

Love it for Less

FROM

£4

BABY HOLIDAY  
MIX AND MATCH

'Love it for Less' relates to our products at everyday great value prices.



M&S

EST. 1884

TRANSFORMATION  
UNDERWAY

FINAL RESULTS  
23 MAY 2018



# M&S

EST. 1884

ARCHIE NORMAN  
CHAIRMAN



# TRANSFORMATION LAUNCHED TODAY'S AGENDA

THE  
**SLIM**  
Slim fit through  
hips to the ank

**STEVE ROWE**

FINANCIAL HIGHLIGHTS  
FACING FACTS

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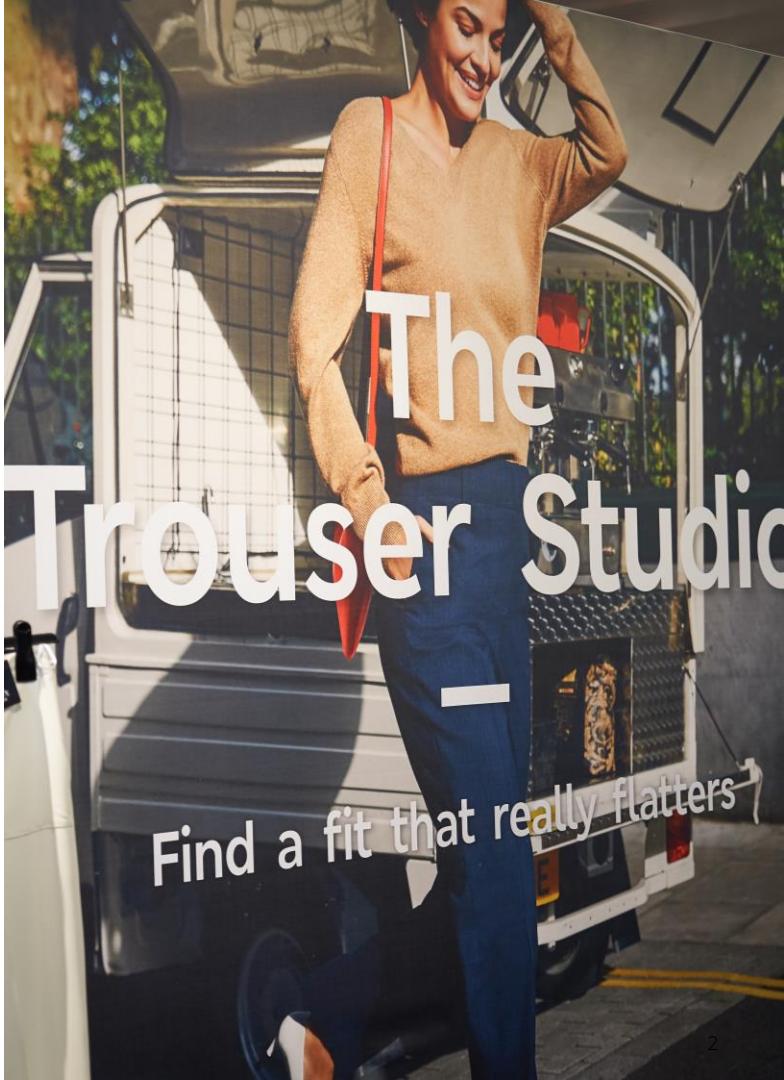
**SCILLA GRIMBLE**

FINANCIAL PERFORMANCE

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**STEVE ROWE**

RESTORING THE BASICS



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**STEVE ROWE**  
CHIEF EXECUTIVE



## FACING FACTS

# FINANCIAL HIGHLIGHTS

- Financial results demonstrate why our transformation is necessary
  - Group revenue £10.7bn (+0.7%)
  - Profit before tax & adjusting items £580.9m (-5.4%)
  - Clothing & Home online (+5.2%)
- Adjusting items of £514.1m as velocity of change increases
- Accelerated change is the only option

FACING FACTS

ADDRESSING OUR DEEP-SEATED ISSUES

# MARKS & SPENCER



**1** Complex corporate culture and structure

**2** Behind the curve in digital

**3** More to do on style and value in Clothing & Home

**4** Underperformance in Food

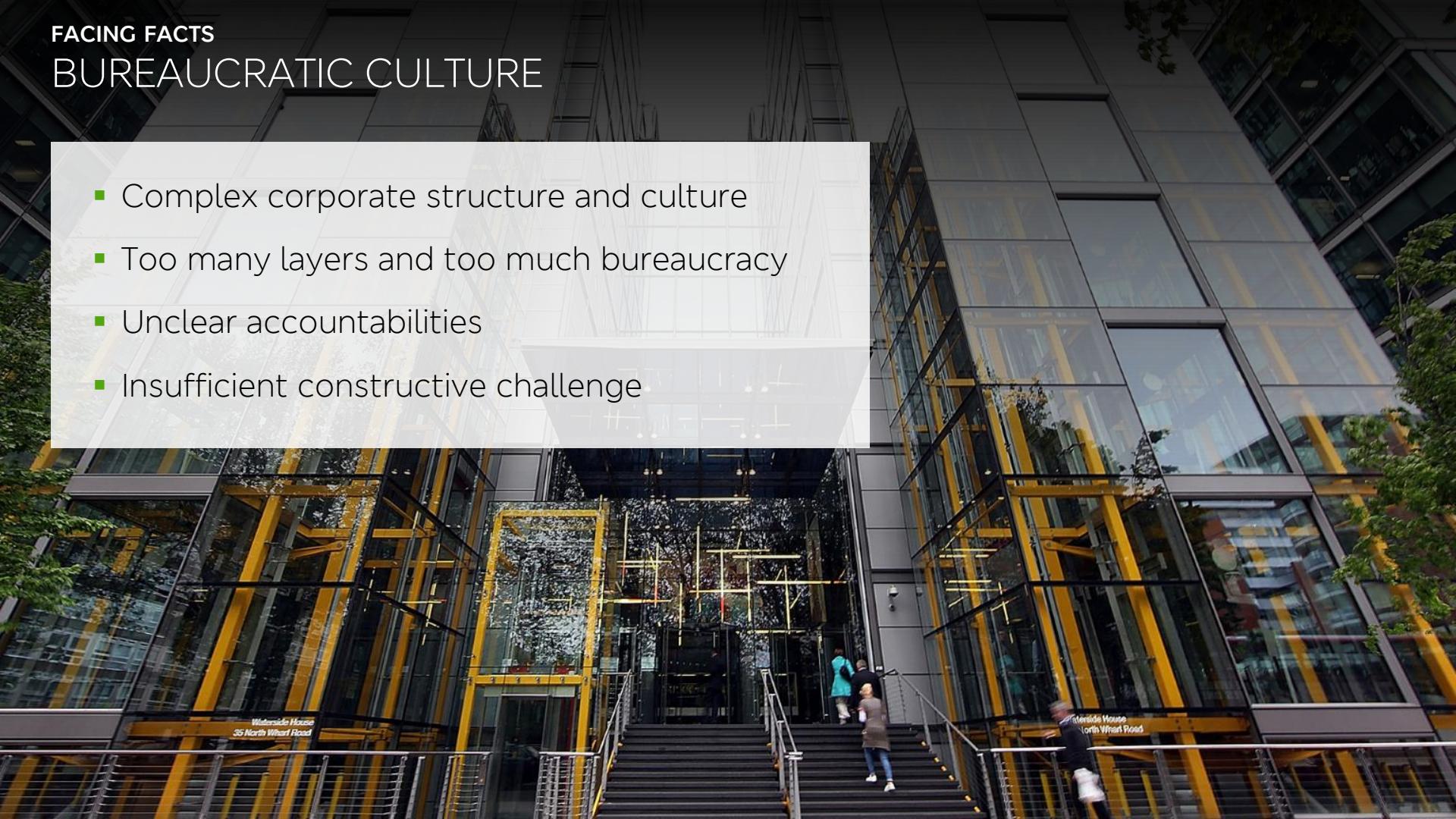
**5** High cost retailer with inefficient supply chain

**6** Store estate not fit for the future

## FACING FACTS

# BUREAUCRATIC CULTURE

- Complex corporate structure and culture
- Too many layers and too much bureaucracy
- Unclear accountabilities
- Insufficient constructive challenge

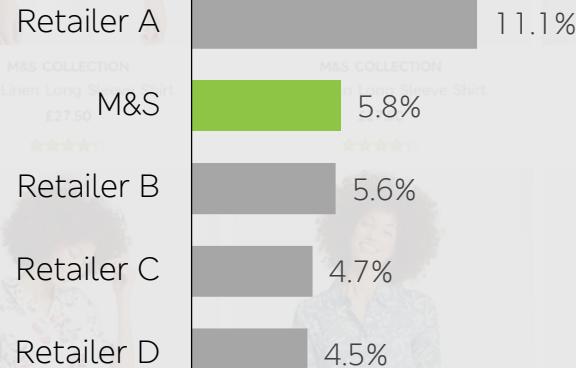


## FACING FACTS

# BEHIND THE CURVE IN DIGITAL

- #2 in online clothing, but growth slower than the market and losing share
- Technology platform solid but inflexible
- Page load speeds behind industry best practice
- Castle Donington will never achieve designed capacity at peak
- Key roles remain to be filled

### 2017 ONLINE CLOTHING MARKET SHARE TOP 5



Source: Kantar

M&S COLLECTION  
Washed Tencel Shirt  
£19.50

M&S COLLECTION  
Floral Print Ruched Sleeve V-Neck Blouse  
£19.50

M&S COLLECTION  
Pure Cotton Striped V-Neck Blouse  
£27.50

M&S COLLECTION  
Pure Modal Floral Print Long Sleeve Shirt  
£19.50

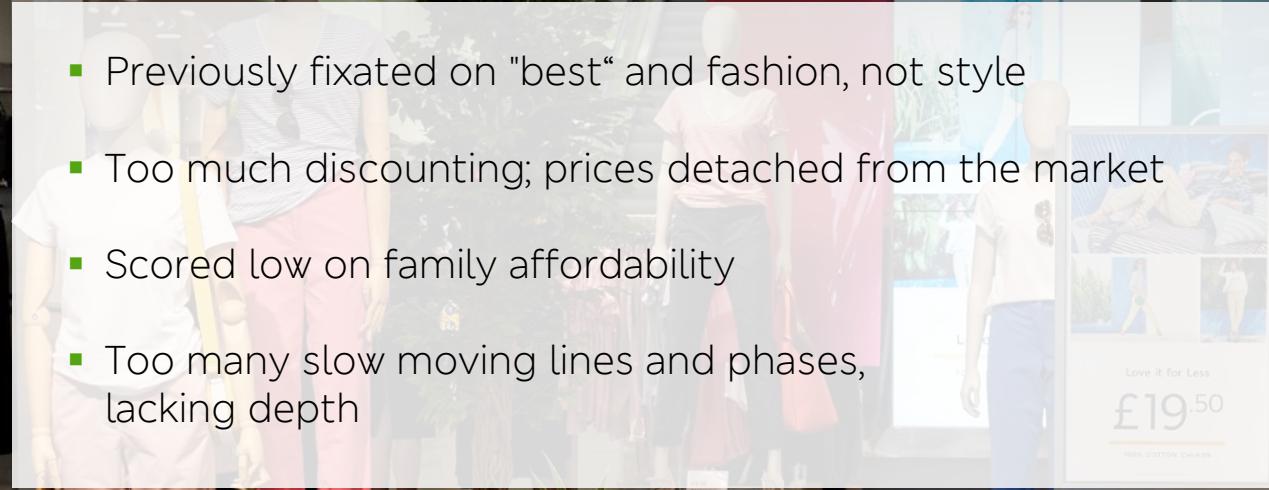
M&S COLLECTION  
Pure Modal Floral Print Long Sleeve Shirt  
£19.50

M&S COLLECTION  
Printed Round Neck Half Sleeve Blouse  
£17.50

## FACING FACTS

# MORE TO DO ON STYLE AND VALUE

- Previously fixated on "best" and fashion, not style
- Too much discounting; prices detached from the market
- Scored low on family affordability
- Too many slow moving lines and phases, lacking depth



## FACING FACTS

# UNDERPERFORMANCE IN FOOD

- Pockets of excellence in Food innovation and quality; need for broader relevance
- Competitive KVs but too detached from market in core ranges
- Too many complex and confusing promotions
- Availability worse than best practice
- Reductions, waste and stock loss at close to 6% of sales; best practice far lower



## FACING FACTS

# INEFFICIENT SUPPLY CHAINS

- Supply chains are significant drivers of excessive cost
- Clothing & Home too slow from manufacturer to customer
  - Stock cover too high
  - Too many holding points and touches
- Food supply chain inefficient and complex
  - Too much backroom stock without improving availability
  - Colleague productivity impaired because of poor replenishment processes



## FACING FACTS

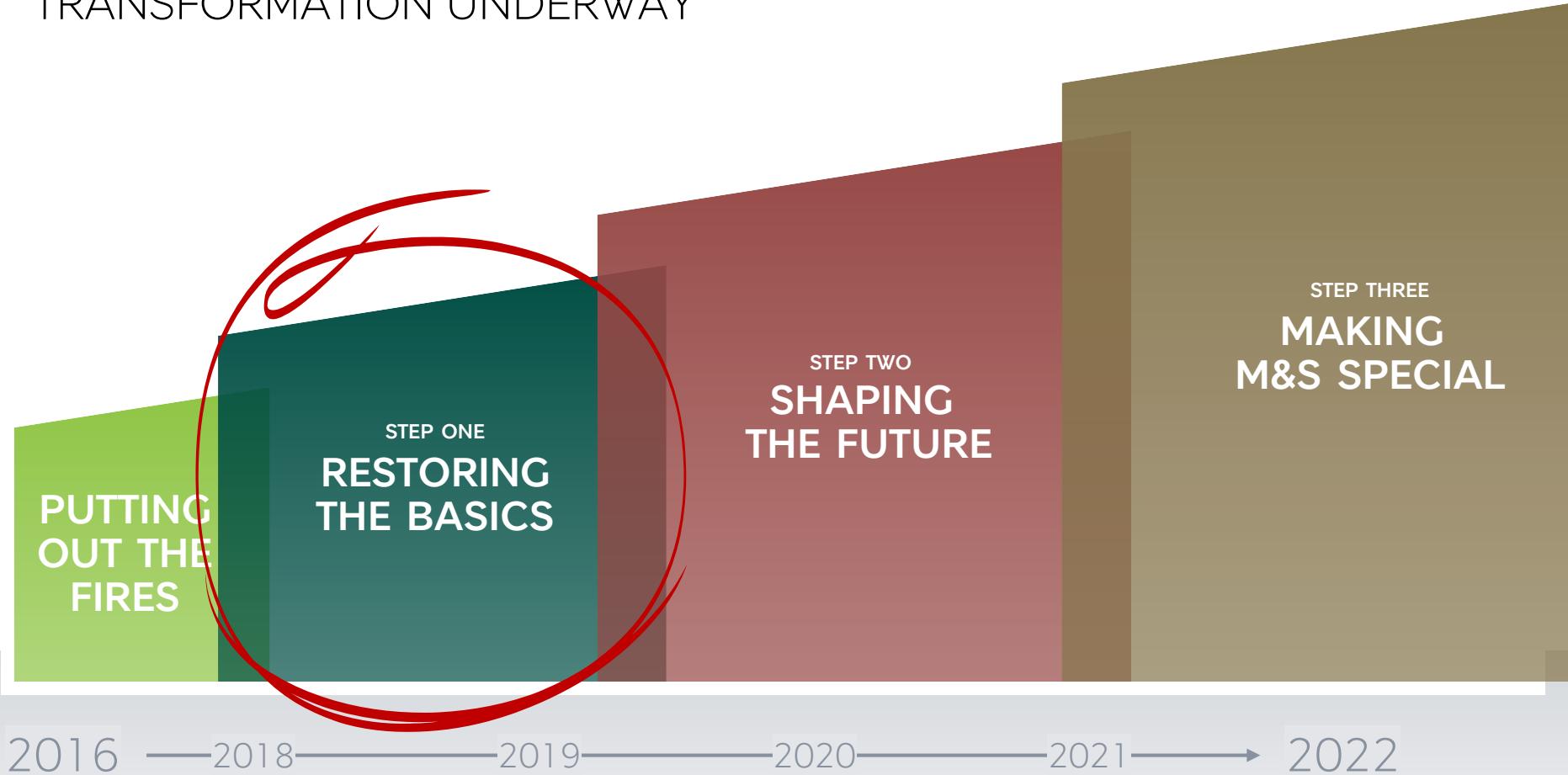
# STORE ESTATE NOT FIT FOR THE FUTURE

- Needed plan for store estate in a multi-channel world
- Sales densities declined significantly
- Over 2m square feet of unproductive space
- Long tail of small high street stores without range authority
- Worst performing stores in the same location for more than 75 years



FACING FACTS

# TRANSFORMATION UNDERWAY



## FACING FACTS

# TRANSFORMATION UNDERWAY

**1** Largest ever leadership transformation

**2** Devolving to truly accountable businesses

**3** Becoming a Digital First retailer across M&S

**4** Focusing on wardrobe essentials and style in Clothing & Home

**5** Turning around Food through operational excellence

**6** Modernising our Clothing & Home and Food supply chains

**7** Creating a high quality store estate fit for the future

**8** Rebuilding profitable growth in International

**9** Substantially reducing operating costs by 2021 – not less than £350m



# M&S

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**SCILLA GRIMBLE**  
INTERIM CFO



## FINANCIALS AT A GLANCE

Group revenue

**£10.7bn**

+0.7%

Profit before tax

**£66.8m**

-62.1%

Profit before tax  
and adjusting items

**£580.9m**

-5.4%

Free cash flow  
before adjusting items

**£582.4m**

-12.6%

Net debt

**£1.8bn**

-5.5%

Full year dividend

**18.7p**

Unchanged

## FOOD PERFORMANCE

Revenue growth		Gross margin	
	Q4	FY	2016/17
Total	3.2%	3.9%	Buying margin
LFL	-0.6%	-0.3%	Waste
			<b>2017/18</b>
			<b>31.1%</b>

# CLOTHING & HOME PERFORMANCE

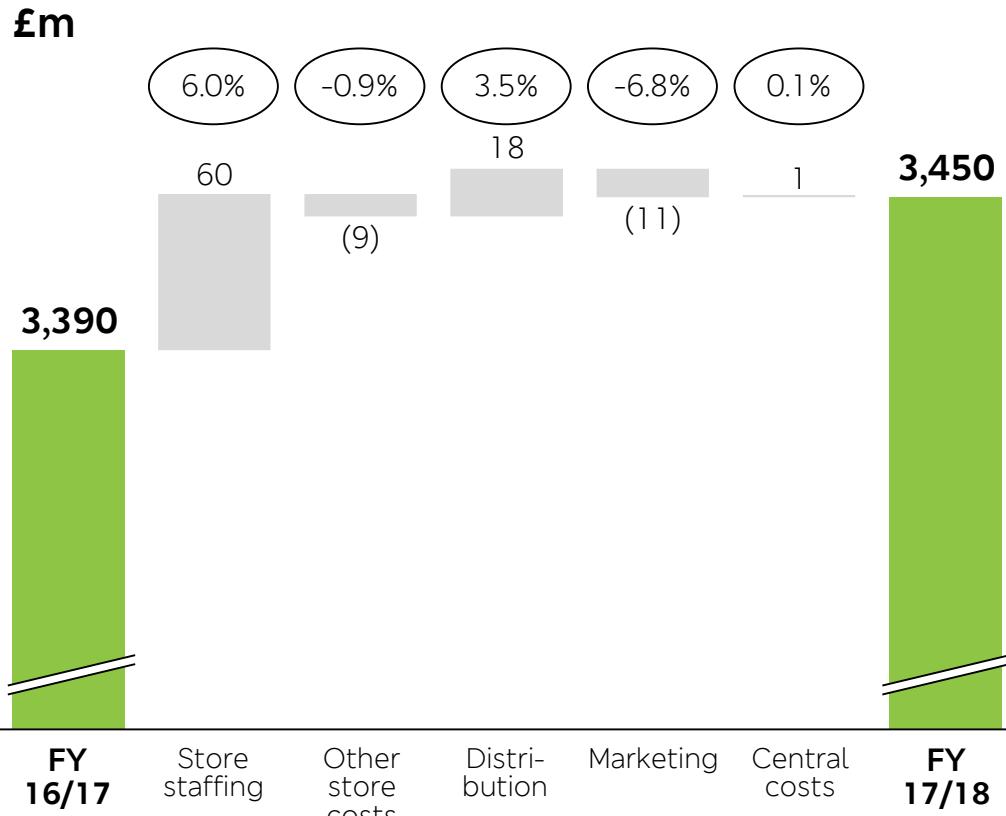
Revenue growth		Gross margin				
		Q4	FY	2016/17	56.1%	vs. 2yr
Total		-3.1%	-1.4%	Buying margin	50bps	150bps
LFL		-3.4%	-1.9%	Discounting	0bps	5bps
M&S.com <sup>1</sup>		8.0%	5.2%	2017/18	56.6%	

<sup>1</sup>Includes Food and International at constant currency

# OPERATING COSTS

## Cost drivers

	FY
New space and volume	1.8%
Inflation	1.8%
Other (incl. depreciation)	-1.8%
<b>Year on year growth</b>	<b>1.8%</b>

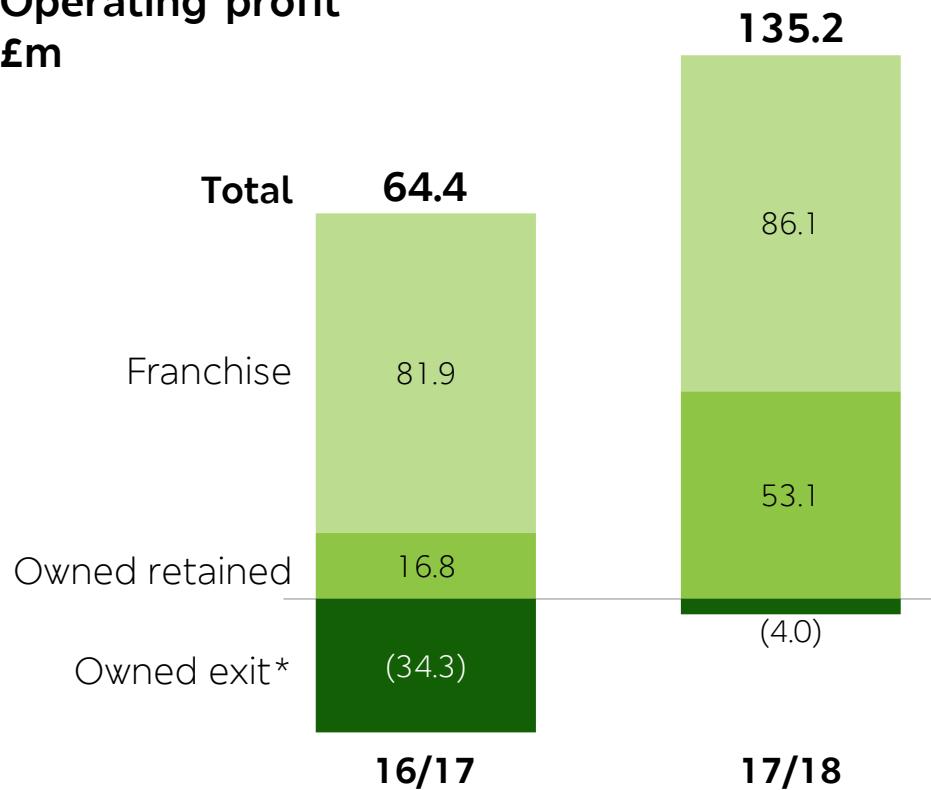


# INTERNATIONAL

Revenue	Q4	FY
Revenue (reported)	-24.7%	-7.9%
Adjusted revenue*	-0.4%	2.8%

\*Constant currency, excluding exit markets and Hong Kong

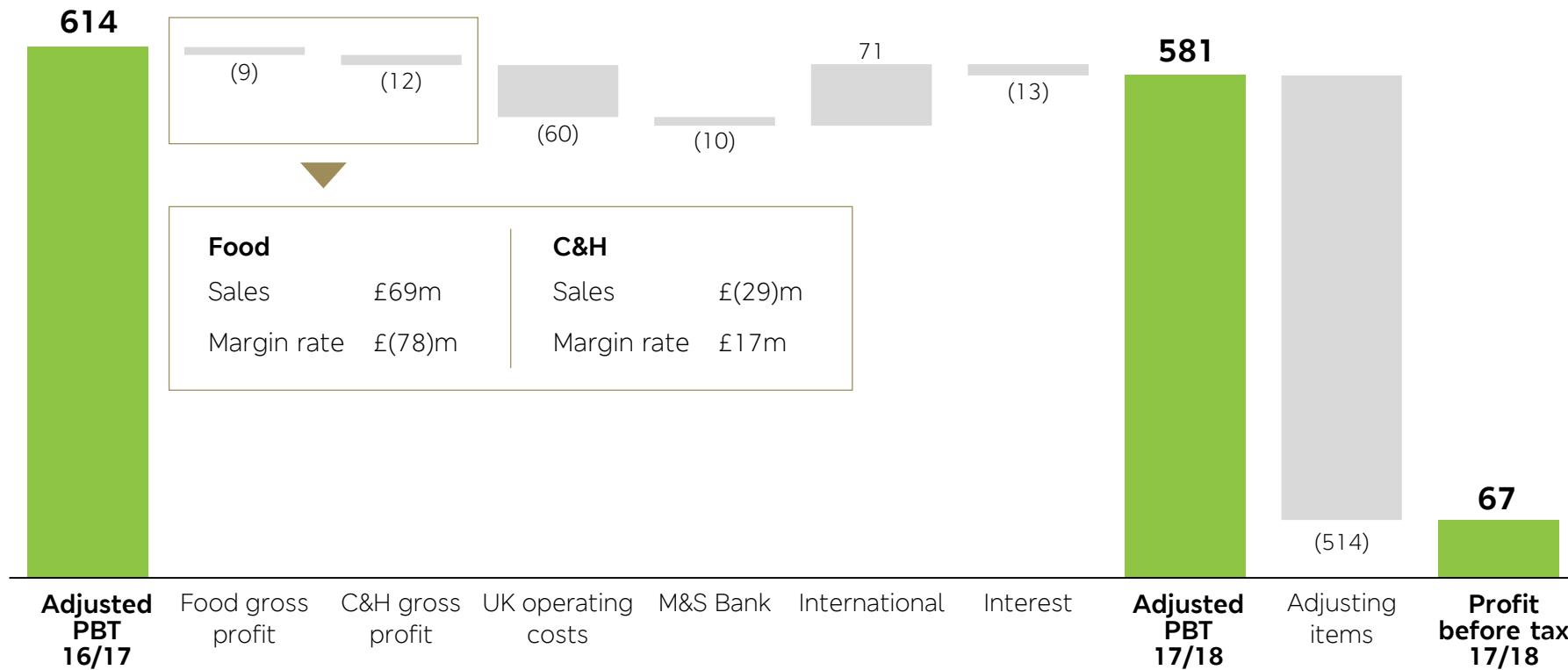
## Operating profit £m



\*Last year restated for closure of our online business in China

# PROFIT BRIDGE

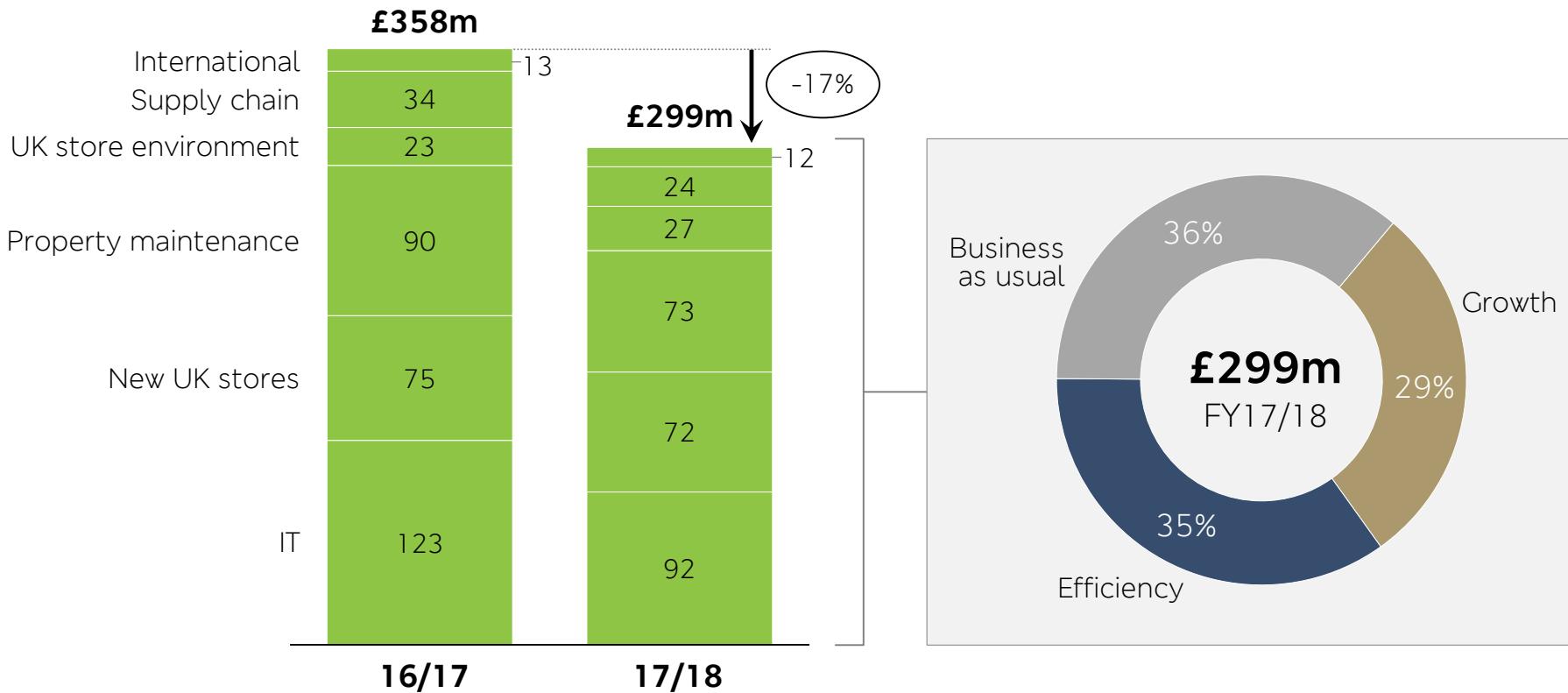
£m



## ADJUSTING ITEMS

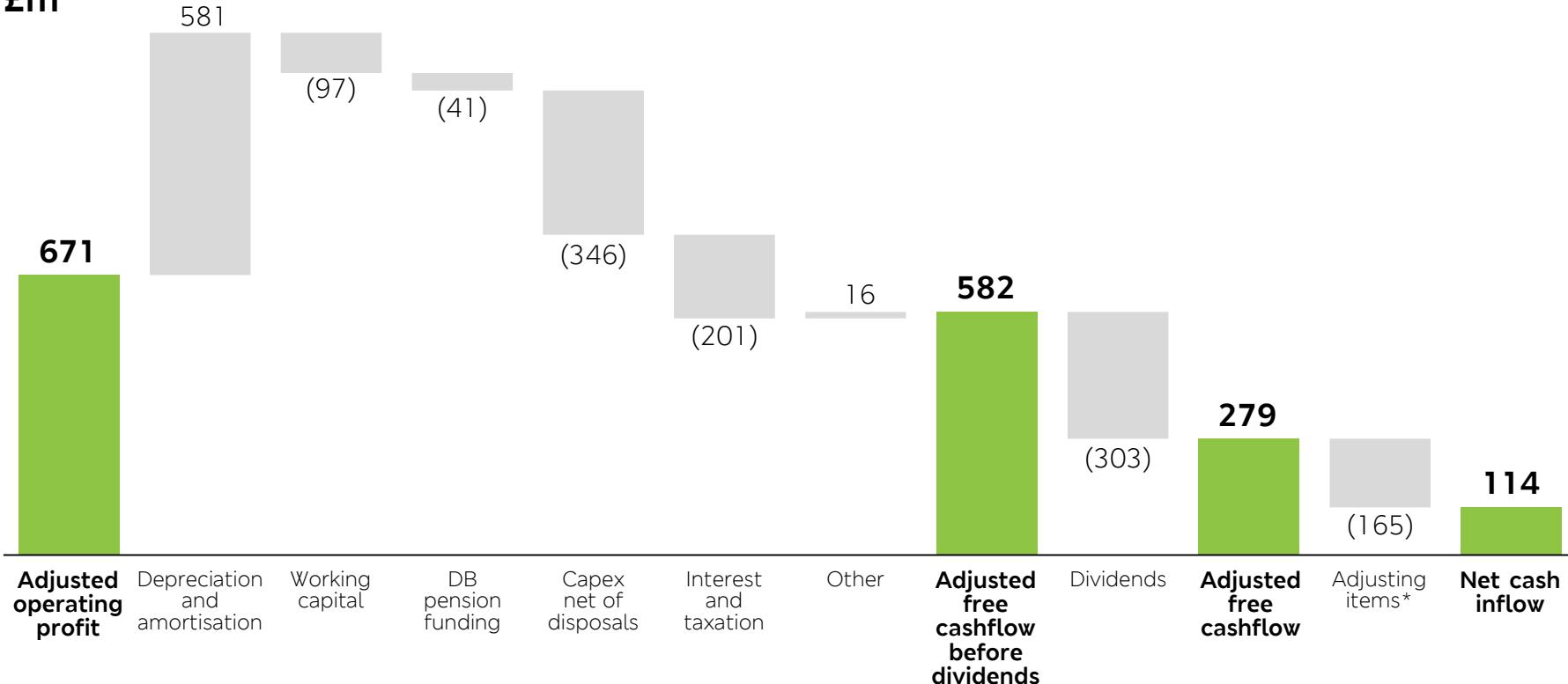
	<b>£m</b>
Strategic programmes	
UK store estate	(321.1)
UK organisation	(30.7)
IT restructure	(15.5)
UK logistics	(13.1)
Changes to pay and pensions	(12.9)
International store closures and impairments	(5.0)
UK store impairments and asset write-offs	(63.4)
M&S Bank charges	(34.7)
Other	(17.7)
<b>Adjusting items</b>	<b>(514.1)</b>

# CAPITAL EXPENDITURE BEFORE DISPOSALS



# CASH GENERATION

£m



\*Includes amounts relating to the closure of stores in International markets of £85.7m, transition payments in respect of pensions and pay premia of £36.7m and M&S Bank of £34.7m. These were partially offset by the cash inflow associated with the disposal of the Hong Kong retail business of £22.9m.

# GUIDANCE 2018/19

<b>Food</b>		
Space* (%)		Level
Gross margin change (bps)		0 to -50
<b>Clothing &amp; Home</b>		
Space reduction* (%)		c.5
Gross margin change (bps)		0 to 50
<b>UK operating costs (%)</b>		0 to -1
<b>Tax rate (%)</b>		c.22
<b>Capital expenditure (£m)</b>		c.350 to 400

\* As at year end



M&S

EST. 1884

STEVE ROWE  
CHIEF EXECUTIVE

T-SHIRT  
SHOP

Love it for Less  
FROM  
**£4.50**

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PURE COTTON T-SHIRTS

"Love it for Less" relates to our products at everyday great value prices.



# TRANSFORMATION UNDERWAY – OUR AGENDA

**1** Largest ever leadership transformation

**2** Devolving to truly accountable businesses

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RESTORING THE BASICS

# IT STARTED WITH CULTURE

**Most radical organisation restructuring in M&S's corporate history**

- Largest ever leadership transformation
- Devolving to truly P&L accountable businesses run by world class teams
- One culture, all own brand, unique M&S technical expertise



We can trace ALL  
our beef right back to  
every farm and animal



*Only the very best offer exceptional service*

Be an exceptional member of team M&S

## RESTORING THE BASICS

# LEADERSHIP TRANSFORMATION

### PLC TEAM

**Archie Norman** Chairman

**Steve Rowe** Chief Executive

**Humphrey Singer** CFO

### CLOTHING & HOME

**Jill McDonald** Clothing & Home MD

**Jill Stanton** Womenswear and Kidswear Director

**Wes Taylor** Menswear Director

**Vic Self** Digital Director

### FOOD

**Stuart Machin** Food MD

**Sharry Cramond** Food Marketing Director



## RESTORING THE BASICS

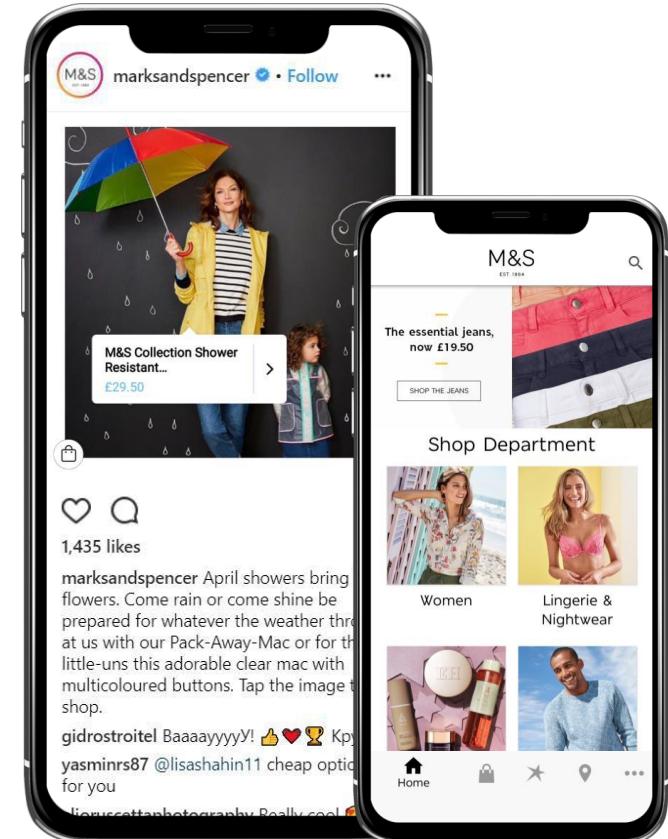
# DIGITAL FIRST – ONE THIRD ONLINE

### WHAT'S HAPPENING

- Making site faster and more responsive
- More collection and return options
- Later cut off at 10:00pm
- Pioneering direct selling through Instagram and Twitter to our 1.4m followers

### WHAT'S NEXT

- Rebuilding all our web pages to become faster and mobile-centric
- Upgrading search capability
- Broadening "bought online, shipped from store"



## RESTORING THE BASICS

# DIGITAL FIRST - STORE SUPPORT

### WHAT'S HAPPENING

- 10,000 Honeywell mobile devices rolled out in stores
- M&S-designed apps like "intelligent waste" to minimise markdown and for labour scheduling



### WHAT'S NEXT

- Customer payments on the Honeywell device
- Self-checkouts in Clothing & Home
- Launch technology partnerships to access innovation
- Trial "Scan, Pay, Go" convenience store



## RESTORING THE BASICS

# OUR CLOTHING & HOME BUSINESS

### WHAT'S HAPPENING

- Focusing on wardrobe essentials and contemporary style
- Building on our core pillars, exploiting opportunities
- Investing in "Love it for Less" to communicate value
- Re-engaging our family customers as well as supporting our existing core customer

### WHAT'S NEXT

- Further reduction of lines and phases
- Strategically reallocating space to Kids and fixing Home
- Building capability in design, buying and merchandising

### M&S ESSENTIALS

Everyday   Investment   Workwear   Occasion   Seasonal



## RESTORING THE BASICS

# OUR FOOD BUSINESS

### WHAT'S HAPPENING

- Investing 100bps in price in 2018/19
- Conveying affordability – salad staples at 50p
- Increasing availability through our new replenishment process
- Communicating our quality edge, like uniquely traceable beef
- Stressing our family credentials, like our new "Best Ever Burger"

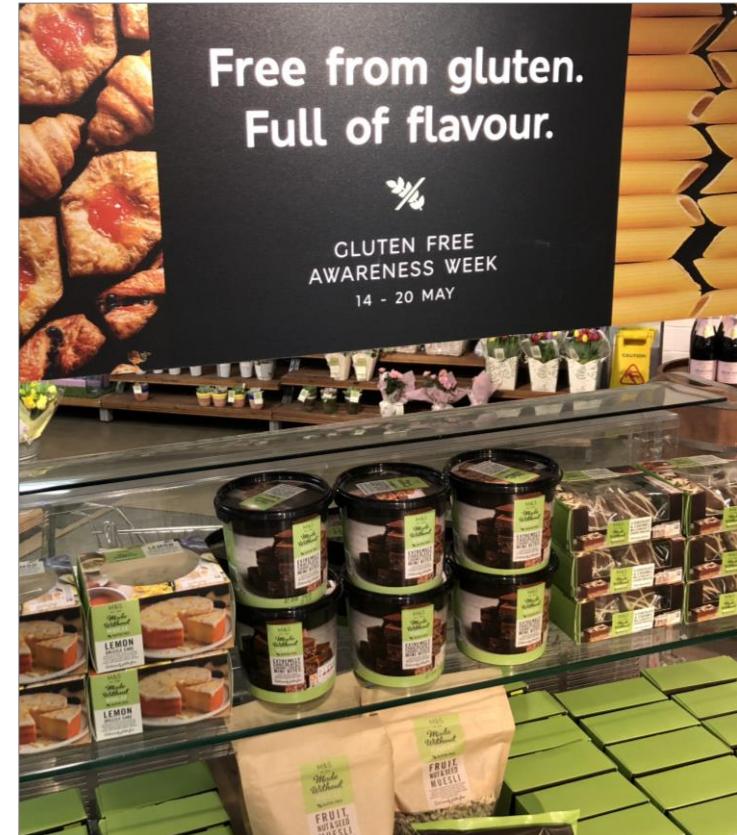


## RESTORING THE BASICS

# OUR FOOD BUSINESS

### WHAT'S NEXT

- Range review and category resets across all of fresh, meals, grocery and BWS
- New price architecture aimed at customers shopping for a family as well as our core customers
- Make our value trusted – fewer multibuy's and promotions
- Stay famous for newness relevant to all
- Best practice on availability and waste
- Develop Food format for the future



## RESTORING THE BASICS

# MODERNISING OUR CLOTHING & HOME SUPPLY CHAIN

### WHAT'S HAPPENING

- Closing Hardwick and Neasden RDCs and acquired Welham Green NDC
- Retrofitting Castle Donington to increase short-term capacity

### REDUCTION IN STOCKHOLDING LOCATIONS



### WHAT'S NEXT

- Complete move to single tier supply chain
- End-to-end review of buying process and stocks
- Substantially reduce forward cover, markdowns and clearance

### NEW WELHAM GREEN DC



## RESTORING THE BASICS

# MODERNISING OUR FOOD SUPPLY CHAIN

### WHAT'S HAPPENING

- Introducing new processes to increase stockfile accuracy
- Launching 27 academies for operational excellence
- Removing excess stock and storage from stockrooms
- Delivering order quantities that are store specific

### WHAT'S NEXT

- Redesign replenishment process to increase store productivity
- Modernisation of depot structure



## RESTORING THE BASICS

# FIT FOR THE FUTURE STORES

### WHAT'S HAPPENING

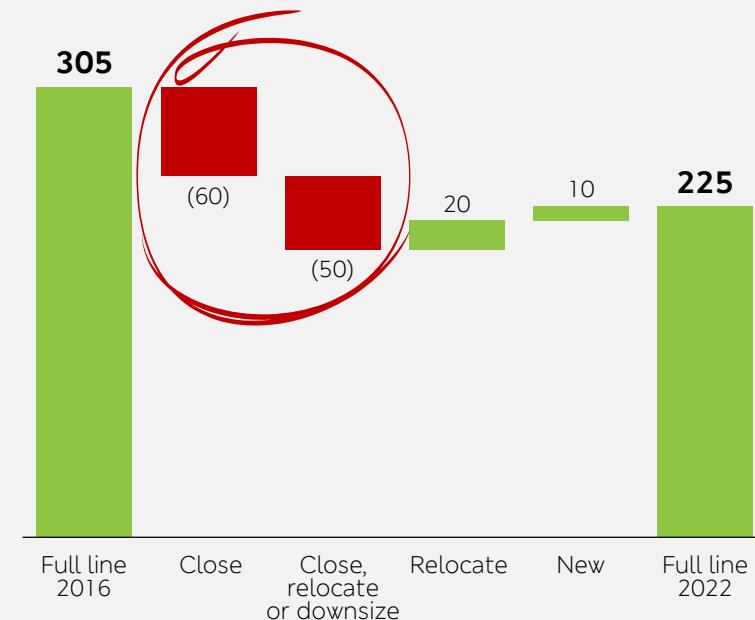
- Accelerating closure of over 100 full line stores
  - at least 25% of our 2016 full line store space
- Decoupling closure programme from new openings
- Store evaluation criteria based on cash payback and IRR

### WHAT'S NEXT

- Higher quality store estate complement online growth
- Stronger store economics with lower rent and payroll as a percent of sales
- Assess store environment of the future

### ACCELERATED SPACE PLAN

Number of full line stores



## RESTORING THE BASICS

# OUR INTERNATIONAL BUSINESS

### WHAT'S HAPPENING

- Focusing on strong partners in high potential markets
- Closed 10 loss-making markets – under budget and on time
- Rolling out market-specific pricing after successful trial

### WHAT'S NEXT

- Providing franchise partners with improved buying and planning software
- Garments designed for local needs
- Localising M&S.com

The screenshot shows a news article from ET Retail.com. The headline reads "Marks & Spencer India achieves 40% growth in women's wear and lingerie segments". The sub-headline states "The company witnessed 15% sales growth last year, driven by new store openings, as well as 9% like for like (LFL) growth." Below the article is a photograph of a Marks & Spencer store interior with mannequins displaying clothing. A sidebar on the right contains a smaller headline "Al-Futtaim acquires Marks and Spencer Hong Kong retail business".

The screenshot shows the official Marks & Spencer website homepage. The top navigation bar includes links for "Úvod", "Blog", "Ženy", "Spodní prádlo", "Muži", "Děti", "Inovace", and "Nejbližší prodejna". The main banner features a woman in a white dress holding a blue scarf against a bright sky. To the right, there is a section titled "LETNÍ KOLEKCE" (Summer Collection) with a sub-headline in Czech: "Vítejte na oficiální stránce, kde představujeme aktuální kolekce oblečení M&S a mnohem více. Objevte informace o trendech aktuální sezóny, nalezněte inspiraci v článcích od modních expertů a zjistěte, čím je oblečení od M&S unikátní." Below this is a call-to-action button "Klikněte a zjistěte více". On the right side of the banner, there are images of men and women modeling summer clothing.

## RESTORING THE BASICS

# AT LEAST £350M OF COST REDUCTION DELIVERED BY 2021

### LEGACY

- Over 100 legacy store closures, aiming for 30% recapture
- Consolidating to one central London office
- Migrating off our old IT mainframe

### STRUCTURAL

- New IT operating model
- Moving to a single tier C&H logistics network – closing Neasden and Hardwick
- Redesigning food supply chain end to end
- Targeting radical reduction in waste and markdown

### BEHAVIOURAL

- Using AI and tech to eliminate routine tasks
- Optimising scheduling using new technology
- Simplifying operations; cutting layers of management
- Building capability in buying to reduce markdown and drive availability



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