Sainsbury's

J Sainsbury plc

Tuesday 17th March 2015 GMT

Fourth Quarter Trading Statement 2014-2015

Mike Coupe – Chief Executive

Welcome everybody to the Sainsbury's quarter four update call. I'm joined by John Rogers, our CFO.

We talked to you in November following our strategic review about our plans for the future and some of the important decisions we'd have to take as a business. I'm not going to talk too much about that today, this is our Q4 trading update, but I will say that we are making good progress in all aspects of our review and we'll certainly give a full update on this in our prelims announcement.

I am pleased to be able to report a trading performance for Q4 in line with our guidance and ahead of our consensus expectations. There is no doubt that the market has been challenging and will continue to be so for the foreseeable future. Increasing levels of food deflation and competitive pressures on price have had a significant effect on all players since Christmas.

Given this market uncertainty, delivering the numbers in line with our guidance gives us confidence in our view of the market and how it will evolve. I am confident we have the right strategy in a tough market, delivered by a highly experienced management team.

I'd now like to hand over to you for any questions you may have.

<u>Question and Answer session</u>

<u>Question 1</u>

Francois Halconruy - Morgan Stanley

Hello Mike and John, I have a short question on your basket deflation. I think you were quoted this morning on the wire as saying that your basket deflation was at roughly 2.5% in the food business in Q4. Could you please give us a sense of how this has evolved throughout the quarter, and is it fair to say that in Q4 you've seen the full impact of your price investment, that was a proper quota for price investment?

And related to that, please, out of this 2.5% for your food business, what part of this do you believe is the result of the market deflation and what part is specific to your investments please?

Mike Coupe

I'll have a go with the first bit and maybe John can put a little bit more colour on it in terms of the second part of your question.

So I think pre-Christmas we reported between 0.5% and 1% deflation and we've seen that go to 2.5% in our food business and 2% overall. And it's a reflection of a combination, as you say, of underlying commodity price decreases and our investment above and beyond that, and particularly in our fresh food categories, where we've seen both significant deflation from a commodity point of view, but also a lot of our investments in the early part of the quarter were in core commodities, like our produce business and our meat and poultry business. So we have certainly disproportionately invested in those parts of our business and that's reflected in the overall quarterly deflation number. And broadly speaking, it's spread across the quarter, so it will be difficult to say that there's a trend in the numbers, because we made most of the big price investments in the early part of the quarter.

John Rogers

Yes, I don't think I've got a great deal to add to what Mike's already said. I mean in terms of breaking out the -2.5% deflation into the two components, obviously one component being input price deflation and the second component being our overall price investment, of course, which we talked about, £150m in the second half of this financial year and the first half of the new financial year. We're not going to break out that level of detail, other than to say that in terms of that deflation, what that means in practice is that we think our price position versus our competitors has never been better. If you look at the BRC food deflation data that would suggest that food deflation is running at about -1.5%, so our -2.5% over the quarter we think is a step ahead of the market and reflecting the great value that we're now offering our customers.

<u>Question 2</u>

Bruno Monteyne - Sanford Bernstein

Good morning, just a few questions from me on the impact of new space. At quarter three it was a bit lower than expected and I think you indicated it might come back in quarter four; it still didn't come back. Is there any change in the way you're opening up space and implicitly further slowing it down?

My second question is on your pricing strategy. Clearly, the EDLP strategy on the essential products is a hard one to communicate. Are you seeing any results yet on frequency or new shoppers you're attracting or price perception that are really resonating, any sort of internal data that helps give colour?

And the third one is on Netto, is there any information on how Netto is trading so far over the first few quarters? Thank you.

Mike Coupe

Shall I tell you the last two and I'll ask John to comment specifically on new space.

We're not saying anything on Netto other than we've opened the five stores: they're open; they're trading; we've committed to 15 stores by the end of the calendar year, and we believe we're in line to fulfil that commitment, and clearly at the next update, which is our prelims, we're likely to say a little bit more about that.

As far as our price strategy is concerned, we say on the face of the statement that we've seen an improvement in our units and the volume that sell year-on-year, which is the first time we've seen that for just about over a year actually. And we've also seen an improvement in underlying like-for-like customer transactions, both of which are, I guess you could argue, are green shoots in terms of the future prospects for the business, but that's in an environment which we expect to be deflationary for at least the rest of the calendar year.

And generally speaking, an improvement in volume and an improvement in like-for-like customer transactions are leading indicators and it would certainly, in terms of our underlying data, suggest that the price investments we've made are having a positive impact. And maybe one other number we'd pick out is the fact that the volume on the products that we've invested in, the 1,100 products we've invested in, is outstripping our overall volume growth, so that would indicate that that's having an impact on our customers.

Generally speaking, behaviour is ahead of perception, so people behave in a particular way, which we're beginning to see, before that's reflected in overall price perception and you would expect a lag of probably six to nine months before it comes through in real customer price perception, but in the end what we're interested in is behaviour and the behaviour at the moment looks like it's moving in the right direction.

John, if you'd just like to update on new space numbers?

John Rogers

Yes, so your question, Bruno, just to remind people, is obviously the new space contribution. We guided for the full year to around 2% and it looks like we'll outturn the full year at somewhere between 1.7 and 1.8%, so not a million miles off where we guided, perhaps a little bit lower. If you try and break that out a little bit, the supermarkets that we've opened have performed bang in line with expectations and, indeed, consistent with our overall estate, so no major trends there.

I think if you look on the convenience side, the one thing I would comment, and it will account for some of the shortfall, is that we've tended to deflate proportionately more in our convenience estate because it over indexes in fresh and clearly fresh is one of those categories that's seen marked deflation. So given that a significant proportion of our space that we're opening now is Convenience, that would explain some of the shortfall, but it's not a million miles out of what we guided at the beginning of this year.

<u>Question 3</u>

Sherri Malek - Bank of America

Good morning, I have three questions.

My first question is on the like-for-like transactions that you pointed out that grew. I just wanted to understand how precisely that trend has developed over the last few quarters.

Secondly, you've given the growth in online orders, but I just wanted to know the absolute online sales growth in the quarter.

And finally, on the price reductions that you made, which is off to an encouraging start, but do you think your plan is enough to reverse the current trend of the market share loss?

Mike Coupe

Shall I do the last two and I'll ask John to comment on the like-for-like transaction trend, because we're trying to get the graph out of the pack!

The headline on sales growth for online is 5.5% sales growth, but as we've said in the face of our statement, we're very encouraged by the increase in order numbers, 14%, and we haven't spiked the business with the sort of level of vouchering that we've seen in the market overall, so we're very pleased with that performance because that's a great underlying reflection in the offer that we give our customers.

We'll continue to monitor our price position relative to our competition and we've already talked about that briefly on the call. We are confident that we've made the right moves, we're seeing that reflected in underlying volumes, we're seeing that reflected in underlying like-for-like transactions, but clearly it's a competitive and dynamic market and we'll react accordingly as and when we see what other people do, but we're confident that our price position has never been better.

And actually one of the things which we haven't commented on directly, but one of the things that we have seen in the market, is a compression between the supermarkets and the mainstream discounters, and we've certainly seen our price position year-on-year improve by 9% relative to the discounters, so quite a significant reduction in the relative gap to the discount sector, but we'll continue to review our pricing policy in the light of what is an extremely dynamic and fluid market at the moment.

John Rogers

Did you pick up the online question as well?

Mike Coupe

Yes I did.

John Rogers

Just in terms of like-for-like transactions, as we've said, we have seen positive like-for-like transactions over the overall quarter. We wouldn't particularly want to break that down within the quarter, but it's fair to say that given the phasing of our price investment through the quarter, there is a direct correlation between our phasing of that price investment and the uptick that we're seeing in like-for-like transactions. So it's probably not unreasonable to say that we've seen the biggest uptick towards the end of the quarter as we've seen the benefits come through of the price investment that we've made. If you were to look back over the period of the year, like-for-like transactions have been largely negative, so this is a very encouraging sign that we're starting to see this uptick and, indeed, report an overall positive for this last financial quarter.

<u>Question 4</u>

James Tracey - Redburn Partners

Good morning Mike and John. Two questions from me.

The first one is would you be able to say what your internal basket inflation or deflation was for the full year?

And the second question is on the online growth, so 5.5% value growth and 14% order growth implies an 8.5% decline in the average basket. What's the dynamic happening there? Thank you.

Mike Coupe

I'll ask John to pick out the numbers on basket deflation.

In terms of the online business, there's an interesting dynamic going on which we've seen played out over the last 12 to 18 months, a combination in reduction of delivery charging, so a lot of competition on delivery charges and therefore lower baskets as a result of that. And also delivery passes, where we were relatively late to the market on delivery passes, which obviously takes away the need to spend £100 in our business, and a number of our competitors have seen that work through their system over the last 12 to 18 months. So that's what's resulted in the lower basket, basically there's less incentive for customers to put more into their basket, and I suspect that trend will continue for the foreseeable future, and things like 'click and collect' will only exaggerate it.

So the reality is the incentives to put more stuff in your basket because of a lower delivery charge are getting less and less, and that's a dynamic, as I said, that's been going on for a while. So we would expect that trend to continue.

But going back to the central pieces of our strategy, which is to satisfy our customers with our online offer, we're very pleased with the progress that we've made and we've talked in the last few weeks about rolling out 'click and collect' to more of our stores, which is one of the things which will enable us to do that.

John, would you comment on basket?

John Rogers

James, so just on the overall basket inflation/deflation for the full year, we see it as roughly flat, so we're clearly on a trend. So we talked about food deflation for Q4 already at -2.5%, we talked about deflation in the third quarter of between -0.5% and -1%, and then clearly at the start of the year we were more positive, but the overall net, that's broadly flat for the year, but clearly on a journey as we invest in price.

James Tracey

Thanks John, and just a quick follow up question. Are you able to say what your average basket size is online as well?

Mike Coupe

No!

<u>Question 5</u>

Rob Joyce – Goldman Sachs

Good morning Mike, morning John.

Just a couple, just to follow up on some of the comments on prices versus the discounters. I'm not sure if it's a different basket you're talking about being flat on the year, but is the implication there that on an equivalent basket the discounters have increased prices 9% over the year? And also could you give us the price gap now versus the discounter? I know it's closed at 9% but the actual price gap would be very helpful.

And then the final one is just in terms of your own price investments. Have all £150m gone through in this quarter or are we going to see further more incremental in the new financial year? Thanks very much.

Mike Coupe

Well I'm not going to comment on the absolute price of the discounters but inevitably the market has invested in products which are most aligned to discounters, the ranges that they carry, and you can imagine the focus of our price investment on the 1,100 products we've talked about are on the kind of products which directly match the discounters, and therefore you've seen a disproportionate amount of investment in those products and the gap has closed by 9%. And that's not because discounters have put their prices up, but relatively speaking, all of the mainstream grocers, not least ourselves, have put our prices down on core commodity products and that's closed the gap down.

There is still a gap, you're right, we won't comment directly on what that gap is, but we can see that reflected as we've said already on an improving volume trend which is the first time we've seen that over basically the last year and a bit. So we're encouraged by that and it's disproportionately in the sectors which we've invested in, so the 1,100 products that we've invested in we've seen the volumes increase disproportionately.

As far as the investment's concerned we made two slugs of investment, one in November, one in January which is broadly reflective of the £150m we talked about, but clearly as we go through the year we will continue to refine our pricing position and we're just understanding and experimenting as we go with where the sweet spot for our price position should be, given the market dynamics that we're talking about. So I'm not sure we can commit to what the number will be in the next year, simply because we don't know how the market dynamics will play out, but we've made a relative price investment of £150m and we are confident our price position has never been better.

John Rogers

I mean what we said at the interims, Rob, just to be clear is that that £150m of investment would effectively go in in the second half of this financial year and the first half of the new financial year and that remains the case. We'll provide a further update on the detail of that at our prelims in May in terms of the phasing of that investment.

Rob Joyce

Okay thanks very much. And just quickly to follow up, I guess the residual of focus in price investment in a flat environment on certain items is that the rest of the basket's gone up in price. Is that right and how has the volume response been in those areas, have you seen anything in that?

Mike Coupe

No, that's not right, I mean we're talking about -2.5% deflation, we sell what, 30,000 food products, so you can surmise that in the core commodity areas that we've talked about we've seen disproportionate amounts of deflation and clearly we will have seen deflation in other areas of the basket as well depending on the commodity areas, but deflation's been particularly prevalent in the fresh food areas like fruit and veg, like meat, like dairy products, that's at least in part a competitive response but it's also a reflection of the fact that commodity prices have come down and like any dynamic market there are ups and downs across the overall basket, but undoubtedly the direction of travel in the food business is down not up, -2.5% deflation represents roughly something in the order of £5 or £6 a week for the average family. So from a consumer point of view it's extremely good news.

<u>Question 6</u>

James Grzinic – Jefferies International

Yes, good morning. I just have a couple. The first one is can you perhaps adjust for Mother's Day what you reported? I presume Mother's Day would have helped within this Q4 reading compared to last year?

The second one very quickly for John, have you changed the way in which you're buying energy? Are you still buying one year forward on a rolling basis?

And lastly, still for John, what do you recognise consensus to be at PBT level for this year, and presumably you're happy with that?

Mike Coupe

I'll let John answer all three of them. I don't think we adjusted for Mother's Day but I'm now looking at him?

John Rogers

No. Look, we wouldn't, as we've always said in the past, we wouldn't comment on individual weeks or trading weeks so clearly there's a benefit to having Mother's Day in the quarter no doubt, albeit it Mother's Day fell on the Sunday of course which was outside the financial year and you do see a lot of people still buying Mother's Day cards on Sunday morning, so the benefit of that will tip into Q1 as well.

In relation to energy buying we haven't changed the way that we buy, we pretty much cover forward for about 12 months, that's consistent with what we've done in the past. Again it just gives us budgeting certainties. In the past that's meant that we are in the money, of course at the moment given the movement in energy prices that means we're slightly out of the money but we don't do it on a speculative basis, we do it on the basis to give us surety over our costs over the 12 months ahead. So no change in behaviour there.

And in relation to the consensus question we see underlying PBT level at 659 and given this is a trading statement of course we wouldn't expect to see that consensus change post this call.

<u>Question 7</u>

Niamh McSherry – Deutsche Bank

Morning all. I have two questions please. So the first one is given your comment on food deflation persisting for the rest of the calendar year can I ask does that mean you expect market growth to be lower for this full calendar year than last year, so any comment on that?

And then the second question was around promotional activity, so you commented on the value simplicity programme but can you give any numbers actually on reduced promotional activity or anything like that? Thank you.

Mike Coupe

Well, I'll take the first and let John comment on the second. So food deflation, we're saying at 2.5% we would expect it to continue at that level for the calendar year, it won't be until we, and indeed the market, annualises the price decreases that really started this time last year and effectively carried on all year. The big balancing factor is what will happen to volume, at the moment there are some signs that the market is returning to volume growth, it's been flat to negative for probably the last four or five years and I guess the unknown, the thing that we can't see as we gaze into our crystal ball is the effect that the increase in consumer expenditure will have on growth through volumes.

If you look at the historical norms, if you look at other post-recessionary periods it takes about six months for customers to first of all buy the things that they deferred like cars and a nicer holiday and perhaps some of the consumer durables that they'd forgone. They tend to eat out rather than eating in, at some point you start to see a trade up, a trade up in terms of buying more volume and a trade up in terms of the kind of things that they buy. If you look at the historical norms you might expect that to happen towards the back end of the year but I have to say I'm not holding my breath.

So all other things being equal given that deflation has decreased during the course of the year the underlying premise of your question is probably correct, the one thing I can't predict and we can't predict with any certainty is what's going to be the case as far as volumes are concerned and that might be to some extent a mitigating factor, but clearly you can reflect on the fact that you'd expect the competitive pressures in the market to be at the same level if not at a more intense level during the course of the next six to 12 months.

John Rogers

And Niamh just on the promotional participation, alongside the announcements that we made in October/November about moving away from a high/low pricing strategy to a medium/low pricing strategy in line with that investment that we made on behalf of our customers we've seen our promotional participation come off from around 36% down to 33%. So a 3% reduction in our promotional participation directly as a result of the pricing strategies that we announced at the end of the last calendar year.

<u>Question 8</u>

David McCarthy – HSBC

Yes, good morning.

Mike Coupe

David, we can't really hear you.

David McCarthy

Yes you can!

Mike Coupe

No, seriously, we can't. I'm not joking Dave, I can barely hear you.

David McCarthy

Okay, can you hear me now?

Mike Coupe

We can hear you now, yes, loud and clear thank you. You had yourself on mute.

David McCarthy

No, no I had a headset on which I've taken off and picked the handset up. So anyway here we go. The first question on pricing, coming back to that, what's the current gap between yourselves and Tesco? You say you don't want to give us your gap with the discounters, but can you give us a feel to what's happening between yourselves and Tesco and indeed, Asda, what the dynamic is there?

And then related to that, can you give us an indication of what percentage of your customer base is actually price sensitive and that would list price as one of the top two or three attributes of store choice?

Next question is coming back to deflation. Part of the industry problems have been that the big four all looked at themselves, they let the discounters pull away, we've seen a step back and you've talked about you've narrowed that gap by 9%, do you think that's enough? Do you think this was just a one off stepped adjustment, or do you think that we are going to have a prolonged, i.e. not just until we annualise but going beyond that for another two or three years, of continual price adjustments and therefore deflation will take place in the sector for the next several years.

And then thirdly, a very quick one. Any change to your capex guidance that you gave us for the year that's just ended?

John Rogers

So if I pick up the last one just very quickly, no, no change at all to the guidance.

David McCarthy

So we're looking about £900m then yes?

John Rogers

Correct, for this financial year.

Mike Coupe

Let me try and work out an order of play. So if we start with our pricing relative to our competitors we've talked before that actually as we measure it our prices are better than Tesco relatively speaking and have improved relative to Asda year-on-year. We won't talk specifically about gaps but we believe our price competitiveness has improved and that's reflected ultimately in the volumes that we're selling which is a positive leading indicator and secondly the fact that we're seeing like for like transactions growth.

I actually can't break out the numbers, we can find out the numbers I'm sure somewhere in one of our decks, we'll have the percentage of our customers who are particularly price sensitive. Certainly in the surveys, just off the top of my head that I can remember, price always comes top but depending on which customer base, which customer demographic, indeed which retailer's customers you're looking at, clearly it varies. We don't have the specific data on that, I don't have it off the top of my head but we can certainly supply that with you.

Is the price investment enough? To be quite honest, Dave, I don't know at this moment in time; time will tell. As I said already we've seen some encouraging signs, the question for us to address over the next period of time is what's the optimal price position for us both relative to our mainstream supermarket peers and indeed to the discount sector, given the other attributes of the brand, whether that's the quality of the products that we sell, whether it's the service that we offer or whether it's the broad range of products and services in our superstores.

So time will tell as to what the, in your words, optimum gap is, and I think the market is kind of feeling its way to that particular position over the next period, or certainly over the last few months and over the next period of time. But it's fair to say if you look at the headline data in the last two or three months there has been a relative shift in the performance of the mainstream operators relative to the discounters, but that's a very early read and time will tell. I think that's answered your questions.

John Rogers

I mean I'll just add some colour to what Mike's said, I mean clearly there's a lot of talk about price in the market at the moment and understandably given where the overall market is and we have a commitment to compete toe to toe on price in that market and I think the price investment that we've made over the last few months or so demonstrates that commitment, but of course the reality is, is that our business has got a heritage, not just about having great value for money but also great quality and great service and we forget that at our peril because of course it's those two factors about our offer that brings many of our loyal customers into our stores week in week out.

So as well as the price investment that we need to make to remain competitive in the market it's also important that we don't forget the huge investment that we're making in quality, we already have very strong quality credentials but we're stepping those on with the investment in the 3,000 product lines that Mike's always talked about.

And again service as well, we maintain a very strong service level in our stores. Occasionally we quote *The Grocer* 33 Survey, and we always like referring to that but it's a useful external benchmark that demonstrates that we continue to give a great service to our customers. And there's a lot of talk about price and that's understandable but it's important that the reason many customers come into our stores is a knowledge that they will have a great value for money offer, so very, very competitive prices, but in addition a great quality offer and a great service level.

Question 9

John Kershaw – Exane

Yes, good morning guys. You'll be glad to know most of the questions have been answered but I suppose I'm a little confused, I don't know whether you're being cautious or realistic, as you're right, the volume dynamics do seem to be a little bit better in the market, yet you're talking to a sort of sustained period of like for like, so perhaps we can push you off the fence and say where you think the momentum is because we are seeing better volumes for the mainstream versus the discounter so do you think we're getting to that tipping point or it is just a macro improvement?

And then perhaps to push you, everyone's been cutting prices, you may argue that you've been cutting them a bit sharper, but your relative trading momentum has deteriorated versus the mainstream, so why do you think you will win out as you overtly say in the statement?

And just a final one, more numbers based, what's your take on opening ambitions for 2015/16 because it does look like it's slowed a little bit in the back end of this year?

Mike Coupe

Well, I'll have a go at the first one and I'll ask John to comment on the second one. So what are the things that we know? I mean it's fair to say that as you've already reflected there is volume growth in the market overall, and there is some evidence to suggest there's a bit of a rebalancing between the volume dynamics in the mainstream supermarkets, not least ourselves and the discount sector and we would cite that our optimism is borne of the fact that we think we are disproportionately benefiting from the volume dynamic in the marketplace and we are seeing underlying like-for-like transactions improve. And both of those dynamics are very important leading indicators.

The big unknowns, I guess there are two: The first is whether, and if we look at previous recessions we will have seen a general up-trading in customer volumes as a result of feeling a little bit better off. Generally speaking grocery businesses are lagging consumer sentiment. At this point in time I don't think we're necessarily seeing that fully reflected. And I would suggest that, if previous history is anything to go by, we probably won't see that until the back end of the summer or into the autumn. There is roughly a six to 12 month lag between customers getting a bit more money in their pocket and that being reflected through supermarkets trading up in terms of volume, trading up through the offer within the supermarkets.

Indeed you could argue at the extreme the incentive to shop around, which we've seen very much at the heart of the business dynamics in the last period of time, to actually be reduced as customers get a little bit more money in their pockets, and therefore the trade-off between convenience and time and money actually works a little bit more in favour of spending less time and perhaps a little bit more money.

Of course the other big dynamic, which we would remain cautious about, is the fact that there is a deflationary environment with us for at least the next period of time, and certainly we believe until the calendar year end and possibly beyond that. And in that situation it's very difficult to read what the competitive dynamics will be. And I guess the other reason for caution is that there is going to be a very tough environment for all of us. But to the point you make, and the point on our trading statement, we believe we're in a position because of the strength of the brand, because our brand is a lot more than just price, it's about the quality of the products that we are offering, we're investing a lot more in that, it's about maintain our service levels, our service to our customers has never been better, our availability stats, our customer service stats, both independently externally measured and internally measured, and our investment in our other dynamics of our offer, whether that's online, whether it's the convenience offer or indeed other goods and services related to our business, all of those things give us confidence that over the next period of time – and by that I mean well beyond the next year or so – we will continue to outperform the market and outperform our peers.

But it's very difficult to read the market, and in the end the competitive dynamic is the thing which is most uncertain as we look forward.

As far as the new space is concerned I'll ask John to give you the specifics.

John Rogers

No change whatsoever to the guidance we gave at the interims. For the '14/15 financial year we are expecting to deliver around 750,000 square feet of gross new space. And in the new financial year '15/16, as we guided, we are expecting to deliver around 500,000 square feet of gross new space. So, as you highlight, we are stepping back our new space opening programme. And of course if you look at the breakdown of that new space in the '15/16 year the vast majority of that 500,000 of course is our new convenience stores; which again reflects the fantastic growth opportunity for our business.

John Kershaw

If I can just follow back on one; what did you say the facts, the knowns are, that you are disproportionately benefiting in volume terms? Can you shine more of a light on that? Because obviously it's difficult for us to see, but Morrison talking to more of a stable volume backdrop as well; Tesco market share trends or Kantar trends suggesting certainly in nominal sales something better than you've reported. So, how can you make that claim?

Mike Coupe

Well we believe, as I say, we're seeing volume growth and we believe relatively speaking to the market, given the amount of deflation that we have in our business and we have put into our business, we believe that's a positive trend relative to our competition. Now, that is our read of the situation. There is a lot of data out there, and to some extent the data sources that you are citing do conflict and do contradict each other. But I take it as a positive thing as we look forward that we're seeing a combination of both volume growth and underlying like-for-like transaction growth. Both of which are encouraging signs and we believe at least in part are a reflection of choices we've made particularly in the way that we've invested in price.

But time will tell. The reality is it's only ten weeks since our last trading statement so, we would be disingenuous if we said anything other than these are leading indicators and at the direction of travel seems positive.

John Kershaw

Are you winning volume market share? Because I think from Nielsen or various data points you can see whether you're actually winning volume share.

Mike Coupe

In the most recent past, yes.

John Kershaw

As in in the last month?

Mike Coupe

I wouldn’t comment directly. You can take what you want from that comment: in the most recent past, yes.

Question 10

Rickin Thakrar – Espirito Santo

Good morning guys a couple of questions. The first one to John, I guess you haven't really made a comment on profits in the sales statement this morning. You said you don't expect PBT to change from consensus. Does that implication mean you are not unhappy with the consensus forecast right now? Just to clarify that.

The second question is for Mike. You said you're competing toe to toe and you expect deflation to continue. Justin used to talk about mutually assured destruction if there was a price war. Have you prepared for that scenario if you expect deflation to continue for the foreseeable future?

John Rogers

In relation to profit unfortunately I'm just not going to say any more than I've already said, which is we wouldn't expect consensus profit numbers to change post this call. This is a trading statement so we're not going to comment on profit. We'll clearly provide an update on those numbers at our prelims in May.

Mike Coupe

And as far as competing toe to toe is concerned I'll stand by what we said previously. I think our actions have demonstrated that we are prepared to take it on to make sure that we maintain, if not improve, our overall price position. That is what we set out to do and that's what we've achieved over the last period of time, and that's reflected in some of the dynamics we're beginning to see in our business.

In the past there has been less rhetoric and less commentary than the most recent past about the meltdown in the industry. Clearly there are some scenarios at the extreme end of the spectrum which would put the whole market in a level of distress. And you could argue to some extent we've seen that played out over the last period of time. But we are confident that the actions that we talked about on November 12th and that we’re implementing give us a balance sheet strength and the cash to compete in all but the very, very extreme scenarios. That doesn't say that there aren't some extreme scenarios which would lead to, as I say, a considerable amount of stress in the marketplace. And you pays your money and you takes your choice on the potential outcomes of that. But we have absolutely set our business up to make sure that we can do everything that we need to do to compete in all but the most extreme scenarios that we can think of.

Question 11

Charlie Storey – Macquarie

Hi guys, most questions have been asked but just one really quick on you commented on Bloomberg TV this morning saying that you do not see like-for-like rising in the foreseeable future. Is that a change versus your guidance? And I guess that reflects your expectations of deflation, both self-inflicted and market; but is that a change do you think?

John Rogers

No, I don't think so. We said at our interims, given the dynamics in the market, that we foresee like-for-likes being negative for the foreseeable future. We're not changing that guidance today. It's a reflection of the deflationary environment that we're in. We made the notes in our outlook statement that we expect that deflationary environment to continue to continue for at least the calendar year, if not beyond. So, there is no change to guidance there whatsoever. I think all that we've said today is entirely consistent with the guidance we gave at our interims a few months back.

Mike Coupe

Yes I think one or two people have commented on the fact that we're doom mongers; I think we're just being realistic about the market prospects. The reality is we're seeing 2.5% food deflation; that's largely reflected in price investments that were made in the back end of last calendar year. And therefore you would expect that 2.5% deflation to continue. And unless there's a significant turnaround in customer volume growth – and you could argue that's possible; I think it's unlikely but it's possible given the consumer environment and customers having a little bit more money in their back pockets – it's a straightforward fact that you extrapolate the numbers through, and you would expect the underlying like-for-likes in the industry to be negative certainly for this calendar year and possibly even beyond that.

So it's, we would argue, a straightforward function of the arithmetic that is already out there. I don't think it's doom mongering; I think it's realistic and it's important that we set our business up on that basis, and that we make the right choices both for the short-term, the medium-term and the long-term.

John Rogers

What is encouraging in the sense is we set our strategic plan at our interims a few months back and we gave pretty clear guidance then as to how we saw the industry unfolding over the next few years or so. What we can say is so far so good in the sense that everything that we've delivered today is bang in line with where we said it would be.

We're confident that we've got the right strategic plan for the business. We think we are being realistic about the industry backdrop, which is clearly tough; but everything that has happened so far is in line with our expectations. It's great to see some encouraging signs of the price investment in the form of volume uplift. But as Mike has highlighted, it's very early days and it's a very uncertain market. So, it's right for us to remain cautious. Other than to say we told you what we were going to do three or months ago; we've done that so far and we've delivered in line with the expectations and the guidance that we've given you.

Mike Coupe

Thank you very much everybody and we look forward to talking to you at our prelims in May.