



Mitchells  
& Butlers

Full Year Results 2018





**Financial Review FY 2018**  
**Tim Jones**  
**Chief Financial Officer**



# Key messages

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- Sustained like-for-like sales growth ahead of the market
- Profit growth in the second half
- Trading strong for first 7 weeks of FY 2019, with sales up 2.2%
- Cost headwinds and economic uncertainty remain
- Momentum building from second wave of initiatives
- Prioritising estate investment and de-leverage against a challenging back drop, no final dividend declared

# Income Statement (before adjusted items)

	<b>FY 2018 52 week £m</b>	<b>FY 2017 53 week £m</b>
Revenue	2,152	2,180
Operating costs	(1,849)	(1,866)
Operating profit	303	314
Interest	(118)	(124)
Pensions finance charge	(7)	(7)
Profit before tax	178	183
Operating margin	14.1%	14.4%
Earnings per share	34.1p	34.9p



# Income Statement (before adjusted items)

	<b>FY 2018 52 week £m</b>	<b>FY 2017 52 week £m</b>	<b>Movement 52 week %</b>
Revenue	2,152	2,141	0.5%
Operating costs	(1,849)	(1,833)	
Operating profit	303	308	(1.6%)
Interest	(118)	(121)	
Pensions finance charge	(7)	(7)	
Profit before tax	178	180	(1.1%)
Operating margin	14.1%	14.4%	(0.3 pts)
Earnings per share	34.1p	34.4p	(0.9%)

## Like-for-like sales

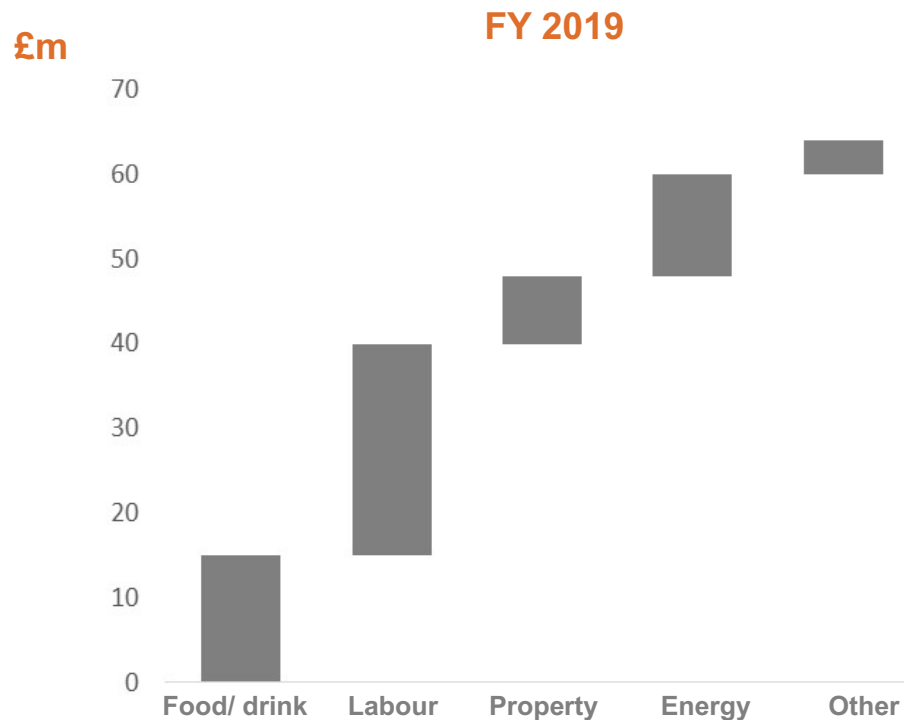
	Week 1 – 32*	Week 33– 52	Week 1 – 52	Week 1-7 FY 2019
Food	1.0%	(0.6%)	<b>0.3%</b>	1.8%
Drink	1.9%	3.5%	<b>2.6%</b>	2.7%
Total	1.4%	1.2%	<b>1.3%</b>	2.2%

- Sales growth driven by increase in spend per item in part reflecting premiumisation of the estate
- H2 food and drink performance impacted by weather and the World Cup
- Sales momentum continued into early FY 2019; strong start to the year

\* 32 weeks to adjust for the movement of Easter into first half of the year

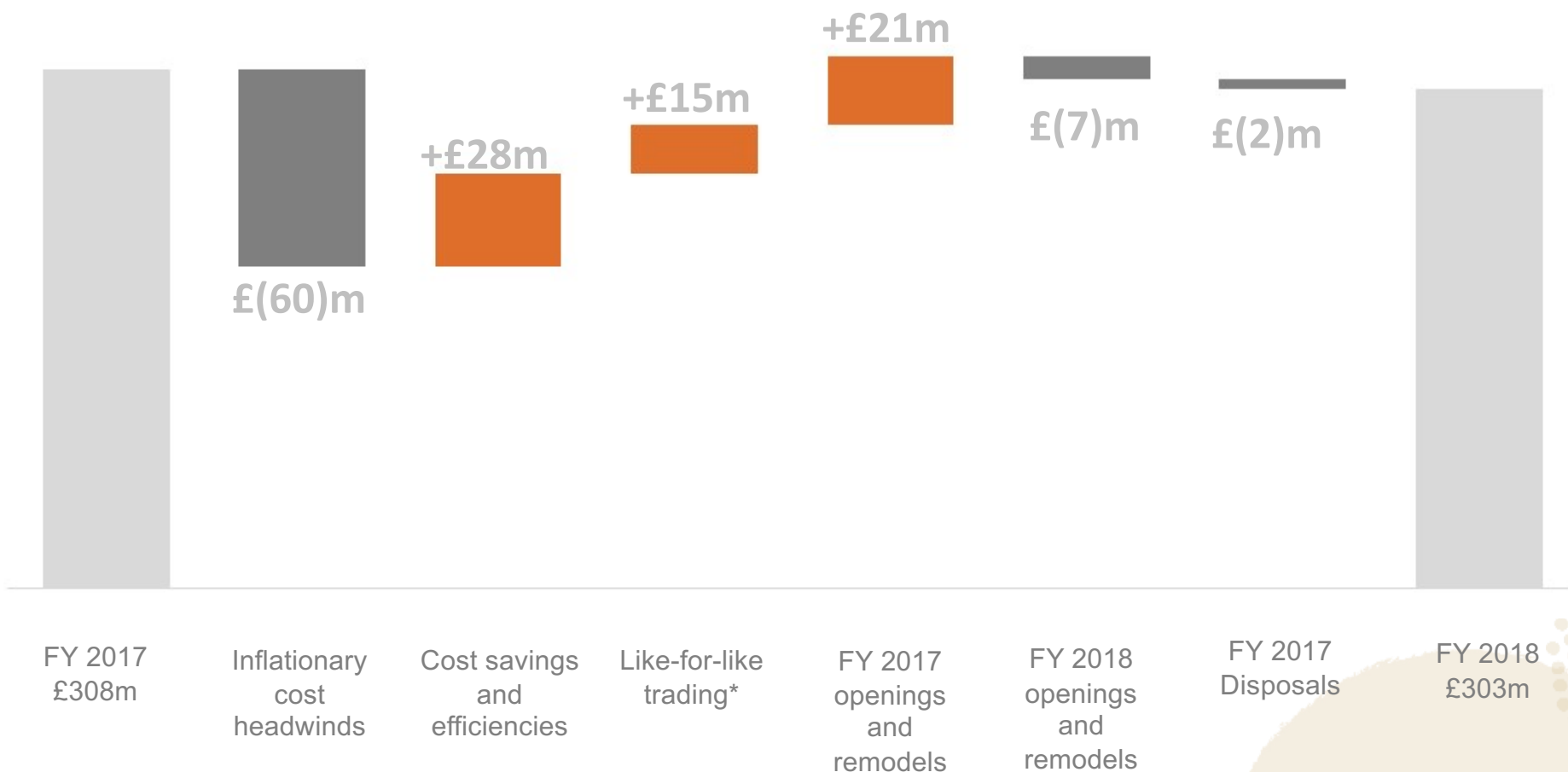


# Inflationary cost headwinds



- Mitigation of £28m in FY 2018 through procurement, labour, capital plan efficiency and other site level initiatives
- FY 2019 cost headwinds anticipated to be marginally stronger impacted by energy, wages and food inflation
- Uncertainty remains as to the impact of Brexit

# Adjusted EBIT movement



\* Includes impact of snow



# Property estate valuation

- Estate > 80% freehold and long-leasehold sites
- 20% of sites inspected per annum
- Short leaseholds assessed for impairment
- Total value of £4.4bn (FY 2017 £4.4bn)

		FY 2018 £m	FY 2017 £m
Income Statement	Revaluation	(28)	(51)
	Other Impairment	(15)	(17)
	Impairment of assets held for sale	-	(4)
Balance Sheet	Revaluation Reserve	(5)	74
		(48)	2

# Capital expenditure and returns

	FY 2018		FY 2017	
	£m	# sites	£m	# sites
Remodels - refurb	63	188	42	143
Remodels - expansionary	7	13	14	31
Conversions	21	31	39	78
Acquisitions – freehold	7	2	3	1
Acquisitions – leasehold	3	5	18	12
<b>Total return generating capital</b>	<b>101</b>	<b>239</b>	<b>116</b>	<b>265</b>
<b>Maintenance and infrastructure (excl remodels)</b>	<b>70</b>		<b>53</b>	
<b>Total capital expenditure</b>	<b>171</b>		<b>169</b>	

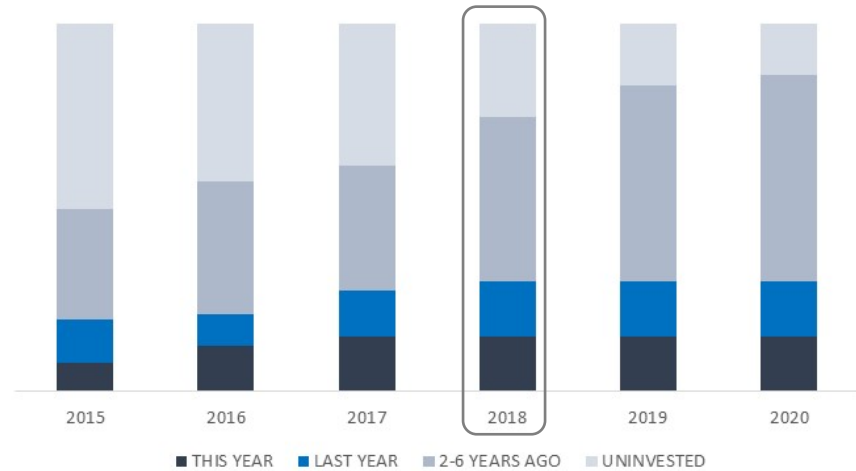
- Increase in maintenance and infrastructure capital includes c.£10m IT spend
- EBITDA return for FY18 conversion and acquisition projects of 33% leasehold and 21% freehold
- Sales uplift on remodel projects continues to exceed 10% and EBITDA returns for FY18 projects of 27%
- Capex expected to be slightly higher in FY19, in range of £175m - £180m



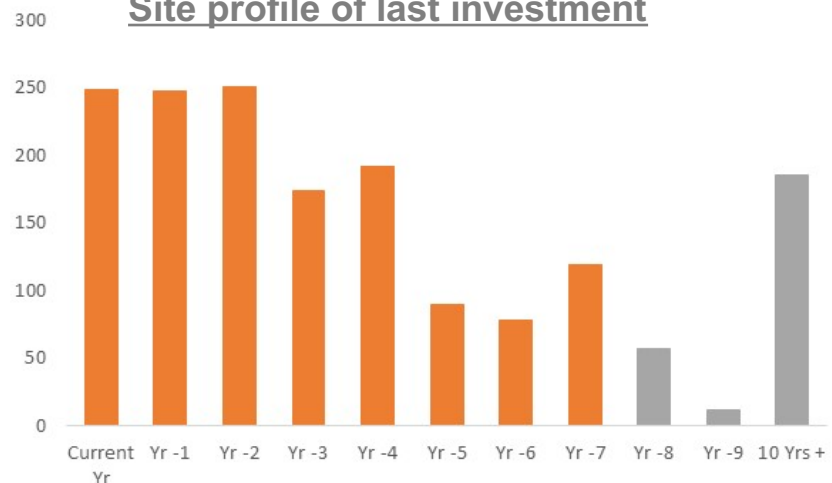
# Capital expenditure and returns

- Now on a 6-7 year investment cycle
- Reducing the average time since remodel across the estate
- Still a tail of (largely wet-led) sites over 10 years since last investment
- After 2020 reach steady state

Remodel profile of estate



Site profile of last investment



# Cash flow

	FY 2018 £m	FY 2017 £m
EBITDA before adjusted items	422	429
Working capital / non cash items	7	(10)
Pension deficit contributions	(48)	(46)
Cash flow from operations	381	373
Cash flow from adjusted items	(2)	-
Capital expenditure	(171)	(169)
Net interest paid	(119)	(121)
Tax	(20)	(26)
Disposals and other	1	46
Free cash flow	70	103
Mandatory bond amortisation	(82)	(77)
Net cash flow before dividends	(12)	26
Dividends	(7)	(12)
Net cash flow	(19)	14
Group net debt	(1,688)	(1,750)
Net debt : EBITDA*	4.0x	4.2x

\* based on 52 week EBITDA

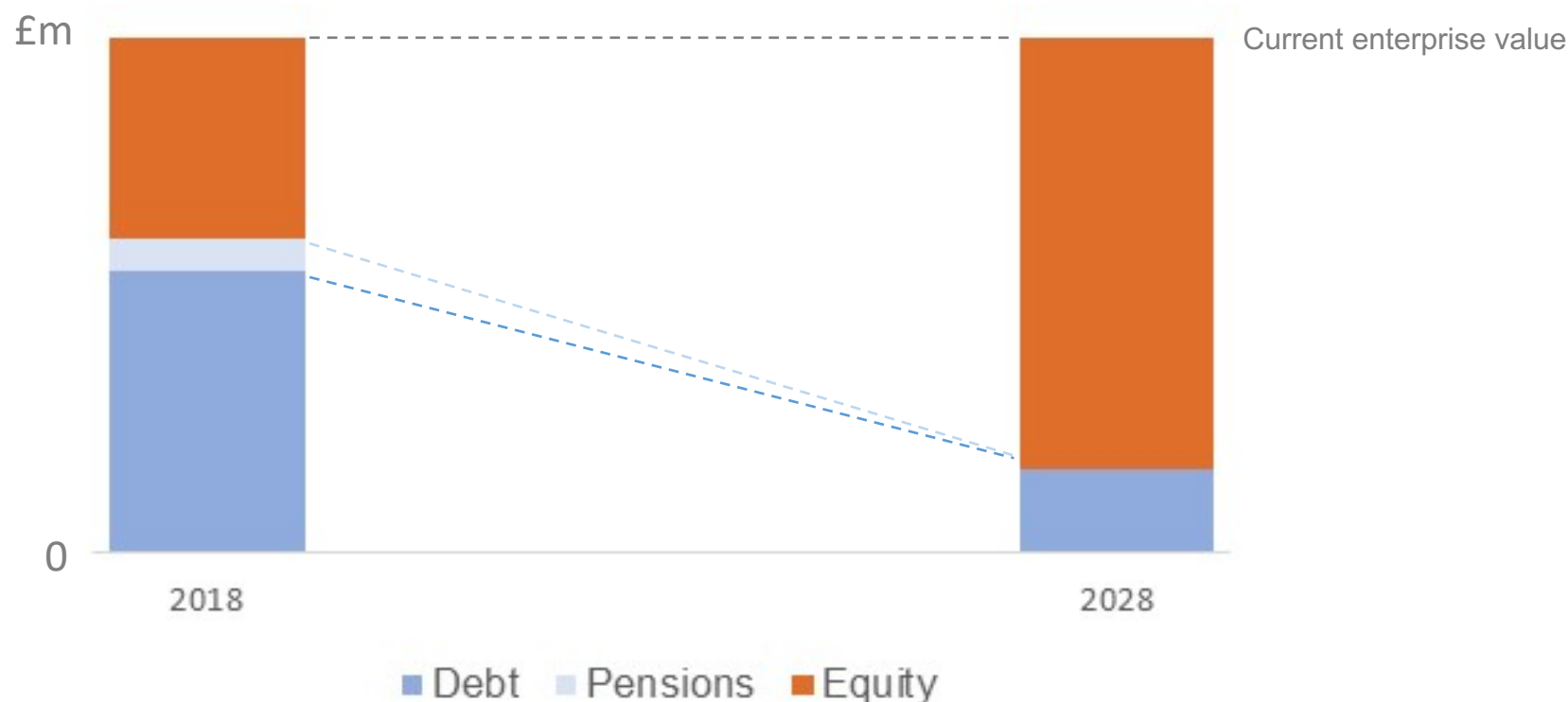
# Capital allocation and cash flow policy

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- Mandatory fixed charges on cash generation include debt service (c.£200m pa) and pension contributions (c.£48m pa)
- Remaining cash allocation priorities:
  - Investment in the estate to remain competitive; and
  - Maintaining a strong balance sheet
- Dividends assessed from resultant in-year cash generation; not being sustained by increasing levels of short term debt
- On this basis, and given the uncertain outlook, no final dividend is declared for FY 2018



# Deleveraging capital structure



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

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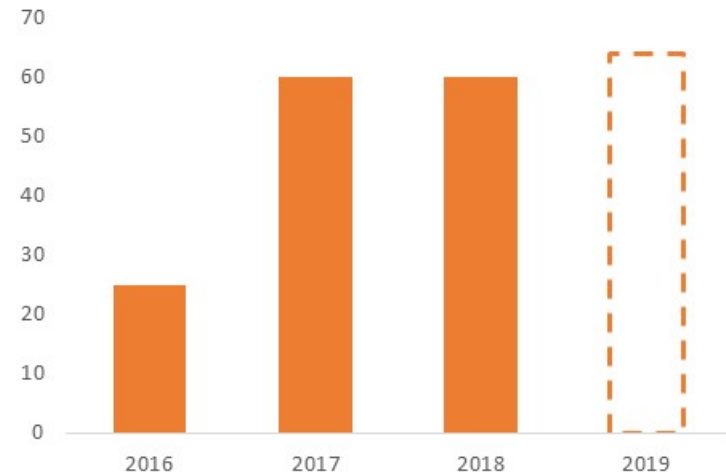
**Phil Urban**  
**Chief Executive Officer**



# Market environment

- Ongoing Brexit impact uncertainty
- Sector impacted by living wage, business rates, cost of goods, statutory energy costs, apprenticeship levy, sugar tax etc.
- Restaurant supply growth starting to abate
- Pressures are resulting in a number of CVAs and closures

Cost Inflation



Restaurant Supply Growth



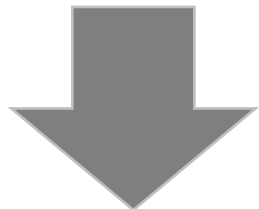
Source: CGA, MAT growth in restaurant outlets

# Market size and share

Number of people eating out



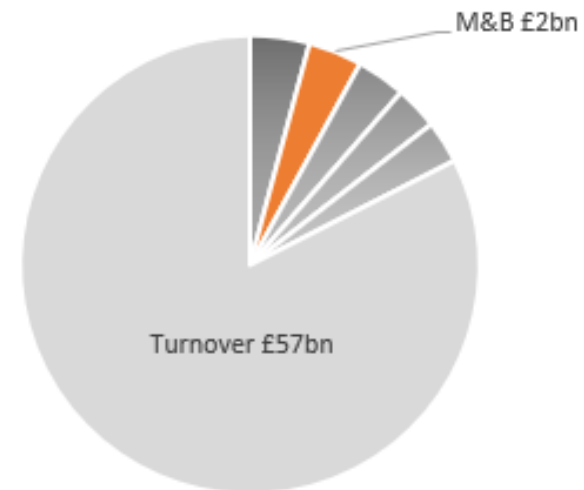
Average frequency



Average spend per visit

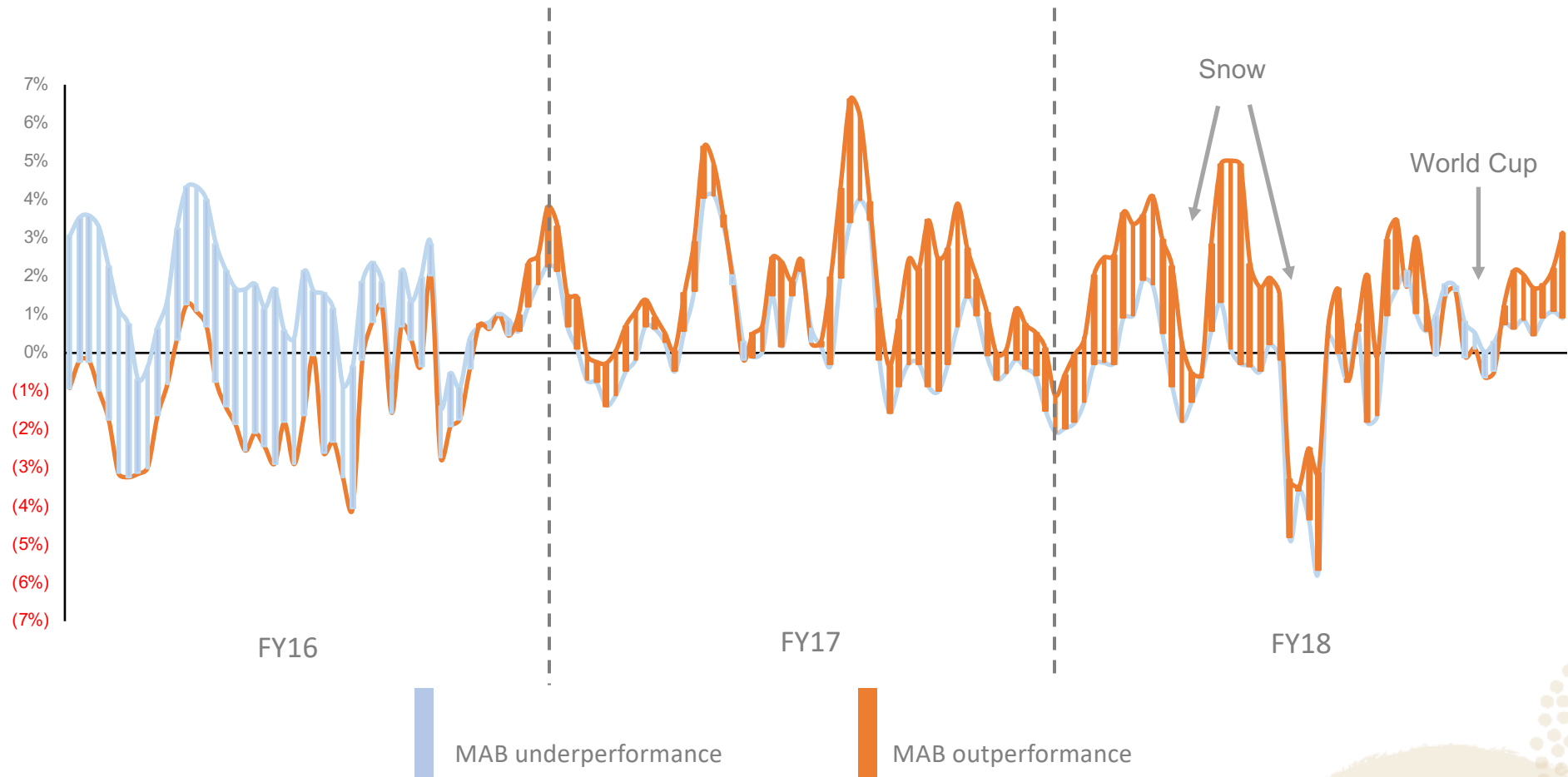


Pub and Restaurant Market



M&B accounts for <4% of market turnover

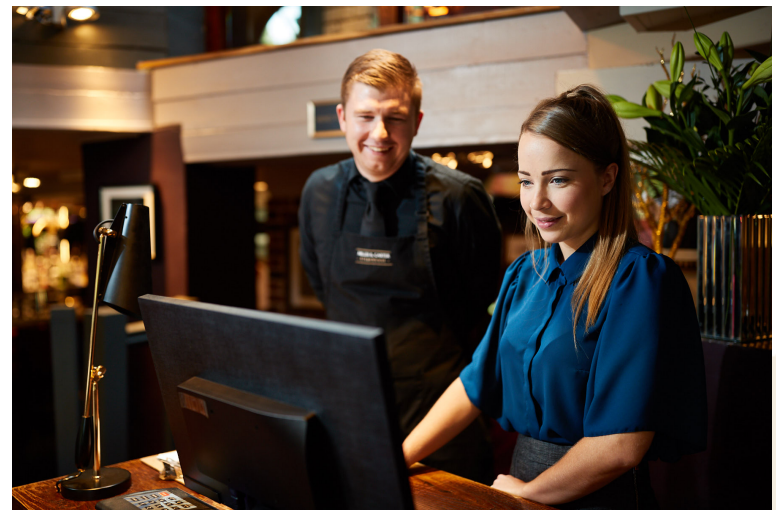
# Like-for-like sales versus market



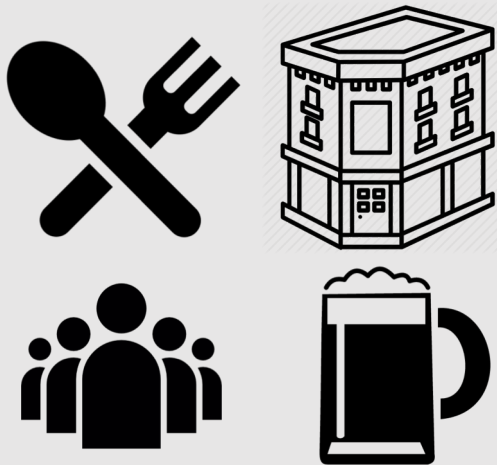
*Rolling four-weekly average vs Peach Tracker*

# Ignite 2

- Renewed programme of work with multiple workstreams
- Project office and governance routine now in place focusing on maximising and safeguarding value created from each workstream
- A number of initiatives already implemented and others are longer term



# 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



## Drive an innovation agenda

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



# Cashless sundries and IntelliQ

- Removal of cash expenditure for sundry expenses within businesses:
  - Heightened visibility of spend
  - Enable opportunity to use scale to reduce costs
  - Trial complete, roll out in FY 2019
- Introduction of interrogative software:
  - Analyses all transactions identifying suspicious activity



# Menus

## STARTERS

### SCALLOPS OF THE DAY

### SOUP OF THE DAY

### LOBSTER & KING PRAWN POT

in Devon crab crème fraîche with toasted ciabatta bread

### THYME-ROASTED PORTOBELLO MUSHROOMS

in Cropwell Bishop sauce with rustic toast (v)

### DUCK LIVER & PORT PARFAIT

with gooseberry & Prosecco flavour compote and toasted ciabatta bread

### DEEP-FRIED BRIE

in panko breadcrumbs with chutney (v)

### SWEET CHILLI KING PRAWN ROLL

with julienne vegetables, chilli and coriander, wrapped in rice paper, with a sweet chilli & soy dipping sauce

£5.25

£7.95

£6.95

£7.50

£6.25

£6.75



### CRISPY KARAAGE CHICKEN

with cucumber ribbons, mooli, kale & cauliflower couscous salad and warm katsu sauce

### CHARGRILLED LAMB KOFTAS

Goats' curd, plum tomato, roasted red pepper, cucumber & mint salad

### SALT & SZECHUAN PEPPER SQUID

with aioli

£6.95

£6.95

£6.95

- Rationalisation of products, removing ingredients not widely used on the menu and creating waste
- Review of menu psychology
- Use of consumer insight to ensure menu appeal

- Updated stock system will enable:
  - Remote stock counting: use of bar scanning which automatically syncs with the live stock system to enable more flexible and faster counting
  - Auto-ordering: system generated suggested orders based on individual site trading history
  - Prep & par systems: guidance on levels of stock to prepare for each service will reduce waste and instances of stock outs





- Technology is evolving consumer behaviour
- Workstream to enable more agile adoption of new technologies
- New CRM system in place
- Recommendations of alternative M&B venues when fully booked
- Payment from mobile device enabled across all brands
- Order at table from mobile device trialled and ready for further roll out



# People

- Engagement scores are up across all cohorts
- Turnover at manager level has reduced by 2.6ppts
- Kitchen manager turnover has reduced most significantly
- 1,800 apprentices in the business across retail and corporate schemes





# A lot of ground covered

- Miller & Carter to >100 sites
- Responding to 93% of online reviews through reputation.com
- 131 sites offering delivery through Just Eat and Deliveroo
- Table and kitchen management systems integrated into business
- 130k online bookings a week
- Award winning digital learning platform



## Further innovation

- Exploring joint venture opportunities with agreement in place with Ego Restaurants
- First Miller & Carter site in Germany to open 2019
- New innovation being continuously explored and trialled and fed into main business where appropriate



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Questions





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**Full Year Results 2018  
Supplementary Slides**

## FY 2018 – Outlet reconciliation

	Total Managed <sup>1</sup>	Franchised	Total MAB
Opening outlets (start FY 2018)	1,695	59	1,754
Transfers	(2)	2	-
Disposals	(10)	(1)	(11)
Acquisitions	7	-	7
Closing outlets (end FY 2018)	1,690	60	1,750

**Notes:**

1. FY 2018 closing managed total includes 3 non-trading sites.
2. Lodges attached to sites do not appear as a separate outlet.



# FY 2018 – Financial covenants summary

## Securitisation Restricted Payments Tests

	Test	Actual (Relevant Year)	Headroom
Free cash flow to debt service	1.3x	1.4x	£20m
EBITDA to debt service	1.7x	1.8x	£17m

## Securitisation Covenants

	Covenant	Actual (Relevant Year)	Headroom
Free cash flow to debt service	1.1x	1.4x	£59m
Net worth	£500m	£2,136m	£1,636m

## Non-Securitised Facility Covenants

	Covenant	Actual (Relevant Year)	Headroom
Net debt to EBITDA	3.0x	(0.55)x	n/a – (no debt)
EBITDAR to rent plus interest	2.0x	2.72x	£29m

**Note:** Shows annual test only. Full details at [www.mbplc.com/investors/securitisationanddebtinformation/](http://www.mbplc.com/investors/securitisationanddebtinformation/).

# FY 2018– Securitisation profile

