



M&S

EST. 1884

RESTORING
THE BASICS

**BIGGER
BOLDER
FASTER**

FINAL RESULTS
22 MAY 2019

RESTORING THE BASICS
BIGGER, BOLDER, FASTER

ARCHIE NORMAN
CHAIRMAN



Our Royal Crown asparagus
is exceptionally sweet and
is exclusive to us.

RESTORING THE BASICS BIGGER, BOLDER, FASTER

STEVE ROWE
CHIEF EXECUTIVE

Avocados
to ripen
at home.

Buy now and they'll ripen up
in a few days, ready to slice
into a salad, scoop into a
smoothie or top on your toast.

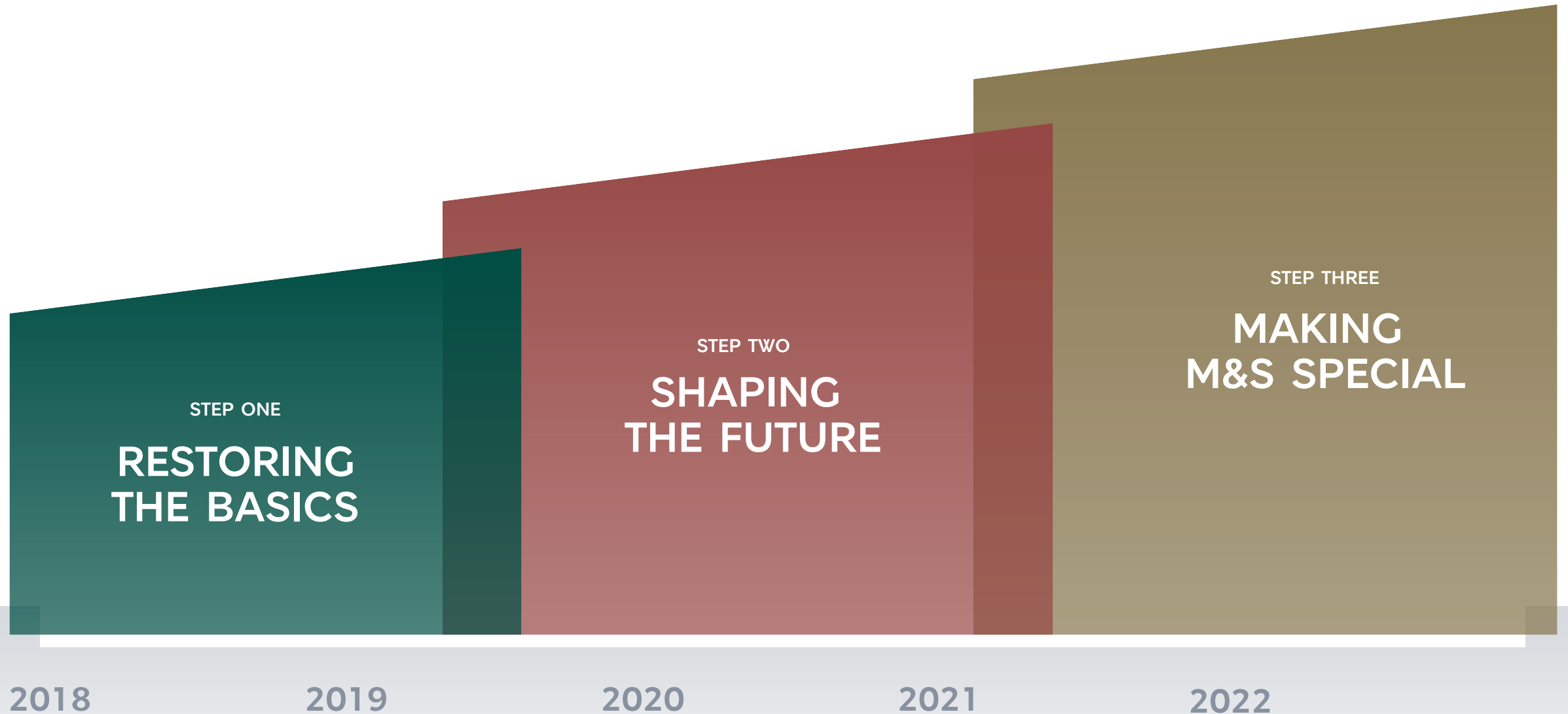


RIPEN AT HOME AVOCADO NET
EACH
£2.00

£2
Ripen at home Avocado net

BIGGER, BOLDER, FASTER
RESTORING THE BASICS STAYS CRUCIAL
TO OUR TRANSFORMATION PLAN

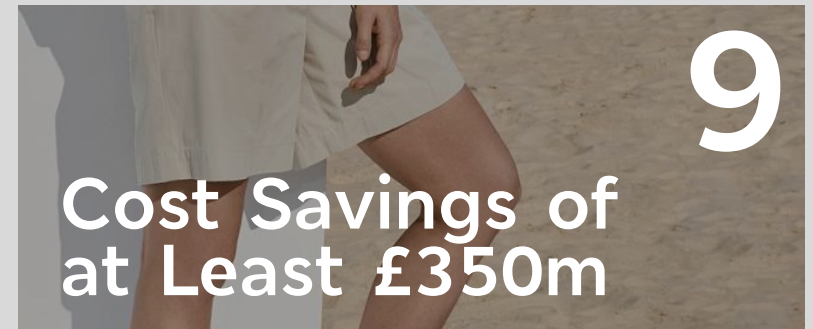
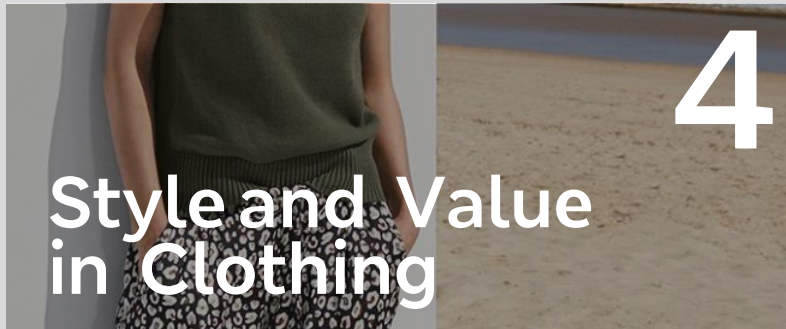
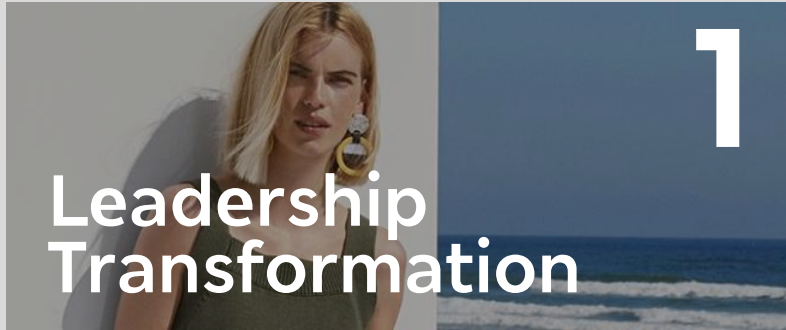
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AND WE ARE STILL COMPLETELY FOCUSED
ON OUR BUSINESS PRIORITIES

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**BUT NOW MORE CONFIDENT THAT WE CAN
ACCELERATE OUR PACE OF CHANGE**

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PER UNA

Striped Wide Leg Trousers

£39.50

- Good progress on fixing the basics
- New dynamic created by accountable leaders listening to the “voice of the stores”
- Showing ourselves what happens when we get the digital basics right – womenswear sales up 19% online
- Food returning to volume growth after investing in price and cutting right back on promotions
- C&H beginning to buy deeper across fewer options
- Accelerating the reshaping of our store estate
- Beginning to shape the future with transformational acquisition of 50% of Ocado Retail
- Transformation becoming bigger, bolder and faster



RESTORING THE BASICS **BIGGER, BOLDER, FASTER**

HUMPHREY SINGER
CHIEF FINANCE OFFICER



NEW SEASON LINEN

ORDER BY 10PM FOR
NEXT-DAY DELIVERY*

*More details at munksandpence.com

BIGGER, BOLDER, FASTER FINANCIALS AT A GLANCE

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NEW

PER UNA
Tiered Floral Print
Maxi Shirt Dress
£45.00

Group revenue

£10.4bn
-3.0%

Profit before tax
& adjusting items

£523.2m
-9.9%

Free cash flow
before adjusting items

£729.4m
25.2%

Profit before tax

£84.6m
26.6%

Net debt

£1.55bn
-15.3%

Final dividend

7.1p
-40%

BIGGER, BOLDER, FASTER

FOOD PERFORMANCE



Revenue		
	Q4	FY
Total	-0.8%	-0.6%
LFL	-1.5%	-2.3%
LFL (excluding Easter)	0.4%	-1.5%

Gross margin		
FY 2017/18 ¹	31.2%	
Buying margin	-15bps	
Waste	-	
FY 2018/19	31.1%	

¹ Prior year has been restated for the reclassification of cards & gift wrap from C&H to Food.

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CLOTHING & HOME PERFORMANCE

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NEW

PER UNA

Button Detail Utility Shirt
£35.00

Revenue

	Q4	FY
Total	-3.9%	-3.6%
LFL	-1.3%	-1.6%
M&S.com	0.2%	5.0%
UK C&H online ¹	4.9%	9.8%

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

Gross margin

FY 2017/18²	56.9%
Buying margin	-20bps
Discounting	40bps
FY 2018/19	57.1%

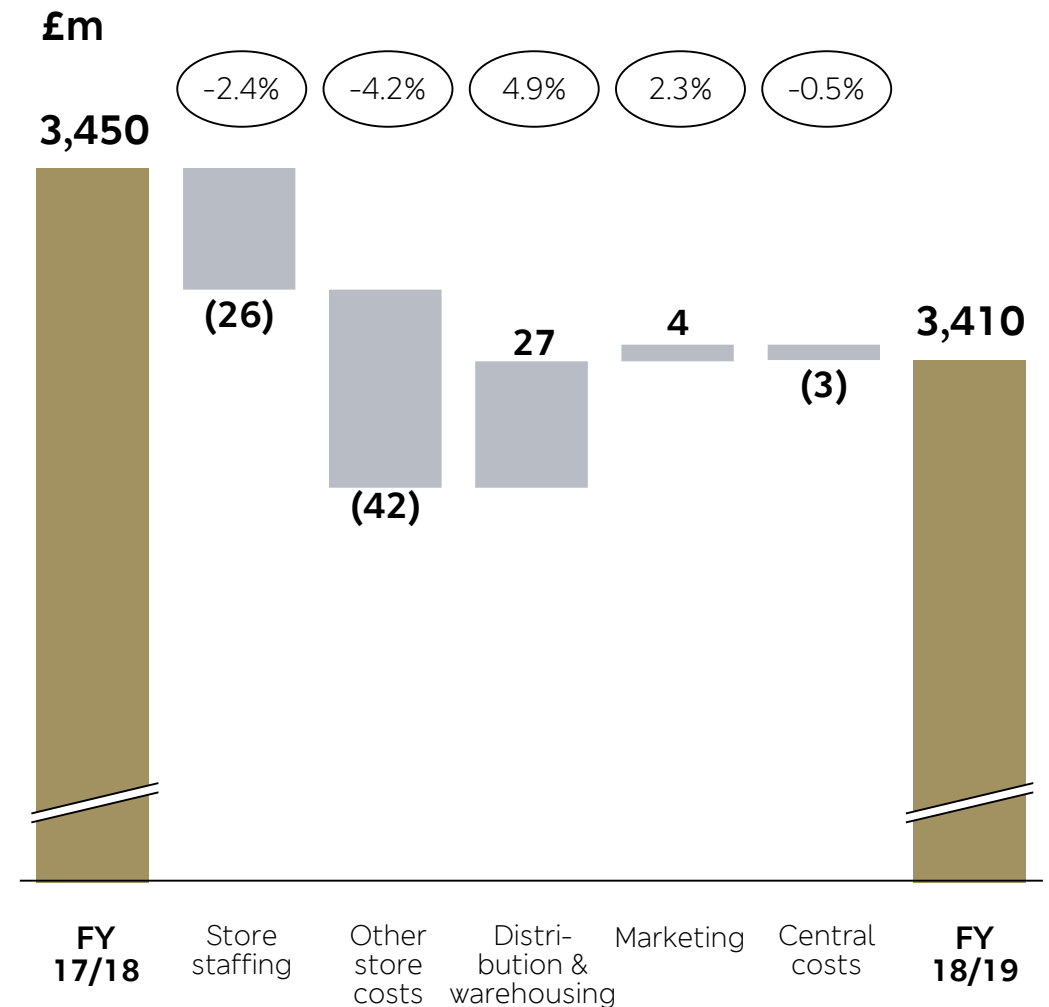
² Prior year has been restated for the reclassification of cards & gift wrap from C&H to Food.

BIGGER, BOLDER, FASTER OPERATING COSTS



Cost drivers

	FY
Net space, volume and channel shift	-0.2%
Inflation	1.7%
Cost savings	-3.0%
Other	0.3%
Year-on-year	-1.2%



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INTERNATIONAL PERFORMANCE

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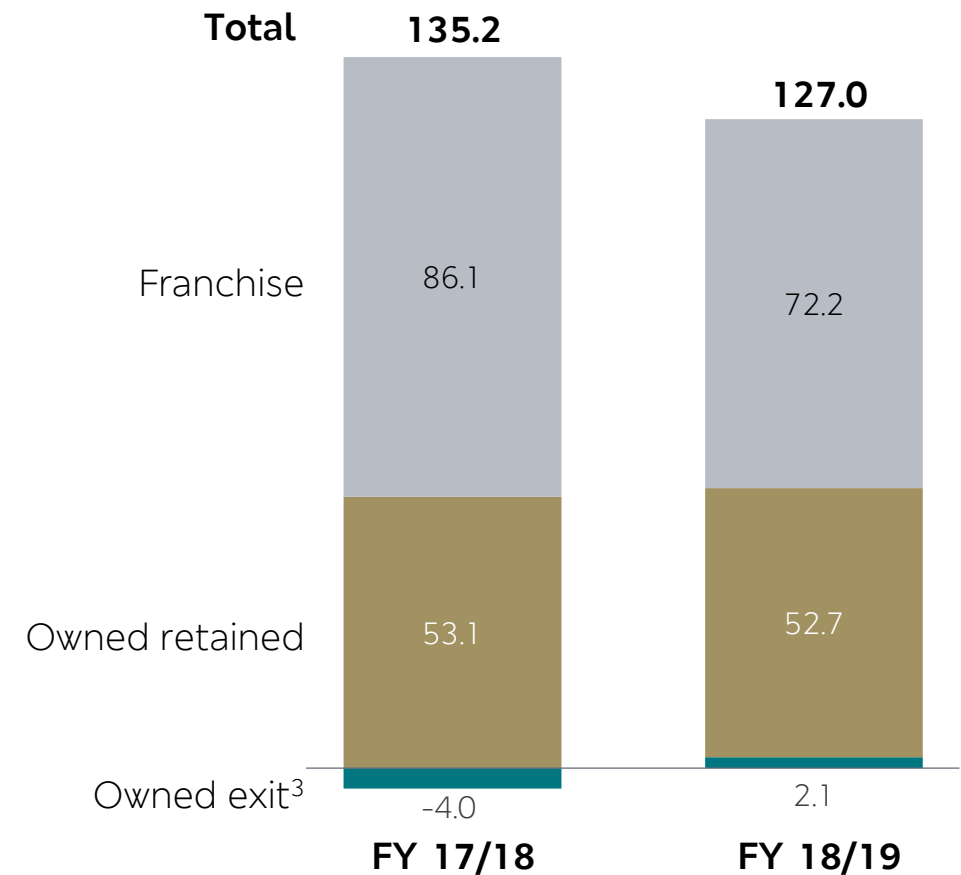


Revenue		
	Q4	FY
Revenue ¹	1.8%	-13.4%
Adjusted revenue ²	3.0%	1.1%

¹ Constant currency.

² Constant currency, excluding exit markets and Hong Kong.

Operating profit £m

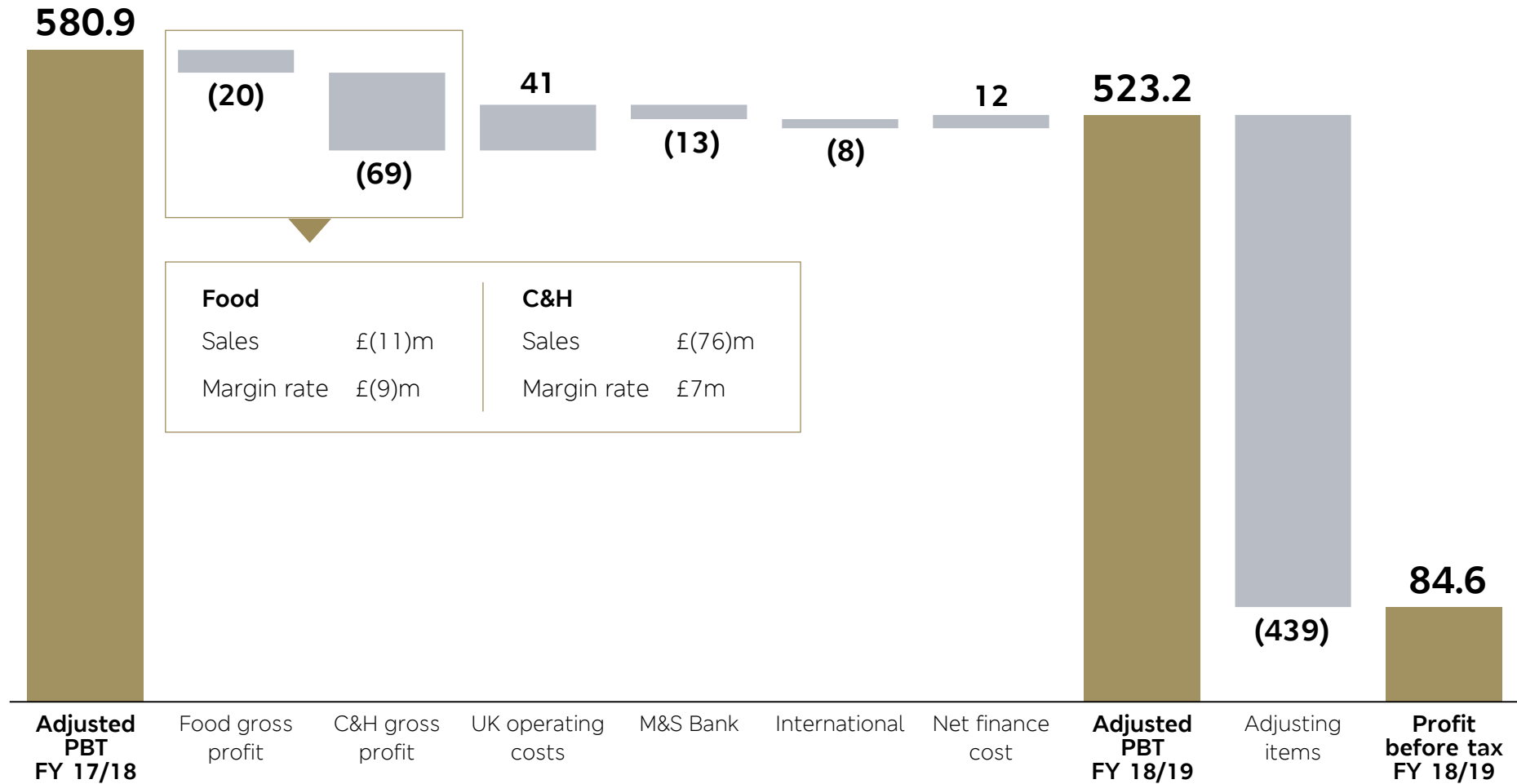


³ Last year restated for closure of our online business in China.

BIGGER, BOLDER, FASTER PROFIT BRIDGE



£m



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ADJUSTING ITEMS



NEW

Disney Lion King™ Short
Pyjamas (1-7 Years)
£11.00-£13.00

	£m
Strategic programmes	
UK store estate	(222.1)
Organisation	(51.8)
Operational transformation	(16.4)
IT restructure	(15.6)
UK logistics	(14.3)
Changes to pay and pensions	(6.2)
International closures	(5.3)
M&S Bank charges	(20.9)
UK store impairments & other property charges	(62.1)
Establishing the Ocado JV	(3.4)
GMP and other pension equalisation	(20.5)
Adjusting items	(438.6)

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CAPITAL EXPENDITURE BEFORE DISPOSALS

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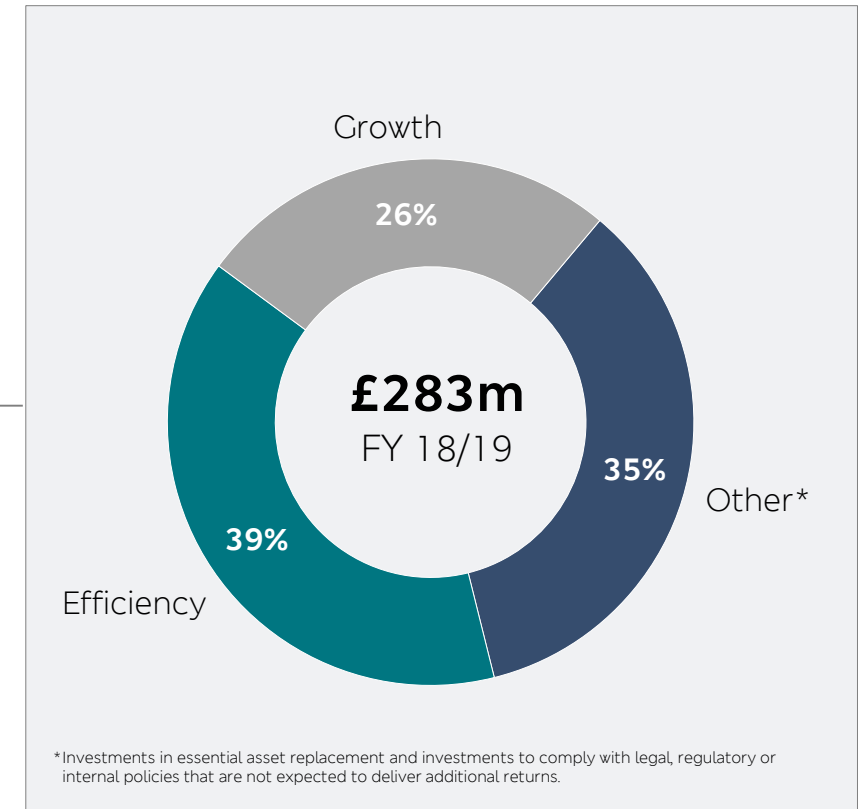
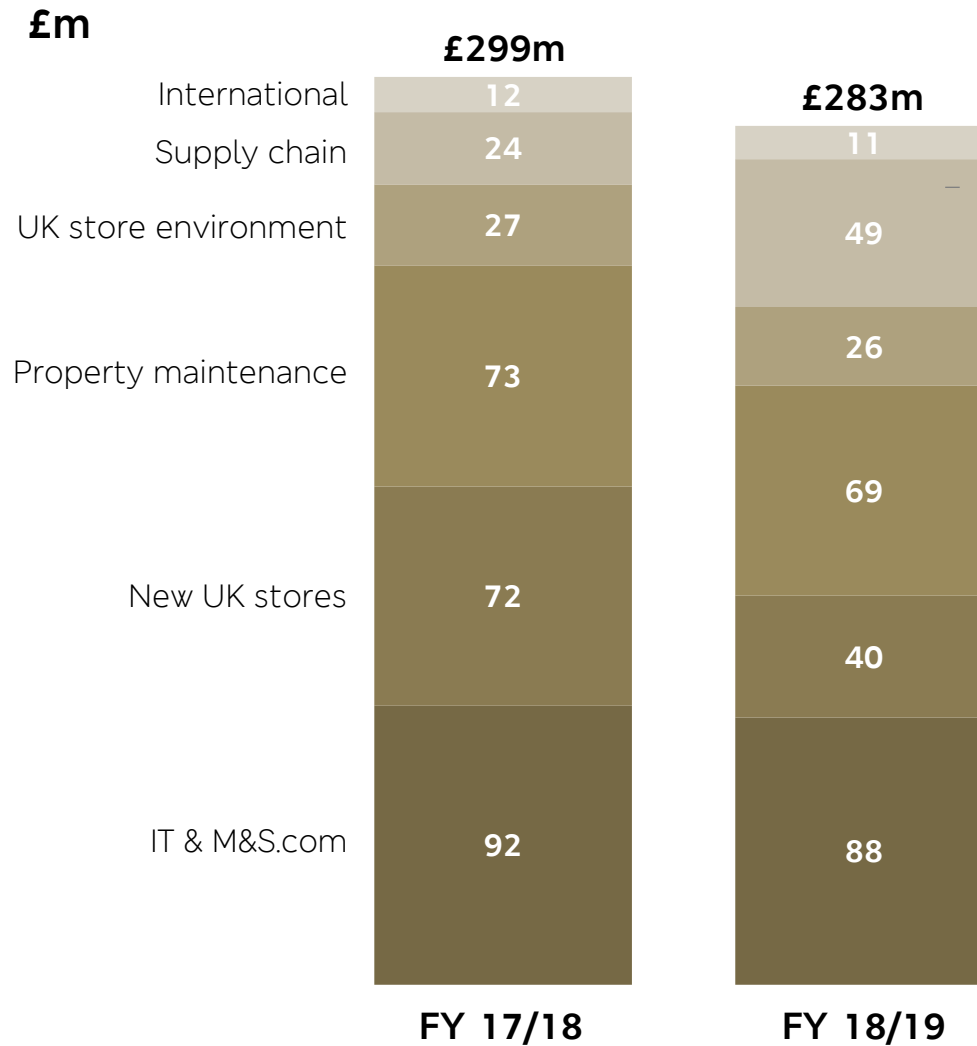


NEW

M&S COLLECTION

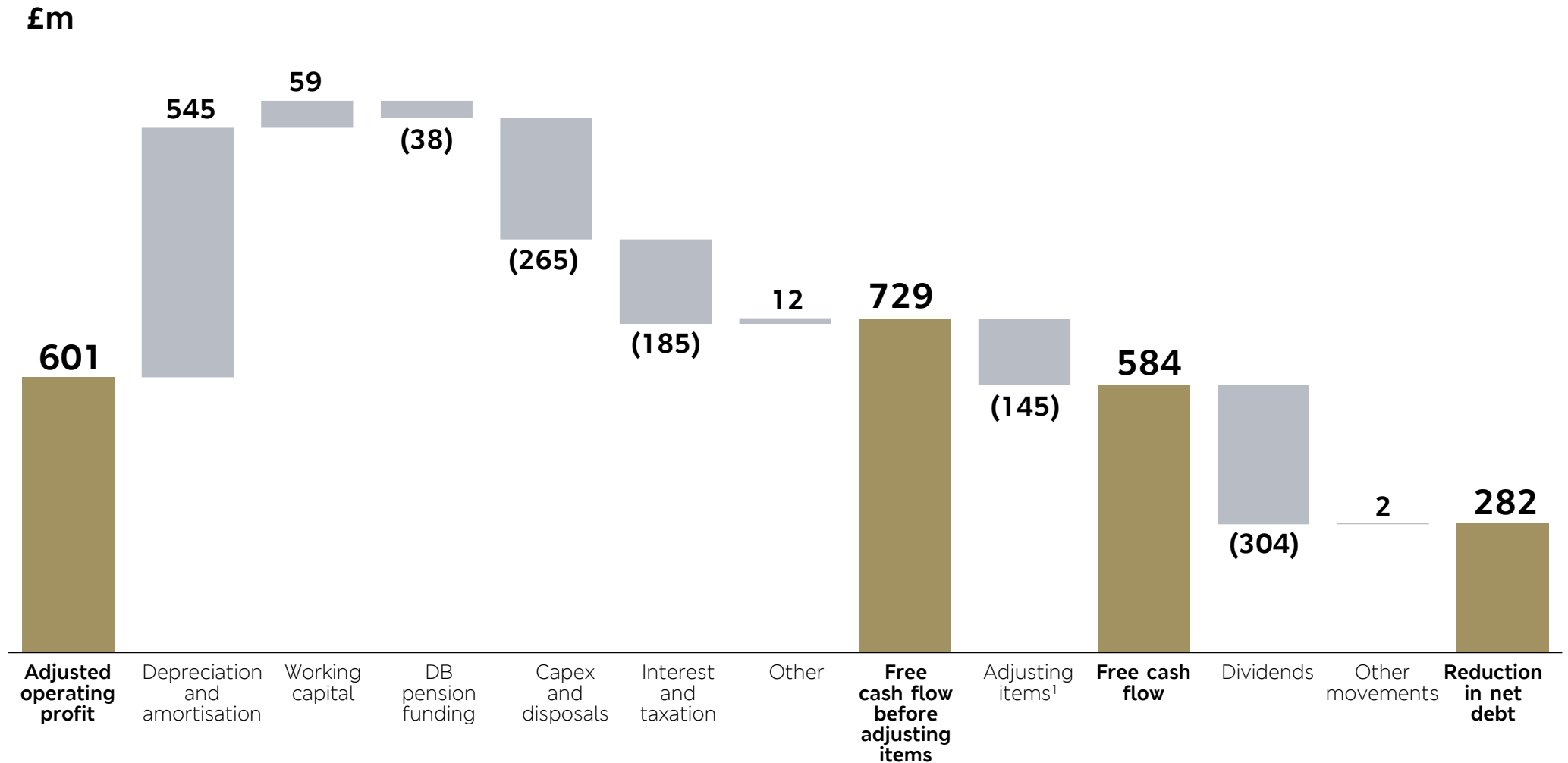
Cotton Rich Chino
Shorts with Stretch

£15.00



BIGGER, BOLDER, FASTER

REDUCTION IN NET DEBT



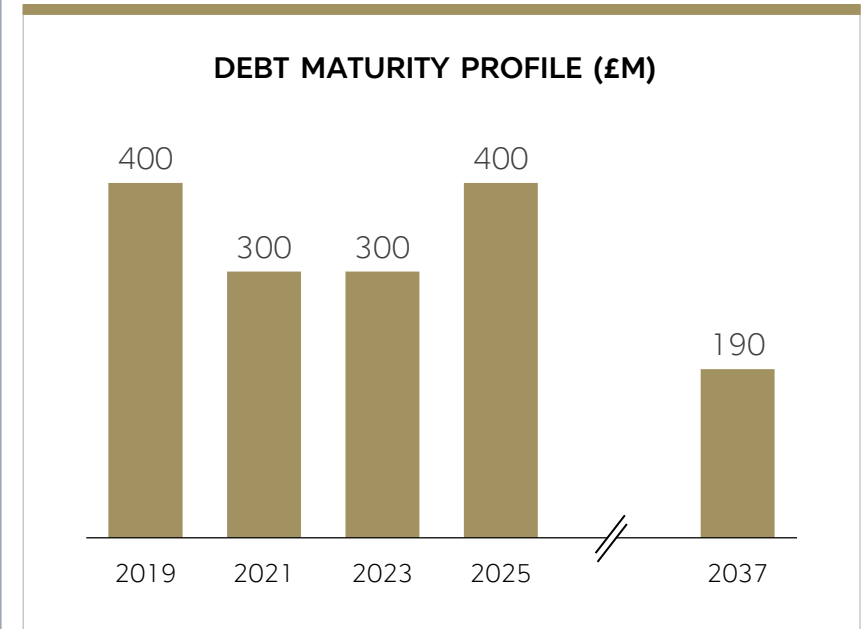
¹ Includes amounts of £27.3m in relation to our store closure programme, £24.9m in relation to organisational change, £20.9m for M&S Bank, £12.7m relating to the closure of stores in International markets and £11.1m in relation to our IT transformation programme.

BIGGER, BOLDER, FASTER BALANCE SHEET

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- Substantial debt repayment and pension obligation to fund
- Steps to build a stronger balance sheet and retain investment grade metrics
 - Reset annual dividend by 40% to a sustainable level
 - £600m rights issue
 - Limit dependence on bank debt and maintain headroom for flexibility



M&S COLLECTION

Zipped Detail Tote Bag

£45.00

BIGGER, BOLDER, FASTER

IFRS 16 - OVERVIEW

- Effective for FY 19/20
- Adopted fully retrospective approach
- No impact on our turnaround plans, economics or cash

Illustrative KPI Summary for FY 18-19 (£m)	Pre IFRS 16	Change	Post IFRS 16
PBT before adjusting items ¹	523	(10)	513
PBT ¹	85	10	95
Net Debt ²	1,545	2,600	4,145

¹ Indicative estimates on a pre-tax basis rounded to the nearest £10m

² Indicative estimates on a pre-tax basis rounded to the nearest £0.1bn

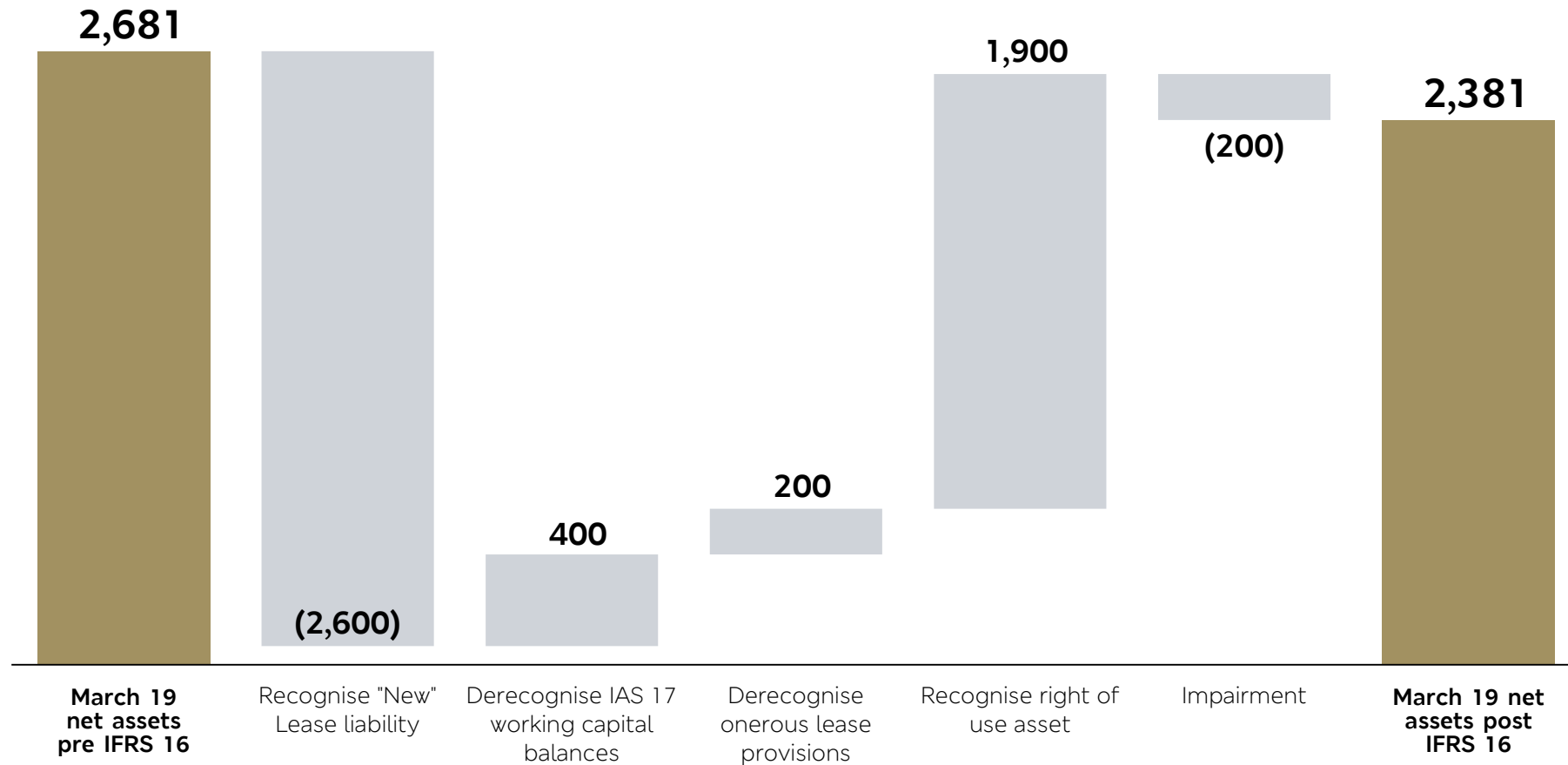


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IFRS 16 – IMPACT ON BALANCE SHEET

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As at 30 March 19¹



¹ Indicative estimates on a pre-tax basis rounded to the nearest £0.1bn

NEW

M&S COLLECTION

Skinny Fit Cotton Rich
Chinos

£45.00

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GUIDANCE 2019/20

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PER UNA
Linen Blend
Wrap Midi Skirt
£39.50

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

All guidance is shown before the effects of IFRS 16

BIGGER, BOLDER, FASTER RIGHTS ISSUE

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- Raising approximately £601.3 million gross proceeds
- Standby underwritten since 27 February 2019 and now fully underwritten
- 1 new share for every 5 existing shares
- Issue price 185 pence per new ordinary share
- Issue price represents a discount of approximately 26.3% to TERP based on the closing middle-market price of 264 pence per existing share on 21 May 2019 when adjusted to reflect the ordinary shares becoming ex-dividend during the Rights Issue offer period
- Issue of 325.0 million new ordinary shares representing approximately 20.0% of existing ISC and 16.7% of the enlarged ISC
- Rights Issue expected to formally launch on 24 May 2019 subject to FCA prospectus approval

RESTORING THE BASICS BIGGER, BOLDER, FASTER

STEVE ROWE
CHIEF EXECUTIVE

BRITISH STRAWBERRIES

We work with dedicated British farmers,
who pick the best varieties when they're
deliciously sweet and juicy.

£2

See individual tickets for details. Subject to availability.



Tastes
of the
SEASON



BIGGER, BOLDER, FASTER

TRANSFORMING OUR LEADERSHIP

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WHAT'S HAPPENED

- Two thirds of our leadership teams are new
- Increasing the pace of decision taking
- Bringing back the “voice of the store”
- Freeing up store managers to trade

WHAT'S PLANNED

- Building out leadership in Food, C&H, Property and Bank
- New data and AI capabilities
- M&S leaders spending more time on shop floors



Isobel Lange
Store Manager
Leeds Central Square



New atrium at
Waterside House

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CREATING ACCOUNTABLE BUSINESSES

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WHAT'S HAPPENED

- Created family of M&S businesses aligned by brand values, stores, data, loyalty and IT
- Changing trading rhythm in each business
- Food and C&H with end-to-end accountability
- Streamlined corporate functions

WHAT'S PLANNED

- Completion of 'family of businesses' structure – addition of Ocado JV
- Strategies developed and executed by business units
- Initial pilot format renewals this year
- New instore technology to create innovative workplace



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DIGITAL FIRST NOW REAL, NO LONGER ASPIRATIONAL

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WHAT'S HAPPENED

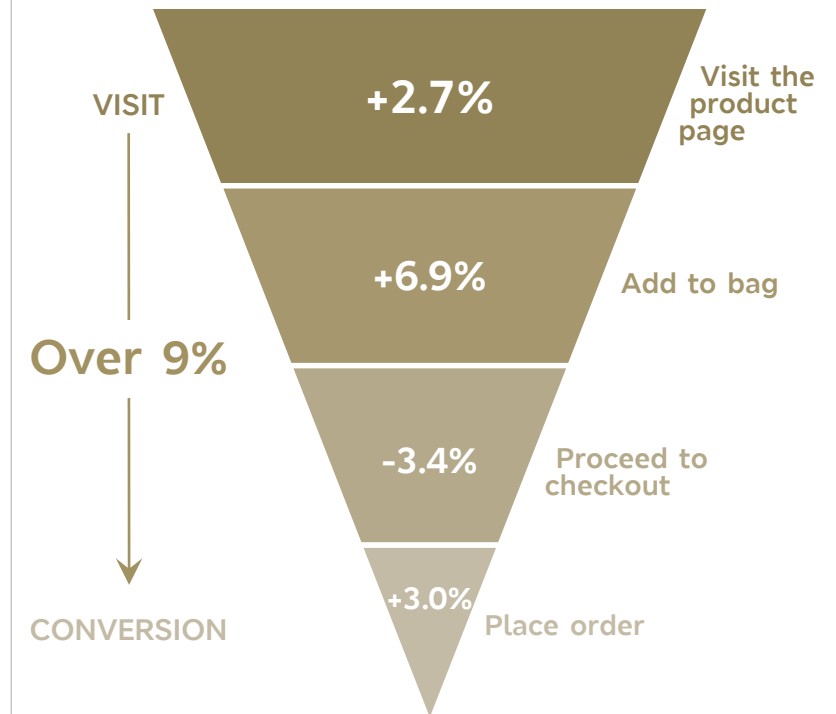
- UK C&H online sales up 9.8%
- Online now 22% of UK C&H sales
- Top quartile amongst our peers on page load speed
- Rebuilt womenswear journey – product display page, photography, trialled visual search – womenswear up 19%
- M&S.com hosted in the cloud by Azure

WHAT'S PLANNED

- Greater personalisation through AI driven search tool
- Further enhancements to photography
- Enhanced click and collect service
- New ways to pay including PayPal and credit options
- Single customer data lake across online, Sparks, M&S Bank and Ocado

THE .COM PURCHASE FUNNEL

Year-on-year improvements in click through



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PROGRESS IN C&H IMPEDED BY OPERATING CHALLENGES

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WHAT'S HAPPENED

- Encouraging signs in core programmes
 - Slimmer fits successfully launched across men's and womenswear
 - Denim launch in February saw 20% sales uplift
 - Our core £15 jegging increased sales by 30% YoY
- Reduction in inventory but supply chain struggling
 - Stock cover down by almost 3 weeks and stock into sale by 14%
 - But decline in availability meant bestsellers sold out early
- Reshaping range and team creating teething issues
 - Poor availability of popular lines
 - Aggravated by an incorrect size ratio
 - Wide range perpetuates store clutter and navigation issues

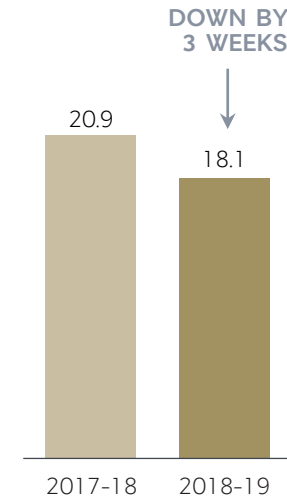


M&S COLLECTION

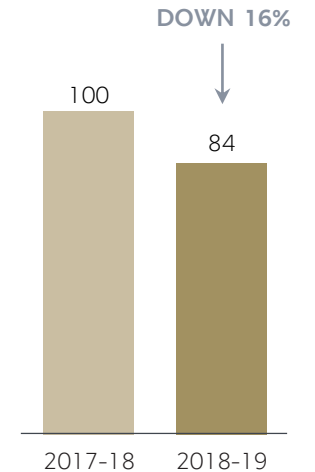
High Waist Jeggings

£15.00

STOCK COVER Weeks



YEAR END INVENTORY 100 = March 2017-18



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FURTHER CHANGE TO ACHIEVE STYLE & VALUE

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WHAT'S PLANNED

- New range planning processes and size ratio tools
- Stronger focus on best-selling lines
- More marked reduction in options and range duplication
- Already reshaped and narrowed the Autumn / Winter 19 women's denim and jeggings buy
- Relaunch Per Una and refresh Autograph
- Invest in our top stores as flagships
- More contemporary environment across stores

RESHAPING THE DENIM & JEGGINGS BUY



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RETAINING THE MAGIC BUT ADDING VALUE IN FOOD

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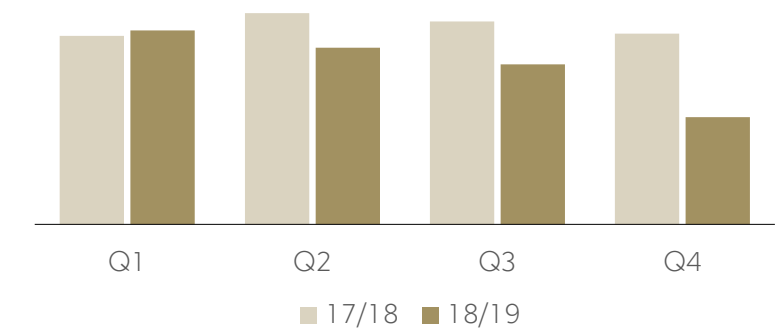


WHAT'S HAPPENED

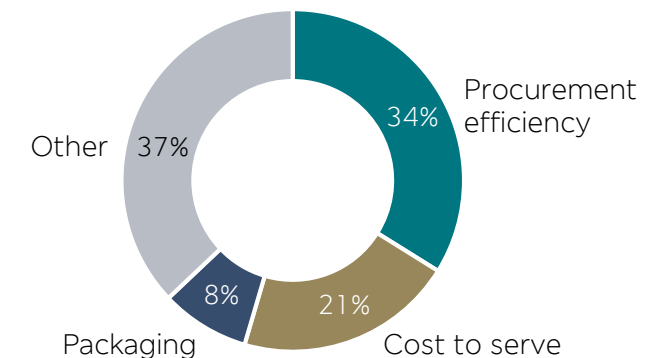
- Move away from a promotion-driven to a regular price business
 - Removed nearly 70% of multibuy
 - Promotional participation down over 10 percentage points by year end
- Invested in everyday prices including lowering 400 lines
 - Largely offset by promotional reductions
 - Improvement in price index position
- Brought back “Not Just Food” and sponsored “Britain’s Got Talent”
- Introduced stronger ranging including Plant Kitchen and “Best Ever” series

REDUCTION IN PROMOTIONAL PARTICIPATION

% of food sales on promotion



FOOD COST SAVINGS IN 2018-19



BIGGER, BOLDER, FASTER

RETAINING THE MAGIC BUT ADDING VALUE IN FOOD

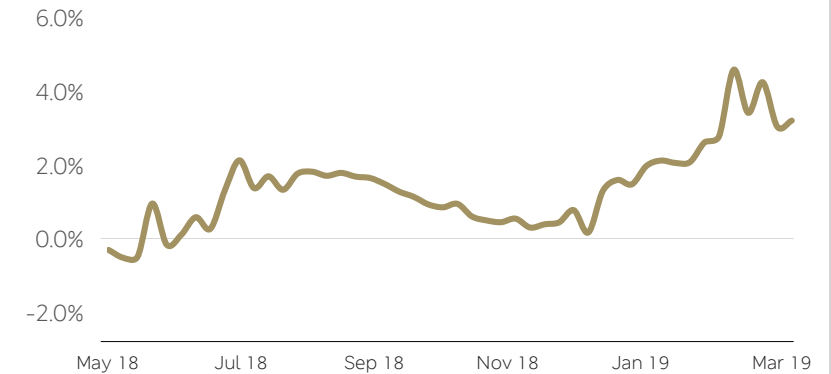
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WHAT'S PLANNED

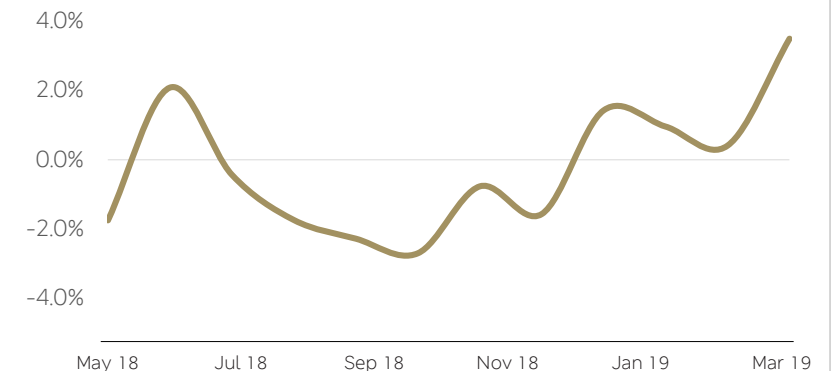
- Continue investing behind a clear pricing architecture – New Lower Price, Great Value Every Day, and Family Pack
- Establish a Food Buying Academy – ongoing cost savings to fund reinvestment
- Become First for Health building on our success with Plant Kitchen and Made Without
- Initial pilot of new format food stores this year
- Focus on higher quality new sites with car parking



TRANSACTIONS YOY
12 Week Rolling Average



EASTER ADJUSTED VOLUME YOY
Monthly



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BUILDING PROFITABLE GROWTH AT SCALE IN INTERNATIONAL

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WHAT'S HAPPENED

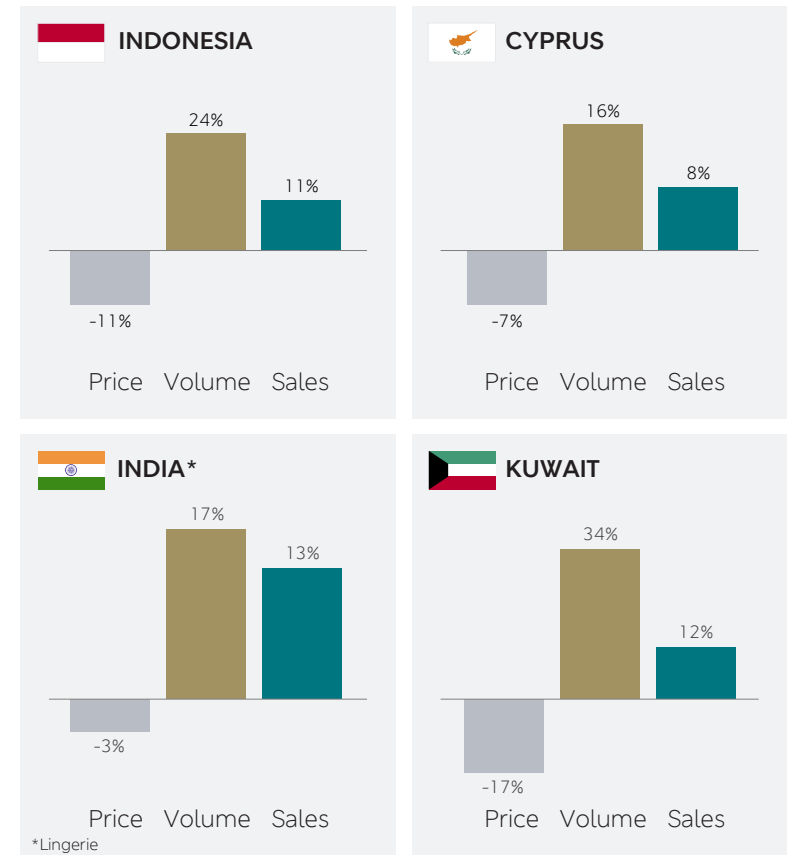
- Completed rollout of market right pricing
- Opened 37 new stores and refurbished 56
- Strengthened relationship with our key partner, Al Futtaim, which acquired our Saudi business

WHAT'S PLANNED

- Localising more of our Food and C&H products – around 15% of locally designed clothing ranges
- Building on the success of first-ever major advertising campaign in India
- Growing online with a further 4 new websites
- Continuing to scale in our most successful markets through new stores and refurbishment

IMPACT OF MARKET RIGHT PRICING

Percentage performance in 52 weeks since launch



New Jewel store
in Singapore

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CREATING A FIT FOR THE FUTURE STORE ESTATE

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WHAT'S HAPPENED

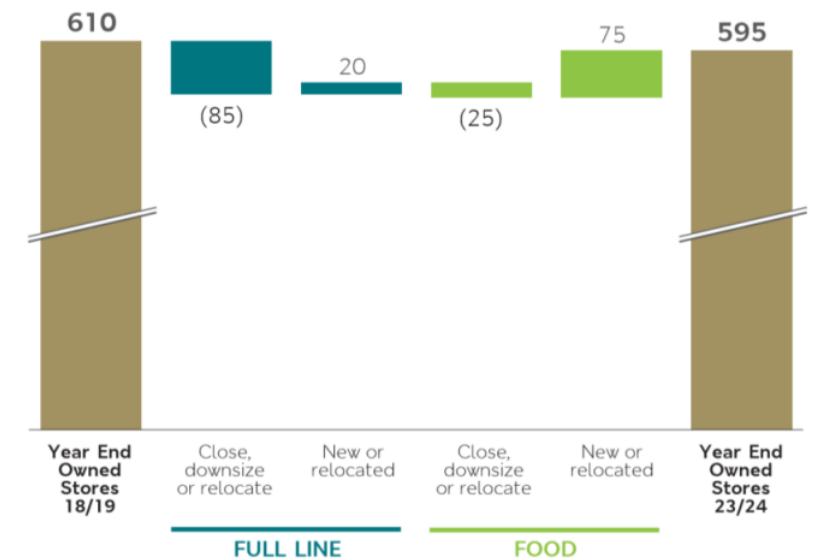
- Recognised the reality of M&S's bricks and mortar challenge
- Closure programme being implemented with stable recapture rates
- Identified what shape of estate we want by 2024 and accelerated the plan

WHAT'S PLANNED

- Progressive improvement in quality of our space
 - Close a further approximately 85 full line stores and open bigger and better stores
 - Close and relocate some high cost, low volume Simply Food stores and focus openings on higher volume stores with good access and car parking
- Begin selected format development and modernisation
- Unlock the development potential in our estate

RESHAPING THE STORE ESTATE 2019-24

Estimated number of stores



Includes format changes such as full-line to Simply Food

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MODERNISING OUR FOOD AND C&H SUPPLY CHAINS

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WHAT'S HAPPENED

- Improved Food productivity at Vangarde store in York
- Working more closely with GIST, our 3PL provider
- Continued move to single tier with Welham Green
- Increased peak capacity at Donington
- Removed excess C&H stock at Swindon Orbital store

WHAT'S PLANNED

- Rollout of processes to next wave of stores
- Invest in clothing DCs to reduce labour costs
- Further investment at Donington to keep pace with online sales growth
- Modernise food depots and food transport network



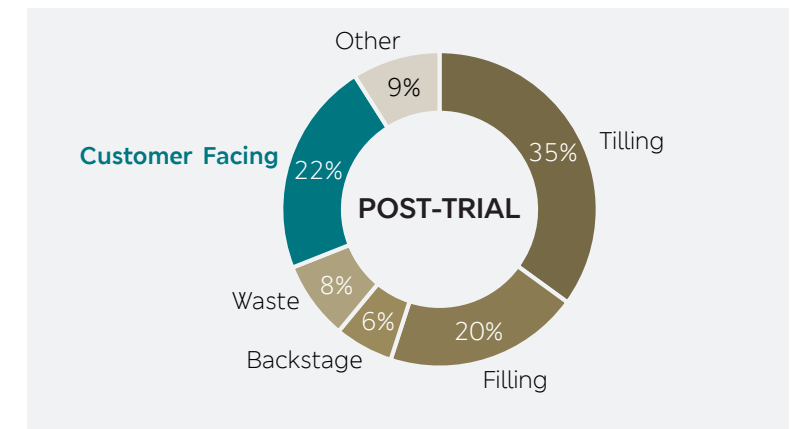
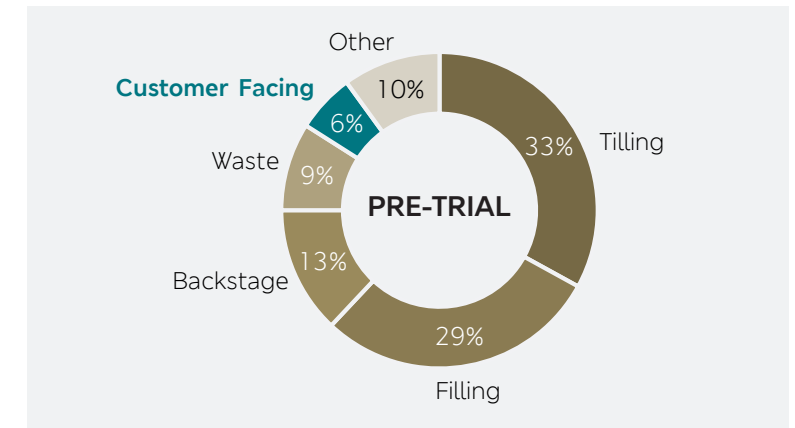
Clothing supply chain trial at Swindon Orbital store



New Welham Green DC for single tier distribution

FREEING UP COLLEAGUE HOURS

Vangarde store trial



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ACHIEVE COST SAVINGS OF AT LEAST £350M

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WHAT'S HAPPENED

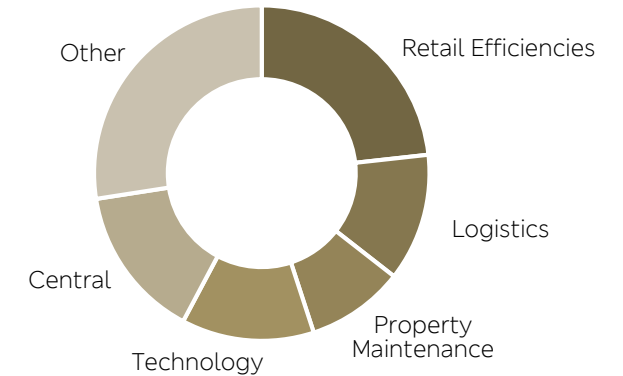
- Savings of c. £100m in FY18/19, in addition to operating cost of stores which have closed
- Savings from retail management restructure, IT transformation plan, property costs, depreciation and central costs
- Offsetting inflation, new space and channel shift

WHAT'S PLANNED

- Further cost savings across all key functions in 2019-20
 - Retail – instore technology
 - Property – new maintenance contract
 - Technology – further savings from IT transformation
 - Central – further streamlining of corporate overhead
- Change from one-off to a culture of continual cost improvement

19/20 COST SAVINGS BY AREA

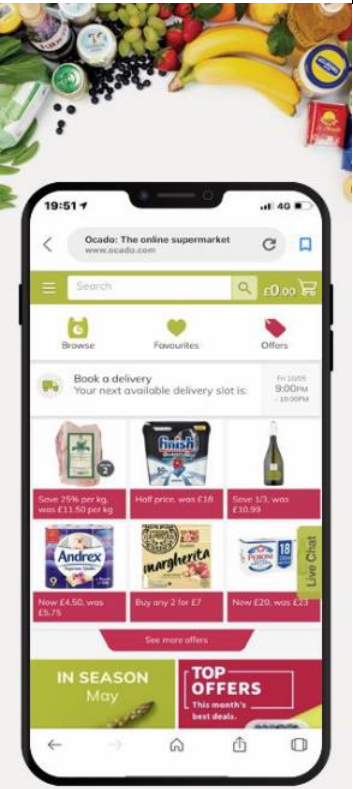
Excluding store closures



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OCADO JV WILL BE TRANSFORMATIVE FOR M&S FOOD

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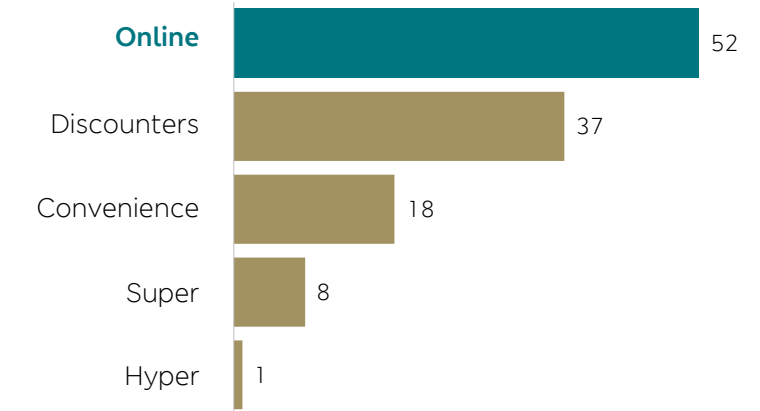


- JV to benefit from access to M&S's brand, products and customer database by September 2020 at the latest
- JV will have significant cost advantage over store-based online retailers
- Joint team already planning the migration
- Synergies of at least £70m by third full financial year
- Expect some initial transitional churn
- Potential to convert M&S Food customers who currently account for c. one third of online grocery
- Access the fastest growing grocery channel in the UK



ONLINE FASTEST GROWING CHANNEL 2018-2023

Change in value (%)



Source: ICD

OCADO'S COSTS ARE 50% OF STORE PICKING RETAILERS

DC to van costs as % of sales 2017/18

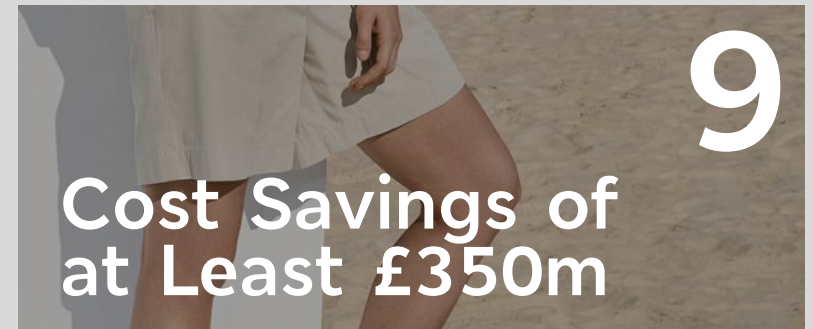
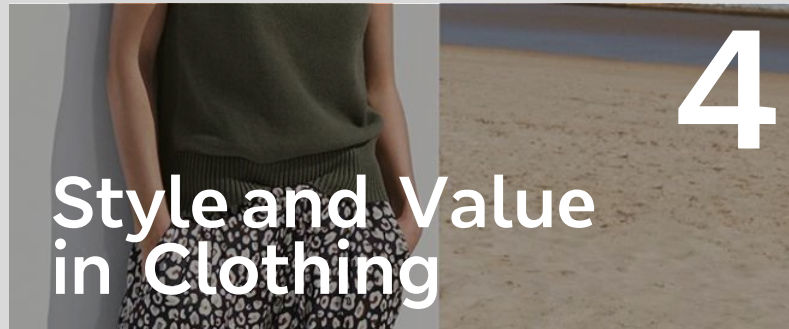
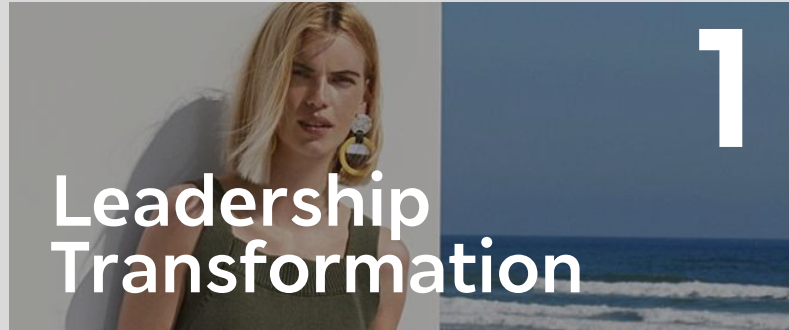


Source: Credit Suisse

BIGGER, BOLDER, FASTER

AND WE ARE STILL COMPLETELY FOCUSED
ON OUR BUSINESS PRIORITIES

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APPENDIX

STORES AND SPACE

UK	Mar 19	Mar 18	Openings	Closures	Change
Shopping Centre	16	16	0	0	0
Retail Park	70	70	1	(1)	0
High Street – large	82	86	0	(4)	(4)
High Street	107	128	0	(21)	(21)
Outlets	34	39	0	(5)	(5)
Simply Food owned	301	286	24	(9)	15
Simply Food franchise	433	410	24	(1)	23
Add back downsize to Simply Food ¹	0	0	(1)	1	0
UK stores	1,043	1,035	48	(40)	8
Selling space (absolute, m sq ft)	17.2	17.6			
C&H	10.6	11.0			
Food	6.6	6.6			
International	Mar 19	Mar 18	Openings	Closures	Change
Owned	136	124	16	(4)	12
Franchise	308	304	21	(17)	4
International stores	444	428	37	(21)	16
Selling space (absolute, m sq ft)	4.9	5.2			

¹One Retail Park was downsized from Full Line to Simply Food owned