

“NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES (INCLUDING ITS TERRITORIES AND POSSESSIONS, ANY STATE OF THE UNITED STATES AND THE DISTRICT OF COLUMBIA), AUSTRALIA, CANADA, JAPAN OR SOUTH AFRICA OR ANY OTHER STATE OR JURISDICTION IN WHICH SUCH RELEASE, PUBLICATION OR DISTRIBUTION WOULD BE UNLAWFUL.”

M&S

EST. 1884

 [@mandsnews](https://twitter.com/mandsnews)

Issued: 27 February 2019

## Press Release

**\*\*NEWSWIRE & PRESS CONFERENCE CALL AT 7.20AM.  
FULL DETAILS IN NOTES TO EDITORS\*\***

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR IMMEDIATE RELEASE

### **Marks and Spencer Group Plc** **Bringing the Best Together: Transforming UK online grocery shopping** **M&S and Ocado announce new Joint Venture**

Marks and Spencer Group Plc (“M&S”), the unique own brand retailer, today announces the creation of a new 50/50 Joint Venture (“JV”) with Ocado Group Plc (“Ocado”), the UK’s leading pure play digital grocer, that will transform online grocery shopping for UK consumers.

Under the JV, M&S is acquiring a 50% share of Ocado’s UK retail business, which will be supported by Ocado Smart Platform (“OSP”), for a total consideration of up to £750m, including a deferred consideration of up to £187.5m, plus interest.

The JV combines the strength of M&S’s brand and its leading food quality and innovation with Ocado’s unique and proprietary technology to create an unrivalled online offer for our customers. In bringing the best together the JV will benefit existing and new UK customers, colleagues and suppliers.

The JV will trade as Ocado.com but benefit from access to M&S’s brand, products and customer database from September 2020 at the latest, following the termination of the current Waitrose sourcing agreement and migration of JV sourcing to M&S.

## Joint Venture highlights

- A strategically compelling route to unlock growth for M&S Food through a profitable, scalable presence in the online grocery market, the UK's fastest growing channel;
- A fully aligned partnership with complementary skills and assets; M&S, one of Britain's highest rated food brands with strong product development capabilities, and Ocado's pioneering OSP technology and operational efficiency;
- Long-term value creation opportunities for both M&S and the JV. Customers will benefit from the broadest range in UK food retail and the JV will benefit from access to over 12m M&S Food shoppers;
- For the 52 weeks ended 2 December 2018, the newly created JV would have generated revenue<sup>1</sup> of £1,468m and EBITDA<sup>2</sup> of £34.2m, taking into account the newly created OSP contract and other fees and services. Furthermore, under the new sourcing arrangement the JV will no longer incur sourcing fees payable to Waitrose, which were over £15m in 2018.

## Transaction highlights

- Significant potential synergies for M&S Food estimated of at least £70m per annum to be achieved by the third year following completion. These are expected to arise from increased buying scale, harmonised buying terms, conversion of M&S customers who currently account for c. one third of online grocery spend, joint marketing, shared innovation, and complementary category and regional mixes;
- The transaction will be primarily financed by equity. The Board intends to conduct a Rights Issue to raise up to £600m, which will be launched in due course, and which is fully underwritten on a standby basis by Morgan Stanley;
- Concurrently the M&S dividend per share is being reset by 40% to a sustainable level from which to grow in line with earnings over time. As a result, we anticipate paying a final dividend in respect of 2018/19 of 7.1 pence per share;
- Current trading remains in line with Board expectations.

## Steve Rowe, M&S CEO said:

"I have always believed that M&S Food could and should be online. Combining the strength of our food offer with leading online and delivery capability is a compelling proposition to drive long-term growth.

"Our investment in a fully aligned joint-venture with Ocado accelerates our Food strategy as it enables us to take our food online in an immediately profitable, scalable and sustainable way.

“Combining the magic of M&S Food with Ocado’s leadership in online technology allows us to transform UK online grocery shopping by offering customers the broadest, most innovative and relevant range in UK food retail with award-winning service. Our partnership with Ocado will create shared value for our customers, colleagues, supplier partners and shareholders, operating with a common sense of purpose and values.

“This is a transformational step forward in shaping the future of M&S and in becoming a truly digital first retailer with at least a third of the business online.”

**Tim Steiner, Ocado CEO said:**

“We are delighted that our UK retail business will become a joint venture with M&S. This is a transformative moment in the UK retail sector with the combination of two iconic and much-loved retail brands set to provide an unrivalled online grocery offer.

“We believe that this is the best outcome for customers, offering even greater range, service, quality and value; the best outcome for our Ocado Solutions partners, creating a stronger platform from which to innovate and develop our unique and proprietary technology; the best outcome for Ocado Solutions with a further endorsement from another leading global retailer; and the best outcome for our financial stakeholders, unlocking the significant value embedded in Ocado Retail.

“The combination of Ocado and M&S will allow us to grow faster, add more jobs, and create more value, as we lead the channel shift to e-commerce here in the UK. We are very excited by the many opportunities ahead.”

**Transaction rationale**

M&S has embarked on a major transformation programme to reshape its business, organisation and culture. Our objective is to create a profitable, growing family of businesses within three to five years, bound together not only by shared sites but by a shared consumer brand, colleagues, values, technology and customer data. Our Food business is recognised for its strong focus on quality and innovation; but to evolve with the market we need to broaden our offering and to secure access to the fastest growing channel. This partnership represents a unique opportunity within our transformation programme to unlock growth within our Food business.

M&S’s prior online trial was uneconomic due to the high cost of manually picking from store, including costs associated with moving stock from DCs to stores and store replenishment costs.

Developing best in class technology and investing in fulfilment centres would delay the implementation of our transformation programme and carry significant execution risk.

The combination with Ocado enables the delivery of a full grocery shop and is the optimal strategy to access online growth, as well as leveraging our existing strengths in food for now and food for tonight through Ocado's delivery innovations, such as the Ocado 'Zoom' trial.

The JV provides M&S with a profitable, scalable presence in online grocery, where currently it has a minimal presence. Online is forecast to be the fastest growing channel, increasing from a £11bn market in 2018 to £17bn in 2023, set to capture over 20% of forecast UK market growth yet still only accounting for 7% of total grocery spending today. The partnership offers a strategically compelling route to accessing this growth channel.

The JV will work as a true partnership aiming to create the UK's leading online grocery business. Ocado is the leading pure play online grocery player in the UK with a 15%<sup>3</sup> share of the online UK grocery market, growing at an average rate of 13% over the last three years. Ocado serves over 700,000 customers, offering over 50,000 products and fulfilling over 290,000 orders a week. The Ocado OSP technology provides an infrastructure solution to automate order fulfilment and improve accuracy, whilst also enabling customers to shop online in the most convenient way for them.

The JV will also have access to the c. seven million members of "Sparks", M&S's loyalty programme, and c. three million active M&S Bank customers, together with its growing online database, with the potential to build an integrated loyalty programme with strong insights and personalised rewards.

Building on the strong platform Ocado has developed and leveraging M&S's highly rated Food brand, there are significant value creation opportunities for the combined businesses. In addition, we expect to generate at least £70m of synergies for M&S by the third year following completion including:

- Meaningful scale boost and improved sourcing economics to M&S own label and branded products. This sourcing benefit will grow as the JV scales;
- Enable faster testing of new product development and significantly reduce trial and development costs.

Other value creation opportunities for M&S include:

- Additional sales from attracting new customers to the JV;
- Use and rebrand Ocado own label as M&S opening price point product in stores;
- Access to the unique range from Ocado's innovative partners to add to our core offer and provide insight and options for greater innovation;
- Spreading M&S's innovation costs over a larger sales and customer base;
- Cross-marketing opportunities for M&S's Clothing & Home and financial services businesses;
- Using M&S's complementary geographic strengths to develop the JV outside of London and the south of the UK.

### **Transaction Terms**

M&S is paying Ocado up to £750m for its 50% stake in the JV; £562.5m on completion and up to £187.5m, plus interest, payable after five years, conditional on reaching agreed financial and operational targets.

Ocado will transfer retail customers, sales and supplier relationships, some vehicle assets and central retail functions to the JV. The JV will carry out all pricing, category management, marketing and brand communications. Ocado will provide the end-to-end e-commerce platform and access to throughput and service levels from CFC technology in return for an OSP fee paid by the JV under a long-term contract. Ocado will provide third-party logistics services to operate the CFCs and driver management for a management fee from the JV. M&S will provide its product range and development capabilities to the JV at cost from September 2020 at latest.

The board of the JV will be shared 50/50 between M&S and Ocado, with each having the right to appoint two directors. For five years from completion, Ocado shall have the right to appoint the CEO, and M&S one of the JV's directors as Chair. The management team of the JV, other than the CEO, will be appointed by the JV Board, with Lawrence Hene, currently Ocado's Commercial Director, being appointed as interim MD of the JV to lead its establishment.

We expect the Transaction to close in calendar Q3 2019.

## Financial Highlights

For the 52 weeks ended 2 December 2018 the JV would have generated revenue<sup>1</sup> of £1,468m and EBITDA<sup>2</sup> of £34.2m, taking into account the newly created OSP contract and other fees and services. Furthermore, under the new sourcing arrangement the JV will no longer incur sourcing fees to payable to Waitrose, which were over £15m in 2018. The value of the gross assets<sup>4</sup> the subject of the transaction is estimated to be £164m. The investment will be accounted for as an associate.

The JV's investment requirements will include investment in new CFC buildings, refrigeration equipment, spokes and home delivery vans. The JV will also incur a number of transition costs following completion.

## Transaction Financing

The transaction will be primarily equity financed. The Board intends to conduct a Rights Issue to raise up to £600m which will be launched in due course following the publication of our audited 2019 financial statements. The Rights Issue has been fully underwritten on a standby basis by Morgan Stanley.

## Dividend Reset

We are taking proactive steps to strengthen our balance sheet to provide a secure platform for the Group's transformation programme, and the right balance of investment and shareholder returns.

In addition to the rights issue, the Board is resetting our dividend per share by 40% to a sustainable level, which we aim to grow in line with earnings over time. This will begin with a reduction in the final dividend for 2018/19 to 7.1 pence. The 2018/19 final dividend and prior dividends will be restated in future accounts to reflect the bonus factor adjustment resulting from the rights issue in due course.

## Current Trading

On 10 January 2019, M&S announced its trading statement outlining its trading performance for the 13 weeks to 29 December 2018. Since that date, the Group's performance continues to be in line with the Board's expectations. We will report our Full Year Results on 22 May 2019.

**For further information, please contact:**

### Investor Relations:

Fraser Ramzan: +44 (0)20 3884 7080  
Rebecca Edelman: +44 (0)20 3884 6029

6

**Media enquiries:**

Corporate Press Office: +44 (0)20 8718 1919

**Rothschild & Co:**

Lead Financial Adviser to M&S

Nigel Higgins / Niall McBride / Nigel Himsworth / Shannon Nicholls

Telephone: +44 (0)20 7280 5000

**Morgan Stanley:**

Sole Bookrunner, Joint Corporate Broker and Joint Financial Adviser to M&S

Andrew Foster / Martin Thorneycroft / Nick Bishop / Angus Millar / Richard Brown

Telephone: +44 (0)20 7425 8000

**Shore Capital:**

Lead Manager and Joint Corporate Broker to M&S

Hugh Morgan / Edward Mansfield / James Thomas

Telephone: +44 (0)207 408 4090

**Investor & Analyst call:**

A call will be hosted by Steve Rowe and Humphrey Singer at 8am on 27 February 2019:

Dial in number: +44 (0)330 336 9411

Confirmation Code: 5632370

Slides to accompany the call will be available via the following link:

<https://slideassist.webcasts.com/starthere.jsp?ei=1234605>

A recording of this call will be available:

Dial in number: +44 (0)20 7660 0134

Replay Code: 5632370

## **Newsire and Press Conference Call:**

This will be jointly hosted by Steve Rowe, Marks & Spencer CEO and Tim Steiner, Ocado CEO.

**Participant Dial In: +44 (0)330 336 9125 Confirmation Code: 5310360**

A replay facility of this call will be available.

Replay: +44 (0)20 7660 0134

Replay Passcode: 5310360

---

<sup>1</sup> Revenue figure derived from unaudited management accounts for Ocado retail business and reflecting JV perimeter adjustments. Unaudited and for illustrative purposes only.

<sup>2</sup> EBITDA figure derived from unaudited management accounts for Ocado retail business, taking into account the new OSP contract and fees and services anticipated to be payable to Ocado and reflecting JV perimeter adjustments. Unaudited and for illustrative purposes only.

<sup>3</sup> Source: Kantar, on the basis of market share by online orders.

<sup>4</sup> Gross assets figure derived from unaudited management accounts, representing the assets that will form part of the JV, unaudited and for illustrative purposes only.

*Statements made in this announcement that look forward in time or that express management's beliefs, expectations or estimates regarding future occurrences and prospects are "forward-looking statements". These forward-looking statements reflect Marks & Spencer's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any forward-looking statements are subject to various risks and uncertainties, including, but not limited to, failure by Marks & Spencer to predict accurately customer preferences; decline in the demand for products offered by Marks & Spencer; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of Marks & Spencer's brand awareness and marketing programmes; general economic conditions or a downturn in the retail or financial services industries; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. For further information regarding risks to Marks & Spencer's business, please consult the risk management section of the 2018 Annual Report (pages 20-24).*

*The forward-looking statements contained in this document speak only as of the date of this announcement, and Marks & Spencer does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.*

---

*This announcement is not and does not contain an offer of securities for sale or a solicitation of an offer to purchase or subscribe for securities in any jurisdiction, including the United States, Australia, Canada, Japan or South Africa or any other state or jurisdiction in which such release, publication or distribution would be unlawful. The securities to which this announcement relates (the "Securities") have not been, and will not be, registered under the U.S. Securities*

---

Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States unless registered under the Securities Act or pursuant to an exemption from, or a transaction not subject to, registration under the Securities Act. There will be no public offer of the Securities in the United States. Subject to certain exceptions, the Securities may not be offered or sold in Australia, Canada, Japan or South Africa or to, of for the account or benefit of any national, resident or citizen of such countries.

This announcement is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom; or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"); or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this announcement or any of its contents.

N.M. Rothschild & Sons Limited ("Rothschild & Co") and Shore Capital Stockbrokers Limited ("Shore Capital"), which are authorised and regulated by the Financial Conduct Authority in the United Kingdom and Morgan Stanley & Co. International plc ("Morgan Stanley"), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, are acting exclusively for M&S and no one else in connection with the transaction referred to in this announcement and will not regard any other person(s) as their respective client(s) in relation to the transaction referred to in this announcement and will not be responsible to anyone other than M&S for providing the protections afforded to their respective clients nor for providing financial advice in relation to the transaction referred to in this announcement, the contents of this announcement and/or any other transaction(s), arrangement(s) and/or matter(s) referred to in this announcement.

In any EEA Member State other than the United Kingdom that has implemented Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU to the extent implemented in the relevant Member State and Regulation EU 2017/1129, together with any applicable implementing measures in any Member State, the "Prospectus Directive") this announcement is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive.

- Ends -