Mitchells & Butlers plc 2001 Final Results Announcement

Tuesday 22nd November 2011

Question and Answer session

Question 1

James Ainley - Citi

Bob, can you share some reflections on the brand portfolio, do you think you've got the right brands, you think there's scope for new brands or even to pare some of the existing brands?

Answer: Bob Ivell, Executive Chairman

Yes I think you'd go right across the spectrum. We obviously have a number of things at the value end: Sizzling, we have Crown Carveries; that end of the market is more tough because a lot of people like Hungry Horse, Flaming Grill which is a copy of Sizzling Steak from Spirit; there's a whole raft of people trying to play in that market. But we've got good brands. We can get into a long debate - what's a brand and what's a concept - and I mean I'll give you another example just talking about organisation.

I was sitting in Fleet Street very early on when I came and I met a guy that runs one of those brands and I said to him, "Do you really think we should be on TV for Sizzling Steaks" And he said, "Why?" I said, "Well you know they are sort of community/suburban sites. They're five minute walk times or ten minute drive time. Are they really where we should be spending our money?" And he said, "Yeah but it's free." And I said, "Sorry what do you mean it's free?" So he said, "Well I don't pay for the advertising so if I get it it's great." Which I think is just a bit about my structure issues, sorry that's not answering your question.

Harvester's been reinvented. Harvester won awards but it won the Peach Award last week for the most new invigorated brand. It's going very well. Its growth is excellent. It's moved into new areas. I think that, as I said, with things like Brown's and All Bar One we're looking to evolve them and putting them in, again, new types of sites. So yeah we've got a good brand portfolio. What we've got to do is make sure they deliver all of the time and make sure that they are... hence our frontline focus of... A lot of our people seem to be spending time ticking boxes rather than spending time with their customers and that's what we're trying to achieve. So if we can do that with all these brands, yeah I think we're pretty confident they've all got good strengths and ability to grow. There's 183 Harvesters, there's no reason we couldn't do 250. I think in the past people have said 400 but 250/300 is probably more than able to be done. Our PCDG which is our pub kitchen diner concept, we've got 80 of those, that's a really good concept, it gets very good results. Again I think that has not been grown as much as it could be. I think that as we said with Browns… I mean Browns have got 23/24 sites, Browns should be much… you either should be much bigger with something like Browns, running a business at 23 sites is just not where you want to be. And again because we actually widened the thinking on that, widened the sites I think, yeah that's works.

<u>Question 2</u>

Geof Collyer - Deutsche Bank

Three questions. On the dividend front can you just, Tim, explain whether you're looking at reinstating the dividend after looking at free cashflow once you've funded amortisation payments as well as all the other things you mentioned because obviously that's a kind of mandatory cost in the cashflow?

Secondly, on the property front, given the proliferation or the fragmentation in advocacy amongst brand owners compared with the three divisional heads you had, how does Gary sort out the demands from all the different people for new sites?

And thirdly, can you just explain what's going on with the franchise business? Thanks.

Answer: Tim Jones, Finance Director

In terms of the dividend, Geof, we keep it under review through the whole of the year ahead. I think the cashflow to look at is before disposals not that we're anticipating any more of them going forward. And I think it is before bond amortisation. I mean for me bond amortisation is a reorganisation of facilities rather than an application or a use of cash. So it would be after our expansion with capex but before those two items and that's the free cashflow we'd look to assess.

The question on the properties. Gary has a team that are working closely with the operational teams. We have quite strict criteria that we look to apply when we're sifting through sites. They all then get funnelled into a central body team which I sit on, Gary sits on and Bob sits on, and it's that body that then prioritises those individual investments which go forward so that's a brand, if you like, it's not people that are specific on a brand. We don't say, "Brown's you can have three, Harvester you can have five, Toby you can have two." They all have to compete in that forum on the return they can generate on each individual site that they've got.

Answer: Bob Ivell, Executive Chairman

And franchise. Franchise we'll continue to run. Actually we've got a guy in the team put on that and actually we're getting some very good results this year out of that business. It's relatively small but we've seen some good movement in the right direction just by loving and making the business feel they're part of something. So at this point in time they are doing well.

<u>Question 3</u>

Paul Hickman - KBC Peel Hunt

Three questions from me. Are you able to split the capex forecast between the three areas that you've highlighted; freeholds, packaged leases and single site leases?

Secondly, just wondered how Christmas bookings are looking so far?

And thirdly, I take what you said about the devolvement of marketing, for instance, I mean on the face of it strategic marketing seems to now be a part time activity with food quality and customer service. But I take what you say. And I'm just wondering if there's any reduction in total marketing spend looking through those changes?

Answer: Bob Ivell, Executive Chairman

Do you want to start with the first one, Tim?

Answer: Tim Jones, Finance Director

Yes in terms of capex: looking at the individual sites, packaged deals are going to be lumpy. We did Ha Ha last year, you'll know we invested in eight sites from Intertain which is actually disclosed in the notes to our accounts so they need to be converted at the beginning part of this year, but I don't see any other packaged leased deals going forward. And I've said that conversions are largely going to be nil. So that really leaves single site leasehold acquisitions and freehold acquisitions. And it's a little difficult to calibrate in advance the exact blend there, other than to say that freehold expansion is going to remain an integral part of what we do. It's a little bit harder to effect, in that there are less sites on the market, the right sites we'd like, but we will keep those as maybe a quarter or a third whatever we can find such that we're not going to move full scale over to single site leasehold expansion.

Answer: Bob Ivell, Executive Chairman

Okay Christmas bookings I think, I mean, Kevin I don't know if you want to...

Answer: Kevin Todd, Business Development Director

We use the comparison of deposits taken this year versus last year and we're positively up.

Answer: Bob Ivell, Executive Chairman

Where the weeks fall over Christmas can have such an impact on what stage bookings are looking as to where they are but to be frank yes that's generally what we're hearing is it's tougher but it's looking good and clearly I think the history for M&B is certainly Christmas Day, Boxing Day most of the units have been open for quite some time so there's a tradition there. I think some of our competitors haven't always opened on those days.

As far as strategic marketing and marketing is concerned, we haven't thrown this up in the air just for fun. Clearly we're going through a consultation process which has started today. I think it would be wrong for me to start describing what that organisation's going to look like now in advance. But be reassured that we're not throwing strategic marketing out the window, it's just how we're configuring the support to the brand operations directors which we believe is necessary. But we will enlighten people more on that as time goes by.

The other bit you said was marketing budget have we changed the marketing budget?

Paul Hickman - KBC Peel Hunt

Yes that's right.

Answer: Bob Ivell, Executive Chairman

We haven't well Tim...

Answer: Tim Jones, Finance Director

Our internal spend has a small decrease this year '12 over '11. We did do a number of national TV advertising campaigns and we'd expect to do less in the current year.

Answer: Bob Ivell, Executive Chairman

I think as I said earlier we've experimented with things like Sizzling Pubs. I mean Harvester TV advertising - it’s a brand, it's got proven results, it's got the national coverage that it needs - all those things work. Some of the other stuff that we've trialled and tested I have less strong views on.

I think the other thing is again it's a mentality, it's about how do you compete at the sharp end, how do you make sure you're promoting against so if you're Sizzling Steaks so how do you make sure you've got the right sort of packages out there to compete with Hungry Horse and all the other people that are in your market place. Again I think it's a discipline that we're imposing on the business to make sure it actually gets good returns for its spend. And I think some of that has been slightly vague in the past.

If you let marketing tell you how well their campaigns are doing - surprise, surprise they always tell you they're fantastic and get great returns. If you do it in finance, they'd give you a different view.

<u>Question 4</u>

Jamie Rollo - Morgan Stanley

Could you please first of all just quantify the cost increases you'll see in the various buckets for 2012 - food, labour, energy and so on?

Secondly, could you please also quantify the cost efficiencies and savings you're looking for so we can see if you're mitigating or indeed fully offsetting those increases?

And then finally, is there a Plan B if like-for-likes do go negative; how much flex do you have on costs and on capex for 2012?

Answer: Tim Jones, Finance Director

In terms of cost increases across the whole of our cost base on a sort of blended rate we expect it to come out about 3%. So that gives you, in terms of quantum, that gives you about £45 million year-on-year cost increases. The top end of that will be energy, probably between eight and ten additional of that will come from energy. We think food will be about 3%, 2.7%. I'd expect minimum wage and general wages around 2.5% something like that though they'll blend out at about 3%.

We've got a number of initiatives to try and pull that back. I think specifically those can probably total very close to that, probably maybe the 35 to 40, and the balance we'd look to achieve through like-for-like growth or what have you. So where does that all come out in terms of our margin - I think the headline will be as we said in the statement we're looking to try and mitigate those cost increases through our initiatives and try and hold our margin where it is for FY12.

We have a margin target which is in excess of that, which is in the range 17.3 to 18.3 by 2014. And we're still challenging ourselves to make that target. We're not moving away from that target but we're not going to achieve it in the current year.

That was your first two points wasn't it. What was the third one?

Jamie Rollo - Morgan Stanley

The third was on a Plan B.

Answer: Tim Jones, Finance Director

Ok obviously expansionary capex is discretionary and we only continue that to the extent that we can get good returns from it. If we can't get those returns then we'll turn that off pretty quickly. I think fundamentally this is a fixed cost business, you have to recognise that, in that we need staff in the pubs, you can dial that back a little bit when demand comes off, but it certainly doesn't happen on a pound for pound basis, there is operational leverage there.

<u>Question 5</u>

Lena Thakkar - HSBC

A couple of questions. Firstly, can you give us a feel for the spread of like-for-like performance across the brands, so which are doing particularly well and are any of them in negative like-for-like territory?

And just secondly on the pipeline of leisure and retail sites can you give us a feel for how many pubs are in that pipeline and the long term potential please?

Answer: Tim Jones, Finance Director

Yes in terms of spread of like-for-likes: high single digits is about the biggest outperformer. Some are in negative growth, are in decline, if you like, on a year-on-year basis. None are loss making though, they're all profitable and they're all profitable after they've been charged an internal rent for the freehold property estate as well. So I wouldn't say we have any brands that are in intensive care, if you like, although some are not going forward on a year-on-year basis.

In terms of the pipeline of retail and leisure parks. At roughly the same level of spend we would look to open, you know it's going to be somewhere in the region of 60 sites this year. Some of those will be freehold maybe about, ideally, you know a third to a quarter of those will be freeholds and I think the vast majority of those that aren't freeholds are likely to be where the consumer is, which is in a retail park or a leisure park. And we see, as we sit here today, we're confident in our ability to make that investment and to see those sites.

Lena Thakkar - HSBC

Okay. I'm just wondering if you've identified the long term potential for that market. So how many possible leisure or retail sites in the country have you spotted?

Answer: Gary John, Property Director

There are probably something along the region of about 365 from memory retail parks that drive sufficient traffic. Obviously that doesn't allow for the competitive landscape in each of those locations so we'd need to look at those on an individual basis but we're at the very early stages of that growth. The UK retail market's pretty much virgin territory as far as these brands are concerned.

Answer: Bob Ivell, Executive Chairman

So what we would do is very much clearly monitor our performance on those sites. And clearly, again, our view is you probably want to be more southern biased certainly at the present time on a number of those types of sites. But the potential is there. But it's a blend because we're talking about brands like Harvester, we're talking about brands like Toby where there's a selection. I mean clearly they're mainstream and still very much suburban sites out in the marketplace and we've got some great new ones coming through. And we've got a site about to open fairly soon where we have them side by side. And actually we've been able to save quite a lot of money in building the businesses together and our view that looks like it could be a very interesting potential for us going forward.

So it's a blend. And we won't run before we can walk but you've seen some of the returns that we seem to be getting. So we're very encouraged by those.

Question 6

Jeffrey Harwood - Oriel

Just in terms of the cash balances. Clearly they're quite significant not earning any sort of return at the moment. Are there any plans to address that position?

Answer: Tim Jones, Finance Director

Well I think, Jeffrey, we've taken our cash out of the securitisation so we have maximised efficiency where we can and we've cancelled our facilities. I do think rather than alighting on individual sections of the balance sheet we do need to have a holistic balance sheet strategy and at 4.7 times net debt to EBITDA with a £400 million pension deficit I don't feel this is a balance sheet I have a pressing need to throw cash out of to gear up. So whilst there may be a bit of inefficiency there structurally because we can't get it against securitisation I think we'll monitor it over time and I don't feel a pressing need to gear up this balance sheet frankly when you look at it on a holistic basis.

Jeffrey Harwood - Oriel

How about purchasing some of the bonds?

Answer: Tim Jones, Finance Director

Yes and that's something we're looking at and do look at. It's not straightforward: particularly the floating rate notes have swaps associated with them so the return on doing that is very low. The fixed rate notes tend to trade at a premium in an illiquid market and the price we could get those at doesn't look like the most economic at the moment. But you're absolutely right that's the sort of thing we'd keep under close watch. And that's the sort of thing we would do, which is reorganising the balance sheet rather than gearing up the balance sheet to shed out the cash.

Question 7

Nigel Parson - Evolution Securities

Two questions if I may? It looks like your LTIP is no longer in an incentive and I wondered if you had plans to abandon that and go back to shareholders with an alternative scheme?

And the second question is once you've found a CEO, Bob, do you drop back to be non-exec?

Answer: Bob Ivell, Exective Chairman

Yes, in terms of your last question. LTIP?

Answer: Saudagar Singh, HR Director

We continue to review incentive arrangements to ensure that they're competitively positioned against the market. We're well aware of the LTIP situation and it's one of those things which we will have a look at. So we haven't done any work on it at the moment but we're well aware of the particular issue in relation to incentivisation for our senior management. So it's subject to review.

Answer: Bob Ivell, Executive Chairman

It hasn't been our priority for the last few weeks but we are aware of it and as Saudagar says it's something that we will get round to at the appropriate point. And yes just following that I will step back once we have the CEO.

Any more questions? No.

Thank you very much.