Sainsbury's

Second Quarter Trading Statement 2014

Wednesday 1st October

Mike Coupe, Chief Executive

Good morning everybody it's Mike here. Welcome to my first quarterly trading statement. I'd just like to start by emphasising that this is a quarterly trading update but we'll have a more complete strategic review at our interims on the 12th November so you can understand that we won't be able to answer or field all of your questions.

I'll now hand over to John who is going to take you through the headlines of the statement and then we'll open up to questions.

John Rogers, Chief Financial Officer

Morning all. I'm going to assume that you've read the statement so I'm just going to pick out the key headlines. So retail sales in the second quarter down 0.8%. Like-for-like sales for the second quarter down 2.8%. We recognise the ongoing trend of more frequent convenience shopping and, indeed, that trend has accelerated over the quarter and we also note that there is significant deflation in many areas of our food business.

General merchandise and clothing continues to perform well growing at around 6.5% in total. And indeed our clothing business has actually experienced double digit growth over the second quarter.

The convenience business continues to grow strongly at 17%, helped of course by the addition of 23 new stores in the quarter. And our online business has grown by about 7% over the quarter.

In the Outlook statement we made the observation that we expect the tough market conditions to continue going forward and therefore we are revising our guidance on like-for-like sales for the year such that we expect like-for-like in the second half of the year to be similar to the first half of the year.

It's also just worth noting in the notes to the statement where we observe that we don't recognise the trend as evidenced by the Kantar data which could suggest a material and linear decline in our sales performance over the 16 week period, we don't recognise that trend ourselves and we just made the observation that we've made in the past that it can be very misleading to look at the four-week data.

And with that I'll hand over to questions.

<u>Q&A</u>

<u>Question 1</u>

Edouard Aubin, Morgan Stanley

Good morning guys just two quick questions for me. First of all John regarding the comments you made on Kantar so should we assume that the like-for-like sales decline in September was more or less in line with that of July? If you could just provide a bit more colour on how things went throughout the quarter.

And secondly I know it's just a trading statement but if you could just take this opportunity to tell us how confident you are that you have the appropriate controls and processes in place when it comes to vendor allowances given what happened to one of your competitors recently?

Mike Coupe

I'll let John answer both those questions.

John Rogers

I think on the Kantar data I don't think there's much more to be said and we've always resisted splitting out four-weekly trading performance for the obvious reason, but we felt the need to comment in this instance because the Kantar data suggested a trend that we were not seeing. The Kantar data would suggest that we had a relatively bullish first four weeks of the period and a relative decline in the last four weeks of the period – that's not a trend that we ourselves saw in the actual data; so we felt it was just worth commenting on but I don't really want to get into breaking out four-weekly periods for the obvious reason that we've said in the past which is that four-weekly data can be very misrepresentative.

In terms of the questions on the accounting for promotional monies I can absolutely go on record as saying we are 100% confident in the way that we account for our promotional monies. I think there's a bit of a misunderstanding and a misrepresentation indeed in the sector that this is somehow a very subjective area, it is not. The vast majority of this is governed by very clearly defined accounting rules and regulations. We have checks and balances in our business that make sure that we account for things in the right way. We have a very rigorous process. In fact much of the process that we adopt is very automated, again giving us confidence that we are doing things in the right way and I'm 100% confident, as I said, that we account for things appropriately.

Mike Coupe

And I'll just reiterate that. As the former commercial director 84 days ago, I can reiterate the fact that we are rigorous in the way that we account for our monies and that we're 100%, I am 100% confident in the integrity of our accounts.

<u>Question 2</u>

Arnaud Joly, Societe Generale

Good morning guys. I have three questions. The first one: could you please give us some colour on the traffic trends and the average basket trends in Q2?

The second have you noticed any deterioration in your price perception over the last let's say few months and in particular in August and September?

And last regarding *Brand Match* you will simplify and now match Asda, which proportion of your food assortment will be concerned; and what is the level of price investment do you plan for this year and maybe for next year? Thank you.

John Rogers

Okay shall I pick up the traffic trends and then we'll probably both cover price perception and *Brand Match*.

In terms of traffic trends I mean the traffic trends that we're seeing are a reflection of the sector overall which is more customers shopping more frequently, buying what they need, when they need. And so what that means in supermarkets in effect is we've seen a reduction in transactions on a like-for-like basis within our supermarkets business. And indeed we've seen an increase in transactions on a like-for-like basis within our convenience business and that is indeed a reflection of what's happening in the sector overall.

In terms of price perception I would say it's interesting you look at many of the analysts' reports recently, I could point you to the Bernstein Report, I could point you towards the Morgan Stanley Alphawise Survey, but we have never been as competitive on price versus our competitors as we are today. So I can't comment directly on price perception, but price reality according to your own individual surveys in many cases reflects the fact that we have invested in price over the last 18 months and we are now more competitive on price than we have ever been.

Mike Coupe

And just to reiterate that point I mean I do know the perception data and the reality is that in the last five years there was a gap between ourselves and Tesco and that has now closed to virtually nothing in overall perception terms.

Just a bit of colour on the transaction numbers actually yesterday, I've just had a text from our Ops Director, we actually had a record number of transactions in our convenience business which kind of describes the shape of the way that the business is trading at the moment.

On *Brand Match* specifically we match 14,000 lines, that's roughly I think about 40% of our product portfolio so it's all of the major brands matched by barcodes.

<u>Question 3</u>

Jaime Vazquez, J.P. Morgan

Hi morning all. You mentioned that there is deflation in many areas of your basket, was there deflation in the basket as a whole? That's the first question.

The second one is can you make a quick comment on non-food whether it was positive in the quarter in terms of like-for-like?

And finally coming back to *Brand Match* I think you used to say that you were in more than 50% of the baskets cheaper than Tesco, I was wondering if you could quantify the difference in the number of baskets in which you are cheaper than Asda versus the number of baskets in which you are cheaper than Tesco? Thank you.

Mike Coupe

I'll take the last one first and then we'll work back up the list. We're actually 50% cheaper, or we were 50% cheaper on all of the baskets matched against Tesco and Asda, and we will be when we're matching directly against Asda significantly more than 50% of the time cheaper than Asda. So actually taking Tesco out is not as big a deal as you might think it is, which is a reflection of our relative pricing position. But we're confident, and customers get the fact that matching with Asda is absolutely the right thing to do, it's a customer-driven thing and it actually undoubtedly will have an effect on our price perception especially when they see that we're cheaper significantly more than 50% of the time.

John, I don't know if you can comment on underlying non-food like-for-like? We've had a very good quarter on non-food.

John Rogers

Yeah we had a great quarter on non-food and certainly increasing our market share we saw overall growth in non-food about 6.5% for the total sales level and indeed we saw like-for-like growth around 4.5%. So really strong growth in our non-food business reflecting the gains in market share that we've delivered over the quarter.

And related to your first question on the deflation, as you say certain categories in our food business with significant deflationary, produce is a great example. But overall for the entire business over the quarter we saw a little bit of inflation, probably somewhere between zero and 1% overall for the total business, albeit the exit rate for the quarter would be around zero.

Mike Coupe

Just a bit of colour on that the average item price has started to come down but basically the story of the quarter, in fact the story of the industry is frequency up/items per basket down and now an increasingly deflationary environment.

I guess the one other comment I would make which relates to consumer spending is that headline fuel prices, which hasn't really been covered today, are down by around 13p to 15p a litre. The average family buys about 30 litres a week so that in and of itself is putting £4 or £5 back in the hands of customers.

<u>Question 4</u>

James Anstead, Barclays Capital

Just two questions if that's okay. Firstly on the Kantar data clearly you don't accept that we should necessarily get too wound up in individual four-week periods which is understandable but I guess if we look back at 2013 you were pretty consistently gaining share and this year you've either been holding it or perhaps losing a little bit and the big picture question why do you think that is? Why have your share trends become less remarkable?

And then secondly from the online point of view you talk about your sales growth as 7% being low partly because there's a high level of competitor customer acquisition activity in the quarter so it sounds like you're choosing not to necessarily get too engaged in that, what's your logic behind that? Do you think there's better places to invest the money basically?

Mike Coupe

Yes I mean the realities of the Kantar data we're seeing an acceleration of the trends that we've already described and that's led, as has already been talked about, to a relatively slowing performance in the market place. That's why we're doing the strategic review and that's what we'll come back and talk to you about on November 12th.

As far as online, indeed all aspects of our business, we look to invest in things that make a return and in a world where people are spending money that's not making a return for them just to drive top line sales that doesn't make commercial sense to us.

James Anstead

Just to come back on the first one I can definitely see that the overall industry has slowed down quite significantly and a lot of challenges, but I just wonder if you've got any clear ideas about why it was that you were noticeably outperforming and now you don't seem to be, I mean is that because you think competitors got their act together more or is there something you were doing that was having a big effect that isn't so much anymore or are you executing less well or the market just isn't as well set up to play to your strengths as it was? Anything you'd particularly highlight there or you just feel you need to look into that more deeply?

John Rogers

James I don't think the data actually supports what you're saying. I mean I think clearly the market's got a lot tougher for the supermarket sector overall over the last 12 months and you've seen that reflected in the Kantar data. But if you look at our relative performance versus that of our supermarket peers, so if you looked at our performance versus, dare I say it, Tesco and Morrison's you'll see that the gap, the difference in our performance has been maintained over the last 12 months. So what we're seeing today is really an industry trend which is the challenge that the supermarket sector in isolation is facing against growth of convenience, online and discounters but we are maintaining a very healthy gap in our performance versus that of our peers.

Mike Coupe

You could never big up a -2.8% like-for-like but I think if you went back through the data and if you look at the trends in the industry overall I think you'd find it's one of the biggest gaps we've ever had to our two quoted peers.

John Rogers

But clearly the issue that we need to tackle going forwards is not how we perform relative to Tesco and to Asda but how we perform in the market overall and indeed of course that's why we're in the midst of the strategic review where, as Mike has described, no stone is going to remain unturned and we'll be updating the market on the output of that strategic review come November.

<u>Question 5</u>

John Kershaw, Exane

Morning guys I was going to follow up on the previous question but I think you're pretty clear there. Let's come back to *Brand Match* and then one other if I may. I suppose I understand what you're saying in that it's putting the customer first in matching versus Asda but Tesco probably has far greater range overlap with yourselves and clearly taking it out will save you money.

So, first of all, how much money do you think you'll save by removing Tesco from *Brand Match*? It obviously de-risks the business going forward, but how have you exposed yourself, do you think, from a marketing attack from Tesco going forward?

And then, because *Brand Match* was a brilliant practical marketing campaign, but do you feel more exposed now?

And then finally, just no stone unturned in terms of this strategic review, what won't be on the agenda? Is balance sheet leverage as a dividend, what will you not include?

Mike Coupe

We're laughing at that question and I'll let John answer, and we could go on for about hours!

So just to come back on *Brand Match*, we went out to our customers and we talked to them about how we can improve *Brand Match*. So it started as a customer thing, and we actually started with a pretty open mind about how we might move it forward into the future. I thank you for the fact that you've acknowledged the fact it was brilliant in the first place!

Absolutely, customers see Asda as the price perception leader in the marketplace, that's the core point that we're making, but they don't see that in Tesco and they benchmark us against Asda in their heads, regardless of whether a Tesco, Sainsbury's, Asda, Aldi shopper, that's the way they look at the marketplace. And by being much more focused, we can drive home that message, and it is surprising to customers, when they get the vouchers, that more than 50% of the time we are cheaper than Asda, and it is a very single-minded way of putting over the proposition. Of course it saves us an amount of money, but we will reinvest that money in our underlying base prices and that's one of the reasons why we've seen our prices come down relative to our major supermarket competition over the last period of time.

John Rogers

And John, just in terms of the strategic review, the strategic review will cover all aspects of our business, from how we interact with our customers, where we invest for the future, our pricing strategy, our service strategy, what we're spending in relation to capex, and of course it will also pick up dividend and balance sheet, as you would expect any strategic review to do.

John Kershaw

Coming to a different way of asking a prior question, if you were looking at the vouchers you issued, how many have been versus Tesco and how many versus Asda, regardless of what the consumer mind-set is, which I grant is, in some ways, the most important thing?

Mike Coupe

And that's the underlying point; it is more single minded and customers absolutely get it, and when you see the advertising breaking you'll see how we are positioning that.

On the point about cost and who's cheaper than and more expensive than, we wouldn't disclose those numbers, but actually the saving is probably not as big as you think it might be, which is probably a reflection, or is a reflection, of the relative price positions of the competition.

John Rogers

I was going to make that same point. Again, making reference to the recent pricing survey conducted by some of your peers, it does show our position versus Tesco is as good as it's ever been, and therefore Tesco, over time, was becoming increasingly irrelevant in our *Brand Match* equation. And the way that you guys have approached this is a very analytical way, as I'd expect you to, but the way that we've looked at this is from a customer perspective and actually cleaning up, making it very clear that we're benchmarking against Asda, actually, we feel, gives us much more traction with the customer than the previous dynamic which also included Tesco. And indeed, that's something that's very much supported by our colleagues in store and very much supported by the earlier customer reaction to the changes that we've made.

John Kershaw

And just finally, any comment on profits? I know you don't normally make precise comments, but consensus has come down a long way, 710 million PTB I think is the consensus. More recent numbers have come in below 700, and any thoughts there?

John Rogers

John, you'd expect to say it's a trading statement so we're not going to comment today on profit.

<u>Question 6</u>

Rickin Thakrar, Espirito

Hi, just back to that, would you be required to tell us at this stage if your profits materially differed from consensus forecast? Because based on the statement, would the lack of a differentiation there mean that you have no issue with consensus forecast?

The second question is: are you seeing any benefit from falling producer prices, is that supporting some of your recent price investment? Thanks.

John Rogers

I'll pick up the first question and Mike will pick up the second. We're obviously well aware of our reporting obligations and if we needed to update you on profits today then we would be, but we're clearly not.

Mike Coupe

And in answer to your second question, supermarkets are very, very good at passing on lower producer prices on to retail prices. So, a classic example of that would be fuel prices, which, as I've already said, have dropped by something like 15 pence a litre year-on-year, and that's the reason why we've seen retail prices coming down on core commodities. So it is almost a direct correlation on the way down between producer prices going down and retail prices going down.

<u>Question 7</u>

Mike Dennis, Cantor Fitzgerald

Good morning. I have several questions. One, I wanted to know how far you've got in price simplicity categories doing the price rebasing, and could you give us an update on that basis on your promotional participation and where you think the industry is going on that, given you're now realigning *Brand Match* to the new benchmark in the industry, which is Asda?

And just for complete clarity, Asda always say that their baskets, on whichever way they look at their business, and in any survey out there I guess as well, are about 6-8% cheaper than their competitors, so I guess everyone in this call is asking what is that gap now?

And the last question on fresh produce: what is the deflation in fresh produce now and when do you think that will start to come out?

Mike Coupe

I can't write them down fast enough!

On price simplicity, I think we're probably about 80% the way through our categories, which is why we've started talking about it publicly. As you might gather, you can't really talk about it until you can talk about all of it, so we're most of the way there through.

On promotions, broadly speaking, the participation is flat, in answer to your question.

John Rogers

I guess we would expect it, obviously, with our recent announcements on the move from a high-low to a medium-low pricing strategy, we'd expect that promotional participation to come off as we go forward, but certainly in the last quarter it's been broadly flat with the previous quarter.

Mike Coupe

And of course you made the observation about baskets, and of course we would measure baskets in exactly the same way. And as I've already said, if we look at brands specifically, our branded offer, when you shop in Sainsbury's for the products that you would buy within Sainsbury's, is well over 50% of the time cheaper in Sainsbury's than it is in Asda. But we've also acknowledged that we charge a slight premium for our own-label products because they're better quality and customers get that.

John Rogers

Yes, and it's an important point to note. I mean obviously there are lots of comments on the call on pricing and pricing strategy, but in a world where we are tackling the threat of the discounters, the need to differentiate our quality and service from the discounters is ever more apparent, and we've got a strong track record of performance in that area, both on the service side, frankly, and also, obviously, the quality of our private label products.

Mike Coupe

And on fresh produce, I think the headline deflation rate is something like 5%, but within that there are some very specific commodities, like potatoes, which are down far more.

<u>Question 8</u>

Sherri Malek, Bank of America Merrill Lynch

Morning. Just a few questions from me. Firstly, what was your convenience store like-for-like in the quarter given the comments you made?

Secondly, it would be great to have a bit more colour on the price cuts that you announced. You stated thousands, and I've read 12,000, and just some clarity there, if there are particular categories that you're focusing on initially.

And if you could give an indication on the average price cuts that would even be better.

And I know you're not commenting on profits, but would it be reasonable for us to assume that H1 is going to be 50% of full year profits as in the past?

John Rogers

I'll pick up the first and the last, and then Mike will pick up the question on the price cuts.

In terms of convenience like-for-like, they were just above 2% for the quarter, so strong growth reflecting the growth of our overall convenience business. The overall growth, as I mentioned, was around 17%, 2.2% of which was like-for-like growth, so that's a very positive message.

In terms of the profit split between H1 and H2, I'm not going to comment on that. It's a trading statement today and we'll update you on profit at the interims on November 12th.

Mike Coupe

And on prices, we're quoting 4,500 product prices reduced over the last period of time, but we're not quoting a headline percentage reduction.

Question 9

Rob Joyce, Goldman Sachs

Good morning, a couple from me. Firstly, on the guidance for the second half of minus 2% like-for-like, can you tell us how much deflation is assumed in that, as in the price volume mix of that, and why you see that improving in the second half relative to what we've seen in the second quarter?

The second one is just, in terms of the Kantar data, do you agree with the Kantar data, in the switching data that shows that Aldi and Lidl are where you're losing most of your sales to? And in that regard, what is your pricing level versus the discount and how has that been changing? Thanks.

John Rogers

In terms of the guidance, as you rightly say, the guidance for the second half will be similar like-for-like sales to the first half. In terms of the inflation component of that, as I alluded to earlier on, we saw overall inflation about flat, exiting the quarter. We see that trend continuing.

I guess the reason why the second half looks a little bit better than Q2 is because we've got some slightly softer comps in the second half, so if we remember, Q4, in particular, last year, was minus 3.1, so the combination is slightly better comps in the second half, which leads us to feel confident that the run rate for the second half will be slightly better than the exit rate for Q2.

Mike Coupe

And just to put a bit of colour on that, the deflationary trends that we're seeing are unlikely to change for the foreseeable future and it looks like the harvest this year will also be pretty good, the weather's been pretty benign, so I doubt very much if there's going to be any inflation in the future.

The data sources, everybody's fixated on Kantar and there are many, many data sources within our business and we looked at lots and lots of them. The reality is that if you bought Sainsbury's Basics' products, you would buy the cheapest shop in the marketplace and it would be considerably cheaper than Aldi and Lidl.

Rob Joyce

Okay, and is that what you would consider a like-for-like product, I guess, or on a like-for-like product basis, what's the pricing difference?

Mike Coupe

Well, there aren't like-for-like products so it's an impossible comparison to draw. The reality is that we're very confident in the quality of our Basics ranges, and if you were to shop in a Sainsbury's shop, you would get a full shop by buying our Basics' products and it would be considerably cheaper than the discounters.

<u>Question 10</u>

Niamh McSherry, Deutsche Bank

Morning. Most of the questions have been answered, but I just have one small follow-up question on the convenience business. Can you remind us which format you include in that £2 billion of convenience sales? And also, would you say that the price deflation that you've experienced in that business is similar to the broader business? Thank you.

John Rogers

In terms of the format question, I mean all our stores are around 2,500 to 3,000 square feet sales area, so there are 650 to date, so it's quite clearly broken out.

Mike Coupe

All the ones with Local over the door!

Yeah, I mean the pricing is relative in our business so the reality is that our convenience business would have seen the same levels of deflation as our main supermarket business.

Niamh McSherry

Okay, so the same levels of deflation but from a different base?

Mike Coupe

Yeah.

<u>Question 11</u>

James Tracey, Redburn Partners

Morning guys, three questions from me. The first one is on online sales growth. It was 7% in the quarter, 10% in the previous quarter, and going back to '12/'13, it was 20%, so a big long slow down over the years. Is that something to do with online generally reaching saturation, or something else maybe? Your insight would be appreciated there.

The second question is back to John Kershaw's question. In the past you matched the cheaper of Asda and Tesco and now you're matching only Asda. If Tesco were cheaper only 10% of the time, that's 10% of the time when you'd be giving away extra vouchers, so there must be a cost saving from doing that and can you reveal what that is?

My final question is on the financial strategy: what is the maximum least adjusted net debt to EBITDA that you would be comfortable to operate with? Thank you.

Mike Coupe

Shall I take the first two and John can comment on the third, or not comment as the case may be!

So on the Asda price match, I think we've already discussed this in some detail, we won't disclose the specific numbers. All I can say is it's not as much as you think, and that is a reflection of the pricing positions of the relative competitors in the marketplace. The two data points for us, which I'll stress again, are that more than 50% of the time our baskets and brands are cheaper than Asda's, firstly.

Secondly, our price position, as measured independently by you guys as well as by ourselves, on brands such as Tesco, is sharper than it has ever been and actually is currently below them.

As far as online is concerned, we're keen on building a sustainable business in the future, so we're not going to get carried away buying business in the short-term against the long-term objective of building a sustainable online business. Our view of the world is that that business will continue to grow, the market will continue to grow, probably not at the same rates as it's growing at the moment, you will see some level of saturation over time. But for the next period of time, for the next five years, all of the market data would suggest that online will become a bigger and bigger part of our overall business and the overall market.

James Tracey

Sorry, following back on that, would you say it's more of a 5-10% online market growth, or more 15-20%?

Mike Coupe

We'll talk more specifically about this on 12th November. You can get hold of the IGD numbers, it's probably as good a factual representation, they're pretty good at looking at market growth trends over time, and I think they're calling it about 12% compound – I'm just looking at John – something like that over the next period of time, but that's slowing down.

John Rogers

And James, your question on the financial strategy and balance sheet strength. Clearly we'll come on to comment more about that when we report the strategic update on November 12th. But we have lease adjusted net debt to EBITDAR ratio in the past, it's been very consistent as you know between 3.9 and 4.1, and we've said in the past that we're comfortable with that level of balance sheet gearing. But we'll certainly provide a fuller update to our thinking around dividends, funding strategy, as well as all other aspects of our strategy, when we update you on November 12th.

Question 12

James Grzinic, Jefferies International

Just a very quick one for John actually. Can you perhaps remind us of what covenants apply to your CMBS?

John Rogers

We don't disclose any of our banking covenants, as per previous comments. There are no specific covenants in relation to the CMBS in any case. But we certainly don't disclose the details of our covenants in any of our banking relationships, we believe those are commercially sensitive. But there are none in relation to the CMBS.

Question 13

Bruno Monteyne, Sanford Bernstein

Three questions for me please. In my head I'm trying to rationalise the -2% like-for-like, and I can clearly see inflation in the market, your own self-inflicted price drops. The one I'm not 100% clear on, whether you have a net switching loss to all other retailers, not just supermarkets? I think historically Tesco and Morrisons have offset losses to the discount. Is that so the case or are they starting to have substantial net switching losses?

The second one is, the strategy update is obviously a bit of new news today. What really triggered you to decide to have a serious strategy review, what was the main driver for that?

And the third thing is, on online growth I didn't fully hear or understand you explaining your relative performance. I think last time you had the results you referred to the new website launch and having some issues on not wanting to market it too much while you were transitioning, the element of pick-up points. Could you comment a bit more on whether there's any Sainsbury specific things that are holding you back right now?

Mike Coupe

Net switching loss, there are a number of data sources I've already talked about and you can read them as you see them. The reality is that, as we've already said, our relative performance to our quoted peers, the gap is about as wide as it's been since I can remember. Our performance is reflective of a slow-down in the market, but also a change or acceleration of the change in customer shopping habits, which again I think I've already referred to. It wouldn't be surprising to you that as the new CEO coming in I'll take the opportunity, particularly in the currently market conditions, of looking at the business and going through line-by-line and going through a detailed overall assessment of the business, and making sure that we're doing the right thing to ensure the sustainability of this business into the future. The reality is that the changing market conditions have ensured that we've had to think very, very carefully about some of the things that we might do in the future.

On online growth, I think I've already talked about it, we won't get involved in buying business for the sake of buying business. We want to build a sustainable online operation which is focused on delivering great service to our customers.

John Rogers

The reality is there's a huge amount of promiscuity in the online sector with customers shopping across one offer or t'other; and in a way what we want to do is to build an online business that's fit for purpose but for our customers, and therefore we've decided not to participate in what we see to be unprofitable customer acquisition activity evident in the market today.

<u>Question 14</u>

David McCarthy, HSBC

Right, a few questions. First of all on the *Brand Match*. I want to come at this from a completely different angle. How many lines were you matching on previously when you've got Tesco in the basket, and how many are you matching on now? Because I think that's where the issue is, that the actual number of pure brand overlaps with Asda is going to be quite small, I would suggest, and therefore relatively easy for you to do promotions on something like a family sized pack of Pampers to, if you like, gain the results in a favourable way. That's the first one.

The second one, you've given us the like-for-likes of your convenience stores and we've got the good news. Can we have the bad news as well and tell us what the like-for-like performance is in your core estate for stores more than two or three years old, so we can strip out all the online and refits etc.

Then thirdly, you have just cut your guidance by 2/2.5% versus what you said four months ago. That's equivalent to £500m of sales across a year. I'm quite surprised that you've cut it by such a large amount. What is it that's surprised you to lead to such a big downgrade in your sales in such a short a period of time?

Mike Coupe

I'll have a go at the first one and I think John will have a go at the next two and then I might come back on the last one just to round up. I'm not going to go into the detail of *Brand Match*. You're asking a question in a level of detail that we would never disclose. What I would say is that we match 14,000 products versus our major competition, and that's reflected in the way that we use *Brand Match*. You cannot game it in the way that you're describing, I think that's disingenuous to suggest that we would do that, it would be misleading. We give the opportunity for our customers to actually check their receipt and work out how we actually calculate the *Brand Match* coupon one way or the other.

So, the suggestion you're making is quite frankly not true. And we come at it from a customer point of view. I'll reiterate what I've already said: what customers say is that they see Asda as the price perception driver in the marketplace. By focusing on them it makes it clearer to our customers, and actually they are pleasantly surprised when they find out that an equivalent branded product basket in our stores we're cheaper more than 50% of the time.

John Rogers

And Dave, just in relation to your question on breaking out the like-for-like, obviously we don't normally do that but I'll give you a bit of a flavour. Obviously we said Convenience was a positive 2.2. That means that if you look at our core underlying uninvested estates you've got a negative like-for-like there of somewhere between 3% and 4%. If you do the maths on that that gets you to the average of minus 2.8. So, hopefully that gives you a pretty clear flavour.

In relation to why have we re-guided on sales I think there are two key dynamics: The first of which is deflation, which we've seen coming through quite significantly. And the second thing is an acceleration of the trends that we've witnessed over the last 12 to 18 months; the with more frequent shopping, the more convenience based shopping. As Mike has already alluded to those trends have accelerated in the quarter; we see that continuing through the remainder of the year and therefore we've adjusted our sales guidance accordingly.

David McCarthy

I guess I'm just making the point that I'm surprised that you're surprised that we've got deflation when it's been coming down the track for a while, and that these trends that you're talking about have been accelerating.

Secondly, I just want to go back to Mike's comments there on the *Brand Match* because you seem to be taking a slightly different approach when you talked about Basics; and earlier on you talked about price but you wouldn't talk about the quality of the Basics versus the discounters. But then when we talk about Own Label you start talking about that quality gives you something better. So, we all know value for money is based around that, around the mix between price and quality; and yet there doesn't seem to be a consistent approach to those two different groups of products.

Mike Coupe

I think that's completely rubbish Dave, if I'm honest. I did say when I asked the last question that we are confident in the quality of our Basics products. And not only that, it is underpinned by the values of our business. So, your assertion is completely untrue.

John Rogers

And just thinking in relation to your challenge on the pace of change in the market, as Mike has already alluded to, we're seeing a pace of change today unprecedented. In fact Mike has been in the industry for 30 years and this is the greatest pace of change that we've seen. I don't think anybody 12 months ago would have necessarily projected like-for-like for Morrison's in the order of minus 7%, and indeed a consensus like-for-like for Tesco of minus 6.5%. So I think the industry has changed a lot in the last six months; and that's reflected in the guidance that we've given today, or the re-guidance on sales for the full year.

Mike Coupe

I'd get all your notes out David and just dust them down and have a look at the predictions in the past.

David McCarthy

I think they've been negative for a while!

Mike Coupe

Probably not as negative as the underlying performance of some of our competitors.

Question 15

Clive Black, Shore Capital

Firstly, Mike, were you planning to have a strategic review all along then, given your last comment to Bruno's question about you're in the seat now and it's time to look at the business?

Secondly, there are a lot of questions on *Brand Match* today; but isn't it the case that price comparison or price matching is actually increasingly irrelevant now given the performance of Tesco with Price Promise and the slowdown in the performance with *Brand Match* in toe?

Lastly, I've listened to you being very robust on pricing today, talking about matching or been undercutting Aldi's entry prices with your Basics, you've talked about having a basket that is more often 50% cheaper than Asda's, you've talked about having this gap with Tesco. With all these things, with this price advantage that you now have, why are your sales falling at such a rate? And why are you losing market share to the whole industry rather than just a couple of other poorly performing quoted companies? What else is it in your business that isn't working if price is?

Mike Coupe

In answer to your questions in the order in which you asked them:

I'm not sure why it would be a surprise to anybody that coming in as the new CEO that I would have a look at the business in a full and complete way. And we've set out with the objective of talking to the market about that when we get to 12th November. I'm not sure why you should be surprised by that.

Clive Black

I'm not surprised, Mike, to the extent it's the first time we'd heard any sign of it until this morning. If it had been announced at the prelims or when you took charge that you were going to undertake a strategic review, which is totally and utterly reasonable, then that's fine. It's just it's the first we'd heard it from the company and I think that's probably why you've had the questions.

Mike Coupe

Well, I think it's perfectly reasonable so I'm not sure I can add anything to the communication of it.

As far as pricing is concerned I get your point. In the end our strategy is based on the principle of reducing price perception gaps between ourselves and our competition, and that's one of the reasons why we've launched *Brand Match*, and it's been very successful in doing that and improving the quality of values credentials. Underpinning our brand is exactly that headline strategy. And in order to be successful in the future we will need to amplify the stuff that makes us different, whether it's the quality of the products that we sell, the ranges of products we sell, the service we provide in our shops, and to eliminate the things that customers perceive as downsides, which are predominantly around price, as you've said.

As far as the relative performance to the market I think we've already commented in some detail to that. The reality is against our quoted peers our performance gap is wider than it's ever been. But nevertheless the trends in the marketplace have accelerated in the last period of time.

Clive Black

Okay, well we look forward to seeing the amplification of what's different on 12th November.

Mike Coupe: concluding comments

I think that's our last question so thank you very much for coming on the line this morning. And we obviously look forward to updating you on 12th November on our strategy for the business going forward. Thank you.