J Sainsbury plc
Sainsbury's Analyst and Investor Call
<u>Friday, 31 July 2026</u>

Presentation

Operator

Hello and welcome to the Sainsbury's Analyst and Investor Call. On the call this morning is Simon Roberts, Chief Executive, and Bláthnaid Bergin, Chief Financial Officer. I will now hand you over to Simon Roberts for opening remarks.

Simon Roberts
Chief Executive Officer

Well, thanks very much and good morning, everyone. I really appreciate you joining this call with Bláthnaid and I at short notice this morning. Thank you for your time. So, I'm going to make just a few prepared comments first and then, of course, Bláthnaid and I will take all your questions.

So, let me just recap on clearly what we've announced this morning. We've announced an agreement for Swift to acquire Argos. We've announced this because it will enable us at Sainsbury's to fully focus on the heart of Sainsbury's, our core food business. Sainsbury's will be a simpler business with higher margins, higher earnings, higher growth and stronger free cash flow generation.

The dedicated Argos management team, of course, has already brought a sharper focus to the business and delivered tangible results with the Argos transformation plan, with improvements to range and the digital proposition delivering volume growth, as you heard at our Q1 a few weeks ago.

So, we've carefully considered what it will take to create the strongest possible future for Argos. The Swift team bring, as you've seen in our announcement this morning, the retail leadership, the operational expertise, the technology capabilities and the long-term investment, alongside a deep commitment and belief in the future potential for Argos, Argos's customers and colleagues.

Having spent a lot of time with Richard, Trevor and Matt over recent months, they really understand and value the Argos brand. They share our values and we believe they can build on and accelerate the Argos transformation.

Argos will continue to trade through its established channels, and both businesses will continue to work closely together through a series of long-term commercial agreements that we've put in place, including that Argos will continue to trade within Sainsbury's stores and income from an ongoing relationship with Argos with Nectar.

So, coming to the numbers, we expect cash proceeds of at least £120 million. We expect to receive at least £70 million of cash on completion, which we expect to be at the end of February next year, February 2027, and the remaining £50 million over the three years post-completion. These cash receipts are expected to be offset by separation costs, and we expect to achieve full separation within two years of completion.

In terms of profit, we estimate the impact on underlying operating profit post-separation to be broadly neutral and for this transaction to be accretive to underlying EPS. With income from commercial agreements and reduced lease costs outweighing the impact of dis-synergies and the lost profit contribution from Argos.

Now as you know, we've spent the last six years rebuilding the core strengths of our food business, delivering a return to growth, market share gains and sustained strong momentum. This transaction we're announcing today will allow us to fully focus on the significant further growth opportunities we see ahead of us in delivering for all of our stakeholders.

So, I hope that summarises the key points of what we've announced this morning. So, let's now get into your questions. Let me hand back to the moderator. Thank you.

Question and Answer Session

Operator

If you would like to ask a question, please use the raise hand feature at the bottom of your screen. Alternatively, if you have dialled in, please press * nine on your handset now. We will pause for a moment to allow questioners to enter the queue.

Our first question comes from Frederick Wild at Jefferies. Please unmute your line and ask your question.

Simon Roberts

Freddie, good morning.

Frederick Wild, Jefferies

Thank you so much for taking my questions. Congratulations on the deal. So, my first question, please, is about the exit conditions. I mean, are there any supply chain overlaps to unwind over the next few years? Ultimately, what are the exit conditions of the Argos concessions if you said we wanted to repurpose some of the space there to other use over the longer term?

My second question is, there's been a lot of obviously corporate focus on Argos and the change programme there, so, how does this deal impact how you think about CapEx in the future and how you think about your investment plans?

My third question, if I can get a third one in there, please, is about how it impacts your ownership of the Nectar data and whether that will all stay with you and whether Argos will still be contributing to your understanding of customers through Nectar. Thank you.

Simon Roberts

Brilliant. Well, look, why don't I speak a bit to your first question and a half, really, in terms of the ongoing arrangements that we've put in place. Then Bláthnaid, I think, can talk about what this means in terms of how we think about Sainsbury's and CapEx and just more broadly these long-term partnerships that we've put in place.

Look, I think at the very heart of this transaction, one of the reasons we feel so confident this is the right thing to do is clearly this transaction has come at just the right time, given the momentum we have in the Argos business, for that now to be accelerated under new ownership. In answer to your specific question, we've agreed long-term commercial agreements in a whole number of areas which will provide ongoing income clearly to Sainsbury's as a result of this transaction.

So, the Swift partners, the team of Richard, Matt and Trevor are fully committed to the Argos model as it is today, of Argos store-in-store, standalone stores and the distribution network. That means in hundreds of locations across the UK, as we have today, that Argos will operate inside Sainsbury's.

From a Sainsbury's point of view and Sainsbury's shareholders' point of view, we should be looking at this as a really good outcome because, of course, the store-in-stores use a very small footprint of space in our supermarkets. In the main, the Argos store-in-stores are using stockroom space to store the products. So, we continue to take the advantages of the Argos store-in-store and collection points in our stores but clearly going forward with rental income that reflects the value of being able to be in our stores. So, we feel very positive about that.

As we've also said, Nectar, just coming to the last part of your question, obviously Nectar is part of Sainsbury's Nectar360, and we've agreed commercial agreements, again, to make sure that the ongoing benefits happen for Argos customers. But clearly, as you'd expect, we've agreed appropriate commercial terms for the value of Nectar, and we expect to continue to see that benefiting both loyalty, but also Nectar360 as well going forward. Bláthnaid.

Bláthnaid Bergin

Great, thank you. So, Freddie, we've guided £800 to £850 for CapEx this year. I'm not changing our guidance today, either on cash, on profit, or on CapEx. We'll update our thoughts on that next year in the spring when we give you a broader update on what next year might look like on that.

Simon Roberts

Thanks, Freddie.

Frederick Wild, Jefferies

Amazing, thank you, and congratulations again.

Bláthnaid Bergin

Thank you, Freddie.

Operator

Our next question comes from Manjari Dhar at RBC. Please unmute your line and ask your question.

Simon Roberts

Hello Manjari.

Manjari Dhar, RBC

Morning, Simon. Morning, Bláthnaid. I also just have three questions, if I may. My first was on the pension scheme. I just wondered if you'd give us some colour on why you've chosen to retain the Argos pension scheme, and what are the contractual commitments from Sainsbury's in terms of contributions funding going forward?

Then secondly, I just wondered if you could give us some colour on how we should think about the timeline of the separation costs as they come through.

Then finally, I know that increasingly Argos has been separately managed from Sainsbury's. I was just wondering, are there any remaining areas where there is still integration in the wider business that we have to think about in terms of separation? Thank you.

Simon Roberts

Thanks, Manjari. Bláthnaid, do you want to take one and two, and I'll take three?

Bláthnaid Bergin

Yes, great. So, look, on the pensions, we've transferred that scheme into Sainsbury's, the defined benefits scheme. There's £143 million surplus in that scheme. It's been in surplus for the last five years. We've not made any payments into the Argos scheme since 2024. Look, we're working through the strategy with the pension trustees as to what the future for that scheme is given it is in surplus andthere is no cash payments going into that today.

On the timeline on the separation costs, I broadly split them 50/50 across the two years. That's the way I would think about it. We may have a little bit of a tail into year 3, but I don't think it'd be material overall.

Simon Roberts

Yes, super clear. Then just on the last point more broadly about separation. Look, I think, Manjari, to your question, you'll remember we've talked about this on our previous calls. We learned a lot, actually, from the engagement we had last year. As you know, we've already started to make choices in terms of pulling apart, for example, some elements of the technology stack that we've always believed that Argos will need separately from Sainsbury's.

So, we actually come to this transaction having done a lot of the pre-work, which I think is really important in terms of preparation. As Bláthnaid's just said, we're going to be really focused on achieving, for example, the full tech separation within the two-year window. We've set two years for that. We've got a very experienced team inside Sainsbury's who know what this looks like, know how to do it.

So, of course, these are complex projects to achieve, but we're very confident we've got the right focus and the right capabilities to achieve the two-year separation. Of course, the job is to get that done, to get it done to plan, and then clearly for Argos under new ownership to do what Argos needs to do.

But I just want to come back to the big point of today, which is the opportunity this presents to simplify Sainsbury's and to have all of the team in Sainsbury's totally focused on the grocery business and the opportunity we think that presents. So, getting the separation done efficiently, expediently, with the capabilities we have. As we do that, getting clearer and clearer about how we're going to become even stronger in our focus on food. Thanks, Manjari.

Manjari Dhar, RBC Capital Markets

Thank you.

Operator

Our next question comes from Rob Joyce at Exane BNP Paribas. Please unmute yourself and ask your question.

Simon Roberts

Hello, Rob.

Bláthnaid Bergin

Good morning, Rob.

Rob Joyce, Exane BNP Paribas

Good morning, Simon, good morning, Bláthnaid, morning to you both. So, thanks very much for taking the time, questions as well. So, the first one is just slightly elaborating on what you said earlier, Simon, but just in terms of those commitments and how easy it would be to exit those store-in-store locations for Swift, what are they looking at in terms of are they signing up to leases on this? Is it a longer term or – and how does it work if they want to exit those store-in-stores? Just linked to that would be, in terms of leases on the external Argos stores that Sainsbury's are still the head leaseholder of, how many of those are there?

Then the second one is just, in terms of those ongoing and in terms of that cost savings number, which has been quite a key component of investing in the grocery business, does this change anything with regards to the amount of cost savings available at the business and what can be used to invest in grocery? Thank you.

Simon Roberts

Really clear, Rob, thank you. Well, why don't I take the first one, maybe Bláthnaid on the external leases and then I'll come back on costs at the end.

Rob, I think it's probably just worth giving a little bit of context as to how these transactions come about, just to your question on the direction of travel on the store-in-stores and the commitment to that. One of the fundamental reasons why we're having this conversation this morning and able to share this transaction with the market today is that we've spent actually quite a bit of time over several months building up this deal, this transaction. What's become very clear to me and to the Sainsbury's Board is the commitment that Matt, Trevor and Richard, the Swift partners have to the Argos model.

Fundamental within that is the commitment to the store-in-store model. Of course, as we've come through all the discussions we've had and we've really got to know each other, what's become really clear is that this transaction fundamentally has a long-term commitment to store-in-stores.

Actually, I was on a media call earlier with Richard and he was talking about some opportunities in locations where Argos doesn't exist today, including making the point, if we open new Sainsbury's reps, wanting to be able to work with us on where else Argos might arrive. So, I guess the reason for just sharing that with you is the direction of travel here isn't less store-in-stores. I think the new owners really see the value of that model. They really understand it. Obviously, the benefit of the footfall and customers that come with it.

So, we've clearly made a long-term commercial agreement with them, which has a clear income stream based on the number of stores inside Sainsbury's. It's a universal agreement. It's a fixed cost for the number of stores that are there. So, what I'm saying is there's no direction of travel here, which says the store-in-store model becomes less important. If anything, there's a real determination to bring more range and more focus to help grow Argos. Bláthnaid**.**

Bláthnaid Bergin

Great. So, I'm going to stand back from the leases, Rob, and just spend a few minutes on it, because it is – you just need to spend a few minutes to get your head around it. So, the first one is Argos is the headline landlord on a number of leases that go back many, many years. That is about £250 million. That comes off the Group consolidated balance sheet and transfers into the Argos legal entity. It's already in the Argos legal entity but moves out of our balance sheet as part of the transaction. That's your reduction in your net debt, the £250 million.

The second bucket are properties that Argos operates out of today, where Sainsbury's has taken on those lease obligations. They split into two. There'll be some store-in-stores, but they're predominantly local fulfilment centres. Those leases we would expect to unwind over the next 3.5 or four years. The majority of those, as those leases come up for renewal, the Argos team will take them on and negotiate with the landlords, and they'll come off our balance sheet. But they will pay us for those leases in the meantime, so they will bear the costs of them. It's just it makes more sense for us to continue to operate those as the landlord passed through on that.

The third bucket is the store-in-stores. Now, we are the headline landlord on that, so we can either be the freeholder or the leaseholder. We have put the store-in-store rent agreement in place. That's in place for a few years. It's a fixed rental amount for the first few years. There's some flex for Swift if they want to add to that estate, if they want to take away from that estate and reshape it. Very limited though what we'd expect them to do on that. So, there are the three buckets on it.

So, I think your headlines is reduction in net debt of £250 million, leases that are transferring to Argos. The other leases are a pass through, they'll unwind over the next three to four years, then there's this rental agreement that we talked about on that. I hope that kind of helps bring it together.

Simon Roberts

Thanks, Bláthnaid. Then Rob, to your last question, I think just – sorry, Rob, do you want to…

Rob Joyce, Exane BNP Paribas

No, no, I was saying thank you, sorry, I was saying thank you, that's clear on that one.

Simon Roberts

I was just going to come to your cost saving point. So, look, as you say, I mean, one of the benefits of the last number of years is there have been opportunities to take cost savings in Argos and to reinvest those in the grocery model. When I think back to the early phases of Food First, that was very much our focus.

I think where we are now, as you know, we've a very clear cost focus in the whole business. We remain on track for £1 billion cost savings by the end of this three years. Clearly, as we've come through the last period of time, I said at the beginning of Next Level Sainsbury's that Argos and Sainsbury's are two separate businesses. So, very much as we've come into this strategy cycle, we've been focused on clearly the cost saving and efficiency effort in Sainsbury's, which is continuing to deliver and very focused as we look ahead. The similar and in parallel track in Argos.

So, we don't see this transaction today as presenting any changes in the direction of travel or in the value we see in delivering efficiency in both businesses. Clearly in Sainsbury's, as we look ahead, we're in our last year of our Next Level plan. We'll be talking to you at the beginning of the next financial year about the next period of time. We're very focused as a team, as I say, on the big opportunities for Sainsbury's.

Today is about actually doubling down on that now with the focus and simplicity this will bring to the business, we'll be able to drive our performance even more as we look ahead. Thanks, Rob.

Operator

Our next question comes from Izabel Dobreva at Morgan Stanley. Please unmute your line and ask your question.

Simon Roberts

Hello, Izabel.

Izabel Dobreva, Morgan Stanley

Hello. Good morning. I had a couple of questions. The first one is, could you please explain the structure of the commercial arrangements? So, should we think of this as an annuity-like fee stream that you will essentially be receiving every year on a stable recurring basis? Or is it structured more as a share of the profits of Argos? So, how should we think about the volatility coming from that profit contribution? That was my first question.

Then my second question is just around the buyback. So, I understand that there will be separation costs which are going to offset the cash proceeds. But at the same time, you are reducing your leverage profile. So, how should we think about the scope for capital returns as a result of this transaction?

Then finally, could you give us a sense of – sorry, sorry to interrupt you. I just had one final question of could you help us understand the synergies point that you mentioned? What exactly are these dis-synergies and how have you gone about sizing them so that we can understand what is the level of risk that they may be higher or lower than you anticipate?

Bláthnaid Bergin

Great. So, why don't I take those, and Simon will help me and support. So, I'll start with the buyback. That's an easy one. We have a very clear capital allocation policy. This transaction is cash neutral to us. It will be cash accretive over time. We're not going to talk about that today. But our capital allocation policy remains exactly as it is today.

These are arm's length commercial arrangements. They will be ongoing arrangements is what we'd expect them to see. They do offset the dis-synergy. So, when you bring any two – take any two businesses apart, we've taken cost savings with synergies over the years, we'd expect some dis-synergy. So, to give some examples of that, you'd have some shared teams and group functions. You'd have to stand up your own teams on those and expertise.

That's kind of a big dis-synergy on some of the tech. You'd have shared your tech stack as well. Line share of our separation costs are in separating out that tech. So, we'll have to run our own tech stack rather than sharing the costs as well. But the commercial arrangements broadly offset those dis-synergies over time. So, net-net plays a draw is the way to think about it.

The other one to sort of bring you down a little bit further into the P&L, with the £250 million leases that transfer across, there'll be a reduction in our lease interest payments as well. So, you'll see that dropping through. That's where we get our single digit EPS secretion from on the transaction. Hopefully that's answered your questions. If not, let me know.

Simon Roberts

Yes, Bláthnaid, thank you. Maybe just one thing to add. I think Bláthnaid's covered it all, but just to be clear to your question, Izabel. There's no volatility in the long-term agreements that we've agreed. They're not linked to changes in performance. We've agreed on all sorts of issues, whether it be rental for store-in-stores, collection points, Nectar – the whole basis of this is a long-term agreement and it's not subject to any volatility that kind of plays into that.

Izabel Dobreva, Morgan Stanley

Thank you. I just had a small follow-up. So, should we understand that the dis-synergies will come on top of the separation costs?

Bláthnaid Bergin

So, you've got separation costs of £120 million, largely offset by the proceeds. So, you put that in one kind of bucket. There will be commercial arrangements that will generate income and they are the rental agreements and the Nectar agreement. They will offset the dis-synergies that we're expecting to see. So, when you think about it, P&L should be broadly neutral across this transaction. Then you get the benefit from the lease interest on that, which gives you your EPS accretion. So, think of them as playing a draw.

Izabel Dobreva, Morgan Stanley

Thank you.

Simon Roberts

Then within that, of course, Izabel, which I know you've got, thinking about the focus coming in Sainsbury's as we execute and see through this period of time. Obviously, one of the things we'll be working on is not only how do we achieve the separation, but how do we use this focus on simplifying the Sainsbury's business to make sure that we double down on all the things that we're doing there.

So, as we come through this period, that's obviously an important focus we're going to be bringing. We'll talk to you more about that.

Operator

Our next question comes from Sreedhar Mahamkali at UBS. Please unmute your line and ask your question.

Sreedhar Mahamkali, UBS

Hi. Good morning, Simon and Bláthnaid. Thanks for taking my questions. I realise, I think, Bláthnaid, you said you don't want to change CapEx guidance, but if you're perhaps going to zoom out over the medium term, how should we think about free cash flow accretion from this? It certainly looks like it's diluted free cash flow than accretive, so it would be super-helpful to understand your views on that?

Bláthnaid Bergin

No, it will be positive. The way to think about it, Sreedhar, is it will be positive to cash flow over time. There'll be some lumpiness in year 1 and year 2, as you get the phasing of the transaction, the proceeds coming in and separation costs. But over time it's cash positive for us. There's also some working capital true up, we'll have to work through that at the time when we close, so net-net it'll be positive to cash, is what I would say.

Sreedhar Mahamkali, UBS

Okay, I was just going to ask about working capital. If there was anything there that was planned in this year's cash flow and if that still comes through, that's subject to final settlement, I guess?

Bláthnaid Bergin

It's subject to final settlement, but today we are reconfirming our guidance at least £500 million retail free cash flow. We're also reconfirming our profit guidance; there's no change today to either of those and the CapEx guidance as well.

Sreedhar Mahamkali, UBS

Got it. A very small follow-up, the last one, is Swift is acquiring sourcing offices in Hong Kong and Shanghai. How does that work for Sainsbury's GM sourcing and things like that?

Bláthnaid Bergin

We'll have arrangements in place on that. A lot of our clothing is sourced out of Bangladesh; we have four offices overall in Asia. They're getting two of them, we'll work through the arrangements on the others, but we'll put arrangements in place for the GM. If you look at this deal, it's got a Habitat agreement in there, so a lot of our Habitat Home will be coming from Swift as well. We're really pleased to be able to put that agreement in place, that long-term agreement as well.

Simon Roberts

Exclusively as well.

Bláthnaid Bergin

Exclusively, yes.

Sreedhar Mahamkali, UBS

Very clear, thank you both.

Simon Roberts

Thanks.

Operator

Our next question comes from Elizabeth Moore at Citi. Please unmute your line and ask your question.

Simon Roberts

Morning, Elizabeth.

Elizabeth Moore, Citi

Hi Simon, morning. My first question was just on whether the disposal will impact your plans for launching the marketplace proposition and just how the discussions with Swift have gone around that?

Then secondly, I was just wondering if you could give us a bit more colour around the disposal process, so how long you've been talking to the Swift team. Then also whether it was a competitive process and if you were talking to any other parties at the time. Thank you.

Simon Roberts

Okay, let me take those and Bláthnaid obviously will come in and add. I think the first thing to say, and it really reflects my comments to Rob's question, which is that we've really learnt over the last number of months why Swift Partners are the right future owner for Argos. I say that exactly to your question on marketplace, which is they really buy into the unique model that Argos is and the fact that Argos has to carry, both on its own ranges but also through a marketplace, all the products that people want to buy.

They're very committed to the marketplace, they're actually very excited by it. I think one of the reasons this conversation developed at the pace it did is because we were already well underway in doing that. It directly speaks to the strategic positioning of Argos, doesn't it, which is being able to get products to customers quickly, online or in-store, and having access to the widest range possible. I know they're excited about that.

I think in terms of as we've come through this process, I would just reemphasise the point that we're having this conversation this morning for a couple of very clear reasons. First of all, you've heard me talk about the benefits we think this is going to clearly bring to the Sainsbury's grocery business, as we put all of our focus, management time, CapEx focus, everything we do is going to be about driving an even stronger performance in core grocery. Therefore, as we think about this disposal, we've been really working up over a number of months why this transaction works, what our new owners are going to bring.

I would just stress the point they bring deep expertise in many retail brands in the UK. They really understand the Argos model, which gives us a lot of confidence that we can achieve this separation in the two-year period really effectively. They're very committed to that too. As a result of that, we come to this point with the right owners, who have the right intentions for Argos, that we can separate well and efficiently in the timeframe, so that as we come through this period we can really double down in Sainsbury's on all the things that I've just said.

Then to your point, I think you'll well remember the events of autumn last year. We concluded that that engagement wasn’t going to lead to the right future ownership of Argos. I would just make the point that this is all about finding the right owner, an owner that we can trust to do the right things and that's what we think we've got here. We weren’t in a competitive tender, just to be clear, Swift came to us. I had an initial discussion with them soon into this calendar year. It became clear that there was a gem of something there that was very interesting to explore.

Clearly over a period of time, Bláthnaid and I and a small number of our team really engaged in this opportunity. Over a number of months, as we've worked it through, it's led us to today, which is the right future home for Argos with an ownership model that's going to really work for the business. Backed with the right structure and a really clear intent to grow Argos such, as I say, that we can double down in Sainsbury's at what we think is the huge potential of this brand and our food business.

Bláthnaid Bergin

Yes, I just have one build on that. When we looked at this, it was about creating shareholder value. Finding the right future strategy and owner for Argos, but also on the Sainsbury's side creating shareholder value. With that new focus, well we have a huge focus on food, but it will really help us to drive the momentum that we have today in the business forward. There's a lot of shareholder value in this as well.

Simon Roberts

Thank you.

Elizabeth Moore, Citi

That's great. Thank you so much.

Simon Roberts

All right; well look, can I just thank everyone for joining the call this morning. We've really valued hearing your questions. It's been really good to discuss clearly what we've announced this morning. If there are any follow-up questions that we haven't been able to hear on the call, obviously James, Bláthnaid and I are around all day, so very happy to do follow-ups wherever we need to. I hope the technology hasn't got in the way at the end there, so do reach out if you've got a question. Thank you again for joining us.

Clearly a significant day today, as we continue to drive our strategy forward. Food back at the heart of Sainsbury's, having exited our financial services in the way that we did and now announcing this transaction today, as we continue to double down on delivering for our shareholders at Sainsbury's. It's been really good to talk today and catch up soon. Thank you.

End