Mitchells & Butlers

Serving with pride, since 1898

Full Year Results 2017

Mitchells & Butlers
Serving with pride, since 1898

Financial Review FY 2017
Tim Jones
Finance Director

Income Statement

Mitchells & Butlers
Serving with pride, since 1898

	FY 2017 53 week £m	FY 2016 52 week £m
Revenue	2,180	2,086
Operating costs	(1,866)	(1,768)
Operating profit	314	318
Interest	(124)	(125)
Pensions finance charge	(7)	(12)
Profit before tax	183	181
Operating margin	14.4%	15.2%
Earnings per share	34.9p	34.9p

Income Statement – 52 week

Mitchells & Butlers
Serving with pride, since 1898

	FY 2017 52 week £m	FY 2016 52 week £m	Movement 52 week %
Revenue	2,141	2,086	2.6%
Operating costs	(1,833)	(1,768)	
Operating profit	308	318	(3.1%)
Interest	(121)	(125)	
Pensions finance charge	(7)	(12)	
Profit before tax	180	181	(0.6%)
Operating margin	14.4%	15.2%	(0.8 ppts)
Earnings per share	34.4p	34.9p	(1.4%)

Like-for-like sales

Mitchells & Butlers
Serving with pride, since 1898

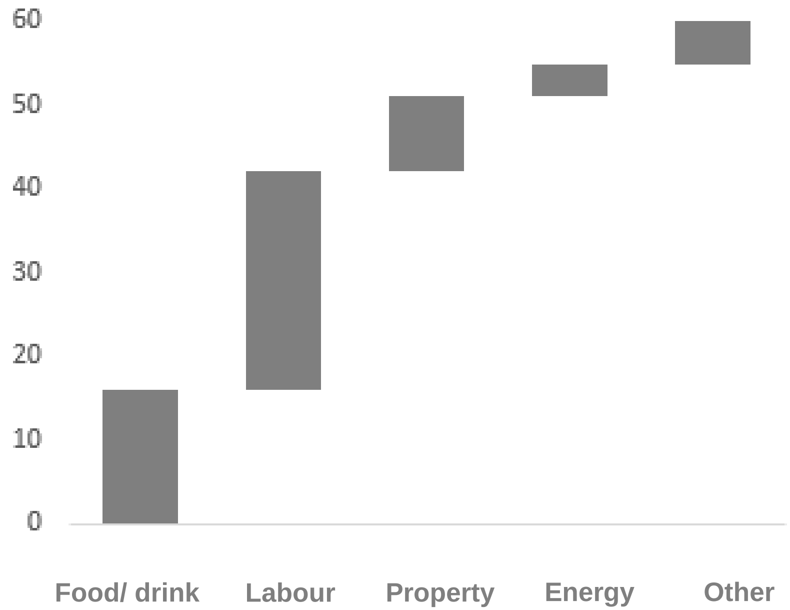
	Week 1 – 33	Week 34– 53	Week 1 – 53	Week 1-7 FY 2018
Food	1.4%	1.3%	**1.4%**	2.0%
Drink	2.4%	1.7%	**2.1%**	2.7%
Total	1.9%	1.6%	**1.8%**	2.3%

- Sales growth driven by increase in spend per item in part reflecting premiumisation of the estate
- Sales momentum continued into early FY18; strong start to the year
- First 7 weeks growth on calendar basis adjusting for 53rd week of 3.0%

Inflationary cost headwinds unchanged

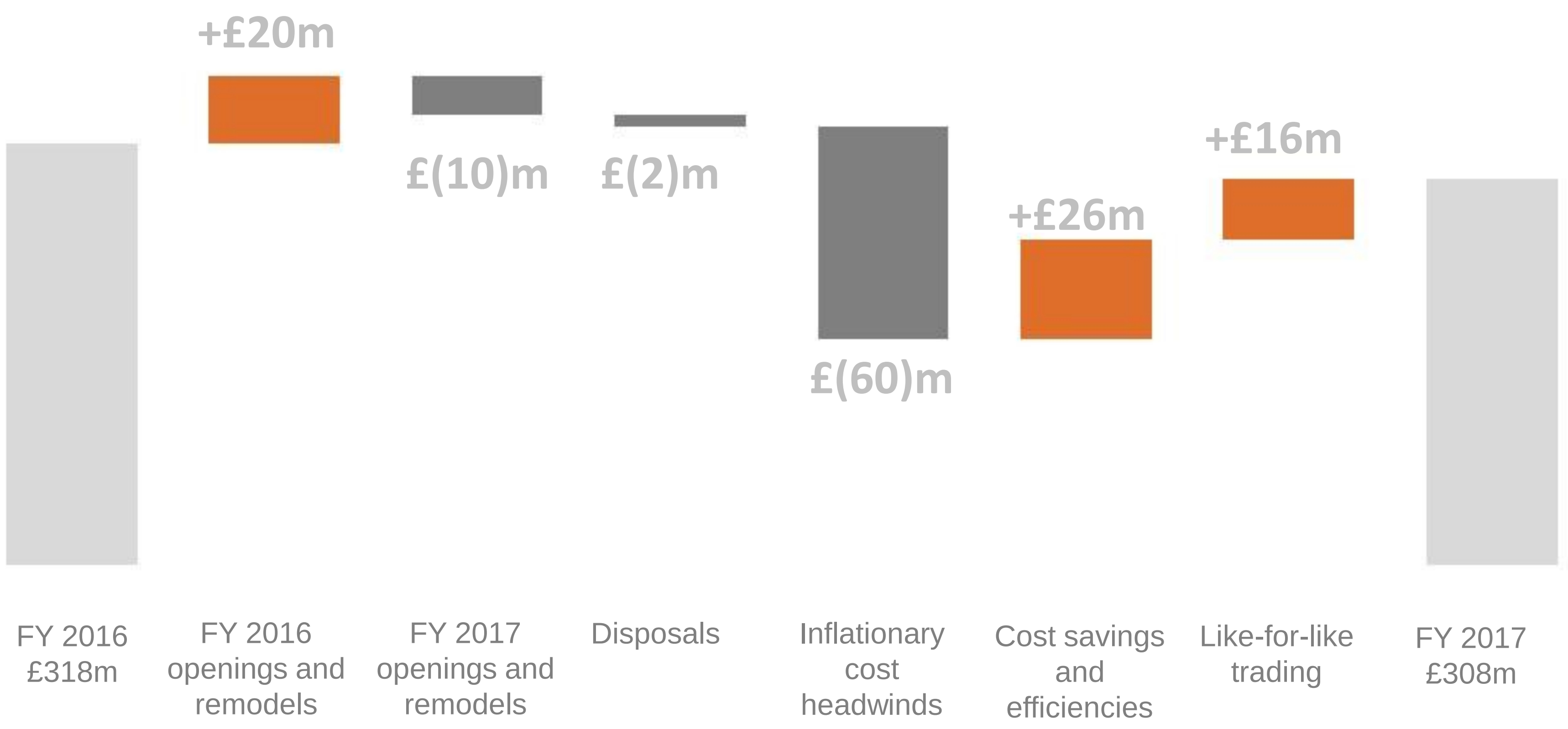
Mitchells & Butlers
Serving with pride, since 1898

£m FY18



- Mitigation of £26m in FY17 through labour, procurement, repairs and other site level efficiencies
- Initiatives in place to target similar level of mitigation in FY18

Adjusted EBIT movement



Property estate valuation

Mitchells & Butlers
Serving with pride, since 1898

- Estate comprised of more than 80% freehold and long-leasehold sites
- Freehold and long-leasehold properties valued annually
- 20% of sites inspected per annum
- Short leaseholds assessed for impairment
- Total value of £4.4bn (FY 2016 £4.4bn)

		FY 2017 £m	FY 2016 £m
Income Statement	Revaluation	(51)	(80)
	Other Impairment	(17)	(8)
	Impairment of assets held for sale	(4)	-
Balance Sheet	Revaluation Reserve	74	216
		2	128

Capital expenditure and returns

	FY 2017		FY 2016	
	£m	# sites	£m	# sites
Remodels - refurb	42	143	34	137
Remodels - expansionary	14	31	13	38
Conversions	39	78	31	77
Acquisitions – freehold	3	1	1	2
Acquisitions – leasehold	18	12	7	6
Total return generating capital	**116**	**265**	**86**	**260**
Maintenance and infrastructure (excl remodels)	**53**		**81**	
Total capital expenditure	**169**		**167**	

- Increase in return generating capex reflecting revised estate plan and reduced remodel lifecycle
- Funded by a reduction in maintenance and infrastructure investment
- EBITDA return for FY17 conversion and acquisition projects of 22%
- Sales uplift on remodel projects continues to exceed 10%
- FY18 capex expected to increase to £180m p.a.

Capital Structure – summary balance sheet

Mitchells & Butlers
Serving with pride, since 1898

	FY 2017 £m	FY 2016 £m
Property, plant and equipment	4,429	4,423
Other non-current assets	121	154
Current assets (excluding cash)	78	57
Current liabilities	(300)	(305)
Net borrowings	(1,795)	(1,895)
Derivatives	(249)	(351)
Pension	(292)	(337)
Provisions	(366)	(338)
Net assets	1,626	1,408

Group Structure: overview

Mitchells & Butlers

Serving with pride, since 1898

M&B plc

Unsecured estate

408 sites

EBITDA £69m

- New site investment
- Short term facilities (£150m)

Secured estate

1,346 sites

EBITDA £352m

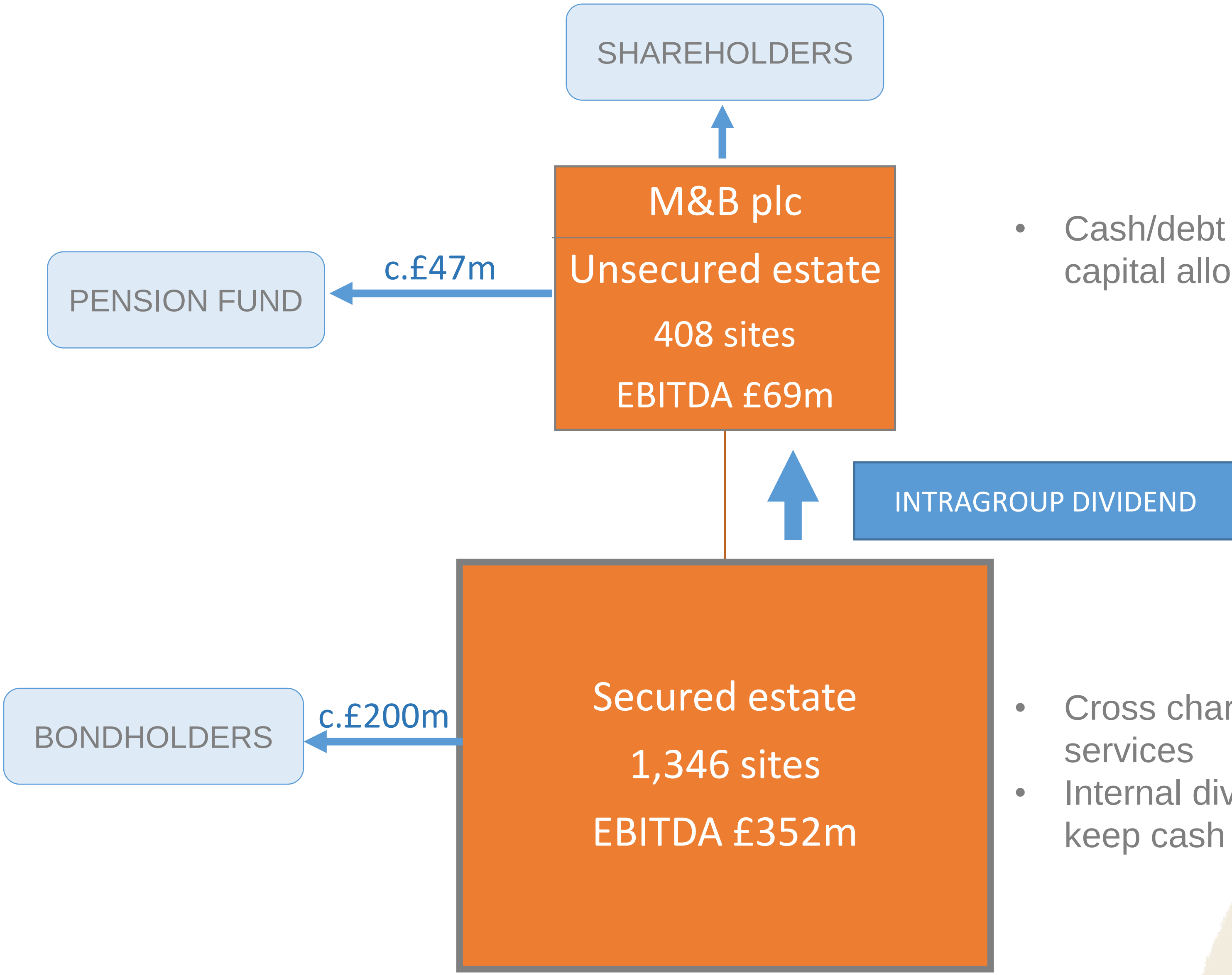
- Mandated debt service profile
- Fixed criteria for cash distributions

Capital Structure – analysis of net borrowing

Mitchells & Butlers
Serving with pride, since 1898

	FY 2017 £m	FY 2016 £m	
Unsecured			
Cash	20	25	
Short term borrowings	(6)	(31)	
	14	(6)	
Secured			
Cash	100	106	Subject to restrictions
Liquidity cash on deposit	147	147	
Liquidity drawn facility	(147)	(147)	
Securitised debt	(1,909)	(1,995)	Mandated repayment profile
	(1,809)	(1,889)	
Net group borrowings	**(1,795)**	**(1,895)**	
Derivatives hedging balance sheet debt	45	55	
Group net debt	**(1,750)**	**(1,840)**	
Net debt : EBITDA	**4.2x**	**4.3x**	

Group Structure: movement of cash



- Cash/debt volatility from capital allocation decisions

- Cross charged for goods and services
- Internal dividend maximised to keep cash neutral

Dividend Policy

Mitchells & Butlers
Serving with pride, since 1898

Dividend determined after considering several factors:

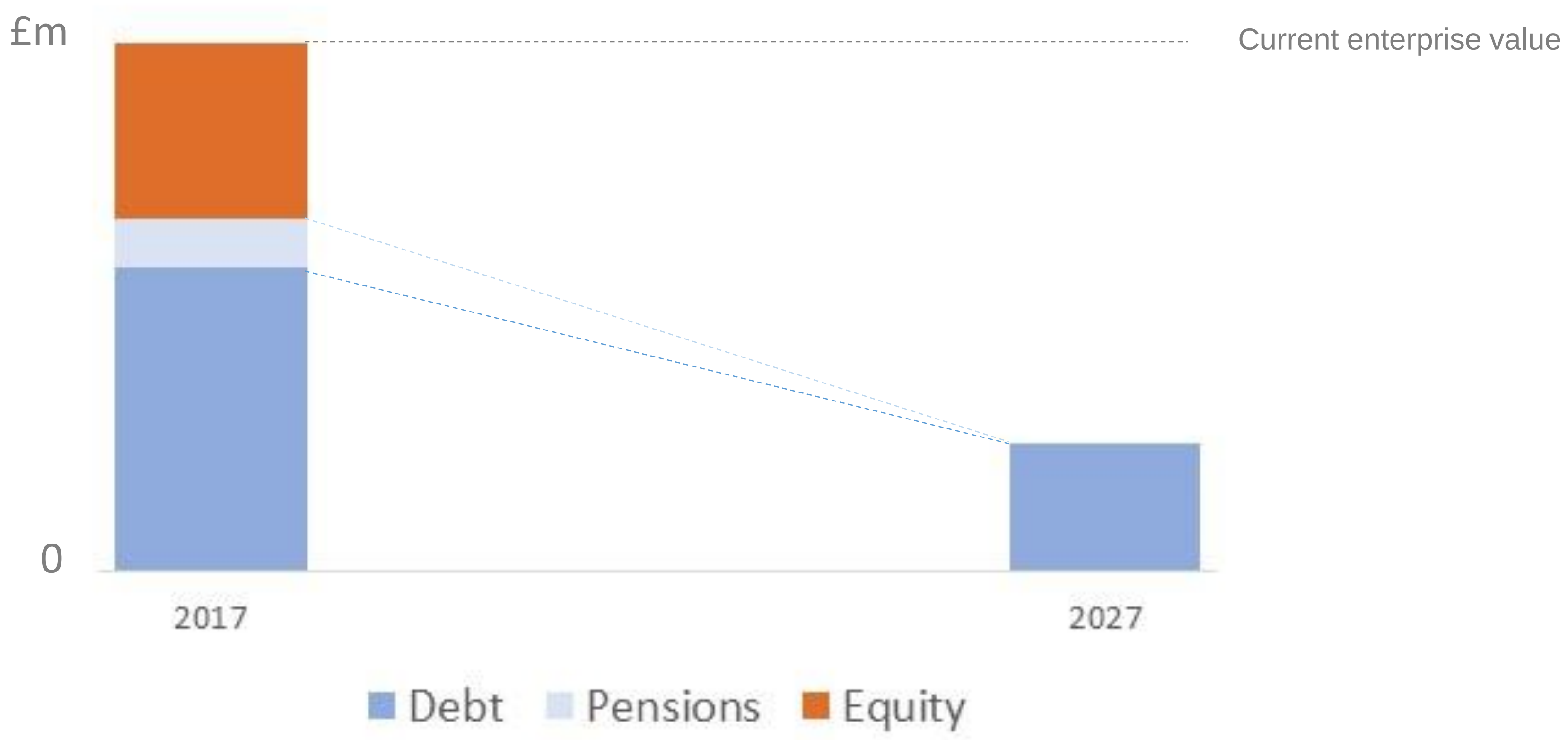
.

- Cash flow more of a constraining factor than earnings
- Leverage: secured and unsecured estates
- Future investment requirements
- Outlook and prospects

FY17: Final dividend of 5p (full year 7.5p)

FY18: No interim dividend. Assessment at end of year.

Deleveraging capital structure



- Illustrative example over 10 years
- Based on 2016 pensions triennial agreement and mandated bond amortisation

Summary

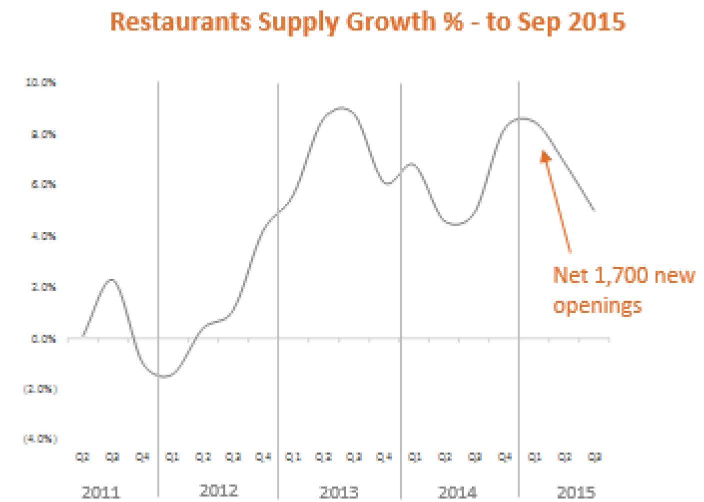
- Strong improvement in sales across the estate
- First 7 weeks of FY 2018 sales growth of 2.3%
- Inflationary cost headwinds remain strong putting margins under pressure
- Work continues to drive sales and mitigate cost pressures
- Pension negotiations concluded providing clarity on contributions
- Final dividend of 5p per share

Mitchells & Butlers

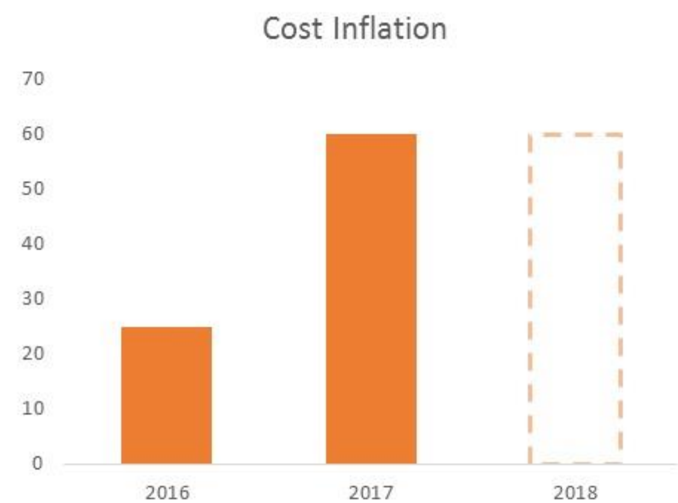
Phil Urban
Chief Executive Officer

The context two years ago

- New supply at a peak
- Like-for-like sales decline
- Performance behind the market
- Unprecedented cost headwinds ahead



Source: CGA Outlet Index



Strategic priorities

Build a more balanced business

- Brand propositions
- Conversion to successful formats
- Upgraded amenity in core

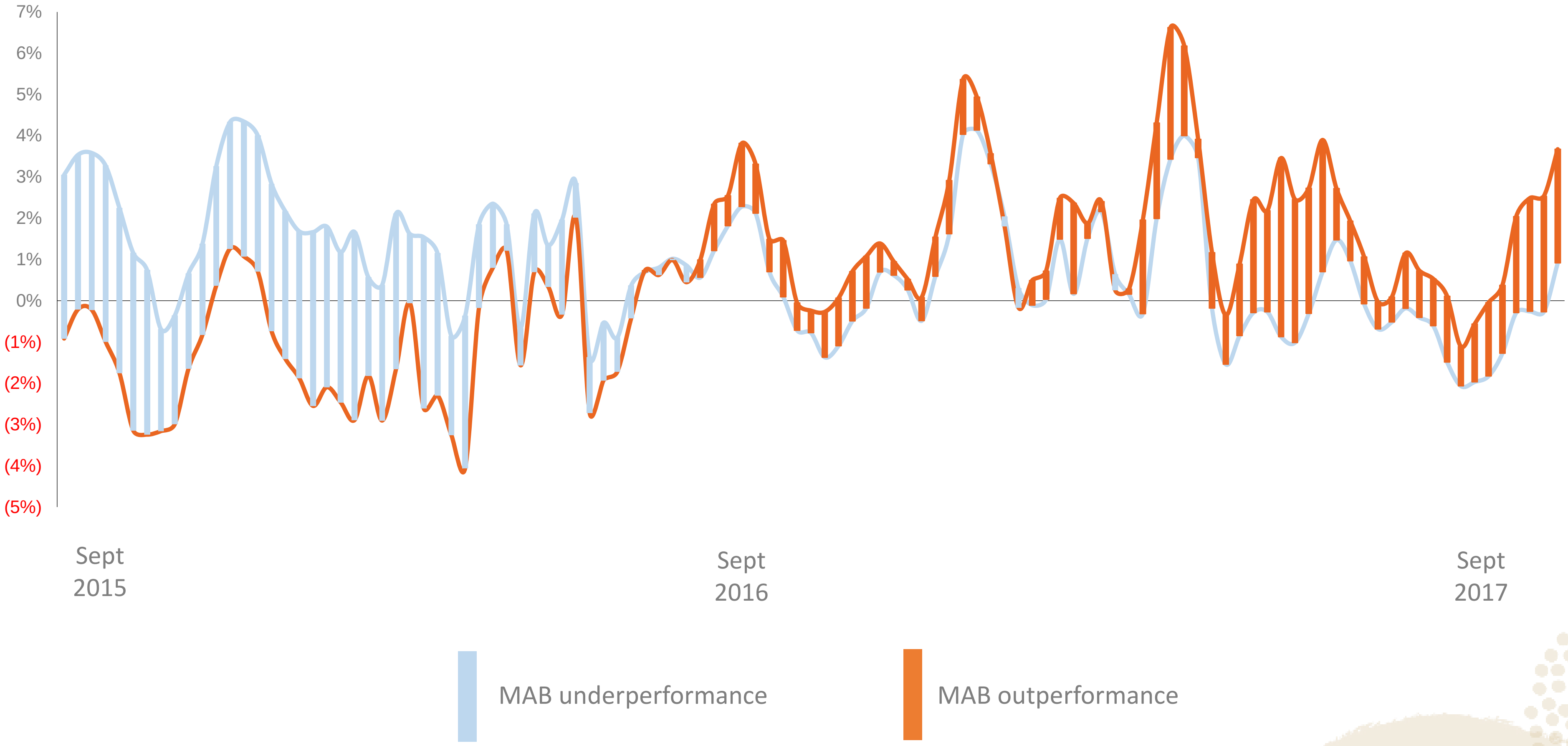
Instil a more commercial culture

- Profitable sales
- Core operational drivers

Driving an innovation agenda

- Build on technology investment
- Digital marketing
- New concept development

Like-for-like sales versus market



Rolling four-weekly average vs Peach Tracker

Instil a more commercial culture – cost mitigation

Mitchells & Butlers
Serving with pride, since 1898

- Time and attendance – new software now live across all sites
- Tool facilitates most efficient deployment of labour based on algorithms specific for each site
- Team paid on clocked hours, removing manual task from managers
- Access for management from any device
- Potential to mitigate c.£16m of the National Living Wage inflation in FY18

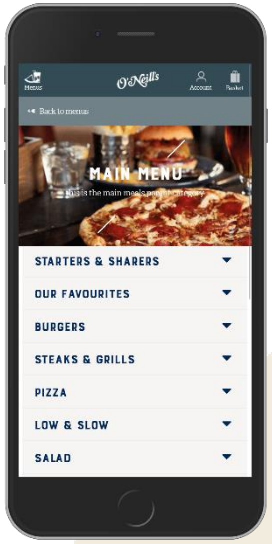
Instil a more commercial culture – cost mitigation

Mitchells & Butlers
Serving with pride, since 1898

- Stock control system upgraded
- Materially reduce time taken to complete stocktakes
- In trial with auto order and prep and par systems
- Improves stock control ability
- Reduces waste
- Frees up management time

Progress made in last 12 months

Like-for-like sales ↑	+2.6ppts
Net promoter score ↑	+7.8ppts
TripAdvisor response rate ↑	+24.0ppts
Engagement ↑	+2.0ppts
Online bookings per week ↑	+33k
Delivery sales per week ↑	+£7k
Food safety (double 5) ↑	+5.8ppts



People

- **Turnover**
  - Total pub staff turnover reduced by 4ppts
  - Managers have, on average, been with the company for 8 years

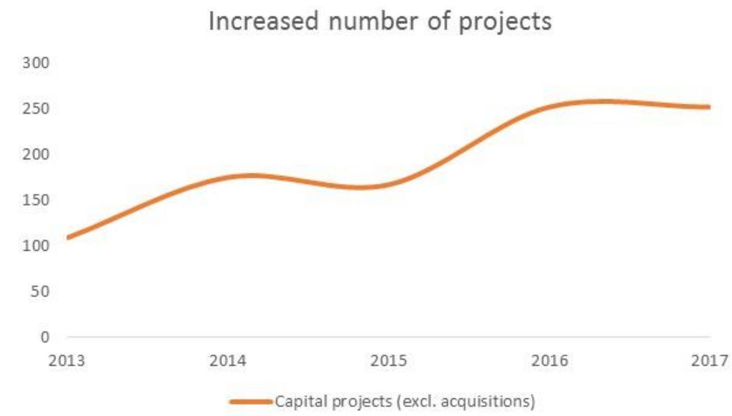
- **Engagement**
  - 1,500 more responses than last year
  - Total engagement up 2%

- **Focus on recruiting and training apprentices**
  - Over 1,600 apprentices on our programme
  - 1,300 new apprentices recruited in FY17
  - 460 employees completed apprenticeships in FY17

- **Launched new online training capability**

Build a more balanced business

- Continued premiumisation of estate through increased investment
- On track to maintain 6-7 year investment cycle
- Growth of Miller & Carter
- Reduction in capex
- Disposed of 79 sites not offering long term growth
- Onerous lease provision increased in the year



Build a more balanced business

Mitchells & Butlers
Serving with pride, since 1898

	Opened during FY17	Total Open
Miller & Carter	32	84
StoneHouse	46	82
Harvester Feel Good Dining	27	59

- On track to open 100th Miller & Carter during the beginning of the next calendar year
- StoneHouse has proved a successful premiumisation route for the Crown estate
- Harvester Feel Good Dining provides upgraded amenity along with menu and pricing developments

Build a more balanced business – accommodation

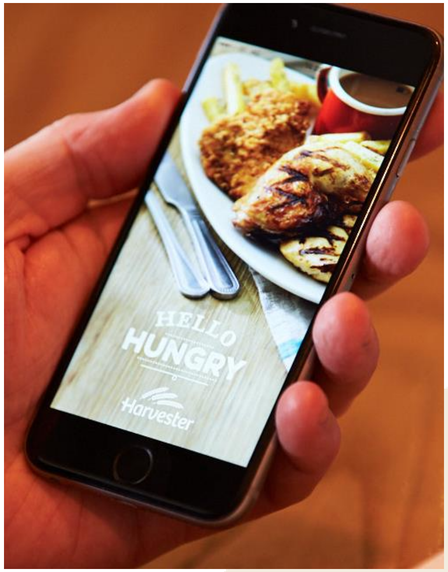
Mitchells & Butlers
Serving with pride, since 1898

- Increased investment in accommodation providing opportunity to extract additional value from the estate
- Currently operate across 52 locations with 900 rooms
- 15 remodels during the financial year
- Like-for-like sales growth of over 20% following investment
- Bring accommodation in line with feel of the site attached, taking opportunities to premiumise
- Purpose built hotel to be completed in FY18

Making technology work

- **Reputation.com** embedded with managers responding to 83% of online comments and feedback scores increasing

- **New brand apps** launched
- **Delivery** now live with JustEat and Deliveroo



- **Click and collect** is being trialled with JustEat
- **Loyalty mechanic** in trial in Browns
- **Order at table** facility in trial in O'Neill's

Consumer insight

Mitchells & Butlers
Serving with pride, since 1898

Consumer insight

Environment
Amenity

Experience
Price, quality and service

Brand development and evolution

MILLER & CARTER
- STEAKHOUSE -

NICHOLSON'S
ALE & GIN
ESTABLISHMENTS
SINCE 1873

Harvester
THERE'S A FRESH THOUGHT

Second wave of initiatives

Mitchells & Butlers
Serving with pride, since 1898

Build a more balanced business

- Capital investment and estate management

Instil a more commercial culture

- Sales and service
- External spend
- Labour deployment
- Stock and waste management

Driving an innovation agenda

- Menu process and pricing
- Digital marketing

Summary

- Good progress against strategy
- Consistent like-for-like sales growth ahead of the market
- Current trading strong and Christmas bookings ahead of last year


QUESTIONS

Mitchells & Butlers
Serving with pride, since 1898

Mitchells & Butlers

Full Year Results 2017
Supplementary Slides

Mitchells & Butlers
Serving with pride, since 1898

FY 2017 – Outlet reconciliation

	Total Managed	Franchised	Total MAB
Opening outlets (start FY 2017)	1,768	57	1,825
Transfers	(7)	3	(4)
Disposals	(79)	(1)	(80)
Acquisitions	13		13
Closing outlets (end FY 2017)	1,695	59	1,754

Note: Lodges attached to sites do not appear as a separate outlet.

FY 2017 – Financial covenants summary

Mitchells & Butlers
Serving with pride, since 1898

Securitisation Restricted Payments Tests			
	Test	Actual (Relevant Year)	Headroom
Free cash flow to debt service	1.3x	1.5x	£36m
EBITDA to debt service	1.7x	1.8x	£22m

Securitisation Covenants			
	Covenant	Actual (Relevant Year)	Headroom
Free cash flow to debt service	1.1x	1.5x	£76m
Net worth	£500m	£2,111m	£1,611m

Non-Securitised Facility Covenants			
	Covenant	Actual (Relevant Year)	Headroom
Net debt to EBITDA	3.0x	(0.22)x	n/a – (no debt)
EBITDAR to rent plus interest	2.0x	2.82x	£31m

FY 2017– Securitisation profile