

# Opportunities for Growth

**Analyst Seminar – 21 January 2010**

# Introduction

- Focusing on medium term direction
- Key underlying beliefs:
  - Eating out as a market has long term attraction
  - The drinking out occasion is in long term decline
  - Mitchells & Butlers well positioned to create value
- Growth strategy is an evolution of existing plans

**Opportunities for growth**

# Mitchells & Butlers estate as at FY09

	<u># of pubs</u>	<u>AWT, £k</u>
Total	1,970	19.8*
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Value	746	16.9
Suburban	491	23.4
City & Country	577	20.9

\* UK managed pubs

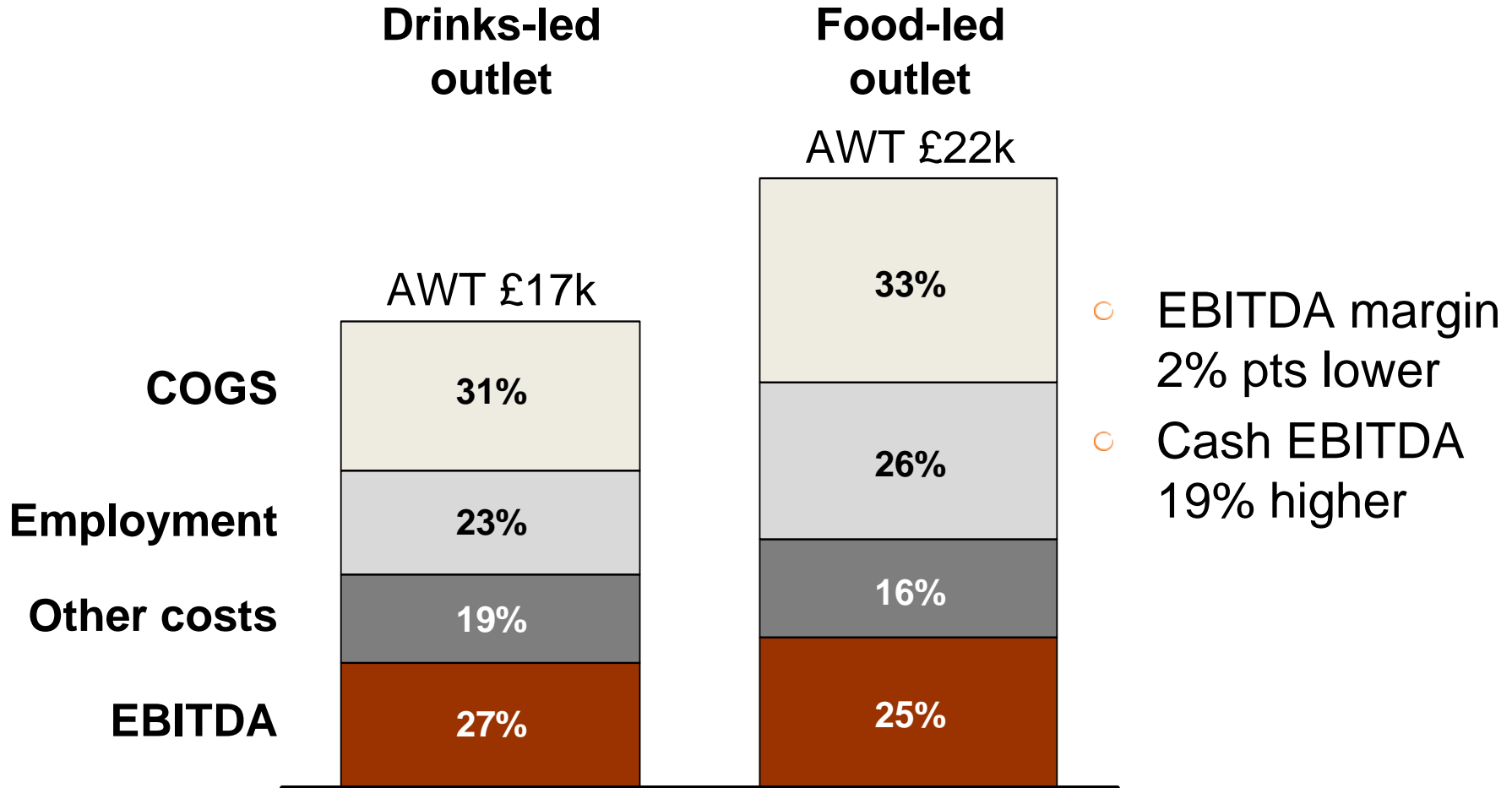
**Company EBITDA per managed pub £223k**

# Our opportunities for growth

- Same outlet sales and profit growth
- Sustainable margin delivered through strong operating capabilities
- Increased number of pubs from variety of sources with associated scale benefits

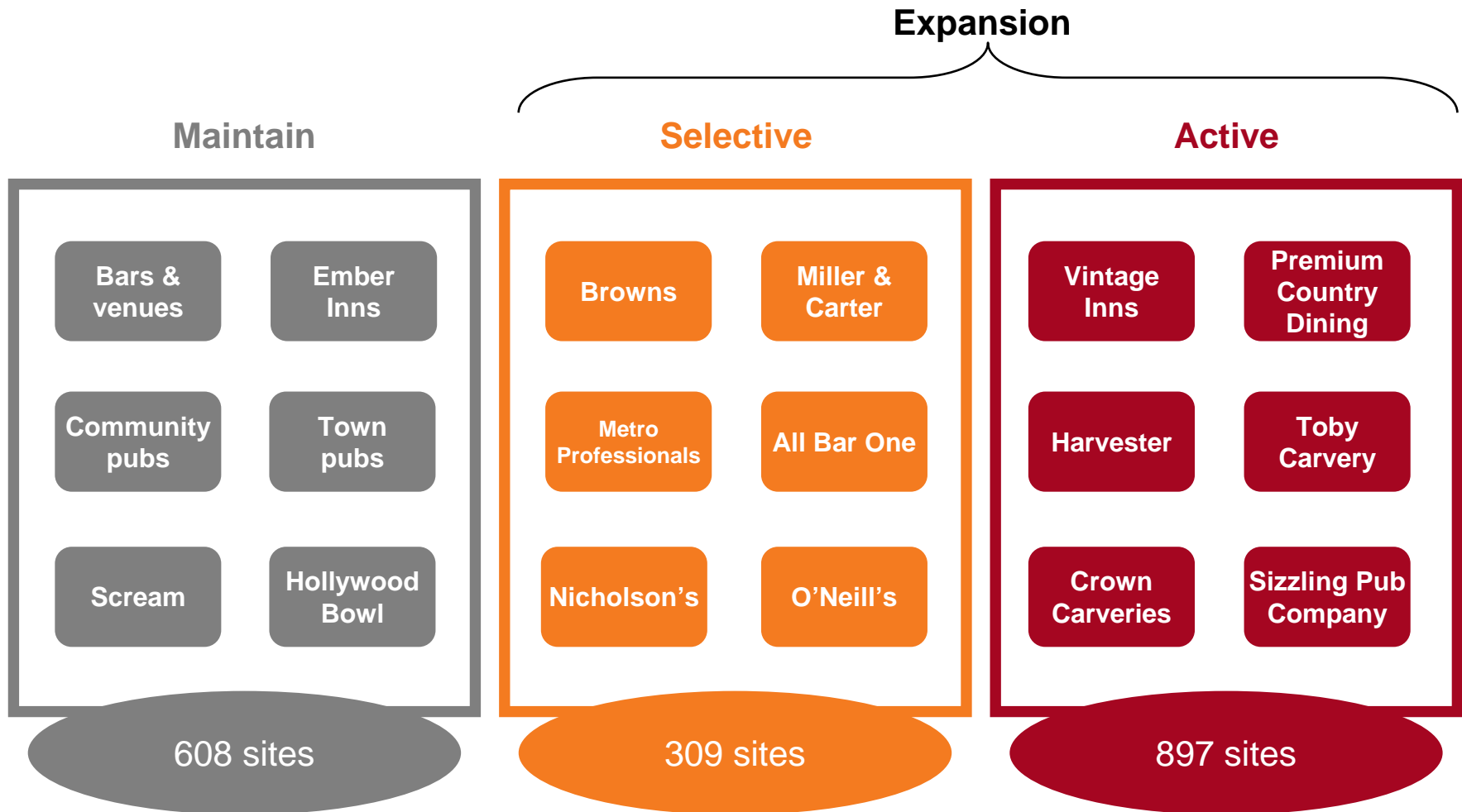
**Evolution of our strategy with greater brand focus**

# Business dynamics



Higher profits from food-led pubs

# Our brands and formats



**Focus on six brands for active expansion**

## Statement of intent

“Developing Mitchells & Butlers to become the UK’s **preferred choice** for **informal eating out**, with **great brands** that satisfy key **customer occasions**, to **grow shareholder value**”

# Agenda for today

Great brands drive like-for-likes

Adam Martin

Strong operating capabilities

Adam Fowle

Headroom for growth

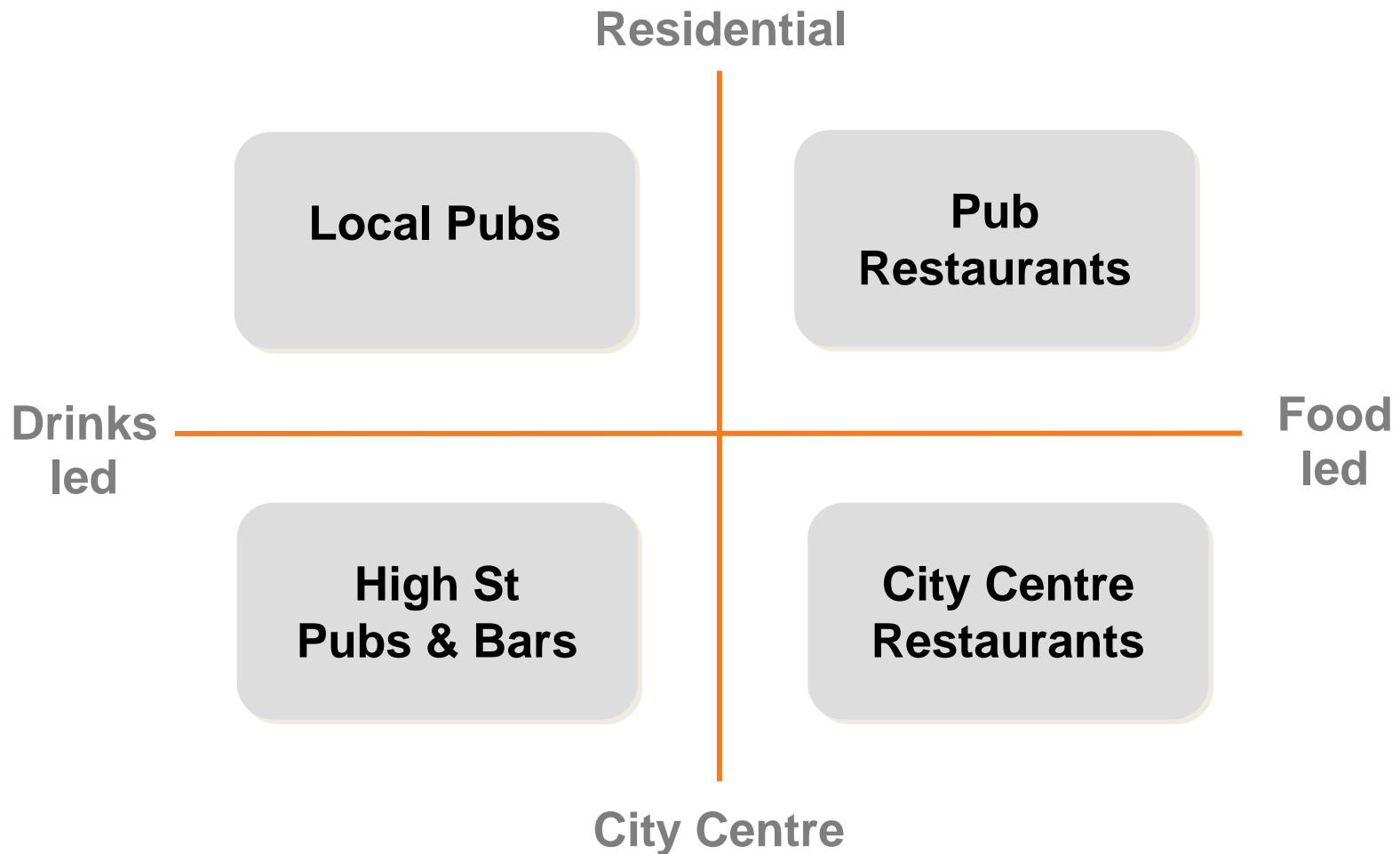
Adam Fowle

Growing shareholder value

Jeremy Townsend

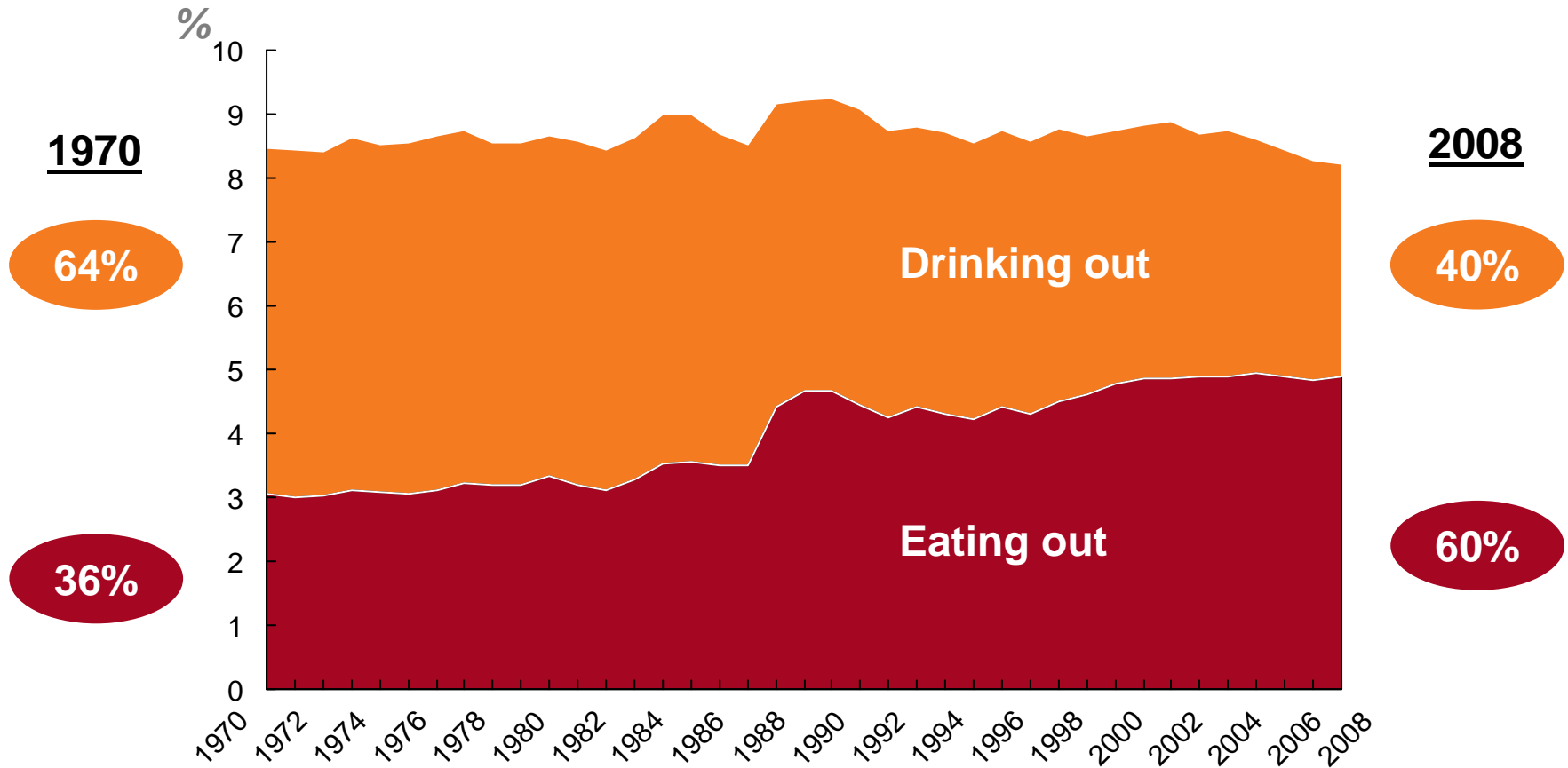


# Supply-driven market map



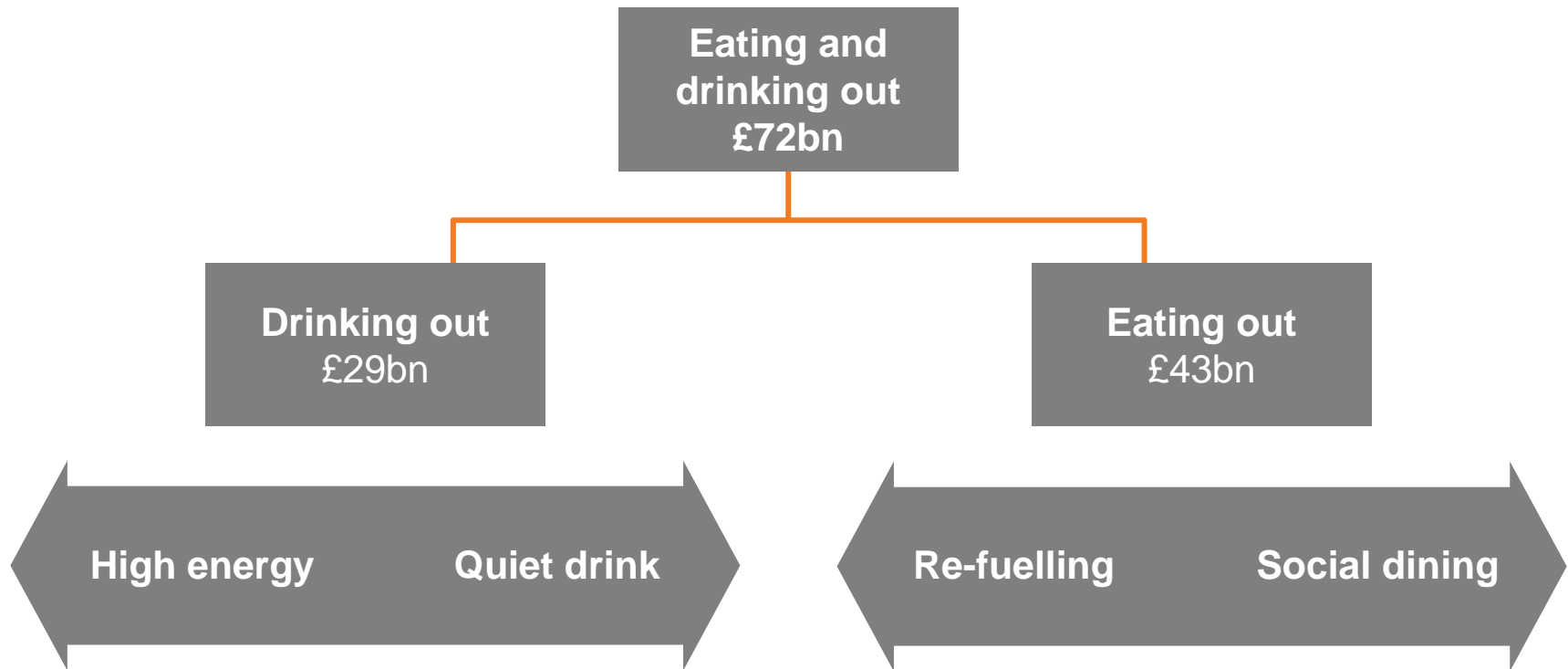
# Eating and drinking out market

*Proportion of household expenditure on eating and drinking out*



**Increasing momentum towards eating out**

# Eating and drinking out expenditure



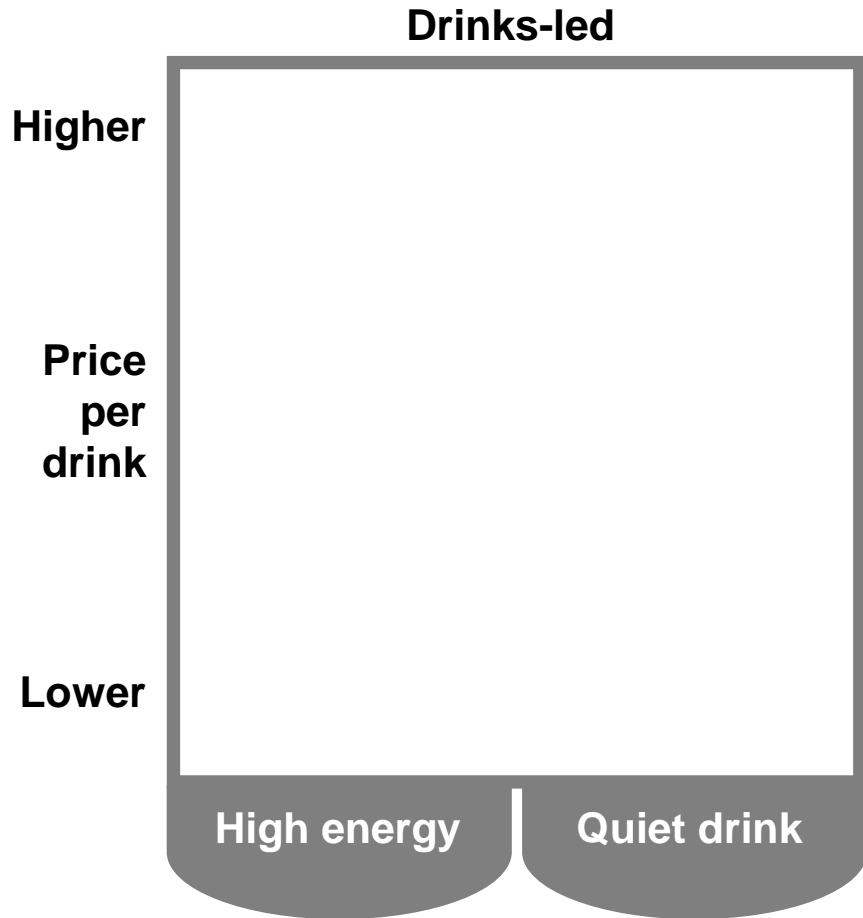
**Market shaped by consumer occasions**

# Price dimension

- Price signals market positioning
  - Eating out and drinking out is a social occasion
  - Most people want to be with “people like me”
  - Price plays a role in grouping consumers
- Price sensitivity of different occasions

**Price is an important factor in purchase**

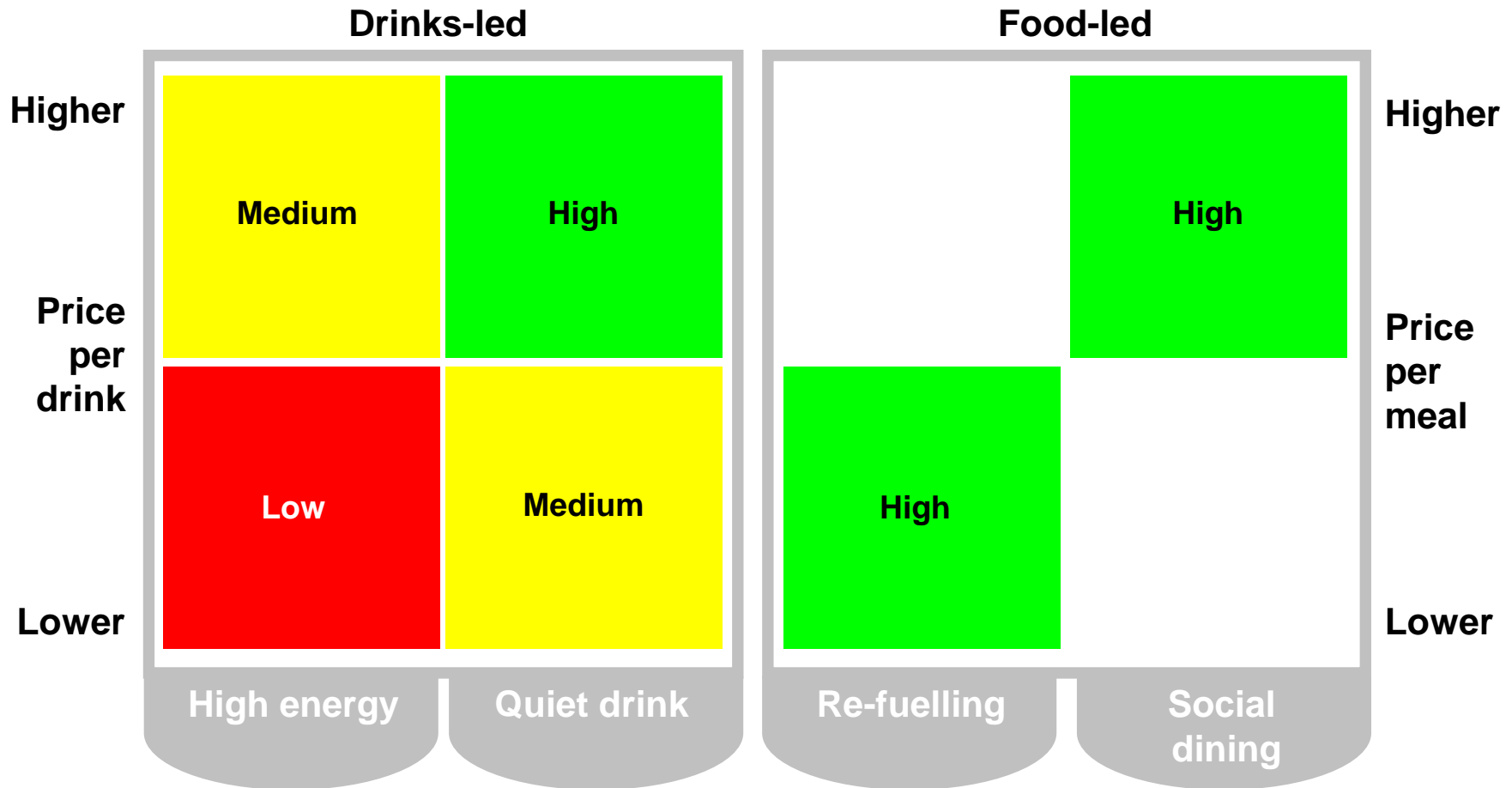
# New market maps: drinks-led



# New market maps: food-led

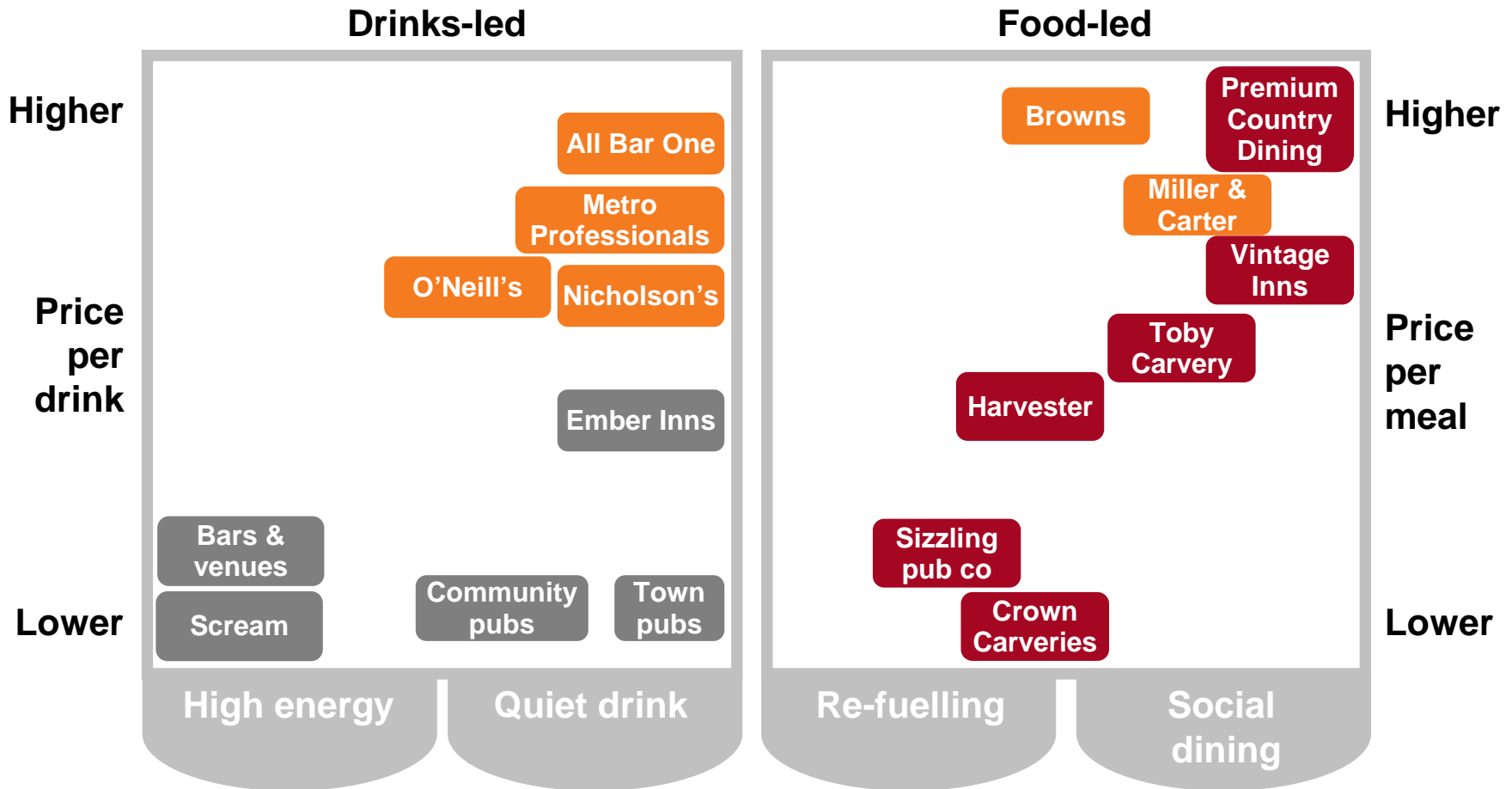


# Market map



Differing levels of attractiveness

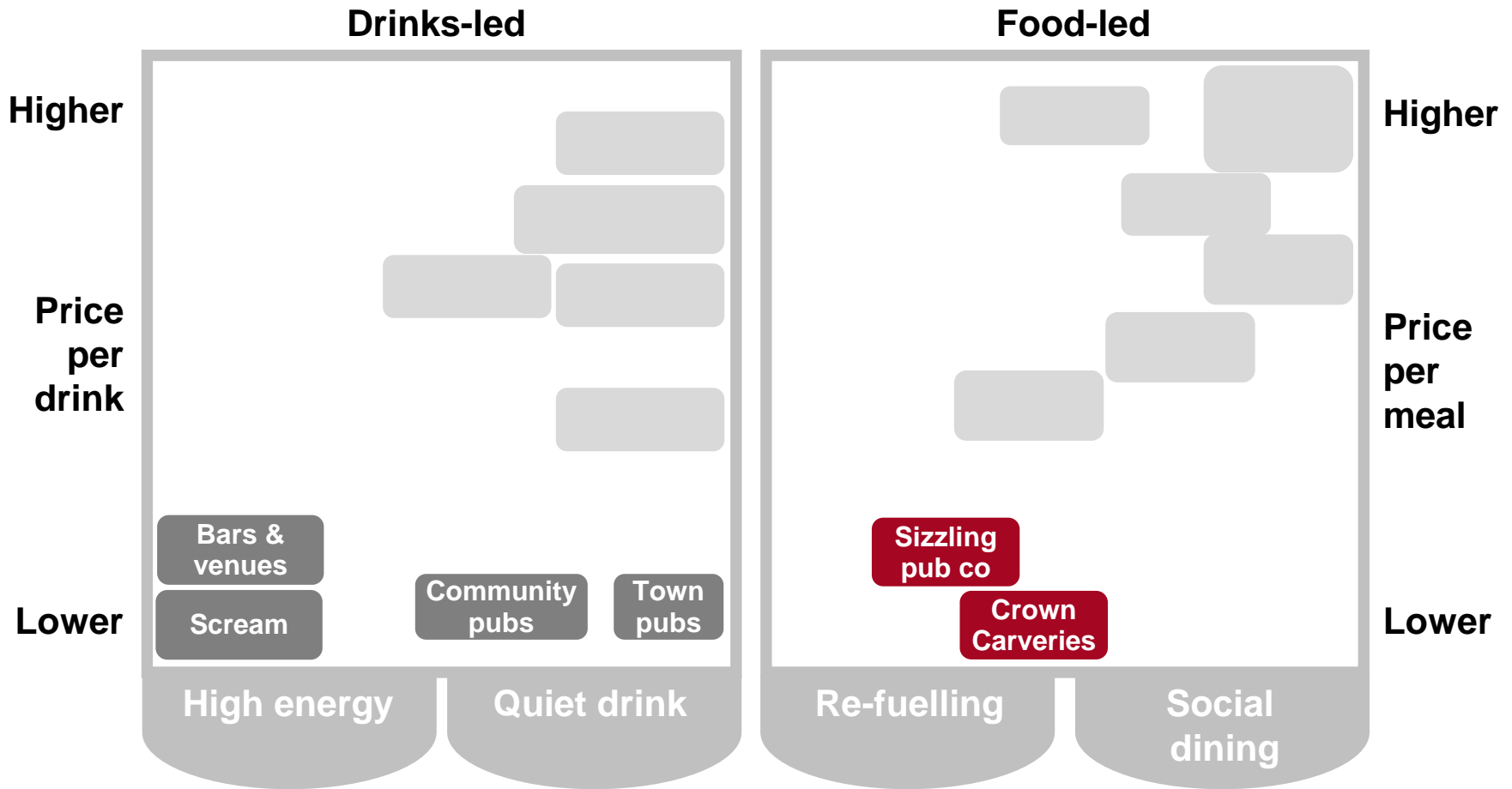
# Mitchells & Butlers market map



Expansion brands focused on growing segments

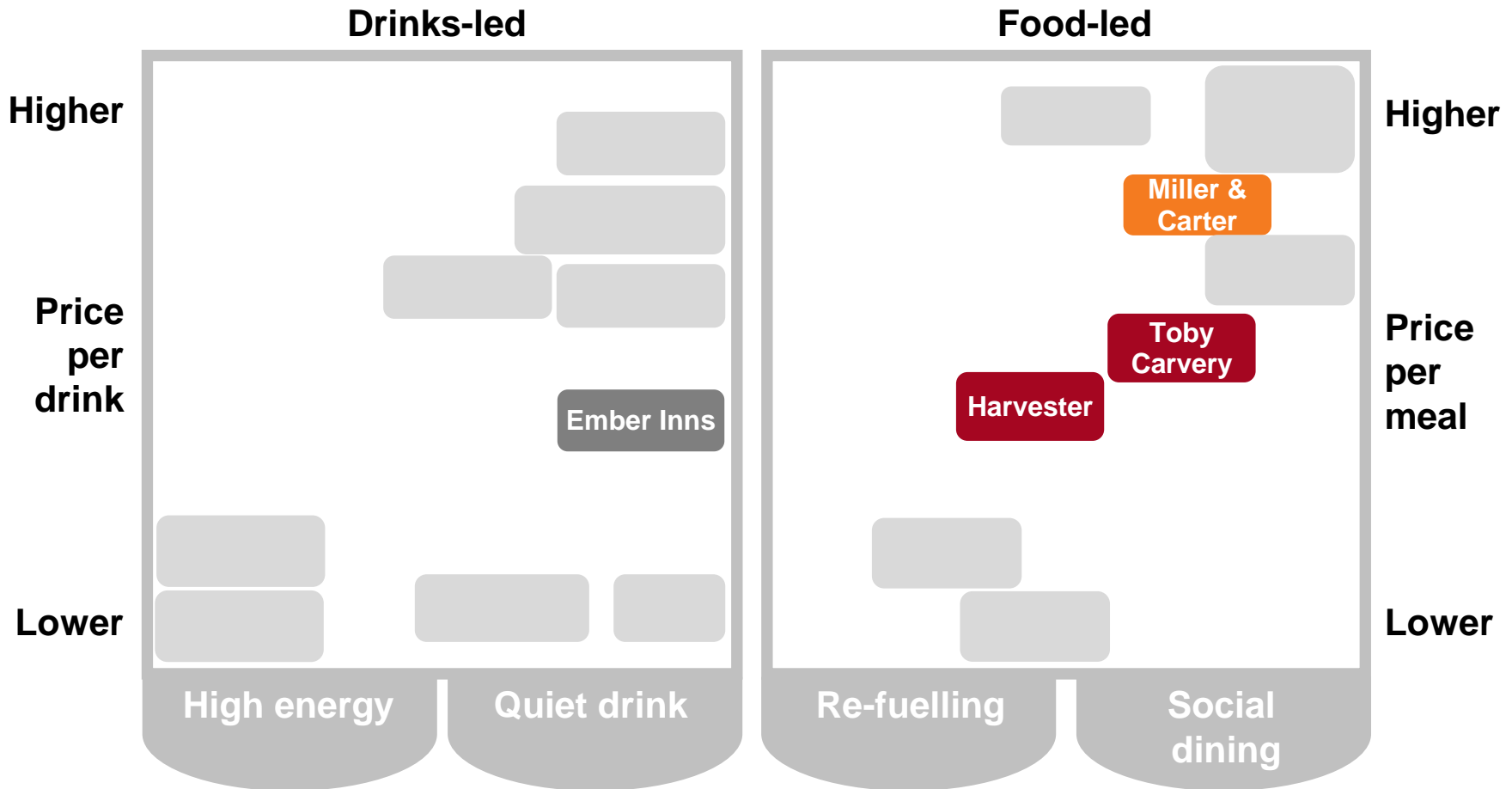


# Value



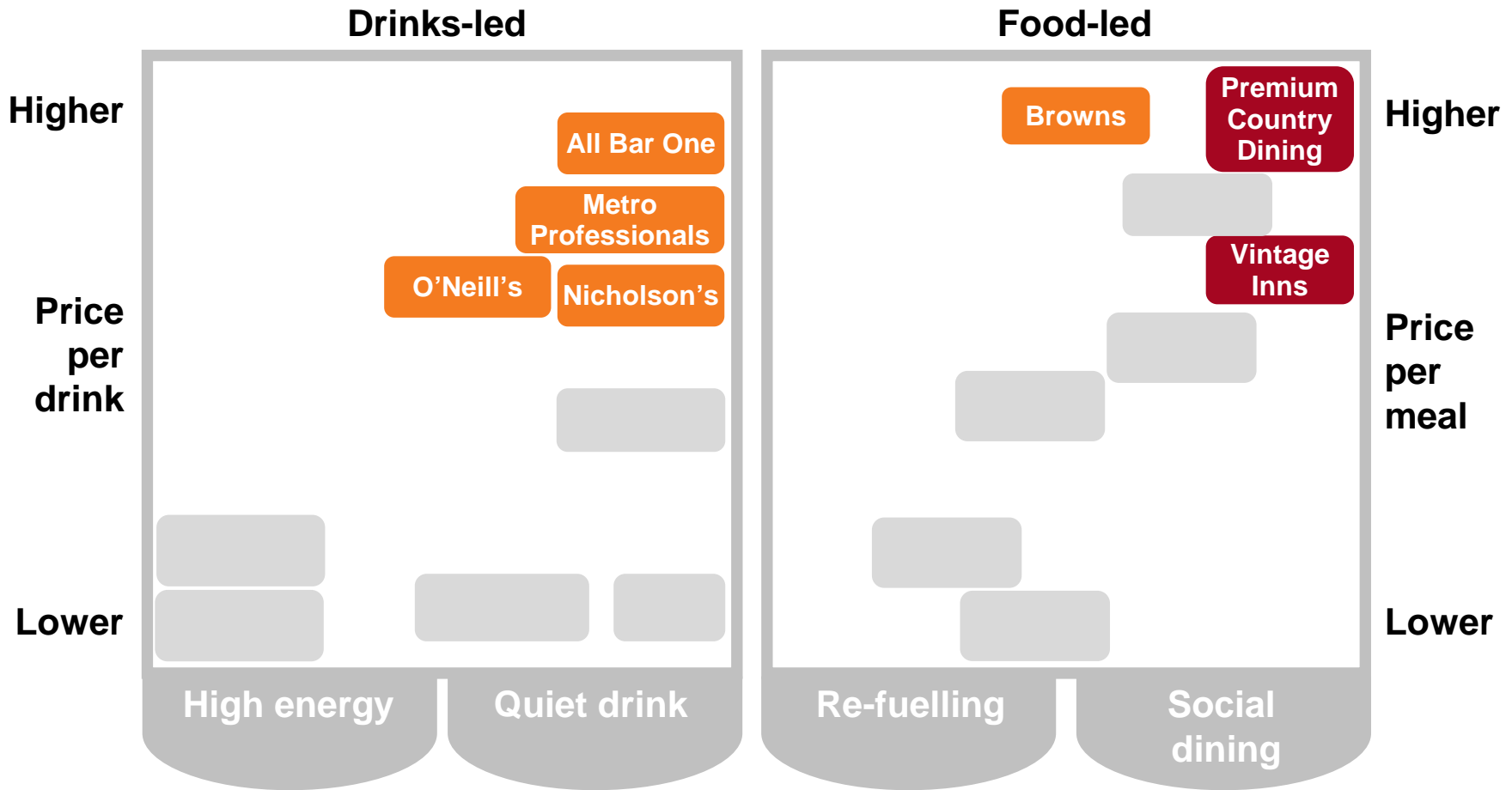
Two active expansion brands in each channel

# Suburban



Two active expansion brands in each channel

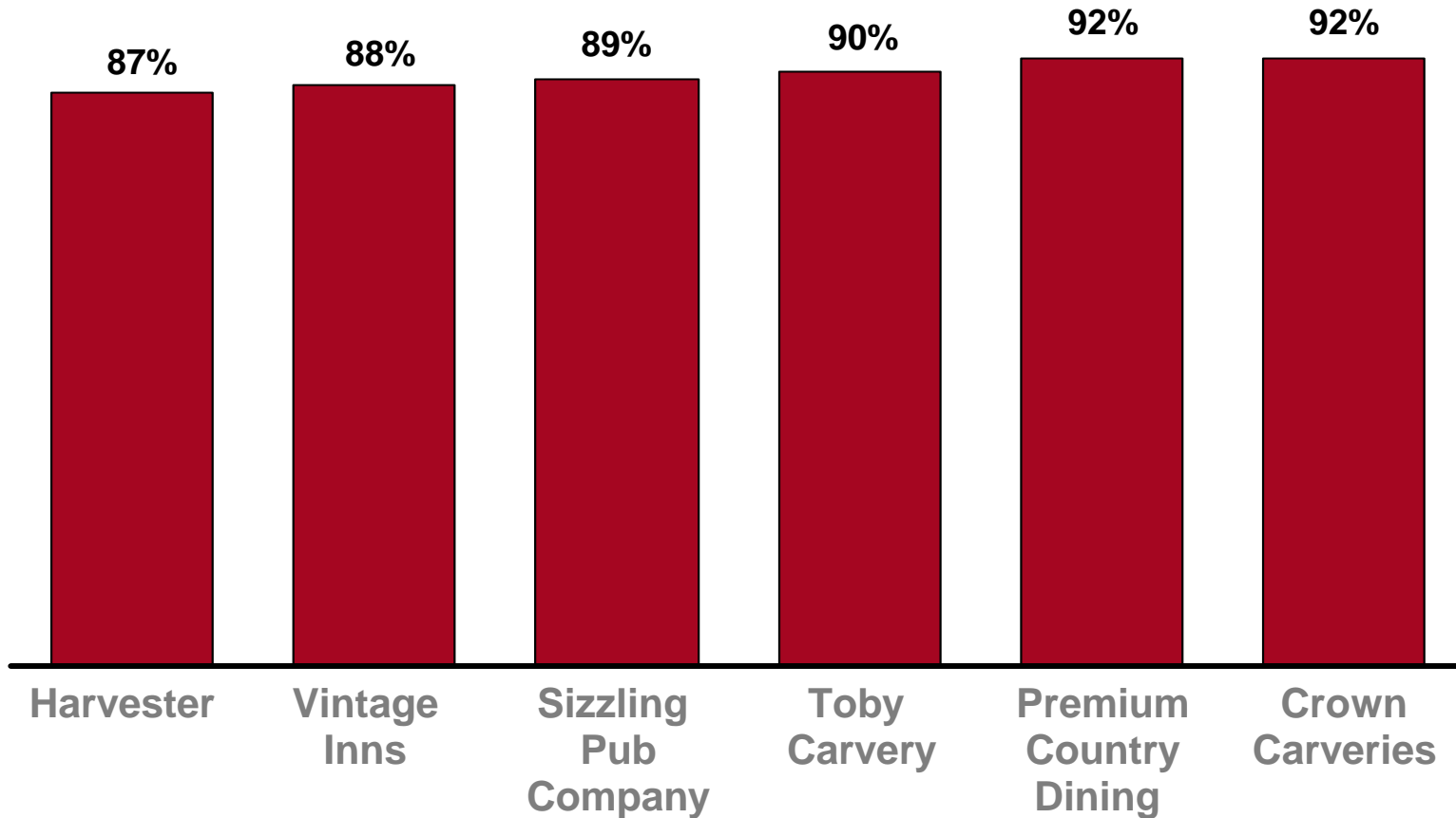
# City & Country



Two active expansion brands in each channel

# Customer satisfaction

*Proportion of guests satisfied with recent visit*



**Growth brands appeal strongly to customers**

# Brand marketing

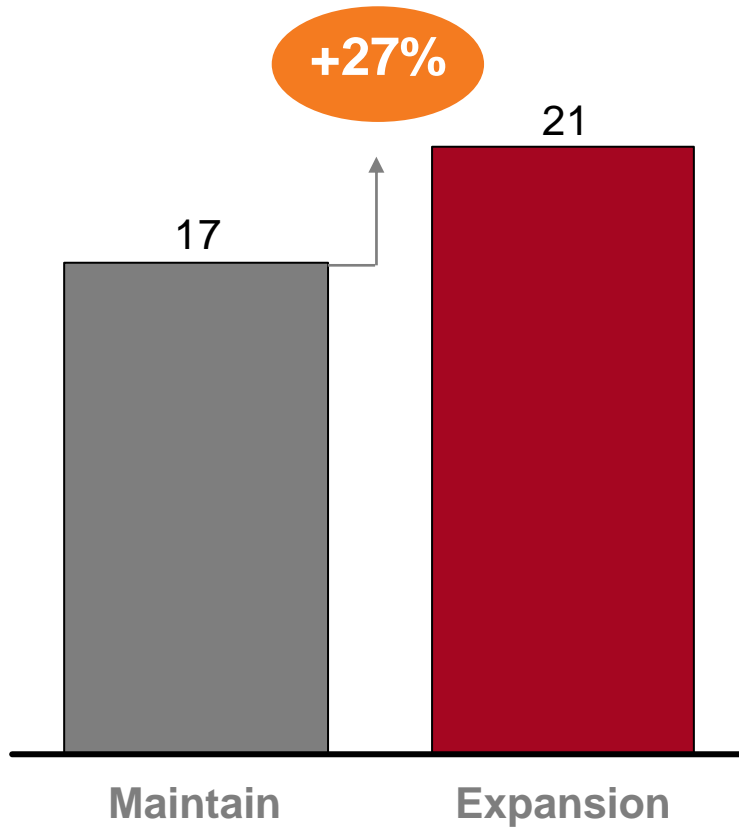
- Opportunity to grow usage
  - High consumer acceptance
  - Plenty of non users
  - Good conversion to loyal customers
- Brand scale enables advertising
  - E.g. strong ROI on Toby Sunday advertising, +6% sales



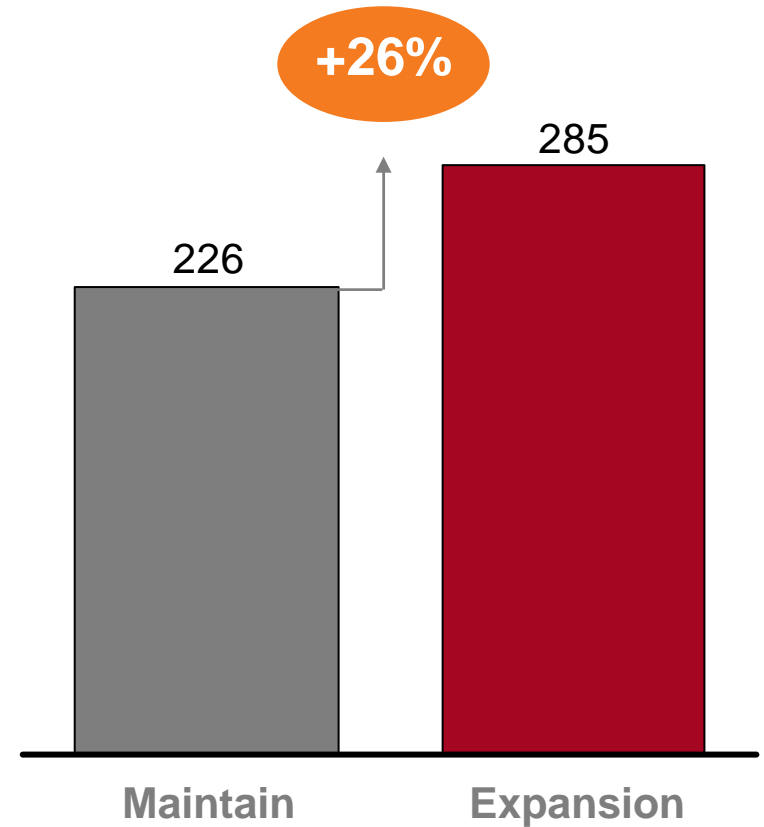
**Brand advertising works**

# Brand performance

Average AWT, FY09



Average EBITDA per outlet, FY09



**Stronger performance from expansion brands**

# Summary

- Eating out growing share of household expenditure
- New market map to reflect customer occasions and price points
- Twelve expansion brands positioned for like-for-like sales growth
  - Exposure to growing segments
  - Proven customer appeal
  - Superior financial performance

**Further potential for like-for-like sales growth**

# Agenda for today

Great brands drive like-for-likes

Adam Martin

Strong operating capabilities

Adam Fowle

Headroom for growth

Adam Fowle

Growing shareholder value

Jeremy Townsend



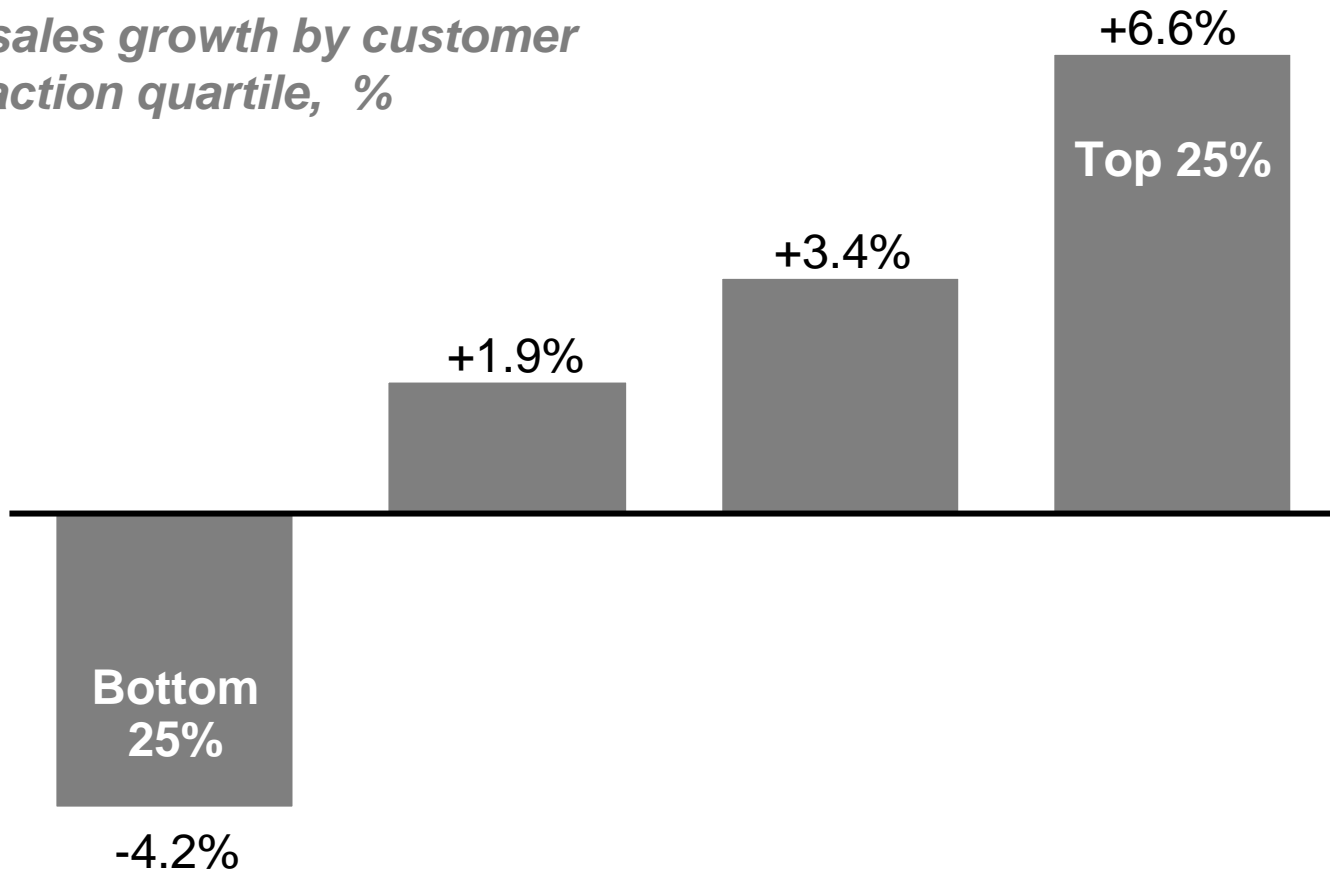
# The constant challenge



**Balancing service excellence with cost focus**

# Sales growth by level of customer satisfaction

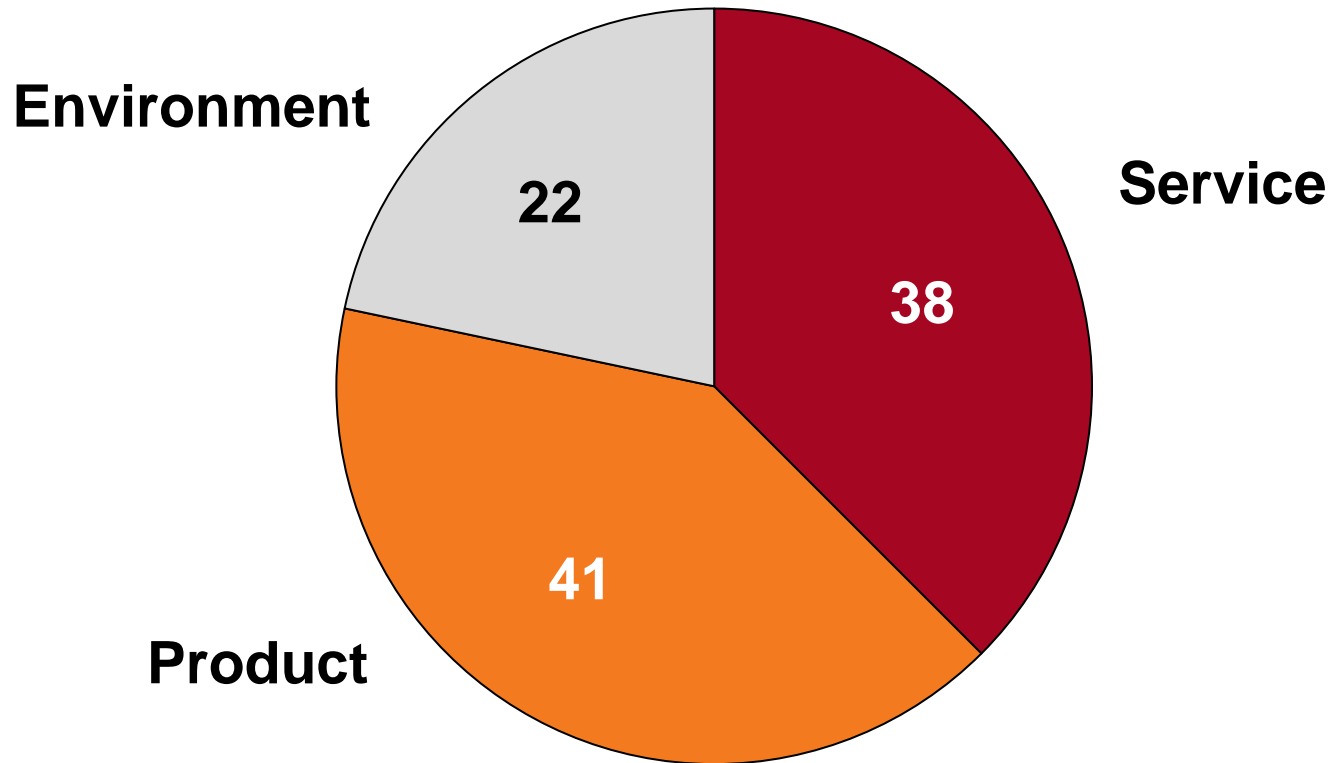
*FY09 sales growth by customer satisfaction quartile, %*



**Customer satisfaction drives sales**

# Drivers of customer satisfaction

*Average across our main brands, %*



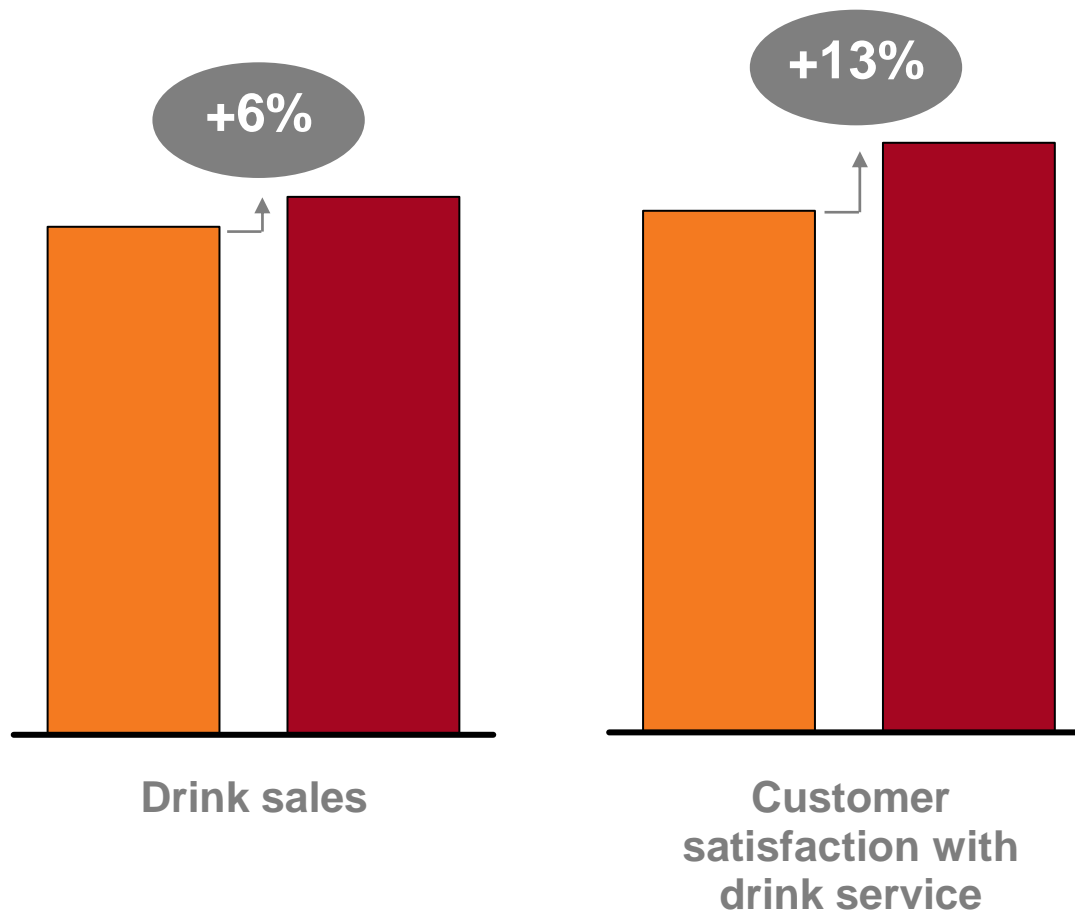
**Our people are core to customer satisfaction**

## Different service models



**Matching customer needs with economics**

# Service model evolution



- 400 self service taps to be rolled out by end April

**Continuous improvement of service model**

# Our people

- Recruiting the right people and matching service models
  - 60% of managers recruited internally
- Training people
  - 1,400+ kitchen colleagues have enrolled in NVQs in the past year
- Retaining people – increasing stability
  - 80% of managers have more than one year's service
  - 65% of kitchen managers have been with us for more than one year

**Recruiting, training and retaining underpin great service**

# Operational controls

- Employment and product costs are £1.1bn pa
- Product costs
  - Focusing on waste
  - Menu management
- Productivity
  - Labour scheduling
  - Employment cost constant over five years as food mix increased from 30% to 41% of sales

**Relentless focus on operational controls**

## Operational controls – FY09

- 14 million more meals
- 3 million more drinks
- 700,000 fewer staff hours
- Moving from weekly to daily monitoring

**Daily operational controls enhance margin management**

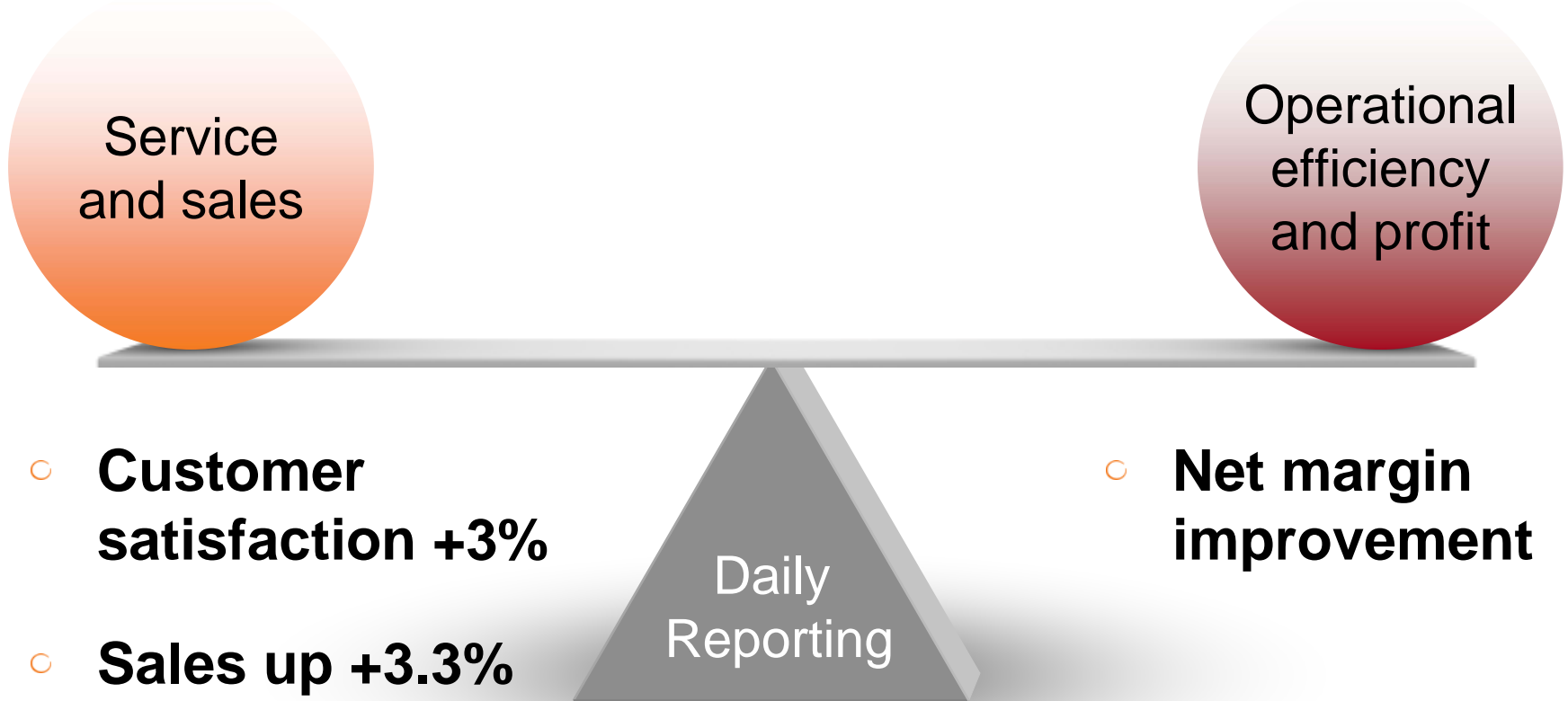


# Customer feedback – the essential measure

- 1,400 outlets run a regular guest feedback programme
- Over 600,000 guest responses collected in 2009
- Delivering sustainable improvements in service

**Continuous feedback helps shape the business**

# Summary



**Balancing service excellence with cost focus**

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Growing shareholder value

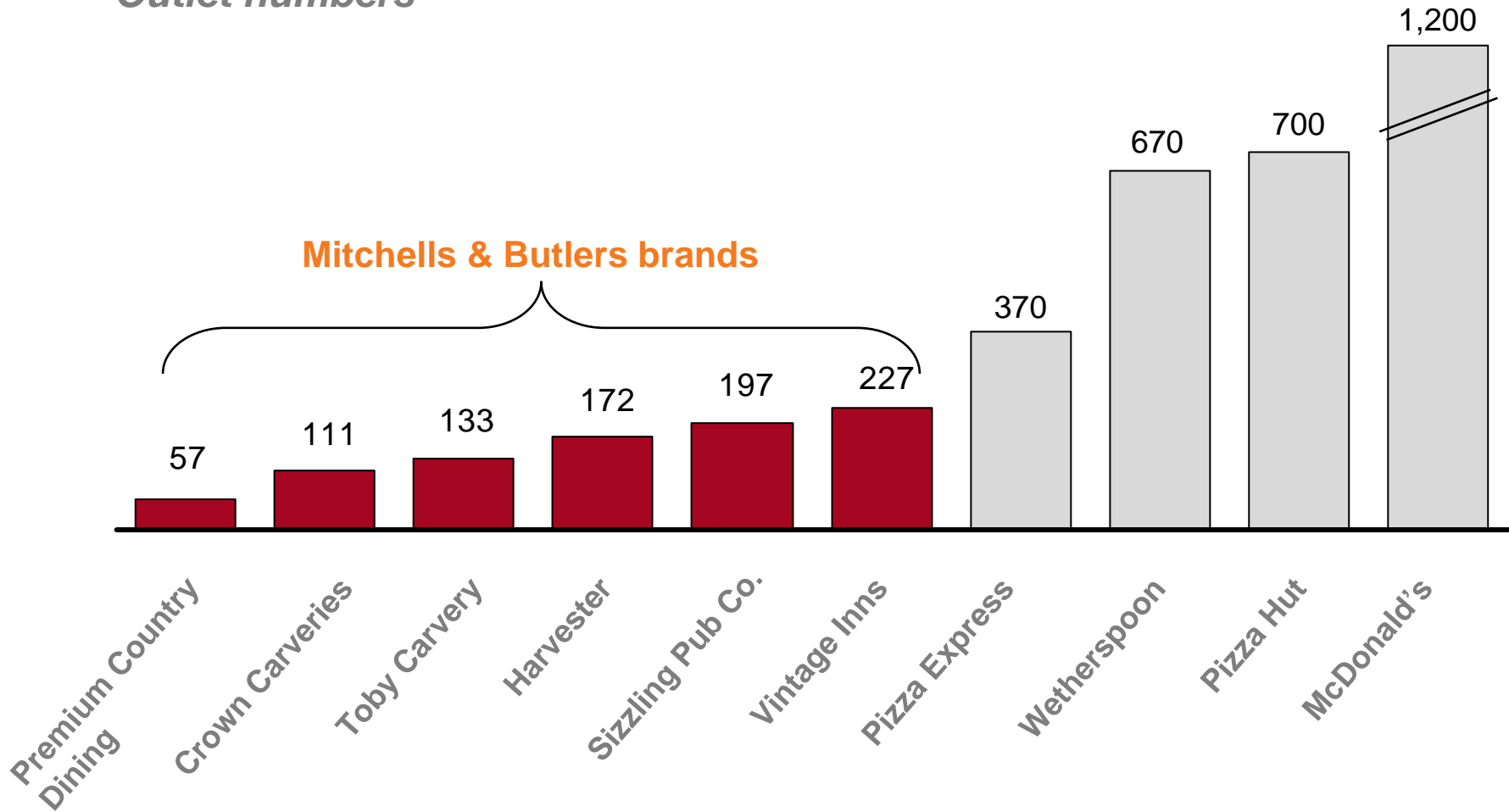
Jeremy Townsend

# Overview

- Potential to double each of our active expansion brands
- 3 sources of pub growth opportunity
  - Internal conversions
  - Single site acquisitions
  - Industry consolidation
- The pace of growth is in our control

# Relative brand size

Outlet numbers



**Significant potential to increase brand size**

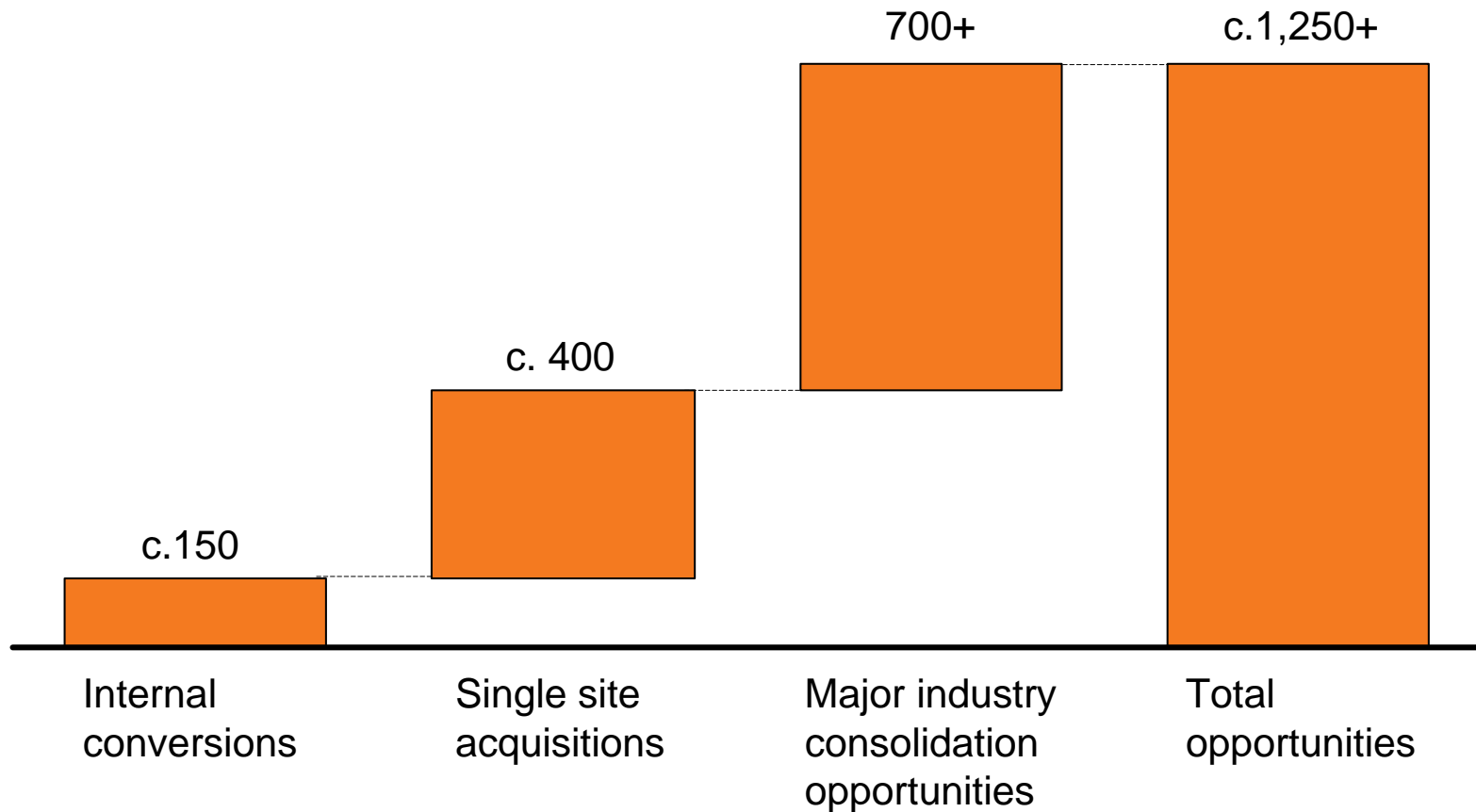
# Multiple brands in a local market

Bournemouth area

- 6 Harvesters: all AWTs well above average
- 21 other pubs: combined AWT at Mitchells & Butlers average

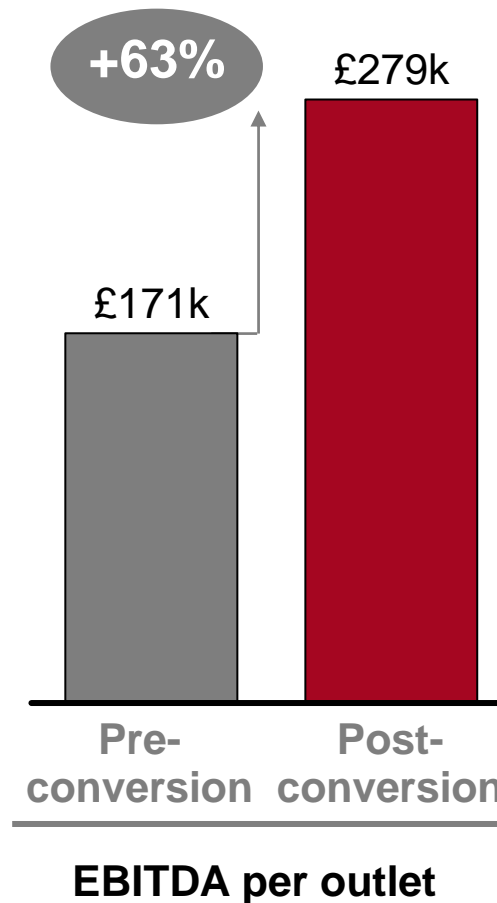
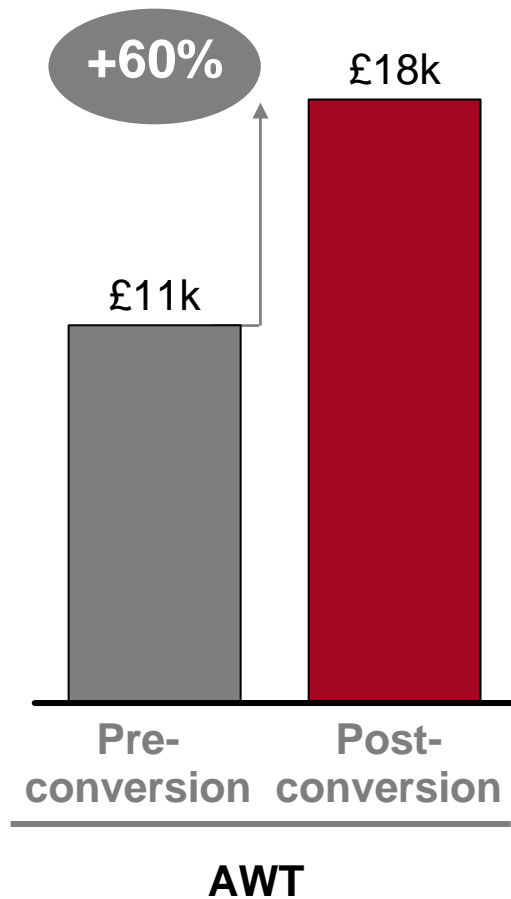
**Far from the limit of saturation**

# Pub growth potential



**Significant pools of opportunities**

# Conversions from Maintain to Expansion



**ROI of 25%**

Note: 89 conversions from FY05-FY09

**Strong returns from conversions**



# 150 internal conversion opportunities

## From Maintain

Community  
pubs

Bars and  
venues

Scream

Town pubs

## To Expansion

Sizzling  
Pub Co

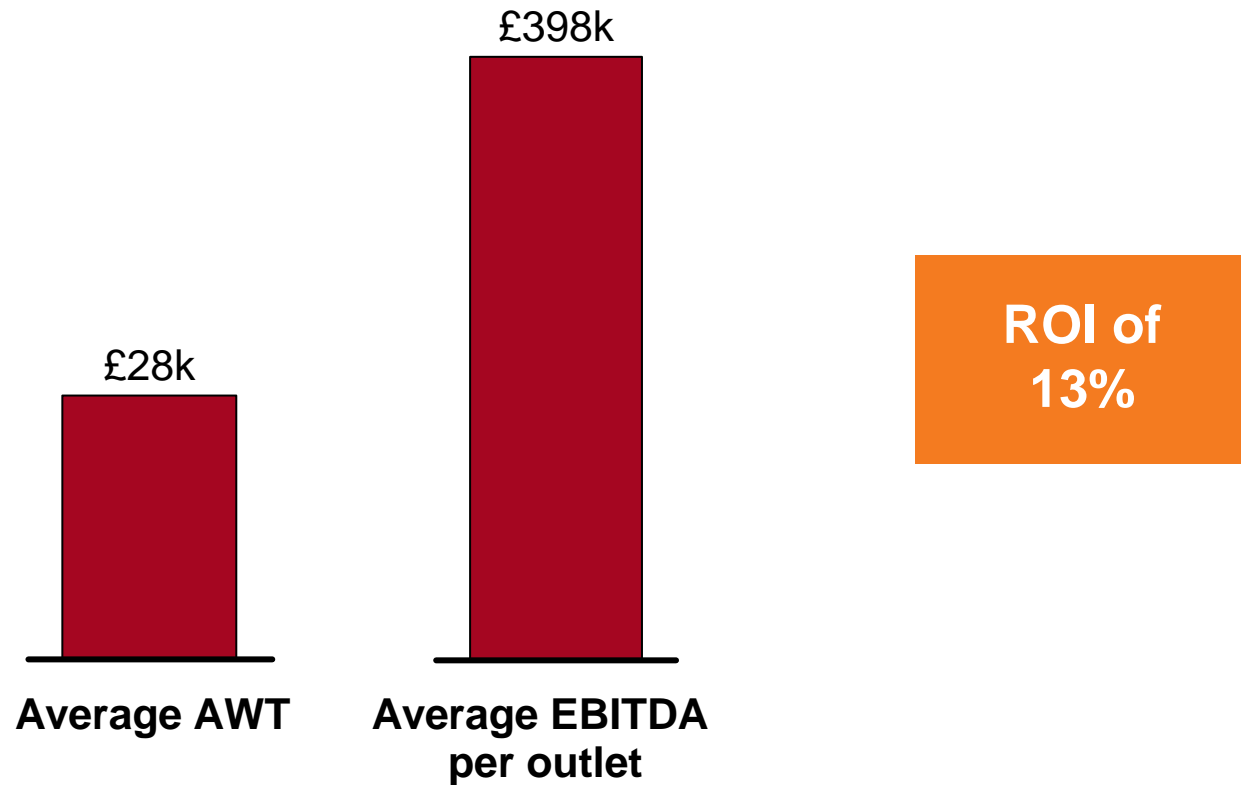
Nicholson's

O'Neill's

Metro  
Professionals

**Large pool of conversion opportunities within estate**

# Single site acquisitions



Note: 14 sites, FY07-FY09

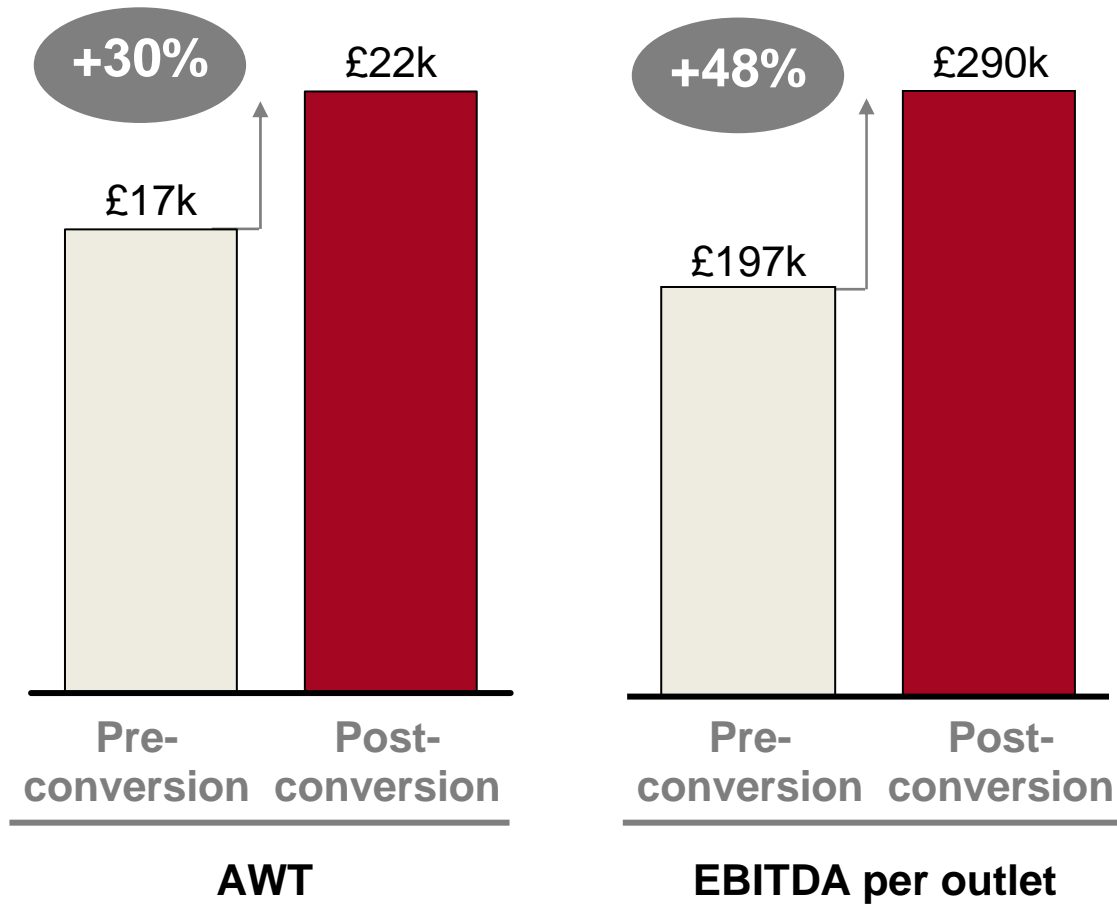
**Single site acquisition track record is strong**

## c. 400 single site acquisition opportunities

- Retail park locations, expanding our current base of 20 pubs
- New development sites
- Single pub sites

**Large pool of single site acquisition opportunities**

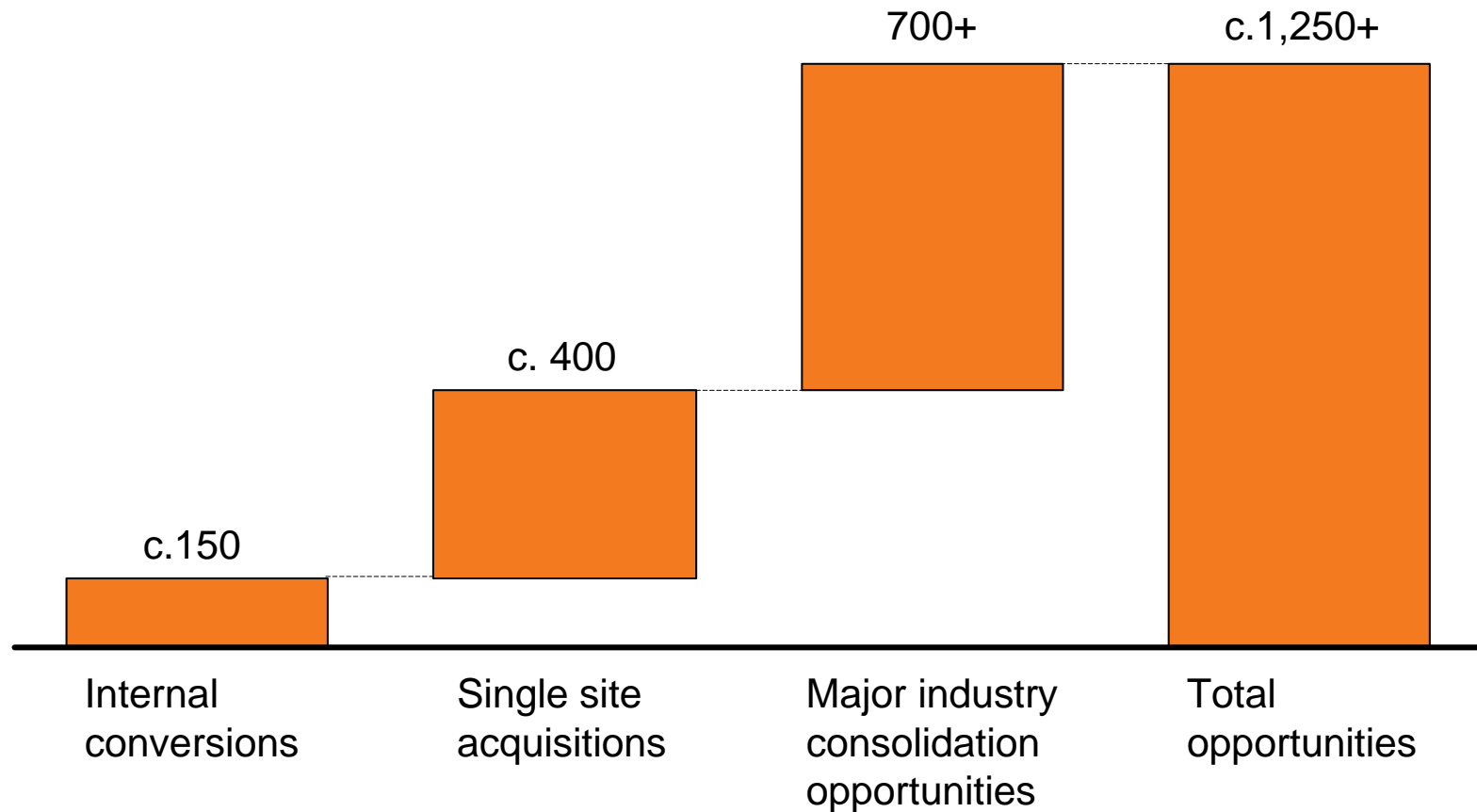
# Industry consolidation – 249 pubs



ROI of 12%

**Brands add value to portfolio acquisitions**

# Significant pools of potential sites



**Growth not dependent on consolidation**

# Agenda for today

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## Reduced debt levels

	Feb 08 £m	Sept 09 £m
<b>Net debt</b>	<b>(2,910)</b>	<b>(2,600)</b>
Unsecured drawings	(595)	(383)
Facility headroom	+£105m	+£167m

**Our financial position is stable**

# Timing and pace of expansion

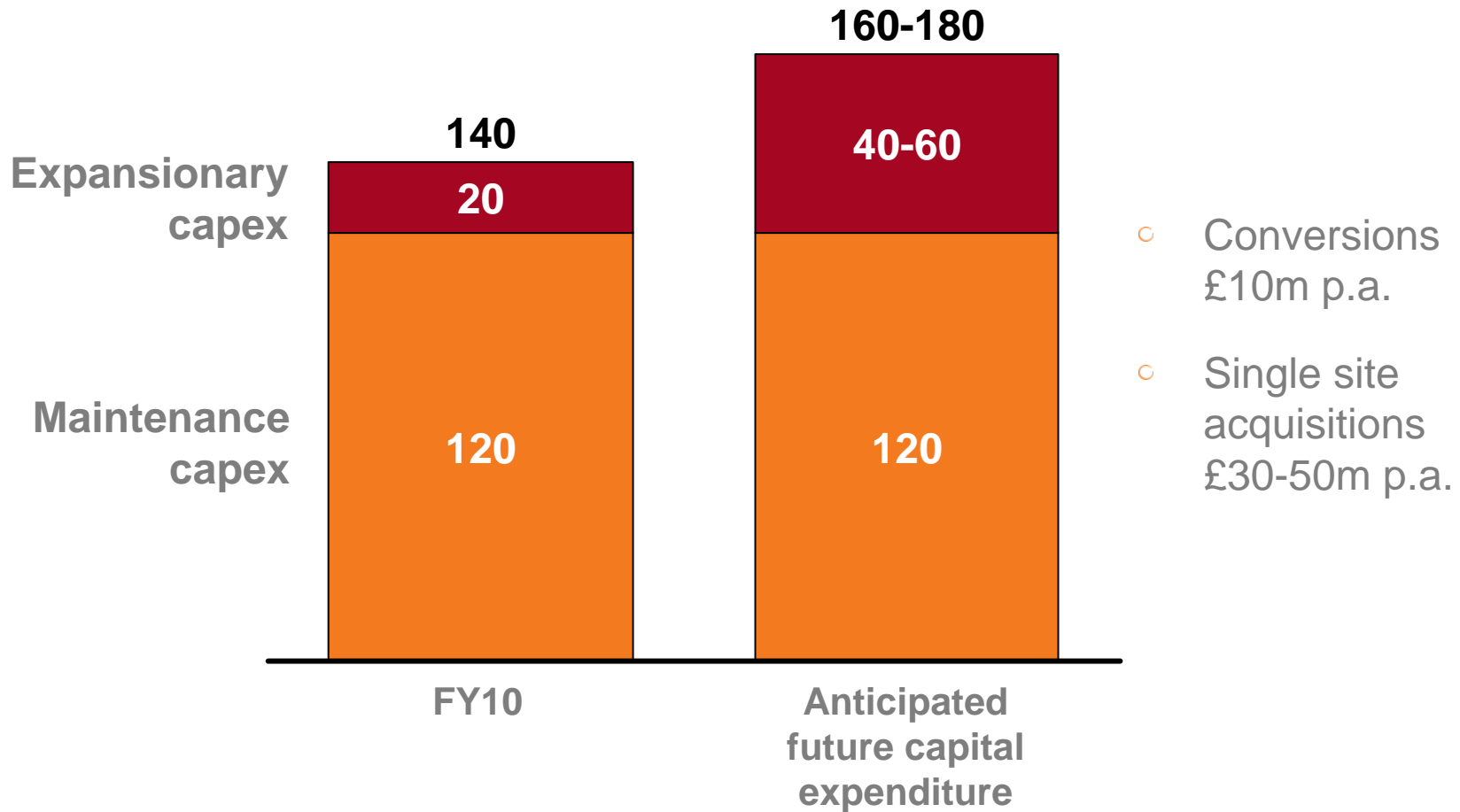
- Cash generative business
- We will assess investment opportunities as they arise – ensuring high returns
- To be balanced with:
  - Pension funding requirements
  - 2010 facility refinancing
  - Resumption of dividend payments

**Opportunity to grow shareholder value**



# Potential capital expenditure

£m



**Significant expansion within our control**

# Opportunity for value creation

- Rising food mix offset by higher sales per outlet
- Estate evolution increases proportion of high EBITDA outlets
- Greater purchasing power offsets costs inflation
- Increased scale reduces overheads as a proportion of sales
- Continued strong capital returns

**Sales driven growth with sustainable net margins**

# Summary

“Developing Mitchells & Butlers to become the UK’s **preferred choice** for **informal eating out**, with **great brands** that satisfy key **customer occasions**, to **grow shareholder value**”

## Questions & Answers

**Analyst Seminar – 21 January 2010**