<u>Sainsbury's Supermarkets Ltd - Transcript</u>
<u>First Quarter Trading Update – 08.30am</u>
<u>Wednesday 8th June 2016</u>

Mike Coupe
Chief Executive
Good morning everyone and thank you for joining us on our Trading Update for the First Quarter 2016/17. I am sure by now you would have read our announcement and we''ll be referring to that during the course of the rest of this call.

Our performance over this Quarter highlights we are delivering our strategy and that customers are responding well. It is a challenging market, but Sainsbury's is well positioned. Our core business offers customers choice, quality, great service and a clear value proposition and we continue to invest in Sainsbury's branded products across both food and non food. We have a clear and simple trading strategy focused on lowering regular prices which is resonating with our customers and we will continue to lower the prices of everyday products and we will never be more competitive on price.

Our proposed acquisition of the Home Retail Group will accelerate our strategy to be a multi-channel, multi-product retailer with fast delivery networks. We have 45 minutes for the call. I will hand you over to John Rogers, our CFO, who will talk through the numbers and then we will move to our Q&A.

John Rogers
Chief Financial Officer
Thanks Mike, morning everyone. I will take you through the financial highlights for the first quarter. So we made a solid start to the year with total ex-fuel sales growth up 0.3% for the quarter. Like-for-like ex-fuel sales were down 0.8% obviously reflecting of course food price deflation which we are measuring at roughly food price deflation of 1% in the quarter. And we have achieved like-for-like transaction growth across all our channels so supermarkets, convenience and of course online. And total volumes across the business are also up year-on-year.

We have continued to simplify our trading offer and our pricing position in the quarter with the removal of Brand Match in favour of low regular prices. And of course that is reflected in our promotional participation levels which are reduced again. So we are now tracking at around 23% in the quarter compared to if we look at the same time last year, overall promotional participation at 30% so significant year-on-year reduction. We continue to invest in the quality of our products and this quarter we have improved and expanded our allergen-free range for example. Clothing has grown at around just under 5%. General merchandise has grown at just over 5%. The Bank has also performed well. Convenience business has grown and online channel has grown by about 8% and 13% in terms of orders. So we are achieving good growth across the various channels in our business. And of course very importantly our in-store operational metrics have also improved from last year and we were named the Grocer 33 Store of the Year for the 20th time this year.

So overall a solid performance for the quarter and continued demonstration of an execution of our strategy that Mike and I outlined to you in November 2014.

So with that I will hand over now to questions.

Q&A Session

Question 1

Bruno Monteyne, Sanford Bernstein
Good morning. Just a few questions. I noted you started closing some convenience stores. Any comment you want to give on that, what is driving that and what the plans are?

Could you also comment a bit on the like-for-like volume growth? I think your language is a bit careful. I think I read in it that you have on a like-for-like basis a volume decline. Is that mainly due to your different promotion strategy or what else is driving that?

And the third thing is clearly a lot of growth is coming from general merchandising growth, clothing growth. Last year you had a very good second quarter of clothing growth. Can you just comment a little bit as we are going into the second quarter, how the general merchandising clothing comps are looking like and whether that will impact your performance in the second quarter this year? Thank you.

Answer: Mike Coupe
I will have a go on a few and I am sure John will chip in. Starting with the third point. I guess we are 3 or 4 days into the second quarter so I think to be quite honest it would be impossible to comment on any specifics and you would not expect us to. And of course the nature of many aspects of the clothing and general merchandise business are driven by particularly weather and seasonal conditions. So it is fair to say and maybe this will reflect on the comments about the volume profile. It has been an odd quarter in the sense it was a relatively early Easter, 3 weeks ahead of last year. The weather in April was pretty terrible compared with the previous year which was pretty sunny and then of course we have had a bit of a burst of nicer weather towards the backend of the quarter and again there is a slight idiosyncrasy that the timing of the May Bank Holiday was a week later this year than last year. So that has all had a colour on the overall profile of sales, particularly around seasonal products.

But the underlying performance of our clothing and general merchandise business continues to be strong. And there is no reason why we would not believe that that strength would continue through this quarter and indeed into the foreseeable future. So it is certainly an engine for growth in the business. It sits at the heart of our overall trading strategy and we are pleased with the performance. But it would be pretty premature to make any predictions about what is going to happen over the summer and beyond, other than to reflect on the fact that it has been a continuous growth story for the last couple of years if not before that.

By implication, the like-for-like volumes have declined slightly. As I say there has been some slight volatility around the trading performance over the last quarter for the reasons I have already outlined, but actually we don’t think it is a reflection of the underlying trading strategy. We have been pretty clear, we will continue to invest in price, we will continue to simplify our offer and our view of ourselves is that our prices have never been sharper and indeed the corridor of pricing between the major four grocers has never been narrower and I think there was an article published this morning I think, John Kershaw published something this morning which again would demonstrate the fact that we continue to be price competitive and will continue to be so. So by implication there is a slight like-for-like volume decline, but we don't think that is reflective of the overall pricing strategy and as far as convenience stores are concerned maybe John you can?

Answer: John Rogers
Yes, I will come onto convenience stores. Just to build on Mike's point around the pricing strategy. You think about what we have called value simplification. This is something that we have of course been embarking upon over the last 12 to 18 months and indeed if you looked at our performance over the last financial year we were one of the only major supermarkets to retain our market share. So we certainly would not attribute the slight like-for-like volume decline we have seen in the first quarter to our trading strategy. Far from it. We think our trading strategy is actually allowing us in the longer term to relatively outperform our competition. So we are very confident of that.

And in relation to the closure of the six Convenience stores, it is just part of an annual rationalised process we go through where we look to streamline our estate and take the opportunity to close underperforming stores. We have done six in the last quarter. We will probably do one or two in the next couple of quarters ahead, but that is just part of the standard process that we go through each year where we just look at store performance and if there are any that have continued to underperform on an annual basis, then we take the opportunity to close them where it is sensible.

Bruno Monteyne
Thank you.

<u>Question 2</u>

Niamh McSherry, Deutsche Bank
Morning. Yeah just one left from me which is on online groceries. Can you give any indication of where average basket size is now and whether there is I guess a limit to the basket size, the planning basket size that you would like to be delivering?

Mike Coupe
I think, I can't quote the numbers off the top of my head, I don't know if we quote the numbers publically. I am now looking at John?

Answer: John Rogers
Yes, we are talking about an average basket size of between £90 and £100 or so. I think it is fair to say that we have seen a 3-4% decline in the basket size year-on-year but again a reflection partly of course of the price deflation, but also of course of our delivery path dynamic. More people signing up to delivery path, so an increase in the number of deliveries which slightly lowers the average basket size. But we are not uncomfortable with those trends it is to be expected. And the overlying growth of our online business of 8% and 13% in terms of transactions is a very positive direction to travel.

Answer: Mike Coupe
And can I just say, as John says you would expect that trend to broadly speaking continue, particularly around penetration of delivery pass and of course things like click-and-collect. So over time I suspect you will see that continuation of the opening up between headline sales and order growth.

Further question

And maybe just one more. You kind of referred to the weather and obviously weather impacts both your kind of clothing sales and food sales. But is it fair to say that on the grocery side of things, recent weeks has been better obviously than say the month before?

Answer: Mike Coupe
I wouldn't comment specifically. You can see the market data. You can draw your own conclusions, but it has been, I would suggest, a slightly more volatile quarter than we are used to and I have kind of listed the factors that have influenced that. The early Easter certainly had an impact just by virtue of the fact you have got less time to sell Easter and seasonal products. It is fair to say I think the temperature differential April on April year-on-year was something like 10 degrees, so there was very significant differences in the temperatures and that again would have reflected in the underlying market performance. And you are right, broadly speaking, May has been slightly better than it was the previous year. So that has kind of played out during the quarter and of course, as I have already referred to, there is a peculiarity in the sense that the May Bank Holiday also slipped a week year-on-year which again has some influence on profile of sales.

So your underlying premise you could see from those trends that I have described is probably right, but you can pick it out of the market data as well.

Further answer: John Rogers
But just to be clear, I mean if your question Niamh if have we seen an improvement in performance in the last couple of weeks, versus the quarter, clearly we would not be drawn on reporting periods, but I don't think it is fair to say we have seen a necessary shift in performance over the last couple of weeks versus the quarter overall.

Further question:
Okay, and sorry one last one then. Would you expect to improve your like-for-like performance relative to the market from Q1? I think we just talked about the fact that you had slightly negative like-for-like volumes in Q1 whereas the market is positive. And I know it is just one quarter so is that the expectation for you or are you happy with this level of performance?

Answer: Mike Coupe
So actually against the broad basket of market measures we think we have outperformed the market so there is a very specific piece of data which is published in the market, not least the Kantar data and there is clearly a mismatch between the read-through from the Kantar data and our overall performance. And we have said before, we don't think it is an accurate representation necessarily of our performance. So the market response last week was not necessarily reflective of our underlying performance and you can see that in terms of the numbers we have published today. So we have outperformed the market we believe in this quarter. We can see that in the various data sources that we have seen and one headline number which the market tends to focus on is not reflective of our performance overall. So we have said and will say again that we believe our underlying strategy will outperform the market. We are confident in what we are doing and that has been demonstrated in this quarter. And as I have said it is not necessarily reflected on one market source for one period which is effectively what seems to have driven the market in the last period of time.

Further question

Yeah, I understand there are lots of, well different ways to define the market performance and outperforming the market, but you don't have a problem with negative like-for-like volumes, is that what you are saying?

Answer: Mike Coupe
No of course we would like positive like-for-like volumes which is self evidently the case and as we look forward we would strive to see growth in our transactions and growth in our underlying volume performance. The market has had a marked step down in the quarter, quarter on quarter. So Quarter 4 last year relative to Quarter 1 this year. You could argue there is probably about a 1% performance differential for the market overall. And in that context we believe we have done well and overall we have outperformed the market. So as I said, these things are relative and absolute and of course at a headline level you would like to see volume growth, you would like to see sales growth. But underneath it all we have outperformed the market.

Further answer: John Rogers
And Niamh if you took the Kantar data at the headline level, you know one could, through the math, a fair way, a like-for-like number of around -2 and indeed many of you have hypothesized on that basis. So clearly the reporting today of a like-for-like number of -0.8 is a significant differential to that you could infer from the Kantar data. So I think on that basis that is the information that gives us confidence and supports the view that we have outperformed the market in this first quarter.

Niamh McSherry
Okay, thank you.

<u>Question 3</u>

James Tracey, Redburn
Morning Mike and John. On that Kantar point, would you perhaps be able to explain why there is a differential so why the Kantar is wrong because historically it has been a pretty good guide? Could it be due to the impact of the carrier bag charge or perhaps online or Convenience sales which are not accurately picked up by the Kantar? I am not sure if you can answer that.

Mike Coupe
Give the second question and then I will comment on the first.

Further question
Are you able to comment further on consensus around PBT, it appears to be around £585 million?

And the third question is, looking at the trends in Convenience, there has been a pretty steady slowdown over the last couple of years really. So if you could comment on what is causing that slowing up? Thank you.

Answer: Mike Coupe
On the Kantar data we have said numerous times before, we don't see it as an accurate representation of the market necessarily simply because it is based on a panel and that panel data is not always accurate. So I think if you took it over 52 weeks, it is probably broadly representative but even over a 12 weeks' period it has proved to be quite inaccurate. Interestingly, the Nielsen data was published the day before which was probably more accurate and everybody seems to have ignored that. So there are a number of data sources. We obviously have access to the IGD data that you don't have. That gives us a fairly accurate reading, in fact a very

accurate read to the market and then the public sources are Nielsen and Kantar and they were actually pretty contradictory if you looked at the data that was published a week or so ago. So notified to the underlying premise that Kantar is always accurate in terms of reading the market, it is broadly directional and because it is based on a panel and not based on actual sales data, certainly the IGD is clearly based on actual sales in any given week. I will ask John to talk about consensus.

As far as Convenience stores, of course the base is getting higher. So every year we have added a significant number of shops. So even if you went back only a couple of years ago, we were celebrating our 400th store and then not that recently or not that long ago we were celebrating our 500th store. So clearly the base on which we are measuring the sales growth is getting higher. But that is reflective of the overall performance of the business has been a slight slowdown in the underlying performance of the Convenience business. But nevertheless it is a growth engine for the business and we will continue to invest in new shops.

Maybe John can comment on consensus?

Further answer: John Rogers
James just on consensus, we have actually collated a market consensus and reported that on our website, that is based on 11 analysts and that number comes out at 520, albeit it is a relatively broad range going from 443 at the minimum to 585 at the maximum. So we have actually reported that on our website. But of course you know the usual comment. Number one, this is a Trading Statement. So we are not going to make any comments on consensus. Number two, this is our Q1 Trading Statement so we are very early in the year, a lot of the year ahead of us and even more reason why we would not comment. And number three, we are in an offer period and we are well aware of our obligations from a reporting perspective in that offer period. So we will make absolutely no comment whatsoever on consensus, other than to say we have mathematically collated the number and reported it on our website.

James Tracey
Okay that’s helpful, thanks.

<u>Question 4</u>

Nick Coulter, Citi Research
Morning gents. Three from me if I may. Firstly, could you pick apart deflation for us? I know people have different definitions, but it seems that you are perhaps at a slightly lower level than the market? That would be the first one.

Answer: John Rogers
Maybe I could comment on that. There are multiple definitions of deflation in the market. I can tell you the basis on which we calculate our number. Obviously I can’t necessarily comment on what others say and how they calculate their numbers. But first and foremost, way we calculate our number is basically an average selling price methodology, so we take our products, we weight them according to volume. We look at the average selling price per item and that gives you the deflation number. Now in effect of course there are mixed effects in there as well which may slightly understate our deflation number. So customers may feel that deflation is slightly higher than the -1% in our stores, but it is quite difficult to strip out that mixed effect. The one thing we can say in terms of our price position when we look at our price position now versus where we were three months ago, you will have known that we said three months ago that our price position has never been more competitive. It

also, the comments we made that the corridor within which the major supermarkets are operating for a price perspective has never been narrower, that remains the case today. Against all our internal metrics actually, our price position today is ever so slightly keener than it was three months ago. So relative to Tesco, relative to Asda, we have got a slightly keener price position, not by much as it is a very narrow corridor, but it is certainly keener and indeed I think that is supported by some of the external surveys out there. So I think deflation numbers can be a little bit misleading because we are all reporting on a slightly different basis. However, I can give you comfort that we always calculate ours on the same basis so we are talking a -1% number this quarter. In the previous quarter it was -1 to -1.5 so deflation is easing, number one. And number two, all of our internal data when we look at our price comparisons is based on about 14,000 products versus Tesco which suggests that our price position versus Tesco, versus Asda is ever so slightly keener than it was three months ago.

Further question
Thank you, that is helpful. And then perhaps two more slightly more strategic questions. On the Convenience portfolio, it looks like you might be ever so slightly like-for-like positive in the Convenience stores, but harking back to James' question, it looks like you are not really seeing that much differential growth in your Convenience stores when perhaps that would be viewed as an avenue of secular growth in the market. Could you talk to that a little bit and whether you are happy with the performance in your seesaw portfolio? Then I have one on Asda if I could follow-up after that. Thank you.

Answer: Mike Coupe
Yeah we are happy with the performances. As I said already, it is a maturing estate, so clearly when a higher proportion of the stores were younger you had a level of cyclical growth, of maturing growth which gradually comes out of a system as the estate gets larger. And of course the rate of store openings was 100 the year before last, 69 last year. We have talked about 40-50 this year. And again the profile of maturing space therefore by definition will slow down relatively speaking.

I guess the other point to make, which we have made before is the mix of the Convenience estate is biased towards fresh foods and that is where there has been a higher level of deflation and price investment. And so by definition the sort of deflationary trends we have talked about tend to be higher in the Convenience shops. It is not significant, but it is a factor in your overall headline numbers and headline rate of growth. We continue to see it as an attractive avenue for growth. It is very much about consolidation of the market but nevertheless, as we have said before, we won't just invest in stores for the sake of chasing a set of numbers, we will always be very disciplined in our approach to capital investment in that sector and refer to that in terms of our Prelim Statement and how we will drive our investment profile if we look forward.

So we are reasonably comfortable with the performance of the business. It has been differentially impacted by some of the overall deflationary trends in the marketplace. And we will be disciplined in our capital investment, but nevertheless we see it as an avenue for growth in the future.

Further question
That is very clear. And then just a final one on Asda if I may, harking back to the kind of so called milk and banana wars a few years ago. And I think as a team you were famously quoted as saying you would not feed the monster. And that you would follow....

Answer: Mike Coupe
I don't remember that. Anyway which particular monster were we feeding at the time, I don't know.

Further question
Well I will leave that. But the indication was that you would follow Asda down on price. I guess the question is, could you talk about how you would react if there was a major price move in the market in the coming months and how that would square with your medium term strategy to kind of take the oxygen away from the discounters and the price differential that you think you need given the quality service and range aspects of your offer? Thank you.

Answer: Mike Coupe
Yes, on the headlines there is much noise in the marketplace, there always has been. Virtually no week goes past without some kind of announcement of press coverage around the latest round of price wars and we have said and we will say again, that we will maintain our competitive price position. Our price position is in effect never been sharper, albeit a slight improvement as John said quarter on quarter. And the price corridor between the big four grocers has never been narrower in the way that we measure it. And we would seek to maintain that overall price position.

In terms of our price strategy we have again been very clear. We want to simplify our pricing, we are moving towards everyday low prices, our promotional participation is now 23%. It was not that long ago it was pushing towards 40%, so we have made significant moves. We have simplified our offer through removal of Brand Match and invested in underlying prices. And I have got a list of mainstream staples that we have invested in and we will continue down that road. We have talked about targeted price investments. So we are not going to take a blanket approach to price investments. We have got a pretty good idea of where price investments have leverage of size, volume and shop and transactions are concerned. And we will continue to use our data to hone that price investment strategy. But of course there is always a market context for these things and we will continue to look at what our competitors do and refine our pricing position accordingly. But we know what we are doing. We are confident in what we are doing and we have been going on this journey for a number of years actually and in the end we have seen a continuous outperformance against the market against that pricing strategy. You can see that in volume growth and transaction growth during the course of this quarter.

Further answer: John Rogers
And I think it is fair to say that given we have a differentiated offer and all the other components of quality, service, availability instore standards, we won't necessarily be driving the price agenda. That said, we will compete toe to toe. So if the other supermarkets move then we will likely follow. And that is absolutely very clear, we have to remain price competitive in this market. But we have also said very clearly that we think the right pricing strategy for the supermarket sector overall is not to face its guns on each other but actually to look at how we reduce our pricing differential versus the discounters. And I strongly believe that a targeted approach in the way we have articulated in the past on those products that the discounters do sell, will enable us over time to reduce the differential and also reduce the pace of growth that we see in the discount sector. And I think that needs to be the focus of the pricing strategy going forwards.

Further answer: Mike Coupe

And on the specifics of the quote that seems to have gained some traction last week, I don't know there was any public utterance around price investment, I think that was the interpretation of what was said. Whether or not it was said privately is another matter. So I don't think you can necessarily read through what was said publically by the Wal-Mart people that there is going to be some kind of price war. So I would refer you back to what was actually said as opposed to what was interpreted to have been said.

Nick Coulter
Thank you very much, I will leave the CMA to someone else, thank you.

Question 5

Edouard Aubin, Morgan Stanley
Good morning Mike and John. Just three small follow-ups for me. The first one, sorry to come back on the Convenience stores, but can you just confirm that the like-for-like has turned negative in Q1?

The second question is, I know John you said the estimate to calculate the mix effect was difficult so I understand that. But could you please give us a rough estimate of what you think the mix effect was in Q1?

And then in terms of online, you had a small deceleration. I think you grew 14% in Q4 and 8% in Q1, could you just give us, is there any specific reason for the deceleration and are you on track for roughly 10% growth for the year basically?

Answer: Mike Coupe

My voice is giving out and I am about to give a speech to the IGD so I will ask John to answer all of those questions.

Answer: John Rogers
Just on the Convenience like-for-like you are right Edouard, it has gone slightly negative in the quarter, that -0.5% or so, that is correct. In terms of the mix effect I referred to, we are not going to split that out because it is complex and difficult. But we report deflation on a consistent basis which is what we do quarter on quarter and that is -1% for the last quarter and what was previously -1 to -1.5%. So we won't split out mix effects, but we will report consistently going forwards.

And I think your last question was on online growth. I think it is important to note actually, if you look at the 2014/15 financial year, so two years ago, our online business grew at 7.1%. If you look at 2015/16, i.e. the last financial year, our online business grew at 8.8%. And if you look at our first quarter of this year, our online business grew at 8.1%. So I would argue that reflects a very steady trend of circa 8% growth over the last two years.

Edouard Aubin
Okay that is very clear, thank you.

Question 6

David McCarthy, HSBC
Morning. A couple of things. First of all, I hear your comments on Asda Mike, but if you bear with me, if Asda did decide to go very serious on price which I think they are, and they dropped their margin by 200-300 basis points, how low would you be

prepared to take your operating margin to stay pace with them? Would you be prepared to go below 1% even in the short term to stay pace?

The second thing is, I just wanted to talk about how you are measuring price. Because I have a real problem with the traditional way the price is measured where people just go out and do a 100-line basket, 1,000-line basket, a 10,000-line basket. Clearly there are two things wrong with that. One, there is no weighting on what your competitors are doing and you will never ever be able to do that. So if you are cheaper one week on chicken and Tesco and Asda are cheaper on beef, then the sales mixes change on an ongoing basis. But also we have now got the situation where you have dropped your couponing, your Brand Match so the real price being paid whatever the redemption rate was, was not being reflected I am assuming previously. But Tesco perhaps most importantly, Tesco is giving a rebate at the tills. And so you might be saying you are narrowing the price gap, and I am just making numbers up. You were 2% more expensive, you are now 1.5% more expensive. But if Tesco is giving 1% rebate at tills, actually they have become 2.5% cheaper than you. Do you understand the point?

Answer: Mike Coupe
Yes, I do understand the point and without getting into the invention of the difference engine for the grocery industry that tries to take all of these things into account. If I try and explain the way, we look at it Dave and hopefully that will give you some colour. In the end I think we have said it to you before, we measure 14,000 lines, we weight that on the basis of our volumes. That is not necessarily reflective of the market volumes because clearly we overtrade in some categories relative to others. And we make those comparisons year-on-year. As John has already said, in effect that means there is a price effect and a mix effect, albeit the price effect is far more dominant than the mix effect if you take the mix effect, it is relatively small in the overall scheme of things, but it does exist. And the way that we measure it does include the effect of multi-buys and promotions. And in fact we have two indexes but the one we focus on is the one that is reflected on what customers will experience at the till, excluding vouchers.

So to your point, you are right, you can then overlay any number of other effects and vouchering from any sourcing, whether that is direct marketing voucher, whether it is the equivalent of brand match vouchers or indeed product specific vouchers that customers may get through whatever source. So when you are talking about price deflation or whether we are talking about the way we measure price, it does not include the effect of vouchering. But of course the way you have described it, the vouchering effect can be very different depending on how a customer actually behaves. And we can see that in the way we measure our data and we measure customer satisfaction and indeed the impact on individual customers on a week to week, day to day basis.

Further question
So just so that I can get my mind round this, you are saying that when you do your price comparisons, all the comparisons are weighted to your basket and reflect your promotional weighting and you take no account of Tesco's rebate at the tills?

Answer: Mike Coupe
You are correct, yes. The one point I would make which is in the end the key driver is customer perception of pricing and our customer perception of our pricing has got better continuously and is better in the quarter. So if you take the outcome as being how customers perceive your pricing, our measure of price satisfaction which we talked about at our Prelims is better than it has ever been or better than it has ever

been since I have been in this business. So if the outcome is, is our price perception improving, that is in the end probably the key measure.

Answer: John Rogers

And I guess Dave your point, if in the end that rebate at the till is in and of itself driven by the differential in prices at the headline level, and if the differential in prices at the headline level has never been smaller, then by implication the rebate at the tills will be a smaller component. So if we look at the headline level of our prices versus Asda and Tesco, and again look at John Kershaw's survey, but you can look at other surveys in the market, our pricing position in our view, has never been keener.

Further question

This is I think where we in disagreement, because I think those simple line count surveys, because they don't reflect any kind of weighting or the rebate your competitors are giving at the tills, which you don't know about, are not giving a true reflection?

Answer: Mike Coupe

Again, we could argue this until the cows come home. We do lots and lots of other direct marketing which you also don't know about. So you know we are confident in our price position. It has never been sharper and we continue to deliver value in other ways, but the underlying direction of travel is to reduce the amount of noise and clutter, focus on everyday low pricing and we have seen that reflected in volumes, transactions and customer satisfaction, which we believe is the right thing to do in the medium to long-term. Of course there are many other factors that come into play and you are right, that is not taken into account our overall price surveys, but equally, you don't know and you can't measure what we also do in the form of direct marketing and the influence that may or may not have on our customers. So the nature of brand match style coupons is that they have a relatively large impact on a relatively small number of customers.

Further question

Okay, so my first question about if we did get a checkout 77 type move by Asda, what is your stomach for going the fight on that?

Answer: Mike Coupe

We will deal with it day to day. I mean we said it in 2014 and it feels like we are having the same conversation we were having in November 2014. We will do whatever we need to do in terms of maintaining our price competitiveness. We don't believe that this will happen. We don't believe that the market will behave irrationally. However, there is always that possibility and if that possibility arises, we will do whatever we need to do to retain our price competitiveness.

Further answer: John Rogers

Just coming back to this point on price surveys David, of course there are a million different ways of slicing and dicing these numbers. But the one thing I would say is that the approach we take is consistent. So we apply the same approach we have applied the same approach consistently over the last 3 to 4 years. So what we can say is that we are seeing an improving trend in the way we measure it and that is consistent quarter on quarter and that would suggest an improving trend in our price position, albeit not much to be fair over the last quarter, but nonetheless a little bit of improvement versus Asda and Tesco.

And secondly, to Mike's point, if you look at the external data which at the end of it is the key sum, the price perception of our customers and that is improving, going in the right direction. So that is what gives us confidence if you like, stepping back from the detail of how all these price surveys are measured and collated, that we are doing the right thing for our customers.

David McCarthy
Right, thanks very much, leave it there.

<u>Question 7</u>

Sreedhar Mahamkali, MacQuarie
Hi good morning all. Just one question, most of my questions have been asked. Just one quick question in terms of the deflation comments you made. Clearly John I think you have consistently talked about a range of numbers for deflation 1.5-2% as you said in Q3, Q4 1-1.5% and now you are talking circa 1%. What is the driver of this deflation please? Is it just commodity deflation coming out or anything else happening here?

Answer: John Rogers
Well anything over the annualisation. So remember this market has been deflationary for the best part of two years. And of course the other big drivers are commodity prices and exchange rates. It is fair to say that exchange rates have moved a bit the other way, they were relatively beneficial to importation of products this time last year and that is gradually working its way through the system. So again we have said consistently. Certainly said at our Prelims we would expect deflation to continue into the autumn. I think looking much beyond that is extremely difficult because in the end the market's inflation or deflation will be driven by a combination of commodity prices and exchange rates. And I don't have a crystal ball and it is impossible for me to say how that will play out over the next period of time. But certainly one of the moderating effects is just the simple annualisation of price deflation in the last year or so.

Sreedhar Mahamkali
Okay, very good, thank you.

Operator
Due to time restrictions that concludes the call today.

Closing remarks

Mike Coupe
Thank you and look forward to speaking to you all again at our Quarter Two Statement at the end of September if not before. Thank you very much.

End