FY2021 – Mitchells & Butlers Analysts Presentation – 25 November 2021

Phil Good morning ladies and gentlemen, it's nice to be here in person and not doing this over Teams, which I'm sure everybody is fed up with. In a few moments I'm going to hand over to Tim, our CFO, who will take you through the results for FY21 and then I'll return to update you on how we've traded since reopening and on the many initiatives that we've kicked off again which we believe are already beginning to build momentum which had stalled over the last 18 months.

Before I do that, I just wanted to say a few words about the last year and to remind you also that Mitchells & Butlers before the pandemic had good solid momentum and a good track record, and now as we've come out with a strong balance sheet we believe we're well placed to recover quickly once the impact of the pandemic is finally behind us.

FY21 obviously was severely impacted by all the restrictions on trading such as curfews, the rule of 6 and table-only service, which seems a lifetime ago, by complete and partial lockdowns including the loss of the all-important festive season this time last year, and then by all the issues and things like the pingdemic, which was caused by the government test and trace mechanic which caused lots of our team to have to self-isolate even though they didn't get COVID-19. Despite all of those things I can proudly say that the team have been consummate professionals, that we've navigated our way through an ever-changing environment and an equity raise, and at times it certainly felt as though the government and media have made hospitality a sacrificial lamb to this pandemic. Despite all of those things we've come out the other side, we've returned the business to profit and to strong cash generation, we've re-established our Ignite transformation programme and the capital programme that served us so well in the past, and we're now well positioned as we come out of the pandemic with a strengthened balance sheet, we've got a stable of well-loved national brands and with momentum building day by day.

So, I'll hand over to Tim, and then I'll come back and talk about some of the things we did.

Tim Thanks Phil. Good morning everybody.

Clearly, it's been a very difficult year. We've essentially been closed for 18 weeks, and for a further five weeks we could only trade outdoors, and for much of the rest of the time we were operating under severe restrictions, so it's no surprise that sales are well down on last year, which of course itself was heavily impacted by a bundle of restrictions. But we've managed our costs very well and I think we've maximised the opportunities presented to us when we are allowed to trade, and there is some consolation in a very strong second half recovery that's taken a large first half loss, we had a loss of £124 million at the end of the first half and we've driven that into a small profit of £29 million for the full year.

Clearly, a lot's gone on and we need to break the year down into its various parts to go through what the drivers are behind that. You can see on this slide total sales, so a highly disrupted first half through almost all of which we were closed or were operating under severe restrictions, then in the second half as restrictions were slowly eased very, very encouraging to see our sales bounce back strongly in line with that to reach actually pre-pandemic levels.

The next slide shows you that on a like-for-like sales basis and you can see a similar recovery ending in growth once all the restrictions have been eased albeit helped by reduced levels of VAT, and through last year VAT was at 5% on food and non-alcoholic drinks, and we know it's now gone up to 12.5% for this year. So, a great recovery, really encouraged by that. It hasn't been even, it hasn't been across the whole of the market, there have certainly been pinch points and strong points. Food has tended to do better than drink for us, you can see that in our displays and in our announcement today. Probably the exception to that is the younger higher energy drink market which has done really well. Suburban has tended to be stronger than city centres, and notably London which still suffers in large parts from lower commuter footfall and lower levels of international tourism, and we've seen growth really come from increases in spend-per-head helped by VAT increases outweighing volume declines. That's last year.

I think most importantly of all is where are we today, and our run rate for sales over the last eight weeks at the end of our financial year has improved further to a like-for-like growth of 2.7% against our pre-pandemic levels, against FY19, and remember that is with VAT at 12.5% and not 5% which applied during the period on the slide.

So, lots of moving parts, and I think a lot of uncertainty for us still going forward, and we've just got to take advantage of whatever those opportunities throw up, and I think to that extent it's really encouraging for us to have a balanced and a broad portfolio. I've set that out on this slide which shows you the positioning of all of our brands, between food and drink, between premium and value, with the size of each blob being proportionate to the sales that come through that brand. You can see we're very evenly distributed across the whole dining out and drinking and occasions in the UK, and also those outlets are well distributed across city centres, across suburban locations in particular and also across rural locations. So, we don't know exactly what the future's going to hold, but I think this leaves us very well positioned to take advantage of whatever peaks and lows over the next few years and to maximise our trading.

So, after 18 months of being really focused on sales and trade we're starting to really gain traction in the opportunities ahead of us and our ability to take advantage of those opportunities. Some of the emerging challenges, at least in the short term of course now have become costs. Before COVID, you'll all be familiar, we used to talk about a £60-65 million annual cost headwind faced by the business which should be about 3.5% on our cost base, and we were able to mitigate that largely by sales growth and by cost efficiencies. I think in the medium term and in the long term we see no reason for that to change, I don't think there's any reason why we can't get in that trajectory, but in the short term we are clearly seeing some inflations and energy costs above that.

The living wage which now is going up by 6.6% from next April, that's our largest cost of course so that's going to impact on our cost base, and also in this year ahead it's going to be compounded by escalating energy costs which are now at historic peaks. That's less certain of course, we do buy a certain amount forward, we start buying forward about six months out, so as we stand here today we have about just under half of our energy costs for the year hedged forward, so to a certain extent the impact is going to depend on what energy prices do for the rest of the year but I think it's difficult to seeing any other outcome than a material increase in our energy costs for the year that could take our overall escalation to about 6% on our cost base rather than the 3.5%. Now, when that comes off depends on the view you take on energy costs, but I don't think this level of increase will be with us forever, and certainly next year we anticipate that it will revert to our normal course. We're working of course very, very hard to mitigate all of those cost increases, and Phil will talk a little bit more about that later on.

So, the recovery has been strong but we've still got some challenges, we've still got a lot of uncertainty. I think what we are encouraged by is the strong financial position we have for the business now. In February, as you'll know, we right-sized an equity issue of £350 million which, coupled with re-financed debt arrangements, leaves us really very well placed in terms of the future going forward.

At the year end, we had just under £1.3 billion of net debt, now that's nearly £300 million lower than we had going into COVID, so I think that leaves us really well positioned in terms of weathering whatever challenges we have ahead of us. That is consistent with the strategy that we've had for a number of years now, certainly well before COVID, creating equity value through deleveraging the balance sheet. It's a journey we've been on for a while, we've already made strong progress, you can see that on this chart over the last five years, and that has stood us in as good a shape as we possibly could have been 18 months ago going into COVID, and we will continue with that strategy, we'll continue to pay down expensive bond debt and create equity value by deleveraging the group. You can see where that will take us illustratively for the next 12 years on the chart here.

Wrapping up, before I hand back to Phil, the future's unavoidably still uncertain but we are really encouraged by the strong recovery we've had on sales and the strong balance sheet we've got, and that will help us deal with what we hope is the short-term cost challenge. I think we're well placed to deal with it all, we've got that strong balance sheet where we've got a great well-positioned freehold estate, we've got a broad stable of well-known brands and formats and with now new wave of Ignite initiatives coming through which we hope will help to mitigate all the challenges we've got going forward, and I'll leave it to Phil to take you through it.

Phil Thanks Tim. The sector, as you know, was allowed to reopen for outdoors only trading on April 21, and we initially reopened 270 of our sites. Good weather and a lot of pent-up demand yielded some strong trading, so we opened some more sites which I think put a strain on the supply chain. On May 21 in England, we were allowed to open for indoors trading with COVID secure protocols before Freedom Day on 19 July which saw all restrictions lifted. Wales and Scotland have their own variants of this whilst our Alex brand in Germany saw a phased opening, first outdoors then indoors but with their COVID restrictions still in place.

Whilst trading post reopening has been in double digit volume decline versus FY19 levels, spend per head has been very strong. We consistently track ahead of where we thought we might be, firstly driven by a huge pent-up demand to meet friends and family again, but then incrementally growing each week as consumer confidence started to build. It's fair to say that unsurprisingly the suburbs have recovered slightly more quickly than city centres and the food-led businesses have recovered more quickly than the wet-led ones, indeed premium food offers like Browns and Miller & Carter for us have delivered some stunning sales numbers whereas Nicholson's, a hugely successful and profitable brand for M&B before the pandemic, have struggled given the absence of office workers and foreign tourists. Each sector and sub-sector of the market therefore has its own trajectory of recovery and it's been pleasing to see the city centre businesses starting to pick up through September and October as offices start to return, and I'm sure everyone sees London getting busier again. However, it does mean making brand to brand comparisons is very difficult and almost meaningless, and it's actually the macro events that are out of control of the operations team that are really dictating performance.

The Peach Tracker which M&B has been outperforming the market on for three straight years before the pandemic is therefore less relevant and less meaningful at the moment given the very different mix of businesses it reports. If we break the market down into restaurants where we would have Miller & Carter and Browns, pub restaurants which for us would include Harvester and Toby Carvery, and pubs you can see that whilst we're massively outperforming the market in restaurants and comfortably ahead on pub restaurants, we've been tracking behind the market in pubs. That reflects the younger cohort of wet-led offers or competitors, that's part of the market that is doing very well and we see that in our own high street business whereas the more community and Middle England wet-led offers have been slower to recover as guests here remain cautious, and of course city centre brands like Nicholson's that I mentioned earlier are reliant on the city centres flourishing again and offices filling up again. What is pleasing is we are now seeing that gap between the pubs market average beginning to close and the city centres particularly begin to recover.

In the run up to Christmas, it's critical that the media and the healthy lobby are kept in check because an ill-chosen word can still spook the confidence of our guests, but Christmas bookings are building nicely although we expect that this business will inevitably feel a little bit differently because I'm sure there won't be the same number of big city centre office parties, but conversely there are a greater number of smaller local events. For example, one of our West End business woul typically do £350,000 per week in the first two weeks before Christmas in a normal Christmas, whilst it will still be busy this year it's difficult to see it reaching those highs this year, but conversely we are seeing our bookings in some of our suburban restaurants reaching record highs already. I think that does reflect the fact that people are keen to make up for the Christmas Day last year. Christmas Day itself looks fine with many people now booking the occasion that they were planning last year and doing it this year instead.

Sales at the start of this year continued to build through October and November, and as Tim said we delivered 2.7% like-for-like sales growth despite VAT on food and soft drinks moving back up to 12.5% in the first week of that eight-week period. So, I'm pleased with our sales build, and I would hope and expect to see this progress continue through 2022, and so it's the cost base that's been getting most of our attention at the moment. As Tim said, national living wage will go up by 6.6% in April but utility costs, as Tim was showing you, are projected to almost double, and food and drink costs are also rising above inflation as the driver crisis and Brexit issues also impact. The 12.5% VAT on food and soft drinks through to April 2022 and the fact that we've reopened with significantly less discounting than we were doing before the pandemic is partially offsetting those cost headwinds. Also, the fact that volumes are well short of FY19 levels means there are also some cost gains here too, however if utility costs remain as high as current projections basic cost cutting and pricing alone will not be sufficient to mitigate without damaging the business. That is why we have put so much energy into re-establishing the Ignite transformation programme of work that has enabled us to mitigate large cost headwinds in the past.

To remind you, this is a programme of work we first kicked off in February 2016 and since that time we've completed over 100 initiatives across the business that have put the business into a position of generating sustained sales and profit growth. Just before the first lockdown we had what we called 'refreshed the hoppers,' looking for new ideas into Ignite, so as we come out we currently have over 40 different initiatives underway, each one led by one of our operations directors or one of our senior managers and each with a very detailed project plan that means from ideation to landing in the business we have a good handle of where we are every step of the way.

Ignite has a broad mixture of initiatives designed to both drive sales and footfall and reduce costs and increase efficiency. Some of the projects are already in their third phase building on what we've done before in the pandemic such a delivering or click and collect, here we have now over 850 sites that service delivery and we work with three aggregators, namely Deliveroo, Uber Eats and Just Eat. We've also rolled out click and collect which has the added benefit that the guest tends to stay and have a drink before they take their meal home with them.

Our current run rate annualised sales are projected to be over £45 million but I would expect this to build further as we are still learning about what is a relatively new channel to us. I'm often asked whether I see deliveries as simply cannibalising in-venue sales; it would be crass to say that the rapid rise or huge growth in home deliveries hasn't impacted the eat out or home market, but at the same time it's a great way to expose your brand to a new audience. Eating at home is a very different occasion to many of the occasions that we serve, and it will have impacted the supermarkets as much as it has hospitality. It's here to stay, part of what people do, and we're delighted with the progress we are making.

Our master data management project is now live and it will be an enabler for us to update our systems once and publish everywhere which means it will rapidly speed up the process for us to be able to make product and pricing changes and virtual eradication of errors. Similarly, auto drink ordering is also live, removing a time-consuming task for our managers and improving stock availability. Food auto ordering is more complex and will have a bigger benefit to the business, and this is already in the pilot phase and will be ready for launch later in the year.

In Ignite 2 we created what we called the DART programme which stands for Directly Employed Area Repair Team], very catchy, which is effectively where we trialled the recruitment of our own field-based maintenance team rather than going with third parties, and the trial proved hugely successful both in reducing costs but also improving the quality of the repair and satisfaction of our managers such that in Ignite 3 we have extended that programme to 48 engineers nationally.

We have too many initiatives underway for me to take you through them all, including yield management of our table availability, reduction of food and drink stock deficits, promotion effectiveness and enhancing the guest recovery mindset to name but a few more, but they will undoubtedly help to mitigate these unprecedented cost headwinds. The point of Ignite is that we can break these challenges down into bitesize chunks and work on the resolution simultaneously without sinking the organisation. We re-established the weekly cadence for reviewing Ignite back in July and it has served to reenergise the business as we've started thinking longer term once again.

At the same time, we've also planned a full capital programme this year although contractors cannot currently guarantee material or team availability, so the programme may end up being slightly smaller, but we'll see. We've already completed 42 projects since reopening in April, and to remind you we aim to run on a six to seven-year cycle of reinvestment ensuring that when we do invest that we invest in the whole business inside and out, and having strong kerb appeal and sparkling toilets is just as important as having a good-looking bar and restaurant. Our guests have plenty of choice of where to spend their leisure time and their leisure pound, so we see having a quality amenity as just being the entry ticket to playing.

As before, we will invest across the brand portfolio which this year will also include almost completing the refurbishment of our room stock in our Innkeepers Collection. We've been working on this quietly in the background over the last two to three years and we now have a collection of individual rooms each refurbished to a good standard and to complement their sister pub or restaurant. We have circa 1,000 rooms with annualised turnover in the region of £20 million excluding the associated food and beverage sales that you get from having people staying next door. We've successfully opened a new build in Edinburgh alongside a Vintage Inn, we are planning to open new rooms in Manchester and Sheffield and we're looking further to extend our room stock to vacant land and upper floors across the estate.

We would accept that we as a sector are not yet out of the woods, not yet back to normal anyway, the impact of COVID-19 is still with us, however we do believe we are beginning to build momentum again and that we're on the path back to where we were before it all started. To remind you, we were obsessed about three priorities that remain as true today as they were then: firstly, to keep our diverse estate balanced and in good order, accelerating the expansion into the most successful segment of the market which currently means premiumising where we can, keeping each of the brands grounded in deep customer insights and systematically raising the quality of the amenity on that six or seven-year cycle. The processes that support this priority are all up and running and working well.

Secondly, driving a commercial edge to the way we do business which was about being obsessed about how each pound of sale converts to bottom line profit and putting the guest at the heart of every decision that we take. This area is as much about culture and mindset as it is about specific procedures, but with the New Year starting and targets to aim for, for the first time in two years, there's definitely been a renewed energy across the business.

Ensuring innovation is constant in our thinking. We have some fantastic systems deployed across many aspects of our business and sweating that technology gives us a huge opportunity to accelerate progress. At the same time digital marketing has now become the engine room that it should be and the way we communicate to our guests, and the increasing sophistication of the tools that they use will yield further benefits in the months ahead.

Finally, we are always open to new products and new concept developments, either working closely with our suppliers and being first to trial a new product or evolving our existing brands and offers or trying new concepts. Just by having this ethos, even if a new brand or concept never gets to scale the process forms many ideas that we can then roll back in and adopt with our mature brands.

Our aim is to get back to sustained profit growth as soon as we can as we deleverage, and momentum is building well. We recognise that with the projected utility costs and the fragility of the market that we're unlikely to get back to pre-pandemic levels in FY22 but these issues are temporary and we believe we are quickly re-establishing the foundations that have driven our success in recent years. We have a strong balance sheet, some of the UK's strongest sites and brands, and a team of experienced hospitality professionals with a proven track record and we believe we're well-placed to accelerate again once the pandemic is finally behind us. We will now be happy to take your questions.