

Half year results 2011/12

Marc Bolland
Chief Executive

Overview

- Sales ahead of last year
- Market share maintained in Clothing & Food
- Invested in GM pricing in a highly promotional market
- Food performed strongly
- Tight cost management
- Strong progress against the three year plan

Consumer confidence

- Consumer confidence has dipped
- Real disposable income at lowest level since 2008

But

- Responding well to deals while still wanting quality. More careful with big ticket purchases
- Protecting Christmas, premium food and small treats
- Shifting plans for New Year from going out to entertaining at home

General Merchandise

- Sales -0.8%, LFL -1.3%
- Q1 - Q2 run rate is level
- Maintained market share
- Increasingly promotional market
- Good, better, best
- Fast fashion packs



Food

- Sales +3.9%, LFL +2.1%
- Maintained market share
- More choice
- Innovation
- Great value



Operational focus

- IT systems roll out
 - Store systems → POS
 - Food systems → SRD, Forecasting & Ordering
 - HR → Payroll
- Customer ready food (zoning)
- Operating costs – strong improvement, c. 3% growth vs c. 5% guidance



Strong operational focus

Half year results 2011/12

Alan Stewart

Chief Finance Officer

Group financial highlights

Revenue	£4.7bn	+2.4%
PBT	£315.2m	-9.6%
EPS	15.6p	-6.0%
Dividend	6.2p	level
Net debt	£1.97bn	

Note: Results are stated before non-underlying items

Divisional performance

	TY £m	LY £m	Var %
Revenue			
UK	4,174	4,108	+1.6
International	504	462	+9.0
Group	4,678	4,570	+2.4
Operating profit			
UK	311	345	-9.9
International	59	64	-8.9
Group	369	409	-9.8

UK % like-for-like sales performance

	Q1	Q2	H1
GM	+0.0	-2.5	-1.3
Adjusted for the summer sale	-1.8	-0.7	-1.3
Food	+3.3	+1.0	+2.1
Total UK	+1.7	-0.7	+0.5
Adjusted for the summer sale	+0.8	+0.2	+0.5

UK gross margin 11/12

GM

- 52.3%, down c. 80bps
- Commodity price inflation
- VAT and currency pressure
- Promotional activity

Food

- 31.6%, up c. 10bps
- Commodity price inflation
- Better buying
- Better management of waste

Full Year Guidance: Broadly level on LY

UK operating costs 11/12

	TY £m	LY £m	Var %
Retail staffing	425	418	+1.5
Retail occupancy	487	482	+1.2
Distribution	190	189	+0.5
Marketing & related	77	64	+20.1
Support	263	248	+6.0
Total	1,442	1,401	+2.9

UK operating costs guidance 11/12

	Was (%)	Now (%)
Inflation	1.5-2.0	1.5-2.0
Space	1.5-2.0	1.5-2.0
Depreciation	c. 1.0	c. 0.5
Business initiatives	2.0-2.5	2.0-2.5
Underlying savings	(1.5)-(2.0)	(3.0)-(3.5)
2011/12 operating costs guidance	c. 5.0	c. 3.0

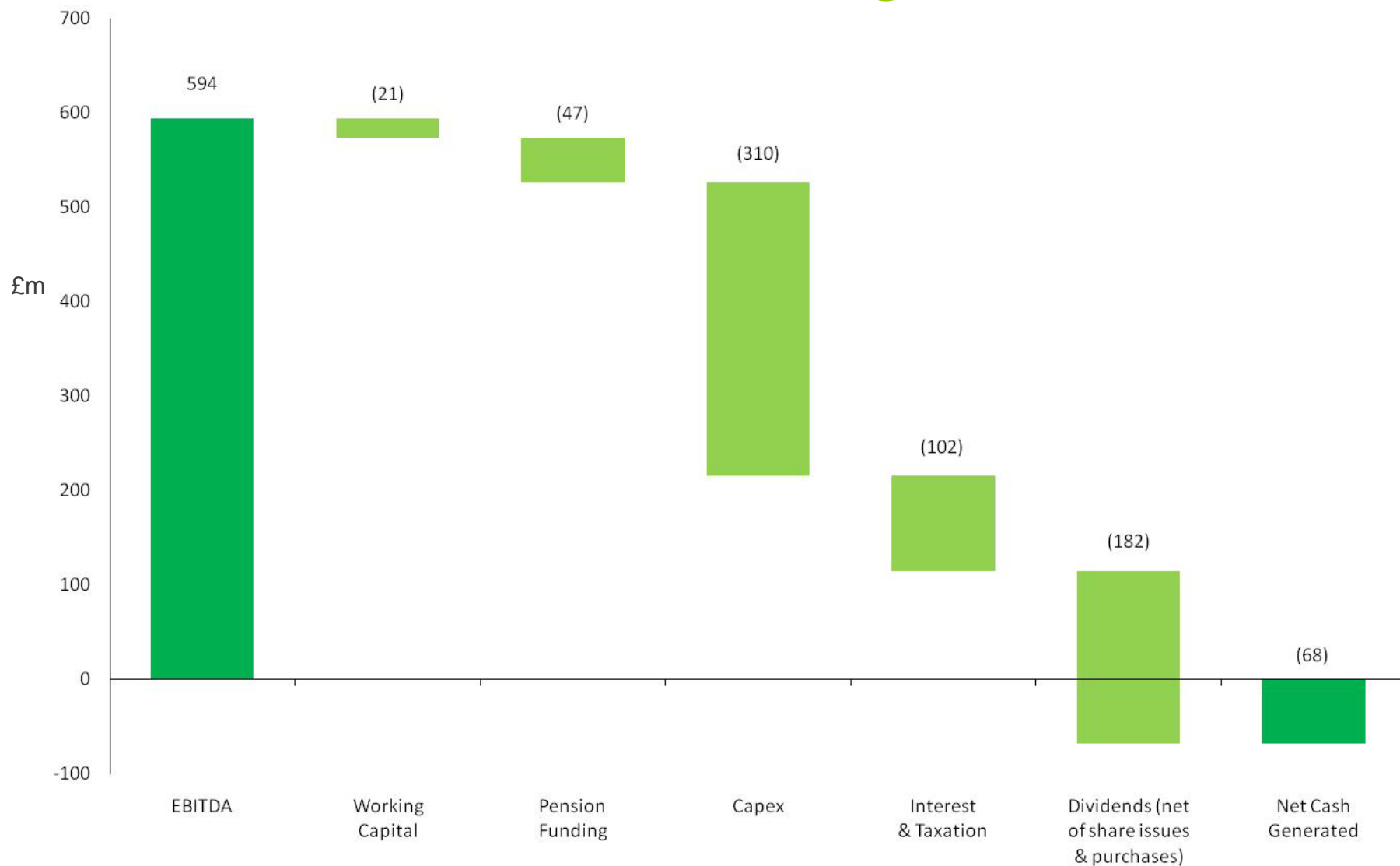
International

	TY £m	LY £m	Var %	Constant currency Var %
Revenue	504	462	+9.0	+7.7
- Owned	326	309	+5.3	+3.2
- Franchised	178	153	+16.4	+16.8
Operating profit	59	64	-8.9	-6.2
- Owned	8	26	-70.9	-67.2
- Franchised	51	38	+34.6	+35.4

International

- Strong performance in India & China
- Franchise business continues to perform well
- Challenging macro economic conditions in Ireland & Greece
- Increased management control in the Czech JV
- Continued investment in key territories

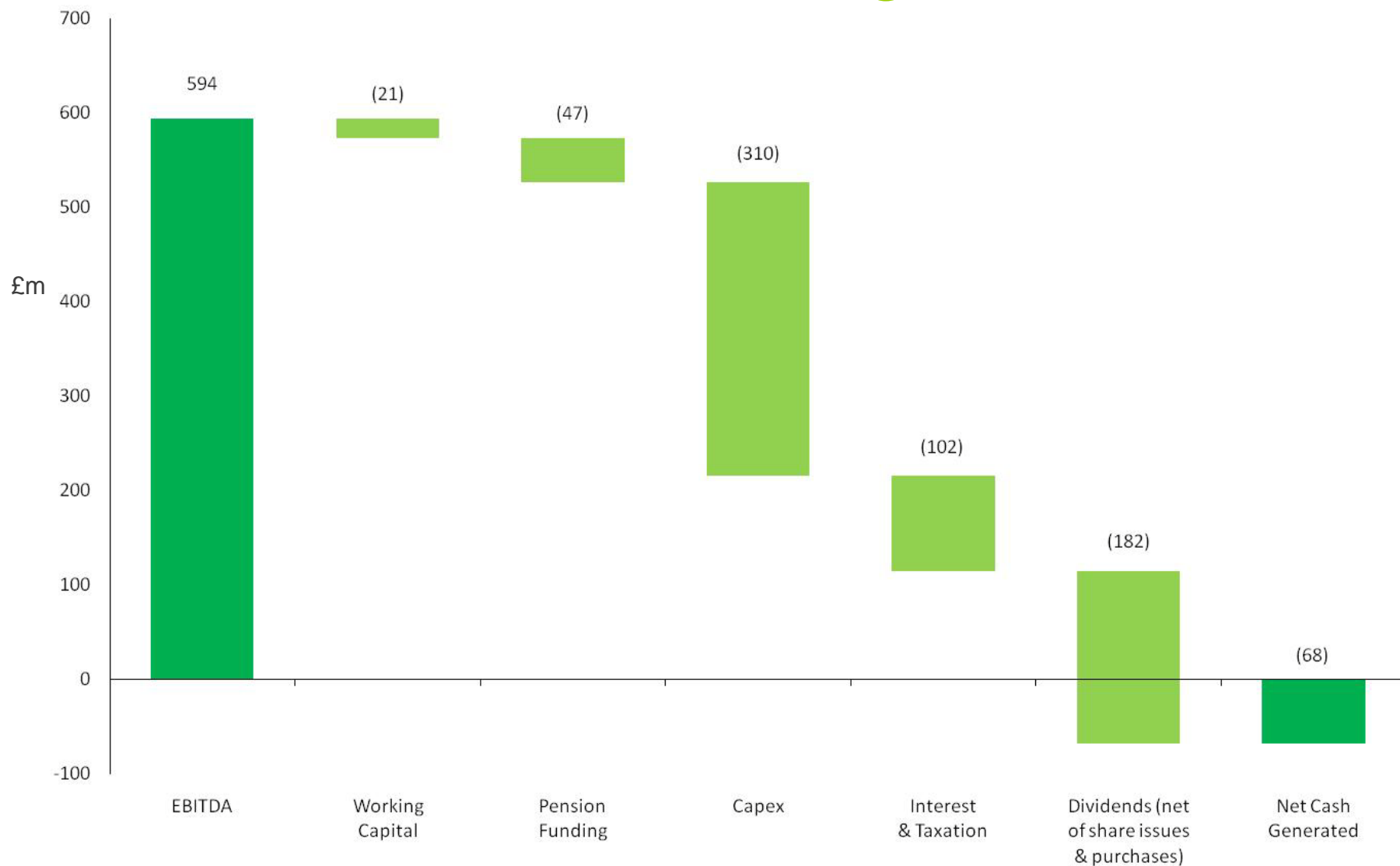
Cash flow – Net cash generated



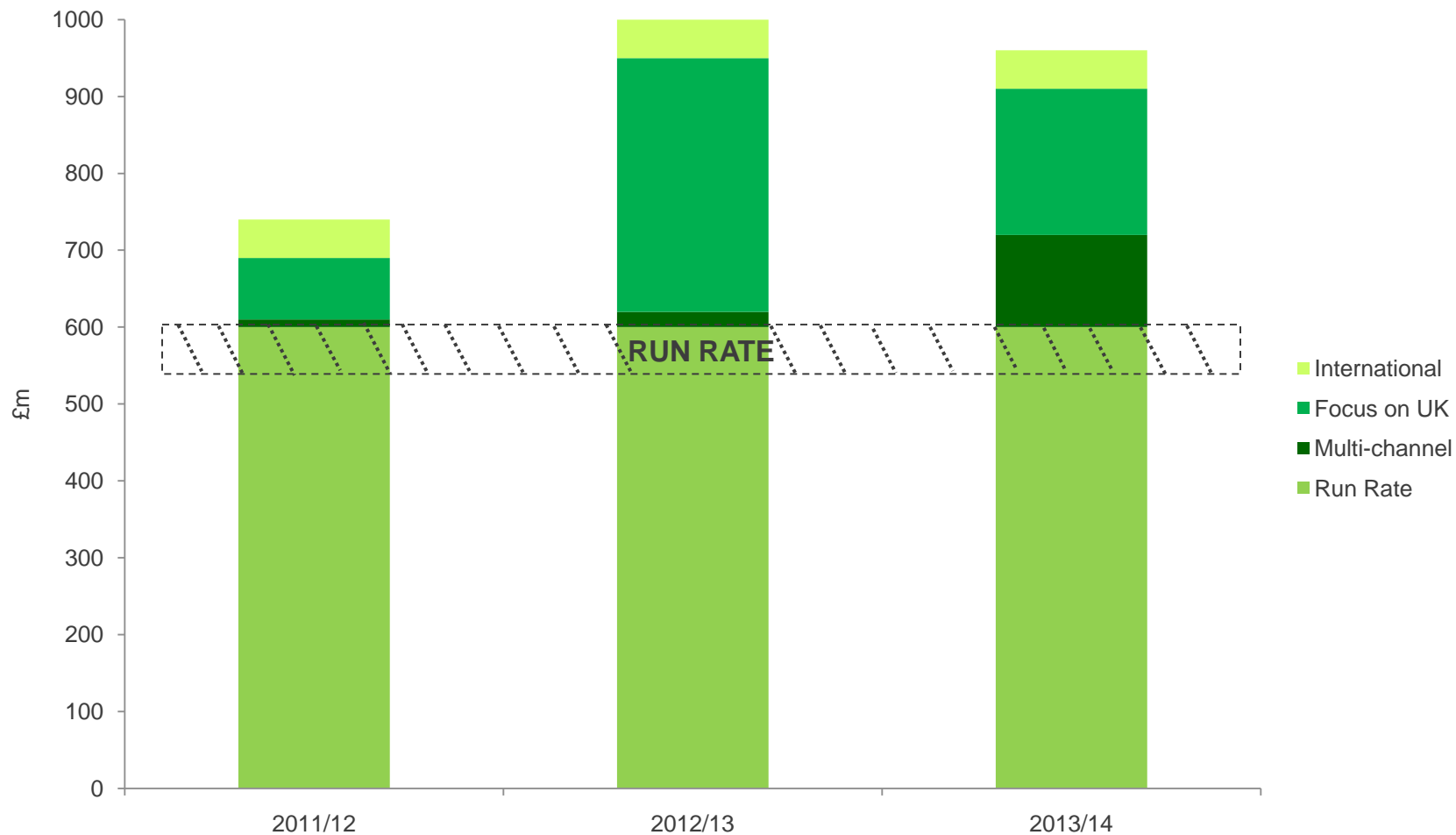
Stock

- Higher cost prices in General Merchandise
- Move from full service vendors to direct sourcing
- Transfer of ambient food into Bradford DC
- Supporting International growth
- Year end forecast c.+15% on last year

Cash flow – Net cash generated



Capital Expenditure



Balance sheet and financing

- Net debt at £1.97bn (March 2011 £1.90bn)
- Renewed the revolving credit facility: £1.3bn
 - Five year term, plus two year option
- Fixed charge cover: 3.9x
- Average interest rate: 6.5%
- Pension
 - IAS 19 surplus £221m (March 2011 surplus £169m)

Supply Chain and IT progress

Supply Chain

- East Midlands site progressing well
- International direct deliveries
- New warehouse management system operational in Bradford
- NDC operating model trial

IT

- POS roll-out completed
- HR system launched
- SAP approaching completion
- Space, range & display and forecasting & ordering systems both progressing well in Food

Summary

- Traded well in a difficult environment
- Tight control over costs
- Secured long term flexible funding
- Supply Chain and IT progressing well
- Well positioned for Christmas

Half year results 2011/12

Marc Bolland
Chief Executive

Strategy

“To become an International,
Multi-channel retailer”

Plan 2013 - 2015

**By
2015**

**Drive UK LFL
growth**

**International
Multi-channel
retailer**

**Drive
international
presence**

**By
2013**

**UK space and
LFL growth**

**A leading UK
Multi-channel
retailer**

**International
company**

**2010
to
2013**

Focus on UK

**BRAND
STORES
CLOTHING
HOME
FOOD**

Plan 2013 - 2015

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to
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Focus on UK



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Brand

- M&S brand re-launched

The logo for M&S Woman is displayed on a light gray rectangular background. It features the text "M&S" in a white, sans-serif font, with the ampersand in a light green color. To the right of "M&S" is the word "Woman" in a white, cursive script font.

M&S *Woman*

The logo for M&S Man is displayed on a dark gray rectangular background. It features the text "M&S" in a white, sans-serif font, with the ampersand in a light green color. To the right of "M&S" is the word "Man" in a white, sans-serif font.

M&S Man

Plan 2013 - 2015

**2010
to
2013**

Focus on UK



**BRAND
STORES
CLOTHING
HOME
FOOD**

Stores

“Customers find our stores difficult to shop” (Nov 2010 update)

- Launched 15 pilot stores in October
- Review of pilot stores complete by Jan 2012
- Initial customer feedback positive
- Additional scope being developed
- All store rollout complete by mid 2013

Plan 2013 - 2015

**2010
to
2013**

Focus on UK



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Clothing

“Positioning of M&S and GM sub-brands in-store is unclear”

(Nov 2010 update)

- Clothing sub-brands re-launched



- Introducing “Savile Row Inspired” for Spring 2012, an exclusive collaboration with Savile Row designer Richard James



Plan 2013 - 2015

**2010
to
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Focus on UK



**BRAND
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Home

“Only 20% of customers shop our Home department”

(Nov 2010 update)

- Segmented into lifestyles – Classic, Contemporary & Design
- Growth departments performing very well (Bedding & Bath, Kitchens & Dining)
- Conran preview range launched. Full range launches in March
- Marcel Wanders range launched October

Plan 2013 - 2015

**2010
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Focus on UK

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Food

“Is M&S Food becoming like any other supermarket?” (Nov 2010 update)

- Additional SKUs allowing a fuller shop
- Introduced 100 international brands in 75 stores
- Reducing number of brand SKUs
- Christmas Food to Order available online. Sales up 10%
- Enhanced fresh food credentials with Bakery & Deli



Plan 2013 - 2015

By 2013



UK space and
LFL growth

2010
to
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Focus on UK

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Space

“Space growth has been behind the market for the last 2 years but we are not in a race for space” (Nov 2010 update)

- Limited new space – only where required to achieve drive time targets
- 13 modernisations completed in H1
- Stratford City opened September 2011

Plan 2013 - 2015

By 2013

UK space and
LFL growth



A leading UK
Multi-channel
retailer

2010
to
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Focus on UK

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Multi-channel

“Amazon platform performs well but will restrict our future growth” (Nov 2010 update)

- Re-platforming programme on track
- Full team in place
- Style Online trial launched in three stores

Style Online

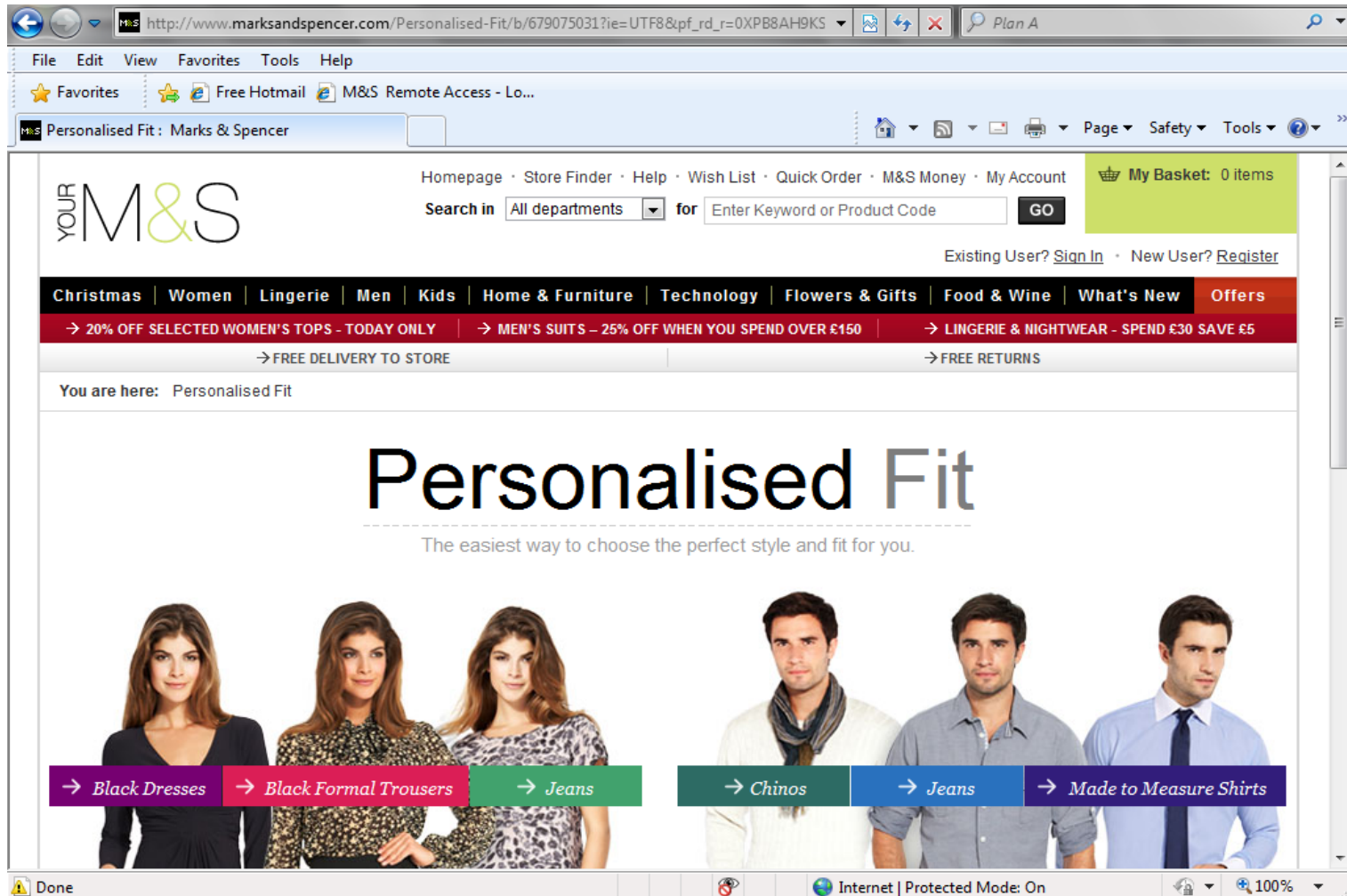


Style Online



➡ Allows efficient use of space & full catalogue sales

Personalisation



Plan 2013 - 2015

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UK space and
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International
company

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International

*“Broad shotgun approach, flag planting, export organisation
but strong opportunity in selected markets” (Nov 2010 update)*

- Continued focus on priority markets
- LFL sales in India & Shanghai in double digit growth
- Opening 8 stores in India & 5 in Shanghai during 11/12

International

“Flagship store with key supporting stores; combination of bricks and clicks or clicks and bricks depending on market”

(Nov 2010 update)

Market entry: France

- Focus on website
- Champs Elysées store opens pre-Christmas 2011
- Four additional full line Paris stores in the pipeline



Integrated multi-channel offer

Summary

“We have taken decisive action to manage the business through the short term while continuing our focus on investing in creating a stronger platform for future growth.”

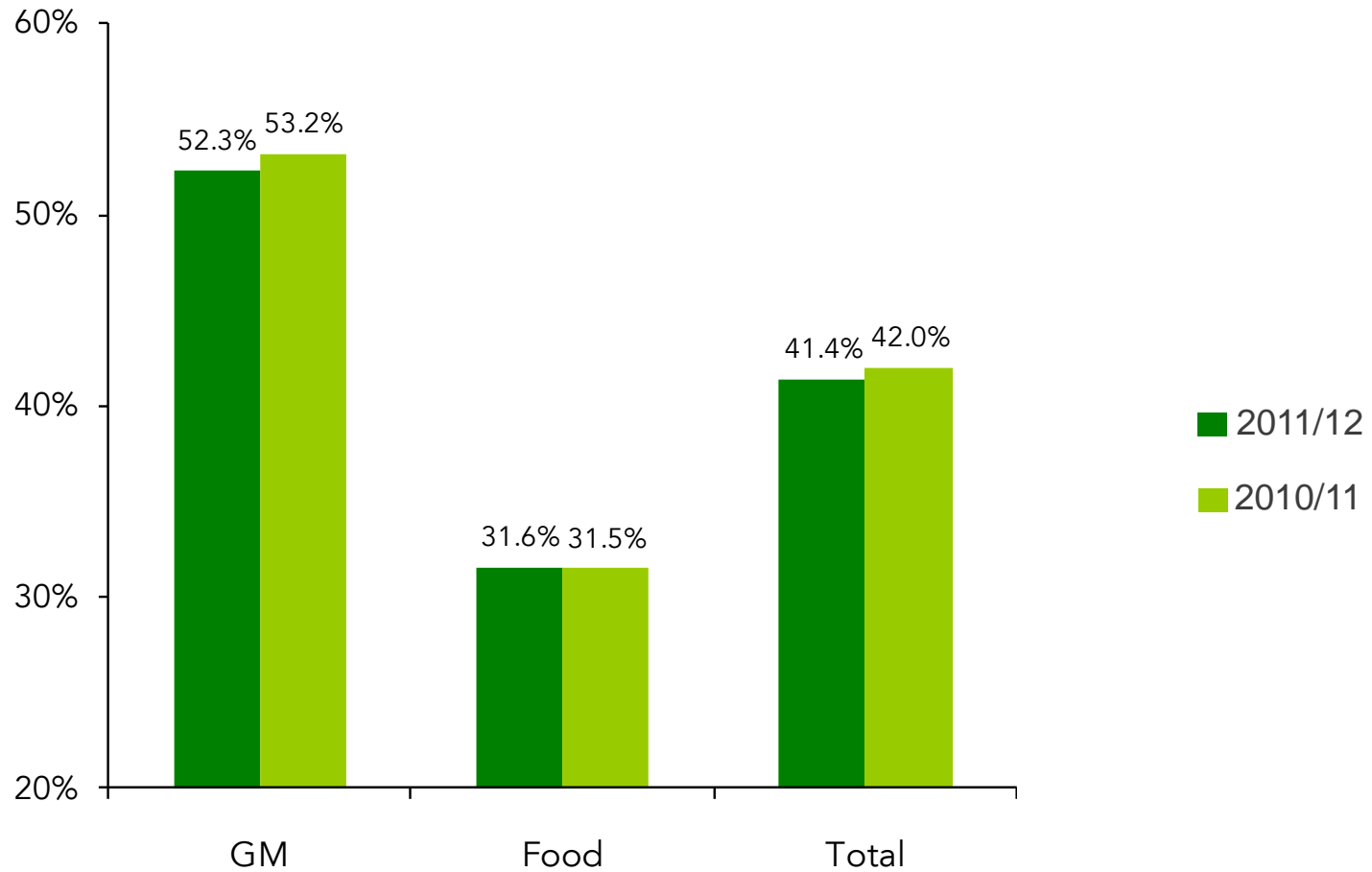
Only at
YOUR M&S

Appendices

UK sales performance

	TY	LY	Var
	£m	£m	%
Clothing	1,782	1,783	-0.1
Home	185	200	-7.8
General Merchandise	1,966	1,983	-0.8
		LFL	-1.3
Food	2,208	2,125	3.9
		LFL	2.1
Total	4,174	4,108	1.6
		LFL	0.5

UK gross margin



Stores and space

	September 2011	April 2011	Openings	Closures	Change
<u>UK</u>					
Premier	11	10	+1	-	+1
Major	42	42	-	-	-
High Street	242	242	-	-	-
Simply Food Owned	165	161	+4	-	+4
Simply Food Franchised	205	202	+3	-	+3
Outlets	47	46	+1	-	+1
UK stores	712	703	+9	-	+9
Selling space (m sq ft)	15.8	15.6			+0.2
<u>International</u>					
Owned	155	152	+6	- 3	+3
Franchised	214	209	+6	- 1	+5
International stores	369	361	+12	- 4	+8
Selling space (m sq ft)	4.4	4.2			+0.2