Mitchells & Butlers 20156 Final Results Announcement
Tuesday 22 November 2016

Q&A Session

Question 1
Jamie Rollo, Morgan Stanley
Thanks, good morning, Jamie Rollo from Morgan Stanley. Three questions please. First of all on the like-for-like improvement, clearly there has been the benefit of higher spend behind that. Can you talk a bit about what the un-invested like-for-likes have been doing and whether that has shown some improvement as well?

Secondly on the cost inflation, obviously you are focused on cash costs, but how about the depreciation charge given the higher capex and the shortened refurbishment cycle?

And then finally, if we look at the headroom on the securitisations in the appendices on the free cash flow winding down to about £22 million I think, is there any risk of that getting too close to upstream the dividend and is that more about the EBITDA come under pressure or is there some upward pressure there on the minimum maintenance requirement? Thank you.

Phil Urban
On the like-for-likes, we haven't disaggregated how all our like-for-likes break down but I am pleased to say that the pure un-invested estate has also shown improvement which means that what we are seeing is not all capital programme driven. It is very difficult to say which one of all those things we have been doing is the driver of improvement. I am a firm believer that there is no silver bullet, you work on all these fronts and it is the increments you get from all the things we are doing. So it is pleasing to see that all parts of our estate are showing improvements as we move forward from here.

Tim Jones:
Depreciation will increase over the new few years Jamie, as we increase the level of capex so I would expect in the current year to be £3-4 million higher than it was last year. Then as we build up to £200 million spend this year it will sort of lag the increase in the capex if you see what I mean. So there will be low single digits escalation in the depreciation charge we put through.

In terms of the hedge, I think you mentioned maintenance, we are well clear of that in terms of the amount we invest on our estate. [And you know the EBITDA within the estate is what we are running at the moment and what we are looking to improve with all of these initiatives and that is everything we are working towards.

Jamie Rollo, Morgan Stanley:
So essentially a 5% EBITDA drop is all it would take for that RPT to be triggered?

Answer
Yes in the first instance before one undertook any mitigating action yes.

Question 2
Brian Devitt Goodbody
Two questions from me please. Just on the 75 sites you have highlighted for disposal. Can you give us some colour on those sites in terms of profitability and recent like-for-like performance?

And secondly just on the reintroduction of BT Sport, how recent was that? Thanks.

Phil Urban
For BT Sport, I think I am right in saying it came out in September of last year and it has gone live again from August of this year. So we had BT Sport for August of last year. So it has only really been from September that we have got it when we didn't have it in the prior year, if that makes sense. So we are now seeing the real value since September onwards.

Tom Jones
So the disposal cohort has an annualised EBITDA of about £5 million at the moment and a book value slightly in access of £50 million. In terms of performance, clearly they would have been the weaker performing pubs that we have got, so those in negative like-for-likes. They would all be in our un-invested estate.

Question 3
Joe Thomas, HSBC
Morning, it's Joe Thomas from HSBC. You split out the costs in categories that were sterling and foreign exchange denominated. Can you just give a bit of clarity on what you are including within the sterling costs because I suspect there might be some things that are indirectly influenced by FX in there?

Tim Jones:
Simplistically we have just split it into those where we contract in foreign currency and those where we don't. So the £100 million is where we contract in euros or dollars. The rest is where we buy in sterling. Now I take your point, but I am not sure how else I can split it up. Clearly there is going to be pressure on UK suppliers if it becomes cheaper for someone from outside to buy their products, they might bid it up or their supply chain may be bid up. So there may be some risk within that as well. But I think that simplistic spread is all I can really do in the first instance.

Question 4
Jeffrey Harwood, Stifel
Yes Jeffrey Harwood from Stifel. Two questions. First of all, on the disposal proceeds, I am not sure if I interpreted this right or not. Are you going to use the disposal proceeds to accelerate the level of capital expenditure?

And secondly, can you just update us on the dividend policy now going forward?

Tim Jones:
The proceeds go into the pot really. I am not sure I can allocate them against anything specific. We said we will spend £200 million this year. If for whatever reason we only make half those disposals, we would still spend that £200 million this year.

So I think they just go into the pot. By implication therefore they will be reducing the amount of unsecured debt we draw down on those facilities.

In terms of the dividend, we will pay 7.5p in the first full year we have reintroduced it. I think we need to just assess what our dividend is going forward by reference to the trading conditions and what we can deliver with our P&L I think. Certainly it would be wrong to take the dividend on now when EPS has gone backwards. I think if we get to a place where we are showing up more cash and getting stronger earnings growth then that allows us to take maybe a slightly amended view of the dividend. But from where we are now I think you know and at all times, the dividend has to reflect the current and future trading of the Group.

<u>Question 5</u>

Tim Barrett, NUMIS
Morning, Tim Barrett from NUMIS. If I am reading slide 8 correctly, is that implying £30-35 million of total costs, once you take off your mitigation?

And in that context, what sort of like-for-likes would you need next year to be margin neutral please?

Tim Jones
Yes so £30-35 million is about right. I mean if you look at this year it is about £55 million so maybe £20 million of mitigation something like that. Clearly it depends on whether the sales growth comes from volume, from spend per head or price. If we said we expect an element of that to be price, which means you need a lower headline like-for-like sales growth to mitigate those costs. It sort of puts you in the 2-3% area subject to a lot of those assumptions and how it comes through.

Tim Barrett, NUMIS
Can I ask quickly on the pensions negotiations. When do you think you will have an announcement? Will it be like last time in the spring?

Tim Jones
Yeah, I mean I mean I am in a "don't hold your breath" camp. I think these are large numbers for us, they are large numbers for the Trustees. And a difficult environment to be holding those negotiations in or particularly as it was back in March. I don't think we are close to an agreement as we sit here today. So I think it will be well into next calendar year before we have something. Technically under the regulatory timetable we need to have an agreement by the end of June so Interims in May. I think last time we got it done by Interims in May. I think that it will be in that ilk that we are at. And then in the interim we pay under the existing plan we have got. So the existing payments we are making about £47m a year continue until they are superseded by another agreement.

<u>Question 6</u>
Nigel Parson, Canaccord
A couple of smaller questions if I can. I assume the staffing issue in terms of overseas staffing is a London issue?

Secondly I just wondered if you had seen a post Brexit sort of boom in London trading with tourists starting to come into central London where you are well represented?

And thirdly I just wondered if you could give us a sense of how many weeks of disruption you have seen in the H2 or current year in terms of trading?

Tim Jones
Yes as you would expect it is a far higher in London.

In terms of have we seen a boom in London? Actually no not yet, but I think for all businesses in London obviously it has been a strange period with Rugby World Cup last year. So I think we will start to see that now if that is going to manifest itself. We would expect to see some more inward bound tourism and yes London would benefit from that. But certainly the start of this year any increase has been more than offset by all the people here watching rugby this time last year.

And in terms of what was the disruption in H2. We obviously had the Euros which were 4-5 weeks which were unhelpful to us being a predominantly food led business. And I think the first 5 weeks of this year the Rugby World Cup which actually was probably better for us than we had realised a year ago. The benefit was around London and was very focused around London and the South East where we have a number of sites by the rugby grounds that can actually do massive numbers when there is a rugby game. And this time last year you had the benefit of Aussies, Kiwis and South Africans, not just being in town for the games, but happy to do something in-between games and you can see that in the London businesses. But as I said earlier, as soon as that finished, we bounced back to very like-for-like growth.

Just to come back on that, what disruptions in theory for the rest of this financial year, it should work in our favour because football later in this year should be good news for us when we overlap that. And even the Olympics I think at the tail end of last year, it was quite surprising on some of those key events we could see, when you saw the television viewing figures you could see that mirror our results. So again I would think that is not in a big way, so will be good for us later in the year.