Mitchells & Butlers

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Half Year Results 2017

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## **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<br>1 – 15 | Week<br>16 – 28 | Week<br>1 – 28 | Week<br>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**





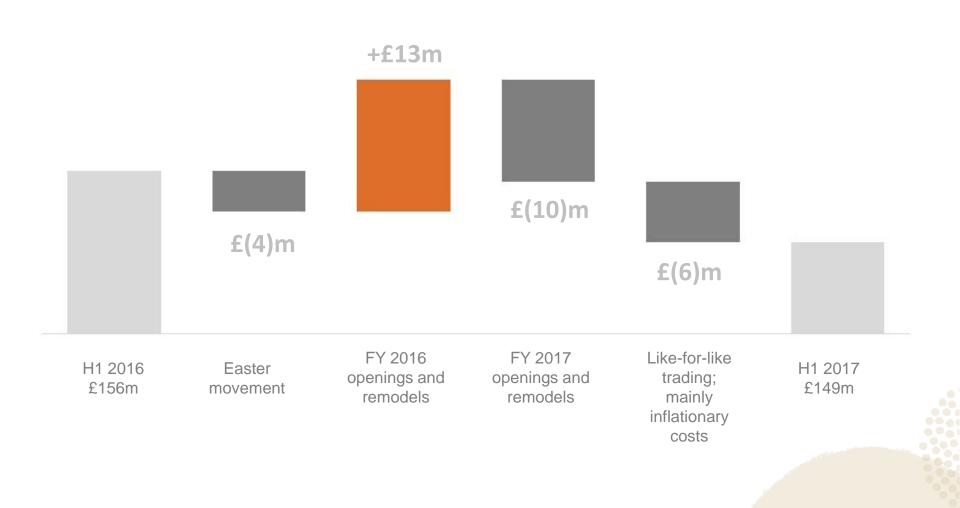
#### Uninvested like-for-like sales

Rolling 12-week average

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

## **EBIT movement**

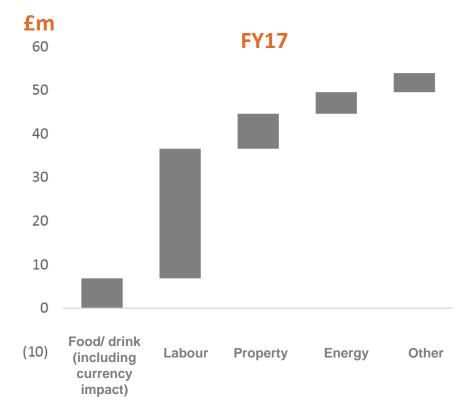




## **Inflationary cost headwinds unchanged**



• 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<br>£m | H1 2016<br>£m | FY 2016<br>£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

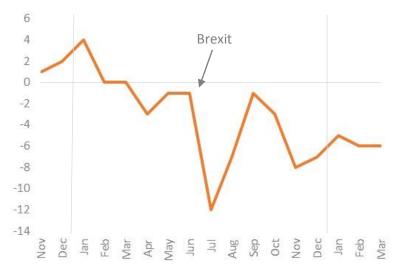
ARCHM

CORAM

## **The Macro Environment – The Consumer**



• Positive performance against uncertain economic backdrop

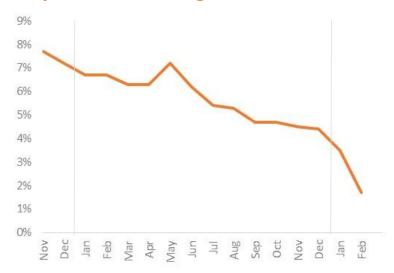


#### **Consumer confidence**

#### 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

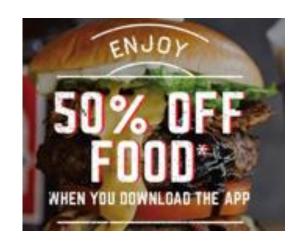
## **The Market Context**

**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%

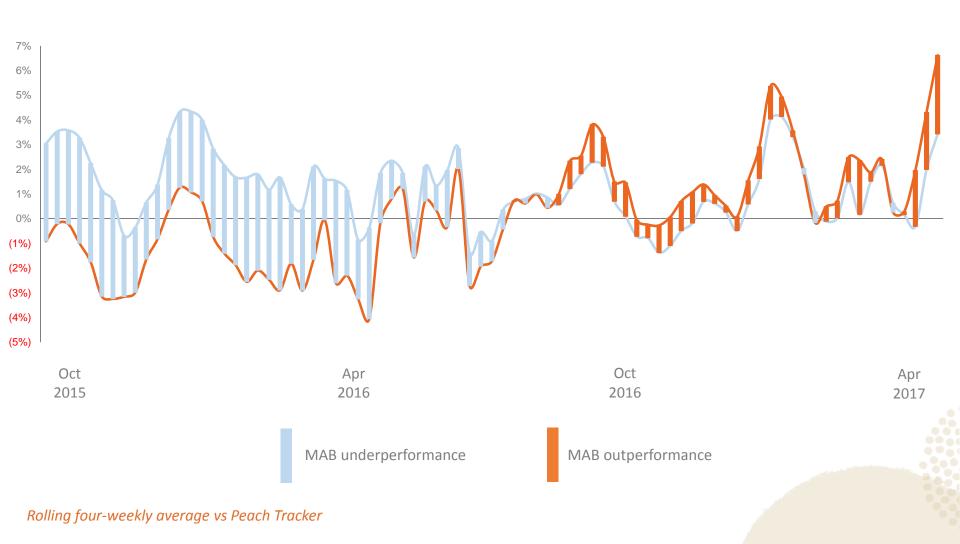
• Easter movement distorts financial performance of H1





### Like-for-like sales versus market

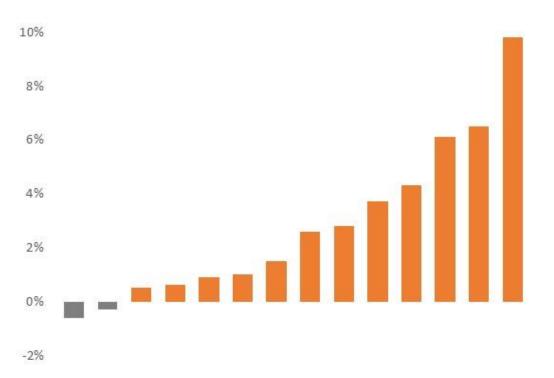




## **Our Performance – Improvement across portfolio**



#### 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

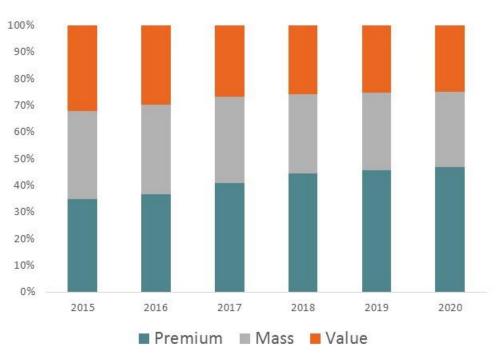
- Build on technology investment
- Digital marketing
- New concept development





- 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







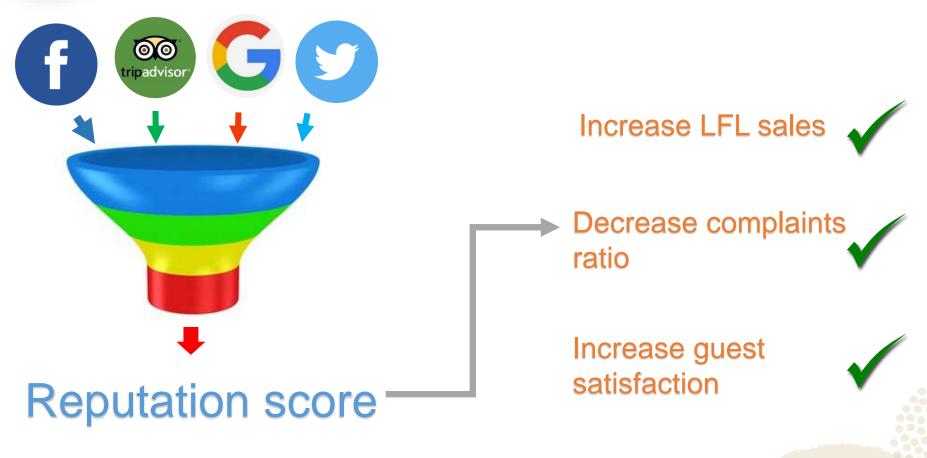


- Online tool which consolidates all digital feedback launched
- Increased engagement from teams and increased positive ratings
- Over 40k feedback and review comments per month
- In March we responded to 82% of comments vs. 40% this time last year



### 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



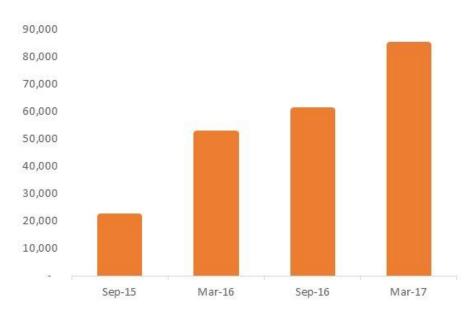
BOOK NOW





#### **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



