

Holly's
**MUST
HAVES**



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RESTORING
THE BASICS

HALF YEAR RESULTS
7 NOVEMBER 2018

RESTORING THE BASICS TODAY'S AGENDA

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STEVE ROWE
FACING THE FACTS
TRANSFORMATION ON PLAN

HUMPHREY SINGER
FINANCIALS REFLECTING THE
EARLY STAGES OF OUR PLAN

STEVE ROWE
NEW TEAMS, CHANGING CULTURE,
ACCELERATED PACE OF CHANGE





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RESTORING THE BASICS



STEVE ROWE
CHIEF EXECUTIVE

NOT ALL PREPARED MEALS ARE CREATED EQUAL

At M&S, our chefs use authentic cooking methods to create our range of prepared meals. Like our irresistible flame-grilled Chicken Tikka Masala.

2 MAINS + 2 SIDES
for just **£10**

from our delicious takeaway range



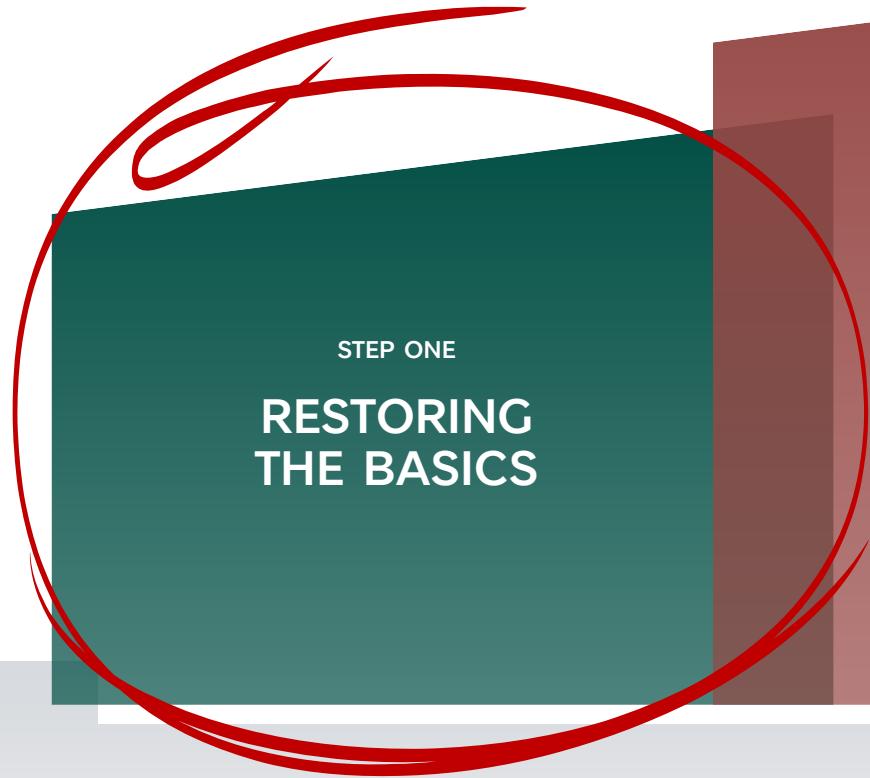
RESTORING THE BASICS
FACING THE FACTS

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RESTORING THE BASICS
OUR TRANSFORMATION PLAN

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STEP ONE
**RESTORING
THE BASICS**

STEP TWO
**SHAPING
THE FUTURE**

STEP THREE
**MAKING
M&S SPECIAL**

2018

2019

2020

2021

2022

RESTORING THE BASICS STRATEGIC PROGRESS

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Entire business focused on restoring the basics

- Decisively reshaped organisation under substantially new leadership
- Clothing & Home focused on “Must-Haves” and reshaping buy
- Food focused on every day value and family appeal
- Catching up in digital – 20.4% of UK Clothing & Home now online
- Accelerating store closure and £350m cost reduction programmes
- Launch Fuse programme to transform our supply chain end-to-end





1

Leadership Transformation



2

Accountable Businesses



3

Digital First



4

Style and Value in Clothing



5

Magic Again in Food



6

Profitable Growth in International



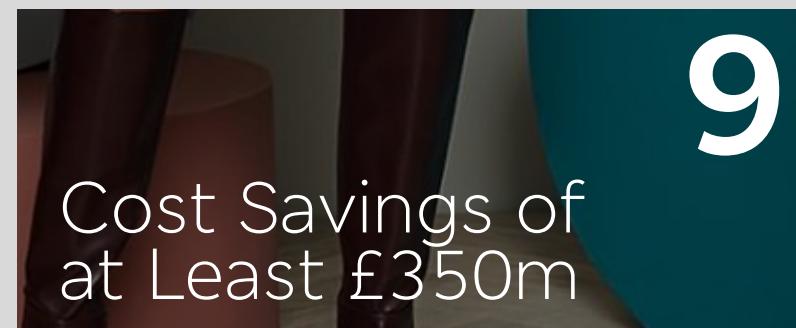
7

Store Estate Fit for the Future



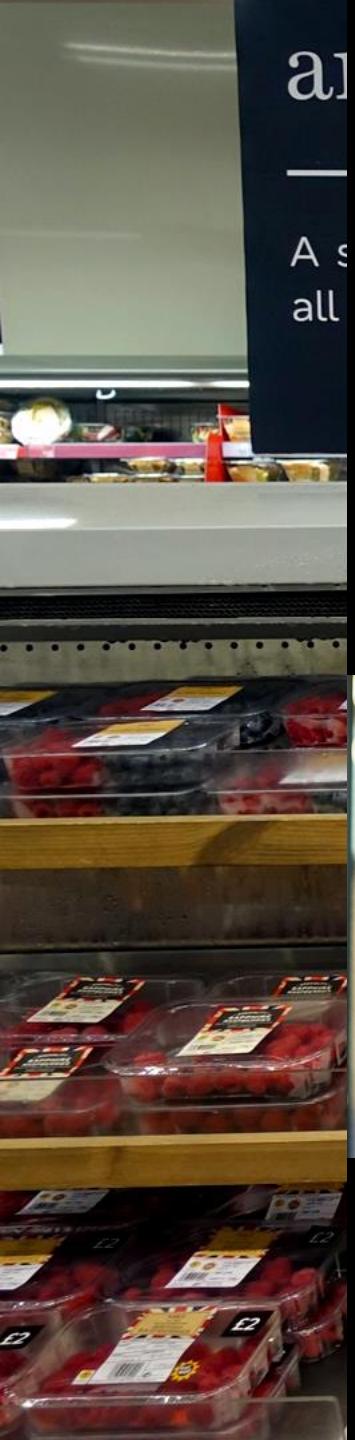
8

Modernised Supply Chain



9

Cost Savings of at Least £350m



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all

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RESTORING THE BASICS



HUMPHREY SINGER
CFO



RESTORING THE BASICS
FINANCIALS AT A GLANCE

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Group revenue

£5.0bn

-3.1%

Profit before tax
& adjusting items

£223.5m

2.0%

Free cash flow
before adjusting items

£300.4m

37.5%

Profit before tax

£126.7m

7.1%

Net debt

£1.8bn

-2.5% vs. FY17/18

Interim dividend

6.8p

Level

RESTORING THE BASICS FOOD PERFORMANCE

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OUR
BEST
EVER
STEAK PIE



Revenue

	Q1	Q2	H1
Total	-0.1%	-0.2%	-0.2%
LFL	-3.1%	-2.7%	-2.9%

Gross margin

H1 2017/18 ¹	31.4%
Buying margin	-25bps
Waste	-
H1 2018/19	31.2%

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

RESTORING THE BASICS CLOTHING & HOME PERFORMANCE

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NEW

M&S COLLECTION
Animal Print Long Sleeve
Skater Midi Dress
£69.00

Revenue

	Q1	Q2	H1
Total	-1.6%	-3.7%	-2.7%
LFL	-0.6%	-1.6%	-1.1%
M&S.com	6.3%	5.0%	5.6%
UK C&H.com ¹	9.9%	8.5%	9.1%

Gross margin

	H1 2017/18 ²	58.3%
Buying margin	30bps	
Discounting	-50bps	
H1 2018/19		58.1%

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

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

RESTORING THE BASICS OPERATING COSTS

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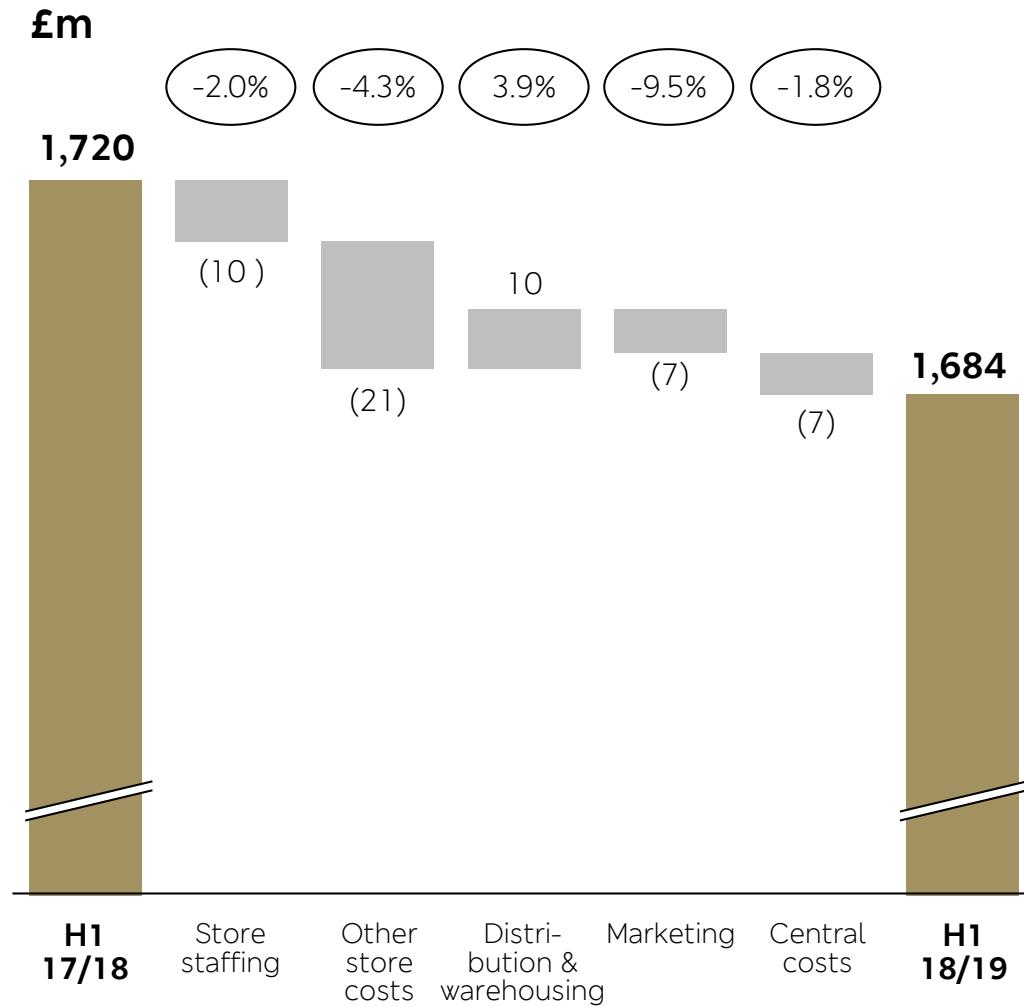


MUST-HAVE

Cost drivers

H1

Space, volume and channel shift	0.6%
Inflation	1.5%
Cost savings	-2.3%
Other	-1.9%
Year-on-year change	-2.1%



RESTORING THE BASICS INTERNATIONAL PERFORMANCE

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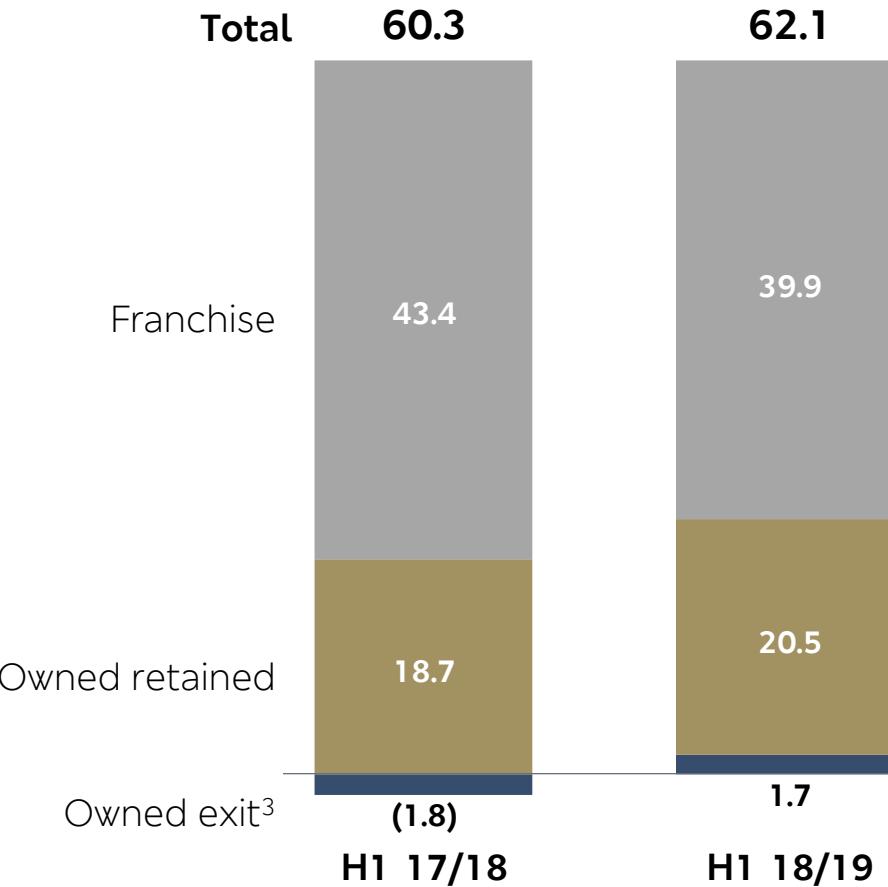
Revenue

	Q1	Q2	H1
Revenue ¹	-21.1%	-15.8%	-18.4%
Adjusted revenue ²	2.5%	0.7%	1.6%

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.

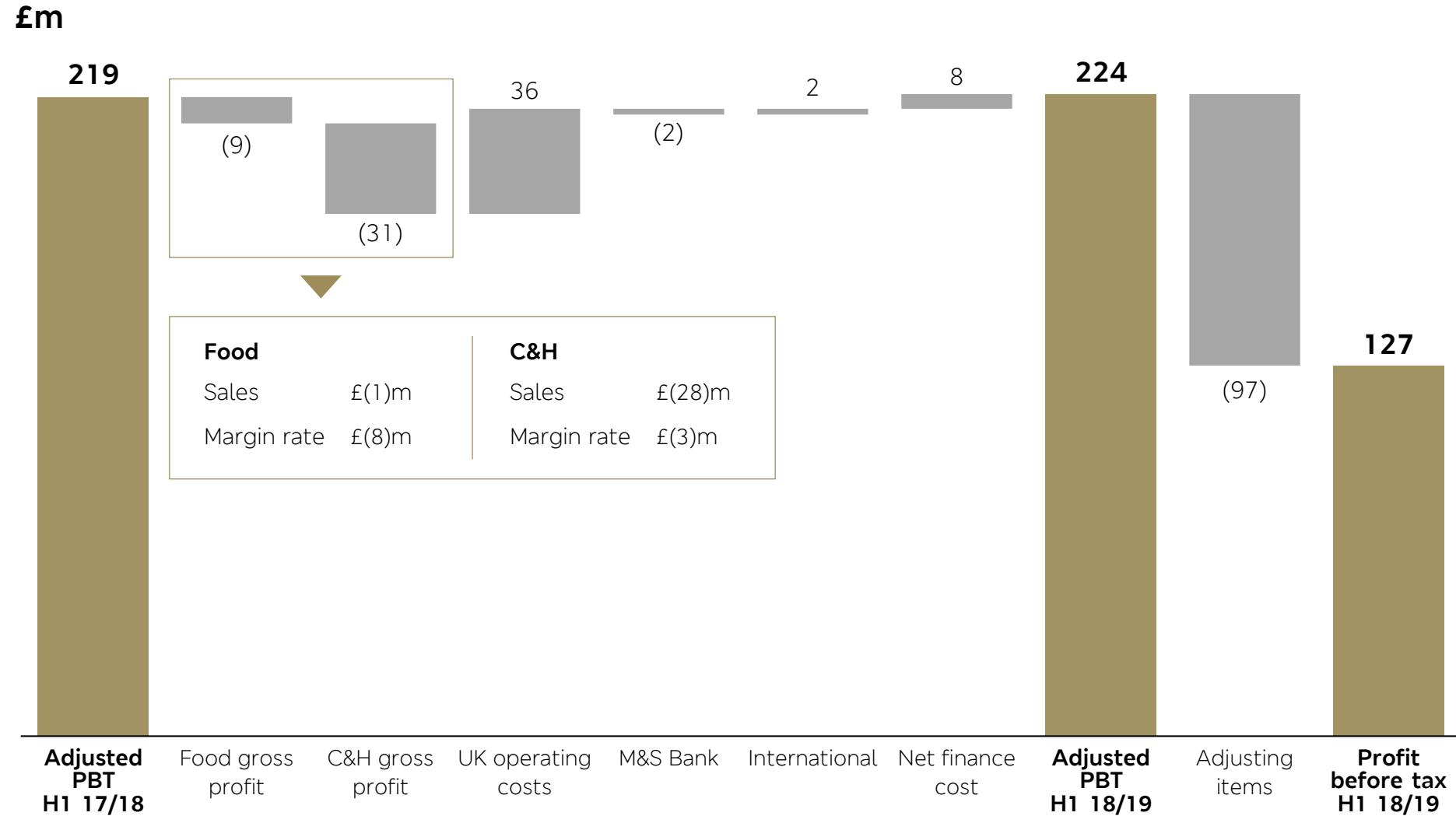
RESTORING THE BASICS PROFIT BRIDGE

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NEW

Pure Cotton Jumper
From £12.00



RESTORING THE BASICS

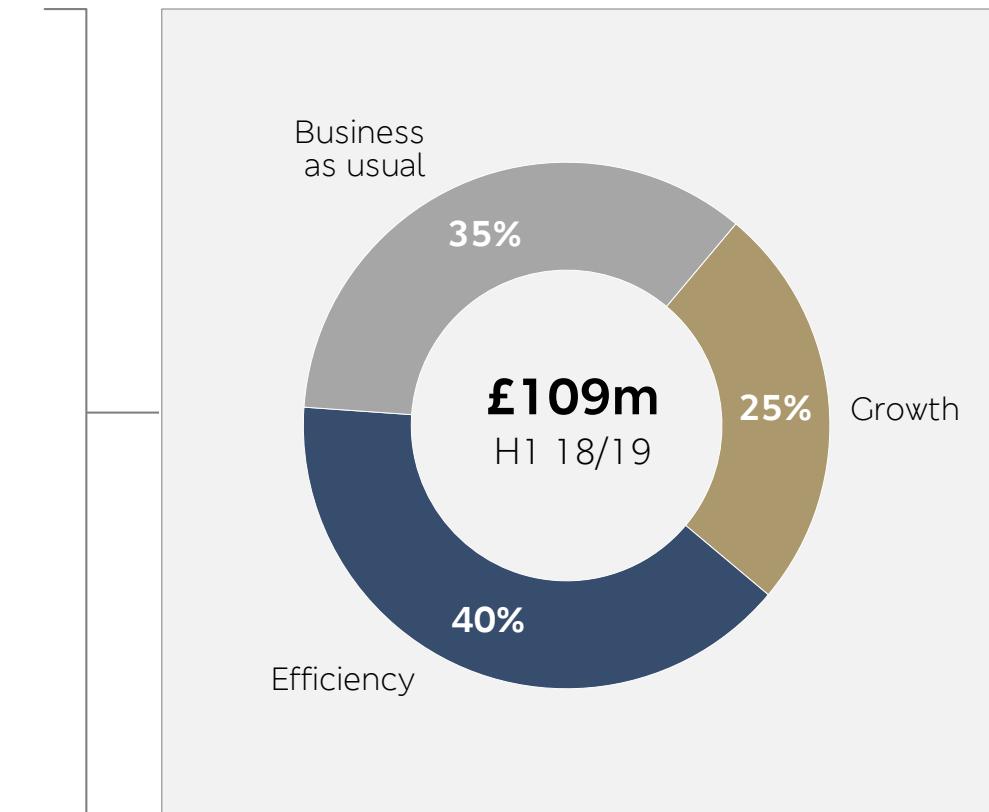
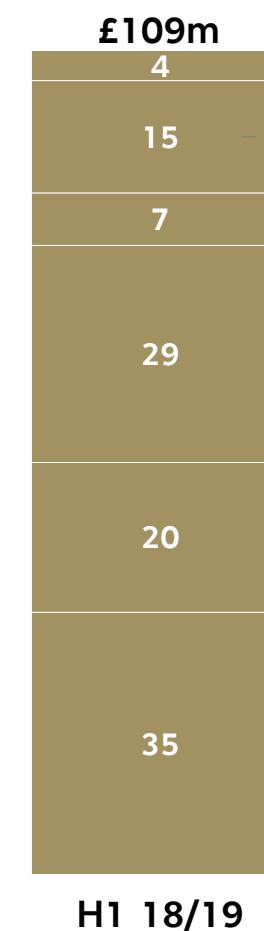
ADJUSTING ITEMS

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	£m
Strategic programmes	
UK store estate	(47.6)
Organisation	(11.1)
IT restructure	(8.3)
UK logistics	(9.0)
Changes to pay and pensions	(3.2)
International store closures and impairments	(2.3)
M&S Bank charges	(15.3)
Adjusting items	(96.8)

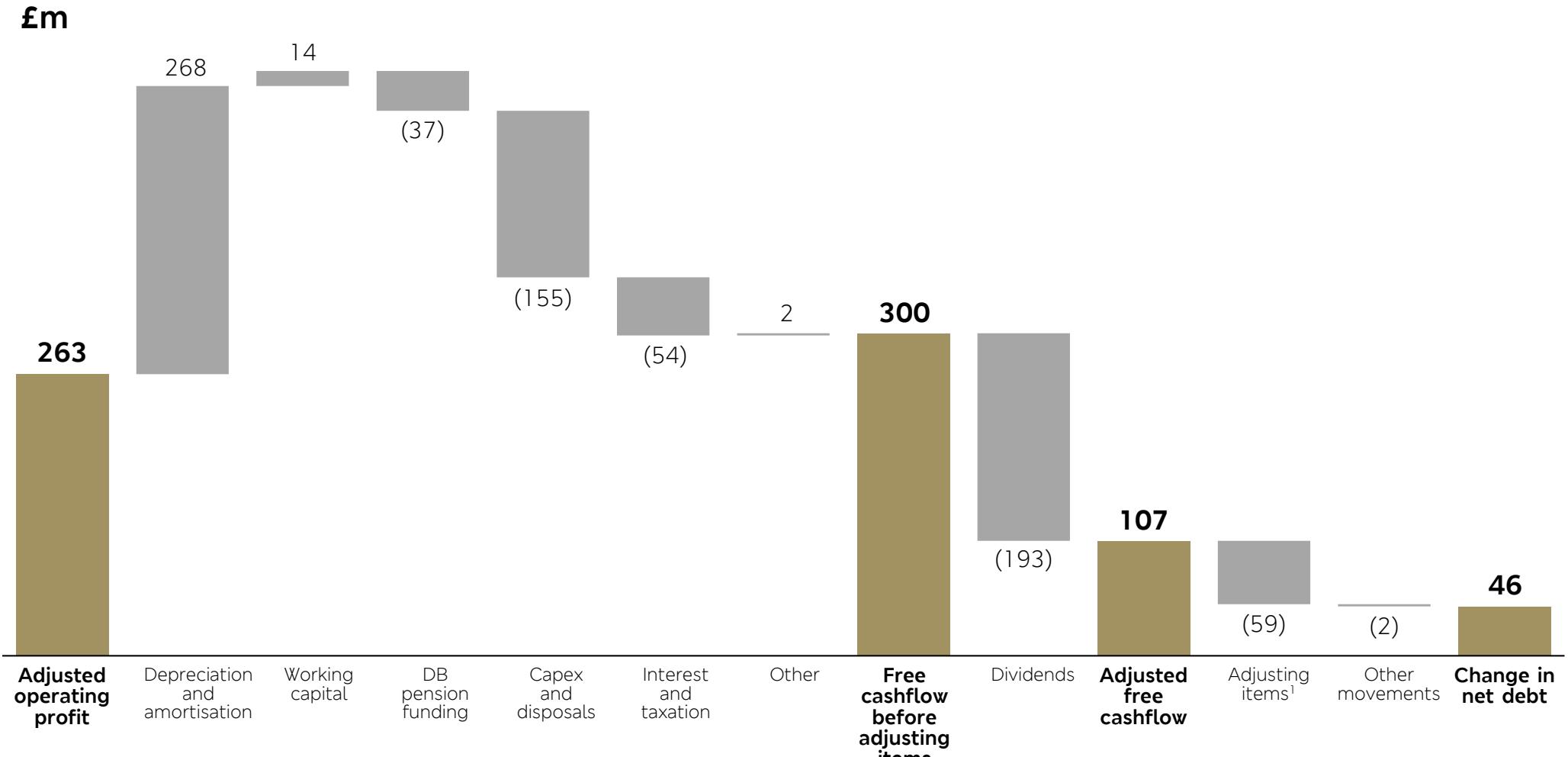
CAPITAL EXPENDITURE BEFORE DISPOSALS



RESTORING THE BASICS

CHANGE IN NET DEBT

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¹ Includes amounts relating to the closure of stores of £14.8m, net restructuring and redundancy of £9.4m, IT of £7.8m, International of £8.5m and M&S Bank of £15.3m.

RESTORING THE BASICS GUIDANCE 2018/19

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Love It For Less

M&S COLLECTION
Checked Jersey A-Line
Mini Skirt
£15.00

Food

Space ¹ (%)	Level
Gross margin change (bps)	0 to -50

Clothing & Home

Space reduction ¹ (%)	c.4
Gross margin change (bps)	0 to 50

UK operating costs (%)

Tax rate (%)	c. 22
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Capital expenditure (£m)

300 to 350

¹ As at year end

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RESTORING THE BASICS



STEVE ROWE
CHIEF EXECUTIVE



1

Leadership Transformation

4

Style and Value in Clothing

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Store Estate Fit for the Future

Accountable Businesses

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Digital First

Magic Again in Food

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Profitable Growth in International

Modernised Supply Chain

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Cost Savings of at Least £350m

RESTORING THE BASICS
LEADERSHIP TRANSFORMATION

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RESTORING THE BASICS ACCOUNTABLE BUSINESSES

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HOLLY'S MUST-HAVE

M&S COLLECTION
Animal Print Satin Long
Sleeve Blouse
£29.50

- Most significant change to our structure for decades
- One M&S family of businesses – Clothing & Home, Food, Property, International, Bank & Services
- Strongly connected by brand, shared stores, data, loyalty, IT and Plan A
- Each business with end-to-end functional accountability – faster decision making
- Streamlined corporate centre – devolved group marketing functions to our businesses



RESTORING THE BASICS

DIGITAL FIRST – ONE THIRD ONLINE

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WHAT'S HAPPENING

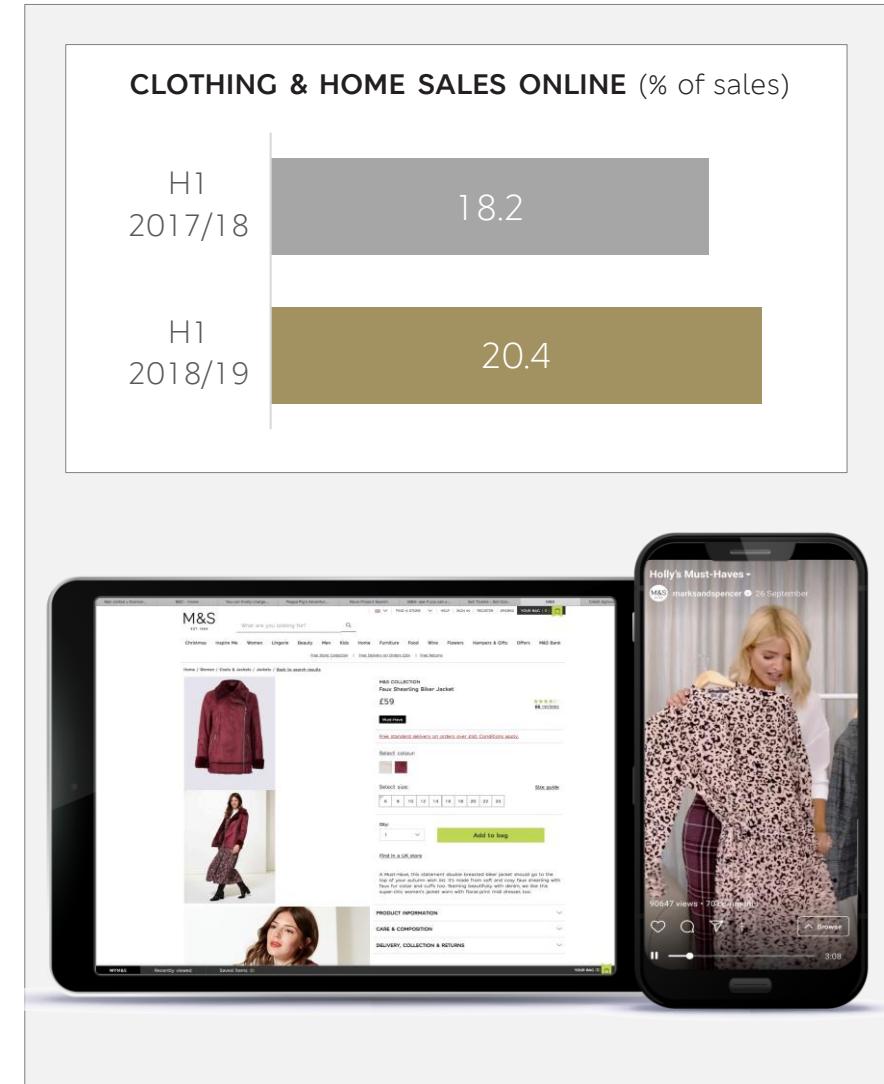
Basic improvements in speed, photography and lead times

- Online sales up 9.1% year-on-year, clothing growth ahead of the market
- Average page load speeds improved in ranking
- Social media piloting – shoppable Instagram
- Improving style perception through enhanced photography

WHAT'S NEXT

Focus on resiliency and service reliability which hold back performance

- Consistent, resilient performance
- Later cut off for Click & Collect (already at 10pm) and trailing same day delivery
- Faster payment speeds
- Mobile app – targeting over 1m users



RESTORING THE BASICS

DIGITAL FIRST – DIGITISING M&S

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WHAT'S HAPPENING

Addressing the opportunity for data, loyalty and digital

- Recruited Jeremy Pee to lead the turnaround of our data and loyalty programmes
- Partnered with Microsoft, Decoded, Founders Factory and True
- Trialling Mobile/Pay/Go

WHAT'S NEXT

Leverage systems, data and customer relationships to drive growth

- Extend Honeywell functionality and roll out another 3,000 devices across stores in H2
- Significantly improve Sparks proposition
- Leverage AI across the businesses
- Upgrade use of instore technology at all levels

The collage consists of three main parts. The top right image shows a Microsoft event with a speaker on stage and a large audience. The bottom left image shows a smartphone displaying a mobile payment app interface for "MOBILE PAY GO" with a shopping bag summary. The bottom right image shows the exterior of a Marks & Spencer store at night.

RESTORING THE BASICS

CLOTHING & HOME – OUR CUSTOMERS

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WHAT'S HAPPENING

Beginning to re-establish reputation for style and value

- Developing our “Must-Have” essentials
- Moving towards trusted value with over 1,000 lower price points
- Increasing “good mix” across women’s and men’s
- Introducing Holly as a style ambassador to broaden our appeal to family customers

WHAT'S NEXT

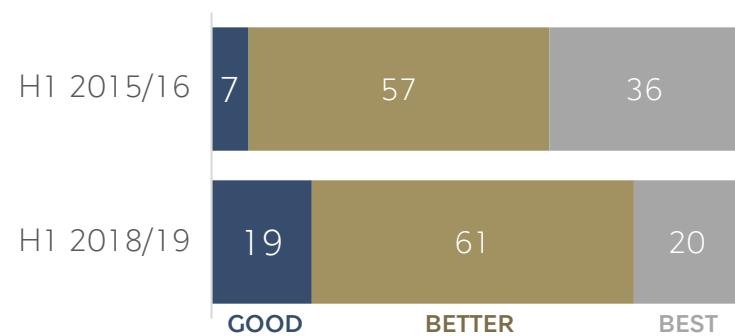
Widening customer appeal through more contemporary style and newness

- Summer womens and menswear fit update to be more flattering and modern
- Edit and relaunch sub brands
- Continue to reduce phases but add more regular ‘newness’ to provide inspiration all year round

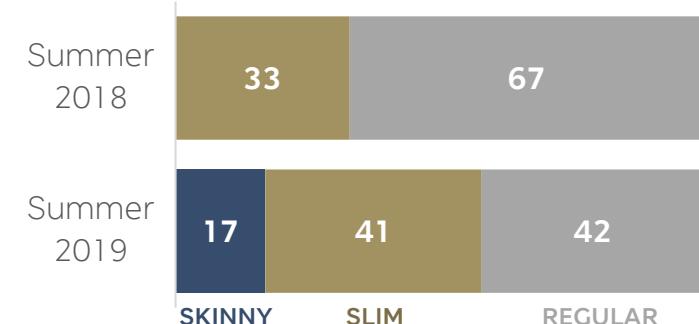
New Lower Price

M&S COLLECTION
Slim Fit Cotton Rich
Authentic Chinos
£25.00

MORE GOOD VALUE IN WOMENSWEAR (% of sales)



MORE SLIM FIT IN MENS CHINOS (% of options)



RESTORING THE BASICS

CLOTHING & HOME – OUR PROCESSES

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WHAT'S HAPPENING

Continuing to upgrade and reset range planning process

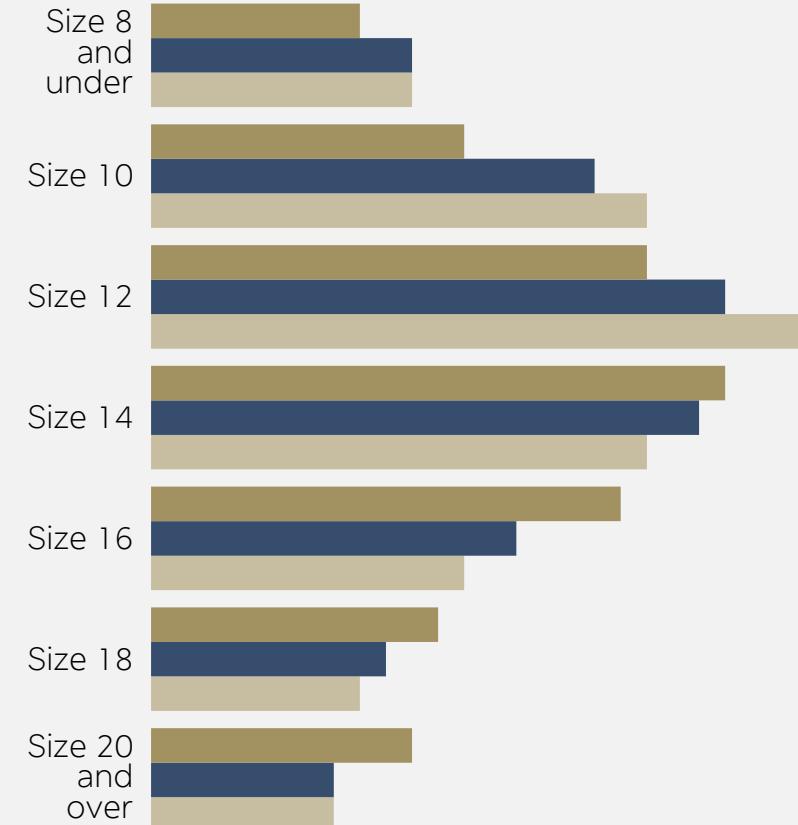
- Reducing number of options from Autumn 18
- Adjusting size ratios to improve availability
- Data and customer-led product planning

WHAT'S NEXT

Range planning process built around multi-channel customer

- Build store ranges around more typical footprint
- Product sign off with digital first mindset
- Fuse programme starting to address 'stock clog' and slow replenishment

RESHAPING OUR WOMENSWEAR BUY



■ M&S SS 2018 ■ M&S SS 2019 ■ Market SS 2018

RESTORING THE BASICS FOOD – OUR CUSTOMERS

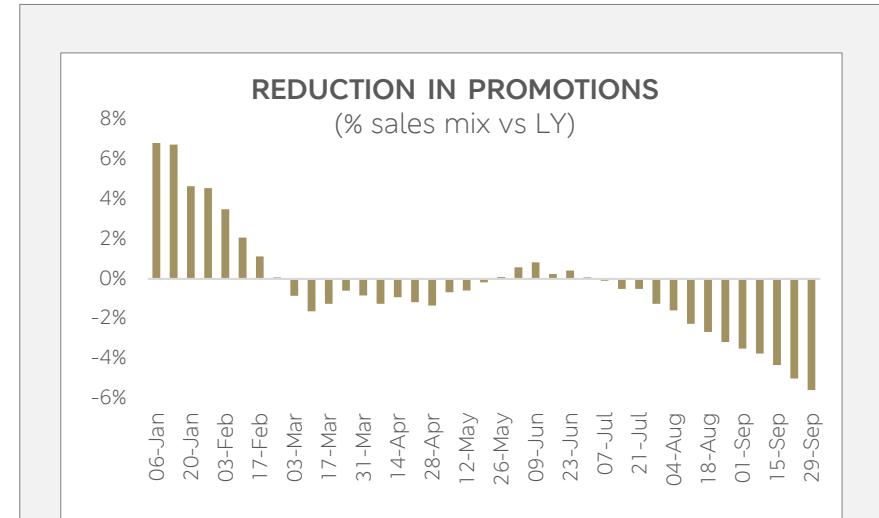
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WHAT'S HAPPENING

Moving away from overly premium ranges and confusing promotions

- Investing in New Lower Prices on items customers buy everyday
- Reducing complex and confusing promotions and multi-buys
- Changing instore messaging to communicate quality and value more boldly



WHAT'S NEXT

Reposition the offer to broaden our appeal and frequency of shop

- Resetting categories – with an initial focus on centre of plate
- Key Christmas lines already reduced in price
- An easier shopping experience – improved navigation and checkout



RESTORING THE BASICS FOOD – OUR PROCESSES

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WHAT'S HAPPENING

Improving speed to market and reducing complexity

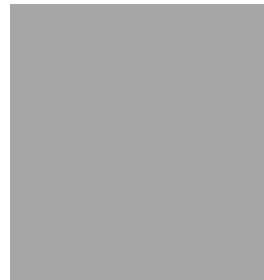
- Starting to accelerate product development time lines
- Fixing legacy systems to support improved decision making
- Trading focus through Buyers and Sellers programme

WHAT'S NEXT

Create stronger supplier partnerships and drive efficiencies

- Restore supplier partnerships through reduced complexity
- Reduce costs through faster decision making and greater collaboration
- Fuse programme to drive availability and radically reduce waste

PRODUCT DEVELOPMENT TIME LINES



24 Weeks



6 Weeks



M&S Pacific
Mall Delhi



WHAT'S HAPPENING

Established platform for implementing basic improvements

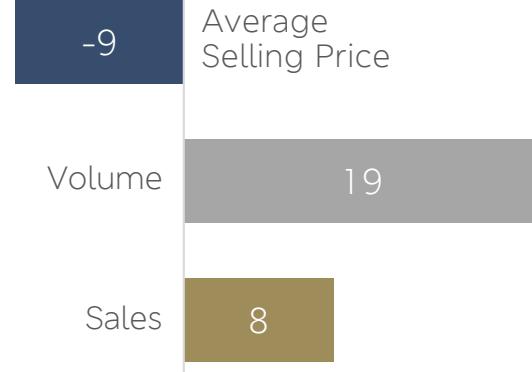
- Rolling out lower prices – average reductions of c. 9%
- Launched new websites in flagship markets
- Modernising stores cost effectively – 24 stores in H1
- Continued growth in India – 5 new stores in H1

WHAT'S NEXT

Adapt International ranges to compete in local markets

- Localise product – M&S style and quality sourced in and adapted to International markets
- Optimise order management and route to market based on partner location
- Integrate business plans with franchise partners to realise our market potential
- Roll out dedicated lingerie and beauty stores in India

IMPACT OF 'MARKET RIGHT' PRICING – RESULTS SINCE IMPLEMENTATION (%)



RESTORING THE BASICS FIT FOR THE FUTURE STORES

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WHAT'S HAPPENING

Restructuring a much older legacy estate than competitors

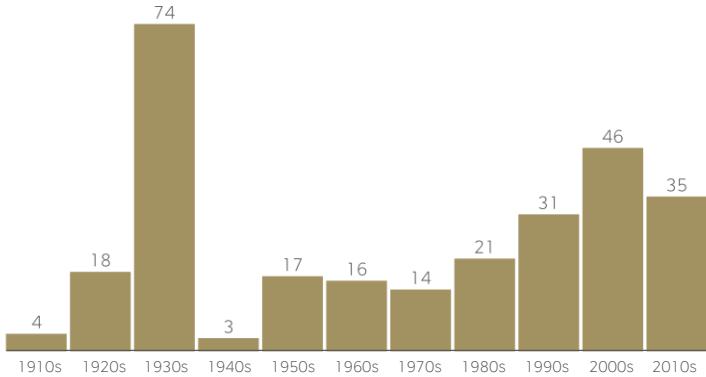
- Store closure programme on track with solid sales transfer to other M&S locations
- Reducing lease length with strict policy on new leases, renewals and breaks
- Improving basic service requirements in tills, in-store technology and Click & Collect

WHAT'S NEXT

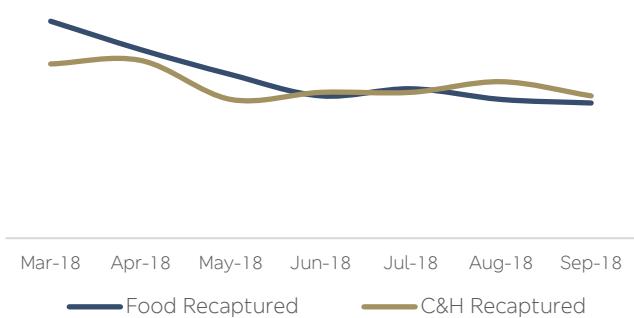
Selective store redevelopment and replacement in planning

- Reduce rental cost and shed non-productive space, working with landlords to improve access and car parking
- Maximise value of our estate through more active approach to property management
- Early stages of planning redevelopment of selected sites

FULL LINE STORES
(Decade of opening)



PROGRESSIVE SALES TRANSFER FROM 2018 STORE CLOSURES
(% sales)





WHAT'S HAPPENING

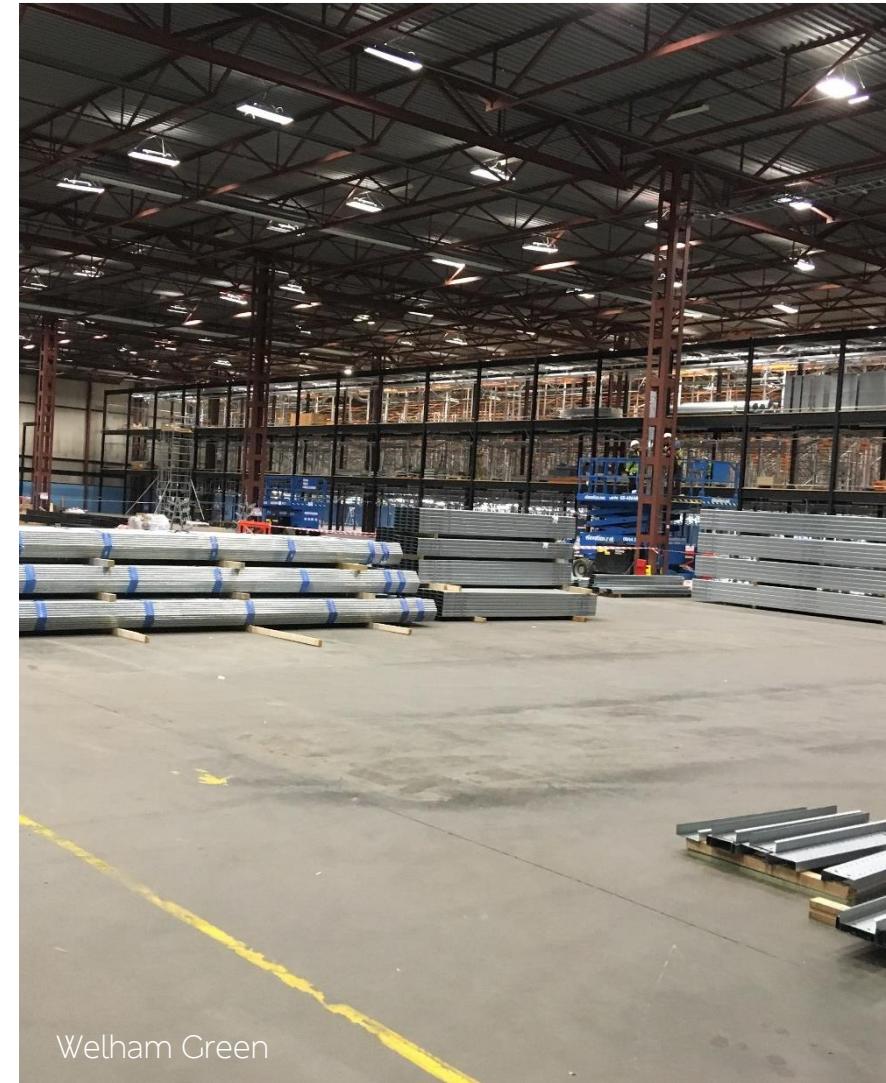
Dealing with complex, inefficient distribution network

- Accelerating the closure of non-strategic sites
- Welham Green NDC live in Spring allowing us to achieve 85% single tier
- Investing to deliver c.100k additional singles capacity for peak in Donington
- New warehouse management system deployed to 7 warehouses

WHAT'S NEXT

A simpler cost-effective supply chain that supports one third online

- Launching end to end Fuse supply chain initiatives
- Develop additional despatch capacity to achieve one third online
- Target up to 4 weeks reduction in stock holding



Welham Green



WHAT'S HAPPENING

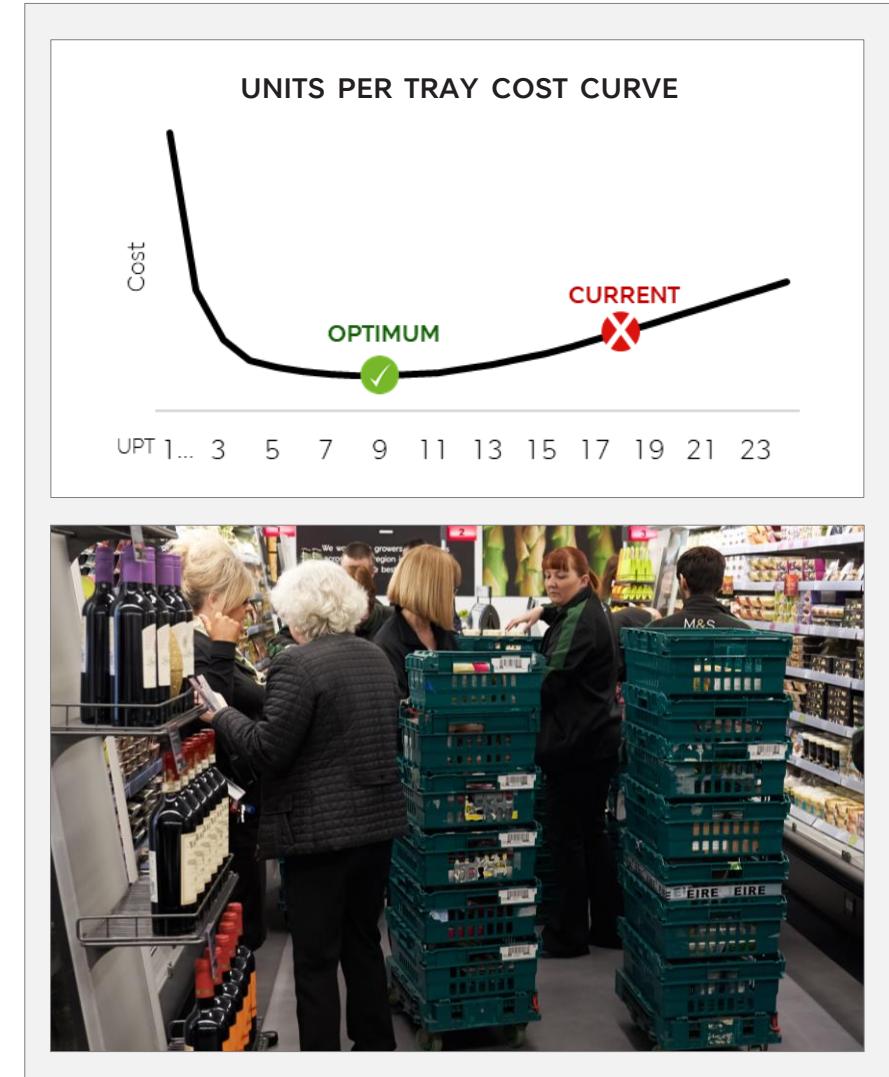
Stock levels, availability, markdown and waste remain uncompetitive

- ‘Fuse’ successfully launched across stores
- Improving the timing and scope of markdowns
- Optimising number of units per tray
- Greater stock file accuracy through new counting process
- Reducing excess ambient stock by resetting space – c. £20m opportunity

WHAT'S NEXT

Long-term structural solution required for our supply chain

- Develop our end-to-end operating model
- Develop our integrated network and transport strategy
- More effective forecasting and store allocation system
- Targeting 98% fresh availability and 30% less waste



RESTORING THE BASICS OPERATING COST SAVINGS OF AT LEAST £350M

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WHAT'S HAPPENING

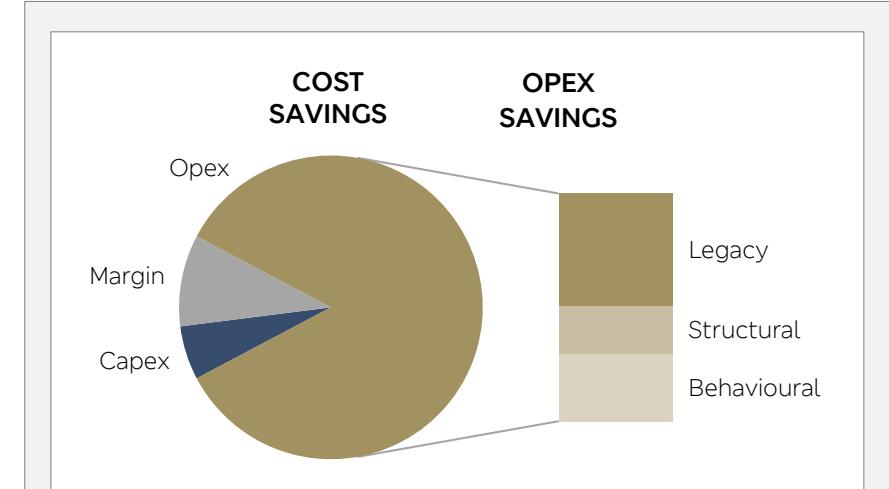
Deep dive into entire cost base

- Move to single London office
- Closure of RDCs and opening of Welham NDC
- Management restructured in retail during H1
- Media/POS, facilities maintenance and contact centres retender

WHAT'S NEXT

Opportunities in addition to opex savings

- Further reduce central costs
- Greater investment in self check-out and self-scan
- Major reduction in over-specified procurement across M&S
- More agile supply chain, less clogged with stock



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Leadership Transformation

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Cost Savings of at Least £350m

Holly's
**MUST
HAVES**



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APPENDIX

STORES AND SPACE

UK	Sep 18	Mar 18	Openings	Closures	Change
Shopping Centre	16	16	0	0	0
Retail Park	69	70	0	(1)	(1)
High Street – large	82	86	0	(4)	(4)
High Street	112	128	0	(16)	(16)
Outlets	36	39	0	(3)	(3)
Simply Food owned	293	286	11	(4)	7
Simply Food franchise	421	410	12	(1)	11
Add back downsize to Simply Food ¹	0	0	(1)	1	0
UK stores	1,029	1,035	22	(28)	(6)
Selling space (absolute, m sq ft)	17.0	17.5			
C&H	10.7	11.1			
Food	6.3	6.4			
International	Sep 18	Mar 18	Openings	Closures	Change
Owned	128	124	5	(1)	4
Franchise	299	304	10	(15)	(5)
International stores	427	428	15	(16)	(1)
Selling space (absolute, m sq ft)	5.1	5.2			

¹ One Retail Park store was downsized from full line to Simply Food owned in H1