**J Sainsbury plc**
**Next Level Strategy Update 2024**
**Wednesday, 7 February 2024 - 9:00 am**

## Presentation

**Martin Scicluna**
**Chair**

Good morning ladies and gentlemen. Thank you very much indeed for joining us at our 2024 Sainsbury's Next Level Strategy Update. A big welcome to everyone online and obviously to those of you who have joined us here in Holborn. I'm Martin Scicluna, Chair of Sainsbury's and I'm going to be very brief. I'm going to leave the presentations to Simon, our CEO and Bláthnaid, our CFO and the Operating Board and they'll want me to be extremely brief so they can get on with that.

But I just want to say a few words before we start. What I'd like to do is briefly explain why I'm confident in two things. First, it's our confidence in the strategy that we've set out today. The thoroughness of the work that went behind the strategy was outstanding. And the plc Board and I have been very heavily engaged with all this, all the way through.

The strategy absolutely sets the right balance between investing to build on the momentum we have today, as well as ensuring that we deliver returns to shareholders. Secondly, and perhaps more importantly, is my confidence in the ability of this Management team to deliver this plan. There is absolutely no clearer demonstration of the ability of this Management team to execute than the progress the business has made in the last three years under their leadership.

We shared, in November 2020, the key metrics by which we'd be judged on the progress we're making. We're now consistently outperforming the grocery market, when previously we were consistently underperforming. We've grown profits by nearly 20%. Costs are lower, debt is lower and returns are higher. And we've delivered this in absolutely the right and balanced way, because at the same time we've invested in our colleagues and increased our customer satisfaction. We are, today, a fundamentally much, much stronger business.

Where has that strengthening come from? From Simon and his team and the way they have focused the business back to its core and reinjected belief, energy and ambition into the business. The Board and I have seen this impact it's had throughout the organisation. So, when I look to the plan we're setting out today, it is ambitious but it's also grounded in the progress we've made over these last three years, and I have every confidence in the ability of Simon and his team to deliver.

Today you'll have the opportunity to hear from Simon and meet all the team and I hope this will give you a great feel of how the business is operating. With that, Simon.

[Applause]

**Simon Roberts**
**Chief Executive**

Well thank you Martin and a very good morning, everybody. A warm welcome to our Capital Markets Update today. It's great to see so many people here in Holborn, a big welcome to everyone joining online, some of our largest shareholders in the room. So, a very, very warm welcome to everybody.

Now today, we want to take you through the detail of some of the changes that we've made and some of the changes that we're going to make. We really want to bring alive what it means to us to be a Food First and People First business and we really want to explain too, the cultural shift that is going to help us get to the next level for Sainsbury's.

So Bláthnaid and I are going to spend the first part of today covering the key elements of our strategy and then, for those in Holborn, we're going to split into groups and we're going to head into breakout sessions, where you'll get the chance to really understand the details of our plan and understand why we're so confident in what we can achieve.

We're then going to come back together at about 1:30. We'll have a Q&A session in the room here with all of today's presenters and we're obviously going to put lots of breaks in throughout the day so you can meet all of the Leadership team here with us in Holborn.

Then just the last thing to say before I get started, we're going to make really well sure that you're well fed and well refreshed throughout the day and get a chance to enjoy, I hope, a lot of Sainsbury's good food.

Now before I do anything else this morning, I want to introduce my colleagues on the Operating Board - Bláthnaid, Rhian, Graham, Mark, Prerana and Clo. Now, importantly, really importantly, the team you are going to hear from today are the team that delivered the Food First strategy over the last three years.

We announced a couple of weeks ago that we're going to make an important change to our Board. Moving to a Board of seven from ten as we go into this next, very important, phase. This is a very deliberate change for us, to drive sharper, faster and even more effective decision-making. The changes we're planning across our business will require us all to work more closely together to deliver transformation, end to end right across this business, rather than each function delivering run and change in its own silo.

You know this kind of transformation can only be achieved with a really tight, strong Leadership team who make decisions collectively and then drive to realise consistent performance throughout the whole business.

Now I'm going to start my presentation this morning by sharing our commitments for the next phase of our plan. Back in November 2020, as Martin just shared, you'll remember we shared our eight metrics. We told you at the time how we were going to measure ourselves, our performance and we said to you we'd update you every step of the way.

We're going further this time; we're committing to what we expect to deliver over the next three years. So first, we will deliver volume growth ahead of the market. This intentionally remains our first commitment and we've a really clear plan for how we will deliver on this.

Next, we commit to deliver profit leverage from sales growth. So, what do we mean by this? Well, we'll put more volume over our largely fixed cost base. We've completed much of the heavy lifting on price investment and so we now expect more of the volume benefits should flow through to the bottom line and we'll continue to do this in the right way for our customers, ensuring we remain super sharp on value and on service too.

Now we've built a leadership position on customer satisfaction over the other full choice competitors in the market and we're really committed, over the life of this plan, to build on this level of performance. Our core belief, as you know, is that well motivated and engaged colleagues deliver much improved service. It's absolutely at the core of what we believe in, and it also leads to higher productivity. So, we will maintain our commitment to invest in our people and continue to improve productivity over the course of this plan, with colleague engagement ahead of where we are now by March '27.

Now we're also committing to deliver £1 billion of structural cost savings over the life of this plan, with clear line of sight to this target and we see it as important fuel to continue to invest in our proposition and, of course, to continue to drive our performance forward too.

Now we're fully committed to our goal of reaching net zero by 2035, through delivering on all of our commitments across healthier diets, carbon, food waste and plastic reduction and diversity and inclusion. We are fully integrating our leadership and delivery throughout our business across commercial and customer outcomes. I will update some more later in the presentation about our commitments there.

Now there's a similar balance in our cash flow commitments, let's just spend a minute here because we think this really is the right moment to take advantage of the strong position we're in and invest more capital to drive growth and strengthen the key strategic capabilities of this business in areas like technology and automation. This is all about capitalising on our scale and investing at a time when many others can't. It's about further building our competitive advantage and it's about reducing our cost base. So, we are going to selectively invest in bringing more of our food range to more customers in a good number of our stores too.

The balance here comes in our commitment to generate higher returns from this investment spend. We will generate at least £1.6 billion of cash flow over the three years, with at least £500 million every year. Growing as we deliver higher profits and with higher returns. Just to be clear, we're very clear about how we will deliver on this.

This also allows us to take much stronger commitments to our shareholders. So, we're announcing today that we will move to a progressive dividend from the start of the next financial year. We're also announcing a share buyback program, starting with a £200 million buyback within the next financial year from March.

Now before we spend time going through the core outcomes of our Strategy Update, I think it's really important just to ground us back in some context about how we've got here. So, where we are now as a business, how we've got here over the last three years and our view of the industry backdrop as we look ahead.

So, when we launched our Food First reset back in November 2020, seems a long time ago now, we signalled a number of really key changes that we believed, as a team, were necessary. Look, we think it's really encouraging to see the progress we've achieved here against the plan that we did share with you back then.

So, let's just now take just a few minutes to look at some of the key proof points and what we've delivered over those three years, starting here with the Financials. We've delivered profit growth, we've reduced net debt, we've delivered strong free cash flow and consistent dividend payments.

Our Grocery business has been the key driver of this success with food now firmly back at the heart of Sainsbury's. We've reset value, we've reset innovation and we've stepped forward again on service. We're now outperforming the market on volume growth. I'm sure you've seen the Nielsen Reads this week, showing we're the best performing supermarket in the industry and we're continuing to build on our momentum.

Now our value investment has been very targeted, looking to the right, on the products and categories that customers buy most often. This has led to customers buy more across the whole basket with more, bigger, full shop customers now coming back to Sainsbury's. As a result, we're making gains from our biggest competitors and we're the only full choice grocer achieving switching gains from the limited choice supermarkets.

Now we've invested nearly £800 million over three years to achieve a fundamental reset of our value position against all of our competitors and particularly the limited choice supermarkets where, as you can see, we've closed the gap by as much as 16%.

We've also turbo charged our product innovation capabilities. Our customers expect new and really interesting products, and we've really delivered them. We've more than doubled the rate of new products we're bringing onto Sainsbury's shelves, and we've really raised our ambitions here. We've also built Taste the Difference, which was already the strongest scale premium own label brand in the market, really as a result of this focus on innovation. Taste the Difference is now growing volume well ahead of the market. It has transformed our performance, particularly over all the big events of the year.

Now, as I said before, we're a Food First and we're a People First business. This drives all of our decision making. So, since 2020, I'm pleased to say that we have been able to increase colleague pay by a third and we've improved colleague engagement at the same time. We've also made the necessary decisions that have really improved our productivity, as you can see on the right.

This is reflected in the leading levels of customer service that our colleagues are delivering day in and day out and we've extended our advantage versus our competitors, as you can see, on customer satisfaction. We built up that strong position during the pandemic and it continues.

So, let's now have a look at Nectar. It has delivered ahead of our expectations. Customers are clearly benefitting from digitalisation and from increased personalisation, particularly through Nectar Prices, which has been the key driver of our improved value perception. Through Nectar360, we're continuing to build on our first mover advantage, with profits tracking ahead of our original growth plan.

We've also transformed Argos, reducing the standalone store estate, and opening many more Argos stores inside Sainsbury's. We've made significant changes to how and where we move and hold our stock, driving efficiencies through our local fulfilment network and also making sure we have the right stock closer to our customers at the right time.

Now, more than 70% of our sales start online and nearly 70% of online Click & Collect orders are available for immediate collection. No other general merchandise retailer can match this. We're now the number one Click & Collect retailer in the UK.

We've created too, a far more resilient Argos, taking more than three percentage points out of our SG&A to sales and improving the core profitability of this business. So, while Argos will continue to be a business that will be influenced by seasonal patterns, as you know will be the case this year, profits will be more resilient than previously when the seasons go against us.

Save to Invest has been at the very heart of our delivery on Food First, creating the fuel to reinvest back in the customer proposition and reset our value position. We've changed the way this business really approaches cost and we've made bold decisions as a team about what really matters, doubling the rate of our cost saving delivery.

Martin talked earlier about the "how" behind the changes that we've delivered, what we've done differently as an organisation, how we've approached change differently and why this has been so important for us. First, aligning our whole Company and our team behind one clear plan has provided such focus and such energy for us, and it has ensured that we've driven some much bolder choices and stronger delivery.

We really faced into the big elephants in the room that we had to solve for, such as our competitiveness and our value position, rather than previously trying to work around them. We reset ourselves as a leadership team with an ambitious mindset and a real determination to do a better job for our customers and for our colleagues every day.

But most importantly, you know, we're just at the beginning of what we think this business is capable of. We're just rediscovering that. Because our level of belief inside this business, and as a team, has really changed. We've ignited a passion for the products that we sell, for what we achieve and for the power and connection of our team really working together. So, I think this big shift is perhaps more important than anything else, when we think about what it'll take to move Sainsbury's to the "Next Level".

Let's now look ahead to what we expect to deliver and consider that within the context of the broader industry around us.

None of the shifts or impacts I'm showing you here will be unfamiliar to you, mixing the more recent industry pressures with some of the major structure issues that are becoming so fundamental to the future of UK grocery over the next decade or so.

The two blocks on the right point to factors that have changed significantly over recent years. They've undoubtedly changed the industry dynamics, but we don't believe they've been the main drivers of our recent success, and so are not material in the way we've thought about the commitments we're making today.

Our Next Level plan is about what we'll do as a business. It's not about what we expect the industry to do for us. We really believe that this is the moment for us to double down on our momentum, really push forward and accelerate what we think we can achieve.

Why do we think we're well set against this industry backdrop? Well, because it's these fundamentals that are critical to win in this industry as we look over the next five years. First, of course, scale. We're the second biggest grocer in the UK and we're the second biggest general merchandise retailer. As we've rebuilt our confidence and gained trust and confidence of our supply base at the same time, we're becoming better and better at capitalising on this with long-term supply agreements.

Second, volume growth. We'll be carrying more and more fixed costs as an industry and the better we can offset that with volume growth, the more advantaged clearly the economics become.

Third, our customer base. There are more customers now shopping in Sainsbury's, more customers choosing us, increasingly recognise our improved value proposition whilst trusting us more and more on our quality, our range and our service too.

Next, of course, is the step change in productivity. We've been working really hard on this, and we know we'll need to keep going with it. We've built that muscle, and we really understand that now right across our business.

Of course, the next level of change will require different ways of working, as I've described, but we're very well set up to do that with a winning culture and a strong, robust financial position. When we talk about the targeted investments that successful grocery businesses like ours will make, for example in technology platforms, in new capabilities, in automation and fulfilment, this is from a position of strength.

Many of our competitors will not be able to make those investments or make them cost effectively. It's this that we believe will increasingly separate out the winners from the rest of the industry.

It is, though, through the deep foundations and unique eco-system of assets that we have that that really differentiates us. When we look across the depth and breadth of our assets and the combination of our brands across our physical store estate, our product assortment, our supplier and customer relationships, what really distinguishes this business above all else is our brand and our heritage in food.

Because of course, our brand is our greatest asset. Going back 155 years, Sainsbury's started with a promise: quality perfect, prices lower, and at our best we've always been about delivering great food and delivering it well, leading on quality, value, innovation, and sustainability.

We're at our best when we're at the very heart of Britain's relationship with food. It's this that sits behind the Sainsbury's brand promise: good food for all of us. We know it's this that our customers expect of us day in and day out, wherever whenever and however they shop with us. We've been working hard to reconnect with what we're delivering with what customers just always expect from us every day, and really importantly what they have always expected of us.

It's this really strong conviction that sits right at the core of our Next Level Sainsbury's strategy. The best performing companies in the world are driven by a clear, compelling purpose, so when we looked at where we are and how we forge our path to the Next Level for Sainsbury's, it became so clear to us as a team it was the right time to reset our purpose. Because the simple truth is that Sainsbury's has always stood for good food. The reality is that what's made us unique – we've rediscovered it.

So, our purpose, as we look ahead to the next three years and well beyond, we make good food joyful, accessible and affordable for everyone, every day. I think you'll recognise here in this statement a real intent and a real distinction about what we're here to do, consistently, day in and day out. It sets a really high ambition for us for decades to come, which is why all of us inside Sainsbury's feel so excited about this.

From our purpose, we've built a very clear set of outcomes which we'll deliver against over the next three years. We're going to spend a lot today focused on these four outcomes.

The first is First choice for food. We will be First choice for food. Secondly, Loyalty everyone loves. More Argos, More Often, and Save and invest to win. These are going to guide this important next phase of our growth, they're going to drive our prioritisation, and they're going to drive delivery of value for all of our stakeholders.

Let's talk about the four big outcomes in a bit more detail.

As you'll remember, Food First was all about refocusing and resetting this Business back on the core. First choice for food – this represents a very different ambition for us. Because having fixed the basics and removed price as a barrier to shopping at Sainsbury's, we're now really focused on how we're going to encourage many more customers to do much more of their shopping with us.

We think we should be the first choice for many more customers. We've a brand, we've a product assortment and we've really an offer now to support this and we've the capacity to bring more people to do more of their shopping in more of our stores. As the reliability and sustainability of supply chains also becomes ever more important globally and of course, here in the UK, we've also a very clear objective here to play a leading role in driving that change. Again, we've the heritage and we've the strength of supplier relationships to help do this.

What are we actually going to do here? We're going to bring more of our food range to more customers in more of our stores. We're going to of course stay absolutely focused on the sharpness and on the consistency of our value commitment, day in day out. Because, of course, it's this commitment that customers are now trusting more and more. It's really behind driving bigger baskets and the volume market share gains that you're seeing.

But as we continue to elevate our fresh food offer, that's our real point of difference and it's a key driver of customer choice alongside our range and availability. This is really what customers expect of Sainsbury's. As we've built our performance and our confidence, we've started to build a different way of working with suppliers, building long term partnerships, and driving more value across our own brand value chains.

Rhian is going to cover a lot more of this later in the breakout session, but this slide gives some idea of the opportunities we think we have through making Sainsbury's the first choice for more customers. We've already made some headway gaining primary shoppers over the course of the plan, and as you can see, particularly in the last 12 months. But there's a lot more to go for if we simply match the profile of our key largest competitor.

How are we going to do that? At the moment, only 15% of our 600 supermarkets carry our full food range. It's often the most important product areas that drive choice like fresh food where we're not offering enough of our customers enough of our range. Why? Because this business has historically erred perhaps too far on the side of caution, and because change, of course, is expensive, moving fixtures, moving refrigeration. Only now that this business is back performing well and driving the right amount of volumes through stores do we have confidence that we'll get a return on this investment.

We're going to be investing in around 180 of our highest potential stores over the next three years in a really focused way to make better use of our space and we expect this to be a key driver of our volume growth. And it's not just in our supermarkets.

With our online grocery offer of course being entirely picked from our stores, more customers will be able to access more range as we roll these improvements across our store base.

How are we going to find the space to expand our food ranges? Through working the footprint of our supermarkets much harder, tightening our general merchandise and clothing offer and allocating more space to fresh food. I'll cover this now in just a bit more detail.

When we look at the products and services that sit alongside our core food offer, we've made some very deliberate choices here, with our general merchandise and clothing offer very clearly positioned inside the Sainsbury's orange box and quite distinct from Argos. Our general merchandise operating model will continue of course to benefit from the back end purchasing and logistics synergies from that combination with Argos, but these businesses need a distinct and tighter focus that can produce better performance from less space.

General merchandise and clothing inside Sainsbury's stores will become more focused on providing irresistible choice for Sainsbury's primary customers on a more efficient footprint, and Argos will become more focused as we improve range, assortment and convenience for Argos customers. You'll notice here on the left our Smart Charge in the Sainsbury's box. This is our ultra-fast EV charging business that I'll touch on in just a couple of minutes.

Looking to the productivity of our space, two key things to point out here. First, Argos is an extremely productive way of retailing general merchandise, with very high sales densities, low cost to serve and lower comparative working capital.

Second, in our Sainsbury's stores, as you can see on the chart here, our general merchandise and clothing profit densities are not good enough. We can improve the productivity of the whole of the Sainsbury's store by simultaneously prioritising our food offer and raising the productivity of our general merchandise and clothing space with a tighter, more focused product range.

We've described in our capital allocation model today that we will selectively invest in areas where we see a really great commercial opportunity, particularly if it's in an area where we can capitalise on the strength of our existing assets and create something that sits really well and adjacent to our core food proposition.

We think we have a great opportunity to build a market-leading network of ultra-fast EV charging points in our supermarket car parks, capitalising on our store network, with access to the National Grid and great convenience, clearly, for our customers.

We're already up and running here with the Smart Charge proposition in 27 locations and around 250 charging bays already live, and the feedback from our customers on the proposition is really strong. We're spending around £70 million next year on another 70 locations. We're projecting strong returns here and of course, we'll review further rollout plans over the course of the year ahead.

Over the course of the last three years, we have fully integrated our Plan for Better just into the way we operate as a Business to drive improved commercial and sustainability outcomes and of course in the way we partner with our suppliers.

Just a couple of examples of the progress we've made here. We've been reducing our carbon emissions by transitioning to 100% renewable electricity across the whole of our store estate through the long-term purchasing of new-to-planet energy, significantly reducing our reliance on fossil fuels.

We've been reducing food waste through launching our partnership with Neighbourly in 2021 and since then we've delivered over 20 million meals. Recently, we've become the first UK retailer to move from plastic packaging to cardboard on all of our own-brand mushrooms. That will save over 775 tonnes of plastic in a single year. Just yesterday, CDP, the gold standard in climate disclosures, confirmed that Sainsbury's received an A-rating for climate change disclosures for the 10th year in a row – one of only four retailers globally to achieve this, and the only retailer here in the UK.

Now, good food for all of us is all about how, of course, we show up for our customers, how we do business, and how we work right across our industry. The UK food system requires significant change – we all know that – and we need to play a major role in improving it, focusing on how we source our products and how we help our customers to have access to good food. Now, you're going to hear a lot more from us about this over the next three years as we're making a clear commitment to drive system change, collaborating with all parts of our industry in order to achieve this.

Moving on to our second outcome – Loyalty everyone loves. It's a very clear one for us. We're already leading in our retail media capabilities, and the scale of personalisation we are delivering for our customers. Later, Mark's going to really spend more time with us sharing where we're up to and what our plans are. We see real opportunities here for further growth and the capabilities we see in this vital area for our Next Level plan. We're learning more and more about the power of loyalty in grocery, and despite the high levels of interest and some challenge that we expect, customers love the benefits of being able to access loyalty programs like Nectar.

When we look to our outcomes, these centre on how Nectar will become more and more integrated and meaningful for our customers, moving far beyond just reward, and how we can build on the capabilities of Nectar360 and the strength of our coalition model to take advantage of the growing opportunities you can see here in UK retail media.

So, what does this mean for profit contribution? Well, we're now expecting a higher rate of profit contribution growth, delivering an incremental £100 million of growth over three years, where we previously guided to £90 million over four years. We're also investing more capital in really high returning areas, like of Nectar360 capability. We would additionally expect that investment to deliver accelerating rates of incremental profit beyond the end of this program.

So, let's turn now to More Argos, more often. So, look, having delivered the first phase of the Argos transformation, we now have a stronger, more profitable business, and we can unlock more commercial potential here. We have a clear plan to drive more customer engagement and bigger baskets. Because, in reality, the job of continuing to transform and improve Argos is a continuum. That's why I'm really pleased to be able to confirm that alongside his additional responsibilities for transformation, Graham is going to lead our GM commercial delivery and proposition development. This marks another gearshift in our ambition for Argos.

Now, over the course of the year, around half the UK population shop at Argos, and it's famous, of course, for its value and convenience. Customers know we'll be there for them – when they need a paddling pool in a heat wave, an electric blanket in a cold snap, or the latest iPhone, or replacement washing machine in a hurry. But it's not the go-to for enough shopping missions, with on average, only three visits a year, and consumers, on average, buying just over one item per basket.

So, More Argos, more often will focus on providing a more inspiring range of desirable brands and design led own label and encouraging more frequent browsing occasions. We will also drive greater awareness of the market leading Click & Collect and delivery propositions through investment in our website, in our app, and in our CRM capabilities.

Now, having largely redefined the store network, in this next phase, we have more efficiency to unlock as we redefine the store operating model across a very diverse network of store sizes and types, and at the same time, we're going to go further to improve our stock flow and ranging decisions.

Now, I'm coming now to this – our final outcome – Save and invest to win. But this actually was where we started our strategy work. We asked ourselves, what do we need to do to unlock the next level of growth? What are the barriers we face today? What can we do to unlock more savings, more growth, and build a stronger platform for the future? So, Save and invest to win really has two key elements at its heart.

First, we will continue to drive more cost out of our business, fuelling investment in our customer proposition, and improving our performance. But we will also invest capital with a very clear focus on unlocking efficiencies, driving new capabilities, and productivity, and enabling our growth. Now, we're often asked whether we can maintain the rate of cost savings we've achieved over the last three years, and whether we've run out of the quick wins.

Now, the short answer here is that we did for sure achieve some big structural wins early in Food First. But we're confident we can maintain our current run rate of cost savings, and so unlock another £1 billion worth of cost savings over the next three years. This slide really does show the shift that will drive this and sustain our savings momentum with high returning investments in technology, in automation, driving big steps forward in our efficiency. We've signalled before that we will be unlocking productivity benefits more and more through these end-to-end programs, taking cost out of an entire cross functional chain of costs, rather than just looking at siloed divisional savings.

Now, of course, technology sits at the heart of everything we do, and will enable us to drive more out and across of this business, improving the customer experience, automating how we do things, and unlocking some of the things that constrain, today, our growth. Being candid with you – some of the legacy systems that we have can often slow us down, and so by building more agile, more flexible tech, this will deliver real wins in what we can achieve and how fast we can bring about improvements in our customer proposition.

Now, a business like this one has a huge number of transactions and huge numbers of decisions in areas like pricing, logistics, forecasting, and sourcing, and so machine learning and artificial intelligence can make a huge difference to the speed and to the efficiency of our decision making. In reality, we are just in the foothills today of what we think's possible here, and it has huge potential for us as we look forward.

So, we're going to invest in a targeted and focused way, and under Clo's leadership, and with full ownership across our Operating Board for both the technology outcomes that we're going to put into our business and for delivering the returns that we expect. As we enter this next phase, we are really well set up to deliver the improvements to our technology infrastructure and capabilities, so we're fit for the future and ready to deliver growth.

Now, to deliver the four outcomes that I've just outlined, we've signalled this morning that our level of CapEx will step up over the next three years. We'll invest in a very targeted way, and we're really clear on the commitments for delivering returns and cash generation. This extra capital spend is focused on driving growth and efficiency in the areas I've touched on. You're going to hear lots more about this through the course of today.

It's all about bringing more food range to more of our customers, it's about driving our volume growth, it's about investing in automation to reduce cost and improve outcomes, it's about continuing to improve the Argos digital proposition, and it's about investing in Nectar360.

Now, we've also been very clear that we will focus the whole business behind the four outcomes that I've shared this morning. These will drive all of our prioritisation, our resource focus, and our capability focus, too. Because now really is the time for us to be even more focused and drive all of our effort and all of our delivery behind the four key outcomes.

Now, on the subject of focus, what I haven't talked about so far this morning is Sainsbury's Bank. As you know, we signalled a couple of weeks ago that we've made the decision to explore a number of options that will result in a phased withdrawal from core banking. So, what does this mean? Well, it will mean different things for different parts of our financial services business.

In an area like Argos Financial Services, where around 20% of the sales are done on credit, it's a really important part of our business and we think we can do a better job with a specialist third party provider. In other areas, we'll consider selling, entering into partnerships with third parties, or running off portfolios. Now, this will take us some time and we'll update you as we solve for different parts of the portfolio as we move forward.

So, turning back to our four key outcomes we set out this morning. I hope you can really see the clarity of our focus and the intent here, underpinned by the strong strategic commitments we have shared for the next three years. With that, I'll now hand over to Bláthnaid, our CFO, to cover our financial plan and commitments.

**Bláthnaid Bergin**
**Chief Financial Officer**

Thank you. Good morning, everybody, and welcome to Holborn. It's great to see everybody here today in person. I've been in the role since the start of the financial year, having joined Sainsbury's in 2019. During the time I've been here, from a financial perspective, we have worked really hard to focus the business on cash generation, reducing our debt, and de-risking our pension scheme. So, today, I can say that we're in a much better financial position, and we have good financial discipline in the business and a strong balance sheet. This is demonstrated by our leverage reduction from 3.2 times to 2.6 times over the last three years.

Going forward, my focus as CFO is to continue to maintain our strong financial position, while retaining flexibility to take advantage selectively of new investment opportunities that may arise that create a synergy with the retail business. Cash will continue to be our primary focus and ensuring we deliver better returns from our capital investments to ensure that we have enhanced returns for our shareholders.

Now, I'd like to spend some time unpacking my thinking on how we're going to deliver our financial commitments over the next three years. Let me just remind you about the eight commitments that Simon made earlier. The commitments are well balanced and ensure that we deliver for our customers, for our colleagues, and for our shareholders. Building on these commitments, this slide shows how we are thinking about the financial framework that will support the next phase of our strategy. There are three elements. Firstly, profit leverage, second, consistent cash delivery, and finally, enhanced returns to our shareholders. I am confident that we have the right team today to deliver all three of these elements.

Turning to the first element, our priority is to deliver profit leverage from sales growth, and while doing this, our Save and Invest program will continue to reduce our operating costs as a percentage of sales. Second, we'll combine this profitability with disciplined capital investment to ensure consistent and reliable cashflows and higher returns. Third, we will retain a focused capital allocation policy that delivers stronger commitment and cash returns while ensuring a strong balance sheet and the right level of financial flexibility.

Let me focus on the detail of the constituent parts of the financial framework, starting with element one – profit leverage from sales growth. We are committing to deliver grocery volume growth ahead of the market. The chart on the left shows the shift we've made over the last few years, now outperforming the market after a significant underperformance in the previous years.

On the right-hand chart, as inflation has normalised, this has translated into meaningful volume growth. We expect to maintain this over the course of the plan, as more customers do their grocery shopping with Sainsbury's. Rhian will unpack this further in the food breakout session later on today.

Over the next three years of the plan, we expect cost inflation to return to normal levels compared to what we've seen over the last few years. You've seen the commitment to deliver £1 billion of cost savings over the next three years, and you'll hear more about that in my breakout session later on today as well.

Our focus is always on structural cost reduction, and we will continue to focus on reducing our SG&A as a percentage of sales, thereby allowing us to continue to make balanced choices, investing in the customer and the colleague proposition, while seeing some bottom line drop through.

You've seen this chart before. Over the last three years, we have invested in our price position. Much of the heavy lifting to close the gap versus our key competitors is now done. That means that while we will continue to invest selectively to remain sharp on our customer proposition, we have less investment to do here in the coming three years.

So how does all of this stack up over the life of the plan? Well, it won't be a surprise to you that I don't intend to give you three-year profit projections today and before you get your rulers out, these numbers are just illustrative. But the contrast on the profit progress over the prior three years should be really clear. Firstly, we're expecting to benefit from positive volume leverage over the next three years, versus a volume drag that we saw in the previous three years.

Secondly, we continue to expect cost savings to outpace inflation, with slightly less of a benefit versus the prior three years. And finally, giving most of the heavy lifting on our price reset is done, the level of gross margin investment, as you'll see in the other bucket, will be lower. Therefore, we expect retail operating profit growth from the start of this plan.

Now let's move on to the second element of the financial frame, focused investment to deliver sustainable growth. As Simon signalled earlier, we're investing more in our Business over the next three years. We have strong momentum today. Our investments will ensure we retain that advantage and build on it. Maintaining our estate and our store standards are key, and that's what you see in the maintenance CapEx block.

The increased CapEx investment will be directed to growth and efficiency plays. These projects will deliver accretive returns, and they will include rebalancing space in our supermarkets to drive our food volume growth, investing in physical and process automation to drive efficiency and putting more capital behind Nectar360, where we see some of the greatest returns.

Over the plan, we expect to spend £800 million to £850 million annually on CapEx. In year one the spend is higher, as we're making a £70 million strategic investment in our new EV charging business. At the end of the next financial year, we will make a decision on further EV growth and funding choices.

Moving on to element three of the framework; enhanced shareholder returns. While we're investing more in CapEx, we'll continue to deliver strong, consistent cash flows. Working capital will support cash generation in the earlier periods, delivered through our end-to-end programs, with the impact of the profit growth benefiting later periods, consistent with the higher returns on our capital investments.

Feeding all of this into our capital allocation policy, after increased CapEx investment, our retail free cash flow commitment is £1.6 billion over the life of the plan. This is modestly ahead of our previous commitments, and we will also continue to commit to at least £500 million per annum.

Our target leverage range is unchanged. We expect leverage to be around 2.6 times at the end of this financial year. This gives us the ability to commit to a progressive dividend starting in the next financial year. While we will retain our financial flexibility, this enables us to invest in new projects as and when they might arise, like the EV charging business we've talked about earlier today. Any such investments will be complementary to our core retail mission.

The final block of our plan is to return surplus cash to shareholders. We will review this annually. Today, we are committing to a £200 million buyback, which we will start in the new financial year.

So, what does all of this add up to? Just let me summarise the financial commitments that we're making today. We would say each of the three elements are clear and granular, and they underpin the eight commitments that Simon detailed earlier. We are committed to delivering enhanced shareholder returns through a progressive dividend policy, and we will start a buyback in the next financial year. But as ever, we will strike the right balance to ensure we keep the momentum that we have today, and we want to continue to invest in the long-term health of our Business. As you will always hear from me, a sharp focus on consistency of our cash generation is absolutely key.

With that, thank you very much and I'll hand back to Simon.

**Simon Roberts**
**Chief Executive**

Thank you, Bláthnaid. Now, I'm not going to keep you very much longer at all. Plenty of opportunities, of course, for lots of discussion and questions later. But just before we do wrap up the session in here, just to come back to these very clear commitments that we're making to you. We're super clear, super clear as a team, how we're setting up this business to build on the momentum we already have, and to really drive these through between now and March 2027.

If there's one key message I would really want you to take away from today's strategy update, it's that this is a real moment in time for Sainsbury's. This is a real moment in time for us. We've reset our business back to this position of strength, but we've so much more headroom in Sainsbury's, in Argos and in Nectar, and we really now have the capacity to build on that strength to really drive growth, to invest in a targeted way, and as Bláthnaid’s just said, to deliver stronger returns too.

So really a big thank you for being here today. A big thank you to everyone online for joining us for this session.

**End**