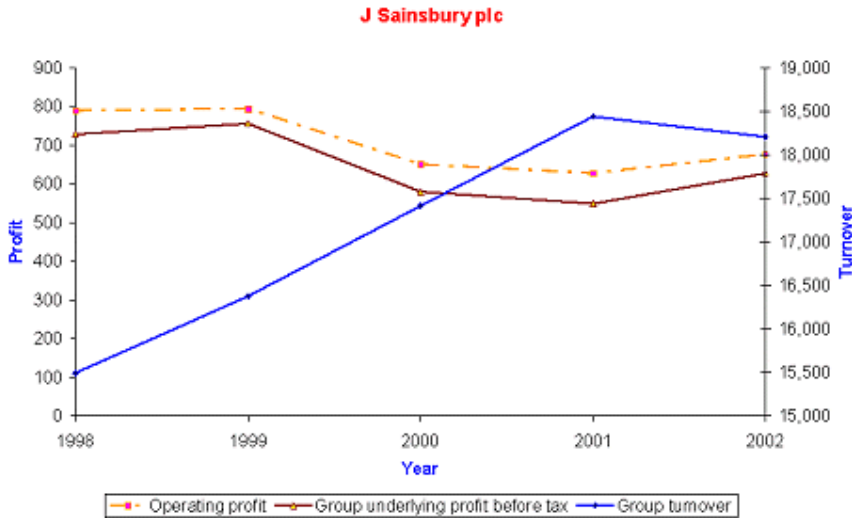


BREAK-EVEN OF J SAINSBURY AND TESCO

1. The graph below shows the profit on the left hand vertical axis and the turnover on the right hand vertical axis. As we can see whilst turnover has increased over the five years until the final year, profits have tended to fall: they have recovered slightly in the final year, however.

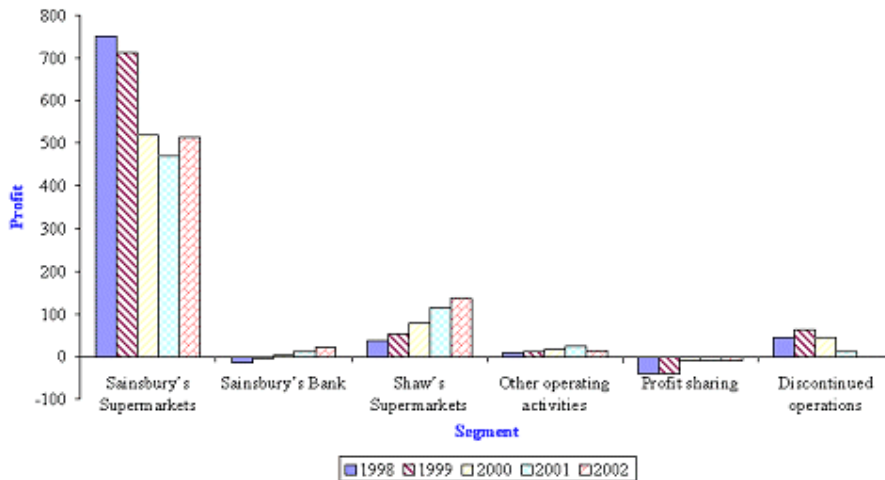


2. The ratio values, first of all, for the profitability measures are:

| Sainsbury's Profitability ratios | 1991 | 1992 | 2000 | 2001 | 2002 |
|--|-------------|-------------|-------------|-------------|-------------|
| Total operating profit margin | 5.10% | 4.85% | 3.74% | 3.41% | 3.72% |
| Group profit before tax margin | 4.70% | 4.62% | 3.33% | 2.98% | 3.44% |
| Interest payable as a percentage of turnover | 0.50% | 0.31% | 0.41% | 0.41% | 0.27% |

In general, we can see that Sainsbury managed to hold its profitability rates steady for the period 2000 to 2002. However, profitability was better over the period 1998 - 1999. Clearly, profit margins have suffered at Sainsbury, this could possibly be as a result of competition in the supermarket business (their largest segment) or as a result of management problems. Our analysis of the trends in the segmental operating profit might help us to explain what is happening.

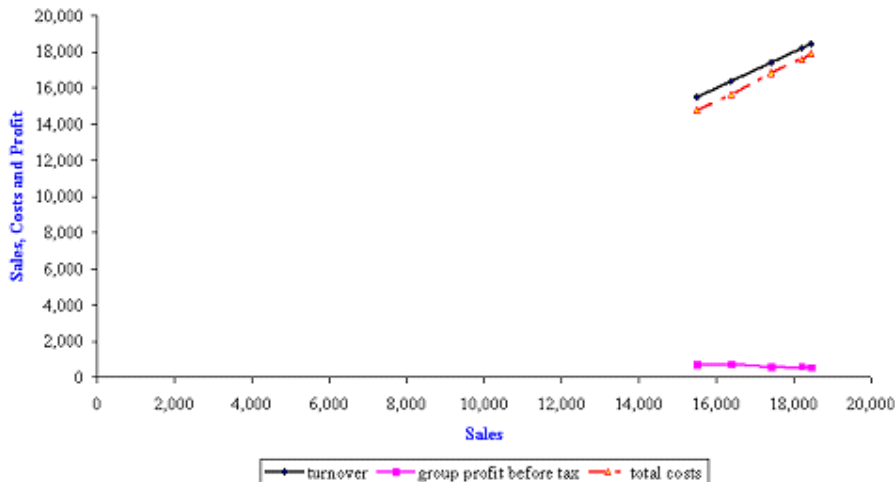
J Sainsbury plc Operating profit trends by segment



We can see major changes in the profit mix at Sainsbury. Supermarkets are now contributing significantly less than they were five years ago; Sainsbury's bank is virtually operating at break even point since its profits are so small; Shaw's supermarket division is returning ever increasing profits and the profit sharing part of the business is suffering as a result of the drop in the overall profitability of the business.

3. Sainsbury's break-even chart:

J Sainsbury Break Even Chart

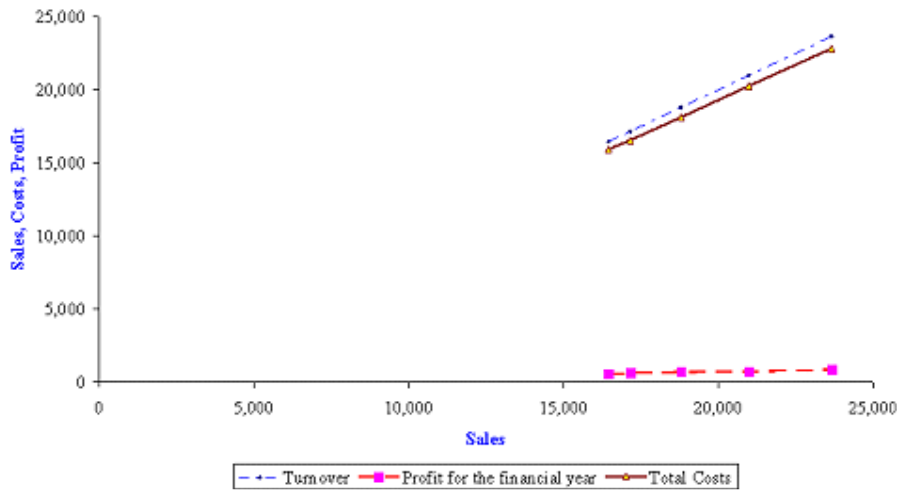


Whilst we don't see a break-even point for Sainsbury, we can see that it may be heading for it! Profits are falling year by year and this break-even chart helps to illustrate that Sainsbury's total costs are almost equal to its turnover. From a mathematical point of view, we can use a spreadsheet or statistical package to help us to find out that Sainsbury's total fixed costs amount to -£1715.5 million per year: an unusual result since it's negative but that's not a surprise for data such as this where we only have five data points for each value.

If you are familiar with the high-low method of calculating total fixed costs you can use it to find that they are around -£1,670 million per year: a bit different from what the spreadsheet told us;

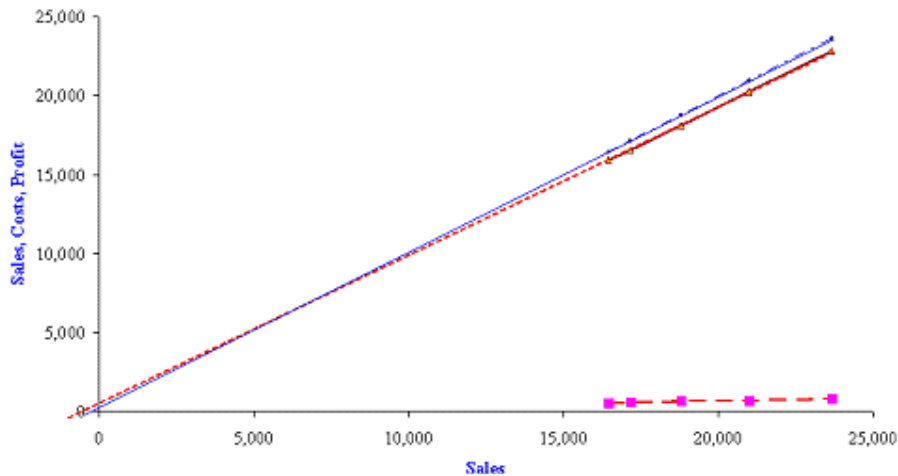
but not too far away. Again, the value is negative and again that's unusual but the graph we have drawn is the important thing here,

Tesco plc Break Even Chart



As with the Sainsbury break-even chart, this break-even chart doesn't directly show us the break-even point. However, if we were to extend the curves backwards towards the vertical axis in the case of Tesco, we would see a break-even point for them as the following version of Tesco's break-even chart shows - a break-even point of around £6,750: to see whether you agree with this value, print out this revised chart and make your own estimate of the break-even point.

Tesco plc Break Even Chart



Notice again that because we are dealing with overall data for the business, our estimate of total fixed costs is not reliable. In this case total fixed costs are estimated to be around £60 million. Check this estimate from the chart, if you print it out. Alternatively put the data into a spreadsheet and estimate the fixed costs from there.