Phil Urban

Good morning, ladies and gentlemen. After a difficult three years it feels great to be able to stand here today and present a strong first half set of figures, and with our sales trajectory continuing to improve and some of the macro headwinds now starting to subside our optimism about the future is getting stronger and stronger. Whilst we still have some way to go before we're back to where we were pre-Covid, it does feel like we have real momentum again and a passion and an energy across the business that is going to serve us well over the coming months. Over the first half we delivered like-for-like sales growth of 8.5%, and now that the distortions of the Omicron variant and the beneficial VAT rate last year have washed through, we are encouraged by the continuing sales trajectory with like-for-like sales growth over the last six weeks standing at 8.9%.

Today we'll start with Tim taking you through the detail of the numbers before I return to remind you about what it is we're trying to achieve and to explain why we're optimistic about the coming months and about the future. So, Tim.

Tim Jones

Good morning. I'll take you through the financial performance of the group, and it's encouraging to be able to report what is starting to feel like finally a return to normality with some positive indications for the future.

Let me start with the income statement. Overall operating profit for the half year was £100m, so that's slightly lower than last year, you'll be well aware that last year included the benefit of government support totalling about £53m, and of course cost inflation was just only beginning to build, so cost prices are higher now than they were through the first half of last year.

What I'll do later on in this presentation is I'll separate out the various moving parts so you can understand that, but let me start with sales, as always. Sales remained strong and resilient through the first half. We benefited of course by the fact that Omicron was in the comparator year, but we also suffered in this half from train strikes and from a couple of bouts of wet and snowy weather, so putting that together overall we feel 8.5% like-for-like sales growth, about 12.5% excluding VAT, was a strong performance throughout the period, both quarters, throughout our portfolio, and underpinned by both volume and spend per head growth. I'm really pleased to say that that strength of sales has continued since the period end, so in the last six weeks we've grown our sales at just under 9% at 8.9%.

The future is going to remain quite dynamic, I think, and to that end I make no apologies for emphasising again the wide breadth of the M&B stable of brands. We cover almost all of the mass market whether they're occasions of food or drink, whether they're premium or value, and whether they're located in urban, suburban or rural areas, and that undoubtedly gives us a measure of resilience as we go forward in what will remain uncertain times. We're in the process of adding a new brand to our stable, Ego restaurants, we currently own 40% of the business, we'll be buying the remaining equity over the second half. Phil's going to take you through that in a little bit more depth and outline a bit about the brand and our ambitions for it, but I've put it on this slide here so you can see where it fits into our portfolio.

I said I'd separate out some of the moving parts of trading, quite a lot going on, particularly last year in the comparator year. So, walking through those, as I said last year included £53m of government support, that's principally reduced rates of VAT, that was £43m of the £53m, and secondly through last year we had a build of cost inflation, coming to a crescendo, if you like, at the end of the first half with the situation in Ukraine. Overall, that gave us a headwind in the first half of just short of £100m of which £13m relates to energy.

We've continued with our capital plan to invest and refurb our estate, those that we've done this year are slightly diluted in the first half, we have closure periods, but we're getting a good return from sites once we have opened them, and obviously those that we did last year are starting to have a positive contribution.

Against that backdrop we're delighted to have built profits back to £100m on the back of a really strong sales performance, and I've split that out here for you between spend per head and volume, both of which are moving strongly ahead, and supported by a number of cost efficiencies primarily generated through our Ignite programme, and Phil again is going to talk a little bit around some of the initiatives we've delivered on that front and some of those we're looking to deliver in the next 12 months.

Costs remain a hot topic, a topic of much attention in what are uncertain times, but I think, dare I say it, we're beginning to get through the worst of it. If I look at this year, we'd previously guided a cost headwind of 10-12% on our £1.8bn cost base, we think we're going to be at the bottom end of that range now, so some of the worst-case scenarios have drifted away, and substantially most of the costs for this year are now brought forward so we have a degree of certainty around that.

If I look forward to next year the picture changes quite markedly as we believe we're going to start to see a return to more normal levels of cost inflation, you can see how much lower the blue charts are here, and particularly energy which has remained a focus for us. You'll perhaps remember we start buying energy forward six months out, it leaves us, I would say, relatively less hedged than a number or most other businesses that you talk to, and that meant that as prices spiked last year, we felt that pain very quickly. Of course, the flipside of that is if we believe markets stay at their current levels or even abate slightly further then we feel the benefit of that slightly quicker. So, I would hope we see a meaningful decrease in our energy costs for next year if markets stay where they are and where they're expected to go.

In terms of cash flow, we continue to generate positive cash flow, we again reduced our net debt in the first half. We had an inflow into working capital of £20m from the Rank VAT claim, a historic claim there that's been paid. Pension contributions will finish at the end of this year in September, and even before then they're all now going into a blocked escrow account, so they're not going into the pension funds, with the possibility or I'd say probability that we can take those contributions back at some stage once the schemes have been fully de-risked.

Lastly, we continue to invest in our sites with our capital programme, as I said before generating good returns as we ramp that up heading towards our seven-year refurb cycle. So, all in all we reduced net debt to under £1.2 billion.

I think before I hand over to Phil, just to pull together the main messages, strong sales performance throughout the first half, costs of course remain uncertain but we believe they are starting to abate, we're getting to a normalisation of cost inflation and we're adding to that with the self-help initiatives we've got through Ignite, and all of that gives us a momentum to trade ahead of where we expected we'd be in both the short term this year and the medium term next year. We'll take that through and build on a capital investment programme, an Ignite programme of self-help, a diversified estate and a fantastic stable of sites and brands across the UK and Germany. Thank you.

Phil Urban

Thanks Tim. So, as Tim has shown you our sales this year have been very encouraging so far, a like-for-like sales growth of 8.5%. The negative impact of last year's lower VAT rate and the comparatives was largely offset by the positive impact from reaching the anniversary of the Covid-19 Omicron variant which depressed the festive season in 2022. What is pleasing is that the volumes are up on prior year demonstrating that increasing footfall is underpinning our sales, and also that we're consistently tracking ahead of our competition as measured by the Peach Tracker. We believe that this is a reflection of having that enviable estate of well-known brands that Tim's just shown you which is very important when guests are seeking value for money, and also of our very strong focus that we have under Ignite and through what we do, and our focus on guest care which has been reflected in our strongest ever guest review scores that we've had.

The rail strikes have also been a significant disruption to the business over the first half, so these numbers were delivered despite the impact of those strikes, which I think is another reason for optimism going forward. We enter the second half in good shape with the most recent six week like-for-like sales which includes the start of Easter running at 8.9% despite having unfavourable weather conditions year-on-year, so this is also very encouraging.

In terms of our brands, it's good to see strong performance in all markets and now that the unfavourable VAT has ended it's equally pleasing to see Miller and Carter and our food-led businesses start to move forward again in terms of the year-on-year comparison. We continue to see very strong city centre performance, particularly with our Nicholson's brand leading the way, a brand that benefits from workforce coming back to the office, from stronger tourism and seemingly from a royal visit too.

A general concern on sales was always around what the increased cost of living might do to consumer confidence and therefore to footfall. We said at the prelims that historically our sector has been fairly resilient to any downturn as our guests prefer to cut back on other luxuries before cutting back on their social lives. I'm pleased to say that six months on we are still of that view, and despite us increasing prices ahead of where we would have increased in recent years, we are still seeing volumes increase which says that actually the consumer is coming with us. Consumer confidence appears to have bottomed out as the worst of the utility crisis is now behind us, it seems, and although food prices remain high, I think the news here is also better and we expect some likely stabilisation and then a fall in the not-too-distant future, and this along with warmer and lighter nights is probably driving the improving consumer confidence. So, we remain optimistic about our guests continuing to want to come out to our brands. Interestingly, the at-home delivery market has suffered as a result of more people coming out again which probably adds further weight to the argument that ultimately people are social animals and they want to come out for the experience.

All that said, there is no denying that the last three years has driven a marked reduction in market supply. It's always very difficult to prove a direct impact on our sales of supply coming out, however it must be the case that if the market shrinks in terms of numbers it has to be a positive to all those that remain. It emphasises that gaining market share is the key to success, which further convinces us that having a portfolio of strong and relevant brands operating in different market sectors all with clear propositions continues to be the right way forward for us.

We track our guest sentiment scores also as this is another indication of whether the things we're doing are resonating sufficiently with our guests. Similarly to the Peach Tracker, we are consistently outscoring our peers, and given the fact that we know that there is a clear correlation between superior guest scores and like-for-like sales, this has to be very encouraging.

So, we're pleased with the momentum we're building on our sales, however given the inflationary environment it's essential that we do continue to grow sales if we are to recover our profits to pre-Covid levels and beyond and continue on our path to de-lever the business. Rebuilding our profits is essential for the company because then it puts it in a position where we'll be generating a lot of cash and have a range of strategic options for the future. With the macro cost headwind starting to subside we are optimistic we can do this, and we remain focused on our three strategic priorities. To remind you: building and maintaining a balanced business or portfolio which is all about keeping the brands relevant, aiming to invest on an average seven-year cycle to keep the amenities fresh and accelerating the expansion of the strongest returning brands; secondly, driving a commercial edge to the way we do business which is about putting the guests at the heart of everything that we do and being clear how each pound of sales converts down to bottom line profit; and finally, driving an innovation agenda where we continue to build and sweat the technology that we've deployed in the business, we keep digital marketing as the engine room for the business, and we remain open to trialling new concept and new product ideas. These priorities remain as relevant today as they've always been, and they describe a business that has strong, relevant, well-invested brands operated with commercial vigour, dynamically, and with constant evolution and innovation.

As I said earlier, we're pleased with the momentum we have on sales but they do need to keep moving forwards if we're going to mitigate for the unprecedented cost inflation that this sector has seen. As a business Tim signalled that we faced between £180m and £220m of unmitigated cost headwinds as we began this financial year with utility costs and food cost of goods being exceptionally high and labour costs continuing on their trajectory. Now, there are three main levers that we pull each year to try and further drive sales and mitigate for cost increases, namely the annual commercial decisions that we take around price and offer development and operational control, secondly the capital programme where we decide how much capital to invest and where to deploy it, and finally Ignite, our change programme, where we seek to ensure that we have multiple initiatives in place at any one time.

Starting with the commercial decisions on pricing and offer development, the sector has understandably become more aggressive on pricing over the last year given the inflationary environment and although it's fair to say that whilst we have taken more price in recent years, we took circa 5% at the start of the year and more modest increases as we've introduced our light night menus, we believe that they remain good value for money and certainly below headline inflation figures. As always, we try and protect entry points where we can, and we look to add premium products that perhaps will drive a higher spend. We aim to operate in the premium markets within each of our brands and as such we'd expect to be in the upper quartile on price. Evolving our offers in this way, grounded in customer insight, has enabled us to maintain and grow volumes and improve guest satisfaction scores despite taking those price increases. Offer development is a dynamic programme of continual improvement across each of our brands ensuring that they stay relevant.

Moving onto labour which is of course our biggest cost, but of course we're a service-led business and therefore our team are our most valuable asset, that is why we've invested in a sophisticated labour deployment tool which aims to ensure that we optimise our labour deployment, adding in hours where demand makes this commercially viable to do so and reducing hours to a minimum when demand is at its lowest. After all, the best way to mitigate for cost increases is to take more sales and the auto roster project aims to enable us to do that. The auto roster project has been part of the Ignite programme over the last couple of years and we've now rolled it out to the business, and we expect the full benefit of that to be yielded in the next financial year.

Energy has been the standout cost burden to the business over the last two years as global utility costs/commodity costs have spiked. In line with the systematic approach that we tend to take towards these things, we initially set up a network of energy ambassadors at site level to start driving improvement in site housekeeping and therefore to reduce consumption. At the same time, we invested in heating additives that improved the efficiency of our heating systems, and this year we've rolled out voltage optimisers that reduce electricity consumption. Put together we are confident of seeing material like-for-like consumption reductions, and now as the commodity costs have now started to fall, we are encouraged by the impact that this will have on current year forecasts but also more importantly on the next year projection. We now have also installed out first solar panels which of course will further reduce consumption and therefore costs. The reductions we are seeing in consumption are permanent and fundamentally we are now a far more energy efficient business than we were.

Moving on to capital, the capital programme is an important part of what we do each year. As I said earlier, we aimed to get back onto an average seven-year cycle of reinvestment at each site which will ensure we have good quality amenity right across the portfolio, and to accelerate those brands that are generating the strongest returns. Due to inflationary pressure and resource and material shortages that still persist in the construction industry we are still building back the scale of the programme. We've been very encouraged by the strong returns on investments we're seeing, and we're currently conducting another round of value engineering across all of our brand templates to try and compensate for some of the inflationary pressures that we're seeing in development costs.

Pleasingly, our first two Browns developments in Beaconsfield and Ruislip that I talked about at our prelims continue to trade well, and we will now look to further the Browns expansion over the coming months. We've also recently refurbished our flagship site in Covent Garden which demonstrates the confidence we have in the Browns brand and the opportunity we think it represents. Similarly, the two Arrowsmith darts implants at O'Neill's Solihull and O'Neill's Watford that I also mentioned back in November also continue to trade well, and we intend to extend the rollout of this concept too over the coming months. Arrowsmiths is a great solution to be implanted into underperforming or unused trading space that drives new footfall and enhances the host business.

Having proven brands to rollout is a great strength for Mitchells & Butlers and we are delighted to have been able to announce our intention to acquire the remaining 60% of Ego restaurants, a brand that we've had a 40% stake in since 2018. For those of you who don't know Ego, it operates a Mediterranean themed menu and is trading very well. I'm delighted that the management team will remain with the business, and they will continue to operate Ego which should ensure that we don't lose any of the Ego culture that's made that brand very successful and should mean that we manage integration at the right pace, taking the learnings for the business as a whole. Ego currently has 26 sites, 16 of which are M&B leases, and we see scope to extend the brand to over 80 sites over the coming years.

The final but pivotal lever that we pull each year is the execution of numerous projects that sit under our Ignite transformation umbrella. To remind you, these include projects that will drive sales, drive productivity, reduce costs, improve guest experience and so forth. Each project has an exec sponsor and a project team led by an operations director or senior manager. As I've said many times before, Ignite is simply a recognition that there is no silver bullet to moving a business of our scale forward but instead it's progress simultaneously on numerous fronts that together in aggregate adds up to a meaningful number. We have circa 40 projects live at any one time in various states of completion and we systematically refill the hopper every two years as there are always new ideas to grab hold of or things that we can and should improve.

Unbelievably, we're now seven years into Ignite and so we have a tried and tested weekly and monthly cadence that drives the programme and provides the governance required. What is exciting is on the numerous projects that we have rolled out over that time, which we now know with certainty work, there are always sites where for some reason they haven't seen the benefit, so we see a lot of value now in going back into the bottom quartile of sites on each initiative that we've done just to get them performing like the rest, and that in itself we think will add a lot of value.

Finally, we were delighted to be awarded the Best Sustainable Pub Company Award at the recent publicans' industry event, which is recognition of the huge amount of ground that we've covered. We have a detailed programme of activity ahead of us from deploying solar panels and going fully electric on our cook lines, to working with third parties to avoid food waste and helping the most needy in society. Aiming to operate sustainably is now just part of what we do, and it touches everyone within the organisation.

In summary, we believe that we've had a very strong first half and that we are nicely set up for half two. Our sales growth has remained ahead of the market, and the fact that our guest scores are at record highs gives us the confidence that this should continue. As we came out of Covid, we were clear that we didn't feel that we could solve all the macro events or macro-event driven cost issues that we were facing but that what we could do was to ensure that we controlled those things that were in our gift to control, and I feel we've done that, and that now makes ourselves fundamentally a more efficient business. Now that the macro issues are starting to subside, we believe we're well positioned to see the benefit, particularly as utility costs start to fall and hopefully when food costs soon follow on. This coupled with the addition of Ego restaurants into our stable of brands means that the outlook for FY24 is getting stronger and stronger. Navigating the last three years has been hugely challenging for everyone in the business but we feel we are now firmly back on our chosen path and that we have a bright future as a business to look forward to.