Sainsbury's Supermarkets Ltd – Fourth Quarter Trading Statement 2015-16 - Transcript
Analysts Presentation – 08.30am
Tuesday 15th March 2016

Mike Coupe
Chief Executive
Good morning everyone and welcome to the Quarter Four Sainsbury's Trading Update call. I am joined here today by our CFO, John Rogers and I will ask John to run through our Quarter Four highlights in a moment and then we will hand over for the usual quick Q&A.

I am obviously aware that a number of you will want to ask questions about our proposed bid for the Home Retail Group, especially with the deadline extension expiring this Friday. Of course John and I will try and be as helpful as we possibly can with our responses, but until the Company issues any further formal communication to the market, we will of course be limited in what we can say.

So now I will hand over to John.

John Rogers
Chief Financial Officer
Good morning everyone. So I will just take you through the highlights of the Q4 Trading Statement. We have a strong trading performance this quarter, delivering like-for-like ex-fuel sales of plus 0.1%, the first positive like-for-like in over two years and beats consensus. Our supermarkets saw both positive like-for-like transactions and volume growth, giving us further encouragement that our strategy is working. We continue to invest in the quality of our products, promotional participation levels reduced as we continue our move towards lower regular prices and we recently announced that we will be phasing out the vast majority of multi-buys by August of this year. And our in store operational metrics are made industry leading and we have now won 16 Grocery 33 awards in the year recognising this performance.

Finally, we continue to see good growth figures in our clothing, general merchandise and Bank businesses, and also of course from our Convenience and Online channels.

So with that, I will hand over to Q&A.

Q&A Session

Question 1

Bruno Monteyne, Sanford Bernstein
Good morning Mike and John. Mine is about your pricing approach towards excluding multi-buy promotions, looking at what you are doing also on the other data. It is quite stark. But what does it do for consumers' price perception? You know, how confident are you it isn't going to put your whole pricing approach out of whack with what all the other supermarkets are doing? Do you have any more colour on that please?

Answer: Mike Coupe
Yes we have been quite thoughtful about doing this over a number of years. So we started out on what we call the value simplicity journey, something like three years ago. So well in advance of me formally taking this job. So we have got a pretty good idea of where it works and how it works, and what we have seen through this quarter is a continuation of what we have seen as a trend over the last year or so as we have executed the strategy which is broadly speaking seeing volume growth, and secondly seeing significant, actually pretty significant, transaction growth over this quarter in particular. And that is a reflection of the way that customers change their shopping habits. So they are tending to shop more frequently. We would argue it has made the shop more convenient and they are overall buying more volume. You see that reflected in their price perception over time, but actually you see it more reflected in volume changes almost immediately. So you do see a change in behaviour and the perception will lag what you see in the volume response when you change your approach to promotions. So it is quite interesting to see the way it works. But you can take it as read that we are serving more customers and we are selling more volume that we think it is, broadly speaking, working in the categories where we have done it.

Answer: John Rogers
And very specifically we are seeing an improvement in our price satisfaction index. So again it goes hand in hand with the fact we are simplifying our messaging to our customers and seeing an improvement in our price satisfaction index and seeing the volume increase that Mike has referred to, suggests that it is a strategy that is working.

Further question
And as a follow-on maybe from that, would it be right to assume that actually it is easier to manage your commercial margin in that way, having less of the multi-buys and also it would have an impact on waste, because you would have less volatility from the multi-buys, therefore an easier to manage waste bill? Would that be fair assumptions?

Answer: Mike Coupe
Yes underlying the sort of process of value simplicity has been a lot of work we have undertaken with our suppliers, particularly the large package goods suppliers. And it is fair to say that we have transferred a lot of money from lump sum payments into underlying pricing. And that is part of the success of the strategy and clearly that makes it easier to manage margins week in, week out for obvious reasons. So yes the short answer to the question is it is working from that point of view, it makes it easier to run the overall mix.

Answer: John Rogers
The second piece was on the waste, and as we said before, of course if you reduce the volatility of promotions coming through your supply chain, you have got better understanding of demand and supply and you can manage that better. And that results in reduced waste. And we talked about our cost saving plan over this year and of course we upped our numbers over the year. And part of that was we are seeing better waste performance than we predicted. And in part that is driven by the movement as Mike has described as taking the promotional monies and putting those into underlying price.

Further answer: Mike Coupe
And perhaps the other dimension is by the smoother the volatility of demand, we have also improved store availability, so again you know we would argue

underpinning our performance is a great operational standards, whether it is a service we offer our customers or whether it is the availability of products on the shelf. And again, we pointed to the Grocer 33, it is not the most scientific measure, but if you take it over the year, you can see that our product availability is significantly ahead of our mainstream competitors. So again it shows that the machine is working pretty well.

Bruno Monteyne
Thank you.

Question 2

Stewart McGuire, Credit Suisse
Morning gentlemen. Just on the online. Three sort of questions all related to online. Can you say how much it contributes to your like-for-like numbers?

And then on basket size, you say that online sales grew 14 per cent, orders 19 per cent. Can you give us an idea of how big your baskets typically are?

And then finally, you are going to or maybe you have commissioned your dark store. Can you give us an idea of how that is going and what percentage of your orders will be going through that? Thank you very much.

Mike Coupe
Shall I do the last one and John can do the first two.

Answer: John Rogers
Just in terms of the online contribution to like-for-like sales contribution, 0.8 per cent. And secondly in relation to the basket size, average basket size is just below £100. We have seen a reduction in our average basket size, principally driven of course by an introduction of our delivery pass. That explains that dynamic. But as you see at a headline level, a significant increase in our overall sales and our transaction numbers.

Answer: Mike Coupe
And on the point of dark store, we haven't actually opened our dark store yet and that won't happen until the third quarter of this calendar year. So expect that to happen sort of September/October time. And one of the pleasing aspects of our online performance is we have managed to drive this growth through our underlying infrastructure, underlying base. So again it drives the fact that we have managed to make the business operationally more efficient over the last year or so and therefore been able to squeeze more out of the lemon and that is good from an operational efficiency point of view.

Further answer: John Rogers
It is worth just drawing out Mike's point there because often, we understand obviously the desire to strip out online sales and bricks and mortar sales. But the reality is from our perspective, we are a multi-channel business and of course we fulfil the vast majority, all of our online sales through our in store pick models. So our supermarkets in that sense are at the heart of our online operations and hence, when we look at the growth in that channel, it is sweating the supermarket asset even more intensely because we are seeing that growth effectively come through our supermarket assets.

Further question
Could you give us over what percentage it might be click-and-collect versus home delivery?

Answer: John Rogers
If we looked at say click-and-collect and still click-and-collect is a growing part of our business, but roughly speaking about 6 per cent or so of our online sales are through click-and-collect, which continues to grow. And again it points to the in store pick model as being potentially the operating model of choice over time because we think a significant percentage of customers in the end will also like, as well as those that like home delivery, there will be a significant percentage that like the click-and-collect model and therefore the ability to fulfil click-and-collect obviously lends itself to an in store pick model versus the dark store model.

Stewart McQuire
Brilliant, thank you very much.

<u>Question 3</u>

Sreedhar Mahamkali, Macquarie
Good morning guys. Three questions and maybe one short follow-up. One is deflation in the Quarter, are you able to, you have already mentioned in your remarks, what was in the Quarter and Year which will isolate commodity deflation within that?

Second one, I think you have helpfully in the previous calls given certainly in Q3 anyway, general merchandise up 5 per cent, what was in Q4 please?

And last one is clothing. Again from Q3 to now was plus 6 in Q3 and now looks like plus 10. Is this related to additional space coming in or is there a general like-for-like acceleration here? Those are the three, thank you.

Answer: John Rogers
On deflation Sreedhar, I think we have seen food deflation in the quarter of somewhere between 1-1.5 per cent. So a slight reduction deflation. I think we called out 1.5-2 per cent at Q3, so we have seen that soften slightly through the quarter. As you said, in the past, an element of that is obviously deflation and an element of that is price investment. I would not want to strip that out specifically other than to say there are those two components.

Further question
On commodity deflation John, is that the moderation from Q3 to now or is it what? Which one is moderating?

Answer: John Rogers
It is probably an annualisation of pricing investments that would explain the differential at this point.

In relation to, I think your other question was on general merchandise growth. What I can give you is the total non food growth for the quarter which is about 7.8 per cent. So within that obviously you will have got the clothing growth of 10 per cent. So you can put the general merchandise growth at roughly 5 per cent. Delivering an overall total non food growth of 8 per cent. And your third question?

Further question
Clothing?

Answer: Mike Coupe
Yes clothing broadly speaking an acceleration back to the long-term trends that we have seen. It is fair to say that in the apparel business, the summer and the autumn were pretty dire because it basically rained for six months. I think what you are seeing is a slightly more comparable set of weather. So year-on-year it was probably a slightly more sensible quarter from that point of view. And it is just a reflection of the fact that we are doing a brilliant job from improving the quality and improving the value of the products every season. So I think it is a great business for us and continues to grow. But I suspect the anomaly is more of a fact that the summer and the autumn were pretty dire because of the unseasonal weather.

Further answer: John Rogers
And just to answer your question specifically on the like-for-like component versus the space component on non food. The vast majority of our non food growth, driven through like-for-like performance and that is the same for clothing as it is for general merchandise which is also pleasing because it demonstrates our ability to continue to sweat our assets and put more volume through the same amount of space. So pretty much all of the 8 per cent growth we are seeing is coming through in like-for-like.

Further question
Okay last question now. Just in terms of clothing and GM, can you give me an idea in terms of how substantial they are please in terms of ex-fuel sales, percentage of ex-fuel sales?

Answer: John Rogers
Give or take, somewhere between 10 and 15 per cent.

Sreedhar Mahamkali
Thank you very much.

<u>Question 4</u>

David McCarthy, HSBC
Morning gentlemen. Just a couple of very simple and quick questions. The vouchers at the till you issue, has there been any change in the number of vouchers that you have been issuing or has that been running at steady state versus this time last year?

And similar question regarding the redemption? The reason for the question is that when you are talking about deflation, you are coming out with a figure that is below what some of your competitors are coming out with. So I am looking to triangulate where the disparity is and what the relative price positioning is. Because no doubt you are going to say you have got the best price position you have had versus the leading competition, you know, in an age. And yet they are giving a bigger deflation number than you. I am just trying to square the circle.

Answer: John Rogers
I understand where you are coming from Dave. In terms of vouchers at the till, we have probably if anything seen a reduction in our vouchers at till. So it has again been part of our value simplicity strategy to really simplify our value offer to our customers in terms of redemption vouchers. We offer fewer vouchers, but the redemptions are broadly similar, broadly in line with what we have seen previously. In

relation to your point about deflation, and obviously I can't comment on how our competitors derive their number, but our number is between 1-1.5 per cent deflation. What I can say is that when you look at our pricing metrics versus our competition, we continue to operate within a very, very narrow band with our major supermarket peers. And that has been true for the last three or four months. And indeed if I reference you to two external pricing surveys, both the Exane survey and the Morgan Stanley Alpha Wise survey, both would point to a relatively sharpening of our prices in February. So I accept the maths you are trying to triangulate but I can't help you there, but I just point you to those different data sources that suggest we remain very competitive on price and that is certainly supported by our internal metrics.

Answer: Mike Coupe
And we do report on a consistent basis Dave, so we don't, ever since we have been reporting, we report in exactly the same way.

Further question
I get that. What is your basket then? How do you measure? How many lines? Is it a front basket or back basket as well? How many different lines in your measure?

Answer: John Rogers
Typically when we are looking at our own pricing indices, it depends who we are comparing ourselves against, but if you look at comparing ourselves for example with Tesco, about 14,000-15,000 lines in that basket, so we think it is a pretty comprehensive comparison of pricing. And as we said, our internal metrics would suggest that we are maintaining our price position versus the competition.

Further answer: Mike Coupe
I hear there are a series of distorting factors and I think even the Government has difficulty working out exactly what inflation is. It depends whether you use last year's volumes or this year's volumes and of course we only know effectively our volume mix and that will be different to our competitor's volume mix. We tend to over trade in for instance fresh foods and therefore we would put more heavy weighting on fresh foods than perhaps some of our competitors would. So there are many distorting factors in the overall basket, but we can say is we report on a consistent basis.

David McCarthy
Right good, thanks very much guys.

<u>Question 5</u>

Rickin Thakrar, Haitong Securities
A couple of questions. Are you able to comment on current consensus that you have listed on your website of 573 pbt, could you comment on that first?

And secondly, on the multi-buys that you are trying to phase out, could you give some specific examples where you plan to phase that out? What types of categories you specifically feel you need to change the most?

And that is it, thanks.

Answer: John Rogers
Perhaps if I pick up the question on consensus. Obviously this is a Trading Statement, so we are not going to make any comments on profitability in this Trading Statement today. We will of course update the City in due course at our Prelims in May.

Answer: Mike Coupe

And if you look at multi-buys, it is a journey we have been on for a fairly extensive period of time. If you took this time last year, we would have taken for instance three for ten pound promotion off our meat business and again that is reflected in our underlying meat, fish and poultry performance. More recently we have effectively announced we have removed multi-buys from categories like confectionery, soft drinks, crisps and those types of categories, so perhaps the more impulse driven categories. And that is more or less the last staging post of the journey we have been across the year. But if you look at our business, we have done it in a systematic way and we have done it in a thoughtful and controlled way. So as I say this is the next stage of the journey is the more impulse driven grocery categories.

Answer: John Rogers

I mean the thing that was really pleasing about the reduction in multi-buys that we have done that relative to the market. The market is still operating at a level in the mid to high 30s and we have managed to reduce promotional participation to below 30 per cent and yet we are still seeing outperformance in our sales lines. So we are really encouraged by our ability to simplify our value proposition to our customers and see the benefit of that accordingly.

Rickin Thakrar

Okay, thank you very much.

Operator

We currently have no further questions

Closing remarks

Mike Coupe

Crikey that was quick, thank you very much everybody. Look forward to seeing you all soon. Thank you.

End