Mitchells & Butlers

Mitchells & Butlers 2016 Half-year Results
Thursday 19 May 2016

Tim Jones
Finance Director
Good morning. Thanks very much for coming. I am going to kick off by taking you through the financial performance for the six months for the period. I am going to hand over to Phil and he is going to go into some detail over the plans we have got for the business going forward and outlining of course a lot of the activity that we already have underway initiating a lot of those action plans.

So let me start with the income statement and an overview of trading for six months. Total sales of £1.1 billion, that is a fall of 1.5% representing a like-for-like decline of about the same amount. However we have had stronger margins, they were 0.5 of a percentage point stronger and that has led to an increase in operating profits up 2% and then lower down the P&L with the benefits of leverage giving us a 9% growth in EPS to 15.7p for the half year.

Now in future what I will do is I will try and go through the P&L line by line and give you a little bit of depth and colour on what is going on beneath the surface. Let me start of course with sales. So overall as I said, we had a like-for-like sales decrease of 1.6%. That represents a deterioration in the run-rate from when we last spoke to you at the end of January. However since then, in the five weeks since the end of our half year we have had a slight improvement, a small decline of 0.4%.

Clearly it is a difficult market at the moment. What we have seen is, we have spent a number of years, probably two or three years here at M&B investing a lot of our capex towards the back of house so that the till programme we will be talking to you about is an element of that as is a lot of investment in kitchens and infrastructure. Having largely completed that we are now able to direct a lot of our capex to guest impacting areas and we are seeing a clear dichotomy in our performance of the business between the more recently investment in estates growing at double digit, well more than double digit in the year after we invested. And if you like the sort of uninvested part of the Estate which is clearly in decline.

So if we look at the two main products that we sell that make up our sales, both food and drink were in decline and in both cases volumes were down about 5% in the period. This is partly mitigated by increase in average spend per head in both products and an element of that is like-for-like price increases but it is probably not the key driver. More important is a change in the mix of the estate towards premiumisation and particularly margin management as we look to select profitable sales and drive up our spend per head with existing offers.

Looking at the profit line lower down the P&L and a movement in EBIT, so building on the first half of last year, we benefited from the closure of Orchid's Head Office so that annualisation is complete with a first half benefit by about £3 million. And largely we are also benefiting from a benign cost environment, the exception to that is wages and I will come on and talk about wages later on in the Presentation. But wages aside, a fairly benign cost environment. Our accelerated capital plan largely offset the increased contribution we have had coming through from openings made from last year. Clearly negative like-for-like sales had a negative impact on our overall profitability. But then a number of cost management and non recurring costs allowed us to claw that back to show an increase of £3 million year-on-year profit.

Now our margins as I mentioned earlier, were stronger by half a percentage point in the first half, they benefited from those Orchid synergies in particular. Just to remind you, going forward those have finished now in terms of annualised and we have also from 1 April got the impact of the living wage which to quantify that adds £7 million to our cost base in the second half over and above that in the first half which will meet a lot more challenging margin performance in the second half of the year.

If I turn to cash flow. Cash flow was strong. Our working capital was actually flat in the first half. Normally we would expect to see an inflow of cash to working capital in our first half primarily around timing of VAT payments and lease payments. If you will remember last year we generated £48 million in working capital from cash and we said that a lot of that would reverse through this year. So that is essentially what we have seen in the first half of this year.

Capital spend was marginally down. I am going to come on and talk about that in quite some depth on the next slide. That led to free cash flow of £34 million covering the final elements of last year's dividend 1.6 times. And a small reduction in our gearing net debt to EBITDA down from 4.4 a year ago to 4.2 times.

I said I would talk a little bit about capex. Phil is going to cover this in a lot of depth in terms of our capex plans going forward and where that is going to be focused. What I would really like to do is just set a baseline if you like of what we are spending at the moment and the trends in that. So I have set out a little bit more granularity in this slide, of the type of spend we are incurring and particularly trying to draw a distinction between that spend that is focused on return generating and that which does not directly generate a return, more defensive if you like.

As you can see overall a small decrease in capex by £6 million to £88 million and that is driven by a fall in the maintenance and infrastructure spend, so that excludes revenue generating. And that has released funds into refurbishment and particularly conversion spend as well which we have increased in the first half by £12 million to £50 million. Returns are stable, includes the Orchid programme which continues and we are very pleased with, now with 65 sites because they leased another 8 in the second half and we have a number of others we would hope to get away as well, but they are still under consideration. Looking forward I would expect our capex number for this year to be about £180 million that is an increase on last year and Phil will cover this in more depth, but we would expect moving on from that to next year, it will increase further to £200 million. And that increase will all be around the remodel and conversion area in terms of return generating.

At the beginning of the Presentation I highlighted wages. Let me just say a few words on wage inflation which I think is a major challenge to labour intensive sectors such as hospitality. You will all be aware of the individual metrics and escalators that have been announced. Broadly minimum wage has been going up 3-3.5% a year for a number of years now. We have got living wage now in place and we expect that to go up at about 6% going forward. I have given previous guidance on the impact of that on our cost base. But just to reiterate in the second half most immediately, that means £7 million to us, the introduction of living wage over what we have in the first half.

So it is a significant headwind for us, we are working very, very hard to mitigate it and I am going to leave that to Phil. There are a number of initiatives we have got to try and claw this back, but it will be an ongoing challenge for us and for the rest of the sector.

One thing I would just highlight as well is timing may be important. At the moment we have got minimum wage increases coming in in October. We have got living wage increases coming in April. But there is some talk about possibly harmonising those. If that happens that can lead to fairly big profit or cost change numbers for us in the year, hopefully positive or negative depending on whether increases are coming backward or forward but we will just have to brief you on that as we go forward.

So if I can pull together the key messages from this. A challenging sales environment which really underscores the importance of getting our offer right and particularly investing in our Estate and generating a return within that Estate. We are pleased to have had margins ahead in the first half although there are some challenges for that as I have said in the second half. But EPS up 9% half on half and we have allowed ourselves on the base of that to recommend a 2.5p dividend for the half year.

Probably the only thing I haven't touched on is Pensions, I have not got much to update you really on pensions. You will be aware of the most recent triennial as at the end of March this year. That will be a process we need to go through with the Trustees, that process is underway, but I don't really have anything I can give you on that at the moment in terms of an update.

Thanks very much, with that I will hand over to Phil.

Phil Urban
Chief Executive
Thank you Tim. Well good morning. It has been six months since I have stood up as a newly appointed CEO giving my early impressions of the market that we are in and the challenges that face M&B. And I will repeat these priorities, which were rebalancing the portfolio, reintroducing a commercial edge to the way we do business and driving an innovation agenda. And I will turn to these three themes later in the Presentation.

Six months on, we have covered a huge amount of ground and it does feel like others in the market are beginning to acknowledge those same factors we drew out back in November. Now despite a solid performance in FY15 and a restoration of the dividend, undoubtedly the big takeout of our November Presentation was our soft like-for-like sales and I guess there is a real danger if that happens again this time around. Now as you know we had like-for-like sales of minus one in the first one to seventeen weeks and as you saw in Tim's slide, minus 2.6 between weeks 18 and 28. First quarter was boosted by Rugby World Cup, we had a fairly good Christmas with the shoulder periods in November and January through to March were soft.

I think whilst the shoulder periods were perhaps slightly worse than we had anticipated but the whole market I think reflected that as we saw from the Industry stats, everybody came down in proportion. We weren't really expecting a massive turnaround in our top line because all the factors that I had laid out to you back in

November are still there and therefore until we have addressed those issues, we would not expect to see a big turnaround.

And so I am delighted to say that by focusing on profitable sales and on profit generation, where we have had to accept some negative impact on our top line, for example moving BT Sports or repricing some of our breakfasts and sacrificing some volume or looking at some of our discounting mechanics, despite all of that we have managed to deliver profit growth or modest profit growth for the half year, albeit we obviously recognise we now have national living wage to contend with.

I am also delighted in our most recent weeks of trading, we have seen a slight improvement in our like-for-likes and I think in that period we have had good and bad weather in equal proportions. So I am pleased with that. But I am also frustrated as I want it now. But I do think as we start to work through our programme of work and we get more wind in our sales so we will see an acceleration of our rate of improvement.

So whilst like-for-like sales are undoubtedly a key indicator, they sometimes mask a whole raft of activity that sits behind that. So what I would like to do for you today is share what we have been doing over the last six months, why we are certain we have now identified the right levers to pull that will turn this business. And why we are confident that we are starting to see some real evidence of progress in our business and taking standard paths for the recovery that will generate sustained long-term shareholder returns.

And I am going to start by briefly recapping on the external environment that I talked about back in November. If you remember I talked long and hard about the external supply and I think in June of last year there had been a quoted net 1700 new restaurant businesses opening. A whole new M&B. Now that rate of opening has slowed right down, probably because of the uncertainty of national living wage. But nevertheless that new supply is still there and it gives established players a real headache, because customers are naturally attracted by the new and it can make mature businesses look quite tired in comparison.

I think it is particularly difficult for the mid market brands where they are attacked from all sides if you like. I also talked a lot about the consumer who has more choice than ever before, mainly from that new supply, increasingly tech savvy and increasingly wanting what they want, when they want it, how they want it. And also last time around I outlined our approach to combat living wage which Tim has just talked about. I introduced a sort of five point approach to this. Firstly, using our scale to buy better. Obviously one of our biggest advantages is our scale so absolutely sweating our procurement. Secondly, ensuring that each of our brand propositions are kept relevant and up-to-date. I think strong brands are going to be really important going forward. Thirdly looking to grow our spend per head by laddering our prices or menus. I think over the next four to five years I don't think anybody is simply going to absorb living wage without passing some of that on in price. So you have to earn that, you have to have a quality of offer to be able to move price and that is where our focus has been. And arguably those people who are saying that they aren't going to move price have arguably already done so. Four is about sweating your assets. We have some fantastic real estate, 85% of which is freehold. We need to make sure we have the optimum brand in each location and where we have got redundant space, we bring that space into profit generating space. And finally, we need to make sure we get our fair share of the living wage which is now in the economy, now flowing in the economy and some of that will come back into our tills.

So I think this sort of systematic approach was the right approach then, it is the right approach now and will simply become part of how we do business.

So that was our read of the external marketplace. What I would like to do now for the rest of the Presentation is to focus on the important stuff about what we are doing about it and to give you confidence that we are tackling absolutely the right things and that we are making some real progress.

So what do we do immediately following the November update? As a new CEO I was very aware of the various ideas and proposals being suggested on how to add value or extract value from M&B. So we decided to approach each of those options with a fresh mind, an open mind and we engaged KPMG to do some quite detailed modelling for us for a number of scenarios which I will now take you through.

So these are our conclusions. So firstly the status quo. I think quite clearly that is not an option for M&B. The business has been underperforming for a number of years and standing still in this market was just not an option. We looked at a run for cash model, which again we don't think is sustainable in the current environment. I think in the short term that may get you somewhere, but actually with what is happening in the marketplace, it does not seem like the best way to grow shareholder value over the long-term. We could grow by acquiring a competitor maybe in the fast-casual space, but given the premiums that are being expected and being paid at the moment and the uncertainty that comes from living wage, I don't think the timing is right for that and probably would build unnecessary risk.

Looking at major disposals. Again at this point we think that would lead to a significant value leakage to debt holders from shareholders given the way our securitisation is structured. So again we don't think this makes sense at the moment and in any case why sell a brand until you have extracted the full value out of it yourself.

Then I think there has been talk in recent years of OpCo/PropCo the whole company. In reality and again through to how the business is financed, this option again would lead to, in our view, significant leakage to debt holders from our shareholders and would not be the optimum way of creating value for our shareholders.

And then we looked at the option of accelerating organic growth which we, as you now know is undoubtedly our best option. We think it will create a lot of shareholder value over the long-term. We don't need new capital to do it and the good news is we have all the ingredients in place to start executing it already.

So we completed that work around the turn of the year and what is very, very clear is the optimum strategy for M&B to follow is this aggressive acceleration of organic growth as it will generate the best returns for our shareholders over the long-term. Now if you think about it, we have some fantastic real estate, some very strong brands but we need to unlock the potential of those brands. We can only do that if we have consistent brands to shout about which we don't currently. Then you can complete with the new competition and then you can benefit from the newer demand that that competition has created.

We also need to put our business in a position to absorb living wage and stepping up pace of Test and Learn, adopting a trader mentality within your business, incentivising incremental returns are all elements and features of an organic growth strategy.

So for me this conclusion very neatly ties into our three strategic priorities that I laid out for you back in November. First of which was rebalancing the Portfolio. Now this had three elements, firstly it is refining each of our brand propositions, ensuring that they are absolutely grounded in customer insight. Second was about converting under-performing assets and moving them into our most successful formats, most notably at the moment Miller & Carter and Sizzling Pizza and Carvery. And the third strand of this was recognising that for businesses that have perhaps been most impacted by that new supply. So for us mainly Harvester and Toby Carvery. You may recall I said in Harvester's case, over two-thirds of those businesses had seen a new competitor opening up within five kilometres of their front door within the twelve months to June of last year. For those businesses, if you don't have an amenity fit for purpose you won't compete. So the third strand was about accelerating our refurbishment programme in this mid-market estate starting with Harvester.

The second priority was about reintroducing a commercial edge to our culture. Now our culture has arguably softened in recent years and this is about refocusing the business around profitable sales, profit conversion and on the core operational drivers. And the third priority had the very broad heading of Innovation. And again three strands sit under here. The whole area of technology. Firstly getting payback for that investment in tech refresh that we have been through over the last couple of years. But also ensuring we have a roadmap that takes us ahead of the competition on tech innovation.

Secondly, is the area of digital marketing, so CRM, social media, loyalty etc. And the third and finally was new concept and new product development. So this is extending the offers we have, trading offers for parts of the market we don't currently serve, or finding solutions for some of the assets we currently own which we don't believe are currently trading to their optimum.

Now these three strategic priorities have occupied our focus over the last six months. And armed with the clarity of the output from the KPMG work, we have held a workshop early in February over two days with the full leadership team of M&B to flesh out the work we need to do under each of these headings.

Now you may say it sounds like we have a lot of stuff to do, we do. But I am a firm believer that there is no silver bullet to moving businesses like ours forward. And one advantage of scale and if you have a culture of trust it means you can fight on a number of fronts at the same time and have quite a small governance team with a hand on the tiller, finger on the pulse who can make sure you are making progress.

I am also very aware of an external view that sort of says well M&B have said all this before, so what is different this time. I guess that is for you to judge and not me. What I can say from my perspective is I see a sort of hunger, drive and ambition that I haven't seen in many businesses. I do believe we have the best real estate in this industry and I do believe we now have a clear roadmap that we are already on with that has already started to drive improvements.

And if I look at the amount of ground we have covered in the last six months and arguably only four months with Christmas being in the middle of that, and we have no intention of dropping our pace, then I have every confidence that this business will turn.

Now as I take you through the work streams I will try and convey to you where I think things are perhaps new for M&B. So what I would now like to do is take you through that work that is underway. Some areas we have made giant strides in, others are still just work in progress. And I would like to share with you some of the early signs that perhaps we are just beginning to get things right.

So starting with the Estate. You saw from Tim's slide, investing in the Estate is a critical part of our plans going forward. Therefore we have already completed a full Estate review that has given us a very clear roadmap for reshaping the business over the next 18 months to two years. Now as I said earlier, our idea is to get back onto 5 to 6 year investment cycle and increase our representation in the premium segment. Now this process has already started and as you will see, we have already completed over 40 sites at the half year, more than we did in the previous year at the same time. Unsurprisingly and as signalled in our November update, our priority has been on expanding Miller & Carter. Now we have opened 7 more sites since November and by the end of 2017 we have the ambition to get to circa 100 sites, many of which will come from Harvester and Toby. Conversions cost about £650,000 and are currently delivering EBITDA ROI way above our 30% target and generating sales uplift of circa 40%. Now the pace of conversion is governed in the short term by ensuring we don't lose the DNA that makes this brand successful. But as we get bigger, so the investment programme can grow at the same time.

Since November we have also opened our first three Harvester conversions to Miller & Carter which, whilst we were confident, is always a little bit of a stressful time as you are never 100% clear what your previous brand's customers will think of the new brand. We need not have worried as all three sites have seen very healthy sales uplifts and are generating very strong returns. Now this is a win-win for us because we have doubled spend per head over night by doing these investments. NPS has gone up at the same time and so this is a repositioning of a business in this way is a very neat way of covering living wage.

We have also opened ten new Sizzling Pizza and Carvery businesses I talked about back in November and we now have 14 trading, generating greater than a 25% sales uplift and an estimated ROI of around 30% on a 275K spend. Now we have completed 30, we will have completed 38 sites by the end of this year and we have plans to complete the conversion of Crown Carvery by the end of next year. Now the Crown estate demonstrates how by converting a business in this way you can take a mature business and very quickly reach a tipping point where mature and declining business moves into positive territory. The new offer currently sits under the Sizzling family of brands and given the success of these conversions we are currently exploring the merits of separately branding this business.

As signalled earlier, we are prioritising the refurbishment of the Harvester Estate. Currently the biggest brand with over 230 businesses it will lose between 20 to 40 sites to Miller & Carter over the next 18 months. And we are currently looking at new concept opportunities for the retail and leisure sites where we believe that the Harvester brand is disadvantaged. That will leave a core Harvester business and our plans see the remaining uninvested sites, invested by the end of next year. With a feel good dining for the nation proposition, the ability to fully exploit one of the nation's best known and best loved mainstream brands, we believe Harvester can become the powerhouse it once was in the market in which it trades. Now whilst I recognise it is far too early for you to draw conclusions, it is worth me saying that the first two sites where we have invested properly and implemented the full offer, we are seeing ROI well ahead of our 30% target return on a spend of £400,000.

It is also worth me briefly mentioning that Toby Carvery will continue with a modest programme over the next 12 months as we feel there are other levers we should be pulling here, not least making our online booking and table management system work for us and on improving service levels on our key Sunday sessions.

Our aim is to have a capital programme of between 300 and 350 businesses per annum which will touch all our brands and a modest acquisition programme of up to 20 sites per annum if the right sites come to market. Now getting onto this cycle from the closure costs and opening costs you incur when you do so. And we estimate it is going to cost an incremental £2 million this year and £2 million next to do so. But once we have got back onto the cycle we will not make the mistake again of allowing our estate to become tired and exposed.

The incremental cost of doing this is about £20 million a year as Tim said. We have also challenged ourselves to reduce the amount we spend on maintenance which actually if you think about increased capital programme, should be eminently deliverable.

As Tim said, it is also worth stressing that in recent years, M&B spend has been largely back of house, the full tech refresh, kitchen and compliance. The difference here is this plan is all about the customer facing. Strong, external curb appeal, quality internal environment, that is really key. As I said earlier, getting onto a five year cycle is really key because we have currently been or recently been on an 11 year cycle. So just doing that in itself would make a material impact to our like-for-likes.

Having completed the Estate plan we have a number of sites that either lack a brand format or which we think could become candidates for disposal. Now it is too early for me to share what our new concept ideas are or the detail of which sites we may dispose of. But what I hope it does signal is an intention to far more aggressively manage our Portfolio than perhaps we have done in recent years.

The second strategic priority is about instilling a commercial edge to the way we do business. I think we have covered a lot of ground in a short space of time under this heading. The first thing we did was to restructure the business under four divisional directors, each of whom now sit on our Executive Committee and we have brought in a new Commercial Director to oversee Marketing, Procurement, Food Development and Strategy. The four divisions we have are Premium Restaurants, Restaurants, City and Pubs. Now these changes do a few things for me and I should say this structure went live in March. These things do a few things for me. Firstly, it ensures we have a far greater operational voice on the Exec Committee, ensuring that all decisions are rigorously challenged before implementation, whilst at the same time raising the quality of the analysis upon which decisions are taken.

Secondly, is grouped like businesses that share similar customer types and similar customer occasions under one umbrella. It is worth noting for example that Harvester and Toby sit in the restaurants divisions alongside Sizzling Pizza and Carvery and Crown. And as I said earlier these two businesses have perhaps been under the most market pressure. And it is worth saying that had these two businesses alone been flat at half year then M&B would have been comfortably in like-for-like territory. Now I am not saying now the brands don’t have room for improvement, indeed every brand has room for improvement. But I think it does show you the scale of the challenge in this mid-market space and perhaps explains why I am so confident that once we have addressed those issues, that improvement will be quickly reflected at M&B level.

By grouping the businesses under one divisional director we have immediately found some real economy of effort and some cross-fertilisation of ideas. And finally this divisional structure should facilitate far quicker decision making, often a criticism of M&B as actually decisions don't need to be applicable for all brands, but just for the brands that sit under the respective umbrella. It has clarified accountability and should serve to empower operations directors to move far quicker with their respective brands.

We have also set up a number of work streams under this. The first is focusing on driving a sales culture. Now the market is moving very quickly so we need to up our game. Whilst our brands attract and retain customers, in themselves that is not enough. So we will focus on local market outreach and on non reliance on walk-in business is essential. Now we have already reshaped the way the operations team works on a weekly basis, putting sales first and driving pre-booked business. By the end of summer all the operational management will have been through a sales training workshop and we have also set up a London sales team that is taking a cross London and cross brand approach to selling our venues. And we will look to roll that on a national basis once the numbers start coming through in London.

We have also implemented a second half sales incentive for all the business that has re-energised the teams that perhaps have been under the most pressure by incentivising improvement against recent trends.

The other area of current focus is raising the trust that the business bases on releasing restaurant inventory to online booking engines. This is about manager adoption rates and trust in the system if you like. But we are delighted that between February and April we have seen an increase of 12% in the number of online bookings per week and that is now growing consistently.

The second work stream under the commercial edge heading is about improving guest care. Now there is a clear correlation between the number of complaints that we get and the way those complaints are handled and like-for-like sales. Now guest satisfaction has always been a priority for M&B, but in recent years I think the focus has been on the output indicator of NPS as opposed to the complaints themselves and the root cause of the customer feedback. So we have taken quite a systematic approach to this. The first thing we did was have a company-wide focus on complaint handling and in the space of two months have reduced the average time for a complaint resolution down from an unacceptable 11 days down to 1.3 days with the aspiration of getting that to 24 hours. This change of emphasis and local ownership has immediately raised the focus to what is a key area for any hospitality business. Having done that we are now turning our attention to reducing or removing the complaints in the first instance by spotting the problem at source. Now this will include guest service training webinars, but also reflected in reward and recognition. And indeed we have already put complaints on the face of our balance score card. Detailed analysis of all customer feedback will be driving our business planning by FY17.

The third thing we have done is to push the management of Trip Advisor back to our businesses allowing our teams to directly interact with customers in real time. Now this is a major change for some of our team and we have to allow some time for them to get confident with this new channel of communication. But the work has all been done, it is in place, it is happening now and I believe it will quickly start to yield some benefit. So that is the guest care element.

The third work stream driving a more commercial culture is at an early stage, but we believe this could be a really significant work stream for us and it is around pricing. We have always had a strong pricing team with M&B but there is no escaping that over the last five years our volumes have declined as prices move forward. Now of course there are many factors at play in that. But we are going to have a root and branch review of our approach to pricing and our pricing models looking at the inter-dependencies of food and drink and discounting mechanics and we are working with some our suppliers to do this and drawing on their wealth of knowledge and I would hope to have more to say about this in the coming weeks.

And finally, and similarly to pricing we are looking at procurement too. Now actually it is fair to say at scale is M&B's biggest advantage and our procurement team have done a fantastic job in recent years and continue to do so this year. However the world is changing fast and again working with our supply base, we are looking at how can we future proof our cost of sales and how can we drive further efficiencies. Now whether this is being hardnosed about the number of SKUs we hold in our supply chain across brand or whether it is looking at how technology can be implemented to drive efficiency. This work stream is free to challenge any sacred cow. And again I would expect to be able to update you further in the coming weeks.

The final strategic priority was the broad heading of innovation. Now the first work stream we have had in place has been looking at how to optimise this return on the investment we made in all the tech refresh over the last couple of years. Short-term focus at the start of this year was on speed and connectivity and I am pleased to say that is now ticked and we have moved on. And now they are focusing on integrating third party booking engines to our Zonal till platform. Now the business endured a lot of disruption while that tech change was being rolled out. And a year on we would now start to expect to see the benefit as most of those teething problems are largely behind us.

The second area under this heading is digital marketing. Now as signalled back in November, we now have a single customer warehouse with a data set of circa eight million unique names. That has given us the platform to start cross brand marketing where our customers allow us to, but also to refine and tailor our interventions and interactions through brand coms. However our short-term focus under this heading is going to be in the area of social media as we believe this is where we will have the quickest impact. So this is Trip Adviser, Facebook, Twitter etc.

Now for both these areas, technology and digital marketing the appointment of Dave Coplin as NED is a significant coup for us. Dave is the Chief Envisioning Officer at Microsoft and he has already started to add a lot of value by challenging the Team's thinking and stretching out ambition.

The third and perhaps the biggest element of our innovation agenda is new concept and new product development. Now as I am sure you would expect I am not going to share with you everything we are doing here except to say we have a number of interesting things in train at the moment at various stages of evolution. Brand extension and evolution will be done within the divisions, whereas new concept and product work will be done centrally so as not to distract the core.

So I am convinced we are working on absolutely the right areas and we are moving at pace. I am pleased with the progress we have made to date in a short space of time. I am confident in the returns we are seeing now from the investments we are currently making and I am also excited by the latent potential I see ahead of us once our digital marketing and technology strategies play out. Our culture is evolving quickly too and we have a new energy and belief I believe in how we are going to drive this business forward. Now it is a tough and competitive market, but it is still a very big market. Euro 16 is on the horizon which would be good for our pubs, will be less good for our food led businesses and we would probably expect to see some dent to our headline numbers for 4 or 5 weeks, maybe 2 or 3 if England get knocked out quicker. But we believe the underlying trajectory is starting to turn.

The aggressive acceleration of organic growth his absolutely the right strategy for M&B. We have all the ingredients in place to do it and more importantly a committed team of people who will do it. Our aim is to build a business that will build long-term sustainable value for our shareholders and I believe that journey has started well.

We are now happy to take questions, thank you.

Q&A Session

Question 1
Ed Young, Morgan Stanley
Hi, it's Ed Young from Morgan Stanley. I just have two questions if possible. One was that you broke out helpfully the like-for-like on the investor properties was about 10% so on my maths that makes about minus 4% on the uninvested estate. I wondered if you could talk, was that the assumption that laid behind your view that as you put the run for cash scenario is unsustainable, given the uninvested estate essentially would be looking at a decline?

And then secondly, could you just talk about the capex is rising in a fairly material amount, what that might do in terms of your view over both net debt and potential dividend growth going forward.

Answer: Phil Urban
I will take the first one and Tim can take the second one. So the first one, you are right, that would be one reason why the run for cash option over the long run doesn't seem viable. I think if you are running brands you have got to polarise the estate and you have half of it doing very well because it is invested and the other half going backwards, you have to fix it. And I think the market is so competitive, particularly in the restaurant space that if you don't have quality amenity, you are not going to win. And even with great management teams and all those good things, there is too much choice so you have to fix that amenity. Then you can shout about your brand and then the brand adds some value, so that is pretty much the logic.

Answer: Tim Jones
On capex, yes up to £200 million and probably staying at that level to maintain the 5 to 6 year cycle Phil talked about. Clearly that is going to flow through to earnings a number of years and that will help fund it. But throughout we have said we will do a progressive dividend policy, we will stand by that. I don't think anyone thinks that is a steeply increasing or high increasing in the end it will be modest increases in the dividend going forward. And at that rate we believe we can cover that from pre-cash flow. So there will be very, very small reductions in net debt, but the covering of dividend. And I guess I am assuming implicitly there we stay on the same pension recovery programme we are on at the moment.

Question 2
Joe Thomas, HSBC

Hello, it is Joe Thomas from HSBC. The first thing I wanted to ask you about was on one of the earlier slides you talked about cost management being one of the benefits that came through in H1. Could you clarify what lines of cost that was and give a bit more of a sense around that please?

Second thing, I wasn't entirely clear on what the pricing strategy is and to what extent pricing has been going up, so any views on that?

And then finally, I just missed what you said I think you said two brands were particularly weak and dragged everything else down, could you remind me what they were please?

Answer: Phil Urban
So I will take the first two, so in reverse order. I think in November I talked a little bit about the new supply and being the mid-market where that supply was hurting the most and for us we have got quite a lot of businesses in that middle space, but for Harvester particularly and to a lesser extent, Toby, those were the two big brands that were impacted. So my point was simply to give you some flavour for the significance of those two big brands having a tough time. Had they been flat at half year then M&B would have had positive like-for-like as a whole. So it was just giving an indication of the scale and challenge there, but that is why we are moving some of the businesses into Miller & Carter and others on the retail parks I think we will find a new offer for, but actually do we fundamentally think Harvester and Toby are still strong brands? Yes we do.

The middle question? Pricing. The reason for taking a fresh look at pricing is simply, I think it is quite evident, the market is hugely competitive. I think the pricing dynamic is going to change on the back of living wage. It is the right time to take a fresh look at pricing models. We also have various discounting mechanics at play in the business that have been there a long while and we just want to take as I say in the wake of living wage and looking forward to take a fresh look. And I think also with suppliers now, there are, I think we have an open relationship with some of our suppliers and there is sort of, there is merit in sitting down with them and taking their learning too just to understand where what the right pricing strategy is going forward. But in terms of what the strategy is at the moment, I think most of our businesses within their respective markets particularly towards the premium end of their respective market segments. So I would expect us to be towards the upper quartile in each of the markets we are in.

Further answer: Tim Jones
In terms of the costs Joe, there is a lot of things in there probably three main ones would be, a lower level over overheads and central costs as we have looked to manage that through the first half as you would expect. Secondly we did feel a few one off costs this time last year so we have benefited from comparison from not having those and then probably the third element is our IT spend has been slightly lower comparing a period where we are putting in a number of systems the costs of which have gone through revenue.

Closing remarks – Phil Urban
If that is the end of the questions, thank you very much for your time.

End