J Sainsbury plc

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First Quarter Trading Statement 2020
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Kevin O'Byrne
Chief Financial Officer

Good morning everyone and welcome to our call for the Q1 trading statement, covering the 16 weeks to June 27th. I'm joined this morning by James Collins, our head of Investor Relations.

Clearly this has been an exceptional period for the whole of our business with some huge challenges and the way our teams have responded to those challenges has been nothing short of amazing, adapting and executing absolutely brilliantly. From the outset we've worked really hard to do the right thing, keeping customers and colleagues safe, prioritising food supply chains and vulnerable customers and supporting the communities that we trade in. It has taken a huge amount of hard work and flexibility from colleagues right across the business. So a huge thank you to them all.

Turning to the key highlights of the quarter. We delivered a strong first quarter performance in both our core grocery business and in Argos, in exceptional circumstances and with help of course of some good weather. For the group, total sales were up 8.5% and like for like sales were up 8.2%, both excluding fuel.

Just to be clear we included all the roughly 600 stores that were temporarily closed in that like-for-like calculation. Normally we would exclude a closed store. If we had excluded them, like-for-like growth would have been nearly 19%. That perhaps best captures what the business has delivered in the Quarter.

The investments we have made in our digital platforms played a huge part in this, with total digital sales growth of 123%, including groceries online growth of 87%. Argos traded on an online-only basis for most of the quarter, with headline sales growth of nearly 11% representing 83% growth in online sales.

Grocery sales were up 10.5%, continuing to outperform the market. We saw switching gains from both of the discounters and all of our Big 4 competitors and we have now outperformed the grocery market as a whole over the last 4, 12 and 52 week periods reported by Kantar. This reflects the continued investment we have made in our customer offer and our stores, something that customers are recognising, with customer satisfaction scores at record levels for both supermarkets and convenience stores. SmartShop has come into its own during the crisis, offering a contact free shop and rapid checkout, accounting for 37% of sales on average in handset stores and over 50% in some stores. We have also reduced prices during the quarter, improving our value position relative to our key competitors.

Our groceries online performance was outstanding, with sales growth over 125% in May and 135% in June as we moved beyond 650,000 orders per week we were targeting, exceeding our original target of 600,000 up from 370,000 before the crisis. This was despite the fact that we took a clear decision very early on to prioritise elderly, disabled and vulnerable customers rather than to maximise sales.

Sales in our supermarkets were up as customers shopped less frequently but with much bigger baskets while convenience was a mixed picture, with strong growth in the majority of our stores but very significant declines in our City Centre, Food on the Move and railway station stores. These normally represent around 20% of our convenience sales.

Our General Merchandise performance was exceptional in every sense of the word with great execution in the Argos business, where we switched the business overnight to online only and still delivered nearly 11% growth. Demand was helped by very good weather against quite poor weather last year and we were in a great place to deliver what customers wanted for their homes, gardens and home office needs quickly and conveniently through click and collect and delivery. We've seen nearly 2m customers who had not shopped with Argos for more than a year re-engage with the brand over this period. General merchandise sales in supermarkets fell heavily in the early weeks of lockdown as customers focused on their grocery needs, but recovered towards the end of the quarter and delivered a strong seasonal performance.

Clothing sales in supermarkets again suffered significantly early on in the quarter, but improved in recent weeks, helped by successful clearance activity and the weather. Throughout the quarter our online clothing business has been strong, with sales up 87%.

So overall, clearly a very strong sales performance and one that is ahead of the base case assumptions that we outlined in April. However, there were some exceptional drivers of this growth, not only in terms of COVID, but also very good weather which has also in sales of seasonal items being pulled forward. We additionally think it's right to be cautious about consumer spending. To date, whether it be through furlough support or mortgage holidays, disposable incomes have been relatively well-protected, and consumers have not been able to freely spend elsewhere. Hence, we continue to think it's right to expect significantly weaker sales trends for the remainder of the year.

We've reiterated today that our base case scenario is broadly flat Group UPBT year on year, reflecting the very high costs of trading through this period while protecting customers and colleagues. In particular we've supported colleagues who have been unable to work through COVID and paid bonuses to those who have, we've recruited more than 25,000 new colleagues and we've paid to protect our colleagues with masks, gloves and perspex screens. We've protected our customers through installing social distancing measures in stores and we've invested in our delivery and click and collect capacity to help as many customers as we can to shop online. We have also been impacted from reduced concession income and on clothing stock clearance.

We welcome the government's support through business rates relief, which will only partially offset the incremental impact of COVID on the business. As you know, we have lobbied for some time for changes to the business rates system, which we believe is a tax that unfairly burdens retail store operators. We have chosen not to take any of the optional forms of government support available. We have not deferred VAT payments or furloughed any colleagues despite closing over 600 stores and all of our travel money bureaux and despite very high colleague absence levels.

The impact of COVID on channel shift in grocery is growing sales in online grocery, our least profitable channel. I know you will ask about how much of that channel shift will be sustained and the answer is that we don't know yet but the great thing is we can flex that capacity very easily and efficiently whilst giving us room for further growth. What we do know is that nearly 50% of new Sainsbury's online grocery customers are not only new to Grocery Online but also new to Sainsbury's.

We also expect a few questions today about our financial services business and whether we need to revisit the assumptions that sit behind our profit guidance. In short, we are comfortable with the profit guidance that we gave at prelims. The £30m IFRS9 charge we booked in Q1 was based on an unemployment level of around 7.6%, but our base case profitability assumption was always built on what we think is a more realistic assumption of just over 9%. Our experience to date relative to the market on factors such as payment arrears on credit cards also reaffirms our belief in the relative quality of our lending book. We realise that the visibility on this is quite difficult but I would suggest that if you want to, you could look at some of the Sainsbury's Bank report and accounts disclosures on elements such as non-performing loans and compare those side by side with some of our competitors and you will be able to get a picture of this. Additionally, as we have detailed in the statement, both liquidity and our capital position are improving versus the year end, driven by rapid change in the shape of the lending book despite having booked some impairment charges in the first Quarter.

That this has been a slightly longer introduction than usual. Hopefully the extra colour has been helpful. James and I will now be very happy to take any of your questions. I will now hand you back to Nigel, thank you.

<u>Question and Answer Session</u>

<u>Question 1</u>

Andrew Gwynn, Exane BNP Paribas

Good morning Kevin, good morning James, I hope we are doing well. I am going for a short-term and a long-term question. So just on the short-term. You mention that to the one about the sales outlook, but supply within Argos I guess that is being compromised in a few places. Are things a little bit closer back to normal and with that impact trading through the rest of the year?

And then just on the longer-term question, you have mentioned a couple of points there around the SmartShop, Argos obviously performing very well despite the fact it is mostly closed. Would we expect to see very, very significant supply changes going forward?

Kevin O'Byrne
Andrew what was the end of that question, it just broke up, what do we expect to see?

Andrew Gwynn
The significance of supply changes. If you are thinking about how you provide, particularly Argos, would you close materially more of the standalone Argos stores? Is click and collect within the grocery business likely to be a much bigger feature of the business going forwards?

Kevin O'Byrne
Let me take the first and James just jump in when you want. On the sales side, yes there has definitely been some supply challenges because of the demand because we clearly weren't forecasting when we spoke to you at the year end, we weren't forecasting that level of demand in Argos. There is a couple of factors. In some areas like home grooming, home office etc. as soon as the stock comes in it is selling. So there is new stock coming in all the time, but it is selling through quickly. Gaming and toys, absolutely gaming which has been a category we spoke to you about a number of times being down, we have had strong gaming sales through the time as people have been in lockdown and again as products come through, we are selling it through. So that stock just keeps replenishing.

When you come to seasonal stock that is very different Andrew because we won't replenish the seasonal stock so when it is gone it is gone for this season as you would imagine. So hence we will definitely have had some Quarter Two sales pulled forward into Quarter One because of the weather and we won't see those repeating in Quarter Two.

And on the long-term question, we have to wait and see. Clearly if you take grocery online we have gone from about a 7% penetration to 17% in the most recent week. Is that going to stay at 17%? We don't know. Is it going to go back to 7%? We don't think so at all. So the great thing about grocery online model as you can see, is we can flex it very materially, very low capital involved and we can turn it up and down depending on what the customer demand. So we are able to do that.

And likewise in Argos, the only thing about Argos we have to really be careful drawing too many conclusions from the last few weeks. We had exceptional weather, people could pick up their Argos products in over 650 Sainsbury's either Convenience or Sainsbury's supermarkets stores while they were doing their shopping. We had perfect ranges for the lockdown and consumer demand was robust given that with the Government protection for employment etc. So we need to be careful not to draw too many conclusions from that. But of course we will watch it and we will flex. And the nice thing again is we can flex the model to suit consumer demand. You know the average leave from an Argos store is about three and a half years, so it gives us flexibility.

Andrew Gwynn
Okay thanks Kevin, cheers.

Question 2

James Anstead, Barclays

Good morning. Firstly I wondered if you could say whether you have had further discussions on the deferred dividend decision or whether that was only ever going to be something to be discussed ahead of the first half results later in the year?

And secondly, and you addressed this question to some degree, but you gave us quite a detailed prognosis on a category by category back at the end of April for the remainder of this year. Does that still stand or would you finesse those comments after what has obviously been a stronger quarter than you would have expected?

Kevin O'Byrne
James on the decision, very straightforward, we discuss it twice a year with the Board. So we deferred any discussion, decision we would review it at the first half as you suggest. And on the remainder of the year we remain cautious. You saw we were cautious on general merchandise, cautious on clothing and sort of back to normal should we say on groceries. It will be the same but a little bit more cautious on general merchandise at some degree because of the pull forward and weather effect. The weather effect is material, particularly in the Argos business. You know we had a very hot May versus a very average or poor May for the previous year. So all retailers will have benefited from that. So I would expect to see that impacting the Q2 numbers.

Further question
Okay that is very helpful since there were very short and comprehensive answers, one more to throw into there. Clearly in the last couple of weeks, a lot of, well partly competing retailers have reopened their doors. Have you noticed any obvious changes I guess particularly in Argos to trading since those doors have reopened or do you think it is too early to tell?

Kevin O'Byrne
I think it is too early to tell James, we haven't seen any discernible sort of changes to those stores that have opened and performed well. But likewise we have seen continued demand for home delivery and click and collect across the grocery and convenience chain. So I think the weather effect again, we have had reasonably good weather in the last few weeks. So I think again we need a longer period of time to grow any sort of sensible conclusions.

James Anstead
Very helpful, thank you.

Question 3

Clive Black, Shore Capital

Morning gentlemen. We have clearly not been to Merseyside in the last few weeks Kevin.

Kevin O'Byrne
Morning Clive.

Clive Black
A few operating questions if I may please. First of all in terms of SmartShop, are you noticing any noticeable shrink issue in relation to the big step-up in that participation?

Secondly, questions around working capital and operational gearing. Firstly, a big concern at the time of the results understandably was the positive working capital around fuel. Maybe give us an indication how that market is going for you?

And secondly, I just wondered whether the mix of higher costs was totally negating operational gearing benefits with the strong sales within the stores? And additionally given the strength of sales whether you do have a notable working capital tail wind in store please? Thank you very much.

Kevin O'Byrne
Right and again, James may jump in on some of these Clive. SmartShop, when we modelled SmartShop, when we tested SmartShop, there clearly is some element of shrink risk either through customer error or choice. We have systems and processes and spot checks etc to manage that. But the net effect of SmartShop is more positive on the P&L because the benefit of customers getting in and out of the store fast and not using one of our tills even in normal times is economically the equation works very well because one of our big costs is obviously manning all our tills. And in the time of this crisis it was absolutely critical. So we are very comfortable with that.

Working capital, you are absolutely right. We had two drags in working capital. One was fuel and the other was the fact that we chose to support our small suppliers paying about fifteen on suppliers pretty well as soon as we received the invoice we processed it so that we helped them through the crisis. And so in the period to date there would be a drag on working capital relative clearly from a cash point of view. Very strong cash generation, but working capital a slight drag not hugely material to the Group, but a slight drag in working capital.

And then as far as the operational gearing, grocery online is growing materially. As you know it is a profitable business but it is less profitable than its customers walk into the store and shop for themselves. So a couple of factors that are helping there. One is the mix of click and collect. We have gone from that 3% mix within the online business of click and collect of about 23%. So that is obviously better for the economics because people drive to the car park and pick it up themselves. We have had some drags the other way where we have employed thousands more people into the grocery online business and of course there is productivity issues as people start and you train them. And picking in a socially distancing environment is also less productive than in our normal environment. So there are some drags there. Those will work their way through and as people settle in and we go back to more normal at some point, that would work through.

But the really positive thing on the grocery online would be that many of these customers were not customers at Sainsbury's before so we are not taking the growth in the customers, almost 50% of customers that we didn't see in Sainsbury's before this. So clearly they are profitable customers coming into the business. But we definitely have some work to do on the grocery online productivity over the coming months as we see where the volumes settle.

Clive Black
Okay well done. Really good Quarter for you and keep it up. Thank you very much.

Question 4

Fabienne Caron, Kepler

Good morning, two questions from me. The first one, on the core level. Did you see any negative growth margins from the close of counters and when do you expect the reopening to take place?

And the second one is marginally regarding discounters. In Europe where, in continents in Europe where the lockdown is earlier we saw very strong recovery of discounters and I am just wondering what you see in the UK and if you expect them to fight back to get back market share? Thank you.

Kevin O'Byrne
First of all Fabienne on growth margin you are absolutely right. All the counters, the prepared food like pizzas etc, the cafes that we had to close because we needed to move the colleagues focused on filling the shelves and frankly the consumers demand in those areas went down as people focused on getting their core shopping. That absolutely is a higher gross margin part of this store. But overall the negative effect of that gross margin would have been offset by some reduction in promotions as we had to reduce some of the promotions because of focusing again on getting product on the shelf and focusing on the supply chain rather than promotions. So in the period we are talking about, sort of play at draw.

As far as the discounters, I mean in the period, you know if you look at the last twelve weeks, Neilson switching data, we have gained from Lidl and Aldi. Clearly again unusual circumstances, people are focusing on. They are either shopping very, very local and their local grocer or local bakery or something or they are going, choosing to go to a big store with much larger baskets, less frequent shop because of the focus on safety and wanting to be in a large store where they can be social distanced etc.

We have also spent a lot of time and effort in the last, the previous sort of six or nine months before the crisis in investing in values, you know launching our value ranges etc. So we have done a lot of work to improve our position relative to all our competitors and the discounters. That said, you would expect the discounters are obviously very professional operation, you would expect them to react and we are alive to that, hence we are cautious about the second half. We think in the general merchandise and clothing business you know it is largely around consumer confidence and the food business which is generally resilient in any downturn. Consumers will be focused on value, they will be focused on feeding their family for less and we are very alive to that and have plans to meet that.

Fabienne

Okay thanks a lot.

<u>Question 5</u>

Victoria Petrova, Credit Suisse

Thank you very much for taking my question and congratulations on the result. My question is focused on online. Obviously you have a very impressive online growth. You mentioned that 50% of your customers are new. Can we translate it into [inaudible] assumption to assume that on average it is a similar trading per customer. So I shall just calculate 50% [inaudible] 50% incremental?

My second question is on my estimates a greater margin for on line, 1.5-2%. Can you provide any comments around that?

Thirdly click and collect how much more profitability versus the delivery?

And the last question as far as I understand your fulfilment is mostly mainly manual, however now, are you reconsidering some other automation option? Are you planning to invest in any fulfilment centres and are you considering any fulfilment model as a priority? And do you see any purchase projectory from online business being significantly lower margin than instore sales to sort of getting there, could you maybe elaborate on that a little bit? Thank you very much.

Kevin O'Byrne
Victoria, I do apologise, the line was not great on some of those questions, but I will answer the ones I think I have heard clearly and I will have to come back to you on one or two just to clarify the question.

If I start at the back, the automation. Our model, our focus is on pick from store for grocery online. We think that is the most efficient model. It is proven to be highly flexible in the current crisis as you can see. And that will be where we would be focusing our investment. So we are using, because there is a real. The economics of online that last mile delivery being close to the customer. You know it is all about having decent basket size, good truck utilisation and very good pick efficiency in store. And then finally the last mile and how long the truck is on the road. So we find that is absolutely the most efficient model and we will continue to focus on that model. And of course there is work to be done because it is less profitable than a customer walking into our store. So once we see where the volumes settle then we will need to do some work on the efficiency and productivity of the grocery online, but it is a profitable business and we will continue to focus and pick from store.

Is click and collect more profitable than delivery at home? Yes it is, how much more profitable? We don't disclose that Victoria, but I guess you could do some maths yourself, but it is definitely more profitable because we just don't need to have a truck on the road so you can imagine that has a reasonably positive effect.

Now I think I was struggling a bit on the first two questions because it was breaking up. And James I don't know if you heard them better or would it be helpful if Victoria just repeated them?

James Collins
Yes so Victoria I think there was one around incrementality, so the number that we quoted on 50%.Can you repeat that one?

Further question
Yes I am trying to reconcile revenues from the number of customers. Should we assume that average revenue per customer is similar to the one you have in store?

James Collins
So the average revenue. So it is actually much more nuanced than that. So I think it is fair to say that with elderly, disabled and vulnerable customers who clearly form a good proportion of our increased customers because that is something we have prioritised, they are not as big an average basket as typically online customer. So that is one of the challenges on profitability that we have had. So that is one element. However we are not offsetting factors which is why you can't quite work it through from 50%, is that outside of that 50% are customers who are already Sainsbury's customers who have switched to online as part of this. And then existing online customers who are shopping differently. So overall the average basket has gone up because for example more people are spending time with all of their family at home and not at school or in the office etc. So overall the basket size and online is up despite some dilution from elderly, disabled and vulnerable customers.

Kevin O'Byrne
And Victoria the margin question broke up as well. Again I don't know if James heard it.

Victoria Petrova
I tried to figure out how much more online profitability is around 1.5-2%. Probably you wouldn't answer it. Assume that recent online sales are more profitable than the ones before COVID?

Kevin O'Byrne
No it wouldn't be fair to assume that because of the learning curve we had to go up. Over the last number of years we have shared with you the great work we have done in the grocery online business. We have done tremendous work improving the pick productivity in store, truck utilisation etc. So truck utilisation will be very good. The basket size was very good as James said. The mix, there was some smaller baskets, but that was offset by much larger baskets. We put no limit on what people could order, so we had some very big baskets going through and that is good for the profitability.

Where the challenges would have been in this period that is unique to the crisis would be one, we recruited literally almost 20,000 people into the grocery online business and so we had lots of new pickers in the stores. So there is learning curve. And secondly, we were picking in a socially distancing environment which meant we couldn't pick with the same productivity efficiency that we would normally do because we had to keep our colleagues safe, our pickers safe and keep a distance when they are in aisle. That of course will pass and both of those things will improve.

Victoria Petrova

Thank you very much for your answers.

Question 6

Rob Joyce, Goldman Sachs

Thank you. Morning. Three from me. So the first one, I think on the previous call Mike mentioned that the demand for online grocery was still outstripping the level you could supply. I think you said you could have done 20-25% of your sales online in the previous period. I wonder if you could say if that is still the case?

The second one, also on online. Have there been any changes to the customer service metrics? For example what are substitution rates running at now versus prior to the crisis?

And then the third one is just on the costs. You have obviously reiterated the PBT or the profit guidance for the year. A lot of cost in there. Would you be able to at this stage give an idea of the business shape in terms of online Argos openings stays the same as what we are at now. What percentage of those costs would be a sort of recurring cost versus a one-off cost related to the current crisis? Thanks.

Kevin O'Byrne

Well Rob I will maybe start and work backwards and start with the cost question. All of the costs, the big costs here are all related to the crisis. Our biggest cost by far is the labour impact and a lot of absence costs there. There will clearly be some element of that which will be the switch to grocery online and having to bring in more colleagues and as I said, we would expect that will go in line with the business and the productivity will improve. But the big element of it was the temporary labour that we needed to bring in for support absence and paying for people who were isolating, who were vulnerable etc. was very large.

The second big chunk of costs was all around running the stores in this environment. Extra guarding, extra cleaning, you know all of the costs of manning the front doors, manning queues etc. which will obviously disappear. We have been impacted by the fuel business, you will see that coming back obviously. Again right across other areas like, thank-you payments to colleagues that will go away.

So if I think of all the other costs that we are incurring and expect to incur for the rest of this year, the vast majority will just, are all totally related to the crisis and will go after the crisis. The only area that you could imagine we will have additional colleagues will be in the mix will be in the grocery online business, but then you would see an adjustment elsewhere as colleagues move from focused on working in stores to focus on working online.

The substitution rates of service levels and grocery online, clearly right in the eye of the storm there was high substitution rates and people were getting very often a product, a pasta product or a tinned tomato product, but not necessarily the brand that they ordered. And then we had the difficulty where you couldn't actually return those products because of the fear of virus and products being handled. And we saw that in our customer feedback scores. We get a very detailed weekly feedback. I think many customers understood this, but clearly it was frustration for some customers. That has improved in the recent weeks. Still a bit more to do on that, but it is improving all the time. So we are very pleased with the progress we are making there.

And then the first question was, sorry what was your first one?

Further question
Just I think Mike had said demand was outstripping the supply quite materially, is that still the case?

Kevin O'Byrne
Yeah we don't know where. I think the most recent, we have gone from as I said penetration of around 7% to 17%, the sales have been up very, very strongly all the way through over 135% in the month of June. We think there will still be additional demand if we could open up more slots and we are working on opening up more all the time. It will be interesting just to see where it settles.

Rob Joyce
Thanks very much.

<u>Question 7</u>

Maria-Laura Adurno, Morgan Stanley

Thank you very much. Just one question on my end that goes back to what you were saying. With respect to Q2, perhaps did you have any qualitative comments at this level because you were talking about the good, weather in fact in Q1-2 but just wondering particularly when we see the momentum seen in the business, particularly on the general merchandise front, if you have any comments?

And then the second one, just going back to some of the comments you made with respect to the trajectory into the second half and clearly being cautious. Just wondering with respect to your grocery business, if you have any thoughts in terms of how you are positioning the business on that front, particularly if we have a backdrop with low levels of consumer confidence and maybe more aggressive discounters coming back into the scheme? Thank you.

Kevin O'Byrne
Thanks Maria. Yeah as far as the Q2 momentum, we have clearly had a very positive impact from the weather in general merchandise and more recently in clothing, particularly over the month of May but across the quarter the weather on average has been better than you would expect and better than prior year. So if you look at the total sales, it is up 10 points, 7%. A good portion of that, less than half, but would have benefited from the weather impact. So where we have sold those products, we will not sell them in the second half. We tend to sell the same number of lawn mowers every year, it just depends what margin you get. And it is much better if you sell them early in the season. So hence our caution on Quarter 2.

On the second half and thinking about the food business, you know we are very clear that consumers will be looking for value, consumers will be feeling more cautious, the economic backdrop is not going to be great in the second half one would expect. And we are focused on that, we are focused on it already. I mean we have currently in lockdown we have got about a thousand SKUs where we have locked down lower prices. We had a two hundred just the other day. We are doing more work on our value ranges that we launched last year that you saw in store. And we are very focused on what consumers will be looking for in the second half. They will be looking for value. They will be looking for online, we think in addition and we are focusing on flexing, continue to flex the online availability and all the service metrics in online. And they will be looking for safe, clean stores where they can social distance and feel secure when they are shopping. So it is a whole package of measures and we think we are well positioned to support customers through the second half, albeit against a tough backdrop.

Question 8

Demetris Demetriou, Schroder's

Good morning and congratulations on a definitely very strong set of results. Just two quick questions from my side. My first question is, are you able to confirm or comment whether online is profitable as standalone business?

And my second question is about Sainsbury's Bank. I wanted to ask if you have any further comments on overall year on year profit expectations. I think you mentioned when you presented the full year results a few weeks ago that you expect an operational loss. I was just wondering if you can comment on the magnitude of that? That is my questions. Thank you.

Kevin O'Byrne
Morning, the first question. The grocery online business if that is what the focus of the question, is profitable. It has been profitable for some time and we have made it more profitable over the last few years where teams have done a phenomenal job on improving the productivity of our pick in particular in store, but also truck utilisation, van utilisation etc. So it is a profitable business, it is less profitable than if you walk into a store and shop for yourself, but it is a profitable business and it will continue to be profitable.

Sainsbury's Bank, year on year loss. You could estimate that and yes we would expect the bank would make a loss this year. We are not giving exact figures and the reason we are not is that on balance we think that we can see a, if you look at our base case that we discussed back at the year end, we said that on balance between the very material impact of COVID on the business in growth in grocery, the combination of both of those, plus the rates refund, we thought the best view at that stage was that the UPBT would be broadly flat with last year. We don't want to break that out into each individual bit of the business, because inevitably each bit is almost definitely wrong. But we think on balance when we look at all of the areas of the business we think a flat position looks sensible. Some will be up from what we are forecasting, will be down from our forecast.

The good thing about Sainsbury's Bank and the numbers we have said to you today, our view on the Bank hasn't changed. I think we had a correct view on unemployment in our base case of around 9%. And actually our capital position and there was some concern, would we have to inject cash into the Bank, and while one can never be sure what the future will bring, our capital position has actually improved since we spoke to you at the half year. So the Bank is more robust should we say despite a very tough backdrop.

Further question
And if I may, just one question on the online business. When you say it is currently profitable, is this including central overheads or just across profit basis?

Kevin O'Byrne
No it includes all the overheads related to the online business. So we charge all the pickers, the vans, marketing etc. etc.

James Collins
Dimitri just on that point around Bank profitability. So we poll consensus on a pretty detailed level and we have done that just in the last week and the consensus on the Bank is for a loss of £23m this year. If we thought that the number was going to be dramatically different for that then we would flag that.

Demetris
That is extremely helpful. Thank you so much.

Question 9

Nick Coulter, Citi

Hi, morning both. Just a couple of quick ones on Argos if I may. Firstly would it be possible to talk about the early customer behaviour that you have seen since you have opened up the first tranche of Argos stores? Have people migrated that to instore? Are they using those stores predominantly as pick-up points? I guess it would be interesting to know what the earlier behaviour is. I am sure you are watching it like hawks and that is informing the second tranche and how you move thereafter.

And then secondly again on Argos, could I ask about your planning assumptions for the peak trading season for Argos. Are those based on double digit down? Do you think the lead times that you have in the business gives you sufficient time to get the inventory in the right place? And I might have a supplementary. Thank you.

Kevin O'Byrne
Nick, morning. I mean first of all the Argos stores, first of all is very early as we have said for the Argos stores you can reserve and collect or you can return. So it is still not if you like back to normal where people are just coming in off the street unannounced. Customers are behaving very, very well, but I think people are very well briefed in the need for social distancing. The queuing, people trying to use cards rather than any cash etc. So and the stores are trading in line with our expectation. And as I say the online side of the business is still performing well albeit we have had a very short period of time and we have had weather impacts, positive weather impacts so it is hard to draw a lot of conclusions. It won't impact our thinking about the second tranche that is in the planning. Because a lot of planning goes into opening up the stores again

because it is making sure that customers and colleagues are safe and training etc. So the second tranche is well on the way, it will more impact or tranches beyond that as we see. And the focus has been, we are focusing on the stores where customers have got the poorest access to an existing pick-up point in a supermarket. So we are just trying to address the areas where we think there is most need from a customer point of view in the short term.

Another point to remember of course is that the Argos colleagues are largely employed in the Sainsbury's supermarket at the moment, so we haven't got lots of people sitting round, those who aren't either isolating or vulnerable, are operating for the most part in the supermarket at the moment.

And Argos planning, yes we are cautious in our planning for the second half. In some areas we can be reasonably flexible because the branded manufacturers will hold stock and we can flex stock reasonably quickly because they will have stock in the market or certainly in Europe if not already in the UK. So we can flex clearly when it comes to own branded, we are having to make longer term calls and won't have the flex in the short-term as you will understand. And we are being cautious as far as that outlook in line with the expectation that we shared with you at the year end.

Further question
Thanks and just on inventory positions more broadly. I guess you have seen very strong trends in GM, but as you say it has been driven by seasonal and probably sub-category specific. On your overall inventory position where are you with GM? Is there still an overhang? Have you managed to clear through? Do you think you can over winter and then also just on clothing. It sounds like you have done the clearance that you need, but it would be great to get confirmation of that. Thank you.

Kevin O'Byrne
Yeah, clothing would be the one that we would have been concerned about. We were concerned about all of it I guess before, as we started in the crisis Nick, but very quickly we got less concerned about GM because of the sales patterns we were seeing. So there is no issues as far as stock in the general merchandise business you know. We are very comfortable with the levels. Clothing would have been a concern both stock in the country, stock on route. And raw materials that we have already acquired in the supply chain. And again we have done a lot of work, working with our suppliers and having sales activity in stores etc to manage that down. And we feel comfortable. There will be an element of stock that would be still stored until next year, but we are very cautious about that as you can imagine and will ensure that we are comfortable with the cost at which that is stored.

Nick Coulter
Brilliant, thanks so much.

<u>Question 10</u>

Sreedhar Mahamkali, UBS
Good morning all. One question. You referred to improving value relative to your competitors, can you flesh that out a little bit please? Are you referring to Big 4? Are

you referring to Aldi, Lidl? Is there anything you can talk a little bit more on your improving price positioning?

Kevin O'Byrne
Just very quickly we measured a value index every week on a typical basket of products. Our value index has improved during this period. We have inflated less than our core peer group in the period. And we are taking action on things like as I said, lockdown where we have got about a thousand skus in lockdown. We added two hundred to it the other day. So our value position has improved during the period across the piece so we are pleased with that.

Srinivasan Mahalakmi
Thank you.

<u>Question 11</u>

Thomas Davies, Berenburg

Morning all. Just one question from me on the Bank. So while you are in the segment, it says that you are reducing the loans will obviously help the impairments, how are you then going to address the fixed costs in the Bank?

Kevin O'Byrne
Well we will continue, the costs were down in the Quarter. Behind your question, you are absolutely right as loans decrease and customers either pay off their loans more quickly and we don't issue new loans in line with our original plan, that will have an impact on future income for the Bank and we will need to just work through the full impact of that as we think about the numbers beyond this year. But our focus right now is more on managing the risk in the balance sheet than the future income. You will see that costs are down in the Quarter, the Bank team are very focused on mitigating actions to reduce costs. Some of those will fall out just because of volume related, but clearly other actions have been taken and we continue to focus on that. It is not possible to totally compensate for it of course in the short-term but it is an area of focus.

<u>Question 12</u>

Xavier Le Mené, BofA

Good morning, thank you for taking my question. So a quick one. Can you tell us what was your promotion level in Q1 versus last year? And do you share, one of your competitors come on that promotion level should remain low going forward is something that you expect to?

Kevin O'Byrne
Well Xavier, we have always had lower promotions than our core competitors for some time anyway and we have been focusing giving customers every day value and not having the ups and downs of promotions and particularly multi-buys. We think that is the right thing that our customers want. And I am not surprised that others are thinking about that. Our promotional level was again the lowest of our peers. It was lower than

we would have expected in normal circumstances because the focus is on supply chain and getting food onto the shelves and managing promotional volumes and having colleagues in store setting up promotional ends etc was not something that would have been at all appropriate in the middle of this crisis.

I don’t know James that we issue a number on our promotional mix for the Quarter, I don’t have it.

James Collins
No, it is not a number that we share. I can look at it and come back to you Xavier.

Kevin O’Byrne
It is lower than normal Xavier, but the lower promotional stance giving customers every day values is exactly what we have been doing for a number of years and will continue to do. And you will see more of that as we prepare for what will be a more challenging second half.

Xavier Le Mené
Thank you.

Kevin O’Byrne
Apologies for rushing the last few questions there, but we were just a bit tight on time. Really appreciate you all calling in to cover off the Quarterly Statement. If you have got any further questions feel free to email James and we will help you offline and look forward to hopefully seeing you all face to face at the next results, but we shall see. Thanks very much, bye now.

End