, our core own-label range, nearing the end of an 18-month re-launch, and very pleasing therefore to see a 9% growth in our *by Sainsbury's* range. And of course that is complemented with our *Brand Match* offer, focusing on products which are truly comparable with our competitors, giving customers branded price reassurance.

There has been much discussion in the quarter about supply chains, and we believe the investment we've made in the long term has served us well. We've had Farmer Development Groups for five years and counting in most of our raw material supply areas; and the knowledge this gives us about our supply base has been proven, in the last quarter. But of course many of our commitments are long term. We went 100% British on fresh chicken back in 2003; and we've been undertaking routine DNA testing for well over ten years. We believe the confidence and trust that this has won with our customers over the years has served us well.

Multi-channel continues to be part of our story. Businesses of significant scale growing strongly: convenience at over 18% and our online business at nearly 20%. Strong growth there in both of those businesses. Our online business now serving around 190,000 customers every week.

And throughout these challenging economic times we've seen growth in our general merchandise business. But given the overall figure we're reporting today at 3.6% like-for-like it's great to be able to report that our non-food business grew at three times the rate of food. A very strong quarter.

In February we passed the one billion annual sales mark for general merchandise, a business that was started just ten years ago. And our clothing business goes from strength to strength with growth of nearly 20% in the quarter.

And as I noted in the introduction, we closed out the year delivering against our one million square foot target: 162,000 square feet in the quarter; three new supermarkets and nine convenience stores, bringing to 87 the number of convenience stores we've opened in the year, delivering against our one to two stores a week target.

And we're also investing in infrastructure, most notably our Thameside depot, which opened in the quarter, which is dedicated to serving our convenience estate in the Greater London area.

As for outlook, we think it remains much the same. The economic environment will remain challenging, but we will continue to focus on helping our customers *Live Well for Less*; we'll deliver great quality own-label products supported by our unique *Brand Match* scheme; we'll continue of course to price competitively and target promotions through Nectar data and coupon-at-till; a winning formula that has served us well and give us confidence that we can continue to outperform the market.

And with that I'll hand over to questions.

<u>Question & Answer session</u>

<u>Question 1</u>

James Anstead – Barclays Capital

Two questions please. Firstly, there's a view out there that whether or not Tesco's Price Promise turns out to be as successful as *Brand Match* has been for you, that it must take at least some of the effect away from *Brand Match*, given the two schemes are clearly similar in some ways. How would you respond to that firstly?

And then secondly, can you comment on the consensus for the year that has just now ended? And I don't know if you're prepared to give any comments yet on how you see consensus for the year we're now moving into?

Answer: John Rogers, Chief Financial Officer

We see consensus for this year at the underlying PBT level lying at 743; but the range actually goes from 730 to 754. So, we'd expect to see some of those low-lyers come up a little bit as a result of the sales that we've reported today.

Answer: Justin King

On *Brand Match*, I would just re-emphasise what I said in my introduction which is that our customers tell us that our focus on brands is what makes it such a compelling promise. They know those products are comparable between all retailers, and therefore it's a promise that really means something to them. And of course it works because our branded pricing is competitive: over half of the time our customers get a voucher telling them that their branded shopping was in fact cheaper at Sainsbury's than at Asda and Tesco.

Mike, do you want to come in on the line and add some colour?

Answer: Mike Coupe, Group Commercial Director

I can only re-emphasise what Justin has already said. In the end ours is a branded price promise, it's a very clean price promise; our customers understand very readily what it stands for. We've said on a number of occasions that we're cheaper more than 50% of the time, and that continues to be the case. And it's moved our price perception on, and hence is one of the factors that has helped us perform as a business. It will be interesting to see how it plays out with a competitor like Tesco playing in the same arena. But I guess in the end imitation is the sincerest form of flattery.

Answer: John Rogers

I know you asked about consensus for next year as well, which we currently see as being 783, obviously we're not going to provide any guidance on the call today relating to next year; but when we come to our prelims in May we'll provide guidance for the year then.

<u>Question 2</u>

Andrew Gwynn – Exane

If we go back to the interim results back in November, you were commenting then I think you were expecting the like-for-like for the second half to be around about 1%. Cleary this is markedly better. I was just wondering what has really changed. Obviously we have the horsemeat element to talk about but is there anything else worth flagging in Q4? I think non-food in particular you said has been really exceptionally good.

Answer: John Rogers

At the interims we said that we expected the second half like-for-like to be similar to the first half. Actually what we've done in today's results is announce a slight beat to that. So, the 1.7 we delivered in the first half is actually 1.9 in the second half; so 1.8% for the year overall.

And I think, as is clearly articulated in the statement today, I think we see the beat driven by a number of different factors, but it's really growth across the entire business: convenience, online, clothing. We are really growing on all fronts, and that's what's clear in the statement today.

Further question

Is there an element of the horsemeat debacle we can pull out? I don't know if you can share any customer metrics what people are thinking about the brand in the light of that?

Answer: Justin King

We don't think in tactical terms, in short-term terms, that there's much in horsemeat in terms of our relative outperformance of the market. You'll have seen, those of you who look at market data, that there has been a shift overall towards protein bought unprocessed; so there's more steak and chicken breasts being bought, if you like, and less ready meals and mince, and clearly frozen products have taken a significant hit – that is where a lot horsemeat has been found – and a shift into fresh. And our meat business, along with the rest of our fresh food business, is performing very strongly. But we would point to our long-term investment in the supply chain as being what's coming through there.

As John said, actually the second half played out better in total than we expected a bit: at around 1.9, we were looking for the second half to be similar to the first. Clearly there was a significant split between 0.9 in quarter three and the 3.6 we're reporting today for a slightly shorter period.

But we commented at the end of quarter three, although there was some commentary that that represented a slowdown, we felt strongly that our quarter three performance, in the context of the amount of money that was thrown uncompetitively at grabbing what we looked at to be unprofitable sales, we thought our performance over the Christmas quarter was pretty strong. And I think the market data eventually showed that to be true, particularly given the tough comparators we had.

But we've always said that part of our competitive advantage is being able to spend our money in a targeted way to give customers value that they really want, particularly through Nectar, coupon-at-till and our direct marketing. And that's been very strong for us this quarter. It's often been the case in quarter four that our competitors reach their year ends and start investing very aggressively; this quarter we've been through a quarter where our competitors, at least two of our major competitors, were clearly thinking about their own year ends, whilst we were able to continue to deliver fantastic value for money to our customers. And delivering fantastic value for money is still the key driving force of sales performance, because making the household budget add up in total remains a challenge. And if you look at the leading position we took on petrol pricing last week where we led the market down, if you like, announced a 3 pence per litre cut last Wednesday, that's a demonstration of us absolutely being on our customers' agenda.

<u>Question 3</u>

Jonathan Pritchard – Oriel Securities

My question's on the non-food side, a very strong performance. Is this a case of getting the increased footfall to actually turn into non-food areas and actually executing that better and getting those shoppers to shop the range, or is it your existing non-food shoppers who are simply enjoying the range more and buying more?

Answer: Justin King

Well, I'll ask Mike to come in on that. Just the one comment I'd make which was on the face of our announcement today is that 33% so nearly a third now of our customers are within 15 minutes of our non-food offer, it was 29% a year ago. So some of the growth of course is delivered by the investment activity extending our stores and bringing the range within reach, but, Mike, do you want to talk about the performance in more detail?

Mike Coupe

Yes, I guess there's two actually, as Justin's already said, you've got an axis where accessibility is just gradually improving every year, year-on-year, and I guess both of the businesses, both clothing and general merchandise, are still relatively young businesses. Our clothing business was to all intents and purposes relaunched seven years ago and every year we learn about what works for our customers and every year we do a slightly better job. And I think now we would be confident that our non-food offer generally stands up incredibly well, not just against our supermarket competition but also against our high street competition. So if you look at our relaunched Cook's range, which is currently on promotion, it's a fantastic offer; it stands up brilliantly well against any of the high street and equally it stands up well against the mainstream brands in that area. So I think it's just a cumulative effect of learning more and more about what works for us and what works in our business. And probably the ultimate manifestation of that recently is the launch of our Kings Lynn store and our Weedon Road stores which I think both show the way to what the answer possibly is in the future.

John Rogers

Jonathan, I think it's just worth commenting that even when you strip out the benefits of extensions and the benefits of new space we're still seeing positive like-for-like performance in the underlying business on non-food, on a genuine like-for-like basis. And we feel that's very encouraging in the current environment.

Justin King

I think I'd add as well, most of you have had the chance now to meet them, people are always part of the story too. You'll remember a year or so ago we put Roger Burnley in charge of our non-food business. His extensive supply chain knowledge was incredibly important, we felt to the development of that business, and we've got Robbie Feather and James Brown heading up our GM and clothing businesses too, two people recruited from the industry with specialist product knowledge, and they've both been in place over a year now and what you see on the shelves today reflects their input. With the length of supply chains it takes a while for that change to take place. So we think there's a people story in this too and I think most of you had a chance to meet them.

Jonathan Pritchard

Great, that's a very full answer, thank you.

<u>Question 4</u>

Sreedhar Mahamkali – Macquarie Securities Group

Staying on the non-food subject, are you able to give this quarter, or perhaps actually for the year, how big are the relative contributions of clothing and general merchandise and electrical? I know clothing is a very meaningful part for you, but if you're able to just split the contributions of these three businesses and the performance through the year, it looks like there was clear acceleration in non-food there towards the end of the year.

And secondly, convenience like-for-like, if you are able to share that with us. And finally, do you have any view on how 13/14 like-for-like could look like at this early stage of the year please?

Answer: John Rogers

Sreedhar, just in terms of 13/14 like-for-like, we'll obviously guide for that at the prelims in May, we're not going to say anything on that today. In relation to convenience like-for-like, similar to the overall like-for-like for the business actually, so around 3% or so. And in relation to the breakdown between clothing, electrical etc, we're not going to break out that contribution, but you'll note in the face of our statement we talk about the growth, for example, in home accessories and clothing being 25% and 20% respectively, so that gives you a bit of a feel for which categories we're growing in.

Question 5

Edouard Aubin – Morgan Stanley

Just one question for me on own brand. I guess your own brand growth was very impressive during the fourth quarter which I guess is due to the *by Sainsbury's* relaunch. However, a number of your competitors have also relaunched their own brand lines in recent quarters, yet these are not performing as well, so I guess what are you doing better than the competition in that area?

Answer: Justin King

Well, the general point that I'd make is that we talked about this in the past. Our own brand has outperformed over the long term, we've always had a slightly higher own brand penetration than our competitors; that reflects, we think the quality and value that our own brand delivers. And that indeed is part of our competitive advantage from a pricing point of view, because as we've said many times, customers switching from brands to own label is the best way for them to save money at no compromise to quality. So to be pointing towards very strong own label performance, remember *by Sainsbury's* is nearly 40% of the sales of the company, because it's about 80% of our own label sales. To be pointing towards that kind of own label performance whilst at the same time still growing the top line 3.6% is a very strong combination because own label strength has a deflationary effect on your top line.

As to why *by Sainsbury's* relaunch has worked so well, Mike, why don't you add some colour?

Mike Coupe

Well, thank you for that, what a great question. Well, I think we're quite good at it and that's not something that comes about in three months or six months, that's a continuous cycle of making sure that we're constantly looking at the products that we're selling, that we're benchmarking them against our competition, against the brands that we're competing with, and of course we deliver great value for money. So on average our own label products are 25% cheaper than the mainstream brands, They offer, in some cases, better quality, in most cases at least as good quality. And perhaps the other reflection is if you look at the underlying market data, broadly speaking the parts of our food business that have outperformed are our own fresh foods and again, they are big contributors to our own label sales picture, and also big contributors to our growth and therefore have a disproportionate effect on the mix. And of course we've invested a huge amount of money in training our colleagues on counters, on our bakeries, in our produce departments in the last 18 months or so, so all of that is cumulative. But it's not an accident, it's not something that's happened in the last three months, this is something that's been going on for the last seven or eight years continuously.

Question 6

James Tracey – Redburn

Two questions for me, one is on the level of inflation in the like-for-like for the quarter. The Kantar data suggests that inflation has increased in your basket, is that due to the mix effect of greater convenience sales or possibly online, or is it sort of core inflation in the basket?

The second question is on non-food, could you break out the online contribution there and how well is your online non-food offer doing as well? Thank you.

Answer: John Rogers

We actually see inflation in the fourth quarter being a little bit below 3%, so actually very similar to that that we reported in Q3. And as I said previously, we're not going to break out the contribution from online in the number.

<u>Question 7</u>

Andrew Kasoulis – Credit Suisse

Just some questions on the detail if I may of the numbers: what was the Comic Relief contribution to like-for-like, and also I think there was a Mothering Sunday in this year's numbers and not in last year's numbers, so what was the contribution there? And if non-food did so well, presumably there's a small mix issue here, I know you only give the numbers inc VAT, so what is the contribution of VAT to like-for-like please?

Answer: John Rogers

Well, just in relation to Comic Relief, again we wouldn't normally break this out, but it's fair to say the contribution from Comic Relief is around 0.1%, so not material, but there is a contribution from it. I'm not going to go into the detail of breaking out Mother's Day etc, but it's fair to say that we had a strong Mother's Day.

Justin King

But the point you make, Andrew, Mother's Day was actually the Sunday that started the financial year we've just closed, but of course the sales are all in the Thursday, Friday, Saturday; that's when most of us buy flowers for our mum, the Sunday itself actually is a relatively slow sales day, because dads tend to be at home cooking something for mum, if they have a go at it. So it's comparable, Mothering Sunday, in the quarter.

In terms of non-food VAT, there's nothing in the VAT, we've always reported the numbers the same way. Yes, of course our non-food business in VAT-able. Of course much of the food business is too, it's often a misrepresentation that all food is not VAT-able. And of course by far the strongest growing parts of our business are our convenience and online businesses, which are predominantly food. So there's no VAT mix in any of the detail of the numbers. Our blended VAT rate in other words is not identical within the roundings.

<u>Question 8</u>

Alistair Johnson – Citigroup

Virtually all of my questions have been answered. One question would be you're saying that competitors dipped for the line towards the end of their financial year and potentially horse-gate and the horse meat scandal has benefitted your sales. Looking forward into the year ahead would you basically be comfortable with a performance on an annual basis of around what you've done, so 2%? You wouldn't want expectations to run forward at the current run rate of like-for-like sales? Is that a fair comment?

Answer: John Rogers

I think, as I said previously, we'll provide a bit more guidance at the prelims in May in relation to next year but as you know we always set ourselves a long term objective of outperforming the market by 1%. Clearly the numbers for this year would suggest that we've beaten that outperformance quite significantly but we'll provide a bit more detailed guidance on next year at the prelims.

Concluding Comments – Justin King

Okay, thank you. I think that was the last question for those of you still on the line, thanks for coming on the line, obviously we'll be back talking to you in the relatively near future in about six weeks' time with our prelim announcement. Speak to you then.