J Sainsbury plc
Sainsbury's Preliminary Results 2024/25
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Presentation

Simon Roberts
Chief Executive

Good morning, everyone and welcome to our 24/25 preliminary results presentation. Thank you for joining us today. As usual, I will start with a brief introduction before handing over to Bláthnaid who will cover the financials. I will then share the detail on our progress we have made during this first year of our next level strategy and the plans we have for the year ahead.

Now, as a reminder, this is the Next Level Sainsbury's plan we set out in February of last year. You will remember our refresh purpose: we make good food joyful, accessible and affordable for everyone, every day. Underpinning our purpose, here are our four strategic outcomes which we set out to define this next phase of our growth. Our purpose and outcomes are the driving force for the choices we make across the business and guide how we show up and deliver for all our stakeholders.

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. Loyalty everyone loves. We're making loyalty more personalised for our customers and investing to accelerate our market-leading retail media capabilities.

More Argos, more often, where we're taking focused action to extend range, enhance digital capabilities and improve relevance to grow frequency and spend in Argos whilst delivering further operating model efficiencies. Underpinning all of these outcomes is our plan to save and invest to win, delivering another £1 billion of structural cost savings and investing in our capabilities across technology, automation and infrastructure.

Now, over the past four years, we've transformed our business. We've invested £1 billion in lowering our prices and now have the winning combination of value, quality and service in the market. A combination that our customers love. We're obsessed with the consistency of how we show up for customers week in, week out. We're food first and people first. Our people are at the heart of delivering everything that we do. That's why we led the sector on pay in January for the third year in a row and why we've increased colleague pay by 58% since 2018.

We continue to invest in the quality and resilience of our supply chain through building long term partnerships with our suppliers, ensuring leading availability for years to come. We've built resilience and created sustainable competitive advantage across our customer offer, our operations and our technology platform. We are stronger, more agile and we have the capabilities to win in this market. These are not capabilities that you can build or deliver sustainably overnight. We've been making balanced choices since the start of our four-year turnaround. This discipline has got us to where we are now, and we will continue to guide our outcomes to deliver for all of our stakeholders going forward.

Now you've heard me talk before about the key factors that really influence where customers choose to do their grocery shopping: value, quality and service. Through focusing our £1 billion of price investment where it matters most for customers, they now know they can trust us to deliver consistently great value and because of this, value perception continues to improve at a faster rate than our competitors.

Our reputation for outstanding quality and innovation continues to strengthen, and we've reached record levels of customer satisfaction on availability over the last year, continuing to lead our key competitors on overall customer satisfaction too. More customers are making Sainsbury's their first choice for food. Over the last four years, the number of primary customers, those doing the majority of their grocery shopping at Sainsbury's, has increased by 18%.

And so in the last year, we have delivered our biggest market share gains in more than a decade. We promised this would feed through to profit leverage, and it has, with Sainsbury's profit growth of over 15%. This is supported by our industry-leading cost savings program, where we are well on track, having delivered £349 million of savings in this first year. We have a clear line of sight to £1 billion of savings over the three years to March ‘27, and this will be a vital point of difference in the year ahead.

We are also committed to improving returns, and so while we are spending more capital on growth and efficiency, the higher retail profit has fed through to an improved ROCE and we're delivering higher cash returns to shareholders, while keeping leverage comfortably in the middle of our target range.

Now these are the eight commitments that we laid out with our Next Level strategy. A year in, and we've made really strong progress against an ambitious plan. Right across the business, our teams have done the most brilliant job as we've stepped up. We've delivered improving customer satisfaction, food volume growth ahead of the market, and as a result, profit leverage from sales growth and we have good line of sight on our financial commitments as we look ahead, and we are confident of delivery over the three-year program.

So, accelerating into the year ahead is exactly what we are doing. Starting the year with strong trading momentum across all our brands. Our belief in the strength of the Sainsbury's offer has driven our decision to make our largest investment expanding store space in more than a decade. With 40 store openings planned for this year, we are moving at pace and with confidence as we focus on delivering this next phase of our growth.

As we bring the best of our food offer to more customers, we are going further with our plans for product innovation, scaling our personalised loyalty program, and taking strategic action in Argos to make sure that we have the best range and proposition for our customers. Now all of this is underpinned by the investments we are making in technology to drive efficiency, deliver better customer experience, and enhance our platform for growth.

So, as we look to the year ahead, this puts us in a really strong place. In the guidance we have given this morning, you can see that we will continue to make balanced choices and that gives us the capacity to navigate the environment around us and to be clear, we are committed above all else to sustaining the strong competitive position we have built, and we expect to continue to outperform the market.

Finally, introducing our results this morning, I want to say we are proud of what we have delivered for our customers this year and of the progress we have made in what has been such a strong first year of our Next Level plan. Now this level of success doesn't happen without the most passionate, committed and dedicated teams working right across Sainsbury's every day. Our colleagues, suppliers and partners have really stepped up this year. They’ve done an exceptional job and for that I am hugely grateful.

With that, I will now hand over to Bláthnaid to take us through the numbers.

Bláthnaid Bergin
Chief Financial Officer

Good morning and thank you, Simon. I will now cover the financial highlights for the 52 weeks to 1 March. 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 cash flows, higher return on capital employed and enhanced shareholder returns.

One year into this Next Level strategy, we are really pleased with our progress. We have delivered food volume growth ahead of the market, profit leverage and continued strong cash generation. We have returned more than £500 million of cash to shareholders in the year through the payment of our dividend and a £200 million share buyback.

Let's move on to our sales performance. Sales in Sainsbury's grew by 4.2% in the year whilst Argos sales declined by 2.7%. This led to retail sales growth of 3.1% excluding fuel and 1.4% growth including fuel. Looking at the shape of that through the year, grocery sales growth was slightly stronger in the first half driven by higher volume growth against weaker comps, but we continued to grow volumes in the second half despite tougher comparatives.

Grocery inflation averaged between 1% and 2% in the year but ticked up slightly in the fourth quarter. Sainsbury's general merchandise and clothing sales improved in the second half driven in particular by strong sales growth in clothing as we took actions to drive availability and improve womenswear ranges.

Argos sales were behind our expectations in the first half due to a significant reduction in online traffic and a weak start to the summer. Performance strengthened in the second half as we took action to improve traffic and volume. Sales returned to growth in the fourth quarter.

Turning now to retail profit. Retail underlying operating profit grew by 7.2% year-on-year. This was driven by double-digit growth in Sainsbury's operating profit, reflecting strong grocery volumes, the delivery of operating leverage, continued growth in the Nectar profit contribution and good progress on cost savings. This was partially offset by lower year-on-year operating profits in Argos. Profits declined in both H1 and H2 with actions taken in H1 improving the outcome in the second half.

Looking ahead to the financial year 25/26 we have started the year with good momentum across all of our brands. We expect to continue to grow grocery volumes ahead of the market. We expect to deliver retail underlying operation profit of around £1 billion, weighted more towards the second half than this year. This reflects the benefits of new supermarket openings and space reallocation activity being weighted more towards the second half, with a higher level of disruption in the first half. Our guidance gives us the capacity to continue to make balanced choices across our business and sustain our current competitive position.

Moving on to Financial Services. 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 more complementary to the retail offer will be provided by third parties. We have announced several updates over the last year, which I will detail on the next slide.

For now, this slide covers our underlying financial services performance. Underlying operating profit grew by 3.4% to £30 million on a total basis, inclusive of discontinued operations. Growth was driven by a reduction in overheads, more than offsetting lower income driven by higher funding costs and lower lending as a result of the decision to exit core banking.

Guiding on the year ahead, we expect to deliver underlying financial services operating profit of around £10 million from continuing operations, including commission income from insurance products and travel money. This is over and above the retail underlying operating profit we've guided to. This compares to a continuing operations loss of £7 million this year, reflecting a relatively high level of costs allocated that will normalise next year.

As a reminder on the recent changes of our financial services division, we announced the sale of our loan and credit card portfolios to NatWest in June last year, which we expect to complete next month. We then announced the sale of our ATM businesses last September. In October, we announced the sale of our Argos financial services cards portfolio to NewDay, alongside a new forward flow contract to provide financial services products to Argos customers. This deal completed in February this year.

Once complete, we continue to expect total annual profit from financial services of at least £40 million to the Group by the financial year to March 2028. This comprises income from the NewDay partnership, together with commission income from insurance, travel money, care and ATMs.

We announced this morning that we expect to return Sainsbury's Bank disposal proceeds of £250 million to shareholders in the second half of this financial year, subject to regulatory approval via special dividend and associated share consolidation. Any proceeds in excess of this will be used to enhance our 25/26 share buyback program beyond a core level of £200 million.

Moving on to underlying profit before tax. Total underlying profit before tax grew by 8.6%. This was driven by higher retail operating profit and slightly higher financial services profit, partially offset by increased underlying finance costs, mainly attributable to interest paid on the £575 million term loan been fully drawn down for the majority of the year. Underlying basic earnings per share were up 4.5% to 23.1p, with the year-on-year increase behind UPBT growth given a higher underlying tax rate in the year.

The next slide lays out items excluded from underlying results. We incurred £377 million of non-underlying costs in the year, with the large majority relating to the phased withdrawal from our financial services division. £274 million of costs sit in discontinued operations, primarily relating to losses on disposals and provisions for onerous contracts.

We also recognised structural integration costs of £128 million in relation to the multi-year restructuring program announced in November 2020 and the Next Level strategy program. Non-underlying costs incurred are primarily non-cash. We incurred retail cash costs of £71 million in the year, a little lower than guided due to phasing, and expect to incur cash costs of around £100 million in 25/26, which includes some rollover from 24/25.

Turning to our cash flow metrics. Retail free cash flow of £531 million was down year-on-year mainly due to lower working capital inflows and higher corporation tax payments. Reduced working capital was driven by increased payables due to timing, partially offset by actions taken to reduce Argos stock levels. Net debt, excluding leases, increased by £64 million year-on-year, and net debt, including leases, increased by £204 million, driven by three large lease regears at distribution centres, as well as lease additions from our new head office location and from our acquisition of stores from Homebase and Co-op in the year.

This table shows the key elements of the cash flow and movements in net debt this year and last. The main difference in retail free cash flow this year is the lower working capital inflow. The movement in net debt, excluding lease liabilities, was an increase of £64 million after returning £508 million to shareholders through dividends and share buybacks.

Looking ahead, we are committed to continuing to deliver retail free cash flow of at least £500 million in 25/26, in line with our Next Level strategy commitment. We expect the composition of free cash flow to be similar to this year, as we continue to drive improvements in working capital and expect capital expenditure to be broadly in line with this year. Cash contributions into our pension scheme will be around £20 million lower year-on-year.

We have included a slide on capital expenditure here. Looking ahead to 25/26, you can see our spend on efficiency stepping up, underpinning our confidence in the delivery of our cost-saving plan and further building sustained competitive advantage against competitors who are more cash constrained.

We are tightly controlling maintenance CapEx, while ensuring standards across the estate are good and growth CapEx is higher across 24/25 and 25/26, reflecting our plans for our new space growth. This includes the cost of converting the acquired Homebase and Co-op stores where we expect to deliver a return on capital employed in the low teens.

Our guidance remains unchanged. We expect to incur capital expenditure of between £800 million and £850 million in 25/26.

Here we lay out our balance sheet metrics. Net debt to EBITDA has steadily reduced over time and remained flat year-on-year at 2.6x times after funding the step up in cash returns for shareholders. We remain broadly in the middle of our target range of 2.4x to 3x.

The strength of our balance sheet was reflected in the public investment grade rating that we published in January this year, and we issued £550 million of unsecured bonds under a new EMTN program. Our first unsecured bond issuance in 21 years. We are pleased to deliver an increase in return on capital employed of 70 basis points to 9%, driven by growth in retail operating profit.

On to shareholder returns. As we announced at last year's capital markets day, we are commencing a progressive dividend policy. Our proposed full year dividend per share is 13.6p, an increase of 4% year-on-year. Given the strength of our balance sheet, we have returned nearly all of our free cash flow generated in the year to shareholders through a dividend and buyback and we have announced that we will buy back at least £200 million of shares in the year ahead, as well as paying a £250 million special dividend relating to the bank divestment.

In summary, we are pleased with our performance in the year one of our Next Level strategy, delivering continued grocery volume growth, retail operating profit leverage and enhanced returns to shareholders. Looking forward, we expect to continue to grow grocery volumes ahead of the market, sustain our strong competitive position, deliver retail operating profit of around £1 billion and generate free cash flow of at least £500 million.

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

Simon Roberts
Chief Executive

Thank you, Bláthnaid. Let's now turn to look at the strategic highlights covering each of our next level outcomes in turn and starting with our plan to be First choice for food.

The momentum we have in grocery is clear. We are delivering for our customers on freshness, availability, quality, outstanding service and experience and consistently great price. All the components necessary for being the first choice for our customers.

Through constantly delivering what is a winning combination, customers are more and more confident choosing us for their big weekly shop. This is showing through in our sustained volume growth, reaching a two year growth rate of 5% over the course of the year. Resetting our value position has been a key focus over the last four years.

We've invested £1 billion in price, and we have found a formula that really works through our combination of Aldi Price Match, Nectar prices, Your Nectar Prices and Low Everyday Prices. As a result, we're in a really strong position versus all of our competitors. You can see our progress on the left hand chart, which shows the extent of our improvement versus November 2020 when we started this work.

We know what it has taken to reset our pricing position. We know how to invest selectively and smartly where it matters most to customers, and we are very confident in our ability to sustain this competitive pricing position. We are a partner of choice for suppliers, and this is evident in the support we have received for Nectar Prices with deals now available on more than 9,000 products. This sits alongside more targeted, personalised offers available through Your Nectar Prices. We have extended our Aldi Price Match again, now on more than 700 products and more to come in the weeks ahead.

It's a value formula that we know works for our customers. Customers trust us to deliver on best prices consistently on the fresh food centre of the plate products they buy most often. The reality of maintaining a strong competitive price position is consistently being noticed by our customers. We can see it in the significant improvement in value perception we've achieved this year. All of this is translating into consistent and sustained market outperformance.

Investing in price alone isn't enough, and alongside strengthening our value position, we have reinvigorated our passion for food to ensure we are delivering the best freshness, inspiration and quality for our customers. We launched more than 1,300 new products over the course of the year, of which more than 600 were in Taste the Difference and Taste the Difference sales grew 15% in the year, with a particularly strong performance in fresh products, where sales were up 17%.

As a result, we continue to deliver the strongest premium own label performance in the market, as customers look to us to deliver outstanding quality at affordable prices for all the big events of the year, and for every occasion when they wanted to trade up. We have clear ambitions for Taste the Difference in the year ahead, as we celebrate its 25th birthday in a year where the brand is set to reach £2 billion of sales. There are lots of great things to come here, including more than 50% of our product innovation for the year ahead being in Taste the Difference. So, watch this space as we celebrate with the biggest and best year yet for Taste the Difference.

Our product innovation is only possible through the support of our suppliers and through that culture of trust, collaboration and long term partnership we have established. We are committed to driving investment into the food system, contributing to economic growth and a thriving farming sector in the UK through working more closely with our suppliers and farmers to give them long term assurance. We work with over 18,000 British farmers and we are committed to partnerships which are good for Sainsbury's, good for UK farmers, good for customers and better for the environment.

Last month, we announced a 10 year partnership with Cranswick. Together, we're planning to invest around £60 million to improve welfare standards and provide more stability for our pork farmers, giving them the confidence to invest in more sustainable practices, building resilience for the future, while protecting value for customers. This builds on the work we've done with chicken and Moy Park and the Sainsbury's Egg Producer Group we established this year too, working in collaboration with our three main egg packers and around 100 farmers to ensure continuous improvements in animal welfare, give financial reassurance to our farmers, and secure protection for our egg supply chain for years to come.

Through our Plan for Better we're going further all the time to support our customers to make healthy and more sustainable choices. Be this through inspiring them with our Healthy Choice logo and gamified Nectar challenges that nudge towards healthier choices. By building knowledge through our Good to Know campaign. By using our skills in food innovation, food agriculture and packaging innovation to provide better for the planet choices and by ensuring good food for everyone through our community initiatives, including increasing the amount of surplus food redistributed through our partnerships with Neighbourly and Olio.

For us, everything starts and finishes with delivering for our customers. So, customer satisfaction is the measure we look at before anything else. Customers expect leading service at Sainsbury's, and we've been consistently delivering ahead of our competitors. Through strengthening our supplier relationships and introducing our machine learning forecasting tool, we've been able to make a major step forward on our availability. Of course, this has a huge influence on customer satisfaction, with satisfaction for availability now at record levels.

Our deep confidence in the strength of our grocery proposition has driven our decision to open more new stores to bring the best of Sainsbury's to more customers, our biggest investment in space in over a decade. We've been very targeted in our approach here, identifying supermarkets in long sought-after locations where we haven't got a significant presence.

The Homebase and Co-op sites we acquired during the year tick all the boxes. Combined with our organic store opening program, we expect to open 15 new supermarkets in the year ahead and a further 25 new convenience stores. We trust our track record to deliver here. We've opened over 100 stores in the last five years, and they are delivering strong returns. So, we expect our 40 new stores in the year ahead to deliver similar benefits.

Now, we're excited about the opportunity we have to reach new customers in new locations, but alongside this, we're also making more of our food range available in our existing stores through our More for More plan. This is about rebalancing space away from clothing and general merchandise to really showcase the best of our food offer, driving a better customer experience and higher trading intensity.

We are seeing positive early results in the invested stores and as we add another 90,000 square feet of space in FY25/26, we expect the benefits to build. Although this will be weighted to the second half and beyond as we annualise some initial disruption. We're also making some key propositional changes to food services in our stores, driving growth, availability and efficiency at a lower cost to serve, whilst also creating further space for fresh food.

As a result of all these elements of space growth, we expect to grow total food space in Sainsbury's by around 3% in the year ahead. Over the last year we achieved volume growth in every channel across supermarkets, convenience, and online. We have transformed our convenience estate over the last year reconfiguring space, optimising our ranges, and introducing our Aldi Price Match campaign to deliver great value to customers wherever they shop with us.

Now, these changes have helped to deliver convenience sales growth of almost 4% and market share growth of 20 basis points, as well as a step on in customer satisfaction. However, our highest growth in customer satisfaction of all channels has been in online. The changes we've made to improve the digital customer journey and better showcase our product ranges has been the key driver of increased basket size and greater frequency of visits, driving sales growth of 7%.

Our OnDemand rapid delivery channel remains very strong too, with sales growth of around 80% this year as we have successfully rolled out the offer to more than 1,200 locations. We are driving continued profit growth across online and OnDemand, with more improvements planned for the year ahead as we make meaningful changes to our groceries online app. Now, within our plan to be first choice for food, we're doing more to improve the performance of the products and services that sit alongside our food offer.

In Tu, we have improved our availability and refreshed our focus on design and range in womenswear. This has resulted in better clothing performance with sales growth of 12.3% in quarter 4 and higher full-price sales participation through the year, delivering market share gains and higher profits. We continue to see opportunities to further strengthen what we're able to achieve into, as we focus on improving product design and availability.

We now have Smart Charge EV charging sites established in over 75 supermarket locations, with 25% of all electric vehicles entering these car parks now charging with us. These are maturing rapidly, with sites delivering month-on-month double-digit revenue growth. This is our focus in the short term, building revenue and strengthening our offer through Nectar.

Turning next to loyalty everyone loves. Now as a reminder, within our Nectar ecosystem, we have two parts. On the left-hand side, our customer-facing Nectar loyalty scheme, which is all about rewarding customers with points and cash discounts. Now, the unique thing about our Nectar scheme is that it's a coalition. A clear point of difference for us, so customers can earn and redeem points across a wide range of brands.

Customers love the benefits of our Nectar loyalty program, and in taking Nectar to the next level, we are making it more and more meaningful for customers. Moving beyond simple rewards to using sophisticated tech to really step on our personalisation and customer proposition.

On the right hand side is our Nectar360 retail media business. We have a huge number of media opportunities for our suppliers to talk directly to around 25 million customers a week who visit our stores and our websites. The media services we provide deliver strong returns and give brands great insights to drive their innovation. Our data analytics helps clients and media agencies to improve the effectiveness of their digital media investments.

There's no doubt that the establishment of Nectar Prices has been truly transformational for us, delivering improved value perception for both Nectar and Sainsbury's. We executed the rollout at pace and customers can now choose from more than 9,000 Nectar Prices offers, saving an average of £13 on their big weekly shop. We've delivered a huge step on in Nectar participation as a result, and we're really learning about what customers want from a loyalty scheme. Value across the board, but also an expectation for personalisation, offers geared individually to them on the items they buy most often.

This is informing the way we go further to deliver personalised rewarding and integrated loyalty. We've established a strong foundation moving from a card-based loyalty scheme to a digital one, building our capabilities to be truly market leading in what we can deliver. Our ability to target customers with tailored propositions that appeal to their propensity to engage, whether that's through instant benefits or gamified challenges, is becoming more and more advanced and it's delivering results. With our targeted Count up to Christmas campaign this year reaching its highest engagement levels yet.

We are already leading the way in personalisation, having first launched this capability in 2021, but we're going further to scale this offer and are really refining our skills, using machine learning to work towards 500 million personalised offers per week. Through investing to enhance the design of our app and website, we're now making it even easier for customers to access the offers available to them, driving a significant increase in digital engagement.

We're also leveraging these skills across the coalition to deliver more engaging mechanics with our partners, really showcasing the best value across the board. The strength of our loyalty scheme is the fuel for our Nectar360 business, our fully integrated loyalty insights and media services agency, where we now have over 900 clients and media agencies partnering with us.

Our Next Level plan in Nectar360 is anchored on three key growth initiatives, all of which have made strong progress in year 1. We're growing the Nectar coalition with exciting new partnerships announced with Marriott Bonvoy, Severn Trent Water, and Smart Charge, and with further new partnerships in discussion for the year ahead. We're leading on data and insights with our Sainsbury's Insights Platform delivering 10% growth year-on-year, and the Argos equivalent of this platform scaling rapidly. We're really delivering our digital retail media offering, investing in our platforms and services to drive strong returns for advertisers.

This is all being delivered with continuing strong customer satisfaction scores across the board, and we see more scope for growth in the years ahead. Having seen the benefits of the first phase of building a connected digital screen network across our stores, we're accelerating our plans to invest in this at scale. With an ambition to reach more than 2,500 screens, delivering a cash payback of less than two years. We're developing innovative proprietary technology which will connect our audiences, media, and measurement services, and should be a real launch pad for growth as we look ahead.

We're already ahead of our plan to deliver £100 million of incremental profit contribution from Nectar360, having delivered almost 40% of this in year one of the plan, underpinning our confidence in the continued strength of Nectar360 and its contribution to our profit delivery.

Our priorities for Argos are super clear and haven't changed. We're focused on increasing the frequency of customer visits and average spend - more Argos, more often. In a tough year, we've had some significant headwinds. We've made some progress with a sharpened trading plan and better momentum towards the end of the year. We've previously talked about some of the headwinds that impacted sales and profit over the course of the year, with a slow start to the summer, a subdued customer and significant discounting over the peak period impacting sales and margins.

But our biggest challenge entering the year was online traffic. This was a key focus and as you can see, we've turned the trend here, back in healthy positive territory in the fourth quarter. This has continued into the start of the new financial year. Volumes have recovered alongside this. This reflects strong work on our digital proposition in particular.

We're making some headway on basket spend, showing up more strongly on key brands at the right time, with stronger trade partnerships and driving more product attachment. We're also continuing to expand our ranges through supplier direct fulfilment. We'll be adding another 10,000 products in the year ahead. We're focusing our own brand ranges on a tighter but stronger number of core brands. We're bringing sharper value to customers through focused value campaigns such as our Big Red events.

We've now completed the bulk of our standalone Argos store closures and the impact on sales of closures will be significantly lower year-on-year. Our focus is now on refining and resetting the store operating model and the store network, right-sizing some standalone stores and investing in others to improve brand standards and convenience. After a period of significant portfolio change, we think there's a lot of opportunity here as we bed down the store estate.

So, in summary, some encouraging early signs of trading improvement, plenty of activity underway to further improve the customer proposition, and still some significant efficiency opportunity ahead of us. We've built excellent momentum in our cost savings program over the last year. I spoke earlier about the contribution of cost savings in delivering the retail profit growth we've just reported, but we're also increasingly confident about the momentum of the program over the next two years.

This isn't just about finding new ways to reduce costs. This is about the long-term capital investments we're making in technology and infrastructure that deliver structural and sustained cost reduction and grow competitive advantage against those who are not in a position to invest in the same way. This is not a capability that's built overnight. We delivered around £350 million of savings in the last year, and we're well on track to deliver £1 billion of savings over the three years to March '27.

We're well underway with the replatforming of our general merchandise logistics network, centralising stock in fewer locations, improving service to stores, bringing more automation and lowering cost. This will deliver savings of around £70m when the program is complete.

Investing to offset a known challenge for the industry, we are using video analytics technology to reduce shrink at self-scanning locations. We will make further steps forward with SmartShop, with pay on handset trials reducing friction for customers and increasing digitisation of the customer journey.

Now, SmartShop has been a key part of the transformation of the front end of our stores. We've invested in the tech and the customer experience behind SmartShop and self-checkouts. Over the course of over five years, we have nearly doubled the amount of transactions going through self-checkouts or SmartShop to nearly 75%, whilst maintaining customer service metrics ahead of major competitors.

Over the last year alone, this has improved the volume per labour hour by 9%. This has enabled us to continue to invest in significant colleague pay increases while keeping our labour cost to sales ratio low.

So let me finish with this slide. Over the last four years we've been transforming every part of this business. As a result, we're operationally stronger and more competitive, and we are now consistently delivering for our customers. The investments we are making in our stores, in our people, and in our technology and loyalty platforms are driving efficiency and are supporting our plans for growth.

As we look to the year ahead, we are in a very strong competitive position, and we are committed above all else to sustaining this. We expect to continue to outperform the market, supporting the profit and cash flow outlook we have shared with you today. Because putting good food at the heart of all we do is helping us to go further and faster than ever before, as we take Sainsbury's to the next level.

Thank you for your time. Bláthnaid and I will now take your questions.

Question and Answer Session

Operator

Hello, and welcome to the Sainsbury's 2024/25 Preliminary Results Announcement Analyst Q&A call. On the call this morning is Simon Roberts, Chief Executive and Bláthnaid Bergin, Chief Financial Officer. 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 press star nine on your handset now. Once called upon, please unmute with your camera on and begin with your question. We will pause a moment to allow questioners to enter the queue. The first question is from Freddie Wild at Jefferies. Please unmute yourself and begin with your question.

Simon Roberts

Good morning, Freddie.

Freddie Wild, Jefferies

Good morning, Simon and Bláthnaid. Thank you for taking my questions. First of all, I guess I'm going to be the only one on this call asking a price question or something. Why are you confident not to give a range today? Could you give a bit more details about what industry pricing assumptions are behind the £1 billion guidance and are you assuming incremental Asda price investment? That’s sort of one set.

The second, could you give a bit more detail about the half 2 weighting? Did I hear you correctly that you're assuming industry competition increases will be weighted into half 1?

Then finally, on the at least £500 million free cash flow guidance, is it going to be a bit more – and the £1.6 billion at least over the three years – is that £1.6 billion going to be a bit more back-end weighted? Should we think of retail free cash flow maybe being broadly flat in 25/26? Sorry, a bit of a barrage there. Thank you.

Simon Roberts

Super clear, Freddie. Thank you. Thanks for the questions. So, look, I'll take the first two and then Bláthnaid will pick up on free cash flow. So, first of all, thanks. I don't expect this to be the only question on the market. So, let's talk about how we see this.

Look, I think the first thing to say is that we have spent, as a team, four years resetting our competitive price position. As you know, we've invested £1 billion as we've done that. We've learnt a huge amount actually about what Sainsbury's customers expect and now love about our value position. A couple of things within that have been therefore very important in how we look at the year ahead.

The first thing to say is that above all else, we are going to ensure that we sustain our competitive value position. We've spent four years building this and you can see in our results today the difference it's making. An 18% increase in the number of primary customers now doing their big trolley shop back in Sainsbury's.

You can see the change in value perception. You can also see across the rest of the elements that really drive customer experience, whether that be availability, whether that be quality, whether that be customer service, how all of those are coming together now to give customers real confidence. So, the first message I would want to just reiterate is above all else, we're going to sustain our competitive position.

Second thing is that we've learnt a lot in those four years and as a result of that, we've been able to robustly model the scenarios that we think are possible over the next period of time. I would say there's a lot of noise out there at the moment, but in the guidance that we have shared today, we are absolutely clear that within that guidance, we have the capacity for whatever we need to do this year. That guidance of around £1 billion doesn't assume that nothing happens from here. We've absolutely looked at the scenarios that might happen and ensured that we are prepared for any of those.

I would just make the point that as we stand today a few weeks into this new financial year, we are in the strongest value position we have ever been against our major competitors. We look obviously at all of the competitors in the market. When I look at the value index - and we should remember that value index is across thousands and thousands of lines that we match our competitors to understand our relative price position every week. When we look at that this year compared to last year, there's no change.

So, a lot of noise out there, a lot of work to make sure that we've looked at all the scenarios that could play out, and we are confident we've put the capacity in this guidance to make sure that we can be ready for the year ahead.

I'm very happy for you to put, you know, £1 billion into your models and we'll see over the course of the year what develops. We can obviously talk more in November as we see how the first six months plays out.

On the second question on weighting, actually, the key point here for us is we've got our biggest year for a decade in adding new store space. Also, in moving many of our supermarkets around as we continue with our program of moving space from general merchandise into food.

You'll remember that in first choice for food one of the big opportunities we have is to bring the full Sainsbury's assortment to so many more of our supermarkets. You'll remember a year ago I was describing the fact that only 15% of our supermarkets carried our full food range. So, we're now well on with that program to move space from general merchandise into food. That means we've got a lot of that happening in the first part of this year.

Inevitably there'll be some disruption as we do that. Moving supermarkets around is something you need to plan very carefully before you start to do that. The team have done a brilliant job preparing and planning for this, but we've got that space movement happening in the first half of the year.

There'll be some disruption as we do that. We'll manage it very carefully, and therefore, as we come through that program, the benefits will start to flow into the second half of the year. That's the primary driver rather than anything happening in the market, for the reason that we expect a back-end weighting to our profit delivery this year.

Bláthnaid, free cash flow.

Bláthnaid Bergin

Great. So, look Freddie, we are delighted with the £531 million that we've delivered this year. Really good quality cash flow and you can see in the working capital the benefit we've delivered this year has come from some really good work that we've done in Argos.

So, we've reduced the Argos inventory by about £90 million, but at the same time, we improved availability. So that is the right combination that we want to achieve. So, we're about one-third into that £1.6 billion target. We're guiding to at least £500 million this year. That gives us the flexibility to make the choices that we want as we travel through, but we are absolutely committed to the £1.6 billion, and again, we're heading into year 3 of our working capital program, so we're very confident that we can hit that target.

Freddie Wild, Jefferies

Perfect. Thank you both and happy Easter.

Simon Roberts

Thank you. Yes, and to you too. Thank you.

Bláthnaid Bergin

Thank you.

Operator

The next question is from Sreedhar Mahamkali at UBS. Please, unmute yourself and begin with your question.

Simon Roberts

Sreedhar, good morning.

Bláthnaid Bergin

Good morning.

Sreedhar Mahamkali, UBS

Good morning. Good morning, Simon, good morning, Bláthnaid. Sorry, I'm on audio only, I'm just walking around Heathrow. I'll find a place to sit. Apologies. Can you - maybe just could build on…

Simon Roberts

We can hear you loud and clear, Sreedhar, all fine.

Sreedhar Mahamkali, UBS

Thank you very much. Yes. Sorry for the background noise as well. Simon, you've touched on the value index, which I think seems like a very large basket that you clearly are looking at thousands of items. Can you elaborate a little bit more, when you said it hasn't really changed, as in it hasn't been changed at all? But you've referred to noise and then does that mean you've been keeping pace with that noise and hence protected that relative position? How should we think about it?

But in the same vein, I think we definitely are picking up more inflation to come from the supply chain, particularly the later point of view, from April onwards. How does that feature in that competitive activity? That's the first one.

Secondly, I know you've talked about green shoots in Argos. What have you assumed from Argos in the EBIT outlook?

Maybe just a third one, kind of standing back from it all from this year, I know it's very early to be confident with even predicting this year is not that easy, let alone next, but I'm kind of trying to understand from the longer-term investors, knowing what we know, do you think it's still right to project or think of profit growth next year and beyond? Admitting this year is kind of sideways move to downwards because of past inflation…? So how should we see the medium-term perspective? Thank you.

Simon Roberts

Sreedhar, thank you. Okay, let's take each of those questions in turn. So, on your first question in terms of relative value, relative position, what we see happening as we've come into this new financial year for us. Well, just to reiterate what we were describing just now with Freddie's question, look, we of course all see a lot of noise out there. But the absolute substance of what we're seeing is that over the last few weeks, we've seen next to no change in the relative value position.

As I said earlier, when we look at our value, we're in the strongest position actually against our key competitors we've been at any point. We measure that value index every single week and it includes every item where we can match with every other retailer. So, it's a very high proportion of the products that we sell. Obviously, it takes account of promotions and volume SKU within that as well.

So, we've got an accurate read we look at weekly and despite all that's happening out there in terms of the noise we here, the reality on the ground is we're not seeing change yet. Within that, of course, as I've said, we have created a plan. Having done - maybe if you could just pop onto mute, Sreedhar, there's quite a lot of noise there.

We've created a plan to make sure that we've got the capacity for whatever plays out from here. As I said, in giving that guidance of £1 billion we're not assuming nothing happens from here. So, we've looked at the various scenarios to make sure that in any scenario we can do what we need to do because above all else we're going to sustain the competitive position that we've built.

So confident in the position, and of course, we take that point of view because we've learnt so much over the last four years. One of the things we've learnt - and one of the points I would just emphasise is we took the hard decisions actually through that four-year period when we made decisions to put lots of the value investment into high-volume SKUs.

I would just double underline that point because what we find now through the Aldi Price Match and also through Nectar Prices - Your Nectar Prices is that customers really trust the fact that the product they buy most often are the ones that are in the Price Match. That really matters of course because it's driving perception.

So, these aren't SKUs that are low volume, this is all focused on things that people buy most often. That's why value perception has moved as much as it has.

To your question on inflation. Of course there's two factors to manage for in this context, (1) is that we're going to sustain above all else our competitive position. (2) Is, as you say, particularly as we've come through the beginning of April, there's a lot of cost in the pipe. There's a lot of inflationary cost in the pipe with National Insurance, regulatory cost change, and we are starting, of course, to see that feed through particularly in fresh food.

When we look at the rate of inflation over the last 12 months, in the last couple of months you can definitely see that beginning to build. No surprise there. It's what we predicted. It's what we planned for. Driven by the cost in the supply chain and also the cost in retailers.

So, we will expect that to clearly pass through but as it passes through, we're going to make sure, as I've said now three or four times, we are going to absolutely sustain our relative value position so that customers have got all the trust they need to keep doing their shopping with us in the way that they are.

On your second question on Argos, look, I think let's be clear, we had a challenging year last year. Three things really were the cause of that. One was a slowdown in online traffic volumes, that meant in the first half of the year less customers came into the Argos brand than we had hoped for and that's slowed down our volume at the top line.

The second thing that happened is we clearly had a tough summer last year. Very seasonal business in Argos and that held back our ability to convert through the first half of the year, particularly into the summer.

Of course, the third thing ongoing is a cautious customer and the fact that on discretionary spends we've definitely seen customers over the last period of time hold back.

So, we're pleased and encouraged to see some improvement in the trend. Obviously, to exit the year with positive sales in the fourth quarter. More importantly, underlying that, a real recovery in our online traffic trends.

As you know, we're doing a huge amount to drive the transformation of Argos. That's all about improving the digital experience, that's expanding the number of products available in Argos. Adding thousands of new products, particularly using the supplier direct fulfilment platform to do that. We're also doing a lot of work on our costs and working capital.

So, it's very much a key focus for our team. We've begun to see some improvement at the top line and our job of work over this next year is to keep improving the performance in Argos. I would just make the point that we're not expecting an improvement in profitability in the year ahead.

So, in the guidance that we've given you of around £1 billion, that assumes – and baked into that assumption is flat profit in Argos' year-on-year.

Third point then in terms of standing back and the commitments we've made over the life of the plan, maybe I'll just say something on that and hand to Bláthnaid. The key point here is, we're committed over the life of the plan, the three years to 27 March to deliver the leverage and the free cash flow improvements that we committed to.

Bláthnaid, is there anything you want to add to that?

Bláthnaid Bergin

Just one or two little builds on that, Simon, thank you. So, first of all, we are completely focused on cash. So, we've reaffirmed our commitment this morning of the £1.6 billion over the life of the plan. We've also reconfirmed this morning profit leverage over the life of the plan as well and we are very focused on delivering that.

It is really underpinned as well by our industry-leading cost-saving program. So, you'll see from the results this morning that we have delivered £350 million of that program. We're more than a third of the way through that program and we've also got really good growth coming through from Nectar as well. So, we're £40 million into that incremental £100 million as well. So, all of those pieces are building blocks that contribute over the life of the plan.

Simon Roberts

Yes, thanks, Bláthnaid. Then maybe just on the save and invest to win planning, I would say that we've actually grown a lot of confidence through the course of the year. Not only in the - what we've delivered so far at £350 million but also as Bláthnaid just said, over the plans that the £1 billion commitment that we've made, we've really built foundations of certainty around our delivery towards achieving that objective through the course of the last financial year. So, lots of progress happened there.

Thanks, Sreedhar.

Operator

The next question is from Rob Joyce at BNP Paribas. Please, unmute yourself and begin with your question.

Simon Roberts

Hello, Rob. Good morning.

Bláthnaid Bergin

Good morning, Rob.

Rob Joyce, BNP Paribas

Good morning to you both. Thanks very much for taking the question. So, I'm going to go with three. So, in terms of just thinking about the guidance, I guess, prior to the Asda announcement I think consensus EBIT next year retail was around the £1.1 billion level, so versus the £1 billion guide.

Should we think about this guide then as embedding around £100 million incremental investments since we've heard from Asda and most recently Tesco?

Second one, just in terms of the guidance again. In terms if you think about the volume number, what are you thinking about in terms of volume growth for the year and versus what you think about the market in that regard?

Then finally, just Argos – I'm trying to square a couple of things. I mean it looks like profit's down, I mean £50 million plus probably to square that number with 15% Sainsbury growth. With sales down, what, £120 million, that's quite a lot of deleverage in that business. I'm just wondering is this a really low base for Argos or is there something more structural here? Just sort of see that sort of 50% drop through on the negative profits.

Quick thoughts on tariffs and FX? Do we have a tailwind here for Argos as we've got more supply potentially coming online and a weaker dollar? Thanks.

Simon Roberts

I think that's four questions, yes?

Rob Joyce, BNP Paribas

Sorry, I was doing (a) and (b) on the third one.

Simon Roberts

All right. Okay. Let me take the first on the guidance and the kind of volume position. Then maybe Bláthnaid will start on Argos and make sure we give you a picture, then we'll come back to tariffs as your kind of supplementary question at the end.

So, look on guidance, Rob just - I guess, first of all, to reiterate what I've already said which is that in reaching this level of plan for the year on our guidance for the year, a couple of things have really guided us in clearly defining this. The first is that we've learnt a huge amount over the last four years about what it takes to reset pricing position and how to invest smartly to make sure that customers really notice the impacts that we want it to have. That's what's played through not only into our value perception chain but the big change in customer behaviour.

So, I would just really emphasise the point that this is something that we've been doing since 2020/2021 and you can see the change that we've made and what it's taken to get to this point.

The second point I would just emphasise is the recipe for success that you need in grocery in 2025 in the UK is definitely about great value but it's about many other things as well. That's why you see in our results today the progress we've made in areas like in our record availability, leading customer satisfaction against our direct competitors, the work we're doing in loyalty and data, what we've been doing to build our technology platform, our long-term building of relationships with suppliers. We just add all of those into this picture about what it takes to be competitive and to deliver for customers day in, day out.

Within the work we've done and what we learnt, we've done very robust modelling of the scenarios that we see. We've given you our guidance today of around £1 billion and I'm not going to be any more specific on that today because, of course, we will see what plays out over the next period of time and we'll update you as we move through the year.

But, as I've said now a couple of times, despite the fact in the first few weeks of the year we don't see any change in the relative value position, and we look at all retailers, we're not assuming that nothing happens from here.

So, we've given ourselves the capacity within this guidance to continue to make the balanced choices that we've always used as our guide. We're very happy for you to put £1 billion in your models. If a less competitive reaction happens, we'll be able to deliver more than £1 billion.

I would just also emphasise the point that Bláthnaid made, which is we have a very strong track record now on cost. If you look at our £350 million worth of cost delivery in the year and compare that against what other commitments are out there, you'll see the strength of that cost position. That really helps make sure we've got, within our capacity, what we need to navigate the environment.

Also, you'll see in our results though, the strength of our Nectar performance as well. So, within what we're delivering and within the capacity that we've set ourselves, you can see the contributing factors to that.

In terms of volume, look, I think the first thing to say is we continue to grow market share. You've seen this morning in our guidance that we expect to continue to grow volume market share.

We're adding new space, we're moving space from general merchandise into food as we put more of our focus on first choice for food, adding more of our food ranges into more of our stores and more of our customers. That's one of the key underpins of our confidence, that we'll continue to grow share.

As we look at the year ahead, clearly, as you look at recent reads, volume in the market has slowed down a little bit but we've continued to take share. Despite the fact we've come up against some really strong comps actually over the last period of time.

It's also worth saying that the period we're in right now with a later Easter, a later Mother's Day, this year. That's also pushed some of the trade to later in this period and we'll see that catch up again, I think in the next reads.

On Argos. Bláthnaid, do you want to…

Bláthnaid Bergin

Yes, why don't I take that. Look, Rob, we talked about Argos having a tough year the last time we talked and it has. The traffic has improved, and you'll see that in some of the charts that we shared this morning. So, we've taken some actions and we've seen that trend, and we've got positive momentum in the sales.

The sun is shining at the moment, so we've had a good start to the year. Let's see how the rest of the year plays out. But we've assumed that Argos will be flat year-on-year.

Standing back and looking at - we took a lot of action this year to clear through some stock as well. So that had a little bit of a margin drag for us but we exited the year really clean in our stock position. So, we were particularly pleased with how we exited the year there.

If I stand back and look at where is Argos today? We laid out the actions that we were going to take at Capital Markets Day. So, you'll have seen some improvements on the digital journey. You'll have seen us talk about a lot of the new range that we're adding. Again, we are looking really hard at the cost saving program at Argos as well to deliver a lot more momentum into that business.

So, look, let's see how the year plays out and we'll update you in the Autumn but we are budgeting for sort of a flat year-on-year. But Argos is cash positive and profit positive to the Group. So, we're pleased with that. But more to do. I'd always like more cash, Rob.

Simon Roberts

Bláthnaid, thanks.

Now your last question then, in turns of tariffs and FX Rob, I think, look a couple of things to say here. The first thing is when we think back over the last four/five years it feels like in every year we've had unprecedented events to navigate. Clearly this year's going to be no different.

I think that we'll need to see how this plays out in the next period of time but, for obvious reasons, we're very focused on potential developments in this space. We've learnt a huge amount, again, if I think back particularly to '21 when we were navigating this huge escalation in freight costs around the world and what it took to get general merchandise products from the Far East into the UK.

The subsequent examples in not dissimilar space we had since then, we've learnt a lot about how we navigate these things without an impact, either on our customers, or on our performance. So, let's see what happens here.

We go into this period of time in a strong place, as you just heard from Bláthnaid. We've got a lot on the economics of the Argos business to make sure we improve what we're doing. You know we will make sure, if opportunities present themselves, that we are clearly well-placed to take advantage of them. Let's see what happens on the currency, as you say.

The vast majority, clearly, of our business in food isn't impacted by this. Clearly, we source in the UK and Europe, the vast majority of the food we sell. Clearly, we've got general merchandise categories we'll be watching carefully and closely. Maybe there'll be some opportunities that flow as a result of some of the issues we're seeing.

But as you've just heard Bláthnaid say, and I said earlier on, we've assumed a flat profit number in the Argos forecast. So, if there was any upside to come, that would be in addition to the position we've started with.

Thanks, Rob.

Rob Joyce, BNP Paribas

Thank you very much.

Operator

The next question is from James Anstead at Barclays, please unmute yourself and begin with your question.

Simon Roberts

Hello James, good morning.

Bláthnaid Bergin

Morning.

James Anstead, Barclays

Morning Simon, morning Bláthnaid. A couple of questions, please. Simon, you mentioned you wouldn't say anything more specific on guidance. So, this might be a wasted question. But it was quite striking you said you were very happy for us to stick £1 billion in our models. It's also in a way, quite striking you're not assuming any profit growth from Argos.

I can totally understand why you'd take that view, given people have been quite scarred by various - you know the lack of growth there in the last few years but I mean is it fair to say if we look out of the window and see the nice weather and look at how low Argos's profit has fallen, you wouldn't be totally shocked or horrified if consensus ended a bit above £1 billion at the end of today, on retail profit? That would be kind of question one.

The second one would be, regarding the timeline for the total sale of the banking operations you're exiting. There's obviously various bits and pieces happening. Am I right to understand that we might get kind of a final resolution and know the total proceeds as soon as next month? If so, presumably at that point we can look at the press release, deduct £250 million from it or whatever, add that to the buyback you promised. Is that the point when we'll get clarity on the buyback for the year? Hope that makes sense.

Simon Roberts

Thanks James. Well, look I'll take the consensus - just kind of opportunity to re-run what we've already said and that. Then Bláthnaid will definitely take the second one, given she's been leading all of the work on what we're doing at the Bank and with the exit.

So yes, forgive me James. I am going to repeat what I've said. But I'll try and maybe add one or two things just to help as much as I can.

Look, I think, let's just take a step back and look at what we've just delivered. So, despite what was a particularly challenging year in Argos for all the reasons that we've talked about. Reduced online traffic trends, a cautious consumer, as you said a bunch of weather impacts, none of which went our way. We delivered exactly what we committed to, with a growth in our retail operating profit over the course of the year of just over 7% and 15% growth in Sainsbury's.

So, when you think about the backdrop of the financial performance that's been delivered in the year. Now we committed that we would deliver this level of improved performance at the start of the year. We saw some real challenges as the year unfolded and yet we've still delivered exactly what we committed in Sainsbury's.

I think that just shows us a couple of very important points. The first thing is just how much that volume improvement in our core grocery business is now driving our profit leverage, 18% more customers are doing - 18% more primary customers are doing their big trolley shop in Sainsbury's week in, week out.

We had our fifth record-breaking Christmas in a row, underpinned by leading availability. Again, that real step change in big trolley shoppers in customers. You've heard from Bláthnaid and I - the strength and now the maturity of our save and invest program, delivering £350 million - £249 million of cost savings in the year. Well on the way to the £1 billion that we committed to.

So, what I would just double underline is that in our guidance of around £1 billion we've given ourselves the capacity to make sure, above all else we can sustain the strength, the position that we've created. We're absolutely clear of all the modelling that we've done, the scenarios that we need to plan for and that's what we've built into our guidance today.

We've got a strong track record now of cost delivery. That comes into this second year. I said earlier that our confidence and our £1 billion delivery over the three years has significantly improved through the year. We've got outperformance in Nectar in the first year of the plan.

Now, I'm not going to forecast the weather, James. But you know clearly, it's helpful that we've had a better start to this year. Let's see what happens over the course of the next few months.

What I would just say is we've built a strong plan for this year. Our team are really together on what we need to do to make sure we deliver for customers. So, you know we'll talk in November about what we see happening between now and then.

But we've planned rigorously, we're really resolute about what we need to do and we come into this year in strong shape.

Bláthnaid.

Bláthnaid Bergin

So, look, winding up a regulated bank is never an easy task, James, as you'll appreciate. We had our Part 7 Court Hearing yesterday. We were successful in that, so really delighted with that. That allows us to complete the deal with NatWest, targeting the 1 May to achieve de-recognition.

We then begin the conversations with the regulator. So, we are confident of the special dividend of £250 million coming out and getting approval by the regulator. That will be returned to shareholders, hopefully before Christmas if all goes according to plan.

We will update in the autumn as to what we think the additional amount coming out this year could be that we would add to the buyback. Then as we travel through next year and ramp up the TSA agreements, understand the final running costs of the bank, there'll be some sort of a mop up as well that will come next year.

But I would be confident in the £250 million before Christmas, a little bit extra into the buyback and then the mock up next year is what I'd say on that.

Simon Roberts

Thanks James.

Operator

The next question is from Monique Pollard at Citi. Please unmute yourself and begin with your question.

Simon Roberts

Monique, good morning.

Bláthnaid Bergin

Morning.

Monique Pollard - Citigroup Inc

Hi, good morning, morning Simon, morning Bláthnaid. Three questions from me, if I can. The first is just, as we've talked about now, you've had really good performance in the fourth quarter in General Merchandise and Clothing. Obviously, a lot of that is your own internal actions. Then there's been that improvement in the traffic online for Argos, the repositioning of the Habitat brand, et cetera but just wondering if you're seeing anything that's making you think the consumer environment is actually also a bit better than maybe people were fearing?

Second question is just whether you are seeing any benefit yet to product costs in your general merchandise business where you source from China?

Then the final question I had, I just was interested in that slide - I think it was slide 51 where you showed the 9% increase in volume per labour hours that you'd achieved this year. Just wondered, in your plan - so in your £1 billion retail EBIT guidance, in your guidance in terms of the impact on the budget from the National Insurance, National Living Wage contributions, what you have assumed going forward for the volume increase per labour hours for FY26?

Thank you.

Simon Roberts

Thank you very much, Monique. Okay, well let's start on General Merchandise and Clothing and then we'll pick up kind of early thinking on impact of some of the tariff work. Then maybe Bláthnaid, we can talk about where we are on our costs and our confidence for the year ahead.

Look, so first of all I think it's important to say we were really encouraged, actually by how we've exited the year. Not just in Argos with an improving trend, still lots to do, but also, as you say Monique, in our Clothing business.

Look, we've done a lot of work here to improve both our product design and also availability. In all honesty, we still think there's plenty more runway in front of us to improve and that's what we're very focused on doing as a team.

Look, as we get Sainsbury's core food and Grocery offer really working for customers, more and more customers come back for their big trolley shop. So of course there's an opportunity now, 600, plus 15 new supermarkets - yes, 615 supermarkets by the end of the year - to make sure we've got a really compelling range of General Merchandise and Clothing.

What we see as we exist this year in Tu, is actually the product design improvements in women's wear are really starting to connect with customers now. We've begun a program of real focus on availability because of course, when customers come into our store, we want to make sure we've got the size in the product they want to buy all the time. So, what I would say is, we're just getting going in Clothing and there's a lot more for us to do and we're very focused on doing that. We have a real opportunity to continue to grow Tu because customers really love what we do when we get it right.

On General Merchandise, we've seen obviously the first impact of beginning to move space from GM space into Food. That obviously accelerates over the course of the year ahead. But let's just take a step back on what we're trying to do here. We're looking to improve our Clothing range and the way we use our space. We're actually looking to improve our General Merchandise offer in our stores.

As Rhian and the team, within the way we run Sainsbury's, takes responsibility for the General Merchandise offer, we're really looking at how we actually improve what we do for customers whilst improving the trading intensity, improving the ranging, and making sure that we can really deliver an improvement both in how the product is for customers and how the experience comes across, just as in Argos, we deliver the transformation plans there in the way that Graham's leading those.

In terms of your question on the China impact, look, I think honestly, Monique, it's a bit early to say yet. What I would say is that we have really deep experience in this space, given all we've navigated in the last few years. Going back to, as I said earlier to the earlier question, all of the shipping and freight impacts we saw back after the pandemic, everything we saw through ‘22, ‘23, and then the inflation crisis that came after that.

So, we've got teams who are really expert in this space, and if there are opportunities as things become clearer, of course we'll take them. We're very focused actually in Argos on how we drive our transformation through. So, as we navigate that environment, we'll be paying close attention given all of our experience to make sure that we get the best outcome that we can.

Bláthnaid, costs.

Bláthnaid Bergin

Great. Thank you, Monique. So, there's really two sides to answer this question. The first one is the cost, and second one is the CapEx and where we're putting our investment today to help us manage our costs in the medium and the long-term.

So, if I stand back and look at our costs, the first thing is we have a £1 billion cost savings program. When we put that program together, we were very, very clear on what we anticipated wage inflation will be in the market, what we needed to do to offset that wage inflation, knowing that we always want to pay a market leading rate of pay to our colleagues. So that was something that was always planned and budgeted for.

As we look out to the future, we think about our cost saving program against that backdrop and against that context, and we’ve built it in that way. The second thing that I would say is there's some new costs to us that weren't part of our program. So that's the NIC increase that we've seen, and we've talked about that before as well. We'd anticipate some of that would get passed on to customers as we travel through this year, and you've seen some of that inflation start to flow through already as well.

But we'll monitor that carefully because we are absolutely committed to sustaining our pricing position in the market. If I turn to the other side of the equation, and talk about that increased CapEx investment that we have in play at the moment, we talked about that at the Capital Markets Day, where are we investing?

We are investing in automation of our depots. We're investing in the future front end in stores. That allows us to manage our labour costs over time, and we're starting to see those investments starting to pay some dividends and allow us to control our costs more clearly. All part of the £350 million that we've delivered this year, all part of the £1 billion cost saving program that we have in place at the moment. Thank you.

Simon Roberts

Thanks Monique.

Operator

The next question is from William Woods at Bernstein. Please unmute yourself and begin with your question.

Simon Roberts

Morning, William, how you are you?

Operator

Morning?

Simon Roberts

Will, can you hear us?

William Woods, Bernstein

I think you should be able to hear me now. Can you hear me now?

Simon Roberts

Yes, we can. Loud and clear. Good morning.

William Woods, Bernstein

Yes, perfect. Excellent. Thank you for taking my question. I've got three, I'll take them one by one if that's okay. You've said that you've not really seen a change in your price index, but when I look at slide 28 where you show your value index, you've improved versus every single player in the market except from Asda, where I think year-on-year, I think it's slide 6 from last year, the value index has dropped by 100 basis points going from 550 to 450.

Do you think your price gap to Asda is narrowing or does this suggest that the overall market is not following Asda down?

Simon Roberts

Thanks, Will. Look, if you just take the slides you've referenced and look first of all, which I think is the key thing, how much progress we've made in transforming our value position since 2021, we've invested £1 billion in the areas of the shopping trolley and basket that matter most to customers.

I do just want to really emphasise that point because it's possible, isn't it, to invest pricing investment on SKUs that customers don't buy very often. It's also very important to make sure that you invest in the products that people really do buy very frequently. That's why our focus on fresh food in the centre of the plate on high volume lines that customers buy most often, that has been our secret sauce in all honesty of really driving the value perception change that we've seen.

As you've heard us say every year since, and I say again now, we are absolutely committed above all else to sustaining our overall capacity position, and particularly, that formula for us that really works on the products that people buy most often.

As to your question, we rigorously look at value every single week as you'd expect, and we look at it against everyone in the market. We're not just looking at one other competitor, we're looking at every competitor because that's what customers do. Customers look at our prices, our value, our availability, our service, our store standards, our loyalty platform, our supplier relationships, all of those things every week.

When we look at that, what we see is that we are exactly where we were on pricing versus a year ago versus everyone else. Actually, as I said earlier, in the last few weeks, we've actually improved our relative value position against our key competitors. We've not done anything in that period of time that we didn't plan to do, I should also add as well. We’re just six weeks into our new year.

So, we come into this Easter weekend in the strongest position we've ever been, and as I say, that's against everyone that we look at. There's a lot of noise out there at the moment, but I think customers look at actual prices on the shelf and what we continue to see is customers value the value where we are putting it. So that's on the first question, Will.

William Woods, Bernstein

Yes, and then obviously I think you've highlighted a number of times that a key part of your success over the last few years has been that focus on centre of plate SKUs, your leading availability, which I think is not a highlight of what Asda is doing or what Asda has done. They've ditched Aldi price match, the loyalty card, things like that. When you look at it, I suppose, why are you worried about Asda and therefore guiding profits downwards? Or is it more a worry about the contagion effect to pricing in the overall market?

Simon Roberts

Well, I think, as I've said already, we look at all competitors. We don't look at any one competitor in particular because that's what customers do. Now our job every day is to do the best we can for customers and to make sure we give our customers the value and the full offer of everything that they expect.

So, in laying out our guidance today, we are really confident in our position and we're really confident that we've created the capacity to sustain our capacity position. As I said, in giving the guidance of around £1 billion, we're not assuming that nothing happens. If we see less of a passive reaction broadly in the market to any of the things happening out there, we'll be able to deliver more than £1 billion.

So, I'll just double down on the point here, which is that we've spent four years resetting our value position. We are really clear what it's taken to do that. There's been a heavy lift to get to this point. It's a multi-year period of time to get to the changes that we've seen. You'll remember on perception, actually, it took nearly three years for that really to start to connect with customers. So, this is something that takes a long period of time to do.

It's taken a lot of financial reinvestment that we've created through our save to invest plans. That's fuelled our ability to put £1 billion more in price. So, we're in a position where we're really clear what our customers expect. Our job is to deliver for them every day. We've created the capacity in our plan so that we can navigate whatever we need to do. Above all else, we're going to sustain the strong competitive position that we've now built.

William Woods, Bernstein

Excellent. Then just the final one is obviously when you've talked about if we see a greater competitive reaction and that's where we get closer to the £1 billion or around that £1 billion, I suppose what would worry you in terms of getting towards that? Is that irrationality in terms of cost pass through in OpEx or commodities or is it a movement more into those centre of plate items? I suppose, what are you looking for to see the change in the market?

Simon Roberts

Well, forgive me, Will, for repeating myself, but I am going to repeat myself, which is, there's a lot of noise out there. There's a lot of noise out there for sure. But when we look at the facts, the facts say that we are seeing a value index against all of our key competitors. That hasn't moved compared to a year ago.

When we look at the strength of our value position, we are really confident in what we are delivering for our customers. We expect to grow volume market share in the year ahead. We have both the value position, the leading availability, the leading customer satisfaction against our key competitors, the long-term relationships with suppliers that guarantee availability.

We shouldn't underestimate that point. It's so important that when a customer, our customers come into our stores, they can buy every day everything that they want, whatever the prices are on the shelf, in the end, the availability has to be there too, right? Those two things have to go hand-in-hand together.

So just at the risk of repeating myself, the capacity that we've placed in our guidance is to make sure we can navigate whatever we need to do, but above all else, we are going to sustain our strong competitive position because that winning combination we have of the value position, the availability, the quality and the service is what customers in Sainsbury's now really trust and expect from us.

William Woods, Bernstein

Excellent. Thanks very much both for taking my questions.

Operator

The next question is from Manjari Dhar at RBC Capital Markets. Please unmute yourself and begin with your question.

Simon Roberts

Hello, Manjari.

Manjari Dhar, RBC Capital Markets

Morning, Simon. Morning, Bláthnaid. Thank you for taking my questions. I just had three as well, if I may. My first one was on for the level of supplier funded promotions in the industry. I guess how do you view the outlook of that and connect to that, your share of those within it?

Then secondly, on the store estate, if you look at your store estate now and where there are gaps, how do you see the outlook for further opportunities to fill out those gaps in the next year?

Then finally, I wonder if you could give some more colour on the level of disruption you see from - or you have seen from - the space rebalancing program where you have completed that of how long it lasts, what sort of impact it has. Thank you.

Simon Roberts

All right. Thank you. Okay. Yes, so good question in terms of what we're doing with suppliers, how we're working in that space. I think, look, the key point here to say is that we've spent four years building out our transformation of Sainsbury’s. The key part of that has been the way we work with suppliers.

The principle of partnership is something that we fundamentally believe in, which is why we've been able to build out these long-term supplier partnerships in so many fresh food supply chains, which is enabling us to make sure we've got guaranteed availability over the long-term to make sure we've been able to really further invest in British produced food, make sure that our farmers and suppliers are getting the confidence to reinvest in their own businesses.

So that underpinning philosophy of partnership has been a really important part of what we've done. Then specifically on your question of funding, well, of course Nectar is such a game changer for us. If I think about the fact that we launched Nectar Prices actually less than two years ago, it was 29 April 2023. We first put 300 products out in our stores under Nectar Prices and now we have over 9,000 products on Nectar Prices, and customers absolutely love Nectar Prices.

We’ve got a huge surge in participation as you've seen in our presentation today. Of course, it's the platform that gives customers certainty when they come and do their big trolley shop with us, that they can get all the brands they want at great value. Of course, as that's been such a key part of driving our volume, supply partners want to work with us to help fund that value position and to help support what we're doing with Nectar. So, over 900 clients and partners we're working with now across Nectar and we see actually more opportunities to do an even better job as we push forward our plans on Nectar. You've seen in the first year of our plan how strong that delivery has been.

Moving to your second question on the store estate. Well, of course, we wouldn't have made the decision, we wouldn't have taken to our Board the proposal to open new Sainsbury's supermarkets until we were really sure in the strength of our grocery proposition. Over the last four years we've really built to the point now where we're winning lots of new customers, we're gaining market share but there are lots of locations, to your question, in the UK where there isn't a Sainsbury's today, and customers would like one.

That's why the opportunity to acquire the Homebase and Co-op stores came at the right time for us. It ticked the box most importantly of the locations that we were looking for because these are long sought-after locations that we've been able to find a store now to be able to put Sainsbury's into.

We'll open 15 new supermarkets in the year ahead, 25 convenience stores and we set ourselves very clear financial hurdles that we need to meet to make sure we deliver the returns that we've committed to and we have a very strong track record of opening new stores and delivering the returns that we expect. So, we're on track to make sure that we not only deliver for customers, but we deliver for our shareholders the commitments we've made as we spend capital to open stores in many new locations.

Then on your last question, it's a very important program, we call it More for More which is converting space in our existing Sainsbury's stores to Food, back to that key reference point when we started Next Level as a team. Only 15% of our supermarkets carry our full food range and so we're making progress now. We've done lots of preparatory work as we get into this phase. Of course, customers don't like it when we move a store around, so our job is to minimise the disruption as far as possible.

We've done lots already to learn about how we do this and so we've got a well-coordinated plan through the first half of the year as we intervene in stores and make sure we get through the program as expediently as we can, make sure we help customers as we bed down the new layouts, find things and assure them we're on their side so the disruption is as minimal as possible.

Manjari Dhar, RBC Capital Markets

Great, thank you.

Simon Roberts

Thanks Manjari. Just to finish the point there, of course it does mean there is some back phasing to our profit delivery in the year because the impact of that disruption will mean as it comes through, we'll get the benefits in the second half of the year. Thank you.

Operator

The next question is from Clive Black at Shore Capital. Please unmute yourself and begin with your question.

Simon Roberts

Hello Clive, good morning.

Clive Black, Shore Capital

Morning, thanks for taking the question and I should say well done on navigating the last year. Three short questions that build on some of the points that others have made but just for the purposes of clarity. As a competitive feature how important do you think security of supply is to Sainsbury's now? Secondly, in terms of the big trolley, what are the key enduring features of the big trolley? Because it’s a hard one. Then lastly, what do you actually need to see in Argos to do sequential profit growth? Thank you.

Simon Roberts

Clive, thank you. Okay. So, to your first question in one word, vital. Absolutely vital that we have the security of supply that we need to make sure we can guarantee availability for customers. For all of us on the call, we know the challenges that are out there in the system at the moment and that's the reason why we've invested so much time and focus in the word I used a few minutes ago which is partnership, building long term partnerships with our suppliers and our farmers.

Now, we started this back in 2022 when we began our work in chicken and since then, we've extended it to a number of our core supply chains in milk, in beef, in eggs as you've heard that we talked about this morning, in pork as we've just announced in the last few weeks and many more beyond and that's because as we've said, we have both a responsibility and a commitment to make sure that we create the right supply chains to power the plans we have for Sainsbury's and that's about supporting our farmers and producers, helping them to be confident to invest in their own businesses, in their own capacity and as a result of that, guaranteeing that we can have security of supply for our customers.

We spend a lot of time in this space, we've got an expert team in Food and Agri who are doing a fantastic job supply chain by supply chain, building out the capacity and building out the partnerships that we're collectively building with our key partners and we can see already and if I just think back to these last few months and I look at the availability on our shelves of key products compared to our competitors, I mean the difference is stark, particularly on products that people want to buy knowing they're produced in the UK, produced in Britain.

So, when we think about how competitive the sector is, of course, we've got to be super sharp on price and we will be and we are but we've also got to make sure we've got the best availability for our customers and as I said in the presentation this morning, we've achieved record improvements in availability over the last year, powered both by the work we're doing on on-site partnerships and also the big change we've made through a new technology platform, Blue Yonder, which means we can forecast much more accurately. So, those two components together, Clive, are really driving a big change for us in what we're able to deliver for customers.

Yes, really interesting question in terms of the enduring features that are really underpinning our win of the big trolley shop. Look, I think a number of them if I was to pick out what I think are the key ones, look most importantly of all, we've fundamentally shifted customer value perception at Sainsbury's in the last four years and so customers now have the confidence across a full trolley shop to know that when they shop with us they get the value they expect and trust, that's the first.

The second we've just talked about which is one of the features of coming to do the big trolley shop is I can get everything I want and therefore the fact we've just delivered record availability and we expect to continue to do that is giving customers the confidence particularly when they're busier back in the office, they've got one opportunity to come to the store and get everything, need to make sure we deliver on availability.

Thirdly, loyalty and Nectar particularly within that for us. As I said, it's such a driver for customers in the reasons they shop with us, in their confidence in our value, in not only the value they're getting from Nectar, but also all the other benefits that come as part of the Nectar platform that we have.

Then we should never underestimate some things in this industry have changed so much in the last decade or two, some things haven't changed at all, which is when you come to the store, you want to get great service. You want to know that we care. You want to know that we'll do everything we can to get things right for you.

One of the things our colleagues have done a phenomenal job on this year is delivering really strong levels of customer satisfaction, not just in our supermarkets, but in our convenience stores, online and every moment we're with a customer. So, those would be the components, I think, of what is really powering our offer. It's one of the reasons why those strong foundations for growth we think have been so important in terms of what we've built.

Then should we turn to Argos and talk about our plans there? Big transformation underway in Argos, which is about extending our range of assortment. That's already gathering real traction with customers. The work we're doing to improve the digital experience is really focused on making sure when customers come into Argos, they can find what they want and convert really well on our site.

Then clearly what we're doing in terms of our financial delivery, both to improve our operating model and become more efficient, and Bláthnaid said earlier, being even more efficient with our working capital. So, plans underway there and really focus over the course of the year to really cement and continue to deliver that transformation.

Clive Black, Shore Capital

I'm conscious of the time but thank you very much for those answers.

Simon Roberts

Thanks very much, Clive.

Operator

The final question will be from Karine Elias at Barclays. Please unmute yourself and begin with your question.

Simon Roberts

Hello Karine, good morning.

Bláthnaid Bergin

Hi Karine.

Karine Elias, Barclays

Hi, thank you so much for taking my questions. Most of them have been answered, but just perhaps two broader questions. Simon, you've referenced the noise in the market several times in the presentation and Tesco basically have said that the environment has become more competitive, but did rule out a price war as such. Just wondering would you agree with that? How would you describe probably the broader environment?

Then my second question is, obviously, Asda's been losing a lot of market share throughout the past years, they're doing different initiatives, whether they are successful or not is yet to be seen. Would you view a stabilised Asda as a risk to you? You've talked a lot about how your confidence in that £1 billion, but perhaps more so to the broader market. Thank you.

Simon Roberts

Thank you. Look, just forgive me if any of this is to repeat. But just the first thing to say is that we all know this is a very intensely competitive industry. It always has been, and it always will be. It's made up of many very strong competitors and that's what creates the conditions where it's always intensely competitive. I think it always has been, it always will be. So, I wouldn't particularly overemphasise that that's different. I think there's a lot of noise out there. For sure, there's a lot of questions as to what's going to happen next. But as I've said a number of times on this call today, of course, some competitors will want to try and improve their performance. That's inevitable.

But that doesn't necessarily mean that will translate into change. Let's see what happens. We're not complacent at all. We're very focused on what we need to do. We've created the capacity and the plans to make sure we can sustain our strong value performance. You've heard me say that a few times this morning. But I just come back to the point, all the noise that's out there. We are coming into this year with a very strong plan. We're going to make sure we sustain our value position. We're resolute, focused and determined as a team for all we've built over the last four years, and we'll continue to deliver again.

So, we expect to grow volume and market share over the course of this year. Obviously, we've been lapping some strong comps. So, not necessarily at the same levels we've been, but we do expect to continue to grow volume market share. I'd just double underscore the point that the robust scenario planning we've done, combined with our differentiated cost saving plan, combined with all that we've learnt give us a lot of experience about how we navigate this environment to make sure we can re-deliver for our customers and our shareholders. Thank you. Thanks very much.

Operator

That was our final question. I'll now hand back to Simon Roberts for closing remarks.

Simon Roberts

Well, thank you so much, everyone, for joining us this morning. I'm conscious everyone's trying to head into the Easter weekend. It's going to be a busy weekend, I think. But just to thank you for your time and just if I could, just a couple of key things to summarise from today's call.

Firstly, to say we're starting in a really strong competitive position with good momentum through delivering that consistency for our customers. We've talked about value, quality, service, availability. Secondly, and you've heard me say this a few times this morning, that we are absolutely committed above all else to sustaining this competitive position. We're going to remain super sharp on price and third, that we're clear in the guidance that we've given today for the year ahead, that we have the capacity to do exactly that with our level of cost savings, a key differentiator versus competitors.

So, thank you again for joining us this morning. I wish you a really great Easter weekend and have a great Easter. Thanks, everybody. See you soon.

Bláthnaid Bergin

Thank you.

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