Mitchells & Butlers Half Year Results – 22 May 2024

Phil Urban
Good morning, ladies and gentlemen. I'm sure by now you'll have already seen we've had a very strong first half with 7% like-for-like sales growth, and more crucially operating profit growth of 64%, demonstrating a very strong recovery after a difficult post-COVID few years. Our guest scores have never been stronger, nor our people metrics, and the macro cost headwinds continue to abate. So, the lead indicators are good, and net debt has fallen to £1 billion which is 2.5 x EBITDA excluding leases.

Without further ado I'll hand over to Tim to take you through a detailed annual performance, and I'll then return to share our perspective on the market, notably on how it is evolving and what we're doing to maximise our success in that context which will build on the momentum we already have.

Tim Jones
Thanks Phil, and good morning everyone. As Phil said, a strong period of trading for the business after, let's face it, several very challenging years.

Let me start with the Income Statement. Sales remains robust and strong throughout the first half coming in at like-for-like growth of 7%, and whilst that happened we found cost inflation falling away quite markedly through the first half of this year, and I'll come and shine a light on that in a bit more depth but overall they combined to give us a strong 64% increase in profits to £164 million at a margin nearly 4 percentage points stronger.

Let me start with sales. What I've set out here for you is the monthly like-for-like sales performance both for this half, and I've given you some context by going through and looking at last year as well. There is an inevitable degree of volatility between individual months because we've got calendar changes such as Easter, particularly with the 53rd week year last year, so I wouldn't over-focus on one particular month, but I think the picture is still very clear that emerges from this of a very resilient sales performance, not just over the festive period, which is very important to us, but also through into the quieter second quarter of this year. Remember, we entered this year with like-for-likes running at 9-10%, and of course that was largely a function of a very, very high cost environment at the time, so not a level that we thought we would be able to sustain indefinitely, but I think what you can see on this slide, if you've got the sales contrasted to the rate of CPI which I've put on the line, is that the CPI has fallen quite markedly, sales have remained robust, so we exit with our sales growth fairly materially in excess of the rate of inflation, which is not a place that we have been for a number of years.

There are a number of drivers behind the performance, Phil's going to address some of the main operational initiatives that we've had. What you can see on this slide is the breadth of offering we have across the M&B stable, whether it's a food or drink occasion, premium or value, and whether it's located in urban, suburban or rural areas. we have a very broad spread and we believe that that affords us a resilience and a stability in uncertain times, which is very important. On a dynamic basis, we're making progress with premiumising the estate, that's moving the centre of gravity of that bubble chart up. A couple of advances we've made on that in the last year, as you'll know we completed the purchase of Ego Restaurants last summer, and today we are announcing the purchase

of Pesto Restaurants, we think those together will provide a number of conversion opportunities for us throughout our estate, and Phil will talk a little bit more about that when he comes on.

The strong sales performance converted very well to strong profit growth. We've continued with our capital plan, and I've separated out the main drivers here, we're getting good returns on the investments we're making from last year's project, this year's projects are dilutive initially of course because we have closure periods but will add to our profit growth next year, and we've generated £10 million of efficiencies largely through our Ignite programme. These are all set against an increase in costs: £48 million coming largely from labour which is our biggest cost increase, but also food, drink and other inputs.

What I've put separately on this chart is our energy cost movements because they came down very sharply in the first half of this year. To remind you, we buy forward our energy from about six months out on a staggered basis, so I think we've learnt that that's a little bit shorter than most people in our sector but it's a strategy, it's a policy that we're happy with. What it did mean was that as energy prices spiked we felt the pain very early and very quickly, but of course we've maintained an unchanged approach so we see the benefit of that coming out as energy prices started to drop, and we had a £30 million energy cost deflation in the first half which was of course very helpful to help offset the rest of the cost inflations that we had.

If I look at cost inflation for the whole of this year and maybe going forward to next year on this chart, the position has eased against what we were talking to you about in November, we announced prelims, we were talking then about a £65 million cost headwind, I think that's probably about £55 million now. Living wage went up 10% at the start of our second half and it was extended to cover over 21s, that's been our major cost increase this year. Food and drink inflation has moderated more than we thought it would, so that's been a little bit better, and then we've got the energy deflation that I talked about, £30 million benefits in the first half, we expect the full half impact will be about £45 million, so still deflating in the second half but slightly less than we enjoyed in the first half. Overall, that gives us, as best as we can see, a cost headwind for this year of £55 million, slightly better than what we thought when we went into the year.

If I look forward to next year, and I always feel a bit brave putting this slide up and talking to it but I can just say the best we see things as we stand here today, I think hopefully food and drink should remain fairly benign, it's come down quite nicely this year, we don't see any immediate reason for that to change. I think the biggest increase in costs we're going to have is labour. We've had two years of just about a 10% increase in the statutory minimum, I suspect it'll be there or close to that next year as well maybe depending on politics and timing of election, what have you. I think the big difference for us though with a labour cost now is when labour costs go up, whilst the increase in our costs base is immediate and it is definite, we have to remember that that money is going to our guests, so we would back ourselves to get a little bit of that back through our tills, so it's not perhaps the same as something like an energy cost increase that you don't really see any upside for.

Lastly, energy for next year, it'll be what it'll be. We'll keep buying forward from six months. As we stand here today, I wouldn't expect any more deflation, but neither do we see it being a large increase that we're going to have to face.

So, that's looking at costs going forward to next year as well. It's a good profit result accompanied by a very strong cash flow, albeit helped by a one-off item and some timely differences. Really pleasingly

we received the refund from our main pension plan escrow account of £35 million, so after a number of years of contributing to that plan we're now starting to get some funds back, I'll talk a little bit more about that before I finish. We had an inflow from working capital of £27 million, I think if you're modelling you should expect most of that to reverse in the second half, I think the full-year picture will be maybe mildly positive or flat. We had slightly lower Capex in the first half, again that's timing, we still expect our full-year Capex to come in around about £180 million, which is what we guided you to at the beginning of the year, so we'll see a slightly heavier cash out from Capex in the second half. But overall, a really strong cash performance generating £137 million, and £67 million after bond amortisation.

That strong cash flow of course continues the path that we've been on for a number of years of strengthening our balance sheets. We have an asset base of just under £5 billion, we now have our net debt down to £1 billion, and that represents two and a half times the last year's EBITDA, or 3.6 if you include leases.

Looking forward, you'll see the securitisation continuing to degear, as we have on this chart here, as we have to service £200 million per year. We're now well into the life of a structure that started in 2003 and the end is much closer than it has seemed for a long time. I have to say, our view of the structures changed, initially it seemed perhaps a fairly expensive legacy financing arrangement, and now seems to us that it's a financing asset, and certainly cheaper than we can go out and replace that debt with in the market. So, we'll keep degearing, we'll keep on that curve, and we're getting closer to 2030 where a whole raft of bonds fall off and our debt service falls quite markedly from £200 million to £70 million.

I'll just say a few words on pensions before I move on. An area that for many, many years we've been putting £50 million of cash into some plans which have seemed like a bottomless pit, to be quite frank, never seemed to get any better, we're now in a completely different position in terms of that. We've essentially de-risked them both to buy-ins on terms better than those that we were funding, and it's really encouraging now to therefore see that £35 million come back from the escrow account for the main plan. There's still another £12 million out on the executive plan, I would hope we get the majority if not all of that back in the next year or so. Plus, we have a surplus in the main plan, and if that persists then we'll start looking at ways that we might be able to get some value from that going forward as well.

Before I hand over to Phil, a very strong financial performance across sales, across profits, across cash, and across our margin accretion. We've made success/progress on a broad front across our strategic objectives, and Phil's going to take you through a lot of those. As I stand here today, of course there's uncertainty but the future looks very encouraging for us both in terms of a strong performance for this year and carrying through momentum into next year as well. With that, I'll hand you back to Phil.

Phil Urban
Thanks Tim.

You can see that we've had a very strong first half, sales remained comfortably ahead of the market, as they have been for several years now, as measured by the Peach Tracker.

All brands have performed relatively well and are all in like-for-like sales growth with Nicholsons and Toby Carvery leading the way. Perhaps that's no surprise, Nicholson's reflects the benefits from the return to office working and return of tourists to city centres, and Toby Carvery's in the sweet spot for a cost-of-living crisis by offering a very healthy and fresh product at fantastic value while allowing guests to serve themselves and eat as much as they like, which they certainly do. The premium food-led offers of Miller and Carter and Premium Country Pubs have seen the slowest growth year to date, as whilst still widely used for special occasions the cost-of-living squeeze has dampened frequency. We don't think this will be a permanent feature as these impacts tend to be cyclical and given the very strong guest sentiment scores for these brands, we know they remain very much on their repertoires, and in any case both brands still had like-for-like sales growth over 4%.

I believe that this outperformance should continue as our lead indicators are very strong. We use a balanced scorecard to ensure that quality of our profit is as good as the quantum. We measure retail team engagement, guest health which is a combination of guest review score and complaints per 1000 meals served, and our safety record. Our guest review scores and complaint ratio have never been better and guest sentiment, which is another measure that we look at, has never been stronger either and shows a continued outperformance to the market. Similarly, our people metrics have never been better either with the highest engagement score we've ever had at 83.1%, and we also have the lowest turnover for retail team that we've ever seen standing at 72%, which means we're building up the experience again in our team, something that we'd lost through COVID lockdown. As for our safety record, we measure our safety visits that score 4 or 5 out of 5, and I'm pleased to say that here too we're at record highs. If we add the fact that our return from investment from our remodel programme is sitting at over 30% then we feel we're well positioned for the future.

As macro cost headwinds start to subside and in recognition of lower general inflation, so less price has been taken across the market, and indeed we only put through circa 1.8% in our recent light-night menus. We would also expect the pricing now to return to an annual 2.5-5% per annum across the market, a more normal level of pricing that we were seeing pre-COVID.

As for volumes, they had been tracking slightly ahead of last year but the tail end of half 1 they dipped below, a reflection we believe of the adverse weather conditions and temperatures that we've seen. It's certainly difficult to think of any year when we've not enjoyed at least one run of warm sunny days by the end of half 1, and as soon as the sun did shine a couple of weeks ago, so sales jumped immediately, so being summer ready is the order of the day. I would however add that as we continue to premiumise our offers and convert sites, we would expect to sacrifice some volume for higher spend per head.

We're therefore performing very strongly on both financial and non-financial metrics across the board, and we feel the business has real momentum. However, whilst we feel very positive about what we're doing, we're also acutely conscious that the perception of the sector has not fully recovered post-COVID in the eyes of the outside world, therefore as a departure for what we normally do for these presentations we thought we'd step back and share our read of the market that we trade in, including the themes and trends that are evolving within it, as this will explain why we're doing the things that we do and hopefully demonstrate that there's a lot to feel confident about.

Lumina Intelligence forecast that the UK eating out market would grow at circa 2.4% per annum over the next three years. Whilst they used a broad market definition with coffee shops and fast food

predicted to be the leaders, Lumina also acknowledged that branded restaurants will continue to be winners at the expense of independents in particular. Indeed, market supply which has seen a drop of 18,000 licensed properties over the last five years is still expected to see some fallout of independent operators, and although closures are slowing, this is clearly still an advantage to those that remain.

It's also worth noting that we now have an eight-year-old track record of comfortably exceeding the market average which we don't expect to change, so we view the Lumina guidance as a positive indicator for us for the next three years. Our scale, the investments that we have been, and we continue to make, our unmatched stable of well-known brands, and Ignite, our transformation programme that is full of sales and profit-enhancing initiatives, means that we would expect to stay ahead of the majority of our peers.

Lumina also talk heavily about the falling inflation, which will take pressure off operational costs, and how a growth in real consumer income will boost spending power. These are trends that we recognise, and having navigated the last three years successfully we believe it represents a very favourable backdrop for the whole sector and for our business. This has also been reflected in other indices that we follow which demonstrate growing consumer confidence and bodes well for the hospitality industry. Against that backdrop, which obviously is an improving backdrop, we've identified five key consumer trends evolving in the post-COVID world which we believe all operators will need to understand and embrace. We will continue to use a combination of our brand work, our capital investment programme and Ignite, our transformation programme, to ensure that we have sufficient activity to meet each one of these consumer needs and hence ensure that we continue to be successful.

The first trend is something that we call 'value scrutiny' which is about the here and now. As a result of the cost-of-living squeeze the consumer is ever-more precious about their leisure time and their leisure pound. Frequency of visitation is down, but when they are out, they still opt for a premium experience and are less forgiving when the operator gets things wrong. To some extent it was ever thus, but the cost-of-living squeeze understandably amplifies that impact and so it's beholden on all operators to focus on superior guest care. We have already delivered a vast range of Ignite initiatives designed to improve service and to enhance guest experience: our auto order project which automatically populates each site's food and drink orders has helped to reduce product outages which we know is a major dissatisfier to guests; order and pay at table alleviates another point in the guest journey that can frustrate by putting guests in control of ordering and payment if they choose to do so; we are also currently in the middle of guest training workshops for all of our general managers and key team, and we have embedded what we call the 'pride in the basics' app in the business which digitally records daily standards checks, enabling us to better understand the key themes that are emerging. Our guests are genuinely at the heart of all that we do, and we use the myriad of feedback that we get from complaints, compliments and brand interactions to drive our brand agendas.

The other component of value is of course price, and by remaining structured and systematic in the way we take price by product and by business, with decisions based on regular peer group price surveys, means that we remain acutely aware of market and product relativities and on price elasticity.

The second key trend we identify is around premiumisation and experience which recognises the growing importance of quality in all that we do, and in the need to provide a greater overall experience, not just stopping at good food and beverage. We've always believed that having a great environment and great standards is just an entry ticket to doing business, but it has never been more so as it's critical to how the guests feel while they're with you. There are countless examples across the sector of established pub, bar and restaurant operators being brave enough to invest big money to transform the image of their businesses and premiumising as they do so and driving a higher spend as a consequence. Of course, there are also plenty of examples of competitive socialising emerging in the market too providing a different reason to visit, with food and beverage being a secondary income stream for them. We have been on that journey for a long time and we would argue that we aim to operate at the premium end of every single market sector that we operate in and that we'll continue to pivot towards the higher spend brands where a site's demographic warrants a conversion and that means we can create impactful environments that attract visitation and which are standout in the market in which each business operates. With the wide unmatched stable of brands that we own and the diverse locations that we operate in we can optimise our brand lineup in each locality.

Let me give you a few examples. As you know, we acquired Ego Restaurants, adding it to our stable of brands last year, with its Mediterranean menu being a good addition to the range of food types we currently have and a good investment for the future, particularly if more health-conscious trends persist as we expect them to do. That is one of the main reasons for recently acquiring Pesto Restaurants as its Italian tapas menu brings something unique to what we do, and we believe it will happily trade alongside the Ego brand. We have completed five Ego conversions, taking the brand up to 31 sites, and we've typically seen post-conversion sales grow by over 100%. Pesto runs in a very similar way to Ego, it produces most of its menu from scratch in a central kitchen supplying its ten sites. Over the next five years we can envisage a sizeable mass market but premium Mediterranean themed stream of Ego and Pesto restaurants adding a different string to our bow in terms of the segments in which we operate and premiumising the estate as we do so.

Quality branded and themed offers will continue to do well if executed correctly, and we believe we have a track record of doing just that and a range of proven brands that nobody else in the market comes near to. At the same time as acquiring Ego and Pesto you will have read that we have recently opened our first Orleans Smokehouse business in Solihull based on Old Orleans, a brand that I and many of the M&B team know well from the 90s and early 2000s. It's opened up very well averaging over £70,000 per week and we're in the process of briefing the second and third sites. We've also tapped into the competitive socialising trend by successfully opening our fifth Arrowsmiths darts implant, adding an additional reason to visit for those sites.

Broadening our portfolio in this way through a combination of acquiring established small brands, piloting new concepts aimed at premiumisation and enhancing guest experience starts to give us more optionality for site conversion and should enable us to capitalise on whichever part of the market flourishes in the future. However, premiumisation and experience is not all about capital, and that is why we have developed a series of successful experience-led events across our businesses such as Breakfast with Santa across our restaurants division, Saxophone brunches in All Bar One, and third-party brand associations around beauty products in premium country pubs. However, for each of our brand propositions we will endeavour to stretch our product offering, recognising the consumer demand for a premium experience, and that's probably one of the reasons why cocktails have done so well across the whole portfolio.

The third key trend is what we call technology and data. It's certainly fair to say that we have never had as much access to data than we do today, nor that our guests have ever been more comfortable engaging with technology than they are today. We have invested a lot of time and capital over the last nine years into this space and that is one of the reasons why we are ahead of the market. We now have far greater ability to personalise communication with our guests and to improve their interactions with our tech platforms. For example, this Christmas we were able to facilitate a pre-order digital option enabling guests to take time to peruse our menus and of course removing a lot of administration time for our teams. On order-at-table we now have an upsell capability that can guide guests through our menus and encourage spend tailored to that guest. We've launched My Account allowing our guests to sign up and enjoy far more personalised interactive relationships with our brands and enabling them to see their rewards and offers across all digital channels, and also to help them through their booking journeys. Next up will be a replacement to our current CRM system which continues to be the engine room for all our digital marketing. Upgrading the system after eight successful years will take this part of our business even further forward and future-proof our expansion in this space.

The fourth key trend is around health and wellbeing which has been a theme for several years but which we believe will continue to strengthen. Consumers are increasingly interested in and knowledgeable about nutrition and in managing their weekly approach to diet. We don't believe that this means people will reject alcohol or red meat or desserts, but they do want to know what they're consuming and want to have a choice throughout the week. To support this view there is no evidence yet to suggest that now calories are printed on menus that there has been any radical change in behaviour. What it does mean is that people want to enjoy a special occasion guilt-free, if you like, and will compensate for the big night out during the rest of the week. So choice is key, and we put a lot of thought and effort into making nutritional and allergen information available to our guests and into enhancing the low and no-alcohol ranges that we offer, and into ensuring that we have some low-calorie options for some of the treat categories on our menus, so for example the mini-dessert and coffee option in Miller & Carter.

The final trend that I want to mention is around sustainability and conscientious consumption. There's no doubt that sustainability has risen sharply in terms of awareness across the UK, but currently there is less evidence, yet anyway, of a change in the behaviour of our guests in terms of how they shop, and certainly less evidence to suggest any willingness to pay for more sustainable choices. However, this trend is growing, and we feel that we need to keep progressing as the consumer will at some time in the future start to favour those businesses that are greener across the spectrum, and working for a greener company will become increasingly more important for team members.

To remind you, we have committed to having net zero emissions by 2040 including scopes 1, 2 and 3 emissions, zero operational waste to landfill by 2030, and 50% reduction in food waste by 2030 also. We remain focused on working towards our sustainability goals with numerous initiatives underway to support those ambitions. We have conducted further trials to better understand available strategies to remove gas from operations, including at least a trial of an all-electric kitchen in nearly every one of our brands and two all-electric sites testing alternatives for heating and water too. We have also installed solar panels to 86 sites, with a plan to rollout to about 40% of our estate over the next few years, and although payback is volatile because it depends on utility price, it currently sits at around six years. We were delighted to receive science-based target initiative validation for our net

zero plans in January of this year and we'll begin to work to align with the Forestry, Land and Agriculture guidance by the end of this calendar year. We also continue to work closely with our suppliers on scope 3 reduction plans as well as collaborating with industry forums such as the Zero Carbon Forum.

Our sustainability strategy has a strong focus on the positive impact we have with the communities we serve and so we're proud to partner with a charity called Social Bite who are a homelessness charity. We're particularly proud of the Jobs First programme helping people back to independence through offering long-term employment opportunities which to date has employed 18 people from their academy. We see considerable scope to grow this over the coming months and enhancing the positive impact we have in the communities we serve.

In summary, the business is in good shape, we have good like-for-like sales momentum across all brands, we remain ahead of the market, we have strong profit growth, and we are exceeding our lead metrics on our balanced scorecard. Our remodel programme is returning well and keeps our brands fresh and relevant. Ignite, our transformation programme, gives us a roadmap for initiatives that will continue to drive improvement across every aspect in business meeting those consumer trends that we've identified, and consumer confidence predictions are positive too for the sector and therefore for us. The business continues to de-gear, our profits are climbing back towards pre-COVID levels, and we would argue that now is the time for the outside world to start recognising the future is bright.

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