

M&S

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INTERIM RESULTS AND STRATEGY UPDATE

8 November 2016

AGENDA

Financial results: H1 2016/17

Operational update

Further strategic initiatives

Financial implications and guidance

BUILDING A PROFITABLE, SUSTAINABLE M&S





REVIEW OF H1 2016/17

Helen Weir

Chief Finance Officer

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OVERVIEW

Group sales	£5.0bn	+0.9%
Underlying profit before tax ¹	£231.3m	-18.6%
Profit before tax	£25.1m	-88.4%
Underlying EPS ¹	11.5p	-18.4%
Free cash flow pre shareholder returns	£174m	↓£83m
Dividend	6.8p	-
Net debt	£2.2bn	↑£43m

FOOD SALES



	Q2	H1
Total	+4.1%	+4.0%
LFL	-0.9%	-0.9%

Continued good performance
Increased market share
New stores performing well

FOOD GROSS MARGIN

2015/16	32.5%
Buying margin	-10bps
Operational efficiencies	+20bps
Waste	0bps
2016/17	32.6%

CLOTHING & HOME SALES



	Q2	H1
Total	-2.4%	-5.3%
LFL	-2.9%	-5.9%

Improving trend

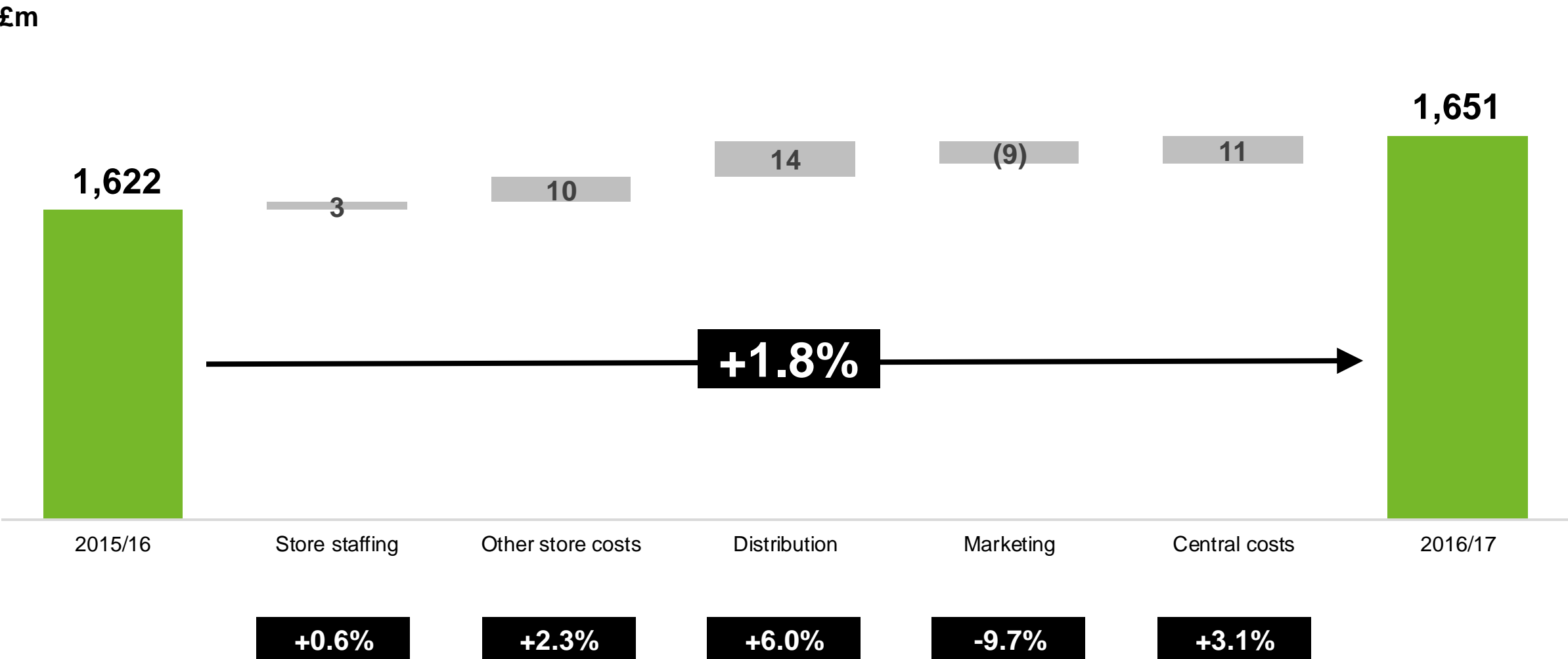
Stabilised full price sales

Lower promotional participation

CLOTHING & HOME GROSS MARGIN

2015/16	56.6%
Buying margin	+90bps
Discounting	-80bps
2016/17	56.7%

UK OPERATING COSTS



Prior year numbers have been reclassified to reflect changes in UK organisation structure

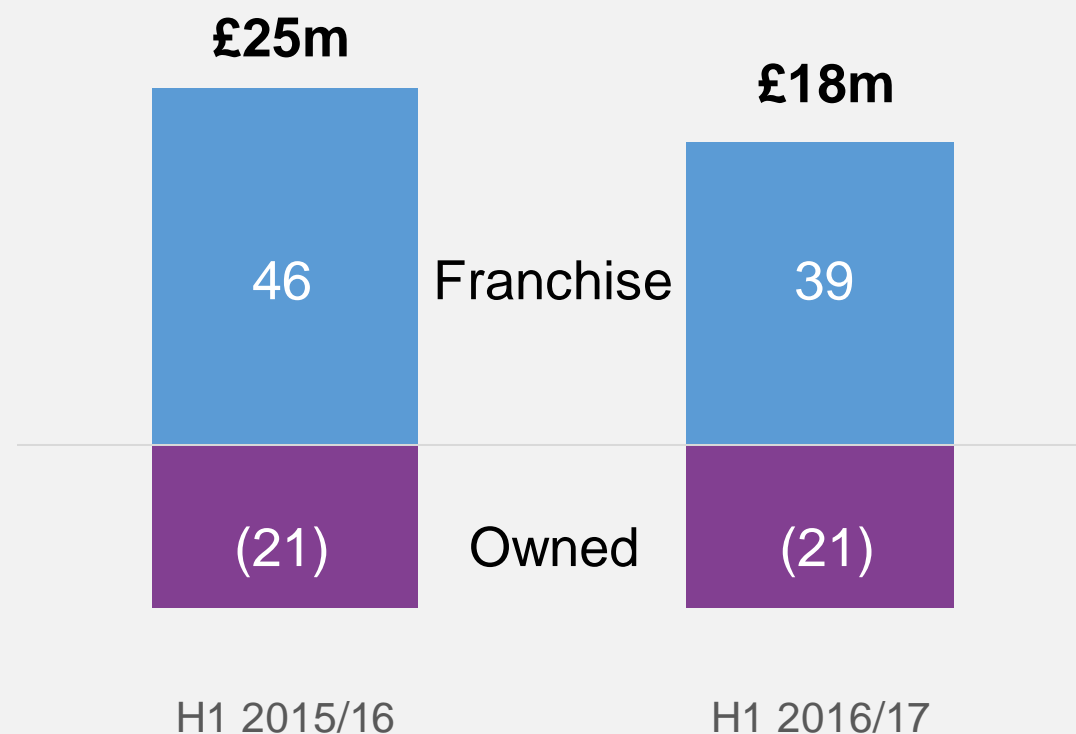
INTERNATIONAL

	Q2	H1
Sales (cc)	-2.5%	-1.0%
Sales (reported)	8.9%	7.6%

Challenging macro-economic
environment

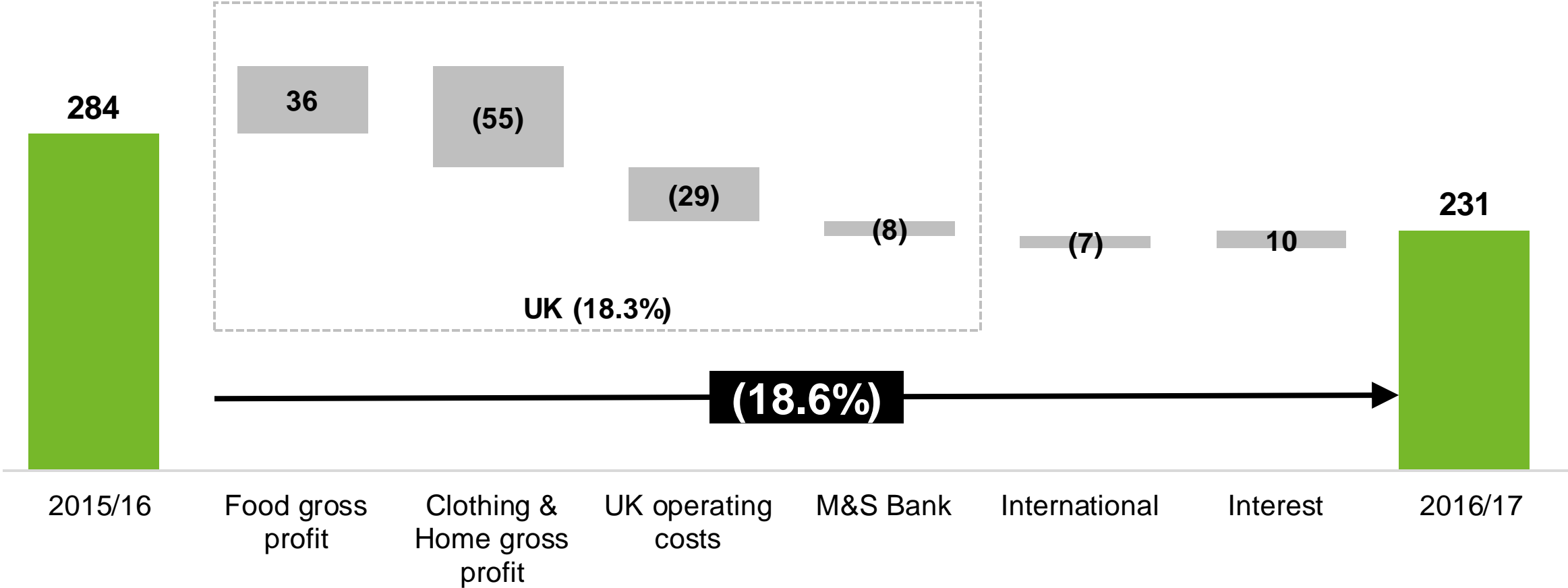
Continued under-performance of
owned business

Operating Profit



UNDERLYING PROFIT BEFORE TAX

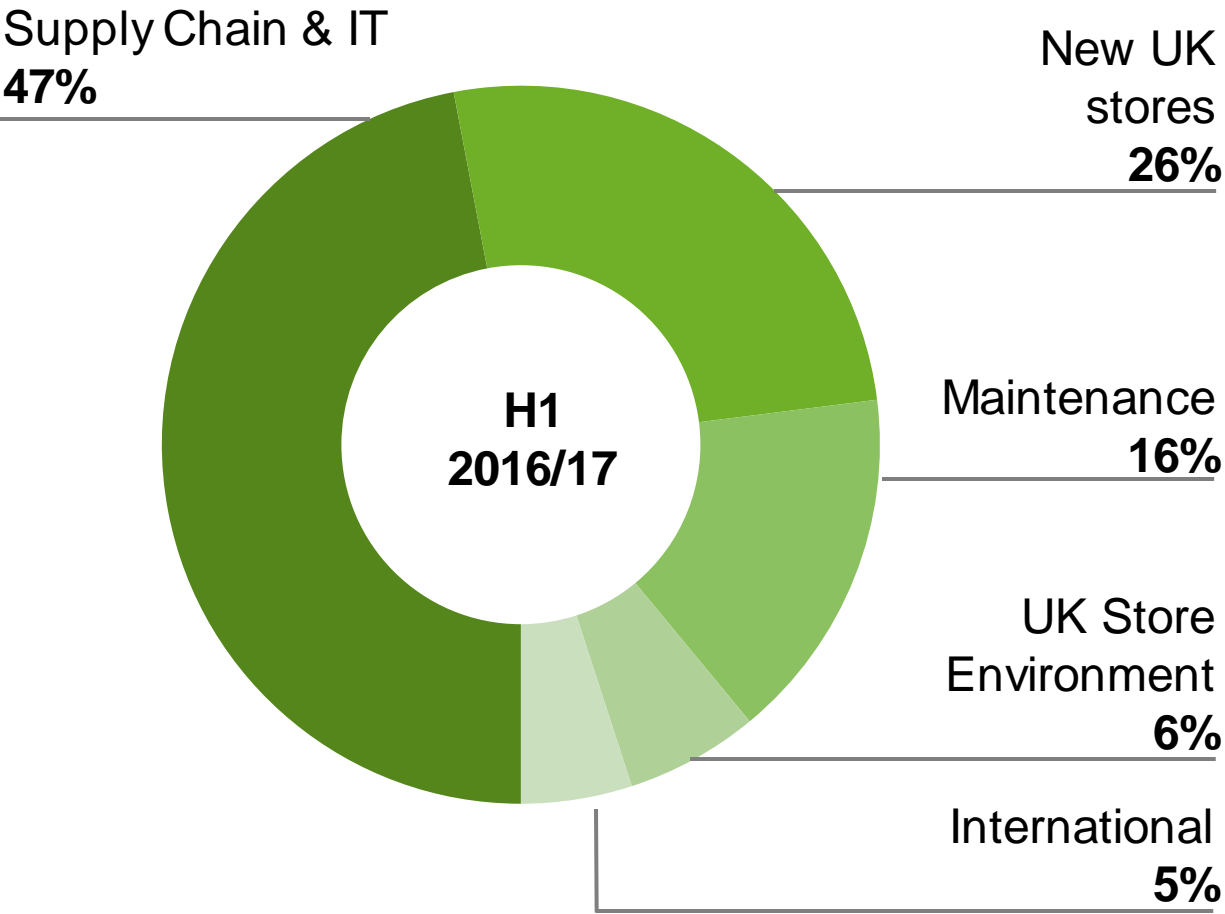
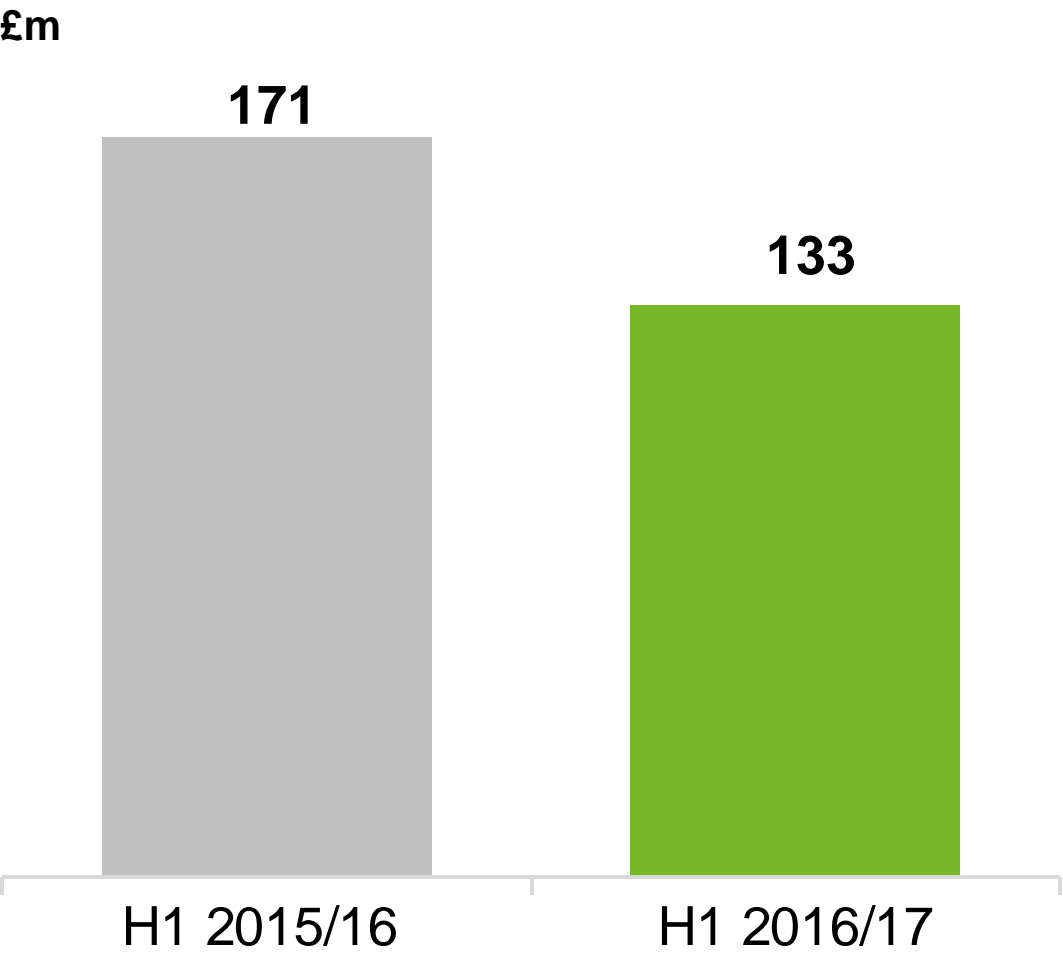
£m



NON-UNDERLYING COSTS

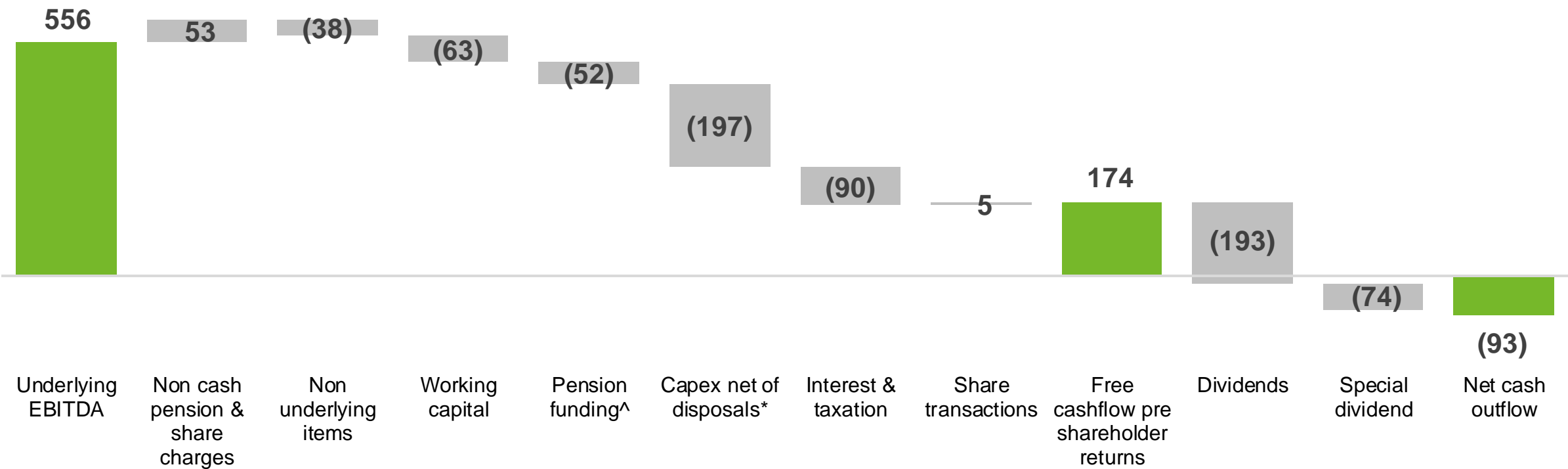
Pension and pay	£(154)m
M&S Bank PPI	£(23)m
Organisation	£(16)m
UK store estate	£(11)m
International & other	£(2)m
Total	£(206)m

CAPITAL EXPENDITURE



CASHFLOW

£m



^Total pension payments during the year amounted to £124.1m

*Includes cash payments in relation to prior year capital accruals

SUMMARY

Continued outperformance in Food

Progress implementing Clothing & Home strategy

Costs and capex tightly controlled

Strong cash generation

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OPERATIONAL & STRATEGIC UPDATE

Steve Rowe

Chief Executive Officer

PRIORITIES TO ADDRESS

Customer and Brand			
Recover and grow Clothing & Home		Continue to grow Food	
International	UK Store Estate	Organisation	Cost review
Financial plan			

PRIORITIES TO ADDRESS

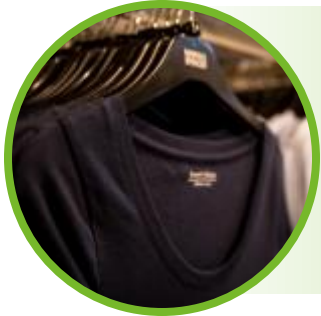
Customer and Brand			
Recover and grow Clothing & Home		Continue to grow Food	
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FOCUS ON PRODUCT



Contemporary, wearable style

Eliminated duplication, reduced options 10% and bought in depth



Wardrobe essentials

Focus on areas of core authority; strong growth and market share increase in bras



Famous for fit

Reviewed blocks; in-store events

DRIVE EXECUTION



Availability

Autumn season launch +8% points



Price and promotion

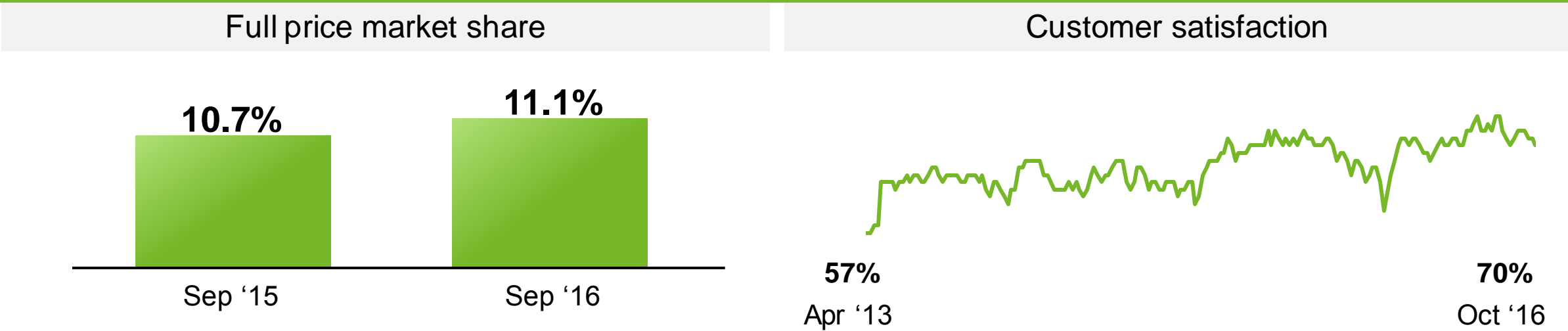
1700 lines reduced with fewer promotions



Customer experience

Training for all colleagues, improved online and store experience

DELIVER IMPROVED PERFORMANCE



Kantar Worldpanel Fashion data, 12 w/e 25 Sep '16, data rounded

Increasing full price market share

Customer satisfaction scores up

MOVING FORWARD

Focus on M&S core offer & store layouts

Reduce promotions & clearance sales; 4 per year

Balanced approach to currency



PRIORITIES TO ADDRESS

Customer and Brand			
Recover and grow Clothing & Home		Continue to grow Food	
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Financial plan			

FOCUS ON QUALITY & INNOVATION



Continuous innovation

c.25% catalogue churned



Focus on health

Convenience & specialist products



Investing in capability

Supplier collaboration

DRIVE EXECUTION



Competitive prices

Volume and value optimisation



Better availability & choice

Continued improvement and tailored ranges



Convenience

New stores ahead of plan and growth in food to order

DELIVERING CONTINUED STRONG GROWTH

Strong growth in key categories

Further market share gains +20bps*

Sales in new stores 17% ahead of plan



MOVING FORWARD

Health and Lifestyle

Choice & range

Convenience



PRIORITIES TO ADDRESS

Customer and Brand			
Recover and grow Clothing & Home		Continue to grow Food	
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Financial plan			

FULLY COMMITTED TO AN INTERNATIONAL BUSINESS



REVIEW OF OUR OWNED BUSINESS



MOVING FORWARD

Retain profitable owned business

Develop with established partners

Focus on operational execution



PRIORITIES TO ADDRESS

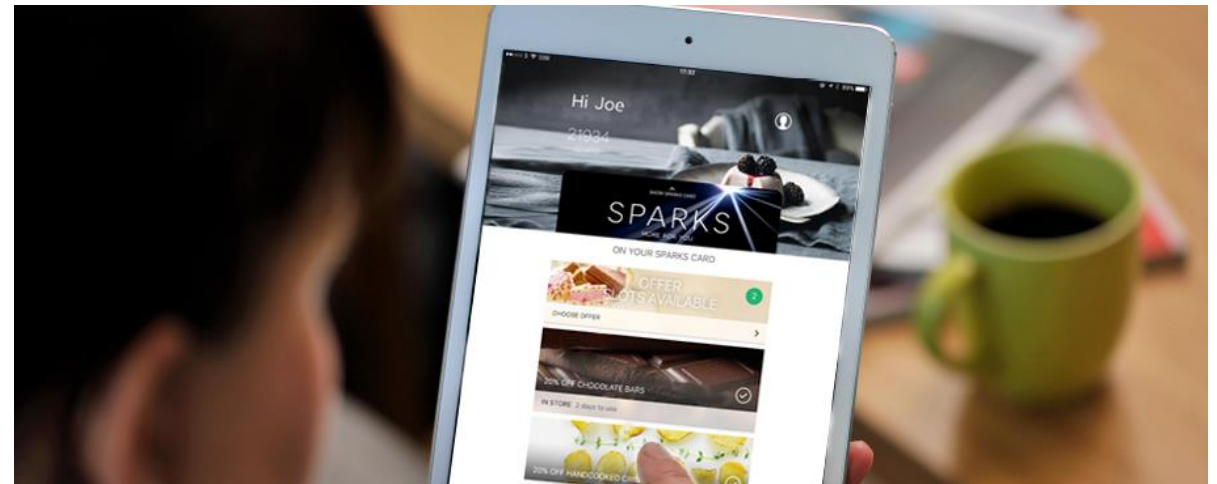
Customer and Brand			
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EVOLVING STORES WITH CUSTOMER NEEDS

Changing customer behaviour

Fewer, more inspirational Clothing & Home stores

Simply Food adding c.200 stores by 2018/19



MORE STORES, IMPROVED CLOTHING & HOME SPACE

Food



Clothing & Home over five years



Changes in over 100 locations

PRIORITIES TO ADDRESS

Customer and Brand			
Recover and grow Clothing & Home		Continue to grow Food	
International	UK Store Estate	Organisation	Cost review
Financial plan			

COST REVIEW

Creating a lean,
effective Head Office

Pension & pay

Consultation complete 

Consultation complete 

Structure aligned to strategic priorities

Majority of employees better off

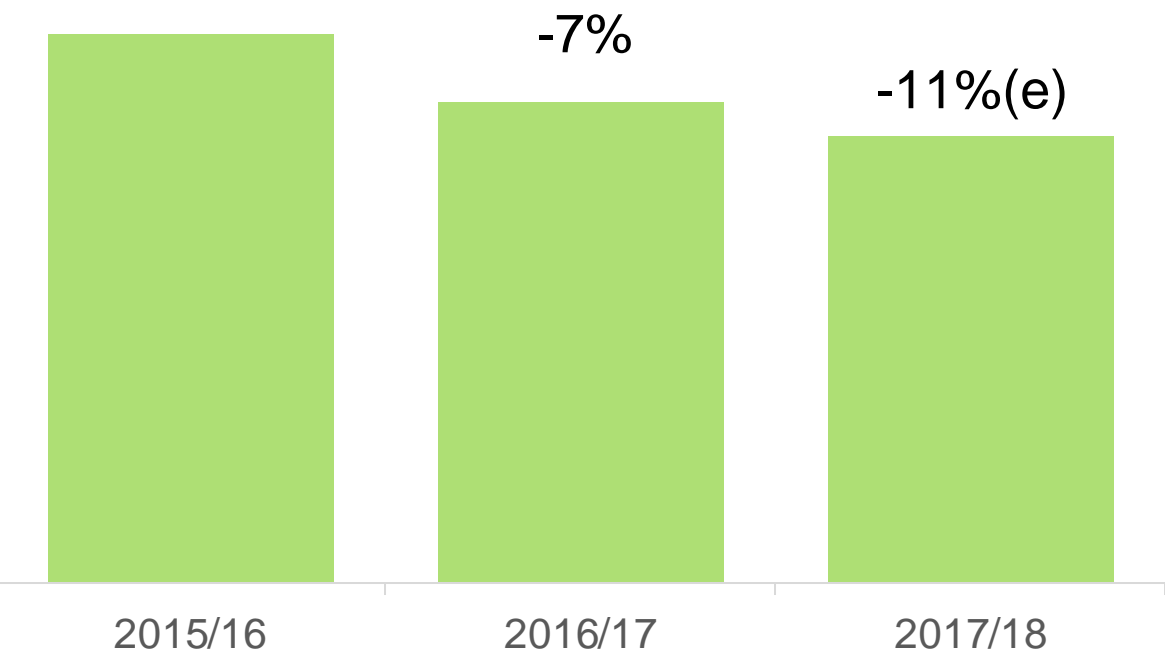
Continue to develop cost culture

PRIORITIES TO ADDRESS

Customer and Brand			
Recover and grow Clothing & Home		Continue to grow Food	
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Financial plan			

MITIGATING CURRENCY

Currency rates: as at Nov 2016



MITIGATING ACTIONS

Better buying

Optimising volumes

Reduced markdown

Competitive prices

FY 2016/17 GUIDANCE

Clothing & Home:

Sales	Similar trend to 2015/16
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Gross margin	c.0 to +50 bps
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Food:

Sales	Space c.+5%
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Gross margin	Level bps
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Operating costs	c.+3.5%
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Capital Expenditure	c.£400m
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Underlying tax rate	c.20%
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FINANCIAL IMPLICATIONS OF PROPOSED STRATEGIC ACTIONS

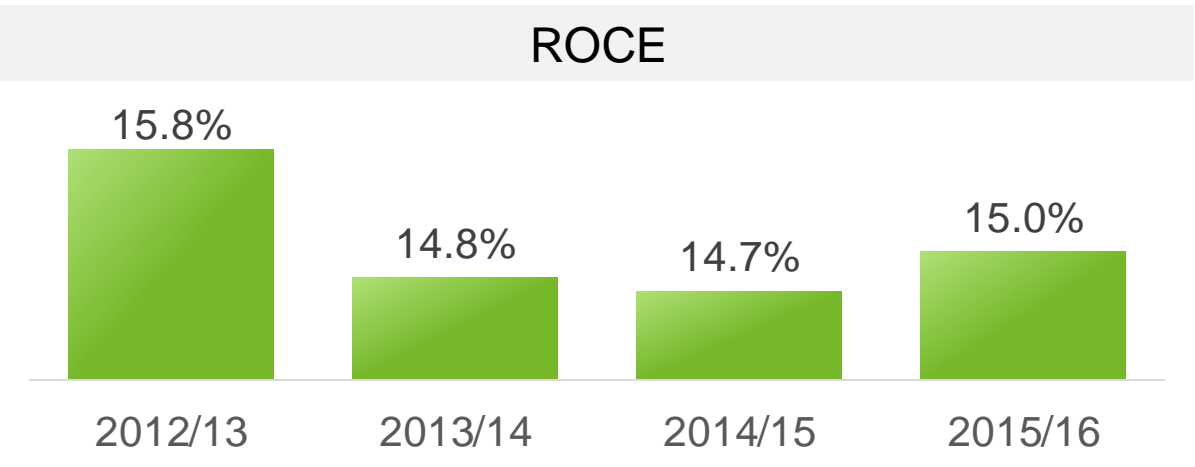
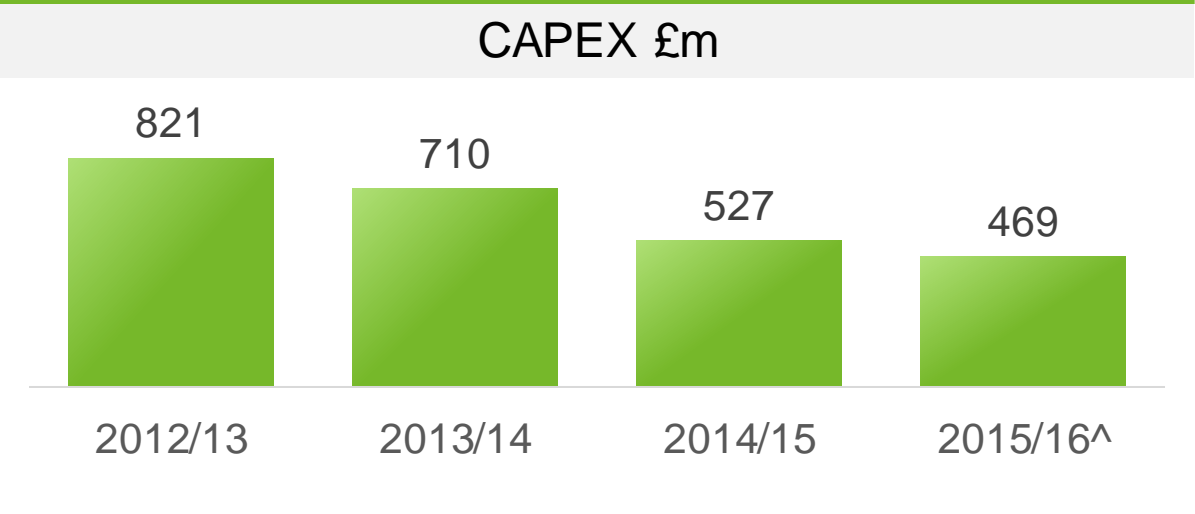
	Timeline	Non underlying cost	Of which cash:	Capital investment
International	Over 12 months	c.£150-200m	Mostly cash	-
UK full line store estate	Over 5 years	c.£50-100m p.a.	Up to 50%	£50m p.a.

FOCUSING ON RETURN ON CAPITAL

Significant infrastructure spend

Capex levels reduced

Reviewed approach to capital investment



^Excludes acquisition of Bradford

IMPROVING RETURNS ON INVESTMENT

Market undergoing
significant structural change

Volatile and uncertain
outlook

Underperformance of
projects

Reviewed approach to Capital investment

Assessed measures for
project appraisal

Targeting shorter lease
lengths

Balance of projects:
growth vs. maintenance

Improve Returns on Capital

IN SUMMARY

Customer at the heart: progress against key priorities

Building a sustainable and profitable international business

Creating a relevant and accessible store estate

A solid base to deliver sustainable returns for shareholders

APPENDICES

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INTERNATIONAL

	H1 2015/16	H1 2016/17	Var %	Var % (cc)
Sales	507	545	+7.6	-1.0
Owned	343	393	+14.6	+1.6
Franchise	164	152	-7.3	-7.0
Operating Profit	25	18	-25.5	-10.4
Owned	(21)	(21)	-3.8	-17.5
Franchise	46	39	-15.4	-14.3

Prior year numbers have been restated for a revised allocation of overheads to more accurately reflect business drivers

INTERNATIONAL

	H1 2015/16	H1 2016/17	Var %	Var % (cc)
Sales	507	545	+7.6	-1.0
Europe	283	313	+10.8	-0.5
Middle East	83	65	-21.2	-21.4
Asia	141	167	+18.0	+9.1
Operating Profit	25	18	-25.4	-10.4%
Europe	(11)	(9)	18.5	41.2
Middle East	28	20	-26.9	-27.0
Asia	8	7	-11.1	-13.3

Prior year numbers have been restated for a revised allocation of overheads to more accurately reflect business drivers

STORES AND SPACE

UK	Sep 16	Mar 16	Openings	Closures	Change
Premier	12	12			
Major	62	62			
High Street	230	228	3	-1	2
Simply Food owned	236	222	14		14
Simply Food franchise	356	349	11	-4	7
Outlet	40	41	1	-2	-1
UK Stores	936	914	29	-7	22
Selling space (m sq ft)	17.2	17.0			
International					
Europe	149	150	3	-4	-1
Middle East	147	154	4	-11	-7
Asia	169	164	13	-8	5
International stores	465	468	20	-23	3
Selling space (m sq ft)	5.9	6.1			-0.2