Mitchells & Butlers

it pit for here

Half Year Results 2017



Income Statement



	H1 2017	H1 2017 H1 2016	
	£m	£m	
Revenue	1,123	1,096	2.5%
Operating costs	(974)	(940)	
Operating profit	149	156	(4.5)%
Interest	(66)	(68)	
Pensions finance charge	(4)	(6)	
Profit before tax	79	82	(3.7)%
Operating margin	13.3%	14.2%	(0.9) ppt
Earnings per share	15.2p	15.7p	(3.2)%

Like-for-like sales



	Week 1 – 15	Week 16 – 28	Week 1 – 28	Week 1 – 33
Food	1.6%	(0.1)%	0.8%	1.4%
Drink	1.7%	3.2%	2.3%	2.4%
Total	1.7%	1.4%	1.6%	1.9%

- Strong recovery in LFL sales across the estate from prior year
- Half year results are impacted by Easter moving to second half
- Sales growth driven by increase in spend per item on volume marginally down, in part reflecting premiumisation of the estate
- Recovery built on slightly higher gross margins

Building sales momentum





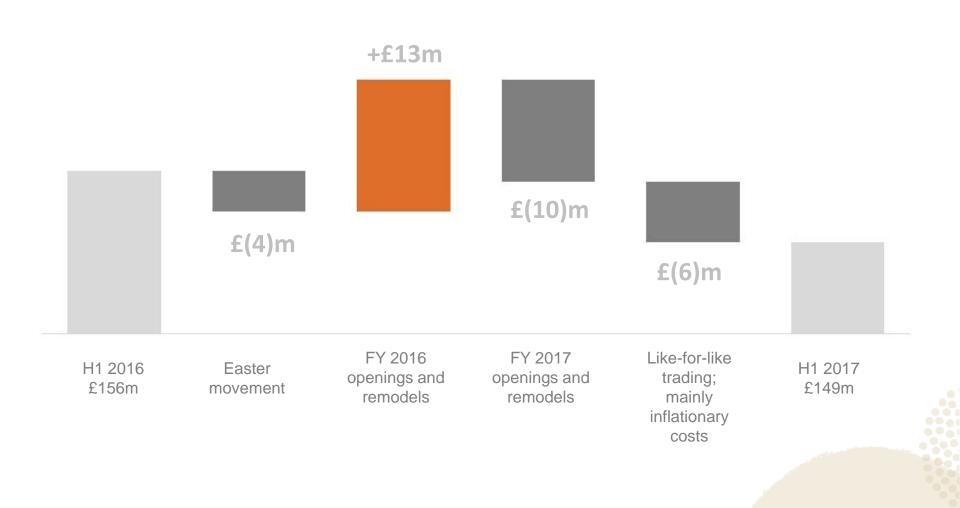
Uninvested like-for-like sales

Rolling 12-week average

- Improvement in sales trend including uninvested estate
- Continuation of market outperformance

EBIT movement

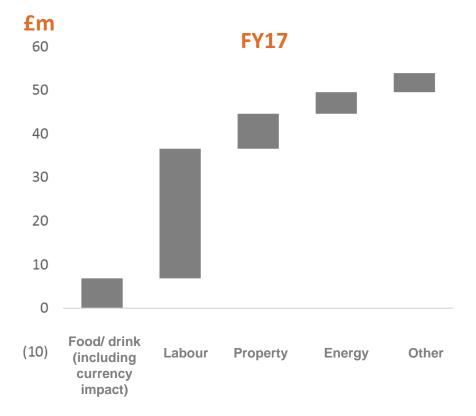




Inflationary cost headwinds unchanged



• Inflationary cost headwinds remain in line with previous guidance:



• FY18 outlook for similar overall rate of cost inflation (notably wages, business rates, auto-enrolment, sugar tax, apprenticeship levy)

Group Cash Flow



	H1 2017 £m	H1 2016 £m	FY 2016 £m	
EBITDA before adjusted items	210	217	431	
Working capital / non cash items	-	-	(7)	
Pension deficit contributions	(23)	(26)	(49)	
Cash flow from operations	187	191	375	
Capital expenditure	(93)	(88)	(167)	
Net interest paid	(60)	(62)	(125)	
Тах	(11)	(8)	(28)	
Other	1	1	5	
Free cash flow	24	34	60	
Dividends	(4)	(21)	(31)	
Net cash flow	20	13	29	
Group net debt	(1,825)	(1,862)	(1,840)	
Net debt : EBITDA*	4.3x	4.2x	4.3x	
* la sa sala sa sana sala sa EDITOA				

* based on annualised EBITDA

Capital expenditure and returns



	H1 2017		H1 2016	
	£m	# sites	£m	# sites
Maintenance and infrastructure (excl remodels)	24		34	
Remodels - refurb	24	101	38	125
Remodels - expansionary	9	22	3	6
Conversions	24	49	9	33
Acquisitions – freehold	-	-	1	2
Acquisitions – leasehold	12	6	3	2
Total return generating capital	69	178	54	168
Total capital expenditure	93		88	

- Increase in return generating capex investment reflecting revised estate plan
 and reduced remodel lifecycle
- Partly funded by a reduction in maintenance and infrastructure investment
- Annual EBITDA return for conversion and acquisition projects of 18%, with recent projects performing more strongly
- Sales uplift on remodel projects continues to exceed 10%





- Strong improvement in sales across the estate
- Movement of Easter will now help the second half
- Inflationary cost headwinds remain strong putting margins under pressure
- Unchanged interim dividend at 2.5p per share
- Pension negotiations ongoing, will update once concluded

Mitchells & Butlers Phil Urban Chief Executive Officer

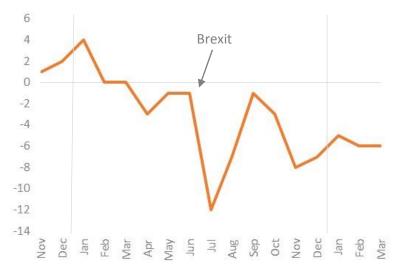
ARCHM

CORAM

The Macro Environment – The Consumer



• Positive performance against uncertain economic backdrop

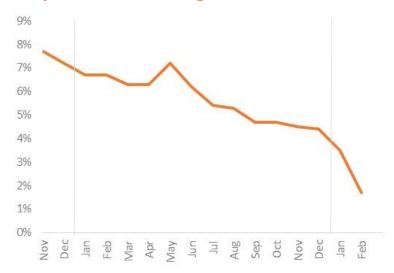


Consumer confidence

Source: GFK

 Consumer confidence remains low driven by macro economic concerns not personal finance

Disposable income growth



Source: Asda Income Tracker

 Consumer spending has remained in growth however indications of a slow down in real disposable income growth

The Macro Environment - Inflation



Inflation



Source: CPI ONS, FPI Prestige Purchasing Itd

- Inflationary cost environment unchanged:
 - Cost headwinds remain and are in line with previous guidance
 - Food inflation accelerated by supply issues and foreign exchange
 - Pricing: market has begun to respond to increasing costs

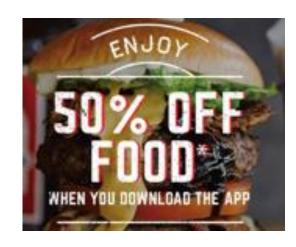
The Market Context

Restaurant Supply Growth

Supply



Discounting



Competitor ad.

Source: CGA Peach

2011

Q2 Q3

01

2012

10.0%

8.0%

6.0%

4.0%

2.0%

0.0%

(2.0%)

(4.0%)

• Slow down in restaurant openings

2013

 Instances of new brands closing sites or slowing growth

Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1

2015

2016

2014

 Pockets of growth tend to be in branded chains Widespread discounting during quieter periods disguises some of the pricing impact of increased cost head winds

First half sales

- Continued positive sales momentum:
 - Sales improved in uninvested estate
 - Strong performance over key dates
 - Operating margin down 0.9ppts
 - YTD total sales up 2.6%
 - YTD like-for-like sales up 1.9%

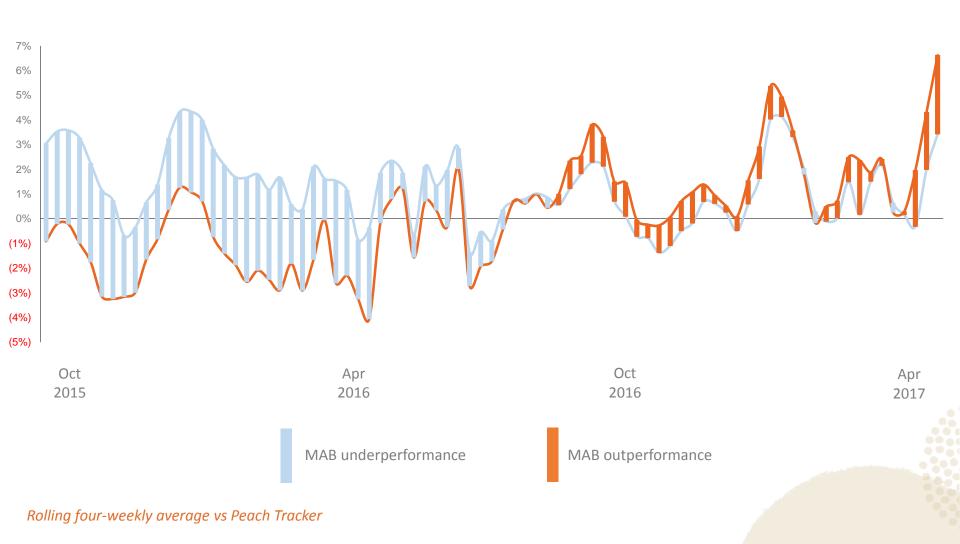
• Easter movement distorts financial performance of H1





Like-for-like sales versus market

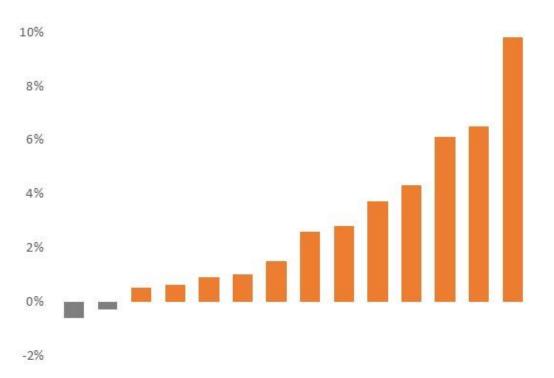




Our Performance – Improvement across portfolio



Change in brand like-for-like: H1 2016 vs H1 2017



- Improvement in brand LFL sales performance across the majority of brands
- Sales growth is not all capital driven

Recap on three priorities





Build a more balanced business

- Brand propositions
- Conversion to successful formats
- Upgraded amenity in core



Instil a more commercial culture

- Profitable sales
- Core operational drivers



Driving an innovation agenda

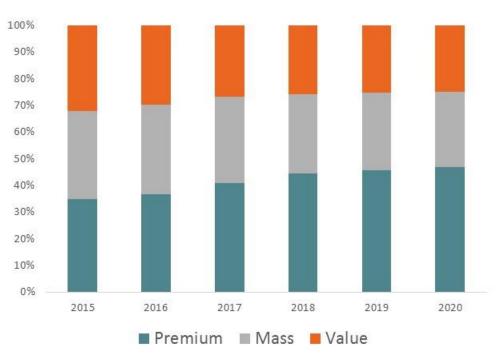
- Build on technology investment
- Digital marketing
- New concept development





- Proposition led by insight-driven brand review process
- Estate plan model developed supporting long term strategy
- On track to achieve 6-7 year investment cycle

Increase Premium element of business





Build a more balanced business



- Focus on premiumisation of estate and upgrade of amenity
- 67 Miller & Carter sites now open (15 opened YTD)
- 72 Stonehouse Pizza & Carvery conversions now open (34 opened YTD)
- Harvester Feel Good Dining concept in 55 sites (23 opened YTD)
- Disposal of 78 sites progressing well





Instil a more commercial culture



- New divisional structure embedded
- Improved sales forecasting enabling better cost management
- Time and Attendance enabled through system upgrade
- Team flexibility facilitated through technology







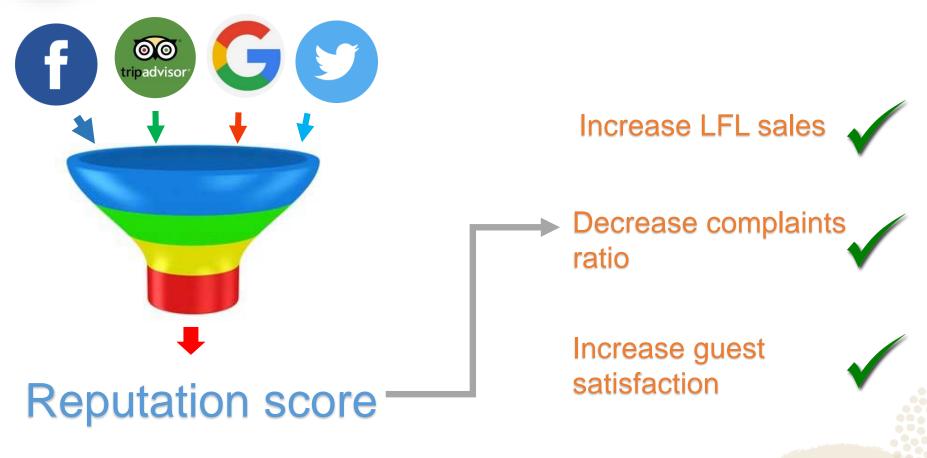


- Online tool which consolidates all digital feedback launched
- Increased engagement from teams and increased positive ratings
- Over 40k feedback and review comments per month
- In March we responded to 82% of comments vs. 40% this time last year



Instil a more commercial culture – Guest care





• Positive link between ratings and other key output metrics







- Pricing strategy
 - Menu development with opportunities to increase spend per head
 - Utilise data to drive pricing decisions
- Central procurement leverages scale
 - Product substitution
 - Joint procurement
- Commercial ethos
 - Second wireless device for managers
 - Reduced number of meetings



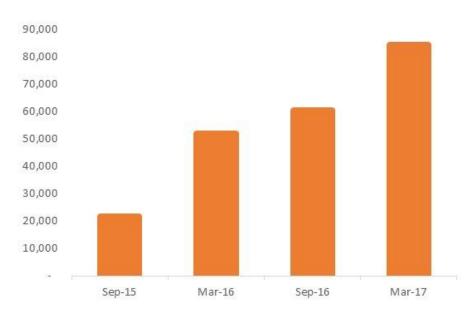
BOOK NOW





Online bookings – average per week

Guest digital experience





- Continued focus on bookings
- Focus on improving booking journey through integrated table management and website improvements
- Mobile payment through Flypay
- Order at table facility under development
- Upgraded Wi-Fi



Driving an innovation agenda – Technology and digital





- 6 brands now have apps live
- 825k downloads
- Browns is the latest app to be launched and includes a loyalty mechanic
- Number of loyalty mechanics being tested





- 55 sites now live on Deliveroo
- Average sales per week at £300 a site
- 7 of top 10 performing sites outside major cities
- New concepts demand is particularly high
- Trial with new partners to access more of this growing market
- Opportunity in up to 25% of the estate



ALL:BAR:ONE deliveroo







Driving an innovation agenda – New concepts





- Two new trial concepts now open, monitoring and refining the offers
- Process of development bringing progressive thinking to existing brands
- Further new concepts currently in development

People



• Turnover

• Total pub staff turnover reduced by 2.6% in H1

Engagement

- 1,500 more responses than last year
- Total engagement up 3%
- Improved scores for every cohort

• Focus on recruiting and training apprentices

- 2,000 apprentices on our programme
- 600 new apprentices recruited in H1



Summary



- Encouraging like-for-like sales momentum
- Inflationary cost headwinds remain
- Strong progress made and continuing on all three strategic priorities



