J Sainsbury plc – Third Quarter Trading Statement
Thursday 7th January 2021 – 9.15am

Simon Roberts
Chief Executive

Good morning everyone and a Happy New Year and I would really like to thank you for joining us at short notice this morning to talk about our Quarter Three Trading Statement covering the 15 weeks to January 2nd. I am joined this morning of course by Kevin O'Byrne our CFO. I am going to give a brief summary first. I am going to refer to the slides that we sent around this morning and which are available on our website and would then of course we will be happy to take all your questions.

So just turning to the slides and to begin with I think it is worth reflecting that this was another extraordinary and challenging trading period, and we've played a really strong role in feeding the nation.

If I turn to slide two, headed Quarter three and Christmas performance, our stores were well stocked throughout despite some significant supply chain challenges. We continue to grow online delivery capacity whilst customer satisfaction measures of speed and friendliness of service and product availability were the highest, we have ever seen at Christmas. Argos again demonstrated the strength of its digital platform with nearly 90% of its sales starting online during peak. All of this was down to the hard work of all of my colleagues and I would like to say again a huge thank you for all of their tremendous work. It really was an outstanding team effort across every part of the business given the highly dynamic situation we saw in the run in to Christmas.

I and many of the team spent our time out across the business in the fortnight ahead of Christmas itself and saw first-hand the outstanding job our colleagues did in providing the safest shopping environment possible whilst delivering leading service and availability. I believe we delivered really well for our customers this year and we learnt a lot too about what worked across our offer and also what we can improve further for next year.

The result was like-for-like sales growth of 8.6% for Quarter Three or 9.3% over the more recent nine-week period since the start of the second English national lockdown. This growth and our expectation that sales growth would remain elevated through the period of the lockdown we have just entered drives the increase in profit expectation that we have announced this morning.

I am now going to turn to slide three which shows the retail sales growth by category. So clearly on this chart shows good progress across the board clearly reflecting a second lockdown in England and the Covid restrictions more widely. But also, very strong execution across our digital platforms for groceries, Argos and clothing. We have seen continue recovery of general merchandising and clothing sales in Sainsbury's stores with very good seasonable performances from both. We have also referred in today's statement to a strong general merchandise and clothing margin performance driven in part by significantly higher proportion of all price sales. So, this has been profitable growth for us alongside an Argos black Friday strategy which traded some sales in favour of the more disciplined promotional stance as we previously described at the Interims.

Turning to slide four which specifically focuses on our digital sales. I talked early about strong execution across our digital platforms, and you can see here on this slide digital sales increased by more than 80% over the quarter and accounted for more than 40% of our sales. Argos digital sales increased by 49% with nearly 90% of the sales starting online, a clear demonstration of Argos's digital capabilities through the peak periods of both Black Friday and Christmas.

In grocery, online accounted for 18% of grocery sales, a step on from the 15% we reported for the first half with 16% of this being click and collect although noticeable that the click and collect peaked at 24% in the key Christmas week. We worked hard to continue to increase delivery and click and collect capacity, despite the challenge of bigger Christmas basket sizes and we saw a good acceleration in the rate of sales growth ahead of Christmas.

Turning to slides five and six focusing on the grocery sales performance versus the markets. Now, in November we committed to report consistently against a set of metrics, and on slide five we show one of these. Our grocery market share where despite tough comparisons and a very disciplined approach to promotions and other trade driving activity we grew ahead of the market and outperformed some key competitors.

That is reflected in slide six which shows performance over the core food and drink categories stripping out some of the noise from beers, wines and spirits promotional activity. On this measure we outperformed all of our key competitors over the quarter.

Now I know the eagle eyed amongst you will have noticed we are using Kantar value data where previously we have shown Nielson volume data. This is simply because we bought our statement forward a week and the Nielson data covering Christmas itself is not yet available.

So, turning to slide seven, as much as it is online that is delivering the big headline growth numbers more than 80% of our grocery sales still go through our supermarkets. I am really pleased that we have seen some of our strongest ever customer satisfaction scores, a real tribute to the brilliant job our team have done. We encourage customers to shop early to help reduce capacity challenges on peak days with initiatives like our ten times nectar points offer and we invested in more Smartshop handheld scanners to help deliver great availability and service. Smartshop accounted for nearly 30% of sales in handset stores over the quarter and customers recognised this with great scores for product availability, speed of checkouts and availability of colleagues. But at the same time, we have not yet made much progress on value perceptions and we could have done better in some other areas such as premium product innovation. Taste the Difference sales were up more than 11% over the period and we know that others saw stronger growth in premium own label albeit from a smaller base. And we have more to go for in these premium areas as we think about the year ahead.

Now turning to slide eight. This showed that we really stepped up to deliver for customers over Christmas in terms of online capacity. We continue to move at pace and will deliver more than 835,000 online orders this week. We were at 340,000 back in March and 700,000 at the end of Quarter two.

Turning to slide nine, we said in November that the profitability of our groceries online business had stepped up considerably over the first half and this has continued giving strong productivity metrics. We increased capacity beyond our original estimates largely from the same fixed asset base despite the challenges of peak trading. I would also like to highlight the progress in van utilisation and items pick per hour in particular which is now broadly back at the levels achieved ahead of the pandemic. We showed you the chart on the right at the interims when we were ahead of the of the pack on online customer satisfaction. Updated for Quarter three this suggests that our growth might have in a couple in areas come slightly at the expense of customer satisfaction. But we are focused on bedding down our new capacity to deliver a consistently strong customer experience.

And then moving to slide ten and last but by no means least I would like to highlight the operational performance at Argos over the peak period with nearly 90% of sales now starting online and huge growth in click and collect and home delivery. This represents very strong execution and a real demonstration of the strength of the Argos platform as we transform the business model.

So, slide eleven turning to the year ahead, we still face a lot of external challenges through COVID and we are expecting a much tougher consumer backdrop. But a focus on the priorities we set out in November will put us in good shape. On food we have very strong plans on value and innovation that you will start to see in stores very soon. We are well under way with the Argos transformation plan and the bank is in good shape. Underpinning this we will need to deliver the significant step-up in our cost savings, and we are executing at pace. We will provide a full update on our early progress with our Preliminary results in April.

And then finally on slide twelve, I committed to come back to you every time we speak on our key metrics. This time around I can say that we delivered really encouraging customer satisfaction stores and a solid grocery market share performance. We are in a strong place relative to the recent guidance on profit and cash and we will come back to these metrics at the time of our Preliminary Results in April. I am encouraged by the progress and as you would expect our new top team are fully focused on executing our plans for FY22.

So, thank you for listening and I will now ask that we open the call up to your questions. Thank you.

Question and Answer Session

Question 1

Andrew Gwynn, Exane BNP Paribas

Morning and Happy New Year of course and starting off in style so congratulations to you and the team for a good Quarter. I guess the questions, well the kind of boiler plate questions really which I am sure you anticipate. But profit for next year but obviously this year's profit is down substantially year-on-year albeit better than implied. So, if Covid hangs around which unfortunately it feels like it is going to, what is the right base of profit, you know obviously £330 versus high £500. I know you have already given us some guidance on profit for next year. I was just wondering on your thoughts if Covid continues to hang around.

The second one, unfortunately online. Some impressive stances there, but obviously 24% click and collect is one that particularly jumps out. I am just wondering what the lessons are as we go into the next year particularly obviously thinking about the profit journey with online and connected to that obviously your plans for more capacity addition? Thanks very much.

Simon Roberts
Thanks Andrew so maybe I will ask Kevin maybe to just comment on as when we look ahead and then I will come back and talk about online.

Answer: Kevin O'Byrne
Andrew morning. Andrew sitting here this morning we wouldn't expect anybody to move forecasts for next year. Just to be clear the upgrade today obviously is related to specific circumstances and let's call them pretty unusual circumstances that we have seen in the last period of time and our view of the remaining weeks in this financial year. We reiterated the at least £586 million for 2021/22 when we last spoke and that included the extra drag of £30 million of business rates next year. So, at the moment we are focussed on closing out this year before we talk in more detail about next year. There is still a lot to do to manage the rest of this year and then we will talk again when we next speak to you about it next year.

Further question
So just to come back on that. Obviously if Covid hangs around a bit longer as it seems to be, should we have it in mind that 580 could be a little bit lower given some of those Covid loss?

Answer: Kevin O'Byrne
It certainly will bring some plus and minuses which we will work through, but at the moment we have no further updates.

Andrew Gwynne
Okay thanks. Simon go ahead.

Answer: Simon Roberts
Thanks. And just Andrew to your questions online. Two quick recaps and then your questions on looking ahead. I think the headline point here is 340 in March to around 700 at the Interims to 835 last week. So our absolute focus here is on opening up the capacity as far as we can to meet the demand obviously from customers as we go into the third lockdown. Not surprisingly we have seen further demands peak this week.

I think the click and collect point as you call out, it is an interesting one. We saw click and collect really open up in the first lockdown as customers were clearly working for home much more and actually a more convenient way in many cases of being able to get online groceries when you want to. So what we found I think is a continued capacity in our network to open up more orders slots using click and collect and Christmas week the 24% I think was a real indication of that. It worked for customers and it worked for the business because it meant we could provide more capacity; we could provide it efficiently and we could as I say get up to about 835,000 level. Of course as you would expect with doing looking at where else we can grow more capacity I think it is really clear that the in-store pick model, you know we are really leveraging the fixed assets, you know our colleagues are doing a fantastic job. It continues to improve our operations, so we improve our productivity.

You have seen our update this morning on how orders per van and drop density improvements. So, if we look at the Interims, we are very focused on the operational improvements and we will keep pushing those. Obviously a third lockdown, you know social distancing incredibly important, safety very important. So, I think in the next few weeks we will be keeping a very close eye on that. But there will be plenty of lessons we keep learning, but we are very determined and very focused and the team are doing a fantastic job of opening up capacity and making sure we use click and collect as much as we can.

Andrew Gwynn
Perfect. Thanks.

<u>Question 2</u>
Fabienne Caron, Kepler Cheuvreux
Good morning everyone and Happy New Year from my side as well. Three quick questions. Could you help us and give us an idea of the sales of the supermarket compared to the convenience stores in Q3 and maybe year to date?

The second question on online. When customers decide to go for click and collect is it same day delivery compared to next day delivery for online for home delivery sorry?

And the last question is how did you keep increased volume online for your stock pick model, did you ask everybody to work at night when these stores were closed? How did you manage this to go quickly to avoid disturbance in stores for customers going shopping in stores? Thank you.

Simon Roberts
Okay, thanks Fabienne. I will maybe ask Kevin just to talk a bit about the sales mix between supermarkets and convenience and then I will try to give some more colour on the online questions.

Answer: Kevin O'Byrne
Morning Fabienne. The sales profile that we saw in Quarter three mirrored what we saw in the first half. Supermarkets that didn't have any grocery online capacity we saw sales down slightly although better than in the first half. Supermarkets clearly with Argos store in stores with grocery online or the combination of both and we saw strong sales growth overall from the box. And as you know we look at the total economic box if you like when we are looking at the overall profitability. Convenience sales were down in convenience year-on-year, better than Quarter two but down and again the same profile as we outlined I think in slide 39 in the H1 update where the less urban

stores were growing, but overall sales were dragged down because London stores in particular and city centre stores were down materially you know 15-16% year-on-year because of their location and clearly not having the footfall in those locations due to the various lockdowns across the country.

And one other thing to add on the convenience, we opened five in the period, two of our new neighbourhood store model and we are really pleased with how they have performed over the Christmas period.

Answer: Simon Roberts
Thanks Kevin. And then onto the online questions. I think in two dimensions of click and collect just to make sure we cover at both angles. So on the grocery business, clearly customers can make the choice of click and collect in their store. So, following the same pattern of either picking and home delivery or click and collect. And as we say more customers traded into that in the Christmas week and we will continue to make sure that the option of click and collect is there for as many customers as possible.

I think, we shouldn't underestimate the Argos business on what happens on click and collect. Of course we have got the four hour fast track collection promise. Click and collect in Argos very strong through the Quarter, 300,000 fast track deliveries we did as well over the Black Friday weekend. Obviously as you remember we guided to at the Interims we had a slightly different promotional approach with more discipline about the number of promotions we did on Black Friday but we really focused on speed and convenience and we saw fast track collection and fast track delivery really perform. And in fact, the fastest fast track delivery over the Black Friday weekend the team shared with me was 57 minutes. So, four hours is the promise, that is the best we got to. So therefore, click and collect both in the Sainsbury's channel and in the Argos channel is something we really want to drive so it is really convenient for customers.

On your questions about picking of online and what we are doing to balance the challenges of social distancing and disruption for customers and making sure we can both serve our customers in-store and online well, a few things we have done. We have increased the picking windows so again honouring the fantastic job our online colleagues have been doing. We start picking now at two in the morning rather than four which opens up the window to get more of the pick done before we get into the trading day. We have increased the delivery window time later into the evening. We have introduced more saver slots so customers can pick slots where there is capacity available at a better value price on a delivery slot. We are doing all sorts of things to fully optimise the window. And of course as we put more volume through the home delivery channel so the improvements in reducing the stem mileage and increasing the drop density is important because we are travelling less distance and therefore we can get through more orders more quickly. So just a whole focus on that area about making sure the store experience is balanced between online and home delivery and making sure as I say we continue to drive the best service and the best efficiency we can.

Further question
Okay. Just to make sure I understand click and collect for grocery. Can I get the order in for hours for click and collect for grocery or is it next day?

Answer: Simon Roberts
It is next day.

Question 3

Sreedhar Mahamkali, UBS
Hi, good morning, Happy New Year all. Two questions from me as well please. Firstly on online. Some of the key drivers were very helpful in the slides. A couple of questions there. Firstly, on pick rate, how much further can you drive those now that they are pretty much back to pre-Covid levels? That is the first one.

And second one, can you give us a sense of what also has been happening with the average delivery fee please, particularly in the context of what I see is like one pound slots which are quite likely well below the cost.

And the last one is Argos growth. I know you called out a couple of categories and I am just trying to understand how broad based the growth was, contribution from gaming and any other key areas that would be super helpful. Thank you.

Answer: Simon Roberts
Thanks. So, let me try and give you as much sense on the questions on online and then we will pick up Argos. I think on pick rate, just to cover the history and then where we are now. So, as you have seen on slide nine and we talked about this at the Interims. We have seen progressive improvement, double digit improvement in item pick rate over the last three years. And so, the challenge absolutely as you say, conscious of all the social distancing impacts and the operational challenges was to get back to that level. And that is where the team have got to. I think for the first point is to hold the level of item pick rate of where we were before Covid and that is broadly where we are back to now. Obviously we are into a third lockdown and so that will necessarily and absolutely bring us an absolute focus on safety and so in this immediate period I think our objective is to make sure we provide as much capacity for customers, you know we are prioritising elderly, disabled and vulnerable customers again. And we do that at the level of pick rate we are now achieving. We are through the Christmas peak period, that helps a little bit. Of course there are less customers in store and so there is the balance between the impact of the lockdown making it a little bit more challenging versus the fact we can get round the store a bit quicker at this time than we could in the middle of December.

So I think we are very focused on the pick rate, we are very focused on the online metrics of pick rates, drop density, average baskets and the click and collect participation and you will see us continue to focus on those and we will update clearly at the end of April in the further progress we make through the period.

In terms of delivery fees, we used dynamic slot pricing, we can constantly look at how do we optimise how we fill our slots but also how we do them economically in the best way and we continue to do that. And I am sure as we come through the Christmas review, we will continue to take lessons from that.

One thing that I think is very clear is that the online demand continues to grow and the fact that we have gone from 700,000 in November to 830,000 last week just shows the size of the opportunity that is there and that is why we are very focused on both the service and the operational efficiency.

One point I should have made just to Fabienne’s earlier question and links to your question online too is that of course we have seen continued same day service of chop chop really pick up. It has been a really positive feature of our performance on the chop chop platform where you can order for fast delivery. And obviously we have been using delivery platforms to help with that and we have seen some of the stores actually a lot of the convenience stores that are the fulfilment bases of chop chop. You can see some really strong sales coming through. So just to give the other angle on chop chop and how that is working.

And then on Argos let's give a bit of sense of Argos and some of the key factors. Kevin maybe do you want to comment on that.

Further answer: Kevin O'Byrne
Yes of course. In Argos, I'd pick out five big categories that are very important during this particular Quarter. TVs very important, gaming very important, furniture very important. Toys, not surprising and then if you put domestic appliances, medium MDAs and SDAs are small and large domestic appliance together. Those five are broadly similar size. In the Quarter gaming was a little bit bigger, but not much than those categories.

If then we talk about the growth, where is the growth coming from? TV is actually the largest growth in the period. Gaming and furniture is similar growth year-on-year and then MDA the larger domestic appliances will be sort of third. Toys didn't grow because of the trading stance we took on toys and particularly combined with Black Friday and in coming into Christmas focusing on managing the margin. And sports equipment grew. It is not one of the biggest categories but that grew strongly as well. So hopefully that gives you some colour.

Further Answer: Simon Roberts
I was just going to say just one other point before we finish on Argos is just on the online question, going back to the detail again. One of the things just on that dynamic slot pricing, actually we are very confident as we fill the capacity by getting the slot pricing right across the grid, that it is profit accretive. So that dynamic model is something that we continue to improve but continues to drive the economics of the online slot capacity fulfilment.

Further answer: Kevin O'Byrne
And that helps for example things like the van utilisation which you see up 56% because so clearly on the one hand it doesn't look like a profitable delivery price, but it clearly helps the whole economics of the model.

Further question
So, can I just quickly come back to the pick rate. I recognise your point about Covid and social distancing. But structurally all things being equal in a year or two, so the medium-term point. Do you see much room for improving pick rates further or do you now need to think about automating some of it?
Answer: Simon Roberts
I think I would just reiterate what we said in early November which is the store pick model has absolutely proven the capacity it has to go from as I say 340 to 835 and that has happened through this period despite significant operational limitations in the lockdowns. And you would expect me to say prioritising safety is first and foremost absolutely front of mind. So as we go into another lockdown that is one of the things I think in these next few weeks will mean that we are not going to see immediate further improvement. But I think beyond that as we come through that period just as we have done through the last 6-9 months you have seen how much it has improved. Now given the initial impact on slide nine, how far it dropped back in the first lockdown and

how much that improved for the summer. We will get through this third lockdown and then we think there is more to go at and we think there is more to go at fully optimising the store model. As I said in November we continue to look at other technologies, but right here and now the way in which we are leveraging asset base that we have by driving that degree of volume and improving the online metrics and setting route to do more of that is where we are. And as opportunities and new technology comes forward we will keep looking at it. But we think there is more to go at once we get through this initial further lockdown Sreedhar.

Sreedhar
Thank you so much.

<u>Question 4</u>

James Grzinic, Jefferies International
Happy New Year to you. I have two or three very quick ones. The first one is can you perhaps confirm what assumption you take in terms of Covid costs for the second half that underpinned that new guidance for profit? I think you spoke to £190 million in Half One. But it would be interesting.

And then Simon just a follow-up on Sreedhar's points. Can you perhaps confirm what the average delivery fee is now for grocery online and whether you think that you can start widening the gap relative to click and collect?

And can you perhaps also confirm whether where the average basket size sits on click and collect versus delivery for food online? Thank you.

Answer: Simon Roberts
Okay let's maybe try and give some specifics on the costs and I will reiterate some of what we talked about in November. So you will remember when we talked about the cost in the first half, we talked about shielding and isolating colleagues was around £70 million. Safety and social distancing around £110 million and I think broadly as we guided to in November of course those costs continue and to be very present in the business as we go into the third lockdown. We are seeing absence rates increase and within obviously the guidance that we have given you today we have taken account of the fact that we expect further absence than we would have seen a few weeks ago. So we have factored that into our guidance and particularly absence levels themselves and of course the cost of shielding for extremely vulnerable colleagues too. That is in our retail operations and of course in our logistics operations as well. So we have factored into that a step up in absence. We are around 8% at this point in time. The last few days we have seen a step up and we clearly expect that to continue. We have got obviously a lot of colleagues in our business given the amount of recruitment we have done at this time of the year, we are coming off the Christmas peak. And so we are factoring in the cost of absence and making sure we have got all the colleagues we need to provide the really safe shopping environment for our customers, great availability online as well. So that is really how we are thinking about the costs in terms.

Answer: Kevin O'Byrne
And James just one other point, we will update at the year end the real detail on this because clearly, we have just finished the trading period on Saturday. So, we will come back with more detail when we do the full year numbers for you.

Further question

Sorry I am just going to follow-up on that. Are you basically assuming that the social distancing and shielding rules that currently apply will continue to apply for the rest of your financial year?

Answer: Simon Roberts
Yes, we are and I think we have been really consistent on that throughout and actually for all the reasons you would expect me to say, as we have come out of Christmas we have reset again making sure that all of our customers in terms of what we are asking our customers to do when they shop with us, that everyone wears a mask, that we are back to ensuring that two metres social distancing absolutely is in place. And doing absolutely everything we need to do to make sure that our colleagues feel as supported as possible. It is an anxious time isn't it and I think safety is front and centre in the way we are making sure we are set up. So, we are expecting all of the operational approach that we had to continue, certainly for the balance of this year for all the obvious reasons.

On your questions on relatively different prices, I don't really have a lot more specifics to share on that today and I think we have tried to give you as much colour on the way we thinking about item pick rate, where we are thinking about drop density. As I say the dynamic slot pricing and the way we do that is profit accretive in the way we optimise it. So, we will continue to give as much colour as we can on the online piece and when we come back at the Prelims we will talk more about how that is bedded down post-Christmas. That is probably about as much as I can say on this point.

Further answer: Kevin O'Byrne
And James there is no noticeable difference between basket and click and collect and the basket and home delivery. That is not what drives the change, it is just what is convenient for the customer and what is available, so the basket sizes are similar.

James Grzinic
Thank you for providing all that incremental clarity on those KPIs it is very helpful.

<u>Question 5</u>

Andrew Porteus, HSBC
Hi morning guys and a Happy New Year to you all. Three from me if I may do. Can you just give us an idea in terms of the £60 million upgrade today? The relative importance and which parts of the business has done the heavy lifting in terms of Argos versus stores versus clothing?

The second question, can you give us an idea if there is any sort of moving or anything to sort of consider from a cash perspective this year given the stronger performance and better profit outlook?

And lastly a quick one on online, could you remind us how many stores you do home delivery from and how many you offer click and collect from?

Answer: Simon Roberts
Thank you so let me try and give you some sense of first of all the key drivers of the change in guidance. I think as you would expect the primary and most significant one is clearly as we have come through the second lockdown and the change in the tiering

situation before Christmas, that has driven more demand on the grocery business. And we have seen as more customers have clearly needed to buy groceries to be at home and to work at home, Christmas arrangements changed. We have seen that drive more demand on the grocery side. Obviously, we planned a good sense of that, but it has been ahead of what we expected. That has been far and away the biggest factor.

Obviously, the arrangement changed just before Christmas and on 19th December caused millions of families to have to reappraise their Christmas plans. And so we saw particularly in the five days before Christmas the impact of that. 21st December was the biggest day. Never seen that before it was a real shift in the Christmas trading pattern. And so we saw both grocery overall drive performance ahead of what we forecast. We also saw our stores in London and the South-East before Christmas over index given the impact of the Tier 4 arrangements. Obviously, lockdown 3 this week. We have seen some uptick in demand not surprisingly again as customers need to buy in for the lockdown when we factored that into our guidance.

Of course, we have prepared for a worse case Brexit and so obviously as the good news of that situation changed, we have been able to factor in the contingency that we had assumed for that.

So, on the food side I would say that demand in the South-East impact positive and the impact of the lockdown are the key components. The Brexit contingency. And the other factor I would pull out is that we talked all the way through about the Argos business and we were working on the premise that some of the sales would have been pulled forward. In the end the Argos business continued to do as you have seen really well through the Christmas period. And so that was another key factor in what we have been able to announce today.

But on the cost side clearly, we have had better full price sales across general merchandise and clothing. A lot of the seasonal products just sold through very cleanly. An example of that in our stores before Christmas, products like Christmas decorations, Christmas trees, all of those products just sold through ahead of Christmas and we were left with no stock afterwards and that applied in a lot of the seasonal areas.

And as I have described, the online efficiency continues to improve, and it is an area that continues to help the cost position. So that would be the overall picture in terms of the key factors that have driven it. Grocery first, Argos demand, the impact of the tiering across the board and then the Brexit situation.

On the store split between delivery and click and collect, we offer click and collect in 330 of our stores now and we pick from 268 of our supermarkets.

Further answer: Kevin O'Byrne
And Andrew just picking up your cash point, we are in a good position on cash working capital. Clearly it is a trading update today, so we don't have all the detail, but we finished the trading period with a clean stock file which is always good. And as we said at the Interims we expected a lot of the working capital benefit from the first half to unwind. Some of it always does unwind because we are building up stock for Christmas, but particularly as we rebuild the general merchandise stock where we have had very strong sell through at Argos. We would expect that some of that will still happen because we will rebuild some of that stock. It will just depend a little bit on the

trading patterns. But we expect to be in a good position from a working capital position and from a cash position at year end.

Further question
Brilliant that is really helpful. Can I just get one quick follow-up on the click and collect side of things. Probably a bit more constrained by this 330 than the home delivery is in terms of customer demand. Because I guess you are effectively asking customers to do the longer stem. Does the increased popularity in click and collect change your thoughts over how many stores you are picking from?

Answer: Simon Roberts
Yeah I think, just to go back on what has happened this year and obviously we have added very substantial number of new click and collect locations this year and clearly not just in stores we pick from but also stores that we don't pick and we are offering click and collect. So for example in my local store in York, in Monks Cross we don't pick in that store but we now offer click and collect and that has been really well received by customers and there are clearly a high number of stores that are in that operational circumstance.

So, I think two things are driving us here, the first thing is we clearly add more pick stores as the capacities happen, but that has been a relatively few number of locations. We have had about fifteen extra locations to pick in this year and that gives us one more capacity but also balances the volume of product going out the back of the door versus out the front of the store. So that the customer experience is maintained. And we will continue to look at more locations we can add click and collect to your point. For obvious reasons if it works for customers and it works for us it is absolutely right that we get to as many locations with click and collect as we can.

I think we will evaluate the Christmas picture as we get further into reviewing what has happened over the last four or five weeks. We are pleased with how click and collect has performed and we see options just to continue to grow it.

<u>**Question 6**</u>

Clive Black, Shore Capital
Morning gentleman. Morning Simon Happy New Year to you and very well done. A couple of questions then. First one is quite particular, but you mentioned Brexit there for the first time which is very refreshing not to have to over talk about it Simon. But is the situation in Northern Ireland one which is concerning you and could it be notably costly in your Q4?

And secondly one I guess more for Kevin but noting what you said about being ahead on profit expectations I would imagine very strong negative working capital. Kevin do you think there is scope to actually bring forward your deferral of debt reduction targets which you set out to 2023 when we talked to you in May?

Answer: Simon Roberts
Thanks Clive. Let me give you a sense of how we are thinking about Northern Ireland and then I will pass to Kevin. So, when I think, the key thing here is how pleased we all are that a deal was reached before the end of the year. Because whilst we have clearly contingency plans in place for a no deal, clearly the disruption that would have caused would have been a whole different situation. So, the first thing to say is that the flow of goods into Northern Ireland seven days into this, it is broadly going as we need it to. We have got products available for customers, we plan really closely with

our suppliers over a very long period of time. We have made robust plans and there has been minimal disruption to the supply so far. There have been individual small examples, but in the grand scheme of the level of change that we have seen happen Clive, if I look from a customer point of view in the thirteen stores in Northern Ireland today, the vast majority of our products are there and we are working through making sure that some of the issues we need to work on in the next three and six months, obviously we have go to work through export health certificates through the gross period, we have go to work through the prohibitive and restrictive items in the next three months. So those things are all in front of us still to do. There is bureaucracy clearly associated with that but we are working with all the right parties in the right way actually across the industry to face into it.

So look it is early days, the most important thing is customers in Northern Ireland could get the products they should expect and that is where we are. We put some contingencies in place to make sure that products were available in the event of a no deal and so we will continue to review that and we are very close to making sure that the right conversations are happening. Because as you say we can't afford to put any costs into the operation at this time and we will be working really hard to make sure that is not the case. Kevin.

Answer: Kevin O'Byrne
Yeah Clive. There are a few moving parts. Clearly the reality is we do have to repay the £440 million of rates that was in our original thinking. So that is obviously going to drag on the debt repayment. We will see a benefit from the increased profits, you are absolutely right. So that is £50-60 million that we should see which should ease into it. On the working capital it is just a bit soon to say where that is going to, we clearly have targets and we would like to hold some of that working capital benefit but most of it will unwind. So better if I update you at the year end when we fully analyse the numbers, but the profit number will definitely flow through.

Further question
Okay, thank you for that guys and then Simon just more broadly on Brexit, there is a lot of noise and uncertainty around country of origin of products coming into the UK and various ingredients that they utilised from Europe and then manufactured in the UK. Is that something that is also worrying you and worrying the industry?

Answer: Simon Roberts
Yeah, thanks Clive.
I think as you say some of these factors have clearly become clearer since we have seen the detail of the agreement and particularly as you say products and the origin of where they are processed is one of the things we are working through. So if I were to describe at the headline level we have got to iron out some of the remaining issues around the Northern Ireland issues as we have just talked about. And of course we have got to work through on particularly the issue that you talked about. And we have got the right conversations happening across the industry to make sure that we can solve the issues. There will be changes we need to make as a result. We haven't got to all of those answers yet. Our priority right now has been stock availability to customers. But over the next 2-3 months these issues about where we are bringing products in from, what the impact of that is and how do we reset that. What we need to is going to be a key priority for us to work on.

I should just lastly say that for our teams in supply chain and logistics particularly, technology and in the trading functions it has been an incredibly busy time right up until the new year. These issues were being worked at right up until the last few hours prior to the 31st. And so having got that in place for customers we now need to turn our attention to the issues that you are talking about and we will be.

Clive Black
I think that was Michael Gove's plan all along wasn't it, not having enough time to work out anything, but anyhow well done on your trading statement and all the best for the future.

<u>Question 7</u>

Xavier Le Mene, Bank of America
Good morning gentlemen, thank you for taking my call. Two if I may. Just on the grocery customers can you give us a bit of colour on volumes, mix and inflation you've seen in Q3and potentially what you are expecting heading into 2021?

And second, you sounded a bit disappointed with the price perception improvement. So may I ask why you think it is actually not improving as fast as you think and potentially what is your plan to improve that going forward?

Answer: Simon Roberts
Thank you, well let me try and give some sense of both and I am sure Kevin might want to come in on the first point as well. What I think is just in terms of the overall position that we have seen, I think obviously we have been very focused on value for customers throughout the Quarter and you will remember at the Interims in November I laid out the action we had been taking particularly in our fresh food business, particularly in areas like meat, fish and poultry and across our wider fresh food and categories to bring better value to customers. And so we have been very focused on just continuing that strategy through the course. And we have seen the benefit in volumes as we have particularly focused on improving value at the centre of the plate and we will therefore have been significantly seeing the benefits of that in value perception in those areas. But value perception takes time to change doesn't it. And so my comments on perception of value weren't disappointing, they were more just reflecting the fact that we have just begun a strategy to put food first. And we are very focused on improving the price perception of our customers and will continue to do that - not least evidenced by the price lock we have just announced last Saturday with 2,500 everyday products on it.

More broadly in terms of the pricing environment, I think clearly two things to say here. I mean we didn't take part as extensively in some of the promotional activity in areas like beers, wines and spirits and you can see the impact of that in the data I have shared on our relative value growth this morning. We did use other mechanics to give customers value, for example the ten times nectar points that we used to encourage customers to shop early we think was a really important and successful way in which we encouraged safer shopping to bring the capacity earlier but also giving customers value through nectar for doing that. So we are very focused on value, we think broadly that the market will have been less inflationary in Quarter three than in Quarter one and two. We are bringing more value to customers and you will see us continue to do that. Because to your key point, our strategy is to improve price perception and we are organising all of our activity to make sure that we progressively continue to do that.

Further answer: Kevin O'Byrne
Xavier one thing I would add on the inflation point, it is just hard to read at the moment there is a lot of noise and changing in consumer shopping habits. So for example smaller turkeys for bigger turkeys and where we say in your mix question, we saw

growth in both own brand and brand. But we saw a mix into premium with stronger growth for example in Taste the Difference than in some of our less premium brands. And we saw strong growth in things like premium champagne etc. So people wanted to treat themselves. That will have effect on some of the inflation numbers you see because obviously the average selling price goes up. But if you like it is good inflation, not bad inflation. But overall, the trend as Simon said is we are seeing both in the industry and in our business, lower inflation in Quarter Three than in the earlier quarters.

On the volume question in more detail, we will get Nielsen volume detail later today, we don't have that which obviously will then analyse and get what we can from that understanding.

Xavier Le Mene
Thanks.

Question 8

Rob Joyce, Goldman Sachs
Morning, Happy New Year to you all. Three from me. So first one, it is a bit of an extension of an earlier question. But if we look at the full year, I think we X out the bank and fuel, we are looking at retail profits up somewhere in the region of £200-300 million underlying. Are you able to give us the split of that between grocery and the non food channels? That is the first one.

Second one is just on online, thank you for all that detail. If we put it all together are you able to give us an idea of what the cost to serve has fallen by in totality in terms of pounds per basket maybe or in terms of percentage on that basket?

And then the third one is just looking to the future now, given the shift to online but obviously you have made improvements there, do you think in a normalised growth environment Sainsbury's is a fundamentally more profitable or less profitable business in terms of margin than it was prior to Covid? Thank you.

Answer: Simon Roberts
Rob thank you. So I want to try and give as much as I can, but on a couple of your questions we won't be able to go a lot further than we have. I think on the guidance as you say we don't split it out between grocery and each of the product channels. So I can't give you any more on that I am afraid. Kevin.

Further answer: Kevin O'Byrne
Yeah I am sorry Rob and it is a trading update as well. So and we finished trading on the 2nd. So ,we don't share that level of detail and we will come back at year end with a bit more colour for you.

Just on the online profitability point. In the first half we saw total costs for order down somewhere between 8-9%. So, we will have seen an improvement on that. We don't have all the full analysis done and again we can update on that at the year end, but that would have improved a bit over the period.

Further answer: Simon Roberts
And then to your third question Rob, looking ahead of course you will remember the comments we made in November in terms of the strategy which very much is about

as we put food first in our priorities and we really focus on delivering and returning each of our brands and we accelerate our cost saving plans. We are confident that we can see through once we get through this Covid period, the priorities that we described back in November and we are confident we bring a greater focus on food as we invest in the price perception that we have already talked about this morning, that will drive an increase in our primary customer base and therefore grow our ability to drive trade up.

One of the comments I would just pull out from the Christmas period again, it is really clear that customers had a propensity again to trade up this Christmas. And to a large extent we have satisfied that. But we see opportunities to go further with that. And of course as we get into the detailed review of Christmas we will be looking at where else we can take the trade up opportunity in some of the premium tier ranges as we grow the primary customer base. And I think clearly the shift online as you say is hugely significant. Who would have thought back in March that we would be here today talking about 20% of our grocery volume going through online now.

As we described through the call this morning, we are very focused on capacity and we are very focused on the operational metrics to drive the efficiency of the online model and at the Prelims we will give as much of a sense as we can of how much further that has moved and how we see it evolving as we go forward. I think we talked in November about the economics of the box overall and our plans on save to invest are very focused on how do we deliver the most efficient online operations but also as the demand curve changes between online and store how do we find efficiencies in the rest of the store as well.

So I think there is plenty for us to go at, but I think the priorities we have laid out, these three core priorities will give us a lot to deliver in the next twelve months in giving us a very strong start point in terms of delivering against the commitments we have made.

Further question
Thank you, really helpful. And just quickly Kevin on that 8-9%, does that include the shift to click and collect as a blended number?

Answer: Kevin O'Byrne
A blended number, exactly.

Rob Joyce
Thank you very much, appreciate it.

Question 9

Nick Coulter, Citi
Morning, Happy New Year to you all. Just two very quick ones mindful of time. Firstly, could I ask for your sense of how much unfulfilled demand there is for your online offer at the moment and whether you think has penetrations broadly peaked for now having going through Christmas? So that will be first one.

Then the second one would be just around like a check on the timing of the MFP investment that went in. From the data it looks like you saw a very quick volume response to that investment. Thank you.

Answer: Simon Roberts

Yeah, thank you. Yes I think on the demand picture when I think, there are a couple of things to say there. Clearly we have gone 340/700/840 last week. There is still demand to fulfil. I think when you look at industry predictions post Covid you know I think the broad view is somewhere in the mid-teens. We are planning to be close to where we are now than that. And of course there will always be certain parts of the UK where we need to have more capacity. There will be other places where we can use what we have available still. So we will keep looking at where we need to add more in. The focus for us here is on the profitability of the online operation and delivering for customers as we come through this third lockdown which inevitably creates a bit more of a spike. I think things will settle down a bit after that. And as we come through Covid lets all hope that by later in the year we will get to a clear picture of what the watermark is at that point in time. So, we are at 18% for this Quarter, that has grown for the Quarter. I would expect us to be closer to that than the industry predictions overall.

Further answer: Kevin O'Byrne
And Nick the only other point to that is the great thing is we have got the flexibility with very limited capital expenditure to flex up and down depending on where customers go.

Further question
Sorry you expect the broad proportion of the doubling effectively to stick is what you are saying?

Answer: Simon Roberts
Yeah as I say I think industry prediction is 15-16%. We are at 18% and growing. I would expect to be closer to 18% than 15%.

On MFP so what do we do here just to reiterate. Back in September we began the work which really focused on how do we win the centre of the plate, that was the core strategic objective that we began to answer and we invested in price around 300 products in meat, fish and poultry as you say. And as you say we saw a volume increase as a result. We saw a double-digit volume increase which pretty much is sustained as a result of that.

Further question
Was that in November though that you put in the investment? I am just trying to clarify the timing of the investment.

Answer: Simon Roberts
We did the investment at the back of September and we first reported on it in November.

Further question
Okay so it took a few weeks to work through then essentially but you saw a very strong volume response?

Answer: Simon Roberts
We saw a strong volume response and just going back to the detail that we shared with you, is helpful in November. What we did was effectively, we focused on meat, fish and poultry and we focused on what we were doing in terms of those core products that really formed customer perception of what we were doing on price. And what happened was we got 300 products actually in the first week in October and we saw

a volume uplift across meat, fish and poultry between pre and post investment of 11%. And some of the key products for example mince, 5% fat, we saw just under a 30% growth in the volume. Big pack chicken fillets 10%. So these really key high volume lines we have seen the volumes shift significantly as a result of what we have done there. And this week as I say we have just launched our price lock campaign from the 2nd January, 2,500 everyday products in that price lock and again meat, fish and poultry an important part of that. And we are very focused on this centre of the plate point. You know how do we convert to more primary customers and how do we use the work we are doing in this area to support that.

Nick Coulter
Thanks very much. It certainly seems to have the desired impact on your switching. Thank you.

<u>Question 10</u>

Maria Laura Adurno, Morgan Stanley
Morning. Happy New Year to everyone. Most of my questions have been answered. Just one very quick question perhaps if you could comment on levels of absence, where they stand and where you are in terms of potentially having to hire new people. Any comments would be extremely helpful. Thank you very much.

Answer: Simon Roberts
Thank you. So just to reiterate where we are on absence. We are around 8%. We have seen not surprisingly absence increase over recent days for all the obvious reasons. And of course, we are paying a lot of attention to absence both in our retail operations in stores and online and also in logistics as well. As you would expect given the third lockdown this week, we have put in place all of the support for our colleagues who need to shield or for our extremely clinically vulnerable colleagues. So all of that is in place and that is factored into the financial assessment we have made of our costs in the balance of the year and in the guidance that we have given today.

In terms of the resourcing in the business, the other side of your question really which is how do we make sure we have got enough people to look after our customers. 172,000 colleagues are in the Sainsbury's group business at the moment. We have hired significantly more colleagues year-on-year and we expect to exit this year with more colleagues in our business than we began the year for obvious reasons. A lot of colleagues are supporting the online operation and so as we come out of Christmas clearly the impact of the third lockdown, clearly the impact of the increase demand in grocery and Argos, clearly the step-up in online operations is making absolutely critical and the team are doing a brilliant job just really focused on making sure we have got all the people we need to serve our customers and making sure obviously we are supporting our colleagues that need as I say to shield.

So that is where we are on it and I think focus is all about delivering for our customers through what is going to be a very challenging few weeks ahead for all the obvious reasons.

<u>Question 11</u>

Tom Davis, Berenberg
Morning. Happy New Year. Just three questions from me. Given you guys look at the whole box on the sales densities of the whole box. In a normalised environment, given online will be less cash profitable than in-store sale. What kind of incremental sale densities are the sort you need to achieve in order for that store to continue growing its absolute cash profitability? And in terms of switching gains, who are you gains most strong to, is the discounters? is it Asda?

And then thirdly in the Argos restructuring what is the timeframe for this restructuring the model, closing the stores and do you envisage any potential execution risks or supply chain issues when you change it all? Thanks.

Answer: Simon Roberts
Thanks Tom. I will maybe pass to Kevin for the first one and I will try and give some comments on the Argos switching.

Answer: Kevin O'Byrne
Tom morning. You probably won't be surprised. I am not answering that question in detail and we wouldn't propose as a trading update to answer it. But we will come back and talk more about the box economics because I know how important it is for you and it is obviously something we spend a lot of time looking at. But that level of detail we probably, well we are certainly not sharing today and we need to consider just from a confidentiality and competitive point of view how much we share. But we did say in the first half we had stores that had an Argos store in store, grocery online and walk-in customers grew their sales by 18%. Whereas grocery online on its own with walk-in customers grew their sales by 11% and if you had an Argos store in store and no grocery online and walk-in customers who grew by 8%. So you can kind of see that as we put more offer into the store we grow the sales very materially, that clearly increases the margin pool against a fixed cost base and then we have got a lot to work, working on the various variable costs and Simon has talked about the online levers etc. So it is a big focus for us and something we will come and talk about in more detail in future sessions.

Answer: Simon Roberts
Thanks Kevin. And then on the two other questions, I think obviously in terms of the switching we will see the volume data when that comes through. I think the theme we have seen through Covid, we have seen many customers have been choosing to shop in larger supermarkets than discounters, certainly through the lockdown and I think that theme has continued born out of the latest data that we have seen. Obviously different performances for the different discounters, but I think the key thing there that we have seen, obviously growth and we have grown market share in food through this period and inevitably some of the action we have been taking in areas like meat, fish and poultry we think has been important in terms of beginning to address value perception and winning those baskets. We will look at the data obviously when it comes through for the Christmas period itself. But on the way into mid-December which is the last reported period that was certainly the pitch we were seeing in terms of the switching.

I think in terms of Argos just to reiterate what we let out in November. So we are beginning a three year transformation programme in Argos which will clearly close the vast majority of the standalone stores, open more Argos store in-stores inside Sainsbury's supermarkets and collection points both in supermarkets and in convenience stores. We are well on with the programme of planning this for the first year. Clearly it is predicated on getting the local fulfilment centre network up and running and we are planning the first phases of that.

The point I would just want to make and acknowledge is the fantastic job our colleagues in Argos have done through this period. We announced these significant changes at the beginning of November and the way in which the Argos team have led and delivered Black Friday and this Christmas has been absolutely outstanding. And so we are on with planning the changes. Obviously we are very focused on the demand in Argos at the moment and making sure we support our colleagues and look to redeploy as many of our colleagues as we can as we begin to deliver the transformation plans that we have talked about. I think we have got three of the LFCs up and running already and of course we will be balancing closely making sure we are delivering customer availability, a strong customer offer in Argos at the same time as delivering the changes that we have begun.

Tom Davis
Brilliant, thanks.

<u>Question 12</u>

James Anstead, Barclays
Good morning. Happy New Year. Two quick questions. Firstly, you mentioned you were very pleased with this ten times nectar point scheme to smooth demand in that week up to Christmas. Is that a mechanism you can imagine using more widely to move demand or is it really only the extreme volumes around Christmas when that is likely to come into play?

And then a question just for Kevin as well probably. The one number that perhaps caught me cold this morning was the kind of jump in the net new space contribution to be quite noticeably negative this quarter which I guess is the fact you have permanently closed quite a few of these Argos stores from November. Is 2% hit per quarter a sensible sort of assumption for quite some time to come now given your plan to shut most of the Argos states or might it even get a bit higher for some time?

Answer: Kevin O'Byrne
James you are right, the 1.8% is 148 stores which we treated as open up until Quarter two, obvious they weren't trading but they hadn't officially closed, we treated them as closed and that is what is driving that difference that you see as you go from Quarter One, Quarter Two into Quarter Three. We will need to come back and give you a bit more help. I wouldn't want to give you guidance now that we haven't checked, but we will come back and help you plan for as we do the store closures as we finalise those plans over the next period of time if that is okay James. And I will help you with that.

Further question
Yes, I suppose just one quick follow-up then, but you treated them as essentially closed from the start of the third quarter rather than the middle right okay. So okay that is helpful to clarify that at least, that is helpful thank you.

Answer: Simon Roberts
Thanks Kevin. And then just coming back to your question on ten times Nectar. I think the genesis of this was really all about the planning phase of Christmas, how could we manage what was a very uncertain set of challenges around capacity in supermarkets. And you know very thoughtful about the impact of social distancing and did a really great job looking at different approaches we could take to bring forward some of the

demands particularly in those areas of the product base on grocery and ambient products where that was going to work. And so this was driven out of an objective of safety and smoothing the customer demand curve and the reason that we did it. And as you say as part of our review of Christmas we will have a really good look at how it has worked. I mean we are pleased with it. Customer feedback has been good, it has enabled us to pull forward sales in these areas which has opened up the capacity to be able to put more of the perishable products through the pipe just prior to Christmas. So, I think it served a number of objectives. Safety first and foremost, balancing the customer flow into stores which was something that was very much on our minds when we couldn't anticipate how the peak four or five days to Christmas would be. Clearly using Nectar to reward customers for shopping early and enabling us as we look ahead to find ways of further optimising the peak days before Christmas. So, they were the factors that went into it and our early assessment of it has been successful. We will do the full wash-up on it and look to further applications from that.

James Anstead
Very helpful, thank you.

Closing Remarks

Simon Roberts
Thank you. Well just to thank everyone this morning for joining us at short notice, very conscious that we have pulled our update forward today. So thank you for your time, thank you for all your questions and I hope we have been able to answer them as fully as we can.

Just to finish by saying obviously a huge thank you again to all of our colleagues for the fantastic job they have done and to our supplier too actually. Our suppliers have worked incredibly hard to support what has been a very challenging period. So a big callout to them.

Thank you to you for your questions this morning and to say of course we will talk again at the end of April for our Preliminary Results. We are very focused on our strategy, our three core priorities which will update you more on them in terms of progress and thanks for joining us today. Stay safe and talk soon. Thanks everyone.

End