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Presentation

Operator

Hello, and welcome to the Tesco First Quarter Results Analyst Call. Throughout the call, all participants will be in listen-only mode, and afterwards there will be a question and answer session. Just to remind you, this conference call is being recorded. Today, I am pleased to present Dave Lewis, Group CEO and Alan Stewart, CFO. Gentlemen, please go ahead with your meeting.

Dave Lewis

Thank you, Mark. Good morning, everybody. On behalf of Alan and myself, thank you for joining us this morning. The results we've just published show continued momentum to our business. In a challenging environment, we've delivered our sixth consecutive quarter of positive like-for-like sales growth, and we continue to make solid progress against the six strategic drivers which we shared last year. Across the Group, like-for-like sales were up 1%, driven by a strong performance in the UK where like-for-sales were up 2.3%.

A key focus this quarter has been the work we've been doing with our supplier partners to protect our customers from inflation. Today's numbers show the benefit of our approach. Despite tough trading conditions, food sales in our UK business were up 2.7%, and we're now entering our third year of positive food volume growth. Underpinning this is a real standout performance in fresh food, where volumes were up 1.6%. Total customer transactions in the UK were ten million higher in Q1 this year than in Q1 of last year. Part of that performance is thanks to the success of our Little Helps to Healthier Living campaign. We created a basket of healthy alternatives to the products customers might usually buy, which were 65% lower in saturated fats, 38% lower in sugar and had 27% less salt, but was also 17% lower in price. It's the first time anything like this has been done in the UK, responding to something that's very important to customers, and we grew sales in healthy products by 2.4%.

We continue to be led by our customers in our international business too. In Thailand, we simplified the business around our core retail offer, in line with our strategic driver of maximising the mix. At the start of the year, we took a decision to discontinue unprofitable bulk selling activities, largely tobacco and alcohol, which weren't directly serving our core retail customers. The impact on Asia's like-for-like from this change is significant, at around 6%, and we'd expect a similar impact until we annualise the change at the start of next year. In Europe, we saw a small improvement in performance, driven by strong growth in the Czech Republic and Slovakia. Conditions in Poland are still tough, but we're confident in the plans that we have in place. And at the Bank, sales increased by 4.8%, driven by strong growth in secured lending.

So, we're pleased with the start of this year and the progress we're making to create sustainable value for the medium term. I'm particularly delighted that our customers continue to recognise our efforts too. Earlier this week, the UK team were voted by customers as Britain's Favourite Supermarket for the third year running, at the Grocer Gold Awards. And also, very importantly for us, is the grocery industry voted Tesco as Grocer of the Year, an award which we haven't won for 11 years. So, it's great to have some industry recognition for the work that the UK team are doing.

As well as making this progress, we also have our plans in place to unlock longer-term growth. There's no new news on Booker to be shared today, except to say that we're pleased that the regulatory process has moved to the next stage, as we confirmed just over two weeks ago. There's a huge opportunity from this merger, bringing together the complementary skills of retail and wholesale to better serve customers.

That leads me to the final point I'd like to make: everything we're doing at Tesco is about putting customers at the heart of our business, and by keeping this focus, we continue to build a sustainable model for shareholders. There's still more to do, but we're making great progress, as we set ourselves up as a business to serve our shoppers even better. And I'd like to close by thanking all of my colleagues at Tesco for their commitment to doing just that. Thanks for the time; I'll hand back to Mark for your questions. Mark, are you there?

Q&A

Operator
Apologies, just helping with the names there. Ladies and gentlemen, if you wish to ask a question, please dial 01 on your telephone keypads now to enter the queue. Once your name has been announced, you can ask your question. If you find your question has been answered before it's your turn to speak, you can dial 02 to cancel. So, once again, that's 01 to ask a question, or 02 if you need to cancel. There will be a brief pause now whilst we register your questions.

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

Edouard Aubin
Yes, hi guys, just two quick ones for me on international operations. Just to confirm: did you say that the impact of discontinuing bulk selling in Thailand was around minus 6% for Asian like-for-likes? Just to confirm that.

And number two: if I look at consensus expectations for international, I think the consensus expects EBIT to be up around 10% this year. I know that's a call[?] on sales, but do you think that's realistic given the trajectory of sales in Eastern Europe and Asia so far?

Dave Lewis
So, Edouard, what I can say is yes, I can confirm the 6% in Asia.

In terms of international, I think versus 1% of growth – I saw a consensus number in the marketplace for Q1 which was around 1.6%. So, if you take what it is we've announced around bulk selling, put that back, actually the performance in international seems to be what the market expected. But obviously, consistent with what we've done before, we made the change to our activities in Thailand first, and now we're sharing with you the details of that. It's an unprofitable business activity that we wanted to step away from, as a contribution to enhancing the intrinsic profitability of the Thai business.

Edouard Aubin
Right, but do you expect profits to – is it realistic to expect profit to go up this year in your international division?

Alan Stewart
Edouard, I think in terms of overall consensus, I wouldn't expect that to change today, but as today is a trading update, we're not talking about the shape of the different segments of our overall consensus.

Edouard Aubin
Okay, thank you.

Operator
Thank you. Our next question comes from Andrew Gwynn of Exane. Please go ahead, your line is open.

Andrew Gwynn
Hi. Morning, all. Two questions.

Dave Lewis
Hi, Andrew.

Andrew Gwynn
Morning. Two quick questions. So, firstly: obviously, we had a couple of events, so most notably Easter. If we look at the market share I suppose either side of that, it's been a bit more subdued. So, could you just comment on the sort of patterns you're

seeing in consumption? Not necessarily of your own trading, but thinking more about – the consumer is prepared to spend during those events, but maybe outside of that it's a bit more of a lull.

And then the second question, just again unfortunately coming back to Asia. We've obviously seen a big change in ownership in the market, with Big C changing hands; have the underlying conditions in the market, so forgetting about all that bulk selling, but has the underlying – I'm not sure what you call it, but the underlying –

Dave Lewis
Yes, momentum.

Andrew Gwynn
– conditions changed? Yes, exactly.

Dave Lewis
Okay. So, I certainly can, Andrew. So, in terms of Easter, we were really pleased with Easter. We did have a strong performance. I think what we – key categories at Easter, like meat, were really strong on growth for us. So, 7% like-for-like would have been indicative of that performance. I think what we were saying at the Q1 which was important was encouraging people not to compare a period that had a prior-year Easter in with one that didn't. So, now we've got a good comparison of Q1 because they both had Easter in, and actually our performance across that has been really, really, very encouraging.

I think to your point about consumption patterns: clearly, things are fluid in the market at the minute. All I can tell you is that we've managed to outperform the market across Q1 in all the categories that were important to us: food, fresh food, volumes, transactions; all of that really strong. And I'm particularly pleased with how the market reacted to a complete new innovation in terms of our plans for healthier living, and we saw volume growth in that as well. So, our outperformance versus the market is good through the first quarter, but clearly there are some impacts in the market. Our key job is to outperform the market.

In Asia, if you strip out the bulk selling, what you see is a momentum in the marketplace which is a little subdued, relative to history in Thailand. There's still very much a respect in that marketplace which is having an impact on some of the festivities that we normally see, so we're not seeing those sorts of peaks in the way that, historically, you might. But fundamentally, market share has continued to be good, and the market continues to grow, but it's not grown at the levels that we've seen over the past few years. And it won't really be until, what, October of this year, until the death of the King is annualised. But there's nothing fundamentally different apart from the decision we took to step away from those bulk sales.

Andrew Gwynn
And sorry, just to come back on the shape of Q1, maybe without commenting specifically on the numbers, but is it fair to say that the like-for-like performance over Easter was materially better than the overall quarter?

Dave Lewis
No, I think what we'd say is Easter – just to share with you, Easter is our second most important trading period after Christmas, so it's a very important event for everyone. And I know that we had a very competitive performance over Easter, but I wouldn't put the performance of Q1 just down to Easter. I'm pretty happy with the way that we performed across the 12 weeks, when I look at the totality of the plan.

Andrew Gwynn
Okay, all very clear. Enjoy the sunshine, thanks.

Dave Lewis
Thank you, Andrew.

Operator
Thank you. Our next question comes from Bruno Monteyne of Bernstein. Please go ahead, your line is open.

Bruno Monteyne

Hi, good morning, Dave and Alan. Two questions from me, please. Your release implies that the lower-than-market inflation number that you are seeing, so you are increasing prices less fast, is thanks to working together with suppliers, so they're helping you get those cost savings. What's different about Tesco, that you're able to get the suppliers to fund and work with you to keep that inflation lower from the other people in the market?

And my second question is regarding discounter growth. There's limited data available out there, in my view, but where there are no new discounter openings, so the vast majority of your stores, do you see a materially different trading dynamic at the discounters that is impacting those stores? Thank you.

Dave Lewis

Okay. Bruno, what can I tell you about – if I look at the Kantar number for inflation for the first 12 weeks, I think it comes out at 2.9%. And against that, it has a number for Tesco which is around 1.5% lower than that. So, that gives you a – it is true across all sort of metrics that we are fighting inflation, and therefore lowering prices less than anybody else in the marketplace. And I think that's consistent with everything that Alan and I and the team have been saying our approach would be.

In terms of how it is we work with our suppliers, I think there were three or four things that are coming to the fore here. You know, we really are genuinely sitting down with them in partnership and saying, 'What's the right thing to be doing for the totality of our business together?' And actually, we all know that inflation can impact medium-term demand, so actually let's think about the volume and the price, and think about what the quantum of return can be, rather than just the percentage return. And that's led us to think about how it is we can manage business together. I think it's also meant that we are much more joined up in areas of logistics and supply chain. And some of the initiatives that we've done, particularly in fresh but across the business, to take cost out together with our supplier partners, in order to be able to invest that back into the offer, is significant. And I think the other two levers that are playing in here, as we rebuild the business, is the way that we're managing our mix, thinking hard about where it is we choose to invest in our business. And the final thing is obviously the cost-saving programme that we have, which allows us to have some fuel to invest in more competitive prices, if we can't offset it in the way that I implied through the relationship. So, actually, there are three or four levers, but the most important thing is the engagement of supplier partners. And I have to say, I've been really pleased with the way that they've engaged with us around how we navigate the inflation that's there in the marketplace.

Look, your question on German retailers, the specific regions of where they are versus where they're not, I don't have to hand here. I don't think I see anything that's materially different from where we were before. What do I recognise? I recognise the level of inflation in German retailers which is significantly higher than the market average, and you would know that already. But actually, there's nothing that I could point to, Bruno, in terms of specific trading patterns by catchment area that would help you with your question. I'm quite happy to go away and have a look at it directly, but I don't have anything that I could share with you on that specific question at this minute.

Bruno Monteyne

But that in itself, I would say, answers the question, right; if they were suddenly materially trading much stronger than before, you probably would have noticed. So, from your point of view you don't see material change in those, versus what you've seen in the last year?

Dave Lewis

See, Bruno, I knew I should get you to answer your own questions for me. That's exactly what I'm saying.

Bruno Monteyne

Thank you.

Operator

Okay. Our next question comes from Sreedhar Mahamkali of Macquarie. Please go ahead, your line is open.

Sreedhar Mahamkali

Hi, good morning, all. So, three questions from me as well. Can you give us a sense in terms of your thoughts on where we're heading with respect to requests in terms of cadence and tempo for price increases coming from your suppliers? Is that continuing to accelerate, or are we beginning to see a bit of a plateau here? And what does that instruct you in terms of path of inflation from where we are now? That's the first one.

Dave Lewis

Okay.

Sreedhar Mahamkali

The second one is private label penetration; clearly, this is a key area of focus for you. Can you tell us where we are now in terms of private label? Let's say, Q1 versus Q1 last year, or Q1 versus Q4 last year? That would be helpful.

And finally, in terms of general merchandise change in strategy, tactics: how long do we continue to expect this negative like-for-like headwind? When do we start to annualise these changes? Those are the three, thank you.

Dave Lewis

Okay, Sreedhar, let me try and help you. In terms of requests for – we look – so, one of the things that Jason and I talk about a lot is what requests for price changes are there in the so-called forward book. Without giving competitively sensitive information away, it's fair to say that they were much more significant at the end of the financial year than they would be at the end of the first quarter. So, absent anything else changing, and obviously things have changed politically recently, the forward book looks less significant than we were experiencing when we came into the first quarter. Obviously, our stance remains that we don't welcome any cost inflation, so we start from a place which is: anything that's in the forward book, we should be seeing how we can mitigate. But against your question: as we exit Q1, it would have been significantly lower than when we entered Q1 in terms of requests.

In terms of private label, I haven't got it quarter on quarter.

Sreedhar Mahamkali

Sorry, just to finish there: I mean, does that mean, in your view, that we've probably seen the peak inflation now, or is there a bit more to go before you start to think…?

Dave Lewis

I'm not prepared to say that – I'm not going to forecast inflation; I'm giving you a very specific answer to your question, in terms of the requests for cost increases in our forward book are less at the end of Q1 than they were in Q4, but I don't think anybody is going to be calling what inflation trends would be. I've not done it up to now, and I'm not going to start trying to predict inflation. We're going to stick with the idea that we can try and offset any cost inflation that's there, because that, from a principle point of view, is where we want to be.

Private label penetration on an annualised basis has grown by about 3%. Really happy with the work that's on private label. We see more opportunity there, but actually I've been really very pleased with the way customers have responded to the investment we've put in private label.

And in general merchandising, the strategy continues; we continue to reshape that particular part of the portfolio. Clothing growth was 3.7% in the first quarter, but we've also continued to step away from some of the promotional activity, and that has a few more weeks to run in terms of getting out of that promotional support, so we're just continuing with the strategy that we talked about at the end of last year. I have to say, I haven't seen any fundamental changes in the marketplace in terms of general merchandising consumption, and so really what we're talking about here is a result of the reshaping of the portfolio and the investment portfolio that we, as Tesco, have undertaken.

Sreedhar Mahamkali

Just very quickly, to follow up on the private label point: it's up 3% or three percentage points of penetration?

Dave Lewis
Participation was your question, wasn't it?

Sreedhar Mahamkali
Yes, three percentage points increase versus –

Dave Lewis
Participation, correct.

Sreedhar Mahamkali
Yeah. And can you give us a sense, what is the actual number? Is it 40s, has it kind of gone through 50?

Dave Lewis
No, it hasn't gone through 50, I'll tell you that, but we don't give a specific number.

Sreedhar Mahamkali
Okay.

Dave Lewis
But it's up 3%, which is a significant improvement and one we're pleased about.

Sreedhar Mahamkali
Okay, thank you very much.

Operator
Thank you. Our next question comes from David McCarthy of HSBC. Please go ahead, your line is open.

David McCarthy
Good morning, Dave.

Dave Lewis
Morning, David.

David McCarthy
Hi. A couple of things: one is, I'm just trying to look at what the overall volume is in food for your business. We've got the fresh food figure at 1.6%, and I think the phrase used was 'significantly above average, or the rest of the business'. So, can you give us some indication: is the overall volume in the order of, what, 0.5–1%, would that be about right?

And then secondly, I'd like to ask you about the online market. You're only growing at 4.8% as you focus on profitable growth, and I think that's great news, the right thing to do. But just that overall market; we've seen a statement from Ocado this week in their prospectus, that online is moving towards a mature market: is that a view that you'd agree with? What's your view of the long-term prognosis of grocery home delivery?

Dave Lewis
Okay, thanks David. Look, in terms of total volume, what you've got is total volume which is just positive, and so what we're talking about is 1.6% in fresh food, which was 2.7% outperformance versus the marketplace, and we talked about a growth in food that was our volume growth north of that. The critical thing, David, when you look at the volume is there are two other things that are going on here, and I'm sharing the detail to help is – in our total volume number, we have the drag on general merchandising as we max the mix, but we've also got things that we never talk about but it's worth knowing, because they impact the number. For example, the change in tobacco pack sizes means that the volume in that marketplace, which when you look at units is significant, is down 11.4%. So, the critical thing for me – and that's why we pick out food – in those categories that

we want to outperform in, there's still volume growth and we're outperforming versus the market. But as we reshape and deal with changes, the legislation changes in tobacco that I just talked about, that has an impact on the total volume number. So, hopefully that gives you a bit of an insight.

David McCarthy
Yeah.

Dave Lewis
In terms of online, you articulate it well. I think I'm very happy with the growth that we're getting and the quality of the basket, the basket size growth and the inherent profitability that comes from changing the quality of that. I haven't seen the report that you're talking about; I don't think we would describe it as 'mature', but it's certainly not a place where we have prioritised explosive growth at the expense of good commercial return, and you should anticipate that's how we would want to continue to look at the market.

David McCarthy
Okay. So, just going back to the first point, Dave: are you winning volume market share?

Dave Lewis
Yes, we are.

David McCarthy
Good, thank you very much. Have a good day.

Dave Lewis
Cheers.

Operator
Thank you. Our next question comes from Xavier Le Mené of Bank of America Merrill Lynch. Please go ahead, your line is open.

Xavier Le Mené
Yes, good morning gentlemen, two questions if I may. The first one: can you elaborate a bit more on the promotions on the food side, actually? So, are you currently seeing more promotion, less promotion? Is it part of your price investment, or actually a way to offset part of the inflation, are you using it?

And the second one would be still on volumes. I understand that you are overall growing your volumes: is it because your customers are coming more frequently, or do you think you're also getting some volumes from your competitors?

Dave Lewis
Yeah, okay. Look, I think in terms of food promotions, what we've been doing – and not just in the last period, but across the last sort of three years – is investing to bring prices lower more consistently for customers; we've continued to do that. We did that through the course of this, so actually our participation in terms of promotions continues to go down, the depth of discount in terms of promotion continues to go down, and actually we've been putting more of the investment into the base price. You saw that in fresh food through the quarter, and indeed across the food portfolio. So, that continues to be our strategy around food and food promotional activity. And then what we tried to do, as I mentioned in the script, is add helpful things in terms of healthy little swaps, which is in addition to that sort of promotional strategy.

I think when it comes to volume, I think the number to look at would be the increase in transactions. So actually, what we see is we've got – you know, we said it before: more people shopping more frequently with Tesco, and that's really what's driven it. There were ten million more transactions in the first quarter of this year versus last year, and yes, we continue to gain customers from the majority of our competitors; not all of them, but from the majority of our competitors.

Xavier Le Mené
Thank you.

Dave Lewis
Thank you.

Operator
Thank you. Our next question comes from James Grzinic of Jefferies. Please go ahead, your line is open.

James Grzinic
Yes, good morning. Dave, I just had a quick question – a clarification question, really, on the point you made on discounters: are you saying that your switch in performance relative to discounters has not changed since September/October last year, or that discounters' overall growth, as far as you can tell, has not changed since September/October last year?

Dave Lewis
It's a good clarification. What we said is versus the German retailers – we did say we were gaining shoppers back from virtually everyone as we went into the very end of last year, and what I said earlier is that in the first quarter of this year, we saw that that gain had stopped; and therefore, a need for us to invest yet more, which is what we've done, and we've started to see the volume performance. And in a little while, I'll see what the switching reports will show me for the last period. But the gains that we were making going into the end of last year, we were not making in the early part of the first quarter versus the German retailers.

James Grzinic
Got it, thank you.

Dave Lewis
Okay.

Operator
Thank you. Our next question comes from Clive Black of Shore Capital. Please go ahead, your line is open.

Clive Black
Good morning, gentlemen.

Dave Lewis
Good morning, Clive.

Clive Black
It'll be very interesting to read the transcript, how many times the word 'German' comes out. A couple of questions from me. Dave, the general election last week, the UK is in total chaos: how do you sense the consumer mood at the moment? And do you actually feel that what's happening in the macro environment in the UK could influence trading for your business, and maybe the whole food market over the next few months? That would be my first question.

Dave Lewis
Okay.

Clive Black
I'd be interested to know also whether you've got any confidence as a leading businessman in the British government to support Tesco?

And then, secondly, in terms of your relative pricing: just to be clear, are you saying that Tesco UK's relative pricing has improved across the whole market, including our friends that are German retailers, or are you referring just to the big four? Thank you.

Dave Lewis

Okay, I'll try that. Clive, you know I'm going to leave the political punditry to yourself; it's something I'll sort of step away from. Look, I think the election clearly is very impactful for people in the country. I suppose the touch points and the facts that I can talk to are: consumer confidence year-on-year is down if you look at May. So, we have to be mindful and cognisant of that, and wary and watchful as to what the impact on the business would be. So, that's the sort of indicator that we would look at.

To your question about confidence: candidly, Clive, I don't think that we can talk about what the macro impacts on the industry will be; they're clearly not within our control. For us, the focus is: can we outperform the market? So, as the market volumes start to become less easy, the critical thing for us is: do we outperform the market? And you heard in the numbers, our market outperformance is even stronger than the headline numbers. Hence to the point that David was making earlier: are we growing volume market share in the key food categories? Yes, we are. And for us, outperformance is where the business opportunity is for us. But obviously, it means that, as a business, we've got to change what it is we bring to the marketplace.

Look, I think to your final question: yeah, I can absolutely confirm that we have changed positively our price relationship to all of our competitive set in the UK. The level of inflation in Tesco, and you see it in all of the external measures, is significantly lower then we're seeing across our competitive set, and that's consistent with what we said we were going to try and achieve, Clive. That's our position and we're working very hard to keep it there

Clive Black

Okay. Can I just come back on the first point, Dave? For which I appreciate your candour to the extent you can speak. Would you say Tesco's confidence in the UK, i.e. business confidence, is higher or lower than when you reported your preliminary results?

Dave Lewis

Clive, we're all-in in the UK market, right? So, our confidence in the UK market is really strong, our confidence in the UK business is really strong. The critical challenge for me is to make the UK business competitive in the market conditions that are there, but I'm not somebody who's waning in confidence around the UK at all. It's a very big, very vibrant market, and it's weathered lots and lots of challenge and change over time, and I'm absolutely confident it will do it again. The critical thing for Tesco is: whatever the prevailing economy is, can we be competitive for our customers? And I think we can, relative to others who play in the space.

Clive Black

Okey-dokey. Thank you very much for that.

Dave Lewis

Alright, cheers Clive.

Operator

Thank you. Our next question comes from Niamh McSherry of Deutsche Bank. Please go ahead, your line is open.

Niamh McSherry

Good morning. I had two questions, please. The first one just a clarification about the online growth that you saw, whether you can tell us what basket size did and order numbers?

Dave Lewis

Right. And your second question?

Niamh McSherry

The second question is actually going back to promotions. So, I understand the strategy, but I still wasn't clear whether overall promotions have actually gone up or down year-on-year; maybe promotions in certain categories have increased?

Dave Lewis
So, let me answer the second. I'm looking feverishly for the basket size of online as we go. But I can confirm to you, promotions have gone down year-on year and the depth of promotions have gone down year-on-year.

Niamh McSherry
Okay, great.

Dave Lewis
Okay. And in online?

Alan Stewart
In terms of basket size: obviously, there's seasonality in basket size, but year-on-year it's pretty flat.

Dave Lewis
1.3% growth in terms of basket size over the time period. And online orders are up sort of 3.3%, just to give you an indication.

Niamh McSherry
Right. Yeah, no, that's great. Thank you.

Dave Lewis
Alright.

Operator
Thank you. As a reminder to participants, if you do wish to ask a question, please dial 01 on your telephone keypads now. Our next question comes from Stuart McGuire of Credit Suisse. Please go ahead, your line is open.

Stewart McGuire
Thank you. Good morning, Dave. Good morning, Alan.

Dave Lewis
Hi, Stuart.

Stewart McGuire
A couple of questions from me. And I don't want to belabour the point, but back on to volume for a second: I think you hinted that inflation was 1.4%., and last year you gave a specific number for volumes, which was plus 2.2% in the UK. So, if we try and unpick those numbers, is it fair to say that your 2.7% minus your inflation would give you an actual volume number of plus 1.3%? Question number one.

Dave Lewis
Okay, and your second question?

Stewart McGuire
Second question would be on Asia: can you give us the impact ex the bulk selling activity? So, a true like-for-like number?

Dave Lewis
Okay. Yeah, I can.

Stewart McGuire

And then on consensus: I know last year, you could give this; I'm not sure whether you can anymore. But can you give us any comment on current consensus for operating profit? I know it's a trading statement, but it's around £1.5 billion; last year, you did give us a little bit of guidance that you're happy with that. Thank you very much.

Dave Lewis

Okay. Well, I'll tell you what, let's take the last one first. As Alan said before, based on a strong first quarter, we see absolutely no reason to change what's out there at all in terms of consensus.

When it comes to the volume: unfortunately, Stuart, what we're doing here is using some external and internal measures. I'm just trying to be helpful. So, Kantar says inflation 2.9%, and says on the same basis that Tesco is something like 1.5% lower, so that's where you get to I think your 1.4% that you mentioned. But that's a Kantar measure. In terms of volume performance inside the business, the numbers are – as I've said, you won't get an exact read in the way that you have just done. They're indicative, but one is an external Kantar number and one is the reported number of Tesco, just to be very specific with you.

Alan Stewart

And if I take the bulk selling out of Asia, it's minus 0.2%. So, it's pretty flat. Remember there's the market shift, but it's pretty flat.

Stewart McGuire

Thanks very much. Very clear.

Dave Lewis

Okay, cheers.

Operator

Thank you. Our next question comes from Nick Coulter of Citi. Please go ahead, your line is open.

Nick Coulter

Hi, good morning. Just two from me, please. Firstly, can I ask on the discounters and the investments that you've made: were they within the parameters of your existing plan for the business? That's the first one.

Then in the context of the Kroger warning yesterday, and just to be clear: could you talk about whether the inflationary environment is having a negative impact on the trajectory of your plan to date? Thank you.

Dave Lewis

Nick, thank you very much. I think I can answer both in the same way, which is: whilst things have changed, and if I look at the very specifics of what's happening in the market versus when we wrote the plan, things have definitely changed. But are they outside of the parameters and the range of possible scenarios that we envisaged back then? No, they're not. Right, so there's nothing that we see at this point in time that would change the structure of the guidance that we gave. And to my earlier point, based on Q1 we're quite happy with the way that the market views.

The investments that we've made have been consistent with the trajectory. The levels have been ever so slightly different as the market has moved and there's been inflation, whereas we had assumed that deflation would stay for longer, but those are the details. In an overall framework, we're still very much operating within the envelope that we'd envisaged when we set the plan, well, nearly two years ago now.

Nick Coulter

That's very clear, thank you.

Dave Lewis

Cheers.

Operator
Our next question comes from Mike Dennis of Lazarus. Please go ahead, your line is open.

Mike Dennis
Yes, good morning.

Dave Lewis
Morning, Mike.

Mike Dennis
I had a couple of questions. One was on the promotional stuff: could you give us a sort of figure for what the benefit is on your IFRIC number from your lower level of promotions and couponing year-on-year? That's the first one.

The second one is, just to reconcile this inflation volume thing: if, rather than looking at the like-for-like, we just take the 1.6% in the UK, if your inflation is running higher at around 1.5%, is it right to say that the volume as you said is just positive? Is that what you're saying in terms of the overall volume figure? Just to get that straight.

And in terms of the shape: various data – ONS and Waitrose and other people – it would seem that there is a distinct shape to this quarter in the sense that March was down, April was very strong and May looks a very weak month. Is that the overall total shape of the market you're seeing?

Dave Lewis
So, short answer to the last question: no, I think we've seen a shape which is slightly different to that.

Alan Stewart
Yeah, Mike, in terms of the shape, we've exited the quarter in a strong position and that's something we're comfortable with as we see the market.

In terms of your first question on IFRIC: it's absolutely immaterial, the IFRIC impact.

Overall volumes we said are positive, and we've given the impact of the food and how food is strong. Yes, you can do some maths; we're not spitting it out absolutely, but it's positive.

Mike Dennis
But it must be a relatively small positive in context of the inflation overall, though.

Alan Stewart
Yeah.

Mike Dennis
Overall, to 1.6%.

Dave Lewis
Yeah, the volume outperformance versus the market – so Mike, if you look at the market –

Mike Dennis
For the market, negative, yeah.

Dave Lewis
Yeah, market – so, the market was broadly – Q4/Q1 broadly flat, but in the last four weeks of that month it went down by, I believe, 1%. So, the outperformance – a positive volume from Tesco versus a market of minus 1% is where you get the market outperformance that we talked about.

Mike Dennis
Yeah. Okay.

Dave Lewis
So, macro market, not something I think even Tesco think that we can ultimately influence. Can we be more competitive than anybody else within that market? The volume outperformance shows that we can.

Mike Dennis
Okay. No, it would just be easier to get the absolute volume figure, because obviously you're trying to build a business on absolute volume growth in terms of leverage with suppliers. But anyway, thanks a lot.

Dave Lewis
No, I think, Mike, you've given me the opportunity to talk about the fact that yes, volume growth and leverage by key category, you're talking – and it's very important that we think about it through the category lens, because that's how leverage plays. But we also have the lever of mix, which is one of the things that we're building the business on, and actually the ability to invest, to restructure and re-scope the business in terms of cost is also rebuilding the business. So, just keep thinking about three levers, not just one.

Mike Dennis
Okay, thanks a lot.

Dave Lewis
Okay, cheers.

Operator
Thank you. And our final question comes from James Tracey at Redburn. Please go ahead, your line is open.

James Tracey
Yeah, good morning, Dave and Alan. How are you?

Dave Lewis
Thank you. Good. thanks.

James Tracey
Three questions for me. Could you just provide a bit more detail around your comment that the conditions in the market were fluid? What specifically does that mean?

The second question is on input cost inflation: how does it compare versus the selling price inflation? I've heard some comments from other CEOs that gross margins are under pressure at the moment from that; is that something that you would agree with or not?

And the third one is: how are you seeing consumers respond to the rising inflation? Are there any changes in shopping habits? Thank you.

Dave Lewis
I think, James, my comment around fluidity is really linked to some of the things I think other questions have alluded to, which is that politically things have changed, and as that political change has played through, we've seen speculation and movements around currencies and stuff like that. So, that's the fluidity I'm talking about. And it's one of the things we have to always factor into our business.

I think to your point about input cost, part of that relates to something I've just talked about in terms of what might be a forward view around currency and others. So, that's just the general stuff that we deal with all the time. I don't disagree – you know, we didn't say that there wouldn't be any inflation; we said that actually, our job was to try and offset it as much as we possibly could. And actually, so what does that mean? That means that margins are under pressure, but our critical response to that was not to reach for the price levers and increase prices for our customers; it was to say with our suppliers, 'Is there a way that together we can work to offset that, protect the volume and actually enhance the total amount of profitability in quantum whilst we're operating in this economic cycle?' And that's what we've been trying to do, and I'm comfortable with the way we've managed to do it so far. We'll see how the economy evolves going forward.

I think from a consumer point of view, we've not seen anything at this moment in time that I could point to and say: this is a massive shift in consumer behaviour. But like everyone, we'll keep a weather eye out. It's really important for us that in the core markets of food and fresh food, that we keep focus; we're three years of growth, we want that to continue. And there isn't anything in terms of consumer behaviour that I could point to there that would change any of the sentiments or guidance that we're giving to the business at this point.

James Tracey
Thanks a lot, Dave.

Dave Lewis
Alright. Cheers, James.

Operator
Thank you. And with that, I'll hand back to our speakers for the closing comments.

Dave Lewis
Okay. Mark, thank you very much indeed, and for anybody who's joined us today. To those of you who are planning to join us at the AGM, Alan and I will see you this afternoon. I suppose my final thought is, as I've said already, we're very pleased with the momentum we're seeing in the business, despite what is a challenging environment externally. We'll keep our focus completely on helping customers and looking at ways we can serve them better, whether that's about keeping prices low or making healthier choices a little easier. We always feel that we've got more to do. I'm really pleased with the progress we've made; it's nice that the UK team were recognised as Britain's Favourite Supermarket again for the third year running, and it's some real vindication for the UK team that the industry voted, in the third year of the turnaround, Tesco as the Grocer of the Year. I'm delighted for Matt and his team, and it's a nice way for me to end this call. So, enjoy the weekend, I hope the weather – in fact, the weather will stay good, apparently. It might even be good into the early part of next week, so please, please go shopping. Okay? Have a good day.

Operator
This now concludes the conference. Thank you all very much for attending, you may now disconnect.