**<u>Mitchells & Butlers 2015 Final Results Announcement</u>**

**<u>Tuesday 24 November 2015</u>**

**Q&A Session**

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**<u>Question 1</u>**

**Geof Collyer, Deutsche Bank**

Geof Collyer from Deutsche. A couple of questions. One easy one for Tim. Can you explain why you have written off 24% of the price of Orchid? And is that behind your better returns you are claiming for the deal?

And secondly, on the rollout or acceleration and rollout of the brands, does that mean you are going to be reinvesting a lot more internally in the estate as opposed to rolling out new sites given the fact you still need to get a bit more out of your leasehold operations? Surely that £48m of expansion capex should be used internally in the business?

**Answer: Tim Jones**

Yes so we haven't written off 24%, as this is the end of the first full year we have had Orchid, what we have done is taken our last opportunity to revise our estimates of what to bring the opening balance in at. So we have taken the opportunity to sort of revise some of those, particularly we have taken down slightly the value we placed on the incoming property estate from Orchid, but we have recognised a deferred tax asset for a lot of trading losses that are sitting within the Orchid business that previously we were shy of recognising as we wanted to be sure we would get the value for that. So what we have really done is we have reorganised the allocation of the purchase price across the Orchid business which means there is no goodwill now because it has all been allocated to stuff like the deferred tax asset. But it is a reallocation and not a write-off.

**Answer: Phil Urban**

And if I understand the second question Geof, I think what we are saying is in terms of acquisition we will be about the same level as this year, but some of the acceleration of brands will actually be moving some of our existing mid-market businesses into premium offers, so right brand in the right site.

**<u>Question 2</u>**

**Jamie Rollo, Morgan Stanley**

Thanks, Jamie Rollo from Morgan Stanley. Three questions. First of all, are there any targets you are happy to share with us or have you any targets internally for things like, like-for-like growth, margins, return on capital, even smaller targets like the number of premium brands you might want to get to over a few years?

Secondly, you talked about selling or making more use of underutilised assets, is there a figure for non core assets that you have in mind? Is there a tail of pubs you might consider selling?

And then a final one on the dividend. With the next pension review coming up, would you expect any further restrictions on paying the dividend as you come out of that review or is this level of 7.5p a sustainable pace for the long-term? Thank you.

**Answer : Phil Urban**
If I take the first two Tim. Firstly, we are not going to share targets today. I think it is as I said earlier, only 7 weeks for me in my role. So we are working through this, but I think once that plan becomes clearer we will be able to share it in time.

In terms of the under-utilised assets, just to be clear what I was referring to there. In our estate we have some big businesses where, in the past, for whatever reason part of a restaurant has been shelved off and is just not being traded or we have redundant function rooms. Well actually they are fairly easy to bring back into the core business and you then immediately expand your restaurants and drive efficiency accordingly. So we are going through a systematic review of all our premises to identify those opportunities.

**Further answer: Tim Jones**
Jamie, you allude to the fact that our next triennial pensions evaluation is as at March of next year so around the time of the Interims. What I can say is at the last valuation we had a very clear set of criteria that we had agreed with the Pension Trustees on when we would initiate dividends and that we wouldn't sort of accelerate it beyond earnings growth thereafter. And this is entirely consistent with that. I did actually call the Chairman of the Trustees yesterday evening, out of courtesy to let him know we were doing this. He was fully supportive and fully comfortable with what we are doing. So I can't give any guarantees about where that negotiation is going to end up, but what I can say is this is entirely consistent with our agreement with the Pensions Trustees and they are supportive of where we have ended up.

**Further question: Jamie Rollo, Morgan Stanley**
On the second question, is there a tail of pubs you think you might sell or under review or are you happy with the estate as it is?

**Answer: Phil Urban**
I think at the moment as I think I laid out, we have got quite a lot to be getting on with in the short to medium term. The fuller estate review is something that will fall out of that. But right now, no we don't have a significant tail that we are looking at from that perspective.

**<u>Question 3</u>**
**Tim Barrett, Nomura**
Tim Barrett, Nomura. Two things please. The Orchid conversions, can you give us an idea of what percentage uplift you are getting from reopening in terms of AWT?

And then Phil, a couple of times you mentioned mid-market brands underperforming, but you haven't talked so much about Heartland and the value brands. Can you give us an idea of how the trading is at various ends of the spectrum and perhaps the same question in relation to geography and UK regions? Thanks.

**Answer : Tim Jones**
We are getting about 30% AWT uplifts Tim on the 41 sites that we have already converted, some are in excess of that and some a bit shy of that, but the aggregate comes out at around 30%.

**Further answer: Phil Urban**
In terms of performance by brand, as you are aware, we don't share granular detail on all our brands, but on the geography piece, I don't think there is anything I would particularly draw out in geographical differences. Mid-market brands, yes and the Heartland business and the value end, I think we have been pleased with our results there. But as often is the case, those businesses that are in the middle, so not premium and not value, get caught on both sides and I think they are the ones which are our big cash cow businesses that are most susceptible to new entrants. However they are the strongest brands and we know that where we get it right and have good amenity, we generate strong returns. So these are businesses that I am confident we can get firing again.

**Further question: Tim Barrett, Nomura**
And in terms of geography, some of the London regional specialists have reported really high numbers. Are you seeing that in brands like Castle?

**Answer: Phil Urban**
Yes in our like-for-like businesses in pockets of London the trading continues to be strong. I think as always we have businesses right across London and I think there are pockets of London that do well. So the City has done particularly well for us this year. Some of our businesses in the summer I think struggled with less tourism than in prior years. And yes it is clear to say some of those businesses and some of those brands compete more directly with some other London competitors that are generating some good numbers.

**<u>Question 4</u>**
**Jeffrey Harwood, Stifel**
Jeffrey Harwood from Stifel. Just two questions. First of all the property business this year has made more money than the retail business. You have got some very big sites and profit growth in recent years has been muted. Do you think there is a lot of scope for redeveloping the properties as alternative use values are now higher than the value as a pub?

And secondly on the brand structure, do you think the company has got too many brands and will there be some rationalisation going forward?

**Answer: Tim Jones**
We keep the portfolio constantly under review Jeffrey and we have a Property Board that sits every month and looks at opportunities and things like that. They are actually pretty few and far between. Normally those sort of investment opportunities don't offer us anything like the return we can generate from a successful conversion or remodelling of our brand. So it is something we do selectively. We have been developing some upper floor parts and putting apartments in for example. An example of that would be opposite Cannon Street, which used to be an O'Neill's and is now a Nicholson's. There is I think 5 flats above that now. So we take tactical opportunities where we can, but I don't see a significant and material redevelopment opportunity across the estate.

**Further answer: Phil Urban**

And in terms of the number of brands, I have heard quite a few people saying M&B has too many brands, implying a lack of focus or whatever. I think I don't necessarily share the same view. If all brands had huge brand infrastructures I might agree, but actually behind the scenes actually we have all the synergy, it is just in the customer facing piece where you get the difference. I suppose an example of which would be in some of our old O'Neill's businesses, they effectively have the Sizzling menu just with O'Neill's delivery. So one set of menu development, one set of thinking, just executed at the sharp end of the business in a way that suits that customer base. So I don't look at our portfolio and think we have got too many brands.

**Closing remarks**

Any more for any more?  If not thank you very much for listening. Thank you.

**End**