

22 July 2010

Mitchells & Butlers plc

Interim Management Statement

Corporate Participants

Adam Fowle

Mitchells & Butlers – CEO

Jeremy Townsend

Mitchells & Butlers – Finance Director

Conference Call Participants

Lena Thakkar

Bank of America

Ben O'Toole

HSBC

Nick Thomas

Nomura

Tim Ramskill

Credit Suisse Securities

Kate Pettem

UBS

Tim Barrett

JP Morgan

Douglas Jack

Numis

Paul Hickman

KBC Peel Hunt

Richard Taylor

Liberum Capital

Hugh-Guy Lorriman

Seymour Pierce

Simon French

Panmure Gordon

John Beaumont

Matrix Group

Presentation

Operator

Thank you for standing by and welcome to the Mitchells and Butlers interim management statement call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question you will need to press *1 on your telephone. I would now like to hand the conference over to your speaker today, Mr Adam Fowle. Please go ahead sir.

Adam Fowle – Mitchells & Butlers

Thank you and good morning everybody, thanks for joining the call today. I'm here with Jeremy and we'll be happy to answer your questions after a short statement. Firstly summarising our

announcement today, in the most recent nine weeks to 17th July, like-for-like sales have risen by 1.2%. However the World Cup did have a negative impact on the food business, reducing our like-for-likes by around 2% in the period. We therefore estimate that the underlying growth rate to be around 3.2% over the nine weeks. On a year-to-date basis, like-for-like sales have increased by around 1.6%. Retail operating margins continue to improve and were slightly ahead of last year in the third quarter. Our financial position is robust and drawings on the unsecured facility now stand at £291 million and that excludes the £88 million of net proceeds from the recent disposal of 52 lodges. Overall, we are making continued progress towards the objectives laid out in our strategic plan. Our increased sales and profitability this year has been driven by our core brands and their affected marketing and value positioning. The market outlook remains uncertain; however our progress through the year gives us confidence about the future prospects for M&B. Thanks very much and I'll be happy with Jeremy to answer any questions you might have. Please give your name and the name of your institution when you ask your question. Thank you.

Operator

We will now begin the question and answer session. If you wish to ask a question today, please press star followed by one on your telephone and wait for you name to be announced. If you wish to cancel your request please press the hash key.

Questions and Answers

Operator

We will now begin the question and answer session. Your first question comes from Lena Thakka from Bank of America. Please ask your question.

Lena Thakkar - Bank of America

Oh hi there, it's Lena Thakkar from Bank of America Merrill Lynch. I just wanted to understand the impact of the World Cup in that nine week period because I think the World Cup only lasted for half of that so does that mean overall like-for-likes were impacted by a higher number in that 31 day period over the world cup? Maybe if you could give us some trading figures for 15 May – 11 June before the World Cup so we can get a bit more comfort what you're suggesting should have been the run rate in that period of about +3%.

Adam Fowle – *Mitchells & Butlers*

You're right Lena, it did impact the four or six trading weeks because it starts on a Saturday and finishes on a Sunday for us by more than the 2% so if you strip out four or six weeks depending which way you want to look at it, you do get to a number that's higher than the 3.2% we've given as an underlying run rate.

Lena Thakkar – *Bank of America*

Okay, so trading around that has been running at significantly above that 3.2%, just to clarify.

Adam Fowle – *Mitchells & Butlers*

Not significantly above but above that 3.2%.

Lena Thakkar – *Bank of America*

Okay and I know it's a bit fiddly but is there any way to sort of quantify the impact of the weather in all of that?

Adam Fowle – *Mitchells & Butlers*

It's a bit fiddly and it gets a bit difficult because also it's not as straightforward as saying just look at the period without the World Cup because some of the special occasion dining would have been adjusted around the World Cup, so one has to just look through the numbers a little cautiously which is why we've landed on the 3.2 number, not a higher number.

Lena Thakkar – *Bank of America*

Okay thanks very much.

Operator

Your next question comes from Ben O'Toole from HSBC, please ask your question.

Ben O'Toole – HSBC

Yes, good morning guys I was just wondering if you can give some background as to price mix and volume and what you think your rates were versus the market. I know that's data that you try and estimate in the interim results, and also can just talk about the trends across the value suburban, city and country segments please.

Adam Fowle – Mitchells & Butlers

Okay I'll answer the last question first because it's easier. The trends have carried on as before, so suburban and city and country on an underlying basis remain... performed stronger than value and have continued to do so, but it's fair to say that big restaurant businesses in suburban and city and country, so Vintage and Toby and things like that were probably more hit by - well not probably; were - but more affected by the World Cup matches on Friday and Saturday evenings and Sunday lunch times which are the prime dining sessions than some of the drink led . So there was nothing unexpected in what we saw given the pattern of where the England games were played, so I think that's where we are but of the three channels, value is the one that finds life the most difficult. In terms of market share it's really difficult – it's too early really because most of the market shared numbers don't come out until well after the month. On price and volume, the 2% slowdown is all in volume, so the price or the spend uplifts we were seeing in the second quarter have continued through into the third quarter quite nicely, and we're quite encouraged by that. The football is the thing that interrupted the footfall and so our underlying volume trends are really where they were at the back end of the second quarter, so they're quite nice, quite pleasant.

Ben O'Toole – HSBC

Okay so do you think you're seeing in suburban and city and country prices... more importantly I suppose mix continuing to be strong?

Adam Fowle – Mitchells & Butlers

Yes we are.

Ben O'Toole – HSBC

Okay. Thanks very much.

Operator

Your next question comes from Nick Thomas from Nomura. Please ask your question.

Nick Thomas - Nomura

Good morning it's Nick Thomas with Nomura. Just following on really from Lena's question about the World Cup, I wonder whether you can just help to outline for us a little bit about the methodology you've used or the approach that you've used to make that estimate of the 2% impact.

Adam Fowle – Mitchells & Butlers

We've worked it out a number of ways, Nick, in order to come up with a best estimate, so we did do an exercise where we stripped out all the days that had an England game on and looked at the number we got from that but that clearly gives a false positive because people... customers do adjust their spending patterns around big events like that. You'd have the 1.2 which just averages out the effect across the nine weeks and the 3.2 is somewhere in between the two where we've taken a view of the four weeks that have more than one match in them and the two weeks that have the start match and the finish match in it, the final in it, and we've tried to work out what the best average is from those three methods. So if anything, it's probably cautious, not aggressive.

Nick Thomas - Nomura

Okay thank you very much, that's helpful.

Operator

Your next question comes from Tim Ramskill from Credit Suisse, please ask your question.

Tim Ramskill – Credit Suisse

Morning guys, a couple from me. Firstly can you give us a little colour on and the sort of margin comment you've made this morning, whether you feel that's consistent with what the market's forecasting at the moment. The second is just having the completed the lodge transaction, are you hopeful that with Travelodge's operating model in place that should prove a positive in terms

of footfall through the pub/restaurants but off setting that is there any incremental costs that you'll start to incur because you haven't got the benefits or that larger operation?

Adam Fowle – *Mitchells & Butlers*

Hang on a second Tim, I've just finished writing the third one down. Margins – there are a number of things that are driving the margin improvement. First and foremost is the fact that we are continuing to get some spend increases which is always very helpful so underlying food margin continues to tick up. Secondly the cost savings we said we would deliver this year were in line to deliver that and that helps. Of course actually keeping the sales line rolling along while those other two areas are, as it were, in control just helps nudge the net operation along quite nicely, so that's all that's going on there. We see this as a trend, not a one-off. Sorry Tim

Tim Ramskill – *Credit Suisse*

Sorry is it all consistent with your previous expectations?

Adam Fowle – *Mitchells & Butlers*

Yes, it is. It is, if anything it's slightly exceeding them, but it is only a nine week period so I don't want to get too excited but it is ticking up to... really quite nicely for us there. On the lodges, you'll remember that we swapped – I'm going to get the number wrong – 21 lodges with Whitbread for 44 pubs a couple of years ago and they turned those into premier inns. We haven't seen the noticeable trade uplift in those pubs attached to those lodges, so we're not expecting a massive amount more footfall. The reason for that is that if the pubs next to those lodges do on average 2,300 meals a week but the lodges have only, I don't know what it is 30, 40, 50 rooms, you've got to have an enormous penetration of, as it were lodge customer to come in to really make a material difference to the underlying trade in the pub.

Tim Ramskill – *Credit Suisse*

Okay.

Adam Fowle – *Mitchells & Butlers*

So we've to date not seen anything. What's important for us is that it removes something we have to manage that clearly is not a core skill for us and also very importantly removes any future capital liability ie managing the repair and upgrade of these amenities which is not inconsiderable over life cycle. In terms of costs, we will be left with a small lodge business but our aim is to make sure that the ongoing management of that business as a percent of sales is no higher than it was with the whole lodge business and we've got plans in place to trip that down and manage it that way because the remaining lodge business tends to be a handful or so of rooms above a vintage inn and we can manage that in a slightly different fashion than we used to have to.

Tim Ramskill – *Credit Suisse*

How many rooms are you left with in total now then?

Adam Fowle – *Mitchells & Butlers*

I think it's 650ish, 658?

Tim Ramskill – *Credit Suisse*

Okay, thanks.

Operator

Your next question comes from Kate Pettem from UBS. Please ask your question

Kate Pettem - *UBS*

Good morning, just a little bit more on operating margins please. I'm wondering what your thoughts are for the balance of the year because the outlook for costs looks fairly benign, especially given the strong volume growth you've been seeing ex-World Cup, in football I mean. Also wondering if you could us a little bit of colour on the brands particularly as you've begun your national advertising campaign.

Adam Fowle – *Mitchells & Butlers*

Okay, Kate. Operating margin, well I think it's fair to say that at Q4 last year we started to make some inroads into the declines we've seen in the earlier part of last year, so we're as it were running against better numbers but we're reasonably confident that we'll be improving on those margins in the fourth quarter, okay?

Kate Pettem - UBS

Yes, thank you.

Adam Fowle – Mitchells & Butlers

Now on the brands, it's quite early for... because the strategy here has been to almost go silent during the World Cup for two reasons. One is that you're not going to drive people into a Toby on a Sunday lunch when England are playing a World Cup match, there's no point in advertising or pushing that. The second is that the advertising rates during the World Cup for national or big campaigns move up enormously and it becomes uneconomic. So our resources have been as it were diverted and deployed to pick things up again as soon as the World Cup finished which is what we've done. So we've been on a television nationally with Harvester and in several regions with Sizzler since I think last Wednesday. Our experience is you need to wait about ten days from the start of one of these campaigns to start to see any trends in footfall, and we're not quite there but we're confident from the tests we conducted earlier and frankly from how those two businesses have started trading this week, they're going to produce a material benefit for those businesses, so we're very comfortable with that. Elsewhere on the estate in Vintage Inns in particular, we're not going national telly; we're doing it as it were at a local level through written media. That process is ongoing as well now. The focus is on the big food brands.

Kate Pettem - UBS

Okay, thank you.

Operator

Your next question comes from Tim Barrett from JP Morgan, please ask your question.

Tim Barrett – JP Morgan

Morning everyone. Not to labour the point on the World Cup issue but can you just say post June 27th the last England game, is threeish percent a reasonable guide to the like for like trading. The second thing, you said at the end of the statement about good progress against your strategic review. Can you just touch on where that leaves you on other disposals and the pilot projects for leisure parks?

Adam Fowle – *Mitchells & Butlers*

Post June 27th, that's not an unreasonably figure, but I would urge that it's probably slightly cautious rather than aggressive, I would suggest, so we're quite comfortable with that. The second question was progress on other disposals. We're in our process and we're confident with the process and when deals get done, we will announce them. I think we said we hope to have this done and dusted by the middle of the autumn and we've got no reason to believe that that won't be the case. On leisure parks, let's just step back a bit. We've said before that actually the easiest and greatest source of value growth for our capital is converting businesses from basically low price offers to high price offers. We've got somewhere between 100 and 160ish of those to do and we were going to do – I think we said we're going to do 40 or so this year, so our balance of effort is in those conversions at the moment and we'll be doing around the 40 to 50 in this year. We are starting to build a pipeline of retail park sheds but it would be fair to say that that's not where the effort is going at the moment. So we've got probably three or four leisure sheds that we're in the process of either signed up on or signing up on at the moment, but that pales into comparison with the work going in the core conversion program.

Tim Barrett – *JP Morgan*

Okay, are they 2011 openings?

Adam Fowle – *Mitchells & Butlers*

They will be, yes, they will be. It takes 12 weeks just to get planning to change the sign so, yes. That's the sort of timetable you have to work with.

Tim Barrett – *JP Morgan*

Okay, thanks very much.

Operator

Your next question comes from Douglas Jack from Numis, please ask your question.

Douglas Jack - Numis

Hi, morning. It was just on margins again, you're saying that they're up slightly Q3. Can you just remind us what margins were in Q3 '09 and was the peak quarter ie was Q3 '09 higher than Q4 '09?

Adam Fowle – Mitchells & Butlers

Q3 was higher than Q4 last year. It's swings and roundabouts given that Q4 is the year end, so the Q3 number last year was 17.4.

Douglas Jack - Numis

Right, okay thank you very much. In terms of the cost savings the only thing not mentioned so far was labour cost savings. Are you still getting progress in that area as well?

Adam Fowle – Mitchells & Butlers

Well yes, so at the half year we had the ratio had crept up marginally, and our expectations for the second half is for that creeping up to be slowly reversed a bit, so heading back towards the 25, somewhere around there for the full year.

Douglas Jack - Numis

Okay, thank you very much.

Operator

Your next question comes from Paul Hickman from KBC Peel Hunt, please as your question

Paul Hickman – KBC Peel Hunt

Good morning everybody. A couple of questions, back to the mix point really, I remember you mentioned back in December that you were seeing customers trading up through the menus, that

would seem to be consistent with what's happening now, is that what you're observing on the ground? Secondly in terms of the disposal point, does the fact that you've now got £88 million or shortly will have in your bank account make a specific difference to the timing of investment that you were talking about just now?

Adam Fowle – *Mitchells & Butlers*

Okay, sorry excuse me Paul, the trading up point. Yes, we are continuing to see people move up the menu, so that sort of trend has continued, there's nothing new or dramatic in that. The slight difference in the third quarter is that we did put through a little bit of like-for-like price on some dishes on some menus, really ahead of guarding against a sudden knee jerk increase in VAT and the emergency budget, and so clearly we'd benefit a little bit from that. So it's a little bit of both coming through. We're not seeing a lot of resistance at the moment, it has to be said. In terms of the uses of cash, the conversion programme we've said all along could be funded from within core cash flow, so clearly the depositing of £88 or so million will start to give us some alternatives, one of which will be to pay down unsecured debt but clearly that does allow us to look at other investment opportunities, be that stepping up the process of new opening during next year could be one of the uses.

Paul Hickman – *KBC Peel Hunt*

Yes, thank you very much.

Operator

Your next question comes from Hugh-Guy Lorriman from Seymour Pierce. Please ask your question.

Hugh-Guy Lorriman – *Seymour Pierce*

Yes good morning gentlemen Hugh-Guy Lorriman from Seymour Pierce. It's following on from Paul really on these ... on current trading and the total for the period, so the nine weeks and the forty two weeks. If you take the food growth at 2.7/3.9 and drink at .5/.4 could you split those four figures out between volume and price please.

Adam Fowle – *Mitchells & Butlers*

Not right now no, I just don't have that number with me I mean I can Eric to pick it up with you yes?

Hugh-Guy Lorriman – Seymour Pierce

Yes Nick that would be good.

Adam Fowle – *Mitchells & Butlers*

Give you some flavour.

Hugh-Guy Lorriman – Seymour Pierce

I mean, I think what you are saying is that broadly it's volume which is the key driver is that right.

Adam Fowle – *Mitchells & Butlers*

Yes absolutely, so the spend line won't have changed on food, all the movement will be volume and it's not difficult to see that. If England are playing on Sunday lunchtime which is our prime dining occasion it is going to hit the volume.

Hugh-Guy Lorriman – Seymour Pierce

And could you talk about that in terms of drink.

Adam Fowle – *Mitchells & Butlers*

Well the drink number nudged up a bit and I think and that reflects which is of note given that the food volume came down, but the drink number to pick up is quite useful.

Hugh-Guy Lorriman – Seymour Pierce

So are we saying that if the overall volumes were down then you have a much higher spend per head in drink, for football, sorry.

Adam Fowle – *Mitchells & Butlers*

No I just think well, not much higher, I don't think it was much higher but it was higher. So the drink business improved over the period during the world cup but not enough to compensate for the move in food volume.

Hugh-Guy Lorriman – Seymour Pierce

Okay great well I will pick up the detail in the question with Eric, thank you very much.

Operator

Your next question comes from Richard Taylor from Liberum Capital, please ask your question.

Richard Taylor – *Liberum Capital*

Yes morning, just a question on the \$88 million you got from the lodges. Can you sort of give an estimate as to how long you think you will take to recycle that capital back into the business, and secondly I know you sort of said by the autumn? But is there actually a deadline date for bids on your wet-led pubs and other non-core areas, thanks.

Adam Fowle – *Mitchells & Butlers*

Let me deal with the last one first. I mean there is no bid deadline there is a process that is ongoing with many participants in it and we just have to work that process through. So there are no deadlines, I mean within any process there are dates people like, we would like to see delivered but there is no sort of guillotine going on here.

In terms of the \$88 million, I mean it is going to be phased essentially so the minute it comes in we don't have anything to redeploy it into, so it will pay down unsecured debt. But as we build our pipeline of new sites we will then seek to deploy it in higher return investment opportunities. That may take three months, six months, nine months, it depends really on the opportunities.

Richard Taylor – *Liberum Capital*

Okay thanks very much.

Operator

Your next question comes from Simon French from Panmure Gordon please ask your question.

Simon French – Panmure Gordon

Yes morning everybody two questions from me. Firstly I think at the half year total sales growth was 1.3% and like-for-likes of plus 1.8%. Now after 42 weeks total sales are up 2.1 like-for-like plus 1.6. I was just wondering if you could explain the dynamics behind that. Then secondly on the VAT rise what are your early plans to deal with that?

Adam Fowle – Mitchells & Butlers

Well Jeremy works out the answer to the first question, I will answer the second one I mean our intent is, our expectation is that we will pass on the majority of the VAT. Well no I don't know why I said majority we will pass on the VAT. The real question for us is the timing of it; does it get done in January or does it get done ahead of Christmas and what we did this year was put it through in late November in time for the festive season and try and sort of muddy the waters in the consumers eyes with Christmas menus and things like that, so that's essentially, that's almost certainly what we will do again. Jeremy, can you answer the first one?

Jeremy Townsend – Mitchells & Butlers

I can't answer directly, Simon again I think I'll have to call on Eric to get you the detail, it'll be about the phasing of the conversion plan, how we were dialling down investment last year and we've been dialling that up again, it'll depend partly on the phasing of closures and openings, but rather than giving an off top of my head answer, again we'll get Eric to get back to you as to what the detailed dynamic is on that.

Simon French – Panmure Gordon

Okay, thanks and then just one more if I may, you talked about high return investment opportunities using the £88 million. Can you just remind us what your priority is investment versus restoration of the dividend please?

Adam Fowle - Mitchells & Butlers

So let me answer the dividend question then Simon. We've said, I think, and we've been consistent that we will seek to restore the dividend when the unsecured debt is comfortably below

£300 million and we have a clear and as it were, yes a clear and certain view of future prospects and the macroeconomic environment. Clearly the first of those two tests is sort of done when the £88 million comes in and so the second test which is macroeconomic outlook remains the final hurdle. I think the truth is that as we continue to trade well through the existing economic environment, our competence and our ability to carry on this trajectory given any future uncertainty starts to increase and so I expect the board to be taking a dividend decision in the autumn ahead or around the prelims, that would be my expectation at the moment.

Simon French – *Panmure Gordon*

Okay, that's great thanks very much.

Operator

Once again if you wish to ask a question today please press star followed by one on your telephone and wait for your name to be announced. Your next question comes from Hugh-Guy Lorriman from Seymour Pierce, please ask your question.

Hugh-Guy Lorriman - *Seymour Pierce*

Yes gentlemen just one more on management and management change. I think recently you said you were recruiting a new head of HR and strategy; can you talk about what's going on there please?

Adam Fowle - *Mitchells & Butlers*

Yes, sure, okay so we were looking for four executive posts: Finance director, HR Director, Commercial - which means purchasing in M B language - and a Property Director. The Commercial and HR directors have been appointed and have now been in post for a month. We've appointed Tim Jones as Finance Director, who is still working through his exit with Interserve and this week internally we announced the appointment of our Property Director, a chap by the name of Garry John who's currently the property director for Burger King International and he'll be joining us some time in the autumn. So we're done, that all we're just now waiting for everyone to get here, but in terms of all those appointments, that's all now over.

Hugh-Guy Lorriman - *Seymour Pierce*

What's the forecast timetable for Tim Jones arriving?

Adam Fowle - *Mitchells & Butlers*

Well again he's currently serving as the FD for Interserve, there will a notice period that in theory he will have to work out but that's something for him and his current employer to work through. My guess is that it will be some time in the autumn.

Hugh-Guy Lorriman - *Seymour Pierce*

Could you just remind me the names of the HR and Commercial Directors that you have...

Adam Fowle - *Mitchells & Butlers*

The HR Director is Saudagar Singh and Robyn Young is the Commercial Director. I believe their profiles are on our internet on the website.

Hugh-Guy Lorriman - *Seymour Pierce*

Did you make an announcement about that, I must have missed it.

Adam Fowle - *Mitchells & Butlers*

They're not announceable events, they're not Executive Board Directors, they're Executive Committee so internally been announced, yes.

Hugh-Guy Lorriman - *Seymour Pierce*

Okay, I'll look on the website. Thanks very much.

Adam Fowle - *Mitchells & Butlers*

Alright.

Operator

Your next question comes from John Beaumont from Matrix Group, please ask your question.

John Beaumont – Matrix Group

Yes, thank you, John Beaumont here from Matrix. I just wanted to ask on the margin point, I was intrigued a little bit about the split of margins in the second half of last year, obviously you've said it was 17.4 % in Q3, obviously rough arithmetic would say it's about 17 % in Q4, is that the normal seasonal pattern of margins in H2. Are there some yearend costs that just get booked in Q4 that – I wouldn't say artificially lower it in Q4 - but have a dragging effect on the Q4 margin and should we expect that going forward please?

Jeremy Townsend – Mitchells & Butlers

John it's Jeremy here. I wouldn't read too much into a 40 basis point difference, you do get some yearend adjustments which might affect it but at that level, pretty much the second half is normally reasonably comparable so I wouldn't read too much into a 40 basis points difference.

John Beaumont – Matrix Group

So for this year there's no reason again to think that there'll be much of a difference between Q3 and Q4 margins?

Jeremy Townsend – Mitchells & Butlers

Everything else being equal, that's right.

John Beaumont – Matrix Group

Alright, thank you.

Operator

There are no further questions at this Mr Fowle, please continue.

Adam Fowle - Mitchells & Butlers

Okay, thanks everyone for dialling in and if there are any other points you'd like to follow up, please pick them up with myself, Jeremy or Eric on the phone later on. Thank you very much and good bye.

Operator

That does conclude our conference for today, thank you for participating, you may all disconnect.
