



**GUESTS
LOVE TO EAT
AND DRINK
WITH
US**

Mitchells & Butlers

Half Year Results 2014
22 May 2014

Highlights

- Turnaround in volumes
- Satisfactory conclusion to pension negotiations
- People initiatives gaining momentum
- NPS growing across the business
- Remodel programme accelerating successfully
- Pub systems upgrade on track

Successful execution of established plans



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Financial Review

Tim Jones – Finance Director
Half Year Results 2014
22 May 2014

Income statement

(pre exceptional items and other adjustments)

28 weeks to 12 April 2014

H1 2014
£m

H1 2013
£m

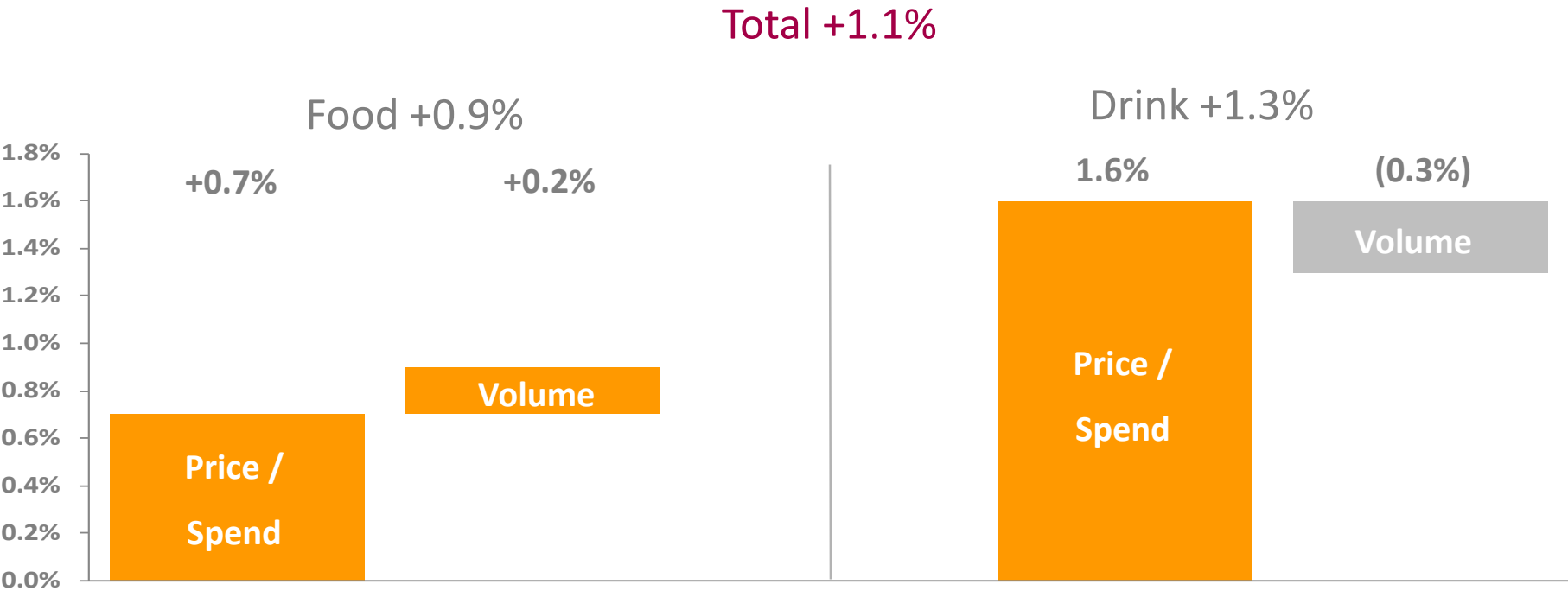
Revenue	1,016	991	+ 2.5%
Operating costs	(869)	(847)	
Operating profit	147	144	+ 2.1%
Interest	(70)	(70)	
Profit before tax	77	74	+ 4.1%
Earnings per share	14.6p	14.4p	+ 1.4%
<i>Operating margin</i>	14.5%	14.5%	-

Like-for-like sales growth

	Week 1-17	Week 18-28	Week 1 – 28	Week 1 – 33
Food	2.5%	(1.5%)	0.9%	1.1%
Drink	1.3%	1.2%	1.3%	1.3%
Total	2.0%	(0.3%)	1.1%	1.2%

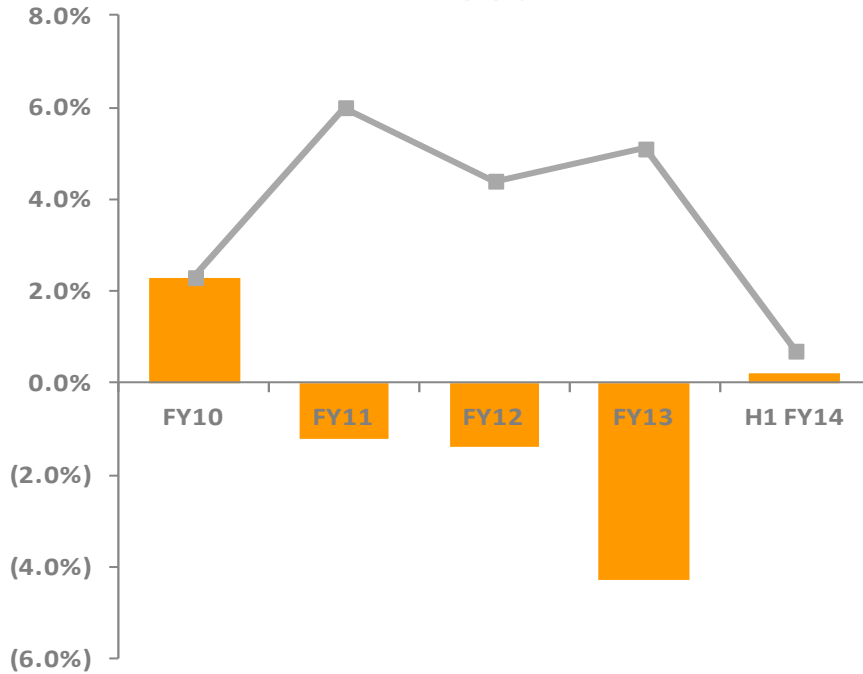
- Volatility driven primarily by weather and special events
- Still large regional variations although recovery expected to be broad based

Drivers of LFL food and drink sales

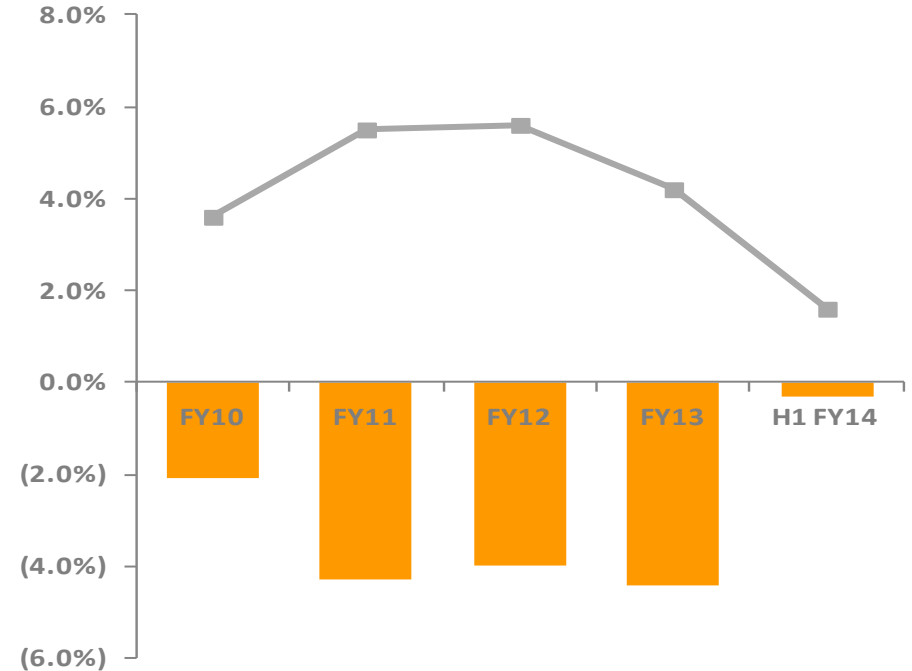


Like-for-like volume and price trends

Food



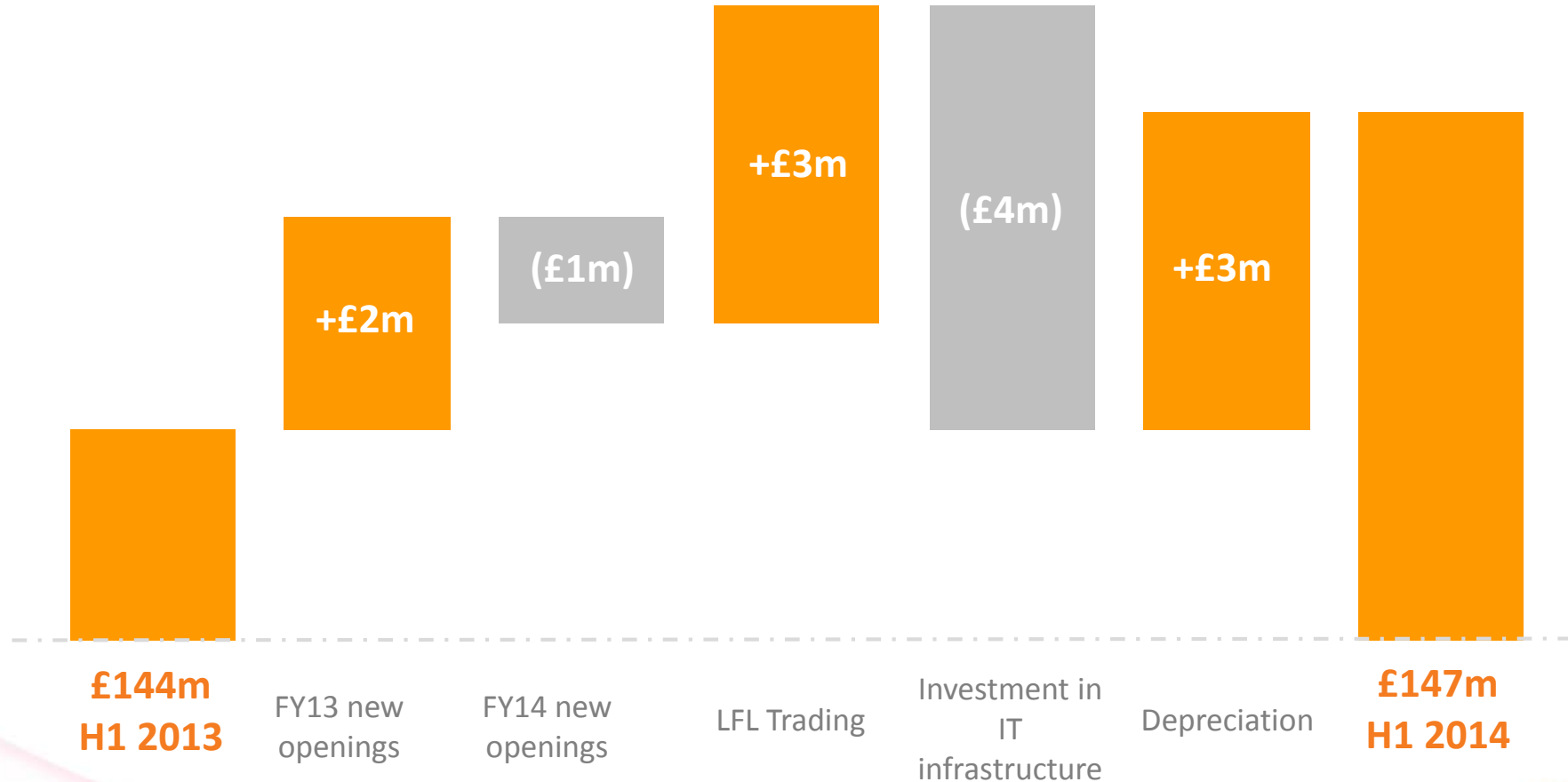
Drink



 Volume

 Price / spend

EBIT movement



Group cash flow

	H1 2014 £m	H1 2013 £m	FY 2013 £m
EBITDA	204	204	420
Working capital / non cash items	25	22	(9)
Pension deficit contributions	(20)	(20)	(40)
Cash flow from operations	209	206	371
Maintenance & infrastructure capex	(58)	(48)	(100)
Net interest paid	(65)	(63)	(126)
Tax	(16)	(13)	(31)
Free cash flow	70	82	114
Expansionary capex	(28)	(11)	(28)
Disposals and other	1	(1)	(2)
Net cash flow	43	70	84
Mandatory bond amortisation	(28)	(27)	(55)
Net cash flow after bond amortisation	15	43	29

Group net debt

	Apr 14 £m	Sep 13 £m	Apr 13 £m
Securitisation debt ¹	(2,101)	(2,124)	(2,156)
Liquidity facility	(148)	-	-
Cash & other	247	101	132
Securitised net debt	(2,002)	(2,023)	(2,024)
Cash and cash equivalents	281	264	247
Group net debt	(1,721)	(1,759)	(1,777)
Net Debt : EBITDA ²	4.1x	4.2x	4.3x

Notes: 1) Includes derivatives hedging balance sheet debt

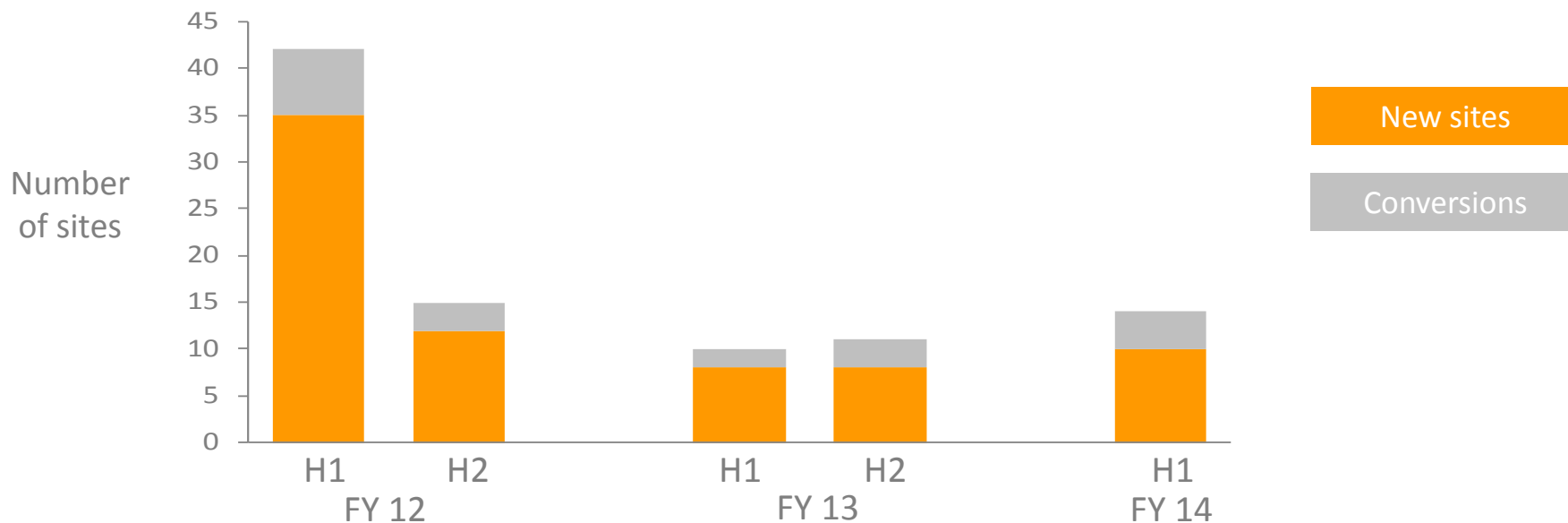
2) Annualised EBITDA

Capital expenditure

	H1 2014 £m	H1 2013 £m
Maintenance and infrastructure	58	48
Expansionary	28	11
Cash flow from operations	86	59

- Increased capital spend from low level last year
- Rollout of key infrastructure projects
- Ongoing investment in successful remodel programme
- Expansion of 15 new / converted sites focused on Upmarket Social, Special and Family segments
- Expect c.35 new site acquisitions and conversions in the current year

Expansionary capex returns



H1 2014 Capex ^a

H1 2014 No of sites

FY 2011-14 EBITDA ROI

Freehold Acquisitions	£23m	6	14%
Leasehold Acquisitions	£5m	5	18%
Conversions	£1m	4	17%
Total	£29m	15	16%

a: Relates to new site acquisitions and conversions in H1 2014 on an activity basis

Pensions

- Funding:
 - Agreement now reached with Trustees on 2013 triennial valuation
 - Deficit £572m (2010 valuation: £400m)
 - Recovery plan extended by three years to 2023
 - Annual contributions starting at £45m (previously £40m per annum)
 - Further contribution of £40m by September 2015
- Accounting:
 - Adoption of IAS 19 (Revised) with restatement. No cash impact
 - Minimum funding recognition will increase deficit at FY14 year end following agreement to triennial funding

Key messages

- Return to food volume growth and turnaround in drink volumes
- Sales growth at stable operating margin
- Adjusted earnings per share growth of 1.4%
- Continued investment in business transformation programme, both through capital and expensed
- Agreement reached on 2013 pensions triennial valuation at an affordable level
- Dividend to be assessed in the light of full year trading and cashflow



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Business Review

Alistair Darby – Chief Executive

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Building long term success at M&B

- Balanced transformation
- Simplification drives scale benefits
- Foundations of success
 - Exceptional people
 - Compelling brands and formats
- Quality like-for-like sales → profit growth



Continued execution of established strategy

Key elements of strategy

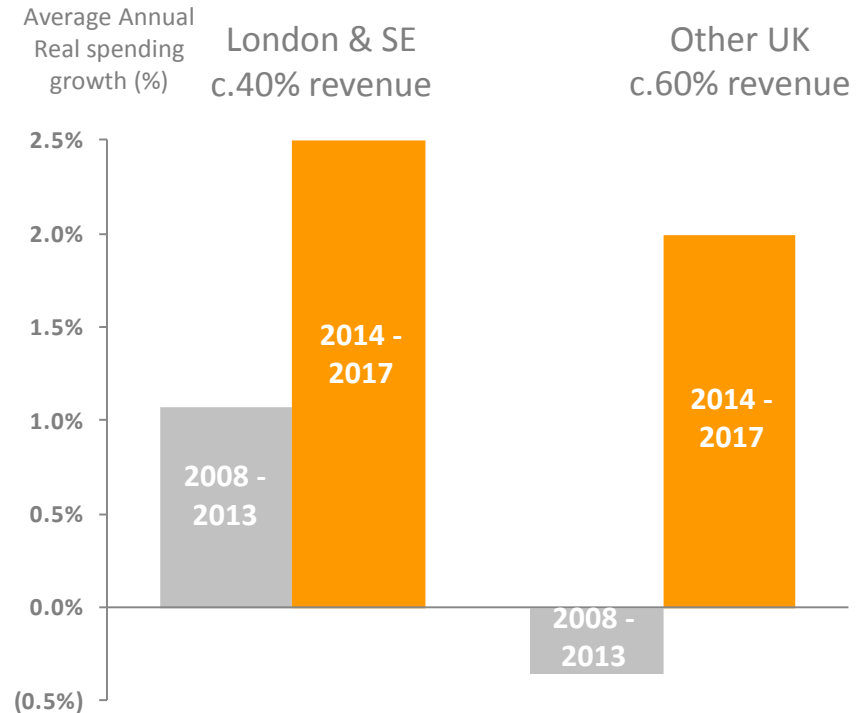
- Build team stability
 - Attract, develop, retain
- Lead in safety and efficiency
 - Scores on the doors, systems infrastructure
- Be guests' first choice
 - Trust and loyalty builders, insight, remodels
- Expand the business
 - Drive organic growth through four target brands: All Bar One, Harvester, Miller & Carter, Toby Carvery



Strategy underpinned by operational priorities

Geographical economic environment

- Anticipated recovery in real spending growth across all regions
- Fastest growth continuing to come from London / South East
- Significant consumer expenditure turnaround in other regions

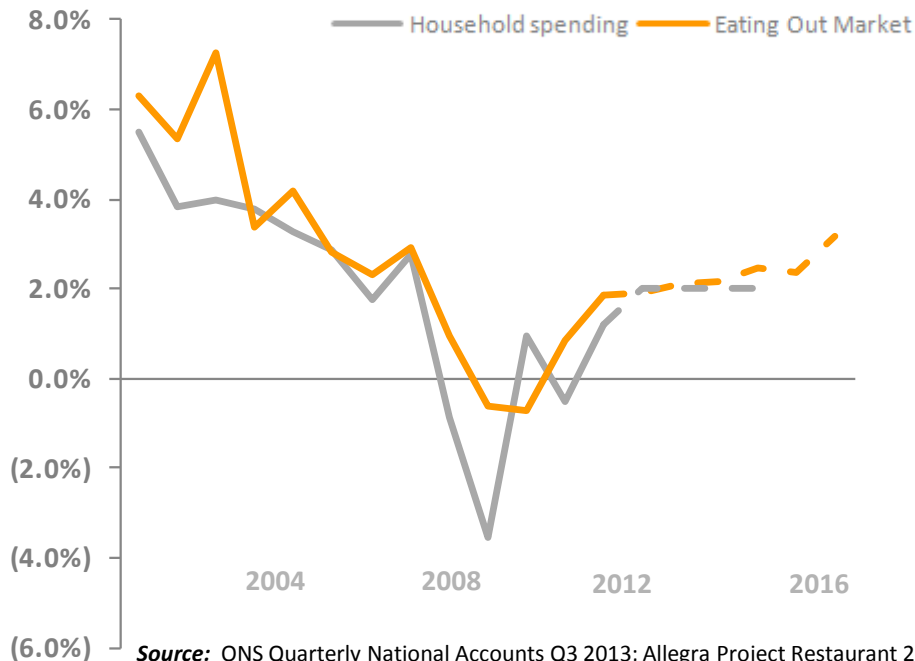


Growth will come from all geographic regions

UK market environment

- Market growth to track overall growth in consumer expenditure
- Expenditure on eating and drinking out stable
- Continued switch from drinking out to eating out
- M&B 3% of market: substantial opportunity to grow through focus on eating out market

Consumer expenditure growth (%)



Source: ONS Quarterly National Accounts Q3 2013; Allegra Project Restaurant 2013; Capital Economics

Steady market growth anticipated

Execution centred on 4 priorities

- Exceptional people...
- Outstanding operators of scale brands and formats...
- Which guests love...
- Leading to market leadership and profit growth

Profit through people, guests and operational practices

Our people



- Key performance indicator:

	FY11	FY12	FY13	H1 14
MAT Staff Turnover	85%	82%	78%	78%

- Jobs market:
 - Unemployment falling across UK
 - Skills shortage, especially food

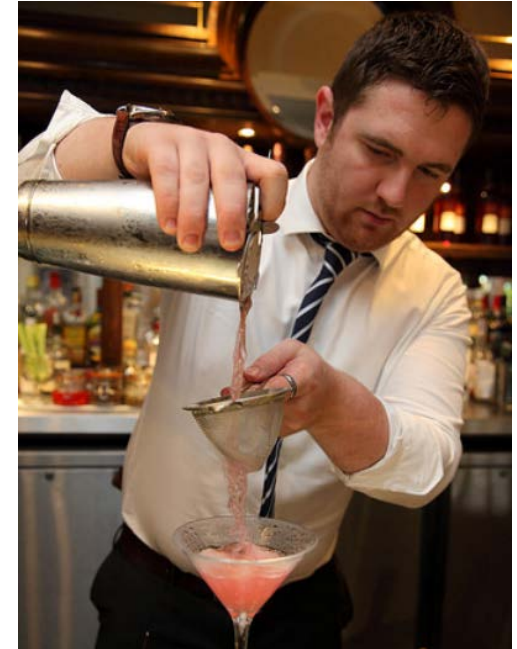


People strategy critical to long term success

Our people: key activity



- Central recruitment
 - Success in London being rolled out to regions
- Engagement increasing, e.g. 127% increase in responses to most recent attitudes survey
- 1,000 new apprentices in the next two years
- £2m investment in induction training
- Membership of 'Pick a Perk' up 6k in first half



Recruit and retain exceptional people

Our practices



- Food safety scores:
 - Year on year improvement in key guest metric off already high base
 - Targeting all businesses to be 4 or 5
- New pub systems rolled out to >750 pubs
 - Handhelds, KMS, tills speed up guest service: increases NPS
 - Modernised infrastructure frees up GM, RBM time for business building



Safety and systems underpin the guest experience

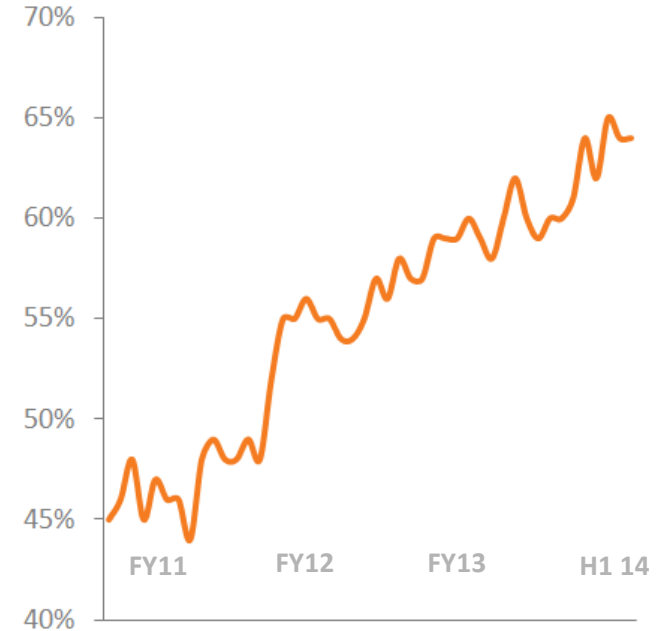
Our guests



● Key performance indicator:

	FY11	FY12	FY13	H1 14
Net promoter score	47%	55%	59%	63%

- 700,000 responses received annually
- Net promoter score growth across the business
- Trust and loyalty builders well-established
- Guest satisfaction key focus of Good to Great



Guest-facing actions driving positive results

Our guests: food innovation

- Increased relevance
 - Provenance: National Park lamb
 - Sharers: All Bar One, Castle
- Better value
 - Generosity: Sizzling ultimate plates
 - All-inclusive: Harvester bundle deal



Enhancing the way we delight our guests with food

Our guests: drinks innovation



- Volume-driving initiatives: Cocktail Masterclass, Cask Ale Club
- Evolving drinks range: Craft beer range, 'home-made drinks'
- Sports loyalty card promotions, World Cup activity

Wide range of drinks initiatives to drive volumes

Our profits: expansion



- Expansion based on four key brands
- Opportunities to expand through freeholds and leaseholds

Multiple routes to successful expansion

Our profits: expansion



- Tighter focus builds openings expertise
- Portfolio enables opportunistic acquisition, e.g. Convivial

Increased expansionary capital programme

Our profits: improving existing estate



- 97 remodels carried out in H1 2014 (H1 2013: 83)
- More than 600 remodels planned from FY14 to FY16
- Targeted investment based on guest insight

Accelerating remodel programme

Conclusion

- Transforming the business for long term success
- Clear strategy in place
- Strategy underpinned by well-defined operational priorities
- Economy improving across all regions
- Well positioned for future growth





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Q&As

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