2012/13 Full Year Results

Marc Bolland

Chief Executive

Agenda

1. 2012/13 Overview

2. 2012/13 Financial results

3. Progress in transforming the business

4. 2014/15 onwards

2012/13: Overview

- Group sales +1.3%

- Total GM -2.4%
- Total Food +3.9%
- Multi-channel +16.6%
- International +4.5%

➡ Strong progress in 3 of the 4 business areas

Numbers shown are on constant currency basis

General merchandise

- Sales -2.4%, LFL -4.1%
- GM performance unsatisfactory
- Womenswear operational improvements
- AW13 collection well received
- SS14 collection in creative development
- Progress will be made step by step

➡ Clear plan to address performance

Food

- Sales +3.9%, LFL +1.7%
- Sustainable provenance

- Market leading in innovation
- Market leading in health
- The destination for events & weekends

➡ Strategy to become more specialist is working

International

- Total sales +4.5%
- Priority markets in double digit growth
- Ireland and Greece challenging
- Franchise model is working very well

➡ International development accelerating

Numbers shown are on constant currency basis

M&S.com

- Total sales +16.6%
- Shop Your Way 49% of sales
- New distribution centre opened in May
- New platform to launch in Spring 2014

➡ Strong progress in M&S.com

2012/13 Financial results

Alan Stewart

Chief Finance Officer

Overview

- 2012/13 results
- 2013/14 guidance
- 2014/15 onwards

2012/13 results

Group financial highlights

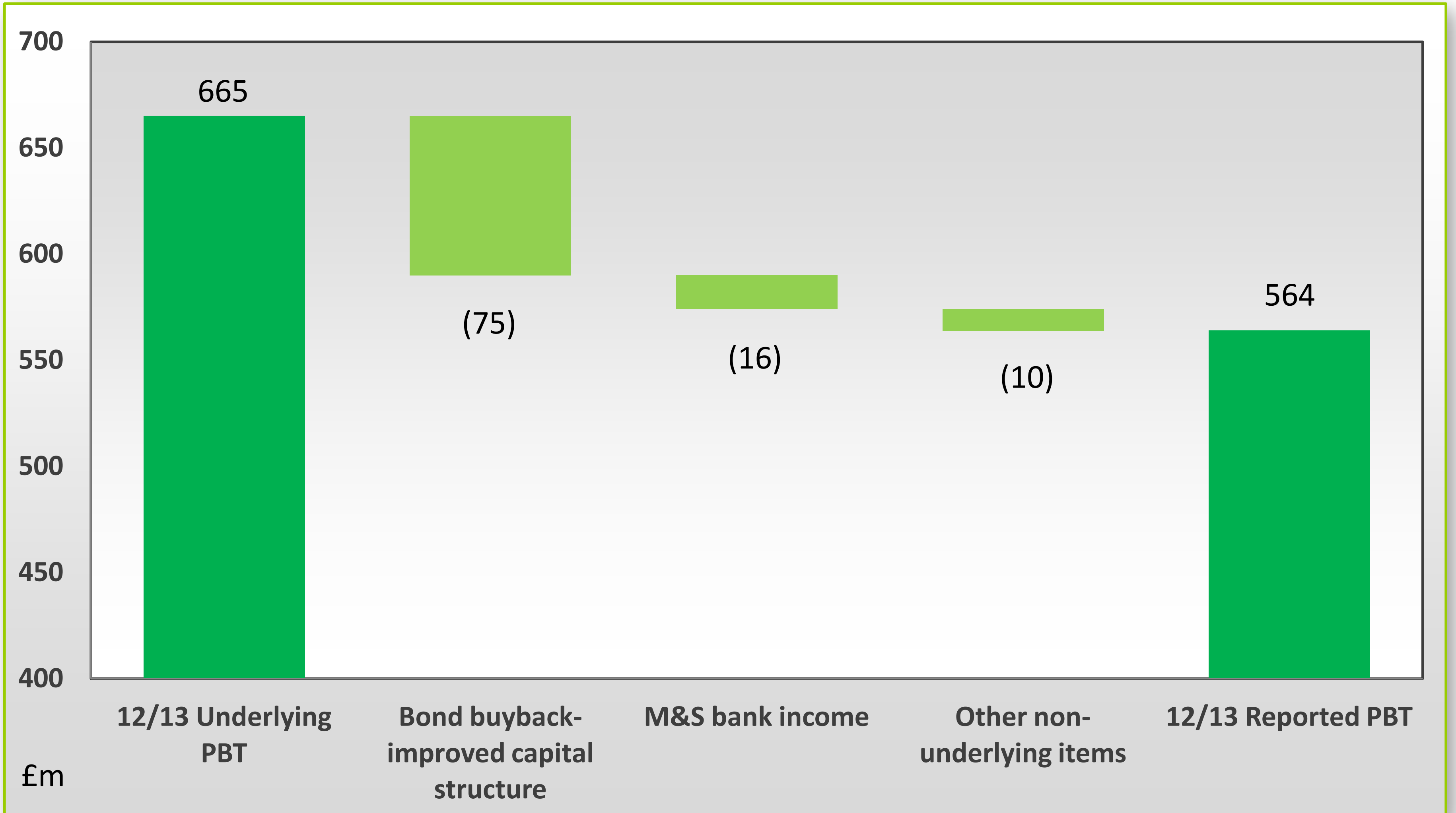
	TY	vs. LY pro forma	vs. LY reported
Revenue	£10.0bn	+1.3% (CC)	+0.9%
PBT	£665m#	-3.2%*	-5.8%
EPS	32.7p	-3.0%*	-6.3%
Dividend	17.0p		level
Net Debt	£2.6bn	£2.5bn*	LY £1.9bn

Note: Results are stated before non-underlying items

 # The impact of the changes to IAS 19 when adopted in 2013/14 will be to reduce 12/13 PBT by £17m to £648m

** Pro forma adjustment to reflect change in terms of the property partnership*

Statutory PBT bridge



UK gross margin

GM	FOOD
51.8%, up 45bps	31.7%, up 35bps
Wage inflation	Commodity price inflation
Ongoing sourcing initiatives	Improved buying
Improved markdown management	Better management of promotional spend

UK 40.9%: up 10bps

UK operating costs

	TY £m	LY £m	Var %
Retail Staffing	929	889	+4.5
Retail Occupancy	1,031	1,031	-
Distribution	405	398	+1.8
Marketing & Related	155	162	-4.0
Support	530	515	+2.9
Total	**3,050**	**2,995**	**+1.8**

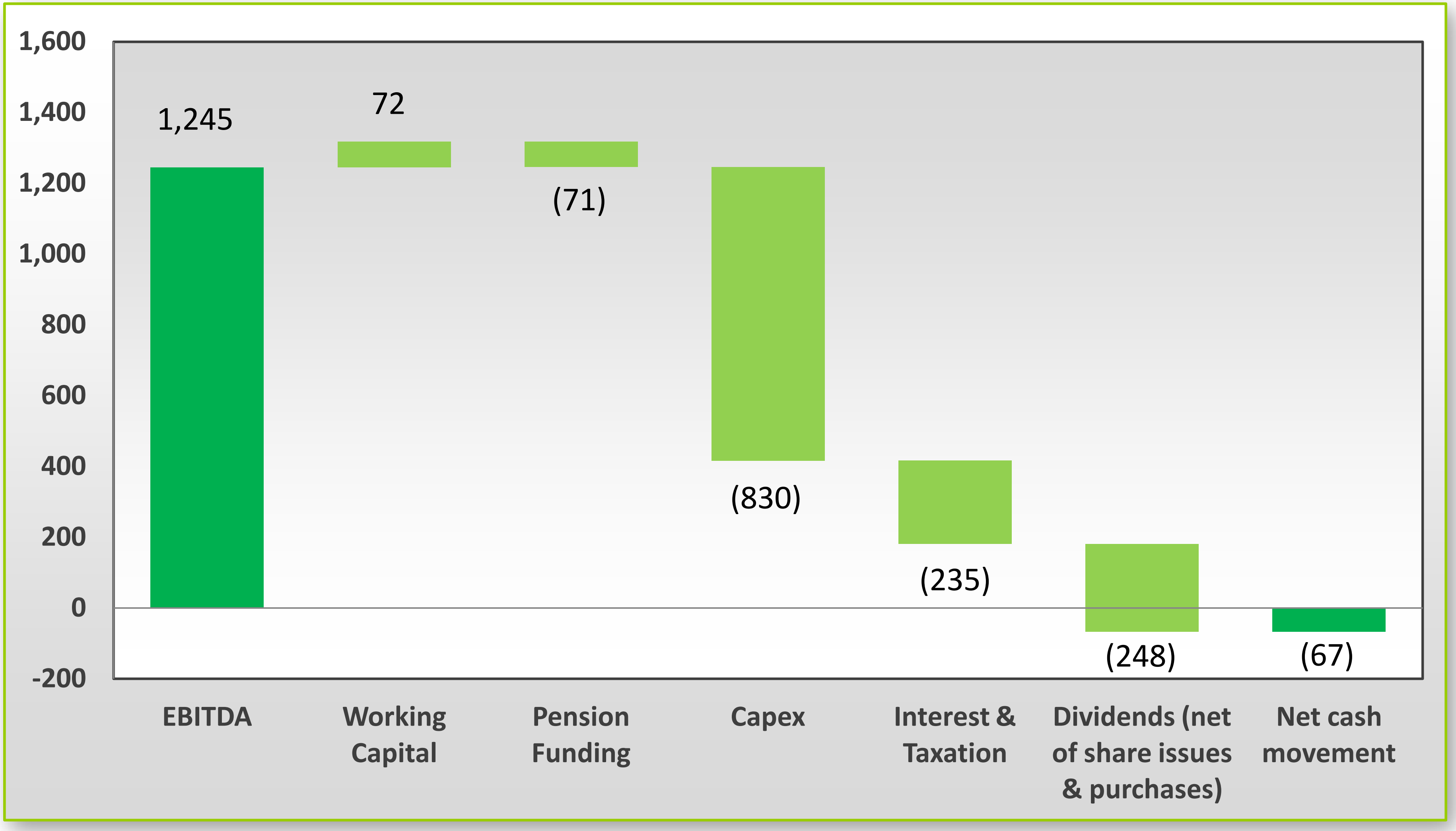
Note: Results are stated before non-underlying items

International

	TY £m	LY £m	Var %	Constant Currency Var %
Revenue	**1,075**	**1,066**	**+0.9**	**+4.5**
Europe	585	622	-5.9	-0.4
Middle East	242	221	+9.3	+9.7
Asia	248	223	+11.3	+13.0
Operating Profit	**120**	**133**	**-9.9**	**-10.9**
Europe	11	24	-54.3	-60.8
Middle East	75	69	+9.3	+9.6
Asia	34	40	-15.4	-15.1

Note: Results are stated before non-underlying items

Cash flow - Movement in net debt



Pensions

- £290m actuarial deficit, substantial reduction from £1.3bn
- £245m reduction in annual cash contributions over 6 years
- IAS 19 pension surplus £193m (LY £78m)
- IAS 19 non-cash adjustments: re-state 12/13 by £17m and 13/14 impacted by a similar amount

➡ Continued good progress with managing pension obligations

Balance sheet and financing

- Net debt at £2.6bn (LY £2.5bn on pro forma basis)
- Successful £400m bond issue
- Buy back and cancellation of 2007 bonds
- Credit metrics remain strong; investment grade rating
- Fixed charge cover 3.5x
- Average interest rate 5.9% (LY 6.5%)

13/14 guidance

UK gross margin guidance

GM	FOOD
Wage inflation	Commodity price inflation
Raw material benefit	Improved buying
Focus on full price sales & markdown management	Ongoing system benefits

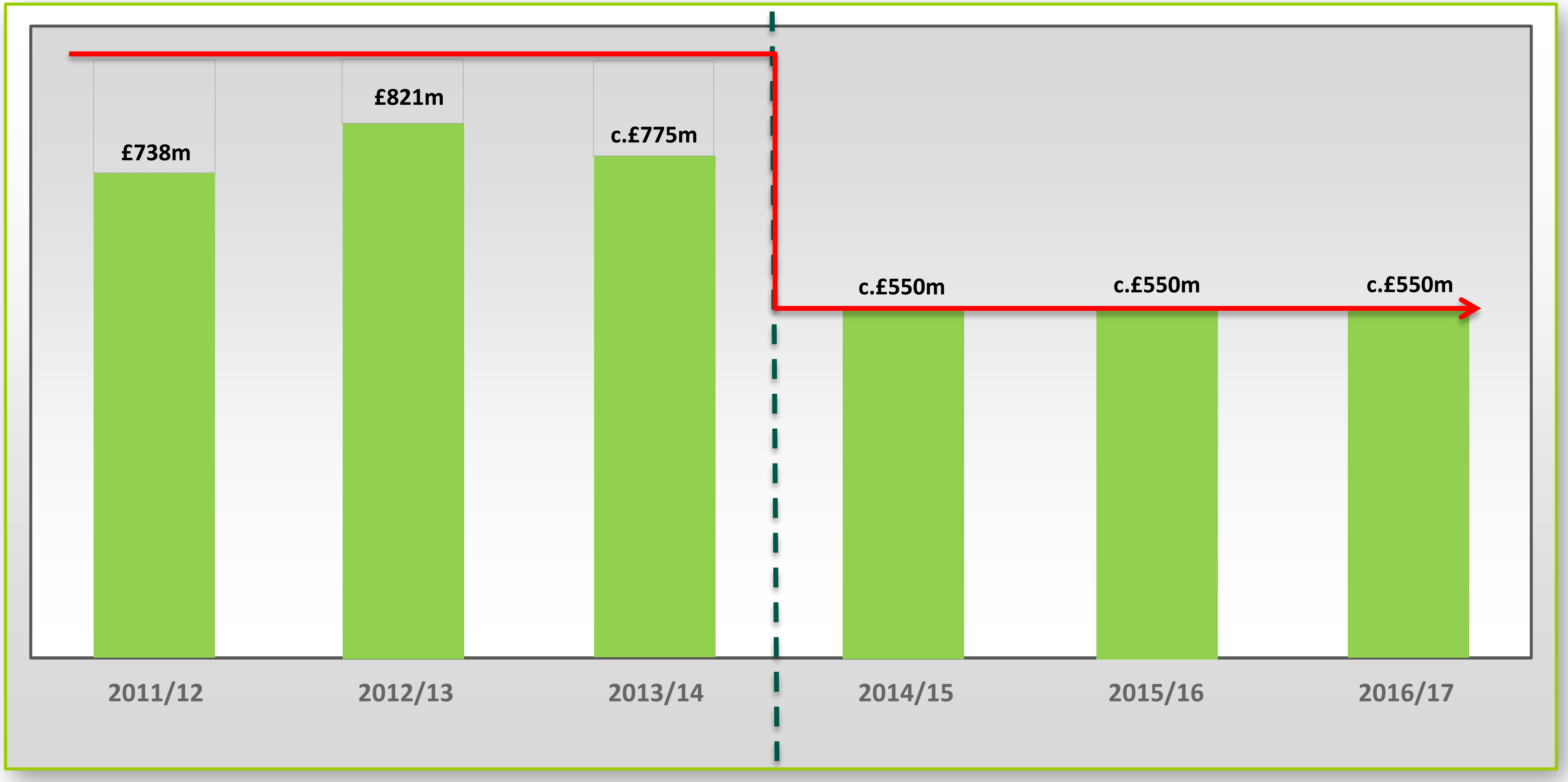
2013/14 guidance: up 30 to 50bps

UK operating cost guidance

	Var %
Inflation	2.0%
Space	1.5%
Depreciation	1.5%
Business Initiatives	1.5%
Cost savings	(3.0%)

2013/14 operating cost guidance +3.5%

Capital expenditure: 14/15 onwards



- No UK GM space growth
- Continued opportunity for standalone Simply Food stores
- Logistics and IT roadmap redefined and within capex
- Sustainable capex on UK, multichannel and international

13/14 Guidance in context

- 12/13 profit £665m pre IAS 19 adjustments

- UK Gross Margin +30 to +50bps
- UK cost growth +3.5%
- Capital expenditure £775m

➡ Targeting year on year profit progression

- Non-recurring dual run costs of c. £30m

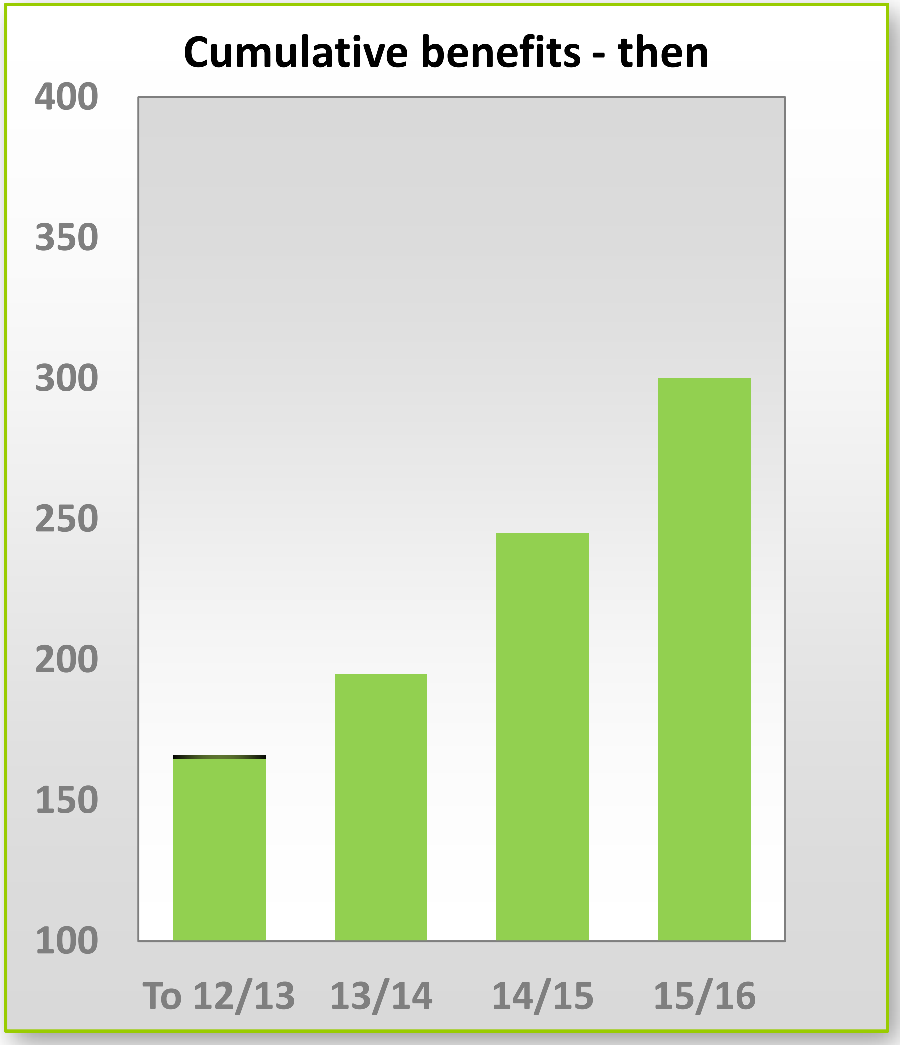
2014/15 onwards

IT & Supply Chain

- Aligned the network to the overall business strategy to become an international, multi-channel retailer
- Adapting to the changing customer needs
- Significant progress to date
- Refined UK logistics network design and confirmed timetable for delivery
- Investing in new GM systems
- Creating a best in class end-to-end supply chain

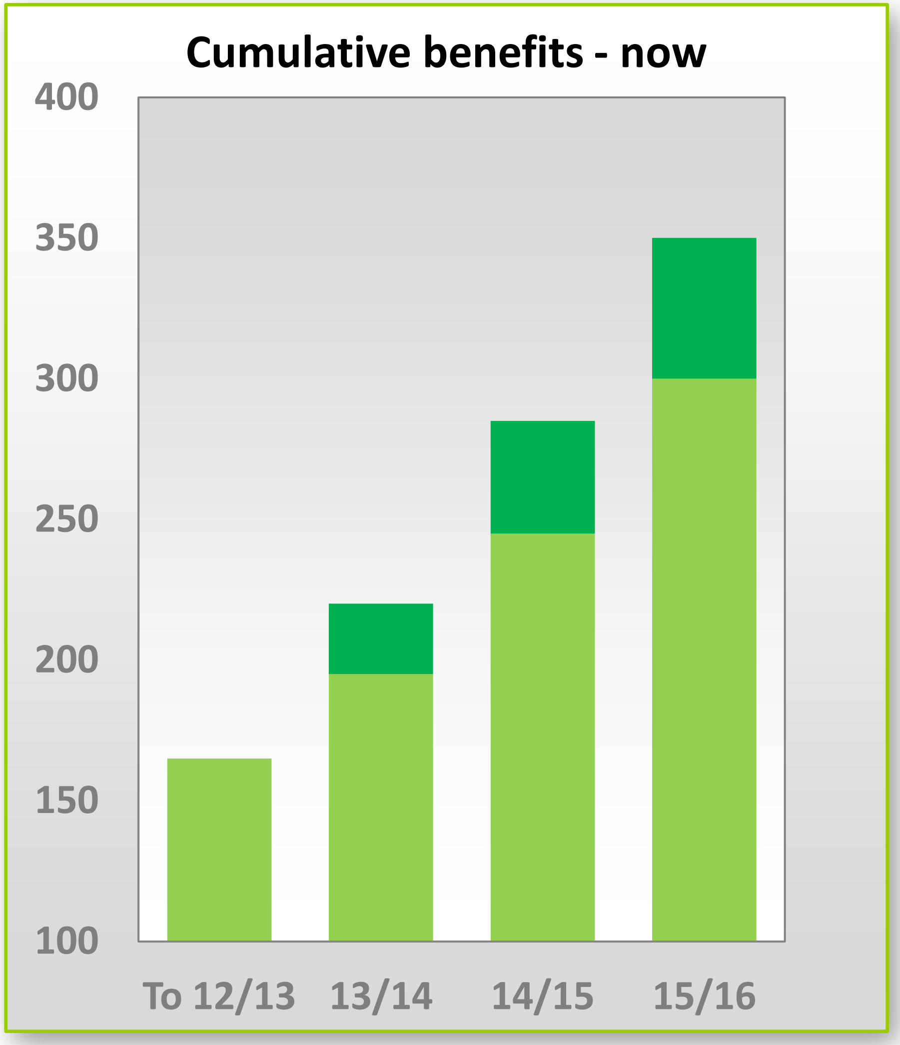
IT & Supply Chain benefits

- £1bn investment in previous plan 2009
- Previous original benefits £250m increased to £300m in Nov 2010 plan
- £180m benefits delivered to date – offsetting cost pressures such as inflation and new space



IT & Supply Chain benefits

- Additional benefits of £50m
- Benefits case increased from £300m to £350m
- £170m still to come by 15/16



Financial focus

- Strict capital investment – 13/14 last year of significant investment
- Step up in margin improvement over the next three years
- Improving free cash flow

Progress in transforming the business

Marc Bolland

Chief Executive

Transforming the business

2010

Traditional, British Retailer

Transforming the business

Unclear **food** positioning

Unclear clothing **sub-brands**

Limited **organisational** ‘bench strength’

Stores lacking inspiration

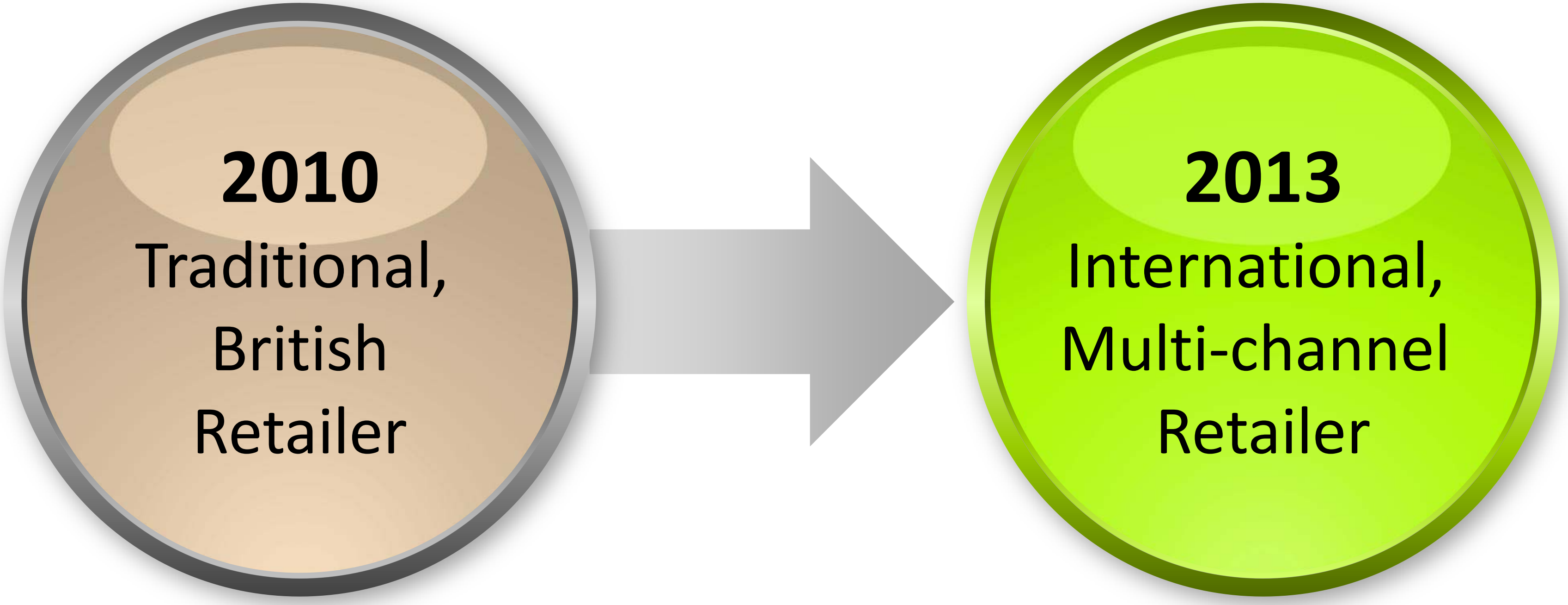
Systems not fit for purpose

Poor online & **multi-channel** capability

Complex and inflexible **supply chain**

Limited **international** capability

Transforming the business



Transformation updates

Transformation updates

- Scale of the transformation
- Strong progress made
- Quality of the wider senior management team

2 years on – what we've delivered

- Food: Repositioning to specialist. Deli +14%, Bakery +20%
- Food: Availability improvement currently 4%
- GM: Womenswear plan in place
- GM: New Home department +9%, new Beauty +25%
- Store environment: 337 stores complete, +3% sales, IRR 13%
- Multichannel overhaul: Organisation & new EDC
- International overhaul: Organisation, strong franchise partnerships
- IT & Logistics: Bradford, Castle Donington, IT systems & roadmap redefined

2013/14 key priorities

- GM: Execute womenswear plan
- Food: Drive availability to 5%
- M&S.com: EDC at full capacity & deliver new platform
- Stores: Complete store environment roll out

Deliver womenswear plan

1. Reassert leadership in quality

2. Drive aspiration, style and fashionability

3. Collections with clear and compelling sub-brands

2013/14 key priorities

- GM: Execute womenswear plan
- Food: Drive availability to 5%
- M&S.com: EDC at full capacity & deliver new platform
- Stores: Complete store environment roll out

Transformation delivery by end 13/14

Specialist positioning on **food**

Clearer **sub-brands**

Strong **organisation**

‘Concept’ **stores**

New **systems**

M&S.com as flagship & EDC

New **supply chain** (2015)

International capability

2014/15 onwards

2014/15 onwards

- Ecommerce UK & international growth through leveraging new infrastructure
- Strong International growth. Pipeline of c.250 stores over next 3 years, c.60% franchise
- Deliver margin improvement
- IT & Supply Chain benefits increase from £300m to £350m
- Lower sustainable capex of c. £550 p.a.

→ Improved free cash flow and shareholder returns

Summary

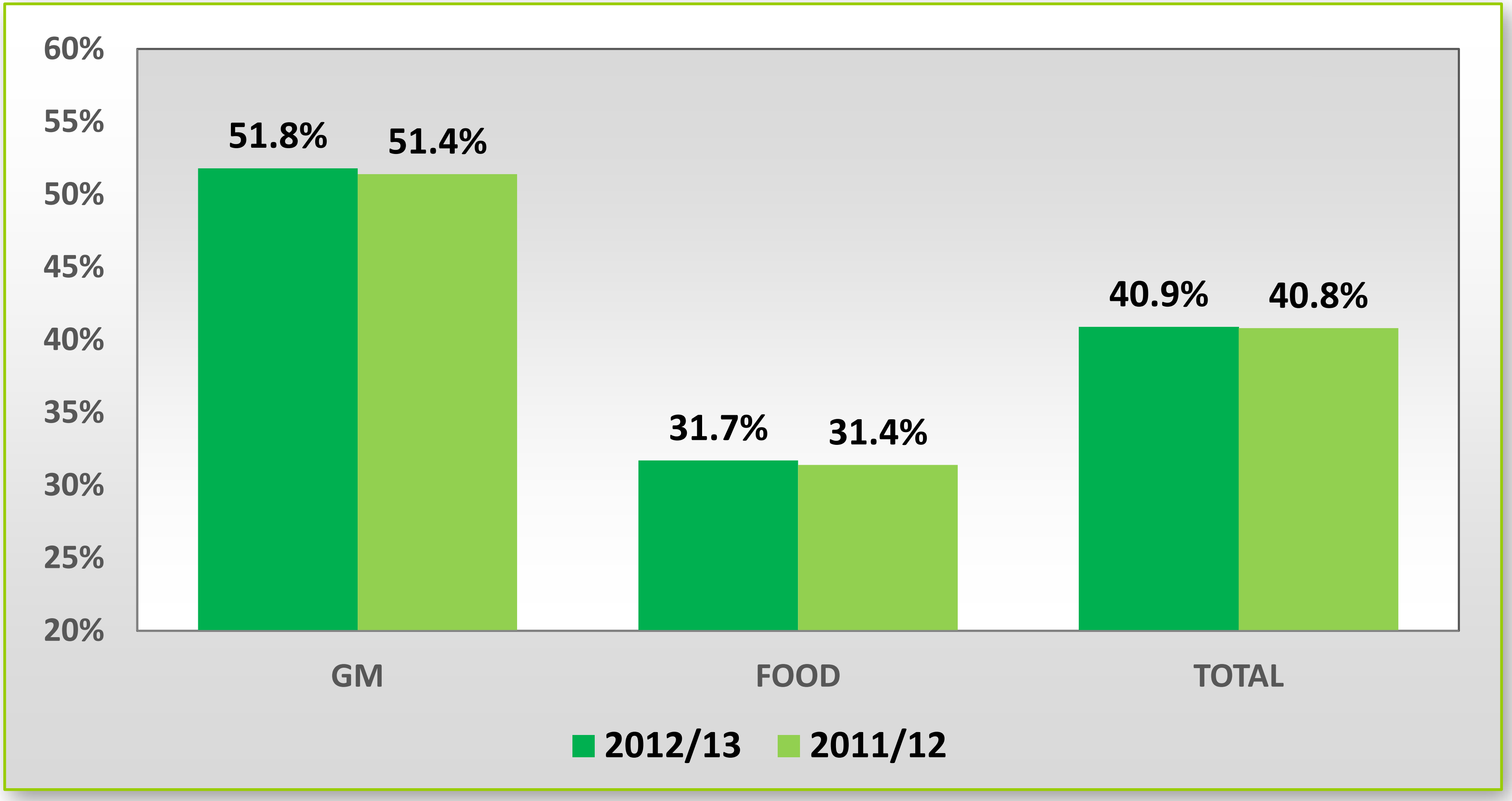
- Strong performance in 3 of 4 business areas
- Plan in place to fix General Merchandise
- Priorities for 2013/14 are clear
- 2013/14 will be the last year of significant investment
- Beyond 2013/14 will result in increased free cash flow

Appendices

UK sales

	TY £m	LY £m	Var %
Clothing	3,671	3,762	-2.4
Home	423	433	-2.2
General Merchandise	**4,094**	**4,195**	**-2.4**
Food	**4,857**	**4,673**	**+3.9**
Total UK	**8,951**	**8,868**	**+0.9**

UK gross margin



International

	TY £m	LY £m	Var %	Constant Currency Var %
Revenue	**1,075**	**1,066**	**+0.9**	**+4.5%**
Owned	683	687	-0.6%	4.9%
Franchised	392	379	3.5%	3.7%

Operating Profit	**120**	**133**	**-9.9%**	**-10.9%**
Owned	14	23	-39.0%	-45.4%
Franchised	106	110	-3.9%	-3.8%

Note: Results are stated before non-underlying items

Stores and space

	Mar 2013	Mar 2012	Openings	Closures	Change
UK					
Premier	12	11	+1	-	+1
Major	59	59	-	-	-
High Street	228	226	+7	-5	+2
Simply Food Owned	176	168	+9	-1	+8
Simply Food Franchised	243	220	+27	-4	+23
Outlets	48	47	+1	-	+1
UK Stores	**766**	**731**	**+45**	**-10**	**+35**
Selling Space (m sq ft)	16.4	16.0			+0.4
International					
Europe	155	157	+4	-6	-2
Middle East	137	122	+19	-4	+15
Asia	126	108	+22	-4	+18
International Stores	**418**	**387**	**+45**	**-14**	**+31**
Selling Space (m sq ft)	5.4	4.7			+0.7