Sainsbury's

Fourth Quarter Trading Statement

Justin King, Chief Executive

Hello everyone thanks for coming on the line. It's Justin here and I'm joined by Mike Coupe and John Rogers.

Today of course is our fourth quarter trading statement, that's the short quarter, the ten weeks that ended last Saturday 15th March. And as you will see we reported declining sales in what has been a tough market but we're pleased to report that we've continued to outperform our peers.

Total sales for the quarter down 1.5% or 1% excluding fuel and like for like down 3.8% or 3.1%, excluding fuel, reflecting the fact that fuel prices are down year on year throughout the quarter.

Of course this performance is disappointing after nine years of consistent growth but in large part reflects the very tough comparatives from a year ago. That was the middle of the horsemeat scandal and we benefited hugely from the fact that Sainsbury's contained no horsemeat nor had they been contaminated by it. We are pleased though that even given that during the quarter we've maintained our market share at 17%.

Of course the market itself therefore has been growing slowly. Kanter last week reported it is the slowest rate since 2005. Falling food inflation has benefited customers but of course takes some sales off the top line. And the timing of Easter and Mother's Day of course affects the market and the weather being so different this year from last we think has had a market impact too.

You'll have noted I think that our own brand ranges continue to be a strong part of our offer, now 51% of our sales, a good gap to the market which is at around 47% and that of course is part of our unique way of delivering value for money.

We've been playing our part in some of the price movements in recent days and weeks, milk, bread, eggs, all matched to market levels but uniquely at Sainsbury's through the support of our development groups we're able to guarantee that our farmers continue to get a fair price notwithstanding what's going on with retail prices.

General merchandise continues to grow strongly. Of particular note in the quarter 23% growth in menswear and we're pleased to be able to sign Gok Wan for a further 12 collections, his 11 collections so far have been huge successes in our women's wear department.

During the quarter of course we also announced the completion of the acquisition of Lloyds Bank, the 50% that we didn't own in Sainsbury's bank, and of course the long three year plus process of fully integrating the bank to our business has begun.

Convenience continues to grow strongly at over 15% but we delivered a slower growth of 6% in our online business reflecting our continued caution in marketing whilst we complete the website relaunch, this is now 80% complete and will finish by the end of April.

We’re confident that in store we're delivering industry leading standards of in-store execution, availability and service. Our own measures show that they are as strong as ever and of course external measures such as the Grocer 33 reflect that, we've had 21 wins in the financial year just completed.

And we delivered our targets in square footage growth. Most notably in the quarter 22 further convenience stores, bringing the total to the year to 91.

In outlook terms I guess we share some of the sentiment being reported on the BBC today that the economic indicators are showing improvement in the health of the economy but that's not something that consumers are yet seeing or believing that they will see in their pockets in the coming year.

We remain confident by focusing on our differentiated offer, supporting value-for-values with our customers using Nectar data in a unique way and of course the reassurance on branded pricing provided by Brand Match that we will continue to outperform our peers in the year ahead.

And with that I'll hand over to questions.

Questions

<u>Question 1</u>

Edouard Aubin, Morgan Stanley

Good morning guys. Just two questions for me. The first one, in early January you were expecting a slightly positive like for like sales performance in Q4 and you printed a -3.1% versus your expectations what were the main surprises during the quarter? So you mention a number of issues but again what were the main surprises?

The second question is there has been a lot of talks in the industry recently about the price investments and even price wars have you seen any material changes in terms of pricing action over the past few weeks?

Answer:

Justin King

Well as far as the like for like expectations I think it’s what we've commented on the face of the statement, the market has been a good bit softer than we thought it would be. Inflation’s been part of that but consumers have absolutely kept the hatches well battened down. The weather I think has had a material impact on the market, it doesn’t affect us any more or less than anybody else. Warm, wet weather versus cold, clear weather which it largely was a year ago is a poor comparison for the market.

I think in terms of things specific to us we probably underestimated the effect of the different timing of Easter and Mother's Day. They're both big events for us and we probably should have been clearer in our own minds of how late these things are now coming and that had an effect on us in particular I think as opposed to necessarily the market. But in purely maths terms, I'll finish where I started and I mean our inflation figures have been a lot less and therefore actually that's a piece of good news. It doesn't help in terms of the performance in the quarter either for us or the market but ultimately it's great news for consumers and if they are to move to a place where they think things are going to get better we need inflation back in a place that is lower than average wage rises. Average wage rises I think will tick up this year not least of which because we're going to see 3% in the minimum wage but the best way for those lines to cross is for inflation to come down and it is at the moment.

Mike should pick up the comments about price.

Mike Coupe, Group Commercial Director

Hi Edouard. Well apart from the well trailed bread, milk and eggs, the reality is that I'm not sure there has been a lot of difference to the normal cut and thrust in the marketplace. So as of yet we haven't seen any significant changes in the overall pricing regime, pricing architecture, pricing landscape. So we look forward to seeing what happens next.

<u>Question 2</u>

Bruno Monteyne, Sanford Bernstein

With the Morrison's and Tesco starting to go after the discounters do you think this actually creates a trading opportunity for Sainsbury's that you can even profile yourselves even more as a quality retailer with Morrison's and Tesco going downmarket again?

Answer:

Mike Coupe

Clearly there's a double-edged sword to the announcements that have been made over the last couple of weeks but of course as you've rightly observed it actually increases our opportunity for differentiation not decreases our opportunity for differentiation so some of the considerations around for instance reduction in range as one of the key thrusts of the Morrison's statement last week well we pride ourselves on stocking a wide range of fresh food and grocery products and that we know for customers our ranges are a key differentiator for us.

So that's just one example and there'll be numerous other examples I'm sure. One other example actually will be the potential de-skilling of some of the counter operations within again one of our major competitors and again it's now that we've invested a large amount of money over the last few years and our customers would clearly recognise the differentiation in that particular part of our offer. So the general thrust of your question we would agree with. There is an increasing opportunity for us to differentiate relative to our main grocery competition.

<u>Question 3</u>

Jaime Vazquez, J.P. Morgan

Good morning all. I'm not sure I understand why Easter is an effect, Good Friday I think fell on the 29th March last year and your period finishes on the 15th March so can you please explain that?

Secondly do you still think that margin performance is a function of a relative sales performance and that you can achieve margin expansion in the second half of the year with negative like for likes?

And the third question is do you think inflation can turn negative at some point this year? Thank you.

Answer:

Justin King

The point about Easter is twofold, firstly for the market of course it's later and that's one of the reasons the quarter has been softer for the market and of course Mother's Day is part of the build up to Easter because it comes three weeks before Easter. So Easter itself, you're right, falls in Quarter 1, the actual Easter weekend but the build is in the weeks before, partly sparked by Mother's Day but also then when the kids go on school holiday. So for us cutting the year where we did we basically cut all of the Easter build out of Quarter 4, albeit that Easter will fall in the same quarter.

John Rogers, Chief Financial Officer

And Jaime just your question on margin we clearly gave guidance at the interims that we expected margin in the second half, margin accretion in the second half to be similar to the accretion that we saw in the first half. Obviously today is a trading statement so you wouldn't be expecting us to comment upon profitability but we're not changing that guidance today and we're not expecting to see consensus change as a result of what we say today.

Justin King

And on inflation there's no particular reason why it couldn't go deflationary but that will be driven primarily by cost of goods and whether commodity prices and their impact more widely on the price of food drives it there. So it's possible but it hasn't happened for a long time. Oil prices have definitely eased a lot of the cost pressure that our suppliers experience because of course it manifests itself in many ways. It's a driver of the cost of fertiliser on fields, it's the driver of the cost of moving vehicles around. It's the driver of the cost of packaging. So that's definitely been a helpful impact across the entire supply base. But at the moment we're talking about lower levels of inflation rather than deflation in our expectations.

Question 4

James Anstead, Barclays Capital

Good morning. Two questions please. Firstly if your competitors in UK retail move a little bit further towards EDLP and away from high/low on the promotional spectrum how does that affect the economics and the efficacy of Brand Match? That's the first question.

And secondly in the January trading statement I got the impression, and it might have been the wrong impression, but I got the impression that you had something in the tank to support your like for like in the final quarter. Now did you use that firepower and still get -3% or did you judge that it was better to hold back somewhat in a very tough environment?

Answer:

Justin King

Well Mike should comment a bit more about EDLP. All I'll say as a top line is that we've talked many quarters in the past about the fact that we've broken away a small bit from our grocery competitors in terms of promotional penetration and it’s wrong to characterise even those retailers like Asda who would say they’re an EDLP retailer as not being promotional they still, if you look at Kanter, Nielsen, they would still measure their promotional activity in the low 30s. So we've always been a notch away. Mike should pick up Brand Match more widely.

Mike Coupe

Yeah I mean as we've talked about before we’ve been moving in the direction of a simpler, more customer friendly, pricing structure, so making sure that our customers can recognise the value in our offer and that's been a direction of travel now for the best part of over two years. So what you’re describing feels a bit like the market catching up with us rather than the other way round.

I guess as far as Brand Match specifically is concerned I'm not sure it makes a material difference. Certainly if we look at the numbers and we look at the way that that's changed over the last few years broadly speaking the proportion of ‘Cheaper Than’ coupons that we currently give out hasn’t materially changed so in the overall mix it kind of plays a draw.

Justin King

And to your question about firepower I think I should avoid making your question a proxy for the earlier profit questions I think all we’ll say is we're confident that we've invested appropriately to give our customers value for money, we think that's reflected in the fact that we've been able to hold market share against what was for us a stunning period of market share growth a year ago and we also always have a mind to the key times when our customers want to spend a little bit extra and making sure that we invest appropriately at those times and I think if you add that comment I've just made to my earlier comments about Easter that perhaps gives you a little bit of insight to our thinking.

Question 5

James Tracey, Redburn Partners

Good morning guys three questions from me. The first question is on do you see any price cuts necessary given the commentary from Morrison's, Tesco and Asda, what would the scale of those price cuts be if you were to quantify that?

The second one is on how many supermarket sites do you have in your pipeline? So if you look at that pipeline how many stores would that be?

And the third question is on the online growth slowed to 6% versus 10% in the prior quarter and 15% before that. Is that an indication of the market slowing or has it got to do with your new website and less the marketing? Thank you.

Answer:

Justin King

Well Mike should pick the first and last and John will come in on the supermarkets but I'll just kick off on the price cuts while Mike weighs in to say that we have responded to every price cut that's so far been made already.

Mike Coupe

And we will continue to respond to any price cuts that are made in the future. As of today it feels a bit like a phoney war. I mean the announcements were made over the period of the last couple of weeks. With the exception of bread, milk and eggs, which we've talked about ad nauseam I'm not sure there's a lot more that you could see in the marketplace. I suspect if you went into some of our competitors' stores having read the publicity over the last couple of weeks you'd have been quite disappointed by the manifestation of what they had articulated to the outside world.

As far as online is concerned we made the comment we've gone through what is the equivalent of open heart surgery while you're running by changing over our website and our backend systems for our online business. We started that process in October, there are many, many, many examples of people falling over during the transition. We're very proud of the fact that we've made that transition without any major hiccups. We're now about 80% of the way through but clearly it would be a mistake to put an additional load on the service, the throughput and the IT whilst you're going through that transition and hence we have been more circumspect in our marketing activity, nevertheless the business has actually grown so it's a credit to the teams that there's still a demand there.

Justin King

Let me just add on the price cuts point, a point about our own price surveys, our own price surveys which are 14,000 lines plus every week, show our pricing to be as sharp as its ever been and Brand Match which is on brands is a good proxy for competitiveness. Remember we match against Tesco and Asda on that. We continue to win in excess of 50% of the time. In other words the customer gets a coupon more than half the time telling them they're shopping was cheaper at Sainsbury's and that remains the case today.

John Rogers

And James just to come back to you on your question on the property pipeline we've got around 70 supermarket schemes in our property pipeline which we anticipate getting planning for around 40 to 50 of those 70.

James Tracey

Okay and just on that 14,000 line price survey has there been any change in the price gap with Asda and what is the price gap that you see on the big basket?

Justin King

Well that's why I made the point I made about Brand Match because frankly Brand Match is mostly about the Asda comparison, it changes a bit of course with range because Asda and Tesco’s range isn’t the same but most of the time Brand Match is matching against Asda and we're winning over half the time.

<u>Question 6</u>

Niamh McSherry, Deutsche Bank

Good morning ((question breaks up))

Justin King

I'm afraid we're going to have to stop you because we're losing you, I don't know whether everyone else on the line can hear that but we're losing every second or third word that you’re saying so we can't hear the thrust of your question.

<u>Question 7</u>

Frank Walding – Goldman Sachs

Good morning I've got two questions. Picking up on Mike’s comments about following further on price I wanted to ask whether you felt that your balance sheet currently afforded you sufficient flexibility to follow any significant increase in the competitive environment? As a follow on for that does that mean that you as a group need to prioritise cash generation over the next few years?

And then could you confirm what your bank covenants are? Thank you

Answer:

Justin King

John is scribbling furiously so we’ll get John to respond to those.

John Rogers

As we said before we're very comfortable with the balance sheet strengths, in fact if you look over the last four or five years we've maintained the balance sheet strength over that time so we think that will allow us to do whatever we need to do in the market to compete effectively on price.

In relation to your comments on cash generation clearly we're not going to provide guidance at this point in the cycle. Obviously when it comes to the prelims in May we'll provide further guidance into next year. And in terms of banking covenants, again not going to disclose those on the call today but will provide a little bit more insight to that at the prelims in May.

<u>Question 8</u>

Andrew Gwynn, Exane

It sounds like you're describing this quarter as a blip, and indeed therefore by extension it rather suggests that your strategy is unaffected, the phoney war which may or may not be true. But what happens if things do get more difficult, do you think you've got the firepower or the margins there to defend your turf as it were, or is it really just a question of differentiation and then sticking to that?

Then the second question, which is just a quick technical one on the new space contribution, I think it was 2.1% for this period, obviously it went a bit lower the full year run rate. I'm just wondering if there's anything to read into that, or is it just a bit of timing?

Answer:

John Rogers

I'll pick up that one straightaway Andrew, nothing to read into that one. The guidance for the full year is around 2.5% which was in line with the guidance that we gave. So nothing to read into the 2.1%, it's just a matter of timing.

Justin King

I think to the thrust of your first question, clearly at least two of our major grocers, it's less clear in the public domain whether this observation would apply to Asda as well, are undergoing major strategic changes in the way they approach their business. Therefore the way I'd respond to your question is to say that strategically we don't see the need to aim off the things that have served us well in the long-term. The big questions of focusing on differentiated fresh food, driving our own label supported by value-for-values to give us a real point of difference, the growth of our non-food business within our core supermarkets, the development of convenience, the development of online, the acquisition of our bank, the big strategic questions we don't see anything that's been said and done by others that cause us to aim off that, it's a strategy that's served us well in the long-term. Tactically of course we will however have to respond if indeed there is activity that we have to respond to.

In a way I think perhaps the best way to answer your question is that given the state of profitability of two of our major competitors at least, it's never been a less valid question if you like. In the past the question's been asked when some of our competitors had a significant margin differential versus us, but of course with their recent announcements that's largely been eroded. So in relative firepower terms we don't feel disadvantaged if the phoney war becomes a real one.

Andrew Gwynn

Following up on that, you've mentioned there a number of things that strategically haven't changed, but I didn't hear the space, I may have just tuned out or something, but I didn't hear you mention space in there. Is the plan to open a million square foot still intact, because obviously we're seeing a fairly material slow down by competitors? Then as things stand at the moment, and obviously this is a difficult question, but in prior years you commented at this point about a first rate 2014/15 consensus figure. As things stand at the moment, are you happy with where those are?

Justin King

On the property point, we're not changing any guidance that we'd previously given on space, so you can take as read that we're sticking by that previous guidance. But I draw your attention to comments that we've made previously, that we've never bought the idea that what others are doing, whether that being open a lot of space or indeed no space at all, should drive our decision making about what the right space for us to open is. We take an individual decision on each and every investment that we make, whether it be a convenience store, the extension of an existing store, the opening of a new store, and we make sure that those individual investment decisions have accreting returns attached to them, and we're able to forecast our stores of all shapes and sizes with increasing accuracy these days.

There is perhaps an argument to be made, I think it's early to make it, but in due course that if there is significantly less property activity from our competitors, that those sites that we can find to develop in parts of the country where we are not, are likely to be if anything slightly more accretive in the future rather than less because of the lack of competition coming from those sites from our competitors. But as I say, that's an argument perhaps for the future not for now.

Andrew Gwynn

Sorry, just to follow up on that. You could argue that the competitors are responding to the markets not necessarily to each other i.e. shift to discounters and all the rest. Those aren't things you feel the need to respond to in terms of your space opening?

Justin King

Well I understand completely why any individual competitor would seek to present what they are doing as being purely a response to the market and not a response to the failure of their own strategies. You'll have to ask them which side of the coin they come down on, on that. But what I can tell you for sure is that we appropriately reflect those quite low expectations of consumer confidence in our future cash flows. We don't forecast the market inappropriately into the further years, but we remain confident in the forecasts that we do attach to our investments, and it remains the case that there's a good chunk of the country where we don't trade where it is perfectly possible, if we find the right sites, to trade profitably, and it will always be the case that we will sign off each and every investment based on the cash flows we believe those investments can generate.

John Rogers

It is also worth making the point also of course that we have reshaped our space pipeline to be an increasing proportion of convenience space, which of course is a channel that has grown significantly over the last couple of years. So in a way we are reflecting the markets in our property space pipeline.

Just to come back to your question on consensus, and again sorry to be boring here but we're not going to get drawn on consensus either for this year or for next year, today is a trading statement and we're updating on trading for the quarter. If we had something to say on consensus, either for this year or for next year, then we would be saying it, and we're not.

Question 9

Sherri Malek, Bank of America

Just a few questions from me. Firstly, given that you've confirmed the margin guidance of the full year, can you just talk us through how margins are able to expand still in the second half when like for like is negative and what other factors that are affecting the deleverage there?

Secondly, just if you could give the convenience like for like? If that could be done that would be great.

And also, just the rate of growth of non-food sales relative to food sales? That's it from me.

Answer:

Justin King

Well we can't give you a figure for non-food relative because of course food by definition is the core of business, food in supermarkets, and that's in decline, that's what the headline number means, whereas as we have said on the face of the trading statement, non-food remains in growth. And I think that's as much guidance as we can keep on that. I'll get John to come back to you on the convenience point in a moment.

Just on the margin, again I think we have to be a bit boring and say we're not going to provide anything more than we've already said, but I think we have commented in the past that sales gears your P&L both in absolute but in relative terms, and we've continued to enjoy a good gap to our major grocery competitors in terms of our underlying performance. Of course that's part and parcel of what gives us the ability, as we have done over many years now, to grow our margins at times that our competitors have not been, and I know one or two of you out there have commented on the gearing effect of a sales delta, and we've continued over the last year to outperform our grocery competitors.

John Rogers

And again it's also worth commenting on our cost reduction plan. I'm not going to say anything that we haven't told you already, but we've had very successful cost reduction plans year on year on year over the last five years, and of course that in and of itself helps you to deliver operating margin accretion. Of course we'll provide a lot more update and detail on that when we report at the prelims in May.

In relation to your question on convenience like for like, we saw like for like in the quarter for convenience of between 1.5% and 2%.

Question 10

Sreedhar Mahamkali, Macquarie Securities Group

Two short questions from me. One, I think it was John, you were quoted on Bloomberg as saying you've got bandwidth to compete aggressively on price. Can you please elaborate a little bit more on this? Just linking to your point a second ago in terms of cost savings, are you referring to potentially another significant wave of cost savings coming through which gives you that comfort that you now have got should the phoney war – as we're all trying to figure out – become a real war, gives you the ability to compete? Is that what we should read into that particular comment?

And secondly, I don't know if you've addressed it already but have you actually calibrated what impact the calendar shifts have had on the reported -3.1% please? Thank you.

Answer:

John Rogers

In terms of comments on Bloomberg in relation to bandwidth to invest in price, it's just a mere reflection of how we've operated the business over the last six, seven, eight years. We've always been competitive on price, we will continue to be competitive on price, our EBITDAR margins are as good as anyone's in the sector, and we've got the capacity there to compete, as we have done and will continue to do so.

In relation to cost savings, I'm not saying anything on this call today other than what we've already said, other than to highlight the fact that we've had a great track record of delivering cost savings over the last five years and there's no reason to see why we can't continue that track record.

Sreedhar Mahamkali

It's not because you've seen something internally that gives you more confidence? Should further aggression come through in the marketplace you'll be able to deal with it without eroding the margins? That's not how I should read it just yet?

John Rogers

No. We're not going to be detailing today our plans going forward for obvious reasons, we'll update more at the prelims in May in relation to where we see anticipated cost savings for the next financial year.

Justin King

One of the things we're proud of is that whenever we've talked about cost savings in the past to you, we've been able in the same breath to be able to talk to you about improving levels of customer service in store. We've always been clear that a cost saving that impacts on the customer experience is not a cost saving that we would be happy to take. Productivity is only productivity if you're able to deliver at least as good a result and ideally a better result, and I think we have a long and proud track record in that regard.

You asked a supplementary at the end about quantifying Easter. I don't think we can put a number on it, not at least of which because Easter hasn't happened yet. It's clear the build up is slow to Easter, but the build up was very slow to Christmas, and as you saw in our Christmas numbers came very late for the industry and particularly late for us, so we'll report on how that came through when we do our Quarter 1 Statement.

<u>Question 11</u>

David McCarthy, HSBC

Just a question on your brand sales, because your total sales are going backwards and you said food's going backwards, you've got own label that's going forwards so your sales of branded products are going backwards. So I just wonder what that's doing to your relationship with the branded manufacturers?

Then secondly, on the Statement you say you're outperforming your peers, but I just wonder are you really focused just on the quoted peers who you do seem to be outperforming? It just worries me a bit that the focus is on that and not on other competitors like Waitrose or Asda or the discounters. So can you comment and give us some reassurance that the way you look at the world is beyond just the quoted peers.

Answer:

Justin King

In answer to the first part of your question, I think your question is framed inaccurately Dave. If you take the full year just gone, underlying sales up slightly, total sales up because of course we have significant volume from new footage. Even with the shift into own label we're not seeing a meaningful decline in aggregate across brands. But as Mike, and he should comment further, has said ad nauseam, you take it one relationship at a time, and there'll be winners and losers in that, and of course for some brands what we're doing in convenience is very powerful. I'll come back to Mike on that, but I think it links through to your question about who you focus on.

In that regard, the comparison of the conversations those branded manufacturers are having with their other big customers, which are the main listed grocers plus Asda, it's a miles better conversation because that's why that outperformance is hugely relevant. If you start to move into the discounters of course you're talking about a largely own brand environment.

I can provide you absolutely with the reassurance that we look at all of our competitors proportionate to their importance to us. This conversation inevitably focuses on the publicly quoted ones because they're the ones that you comment on too, but our weekly meetings, our monthly meetings we have a very clear idea of who we bump up against, how much we bump up against them, whether we're winning or losing against them, and we look at the levers that we can and should pull competitively against each and every one.

But Mike should come back on the branded manufacturers.

Mike Coupe

One of the things I'm most proud of is the fact that our manufacturing partners rate us as their best customer, and have done for the last couple of years, and that's moved on immeasurably over the last five or six years. Why do they say that? They say it's because we're consistent in our strategy, we execute what we say we're going to execute, and that we're honest and open. And part of that honesty and openness is that we make it very clear that in effect we will make choices about the suppliers that we do business with, that's on the basis of their alignment to our overall trading strategy. That means that with some manufacturing businesses they've had a pretty good run with us over the last few years, and with other manufacturing businesses perhaps less so, but by making those choices we're able to obviously leverage those relationships.

David McCarthy

Okay and then just finally on Brand Match, are you totally committed to maintaining Brand Match whatever happens in the market? Because again there's a concern out there that if the competition do start to get much more aggressive on price, as I personally think will happen and I think a lot of people do, that if that happens you're giving control of your margin to the competition.

Mike Coupe

The short answer is yes, and of course it's all to do with the relativity of pricing, and as we've said already we will make sure that we are fighting toe to toe against our competition as and when and if they make any major price investment.

<u>Question 12</u>

Clive Black, Shore Capital

Good morning gentlemen. Two or three short questions from me. Firstly, going back to Andrew's point about Q4 being a blip potentially, would we be right to anticipate negative like for like sales falling into the first half of 2014/15 as a general guide rather than anything else given the market condition?

Secondly, just linking to Dave's question, would you expect to see manufacturers coming to you to talk differently about promotions going forward, and perhaps the other way round, would you be expecting to be talking to them more about price rather than promotions in your trading strategy?

And lastly, given all the hoo-ha last week, were you surprised that Morrison's wasn't more set up for maybe one or two punters to give it a go this weekend expecting some pricing, and does that mean that they're just holding back, or do you sense that it's more smoke and mirrors than anything else?

Answer:

Justin King

I suspect we're going to struggle to provide you any more help in terms of guidance, but I'll ask John what he can say helpfully on that, and then Mike should pick up on the manufacturer thing.

In terms of your last question, the reality is that you've all done this, I've seen several of you put notes out and we have too, it would be hard to argue that the experience of shopping in Morrison's last weekend was different from the one the week before their announcement. I know from my own experience going back to 2004 and Sainsbury's and the turnaround here, that if you're going to tell the world the world has changed, it's a good idea to ensure it's changed by the time you tell them or that it changes in pretty short order afterwards. I think that what we saw last week was a conversation which largely became a conversation about what this means for everybody else. The reality is that two years of very significant like for like sales declines, degear grocery retail P&Ls in a very big way, and that's what we saw announced last week.

John Rogers

And Clive just in terms of your question around 14/15 like for likes, unfortunately we're not going to be able to provide you any clearer guidance on that today, other than to refer you to the statement and the outlook comments where we expect the outlook for customers to continue to be challenging for the coming year, and obviously we'll provide a more detailed updated at our prelims in May.

Mike Coupe

And to some extent it's wrapped up in the answer I've already given on our relationship with our manufacturing companies. We've been on a journey for the last couple of years where we've been going to a simpler pricing structure and less promotional content, and that has meant that we've changed the way that we trade with some of our branded partners.

Now, as I've already said, those that come on the journey with us will benefit from that opportunity, and those that don't perhaps don't benefit from the opportunity. Of course we can't discuss retail pricing with our manufacturing partners, and never would, because that would be anti-competitive. So the reality is we would never talk about retail pricing, but clearly we do talk a lot about the cost of goods and how our manufacturing partners reflect the cost of goods in the way that they allocate money to people like us.

Clive Black

But correct me if I'm wrong, Mike, but you don't have to accept their promotions, do you, in that respect? I'm just wondering, and you've been around quite a while, and I just wondered if you think this is more of the same, bearing in mind we've gone to the top of the tree in terms of promotional participation and whether we're at quite a material inflection point where promotion comes down over price, or does it just bumble along at the same level?

Mike Coupe

I think again we've made the comment before, the reality is that for the last four or five years that the manufacturing companies have increased their overall cost of goods and they have put that back into a level promotional discounting in the marketplace, which has resulted in some of the wilder excesses that we've seen in some of our competitors. We don't believe that is customer-friendly in the medium to long term and have been going through a programme for the last couple of years of rebalancing our pricing and making sure that it's very clear and transparent to our customers, and looking to provide value in a different way. That is also reflected in the way that we trade with our manufacturing partners.

<u>Question 13</u>

Graham Jones, Panmure Gordon

Morning guys, just one question for me and it just comes back to this issue of whether this is a phoney war that we're in or a real war. You've talked about having lowered the price of milk, bread and eggs, but in terms of the fresh produce offering, if I look at where you are versus Tesco on a pack of three peppers, cucumbers, spring onions, tomatoes, today you're 61% more expensive than Tesco. So I'm sure this is a deliberate strategy and not something that's not gone unnoticed by you, so could you just talk about whether you think that is sustainable and what your thoughts on not price-matching on the essential everyday items is?

Answer:

Justin King

Well, we could spend many happy hours walking around shops and comparing price surveys if you really want to. We are 100% confident in our price position relative to Tesco and we monitor 14,000 lines, we've already talked about our monitoring of our pricing through Brand Match, which actually is a very good proxy for what customers really, really experience in our stores. So for every line that you can find where there might be a difference in one direction, I'm sure I can find plenty the other way round. The reality is, and I think a number of you have commented on this, our pricing relative to Tesco has never been sharper.

Mike Coupe

I think the other point that I would make at a higher level, and I think again one or two of you have started to do the maths a bit, if you look at the price moves in the last week or so of milk, bread and eggs, those three moves alone would account for over half the headline figures that our competitors have announced they're invested in pricing, and you might want to consider that when you're giving thought to the veracity of the claims about the scale of the price war.

Justin King

Thank you to everyone, we'll see you in about seven or eight weeks' time with our preliminary results. We look forward to seeing you then, cheers.