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6 FAR REACHING
CHANGE AT M&S

DELIVERED AT PACE

Half Year Results
6 November 2019





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DELIVERED AT PACE

ARCHIE NORMAN
CHAIRMAN

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M&S Clapham



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DELIVERED AT PACE

STEVE ROWE
CHIEF EXECUTIVE

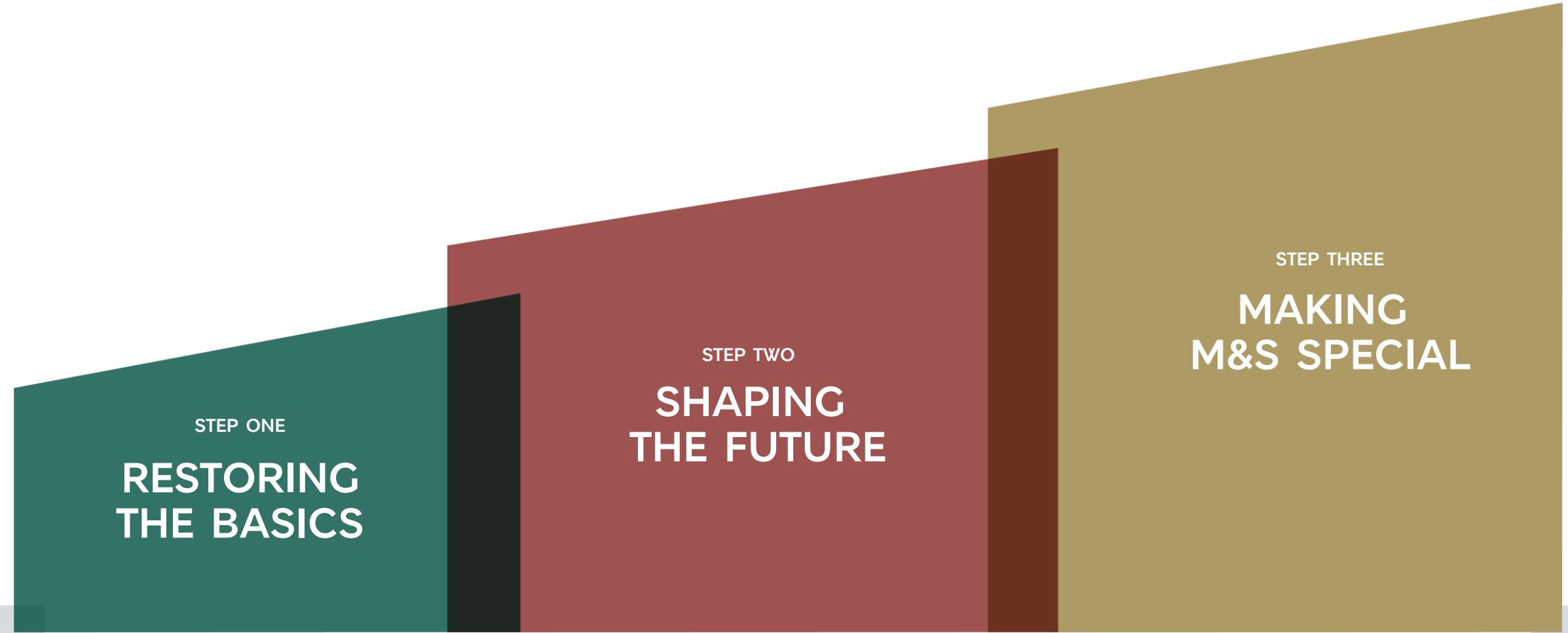
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FAR REACHING CHANGE AT M&S
FOOD AHEAD OF CLOTHING & HOME

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2018 ————— 2019 ————— 2020 ————— 2021 —————→ 2022



1
Magic Again in Food

2
Restoring Style, Fit and Value in Clothing

3
Digital First



4
Rebuilding Profitable Growth in International

5
Modernised Supply Chain

6
Store Estate Fit for the Future



7
Cost Savings of at Least £350m

8
Accountable Businesses

9
Leadership and Culture Transformation





FAR REACHING CHANGE AT M&S BEGINNING TO SEE POTENTIAL OF TRANSFORMATION

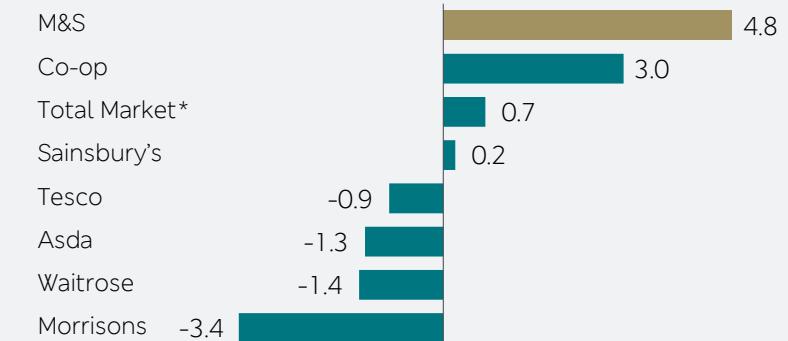
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- Food now growing faster than the Big 5
- Completed acquisition of 50% of Ocado Retail with plans for M&S supply progressing well
- Making up for lost time in clothing after difficult H1
- Decisive action since summer - A/W product launches landed well
- Cost savings of c.£75m in H1 mean we are now well over halfway to delivering target

VOLUME GROWING AHEAD OF RIVALS

% growth, 12 weeks to 6 October 2019





FAR REACHING
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HUMPHREY SINGER
CHIEF FINANCE OFFICER

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M&S Hempstead Valley



FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

FINANCIALS AT A GLANCE

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ROSIE FOR
AUTOGRAPH

Non-Wired Lounge
Plunge Bra
£22.50

Lounge High Leg
Knickers
£10

Group revenue

£4.9bn

-2.1%

Profit before tax
& adjusting items

£176.5m

-17.1%

Free cash flow
before adjusting items

£91.9m

-68.8%

Profit before tax

£153.5m

51.5%

Net debt

£4.13bn

-3.7%

Net debt excluding lease
liabilities £1.59bn (-8.1%)

Interim dividend

3.9p

-40.0%



FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS FOOD PERFORMANCE

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~~£4.50~~

£3.50

Oakham™ Medium
Whole Chicken
1.3kg

**SAME GREAT
QUALITY,
NEW LOWER
PRICE**

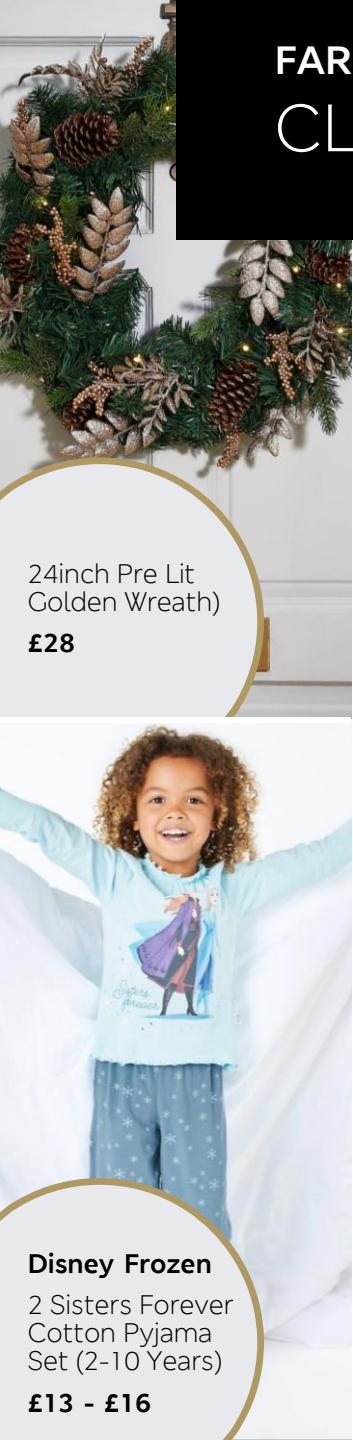
All our British Oakham™
Chicken comes from
M&S Select Farms we
know and trust.

REVENUE

| | Q1 | Q2 | H1 |
|---------------------------|-------|------|------|
| Total | 0.8% | 1.5% | 1.2% |
| LFL | 0.4% | 1.4% | 0.9% |
| LFL (excluding Easter) | -1.4% | 1.4% | 0.0% |

GROSS MARGIN

| | |
|-------------------|--------------|
| H1 2018/19 | 31.2% |
| Buying margin | -20bps |
| Waste | Level |
| H1 2019/20 | 31.0% |



FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS CLOTHING & HOME PERFORMANCE

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REVENUE

| | Q1 | Q2 | H1 |
|----------------------------|-------|-------|-------|
| Total | -7.6% | -8.0% | -7.8% |
| LFL | -5.2% | -5.7% | -5.5% |
| UK C&H online ¹ | 0.4% | 0.1% | 0.2% |

GROSS MARGIN

| | |
|---------------|--------|
| H1 2018/19 | 58.1% |
| Buying margin | -50bps |
| Discounting | -50bps |
| H1 2019/20 | 57.1% |

¹ M&S.com sales excluding Food, marketplaces and localised international websites

Disney Frozen

2 Sisters Forever
Cotton Pyjama
Set (2-10 Years)

£13 - £16

FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

OPERATING COSTS

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“Our brand-new mezzanine area will ensure we continue to provide exceptional customer service.”

Sally
Recruitment Manager,
Castle Donington

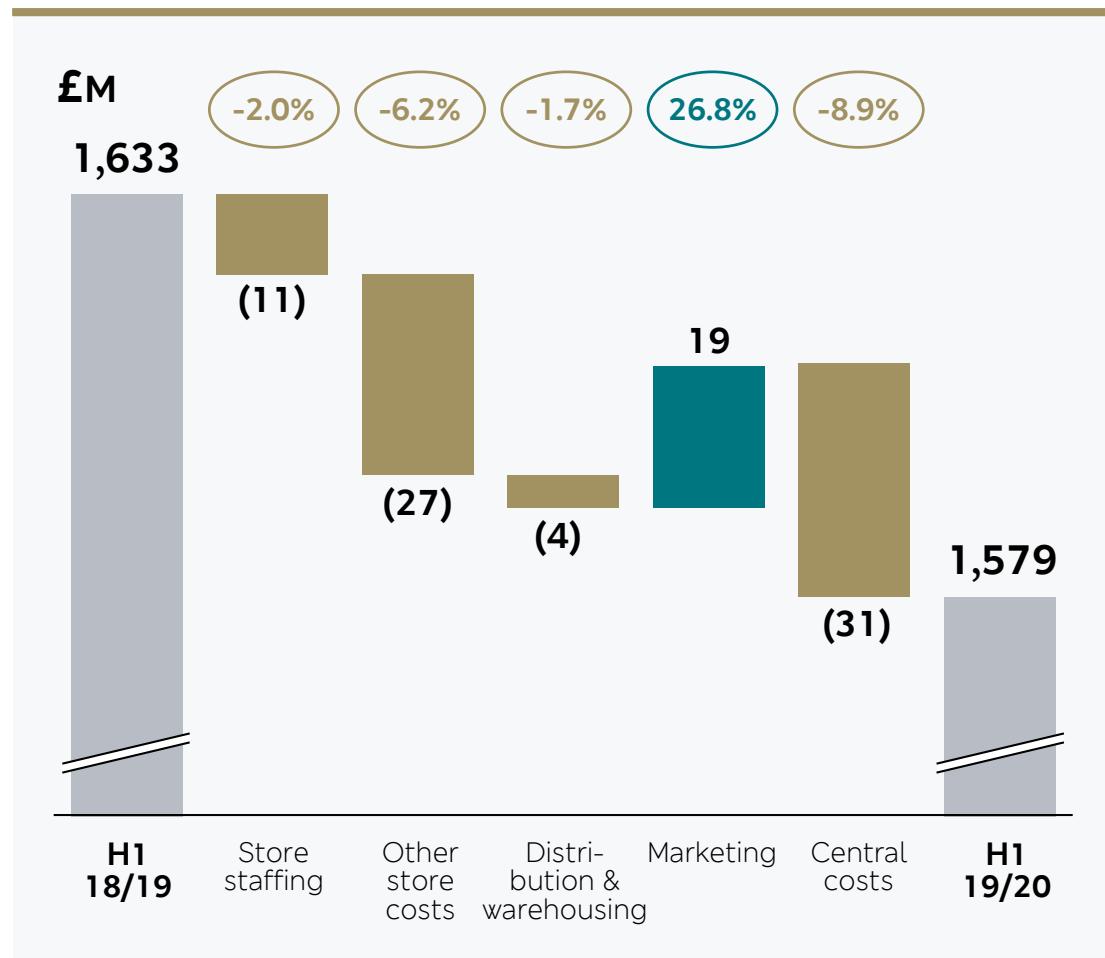


New Mezzanine at Castle Donington

COST DRIVERS

| | H1 |
|---------------------------------|--------------|
| Space, volume and channel shift | -1.3% |
| Inflation | 2.3% |
| Cost savings | -4.6% |
| Depreciation | -2.0% |
| Other | 2.2% |
| Year-on-year change | -3.3% |

COST BRIDGE





FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS INTERNATIONAL PERFORMANCE

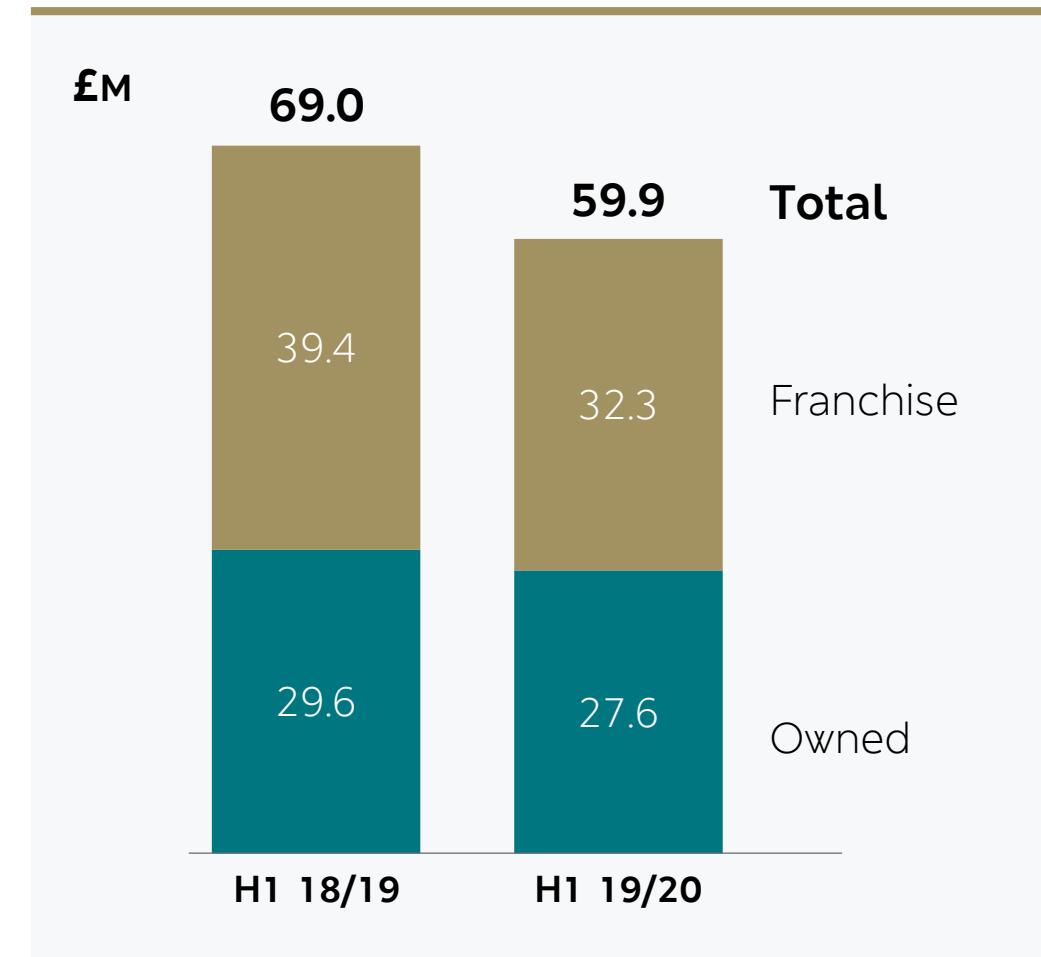
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REVENUE¹

| | Q1 | Q2 | H1 |
|-----------|-------|-------|-------|
| Owned | 4.2% | -1.0% | 1.6% |
| Franchise | -0.8% | -9.5% | -5.7% |
| Revenue | 2.1% | -5.1% | -1.7% |

¹ Constant currency

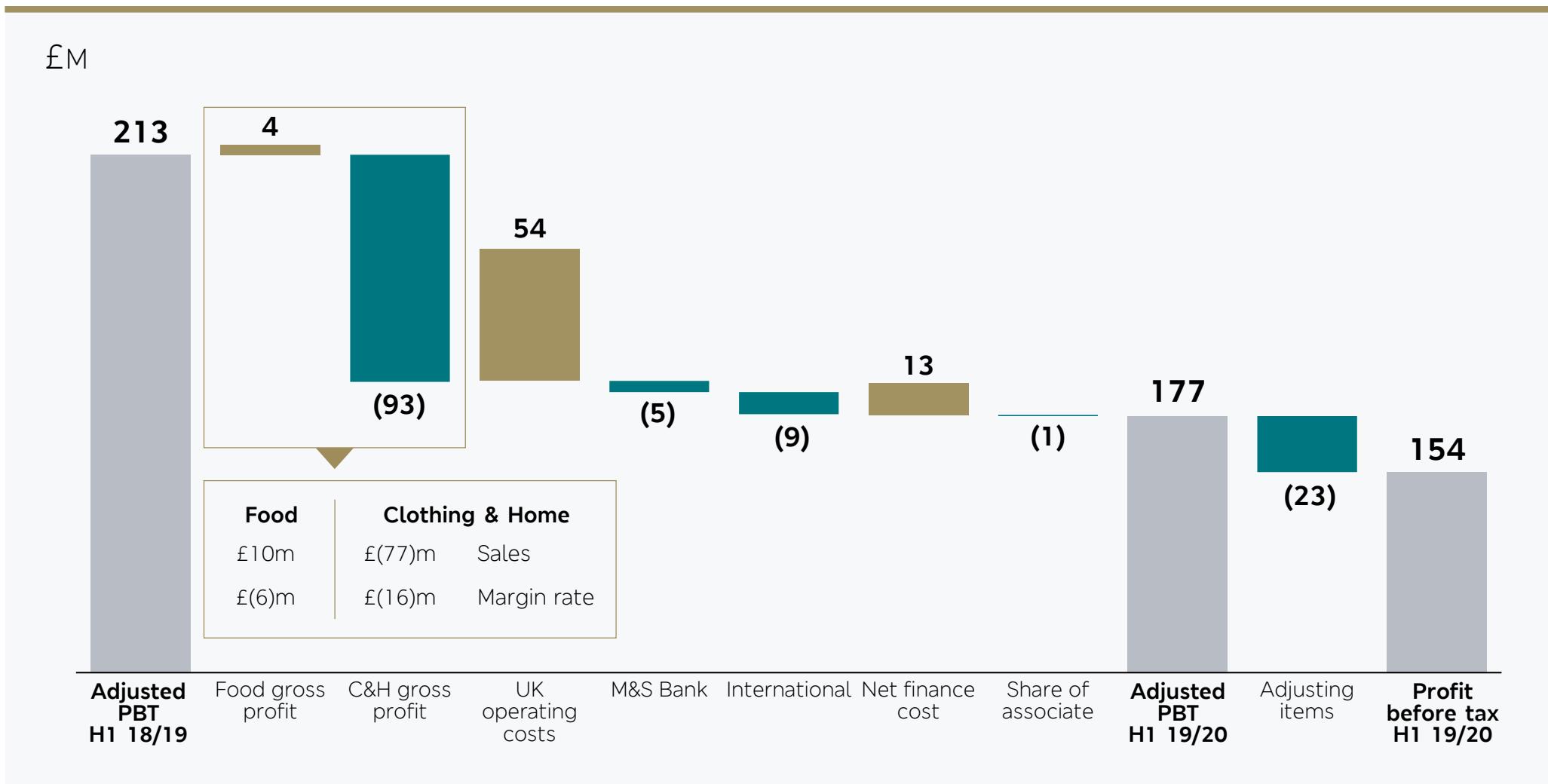
OPERATING PROFIT





FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS PROFIT BRIDGE

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NEW
AUTOGRAPH
Wool with
Cashmere Zip
Through Hoodie
£75



FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

ADJUSTING ITEMS

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| | £m |
|------------------------------|---------------|
| Strategic programmes | |
| UK store estate | (15.4) |
| Organisation | (11.3) |
| Operational transformation | (6.5) |
| IT restructure | (0.7) |
| UK logistics | (0.5) |
| Changes to pay and pensions | (1.5) |
| International closures | 0.1 |
| M&S Bank charges | (10.7) |
| Other | 23.5 |
| Total adjusting items | (23.0) |

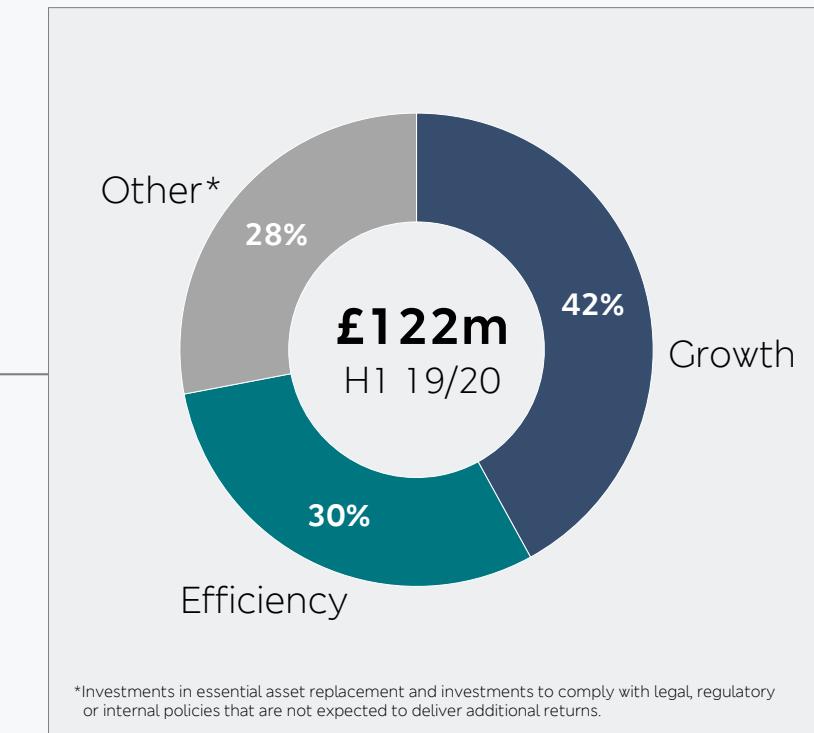
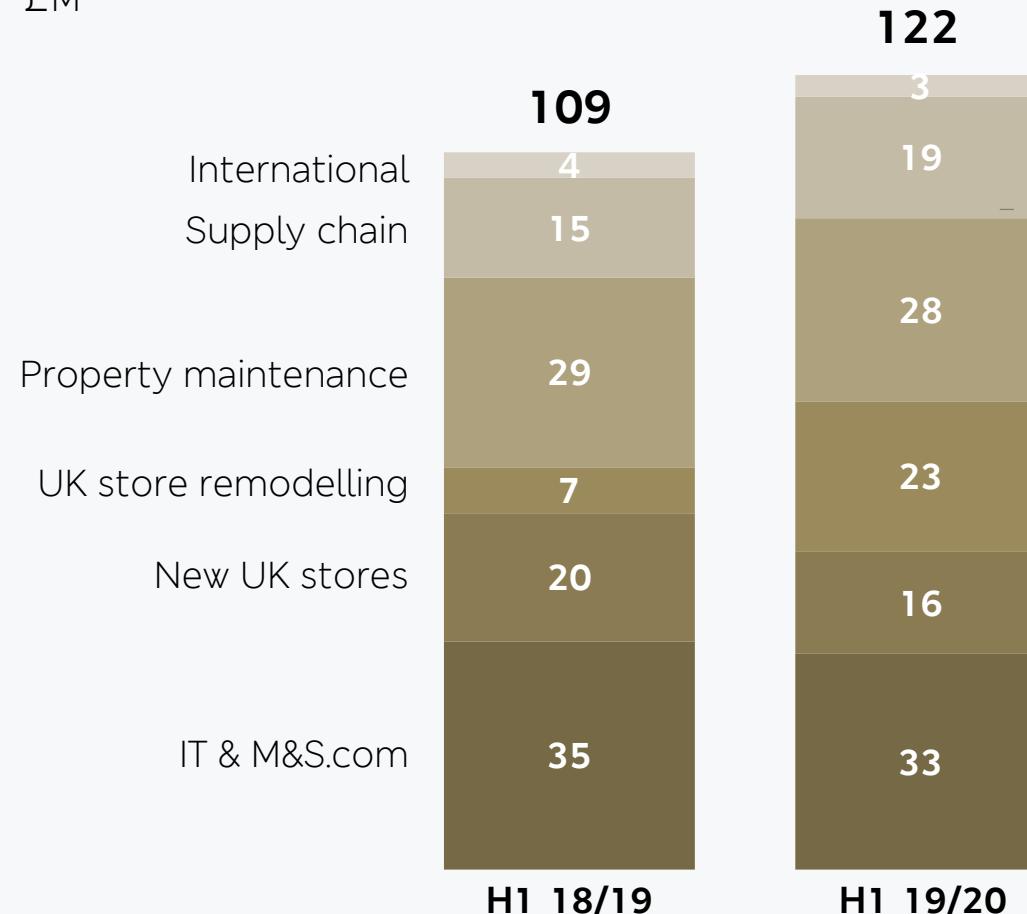
FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

CAPITAL EXPENDITURE BEFORE DISPOSALS

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£M

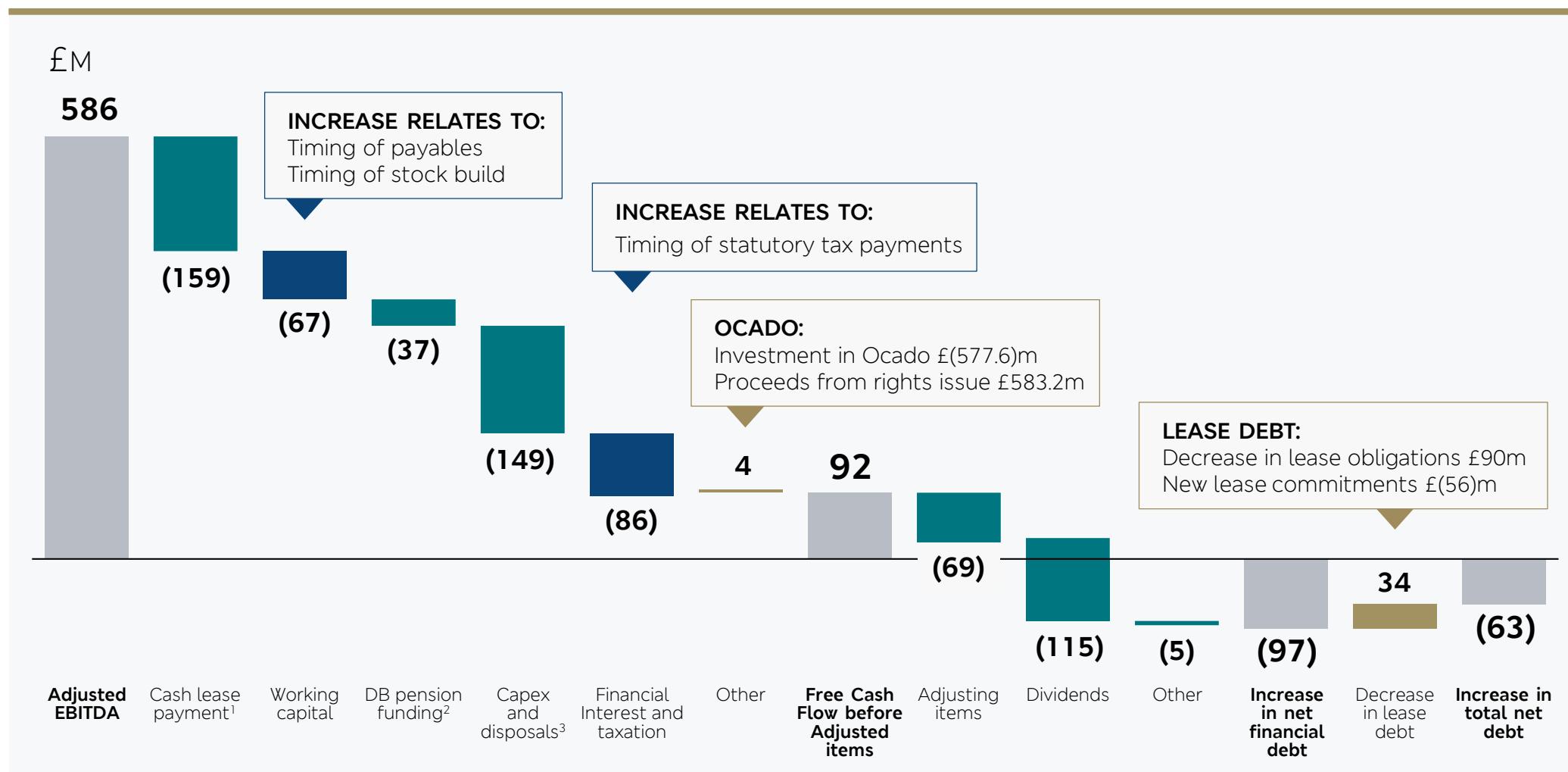




FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

CHANGE IN NET DEBT SINCE START OF YEAR

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¹ Cash lease payments includes £90m decrease in lease obligations and £69m interest

² Total pension payments during the year amounted to £108.4m

³ Includes cash payments in relation to prior year capital accruals



FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

GUIDANCE 2019/20

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| | Previous | Current |
|---------------------------------|------------------|------------------|
| Food | | |
| Space contribution (%) | c. -1 | Level |
| Gross margin change (bps) | -25bps to +25bps | -25bps to +25bps |
| Clothing & Home | | |
| Space contribution (%) | c.-3 | c. -2 |
| Gross margin change (bps) | -25bps to +25bps | -75bps to -25bps |
| UK operating costs (%) | c. 0 to -1 | c. -1 to -2 |
| Tax rate (%) | c. 23 | c. 23 |
| Capital expenditure (£m) | 350 to 400 | 300 to 350 |





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STEVE ROWE
CHIEF EXECUTIVE

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FAR REACHING CHANGE AT M&S – FOOD

FOOD BEGINNING TO SHOW WHAT M&S COULD ACHIEVE

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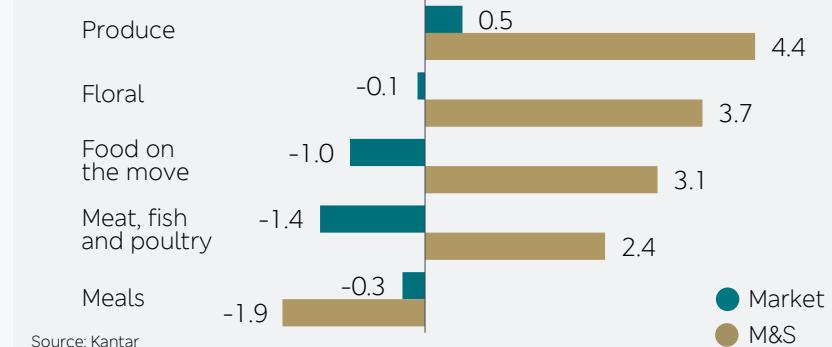


WHAT'S HAPPENED

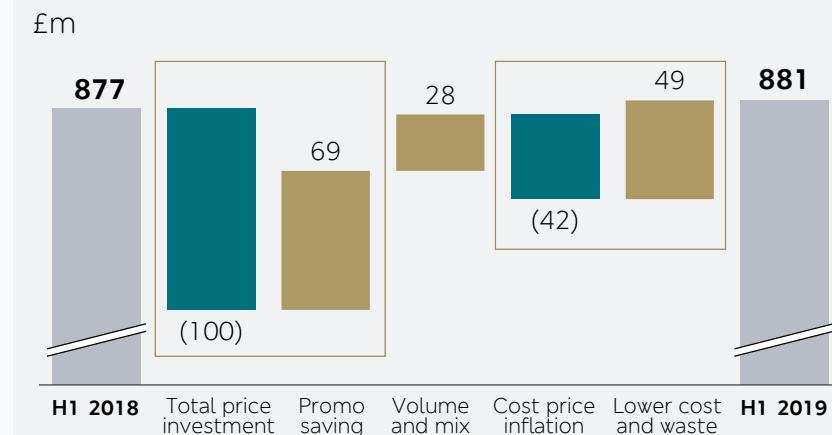
- Strong performance on volume in Q2 – ahead of the Big 5 and Co-op
- Grew ahead of the market on spend across virtually all of fresh in Q2
- Helped by price investment of c.£100m, substantially offset by reducing promotions
- Focused on categories that resonate with families e.g. bread, milk, produce
- Delivered higher gross profit and a higher bottom line

STRONG PERFORMANCE IN FRESH

% growth 3 months to 28 September 2019



FOOD GROSS PROFIT INCREASING DESPITE PRICE INVESTMENT





FAR REACHING CHANGE AT M&S – FOOD

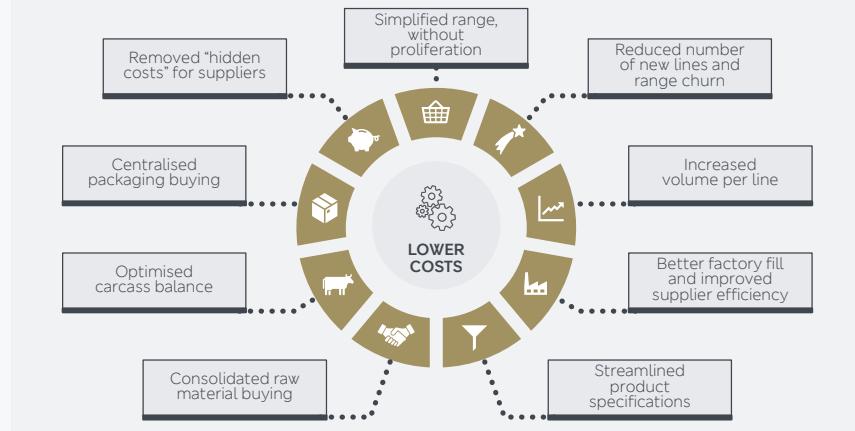
MULTI-YEAR INVESTMENT TO SUSTAIN TRANSFORMATION

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WHAT'S HAPPENING

- Target of at least £200m out of COGS by 2023 to offset inflation
- Improved partnership agreements with key suppliers
- Vangarde programme in all stores
- Expand space for food, especially fresh
- Maximise the benefits of 50% stake in Ocado Retail
- Bring M&S's expertise in fresh innovation to ambient where share is only 1.7%
- Restore reputation for new product innovation relevant for the family, including “Plant Kitchen”, “Cook With” and “Our Best Ever”

A SYSTEMATIC APPROACH TO LOWERING COSTS



M&S'S NEW PRODUCT LAUNCHES





FAR REACHING CHANGE AT M&S – CLOTHING & HOME

RADICAL ACTION REQUIRED IN CLOTHING & HOME

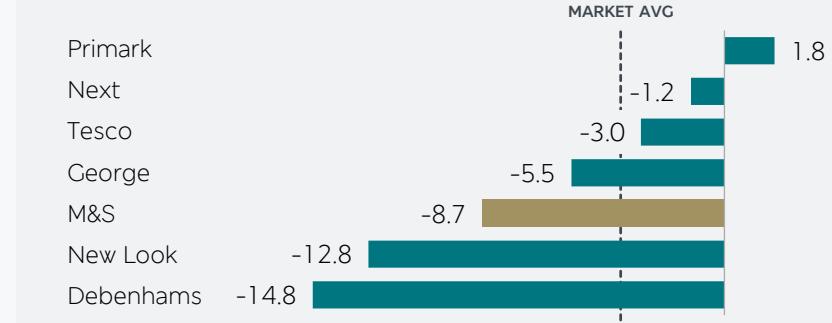
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WHAT'S HAPPENED

- Poor H1 performance in a difficult market
- Too many slow moving lines, best sellers bought in insufficient depth, impacting availability
- Size and fit profiles misaligned with family customer
- Took decisive action on sale merchandise to ensure clean start to A/W
- New leadership clear on the issues and how to solve them

M&S SPEND COMPARED TO OTHER RETAILERS

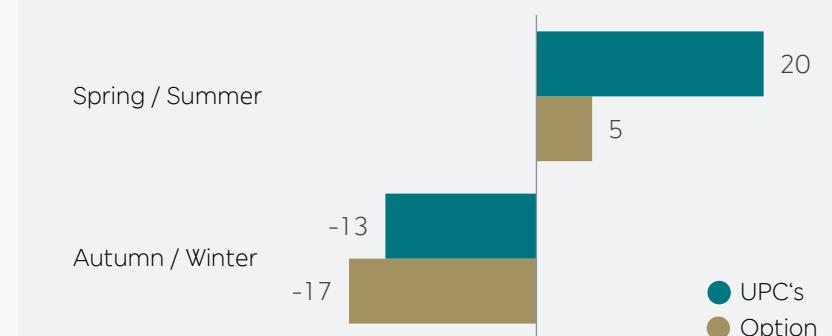
% 24 week change 2019 compared to 2018



Source: Kantar

TOO MANY WOMENSWEAR OPTIONS IN S/S 19

% change 2019 compared to 2018



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S
COLLECTION

Cashmilon™
Colour Block Roll
Neck Jumper

£19.50



Millions of
women are wearing
the wrong size d bra.
Are you
one of them?

Have a free
bra fitting today



FAR REACHING CHANGE AT M&S – CLOTHING & HOME

REVERSING UNDERPERFORMANCE IN CLOTHING & HOME

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WHAT'S HAPPENING

- Double-digit reduction in options
- Significantly increased depth of buy on Top 100 lines
- Fit, size and style directly aimed at family customer
- Building on #1 market shares in denim, trousers, knitwear and lingerie
- Embedding "First price, right price" approach
- Relaunched Per Una with its own buying team
- Encouraging start to H2

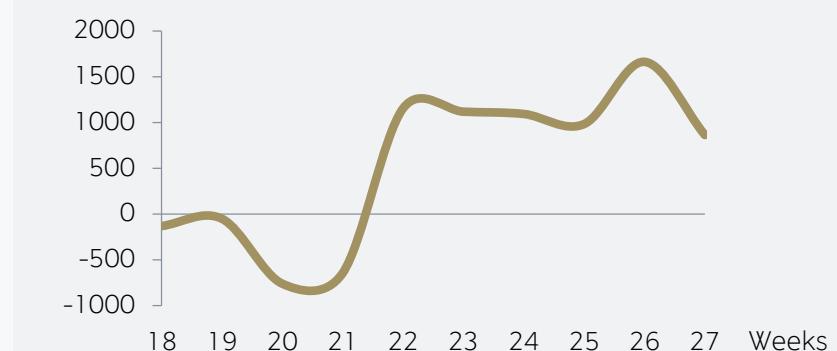
STRONG START TO A/W 2019

% full price & planned promotional sales 2019 vs. 2018



SUPPORTED BY IMPROVING AVAILABILITY

bps change 2019 compared to 2018 womenswear



FAR REACHING CHANGE AT M&S – DIGITAL ONLINE MARKET FLAT BUT WE ARE MAKING PROGRESS

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WHAT'S HAPPENED

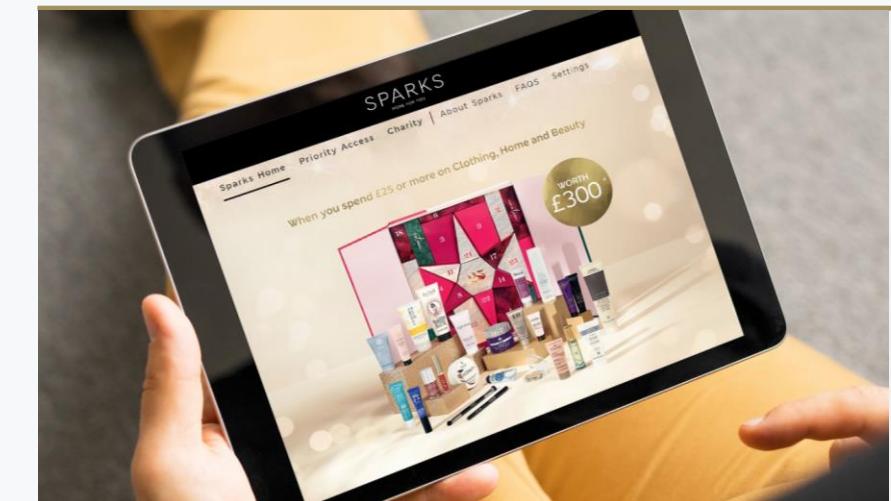
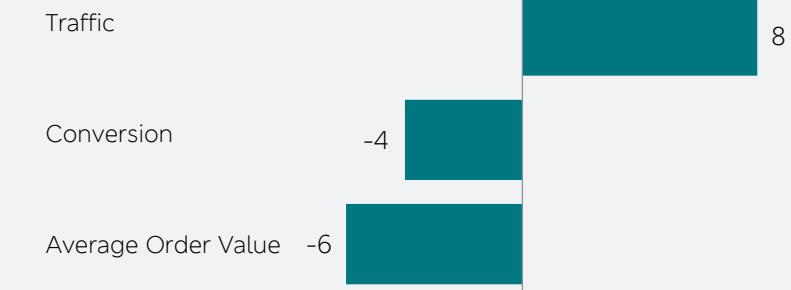
- M&S sales level in a flat online market
- Over reliance on paid search and email
- Exacerbated by mobile shift, which is lower conversion
- High volume lines on homepage which impacted AOV

WHAT'S HAPPENING

- Further improvements to proposition with 11:00pm cut off
- Implementing new personalisation tools and instalment payment facility
- Recruited SEO team to drive improvement in traffic
- Bringing digital and data capabilities together
- Planning Sparks relaunch

KEY DRIVERS OF DISAPPOINTING H1 ONLINE PERFORMANCE

% change H1 19/20 vs. H1 18/19



FAR REACHING CHANGE AT M&S – INTERNATIONAL PROGRESS IN MARKET-RIGHT PRICING AND STORE ROLL OUT

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M&S Foodhall and Cafe opened in Marina Walk Mall Dubai in May 2019



M&S Mall of Egypt opened in 2019

WHAT'S HAPPENED

- Retail sales growth of 4% excluding Republic of Ireland
- Franchise shipments decline through partner driven stock efficiencies
- Lower ASP as we roll out market right pricing
- Increased local language websites; online up by 21% in H1

INCREASE IN M&S INDIA SALES

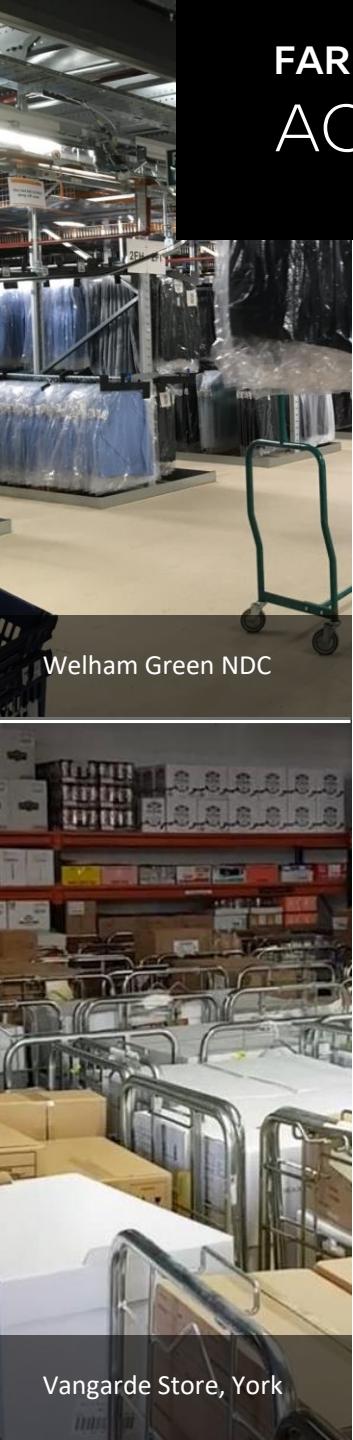


WHAT'S HAPPENING

- Opening 13 new stores and website in India in H2
- Market-leading "Rethink" advertising campaign in India
- Further localisation of offer and sourcing
- Strengthening supply chain; 95.3% Clothing & Home fulfilment achieved in H1

"RETHINK" CAMPAIGN IN INDIA





FAR REACHING CHANGE AT M&S – SUPPLY CHAIN

ACCELERATING THE MODERNISATION OF OUR SUPPLY CHAIN

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WHAT'S HAPPENED

- Invested in capacity at Castle Donington and Welham Green ramped up
- Switched off mainframe following roll out of warehouse management system
- Implemented new planning tools in support centre
- Tested Vangarde programme in Food, and actioned roll out to a further 85 stores

Welham Green NDC

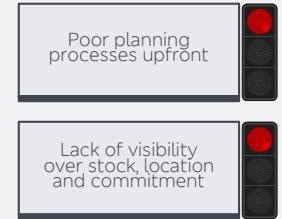
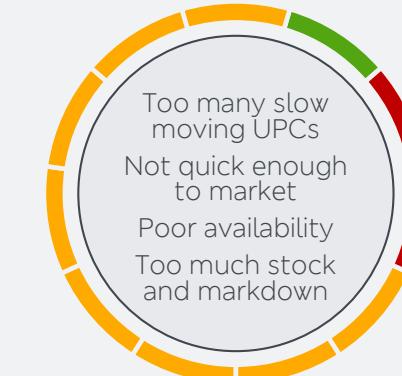


WHAT'S HAPPENING

- Tactical actions to drive availability including more frequent, store-ready deliveries
- Rethinking network to reduce complexity and increase speed to market
- Increasing visibility of stock and control of purchase orders
- Rolling out Vangarde to rest of Food estate

Vangarde Store, York

CURRENT C&H SUPPLY CHAIN CHALLENGES



FOOD SUPPLY CHAIN PRIOR TO VANGARDE PROGRAMME



FAR REACHING CHANGE AT M&S – STORE ESTATE

A MORE RELEVANT, VALUABLE ESTATE FIT FOR THE FUTURE

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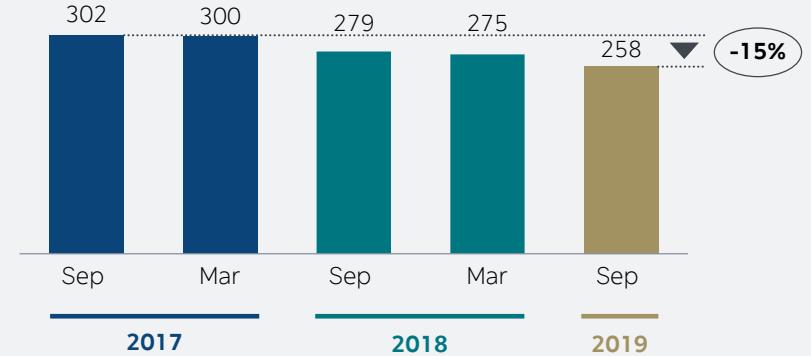
WHAT'S HAPPENED

- Closed 17 full line and 3 other stores in H1
- 15% of full line stores closed since September 2017
- Sustained recapture rate at over 20%
- Opened first two Food renewal stores in Hempstead Valley and Clapham

WHAT'S HAPPENING

- Major store development opportunities now identified
- Exploring opportunity for planning gain and “marriage value”
- Work on Clothing & Home renewal being progressed
- Future Food renewal experiment at Hedge End
- Enables us to test a differentiated foodhall format

REDUCTION IN FULL LINE STORES 2016-2019



Source: M&S Finance

RENEWAL STORE LAYOUT CLAPHAM



Kingsley Village full line store opened in September 2019



FAR REACHING CHANGE AT M&S – OPERATING COSTS

WELL AHEAD OF TARGETED £350M COST SAVINGS BY 2021

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WHAT'S HAPPENED

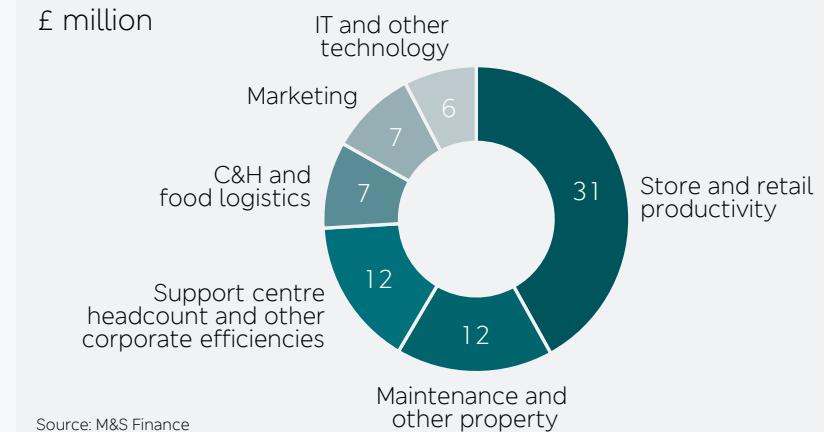
- Achieved c.£75m of sustainable cost savings in H1, more than offsetting inflation and channel shift
- Substantial contribution from store productivity
- Digitising the shop floor through Microsoft partnership
- Closed three Clothing & Home distribution centres
- Achieved savings moving to cloud technology
- Leaner and more efficient support centre



WHAT'S HAPPENING

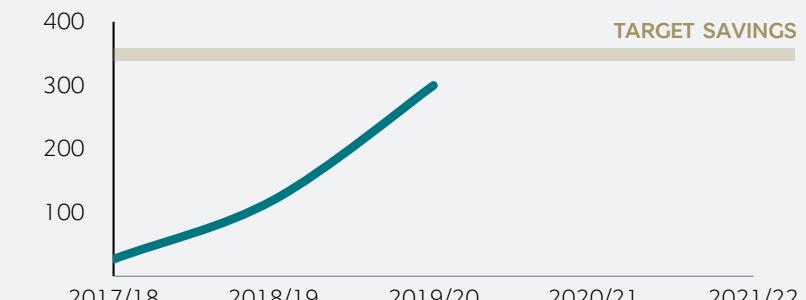
- Further retail productivity from digital tools
- Additional savings from new facilities contract
- Central headcount and costs significantly reduced
- Will reach 80% of 2021 £350m target by end of H2

C.£75M OF SUSTAINABLE COST SAVINGS IN H1



OVER 80% OF OPERATING COST SAVINGS TARGET ACHIEVED BY END OF H2

£ million of cumulative sustainable cost savings



FAR REACHING CHANGE AT M&S – LEADERSHIP AND ACCOUNTABILITY CHANGING OUR CULTURE

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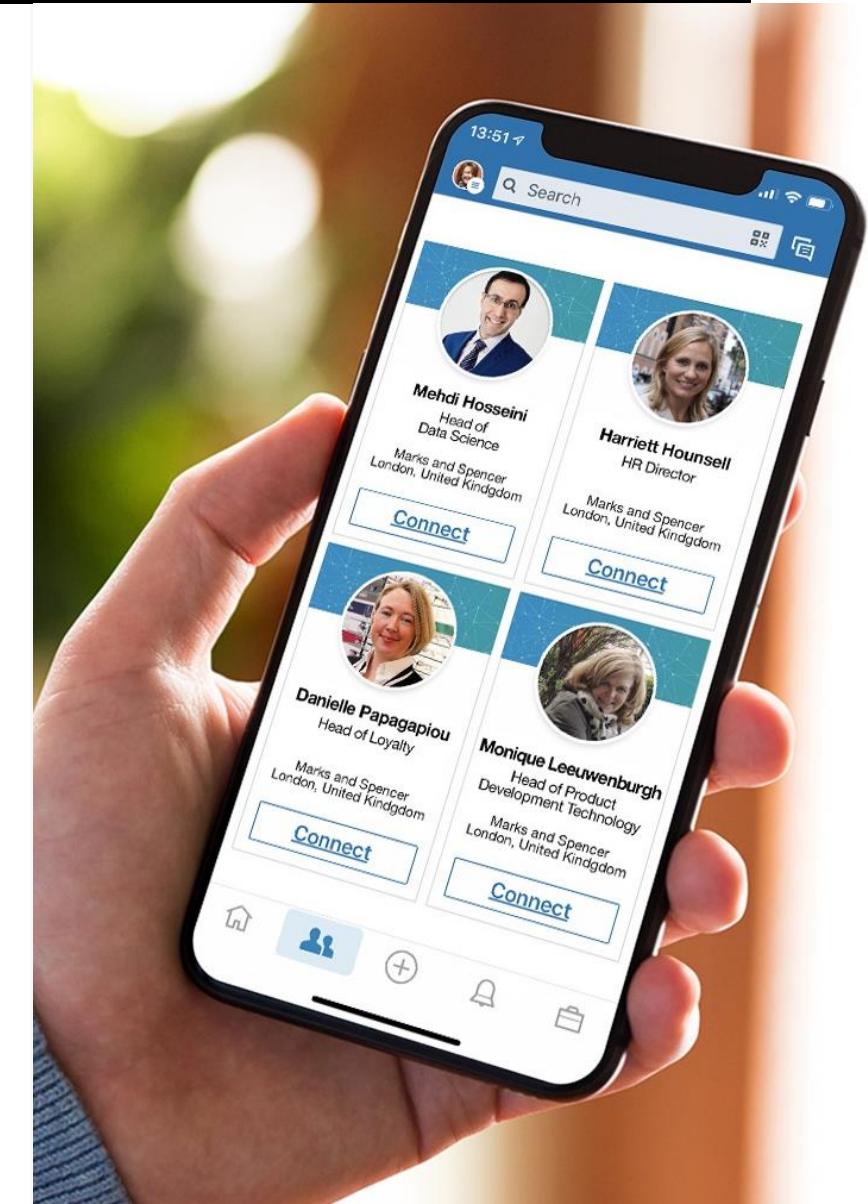


WHAT'S HAPPENED

- P&L accountability and Business Boards for Food, Clothing & Home and International
- Central offices halved
- Headcount in London reduced
- Corporate functions slimmed down
- 40% Leadership Team new

WHAT'S HAPPENING

- Greater accountability for property decisions
- Integration with Ocado Retail
- More efficiencies in the centre
- Robust performance management





1
Magic Again in Food

2
Restoring Style, Fit and Value in Clothing

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Digital First



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Rebuilding Profitable Growth in International

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6 November 2019



STORES AND SPACE

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| UK | Sep 19 | Mar 19 | Openings | Closures | Change |
|---|---------------|---------------|-----------------|-----------------|---------------|
| Shopping Centre | 16 | 16 | 0 | 0 | 0 |
| Retail Park | 70 | 70 | 0 | 0 | 0 |
| High Street – large | 81 | 82 | 0 | (1) | (1) |
| High Street | 91 | 107 | 0 | (16) | (16) |
| Outlets | 32 | 34 | 0 | (2) | (2) |
| Simply Food owned | 306 | 301 | 6 | (1) | 5 |
| Simply Food franchise | 434 | 433 | 2 | (1) | 1 |
| Add back downsize to Simply Food ¹ | 0 | 0 | (1) | 1 | 0 |
| UK stores | 1,030 | 1,043 | 7 | (20) | (13) |
| Selling space (absolute, m sq ft) | 16.8 | 17.2 | | | |
| C&H | 10.4 | 10.6 | | | |
| Food | 6.4 | 6.6 | | | |
| International | Sep 19 | Mar 19 | Openings | Closures | Change |
| Owned | 141 | 136 | 6 | (1) | 5 |
| Franchise | 315 | 308 | 11 | (4) | 7 |
| International stores | 456 | 444 | 17 | (5) | 12 |
| Selling space (absolute, m sq ft) | 5.0 | 4.9 | | | |

¹One High Street was downsized from Full Line to Simply Food owned