MITCHELLS & BUTLERS PLC
LEI no: 213800JHYNDNB1NS2W10

20 November 2019

FULL YEAR RESULTS

(For the 52 weeks ended 28 September 2019)

- **Strong adjusted profit before tax[a] growth, up 10.7%**
- **Continued market outperformance[b]**

Reported results
- Total revenue of £2,237m (FY 2018 £2,152m)
- Operating profit of £297m (FY 2018 £255m)
- Profit before tax of £177m (FY 2018 £130m)
- Basic earnings per share of 33.5p (FY 2018 24.5p)

Trading results
- Like-for-like sales[a] growth of 3.5%
- Adjusted operating profit[a] growth of £14m to £317m (FY 2018 £303m)
- Adjusted earnings per share[a] growth of 9.1% to 37.2p (FY 2018 34.1p)

Operational highlights
- Strong trading with market outperformance[b] and profit growth
- Improved returns from capital programme of 21%, up 5ppts
- Strong performance across the brand portfolio driven by sales initiatives
- Efficiencies resulted in increased operating margin[a] of 14.2% (FY 2018 14.1%)

Balance sheet and cash flow
- Capital expenditure of £152m (FY 2018 £171m), including 7 new site openings and 240 conversions and remodels (FY 2018 232)
- Adjusted free cash flow[a] of £11m (FY 2018 £(19m))
- Net debt reduced to £1.56bn (FY 2018 £1.69bn) representing 3.6 times adjusted EBITDA[a] (FY 2018 4.0 times)

Phil Urban, Chief Executive, commented:

“These strong results reflect the work we have done over the last few years, first to build sustained sales growth and then to convert that into profit growth. It has been extremely encouraging to see an improvement in like-for-like sales growth across the portfolio during the year, fuelled by our Ignite programme of work. This puts us in a stronger position as we move forward into the next financial year, in what we expect to remain challenging market conditions.”

Definitions

a – The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. APMs are explained later in this announcement.

b – As measured by the Coffer Peach business tracker.

There will be a presentation today for analysts and investors at 8.15am at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. A live webcast of the presentation will be available at www.mbplc.com. The presentation will also be accessible by phone on 0203 936 2999, access code: 089528. The replay will be available until 27 November 2019 on 0203 936 3001, access code: 267517.

All disclosed documents relating to these results are available on the Group's website at www.mbplc.com

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Note for editors:
Mitchells & Butlers is a leading operator of managed restaurants and pubs. Its portfolio of brands and formats includes Harvester, Toby Carvery, All Bar One, Miller & Carter, Premium Country Pubs, Sizzling Pubs, Stonehouse, Vintage Inns, Browns, Castle, Nicholson's, O'Neill's and Ember Inns. In addition, it operates Innkeeper's Lodge hotels in the UK and Alex restaurants and bars in Germany. Further details are available at www.mbplc.com and supporting photography can be downloaded at www.mbplc.com/imagelibrary.

BUSINESS REVIEW

This has been a strong year for Mitchells & Butlers. The work we have undertaken, principally through our Ignite programme of initiatives, is driving a strong trading performance and generating profit growth whilst we continue to invest in our estate and pay down debt.

Like-for-like sales[a] grew by 3.5%, with strong performances across all of our brands contributing to continued, consistent outperformance of the market[b]. Within this, our uninvested estate[c] grew by 1.5% demonstrating breadth of performance across our portfolio. Total sales grew by 3.9% over the year.

Adjusted operating profit[a] of £317m grew by £14m against last year. Ignite initiatives focusing on sales and efficiency enhancements have resulted in adjusted operating margin[a] growth of 0.1ppts, despite the inflationary cost headwinds which continue to impact our sector. On a statutory basis, profit before tax of £177m grew by 36.2% against last year.

OUR STRATEGIC PRIORITIES

We have maintained our strategic approach with three priority areas focused on repositioning the company to a stronger competitive position:

- Build a more balanced business
- Instil a more commercial culture
- Drive an innovation agenda

Our continued progress across each of these priorities has been instrumental in the strong performance during the year.

Build a more balanced business

Our estate comprises 1,748 pubs, bars and restaurants, of which more than 80% are freehold or long-leasehold. Our focus in this area is to optimise the balance of brands across the estate in order to create long-term value. During the year, we continued to execute our plan focusing on improving the quality of the estate through premiumisation and amenity upgrades.

We completed 240 remodels and conversions in FY 2019 (FY 2018 232) and remain on course to deliver a 6-7 year cycle of investment, from the 11-12 year cycle of previous years. Ordinarily we expect a drag on profit in the year of investment due to lost trade during closure and the cost associated with opening the invested business. This year we have been focusing on enhancing the 'in year' return of our investment projects and have eliminated profit drag by reducing closure time, more efficient use of resources and setting businesses up for success from the first day of trading. As a result, return on investment[a] for conversion and acquisition projects increased to 21%, the strongest we have seen for many years.

Our remodel returns[a] have also improved, increasing to 34% for projects completed in the financial year. Our remodel programme is designed to enhance the amenity and appeal of sites which remain within the same brand, giving the opportunity both to delight existing, and attract new, guests. The remodel programme provides a vehicle through which brands can continue to evolve and innovate in the highly competitive market in which we operate.

We continue to search for new areas to create value. Miller & Carter Frankfurt opened in August and gives us an opportunity to test this successful offer in a new market.

We have been considering the environmental impact of our investment programme and, where possible, have refurbished existing kitchen equipment and furnishings to be used in new projects. In so doing we have saved 500 pieces of equipment from landfill which equates to 274m^3. In addition, our new Edinburgh lodge has been built to high environmental standards and we are continually looking for opportunities to improve the sustainability credentials of our buildings to reduce our use of natural resources.

Instil a more commercial culture

Instilling a commercial mindset across the organisation has been instrumental in driving the turnaround in trading performance over the past two years. In our sites, managers have been equipped with the knowledge to confidently grow sales in their local markets and have been provided with systems which assist them in running their businesses more efficiently. Centrally, our procurement team continue to leverage our buying power and during the year have mitigated £6m of inflation costs across food, drink and logistics.

Centralisation of procurement and stock management has also allowed us to reduce the level of food waste in our supply chain during the year. Through product and pack size review we have reduced food waste by 65% compared to last year. During the year we also began working with FareShare who will take the unavoidable waste from our supply chain and distribute it to charitable organisations which aim to bring people together through food and social interaction. We are also working hard to reduce food waste in our sites, aided by investment in a more sophisticated stock management system. In addition, we are exploring opportunities to redistribute food from sites when we have a surplus, for example we have trialled Too Good to Go in Toby Carvery.

Our enhanced labour deployment systems, in combination with a specialist team of system experts, continue to deliver improved efficiencies. The system generates accurate deployment schedules, individual to the trading patterns of a specific business, enabling the manager to deploy staff in the most efficient way. Our team of experts help managers to get the most out of the system and to optimise labour deployment in their business.

Drive an innovation agenda

An innovation mindset continues to be a priority for our business. Innovation takes place at all levels of the business from single product and process development to our organisation-wide digital strategy. Our digital strategy represents an opportunity to unlock value by facilitating agile integration with new technology. As consumer behaviour evolves, we are more able to provide flexible solutions to accommodate changing needs. Technology and the resulting data also provide us with the insight to improve our understanding of the requirements of our guests and how we can fulfil those requirements and offer even better experiences.

During the year we have developed our technology to facilitate an improved online booking experience, have developed an employee app allowing our staff greater flexibility and have continued to work with Just Eat and Deliveroo, with 273 sites now offering delivery. In addition to this, we have three delivery only brands in trial, utilising existing kitchens which have additional capacity.

The George at Harpenden, a new all-day concept which we opened last year, has been performing well. The offer is a premium suburban concept which aims to appeal across all day parts with flexible space which is appropriate for a range of occasions.

We are increasingly supporting innovative companies finding sustainable solutions for our industry, as well as working collaboratively with other organisations in our sector to share learnings and best practice in addressing the environmental challenges we are faced with.

Ignite

Ignite is the internal name used for our focused programme of work underpinning the longer-term strategy. Ignite initiatives have been instrumental in driving the turnaround in trading performance and profitability and have continued at pace in the year. Ignite 2 initiatives are in place to continue to deliver benefits in the current financial year and our next stage, Ignite 3, will be developed during the coming year.

An example of an Ignite 2 initiative which was rolled out during the year is the enhancement of our booking platforms. We have simplified the booking process by reducing the number of steps a guest needs to take to book a table. Booking conversions have increased by 1.3ppts as a result of this more seamless experience.

Centralised pricing process allows us to identify pricing opportunities and move quickly to realise them. In the year we have streamlined this process and effectively utilised till software to enable centralised changes to be activated in line with changes to local market dynamics.

During the year, we have systematically targeted leased businesses which were underperforming expectations. A focused team has identified and implemented solutions to enhance the performance and profitability of these sites, and, as a result, we have improved the uninvested trading performance of these sites by over £1m in the financial year.

Contributing to our improved return on invested capital, we have invested in software which enables us to match specific guest criteria against a site location. This technology enables us to make data driven investment decisions to ensure that each site operates under the brand which most appropriately matches the needs of the population around it.

PEOPLE

Our fantastic team of over 46,000 people across the business is critical to delivering the all-important experiences which guests have with us. We rely on our people to uphold the highest standards whilst making each visit personal and memorable. That is why attracting, training and retaining great people is key to our organisation. We are delighted, therefore, that our engagement scores have improved across all cohorts and that team turnover has reduced by 3ppts to 81%.

We are proud of our training and progression opportunities. We are committed to providing progression opportunities and development to our people facilitated through training and a strong centralised HR function. Our apprentice programme continues to grow: in the year 900 young people have completed an apprenticeship scheme and 1,600 existing employees have enrolled on a course. We now have seven programmes available up to bachelor's degree level. We believe that our apprentice scheme will provide excellent future talent to our organisation, and we were delighted to be recognised externally by the National Apprenticeship Service, The Springboard Charity, the BII and the CIPD for our Youth Engagement and Employment.

THE EXTERNAL ENVIRONMENT

The eating out industry continues to face challenges, including rising costs and supply which has, over recent years, outstripped demand. The result of these factors has been a number of CVAs and business closures amongst our competitors, and, in the twelve months to June, the number of restaurants in operation fell by 3.4%. This reduction in sites was evenly spread across the UK.

However, the industry as a whole remains in revenue growth; forecast to be 1.3% in the year to September 2019. This suggests that, despite reported fragile consumer confidence, people ultimately still want to go out and treat themselves to social occasions.

There are a number of key trends impacting the industry. Consumers are increasingly seeking higher quality food when eating out, with a focus on superior ingredients and sourcing. These factors have resulted in the continuing trend of increased spend per visit and a number of brands have premiumised their food offers and amenity in response to this changing consumer behaviour. Premiumisation is also supported by consumers' increasing desire for healthy options, with 43% of the population stating a desire to eat and drink more healthily than they were doing five years ago. To consumers of this mindset, high quality ingredients, healthy cooking methods and nutritionally beneficial meals command a higher price point and, therefore, there has been a growing proportion of offers targeting this trend.

Busy lifestyles have led to consumer demand across all day parts as people increasingly fit in social occasions during different parts of the day, with breakfast growth outstripping any other day part. As a result, a number of brands have evolved with the intention of creating an offer which is competitive across the whole day. The impact of this is increased capacity from existing restaurants without an increase in the number of sites, compounding the long-term increase in supply in the market. Brands must consider their position in the market for each timeslot they are open to trade and must remain competitive across their trading hours in order to maximise the profitability of their offer.

Delivery and take-away remain areas of growth in the industry facilitated by aggregators which allow consumers the convenience of a range of cuisines delivered to their homes. The delivery sector has seen rapid growth over recent years, a trend which looks set to continue. Until now, delivery has largely been an addition to the traditional restaurant model. However, as the opportunity in this market grows there has been increasing introduction of delivery-only brands and the use of 'dark kitchens'. Strategic participation in this area of the market is likely to be a key differentiator in performance over the coming years.

The UK political and economic environment remains uncertain. The impact of Brexit remains unclear, and, aside from macro-economic consequences, the specific areas of material impact for our business are likely to be increases in costs and the reduction of availability of goods, and implications of restrictions on the free movement of labour. On the UK's exit from the EU, the cost of goods might be impacted by changes in terms of trade and therefore tariffs, additional border controls and fluctuations in the value of sterling. From an employment perspective, at a time when unemployment levels are at a 40-year low, any restriction on the free movement of labour would be expected to have a material impact on both the cost of labour and access to talent. Currently, across our business, 13% of staff are non-British EU nationals, with the proportion fluctuating by geographic region. We remain close to these issues and have contingency plans in place whilst we await further details.

CURRENT TRADING AND OUTLOOK

In the first seven weeks of the new financial year like-for-like sales[a] have grown by 1.4% having continued to outperform the market[b] in a period of adverse weather.

A return to profit growth in the last financial year represents significant progress in the face of inflationary cost headwinds impacting the sector. We have now started the new financial year with like-for-like sales[a] remaining consistently ahead of the market and a new wave of initiatives from our Ignite programme of work under development.

The market remains challenging with a high level of macro uncertainties, but we will remain focused on maintaining a strong balance sheet and reducing our net debt whilst positioning the business to generate value for our stakeholders.

FINANCIAL REVIEW

On a statutory basis, profit before tax for the year was £177m (FY 2018 £130m), on sales of £2,237m (FY 2018 £2,152m).

The Group Income Statement discloses adjusted profit and earnings per share information that exclude separately disclosed items to allow a better understanding of the trading of the Group. Separately disclosed items are those which are separately identified by virtue of their size or incidence.

	Statutory		Adjusted[a]	
	FY 2019 £m	FY 2018 £m	FY 2019 £m	FY 2018 £m
Revenue	2,237	2,152	2,237	2,152
Operating profit	297	255	317	303
Profit before tax	177	130	197	178
Earnings per share	33.5p	24.5p	37.2p	34.1p
Operating profit margin	13.3%	11.8%	14.2%	14.1%

At the end of the period, the total estate comprised 1,748 sites in the UK and Germany of which 1,671 are directly managed.

Changes in accounting policies

During the period the Group has adopted IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments). In the forthcoming year, FY 2020, we shall adopt IFRS 16 (Leases), the anticipated impact of which is dealt with later in this review.

Revenue

Total revenue of £2,237m was 3.9% higher than last year, with growth in like-for-like sales[a] and the benefit of conversions and new site openings.

Like-for-like sales[a] grew by 3.5% with food sales[a] up by 3.4% and drink sales[a] up by 3.2%. Average spend per item on food was up 3.4%, and average drink item spend up 4.5%, following strengthening of prices and increasing premiumisation across the estate. Other sales, including accommodation and machine sales, grew at a higher rate impacting total like-for-like sales[a] growth.

Like-for-like sales[a] growth:	Weeks 1 – 33 FY 2019	Weeks 34 – 52 FY 2019	Weeks 1 – 52 FY 2019
Food	3.6%	3.1%	3.4%
Drink	3.9%	2.1%	3.2%
Total	3.8%	2.9%	3.5%

Separately disclosed items

Separately disclosed items are identified due to their nature or materiality to help the reader form a better view of overall and adjusted trading.

A £19m past service cost is recognised in relation to the defined benefit pension obligation as a result of the High Court ruling on guaranteed minimum pensions equalisations.

A £9m charge is recognised relating to valuation and impairment of properties, comprising a £4m (FY 2018 £28m) charge relating to downward valuation movements on selected sites and a £5m (FY 2018 £15m) impairment charge on short leasehold and unlicensed properties.

Disposal of assets generated a £1m profit in the year (FY 2018 nil), in addition to a £7m (FY 2018 nil) reversal of past impairment on disposed assets when reclassified to assets held for sale at the interim date.

Operating margins and profit[a]

Despite ongoing inflationary cost pressures, growth in adjusted operating margin[a] was achieved through like-for-like sales growth and enhanced efficiencies. Inflationary cost pressures which totalled £64m were in line with expectations, particularly impacting labour, energy, property and food and drink. Adjusted operating margin[a] for the full year was 0.1ppts higher than last year at 14.2%.

Adjusted operating profit[a] of £317m was 4.6% higher than last year as a result of mitigating cost reductions and like-for-like sales[a] growth.

Interest

Net finance costs of £113m for the full year were £5m lower than last year reflecting the reduction in Group securitised borrowings.

The net pensions finance charge for the year was £7m (FY 2018 £7m). The charge for next year is expected to be £3m.

Earnings per share

Basic earnings per share, after the separately disclosed items described above, were 33.5p (FY 2018 24.5p). The increase over last year reflects an increase in profit before adjusted items and reduced separately disclosed items. Adjusted earnings per share[a] were 37.2p, 9.1% higher than last year. The weighted average number of shares in the period was 427m and the total number of shares issued at the balance sheet date was 429m.

Cash flow and net debt

The cash flow statement below excludes the net movement on unsecured revolving facilities of nil (FY 2018 (£6m)), which were undrawn at the year end (FY 2018 undrawn).

	FY 2019 £m	FY 2018 £m
EBITDA before separately disclosed items[a]	436	422
Non-cash share-based payment and pension costs	6	5
Operating cash flow before adjusted items, movements in working capital and additional pension contributions	**442**	**427**
Working capital movement	9	2
Pension deficit contributions	(49)	(48)
Cash flow from operations before adjusted items	**402**	**381**
Cash flow from adjusted items	-	(2)
Capital expenditure	(152)	(171)
Interest	(111)	(119)
Tax	(25)	(20)
Disposal proceeds	14	6
Investment in associates and other	(3)	(5)
Repayment of liquidity facility	(147)	-
Transfers from cash deposits	120	-
Net cash flow before bond amortisation	**98**	**70**
Mandatory bond amortisation	(87)	(82)
Net cash flow before dividends	**11**	**(12)**
Dividend	-	(7)
Net free cash flow[a]	**11**	**(19)**

The business generated £436m of EBITDA before separately disclosed items[a].

Capital expenditure of £152m was lower than the prior year due to lower central and maintenance investment and to lower capital cost per project driven by a decreased proportion of conversion projects. Disposal income of £14m related to the sale of 5 sites in the year.

During the year the securitisation liquidity facility of £147m, originally drawn in 2014, was repaid. £120m of the repayment was made using other cash deposits, with the balance of £27m from cash and cash equivalents.

After all outgoings other than mandatory bond amortisation, cash flow generated was £98m.

There was no dividend paid in the year.

Net debt reduced to £1,564m at the year end (FY 2018 £1,688m), representing 3.6 times adjusted EBITDA[a] (FY 2018 4.0 times).

All debt at the year-end was within the group securitisation arrangements and is subject to quarterly testing on both a rolling half, and full year basis. Full year headroom against the restricted payment test and covenants is set out below:

Securitisation restricted payment tests:

	Test	Actual	Headroom
Free cash flow to debt service	1.3x	1.5x	£37m
EBITDA to debt service	1.7x	1.9x	£32m

Securitisation covenants

	Covenant	Actual	Headroom
Free cash flow to debt service	1.1x	1.5x	£76m
Net worth	£500m	£2,322m	£1,822m

Further details can be found at https://www.mbplc.com/infocentre/debtinformation/.

Capital expenditure

Capital expenditure of £152m comprises £147m from purchase of property, plant and equipment and £5m in relation to purchase of intangible assets.

Maintenance and infrastructure capex of £60m was £10m lower than the prior year due primarily to reduced maintenance requirements as the proportion of the estate recently invested grows, and reduced IT investment as significant projects took place in the prior year.

During the year we completed a greater number of investment projects, 247 in total (FY 2018 239). This was achieved at a lower level of return generating capital, £92m, due to the reduced proportion of conversion projects and increased number of remodels which require lower spend per project. Acquisitions were focused on premiumisation and expansion with the opening of three new Miller & Carter sites (one in Germany), three new Alex sites and a purpose built lodge in Edinburgh.

Our return on expansionary capital[a] across all conversion and acquisition projects over the past four years has increased markedly to 21% (FY 2018 16%), with increasing returns particularly coming through from more recent projects. Recent remodel performance, for projects completed in FY 2019, has also been especially encouraging, delivering returns[a] of 34%[a] and sales uplifts in excess of 10%.

	FY 2019		FY 2018	
	£m	**#**	**£m**	**#**
Maintenance and infrastructure	**60**		**70**	
Remodels – refurbishment	65	212	63	188
Remodels – expansionary	5	11	7	13
Conversions	11	17	21	31
Acquisitions – freehold	4	5	7	2
Acquisitions – leasehold	7	2	3	5
Total return generating capital expenditure	**92**	**247**	**101**	**239**
Total capital expenditure	**152**		**171**	

The Group capital expenditure next year is expected to increase to a similar level to that of FY 2018, in the range of £170m to £180m.

Property

In line with our property valuation policy, a red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuer, CBRE. In addition, the Group has conducted an impairment review on short leasehold and unlicensed properties. The overall property portfolio valuation has increased by £82m (FY 2018 decrease of £48m) reflecting a £2m separately disclosed net impairment charge in the income statement and a £84m increase in the revaluation reserve.

Pensions

The net pensions liability, including minimum funding is £215m (FY 2018 £249m).

The results of the 2019 triennial valuation show an actuarial deficit of £293m and in September we reached agreement with the Trustee for an unchanged schedule of future contributions. The deficit will continue to be funded by cash contributions of £49m per annum indexed to 2023. In 2024 an additional payment of £13m will be made into escrow, should such further funding be required at that time.

The hearing in relation to the rate of inflation to be applied to pensions increases for certain sections of the membership in excess of the guaranteed minimum pensions is expected to be heard in mid 2020.

Capital allocation policy and dividends

The Company has obligations, notably in respect of debt service and pension fund contributions, after which investment in the estate and distribution to shareholders can be considered. Subsequent capital allocation decisions are made primarily to protect the ongoing and future health of the business and, as previously stated, when assessing dividends the Board would not expect to see a structural, or permanent, increase in the use of short term facilities.

Given this capital allocation framework combined in particular with the uncertain political and economic outlook, the Board does not propose a final dividend for the year

The Board keeps its dividend policy under review as appropriate in the context of its capital allocation policies, capital structure, and visibility on trading.

IFRS 16 (Leases)

The Group will adopt IFRS16 for the first time in FY 2020 using the modified retrospective (asset equals liability) method, without restatement of prior year comparatives. Any opening balance sheet adjustments are recorded directly into equity.

Adoption will mean that the majority of leases will be recognised on balance sheet through creation of a right of use asset and related lease liability. In the income statement operating rental costs will largely be replaced by depreciation of the asset and interest on the liability. There is no cash impact.

The impact on transition of adoption on the income statement is expected to be an uplift in EBITDA of c.£50m (through lower rental costs) and a reduction in pre-tax profits (after increased depreciation and interest charges) of c.£11m, reducing basic earnings per share by 2.1p. On the opening FY 2020 balance sheet we expect to recognise a right of use asset of £500m and a lease liability of £546m. These changes should lead to an increase of 70bps in the book net debt: EBITDA multiple. Further details of the new policy and expected impact are included in section 1 of the accounts.

Definitions

a – The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained later in this announcement.

b – As measured by the Coffer Peach business tracker.

c – Uninvested estate refers to sites which have not received investment in the last year

Group income statement

For the 52 weeks ended 28 September 2019

		2019 52 weeks			2018 52 weeks		
	Notes	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m
Revenue	2	2,237	-	2,237	2,152	-	2,152
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	3	(1,801)	(19)	(1,820)	(1,730)	(6)	(1,736)
Net profit arising on property disposals		-	1	1	-	1	1
EBITDA[b]		436	(18)	418	422	(5)	417
Depreciation, amortisation and movements in the valuation of the property portfolio	3	(119)	(2)	(121)	(119)	(43)	(162)
Operating profit		317	(20)	297	303	(48)	255
Finance costs	4	(114)	-	(114)	(119)	-	(119)
Finance revenue	4	1	-	1	1	-	1
Net pensions finance charge	4, 9	(7)	-	(7)	(7)	-	(7)
Profit before tax		197	(20)	177	178	(48)	130
Tax (charge)/credit	3, 5	(38)	4	(34)	(33)	7	(26)
Profit/(loss) for the period		159	(16)	143	145	(41)	104
Earnings per ordinary share							
Basic	6	37.2p		33.5p	34.1p		24.5p
Diluted	6	37.1p		33.3p	34.0p		24.4p

a. Separately disclosed items are explained and analysed in note 3.
b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio.

All results relate to continuing operations.

Group statement of comprehensive income

For the 52 weeks ended 28 September 2019

	Notes	2019 52 weeks £m	2018 52 weeks £m
Profit for the period		143	104
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain/(loss) on revaluation of the property portfolio	7	84	(5)
Remeasurement of pension liability	9	15	5
Tax relating to items not reclassified		(18)	-
		81	-
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
- (Losses)/gains arising during the period		(81)	16
- Reclassification adjustments for items included in profit or loss		23	34
Tax relating to items that may be reclassified		10	(8)
		(48)	42
Other comprehensive income after tax		33	42
Total comprehensive income for the period		176	146

Group balance sheet
28 September 2019

	Notes	2019 £m	2018 £m
Assets			
Goodwill and other intangible assets		14	11
Property, plant and equipment	7	4,528	4,426
Lease premiums		1	1
Interests in associates		5	5
Deferred tax asset		66	63
Derivative financial instruments		53	44
Total non-current assets		4,667	4,550
Inventories		26	26
Trade and other receivables		63	56
Other cash deposits		-	120
Cash and cash equivalents		133	122
Derivative financial instruments		3	4
Total current assets		225	328
Total assets		4,892	4,878
Liabilities			
Pension liabilities	9	(50)	(49)
Trade and other payables		(327)	(302)
Current tax liabilities		(12)	(9)
Borrowings		(95)	(233)
Derivative financial instruments		(36)	(37)
Total current liabilities		(520)	(630)
Pension liabilities	9	(165)	(200)
Borrowings		(1,657)	(1,744)
Derivative financial instruments		(266)	(207)
Deferred tax liabilities		(301)	(285)
Provisions	10	(36)	(43)
Total non-current liabilities		(2,425)	(2,479)
Total liabilities		(2,945)	(3,109)
Net assets		1,947	1,769
Equity			
Called up share capital		37	37
Share premium account		26	26
Capital redemption reserve		3	3
Revaluation reserve		1,267	1,197
Own shares held		(4)	(1)
Hedging reserve		(250)	(202)
Translation reserve		14	14
Retained earnings		854	695
Total equity		1,947	1,769

Group statement of changes in equity

For the 52 weeks ended 28 September 2019

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 30 September 2017	36	26	3	1,202	(1)	(244)	14	590	1,626
Profit for the period	-	-	-	-	-	-	-	104	104
Other comprehensive (expense)/income	-	-	-	(4)	-	42	-	4	42
Total comprehensive (expense)/income	-	-	-	(4)	-	42	-	108	146
Share capital issued	-	1	-	-	-	-	-	-	1
Credit in respect of share-based payments	-	-	-	-	-	-	-	3	3
Dividends paid	-	-	-	-	-	-	-	(7)	(7)
Revaluation reserve realised on disposal of properties	-	-	-	(1)	-	-	-	1	-
Scrip dividend related share issue	1	(1)	-	-	-	-	-	-	-
At 29 September 2018	37	26	3	1,197	(1)	(202)	14	695	1,769
Profit for the period	-	-	-	-	-	-	-	143	143
Other comprehensive income/(expense)	-	-	-	70	-	(48)	-	11	33
Total comprehensive income/(expense)	-	-	-	70	-	(48)	-	154	176
Purchase of own shares	-	-	-	-	(3)	-	-	-	(3)
Credit in respect of share-based payments	-	-	-	-	-	-	-	3	3
Tax on share-based payments	-	-	-	-	-	-	-	2	2
At 28 September 2019	37	26	3	1,267	(4)	(250)	14	854	1,947

Group cash flow statement

For the 52 weeks ended 28 September 2019

	2019 52 weeks £m	2018 52 weeks £m
Cash flow from operations		
Operating profit	297	255
Add back: adjusted items	20	48
Operating profit before adjusted items	317	303
Add back:		
Depreciation of property, plant and equipment	116	116
Amortisation of intangibles	3	3
Cost charged in respect of share-based payments	3	3
Administrative pension costs	3	2
Operating cash flow before adjusted items, movements in working capital and additional pension contributions	442	427
Increase in inventories	-	(1)
Increase in trade and other receivables	(9)	(1)
Increase in trade and other payables	25	4
Decrease in provisions	(7)	-
Additional pension contributions	(49)	(48)
Cash flow from operations before adjusted items	402	381
Cash flow from adjusted items	-	(2)
Interest paid	(113)	(120)
Interest received	2	1
Tax paid	(25)	(20)
Net cash from operating activities	266	240
Investing activities		
Purchases of property, plant and equipment	(147)	(167)
Purchases of intangible assets	(5)	(4)
Proceeds from sale of property, plant and equipment	14	5
Acquisition of investment in associates	-	(5)
Transfers from other cash deposits	120	-
Net cash used in investing activities	(18)	(171)
Financing activities		
Issue of ordinary share capital	-	1
Purchase of own shares	(3)	-
Dividends paid (net of scrip dividend)	-	(7)
Repayment of principal in respect of securitised debt	(87)	(82)
Repayment of liquidity facility	(147)	-
Net movement on unsecured revolving credit facilities	-	(6)
Net cash used in financing activities	(237)	(94)
Net increase/(decrease) in cash and cash equivalents	11	(25)
Cash and cash equivalents at the beginning of the period	122	147
Cash and cash equivalents at the end of the period	133	122

Notes to the consolidated financial statements

1. Preparation of preliminary consolidated financial statements

General information
Mitchells & Butlers plc, along with its subsidiaries, (together 'the Group') is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the Companies Act 2006. While the financial information included in this release is based on the Group's consolidated financial statements and has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs.

The preliminary financial statements include the results of Mitchells & Butlers plc and all its subsidiaries for the 52 week period ended 28 September 2019. The comparative period is for the 52 week period ended 29 September 2018. The respective balance sheets have been drawn up as at 28 September 2019 and 29 September 2018.

The preliminary financial statements have been prepared on the historical cost basis as modified by the revaluation of properties, pension obligations and financial instruments.

Going concern
The Group's forecasts and projections take account of anticipated trading performance and show that the Group should be able to operate within the level of its current borrowing facilities.

The Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Foreign currencies
The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.13 (2018 £1 = €1.13), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.12 (2018 £1 = €1.12) and £1 = $1.23 (2018 £1 = $1.30) respectively.

New and amended IFRS Standards that are effective for the current period

IFRS 9 Financial Instruments
In the current period, the Group has adopted IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement. The date of initial application for the Group is 30 September 2018.

IFRS 9 introduced new requirements for:
(i) classification and measurement of financial assets and financial liabilities,
(ii) impairment of financial assets, and
(iii) general hedge accounting.

IFRS 9 introduced a new model for classification and measurement of financial assets and financial liabilities, a single, forward-looking "expected credit loss" model for measuring impairment of financial assets (including trade receivables) and a new approach to hedge accounting that is more closely aligned with an entity's risk management activities.

The application of IFRS 9 has had no impact on the Group balance sheet, the Group income statement, the Group statement of comprehensive income or the Group cash flow statement.

IFRS 15 Revenue from Contracts with Customers
In the current period, the Group has adopted IFRS 15 which is effective for financial periods beginning on or after 1 January 2018. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when the entity satisfies a performance obligation

1. Preparation of preliminary consolidated financial statements (continued)

New and amended IFRS Standards that are effective for the current period (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

As the majority of the Group's revenue is in relation to the sale of food and drink within pubs and restaurants, for which the consideration is known and the performance obligations are satisfied at the point of sale, the application of IFRS 15 has had no impact on the financial position or performance of the Group.

New and revised IFRS Standards in issue but not yet effective
The IASB and IFRIC have issued standards and interpretations which could impact the Group, with an effective date for future financial periods. IFRS 16 Leases will have a material impact on the Group for the 52 week period ending 26 September 2020. None of the other standards that are not yet effective are expected to have a material impact on the Group. The impact of IFRS 16 is described below:

Impact of adoption of IFRS 16 Leases

General impact of application of IFRS 16
IFRS 16, which was endorsed by the EU on 9 November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the consolidated financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 29 September 2019.

Given the number of leases and historical data requirements to adopt the fully retrospective approach, the Group intends to apply the modified retrospective approach, with assets equal to liabilities, at transition. This approach will not require restatement of comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact on lessee accounting
IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:
(i) recognise right-of-use assets and lease liabilities in the Group balance sheet, initially measured at the present value of the future lease payments;
(ii) recognise depreciation of right-of-use assets and interest on lease liabilities in the Group income statement; and
(iii) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Group cash flow statement.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The Group will recognise total lease liabilities of £546m in respect of all its leases. The weighted average incremental borrowing rate used to calculate the opening lease liabilities was 3.5%.

The following is a reconciliation of total operating lease commitments at 28 September 2019, to the lease liabilities recognised at 29 September 2019:

	£m
Total operating lease commitments at 28 September 2019	678
Reconciling items:	
- Short term leases	(1)
- Lease commitments for periods post break clauses	120
- Assumed lease extensions	5
Operating lease liabilities before discounting	802
Impact of discounting using incremental borrowing rate	(256)
Total lease liabilities recognised under IFRS 16 at 29 September 2019	546

1. Preparation of preliminary consolidated financial statements (continued)

New and revised IFRS Standards in issue but not yet effective (continued)

Impact of adoption of IFRS 16 Leases (continued)

The Group will recognise a corresponding right-of-use asset of £500m in respect of all of its leases. The following is a reconciliation of the opening lease liabilities to the opening right-of-use assets:

	£m
Total lease liabilities recognised under IFRS 16 at 29 September 2019	546
Reconciling items:	
- Lease premiums	1
- Lease incentives	(9)
- Lease prepayments	11
- Dilapidations costs	1
- Impairment recognised	(31)
- Subleases derecognised and recognised as finance lease receivables	(19)
Total right-of-use assets recognised under IFRS 16 at 29 September 2019	500

The reconciling items include lease incentives, lease premiums and prepayments which are included in the measurement of right-of-use assets at transition to IFRS 16, whereas under IAS 17 they were amortised on a straight-line basis over the lease term. In addition, expected dilapidations costs are included in the right-of-use asset and depreciated over the lease term under IFRS 16.

The Group will apply the practical expedient to rely on its assessment of onerous lease contracts under IAS 37 as an alternative to performing an impairment review at the transition date, resulting in an amount of £31m being recognised as impairment against the right-of-use assets at transition.

Under IFRS 16, an intermediate lessor accounts for a head lease and sublease as two separate contracts. As a result, some of the Group's sublease agreements will be reclassified to finance leases at transition. The leased assets will be derecognised and finance lease asset receivables recognised. This change in accounting will change the timing of recognition of the related revenue (recognised in finance income). An amount of £19m will be derecognised from the opening right-of-use asset and recognised as a finance lease receivable at transition.

2. Segmental analysis

IFRS 8 Operating Segments requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker (CODM). The CODM is regarded as the Chief Executive together with other Board members. The Group trades in one business segment (that of operating pubs and restaurants) and the Group's brands meet the aggregation criteria set out in Paragraph 12 of IFRS 8. Economic indicators assessed in determining that the aggregated operating segments share similar economic characteristics include expected future financial performance; operating and competitive risks; and return on invested capital.

The disclosure set out in the Annual Report and Accounts for 2018 included segmental information for the retail operating business and property business, with an internal rent charge being levied against the Group's retail operating units by the property business. With a stable estate, the internal rent charge is no longer used by the CODM as an indicator of performance as movements in this charge are insignificant. The business is focused on delivery of sales growth and control of short-term costs within its trading pubs, in order to maximise return from its existing estate.

The CODM uses EBITDA and profit before interest and adjusted items (operating profit pre-adjustments) as the key measures of the Group's results on an aggregated basis.

Geographical segments
Substantially all of the Group's business is conducted in the United Kingdom. In presenting information by geographical segment, segment revenue and non-current assets are based on the geographical location of customers and assets.

2. Segmental analysis (continued)

Geographical segments

	UK		Germany		Total	
	2019 52 weeks £m	2018 52 weeks £m	2019 52 weeks £m	2018 52 weeks £m	2019 52 weeks £m	2018 52 weeks £m
Revenue – sales to third parties	2,147	2,071	90	81	2,237	2,152
Segment non-current assets[a]	4,531	4,428	12	10	4,543	4,438

a. Includes balances relating to intangibles, property, plant and equipment and non-current lease premiums.

3. Separately disclosed items

The items identified in the current period are as follows:

	Notes	2019 52 weeks £m	2018 52 weeks £m
Adjusted items			
Legal costs associated with the defined benefit pension scheme	a	-	(6)
Past service cost in relation to the defined benefit obligation	b	(19)	-
Total adjusted items recognised within operating costs		(19)	(6)
Net profit arising on property disposals		1	1
Movement in the valuation of the property portfolio (see note 7):			
- Impairment arising from the revaluation	c	(4)	(28)
- Impairment of short leasehold and unlicensed properties	d	(5)	(15)
- Reversal of past impairment on transfer to assets held for sale	e	7	-
Net movement in the valuation of the property portfolio		(2)	(43)
Total adjusted items before tax		(20)	(48)
Tax credit relating to above items		4	7
Total adjusted items after tax		(16)	(41)

a. As previously disclosed in the prior period, there are ongoing legal proceedings between the Company (as principal employer) and Mitchells & Butlers Pensions Limited (as Trustee) for which costs have been incurred both by the Company and by the Trustee, but which the Company has agreed to pay. The legal proceedings are in relation to the Mitchells & Butlers Pension Plan (MABPP), whereby the Trust Deed and Rules provide that it is a matter for the Company to determine the rate of inflation which should be applied to pension increases for certain sections of the membership in excess of guaranteed minimum pensions. The Company has instructed the Trustee to apply CPI (subject to certain caps) in respect of such increases. The Trustee believes that this power was incorrectly vested in the Company in the Trust Deed and Rules of the MABPP in 1996 and, despite it being reflected in further versions of the Trust Deed and Rules, has made an application to court for those various Trust Deed and Rules to be rectified. It is the Board's belief that the Company holds the power to fix such an inflation index and the Company is therefore contesting that application. The hearing is expected to be heard in mid-2020.

3. Separately disclosed items (continued)

b. On 26 October 2018 the High Court provided a ruling regarding guaranteed minimum pensions (GMPs) equalisation. The court ruled that pensions provided to members who had contracted-out of their scheme must be recalculated to ensure payments reflect the equalisation of state pension ages in the 1990s. The ruling provided pension trustees with a range of acceptable methods for calculating the GMP equalisation. The court also ruled that trustees are obliged to make arrears payments to members and simple interest on the arrears should be paid at 1% above the base rate. The estimated increase in pension liabilities required to equalise for GMPs is £19m.

c. The impairment arising from the Group's revaluation of its freehold and long leasehold pub estate comprises an impairment charge, where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments. See note 7 for further details.

d. The impairment of short leasehold and unlicensed properties comprises an impairment charge, where their carrying values exceed their recoverable amount, net of an impairment reversal where carrying values have been increased to the recoverable amounts. See note 7 for further details.

e. A revaluation uplift, which reverses a previous impairment, has been recognised on reclassification of property, plant and equipment to assets held for sale at the interim date. These assets have been disposed of during the second half of the financial period.

4. Finance costs and revenue

	2019 52 weeks £m	2018 52 weeks £m
Finance costs		
Interest on securitised debt	(109)	(114)
Interest on other borrowings	(4)	(4)
Unwinding of discount on provisions (note 10)	(1)	(1)
Total finance costs	(114)	(119)
Finance revenue		
Interest receivable – cash	1	1
Net pensions finance charge (note 9)	(7)	(7)

5. Taxation

Taxation - Group income statement

	2019 52 weeks £m	2018 52 weeks £m
Current tax:		
- UK corporation tax	(31)	(28)
- Amounts over provided in prior periods	3	2
Total current tax charge	(28)	(26)
Deferred tax:		
- Origination and reversal of temporary differences	(5)	-
- Adjustments in respect of prior periods	(1)	-
Total deferred tax charge	(6)	-
Total tax charged in the Group income statement	(34)	(26)
Further analysed as tax relating to:		
Profit before adjusted items	(38)	(33)
Adjusted items	4	7
	(34)	(26)

The standard rate of corporation tax applied to the reported profit is 19.0% (2018 19.0%).

6. Earnings per share

Basic earnings per share (EPS) has been calculated by dividing the profit or loss for the period by the weighted average number of ordinary shares in issue during the period, excluding own shares held by employee share trusts.

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares.

Adjusted earnings per ordinary share amounts are presented before adjusted items (see note 3) in order to allow a better understanding of the adjusted trading performance of the Group.

	Profit £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 28 September 2019:			
Profit/EPS	143	33.5 p	33.3 p
Adjusted items, net of tax	16	3.7 p	3.8 p
Adjusted profit/EPS[a]	159	37.2 p	37.1 p
52 weeks ended 29 September 2018:			
Profit/EPS	104	24.5 p	24.4 p
Adjusted items, net of tax	41	9.6 p	9.6 p
Adjusted profit/EPS[a]	145	34.1 p	34.0 p

a. Adjusted profit and adjusted EPS are alternative performance measures (APMs) and are considered critical to aid understanding of the Group's performance. These measures are explained later in this announcement.

The weighted average number of ordinary shares used in the calculations above are as follows:

	2019 52 weeks m	2018 52 weeks m
For basic EPS calculations	427	425
Effect of dilutive potential ordinary shares:		
- Contingently issuable shares	1	2
- Other share options	1	-
For diluted EPS calculations	429	427

At 28 September 2019, 782,078 (2018 2,746,844) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

7. Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	2019 **£m**	2018 £m
At beginning of period	**4,426**	4,429
Additions	**151**	164
Revaluation/(impairment)	**82**	(48)
Disposals	**(2)**	(3)
Transfers to assets held for sale	**(13)**	-
Depreciation provided during the period	**(116)**	(116)
At end of period	**4,528**	4,426

Assets held for sale
During the first half of the financial period, a group of properties were classified as held for sale. At the interim date, 13 April 2019, the net book value of these properties was £13m. A revaluation uplift of £7m was recognised to increase the carrying value of these assets to the fair value less costs to sell. The revaluation uplift has been recognised in the Group income statement as it reverses a previously recognised impairment. The properties were sold during the second half of the financial period and therefore the value of assets held for sale remaining at 28 September 2019 is £nil.

Revaluation of freehold and long leasehold properties
The freehold and long leasehold properties have been valued at fair value, as at 28 September 2019 using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) (the 'Red Book') assuming each asset is sold as a fully operational trading entity. The fair value has been determined having regard to factors such as current and future projected income levels, taking account of location, quality of the pub restaurant and recent market transactions in the sector.

Sensitivity analysis
Changes in either the fair maintainable trade (FMT) or the multiple could materially impact the valuation of the freehold and long leasehold properties. The average movement in FMT of revalued properties in the past three years is 1.0%. It is estimated that, given the multiplier effect, a 1.0% change in the FMT of the freehold or long leasehold properties would generate an approximate £37m movement in their valuation.

Multiples are determined at an individual brand level. Over the last three years, the weighted average of all brand multiples has moved by an average of 0.1. It is estimated that a 0.1 change in the multiple, would generate an approximate £43m movement in valuation.

Impairment review of short leasehold and unlicensed properties
Short leasehold and unlicensed properties (comprising land and buildings and fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site value in use calculations to their carrying values. The value in use calculation uses forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 7.7% (2018 7.5%). Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculation is insufficient to justify their current net book value.

Current year valuations have been incorporated into the consolidated financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve or Group income statement as appropriate.

7. Property, plant and equipment (continued)

The impact of the revaluations/impairments described above is as follows:

	2019 52 weeks £m	2018 52 weeks £m
Group income statement		
Revaluation deficit charged as an impairment	(76)	(89)
Reversal of past revaluation deficits	72	61
Total impairment arising from the revaluation	(4)	(28)
Impairment of short leasehold and unlicensed properties	(7)	(15)
Reversal of past impairments of short leasehold and unlicensed properties	2	-
Total impairment of short leasehold and unlicensed properties	(5)	(15)
Reversal of past impairment on transfer to assets held for sale	7	-
	(2)	(43)
Revaluation reserve		
Unrealised revaluation surplus	199	171
Reversal of past revaluation surplus	(115)	(176)
	84	(5)
Net increase/(decrease) in property, plant and equipment	82	(48)

8. Net debt

Net debt	2019 £m	2018 £m
Cash and cash equivalents	133	122
Other cash deposits	-	120
Securitised debt	(1,752)	(1,830)
Liquidity facility	-	(147)
Derivatives hedging securitised debt[a]	55	47
	(1,564)	(1,688)

a. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

8. Net debt (continued)

Movement in net debt	2019 52 weeks £m	2018 52 weeks £m
Net increase/(decrease) in cash and cash equivalents	11	(25)
Add back cash flows in respect of other components of net debt:		
Transfers from other cash deposits	(120)	-
Repayment of principal in respect of securitised debt	87	82
Repayment of liquidity facility	147	-
Net movement on unsecured revolving facilities	-	6
Decrease in net debt arising from cash flows	125	63
Movement in capitalised debt issue costs net of accrued interest	(1)	(1)
Decrease in net debt	124	62
Opening net debt	(1,688)	(1,750)
Closing net debt	(1,564)	(1,688)

9. Pensions

The following amounts relating to the Group's defined benefit and defined contribution arrangements have been recognised in the Group income statement and Group statement of comprehensive income:

Group income statement	2019 52 weeks £m	2018 52 weeks £m
Operating profit:		
Employer contributions (defined contribution plans)	(12)	(8)
Administrative costs (defined benefit plans)	(3)	(2)
Charge to operating profit before adjusted items	(15)	(10)
Past service cost (see note 3)	(19)	-
Charge to operating profit	(34)	(10)
Finance costs:		
Net pensions finance income on actuarial surplus	10	5
Additional pensions finance charge due to minimum funding	(17)	(12)
Net finance charge in respect of pensions	(7)	(7)
Total charge	(41)	(17)

Group statement of comprehensive income	2019 52 weeks £m	2018 52 weeks £m
Return on scheme assets and effects of changes in assumptions	(77)	114
Movement in pension liability recognised due to minimum funding	92	(109)
Remeasurement of pension liability	15	5

9. Pensions (continued)

Group balance sheet	2019 £m	2018 £m
Fair value of scheme assets	2,739	2,404
Present value of scheme liabilities	(2,443)	(2,068)
Actuarial surplus in the schemes	296	336
Additional liability recognised due to minimum funding	(511)	(585)
Total pension liability[a]	(215)	(249)
Associated deferred tax asset	36	43

a. The total pension liability of £215m (2018 £249m) is presented as a £50m current liability (2018 £49m) and a £165m non-current liability (2018 £200m).

The movement in the fair value of the schemes' assets in the period is as follows:

	Scheme assets	
	2019 £m	2018 £m
Fair value of scheme assets at beginning of period	2,404	2,390
Interest income	69	63
Remeasurement gain:		
- Return on scheme assets (excluding amounts included in net finance charge)	312	23
Additional employer contributions	49	48
Benefits paid	(92)	(118)
Administration costs	(3)	(2)
At end of period	2,739	2,404

Changes in the present value of defined benefit obligations are as follows:

	Defined benefit obligation	
	2019 £m	2018 £m
Present value of defined benefit obligation at beginning of period	(2,068)	(2,219)
Interest cost	(59)	(58)
Past service cost	(19)	-
Benefits paid	92	118
Remeasurement losses:		
- Effect of changes in demographic assumptions	26	-
- Effect of changes in financial assumptions	(420)	100
- Effect of experience adjustments	5	(9)
At end of period[a]	(2,443)	(2,068)

a. The defined benefit obligation comprises £38m (2018 £33m) relating to the MABETUS unfunded plan and £2,405m (2018 £2,035m) relating to the funded plans.

10. Provisions

The provision for unavoidable losses on onerous property leases has been set up to cover rental payments and service charge of vacant or loss-making properties. Payments are expected to continue on these properties for periods of 1 to 24 years.

Provisions can be analysed as follows:

	Onerous property provisions £m	Dilapidation provisions £m	Total property provisions £m
At 30 September 2017	42	-	42
Released in the period[a]	(6)	-	(6)
Provided in the period	10	1	11
Unwinding of discount	1	-	1
Utilised in the period	(5)	-	(5)
At 29 September 2018	42	1	43
Released in the period[a]	(9)	(1)	(10)
Provided in the period	8	1	9
Unwinding of discount	1	-	1
Utilised in the period	(7)	-	(7)
At 28 September 2019	35	1	36

a. Releases in the current and prior period primarily relate to improvement in performance of managed properties.

11. Dividends

Declared and paid in the period
There were no dividends declared or paid during the current period. Dividends declared and paid in the prior period are as follows:

	2018		
	Cash dividend £m	Settled via scrip £m	Total dividend £m
Final dividend of 5.0p per share – 53 weeks ended 30 September 2017	7	14	21
	7	14	21

The final dividend of 5.0p per ordinary share declared in relation to the 53 weeks ended 30 September 2017 was approved at the Annual General Meeting on 23 January 2018 and was paid to shareholders on 6 February 2018. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme. Of the £21m final dividend, £14m was in the form of the issue of ordinary shares to shareholders opting in to the scrip alternative. The market value per share at the date of payment was 264.4p per share, resulting in the issue of 5 million new shares, fully paid up from the share premium account. The nominal value of the 5 million shares issued in relation to the final scrip dividends is £1m.

12. Financial Statements

The preliminary statement of results was approved by the Board of Directors on 19 November 2019. It does not constitute the Group's statutory consolidated financial statements for the 52 weeks ended 28 September 2019 or for the 52 weeks ended 29 September 2018. The financial information is derived from the statutory consolidated financial statements of the Group for the 52 weeks ended 28 September 2019.

Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The Company's auditor reported on those accounts; their reports were unqualified; did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under S498(2) or (3) of the Companies Act 2006.

Alternative Performance Measures

The performance of the Group is assessed using a number of Alternative Performance Measures (APMs).

The Group's results are presented both before and after separately disclosed items. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of separately disclosed items provided in note 3.

The Group's results are also described using other measures that are not defined under IFRS and are therefore considered to be APMs. These APMs are used by management to monitor business performance against both shorter term budgets and forecasts, but also against the Group's longer-term strategic plans.

APMs used to explain and monitor Group performance include:

APM	Definition	Source
EBITDA	Earnings before interest, tax, depreciation and amortisation.	Group income statement
Adjusted EBITDA	Annualised EBITDA on a 52 week basis before separately disclosed items is used to calculate net debt to EBITDA.	Group income statement
EBITDA before adjusted items	EBITDA before separately disclosed items.	Group income statement
Operating profit	Earnings before interest and tax.	Group income statement
Adjusted operating profit	Operating profit before separately disclosed items.	Group income statement
Like-for-like sales growth	Like-for-like sales growth reflects the sales performance against the comparable period in the prior year of UK managed pubs, bars and restaurants that were trading in the two periods being compared, unless marketed for disposal.	Group income statement
Adjusted earnings per share (EPS)	Earnings per share using profit before separately disclosed items.	Note 6
Net debt : Adjusted EBITDA	The multiple of net debt as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry.	Note 8 Group income statement
Free cash flow	Calculated as net movement in cash and cash equivalents before the movement on unsecured revolving credit facilities.	Cash flow statement
Return on capital	Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement commences three periods following the opening of the site.	

A. Like-for-like sales

The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage. This widely used industry measure provides better insight into the trading performance than total revenue which is impacted by acquisitions and disposals.

	Source	**2019 52 weeks £m**	2018 52 weeks £m	Year-on -year %
Reported revenue	Income statement	**2,237**	2,152	**3.9**
Less non like-for-like sales		**(184)**	(168)	
Like-for-like sales		**2,053**	1,984	**3.5**

Drink and food sales growth FY 2019

	Source	**2019 52 weeks £m**	2018 52 weeks £m	Year-on -year %
Drink like-for-like sales		**951**	921	**3.2**
Food like-for-like sales		**1,048**	1,014	**3.4**
Other like-for-like sales		**54**	49	**10.2**
Total like-for-like sales		**2,053**	1,984	**3.5**

Like-for-like sales for first 7 weeks of FY 2020

	Source	**2020 7 weeks £m**	2019 7 weeks £m	Year-on -year %
Revenue		**279.6**	275.8	**1.4**
Less non like-for-like sales		**(23.0)**	(22.8)	
Like-for-like sales		**256.6**	253.0	**1.4**

B. Adjusted Operating Profit

Operating profit before separately disclosed items as set out in the Group Income Statement. Separately disclosed items are those which are separately identified by virtue of their size or incidence (see note 3). Excluding these items allows a better understanding of the trading of the Group.

	Source	**2019 52 weeks £m**	2018 52 weeks £m	Year-on -year %
Operating profit	Income statement	**297**	255	**16.5**
Add back separately disclosed items	Note 3	**20**	48	
Adjusted operating profit		**317**	303	**4.6**
Reported revenue 52 weeks		**2,237**	2,152	3.9
Adjusted operating margin		**14.2%**	14.1%	**0.1ppts**

C. Adjusted Earnings per Share

Earnings per share using profit before separately disclosed items. Separately disclosed items are those which are separately identified by virtue of their size or incidence. Excluding these items allows a better understanding of the trading of the Group.

	Source	**2019 52 weeks £m**	2018 52 weeks £m	Year-on -year %
Profit for the period	Income statement	**143**	104	**37.5**
Add back separately disclosed items	Income statement	**16**	41	
Adjusted profit		**159**	145	**9.7**
Weighted average number of shares	Note 6	**427**	425	
Adjusted earnings per share		**37.2p**	34.1p	**9.1**

D. Net Debt: Adjusted EBITDA

The multiple of net debt as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry. Adjusted EBITDA is used for this measure to prevent distortions in performance resulting from separately disclosed items.

	Source	**2019 52 weeks £m**	2018 52 weeks £m
Net debt	Note 8	**1,564**	1,688
EBITDA	Income statement	**418**	417
Add back separately disclosed items	Income statement	**18**	5
Adjusted 52 week EBITDA		**436**	422
Net debt : Adjusted EBITDA		**3.6**	4.0

E. Free Cash Flow

Free cash flow excludes the cash movement on unsecured revolving credit facilities and is presented to allow understanding of the cash movements excluding short term debt.

	Source	**2019 52 weeks £m**	2018 52 weeks £m
Net increase/(decrease) in cash and cash equivalents	Cash flow statement	**11**	(25)
Net movement on unsecured revolving credit facilities	Cash flow statement	**-**	6
		11	(19)

F. Second half Adjusted Operating Profit

Last year we reconciled second half adjusted operating profit as the understanding of the second half growth was material to trading performance for the year. This year we do not view the second half split as material to the understanding of performance therefore no reconciliation is provided.

G. Return on capital

Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement of return commences three periods following the opening of the site.

Return on expansionary capital

	Source	2018 FY15-18 £m	2019 FY16-18 £m	2019 FY19 £m	**2019 Total £m**
Maintenance and infrastructure		286	204	60	**264**
Remodel - refurbishment		170	136	65	**201**
Non-expansionary capital		456	340	125	**465**
Remodel expansionary		34	34	5	**39**
Conversions and acquisitions*		166	125	16	**141**
Expansionary capital for return calculation		200	159	**21**	**180**
Expansionary capital open < 3 periods pre year end		13	8	6	**14**
Total capital	Cash flow	669	507	152	**659**
Adjusted EBITDA	Income statement	1,714	1,275	436	**1,711**
Non-incremental EBITDA		(1,682)	(1,242)	(430)	**(1,672)**
Incremental EBITDA		32	33	6	**39**
Return on expansionary capital		16%	21%	27%	**21%**

*Conversion and acquisition capital is net of capex incurred for projects which have been open for less than 3 periods pre year end.

Return on remodel capital

	Source	FY19 £m
Capital investment	Cash flow	152
Non-remodel capital investment		(87)
Remodel - refurbishment		65
Adjusted EBITDA	Income statement	436
Non-incremental EBITDA		(414)
Incremental EBITDA		22
ROI		34%