

J Sainsbury plc
Interim Results 2024/25
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Presentation

Simon Roberts
Chief Executive

Good morning, everyone and welcome to our 24/25 Interim Results presentation. Thank you for joining us today. I will start with a brief introduction, then Bláthnaid will cover the financials before I go into some more detail on the strategic progress over the first half and the strong momentum we're taking with us into our Peak trading season.

Now, as you know, in February, we announced our three-year Next Level Sainsbury's strategy. As a reminder, here is our renewed purpose and the four strategic outcomes that we set out which are driving this next phase of growth. First choice for food, our plan to deliver further grocery volume share gains by bringing more of our food range to more customers in more locations and attracting more bigger basket primary customers.

Loyalty everyone loves, where we're building a world leading Nectar loyalty platform and market leading retail media capabilities. More Argos more often, taking action to grow frequency and spend in Argos through improved range and relevance whilst delivering further operating model efficiencies. And then underpinning all of these outcomes is our plan to Save and invest to win by delivering another £1 billion of structural cost savings and investing in our capabilities across technology and infrastructure.

Now, we started our Next Level plan with great momentum in food and over the last six months we have continued to see our food business going from strength to strength. We believe there are three key factors that really influence where customers choose to do their grocery shopping: quality, service, and value. And we've got the winning combination. Our quality is outstanding, our service is consistently leading, and customers are increasingly recognising our great value. We've seen the biggest ever improvement in customers' perception of our value over this period, up 8.5 percentage points year-on-year, and this has extended our lead over competitors in terms of overall customer satisfaction.

This is reflected in our continued market outperformance. More customers are choosing Sainsbury's for their big basket main weekly shop. Now, as you can see, the chart on the right shows that about three quarters of these new primary customers have been converted from secondary customers, moving from doing some of their grocery shopping at Sainsbury's to now doing most of it with us. But 25% are entirely new to Sainsbury's.

And it's through winning these big basket shoppers that we are achieving the biggest market share gains in the industry against some tough comparatives and despite not being the biggest grocer in the market. And we're making the strongest net switching gains too of all retailers, as we continue to win from competitors across the whole market.

Now, from our results today, it is clear that we have a strong momentum in our food business, with Sainsbury's profit contribution growth of 8.7%, well ahead of sales. The increasing confidence we have in the strength of our grocery offer has fuelled our investment in growing our supermarket coverage in key target locations, bringing the best of Sainsbury's to more people through the acquisition of 11 Homebase stores and two Co-op stores which will open next year. And consistent with the commitment we gave in February, we're also returning more cash to shareholders.

Now, we laid out these eight commitments as part of our Next Level Sainsbury's strategy and as you can see, we're being ambitious in what we want to achieve over the life of this Next Level plan. As a team, we're very clear on the step up that we have to make in order to deliver against all of these commitments by March 2027. So, six months in, we've made a strong start with 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, building our competitive advantage through high-returning investments while still delivering our cost savings and retail free cash flow commitments.

At an overall retail level, our H1 profit growth was held back by a tough first quarter at Argos. But consistent with what I have said right from the start of our Food First programme, we will not compromise the food business in order to offset weakness elsewhere. Now, the consistent momentum in the Sainsbury's food business speaks volumes about how much this consistency in our proposition is really resonating with our customers, which is why we expect this to continue to feed through to the second half profit delivery, alongside a stronger Argos performance.

So, we remain confident and focused right across the business in what we have to deliver, not just this year, but over the next three years. I'll now hand over to Bláthnaid to cover the numbers in detail.

Bláthnaid Bergin **Chief Financial Officer**

Good morning and thank you, Simon. I will now cover the financial highlights for the 28 weeks to 14 September. Starting first with a reminder of the financial framework slide that I presented at our Capital Markets Day in February. This lays out our commitments to deliver profit leverage from sales growth, strong cash flows, higher return on capital employed, and enhanced shareholder returns.

Six months into this Next Level strategy, we are pleased with our progress. In the first half we have delivered volume growth, profit leverage, and continued strong cash generation. I'm delighted with the execution of our phased withdrawal from core banking activities, consistent with our focus on the core retail business having now signed three transactions with NatWest, NewDay and NoteMachine.

Let's move on to our sales performance. Sales in Sainsbury's grew 4.6% in the first half, with the growth in the second quarter accelerating versus the first quarter. This was driven by grocery growth of 5%, where inflation was between 1% and 2% throughout the half and we delivered a strong, consistent volume growth in both quarters in line with our Capital Markets Day commitments. This is a key cornerstone of our financial framework.

This was partly offset by Sainsbury's general merchandise and clothing declines of 1.5%. GM&C sales returned to growth in the second quarter, driven by Q2 clothing growth of 8.3%. Argos sales declined by 5% in the half, reflecting tougher than anticipated trading conditions in the first quarter, primarily driven by difficult weather comparatives and a reduction in online traffic.

Sales picked up in the second quarter and have continued to be stronger in the earlier weeks of the third quarter, reflecting our action to improve traffic and volume trends,

clearance activity, and some better weather. This results in total retail sales growth excluding fuel of 3.1% in the half and 2% including fuel.

Turning to retail underlying operating profit, H1 operating profit grew by 3.7% year-on-year to £503 million. This was driven by a strong increase in Sainsbury's contribution, up 8.7%, reflecting strong grocery volumes as we delivered operating leverage, with Sainsbury's margin up 20 basis points year-on-year. This was partially offset by the contribution from Argos being lower year-on-year, moving from a small profit to a small loss driven by lower sales and heavier promotional activity and discounting to ensure we exited the season with clean stock.

We remain confident in delivering strong profit growth in the full year with continued leverage from Sainsbury's grocery volume growth and a stronger Argos performance in the second half, when Argos typically makes most of its profit for the year. This, together with our continued growth in Nectar profit contribution and delivery of our cost saving programme, means we continue to expect to deliver retail underlying operating profit of between £1,010 million and £1,060 million. Growth of between 5% and 10% year-on-year, unchanged from our previous guidance.

Now moving on to profit leverage. We committed at our Capital Markets Day to delivering retail profit growth ahead of sales. As you can see from the left-hand chart, we have delivered total underlying retail operating profit growth ahead of sales growth in H1. Profit leverage in Sainsbury's was particularly strong, with Sainsbury's contribution growing 8.7%, well ahead of sales growth of 4.6%. The chart on the right shows the strength of our grocery volume performance, where we have delivered six consecutive quarters of volume growth.

Moving now to financial services, we announced in January a phased withdrawal from core banking - that is loans, credit cards and deposits - and a move to a model where financial services that are complementary to the retail offer will be provided by third parties. We have announced several updates over recent months, which I will detail on the next slide.

For now, this slide covers our underlying financial services performance. Underlying operating profit grew by 38% to £18 million in the first half. Growth was driven by lower expenses as we managed costs carefully, lower bad debts due to reduced new lending and growth in commissions income, partially offset by higher funding costs. For the full year, we now expect total financial services underlying profit of between £15 million and £25 million, ahead of our previous guidance of an outcome of between break-even and £15 million profit.

As a reminder of the recent changes in our Financial Services division, we have announced the sale of our loan and credit card portfolios to NatWest in June, and then the sale of our ATM business in September. And last week we announced the sale of Argos Financial Services card portfolio to NewDay, alongside a new forward flow contract to provide Financial Services products to our Argos customers.

We expect all of these transactions to complete in the first half of calendar year 2025. These transactions align with our focus on core retail business and on completion Sainsbury's will benefit from income streams that are closely connected to our retail offer.

In terms of what these transactions mean to the P&L, there will be a transitional period during which ownership of the Argos credit portfolio will move from AFS to NewDay. Once complete, we expect total annual income from Financial Services of at least £40 million to the Group by the financial year ending March 2028. This comprises income from the NewDay partnership together with the commissions income from insurance, travel money, care, and ATMs and is incremental to the retail operating profit.

Importantly, we continue to expect Sainsbury's Bank to return excess capital of at least £250 million to Sainsbury's, and we will return this capital to shareholders. We will provide an update on the timings for this with our results in April 2025.

Moving on to underlying profit before tax. Total underlying profit before tax, inclusive of discontinued operations grew by 4.7% in the first half. This was driven by higher retail operating profit and Financial Services profit, partially offset by increased underlying finance costs mainly attributable to interest paid on the £575 million term loan, taken out to facilitate the Highbury and Dragon transaction and was fully drawn this year.

Underlying basic earnings per share were up 1.9% to 10.7p, with growth slightly behind UPBT growth given the higher underlying tax rate in the half.

The next slide lays out our items excluded from underlying results. We incurred £225 million of non-underlying costs in the first half, with the large majority relating to the phased withdrawal from our financial services division. £155 million of costs sit in discontinued operations, primarily relating to losses on disposal and provisions for onerous contracts.

We also recognised costs of £37 million in relation to the multi-year restructuring programme announced in November 2020. The majority of this programme has now completed. Non-underlying costs incurred are primarily non-cash. We expect retail cash costs of around £100 million for the full year, of which £29 million was booked in the first half.

Turning to our cash flow metrics. Retail free cash flow of £425 million was down year-on-year, mainly due to lower working capital inflows and a small increase in capital expenditure. Reduced working capital was driven by the timing of payables and partially offset by a focus on inventory reduction as part of our working capital programme.

Net debt, excluding leases, reduced by £79 million versus H1 last year, with a slightly lower reduction in net debt including leases due to increased lease liabilities, primarily as a result of our acquisition of 11 Homebase stores in the half. This table shows the key elements of the cash flow and the movements in net debt this year and last, with the modest increase in net debt during the half reflecting £353 million of cash returned to shareholders through the dividend and share buyback, as well as the impact of the Homebase store acquisitions on lease liabilities. The other line movement of £102 million primarily comprises increased lease additions.

We continue to expect to generate at least £500 million of free cash flow this financial year. Our core capital expenditure guidance of £800 million to £850 million is unchanged and we are now guiding to £25 million of strategic investment in our EV charging business. This is lower than the £70 million previously guided, but the impact on free cash flow of this lower EV spend will be offset by the lease premium paid on the acquisition of the Homebase stores.

The majority of the capital expenditure in relation to the conversion of the former Homebase stores will be incurred in FY25/26. Here we lay out our balance sheet metrics. Net debt to EBITDA remained flat at 2.6 times, broadly in the middle of our target range of 2.4 to 3 times. Return on capital employed increased to 8.5%.

On to shareholder returns. We are proposing an unchanged interim dividend at 3.9 per share, in line with our policy of paying an interim dividend of 30% of the prior year's full year dividend. We have completed the first tranche of our share buyback programme of £150 million and we will buy back a second tranche of £50 million in the second half, bringing our total buyback in the financial year to £200 million.

In summary, we are pleased with our performance in the half. Looking forward, we expect continued strong momentum in the grocery business and delivery of a stronger second half profit performance from Argos.

Therefore, we continue to expect to deliver retail operating profit of between £1,010 million and £1,060 million for the full year, and at least £500 million of retail free cash flow. Thank you for your time. I'll now hand back to Simon.

Simon Roberts
Chief Executive

Thank you, Bláthnaid. Let's now turn to look at the strategic highlights from the first half. I'm going to cover each of our four Next Level outcomes in turn, starting with First choice for food. We're already making strong progress with this part of the plan. With the biggest share gains in the market for full trolley main shop customers. And we're demonstrating time and time again that customers can trust us for freshness, availability, leading quality and consistently great price. This is giving customers increasing confidence to do their big weekly shop with us.

When we talked to our year end results in April, I called out that we'd seen a real shift in customers' perception of value at Sainsbury's, and this has stepped on again. We always said it would take time, but the reality of maintaining a strong competitive price position is now consistently being appreciated by our customers, driving our biggest ever improvement in value perception with our progress well ahead of competitors. This is at the heart of our continued market outperformance.

As you know, we were determined that as we reset value during our Food First plan, we would also triple down on innovation and further build on our reputation for quality, which remains at the very core of the Sainsbury's brand. We're all about really good food, and we're continuing to set the pace on innovation ahead of competitors as we push forward further and faster to create amazing and delicious products that our customers love. We launched over 540 new products during the first half. More than 200 of these products were Taste the Difference. Our summer range this year was exceptionally popular with customers.

As a result, Taste the Difference sales grew 18% as customers were inspired to put more of these new products in their baskets and trolleys. In fact, one in three baskets now contain Taste the Difference products versus one in four at the end of last year. If we look at our big trolley main shop customers, nearly two in three of their trolleys contain Taste the Difference, with customers choosing us when they want to treat themselves at home, whether that be a Saturday night in, for the big summer barbeque, or for all the big family occasions during the year.

So, we continue to lead in this space. Our Premium Own Label performance is the strongest in the market, and we're seeing a standout performance in our Fresh premium products with our growth significantly ahead of the market and all competitors. This outcome really demonstrates why we're so confident in our More for More plan, which I'll cover shortly.

But before I do that, I want to take a moment to highlight the work we are doing to champion resilience in the food system. When we set out our Next Level plan in February, I made it clear that our ambition to be the first choice for food for many more customers will only be possible if we take a leading role in strengthening the reliability and sustainability of our food supply chains. And all of our customers really expect this of us, given our brand heritage.

So, we're focused across our business on driving the change that's required and are using our skills in food innovation and food agriculture to think differently about our product and packaging. As you can see here, we've made further significant progress over the last six months. We're cultivating longer term supply relationships, particularly with British farmers and growers, ensuring that they have the confidence to invest in more sustainable practices, to continuously improve animal welfare standards, and to experiment with new farming practices.

And we're working across industry and government to enable, lead and support the changes our food system needs to see. Ultimately, it is this work which ensures we have the confidence we need in food security, and which underpins our plan to bring more of our food range to more customers.

So, turning now to our More for More plan. We have a unique opportunity to rebalance space in our supermarkets towards food and to drive grocery volume gains, whilst at the same time optimising our stores for a better customer experience, increased trading intensity, and driving greater returns. As a reminder, we said in February that only 15% of our supermarkets carry our full food range.

We have a very focused but agile programme of investment, enhancing space, store format and increasing digitisation in a tailored way. But important to say here, there won't be a cookie-cutter approach to this. It is different for each store, and we are testing and learning using our lab stores such as Witney and Cobham, using the learning selectively as we reshape more of the store estate.

By allocating space away from general merchandise and clothing towards food, we will add around 300,000 square feet of food space in our supermarkets over the next three years. This will mean we can better serve customers and with better ranges, but there are also significant productivity improvements we can achieve as we reset our stores. Now the programme is back weighted for this financial year. So, as you can see on the right-hand side of this slide, the sales benefits build more meaningfully into next year and beyond.

Alongside our More for More plan, our continued strong momentum and outperformance in our grocery business has given us the confidence to invest to further grow our supermarket coverage. Focusing on key target locations across the UK where we don't already have a strong presence, we are delighted to have acquired 11 Homebase stores and two Co-op stores in recent weeks.

These will be high returning investments which will deliver ROCE in the low teens, and all of these stores will open in our next financial year. If you additionally add in the supermarket openings that we had already planned for the remainder of this year and into the next financial year, we will in total be adding around 20 new supermarkets between now and March 2026.

We're focused on delivering for our customers across all our channels and looking at our performance in Convenience, we've achieved sales growth of 5% over the first half, well ahead of the market. Now building on this strong performance and consistent with our plan to become first choice for food, we have just delivered transformative change for customers across our convenience estate. In just two weeks we have completely rebalanced space across all our convenience stores. This brings our ranges more into line with the type of customer missions being shopped in the different types of convenience store and customers have already responded positively.

Just this week we've gone live with Aldi Price Match in Convenience stores, available on the products customers buy most often. Nobody else in the market is doing this in the Convenience channel.

When I think about what our team have achieved over the last few months, the recent changes in convenience stand out in demonstrating how far we've moved forward as an organisation, both in our ability to move and execute at pace, but also in our confidence to lead the market with really bold new commercial propositions that are meaningful to customers. Such moves are taking us well ahead of the market.

We're also continuing to strengthen our Online and OnDemand businesses. Sales grew 7% in our Online channel over the first half with improvements we have made to how we showcase our promotions and new products driving up basket size. You'll have heard me say before that customers make their choice about where to do their Christmas shopping in the early autumn and so we're really encouraged by the strength of our customer satisfaction online heading into this Christmas and especially the improvement in customers perception of delivery slot availability. Our OnDemand business continues to grow at pace too and deliver more profit as we roll out the offer to more locations.

I'm pleased to report that our Tu clothing performance stepped on in the second quarter growing ahead of the market driven by significant improvements in availability and style. Our women's wear ranges did particularly well over the summer and early autumn with sales growth of 10% and customers are already buying into our Christmas ranges especially festive pyjamas.

There's still more to do here though with clear opportunities that we're getting on with to continue to improve availability and our essentials ranges as well as in our kids and babywear offering.

Turning to Smart Charge our ultra-rapid EV charging network. We've made good progress with our planned rollout with Smart Charge now established in 62 locations meaning we have more than 500 charging bays and we've really progressed our tech capabilities in this space.

Firstly, we've been able to link Smart Charge to Nectar so that customers can collect points whilst they charge with us and secondly, we've enabled access to fleet drivers who use fuel cards. These drivers account for around 60% of the EV market, so a really important customer group.

Where we had been focused on rolling out to more locations, we have now shifted to focus on growing participation, furthering our tech capabilities and enhancing the customer offer. As a result, we are now expecting to reach around 70 locations by year end, where we previously were targeting 100 locations.

Next is Loyalty everyone loves and, as you know, we've been supercharging the power of our Nectar offering, having launched Nectar Prices 18 months ago and continuing to scale our Nectar360 business and retail media capabilities.

At our Prelims in April, we talked about the targeted capital we're investing in Nectar360 to keep innovating and to lead the market. We are well on track with our plans to deliver at least £100 million of incremental profit contribution from Nectar360 over the next three years. As you can see on the right hand side of this chart, this growth is being driven by our retail media proposition which is attracting more and more advertising spend.

Having launched Nectar Prices in April last year, participation in Nectar has continued to grow and it really is building long-term loyalty, with five million customers now shopping Nectar Prices every week. It has also been a very strong contributor to our overall value perception. But more specifically, the value that customers place on the Nectar Scheme

itself has also improved significantly, with customers feeling that it helps them to save every day.

It's a year since we launched Your Nectar Prices on Groceries Online and now one million customers are regularly benefiting from personalised offers. And we're continuing to evolve and advance our personalisation capabilities, extending the range and reach of these offers to customers.

We are very excited about the recent addition of two large-scale new partners within our Nectar Coalition, including Marriot Bonvoy, the biggest hotel chain in the world. These partnerships demonstrate the real power of the Nectar Coalition.

Alongside this, we continue to grow our agency partnerships and during the half we have deepened our relationship with two of the big four media agency groups. At the same time, we're also making strong progress in building the connected screen network across our store estate, enabling our customers to increasingly engage with dynamic, digital content in store.

Turning now to Argos and our plans for More Argos, more often. We've said many times that Argos is a business that can never stand still. And so the strategy that we laid out in February was all about the further transformation at Argos.

We've built a business that is efficient and convenient for customers, with a fantastic click and collect and delivery proposition. But we know customers could visit us more often and shop bigger baskets. We can drive more spend with better ranges and a better online experience. And we see further opportunity to make this business more efficient, driving out more cost as we refine the operating model and reduce stock levels.

Now we're well on the way with this and we've seen clear progress so far this year on extending the depth and breadth of our ranges, improving our digital experience and reducing our cost to serve.

We had a particularly tough start to the year at Argos. With poor weather in the early part of the summer and online traffic declines caused by the regulatory change to cookie consents, which impacted volumes. As a result, our performance fell behind a weak market in Quarter One. Partially reflecting weak online traffic, but more significantly our relatively high exposure to seasonal products and ongoing market weakness in big ticket demand, which hit our ASP. Now, as Blathnaid said earlier, this not only impacted sales but also margins as we needed to clear seasonal stock.

As you can see here, the Quarter Two performance was much better, coming back in line with the market as the weather normalised against easier comps and we took action to regain online traffic and drive volumes. ASP was still down year-on-year, reflecting a still cautious customer. But we have been gaining share in the furniture market, offsetting some of that.

So where does that leave us for the full year? Well, the better trend of Quarter Two has continued into Quarter Three. Our online traffic trends are back on track and in growth year-on-year and, as you would expect, we have some strong trading plans for the peaks of Black Friday and Christmas.

So, as we outlined in our statement today, this means we're looking at a much more resilient profit performance over the second half of the year, the period when Argos typically makes most of its money. In terms of the improvements we're continuing to drive forward, we're

optimising the way we show up to customers online, from search through to checkout and making sure that Argos is more of a go-to brand for customers when they're searching online. And as a result, improving conversion when customers land on our website.

We're delivering a more personalised experience and we're improving our attach algorithms. Driving up basket spend as we increase the relevance of the recommendations. At the same time, we're also continuing to build our ranges in both strength and depth. We're bringing more specialist brands to customers with our stockless proposition and we have many more new brands launching soon.

We're getting more and more support from the biggest brands like Apple, Samsung, Sony and Lego, particularly around new product launches. And, we're part way through relaunching our own brands. We've launched made to order furniture for the first time and had a very good customer response and we're relaunching Chad Valley and Bush, our toys and electricals own brands next year.

We've also reset our trading events, with simpler but significantly more impactful promotions. Really resonating with customers and driving improved value perception. We also talked in February about the opportunity to continue to improve the efficiency of Argos operations. Now, we've made good progress in the rightsizing of the standalone store estate and so we're now focusing on improving the operating model within our stores.

We have a wide variance across our Argos stores, both in terms of their size and location. But also, the way customers shop them as walk-in locations or for click and collect. So, we've been pushing forward with clustering Argos stores across the estate. Tailoring our labour planning and operations to fit the profile of the store. As a result, we've made like-for-like labour cost reductions of 8%.

We've also made significant progress in reducing stock levels which is a clear focus for us. And we'll make further gains here as our logistics and supply chain transformation programmes continue to deliver.

All of the work we're doing towards Next Level Sainsbury's is underpinned by Save and Invest to Win, our cost saving programmes and our capital investment in infrastructure and technology that will make us more efficient and support our growth. We've made a good start with the cost saving programme that we outlined in February and we're on track to deliver £1 billion of cost reduction over the next three years.

This will be more important than ever, given some of the headwinds that the budget has given us and can be a real point of difference versus competitors who don't have the same track record and capability that we've built. And this particularly applies to competitors who aren't able to invest the capital necessary to transform efficiency and permanently reduce their structural cost bases.

If you're eagle-eyed you'll notice that the split of where we expect to generate cost savings over the next three years has changed. As we start to build out the delivery of our cost savings programmes, the reality is that the most significant part of our tech investment is driving productivity savings through the key cost lines such as logistics and replenishment.

Now we laid out these tech investment priorities in February. We're investing in our technology platforms to drive efficiency, to deliver better customer outcomes and to support, and sometimes drive, growth.

Three examples here. As you know shrink is a significant challenge across the industry and it's something we're tackling more and more through tech solutions. We've trialled new capabilities which use video analytics to pick up errors in customer scanning and alert customers at self-checkouts and with great results. We're now rolling this out to around 200 stores by the end of this year.

We've talked many times about optimising our checkouts, and we will have rolled out the future front end changes across the whole of our supermarket estate by the end of this year. This programme has delivered very significant structural cost savings. But that won't be the end, with more innovation on checkout and payment to come and already being trialled, in further driving efficiencies and improving our customer experience.

We've also announced, a couple of months ago, a significant partnership to transform our commercial systems, the platform that sits behind all of our products, pricing and promotions. This will simplify the processes that underpin the heart of our business but will also allow us to be far more agile and flexible with our pricing and promotions going forward.

We also talked in February about how we are unlocking savings differently and at scale. Our end to end cost transformation programme are driving savings across the whole business, rather than through the traditional, more siloed programme that reduce costs in particular divisions. Two examples here. We've rolled out machine learning-based forecasting across the supply chain for all of our food products. This has transformed the effectiveness of forecasting and the efficiency of stock holding and stock flow, from the depots right through to the shelves in stores.

Now, ultimately, stores are getting the right amounts of stock at the right time, reducing cost, freeing up warehouse space, reducing complexity and simplifying the instore replenishment process. And this is getting us closer and closer to the one touch replenishment goal that we're striving for. And category resets can again be transformative, if we look at an entire product range properly managed from an end-to-end basis, right through from how we source products to how they then arrive in store and to how we allocate space on our shelves.

Here is a recent case study, where we reset our soft drinks category. Rationalising range but improving volume performance and increasing efficiency. Allocating more space to the biggest selling lines and reducing our replenishment costs. From the moment we set out our Food First strategy four years ago we committed to transparency. Sharing the reality of where we are as a business, whether good or bad, outlining the challenges as well as the progress we have achieved.

And this chart shows the reality of the balance we need to strike day in day out. Paying our people well, maximising productivity, but never compromising on our customer service. As you can see, there's a lot to be proud of in what we've achieved here, but the challenge is also clear. As an industry we are all facing into a big step up in labour costs next year. But we're confident that the momentum we have and our track record on getting the balance right puts us in a very strong place relative to our competitors.

So, in summary. Looking ahead to the remainder of this year, we're travelling with great momentum into Half Two and Christmas, and there's plenty still to play for. We're winning in the market as more and more customers are choosing to come to us for their big shop. And so we're confident we'll be getting more share when customers do their biggest and most important food shop of the year.

We're winning on quality, service and value and better than ever on trade up to Taste the Difference. And we're confident of a better Argos performance in the second half, given stronger online traffic trends and improving market share. All of which underpins the fact that we're still expecting underlying retail operating growth for the full year of between 5% and 10%.

More broadly, we're six months into the Next Level strategy we set out in February and we're reporting strong progress. We're continuing to outperform the grocery market, despite some tough comps and that volume growth is driving operating leverage. We're continuing to focus on transforming Argos and we've made some good progress shifting the trading trajectory over the course of the first half.

Together with continued strong growth at Nectar and support from cost savings this is feeding through to profit and cash generation and we're returning more of that cash to shareholders. It's a formula that all our team are really confident we will continue to deliver.

Now before Blathnaid and I take your questions, we thought we would take just a couple of moments to share some festive magic with our Christmas adverts, starring the BFG - Britain's Friendliest Grocer - and our Argos Christmas ad with Connie and Trevor too.

[Video plays]

Operator

Hello and welcome to the Sainsbury's 2024/25 Interim Results Announcement. 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. We will pause for a moment to allow questioners to enter the queue.

Our next question is from Monique Pollard at Citi.

Simon Roberts

Hello, Monique, good morning.

Monique Pollard, Citi

Hi, morning. Am I allowed one question or two questions?

Simon Roberts

Go for your two questions, Monique.

Monique Pollard, Citi

Okay, perfect. The first was just whether you could explain in a bit more detail what happened with the Argos traffic, the online traffic in the first quarter, as a result of the regulatory changes restricting third-party cookies. Just wanting to understand sort of what happened given, I guess, given that that would have been known about ahead of time. Then also what you've done that has sort of helped to dramatically improve that performance as we've gone into the second quarter online there.

Then the second question I had was on Taste the Difference. So, sales up 18% and obviously you mentioning that you're outpacing all peers in terms of Premium Own Label

there from the data from Kantar. Just wondering if you can give us a sense as to whether the inflation that you're seeing on Taste the Difference is pretty similar to the underlying business, so kind of 1% to 2%, so all the rest of that coming from volume. Thank you.

Simon Roberts

Monique, thank you. Okay, let me take both your questions. First of all on Argos, look, you'll remember at the Q1 we talked about the fact we had a tough first quarter driven by three things. First of all, a much later summer and so Argos traditionally enjoys strong seasonal sales through May and June, as customers buy into all the products they need for summer early. That weather just didn't come this year, it came pretty late in July, so that was the first issue, the seasonal effect.

The second issue has been clearly a continuation of a more cautious consumer in discretionary spend and that particularly held back big ticket items. Then the third area, as you say, is we saw some impact on online traffic volumes and that was as a result of the regulatory changes that came in at the end of last year and made it more difficult to track and market to customers. But to your question, it's only really when we look back at this period we can see that relatively that was an impact in the first quarter, because these changes primarily affected the largest websites.

The encouraging news is as we come through the second quarter we've seen a real recovery in our online trend. We've also seen, as you can see in the slides today, our volume improve and you've seen our market share come back too. So actually quarter one was the tough sales quarter, there were some markdowns in quarter two because clearly we had to clear that seasonal stock. But we come into quarter three with stronger momentum and we're expecting a much more resilient performance from Argos in the second half.

We're saying too of course that by far and away the most important period of time for Argos is always the second quarter, it's always been the case. Argos traditionally makes a much smaller amount of its profits in the first half, it's all about the second half and we've got really strong plans to make sure we drive our performance through this half and would expect sales growth to be up on the year in the third quarter.

Taste the Difference, we're very excited about our progress on Taste the Difference. We're seeing the biggest growth in the market of the Premium Own Label brands and that growth is on top of strong growth last year and before. This is growth on growth on growth, 18% in the quarter and the exit rate actually at the end of quarter two was higher than that. So, we're bringing real momentum into this third quarter.

Look, right from the beginning of Food First back in 2020, our team have done a brilliant job bringing hundreds of new products to the market. And what you can see this Christmas, for example, is over 300 new products, over 170 are Taste the Difference and customers are really coming to us now for that trade-up, eat-at-home experience, where we've got such a breadth and such a quality.

To your point, Taste the Difference is important because particularly as you've seen, it's in more and more baskets and trolleys now, so two out of three of every big basket is containing a Taste the Difference product. That's a real step forward. And so, to your question on inflation, it's really more about its impact on volume, helping get more items in the basket. One of the underpins for our quarter three confidence in the food business is the strong participation of Taste the Difference as customers trade up for Christmas. Thanks, Monique.

Monique Pollard, Citi

Understood, that's really clear, thank you.

Operator

The next question is from Clive Black from Shore Capital Group. Please unmute your line and ask your question.

Simon Roberts

Hello, Clive, morning.

Bláthnaid Bergin

Morning, Clive.

Clive Black, Shore Capital

Morning, ladies and gentlemen. Well done on the first half. A couple of questions, if I may, more around how the bigger picture may affect Sainsbury's. So, Simon, at the end of your presentation you talked about how the budget is going to influence your cost base. I just wondered in general, I'm not suggesting you give us a forecast for next year, but in general around the moving parts do you anticipate that this will perpetuate food inflation in the UK and how you see the moving parts of that?

And then just secondly, actually again in relation to the budget, I wondered what your thoughts were around the Chancellor's comments or position on business rates and whether it's the end of the line for more progress on that front, or do you still see an opportunity? Thank you.

Simon Roberts

Thank you, Clive. Let's take both those questions. Look, I think absolutely to your point, the changes on National Insurance are very significant. The bill for Sainsbury's is £140 million and that's at the current wage rates, before we apply wage uplifts for next year. Look, of course as you'd expect me to say, we'll be doing everything we can to mitigate these, but as we all know on this call, with the margin structure of this industry around 3% you just can't expect retail or hospitality to be able to absorb this level of cost inflation without inflationary impacts. I think we've seen very clear messaging from the OBR that they expect an inflationary factor to follow as a result of last week's news. So, I think it's difficult to disagree that there will be inflation and that's going to come fast as this cost impact flows.

I think in terms of what we're doing, clearly as you know, we've got already £1 billion cost saving plan in this three-years. You can see our track record on bringing prices down for customers, we're at our most competitive. All of that brings us into this situation in a strong place, but this will cause inflationary pressure in the industry. We all know that retail is the biggest private sector employer in the UK and clearly this is a big extra tax on employing people at its heart.

In terms of the second point you made, we would make this point I hope very clearly, which is that we came out in support of Making Work Pay a few weeks ago, because the principle of everyone having a fair, clear contract, we believe in; everyone knowing how many hours they're going to work, being fairly treated and making sure that if they're genuinely poorly

they're paid for that. But that has to come, that has to come alongside fundamental reform to business rates and that was a clear manifesto commitment.

To put this into context for you, our business rates bill is around £500 million. We'll actually see our business rates go up a bit next year as a result of the threshold of £500,000 rateable value and 80% of our stores are above that threshold. So, we would urge the Government clearly to accelerate their commitment on business rates. It was a clear manifesto commitment, to level to playing field on all retail stores and then the equation of paying people a bit more, making sure we invest in Making Work pay is calibrated with a lower cost of business rates, which is a really difficult tax on the retail industry, and other industries, and needs to be moved more quickly in terms of reform.

Clive Black, Shore Capital

Can I just come back, Simon, on your first answer and thank you for that, in relation to Save to invest. How does the substantial increase in labour costs next year, because £140 million for NIC, if you take supply chain costs into COGS and then whatever you do with your wage award, how does that impact the deliverability of Save to invest? Does it make it more difficult? Does it make it more important? Does it raise or lower the sums that you can raise? Can you contextualise that please?

Simon Roberts

Yes, thanks, Clive. As we said at the Next Level launch in February and I would update now, we've got good momentum in our cost saving plans towards the £1 billion over three years. Look, as you would know and everyone on the call would know, we're already planning for the wage inflation we would have assumed next year. So, I think whatever happens with the national living wage, businesses like this would be planning well in advance what we intend to do on wage inflation. It's the National Insurance change that has come fast and was very unexpected.

As I say, we have a lot of momentum on our cost saving plan and I'm really encouraged where we are. That would expect to cover wage inflation but won't cover this level of increase in National Insurance, which is why I think it's clear it will be inflationary. Because our cost base, our competitors' cost base, and we should talk about our suppliers' cost base, will all be significant to this and as we all know, food production in the UK is one of the biggest employers. And so the impact of that across the system will drive inflation, it has to.

Clive Black, Shore Capital

Thank you. Yes, understood, Simon, thank you for taking the second question too, thanks.

Simon Roberts

Thanks, Clive.

Operator

Our next question is from Rob Joyce at BNP Paribas. Please unmute your line and ask your question.

Simon Roberts

Rob, hello.

Bláthnaid Bergin

Hello, Rob, welcome back.

Rob Joyce, Exane BNP Paribas

Hi, how are you doing? I think second time lucky here.

Simon Roberts

We can hear you, Rob.

Rob Joyce, Exane BNP Paribas

Two from me. You've got me, good stuff, all right. So firstly, just on Argos, clearly creating quite a level of volatility in the business and that's hurt profit this period and I think does sit on the multiple. Now that Financial Services has been disposed of, can you talk about whether Argos needs to operate as part of Sainsbury's? Or could it operate under a third party as the business stands?

Second one is just, I think Clive mainly went through most of the points on that £140 million, but are you seeing anything in the industry at the moment that would indicate positively or potentially negatively that you wouldn't be able to potentially pass that inflation through the consumer without losing significant price advantage versus your competitors? Thank you.

Simon Roberts

Rob, thank you. Why don't I take the second question first and then we'll come back to Argos and Bláthnaid might want to come in on that as well. On the industry, let's just be really clear, this is an industry that continues to behave very rationally. There's been cost inflation clearly over the last period of time and we've seen how that's been passed through as that inflation happens.

I would say actually that in this financial year some of the cost inflation's been a bit slower to pass through, particularly labour rates when up earlier in the year. But actually, in recent weeks particularly, I think we're starting to see, in Fresh food for example, inflation picking up. So you can start to see already those trends happening and I would expect the industry to behave very rationally here, that if there are costs coming into the system, as I say, either in our own cost stack or in a supply base, then they will be passed through. The fact we're already seeing some elevated cost inflation in recent weeks, even more I think supports that.

In terms of Argos, I think we had a tough first quarter, that's really clear. We've a very clear plan on Argos, which we laid out at our Capital Markets Day and maybe, Bláthnaid, do you want to just speak to the plan on Argos?

Bláthnaid Bergin

Yes, why don't I, let me start with the AFS deal first. We are delighted with the partnership that we have with NewDay. It is really incremental to Argos and will help us to serve much better financial services propositions up to our customers, which was something that they needed. We also talked about in my presentation earlier this morning that there's £40 million incremental profit to the retail operating profit that we'll deliver by FY2028. That's across

commissions and also the NewDay deal that we've done as well, so really positive for our customers.

Argos makes a positive contribution to the business, it's had a tough H1, but as we stand here today and I look at Q3, what I am seeing on Argos is I'm seeing the traffic back to growth year-on-year, I'm seeing the average selling prices increasing. We've got peak trading at Christmas to come, so we're feeling pretty positive about a much stronger quarter in the second half, a much stronger second half for Argos at the moment.

At our Capital Markets Day, we laid out really clearly what our plans for Argos were. We talked about improving the customer digital journey, really driving visits that we have for Argos, looking for a more curated range, a lot more brands on the website. You'll start to see that come through in the second half of the year, some of the great activity that we've done for Argos.

Then finally to wrap up, 80% of the UK population live within 15 minutes of an Argos collection location and that is a really unique proposition that we have for customers. So, Argos makes a positive contribution to our Group. We're looking for a much stronger H2 from Argos and we're seeing all those signs as we start Q3.

Simon Roberts

Thanks, Bláthnaid. Look, I think, Rob, in summary, we've got a really clear plan for Argos. As Bláthnaid said, it was a tough first half, a combination of factors but you can really see how the performance is building. And look, at its heart, customers love the Argos proposition, they love picking up their products in Sainsbury's stores, so we're very focused on a continued transformation of Argos as we now see through those plans Bláthnaid's described.

Rob Joyce, Exane BNP Paribas

Okay, just to wrap up, am I right in thinking that that sort of contribution line is about £30 million, maybe £40 million hitting the first half?

Bláthnaid Bergin

As I said, that's not something we disclose, Rob, but we have given you more visibility to show the magnitude of the contribution. The reason we did that was we've had fantastic momentum in the food business, we've seen the increase in that Sainsbury's contribution to the Group, so we're really focused on continuing to drive that food performance and momentum that we're seeing in our food business today.

Simon Roberts

Thanks, Rob.

Rob Joyce, Exane BNP Paribas

All right, thank you.

Operator

Our next question is from Izabel Dobрева from Morgan Stanley. Please unmute your line and ask your question.

Simon Roberts

Hi, Izabel.

Izabel Dobрева, Morgan Stanley

Good morning. I have some questions on the guidance, so my first question is just the top end and that being maintained. I think the last time you gave the guidance update, the message was that the top end was conditional on a hot summer. So I just wanted to get your thoughts there as to whether the top end is still feasible and what needs to happen to get that top end delivered.

And then linked to this, I have other questions in terms of Argos and the grocery assumption in the second half. So, it sounds like you're expecting a material growth in the profit in the second half of Argos, but what are you assuming for the grocery profit? Because if I sort of play around with the numbers, it looks like the grocery profit needs to be growing at least the same rate in order to hit the midpoint as it did in the first half.

And is that the right way to think about it? Because if I look at one of your peers and what they're guiding, they're sort of intimating there'll be a big slowdown in the margins over the second half due to price investment. We have also heard you extend the Aldi price match scheme. So, I just wanted to understand, what is your thinking about that grocery profit growth rate in the second half? What needs to happen to hit the top end of guidance?

Simon Roberts

Izabel, thank you. Let me face straight into each of the three parts of your question. The first thing I would say is we've clear line of sight to the midpoint in the range. And what's important in the way we think about that, exactly to the points that you've said, which is that we're taking a lot of momentum in grocery into the second half of the year. You can see that we achieved a 20bps improvement in our Sainsbury's performance in the first half, you can see the rate of profit leverage we're achieving in Sainsbury's. Given the strength of our competitive position, we see that continuing to be delivered through the second half of the year, so grocery momentum a key underpin.

Second thing, as Bláthnaid said, is we're expecting to see a much stronger performance in Argos in the second half. We expect to grow sales in the third quarter. We're coming into this period with a very different momentum and clearly an improved Argos performance over the second half of the year was a key underpin of that clear line of sight to the midpoint of the range.

Our cost saving plan is on track and of course the second half of the year is very important for delivery of cost savings by the year end, because of course you build up the cost saving activity through the year and that often disproportionately then drops into the second half of the year in terms of delivery.

I've talked this morning about bigger basket shops, they're really important because they're a key driver of profit leverage. If you then add a higher mix effect on Taste the Difference,

given our Premium performance, what that gives you are the building blocks that gives us a really clear picture on the midpoint of our range we can see a clear line of sight too.

So what are the variables to that? Well clearly the one thing we don't know yet is how the customer in the discretionary spend space is going to behave over the next eight weeks. And we're expecting to come into this period with a very strong offer, the Christmas plans in both Argos and Sainsbury's are super strong. You can get a real sense of that from already what we've put out into the market.

So what we need to see is the resilience of that consumer spend, particularly in Argos. We're organised to make sure we can really convert more customers, but that's the variable in terms of what would take us off the midpoint of the range, a less forward customer environment in discretionary spend. We'll know that through November, the next four weeks are critical up to Black Friday and then clearly up to Christmas.

What would take us beyond the midpoint of the range, if even more went our way. We've got a lot of momentum at the moment. The food business you can see we're growing market share faster than anyone else. We're driving trade up faster than anyone else. We've got a really strong platform operationally into this Christmas. The momentum in the Sainsbury's food business is beyond what we expected as we started this year, and we intend to capitalise on that.

Izabel Dobрева, Morgan Stanley

Okay, thank you, that's clear.

Simon Roberts

Thank you.

Operator

If you would like to ask a question, please use the raise hand function at the bottom of your screen. Our next question is from Sreedhar Mahamkali. Please unmute your line and ask your question.

Simon Roberts

Hello, Sreedhar.

Sreedhar Mahamkali, UBS

Hi, good morning, Simon and Bláthnaid. Thank you for taking my questions. Maybe if I can just build on Rob's question earlier in a different way on Argos, please. I guess the question we're all dealing with today from investors is that profit remains quite volatile, grocery continues to deliver really strong profit inflection, that you've talked to. Is the business model changing fast enough for you to see a consistent profit delivery, profit contribution relative to your Next Level strategy target? Or something needs to be accelerated or changed more radically within the Argos proposition, if you could talk about that that'll be super helpful.

The second one, so interesting acquisitions you've highlighted, high returning store acquisitions clearly seems the right way to spend the capex, I guess. Are there more such

opportunities in the industry now? Do you see a little bit more movement in potential store disposals, et cetera? Thank you.

Simon Roberts

Sreedhar, thank you. Well let me take those questions in turn. The first one on Argos, look, I think as you know, we laid out very clearly in February with Next Level that Argos is a business that can never stand still. It requires constant transformation and I'm really encouraged with the progress we've now got underway to accelerate that transformation.

We're doing a lot of work in three key areas, first of all, to improve the digital experience in Argos. Clearly the vast majority of customers that shop at Argos shop with us digitally and then often collect in one of our stores. So improving the digital experience, as you saw in the presentation this morning, we're well on with the changes we're making in that area, which will really help drive our online traffic and conversion.

The second big thing that customers really value in Argos is the breadth of our assortment and we're extending our choice. We're adding 1,600 new products by the end of this year, we are adding new brands, 25 new brands. We're also bringing products into the Argos platform on direct fulfilment, our relationships with new brands and new suppliers, so we're really extending the choice. At a time when customers are less time-rich as they're back in the office more, they want more convenience, customers are really wanting that ultimate convenience from the Argos offer, that's the second thing we're doing.

Then the third thing we're doing is really focusing on making sure we run the most efficient Argos operation, and the team are doing a really fantastic job focusing in on our cost to serve, doing a lot of with Bláthnaid's team on how we reduce the working capital and stock in Argos and that's really starting to bear fruit. So these three factors together are at the heart of this next phase of Argos transformation. Look, you've seen our track record here over the last three years as we've transformed Argos through Food First and that work will continue and we're well on with it.

In terms of your question about new space in supermarkets, I think it's a really important point here. We wouldn't have taken the proposal to acquire the Homebase and Co-op stores to our plc Board two years ago, we weren't ready. But now we are ready. We've got such momentum in the Sainsbury's food business. The combination of our quality and value, you can see the number of primary shoppers that are coming to Sainsbury's, 25% new primary shoppers.

And we've got parts of the UK where the distance to a Sainsbury's store is just too far. So these locations are really good locations for us, we expect high returns, low teens ROCE in the stores we're going to open. We'll get them all open next year and our Property team are doing a really brilliant job working to get the stores open as soon as we can and we're very confident about them.

Then to your question, there's 13 stores that we've acquired. In fact, we'll open around 20 new supermarkets next year, because we have our own organic plan for new space and around 20 to 25 convenience stores, because customers want to access Sainsbury's. The new store openings will bring around 600,000 customers within close proximity of one of the new supermarkets.

Sreedhar Mahamkali, UBS

Got it. Thank you.

Simon Roberts

Thanks, Sreedhar.

Operator

Our final question comes from James Anstead from Barclays. Please unmute your line and ask your question.

Simon Roberts

Hello, James.

James Anstead, Barclays

Good morning, Simon. Good morning, Simon and Bláthnaid. Couple of questions. Firstly, if I heard you correctly, you're basically forecasting Argos sales to be up year-on-year in the third quarter. Just wanted to check, is that an unusually confident prediction, is that based on what's already in the bag in the first six weeks or seven weeks of the third quarter or is that optimism about the remainder of the period? I mean, I guess it must be the former because you said you didn't really know how Christmas would pan out.

Secondly, on Argos, I'm not expecting quarterly sales predictions beyond the current one, but I'd imagine you might be optimistic given some pretty unchallenging weather comps, these issues with cookies, that Argos could be set to deliver more than just one quarter of positive sales growth. Isn't there an opportunity here to hopefully have a bit more of a longer run of positive sales growth there?

As a final separate question, there's obviously a lot of focus on improving trading intensity in the grocery business. In these days, it's quite hard to externally at least benchmark the different grocers against each other because you've got different geographies, different data available, different business models.

But is your optimism about improving trading intensity? Is that based on what you think is a gap between your stores and the competition or is that more about the gap between your best stores and the bulk in the middle? Thank you.

Simon Roberts

James, thank you. Okay, so let's come to the question first on Argos, and I think exactly to your point, you know, we start to lapse some softer comps, and that's one of the reasons why we would expect something in quarter three. This is a very important quarter, clearly, as we head into Christmas. As I say, by far and away, it is the biggest driver of the profit contribution of the year. And we come into this period with good momentum, which has improved from the first half of the year.

The key focus for us now is to deliver what is a bold and ambitious plan for quarter three, through Black Friday and through Christmas. When we look at our plans, we're very confident about them. There's a lot to deliver. As I said, the only key uncertainty is how the

consumer will respond in discretionary spend over this period of time post the budget. But I think in terms of the things that we can control, we've got a lot that we've got in the plan and a lot with confidence going to really deliver for customers.

Not least because our volume share online has really picked up, and we can see the volume and the market share responding as we've done that. When we look beyond the third quarter - and we'll talk obviously in January as to how the Christmas period is played out - as you can hear this morning, we've got a very clear transformation programme for Argos. It's about improving our digital experience. It's about adding more breadth and choice to the range, and it's about making sure that the operations of Argos continue to become more efficient.

And all that's part of our, More Argos, more often plan. In terms of our focus on our trading intensity. Look, the point here, the key opportunity for the Sainsbury's food business is as we started our plan, only 15% of our supermarkets carry or were carrying the full Sainsbury's range. Therefore, at the heart of our strategy to win more big basket shoppers, bringing more of our range to more customers in more locations is what we're absolutely doing.

And that will help drive our trading intensity as we move space from general merchandise into our food offer. We're well on with that programme. You've seen in our presentation today, the sales benefits that we expect to follow as we move into next year and beyond.

And at the same time, as you've heard us say in the last couple of weeks, in our convenience stores we've added hundreds of new products. We've actually relayed the whole of the convenience estate in the last few weeks. In a two-week period, our retail teams did an immense job relaying every single one of our 830 convenience stores to put more ranges in. That's helping to drive an improved trading intensity. Customer response is really strong there. Then we added the price match this week. I should just say that price match investment in convenience is a business as usual investment. It fits within the envelope of what we would consider an annual BAU because Convenience clearly is by far and away a much smaller proportion of our sales in Convenience.

So, the combination of what we're doing to improve the offer, to extend space to food, to dedicate more of our space in supermarkets to food, that also has an impact on our online grocery because we've clearly got the full assortment in all of our stores that pick online grocery.

So you can see the combined effects of all of those underpin a real focus on trading intensity. That's why these concept stores are so important, or lab stores I should call them, Witney and Cobham, because they've been learning laboratories to work out how we can drive this trading intensity, improve the customer experience, drive higher ROCEs as we roll this programme out.

Bláthnaid Bergin

Great. Let me just build on that a little bit, Simon. So just on the trading intensities. So, we look at a wealth of data across each of our stores individually, and what we are able to do is we're able to look at the stores within different cohorts, that's both by the location that they're in and the demographic that they serve.

We have now done a lot of work over the last few months with some of these experiments that we've done in Cobham and Witney to understand how do we drive the trading intensity in the store, what does our customer want, what are they most likely to shop? That's allowed us to curate a lot more how much GM and how much food we're going to have in the store.

That really helps us to drive that food trading intensity across the stores as well by having the right offering.

So we can look at it across stores, we can look at it across zones, we can look at the different demographics. We've spent a lot of time on that as we've developed our More for more strategy. So we have a lot of data on how we're going to deliver this. Very confident that we can drive the trading intensities of our estate.

Simon Roberts

Absolutely.

James Anstead, Barclays

That's very helpful. Thank you.

Simon Roberts

James, thank you.

Operator

Our last question is from Paul Rossington from HSBC. Please unmute your line and ask your question.

Simon Roberts

Hello, Paul.

Bláthnaid Bergin

Morning, Paul.

Paul Rossington, HSBC

Hi, morning everyone. Just one quick one from me. I think most of the questions have been asked. But I was just wondering, why do you think you outperformed the market in apparel in the most recent trading period? What did you do that was different? Because we've seen some strong numbers across the piece in apparel, but you've done better. So, is there anything particularly special or is it off a lower base? Just trying to understand what might have driven that. Thank you.

Simon Roberts

Yes, well, thanks for the question and thanks for bringing our clothing business onto the agenda for the call. It's a really important part of our business, clearly. Look, as you've heard us say before, we are focused on a constant improvement in what we're doing here. It's one of the areas that the team are really focused on at the moment.

And I think that we've made some improvements in our design, particularly in Womenswear and that really came through in the second quarter. Honestly, we've still got a lot to do. We're very focused on improving availability. Availability got better, but we think we can do even more in that space. We're working on improving our essentials ranges. We're working on our baby and kidswear ranges.

So the 10% improvement we saw in our Womenswear ranges really started to come from improvements in the design and the availability. We intend to continue to build on this momentum. Obviously, the weather effect was different to the previous year, so that gave us some softer comps to build on as well through that period, but we've got a different momentum in our clothing business.

As a team, we think we can drive this a lot further and a lot faster, and that's what we're focused on doing. The fundamental assumption to James's question is as we bring more big trolley primary shoppers back into Sainsbury's, as we laid out our Next Level plan, the way we think about this is to say, we've become the destination, First choice for food, and then the products and categories that sit around our food business, clothing being a good example, they see the benefit of the increased number of customers coming into our supermarkets, which is why the ranges in clothing are really important and the availability, so when customers come in, they can guarantee they get great products.

In fact, one of the products in the presentation you saw this morning, that coat, £55, incredible value. Customers have really bought into the new design that we've got, but they want it in stock when they're in store. That's why driving availability is so important. Thank you.

Paul Rossington, HSBC

Thank you.

Operator

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

Simon Roberts

Okay. Well, look, thank you everyone for your time this morning. I know it's a very busy week for you. So Bláthnaid and I really appreciate the time and the questions. Look forward to catching up again, obviously after Christmas. Really important few weeks ahead, really focused on delivering our quarter three plans across Argos and Sainsbury's and look forward to talking again soon. Thanks, everyone.

End