

M&S Marks & Spencer (LSE: MKS) 1Q18 Update: Retailer Slows Rate of Decline in Clothing

EST 1884

- Marks & Spencer (M&S) reported UK Clothing and Home comparable sales fell 1.2% in 1Q18. This compared to a 5.9% slump in 4Q17.
- The company posted a 0.1% fall in UK Food comps in 1Q18, versus a 2.1% fall in the previous quarter.
- Total group sales were up 2.7% in 1Q18, helped by openings of new UK Food stores and the beneficial impact of exchange rates on international sales.

1Q18 Update

M&S group sales were up 2.7% year over year in the first quarter. UK sales were up 2.6% in total, boosted by openings of Simply Food stores. UK comps were down 0.5% in total.

- UK Clothing and Home comps were down 1.2%, a significant improvement on the 5.9% drop in 4Q17. Total Clothing and Home sales were down 0.5% in 1Q18.
- UK Food comps were down 0.1%, an improvement from a fall of 2.1% in 4Q17, and helped by the later Easter this year. Total Food sales were up 4.5% in 1Q18.
- International sales were up 3.8% as reported, but were down 4.0% at constant exchange rates, as M&S continues to exit some overseas markets.

CEO Steve Rowe said that performance was in line with the company's expectations and that it continued to grow full-price sales in Clothing and Home. This segment saw reduced discounting and no clearance sale in 1Q18.

Outlook

Company guidance for full-year 2018 remains unchanged:

- **UK Food:** Gross margin flat to (50) basis points, with pressures from currency effects expected in 1H18. The company noted, however, that most of its Food sourcing is in British pounds. A 7% increase in space, with 90 new Simply Food stores in FY18.
- **UK Clothing and Home:** A gross margin change of 25 bps to (25) bps, with reduced discounting offsetting some currency effects. A 1%–2% decline in space.

The company expects UK operating costs to rise by between 2.5% and 3.5%, and capex of £400 million in FY18.

Analysts expect M&S to grow revenues by 1.1% in FY18, but for EBIT to fall by 4.7%. Consensus is for GAAP EPS of 24.75 pence in FY18 versus 7.2 pence in FY17.



FLASH REPORT

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