J Sainsbury plc – First Quarter Trading Statement
Tuesday 6th July 2021 – 8.15am

Simon Roberts
Chief Executive

Kevin O'Byrne
Chief Financial Officer

Simon Roberts
Good morning everybody and I want to thank you for joining us this morning to talk through our Quarter One Trading Statement, which covers the 16 weeks to June 26th. I am joined this morning with Kevin O'Byrne our CFO. I am going to give a brief summary first and then of course we will be happy to take all your questions. The webcast will show the slides I am going to refer to over the next few minutes. But just in case you have dialled in by phone we have also sent those around by email this morning and they are also available on the website. So, I hope everyone has got the slides to hand.

Okay so turning to the slides then. So, to begin with, of course, I want to thank my colleagues for the brilliant job they continue to do in delivering for our customers. As we said in the statement, sales have been significantly ahead of our expectations across grocery, general merchandise and clothing. And we have put more grocery volumes through our business this year than we did last year, when we were dealing with panic buying and of course the first lockdown.

Now this has taken a huge effort throughout the business, particularly in the light of some of the well-known challenges through the supply chain. And so, as well as thanking all of my colleagues, I would also like to recognise the great support we continue to receive from our suppliers in keeping products available for customers despite the demand and logistics challenges that are out there.

Turning to slide two, whilst the strength of our grocery sales is in part due to a stronger market it is also a reflection of the work we have done to improve all aspects of our customer offer, and the very high standard of customer service we are now delivering both in stores and online which, alongside the improvements in value and product innovation, is really driving some encouraging market share gains for us.

The result of this was a retail sales growth, as you can see, of 1.6% or 10.3% on a two-year basis which was ahead of our expectations. Grocery sales were up 0.8%

year on year and up more than 11% on two years ago. And we have been seeing a a really good customer response to the investments we have been making, particularly in value, in innovation and in customer service.

And so, I am really encouraged that we will be able to use some of that Quarter One sales outperformance to accelerate investment in the customer offer and bring forward investments we had originally planned for next year.

In particular, as you will have seen, we announced yesterday an additional £50 million of price investment, which is focused on the centre of plate and on the everyday essentials that really matter to our customers this summer.

Now, in addition, we have stated today that we expect underlying profit before tax this year to be at least £660 million, having previously signalled our comfort with prior consensus at around £620 million. So overall I think we have a good balance between flowing through some of that revenue benefit to the bottom line and clearly reinvesting to keep on improving the customer offer in line with our Food First strategy, which we laid out in November.

Turning to the next slide, to slide three. Looking at this slide on the sales growth and working across the chart, you can see here that grocery growth is up on the year despite the very challenging comparative period, which does reflect the ongoing strength I think of both the grocery market and of course of our market share gains.

Argos sales were down against the extraordinary period of last year, driven by the first national lockdown and the very good weather we had this time last year. But we are ahead of our guidance of sales being in line with 2019/20 as a base.

Now beneath that headline number we have seen some very encouraging growth in areas like home and furniture, offset by declines in some categories that performed exceptionally well during the first lockdown last year such as laptops, office furniture and outdoor products.

As you can see, sales of general merchandise and clothing have also bounced back strongly in Sainsbury's stores as transaction numbers have recovered. We are also particularly pleased with the clothing growth, against the relatively strong performance last year. And again, winning market share here even as some of the competitors have reopened stores fully for the first time.

So, turning to the next slide. You can really see here some context as to what is changing in the grocery business. And when we look at this slide it shows a very gradual, but clear, normalisation of in store transactions and of basket spend levels. Now this is something we expect to continue as restrictions ease further and customers spend more time eating, working, socialising and having holidays outside their homes and inside and outside the UK. So, we are not expecting the exceptional benefit we have seen for grocery sales to continue into the second half or into our next financial year.

Now turning to the next slide, on continued growth in digital sales. This really shows the shift in digital sales versus two years ago, even as we have been able to reopen our Argos stores and more customers are returning to supermarkets, with online grocery participation slightly down on peak levels but still as you can see significantly higher than in Quarter One last year.

Again, we would expect some further gradual change as customer habits normalise, but we are adapting really well and delivering strong customer service online and in stores and we are making sure too that we deliver that efficiently.

Turning to slide six, we committed that we would consistently show you the same market share metrics every time we report. And I am really encouraged by slide six, because what it shows is that our volume growth versus the rest of the market over the first quarter and it is a clear demonstration of the progress we are making with our Food First strategy. Showing that in Quarter One our volume growth, on both a one year and two-year basis, was not only ahead of our superstore competitors but also ahead of the market in total.

And this demonstrates how well customers have responded to the better value, the innovation and customer service that we have been delivering. It is early progress of course as we execute against our Food First plan and we still have much to do. But we are encouraged by the strong momentum we have already seeing across fresh food and across grocery too.

Now turning to the next slide looking at customer satisfaction, you will be familiar with the format of what we are showing here, it really highlights that customer satisfaction against our superstore competitors. And for us this is really fundamental because as we have come through COVID-19 we have seen that the core service attributes and availability, colleague friendliness and speed of service are even more important to customers. In supermarkets we have improved quarter on quarter and grown our lead at the same time, versus our key competitors.

Now in April I said that we had more to do to improve the online customer experience and again as you can see, we have made a good step on here as order numbers have normalised and we have moved back to further improve our position at the top of the pack. We of course too, have been very focused on safety throughout and we continue to lead the industry on safety too.

Turning to slide eight, and slide eight really is an update on what we showed you in April, demonstrating the further progress we have made on our pricing position versus Aldi. We are very focused, as you know, on the centre of the plate products that we know really matter to our customers and where we know we are generating particularly strong good halo spend elsewhere in the basket.

So we have made this week's announcement of £50 million of price investment in key products like seasonal soft fruit and meat, fish and poultry lines against the backdrop of the strong customer response we have seen from this initial price investment activity.

Now versus Tesco we are flat on the quarter and continuing to make progress over the longer-term. And just to be clear we are comparing ourselves here with a Tesco basket that assumes 100% club card prices penetration.

Turning to slide nine, I know there will of course be a lot of focus on what the new normal looks like for online grocery. As the chart on the left shows, customers are beginning to return to more normal shopping patterns as restrictions ease, with online demand reducing gradually from peak levels and transaction numbers increasing in stores.

Now we are really well placed to serve customers, whatever the balance might settle at, and we are encouraged by the number of customers who shopped online with Sainsbury's for the first time during the pandemic and have now gone on to become loyal customers shopping online and in store.

Now looking at the chart on the right-hand side of this slide, we have been clear that there will be some online cost headwinds as order numbers reduce. But we have also said that we expect store pick rates to improve and that is clear from the top right-hand chart with, item pick rate per hour up 42% year on year and up 11% on two years ago. This of course is a significant benefit to online operating costs.

Turning to the next slide, this really demonstrates the fundamental transformation of the Argos business. Argos stores were reopened early in the quarter, but the shift to online ordering has endured with 90% of sales starting online. We have made further progress too with the Argos estate with the standalone store count now down to 387 stores from around 600 at the start of the pandemic.

We actually opened our first local fulfilment centre in Bristol last week and this is the first part of a network that will transform the economics of rapid fulfilment and improve the speed and breadth of product availability for customers.

So, turning to the next slide on our key priorities. We are only four months into the financial year and of course expect a lot of change in the months ahead. But we do feel we are making good early progress on the priorities that we set out in November. With food customers noticing and responding well to the progress we have made on value and innovation; we are well underway with the Argos transformation plan and the Bank is in good shape. We have also got getter visibility and confidence on the cost savings that are helping fuel improvements to our customer proposition.

Finally, on slide twelve, I committed to come back to you every time we speak on our key metrics. On the operational metrics first, well I am encouraged, we are encouraged, by our grocery market share performance on both a one and two-year basis. And one of the drivers of that has been our customer satisfaction where we are improving year on year and importantly extending our lead versus key competitors.

As you know we outlined our Plan For Better commitments last month and with the launch of Helping Everyone to Eat Better, we have now fully integrated that into our customer plan and our customer communications.

We will of course update more on the financial metrics with our Interim Results in November, but I am pleased that we have been able to upgrade our guidance today. But really, more than that, I am delighted that we have been able to use the benefits of our sales strength to reinvest faster in the customer offer than we had originally planned.

And just finally to say our team right across the business are very focused on the important Summer months ahead and ensuring that we continue to deliver the best grocery experience for all our customers. Of course, it is still early days on the execution of our Food First plans, but we are in good shape and there is great energy, focus and momentum in the business behind what we think we can deliver next.

So thank you for listening as I have shared those slides, and we will now open up the call for your questions.

Question and Answer Session

Question 1

Andrew Gwynn, Exane BNP Paribas
Morning Simon, morning team. Yes, one question actually, but covering a few areas, but really around disruption. Obviously, you flagged in the statement some of the disruption we have seen in non-food. I'm wondering if you could also cover off the HGV shortage we have been reading a lot about. And then secondly Brexit and Northern Ireland, just where we are in terms of latest there. Thank you very much.

Answer: Simon Roberts
Thanks Andrew, well I will try and give you some context on that. So, I think a couple of important things to say. Clearly there is a number of factors at play here which is making supply challenging in some areas for retailers. I think the key point is that our team are working really hard both upwards in the supply chain with our suppliers, with our key partners to make sure we keep flow of goods moving really well in the circumstances so we can get products on the shelf for our customers. You can see in our results today that our availability performance, particularly, we are really encouraged by. It is challenging, we have got a high level of demand but the team across the supply chain, logistics, retail, every part of the business, in all of our relationships with our suppliers, are working really hard to keep driving that.

And I think the industry has stepped up a lot over the last eighteen months and we have learnt a lot and achieved a lot and we have all really come together on these challenges and that is exactly what is happening right now.

Of course, there are issues well documented in terms of HGV drivers. The team are working really hard to secure the best support we can. We have in-house logistics in Sainsbury's which is important in terms of being able to be sure, between depot and store, about capacity. But the supply chain issues further upstream are ones that we are focused on.

And then on Northern Ireland, to your second point, well I would say two things here. The first thing is that we continue to work closely with the Government and industry to find solutions and we would urge the Government to find solutions that of course can help simplify the border requirements, particularly in terms of the cost and complexity there. We are working really closely with our suppliers to make sure that customers can get the products that they need. You will be aware that we set up a partnership, a local partnership in Northern Ireland with Henderson's. That is going well. And so, across our thirteen stores in Northern Ireland, the combination of what we are doing with our suppliers, how we are moving goods into Northern Ireland and the support we have got from our local partner there means that to the largest extent we can still provide good availability. But we are working hard on this, the teams are working very hard to maintain availability. It is not straightforward and as I say, lots of focus on making sure we can simplify the border requirements when and if that is possible.

Further question
Okay that is all very clear. Do you think we are past the point of peak disruption say in non-food or in the Northern Ireland situation?

Answer: Simon Roberts
Thanks Andrew, maybe just a little bit on the non-food side. Giving you some context there, on the non-food side; clearly there are some challenges particularly from the global perspective, supply chains are under a lot of pressure, the impact of lockdowns, in India particularly, a lot of challenges on container availability, raw material challenges. I think these issues on the general merchandise and clothing side will continue. We have described that through the remainder of the year. The combination of the supply chain challenges alongside the level of demand we are seeing means that every stage of the supply chain is under pressure. But again, the team are working really hard to improve availability as far as we can. And I think as far as we can see everyone is on a level playing field with this, so everyone is working hard to improve it. It is challenging on the non-food side, but we are working through it.

In terms of Northern Ireland, I think we are working hard industry and Government wise to affect positive momentum that we need, and we will continue to do that over the weeks and months ahead.

Andrew Gwynne
Okay great, thanks very much.

<u>Question 2</u>

Clive Black, Shore Capital
Good morning gentleman, very well done. A-Star (A*) at the end of the first quarter. One question from me. It follows on from Andrew's actually. When one speaks to people in the supply chain, they are seeing enormous inflationary pressures, across the board really. And I just wondered how you are managing and potentially mitigating that in grocery and non-food please? Thank you.

Answer: Simon Roberts
Thanks Clive. I mean just to speak a bit on some of the inflationary pressures as you say. I will come back to our price position in a minute. I think overall absolutely there are pressures particularly on freight, particularly on logistics, containers. That's definitely the key point of challenge in terms of where we are seeing inflation come through. Actually, in some of the product categories we have seen a bit of deflation in the quarter particularly on the fresh side. But exactly as you say, high demand for movement of goods, that situation is continuing to intensify as demand is higher. And

that is why our trading teams, our supply chain teams, our procurement teams are really close to this issue. You know as we have seen, this elevated level of demand come through the first quarter ahead clearly of what we expected. It is one of the things we are having to adapt and move fast on particularly when we look at over the summer months with the combination of all the sporting events happening, high levels of demand, staycation in the UK. There is more challenge ahead here we are going to have to work through Clive.

Further question
And is there productivity initiatives you can go above and beyond that you have talked about today, because as I say, we are waiting for inflationary pressures to come through on the shelf side progressively?

Answer: Simon Roberts
If we talk more broadly beyond our freight and logistics impact, when we look at what are seeing on inflation in the first quarter, the first thing to say and as you have heard in my opening comments, we are absolutely committed to strengthening our price position relative to our competitors and we are really seeing the benefit of that. We enter this period with our relative competitiveness at some of the best levels we have seen and that is clearly an important part of our customer offer as we go into a potentially higher inflationary environment. That being said, in the first quarter, we have seen some inflation in some categories, and we have talked about some of the commodity areas that are driving that. But as I say too, in some of the fresh categories and actually the areas where we are investing more of our price investment, we have seen some deflation. That is Quarter One.

You know, as you say, I think it is pretty well trailed that inflation pressures are building, that is why we are very focused on our cost saving programme. And I think about all of the activity we are driving through, we are encouraged by that progress Clive, we have committed as you know, to reduce our cost of sales by 200bps over the cost of our plan. The team are really focused on the key programmes, in Year One that is about the Argos transformation and that is about the work that is happening in our supply chain logistics area.

All of this is about making sure we can mitigate our cost headwinds and continue to invest in the offer. I think if I was to pull this back up to the key point, our First Quarter trading results show the COVID-19 impact on the market and demand clearly. But they also show that we have grown market share because we have improved our value and we have improved our offer in food. And that is one of the things we are determined to keep finding the fuel so we can continue.

Clive Black
Thank you Simon and again very well done on a cracking Q1.

Question 3

Victoria Petrova, Credit Suisse
Good morning and congratulations on good results. I have two short questions. First is obviously, there is a lot of discussion around potential sale and leaseback schemes and overall interest of retail real estate in the industry. You own around 50% of your

real estate and land. Could you please remind me, when was your last sale and leaseback deal and what yield was implied in that? And what is your view on your real estate overall, just in the context of an increased overall interest?

And my second question is, there is probably an ongoing sort of privatisation in the sector. Do you see any additional challenges, assuming you stay at least an independent from private equity company, do you see any challenges if one, or now two, of the big four are private and are put under less pressure in terms of immediate results outlook in terms of potentially pricing etc. What is your view on that? Thank you very much.

Simon Roberts
Victoria thank you. Kevin, do you want to take the first question and I will come back for the second one?

Answer: Kevin O'Byrne
Our property; if you look at our supermarkets, if you look at the percent of space, we own about 57% of the space. It is about 53% of the store, 57% of the square footage. We have no plans to do any sale and leasebacks. Our focus on free cash flow and cash generation is focused on underlying cash generation from the business, not if you like, financial engineering to generate cash. I can't remember when we last did, we certainly haven't done a sale and leaseback in my time in the business and we have no current plans to do them.

Victoria Petrova
Thank you.

Further answer: Simon Roberts
Thanks Kevin. And then to your second question. I think, as you say, a lot of interest in the sector of course and a lot of moving parts. I am just going to focus on where we are in our business. As you know we set out a really clear plan in November, which was focused on the core value creation priorities of Food First, Brands That Deliver and Save To Invest - underpinned by being really connected with our customers and our plan for better. And Victoria we are really focused on delivering this plan. While the context of the market is clearly focused on an industry that has been undervalued over a period of time, supermarkets, strong assets, strong cash generation. I think our job is to deliver that plan and I hope the results that we are sharing with you today show the momentum we have in the business by focusing on the execution of these key priorities. We committed to improve what we can do for customers and what we can deliver for our shareholders. And whilst there is a lot of speculation going on, that I am not going to comment on today, the team and I are really focused on delivering our plan so we can drive the value and do an even better job for customers and that is where we are on it.

Victoria Petrova
Thank you very much.

<u>Question 4</u>

Nick Coulter, Citi

Good morning. I have two questions please; I will go one by one if I may. Firstly on Argos, could you talk about the growth rate of the categories that weren't in super-normal growth in Q1 last year? I am interested to get a sense of whether, year over year, underlying market share is building or falling now that everyone's stores are open please?

Answer: Simon Roberts
Sure Nick, let me just try and give you some colour on that one. I think overall you will have seen in our statement that Argos sales were up 6.7% over two years. So the first thing to say at the headline level is clearly we are encouraged by that and that is a bit ahead of what we have expected. You will remember in our guidance that we planned for flat sales through the year on 19/20. As you say the shape of the performance by categories varies a lot given the impact of last year's lockdown. The area that we are seeing particular growth in is in the home and furniture category. Furniture is up against last year, driven by strong performance in all of the sub- categories of furniture. We are also seeing strong performance as we further rollout the Habitat brand and the products that go with it. So home and furniture would be a strength.

On the other side we saw really strong sales in the seasonal areas last year. Two factors there really: one, the fact that clearly in lockdown last year that elevated demand; secondly, I think we had six or seven weeks of just brilliant weather through this period last year which clearly, let's hope it is going to change soon, but hasn't anniversaried this year. So, there is a compound impact on some of the seasonal areas.

Then in the consumer and electronics space, again a lot of demand last year driven by all of the obvious customer behaviour that really resonated through the first period of the lockdown.

So, they are the key moving parts of the Argos performance. I come back to the headline guidance here which is, we'd planned for flat sales in the year, we were 6.7% up on the two years. And as we talked earlier, there is a bold and big transformation plan in the Argos business this year, and actually, profit delivery is primarily driven by that cost transformation programme and by the type of promotional stance we are taking in the Argos business. That is where we are.

Further question
Did you think that the underlying market share is sticking or are you gradually ceding some of the gains from last year? Because obviously the scenario is way better than you initially anticipated. It would be good to get a sense of your best guess as to how that goes forward, it doesn't feel like everything is just going to drop off a cliff into H2 for you.

Further answer: Simon Roberts
Well, I think as we have said a number of times over, we are prudent about the second half in Argos because, of course, we did have a particularly strong Christmas and we had a very strong Quarter Four - you will remember that Quarter Four performance that we will anniversary was strong too.

I think just two key points I would make here is, the first thing is that the reopening phase, we are still relatively early into that. I think that customer behaviour is still normalising and it is quite a gradual normalisation effect. So we are not seeing the full work through of that yet.

And the second issue is, as we have talked, there are some challenges on the supply side, which is impacting our availability in Argos, at this point in time. And so, whilst we have grown 6.7% on two years, whilst we are seeing growth in home and furniture, there are areas of the product offer in Argos where the availability isn't where we would want it to be at the moment. It is challenging, and that is holding back some of the sales and we see that situation continuing through the remainder of the year, but beginning to improve as we get further out.

One other point I would just make on this, which is I think is worth adding, is that we do think customer spending will be more cautious as we get into the second half too and that is one of the reasons why we factored in this flat assumption on 19/20 sales.

Kevin, I think you wanted to add.

Further answer: Kevin O'Byrne
Yes Nick, the only build would be, if we looked across the share over the two years, we are happy with consumer electronics and that is obviously an important part of the business. Lost a little bit of share in some of the large domestic appliances, but very, very small. We have intentionally reduced our focus on toys, so that is a conscious decision. We are gaining share in things like sports, leisure etc. And we are very pleased with the share we are gaining in furniture and home.

Further question
Thank you and then perhaps I could ask a question or come back to the issue of leverage. I guess events away from you both, with Asda and Morrisons, suggest that some folk think that the UK grocery sector has evolved a little perhaps to be more predictable and perhaps suitable for a higher level of leverage or directionally higher. It would great to get your kind of nascent thoughts here both on the predictability and then directionally on leverage. Do you, seeing the events away from you, think incrementally you need to pay down more or pay down less before you start returning cash?

Answer:
Well Nick I would probably start with saying this is a Trading Statement so we would probably give you some more considered thoughts another time. But look, we have got clear Net Debt leverage targets as you know and Net Debt/EBITDA less than three times. We feel this gives us the right level of financial flexibility in a changing market. We have a responsibility to manage this business for the medium term for all our stakeholders. That is shareholders, that is our pensioners, it is our colleagues etc. And we can ensure the business is resilient, not just for now but for decades to come.

The other point I would make is we are also very disciplined about our Free Cash Flow generation, we think this business should generate at least £500 million a year of Free Cash Flow. And Free Cash Flow is for shareholders, you know we are very clear about that. We are pleased with the progress we are making. I think the appropriate time to probably update on the targets and on the next steps, is when those targets are met. We will talk more about it at the right time.

Nick Coulter
That is helpful. Thanks very much guys.

<u>Question 5</u>

Rob Joyce, Goldman Sachs
Good morning Simon, morning Kevin, thanks for taking the questions. Just two from me. Just in terms of the £660 million, you sort of said that is at least £660 million. Two years back on grocery around 11% in that First Quarter, what kind of two-year stack number do we have to see for you to hit the £660 million? And can we think about how that might flex?

And the second one, sorry to harp on about inflation, but I guess two things. The industry data suggests that as you say we are in deflation and maybe some of that input cost isn't being fully passed to the consumer. Outside of your own investment programmes, do you think, is there any sense that the consumer isn't willing to accept inflation if it is passed to them? And do you anticipate this being more of a concern if inflationary pressures build in the second half of the year? Thank you.

Simon Roberts
Rob thanks. Maybe if Kevin talks to the first question and I will come back on inflation in a minute. Kevin.

Answer: Kevin O'Byrne
Rob one thing we would say is we can't assume that demand would remain as strong as this. We think this is a first half effect. I have to say, in all my years in retail, I don't think I can remember a time when it has been more challenging to forecast what is going to happen in the coming months for a number of reasons. Whether it is consumer demand, availability for all the supply chain issues that various people are talking about, do we or don't we have further lockdowns, what competitor reactions there might be. So it remains very challenging. Our best imbalance for you at the moment is for at least £660m, we are budgeting cautiously for the second half for some of the reasons I said. And I think that is probably all we can really say on the outlook.

Answer: Simon Roberts
Thanks Kevin. Just trying to pick up a couple of points you make there Rob on inflation. As you said the level of impact in the First Quarter has been broadly flat. We have talked about the areas where it has been a bit up and a bit down. And as you say I think it is pretty clear that inflationary pressures will flow through. I think, two things to say, I mean we have talked this before; I would expect the industry to respond rationally to that. And because we start in a stronger value position relatively than we have been before, our intention here is absolutely to be committed to strengthening our price position as and if inflation builds a bit. And so to be able to relatively improve our price position as we do that. As we have said, we have got a strong cost programme and we are working hard with our suppliers to mitigate that impact as far as we possibly can.

So whilst it is clear that inflation pressures will likely build, to your question, in the second half. As we look at our Save To Invest plans, we look at the work we doing with our suppliers, we are doing a lot to make sure we can mitigate those headwinds.

And the last thing to say is, at the end of the day, my job, our job as a team, is to make sure we give our customers what they expect of us and they are asking us to improve our price perception. We are working hard to do that. Actually our price perception measures are 4% up on a year ago, so we are starting to see the benefit of that coming through, and despite these headwinds we will continue to work really hard to continue to build that.

Further question
Okay thanks Simon. So where you are seeing inflation and choosing to pass it to the consumer, you are not seeing any indication they are trading down or trading into different products?

Answer: Simon Roberts
Yes, just to be as clear as I can be, in Quarter One, the pass through has been relatively limited. If you look across the business, in the fresh categories we are seeing some deflation. In some of the grocery categories impacted by some of the commodities we said, there is a bit of inflation there and in freight. But overall, I would describe the inflationary pressures in the First Quarter as being broadly flat overall, some ups, some downs. As we look ahead, the combination of the cost programmes and the work with suppliers we will look to mitigate it as far as we can.

Rob Joyce
Thank you.

<u>Question 6</u>

Demetris Demetriou, Schroders
Good morning. Congratulations for a very strong set of results. Most of my questions have actually been answered. But I just want to quickly get a bit more clarity on the topic of cost inflation, specifically on the topic of freight and container availability. Sometimes you are looking at ways to mitigate those impacts, but I just wanted to understand a bit more how you are adapting to these challenges in terms of sourcing or timing and [inaudible] with suppliers. Are you potentially looking to relocate some of your Asian supply base? How does it work? Thank you.

Answer: Simon Roberts
Demetris thank you. I think I got most of your question, just trying to give you some more colour on the impact of some of the challenges, particularly in logistics and supply chains, and the potential impact in terms of cost and inflation there.

So a couple of things to say and one or two points to reiterate from the earlier questions. As we have said, there is a number of factors at play here. Clearly a higher level of demand is really the first driver of this. And then supply chains around the world, particularly on the general merchandise and clothing side where the combination of the lockdowns, India for example, shipping container shortage, raw material challenges. Even in some of our key categories such as consumer electronics, shortages of memory chips, and then all of the associated impact on freight around the world to get products here.

So I think a couple of things going on. The first thing is we have done, actually through the pandemic, a lot of work to buy ahead on freight and buy container capacity ahead. Our teams in supply chain and procurement have been working really hard to buy as much capacity for the demand at the best price we can. And we continue to do that.

Secondly, this is all about day to day, hour to hour conversations with our key partners. And the team are working round the clock actually to make sure that, in the challenges that we have, we continue to do that.

I think the point I would make is that we do see this situation continuing on the GM&C side for a period of time, for obvious reasons. Global supply chains will take an extended period to get back into some sense of normality, particularly given the demand curve that we have seen.

On the food side, again we wouldn't want to underplay that there are some significant issues upstream that is impacting the ability to get products through the supply chain, particularly in the areas that are peaking at this time of year. But again, the teams are working really, really hard to make sure we protect availability to customers and, to the conversation we are having, that we mitigate the cost impact as far as we possibly can. And so far, we are doing a solid job doing that.

I think that has answered your question Demetris, I couldn't hear all of it, but I hope I have given you some further sense on what you were looking for there.

Demetris Demetriou
It does answer my question, thank you so much. Thank you.

<u>Question 7</u>

James Grzinic, Jefferies International
Good morning Simon, Kevin and James. I have two questions really. The first one for you Simon. Can you perhaps clarify, now that we are shifting back to the new normal, what change in customer behaviour do you think is going to be most helpful for your earnings model?

Answer: Simon Roberts
Sure, yes, no problem. So, I think a couple of key points I would pull out here, and hopefully the presentation this morning gave you some sense of this. I think, as we have seen through the pandemic there was, a very dramatic shift online. And I think one of the first normalisation effects we are seeing actually is that we are clearly maintaining a significantly elevated level of online performance where we are so significantly up on two years.

But some of that online volume over the last quarter has come back into store. And so, customers that shopped online are now returning to physical store. One of the key manifestations of that, if you think at the peak we were serving around 860,000 customers online, that was in Quarter Four, that number at the exit point of Quarter

One is about 710,000. So we have seen a lessening of the online volume. But they're coming back into store.

And actually, that works for us because customers are shopping in the way they want to shop but also, we can pick more efficiently at that order volume than we can at 860,000. At 860,000 we are right at the top of the capacity, whereas at 710,000 we are seeing our item pick rates for example up 40%, just over, on a year ago and up 11% on two years.

So the movement in the online channel we think is helpful, led by customers. But I would make the point, we are still serving 710,000 customers a week online compared to 340,000 before the pandemic.

The second big change in how customers are shopping has clearly been eating, preparing and enjoying more food at home. And that trend, that started in the first lockdown, we see a good chunk of that enduring. I think clearly when you have been doing that for a year, there are elements of that that customers are enjoying. We can see in this elevated level of grocery demand, with more home working, with more desire to cook and prepare food at home, that trend is likely to continue.

Then the third thing underpinning all of that is the actions that we are taking. And we said we would put Food First; we have committed to help our customers to eat better. And I think you know when you think about the big changes in the trends around food, improving our value, improving our innovation, improving our customer service is all about making sure that we really give our customers what they want. As this change happens through the Summer and the Autumn of course we are setting course to try and maintain as much of this share that we have captured as possible by being there for what customers want.

So the headlines are, changing grocery shopping online, changing the level of home consumption, more home cooking and improving our value innovation service so we hold onto the share that we have seen come through.

Further question
Very clear, thank you. And I have a follow up for Kevin - really a follow-on from what Victoria and Nick were asking. I take your point on leverage, but do you think the right leverage is not an absolute and sort of level and it can be a shifted according to how more broadly industry is leveraged at? What do you think about that Kevin?

Answer: Kevin O'Byrne
Again, probably a conversation for another day James. But it is something that as a Board that we talk about reasonably regularly. And as a Board we are comfortable, given our responsibility to manage the business for the medium to long-term, to manage it on behalf of all our stakeholders. As I say the shareholders, the pensioners, our colleagues etc. I think the Net Debt/EBITDA of less than three times, gives us that level of financial flexibility that we think is appropriate at this stage.

Further question
And just one clarification question. You mentioned the level field ownership, that implied obviously the convenience channels is fully leased to you guys?

Answer: Kevin O'Byrne
Yes, we own about 3% of our convenience stores, which is a very small percentage. It doesn't even register in square footage because they are tiny stores, so it is the supers where we have our freeholds.

James Grzinic
Right, thank you very much.

<u>Question 8</u>

Sreedhar Mahamkali, UBS
Hello good morning, thanks for taking my questions. A couple of them on the price value reality and perception and one online please.

So firstly, in terms of value reality, the slides you have shown improving versus Aldi. Aldi Price Match itself is running around 270/280 items. Is that the right level for you to run this at or do you see you room to extend it further now that you understand the impact, clearly with significant impact on value perception? That is the first one versus Aldi.

Secondly, when you are measuring prices versus Tesco, you actually, I refer to Simon, you were including club card prices. But at Sainsbury do you think there is any merit to go down the route of personalised pricing promotion, sort of leveraging Nectar? That is the second one.

And third one, online economics and overall economics, I think last year you talked about improving overall operating costs by four percentage points or even more. And I think in the release today you talked about two-year pick rate up 11% which I think is pretty impressive. But broader operating costs in online can you talk to it, are you continuing to improve it this year, especially now that the demand is slightly easing? So those are the three questions, thank you.

Answer: Simon Roberts
Sreedhar okay thanks. Well let's try and give you some perspective on value and Sainsbury's Quality Aldi Price Match. And then, with Kevin's help, we will come to online economics in just a second.

So I think going back to the first point here, when we laid out our strategy in November we committed to bring better value for our customers. And I have to say we are really encouraged actually by what we are seeing on Sainsbury's Quality Aldi Price Match, which we launched as you will remember back in Quarter Four.

The key objective of this plan is to win a bigger basket with our secondary customers. And that is what we are seeing is happening. It was specifically about investing in those products in the basket, as you say around the mid 200/250 products, where it really matters to customers on value. Meat, fish, poultry, produce, dairy. And you will remember we talked before, that compared to some of our competitors, we have a higher proportion of our product range in the fresh categories.

Actually, in the further investment we have made this week, we have put some further products into Sainsbury's Quality Aldi Price Match. And again, the weighting of those are very much towards our fresh categories. So just to give you some examples of that. If you looked at some of the reductions we have done this week, I encourage you to go and have a look in store, on high volume SKUs; Sainsbury's strawberries this week, down from £1.75 to £1.59. Lots of investment in the meat, fish and poultry categories in key areas like chicken breasts, chicken portions, bacon. So key products at the heart of the shopping trip where we are getting our value even sharper against Aldi and we are encouraged by what we are seeing there.

And really, I would say that in terms of what we are doing on Sainsbury's Quality Aldi Price Match, it is the halo benefit that we are seeing, not only in the secondary customer but across the wider basket. As we get our value sharper here we are seeing customers spend more across the rest of the store which is exactly what we set out to do. And that is what we have put more products in, particularly focused on fresh food, fresh vegetables. And that is why our VI's improved again in the quarter as you can see. So in the centre of the plate categories you can see that we have improved against last year by 380bps and Quarter One against Quarter Four by 170bps.

That is the position on value and as we execute our Food First plan, the team are really focused on driving this through because it is giving us some good benefits.

More broadly on pricing, when I think as you saw us talk about in our Prelims, we are really encouraged by the number of customers that are both buying into Sainsbury's Quality Aldi Price Match, also Price Lock, which is a key part of our value commitment on over 2,300 products. And again, some of our investment this week has gone into those products too.

Then on Nectar to your point, you will remember that we updated we are now over seven million digital app users. We think that gives us a really important access point to customers that shop Sainsbury's and Argos digitally. And of course, as you would expect we are looking at all the opportunities that we see in terms of reaching our customers more personally with a higher personalised offer. The team are very much on with that and having that number of customers means we can speak relatively more than any of our competitors in that space.

We will talk more about the Nectar plans later in the year, Sreedhar. We are going to have a Nectar event, as we talked about, and we will give you a good sense of the plans that are developing there on personalisation particularly, when we reconnect on that.

So that is where we are on value. Maybe just to hand to Kevin on online.

Answer: Kevin O'Byrne
Sreedhar morning. On online economics, you saw the material improvement last year where we had fourfold increase in profit contribution and a twofold increase in the margin percentage. We are happy with the progress we have made in Quarter One.

The four elements of pick rate, van utilisation, the basket size and the stem mileage. If you look at year on two years, we have given some examples this morning; pick rates up 11% on two years, basket size up 5%. So, all that works well, and as we've seen on slide 9 today it allows us to be more efficient actually, that sort of level of volume.

Of course, if we look at the overall box economics, as many of those customers go back to shopping in store that helps the overall economics of the business. So, we are pleased with the online economics and the overall box economics improving as many of those customers come back into store.

Sreedhar Mahamkali
Thanks Kevin.

Simon Roberts
Thanks everybody, thanks for joining us this morning.

End