Mitchells & Butlers 2012 Final Results
Tuesday 27 November 2012

Q&A Session

Question 1
James Wheatcroft, Jeffries

James Wheatcroft from Jeffries. Two questions please, can you talk to us about the financial impact of your Working Trials in the 300 sites?

And secondly, could you just remind us what you think the sort of medium term margin guidance for the business could be?

Answer : Bob Ivell, Chairman
Well I mean I think what we have said is with the initial work that has happened, there is no doubt that things like guest satisfaction, guest engagement, all of those sort of things are starting to go in the right direction and they tend to be, from my experience in the sector, good lead indicators. You put more staff on, you put more plates, you do a whole bunch of training, you do all those things. If guest doesn't come back next week and say, but they have done all that because he doesn't know you have done that. So it is like all these things you have to start building up reputation in some of these places again. What we are seeing is certainly in the trials we are starting to see that growth coming through. It is early days, it takes a while to come through.

The other thing I think, a lot of people interpret the programme that we have got as being sort of soft and cuddly doing all these nice training things. The reality is one of the things we are doing is a root and branch review of the quality of the management we have got in our businesses. We have got some very good people, but clearly what we are looking to do is how do we improve that? How do we get them more focused? What we are also doing is… again you will have heard me talk about in the early part of this year, wine training hadn't happened in All-Bar-One for two years. Which is great for a business that focuses on selling wine. And right across the spectrum. So we are putting a lot of work into that sort of training.

And particularly with our sort of middle management, our area managers, the RBMs as well call them. All those guys have been going through a lot of sort of leadership training, coaching training. If you look historically the way the business tended to be run was everything came from the top, everything was sent down. So the managers would almost wait for the next marketing material to come through rather than actually have a plan as to how he was going to grow his business. So I think we are seeing some early signs. Our view is the sales will build you know and clearly that will filter through to profits, but it is early days yet because it takes time.

So what was the second part of your question? Margins?

Further answer : Tim Jones, Finance Director
Well I think, certainly short term, we have got a lot of inflationary pressure. Our customers are being squeezed, we have got a fall in real incomes. We are trying to balance price and volume. So whilst there is a lot of stuff we are doing, I think this isn't an environment where we are realistically going to grow our margins in the short term, so we are talking 2013, perhaps 2014. I think looking further out, if we get into more benign economic environment, I think we get 3-4% like-for-likes then I think you will see our margin move on quite nicely from where it is now. But I don't know whether your question James was short-term or long-term. But in the short-term I don't think you should expect to see any substantial on material margin growth.

Further question
I think sort of earlier in the year or maybe in previous presentations you have talked about a margin target up towards the 18%, I assume that has been parked?

Answer : Tim Jones, Finance Director
Yes that target was put out there in March 2010 and it was 17.3-18.3 by 2014. I think as an aspiration we want to get into that range. I think when the team that made that, made it, we just hoped we were coming out of a recession, we have now been through a double dip, we might be looking at a triple dip and I think timescales have maybe expanded out a little bit in respect of what people had at that time. But I don't think fundamentals of where one can get to has changed. I think the timing and macroeconomic support that you will need to get there, you are not going to get from 1% like-for-likes. They just look like they have been pushed a bit further out frankly.

<u>Question 2</u>
Jamie Rollo, Morgan Stanley

Jamie Rollo from Morgan Stanley. Three questions please. First, on slide 18 you break down the cost inflation last year into three buckets, public sector, general inflation and then what the company has put in. Can you give us a feeling for those sorts of pressures for the current financial year please, roughly?

And then secondly on the same slide, the £41 million of trading uplift seems quite high in relation to 2% like-for-like. Is there anything else in there that has driven up profits and might that continue into the current financial year?

And then finally, just on capex and openings. What is in the sort of confirmed pipeline please for this year and what sort of expansionary capex figure are you looking at?

Answer : Tim Jones, Finance Director
If we look at those charts on slide 18 Jamie, if you think in aggregate, the17 and the 16, it is going to be about a similar head wind. Certainly regulatory or what we have got in that on wage duty, that, duty is still going up at 2%, minimum wage is going to be two point something. We are picking up the auto enrolment costs in 2013 so that will be costing us a little bit over a million quid in terms of executing that and contributions we will be making. So that will be pretty similar. The food, energy and rent, I think energy may present less of a year-on-year challenge for us but with food you could get a little bit more pessimistic about, in terms of potato harvest that has hit the press recently, grain harvest previously. I think you could see food price inflation probably going up a little bit and energy coming up a bit and that has already started. So I am not sure I would see that picture particularly different for 2013 as we look backwards.

Sorry what was your second question?

Jamie Rollo
The M&B investment?

Further answer : Tim Jones, Finance Director
I think that is a process we are continuing because we are looking to do that. So that number will go up. Similarly the restructuring savings next to it goes up to a 10 annualised as well. So I think they may wash out. I mean the 18 may go to 22-23 and then we have got a little bit more savings to fund that. So they shouldn't provide any material net leakage if you like. And then the last chart is really everything else. So I mean it is price increases, it is all of the initiatives we are taking on purchasing, it is managing gross margin within our menus to try and improve the gross margin we are having on our most popular dishes. And that is all really conglomerated into that one chart at the end.

Further question
So does the non like-for-like sales bit of that 41 continue? Half that figure must be non sales generated uplift I would guess?

Answer : Tim Jones, Finance Director
Yeah I mean I think we always need to be moving forward yeah, so we don't see that suddenly shrinking. No I would agree.

Further question
Capex guidance?

Answer : Tim Jones, Finance Director
So we spent about £55m and that is 57 sites looking backwards. Going forward we have a pipeline, probably slightly smaller. We have committed to less now than we committed to a year ago when we were talking to you. So whilst I wouldn't look to dictate that we will be moving our guidance on what we spend this year, I think this is a little bit behind where we were so the risk is probably more that we will under spend than we will overspend it. We are, you know, very clear with ourselves that we don't want to start filling numbers because numbers are what we have told people and we will open 55 sites and we have to do that. So we will open sites that are the right sites when they come to us. Leaseholds, it is quite a liquid market so it is a bit easier to see the pipeline and leaseholds coming through. With freeholds, they are a bit harder, they are either come onto the market or they don't. So put all that together and we will probably spend about the same but if there is a risk, it is going to be probably less rather than more.

<u>Question 3</u>
Geof Collyer, Deutsche Bank

Geof Collyer from Deutsche, a couple of questions. Can you tell us how long it takes when you put your 300 pubs into the working trials sort of trial and therefore how long it is actually going to actually take to get through the other 80% of the estate?

And secondly, totally unrelated, if your tri-annual review is coming in March next year, presumably it takes a while to put the actual review together. So does that mean you are not realistically going to be looking at saying anything concrete on dividends until at least this time next year or possibly even 2014?

Answer : Bob Ivell, Chairman
Okay, take the first one first. I mean it really depends on… I mean there is no defined period of time it takes to do these things with the units because you know we have got, as Alistair says, we have got some great managers out there who are doing a lot of these things anyway. I think so they move much quicker. Others take longer, others you know we have found that clearly some managers don't step up to the mark, don't want to, and you know are quite happy being told exactly what to do rather than looking at their businesses and running it and engaging their staff. So there is no model, and we purposefully haven't done that because if you try and do that it is a bit like you know you put a target on something and it just doesn't deliver. So you don't do it properly.

So what we are not doing, and again I think traditionally M&B probably have had an idea to do some of it roll-out PPS which is the wage system. Just roll really fast and actually make mistakes on the way and actually do quite a lot of damage. So you take two steps forward but one step backwards. So we are purposefully not over committing ourselves, but there is a real momentum. Actually, interestingly there is a bit of a groundswell from the managers that haven't got involved in it wanting it. So I think that clearly the pace will step up. But this is not about, we can stand here and say we have put all our managers through Ways of Working and we have done all of this training and we have done all of this and it is going to be done by the end of this year. It is more important to do it properly to make sure that as we move forward we get the places doing the right things and delivering.

A lot of this is cultural change and cultural changes take a lot longer than people think because you think you have got there and then people revert back to type. And one of the things that we have to do is be very consistent in our approach as well because it is very easy to slightly ease back on these things at the wrong times and we have been very consistent through… particularly through quite a tough year for us because we have made a lot of changes. And I think that is one of the things in just looking forward, if you have seen the amount… you know we had 90 days consultation at the centre where we took 90 plus people out. We have changed our structure for our operational teams, we have flattened the structure there. We have done an awful lot of things in a year. So hopefully we are in a year where we have a lot more stability, we have gone through a lot of that. So hopefully the focus is now delivering on all of these things we are trying to do.

Tim do you want to talk about the pension?

Further answer : Tim Jones, Finance Director
Yes, Geof, your point on the timing is well made. The valuation's as at March, the regulatory framework allows for 15 months to agree it which is an indication of what it takes some people. Having said that, you know whilst it is difficult to accelerate what is a negotiation, we are mindful that this is something we want to clear out of the way and get some resolution on. So we are going to work very hard to resolve it much, much quicker than that. And I have to say the Trustees are very keen to get it resolved as well. And we have already started talking to them, we can't actually negotiate the triennial itself, because we don't know what financial conditions will be at the end of March, but we can start clearing a lot of the principles now and we have already actively engaged with them on it. So you know by this time next year I would hope we are pretty close or sort of done that. I can't promise that because it is a negotiation, but we are very mindful we want to get it done a lot quicker.

Question 4
Tim Barrett, Nomura

Good morning, Tim Barrett, Nomura. Can I ask two things, firstly on the labour/sales ratio, when you put that cost in, did you see a fairly quick uplift in sales and is there a good correlation?

And then a question on the value pubs. Is that all market-related the pressures there? Or are you tweaking the Crown and Sizzling models?

Answer : Bob Ivell, Chairman
I think… my point earlier on is just because we know we have put more staff in and put more labour and trained them better, the customer doesn't rush back that next week and say, I know they have got more staff in there. What happens is people over time say, you know, actually it has got a lot better wherever it happens to be, Dog & Duck at whatever you know. We all know that don't we, how quickly the word goes round if you live in a village, live in a town people start talking about places. So it takes time.

But what you are seeing is… I think what is really important is the point that Alistair made, we are retaining staff now. We are starting to see the turnover of our staff go down. We are seeing… when you talk to staff, and again we sort of got lots of information on this. The staff are now becoming more engaged. I mean I think organisations tend to want to say, well it is important to communicate to people. Well you can communicate and just tell them what to do. But actually what we are finding is, is the staff are becoming more engaged. They feel they have ownership themselves of the business, they are part of a team. Look this stuff is not rocket science that we are doing. This is really good basic, simple management for running these type of businesses, but you would amazed how often in this industry we don't get it right. And partly because of turnover and stuff, so you are constantly training new people and therefore you are never raising your standards. Yes there are some early signs in some of the pubs. It depends on where they are and what type of businesses they are. Some respond quicker.

This is one of the things that you know… it is always more difficult to prove statistically and in the early days you know to get the right sort of information, but that is why I talk about lead indicators - about, you know, the customer tells us pretty quickly if we are getting it right. And you know, all those engagement scores. I mean they were going the wrong way twelve months ago. That is one part of the reason we recognised we had to… I suppose we had two choices, do we sit here and wait for a CEO and get all the other bits in place or do we get on and change the business. And you know my view at the time was the business was creaking. I mean it has been resilient because it is such good sites, it is resilient because it has got such good brands, but you know unless you have got the people doing the right things you won't grow the business.

Sorry second part of your question was?

Further question
Value pubs?

Answer : Bob Ivell, Chairman
Yeah I mean I think, I have talked about this before. One of the things I think happened under various strategies and regimes that Alistair talked about was there was sort of this blanket - we are going to be restaurant led, food led, and that is our aspiration and that is absolutely right. We are moving more and more towards food. But what we own, particularly at the value end, is in Sizzling pubs, Ember pubs and if

any of you know those sort of pubs, they are much more community type places where they sell liquor and it is places where some people go for a drink, but they go to eat at the value end. And there are lots of people playing that market. Marston's were playing that market, Hungry Horse plays in that market. My view is that we probably shot ourselves a bit in the foot with the liquor. I mean I have probably said this before, but on some of my very early visits to some of these pubs, you arrive to what is clearly a community pub. There are big red signs outside saying, Sizzling Pub and you think, it looks like a restaurant. And actually you go in and what we have done is we have taken away some of the sort of drinking bits that people like to have and in your face is menus.

Now what we have done is we have done a lot of segmentation, we have segmented some of these estates and started to look at how we bring back some of that. And it is quite interesting, we are seeing some quite big success in starting to make them feel part of the local market. I think I told you the story that I think I had only been in the business a few weeks and I bumped into the guy running Sizzling Pubs and he said…. And at the time Sizzling Pubs had been put on TV which to me was madness, because it is not a brand. Anyway, I said to him 'Do you really believe the TV advertising is working for Sizzling Pubs?' And he used to work for me in S&N so I knew this guy. And he looked at me and he said 'Well not really but it's free'. And I said 'What do you mean it's free?' And he said 'Well it's not on my P&L so if someone says they are going to spend three quarters of a million pounds putting my pubs on TV I might as well do it'. And again that has a reflection on what we found with the responsibility and accountability. You know, everybody said they were responsible for these pubs, in marketing, responsible so they started to put them on TV. They put it out of their budget.

So all of that sort of you know, that complication for some of these businesses I think made people try to do things with them they shouldn't. But that is a very…. That end of the market is pretty competitive. It is much more pre-prepared type food. It is probably simpler service, it is much cheaper value, but clearly the price… and a lot of people competing there. So a lot of the small brewers… and if they are going to get into food, that is where they tend to go. I think our USPs with our Vintages, our PCDGs, with some of our other brands is they clearly have much, the higher skill levels, the level of the offer is greater and that is why I think they continue to do very well. But I think we are making some real progress in there. So to be frank, are they brands? They are not, they are pubs with concepts, food concepts. So we are selling good food in them as well.

<u>Question 5</u>
Lena Thakkar, HSBC

Lena Thakkar from HSBC. Three quick ones, firstly going back to the Ways of Working Trials. I think earlier you had said there had been a like-for-like profit uplift of about 4% if I am not mistaken. I am just wondering if that has continued with the 300 pubs?

Secondly in terms of the returns of 17%, has there been any difference in performance between the 2011 and 2012 returns, just to get a feel if you are getting better at rolling out and choosing sites?

And then thirdly in terms of drink volumes, the minus 4%. Can you split that out between beer and other drinks at all?

Answer : Tim Jones, Finance Director

I think drink, splitting out that 4%, beer is probably slightly larger and other drink slightly less in total, but not massively, 1-2% either side of that.

In terms of capital returns, that is true that more recent investments have a richer margin attached to them than some of our further out investments. But it is a super tanker this, I mean a lot of these are committed to a long time in advance. So you can't just immediately improve your returns. But certainly our last six months on more recent investments are coming through to a higher return to those previously.

Further answer : Bob Ivell, Chairman
Just on investments, clearly what happens is you tend to buy sites… so as a new retail leisure park being developed or a restaurant being developed, so you probably commit yourself to that, 12-18 months before you actually get there. So a lot of the stuff that we have been seeing coming through… and that is where we clearly looked at what we had been buying or had been leasing, and, you know, there wasn't enough rigour in there. You know, the problem is, if you say to your Property Director, I want 50-100 sites a year, you will get 50 and if you bonus him on it you get 50-100 sites a year. So you get 50 to 100 sites of high quality. You are by numbers, and that is what we have stopped. We have turned around and said, look this is about, we would much rather do 40 really high quality sites with you know 98% hit rate on returns.

We have looked very carefully at the criteria we have used and you know some of the early Harvesters we have put on Retail Parks… and again I think we talked to a number of you who came out on the trip and we showed you examples of some of the sites we visited, were perhaps in Retail Parks, but not necessarily had the footfall in the evenings and stuff with leisure, so we now have a much more precise footprint that we are going for in those types of sites. So… and what we have opened this year, some of those have just really only opened in the last few periods, so it is too early to tell. But I think you know… look I mean it is quite interesting, if you become much more robust. And Tim and I have certainly for the last nine months have been signing off every site. And it is funny, when you say you only want five star sites, you only get five star sites brought to you. So you know what you ask for is what you get. So we have been much more rigorous on that and we are confident going forward that will come.

I think just the point on liquor, one of the things I think if you look back on this last year, on liquor, there is no doubt that, and the point that Alistair made, we have got some of the best gardens in the business in great locations you know to die for locations. To be frank we have just not had the liquor, you know people go out to our pubs in the summer when the weather is nice and we haven't had that weather this year. So some of our liquor performance I think reflects that. Some of it reflects what I have said down at the bottom end, I think we probably slightly shot ourselves in the foot by saying we are just going to be so food orientated when really we are pubs with food concepts. And I think all of those we are starting to see some really good signs of those changing in focus. Alistair?

Answer: Alistair Darby, Chief Executive
I thought perhaps I could, just the first question on Ways of Working, just give you perhaps a bit more colour because it is a theme that is obviously developing here. I think just a quick bit on where we are on Ways of Working, we are in 300 roll-out now. The information that was provided to you about the Trial when you did the Analysts Day, because I assume you are referring to some of the information that was provided then. Just bear in mind that was developed out of a nine pub trial, very

good trial with a lot of effort put into it. And that gave us absolute confidence to roll it out further. And because as Bob rightly said, it is a bit of a no brainer.

The big question though is, what happens when you start to roll-out at scale and you are not able to kind of throw your arms around it quite in the way that you can in a kind of Hot-House trial. So the trial at the moment is rolling into 300 pubs. That started at the back end of the summer. The way the whole process works, it takes some time for you to go through various steps to get managers confident about taking on responsibility, because you can't just say to them on day one, 'you are now responsible for everything' because you have to skill them up and give them capability and you have to give them tools to run effective team meetings and so on.

And we are in that kind of first stage of that roll-out to 300 pubs. So it is too early to be able to come out with any data as to what impact it is having, because it hasn't got to the end of that process.

I think the other thing that is worth pointing out is we are doing this in the run-up to Christmas so there is quite a lot of noise around about Christmas booking and x,y & z. So quite difficult to break out specific numbers. I think the real test for ways of working is going to be how that 300 pub trial embeds in January, February, March and I would certainly hope that we would be able to give you much more clarity on the success of that larger scale trial when we get to the Interim Results next year. All the early work says it should work very well, but we haven't got data yet on that roll-out because we are only part way through. Does that help a bit in terms of providing a bit of colour on where we are with that?

Lena Thakkar
Yes that is helpful, thank you.

<u>Question 6</u>
Simon French, Panmure Gordon & Co

Thanks, it's Simon French at Panmure Gordon. Two for me. Firstly Tim, the interest of £6 million accrued on the tax liability. Can you give us an indication of what tax you may have to pay back there if any at all?

Answer : Tim Jones, Finance Director
It's £12 million tax liability which is provided - it goes back to 2006, it relates to a transaction, on assets we bought from Whitbread actually and that is why it is such a large number of £12 million.

Further question
Thanks. And one for Alistair. You have come from the most unbranded pub company to probably the most overtly branded. Is that a challenge or an opportunity for you do you think?

Answer : Alistair Darby, Chief Executive
For me personally or the business?

Further question
For you within the Group and perhaps personally as well?

Answer : Alistair Darby, Chief Executive
Well I think, let me answer the question from a personal point of view first of all. For those of you who know me, I have a branded background. I worked at Mars and

United Stiller's. And did some marketing at Wolverhampton Dudley, quite how well is a debate, but I certainly looked after Banks' brand for a while. So I have a marketing background. So I have a pragmatic view on branding in that, and as Bob has really referred to it, is that I think M&B runs a series of hard brands that are very clear to the customer and respond to classic brand activity - newspaper advertising, radio advertising or TV for example. And Harvester and Toby Carvery would be two classic examples of hard brands within our portfolio.

But M&B also has a number of ways of operating pubs that have been called brands, but I think in fairness would be more operating formats. And my view is that that is a really pragmatic way to run a large and disparate estate. And therefore if you look at what Marston's are doing, Marston's have an operating format approach which is very effective. They have eschewed branding, but they do have a Marston's overarching brand that provides reassurance. So they pursue, Marston's pursue an operating format approach and we at M&B pursue both an operating format approach, but also a hard brand approach and I think that is the sensible thing to do. What we do know is that branding in pubs gets less and less effective the more the drink volume, broadly speaking. Whereas branding gets more and more effective the higher the food mix.

So if you look at the span of pubs in Mitchells & Butlers, having operating formats for Sizzling Pub and Crown and Ember for example, makes absolute sense. Having hard brands for Harvester and Toby Carvery makes absolute sense because of the higher food mix. So I think it is a good strategy and I think there are pros and cons for everything. It would be fair to say that if you look at Green King. Green King have a hard brand in Hungry Horse, but also quite a lot of operating formats. I think if you look at Real Pubs for example that is a way, a solution to running premium pubs in London.

So I think it is sensible to have a flexible approach to these things and I am completely comfortable with that.

Further question
I guess just as a follow-up then, should we expect perhaps some de-branding then of things like Sizzling Pubs where you mention Bob that it is not really giving the right views to the consumer?

Answer : Alistair Darby, Chief Executive
Well I think the direct answer to that is no. Because the thing about Sizzling Pubs and Ember and so on is that they provide a reassurance to customers that there is going to be a consistency and a certainty of offer in that outlet. It may always be the Dog & Duck which is the first, kind of, "I am going down to the Dog & Duck", but then they subconsciously think "it is an Ember Inn, it is going to be okay". And I think that that reassurance that you get from operating format signage, whether it be Sizzling Pub or whether it be this is a Green King Pub or a Fuller's pub is important to customers because it is a badge of consistency and quality. And therefore I think we would think very, very hard about whether there was really value in de-branding or de-formatting outlets which have done very well for us. And lest we forget, you know, this is a business, it is made up of brands and operating formats with very high average weekly takes. So there is a lot of evidence that it is working.

Further answer: Bob Ivell, Chairman
I agree with that. I think what we will do is probably de-emphasise necessarily. So you know you drive up or you walk to it and it is has got this big sign saying… so the messaging to the consumer I think is important. So also sticking to what your format

is. I mean why these sort of operations work really, really well is because you have a very clear format, and again there has been a little bit... There was a little bit I think of what I call sort of concept creep. So suddenly they want to put something else on, but that means you have to put another piece of kit in the kitchen. You want to do something slightly different so you put another chef in the kitchen. Actually, sticking to what the model is and what it works… but also making sure…. I mean take Ember for example. I mean Ember moved towards, Ember Pub and Dining as they call it. But, you know, they wouldn't allow kids in there. So this is a community pub locally where you could walk to with your family, but they wouldn't allow children in it. You know we have changed that and we are getting great results and we are not putting off the adult drinkers in there. We are segmenting areas and just being a bit smarter about how we sell the package. You know we took Sky out of an awful lot of pubs. You know, should we have done that? We have actually recently done a very good deal with Sky and we are now putting it back into one or two of these type of operations as well because you know that is part of the demand.

So it is really just making sure that the real package works for these places, not something lurching from being you know restaurant to a pub. And also, segmenting, because some that are more food orientated and others are more liquor orientated, just understanding that.

<u>Question 7</u>
James Ainley, Citi

Thanks, it's James Ainley at Citi. Two questions for Alistair. Do you think the estate is well or too well invested? So is maintenance capex appropriately sized?

And then secondly, when you think about expansionary capex, how do you think about the returns that the business should be getting on that investment and the appropriate mix of freehold and leasehold sites?

Answer : Alistair Darby, Chief Executive
Okay, two good questions. I think first and foremost the Mitchells & Butlers estate is a very well invested estate with a lot of capital employed. And I can't draw a view yet whether the amount of ongoing investment in that estate is right or wrong. All I can say is that we have a very large and substantial freehold estate that is a fantastic inheritance and it is also a long-term responsibility. And we have to be very, very certain that we are investing the right amounts of money to maintain amenity and we have got a lot of very, very big pubs.

I mean don't forget, it is really important to remember this Mitchells & Butlers estate is an accumulation of some of the biggest and best pubs across the UK market and some very large pieces of real estate. And if you just drive through Birmingham or some of the other major industrial towns and look at the sheer size of Mitchells & Butlers pubs on arterial roads and you are talking about a lot of bricks and mortar. So we have to be very responsible about the right level of investment in those pubs.

What is also really important is that we have got to strike a balance between conserving capital and getting the right returns on it, but also being very clear that customers will punish you if the pub gets scruffy, and they will punish you both by not using your pub, but in certain areas they will punish you by helping to dilapidate your pub at high speed! And you know you can kind of understand why actually, because if you are a customer who is paying £3.10 for a pint of lager and you as the owner of the pub aren't prepared to look after it then you can understand why people get a bit hacked off. So I think it is really important in terms of maintaining the long-term trading of this estate that we invest properly and whether we are investing too much or too little I can't judge, but there will always be a substantial investment of this estate.

In terms of expansionary capex, first and foremost I would just take… I take the simple view that capital is gold dust, it doesn't grow on trees so you have to use it very, very carefully. And that is particularly important in this industry which has a historical reputation for being cavalier with capital. And therefore what measure if you were to look at a single kind of output of good cash management, well it has got to be free cash flow. Because you can only generate and release cash flow from this business if we are being really good on returns. And I think if we are going to be, look at kind of, key indicator of whether we are doing the right things, it would be the cash that this business is throwing off whilst at the same time, people saying, and they have got a really well invested estate. Because of course the easiest thing to do would be just to turn off the investment tap and pour a whole lot of free cash flow out of this business, but that would be wrong for the long-term. But what we have got to do is make sure that where we are investing capital is driving real value.

So what is my view on leasehold and freehold? Well my view in the end is that what matters most is the returns you generate from them in the long-term. And if we can, as we are showing in single leasehold sites, generate significant returns that are sustainable, that looks like a very attractive investment. And we should continue to do that in a professional, managed way. Does that answer your question?

Further question
The question to some extent was, is there a minimum ROI that you think is appropriate?

Answer : Alistair Darby, Chief Executive
Well we have internal hurdle rates which are important for discipline, but of course it is not the actual hurdle rate that matters, it is what you actually achieve that matters. I mean I think there is a general rule of thumb in the industry that on a freehold asset you would want to be producing in mid to high teens and Tim did say if you look at our freehold investments we are satisfied with what we have got but would like to do better. And certainly we would expect a higher return as everybody would from leasehold sites and you know the benchmark of most people producing 25% returns and north is the market target. So clearly we want to be in that same kind of space. If you get returns at those kind of levels in or around those kind of levels then we would be producing significant shareholder value.

Answer : Bob Ivell, Chairman
I think the interesting issue is clearly with freeholds, there is a lot more demand and competition and there are less really good freehold sites out there. You either do what Marston's did and build from scratch and buy new sites. So by nature of freehold is I think you are in a more competitive market so the price of buying them. So you have got to be really clear what you want to do, what your concepts or your brands are going to deliver against them. But leasehold I think you can, there is quite a massive market out there which we haven't exploited on Retail Leisure Parks for things like Harvester.

<u>Question 8</u>
Jeffrey Harwood, Oriel Securities

Yes, it's Jeffrey Harwood from Oriel. Just in terms of the inefficiency of holding a lot of cash on the balance sheet, now that the management situation has been resolved, do you think we are getting closer to addressing that situation please?

Answer : Tim Jones, Finance Director
Yeah I mean we need to keep looking at the options that are in front of us. Obviously having Alistair on board helps give us a clarity and takes a variable away from that. But from where we sit today, the first option would be to buy back bonds within the securitisation. We have looked at that to do the FRNs you have to swap, to do the fixed rate notes, they are trading at a premium typically anyway. You are going to find that premium increases dramatically once we go into the market in any scale, certainly with over £100 million. So even at current prices, you know, you are looking at about a 4% return. If you do that I suspect we wouldn't even get a 4% return if we went in to try and do it. So that doesn't look particularly attractive. We could return the money to shareholders. We would have to put some in the pension fund if we did that. That would be a Type A event, but there might be some mechanism to split that. Or we could put more into the pension fund or we could invest it in our expansion of capex pipeline and M&A and sit where we are and invest it over time. And I think as we sit here ahead of our triennial you know with a new Chief Exec and our expansion pipeline, it just doesn't seem to me any compelling reason to pay down what is basically cheap debt that we wouldn't be able to replicate. Yes that costs us a margin bleed between what we get on our cash and what we pay on securitisation, but I am not sure rushing to close that is the right thing at the moment.

Further question
So expansion by default?

Answer : Tim Jones, Finance Director
I think by default you are therefore, there is no compelling reason to pay down that debt and then regret it at leisure.

Bob Ivell, Chairman
No more questions? Going, going, gone. Thank you very much.

End