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# Business

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# Tesco's crisis deepens as shares dive to 11-year low

**Simon Neville**

SHARES in Tesco plunged to an 11-year low today as the City deserted the troubled supermarket after its second profit warning in just over a month threatened to wipe out a decade of UK profit growth.

The country's biggest supermarket fell as much as 10% after cutting its interim dividend by an unprecedented 75%, potentially removing £800 million from the company's £1.18 billion dividend pot.

Tesco said it now expected group profits, which include its struggling overseas businesses, to be between £2.4 billion and £2.5 billion – a fall of around 12% compared with last year.

Most of the problems appear to be in the UK, with analysts suggesting that profits here could drop by 21.5% this year to £1.72 billion – levels not seen since 2005.

Chairman Sir Richard Broadbent today summoned new boss Dave Lewis, who joins from Unilever, to start on Monday, a month early, and also vowed to cut spending by at least £600 million this year – £400 million more than originally planned.

Tesco shares made a small recovery from their early dive but were still off 6.1% at 231.1p, while its rivals across the grocery sector also plummeted – Sainsbury's fell 4% to 291p, Morrisons dropped 3.6% to 180p and Marks & Spencer dipped 2.6% to 426.4p.

Broadbent said: "The board's priority is to improve the performance of the group. We have taken prudent and decisive action solely to that end."

Lewis, he said, "will be reviewing every aspect of the group's operations," adding: "The actions announced today regarding capital expenditure and, in particular, dividends have not been taken lightly."

Capital spending will now be £2.1 billion and cuts will take place in its IT business, and – in a sign that sacked boss Phil Clarke's store refreshes were failing – the roll-out will be slowed.

Several analysts suggested there could be more pain ahead for Tesco.

Cantor Fitzgerald's Mike Dennis said: "It seems Tesco have taken the same route as Sainsbury's did in 2005 when Justin King halved the dividend and margins. The question is how far lower might the UK trading margin go?"

Shore Capital's Darren Shirley said: "It is very disappointing to see this update, which fundamentally raises questions about the capability of the management under Mr Clarke. As such, we expect... there to be considerable senior management change under Mr Lewis in time, as Tesco needs a world class top team to take it forward."


**Shelf life: new Tesco boss Dave Lewis has plenty to keep him busy when he starts at the supermarket giant on Monday**

## EARLY START SHOWS SCALE OF PROBLEMS

**COMMENT**

NEW chief executives are keen to hit the ground running, but marathon man Dave Lewis's legs are pounding away and he hasn't even found his way to the corner office yet.

That he is being pressed into service a month early is both a sign of the scale of Tesco's crisis and the supermarket group's eagerness to tackle it.

Shareholders are always pressing boards to act more decisively, so Tesco chairman Sir Richard Broadbent is conserving as much cash as possible for Lewis to throw at the company's escalating woes.

What is worrying is that a rapid store-refurbishment programme is not delivering the desired results and the home of the Clubcard is finding the task of keeping customers loyal so expensive.

Broadbent is intent on keeping Tesco ahead of the wave of changes washing over the retail industry.

You start to wonder whether this once-great company is not waving, but drowning. It will take more than the marketing magic for which Lewis is best known to stop the rot.

**James Ashton**

# Eurozone deflation threat fuels money-printing call

**Russell Lynch**

EUROPE edged closer towards the deflation abyss today as the inflation rate across the single-

growth, but Germany signalled opposition to such a move today as finance minister Wolfgang Schaeuble warned the ECB "doesn't have the instruments" to

and made the historic move to shift deposit rates into negative territory – effectively charging banks to keep their funds overnight. A new, long-term

expectations, the latest drop is of significance... Moreover, with inflation inching towards zero, the cushion against deflation is getting smaller and smaller," he said.