



Mitchells
& Butlers

Half Year Results 2019



Financial Review H1 2019
Tim Jones
Chief Financial Officer

Key messages

- Strong like-for-like sales growth ahead of the market
- Second wave of initiatives delivering sales growth and cost savings
- Organic profit growth at increased margin
- Cost headwinds and economic uncertainty remain
- Priority remains de-leverage obligations and estate investment

Income Statement (before adjusted items)

	H1 2019*	H1 2018*	
	£m	£m	
Revenue	1,186	1,130	5.0%
Operating costs	(1,035)	(989)	
Operating profit	151	141	7.1%
Interest	(61)	(64)	
Pensions finance charge	(4)	(4)	
Profit before tax	86	73	17.8%
Operating margin	12.7%	12.5%	0.2 ppts
Earnings per share	16.1p	13.9p	15.8%

* before separately disclosed items

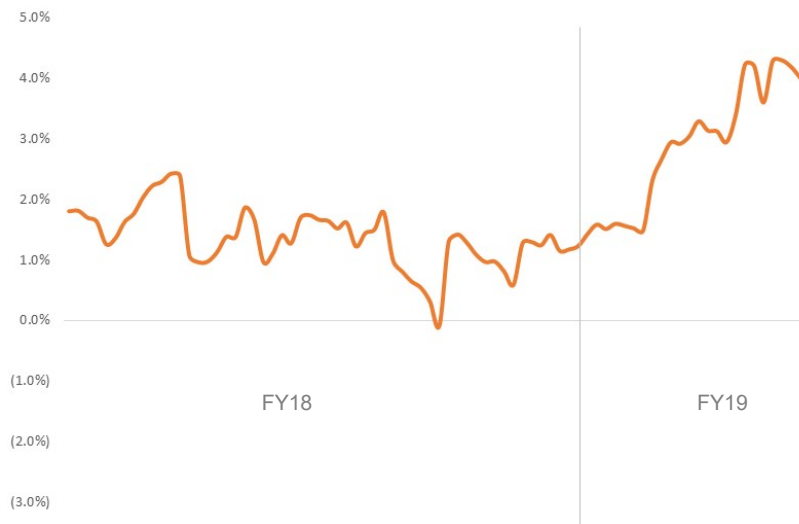
Like-for-like sales

	Week 1 – 14	Week 15 – 28	Week 1 – 28	Week 1 – 33
Food	4.6%	2.4%	3.5%	3.6%
Drink	4.8%	4.3%	4.5%	3.9%
Total	4.7%	3.4%	4.1%	3.8%

- Sales growth driven by increase in spend per item in part reflecting premiumisation of the estate
- Improvement in volumes trajectory of both food and drink
- Balanced growth across food and drink with particular strength around special occasions

Like-for-like sales

Like-for-like sales growth



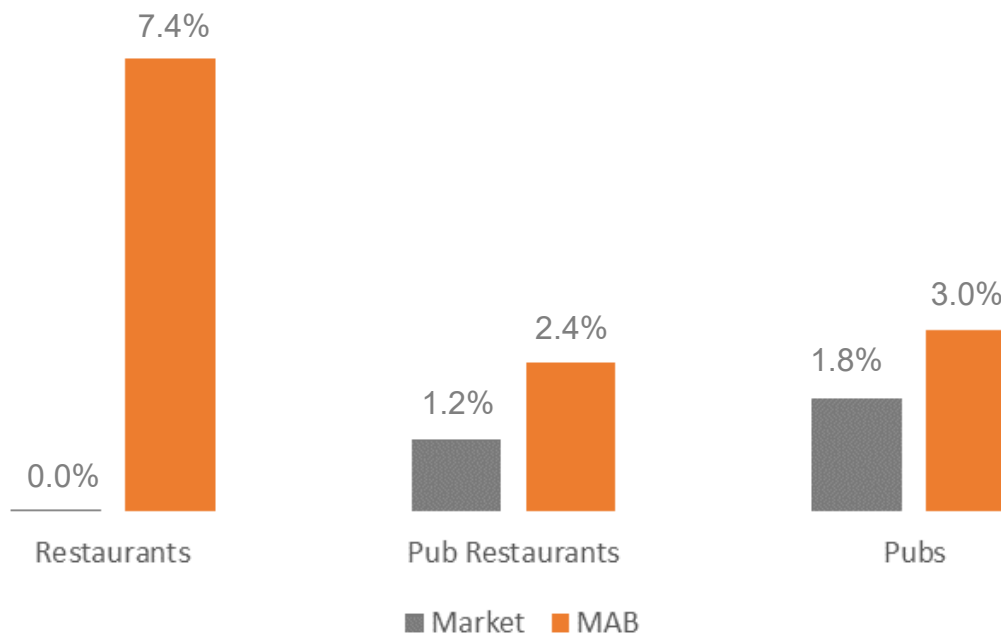
Uninvested like-for-like sales growth



- Trajectory has consistently improved in both the invested and uninvested estates
- Illustrates capital and other initiatives working together to drive improved performance
- Uninvested like-for-like sales grew by 2.1% in the first half

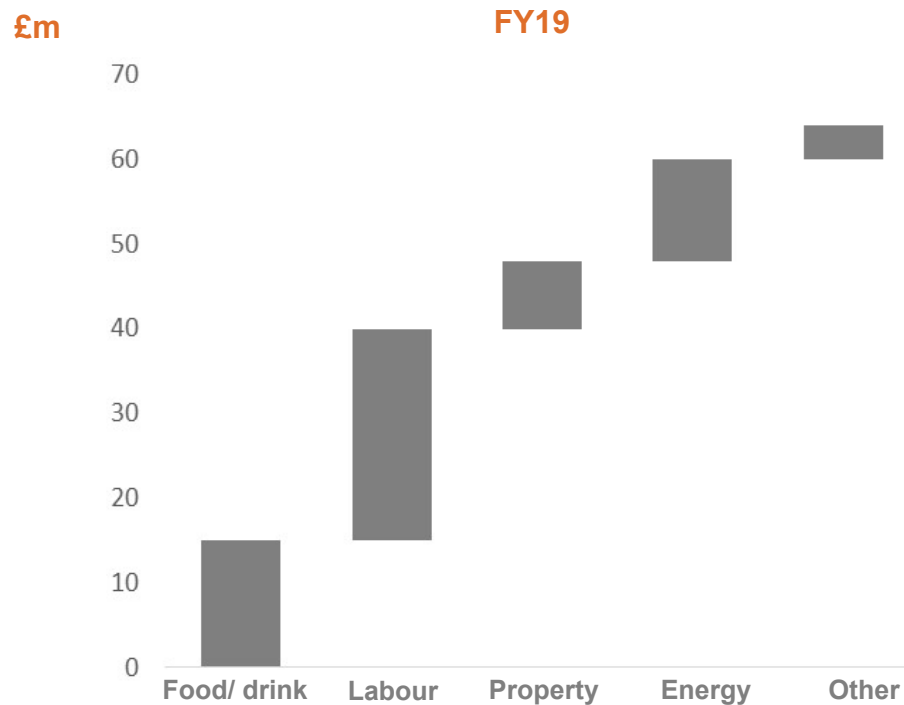
Like-for-like sales

Year to date like-for-like sales vs. the market



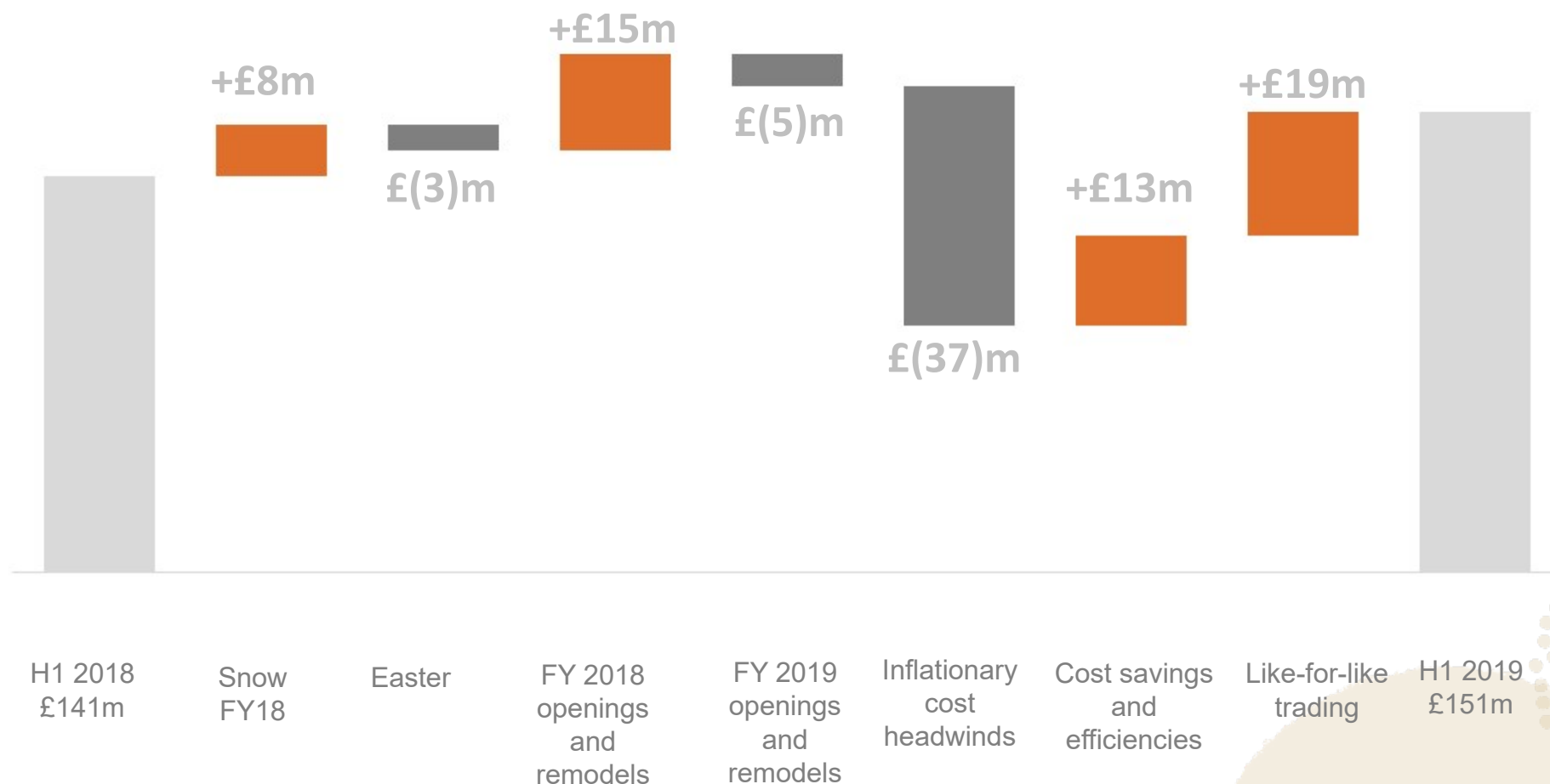
- Outperformance of the market in each segment as identified by Coffe Peach tracker
- Broad based outperformance in sales across the brand portfolio
- Particularly strong growth in Restaurants segment, against a flat market

Inflationary cost headwinds



- FY19 cost headwinds of c.£65m in line with expectations
- Low forward visibility due to macroeconomic and political uncertainty but FY20 currently expected to be in region of £60m-£65m

Adjusted EBIT movement



Capital expenditure and returns

	H1 2019		H1 2018	
	£m	# sites	£m	# sites
Maintenance and infrastructure (excl remodels)	30		29	
Remodels - refurb	43	182	51	181
Remodels - expansionary	4	11	5	13
Conversions	8	13	16	26
Acquisitions – leasehold	5	2	3	4
Total return generating capital	60	208	75	224
Total capital expenditure	90		104	

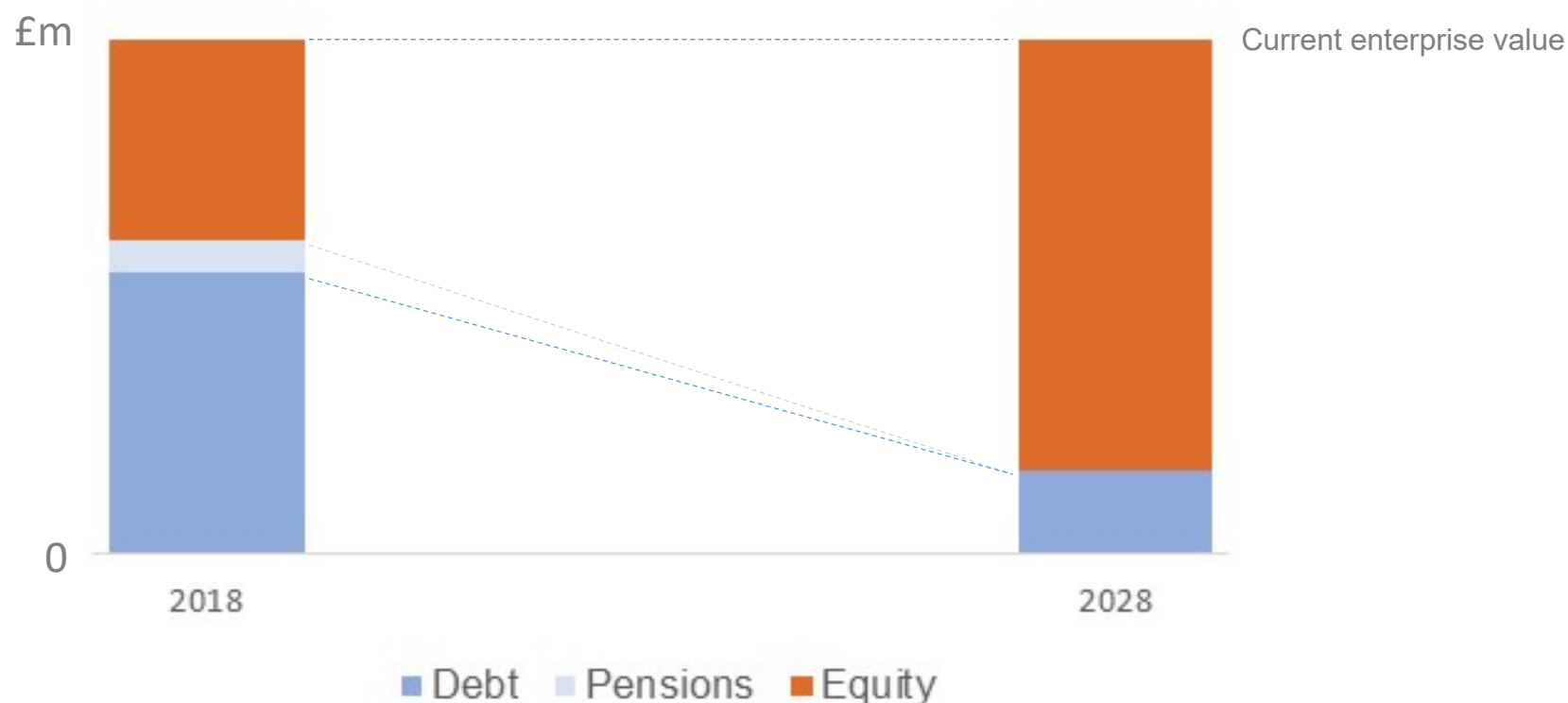
- Remain on track to deliver 6-7 year investment cycle
- Strengthening returns on invested capital
- Full year capex guidance remains £175m-£180m

Cash flow

	H1 2019 £m	H1 2018 £m
EBITDA before adjusted items	217	206
Share-based payments	2	1
Administrative pension costs	1	1
Working capital / non cash items	33	32
Pension deficit contributions	(24)	(23)
Cash flow from operations	229	217
Cash flow from adjusted items	(1)	-
Capital expenditure	(90)	(104)
Net interest, tax, disposals and other	(72)	(69)
Net cash flow	66	44
Bond amortisation	(43)	(40)
Net cash flow before dividends	23	4
Group net debt	(1,627)	(1,718)
Net debt : EBITDA*	3.8x	4.1x

* based on annualised EBITDA

Deleveraging capital structure



- Illustrative example over 10 years
- Based on 2016 pensions triennial agreement and mandated bond amortisation

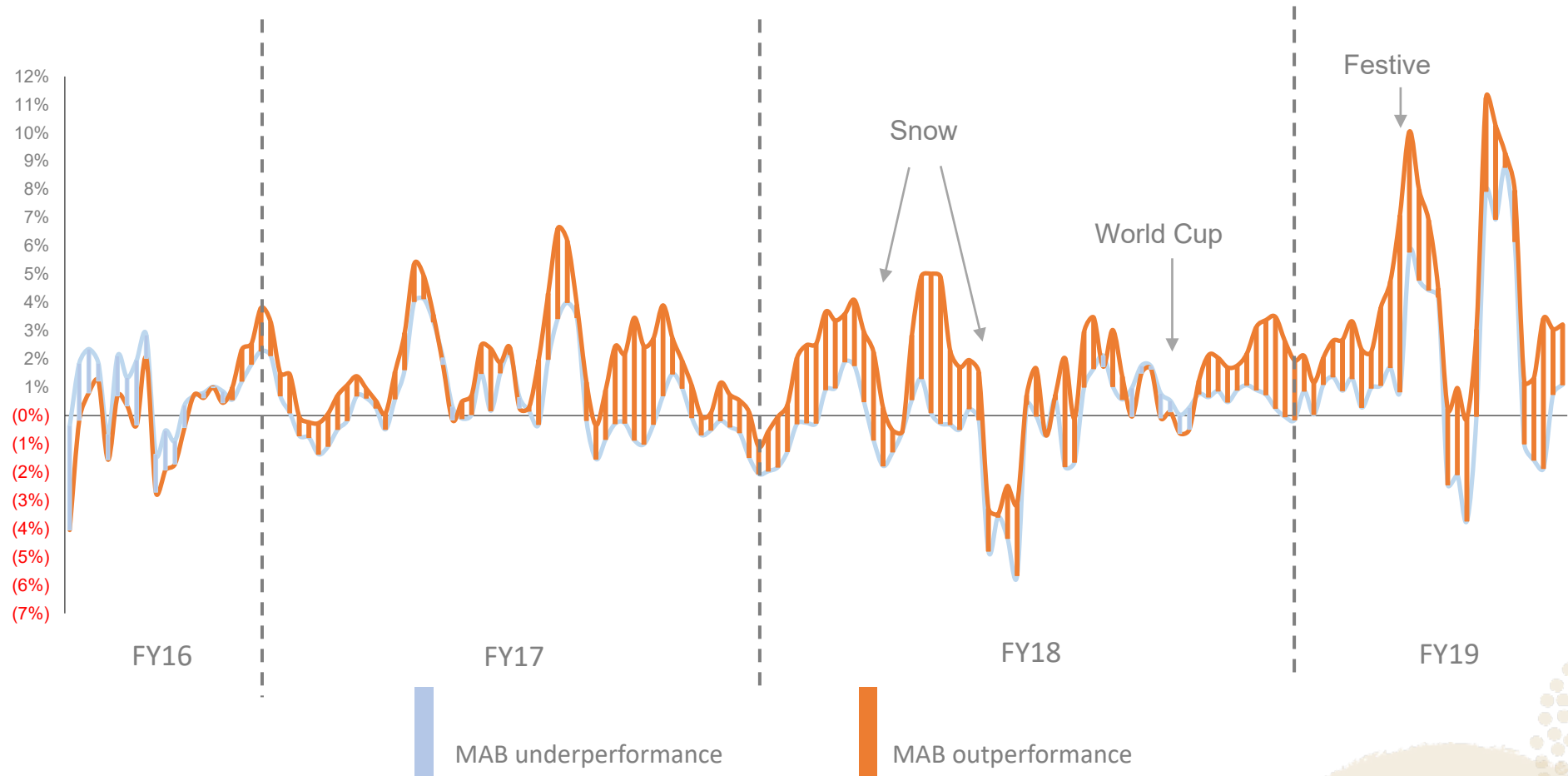
Summary

- Strong like-for-like sales growth ahead of the market
- Second wave of initiatives delivering sales growth and cost savings
- Organic profit growth at increased margin
- Cost headwinds and economic uncertainty remain
- Priority remains de-leverage obligations and estate investment



Phil Urban
Chief Executive Officer

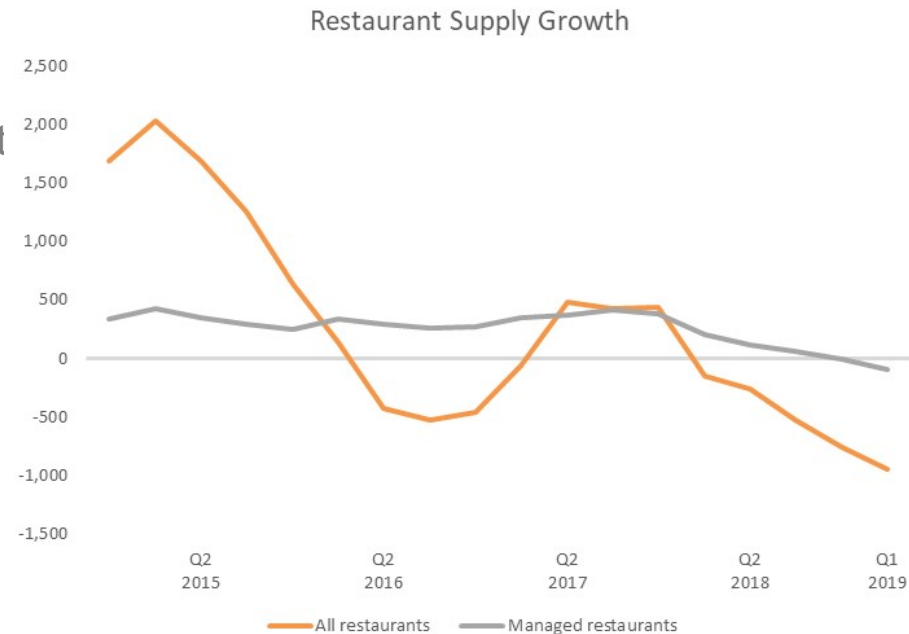
Like-for-like sales versus market



Rolling four-weekly average vs Peach Tracker

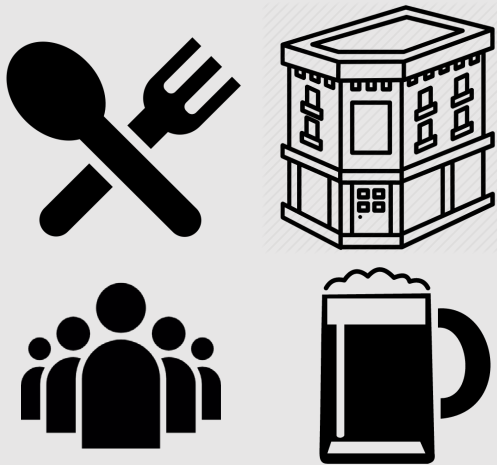
Market environment

- Ongoing Brexit impact uncertainty
- Sector impacted by continued inflationary cost headwinds including living wage, business rates, statutory energy costs
- Restaurant supply growth starting to abate
- Pressures are resulting in a number of CVAs and closures
- Total restaurant number decline of -2.8% in the year to March 19
- Managed restaurant decline of -1.1% in the year to March 19



Source: CGA, MAT growth in restaurant outlets

Strategic priorities



Build a more balanced business

- Brand propositions
- Conversion to successful formats
- Upgraded amenity in core



Instil a more commercial culture

- Profitable sales
- Core operational drivers



Drive an innovation agenda

- Build on technology investment
- Digital marketing
- New concept development

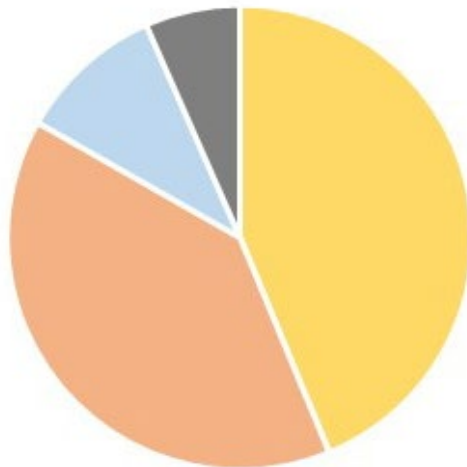
Ignite 2

- Ignite 2 has identified several opportunities across the business to drive sales growth and increase efficiencies
- The transformation project continues to build momentum
- 43 initiatives underway
- Project office is well established
- Large number of incremental gains which in aggregate are making a significant contribution to performance



Capital programme

Estate investment

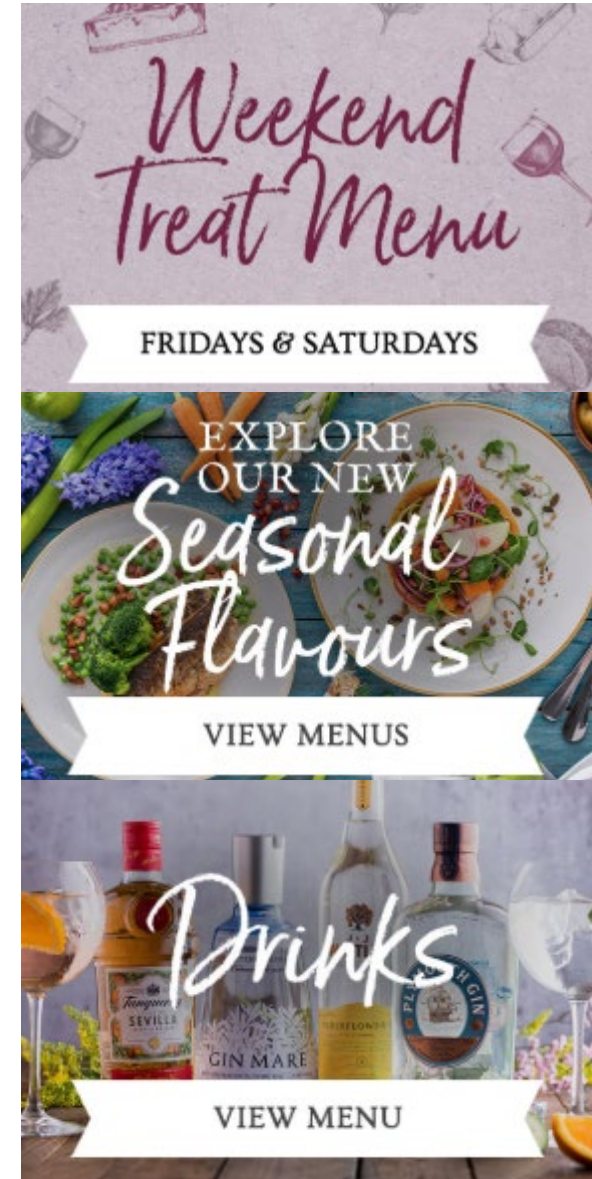


■ Current-3 year ■ 4-7 years ■ 7-10 years ■ + 10 years

- Capital programme one contributor towards improved trading performance
- Target 6-7 year investment cycle
- More value to unlock:
 - 17% not invested in >7years
 - 148 sites not invested in >10 years
- Strong returns from investment projects

Sales – intelligent pricing

- Developed more sophisticated approach to pricing
- Maintaining good value for money by:
 - Protecting entry points
 - Product quality which commands higher price point
- Drink price positioning reviewed twice a year through individual site surveys
- Provide opportunities for guests to trade up to more premium offers
- Improve impact of promotions and discounts through more targeted communication approach

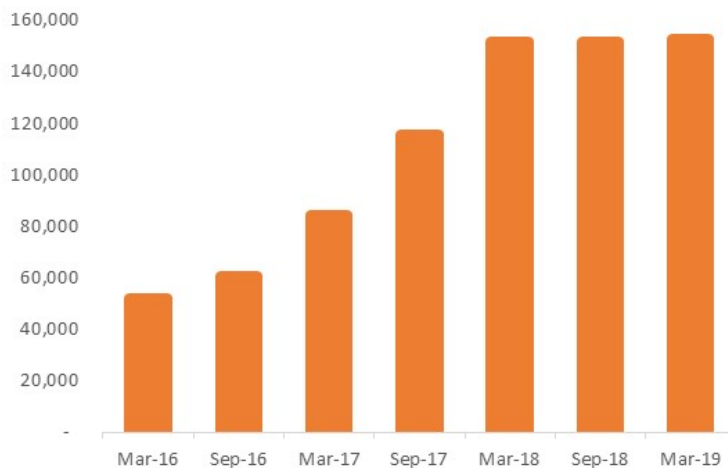


Sales - initiatives

- Greater local ownership facilitated by:
 - Sales training workshops
 - Team of Sales Managers for key sites
 - “Everybody Sells” incremental sales initiative
- Investment in software creating a smoother booking process for customers



Bookings per week trebled in 3 years



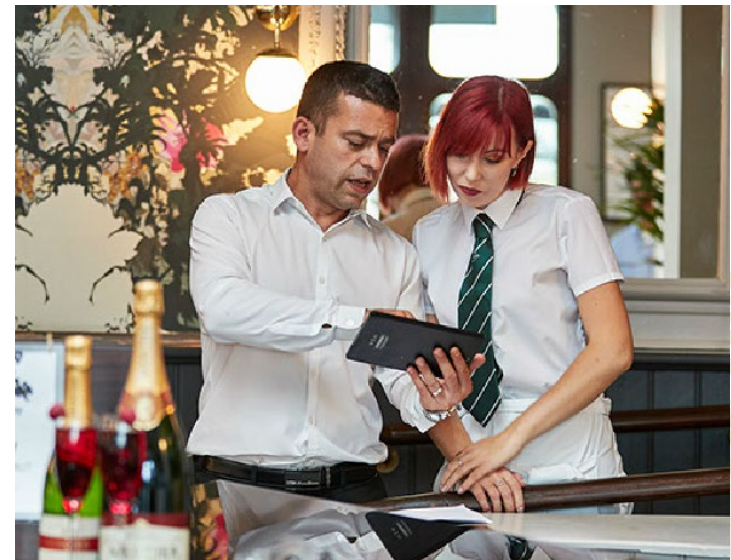
Sales – customer feedback

- Reputation.com – feedback consolidation tool for managers
- Facilitates direct manager engagement with customers
- More personal response to feedback and local ownership of response
- Response times continue to improve
- Guest satisfaction scores continue to improve



Costs - labour

- Focus on labour efficiencies which do not adversely impact service
- New system has facilitated:
 - More accurate deployment plans based on individual site forecasts and trading patterns
 - Enhanced trust in the system resulting in actual schedules being closer to the system suggestion
- Team of best in class system users supporting sites with lower efficiency gains



Costs – cashless sundries



- Ignite workstream identified opportunity in sundry site purchases
- Non-cash solution for day to day purchases in place
- Improved visibility of purchases
- Ability to leverage buying power

Future priorities

- Implementation of new stock system
- Further digital development:
 - Order at table
 - Trial of cash-free business
 - Opening our platform to allow quick integration with 3rd party software
- First M&C Germany to open in June
- Investment in all accommodation due to be complete by end of FY20



Summary

- Strong like-for-like sales growth ahead of the market
- Second wave of initiatives delivering sales growth and cost savings
- Organic profit growth at increased margin
- Cost headwinds and economic uncertainty remain
- Priority remains de-leverage obligations and estate investment



Questions

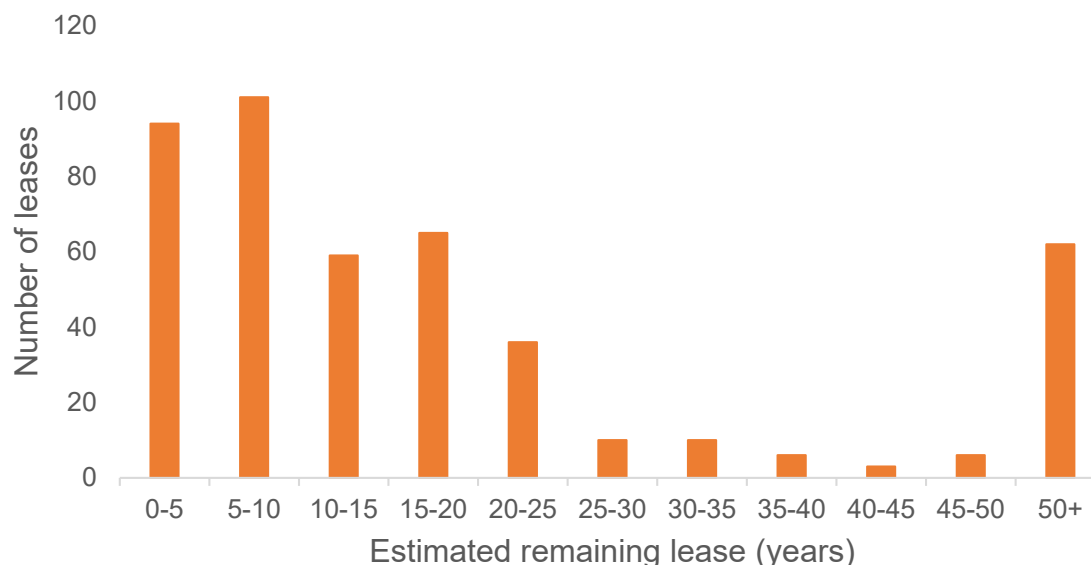


Mitchells
& Butlers

**Half Year Results 2019
Supplementary Slides**

IFRS16 (Leases)

- Adoption from FY19/20 financial year
- Essentially means that all leases (with some exceptions) will be recognised on balance sheet through a right of use asset and related lease liability. In the income statement operating lease costs will be replaced by depreciation of the asset and interest on the liability. There is no cash impact.
- Anticipate using modified retrospective (asset equals liability) method
- Guidance as to the estimated impact will be given in the current year financial statements. Profile of impacted leases below.



Note : excludes peppercorn / nominal value leases

H1 2019 – Outlet reconciliation

	Total Managed ¹	Franchised	Total MAB ²
Opening outlets (start FY 2019)	1,690	60	1,750
Transfers	(5)	5	-
Disposals	(6)	(1)	(7)
Acquisitions	2	-	2
Closing outlets (end H1 2019)	1,681	64	1,745

Notes:

1. H1 2019 closing managed total includes 4 non-trading sites.
2. Lodges attached to sites do not appear as a separate outlet.

H1 2019 – Financial covenants summary

Securitisation Restricted Payments Tests

	Test	Actual (Relevant Year)	Headroom
Free cash flow to debt service	1.3x	1.5x	£31m
EBITDA to debt service	1.7x	1.8x	£28m

Securitisation Covenants

	Covenant	Actual (Relevant Year)	Headroom
Free cash flow to debt service	1.1x	1.5x	£70m
Net worth	£500m	£2,136m	£1,636m

Non-Securitised Facility Covenants

	Covenant	Actual (Relevant Year)	Headroom
Net debt to EBITDA	3.0x	(0.68)x	n/a – (no debt)
EBITDAR to rent plus interest	2.0x	2.71x	£28m

Note: Shows annual test only. Full details at www.mbplc.com/investors/securitisationanddebtinformation/.

H1 2019 – Securitisation profile

