Transcription

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Presentation

Operator

Hello and welcome to Tesco's Third Quarter and Christmas results analyst call. And of course throughout this, all participants will be in listen-only mode and afterwards there will be a question and answer session and just to remind you, this session is being recorded. Today I am very pleased to pass you over to Dave Lewis, Group CEO. Please begin.

Dave Lewis

Thank you, Hugh. Good morning everybody and a very happy New Year to all of you. Thank you for joining the call and as usual I'm here with Alan Stewart, our CFO. Now I know it's a very incredibly busy morning for you all so let's get straight to it. The results we've just published are for our third quarter sales and the six weeks of Christmas up until 7th January and I'm pleased to say it's been another strong performance from the Tesco team.

Our results for Q3 were extremely positive. Across the group, like for like sales grew 1.5%, in the UK like for like was up 1.8%, within that food sales were up 2.4% for the quarter. Overall that was our eighth consecutive quarter of like-for-like volume growth and our fourth quarter of like-for-like sales growth in the UK and we also saw our first market share gain since 2011. This strong performance continued through Christmas, despite not repeating the Clubcard Boost promotion we ran last year, which had an impact of our UK sales like-for-like of 0.8%, we've reported our third successful Christmas. Across the group, like-for-like sales were up 0.3%, in the UK like-for-like sales grew 0.7%. And very encouragingly, on every customer metric we improved year on year, on range, quality, price, service and availability we improved on what was already a very strong Christmas last year. And at our busiest moment at lunchtime on Christmas Eve, we were serving 266 customers in the UK every second. It was an extraordinary effort by the team, so I'd like to take a moment to say a massive thank you to every colleague for everything they did to serve our customers so brilliantly over this extremely busy time.

One key highlight in the results was the performance of our food. Over the whole period, food like-for-like sales were up 2%. Both packaged and fresh food categories reported like-for-like growth at Christmas and fresh food continued to outperform the market. We had very strong performances from our Tesco brand at Christmas: finest wine sales were up 20%, sales of party food were up 24% and we had another fantastic year in our Free From range, with sales growth of 18%, up on last year.

But just as importantly as these numbers is how we delivered them. Versus a very strong operational performance last year, this year's availability was up another 1% in our busiest Christmas week. Now, a huge amount of work went into that and if you consider that the physical volume shipped by Tesco at Christmas was up 2.4%, on-time delivery into our large stores was at a record high of 98.9%. The number of cages delivered into stores late was down by 30%. We reduced the amount of back-scheduling into DCs by 70% year on year and the distribution helpline and DCs receiving calls from stores was down by 31%. And managed to do all of that with more than 50 million less stock in our system.

So, the work that we've been doing to reengineer the core operational performance of Tesco is paying dividends. It's a great performance from the whole Tesco team.

Beyond food, we saw some very strong performances at Christmas. On top of a very strong year last year, our F&F clothing saw like-for-like growth of 4.3%, our seasonal clothes performed particularly strongly with sales of more than 40% year on year. Sales of our toys were up 8.5% at Christmas and we outperformed the market by 17%. But despite these great performances, our general merchandising sales were negative year on year; a key reason was the change in our promotions that I mentioned earlier.

Now, although not running Boost has a significant effect, it was the right thing to do and we made the decision for very good reasons, as we continue to keep shifting away from short-term trading promotions to investing in an offer that creates value for all of our stakeholders. Importantly, we saw positive like-for-like sales growth across all of our store formats throughout the period. We also saw good growth in online grocery, both in terms of order number and basket size.

Now, before we move away from the UK, I'm sure there's one thing on your minds, which is inflation. Throughout the period, we've been working shoulder to shoulder with our suppliers to mitigate the impact of the falling pound. Now, the typical basket we shared with you over the last two years is now almost 7% cheaper than it was in September 2014. If you remember, it was just over 6% cheaper at the half-year, it is now nearer to 7%. So, we saw deflation through the 19-week period but it's fair to say it is clearly at a lower level than it has been earlier in the year.

Inflationary pressure is there and in a number of categories it's been too significant to fully offset. But our commitment is to keep doing everything we can to minimise the impact. As I've said before, inflation is not something we welcome and we'll keep working with our supplier partners to provide the best possible prices and quality for our customers. Looking across the group, we saw some encouraging signs throughout the 19-week period. At Tesco Bank, sales grew by 6.7% in the 19 weeks. We helped customers through Christmas with a 0% offer on all our credit cards and the total number of active customer accounts is up 2.5%, year on year, with particularly strong growth in personal current accounts, mortgages and loans.

Internationally, we've faced some very challenging conditions but we've seen some important signs of progress. In Thailand, despite a very sensitive time for our colleagues and our customers following the very sad death of the King, market momentum has definitely been subdued but Tesco Lotus has continued to grow its market share. And in Central Europe, although we faced extremely intense competitive activity in Poland, we had strong performances in Hungary, Slovakia and the Czech Republic.

So, in terms of performance, this has been another very encouraging set of results. But as we set out in October, we want to value for four key stakeholders, so let me say a brief word about those here. In the UK in Q3 we saw the largest increase we've ever recorded in the number of customers recommending Tesco and on the key measure of colleague helpfulness, customer feedback has improved throughout the year.

You will have seen this week that we launched a new campaign all about Food Love Stories, to celebrate the passion and care that goes into the meals our customers love. And yesterday we were delighted to announce the appointment of our new Chief Customer Officer, Alessandra Bellini, who joins us on 1st March.

Now, to keep serving customers better, we need to keep making Tesco simpler for colleagues. Across the UK, we started to see the benefits of changing our service model, moving the time we replenish shelves from nights to days, simplifying the way we run customer service desks and also in some stores making changes to the hours we trade. It's been a challenging period of change but the feedback already from customers in those stores has been extremely positive.

Now, to keep improving our competitiveness, we need to continue to evolve the business, which is why this week you'll have seen we announced changes to our distribution network. It's crucial that we continue to simplify and transform the way we run our operation and I want to say a huge thank you to colleagues for their support and understanding as we go through this process.

Crucially, throughout this period we've seen the benefit of the partnerships we've been building with our supplier. In October, we were really pleased to be recognised as the top-rated retailer in the annual, independently-run, supplier advantage survey and by doing all of this, we're able to create value for our shareholders. In October, we set out six strategic drivers which we've been working to as a team to create sustainable long-term value. In November it was a privilege to invite over 100 key stakeholders, including supplier partners and investors representing over 40% of our share capital to our offices here in Welwyn Garden City. The results we shared today are in line with the medium-term ambitions we talked through on the day and set out at the half year.

Now, obviously the market remains very competitive but what we're seeing is consistent sustainable growth from Tesco and that's what we expect to keep delivering as we head into the final weeks of the year. At the half-year, we shared our guidance of being on track to deliver 1.2 billion of group operating profit for the full year. As you can see from today's release, we've confirmed that we're on track to deliver at least 1.2 billion and maybe just a little bit more.

Thank you again for your patience, now I hand you back to the operator and Alan and I will be happy to take your questions.

Q&A

Operator
Thank you. Ladies and gentlemen, if you wish to ask a question, could you please press 0 and then 1 on your phone keypad now in order to enter the queue and then, after I announce you, just ask your question. And if you find that question has been answered before it's your turn to speak, just press 0 and then 2 to cancel. And there'll be a brief pause while questions are being registered.

Our first question is from the line of Edouard Aubin of Morgan Stanley. Please do go ahead, your line is open.

Edouard Aubin
Yeah, good morning Dave, good morning guys.

Dave Lewis
Morning, Edouard.

Edouard Aubin
Just two quick ones for me. Just to follow up on your comments on inflation, could you please quantify the deflation you experienced at retail during the period? And then, again, to follow up on your comments on your guidance, I guess we should assume that the uplift is really mostly coming from UK operations, if you could confirm? And in terms of – related to that, in terms of international operations, is profitability – or should profitability more or less – be more or less in line with what you were expecting at the beginning of the year for these operations?

Dave Lewis
Okay. So, Edouard in terms of inflation, you know, we saw – we saw deflation as I say through the 19 – through the 19 weeks. I think the best of giving that because at the end of the year we'll obviously give you more detailed breakdown but you should look at it in the context of at half-year our basket was just a little over 6% cheaper than it had been in September of 2014 and now it's closer to 7% so that's the deflation you've seen since the last time we reported. I think that puts us higher than what I read in Kantar of 0.2% deflation over the period. So, that gives you some indications of what it is we've experienced in terms of our own deflation.

In terms of the performance and guidance you'd be right in saying that we're – you know, the UK – if you look at the UK and Irish performance over the year, you know, Q1 was 0.3% growth, Q2 was 0.9% and the last four months have been 1.4%. So, you'd be right to say that that slight improvement in confidence around the – around the guidance is driven by the UK performance but we'd also think that the international would come in broadly in line with what we anticipated.

Edouard Aubin
Okay, thank you.

Dave Lewis
Thank you.

Alan Stewart
If I could just add to that Edouard. Clearly, we'll talk about – more about that at the Prelims in April but what we set out to do was to rebuild the profitability in the UK business whilst we remained and became more competitive. And that's certainly what we see and we're – and we continue to be really encouraged by that.

Operator
Okay. We're now over to the line of Andrew Gwynn at Exane. Please go ahead, your line is open.

Andrew Gwynn
Yes, it's probably going to be a bit of a theme I guess today. But just on inflation – happy New Year as well I should say. You mentioned actually just there inflation, I forget the exact wording, but was not offset in some categories. I wonder if you could just elaborate on that a little. And then just on the guidance – sorry, I'm not sure guidance is the right word. But on the £1.2bn at least, are we thinking £1.3bn or are we thinking £1.21bn or whatever? A little bit more colour there would be very gratefully received. I think consensus is £1.24bn, if I'm not mistaken.

Dave Lewis
Below that, I think. Look, the – back to the point on inflation, I think what – you know, our position on this has not changed. We're already clear we don't welcome inflation. We know our customers don't welcome inflation so we see it as our job to try and work with our suppliers to mitigate any cost inflation that may be out there. We've been successful in doing that in a large number of categories but there are some categories out there where it's not been possible and I think you see some inflation coming into the marketplace. An example I would give you would be pork where the supply chain – you know, the amount of supply is limited in a particular time period. The supply chain is relatively thin and efficient and therefore the opportunities to mitigate have been more difficult for the whole industry. So, I think that's what I mean when I say selected categories.

But I'm pretty pleased with the way that we've managed to offset what is clearly there. The inflationary pressure is definitely there and we're not denying that. We're just working very hard to mitigate as much as we can. But importantly because, as I say, we've strengthened our basket price for customers by just under 1% that's a deflation we've experienced through the second half of our year so far. But the – but the insight I was giving is that that deflation is getting less as you go through the period than what you saw in the first half of the year.

And, you know, it is – in terms of the comments on operating profit it is – I don't have any more colour than, you know, we were on track to deliver £1.2bn. We think it's at least that and we have an aspiration for it to be a little bit more. So, we're not giving another number but we're giving you a shading that actually our confidence level based on the performance over Christmas is slightly stronger and we – you know, we can see that there's an opportunity for it to be a little bit more.

Alan Stewart
And just for clarification for the call, the specific number which the consensus is, is £1.237bn.

Dave Lewis
Yes.

Andrew Gwynn
Okay. Thanks for that but just to be clear on offset, what you mean is you've not found efficiencies and therefore some of that is finding its way into the shelf price.

Alan Stewart
Yes, that's exactly right.

Andrew Gwynn
Rather than you absorbing it into gross margin, yes.

Dave Lewis
Well, a number of things happen which is we look and sit down, 'Can we mitigate? Can we run the business differently? Can we change the promotional mix? Can we…?' There are a whole series of things that we can do. Then we talk about whether it's an increase that as a business we absorb and indeed in partnership with suppliers we decide what the right thing to do is. It's the trade-off between volume and price, as I'm sure you know. And as a very last resort, as a very last resort it may be necessary to increase prices to customers. But the important thing is that that's the last place we want to go not the first place we want to go.

Andrew Gwynn
Okay, well let's hope that's the last question on inflation and thank you very much.

Dave Lewis
Thank you. Cheers, Andrew.

Operator
We are now over to HSBC and David McCarthy. Please go ahead. Thank you very much.

David McCarthy
Good morning everyone.

Dave Lewis
Morning, David.

Alan Stewart
Hi, David.

David McCarthy
Hi. Couple of questions. One is, can you tell us what the volume growth in your Food business has been over the period because it's not, you know, as straightforward as it has been just taking out inflation and, you know, from the total or adding back deflation? So, that's the first question. The second one, on Boost can you confirm the removal of Boost is going to be profit-enhancing because of course effectively you were giving product away last year and you're charging them – you're now charging for them? And then, related to that is you've said Clothes and Toys sales were above average so what was below average? Which of the non-food areas you didn't perform well on?

Dave Lewis
Okay. I'm sorry, do you have more, David?

David McCarthy
No, no, that's it. That's it, thanks.

Dave Lewis
Okay. So, look, I think I said in the script, if I didn't, my apologies. Over the whole period, David, Food like-for-like sales up 2%, volume was stronger than that in Food categories. In Boost, you're right in terms of the very specific element of Boost sales versus non-Boost sales, you're correct. The only thing that complicates it a little bit, David, and my apologies for that is, you know, part of our assumption around Boost was by not taking it what we might recover and what the corresponding impact of Black Friday and Christmas might be. And I still haven't seen the full detailed wash-up of that. But your comment about the Boost mechanic sitting on its own would be right but I need to – before I say to you all of that change is profit-enhancing I'd have to see what the impact of those other two activities were and I haven't seen that yet.

And Clothing and Toys we picked out because that was focus areas for us so, as you would know, it's principally the balance is in that what we call Home. So, homewares, small domestic appliances, electrical would be the balance of the categories not covered by the things I mentioned.

David McCarthy
Okay. But am I also right in saying that because you've talked about the Tesco Direct, you know, sales were weaker that that's going to be profit-enhancing as well because you've shifted effectively sales to instore and that the Boost impact was more on the less profitable or loss-making part of your business?

Dave Lewis
I think, David, the – I wouldn't link it just to Boost. I think it's a – you know, as you know, it's a shift that we're making. I mentioned it at the Investor Day, in terms of the things that we're doing around Fenny Lock is to improve the – two things. Improve the relative profitability of the online GM offering anyway but also by equalising the way that we promote both instore

and online then we get a benefit in terms of profit mix as we retain customers in the mix. So, your point is right but the quantum of it is not massive in the context of the Group.

David McCarthy
Okay. And then just returning to the first question you said 2%, you know, like-for-like growth in Food with volumes stronger. What I'm trying to do is get a clearer direction because I don't just want to take a kind of implied deflation number of 1% and say your volumes are up by 3%. Or let me rephrase it. Is that the right way to do or is your volume growth different to the 3% that we get from those – from that simple sum?

Dave Lewis
And I think – I think you're – we're probably going to have to take you through in some more detail off the call, David, the impacts of mix.

David McCarthy
Yes.

Dave Lewis
Because the one thing that Boost does and I know this is unhelpful for you in this and for others, is it changes quite significantly the mix and therefore plays into the easy calculation of volume that you're used to. So, what I'll ask Chris to do is try and give you more detail on Food specific volume. I don't have that number here. I know that it was more positive than the 2% like-for-like that I'm talking about. And so, we're really very happy with the Food performance, David. You know, the like-for-like but also the market outperformance across categories, both on volume and value is something that we're proud of and continued through this period. But so, your detailed question I'll get Chris to share with you on mix but food volumes were positive through that period ahead of like-for-like.

David McCarthy
Alright. Thanks a lot, Dave.

Dave Lewis
Cheers.

David McCarthy
Cheers.

Operator
We're now over to Xavier Le Mené at Bank of America Merrill Lynch. Please do go ahead.

Xavier Le Mené
Yes, good morning gentlemen and a happy New Year to you. Two question if I may. The first one on the transaction number, so the plus 2.1%, can you give us a bit more details? Was it, you know, your usual customers going more frequently into your stores or is it actually you getting new customers and primary customers?

And the second one, can you comment also on Farm Brands? What was the performance during Q3 and Christmas?

Dave Lewis
Okay, so Xavier, two things on the transaction growth. You know, going into this period you saw from the switching analysis that was out there that we were – I think it was – the number was 225,000 new shoppers in total, but we're gaining from, I think, six of the seven principal competitors in the marketplace. So, that was the trend going into Christmas. We'll see the switching analysis that comes out of Kantar later in the month, so I don't have an update for you but that was the trend that was going into Christmas.

And in terms of Farm Brands, you know, our fresh produce, of which there are a significant amount, performed very well so I'm really very happy with the contribution of the Farm Brands, but I haven't broken out the number for a part of the category.

Xavier Le Mené
Okay. Thank you.

Operator
We now go over to the line of James Tracey at Redburn. Please go ahead.

James Tracey
Ah, yes. Good morning, guys. Three questions from me.

Alan Stewart
Good morning.

James Tracey
Would you please be able to break out the inflation in the UK separately for Q3 and the Christmas quarter so we can get a sense of the evolution over time? The second question is, could you comment on what the sales growth was online – for online grocery, just the food bit, in the UK? And the third and final question is, I think at the investor day you talked about getting a boost to like-for-like in international from repurposing space. Is that still the case and can you quantify what that was in the period?

Dave Lewis
Okay, so James, in terms of – and Alan may want to add to this – but in terms of inflation, we haven't split out Q3 and Christmas. We've talked about the 19-week period because we think that's the right way to be. We'll talk about price and volume in the full-year results as we normally do and we'll give you the Q4 breakdown. I think it's a – you know, Christmas is a very particular time. I don't want to get into looking at deflation over a very short period of time because I think that gives misleading results and, for us, the boost impact is not insignificant. The most important thing, James, is that over the 19-week period, we're still in deflation and we're still investing in prices for customers, and that's why the basket price of 7% for me is the number that I would focus on.

Sales growth online in the UK in terms of food: approaching 4.5%. So, the repurposing that we did in the early part of the year of the offer turned around, so I was really very happy with that. We served something like 800,000 deliveries in the week before Christmas and very importantly, and somewhat different to the rest of the market, is our order size is increasing ahead of the growth in number of orders, so the work that we've been doing on delivery saver, loyalty and basket-building has been really very good and the work on repurposing space is going on in international, as indeed it continues to do here in the UK.

James Tracey
And are you able to say what sort of like-for-like benefit you're getting from repurposing space?

Dave Lewis
Well, no. We haven't called it out and we haven't split it out. And if you remember from the investor day, you know, there are some programmes that we've got and there are some that have started, so – and it's not – we wouldn't really talk about it in terms of a like-for-like benefit anyway, we'd talk about it more in terms of a sales density.

Alan Stewart
Yeah, exactly. I was about to say exactly the same point, James. That what we spoke about is as we give over more space to third parties, so we don't see a fall-off in space in stores, so what we're seeing is an increase in density, but it – in terms of like-for-like, we haven't broken it out, but that's the sort of – the way you should think about it.

James Tracey
Right. Thanks, Dave. Thanks, Alan.

Dave Lewis
Thank you.

Operator
Before we go over to the next question, which is Simran Dhaliwal at Goldman Sachs, if anyone has any further questions at this stage, please do press 0 and then 1 on your keypad now. Simran, please go ahead, your line is open.

Rob Joyce
Good morning, guys. Happy New Year. It's actually Rob Joyce at Goldman. Sorry to throw you a curveball on that one.

Dave Lewis
Rob, good morning.

Rob Joyce
I've got three, hopefully reasonably quick. Are you able to give us anything on the like-for-like in the Extra stores over the period? And the second one is, as we look to the year ahead, are there any promotions similar to the boost or the fuel promotion we had a couple of years back that you're not planning to run this year that we should be aware of and taking into account in our numbers. And then finally, a couple of retailers recently flagged operating cost headwinds in the year ahead. Can you give us an indication of what you see operating cost inflating at in 2017? Thanks very much.

Dave Lewis
Okay. Why don't I – so Rob, we – I gave the indication that I think we only give – we normally only give the format splits when we get to the full results, but I can tell you, across all of – both in Q3 and at Christmas, Extras were in growth. Across the two periods it was, you know, strongly in growth. But actually, we had growth across all formats. Right? So, no issues there. There are no other, you know, fuel save or boost type activities that we've got in our future plan. That last boost was the very last of those big activities and we'll have to review what we want to do going forward in terms of general merchandising, given the experience of boost, black Friday, Christmas – so there's some work to be done there, because I'll be honest with you, I thought the impact of removing boost ended up being more than we thought it was going in. So, you know, we have to review – we have to review that. When it comes to operating cost, you've heard me talk about it before. The pressures I think we all have, but why doesn't Alan say something.

Alan Stewart
Yeah. It is a trading call, so we will talk about cost and future – and how we see the year ahead when we get to April. What we are focused on is the continuation of the delivery of the cost-saving initiatives we spoke about back in – at the investor day in October. So, we're encouraged by what we – the plans we laid out, we remain committed to them and we see no reason why, over the period, we were – we can't deliver those. But we'll talk more specifically about the year ahead when we get to the prelims in April.

Rob Joyce
Okay. Thanks very much.

Operator
We are now over to the line of Niamh McSherry at Deutsche Bank. Please do go ahead.

Niamh McSherry
Morning. I have three questions, actually. The first one is just on the group operating profit kind of confirming your previous guidance. You kind of just mentioned that Boost was a bigger negative impact maybe than you expected, and international like-for-likes are a little bit weaker, I think, than consensus expected, so what in the mix was better than you expected, to end up in the same place? So, that's the first question. The second one was a quick one on any calendar impact from the period ending, you know, two days earlier than last year. And just trying to see now – if I can also ask about how you plan or how you think about inflationary pressures on the general merchandise side from FX. That would be great. Thank you.

Dave Lewis
Okay. Well, why don't I give you my brief answer to those and then ask Alan to supplant it. When we talk about group operating profit and the comments that you've made. I'd point you to two things. I'm really very pleased with the UK and the Republic of Ireland performance, so I think there's strengthening there. If you look at that trend across Q1, Q2 and the last four months, I think that's a performance that we're proud of. I think if you put that together with the cost-saving initiatives that we talked about at the investor day, you know, that ability to make the UK more competitive, volume-led recovery, which has operational leverage which means we can build profitability as we turn the UK business around, is definitely evident in there and that's what allows us to talk about, you know, perhaps a little bit more than the 1.2 but a little bit more than the 1.2. In terms of calendar?

Alan Stewart
In terms of calendar, the two days – specifically to your question, the two days has no impact at all and I think from our perspective – and I know there's been some talk in the market about how, when period ends are an impact – for us it's got absolutely no impact because our six-week period always covers all the holiday periods, so absolutely no impact at all.

Dave Lewis
No, indeed. And when it comes to the inflationary pressure of GM, in the same way that we look at – obviously, some of the contract periods are longer, some of the lead times are longer. We have a very active hedging programme inside the business so, you know, same principles apply. Yes, some different conditions but sitting down with our supply partners and saying, 'How can we change the business together in order to mitigate the cost pressures that are there?' is something that we do. Because, you know, suppliers look at volume and price as well, and therefore it's not always in anybody's interest to pull the easier lever of increasing the price, so we work with our general merchandising partners in the same way that we've been working with our food and our grocery ones. So, there's no changing approach. We just have to modify given that the lead times from suppliers[?] are longer.

Niamh McSherry
Okay, thanks.

Dave Lewis
Thank you.

Operator
We are now over to the line of Nick Coulter at Citi. Please go ahead.

Nick Coulter
Hi. Good morning and Happy New Year.

Dave Lewis
Hi, Nick.

Nick Coulter
If I may, could I just clarify that the physical volume shift figure of +2.4, which I think you gave in your transcript, was for food and the six-week period? And apologies for being a geek – is that items, cases, or tonnage? That just strikes me; that sounds like quite a good underlying read. And then secondly, if you can – sorry, go ahead.

Dave Lewis
Yeah. Well, I can make – I think the to the detailed measure of volume I'm going to refer you to Chris, and I suspect that'll be something that happens off the call, but the 2% like-for-like that we talked about over the 19-week period with volume stronger than that is the same measure that Tesco has used for years, which is the derived volume measure, which has an element of mix in it. As I've said many times before, I wouldn't start with the volume measure that we have with Tesco. It's been evolved over time as things have happened. But we were very keen not to change it so that you guys would have complete read trough of what it was that we were doing versus the business that we inherited. There is definitely scope for us to simplify that in the brief that I've given to Chris, so he's working on a much simpler measure of volume that would make these conversations for all of us a

little easier as you try and think about how do you measure volume all the way from fresh food to TV sets. So, that's – that's for Chris to work on, and his timeline for that is relatively short.

But Nick, I'll let Chris tell you about the detail of volume measurements off the call. All I would say to you is it's completely consistent with how we've been reporting volume in the two and a half years that I've been here.

Nick Coulter
Understood, but you did say 2.4% upwards[?] volume shifts –

Dave Lewis
I did.

Nick Coulter
– for UK food [inaudible]?

Dave Lewis
When I was talking about the operational performance of the UK business, I – physical volume, as measured by palettes, units, tonnes, was up 2.4% in the Christmas period in the UK. I'm sorry, I was talking about the financial volume price. My apologies.

Nick Coulter
No, and that's for the whole offer there? That's across [inaudible]?

Dave Lewis
Exactly. Exactly. Sorry, Nick. My apologies.

Nick Coulter
No, no, no. No, that's all right. Because obviously, that sounds like a good underlying read, if that's tonnage.

Dave Lewis
It's a hell of a volume uplift on a business of the size of ours, that's for sure.

Nick Coulter
Particularly if you're selling less volume in non-food, as well. I just wanted to clarify because obviously you mentioned that figure.

But then secondly, if you can, can you share more colour on the external volume data that you referenced in the statement? Because I think you're flagging that you're leading the market on volume growth, despite tough comp.

Dave Lewis
Yeah, I think we referred to – and we have done for the last couple of years – the IRI data on performance versus the market. So, if I look at across the key categories of food and grocery, we outperform the market. I think – but I'll get Chris to check these numbers – I think it was 1.7% and 1.2% that we lead on all of those categories versus the market, so we had a very strong outperformance on food during the period.

Nick Coulter
Got it. And then lastly, I guess with the market transitioning from deflation to inflation, and people using, you know, quite rightly and justifiably different inflation and deflation measurements and statistics, and specifically on – on price investment, when you look at your price indices, are you investing more or less than your peers, and what do you set up to do? And obviously, I acknowledge that the price isn't the only form of investment in the offer.

Dave Lewis

Yeah. So, Nick, it's a great question. Three points I would make in reply. We are continuing to invest in price for customers, so our prices on our own measure, as I said before, were 6% cheaper than September 2014 on that basket at the half year, and then near 7% now. So, that's the investment that we continue to make. It has meant that we are more competitive versus the marketplace, which is where we want to be. We want to be there in a way which is sustainable and which also allows us to, you know, rebuild the profitability of the business. So, you know, it's very fluid and dynamic at the minute, given all the factors at play, but I'm getting more comfortable with where it is we have sharpened our pricing and been able to invest in prices for our customer in terms of competitive versus the market. And I was really pleased to that come back in the customer feedback in terms of how it is that they appreciate the greater value that they're now getting from Tesco, even versus a year ago.

Nick Coulter

Super. Thank you very much.

Dave Lewis

Cheers, Nick.

Operator

Our final question for today is from Bruno Monteyne at Bernstein. Please go ahead, your line is open.

Bruno Monteyne

Good morning, Dave and Alan.

Dave Lewis

Hi, Bruno.

Bruno Monteyne

I am by now more confused on inflation and volume than I was before the call. Sort of this referring inflation to a September-fixed time point is a bit hard, because obviously inflation is normally year on year, but I'll take that offline with Chris. The two remaining ones I have is: when you started the strategy of revamping Tesco, you often talked about Tesco having great reach and penetration, and these investments are all to improve frequency; it was going to take a while before people would change those shopping behaviours. Are you seeing those changes in shopping behaviours, where people bring an extra basket in the month back to you?

And the second one is the sudden departure of Richard Cousins; it seems very short, very abrupt. He was obviously very well respected coming on the board. Could you comment more on what's going on there, please? Thank you.

Dave Lewis

Sure, no problem at all. So, Bruno, in terms of the reach[?] frequency basket question, I think if you look at the – and I'll use publicly quoted stuff – if you look at the last Kantar, I think they talked about attracting something like 225,000 new shoppers to Tesco in that last period. And when you looked at the switching analysis below that, they talked about attracting shoppers back from six of our seven principal competitors. So, you know, we track that a lot; we track it in terms of what that means in terms of penetration frequency and, indeed, basket size, and I've definitely seen an improvement there. We'll wait for the Kantar switching analysis later in the month to update that perspective; you know, lots of things happen at Christmas, so we'll be looking at this Christmas versus last Christmas, as opposed to just the trend continuing. But the underlying trend – you know, you make the point what we've been trying to do since Alan and I have been here – the underlying trend, in terms of attracting more people, more frequently, to Tesco, we're definitely seeing some positive results from all of that work.

To Richard, and I haven't very much to add to the announcement that we made. You know, Richard's a great guy. He worked with us for a couple of years, enjoyed the experience. He made a decision to want to step aside from the Tesco board; we respect that decision. In consultation with him, we agreed that he didn't want to say any more about that and we're respecting that decision, but honestly, you shouldn't read anything more into it than that.

Bruno Monteyne
Thank you.

Dave Lewis
Thank you.

Operator
As that was the final question for today's call, gentlemen, could I please pass it back to you for any closing comments?

Dave Lewis
Thank you, Hugh. Ladies and gents, thank you very much for your time this morning; I know it's been an extremely busy week. I suppose my parting two or three statements would be, you know, I'm really encouraged by the progress we're making. I think if you look through Q1, Q2, Q3 and the last month of Christmas, there's very positive signs that the strategy the team here at Tesco are following is working. I'm really pleased by the feedback that our customers are giving us about the quality of service that they're getting from us, and the measures that we've seen over Christmas show that, you know, we've stepped it up yet again, which is great for the future.

My final thing is to repeat the thanks that I give to, you know, 320,000 colleagues here in the UK and nearly 450,000 colleagues around the world. They've worked extremely hard, in sometimes very difficult circumstances. But, as shareholders in the business, I think we should be really very encouraged by the performance that they've managed to deliver. And with that, I wish you a fantastic 2017 and we look forward to seeing you soon.

Operator
This now concludes today's call. So, thank you all very much for attending and you can now disconnect.