

Sainsbury's Strategy Update

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

"Next Level Sainsbury's" strategy to build on momentum and deliver enhanced returns for shareholders

Key Highlights

Our "Next Level Sainsbury's" strategy builds on the success of the Food First strategy we launched in November 2020. This put food back at the heart of Sainsbury's, reset our competitive position and has created a strong financial platform from which we will grow, invest in further strengthening the business and deliver enhanced returns to shareholders. Our "Next Level Sainsbury's" strategy will:

- Deliver further grocery market volume share gains by bringing more of Sainsbury's food range to more customers, becoming the first choice for food for more people, continuing to attract more bigger basket primary shoppers
- Continue to build a world-leading Nectar loyalty platform offering personalised, rewarding and integrated loyalty and market-leading retail media capabilities
- Build on Argos's strengths in convenience and value, growing frequency and spend through improved range and relevance while also delivering further operating model efficiencies
- Invest in our capabilities across technology and infrastructure and deliver another £1 billion of structural cost reduction, underpinning these objectives and driving growth and efficiencies

Our Commitments

We are making eight commitments that the strategy will deliver by March 2027:

- **Food volume growth** ahead of the market
- **Customer satisfaction** higher FY27 vs FY24
- **Colleague engagement** higher FY27 vs FY24
- Deliver our **Plan for Better commitments**
- **Deliver profit leverage** from sales growth
- **£1bn of cost savings** over three years to FY27
- **£1.6bn+ retail free cash flow** over three years to FY27
- **Higher return on capital employed**

Profit and free cash flow guidance

- Consistent with our commitment to deliver profit leverage from sales growth, we expect retail operating profit growth from the start of the plan
- Capital expenditure will increase to between £800 million and £850 million per year over the next three years and we will make an additional £70 million investment in FY 2024/25 in our Smart Charge Electric Vehicle (EV) charging network
- Targeted incremental capital expenditure will be focused on high returning efficiency and growth investments
- We continue to forecast retail free cash flow of at least £500 million per year and now forecast at least £1.6 billion over the next three years. We expect cash flow to increase over the period as profits grow, in part replacing the role of working capital benefits in earlier years. We expect one-off cash costs associated with cost saving programmes to be around £150 million over the course of the three years

Enhanced Returns for Shareholders – Progressive dividend commitment and share buyback

The strength of our balance sheet and cash generation will allow us to invest capital in targeted areas, further strengthening our capabilities, driving growth and efficiency and generating higher profits and returns. A higher level of capital investment is balanced with a reinforced commitment to strong free cash flow generation and stronger returns for shareholders.

Specifically, we will now commit to a progressive dividend policy from the start of next financial year and the commencement of a share buyback programme, with £200 million of share capital to be bought back over the course of the next financial year.

Simon Roberts, Chief Executive of J Sainsbury plc, said:

“Our Food First strategy has delivered on its promise over the last three years, making Sainsbury's a stronger business with a much sharper position on value and a major refocus on our innovation. Customers have recognised the progress we've made, as our market share gains have shown.

“Our Next Level Sainsbury's strategy is about giving customers more of what they come to Sainsbury's for - outstanding value, unbeatable quality food and great service. Thanks to our scale, our brand and our people, we are in a unique position to deliver for customers across Sainsburys, Argos and Nectar.

“We're going to build on what's driven our success since 2020. We're determined to be First Choice for Food, ensuring more customers in more of our stores can enjoy more brilliant Sainsbury's food. That means more space for our food offer, while still delivering the general merchandise products customers want from us. That way, not only will we find more ways to delight new and existing customers, we will also continue growing volume market share.

“While I'm proud of the progress we've made to date, we're only just at the beginning of rediscovering quite what this business is capable of. By taking Sainsbury's to the next level, delivering for customers and colleagues, we will also deliver enhanced returns for shareholders through a share buyback and committing to a progressive dividend.”

We make good food joyful, accessible and affordable for everyone, every day

With an updated purpose, our Next Level Sainsbury's strategy focuses on four key outcomes:

- First choice for food
- Loyalty everyone loves
- More Argos, more often
- Save and invest to win

First choice for food: Attract many more people to choose Sainsbury's as the place they come to for good food – and play a leading role in creating a sustainable food system in the UK

- **More food** choice for **more customers**
- **Consistent value**, every day
- The **leader in freshness, availability** and **innovation**
- A **complementary range** of relevant products and services
- A **more resilient UK food system**

More customers are doing more of their grocery shopping at Sainsbury's¹, increasingly recognising the value that we deliver while continuing to choose us for range, quality and service². This is reflected in growing numbers of bigger basket primary shoppers¹ – customers who do their main shop at Sainsbury's. We will continue to offer consistently great value to customers and expect further progress as customer price perceptions continue to catch up with the significant change in price reality.

We are proud of our food range. Our strengths in fresh food, range and innovation are at the heart of Sainsbury's heritage and brand promise, Good Food For All Of Us. However, we currently do not offer our full range to enough customers in enough locations, with only 15% of our supermarkets offering the full food range and some of our highest potential stores not stocking the grocery range that customers expect of Sainsbury's. This also impacts online range and perceptions of availability as our online grocery orders are picked from stores.

We will invest to bring more of our range to more customers, particularly enhancing choice in fresh food. We will focus on around 180 of these highest potential stores over the next three years and we expect this unique opportunity to be a key driver of grocery volume gains. We will create more space for food in many locations by reallocating some space currently occupied by general merchandise and clothing.

We will tighten the focus of our general merchandise and clothing ranges in stores, aligning them more closely to customers' grocery shopping missions and ensuring ranges are relevant and irresistible at the right moments. In Sainsbury's, only half of our primary customers buy our general merchandise and clothing products, representing a significant opportunity, particularly as we

grow our numbers of primary shoppers. In combination with higher profit densities from food, this will generate significantly better sales and profit returns on store space.

We expect to open around 75 new Sainsbury's Local convenience stores over the next three years and also have a significant space rebalancing opportunity to allocate more space to food on the move ranges, the primary mission of most customer visits.

We will build further on the strength of our supermarket locations and customer traffic, investing further in our Smart Charge ultra-rapid EV charging network to increase our network of reliable ultra-rapid charging bays to more than 100 stores by the end of FY 2024/25.

We will invest in our capabilities, driving improved productivity and freeing up more colleague time to deliver great customer service, building on customer service satisfaction scores that are already significantly ahead of our competitors.

Sainsbury's has been at the heart of the UK's relationship with food for more than 150 years, driving progress across innovation, sustainability and welfare. This brand heritage and our strong, long-term relationships with suppliers put us in a strong position to play a leading role in creating a resilient and sustainable food system in the UK, including through our Plan for Better commitments.

Loyalty everyone loves: Build a world-leading loyalty platform – more personalised, joyful, rewarding and transparent – for everyone

- **Personalised, rewarding and integrated** loyalty
- Joy and **connection beyond transactions**
- **World-leading** Nectar360 capabilities
- Strong **coalition** of partners
- **Always transparent** use of data

Nectar has delivered ahead of our plan and is playing an ever-larger role for customers and within our business. The launch of Nectar Prices has transformed Nectar sales participation, customer recognition of the value that Nectar provides and value perception more widely, with customers saving an average of £12 off a weekly £80 shop by shopping our Nectar Prices. We now have more than 16 million digital subscribers and will invest further in the Nectar app, continuing to build engagement with the Nectar proposition and driving greater loyalty.

Nectar's personalised offers, including Your Nectar Prices, are world-leading in their scale, generating over 260 million different personalised offers each week. More than one million customers shop using Your Nectar prices every week. Your Nectar Prices is currently available to online and SmartShop customers and we will roll this out more widely. We will further invest in the integration of Nectar across all of our digital platforms and into payment solutions and we will continue to build our coalition of strong partners like British Airways and Esso. This will build stronger digital engagement and deliver even more value to Nectar customers.

Nectar360 operates the Nectar coalition and manages Sainsbury's and Argos retail media services, using its own insights and media expertise to connect the UK's biggest brands with customers. Nectar360 is well positioned within the fast-growing UK retail media market, with scaled first party data and deep media capabilities. Nectar360 serves over 870 clients directly and has built partnerships with the key agency groups. It has a strong track record of delivering returns on their advertising spend. We are investing in high return growth by expanding our team and unifying our capabilities across instore, onsite and offsite.

We are now forecasting an incremental £100 million of Nectar360 profit contribution over the three years to March 2027 (previous guidance was £90 million over the four years to March 2026).

More Argos, more often: Unleash and transform Argos around the three things that have always made it brilliant – curated range, famously convenient experience and great value – so more customers buy more complete baskets more often

- Famous for **convenience**
- Inspiring **choice**, always great **value**
- **Supercharged digital** capabilities
- **Accessible and relevant credit**, care and services
- **Next level** service, efficiency and stock flow

Argos has a structurally advantaged low cost-to-serve operating model, backed by the scale of being part of the UK's second biggest general merchandise retailer³ and delivering a Click and Collect and delivery proposition unmatched by any other general merchandise retailer in the UK. We have further transformed this model in recent years, reducing fixed costs by more than 300 basis points of sales by reducing the standalone store estate and opening more Argos stores inside Sainsbury's. We have made significant changes to how and where we move and hold stock, driving efficiency but also improving availability by making sure we have the right stock closer to customers at the right time.

We have further to go in terms of Argos store estate changes and we will also further refine the store operating model, with clustered stores replacing a one-size-fits-all approach. This better recognises the significant variation in Argos store size and role. Early trials suggest significant cost to serve reductions alongside improved customer satisfaction as a consequence of better tailored ranges and service. We also expect end-to-end productivity programmes to drive significant improvements in working capital, availability and supply chain efficiency.

Customers love and recognise Argos for the convenience and consistently great value we provide and this will remain at the heart of the Argos proposition. Half of UK households shop at Argos every year and we have the third most visited online retail website in the UK⁴. More than 70% of sales start online, 70% of sales are collected in store and nearly 70% of online Click and Collect orders are available for immediate collection. However, customers visit Argos on average only three times per year and we believe we have significant opportunity through increasing awareness of the Argos service proposition, and increasing frequency of visit and basket spend.

We will extend range in selective areas and enter some new product categories, often through supplier-direct fulfilment, where we will sell more third party products through a stockless operating model. We will invest further in our website, app and customer relationship management capabilities to elevate Argos's share of mind, encourage more browsing missions and inspire customers to trade up within product ranges, where we will continue to extend our range of premium brands and will strengthen our designed own label ranges. We underperform competitors in terms of attachment rates, with customers only buying between one and two items per basket, offering a significant sales and margin opportunity.

Financial services will continue to be an important part of the Argos proposition. Consistent with our recent announcement on the future of our Financial Services business, we expect to move to third party provision of Argos financial services products, improving the range and quality of payment solutions we can offer customers and increasing penetration, currently 21% of sales.

Save and invest to win: Save £1 billion and invest in transforming our capabilities – taking another big leap forward in efficiency, productivity and customer focus, continuing to build a platform for growth

- **£1 billion** of structural **cost reduction**
- **Modern, well-invested technology platform** protecting, competing and **unlocking the next level**
- **Simplified, automated** more process-led business
- **Right-sized organisation**, set up to win

Our strong financial position and momentum means we are able to invest capital to strengthen our business, with a very clear focus on unlocking efficiencies, driving productivity, enabling growth and delivering higher returns. We will invest in our technology infrastructure, where more agile, flexible systems will both protect our current propositions and accelerate the speed at which we can bring improvements to customers. Investments in machine learning and intelligent automation will bring greater speed and efficiency to decision-making in areas such as pricing, proposition, range, logistics and sourcing. Intelligent technology in areas of the store such as checkouts and replenishment will benefit customers and efficiency, freeing up colleagues to deliver better customer service.

Our Save to Invest cost saving programme was key to the delivery of our Food First strategy, creating the fuel to invest in the customer proposition and reset our value position. We made bold decisions on business structure and propositions and changed the way the business approaches cost, doubling the rate of cost saving delivery versus prior years.

We will unlock a further £1 billion of operating cost savings over the next three years, more than offsetting cost inflation. High-returning investments in technology and automation will drive big steps forward in efficiency - automating, optimising and prioritising high volume tasks and driving better forecasting. Productivity benefits will be delivered increasingly through end-to-end programmes, making cost trade-off decisions across a full cross functional chain of costs, rather than through independent divisional programmes. We have already successfully trialled and delivered benefits in end-to-end transformation with a trial

within one particular supermarket cluster, where we have optimised range and streamlines the operating model, through reduced deliveries, waste and replenishment costs. We are now rolling this approach out to the full cluster of around 90 stores.

We will continue to unlock significant savings through projects such as the consolidation and optimisation of our general merchandise distribution network. This is already underway and will reduce working capital and double productivity through using fewer, bigger depots and extending the use of robotic automation.

Presentation materials from today's Strategy Update will be made available later in the day on the [Results, Reports and Presentations](#) page of our website.

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Tim Fallowfield, Company Secretary and Corporate Services Director, was responsible for the disclosure of this announcement.

1. Nielsen panel data, Total FMCG excl. Kiosk & Tobacco. Primary shopper numbers. 23/24: 44 weeks to 6 January 2024
2. CSAT Supermarket Competitor Benchmark
3. Kantar Worldpanel+, General Merchandise Value Market Share, 52 weeks to 24 December 2023
4. SimilarWeb traffic share, 12 weeks to 6 January 2024