

Bringing the best together

M&S

EST. 1884

M&S and Ocado transforming UK
online grocery shopping



M&S OCADO JV TRANSFORMING UK ONLINE GROCERY SHOPPING



1 STRATEGICALLY COMPELLING

- Creates a 50/50 JV into which Ocado is injecting its UK retail business
- Unlocks online growth for M&S Food from September 2020 at latest – online is fastest growing grocery channel
- Brings together partners with uniquely complementary assets
 - M&S's Food is UK's highest rated for quality and innovation
 - Ocado's technology with substantial cost advantage over store-picking retailers
- JV starts with c.£1.5bn sales and over 700k customers

2 SUBSTANTIAL SYNERGIES

- Additional buying scale and harmonised terms for M&S's own business with savings estimated of at least £70m a year
- Potential to convert M&S Food customers who currently account for c. one third of online grocery spend - only £400m of that spend is with Ocado
- Complementary category and geographical strengths
- Ability to cross-sell M&S C&H product to JV customers

3 FINANCIALS STRENGTHENED

- Total consideration of up to £750m for 50% stake in the JV
- Up to £187.5m payable after five years, plus interest, conditional on achieving agreed financial and operational targets
- JV FY18 sales¹ of £1.5bn and EBITDA² of £34.2m taking into account the OSP contract and other fees and services
- Board intends to conduct a Rights Issue, fully underwritten on a standby basis
- Dividend reset to sustainable level from which to grow in line with earnings over time

1. Revenue figure derived from unaudited management accounts for Ocado retail business and reflecting JV perimeter adjustment. Unaudited and for illustrative purposes only.

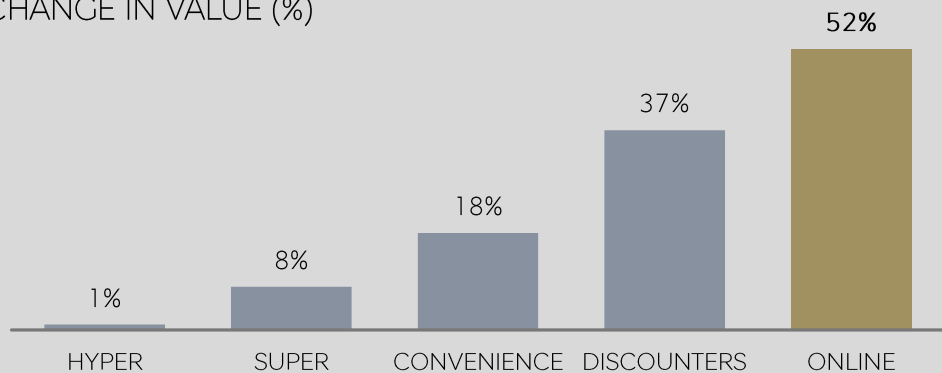
2. EBITDA figure derived from unaudited management accounts for Ocado retail business, taking into account the new OSP contract and fees and services anticipated to be payable to Ocado and reflecting JV perimeter adjustments. Unaudited and for illustrative purposes only.

M&S OCADO JV

HOW THIS TRANSFORMS M&S'S FOOD BUSINESS

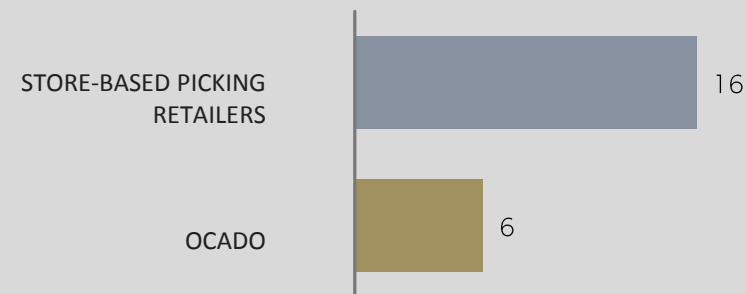
- Profitable entry at scale to the UK's fastest growing grocery channel
- Priority for M&S's "Digital First" transformation programme
- No other strategic option could provide the same scale of immediately profitable entry
- JV starts with c.£1.5bn of Ocado sales and over 700K customers
- Ocado's Smart Platform (OSP) technology has a 50% cost advantage over store-based online retailers
 - Eliminates DC to store and store replenishment costs
 - Automated picking over three times faster than manual store-pick retailers
- Provides online access to M&S's full range – most M&S stores are too small to carry its full range
- Transforms M&S from an attractive small basket, store business into a scale multichannel business with increased relevance to high spend younger families who shop online

ONLINE FASTEST GROWING CHANNEL 2018-2023
CHANGE IN VALUE (%)



SOURCE: IGD

OCADO'S COSTS ARE 50% OF STORE PICKING RETAILERS
DC TO VAN COSTS AS % OF SALES 2017/18



SOURCE: CREDIT SUISSE

M&S OCADO JV BRINGS TOGETHER UNIQUELY COMPLEMENTARY SKILLS AND ASSETS

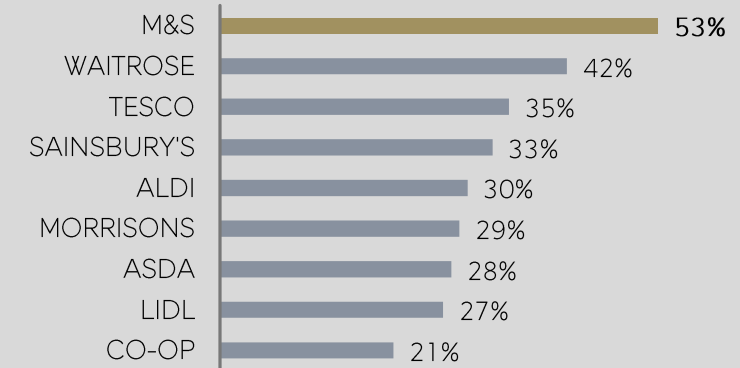
M&S BRINGS:

- M&S's Food brand outranks all other grocery retailers on quality
- Strong product development capability with high level of innovation and a leading market position in the 'eat now' and 'dinner tonight' market
- Over 12m food shoppers with c.7m "Sparks" members, M&S's personalised loyalty programme, and c. 3m active bank customers
- M&S Food customers, who currently account for c. one third of online grocery spend

OCADO BRINGS:

- Ocado Smart Platform "OSP" technology recognised by leading international retailers as a superior fulfillment solution
- Over 50,000 total SKUs ranging from entry price to super premium
- UK's best-in-class order accuracy, delivery punctuality and lowest waste – lower cost
- Trialling solutions for immediacy underpinned by our proposition - Zoom
- The world's leading online grocer – profitable at scale

RATINGS OF UK RETAILERS FOR QUALITY FOOD
% RANKING "BEST" 2018



SOURCE: KANTAR MILLWARD BROWN (MULTIPLE CHOICES ALLOWED)



OCADOERITH

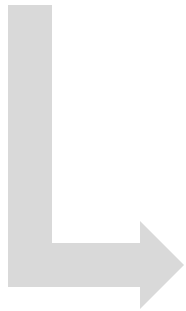
M&S OCADO JV FULLY ALIGNED JOINT VENTURE



- Provides all M&S's fresh, chilled, frozen and ambient own brand to JV at cost from September 2020
- Develops new products and categories for M&S & JV
- Shares customer data and insight with JV



- Contributes existing UK online grocery retail business
- Operates Customer Fulfilment Centres ("CFC") and home delivery and provides OSP tech
- Invests in all new mechanical handling equipment for existing and new CFCs



Joint Venture

- Manages pricing, category mix, brand sourcing and marketing
- Contracts with Ocado for management of CFCs and logistics and for OSP technology via an annual capacity fee under a long term contract
- Invests in new CFC buildings, spokes and home delivery vans



- 50/50 ownership by M&S and Ocado
- Long term UK exclusivity for OSP at standard OSP terms
- "Most favoured nation" for new technology
- Full access to M&S's customer base at no cost
- Joint Board manages JV
- M&S appoints one of the JV's Directors as Chair

M&S OCADO JV DELIVERING ESTIMATED SYNERGIES OF AT LEAST £70M FOR M&S

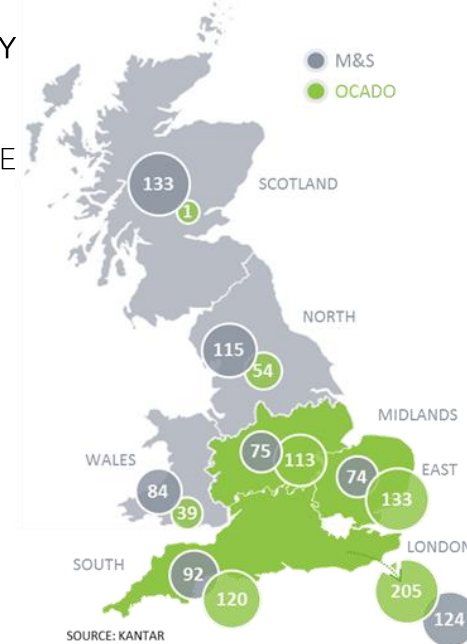
HARD SYNERGIES – at least £70m

- M&S's c.£5.9bn sales and Ocado Retail's £1.5bn sales have a highly complementary category mix
- Meaningful scale boost and improved sourcing economics to M&S – sourcing benefit grows as JV scales
- Enable faster testing of NPD and significantly reduce trial and development costs

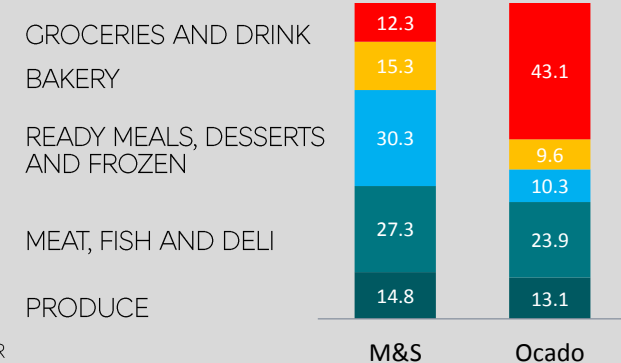
ACHIEVABLES

- Incremental sales from attracting new customers to the JV
- Use and rebrand Ocado own label to enhance opening price point product in stores
- Access to the unique range from Ocado's innovative partners to add to our core offer
- Cross-sell M&S Clothing and Home to JV customers
- Use M&S's complementary geographic strengths to develop JV outside London and the South

COMPLEMENTARY
GEOGRAPHIC
STRENGTHS
100 = UK AVERAGE
MARKET SHARE



A COMPLEMENTARY CATEGORY MIX
% OF SALES 2018



SOURCE: KANTAR

M&S OCADO JV FINANCIAL HIGHLIGHTS

TRANSACTION VALUE

- Total consideration of up to £750m for 50% stake in JV
- £562.5m on completion and up to £187.5m payable after five years, plus interest, conditional on achieving agreed targets

RIGHTS ISSUE

- Transaction funded primarily from equity
- Up to £600m fully underwritten on a standby basis

SUSTAINABLE DIVIDEND

- Resetting dividend per share by 40% to a sustainable level from which to grow in line with earnings over time
- Final dividend for FY18/19 of 7.1 pence per share

FINANCIAL IMPACT

- JV FY18 financials of £1.5bn sales¹ and EBITDA² of £34.2m taking into account the OSP contract and other fees and services
- Estimated synergies of at least £70m for M&S over three years from completion
- Expect transaction to close in calendar Q3 2019

¹ Revenue figure derived from unaudited management accounts for Ocado retail business and reflecting JV perimeter adjustment. Unaudited and for illustrative purposes only.

² EBITDA figure derived from unaudited management accounts for Ocado retail business, taking into account the new OSP contract and fees and services anticipated to be payable to Ocado and reflecting JV perimeter adjustments. Unaudited and for illustrative purposes only.

M&S OCADO JV STRATEGICALLY TRANSFORMATIVE FOR M&S

STEP ONE RESTORING THE BASICS

STEP TWO SHAPING THE FUTURE

STEP THREE MAKING M&S SPECIAL

- M&S has successfully launched its major transformation programme
 - Completely changed senior leadership and created accountable business units
 - Ambition to be “One Third” online in clothing and Digital First across the business
 - Operating costs savings of at least £350m
- Early encouraging signs in clothing online performance and food volumes
- FY profit outlook remains in line with board expectations
- JV with Ocado accelerates the transformation programme and starts to shape the future

2017

2021

M&S OCADO JV TRANSFORMING UK ONLINE GROCERY SHOPPING WITH AN AIM TO BE:



BEST FOR CUSTOMERS

- M&S's high quality, innovative food available to buy online
- M&S Food available as part of weekly shop through Ocado's market-leading SKU range
- Best-in-class online customer service in the UK with market-leading order accuracy and delivery punctuality

BEST FOR COLLEAGUES

- Ocado colleagues working for a strong JV bringing the best together
- M&S colleagues working for a scale food business with opportunities for development & growth
- M&S store colleagues with new ranges and more relevance for customers and all colleagues able to buy M&S Food online

BEST FOR SUPPLIERS

- Strengthens M&S's Food suppliers with the opportunity to grow with the JV as M&S scales its food business
- Gives Ocado's smaller brands access to M&S's customers
- OSP 'long tail' capacity means the JV can add new suppliers without deleting existing ones supporting SMEs and innovation

BEST FOR SHAREHOLDERS

- Provides M&S with immediate, scalable and profitable online presence
- Estimated synergies for M&S of at least £70m per year
- JV access to M&S's 12.3m food customers and ability to cross-sell C&H product to JV customers

- JV with Ocado accelerates our transformation programme and starts to shape the future
 - Shared values across M&S, Ocado and the JV

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