S&P Global
Market Intelligence

J Sainsbury plc LSE:SBRY

FY 2018 Earnings Call Transcripts

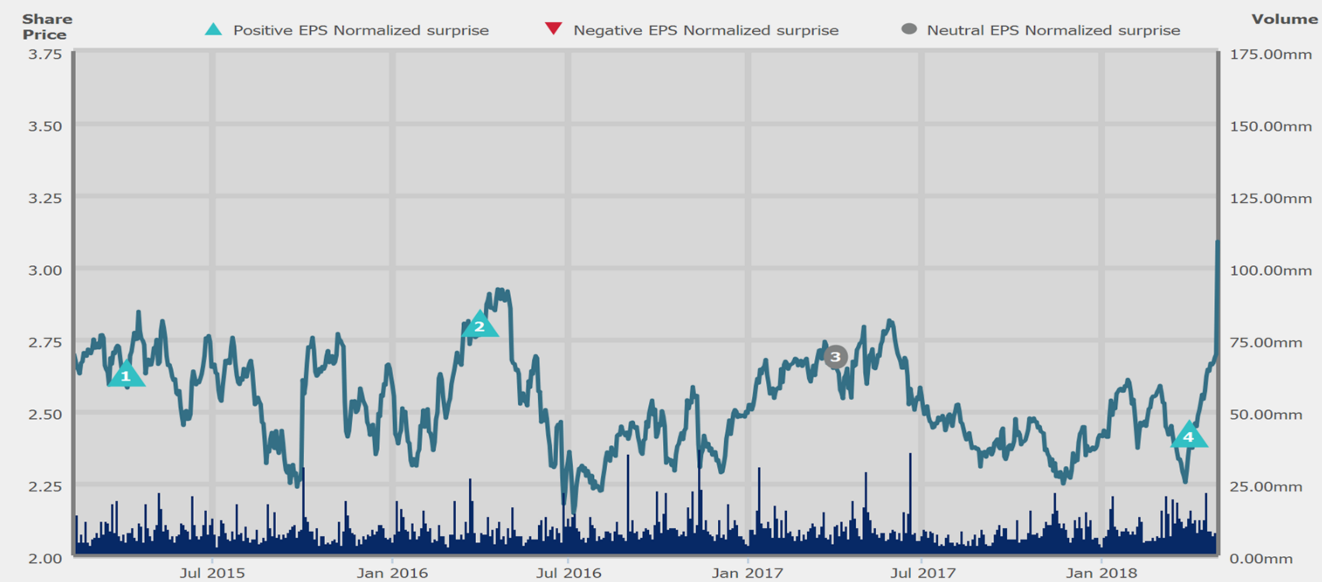
Monday, April 30, 2018 8:30 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2018-			-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.19	0.20	▲5.26	0.21
Revenue (mm)	28282.24	28456.00	▲0.61	28636.02

Currency: GBP
Consensus as of Apr-30-2018 7:31 AM GMT

Stock Price [GBP] vs. Volume [mm] with earnings surprise annotations



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FY 2017	0.20	0.20	1 0.00 %
FY 2018	0.19	0.20	2 5.26 %

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Call Participants

EXECUTIVES

David Alan Tyler
Chairman

Kevin O'Byrne
CFO, Member of the Operating Board & Director

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

ANALYSTS

Andrew Philip Gwynn
Exane BNP Paribas, Research Division

Bruno Monteyne
Sanford C. Bernstein & Co., LLC., Research Division

Charlie Muir-Sands
Deutsche Bank AG, Research Division

Daniel Ekstein
UBS Investment Bank, Research Division

Dusan Milosavljevic
Joh. Berenberg, Gossler & Co. KG, Research Division

James Tracey
Redburn (Europe) Limited, Research Division

James Robert Grzinic
Jefferies LLC, Research Division

Nick Coulter
Citigroup Inc, Research Division

Robert Joyce
Goldman Sachs Group Inc., Research Division

Stewart Paul McGuire
Crédit Suisse AG, Research Division

Unknown Analyst

ATTENDEES

Judith McKenna
Wal-Mart International

Roger Burnley
ASDA Group Limited

Presentation

David Alan Tyler
Chairman

So good morning, everybody. Welcome to this important presentation this morning. I'm delighted, in particular, to welcome Judith McKenna, who is the President and CEO of Walmart International, who's sitting in front of me; and Roger Burnley, the CEO of Asda. Both of them will speak a bit later in this presentation.

So today, we are making a historic and pivotal announcement about the future of our business, and indeed, of the industry. We have agreed a plan with Walmart to bring the businesses of Asda and Sainsbury's together into a combined enlarged company. At Sainsbury's, we believe that we will generate considerably more value for our shareholders in the future by pursuing this opportunity than any other. Not only that, we believe that this combination will deliver benefits for every stakeholder, for British consumers, for the 330,000 colleagues of our 2 businesses, for our suppliers, and indeed, for the British economy as a whole.

Mike will explain the details behind our strategy when he gets up shortly. Roger will give an up-to-date picture of the Asda business, and Judith will set out Walmart's perspective. Following that, we'll have a Q&A, led by Mike and Judith, to give you as complete a picture as we can of our plans.

But first, before all that, we are also announcing today, 2 days early, Sainsbury's financial results for our year to the 10th of March 2018. This has been another year that has demonstrated the strength and resilience of our existing business. In particular, you'll note that with underlying earnings per share, up by 8% in the second half year compared to the comparative period the previous year, we are growing earnings again for the first time for several years. And we now see, even before the impact of the transaction we're announcing today, an opportunity for good earnings growth in the existing Sainsbury's business in the years ahead, underpinned by the strength of our core grocery operation, underpinned by the growth potential of our General Merchandise and Clothing business, and indeed, underpinned by our balance sheet now with lower leverage and a much lower pension deficit.

So Kevin O'Byrne, our CFO, will take you through a short presentation on our results before handing it over to Mike to talk about today's transaction. Kevin?

Kevin O'Byrne
CFO, Member of the Operating Board & Director

Thank you, David. Good morning, everyone. I have the unenviable task of standing between the presentation by Mike, Judith and Roger and you, but we want to take you through our results for the year to the 10th of March. These are unaudited numbers. The full audited numbers will be released as planned on Wednesday morning. And this morning's presentation will also cover an outline of guidance for the coming financial year.

We're pleased with the financial performance in the year to March. We delivered underlying profit before tax of GBP 589 million, up 1% for the year and up strongly, as David said, in the second half. Cost savings and Argos synergies were both ahead of plan. And at Sainsbury's Bank, profits were up 11% as we integrated Argos Financial Services. Strong free cash flow generation of GBP 432 million, up GBP 113 million year-on-year, and this enabled us to reduce net debt ahead of previous guidance. The final dividend is up 8%, reflecting earnings growth in the second half. And finally, we confirm -- we're confirming consensus for the year 2018/'19.

In the year, sales were up 9%, largely reflecting the full year's consolidation of Argos versus only part year in the previous year. Retail operating profit was broadly flat, supported by synergy delivery, cost savings and better underlying margin trend in the food business, offset by some pressure on the General Merchandise margins in a tough environment. Underlying UPBT was up GBP 8 million for the full year with a much stronger performance, as I said, in the second half. And the business was fully like-for-like in the second half after the Argos consolidation. And you'd recall in the first half, UPBT was down.

EPS was down, reflecting a full year's dilution of the shares issued in relation to the HRG acquisition. Dividend per share is flat with a final dividend up 8%. Non-underlying cost related to 3 main areas: the new bank program, the Argos integration and the recently announced reorganization of our management teams in store.

In the year, we saw sales growth across all channels. We grew like-for-likes 1.3%. And taking out the impact of the consolidating the Argos and the Habitat businesses, sales grew 1.6% with strong performance from the grocery business with growth of 2.3%. In General Merchandise, we outperformed a very tough market, gaining share despite some drag from the closure of Argos stores inside Homebase stores. And clothing grew just under 4% across the year. And we're pleased with the consistent strength of our Grocery Online and Convenience businesses.

Our grocery business had a good year. We saw an improving margin trend, particularly in the second half, and transactions grew ahead of the market. We continue to innovate, launching 128 range reviews to offer customers the quality they expect. We further enhanced our offer by reducing prices in over 900 products, and our store teams did a great job offering customers market-beating service and availability. We're currently changing our store operating model to ensure we can continue to deliver this level of service while remaining efficient and paying our colleagues competitively.

In a challenging general merchandise and clothing market, we're pleased with our performance. As I said, we grew Clothing sales by 4%. Online clothing sales grew 45%, and we're delighted with the early customer reaction to the launch of Tu in Argos in the last few weeks. We grew share in General Merchandise, with particularly strong performances in areas like audio, mobiles and videogames.

In the year, we continue to invest in making it easier for our customers to shop with us. Demand for our popular Fast Track service grew strongly. Over 40% of customers now start a shopping trip with us on their mobile, and we're very pleased the performance of the Argos stores in stores inside Sainsbury's, where we've seen strong sales growth.

We have a proven track record in delivering synergies from the HRG acquisition. This year's synergies totaled GBP 87 million, which is ahead of schedule, reflecting progress made on buying common goods and services more cheaply and the successful rollout of Argos stores inside Sainsbury's stores. So we're very confident that we'll deliver the GBP 160 million total by the end of this year.

Moving on to the bank. The bank delivered a good performance this year in a challenging market. Sainsbury's shoppers made up well over half of the bank's 1.9 million customers.

Net interest margin has increased to 4.9% with the inclusion of Argos Financial Services. However, excluding Argos Financial Services, the net impact -- the net interest margin has been impacted by continued pressure in the unsecured market. As expected, we saw a modest tick-up in bad debt year-on-year, again partly down to full year of AFS. Our bad debt ratios remain low compared to peers. And our capital ratio has increased to 14.1% in the year, and the total capital ratio has been boosted by the GBP 175 million external capital raised in November.

In the year just started, we expect bank profits to decline. There are 4 factors at play here: firstly, tighter profit margins on new lending and reduced lending; and secondly, a predicted modest increase in bad debt provision in the current climate. That will take us from GBP 69 million to GBP 48 million, effectively like-for-like. The third factor is the cost of Tier 2 capital that I mentioned that we raised. And finally, there's a cost of the new IFRS 9 accounting standard, which basically has a more conservative view of how you provision for bad debts, and this is something that clearly will be applied right across the banking sector.

In the year, we delivered strong free cash flow of GBP 432 million, up year-on-year strongly, which allowed us, as I said, to reduce our net debt to under GBP 1.4 billion. And at the year-end, our adjusted net debt to EBITDAR ratio reduced from 3.7 to 3.2. We refinanced our revolving credit facility, extending maturity. And in April, in addition, we repaid our Eddystone bond of GBP 568 million from cash resources. Our combined pension deficit reduced from GBP 850 million to GBP 261 million at the year-end.

As you know, our aim is to reduce debt over time, and we're targeting adjusted net debt to EBITDAR ratio of less than 3x and fixed charge cover of greater than 3x. So looking forward, in the current financial year, we expect inflation of around 3%. Against this background, we plan to deliver further GBP 200 million of cost savings and GBP 60 million of EBIT from synergies. As noted earlier, we expect the profit of the bank to reduce, and we're comfortable with the 2018 consensus of GBP 629 million. In the year, we're targeting a further reduction in net debt of GBP 100 million. And as a result of repaying the Eddystone bond, we expect net finance cost this year of around GBP 100 million.

I'd now like to hand you back to Mike. Thank you.

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Thank you, Kevin. Good morning, everyone. I'm going to take you through the details of a historic transaction that we've announced today. But first, I'd like to start by thanking a number of people in this room who've worked incredibly hard to get the transactions where it is today, not at least over the last 48 hours, where a lot of midnight oil has been burned in order to get all the transaction documents up to shape for this morning.

Secondly, I'd like to extend my personal thanks, firstly, to Dave Cheesewright, who is not with us today. He has been instrumental in getting this transaction together from the Walmart side. He's clearly stepped down as the Walmart's head of international. And I'd like to thank Judith and Roger for their help and support also over the next -- over the last period of time in their pragmatic approach to getting this deal to where it is today.

And my last thanks are to both of the respective boards. The Walmart board, Doug McMillon, and the Sainsbury's board chaired by David have enabled this transaction to occur through a very pragmatic approach of breaking through the various hurdles that we have to in a situation like this. So I thank those boards for their help and support. And from a personal point of view, I'm incredibly proud that both boards are putting their faith in me to see this transaction through to completion and ultimately to lead the business into the future. So that's a great position for me to be in.

The other point I would emphasize is that a lot of the people that I've talked about know each other extremely well. So Roger and I go back a long way. Indeed, we started our careers together or -- at least we first knew each other in our Asda days as well as subsequently working together within Sainsbury's. And again, Judith and I go back a long way. We worked very closely together within the Asda business as well. So there's a lot of shared history amongst us, and that gives us confidence in the way that we'll bring these businesses together in the future.

Well, I'll start by talking about the combination. We've talked about our dual brand strategy. This is about the best of both, and this is about making sure that we maintain the strength of the 2 businesses. But we can use the synergies that will be generated by this deal to sharpen both the customer propositions.

Asda is consolidated on a debt-free, a cash-free and a pension-free basis. Walmart will continue to be a major shareholder with a 42% shareholding in the combined business and 29.9% of the voting rights. And Sainsbury's will pay GBP 2.975 billion of cash to Walmart for the transaction. Judith will talk about this in some depth later on, but Walmart will remain a long-term partner and will have 2 seats on the PLC board. And we'd expect this transaction to go fast track to the CMA Phase 2 review, and we will anticipate completion in the second half, the second half of the calendar year 2019.

So it's worth just standing back for a second talking about the market and why this transaction is right and right for now. The world that we live in is changing and changing very rapidly. Customers have more choice than ever, whether it's the discounters, whether it's convenience stores or whether it's supermarkets, whether it's online channels. And of course, the rise of digital technology has amplified that.

And if anything, the speed of change is accelerating, not decelerating. And competitors that couldn't have even existed 10 years ago are covetously looking at the markets we operate in, and we believe that it's important for this transaction to take place to make our businesses fit for the future. And you could also see on that slide some of the downsides of not reacting to those market conditions because clearly, if you don't adapt and you don't adapt fast enough, that ultimately that will lead to businesses going out of business. And that's an important factor as well.

We think it's a great deal for everyone. We will create a more dynamic, more adaptable, more resilient business for customers that will result in lower prices, better quality, differentiated ranges and more flexible ways to shop. And it -- the company will be a major contributor to the British economy. We'll be a U.K.-listed PLC and 1 of the top 5 taxpayers, corporate taxpayers in the U.K. overall.

For colleagues, it's a stronger business employing over 330,000 employees with more job opportunities. And indeed, by bringing the businesses together, we create more security for both sets of pension holders. And overall, there are around 300,000 people who rely on one or other of the businesses for their future pension provision.

So for suppliers, we'll offer greater efficiency. We'll offer the opportunity for differentiated ranges, and of course, through the combined entity, the opportunity to grow into the future.

And last but by no means least, for shareholders, we create value. We increase the strength of the balance sheet. The combined business will have very strong cash generation, and we'll have investment-grade profile.

So if you look at the shape of the business, clearly, by bringing the 2 businesses together, it will strengthen the overall proposition within the U.K. market. And these market shares are based on the total market. Some of the numbers that get quoted is the Kantar definition of the market, which actually takes into account only about 70% of the volume in the food market. So the combined entity will have roughly 25%, 26% of the grocery market. But of course, we'll become a much bigger player in clothing and general merchandise as well.

And as you can see from this slide, Asda already has the #2 position by volume for the George clothing brand. Sainsbury's has grown the Tu clothing brand over the last number of years, and again, is #6 by volume in the U.K. marketplace. And the Walmart, as they scale, can bring significant benefits to customers through range and through lower prices to customers.

The other opportunity is through the Argos transaction, we believe there is an opportunity to put Argos stores in Asda stores as well as Sainsbury's stores, and that's a well-trodden route that we understand. And clearly, we've modeled that as part of the overall transaction.

The businesses have highly complementary store portfolios, and I think this chart illustrates it really, really well. Sainsbury's is strong in the southeast of England and Northern Ireland. Asda is strong in the Midlands, north of England, Scotland and Wales. So a very complementary store portfolio. And I think people are surprised by the slide on the left-hand side or the data on the left-hand side. Actually, average store size is almost identical. Sainsbury's stores, on average, are actually slightly larger than Asda stores. But again, if you look at the profile of the size of stores, you can see, again, it's pretty complementary. Now of course, that doesn't take into account the Sainsbury's convenience shops, but it gives you an idea of the complementarity of both the geographical overlap and also the store size overlap.

I'm now going to hand over to Roger. He's going to talk a little bit about the Asda business. Roger?

Roger Burnley
ASDA Group Limited

Good morning, everybody. Good to see you all. Great to be here this morning. I know quite a few of you, but for those I don't, I'm Roger. I was at Asda, as Mike said, for 6 years, back when I had hair. I then had 10 years on the board at Sainsbury's, and I've now been back at Asda 2 years firstly as COO and now as CEO. So that's me. It's fair to say therefore across that, I think I'm a reasonably good judge of the fit of this combination. And I'm as excited as anybody about what this means for the newly formed group.

So first of all, a quick overview of Asda. I'm conscious it's been a while since you've heard from us. We are, for the avoidance of doubt, multiformat already. We're a large-scale national business. As Mike said, strength in the North Scotland, Wales, but we are a national business with 19 million customers a week. We are multiformat. Our store size goes from 8,000 square feet to 160,000 square feet with the average pretty much bang on identical.

We have a grocery online business, which is going gangbusters, grew in low -- in high single digits last year. We have a George.com business, which is growing really well at over 30% year-on-year growth last year. And we have 33 Asda Living stand-alone general merchandise and clothing stores and 18 stand-alone petrol filling station. So we're pretty omnichannel already and that's certainly growing.

We have an undisputed EDLP heritage. Low prices is in our DNA, and that's something we're really getting back to, and that's part of our momentum that I'll touch on in a second.

We have strength in general merchandise and clothing. George is a fantastic brand, as Mike said, #2 for some time now by volume in the marketplace. And our George Home business is growing really well, 12% year-on-year market share growth last year in our George Home, so strong heritage in the general merchandise and clothing.

Food sourcing strength, too. We have IPL, International Procurement & Logistics, which is our fresh food sourcing arm, where we fresh and process across the U.K. everything from flowers to wine to protein to produce, which gives us significant cost advantage.

And of course, we have Walmart support that we've touched on, which has been there for 20 years across technology and digital, across sourcing, especially general merchandise sourcing, and across people and development and talent.

Last but not least, we can't do any of that without our talented colleague base with very similar values and culture to Sainsbury's. So that's why we're a great fit.

And very last but not least, I have a strong leadership team where we have, across my exec, experience of working in retail across 12 different countries. So a good strong leadership team in the business.

I can't talk too much about our financial numbers. We're not listed in -- our year-end numbers aren't yet audited. But just a flavor, I wouldn't want to not show you the strength of our financial position. So first of all, we are delivering growth. We have momentum back. We have delivered 4 consecutive quarters of like-for-like growth with healthy profit margins, healthy profit margins, despite a significant investment in the proposition last year. Cash flow generation is strong, GBP 4 billion between 2014 and '16, and that's carried on through last year as well. And last but not the least, with strong asset backing, very low net debt and 75% freehold, our estate. And as I say, very low net debt, a great position for a retailer to be in the these days.

And as I said, we have momentum in the business. We've got our mojo back, as we say, internally. So we've got consistent like-for-like sales growth. First of all, that's coming from accelerating our EDLP credentials, getting back to everyday low prices as well as investing in price itself. We're improving quality. We reformulated over 1,400 own label products. Last year, we won over 700 awards last year as well for our own label products. And we've got back to being first choice destination for big events, which has always been our heritage. And we really got back to that last year, which -- finishing the year with a fantastic Halloween and then a fantastic Christmas as we got back to being a destination for big moments for people.

We're further developing our digital and online capability, as I said, driving more growth and sophistication in our home shopping offers. Picture there is a parcel tower, a direct import from Walmart in the U.S. where you can collect your parcels in under 90 seconds. And that continues. We'll have scan and go in 200 stores by the end of the year, which customers really tell us they love and keeps them in control of their shops. So lots more development online and digital capability paying dividends.

And last but not least, we're improving our customer experience, particularly our availability. More work to do in both of those areas. So we're moving the dial but still more work to do and more opportunity there.

So we have momentum. We're doing all the right things, and our strategy continues to invest in all those things, but no danger. This combination really allows us to accelerate that strategy and do a really great job for our customers. Thank you. Mike?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

So let me put a little bit more color on the combined businesses. So a dual brand strategy. We'll keep both of the brands. Both brands have very distinctive propositions. I saw a number of customer interviews on the TV over the weekend, and customers get this. They get what the brands stand for. They've got very clear propositions. And they understand how the combinations could work together, which is great news.

But we will invest in price, and we've talked today about the fact that we can see our way to reducing the prices of everyday items by 10%. And that's the aim of the combined entity as we look forward. And that's above and beyond the price investments, which both businesses are making over the next period of time.

As Roger has already said, there are opportunities to look at sourcing, and IPL is an example of that. And that can certainly enhance the quality of Sainsbury's products. And of course, it works the other way around as well. Sainsbury's has a great heritage in fresh foods, a great heritage in added value, fresh food products in particular. And again, that quality of those products can be brought to bear in the Asda business.

And last but no means least, both businesses are making very substantial investments in helping customers shop more flexibly. And of course, that's enhanced by the relationship that Walmart has -- will have with the group in the future. And Judith will talk about that from the Walmart's perspective in a second.

If you look at grocery, both businesses have strong online grocery businesses and have an increase in-store technology. And Roger talked about Scan & Go. Sainsbury's has an equivalent, which is SmartShop. And increasingly, customers will be using those types of digital interactions to shop more flexibly with our types of businesses in the future.

Sainsbury's has a very strong position in convenience stores, 800 convenience shops, the best quality of real estate in the industry, our track record of growth and market-leading sales densities.

And we mustn't forget the combined strength of the group as far as general merchandise and clothing is concerned. So with Argos, we have a tech-led general merchandise business. That brings the third most visited website to the organization with 60% of sales online and now over 1,000 store points of presence. We also have a strong and fast-growing online clothing business in both businesses, so whether that's George online or as already been alluded to by Kevin, the launch of Tu online with Argos. So again, not just strength in scale, but it's also strength in the growing channels to market.

For colleagues, there are more opportunities within the larger group. We've talked about the dual brand strategy. But with 330,000 colleagues in the combined businesses, that shows you that there's a huge scale of opportunity for our colleagues at all levels. And the business will be run by the best leaders from both businesses. And as Roger has already talked about, Asda has strength in depth, as does Sainsbury's. So again, tremendous opportunities for the leaderships of both businesses. And Asda will be run from Leeds and we'll keep both head offices. Sainsbury's will be run from Holborn. Asda will be run from Leeds by a separate management team.

We have a shared set of values. So both businesses are built on a value-based heritage. And as one of the largest employers in the U.K., we will be a major contributor to the U.K. economy and a major taxpayer, as I've already said. And by bringing the businesses together and by Walmart retaining the Asda pension, that improves the covenant for the Asda pension holders. And of course, the combined entity will improve the covenant for the Sainsbury's pension holders. So in both cases, pensioners for both organizations will be in a better position overall.

For suppliers, there's a great opportunity to grow with a larger business. More streamlined supply chain means more efficiency as far as supplies are concerned. Both businesses again have a heritage of bringing new and differentiated products to market. And that opportunity will continue in the future. And it will protect choice for customers -- or we will protect choice for customers in the future.

If I talk a little bit about the buying synergies or the net synergies, the first point I would make is that the gross synergies are substantially higher than the net synergies we are talking about on this slide. The net synergies, the GBP 500 million, is what we will deliver to the bottom line of the combined entity at the end of the second complete year of the combination.

So if I talk specifically about the GBP 500 million net synergies, GBP 350 million of those net synergies are coming from the buying synergies, and that's primarily focused on the grocery business. And all you have to believe to believe that number is that the best terms for either of the companies will be applied to the overall buying book. It does not take into account any further volume benefits that might be accreted from the combination of the 2 buying books. And that's backed by a huge amount of analysis and data done by an independent third party.

Within the property synergies, that's mainly on the basis of putting Argos stores within Asda stores. We understand that model, and we understand the benefits that will come from reducing rent rates and overall overheads within the Argos portfolio by making those moves. So again, we understand those synergies and they are pretty much nailed on.

And the last point is operational efficiencies, where again, through the Argos transaction, we committed to around GBP 70 million of synergies outside the day-to-day trading of the 2 businesses, mainly around what we will call goods not for resale. So all the things that we buy that we don't sell. So whether that's energy, whether it's advertising, whether it's IT. So again, we believe that the GBP 75 million of savings is more than achievable at a net level. And that's before we get into other potential synergies. So whether that's cross-selling within the combined business, leveraging fixed assets, and indeed, the benefits of the strategic partnership with Walmart.

But I go back and just stress that this GBP 500 million is a net synergy number. There is a gross synergy number, which is higher than that, and that's what gives us the capacity to invest back into the underlying proposition.

So we'd expect those GBP 500 million of EBITDA synergies to drop to the bottom line of the combined entity by the end of the second year. We're assuming GBP 150 million of operational implementation costs and GBP 600 million of CapEx, which is largely on the basis of the investment in systems to bring Asda on to the Sainsbury's systems platform and off the Walmart systems platform, but also a level of CapEx in moving Argos stores into Asda stores.

Our phasing assumes that we compete this deal in the second half of the calendar year 2019. So somewhere between 12 and 18 months from now -- actually, slightly more than that, 15 and 21 months from now.

If you combine all those numbers, the combined entity compared with Sainsbury's EPS, we'll have double-digit EPS accretion, low double-digit ROIC and a substantially reduced level of leverage. And that will create value for shareholders.

So just to give a bit of color to the strengthened balance sheet. If you look at the middle chart, you can see there the net annual lease charge for the 2 businesses, and that's a reflection of the fact that the Asda portfolio is around 75% freehold. And even if you make it on a comparative basis, so on the supermarket-to-supermarket basis, the Sainsbury's lease charge is about GBP 450 million. And so you can see how the freehold-leasehold split will change and strengthen the balance sheet.

Walmart will retain the Asda-defined pension scheme. And therefore, there will be a lower lease-adjusted net debt to the EBITDAR ratio. And the combined group will be very, very cash generative.

So summarize, it's a great deal for everyone. A more dynamic, more adaptable, more resilient business for the future. Great for customers because of lower quality -- lower prices, better quality, I almost got through it, differentiated ranges, more flexible ways to shop. And we shouldn't underestimate the fact that this will be a British PLC and a massive contributor to the British economy. For colleagues, a stronger business with great opportunities all around and greater security for pension holders. For suppliers, greater efficiency, differentiated ranges and an opportunity to grow. And last but no means least, for shareholders, the opportunity of creating value, a stronger balance sheet, strong cash generation and investment-grade credit profile.

So now I'm going to hand over to Judith, who will talk a little bit more about how Walmart see this deal. Thank you.

Judith McKenna
Wal-Mart International

Good morning, everybody. It's great actually to be back in the U.K., perhaps not for the weather though, but it is nice to have a decent cup of tea. I have to be honest about that. So no, it's great to be here. There a few familiar faces here today. But for those of you who don't know me, I am a 22-year associate with Asda and with Walmart. So 17 years as a colleague in Asda and the last 5 years working in Walmart in our U.S. business. So I have a unique position of being able to talk to you today both with an Asda hat on but also to represent Walmart as we're going through some of the transaction.

What would I tell you first? Well, probably, just a quick overview of Walmart. I don't actually know how many of you are probably familiar with the details of it. I think the numbers are pretty well known in terms of the sales and market capital. But what sometimes people don't realize is that we operate across 28 different countries. We have 65 different banners that we operate in, and then we have 11,700 retail units. About just over 6,000 of those are in our international business. And we serve an outstanding, incredible 270 million customers a week.

But Walmart is actually -- that's only part of the story because Walmart has, in the last few years, been transforming itself. You'll have read, no doubt, about our leading into digital, online and omnichannel. But equally, we have been much more open to new partnerships and have particularly created 2 new partnerships. One is Rakuten in Japan, and the other one is JD.com in China, both of which have really helped us build capabilities in our business that we didn't have previously. And that's important as we think about this combined and business.

Before I talk you through where are we from a Walmart international strategy, a little bit about the partnership principles that we'd apply and how we feel about the new business. Let me just give you a top line of how we look at this.

From Walmart's perspective, this is an opportunity, a unique opportunity to create a vibrant and resilient U.K. business, a PLC of a combined business that will be able to lower the cost of living for the U.K. customers. And we're able to do that and what got us thinking is that these new ways of operating where we shouldn't be wanting to do everything ourselves. We've learned as a business that we can be mature and that we can actually say we can sometimes add more value by not being in the majority and creating working relationships that have the benefit of the scale of Walmart but not necessarily having us as a controlling shareholder within that. That's very unique in the way that we've been thinking. It's unique to this market as well and speaks very much to how we see the 2 businesses coming together.

And one of the things about that is it allows us not only to unlock value, and we've talked about this for customers, for shareholders, for colleagues -- I have to remember to say colleagues back in the U.K. Again, it's associates. It took me 3 years to learn to say it the other way around. And for colleagues and also, of course, for our suppliers. So we can do that, but not only we can do that, but Walmart can actually maintain an active share in the U.K. market, which is one of the most competitive markets in the world. We can contribute to the new business. And what's really important for us is we think about this as a long term because it's not so much about the deal that's created today, although it is extremely exciting, it's also about the share value that we can unlock in the long term as the businesses combine.

So if I just touch on how does that fit within the Walmart International strategy. Well, many of you will have heard us talking about the fact that we have been very deliberate and thoughtful in our review of the international portfolio perhaps in a way that we haven't done before. What you know is that we're transforming the business. And actually, this is probably the boldest move that we've made so far as we've looked at that portfolio and thought about the focus for the business overall.

This building of innovative partnerships, strategic partnerships, is a key part of what we do and will continue to be a key part of how we operate the international business in the future. And what's really important to us is creating strong, agile, local businesses, locally relevant for customers right around the world.

So as we've thought about that and this focus that we've got within the international strategy, we were putting down what are the real partnership principles that are important to us as a business. And the first is really simple. It's all our around shared values and around culture because what you know is that mergers don't work because of what you write on pieces of paper or what bankers or lawyers contribute in the day that you sign the agreement. They work because of the people involved. And the single most determining factor is do you have a cultural fit between organizations when they come together. And I think you've heard both Roger and Mike talk about how that is a really strong fit for us as a business. That was one of the key principles for us.

The second area, which is true to the DNA of Walmart, is low prices. And one of the great things about this combination is the ability to lower prices for customers across both of the brands that we'll be running.

Omnichannel, seamless and convenient. Customers are expecting not just to save money these days but to save time as well. So one of the partnership principles that we've got is how do we lean in more to an acceleration of omnichannel. When you look at these 2 businesses coming together, you think about the geographic fit for them and you think about the access that gives customers to the combined businesses.

And finally, and I've already touched on it, this is all about long-term value creation as well. It's incredibly important to us to not just be about the here and now but to really think about it for the longer term and how we can create value and share in value going forward.

So this, for us, creates a really dynamic new player in the market. It's important to create a strong U.K. PLC independently governed with the backing of Walmart. That's what makes this completely unique. Business will be stronger, and it will be healthier, and it will be more resilient for the future. And one of the things that we bring to the party is our global expertise. And you're probably asking yourselves, well, what exactly is that? Well, there are 3 key areas that we would look at.

The first is global sourcing. And global sourcing applies -- we have a global sourcing business within the international business that operates across the entire business right around the world, including the U.S. General merchandise sourcing is probably our strongest element of that. And you can imagine an unlock for the joint business going forward.

The other area is technology. And again, Mike and Roger both touched on it. You've seen everything from pickup towers that we've created. But the other thing that when you think about those markets that we operate in and you think about a market like China, which is probably one of the most advanced ecosystems and e-commerce markets in the world, we operate there and we operate there effectively. And one of the things that you have to remember there is that 6 years ago, China was cash on delivery, if you took a delivery of an item that you ordered online. Today, it is, they say, the most sophisticated market in the world from a financial payments perspective and from an e-commerce perspective. That Alibaba competing with those kind of people is something that we've really, really got some experience on, and we hope to be able to bring to bear not just for this market and for Roger and the team and the combined business but right around all of the businesses that we operate in.

So we see this as a real opportunity to create a winning combination. It fits in with our international strategy. It's good for both of the businesses, and it means we can deliver long-term value into our shareholders as Walmart as well.

So with that, I'm just going to end with where Mike started, which is a huge thank you, a massive thank you to both of the teams who've worked so hard on this in the last couple of weeks, but particularly, as you can imagine, we pulled this forward a little bit in the last couple of days to get this done. And I think

what it does show is the confidence that people should have in how the teams can work together in the future as well.
So with that, Mike, I will invite you up as well, and we'll do some Q&A.

Question and Answer

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Okay. Guys, who wants to be first? I think I saw your hand first, Bruno. So why don't you go? Sorry, yes, you have to pick up the microphones. They're next to you. And you don't get recorded if you don't. So I'd appreciate if people could go that as they go through.

Bruno Monteyne
Sanford C. Bernstein & Co., LLC., Research Division

Bruno Monteyne from Bernstein. Two questions for me. In previous analyst meetings, Mike, we've often discussed the consolidation in the U.K. And your answer always was whatever pair of U.K. retailers you took, that would take about 20% of disposal, which should make it uneconomic. What has changed in your thinking about necessary disposals? Or what has changed, do you think, in the CMA thinking that would certainly make these disposals less painful? The second one is you make several times reference to shared cultures and values. But just going back to the Horsegate scandal a few years ago, you made it quite clear that the values and culture of Sainsbury's were very much focused on integrity of sourcing, knowing where your food came from and things like that. And therefore, you were the only Big Four grocer who didn't have -- wasn't tainted by Horsegate scandal. So then you make a big point how different your culture and values were and how many other retailers are just focused on the cost of sourcing the [ready-meal] and that might describe Asda in many people's views. So what has changed in your view in the difference of culture since those days that you suddenly think it's a good cultural fit for the 2 companies?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Thank you. I think you're putting words in my mouth. I don't recall ever using any reference to a number of disposals and certainly not a 20% reference to a number of disposals. And clearly, the CMA is a critical part -- the CMA process is a critical part of this transaction. We're go into it with our eyes wide open. A huge amount of work has been done by both companies. And it's very different to the last time this market was investigated, which was 2007, or the last time a major transaction took place, which was in 2004. So if you take some precedent transactions, they're not directly applicable. But whether you look at [indiscernible] or Tesco-Booker, there are important points of principle that have been established through those transactions, one being, for instance, the national competition as a result of local competition. And therefore, you have to aggregate local competition to get to the answer around what we may have or may not have to do as a result of the CMA process. As I say, we're going into this with our eyes wide open. We've done a huge amount of work on thinking about the process. In the end, the CMA are there to protect consumers, and they will look at this deal from that perspective. We think there's a fantastic customer story in this. We've talked about that today. We think ultimately, this transaction will act to the customer good. I'll finish if I can. And we think that ultimately, we get to -- the CMA will get the right answer for customers. And that should be, from our perspective, the right answer for shareholders. We've also been absolutely clear, and it's probably the biggest question I've been asked over and over again on the media this morning, is there will be no store closures as a result of this transaction. And indeed, the CMA, I think, would set out that as an objective as well. As far as shared cultures are concerned, yes, we all have our ups and downs in terms of day-to-day running of our businesses. But I've worked for Asda. I've worked for Sainsbury's. They're incredibly people-centric organizations. They start with people at the heart of the organization. And both businesses believe that if we treat our colleagues right, they will serve our customers better. And ultimately, that will deliver a better outcome for customers and a more -- and a stronger business. And I don't know if Judith would want to reflect at all on that from the Walmart perspective.

Judith McKenna
Wal-Mart International

Yes, I agree with you completely. I think in reference to sourcing of food particularly, Walmart has done a tremendous amount of work in the last few years and the Asda team as well to improve the sourcing of our food and the traceability through that as well. So sometimes these things happen. And I think what the real measure of business is, is how you react to situations like that and what you do as a result of it. So clearly for us, we have world-class compliance programs and we're much clearer now in the traceability and the tracking. You might heard about us doing some block chain work in China for example. That means that it's just one area. There are far bigger areas. As Mike said, it's really about people, and what we care about, which is people in the organization and customers.

Bruno Monteyne
Sanford C. Bernstein & Co., LLC., Research Division

Maybe just a small follow-up. No store closures. But if there were any store disposals that would be in your expectation of the difference between gross synergies and net synergies, is that correct, Mike? So there's a scope for disposals which would be planned for?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Yes, we've made some underlying assumptions. You might expect us to, but clearly, we can't prejudge the outcome of the CMA. But we believe there's a relatively, in fact a conservative case that we put to you today. I'm sure you can do your own arithmetic and there are some analogous deals that might give you some clues as to the kind of growth synergies you might expect. And when you net them back to the net synergies, that takes into account any outcomes that may come from the CMA and any investments that we need to make in the propositions whether that's price, quality, value or indeed service. Behind, if you could pick the microphone up.

Hi, you should pick a microphone.

Charlie Muir-Sands
Deutsche Bank AG, Research Division

It's Charlie Muir-Sands from Deutsche Bank. The first question, you talked about obviously the ambition to lower your prices on some everyday lines by 10%. You've already reaffirmed full year FY '19 guidance despite the, let's call it, a profit warning in the bank. So can we expect that price investment comes when the deal completes? And then the second question related to the Bank, I think Asda financial services, which only operates as a broker made about GBP 35 million in the last subsidiary accounts that were filed. Do you think that Bank, the Sainsbury's Bank would want to take that on? Or conversely, you'd want to move back to being a broker which seems to be a much lower risk, lower catchment point operation?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Yes. So I'll the first question, speaking for Sainsbury's, we have a program of cost reduction efficiencies. And ultimately, reinvestment back into underlying pricing. I won't put words in these guys mouths, but I expect the same is true for the Asda business and the price reductions we're talking about are post-completion as a result of the buying synergies. And it also gets confusing that just because you make savings over here doesn't necessarily mean that you want to invest those savings over there. You might want to invest your savings somewhere else in the portfolio of products and the things that matter most to people are the things that they buy every day week in, week out. So in terms of the Bank, I'm not sure I could speak. maybe I can ask Judith to talk a little bit about Asda financial services.

Judith McKenna
Wal-Mart International

Yes, I mean, just to go to the first point as well within that, which is we're really focusing on how we can lower prices at Asda. And you have to remember that during the period in which the 2 -- before the 2 businesses can combine, will still be competing with each other, and I'm sure, I don't want to speak for Mike either, but I'm sure we'll both be really focusing with Roger and the team on lowering prices overall.

As far as the Asda financial services is concerned, Asda made a decision several years ago to not being within the banking business. That was an active decision of the portfolio. And interestingly, we've since disposed of some of our banking businesses in areas like Mexico and some of those. It's just a difference in approach. And I think it's one of the things that the combined business will be able to look at in the long term and see what the right answer is.

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

It is worth again, we're focused on some of obvious things around regulatory situation, that by far and away is the biggest thing that's concentrated minds over the last period of time. And we focus on the areas where there are the biggest buckets of synergies, and self-evidently the biggest bucket synergies bringing together the buying books and we have a high level of analysis and confidence in our ability to deliver our gross synergy numbers as well as a net synergy number. There are whole bunch of things that we know about that we haven't addressed at all as part of this conversation process. Bank would be a very good example of that, whether or not you'd apply the net to scheme to both businesses would be another example of that, et cetera, et cetera. So there's a long list, and I'm sure we get lots of questions. There's probably 20 or 30 items we haven't addressed directly because of the need to get to a position where we were 100% sure that we can deal with the regulatory issues and could stand up the synergy numbers at I high level of robustness. But clearly, it goes without saying, there's a whole bunch of things that we haven't factored into our calculations which go way beyond the numbers we talked about today.

Go on, Dave. I think you have your hand up.

Unknown Analyst

A couple of things. One is currently, there is a very wide price differential between your 2 businesses. How would you see that in the future? Would you look at that to narrow? Would with you run businesses at 2 different price lists? And then secondly, on the synergies, have you taken into account any harmonization arranges? You have different pack sizes, you have different promotions at different times. What about own label? Will you go to the standard supply for -- I think the one supplier for own label and just do different labels, different packaging for them? There's obviously substantial synergies there, but it has implications for suppliers because they've got to be big enough to supply both of you. So can you talk around all that, please?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

I can have a go. And I think first thing to say is 18 months is a long time in grocery retail. So let's caveat anything that's said on the basis that the world will change and a whole bunch of assumptions that might be true today, but it might not be true tomorrow or in 18 months' time. I'm not going to get into the detailed strategy of what the world might look like post -- the coming together of the businesses post-merger. And what we've talked about is the fact that there's an opportunity to sharpen the proposition for both brands. You can draw your own conclusions to what that might mean in terms of the relative pricing, quality, service, strategies of the 2 businesses. But beyond that, I think we'll be giving too much away in terms of what we may or may not do in the future. And indeed, to prejudge in 18 months' time what that might look like, I think, would just be a hostage to fortune. So let's not get into that.

As far as the buying terms are concerned, as I've said already, all the synergies are predicated on is a SKU for SKU comparison, some of which are pretty obvious and pretty easy like you can compare brands. Some are relatively straightforward if you look at the own label portfolio where commodities are the same across both businesses. And again, you can do a pretty comprehensive job of SKU matching, and there are some products which are clearly very different in the organizations and that becomes a bit more nebulous. So all that's assumed in the buying synergies is the equalization of terms on the basis of the best price of either business.

It's worth emphasizing that 80% -- sorry, 85% of the volume of both businesses is concentrated in a 100 suppliers, and those 100 suppliers tend to be large multinational suppliers, not exclusively branded, but nevertheless, large multinational and largely not exclusively branded suppliers, which is another important factor in thinking about how the synergies are delivered. But it goes without saying, on the basis that there's a best of both strategy in terms of buying and sourcing, you could imagine over time that some products, probably starting with things like base commodities could be sourced through 1 supplier rather than 2, but that's not factored into any of the synergy numbers. And so you could argue there's another throw of the dice above and beyond just equalization of terms, which is well, we're going to combine volumes, and therefore there's a future benefit from that. But that's not currently in the numbers.

Judith McKenna
Wal-Mart International

Potentially, that's where the global sourcing capabilities of Walmart when it comes in to commodities could help support both businesses and both private label programs.

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

We'll move down the room so, the next. Push the red button.

James Tracey
Redburn (Europe) Limited, Research Division

James Tracey from Redburn. 3 questions for me. In the past, you said that the rationale for the Argos deal was that you couldn't consolidate within grocery so that you could consolidate retail sort of horizontally. And you talked about cutting prices as a benefit of this transaction, but surely, it was always thus. So what has changed in the market that makes you think it will be approved by the CMA? And can you give us a sense of how many stores you will likely be forced to sell? And finally, can you just talk us through the -- who's idea it was and some of the thinking behind-the-scenes in what created this deal in the first place?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Well, as Bruno said at the very beginning, I don't think I've ever shied away from the possibility of the market consolidating. And in fact, I've often said that it's inevitable that it will in some shape or form and even before this transaction there's a whole series of things that have happened, Nisa and Co-op and Palmer & Harvey going bust, Tesco and Booker which are forms of market consolidation. And in terms of the sweetheart combination, if you look at the geographical spreads, then relative size of the buying portfolios, the -- in this particular case, the power and strength that Walmart would bring to the combined combination, all of those things mitigate for this being a great opportunity for both businesses. And we can argue about the timing of it, but we believe that the timing is right, and that's at least in the context of the competition authorities.

And I go back to what I've said already. In the end, the competition authorities are there to act on behalf of customers. We've done a huge amount of homework on this, so we are absolutely clear on the parameters that we're dealing with. The CMA is a rational, logical organization, largely run by economists. And as long as you understand the models you've been working with and you've got a fair idea of the input you're putting into the models, you'll get the outputs that you expect. We've done a lot of work on this, and we have a lot of understanding about how this will be approached.

With our experience, the last few years, 3 transactions Argos will be another example; I sit on the board Greene King where there was a major transaction that was undertaken. And indeed, Sainsbury's sold its Pharmacy business to Lloyds. And what I would say is that all my experience would say that it is despite the fact you go through a process, you do get to an answer that you first thought of by the end of it. So again, that will give me confidence in having some sense of what the outcome might look like.

In the end, we can't prejudge this, and we're not going to get into a conversation about disposals or anything else that might be a remedy for this transaction, simply because we will engage positively with the CMA. We will engage in a Phase 2 process as quickly as we possibly can. And we'll get to an end point as quickly as we possibly can.

But there are whole series of assumptions or rather principles which have been established by the competition authorities through a number of precedent transactions, again, [indiscernible] Tesco-Booker, even Nisa-Co-op, and the way that, that would look at the competitive environment. And it goes without saying that the market and the competitive environment is changing incredibly rapidly. And even something like Online as an example in representing 7% of the grocery market is a fact that it'll be take into account that wouldn't have even existed as a consideration 5 years ago for instance.

Judith McKenna
Wal-Mart International

I'm just going to stay on that. The only thing we don't really want to do is spend the next 18 months speculating on how many of that number is going to be. So I think, Mike, you put it really well, which is just waiting now to see what the outcome is assuming that we'll have a decision which is positive for customers. It's the way we're going to look at this.

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

On the -- who's idea, how did this come about? I'm not going to give you a huge amount of color. But I mean, I'd made reference to Dave Cheesewright at the early part of my presentation, in effect, like lots of people in the our industry, bump up into each other every now and again, and there was a lot of goodwill on both sides that look seriously at this transaction, and I credit both businesses, both management teams. And indeed, the support of both boards to come to pragmatic solutions to a whole series of potential hurdles when we were going through the machinations of bringing together 2 very substantial organizations, one of which is owned by a U.S. parent.

So what I would say, and I hope this augers well for the future, both organizations, it's been a huge amount of cooperation, I mean, literally, in the last 48 hours, 2 teams have sat in the same room and knocked down a whole bunch of hurdles to get us to where we got to this morning and to be able to make the announcements we made, and that's a credit to a large number of people in this room, but it's also a credit to the approach of both organizations to getting to where we've got to.

Judith McKenna
Wal-Mart International

It's very much a meeting of minds [indiscernible].

Daniel Ekstein
UBS Investment Bank, Research Division

Dan Eckstein from UBS. I've got 3 questions. First one is, why did this need to be a merger rather than just a strategic partnership? If I look at where the synergies are coming from, a lot of it is buying terms. Could you not just formed a procurement partnership? Another bunch is from Argos synergies. Could you not have just agreed to open concessions in Asda? And the reason I asked the question is just given that you are continuing to run 2 separate businesses, but there's not been a way of getting the upside without the execution risk. Second question is around Argos. I noticed in the presentation for the results that you're now targeting 280 Argos shop-in-shops by the end of this year. I think the synergy target was underpinned by 250, and yet you haven't upgraded your synergy targets. So synergies dropping through or that just being called something else? And then the third question is on the sort of the health of the core Asda business. Healthy profitability was referenced, but it has fallen quite significantly over the past couple of years initially appear through deleverage and then through some quite deliberate price investments last year. But another interesting feature I thought was that you said profitability in the first quarter had actually improved year-over-year. So does that represent the start of a more stable profit outlook for Asda?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

So if I have a go on the first 2, and then perhaps Roger can have a go at the third one. I think it would be incredibly difficult and probably impossible to structure the level of deal that we've talked about through commercial arrangements. And so whilst you're right, you can get some of the benefits potentially through some kind of commercial arrangement with the Argos stores-in-stores, there will be quite an interesting conversation about how you share the value of that. Similarly, on the buying books, I think it will be very difficult to structure a deal that would most motivate both partners to get to the right answer in terms of what that would look like. And I suspect it would be almost impossible with the oversight of the competition authorities to get to something that would work. And you could work in a way that would be allowed under the competition rules. It is, by far and away the best deal we believe and best way of structuring this deal, and we've looked very carefully at what the alternatives would be. So I'll make the point again, that there are a whole bunch of things that both businesses can do that we haven't even scratched the surface of. And so if you ended up having to structure a commercial arrangement for the other 20 things on the tick sheet of the things we could be doing together, I think it will just become almost -- we spent so much time in the lawyers offices to try to get those arrangements, I think it would just be impossible.

Judith McKenna
Wal-Mart International

And I think that from Walmart's perspective, what we wanted to create, as I said, is a really strong U.K. plc that could move with speed and agility in this environment. And for us, combining Asda into that entity which is a really important part of this. But the reason I want to keep 42%, which is still a very significant shareholding, is so that we can unlock value back into the business as well, into the Walmart business.

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

As far as stores in stores are concerned, I think I'll say it again before, we'd like to draw a line to the GBP 160 million of synergies, we've delivered those more quickly than we said originally. Hopefully, that augers well for the transaction that we're also talking about now. And once we've delivered the synergies, we won't talk about them anymore, because in the business like this, there's still a whole bunch of -- business of Sainsbury's, there's a whole bunch of moving parts and which kind of depends on some which get a little bit worse. So since we talked about the Bank today.

And clearly, there has some drag on future profitability, but that is made up for elsewhere in the P&L and we've effectively confirmed consensus for Sainsbury's as a separate operating entity during the course of this presentation, which you kind of get lost in the noise today. But within that, confirmation of consensus, there's a whole bunch of ups and downs, which we talk through. Under normal circumstances, I'm sure you'll be quizzing us on in more detail. So we delivered the synergies. We're committing to more Argos stores and Sainsbury's stores, but we won't be talking about synergies once we get to GBP 160 million anymore. We'll go over there.

Judith McKenna
Wal-Mart International

Roger, you were just going to...

Roger Burnley
ASDA Group Limited

Sorry. I was just trying remember what question was. I won't comment on Walmart dividends through the years, but you can be assured that last year sensible reinvestment back in the offer is roughly speaking cast forward as a sensible position for our profit position and investment going forward.

James Robert Grzinic
Jefferies LLC, Research Division

James Grzinic from Jefferies. I have 2. One for Mike, one for Judith. Mike, can I just clarify. So the GBP 0.5 billion is net of disposal impact that you've worked out in your scenarios or what you think will be forced to sell as part of the conditions to for an approval?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Yes. So we don't quote a gross number, but you can take as read the gross number is...

James Robert Grzinic
Jefferies LLC, Research Division

How much higher?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

How much higher...

James Robert Grzinic
Jefferies LLC, Research Division

That's helpful to start with.

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Again, you're trying to put words in my mouth. And within the gross calculations, net calculation, we've talked about price investment, we've talked about wider investment in the proposition. We haven't talked about disposals, but you could make an assumption about some level of disposals, but that's wrapped up the underlying number. And so one way or another, we believe that we've got the bases covered, and we've got the bases covered in a relatively conservative fashion. And who knows exactly how the people play out over the next period of time. We can't prejudge the outcome of the CMA, but we have made some inherent assumptions in our base case, which we're not going to go into any more detail than the detail that we've already given you. Simply put there, it may make us a hostage to fortune, there's just too many moving parts. But as I say, we believe the case that we put today is pretty conservative in its assumptions that I've already talked about which is the buying synergy number and how that is calculated, and you could very easily get to a number which is substantially greater than that by making a different set of assumptions.

James Robert Grzinic
Jefferies LLC, Research Division

Yes, I think my question to Judith was, can you just clarify comes 2020 I guess, Sainsbury/Asda or Sainsbury's or whatever it will be branded, we will have full access to the global sourcing capability of Walmart?

Judith McKenna
Wal-Mart International

So yes, there is commercial agreement in place that gives that combined business access to global sourcing from the Walmart business, and that is over a defined period of time. That's a longer period of time than the lockups that we have.

James Robert Grzinic
Jefferies LLC, Research Division

You'll do it for wholesale fee and it's not reflected in the Asda standalone business.

Judith McKenna
Wal-Mart International

You'll have to have a -- well, actually, if the Asda standalone business today accessed global sourcing, there is effectively a fee that's paid on doing that. This would be a standalone entity. Effectively even though we'd be a shareholder, so you'd expect us to do that. It's no different to our business in Mexico, which is actually a public company as well. We're a 60% shareholder of that business, and it's exactly the same way of working for them if they access global sourcing.

James Robert Grzinic
Jefferies LLC, Research Division

Okay. So next question, obvious question. If the position is very similar terms of ownership to that of Walmex, why did you want the cash component in the deal? Why do you minimize the equity investment, the equity exposure to the deal?

Judith McKenna
Wal-Mart International

It is actually we didn't want to take a controlling position. In this deal, 42% works for us. It gives us the objectives that I talked about in terms of independent U.K. business, operated through an independent board and the freedom and agility to operate in this market. We didn't want to go as a higher number, and we're very happy with the split that, that gives us.

Nick Coulter
Citigroup Inc, Research Division

Nick Coulter from Citi. 4 quick ones if I may. Firstly, on the underlying trajectory of the Asda business. You seem to be indicating that, that has begun to stabilize. But is that on a like-for-like volume basis as well rather than just on taking costs out of the business? Then secondly, on the Sainsbury's business, a similar question, it looks like the underlying like-for-like volume trajectory is still down. When should we expect that to turn and what are the catalysts for that coming through? And then thirdly, on the Bank, given the volatility of earnings you continue to allocate capital to the Bank, I think there's GBP 110 million next year, GBP 100 million per annum thereafter. And given the percent of the capital allocation today, how do you justify that continued allocation of capital to the Bank? And then lastly, just to help us with your accretion calculations, could you help with the cost of debt for the GBP 3 billion?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Well, I'll give out to Roger to answer the first question and then I'll probably answer in exactly the same way. So Roger, maybe if you can...

Roger Burnley
ASDA Group Limited

Yes, the volume growth, we've experienced volume growth in the recent past and we're very encouraged by that.

Nick Coulter
Citigroup Inc, Research Division

So is that like-for-like volume growth?

Roger Burnley
ASDA Group Limited

Yes.

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

And you can see from the financial performance of Sainsbury's, we're pretty -- if we're talking independently, we're pretty pleased with the results today. We've seen transaction growth throughout last year. We've made a series of choices investments. We talked about, for instance, recently almost 1,000 prices coming down. And in the end, they're high-level and both businesses are pursuing not dissimilar strategies in terms of reducing costs and reinvesting that back in the underlying customer proposition. And again, Sainsbury's as an independent business is confirming consensus today, which would imply earnings growth next year, which we believe is more than sustainable otherwise we wouldn't be saying it.

And as far as the Bank is concerned, the Bank still is an opportunity, I mean, there were one-off charges within the numbers that we talked about. We do get to the endpoint to the systems investment, which is clearly been a challenge for the organization over the last period of time, but at least we didn't find ourselves in the TSV world of -- it completely falling over. I mean, credit to Peter and the team. Although it's been longer and more expensive than we'd like, we have done it in a way that hasn't impacted our customers. And so we're pleased in the next few months to get to the end of the process. But we still think that the Bank is an opportunity when you believe that incremental capital that we'll invest will accrete a decent return on the investments that we've already made, and you kind of have to draw a line into what's gone in the past. There are a few things that we are uncomfortable about, and we put our hands up and say there are some choices we made that we'd make it differently with benefit of hindsight. But we are where we are, and it doesn't get away from the fact that the Bank represents an opportunity in the future.

On the cost of capital, I'm not sure there's a lot that we would say. I don't know, Kevin, if there's anything that you would -- you need a microphone.

Kevin O'Byrne
CFO, Member of the Operating Board & Director

We'll be starting discussions with our bankers in the next few weeks as far as funding that. Clearly, not really intending to sort of say what rate we're expecting to pay. But I think if you modeled the market rates, you can, yes, I think you can work that out.

Nick Coulter
Citigroup Inc, Research Division

Are you talking about IGD rating, should we assume that, that will come through in your GAAP funding on the business?

Kevin O'Byrne
CFO, Member of the Operating Board & Director

Yes, we believe -- clearly, we won't know until we get there but we believe that this will be a investment-grade profile and will get stronger because of the cash generation as we go forward. Absolutely.

Robert Joyce
Goldman Sachs Group Inc., Research Division

Rob Joyce from Goldman Sachs. Just 2 for me. So just back on those price investments, wondering if you could give us 10% on everyday items, what sort of percentage of sales you envisage that hitting across the 2 businesses? And maybe just give us some context on that, say in recent price investments from both of you have maybe been larger than 10% on the headline items you've cut. And second one is just to confirm, maybe for Roger, do you say that you -- the outlook for the operating profit for Asda going forward is broadly flat versus what you delivered in '17?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Thanks, Rob. I won't go any further than I've already gone. I mean, we are talking about speculating on something that's 18 months down the track. The underlying point is that the focus of the price investment will be on everyday items, commonly bought items without getting into the detail of exactly what portion of the portfolio that will be. And clearly, we want to have some flexibility on which brands or brands we'll invest in, so we would want some flexibility and the point's already been made that both businesses are investing in prices, you've already said. And it goes without saying that if you think about the market dynamics, I think you can draw your own conclusions as to the type of products that you might be investing in, in the future. And I'll leave you to make that link yourself. I don't know if there's anything you can say about...

Judith McKenna
Wal-Mart International

So price investment, just to say on that one which is, remember, this is over and above the underlying price investments for both businesses are planning to make as well. So that's the other thing that you got to factor in when you think about it. And I'm going to save Roger from answering that question, which is, as you know, we never give forward guidance as Walmart.

Andrew Philip Gwynn
Exane BNP Paribas, Research Division

It's Andrew Gwynn from Exane. Just have 2 questions. Most of mine have been covered. But just on the system side of the equation, it's obviously, probably the highest risk component. I mean obviously, seen that slip up before specifically with Morrisons and Safeway. So why make the transition if Walmart is staying a long-term partner, why do you need to go down a risky route of integrating the supply chain? And the second is why the head offices staying fairly independent or is that going to explore at a later date?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Yes, I would argue that actually, it's probably the best way of running the business from a system's point of view. They will need to be on a common platform and it's different to the Argos transaction where the way that Argos works is a fundamentally different supply chain. And so sort of back engineering Argos systems into Sainsbury's systems is near impossible. In the end, they're both supermarkets and both businesses do the same kinds of stuff, and there are clearly some systems which are maybe better in Sainsbury's, and there will be some systems which are better in Asda. But in simple terms, we will move Asda stores onto the Sainsbury's systems.

And it's -- and I want to --to describe it as simple, I think it's underestimating it. But it's a level and no different opening a new store. If you try to think of it like that. So I'm oversimplifying it, but it's not got anything like the executional risks that you might have in your mind because they're basically the same types of businesses doing the same kind of things week in, week out. And clearly, there are training requirements, we'll have to invest in some hardware and there will be a whole bunch of conversations about how you actually transition in a systematic and meaningful way. But I don't think there's anything like the risk that you've described.

And part of the premise of the deal is that we have 2 strong brands with 2 strong customer propositions, and this is about strengthening those brands and strengthening those propositions, and as I think that least in part that's driven by having a sense of independence by having 2 head offices for the 2 businesses. So I'm sure there are opportunities in the future, which we kind of alluded to as we've had this conversation. But certainly, we would all want to keep the brands feeling like they had separate customer-facing teams, making sure that we're doing the best thing for customers week-in, week-out for those businesses.

Judith McKenna
Wal-Mart International

And just in the U.S. business, the Sam's Club business is run as a completely separate business to the core U.S. business. There's 2 head offices and they both operate independently with the exception of a few group jobs, which have some oversight for both of them. So there is a way of working this. The only thing I'll just say on integration is our experience around the world would be that you need to get on and integrate businesses because actually it minimizes the risk of success in the long term.

Stewart Paul McGuire
Crédit Suisse AG, Research Division

It's Stewart McGuire from Credit Suisse. 2 questions from me. Before you purchased Home Retail, I think you had 13 Argos stores operating within Sainsbury's? Is there any reason why you wouldn't be able to roll-out Argos stores within Asda over the next 18 months?

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Well, the synergy calculation, so..

Judith McKenna
Wal-Mart International

[indiscernible]

Stewart Paul McGuire
Crédit Suisse AG, Research Division

Over the next 18 months.

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

We have to be very careful during the CMA process and the businesses have to trade independently and have to seen to be trading independently, and we would not do anything that would prejudice the CMA process. And so let's start with the premise that once we've left this room, we'll never speak to each other again until we get to the end of the 18-month process. It won't be quite as blatant as that. But we can't talk about these things. We won't talk about these things, and we know the answer to the question in terms of what we think it will look like. But for the sake of this conversation, let's not speculate about doing anything in the next period of time whilst we see the transaction to completion because it will prejudice or has the potential to prejudice the CMA investigation.

Stewart Paul McGuire
Crédit Suisse AG, Research Division

Second question. On Walmart tech transfer, is -- do you have any agreements in place so that anything that Walmart develops you're able to use on either basic flow through basis or on some sort of commercial terms like the parcel tower things?

Judith McKenna
Wal-Mart International

So in commercial terms that would fit around a bit. Effectively, if you think about we're opening the doors as Walmart and saying, what is that within our organization that you would like to pull from that would benefit the combined business? And that could be anything from tech towers that we create to smart cart being used as part of the Jet.com platform to something that's been developed in China in terms of picking capability. Equally, the U.K. is one of the most advanced markets for grocery delivery and grocery picking in stores that there is. So there may be some of the synergies that flow the other way as well. The details of what it is and how it's going to work exactly, we will still be working through.

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

And it's a bygone era 2000 -- it was year 2000 when Walmart took Asda, that I was part of the leadership team and the Walmart management said at the time, we're going to open doors [indiscernible] you come and choose, and that's exactly what the Asda team did at the time. So with my experience at Walmart as an organization is they're very willing and open to sharing learnings with partners. And if they're thinking about partnering, clearly, would be more than just partnering we would -- or Walmart would have an economic interest in sharing both ways. So you can take it as well that would be the approach I think taken by both sides.

Sorry, this has to be the last question I apologize, so make it a good one.

Dusan Milosavljevic
Joh. Berenberg, Gossler & Co. KG, Research Division

No pressure there. It's Dusan from Berenberg. I have 2 questions. The first one, are we right to assume that if Walmart stake was any higher in the combined entity, Walmart would have to make a offer for the shares to all the shareholders, essentially a takeover offer? And the second question is the GBP 700 million Asda EBIT, the right starting point in the new corporate structure or how should we treat the -- essentially, the royalties that Asda is paying to Walmart? Should it be higher than that or...

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

I'll have a go obviously on the answer your first question, then maybe Judith would have a reflection on that. I think she's already answered this from a Walmart point of view. And I'll let her and Roger give you same answers already been given and what we may or may not choose to disclose.

I'm not sure, I understand fully the technicalities. I'll have to talk to my advisers. But I think the structure means that we can give assurance to Sainsbury's shareholders that Walmart don't have voting control and there is enough weight on the other side with the other 70.1% of shares to give some sense of independence and the fact that the company will operate as an independent U.K. PLC. But of course, with a 42%, it gives Walmart the significant economic stake in the future of the organization, and therefore, a significant amount of skin in the future game. And I think, that's effectively what you said in your answer as well.

Judith McKenna
Wal-Mart International

Yes. And don't forget, we have voting rights to 29.9%. Actually, for exactly that reason that we don't believe that should have anybody within that board structure that can have too much weight on the overall board as well.

Dusan Milosavljevic
Joh. Berenberg, Gossler & Co. KG, Research Division

The other question was just on how to treat the royalties, Asda/Walmart?

Judith McKenna
Wal-Mart International

Yes, I mean, clearly, without giving any forward guidance on anything or looking aback, which I've got to be really careful with is there will be a change in the royalties and the structure that, that works, but that could will be replaced by some commercial fees to accessing some of the goods and services that are provided.

Michael Andrew Coupe
CEO, Chairman of the Operating Board & Executive Director

Actually, last question. So I apologize as we mentioned, we've got quite a busy day. Roger and Judith are about to shoot off to Leeds to talk to Asda colleagues. So thank you very much, and I'm sure we'll have further conversations about this proposed transaction. Can I just stress the fact it is proposed transaction as well? So thank you very much for coming today.

Judith McKenna
Wal-Mart International
Thank you.