Tim Jones, Chief Financial Officer

Good morning, thanks for joining us. I'm going to take you through the financial performance in the last six months: I'll focus a little bit on our recovery and sales, talk a bit about costs, our thoughts around cost inflation and what we're doing about it, and just outline our return to profitability and cash flow after what's been a fairly extraordinary two years.

Let me start with the P&L, the Overall Income Statement. We made a profit in the first half of the year of £120m, the comparator of course doesn't really mean anything here because it was beset by multiple closure periods, but strong profits in the six months and certainly starting to make real inroads on building back to where we were before the pandemic.

If we look at like-for-like sales on this slide by month, of course we've had varying levels of VAT through the last year but what you can see here, the orange bars give you our reported like-for likes and then the blue line shows you an underlying sales performance, so it strips out the impact of the rate of VAT changing. As you can see, most importantly and very encouragingly a consistent build in our sales performance since we reopened last summer. You can see the little bite that Omicron took out of those in December last year but apart from that a very robust and consistent building back of business. We're now in growth against pre-pandemic levels of 2.2% in the last five weeks, and that of course is at a full rate of VAT.

Food remains stronger than drink, suburban and rural a little bit better than city centres although I have to say that gap is narrowing, we're starting to see people come back into city centres, particularly in the younger venues, and sales continues to be driven by spend per head and premiumisation over volume declines.

One thing we do know is that the future's going to remain quite dynamic for a while and certainly very uncertain, and to that end I think it is worth emphasising the wide breadth of the M&B stable of brands and locations be that covering food or drink occasions, whether we're looking at premium or the value end of the market or whether we're looking at urban, suburban or rural locations. We think that diversity and that breadth should give us a strong measure of resilience in what are going to be very volatile and uncertain times for the next few years, I think.

Costs of course are the focus of much analysis and debate at the current time for very obvious reasons, and we'd like to spend a bit of time here just picking through how we see things and what our planning assumptions are. To be clear, what we've got on this slide, we set out the headwinds for the current year and we look at next year. For the current year that's a three-year cost headwind increase, so it's based on FY19 so that I can anchor it to a stable start point. It's important to understand what these represent, so the headwinds do assume some sort of tactical mitigation by us, whether that's leveraging our buying scale with our supply chain, whether that's trying to manage down some energy volumes or increasing our labour efficiency, so there's a little bit of tactical mitigation here. To that extent, these numbers are probably lower than overall general inflation in the market however what they do not include is any specific mitigation, particularly coming from Ignite or any other initiatives like that to reduce our costs base.

Based on that, in the current year we've got about 11.5% inflation over a three-year basis, so that's 3.7% annualised across those three years. Of course, these headwinds won't have been consistent throughout, and particularly they'll have been back-ended into the last year with energy particularly in the last 12 months. Next year we see headwinds being a little bit steeper at around about 6%, driven by wages in particular, we know the living wage went up by 6.6% in April, and also food in particular which is running at very high levels of inflation. I think the big swing next year we're just not really into a position to call is what happens to energy prices, that could exacerbate the situation, or it could of course help to mitigate the situation if we see some sort of reversion to where we were 18 months ago in the energy markets.

Those headwinds really compare to what we were always talking about pre-pandemic as our long-term rate of cost inflation which is around about 3.5% per year, so slightly in excess this year and in excess next year. I don't think there's any reason to move away from our long-term rate there.

In terms of cash flow, it's really encouraging to be back generating positive cash flow and reducing our net debt. Over the last 12 months, so that's since the equity raise, we've reduced net debt by a further £200m to £1.253m excluding leases. We haven't revalued out properties at the half-year, we did see some reversion in those valuations at the end of the last full year, but it leaves our net assets at £2.2bn representing just over £3.70 per share.

I'd like to say a few words, before I wrap up, on pensions, particularly because after many years of paying £50m a year into this fund there's perhaps a glimmer of light at the end of the tunnel now. We have a triennial as of last March, as of a month or so ago, and we'd expect to see some pretty strong progress there against the deficit that we had previously three years ago. If I talk about our main plan, that's our biggest plan that makes up about 80% of our liabilities, we're putting in £40m a year, under the current schedule of contributions we're due to do that only for another 18 months until September next year. The plan is largely de-risked and hedged so we would hope it has some stability to its performance, so we'll look forward and see where we get to this triennial, but we hope we're getting close to fully funding that plan. The executive scheme has gone a step further because we actually announced a buy-in that we did in December last year, so we've largely de-risked that. Our contributions are going in at £12m a year, again only until September next year, but we hope they're not all going to be required now, we'll have to see but we hope they're not all going to be required, so they're actually going into a blocked or escrow account which, if they aren't, will allow them to be returned to us rather than getting them locked inside the pension fund.

Before I hand over to Phil I'll maybe just summarise. I think what's really encouraging here is the strong and consistent sales recovery since we reopened a year ago. Cost outlook is certainly going to be challenging looking forward and it's going to be uncertain, but we've got a number of initiatives to deal with that, and Phil will start to talk you through those. We do overall think we're really well placed to face whatever the future holds for us, we've got a strong balance sheet, we've got a great portfolio of brands and diverse locations and that allows us to look forward to the future with a degree of confidence.

Phil Urban, Chief Executive Officer

Thanks Tim, and good morning ladies and gentlemen. After the two years that we've all just endured I guess it would be easy to focus on nothing but the disruption we've seen in the business and our tale of woes but, I don't know about you, I'm getting fed up with looking backwards and bemoaning what might have been. So, today what I intend to do is to share exactly where we see ourselves today, focus on what we're doing and get across to you why we're confident about the coming months. There's no denying that the COVID-19, Brexit, and now the awful war in Ukraine has had a big impact on our cost base which undoubtedly will put a squeeze on our guests' pockets as well as our own cost base, but this is a macro issue and we'll take the view that there's nothing we can do about that so we're focusing on the things that are in our gift to control.

Let's start with sales. As Tim says, we have made steady progress since we reopened the doors last summer, apart from that five-week blip over Christmas caused by the Omicron variant, and I'm delighted to say that we finished the half-year with like-for-like sales growth of 1%. Ironically, for those who were there, it was the day after our prelims, just after I'd stood up here and said, providing we got a clear run at Christmas we'd have a strong performance, that Sir Chris Whitty went off-script and told everybody to stay away from Christmas parties. The impact was immediate with cancellations of Christmas bookings particularly hitting beleaguered city centres, so to recover that lost ground by the half-year is extremely pleasing, obviously helped by the 7.5% VAT reduction on food and soft drinks through to the end of March.

With regards to our performance versus the wider market, the trend we reported at the Prelims continues with us outperforming in restaurants and pub restaurants but slightly underperforming in pubs. As explained last time, we have very strong and proven brand formats in restaurants and pub restaurants that pretty much recovered as soon as we reopened the door last summer; it's in the pub cohort where there's a wide range of offers represented and it's the late night young people's market that is performing particularly strongly where we're not overly represented where the strong growth is coming from, where suburban and workforce related businesses are still recovering lost ground. However, we believe these wet-led businesses are recovering and will continue to recover as confidence to venture out post-COVID continues to build.

In terms of our brands, we've made progress in each of our markets since the Prelims with premium food businesses such as Miller & Carter and Browns leading the way, however what I think has been most encouraging to me is the continued recovery of city centres as offices have returned to work, and London has had some weeks of growth which bodes really well for the summer, particularly as tourists start to return.

In the five weeks since the half-year, with VAT back at 20% we're delighted to be able to say that we have continued to see like-for-like sales growth of 2.2%, as Tim said. This means we've continued the path of recovery since last summer, if we normalise the VAT, and that is key for the future. There's no denying that across the sector we are no different, that sales growth has been driven by spend and that volume remains in double digit decline, but this does not mean that we have simply put up our prices, because this is against an FY19 base and we have driven our sales by doing a lot of site conversions and also by product laddering within each brand where we introduce more premium product and allow our guests to trade up or to have an additional starter or dessert. In fact, we took very modest price increases last month compared to many of our competitors as we have decided it's better to stay on our tried and tested approach to pricing, and because we're yet to understand what the impact of inflation is going to be on household budgets and on propensity to eat out. We have a scale advantage against a lot of our competitors, and we believe staying focused on providing value for money in each of our brands will serve us best for the future. Pricing remains an option to us, but we'll continue to focus on building market share and reducing volume decline.

We believe there is still potential to build market share if we deliver and "sell" our offers well, and the fact that there is still sector-wide volume decline tells us there's still a big chunk of our guest base who have yet to return post-COVID. Market supply will inevitably come under more pressure in the coming months as the costs pressures begin to hit and as the squeeze comes on for repayment of bank loans and back rent, that can only be positive for those of us that remain.

Winning market share is about delivering superior customer experiences which relies on many factors including your product, your price, your service, location, etc. We are therefore very encouraged that we have the highest customer satisfaction scores that we've ever had, with all of our brands now sitting at over 4 out of 5. This is very encouraging because there is a clear correlation between customer satisfaction and like-for-like sales, so this is critical to our longer-term goals. I have to acknowledge the outstanding job done by our teams up and down the country in the face of unprecedented pressures. The fact that our team engagement has also grown in the last six months gives me a lot of confidence that the underlying health of the business is good, and I know we'll be ready to take and retain business as the market recovers.

We accept that the macro landscape is challenging right now, in particular the cost inflation that Tim talked about, however we have proven methods of mitigation in our Ignite and Capital programmes and we believe that by remaining focused on getting the business back to doing what it was doing pre-COVID where we had solid momentum and were deleveraging year by year that we will position ourselves to succeed.

To remind you, we have three broad strategic objectives. Firstly, to maintain a balanced portfolio. Six years ago, this was about playing catch-up on our development programme but now we have very few distressed assets or under-invested assets and so it's more about systematically raising the quality of our amenity, ensuring that we keep evolving each of our brand propositions based on deep customer insight and accelerating the expansion of the most successful brands. Secondly, we want to have a commercial edge to the way we do business which is about being clear on how every pound of sales converts to bottom line profit and with the guest at the heart of everything that we do. Finally, it's about driving an innovation agenda; we have invested a huge amount of capital upgrading our systems in recent years and we want to make sure that we sweat that investment by optimising all the functionality that each component brings. It's also about making digital marketing the engine room for the business that it should be. We've come a long way in this space in recent years and we now have the tools and expertise to be far more sophisticated in the way we attract and retain our guests. It's also about genuine new product and new concept development and about having an ethos that accepts we won't always get things right but by constant experimentation and evolution we will move each of our brands forward.

These principles have stood us in good stead over the last six years and will do so again going forward. The two main pillars that enable us to realise our ambitions are the Capital and Ignite programmes.

First with the Capital programme, this talks directly to our balanced portfolio ambition, and we aim to invest in every business on an average 6- or 7-year cycle. We would aim to see payback within five years, so we generate true return in years 6 and 7 before reinvestment. Our ROI before COVID was around 28% and the early signs are that the current programme is in the same ballpark. Investing across the portfolio ensures that no brand will ever again become tired, and it also means we don't swamp any operational team with too many developments at one time, which usually results in the eye coming off the ball on the core business. However, we do look to accelerate the highest returning developments which continues to be Miller & Carter, although Browns now has an investment template that we are very confident in too. Indeed, we intend to open our first new Browns restaurants this year since I joined the business trialling the offer in suburbia as opposed to its traditional city centre locations. With the quality of the offer, the service level and now the amenity, we believe it's a winning formula for the current market. These pictures show the recent remodel completed in Manchester and the suburban businesses will have a similar feel.

Successful capital investment takes a lot of time and planning. COVID has undoubtedly impacted many of the third parties that we work with, mainly in terms of availability of materials and labour supply, and of course this sector too has seen cost increases. That is why we are completing very detailed value engineering exercises for all of our investment formats to mitigate for all or some of the inflation we're seeing coming through. We are also intending to extend the capital programme right through the year whereas previously we finished most of our programmes by periods 7 or 8 to minimise profit dilution. We're now taking the view that although this may be diluting for this year, investing throughout the year is a far more efficient way of managing the programme because it means we can now take seasonality into account, so brands like Toby Carvery lend themselves to summer development when their demand is at the lowest.

The other thing that we plan to do going forward is to invest in more upper floors and vacant land, looking at Innkeepers Collection opportunities or third-party rentals. Whilst this may be dilutive to headline ROI, it's accreditive to net asset value and so ensures that we sweat the assets that we own. Some may argue that cutting back on investment during difficult macro times is prudent; we would argue that the current macro factors are temporary and systematically and relentlessly improving the quality of our estate will serve us best over the long term.

The other key pillar to the way we operate has been and remains our Ignite transformation programme. To remind you, this is something that we first put in place back in February 2016 and the programme remains as full and as stretching as it has always been. It's built on the premise that there's no silver bullet to moving a business of our size forward, but it's progress simultaneously on numerous fronts that together in aggregate makes a difference. It's a programme of constant improvement and innovation and we currently have over 40 initiatives underway, and they've been recently topped up following an Ignite Blue Sky day that we held at the beginning of this month. We now have an established weekly and monthly cadence to tracking the Ignite programme including a project office which manages the programme and a Steer Co that effectively signs off on every initiative. Each initiative has a multifunctional team tasked and empowered to plan, create and launch the activity into the business and to monitor progress post-launch. This has the added benefit that the quality of the input is that much better with a variety of people inputting and lessens the barriers to implementation as we have operational representation in each project.

In terms of value, some projects may only grow profit by circa £0.5m, others are forecast to improve incremental profit by over £10m, but all of them are important to us.

There is a wide range of projects in train as we speak, from selling more and better coffee to making auto-rostering work and hence reducing workload for our general managers and optimising our labour deployment at the same time. We are extending our delivery footprint which already has annualised sales of over £45m, and we are also now focusing hard on improving the performance of the businesses that already do delivery to get every site working to best-in-class levels. We have order at table across all brands which we believe are relevant to it, and we are now driving usage as we know it improves guest experience by taking some of the hassle factors away and because evidence suggests that spend per head is higher through order at table as guests have more time to look at the range of products and then choose to trade up. We've digitised the ways of working for our frontline team so that all tasks are shown in one place and can be reviewed and managed far more easily by retail business managers, this means that we have far greater visibility on the implementation on key pieces of work, and it gives line management a one-stop colour-coded shop to keep track of their to-do lists. We're also releasing more table inventory to online booking and looking at how competitive socialising may play a role in under-used spaces.

So, we have a lot of activity underway, but we also want to ensure that we don't lose sight of our sustainability goals. We aim to be a net zero operator by 2040, to have zero operational waste going to landfill by 2030 and have halved food waste by 2030 also. Food accounts for nearly 70% of our total emissions and we are currently trialling menus with labelled lower emission dishes and testing to see whether this changes guest behaviour in terms of the dishes they choose. We've already made great progress on reducing our landfill as we currently divert 96% of operational waste and are now working on the remaining 4%, and we're working with our suppliers to ensure that all packaging is recyclable. We are now looking at how we can move away from gas cooking platforms and would aim to be able to start this process as part of the FY24 capital programme. By the way, all of our businesses have been powered by 100% renewable electricity since 2019.

Tackling food waste is a huge issue for the whole sector; we continue to streamline our menus by taking out what we call 'orphan products' i.e. those items that only appear in one dish. We work with an organisation called FareShare who distribute food that would otherwise become unavoidable waste to charities and communities that can use it, and whereas this tends to be from further up the supply chain at site level we are already working with an organisation called Too Good To Go in our pub restaurant brands where unsold food at the end of the day can be packaged up and sold at cost and collected by their customers, and we're already up to 10,000 meals a week.

In terms of community, we're building strong charitable partnerships with Shelter and Social Bite, both of which focus on helping people impacted by homelessness, including opening up work opportunities which give people a genuine chance to rebuild their lives. All new company cars from last month will be fully electric or hybrid and we are systematically raising awareness of our sustainability goals throughout the company. We are also a founder member of the sector's Zero Carbon Forum where it makes sense to pool ideas to ensure hospitality plays its part in delivering the nation's goals.

We believe that all of our sustainability goals must just become part of what we do and the way we work as opposed to sitting separately from our day-to-day business and we're pleased with the progress we've made to date.

In summary, we remain in strange and difficult times, there's no denying that, where the macro issues we're facing make it almost impossible to predict with certainty what will happen to consumer confidence, supply chain, the labour market, etc. However, rather than retrench and risk inertia we believe the current situation will be temporary and we need to press on with our agenda and incrementally and relentlessly improve M&B across the whole spectrum of our business. This will put us in the strongest position to capitalise when the market becomes buoyant again.

We're very pleased with the progress we've made to date and are making in this financial year so far, but we do recognise we need to keep growing that momentum and that is why we've put so much effort and focus into re-establishing our Capital and Ignite programmes of work, and into getting back to the operational routines that have served us so well in the past. We're building momentum again, and despite the macro pressures we remain confident in our long-term ambition to create sustainable shareholder value.

Thank you.