Corporate Participants

Bob Ivell
Executive Chairman, Mitchells & Butlers

Tim Jones
Finance Director, Mitchells & Butlers

Presentation

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

Thank you. Good morning to everybody. What I'd like to do is give you a quick overview and then we'll open it up to questions.

So just starting off, hopefully there's no surprises in today's results. We've had a good Christmas, helped by the milder weather. 33% of our houses had their best sales week ever over the Christmas period and our performance is clearly, according to things like Peach tracker, very much on level, or above our peers. We think it's a reassuring performance, clearly because the consumer looks like he's still spending on eating out and drinking and we have to remember this is against a backdrop of an economy that's probably worse than last year; unemployment up, GDP down, and confidence down and clearly some of the high street retailer's performances have not been exceptional. So, I think overall, we can say we're pleased with how we performed over Christmas.

And January, pubs are still very busy, I think our view is last year when a lot of parties got cancelled in December, we saw a number of them got moved to January, so our view is January is probably a more difficult period to make a judgement on what our current performance is but, as I say, our pubs still seem to be very busy. Clearly cost pressures of food, duty and energy continue, but we have things in place to mitigate. Our development programme continues well, we've got a good pipeline of sites and we're ahead of our opening programme at this point in time.

The question that I get asked every day of the week: CEO and non-executives, we're making progress, good progress, I believe, on moving those forward. As are ever these always take longer than you expect but I have a personal interest in making sure that we complete that one as quickly as possible, so that's moving on. Our re-organisation focus on re-focussing our business and culture change that's been going on over the last few months, is making good progress. We're very happy with… we now have our brand operations and operations teams in place, focussed and very motivated to drive forward their businesses, taking responsibility and being accountable. So we're very pleased where we're moving on that.

We're still in consultation period with our retail support centre here in Birmingham but, again, that's progressing well and that will be completed in due course.

I think that probably is as much as we want to say on the statement this morning, so really over to you for any questions.

Questions and Answers

Operator

Your first question comes from Douglas Jack from Numis; please ask your question?

Douglas Jack - *Numis*

Good morning. It looks like you've opened around 20 sites in the first 17 weeks; can you just say how they're performing and, of those sort of 20 sites or so, what percentage would you say are in leisure and retail parks?

Tim Jones – *Finance Director, Mitchells & Butlers*

Yes, this is Tim, Douglas. Yes, we've opened about 25 actually so far in the year, so we'll be opening… sort of, front loaded if you like in our Capex through this year. Almost all of those are leasehold retail and leisure parks; there's a few freeholds in, but they're almost all retail parks and they're all performing very well. I mean as a cohort, that category of investment that we started to talk to you about at the prelims still earns returns in excess of 30%.

Douglas Jack - *Numis*

Okay. And in terms of your like for like's, up 4.4%, can you just talk briefly in terms of volume versus price and your current, sort of, strategy on price, you know, given the number of promotions that are going on at the moment?

Tim Jones – *Finance Director, Mitchells & Butlers*

Yes, let me talk about drink and food separately. If we start with food, our volumes are increasing by just over 1%, volumes being measured by the number of main meals here - items would also be increasing. And our like-for-like, same dish, food year on year increase would be just over 2.5%, between 2.5 and 3%. So the rest of that food growth is coming from spend per head. In drink, our volumes continue to decline, number of drinks, by just under 2% in this period and we're taking more price in drink as we were through last year. If you look year on year, our same drink price increase is just under 5%, so about 4.7%.

Douglas Jack - *Numis*

Great. Thank you very much.

Operator

Your next question comes from Geoffrey Collyer from DB; please ask your question?

Geoffrey Collyer – *Deutsche Bank*

Yes, hi, morning guys. A couple of questions; just following on from Doug's point, one of the things that was, sort of, slightly surprising when you reported at the final year last year was the kind of, reduced footfall in the business with people actually spending more – have you seen anything about, or are able to track whether that's still happening, whether your people who can afford it are going more often and you're losing business from the… if you like… the more socially economically challenged parts of the estate, if you give us a feel across the brands for how the like for likes are performing? And then, I know you said that we're making good progress about CEO and non-execs but do you have any… kind of… do you have any dates or anything, or deadlines that you can share with us about, about when you might be able to announce anything?

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

Okay. Answering the second one first; you know, as I said before, I'm not going to get stuck on dates because, you know, you'll say a date and get them wrong and then everybody beats you up because you said a date. So, I'm not going to give you an indication; progressing well. As I said, I've got a personal interest in making sure that we get the right person and get them in, so we will do it, you know, this is about getting the right person rather than you know doing it just for the job - so, no. As far as brands and, sort of, the consumer is concerned; I mean, I think I said at the year end that we were seeing average spend actually growing because people were treating it more as a treat; I think that's continued to happen. I mean I have to say, overall, and it may be a reflection of milder weather, etc, etc, but all, right across all the brands, actually, have had a really good period and we've seen, so, you know, growth in numbers of meals. Now, you know, as I said, you know, December and January I think are really difficult because we had such an upside down performance last year because of the weather, so I think one has to caveat it with that but, as I said earlier, it's against, you know, a pretty poor economic backdrop. So, our view is the consumer - and I think a number of our competitors have said the same thing - they see value, they are going out and eating and drinking and, you know, as I think as I've said before, the old adage used to be in a recession people used to go to the pub and get, drink a lot and moan about how things are – maybe, perhaps they're going out and taking their friends out and eating. But that's certainly what we're seeing.

Geoffrey Collyer – *Deutsche Bank*

Okay, thanks.

Operator

Your next question comes from the line of Tim Barrett from Nomura; please ask your question?

Tim Barrett – *Nomura*

Thanks, morning everyone. Two things please; firstly, you do talk in the statement about softer comps and the weather last year but could you tell us what growth is like on a two year view, because, from memory, you were positive still last year? And the second question just in relation to January and what you call, sort of, more normal trading; any big difference in geography within that, that January number? Thanks a lot.

Tim Jones – *Finance Director, Mitchells & Butlers*

Yes, I mean, on a two year view, Tim, we looked at the 18 days of Christmas and we're up 7% on a two year view; that was the period that was most, if you like, flattered this year by the weather comps and, you know, we're well into double digits on a one year growth there, so yes, I can tell you for that period we were 7% up.

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

I think it's always difficult because, I mean, it depends where Christmas falls, whether it's on a Saturday, whether it's on a Sunday, which week it affects - so I think you have to be a bit careful. I think regionally, clearly London continues to trade, London and the South East is pretty strong. I have to say I've been visiting a number of our units at the, sort of, value end of our business like Sizzling and Crown, you know, in the northern areas, and I've been quite surprised how busy they are, you know, we've got people out. So it doesn't seem to be, I mean clearly the south is better than the north, but I don't think it's perhaps as marked as one would have expected at this point in time.

Tim Barrett – *Nomura*

So, there's nowhere in, sort of, material decline?

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

Sorry, I missed that?

Tim Barrett – *Nomura*

I was just going to say, it sounds like nowhere is in material decline at this stage?

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

No.

Tim Barrett – *Nomura*

Thanks very much.

Operator

Your next question comes from Jeffrey Harwood from Oriel; please ask your question?

Jeffrey Harwood – *Oriel*

Yes, good morning. You seem to be indicating that there could be, could be some slight pressure on margins in the first half, but are you still confident that margins will be broadly unchanged for the full year? And does that just reflect the saving of costs through the year?

Tim Jones – *Finance Director, Mitchells & Butlers*

Yes, that's, I think that's correct, Jeffrey. You know, we're tasking ourselves with flat margins across this year which is 16.3%, we think that's going to be particularly hard in the first half because the energy impact's going to be acutely in the first half so, you know, I think you should probably expect a weaker interim margin. We talked at the prelims about a, sort of, challenge, if you like, of around about £45 million coming from duty and there's cost inflation that we need to fill and that's what we're setting about to do through managing our price rises, through what we're doing on our internal re-organisation and also through our, sort of, like for like sales growth as well.

Jeffrey Harwood – *Oriel*

Okay, thank you.

Operator

You have a question from the line of David Alexander from Alexander Edward and Lee; please ask your question?

David Alexander – *Alexander Edward and Lee*

Hello, good morning.

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

Good morning.

David Alexander – *Alexander Edward and Lee*

I'm trying to work out what the shareholders equity is, or the net asset value per share. In the year end balance sheet it suggests about £2.66 per share, but this is using the £37 million pension liability rather than the £400 million which was mentioned and confirmed in the annual report, which I believe you're repaying at £40 million a year for 10 years. Using this £400 million liability, which seems appropriate, do you agree that the net asset value at the year end was approximately £1.70 per share? Thank you.

Tim Jones – *Finance Director, Mitchells & Butlers*

Well, we could sit here and talk about that for hours. I mean I can agree mathematically that if you want to take £400 million off the accounting net asset value in the consolidated balance sheet you might get to that number. What you should interpret that will mean that is a whole different kettle of fish. I mean you have a number of assets within that total that are re-valued; you have a number of assets that are not re-valued – in particular the fixed notes within the securitisation. So, mathematically I can see what you're doing; what you're going to conclude from that I'll be happy to leave up to you or we can have a debate about it.

David Alexander – *Alexander Edward and Lee*

Right. But you can see nothing wrong with my calculations, where I come up with about £1.70 per share?

Tim Jones – *Finance Director, Mitchells & Butlers*

I think, mathematically, I can see how you get that number but what it means is not something I'm necessarily making a view on.

David Alexander – *Alexander Edward and Lee*

Okay, thanks very much. Thank you.

Operator

You have a question from the line of Richard Rosenberg; please ask your question?

Richard Rosenberg – *Individual*

Good morning gentlemen.

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

Good morning.

Richard Rosenberg – *Individual*

Can I just follow up on that pensions point? I'm aware that some other companies with similar pension deficits are receiving calls from their pension trustees, following a collapse in gilt yields over the last 12 months; have you reviewed the implications on the pension deficit if gilt yields remain at these low levels? And have you had any communications with your trustees on this? And, if not, do you think you should do so? Finally, do you think it would be prudent for us to be pencilling in a higher annual contribution for next year, based on the significant decline in yields that we've seen?

Tim Jones – *Finance Director, Mitchells & Butlers*

Okay, a number of questions there. Yes, we talk to our trustees; we always talk to our trustees. The Chairman of the Trustee, Mike Bramley and I speak very regularly, no matter what the market conditions are, because it's a big issue for us and it's an obligation that we take responsibly and seriously and we communicate with him constantly. So, that is a feature of what we do, whatever the market condition. What is the impact of gilt yields, I suppose is your next question, on our cash repayment profile. Well, our next triennial valuation is at March 13, so whilst gilts are very low at the moment, indeed in real terms probably negative and that's acutely concerning for a lot of companies that have got triennials at the end of 2011, we need to see where they play out over the next year/15 months. Where that is now, I mean, there is no simple answer for that; the triennial is the outcome of negotiation between the corporate sponsor and the trustee on a whole range of assumptions – gilt yields is one of those, crucially that the company covenant - the strength of that - the performance of non-gilt investments going forward, mortality, etc, etc, all come into that. So I'm very loathed to just pull out one assumption and try and, sort of, write a new result on top of that just on the basis of that. Of course, negative gilt yields put upward pressure on the deficit – of course they do. If that got to the stage… if they were still where they are now in 2013, that would put upward pressure on our valuation, it might actually not lead to an increase on cash contribution, but it would probably just lead to a longer recovery period. And you've then got to remember that every three years that trinnial is re-set, so for it to have a real impact on our cash, you, sort of, need to take the market view that gilt yields are going to be negative for 80 years, which is the life of our scheme. But if you want to take that view then I think you'll come to a pretty negative view of our pension position but on the whole of corporate UK actually.

Richard Rosenberg – *Individual*

It was only that on page 52 of your accounts, I think it estimates that a 0.1% change in a discount rate used in the net balance sheet deficit reduces it about 26 million.

Tim Jones – *Finance Director, Mitchells & Butlers*

Yes, and that's talking about the accounting valuation, not the actuarial valuation but it'll be of that order if you hold all other things constant in the actuarial evaluation. But please don't ignore that there are lots of variables within that negotiation; it's not just about gilt yields.

Richard Rosenberg – *Individual*

Thank you.

Operator

Your next question comes from the line of Jamie Rollo from Morgan Stanley; please ask your question?

Jamie Rollo – *Morgan Stanley*

Oh, yes, thanks everyone. I had a couple of questions about the pension, but they've both been asked, answered; so if I could ask about the costs and the organisational structure? On the costs in your margin guidance, since you're saying H2 margins will be up if the full year is flat and H1 is down; are you assuming 1% like for likes behind that?

Tim Jones – *Finance Director, Mitchells & Butlers*

Yes, we are, Jamie – 1% or of that order, yes.

Jamie Rollo – *Morgan Stanley*

Okay. And on the organisational structure, you said everyone was very motivated; I mean have you seen any, sort of, further senior management departures in the last few months and, also, has there been a change in the incentivisation of the new… sort of… brand group operational directors? Thanks.

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

Okay, no, we haven't seen any further loss of people. Clearly, as I said earlier, we're going through a consultation for the head office which is still in progress, so we don't want to get into numbers and amounts there – that wouldn't be appropriate at this point in time. So what's the second part of the question?

Jamie Rollo – *Morgan Stanley*

Just incentives and motivation?

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

Yes, sorry. We're in the process of looking at incentives currently with, you know… for our people, clearly we have a short term bonus which is a normal arrangement which is very focussed on profit creation, so, yes, I mean we're looking at longer term stuff but we have our normal, sort of, stuff in place which, which everybody's happy with.

Jamie Rollo – *Morgan Stanley*

So, no changes to those then?

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

No.

Jamie Rollo – *Morgan Stanley*

Okay, thanks.

Operator

You have a question from the line of Lena Thakkar of HSBC; please ask your question?

Lena Thakkar – *HSBC*

Morning all. A couple of quick questions. Firstly, can you talk a bit more about the £35-40 million of cost mitigation that you've mentioned previously; does that still stand and, sort of, where exactly does that come from? And then a quick question of the dividend policy; can you give any guide at all as to what may trigger a re-instatement there? Thanks.

Tim Jones – *Finance Director, Mitchells & Butlers*

On costs, Lena, I mean, there's, you know, obviously we'll mitigate what we can through our purchasing channels, we have some fixed priced cover against current cost prices, we also have a number of corporate initiatives that we've done recently on logistics which is saving us some money, we've got an annualisation of that. We're currently outsourcing a lot of our IT and systems backbone, that will have a payback this year and annualised for next year. And, also, the consultation we've done through this year will save us some overhead costs this year and that will annualise through to next year as well. So, they're the main big issues alongside, you know, our commercial purchasing functions. In terms of the dividend; the most helpful thing for me to do is really to tell you how we look at the dividend and on what basis we will take that decision. When we re-instate the dividends, you know, we need to be confident that we can afford the level we re-instate at and, indeed, ideally be progressive at that level for the foreseeable future. What I don't want to do is start on a dividends path and then within a year or two years have to pay that out of the balance sheet or struggle to afford it. So, cash cover is the main constraint on that. Now we have, as you know, a number of issues or commitments against our cash in terms of our interest bill, in terms of our pensions we've just talked about, we amortise £50 million of bonds, and we also have a strong pipeline of re-investment activity in expanding the site… the sites we have. Now after those, you know, at the moment, we don't have sufficient cash cover, we believe as a Board to instigate a medium.. well, a reasonable level of dividend. As we go forwards, obviously we're growing the estate, that increases the amount of cash coming off the estate, without increasing withdrawals we've got on that cash, so that dynamic changes, and we get into a better position and really a number of people are suggesting whether we start this year, next year, whatever, but we will keep it constantly under review. The general economic climate is also relative, whether we're at 1% like for likes, or 3% like for likes is, obviously, going to impact our confidence in having a sustainable dividend. So we'll keep reviewing it and when we get to the right level of cover then we'll start paying dividends.

Lena Thakkar – *HSBC*

Okay, that's helpful. Just a follow up on the cost question; so you are confirming that 35-40 million of cost mitigation and, just to be clear, that includes the re-organisation benefit and that doesn't include any of, any like for like benefit – is that fair?

Tim Jones – *Finance Director, Mitchells & Butlers*

Well, it certainly includes the re-organisation and it has to include sales because we, it could never exclude sales. I mean, each marginal sale comes to a higher marginal profit rate and that's, that's baked into where we expect our margin to be. So, it does include our sales performance, yes.

Lena Thakkar – *HSBC*

So the 35-40 million includes like for like sales, increases – that's not just cost mitigation in there?

Tim Jones – *Finance Director, Mitchells & Butlers*

No, I think, yes, that's fair. I think it would be very hard to pull the two apart, actually.

Lena Thakkar – *HSBC*

And that assumption is 1%; basically is what you're saying?

Tim Jones – *Finance Director, Mitchells & Butlers*

That's where we see the underlying rate at the moment, yes.

Lena Thakkar – *HSBC*

Okay, that's really helpful. Thank you.

Operator

You have a question from the line of Eric McAuslan from Platinum Fund Managers; please ask your question?

Eric McAuslan – *Platinum Fund Managers*

Bearing in mind that all the directors are up for re-election in a couple of hours, do you expect the board to be the same shape this evening?

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

I see no reason why not.

Eric McAuslan – *Platinum Fund Managers*

(Inaudible) you said, Chairman?

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

Sorry?

Eric McAuslan – *Platinum Fund Managers*

(Inaudible) conference call that you have a personal interest in the search for the new Chief Executive (inaudible) forward?

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

Yes, in a sense that clearly if I'm performing an executive chairman role, which I said I would clearly do until we appointed a CEO, and I think it was always stated that I would step back and play… be non-executive chairman once the CEO was in place – that was always the statement we've made right through from the beginning.

Eric McAuslan – *Platinum Fund Managers*

Right, so there's no, there's no, sort of, cost incentive for you to...?

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

No, no, no. It's more of a question of time perspective, which is a cost for me.

Eric McAuslan – *Platinum Fund Managers*

One final question; when can we expect to see the net debt reduce?

Tim Jones – *Finance Director, Mitchells & Butlers*

Well, our net debt reduced dramatically in FY11 from six times in data 4.7 and we expect to be cash positive this year as well.

Eric McAuslan – *Platinum Fund Managers*

Thank you for that.

Operator

So, once again, if you wish to ask a question, please press star one. You have a question from the line of Paul Hickman from Peel Hunt; please ask your question?

Paul Hickman – *Peel Hunt*

Morning everybody. Could you just comment on gross margin in light of the strong sales for the quarter; where is your gross margin relative to a year ago? Secondly, on phasing of openings, you're a little bit ahead I think, as you said, front loaded; is that in line with your plans, or is there a potential profit advantage? And what level are pre-opening costs running against those openings?

Tim Jones – *Finance Director, Mitchells & Butlers*

Okay, a number of questions, Paul. I mean gross margins are doing well, they're consistent with our net operating margins… actually probably slightly better, in terms of our overall performance. The Capex is in line with our plan; I mean that's all scheduled in with our building team, so it doesn't move too much through the year anyway – we have pretty good visibility of that. So the front loading that we're getting is as we expected. And, in terms of the extent of that, we've said we'll spend about the same this year as last year – last year was 82 million expansionary capex – and we'd guide you to around about the same level for this year as well.

Paul Hickman – *Peel Hunt*

Yes, and could you comment on pre-opening costs?

Tim Jones – *Finance Director, Mitchells & Butlers*

Yes, sorry. And so the pre-opening costs will be of a similar order. There's a slight change in the mix of the expansionary capex this year in that it'll be almost all acquisitions and new sites, rather than a blend of conversions and new sites, but pre-opening costs themselves will be of the same order as last year, which is eight million.

Paul Hickman – *Peel Hunt*

Thank you. And just one more, if I may? The underlying 1% for January; could you just comment on how you obtain that figure? Is it literally the like-for-like for January, or is it, have you adjusted that for the weather factors and so on?

Tim Jones – *Finance Director, Mitchells & Butlers*

No, that is an underlying number, it's not, we're not giving our January month like for like sales. They're the underlying trends that we're oscillating around, so it's, some weeks are below that, some weeks are above that, but we're just trying to help you with where we think the trend is.

Paul Hickman – *Peel Hunt*

Sure. Thank you.

Operator

There are no further questions at this time; please continue.

Bob Ivell – *Executive Chairman, Mitchells & Butlers*

Yes, thank you everybody. I think we'd better get off to our AGM, so any other questions, just perhaps call Erik. Thank you very much.

Operator

That does conclude our conference for today. Thank you all for participating. You may all disconnect.