

27 January 2011

# Mitchells & Butlers plc

## Interim Management Statement

### Corporate Participants

**Adam Fowle**

*Mitchells & Butlers – Chief Executive Officer*

**Tim Jones**

*Mitchells & Butlers – Finance Director*

**Erik Castenskiold**

*Mitchells & Butlers – Director of Corporate Affairs*

### Presentation

**Operator**

Thank you for standing by and welcome to the Mitchells & Butlers Interim Management Statement conference 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 must advise you this conference is being recorded today, Thursday 27<sup>th</sup> January 2011. I would now like to hand the conference over to your speaker today, Mr Adam Fowle. Please go ahead sir.

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**Adam Fowle**

Thank you and good morning everyone, thanks for joining the call. I have got Tim and Erik with me today. Before I take your questions I just wanted to run through some of the key points on the IMS. We think we have had a good start to the year with food like-for-like sales up just over 6%. Importantly the 12 key days of Christmas trading saw same outlet sales up 6.7% which was helped by a record Christmas Day when we sold 7% more meals than the previous year. We have completed on two deals; the acquisition of the 22 Ha Ha Bar and

Grill sites and the sale of the 333 pubs to Stonegate. Following these two deals net debt has now reduced to around two billion.

Looking forward we have got a strong pipeline of new openings, we are pleased that the initial results from the first two Harvester sites on retail parks are very encouraging. We remain on track to open approximately 50 sites across the brands in the current year in addition to 70 conversions from the existing estate.

Overall the business continues to perform well; whilst we are cautious on future trends on consumer spending we are making good progress on implementing our growth strategy.

Tim, Erik and I would now be delighted to take any questions you may have. Thank you.

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## Questions and Answers

### **Operator**

We will now begin the question and answer session. If you wish to ask a question please press \*1 on your telephone and wait for your name to be announced. If you wish to cancel your request please press the # key. Your first question comes from Douglas Jack. Please ask your question.

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### **Douglas Jack - Numis**

I just wondered if you could talk about cost pressure and hedging which you have in place for 2011 and what mitigating cost savings do you expect to come through, through the course of the year.

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### **Adam Fowle**

There are two big as it were volatile costs we face; one is energy and one is food. Energy we are pretty much covered for this year, we are comfortable. If there are increases there they will be more of an impact next year, and it is unclear what those will be at the moment. Food cost, we stepped off, with the year looking at quite a benign environment. We think that will be around 3% this year although every time we look at our number it has nudged up a little, so that is where the pressure is coming on in the second part of the year. Where that will go in 2011 is way too early to say because these commodity prices do bounce around at fairly short notice.

**Douglas Jack - Numis**

In terms of expansion, is it possible to perhaps breakdown the 50 new sites by type location; and the second part to that is obviously with other operators also picking up the pace of expansion are you seeing any increase in the cost of new earnings.

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**Adam Fowle**

The answer to the second question is no, not at the moment. To the first question we think the shape of the 50 this will be broadly speaking: we have got the 22 Ha Ha sites which are clearly a separate package, there will be another 15 or so retail park sites and the balance will be solus pubs.

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**Douglas Jack - Numis**

That is great, thank you very much.

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**Operator**

Your next question comes from Lena Thakkar. Please ask your question.

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**Lena Thakker – Bank of America Merrill Lynch**

Firstly on the conversions, could you tell us how many of those have been completed or are in the pipeline currently? Secondly, just on Christmas trends; I know you said Christmas Day itself was very good in terms of volumes, but could you tell us overall whether that period was driven by price or volume.

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**Adam Fowle**

While I am thinking about the second question let me answer the first one.

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**Tim Jones**

I will answer the first one. On the conversion scene, we have got 40 of those 70 that we have approved and we are working on now and they would open probably by late May, but we have got a pipeline beyond that, that we think will allow us to get to the full number by the end of the year.

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**Adam Fowle**

In terms of Christmas, it was quite lumpy in the sense that the weather had an impact on volume in the week before Christmas, but on balance there will be more spend than volume over that period on balance.

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**Lena Thakker** – *Bank of America Merrill Lynch*

Is that the trend across the period that you have reported?

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**Adam Fowle**

Yes, we are looking at a small increase in volumes, a little bit just under around one percent of like-for-like food price and the rest is all coming from spend per head.

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**Lena Thakker** – *Bank of America Merrill Lynch*

Thank you very much.

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**Operator**

Your next question comes from Geoffrey Collyer. Please ask your question.

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**Geoffrey Collyer** -*Deutsche Bank*

I just wondered if you could give us an idea about where margins have gone in the first Quarter and where you think it might get for the year; normally this time of the year you make a point talking about where your gross margin and operating margins gone. I am assuming given some of the disruption over Christmas, and the increase of food sales that margins might be a little flat over the first 17 weeks.

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**Tim Jones**

That is right Geoff. Net margin level we are very close, but slightly the wrong side of where the margin was for the first few weeks of last year and the driver for that is really the snow which whilst the snow has only cost us a couple of million on sales, it is obviously and there is a challenge on chasing cost down along with that. We are roughly where margins were this time last year, looking forward to the full year we still are challenging ourselves and believe we will tackle the cost pressures that Adam has just talked about and so some small margin improvement year-on-year.

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**Geoffrey Collyer** - *Deutsche Bank*

Thank you very much.

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**Operator**

Your next question comes from Paul Hickman from Peel Hunt.

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**Paul Hickman** - *Peel Hunt*

Firstly, just on the snow disruption I wonder if you could kindly give us an indication of just how bad the gross effect was in maybe the three weeks worst affected by snow. Secondly, if you could kindly say anything about the effect of potential beer cost increases this year that you expect.

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**Adam Fowle**

For the period of time, the three or four weeks where the weather was particularly tough we saw sales drop just over 3%, that is the impact that had on us, on the run in. Beer cost pressures; the biggest beer cost pressure is duty, it is the lion share of the cost of beer to us and that will grow RPI plus two, which will be quite a big number when it comes out in March.

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**Paul Hickman** - *Peel Hunt*

You believe that is RPI plus two rather than CPI plus two?

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**Adam Fowle**

Sorry, CPI, sorry Paul. It is a number they pick plus two, at a time they choose. That has a bigger driver of cost to us than producer increases.

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**Paul Hickman** - *Peel Hunt*

Thanks a lot.

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**Operator**

Your next question comes from Tim Barrett from J.P. Morgan. Please ask your question.

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**Tim Barrett-J.P. Morgan**

Could you just talk a little about the difference between the food and the drink trend over the period, it looked like it might have widened a bit, and does it just suggest that the drinks market is still as weak as you suspected.

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**Adam Fowle**

I think Tim the drinks business did seem to get hit a little harder over Christmas; I don't think that was a change in the trend we are seeing over the last nine months or a year. I think it was more of a short term impact. The behaviour we saw in town centres during the bad weather was simply that when it started to snow people went home and that tended to affect the town centre drinking business a little bit harder. Broadly speaking I think that trend of on trade decline whatever it is, around 6% seems to be continuing.

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**Tim Barrett-J.P. Morgan**

Was your like-for-like pricing on drink plus one similar to food?

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**Adam Fowle**

No, it would have been higher. It would have been...

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**Erik Castenskiold**

In line with trends that we have been doing over the last few months...

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**Adam Fowle**

It would be 3% or so.

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**Tim Barrett-J.P. Morgan**

3%, and volume slightly down?

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**Adam Fowle**

Yes.

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**Tim Barrett**-*J.P. Morgan*

That is helpful, thanks for that.

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**Operator**

Your next question comes from James Wheatcroft from RBS. Please ask your question.

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**James Wheatcroft** - *RBS*

I was wondering if you could give us a bit of background perhaps on your recent promotional activity and your planned promotional activity for the rest of the year. Secondly, I think it is just a comment that you may find it difficult to find sites and leisure retail parks, I was wondering what your experience thus far in finding sites has been and what we might expect going forward.

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**Adam Fowle**

Promotional or marketing activity, we set out in November that we were focusing on mass marketing campaigns, we have been running those, and we will continue to run those throughout this year, focusing on the big brands. We like the way that works and I think we are increasing our expenditure in that area by £4 or £5 million this year, so that is significant.

In terms of retail park sites, James, we are not finding that a problem. We are encouraged. We have gone from absolutely zero at the Half Year to two open and 15 confirmed openings this year, so we are really very comfortable with the ability to find those types of sites.

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**James Wheatcroft** - *RBS*

Great, thank you.

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**Operator**

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

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**Nick Thomas** - *Nomura*

I wonder if you can just outline I think it is the statement talks about a rapidly increasing new site pipeline, presumably that is sort of providing increasing confidence of not just the 50 openings for this year, but of a continuation in a strong pipeline of openings into next. I

wonder if you can just talk a little bit more about that pipeline and how that has moved over the last few months.

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**Adam Fowle**

Our confidence is growing that the 50 openings we will do this year can be rolled as it were, maintained as a sort of number at least for next year. Our intention is to update at the interims a clearer perspective of what it might look like next year, partly because we need to give our next Property Director a little bit of time to as it were create a plan we can feel comfortable with talking about. The level of activity that is going on and the list of prospects that are coming through and getting approved make us feel very confident about the future of that particular strategy.

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**Nick Thomas - Nomura**

That is great, thank you very much.

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**Operator**

Once again if you wish to ask a question you can press \*1 on your telephone and wait for your name to be announced. If you wish to cancel your request please press the # key. Your next question comes from Matthew Gerard from Credit Suisse. Please ask your question.

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**Matthew Gerard – Credit Suisse**

Could you give us an update on the process of extracting the cash out of securitisation from the High Street pubs disposal? Are we are on track there? Has there been any delay, and if we have seen a delay what is the reason behind that? Thanks.

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**Tim Jones**

Yes, we can do that, that is not complete yet, but I would expect that to complete in the next two or three weeks, so I guess it is taking slightly longer than we had expected, so I suppose it has dragged on. That is not for any reason or problems we have come across in the process, it is just not a process we have been through before. There is a number of parties we need to talk to in terms of the securitisation trustee and rating agencies, etc. We are very confident it is going to get completed and I would expect that to happen sometime around mid February.

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**Matthew Gerard** – *Credit Suisse*

And you stick by the guidance that effectively the cash will sit on the balance sheet until you decided what to do with it.

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**Tim Jones**

Yes, once we have done that that will leave us with about 200 million net cash outside of securitisation and that will there sit then while we persue see the expansion plans we have been talking about.

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**Matthew Gerard** – *Credit Suisse*

Thanks.

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**Operator**

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

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**Hugh-Guy Lorriman** – *Seymour Pierce*

I have got three questions; it is okay to take them in turn.

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**Adam Fowle**

Yes, go on.

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**Hugh-Guy Lorriman** – *Seymour Pierce*

First of all, the impact of VAT; do you have a like-for-like figure you can give for the 1<sup>st</sup> to the 22<sup>nd</sup> of January? If you effectively covered this off by price rises earlier in the financial year, have you seen volumes coming off over that period?

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**Adam Fowle**

Hugh, the weather comparables in January are so enormous that it is impossible to read through that and say this has been the impact of VAT or indeed any price that we put on to recover it.

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**Hugh-Guy Lorriman** – *Seymour Pierce*

Do you have any sense of a trend from that?

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**Adam Fowle**

None at all, we are very comfortable with the strength of trading in early January, but again, January last year was pretty miserable from a weather point of view and it would be in my experience way too early to draw any conclusion to consumer resistance to price rises as a result of VAT.

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**Hugh-Guy Lorriman** – *Seymour Pierce*

Got it. Second question is on spend per head; can you give us a bit more flavour on this, because you have in the past, am I right in saying this has been a policy which has been coming through for about a year now of getting spend per head up and would you be able to give us some flavour on, is it, for example the main with customers going up to high price products or is it more driven by adding a dessert where the customer didn't have that before.

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**Adam Fowle**

Hugh, we have been doing this now for 18 months, it is a simple insight which is that well over half our meal locations are what we would call social dining and they tend to be slightly less price sensitive and more socially sensitive occasions and actually giving people a bit more time at the table means they will spend commensurately more with us. We are seeing a bit of both. We have been able to tickle people up the menu to slightly more involved and interesting dishes, but also by changing the service methodology in a couple of brands have also managed to get many more puddings and starters out of people which drives the spend-per-head up as well.

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**Hugh-Guy Lorriman** – *Seymour Pierce*

What sort of service methodology is that?

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**Adam Fowle**

Well in Vintage Inns for us. For instance, we have gone from order at the bar, delivered at the table to in most of those pubs now you can order at the table or at the bar depending on your need; so watch spending patterns.

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**Hugh-Guy Lorriman** – *Seymour Pierce*

So what you are saying is that is sort of half-and-half would you say between tick up and additional courses.

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**Adam Fowle**

A bit of both, yes.

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**Hugh-Guy Lorriman** – *Seymour Pierce*

My final question is: have you seen any changes in this trend over the 18 month period, do you feel that there is any risk of some of this reversing out the spend-per-head going up in the case of more difficult economic environment.

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**Adam Fowle**

Our sense of this is that for those people who are what I call economically active and well off they are very happy with where this strategy goes and giving them a better environment and a better meal experience. In those parts of the country which tends to be slightly more biased to the north, those brands that are exposed to more blue collar demographics in society are not following that strategy as aggressively because those customers are more sensitive to it.

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**Hugh-Guy Lorriman** – *Seymour Pierce*

My sense from other market participants is that there was a slowing in November before the snows; did you see that in your business?

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**Adam Fowle**

No, not at all.

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**Hugh-Guy Lorriman** – *Seymour Pierce*

Thank you very much, appreciate it.

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**Operator**

Your next question comes from Nigel Parson from Evolution. Please ask your question.

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**Question**

Hugh-Guy just beat me to my questions, so no questions here.

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**Speaker**

Thank you.

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**Operator**

There are no further questions at this time, please continue.

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**Adam Fowle**

Thanks everyone. We think this is a good set of results given the ups and downs of the last 12 weeks and eight or nine weeks in weather, so we are pretty pleased with these. If you have got any further questions do contact Erik on the numbers which you have already got. Thank you very much.

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**Operator**

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

**End of Q&A**