

# Marks and Spencer Group Plc

## UPDATE ON TRADING AND IMPACT OF COVID-19

The board of M&S has carefully considered the impact of 'COVID-19' on the outlook for the next 12 months trading and longer-term impact on the business. Each day we are learning more about its effects and running a range of scenarios as to possible impact on sales, profit, and cash flows. Whilst we remain confident that the post crisis future of the business and our transformation programme remains as strong as ever, trading over the next 9-12 months in our Clothing and Home and International businesses is likely to be severely impacted. As a result, it is not possible to provide meaningful guidance on future earnings, although we are taking every step to secure future value for shareholders, colleagues, and suppliers.

### **Supporting our customers and colleagues**

Our first priority is to support our customers and colleagues. M&S has served customers without cease through two world wars, terrorist bombings and numerous local disasters and we are determined to support our customers now as we always do. We have one of the most loyal and committed workforces in retailing and are very grateful for the extraordinary cheerfulness and dedication they are showing in difficult times. We are seeing substantial sales declines in Clothing and Home and we have to manage our costs accordingly but expect to be able to redeploy significant numbers of colleagues to support the Food business.

### **FY 2019/20 financial year outlook on track until the current week**

The forecast outturn for Group Profit Before Tax and adjusting items, quarter to date has been adversely affected by the virus but was within the range of market expectations and in line with the guidance issued in January until the current week. Our Food business has so far remained strong illustrating the resilience we derive from having the combination of related businesses under one umbrella. The final result could be at or below the bottom end of the range of PBT of £440-460m, given probable very depressed trading in Clothing and Home.

### **Steps being taken to secure the balance sheet and future trading potential in FY 2020/21 and beyond**

It is too early to make any reasonable forecast for revenues in the next financial year but we are planning on the basis of a prolonged downturn in demand for Clothing and Home. We are preparing for the contingency that some stores may have to close temporarily. However, our business model of operating parallel Clothing and Food businesses and our strategy to move online including the Ocado joint venture should provide more resilience than some single sector businesses.

There will be a substantial impact on Clothing and Home revenue at the very least in the first 3-4 months of the next financial year. Although it is possible that this may ease as we get into summer trading, margins are likely to be severely impacted by the surplus of unsold seasonal stock and probable clearance activity in the marketplace. We are therefore taking all possible steps to defer supply. However, a very large part of our core business is less seasonal year-round essential product and this should provide some scope for carrying forward stock. At this stage we are not assuming a return to normal trading in the Autumn.

We expect our food business to trade profitably throughout. At this stage we have benefited on a small scale as customers stock up but our heavy bias to chilled and fresh means we are not seeing the forward buying uplift experienced by the major grocers. The significant shift to eating in home should however continue to benefit sales in the months ahead. Although there will undoubtedly be supply interruptions, we do not expect these to be prolonged or financially material.

Our International business will see significant reductions in sales as multiple other markets in which we trade are adversely affected by local outbreaks of the virus and in some cases lockdown and closures. We further anticipate some additional Brexit related costs impacting our French and Irish businesses starting at the end of the year.

### **Actions to protect the longer-term trading potential and manage costs and cash**

We welcome the Government's decision to extend the business rates holiday to all retail businesses in Great Britain. Last year the group paid c.£180m in Great Britain in business rates on stores.

We are taking substantial precautionary action on the cost base, capital expenditures and cash commitments. These steps include:

- Postponing capital commitments: Our capital spend for this year will come in well below original guidance. Going forward we are committed to only c.£80m of planned capital expenditures in FY20/21 from a budget of up to £400m.
- Managing the cost base: We are redeploying colleagues from Clothing and Home into Food wherever practical and deferring all pay increases.
- Deferring or cancelling discretionary spend: We are reducing non-essential spending at all levels, freezing non-essential recruitment and reducing marketing spend.
- Reducing the supply pipeline by over £100m and holding over stock: With around two thirds of our Clothing inventory 'core' product we will take extraordinary measures to hold over inventory.
- Growing online: we are the UK's second largest online clothing business and the largest in many essential product categories, so will use this opportunity to increase our online penetration.

### **Dividend**

In the current circumstances the Board does not anticipate making a final dividend payment for this financial year, resulting in an anticipated cash saving of c.£130m. We will review our policy at the interim results in November as visibility improves.

### **Credit facilities**

The group has access to substantial liquidity through its £1.1bn revolving credit facility which has a maturity of April 2023 and is undrawn, and a further £50m of uncommitted facilities and current cash balances of c.£185m. Total available liquidity is therefore £1.34bn. The revolving credit facility contains only one financial covenant, which is that the ratio of earnings before interest, tax, depreciation, amortisation to net interest plus IFRS16 depreciation will not be less than 2.6x at the date of measurement, tested semi-annually by reference to the preceding 12 months. Accurate forecasting is difficult at this present time, but the group will monitor compliance with this covenant closely.

While there are many uncertainties, we expect to come through this period in a strengthened competitive position. We have a strong Food business and can balance activity between our operations under the single M&S brand. We have a well-developed online proposition in Clothing & Home and a 50% shareholding in Ocado Retail, the UK's fastest growing pure play online retailer. M&S is a strongly cash generative business and has access to very substantial facilities and liquidity.

The Board remains confident of the transformation programme and does not believe that the long-term value of M&S beyond the coming year will be impacted by the virus.

We will update the market as events evolve. We will report our Full Year Results on 20 May 2020.

*This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.*

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*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" within the meaning of the United States federal securities laws. 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 2019 Annual Report (pages 27-33).*

*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.*

**For further information, please contact:**

**Investor Relations:**

Fraser Ramzan: +44 (0)20 3884 7080  
Hannah Chambers: +44(0) 20 3882 4714

**Media enquiries:**

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