Tesco

Q3 & Christmas Trading Statement

13th January 2022

Transcript

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Ken Murphy: Good morning, everyone and a very happy new year to you all. Thank you for joining us on what I know is a very busy day for you. I'm here in Welwyn with Imran and in a moment, we'll be delighted to take your questions. Before that, I want to make a few opening remarks. I'm not planning on running through everything that's in the statement, but I will call out a few highlights. I want to start this morning by thanking every one of our fantastic colleagues. The momentum in our business is really thanks to their hard work and commitment. Given all of the challenges over the last few years, what they've achieved is remarkable. I want them to know their contribution is highly appreciated. And I'd like to also say a big thank you to our suppliers who helped us do a brilliant job for our customers throughout.

Ken Murphy: We are really pleased with our performance over the third quarter, and particularly over the Christmas period. To grow on top of last year's exceptional performance with nearly 9% like for like sales on a two year stack is a fantastic result, and even ahead of our own expectations. Overall, COVID actually had a negative impact on like for like sales performance due to the pretty comprehensive lockdown we had last year. However, we did have a short-term boost in sales versus our own expectations, as more customers stayed home due to the Omicron variant this Christmas.

Ken Murphy: Importantly, our underlying momentum continues to be so strong. Our unwavering commitment to value is continuing to resonate with customers and they are recognising the improvements we are making in range and quality too. These factors have all contributed to our strong market share performance, both in stores and online, with switching gains in the UK for 22 consecutive periods.

Ken Murphy: Although we end up focusing a lot on the UK business on these calls, I would like to touch on performance across the group. Our Irish business has delivered another exceptionally strong performance. Booker has delivered record sales in both retail and catering, despite the hospitality challenges. And Central Europe is growing well and gaining share.

Ken Murphy: We are clearly navigating some significant challenges, including growing cost pressures and the well documented supply chain issues in the industry. The recent wave of Omicron has also led to increased absence, but despite this, our out-performance in sales has led us to increase our guidance for this year. We now expect retail operating profit to be slightly above the top end of our previous range of £2.5 to £2.6 billion. We are also expecting our Bank operating profit to be higher than previously guided and now between £160 and £200 million. Looking further ahead, we know the environment will continue to be challenging and the impact from COVID is far from clear. What I can tell you is that we are absolutely committed to continuing to deliver great value for customers and that the momentum in our business gives us even more confidence in the medium-term ambitions we set out in October. So, with that, let's go straight to Q&A.

Operator: And we'll take our first question from Andrew Porteous from HSBC.

Andrew Porteous: Morning team and congratulations on the Christmas performance. Really impressed. A couple from me. I guess the first one really is thinking about the year ahead. There are lots of puts and takes, and I appreciate you're not going to give guidance at this stage. But I guess a simple question, do you think growth is a likely outcome over the next year, both at the sales and profit level?

Ken Murphy: Sorry, what's the likely outcome? Growth?

Andrew Porteous: Do you think you can grow in the year ahead?

Ken Murphy: So, as you say Andrew, it's really hard to give you a clear view of that, because it really is contingent on not only what happens from a COVID pandemic perspective, but how customer habits change. And what we've seen is an incredible resilience in all the customers we've won during the pandemic. And that's really settled into a pattern particularly online, where we've seen a really strong set of new customers shopping with us week in, week out, and we're really pleased with that. So, we think what we have is the basis for a strong ability to maintain momentum in the industry. What we can't legislate is what the total size of the industry is going to look like. That really is going to be much more influenced by macro factors and by customer habit changes. So that's probably the best I can do for you on that one.

Andrew Porteous: Okay. That's helpful. And you obviously picked out a few of the headwinds from an operating perspective in terms of cost pressures, but particularly the supply chain issues. Can you just give us a direction of whether you think they're getting better or they're likely to persist for a long time?

Ken Murphy: Well, as you know, they were at their worst if you like late summer and into early autumn, and then they've been on an improving trend since then. And we were in really good shape and then the Omicron variant hit, and absences roles again. And that did impact some of our inbound suppliers quite heavily. And there were some notable companies that were hurt by it. But we do believe it's transitory and so we do believe that they'll come out the other side and we'll see a normalisation of supply chain over the next couple of months.

Operator: Thank you. We'll take our next question from Andrew Gwynn in BNP Paribas Exane. Please go ahead.

Andrew Gwynn: Hi, morning. Happy new year, of course. Firstly, coming back a little bit onto Andrew's question there, but suppliers obviously have been very supportive with some of the Clubcard pricing. So just talking about how you're expecting that to pan out, are there still masses of opportunities there? And actually, on the Clubcard prices, is there a danger potentially that consumers get a bit tired of them, particularly maybe some of the competitors copying. The second question, which I think is very difficult to answer, but thoughts welcome. Online penetration, I think for the market's around about 11% today, having peaked at 17% give or take. Do you think this is the new run rates or should we expect a further step up as we move away from that period of disruption? Thank you very much.

Ken Murphy: Thank you very much, Andrew. So, look, I think what's really important to focus on in terms of our value proposition is the combination of all of the mechanics together and the job they perform as a group set, rather than just Clubcard prices on their own. So, what we think is really important is that we provide on all of the basic needs of the family; that really reliable pricing that's constant. So, Aldi Price Match and our Everyday Low Prices mechanisms really guarantee the customers that base value. And then Clubcard prices is all around exciting and delighting them with offers on brands and their favourite products on a regular basis. And really where I believe only in the footholds of our ambitions for Clubcard prices, because what we really want to do is we want to make it increasingly personal and increasingly relevant to individual customers through use of our data, and that's a journey we're on. I have no doubt that at some stage competitors will try and copy elements of what we do. Our ambition is to make sure we stay one step ahead.

Ken Murphy: On your second question, just remind me again? Online?

Andrew Gwynn: Yes - online penetration.

Ken Murphy: So online penetration, you're right, is settled down. What we've really seen, as we mentioned the last time we spoke, through the height of the pandemic, we won somewhere between one and 1.2 million new customers. And what we've seen is that between 500,000 and 700,000 of those customers have stayed with us post pandemic, and it's really become a very settled part of their routine and their repertoire. And we've seen basket sizes normalised. So come down from about £96 to £92 over the last three months on average.

Ken Murphy: And that feels like it's going to stick because it's easy, they now understand how to navigate us very easily. We have all their history. So, it's very very low friction for them. And we're very reliable, both from a quality and a service perspective. And of course we're the best value within that market as well. So, I think we're going to see it settle down. Whether or not we can grow it further, I think that will depend on how much we can excite them by broadening our repertoire and increasing our relevance for different shopping missions and then make it really easy for them to access. And of course that's a key part of our easily the most convenient strategy.

Andrew Gwynn: I suppose just to follow up on that, the penetration, to save me doing the maths on it, but still mid teen, give or take, for yourselves. End of the year do you think it could be materially, higher, loosely the same?

Ken Murphy: The penetration of what's in the mid teens? Online?

Andrew Gwynn: Online. Sorry, online as a percentage of UK sales.

Ken Murphy: Yeah, so my sense is that from an industry perspective, that a lot of the move back or normalisation we saw post the big lockdowns has happened. And if you think about it, for most of the last six months or so there hasn't been a whole lot of restrictions for people. Although people are still quite nervous, some people about going out and about, and so it's easier for them. So, there isn't a compelling reason to see why this channel will step up significantly over the next 12 months. But equally there's no reason why it will step back. As I said, I think that we are really focused on making sure that regardless of what the customer does from a habit perspective, we're there to respond. And that goes from everything to a large shop, convenience shop, delivered to home, click and collect, or even rapid delivery through Whoosh. We're really focused on being there, whatever the change, because it's very hard to predict what that change will be.

Andrew Gwynn: Yeah, definitely. Thank you very much.

Ken Murphy: Thank you.

Operator : Thank you. Our next question is from Clive Black at Shore Capital. Please go ahead.

Clive Black: Good morning, gentlemen, and well done on your performance. Two from me, if I may. Firstly, I know it's a trading statement, but it will be helpful just to get some colour as to how the cash flow within the business followed the trading momentum that you talk about, particularly maybe around working capital, given the very strong two year performance. And then, Ken, you spoke of quality and range progressions at Tesco. I just wondered, could you give us some colour as to what you think the key elements of that statement are, please? Thank you.

Ken Murphy: Thanks very much, Clive. I'll answer the second question first, and then I'll pass on to Imran to talk about the cash. So, I think the quality, in particular, as you'll have seen from our release, stepped forward from a customer perception perspective by 150 basis points, which we're really pleased by. And the driver of that has been a combination of things. I think first of all, the shopping trip. We give them a sense that our shops are in great shape. We look after our fresh food increasingly well and that's something that's been a big focus for us for the last six months. But in the quarter three, in the run up to Christmas, we think the big driver was some of the great innovation around our Christmas range and particularly our Finest Christmas range, particularly party food. And having added 350 lines and having extended the range of those lines into deeper distribution, I think that really resonated with customers and they were really, really pleased with the quality and how it stood up against some of the more premium customers. So that value for money equation really kicked in as well.

Imran Nawaz: Hi, Clive. On cash, look, as you remember, at the half, we always said it'll be a good year on cash, and I'm pleased to say that that's exactly what I've been seeing as the quarter continued. So, in reality, I think we'll be probably delivering a number north of the guidance we gave of between £1.4 and £1.8 billion, which is a good thing. And to your point, the higher sales have translated into also better working capital management and that definitely then leads to an improved cash outturn. So really good results so far.

Clive Black: Well done. And can I just follow up, Ken on … Thank you, Imran. Can I just follow up on your comments around the assortment? You spoke a lot about groceries there. Is there anything to say, just by way of completeness, on your non-food performance?

Ken Murphy: Yeah. So, non-food performance was also really strong, but you have to remember, we had also some really big comparators from last year to deal with. But in particular, I was really pleased with our clothing performance over quarter three. It was really strong. And I think we said in previous calls that during the pandemic and the lockdown, in many ways, people had no choice but to use F&F as a kind of a go-to brand for their clothing needs. And what has happened since is they've been really pleasantly surprised by the quality of the product, by how well made it is, but then also, by how incredibly great value it is. And so, we've seen a real persistence with F&F through the last six months. And if anything, the only issues we had is that we sold through too quickly. So, we didn't have a whole lot of stock left for the Christmas sale, and that's probably the only thing.

Imran Nawaz: And I can you give you some colour on the numbers there, Clive. When you look at … maybe two year is the right way to look at it, so you look through all the noise. Over a two year period, during the Christmas trading, we grew clothing by 13% and GM around 2%. So really, over a two year basis, it's a really solid Christmas performance.

Clive Black: Much appreciated. Nice problem to have, Ken.

Ken Murphy: It is. It is, indeed, Clive. Long may it last.

Clive Black: All the very best. Thank you.

Ken Murphy: Thank you.

Operator: Thank you. We'll take our next question, from James Grzinic at Jefferies.

James Grzinic: Yes. Good morning, team, and happy new year. I just had a couple, really. The first one is, thinking about Omicron impact on staff costs, can you perhaps update us on your thinking on COVID costs for the full year, given that new dynamic in Q3, or I should say, really Christmas. And secondly, can you perhaps update us on where you're seeing, currently, grocery inflation and industry level, and how much you are below that? I presume you're below that, but I think some of your peers will reference a full percent exit rate for the industry. So, it would be interesting to see where you see yourself relative to that benchmark. Thank you.

Imran Nawaz: Sure. So maybe I'll take the two. On COVID cost out-turn, you'll remember, we guided somewhere around 200 to 220. I'd say, given the sort of the absence impact of Omicron over the period, I'm stepping that up a little bit, so let's assume 220 to 240 is sort of the number I have in my head at the moment, driven by the higher absence percentages that you then have to pay for. And that's within the guidance and that's pretty a solid number. When it comes to the second question was ...

Ken Murphy: Inflation.

Imran Nawaz: Inflation. Yeah. So, look, what we're seeing in our business during, I would say, for the 19 week period, it's around 1% or so of inflation that we're having at our end, which I know is significantly lower than what others have done. And I think it goes to show the strength and what we mean when we say we're committed to value.

James Grzinic: Very clear. Thank you.

Operator: Thank you. Next question from William Woods in Bernstein.

William Woods: Hi there. Happy new year. I'd just like to ask a question about customer behaviour. Did you see some of the trading up that some of your other peers have seen in terms of both categories and on price point? And I suppose linked to that, how did you see private label perform? Any particular tiers that over- or underperformed relative to overall performance? Thanks.

Ken Murphy: Thanks for the question. Yeah, so, we did see a trade up in customer behaviour over the Christmas period, because I think as external celebrations didn't happen, people decided to treat themselves at home. So, we saw overall, our Finest grew by 15%, which was really, really strong. As I said, a combination of great new product development and deeper distribution helped that. But also, we were pretty sure that customers were going to trade up. And we've stepped on the quality of our own brand proposition year on year. So, we definitely saw that. And similarly, we saw it in the kind of beer, wine, spirits with some really strong sales of prosecco and champagne. So yes, short answer is, we did.

William Woods: Great. Thanks.

Ken Murphy: Thank you.

Operator: Thank you. Our next question comes from Victoria Petrova in Credit Suisse. Please go ahead.

Victoria Petrova: Thank you very much for taking my questions and congratulations on results. First of all, just a check…last time we talked with Imran, he sort of mentioned that it's Tesco approach to be … in terms of passing on inflation, to be a price follower. Now, from all your comments, you seem to be sort of a price leader on the downside. Has anything changed there and how do you think about it? We do understand your focus on value proposition, but isn't it sort of logical to take advantage of inflationary environment and improve maybe margins even more? Secondly, when we look at your result and also guidance upgrade, can you just maybe directionally run us through what is just the market, what part of it is just the market development (obviously, staying more at home, premiumisation, etcetera) and what is company specific? And thirdly, just a follow-up on the cash question. Should we expect a stronger buy-back given your cash position is probably going to be better and pre-cashflow generation, stronger? Thank you very much.

Ken Murphy: Thanks for the questions, Victoria. I'll take the first one and the second and then I'll pass over to Imran. So, I think we've been very consistent and very clear around our value position, which is, we won't be beaten on value and that we'll never penalise a customer for shopping with Tesco. And so, our Aldi Price Match and our Everyday Low Prices are designed to make sure that, if you come and shop at Tesco (and you have to shop on a budget, you want to feed your family), you won't pay more if you shop with us. So that's been a very consistent message throughout my tenure in the business. And that's the message that will persist. So, I don't see us necessarily as trying to take the market down, but we maintain a commitment to be toe to toe. And what that requires us to be is the most efficient retailer we can be, and we achieve that.

Ken Murphy: So, I think that's what you should interpret from that. At the end of the day, if the market needs to take inflation because of input cost, etc, and the market comes up, then we come up with it. So, it's kind of as simple as that. In terms of the second question, around the outlook. We really find it hard to pick apart how much is the COVID, and how much is customer behaviour changes, so it's hard to give you a sense of that. But what I can tell you is that we have consistently outperformed the market now for 22 consecutive periods, and we plan to continue doing so. And we're doing it by following our own strategy, and to a certain extent, ignoring the competition and adapting the strategy to the environment, rather than been blown off course, and reacting to whatever's happening in front of us. And that's really stood us in good stead. So, this value position that we talked about is something that we're absolutely committed to. But at the same time, as evidenced by just the previous conversation on quality, we're working equally hard at driving up our quality credentials, because that we think will attract more and more shoppers into that higher quality segment of our offer, and provide them reliable value where they need it.

Ken Murphy: And then really, that gives us the platform to win with more customers, and we plan to build more and more shopping missions, and more and more into our repertoire over time, through the I Love My Clubcard platform, and easily the most convenient platform, because at the end of the day, the population in the UK is pretty solid, it's not going to grow dramatically, and therefore, we need to win with more missions, with more customers. And that's what our strategy is designed to achieve.

Imran Nawaz: On the buyback, Victoria, look, first, I'm really pleased to say that we announced it, and that it's underway, and I'm also very happy that cash is in a good place. I'll take you back to the capital allocation framework that we laid out, which very clearly set out the fact that we wanted to do this as an ongoing program. What I'd say to you at this point is, let the year finish, we'll then give you the next update in April in terms of our plans for the year ahead.

Victoria Petrova: Thank you very much for your answers, both of you. Thank you.

Ken Murphy: Thank you, Victoria.

Operator: Thank you. Our next question comes from Sreedhar Mahamkali in UBS.

Sreedhar Mahamkali: Hi. Good morning. Three quick questions from me please. Firstly, just on Booker, can you give us a sense of where you see the market share now is in that segment, and perhaps what happened to that market share over Q3? And secondly, on cost inflation, I'm just trying to understand, you very clearly laid out cost savings plans, to the extent you can help us understand how, or whether or not you can pull forward some of those, or accelerate your plans there to offset what's transpiring to be pretty heavy cost inflation headwinds, that'll super helpful. And last one, just to follow up on Clive's question earlier already on cashflow…perhaps you can help us…because I think the first topic was already one and a half within retail cashflow…is there anything there, sort of mechanical and technical in the second half we should bear in mind? Otherwise, it could be really well ahead of that £1.8 billion mark that you've talked to. Those are the three. Thank you.

Ken Murphy: Thanks very much, Sreedhar. I'll take the first one, and then I'll pass over to Imran to answer the last two. So, it's really hard to get a handle on the wholesale market, because players are moving in and out of the market constantly, and it's a very fragmented market. With that said, I think by any logical extrapolation, you have to believe that Booker has continued to win market share throughout the last three months. And particularly, when you look at the catering performance over Christmas, despite the impact of the Omicron variant on the catering market, Booker still grew, which is incredible really when you think about it. And really, that policy is being driven by having best in the industry availability, focusing on the best customers in catering, and then winning more share of wallet with those best customers. And that's a strategy that's really worked well for Booker.

Ken Murphy: I'm sorry, I can't give you a precise number on their market share, because we just don't have the data, but I can pretty confidently say that Booker has grown market share through the period. But more importantly, has grown high quality market share, which is I think the most important thing in the wholesale business. I'll hand over to Imran to pick up on the next two.

Sreedhar Mahamkali: Thank you, Ken.

Imran Nawaz: Yeah, look, as you rightly point out, we had a very solid cashflow performance in the first half, and I anticipate to see that continuing. Now clearly, as you well know, the last month of our sales out-turn always has a big impact on cash, so would fuel sales have. So, we'll have to see how that plays itself out. There's nothing technical to your specific question that I'm looking at, but I'm thinking somewhere north of the £1.8 is where we should land, and I'll obviously give you the update once we close February, when we see you in April.

Imran Nawaz: In terms of the cost inflation conversation, look, I mean, we've talked about this a few times. You're not surprised to hear that inflation is ahead of our expectations. We usually plan at two to three, and you realise now that 5% is probably more the right number that we're seeing at this point, and it's still moving. Now, literally, as we're building our plans, we're trying to figure out, where can we find more offsets? What would it take? And is it the right thing? What I would say to you is that, critical for us is making sure that we continue in our quality, and that we continue to protect the quality and the value that we are building up, and that we make no decisions that would hamper that. And that we continue to work towards the medium performance framework that we laid out, which I feel, frankly, more confident today than ever before, which is the right place to be, I think.

James Grzinic: Great. Thank you.

Operator: Thank you. Our next question comes from Maria-Laura Adurno in Morgan Stanley.

Maria-Laura Adurno: Thank you very much for taking my question. Just a very quick one, what type of comments can you give us around Booker and market dynamics, particularly in the context of cost inflation? I just want to understand, basically, how easy it is to actually pass those costs, whether it's in the catering or in the proper wholesale business. Any comments on this would actually be quite helpful. Thank you.

Ken Murphy: Hi, Maria-Laura. Look, I think that the wholesale business is a pretty transparent one, in the sense that it operates off pretty razor-thin margins, and so if there is input cost inflation, typically that's passed on.

Maria-Laura Adurno: And on catering?

Ken Murphy: Yeah, it's the same thing. The only thing that's a little bit different in catering is that, and also applies a little bit to retail, is of course, there's always the mix effect. So, both retailers and caterers are incredibly well tuned in to cost inflation, and therefore they work their mix to optimise the impact on costs, and on menu prices. Booker does its very best to make sure that caterers can manage that mix, and their menus, etc, to really maintain a great value position for their customers, and also kind of mitigate the cost pressure that you're seeing at the moment.

Operator: Thank you. Our next question is from Rob Joyce in Goldman Sachs.

Rob Joyce: Hi, good morning. Thanks for taking the questions. Just a couple from me. First one, just wonder if you'd give us a bit more detail on the Christmas trading, the 0.3 in the UK. Can you give us the food number within that, on a one and two year basis? That'd be great. And then the second one is, just back to Booker, can you give us an indication of whether Booker's getting back to pre-COVID levels of profitability? And is there opportunity for Booker to be a material profit contributor on the growth side next year, if these trends continue? Thanks very much.

Imran Nawaz: Hi, Rob. So let me give you just a few numbers on food, Christmas. So, food on a one-year basis grew 0.7%, and on a two-year basis, a very strong 8.6%, so close to nine. And within that, packaged, and fresh are roughly the same, around 9% each, so it feels quite strong. In terms of Booker profitability, I mean, as you saw from the performance, despite the Omnicron variant, we saw consistent growth, and that was very, very helpful, and as Ken explained, the pass-through on inflation is part of the model, and they're very cost conscious. So the profit/loss that we had seen, also the profit shortfall we had seen during the COVID period, the game of this year was to recover that, and I'd say to you, even though we don't disclose the overall profitability, because we run it as one unit, as you know well, it's back on a strong path to recovery, and I'm feeling quite positive actually, how the Booker team has managed through this so fast, and come back to where they started, which is great to see.

Rob Joyce: Thanks, Imran. So, one quick follow up on your inflation comment, the 5% number, is that both at the COGS and the OPEX line, or is there any difference there?

Imran Nawaz: Yeah, no, I usually distinguish between the two, and when I think on the OPEX line is sort of what I'm thinking. You know well, we tended to have, it's this 2-3%, now we're looking at. This is the current planning assumption I have, and I need to see what stays, and what we moves away, is around 5%. Now, COGS is obviously a very different game, as you know, because that's very dependent on your mix, and your supplier negotiation, so that's a different conversation.

Rob Joyce: Okay. Is that slightly lower, would we say, if we're assuming that?

Imran Nawaz: Say that again? I couldn't hear you.

Rob Joyce: Would the COGS be slightly lower?

Imran Nawaz: I wouldn't-

Rob Joyce: I'm sorry, would the COGS be slightly lower than...

Imran Nawaz: You know I would never-

Rob Joyce: No worries.

Imran Nawaz: Yeah-

Rob Joyce: Worth a try.

Imran Nawaz: Yeah. Thanks, Rob.

Rob Joyce: Thanks very much. I'll leave it there. Thanks.

Operator: Thank you. As a reminder, to ask a question today, please press star one. And our next question comes from Demetris Demetriou in Schroders.

Demetris Demetriou: Hi, congratulations on another impress set of results. Just two questions from my side. So firstly, I would like to get some colour on the relationships with suppliers at the moment, I mean, obviously you are investing in price, in a rather significant way. We are hearing news almost on a daily basis of suppliers facing pressures, and essentially demanding higher food prices. So, I would just like to understand that dynamic, and whether you think that, potentially down the line, you might have to take some impact on gross margin if you continue to invest on prices in the same way going forward. And then my second question is on balance sheet quality. I'm not trying to get into specific numbers here, but I just wanted to understand your ambitions or aspirations on balance sheet. Do you anticipate to improve that further, potentially achieving an upgrade down the line? Or are you comfortable with current debt metrics and current credit ratios? Thank you.

Ken Murphy: Thank you very much. So, on the supplier side, I think that there's no way we'd have made it through this last two years without incredibly strong relationships with our suppliers. The partnership ethos that we've established for many years now in the business stood us in great stead, right the way through the pandemic, and continues to do so. Rather than taking my word for it, you should look at the external benchmark data, where Tesco's been voted as the number one supplier to deal with in the UK now for, I think, five years in a row. So, this is testimony to the fact that we're very fair with suppliers. We're very reasonable, but we're very strategic with them as well. And what we recognise is that they have to make money and we have to make money, but both of us have to look after the customer.

Ken Murphy: We have to do that both through great value and also great product quality. Our joint aim is to make sure we're to taking all of the inefficiencies and all of the things that don't actually matter to customers out of the system so what's left is what's really valued and recognised, and we can both run our businesses successfully. That's really the philosophy that we continue with through today, and the pressures that we're jointly facing from a cost perspective, we'll face into those in the same way as we have for the last five years. We'll get more sophisticated about it. We'll get even tighter with our partners because it requires an even deeper working relationship than we've had in the past, but the philosophy will remain the same.

Imran Nawaz: On the balance sheet strength, Demetrius, look, as we laid out in October, the capital allocation framework, we said we want to stay on a leverage ratio between 2.3 and 2.8 from net debt to EBITDA. And the goal is to do that and continue to deliver down within that range, and no plans to change that. As we said at the time, we're pretty happy with the credit rating that we have, and want to have that in the solid triple B minus range, which is good for us. Thank you.

Demetris Demetriou: Thank you.

Operator: Thank you. Our next question is from Nick Coulter at Citi.

Nick Coulter: Hi, good morning and Happy New Year. Can I ask a question on the UFCs please, how the first UFC performed over peak, and I guess why, Bradford, and how that sits within the context of your learnings and roll-outs. I guess, the roll-out in the context of the higher penetration for online? Thank you.

Ken Murphy: Thanks Nick. So, the UFCs that are open behaved in-line with expectations. We're constantly learning and adapting the UFCs to make them even more efficient, and as I think I mentioned the last time we spoke together, the cost of UFCs is definitely higher than we anticipated. But equally, actually, the strategic need for the UFCs has also changed. When the plan was originated, it was all about cost reduction and efficiency, and actually now it's as much about improving and increasing capacity as it is about improving costs and efficiency. Therefore, we're really working the UFC model to optimise on both. We have another two UFCs opening imminently, with Bradford opening next week, and we'll do another four next financial year. So it's broadly on track. It's leading edge stuff. So clearly, we're learning as we go,

Nick Coulter: But how are they evolving, if you don't mind me asking? What are those learnings, if they're not too commercially sensitive?

Ken Murphy: Some of them are, to be fair, Nick, so I'm not going to go into it a lot of detail, but what we are learning is that actually to optimise UFCs, they probably need to be a bit bigger in terms of the range they can carry, but they also need to be blended with some manual picking as well. Certain areas like frozen, etc, should always be picked from the shop floor instead of through the UFC. There are things like that. There are things like order optimisation algorithms that we work through all the time. Of course, the sweet spot for us at some point will be when we can combine the UFC capabilities with the Whoosh capabilities, because there you can order, capture an order, and process it through a UFC in seven minutes. So, all of a sudden you could be offering a much larger shopping trip in a much tighter timeframe than we currently do. There are lots of things that we're learning and building on over time.

Nick Coulter: Okay. That Whoosh range of 1,700 could presumably scale potentially 10 times?

Ken Murphy: Well, no, I wouldn't wouldn't want to draw those conclusions just yet, Nick. It's a bit early.

Nick Coulter: Thanks very much.

Ken Murphy: All right. Thank you.

Operator: Thank you. And our last question comes from Xavier Le Mene at Bank of America.

Xavier Le Mene: Yes. Thank you and happy new year. Actually, it is the last one, but can you talk a bit about the competitive landscape in this kind of inflationary environment? Or what are you seeing from your competition, the German discounters or your supermarket peers? Especially, what are you expecting, going forward? Do you think the market to be more challenging, tougher, with more price investment? And the second question is about promotion participation. So where are you today versus the pre-pandemic level? What are you expecting going forward for the promotion intensity?

Ken Murphy: Okay, thank you. Great question. The first thing is that I think the competitive landscape is very tough and has always been very tough, and we absolutely continue to expect it to be very tough. That said, I don't think we've ever been in better shape. We're really, really optimistic about our ability to maintain momentum, despite the competitive landscape. Actually, one of the big challenges for us and for the industry is anticipating where is the customer going to go next. What are they going to do next? And we feel like we're one of the uniquely positioned retailers to be able to respond to whatever way the customer goes. That's part of our strategy, is to really make sure that we're there, whatever the shopping mission, and that we knit it all together through the Clubcard program. That means that we offer a ratchet, an escalating level of reward and loyalty, for the more you shop with us. And so I'm quite excited about the future of the competitive landscape, if I'm honest. Yeah. So, I'll pass on to Imran for the second one.

Imran Nawaz: On the promo participation, around 30%, 29-30% has been sort of the run rate. That's a touch lower than where we used to be pre-pandemic, simply because the benefit of Aldi Price Match and Clubcard pricing has led to a nice streamlining where customers find a much more simpler price architecture when they walk into the store. Therefore, we've been able to optimise our promo participation as well, which is a good outcome, and customers actually feel better value on top, which is a double benefit.

Xavier Le Mene: Yeah, thank you.

Ken Murphy: Thank you.

Operator: Thank you. There are no further questions at this time, so I'll hand back to Ken Murphy for closing remarks.

Ken Murphy: Well, listen, thanks everyone for making the time to join us today and for all the excellent questions. Thank you for your continued interest in Tesco. We think we've got a great business with great momentum, and we're really excited about what the future holds for the business. My parting words really are to just once again thank our colleagues and our suppliers for the incredible commitment they've shown to our customers over the last six months. It's been a privilege to work in this business. All that remains, really, is for me to wish you all a great rest of week and to thank you all for the time. Take care.

ENDS.