

## 2014/15 HALF YEAR RESULTS

Marc Bolland  
Chief Executive

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### OVERVIEW

- From transformation to delivery
- Group sales +1% to £4.9bn
- Profit before tax +2.3% to £268m
- Strong progress against key priorities for the year:
  - GM gross margin
  - Improved Womenswear performance
  - Driving Food growth
  - Tight control of costs, capex and cash
- Dividend +3% to 6.4p
- Consistent execution of strategy is starting to deliver results

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## GENERAL MERCHANDISE

- H1 sales -2.3%; LFL -2.9%
- H1 gross margin +150bps
- Q2 sales -3.6%; LFL -4.0%
- September c.2.5% adverse impact
- Womenswear +1.3% 1<sup>st</sup> five months
- Strong progress on key priorities
  - Gross margin improvement
  - Womenswear performance



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## GENERAL MERCHANDISE

### IMPROVING WOMENSWEAR PERFORMANCE

- Better product
- Product presentation and merchandising improved
- Collections well reviewed by the fashion press
- New campaign well received by customers
- Full price sales improving



→ Customer research: 'M&S has got its style back'

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## GENERAL MERCHANDISE

### IMPROVING GENERAL MERCHANDISE GROSS MARGIN

- H1 gross margin +150bps
  - +120bps driven by sourcing improvement
  - +30bps from lower discounting
- Sourcing benefits starting to come through
  - Utilising scale to buy more effectively
  - Optimising existing supply chain
  - Direct design up to 25%
- Trading capabilities improving
  - Newness
  - Availability

→ Guidance raised to +150 to +200bps

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## FOOD

- H1 sales +3.6%; LFL +1.0%
- H1 gross margin +25bps
- Q2 sales +3.0%; LFL +0.2%
- Outperformed the market due to:
  - Specialist positioning
  - Good execution
  - Well positioned for market trends



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## FOOD

### DRIVING FOOD SALES GROWTH

- Specialist strategy means can continue to outperform
- Quality and innovation at great value
- Improving availability and choice
- New category launches
- Strong pipeline of new stores

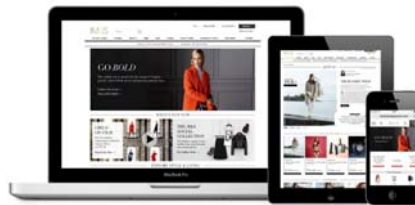


→ From 150 to 200 new Simply Food stores

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## M&S.COM

- H1 sales -6.3%
- Q1 -8.1%; Q2 sales -4.6%
- Underlying performance improving
- Customer measures stronger
  - Traffic
  - Conversion
  - Customer satisfaction
  - Brand perception through content
- Improved delivery proposition launched



→ On track to return to growth by peak trading period

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## INTERNATIONAL

- H1 sales +1.2%
- Middle East region affected by Turkey, Ukraine and Russia issues and franchise shipments
- Owned businesses performing well
- Strong start to new Simply Food stores in Prague, Paris and Hong Kong
- New Lingerie and Beauty format started well



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## 2014/15 HALF YEAR RESULTS

Paul Friston  
Interim CFO

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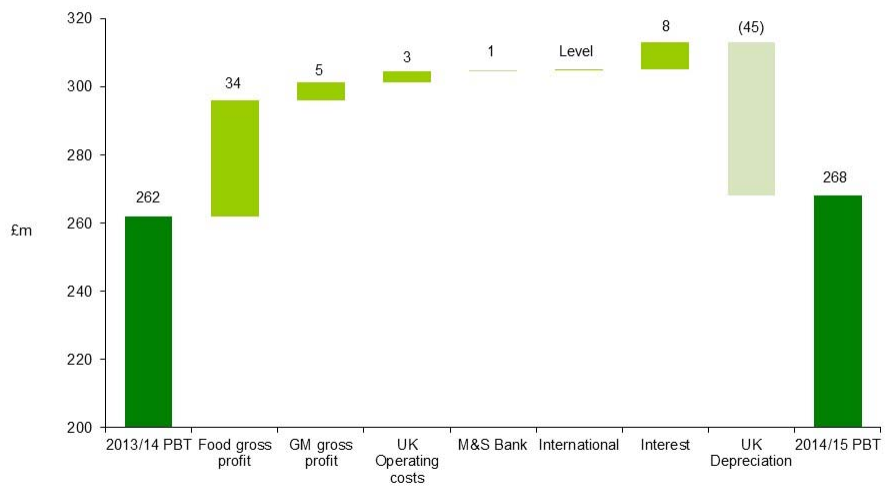


# GROUP FINANCIAL HIGHLIGHTS

	TY	vs. LY
Revenue	£4.9bn	+0.5%
UK Gross Margin	41.8%	+50bps
Underlying PBT	£268m	+2.3%
Underlying EPS	13.5p	Level
Free Cash (pre dividend)	£71m	+£73m
Dividend	6.4p	6.2p LY

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## PROFIT BEFORE TAX



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GM GROSS MARGIN

**13/14 Gross margin** **52.2%**

Improved buying margin +120 bps

Lower discounting +30 bps

**14/15 Gross margin** **53.7%**

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UK OPERATING COSTS

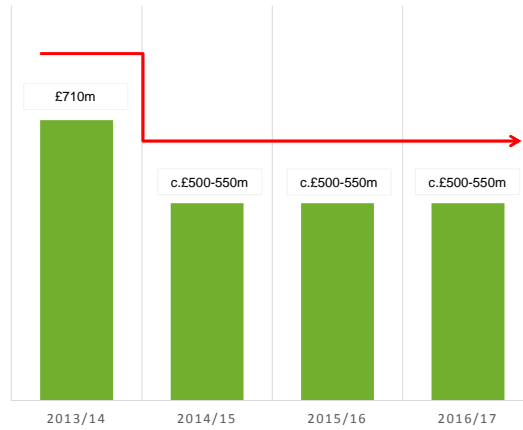
	TY £m	LY £m	vs. LY %
Retail Staffing	469	479	-2.1
Retail Occupancy	539	511	+5.3
Distribution	208	207	+0.6
Marketing & Related	83	70	+19.4
Support	289	279	+3.6
<b>Total</b>	<b>1,588</b>	<b>1,546</b>	<b>+2.7</b>

*Of which depreciation accounted for* +2.9%

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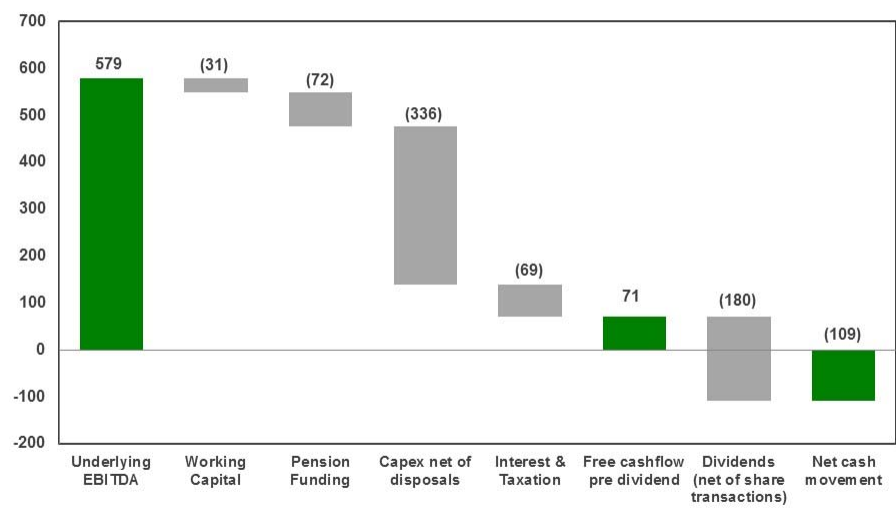
## CAPEX

- Capex reduction on track
- Guidance unchanged



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## CASHFLOW - MOVEMENT IN NET CASH



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#### CAPITAL ALLOCATION

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- Focus on free cash flow
- Reduction in capital expenditure
- Committed to a progressive dividend c.2x cover over the cycle
- Effective balance sheet management: Net debt/EBITDA ratio within the range of 2.0x to 1.5x - committed to investment grade rating
- Potential for any excess cash to be returned to shareholders on a regular basis

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#### 2014/15 GUIDANCE

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- UK gross margin:
  - General Merchandise +150 to +200bps, up from c.+100bps
  - Food remains +10 to +30bps
- Costs up by c.3.5%, reduced from up c.4.0%
- Group capex remains at £500-550m
- Space growth still expected to be c.1% in the UK
  - c.2.5% in Food
  - No net growth in GM
  - International growth c.10%
- Underlying effective tax rate is expected to be 19.0%

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### VALUES

- New M&S values
- Plan A core part of our values
- New Plan A 2020 commitments



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## WELL SET UP FOR CHRISTMAS

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- Better than ever Food offer
- Occasionwear offer
- Dedicated Gift Shop



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## SUMMARY

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- Strong progress against our priorities
  - GM gross margin
  - Improved Womenswear performance
  - Driving Food growth
  - Cash generation
- Clear strategy, consistent execution

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## SUMMARY

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- Tight control of the business
  - Operating cost
  - Capex
  - Cash flow
- Improving profitability and cash generation

→ Focus is on delivery

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## APPENDICES

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# DIVISIONAL PERFORMANCE

	TY £m	LY £m	vs. LY %
Revenue	4,904	4,881	+0.5
UK	4,370	4,329	+1.0
International	534	552	-3.4
Operating Profit	319	321	-0.6
UK	268	270	-0.8
International	51	51	Level

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# INTERNATIONAL

	TY £m	LY £m	vs. LY %	Constant Currency vs. LY %
Revenue	534	552	-3.4	+1.2
Europe	304	291	+4.4	+9.9
Middle East	93	123	-24.4	-23.9
Asia	137	138	-1.2	+6.3
	TY £m	LY £m	Var £m	Constant Currency Var £m
Operating Profit	51	51	Level	-1
Europe	11	1	+10	+9
Middle East	26	35	-9	-10
Asia	14	15	-1	Level

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# INTERNATIONAL

	TY £m	LY £m	Var %	Constant Currency Var %
Revenue	534	552	-3.4	+1.2
Owned	353	350	+0.8	+8.3
Franchised	181	202	-10.6	-10.3

	TY £m	LY £m	Var £m	Constant Currency Var £m
Operating Profit	51	51	Level	-1
Owned	4	-8	+12	+11
Franchised	47	59	-12	-12

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# BALANCE SHEET AND PENSIONS

- Net debt £2.57bn down £0.22bn (LY £2.79bn)
- Credit metrics remain strong
- Fixed charge cover 3.5x (LY 3.4x)
- Average interest rate 4.8% (LY 5.4%)
- IAS 19 pension surplus £195m (LY £113m)

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# STORES AND SPACE

	Sep 2014	Mar 2014	Openings	Closures	Change
UK					
Premier	12	12			
Major	60	59	1		1
High Street	229	232		-3	-3
Simply Food Owned	193	185	9	-1	8
Simply Food Franchised	275	262	13		13
Outlets	46	48		-2	-2
UK Stores	<b>815</b>	<b>798</b>	<b>23</b>	<b>-6</b>	<b>17</b>
Selling Space (m sq ft)	16.7	16.6			
International					
Europe	160	158	6	-4	2
Middle East	154	153	4	-3	1
Asia	156	144	13	-1	12
International Stores	<b>470</b>	<b>455</b>	<b>23</b>	<b>-8</b>	<b>15</b>
Selling Space (m sq ft)	6.0	5.8			

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