RESTORING THE BASICS
TODAY’S AGENDA

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
RESTORING THE BASICS

M&S
EST. 1884

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
Never tackled our bureaucratic culture

Operationally weak and drifting upscale in Food

Well behind the curve in digital and tech

Store estate not fit for the future

Lost our style and value identity in Clothing & Home

High operating costs with outdated supply chain
RESTORING THE BASICS
OUR TRANSFORMATION PLAN

STEP ONE
RESTORING THE BASICS

STEP TWO
SHAPING THE FUTURE

STEP THREE
MAKING M&S SPECIAL

2018 2019 2020 2021 2022
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
RESTORING THE BASICS
ACCELERATED THE PACE OF CHANGE

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
RESTORING THE BASICS

HUMPHREY SINGER
CFO
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

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-0.1%</td>
<td>-0.2%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>LFL</td>
<td>-3.1%</td>
<td>-2.7%</td>
<td>-2.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gross margin</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 2017/18^1</td>
<td>31.4%</td>
</tr>
<tr>
<td>Buying margin</td>
<td>-25bps</td>
</tr>
<tr>
<td>Waste</td>
<td>-</td>
</tr>
<tr>
<td>H1 2018/19</td>
<td>31.2%</td>
</tr>
</tbody>
</table>

^1 Prior year has been restated for the reclassification of cards & gift wrap from C&H to Food.
## Restoring the Basics
### Clothing & Home Performance

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Q1</th>
<th>Q2</th>
<th>H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-1.6%</td>
<td>-3.7%</td>
<td>-2.7%</td>
</tr>
<tr>
<td>LFL</td>
<td>-0.6%</td>
<td>-1.6%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>M&amp;S.com</td>
<td>6.3%</td>
<td>5.0%</td>
<td>5.6%</td>
</tr>
<tr>
<td>UK C&amp;H.com(^1)</td>
<td>9.9%</td>
<td>8.5%</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gross margin</th>
<th>H1 2017/18(^2)</th>
<th>58.3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buying margin</td>
<td>30bps</td>
<td></td>
</tr>
<tr>
<td>Discounting</td>
<td>-50bps</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) M&S.com sales excluding Food, marketplaces and localised international websites

\(^2\) Prior year has been restated for the reclassification of cards & gift wrap from C&H to Food
## Cost drivers

<table>
<thead>
<tr>
<th>Cost driver</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Space, volume and channel shift</td>
<td>0.6%</td>
</tr>
<tr>
<td>Inflation</td>
<td>1.5%</td>
</tr>
<tr>
<td>Cost savings</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Other</td>
<td>-1.9%</td>
</tr>
<tr>
<td><strong>Year-on-year change</strong></td>
<td><strong>-2.1%</strong></td>
</tr>
</tbody>
</table>

### Breakdown of Costs

<table>
<thead>
<tr>
<th>Category</th>
<th>£m</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H1 17/18</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Store staffing</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>Other store costs</td>
<td>-4.3%</td>
<td></td>
</tr>
<tr>
<td>Distribution &amp; warehousing</td>
<td>3.9%</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>-9.5%</td>
<td></td>
</tr>
<tr>
<td>Central costs</td>
<td>-1.8%</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,720</td>
<td></td>
</tr>
<tr>
<td><strong>H1 18/19</strong></td>
<td>1,684</td>
<td></td>
</tr>
</tbody>
</table>

### Year-over-Year Change

- Store staffing: -2.0%
- Other store costs: -4.3%
- Distribution & warehousing: 3.9%
- Marketing: -9.5%
- Central costs: -1.8%
REVENUE

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue¹</td>
<td>-21.1%</td>
<td>-15.8%</td>
<td>-18.4%</td>
</tr>
<tr>
<td>Adjusted revenue²</td>
<td>2.5%</td>
<td>0.7%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

¹ Constant currency
² Constant currency, excluding exit markets and Hong Kong.
³ Last year restated for closure of our online business in China.
RESTORING THE BASICS
PROFIT BRIDGE

£m

219

(9)

31

36

(2)

2

8

224

(97)

127

Food
Sales £(1)m
Margin rate £(8)m

C&H
Sales £(28)m
Margin rate £(3)m

Adjusted PBT
H1 17/18

Food gross profit
C&H gross profit
UK operating costs
M&S Bank
International
Net finance cost

Adjusted PBT
H1 18/19

Profit before tax
H1 18/19
## ADJUSTING ITEMS

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic programmes</td>
<td></td>
</tr>
<tr>
<td>UK store estate</td>
<td>(47.6)</td>
</tr>
<tr>
<td>Organisation</td>
<td>(11.1)</td>
</tr>
<tr>
<td>IT restructure</td>
<td>(8.3)</td>
</tr>
<tr>
<td>UK logistics</td>
<td>(9.0)</td>
</tr>
<tr>
<td>Changes to pay and pensions</td>
<td>(3.2)</td>
</tr>
<tr>
<td>International store closures and impairments</td>
<td>(2.3)</td>
</tr>
<tr>
<td>M&amp;S Bank charges</td>
<td>(15.3)</td>
</tr>
<tr>
<td><strong>Adjusting items</strong></td>
<td><strong>(96.8)</strong></td>
</tr>
</tbody>
</table>
**RESTORING THE BASICS**

**CAPITAL EXPENDITURE BEFORE DISPOSALS**

<table>
<thead>
<tr>
<th>Category</th>
<th>H1 17/18 (£m)</th>
<th>H1 18/19 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Supply chain</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>UK store environment</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Property maintenance</td>
<td>21</td>
<td>29</td>
</tr>
<tr>
<td>New UK stores</td>
<td>32</td>
<td>20</td>
</tr>
<tr>
<td>IT &amp; M&amp;S.com</td>
<td>34</td>
<td>35</td>
</tr>
</tbody>
</table>

**Growth** 25%

**Efficiency** 40%

**Business as usual** 35%

**£109m**

H1 18/19
RESTORING THE BASICS

CHANGE IN NET DEBT

£m

263

268

14

(37)

107

(54)

2

300

(155)

(59)

(2)

46

Adjusted operating profit

Depreciation and amortisation

Working capital

DB pension funding

Capex and disposals

Interest and taxation

Other

Free cashflow before adjusting items

Dividends

Adjusted free cashflow

Adjusting items¹

Other movements

Change in net debt

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food</strong></td>
<td>Space¹ (%)</td>
<td>Level</td>
</tr>
<tr>
<td></td>
<td>Gross margin change (bps)</td>
<td>0 to -50</td>
</tr>
<tr>
<td><strong>Clothing &amp; Home</strong></td>
<td>Space reduction¹ (%)</td>
<td>c.4</td>
</tr>
<tr>
<td></td>
<td>Gross margin change (bps)</td>
<td>0 to 50</td>
</tr>
<tr>
<td></td>
<td>UK operating costs (%)</td>
<td>0 to -1</td>
</tr>
<tr>
<td></td>
<td>Tax rate (%)</td>
<td>c. 22</td>
</tr>
<tr>
<td></td>
<td>Capital expenditure (£m)</td>
<td>300 to 350</td>
</tr>
</tbody>
</table>

¹ As at year end
RESTORING THE BASICS
ACCELERATED THE PACE OF CHANGE

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RESTORING THE BASICS
LEADERSHIP TRANSFORMATION
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

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

<table>
<thead>
<tr>
<th>CLOTHING &amp; HOME SALES ONLINE (% of sales)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 2017/18</td>
</tr>
<tr>
<td>18.2</td>
</tr>
<tr>
<td>H1 2018/19</td>
</tr>
<tr>
<td>20.4</td>
</tr>
</tbody>
</table>

HOLLY’S MUST-HAVE
RESTORING THE BASICS
DIGITAL FIRST – DIGITISING M&S

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
RESTORING THE BASICS
CLOTHING & HOME – OUR CUSTOMERS

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)

<table>
<thead>
<tr>
<th></th>
<th>H1 2015/16</th>
<th>H1 2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOOD</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td>BETTER</td>
<td>57</td>
<td>61</td>
</tr>
<tr>
<td>BEST</td>
<td>36</td>
<td>20</td>
</tr>
</tbody>
</table>

MORE SLIM FIT IN MENS CHINOS (% of options)

<table>
<thead>
<tr>
<th></th>
<th>Summer 2018</th>
<th>Summer 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKINNY</td>
<td>33</td>
<td>17</td>
</tr>
<tr>
<td>SLIM</td>
<td>67</td>
<td>41</td>
</tr>
<tr>
<td>REGULAR</td>
<td>42</td>
<td></td>
</tr>
</tbody>
</table>

New Lower Price

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

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
RESTORING THE BASICS
FOOD – OUR PROCESSES

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

<table>
<thead>
<tr>
<th>Time Line</th>
<th>24 Weeks</th>
<th>6 Weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12</td>
<td>3</td>
</tr>
</tbody>
</table>
RESTORING THE BASICS
PROFITABLE GROWTH IN INTERNATIONAL

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 (%)

<table>
<thead>
<tr>
<th></th>
<th>Average Selling Price</th>
<th>Volume</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPACT OF ‘MARKET RIGHT’ PRICING – RESULTS SINCE IMPLEMENTATION (%)</td>
<td>-9</td>
<td>19</td>
<td>8</td>
</tr>
</tbody>
</table>
RESTORING THE BASICS
FIT FOR THE FUTURE STORES

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
RESTORING THE BASICS
MODERNISING OUR SUPPLY CHAIN – FOOD

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

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
RESTORING THE BASICS ACCELERATED THE PACE OF CHANGE

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## STORES AND SPACE

<table>
<thead>
<tr>
<th></th>
<th>UK stores</th>
<th>Sep 18</th>
<th>Mar 18</th>
<th>Openings</th>
<th>Closures</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopping Centre</td>
<td>16</td>
<td>16</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Retail Park</td>
<td>69</td>
<td>70</td>
<td>0</td>
<td>(1)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>High Street – large</td>
<td>82</td>
<td>86</td>
<td>0</td>
<td>(4)</td>
<td>(4)</td>
<td></td>
</tr>
<tr>
<td>High Street</td>
<td>112</td>
<td>128</td>
<td>0</td>
<td>(16)</td>
<td>(16)</td>
<td></td>
</tr>
<tr>
<td>Outlets</td>
<td>36</td>
<td>39</td>
<td>0</td>
<td>(3)</td>
<td>(3)</td>
<td></td>
</tr>
<tr>
<td>Simply Food owned</td>
<td>293</td>
<td>286</td>
<td>11</td>
<td>(4)</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Simply Food franchise</td>
<td>421</td>
<td>410</td>
<td>12</td>
<td>(1)</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Add back downsize to Simply Food$^1$</td>
<td>0</td>
<td>0</td>
<td>(1)</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>UK stores</th>
<th>Sep 18</th>
<th>Mar 18</th>
<th>Openings</th>
<th>Closures</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling space (absolute, m sq ft)</td>
<td>17.0</td>
<td>17.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C&amp;H</td>
<td>10.7</td>
<td>11.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>6.3</td>
<td>6.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>International</th>
<th>Sep 18</th>
<th>Mar 18</th>
<th>Openings</th>
<th>Closures</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned</td>
<td>128</td>
<td>124</td>
<td>5</td>
<td>(1)</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Franchise</td>
<td>299</td>
<td>304</td>
<td>10</td>
<td>(15)</td>
<td>(5)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>International stores</th>
<th>Sep 18</th>
<th>Mar 18</th>
<th>Openings</th>
<th>Closures</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling space (absolute, m sq ft)</td>
<td>5.1</td>
<td>5.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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