Interim Results

9 November 2010

Marc Bolland

Chief Executive

Overview

- Strong first half results
- Growth in market share
- Improved product offer

General Merchandise

- Sales +7.2%; LFL +6.3%
- Market share +60bps
- Fashion
- Choice
- Value

Food

- Sales +4.1%; LFL +2.6%
- Market share +10bps
- Quality
- Value
- Innovation


Outlook

- Pressure on consumers' disposable incomes
- Impact of commodity price increases
- Tougher comparatives ahead
- Cost control
- Outlook remains uncertain

Alan Stewart

Chief Finance Officer

Group financial highlights

Sales	£4,569.7m	+5.4%
PBT*	£348.6m	+16.9%
Adjusted EPS*	16.6p	+21.2%
Net debt	£2.2bn	
Interim dividend	6.2p	+12.7%

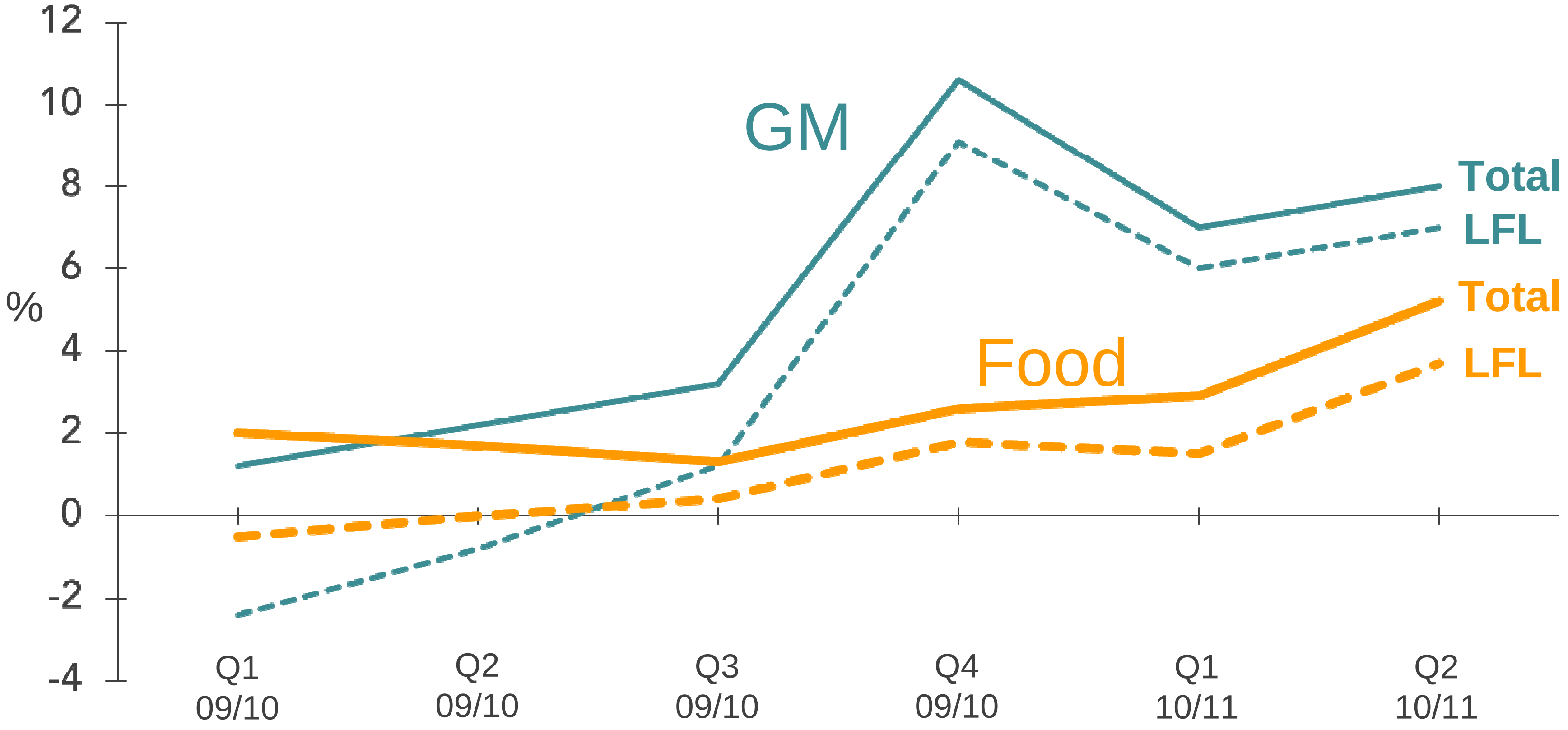
*Before property disposals

Divisional performance

	TY £m	LY £m	Var %
Turnover			
UK Retail	4,107.7	3,890.6	5.6
International Retail	462.0	445.2	3.8
Group	4,569.7	4,335.8	5.4
Operating profit*			
UK Retail	344.8	299.1	15.3
International Retail	64.4	65.9	-2.3
Group	409.2	365.0	12.1

*Before property disposals

UK sales



GM
Food
Total
LFL
Total
LFL
%
12
10
8
6
4
2
0
-2
-4
Q1 09/10
Q2 09/10
Q3 09/10
Q4 09/10
Q1 10/11
Q2 10/11

UK gross margin

GM

- 53.2%, up 10 bps
- Currency pressure
- Rising input costs
- Better markdown management

Food

- 31.5%, up 5 bps
- Commodity price pressures
- Annualisation of LY price investment
- Better management of promotions
- Improvement in waste

2010/11 full year guidance: level on last year

UK operating costs

	£m	%
2009/10 operating costs*	**1,312**	
Depreciation	10	+0.8
Space & volume growth	39	+3.0
Inflation	37	+2.8
Underlying savings	**(25)**	**-1.9**
2010/11 operating costs*	**1,373**	**+4.7**

*Before bonus

2010/11 full year guidance: upper end of +4.0% to +5.0% range

UK operating costs

	TY £m	LY £m	Var %
Retail staffing	418.5	406.8	+2.9
Retail occupancy	481.6	469.6	+2.6
Distribution	189.1	186.9	+1.2
Marketing & related	64.3	57.5	+11.8
Support	219.8	190.9	+15.1
Total before bonus	**1,373.3**	**1,311.7**	**+4.7**
Bonus	28.0	30.0	-6.7
Total including bonus	**1,401.3**	**1,341.7**	**+4.4**

International

	TY £m	LY £m	Var %	Constant Currency Var %
Revenue	**462.0**	**445.2**	**+3.8**	**+4.9**
- Owned	308.8	301.2	+2.5	+4.2
- Franchised	153.2	144.0	+6.4	+6.4
Operating profit	**64.4**	**65.9**	**-2.3**	**-1.7**
- Owned	22.1	25.7	-14.0	-12.1
- Franchised	42.3	40.2	+5.2	+5.0

Cash flow


633.7
123.8
35.0
184.1
140.8
147.2
2.8
£m
EBITDA
Working capital
Pension funding
Capex
Interest & Taxation
Dividends net of share issues
Net cash generated

Balance sheet and financing

- Net debt at £2.2bn (March 10 £2.1bn)
- Pro-forma fixed charge cover 4.0x
- Average interest rate 6.0%
- Pension
  - UK IAS 19 deficit £258m

Summary

- Improved sales trend
- Strong profit growth
- Increase in dividend
- Tougher comparatives ahead
- Uncertain outlook, no change to guidance

YOUR M&S

Update

Findings & customer reactions

The company is performing well

- Strong product quality
- Strong culture
- Strong customer trust and loyalty
- Plan A is a strong asset for the M&S brand
- Strong innovation, not always recognised
- Service good, but company can become more customer focused
- Availability on both GM and Food – not good enough

Findings & customer reactions

- Customers find our stores difficult to shop
- Positioning of M&S and GM sub-brands in-store is unclear
- Only 20% of our customers shop our Home department
- Is M&S Food becoming like any other supermarket?
- Space growth has been behind the market for the last two years
- Amazon platform performs well, but will restrict our future growth
- International – broad shotgun approach, flag planting, export organisation, but a strong opportunity in selected markets
- Can 2020 be delivered faster/better?

→ Good business – Evolution not Revolution

Plan 2013 - 2015

By 2015	Drive UK LFL growth	International multi-channel retailer	Drive international presence
2010 to 2013	UK space and LFL growth	A leading UK multi-channel retailer	International company
2010 to 2013	Focus on UK		BRAND STORES CLOTHING HOME FOOD

Brand positioning

“Only at M&S”

Only at

YOUR M&S


Only at
YOUR M&S


No other pasta
is rough in texture,
then again no other
pasta is made
to soak up sauce.
Felicitti Family Italian pasta £1.78
Only at
YOUR
M&S

Plan 2013 - 2015

By 2015	**Drive UK LFL growth**	**International multi-channel retailer**	**Drive international presence**
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2010 to 2013	**Focus on UK**		BRAND **STORES** CLOTHING HOME FOOD

YOUR M&S

Focus on UK: Stores

"Customers find our stores difficult to shop"

- Segmenting stores
  - Affluence
  - Regional / geographic
  - Ethnic
  - Demographics
  - Competitors
- Macro spacing
- In-store navigation
- Space range and display
- Consistent packaging architecture
- In-store environment

→ Improved sales densities

Focus on UK: Stores

"Customers find our stores difficult to shop"

- Cross-selling
  - Migrating 1% of customers yields est. £75m sales benefit pa

Plan 2013 - 2015

By 2015	**Drive UK LFL growth**	**International multi-channel retailer**	**Drive international presence**
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2010 to 2013

Focus on UK ⇨

- BRAND
- STORES
- **CLOTHING**
- HOME
- FOOD

Focus on UK: Clothing positioning

"Positioning of M&S and GM sub-brands in-store is unclear"

- Increase the role of the M&S brand
  1) Inspire item led departments – build collections
  2) Outstanding quality
  3) Plan A – sustainability an integral part of the brand
  4) Improving core ranges (top 100 lines)
  5) Becoming more stylish & fashionable
- Sub-brands are real assets
  1) Customer preference
  2) Shopability
  3) Brand support

→ Sub-brands will move from labels to real Brands


find
your style


as seen ON TV
£39.50
mac

Clothing will be inspired by:

"A world of Fashion, Fashion of the world"

Focus on UK: Clothing positioning

Sub-brands

- More distinctive
  - Brand values
- Brand management
  - Brand managers
- Brand development
  - Packaging and in-store presentation
- Brand support
  - More marketing support on specific sub-brands
- Exit Portfolio sub-brand and transition into M&S brand

→ Growth through strengthening core and developing Brands

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2010 to 2013	**Focus on UK**		

BRAND
STORES
CLOTHING
HOME
FOOD

YOUR M&S

Focus on UK: Home positioning

"Only 20% of customers shop our Home department"

- Broad offering in our largest stores and on web
- 3 lifestyles
  - Classic
  - Contemporary
  - Design
- Growth departments
  - Kitchenware and dining
  - Bedding and bath
  - Personal care and fragrance
- Exit technology department in-store

→ Grow sales through improving core (better value) and offering wider choice (more contemporary)


Plan 2013 - 2015

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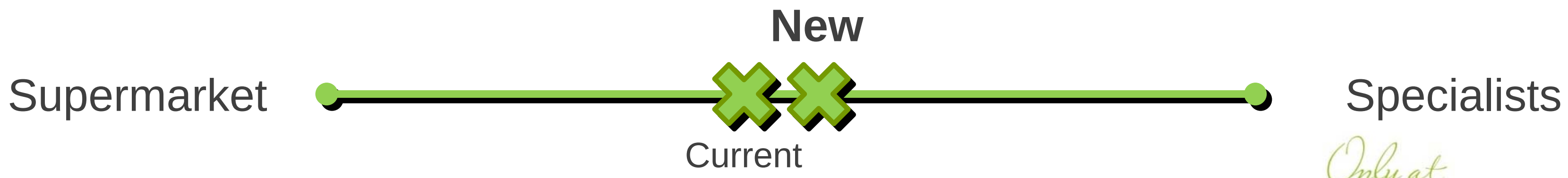
Focus on UK: Food positioning

“Is M&S Food becoming like any other supermarket?”

Focus on UK: Food positioning



Quality and Innovation are the drivers

- 3 core values
  - Fresh
  - Speciality
  - Convenience
- Role of brands
- Universal range to increase from 7,000 to 8,000 SKUs
- Competitive pricing and promotions

Focus on UK: Food positioning

"Innovation and inspiration"

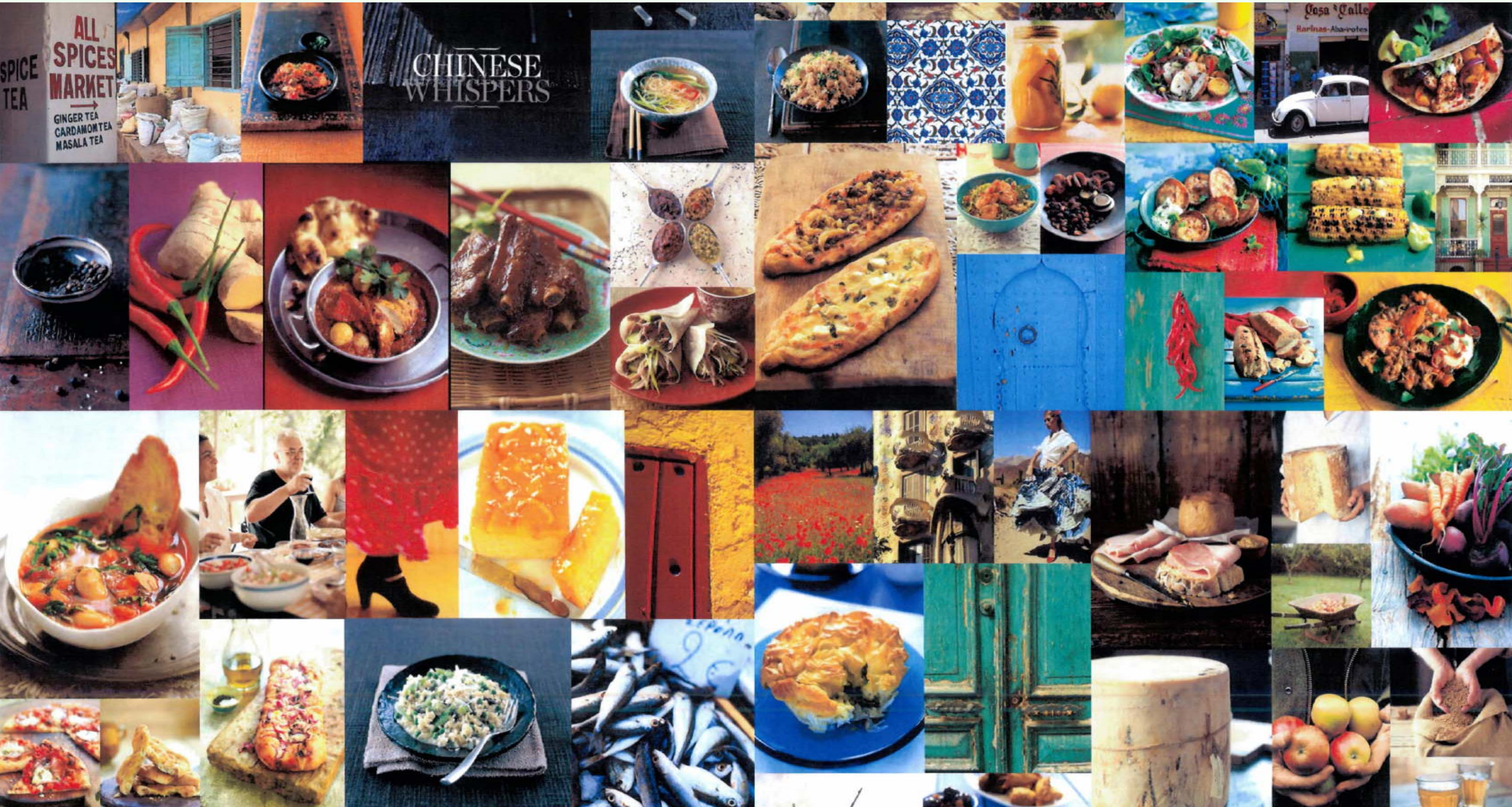
- Best of British
- Flavours of the world
- 240 cafés serving our latest innovative products
- Improve top 100 core lines

➡ Grow sales through improved choice and better availability



Food will be inspired by

“A world of Flavours, Flavours of the world”



Plan 2013 - 2015

- M&S brand and sub-brands development
- Store improvements
- Improve sales densities and availability in GM and Food
- Improving core, offering wider choice in GM and Food

→ Additional sales £1bn-£1.5bn by 2013/14

2010 to 2013	**Focus on UK**	BRAND STORES CLOTHING HOME FOOD

YOUR M&S

Plan 2013 - 2015

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UK space growth

"Space growth has been behind the market for the last two years"

- Strategy aims to minimize drive times for our customers
- Strategy takes account of Shop Your Way growth potential
- Restart space growth program on Food
- Rationalise portfolio
- Continue modernisation programme
- Capital required: c.£600m over 3 years

UK space growth

UK population coverage	2010	2015
45 min drive time to major store	75.9%	80.5%
30 min drive time to full line store	92.3%	95.0%

Compound space growth of c.3% pa until 2015
IRR set at 15%

Plan 2013 - 2015

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UK leading multi-channel retailer

"Amazon platform performs well but will restrict our future growth"

- Re-platform to accelerate growth
- Shop Your Way – 83% of UK pop within 15 mins drive time by 2015
- Mobile – first mover in UK, key role in future, over 1.3m unique visitors
- Food on-line – wines/flowers/party food £80m → £150m by 2013
- Innovation
- International roll out starting 2011/12

→ Grow sales from c.£500m to £800m-£1bn by 2013/14

Plan 2013 - 2015

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International company: review

“Broad shotgun approach, flag planting, export organisation, but a strong opportunity in selected markets”

- Business performance
- Ownership models
- Possible future growth opportunities
- Priority markets
- Strategies for market entry
- Organisational structure

International company

"Broad shotgun approach, flag planting, export organisation, but a strong opportunity in selected markets"

- Franchise management and agreement
- Customer knowledge
- International design adaptation
- Marketing support
- Format development
- International supply chain

→ Become a multi-channel international retailer by 2015
Reduce dependence on UK economic cycle
Grow sales* from c.£500m to £800m-£1bn by 2013/14

*Excl. Rep. Ireland

2020

"Can 2020 be delivered faster / better?"

IT & Logistics	Previous 2020	Now
Investment	£1bn	£1bn
Gross recurring benefits		
IT	£100m	£125m
Logistics	£150m	£175m
Total	£250m	£300m

→ Increased benefits
IRR of 15%

2020

- GM – reduce dependence on FSV sourcing from 43% to 35% in 2015/16
- Improve GM availability by 9% by 2015/16
- Food – improve availability by 5% by 2013/14

➡ 2020 plan largely delivered by 2015

Plan 2013 - 2015

Grow total sales to £11.5bn-£12.5bn by 2013/14

2010 to 2013	**UK space and LFL growth**	**A leading UK multi-channel retailer**	**International company**

2010 to 2013

Focus on UK

- BRAND
- STORES
- CLOTHING
- HOME
- FOOD

Plan 2013 - 2015

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Plan 2013 capex

Three years ended 2013/14

	£m	Sales uplift
Focus on UK	550-600	£1bn-£1.5bn
Multi channel	150	£300m-£500m
International*	150	£300m-£500m
Total capex	850-900	£1.5bn-£2.5bn

* Excl. Rep. Ireland

Investment c.£300m pa

12-15% IRR

Annual capex

Three years ended 2013/14

	per annum
Plan 2013 capex	c.£300m
Current run rate capex	c.£550m
Total	£850-900m

Total capex £850-£900m pa

Capital structure

- Maintain investment grade rating
- Run rate capex and Plan 2013 capex (£850-£900m) is fundable from ongoing cashflow generated by the business
- Progressive dividend policy with dividends broadly covered twice by earnings

Summary

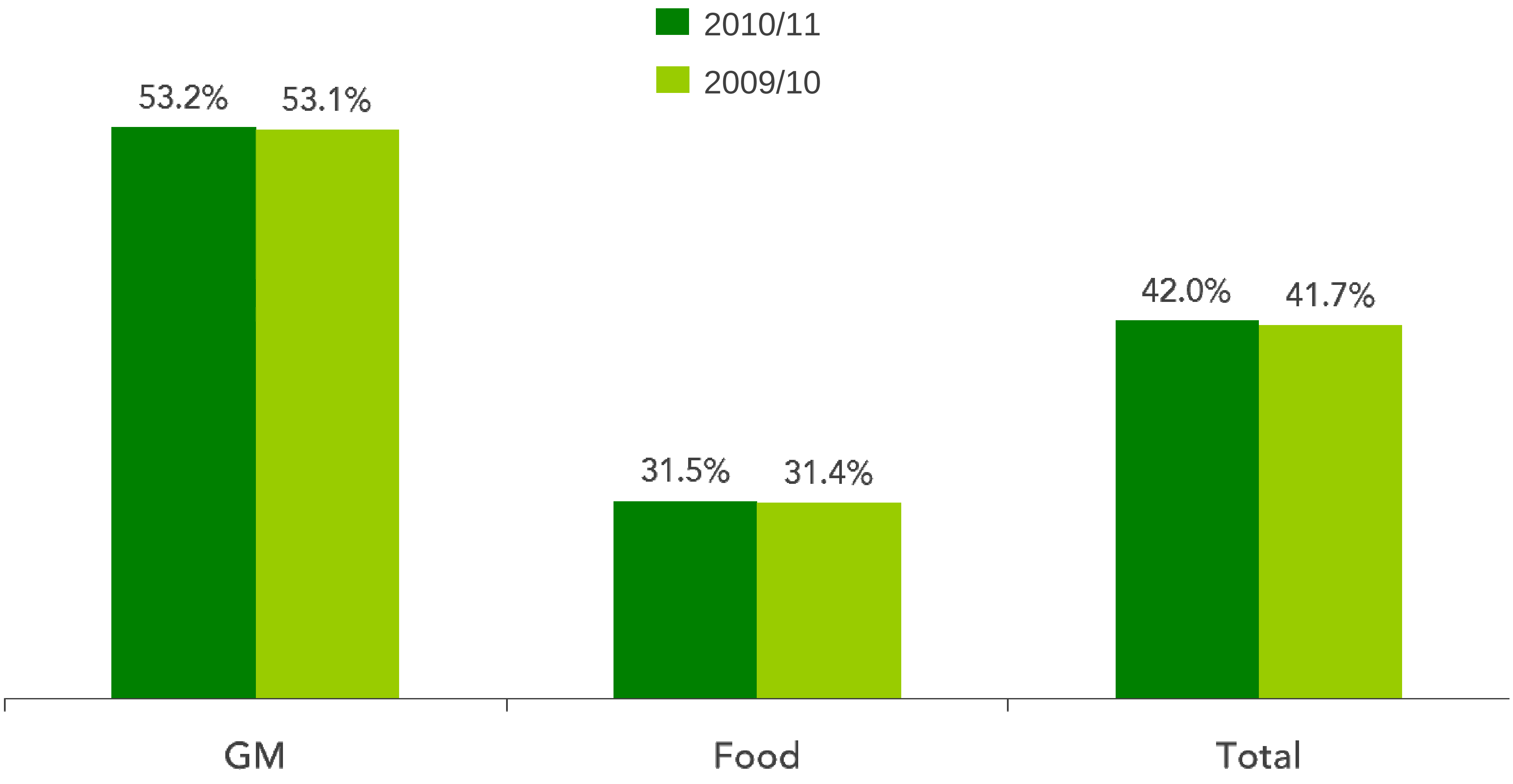
- Good business
- Evolution not revolution
- 2020 plan benefits increased and accelerated
- Strengthen our position in the UK
- Build multi-channel international company
- Only at M&S

APPENDICES

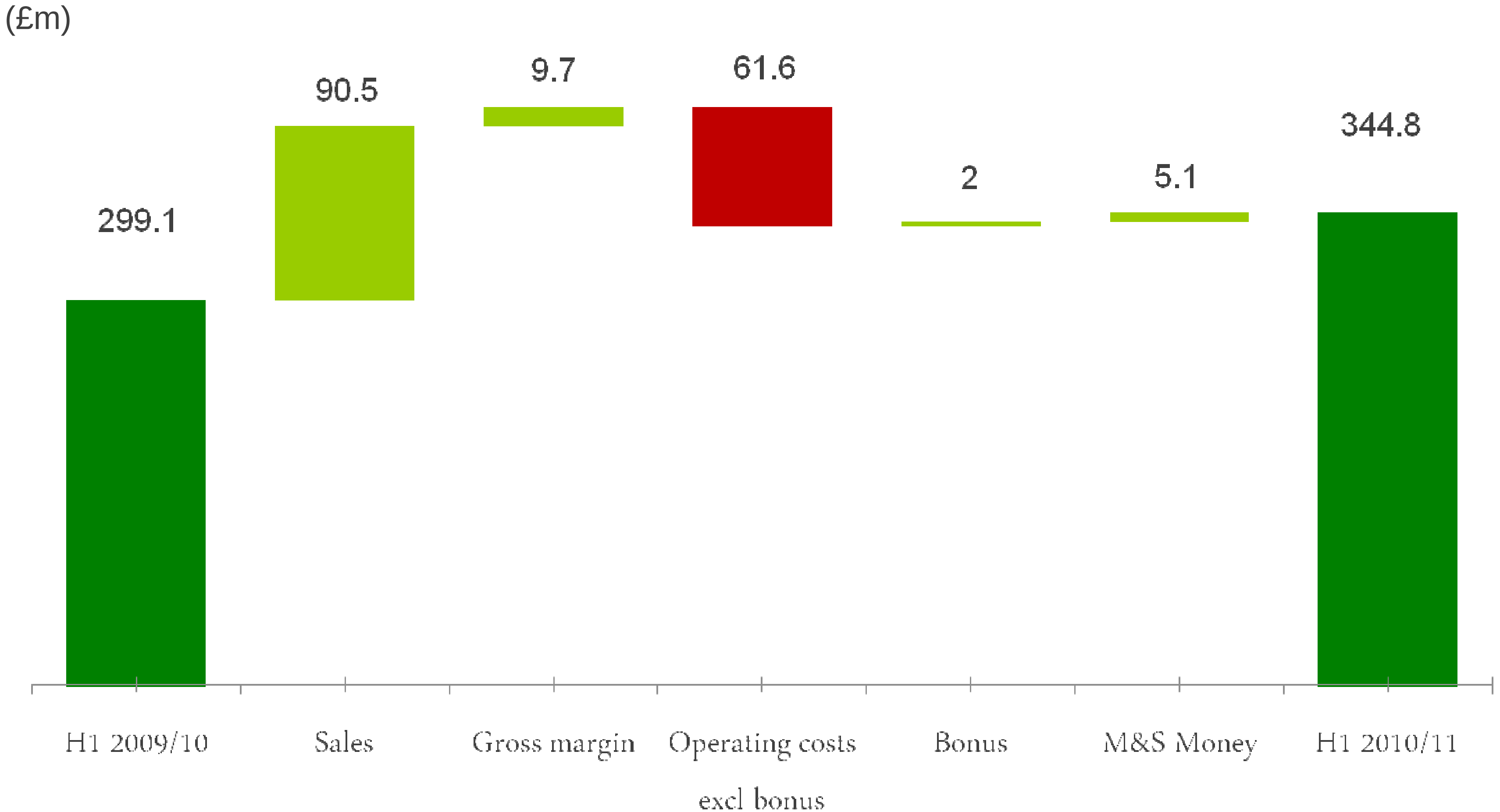
Appendix 1: # UK sales

	TY £m	LY £m		Var %
Clothing	1,752.3	1,632.8		+7.3
Home	230.5	217.0		+6.2
General Merchandise	**1,982.8**	**1,849.8**		**+7.2**
			LFL	+6.3
Food	**2,124.9**	**2,040.8**		**+4.1**
			LFL	+2.6
Total	**4,107.7**	**3,890.6**		**+5.6**
			LFL	+4.4

Appendix 2: UK gross margin



Appendix 3: UK operating profit



Appendix 4: Stores and space

	October 2010	April 2010
Premier	10	10
Major	42	42
High Street	242	242
Simply Food Owned	157	156
Simply Food Franchised	195	194
Outlets	46	46
UK stores	**692**	**690**
Selling space (m sq ft)	15.4	15.4
Owned	141	133
Franchised	196	194
International stores	**337**	**327**
Selling space (m sq ft)	3.7	3.6