Mitchells & Butlers 2017 Half-year Results Announcement
Wednesday 17 May 2017

Q&A Session with Phil Urban, Chief Executive and Tim Jones, Finance Director

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Question 1
Brian Devitt, Goodbody
Just three questions from me if you don't mind. Just on the footfall trends you commented on. Has there been any pattern in the weaker footfall across the estate, has it been around particular brands or particular geographies?

And secondly, the like-for-like improvement you are seeing in the uninvested estate, how much of that is due to the economy becoming softer or has there been an improvement in average weekly turnover spend?

And then lastly, looking into next year, what kind of like-for-like sales performance do you need to do broadly speaking to kind of maintain broadly stable profit levels? Thanks.

Answer: Tim Jones
In terms of footfall, do we see variations of that across the estate? I mean clearly some brands are doing better than others. So some of our brands are in volume growth, others aren't. The tougher end of the business around the value end is where we have seen that volume headwind being more acute if you like. But I would say in total this is a less negative volume performance than we had in the first half of last year. And it has got better through this year as well. So the trend is clearly still improving. And as I said in my Presentation, it is a better footfall performance than in the market as a whole which we can see quite clearly from Peach.

In terms of, it is almost impossible to answer your question, how much of the like-for-like performance is due to soft comps and how much isn't. It is what it is and I think the uninvested performance is there on the graph. As you can see it was just this time last year it was 4-5% negative. We have got it up to the stage now where we are oscillating around flat on an uninvested performance and that is a clear win to that improvement. Had we not done the things we have done, I think it would have stayed the same or got worse. So it is clearly better than it would have been. Assigning how much is due to the comps, I am not sure I could give you any coherent answer to that.

And what like-for-like performance do we need to get flat profits I think was your last question. One of our competitors said 3-4% a couple of weeks ago, I would agree with that number. Clearly it is going to depend on whether your like-for-likes are coming from volumes or price or spend. But I think that range is a sensible range to have in mind.

Question 2
Tim Barrett, Numis
Morning Tim Barrett from Numis. Can I ask about slide 6, the chart you put up there where you are showing a net £6 million impact from existing pub trading. That feels pretty low compared to a billion pound cost base. And it is obviously a net of lots of numbers, but can you help us on the moving parts and what you have done on mitigation?

And then the second question, you have kind of answered it, but the volume move in food minus 4.8%, can you give us an idea of what that is where you haven't moved brands so what it is uninvested if you like? Thanks.

Answer: Tim Jones
I think, taking the second point, the minus 4.8% food, you could probably take a percent of that is down to the conversion pipeline and the rest isn't. It is probably about the blend.

I didn't quite get the first question, sorry, I didn't hear you at the beginning and I never caught up?

Repeat question
Page 6, you are showing £6 million net impact in that final block. It looks low, can you help us on the moving parts?

Answer: Tim Jones
Well that is everything else, so we take Easter out, we take out the impact of the capital plan and then there is the net impact of the improvement in the like-for-like sales, less the cost inflation, running at about £55m a year that we have got in the like-for-like estate. So it is sort of everything put in together. What would you like it split out into?

Tim Barrett
No that is fine, I accept that, thank you.

Question 3
Jamie Rollo, Morgan Stanley
Thanks, Jamie Rollo from Morgan Stanley, three questions please. First just on the performance of the premium part, you showed a slide of how that estate gets to under half the business at about 3-4 years time. I was wondering whether these stresses you mention in the market might bring some opportunities for acquisitions so you can increase that mix a bit more?

Secondly, you gave a slide on like-for-likes by brands and it looks like a big range there, but your bigger brands must be towards the left-hand side of that, given the average is 1.5% for the Group. So could you talk a bit about the ones that are still negative or only marginally positive? And also what they are doing for like-for-like pricing in those brands given there is less scope for premiumisation?

And then finally, you have had a blizzard of initiatives over the last year, you are only a third of the way through the investment programme. So when do we get the turning point where your like-for-like sales get the maximum benefit of the full run-rate of conversions and all these innovations that really drop straight through to sales? Thanks.

Answer: Phil Urban

Taking those in turn. I mean in terms of acquisition, we acquire a small number of sites every year usually. Will this marketplace present some opportunities? Quite possibly. I think were we to acquire, I think I have said before, the notion of buying a brand that has already reached a fairly good critical mass where you are being invited to pay a premium for a brand, I can't see us particularly doing that in the short term. There is always disagreement over what that premium is worth. However, looking at freehold assets that you could extend our dry brands, yeah absolutely, and is something we will stay alert to.

The chart you allude to Jamie, I don't think you can necessarily read across to our headline like-for-likes. It is simply showing by brand what the movement was, where it was a year ago to where it is now. So actually it doesn't necessarily hold true that the bigger brands are towards the left hand side. Some of those bigger brands were really in distress last year and are actually far better placed now so they have had a bigger jump. But it is fair to say the challenge around costs does not take account of whether it is a premium or value brand, all those brands have to cover their cost base. So we are still using the same thought process, be it a value brand or premium brand which is, okay we have to think about entry prices for some of our customers. But actually even in our most value offers, if we give the consumer a compelling enough proposition as part of that business, they will trade up. I think one of the best examples is where we have converted a Harvester to a Miller & Carter, whilst it is a premium steak house, we still have a lot of Harvester customers come in and enjoying the steak house. Now as a Harvester they are paying £8.50 spend per head, in a Miller & Carter they are spending £17 and enjoying the experience and coming back. So it says to me that consumers are willing to pay for quality if they understand that quality. So that principle is being applied to all of our brands, because all of our brands have to be able to mitigate for these costs that are coming our way.

And the third point was tipping points. I think it is very difficult to say by when we will hit a tipping point. I think it is easier actually when we look at our own individual brands to model it. But it is difficult to be able to say by which month we will reach a tipping point. Very difficult to quantify or articulate exactly what that would look like. But we are getting on with this 6-7 year cycle and as each year goes by, the tail of businesses that we had a year ago that had been uninvested for 10 years is slowly disappearing. And when we are in a situation where the site that has gone the longest period since seeing investment is down to 6-7 years, I think we are in a whole different place then and that is the process we are on. But we are very keen to ensure that it is not just a capital driven recovery, that we are putting all these other building blocks in place. Not really answered your question, but I am aware of it because we ask ourselves that same question. But all of these things are compounding and we would hope we will continue to see that momentum.

Question 4

James Ainley, Citi

Thanks, it's James Ainley from Citi. Three questions please. You talked about supply coming out of the industry, can you give us a bit more colour in terms of which segments it is coming out of and where you find competitive intensity getting maybe slightly easier?

Second, I guess difficult to disaggregate but can you give us your feel for what the overall impact of price, pure price was from the like-for-like?

And then third, what kind of multiples should we expect from the disposal sites?

Answer: Phil Urban
Tim if you can take the last two and I will pick up the first one. Give you a bit of time to think of an answer!

On the supply question, I think fair to say that the growth in that new supply was predominantly in the fast casual space. That is where we probably saw the really high levels of growth in 2015. There are still competitors out there opening new sites, just not to the same level. And it is probably in that space where it has slowed right down and you are probably not seeing the same level of activity that you were 18 months ago.

Answer: Tim Jones
In terms of the disposal sites. So the 78 sites have a book value of about £50 million and an annual EBITDA annually of £5 million and we would expect to sell them for very close to the book value. So by definition a multiple of ten.

How much pure price I think was the second question. So spend per head on food was up 5.9% and drink was up 4.7%. So within that there is a bit of pure if you like like-for-like or like dish inflation. There is some premiumisation as we converted estates and that will be people trading up within existing offers. Very vaguely I would say probably about half of it is your pure like-for-like price movement. But I base that on subjectivity rather than a rigorous analysis.

<u>Question 5</u>
Jeffrey Harwood, Stifel
Jeffrey Harwood from Stifel. Just coming back to slide 17 and clearly there is quite a disparity between the various brands. Can you give us a few more clues on which ones are underperforming and which ones our outperforming?

Answer: Phil Urban
As I say, I think the slide is proving to be more unhelpful than helpful clearly. This was purely trying to say that when we were talking about brands last year and Harvester would be a case in point. We said it had been really impacted by the new supply and was declining quite badly and we are now seeing a recovery in Harvester. And that is why I think you can't really read across the bars or particular brands. I think the only businesses that potentially are slightly down year-on-year are probably notably impacted by Rugby World Cup, those who benefited by Rugby World Cup are slightly down year-on-year because that is the only reason. So what the slide is trying to say is that actually across the whole portfolio we are seeing some recovery, some momentum and it would be good to get all of those charts into the orange I think it is. That would be our intention.

I think it would be unhelpful to try and mirror bar by bar, because you have got to know where it started from and where they are today.

<u>Question 6</u>
Simon French, CENKOS
Morning, it's Simon French from CENKOS, three from me please. Firstly I think you put BT Sport back into a number of pubs during the year. Can you give us an indication of how those pubs have performed?

Secondly, you have been quite reluctant to sell single site freeholds in central London historically because of rising property prices. As that unwinds does that change your thinking there?

And then thirdly, is there any central cost savings you can make or any logistics or beer supply contracts coming up for renewal that you could look to reduce cost on?

Answer: Phil Urban

Yeah if I take the first and the last and you can take the middle one Tim.

BT Sport, we put BT Sport back into the business and funnily enough we are just really completing the analysis now because as I think as happened in previous years as well. It is particularly around Champions League and European football where it builds up to the end of the season where you really see the value. So yeah I think if you are going to be a sports pub and you are in a local marketplace where your competitor is able to show every sporting event then it is right that we can too. So particularly in our high street businesses where we are seeing the benefit. I don't have much more to say on that, I think it was the right thing to put it back and those businesses are now rebuilding reputation for being the place to watch sport.

In terms of the contracts, and cost control, we are always asking ourselves and looking at our cost base so there is always scope. I think our procurement team are fairly adept at understanding when next contracts are coming out and starting to plot what that might look like for our cost base. I can't give you the specifics standing here of the contracts that immediately are coming up. But it is something I think has been a major strength in M&B, actually if it wasn't for the FX movement this year, on our cost of goods we would have been £10-12 million better off than we are. So in an environment where the pound is more stable then again I would expect us to be able to use our scale and continue to take that cost opportunity.

Further answer: Tim Jones
On disposals, I mean you are right, we have been reluctant sellers of freehold assets in London or anywhere actually for the last few years. As you know we have got this package of 78 that we are looking to sell now. They tend to be small, wet led, low taking regional based assets. And I think our view on London freeholds remains the same. I don't think you should expect to see us selling many of those going forward. I expect we would look primarily to trade those.

<u>Question 7</u>
Richard Taylor, Barclays
Good morning, Richard Taylor from Barclays. Just one question. You mentioned that you have side-stepped discounting versus some of the casual dining operators. But can you let us know what proportion of sales are from promotions and if it is more or less than a year ago.

Answer: Phil Urban:
Let me just clarify, I don't want to give you the impression we don't discount because we do. I think the industry has always had levels of tactical discounting. I think what I am simply saying I think whereas in the past it has been quite short and sharp or 30% off, 50% has become the norm, and competitors are running it right over bank holiday weekend for example. It is not something you would have seen before. That is the point, it is mainly in the casual dining space.

In terms of proportion of our sales coming from, our Commercial Director is sitting behind you, so I am hoping he is going to mouth a number to me in a minute. But we might have to come back to you, I couldn't give you the specific amount.

Answer: Tim Jones
Around 20% of meals sold have a promotion attached to them and it is lower in the first half of this year than it was last year.

Further question: Richard Taylor
And perhaps you can show us the reasons why it is falling?

Answer: Phil Urban
Because as we have been investing in the estate we have had no need to go down a lot of the promotional activity that we would a year ago when we were perhaps struggling to get our offers heard and represented.

And also conversions as well were coming out of the brands that lend themselves to that promotion to formats that don't. That also starts to bring that cost down.

<u>Question 8</u>
Jamie Rollo, Morgan Stanley
Jamie Rollo again. Just one follow-up please on the maintenance capex. Tim you said it has fallen quite sharply, you mentioned you are doing things a bit differently there. If you could elaborate on that? And also is that related to your depreciation charge which was flat year-on-year despite the big increase in capex? Thanks.

Answer: Tim
What we are doing differently is just reassessing when we go into sites and what is reactive and what is proactive. I think maintenance capex is also benefiting generally because as we have accelerated the remodel and refurb cycle so some of it, if I am honest, is getting wrapped up in there. But it is more of an approach on what is necessary to keep a pub trading effectively within what is now a shorter remodel cycle than we had previously when we had to sort of protect for 10 years. So it is making sure that we don't double count on that and we get the efficiencies there to balance against the refurb cycle.

And that sort of is where we are on depreciation. I think last year's depreciation charge was £111m from memory across the full year and we will be probably be £2-3 million higher than that. So there will be slight uptick. Clearly we are losing 78 pubs, so they won't have to be depreciated, well we hope to.

<u>Question 9</u>
Douglas Jack
Douglas Jack. Your number of brands seems to be growing again. What is the optimal number of brands and the optimal number of units per brand that you are looking for in the estate going forward?

Answer: Phil Urban:
I am very aware that some people think that M&B has got too many brands, and as I keep saying, I always wonder what is behind the question because if each of those brands had a big brand support team and we are repeating lots of stuff then I would be worried. But a lot of these are concepts and actually behind the scenes there is a sort of engine room. It is just how we deliver to the customer. I don't think there is any right or wrong here. My personal view, I know I have shared with some of you is, I think when you think about a figure head for a restaurant brand then the managers in that brand like to know who that person is and that you can build a culture and you can build a momentum. So once businesses get up and above 140-150, that becomes quite difficult for that person to get to know all their sites. So notionally that

is what I mentally work to. But I think whilst we have got a couple of new concepts, I would not be alarmed that we are suddenly building big requirements or huge infrastructures around those formats. We are a business with 1700-1800 businesses and if you have that notional 100-150 target site then we end up with the number of formats we have got is probably the right amount.

Closing remarks: Phil Urban

If that completes the questions. Thank you very much. I am sure if anyone wants to ask us something on a one to one, then we are here. Thank you for listening.

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