Mitchells & Butlers PLC Half Year Results 2020 Conference Call - 2nd July 2020

Tim Good morning, thanks for dialling in. I'm sitting here with Phil and Amy, appropriately distanced. We're in the Saracen's Head pub in Beaconsfield, it's one of our PCPs, a very successful pub, very good to see it being restocked and cleaned as we speak and fully booked through this weekend as well. So, a good place to kick off our call today.

We have done a small number of slides which are on the website, if you've got access to a laptop I'd pull them up, there's not specifically a lot of detail on them but they give you a little bit of a structure to the call as we go through it, so worth you doing that if you can.

What we'd like to do is, Phil will say a few words to pull out some of the main themes of our performance and looking forward, and then I'll pick up on some of the financial issues, and then we'll throw it open to everybody for Q&A. So, with that, over to Phil.

Phil Thank you Tim. Good morning everyone. Our first half results include four weeks impacted by closure and by government advice to avoid pubs and restaurants which undermined what was looking to be a solid and encouraging first half for the business.

My update will briefly talk about the business performance pre-lockdown, about the steps we took to close down and are now taking to re-open, and I will then finish with some comments on our expectations for the coming weeks using our Alex business in Germany, which has been largely open since the end of May, as a useful comparison. I'll then hand over to Tim who will summarise the recently announced extension to our unsecured financing facilities and the terms of our temporary agreement with our bondholders.

Looking at lockdown, I don't think that I need to remind anyone that Mitchells & Butlers has been building a sustained track record of market outperformance in terms of like-for-like sales as measured by the Peach tracker for over three years now; our Ignite programme of work was bearing real fruit both in terms of building new sales channels and in terms of improving our efficiency. Before the lockdown we were in good year-on-year profit growth and optimistic about the rest of the financial year. Lockdown has clearly impacted us and the rest of the sector, but it's worth reflecting that we had and we still have a strong portfolio of brands, we still have good sites in good locations 81% of which are freehold, and we still have a strong and experienced management team. Despite the setback of COVID-19 we are confident that these attributes will mean that we can quickly rebuild and get back onto the journey of growing the business as we de-gear.

Looking at the lockdown: the lockdown announcement, whilst expected, came suddenly and we and the rest of the sector had to immediately close our doors. This left little chance to run down stocks and we had to work quickly to sell what we could locally to minimise wastage but also to give what we could to our charitable partner FareShare. Managers had to remove cash from their sites and secure them for what was an unknown period of closure. We furloughed over 99% of our team, putting them onto the coronavirus job retention scheme, and clearly the business rates support has also been welcome.

I have to say, our trade body, UK Hospitality, has a done an excellent job throughout lockdown enabling the sector to present a joined-up and united view of the issues we all face to government. M&B have played a full role in this process contributing to and fully buying into the sector protocols document issued by government two weeks ago, and also in helping to shape government thinking on the support that the sector will need as it recovers post-lockdown.

Turning to re-opening, we have built our own operation manuals adapted for each brand based on the protocols document that ensures that we should reopen each of our businesses safely for our teams and our guests while still creating a hospitable atmosphere. General managers, assistant managers and kitchen managers have returned to their businesses seven days before re-opening to complete site risk assessments, lay them out for social distancing compliance and re-stock ready for reopening. Our supply chain partners had also furloughed their teams during lockdown, so the reopening plans required a detailed logistics section to ensure that a wide range of products arrived at each of our sites in time for this week's reopening in England.

We intend to have over 90% of the estate re-open by the end of this month by the time Scotland and Wales are trading again. Those sites that remain closed will be the smaller sites deemed too difficult to operate with the current social distancing restrictions, those compromised by location, for example some city centre businesses that are dependent on an absent workforce for their trade, and sites that are dependent on a third party anchor landlord, for example we have a couple of sites in the O2 Arena in London, so there's no point opening until the O2 is back on its feet.

In the first two weeks of reopening our priority will be on establishing the new operational protocols, even if we have to hold back demand slightly, to ensure that our teams and guests are confident in what we are doing. We then expect to be able to slowly rebuild our trade as consumer confidence returns.

Looking forwards is difficult and it will remain to be seen how or if consumer confidence has been permanently affected by COVID-19 and how the COVID secure actions will affect the operations. However, we believe that there is a pent-up demand for what we do and, judging by the social media interest and the bookings demand for this weekend, we are optimistic that the business can and will rebuild quite quickly over the coming months.

One advantage that we have is being able to use our Bar Alex business in Germany as an insight into what we might expect to see in the UK when we reopen. Although governed locally by 16 separate regional authorities with devolved accountability for COVID-19 protocols all 44 Bar Alex businesses reopened with very similar requirements including clear signage, space markings, 1.5m distancing of tables, sanitising stations, and the requirement for the team and guests to wear masks when walking around their businesses. Crucially, they were not allowed to offer their buffet breakfast, which is the brand's fame point in Germany and therefore a key session for us.

Early trading however has been very encouraging, with trade climbing each week and year-on-year sales in the latest week running at over 70% of prior year levels. There is also quite a polarisation with the city centre sites running at 40-45% of prior year due to office buildings remaining empty, but with some suburban businesses already enjoying days of like-for-like growth. Restrictions are already being slowly lifted, for example we are now allowed to operate the buffet breakfast in all but 10 sites and so the Bar Alex team are very confident that consumer attitudes are quickly relaxing and that sales will continue to grow week-on-week. A repeat of this pattern in the UK would delight us all and exceed our expectations. I will now hand over to Tim who will take you through the financial details.

Tim

Thanks Phil. Before we get onto Q&A there are just a few areas I'd like to pull out and talk about.

If I start with the financial statements, they're dominated of course by the fact that we've got nearly four weeks of enforced closure in this, so I don't really propose to go through any year-on-year variances other than to reiterate Phil's point that we'd had a very good start to the year, we were ahead on sales, we were ahead on profits and we were ahead on margins, and had absolutely continued our outperformance on the Peach tracker.

What these are is the first set of results that we've announced under IFRS 16, I talked a little bit about this in November last at the prelim, so all of that is consistent with what we're reporting today. We are using the modified retrospective method, so comparators in the income statement are not re-stated. On our balance sheet you'll see a right of use asset at £466 million, you'll see a lease liability of £545 million come through on transition.

Within the income statement, again this was disclosed at the interims, our EBITDA is increased or flattered by £50 million as we don't have a lot of rental costs going through, by the time you get to operating profit the increase is £9 million, and at PBT actually this implementation leads to a decrease of £8 million. Now, those are full-year numbers, I would expect them to accrue evenly throughout a year, so they give you a very ready reckoner if you want to take last year's comparators and translate them into what they would look like under IFRS 16.

The second point I think I'd pull out on these statements is we wouldn't normally undertake an impairment or property valuation at the half-year, but these are exceptional times, so I think it's right that we've done that. It's been difficult, certainly, we haven't been able to visit our sites for obvious reasons, we have no comparable transactions and there is enormous uncertainty, but we've undertaken the exercise extensively and with CBRE, our advisers, and it's followed the red book protocol as always.

Overall, we've written down £524 million, and there are two main drivers for that: the first is that we've elected to take one turn of the EBITDA multiple across the whole of the portfolio, so that's taken the average EBITDA multiple down to about 7.4x, and secondly we've taken a deduction against the portfolio for what we believed was the closure period we're going to have at the time. Obviously, we'll re-do this valuation at the year-end. I think it's important to understand that this is a valuation as at 11 April, that is the balance sheet date, and therefore it reflects conditions and expectations as at that time. In hindsight that is probably the period of maximum uncertainty for us, we'd been closed for two or three weeks, we really had no idea as a society or as a sector what we're dealing with, and we certainly had no idea how long we were going to be closed for. I think as we stand here today or sit here today we feel a little bit better, a little bit more benign about the conditions that sit ahead of us, so I'd wait and see, certainly what we're able to do in September and experience of trading again will give us an ability to re-do and refine that valuation.

On 12 June we announced our refinance package, probably more immediate and direct interest to us. We believe this gives us a really strong platform of both liquidity and flexibility to get through the closure period and start to rebuild our sales. You'll all have the details, and this is a broad, brief summary. We've extended the terms of our committed unsecured facilities of £150 million to 31 December next year, plus we've secured an additional £100 million unsecured facilities which are going to run to the same term. Within the securitisation we've got numbers of waivers against potential covenant defaults, they run through into September next year, and we've secured consents to draw up to £100 million of the liquidity facility which sits within the securitisation vehicle, that essentially allows us to fund two quarters' worth of debt service. This package is really constructed around a downside scenario for us whereby we don't open until October, so as we sit here today, 48 hours away from opening a substantial proportion of our estate, I think it gives us a really, really strong platform in which to focus on what's ahead of us and start to build back this business and achieve our previous outperformance.

If you're interested in where we are today, we've got this in the statements. As of last night we had cash of £100 million on deposit and we have committed unused facilities of £150 million, so additional firepower if you like, and that constitutes £100 of the additional unsecured facilities and £50 million from the liquidity facility within the securitisation.

Lastly, and I think most certainly for all of us looking forward, life is very, very uncertain. What we do know is that the strategy we've been following for the past two or three years to de-gear and take down the debt on our balance sheet has absolutely been the right thing to do in hindsight, and puts us in the best possible position for where we can be today. We've got great assets in this business, we've got great brands, we've demonstrated strong management plans, and Ignite in particular has worked very well for us with a number of initiatives still to come through with Ignite, and we've got a platform of financial arrangements, as I've said, that should allow us to prosper, so in relative terms we are really keen to get trading again and we're really optimistic about the success we could have.

Now, clearly what the macroeconomic environment and what the sector in the future holds for us in those is highly uncertain, and for that reason we just can't or don't really feel able to give you any detailed guidance about forward earnings at this stage. What can we do to help you? We have some learnings from our business in Alex, 46 bars, they've been trading for nearly five weeks, so I think that's a really helpful read across for us, both in terms of planning and in terms of operational set up. Alex opened around about 50%, and through the five weeks has built up to just over 70% last week, so that's quite illustrative for us. Some interesting polarisation within their estate in that it's absolutely been the city centre and travel hub sites that have struggled the most, as you'd expect, whereas a lot of their sites in suburbia have done very, very well.

We need to be careful that we don’t over apply that to the UK, but I think it’s a very helpful insight into us. That 50-70% probably provides you with some sort of guidelines or tramlines, if you like, of where we might expect to open coming forward. On that basis we’re going to open 90% of our estate by the end of July, firstly most of those in the UK in a couple of days, and then Scotland and Wales opening through the month, and we believe that should allow us to build for recovery over the time that we’ve got ahead, uncertain though that might be.