Half Year Results 2016

19 May 2016

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Financial Review
H1 2016

Tim Jones
Finance Director

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Income statement
(Pre exceptional items)

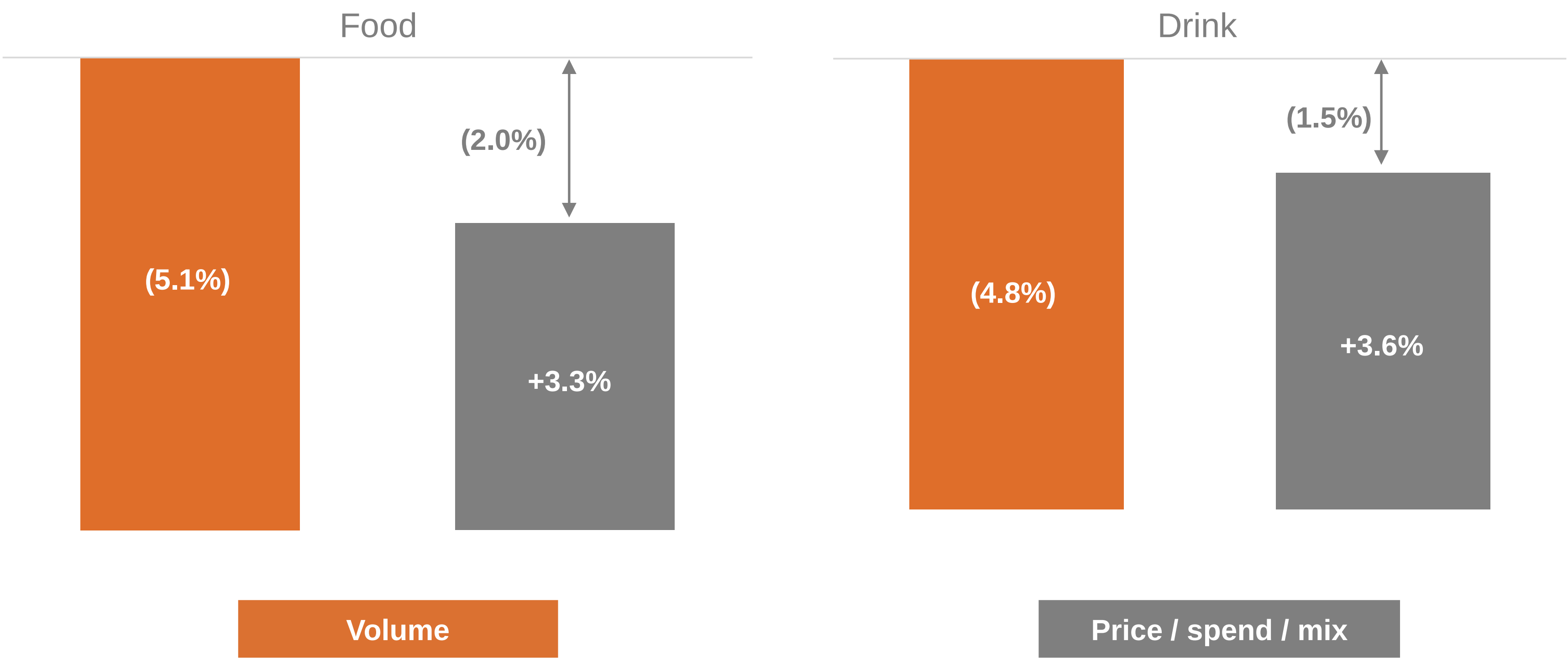
	H1 2016 £m	H1 2015 £m	
Revenue	1,096	1,113	(1.5%)
Operating costs	(940)	(960)	
Operating profit	156	153	+2.0%
Interest	(68)	(70)	
Pensions finance charge	(6)	(8)	
Profit before tax	82	75	+9.3%
Operating margin	14.2%	13.7%	+0.5 ppts
Earnings per share	15.7p	14.4p	+9.0%

Like-for-like sales

	Week 1 – 17	Week 18 – 28	Week 1 – 28	Week 29 – 33	Week 1 – 33
Food	(1.5%)	(2.6%)	**(2.0%)**	(1.1%)	**(1.8%)**
Drink	(0.6%)	(2.8%)	**(1.5%)**	0.4%	**(1.1%)**
Total	(1.0%)	(2.6%)	**(1.6%)**	(0.4%)	**(1.4%)**

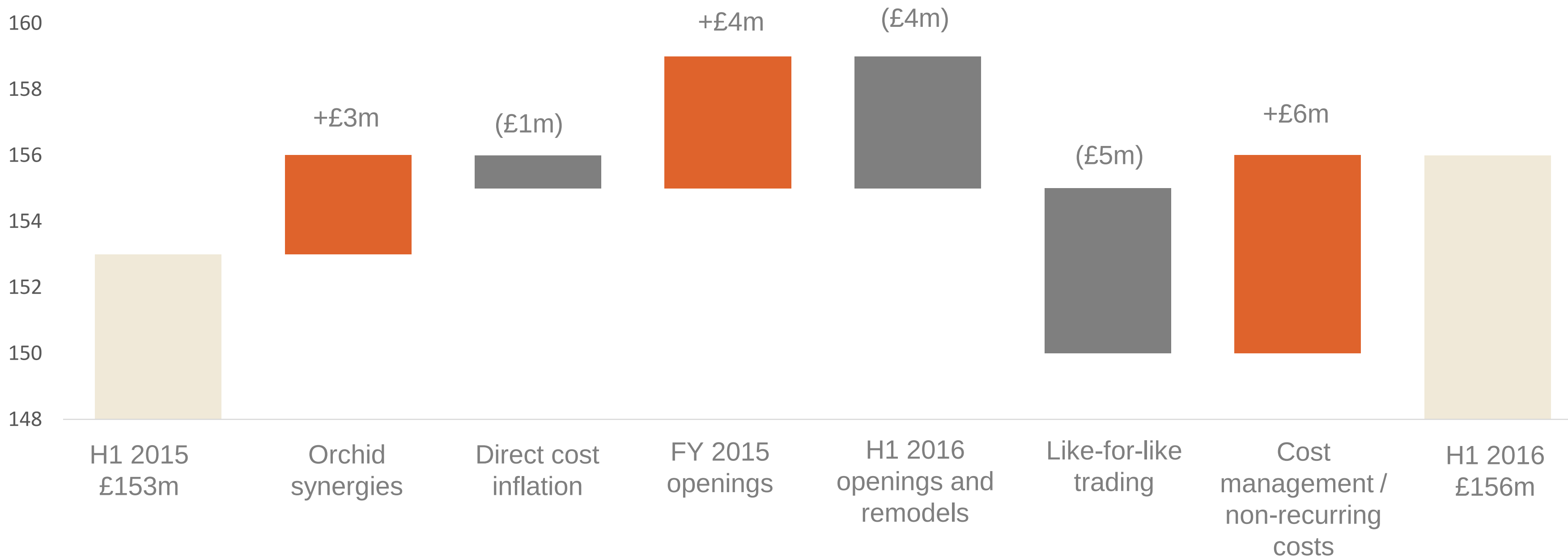
- Overall market challenging
- Strong sales performance in invested sites offset by declines in uninvested estate
- Ongoing focus on profitable sales

Price / spend and volume - LFL



- Volume declines primarily in uninvested mid market brands
- Spend per head increase driven by mix and focus on profitable sales

EBIT movement



- Margin movement:
  - Improved by 0.5ppts to 14.2%
  - H1 benefited from non-recurring prior year costs
  - H2 will be impacted by NLW headwind of £7m

Group cash flow

	H1 2016 £m	H1 2015 £m	FY 2015 £m
EBITDA	217	213	439
Working capital / non cash items	-	26	48
Pension deficit contributions	(26)	(23)	(86)
Cash flow from operations	191	216	401
Maintenance & infrastructure capex	(72)	(70)	(116)
Expansionary capex	(16)	(24)	(46)
Net interest paid	(62)	(63)	(127)
Tax	(8)	(12)	(25)
Other	1	-	2
Free cash flow before exceptional items	34	47	89
Dividends	(21)	-	-
Net cash flow	13	47	89
Group net debt	(1,862)	(1,917)	(1,870)
Net debt : EBITDA	4.2x	4.4x	4.3x

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Capital expenditure and returns

- Acceleration of remodel / front of house spend
- Remodel returns c25%
- Overall acquisition and conversion returns stable at 18%
- Orchid conversions now through 68 sites, with further 7 planned in FY16 and others under consideration
- Capex guidance
  - FY16 c£180m
  - FY17 c£200m

	H1 2016		H1 2015	
	£m	# sites	£m	# sites
Maintenance and infrastructure (excl remodels)	34		42	
Remodels	38	142	28	97
Conversions	12	22	10	23
Sub total	**50**	**164**	**38**	**120**
Acquisitions – freehold	1	2	5	2
Acquisitions – leasehold	3	2	9	7
	88		**94**	

Wage inflation

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- NMW
  - Currently £6.70
  - Increase to £6.95 from October 2016
- NLW
  - Introduced at £7.20 from April 2016
  - Expected to escalate at 6% per annum to 2020
- NLW: £7m incremental impact in H2 FY16
- Mitigating activities ongoing as part of business improvement
- Risk around timing of future NMW / NLW increases

Summary

- Challenging sales environment emphasising the importance of relevance, execution and amenity
- Margins ahead in the first half, although H2 will be impacted by NLW
- EPS up 9.0% to 15.7p
- Interim dividend of 2.5p approved
- Pensions triennial as at March 2016, negotiations underway

Business Review H1 2016

Phil Urban
Chief Executive

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Agenda

- Overview
- Six months on
- Review of strategic options
- What are we working on?
- Vision and outlook

Six months on

The market

- New supply

Consumers

- Technology-focused
- More choice

National living wage

- New cost headwind

Strategic options considered

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- Maintain the status quo
- 'Run for cash'
- Significant fast-casual acquisition
- Major disposal
- OpCo / PropCo
- **Best option: Accelerated organic growth**

Aim: To deliver long-term sustainable shareholder value

Accelerated organic growth

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- Increase investment cycle
- Conversion of sites to premium growth concepts
- Innovation: brands, products, concepts
- Selective site acquisitions and disposals

→

- Maximise return from existing assets
- Protect value in freehold estate
- Improved amenity:
  - Response to competitive threat
  - Leverage brand scale
- Reposition the business to manage NLW
- Avoid acquisition at excessive multiples

My 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

Increase the pace of execution and innovation

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

Estate plan

- Outstanding estate: focus on maximising value
- Full site review completed
- Rebalance estate:
  - Increase exposure to premium segments
  - Accelerate pace of remodel investment
  - Limited number of disposals identified
- Increased activity levels under way

	H1 15 # sites	H2 15 # sites		H1 16 # sites
REMODELS	97	19	→	142
ACQUISITIONS	9	5	→	4
CONVERSIONS	23	28	→	22

Estate plan

MILLER & CARTER
– STEAKHOUSE –

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- High-performing brand with rollout potential:
  - Consistently strong LFL sales and volumes
  - Clear brand proposition
  - Premium offering
  - Scope for national presence

	# sites
End FY15	**36**
Harvester conversions	+3
Orchid conversions	+3
Acquisition	+1
End H1 16	**43**
Orchid conversions	+2
Other conversions	+6
Acquisition	+1
Planned end FY16	**52**
Planned end FY18	**>100**

EBITDA returns >30% on initial conversions

Estate plan

- Rollout of Pizza and Carvery format
- Premiumisation of the value estate
- Strong ROIs seen in initial conversions
- Pipeline of future conversions from existing estate, principally Crown Carveries

	# sites
End H1 2016	14 x Pizza & Carvery
Crown Carveries & Orchid conversions	c20
Planned end FY16	c35
Planned end FY18	>80

EBITDA returns of c.25% on initial conversions

Estate plan

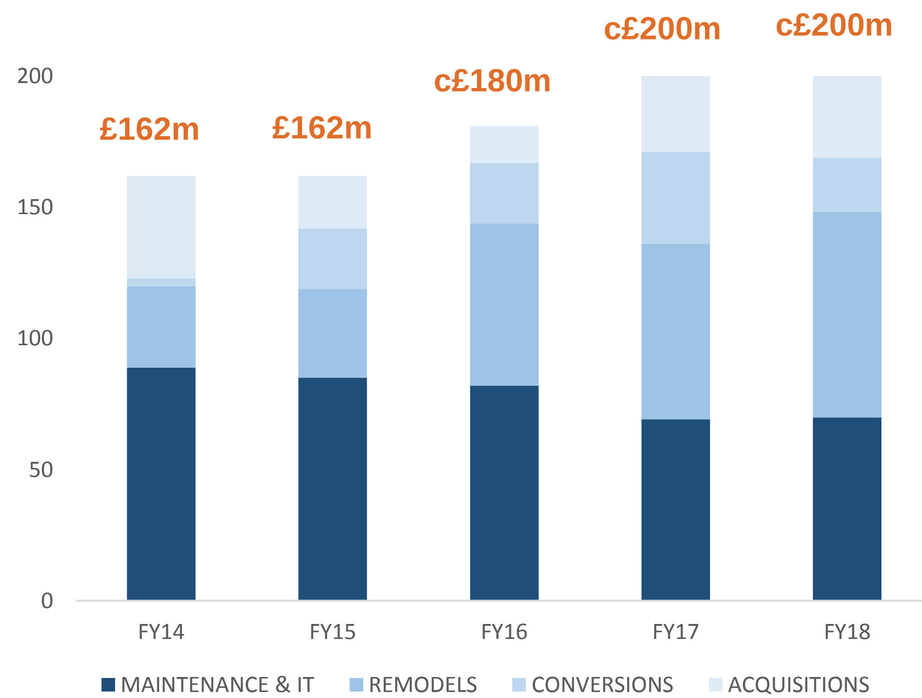
- Strong brand, in a highly competitive segment
- 233 sites, with varying levels of amenity
- Intention to reduce estate to core
- Core brand to be invested in next 18 months:
  - Achieve consistent brand amenity
  - Early sites with remodel capex trading well

End H1 2016: 233 SITES

↓ Miller & Carter conversions | ↓ Other brand conversions | ↓ Selective disposals

Estate plan: capex

- Accelerated capex under way
  - Increased remodel and conversion capex
  - Reduction in back-of-house capex
- In-year profit impact from closure and pre-opening costs
  - FY 2016 -£2m
  - FY 2017 -£2m



Estate plan: enhanced amenity

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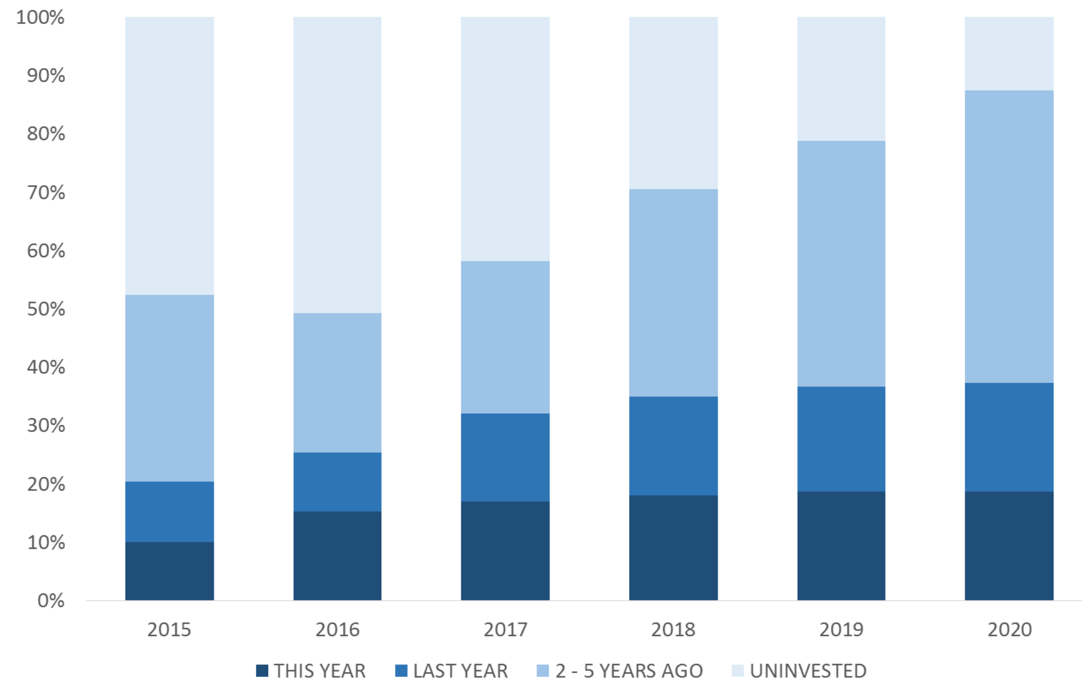
- 300 – 350 remodels per annum
- Increased investment cycle
  - Currently more than 10 years
  - Move towards 5 – 6 years

Proportion of estate by most recent investment



Organisational restructure

- Four operating divisions
  - Similar brands aligned
  - Faster decision-making
- Executive team strengthened
  - Greater operational presence
  - Commercial Director appointed

RESTAURANTS	Harvester	Toby Carvery – Home of the Roast	Crown Carveries	Sizzling Pizza & Carvery
PREMIUM	Miller & Carter Steakhouse	Premium Country Pubs	Vintage Inns	
CITY	Castle pubs	Nicholson's Freehouse Est. 1873	All Bar One	Browns Brasserie & Bar Established 1973
PUBS	Sizzling pubs	Oak tree pubs	Ember Inns	O'Neill's

Sales culture

15,750 hrs

Planned sales training investment FY16 H2

New sales training for all operational management teams

London sales team live.

Future expansion to other cities

New weekly sales incentive scheme introduced for second half

Released restaurant inventory to online booking

Building a culture of sales throughout the business

Guest care, pricing and procurement

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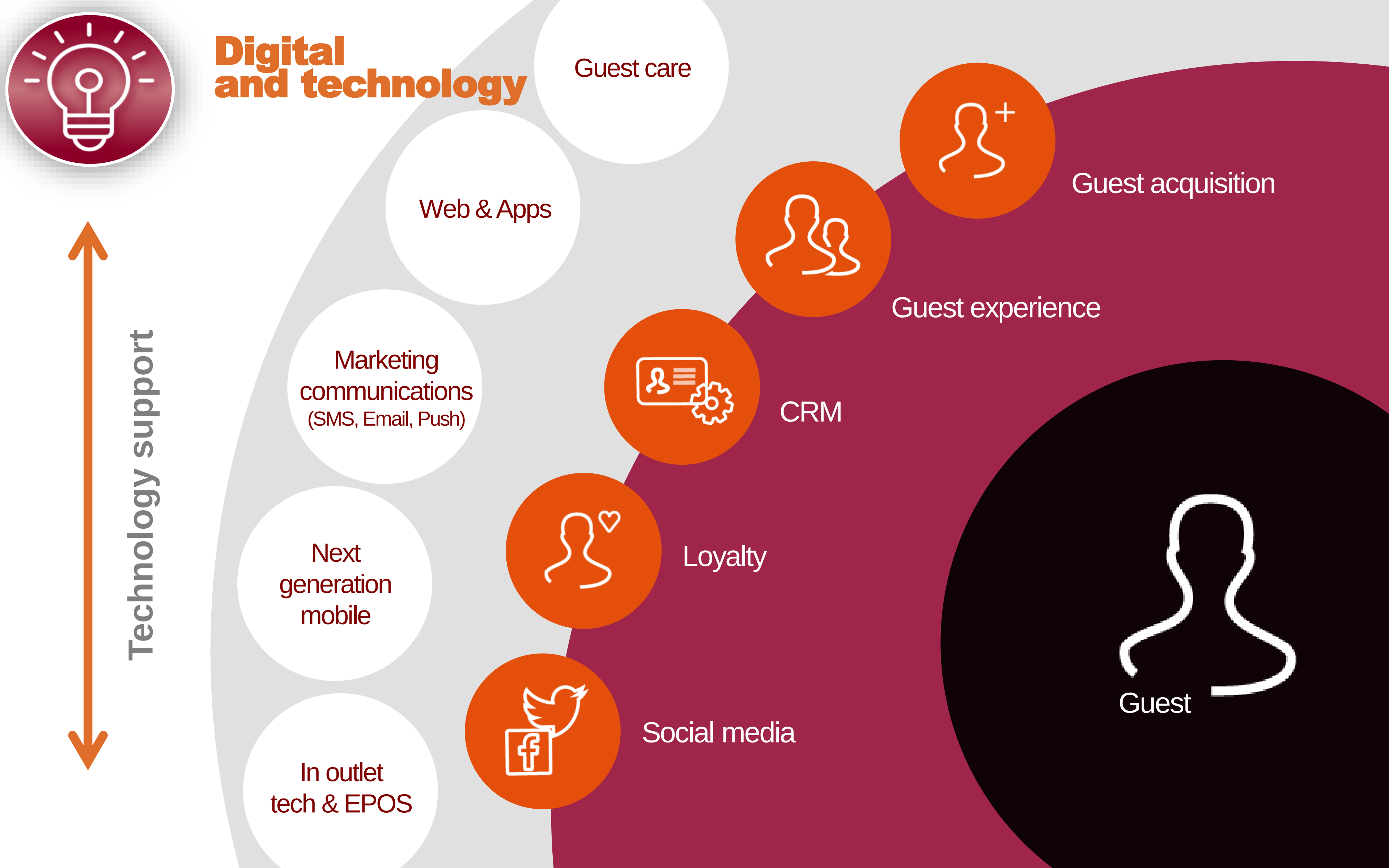
All complaints to be resolved within 24 hours

All sites managing TripAdvisor feedback

Co-ordinated pricing trials
Simplify price bands
Improved price laddering

Using technology to drive efficiency
Optimise delivery frequency
Leverage scale


Digital
and technology
Technology support
Guest care
Web & Apps
Marketing communications
(SMS, Email, Push)
Next generation mobile
In outlet tech & EPOS
Guest acquisition
Guest experience
CRM
Loyalty
Social media
Guest

Brand and Product Development

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Ongoing brand innovation

New concept innovation

Recognising the need for innovation

Summary

Build a more
balanced business

Instil a
commercial culture

Increase the pace of
execution and innovation

Maximise returns from
the best estate

Profitable sales growth

Leverage technology
and digital

Long-term sustainable shareholder value


Questions
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Harvester
TOBY
BROWNS
ALL·BAR·ONE
VINTAGE
o'neill's
oaktree
Sizzling
ALEX
CROWN
EMBER INNS
Country PUBS