23 September 2008

Mitchells & Butlers plc
Pre Close Trading Update

Highlights

- Resilient same outlet like-for-like sales up 1.3% in nine weeks to 20 September
- Same outlet food sales up 3.6%; significant drinks market share gains with sales up 0.3% in last nine weeks
- Productivity gains and cost management continue to help offset cost increases
- Earnings for the year, before exceptional items, expected to be in line with the Board's expectations
- Confidence in continued strong market share gains amidst challenging market and cost outlook

Current Trading

Mitchells & Butlers announces same outlet like-for-like sales growth of 1.3% in the nine weeks to 20 September reflecting continued good demand for food in our pubs and pub restaurants and a widening out-performance of a declining on-trade drinks market.

In the current challenging economic environment, our focus remains on continuing to grow our value for money food sales combined with profitable drinks market share gains. This is against the background of on-trade beer market volumes, which have fallen by a further 9% over the past quarter. With around two thirds of total sales now generated by a food driven visit, and beer accounting for only approximately a quarter of sales, the repositioning of the estate and its offers has ensured that Mitchells & Butlers is well placed to benefit from both the long-term structural trend to eating out and the current customer focus on value.

As consumer confidence has weakened, this strategy, combined with good amenity standards and investment in service training, has continued to drive sales growth. Same outlet like-for-like food sales are up 3.6% representing some slowing from the previous higher growth trends. However drinks sales, which fell slightly in the first year of the smoking ban, have moved back into positive growth, up 0.3% in the nine weeks. In addition, the prolonged wet weather has led to a significant improvement in the trend of bowling and machines sales.

In the Residential estate, which accounts for 76% of turnover, same outlet like-for-like sales were up 1.6% in the nine weeks. This reflects a continuing strong performance from our value formats of Pub & Carvery (average main meal price of £3.92), Sizzling Pub Co. (average main meal price £4.90) and the Cornerstone Community pub format (average main meal price of £3.92), as well as good uplifts in our formats focused on more affluent sectors of the market, such as Vintage

Inns, Metro Professionals and our Premium Country Dining pubs. By comparison there has been a slowdown in our mid market, Harvester brand which we believe reflects the spending pressures on families with mortgages.

In the High Street segment, accounting for 24% of sales, same outlet like-for-like sales were up 0.1% as a result of good growth from All Bar One, Browns and Nicholson's, with their strong presence in Central London and our Town Pubs outside London, offset by very challenging market conditions for the later evening venues.

Same outlet like-for-like sales were up by 0.9% and total retail sales up 0.8% in the 51 weeks of the year. Food sales have been the main source of turnover growth since the introduction of the smoking ban in England in July 2007, with same outlet like-for-like sales increasing by 4.8% in the 51 weeks. Our food strategy of offering good value across the range of our formats, along with increased choice of menu items and wider taste profiles is attracting an increasing number of customers with an 8.2% rise in the number of meals sold to 115 million per annum. In the drinks market our focus on range, serve quality and value has limited the same outlet like-for-like decline to 0.9% in the 51 week period, with a steady improvement since the winter months reflecting an acceleration in the trend of drinks' market share gains. In particular, sales volumes of cask ale have risen by 7.8% and soft drinks by 4.4%.

Our overall pricing strategy continues to emphasise value to customers with average food and drinks price increases of 0.8% in the 51 weeks. This reflects our focus on maximising the cash contribution to profit from the optimal combination of volume, price and mix in a value sensitive market. As a result there has been strong food volume growth and associated drinks sales, which although putting some pressure on gross margins from the faster growth of lower priced and lower margin products, has increased our purchasing gains. This has enabled our food cost of goods inflation, to be held to only 3% in the 51 weeks.

We have also successfully reduced fixed and variable costs by over £20m and achieved our highest ever growth in staff productivity of 5.1% to offset fully the £16m increase in regulatory costs from drinks duties, the national minimum wage, holiday pay regulations and business rates. As a result of this strong cost management, we now expect that overall net Retail operating margins will only be slightly reduced for the year. Overall earnings for the year, before exceptional items, are expected to be in line with the Board's expectations.

Acquired Whitbread Pubs

The average EBITDA of the 204 former Whitbread pubs converted to our managed formats has increased significantly over the recent trading period. This reflects a combination of strong improvements in operating margins as well as continued 20% uplifts in sales from the levels prior to acquisition. Average food volumes per pub have increased by 29% enabling sizeable purchasing gains to be realised. In addition, the implementation of our service training and efficient staff scheduling systems has generated substantial improvements in productivity. Each of these factors is contributing to the rising trend of profitability and we remain on track to achieve the targets announced at the time of the acquisition. These pubs, together with the further 44 Whitbread pubs acquired on 19 September, are high quality residential pubs in prominent locations which offer an excellent opportunity for further long term growth within the pub eating out market.

Cash Flow and Financing

Strong operating cash inflows have been generated from this robust trading performance. In addition, a total of £100m of disposals proceeds at high EBITDA multiples have been realised to date in cash, or will be received from unconditional contracts including £14m from SCPD, our property development unit. As a result, we anticipate that net debt will be below £2.75bn at the year end compared with over £2.9bn in January 2008.

A combination of operating cash in-flows, disposals of “gold bricks” and opportunities for realising value from the non-core assets, are expected to lead to further significant reductions in net debt over the coming months.

We are continuing discussions with advisers and HMRC to review the feasibility, costs and benefits of converting to REIT status without breaking the securitisation and we will update the market as appropriate, should there be further developments on this front.

Duty and Regulatory Costs

At a time when the British pub is facing increasing pressures, we remain concerned at Government policies on duty and regulatory costs, which are placing additional burdens on a social institution where the service and consumption of alcohol is under the controlled supervision of well trained, responsible licensees, directly accountable to the local licensing authorities. This contrasts with the continued tolerance of the widespread practice of irresponsible bulk promotions of alcohol in the off-trade where there is no supervision beyond the point of sale. Neither set of policies are helping to achieve the goal of a more responsible environment for the safe consumption of alcohol. The early reversal of the Chancellor’s intention to impose further real increases in the duties would provide overdue support to the role that pubs play in their local communities.

Outlook

We expect market conditions to remain challenging amidst weakening consumer spending. In particular, we expect pressures on discretionary consumer expenditure to intensify the customer demand for both enhanced quality and value for money. Against this background, our focus remains on continuing to generate profitable market share gains from our value and volume sales strategy, the strength of our differentiated brand portfolio and the appeal of a well invested estate. Our product range and menus will continue to offer enhanced choice, good quality and restrained pricing to respond to these customer trends.

During the year ahead we will face substantial cost increases, particularly in the areas of duty, employment, food and energy costs. While the regulatory costs are effectively known, with duty rising by £9m and employment costs by £11m, the commodity and energy input costs are proving highly volatile and unpredictable.

We have, however, successfully responded to these challenges in the past and have further detailed plans in place to mitigate these pressures through a range of productivity and cost efficiency measures. These include initiatives in the areas of staff productivity systems and training; the roll out of a proven, new stock control system; menu management; reduced central support costs; supply chain efficiencies and energy usage conservation. Even after these material, new efficiencies, we currently estimate that same outlet like-for-like sales will need to grow by around 3% in order to achieve a similar level of operating profits as this year.

Overall, the absence of the adverse first year effects of the smoking ban, the quality of the estate, the consumer appeal of the formats, the accelerating market share gains from the value and volume sales strategy and a continued focus on cost efficiencies underpin our ability to deliver a resilient performance in what are set to remain challenging market conditions.

Mitchells & Butlers will announce its Preliminary Results for the year ending 27 September 2008 on 26 November 2008.

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There will be a conference call for analysts and investors at 9.00am; please dial +44 (0) 1452 568 061 and quote conf ID 65316953. The replay will be available until 06/10/2008 on +44(0) 1452 550 000, replay access number 65316953#.

Notes for editors:

- Mitchells & Butlers owns and operates around 2,000 high quality pubs in prime locations nationwide. The Group's predominantly freehold, managed estate is biased towards large pubs in residential locations. With around 3% of the pubs in the UK, Mitchells & Butlers has 10% of industry sales and average weekly sales per pub over three times greater than that of the average UK pub.

- Mitchells & Butlers' leading portfolio of brands and formats includes Ember Inns, Harvester, Sizzling Pub Co., Toby Carvery, Vintage Inns, All Bar One, O'Neill's, Nicholson's and Browns. In addition, Mitchells & Butlers operates a large number of individual city centre and residential pubs.
- Same outlet like-for-like sales include the sales performance for the comparable period in the prior year of all managed pubs that were trading for the two periods being compared. For the 51 weeks to 20 September 2008 92% of the estate is included in this measure.