J Sainsbury plc

J Sainsbury plc
Q1 Trading Statement
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Presentation

Operator

Hello and welcome to the Sainsbury's 2024/25 Q1 Trading Statement Analyst Q&A Call. On the call this morning is Simon Roberts, Chief Executive, and Bláthnaid Bergin, Chief Financial Officer. I will now hand you over to Simon Roberts for opening remarks.

Simon Roberts
Chief Executive

Thank you. Well, good morning everybody and thanks for joining Bláthnaid and I to cover our first quarter trading statement covering the 16 weeks up until 22 June. I'm going to highlight some key points about our trading performance in the quarter and then of course Bláthnaid and I will be really happy to take all your questions.

So, as you know this is the first quarter of our Next Level Sainsbury’s strategy that we shared with you back in February, and we've set ourselves up really well to build on the progress that we've made over the last three years. I'm pleased with this first quarter against a particularly strong period last year, which benefited from peak inflation, from the launch of Nectar Prices and a good early start to the summer.

Against this, our strong momentum in groceries continued, with a second year of volume growth. We've now made gains from competitors every month for 15 months, and more specifically in this quarter we've gained more market share than anyone else in the period, with strong switching gains from across the whole of the market.

And it's worth reminding you too that these gains haven't yet seen any of the real benefit from the work we'll be doing to allocate more space to our highest opportunity stores in food. This program will begin to deliver significant benefits through next financial year.

So, we are continuing to see customers consolidate their grocery spending. As people return to normal patterns of working in offices, they're shopping around less. Customers have always recognised Sainsbury's for great quality and service, and because they're now trusting us more and more on value, we're gaining more share than anyone else when customers are looking for a one-stop-shop to meet all of their needs.

Our consistent focus on great quality, value and service has never been more important, and we've been making gains at both ends of the market. We've improved our value perception ahead of the market while at the same time continuing to outperform all competitors in Premium Own Label volume growth, as customers choose Taste the Difference when they want to treat themselves, friends and family at home.

We've launched 400 new products this quarter, with a Summer Editions range that we're particularly excited about, especially now that we're starting to see some more sunshine. Taste the Difference sales grew 14% in the quarter, and it remains our fastest growing own brand.

During the period, we annualised the launch of Nectar Prices, that went live in April 2023, and was then rapidly rolled out across the summer to reach over 6,000 offers. We now have almost 18 million digital Nectar collectors, and they're responding really positively to the great value and rewards they can access through the scheme. We're also partnering with an increasing number of the UK's biggest brands, to run innovative promotional events and that's creating loyalty and value for customers as well as increasing value to us as Nectar gains more and more momentum.

Suppliers are really supporting and partnering with us on these exciting initiatives, and at the same time they're benefiting from our leading Nectar 360 capabilities in terms of the insights and the return on advertising spend they're now able to access.

Meanwhile, in general merchandise we have, as expected, faced a more challenging period, with tough weather comparatives particularly impacting the end of the quarter. Argos sales reflected the toughest comparative we will face this year, with an unseasonal start to summer impacting House, Garden and Outdoor Furniture categories. You'll also remember that last year we had the benefit to our Consumer Electronics sales from gaming, as we had strong availability at the time of some new releases.

Demand has been weaker this year in these categories, whilst we see customers continue to shop more cautiously across the general merchandise market generally. Now against this backdrop, we continue to make good progress in transforming Argos in line with the plans we set out in February.

We are enhancing our digital offer with continued personalisation of customers' experience online, and improved attachment capabilities, such that more than 90% of our products now have a suggested add-on. We're also further improving our ranges, and as we discussed earlier in the year, we're increasingly using stockless supplier direct fulfilment arrangements to enable our range expansion, particularly into popular premium brands.

We are underway with our £200 million buyback program, and last month announced that we additionally expect to return at least £250 million to shareholders once the sale of Sainsbury's Banks Core Banking business to NatWest has been completed, and the future model for Argos Financial Services is in place.

Turning to guidance, we've had a later than expected start to the summer, but it's early in the year and there are softer Argos comparatives to come. So, as we set out in April, we continue to expect full year retail underlying operating profit of between £1,010 million and £1,060 million, which represents growth of between 5% and 10% versus last year.

The business is in great shape, as you can see from the strong continuing momentum of our grocery performance relative to the market, and we remain sharply focused across the whole business on delivering our Next Level commitments.

So, thank you for listening to that introduction, and Bláthnaid and I will now very happily take all your questions, thank you.

Question and Answer Session

Operator

Welcome to the Q&A section of this call. If you wish to ask a question, please use the raise hand feature, which is located at the bottom of your screen. If you have dialled in, press star 9 to raise hand and star 6 to unmute. When called upon, please unmute yourself and begin with your question. Our first question is from Sreedhar Mahamkali at UBS, please unmute yourself and begin with your question.

Simon Roberts

Morning Sreedhar.

Sreedhar Mahamkali, UBS

Hi, good morning, Simon, good morning Bláthnaid. A couple of questions maybe please, just picking up on some of the points you made on GM. Are you able to talk to us a bit of a shape of trading when summer eventually or actually started like it was coming back, anything there just in terms of exit rate and stuff that we can keep in mind for July and August if the weather does turn? So, that's the first one.

Related point on inventory in non-Food, are you happy with where things are at the moment, and is there anything we should think about from a free cash flow perspective?

Lastly, you've talked about space rotation, 180 supermarkets, is there any help from that in the grocery numbers or any hinderance to the GM numbers that we've seen today? Thank you, those are the three, thanks a lot.

Simon Roberts

Thanks, Sreedhar. I'll take the GM and space questions, and maybe Bláthnaid take inventory and how we're thinking about that. So, I think as is really clear, we've laid out today that this was the toughest comp for us this quarter actually, because last year in quarter one, the weather was clearly much more favourable, particularly in June, and we had a number of tailwinds at the time - Gaming was very strong in Consumer Electronics.

So, in terms of where we are at this point, we're very focused, clearly, on making sure we take advantage of the summer on the basis that at some point it will come. We've planned for a normal summer, not an exceptional one, and as you say, July and August is ahead of us. I would just say the consumer, there's a lot of pent-up demand to spend when the weather comes good. Obviously, we had a real shift in the weather last week and we saw a major shift in how customers shopped.

Just to give you an example of that, we sold more cooling and fan products last week in one week than we've sold all of the year to date, for example. We saw sales really respond when the weather came good. So, there's lots of focus on making sure we're ready for improved weather, but more broadly I would say the Argos business, the general merchandise business, you heard our plans earlier in the year.

We've set out a clear plan to continue to improve our digital experience to give customers more reasons to shop with Argos and to make sure that that offer really meets customer demand, and we're well on with putting those plans in place. The team have mobilised at pace and there's lots of good activity to make sure that we can drive that.

On inventory, Bláthnaid?

Bláthnaid Bergin

Great, so first of all, Sreedhar there's a real focus on working capital this year in the business and we will continue to have that focus. We are ready for summer, we've got really good availability and we're here to serve our customers when the sun shines, and it's already started to shine, which is great.

The other thing is, we are really good at managing stock, and as we travel through the summer, if we feel there's a need to take some action or drive any activity, we'll do that so we get a clean exit, and it's something we've done before so we're not particularly worried about it at the moment.

Simon Roberts

Thanks, Bláthnaid.

Sreedhar, on your final question, I think it's really important just coming back to the Grocery performance in the quarter. As I said in the intro, we've delivered growth on growth in terms of volume performance. We were first out the blocks to put volume on in the first quarter last year, we've put growth on top of that, and we're really, actually really encouraged with the strength of our volume performance in grocery.

Worth saying too that the weather held back GM, it held back Food a bit actually in the first quarter, given the strength of June last year, but absolutely we're focused on continuing to outperform in the market. I would say, we've said to you before we expect to outperform in volume terms by between 1% and 2%. Actually, in this first quarter we've exceeded that. It just shows the strength of those big trolley shops, really powering the grocery volume performance.

In terms of the space rotation, we're not really into that program yet, still relatively early. Plans are going well but the volume performance you're seeing doesn't have that as an extra component driving it, so that's really to come, it's ahead of us. So, we remain very confident on the strength of our momentum in grocery, and that will continue to build, particularly into the back end of this year into next year, as that space rotation program picks up pace.

Sreedhar Mahamkali, UBS

Thank you both.

Operator

Our next question is from Izabel Dobreva, Morgan Stanley, please unmute yourself and begin with your question.

Simon Roberts

Hello, Izabel, good morning.

Izabel Dobreva, Morgan Stanley

Good morning. Three questions, so my first one is just on the guidance. I think on the call last quarter you talked about the midpoint being consistent with the normalised summer. I was wondering, is it fair to say that maybe weather a little bit worse than expectations, but then grocery better, so we're still tracking in line with the midpoint? Would that be a fair summary? That was the first question and then I have a few more.

Simon Roberts

Thanks, Izabel. Well look, as you say, we set our guidance out in April, £1,010 million to £1,060 million, and really clear we set that range because look it's still early in the year to be able to call where we're going to close. A number of things, as you say, are within that but we're absolutely clear on our guidance range. At 16 weeks in, lots of the year still to come and we're very well set - I think we've got strong momentum in Grocery.

There's a lot of the summer still to come. You can see the strength of how the business is performing, particularly in Grocery.

We said four things would underpin delivery this year – beating the market on volume - we're doing that, we're actually performing a bit ahead of what we thought. We said we'd deliver strong growth from Nectar over the three years – we're well on with that plan. We said we'd deliver a resilient Argos performance - that's what we're delivering. We said, of course, we'd deliver operating cost savings to offset inflation.

So, we're in the place we expected to be, we have lots planned for this summer, continuing to improve as we look ahead.

Izabel Dobreva, Morgan Stanley

Thank you. My other two questions were very quick. On general merch, could you give a sense whether you saw any elevated discounting over the quarter in the seasonal categories, was there elevated promotional pressure?

Then my last question is just on the £250 million excess return from the sale of Financial Services. I think you've given the timeline to closing that transaction, but we don't have a timeline for the Argos solution part, so could you give us some colour there so we can understand when you'll do the extra buyback?

Simon Roberts

Yes. Why don't I finish the discussion on where we are in General Merchandise in the market and then Bláthnaid can talk to your question on the next phase with the Financial Services plan. Look, I think to your question, there's been actually quite a bit of promotional activity in the market.

I would say earlier in clothing this year – not a surprise. As we know, General Merchandise categories are heavily influenced by the season and the extent to which customers buy early into both clothing and broader seasonal GM products.

We've taken a disciplined approach. We've run activity where it's really worked for customers.

You've seen in our quarter one results, actually quite a marked improvement in our Clothing momentum. Encouraging to see that and actually Womenswear, particularly, has really improved quarter on quarter. Our ranges have been a lot better, and they've really connected with customers. We've seen Womenswear sales really respond and we expect that picture to continue.

Obviously, we're managing full price and promotion activity in the most disciplined way that we need to. Of course, as we look ahead – as I've said already – there's a lot of the summer still to come. I think it's important when customers do come out and shop, we've got availability of the products they want to buy, hence the reason for our approach.

Just to reiterate, again, there's a lot of pent-up demand in the consumer for warm weather and seasonal products. We saw a real shift last week. Of course, we're ready for that on the basis that at some point, we'll see some summer. Thank you. Bláthnaid?

Bláthnaid Bergin
Great. Good morning, Izabel. How are you? Very quickly on the bank, we are starting to work through the AFS solution now. At the latest, we'll update before the end of H1, so we are well underway with that at the moment. The capital return will happen in the next financial year. We are anticipating that will come in late '25, early '26 – about £250 million and we will return that to shareholders. We haven't decided the form or the nature of that return at the moment, but we'll debate that once that dividend flows back up from the Bank and we're ready to send that on to shareholders.

Izabel Dobreva, Morgan Stanley

Thank you.

Simon Roberts

Thanks for your questions, Izabel.

Operator

Our next question is from Monique Pollard at Citi. Please unmute yourself and begin with your question.

Simon Roberts

Morning, Monique.

Monique Pollard, Citi

Morning. Thanks for taking my questions. Just a few from me, please. The first was obviously you highlight Taste the Difference doing very well, up 14%. You're seeing really strong growth in Premium Own Label. I was just wondering if you could give us any sense of the scale of that within your grocery sales?

The second question was just on clothing. Obviously, you mentioned, Simon, the much better momentum you're seeing there – negative 3% versus negative 12% last quarter, particularly in Womenswear.

Obviously last quarter when we'd heard from you, you talked about the need to improve the ranging, in particular, and the availability. I just wondered if you felt you were through a lot of those improvements in Clothing or whether there's more that you're still working on to be rolled out.

Then the final question was just whether you could give some indication in the quarter in terms of grocery of the volume versus price growth. Is it right to think about pricing having been about 1% to 2% as per the Kantar data?

Simon Roberts

Thank you. Okay. Super clear. Taste the Difference – where you started the question there. Look, I think we are really encouraged with the performance of our Taste the Difference product range. We've been really focused on this over the last couple of years, because increasingly, of course, more and more customers – the big trend here – wants to enjoy great food at home with friends and family.

That's why we're seeing customers really buy into Taste the Difference. We launched 400 new products in total in the quarter, half of our new products are in Taste the Difference. That's a marked shift from where we would have been before.

What I think we're seeing here is just customers really wanting to buy into both the quality, but very importantly, compared to a number of our competitors, the value of our premium products. That's what's really driving the volume, there. So, we're really encouraged with the strength but there's a lot more to come. I was with the team the week before last, looking at our Christmas ranges and we are really focused on making sure we have this leading combination of value and quality in the market. That really is at the core of what's happening in Taste the Difference.

To your question, it is enabling Taste the Difference to move up in its participation. It's the strongest growing of our Own Brands. It's also becoming, as every quarter passes, a stronger part of what we're doing. So, great progress there, more to come, and we think it's really at the heart of what customers expect from Sainsbury's.

On Clothing, yes – look, we are encouraged with the move on in terms of our performance. Ranging has definitely improved, particularly in Womenswear. I would just say, look, within the overall clothing trend, Womenswear was quite ahead of that. Womenswear got improved with better ranging, better availability and we're very focused on making sure that continues. There's more to come, there's more we need to do to keep improving our clothing performance, but this has been a clear step in the right direction.

I think more broadly, the important trend here is that customers are now coming back more and more to full-choice supermarkets that can give them the combination of value and quality across the full range. So, as you've seen, we're seeing a big step up in customers coming to us for their weekly full trolley shop.

Of course, when they're in the store doing that, they want to make sure they can access clothing and other products that we sell, and so that one-stop-shop for everything you need at great value and great quality, including clothing, is important. And we're definitely taking steps towards making sure that we can deliver that. More to come.

Then on your question on the combination of what's happening on inflation, what's happening in terms of the broader pricing dynamics in the market – I mean, a couple of things to say here.

I mean, absolutely clear now, we're well over the peak of inflation - a much flatter inflation environment is where we're at. It's good for the consumer, it's good for businesses so we can plan with more certainty as to the environment as we look further out.

I think for sure low single digit inflation. Actually, you saw the Kantar numbers just recently – 2.3%. We're inflating a little bit behind that, but also, at the same time, there is a little bit of inflation starting to come back in, particularly into fresh food categories.

We've obviously got wage costs in the system still to pass through and so I think – not a surprise – we're starting to see a bit of a tick up in some of the fresh food categories, but overall, a more stable inflation environment, low single digits. We're a bit behind the inflation at the moment as we continue to offer great value but some of that inflation's still to pass through.

Then more broadly, what we're seeing is a continued and very rational market on pricing. Everyone is facing the same kind of challenges and focuses. Therefore, in terms of as we look ahead, we expect that rational market to continue alongside a more stable inflation outlook.

Bláthnaid Bergin

Great. Just to build on the Taste of Difference, Simon, it's high single digits of our grocery sales and we have probably a higher proportion of those premium sales than other grocers as well in the market.

Simon Roberts

Great. Thank, Bláthnaid.

Monique Pollard, Citi

Excellent. Thank you, both. Thank you.

Operator

Just a reminder, if you wish to ask a question, please use the raise hand feature which is located at the bottom of your screen. If you have dialled in, please press star, nine to raise hand and star, six to unmute. Our next question is from François Digard at Kepler. Please unmute yourself and begin with your question.

Simon Roberts

Morning, François.

François Digard, Kepler

Good morning. Hello. Thank you for taking my question. Could you come back on your sentiments on the market – on the underlying market volumes? I understand that you beat the market on gaining share but how do you see the demand evolving in the future?

Can we see the success of Taste the Difference as an evidence of up trading? Is that up trading part of your market share gain today and in your future plan? Thank you.

Simon Roberts

Thank you, François. Well, I think, look, to your point, one of the key features of our results in the first quarter is that we delivered volume growth on top of volume growth last year. As I said in the introduction, for 15 months, consistently now, we've been seeing the strength of our food business build, both as we grow volume but also as we win more big trolley shops back into Sainsbury's as customers are more and more confident with the combination of our value and quality.

So, I think, what are we seeing in the consumer – to your question – at the moment? Of course, everyone is still very focused on the cost of their weekly shopping. That's why value is so important. That's why we've been laser focused on this. That's going to continue – of course, it is – but at the same time, customers are looking for, as you say, products to trade up into.

We're seeing a higher participation in Taste the Difference, as Bláthnaid has just described. A 14% growth in TTD and that's powered by both this trend, more and more, for customers to want to buy into products to celebrate with friends and family at home, but also the strength of our offer has really grown in terms of the innovation that we have.

So, as we look ahead, we'd expect to continue to grow ahead of the market – 1% to 2% ahead of the market, is our guidance over our three years. As I said, in the first quarter, we beat that and that's before we've started to move more space back into food, so the momentum is very strong in the underlying performance here.

Look, you know our focus is very much on driving food volume growth over the market, continuing to leverage that volume over our fixed cost base so we drive our profitability as we continue to improve, our volume performance.

That, as a team, is what we're really focused on. Customers have got more and more confidence in the Sainsbury's food offer. That's continuing to build, and we've got a lot more to deliver as we look ahead over the rest of this year and into next to make sure that this momentum takes advantage of that demand in the market.

François Digard, Kepler

Thank you. If I may just – I'm not sure I've understood you properly. You said that your inflation rate was above or below the market, as reported by Kantar?

Simon Roberts

Yes. No. I'll just repeat that. Thanks, François. It's slightly below. When you look at the Kantar numbers last week – I think 2.3% – we're just inflating slightly below that. As I've said, low single digit inflation is our expectation as we look ahead.

Just to remind you again, within the combination of our performance in the quarter, obviously much lower inflation this quarter one compared to last, but volume growth in quarter one last year and in quarter one this year, substantially more volume growth as we've stepped up.

François Digard, Kepler

Thank you. Very clear. Thank you.

Simon Roberts

Thank you.

Operator

Our final question will be Anna Schumacher at Exane. Please unmute yourself, pressing star 6 and begin with your question.

Simon Roberts

Hello, Anna. Good morning.

Anna Schumacher, Exane

Hi. Good morning, everyone. I have just a quick one. It's back on grocery volumes as the other questions have been answered. It sounds like the like-for-like volume growth is running at between 3% to 4%. Historically, outside of COVID, have you ever since it this high?

Simon Roberts

Thanks, Anna. Well, look, I think your pitch on the volume performance is a good basis for thinking about where our volume performance is at. We're performing, as you can see, well ahead of the market. That combination of value, quality and availability really powering through with the customer. As I've said, both in our strategic update in February, our Prelims and now, today, as a team we are very focused on delivering for customers in Grocery, that combination of value and quality and it's really working, we're winning from both ends of the market.

More customers are coming back into Sainsbury's for their big trolley shop. One of the things that I think more and more we're seeing now is that people have got a bit less time on their hands, perhaps back in the office another day a week.

So, then the convenience of going to a big store where you can trust the value, you can get the quality, you can get the availability, you can get the service that you expect, means that customers are shopping around less fascias. They're coming back into full choice supermarkets.

That's one of the reasons why we're seeing this shift and, as I say, winning from both ends of the market, which is powering the volume growth that you describe.

Anna Schumacher, Exane

That's great, thank you.

Simon Roberts

Thanks very much.

Operator

Next question is from Paul Rossington at HSBC, pleas unmute yourself and begin with your question.

Simon Roberts

Hello Paul.

Paul Rossington, HSBC

Good morning. Hi, everyone. Two super quick ones really. Just in the Argos number, I just wanted to double check that there isn't maybe a disproportionately higher number of store closures or anything else in that number. That's a genuine number impacted by the comp base.

Then the second one is on the stores where you're going to rejig the space this year, how many of the 180 do you expect to have done by the end of this year? Thank you.

Simon Roberts

Thanks, Paul. Well look, just to your first question. There's a couple of important things in the Argos numbers, which I'm pretty sure you've got, but just to reiterate them. Obviously, we come of this quarter ahead of the anniversary of the exit of Argos in the Republic of Ireland. So that's one of the things that washes through the numbers in the next quarter.

Obviously, we continue the work on the Argos transformation, so there is some store change in the numbers, but I think the main underpin of the Argos performance in the quarter was the strength last year of the first quarter.

In total sales we did sales growth of 5% last year in Q1, powered by a combination of strong Consumer Electronic sales, particularly Gaming, the strength of the weather in the first quarter, you'll remember how strong June was last year. So, you know the underlying strength last year against clearly this year, still a very cautious customer in general merchandise. High ticket discretionary items, customers aren't yet really buying into those categories.

I think we need to see some sequential interest rate cuts, hopefully in the autumn that will give more confidence into those categories. For sure, the consumer wants to spend, particularly when the weather improves. But we need to see some of the underlying fundamentals continue to come through to help that. So that's where we are on the Argos piece.

On the store rotation, or the space moves, I should say. Look, I think a key part of what we laid out in February, as you'll remember was our 'more for more' plan within becoming First choice for food. What we've committed to do is in about 180 stores we're going to move space from general merchandising to food.

That's because as we're driving more and more volume through our food business, particularly in fresh food, we need to increase the space that we have available so we can really serve customers both with the breadth and the depth of availability.

Broadly that programme delivers a third, a third, a third. For obvious reasons, we're well on with the planning now, we're landing some of the early schemes. Some of the recent schemes we've landed, really delivering already.

But the momentum of that programme really, really does pick up more into next year and beyond. So, the new volume performance we're seeing now is without the benefit of that coming through yet.

Paul Rossington, HSBC

Thank you.

Operator

Our final question is from Darren Shirley at Shore Capital. Please unmute yourself and begin with your question.

Simon Roberts

Hello Darren, morning.

Darren Shirley, Shore Capital

Yes, good morning, all. Just one from me and a quick one hopefully. You've been quite clear in terms of inflation expectations being in low single digit for the year. But when you look at freight costs and what we've seen there over the last month or so, do you see that as a risk factor to that number at all?

Simon Roberts

Darren, rate cost, did you say?

Darren Shirley, Shore Capital

Freight costs.

Simon Roberts

Okay. Sure.

Darren Shirley, Shore Capital

Shipping, freight, sorry.

Simon Roberts

Yes, thank you. Got you, got you. So, look, I think I mean a couple of things on this and Bláthnaid might want to come in on this as well. I think, as you can see, in terms of the inflation overall picture, we've mainly focused on grocery in this discussion. As I said, low single digit inflation, some labour cost still to work its way through and that's why we're seeing a little bit of an uptick in some of the fresh food categories.

On general merchandise, look, I think it would be fair to say, wouldn't it, Bláthnaid, we've had a lot of experience over the last four to five years on managing the costs of moving products across the world.

Bláthnaid Bergin

Yes, so we're not seeing it as a headwind at the moment. We tend to enter into long term contracts on that. We have consistency of delivery and good relationships there. So, we're not flagging anything at the moment. One to watch, I think, particularly when you look at where the spot rates are. But it's not something that's impacting us today.

Simon Roberts

Thanks Darren. I think that I mean the key point here is all about planning over the rest of the year. Obviously mitigating an impact on the cost of freight, as far as we can. But actually the key point is making sure we get all the products into the system in advance of the third quarter.

So, our teams are working really hard on this to make sure we've got good availability, we contain any impact, as Bláthnaid said, of freight on cost, but make sure we've got products in stock ready for a really important second half of the year.

Okay, are there any more questions?

Darren Shirley, Shore Capital

Thank you.

Operator

That was our final question. I will now hand back to Simon Roberts for closing remarks.

Simon Roberts

Okay, well look, thanks everyone for joining us this morning. I'm conscious it's a busy week, a lot happening this week. So really good to update you on our Q1. Look forward to catching up through the coming few weeks and see you soon. Thanks for your time.

End