



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

# **Full Year Results**

**Bob Ivell  
Chairman**

**26 November 2013**



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# **Financial Review**

Tim Jones

Finance Director

Full Year Results 2013

26 November 2013

# Income statement

(pre exceptional items and other adjustments)

	FY 2013 52 weeks £m	FY 2012 53 weeks £m
Revenue	1,895	1,889
Operating costs	(1,583)	(1,585)
Operating profit	312	304
Interest	(128)	(138)
Profit before tax	184	166
Earnings per share	34.9p	30.5p
<i>Operating margin</i>	<i>16.5%</i>	<i>16.1%</i>

# Income statement

(pre exceptional items and other adjustments)

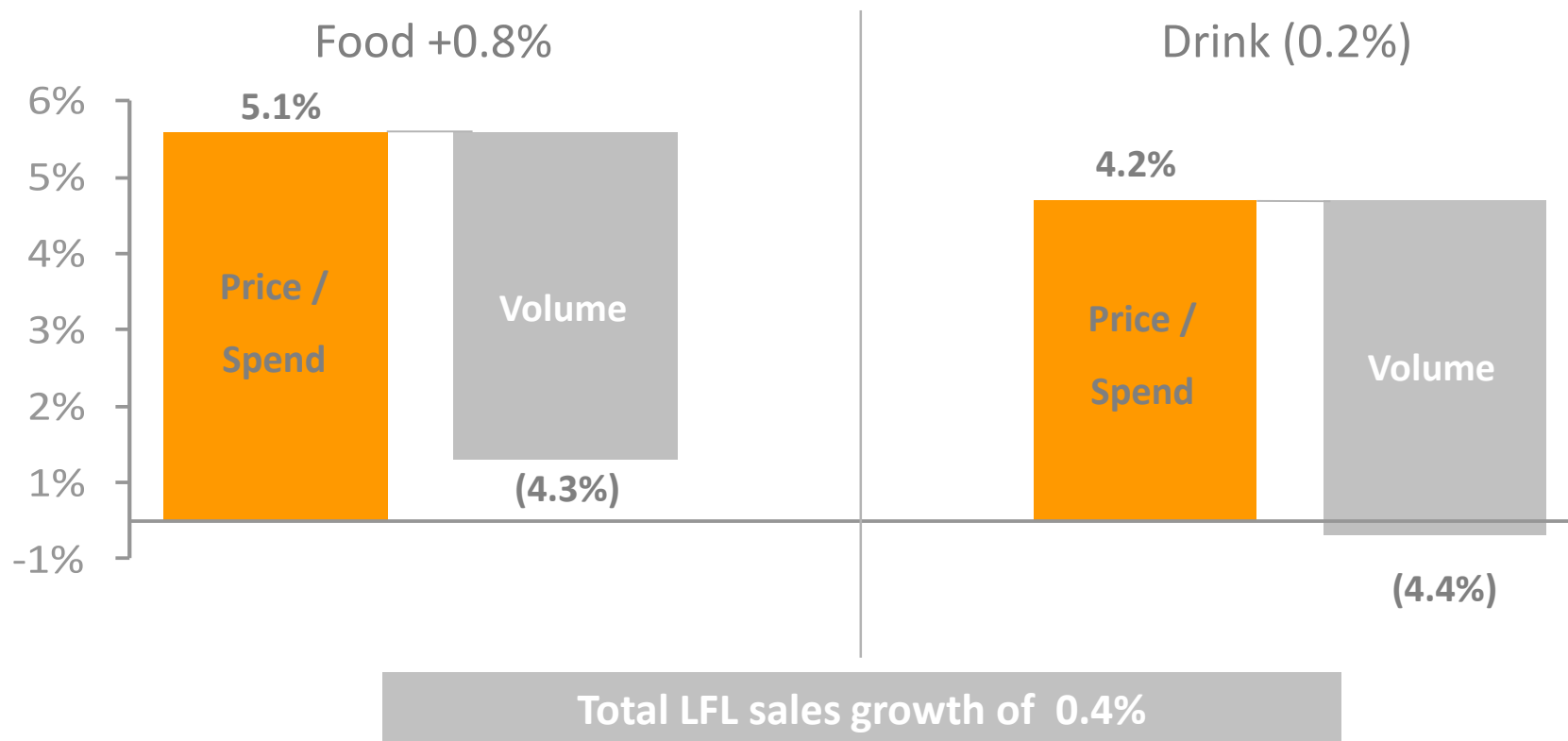
	FY 2013 52 weeks £m	FY 2012 52 weeks £m	
Revenue	1,895	1,855	+ 2.2%
Operating costs	(1,583)	(1,558)	
Operating profit	312	297	+ 5.1%
Interest	(128)	(135)	
Profit before tax	184	162	+ 13.6%
Earnings per share	34.9p	29.8p	+ 17.1%
<i>Operating margin</i>	<i>16.5%</i>	<i>16.0%</i>	<i>+0.5 ppts</i>

# Like-for-like sales growth

	Week 1-28 FY 2013	Week 29-52 FY 2013	Week 1 - 52 FY 2013	Week 1 – 8 FY 2014
Food	1.4%	0.0%	0.8%	0.1%
Drink	(1.2%)	0.9%	(0.2%)	(0.4%)
Total	0.3%	0.6%	0.4%	0.1%

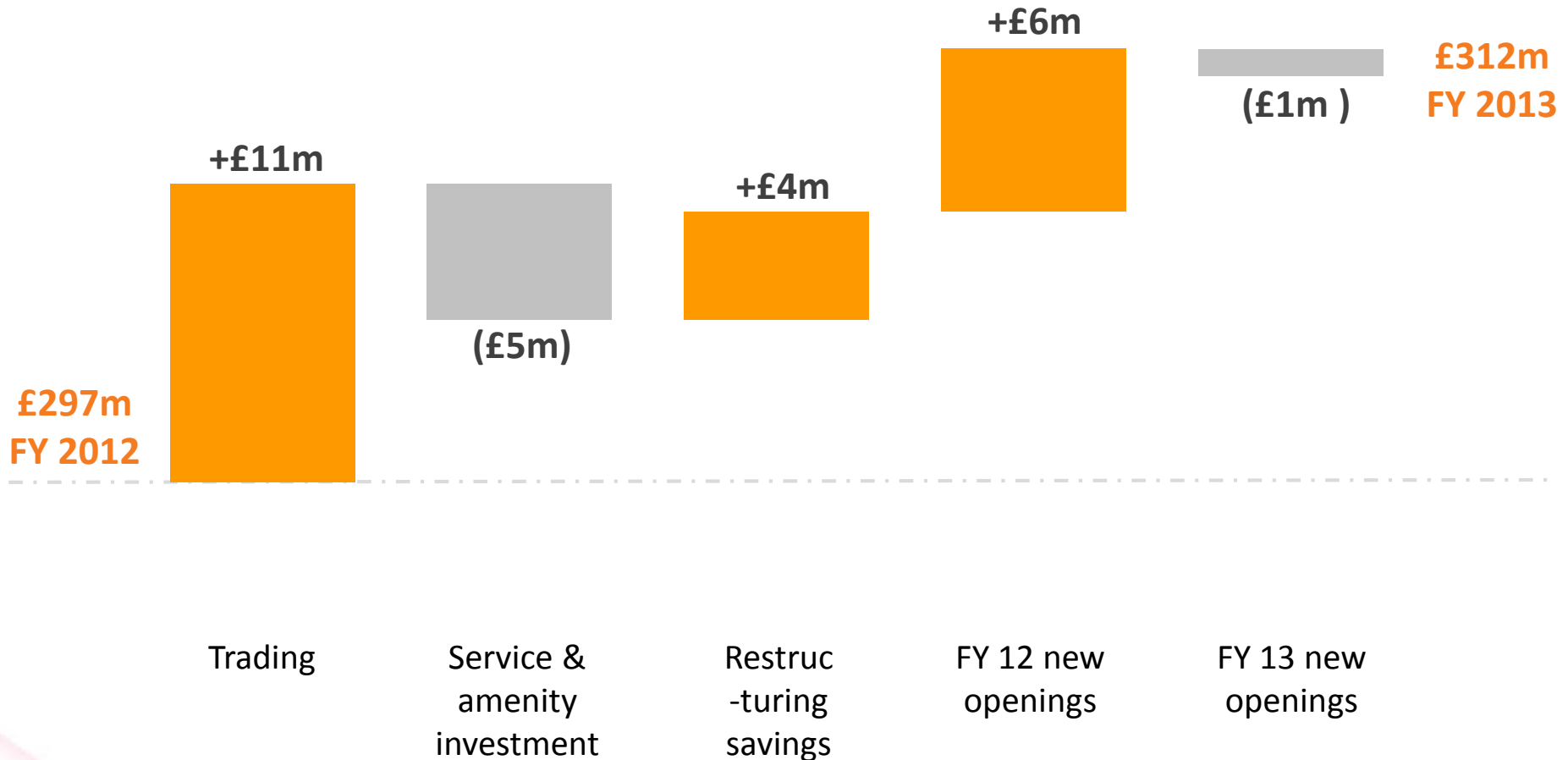
- Continued strong performance on special occasions – more key calendar events in H1
- Warm weather benefitted drink sales in H2

# Drivers of LFL food and drink sales



- Further spend gains from price, brand mix and upselling
- Volume declines moderating in recent weeks

# EBIT movement



- Operating margin up 0.5 percentage points to 16.5%

# Exceptional items

	FY 2013 £m	FY 2012 £m
Bid defence	-	(6)
Restructuring and reorganisation		
IT infrastructure	-	(7)
Support operations	-	(7)
<b>Operating exceptionals</b>	<b>-</b>	<b>(20)</b>
Property valuation & impairment	(12)	(35)
Other property impairment	(17)	(12)
Impairment of goodwill	-	(5)
IAS19 pensions finance charge	(5)	(11)
	<b>(34)</b>	<b>(83)</b>
Tax credit	26	28
	<b>(8)</b>	<b>(55)</b>



# Group cash flow

	FY 2013 52 weeks £m	FY 2012 53 weeks £m
EBITDA	422	415
Working capital / non cash items	(11)	(28)
Deficit pension contributions	(40)	(40)
<b>Cash flow from operations</b>	<b>371</b>	<b>347</b>
Maintenance & infrastructure capex	(100)	(92)
Net interest paid	(126)	(129)
Tax and other	(32)	(25)
<b>Free cash flow before exceptional items</b>	<b>113</b>	<b>101</b>
Expansionary capex	(28)	(55)
Disposals	1	3
Cash exceptional items	(2)	(17)
<b>Net cash flow</b>	<b>84</b>	<b>32</b>
Mandatory bond amortisation	(55)	(52)
<b>Net cash flow after bond amortisation</b>	<b>29</b>	<b>(20)</b>

# Group net debt

	Sep 13 £m	Sep 12 £m
Securitisations debt <sup>1</sup>	(2,124)	(2,177)
Cash & other	101	135
<b>Securitisations net debt</b>	<b>(2,023)</b>	<b>(2,042)</b>
Cash	264	201
<b>Group net debt</b>	<b>(1,759)</b>	<b>(1,841)</b>
Net Debt : EBITDA <sup>2</sup>	4.2x	4.5x

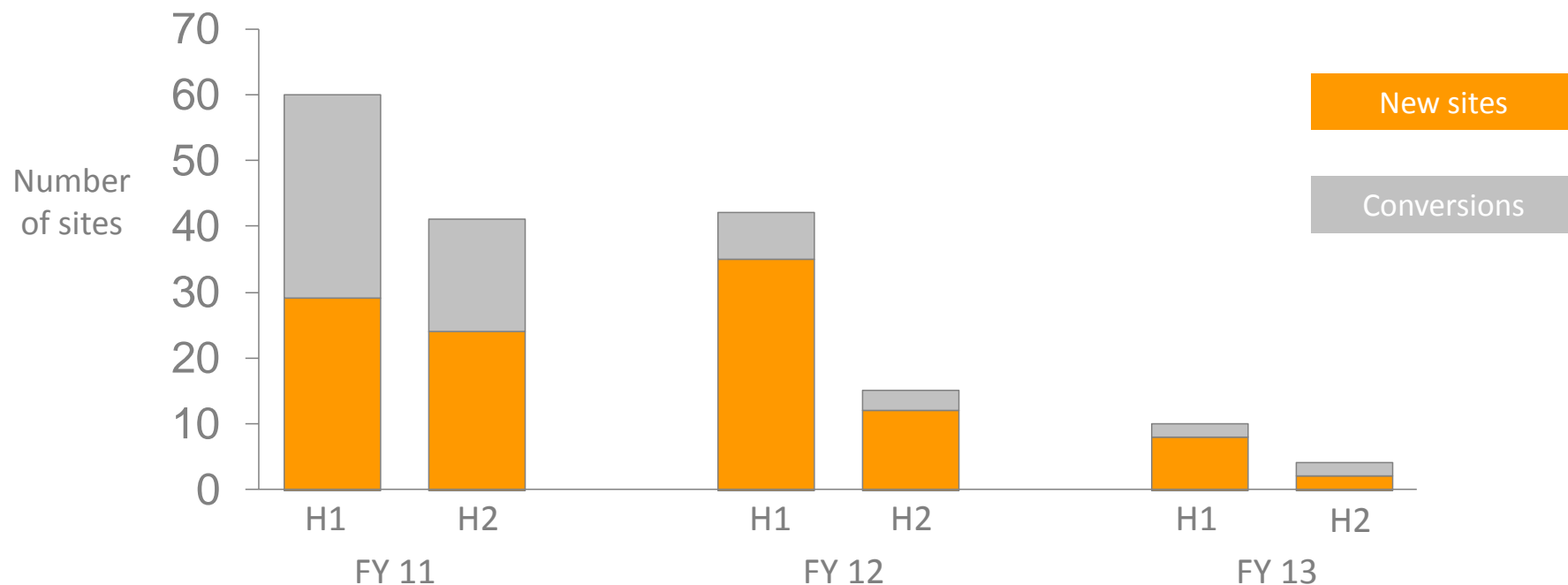
Notes: 1) Includes derivatives hedging balance sheet debt

2) FY12 EBITDA is for 52 weeks

# Capital expenditure

- Total estate capex of £128m (FY 2012: £147m)
  - Maintenance capex of £88m (FY 2012: £83m)
  - Infrastructure capex increased to £12m (FY 2012: £9m), due to beginning of rollout of new pub systems
  - Expansionary capex reduced to £28m (FY 2012: £55m)
- FY 2014 spend expected to increase
  - Enhanced remodel programme and investment in pub systems
  - Increased expansionary capex towards trend level of £50m to £80m pa

# Expansionary capex returns



FY 13 Investments<sup>1</sup>    FY 13 No of sites    FY11-13 EBITDA ROI

Freehold Acquisitions	£11m	4	13%
Leasehold Acquisitions	£11m	12	18%
Conversions	£2m	6	16%
<b>Total</b>	<b>£24m</b>	<b>22</b>	<b>17%</b>

Note 1: Relates to openings and conversions in FY 13 on an activity basis

# Property

- Freehold and long leasehold properties valued annually
- 20% of sites inspected p.a.
- Moderator removed for inner London sites
- Short leaseholds assessed for impairment
- Slight increase in overall multiples to 8.0x EBITDA (FY 12 7.8x)

£m (pre tax)		FY 2013	FY 2012
Income statement	Revaluation	(12)	(35)
	Other impairment	(17)	(12)
Balance sheet	Revaluation reserve	60	10
		<b>31</b>	<b>(37)</b>

# Pensions

## ● Funding

- Discussions continue between the Company and the Trustees regarding the latest triennial valuation
- Regulatory timetable to reach agreement by June 2014

## ● Accounting

- Prior year balance sheets restated following recent FRRP guidance (recognising schedule of contributions as a liability)
- IAS 19 (revised) to be adopted in FY 2014. £2m of scheme admin costs to be charged to operating profit rather than finance costs
- No cash impact

# Key messages

- Strong profit growth:
  - EBIT up 5%, EPS up 17%
  - Operating margin up 0.5 percentage points to 16.5%
- Reduced expansionary capital expenditure of £28m this year, increasing to £50m-£80m in medium term
- Expansionary capital returns stable at 17%
- Funding negotiations with pension trustee continuing
- Outlook:
  - Cautious about the strength of the economic recovery, with ongoing variation by geography and consumer group
  - Business transformation continues to progress, making us well placed to deliver sustainable profit growth and shareholder value



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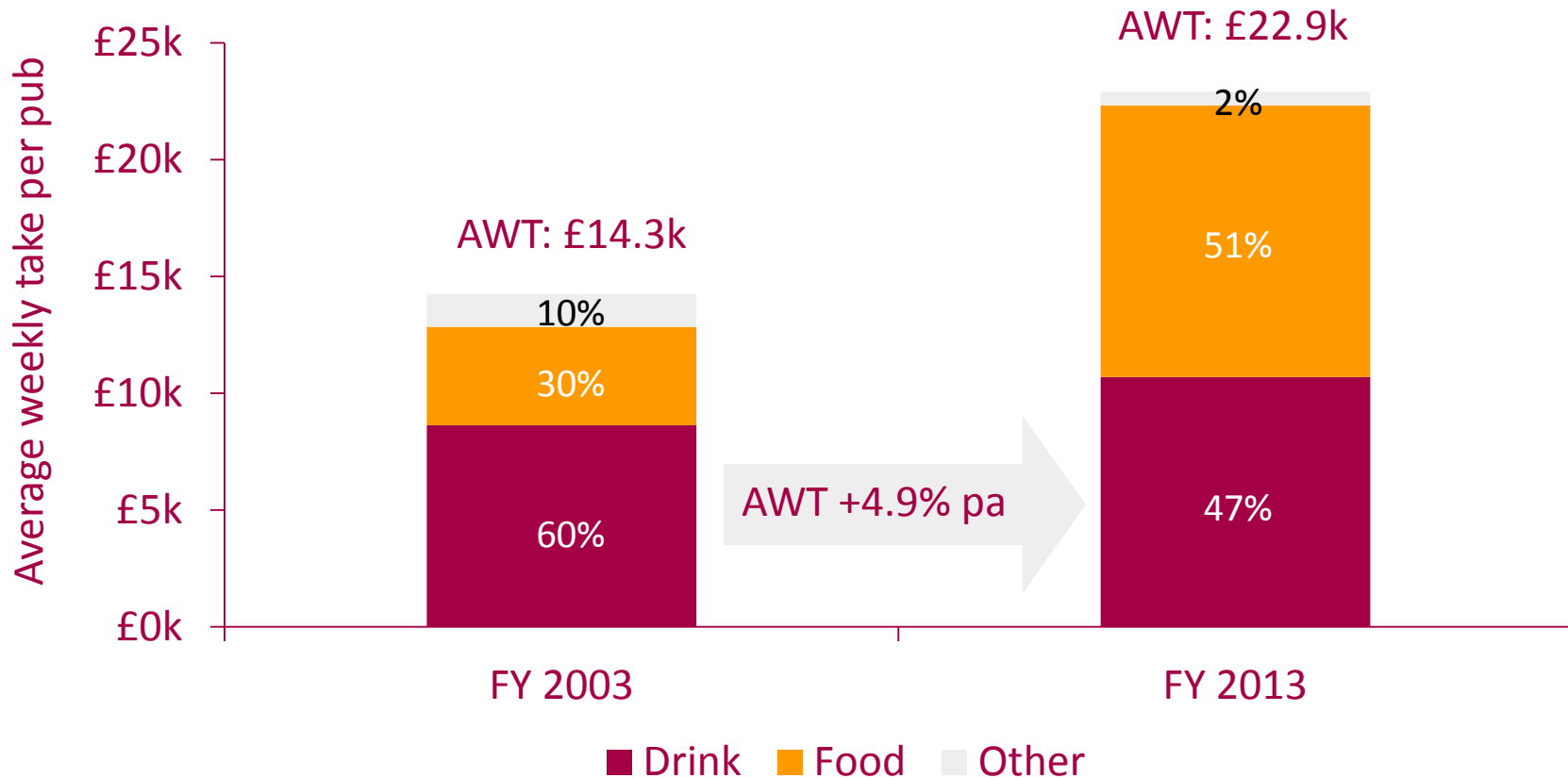
# **Business Review**

**Alistair Darby  
Chief Executive**

**Full Year Results 2013  
26 November 2013**



# Consistent growth in sales and food mix



***High quality, food led, managed estate***

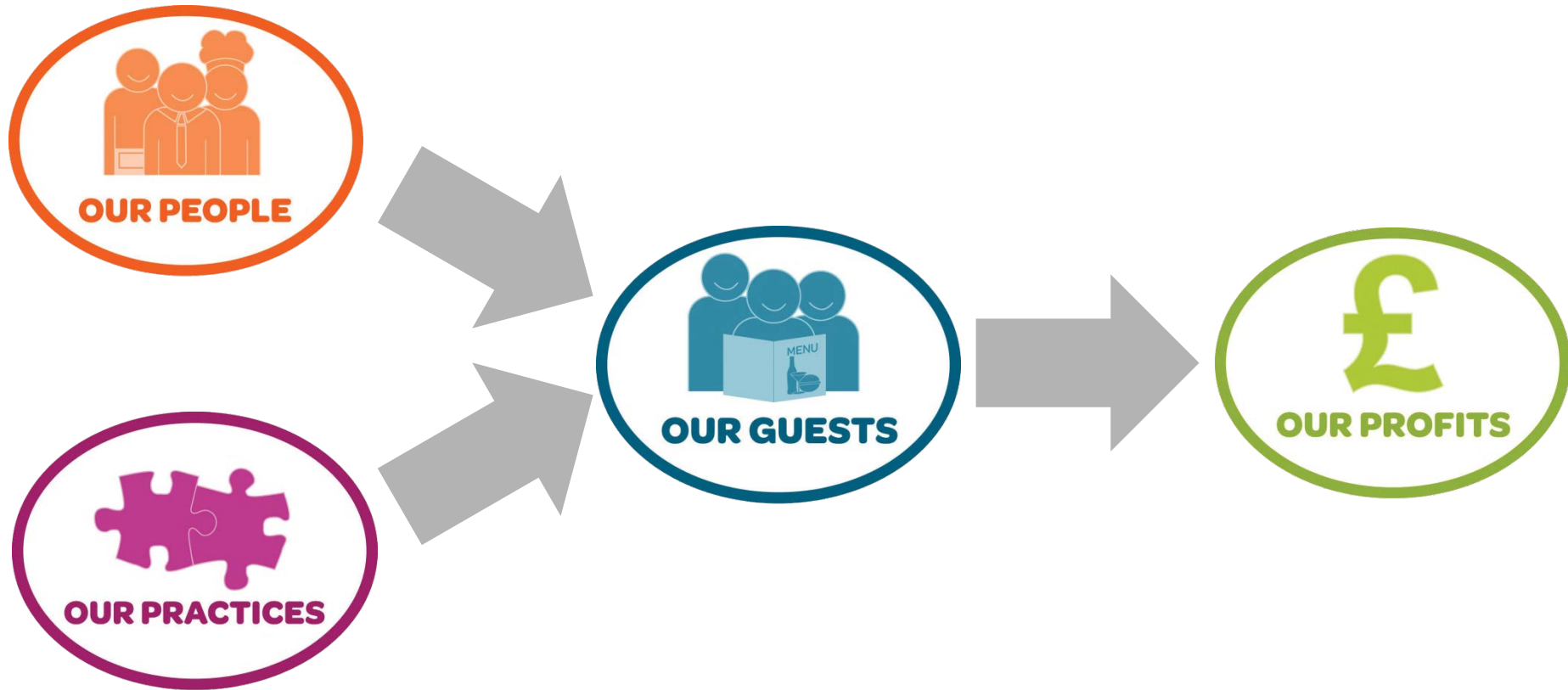
Note: AWT is average weekly take per pub and excludes VAT

# What creates value at M&B

- 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***

# Four priorities



***Consistent priorities to drive profits and returns***

# The value creation journey



- 1 Right size (done in FY 12)
- 2 Balanced transformation (in progress)
- 3 Acceleration (ahead)

***Transformation whilst safeguarding profit growth***

# Highlights

- Reduction in retail staff turnover
- Investment in guest facing systems
- Industry leading guest research driving brand action
- Clear approach to capital allocation
- 17% EPS growth

***Reshaping the business for future growth***

# Our people



- Key performance indicator:

	FY 11	FY 12	FY 13
Staff turnover	85%	82%	78%

- Engagement: 82% GMs, 78% retail
- 3,400 NVQ enrolments/completions
- 1,600 apprentices at year end
- Stability up at all levels



***Improved recruitment, retention and development***

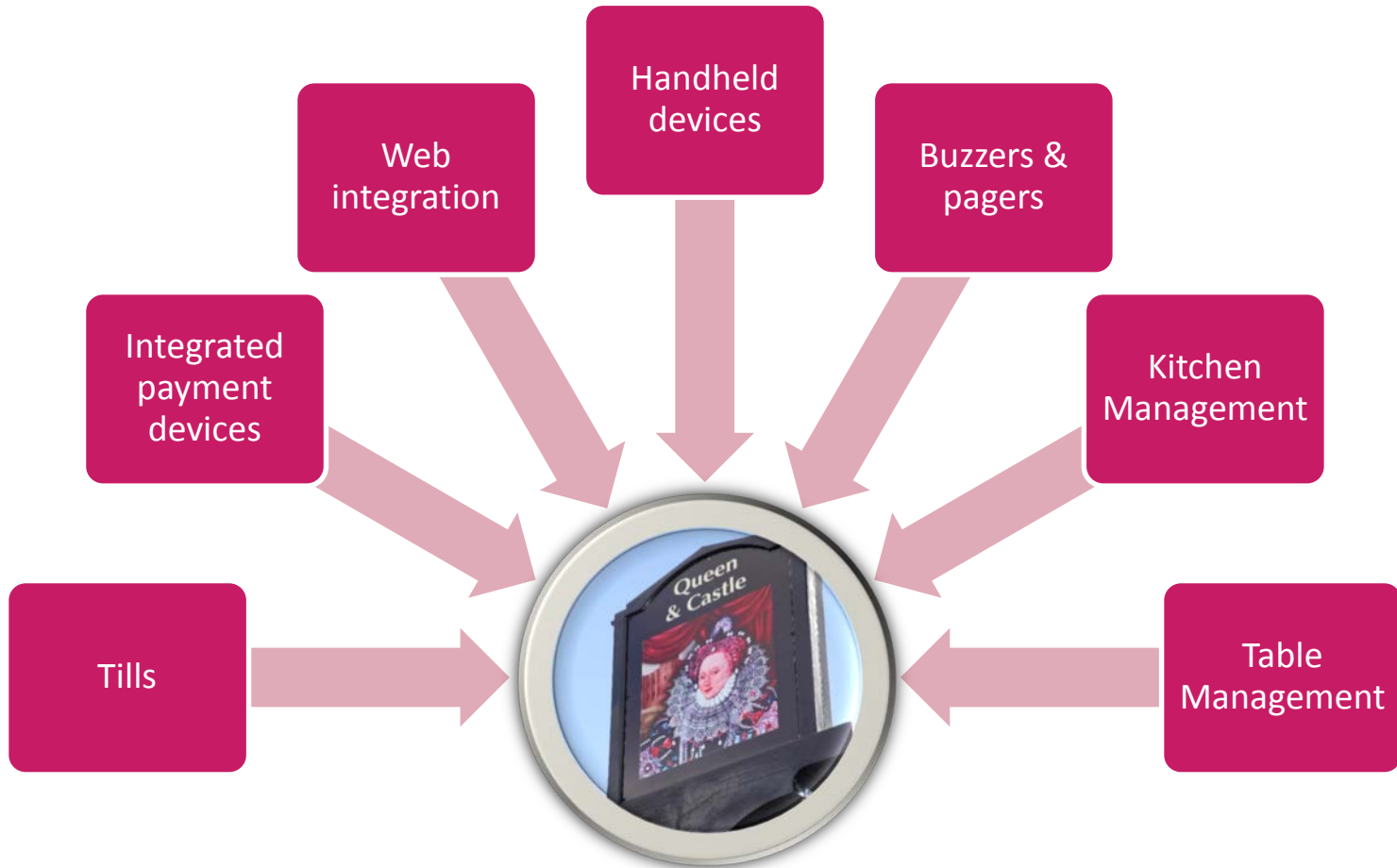
# Our practices

- Re-engineering operational roles
  - Administrators → leaders and coaches
  - Objective: more time with people and guests
- Improved service at peak times
- Food hygiene rating scores improving



***Continued focus on core operations and scale benefits***

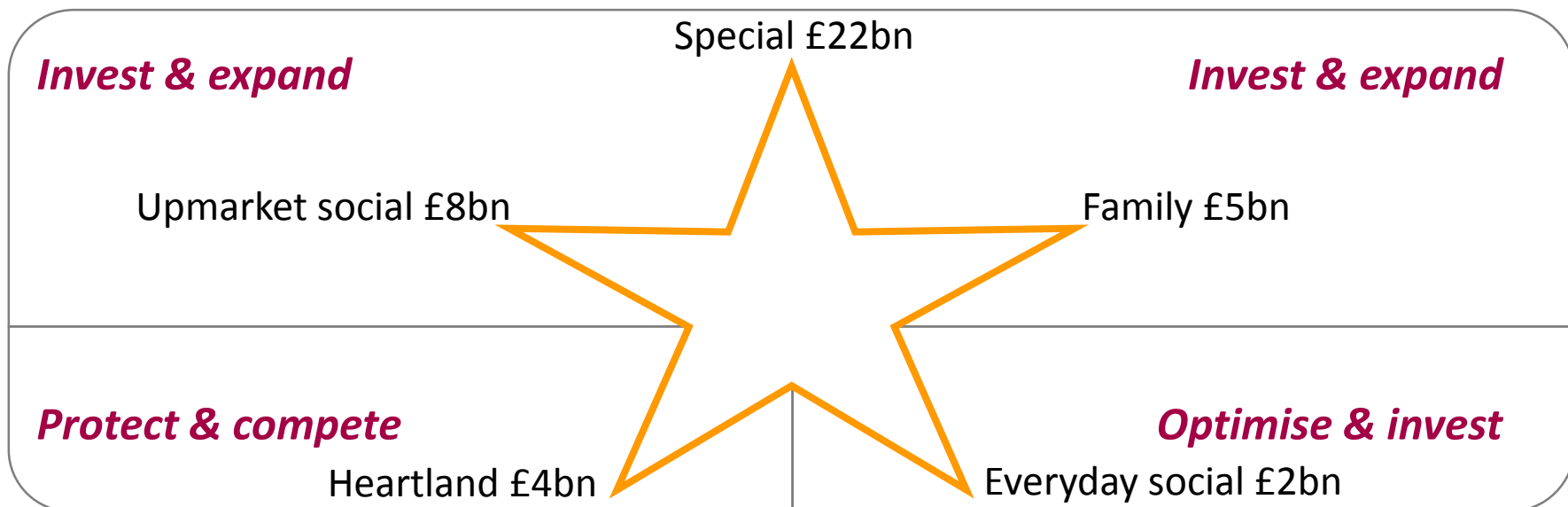
# New pub systems drive guest experiences



***125 sites y/e, 319 now, 1,600 FY15***



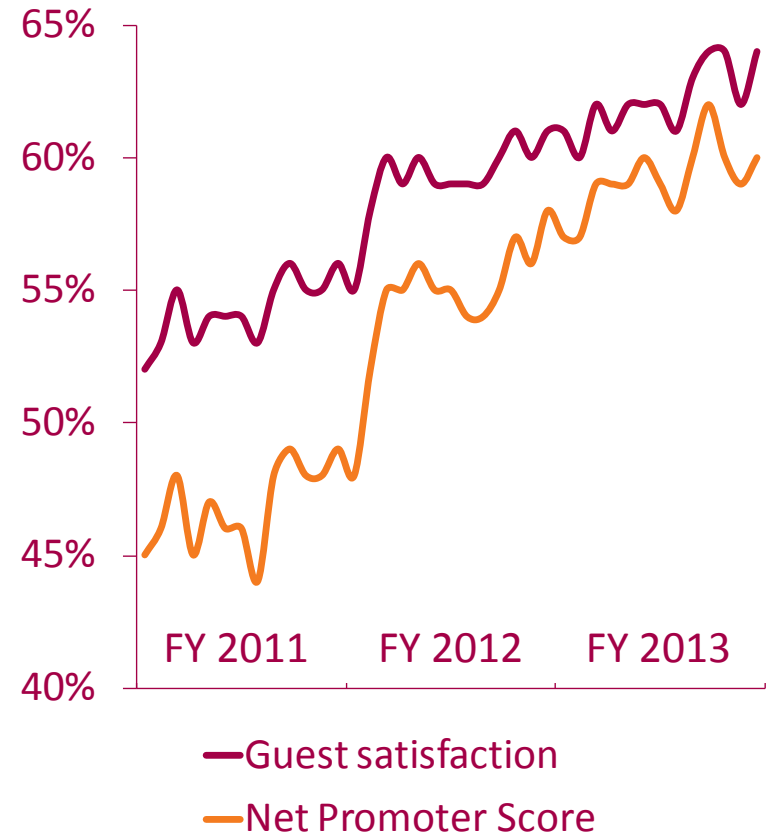
# Market and strategy overview



	Brand/format optimisation	Like-for-like sales	Capital deployment	Cash generation
<i>Invest &amp; expand</i>	Largely brand	✓✓	✓✓	✓
<i>Optimise &amp; invest</i>	Largely format	✓	✓	✓
<i>Protect &amp; compete</i>	Format	-	-	✓✓

# Our guests

- KPI: Net promoter +4% to 59%
- Guest satisfaction +3% to 62%
- Trust and loyalty builders established for each brand
- Guest dashboards rolled out



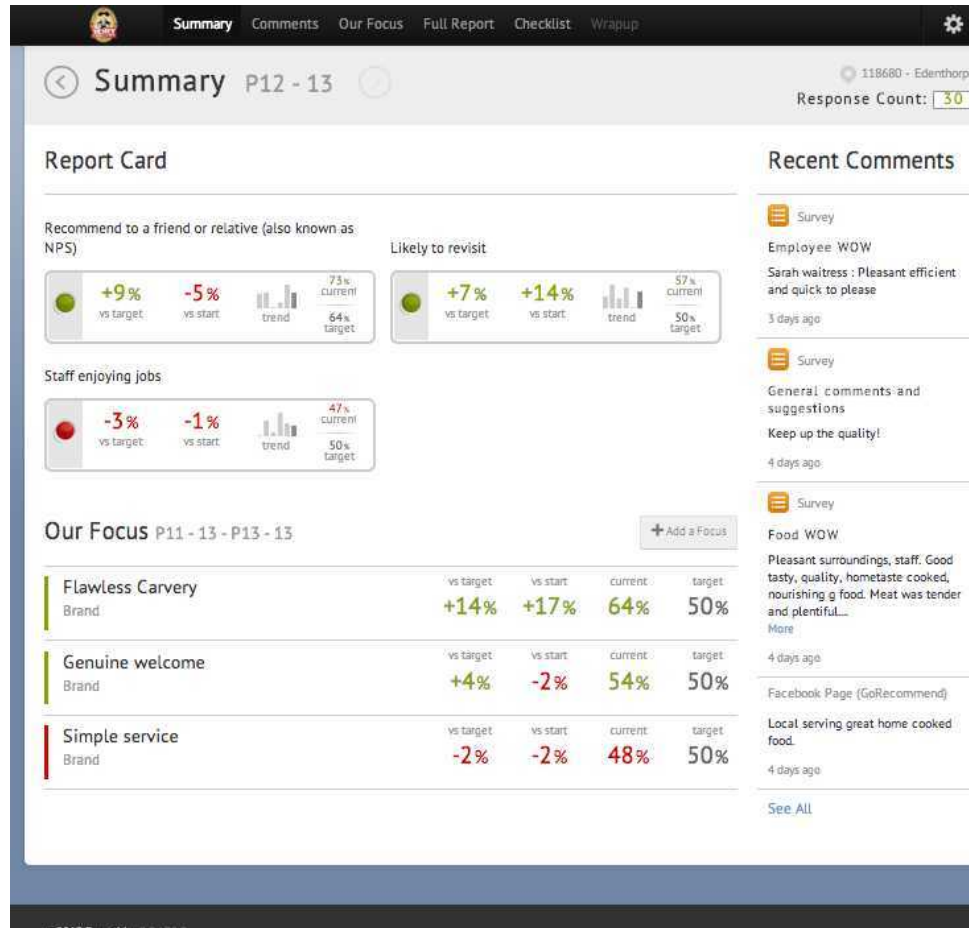
## *Brand priorities built on guest insight*

Note: Guest satisfaction is % of guests that “strongly agree” that they were satisfied with their visit.

Net promoter score is % of guests that are brand ‘promoters’ less % of guests that are brand ‘detractors’.



# Guest dashboard

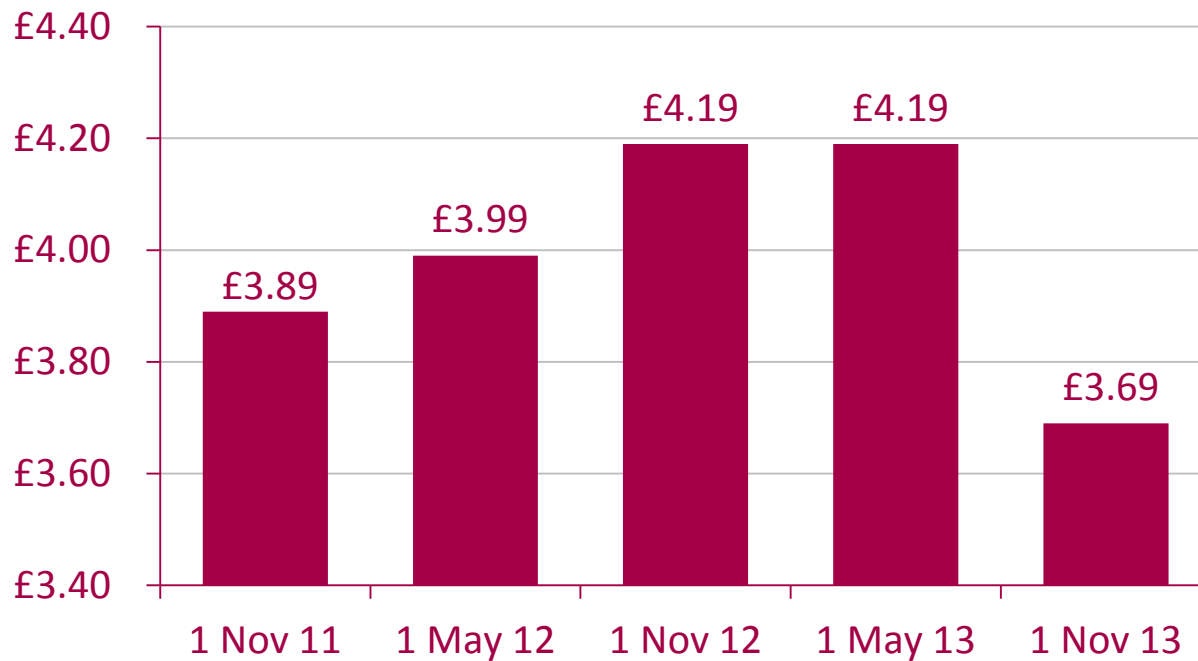


***Live guest feedback to every restaurant and pub***

# Protect & compete: Heartland

- Putting value first:

## Crown - best priced main meal



Volume trend:



# Protect & compete: Heartland



- Putting value first:
  - Introduction of £3.69 main meals in Crown
  - BT and Sky Sports distribution broadened
  - Great value drinks promotions
  - Simpler operational structure, common guest base
- Proud to lead on cost - to deliver great value for our guests

**ALL SERVED FROM THE CARVERY MONDAY – SATURDAY**

<b>Pub Classics</b> <b>£3.79</b>  <small>Choose from favourites such as Hand Battered Fish and Pie of the Day. Ask about our full selection when you order at the bar.</small>	<b>Carvery</b> <b>£4.19</b>  <small>Choose from Pork, Turkey or Gammon Monday to Wednesday and Beef, Turkey or Gammon Thursday to Saturday.</small>
<b>Saver Carvery or Sausages</b> <b>£3.69</b>	<b>GO KINGSIZE</b> <b>FOR JUST £1.50 EXTRA</b> <small>Add some carvery meat, a pork sausage and two Yorkshire to any meal.</small>

**THEN HELP YOURSELF TO AS MANY CHIPS, VEGETABLES, MUSHY PEAS, BAKED BEANS AND SAUCES AS YOU LIKE... IT'S ALL UNLIMITED!**

**BOTTOMLESS ICE CREAM** Available Monday to Saturday for just **£1.50** extra.

**TALK ABOUT GREAT DEALS!**

<b>CARLSBERG</b>	<b>£1.95</b>	
<b>SMOOTHFLOW</b> <small>JOHN SMITH'S EXTRA SMOOTH TINKLE'S SMOOTHFLOW WORTHINGTON CREAMFLOW</small>	<b>£2.10</b>	
<b>BOTTLE OF HOUSE WINE</b>	<b>£6.79</b>	

***Re-establish value and community spirit***

# Optimise and invest: Raising appeal of existing estate



- Trial, prove then roll out at speed
- Directing capital into attractive market spaces
- Meaningful impact on our guests

***Accelerating remodel programme***



# Expand through new openings



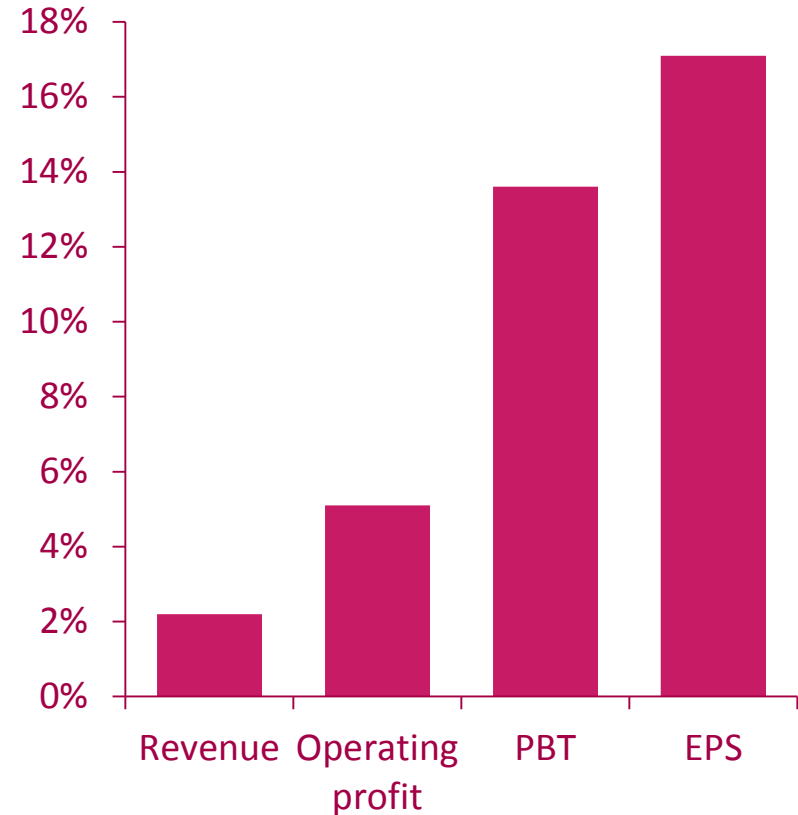
- 16 new openings – 6 Toby, 5 Harvester, 2 M&C, 2 Alex, 1 Browns
- New location types e.g. All Bar One Euston Station
- Pipeline expanding for FY 2014 and beyond

***Investing capital for attractive returns***

# Our profits



- Discounting optimised
- Substantial purchasing gains
- Operating margin up 0.5 ppts
- Operational leverage benefits
- Strong EPS growth



***Strong financial performance whilst transforming M&B***

Note: All measures quoted before exceptional items and other adjustments and compared to 52-week results in FY 2012



# Conclusion

- Strong profit performance
- Business transformation on track
- New systems in roll out
- Clear guest insight



***Well positioned for future growth***



## Q&As

Full Year Results 2013

26 November 2013