

# M&S

EST. 1884

## 6.5 FAR REACHING CHANGE AT M&S DELIVERED AT PACE

Half Year Results  
6 November 2019







FAR REACHING  
CHANGE AT M&S

# DELIVERED AT PACE

**ARCHIE NORMAN**  
CHAIRMAN

# M&S

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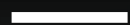
M&S Clapham





FAR REACHING  
CHANGE AT M&S

# DELIVERED AT PACE

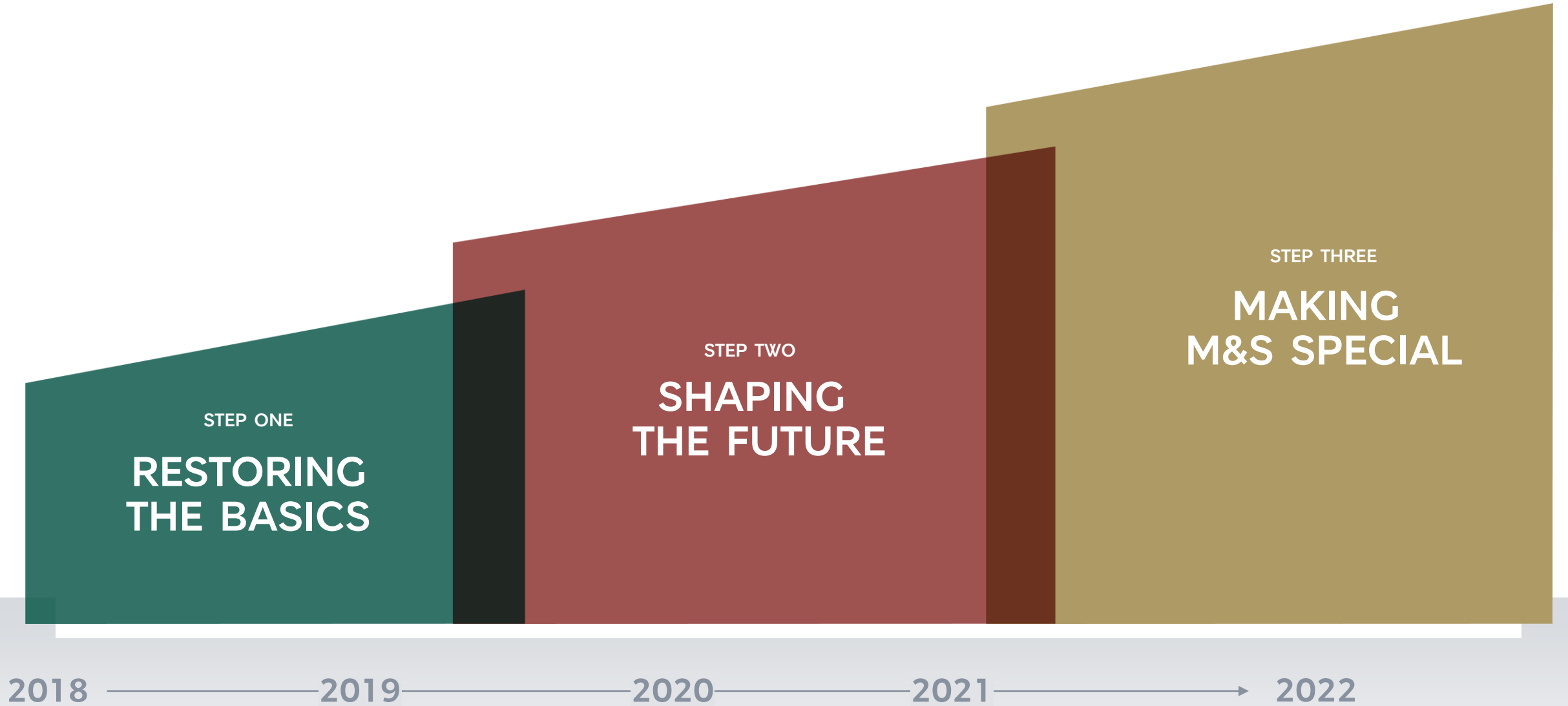


**STEVE ROWE**  
CHIEF EXECUTIVE

**M&S**  
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FAR REACHING CHANGE AT M&S  
FOOD AHEAD OF CLOTHING & HOME





FAR REACHING CHANGE AT M&S

# TRANSFORMATION PRIORITIES - CLOTHING & HOME IS CRITICAL

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1

Magic Again  
in Food

2

Restoring Style,  
Fit and Value  
in Clothing

3

Digital First

4

Rebuilding  
Profitable Growth  
in International

5

Modernised  
Supply Chain

6

Store Estate Fit  
for the Future

7

Cost Savings of  
at Least £350m

8

Accountable  
Businesses

9

Leadership  
and Culture  
Transformation





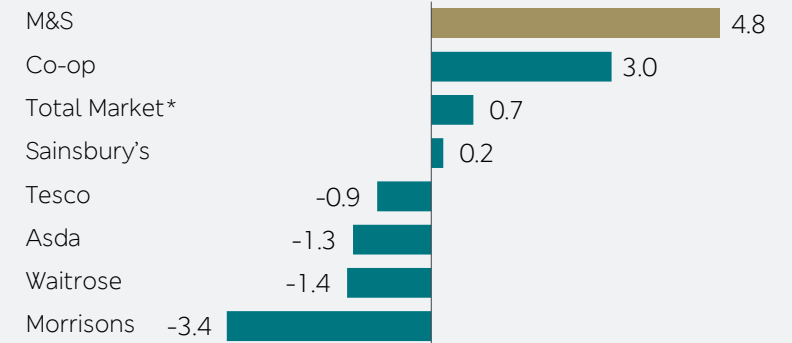
# FAR REACHING CHANGE AT M&S BEGINNING TO SEE POTENTIAL OF TRANSFORMATION



- Food now growing faster than the Big 5
- Completed acquisition of 50% of Ocado Retail with plans for M&S supply progressing well
- Making up for lost time in clothing after difficult H1
- Decisive action since summer - A/W product launches landed well
- Cost savings of c.£75m in H1 mean we are now well over halfway to delivering target

## VOLUME GROWING AHEAD OF RIVALS

% growth, 12 weeks to 6 October 2019





FAR REACHING  
CHANGE AT M&S

# DELIVERED AT PACE

HUMPHREY SINGER  
CHIEF FINANCE OFFICER

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# FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS FINANCIALS AT A GLANCE



**ROSIE FOR  
AUTOGRAPH**  
Non-Wired Lounge  
Plunge Bra  
**£22.50**  
Lounge High Leg  
Knickers  
**£10**

Group revenue

**£4.9bn**

**-2.1%**

Profit before tax  
& adjusting items

**£176.5m**

**-17.1%**

Free cash flow  
before adjusting items

**£91.9m**

**-68.8%**

Profit before tax

**£153.5m**

**51.5%**

Net debt

**£4.13bn**

**-3.7%**

Net debt excluding lease  
liabilities £1.59bn (-8.1%)

Interim dividend

**3.9p**

**-40.0%**



# FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

## FOOD PERFORMANCE



~~£4.50~~

**£3.50**

Oakham™ Medium  
Whole Chicken  
1.3kg

**SAME GREAT  
QUALITY,  
NEW LOWER  
PRICE**

All our British Oakham™  
Chicken comes from  
M&S Select Farms we  
know and trust.

### REVENUE

	Q1	Q2	H1
Total	0.8%	1.5%	1.2%
LFL	0.4%	1.4%	0.9%
LFL (excluding Easter)	-1.4%	1.4%	0.0%

### GROSS MARGIN

H1 2018/19	<b>31.2%</b>
Buying margin	-20bps
Waste	Level
H1 2019/20	<b>31.0%</b>



# FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS CLOTHING & HOME PERFORMANCE



24inch Pre Lit  
Golden Wreath)  
**£28**



**Disney Frozen**  
2 Sisters Forever  
Cotton Pyjama  
Set (2-10 Years)  
**£13 - £16**

## REVENUE

	Q1	Q2	H1
Total	-7.6%	-8.0%	-7.8%
LFL	-5.2%	-5.7%	-5.5%
UK C&H online <sup>1</sup>	0.4%	0.1%	0.2%

## GROSS MARGIN

H1 2018/19	<b>58.1%</b>
Buying margin	-50bps
Discounting	-50bps
H1 2019/20	<b>57.1%</b>

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



# FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

## OPERATING COSTS

“Our brand-new mezzanine area will ensure we continue to provide exceptional customer service.”

*Sally*  
Recruitment Manager,  
Castle Donnington

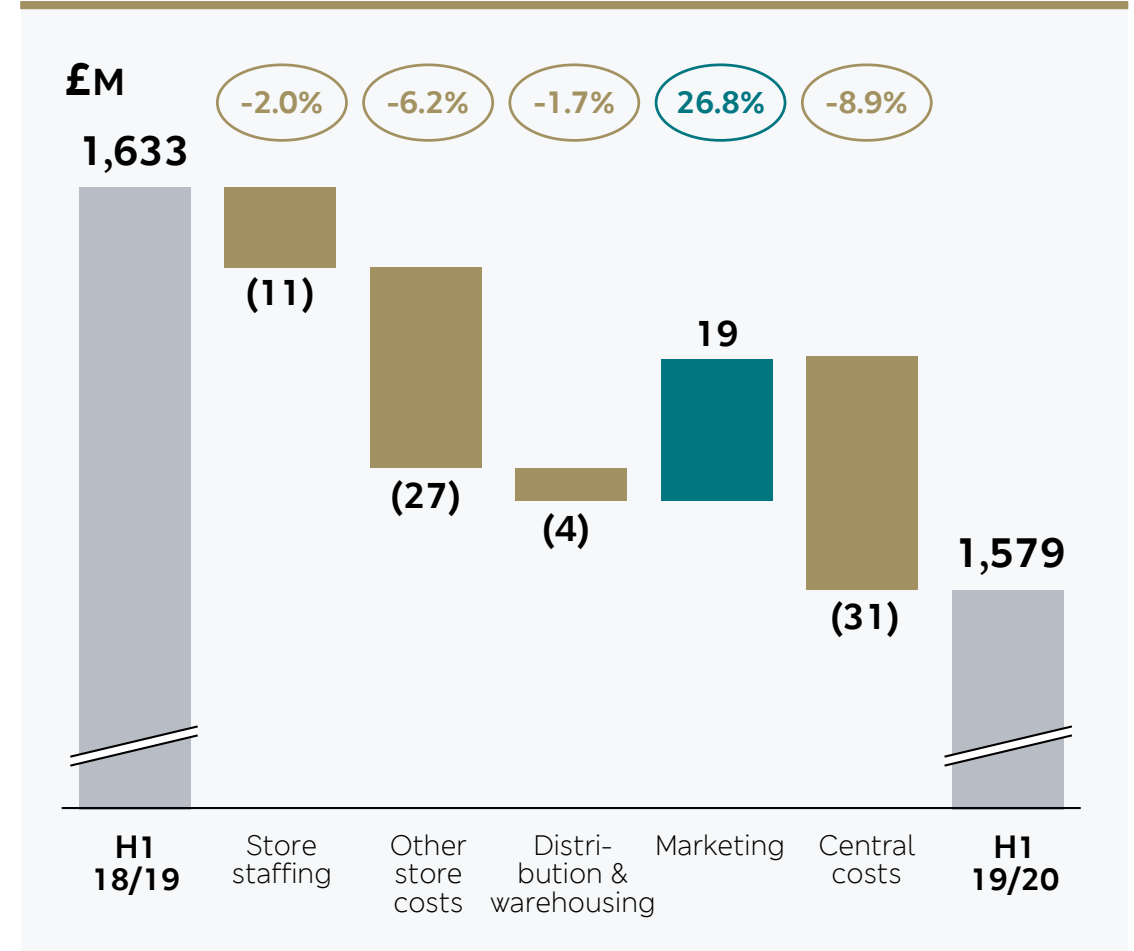


New Mezzanine at  
Castle Donnington

### COST DRIVERS

	H1
Space, volume and channel shift	-1.3%
Inflation	2.3%
Cost savings	-4.6%
Depreciation	-2.0%
Other	2.2%
<b>Year-on-year change</b>	<b>-3.3%</b>

### COST BRIDGE





# FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

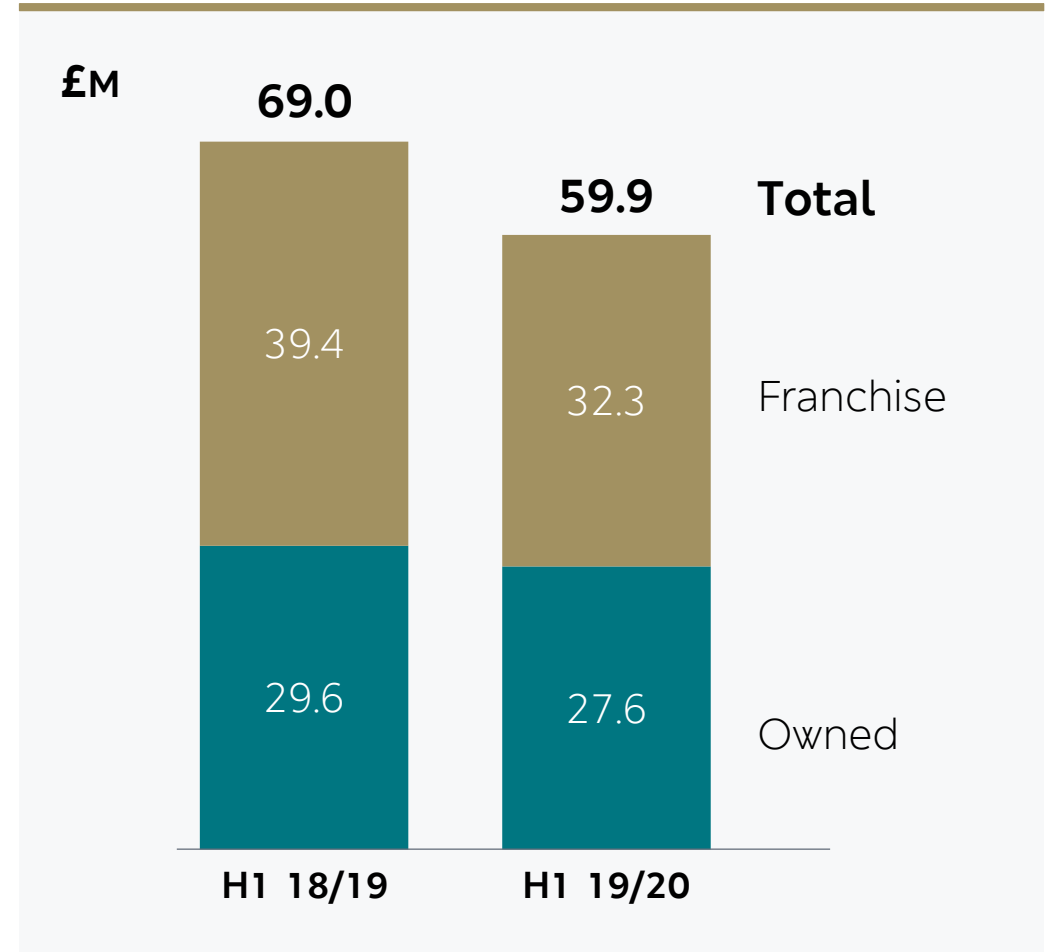
## INTERNATIONAL PERFORMANCE

### REVENUE<sup>1</sup>

	Q1	Q2	H1
Owned	4.2%	-1.0%	1.6%
Franchise	-0.8%	-9.5%	-5.7%
Revenue	2.1%	-5.1%	-1.7%

<sup>1</sup> Constant currency

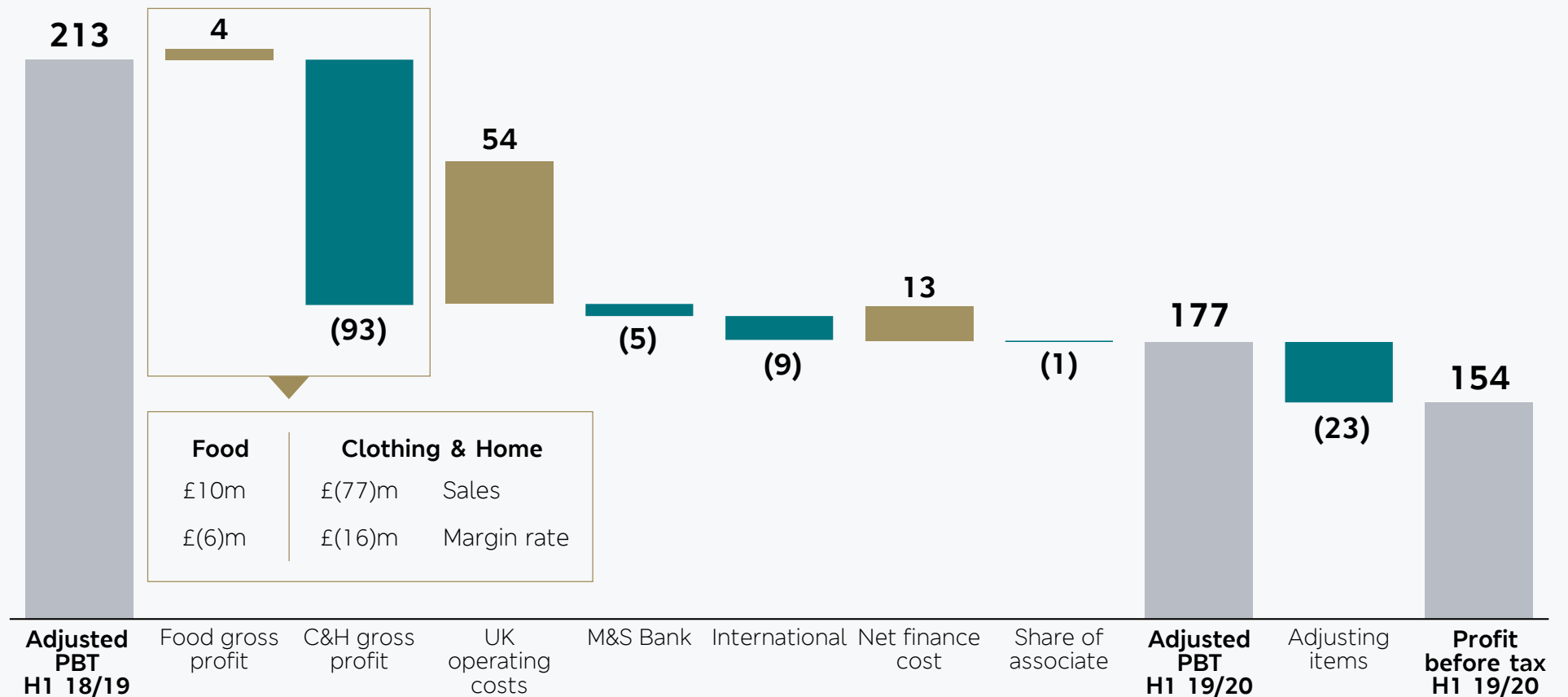
### OPERATING PROFIT



# FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

## PROFIT BRIDGE

£M



NEW

AUTOGRAPH

Wool with  
Cashmere Zip  
Through Hoodie

£75



# FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

## ADJUSTING ITEMS

	£m
<b>Strategic programmes</b>	
UK store estate	(15.4)
Organisation	(11.3)
Operational transformation	(6.5)
IT restructure	(0.7)
UK logistics	(0.5)
Changes to pay and pensions	(1.5)
International closures	0.1
M&S Bank charges	(10.7)
Other	23.5
<b>Total adjusting items</b>	<b>(23.0)</b>

M&S  
COLLECTION  
Textured Coat  
£49.50

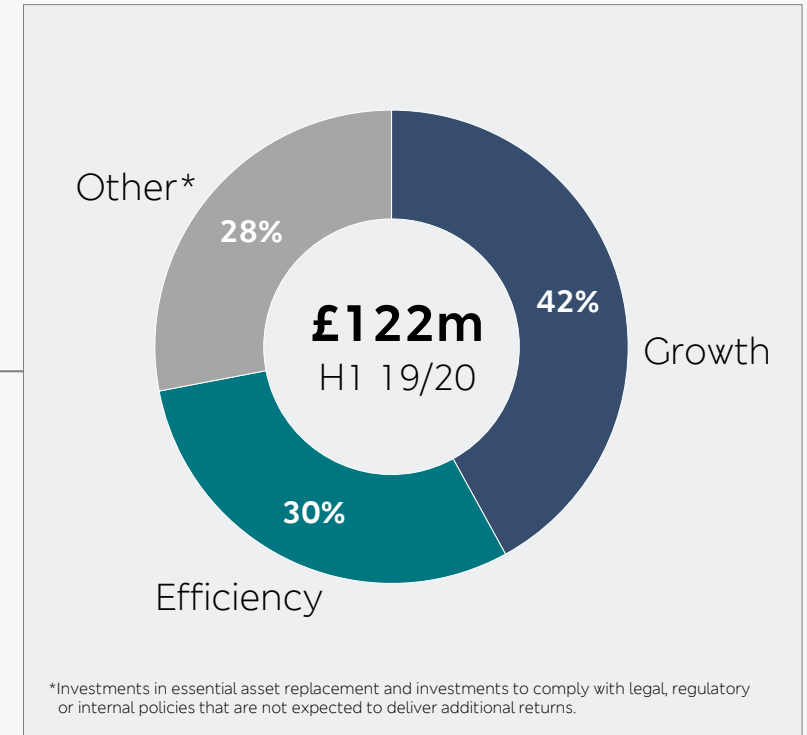
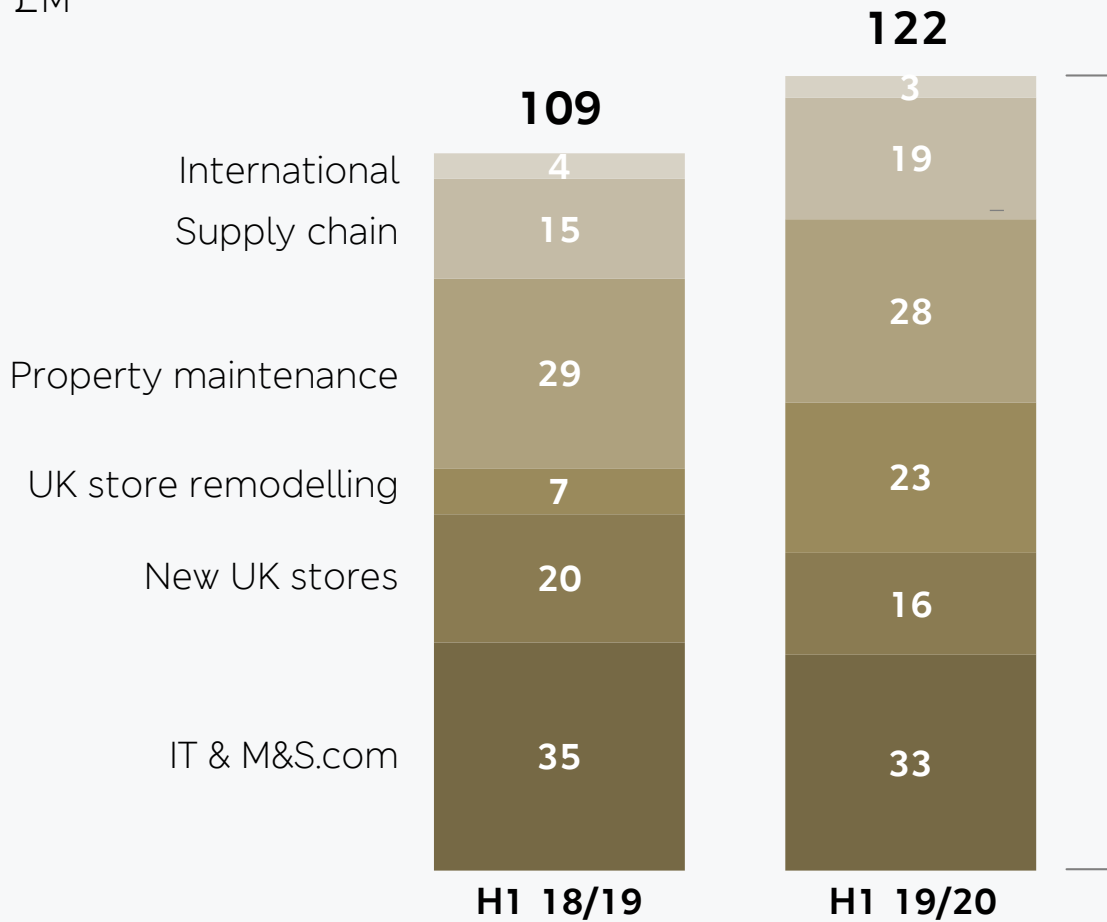
# FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

## CAPITAL EXPENDITURE BEFORE DISPOSALS



M&S Clapham

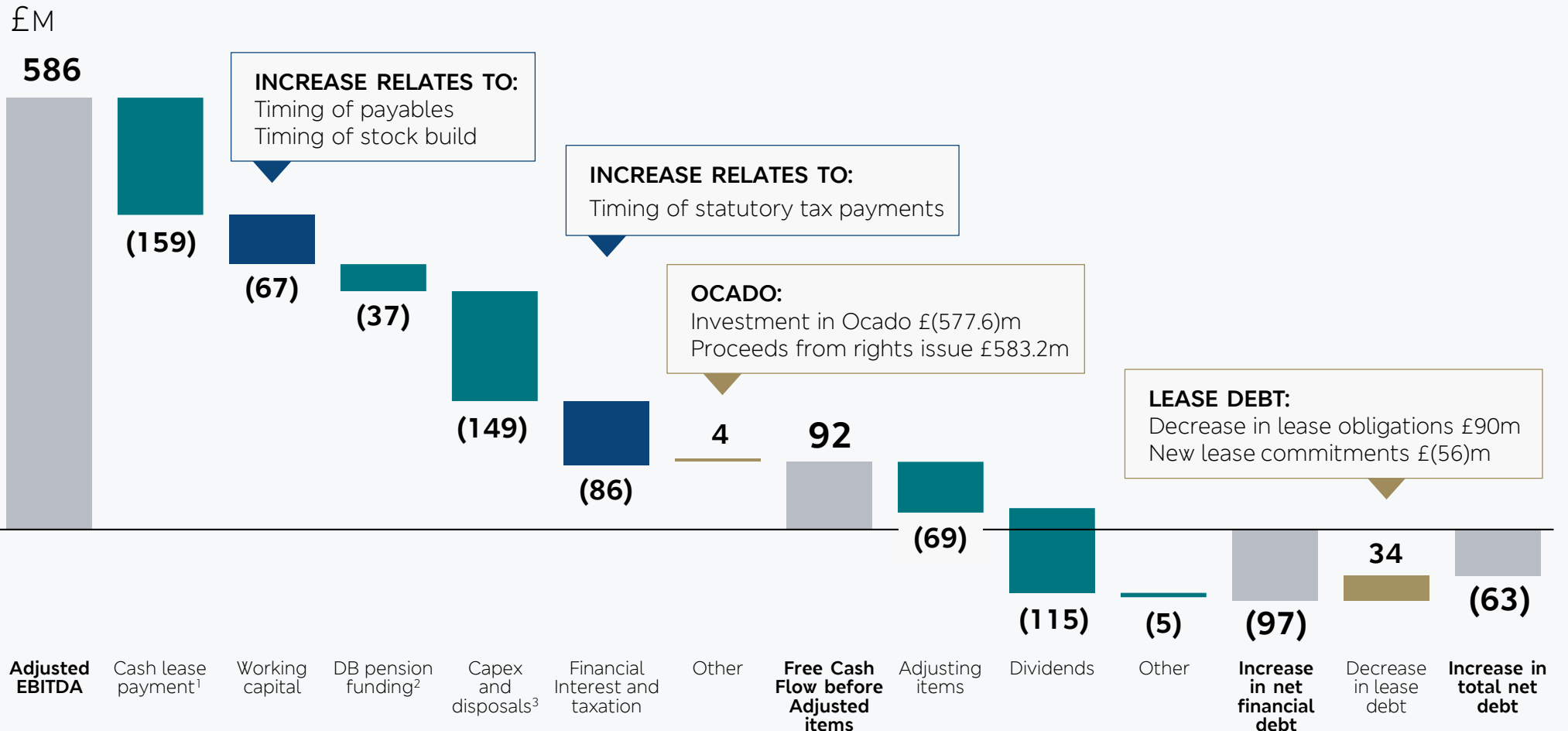
£M





# FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS

## CHANGE IN NET DEBT SINCE START OF YEAR



<sup>1</sup> Cash lease payments includes £90m decrease in lease obligations and £69m interest

<sup>2</sup> Total pension payments during the year amounted to £108.4m

<sup>3</sup> Includes cash payments in relation to prior year capital accruals

### AUTOGRAPH

Faux Fur  
Boyfriend  
Teddy Coat

£99

# FAR REACHING CHANGE AT M&S – HALF YEAR RESULTS GUIDANCE 2019/20



**LETTERBOX  
REINDEER TREE**

Delivery from  
15 Nov 2019

£27



**NEW**

Premium  
White Flower  
Letterbox Gift

£30

	Previous	Current
<b>Food</b>		
Space contribution (%)	c. -1	Level
Gross margin change (bps)	-25bps to +25bps	-25bps to +25bps
<b>Clothing &amp; Home</b>		
Space contribution (%)	c.-3	c. -2
Gross margin change (bps)	-25bps to +25bps	-75bps to -25bps
<b>UK operating costs (%)</b>	c. 0 to -1	c. -1 to -2
<b>Tax rate (%)</b>	c. 23	c. 23
<b>Capital expenditure (£m)</b>	350 to 400	300 to 350



FAR REACHING  
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# DELIVERED AT PACE

—  
**STEVE ROWE**  
CHIEF EXECUTIVE

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Instagram 'M&S Insider' Charlotte, stylist/visual merchandiser,  
Biggleswade store, @marksandspencer\_charlotte



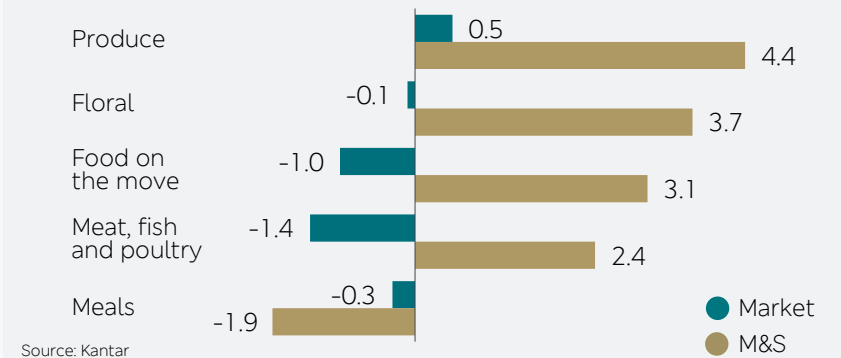


## WHAT'S HAPPENED

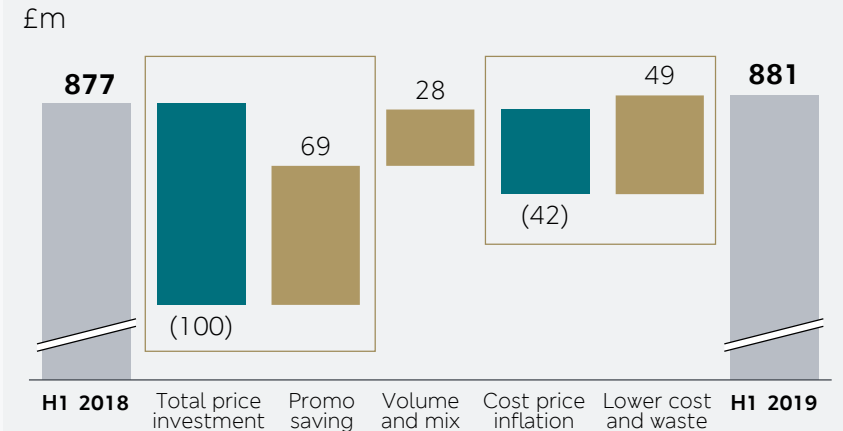
- Strong performance on volume in Q2 – ahead of the Big 5 and Co-op
- Grew ahead of the market on spend across virtually all of fresh in Q2
- Helped by price investment of c.£100m, substantially offset by reducing promotions
- Focused on categories that resonate with families e.g. bread, milk, produce
- Delivered higher gross profit and a higher bottom line

## STRONG PERFORMANCE IN FRESH

% growth 3 months to 28 September 2019



## FOOD GROSS PROFIT INCREASING DESPITE PRICE INVESTMENT





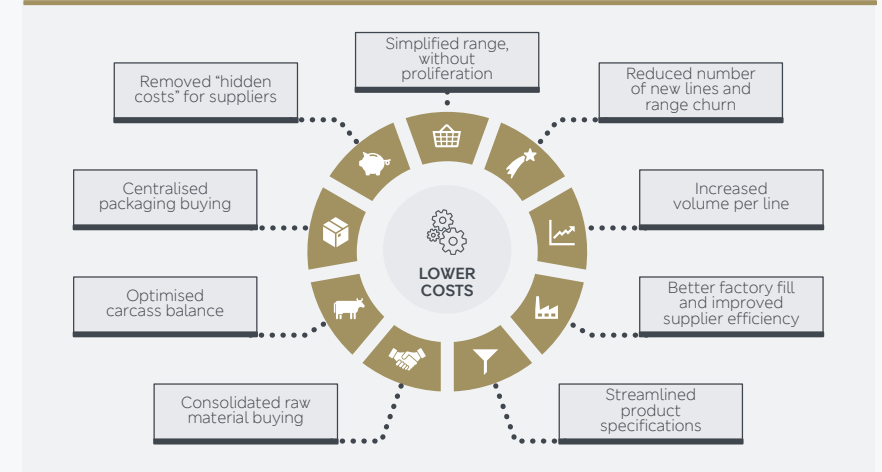
# FAR REACHING CHANGE AT M&S – FOOD MULTI-YEAR INVESTMENT TO SUSTAIN TRANSFORMATION



## WHAT'S HAPPENING

- Target of at least £200m out of COGS by 2023 to offset inflation
- Improved partnership agreements with key suppliers
- Vangarde programme in all stores
- Expand space for food, especially fresh
- Maximise the benefits of 50% stake in Ocado Retail
- Bring M&S's expertise in fresh innovation to ambient where share is only 1.7%
- Restore reputation for new product innovation relevant for the family, including “Plant Kitchen”, “Cook With” and “Our Best Ever”

## A SYSTEMATIC APPROACH TO LOWERING COSTS



## M&S'S NEW PRODUCT LAUNCHES



# FAR REACHING CHANGE AT M&S – CLOTHING & HOME

## RADICAL ACTION REQUIRED IN CLOTHING & HOME

### WHAT'S HAPPENED

- Poor H1 performance in a difficult market
- Too many slow moving lines, best sellers bought in insufficient depth, impacting availability
- Size and fit profiles misaligned with family customer
- Took decisive action on sale merchandise to ensure clean start to A/W
- New leadership clear on the issues and how to solve them

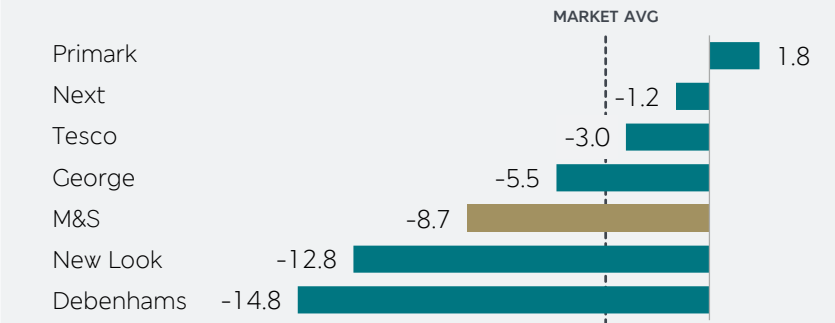
#### M&S COLLECTION

Cashmilon™  
Colour Block Roll  
Neck Jumper

£19.50

### M&S SPEND COMPARED TO OTHER RETAILERS

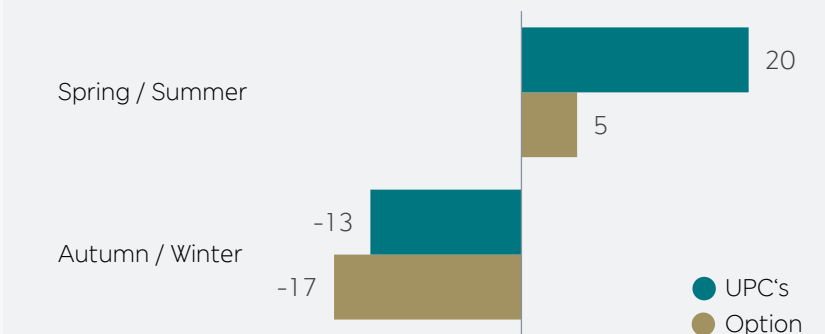
% 24 week change 2019 compared to 2018



Source: Kantar

### TOO MANY WOMENSWEAR OPTIONS IN S/S 19

% change 2019 compared to 2018



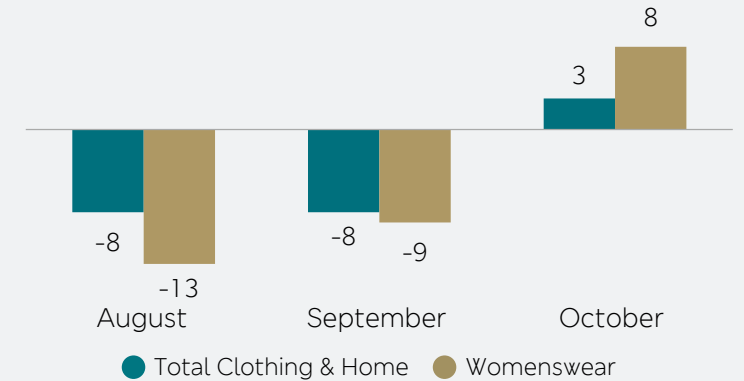


## WHAT'S HAPPENING

- Double-digit reduction in options
- Significantly increased depth of buy on Top 100 lines
- Fit, size and style directly aimed at family customer
- Building on #1 market shares in denim, trousers, knitwear and lingerie
- Embedding "First price, right price" approach
- Relunched Per Una with its own buying team
- Encouraging start to H2

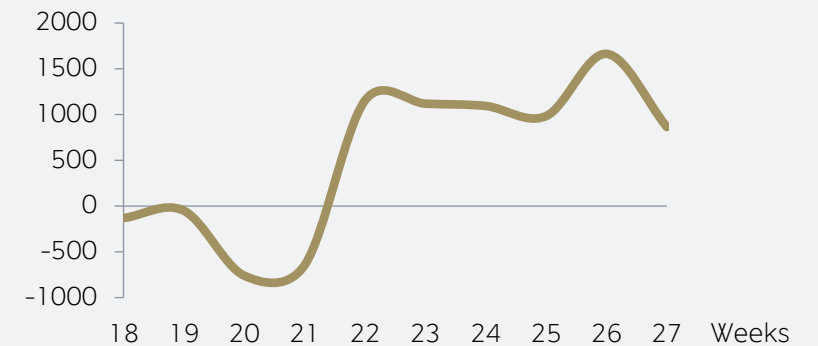
## STRONG START TO A/W 2019

% full price & planned promotional sales 2019 vs. 2018



## SUPPORTED BY IMPROVING AVAILABILITY

bps change 2019 compared to 2018 womenswear



M&S BraFit™  
The perfect fit for every body

Millions of women are wearing the wrong size d bra. Are you one of them?

Have a free bra fitting today

# FAR REACHING CHANGE AT M&S – DIGITAL ONLINE MARKET FLAT BUT WE ARE MAKING PROGRESS

## WHAT'S HAPPENED

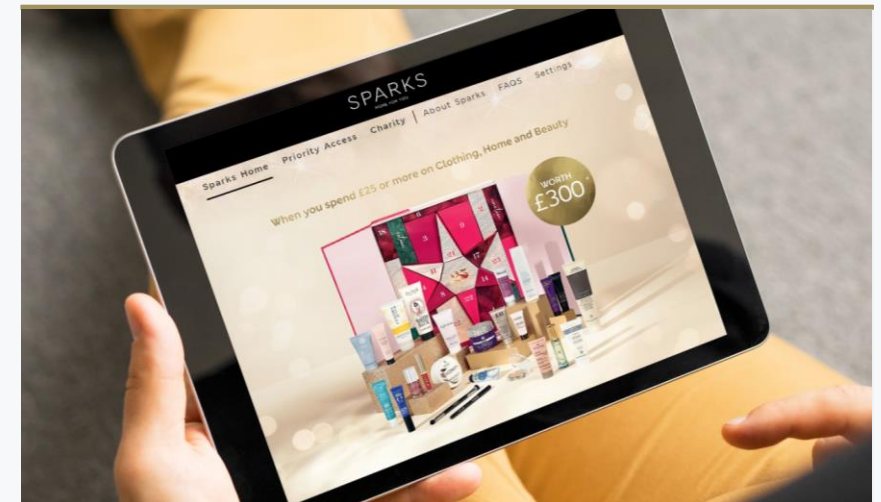
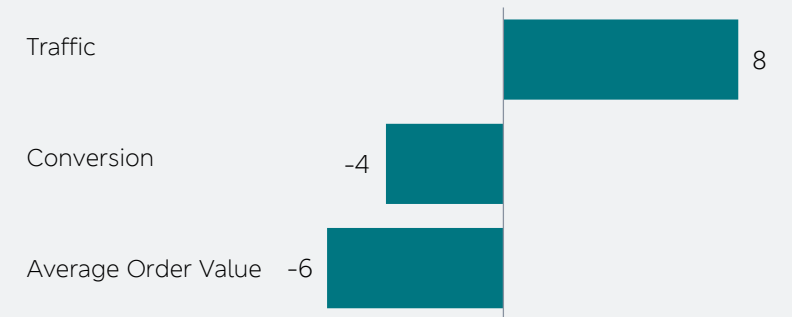
- M&S sales level in a flat online market
- Over reliance on paid search and email
- Exacerbated by mobile shift, which is lower conversion
- High volume lines on homepage which impacted AOV

## WHAT'S HAPPENING

- Further improvements to proposition with 11:00pm cut off
- Implementing new personalisation tools and instalment payment facility
- Recruited SEO team to drive improvement in traffic
- Bringing digital and data capabilities together
- Planning Sparks relaunch

## KEY DRIVERS OF DISAPPOINTING H1 ONLINE PERFORMANCE

% change H1 19/20 vs. H1 18/19





# FAR REACHING CHANGE AT M&S – INTERNATIONAL PROGRESS IN MARKET-RIGHT PRICING AND STORE ROLL OUT



M&S Foodhall and Cafe opened in Marina Walk Mall Dubai in May 2019



M&S Mall of Egypt opened in 2019

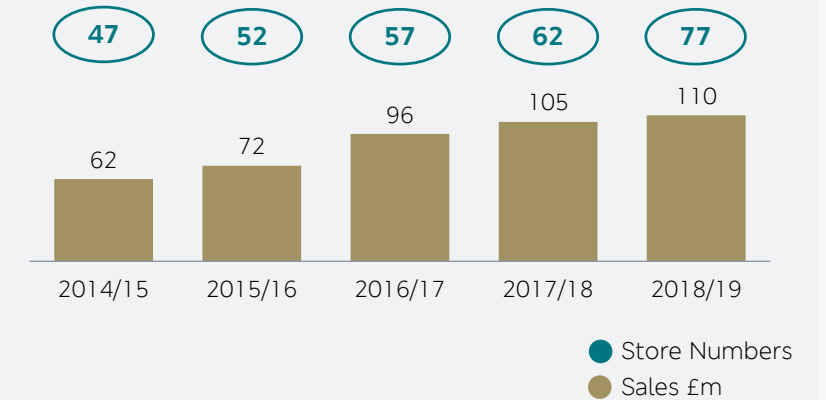
## WHAT'S HAPPENED

- Retail sales growth of 4% excluding Republic of Ireland
- Franchise shipments decline through partner driven stock efficiencies
- Lower ASP as we roll out market right pricing
- Increased local language websites; online up by 21% in H1

## WHAT'S HAPPENING

- Opening 13 new stores and website in India in H2
- Market-leading "Rethink" advertising campaign in India
- Further localisation of offer and sourcing
- Strengthening supply chain; 95.3% Clothing & Home fulfilment achieved in H1

## INCREASE IN M&S INDIA SALES



## “RETHINK” CAMPAIGN IN INDIA





## WHAT'S HAPPENED

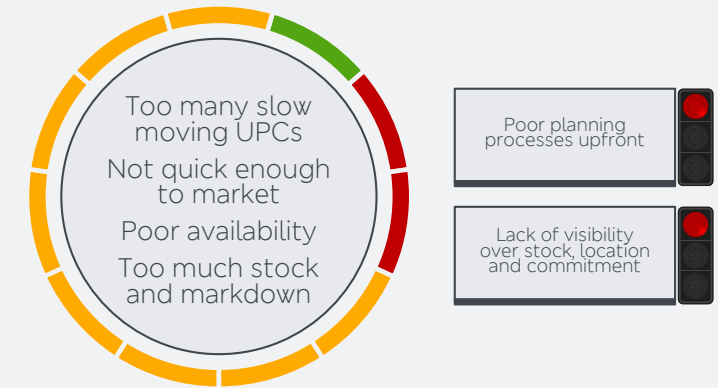
- Invested in capacity at Castle Donington and Welham Green ramped up
- Switched off mainframe following roll out of warehouse management system
- Implemented new planning tools in support centre
- Tested Vangarde programme in Food, and actioned roll out to a further 85 stores



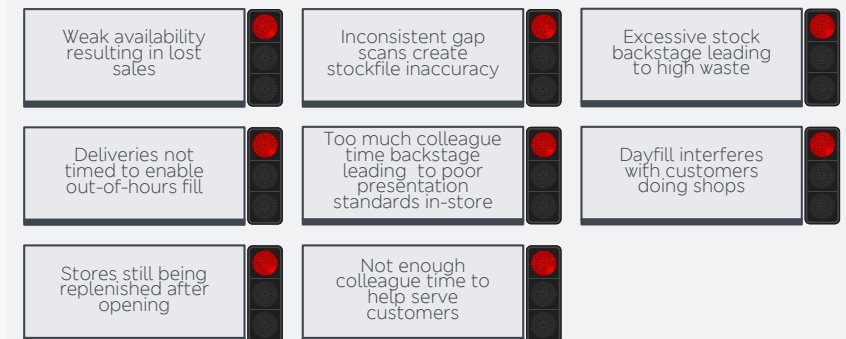
## WHAT'S HAPPENING

- Tactical actions to drive availability including more frequent, store-ready deliveries
- Rethinking network to reduce complexity and increase speed to market
- Increasing visibility of stock and control of purchase orders
- Rolling out Vangarde to rest of Food estate

## CURRENT C&H SUPPLY CHAIN CHALLENGES



## FOOD SUPPLY CHAIN PRIOR TO VANGARDE PROGRAMME







## WHAT'S HAPPENED

- Closed 17 full line and 3 other stores in H1
- 15% of full line stores closed since September 2017
- Sustained recapture rate at over 20%
- Opened first two Food renewal stores in Hempstead Valley and Clapham

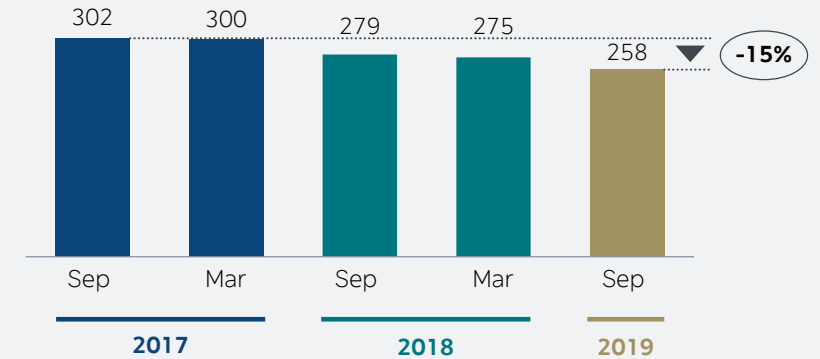
## WHAT'S HAPPENING

- Major store development opportunities now identified
- Exploring opportunity for planning gain and “marriage value”
- Work on Clothing & Home renewal being progressed
- Future Food renewal experiment at Hedge End
- Enables us to test a differentiated foodhall format



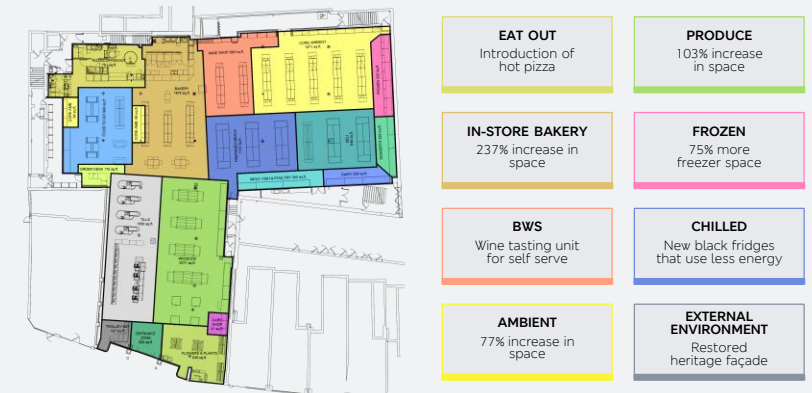
Kingsley Village full line store opened in September 2019

## REDUCTION IN FULL LINE STORES 2016-2019



Source: M&S Finance

## RENEWAL STORE LAYOUT CLAPHAM





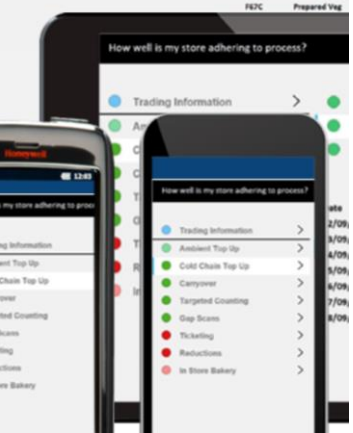
## WHAT'S HAPPENED

- Achieved c.£75m of sustainable cost savings in H1, more than offsetting inflation and channel shift
- Substantial contribution from store productivity
- Digitising the shop floor through Microsoft partnership
- Closed three Clothing & Home distribution centres
- Achieved savings moving to cloud technology
- Leaner and more efficient support centre

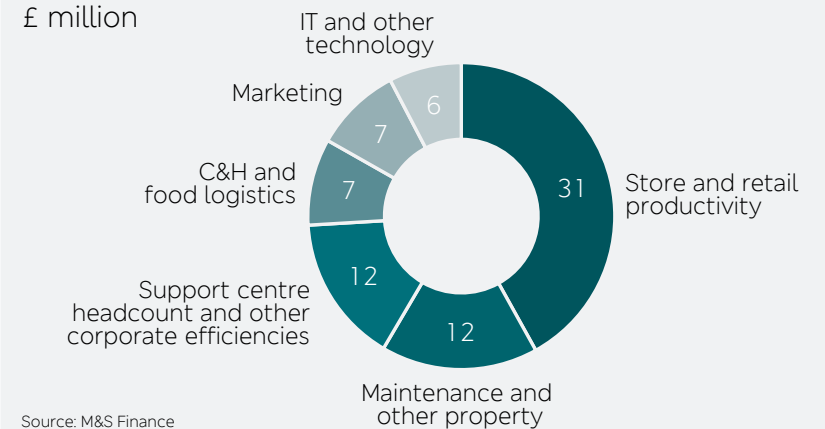
Date	% Late Top Up
22/09/2019	9%
23/09/2019	3%
24/09/2019	15%
25/09/2019	2%
26/09/2019	8%
27/09/2019	8%
28/09/2019	11%

## WHAT'S HAPPENING

- Further retail productivity from digital tools
- Additional savings from new facilities contract
- Central headcount and costs significantly reduced
- Will reach 80% of 2021 £350m target by end of H2



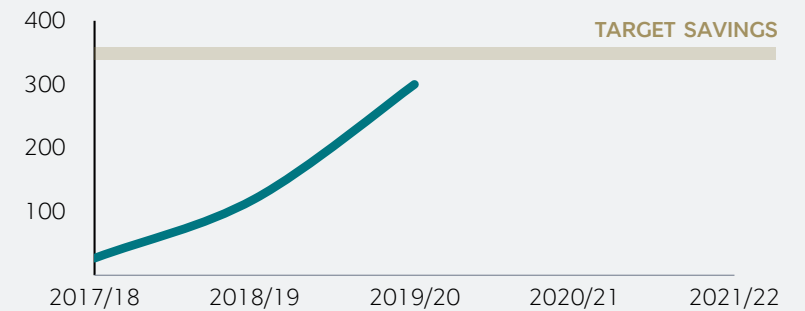
## c.£75M OF SUSTAINABLE COST SAVINGS IN H1



Source: M&S Finance

## OVER 80% OF OPERATING COST SAVINGS TARGET ACHIEVED BY END OF H2

£ million of cumulative sustainable cost savings



Source: M&S Finance



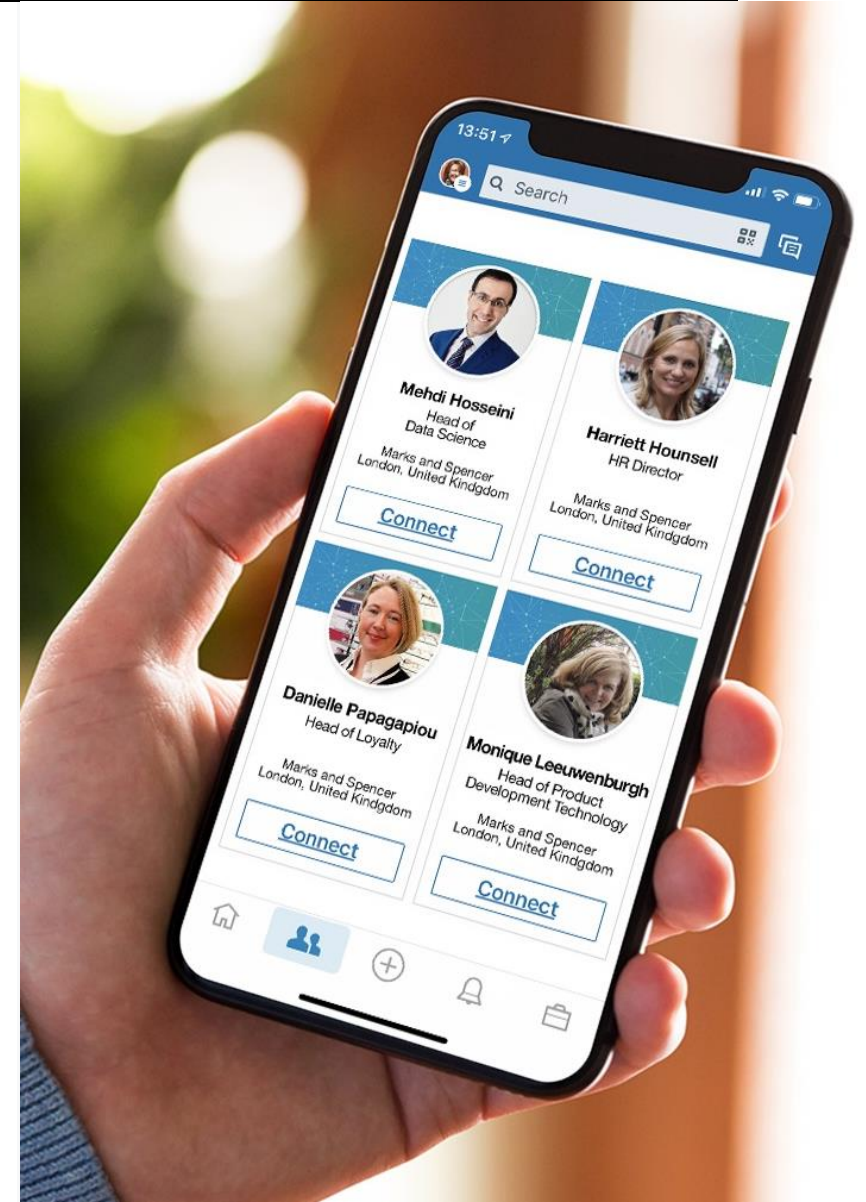
# FAR REACHING CHANGE AT M&S – LEADERSHIP AND ACCOUNTABILITY CHANGING OUR CULTURE

## WHAT'S HAPPENED

- P&L accountability and Business Boards for Food, Clothing & Home and International
- Central offices halved
- Headcount in London reduced
- Corporate functions slimmed down
- 40% Leadership Team new

## WHAT'S HAPPENING

- Greater accountability for property decisions
- Integration with Ocado Retail
- More efficiencies in the centre
- Robust performance management





FAR REACHING CHANGE AT M&S

# RECAP – SINGLE-MINDED FOCUS ON OUR MAJOR PRIORITIES

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1

Magic Again  
in Food

2

Restoring Style,  
Fit and Value  
in Clothing

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Digital First

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Rebuilding  
Profitable Growth  
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## 6.5 FAR REACHING CHANGE AT M&S DELIVERED AT PACE

Half Year Results  
6 November 2019





# STORES AND SPACE

UK	Sep 19	Mar 19	Openings	Closures	Change
Shopping Centre	16	16	0	0	0
Retail Park	70	70	0	0	0
High Street – large	81	82	0	(1)	(1)
High Street	91	107	0	(16)	(16)
Outlets	32	34	0	(2)	(2)
Simply Food owned	306	301	6	(1)	5
Simply Food franchise	434	433	2	(1)	1
Add back downsize to Simply Food <sup>1</sup>	0	0	(1)	1	0
<b>UK stores</b>	<b>1,030</b>	<b>1,043</b>	<b>7</b>	<b>(20)</b>	<b>(13)</b>
Selling space (absolute, m sq ft)	16.8	17.2			
C&H	10.4	10.6			
Food	6.4	6.6			
International	Sep 19	Mar 19	Openings	Closures	Change
Owned	141	136	6	(1)	5
Franchise	315	308	11	(4)	7
<b>International stores</b>	<b>456</b>	<b>444</b>	<b>17</b>	<b>(5)</b>	<b>12</b>
Selling space (absolute, m sq ft)	5.0	4.9			

<sup>1</sup>One High Street was downsized from Full Line to Simply Food owned

