Mitchells & Butlers
Interim Management Statement – 31 January 2013

Presentation

Alistair Darby – *Mitchells & Butlers – CEO*

Right, good morning, everybody, and welcome, and thank you for calling in. I've got Tim Jones, our Finance Director, with me. I'll start by just talking through our trading update, and then we'll open up for questions, which Tim and I will field.

Okay, so our trading update. To plagiarise Charles Dickens, I'll describe this as a Tale of Two Cities, and we have broken down the trading statement to make that clear. So, we're reporting on the first 17 weeks of our year, which ended last Saturday, and we're really pleased with our performance up to the end of the Christmas holiday. Our like for like year-to-date at the end of that Christmas holiday week is plus one, and we had a strong Christmas, where, over the festive period, we were up by around 4%.

We had a number of very strong days, so for example, on Christmas day we were up 11%, and we had something like a third of our pubs, bars and restaurants that beat their sales record, and I think this is because we were well organised for Christmas, and increasingly we're seeing customers making a very active decision to celebrate on key dates, and then subsequently to rein in their spending around those dates, and that's really the story of the second part of our statement, as to what has happened in January.

I think it's pretty clear, as you expected, that snow has created disruption. Snow is never helpful for anyone. It's particularly unhelpful for us, because when you have 300 country pubs and people are nervous about driving out that doesn't help, and similarly, where you've got a business like Toby Carvery, which is used significantly by an older generation, clearly, walking around on icy pavements is worrying.

So our trading in the first three weeks of January has been soft, and that's brought our year-to-date number down to 0.3 down.

However, what I think is really important is that the moment the snow went last weekend we saw a significant bounce back in trade. It's been two weeks of disruption, only, and we'd really like just to draw your attention to the fundamentals of the business, and the fact that we're making good progress. We're always going to get a bit of snow. January has been depressing. There has been unhelpful news from the high street, and I think what we'd really like to focus on is the underlying progress the business is making.

In terms of other bits of information on the statement, we've opened six sites so far this year, and we're happy with their progress so far. It's early days. We continue to be very focused on returns on expansionary capex. And importantly, you'll also note that we've reported that our operating margins are solid and in line with last year, and I'd just like to kind of draw attention to this, because we think the challenge at the moment in this market is that you've got to balance like for like sales growth with margin, and we're trying to tread a careful and well thought through line about maintaining sensible like for likes without over-promoting the business. So, what we're seeing at the moment is in our business we have about the same level of promotion this year as last year, but we think generally in the market there is a higher degree of promotional activity, and we think it's important to, kind of, hold your nerve on this, because if the consumer hasn't got a lot of cash to spend, I think it's quite easy to over-promote the business, damage your margins, but not get an acceptable like for like uplift. So, we're pleased about the position we've got on margins.

There's no change to financial position of the business. We are progressing with the recruitment of non-exec directors. Bob Ivell is driving that very hard, and we're pleased with the progress we're making, and of course will update you in due course when we have more news on that.

So, in terms of lying ahead, I think I'd probably repeat the message we made at the preliminary results in November, which is that we expect the economy to be the same this year as last year, so - no better, no worse. It's going to continue to be tough. Consumers will be… discretionary expenditure will be under pressure.

We've got cost pressures, but we think they're manageable, and not fundamentally any different from last year, so a bit better on energy and minimum wage, for example, but a bit worse on food, but in the round, fundamentally no different from the kind of trend we saw last year.

And we're well placed. We've got a very strong asset base, good, freehold pubs, with some very good brands and formats, and we're undoubtedly making progress in terms of how our employees feel about the business, and that's important, because if your employees are engaged and happy, then that's going to flow through to service, and we're pleased with progress we're making on things like guest satisfaction and the propensity of our guests to recommend our pubs, bars and restaurants to their friends and family. So we're think we're making steady progress on that. There's always a lot more to be done, but we're happy with where we stand at the moment.

So that really leads us to say that we are content with our position at the moment. We think we're well positioned for what will be a tough year, and no surprises there, and we're confident of making good, steady progress in the months to come.

Okay, I'll hand back to the operator, Roxana, and we'll start to take any questions.

Questions and Answers

Douglas Jack - *Numis*

Yes, good morning. Well, I've got two or three, if that's okay, but the first one is obviously it's a very good performance on margins to just be flat in Q1, given that like for like sales are down a little bit. Could you just expand on how you achieved that? Was it a little bit more to do with higher pricing, efficiency gains, benefits from new IT systems? Secondly, how are your new sites performing? And thirdly, how many sites has Ways of Working now been rolled out into, and what kind of benefits are you starting to see come through on trading?

Alistair Darby – *Mitchells & Butlers – CEO*

Okay. On margins, so that's it's not me doing all the talking, I'll just hand over to Tim, and then I'll pick up the next two questions, which, Doug, just for clarity, were about how new openings were going, and how the Ways of Working programme is going?

Douglas Jack - *Numis*

That's it, yes.

Alistair Darby – *Mitchells & Butlers – CEO*

Okay, so Tim will take margins first.

Tim Jones – *Mitchells & Butlers – Finance Director*

Okay, morning, Doug. Yes, margin's in line with last year, which I think is good, as you say, given the low level of sales. What we do benefit from is a lot of the restructuring we did last year. Do you remember, we got 10 million of annualised benefit coming through from that, which we benefited from in the second half of last year, but we're still getting incremental benefit against last year through the first half of this year, so that's largely headcount, and it's largely IT cost savings, so they're what's enabled us to keep our margin ahead. As we get to the full year, we would expect our like for like sales to be stronger than they are year-to-date in this statement, but I think our margins are still going to be in line with last year, rather than moving ahead of last year.

Douglas Jack - *Numis*

Okay, thank you.

Alistair Darby – *Mitchells & Butlers – CEO*

As far as new openings go, Doug, there's nothing material to add from what we were saying at the preliminary results. There's not been much time that’s passed since then. Clearly we remain very focused on achieving good returns on expansionary capex. We've opened six new sites this year, and we're pleased about performance, but, you know, lest we forget, we have opened them in the run up to Christmas, so that does have a certain degree of impact on the takings in those pubs, so let's see how they trade over a longer period, but we're happy with progress so far, and of course we'll give you an update on how we're getting on, on expansionary returns when we get to the interims, so it’s kind of steady as she goes on that one.

In terms of Ways of Working, again, I will just say that the position that we talked about at the preliminary results remains the same, so the Ways of Working trial is in the large scale roll out that we talked about at the preliminary results, so we are running this in about 300 pubs at the moment. We're learning as we go. Again, as you’d imagine, we've had to tighten things up… Well, sorry, that trial has slowed down at Christmas, because we've been so busy, and there's been a degree of disruption, which probably won't come as a surprise, in January, because when there's snow on the ground a chunk of your staff can't get in to work. So I think it's still early days in terms of commenting on that Ways of Working trial. We're very keen to give you more information at the interims, which we will do, but the fundamental theory of competent people, engaged with the business, having a say in how the business works, feeding through to better guest service and that feeding through to stronger like for like sales still remains what we're aiming for, and we're still very confident that will come through, and we look forward to telling you a bit more about that later this year.

Douglas Jack - *Numis*

Great. Thank you very much.

Jeffrey Harwood - *Oriel*

Yes, good morning. I've got two questions. First of all, on the expansion programme, so there are six new units opened year-to-date. I see you're taking a more selective approach. Are you likely to under spend on the expansionary capex budget for this year? And secondly, on trading, can you say if you're seeing any variance by brand, please?

Alistair Darby – *Mitchells & Butlers – CEO*

I'll take those, Jeffrey, and good morning.

In answer to the expansion programme, we would expect this year to acquire or complete major conversions of around 40 sites. Now, we talk about ‘around’ because I think there is a…not uncertainty, but a degree of pressure on that number, because we're very focused on returns, and there is of course a lot of competition for high quality sites. As you'd imagine, we will come away from sites where we think the bidding is getting too aggressive, and I think what we have seen in terms of expansionary capex is a market where there's been a real polarisation towards high quality sites, and therefore there's a lot of competition for high quality sites, and weaker sites there's very little competition for. Now clearly, we don’t want to go into the weaker sites, so we talk about ‘around’, because I think we're going to have to see how the year goes on. We're very focused on expansionary returns, and we will not over bid for sites. So where does that leave us? Well, I think around 40 new sites/major conversions.

In terms of trading of brands, I think we will just reiterate the message that we talked about at the prelims, which is that what we are seeing is that the pubs that we have in what we would call the value drink and food sector - that market continues to be very difficult, and that is kind of similar to what you're seeing in other sectors. I think it's very interesting that if you look at supermarkets, for example, Aldi and Lidl are doing very well, but Waitrose equally are doing very well at the other end, and I think what we're seeing is that value is very, very challenging. The consumers in that market have little discretionary expenditure and they're shopping around promotionally, and so if there's more promotional activity out in the market, then you can imagine they're going to be moving around, but whether that makes any money for anybody is another matter, so value is tough. But what we are seeing is where you've got good quality, mainstream and premium offers, they continue to do well, so that's really a repetition of the story that we told you at the prelims. There's nothing really new to report there.

Jeffrey Harwood - *Oriel*

No, sure. Okay, thank you.

Geoffrey Collier – *Deutsche Bank*

Hi, morning, guys. As you know, obviously every single stock in the sector reports different periods every year, and so comparisons are quite difficult across the piece, so can you, to give us a chance to put the trading into perspective, can you give us the comps for the, kind of, six-week period and the 14-week period that you've reported, because obviously we didn't get those, we haven't got those for last year, just so we can see how well you've done on the kind of aggregate, year on year basis?

Tim Jones – *Mitchells & Butlers – Finance Director*

Hi, Geoff, it's Tim. Probably the easiest thing to give you is if you know the start date of our year, then you can calculate your weeks off from that, because you know a Saturday is the end of our week. So this year for us, started on 30th September. And last year, so the comp, started on 25th September. So in that table you've got, where we're talking about eight, 14 and 17 weeks, they're all benchmarked against that.

Geoffrey Collier – *Deutsche Bank*

Sure, but have you got the period… have you got what the like-for-likes were for that kind of 14-week period, and for the, sort of, six-week period for Christmas? Because you didn't give that out last year, and…

Tim Jones – *Mitchells & Butlers – Finance Director*

Right, okay.

Geoffrey Collier – *Deutsche Bank*

...and we only got the eight-week and the nine-week breakdown last, you know, for last year, so it's difficult to kind of break out.

Tim Jones – *Mitchells & Butlers – Finance Director*

Yes. Well, I mean, it's a bit difficult to sit here and go through a myriad of numbers across different performances.

Geoffrey Collier – *Deutsche Bank*

Okay.

Tim Jones – *Mitchells & Butlers – Finance Director*

If you want, we can have a chat about it. I'm not sure quite what you're going to read into it.

Geoffrey Collier – *Deutsche Bank*

Well, if you look at your 17-week period, you're up against quite a tough comp of 4.4, so the 0.3 against 4.4 gives you kind of, if you like, a two-year run rate of about 4%. If you look at all the other stocks in the sector's, kind of, two-year run rates for the comparable periods, you can then get a view about how well everyone's doing, but if you're saying you've done really well, up 4% in the six weeks of the festive period, we've no idea whether that's, you know, against the 4% comp or a 2% comp, or whatever, so we can't really put it into perspective.

Tim Jones – *Mitchells & Butlers – Finance Director*

True. And if you want to talk the numbers we can. Again, I'm sceptical about what you're going to read into it, because we had a pretty high comp this time last year, but that's because we had snow two years ago. So you can follow it back as far as you like but at the end of the day you've got two relative periods.

Geoffrey Collier – *Deutsche Bank*

Okay.

Alistair Darby – *Mitchells & Butlers – CEO*

I think. Geoff, I mean, Tim's right. And I think you can drive yourself kind of mad, trying to work this out, because of course last year's trading, as Tim's rightly said, was flattered by no snow, when in 2010 you'll all remember, those of you who were going skiing at Christmas were grounded at

Heathrow and the like, so Christmas last year was flattered by the very, very easy trading period from the year before, so you can kind of go into a bit of a spin.

I think the key thing, the key thing for us is that we genuinely feel that we've performed strongly over the festive period and we've made a note about the number of days we're mapping against and we think that looks credible against the stats that are out in the market and we're pleased about that. We were well organised, and clearly that brought our like-for-like up to 1% at week 14, which is kind of where we wanted to be, and where we felt we were tracking. So that, for us, is the key message, and the point that we're trying to make about January is yes, there has been disruption, but it’s a short period of time, and it will wash through the numbers as the year progresses. That's probably the key message.

Geoffrey Collier – *Deutsche Bank*

Okay. Thanks a lot.

Richard Taylor - *Barclays*

Morning, guys. Just one question, please. You’ve talked about the greater trading peaks and troughs, and obviously margins are flat year-to-date, but can you talk about the margin implication of the more volatile trading, and how well you think you’ve adapted the model to these changes in trading patterns, in terms of labour scheduling and so on? Thanks.

Alistair Darby – *Mitchells & Butlers – CEO*

Yes, Richard, it’s a good question, actually, and I think you’ve hit upon a really important point of operational detail, which is that if the pub and restaurant market is becoming more volatile than it has historically been - so a tendency to trade very strongly on special occasions, surrounded by more subdued trading at other times - then clearly managing your business… So you're having the right number of staff on when you're peaking is critical, to deliver good service, but equally, you’ve got to run the business tight when that's not the case, and what we have got is some very good and strong labour scheduling and sales forecasting models that allow us to prepare for the highs and lows, and I think you’ve really kind of seen that through our success at Christmas. We got rising guest satisfaction scores and recommendation scores. It says to me that we took a lot of money, but we also pleased our guests, which is key, because you can take a lot of money, but, you know, not do a great job, and I think we did a good job at Christmas. And equally, what you're reading into the flat margin is that when trade is a bit more difficult, we're holding the business pretty tight. And, you know, I think we're doing a pretty good job, without ending up in a position where our pubs, you know, in January had no staff in them, because clearly that you don't want; and we had to be ready last weekend, when the snow melted, to get the uplift in trade. So you've got to be fleet of foot. You've got to have a good scheduling system, which we have, and you've got to be pretty canny at forecasting sales, and I think, as a business, we have made good progress on that. There's always more to be done, but that is undoubtedly helping us to deliver good guest service, but efficiently.

Richard Taylor - *Barclays*

Okay, thanks very much.

Lena Thakkar – *HSBC*

Hi. Yes, good morning. Just, firstly on the margins, and I take your comments about the flexibility, Alistair, and Tim, what you said about flat margins for the year, but just trying to understand the operating leverage there. You know, if you did move to a stronger like-for-like number, which obviously we'd expect, given the snow disruption over the last few weeks, what is the upside? Or maybe what level of like-for-like would you need to achieve to start to see margins move forward? I'm just wondering how we should think about that.

And then, secondly, could you remind us of the dates around the triennial review on the pension, and also how you're thinking about the dividend? Thanks.

Alistair Darby – *Mitchells & Butlers – CEO*

Right. Well, I'll let Tim take both these. He's chomping at the bit.

Tim Jones – *Mitchells & Butlers – Finance Director*

In terms of margin, Lena, you're right. We would expect our like-for-likes to strengthen. That has quite a powerful impact on our margin. I mean, for a sort of given cost base a marginal 1% like-for-likes would give us about 0.2% or 0.3% on the margin for a constant cost base, so there's definitely quite a powerful impact there.

We, if you look forward to the rest of the year, we think our like-for-likes will be stronger than they are on the first 17 weeks, so that will help, but then, as I said before, we're not going to have this marginal impact coming through against last year from our cost savings. So basically, I guess what I'm saying is that I think they're going to wash out when we look at this year, and our margins across the full year are going to be about flat.

When we look forward to next year, a little bit harder to call at the moment, but food inflation is going to remain. We would expect our like-for-likes to begin to show a lot of the benefit from the work we're doing internally, the WoW trials, etc, so that should help our margin move forward, and I think we'd look to see longer term strengthening of our margins, going forward, subject to anything, you know, serious happening in the energy pricing markets, or anything like that. So that's margins.

In terms of pensions, reminding you of the dates. The valuation date is 31st March, so when we get there we'll have a good idea of what the financial conditions are, and where real gilts, etc. We then have to sit down with the trustee and engage in a negotiation as to a lot of the assumptions that go into the measuring of that deficit, and crucially, over what period we're going to repay that funding deficit.

Now, that's the process that the regulatory timetable allows you 15 months to do. I think we would like to get it done a lot quicker than that, because we want to sort of put this to bed, if you like, and get some stability to our cash flows, going forward. So we'll be engaging quite hard with them on that once we get past 31st March, and through the summer. I'm sure we'll be able to say something in mid May, when we do the interims. I'm sure we won't have concluded the agreement by that stage, though. Our next major milestone of course is, will be mid November, when we announce our prelims, and we'll just have to see where we can get to by then, but we'd like to reach a speedy, sort of, agreement with the trustees, if we can, at all.

And one of the main reasons for that is the dividend, as you say. This is a large cash outflow for us, so, you know, we'd like to get some stability for this in our planning going forward. I think as we said, you know, last November, we are mindful of the attractions of resuming dividend payments, but we need to see the cash flow coming out of our business to be able to fund those dividend payments. So that's a call we need to make, you know, as a Board, when we get to our interims, and when we get to our full year, and beyond.

Lena Thakkar – *HSBC*

Great. That's very helpful. Thank you.

Nick Thomas – *Bank of America Merrill Lynch*

Yes. Good morning. Just a fairly quick one from me. You've mentioned the recovery that you've seen in trading since the snow sort of disappeared at the weekend. I wonder whether you can just sort of put into context your sort of past experience in relation to when you've had these periods of weather impacted trading; to what extent you tend to see a degree of pent up demand-type recovery, to help you recoup those lost sales over the subsequent couple of weeks, so a sort of a little bit of context of your past experience, if possible?

Alistair Darby – *Mitchells & Butlers – CEO*

Right. Well, I think you wouldn't be surprised at the answer to this, Nick, in that we've had two weeks of disruption, in the quietest month of the year, so, relative to our numbers it's disruptive, but it's, you know, as somebody would say, you want snow in January, not in December. So if you're going to have snow, it's better to have it in January.

I think what you… what undoubtedly we saw at the weekend that cabin fever had set in, because we traded strongly over the weekend, the moment the snow had gone, and if you think we've had two disruptive weeks of snow in January - have two decent weeks of sun in April, May, and you can work out pretty quickly the two net each other off and therefore that's why we are keen to really draw people's attention to not get overly concerned about this brief period of disruption in January. It will come out in the numbers. It will be smoothed out by some better weeks later on in the year, and that's why we think it's important, just to focus on the underlying progress of the business, because we think that's the… where we are up to, at week 14, with a more accurate representation of how the business is doing.

Nick Thomas – *Bank of America Merrill Lynch*

Thanks very much.

Alistair Darby – *Mitchells & Butlers – CEO*

Okay, I think, ladies and gentlemen, we've probably run out of questions, so thank you very much for dialling in, and can I wish you a very good February, which I think starts tomorrow. So thank you very much indeed. See you all soon.