

J Sainsbury plc
Interim Results 2025/26
6 November 2025

Presentation

Simon Roberts
Chief Executive Officer

Good morning, everyone, and welcome to our '25/'26 interim results presentation. Thank you for joining us today. I'm going to start with a brief introduction before handing over to Bláthnaid to cover the financials. I will then share some more detail on our strategic progress over the first half of this year.

You may remember this slide from our Preliminary Results in April. This is the plan that we set out to you then, with a commitment to accelerate into the year with a clear set of balanced choices, but, with a priority above all else to sustain the strong, competitive position we've built over the last five years.

We have delivered on this priority in the first half. Focused and effective investment in our customer proposition have consistently delivered on our winning combination of great value, trusted quality and leading service. That has resulted in more and more customers choosing us for their big weekly shop, driving continued volume growth and market share gains.

Now, we came into this year with great momentum. We planned for a strong Summer, and we really delivered through playing to Sainsbury's strengths. We invested where it mattered most to customers, extending our Aldi Price Match to even more everyday essentials and building on our market-leading personalisation capabilities, making personalised Your Nectar Prices available to all supermarket customers.

Our product innovation continues to really set us apart. With more than 600 new products this Summer, we focused our newness on Summer sharing products and outdoor eating. Alongside outstanding fresh food availability, this allowed us to fully capture the benefit of the weather when demand was at its highest. Argos delivered a good seasonal performance, grew market share and improved profitability.

Our entire team stepped up again and really delivered for customers. I want to take a moment here to thank all our colleagues, partners, farmers and suppliers for their hard work, their dedication and their care, which really helped us to deliver this strong Summer performance.

So, we started the year with strong momentum and a clear plan. We set ourselves up for success over the Summer and we delivered. Our offer has never been stronger, and you can see here how that comes through in our overall customer satisfaction, which continues to lead against our full-choice competitors. But also, in terms of our position in the market, reflecting a fifth year of outperformance, we are now at our highest H1 market share in five years.

As you know, our key focus over the first three to four years of Food First was resetting our value proposition, investing over £1 billion through this period. We learned how to invest in the most focused and effective way, selectively investing where it matters most to customers. We have found a winning value formula that really works for our customers with the combination of Aldi Price Match, Nectar Prices and Your Nectar Prices.

So, in a year where competitive intensity has stepped up, and where, as an industry, we are facing into higher employment and regulatory costs, we have made balanced choices to keep price inflation behind the wider market and to ease cost of living pressures for customers. Customers are responding to the value we've consistently been delivering on the items that they buy most often. This is why at a time when inflation is very much back in the headlines, we are the only grocer improving value perception with customers year on year.

We are balancing our investment in value whilst driving forward our focus on innovation and quality. Customers have always trusted and expected Sainsbury's to deliver leading quality, and we are further extending our reputation here through the continued growth of our premium Taste the Difference ranges.

As we continue to drive innovation and with a real focus on fresh food, more and more customers are choosing Taste the Difference. We achieved 18% growth in Taste the Difference fresh sales over the first half. As you can see here, customer perceptions of our quality continue to be significantly ahead of competitors.

Through the strength of our value proposition – with our passion and reputation for quality and innovation, and the consistent availability and customer service we're now achieving – we are delivering the winning combination. As a result, we have almost one million more loyal primary customers, those who are doing the bulk of their grocery shopping with us week in, week out.

The strength of our grocery proposition is clear. 65% of customers shopped both Aldi Price Match and Taste the Difference products in the same basket during the first half. This is a clear demonstration of the way customers are now shopping with us across the full spectrum of our offer. Now we know that the strength of our own brand assortment is the reason many customers choose to shop with us and delivering the breadth and quality of our own brand products is only possible through the support of our suppliers and a commitment to long term partnership.

We continue to work collaboratively with our farmers and suppliers to face into food industry challenges. Long term agreements enable suppliers to invest for the long term and in outcomes that are great for customers and positive for the environment. These commitments to resilience extend further than the UK. Our partnership with Fairtrade is a great example of the work we're doing to strengthen our supply chains around the world and support the communities from which we source. Having switched all our by Sainsbury's black tea to Fairtrade in July, we are now the biggest UK grocery retailer of Fairtrade tea.

Now everything we do comes back to our purpose – to make good food joyful, accessible and affordable for everyone, every day. Our partnership with Comic Relief supports us here through a shared vision of a future where everyone has access to good food. Our Nourish the Nation program is helping fund meals and holiday club places for families that need them most. We will work with charities such as FareShare, City Harvest and the Felix Project to distribute over five million meals this winter.

So, as we reflect on where we are halfway through the three-year Sainsbury's Next Level Plan, I'm pleased with the progress we're making against our commitments. Through making balanced choices we have delivered sustained, strong momentum. We've invested where it matters most and as a result more customers are trusting us to deliver great value, trusted quality and leading service.

It's this winning combination that has driven grocery volume growth ahead of the market for a fifth consecutive year and helped deliver a profit performance ahead of our expectations in the first half.

We head into this festive season with great momentum and confidence in the strength of our Christmas offer. We have the most important part of the year still ahead of us and while we are strengthening our profit guidance today for the full year, we are deliberately giving ourselves the capacity to sustain the strength of our competitive position through continuing to make the right balanced choices.

With that, I will now hand over to Blathnaid to cover the financials.

Bláthnaid Bergin
Chief Financial Officer

Good morning and thank you, Simon. I will now cover the financial highlights for the 28 weeks to 13 September. Starting first with a reminder of our financial framework. This lays out the factors that underpin our commitments to deliver profit leverage from sales growth, strong sustained cash flows, higher returns on capital employed and enhanced shareholder returns.

We made good progress on delivering profit leverage in the first year of the Next Level strategy but this year, we have significant incremental cost pressures through higher National Insurance contributions and an EPR charge. Our priority is sustaining our strong competitive position and so we're unlikely to move forward on profit leverage again this year despite our continued delivery of food volume growth ahead of the market.

As outlined previously, we continue to invest in our business for future growth while maintaining our cash commitments. We're also delivering on our commitment to enhanced shareholder returns and we expect to return more than £800 million to shareholders this year through dividends and buybacks.

Turning now to our sales performance for the first half. Sales in Sainsbury's grew by 5.2% with consistent volume growth through the quarter despite higher inflation. Argos sales grew by 2.3%, helped by good Summer weather and offsetting a Q2 comparative which was boosted by significant strategic stock clearance activity last year. Together, this delivered total Retail sales growth of 4.8% excluding fuel and 2.7% growth including fuel.

Retail underlying operating profit was broadly in line with last year's at £504 million which was ahead of our expectations. Sainsbury's profits were down slightly year on year with volume growth and cost saving delivery enabling focused investment in value, customer service and quality and partially offsetting higher employment and regulatory costs and elevated disruption from our space reallocation activity. Improved profitability in Argos year on year primarily reflected a stronger trading margin performance versus last year's clearance activity.

We announced in January last year a phased withdrawal from core banking, that is loans, credit cards and deposits, and a move to a model where financial services that are complementary to the retail offer will be provided by third parties. We've made excellent progress with this over the last six months.

We completed the sale of loans and credit cards and savings to NatWest and transferred the Argos Financial Services book to NewDay. We additionally signed agreements on our home and car insurance back books with Allianz and completed deals on ATMs with NoteMachine

and on travel money with Fexco. Alongside the strong execution in partnership with NatWest and NewDay, these deals have contributed to the extra cash proceeds that we announced today.

We are now expecting net proceeds of more than £400 million, significantly higher than our original guidance, and we will return £400 million of cash to shareholders via special dividend and share buybacks. We have also established forward arrangements with these financial services partners that will give us strong ongoing commission income.

In the short term, the ATM and travel money disposals mean that we now expect the financial services underlying profit contribution to be broadly break even this year, lower than our previous guidance as the income from these businesses drop into the discontinued line until the deals are completed and a new revenue arrangement in place. This is reflected in the restated financial services numbers.

This is just a transitional impact, and we continue to expect the underlying operating profit contribution from financial services products of at least £40 million in the financial year to March 2028. This comprises of income from the NewDay partnership together with the commissions income from insurance, travel money, care and ATMs.

Total underlying operating profit increased by 7%, driven by this year's financial services profit against last year's restated loss, while underlying EPS increased 12% reflecting a reduced share count as a consequence of share buybacks. In December, we will pay an interim dividend of 4.1 pence, up 5% year on year, in line with our policy of paying an interim dividend of 30% of the prior year's full year dividend, and we will pay a special dividend of 11 pence also in December.

The next slide lays out items excluded from underlying results. We incurred £95 million of non-underlying costs in the half, with the largest item relating to retail restructuring costs of £58 million. The largest element of these relate to the costs ahead of our full reopening of our distribution centre at Daventry. Cash costs were around £55 million, with the majority relating to redundancy payments associated with the head office restructuring that we completed and booked in the P&L last year.

We continue to expect retail restructuring cash costs of around £100 million in the full year and Next Level Sainsbury's strategy implementation cash costs of around £150 million over the three years of the program.

Turning to our cash flow metrics. Retail free cash flow of £310 million was down year on year, mainly due to lower working capital inflows and CapEx phasing leaning more to H1 year on year. Net debt was broadly unchanged year on year, with £231 million lower versus the year end position, primarily relating to the timing of a net £250 million cash inflow from the bank that would be paid out as a dividend to shareholders in the second half.

This table shows the key elements of cash flow and the movements in net debt this year and last. A lower working capital inflow was primarily driven by timing and a strong benefit from inventory reduction last year. Cash contributions to the pension scheme were down year on year, in line with our guidance of around £26 million in the full year. CapEx was higher year on year, primarily reflecting the phasing of work on our new store openings and store refit activity. We continue to expect capital expenditure of between £800 million and £850 million versus £825 million last year.

As mentioned earlier, we received a £300 million dividend from the bank, partially offset by a £50 million payment relating to the withdrawal from core banking. We expect to receive the

majority of the remaining bank proceeds in the second half of this year, which will be used to fund the additional buyback activity this year and next.

The movement in other is primarily driven by higher additions of lease liabilities last year, reflecting the Homebase store's acquisition and our new London office. We continue to expect to deliver Retail free cash flow of at least £500 million in the full year.

Net debt to EBITDA is broadly unchanged year on year, benefiting from the bank cash inflow.

On shareholder returns, we will now return £400 million of bank proceeds to shareholders, through a £250 million special dividend and a £150 million addition to the share buyback. We will add £50 million to this year's buyback to make the total buyback £250 million, and we will add £100 million to next year's core buyback. As you know, we will specify the level of next year's core buyback with our Preliminary Results next April, but to be clear, this £100 million will be in addition to the core level.

In this financial year, through paying ordinary dividends of more than £300 million and a £250 million special dividend, as well as a £250 million share buyback, we will return more than £800 million to shareholders.

In summary, we have traded strongly in the first half of the year. Together with cost savings, this has allowed us to make focused and effective investment in the customer proposition and additionally offset higher costs to deliver a retail operating profit ahead of our expectations.

Strong execution in our financial services phased withdrawal strategy has produced higher than expected proceeds and this will be reflected in enhanced cash returns to shareholders. We now expect to generate a Retail underlying operating profit of more than £1 billion in the full year reflecting the strength of our H1 performance but allowing us to continue to make balanced choices to sustain the strength of our competitive position. We continue to expect to generate Retail free cash flow of at least £500 million.

Thank you for your time. I'll now hand back to Simon.

Simon Roberts
Chief Executive Officer

Thank you, Bláthnaid. Now as I said, we're at the halfway point of the three-year plan that we set out in February 2024, and I'll now run through each of the strategic outcomes that we put in place to define this next phase of our growth.

Starting with our plan to be first choice for food. We are bringing more of our food range to more customers in more locations, attracting more bigger basket primary shoppers and delivering further grocery volume share gains.

We've built really strong foundations over the last four years providing great momentum and we've built on those with investment in areas that really matter most to our customers on value, on quality and freshness, on availability and on range. This is reflected in customer satisfaction metrics across the board where we've taken a big step forward, as you can see.

But what really stands out for me is the progress we've made on value perception in every channel, in supermarkets, in convenience and in online. We're making sure customers have access to great prices however they want to shop with us. So, at a time when customers are

much more sensitive to rising prices and inflation is top of mind, the consistency and focus of our pricing investments is really resonating.

We've shown you before the significant improvement we've made on value versus our competitors since the launch of Food First back in 2020 and now building on this, you can see on this slide we've made focused and effective investments in the first half of this year and that has further improved our price position against all competitors.

We have the biggest Aldi Price Match in the market, having extended the number of everyday essentials included in April and Nectar Prices now on around 10,000 products. Both of these key value platforms are included in the value index you can see here. But beyond this, we're offering more value to more customers through Your Nectar Prices, with personalised offers and up to 10 items each and every week that are tailored to each customer based on their shopping habits.

We are leading the way in personalisation across UK grocery, having first launched this capability back in 2021. We've gone even further this half, fully scaling Your Nectar Prices across all supermarket tills, enabling many more customers to access this really meaningful personalised value. It's worth highlighting here that if we did include Your Nectar Prices within the value index, this would further strengthen our position against every competitor.

Now the consequence is that more customers are choosing Sainsbury's for their main grocery shop. We also did something quite different with our marketing investment and focus in the first half, cutting through a much noisier market. Through the peak Summer weeks, we dialled up our marketing across Aldi Price Match and at the same time, Taste the Difference and we delivered a campaign focused on everyday trade ups. This helped drive the strongest brand consideration for Sainsbury's since 2013.

Now our reputation for food quality, range and innovation sets us apart. Working closely with suppliers, we delivered more than 600 new Summer products, with the result that we were the go-to for customers' key Summer occasions. From an already strong position, the strength of our Taste the Difference momentum delivered the biggest premium own label market share gains.

We can see great opportunity here. The potential for gaining more in home dining occasions is clear from the chart on the left. We've taken a further step forward in the last month, with the launch of Taste the Difference Discovery, a range of restaurant quality meal solutions and premium speciality products and ingredients. The response from customers has already been really strong, with premium dining sales growing 40% since launch. Now these new ranges really lean into the core strengths of our brand and customer demographic, and we're really excited about how far we can take this.

Now a key part of the strategy we laid out in February last year was to build on the renewed strength of the Sainsbury's grocery proposition, and to bring it to more customers in more locations. What we didn't know then was that we would be presented with an opportunity to achieve some of that through new supermarket openings, filling in a number of key target locations through the acquisition of stores from both Homebase and the Co-Op.

We've now opened four of these stores, two of each in the first half, and we're delighted with the results. Collectively, the six new supermarkets and 12 new convenience store openings we achieved in H1 are trading around 20% ahead of budget. Specifically on the Homebase stores, we're particularly pleased with the look and feel we've been able to deliver in these stores, but on a much lower than standard fit-out cost while the feedback from colleagues and customers on the transformation of the former Co-Op stores has been exceptional.

Now, subject to final planning consents, we plan to open another six supermarkets in the second half, including three Homebase conversions, and up to 12 more supermarkets next year. In total, we expect our new store opening program and the growth of food space in existing supermarkets to have added more than one million square feet of grocery space by the end of next year, an increase of around 6% over the three years.

We remain excited about the opportunity we have to reach new customers in new key target locations, and we expect this to be a strong driver of market share gains over time, particularly as the new stores mature and the disruption from refit activity reduces.

Now, alongside new store openings, we have been continuing to invest selectively in our existing supermarkets through our More for More plan, reallocating space to provide more food range. There's no cookie cutter approach to our store refit program, with the level of capital spend, change and space reallocation adapted to fit the trading profile and potential of different supermarkets. We're learning as we go and we're rolling out rapidly the most successful elements.

So, in particular, we have improved the prominence of Nectar Prices and the look and feel of our centre aisles. We have extended range and enhanced presentation in Beers, Wines and Spirits, also often relocating the department within the store, delivering a sales uplift.

Our Free From hubs, combining fresh, frozen and ambient products in one aisle are contributing to a growth of 14% in Free From across the business. That's a 7% market outperformance.

We've made our Food to Go fixtures more compelling and easier to shop, with new formats delivering double-digit sales outperformance.

So, in those stores where we have come through the disruption, we're really pleased with progress, with the stores delivering higher food sales, higher trading intensity and a good customer response to the range improvements.

So, in Tu, the work we've been doing over the last year to improve the customer offer is really delivering. We've been investing in leadership and enhanced capabilities across our clothing business. As a result, we're now seeing improvements in ranges, product design and in our operational performance too. Our combination of great value and quality design is driving stronger customer perception metrics and we've also significantly improved availability.

We delivered sales growth of 7.8% in the first half, with higher full-price sales, and we've achieved our fifth consecutive quarter of market outperformance.

So, turning next to Loyalty everyone loves. We continue to believe that a well-invested loyalty in retail media capability is a fundamental requirement for success in grocery retail. Nectar is at the leading edge here in the UK and globally, in terms of enabling personalised rewards for customers and in delivering leading retail media capabilities. As a result, Nectar continues to generate very strong returns.

A reminder here of the two sides of Nectar. On the left-hand side, our customer-facing Nectar loyalty scheme, which is how we deliver value to customers through points earned inside Sainsbury's and with coalition partners, as well as through Nectar Prices and increasingly, through personalised Your Nectar Prices.

On the right-hand side is our Nectar360 retail media business. We help our suppliers and other clients understand how customers shop and help them talk directly to the millions who visit our stores and our websites every week, either directly through our media instore and online, or using our targeting capabilities to address customers on third-party media.

Retail media continues to grow its share of total media spend in the UK, driven by the high return on investment it delivers and we're at the forefront of making it easier and more effective for clients and agencies to tailor the effectiveness of their digital media investments.

Nectar Prices continues to deliver outstanding value for customers. Supported by suppliers, Nectar Prices were available on up to 10,000 products in the first half, delivering customers an average £14 saving on an £80 weekly shop.

We also extended the availability of Your Nectar personalised Prices. Previously, this was only available to customers shopping online or through using SmartShop in stores. We have now extended this to be available for all our customers in our supermarkets. As a consequence, more and more customers are now accessing individual and personalised value, which is even more meaningful and accessed every week through the Nectar App.

An important reminder here on how much customers can earn through collecting Nectar Points in Sainsbury's and also through our coalition partners, particularly given the growing number of customers who now use the Nectar App.

Now, at a time when value for money is much more on customers' minds and there's a lot of noise out there in the market, it's been important to increase visibility here on the extra value benefits Nectar customers are seeing. These benefits are getting stronger and stronger and becoming increasingly valued by Nectar customers and this is reflected in the value perception scores we have presented today.

We talked in July about the launch of Nectar360 Pollen. This is a bespoke platform built in-house that helps clients assemble tailored omnichannel retail media campaigns.

Now we're just starting to roll it out to clients now and the feedback has been every bit as good as the response we got when we first announced it. We think this will be a game changer for clients' return on investment and another driver of significant growth for us.

We're also getting really good returns on our investment across the connected digital media screens in store, particularly where we're rolling these out to our centre aisles. All in, we're comfortably ahead of our profit plan.

So, turning to Argos. We're making good progress with our More Argos More Often strategy. Our focus is on building a more profitable business through improving the customer proposition, investing in product range and the digital customer experience. We're building on our reputation for convenience and value and continuing to optimise the efficiency of our fulfilment network.

We're making progress on the key customer metrics outlined here, on value for money and promotions, but also on quality and range. This is driving higher online traffic and an increase in both volume growth and basket size in a deflationary market.

Our digital performance is where we are really starting to make a key difference, most notably through investing in the Argos App, with strong results, as you can see from the chart on the right. But also, through investing to make sure that customers find Argos as a solution more often and more easily, driving greater engagement through social channels

and launching our own podcasts as well as scaling the use of AI and personalisation in our digital channels.

We're then improving conversion by making the customer journey easier once customers find us, from search tools and personalised recommendations to enhanced product pages, all the way through to payment. This is how we will build a more sustainable, profitable sales base.

The move we made earlier this year to put in place a dedicated leadership team for Argos is really making a difference to the focus and the effectiveness of our strategic actions and operational delivery. Range-wise, alongside the sharpening of our own brand ranges, we're building deeper partnerships with key brands and bringing new brands and ranges into the offer through supplier direct fulfilment.

We're also now giving the customers the option of click and collect on these SDF ranges. Customer familiarity with our Big Red promotional events is building too, as reflected in the promotional and value perception scores shown earlier. We're trialling a delivery subscription offer, Argos Plus, for the first time.

We're continuing to refine and reset the store operating model, investing in the store network and in technology. This improves quality productivity and the customer experience, particularly through easier collection and returns processes.

Now, turning to Save and Invest to Win. The strength of our cost-saving programme is a key differentiator and at a time of higher-than-normal operating cost inflation, it means that we can offset more of that incremental cost than our competitors.

It's not just about finding ways to save money. It's about delivering sustained cost savings through structural efficiency gains, particularly through capital investment in improved technology and infrastructure. We have a well-developed programme with a good pipeline of initiatives and some of the big capital investments are starting to generate savings which will build over multiple years. We continue to be encouraged by progress in driving end-to-end productivity and efficiency benefits.

Now, having delivered around £350 million worth of savings last year, we're well on track to deliver to our plan this year and £1 billion of savings over the three years to March '27.

Our investment in the re-platforming of our general merchandise logistics network will deliver savings of around £70 million when the programme is complete and we're just going live in our Daventry warehouse. This is centralising Argos and general merchandise stock in fewer locations, bringing more automation and improving productivity and capacity.

We're building on the strength of the machine learning forecasting platform. This has already significantly improved our forecasting and our stock accuracy, and we're now extending the benefits further down the supply chain by giving suppliers greater visibility and self-serve functionality. As you can see on the right-hand side of this chart, our use of video analytics technology to reduce shrink at self-checkout locations has significantly exceeded expectations and we're now rolling this out rapidly to more stores.

As a reminder, these are the commitments that we made at our Capital Markets Day in February 2024, with the launch of the three-year Next Level Sainsbury's plan. We're now halfway through our Next Level plan, and in a year like this, where competitive intensity has stepped up, making the right balanced choices has never been more important. So, while we

have very clearly prioritised sustaining the strength of our competitive position this year, we remain on track to deliver these commitments over the three years of the plan.

We are continuing to drive forward progress against our Next Level plans and we are strengthening our capabilities for the future. We're consistently delivering for customers and more and more are trusting Sainsbury's for their weekly shop. As you will have seen in the latest Kantar reads, this momentum has been sustained into the third quarter despite some tough comparatives for the same period last year.

We expect Christmas to be very competitive and hence, we're giving ourselves the capacity to make the right balanced choices with really strong plans for Christmas across value, innovation and quality and by making sure that our service is at its best both in store and online. Our whole team and I are really excited about what we can deliver this Christmas and we look forward to updating you on that in January.

Now, before Bláthnaid and I take your questions, we wanted to share our Christmas ad which went live just a couple of days ago.

[Video playing]

Question and Answer Session

Operator

Hello and welcome to Sainsbury's 2025/26 Interim Results Announcement Analyst Q&A call. On the call this morning is Simon Roberts, Chief Executive, and Bláthnaid Bergin, Chief Financial Officer. We will now go to the Q&A. If you would like to ask a question, please use the raise hand feature at the bottom of your screen. Alternatively, if you have dialled in, please use *9 on your handset now. We will pause for a moment to allow questioners to enter the queue. Our first question is from Freddie Wild from Jefferies. Please unmute your line and ask your question.

Freddie Wild, Jefferies

Good morning, Simon and Bláthnaid. Thank you for taking my questions.

Simon Roberts

Hello, good morning. How are you?

Freddie Wild, Jefferies

Very good, thank you. Hope all well with guys as well and congratulations on a very strong set of results. So, my three questions are, first, if you could give us a bit of help on the consumer outlook into Christmas. You've obviously just made some really quite encouraging comments, but how do you see the sort of grocery business into Christmas and how do you see Argos into Christmas as well?

Then second, Simon, you were very impressively accurate on your food inflation outlook when we talked at the full year. So, I wondered if you could give us an update on where you see food inflation going from here.

Finally, obviously, you've now over-delivered a bit into half 1. Could you help us understand the half 1 versus half 2 phasing dynamics for Retail EBIT? Thank you.

Simon Roberts

Thank you. Well, good morning. Okay. So, let's take those in turn. Look, I think for obvious reasons, the consumer is very focused on the cost of living. That's why, as you can see, in our first half, we set a very clear priority back in April and that priority was to sustain the strength of our competitive position given all we've done over the last five years.

What I think we can see is value for money is absolutely, of course, at the centre of how households up and down the country are thinking, a lot of uncertainty out there. So, what we've been able to do is give customers real confidence in the fact they can trust value at Sainsbury's.

We extended our Aldi Price Match in the half, the biggest Aldi Price Match in the market, 10,000 products now in Nectar Prices. So, what you can see, I think, is customers are going to be very focused on value and our offer is really matching that expectation. That will continue, to your question, right into Christmas. We have a very strong plan for this Christmas.

Also, I think importantly, and particularly at this time of year, this point about celebrating without compromise and that's where Taste the Difference and trading up into Taste the Difference is playing a very important role for us. We always said, didn't we, if we could get value at Sainsbury's really working for customers then our reputation for quality would come alongside that and we're now really rowing forward both on quality and value and service and the combination of all those things is giving customers the reason to do more of their big shop with us.

I make the point that we've shared in the presentation, which is now we've seen value perceptions in Sainsbury's customers improve year on year. We're the only grocer in the UK where that's happened and you can see the impact on our volume share.

In terms of your question on inflation, well, look I think what can we see? We can see that actually the industry has largely solved for the higher costs that have come through this year. There's still more inflation I would say to get through. But when we think about the impacts of National Insurance, EPR, the higher costs, both in retailers but also, as they've come through in the cost of COGS, we can see how the industry has responded to that.

We also know and we said this in April, didn't we, it's intensely competitive out there. It's an intensely competitive industry. Competition has stepped up. There's a lot of noise out there in the market and so we've got both this inflation passing through but also, very clearly, a higher level of competition and that's the reason we set such a clear priority for us to make sure that we sustained our competitive position in the first half and you can see how that's played through for us.

Look, I think as we look ahead, clearly cost pressures are going to continue to be there in terms of the increases to Living Wage and other costs as well and so, very importantly for us, our Save and Invest to Win strategy is super important. We've a very mature efficiency and cost program now. We've committed to save £1 billion pounds over the three years. In fact, at the end of this financial year, since we started Food First, we'll deliver close on £2 billion worth of cost savings in the first five years. That's really important given the obvious continued cost pressures that are out there.

Then on your last question on the balance of the half, look I think we're encouraged with the first half. We've seen that focus on value and quality and service with customers really play

through into our results. Actually, as you've seen, profit's a little bit down at Sainsbury's in the half, improved a bit year on year in Argos in the half and so, therefore, we were able to deliver a profit outcome a bit ahead of our expectations actually for the first half.

We inflated a bit behind the market in the half. That was all about the fact we wanted to make sure our value position was right. So, we come into the second half actually with really strong momentum. You'll have seen the recent market reads and we're very deliberately, very deliberately giving ourselves the capacity to continue to make balanced choices.

There's a lot of customer expectations on value out there. There's some uncertainty out there. I think probably a bit of caution in the GM market. Let's see how that plays through in the second half given non-discretionary spend will be more cautious. So, for all those reasons, giving ourselves that capacity through the second half, Freddie.

Freddie Wild, Jefferies

That is fantastic. Thank you very much.

Simon Roberts

Thanks.

Operator

Thank you. Our next question is from Sreedhar Mahamkali from the UBS. Please unmute your line and ask your question.

Simon Roberts

Hello, Sreedhar. Good morning.

Sreedhar Mahamkali, UBS

Good morning. Maybe just a couple of questions on Argos and on the buyback, please. I guess the first one is clearly, you went through a process with JD.com. Can you discuss a little bit more the context for this and why you terminated the talks and how we should think about any potential future conversations?

I guess second one from an investor's point of view is something that I get fairly regularly these days. It's like, JD.com progressed, which means there was a clear ability to separate Argos and its financial performance. I guess, why shouldn't investors get the same level of visibility of Argos profits and segmental disclosure?

I guess a third one, maybe just on the buyback. I think you talked about a core buyback. Given the cash flow outlook already for next year as part of the plan, is it reasonable to think that will carry on at the £200 million sort of run rate into next year and then we add £100 million sort of taking the total to £300 million? Does that sound reasonable at this point of the year?

Simon Roberts

Sreedhar, thank you. Well, why don't I take the first question and then Bláthnaid, maybe on your second and third question. Okay. So, yes, just to recap, and as we said early September. Look, of course, our obvious and key question is to make sure we continue to

secure the strongest and most successful future for Argos. And as we said early September, we've been in a process of discussions over a number of months to explore the discussion around acquisition of Argos.

Look, I think, as we said very clearly early September, those discussions had reached a relatively advanced stage, but then, given there was a substantial representation of the terms of those discussions, it was clearly in the interests of shareholders, actually and our wider stakeholders as well, that we stopped those discussions and we pulled away from that.

Look clearly, we're very focused on delivering the best outcome for shareholders and we have a very clear More Argos, more often plan. You can see in the half, we grew sales, we improved profitability year on year, we grew market share in Argos. I think this is beginning to show the first encouraging signs of the work the team are doing to really focus on what we need to do in Argos and that's about making sure for customers, we deliver exactly the range and assortment that customers want to be able to access through Argos.

We know customers love Argos; they love the convenience it brings. So, we're extending our ranges. As you've seen in the presentation this morning, making sure we're absolutely on our A-game at Argos on value and also improving the digital experience. You saw in the presentation the big step up in online search that we're able to now achieve. So, all of our focus is on delivering More Argos, more often.

Of course, the market out there is highly competitive. We've got to make sure that we really deliver that plan well. As part of that, you'll remember, we put a dedicated leadership team in place earlier this year totally focused on the Argos business and that's beginning to drive some of the improvements that we're seeing as the team really gets around the things that we need to do.

So, clearly a period of time through the Summer. I'd make the point that while these discussions were going on, think one of those that we can draw from today's results is we weren't distracted at all by that. The team were very focused on delivering the plan and a much smaller team were working on these conversations whilst they continued. They stopped early September and now we're completely focused on what we need to do.

Bláthnaid?

Bláthnaid Bergin

Great. So, Sreedhar, look, segmental reporting is very much on our minds at the moment and a live discussion in the business today, particularly as we exit Financial Services. So, I will update you on that at the Prelims at the moment, but something we are looking at.

On the buyback, look, we are really pleased today to be able to announce the additional, the incremental Bank proceeds, taking our buyback this year to £250 million. That's core of £00 million and £50 million of additional coming from the Bank proceeds. We've committed to an additional £100 million from the Bank proceeds next year.

If you look at our Capital Allocation Policy, we have committed to at least £500 million Retail free cash flow. If you assume £300 million goes back in dividend, we don't have a better use for shareholders' money, we'll return that to shareholders. So, I think that's a reasonable working assumption for your model for next year.

Simon Roberts

Thanks, Bláthnaid. Maybe just one last point, Sreedhar, to your question just as we wrap all that together. Look, I think the other important point to make is we learnt a lot through the process that we went through in the Summer. We learnt how we can make Argos even better. We also learnt that Argos is separable. It's not something that's wholly straightforward immediately, but it's something that we identified a route through. So, we learnt a lot through this process which is also very helpful to us too.

Sreedhar Mahamkali, UBS

So, maybe just a very short follow-up. Just on that slide where you present the Argos and Grocery Sainsbury's EBIT, you show Argos as pre-concessional rents. Is that the way you look at it in the business? Or is there further granularity that we probably could expect in time?

Bláthnaid Bergin

It is the way we look at it in the business today because it was one of the synergies we took when we acquired Argos. That's one of the discussions that's on our mind as we head into sort of Prelims on that and we'll give more visibility as we complete those discussions.

Sreedhar Mahamkali, UBS

Thank you both.

Simon Roberts

Thank you Sreedhar.

Operator

Thank you. Our next question is from Lizzy Moore from Citi. Please unmute your line and ask your question.

Simon Roberts

Good morning. Hi, Lizzy.

Lizzy Moore, Citigroup

Morning. Thanks so much for taking my question. So, firstly, I was just wondering around Nectar360 Pollen. Obviously, it's quite early, but really interested to hear any more detail around the early momentum you've seen there.

Then related to that, you mentioned you're tracking ahead of your target for £100 million of incremental retail media EBIT by March '27. Just wondering if you could give us a sense of how much we might expect you to be able to exceed that target by?

Simon Roberts

Thanks Lizzie.

Lizzy Moore, Citigroup

Then second question – oh, sorry.

Simon Roberts

No, it's okay. Next question, yes.

Lizzy Moore, Citigroup

Yes, just ahead of the budget, was wondering if you could give us some colour around the latest discussions you've had on potential increases to Business Rates on properties over £500,000. If you could just share how you're thinking about the potential headwind from that in fiscal '27. Thank you.

Simon Roberts

Okay, got it. Thanks, Lizzy. All right. So, let's start with Nectar and Nectar360 to your question. We're very energised and encouraged with the progress we're making across Nectar, actually, as a platform to really deliver for customers and really create value in our business.

Look, I said in the presentation, I think as we think about the strategic capabilities that are necessary to really win in this industry, having a leading loyalty program, having personalised value and having the retail media platform that we're building out are absolutely essential. And you can see more and more now how that strategic capability is making such a difference for what we can do for customers, but also what we can do clearly for shareholders and in value terms too.

Nectar360 Pollen, clearly something we built earlier this year. We're actually going live right now. We had our first series of client conversations this week. The feedback is exceptional because clearly, what we're doing here is building a capability that's dynamic, is agile and gives clients and brand partners and suppliers the ability to build their campaigns using the platform, getting live quickly in a very dynamic way in what is a first-to-market solution.

So, obviously, over the coming months, that will scale out. It's going to really revolutionise how brands and agencies can work with us. We think it's going to create both a lot of connectivity and a lot of value as we do that.

In terms of your question on our ambitions financially for Nectar. Look, we're really encouraged with progress here. You heard in the presentation today how both sides of Nectar are really powering the business forward. We'll talk some more about this at the year end. Clearly, we see the launch of Pollen as very important in the progress we're making and we continue to build momentum on Nectar ahead of what we expected. So really, really good news.

Yes, I think turning to more nearer-term questions in terms of the budget. Look, I think as you'd expect. We have had as an industry, actually, a series of discussions at the most senior level of government on the topic of Business Rates. We've been given the opportunity to present our case really clearly as to why there shouldn't be any further impacts on retail costs through Business Rates.

Everyone on this call is very well aware of the scale of costs that have come to the industry this year on National Insurance, EPR and hence the reason why we've made our case very

clearly. Particularly important, as you say, for large retail stores, not least given the importance of the role those stores play, but also a huge number of people that we employ as large retailers. So, clearly, we need to hope and expect our politicians now to make the decisions based on the very strong case we've made and we'll see that at the end of the month.

I'll get to the broader point here. No one wants to see inflation go up further. We're doing a lot through our internal efficiency and cost-saving programmes to contain the effects of inflation. As I said, we actually inflated a bit behind the market in the first half. That was to make sure we were at our most competitive. We clearly don't want to see any impact on Business Rates adding further cost to the system.

Thanks.

Operator

Thank you. Our next question is from Rob Joyce from BNP Paribas. If you'd like to unmute your line and ask your question.

Simon Roberts

Rob, good morning.

Rob Joyce, Exane BNP Paribas

Morning. How you doing?

Simon Roberts

Yes, good. Thanks.

Rob Joyce, Exane BNP Paribas

Thanks for taking the questions. So, firstly, just on the Sainsbury's core business. I guess we look at last year, second half, you grew profits there, double the rate you did in the first half. So, two questions, I guess. First one, do we think we can grow profits in the second half of this year to come? Or should we expect them to be down again?

Then looking into next year, in a more normalised cost environment, do you think the business should be back to kind of that mid to high single digit sort of growth or mid EBIT growth next year?

The second one, just on Argos. I think this time last year, you gave us a bit of an update on how you were trading in the first six weeks of the quarter or so. I wonder if you could give us an update on how Argos is trading thus far in the quarter, and are we expecting it to be sort of in growth over the next couple of periods? Or do you think we're sort of back to a more normalised, sort of flat to down Argos position? Thanks very much.

Simon Roberts

Thanks, Rob. Well, let's talk first to your question on the Half and how we think about the second half of the year. I think the first point I would make here is, and forgive me repeating this, we set out our plan for this year very clearly with that priority of sustaining the strength of our competitive position. As you can see in today's results, we made very focused and

effective investments in our value proposition in that first half. You can see how that's to play through both in improving our value perceptions year on year, the only grocer to have done that, but also, the fact we've continued to grow our volume, and I'd make the point, against some strong comps last year. So, the strength of the Grocery performance in the first half really underscored by the strength of our competitive position.

You've heard me say a number of times, making balanced choices, making sure we have the capacity to do what we need to do has been a very important part of our plan over a number of years. We set that out way back in 2020-2021 and that continues to be very important for us.

So, when we think about the first half, obviously, we invested a bit more in areas like our Aldi Price Match. We invested more in areas like marketing. I talked about that in the presentation this morning. We also had clearly the benefit of some very good weather in the first half, which was clearly helpful to both the Grocery business but also the Argos business too.

So, there were a number of tailwinds that came alongside how we thought the first half would go, and that's why we've performed a bit better than we expected in the first half. When we look to the second half, to your question, in the Grocery business, and you can see this in the recent market reads, our momentum continues and we continue to live a strong volume share growth against strong comps last year. We're carrying that momentum into the second half.

But look, despite the fact it's the first week in November and there are seven very critical weeks to come, and until the end of the year, we want to make sure we just retain the capacity in our guidance to continue to make those balanced choices given the significance of the part of the year to come and that's what we're doing today.

We're going to sustain the strength of our competitive position as I said at the start of the year and we'll continue to make those balanced choices. Look, I'd say just to double underline that, those balanced choices have always served us well and have served the outcome we've been able to achieve well.

In terms of how we then think about Argos. Probably not a lot to add to what I've said, other than obviously to say, the customer is going to be more cautious here given all of the uncertainty that's out there. So, as part of those balanced choices, we want to make sure we've got the capacity for probably a bit more of a cautious customer in GM, certainly until things are clearer the other side of the budget. Likely to be a very competitive sector, I think, through the last few weeks of Christmas this year for all the obvious reasons.

As you say, we've got a very strong plan in Argos. The competition will be intensified. Customers will shop later. Customers will hold back a bit on spending for all the reasons that are out there. Those are the things that we've obviously factored into making sure we've got the capacity to make the choices we need to over the second half.

Thanks, Rob.

Operator

Thank you. Our next question is from Francois Degas from Kepler Cheuvreux. Please unmute your line and ask your question.

Simon Roberts

Francois, good morning.

Francois Degas, Kepler Cheuvreux

Good morning. Three questions if I may. What were your expectations going into H1? Because you mentioned you exceeded your expectations, but could you quantify that excess of what were you prepared to see your H1 underlying profit decline by how much?

Second question is Argos performance benefited partly from favourable weather. You have mentioned in the past wanting to make the business less volatile. How far along are you in that process? What level of volatility should we expect going forward as normal?

Third, on the retail media, I understand you will share more details in final results, but could you help us to see how the market is evolving? You mentioned growth, but what is your share of it? Or at least what is the food retailers' share versus players like Amazon right now?

Thank you.

Simon Roberts

Francois, thank you. So, why don't I pick up the questions on Argos and where we're getting to there and also retail media. Maybe just to your question on our kind of expectations and how they played through in H1, Bláthnaid, do you want to pick that up?

Bláthnaid Bergin

Yes. So, look, we entered H1 cautiously. If you remember the backdrop as we entered H1, there was a few things that went on there. We exceeded our expectations. largely because we had some really good weather. And we know in good weather, because we're South-based, in food we tend to outperform and take more market share and the same in Argos, as well, with those seasonal products. So, if you think about the good weather, we got good sell-through in Argos, and we got an uplift in the food, as well, so that's why we exceeded expectations in H1.

Simon Roberts

Thanks, Bláthnaid. Then, just to the question on what is more Argos more often all about, Francois, in terms of us building a really clear plan-out in Argos, such that we can deliver for customers a really inspiring choice that gives them confidence to make Argos their first choice, a digital experience that's friction-free, and really easy to access, and then trusted value, given the obvious competition in the market.

So, we are in the early phases of delivering that plan. I think what we saw in the first half was an encouraging performance, given we grew share. Clearly, the weather helped us grow sales year on year. We know that Argos benefits seasonally when the weather's good.

Last year, we had a particularly difficult year, because the Summer was so poor. That led us to a lot of clearance in the second quarter last year. So, the reason the sales were softer in Q2 compared to Q1 was we anniversaried that very significant clearance activity last year. So, in the second quarter, actually, sales were a bit up, but less than the first quarter, but

actually profitability improved in the second quarter, as we anniversaried what was a high level of clearance last year.

So, when we look at what we're doing in the Argos business, we've said before, our priority here isn't a short-term profit outcome. It's to build the base of the Argos business in customer traffic, in loyalty, in value, in assortment, in the digital experience. So then, of course, in the efficiency programs we're delivering to make sure over time, we can improve the level of outcome that we can achieve.

As we come into the second half, and also to Rob's earlier question, we've got stronger momentum in Argos, but it's a cautious customer and a cautious market out there, and so we're going to need to be a really strong position coming into this Christmas and really competitive, which we'll make sure we're able to do.

Look, on retail media, I made the point just before, to Lizzy's question. This is an essential capability to win in this industry, and our team across Nectar360 and Nectar more broadly are really leading out here, in terms of the capabilities we've been investing in. We've really put a big focus on this key part of our business over the recent number of years.

As we built out our Next Level strategy, we were very clear that Loyalty everyone loves was a core part of how we were going to power both our customer delivery, but also our value creation narrative, and we're clearly on track to deliver the £100 million additional that we committed to over the life of this plan. We are also very focused on making sure in retail media, as we launch Nectar360 Pollen, and the other work that we're doing, that we continue to take a leading position here.

I just would make the point that the launch of personalised Nectar value is so important in this, because obviously, it's bringing more customers into our Nectar ecosystem. Thanks, Francois.

Operator

Thank you. Our next question is from William Woods from Bernstein. Please unmute your line and ask your question.

Simon Roberts

William, good morning.

William Woods, Bernstein

Hi. Good morning. In terms of, you've shown some quite good data on your value and quality perception growing or improving ahead of the market and Tesco, but I suppose value market share gains have been softer than Tesco, and maybe you've kind of plateaued slightly in the last few months. Do you think there's a disconnect there between the value and quality perception improvements versus the market share gains?

The second one is on Argos, just trying to understand the underlying Argos performance here. How much do you think things like Switch and the iPhone contributed to growth in H1?

Then the final one is just on your gold, silver, bronze store strategy. How are you seeing your gold stores perform? Are there any learnings or kind of further adaptations that you're taking there?

Simon Roberts

Thanks, William. We just about heard your question. The line wasn't great. But I think just where are we on value and the balance of the value market share gains and quality, the underlying Argos performance, and then how we think about our store space program. So, I'll take each of those in turn.

Look, on the first one, we're really encouraged, actually, by our volume market share gains, as I said, year over year. The reason I talk volume market share gains, we've always said from the start that we're focused on volume, because that's clearly a very clear measure of customers choosing to trust Sainsbury's to put more items in their basket, and that's why we measure ourselves against volume market share.

In the presentation today, you can see, actually, the growing evidence that customers are both trading down in the basket, but also trading up in the basket. 65% of customers in the half bought both in the same basket an Aldi Price Match line and a Taste the Difference line. Now, that's a very important example now of the fact that we're getting trusted at the entry price point and we're getting trusted on the trade-up.

One in three baskets contain Taste the Difference. 65% of baskets, customers are buying an Aldi Price Match Line and a Taste the Difference line. We set out a very clear plan, didn't we, this year to make sure that we sustained our competitive position. We inflated a bit behind the markets, and that's really played through.

The other final point I'd make to your question is that our value investment has been very anchored in the products that people buy most often. You remember going way back to the beginning, we talked about the importance of the centre of the plate. If I look at a category level where we've seen the strongest performance, the key big fresh food categories are the ones we're winning against the market most, and that's because customers are trusting that centre of the plate and then doing the rest of the shop and filling their full basket across the whole supermarket.

In terms of the question on underlying Argos performance, look, as I've said, the weather definitely helped us in Argos. We saw the strength of seasonal products come through, particularly actually in the first quarter where the year-on-year comps of the weather were clearly much stronger. So, when the sun shone, Argos really came into its own.

Look, I'd be really clear to say, we planned for a good Summer, but we clearly sold a lot of our seasonal products in the first quarter. I'm pleased we did that, because what we didn't have was any stock overhang going into the second part of the year, where we did a very effective plan to max out the Summer when it came, we sold through well, and that meant we could get ourselves on a really stable and good footing coming into Q3. Yeah, of course, the Switch is an important part. Technology is an important part of the Argos overall performance, but seasonal really came through in the first quarter, and we really planned for that.

Then on your question on our space, two key components of this. So, you'll remember, we laid out a plan More for More, which was bringing more of Sainsbury's range to more customers in more locations. You'll remember, too, we've always said there are key target locations in the UK, where we'd like to have a Sainsbury's store and we haven't got one today.

That's why when the Homebase opportunity came to us, we really looked at that, and we're well on now with getting the Homebase conversions open. We've opened the first of those, trading ahead of expectations and really working, actually. What are we seeing? We're seeing trading up, and we're seeing the ability to fit out those stores at a lower cost than we expected. Our property team are doing a brilliant job, actually, on the ground, making sure we get the Sainsbury's offer landed really well in some of these sites, and customers are responding really well.

On the other side of our More for More program, this was about taking space from GM into food. In this year, we'll land just over 50 schemes. Obviously, we're constantly solving to make sure we get the best trading intensity outcome, improvement in volume, improvement in customer satisfaction, and obviously, a good return on the capital that we're investing in these schemes. You can see a lot of the stores out there now. What we can particularly see, as you saw in the presentation, is the areas of the shop we've really focused on. Food to Go; our centre aisles on Nectar; beers, wines, and spirits; Free From. These are the areas where we're really making sure that those elements of the store we're getting the best returns, we're rolling them out as fast as we can. Thank you.

Operator

Thank you. Our next question is from Benjamin Yokyong-Zoega from Deutsche Bank. Please unmute your line and ask your question.

Benjamin Yokyong-Zoega from Deutsche Bank

Yeah, morning, all. Congratulations on the results and thanks for the questions. I just had a couple, one on Grocery and one on Argos. On the Grocery, I mean, it's great to see the volume outperformance and the inflation behind the market. Just wondering what impacts, if any, you've seen from recent price cuts from competitors, and is it your intention to broadly maintain your value position over the rest of the year?

Then on Argos, you've outlined a cautious near-term outlook for discretionary, but I just wanted to check how inventory levels are compared to last year, and if there's any colour you could give on the deflationary market backdrop you mentioned, and if this is more pronounced in certain categories. Thanks.

Simon Roberts

Benjamin, thank you. Well, why don't I pick up kind of at the key grocery themes you've had. I know Bláthnaid will want to comment on where we are in our stock position in Argos, and we can add to it from there. Look, I think at the risk of repeating myself, so forgive me for this Benjamin, I think we set out a really clear plan, to make sure this year we sustain the strength of our value position. I think we were clear, in April, to say there was a lot of noise in the market, and it was important, therefore, that the clarity of the Sainsbury's value, quality and service message really cut through in that context, and that's exactly what we've done in the half.

As you can see, we inflated a bit behind the market. You can see, as you've indicated, our volume share improved year on year on year, despite some strong comps, and that's because we invested a bit more, but in a very focused and effective way. We increased the Aldi Price Match on some more everyday essentials. We increased the number of products in the Nectar Prices range. As I said in the update, as well, we also did some more marketing this Summer and we, for the first time, ran a very bold marketing and campaign on Aldi Price Match, right alongside our focus on everyday trade-ups on Taste the Difference.

So, we invested some more in marketing, as well as sustaining the strength of our value position. Net net, when we look at where that's brought us to over the half, we're really pleased with what that's meant, because as I said, we've seen value perceptions in Sainsbury's customers improve year on year, and we've been the only one in the market to do that.

We're going to carry that momentum into the second half, because it's absolutely a core part of our formula, and we've shown that by growing our volume, volume over fixed costs is what we've said over the life of our plan, and when we look out over the three years of Next Level, we're very focused on growing volume market share and making sure that we can drive the right financial returns, as we do that over time.

Argos, Bláthnaid.

Bláthnaid Bergin

Right, so what we're seeing in the Argos market is it's largely Electricals and Furniture that are a little bit deflationary. But just to sort of talk about working capital, we have a real discipline in the business around cash and around working capital. Last year, we ran a pretty big working capital program in Argos. We reduced inventory by just over £90 million, while improving availability.

So, it's really important you get the right balance on that. We exited the year-end clean on inventory, as well. As we came out the back end of this Summer, you will have seen in the numbers, we had a good sell-through on seasonals, and again, we exited the period clean.

So, inventory is reducing ever so slightly this year in Argos, as we wrap up the end of that inventory working capital programme, and we'll continue that discipline to make sure we're delivering our cash targets for the business. So, pretty pleased with the position, particularly as the availability is improving.

Simon Roberts

Thanks, Benjamin.

Operator

Thank you. Our next question is from Manjari Dhar from RBC Capital. Please unmute your line and ask your question.

Simon Roberts

Manjari, good morning.

Manjari Dhar, RBC Capital

Morning, Simon. Morning, Bláthnaid. Thank you for taking my questions. My first question is just on marketing spend. I know you mentioned that you've done a little bit more over Summer. I was just wondering how you're thinking about your spend running into Christmas, and are you deploying that marketing spend any differently this year?

Then my second question is just on Argos. I wondered if you could give some more colour on the economics of the Argos Plus trial. How does this work, and I guess what do you need to see from this trial, to class that as a success?

Then finally, I just had a question on the cost savings for this year. I just wondered if you could give us some colour on how that phases between H1, H2, how much have you seen so far, and how much do we expect still to come? Thank you.

Simon Roberts

Thanks, Manjari. Okay, let's take those in in turn, shall we? If I take the first two, and then Bláthnaid can speak to where we are on our cost plans, both this year and as we look ahead.

So, look, I think right back to the start of the conversation, sustaining the strength of our competitive position was our clear priority this year. That's why balanced choices play such an important part. You can see, Manjari, to your question, how that's played out in the first half. We invested more, as I've said, in Aldi Price Match. We extended Nectar Prices. That really converted with customers, such that the value perception improved year on year, as we've talked.

It was an important shift, actually, for us to run value and trade-up side by side through the Summer. That was a very specific choice we made, actually, to test what we could see, in terms of the returns on those campaigns, and we were really pleased with them, actually. As I said in the up-front presentation, we saw the highest return, in terms of brand consideration for Sainsbury's on the Taste the Difference campaign, that we've seen in over a decade. That's given us real confidence in how our marketing is cutting through, both digitally and in all above-the-line channels.

Our marketing team have done, actually, a fantastic job over the last number of years, resetting how we think about Sainsbury's and more recently Argos marketing, and we can see that cut through with customers. Look, when I talk about retaining the capacity for the second half, you've seen us go live with our Christmas campaign last weekend, with the return of BFG, and as you would imagine, we've a very focused and very intentionally focused on value and quality, as we come into this Christmas, to make sure that our resonance with customers is where it needs to be.

On Argos, on the Argos Plus trial, I'd make the point this is a trial. We're just testing how customers think about this, whether by paying an annual fee and getting delivery for free is something that customers would respond to. We're in the early phases of testing that, and obviously, we'll update you when we know some more.

It really speaks to making sure that convenience at Argos is a standout reason that customers would choose to shop with us, and so obviously, we're doing lots of things in the More Argos, More Often plan, to make sure we're getting the proposition right. But importantly, we can deliver that proposition at the right cost and the right efficiency, so that will work through and we'll update in due course.

Bláthnaid Bergin

Great. Over to me, then, on cost savings. Look, we're really pleased with the progress we're making against the £1 billion target over the three years. We delivered £349 million last year. We estimated it would be broadly split a third/a third/a third and if you think about this year, think about the phasing pretty flat across the two halves, is the way to model it. So, about half of it delivered and about half of it to come in the second half of the year.

Simon Roberts

Yeah, and just to reiterate, clearly, with a £1 billion cost saving target over the three years, which we remain on track for, with a strong pipeline into next year, as the maturity of this program continues to build out. Thanks, Manjari.

Manjari Dhar, RBC Capital

Thank you.

Operator

Thank you. Our next question is from James Anstead from Barclays. Please unmute your line and ask your question.

Simon Roberts

Hello, James. Good morning.

James Anstead, Barclays

Good morning, Simon, Bláthnaid. Two questions on Argos, if that's okay, please. You mentioned that you learned Argos is separable, which is an interesting lesson, but I guess that also during those discussions, you must have had a lot of time to think about some of the complexities in the relationship between Argos and Sainsbury that makes it harder to separate.

So, my question is, when you think about the structure of Argos going forwards, and how it fits together with the core Sainsbury business, will you be deliberately chipping away at some of those relationship complexities, if you understand the question?

A much quicker second one, which is, it looks like the Argos losses narrowed significantly in the first half. Is it fair to assume it would have been profitable without the EPR charge that was registered in 1H? Thank you.

Simon Roberts

James, thanks. Okay, well, why don't I speak to what we learned on your question of separability, and then Bláthnaid can come back on the question of the first half, and how the profit shaped up.

But yeah, without repeating myself, for obvious reasons, we really stared through this process at what it would take to separate Argos out to the fullest extent. I would make the point that back in February '24, when we laid out our Next Level plan, we were really clear at the time that we saw Argos and Sainsbury's in terms of what it needed to deliver for customers and the operating model of both businesses as being quite separate, and we made that statement clearly then. That's one of the reasons why in our strategy we were very clear about First Choice for Food and More Argos, More Often as being two distinct elements of our Next Level plan.

As you've seen, actually, over the last period of time, one of the things the team and I have been really focused on is how do we make sure we set up Argos with what it needs, and how, similarly, do we make sure that the focus in the grocery business and in Sainsbury's is

what's needed there. I think what we can see in these results is that approach continuing to build through and build momentum.

So, in Argos, we have a dedicated management team now. Graham is the MD of the Argos business, and that team is completely focused on making sure we land and deliver and drive through our More Argos, More Often plan.

Obviously, there are elements of how we're organised, where we still share resources across the Group. Obviously, areas like how our technology operates, if we were to fully separate that, we would need to understand what's required there, and that's one of the things we've looked at quite closely.

So, we definitely learned what it would take to separate these two businesses. We've made progress in organising ourselves, to make sure that Argos has what it needs and Sainsbury's has what it needs. So, clearly, that's one of the things that we continue to drive through, as we execute the strategy that we laid out.

Bláthnaid.

Bláthnaid Bergin

Very short answer, James. Yes. It would have been breakeven if we hadn't had the charge.

Simon Roberts

Thank you. Thanks, James.

Operator

Thank you. Our next question is from Clive Black from Shore Capital. Please unmute your line and ask your question.

Simon Roberts

Good morning, Clive.

Clive Black, Shore Capital

Good morning, Simon and Bláthnaid. Thanks for your time and questions. Some short ones from me.

You've mentioned the cost headwinds from the government policy in this current year. You might have done this before, so apologies, but could you just quantify what the EPR, NIC, and National Living Wage elevated cost base was - is for FY26, given you achieved flat profits in the first half?

Simon Roberts

Sure. So, thanks, Clive. Well, let me let me just recap on the key parts of this. So, clearly, on NIC, that was £140 million of cost for us, and we made that very clear at the time, when we talked about the impact of National Insurance.

We then did, obviously, our pay increase in January of this year now. We've had a policy of leading the market on colleague pay over a number of years now, and so, our annual pay

award was ahead of the National Living Wage, but clearly, that's an inflationary cost that we plan for through our Save and Invest to Win programme. So, I wouldn't classify our pay award for colleagues as something that we didn't plan for. We had that planned.

Then on EPR, it's £53 million, to your question. So, £140 million on National Insurance and £53 million on Extended Producer Responsibility.

Clive Black, Shore Capital

Thank you. I just then wanted to look into next year. I'm not seeking any form of guidance, but just in terms of moving parts. Firstly, in the expectation that food inflation will probably ease, although remain in the system, first, would you expect volumes to positively respond to that inflationary easing?

Secondly, I just wonder how you feel about the balance of mix, in terms of what are the drivers to either trade up or trade down going forward, given you have spoken about a strong value quotient, but equally, your traditional traits around quality and innovation really coming through?

Simon Roberts

Yeah, thanks, Clive. Look, I think, as you say, clearly, we'll talk into next year at the end of this year. But I think, most importantly, in the latest read, good to see inflation stop going up.

Look, I think there's clearly going to be ongoing cost pressure in the system. I think the fact that the industry has largely either solved, or continues to solve, for the inflation there, I'd make the point that there's still inflation to get through the pipe. The industry continues to behave, I think, broadly, rationally. Cost pressures clearly exist across the board, and everyone is working to retain their own competitive position and pass through inflation. I expect that to continue.

We know, to your question on the link to volume, we know, don't we, where the kind of trigger point is for an impact in volume to start to become more pronounced. You've seen, in our own performance, the fact we've been able to grow volume on volume-on-volume share. So, I think we've got that balance exactly right for us, and for Sainsbury's customers, actually. But it's something we pay a lot of attention to, because our plan is based on winning and growing volume market share, and so the balance of our value position, how we pass through inflation, in a way that makes sure our value position is strong, is one of the things that is the sort of first priority of how we think about these things.

Then, look, I think we've learned a lot since 2020 about the power of the Sainsbury's grocery proposition, when all the components of it really come together. We knew back then our reputation for quality was indisputable, but customers weren't really seeing it all, because we were too expensive.

So, five years later, we're now seeing value perceptions improve year on year again at Sainsbury's, a combination of all the things that we've done. That's meaning that the strength of our quality, and I'd go further and say the strength of our assortment more broadly, is becoming even stronger, in terms of customers' consideration of where they shop, and that's why we're seeing these big trolley shops continue to grow, with a million more customers shopping with us.

So, when we look ahead, we feel very confident about the grocery proposition that we've been building as a team. We still think there's plenty in front of us to do, but our own brand

assortment, the strength of Taste the Difference, what we've done in the entry price point, the fact now that 65% of customers in the first half, both traded down and traded up in the same basket. All this points to the importance of making sure we make these balanced choices to maintain the value position, because when our value is as strong as it is, customers see so much more in Sainsbury's that they didn't see before.

So, linking the two questions together, we're confident we'll continue to grow volume market share, as we continue to strengthen and improve the combination of value, quality, service, and I'd add availability, too, which has also really stepped up.

Clive Black, Shore Capital

Thank you. Then just a quick last question from me. You've got a very strong balance sheet, and your fixed charge cover went up in the half. I noted once you distribute the financial services dividends, and buyback, you're still going to be barely geared. I just wonder how you characterise your balance sheet, from a capital discipline perspective. What ratios do you want to work to, on an ongoing basis?

Bláthnaid Bergin

Great question, Clive, thank you. Look, if you look at the capital allocation policy, we like to operate within 2.4x to 3x net debt to EBITDA. We'll continue to target to be in the middle of that range. As we travel over the next few years, we have great capability to invest in our business. If any opportunities come along, we'll be in a position to take advantage of those, but we'll continue to operate within that range of the capital allocation policy, and we'll make choices to keep us in that range.

Clive Black, Shore Capital

Thank you. Very clear, and very well done.

Simon Roberts

Thanks, Clive.

Operator

Thank you. Our final question is from Sreedhar Mahamkali from UBS. Please unmute your line and ask your question.

Simon Roberts

Sreedhar, round two.

Sreedhar Mahamkali, UBS

I am so sorry, I almost never do this, but I thought somebody would pick this up, but I think it's helpful to understand. This is really about the VI... There was a really interesting slide, 27, there it is. I just wanted to better understand this, please, and where you show 90 basis points improvement versus Asda in the first half.

Please explain how you actually measure this, how narrow or broad-based this is, and then really kind of taking a big step back, what is the right price position for you on the grocery

side? Is it protecting where you've got to after four or five years of investing, or do you proactively need to improve it further steadily each period?

Simon Roberts

Sridhar, thank you. So, look, this is - I mean, first of all, this is value reality. This is actual value measured at the beginning of the financial year in March, versus where we are at the end of the half. Clearly, what this reflects is our actual value position, when you take into - include our Aldi Price Match and our Nectar Prices.

What it doesn't include, which is an important distinction to make to your question, it doesn't include the added value of Your Nectar Prices, because obviously, they're unique to every customer that accesses them. So, when you think about this slide, this is on the value that's available to everybody, and then personalised value comes on top of it.

The key point, clearly, is that we set ourselves a very clear priority this year to sustain our competitive position. That meant we inflated a little bit behind the market this year. I've made the point before. Our value investment goes into the products people buy most often, and that's how our value perceptions have improved. That's at the core of building baskets and trolleys out. That's at the core of customers saving £14 on an £80 weekly shop, and that's before Your Nectar Prices, which is additive to that.

Sreedhar Mahamkali, UBS

Just wanted to understand how many SKUs, like how much of the basket is covered in this index, or is it a bit narrow?

Simon Roberts

It's a very wide SKU count included in this. I mean, this is the broadest context of the shop.

Sreedhar Mahamkali, UBS

Okay, super. Thank you.

Simon Roberts

Thanks. Okay, just to check, there are no more questions?

Operator

That was our final question.

Simon Roberts

Okay, great. All right. Sreedhar round 2 was our last question. Okay, well, thanks, everyone, for joining us this morning. I know it's a busy week. As you can see, look, we're really encouraged and pleased with our H1 performance, but importantly, the momentum in the business into this really important second half of the year.

Plenty to navigate over the second half, but as you can see, we continue to make the right balance choices, and we do that as we go into this Christmas with really strong plans, both in Argos and in Sainsbury's. So, plenty for us now as a team to get on and deliver for

customers and deliver more broadly, and we look forward to talking with you again in early January. Thanks very much.

End