

Tesco PLC

Interim Results 2026/27 – Analyst Call

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Transcript



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Ken Murphy:

Good morning, everyone, and welcome. I'm here in Welwyn with Imran to share an update on our performance, as well as the progress we have made in delivering against our strategic ambitions. I'm pleased with our performance across the half. Customers are at the heart of everything we do, so I'm proud that we've achieved our highest ever customer satisfaction score, reflecting our continued investment in value, quality, and service. Alongside this, we have delivered a strong financial performance and made progress against our strategic ambitions, enabling us to continue investing in the customer offer and in the capabilities that will drive our future growth.

Of course, none of this will be possible without the dedication of our colleagues and suppliers, and I'd like to thank them for their continued commitment and support. Their hard work and enthusiasm make a real difference for customers every day. By investing consistently in the things that matter most to customers, we've delivered significant improvements in the customer satisfaction over the last five years, including a further step forward over the last six months to achieve our highest ever customer satisfaction score. These improvements have been broad-based with meaningful gains across every measure of customer satisfaction, from ease and quality to value and reward.

Alongside record customer satisfaction, there have been a number of other highlights across our first six months. We continue to innovate at pace, launching more than 800 new and improved products during the half, including broadening ranges that make healthier choices even easier for our customers. We're making good progress on personalization, extending Your Clubcard Prices to around two and a half million customers with plans to expand it further in the second half.

We have also begun rolling out our new AI-powered meal planner to customers following a successful trial with colleagues. Whoosh is now the UK's number one choice for rapid grocery delivery, and we are building on that position with new partnerships with Uber Eats and Deliveroo, helping us reach even more customers. We've also launched our new F&F website, helping even more customers discover and shop our full range of clothing.

Our colleagues are our greatest strength and central to the progress we've made over the last five years. We've always believed that if we invest in our colleagues, they'll deliver a better experience for customers, and that's exactly what we're seeing. During the half, we invested more than £200 million in UK store colleague pay, including a 5.1% increase in hourly pay. We have also provided greater flexibility, offering our UK store colleagues the

opportunity to pick up shifts across different Tesco stores in their local community.

At the same time, we've continued to invest in capability and service. 200,000 colleagues have now completed our most helpful Shopping Trip training programme. This represents our biggest investment in colleague training in more than five years. We are proud that Tesco has always played an important role in helping young people take their first step into the world of work. Through the BRC's Opening Shift scheme, we're providing 5,000 new work experience placements for the 18 to 24 year olds, helping them build skills and confidence for the future.

We remain focused on delivering for all our stakeholders, balancing the needs of customers, colleagues, suppliers, communities, the planet, and of course, shareholders. Our strong and longstanding relationships with suppliers were once again recognised with Tesco voted number one in the Advantage supplier survey for the 11th consecutive year. Supporting communities remains an important part of our purpose, and during the half, we doubled the reach of our Free Fruit & Veg for Schools programme, helping even more children access healthy food.

We've also introduced six new and updated sustainability commitments focused on reducing our environmental impact and strengthening the long-term resilience of the business. And for our shareholders, as a result of the strong performance of the business, we have continued to deliver attractive returns through both our dividend and share buyback programme.

I will return shortly with a fuller update on our strategic progress, but first, let me hand you over to Imran to take you through our financial performance.

Imran Nawaz:

Thank you, Ken. And good morning, everyone. I'm really pleased with our financial performance in the first half, which builds on the track record we have established over the last five years. We delivered sales, profit, cash, and earnings per share growth well in line with our performance framework, while investing in our business and creating attractive returns for shareholders. Group sales grew by 1.6% at constant rates, building on the strong performance we delivered last year.

Profits grew by a particularly pleasing 6.3% at constant rates with another strong delivery from Save to Invest, helping to fund investment in the customer offer and offset our operating cost inflation. Our profit performance was also supported by an increasing contribution from newer income streams, including Tesco Media and Whoosh. Free cash flow of 1.57 billion reflects a similarly strong underlying performance to the first half last year, plus a net benefit of around 250 million, primarily due to payroll timing.

Our balance sheet remains very strong with our net debt ratio at two times. Alongside sustained strong cash generation, this is allowing us to invest for future growth while continuing to return capital to shareholders. I'm pleased to say we once again delivered double digit earnings per share growth at 12.2% for the half. We have proposed an interim dividend of 5.05 pence per ordinary share in line with our policy of setting the interim dividend at 35% of the prior year total dividend.

Breaking down our performance in detail, all segments delivered profit growth ahead of sales supported by strong Save to Invest delivery. In the UK, sales grew by 2.1% with like-for-like sales up 1.5% and two-year like-for-like growth of 6.4%. Our food like-for-like sales increased by 2.4%, with Tesco Finest delivering another excellent performance, growing 9% during the half and extending its track record of strong growth. Large stores performed well against the demanding prior year comparison. Tesco Express sales were broadly flat year-on-year, supported by the contribution from new space. Total convenience like-for-like sales, which includes our one-stop stores, declined by 1.7%, largely reflecting the continued decline in the tobacco market.

Online remains a key contributor to UK growth with like-for-like sales up 8.4%, supported by improvements to the customer proposition and strong demand across both grocery home shopping and Whoosh. Our market-leading grocery home shopping business continued to strengthen its position, gaining a further 16 basis points of market share with orders up 4.9% and the number of Delivery Saver subscribers increasing by a further 6.1%. Whoosh also continued its strong momentum with sales increasing by 37% driven by growth in both orders and average basket size.

Turning now to market share. Across the last four years, we have increased our UK market share by 113 basis points to 27.8%, demonstrating the strength of our offer and the investments we've made in value, quality and service. As anticipated, the change we have seen in the period as measured by Worldpanel reflects the exceptional level of share gains delivered in the prior year, which was supported in part by disruption at some of our competitors.

On a two-year basis, market share grew by 23 basis points. The latest four-week Nielsen market share read, which includes rapid delivery, does reflect share gains of 14 basis points. In Ireland, we delivered another strong performance with total sales growth of 6.7% at constant rates and like-for-like sales growth of 4.1%. Growth was driven by continued volume gains, helping us increase market share by a further 44 basis points to 24.1%. Food like-for-like sales increased by 4.4%, supported by strong growth across both fresh and packaged. Tesco Finest also delivered an exceptional performance,

growing 12.8% during the half, as customers continue to respond well to the quality and innovation within the range.

We delivered like-for-like sales and volume growth across all our channels. Large stores and convenience delivered a strong performance with sales growth of 3.3 and 3.1% respectively. We continue to invest in future growth through our store opening programme, opening nine new stores in the last 12 months, including four large stores. Online remained a key growth driver with sales increasing 11.9%, reflecting the strength of our proposition and continued expansion of our digital reach. During the half, we increased our fleet capacity while Whoosh continued to scale following its launch last year and now operates from 47 stores, contributing 1.9 percentage points to total online growth.

Booker continued to make good underlying progress in the half. Excluding tobacco, the year-on-year performance largely reflects last year's contract exit in core retail and lapping the strong base in catering. On a two-year basis and excluding tobacco, like-for-like sales were up 2.7% with growth across all parts of the business. In retail, our symbol brands continue to perform strongly, supported by the addition of a further 275 net new retail partners. And we were particularly pleased to see Londis recognised as Symbol/Retailer of the Year at the Grocer awards.

In a tough market for our catering customers, we've strengthened our core proposition to ensure we continue to offer outstanding value on key essentials. For example, we've added new products, higher quality and clearer tiering across our fresh chicken range, and enhanced our coffee and sweet treat lines. Best Food Logistics grew sales in the half, supported by a new contract win.

In Central Europe, sales grew by 1.1% at constant rates, including like-for-like sales growth of 0.4%. Growth was volume-led with food volumes performing particularly well in the half, while Tesco Finest continued its strong momentum with sales increasing by 19.1% year on year. By channel, online continued to perform strongly with sales up 19.2%. This was supported by the expansion of our dot-com operations to a further 17 stores, increasing population coverage to now 85%. Store performance was broadly stable with large stores and convenience broadly flat during the period. We also invested in future growth, opening six new stores in the a half, including three large stores.

Turning now to profit, at a group level, we delivered adjusted operating profits of 1.783 billion up 6.5% at actual rates. In the UK and Ireland, profit growth reflects sales growth and strong Save to Invest delivery, helping to fund our targeted investments in the customer offer and offset operating

cost inflation. It also benefited from growth in newer income streams such as Tesco Media and Whoosh.

Against a strong comparative, Booker profits benefited from better buying and strong delivery of our Save to Invest programme. Central Europe operating profit grew strongly, supported by a more effective promotional mix, improved non-food performance, and once again, a strong contribution from Save to Invest. With operating profits growing ahead of sales across all regions, our group operating margin expanded 13 basis points to 4.8% in the half.

Save to Invest remains a key enabler in helping us offset the impact of cost inflation while continuing to invest in customers, colleagues, and the business. We continue to make strong progress and we are on track to deliver our 500 million target for the full year, bringing us to more than 2.7 billion of cumulative savings over the last five years since launching the programme. During this half, savings have come from a wide range of initiatives, including further optimisation of online picking and the increasing use of AI-enabled processes to improve replenishment, availability and store productivity.

We are also seeing an increasing contribution from newer income streams, including Tesco Media and Whoosh. These income streams are complementary to our core food business, leveraging our existing asset base to deliver strong sales growth and highly attractive returns. Together, they represent an attractive source of long-term earnings growth and value creation. The strong growth in adjusted operating profit flowed through to adjusted profit after tax, which increased by 6.8% during the period, supported by well-controlled finance costs and a stable adjusted effective tax rate of 26.8%. Statutory profit after tax rose 11.8%, reflecting a lower level of adjusting items during the period.

I'm pleased to say that we once again delivered double digit earnings per share growth at 12.2% for the half, reflecting the combination of strong operational delivery and disciplined capital allocation. Just over half of the increase was driven by higher adjusted operating profit after tax, with the remainder reflecting the benefit from our ongoing share buyback programme, as well as the full year effect of the return of bank disposal proceeds last year. I'm also really pleased to confirm another strong period of cash delivery with profit growth and disciplined working capital management of setting a planned increase in CapEx. Free cash flow of 1.57 billion reflects a similarly strong underlying performance to the first half last year, plus a net benefit of around 250 million, primarily due to payroll timing, which unwinds in the second half.

Our capital allocation framework remains unchanged and continues to guide how we create long-term value for shareholders. We continue to see attractive opportunities to invest in the business while maintaining strong financial returns with our return on capital employed remaining significantly ahead of our cost of capital. Reflecting the strength of our investment pipeline, we now expect capital expenditure of around 1.7 billion this year, up from our previous guidance of around 1.6 billion and around 200 million higher than last year. The additional investment will be directed towards high returning projects with a particular focus on productivity and growth initiatives. This includes further investment in energy efficiency and capabilities that will help sustain our Save to Invest programme and support long-term profitable growth.

In addition, supported by the strength of our balance sheet and sustained strong cash generation, we're increasing our share buyback programme for the current year by 200 million, from 750 million to 950 million. Our strong financial performance positions us well as we go into the second half, supporting our ongoing investment in the customer offer and the capabilities that will drive future growth. We now expect group adjusted operating profits of between 3.15 and 3.3 billion for the full year, narrowing to the upper half of our previous range. We continue to expect free cash flow to be within our medium-term guidance range of 1.5 to 2 billion.

In summary, I'm really pleased with our strong financial performance, which extends our track record of growing sales, profit, cash, and EPS in line with our performance framework. This strong performance enables us to keep investing in our customer offer and the capabilities that will drive future growth. I will now hand back to Ken, who will take you through our strategic progress in more detail.

Ken Murphy:

Thank you, Imran. In April, we announced an evolution of our strategic ambitions with five goals designed around a single belief. The best way to create long-term value for all our stakeholders is by serving customers better than anyone else. Our food-first retail ecosystem gives us a unique platform to do exactly that.

Through our leading store network, online grocery business, rapid delivery proposition, and Booker wholesale operation, our core food business allows us to serve customers wherever, whenever, and however they choose to shop. The frequency we build through food creates opportunities to help customers with even more of their everyday needs, from F&F Clothing and Tesco Pharmacy, to Tesco Mobile, Insurance and Marketplace. In doing so, we make Tesco even more useful and relevant to customers' lives.

The deep relationships we build through Clubcard, including through meeting those newer needs, enable us to deliver customers a more personalised,

more relevant, and more helpful experience that responds to their changing needs. Tesco Media and dunnhumby help create additional value by connecting suppliers with customers more effectively, contributing to our goal of being the most strategic supplier partner. All of this is underpinned by a truly long-term approach, through innovation, deep supply chain expertise, and a relentless drive to make Tesco as efficient and sustainable a business as possible.

The result is a virtuous circle. Frequency and breadth help drive deeper customer relationships. Deeper relationships drive better insight. Better insight helps drive a stronger offer. And a stronger offer helps us attract more customers and invest further in value, quality, and innovation. We're confident that delivering against these strategic ambitions and driving this virtual circle will allow us to continue delivering against the framework we set out five years ago. That means growing sales and profits, and continuing to deliver strong, sustainable free cash flow long into the future.

Our strategy begins and ends with winning in food. As the UK's leading food retailer, we have a unique opportunity to make a positive difference. Every week, millions of customers shop with Tesco, supported by more than 300,000 colleagues and a supply chain that includes thousands of British farmers and food producers. Delicious, affordable, and nutritious food matters more than ever to our customers, and our ability to provide this at the very best price underpins our whole business.

We're proud to have maintained our strong price position relative to the market, ending the half with more than 700 products in Aldi Price Match, more than 10,000 Clubcard prices every week, and everyday low prices across a wide range of daily essentials. During the period, we expanded Aldi Price Match to more than 2,000 express stores, meaning customers have access to great value however they choose to shop with us. We've also rolled out Your Clubcard Prices to around two and a half million customers, providing more personalised savings on the products they love while helping them discover new favourites.

Value means more than just price. Customers are increasingly recognising the investments we've made in quality, innovation, and product development reflected in a six percentage point improvement in quality perception over the last five years, including further progress during the half. We also launched more than 800 new and improved products across our ranges, giving customers even more choice and reasons to shop with Tesco.

And Finest, once again, performed strongly, supported by new and refreshed ranges, including our new finest smoked salmon range and a major relaunch of Finest Bakery. Finest sales grew by 9% in the half and we expect full-year sales of well over £3 billion. The quality of our products continues to be

recognised externally too, and that's something we're very proud of. Earlier this year, we won 35 Great Taste Awards, including four prestigious three star awards for our cheeses. Our wines also received seven gold medals, including recognition at the International Wine Challenge, and we were once again named Free From Retailer of the Year.

These awards reflect the passion and expertise of our colleagues and suppliers, and the quality we're delivering for customers every day. Our customer reach remains unrivalled in the UK with the country's largest store network and a leading position in online grocery. We are now the UK's number one choice for rapid grocery, with Whoosh leading the market for customer satisfaction. We extended this service to more than 2,000 stores during the period, adding over 400 locations. This has helped Whoosh sales grow by nearly 40% higher in the half, and Whoosh is on track to deliver sales in excess of half a billion pounds this year.

We recently extended our rapid grocery reach following new partnerships with Uber Eats and Deliveroo, allowing us to reach even more customers. Our long established grocery home shopping business continues to grow strongly, and during the half, we saw 11% growth in active customers. To meet growing demand, we recently increased slot capacity across our UK store estate by around 10%. In our most popular locations, we now offer deliveries from 6:00 AM, giving customers greater flexibility around their daily routines, and we're doing this sustainably with more than 2,000 electric delivery vans now in operation.

Customers increasingly want food that supports their health goals, and we're working hard to make these choices easier. We enrich the fibre content of 65 of our bakery lines, and we are simplifying ingredients across our product ranges to remove additives wherever we can. We are also continuing to innovate, to serve emerging and growing health trends, such as nutrient dense and high protein product ranges. At the same time, we're using our scale, customer insight, and reach to help growing brands connect with more customers, such as HIDE, which offers a range of high protein and nutritionally balanced meals and snacks.

Our second ambition is to meet more of our customers' everyday needs, and F&F is a great example of this opportunity. We launched a new fashion first F&F website, making it easier for customers to browse, discover, and buy our fantastic clothing ranges. Features such as onsite video and Shop the Look bring our ranges to life, while online-only exclusive ranges and more sizes give customers access to the full breadth of our clothing offering in one place.

The frequency and trust we earn through food allows us to serve a much wider range of everyday needs, and we're continuing to enhance the value

we offer customers. For instance, during the period, we further strengthened our insurance proposition with Clubcard customers now receiving a 10% discount on Tesco Motor Insurance, helping us reward loyalty while providing customers with even greater value. As part of our partnership with Barclays, their customers can now use cashback rewards on fuel purchases at Tesco, an extra way in which we are leveraging the relationship. We're continuing to invest in our store estate for Tesco Mobile, refreshing over 200 in-store phone shops, bringing an enhanced range of products and award-winning customer service to our 6 million mobile customers. And Tesco Marketplace now has more than 1,000 sellers, helped by faster and easier AI-enabled onboarding, which is supporting our ambition to offer customers an even wider range of products.

Our third ambition is to be the most strategic partner for our suppliers, and Tesco Media enabled by our in-house data analytics business, Dunnhumby is a key part of that. Tesco Media helps brands connect with customers at every stage of the shopping journey, whether it's at home, on the move, or in store. By bringing together our media capabilities, customer insight and store network, we can help suppliers build awareness, prompt purchase, and create long-term loyalty. We are increasingly using automation and AI to make these capabilities more scalable and cost-effective for suppliers of all sizes. A great example of this in action is Poppi, a low sugar soda that launched exclusively in the UK at Tesco. We used the full breadth of Tesco Media to connect customers with the brand wherever they were shopping, successfully building awareness and driving sales across all channels.

Our fourth ambition is to be connected, personalised, and loved by customers. Clubcard is the glue that holds our whole ecosystem together, and we've made it even more rewarding and engaging through initiatives such as Freebie Thursdays, Clubcard admissions and competitions, giving customers even more reasons to shop with Tesco. We're continuing to enhance the Tesco app, making it easier for customers to access the full range of Clubcard benefits and move seamlessly between shopping in store and online. Through the new Adobe and Tesco Innovation Lab, we're also using technology to deliver more relevant and personalised experiences, helping customers find the right products, offers, and services at the right moment.

The vast majority of customers connect with Tesco via their local store, and we are continuing to invest to make Tesco the preferred store in every community. Central to that is putting fresh food at the heart of our stores, creating a more inspiring shopping experience that brings the quality, value, and innovation of our food offer to life. We completed almost 70 store refreshes in the first half with our recently refurbished Sandhurst store, providing a great example of what we're delivering. As one of our larger UK locations, it now features an enhanced fresh market, expanded health and

wellness ranges, and a redesigned F&F department that better showcases the breadth and quality of our latest collections.

Our fifth ambition is long-term business sustainability, continually strengthening the resilience, efficiency, and sustainability of Tesco. We're continuing to build the capabilities that will help sustain our Save to Invest programme over the long term, while also improving the customer experience. One example is the rollout of electronic shelf edge labels across all our UK large format and express stores. In a typical large store, this will replace more than 40,000 paper labels while removing thousands of manual tasks each week, improving price accuracy and reducing paper waste. This will also free up colleagues to spend more time with customers.

Over time, we see opportunities to use this technology to help us serve customers even better through smarter replenishment, more efficient fulfilment of online orders, and new in-store retail media opportunities. The retail landscape is changing rapidly and innovation is critical to maintaining our competitive advantage. We do this in several ways. Through Tesco Labs, we develop, test, and scale new propositions, technologies, and customer experiences, while programmes such as Red Door help us connect with entrepreneurs and emerging innovators from outside the business.

W23, the innovation partnership we formed with Ahold, Shoprite, Sobeys and Woolworths has already invested in 13 innovative startups focused on areas including AI, automation, and sustainability. And just two weeks ago, we announced a £20 million commitment as the anchor investor in Bramble, a new UK-based fund focused on innovations that make food healthier, more sustainable, and more affordable. As part of our partnership with Bramble, we will be able to help identify, test, and scale innovations that can deliver real benefits for customers, suppliers, and the wider food system.

Supply chain resilience is central to managing risk and securing long-term access to quality products at the best possible prices for our customers. We continue to invest in AI-powered demand forecasting and commodity modelling, helping us respond more effectively to changes in supply and demand. We are also deepening partnerships across our supply chain, including through our six sustainable farming groups. We recently launched the new long-term agreements and sustainability linked incentives for members of our Sustainable Beef Group, rewarding farmers for delivering higher standards and progress against sustainability objectives.

Through our Tesco Nature programme, we are partnering with a number of suppliers and organisations, including citrus producers in Spain to tackle challenges such as soil erosion and water management, helping to strengthen the resilience of future food production. While we're encouraged by the progress being made, building a truly resilient food systems requires

collective action. Continued collaboration between producers, retailers, governments, and others across the supply chain will be essential to addressing the long-term challenges facing agriculture and food production.

In summary, with a strong financial position, clear momentum behind each of our strategic ambitions and record customer satisfaction, we are well positioned for the second half and beyond. We remain focused on putting customers first, delivering our strategic ambitions, and in doing so, creating long-term value for all our stakeholders. Thank you for your time today, and Imran and I would now be delighted to take your questions.

Q&A

Moderator: Thank you, Ken. We will now take our first question from Manjari Dhar at RBC. Please unmute and go ahead.

Manjari Dhar: Morning, Ken. Morning, Imran. Thank you for taking my questions. I just had three, if I may. My first question is on the narrowed guidance range. I was just wondering if you could give us some colour on how you view the H1 performance versus what you thought you might be able to do at the start of the year. I'm just trying to get a sense of how much of that narrowed range is informed by the performance today and how much is, because that bottom end was predicated on a scenario for a worsening consumer that didn't really occur.

My second question is on Whoosh. I wondered if you could give some more colour on how you see the runway for growth from that business. Where can it get to and any colour on what you're looking for that partnership with Uber Eats and delivery to bring?

And then my final question is just on marketplace. I wondered if you could give us some colour on learning so far for that and any KPIs that you're watching for. Thank you.

Ken Murphy: Thanks so much, Manjari. Why don't we do them in reverse order? I'll take the marketplace and Whoosh questions and I'll pass to Imran to talk you through guidance and how we got on.

So I'd start off by saying that marketplace for us has been a kind of journey of getting all the right sellers on the site. So we've up now nearly 80% year-on-year to a thousand sellers on the marketplace. We've chosen to lead out with home and clothing as where we want to make our first statement. And the re-platforming of the F&F website to be a fashion friendly or fashion first website has been a big success with customers. We've seen a big jump in traffic through that website as a consequence. And we've seen some great

results in terms we're winning share in fashion in our grocery sector. So we're really pleased with the kind of early initiatives from a marketplace perspective.

But there's a lot more to come to that because I'll move on now onto your second question, which is this year really has been the quick commerce year from an investment in marketing point of view. And we've seen fantastic performance as a consequence. We've grown Whoosh by 40% in the half, which is compounding on a similar rate of growth last year. So we're well in track to make it more than a £0.5 billion sales contributor for the full year. And over the summer, we became the leading quick commerce player before we went on to the other quick commerce platforms.

The strategic objective of our partnership with both Uber Eats and Deliveroo is really to reach new customers and expose the Tesco ecosystem to a much wider range of customers beyond our kind of current borders. And we've seen really great early results from that perspective. So we've seen much lower cannibalisation rates than we had expected in the business case from the early growth rates through both Uber Eats and Deliveroo. So really positive signs. And it's a great contributor to the overall ecosystem because it's a high frequency, high kind of urgency mission and seen by many customers as a bit of a lifesaver. It has a very positive effect from an NPS perspective as we've seen from the record customer satisfaction score we achieved at the half year. And we see plenty of runway, Manjari, for that in the future, particularly as we expose more and more large stores to the Whoosh network, which of course has the capacity for five times the range and is driving basket growth in Whoosh.

So with that, I'll pass over to Imran for the guidance question.

Imran Nawaz:

Sure. So look, I'll break it down for you just to reflect the nature of your question, first half, second half.

So fair to say when I look at the first half, I am actually really, really pleased about the profit growth that we pushed through the business. And if I look at what are the building blocks, it's fair to say that it's quite broad based, right? So first and foremost, we had really positive sales mix as in product mix in terms of what we sold. Finest is a good call out there, growing faster. That was really helpful. Save to Invest, we've talked about it a lot and it came through exactly like we planned, evenly faced throughout the year. But again, 250 million or so. The new income streams, specifically calling out media and Whoosh worth calling out because they were real contributors to the profit growth. And what that also helped us then to do, the sum of those three things helped us to offset fairly strong operating cost inflation as well as the fact that we were able to truly invest for customers. And it is really

pleasing to say that we were able to grow profits and be the cheapest full line grocer in the country, which is really, really important.

Look, fair to say the first half played out better than we anticipated when we set out guidance back in April. And back then this was the beginning of the Iran conflict as you well know, and we talked about the resilience of the customer and we need to understand what environment the customer is in. It is fair to say that in this first half, consumers have been resilient. As we look ahead into the second half, we have six months to go, we've got a new budget coming up, we've got Christmas, we know people's energy bills are going up, so what we want to do is we want to set ourselves up as we always do to make sure we are set up to win and we have the flexibility to invest wherever we see opportunities. So that's how we think about the full year guidance and also sort of the split one versus two half.

Manjari Dhar: That's great. Thank you very much.

Ken Murphy: Thank you.

Moderator: Thanks Manjari. We'll now go to our next question. This will be from Izabel and she's from Morgan Stanley. Please go ahead, Izabel.

Izabel Dobрева: Hello. Good morning.

Imran Nawaz: Morning.

Ken Murphy: Hi, Izabel.

Izabel Dobрева: I'm very interested in this comment that you make that the latest four week Nielsen market share is up 15 basis points, including the rapid delivery. So this suggests that the take-up has been incredibly strong. And if I look at your market share in instant grocery, it's less than half your overall market share in online grocery. So is it fair to conclude that a lot of the growth coming through these third party partnerships should be incremental? And if anything, you probably have scope to double your market share here in the instant segment. And then I have a second question, but I'll pause here.

Ken Murphy: So yes, that's the short answer, Izabel, is you're spot on.

Izabel Dobрева: Okay, great. And then my second question is slightly longer term around AI and the launch of Muse, which is dominating market discussions at the moment. How are you adapting your retail media proposition and the marketplace rollout for the AI age and how do you think about any risks to the retail media income as discovery migrates to AI agents? I think if you can

give us a sense of the unique features you have in your retail media proposition, that would be helpful.

Ken Murphy:

Oh, fantastic, Izabel. We're really happy to do that.

I think it's very early days for Muse. Clearly it's a big shift in the AI kind of story, but the jury's out yet, of course, in terms of what impact it will have. But you're right to call out that it requires the industry to think differently about the customer journey and about retail media. I'd start off by saying that one of the positive features about a lot of our retail media income is that it is based on our physical store estate. So we earn quite a lot of media through our store experience and our store journey.

The second thing I would say is that our unique kind of aspect of our retail media is that we have deep insight into customer habits and tendencies and therefore we can build very targeted audiences for potential advertisers and therefore we can give them a very economic and high returning retail media proposition.

The third thing I'd say is also uniquely, we can measure the impact of that media spend because we can see the actual purchases that the consumer makes, and so we can go follow it right through from cause and effect.

I think that our adaptations are as follows. The first is that we are partnering with Adobe ourselves to build AI enabled targeting and also to build AI-enabled media content creation to allow us to be much more dynamic and responsive and increasingly personalised to the kind of things that work for individual or clusters of customers. And we think that will allow us to provide a more nuanced and targeted media proposition versus the very big tech platforms. But look, I think you learning about Muse roughly at the same pace as we are. And so I think in six months time we could have a different answer for you because it's a constantly evolving story.

Izabel Dobрева:

Thank you very much.

Moderator:

Thank you Izabel. We'll now take our next question from Matt Clements at Barclays.

Matt, if you can unmute and ask your question.

Matt Clements:

Hi. Hopefully you can hear me. Thanks for the time. I was just thinking about promotional participation in the first half of the year. We saw participation tick up, but can you give a sense of the market's giveaway rate in the first half? Are we seeing participation kind of offset by perhaps more targeted

promotions kind of driving down the depth of promotion? That would be the first question.

And the second question would be around your potential incremental investments in the second half in response to consumers when you change consumers or that's a backdrop. Where do you think those investments would most likely be focused? Where are you seeing highest returns on investments? So is it price, labour, store hours or marketing?

Ken Murphy: Can you take that one, Imran?

Imran Nawaz: Sure. I mean, look, I mean, as you know on the promo side, you're right to say that if you look over this, the first six months, the promo percentage has gone up a bit, maybe three points or so from where it was last year like-for-like. So from that angle, you can see that a lot of that is driven also by the brands to be fair, because as you know, there is a desire to want to go back and get volumes on their part. And I think that's a good thing and you see that reflected in our Club Card prices and I think they're effective. And I think by having been more targeted and leveraging our capabilities on personalisation, leveraging our capabilities on the Club Card prices, it actually is working well for us and we're pleased with how that's working.

Then in terms of investments into the second half, look, I mean, as you would've seen, I think one key takeaway for me is ending the half as the cheapest full line grocer. I think price and value of course is always going to be important for us, and that will continue to play in importance into the second half. But equally, making sure that the helpfulness training that we've implemented that Ken spoke about earlier in the presentation and that the hours are there during Christmas, it's worked wonders for us the last five, six years. So we're going to continue to do that. I see all of the activities that help customers shop better, enjoy themselves, really sort of trust Tesco as the right types of investments. And you could see that by the record sort of customer satisfaction score, that 33 NPS number for us has been brilliant and has been sort of a north star for us throughout the year and we're quite proud of that.

Matt Clements: Thank you very much. Thank you.

Imran Nawaz: Thanks, Matt.

Moderator: Thanks, Matt. We're going to take our next question from Clive Black at Shore Capital.

Clive, please unmute and go ahead.

Clive Black: Yeah. Morning, gentlemen. Thanks for your time, and well done. If I could ask about inflation, please. I mean, clearly in the spring we had an energy shock. And I know there's lots of moving parts to inflation, but are you surprised how low some of the measures of food inflation in the UK have been in the last six months? And in that respect, are you protecting shoppers from the reality of inflation at the moment?

And then I guess just the final point is a lot of inflation, particularly around oil or energy is hedge-related. Should we be concerned that you, your supply chain, and indeed shoppers could be facing into more elevated inflation if things stay as they are over the next say six months? Thanks.

Ken Murphy: I would start by saying that when inflation was touted to rise significantly back in April, we were uniquely stood out by saying we didn't see it. And the reason we didn't see it is because the Middle East doesn't produce a lot of food. So it was a very, very different scenario to Ukraine where it's a massive food producer and had a massive effect on commodity prices in general. And that's kind of played out because what you saw is yes, you have seen energy costs tick up and you're absolutely right. We and a lot of the industry are now well hedged having learned the lessons from Ukraine, but also you saw commodity prices falling in a number of incidences through the summer. And it would be also fair to say that the market is as competitively intense as ever. So there's a ticking up of volume on deal, et cetera.

So I think all of those factors combined to keep a lid on inflation in the first half. If we look forward, we would never give you an inflation prediction, Clive. I think that our hedging strategy goes beyond the short term. So it's not like it runs out in two or three months. And we can't really comment on how we see inflation, although we have every intent of doing all of the things we did in the first half to provide the best possible value for customers, particularly going into Christmas. And as we sit here today, we have a great offer. It's very competitively priced. We've bought up in terms of volume, so we're quite, let's say, optimistic and ambitious for Christmas this year.

Clive Black: So sorry, Ken, just to be clear then on my middle point, we shouldn't be anticipating for the foreseeable future that you're going to have to absorb on behalf of your customers an inordinate amount of inflation that you haven't experienced in the first half?

Ken Murphy: You can never legislate for the competitive dynamics, Clive, but I think we would say that the market has behaved pretty rationally over the last number of years. And the industry has had to navigate a series of crises, but it's a very competitive market and therefore you can never take anything for granted. And that's why the phenomenal work that Imran's done on the Save to Invest programme has really given us the space and the capacity to

continue to win with customers, invest in the long-term strategy and deliver the strong financial results that you saw at the half year.

Imran Nawaz: Yeah. And I think if I can build on that, the fact that, as Ken said, we're one of the very few who called out, look, we don't really see the big spikes that people are calling out when we spoke in April and again in June. I think what it does also do, Clive, is it forces you to set the business up for how do you win in a low inflation market, cost management and everything else. And that has actually been quite helpful and I continue to think that way even into the second half.

Ken Murphy: Absolutely.

Clive Black: Thank you. You should be very pleased with your outcome.

Ken Murphy: Thank you, Clive.

Moderator: Thanks, Clive.

We're now going to our next question from Sreedhar Mahamkali from UBS. Please go ahead.

Sreedhar Mahamkali: Hi. Morning, Ken, Imran. Thanks for taking my questions. Jump back to guidance please for a moment. I note, Ken, I think you mentioned you well positioned for the second half, but I think at the current rate of first half delivery, even at the top end of the guidance range, it implies with less than 3% profit growth in the second half. I think I understood, Imran, you were talking about uncertainties in the market, which I fully agree with, budget not the least and Christmas to come, et cetera. But you also mentioned a couple of times being the cheapest full line grocer.

So the question in my mind is, are the external uncertainties is what you're keeping in mind when it comes to the guidance range being unchanged at the top end, or are you signalling a greater willingness to step up pace of customer investment in the second half and hence we should sort of be a bit more thoughtful about it being the cheapest full line grocer point that you made and a couple of other follow-ups.

Imran Nawaz: Yeah, sure. So let me maybe take that one. When I say the cheapest full line grocer, it comes on the back of the first half having made the investments we made and you saw that we're able to grow profits nevertheless. And that tells you we're also rational players, right? As I look into the second half, that's not going to change in my mind, but what does matter for me is that we continue to look for opportunities to invest where we can win. And I think that is the way we've been operating for the last six years, and I think we'll

continue to do so because it works well for us and it's something we're going to plan to continue to do.

Then you're absolutely right. The uncertainty of the environment that we're operating in, customers have been resilient so far, we now need to see how are they going to be in the second half. And I want to make sure we have the agility, the flexibility to react when needed. But we're always going to be rational, but we'll also look for opportunities to make sure we do the right thing by them. And therefore when you look at the range, look, you also need to remember, I don't operate the first half, second half. I operate for the full year. And how do you win for the full year?

Sreedhar Mahamkali: Very fair. Very fair. Second one, I think Ken, you mentioned very limited cannibalisation of Whoosh and on-demand on the like-for-likes, but I think convenience store like-for-likes seem to tell a slightly different story unless you say there is something else going on within the convenience business. But more importantly, can you give us a sense on the profitability of the on-demand business rather, sorry, and how happy you are with it relative to store margins?

Ken Murphy: Yeah, we're pleased with the profitability of the online business, Sreedhar. The economics work for us. We set that up from the outset, notwithstanding the fact that it allows us to maintain a healthy improved price position versus the aggregators on Whoosh, it is still a profit contribution business. So we're very pleased with it.

Sreedhar Mahamkali: And the cannibalisation, is it lessening your point or.

Ken Murphy: Well, what our cannibalisation is calculated basically on a sense of would we lose sales from the. First and foremost, would we lose sales from our Whoosh business into the aggregators? And that we haven't seen, or we've seen at a much more limited rate than we actually planned in the forecast.

Sreedhar Mahamkali: Got it. Thank you. Last one is buyback is now 950 million, but you're clearly calling it out for just this year. I guess the question is, you don't do things in sort of half measures, this isn't something not fully thought through and there is a possibility it remains at that elevated rate into next year and beyond should cash flows remain supportive. Is that a reasonable sort of way of thinking about it?

Imran Nawaz: I like the way you phrased that, but let me address that question.

Sreedhar Mahamkali: I'm trying my best.

Imran Nawaz: No, no, no. I know what you were doing there. It was clever, but let me try to answer it.

The two things, one is just on convenience, clearly for you to remember, we gain share in convenience. And if you look at the driver of the slight decline, also need to think about tobacco sales as being a contributing factor there, which you might need to think about. When you think about the buyback, look, the way to think about the buyback and the step-up this year is it is a sign of confidence in the sustained cashflow generation over the past years, including this first half and the confidence that we have into the second half. Equally, when you look at the strength of the balance sheet, where the leverage ratio is versus the target that we have, we're in a really good place with that.

The fact that we're able to invest into CapEx, into the business, first and foremost, gives you then also that confidence that first and foremost you're investing for customer, you're investing for the business, you're investing for future growth. And then we have the remainder into the buyback. Look, every April the board gets together and makes that call, what are the plans for the year that we're about to kick off? And therefore that's where it gets decided. So I treat every year as a new start and we'll keep you informed in April when we meet.

Sreedhar Mahamkali: Thank you.

Moderator: Thanks very much, Sreedhar.

We'll now take our next question from Rob Joyce at BNP Paribas. Please unmute and go ahead.

Rob Joyce: Hey morning. Thanks for taking the questions. I might go with three. It's kind of building what you've said earlier, but UK margin is up some profit growth, but UK volume's probably flattened like-for-like for lowest it's been in five years. I guess, are we saying this is a new Tesco where profit growth is now a bit more detached from that volume and top line growth? Or are we looking at that second half guide and saying, "Well, maybe there's a tacit thing here. We need to put a bit more into price to reignite the top line"? That would be the first one.

Second one is linked to that is, I guess the buyback is interesting as well, just the timing of it. It feels like you're talking more to sustainable cash flow generation, but I just guess what's changed in that first half in terms of your view on sustainable cash generation versus the full year back in April?

And then the final one more broader industry question, but I mean we've seen some press recently about yourselves been interested in potentially Majestic Wines, the Sainsbury's Morrison headlines. I mean, do you feel the UK grocery market looks right for further consolidation right now and what kind of role do you see Tesco playing in that? Thank you.

Ken Murphy:

Thanks very much, Rob. I'll start off with the consolidation question. We believe that the market is probably one of the most competitively intensive certainly in Europe, perhaps in the world in terms of the number of players with over 5% market share in the industry. And so that means that you have to be exceptionally sharp to win in this market. And our strategy is designed to continue to win almost irrespective of what happens from a consolidation point of view.

Our ambition is to make sure we're the go-to destination for customers for Food, and winning in Food is absolutely central to the strategy. We believe that the high frequency nature of that mission gives us permission to talk to them about other missions, and that through the kind of digital footprint that we're building alongside the physical footprint and the work we're doing on Club Card and personalisation will provide that kind of ecosystem infrastructure that will allow us to increasingly win share of wallet.

Now from a consolidation point of view, there are all sorts of permutations and combinations you can look at, Rob, but we don't spend too much time dwelling on those because they're largely hypothetical and they don't change our strategy or our direction of travel as a business. And in fact, we believe that if we stay focused and deliver on that strategy, then we can win.

From a M&A or consolidation point of view, as we execute against the strategy, we ask ourselves the question, are there acquisitions that can accelerate the strategy? And if we acquire them, are they good for Tesco customers? And if they satisfy both those questions, we look at it. And that's the way we think about any future potential M&A or consolidation in the industry, is, how does it make effectively the boat go faster? Rather than as a compensator or some sort of defensive play, we're very much thinking about M&A from an offensive strategic context, and that's the way we plan to continue to do so.

In terms of kind of UK margin performance, I would go back to the strategy and say winning in Food is absolutely critical for us. And so we had a relatively stronger rate of food sales growth than the overall like-for-like, and we continue to invest in that Food proposition as the core engine of the company. But you're right to say that as we build out the ecosystem, as we see F&F thrive, as we see mobile thrive, financial services thrive, fuel thrive, et cetera, you are seeing retail media doing incredibly well and Whoosh, you are seeing these progressively contributing to profits and allowing us to

actually invest even more in that core Food proposition. So I wouldn't say it's detaching. I'd say it's reinforcing.

Imran Nawaz: Then on the buyback, what's changed since April? Look, I think first and foremost, the thing that we look at is where else can we invest in the business that drives returns. We run a very disciplined ship, I would say, on capital allocation in general, right? I would say back in April with all the uncertainty around the Iran situation, the consumer situation, we felt good about where we were and keeping it flat.

As we realised, "You know what? The profit growth is coming through better than we anticipated, the cash generation is strong and we feel confident," the first thing we decided to do was reinvest more money back into capital expenditure for the year to go by accelerating some of next year's initiatives into this year. Our ROCE at 15% gives us confidence that when we spend the capital, we will get returns that will help us grow faster in the future. So that feels very, very good. And then after having made those decisions, there's some excess capital that we had felt is left. Why not use that as well? Because honestly speaking, I see Tesco as really good value. And why not send that signal and also spend that money because it's a good return?

Rob Joyce: Understood. Thank you.

Moderator: Thanks, Rob.

Ken Murphy: Thanks very much, Rob.

Moderator: We'll now get to our next question from François Digard from Kepler Cheuvreux. Please unmute yourself and ask your question.

François Digard: Good morning. Thank you to take my question. I would like to focus please on the new profit streams. First on Whoosh, could you help us understand the business model on? Are the profits incremental since the first pound on how the size of business has changed the nature of profit you can extract from that?

And secondly, on retail media, I suspect you are not going to share the amount of revenues or profit. However, could you help us understand the share of these incremental profits that are been through to the bottom line and the share that have been already invested to capture more sales as in the past it was more that direction and now apparently it is falling through. Thank you.

Ken Murphy: Thank you, François . It's true to say that we don't think about the business in the way that you describe. We don't think about income streams in isolation

and then proportional investment back into price. We think about it holistically.

So we have, as you know, the objective of winning with customers front and centre. So customer satisfaction score at a record level of 33 is really, really important to us at the half year. We think about our value proposition, so being the cheapest full line grocer at the half year is super important to us. And after that, we think about all the other aspects of the customer proposition that make us a success. So the investment in quality, new product innovation, and of course the shopping trip. And when all those things are true, we know that we have a very competitive proposition, and that generates the kind of traffic and footfall into the business that we need. And that in turn is what greases the wheels that allows us to win with suppliers and generate more retail media income, and it drives our quick commerce platform. And it all works effectively as a virtuous circle ecosystem.

And then we maintain that capital framework that we laid out about five years ago in terms of modest top line growth, five plus percent operating profit growth, double-digit EPS growth, a very disciplined capital investment approach, but progressively more investment in capital as we're able to drive a higher return on capital employed, resulting in great shareholder returns from very solid foundations, all rooted in the customer.

So we never really think about it in isolation and we never disclose it in isolation because we don't want to be a hostage to fortune. What we want to do is continue to win with customers and use our core food business as the engine for that. I know it doesn't answer the question directly, but it's how we see the business.

François Digard: Even on Whoosh, could you maybe just describe the business model with the partners in terms that it is purely incremental for you, any new pound of sales through Whoosh is profitable?

Ken Murphy: Yes, absolutely it is. I mean, we couldn't stand here and safe to say every quick commerce pound is truly incremental Food, but what we have seen is that the cannibalisation effect on our store base is very limited. It is truly incremental in terms of it driving market share gains. The benefit of our partnership with both Uber and Deliveroo is that it is driving us into quite a significant cohort of customers that are new to Tesco. The partnership platform launched already integrated with the Club Card, so customers can sign up to Club Card instantly and then avail of Club Card offers, and it's proving very successful for us.

Imran Nawaz: Yeah. I mean, you always have to remember, François, the beauty of Whoosh is the stores are already there. The fixed assets have already been

built. The CapEx to create Whoosh at the time was around 7 to 8 million. That is I think the pure definition of capital light investment. And then the labour to deliver is variable. And the price premium that you charge more than covers that. So in reality, what you're looking at is a really attractive business model where the fixed asset base already exists.

Ken Murphy: Even the picking platforms, François, the personal devices that we use to pick in the stores for Uber and Deliveroo are the same devices we use to pick for Whoosh. So the colleague in the store only sees one set of orders on a single device.

François Digard: Very clear. Thank you very much.

Ken Murphy: Thank you.

Moderator: Thanks, François.

We'll now take our next question from Xavier Le Mené coming from Bank of America. Please go ahead.

Xavier Le Mené: Yeah, thank you. Good morning, Ken. Good morning, Imran. Two for me.

First one, H1 profit growth suggests that you're becoming definitely more efficient in how you're investing behind value, but can you help us to understand how customer's investment was split between shelf price investment, promotional activity, and personalisation in each one and how do you expect that balance to evolve over the next few years, especially when you think about personalisation versus shelf price investment? That's the first one.

Second question is, you talked a lot about the ecosystem, but how Eastern Europe fit into that ecosystem overall and what do you think about that business going forward? That's pretty much second question.

Ken Murphy: Great. Thank you, Xavier. I'll take the second one then pass to Imran to talk about the promotional participation mix.

So I would say that Central Europe has been a great business for us this half. If you look at its performance, it's delivered very strong profit growth. I'm really pleased with the team's performance. They delivered that on the back of sharpening their price position versus the competition and improving the efficiency. The real benefit of it from an ecosystem point of view is that of course it has to do very little innovation on its own. It can lift and shift all of the technology spend that we have in the UK and apply it to its local market. And that's been really helpful. And in particular, you can see that in their

online performance where they had very strong grocery home shopping growth, largely using completely UK built systems. So that's really how it fits into the ecosystem.

Imran Nawaz: Then on the half one, look, the percent sold on deal is around 35, 36% or so. If I take the average for the first half, which is a slight step up as I said earlier, if you think about the vast majority of investment, the way we're still doing it is we still have 700 items on Aldi price match. We still have around 10,000 to 12,000 Club Card prices at any given time and around 1,000 to 1,500 low everyday prices on daily essentials. So that framework, that structure continues to exist.

Clearly, there's a lot of partnering with supplier brands when you think about Club Card prices and then obviously the investments that we're making on our own end into on label. Then I'd say the vast majority is still on shelf promotions that you find. Clearly, personalisation is growing, but I'd say the majority is still on shelf promos as you would see them.

Xavier Le Mené: Okay, thank you.

Ken Murphy: Thanks, Xavier.

Moderator: Thank you. We'll now go to our next question from Benjamin Yokyong-Zoega from Deutsche Bank. Ben, please go ahead.

Benjamin Yokyong-Zoega:

Yeah, thanks for taking my questions. I've got a couple if that's okay. Firstly, just on rapid delivery, how's the scaling of rapid delivery being managed from a store perspective? Does this simply entail more staff hours? And thinking about the medium term, do you think the structural capacity of store picking can shift with technology improvements, for example, in stock replenishment?

And then secondly, just on your price position, you mentioned Tesco is the cheapest full line grocer in the UK. Could you comment on how your relative price position evolved over the path, maybe against the discounters versus big four, if that's helpful? Thank you.

Ken Murphy: Thanks very much, Ben. I'll take the first. I'll ask Imran to take the second.

So on rapid delivery, we have a very well-established business model through Whoosh, which is now in its fifth year, growing incredibly strongly at a rate of 40% year-on-year. So the business is used to high growth business models like rapid delivery, and it's a well honed machine in terms of how it operates

in store operationally. And as I mentioned on the previous question, we're able to use the same ordering interface as Whoosh for the Uber and Deliveroo orders coming into the store. So from an operational point of view, it's really been quite seamless.

You're absolutely right to say that the proportion of quick commerce orders in some stores is getting quite high now, and that starts to mean we need to think about how we adapt the environment in those stores and the business model as we look forward. And that will involve looking at all sorts of optimisation opportunities, whether it's being able to pick partially from dark store in big urban areas or other automation robotic solutions. The one thing that we're doing in the near term that will help a lot, of course, is the rollout of our electronic shelf edge labelling, which is primarily at this point only in large stores, but it will make quite a difference in terms of releasing capacity and store hours to be able to pick more quick commerce orders. So that's something that will help in the short term, and then we will constantly evolve the solution for the longer term.

Imran Nawaz:

On price position, maybe a couple of comments. I mean, one, Ken mentioned it already, but I think it is important to keep that in mind. It is an extremely competitive and rational market at the same time. So when you think about a market that has at least seven players with at least 5% market share, that is, you can imagine that's the doing of a very, very competitive market. So clearly, it is important to be on it and we continue to be on it. I won't go through a play by play on how we fare against everyone. What I would say to you is as the months progressed, we found ourselves getting stronger than where we were at the beginning of the half.

I would also say to you where I feel very good is we continue to be very strong on holding the 700 or so Aldi Price Match lines. Obviously, that moves up and down depending on the time of the season as you have different seasonality impacts, but overall I think we're in a very good shape on that front. So I would say more to come in the second half in that vein.

Benjamin Yokyong-Zoega:

Perfect. Thank you very much.

Ken Murphy:

Thanks, Ben.

Moderator:

Thanks, Ben.

We'll now take our next question from Monique Pollard at Citi. Monique, please go ahead.

Monique Pollard: Good morning, Ken and Imran. A couple of questions if I can. The first was just on food volume. So you mentioned in the statements volume growth in Ireland and CEE, commentary that there's volume growth in Finest. Just if you could give us any commentary on UK food volumes overall, please, would be very helpful.

And the second question, sorry to come back again on the rapid grocery on the third party platforms, but what I was interested in, I know it's very early days, is whether you think at the start you are sort of expanding the TAM of the market with launching all these platforms or whether at the moment a lot of your growth is coming at the expense of the other competitors on the platforms. And secondly, when you're thinking about the profitability from that platform, at the start, there was, I guess, some joint marketing investment coming from these platforms. What is the risk over time they start to sort of ramp the commission rates as you become more integral to those platforms? Thank you.

Ken Murphy: Let me take the rapid one first, Monique. I'll pass over to Imran to talk about volumes. So I would start by saying that we're really pleased with the progress on rapid delivery as a channel, and we're pleased for a number of reasons. The key one is we got to number one on a standalone basis through Whoosh. So we have real critical mass and real capability on our own quick commerce platform, which is completely integrated into our store stock systems, into our Club Card, and into our marketing. And we think that's a real critical differentiator for us and something we were very passionate about when there was a lot of pressure for us to go on to the other platforms earlier on. And what we think is that gives us the ability to think about the partnership with Uber and Deliveroo as a way of reaching customers that don't participate in the Tesco ecosystem today. And that's how it's playing out.

We're seeing the vast majority of the sales coming on to Tesco from those platforms as incremental, more than we anticipated. And a large proportion of them are new to Tesco, and we're seeing strong Club Card sign up on the back of that. So strategically, it's working for us and it's also economically attractive. So that is the good news.

Like all these things, Monique, they develop over time and you have to constantly be aware of whether or not interests align into the long term. What's very important to us is that we have a very strong independent quick commerce capability that continues to be the best value and best customer service proposition in the marketplace alongside those partnerships. And we uniquely occupy that space.

Imran Nawaz: On food performance, I think the starting point I'd say to you is the first half of last year, the half we're lapping was around 5.7% growth. And the half that

we just concluded was 2.4%, 2.5% growth. As you know, I treat inflation and volume mix in the UK as sensitive competitively speaking, so let me try and help. The way to think about it is volume mix was positive in the half, and therefore I'm actually feeling quite good about that, especially considering what we lapped.

Monique Pollard: Understood. That's very helpful. And sorry, Ken, just coming back to that point on the third parties, I understand that the sales are incremental to you. Do you think though that the sales are incremental to the platform or are you taking share from some other players?

Ken Murphy: We don't have the data yet, Monique, so I can't give you a straight answer to that. My guess is it's going to be a bit of both.

Monique Pollard: Yeah. Understood. Thank you very much.

Moderator: Thanks, Monique.

And we'll now go to the conference call lines to take our next and final question. That'll be from Richard Trainor at Bernstein. Richard, please ask your question.

Richard Trainor: Hello, good morning. On store refurbishments, do you expect these to continue at a similar rate? And how do you think about the sales uplift that they drive and I guess the CapEx payback on them?

And then the second question, do you have any expectations for the upcoming budget in the UK and what measures would most help Tesco and help the industry? Thank you.

Ken Murphy: Thanks very much, Richard.

On the store refurbs, we look at them through three lenses. Clearly, one is essential maintenance. So you just have to replace the fridges after a certain amount of time and you have to refresh the store, and that's absolutely intrinsic to the brand and the customer experience. So we look at part of the spend in that way.

The second is that there's a big sustainability element to our store refurbishment plan because we are replacing harmful refrigerants from a climate perspective with much more climate-friendly and much more energy efficient fridges.

The third is we saw this summer that as temperatures rise, we need to insulate ourselves against future weather extremes. And so that's going to be

an important part of the refurbishment as well. And of course, the last piece is that it gives us a chance to really showcase our strategy of winning in Food. So it allows us to project a fresh first proposition as you go into our refurbished stores. It allows us to bring Bakery forward and really showcase the fantastic work we've done in innovating in the bakery area and really bring to life the strategy in store. And it also allows us to reimagine the F&F footprint and really bring a proper fashion feel to that. So there are a number of different aspects to our refurbishment programme and we continue to do it in a very disciplined and organised way and will do for the foreseeable future.

In terms of the budget, our ask always of any government that's in power is that they think about the budget from the perspective of not introducing any measures that will put pressure on the cost of living and particularly on the cost of food and that they bear in mind that the cost of doing business is as important as the cost of living and therefore a budget that promotes greater employment, greater investment in British industry, attracts foreign investment into the country, creates a growth economy, and broadens the prosperity base, we think are the most important principles of any budget. And that's our ask of the government.

Richard Trainor: Thank you very much indeed.

Ken Murphy: Thank you. Thank you, Richard.

Moderator: Thanks, Richard.

And that does conclude the Q&A session for today. So I'd just like to hand it back to Ken for closing remarks.

Ken Murphy: Well, listen, thank you all for joining us this morning and taking the time to listen to the presentation and to present some excellent questions to both myself and Imran. We're very grateful for the time you invest in Tesco. We'd just like to wrap up by reiterating how pleased we are with the first half performance. Our customer satisfaction score is the real standout for us because that really determines how we feel about performance, but it's really pleasing to see such a strong financial performance also across the board. We feel really well set up going into the second half of the year and we're really all looking forward to Christmas.

Thank you again and we look forward to seeing you soon.

