

Tesco PLC

Interim Results 2025/26

Analyst Call

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Transcript



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Ken Murphy:

Good morning, everyone, and welcome. I'm in Welwyn with Imran to share an update on our performance over the first half of the year, as well as the progress we are making to unlock our longer-term growth opportunities. I'm pleased with the progress we've made across the half. Our strong momentum is once again down to the brilliant work our colleagues do, day in-day out, to put our customers first. I'd like to start today by saying a huge thank you to all of them.

In the face of increased competitive intensity and additional taxes, we took decisive action to further invest in delivering the best possible value, quality, and service. Our actions have resonated with customers. Satisfaction has increased and consequentially we have continued to grow market share. In fact, even more share than we anticipated. Alongside strengthening our competitive position, we've continued to invest in both our core business and long-term growth opportunities enabled by our Save to Invest program. The strong response from customers to the improvements in our offer is reflected in our financial performance, which Imran will take us through in more detail shortly. To summarise, our Group sales grew 5.1% with growth in all operating segments and our adjusted operating profit increased by 1.6%.

Though we are pleased with our performance so far, we remain focused on delivering the best possible value for our customers as they start to get ready for Christmas. Building customer trust and satisfaction is at the very heart of everything we do. Our overall brand perception score has increased year-on-year and remains well ahead of the competitor average. We outperformed peers across the board with continued gains in satisfaction, value, and quality. Our net promoter score has also moved forward during the half and is now at its highest level in six years. Our ongoing investment in value, quality and service continues to resonate with customers.

In the UK, we have grown volume and have consistently seen market share gains for over two years, with our share now over 28%. Meanwhile, in Ireland, we've consolidated three years of strong gains. Household budgets remain tight, and we understand how important value remains to customers. We've continued to invest in price, improving our position relative to the rest of the market with a particular focus on the products that matter most to customers. Through a combination of Aldi Price Match, Low Everyday Prices and Clubcard prices, our value proposition remains unrivalled, and we have seen switching gains from the majority of our key competitors.

Ensuring customers get the best possible value by shopping at Tesco isn't just about price, and we are passionate about raising the bar in quality and product innovation across our ranges. This half, we launched more than 470 new products in the UK with 200 of those being in Finest. Highlights include an improved Finest barbecue range and delicious new launches like iced coffee concentrates and Finest gelato. As the price of dining out continues to rise faster than the price of dining in, customers are increasingly turning to our Finest ranges to treat themselves. Now in their third year of double-digit growth, Finest sales have grown over 16% year-on-year. While Finest has

again been a standout performer, we continue to broaden and deepen our quality offering across all tiers, including relaunching our meal deal sushi range and improving welfare standards on our core fresh chicken ranges. Our commitment to providing great quality for all customers is being recognised externally too. And in June, we were awarded 'Retailer of the Year' at the Free From Food Awards.

Clubcard allows us to understand our customers even better and the insights it provides help power our business. Clubcard engagement is growing with penetration around 85% across the group. As we continue to celebrate 30 years of Clubcard, we have been sharing new and exciting rewards with customers, including cinema tickets for £2.50 in Clubcard vouchers with Cineworld and £10 off with a range of Days Out partners. Customers can now earn Clubcard points when they charge their cars too. Our new partnership with Pod awards points for charging and more than two and a half thousand EV points across our estate.

Our colleagues are central to everything we do and the service they provide shapes the experience customers have. In March, we announced an above inflation pay increase of 5.2% for our colleagues in stores. This latest investment, the equivalent of £180 million, builds on significant investment in pay and benefits we've made in recent years. I'm proud to say that more than 64,000 colleagues, mainly those working in stores and distribution centres, are currently participating in our Save As You Earn share schemes.

Colleague safety and wellbeing is our top priority, and all our UK colleagues have now free access to a personal safety app that can track their journeys and help them raise the alarm if they don't feel safe. This is part of a much broader offer, which includes a virtual GP service accessed by many of our colleagues and their families. It's important that everyone feels welcome and can thrive at Tesco, and I'm proud that we have been listed as one of The Times' Top 50 Employers for Gender Equality for the fifth consecutive year.

We're committed to delivering for all of our stakeholders, and throughout the half we've taken further steps to support our communities, the environment, and our suppliers. Our Fruit and Veg for Schools initiative has already provided more than 10.8 million portions of fruit and veg, and this year we've extended the scheme to even more schools. We introduced fruit and veg planters made from recycled soft plastics too, so that pupils can try their hand at growing their own produce. We also launched our new campaign to help the nation get more of its five a day. Across stores and online we've incentivised healthy choices through Clubcard challenges on fruit and veg with recipe inspiration too. We're working hard to make the food system more sustainable and making good progress on our planet plan. Supporting our commitment to procure more electricity through our power purchase agreements, we've agreed a new deal with EDF for Hare Craig Wind Farm in Scotland, which will start generating renewable electricity in 2028. Strong partnerships with our suppliers are fundamental to our supply chain, and so our ability to serve customers and communities. To help farmers achieve our shared goals, we have rolled out an additional sustainability linked incentive for more than 400 farmers in our sustainable

farming groups. As the biggest customer of British agriculture, we believe we can play a key role in supporting the long-term economic and environmental sustainability of UK farming.

We started the year facing even greater uncertainty than normal, but we were confident that by putting customers first, we could deliver for all of our stakeholders. We're pleased with the customer response to our decisive action, and this combined with strong cost control and the benefit of good weather has allowed us to upgrade our guidance for the year. Imran will now cover this as part of his financial review before I return to update you on our strategic progress. Over to you, Imran.

Imran Nawaz:

Thank you, Ken. And good morning, everyone. I'm pleased with our performance across the half. As Ken highlighted, we saw a better than expected response to the investments we made to our customer offer. This translated into strong sales growth, operating profit growth, and continued cash generation. Group sales grew by 5.1% at constant exchange rates. This included a 4.3% increase in like-for-like sales with continued volume growth. Group adjusted operating profit increased by 1.6% with growth in sales volumes, alongside progress on our Safe to Invest program offsetting operating cost inflation and investments across value, quality, and service. Our cash delivery was strong with £1.3 billion of free cash flow in the half. Net debt was £9.88 billion at the end of the half. An increase of £430 million versus year-end. As a reminder, the year-end figure included around 700 million of proceeds from the sale of our banking operations, which we started to return during this period. Around half of these proceeds have now been returned as part of our total £1.45 billion buyback program this year.

Headline earnings per share increased 6.8% year-on-year to 15.43 pence. We have proposed an interim dividend of 4.8 pence per ordinary share. This is in line with our policy of setting the interim dividend at 35% of the prior year total dividend.

As you will have seen in our release this morning, following changes to our group executive committee during this period, Booker is now reported as a separate operating segment. Following its disposal last year, our banking business continues to be presented as a discontinued operation. My review this morning is on a continuing basis.

Group sales for the half were £33.1 billion. Our UK and Ireland segment delivered total sales growth of 5.6%, continuing its strong momentum. Booker total sales increased by 2.4%, with strong performances in core retail and catering offsetting the continued decline in the tobacco market.

In Central Europe sales grew by 5%, with growth across all our countries amid regulatory and competitive pressures.

Group adjusted operating profit increased 1.6%, driven primarily by strong trading performances in the UK and Ireland. Over the next few slides, I will cover the performance of each market in more detail, starting with sales before moving on to profit.

In the UK, we deliver total sales growth of 5.6%, including like-for-like sales growth of 4.9% with continued market share gains. Food like-for-like sales grew by 5.7% with volume growth supported by ongoing investments in our customer offer as well as the benefit of good weather. We saw strong growth across many categories, but Finest was once again a standout with sales up 16%. Our clothing sales were also particularly strong, up 7.8%, driven by the performance of our new ranges, which really resonated with customers as they enjoyed a great summer.

We grew sales and outperformed the market in all UK channels. Our large store like-for-like sales grew by 4.5% supported by continuing investments in price and service as well as our market-leading availability. Convenience like-for-like sales, which include both Tesco Express and One Stop, grew 1.4%. Within this, the performance of our Express stores has been particularly good with over 70 basis points of market share gains.

Our UK online sales grew by 11.4%, mainly driven by volume growth. We saw market share gains of 112 basis points, which share now at 36.9%. We increased our online capacity, adding over 70,000 weekly delivery slots. The number of delivery saver subscriptions also increased, growing to 788,000. We extended the rollout of Whoosh, our rapid delivery service, with UK household coverage now at over 70%. With increases in both active customers and basket size, Whoosh delivered a two percentage point contribution to total online growth. Leveraging our existing base, Whoosh has now become an important part of our mission to serve customers wherever, whenever, and however they want to be served.

In Ireland, like-for-like sales grew by 4.8%, with volume growth supported by the continued rollout of our store renewal program. Total sales were up 6.5% with a 1.3 percentage point contribution from new stores. Food sales grew by 5.1% as we continue to invest in product quality and innovation. Fresh sales were up 6.3% and sales of our Finest ranges grew by 13%. Non-food sales were down 1.8%, which includes a 3.8 percentage point impact from the transition to a commission model for toys with The Entertainer. Excluding this impact of toys, non-food sales were up 2%.

Booker like-for-like sales increased by 1.7% with strong growth in core retail and catering offsetting continued tobacco decline. Our core retail like-for-like sales grew by 4.1% with particularly strong growth in our Premier symbol brand. In total, Booker added 275 net new retail partners in the half. Core catering saw like-for-like sales growth of 5.7%, with volume growth supported by a weather benefit. We continued to invest in price competitiveness and saw a further increase in customer satisfaction. Best foods logistics like-for-like sales grew 1.3% despite ongoing weakness in parts of the fast food market it serves.

In Central Europe like-for-like sales grew by 3.4% with growth in all countries despite competitive and economic pressures. Food like-for-like sales grew by 4%, with fresh food up 7%. Our ongoing targeted price investments enabled us to remain competitive and contributed to an increase in our net promoter score. Non-food like-for-like was down 0.8% with volumes challenged by

subdued consumer confidence. We saw growth in all channels in the region with particularly good performance in our convenience and online channels.

I'll now move to our profit performance. Group adjusted operating profit was £1.67 billion, which represents a 1.6% increase on last year at constant rates. Our group adjusted operating margin was 4.6%, slightly lower than last year. Within this, UK and Ireland adjusted operating profits grew by 2.1% to £1.47 billion. We delivered a strong trading performance, which combined with continued delivery of our Safe to Invest program more than offset investments in our customer offer and the ongoing cost inflation, which includes the increased national insurance contributions and the new EPR levy recognised in the half.

The UK and Ireland segment also includes operating profit from our insurance and money services business, which increased by £6 million to £100 million. Booker reported adjusted operating profit of £162 million, growing 0.6% year on year. A good-weather tailwind and cost efficiencies from our Safe to Invest program helped mitigate significant industry-wide operating cost pressures, including the EPR levy. I am pleased with the contribution Booker makes to the group and see further opportunity for growth in the years to come.

Central Europe adjusted operating profit was £44 million, down £5 million. This reflects targeted price investments to counter competitive pressures together with lower rental income following the sale of some of our shopping malls last year.

This slide details the two main reasons for the £72 million reduction in statutory profit. First, we have higher adjusting items of £71 million versus £37 million last year. This includes £20 million restructuring and property costs, and £13 million of bank separation costs, in addition to the ongoing amortisation of acquired intangibles, mainly related to the Booker merger. Second, net finance costs are higher. This is mainly due to the movement in fair value re-measurements of financial instruments as a result of the decrease in long-term inflation expectations.

Moving now to our cash flow, which remains strong. We delivered £1.3 billion of free cash flow with cash generated from operations increasing £283 million year on year. While we normally see working capital inflow in the first half, at £408 million we saw a higher inflow than last year, reflecting the strong trading performance in the half. Our cash CAPEX was £0.7 billion in the half versus £0.6 billion in the prior year, reflecting a more even shape to this year's investments. Tax paid was £50 million higher, reflecting the end of historical tax deductions and phasing off tax payments. Dividends received increased £50 million versus the prior year, reflecting income received from IMS.

Let's now turn to the balance sheet, which also remains strong. Net debt was £9.88 billion, an increase of £430 million from the year end. The year end balance included £700 million of disposal proceeds related to the sale of our banking operations, and we have since returned around half of this.

Together with the payment of our full year dividend and ongoing capital return, this additional buyback more than offset the benefit of our very strong free cash flow.

Our net debt EBITDA ratio was unchanged from the year end at 2.0 times, partially benefiting from the disposal proceeds we will have returned by year end. Our fixed charge cover was 4.3 times at the end of the half compared to 4.2 times at year end. During the half and alongside the schemes' trustees, we agreed the triennial funding valuation for our principal Defined Benefit Pension Scheme. On a technical provisions basis, the funding position of the scheme remains in surplus, and it was therefore agreed with the trustees that no pension contributions would be required from the group.

We continue to invest in our business with capital expenditure of £667 million in the first half. We are prioritising investment in high-returning areas such as automation and the development of our digital platforms. In the summer, we opened the semi-automated fresh food distribution centre in Aylesford, and we have continued to deliver wider automation initiatives across the group. This represents ongoing investment to ensure we are fighting fit for the future. We're also investing in our core estate, which in the half included 112 store refreshes. We expect total CAPEX this year of around £1.5 billion.

In April, we provided guidance, which allowed us to take decisive action and invest in every aspect of our shopping trip, following an increase in the competitive intensity in the UK. Competitive intensity remains elevated, and we are committed to doing everything we can to deliver great value, great quality, and great service for our customers. However, a better than expected customer response to our actions, strong cost control, and the benefit of good weather have helped mitigate the impact of our investments in the first half. We now expect full year 25/26 group adjusted operating profit of between £2.9 and £3.1 billion, an increase from the previous range of between £2.7 and £3.0 billion. We continue to expect free cash flow within our medium-term range of £1.4 billion to £1.8 billion.

Before handing back to Ken to talk us through the strategic progress, I wanted to take a moment to reflect on our longer-term momentum. We set our multi-year framework in 2021 and it continues to guide our approach to creating sustainable, long-term value for every Tesco stakeholder. Delivery against our framework has been strong and I'm pleased with our progress over the past four and a half years. Our customer-focused and disciplined approach has delivered free cash flow ahead of our expectations. We have continued to invest in our business and make strong progress on our long-term opportunities. We ended the second half with strong momentum, which is built on our long-term commitment to investing in our customer offer. This has been reflected in our consistent delivery against our multi-year performance framework and strong, consistent earnings growth and cash generation.

I will now hand back to Ken to talk us through our strategic progress.

Ken Murphy:

Thank you, Imran.

Our strategic priorities continue to guide our approach to differentiating ourselves in a very competitive landscape. Each week, customers benefit from exceptional value through Aldi Price Match, Low Everyday Prices, and of course, Clubcard Prices. This winning proposition has supported an improvement in our price position against the market.

At the same time, we're driving innovation and enhancing our product ranges. These improvements are being recognised by customers, with our quality perception making significant gains over the last five years. The strength of our Save to Invest program, on track to deliver £500 million of savings this year, underpins our ability to invest, innovate, and mitigate the effects of inflation. We have continued to improve and expand our store estate, opening 38 new stores and refreshing 112. As demand and our store estate grows, we're committed to ensuring our distribution network remains fit for the future.

In the first half, we opened a new semi-automated fresh food distribution centre in Aylesford and, in July we also announced a major investment into a new site at DP World London Gateway, which we expect to open in 2029. Online performance remains strong, and we have seen further growth in market share and customer satisfaction. We've increased our capacity, adding vans and more delivery slots for customers to choose from.

Tesco Whoosh, our rapid delivery service, continues to grow at a double-digit rate. Orders are up nearly 50% year-on-year with an increased number of active customers. Whoosh is now in over 1600 stores across the UK and we've also launched in Ireland during the half.

The recent launch of F&F Online means more customers can access a much fuller range of clothing. Early performance has been encouraging with over 3 million sites visits per month so far. We are introducing the platform in plan stages, learning and adapting as we go to ensure we offer the best possible online experience. Meanwhile, with over 600,000 products now available, Tesco Marketplace further enhances our online product offer.

Every one of our customers is different and we're investing in our digital capabilities to engage with them in a more relevant way. We have partnered with Adobe to build our capability and help power our one-to-one interactions with customers. In the early stages, this includes close to real-time personalised emails with offers and recipe inspiration based on their preferences and shopping habits. As we build our capability, customers can hope to see a lot more. We have also sent tailored digital coupons to over 10 million customers and further enhanced our Clubcard challenges, which are now in their 10th round.

In addition to increasingly personalising our core offer, we are looking to meet even more customer needs, wherever, whenever, and however they want to be served. In partnership with Aviva, we launched Tesco Life Insurance, offering customers cover at Clubcard prices with great rewards included. Customers can also access complementary health and well-being services with the Aviva DigiCare+ app.

Tesco Mobile is one of the UK's most trusted mobile networks and was voted Uswitch best mobile network for customer service for the fourth year running. Our mobile customers benefit from exclusive Clubcard offers and no roaming fees for our 48 home from home destinations. In addition, F&F Home launched last year and continues to go from strength to strength. Designed by our in-house team, our expanded home range offers timeless designs at great prices.

Retail media is an exciting growth opportunity for us and we've extended our reach across channels and suppliers in the first half. We were delighted to win "Retail Media Network of the Year" at the Retail Media X Awards in May, and to have been shortlisted for eight of the upcoming Media Week Awards. We've enhanced our Tesco media and insights offer, adding new features so suppliers and agencies can better manage their campaigns through our Sphere platform. Our mix of suppliers has expanded too and, by building tailored products to suit brands of all sizes, we have seen significant growth in small brand advertising. Over 550 new media screens were rolled out across our express convenience stores, and we've expanded our product offering, including launching video advertising on the Tesco app.

Across our stores, distribution centres and offices, Tesco has been using machine learning for well over a decade. As technology improves, we are evolving how we use data and artificial intelligence. By leveraging these tools, we are generating deeper customer insights and driving innovation and operational efficiencies. This is enabling us to unlock future growth opportunities while optimising our operations. For instance, we are utilising data analytics within our retail media campaigns. Our Tesco media team has developed smart stock, which can anticipate when customers are running low on household products. This allows us to send timely personalised reminders, helping both customers and suppliers, and setting a new benchmark for precision-led retail media. In addition, we can understand our customers better using our AI-powered range curation tool. The tool enables us to better tailor store offerings based on the shopping habits of local customers, ensuring more customers can find what they want when they want it.

Moving to operational efficiencies, our fleet is one of the largest in the country, transporting everyday essentials to stores and homes every minute. Routing software isn't new but new AI-powered tools developed in-house are allowing us to optimise the combination of products, baskets, and routes

for every Tesco lorry and delivery van. In a business as large as ours, small changes can have a big effect, and these new tools have allowed us to remove around a hundred thousand miles per week.

To recap, we've started the year well, customers are responding to our investments and market share gains have been strong, which has been reflected in our financial performance. We remain determined to offer customers the best possible value while continuing to innovate. I'm pleased with the progress we've made on our longer-term growth opportunities to set ourselves up for future success. As we head into the second half, competition remains intense, and we are as focused as ever on delivering for all of our stakeholders. Thank you for your time. Imran and I would now be very happy to take your questions.

Moderator:

Thank you very much, Ken. Any analysts who would like to ask a question should join the queue by clicking raise hand in the bar at the bottom of the screen. Please ensure that you unmute your microphone only when you're introduced. And if you no longer wish to ask a question, you can indicate that by clicking the lower hand button, also in the bar at the bottom of the screen.

We'll now take our first question from Freddie Wild at Jefferies. Freddie, if you can unmute yourself and ask your question.

Freddie Wild:

Good morning, Ken and Imran. Thank you for taking my questions. Three if I may. So firstly, could you help us understand the current competitive environment out there, both how it's currently changing and how you see it continuing for the rest of the year? And second, Ken, I would love to get your thoughts as ever on consumer health and how you see the consumer spending environment at the moment? Then I suppose the combination of those two questions is can you help us understand what goes into both the top and the bottom end of your guidance? And what we would need to see to reach both that top and bottom end? Thank you.

Ken Murphy:

Thanks a million, Freddie. I'll take the first two and then I'll hand to Imran to cover the third.

I think I would start by saying that the competitive environment in the UK retail sector is probably the most intense in the world, particularly in grocery. And I think that at the start of this financial year we saw that step up a notch. In both directions actually, we saw an increase in pricing intensity, and we also saw an increase in cost pressures coming through the P&L of the industry. And that created a lot of pressure in the system.

What I'm delighted about is the response that the Tesco team put in place really decisively and really quickly to address that. First of all, we invested very heavily in price. And secondly, we accelerated our Save to Invest Program. The third thing we did of course is we didn't take our eye off the other aspects of the offer. So we have invested equally heavily in our quality, our new product innovation, as evidenced by the 470 new products we

launched during the half. And in availability, making sure we were best in class in terms of product availability.

And expanding our digital footprint through our online shopping channels, both GHS and quick commerce Whoosh. I think it was a combination of all those factors, Freddie, that's allowed us to win in the half.

So, I would say to you that the market has definitely stepped up in terms of intensity. We see that continuing into the second half. So, we don't see any relaxation if you like or moderation in the competitive environment. Clearly the forthcoming budget will tell a lot in terms of whether the cost pressures will ramp up yet another notch. But time will tell. But what I'm really pleased about is our ability to respond to the environment and win with customers.

Moving on to that, the customer sentiment and how they're feeling. I think the best way to describe it is mixed. I think that the shopping habits they've built in over the last three or four years following the initial cost of living crisis have stuck. And in some ways, some of them have been accentuated. So, you are seeing an increase in fresh food purchases. Which I think is a good thing for the health of the nation. But also, an indication of a trend of more scratch cooking, more cooking from first principles. We're also seeing though a trend of more dining in, in weekend and evening occasions, as evidenced by the strong growth in Finest of over 16% which is now lapping three years of consecutive strong, double-digit growth.

As I look forward, I think the consumer is concerned. I think it's concerned about job market, it's concerned about inflation, it's concerned about the upcoming budget. But we've prepared really well from a Christmas perspective, both in terms of our price investment, our product quality and innovation around the Christmas period, and in terms of our operational standards.

I'll hand over to Imran now to talk guidance.

Imran Nawaz:

Hi Freddie. So, look, when we set out the guidance at the beginning of the year, we were very clear that we wanted to have what we called flexibility and firepower to react. So that we can continue to invest, not just in price but in quality and service to keep winning. The truth is we made those investments. And the truth also is those investments really worked. And honestly, they worked better than we thought they would. And that's why we're able to upgrade today to the £2.9 billion and £3.1 billion range, which feels good.

But as Ken just mentioned, we're going into a second half which we're not going to have the weather tailwind I think it's fair to say. And we'll have to make sure we continue to invest to keep winning. With the new budget and the uncertainty that's out there we want to make sure that we have that flex and firepower. And there's a lot to play for, especially as Christmas comes. I feel good going into the second half with the momentum we have. And we'll keep you posted in terms of how it all played out. But from a position of strength, I would say.

Freddie Wild: That's super helpful. Thank you.

Imran Nawaz: Thanks, Freddie.

Moderator: Thanks, Freddie. We'll now take our next question, and that'll come from Monique Pollard at Citi. Monique, please go ahead and ask your question.

Monique Pollard: Hi, morning Ken and Imran. Thank you for taking my questions. The first one was just on food inflation. So, the latest Kantar read for the four weeks to the start of September was 4.9%. Just wondering if you can give a view on where you think you stand versus that industry food inflation number? The second question was just on that cash flow benefit from the dividend from IMS in relation to the prior year. So that £50 million that you got in the first half. Just wondering if we should expect another inflow from there in the second half or whether that's the £50 million for the year and done?

And then the final question I had was just around your online business. So, as you've said, you've made quite a few investments and started a few things up since start of the year. The launch of F&F Online, there's been a ramp up in the number of products on the Marketplace. And then you're seeing this very strong online market share growth. Just wondering whether you can give us any stats on whether there's been more time generally on site, higher conversion, anything you can give us to help us with how some of these investments are driving that online engagement. Thank you.

Ken Murphy: Thanks a million, Monique.

First things first, and then I'll hand over to Imran to talk on dividends. On food inflation, we can't give you a specific number, what we can tell you, we've been inflating meaningfully behind the market. And I think that is a consequence of the price investments we've made. And over the six months we've actually increased the gap between us and the market in terms of price competitiveness.

And the second thing of course is the strength of our Save to Invest programme. And the fact that we've dialled that up even more. And that's helped to manage and fund that investment. So, we've been able to deliver bottom line at the half year.

Imran, on the dividend question.

Imran Nawaz: Yeah, sure. Also, just maybe one thing on the growth profile on the inflation. Given the fact that our inflation was significantly below the market, it also gives you an indication that we had strong volume and mix benefits in the half which is a great testament to the returns we're seeing.

On the cash flow. Yes, you're right, IMS had a fantastic half. And clearly, we will continue wanting to expect to see an annual dividend from them. This is catch up from last year. I would expect that to be once a year. So, at this stage, I would bank on just the £50 million that we received and then annually whenever we finish the next year get the next one the year after.

Ken Murphy: On the online business, I'll give you a few points and then maybe also Imran will jump in with a few of his thoughts on the online business. I think I'd start off by saying is that we do see it as a system, rather than as any one specific offering. We are trying to develop a world where we are able to offer customers what they want, when they want, whenever they want it. And therefore, there is a logic that is broader than just a single proposition of GHS, Whoosh, F&F online, Marketplace. They're all part in our view of a broader plan to be able to cater to customer needs as they evolve and develop. Be able to fulfil those needs in a really efficient, convenient and good value way. And then to reward customers through the Clubcard for shopping more with us. And that's been a part of our strategy now for some years. And what you're seeing is evidence of us progressively building that out.

And different parts of the proposition are evolving at different speeds. So, Whoosh, we launched three/four years ago, for a handful of millions, initially very modest growth. Post-Covid we thought there was a massive, if you like, exodus out of the quick commerce market. But in the last six months we've seen 60% growth in Whoosh. And it's now a really meaningful business. And it is a business that is profitable and contributing. And we see great growth potential in that.

Similarly, we know that for F&F Online, 80% of Clothing missions start with an online search, even if they end up physically in store shopping. So, when you look at the F&F business, you need to look at it holistically. And we've had a very strong performance over the six months on both Clothing and Home for F&F. And we think the online presence has been a contributor to that, even though it's still in the early stages of ramping up.

And similarly, Marketplace, yes, we've added a lot of vendors, it's a slower burn, Marketplace. But it is something that we believe in for the future.

Imran, any...

Imran Nawaz: Yeah, just a few thoughts just to build on Ken's comments there. If you think about the market share that we have in online, it's close to 37%, 36.9%. And we gained in the last read a 112 basis points. That's good, I'm happy about that I have to say. And then when you think about Whoosh, 60% growth. And then when you look at clothing, just within total clothing in the half, growing close to 8%. Those are really strong set of numbers. And I think the platform it gives us and the experimentations we're doing and the drive on top of that leveraging the personalisation capabilities we have, it's a real well-performing asset I have to say. Profitability is really good, as Ken said, because of the way we're leveraging it.

Monique Pollard: Excellent. Thank you, very clear.

Ken Murphy: Thanks, Monique.

Moderator: Thanks, Monique. We'll now take our next question from Clive Black at Shore Capital. Clive, please go ahead.

Clive Black: Yeah, thank you. Congratulations on the results. I'm just going to ask one question for a change, which I think would be a good trend to be honest. Could you give us an indication of your capital allocation plans with the share re-rating? At what point does a share buyback to you feel destructive to value? And what would you think about if the share buyback wasn't on the cards if you were still generating such cash?

But thank you, and very well done. Not easy to do what you've done.

Ken Murphy: Thanks, Clive.

Imran Nawaz: Thanks, Clive.

So look, I mean, just as a principle, Clive, as you know well, we always evaluate returns on any cash out the door, whether that's capex or whether it's dividends or whether it's buybacks, right. And in general, we see the buyback mechanism as a very efficient means to return the surplus cash. If you look over the last ... What is it now? Since October '21, we returned around £3.7 billion; we reduced the number of shares outstanding by 15%. And over that period, profits have risen in a nice way as well, so you can imagine the value that's been created has been fantastic.

Having said all of that, we always continue to make sure we evaluate the returns on those metrics and make that an annual basis together with our board. But so far, I feel very good about the value that's been created.

Clive Black: Are we getting close to the point where you have to think about something different?

Imran Nawaz: When we close to it, it'll be a quality problem to have. I feel we're at the very beginning of our journey. We have seen some nice recognition. But look, ultimately, our job is to continue to make sure we invest in the right way, continue to drive the profitable growth.

If you remember the performance framework that we laid out, we said we want to run this business to continue to gain or hold market share, protect the margins and continue to drive profits. You know, it won't be linear, but we do want to see continuous growth. And that's what we've done. And I believe in that model, I believe in the opportunity to continue to create value, and I feel we're on that journey as we speak.

Clive Black: Thank you very much. Thank you.

Imran Nawaz: Thank you.

Ken Murphy: Thanks, Clive.

Moderator: Thanks, Clive.

We'll now take our next question, and that'll come from Rob Joyce at BNP Paribas. Rob, please go ahead.

Rob Joyce:

Thank you. Morning all. So just to make Clive happy, I'm going to ask two.

So, in terms of that brand perception, it seems to be a key metric. So brand perception, from that chart you showed, it showed a real leg up, it looks like about a year ago. Can you help us understand what drove that leg up, and what you've got left to really push that brand perception on from here?

And then just looking at the broader market, we seem to have stopped talking about them, but are you seeing additional space coming down from the discounters? Are you seeing any change in the way they're sort of competing in the market? And I guess within that, are you seeing any signs of trade-down yet from your own customers?

Thank you.

Ken Murphy:

Thanks, Rob.

I think I would start by saying that our brand perception drivers are actually quite broad-based. So, when we look across how people judge us, value clearly plays a very important part, but the product quality, the shopping trip experience, the helpfulness of the colleagues, the role we play in the community, reputation are all factors in driving brand perception. And we've seen gains across the board.

And I think the lesson we've learned as a management team is if you over-index on any one factor, the risk is that you become a bit of a one trick pony and that you forget about the value for money equation, which is the total package and the complete experience.

And the second thing I would say is that having applied that logic of we need to win in price, we need to win in quality, we need to win in the shopping trip, the consistency of the execution across that, across the estate, but the physical estate and the digital estate is absolutely critical. Because you could be the best store in the world in Sandhurst, but if you're crap in Bromley, customers in Bromley will think you're crap.

So, we have really worked very hard on that consistency and maintaining standards right across the board. And we've worked very hard particularly Online, and we've seen meaningful improvements in Online metrics across the board over the last 18 months in particular. And that's given us a real boost.

And you know, if you take a micro example like Whoosh, for example, which has seen 60% growth this year, it's a really meaningful business for us. You know, we are meaningfully cheaper than all the other quick commerce players; we're quicker in general in terms of our service; and we offer way less substitutions or missing items because our system uniquely is integrated fully back into our stock files. So, we think we have sources of really meaningful competitive advantage that help drive that brand perception.

In terms of the discounter behaviour, I don't think we've seen a massive change. Clearly there has been one change, which is both of them are starting to make meaningful money now in the UK. And so that's clearly driving them to think about the market a bit more holistically than they would have when they were just purely looking for a land grab. We haven't seen any reduction in their demand for new space, so they continue to open space. And in fact, they're dropping bigger boxes. So, Lidl in particular are building bigger shops when they do go for new space, and they're expanding particularly in the area of fresh food, which is also our greatest source of growth.

So, they are very formidable competitors, clearly they're global businesses, and it means that the market is as intense, if not more intense than ever from a competitive point of view.

Imran Nawaz: And if I could add, Rob, you know, one of the things that was very important going into the year was the price competitiveness that we have versus all players, all 11 in the market. And the one thing that is important to us and has actually worked, and that's when we say the investments really delivered on what we wanted them to do, was the price position that we have today versus where we were in April when we spoke to you is even a bit stronger. And that to me is no bad thing.

Rob Joyce: Thank you. Very clear.

And just on the trading down, have you seen any trading down within the basket in recent sort of months or weeks?

Ken Murphy: The trade down really happened three or four years ago when the first cost of living crisis kicked in. We saw significant trade down during that period. And that behaviour has largely stuck, Rob.

I think the two trends that we've observed in the last six months is an uptick in fresh food, which means more scratch cooking, more batch cooking, which is helping manage budgets; and the second is more dining in. And we're seeing that being part of the reason for the strong growth in Finest.

So, we call out those two trends as customer responses to the cost of living pressure, but actually they're relatively positive trends for us because it's a source of big investment for us, both in our Fresh offering and in Finest.

Imran Nawaz: Yeah, and I think as you look as well, just to build on that, what's very clear to us going into the second half, you know, the promotions that we've run, the Aldi Price Match, the Low Everyday Prices, the Clubcard Prices, their importance only continues to rise going into the second half as people continue to chase value. But overall, behaviourally, that hasn't changed. People still look for the best value, and clearly, they've found it with us.

Rob Joyce: Great. Thank you very much.

Moderator: Thanks, Rob.

We'll now move on to James Anstead at Barclays. James, please go ahead and ask your question.

James Anstead: Yes, good morning, Ken, Imran, two questions from me if that's okay.

Firstly, you've really emphasised this point, that you've got a great customer response from the investments you've made. Now one explanation for that could be that perhaps others didn't invest, but it sounds like you're saying that competition did increase in the way you've expected. So, I'm just interested to know kind of how you explain to yourself why this customer reaction's been as positive as it has been, and does that change how you weight up future investment in the offer?

And the second one perhaps for Imran in particular, you know, even the high end of your new profit guidance range at £3.1 billion implies I think a 3% or 4% decline in EBIT in the second half year on year compared with the 1% or 2% growth in the first half. Obviously, there's a lot of moving parts within that, so that was an oversimplistic equation, but would you highlight any particular points that we should bear in mind when thinking about 2H vs 1H?

Thank you.

Ken Murphy: Okay. So in terms of the impact of our investment decisions and why we think we're winning, I think I would call out the fact that a lot of competitors have invested heavily in price, but we don't necessarily see the same broad-based investment across product quality, the shopping trip, availability, innovation and personalisation that give customers that kind of holistic package.

We're also seeing certain trends, as I called out before, in terms of dining in, in terms of more demand for Online fulfilment, whether that be GHS or Whoosh, and we've invested very heavily behind those as well. And we don't necessarily see the same level of investment from direct competitors.

So, what I think you're seeing, James, is that, uniquely, I think we've invested in price and we've invested in all other aspects of the business as well. And if you remember, when we gave the profit guidance in April, the reason we gave the range we gave was because we wanted the flexibility to invest in price without compromising on all the other aspects of the shopping trip, because we understood our customers value the total package, not just one element. And we think that the sustainable formula for winning is to continue to invest across the board.

Not only that, but if you're going to win in this environment over the long term, you have to balance the needs of all your stakeholders. So, you have to keep investing in your colleagues, you have to keep investing in supplier relationships, and that done well then gives the returns you need for investors.

And of course, we've also been leading the charge in the industry in terms of our investment in our estate, whether that be in our store renewal programme, convenience rollouts, online platform, or distribution network, or in fact, our AI and technology capabilities, you're seeing that Tesco is leading the way in terms of its investment profile. And this we think is what it takes to deliver sustainable performance.

Imran Nawaz: Yeah. On your second question, James, look, I mean, as we entered the year, if you told me that we would gain 80bps of market share every month, I'd say to you, "Oh, I'll certainly take that." I mean, we weren't planning on seeing that much of a gain month by month. But we did.

Now as we go into the second half, we're going to lap a stronger last year half, but we already started to gain very, very significant market share, so we have to lap that. I'm certainly not going to be counting on hot weather as a beneficiary in the second half. And inherently, the second half is a more competitive one if you think about Christmas, the golden period for retail, where everyone tries to show up in their best, we will certainly plan to do the same. We are planning to do the same. But would say the only thing that we can't ever become is overconfident or complacent.

So, we're entering the second half with the same attitude as we entered the first half, which is it's more competitive than before. We need to keep winning and we shouldn't take market share gains for granted. We need to keep going after those and make sure we build a Tesco that is more resilient than where we found it, and that's the plan.

So, we'll wait and see how it plays out. We're absolutely trying to make sure we will have everything in place to keep winning. But we'll report back to you when we're done.

James Anstead: That's great. Thank you very much.

Ken Murphy: Thanks, James.

Moderator: Thanks very much. So, we will now take our next question from Manjari Dhar at RBC. Please go ahead.

Manjari Dhar: Good morning, Ken. Good morning, Imran. Thank you for taking my questions. I also just had two, if I may. My first question is on the investments you've made online and in logistics and slots and availability on the overall platform. I guess as you look at what you've done so far versus the overall ambition, how much more do you think there is to go in terms of those investments?

Then my second question is on the convenience store market. I just wondered if you can give some colour on what you've seen there and whether you've done anything specific to drive the market share gains you've seen in the Express stores. Thank you.

Ken Murphy:

Thanks very much, Manjari. So, look, in terms of online, we are investing heavily because we think it's where customers want us to. It's where we see the greatest rate of growth and the greatest demand. We think we're actually in a relatively different stages of investment depending on the proposition. But the first thing I'd say to you is you should see it more holistically as a platform powered by Clubcard, that we're looking to address customer needs in whatever way they want to be served.

So that's the first thing I'd say is you shouldn't look at them as discrete items. If I then say, well, what stage is each at, I would say that grocery home shopping is a relatively mature business model, but it's in very strong growth, and we are constantly innovating and finding ways to add capacity. As soon as we add capacity, that capacity is filled up by customer demand. So, we see ongoing investments in that model.

On Whoosh, we think we're about at, say, 25% into the opportunity for Whoosh. It's now a really meaningful business. It's now growing at a really rapid rate. It has, as I said earlier, we believe, some real competitive advantage that we want to exploit. So, you can see further investment in that. I think there's quite a long way to go before we would say that model is mature.

I think the third stages, which is F&F online and Marketplace, is at the most immature stage of the three. It's got the greatest capacity for growth and the greatest long term opportunities, but there's a lot of work to be done to build that model out.

So, I think each of the three propositions are at different stages of growth. Then clearly behind that sits all the work we're doing to invest in greater personalisation capability through our partnership with Adobe, exploiting retail media opportunities across all of the platforms as well as in-store through our supplier strategy. So, these are all components of a cohesive single strategy, if you like, Manjari, that has, we think, plenty of legs and a lot of life left in it yet.

Imran Nawaz:

Convenience.

Ken Murphy:

Then on convenience... Do you want to give two minutes on convenience, Imran?

Imran Nawaz:

Sure. Look, convenience, we had a really good outturn there because, as you, I think, indicate, we gained 70 basis points of market share, which is nice to see. You will also have seen, though, that it was the slower growing channel of the three. If you look at online, they're growing double-digit, large at 4-5%, and then convenience at close to 2%.

What's nice for us is that the value, the range that we're doing, the more area is actually resonating well with our customer base, and I think it's one of the reasons why we are doing as well as we have been, having put in more own label brands in the last year. We think we're starting to see the benefits of that as well in our ranges.

Actually, when I go across to Booker, we are clearly a big wholesaler to the Convenience channel as well. We saw a real strong growth at over 4%, close to 5%. So, I feel, overall, when I look at the convenience channel for us as such, we're doing quite well and we'll continue to innovate as and when needed.

Manjari Dhar: That's great. Thank you.

Ken Murphy: Thank you.

Moderator: Thank you. We'll now take our next question from Sreedhar Mahamkali at UBS. Please go ahead.

Sreedhar Mahamkali: Yeah, good morning. Thanks for taking my questions. So I've got three, please. I guess, firstly, can you talk about improving the price gap versus market with lower inflation in the first half. I think, Imran, you also mentioned an even better price position than in April. How specifically can you say if you've improved your price position versus all other three large full-line Grocer competitors since April? If you wanted to be even more specific than that, we'll take it, but just across the market, particularly three of your largest competitors, will be helpful.

Secondly, if I can pick up on Clive's question slightly differently on capital allocation. What are your thoughts on where we are in the journey in terms of leverage ratio? Are you okay for a period for it to below your lower end, or if it is sustainably stuck at the lower end, do you think you'll want to revisit the target or use the additional headroom in the balance sheet? I know it's not a question for half year but more on a full year but very interested in your thoughts and how you're thinking.

Thirdly, I think Booker acquisition, again a number of years ago, the way I think it was articulated was it was going to give Tesco access to faster growing out-of-home market. A number of things you've talked about today seemed to suggest maybe it isn't the faster growing market going forward. At Home probably is going to structurally be a faster growing market than Out-of-Home. What should we be looking for in terms of Booker in the medium term? What is the role Booker is playing in the group as you see it today?

Ken Murphy: Great, Sreedhar. Thank you. So, look, I'll speak to price gap and Booker maybe, and then I'll hand over to Imran to talk capital allocation.

So, on the price gap, we actually improved the price gap to the total market, not just the full-line grocers. Clearly, you wouldn't expect us to give you the specifics, but you can rest assured that, as you would expect in our market, in a price-sensitive market, customers are very, very sensitive to price movements, and particularly on the products that matter most to them.

I think the investments we've made in improvements to our pricing algorithms and the AI-driven decision-making to really hone in on those things that really matter to customers has really, really helped us, alongside a very substantial, actual financial investment in pricing. So, I think it's improving the price gap, but it's an intelligent pricing investment that really has been a big factor in our performance on pricing.

If I talk to Booker for a second, I think that if you look at the average growth rate in the Catering market since the acquisition, you would argue that it is a higher growth market. It will go through peaks and troughs like every market, but it is performing very well.

The second thing I would say is that Booker, within that out-of-home market, is performing particularly well. So even last year, which was a very tough year for the industry, Booker continued to take share and perform very well because of its strategy of focusing in on the most important customers who are the highest growth caterers in the market, as well of course the fact that it has a balance model of catering and out-of-home and convenience retail customers, which means it optimises its cost base and makes it very, very efficient from a pricing and value for money point of view.

If you look at the half year performance and you strip away tobacco, which is in a bit of a terminal decline as you would expect, we would all hope, you will see that actually the underlying growth rates for the out-of-home market and for retail are pretty robust in the half, and Booker has performed ahead of our expectations. So, we feel very good about Booker. We think it's performing very well in its market, and we think it's a market with plenty of opportunity.

Imran Nawaz:

Look, when we set out the leverage ratio and we gave a range of 2.3 to 2.8, fair to say we've done better on ... Well, we've done better on free cash flow most of the years. To your point, the ratio has come down. But also, fair to say and very transparently, at the end of last year, we received the proceeds from the bank sale, which were fully in that debt and hadn't been returned at all yet. We've started that return via the buyback, and I would say we're halfway done. So, my expectation is by the time we're done, that ratio inches up again in terms of where we want to land.

Look, am I comfortable with where we are in terms of lower end of the ratio, that 2.3 level? Yes. I feel that's the right place to be. Look, all the uncertainties that are out there, I think it's probably a good place to have a very strong balance sheet, which we do have. But as we've demonstrated, where we see opportunities to invest, where we see returns, we will absolutely do so in line with the capital framework that we've set out.

Sreedhar Mahamkali.: Thank you.

Ken Murphy: Thanks, Sreedhar.

Moderator: Thank you. Quick reminder before the next question, for any analyst who would like to ask a question, if you could click the raise hand button at the bottom of your screen and turn your cameras on. We'll now move on to our next question from Benjamin Zoega from Deutsche. Please go ahead.

Benjamin Zoega: Yeah, thank you. Just wanted to follow up with a slight clarification on Marketplace. Given the strong online sales and Delivery Saver subscriber growth, just wondering what kind of contribution or attachment rate you had with Marketplace within online, if you're able to give any colour on that. I do appreciate it's early stage but just interested to hear your thoughts on what kind of things will be needed to unlock the capacity for growth in Marketplace that you mentioned earlier.

Ken Murphy: I don't have any specific data for you on attachment rates per se. Clearly, we've seen a big surge in sellers, and we now have over a million sellers on the platform. I think that the steps for us around Marketplace, I think, first of all is to complete the platforming we've done and making it super easy for sellers to onboard, and we've recently launched a Buy Box which has really helped us in terms of driving price competitiveness on the site. But where we've chosen to place our marketing dollars in these last six months has been more heavily weighted towards our grocery home shopping and Whoosh platforms because they're in such strong growth. I think the next step for us, once we're comfortable, is to think about driving the marketing behind the platform, and that's probably one big factor.

So, I would say to you right now that, as I said earlier, in terms of the three stages of driving our overall online proposition, we feel really good about the pace of growth in the more mature parts of it, like GHS, the emerging businesses like Whoosh, and the very early stage business like Marketplace.

Benjamin Zoega: Okay, understood, thank you.

Moderator: Thank you. I want to take our next question from François Digard at Kepler Cheuvreux. Please go ahead.

François Digard: Good morning. Thank you to take my question. Two, the one is simple. You flagged progress towards the £500 million Save to Invest targets, how much of that savings have been realised so far, how confident are you that it can fully offset the structural cost pressure, like National Insurance or the new packaging levy. And the second question is on Retail Media. Even if I understand that it is a growth accelerator more than a direct profit driver, could you help us with some figures on its size, at least in terms of revenues, how significant is it, or at least some gross pays or the market share you have in that field. So, any colours you could add to retail media. Thank you.

Imran Nawaz: So, to the first bit on Save to Invest. To your question, I mean, clearly this year, we have an exceptional year of cost increase, as well, if it's NIC of £235 million, if it's the EPR levy of, what was it, £90 million, and clearly, you have got our store payroll, just stores alone going up £180 million. And that's just before head office and all the other increases and investments we're making. What that therefore means is the Save to Invest programme is fundamental

to the strategy, as in, we need to do the savings to offset our own operating costs that we are incurring so that we can be the most competitive vis-a-vis our customers, and that is what we're doing. The phasing to your very specific question is, I would say, evenly phased, first half, second half. That's how it's played out because a big chunk of it has started already last year, so we get the benefit, and then you start the second half activities because, as you might imagine, we're already now starting to think about, what are the saving activities that we need to go for to make sure next year is again protected from any operating cost inflation, as well.

Then, in terms of confidence to hit the number, I feel very confident. This is a core skill, I would say, in the business. Tesco is very, very good at making sure it stays efficient and lean, and so far, so good.

Ken Murphy:

Hi, François. As you know, we've been pretty consistent not breaking out Media income separately. As we see it as part of the broader supplier strategy and winning with suppliers in terms of helping them build their brands. But I can give you some facts to give you some sort of sense of the momentum behind Retail Media. We called out in the release, obviously, that we've been able to grow Media income by 25% this year, so far in the half, which is really really strong. That has been on the back of a couple of drivers. One is a much broader base of clients, and we're winning with some big household names, in particular. The second is that we've been expanding our physical store estate where we've been putting screens into our convenience estate. The third is, we've launched video on our web platform which has also helped driving Media. And, we have been increasingly trying to become more sophisticated about offering suppliers an integrated trade and marketing package that's both physical, digital, and, obviously, is aligned to product display plans, promotions, etc.

So, it's all working really well, and actually, has been recognised in the industry where we've won a number of retail media awards over the last couple of months, including Retail Media Supermarket Platform of the Year. So, great momentum. We do see it, though, as a part of the bigger ambition to be the best place for brands to grow in the world from the supermarket point of view, and we continue to build out the assets and capabilities that will help brands to grow in our business.

François Digard:

Thank you.

Ken Murphy:

Thanks, François.

Imran Nawaz:

Thanks

Moderator:

Thanks, François. We've now got a follow-up question from Rob Joyce at BNP Paribas. Please go ahead.

Rob Joyce:

Sorry to jump on again. Thank you. Amazon, so, we've seen Amazon's fairly high profile move, closed all the UK stores, launched in 1,000 cities in the US,

same day delivery. Just launched a big... Well, relaunched their private label range. Just wondering your thoughts so far on how you've competed with Amazon in the UK and whether you're seeing any changes there or anything you're braced for? Thank you.

Ken Murphy: Well, I'll pass over to Imran, because he'll have some views on this as well. I think that the signal that Amazon is closing its physical stores is a thing. I think it's a recognition that this is hard. I think, equally thought, we'd be naïve to think that somehow, they've gone away as a competitor in grocery, and I think they will instead look to focus on their areas of strength, which is their online platform, ambient grocery, and partnerships with other retailers. So, what I would say to you is that, on the one hand, we feel good about the fact that we're a hard competitor to beat in our home market, but we would be far from complacent about Amazon as a competitor for the present and the future. We think that they're... We have to work very hard to make sure we're a viable alternative to customers in grocery.

Imran Nawaz: I couldn't have said it better, so, nothing to add.

Moderator: Great, thanks. Thanks, Rob. That concludes-

Rob Joyce: I really appreciate that, thank you.

Moderator: That concludes the Q&A for these results, so I'd just like to hand it back to Ken Murphy for his closing remarks.

Ken Murphy: Thank you very much. Listen, we appreciate it, as always, that you take the time to join us. Thank you for your great questions. Both Imran and I feel very proud of the team here at Tesco, think they've delivered a fantastic all-round performance that has meant that more and more customers continue to shop with us. We have every intention of continuing on that vein in the second half. We think it's going to be a challenging market, but we're set up really well, and we feel really good about our performance. So, thank you, and we look forward to catching up with you after Christmas.