Corporate Participants

Jeremy Blood

Interim Chief Executive – Mitchells & Butlers plc

Tim Jones

Finance Director – Mitchells & Butlers plc

Presentation

Jeremy Blood - *Interim* *Chief Executive*

Good morning, everybody, and welcome to the Mitchells and Butlers Trading Update call. I'll take questions in a minute, but before that it's probably helpful if I run through some of the key points from this morning's announcement.

Like-for-like sales in the first 51 weeks were up by 2.7%. In the nine-week period, the most recent to September 17th, like-for-like sales growth was 0.5%, which is broadly in line with the underlying trend of 1% like-for-like sales growth which we announced in July. Total of sales in the Retained Estate were up by 4.7% in the first 51 weeks. Our expansionary capex in the year of £75 million has enabled us to work on 53 new sites, and complete 48 conversions. The EBITDA returns for those investments have improved again so that they're now slightly over 20%, with the new site acquisitions continuing well and helping to drive that improving EDITDA. We've got a good pipeline for the future for next year, and I think that expansionary capex programme will continue to add value.

On cost pressures, we expect them to remain next year, driven largely by energy prices, which have a knock-on effect particularly into the food area, and also taxation increases, particularly in excise duty. But we are seeking to offset those with a number of initiatives in productivity and lowering costs generally that should offset those challenges.

On the UK consumer looking forward, we see no reason in the short-term for it to remain other than relatively challenging. There seem to be no positive moves on either consumer confidence or consumer spending power, but we're confident we have a very robust business with high levels of sales, good continuing gross margins, and good underlying profit conversion, and it's that robustness which I think gives us confidence for the future.

Just before I kick off on the Q&A, can I remind everyone that, as you all doubtless know, we are in an offer period, and as such there are both restrictions on what we can say today, and also the fact that we are joined in the conference room today by our financial and legal advisors. I'm sure you understand why that's the case. So we won't be able to discuss the offer on the call, and we have to be very careful about what we say about forward-looking statements. However, with that proviso, Tim Jones and I - our FD - will try and answer questions as openly as we can, but with those restrictions in mind.

Questions and Answers

Wyn Ellis – *Numis*

Yes, hi. Good morning. Just a question on the food like-for-likes and what's happened there. How much of it is cover growth, and how much is price or spend per head? And also could you give us some flavour for what's happening across the brands? Is there any difference in performance with the real value brands relatively more expensive?

Tim Jones – *Finance Director*

Yes. In terms of breaking that down in covers and volumes, our… the number of main meals that we serve has shown a decline through the year, about 1%, so similar to what we talked about in the interims. Actually, the number of items we serve is in growth; that's about a positive 1%, so if you like we're getting a slightly lower footfall of the number of customers coming through the door, but those that are coming through the door are spending slightly more, leading to increases in our spend per head, which is driving the overall sales growth.

In terms of the variability of that performance across the brands, I think whilst obviously some brands are doing better than others and we spent a bit of time on Harvester at the interims, I don't think we've got any brands that we would say are failing at the moment. By far the largest variance within our results is a regional variability, rather than a brand or a price point variability, in that we are seeing the South-East in particular continuing to deliver growth well in excess of the average we've got here, the 0.5%, the current run-rate; whereas other areas, particularly in the North-West and a lot of Scotland, are flat or flat at best.

Wyn Ellis – *Numis*

Okay, thank you.

Paul Hickman – *Peel Hunt*

Morning. I’ve got four questions, actually. And firstly, would you be able to expand on the defensive initiatives that you’ve taken? You mention, I think, four or five categories: menu, drinks, sales, gross margin, IT, organization changes. Would you be able to quantify each of those? Secondly, on the capex of £75 million, the 53 acquisitions, could you say how many of those are freeholds and how much did you spend on them? Thirdly, you mention in your report the contribution by the 38,000 employees. I wonder if you could comment on staff turnover, particularly at management grades and whether that has changed in the last quarter. And fourthly, am I right in thinking that you’re intending to spend about £100 million of expansionary capital in 2012?

Jeremy Blood – *Interim Chief Executive*

Thanks, Paul. I think we’ve scribbled down the questions. We’ll try and take them… On the defensive initiatives, as you call it, I mean we don’t see them as defensive: they’re just sort of good business practice to try and sort of combat the costs of margin pressures. I can’t, unfortunately, sort of break them down by sort of detailed cost buckets. Be assured, though, they’re not plans… they’re plans that we’ve been working on for the last four or five months, and we’re ready to introduce them now and they’re firmly based, you know, right across the business. So unfortunately I can’t break those down, but they’re good plans, but they’re what you’d expect any business to… any management team to get on with at a time like this.

On the this year’s - well, last year’s - programme of openings how many were freehold? Tim, do you have that number to hand?

Tim Jones – *Finance Director*

10 of those, Paul, were freehold.

Paul Hickman – *Peel Hunt*

Thanks. And how much did they cost?

Tim Jones – *Finance Director*

That came to 14 million.

Paul Hickman – *Peel Hunt*

Thank you. Which is within the 75, right?

Tim Jones – *Finance Director*

Yes.

Jeremy Blood – *Interim Chief Executive*

So 20% of the expansionary capex was on freehold acquisitions; a good chunk was on conversions, and the rest was on leasehold acquisitions across a broad breakdown.

Paul Hickman – *Peel Hunt*

Yes.

Jeremy Blood – *Interim Chief Executive*

On the… for next year we probably can't give a… we can't give a guidance on that number, can we? Or not? No, I'm afraid not. But we have a good… we have got a good pipeline.

Paul Hickman- *Peel Hunt*

Thought I'd ask.

Tim Jones – *Finance Director*

I think what we can say for next year is, you know, we're quite clear in the statement that we are continuing with the expansionary capex programme that we're doing. We've talked previously that there'll be a change in mix in there, in that we're coming to the end of the conversion programme, so there'll be far a richer mix in there of new site acquisitions, you know, and for the sake of argument roughly the same level maybe, or whatever that we're doing at the moment. And we're encouraged, as we say in the statement, by the pipeline that we have today and we see going forward, and the opportunities that will bring us.

Paul Hickman – *Peel Hunt*

Great. Thanks.

Jeremy Blood – *Interim Chief Executive*

Your final question was on staff turnover.

Paul Hickman – *Peel Hunt*

Yes.

Jeremy Blood – *Interim Chief Executive*

I mean I did make reference to the 38,000. They are doing a brilliant job, actually, and I think as well it, sort of, underlines the robustness of the business. You've got 1,500 profit centres; you've got all the staff out there really working, so they are remarkably resilient to any stuff that's happening up at the board level. As regards senior management turnover, no; there's been no increase in the last quarter.

Paul Hickman - *Peel Hunt*

Yes, thanks.

Neil McMyn – *Tamar Capital*

Good morning. I've just got a follow-up question on the expansionary capex. You've spent 75 million this year, and are claiming that that's enhancing value for shareholders at a 20% return. When I look at it and take account of funding and the refurbishment costs, it actually looks like that's more like destroying value for shareholders, and I'd just like to know what you think… how much cash you think you're generating for shareholders from that expansionary capex?

Tim Jones – *Finance Director*

Yes. I mean it's probably difficult to do verbally, Neil, without going through your calculations, but you know there's a cost of funding in there, you know about 6%. We're adding slightly more than the 20% return on the capital, and then in terms of the replacement life of the assets we're investing in, I think we've already said about 20% of those are freehold, so they would have a very long life. A proportion would be fit-out costs, so they would have a shorter life, and in terms of front of house they might be five, six or seven years, and the rest will be in excess of ten years. Where the average refurb cycle or life across all those assets comes out, we'll have to sit down and work out, but it will be well in excess of ten years. I think if you put all those together, you're going to find that it's quite value accretive to continue with this programme.

Neil McMyn – *Tamar Capital*

And you're comfortable that that is good use of shareholders' funds to continue that acquisition programme next year?

Jeremy Blood – *Interim Chief executive*

Yes,.it's a good programme, and the returns are firming, they're not slipping, which I think gives us renewed confidence, and the sales in those outlets and the profitability and conversion in those outlets will improve over the short period. You haven't built up a reputation locally when you open, and there is more P&L volatility in the early months in units as they settle down, as they bed down. So I think in… we're confident this is a value-creating activity.

Neil McMyn – *Tamar Capital*

Thank you.

Nigel Parson – *Evolution Securities*

Good morning. I wondered if you could talk about any sort of pricing here, or menu initiatives that you're running this autumn.

Jeremy Blood – *Interim Chief Executive*

Thanks, Nigel. Pricing initiatives, we are… have increased the amount of activity that we're going to be doing on direct mail promotions and local press promotions. We think now is the time to really call people into action to come into our restaurants. When people are coming in, as Tim explained, we're finding spend per head is very resilient. What we're finding is it's just a bit harder to pull people in, so we've increased the amount that we're going to be spending on that. We're not going to be doing extraordinary levels of discounting, or very heavy discounting, because we think that would reduce long-term people's appreciation of the value that we're offering, and we think we offer excellent value already. Our view is that actually you need to offer some value in these calls to actions, but not enormous value, so we don't see the… it's more reminding people we're there, and come and try and give them a something to make them come in to try is the best way of doing it.

On menus where we're moving into the, as we call it, the dark nights cycle, so as the nights get darker we introduce a whole set of menu dishes that refresh all our menus appropriately; that process is starting now. We're doing a number of trials and early launches in sites, and we remain confident that the menu work we've done over the last six months in preparing those is good, strong; the dishes are good, and that we're sort of taking into account all the procurement opportunities we can without affecting value on the plate. So I think we'll give people great food this autumn and winter, but I think the work we're doing should improve spend a head further and hopefully our gross margins should firm as well. So I think we're confident about the menu work we've done.

Chris McGale – *BTIG Ltd*

… the London area for us, please, what percentage of total sales come from the London area; how that's doing right now relative to the rest of the country; and what your expectations are for 2012 and the Olympics? Thank you.

Tim Jones – *Finance Director*

Taking the south-east as a whole, about 40% of our business is in the south-east, so I guess London would be 20%, about half of the whole of that region. That is certainly the most resilient region across the whole of the country that we're seeing at the moment, showing us positive and very encouraging growth well in excess, as I said, the half a per cent that you see here. Did you ask about the Olympics as well?

Chris McGale – *BTIG Ltd*

Yes.

Tim Jones – *Finance Director*

We're obviously spending a lot of time preparing for the Olympics at the moment. To the extent that it's threat or opportunity for us, I think depends on which region you're looking at within the country. Within the London area, of course, it's an opportunity, and we're looking at special initiatives and promotions we can have within our estate that's near the Olympic Park, and where most people are going to be. I think outside, round the periphery of the country, it probably represents a threat to us in terms of people perhaps not always coming out to eat this often because they're staying in to watch sporting events.

Jeremy Blood – *Interim Chief Executive*

It's a two-week event, and we'll see what… you know, it will have its impact, but very hard predict traditionally. One quick advert, if you are hosting an event over the Olympics, if you go to our website there's a link through to all our great venues and the Olympic packages that we are offering there. You know we've got a good business-to-business selling site there, and actually got very good early orders from a lot of people, and we're trying to grab quite a bit of trans-Atlantic business as well out of that one. So we're doing what we can in those venues and where we can grab extra sales, but I think it is just a short period of time next summer.

Jeffrey Harwood – *Oriel*

Yes, good morning. I just wondered given recent events whether there'd been any change in the approach towards the likelihood of resuming dividend payments.

Tim Jones – *Finance Director*

Certainly no change in the approach, Jeffrey, no. We will instigate, as we said before, dividends when we feel we have a sustainable stream of profit and cash flow cover from which we can get some resilience to that, you know that cash payout, if you like, and there's nothing that leads us to want to change that metric or way that will evaluate it.

Jeffrey Harwood – *Oriel*

Sure, okay. Thank you.

Al McDonald – *Espirito Santo*

Morning, all. Just could you quantify for us the impact of the civil unrest in the latest trading statement, and was there any difference between the high street, out of town and the different brands?

Tim Jones – *Finance Director*

I think if we… if you look purely at localities where there were riots, we reckon we lost sales of about 1 million, just over £1 million as a result of closing early, and disturbance. I think looking at the rest of the estate, though, it's clear that you know throughout the UK people stayed in and watched Sky News, and there was a larger dip across the rest of the state, even where people weren't directly impacted by the riots. So it's probably… you know our best guess probably about a 2 million impact on sales, something like that.

Al McDonald – *Espirito Santo*

And I mean best guess underlying, has it recovered to where it was beforehand?

Tim Jones - *Finance Director*

Well, I think… I think, you know, when the underlying trend, you know, has slowed us with sharing in these numbers here, I think the riots was just a 5-day blip in that trend. I don't think it's left us with a legacy, you know, sort of, overhang of sales or what have you.

Jeremy Blood – *Interim Chief Executive*

No, I think they've all been thankfully quite resilient. We were fearful that that would happen, but there's been no evidence of a hangover from the riots, I don't think. I mean the direct impact of that million's about 40 basis points on the like-for-like in the nine-week period, so it's sort of… you know, if you add in the wider impact, I think it shows that the underlying sales is around about that 1%, 1.5% is where we're feeling the broader market is at the moment.

Al McDonald – *Espirito Santo*

Okay. Thanks very much.

Jeremy Blood – *Interim Chief executive*

Thank you, everybody. I'm sorry that we were slightly constrained on the answers we can give. I hope you all appreciate why. I mean our message today is that these are difficult times for the UK consumer, but we've got a very robust business, and we're doing all the right things to trade it well and trade it through this. We're not going to stop delivering great customer experiences. We're going to keep investing in that, and keep investing in creating value through expansionary capex. Thanks very much, everybody. Thank you.