

## 2013/14 Full Year Results

**Marc Bolland**  
Chief Executive



## Overview

- Clear and consistent strategy since 2010
- Transformation largely complete
- Focus on delivery

## Agenda

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1. 2013/14 Summary
2. 2013/14 Financial results
3. Progress in transforming the business 2010 to 2013/14
4. 3 year outlook

## General Merchandise

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- Sales 0.0%, LFL -1.4%
  - Not yet satisfactory
  - Improving performance
  - Focus on quality and style
  - Clearer sub-brands and in-store presentation
- ➡ Step by step



## Food

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- Sales +4.2%, LFL +1.7%
  - Consistently strong performance
  - Focus on quality and innovation
  - Improved availability and choice
- ➡ Outperforming the market



## International

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- Total sales +6.2%
  - Strong growth in priority markets
  - Improvement in Greece and Czech
  - Franchise model working well
- ➡ Good progress



Numbers shown are on constant currency basis

- Total sales +22.8%
- Transformational year
  - New EDC at Castle Donington
  - New platform
- New website settling in
- ➡ Well positioned for the future



## Financial Results

**Alan Stewart**

Chief Finance Officer

## Overview

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- 2013/14 Results
- Guidance and outlook

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## 2013/14 Results

## Group financial highlights

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	TY	vs. LY
Revenue	£10.3bn	+2.7%
Underlying PBT	£623m	-3.9%
Statutory PBT	£580m	+6.1%
Underlying EPS	32.2p	+0.9%
Dividend	17p	LY 17p
Net Debt	£2.46bn	-£151m

*Note: Results are stated on a constant currency basis and prior year comparatives are restated for the impact of changes to IAS19 where applicable.*

## Divisional performance

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	TY £m	LY £m	vs. LY %
<b>Revenue</b>	<b>10,310</b>	<b>10,027</b>	<b>+2.8</b>
UK	9,156	8,952	+2.3
International	1,154	1,075	+7.3
<b>Operating Profit</b>	<b>742</b>	<b>778</b>	<b>-4.7</b>
UK	619	658	-6.0
International	123	120	+2.1

*Note: Results are stated before non-underlying items and prior year comparatives are restated for the impact of changes to IAS19*

## GM gross margin

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<b>12/13 Gross margin</b>	<b>51.8%</b>
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Promotions	-60 bps
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Markdown	-50 bps
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<b>13/14 Gross margin</b>	<b>50.7%</b>
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## Food gross margin

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<b>12/13 Gross margin</b>	<b>31.7%</b>
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Bought in margin	-30 bps
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Operational efficiency	+70 bps
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Promotional activity	+50 bps
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Waste	-10 bps
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<b>13/14 Gross margin</b>	<b>32.5%</b>
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## UK operating costs

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	TY £m	LY £m	vs. LY %
Retail Staffing	979	932	+5.1
Retail Occupancy	1,054	1,031	+2.3
Distribution	446	405	+10.0
Marketing & Related	148	155	-4.9
Support	533	530	+0.5
<b>Total</b>	<b>3,160</b>	<b>3,053</b>	<b>+3.5</b>

*Note: Results are stated before non-underlying items and prior year comparatives are restated for the impact of changes to IAS19*

## International

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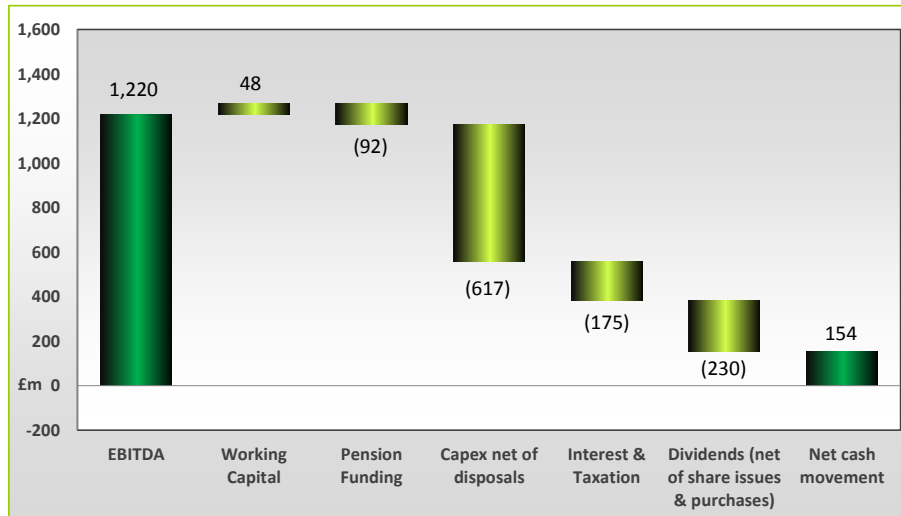
	TY £m	LY £m	vs. LY %	Constant Currency vs. LY %
<b>Revenue</b>	<b>1,154</b>	<b>1,075</b>	<b>+7.3</b>	<b>+6.2</b>
Europe	624	585	+6.7	+3.9
Middle East	247	242	+1.9	+2.6
Asia	283	248	+14.1	+15.7
<b>Operating Profit</b>	<b>123</b>	<b>120</b>	<b>+2.1</b>	<b>+4.6</b>
Europe	13	11	+10.8	+27.2
Middle East	75	75	Level	+0.7
Asia	35	34	+3.8	+7.1

*Note: Results are stated before non-underlying items*



## Cash flow – movement in net cash

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## Balance sheet and pensions

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- Net debt down £151m at £2.46bn
- Credit metrics remain strong
- Net debt / EBITDA 2.0x (LY 2.1x)
- Fixed charge cover 3.4x (LY 3.5x)
- Average interest rate 5.2% (LY 5.5%)
- IAS 19 pension surplus £189m (LY £236m)

Note: Prior year comparatives are restated for the impact of changes to IAS19

## Guidance and Outlook

### GM gross margin guidance 2014/15

+c.100bps

#### ● Sourcing benefits a key driver of improvement

- Direct sourcing
  - First - FSV to FOB
  - Now - FOB to Direct (20% to 35%)
- Capability
  - Design skills - built up
  - Buying skills - new Sourcing Directors

#### ● Promotion and markdown efficiency

## GM gross margin outlook

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### ● Sourcing benefits

- Direct sourcing
- Open to buy
- Design capabilities

### ● Trading capabilities

- Faster response
- Newness
- Availability

➡ Significant GM gross margin improvement over 3 years

## Food gross margin guidance

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+10-30 bps on the year

### ● Commodity inflation

### ● External environment

### ● Operational efficiency

## UK operating cost guidance 2014/15

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	Var %
Inflation	c.1.5%
Space	c.1.0%
Depreciation	c.2.5%
Cost savings	(c.1.0%)

➡ +c.4.0% operating cost growth in 2014/15

## IT & Supply Chain update

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### May 2013

- Single tier network by 2016/17
- 3 NDC sites + 1 cross dock



### Now

- Single tier network by 2016/17
- 2 NDC sites + 4 existing RDCs converted into NDCs



## IT & Supply Chain update

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- Plan on track – single tier network delivered by 2016/17

- Castle Donington ramp up on track
- Bradford fit-out commenced

- Plan de-risked

- Benefits case attractive

	Was	End state
Lead time reduction	70%	✓
Inventory reduction	33%	✓
Cost reduction	40%	30%

- More efficient use of capital – £130m lower investment

➡ De-risked, more capital efficient , attractive benefits

## Capital expenditure

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## Capital allocation

- 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 – 1.5x - committed to investment grade rating
- Potential for any excess cash to be returned to shareholders on a regular basis

## Progress in Transforming the Business

**Marc Bolland**

Chief Executive

# Plan 2010 – 2013 (November 2010)

By  
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 2010 – 2015 (November 2010)

By  
2015

Drive UK LFL  
growth

International  
Multi-channel  
retailer

Drive  
international  
presence

By  
2013

UK space and  
LFL growth

A leading UK  
Multi-channel  
retailer

International  
company

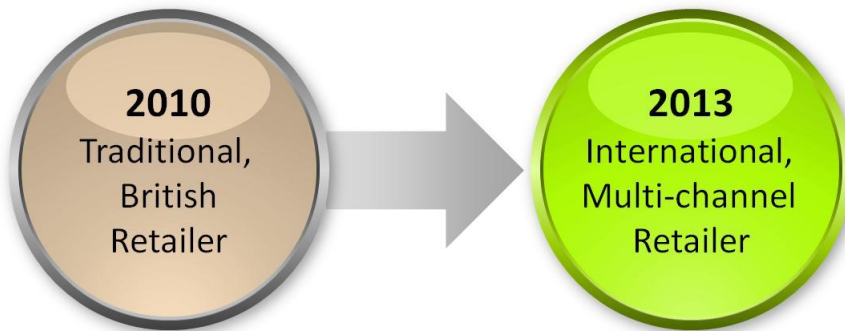
2010  
to  
2013

Focus on UK

BRAND  
STORES  
CLOTHING  
HOME  
FOOD

## Transforming the business

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## Some of the changes made

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Food: unclear strategy	➡	Specialist positioning
GM: lacked inspiration	➡	Quality & Style
Poor instore environment	➡	Concept 11 rolled out
IT systems out of date	➡	SAP / Space range & display...
110 small warehouses	➡	EDC/NDC, >60 warehouse closures
Amazon web platform	➡	New platform
UK centric	➡	International organisation: 250 store roll out
➡ More needed to be done than we thought		



## Where are we on the transformation?

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International	On plan
Multi-channel	On plan
General Merchandise	Behind plan
Foods	Ahead of plan

## Transformation of the business

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- Business had been underinvested for a long time
- Infrastructure largely built
- Organisational capabilities have been developed
- Plan A fully integrated into the business



Business fit for the future

## 3 Year Outlook

## General Merchandise outlook

- Focus on Quality & Style
- Improving the mix
- Strong opening price points
- Improving the margin
- Delivered with no space growth

Improving sales and significant margin opportunity

## GM gross margin outlook

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### ● Sourcing benefits

- Direct sourcing (increase from 20% to 60%)
- Open to buy (up to 20%/30%)
- Design capabilities

### ● Trading capabilities

- Faster response
- Newness
- Availability

➡ Significant GM gross margin improvement over 3 years

## Food outlook

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### ● Specialist strategy

### ● Focus on quality and innovation – at great value/price

### ● Exploit a number of opportunities

### ● Strong growth of stores:

- 75 UK Simply Food owned stores
- 75 UK Simply Food franchise stores
- Western Europe food & franchise stores

## Food outlook

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- Specialist strategy
- Focus on quality and innovation – at great value/price
- Exploit a number of opportunities
- Strong growth of stores
- New product categories
- Improving availability and choice
- Margin improvement through supply chain efficiency

Strong sales growth and some margin opportunity

## International outlook

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- Significant growth opportunity: 250 stores in the next 3 years
- Opportunities for growth from:
  - Flagship stores and .com
  - Lingerie & Beauty stores
  - Food roll-out
- Franchise and partnerships will drive most of the growth (>65% of total)

Engine of growth: 250 stores

## .com outlook

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- A flagship website combining content and commerce
- Flexible web infrastructure allows for continuous improvement
- M&S.com will be at least as profitable as the store channel
- The right skills and culture to drive continual innovation
- Focus on a convenient delivery proposition

Engine of growth: UK and Internationally

## Store estate

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- Optimised for drive times (80% within 45 mins of a Regional Store)
- Strong Shop Your Way offer (93% within 30 mins of an M&S store)
- Evolve cost structure
- Actively manage store estate

Well positioned

## Outlook

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- Continue to drive Food sales and improve GM sales
- UK: a more profitable business through focus on margins
- .com and International: engines for growth
- Organisation: digital mentality and more agile

## What will this mean for shareholders?

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- Focus on cash flow
- Improving gross margin      +c.100bps 2014/15 & significant improvement
- Reducing capex                £500m-£550m p.a. for three years
- Progressive dividend        c.2x cover over the cycle
- Effective balance sheet      Net Debt/EBITDA within ratio 2.0x to 1.5x
- Potential shareholder returns

## Summary

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- Clear strategy
- Transformation largely complete
- Focus on delivery

## Appendices

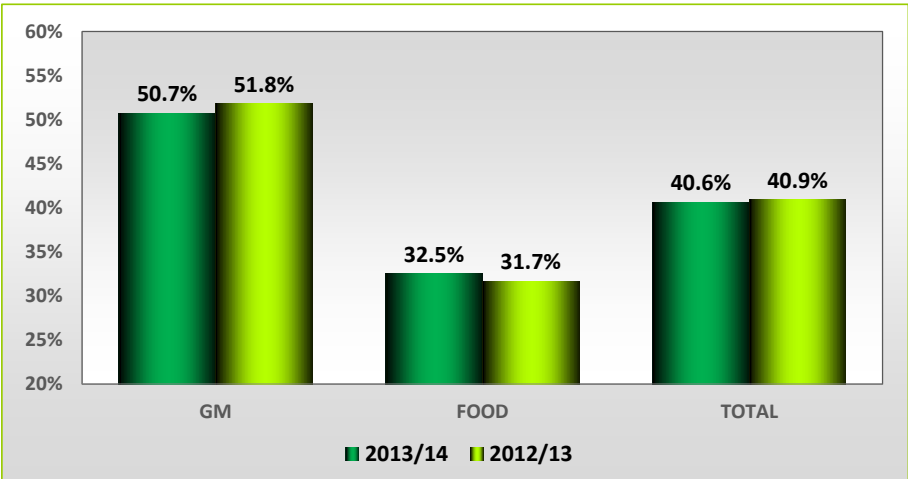
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# UK revenue



	TY £m	LY £m	Var %
Clothing	3,674	3,671	+0.1%
Home	419	423	-1.1%
General Merchandise	4,093	4,094	Level
Food	5,063	4,858	+4.2
Total UK	9,156	8,952	+2.3

# UK gross margin



*Note: Results are stated before non-underlying items*



## International

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	TY £m	LY £m	Var %	Constant Currency Var %
<b>Revenue</b>	<b>1,154</b>	<b>1,075</b>	<b>+7.3%</b>	<b>+6.2%</b>
Owned	750	683	+9.8%	+7.9%
Franchised	404	392	+2.9%	+3.3%
<b>Operating Profit</b>	<b>123</b>	<b>120</b>	<b>+2.1%</b>	<b>+4.6%</b>
Owned	9	14	-38.1%	-25.1%
Franchised	114	106	+7.4%	+7.8%

Note: Results are stated before non-underlying items

## Stores and space

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	Mar 2014	Mar 2013	Openings	Closures	Change
<b>UK</b>					
Premier	12	12			
Major	59	59			
High Street	232	228	4		4
Simply Food Owned	185	176	11	-2	9
Simply Food Franchised	262	243	25	-6	19
Outlets	48	48			
<b>UK Stores</b>	<b>798</b>	<b>766</b>	<b>40</b>	<b>-8</b>	<b>32</b>
Selling Space (m sq ft)	16.6	16.4			
<b>International</b>					
Europe	158	155	13	-10	3
Middle East	153	137	20	-4	16
Asia	144	126	22	-4	18
<b>International Stores</b>	<b>455</b>	<b>418</b>	<b>55</b>	<b>-18</b>	<b>37</b>
Selling Space (m sq ft)	5.8	5.4			