Tesco

Preliminary Results 2022/23

Analyst event

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Transcript

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Ken Murphy: Good morning everyone, and welcome to our Preliminary Results presentation. I'm joined here in Welwyn by our CFO, Imran Nawaz, and we are delighted to update you on our progress this year. I'm really pleased that we have delivered another strong performance and that has been driven by all parts of the group. The results we are announcing today reflect our continued investment in great value and quality for our customers, while at the same time doing everything we can to look after our colleagues. Over the last few years, we have dealt with a number of significant challenges. Rather than allow these to knock us off course, I believe they have made us a stronger business. Whether it is our response to the pandemic, dealing with supply chain challenges, supporting customers and colleagues through the cost of living crisis, or seeking to mitigate significant cost inflation, the resilience and agility we have developed has created a sustainable competitive advantage.

We continue to make strong progress against our strategic priorities and our ongoing focus on driving top line growth, profit, and cash is delivering for all of our stakeholders. I want to thank all of our wonderful colleagues for the contribution they are making day in, day out.

Customer satisfaction has always been critical to our success. As it improves, it shows that our efforts are being recognized by our customers and provides a strong foundation for growth. Our brand NPS score is the highest of all the full line grocers, reflecting our outstanding value, great quality, and market leading convenience. Within the building blocks of NPS, we're ranked number one for service, reward, and quality, showing that customers have recognised the significant improvements we continue to make.

Alongside customer satisfaction, one of our key goals is to grow, or at least maintain our core UK market share.

It is our share - and the reach it gives us - that means we are best placed to serve our communities and customers wherever, whenever, and however they choose to shop with us. I'm pleased to say that we have had another solid year of market share performance holding our own despite others in the market opening significant amounts of new space. In fact, we remain the only full-line grocer to have grown share over the last three years. As I've said before, our focus on share does not come at the expense of our strong capital discipline, and we will only open new space ourselves when we see attractive returns.

It has clearly been a challenging year for many of our customers. Even before the start of the year, household costs were already rising and the events following Russia's invasion of Ukraine have added significantly more pressure. We have been determined to do everything we can to help, working tirelessly with our supplier partners to mitigate as much inflation as possible.
Despite rapidly increasing commodity prices and the significantly increased costs of running our own operations, we have continued to invest for customers, ensuring we give them great value and the quality they expect. As you can see from the chart, we have consistently inflated by less than the market throughout the entire year.

In addition to our work to mitigate inflation, we have made it even easier for our customers to spend less on the things that matter most to them. For example, we've helped make mealtimes more affordable by bringing together great value products from across our range, allowing customers to feed their families for a fantastic price. In many cases, for less than a fiver. We know how expensive it can be for customers to eat while they're on the go, and that's why at Christmas and February half-term, we brought back our 'Kids Eat Free' scheme that we first launched last summer.
Of course, we also know that many of our customers have been looking to spend less by eating-in rather than eating-out. Our Finest meal deal, which is available exclusively through Clubcard Prices, has proved particularly popular, providing restaurant-quality food and wine at a fraction of the cost.

I'm delighted that - in agreement with USDAW and for the second year in a row - we have made a record investment in base pay for our hourly paid store colleagues in the UK. This represents the third pay increase in 10 months and recognises the incredible contribution that our teams show every day in serving our customers. All UK based store colleagues are now paid over £11 an hour, and we accelerated this new rate so that it was effective from the start of this month. Since September 2020, we have increased the hourly rate of pay by over 20%, in addition to a leading and comprehensive package of benefits. As I've said before, our future success depends on our colleagues and our commitment to them is as strong as ever.

It's also incredibly important that we continue to support our supplier partners, particularly given the pressures they are facing right now. Nowhere is this more acute than in the agricultural sector. We take our responsibility as the industry leader very seriously and have therefore taken additional steps to support the farmers who produce so much of the fresh food that we sell. To give you just a few examples, within the last year, we've announced additional funding for pig farmers, taken extra steps to support the UK egg industry, and continue to evolve the support provided by the Tesco Sustainable Dairy Group to address ongoing industry challenges. Our ongoing commitment to our suppliers more broadly has meant that we've been ranked number one in the Advantage supplier survey for the seventh consecutive year. We have also received our highest ever supplier satisfaction score at close to 87%.

Our scale gives us a unique ability to make a meaningful contribution to the communities we serve. Over the last few years, we have seen unprecedented demand for some of the programmes we support, most notably our food donations. I'm therefore incredibly proud that, with the support of customers and colleagues, we have once again contributed over 50 million meals working with our brilliant charity partners, FareShare, OLIO, and the Trussell Trust. In addition to supporting nationwide programmes, our community grants continue to fund thousands of local projects across the UK. This scheme has supported over 50,000 groups with more than £100 million in grants to date, creating a groundswell of support and reaching many thousands of people. At the end of March, we announced a new £5 million program to boost school funds. Over 5,000 schools will be able to apply, helping them provide pupils with the food they need and with new sports and play equipment to keep them active.

Around 18 months ago, we relaunched our core purpose, putting ‘community’ and ‘planet’ at the very heart of our organisation. I couldn't be prouder of the way that colleagues across the Group have embraced the change, which in many cases just draws attention to the fantastic work they were already leading. Together, we are making good progress towards our commitment to be carbon-neutral in our own operations by 2035 and our ambitious target of net-zero emissions across our entire value chain by 2050. Some of the more tangible signs of this that you may have already seen are the ongoing electrification of our home delivery fleet, and more recently, our first trials of our EV trucks. We have already achieved a significant reduction in the food waste across our own operations, and earlier this year we announced our new aim to halve food waste by 2025, which is five years earlier than our original commitment and the UN's Sustainable Development Goals target of 2030.

We also see it as our responsibility to help customers make healthier and more sustainable choices. At the start of the year, we launched our 'Better Baskets' campaign, which aims to make it easier and more affordable for customers to make better choices when they shop. This has contributed to an increase in the proportion of healthy products that we sell to 60%, and we are on track to achieve our target of 65% by 2025.

Our ongoing and significant cash delivery demonstrates the inherent strength of our business. We've set ourselves the goal of generating between £1.4 and £1.8 billion of retail free cash flow each year, and we are confident in our ability to continue delivering within that range. This confidence has enabled us to establish an ongoing share buyback program, and since launching this in October 2021, we have returned over £1 billion to shareholders. I'm really pleased to announce today that we'll be buying back another £750 million worth of shares by April 2024. As you will have seen today, we've also announced a final dividend of 7.05 pence per share, bringing our full year dividend to 10.90 pence per share.

Imran is now going to take you through a more detailed review of the strong performance that we've delivered this year. Over to you Imran.

Imran Nawaz: Thank you, Ken, and good morning everyone.

I'll start with an overview of our results, followed by some more colour on the performance across each of the business segments. I am delighted with the strength of the performance we have seen across the Group. We have delivered towards the top end of our profit guidance and we have exceeded the targeted cash range we previously set out. Retail sales group by 5.1%, with a strong performance across all regions, on top of last year's already very solid base. Growth strengthened in the second half, as general market inflation increased across all regions, and we are pleased with how well our volumes held up. Booker delivered an exceptionally strong performance, most notably in catering, where we saw higher than expected out-of-home consumption throughout the year. Retail profit decreased by 6.3% to £2.5 billion. This reflects the impact of post-pandemic volume normalisation, elevated levels of cost inflation, and the ongoing investment in our customer offer. This was partially offset by a very strong contribution from Booker, as well as the acceleration of our Save to Invest program, which delivered well over half a billion of savings.

While not shown here, Group statutory operating profit was down 40% year-on-year, primarily due to a £982 million non-current asset impairment charge in the year, driven mainly by higher discount rates. This is a non-cash movement, and it does not reflect any change in the underlying strength of the business. We delivered another fantastic year on free cash flow, generating £2.1 billion, which reflects both strong profit delivery and high working capital inflow. The year-on-year movement reflects last year's exceptionally strong performance in both profit and working capital, combined with a small increase in cash capex this year. Net debt at the end of the year was £10.5 billion, which was in line with last year. Our strong free cash flow generation enabled us to return a total of £1.6 billion to shareholders, inclusive of dividends and the buyback of a further £750 million of our own shares. We have now bought back over £1 billion of shares since October 2021, when we started our program.

We generated headline earnings per share of 21.85 pence, which was flat versus last year as the operating profit impacts I mentioned previously were offset by lower finance costs and tax charges, as well as the benefit of our ongoing share buyback program. In line with our targeted payout ratio of circa 50% of earnings, we have proposed a final dividend of 7.05 pence per ordinary share, which takes a full year dividend to 10.90 pence per ordinary share, which is in line with last year.

Total retail sales for the year were £56.6 billion. Our UK and Ireland segment delivered a 4.7% increase in sales, as the expected unwind of volumes post-pandemic was more than offset by general market inflation, and a very strong contribution from Booker. Our Central Europe segment delivered both sales and profit growth driven by strong focus on cost management. We also saw a year-on-year sales growth in Tesco Bank, primarily driven by an increase in credit card spending. Over the next few slides, I will cover the performance of each of our segments in more detail, starting with sales, before moving on to profit.

Let's start with the UK, where we delivered sales growth of 3.3%. As you can see from the slide, Food delivered growth of 4.6% with growth across both of the halves. As anticipated, the first half saw some customers return to pre-pandemic shopping habits with higher levels of out-of-home consumption. However, this was offset by a strong performance during key trading periods, and throughout the warmer summer months.

Growth was even stronger in the second half, as general market inflation continued to rise, whilst volumes remained resilient, and we delivered an outstanding Christmas performance. The depth and the breadth of our ranges offered customers great choice as they sought to manage their spend. As a result, we saw strong growth in Own Brand participation, particularly within our Entry and Finest tiers. Overall, our non-food sales declined by 4.5%, with Home and Clothing down 6.4% and 1.2%, respectively. This reflects a very strong performance last year, particularly in the first quarter, when we lapped the closure of non-essential retailers.

The sales decline across the second half was driven by softening of demand in the more discretionary areas. This was combined with the impact of a circa 10% reduction in our Home range, as we refined our mix of products to ensure our offer remains relevant. I'm really pleased that Clothing delivered growth of circa 7% in Q4, and delivered its highest ever market share over Christmas, up 5.9 percentage points versus pre-pandemic. As a result, we exit the year in a very good place from a stock perspective.

As anticipated, we saw a decline in online sales of 5.4%, in line with overall normalisation in the market, with strong market share at circa 35%. Our online business still remains significantly larger than before the pandemic, and online participation has stabilised at around 13% of sales. Sales returned to growth in the second half, with order numbers holding up well despite market inflation, with delivery saver reaching almost 700,000 subscribers. We exceeded our original target expansion of ‘Tesco Whoosh’, which is now in 1000 Tesco Express stores.

Turning to Ireland, we delivered like for like sales growth of 3.3% for the full year, including growth of 6.6% in the second half. As you'll remember, Ireland had a very strong Christmas, despite trading over very high levels of in-home consumption in the prior year, as a result of hospitality restrictions. Our Clothing business also performed really well as we lapped non-food restrictions last year. Overall, non-food like for like

growth was 5.4%. We continue to see growth in our online business, where we have expanded our slot capacity, building on an already market-leading share with a further increase of 1.6 percentage points year-on-year.
Having completed the Joyce's acquisition in June 2022, we fully converted and reopened the stores under the Tesco brand in time for the peak Christmas trading period. We are really pleased with how the stores are performing, enabling us to reach even more customers in the region.

Booker has had another fantastic year, delivering 12% like-for-like growth, building on the great momentum from last year. Sales grew across both the retail and catering businesses, with underlying growth, excluding Tobacco, at 18.4%. Retail sales, excluding tobacco, were up 9.9% driven by strong customer retention, further expansion of the number of retail partners, and general market inflation. Tobacco sales declined by 5.6%, in line with the long-term trend, as well as customers returning to overseas travel.

In catering, we saw very strong growth in the first quarter as we traded over last year's restrictions, when much of the hospitality sector was closed. We continued our strong momentum into the second half, significantly outperforming the market as we worked with our hospitality customers to ensure they could continue to offer outstanding value. Our catering performance includes very strong growth in Best Food Logistics where sales grew by 29% for the year.

In Central Europe, like-for-like sales were up 10.4%, with growth across all three markets. Input cost inflation was even more significant in these markets, due to macroeconomic factors. Food was the key contributor of growth at 11.9%. Customers responded positively to the rollout of Clubcard Prices, with penetration up a massive 23 percentage points versus last year. Non-food sales grew by 1%, driven by Home, as customers were able to shop our full range following non-food restrictions in the first quarter last year.

Let's move on to retail profit performance, where we delivered nearly £2.5 billion, which is towards the top end of the guidance range I set out in October. Operating margins were around 4% across both segments, reflecting the combined effect of our ongoing focus on offering customers great value, and the delivery of over £0.5 billion of savings via our Save to Invest program. I'll break the movements down in more detail on the next few slides.

In the UK and Ireland, profit declined by 7%, which was primarily driven by the impact of lower year-on-year volumes, and the ongoing investment in our customer offer. We continue to see the effects of customers seeking to offset cost of living pressures through switching to our own brand products. We managed significant operating cost inflation, as a result of higher energy costs and our largest ever single investment in colleague pay. These were partially mitigated by our accelerated Save to Invest program, and a very strong Booker Catering performance.

Turning to Central Europe, profit was up 3.6% with margins exceeding 4%. Volumes were resilient across the first half, softening across the second half, as inflation continued to increase. Convenience had a very strong year with growth of 12.8%. This performance predominantly reflects a strong Save to Invest delivery, which largely mitigated operating cost pressures, as well as the new ‘extraordinary retail taxes’ in Hungary.

Turning to Tesco Bank, where we have seen strong revenue growth driven by an increase in credit card spending, ATM usage, and travel money transactions. We have a very solid risk profile and customer defaults continue to remain low. The Bank's profitability declined year-on-year, which is predominantly due to a significant provision release in the prior year, which reflected a post-pandemic improvement in the macroeconomic outlook at that time. As you can see from the slide, the Bank's capital and liquidity position remained very strong, with the capital ratio well in excess of regulatory requirements.

This slide here gives you more detail on the components of our statutory profit performance, which decreased by 51%, primarily as a result of the non-cash impairment of noncurrent assets that I mentioned earlier. You may remember that we booked a £626 million impairment charge in the first half triggered by significant increase in discount rates. This has now increased to £982 million for the full year following a further increase in discount rates combined with a small reduction in UK property fair values primarily linked to the weakening of the property investment market. Net finance costs were broadly flat year-on-year as we proactively managed net debt including buying back bonds to largely offset the impact of higher interest rates. Our tax charge was £247 million, which was down from £510 million in the prior year, which included a one-off charge related to the revaluation of our deferred tax liability following the UK government's decision to increase corporation tax from April 2023. The year-on-year reduction also reflects the lower operating profits and increased adjusting items.

Moving now to the cash performance. We've delivered strong retail free cash flow of £2.1 billion, and I'll talk you through the key points. Before working capital, you'll see that we generated £4.1 billion of retail cash from operations. Our total working capital inflow was also strong at £468 million, mainly driven by higher trade payables due to cost price inflation. Capital expenditure in the year was £1.1 billion and we have provided the usual breakdowns by region and type in the appendices. The year-on-year increase in cash capex relates to the ongoing investment in simplifying our stores and new store openings across the markets. Net interest was lower year-on-year principally due to the benefit of higher interest on short-term cash investments and a reduction in our leases as a result of store buybacks. Cash tax paid continues to be low at £107 million as we benefited again from the super-deduction allowance on capex and tax relief on the £2.5 billion one-off pension contribution we had made in 2021.

The £88 million reduction versus last year reflects lower operating profits year-on-year and the impact of adjusting items. Finally, we received £68 million in dividends from Tesco Bank and property joint ventures, and we purchased £86 million worth of shares in the market net of colleague share scheme contributions to offset dilution from colleague share schemes.

Turning to the balance sheet, which I'm pleased to say remains very strong. Net debt at the end of the year was £10.5 billion in line with the prior year.
This includes the very strong cash generation I previously mentioned, which enabled us to return over £1.6 billion to shareholders, including £750 million worth of shares that we have bought back since April last year. Our net debt to EBITDA ratio is in the middle of our targeted range at 2.6 times. Our fixed charge cover is very strong at 3.5 times.

Before I wrap up, I wanted to touch on our outlook for '23, '24. We will continue to prioritise investment in our customer offer whilst doing everything we can to offset the ongoing impact of elevated cost inflation. We expect to be able to deliver a broadly flat level of retail adjusted operating profit next year with retail cash flow within our targeted range of £1.4 to £1.8 billion. We expect bank adjusted operating profit of between £130 and £160 million.

I'm also really pleased that as a part of our ongoing share buyback program, we're able to confirm a commitment to purchase another £750 million worth of shares over the next 12 months.

To summarise, we delivered another solid performance this year across sales, profit, and cash generation. We have confidence in our capital allocation and multi-year performance frameworks continuing to guide our actions and progress so that we can create sustainable long-term value for every Tesco stakeholder. A key part of that is our progressive dividend policy reflected this year in our proposed full year dividend of 10.9 pence in line with last year. We have made good progress on our ongoing capital return program returning a total of £1.05 billion since the program started in October 2021, and I'm pleased to announce a further £750 million of share buybacks over the next 12 months to April 2024. We will continue, of course, to give an update on our future plans for the Share Buyback program in April each year.

Thank you very much for your time, and I'll now hand back to Ken.

Ken Murphy: Thank you, Imran.

I now want to share my reflections on the strategic progress we've made over the last few years.

You will see in today's trading statement that we have set out some of the key highlights of the last year for all four of our strategic priorities. While I'm not planning to run through every point of detail with you now, I would like to highlight a number of areas that I believe really demonstrate the progress that we've made so far.

Most importantly, we have fundamentally repositioned our value proposition for our customers. We are at the most competitive we have ever been, and our market leading combination of Aldi Price Match, Low Everyday Prices, and Clubcard Prices has changed the way customers perceive value at Tesco. Over the last seven years, we have materially eroded the price differential to the limited range discounters and we are now matched penny for penny on over 600 of the most important products, helping to remove price as a reason for customers to shop elsewhere.

We're at our strongest price index to date versus the market and customers are choosing Aldi Price Match products in 99% of large baskets and now in over 85% of top-up shops.

Our overall value proposition is more than just great shelf edge prices. Customers need to believe in the value they are getting from us and trust it. We've worked incredibly hard on this over the last three years. Clubcard Prices, which we've now rolled out across the Group, has created a clearer and more compelling way for our customers to get additional value and treat themselves through great offers. As a result of all the steps we have taken, we have seen a significant improvement in our value perception score over the last three years. We have improved more than any other full line grocer and achieved this against the backdrop of an overall market that has declined.

Quality has also been a key focus for us. In the UK alone, we have reformulated and improved more than 10,000 products over the last three years and grown sales of our finest products by nearly 35% over the same period. All of this has contributed to our quality perception improving by nearly 90 basis points this year, whereas the rest of the full line grocers declined by an average of 150 basis points. This improvement is even more impressive on a three-year basis where we are up nearly 500 basis points. I'm really pleased to say that for the first time in a number of years we've been ranked joint number one for quality out of our core grocery peers. We have also driven switching gains from premium retailers consistently for the last six periods.

As I described back in October, over the last few years, we have been developing a powerful digital platform. The foundations of this platform reflect our unique scale and reach, and an ever more digital Clubcard. We now have over 14 million Clubcard app users across the group with Clubcard sales penetration averaging around 80%. We have market leading businesses in the UK in large stores, convenience stores, online grocery, and now through Whoosh ultra-fast delivery. Every week we handle over 50 million transactions ensuring we have an unrivalled view of customer shopping trends. To add to that, dunnhumby has over 30 years of experience with its 400 data scientists providing a globally recognised capability. The systems we have developed help us anticipate customer needs and ensure we are offering them the right product at the right time and rewarding them for their loyalty. We now have the largest closed loop grocery media platform in the UK through Tesco Media and Insights powering over six and a half thousand campaigns every year.

We are rolling out new solutions such as digital screens, which are now in over 500 stores. We still have much to do, but I believe that we are now in prime position to take advantage of the exciting media monetisation and personalization opportunities available to us.

A key part of our digital transformation is our new combined Grocery and Clubcard app. We have now integrated our mobile apps into one single solution, serving our customers across all of their shopping and loyalty needs. The app isn't just for online use. Customers can now use it to enhance their in-store shopping experience too. With additional features such as creating shopping lists and checking stock before leaving home, it puts customers in far more control of every shopping mission. We have also incorporated our in-store payment functionality and the ability to redeem vouchers and rewards that can be preloaded on the app for speedy use. Customers can even place a Whoosh order and check on its progress via the app, and for those lucky enough to live close to one of our GetGo stores, the app can be used for a checkout-free and frictionless shopping experience. It really is a one-stop shop for customers shopping at Tesco.

Clearly, one of the advantages of driving up app usage is the ability to offer our customers a more relevant and personalised shopping experience. We are still very much at the early stages of what we believe is possible. However, over the last year, we've increased the number of customers receiving personalised offers to over 4 million, issuing nearly 90 million coupons in over 10,000 different combinations.

dunnhumby data science also enables us to leverage sponsored searches and create recommendations when customers are placing online grocery orders. We now have over 400 suppliers signed up to sponsored searches and are seeing over 60% customer participation rates on the have you forgotten recommendations. The overall personalisation opportunity is much broader than just through our app, our website and our stores. The dunnhumby team are already working with several partners in the offsite space such as Sky and ITVx to enable targeted advertising for suppliers.

Our large stores are the bedrock of our estate. They've been performing really well, but we are always looking at opportunities to further improve our offer. This year alone, we've added over 700 new offerings and essential services across our large store estate from well-known brands like Costa, Greggs, YO! Sushi, IKEA, The Entertainer, and Timpsons. During the year, we also took the decision to further refine the range of non-food products further reducing categories such as electricals so that we can efficiently focus on what matters most to customers. We also have a strategy to selectively broaden the appeal of our non-food ranges, particularly at the premium end. Our acquisition of the Paperchase brand in January will allow us to go even faster in delivering this in the popular stationery and cards categories.

This year, we have achieved some key milestones in our convenience business, and our performance is going from strength to strength. Our Express business now has sales of nearly 7 billion pounds, which would make it one of the largest retailers in the UK in its own right. Just last month, we opened our 2000th express store in Cambridge, and we continue to see further opportunities for attractive growth in the years ahead. One Stop also hit a key milestone opening its 1000th store in February, and I'm really pleased to say that they won ‘convenience retailer of the year’ at the recent Retail Industry Awards. We also serve a wider convenience offering through Booker Retail, which has added over 450 new partners to its premier Londis, Budgens and Family Shopper facias. As part of this growth, Booker celebrated is 4000th premier opening in September.

As you know, the popularity of immediacy and food delivery accelerated rapidly through the pandemic, and we responded with our first Whoosh offer in May 2021. We were able to take a different approach to many of the new entrants in this sector by leveraging our existing network. With a fraction of the capital that others have deployed, we have built a business that is now available in 1000 stores. Whoosh covers over 55% of the UK population and has a delivery time of circa 25 minutes. I'm really proud of what we've been able to create, and this highlights how we can quickly develop an incremental business proposition with capital discipline that maximises the value for both customers and shareholders.

I mentioned earlier how some of the challenges we have faced in recent years have made us a stronger business, and nowhere is this more true than online.
We transformed our grocery home shopping business to serve customers throughout the pandemic. And it has left us with a business that is nearly 60% larger than it was in 2019. Orders are stabilising at about 1.1 million per week, and our market share remains very strong at around 35%. We've now got over 500 click and collect locations that help create a compelling and flexible offer for our customers, and we have seen subscribers for our 'Delivery Saver' scheme grow to nearly 700,000.

As Imran mentioned earlier, Booker has delivered an exceptionally strong performance this year with its highest sales to date. This was in part due to an outstanding performance in the catering business as even more customers benefited from the unbeatable choice, price and service that Booker can offer. Booker's specialist teams are doing a brilliant job of working with caterers to help them adapt their menus to offer great value to their customers while ensuring that they're able to cope with the inflationary pressures they are facing.
This has contributed to strong growth even against the backdrop of a declining market. I've already mentioned the retail business at Booker, where we have seen strong growth again this year. In addition to adding new partners, the rollout of our Jack's product range has provided a great value on brand alternative on over 500 lines.

Save to Invest has been a key underpin to our strategic progress. We are constantly driving a simpler and more efficient operating model so that we can fund the investments we want to make. This has always been one of our strengths. And last year, we took the decision to significantly accelerate our plans committing to savings of around 1 billion pounds over just two years. We've made great progress this year, which has been critical given the inflationary backdrop and have delivered ahead of target with savings of over half a billion pounds. As we start the new year, I'm confident that we are firmly on track to deliver at least 1 billion of savings by February 2024.

In summary, we are pleased to have delivered another strong performance in a market that continues to be very challenging. In doing that, we've been able to create value for all of our stakeholders. Our relentless focus on providing great value and quality for our customers means that we are now the most competitive we have ever been, and I'm really pleased that we have also been able to look after colleagues as they've faced increasing costs of living pressure. Our strong financial performance with retail free cash flow ahead of expectations means we've been able to return over 1.6 billion pounds to shareholders this year through the share buyback and dividend. We are confident that we have the right strategy to keep winning and that we can continue to generate strong cash flows and create value for shareholders. And of course, as I've mentioned, we will continue to do all of these things while doing the right thing for the communities we serve and our planet.

Thank you for your time so far, and we are now really happy to take your questions.

Operator: Thank you very much, sir.

Ladies and gentlemen, if you'd like to ask an audio question, please press star one on your telephone keypad. Please also ensure your mute function is not activated while you signal through your equipment.

Today's first question is coming from Mr. William Woods from Bernstein. Please go ahead, sir.

William Woods: Hi, good morning. A couple of questions for me if that's okay. The first one, just on pricing, could you describe how you are seeing pricing still coming through from suppliers, and are you seeing any change in the competitive environment?

And then the second one, just on operating profit and margins, how should we be thinking about margins into 2023 and ‘4, should we expect further margin pressure? Thank you.

Ken Murphy: Thank you very much, William. I think the first thing to say is, as you'll have seen during the presentation, we are at the most competitive we've ever been from a pricing point of view relative to the competition. That said, what we see is a rational market.

Every player in the market is behaving rationally and therefore you're seeing, where appropriate, the costs increases being passed through into pricing. What you can rely on though is that this is an intensely competitive market and therefore we will, I think, have to be very sharp in terms of our cost base, in terms of our competitive position, right the way through this financial year into the financial future. And we kind of embrace that because we think it's good for customers and we think it's good for the market.

In terms of operating profit and margin, look, I think you can judge from the fact that we are expecting some top line growth this year and we are expecting broadly flat profitability. So that suggests that because of the inflationary pressures on our cost base, you're going to see some margin dilution. And this is really a reflection of our efforts to maintain as strong a value position for our consumers as possible and for us to continue as we've done in the last financial year to absorb as much inflation as we reasonably can to make sure that we keep ourselves as sharp as possible on pricing.

William Woods: Excellent. Thank you.

Operator: And thank you, sir. Next question today will be coming from Andrew Gwynn of BNP Paribas. Please go ahead.

Andrew Gwynn: Hey, good morning team. Yeah, two questions as well if I can. So firstly, just help us understand what the fulfilment fee noise or announcement was about, maybe now sort of a bit on the back burner, but some context there very useful.
And then second, you touched on this in your presentation, but media income clearly a growing opportunity and something where you see potential. Is it something that could be a meaningful contributor to earnings over the next say three years? Thank you very much.

Ken Murphy: Thank you very much, Andrew. So I think the first thing to say is that the fulfilment fee is alive and well. It's not on the back burner. And it is something really that reflects the fact that we have a meaningfully bigger online business than we had three years ago, 60% larger than it was pre-pandemic, a five and a half billion-pound business. So not far off as big as our convenience store business.

And at the same time, the costs of fulfilling the online mission have gone up materially. We don't think it's right to pass all those costs on to consumers. The suppliers have benefited from a material upswing in volume through the online channel. We think it's only fair and reasonable that they make a contribution. And I say this as it is only a contribution to the increased costs of fulfilment.

We're making great progress, by the way, in our conversations with suppliers. We've already had a number of meaningful suppliers sign up to it and we're very confident it's going to be a success. And by the way, the conversations have been really fair, open and transparent, and I think many suppliers really understand where we're coming from.

In terms of media income, clearly we're very excited about media income. We think that it has great potential and it has great potential because of the work we've done to establish Clubcard as a really strong platform. We've invested a lot of money in consolidating and building the number of people who use the Clubcard frequently, and we're now well over 20 million frequent users of the Clubcard. And we've done an even more important job of work in migrating over half of those onto our digital platform so that they can interact with us much more dynamically.

We've also made that digital journey a lot more convenient and interactive by consolidating all our apps onto largely one app. So our grocery home shopping, Clubcard, Whoosh, they're all integrated onto a single app. And I think from there we believe that we can put in front of customers offers that are truly relevant to them. And you can see therefore a very powerful media platform both online but also in store where we're building a large inventory of in-store electronic signage that will allow us to advertise directly to consumers in store.

And then of course, we can show our suppliers the direct consequences of their advertising expenditure in terms of purchasing and conversion. And we think this closed loop environment is a really powerful and compelling proposition for suppliers. So we think it can be meaningful over a three-year period.

Andrew Gwynn: Is it possible to quantify it? Maybe not sort of precisely, but are we talking tens of millions or hundreds of millions of potential extra income?

Ken Murphy: Andrew, we don't want to precisely quantify it at this stage. But I think for it to be meaningful for Tesco, it clearly has to be more than tens of millions. But as and when it's appropriate, we will update the market and give you some more guidance on it. But give us some time to really get motoring on this.

Andrew Gwynn: Okay, thank you. We're always impatient, but yeah, thank you very much.

Ken Murphy: No, thank you.

Imran Nawaz: Thank you.

Operator: Thank you very much, sir. Next question will be coming from James Anstead calling from Barclays. Please go ahead.

James Anstead: Yeah, morning Ken and Imran. Two questions please. Firstly on working capital, I think your inflows have been very consistent over the last three years at 450 to 500 million for each of those years. I suspect the year ahead might not be quite so positive, but I wonder if Imran, you can give us some kind of directional indications for the year ahead in particular, and perhaps in the long term whether you think working capital can continue to be a positive source of cash.

And on energy as well, appreciate you are probably not going to give us specific numbers, but I wonder if you can give us any colour on the headwind you're expecting in the year ahead and also perhaps, I know you've worked hard to reduce your usage of energy. Perhaps you can talk about generally speaking, how much less you are consuming now than you were before the rates increased so much. Thank you.

Imran Nawaz: Okay, so let me take them one by one. So on cash and working capital, first I think it's fair to say I feel really good about the cash flow delivery. Last year we delivered 2.3

billion. This year, as you rightly point out, 2.1. So over the two years it's a strong performance. Clearly working capital inflows did also help. In this year, you saw over 400 million came in. I would say three quarters of that is benefiting from the general market inflation that you see. So you do have the higher payable benefit.

I think in a normalised year, shall we say, the model that we run internally is somewhere between nought to a hundred million of working capital inflow. Now, remains to be seen what kind of year this year would be. What I'm very clear on is, given that I would anticipate that inflation lessens throughout the year, certainly by the time we are to quarter four, I would anticipate that that working capital inflow is closer to, well, between that zero to a hundred million as opposed to the4-500 million benefits we got. But again, what is really important for me personally is one of our key tenets is this continued strong cash flow delivery. We've done it now two years at the trot and I feel good about that.

When it comes to the energy hedging, you're right to ask the question, energy clearly is a headwind. We feel good about where we hedge. We've just come off basically, I would say almost finished the year of hedging for the year ahead that we're in now. Feel good about how that went. Clearly energy will continue to be a headwind in the new year that we're in, so that will be on cost.

But again, the way we did it last year, we faced a big energy headwind. We dealt with it from the Save to invest program. You will have seen we delivered 550 million at the year that we just closed in savings and we want to do at least a billion. So that will help us manage the energy costs going forward.

Then in terms of energy reduction opportunities, look, we've done quite a lot over the last years. We've almost cut energy, I think over the last four years by like 20% or so, and that's been via all the activities including the purchase, the power supply agreements that we've put in place, the new filtration system, new refrigeration systems, all of things have helped. They've also been more sustainable, so that's good. But having said all of that, energy is still going to be a headwind for us year-on-year.

Nick Coulter: That's very helpful. I don't know if it's possible to comment, is the headwind in the year ahead likely to be a smaller headwind than you saw last year? I don't know if you're prepared to comment on that.

Imran Nawaz: James, look, I get the question. I know what I'd do if a competitor shared that kind of information. I do consider that commercially sensitive. Let me put it this way. It is going to be a significant cost increase. It's something we've dealt with in the last year and we're going to deal with it again this year. And as I said, we've been smart about how we've been hedging throughout the year. We're almost done this year. So we've benefited from the curve down, as well. So I feel we're going to enter the year in a good space on that cost base, but still, it'll be up.

Nick Coulter: Great. That's very helpful. Thank you.

Operator: And thank you very much, sir. Our next question is going to be coming from Clive Black, dialing in from Shore Capital Markets. Please go ahead.

Clive Black: Yeah, good morning, Ken and Imran. Thank you for your presentation. Couple of questions also, if I may. Firstly, with respect to the free cash generation, above and beyond the ordinary dividend and the buyback, would you be able to give some colour as to what the priorities for allocating any additional generation would be?

And then I just wanted to ask some questions about your real estate strategy, really. Ken, you said that you would open new space selectively based upon the attractiveness of the returns. Maybe give us some colour as to what an attractive return is for you. And then that made me think about where you stand on your freehold leasehold mix and, strategically, what your thoughts are there. And then just lastly, in relation to real estate, we often talk about returns on new space, but what about the tail in the business, and does a business of your size, your number of stores, have a reasonable amount of work to think about cutting space or closing stores or re-engineering stores? Thank you very much.

Ken Murphy: Many thanks, Clive. I'll take the second question first and then I'll pass on to Imran to answer the free cashflow one. I think that the first thing to say is that we've done an enormous amount of work, actually over the last five years, in terms of improving the profitability of our space. And so this is a constant labour of love, really, to improve the profitability across the board in our store estate and, where it's impossible to improve the profitability, to exit selectively some of the stores. And so we would, last year, for example, we'll have opened a number of new convenience stores and then we'll have closed a few.

We also have a great policy of managing our convenience store estate across all of our brands and facias. So we interchange stores between One Stop and Tesco Express. And also, there are some cases where we will move stores between some of the Booker facias and the Tesco facias. So we have a very agile response to what's the right offer for the right location and the right size of store footprint.

Our large store estate is in great shape, in terms of profitability overall, and we continue through a number of new partnerships to introduce new propositions into those large stores to make them more and more attractive. Equally, we also pick 85% of our online offers through our large store estate. And of course, we've grown that business by 60% over the last three years. So we're really happy with the sales intensity and the utilisation of our large store state.
In terms of ownership, we typically have about a 60% owned estate ratio. We think that's broadly right. We tend to own most of our large stores, relatively fewer of our convenience stores, and we will continue to acquire stores and buy back stores where it makes financial sense. And then typically, that'll form the normal rules of financial analysis in terms of providing an accretive return on investment from a shareholder perspective.

Clive Black: Thank you.

Imran Nawaz: On the capital allocation side, so look, in October '21, we laid out a very clear framework and what we said at that time was, "We will continue to first and foremost invest into the business." We laid out between 0.9 and 1.2 billion. Whether that was into growth, like Woosh or expanding online, whether it's into tech, like the Clubcard, or whether it's into refreshing our store estate, all of those things are priority one. We then clearly also said the progressive dividend is central to our case. And I'm pleased to say we have announced again that we will continue to protect that.

And then we also mentioned that we would look into whether there are opportunities to buy back some stores, if there's a good return, as we said, we would look into M&A on an inorganic basis. We talked about more bolt-on nature. You saw the Joyce's acquisition we did in Ireland or even, just very recently, a small cash outlay, but still a nice thing to do on acquiring the Paper Chase brand.

And then last and not least, once we've done all of those things, that's when you come in with the buyback, the 750 million that we've announced again this year, after last year's 750 million. It is important to me to say that the buyback is central to the investment case for us, personally, and I want that to become a consistent and recurring reliable return to our shareholders every year.

Clive Black: Thank you for both those answers. Just by way of follow-up to the latter point, Imran, presumably, though, you have in your mind a point where the buyback, should your share price appreciate in a very nice way, that the buyback doesn't become so rational. I take it that's a conditioning thought within that context. Yeah?

Imran Nawaz: Always. So I clearly have share prices where you'd say to yourself, "Is that the best way to return cash?" So it's got to make economic return sense, spot on, but not there yet.

Clive Black: Indeed. Good luck with that. Thank you very much.

Imran Nawaz: Thank you.

Ken Murphy: Thanks, Clive.

Operator: Thank you very much, Sir. Next question will be coming from Ms. Isabel Dobreva calling from Morgan Stanley. Please go ahead.

Isabel Dobreva: Hello. Good morning and thank you for taking my questions. I wanted to follow up on the point around energy costs. I think, last year, you talked about 300 million type of number and then, this year, you've mentioned there will be another headwind of unspecified magnitude. But I wanted to ask you, just thinking slightly further out into next year's numbers, how much of a snapback in these energy costs do you think we can see based on where the current pricing is? And I appreciate a specific number is difficult, but maybe if you can help us understand, is it a third, is it a half of the headwind that you have taken so far? What would be the new normalised run rate of these energy costs once those hedges start to roll off? That's my first question.

And then I had another question, thinking about the food price inflation backdrop for the rest of the year and how that links into the commodity headwinds, which are now starting to reverse. How would you expect those pooling input cost pressures to translate into shelf pricing? And is there a scenario where the pricing in your COGS falls back, which means you might recapture some gross margins?

Imran Nawaz: Look, on your first question on energy, in terms of, if I understood your question right, what does a normalised world look like when energy dissipates, to your point, it spiked up dramatically and I think it hit that peak in .... was it August, September of last year? And since then, it's come down steadily. When you look into the futures, there's still that Russia, Ukraine War situation that still causes them to still be higher than they used to be before. I don't want to guess as to what happens there because that has a direct influence on the energy. I'm an optimist in the sense that I do believe eventually energy costs will normalise. So when I look at the year ahead, after the one we just started, I would expect there to be a continued decrease in energy costs. Even when you look at the forward curves, that's what you see. And then your second question.

Ken Murphy: On commodities. So look, I think, on commodities, we watch them very closely. We have a really good sourcing organisation that works very closely to keep an eye on commodity pricing and then that feeds through to our negotiations with suppliers. And while it's true, we have seen some commodities fall in price, we're also seeing others still inflating fairly strongly and of course there are a lot of variables in commodities, not least of which of course is whether the continued volatility around energy, et cetera, that will play a role in how commodities play out this year. I mean, I think what you can rely on is for us to be really competitive and really sharp on commodity pricing and to reflect that in our negotiations and in our economics. We can't legislate for what the competitive environment will look like from a pricing point of view. And so we also need to bear that in mind so there isn't a direct read here. I think the best we can tell you at this stage is that Tesco is really good at this. It takes it very seriously. It's got great capabilities and we will be right on point when it comes to understanding how commodities are shifting and how we can reflect that in business performance and whether that's through higher sales, winning share or improving margin, we will work very hard on it.

Imran Nawaz: I think that the current environment, just like the year that we've just closed, one of the things that is a bit of an assumption that I continue to make is that the world continues to remain rational when it comes to pricing on both directions. And I feel that's something that so far that the OpEX pressure that everyone is feeling sort of keeps that rationality in check, I would say. And I don't see that going away.

Isabel Dobreva: Thank you.

Ken Murphy: Thank you.

Operator: Thank you much ma'am. We'll now move to Mr. Nick Coulter calling from Citi, please go ahead sir.

Nick Coulter: Hi, good morning. Two if I may please. Firstly could ask about your journey with the UFC and the trajectory of their customer-facing metrics and particularly the trajectory of the cost ratios that you are seeing as you continue to iterate with the automation. Then perhaps a broader question on supply chain automation. I'm sure you clocked the Walmart announcement and I wondered if you had a view on the cost opportunity from adding automation to your broader supply chain network or whether you might move in that direction. Thank you.

Ken Murphy: Great, thanks Nick. Starting with UFC, so we have continued to see progress in our UFC efficiency and the latest UFC that we opened recently got up the curve in terms of its efficiency much, much faster than previous iterations. We plan to open another couple this year and in addition, I think our best UFCs, we're starting to see not only that it's hitting business case rates of picking efficiency, but we're also seeing meaningful improvements in the customer metrics that mean we are getting to as good if not better than manual pick customer satisfaction metrics. And I think when we hit the sweet spot on those two things, which is we can deliver as good, if not a better, customer experience and they're hitting the business case rate of efficiency, then that will give us the confidence to go faster in terms of UFC rollout. It's not today making a massive contribution to cost efficiencies overall, but where it's been implemented, clearly it's having a really meaningful impact on our pick pack costs in those locations.

Nick Coulter: Okay, so it sounds like you're getting closer then?

Ken Murphy: Yeah, we're on an improving trend, but I mean at this stage we don't have a huge amount of our capex allocated to UFC rollout. We're still really waiting for that concrete proof that it's an investment that will justify its place on the table. I think the second point around broader supply chain automation, I think this is an area where we've been very curious and we've selectively introduced elements of automation in different distribution centres, particularly in our Fresh DC in Peterborough. And we have automation as well in our largest ambient DC in Reading that are performing really well. And we have quite a comprehensive network strategy which we plan to implement over the next three to five years that will have significant elements of automation in it. And we're excited about what that can do in terms of our efficiency, our throughput, and of course in terms of the quality of the fresh product and the availability improvements that we can bring with it.

Nick Coulter: Interesting. Thank you. It'd be great to see some of these examples in practice at some point. Thank you very much.

Ken Murphy: It'd be a pleasure, Nick. Thank you.

Operator: Thank you sir. We'll now to go Sreedhar Mahamkali calling from UBS. Please go ahead sir.

Sreedhar Mahamkali: Hi and good morning. Thanks for taking my question. Really two follow ups and one question please. Going back to Andrew's question earlier on, on Media Income, just wanted to understand how you see this. Is this a source of additional profit for you or is it just another opportunity to reinvest it back in the business? Maybe it's a combination, but I'd be interested in your thoughts. Secondly, back to Clive's question on capital allocation and your answer, is the idea that the buyback remains a rather stable 750 million into midterm or should we be actually expecting a greater proportion of free capital to be allocated to it after meeting your progressive dividend policy? Those the two follow ups. And the third one is really interested in what kind of shape of sales you are thinking for the year ahead in constructing the broadly stable retailer bit please, especially given your pretty strong exit rate. If you could just help us with those three. Thank you.

Ken Murphy: Okay, thanks Sreedhar. Let me take the last one first. So we do expect top line sales growth this year. We expect it to be more modest than last year, but we are expecting some top line growth. And so by kind of giving that broadly flat guidance, you know, you can expect a small amount of operating margin erosion to reflect really the strong investment in both the customer and colleague offer as part of our kind of balanced strategy to manage our stakeholders. I think in terms of the buyback, you should look at it in the context of the total capital allocation model and that's really our commitment to investing in the business and we're investing at the top end of that at 1.2 billion. Our commitment to stay within the range of 2.3 to 2.8 as a debt ratio and really therefore the buyback we see is largely remaining consistent rather than growing or shrinking at this stage.

Clearly we have to adapt to what the market conditions and how working capital plays out, et cetera but that's our kind of ambition for now. In terms of the fulfilment fee, it is genuinely a response to the increased cost of fulfilment and our ambition as a consequence in terms of our engagement with suppliers on this is to get them to contribute to the increased cost of fulfilment in return for the increased volumes that we've been able to sell through that channel on their behalf. So really we think it's a very fair proportionate and rational conversation that we're having with our suppliers on the fulfilment. It isn't an opportunity effectively to take more money for nothing.

Sreedhar Mahamkali: Ken, apologies. My question was more on the media income, retail media and dunnhumby related income stream and profit stream. Yes. So that one, do you see this as a source of additional profit for shareholders or is it an opportunity to reinvest in the business? That was the question rather than.

Ken Murphy: No, apologies. Sreedhar, I misunderstood. So I would see it in the medium term as a genuine extra profit pool for shareholders. So I'm very excited about it. In the short to medium term, I think what you can expect us to do is to reinvest a lot of the income into the platform and the capability that we need to really drive this business. And so that means a lot of work on our dunnhumby model and our dunnhumby platform and also on our capability in the whole retail media space in terms of our reporting tools for suppliers to give them the confidence that we're giving them a great return on their marketing investment and also integrating with the various media planning agencies so that they can use us as part of a total media planning proposition. So there's a lot of work to do and we'll be investing heavily in bringing that to life, but in the medium term I see it as a meaningful contributor to profit.

Sreedhar Mahamkali: Can we expect any more sort of visibility or clarity on this meaningful stream, say this time next year, Ken, perhaps in terms of what is short term, what is medium term and the potential perhaps.

Ken Murphy: We'll absolutely bear that in mind, Sreedhar.

Sreedhar Mahamkali: Okay. Thank you.

Operator: Thank you very much sir. We'll now move to Mr. James Grzinic calling from Jefferies. Please go ahead sir.

James Grzinic: Thank you. Morning everybody. Morning Ken. And morning Imran. I have two. One I guess, for Ken. Seems like some of the top down data coming up from industry suggesting that perhaps we've passed peak pain for volume and mix headwinds in the UK market. I'd be curious to see what you've noticed in terms of consumer behaviour perhaps in recent weeks. And secondly for Imran, I understand your point in terms of not wanting to delve into the weeds of energy, incremental costs, et cetera, but if we were to look at wage increases and energy in total, I presume that there will be a bigger headwind in the year ahead than the one in the year just passed.

Imran Nawaz: Yeah, so maybe look on the, as you say, when you do the budget as I'm looking the year ahead, the two big headwinds that we have is the investment we're making in our colleagues and truthfully I feel good about that, it's the right thing to do and as you point out, the increased energy costs.

The reality also of course is that when you have a programme as strong as ours on the savings, what we've put in the statement is we want to do at least one billion over two years. Now we need to see, I'm going to work really hard to mitigate as much as we can on that. Ultimately, what I'd love to be able to repeat is what we did this year where actually the cost savings that we had largely offset the entirety of the headwinds on both. And what I'd like to be able to do is see whether we can repeat that. Now, obviously it's going to be a harder track to get that done, but look, the year's just kicked off and we have good momentum. We know how to do this, we've got the know-how we're going to invest behind it and let's see where we land.

Then on the volume front, if you want me to take that. Look, I mean the good thing is when we look at our inflation rates versus the market, we're significantly below the market and therefore when we look at our volumes, they've actually been relatively resilient. They're actually been better than we thought. The reality also is some of the volume shortfalls we did see this year were just driven by the fact that there was covid normalization. So one of the good things that came out for us in this year is how we've managed, making sure that the way we delivered the results between mix, price and volume was in the right way for our customers and it ended up winning in terms of trends, Ken, on the volume side.

Ken Murphy: Well look, I think that what we saw was that customers traded out of certain product categories when the cost of living crisis hit this time last year. And that kept moving down as prices went up to a certain point and then they actually held quite flat and were quite resilient towards the back end of the year.

We think that that will largely hold, but what you will of course continue to see is customers making choices based on what's going to be the best value for them. And so you will see trade down mix effects continue. You will see more eating in, you will see certain trade downs from higher price proteins like red meat into white meat, et cetera. So you are going to see a continued kind of cost management behaviour from the consumers. This is something by the way that we anticipate, we factor it into our trade planning, we factor it into the way we think about value and our offers at the relevant times during the year. And I think we're really well set up to manage that. As inflation eases towards the back end of the year we would expect to see some recovery in volume at the same time.

James Grzinic: So I guess to paraphrase, you Ken, we have seen an improvement that can show headwind and we think that as the year progresses inevitably as you hit that peak of the cone that dynamic will continue to get sequentially better.

Ken Murphy: Yes. I mean there are other factors by the way that we need to keep an eye on. What's going to happen with interest rates, what's happening with mortgages, what's happening with the energy cap. So there are a lot of different pressures on consumers at the moment and we need to be mindful of those. But the one thing you can count on us to do is to maintain the most competitive offer we've ever maintained, to be really strong in terms of our trade planning, doing the basics brilliant, particularly around availability and the shopping trip, and then to continue to build on our strategic drivers in terms of our convenience and in terms of our digital engagement with customers.

James Grzinic: That's great. Thank you.

Ken Murphy: Thank you.

Operator: Thank you very much sir. Ladies and gentlemen, once again, if you have any questions, please do press star one on your telephone keypad. Next question is coming from Paul Rossington, calling from HSBC. Please go ahead, sir.

Paul Rossington: Good morning. Can you hear me?

Operator: Your line is open, sir.

Paul Rossington: Thank you. Just briefly, two of your key competitors are under private equity ownership. There are some financial or strategic constraints. I was just wondering if you could comment on whether you had any particular gains against those competitors or whether you've got any strategies in place to take advantage of perhaps the kind of difficulties that they're currently struggling with. And that's my question. Thank you.

Ken Murphy: Thank you, Paul. Well, look, I think what you can see from the data and the facts is that we are the only full-line grocer to have grown share over a three-year period. So I think that tells its own story. And I think that's less to do with what competitors are doing and much more to do with how Tesco has responded to first the pandemic, then to some of the supply chain crises and latest to the inflationary pressures we've seen.

At each step we've focused on doing the right thing both for customers, for our colleagues and for our supplier partners, and then ultimately for shareholders. And I think that's played out really strongly over the last three years and we find ourselves really very, very competitive from a pricing perspective, the most competitive we've ever been relative to every competitor in the market. We see ourselves really well-placed in terms of our colleagues and the reward package we've been able to present to them.

And of course we have, for the seventh year in a row, won the accolade as the best retailer to deal with from a supplier partnership point of view. And you'll have seen from today's results that we've delivered another really strong set of results and a great return on equity for shareholders. So really the story for us is all about maintaining our focus on looking after all the stakeholders that are part of the Tesco ecosystem, sticking to our strategy, which is to do the basics brilliantly, be a really lean and efficient business, be much more convenient for customers and to get ever closer to them through our digital platform, anticipating and meeting their needs in the best way possible.

So we really don't focus on what's happening in the competitive landscape, we're staying true to what we want do as a team.

Paul Rossington: Thank you very much.

Ken Murphy: Thank you.

Operator: Thank you very much Mr. Rossington. As we have no further questions we're going to hand back over to Ken Murphy for any additional or closing remarks. Thank you.

Ken Murphy: Thank you very much. Listen, I'd first of all like to thank everyone for joining us this morning and taking the time to listen to our presentation. We really appreciate your time and for all the excellent questions we've had.

I think today demonstrates the incredible resilience of the Tesco business. I think it demonstrates our commitment to our strategy and our ability to execute no matter what the environmental conditions throw at us. And I think it gives us, as a management team, great confidence going into this financial year that we will continue to be the leaders in the industry, that we'll continue to innovate, but that we will be really strong where it matters for the customer in terms of value and the shopping trip. So thank you again and I look forward to seeing you all in the near future. All the best.

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