J Sainsbury – First Quarter Trading Statement
Tuesday 4th July 2017 – 8.45am

Mike Coupe
Chief Executive
Good morning everyone and welcome to the Sainsbury's Quarter One Trading Update Call. And I am joined here today by our CFO, Kevin O'Byrne.

We are pleased with the strong performance across the Group, driven by our differentiated strategy and our leading combination of quality, value, and choice across food, general merchandise, clothing and financial services.

I am going to ask Kevin to run through some of our Q1 highlights in a moment and then we will hand over to you all for the Q&A.

Kevin O'Byrne
Chief Financial Officer
Thanks Mike and welcome everyone. I will take you through the key numbers and given that we have changed the way we report, I will also make it clear exactly what the new definitions are.

Turning first to like-for-like sales growth, retail like-for-like sales grew 2.3 per cent over the quarter. This is a combined Sainsbury's and Argos number and is effectively pro forma given that we didn't own Argos in the comparative period last year. It compares with the combined number of 0.3 per cent that we reported for Q4.

We have also disclosed total sales growth in three product categories, general merchandise, clothing and grocery. And this is how we now run the business. And we have given history on a consistent definition for Q3 and Q4. In all cases these are combined Sainsbury's and Argos sales, although the majority of the Argos sales fall into the general merchandise category. Again these are pro forma numbers for the comparative period last year.

Touching on the grocery first, we have seen an acceleration over the Quarter with like-for-like transaction growth across all our grocery channels and total sales growth of 3 per cent. We have worked hard with our suppliers to improve our price position versus competitors and have seen lower inflation in the quarter than the market average.

We are also very pleased with online growth of 8 per cent and Convenience growth of 10 per cent. General merchandise grew 1 per cent outperforming the market. There are a number of moving parts behind this. Argos continues to deliver good growth over the quarter well ahead of a slowing non food retail market, despite some impact from lower TV sales as we anniversaried Euro 16.

Fast track participation continues to grow and really comes into its own over periods like the warm weather we had during the quarter when we were able to provide sand, paddling pools and barbecues etc on the same day. However at the total growth level we closed another 36 Argos and Homebase concessions during the quarter and while we also opened 36 Argos stores in Sainsbury's, 17 of these were replacements. So a net reduction overall. In total we have now closed 78 Argos stores and 84 Habitat in Homebase concessions over the last year. Overall this has been a drag on the headline sales growth rate. Last but not least, our Tu Clothing business continues to outperform the market with total sales growth of nearly 7 per cent well ahead of a weak clothing market.

So overall we have made a very good start to the year. We will now open up the call to your questions.

Question and Answer Session

Question 1
Edouard Aubin, Morgan Stanley
Good morning guys. Just quick question from me. Your food volumes on a like-for-like basis against January so sequentially in Q4, can you confirm that they improved in Q1 sequentially?

And second question related to that is were your food like-for-like volume still negative in Q1?

Answer: Mike Coupe
Yeah I mean first of all the answer to the first question is yes they did improve sequentially and the second answer was there was a slight downturn in volume around the margins. So yes the answer to both your questions is yes.

Edouard Aubin
Okay.

Kevin O'Byrne
Interesting in the mix there we saw Own Brand growing stronger than the overall business behind lots of innovation in the ranges.

Further question
Okay and just a quick one on produce, because you highlight that in the release with volumes up around 1 per cent. Can you just come back on the drivers obviously price must have been a driver and come back on the other drivers of the good performance you produced?

Answer: Mike Coupe
Yeah the produce, we think we do a pretty good job. We have talked a lot in the past about value simplicity and the fact that that has led to a combination of better availability, more fresh product in store so we turn the products faster. We have also done lots of work on ranges, so a lot of innovation in things like prepared fruit. So we are pleased with the underlying performance and of course it has become one of the battle grounds within grocery of late. And so fact that we are able to see growth in that category we think is encouraging.

Edouard Aubin
Okay, thank you.

Question 2
Bruno Monteyne, Bernstein
Good morning. Last year about the same time you were just starting or finalising the wage increase to your staff which threw off the H2 profitability. Now we have higher inflation this time than last year so both the higher wage increase possibility and cost inflation, why wouldn't the impact on H2 be similar to last year and forces downgrading to profitability?

And my second question is around the discounters. Where they are not opening new space, so wherever you have been facing them for a period, do you see any material change in the way they trade impacting your like-for-likes in the last six months more or less than before? Thank you.

Answer: Mike Coupe
You would imagine we have a point of view on how we would see our colleague wages moving forward and we have had that point of view for many years especially on the back of the National Living Wage and have planned our business accordingly. So you will have to wait and see what we announce when we come to announce in August because that is when we tell our colleagues about their annual pay review and it would be wrong on this call to speculate about what that may or may not look like. But what I would say is that we have factored into our plans, not just this year, but also in future years what we think the impact on our business is and therefore what we need to do to mitigate the impact of any increase in the National Living Wage and ultimately our ambition to stay ahead of that number as a corporation. So I am not sure I can go a lot further than that Bruno. It is a Trading Statement and we are comfortable with consensus as it currently stands.

Further question
And is that different from last year because I understand you can't give much on the wage increase itself, but if you say you have factored it in, how is that different from last year?

Answer: Mike Coupe
Again I am not going to comment specifically on last year. I think we talked about some of the challenges last year in terms of underlying pricing but also wage inflation, but as I say we have got plans for how we deal with National Living Wage as we look forward. Where we can we will mitigate that impact on our business and we are comfortable with consensus.

Answer: Kevin O'Byrne
Bruno, I think if behind your question is that last year there was an element of having to give a wage rise ahead of where we had planned, if that is what is behind the question where we are comfortable with consensus this year it is in the context of the wage environment we are living in. So we are happy with consensus given what our plans are for wages.

Further answer: Mike Coupe
And the second question around discounters, I am not sure I can give any specific colour to that. I am not sure there is anything we can pull out in terms of particular trends, retail trends or indeed impact of competition more generally. So I am not sure there is any more colour I can give you on that Bruno.

Answer: Kevin O'Byrne
I think the big change we all saw in the discounters last few year is an increase in ranges and we are not seeing that level of change any more and that will be probably dictated by space constraints. They have increased their SKUs over the years but they are limited with space.

Bruno Monteyne
Thank you very much.

<u>Question 3</u>
James Tracey, Redburn
Hi good morning guys, two questions from me. The first one is would you be able to say what your internal food price inflation was in the quarter?

And the second question is, are you more confident on prospects of margin expansion versus how you felt say 6 months ago? Thank you.

Answer: Mike Coupe
Well both interesting questions. I would point you as we did last time at the ONS headline numbers. You have seen a trend where food prices were deflationary as we came out of Christmas and came through back end of our last quarter. So around March time we started to see food inflation come through and that trend has continued as you can see in the Headline ONS data. We don't quote any internal numbers, there are lots of external data sources you can look at some of which are quite narrow and some quite wide. On the question of margin, it continues to be a competitive market, we would acknowledge that. We continue to do what we believe to be the right things for our business. And in the past we have given you a point of view on how we expect our underlying net margin to develop over time so that 3-3.5% net margin over a 3-5 year period we would continue to believe to be possible. As to the swings and roundabouts as to how that comes about. I think we could spend lots of time speculating. Our job is to get on and do what we do and continue to look to differentiate our food offer and invest in areas of the business where there is growth potential.

Further answer: Kevin O'Byrne
James just in the context of the food inflation question, we are really pleased that we have improved our price position, relative to others in the market over the quarter.

James Tracey
Alright, thanks Mike, thanks Kevin.

Question 4
Clive Black, Shore Capital
Hello, can you hear us, morning gents.

Mike Coupe
You sound a long way away Clive, are you in Liverpool?

Clive Black
I am in Liverpool and not blessed by the warm weather down south I am afraid. A couple of things if I may. Just on in terms of the weather, how much of a tail wind do you think that may have given you in the first quarter, so we don't necessarily run away with ourselves for the rest of the year in the food business?

And in terms of food price inflation coming through, you kind of gave an indication of the timing there in the first half. How do you see the, what do you see the pressure points in terms of food pricing at the moment as we look into the second half of the calendar year please?

Answer: Mike Coupe
On weather, you wouldn't be surprised to know that year-on-year there aren't that many different sunshine days and warm weather days. It just happened that they came a little bit later this year and caused a bit of furore because of the timing. Actually it happened last year in May. So I would not call a lot of significance to the weather year-on-year, it is not that significant especially when you stretch it over a 16 week quarter that began at the back end of March. So don't get too carried away about that. We did comment in the footnotes about the timing of Easter and Mother's Day which is on balance more significant than any weather changes. And of course because again it is a stretch over a 16 week quarter, it is less impactful than it would have been in the previous quarter.

As far as food price inflation is concerned, as Kevin has already highlighted we are pleased that our relative price position to our competitors has improved in the Quarter. I think as always it is very difficult to speculate how things will play out over the next period of time. For instance we have seen prices of Jersey Royal potatoes and strawberries drop in the Quarter and that is because we have seen commodity prices fall. And indeed we have seen the price of fuel come down a couple of notches in the Quarter as well. So as and when there are opportunities to pass on cost price decreases to customers that is going through pretty quickly into the marketplace. So as always Clive, if you can call currency and if you can call commodity markets, you can do a better job than we can of predicting how things will play out over the next period of time.

Further Question
Thanks for that Mike, I guess just in that respect, you have annualised against the exit or sorry the referendum for the UK to leave the European Union when there was a big movement in the pound. Would that leave us to expect all things being equal, oil currency and whatever and harvests, a more settled inflation environment now then?

Answer: Mike Coupe
I mean certainly some of the initial impacts, most obviously fuel would be a good example where pretty quickly fuel prices went up and went up reasonably significantly I think you are probably right. However there are many products that are bought on one year contracts and they haven't necessarily fully played out in the environment that we are in. One year on even now the cost price pressures will be felt in the supply chains. However we think we have done a pretty good job of mitigating those cost price pressures by working with our suppliers, by looking at our own internal prices and what we can do ourselves to lower our cost base and therefore to limit the impact on customers and I think that is reflected in the fact that our price position relative to our mainstream competition has got better and indeed we are the second largest purchaser of food in the UK so I think scale does come to bear on these types of issues.

Clive Black
Okay, thanks very much.

<u>Question 5</u>
Rob Joyce, Goldman Sachs
Good morning guys, a couple from me. The first one, just on the comments you made about price competition improving versus your competitors in the Quarter, sorry your price competitiveness. Can you say how you are measuring this and is it still the case, I think it is something you said before Mike that you are as price competitive as you have ever been, is that still the case? That is my first one.

And the second one is on wages, you discussed the living wage and how that has been around. Was it the living wage or competitor wage movements that were the main driver of last year's decision to change the wage increase around August last year? Thanks a lot.

Answer: Mike Coupe
On the price competitiveness, the external data sources like Nielson and Kantar that would show that improving price position. So they are the specific references. Clearly we can also see it in our own internal indices which would confirm that. So you can triangulate the external and internal measures.

As far as wages are concerned, we start with the premise that we want to be ahead of the National Living Wage or the old minimum wage as it was. And that is the primary driver of how we pitch our underlying pay increases. And as we have already said, we have got a fairly good indication as to where that is likely to get to over the next period of time, not just this year, but over the next couple of years and we would expect to be able to stay ahead of the National Living Wage as currently pitched by the Government and we will do that by continuing to make sure that our business is more efficient and by saving the money that we said we will save over the next few years, that £500 million that we saved over the last three years, but also the £500 million in the future.

Further question
Okay, so competitor wage movements are less relevant to you guys than the minimum wage?

Answer: Mike Coupe
Well competitor wage movements do make a difference and certainly is part of the picture is we would colour in. And you have seen one or two significant commitments, albeit over quite a long period of time. So you are talking about commitments that have been made by others over an 18 month period. One of the metrics we would look at very closely is what our core labour turnover is. We continue to be blessed with 20,000 colleagues who have worked for 20 years in Sainsbury's and we don't see any significant movement in labour turnover. So in the round our colleagues who are wage package, which is not just a headline rate of pay, it is also things like pay breaks, it is also things like premium for working certain periods of time, it is also things like pensions and colleague discount card. And indeed a bonus payment, we believe and we see from our internal surveys that our colleagues think that in the round that we are competitive. As I say the headline we would look at is what is happening to our labour turnover and that has not moved significantly over the last period of time.

Rob Joyce
Okay, alright, thanks very much.

<u>Question 6</u>
Andrew Gwynn, Exane
Hi, good morning, we seem to be going for two questions, so let's go for two. The first question is really just on where you see the consumer at present. You commented a little bit around that, but obviously I suppose for those who read the financial press we should be worried, but out in the real world things seem a little bit more relaxed.

And then the second question, you opened the door a little bit, looking at the headlines from the press call, but they are obviously talking a little bit around this sort of speculative on the M&A front. I am just wondering, rather than necessarily going into too much precision there, but what is the broad criteria for your M&A strategy, just so we can sort of make comments where it seems relevant?

Answer: Mike Coupe
Okay, yeah, I suspect on the second one we will just come back to the answer that we have already given, but perhaps I will give a little bit more colour on the broader context without being specific about the detail. But if you start with the consumer environment. You can see from the headlines that we don't think the consumer environment has changed much in the quarter. You might be able to pick out a little bit from the fact that when consumers feel that their income is being squeezed they tend to eat in rather than eating out. Certainly our headline Own Label sales have grown ahead of the underlying grocery performance, which in and of itself is quite strong for this quarter. And indeed we have seen growth in things like Taste The Difference during the course of the quarter which again would indicate that perhaps there is an element of trading up when people are eating in, which is something again that we see when customers stop eating out and start eating in. But I don't think there is anything dramatic that can be picked out. People are much more concerned about their day to day lives, about making the most of the good weather when it hits. And about doing the right things for their families. So we are not seeing anything that I would call out as being particularly significant at this point in the cycle, but clearly if we see income squeezed more that may change over time.

I think if you look at the headline opportunities, I guess there are two comments I would make broadly. Firstly as the second largest buyer of food in the UK, clearly we have scale advantages and clearly that scale advantage could be brought to bear in some context and you can speculate as to where that might be. We are not going to be specific about it, but we believe there is an arbitrage driven by that scale advantage firstly. And secondly, we have already trialled franchising the Sainsbury's brand on Convenience shops with Eurogarages and on the face of it, that has the potential to increase the penetration of Sainsbury's stores in the market overall where we can't acquire those shops because they are owned by somebody else. But there again is an arbitrage because we know that when we put the Sainsbury's facia on an existing store, whether we have purchased it or whether it is a franchise, the sales will go up. The brand is very powerful.

As we said on the press call, inevitably in a business of our scale, lots of things are talked about, lots of time, and lots of people talk to us about what opportunities may or may not come up. And as you also know, because I am sure you are aware of it, in terms of being part of a large financial institution, many of these things don't come off. And so it will be wrong for us to speculate, and if we had something significant to say we would say it. But clearly lots of conversations are had by lots of companies and that is particularly the case in these types of times.

Andrew Gwynn
Okay I think that is as clear as you can be, so thank you very much.

<u>Question 7</u>
David McCarthy, HSBC
Good morning everyone. Two questions, one is you talk about Own Label, can you give us a track on what your Own Label participation has done over the last few years? Where it came from, what it has fallen to and where we are currently?

And then secondly, I just want to clarify, do you include the Argos relocations within your like-for-like sales?

Answer: Mike Coupe
The answer to your second question is not. So no. And of course this is where it gets quite muddy in terms of how we treat these things as we look forward. We now have click and collect in 200 shops, 140 of which are serving Argos. We have 70 odd Argos stores in Sainsbury's stores and so we are trying to give the best picture of how we look at the business. Our headline like-for-like number which does not include the Argos relocations and then breaking out each of the individual businesses in a way that hopefully gives you some way of tracking that over time and indeed giving you the historical reference to make sure that there is at least a basis on which you can make judgements about the underlying performance.

On the first question and maybe if Kevin could give a bit of colour on the relative performance of Own Label?

Answer: Kevin O'Byrne
Yeah well Own Label is clearly a large part of our business and we have seen in the period we are reporting on David, growth in Own Label. We have seen volume and value growth in *by* Sainsbury's, we have seen growth in Taste The Difference and as Mike said, some of that could be down to change in some consumer behaviour. I think a lot of it is down to the fact that we launched 430 new products as we mentioned in the Announcement. We have completed another 32 range reviews on the back of all the work that was done last year which is covering about 17 per cent of the grocery sales. So a lot of innovation, a lot of

newness. And we are seeing customers responding very strongly to that. So a big part of our business is growing, it is our Own Label side of the business is growing ahead of the total growth of the business and ahead of the branded side of the business.

Further answer: Mike Coupe
As far as the trading is concerned, I think we would have to, we will probably ask James to give you the sort of tracker of that over time. But we would see our Own Label penetration relative to our competitors as higher and I think that has been the case for a long period of time, you will be talking about decades I think where that has been the case.

Further question
Sure I get that, it is more I am trying to get a feel for in the last 12 months has your Own Label participation has gone up by 1 per cent or 2 percent? Just getting a feel for that.

Answer: Mike Coupe
I am pretty sure it would have grown, I could not tell you the percentages off the top of my head, but it would be that order of magnitude.

David McCarthy
Okay if James could get back to us that would be helpful. Thank you very much.

<u>Question 8</u>
James Grzinic, Jefferies
Yes good morning. I just had a very quick one. Can you perhaps clarify what your market share performance was over the period as a whole as opposed to produce?

Answer: Mike Coupe
I am looking, I don't know if we have got the number to hand, market share performance. It will be slightly down off the top of my head, but we can give you the exact number and again it depends on which reference, of course Kantar and Neilson would choose something slightly different.

Further question
Both references would be great just on the basis I don't want to be spending a lot of money on Kantar if it doesn't work.

Further answer: Mike Coupe
If I said it was something like 0.1, 0.2 per cent down year-on-year I would suspect it is that order of magnitude off the top of my head, but we can break out what we do have in terms of the various market sources. But as I say, they are not always consistent. So as you said, certainly on the short term basis, not necessarily the most reliable indicators.

James Grzinic
Okay thank you Mike.

<u>Question 9</u>
Dan Ekstein, UBS
Thank you, good morning everyone. Two questions from me. Just trying to get clarification on the underlying Argos performance. I appreciate it is a bit messy with the change in how things are reported. But in Q4, general merchandise total sales were plus 1.5 whereas total Argos sales were +3.8, so about 230 basis point spread between the two. Should we be thinking about a similar kind of spread in the first quarter for how we sort of get back to how underlying Argos is trading?

And then secondly, you say that you are on track to achieve your £145 million of cost savings. Without asking you to give a specific figure, could you say how that compares to the sort of internal plans and budgets you have got for cost inflation. So wages, rates, rents, utilities, transportation, etc. Do your cost savings more than cover the budgeted inflation? And if so, is there a bit left over to invest as you see fit? Thanks.

Mike Coupe
I will ask Kevin to answer both those question so I will just relax and sit back for a second.

Answer: Kevin O'Byrne
On the second question Dan, the answer is yes, the cost savings this year will be ahead of the cost inflation which leaves us a little bit to invest.

On the first question, Argos underlying. I think the first thing is just probably to say why are we reporting the way we are reporting the way we are reporting at the moment. We are reporting at the moment, not to try and be difficult for you guys to do your numbers, but it is because of how we run the business. Every day the business is more integrated. We have got one toy buying team, we have got one electrical buying team. You know you can pick up Argos products in over 150 Sainsbury's stores where there isn't an Argos etc. So the business is more and more running as one business. And Mike runs the business with the grocery channel, general merchandise channel, and a clothing channel which is why we are reporting the way we are reporting.

As far as looking at the movement, you know you can look, there are a number of things you can look at. One is the total sales you can see, we have restated quarter 3 and quarter 4 for you so you can see a sort of 1.5 to 1 per cent and draw whatever conclusions you want to draw from that. But as you say there are a number of factors behind the scenes. There are the store movements which overall with all the toos and froes, we have probably closed about 38-39 stores as we have closed the stores in Homebase and some local stores so that is 4-4.5 per cent of the store base will have changed in the last 12 months, it will have come out in the last 12 months which clearly affects the top line of reported numbers. There are some other factors, I mentioned the TV sales in this particular quarter because of Euro 16 entertainment in this particular quarter has probably impacted the total sales by maybe 0.3, because we didn't have certain movie launches and some games launches that we had this time last year. So there are a number of factors moving around. Overall we are very pleased with the performance of Argos, it is outperforming the market, we are growing in a number of categories. Mobile, tech, you know core electricals, toys and outperforming the available market you know data that we can see. So we are very pleased with the performance of the business and the momentum in the business at the moment.

Further question
So simplifying assumption, you would focus kind of on the 50 basis point sequential move?

Answer: Kevin O'Brien
That is the total sales in the overall general merchandise business and clearly Argos is a big part of that.

Dan Extine
Yeah, thank you.

<u>Question 10</u>
Niamh McSherry, Deutsche Bank
Morning. I just had a quick one about the fast track delivery service. I would say it was growing very fast, but I was wondering is that broadly in line with your expectations or ahead or slightly below your expectations?

And also can you give an indication of how large that business is now, the fast track delivery?

Answer: Mike Coupe
I'll ask Kevin to give you a view on the second part. I mean I guess on the first part, the thing that we are pleased with and perhaps may have surprised us, but with the benefit of hindsight these things should not be surprises, the way the business flexes up during times when customers really want to buy stuff. And that is particularly in the warm weather period. So we are very pleased that the business has been able to adapt to quite a big surge in demand. And it shows how flexible the supply chain is that we bought, when we bought the Argos business. And it is fair to say it is one of the key drivers of the business, it is what we expected when we bought the business, that we think the proposition is very strong. And as we roll out more Argos stores in Sainsbury's stores, and indeed more click and collect points, it becomes even more potent in the market that we are seeing develop over the next period of time. In the end customers will demand of us and people like us, that they can buy general merchandise products, clothing products very quickly, have it delivered somewhere convenient to them within the same day, and in our case within four hours. And we think that is a very powerful proposition. So broadly speaking it is not a surprise that headline level, although some of the trends in the quarter were a pleasant surprise in the sense that we saw a big surge in demand when customers wanted things like fans and paddling pools, coincidental with the good weather. In terms of the overall business, Kevin has now done the arithmetic for you.

Answer: Kevin O'Byrne
First track collection which is where people order it and collect in their local store is about 9 per cent of the business. And fast track delivery to home is again sort of high single digit so it is a growing part of the business, maybe 16 per cent of the sales through the Argos channel. The interesting thing Niamh is this becoming more and more a digital business with a very big percentage of the sales being ordered before people walk into the store. So only about 40 per cent of the business are people walking in off the street where we didn't know they were coming and we didn't know what they were going to buy. And it is changing literally month by month to be more online, more mobile, more digital.

Niamh McSherry
Okay thanks.

<u>Question 11</u>
Mike Dennis, Lazarus
Good morning. I have got three questions. The first question is you give the online and the convenience growth. What is the growth in the supermarket business?

And in terms of Argos, could you give us some sort of trend in terms of the 4.3 per cent out of Q4 and the 4 out of Q3, where credit growth is within that now in Q1 if the Argos like-for-like is down in the sort of 1 per cent region? And what that actually means going forward? Where is that figure in your likelihood going to go now from the current trend you are seeing in Q1?

And what is the growth in Taste The Difference?

Answer: Kevin O'Byrne
I am not sure we give, I mean the growth in the supermarket is positive as you would imagine to deliver the numbers, but we don't break it out. Taste The Difference is positive as I said, we are growing both *by* Sainsbury's and Taste the Difference is positive as I said, we

are growing both *by* Sainsbury's and Taste the Difference but not, we don't give out details sort of line by line on each category.

And Argos credit growth, it is, the Argos AFS business, I think we have probably indicated before this isn't a year we are looking to materially grow that business, we are bedding it into the Group. Frankly running it better and changing it over in some of the processes in the Bank. But we are pleased with that business. It is well provided for and there is some commentary about, lots of commentary in the public domain about the credit in the market. Just a few words on the Argos credit business, the average loan there is about £450, the average monthly payment is £40 per month, and we are very comfortable with the provisioning against that business at the moment.

Further question
But has anything actually changed in terms of, I mean obviously the loans, the credit growth, the unsecured credit market, the growth rate has fallen, we can see that from the ONS figures, but within your business has bad debt started to rise or just the whole trend gone down to sort of 1 per cent?

Answer: Kevin O'Byrne
No we forecast for bad debt actually to rise in our plans, so in our underlying numbers which would be feeding into the consensus we have actually forecast for them to rise a little bit, we think we are prudently provided, but we just think that is sensible given the current climate, but we haven't, the FS loan book has not changed materially in the year in size.

Further answer: Mike Coupe
I guess if the underlying question is have you grown Argos sales through growing the credit book, the answer to that question is not.

Further question
And you didn't say anything about Taste the Difference, you said it was positive, but it must have been positive profit?

Answer: Kevin O'Byrne
Well it is positive. Well the biggest part of our brand business is the *by* Sainsbury's brand by some measure. It is the largest part of the business and that has grown both value and volume in the period and overall if you combine Taste the Difference, *by* Sainsbury's and our other sort of sub-brands, those have collectively grown ahead of the total grocery business.

Mike Dennis
Okay, thank you very much.

<u>Question 12</u>
Stewart McGuire, Credit Suisse
Morning guys. Just a couple of questions from me. Can you clarify on the like-for-likes, that is you have opened an Argos store within a Sainsbury's supermarket, that Sainsbury's supermarket then comes out of your like-for-likes? I think that was following on from Dave's question. Question number one.

Question number two, on online grocery, can you give us a split between what is click and collect and what is delivery to home?

And then third question, I think you said at the beginning of the call, that you had lower inflation in the quarter than the market. Is that you think that your input cost inflation is lower in the market or that you passed that lower inflation along to the customer? Thank you.

Answer: Mike Coupe
Yes I think I get the essence of your question on how we treat Argos stores in Sainsbury's stores. We continue to report our like-for-like grocery business as it was, if that makes sense. So in effect it is a store on store performance as a Sainsbury's store would have been either with or without the Argos implant, but we don't include the Argos sales of the store in store in the Sainsbury's store sales. Does that help?

Stewart McGuire
It does.

Mike Coupe
So to some extent it works slightly to our disadvantage. Because if we take space out of a Sainsbury's store to put an Argos store in store, then in effect that has a potential to have a slight impact on the Sainsbury's underlying store sales.

Stewart McGuire
Right, that was my point. Good.

Mike Coupe
So it is probably on balance slightly disadvantageous in the way we are doing it, albeit at the margins, so does that answer the question?

Stewart McGuire
It does, thank you.

Answer: Kevin O'Byrne
And on the click and collect point Stewart, there are 145 locations where groceries you can click and collect so it is a relatively small part of the total online grocery business.

Further answer: Mike Coupe
And as far as inflation is concerned, I guess you can answer the question both ways, one way or another we are passing on less to our customers than our competitors or at least some of our competitors are at the moment, so we have seen our price position relative to our competitors improve, and that is because we continue to challenge ourselves with our suppliers. Challenge the sourcing of a lot of our products and also make sure we do everything we can within the underlying constraint of our business to lower our costs. And where opportunities arise where we can pass on benefits to customers, fuel would be a good example, where we have led the way recently. Strawberries and Jersey Royal potatoes would be a couple of other examples where commodity prices have fallen and therefore we are able to enjoy a lower cost price and we have been able to pass those onto our customers as well. So we think we have done a pretty good job as a business at keeping a lid on the inflationary pressures that we see in the marketplace.

Stewart McGuire
Very good, thank you.

Question 13
Rob Joyce, Goldman Sachs
Hi guys, sorry to go again. Stewart sparked my imagination. Just a quick one. Can you quantify any of the positive impacts you have seen in the supermarkets on the grocery sales from where you have added in an Argos concession or an Argos store?

Answer: Mike Coupe
Yeah we have said pretty publically now for a couple of quarters that we see a halo of 1-2 per cent and that halo sticks around so it is not a sort of one off benefit that suddenly dies

away. We see that now in the stores that have been open for well over a year so some of the stores are pushing towards their second anniversary would you believe. So we have got pretty good experience now and one of the things that gives us confidence in the synergy cases that we see that not just in the stores that we have had trading for a long period of time, as and when we convert stores and we are not up to high 70s in terms of Argos stores in Sainsbury's stores, we see that halo effect pretty consistently across the business. So it is undoubtedly a benefit.

Further question
Sorry I may have misunderstood, I thought the 1-2 was the level of outperformance of the Argos store versus the store it replaced or is that the grocery, what you are seeing in the supermarket sales?

Answer: Mike Coupe
Yeah there are two things. One is when we take an Argos store and put it in a Sainsbury's store, broadly speaking we see the sales transfer to the business so we don't lose sales which is actually slightly better than the business case we originally had. So hopefully that gives clarity on that point.

And then secondly, when we put an Argos concession store in store in a Sainsbury's store, regardless of whether that is a relocation or a new piece of space in a new white opportunity, clean opportunity, we see a halo of 1-2 per cent on our grocery sales.

Rob Joyce
Okay that is clear, thanks very much.

<u>Question 14</u>
Kiranjot Grewal, Bank of America
There are two questions. One how are your infill's Argos stores performing?

And secondly you rolled out same day online delivery for grocery last year, how is that progressing and what has been the take up of that so far?

Answer: Mike Coupe
The infill's are performing broadly as we said throughout which is they are meeting the expectations if not slightly exceeding our expectations which is why we have got the confidence to go really aggressively into rolling those out and we will get to somewhere between 130 and 150 Argos stores in Sainsbury's stores during the course of this financial year and we have committed to 250 Argos stores in Sainsbury's stores within 2.5 years, which is some going. It means not far off half of the Sainsbury's supermarkets will have an Argos concession in them.

In terms of same day and online, I think we are in the sort of 30s in terms of same day delivery and online groceries. It is an area of opportunity and we are looking at how we can adapt our business to improve the cycles of ordering and replenishment. So I wouldn't be surprised although we haven't made any public commitments, if we see same day delivery roll out over time as we get more confident in the underlying business model. And of course the more we can utilise the 24 hour clock, the more capacity we can put into our business and therefore the more orders we can fulfil over time. So it is certainly something that is high up on our agenda, the ability to order and replenish more quickly for our online grocery business. But so far, so good. And of course the other thing we are doing is we have got one hour deliver service called Chop Chop operating in central London which is quite an interesting and potentially quite exciting opportunity as well.

Answer: Kevin O'Byrne
Just to scale it, it is in about 30 stores out of 600 supermarkets so it is still a relatively small part of the business.

Kiranjot
Thank you.

Operator:
We have no further questions.

Mike Coupe
Okay, thank you everybody. No doubt we will see you over the next quarter. We are next due to update at the beginning of November so we will give you a long summer break and we will see you at some point in the next few weeks and month, thank you.

End