Phil Urban

Good morning, ladies and gentlemen, and welcome to the results presentation from Mitchells & Butlers this morning. We're delighted to be able to announce what we think is a very strong year's trading, 9.1% like-for-like sales growth, our operating profit up 17.6% once you adjust for the government support we enjoyed in FY22, our strongest-ever guest review scores, and our people metrics back to where they were pre-COVID.

Whilst we understand that we still have challenges that lie ahead, we now look forward with a new level of confidence given our strong and unparalleled estate and brands, the fact that macro-driven cost headwinds seem to be abating, and given the fact that our capital and Ignite programmes of work are full, and we're on with those as I speak.

I'll take you through our current priorities and roadmap a little later, but first Tim will take you through the financials.

Tim Jones

Good morning. As Phil said, a strong year's trading, starting to really feel like a return to normality in terms of trading terms for us, and some very positive indications, I think, for the future. We're reporting on a 53-week year, as you'll all know, but we have also published a 52-week set of trading results to give you a better comparison, looking at year-on-year drivers, and it's that that I'll be focusing on primarily in this presentation.

As you can see, on that basis EBIT of £221m against £240m last year, last year of course reflecting the fact that it had £52m of additional government support, particularly primarily in the form of reduced levels of VAT, so if I re-base that out, a really strong trading year, profits up over 17% year-on-year.

Let me start with sales, which is right at the top of our P&L, and certainly a highlight of last year's performance. What this chart does is it shows you every month, I'll show our like-for-like performance within each month, and in relief at the back you can see the total sales. Not all months are created equal of course, some are more important to us than others, and you can see how the year's panned out for us across this chart.

I have to say, we entered last year with a fair amount of trepidation based on macroeconomic conditions and how the consumer spend would respond to the cost of living crisis, so we're delighted with the performance that we've ended up delivering, with an overall like-for-like sales growth of 9.1%, strong performances literally throughout our brand portfolio, increases in volume, food up over 6%, drink up over 3%, and also importantly a record outperformance against our sector, against the Peach Tracker of 2.7 percentage points. So a really, really strong year.

You can see pretty consistent as well through the year. We benefited from Omicron in the prior year in the festive period, we then get into March, we had a little bit of snow which hit us, a slightly wet August, you've got some train strikes peppered throughout the year unfortunately, but essentially a very robust and consistent performance throughout the whole of the year, and I'm really pleased to say that has continued since the balance sheet date, as we've reported. For the last eight weeks sales have been up at 7.2% with good indications ahead for the festive season, the very important festive season.

We do have a very diverse portfolio of brands and offers, you can see them set out on this chart, and this really reflects a lot of the progress we've made over the last few years, looking to evolve our brands such that they become stronger and more premium within their own markets, so if you like the centre of gravity lifting on this chart. You can see the breadth of locations, whether that be across food and drink, premium and value, or urban, suburban and rural locations, and we believe that that breadth gives us and will continue to give us a resilience and a stability in what will remain as uncertain times. Of course, we welcome Ego Restaurants, the newest addition to our stable, which Phil will talk about a little bit more in his presentation.

Let me analyse out some of the moving parts in our profit performance. Walking through from last year's results, as I said before we had £53m of government support last year, only £1m this year, so if I re-base to that you've got a basis on which you can see how we performed through the year.

We've continued with our capital plan, looking to get back to the seven-year cycle, we're getting a good contribution, a good rate of return on last year's projects, that's making a positive contribution for us. We've continued to invest this year, that tends to be dilutive in year, particularly because of closure periods, but of course we're laying the seeds that are going to help us get profit growths next year.

And a very strong sales performance, as I mentioned earlier on, total sales up over £250m on the prior year, supported by our Ignite programme, which is back up at full speed, Phil's going to talk a little bit about this, but that's already delivering additional efficiencies for us as well to support the sales growth.

So, all of that puts us in a really strong position. Of course, we knew, it wasn't a surprise, we knew we also had very, very strong cost headwinds to deal with last year, £175m, so they enabled us to get over those, if you like, and grow profits to £221m, which as I said was just over 17% excluding government support.

Costs of course have been front of mind for us for a couple of years now. Last year we think was pretty unprecedented, £175m representing nearly 10% of our cost base, driven particularly by food and labour costs, and that's without large utility inflation which had gone up the year before and sustained itself at a very high level. I think the positive news though is when we look forward to the year we're in now, we can see that coming down significantly to what we believe will be round about 3%. We know living wage is going to go up by 9.8% from April, we know it's going to be extended to 21-year-olds, so that remains quite high, but all other areas, particularly food and drink, are starting to come down, and I think in this current year you'll see that we actually have energy price deflation, particularly because we don't hedge particularly far forward which meant the pain of high utility prices met us quite quickly on the way up but on the way down that's helping us. As I look forward to this year, we've got about 47% of this year's energy requirements by volume bought forward.

Broadly looking to cash flow, we continue to generate positive cash flow, we've reduced our net debt excluding leases now to £1.2bn, so that represents about 3.3 times EBITDA, and we've managed to do that alongside an increase in capital expenditure, including 151 new projects; we might try to get back onto our seven-year re-model cycle, we're not there yet but we're making progress on getting back onto that. We bought Ego, as I said, or at least the remaining stake in Ego, and we've invested an additional £11m this year in energy-saving projects, notably solar panels and voltage optimisers which will help get down our energy usage and reduce our exposure to that very volatile cost.

I think one element that's been very good news for us recently, is extremely important to our cashflows in this year and going forward is pensions. For many years we've had a large, and I have to say seemingly insurmountable pension deficit driven particularly by sustained low gilt yields and we've been having to put £50m a year into that deficit, so we're delighted to say that as we stand here today. we feel we've pretty well drawn a line under that as fully funded. Both of our main schemes are not only fully funded but have gone through a buy-in transaction, so they are buy-in with a third party, so they are substantially de-risked for all material purposes. We are making no further contributions into either scheme, and in fact we have £47m sitting in an escrow account that we hope and believe will be available to come back to us, the group, over the next few years, so some upside from that. The only real pension exposure we have now is a very small scheme, it's an unfunded top-up arrangement for some members of the exec scheme and we're carrying a deficit on the balance sheet for that of £22m before tax relief.

In terms of net debt, of course the pensions coming down has really helped our overall reduction of net debt. Over the past ten years on this chart we've reduced net debt by over £1bn, and we're now down from 5 times net debt to EBITDA ratio to 3.3 excluding leases. There's an inbuilt structure, as you know, within our securitisation that does de-gear automatically and that accelerates, so we can see those bond repayments coming down in the years ahead until bonds start to fall away in 2028, at which point shortly after our debt service comes down materially.

All this is supported by a new RCF that we put in place this year, we've extended it by £50m to £200m across six banks, it's unsecured, remains unsecured although there's a negative pledge, and that's committed through to July 2026, so that underpins in terms of liquidity everything else that we have. I think if you put that together it gives the group a really strong capital base on which to help the business be successful in its market going forward.

I'd like to wrap up really on that. Just to sum up, we entered last year with a fair amount of trepidation, if I'm honest, with unprecedent cost headwinds, fears about consumer spend and how that was going to react to the cost-of-living crisis, so we're delighted with the really strong performance we've delivered. EBIT's up over 17% excluding government support and building on a strong sales performance throughout the year.

When we look forward, there are still uncertainties, of course there are still uncertainties, but we're certainly already starting to see costs abating, and we see that having a material impact in this year. Our brands and offers are all performing well within their markets and remain well placed, and we have an Ignite programme that Phil will talk about that's back up at full speed and delivering efficiencies and sales increases to the group. With that, I would like to hand you over to Phil.

Phil Urban
Thanks Tim. So, as the New Year begins it's good to see the general level of inflation start to fall and real wages moving ahead of inflation once again. We've sought to leverage this alongside our strong buying power and supply chain relationships to minimise our own cost input inflation which is now

falling back to a more reasonable level. Allied with strong sales momentum, strongest-ever guest sentiment scores and with our people metrics back to where they were pre-COVID, we remain optimistic about our competitive position as a business and a macro landscape for the year ahead.

I'd like to start by looking at our sales performance in a little bit more detail before reminding you of our strategic priorities and our current programme of work.

As I said earlier, our sales were very strong last year and we are tracking consistently ahead of the market as evidenced by the Peach Tracker here. Now, sales were ahead of the market on a calendar basis every single week, but it's the quantum of that sales growth that is of particular importance to us, and the fact that we delivered 9.1% like-for-like is hugely encouraging and validates all that we're doing.

Over the year we outperformed the market on average by 2.7 percentage points which is a record outperformance for us. This performance reflects the strong portfolio of relevant brands that Tim talked about earlier and the myriad of initiatives that we have deployed to either improve guest satisfaction or to drive incremental sales. Pleasingly, all brands were in like-for-like sales growth last year with Nicholson's leading the way, and it's great to see its profitability back to and beyond pre-COVID levels despite the huge cost increases and despite the crippling train strikes. Incidentally, we estimate that the train strikes cost the whole business £14.5m last year over the course of the 12 months.

Geographically there were also no real outliers, which gives me the confidence to say that our recovery is real and broad-based, and it reflects the strength and quality of our estates and brands and the enhancements that we've been making across the business, and it's these factors that are driving that performance.

In terms of pricing, we took about 7.5% at price during the course of last year which is higher than in recent years but well below headline inflation rates and below the national living wage rate increase, so in real terms we have at the very least maintained our value. Once again, we tried to protect entry points on food and drink where we can and introduce more premium products that allows us to drive spend without detracting from the experience. The premise is validated by the guest sentiment chart that saw us grow our sentiment versus our competitors with value for money being a key component to this.

There's no denying that the drop in market supply must also have helped and we believe there's still likely to be further fallout in the sector over the coming months given that some segments are seemingly still struggling, and that should provide a tailwind for businesses that survive. However, we also feel that our strengthening guest review scores last year, driven by a concerted programme of activity under our Ignite programme, also helped to drive the performance. As I've said before, there's an irrefutable correlation between superior guest review scores and superior like-for-like sales, and so this has been a key area of focus for the business.

Pleasingly, sales post-year-end have tracked at 7.2% like-for-like and we've remained ahead of the market as reported by the Peach Tracker. We took circa 5% of price at the beginning of this financial year, below macro levels of inflation at that time. Looking ahead, we have the all-important festive season on the immediate horizon, and we are very encouraged by the bookings we've taken so far. It does feel as though this Christmas could be the first proper Christmas since 2019 with COVID fears now hopefully genuinely behind us. The days also fall reasonably well for the sector this year, with Christmas Day being on a Monday it means we should get a full week the week before for office parties. So, our sales momentum is being maintained, and that will be important as we start to grow our profits back to and beyond where they were pre-COVID. As Tim said earlier, we have further cost increases to mitigate for this year albeit we expect them to be far closer to pre-COVID norms than they have been over the last couple of years.

To help mitigate for cost increases we have a myriad of cost and efficiency initiatives underway as part of our Ignite programme, which I'll talk about in a little more detail later on. For example, we continue a large-scale programme of energy efficiency across the business which has been successful in reducing consumption. This ranges from simple housekeeping measures like making sure people understand how to set the thermostats correctly and not turning ovens on too quickly in the morning, to the more complex identification of investment opportunities where we might replace energy controls, and the start of the installation of solar panels to a number of our sites. To date we have 60 of our sites and our head office with solar power and plans to do a further 150 in this coming year.

Another example of cost efficiency relates to reducing the cost of maintenance and the capital cost of remodels. COVID-19 and the war in Ukraine has added cost pressure to the property sector too, both in terms of labour and materials, so we've had an Ignite initiative looking at this area of the business, seeking to bring a lot of maintenance inhouse under what we call our 'DART programme' which stands for 'directly employed area repair team', rather catchy, and we're running a value engineering exercise that's taken about 15-20% out of the cost of brand remodels, without lessening their impact of course. In practice this will mean less structural changes, which is what usually drives the biggest cost.

We are a people business, and people are clearly at the heart of all that we do, so the attraction and retention of talented people is a key focus for us. I'm delighted to say that last year our team turnover reduced by 13 points to 81%, a return to pre-pandemic levels, which has a positive impact on our guest experience as well as a positive commercial impact in terms of reducing the cost of recruitment and training.

So, a good sales momentum, macro-event driven cost increases starting to subside, and improving people metrics; we believe we're well-placed.

Our aim remains the same which is to de-lever the business as we grow our profit. To do that we have three strategic priorities that have remained the same but which have evolved over the last eight years. Firstly, we aim to maintain a balanced portfolio of well-invested and much-loved restaurant and pub brands. As Tim showed earlier, this is a core strength for Mitchells & Butlers with a stable of wet and dry, rural and suburban, premium and value brands unmatched in the industry. Maintaining a balanced portfolio is about systematically investing in your estate so that you never again get to a position where the amenities are not up to scratch. A quality environment is simply an entry ticket to a competitive sector, and by aiming to get back to a seven-year cycle we believe this gives us the assurance that we will be systematically growing the average quality of our amenity over time, particularly when many of our competitors aren't or can't afford to invest. It's also about ensuring that each of our brands stays relevant and that they are constantly evolving in line with the latest customer insight.

We added Ego restaurants to the portfolio last year, and for those of you who don't know it's a Mediterranean offer for which we believe we have ready-made pipeline of sites, and we expect to grow to well over 50 sites in the next few years. As with all our brands, Ego has its own distinct personality and clear blue water between its offer and those of its sister brands, and it's a welcome addition to the line-up. This is a good example of how we can acquire a new brand without paying a premium price, then generate incremental value by applying our scale efficiencies, and then scale the brand through conversions raising overall brand awareness and driving incremental return as we do so. It's a similar approach to that which we took with Miller & Carter over the last few years, growing that brand from circa 30 sites back in 2016 to 127 sites today.

The second priority is about driving a commercial edge to the way we do business, and this is simply a constant reminder that the guest has to be at the heart of all that we do and drives all that we do, and it's also ensuring the whole business is focused on how each pound of sales converts down to bottom line profit. Robust forecasting, quality management information and swift and measured decision-making means that the business moves forward at pace and constantly learns as it does so.

The final priority is about fostering an innovative culture across M&B where we encourage our people to constantly seek out ways to improve all that we do. We talk about sweating the technology that we've deployed, of which there's a lot, ensuring that we're using all the functionality that that has to either make quicker and better decisions or to improve the guest experience. We want to keep digital marketing as the engine room for the business that it has become, and we're excited about our roadmap in this space, and we remain open to trialling new concepts and new product development.

These priorities have kept us on path, and they will ensure that we keep evolving what we do and that we stay ahead of the market.

In terms of the levers that we pull to deliver on these priorities, they can be summarised as almost the business-as-usual decisions that we take with each brand, e.g. pricing, offer development, operational practices, and I've already covered those, a capital programme where we aim to generate incremental profit from capital invested in remodels, conversions and a small number of acquisitions, and Ignite, the umbrella term for our ongoing transformation programme where we have over 40 initiatives live at any one time, each designed to generate incremental profit which together in aggregate adds up to a meaningful number.

Let's look at capital. We're aiming to complete circa 200 remodels and conversions this year as well as progress another 150 sites for solar and 40 all-electric kitchens. Return on investment from last year's programme is strong, and now that the capital programme is up and running again it starts to become a driver of incremental profit each year as opposed to being the drag that it was when we first resurrected the programme post-COVID.

The third lever we pull is Ignite, which remains the overarching driver of improvements across the business. Unbelievably, the programme is seven years old now, but it has evolved massively in that time with our skill and experience of delivering large-scale change across a multi-site estate now ingrained in the business. As I said earlier, Ignite is just an umbrella name, an attitude, if you like, to a way of working, a belief that there is always a better way of doing everything in the business and that by pooling ideas you can create a dynamic programme of activity that keeps the business moving forward.

We have far too many initiatives in various states of completion to mention them all this morning. I talked about the energy initiatives earlier, but to give you flavour of some of the other things that are going on, we have an interesting project looking at how we can turn kit on and off remotely and automatically and hence reduce electricity consumption further, we are relaunching our Everybody Sells initiative, looking to harness the talents of all of our front-of-house team in driving spend whilst also making it fun for our colleagues, and we're also looking to enhance our personalisation capabilities in our digital marketing space, something which I'm sure we'll talk about more in the future.

Ignite is as important to us today as it has ever been, and we intend to hold a further round of ideation sessions next year to refill the hopper, as I call it. But whilst the current Ignite programme rolls on we've also resolved to go back and look at all the initiatives landed in the business over the last seven years. The difference this time is that we know definitively that those initiatives work, we have the evidence, and if every business had implemented every initiative perfectly, we believe there could have been as much as another £50m of profit opportunity left on the table. Of course, we'll never get 100% perfection, but getting even part of this represents a material opportunity for the business, and that's something we're looking at as I speak.

I'm also pleased to say that whilst we've been doing all of this, we've also made good progress on our sustainability ambitions for this year. As you know, we've set a Net Zero target for 2040 including our Scope 1, 2 and 3 emissions which is currently pending science-based target initiative approval. But in order to meet our near-term targets in 2030 we're focused on removing gas from our sites, moving to electric cooking platforms and heating over time. We've moved closer to our ambition to send zero operational waste to landfill by 2030 with 97% of waste currently diverted, and we've also improved our recycling rates to 59%. In the year we also reduced food waste by 25% from our 2019 baseline through operational efficiencies as well as our partnerships with Too Good To Go and Fair Share. Our ambition is to upskill all of our team with sustainability knowledge so that over time this just becomes part of the way we do business, and that work and that training is already underway.

In summary, we have a big programme of work still ahead of us, but it does feel as though the business is well and truly on the way back after what has been a very challenging two to three years. We will continue to de-lever the business, strengthen the balance sheet, and with pension liabilities now resolved we're very well placed to weather whatever remaining storms lie ahead and to return the business back to and beyond the profit it was generating pre-COVID. Once we've done that, we believe that with lower debt and strong cash generation the options available for Mitchells & Butlers going forward will be significant.