**M&B Half Year Results 2025 – Analyst Presentation**

**Phil Urban**

Good morning, ladies and gentlemen and welcome to the Interim update for Mitchells & Butlers. It's been another very positive six months for the business with half year like-for-like sales of 4.3%, but of course Easter fell into the second half this year, and at the end of week 30 with the calendar aligned year to date like-for-like stood at 4.6%. Allied to this, our cost controls have been strong and we delivered operating profit of £181m, which is 10.4% ahead of last year.

Today Tim will take you through the half year numbers in detail and then I will return to give you a little bit more colour about what we're seeing and how we compare to the market, before moving onto how Mitchells & Butlers is beginning to transition from being defensive, as we've had to have been over the last 10 years, towards being more progressive and ambitious as our debt reduces. So, without further ado I'll hand over to Tim.

**Tim Jones**

Good morning. We had a strong start to the year, as you can see here, a strong first half. Sales well ahead of the market, up over 4%, that's combined with natural leverage and good cost control to drive an increase in our operating profits of 10.4% at a richer margin, up 70 basis points at 12.4%. EPS which further benefited from interest income now recognising a surplus, and our earnings per share were up 23.5% for the half, so a great start to the year.

I'll go through and I'll look at the various key drivers of that performance, and we start with sales. I've set out here the monthly flow of sales through the half year next to the preceding six months and the period post the period end as well. Overall, like-for-likes are up 4.3% with volumes improved to basically flat. Most of you will be aware this time of year is quite difficult with calendar shifts – Easter, Mother's Day, Valentine's Day and what have you – so that 4.3% is a little bit understated because it doesn't have an Easter. Probably more meaningful for you if I look at sales for the whole year to date, so up to last weekend, we've been running at 4.6%, and we've also looked at the last 10 weeks, so that's contrived to have Easter in both years and Mother's Day in both years, so it's a sort of clean read for you. If I look at the last 10 weeks we're up 6%, so the underlying rate is somewhere between those two numbers. Both, as I said before, significantly ahead of the market as measured by the CGA Business Tracker.

You can see here how that strong sales performance has got ahead of cost headwinds and flowed down to profit combined with value driven from our capital plan. We've got an increasing allocation to capex justified by some very strong returns, we're making over 35% consistently on our remodel programme, and our Ignite efficiencies which continue to flow through very strongly.  I won't say any more about them because Phil's going to talk about that in a bit more depth later on.

The last few years we've been talking about cost inflation. Cost headwinds do remain a challenge for us as a sector and we'd remind you that this chart sets out the gross cost headwind, so it's before any mitigation that we apply to it, it represents the challenge, if you like, that is presented to us that we then take on board. If I look at this year, our guidance to you is basically unchanged, we see a headwind of about £100m, so about 5% of our cost base. Labour is the main driver within that, especially National Insurance contributions increasing, so that's added £23m to our costs base on an annualised basis, although it will only start from the second half of this year. Apart from labour, the costs environment this year is pretty benign to be honest.

If I look forward to next year, were going to annualise on the National Insurance and labour increases in the first half, of course we'll have a new living wage increase brought in from April, we would expect that to be above the general level of inflation as it has been consistently over the last few years. Energy and other costs again pretty well the same as this year with the exception of food and drink input costs which is perhaps emerging as an area of slightly higher increases for us. I think meat is going to be the main driver within that, that's probably no surprise, we've started to read that in the press, and there will be a lag to correct this just due to the obvious constraints in growing livestock supply, but we don't think it's anything structural, we don't think it's permanent, we think it will revert after a period of time. And of course we're working very hard to review our offers, to change our offers, and to challenge new supply lines to mitigate as much of that as we possible can.

From 2027 onwards, and it feels a little brave to stand here and start talking about 2027 cost inflation, but from what we can see now I would see the overall headwinds being back down, returning to trend, probably somewhere in the region of £90m cost headwind a year, about 4% above cost base.

So, the results are accompanied by a very strong cash flow performance, although typically it's important to remember that we have a seasonality to our working capital, you can see that on this chart, so we tend to have an inflow of working capital in the first half, much of that will reverse in the second half. However, beyond that, items of note – we received  another £12m in the pension escrow account, so that now completes the return of all of the pension amounts that we were holding in escrow, and we still have a surplus of £140m sitting on our balance sheet, and we will get value for that over several years through relief against future contributions in the DC section of that scheme, so that represents value for us. Capex increased by just over £10m, so we managed to gear back up to our seven-year cycle, and we justify an allocation of capital for that area by the strong returns that we're generating, as I said. Lastly, tax paid, as we get relief for losses suffered during COVID which reduces the actual tax we have to pay. We've about £22m of value left in that area, to that should see us through the second half and into next year, then I suspect we will have used all of those up. So overall, a really strong cash performance, albeit it helped a bit by seasonality, it takes our net debt down now to £860m representing 1.9 times EBITDA if I exclude leases.

Let me step back and put cash flow and debt performance in a slightly wider context. We have had great success over the last 10-15 years in reducing our debt from what we considered to be unsustainable levels at that stage, and alongside that it's important to remember we've also completely transformed the pension funding situation of the group from what was a very large £500m deficit into a de-risked surplus of about £140m. So really great progress, but we do remain locked into a very inflexible securitisation structure. Most of you will be very familiar with how that works, I've set it out on the chart, looking forward, and that structure does mandate the level at which we can de-gear the business, and I think there are two takeaways that we take from that. The first is, despite the declining level of debts our service commitment remains unchanged at £200m a year, so just an increasing amount of that is going into capital but the actual bill we need to meet remains unchanged. So, absent any changes in the structure this ties into a de-gearing flight path and does not leave any surplus cash after capex, and capex we have always prioritised, and we will continue to prioritise in this group.

We were very clear back in 2017 what our dividend criteria was, we will not draw short term borrowings to fund a dividend, so despite strong trading and despite lower debt that criteria is not yet met for us under the current capital structure.

I think the second takeaway is it's clear at some stage there will be a reset for this business on its capital structure, and we will look to refinance the business and the securitisation itself, the question is when does that arise? When is the right time to do that? The answer of course is when it is efficient to do so. At the current time we have significant break costs and amend costs where we want to adjust the securitisation, and they are not justified by any potential benefit from renewed refinancing times were we to do that, so it makes no sense for us to do it at the current time. Over time these costs will come down, and that will create conditions for a reset in the capital structure. What we do that that time can only depend upon conditions and circumstances at that time though in terms of the investment opportunities that face the business at that time, debt market conditions at that time, and the trading outlook that the business is in at that time, so it's only a decision that we can make once we are executing the transaction. Until then, the sensible thing for us to do as a business is continue to reduce our debts, to grow the equipment share of the business, to increase our resilience in what's, let's be honest, has not been easy times recently, and open up further opportunities within our capital structure.

So, pulling all that together, really strong trading in the first half across sales, across profit, across margins, progress has also been reflected across all of our score chart whether that's cash debt, whether it's return on capital, staff engagement scores, guest scores as well, and we see the outlook as very positive. We expect to end this year right at the top end of the current consensus, we move into next year, we've got some cost headwinds, some cost challenges but we're up for dealing with those and we feel we have some momentum, particularly on sales, to go through to next year and continue to make value for the group.

So, with that I'd like to hand you over to Phil.

**Phil Urban**

As you've heard we've had a very strong six months underpinned by having a portfolio of well-invested, well-managed and clearly defined brands and offers. We've always shared the CGA Business Tracker with you at these updates and, as you can see here, our outperformance versus the market has if anything strengthened over the last six months.

We enjoyed a very good festive period which inevitably is the main driver of our performance, a very cold weather at the start of 2025 gave us a few difficult weeks and it took the gloss off our post-Christmas sales updates to the markets. We knew that the underlying business was far stronger, so pleasingly that has come through, undoubtedly helped by the warmer weather that we enjoyed just before Easter. Mothering Sunday was also a standout success for us, only ever bettered by the previous two Christmas Days. This performance of course doesn't just happen by itself but it relies on having a skilled and experienced management delivering proven and trusted offers professionally and in quality environments. We're blessed with many great people across the business and I'm delighted to say that our team turnover has fallen to 56.8% year to date, a record low in the history of the business, which means a far greater level of experience which can only be positive for our guests.

As you can see, over the last decade we have tracked ahead of the market, however you can also see that the market as a whole has been remarkably resilient over this time, particularly post-COVID, demonstrating that hospitality has always and will always have a large role to play in the fabric of UK society, belying the somewhat negative view of the sector. We see no reason for this resilience nor our market outperformance to change, and we believe the fact that we have tracked consistently ahead of the market is due to keeping our brands fresh and relevant and continuously striving to improve on multiple fronts, with standing still not being an option for us. Pleasingly, our total volumes were broadly flat year to date which is the first time we've seen this in many years, given the long-term sector decline.

It's worth emphasising that the CGA Business Tracker also provides contributors with data relating to market sub-sets, i.e. restaurants, pub restaurants, pubs and bars, and the total in aggregate, including delivery. As you can see, we have traded ahead of the market in each segment which bodes well as we are not reliant on any particular brand, and we are in growth in each of the four segments.

The fact that our guest review scores have improved even further year-on-year to 4.6 out of 5 is also encouraging because we know there is a direct correlation between the guest scores and like-for-like sales. There is a similar picture when you look at guest sentiment which is sort of a proxy for net promoter score where we have tracked consistently ahead of our peers, again evidencing that we are stealing market share.

In terms of our brands, there is a familiar feel at the half year with Nicholson's, Vintage Inns, Castle Pubs and Sizzling Pubs leading the way. The late-night segment remains the toughest part of the market, but we have limited exposure to it, and where we do those offers also trade well during different day parts and different occasions.

The momentum that we have built up is the result of a systematic way of working, accepting that we have a spirit of continuous improvement in all that we do, driven by what our guests are telling us. Our three strategic priorities keep us focused. They are, to remind you, maintaining a balanced portfolio, ensuring that each of the brand formats are kept fresh and relevant, and by having a seven-year cycle to reinvestment we're continuously raising the average quality of the amenity. Driving a commercial edge to the way we do business ensures that everyone in M&B is wired to listen to guest feedback from a myriad of sources, and by being forensic about how each pound of sales converts to bottom-line profit, then we keep the business moving forwards. Finally, by driving an innovative spirit across the company we encourage all of the team to constantly search for the new and the better, whether that's in terms of technology we use, the way we market the business, or new product or new concept development.

These priorities are driven by pulling the same three levers each year, and of course we have a solid track record to prove that the approach works. The first lever is brand management: it's the streaming of our brand each led by an operations director and brand-aligned functional support. The brand focus that this structure gives ensures that we can take the very best of the economies of scales that M&B brings where appropriate to do so but whilst maintaining the brand-specific hallmarks and nuances that makes each brand stand out in its respective market. Pricing and product decisions as well as the svc style and training of each of the offers are evolved each year which ensures that each brand can stay ahead of the competition.

The second lever that we pull, Tim touched on, is capital – capital investment in the business. We aspire to have this seven-year cycle of remodel or conversion investment across the estate, but there is some flex around this, especially where a business is still trading well and where wear and tear doesn't yet justify further investment. We have a big competitive advantage with the stable of brands that we own, it allows us to take time to reposition a brand if we need to whilst the other brands drive forward, although at the moment it's fair to say all brands are doing well, and we're also able to map the estate by location ensuring we have the optimal spread of our offers in each area. The current capital programme is generating a very strong return on investment with both last year's and this year's remodel programmes currently delivering an ROI in excess of 35%. This is very important, as we're paid back within five years and on a seven-year reinvestment cycle it means that the capital programme is now a real driver of incremental profit each year. We of course also have a large maintenance capital programme and we're investing in technology, kitchen equipment and solar panels on top of day-to-day requirements. We currently envisage spending circa £200m per annum excluding acquisitions.

The third and final lever that we pull is Ignite, our ongoing transformation programme. As I've said before, Ignite is just a working title to a way of working. We have a natural thirst for continuous improvement and therefore we always have between 40 and 50 separate initiatives underway at all times. To give you a flavour of some of the things that are currently happening in the business, we have launched an employee app to all of our team that gives them a single portal to access their benefits and payslips as well as to communicate as a brand team. We believe this will be a gamechanger for engaging the team behind incentives and calls to action, and it will increase productivity over time. We've established a new bucket of initiatives looking at the drinks side of the business, this will cover everything from agreeing the optimal beer front layout in each of our businesses, but it will also look at things like seller practices and perfect serve again.

Over time this business has probably over-indexed towards the food side of the business and so we believe there is a big opportunity for giving the drinks side of our business this degree of focus. We should be fairly quick to make an impact on our bottom line. Similar to drinks, we're also having another look at our approach to the capital programme, revisiting the time each project takes, the optimal days for closure and reopening, looking at reopening costs such as training and launch costs, and also looking at those sites falling short of post-investment expectations.

Our work on how we embrace AI is also progressing well and we're currently working on how it might help guests on their booking journey, improving the experience and hopefully reducing the number of potential leads that don't end up in a booking.

On top of the programme we also know that past initiatives that have worked well and which are proven have not necessarily landed everywhere, and so we go back and rebrief them, so the businesses or brands still have an opportunity.

Ignite is dynamic and ever-changing and we have a batch of new initiatives that will bear fruit over the coming years.

On top of this, we continue to make good progress against our sustainability ambitions through the capital investment and behavioural change. We now have 180 sites with solar panels, we've electrified 74 kitchens and five sites where we've fully removed gas, and this programme will continue. In addition to this, we are investing in the Internet of Things which allows us to remotely control high energy consumption equipment. The trial results show there's a huge opportunity to reduce energy consumption without having to ask our teams to do anything, so that's a real win/win.

We have a focus on changing on-site behaviour regarding sustainability, so for example improving waste segregation, that requires the winning of hearts and minds across our team, and we provide support for these types of initiatives for a dedicated network of sustainability ambassadors. We know our people are passionate about improving the environmental impact of our business and we're pleased to deliver continued progress in this area with plenty still to come.

So, we are very happy with the first half performance, but we'd also like to convey how our thinking about the future is evolving. When I became CEO at the end of 2015 we were facing a mountain of £2 bn of debt, we had a £0.5 bn funding hole in the pension fund, and the business was trading well behind the market with declining sales and an under-invested estate. So, Ignite was born out of a need for a quick and innovative change to the way we were working, and of course it's been very successful, and our journey and our results I think demonstrate that. COVID-19 threatened to derail progress, but raising £351m of equity and strong post-lockdown trading meant that we were able to weather the storm fairly quickly. In fact, our resilience to major obstacles is probably one of the things we are proudest about and gives us a lot of confidence when we look forward with positivity.

Out of necessity the last nine years have been defensive and about an existential challenge as we de-geared. The £200m per annum amortisation has been and remains a burden to the business and we need a further £200m plus for capital investment, and with our tax and lease payments each year it means we are not yet generating surplus cash. However, we know that in about five years' time the debt repayment falls to only £70m, so that gives us a backstop date when we know we will be generating surplus cash.

This slide lays out how we think about the holistic investment case in Mitchells & Butlers and why Mitchells & Butlers is very well placed to be successful in the future. We believe our strong operational track record is second to none with nine consecutive years of outperformance in a market with proven resilience, and we have a strong an experienced management team. This is underpinned by I think undoubtedly the best freehold estate in the industry which is well-invested, generating very strong returns and with a broad portfolio of brands catering for all occasions. Then, as we continue to reduce our debt we further strengthen the balance sheet and increase the share of equity in the business, increasing our resilience and opening up new options for a new capital structure. Finally, in Ignite we have a way of working that drives continuous improvements and efficiency across very part of the business, maintaining the positive momentum we have worked so hard to build up. Put together, we believe that the business is geared for a bright future.

Mitchells & Butlers is the strongest business in our sector with a consistent and proven track record of delivery. The balance sheet is strengthening further as each year ticks by, and so the company is growing in confidence, and we are positive about the future. Yes, there are still hurdles to overcome like employer National Insurance contributions and what we believe will be a temporary rise in the cost of steak in 2026, but we have strong momentum and we believe our strategy will drive accelerating increase in equity value and that M&B is well placed to extend its position as the number one hospitality company in the UK.