Tesco PLC
Q1 Trading Statement 2025/26
Analyst Call

12 June 2025

Transcript

Ken Murphy: Good morning everyone and thank you for joining us this morning following the publication of our first quarter trading update. As usual, I'm here in well and with Imran and we will shortly open the lines for your questions. We've had a really good start to the year delivering like for sales growth across all areas of the group. And I'd like to start the call today by making it clear that this is due to the fantastic work of our colleagues. So I want to say a huge thank you to all of them. Our unwavering commitment to delivering value and quality products to our customers coupled with strong availability in customer service have once again underpinned another successful quarter. In the UK, our market share remains strong at 28% and we have now seen 24 consecutive periods of share growth. We have consistently achieved switching gains, a reflection of our strong competitive positioning across all tiers of the market.

Customer satisfaction has continued to improve with our brand perception score up by 65 basis points compared to the same time last year, and we've seen progress across a broad range of pillars including quality and value. In this context, our UK like-for-like sales grew by 5.1% with growth in both food and non-food across all channels. Our food sales increased by 5.9%, helped by a strong combination of fresh food and an early start to the summer. Non-food sales excluding toys were just as strong, with like-for-like sales up by 6.2% and that includes a particularly good performance in clothing which benefited from new and extended ranges, and of course the good weather. While increased commodity costs and new regulatory burdens are creating inflationary pressure across the industry, we're doing everything we can to help customers get the best value every time they shop at Tesco.

In addition to the Aldi Price Match, Low Everyday Prices and Clubcard prices, our latest Price Cut campaigns have driven price reductions on hundreds of the products that matter most to our customers. And we've materially increased the amount of personalised offers too. When it comes to value, quality is as important as price and so we have continued our focus on improving and innovating across all our ranges. Across the quarter, we launched over 350 new owned brand products. We delivered exciting innovation across our summer ranges, including our fire pit and finest barbecue ranges. And we've relaunched our finest Italian range of prepared meals and pizzas with regionally inspired recipes. In the quarter, Tesco Finest recorded growth of 18% that the brand continues to resonate with customers looking for affordable ways to treat themselves. Our dedication to quality was celebrated at the 2025 International Wine Competition where our wines earned five gold and 35 silver medals, which was more than any other retailer. Online has once again achieved double digit growth with market share of our core home grocery shopping business up 1.5 percentage points year on year as we increase capacity and saw improving customer satisfaction.

We've also seen a strong performance from Whoosh, our rapid delivery grocery business, which is now available from over 1,600 stores. At the beginning of May, we launched F&F Online on Tesco.com and through our grocery and Clubcard app, providing customers with the opportunity to access our stylish and affordable offering across multiple channels. This aligns with our strategy to serve customers wherever, whenever, and however they want to be served. And combined with our grocery offerings and the expanding range of products available on Marketplace, F&F Online helps Tesco.com even meet even more customer needs. In Ireland, we were delighted to see our market share increase once again to 23.3%, delivering 40 consecutive periods of gains. Food like for like sales increased by 5.8% and we were recognised once again for our fantastic quality with our fresh food ranges receiving 10 Monde selection awards. In Ireland, we've continued to deliver growth across all channels including a contribution from 13 new stores added over the last year.

Our online business reported very strong growth as we continue to benefit from the launch of same day fulfilment options last year. Booker delivered like for growth of 2% with core catering and retail more than offsetting the continued decline in the tobacco market and Best Food Logistics. As many of you know, summer is a crucial period for many of Booker's customers. So the good weather has helped support trading in the period with core catering sales up 7.3% and core retail sales, up 5.4%. Our Central Europe business has also reported growth across all countries, which was mainly driven by fresh food sales as customers responded well to our targeted price investments and expanded product ranges, the market remains intensely competitive and we are committed to ensuring customers get the best value in the market by shopping at Tesco. We are therefore reiterating full year guidance we gave in April. So thank you all for listening and I'll now hand back to the operator for questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question on today's call, please signal by pressing star one on your telephone. Again, that is star one for your questions today and up. First we have Izabel Dobreva from Morgan Stanley. Please go ahead.

Izabel Dobreva: Hello, good morning. I have three questions. So the first one is on pricing. I noticed that the number of promotions being offered through the Clubcard has increased to about 9,000, I think it was about 8,000 before. So could you share a little bit of colour here? Is this because you are seeing increased supplier participation and promotional spend or is it because you're also co-investing or maybe a little bit of both? So that was the first question.

Then my second question is on personalised prices. I think you started running a trial from about February, so could you share some initial thoughts from the trial and how you're thinking about the rollout for the rest of the year? And then finally my last question is just on the Finest growth, which is up 18%, is your sense that finest is benefiting from any base effects just considering the timing of when you started bumping this up, or do you think this is a sustainable level of growth given your share gains the opportunity yet to come?

Ken Murphy: Morning Izabel and thank you so much for the questions. The uptick in Clubcard promotions is really driven by supplier funding. So that is an increase in effectively national brands looking to win, share back. The personalised prices, it's too early to give you any solid trend data yet, but it continues the theme that we've been pushing now for some time, which is we continue to look to get progressively closer to customers and to offer them coupons or nudges or rewards that are tailored specifically to their needs. And we keep trialling new and different mechanics in different ways and generally I can tell you we're seeing good results from that, but it's too early to call the particular impact of Your Clubcard Prices. Finest growth really is multifaceted in terms of what's driving its growth. It is combination of we're going into deeper distribution, so we're getting braver with distribution, we're keeping product innovation on stock for longer. So what we're historically maybe just seasonal offerings we're seeing has more traction across broader periods of the year. We benefited from the weather definitely, so we saw a lot of participation in our fresh Finest ranges and our fresh prepared and barbecue ranges, et cetera. And of course some of our new launches or relaunches have really worked well, like the new Italian range that we've just launched, our new pizza offering has been really successful. If you haven't tried it, I'd highly recommend it.

Imran Nawaz: And then maybe just from a base effect point of view, if I look at the last four quarters of performance on finest, we had quarter one last year, 13 we went to 17, then again 15 and then quarter four at 16%. So the 18% comes on top of a very strong base already. So to your point, it's actually growth on growth, which is good to see. And the other maybe point of colour is it's mostly over this volume led growth, which is good to see.

Izabel Dobreva: Thank you very much.

Operator: Thanks Izabel. Thank you. From UBS, we now have Sreedhar Mahamkali with our next question. Please go ahead.

Sreedhar Mahamkali: Good morning team. Thanks for taking my questions. Can I go with three as well please? Firstly, Ken, I guess noting your point on quality being as important as price, how important is being the cheapest full line grocer for sustaining market share outperformance? Secondly, maybe you can talk a little bit about inflation and we hear from suppliers that there is more input cost driven increases still come. What did you see in Q1? What were your thoughts ahead rest of the year? Thirdly, Express was flat last year, but I think in Q1 you're talking about growth in all channels. Can you expand a little bit on convenience in general Express and particularly is it still underperforming if it's what explains the relative softness in the channel? Thank you.

Ken Murphy: Thanks Sreedhar. Great question. So I think our observations from the performance we've achieved in quarter one is that the customer is looking for the complete shopping experience. So they're absolutely looking for really competitive prices, but they're looking for great quality product at competitive prices and then they're looking for an excellent shopping trip. So they're looking for easy convenient ways to shop you. And by that I mean the products in stock, the shopping environment is good, the digital experience is good, they feel looked after rewarded and it's easy. It's an easy and seamless mission. And I think our focus on nailing all of those aspects together has underpinned our success. And so I'm really pleased with our pricing and our competitive position on pricing. We've invested heavily, we've stayed really competitive. When I look at our indices, they haven't moved materially, but we're dialling up all the other aspects of the proposition at the time, which means that the value for money equation for the customer really works. So that's what I would say on the first question.

Imran Nawaz: Should I go on inflation?

Ken Murphy: Yeah, sure.

Imran Nawaz: On inflation. I mean if you look at Kantar, what you see is around 3.5%. We've been below that for the quarter, which is good and that helps us as Ken mentioned on the price index. Look, I mean as you've seen the same commodity trends as we have, so you see increases in proteins, in some oils, but at the same time cocoa has stopped increasing and has given us a bit of a decrease as well. So you start to see a balanced picture emerging, but there's still certainly upward pressure on some of the key commodity lines as we've started since the beginning of the year. Obviously as you know, we never give you a forecast on where we see inflation play out, but look, it's certainly something that we continue to work really hard to offset as much as we can, which explains one of the reasons why the price index is as good as it is.

Ken Murphy: And then finally on express, I think we've seen clearly growth in express in quarter one. I think we've seen stronger growth in online, but if I then look at relative to the market, Express, Tesco Express is outperforming the market. So we're really, really pleased with Express's performance in the market. I think what's also giving us some optimism is clearly the Booker symbol groups, Premier particularly, is growing very strongly and you see that from booker's performance in quarter one as well. So I think you've definitely seen a little bit of a rebound in Express in the convenience format. But I would say if you were to rank it, you were saying online growth being the strongest driver of growth followed by large stores and then by convenience.

Sreedhar Mahamkali: And if I can very briefly follow up on the in price in this point, having moved materially, does that say competitive situation while intense as you high left in the statement, has it remained stable since April when we last talked?

Ken Murphy: I think that the market is and always has been very competitively intensive. And when we called an intensification or further intensification in April, it was a real intensification and it remains real. That's the way I would phrase it. I wouldn't say it has stayed the same. I think there's been further investment, but it's relatively rational and that's why you're seeing stability in the indices. But there has been an intensification of investment for sure.

Sreedhar Mahamkali: Thank you.

Operator: Thank you. And our next question now comes from Rob Joyce from BNP Paribas Exane. Please go ahead.

Rob Joyce: Hi, morning. Thanks very much. I'll go with three as well. Just firstly Imran, just to confirm then food sales just under 6% inflation below three point half. So we're seeing food volumes up two to 3% in the quarter with the first one. Second one, just trying to understand, within that dynamic of the first quarter, is there anything which would make the drop through on the for sales in terms of profits, very different to what we've seen in previous periods to something you could highlight there. And then the third one, it's just on the UK consumer, just wondering if you're seeing any signs of slowdown maybe in the non-food business, seeing some data in terms of employment level starting to fall off quite a bit in May for example, in terms of payroll employees. Just wondering if you're seeing any change in the consumer dynamic more recently. Thank you.

Imran Nawaz: So look on the food volume as you right point out, sales in food grew around 6%, which was really, really strong. And pricing is below the 3%. So you're right in the sense of volumes, it's in that 2 to 3% line, which is a combination of volume and mix. And then on terms of drop through to the bottom line, it's nothing different than before.

As you know, we've got the inflationary pressures we're dealing with for safe to invest, we're feeling good on. So the drop through is pretty much as anticipated. And then I think your third question was…

Rob Joyce: More on anything you're seeing in terms of your non-food or just the bits of the business in that UK consumer trajectory, how do you see the consumer right now?

Ken Murphy: Yeah, no, look, it is a really good question. I mean we would've said, I think what we might've said at the year end was that having been cautiously optimistic, we sensed kind of a cautious pessimism at the year end. We probably are looking at it through a little bit of rose tinted glasses because performance has been so strong for us in both food and non-food as we just explained. So it has been really, really, really good. But we don't know how much of that has been driven by the weather. The weather has been great and how much of that has been driven by the fact that we're just more competitive in all aspects of our offer, but we do see a stability in the consumer. I would call out employment as the biggest bellwether for me in terms of that customer sentiment. And I think as long as employment remains strong, I think the consumer will be relatively resilient, at least in our categories. So it's the one to watch if I was you,

Rob Joyce: Thank you very much.

Operator: Thank you. From RBC, we now have Manjari Dhar with our next question. Please go ahead.

Manjari Dhar: Thank you. Morning Ken. I also had three questions if I may. My first question was just on non-food. I know you called out new and extended ranges in clothing. I was just wondering if you could give any colour on how much more work you think there is to do on the non-food offer. How much more should we expect in terms of range innovation, any sort of timeline you can put on that? And then secondly on Central Europe, I was just wondering if you could give any colour on how you are looking at margin evolution and return to profitability for that region now. And then finally just on Marketplace, I wondered if you do any colour on any learnings from that so far? I appreciate the F&F launch is fairly recent, but for the wider offering, any key takeaways from that offer? Thank you.

Ken Murphy: Thanks Manjari. By the way, it's not compulsory to ask three questions. So look, let me start on home and clothing. We've done an enormous amount of work on our non-food offer over the last five years, starting with exiting all of what we said were non-core categories that we didn't think we could deliver a point of difference on. So we shrunk the headline sales number but improved the profitability of that business. In the meantime, we've consolidated home and clothing under the F&F brand.

We've upgraded the range materially and we remain fantastic value I think. I believe we're at a very exciting inflection point in home and clothing. We've hired an outstanding leader in Katja who's joined us to lead the business and taking over from the fantastic work that Jan did. So I feel really good about where we are right now in home and clothing and I think we've a lot of runway to go.

And we mentioned of course that we launched F&F Online and I think I said on the media call that 80% of clothing decisions are made first by visiting a website and therefore we think that this will massively up weight the visibility of our range to customers and also showcase our full range because you can only get our full range of clothing in a limited number of stores. So excited about that. In terms of Central Europe, look, we're seeing a stability in the Central European business in terms of their market share and their overall performance. They haven't been helped by the weather in the first quarter. They've had relatively poorer weather, that said they've delivered growth in the first quarter. So we're pleased with that. I think that clearly you need to look at what's going on in each country and we're in an election year in Hungary, so you always have to watch out for regulation in the market. But overall I'm pleased with the stability and the performance of the Central European business. And then lastly, it's early days for us on Marketplace. It's something that we're investing a lot of time and energy in. We're building slowly and progressively learning as we go and we'll continue to do so.

Manjari Dhar: Great, thank you.

Ken Murphy: Thank you,

Operator: Thank you. And now our next question now comes from William Woods from Bernstein. Please go ahead.

William Woods: Hi, good morning. Thanks for taking the questions. I've got three as well, the first one's on price. Have you seen any change in the dynamics or the mechanisms, the price investments that have gone throughout Q1 and is it still focused on those branded skews rather than maybe the core Aldi price match range? The second ones, in terms of Booker, I suppose you mentioned the performance of Premier. Do you think we've turned a corner in Booker and what's driven that and why is best food still weak within that? And then the final question is just on the management changes that you've had recently, obviously losing Matt Barnes and you've created the new group strategy role, is there any colour that you can give on the changes that you've made? And I suppose why have you now decided to create a board level strategy role? Thanks.

Ken Murphy: Okay, let me start on the management changes question and then I will actually hand over to Imran to talk pricing and maybe Booker as well. So on the management changes, clearly Matthew explained to us that he wanted to move on and gave his reasons and we were first of all, very grateful for the time he spent with us. The businesses performed very well under his tenure. But I'm equally pleased that we have two excellent candidates in Ashwin and Natasha who've taken on the UK CEO role and as you said, the strategy and transformation role. Both of them are outstanding executives, they've been on the executive committee for a number of years and have been massive contributors to the success of the business. And so I feel really, really positive that these changes will actually accelerate the performance of the business and accelerate our strategic ambitions. So look, that's all I'd say. I mean we would wish Matthew the very, very best of luck in his future career. So at that note, I'll hand over to Imran.

Imran Nawaz: Alright, let me take Booker first. We're really happy with the Booker performance for the first quarter. As you do know, of course the core retail and the core catering businesses over the last two years have demonstrated growth every quarter, which is a good thing. And I think we saw stronger growth even this quarter and I think that's nice to see because obviously that market isn't the easiest one to grow in and certainly win in, but it tells us that we're getting market share and doing the right things for customers, be it on availability, quality and certainly on range as well. So I think that feels good. I would say probably the weather is not unhelpful for especially if you think about eating out in pubs and so forth. So I think that's been sort of a good performance in both catering and on the retail front.

Look, as it comes to Best Foods Logistics, you'll have noticed there was only a slight decline versus the last year, which is a good thing. The key reminder on Best Foods Logistics is it's not a significant profit driver within Booker. So as you know, it's fairly fixed in terms of how much we make there. So even if it isn't slight decline, the profit is actually fairly protected that way. But the way to think about it is the end consumption of our customers that use Best Foods Logistics, the quick food customer for example, have slower demand and obviously we therefore need less logistics services. That's the main driver there. Then in terms of the outlook for Booker, I would say the main goal for us is to continue to see growth in the core retail and the core catering businesses as we've seen over the last two years consistently.

And that doesn't change. And then your question on price dynamics, look, I think you've seen a step up in Clubcard prices that demonstrates the percent promoted is around 32% or so on volume. That's a notch up from prior year, but not by much. But you do see that and I think arguably it's no bad thing when you are also dealing with inflation to make sure customers get to leverage good prices. Then in terms of where and what, it's fairly consistent, no big changes.

I mean as you will also know, April and May has seen a bit of an inching up as suppliers have passed on the NIC and payroll increases they've dealt with. So you also see an increase in promotion.

William Woods: Excellent. Thank you very much.

Imran Nawaz: Welcome.

Operator: Thank you. And we're now moving on to a question from Freddie Wild from Jefferies. Please go ahead.

Freddie Wild: Good morning, Ken Imran and team, thank you for taking my questions. You'll be glad to hear I've only got two. The first is, can I understand whether there's been any material change in trading in recent weeks, particularly as the good weather has stopped? I'm both thinking within the UK has maybe those finest sales stepped down a little or alternatively in Europe as the return of good weather there maybe helped things on a little bit. The second question is just on from Rob's question about margin flow through. So obviously you say you've got light flights, which are going to be that volume growth flowing through to margin delivery in half one, you've got more supply of funding, you've got potentially more targeted promotions in general. I mean, can we at this stage exclude the possibility that you can deliver flat margins in the UK in half one? Thank you.

Ken Murphy: Thanks Freddie. I mean, let me answer the second question first. I'll start and then I'll pass Imran to maybe give up a more comprehensive answer. I think that yes, we are seeing an uptick in supplier of funding, but as you can see that's flowing straight through to the customer in terms of our competitive offers and the number of offers we're putting in front of customers. So I think it's in my book too early to say what the half year margin outlook looks like. Clearly it's helpful that we're trading strongly and beating the market and we have every intention of maintaining our momentum. But Imran is your

Imran Nawaz: Yeah, look, I mean good attempt Freddie in terms of getting more colour on profit, so good try. But look, what I would say to you is at this stage and it's with nine months to go for the full year, the guidance we set out was very clear, right? 2.7 to 3, with the intent to use the flexibility and firepower if we need it to respond. It's been a good start to the year, but with nine months to go, I want to see how it all plays out, how competitively the reactions are so far so good. But I would say the key point for you to take is nine months to go means we need to play it through. So the only thing I would comment on more than what Ken's already said is that ranges is where I see us and I feel comfortable with where we are on that front.

Ken Murphy: And then in terms of trading Freddie, I think that the trading patterns have definitely been boosted by the weather in the first quarter and in the second quarter as you've seen a kind of a downturn in weather conditions on a year on year basis, you definitely see a dip in the last week we've seen weather returning to kind of more normalised year on year pattern. So trading's pick back up again. So look, weather plays its part but it tends to even out over time.

Freddie Wild: Thank you very much. Thank you.

Operator: Thank you. And up next we have Clive Black from Shore Capital Markets. Please go ahead.

Clive Black: Well thank you morning gentlemen and very well done on q1. I'll try and keep it simple and go back to the old days and do one question in terms of the environment you're in today. You now understand NIC living wage and all the other headwinds around the cost base. I just wonder, could you give us more colour as to what levers and buttons you are actually pressing now around save to invest your margin and create the room to remain competitive at the shelf edge? Thank you.

Imran Nawaz: Sense of, I mean the headwinds we're facing are not small and we had mentioned the £235 million on NIC and then obviously the wage increases as well. So it's a fairly sizable bill, but at the same time we feel very positive about our ability to have offset at least half a billion of those. And look, the levers we are pushing are pretty much the ones that we had mentioned over the last year as well. It is a reduction of install logistics efficiencies, reduction on freight costs. We leverage our shared services more. We're looking at procurement on services, purchasing in terms of contracts that are up. At the same time we're looking at waste reduction opportunities and frankly warehouse automation as well where we can. So look, I look at it as an end-to-end program. It's more about making sure that anything that can be simplified is simplified. Anything that can be optimised is truly optimised. We want to protect ours in store because I think one of the reasons we've done really well is because we've fantastic service to our customers and we want to protect that. So it's more on the other areas, Clive, but so far so good.

Clive Black: And sorry, just the magnitude of the uplifting labour costs you've seen, does that change the basis of your thinking around the mechanisms you apply to try and reduce costs? If you didn't have that magnitude of cost increase, would you be maybe thinking differently?

Imran Nawaz: The way to think about it is as labour costs go up, of course the returns you get on automating where you can, for example in the warehouse project I mentioned, they become more attractive. So clearly you do look at those opportunities. I would say the most important principle, Clive for us is how do we make the business offset its own opex increases to make sure we protect the pricing to our customers and at the same time not touch the experience that customers have with us. But certainly automation, leveraging AI tools more often leveraging your shared services centres does make it more appealing.

Clive Black: Well done. Thank you for the question of the answer even. Thank you.

Ken Murphy: Thanks Clive,

Operator: Thank you, and from Barclays, we now have Karine Elias with our next question. Please go ahead.

Karine Elias: Hi, congratulations on the strong Q1 results, I have two questions if possible. Your market share continues to grow and I would've expected it to probably be against top comms. Is the market share gain sold broad-based or obviously with finance doing better, are you perhaps gaining more market share from particular competitors that you weren't expecting to initially? And then my second question was more on the environment. Obviously you mentioned the intense competitive environment, but still called it I would say rational, some of your competitors had announced pricing action earlier this year for those in line with what you have expected or perhaps a little bit less aggressive. Thank you.

Ken Murphy: Thanks so much Karine. So I think first of all, our share gains over the period are fairly broad based in terms of where we're winning share from. So it continues to be a consequence of, again, a strategy of investing across all aspects of the shopping trip and all tiers of the offer. So we're appealing to as broad a range of customers as possible and that's really helping kind of where we're taking share from. That said, we definitely start to lap very strong share gains in the next few months. So that will get harder. But not withstanding that we have great momentum and it's momentum we're planning on keeping, if I look at the environment and the competitive environment, I think it's getting largely what we expected. Definitely not less, but probably not more either. And as you can see, we've responded pretty strongly and that's again been something that's underpinned our momentum.

Karine Elias: That's great, thank you.

Operator: And our final question for today comes from Monique Pollard from Citi. Please go ahead.

Monique Pollard: Morning. Thank you for taking my questions - three if I can. The first was obviously Imran, you've been very clear. You want to give yourself at this stage a flexibility and firepower to invest. Just wondering if you're expecting to see a step up in price competition around key events given Ken's comment that the consumer remains, let's say a bit under pressure, but you do see them spend key events and weather, et cetera. Just wondering if moments like back to school you are expecting to be increasingly competitive. The second question I had was just on the online launch of F&F, very clear the rationale for it, but just wondered why now, is it just that with marketplace, et cetera, the infrastructure is there now and that's why? Or was it you taking a view on competition heating up from other competitors and their clothing lines in particular and the refocus on those? And then the final question, I appreciate non-food is a very small part of your business, but just in terms of the general merchandise, wondering if there's anything you are seeing on factory gate pricing, particularly out of China you could flag. Thank you.

Ken Murphy: Thanks very much, Monique. So look, the last question first, no, we're not seeing anything through factory gate pricing on general merchandise unusually. So pricing remains pretty stable and as I said, we're really pleased with performance on that. In terms of the F&F launch online, you're absolutely right. It's the marketplace infrastructure that's allowed us to launch our clothing business online. It's been really helpful in that. And as I said, I think earlier, it's a critical, I think, component of being successful in today's clothing industry because so much of the shopping mission start online. And then I'll hand to Imran for the first question around price competition.

Imran Nawaz: Yeah, look on key events, you're absolutely right. I mean, whether it's Easter or Mother's Day or back to school or Christmas, we absolutely expect that all of our competitors will continue to dial up their intensity and we're certainly going to make sure that we do the same.

Monique Pollard: Understood. Thank you.

Ken Murphy: Thanks Monique.

Operator: Thank you. And with that, I'd like to hand a call back over to you, Ken, for any additional or closing remarks.

Ken Murphy: Thanks so much, Saskia. Thanks everyone for joining. We really appreciate the time and all the great questions. We are particularly pleased to be able to talk to you on a day where we've had such a strong quarter. I think it has been the product of investment that's been right across the shopping trip and clearly customers are responding well. Our commitment is to maintain that momentum to continuously really work hard on value, quality and the experience while investing in the strategic growth drivers that we talk to you about from time to time. And so we look forward to seeing you all again at the half year and updating you on our performance. Thank you and have a great summer.