TRANSFORMATION UNDERWAY

FINAL RESULTS
23 MAY 2018
TRANSFORMATION LAUNCHED
TODAY’S AGENDA

STEVE ROWE
FINANCIAL HIGHLIGHTS
FACING FACTS

SCILLA GRIMBLE
FINANCIAL PERFORMANCE

STEVE ROWE
RESTORING THE BASICS
Financial results demonstrate why our transformation is necessary

- Group revenue £10.7bn (+0.7%)
- Profit before tax & adjusting items £580.9m (-5.4%)
- Clothing & Home online (+5.2%)

- Adjusting items of £514.1m as velocity of change increases
- Accelerated change is the only option
FACING FACTS
ADDRESSING OUR DEEP-SEATED ISSUES

1. Complex corporate culture and structure
2. Behind the curve in digital
3. More to do on style and value in Clothing & Home
4. Underperformance in Food
5. High cost retailer with inefficient supply chain
6. Store estate not fit for the future
BUREAUCRATIC CULTURE

- Complex corporate structure and culture
- Too many layers and too much bureaucracy
- Unclear accountabilities
- Insufficient constructive challenge
#2 in online clothing, but growth slower than the market and losing share

Technology platform solid but inflexible

Page load speeds behind industry best practice

Castle Donington will never achieve designed capacity at peak

Key roles remain to be filled

### 2017 Online Clothing Market Share Top 5

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailer A</td>
<td>11.1%</td>
</tr>
<tr>
<td>M&amp;S</td>
<td>5.8%</td>
</tr>
<tr>
<td>Retailer B</td>
<td>5.6%</td>
</tr>
<tr>
<td>Retailer C</td>
<td>4.7%</td>
</tr>
<tr>
<td>Retailer D</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Source: Kantar
MORE TO DO ON STYLE AND VALUE

- Previously fixated on "best" and fashion, not style
- Too much discounting; prices detached from the market
- Scored low on family affordability
- Too many slow moving lines and phases, lacking depth
UNDERPERFORMANCE IN FOOD

- Pockets of excellence in Food innovation and quality; need for broader relevance
- Competitive KVIs but too detached from market in core ranges
- Too many complex and confusing promotions
- Availability worse than best practice
- Reductions, waste and stock loss at close to 6% of sales; best practice far lower
Inefficient Supply Chains

Supply chains are significant drivers of excessive cost

Clothing & Home too slow from manufacturer to customer
- Stock cover too high
- Too many holding points and touches

Food supply chain inefficient and complex
- Too much backroom stock without improving availability
- Colleague productivity impaired because of poor replenishment processes
FACING FACTS
STORE ESTATE NOT FIT FOR THE FUTURE

- Needed plan for store estate in a multi-channel world
- Sales densities declined significantly
- Over 2m square feet of unproductive space
- Long tail of small high street stores without range authority
- Worst performing stores in the same location for more than 75 years
FACING FACTS
TRANSFORMATION UNDERWAY

PUTTING OUT THE FIRES
STEP ONE
RESTORING THE BASICS

2016

STEP TWO
SHAPING THE FUTURE

2018

STEP THREE
MAKING M&S SPECIAL

2019

2020

2021

2022
<table>
<thead>
<tr>
<th></th>
<th>Transformation Underway</th>
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</table>
FINANCIALS AT A GLANCE

Group revenue
£10.7bn
+0.7%

Profit before tax
£66.8m
-62.1%

Profit before tax and adjusting items
£580.9m
-5.4%

Free cash flow before adjusting items
£582.4m
-12.6%

Net debt
£1.8bn
-5.5%

Full year dividend
18.7p
Unchanged
## Food Performance

### Revenue Growth

<table>
<thead>
<tr>
<th></th>
<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3.2%</td>
<td>3.9%</td>
</tr>
<tr>
<td>LFL</td>
<td>-0.6%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

### Gross Margin

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<thead>
<tr>
<th></th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buying margin</td>
<td>-150bps</td>
<td>-160bps</td>
</tr>
<tr>
<td>Waste</td>
<td>10bps</td>
<td>-5bps</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>32.5%</th>
<th>vs. 2yr</th>
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<tbody>
<tr>
<td>2016/17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017/18</td>
<td>31.1%</td>
<td></td>
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</tbody>
</table>
## CLOTHING & HOME PERFORMANCE

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<th>Revenue growth</th>
<th>Q4</th>
<th>FY</th>
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<tbody>
<tr>
<td>Total</td>
<td>-3.1%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>LFL</td>
<td>-3.4%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>M&amp;S.com(^1)</td>
<td>8.0%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gross margin</th>
<th></th>
<th>56.1%</th>
<th>vs. 2yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buying margin</td>
<td>50bps</td>
<td>150bps</td>
<td></td>
</tr>
<tr>
<td>Discounting</td>
<td>0bps</td>
<td>5bps</td>
<td></td>
</tr>
<tr>
<td>2017/18</td>
<td>56.6%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\)Includes Food and International at constant currency
OPERATING COSTS

<table>
<thead>
<tr>
<th>Cost drivers</th>
<th>FY 16/17</th>
<th>1.8%</th>
<th>FY 17/18</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>New space and volume</td>
<td>60</td>
<td>6.0%</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>(9)</td>
<td>-0.9%</td>
<td>(11)</td>
<td></td>
</tr>
<tr>
<td>Other (incl. depreciation)</td>
<td>1</td>
<td>0.1%</td>
<td>3,450</td>
<td></td>
</tr>
<tr>
<td>Year on year growth</td>
<td>3,390</td>
<td>1.8%</td>
<td></td>
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</tr>
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</table>
INTERNATIONAL

### Revenue

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<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (reported)</td>
<td>-24.7%</td>
<td>-7.9%</td>
</tr>
<tr>
<td>Adjusted revenue*</td>
<td>-0.4%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

*Constant currency, excluding exit markets and Hong Kong

### Operating profit £m

<table>
<thead>
<tr>
<th></th>
<th>16/17</th>
<th>17/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>64.4</td>
<td>86.1</td>
</tr>
<tr>
<td>Franchise</td>
<td>81.9</td>
<td>53.1</td>
</tr>
<tr>
<td>Owned retained</td>
<td>16.8</td>
<td></td>
</tr>
<tr>
<td>Owned exit*</td>
<td>(34.3)</td>
<td>(4.0)</td>
</tr>
</tbody>
</table>

*Last year restated for closure of our online business in China
PROFIT BRIDGE

£m

Food
Sales £69m
Margin rate £(78)m

C&H
Sales £(29)m
Margin rate £17m

Adjusted PBT 17/18
Profit before tax 17/18

Food gross profit
C&H gross profit
UK operating costs
M&S Bank
International
Interest

Adjusted PBT 16/17

Profit adjusting items

614
(9)
(12)
(60)
(10)
(71)
(13)
581
(514)
67
## Adjusting Items

<table>
<thead>
<tr>
<th>Category</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic programmes</td>
<td></td>
</tr>
<tr>
<td>UK store estate</td>
<td>(321.1)</td>
</tr>
<tr>
<td>UK organisation</td>
<td>(30.7)</td>
</tr>
<tr>
<td>IT restructure</td>
<td>(15.5)</td>
</tr>
<tr>
<td>UK logistics</td>
<td>(13.1)</td>
</tr>
<tr>
<td>Changes to pay and pensions</td>
<td>(12.9)</td>
</tr>
<tr>
<td>International store closures and impairments</td>
<td>(5.0)</td>
</tr>
<tr>
<td>UK store impairments and asset write-offs</td>
<td>(63.4)</td>
</tr>
<tr>
<td>M&amp;S Bank charges</td>
<td>(34.7)</td>
</tr>
<tr>
<td>Other</td>
<td>(17.7)</td>
</tr>
<tr>
<td><strong>Adjusting items</strong></td>
<td>(514.1)</td>
</tr>
</tbody>
</table>
CAPITAL EXPENDITURE BEFORE DISPOSALS

<table>
<thead>
<tr>
<th>Category</th>
<th>FY16/17</th>
<th>FY17/18</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>123</td>
<td>92</td>
<td>-31%</td>
</tr>
<tr>
<td>New UK stores</td>
<td>75</td>
<td>72</td>
<td>-4%</td>
</tr>
<tr>
<td>Property maintenance</td>
<td>90</td>
<td>27</td>
<td>-70%</td>
</tr>
<tr>
<td>UK store environment</td>
<td>23</td>
<td>24</td>
<td>+4%</td>
</tr>
<tr>
<td>Supply chain</td>
<td>34</td>
<td>73</td>
<td>+116%</td>
</tr>
<tr>
<td>International</td>
<td>13</td>
<td>12</td>
<td>-8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>£358m</td>
<td>£299m</td>
<td>-17%</td>
</tr>
</tbody>
</table>

FY17/18 Growth

- 29%
- 35%
- 36%
CASH GENERATION

**£m**

- Adjusted operating profit: 671
- Depreciation and amortisation: 581
- Working capital: (97)
- DB pension funding: (41)
- Capex net of disposals: (346)
- Interest and taxation: (201)
- Other: 16
- Adjusted free cashflow before dividends: 582
- Dividends: (303)
- Adjusted free cashflow: 279
- Adjusting items*: (165)
- Net cash inflow: 114

*Includes amounts relating to the closure of stores in international markets of £85.7m, transition payments in respect of pensions and pay premia of £36.7m and M&S Bank of £34.7m. These were partially offset by the cash inflow associated with the disposal of the Hong Kong retail business of £22.9m.*
## GUIDANCE 2018/19

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<tr>
<td><strong>Food</strong></td>
<td></td>
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<tr>
<td>Space* (%)</td>
<td></td>
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<tr>
<td>Gross margin change (bps)</td>
<td>0 to -50</td>
</tr>
<tr>
<td><strong>Clothing &amp; Home</strong></td>
<td></td>
</tr>
<tr>
<td>Space reduction* (%)</td>
<td>c.5</td>
</tr>
<tr>
<td>Gross margin change (bps)</td>
<td>0 to 50</td>
</tr>
<tr>
<td><strong>UK operating costs (%)</strong></td>
<td>0 to -1</td>
</tr>
<tr>
<td><strong>Tax rate (%)</strong></td>
<td>c.22</td>
</tr>
<tr>
<td><strong>Capital expenditure (£m)</strong></td>
<td>c.350 to 400</td>
</tr>
</tbody>
</table>

* As at year end
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IT STARTED WITH CULTURE

Most radical organisation restructuring in M&S’s corporate history

- Largest ever leadership transformation
- Devolving to truly P&L accountable businesses run by world class teams
- One culture, all own brand, unique M&S technical expertise

RESTORING THE BASICS

We can trace ALL our beef right back to every farm and animal

Only the very best offer exceptional service
Be an exceptional member of team M&S
RESTORING THE BASICS
LEADERSHIP TRANSFORMATION

PLC TEAM
Archie Norman  Chairman
Steve Rowe  Chief Executive
Humphrey Singer  CFO

CLOTHING & HOME
Jill McDonald  Clothing & Home MD
Jill Stanton  Womenswear and Kidswear Director
Wes Taylor  Menswear Director
Vic Self  Digital Director

FOOD
Stuart Machin  Food MD
Sharry Cramond  Food Marketing Director
RESTORING THE BASICS
DIGITAL FIRST – ONE THIRD ONLINE

WHAT’S HAPPENING

▪ Making site faster and more responsive
▪ More collection and return options
▪ Later cut off at 10:00pm
▪ Pioneering direct selling through Instagram and Twitter to our 1.4m followers

WHAT’S NEXT

▪ Rebuilding all our web pages to become faster and mobile-centric
▪ Upgrading search capability
▪ Broadening "bought online, shipped from store"
WHAT'S HAPPENING

- 10,000 Honeywell mobile devices rolled out in stores
- M&S-designed apps like “intelligent waste” to minimise markdown and for labour scheduling

WHAT'S NEXT

- Customer payments on the Honeywell device
- Self-checkouts in Clothing & Home
- Launch technology partnerships to access innovation
- Trial “Scan, Pay, Go” convenience store
RESTORING THE BASICS
OUR CLOTHING & HOME BUSINESS

WHAT'S HAPPENING
- Focusing on wardrobe essentials and contemporary style
- Building on our core pillars, exploiting opportunities
- Investing in "Love it for Less" to communicate value
- Re-engaging our family customers as well as supporting our existing core customer

WHAT'S NEXT
- Further reduction of lines and phases
- Strategically reallocating space to Kids and fixing Home
- Building capability in design, buying and merchandising
RESTORING THE BASICS
OUR FOOD BUSINESS

WHAT'S HAPPENING

- Investing 100bps in price in 2018/19
- Conveying affordability – salad staples at 50p
- Increasing availability through our new replenishment process
- Communicating our quality edge, like uniquely traceable beef
- Stressing our family credentials, like our new “Best Ever Burger”
RESTORING THE BASICS
OUR FOOD BUSINESS

WHAT'S NEXT

- Range review and category resets across all of fresh, meals, grocery and BWS
- New price architecture aimed at customers shopping for a family as well as our core customers
- Make our value trusted – fewer multibuys and promotions
- Stay famous for newness relevant to all
- Best practice on availability and waste
- Develop Food format for the future
RESTORING THE BASICS
MODERNISING OUR CLOTHING & HOME SUPPLY CHAIN

WHAT'S HAPPENING

▪ Closing Hardwick and Neasden RDCs and acquired Welham Green NDC

▪ Retrofitting Castle Donington to increase short-term capacity

WHAT'S NEXT

▪ Complete move to single tier supply chain

▪ End-to-end review of buying process and stocks

▪ Substantially reduce forward cover, markdowns and clearance

REDUCTION IN STOCKHOLDING LOCATIONS

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2022</th>
</tr>
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<tbody>
<tr>
<td>National DCs</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Other DCs</td>
<td>11</td>
<td>6</td>
</tr>
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NEW WELHAM GREEN DC
RESTORING THE BASICS
MODERNISING OUR FOOD SUPPLY CHAIN

WHAT'S HAPPENING

▪ Introducing new processes to increase stockfile accuracy
▪ Launching 27 academies for operational excellence
▪ Removing excess stock and storage from stockrooms
▪ Delivering order quantities that are store specific

WHAT'S NEXT

▪ Redesign replenishment process to increase store productivity
▪ Modernisation of depot structure
RESTORING THE BASICS
FIT FOR THE FUTURE STORES

WHAT'S HAPPENING

- Accelerating closure of over 100 full line stores – at least 25% of our 2016 full line store space
- Decoupling closure programme from new openings
- Store evaluation criteria based on cash payback and IRR

WHAT'S NEXT

- Higher quality store estate complement online growth
- Stronger store economics with lower rent and payroll as a percent of sales
- Assess store environment of the future

ACCELERATED SPACE PLAN
Number of full line stores

<table>
<thead>
<tr>
<th>Category</th>
<th>2016</th>
<th>Close</th>
<th>Close, relocate or downsize</th>
<th>Relocate</th>
<th>New</th>
<th>2022</th>
</tr>
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<tbody>
<tr>
<td>Full line</td>
<td>305</td>
<td>(60)</td>
<td>(50)</td>
<td>20</td>
<td>10</td>
<td>225</td>
</tr>
</tbody>
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RESTORING THE BASICS
OUR INTERNATIONAL BUSINESS

WHAT'S HAPPENING

▪ Focusing on strong partners in high potential markets
▪ Closed 10 loss-making markets – under budget and on time
▪ Rolling out market-specific pricing after successful trial

WHAT'S NEXT

▪ Providing franchise partners with improved buying and planning software
▪ Garments designed for local needs
▪ Localising M&S.com
RESTORING THE BASICS
AT LEAST £350M OF COST REDUCTION DELIVERED BY 2021

LEGACY
- Over 100 legacy store closures, aiming for 30% recapture
- Consolidating to one central London office
- Migrating off our old IT mainframe

STRUCTURAL
- New IT operating model
- Moving to a single tier C&H logistics network – closing Neasden and Hardwick
- Redesigning food supply chain end to end
- Targeting radical reduction in waste and markdown

BEHAVIOURAL
- Using AI and tech to eliminate routine tasks
- Optimising scheduling using new technology
- Simplifying operations; cutting layers of management
- Building capability in buying to reduce markdown and drive availability
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