

# [Price performance of marks and spencer](https://assignbuster.com/price-performance-of-marks-and-spencer/)

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The purpose of this report is to analyse the share price performance of Marks and Spencer and relate to this any news announcements during the period between the 29th of October 2000 and the 1st November 2001. This report will compare the performance of Marks and Spencer with the FTSE 100 and FTSE All Share Index, highlighting any abnormal rises or falls in Marks and Spencer's share price and will relate these to certain news or press announcements. Such announcements may have ultimately contributed to the change in share price of Marks and Spencer specifically or the stock exchange more generally.

Instead of using the actual share price of Marks and Spencer the total return index will be used to show changes in the companies share price. This is an index that calculates the performance of a group of stocks assuming that all dividends and distributions are reinvested. It measures the growth in value of a shareholding over the period. When comparing the companies return index with that of the FTSE 100 and All Share average the index will be rebased to a value of 100 at the start of the period. This allows a simple comparison to see how the share price has done over the period. A similar thing will be done when comparing Marks and Spencer to selected competitors namely Next and Sainsbury's.

Findings

The share price and return index of Marks and Spencer has done remarkably well between October 2000 and November 2001. This may come as a surprise to some people as between 2000 and 2001 operating profit excluding tax fell by an unprecedented 224% to 145. 5 million. This would have been partly due to the fact that overall turnover fell despite a rise in turnover of 8% in international sales. During the same period earnings per share fell from 9. 6p to (0. 2)p however the dividend per share of 9. 0p remained the same, which was important as this gives a clear indication of the strength and stability of the organisation.

The graph on the following page (Graph 1) compares the rebased return index of Marks and Spencer, the FTSE 100 and FTSE All Share Index over the desired time period. The graph clearly illustrates how successful Marks and Spencer's share price has been especially when compared to the more general FTSE index. Whereas the rebased return index has increased by over 50% for Marks and Spencer to 169. 13, the FTSE 100 and All Share return index has fallen nearly 20% to 81. 67 and 81. 69 respectively.

The graph above shows that over the year concerned the return index and therefore share price has generally increased for Marks and Spencer whereas the FTSE 100 and All Share Index has declined albeit at a slower rate than M; S has grown. However, there are exceptions to this and the share price may have risen or fallen sharply due to news announcements as I will now explain. For example on October 9th 2001 the return on an investment in Marks and Spencer increased by 9. 84%.

The reason for shares in the troubled retailer jumping 10% was because it revealed its first quarterly sales increase in three years. The figures were being interpreted in some quarters as the first sign of a turnaround in the retailer's fortunes and chairman and chief executive Luc Vandevelde said the company " had made a step in the right direction". However, even though an increase in sales has sent Marks and Spencer shares soaring, some analysts were urging investors to treat the figures with caution.

Unfortunately the news wasn't good for M; S on April the 9th 2001. On this day City stockbrokers were set to downgrade M; S after a leaked report stating the company would make ï¿½20 million less profit than was expected, suggesting that the problems that M; S was facing were more serious than first thought. However, even this bad news didn't affect the return on the investment that day as it only fell by 1. 05%.

More bad news reported in the Financial Times on June the 19th 2001 didn't adversely affect the return index for M; S. On this day the retailer announced it was pulling out of continental Europe and selling its US clothing and supermarket chains. Unfortunately the company was forced into this decision and has ultimately decided to focus on its core British retailing. On this day the investment in Marks and Spencer has grown nearly 2%. This was in spite of the fact that the French government is threatening legal action after the struggling retailer announced plans to close all its stores in France.

Some other news announcements which have affected the return index of Marks and Spencer include when M; S announced its new group strategy on the 27th April 2001. This strategy basically entailed focusing on its UK retail business and restoring the trust and confidence of its core customers. This news leads to a 7. 03% increase in the value of an investment in M; S for that day. On April 27th 2001 Marks and Spencer announced that Luc Vandevelde waived his entitlement to a bonus and to underline his confidence in the future prospects of the company, he reduced his notice period entitlement from 12 to 9 months. However, such news didn't increase the companies return index as expected and for approximately a month after this announcement the return index for the company gradually declined before picking up again at the end of May and the beginning of June.

The graph below (Graph 2) shows that Marks and Spencer has outperformed some of its retailers despite suffering from tumbling profits and bad reviews in the press. The average daily return on an investment between October 2000 and November 2001 has been 0. 22%, compare that with the FTSE 100 and All Share index of (0. 07) and Next and Sainsbury 0. 13 and 0. 02 respectively and it shows how remarkably well Marks and Spencer has done during this period despite all the setbacks it has faced.

Another major date which occurred in the bounds for this report was of course September 11th. Obviously the terrorist attacks had a major adverse effect on share prices generally. The day after the terrorist attacks the FTSE 100 fell by 288 points- the largest one day point's fall in the 20 year history of the index. The total return index for Marks and Spencer fell by 4. 11% on that day and there were similar losses in the days following the terrorist attacks.

However, it wasn't just Marks and Spencer that was affected by this even but the FTSE 100, All Share and stock exchanges generally. Each of the three graphs shows how the return indexes seem to follow a general downward trend after September 11th. The graph labelled graph 3 on the following page simply shows the actual share price for Marks and Spencer, as well as the FTSE 100. It paints a similar story to the return indexes in that the share price for Marks and Spencer rose considerably during the period studied whereas on the other hand the FTSE 100 index fell by over 20%.

Conclusion

In conclusion between October 2000 and November 2001 Marks and Spencer shares have increased by approximately 50%, which is in complete comparison to the FTSE 100 index where the shares have declined by roughly a fifth. However, during this period Marks and Spencer was really struggling with most analysts reluctant to recommend buying M&S shares, as the company profits more than halved since 1998, when they topped 1bn. Most UK and for that matter overseas shares fell in value last year. The FTSE 100 index ended the year lower than it had started for only the third time since it was set up it 1983.

There were also no signs of recovery. This would have been largely due to September 11th; as such events can not be compensated for or predicted, however in saying that the FTSE was also on a downward trend in the year prior to September 11. Despite all the gloom and doom associated with shares, Marks and Spencer came out smelling of roses. Even though their share price was helped by the company buying back its own shares it has still done remarkably well. After all its share price hitting a 10 year low in 2000, since then it bounced back 50%, making them easily the best performers in the FTSE 100 index of blue chip shares, which is quite an achievement.