

*Holly's*  
**MUST  
HAVES**



# M&S

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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

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**HUMPHREY SINGER**  
FINANCIALS REFLECTING THE  
EARLY STAGES OF OUR PLAN

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



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**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*



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FACING THE FACTS

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MARKS & SPENCER

YOUR BOURNEMOUTH STORE IS

Never tackled our  
bureaucratic culture

Well behind the  
curve in digital  
and tech

Lost our style and  
value identity in  
Clothing & Home

14 APRIL 2018

Operationally weak  
and drifting upscale  
in Food

Store estate not  
fit for the future

High operating costs  
with outdated  
supply chain

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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

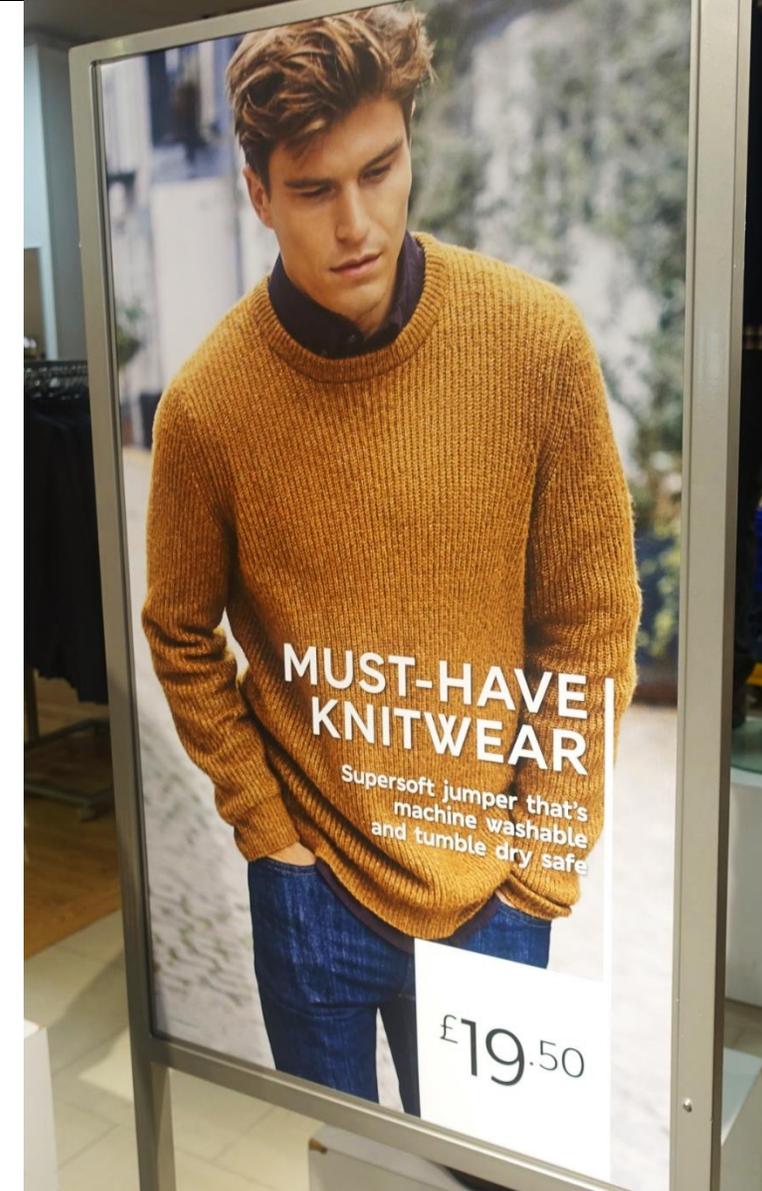


# RESTORING THE BASICS STRATEGIC PROGRESS



## Entire business focused on restoring the basics

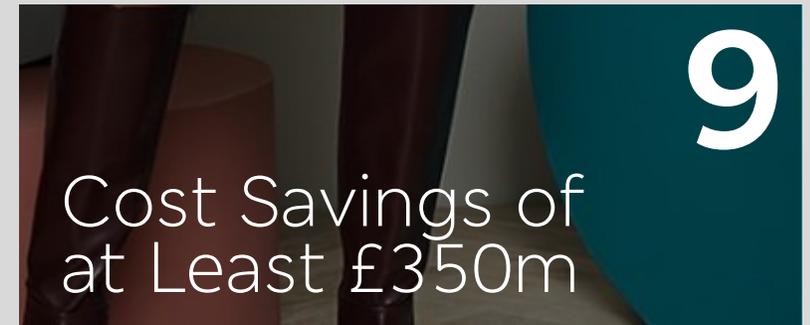
- Decisively reshaped organisation under substantially new leadership
- Clothing & Home focused on “Must-Haves” and reshaping buy
- Food focused on every day value and family appeal
- Catching up in digital – 20.4% of UK Clothing & Home now online
- Accelerating store closure and £350m cost reduction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



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ACCELERATED THE PACE OF CHANGE

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THE BASICS



**HUMPHREY SINGER**  
CFO



RESTORING THE BASICS  
FINANCIALS AT A GLANCE



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



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 <sup>1</sup>	31.4%
Buying margin	-25bps
Waste	-
<b>H1 2018/19</b>	<b>31.2%</b>

<sup>1</sup> 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 <sup>1</sup>	9.9%	8.5%	9.1%

<sup>1</sup> M&S.com sales excluding Food, marketplaces and localised International websites

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

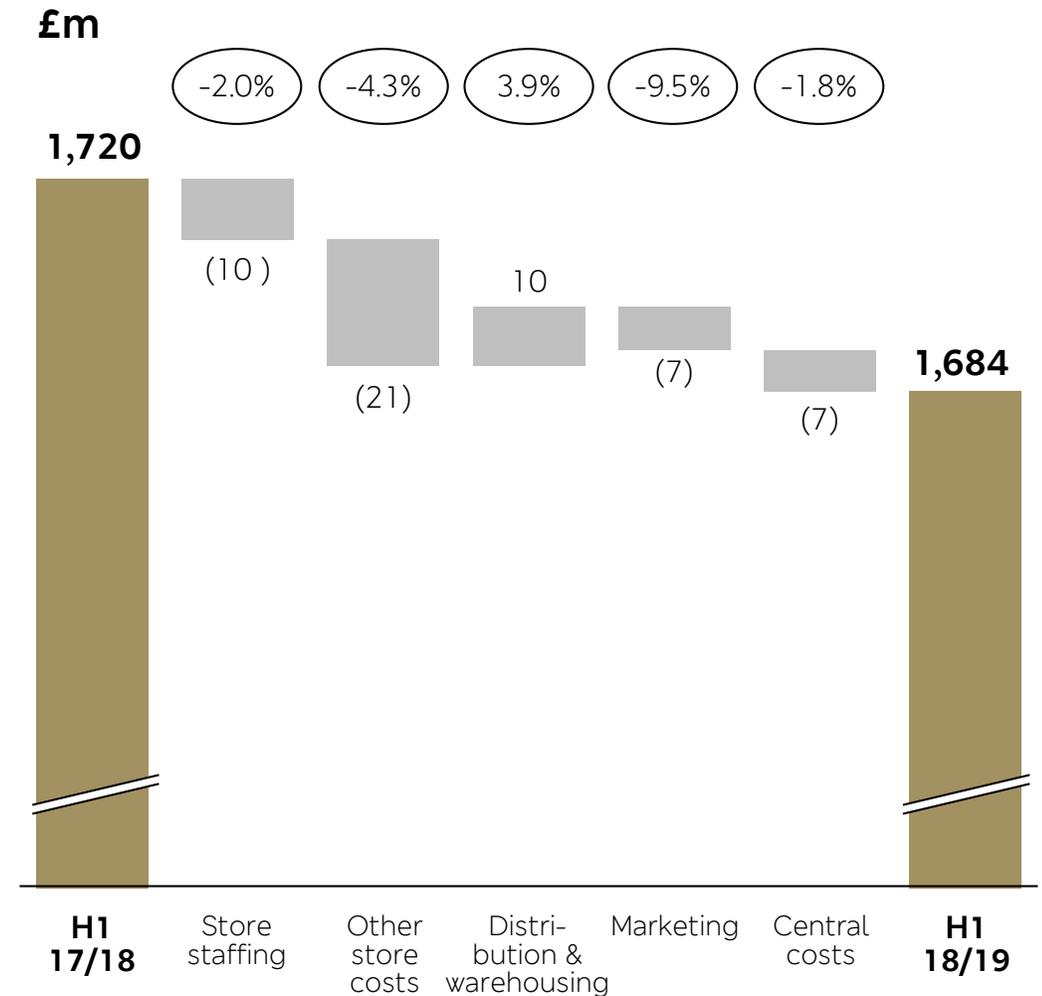
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# RESTORING THE BASICS

## OPERATING COSTS



Cost drivers	
	<b>H1</b>
Space, volume and channel shift	0.6%
Inflation	1.5%
Cost savings	-2.3%
Other	-1.9%
<b>Year-on-year change</b>	<b>-2.1%</b>



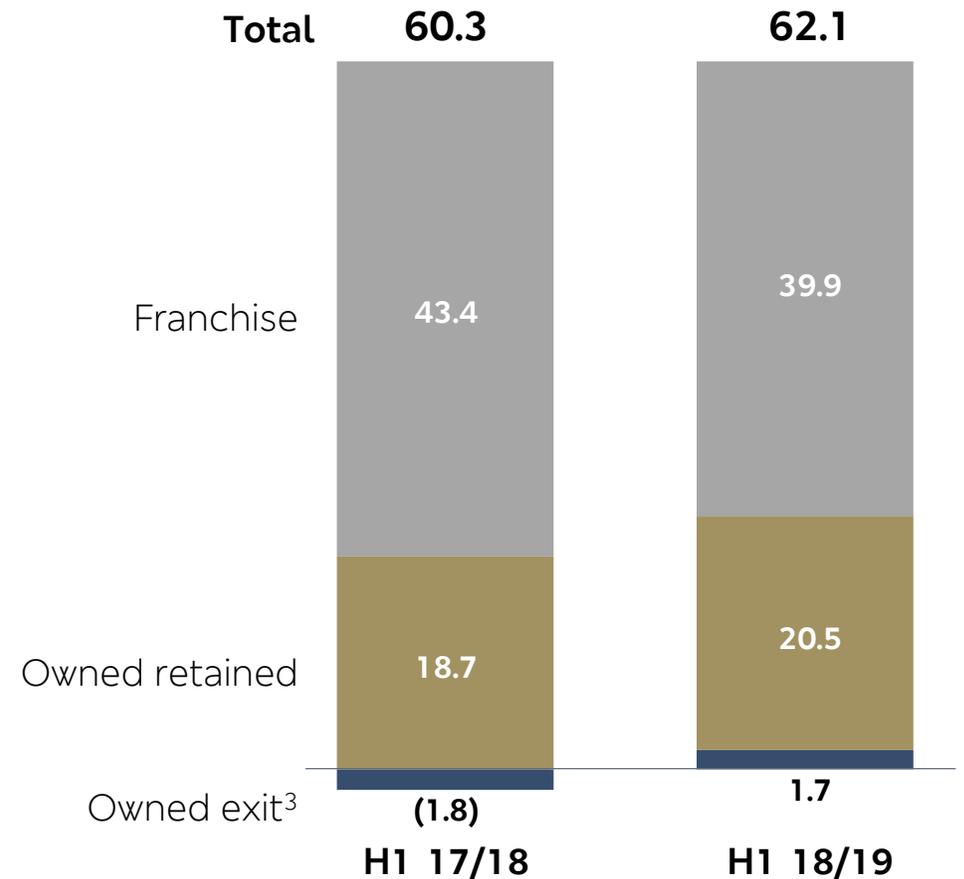


Revenue			
	Q1	Q2	H1
Revenue <sup>1</sup>	-21.1%	-15.8%	-18.4%
Adjusted revenue <sup>2</sup>	2.5%	0.7%	1.6%

<sup>1</sup> Constant currency.

<sup>2</sup> Constant currency, excluding exit markets and Hong Kong.

Operating profit £m



<sup>3</sup> Last year restated for closure of our online business in China.

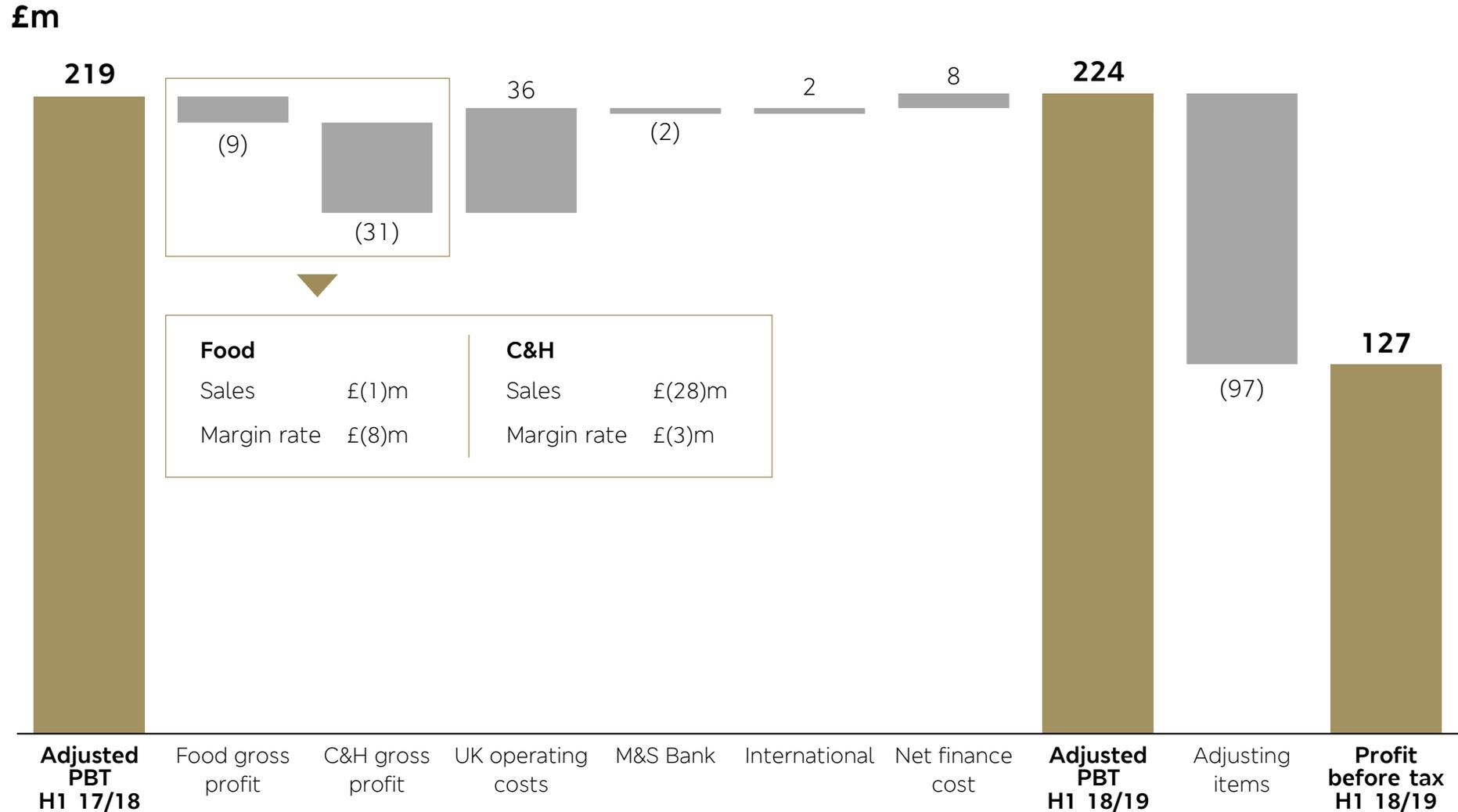
# RESTORING THE BASICS

## PROFIT BRIDGE



NEW

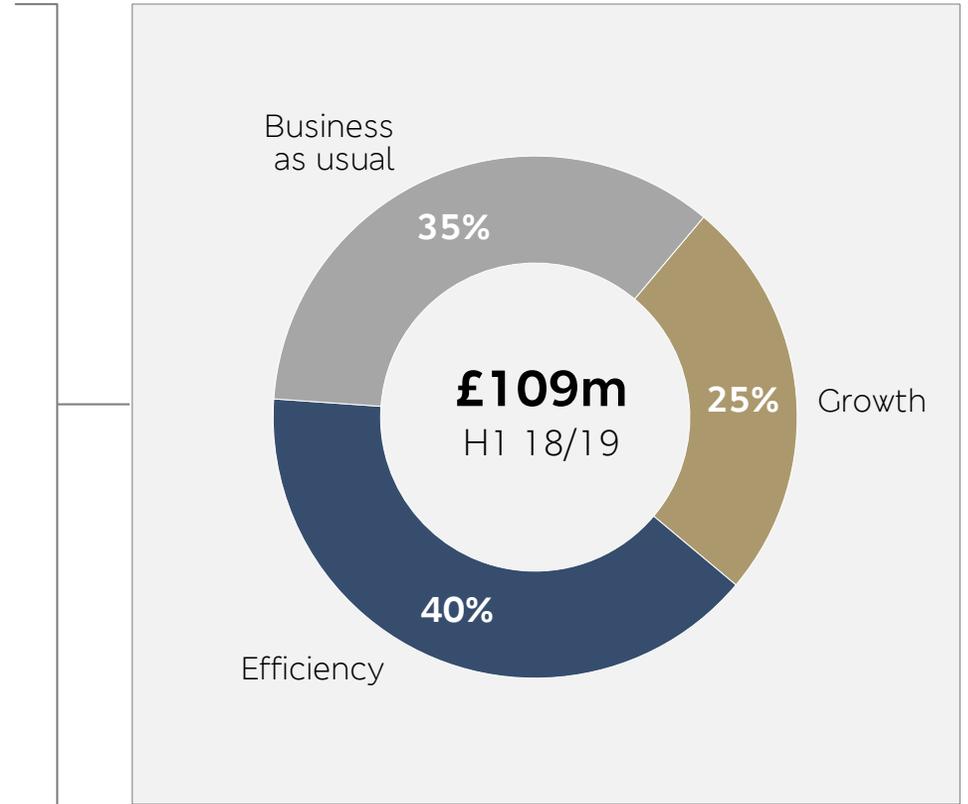
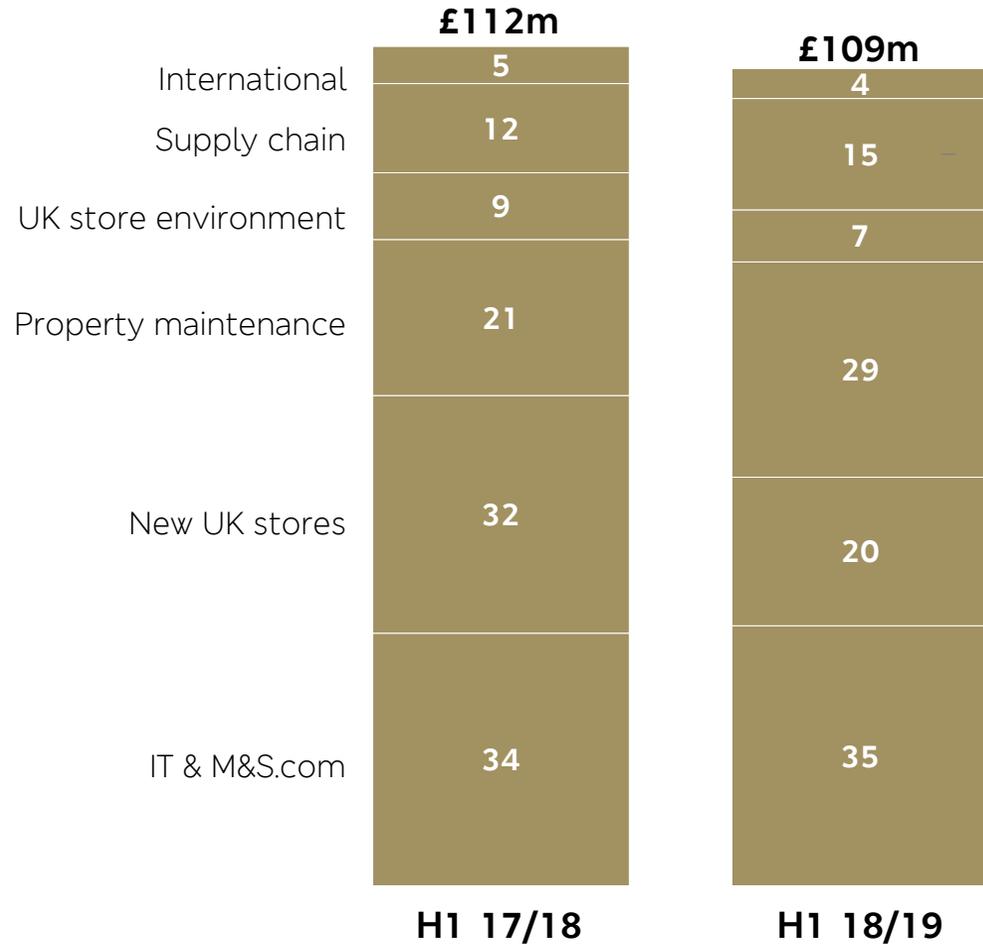
Pure Cotton Jumper  
From £12.00





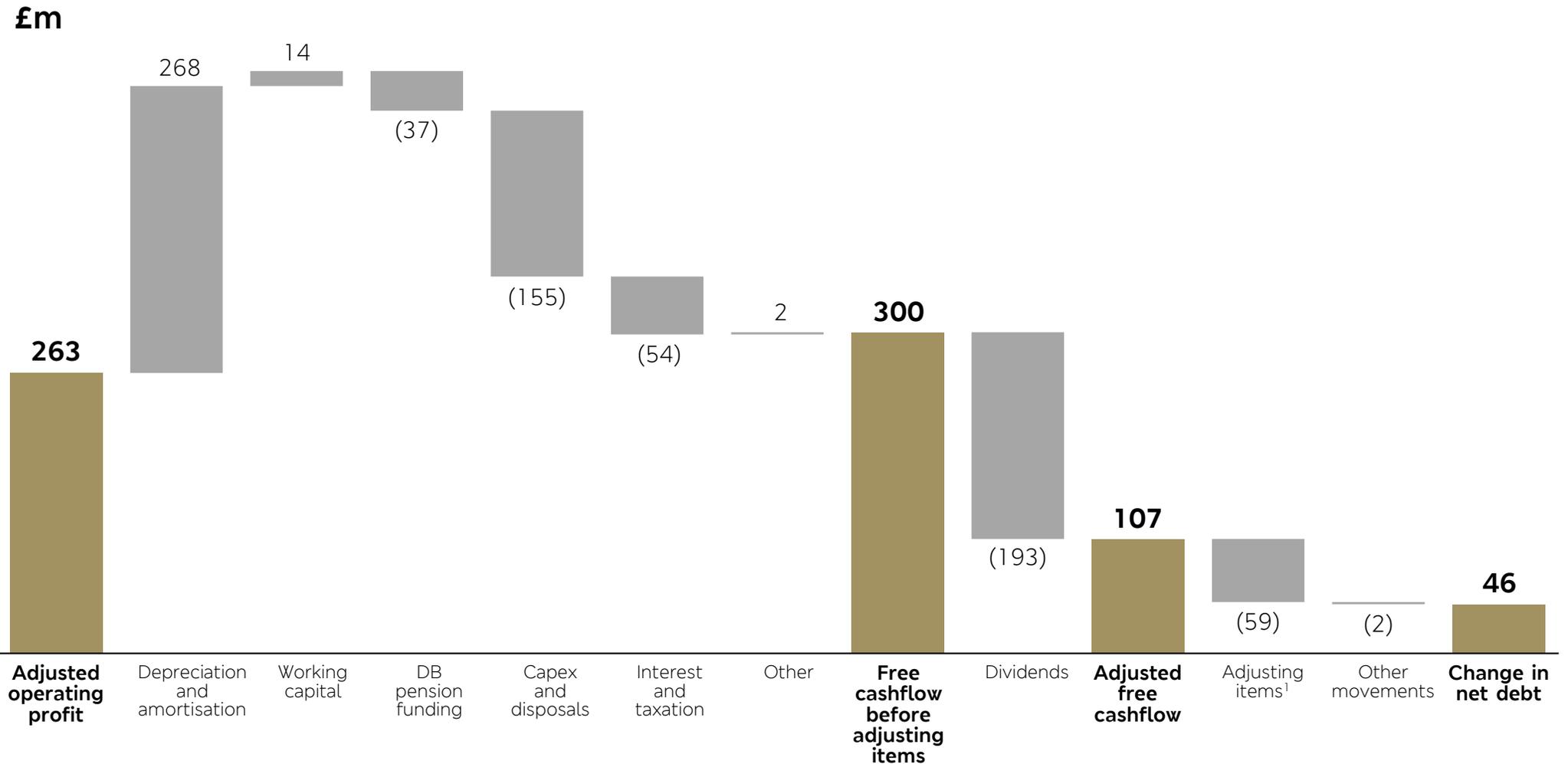
	£m
Strategic programmes	
UK store estate	(47.6)
Organisation	(11.1)
IT restructure	(8.3)
UK logistics	(9.0)
Changes to pay and pensions	(3.2)
International store closures and impairments	(2.3)
M&S Bank charges	(15.3)
<b>Adjusting items</b>	<b>(96.8)</b>

# CAPITAL EXPENDITURE BEFORE DISPOSALS



# RESTORING THE BASICS

## CHANGE IN NET DEBT



<sup>1</sup> 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



Love It For Less

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

<b>Food</b>	
Space <sup>1</sup> (%)	Level
Gross margin change (bps)	0 to -50
<b>Clothing &amp; Home</b>	
Space reduction <sup>1</sup> (%)	c.4
Gross margin change (bps)	0 to 50
<b>UK operating costs (%)</b>	0 to -1
<b>Tax rate (%)</b>	c. 22
<b>Capital expenditure (£m)</b>	300 to 350

<sup>1</sup> As at year end

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**STEVE ROWE**  
CHIEF EXECUTIVE



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# LEADERSHIP TRANSFORMATION

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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





### WHAT'S HAPPENING

#### Basic improvements in speed, photography and lead times

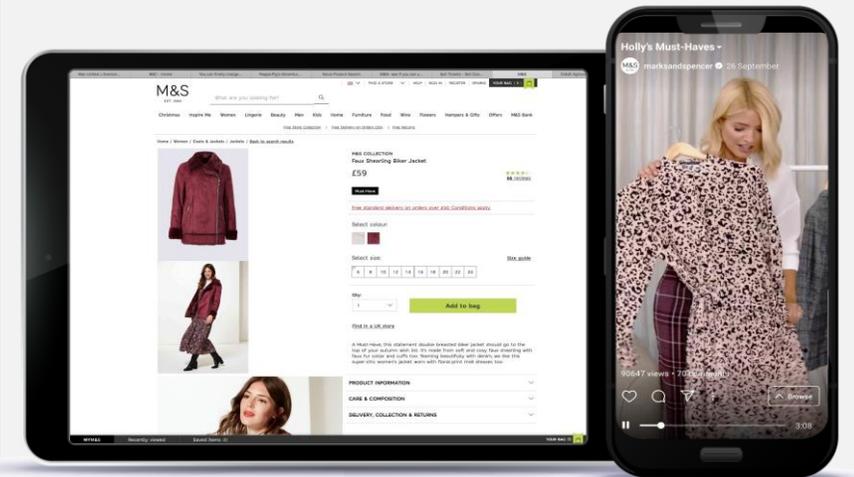
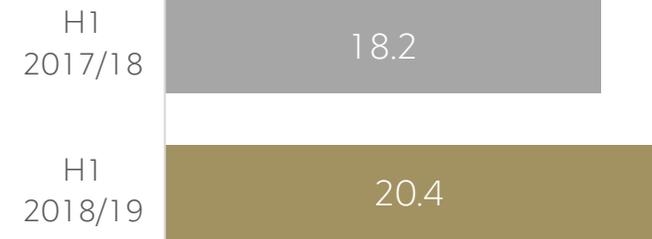
- Online sales up 9.1% year-on-year, clothing growth ahead of the market
- Average page load speeds improved in ranking
- Social media piloting – shoppable Instagram
- Improving style perception through enhanced photography

### 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

#### CLOTHING & HOME SALES ONLINE (% of sales)



## 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 role 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





**New Lower Price**

**M&S COLLECTION**

Slim Fit Cotton Rich  
Authentic Chinos

£25.00

## WHAT'S HAPPENING

### Beginning to re-establish reputation for style and value

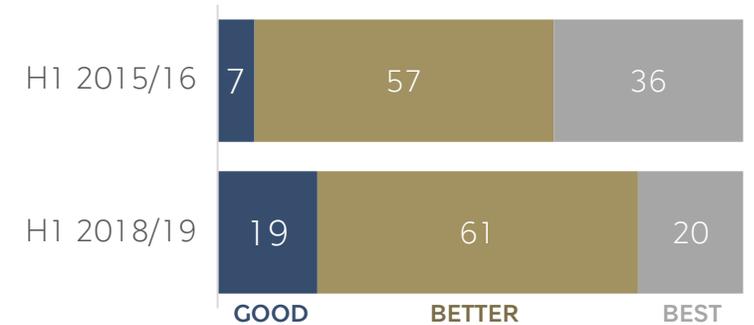
- Developing our “Must-Have” essentials
- Moving towards trusted value with over 1,000 lower price points
- Increasing “good mix” across women’s and men’s
- Introducing Holly as a style ambassador to broaden our appeal to family customers

## WHAT'S NEXT

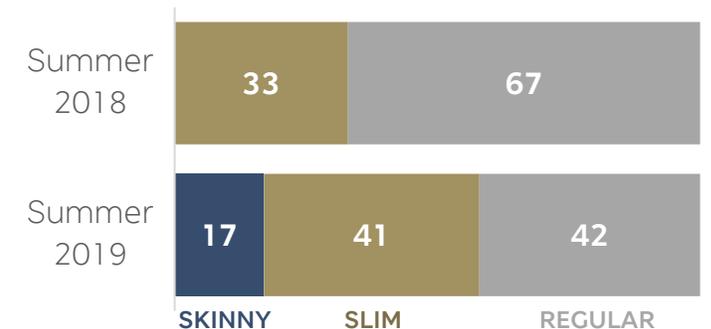
### Widening customer appeal through more contemporary style and newness

- 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

### MORE GOOD VALUE IN WOMENSWEAR (% of sales)



### MORE SLIM FIT IN MENS CHINOS (% of options)





### WHAT'S HAPPENING

#### Continuing to upgrade and reset range planning process

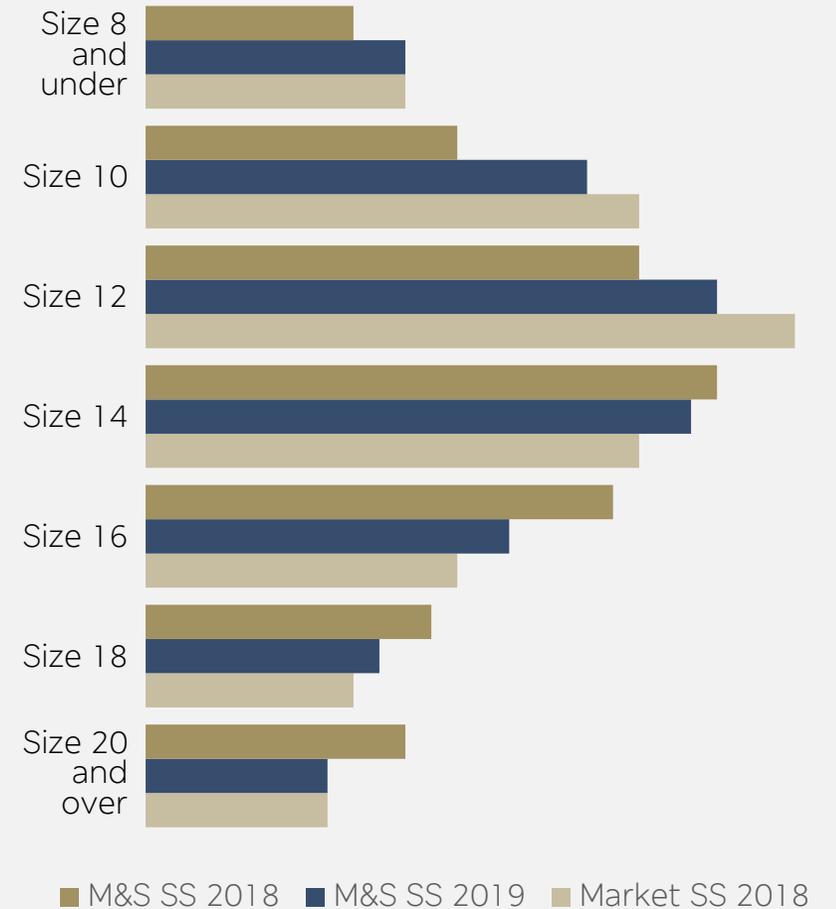
- Reducing number of options from Autumn 18
- Adjusting size ratios to improve availability
- Data and customer-led product planning

### 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



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## FOOD – OUR CUSTOMERS



### WHAT'S HAPPENING

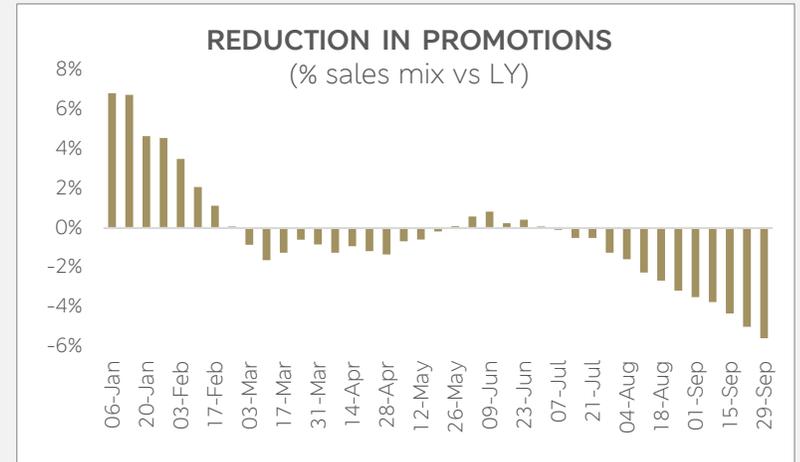
#### Moving away from overly premium ranges and confusing promotions

- 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





## WHAT'S HAPPENING

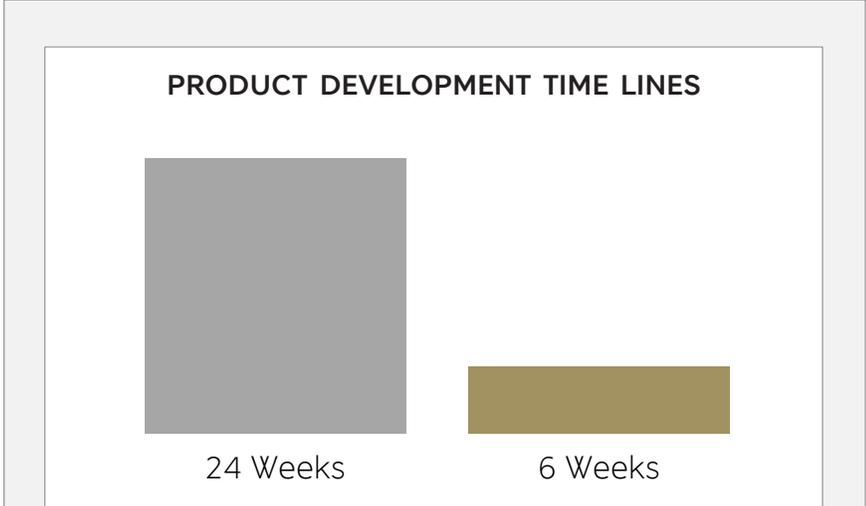
### Improving speed to market and reducing complexity

- 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



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 (%)



M&S Lucknow Lingerie & Beauty Interior



## WHAT'S HAPPENING

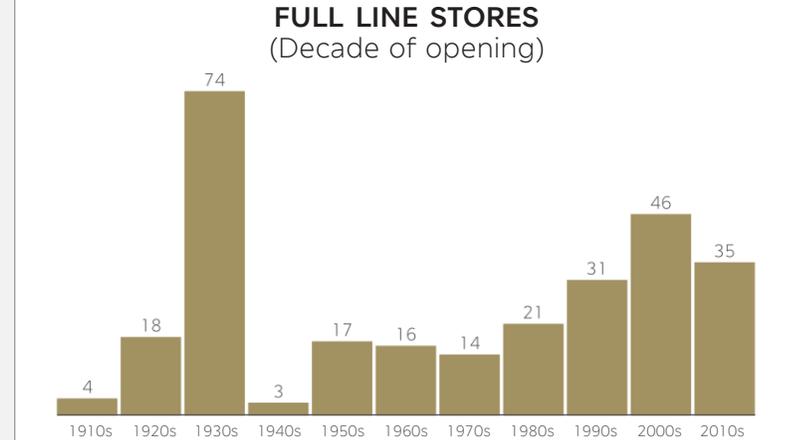
### Restructuring a much older legacy estate than competitors

- 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

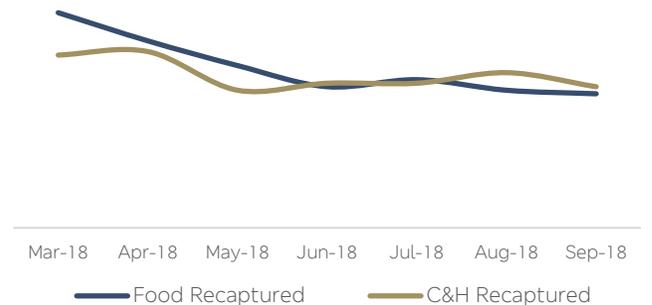
## WHAT'S NEXT

### 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



### PROGRESSIVE SALES TRANSFER FROM 2018 STORE CLOSURES (% sales)



## WHAT'S HAPPENING

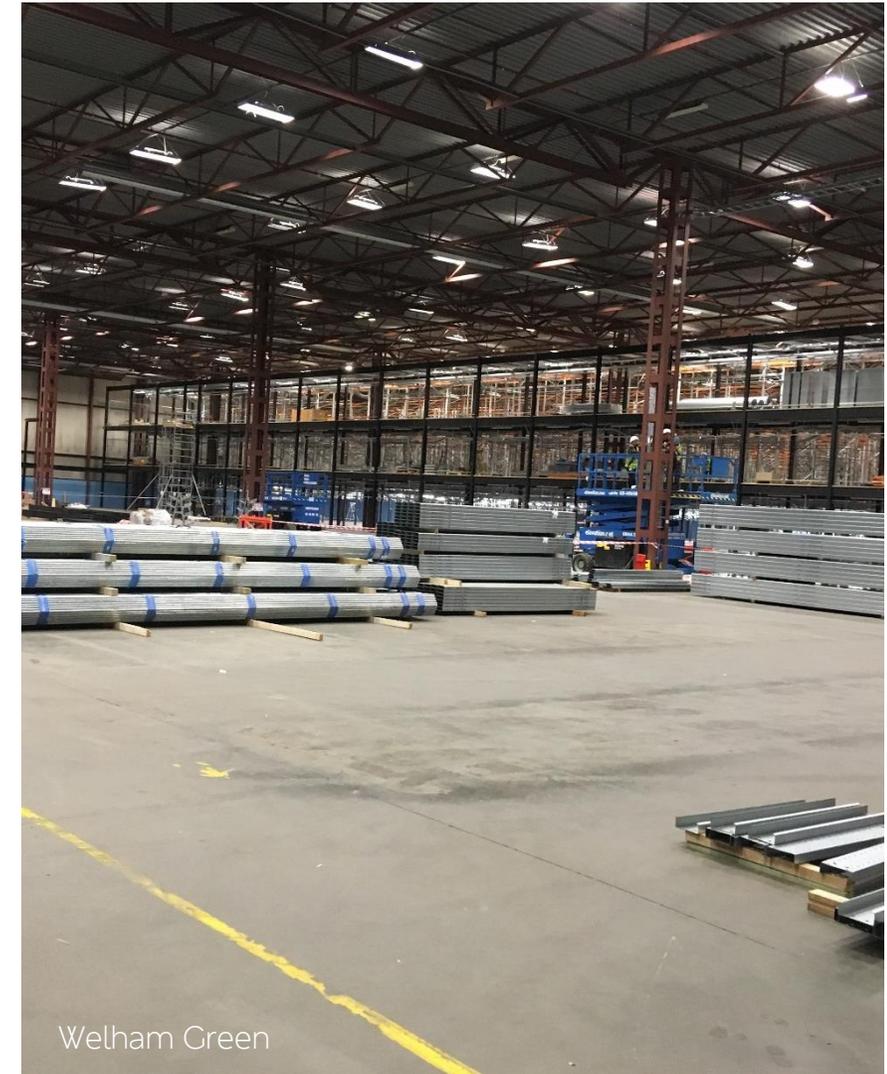
### Dealing with complex, inefficient distribution network

- 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

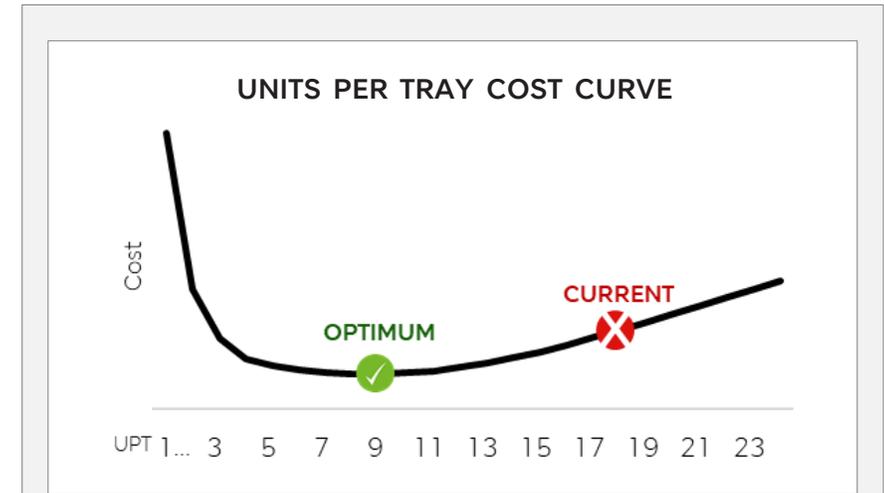
### Stock levels, availability, markdown and waste remain uncompetitive

- '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



WHAT'S HAPPENING

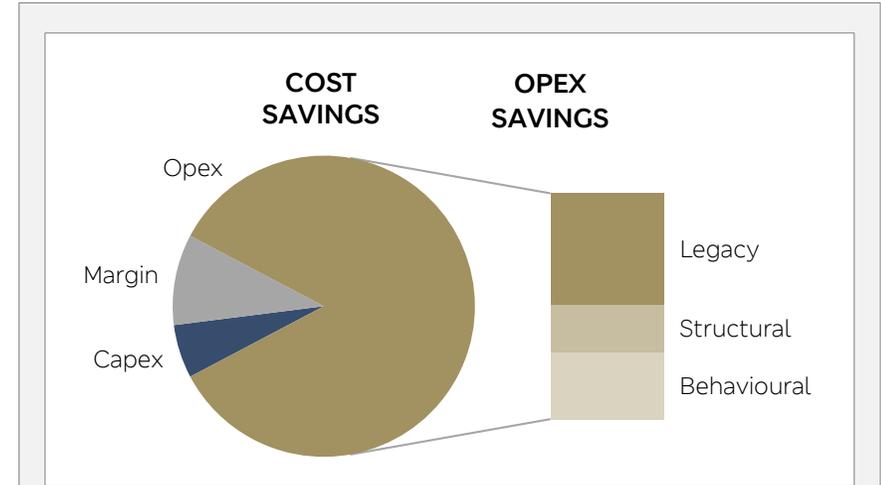
**Deep dive into entire cost base**

- 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**

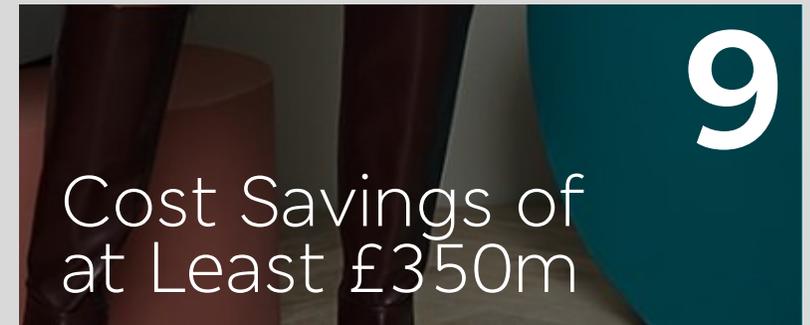
- Further reduce central costs
- Greater investment in self check-out and self-scan
- Major reduction in over-specified procurement across M&S
- More agile supply chain, less clogged with stock



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ACCELERATED THE PACE OF CHANGE

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**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 <sup>1</sup>	0	0	(1)	1	0
<b>UK stores</b>	<b>1,029</b>	<b>1,035</b>	<b>22</b>	<b>(28)</b>	<b>(6)</b>
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)
<b>International stores</b>	<b>427</b>	<b>428</b>	<b>15</b>	<b>(16)</b>	<b>(1)</b>
Selling space (absolute, m sq ft)	5.1	5.2			

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