Mitchells & Butlers PLC Half Year Results 2021 presentation - 19 May 2021

Phil Good morning and welcome to the Mitchells & Butlers interim update. I should start by saying we're delighted to be open for business after what has felt like a very long lockdown. As of Monday this week circa 95% of our business is now trading again and judging by the bookings, which I'll talk about later on, we're in for a busy time. It feels great to be back and we're excited about the future again for the first time in a long while.

We've split today into two sections. Tim Jones our CFO will start by taking you through the half year numbers, the balance sheet and our cash position, and I will follow on and remind you of the roller coaster nature of the last six or seven months, give you our read of the macro landscape as we emerge from lockdown, and then update you on the range of activities that we're kickstarting, which we hope and believe will return us to the path that we were on as a business before COVID-19.

So, let's start with Tim.

Tim Thanks Phil, and good morning everyone. Clearly, it's been a difficult first half, we've only been open and trading for 14 weeks, and even that was on a partial and very restricted basis, so absolutely no surprise that sales are well down on last year, and despite strong controlled costs wherever we could, this inevitably flowed down to a large loss for the period, £124 million before separately disclosed items.

Given the unique circumstances I'm not tending to dwell too long on the trading result. We started the period on the back of a very strong summer rebound but, as you're well aware, as infection rates rose, so restrictions of increasing severity were introduced, leading to second shutdown for us in November, and then having reopened but pretty well lost all the important festive trading season we were back to full closure again on 30 December, and that's where we stayed until the end of the first half.

Subsequently, of course we have reopened and we're trading outdoors for the last five weeks. We've approached that carefully given the fact that many of our sites and our brands are food focused. Initially we opened 14% of the estate, that increased to 44% by the end of the five weeks, and overall open sites have traded 37% down on their level of sales pre-COVID indoor and outdoor. We wouldn't see any direct read across for that performance to future sales or indoor trading, but it has at least afforded us the opportunity to build up to this Monday's reopening on a slightly more controlled basis than a big bang.

Clearly, the most important event in the period for us was the announcement and the completion of our £351 million equity raise, so for the open offer, in conjunction with announcing a secured new debt finance package including covenant waivers and amendments and agreeing to extend our £150 million unsecured facility for a three-year term. That capital raise has been imperative to raise funds to fund short-term working capital and to reduce the level of debt that we've built up over COVID, but it also crucially enables us to restart our capital programme, our investment programme across the estate, which we believe has been one of the main pillars of our outperformances of business in the sector before COVID, and we will be looking to get back on to that six- or seven-year re-model cycle we were on before as soon as we can now that we've reopened.

The importance of the capital raise is very clearly seen within our cashflow statement. A very large outflow of cash over those six months of operations and indeed before financing, despite the fact that we've limited all costs and capex as far as we can throughout the period.

I think the most important point for us today though is where does that leave us in terms of indebtedness, we have a net debt of just over £1.4 billion, so that represents gearing of 3.4 times if I use a pre-COVID level of EBITDA, so a normal full trading EBITDA. That's reset our debt position to slightly lower actually than it was when we went into COVID, and of course we also benefit from longer-term unsecured facilities and some flexibility on covenants we've managed to negotiate through our refinance package.

Looking forward, our strategy remains to focus primarily on debt reduction whilst investing in the competitiveness of our estate, very much picking up with where we left off before the pandemic. Pulling all that together, we've had the first half that's been dominated by restrictions on trade, frankly we're just pleased to see that behind us, but we have protected cash with minimised cost as best we can, through our equity and debt refinance package we emerge with a reset capital structure and I think in good shape to face the challenges and the opportunities that now lie ahead of us. To which end, we're confident that we're now well positioned to create value if we're allowed to stay open and trade, both through port trading backed by our Ignite programme which we're restarting, and also to continue to deleverage our balance sheet as we were doing before.

To give you a little bit more detail about how we're going about on that, I'd like to hand over to Phil.

Phil Thanks, Tim. As you will appreciate the last six or seven months have been very difficult for the hospitality sector with the stop-start impact of last autumn's tiering system, the loss of almost all of the festive peak season, followed by complete lockdown from January which lasted for the whole of our second quarter. It's only from Monday of this week that we're open again across the UK for indoors trading, so we've yet to see how quickly we will recover in the wake of the pandemic.

Back in October, as our new financial year commenced we were already beginning to see infection numbers rise and more restrictions being imposed as a consequence of this. Different tiering systems and protocols across England, Scotland and Wales made it very difficult for our general managers to keep on top of everchanging rules. The move to single family groups only and a 10pm curfew in England did the most damage to trade, and the so called 'circuit breaker' lockdown in November further undermined consumer confidence in the sector. However, it was the loss of Christmas trading for the vast majority of the business that had the biggest impact, swiftly followed by complete lockdown from January.

Government support for hospitality in the form of business rates relief and grants, whilst appreciated, did not come close to covering the losses across the sector, and as a big company we were shut out by the state aid cap in terms of eligibility for all the grants. Clearly the extension of the job retention scheme was welcome in terms of protecting jobs, but as the employer has had to pay for pension and NI costs throughout, even this was a net cost to us. As you know, in March we successfully raised the equity that we needed to ensure that we had sufficient funds to withstand a prolonged lockdown which puts us in a good position as the sector reopens. With the apparent success of the UK's vaccination programme that is now reflected in reducing levels of COVID-19 infections, hospitalisations, and deaths, we can now at last be hopeful that we're on the path back, and reopening this week feels like a major step forward. Clearly, we still have to apply COVID-secure protocols such as 1m+ table spacing, rule of 6 and table service only, all of which limits our capacity and impacts on our trade, but we expect that some or all of these restrictions will be lifted on 21 June whereupon we believe the business can bounce back strongly.

There's no denying that hospitality has been one of the most severely impacted sectors by the pandemic. Ever since the prime minister started talking about pubs being potential hotspots for contracting the virus the sector has had to endure a lot of potentially damaging PR in terms of consumer confidence. It's worth stressing again that there have never been any figures produced that support this hypothesis and given the extensive protocols that we've all adopted we would argue that UK hospitality venues have always been and remain very safe places to be. Fortunately, many of our guests agree and are still determined to enjoy what we have to offer as evidenced when the gardens reopened on April 12.

The current estimated fallout from the sector in terms of capacity sits at 7%, but unless the rent/debt time bomb can be resolved we would expect many more businesses in the sector to fail over the coming months. Clearly, any reduction in supply has a benefit to those that remain, which of course includes us.

The pandemic has impacted the whole of society and people have changed their habits. We won't know for sure what sticks until the sector has reopened for some time, but it seems likely the homeworking or hybrid working model will increase versus pre-pandemic which obviously reduces footfall in city centres but benefits the suburbs. Our estate is very well balanced, so if one segment suffers another will benefit at its expense.

It also seems likely that high levels of guest adoptions of things like order and pay at table and delivery, both of which have been boosted by restrictions, will remain. We've also seen an increase in spend-per-head across our business as people have embraced being able to come out again, and we believe that people will value their eating and drinking out occasions more so than they did before having been starved of them for so long.

We initially reopened 270 businesses in England for outdoors trading on April 12 and then progressively more across England, Scotland and Wales in the run up to May 17. A combination of the euphoria over being able to meet friends again and the fact that circa 60% of the sector remains shut, and unseasonably dry weather meant that we had a very strong first two weeks of trading, belying the fact that we had outdoors-only trading and with COVID-secure restrictions in place and therefore significantly reduced capacity. However, once the weather broke it was a reminder that the UK doesn't always suit alfresco dining occasions and levels of trade fell back, although we have plenty of examples of hardy souls refusing to leave their pints just because of a bit of rain.

Pleasingly, guest review scores have been very strong sitting at 4.4 up from 4.1 pre-pandemic. I'm sure there's a little bit of goodwill in that score but it does bear testimony to the great work our teams have done in delivering safe and hospitable service to our guests.

The first two weeks were strong for the whole sector, which caught the supply chain out as not only were individual sites smashing their projections, but operators were deciding to open more sites given the success they were seeing. This led to a few product shortages that you will have no doubt seen reported but this was to be expected as our suppliers have been lockdown too and getting back to full production takes time. The poorer weather has reduced volumes, and this has allowed the supply issues to be largely resolved in readiness for the 17^{th}. We always viewed 12 April as a dress rehearsal and 17 May as being opening night. The sites that were able to open before 17^{th} had the advantage of blowing away any cobwebs built up as a result of being closed for four months and they provided valuable insight into how to handle the current suite of protocols.

The teams who have worked have consistently fed back that, a) they've been amazed at how quickly and easily they've got back into the swing of things, b) how this time around guests don't appear to be anywhere near as anxious as they were last summer, and c) whilst great to be back they hadn't realised how far their garden tables were from their bars and kitchens. Happy but tired teams.

We now have circa 95% of our sites open and trading, with only those sites that are totally dependent on closed offices or closed anchor tenants in the UK remaining shut. Our German business, Bar ALEX, only has four of its outside terraces currently trading with the rest of the business remaining closed. However, we remain hopeful that we should be able to reopen in full next month.

Forward bookings have looked strong for some weeks now, and although we expect to see a level of attrition where guests have booked more than one venue, we also expect walk-in business to more than make up for this. Between 17 May and June 21 indoors capacity will be reduced due to the 1m+ ruling but we would home and expect to be able to add back in covers from June 21 onwards whereupon we expect the business to trade very strongly.

As the sector reopens it will become quickly apparent how many of the people who've been on long-term furlough return to the industry. You will have seen industry reports citing concern over labour shortages, not helped by Brexit where European nationals have returned home and are either unable to or have no intention of returning. That said, people will also be nervous about re-joining the sector until there is more certainty there'll be no further lockdowns. We anticipated that this may be an issue and have already had a series of targeted recruitment drives in those locations that may be problematic. We've also set up M&B Borrowed where team members can take on shifts in other M&B businesses if their site is still closed or if they have insufficient hours. As of today, management vacancies are no different to the level we would normally expect at this time of year, which is very encouraging, but it is in the front and back of house team roles where we've lost some people over the last year and this is where those roles will need to be filled as trade builds.

Given the level of applicants we've already seen we're confident of filling our front of house roles quickly, but as always it will be the back of house areas where we envisage pressure. That is why our ongoing investment in our own chef academy and kitchen skills training and our apprenticeship training is so important.

Having been in fire-fighting mode for the last year it has been good over recent weeks to get back onto the front foot. We have used the lockdown period to do a lot of planning and we're already under way with our Ignite transformation programme which was serving us so well pre the pandemic. To remind you, this is an evolving programme with circa 40 to 50 individual initiatives that we drive across M&B that together can step-change performance and meet our strategic priorities which are building and maintaining a balanced portfolio, creating a commercial edge to the way we do business, and driving an innovation agenda. We prioritise those initiatives that are the enablers for many other workstreams. For example, finally landing our Auto Order and Prep and Par initiatives will enable us to step-change the control of our margins. The Master Data Management Project, or MDM as we call it, will complete this summer which will mean, as the name suggests, we'll have one version of the truth for a wide range of our data, which will save a huge amount of time and cost. For example, when products or prices change there are currently many different channels that need to be separately updated multiplying the potential for mistakes whereas with MDM, we'll be able to change once and publish everywhere.

The other Ignite initiatives will recommence in earnest in June and will be added to or evolved with the learnings that we've taken from lockdown. An example of this would be the order at table initiatives where pre-pandemic our main focus was on rollout and driving guest adoption however the last year has accelerated that aspect of this initiative so we can now focus on how best to drive spend and enhance guest experience.

We've also been planning to relaunch our capital programme which was a big driver of our success before the pandemic and we will complete several schemes between now and Christmas before ramping up the programme again in 2022. Our aim will be to return to a six- to seven-year cycle of investment as soon as we can and to ensure that when we do invest, we invest in the whole business inside and out. We have proven investment models for each of our brands that were delivering strong returns before the pandemic and we see no reason why this can't continue.

In summary, it's been a very frustrating year but it finally feels as if we're on the way back. We have a great portfolio of predominantly freehold sites with strong brands and a team of people who we believe are unsurpassed in the industry. Providing restrictions are lifted in June as announced I would expect us to have a strong finish to this year so that we enter FY22 on the up. We aim to get back onto the same journey that we were on before the pandemic as quickly as we possibly can and then as we de-gear we will once again create sustained shareholder value.