MAKING M&S SPECIAL

HALF YEAR RESULTS
8 NOVEMBER 2017

M&S

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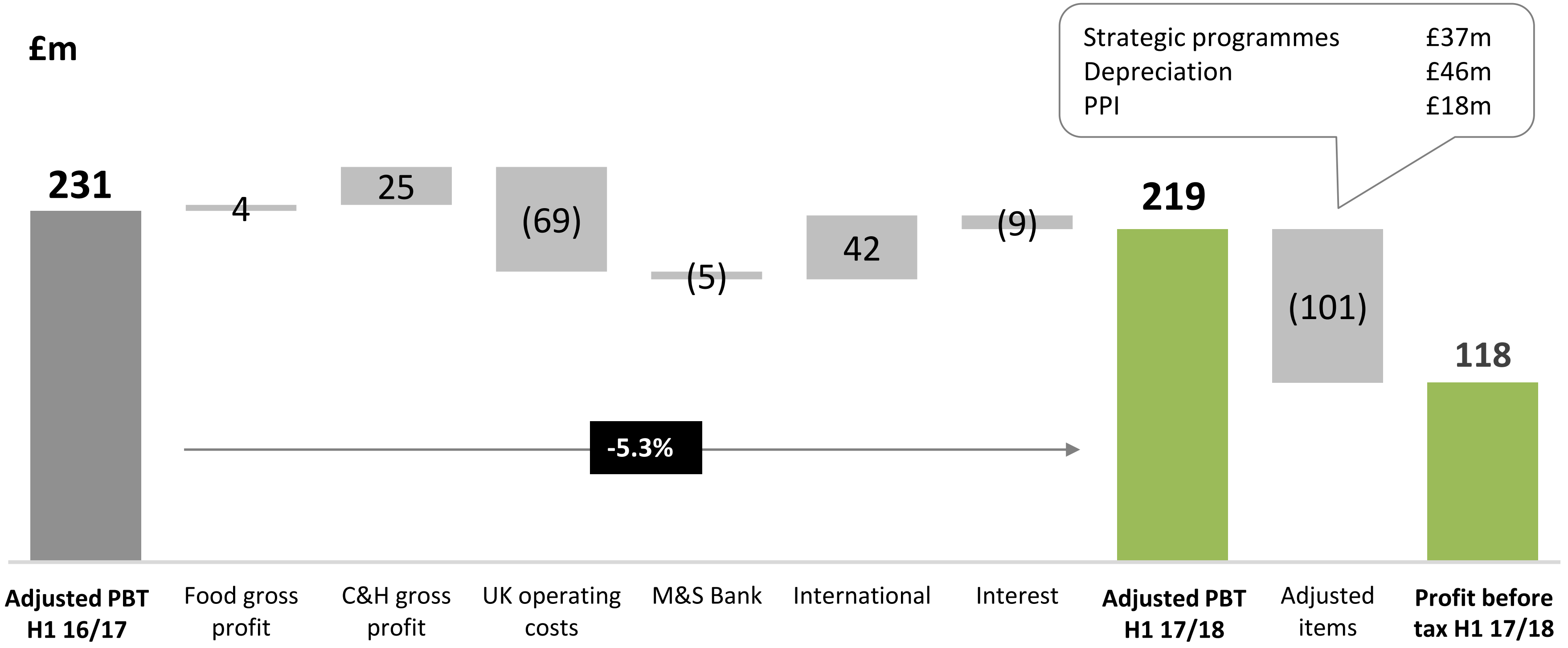
FINANCIAL HEADLINES

Group Revenue	Profit before tax	Profit before tax & adjusted items
£5.1bn	£118.3m	£219.1m
+2.6%	+371.3%	-5.3%

Free cash flow before adjusted items	Net debt	Interim dividend
£218.4m	£2.0bn	6.8p
3.2%	-9.7%	Unchanged

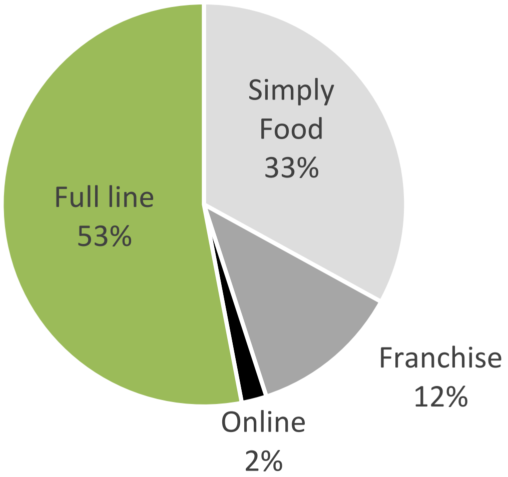
PROFIT SLIGHTLY DOWN, INTERNATIONAL RECOVERY



FOOD: SALES GROWTH, MARGIN UNDER PRESSURE

Revenue growth	Q2	H1
Total	4.4%	4.4%
LFL	-0.1%	-0.1%

Revenue £2.8bn

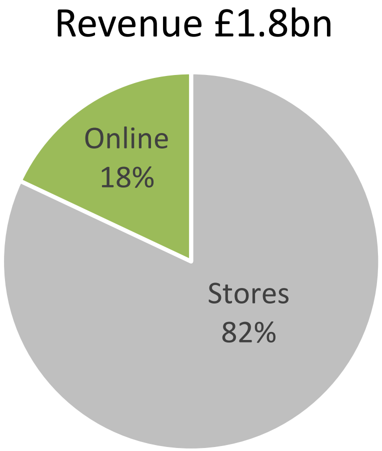


Gross margin H1 2016/17	32.6%
Buying margin	-190bps
Operational efficiencies	40bps
Waste	20bps
Gross margin H1 2017/18	**31.3%**

CLOTHING & HOME: SALES LEVEL, MARGIN GROWTH

Revenue growth	Q2	H1
Total	0.6%	0.0%
LFL	-0.1%	-0.7%
M&S.com[1]	*6.0%*	*5.7%*

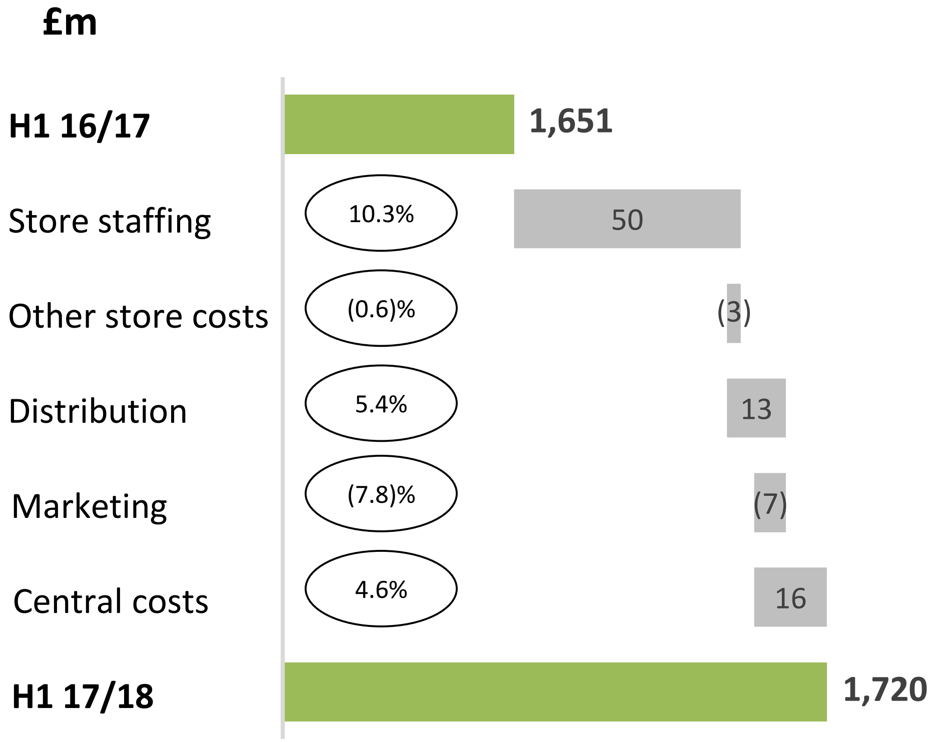
Gross margin H1 2016/17	**56.7%**
Buying margin	0bps
Discounting	140bps
Gross margin H1 2017/18	**58.1%**



[1]Includes Food and International at constant currency

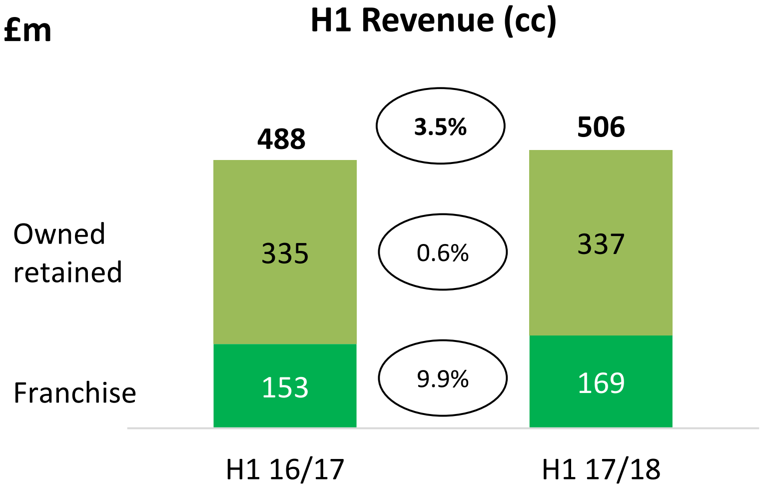
OPERATING COSTS: INVESTMENT IN PAY, SERVICE AND SPACE

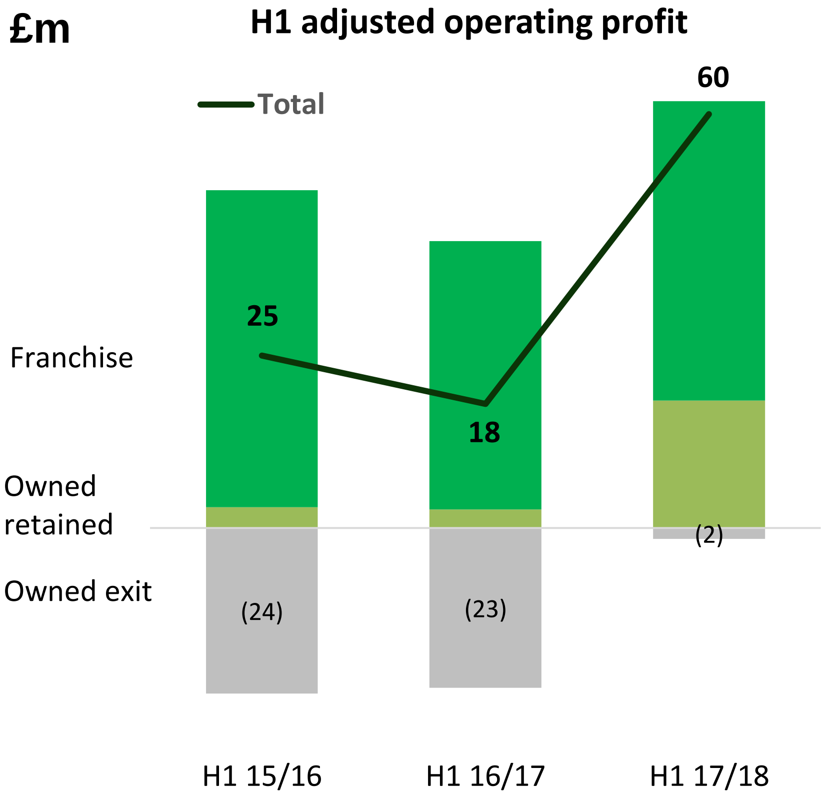
Cost drivers	H1
New space & volume	1.4%
Inflation	2.0%
Other (inc. depreciation)	0.8%
Year on year growth	**4.2%**



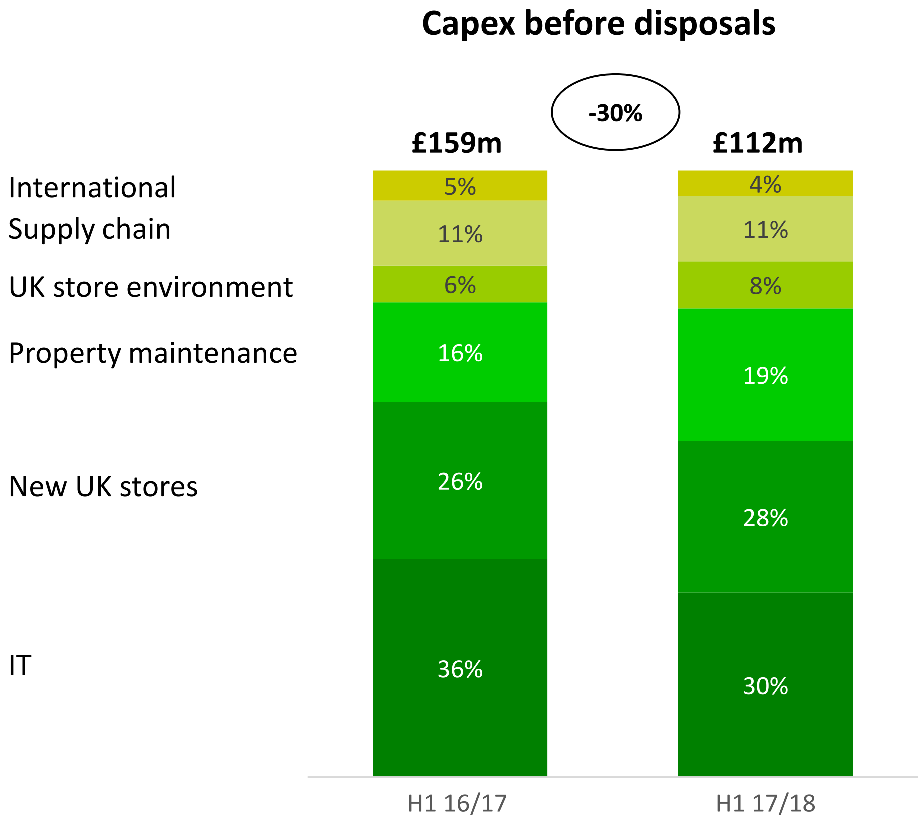
INTERNATIONAL: SALES GROWTH & PROFIT RECOVERY

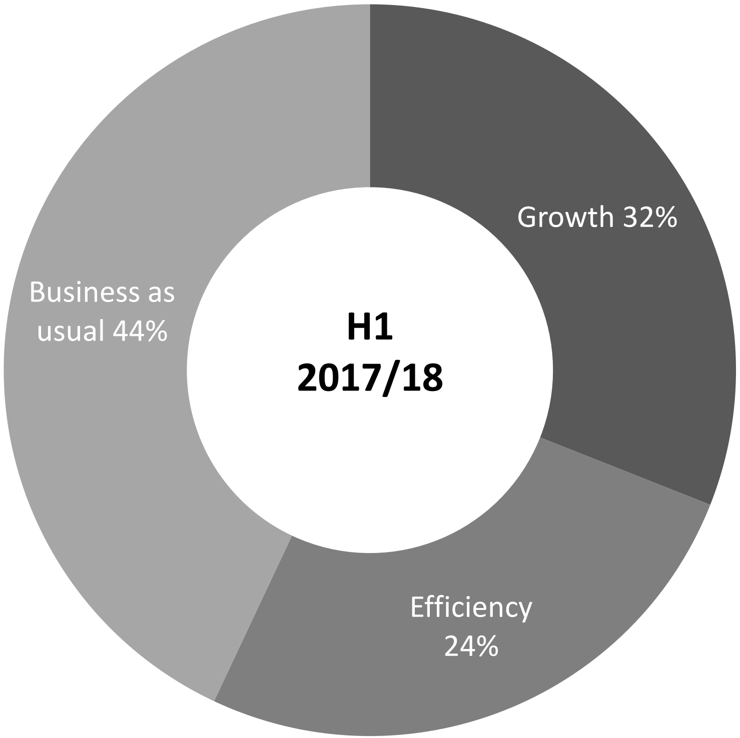
Revenue growth	Q2	H1
Revenue (reported)	1.0%	2.3%
Revenue (cc, exc. exit markets)	5.5%	3.5%
Revenue (cc)	-2.2%	-3.1%



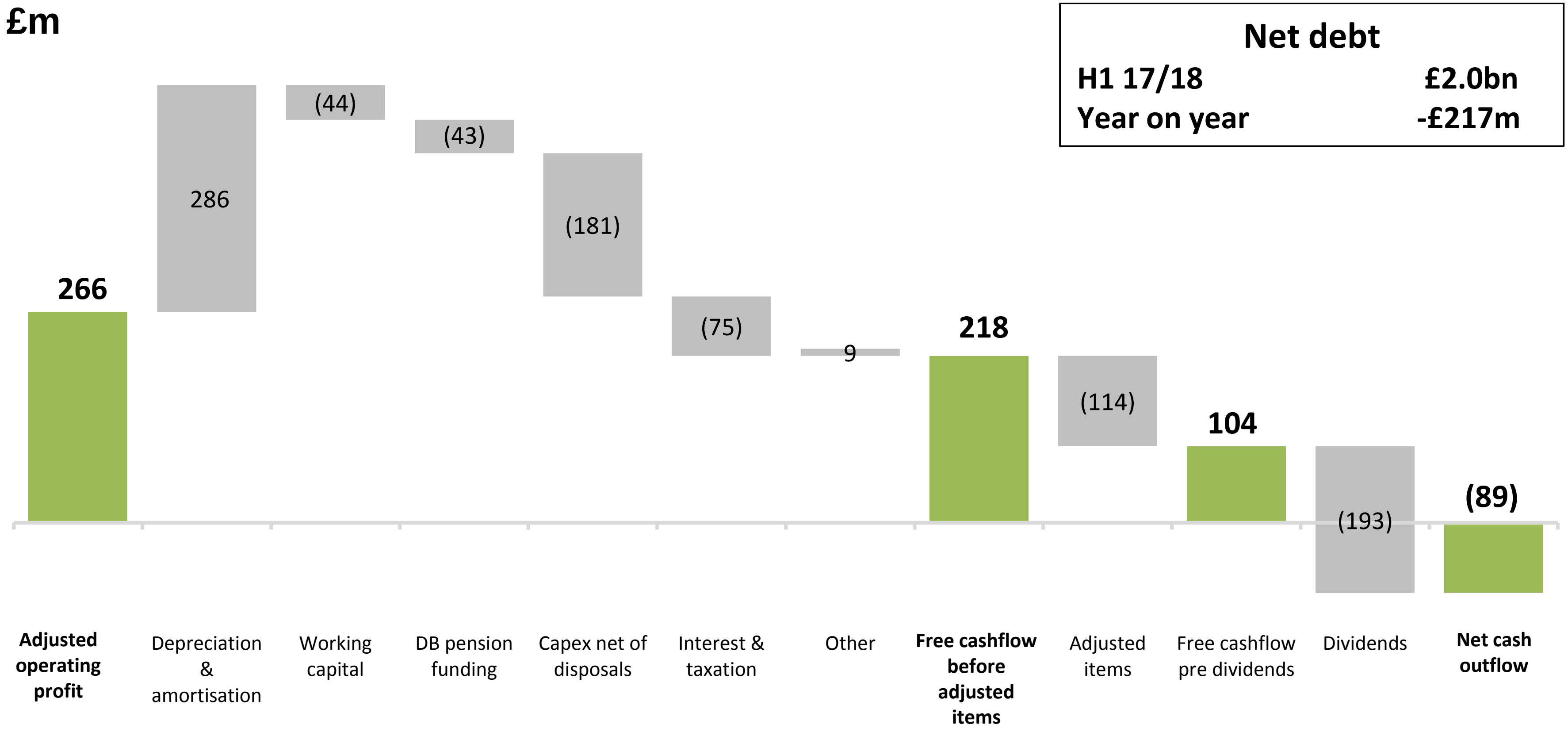


CAPITAL EXPENDITURE REDUCED





CASH GENERATION ROBUST DESPITE COSTS OF CHANGE



Net debt	
H1 17/18	£2.0bn
Year on year	-£217m

FULL YEAR GUIDANCE 2017/18

	Previous guidance	Updated guidance
Food:		
Space increase* (%)	c.7	c.5
Gross margin change (bps)	0 to -50	-75 to -125
Clothing & Home		
Space reduction* (%)	1 to 2	c.1.5
Gross margin change (bps)	-25 to +25	25 to 75
UK operating costs (%)	Unchanged	2.5 to 3.5
Tax rate (%)	Unchanged	21
Capital expenditure (£m)	c.400	300 to 350

* As at year end

MAKING M&S SPECIAL

STEVE ROWE
CHIEF EXECUTIVE

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A BUSINESS WITH GREAT ASSETS

- Great brand with over 32m customers
- Quality, value and innovation in our DNA
- Deep supplier relationships
- Unique own-brand business model
- Strong market positions in core categories
- Fantastic people

MAY 2016 – BUT WE NEEDED TO ANSWER 7 KEY QUESTIONS

1

Are we aligned to customer needs?

2

Is our clothing business sustainable?

3

Are we sustaining our potential in food?

4

Do we have the right space in the UK?

5

Does our international strategy make sense?

6

How can we make our organisation more agile?

7

Is our cost structure competitive?

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PRIORITY WAS TO PUT OUT THE FIRES

Confusing our customers

Dependent on promotions

Out of touch on price

Too many sub-brands

Too much space in a digital era

International not working

Bureaucratic organisation

Uncompetitive on costs

PUTTING OUT THE FIRES

WHAT WE'VE DONE IN CLOTHING

Customer

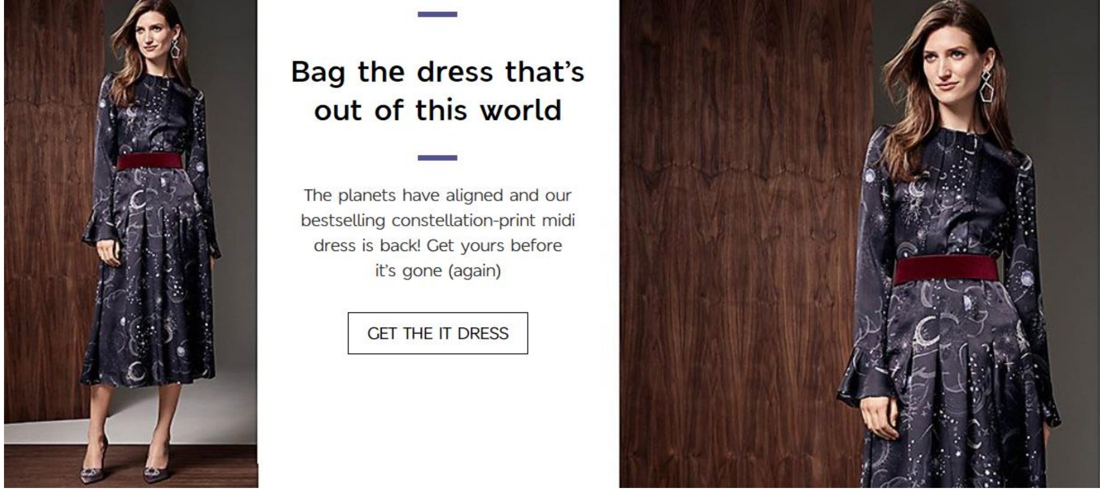
- Fewer sub-brands
- 10% fewer lines
- Improved wardrobe essentials and fit

Agility

- Simplified buying teams

Value

- Cut c.2,500 prices
- Reduced promotions
- Sales reduced from 9 to 4



PUTTING OUT THE FIRES

WHAT WE'VE DONE IN FOOD

Customer

- ✓ Improved quality
- ✓ "Made without" and "Eat Well" enhanced
- ✗ Ranging still too complex
- ✗ Availability still too low

Agility

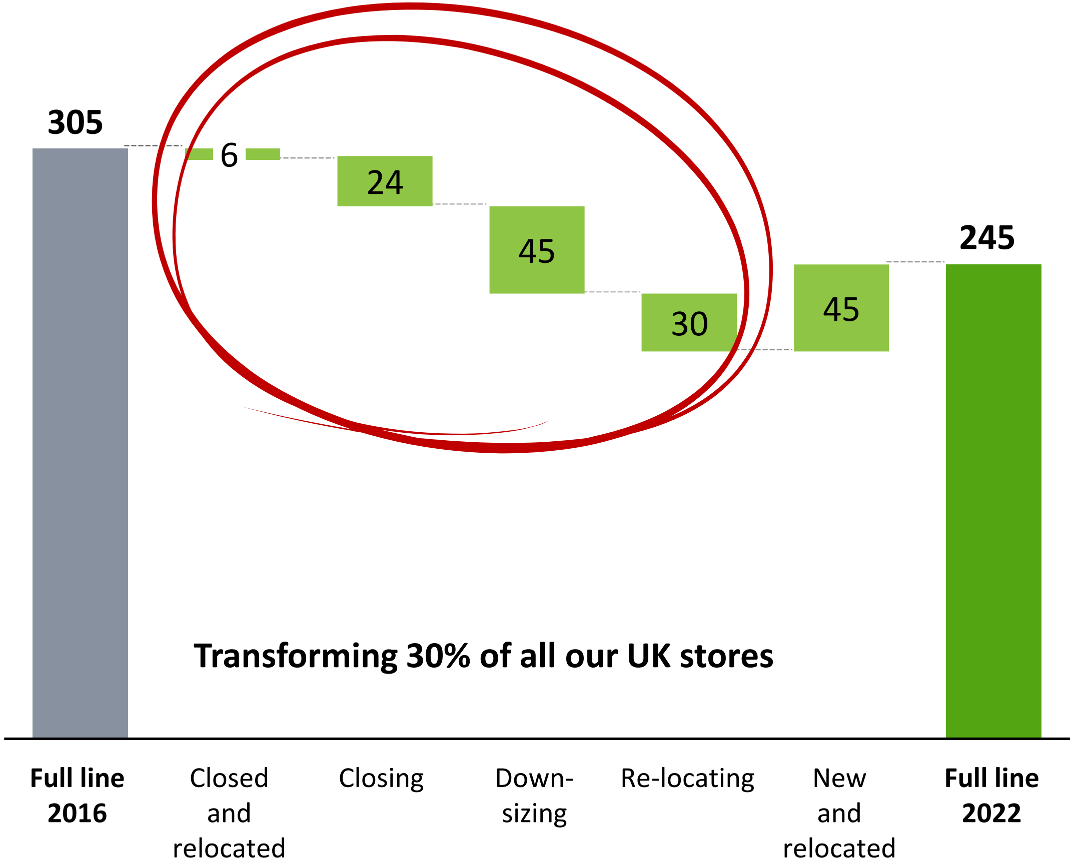
- ✗ Business unit E2E processes not optimal

Value

- ✓ Competitive prices on KVIs
- ✓ Inconsistencies in price architecture
- ✗ Too many confusing promotions

PUTTING OUT THE FIRES

WHAT WE'RE DOING WITH UK SPACE – OUR PLAN



M&S Wokingham

M&S Bracknell

PUTTING OUT THE FIRES

WHAT WE'VE DONE WITH INTERNATIONAL

- Exited 10 owned markets
- Over 25 local currency websites
- Stopped the losses
- Speedier fulfilment

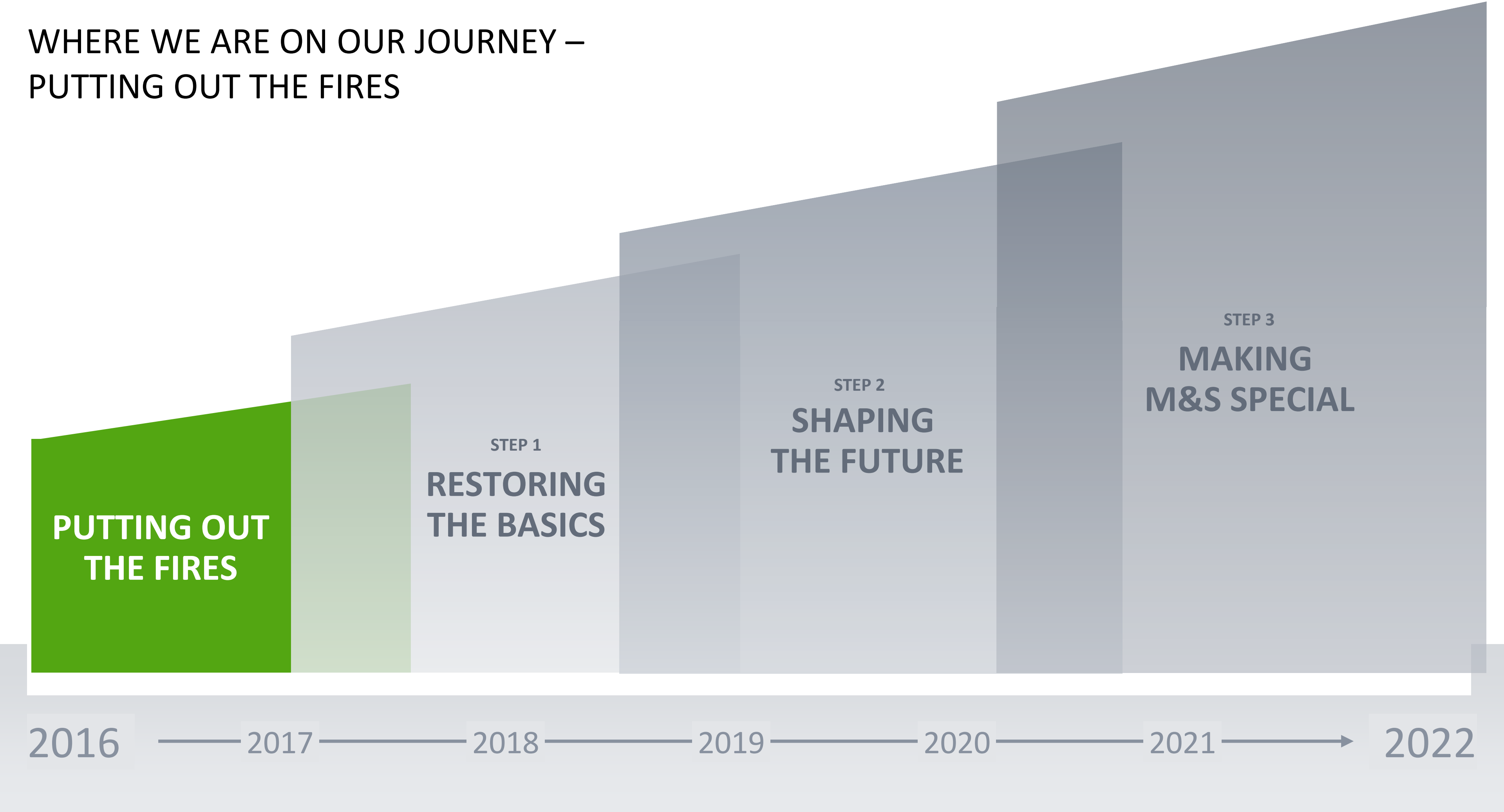
M&S Paris Champs-Elysées

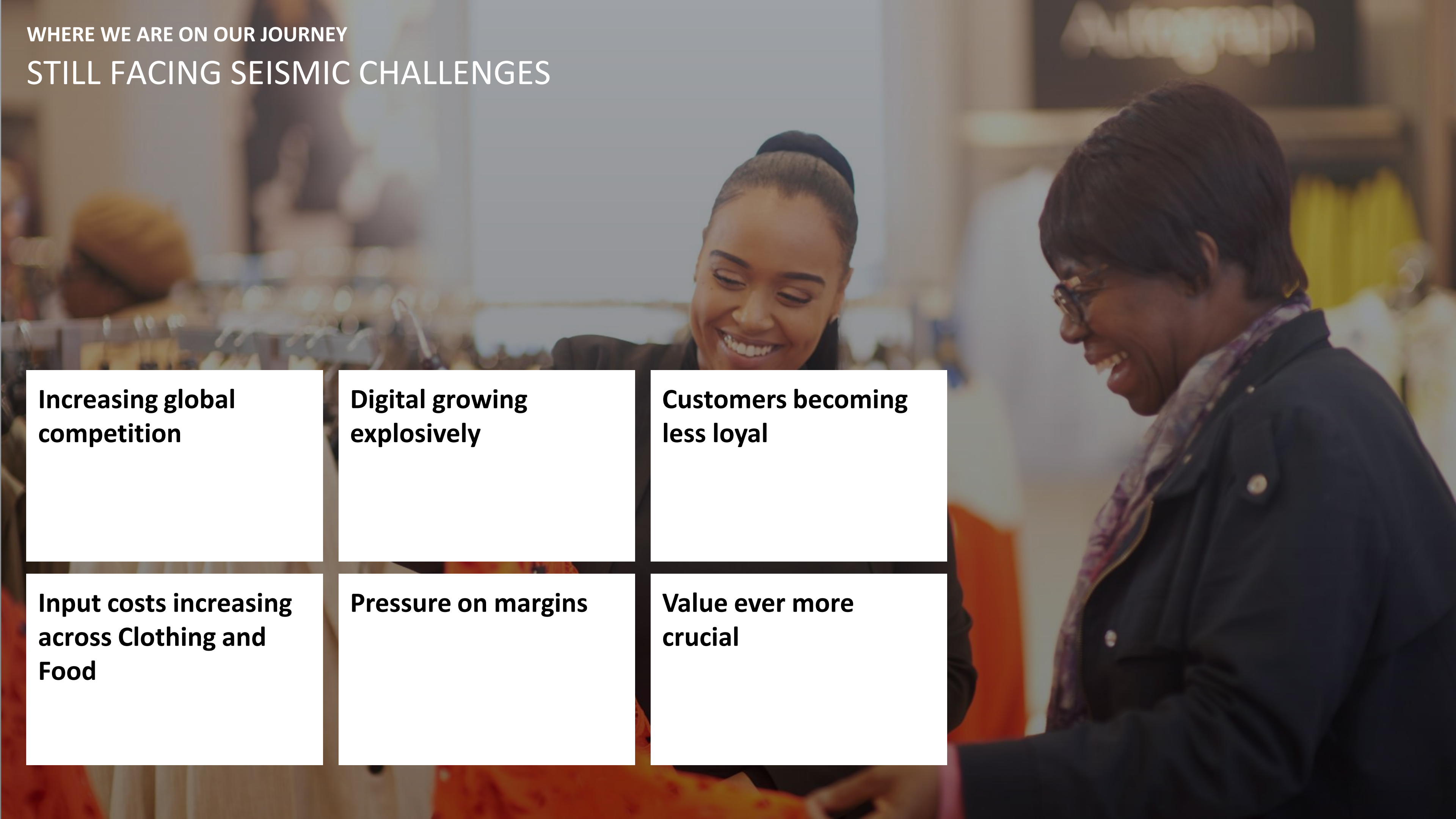
PUTTING OUT THE FIRES

WHAT WE'VE DONE WITH OUR OPERATING MODEL

- Over 3,000 customer-facing colleagues back into stores
- Taken out over 500 central roles
- Streamlined our central costs
- Increased hurdle rate for new capex
- Reduced capex
- Consolidating down to 2 London offices
- Improving operating efficiency in stores
- Recruiting new talent

WHERE WE ARE ON OUR JOURNEY – PUTTING OUT THE FIRES





WHERE WE ARE ON OUR JOURNEY

STILL FACING SEISMIC CHALLENGES

Increasing global competition

Digital growing explosively

Customers becoming less loyal

Input costs increasing across Clothing and Food

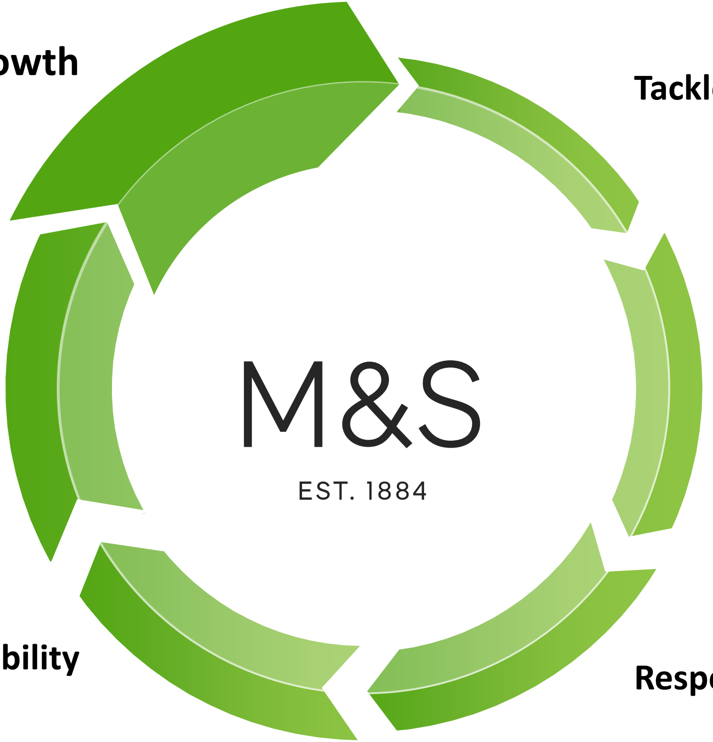
Pressure on margins

Value ever more crucial

OUR BUSINESS HAS MUCH MORE TO DO TO DELIVER GROWTH

Sustainable, profitable growth

Tackle legacy cost



Improve further style and value credentials

Build a supply chain for growth

Strengthen digital capability

Respond faster to changing market

WHERE WE ARE ON OUR JOURNEY

OUR THREE-STEP TRANSFORMATION

STEP ONE

RESTORING THE BASICS

Digital first

Cost reduction

Modernise supply chain

Best place to join and work

STEP TWO

SHAPING THE FUTURE

The *essential* clothing retailer

Nation's favourite Foodhall

Stores for the future

Every moment special

STEP THREE

MAKING M&S SPECIAL

One third online

Winning through data

Internationalising online

Develop new hero categories

2017 → 2022

STEP 1 – RESTORING THE BASICS

DIGITAL FIRST RETAILING – ONLINE

1

Priority is to become a Digital First Retailer:

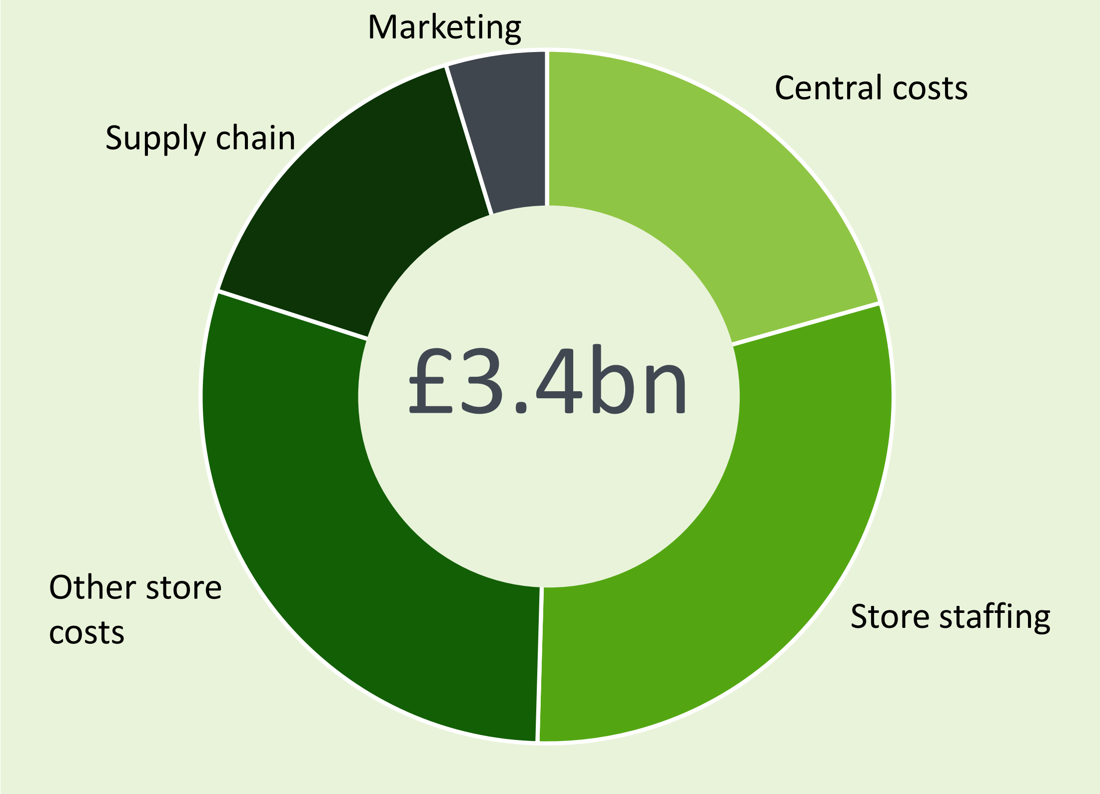
- Make all our sites faster and easier to navigate
- Strengthen our search algorithms
- Use Sparks data to personalise
- Enhance our "Inspire me" and "Editor's Pick" editorial
- Trial of food online home delivery

DIGITAL FIRST RETAILING – ACROSS OUR STORES AND HEAD OFFICE

- Seamless online-to-offline and offline-to-online customer experience
- Store colleagues assist customers using mobile devices
- RFID and digital technology make checkout simpler
- Our nearly 1,000 stores become the best clothing "Shop your way" network in the UK
- Develop greater digital skills throughout the business

LOWER COST RETAILING

UK OPERATING COSTS 16/17



SUBSTANTIAL COST REDUCTION OPPORTUNITIES

- Store Closure Programme
- IT / Mainframe
- Logistics – C&H and Food
- Packaging specification

STEP 1 – RESTORING THE BASICS

STRENGTHEN OUR SUPPLY CHAIN – STARTING THE CHANGE

1

- Simplify the supply chain and logistics network
- Focus on multi-channel availability
- Increase efficiency of singles picking for online
- Faster online fulfilment

- Replace high cost distribution model
- Update DC and logistics systems
- Improve demand forecasting

STEP ONE – RESTORING THE BASICS

BEST PLACE TO JOIN AND WORK

Faster, more commercial M&S	**Strong business units united by common brand**	**Attracting digital talent**
Culture of pace and continuous change across our business	**Exceptional place to work for store colleagues**	**Famous again for our graduate training scheme**

STEP 2 – SHAPING THE FUTURE

UK'S *ESSENTIAL* CLOTHING RETAILER

- Stand for contemporary style at great value
- Destination for wardrobe essentials
- Best for fit, fabric and finish
- Defend and grow our market-leading lingerie
- Target customer entry points to build new audience e.g. kids, bras, suits
- Build on our 100+ year heritage as a value retailer
- Reinvest cost savings into affordability
- Sharper ranges with fewer options

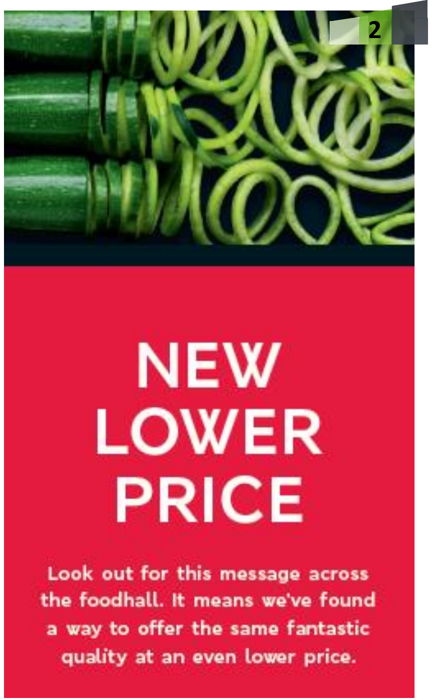
WORK OUTFITS

FASHION INSPIRED OUTFITS

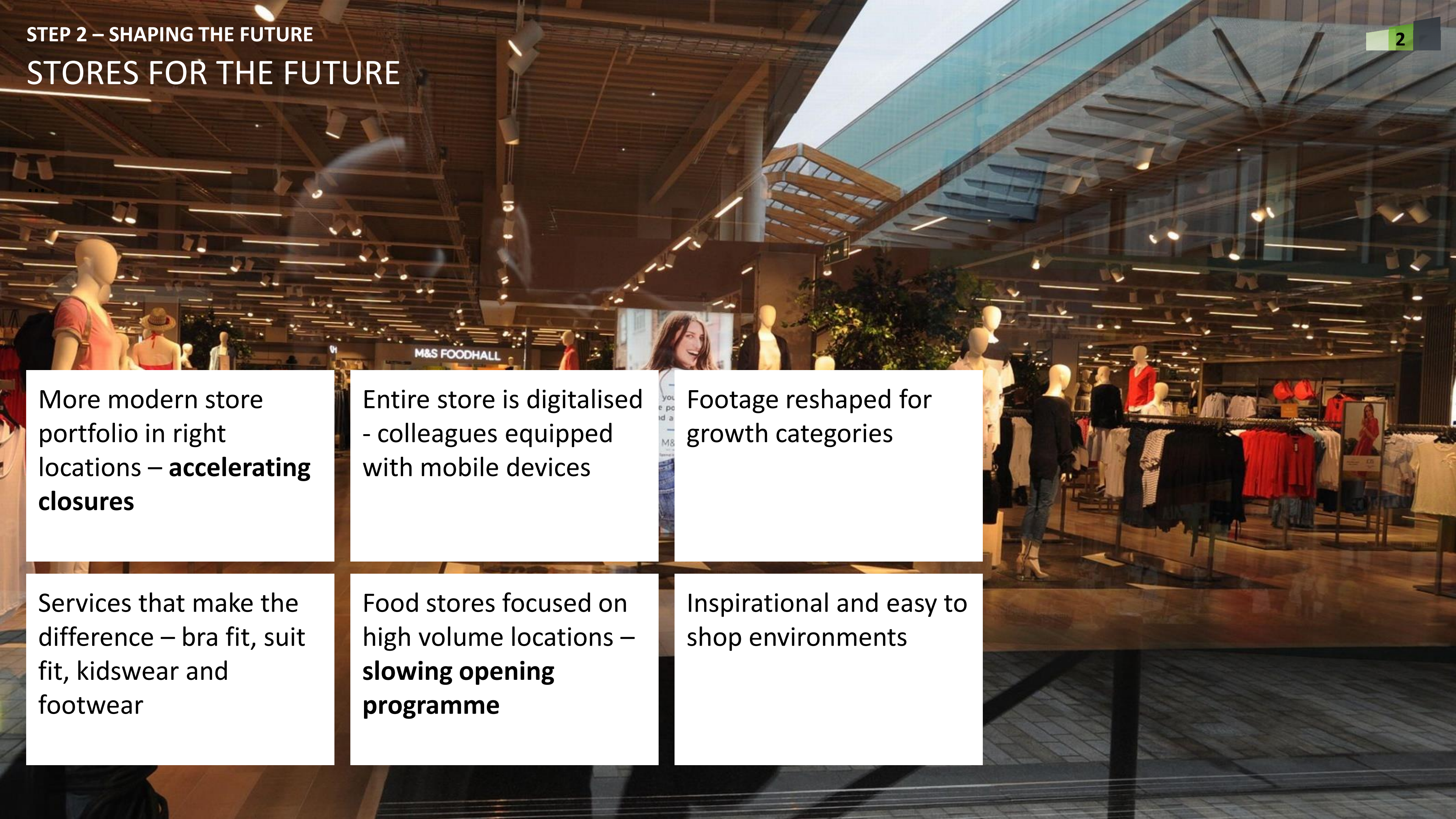
STEP 2 – SHAPING THE FUTURE

NATION'S FAVOURITE FOODHALL

- Concentrate on our heartland –
  innovative food for now and food for tonight
- Focus on fresh and natural food –
  keeping us relevant to today's customer
- Simplify the range and take out niche lines
- Invest in value to generate growth
- Best-in-class availability from opening to closing



STORES FOR THE FUTURE



More modern store portfolio in right locations – **accelerating closures**

Entire store is digitalised - colleagues equipped with mobile devices

Footage reshaped for growth categories

Services that make the difference – bra fit, suit fit, kidswear and footwear

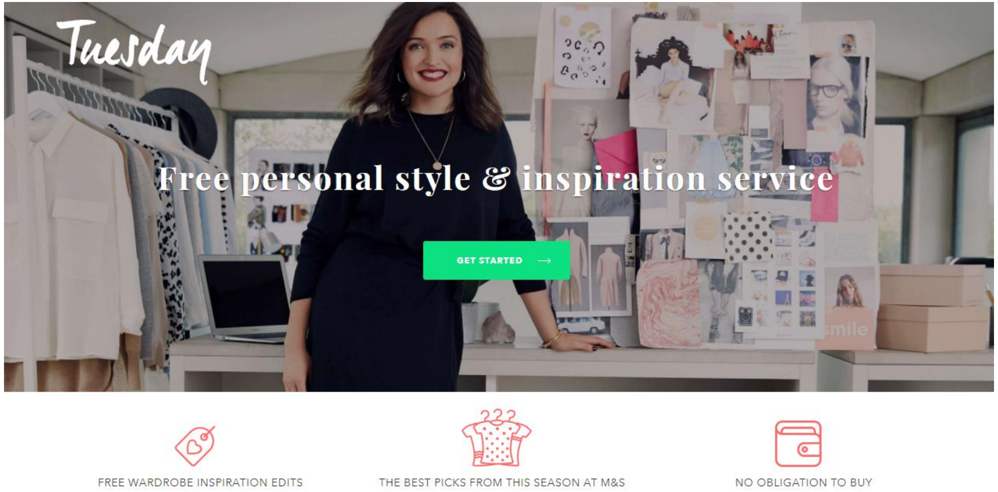
Food stores focused on high volume locations – **slowing opening programme**

Inspirational and easy to shop environments

STEP 2 – SHAPING THE FUTURE

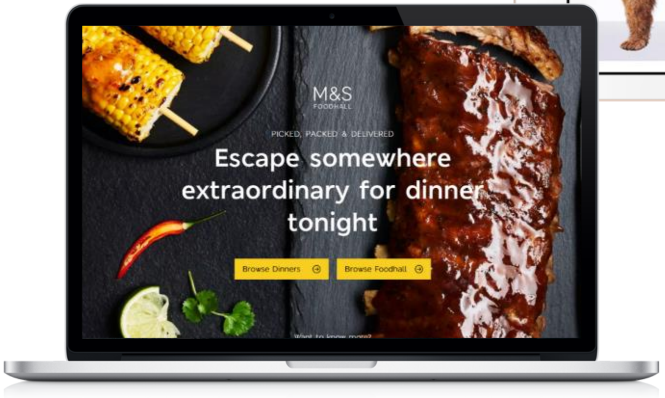
EVERY MOMENT SPECIAL

- Truly personal shopping experience in a digital age
- Famous again for store services like measuring suits
- Developing "Try Tuesday" for personal shopping online
- Bringing Plan A to our customers' community projects



ONE THIRD ONLINE

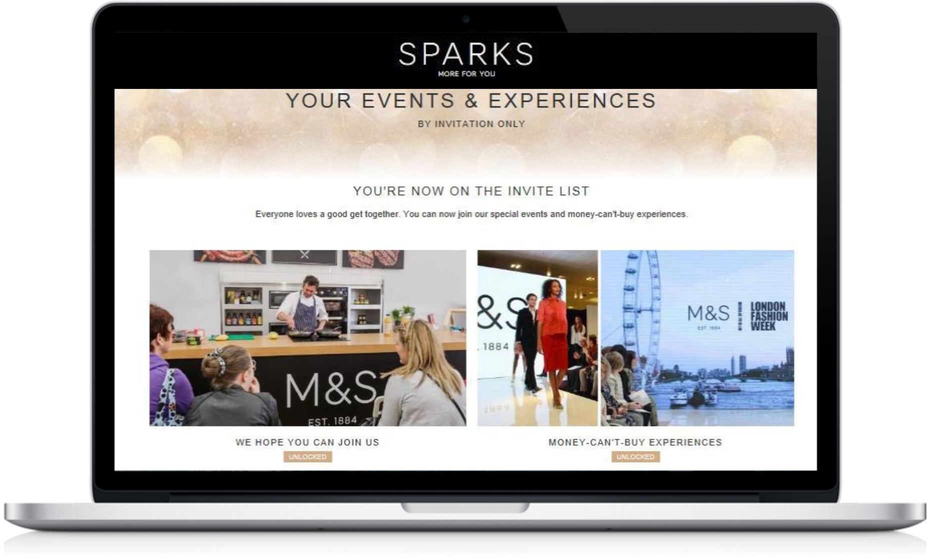
- Online is not marginal for M&S – it's where our destiny lies
- Our aim is to be one third online by 2022
- DC network capable of fast fulfilment and volume growth
- "Shop your way" is crucial but we will also have an ultrafast home delivery option in clothing
- Too early to report on our online food trial but customer reaction has been positive



STEP 3 – MAKING M&S SPECIAL

WINNING THROUGH DATA

- Sparks and online will enable us to win through data
- Sparks already has 6m members receiving partly personalised offers
- Key tool for customer insight and customer engagement
- Starting to use AI and machine learning to deeply personalise
- Crucial to our online proposition



GROWING OUR INTERNATIONAL FRANCHISE

- Market-right pricing
- Becoming genuinely international digitally
- Making "Shop your way" available at all franchise stores
- Focusing on strong franchise partners to deepen penetration in key markets
- Localising our assortment for franchise partners
- Seamless and fast replenishment model for franchises

M&S Plaza Indonesia Jakarta

M&S Dubai Festival City

STEP 3 – MAKING M&S SPECIAL

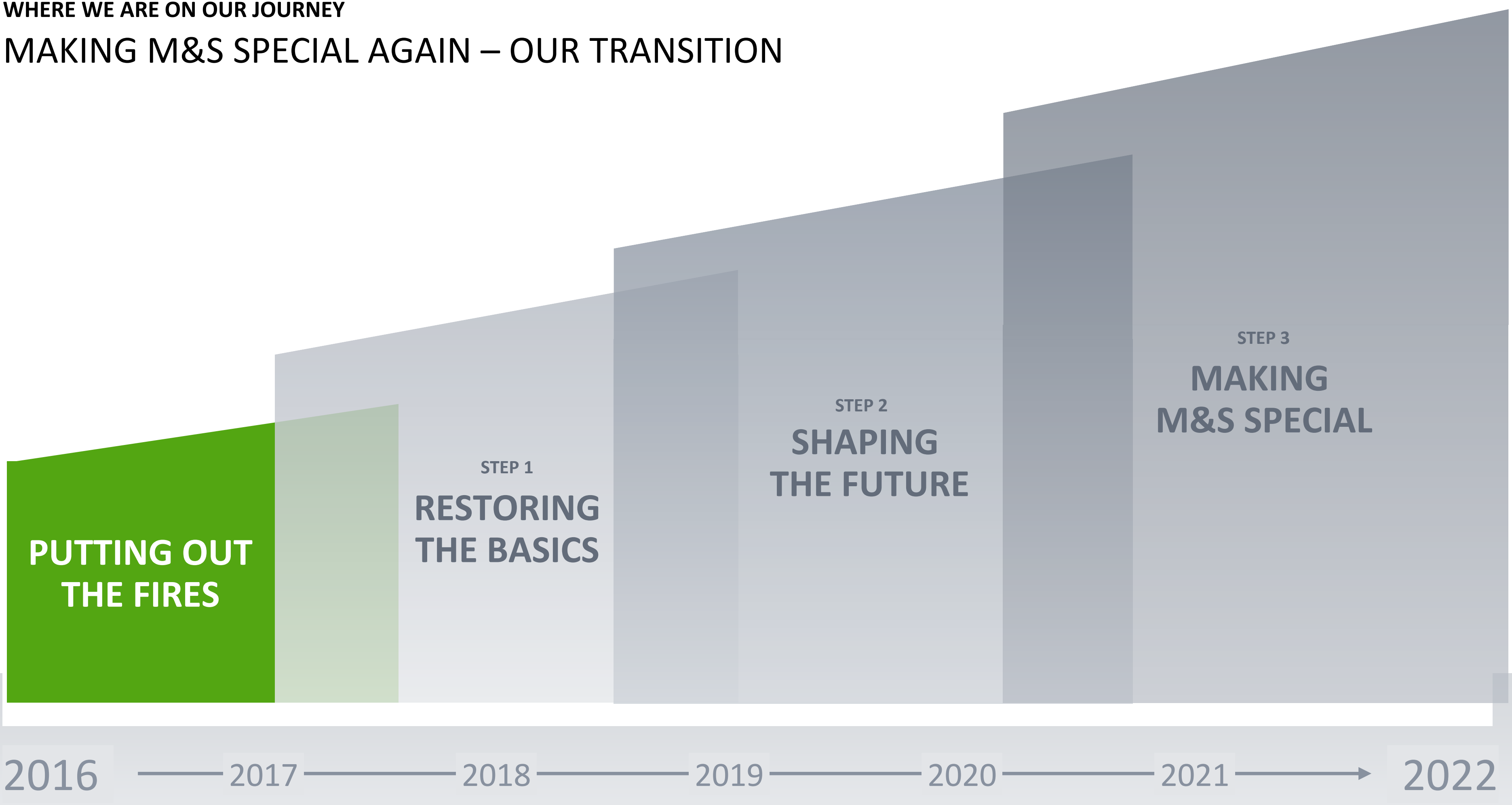
DEVELOP ADDITIONAL HERO CATEGORIES

- #1 in Schoolwear with 21% share but #4 in kids with 6% share
- Focus Kidswear on wardrobe quality essentials
- Build core strength around families in all categories

- Only #13 in home but market is highly fragmented
- Focus home offer – great value in bed, bath and home accessories
- Parallel approach across stores and online

WHERE WE ARE ON OUR JOURNEY

MAKING M&S SPECIAL AGAIN – OUR TRANSITION



APPENDIX

STORES & SPACE

UK	Average selling space (000 sq ft)	Sep 17	Mar 17	Openings	Closures	Change
Shopping Centre	100	16	16			
Retail Park	60	71	68	3		3
High Street- large	65	87	86	1		1
High Street	25	128	133		-5	-5
Outlets	10	39	40		-1	-1
Simply Food owned	8	261	253	10	-2	8
Simply Food franchise	1	397	383	14		14
UK stores	**-**	**999**	**979**	**28**	**-8**	**20**
Selling space (absolute, m sq ft)		17.5	17.4			0.1
C&H		11.3	11.3			
Food		6.2	6.1			0.1
International		**Sep 17**	**Mar 17**	**Openings**	**Closures**	**Change**
Owned		148	185	3	-40	-37
Franchise		276	269	12	-5	7
International stores		**424**	**454**	**15**	**-45**	**-30**
Selling space (absolute, m sq ft)		5.1	5.9			-0.8