Mitchells & Butlers PLC Full Year Results 2020 Conference Call - 26 November 2020

Phil

Good morning, this is certainly a slightly surreal business update and one that none of us could have anticipated at the beginning of the year. Clearly, 2020 has been dominated across the globe by the COVID-19 pandemic and here in the UK as the government has been trying to balance the need to protect the health of the most vulnerable in society with trying to keep the economy firing, hospitality has been one of the sectors bearing the biggest brunt of government actions.

I will give you a short update on how the year has unfolded with some detail on the steps we took to make the business COVID secure, and on why we remain optimistic about how, once the pandemic is over, Mitchells & Butlers is well-placed to see the business recover quickly. Tim will then take you through the financial detail.

FY20 started very well as the benefits from our Ignite transformation programme had started to flow through the P&L. Sales outperformance, stronger margins, better labour efficiency and generally strong cost control meant that before the pandemic started we were sitting comfortably with good year-on-year operating profit growth of 5% and a programme of initiatives still to land. The momentum we had built over the previous three years was strengthening.

As news about COVID-19 began to grow, our trade proved to be fairly resilient up until the time the Prime Minister started advising people to stay away from pubs and restaurants. At that point we saw a marked drop in year-on-year sales and that was quickly followed by full lockdown across the UK from March 20th. Alex, our German business, had already been closed on March 16th. We moved quickly to try and sell any perishable stock or divert it to charitable causes where we were able to donate over 11 tons of food however, given the immediacy of lockdown, there was little we could do to avoid writing off stock held further up the supply chain. We'd also stocked up beer for St Patrick's Day and so many sites had full cellars at the point of closure. This became a bigger issue when it came to reopening as we had to get water board clearance from each individual authority and for each business before we could pour the beer away.

Over 99% of the M&B team were placed onto furlough and we set about working with our suppliers and landlords to agree new payment plans with a view to preserving cash. At the time none of us knew how long the lockdown would last, and so we took the decision to clamp down on all expenditure immediately. This included halting work on our Ignite programme and cancelling the vast majority of our capital programme. As reported at our Interims we were able to secure additional liquidity facilities and a number of waivers within our securitisation, which Tim will update on, but at the start of lockdown this was our main priority.

Lockdown lasted for 14 weeks and so we had to maintain a skeleton field-based team who ensured that businesses remained secure, had no issues with pest control, and who could respond to maintenance issues that occurred during the period of closure. There was also a team working to ensure that we could deliver our Interim results. We also played an active role in supporting our trade body, UK Hospitality, who have done a fantastic job from day 1 of this pandemic in lobbying government throughout the closure period, firstly to secure an early warning of the likely reopening date to enable the sector to re-stock and be prepared, but also to devise the COVID secure protocols that we recognised would be required in order to open safely.

Reopening on Saturday 4th July was predicted by the media to be manic and have real potential for disaster, but in fact we were able to control capacity in all of our businesses, and due to the extensive protocols, for example tables spaced 1.5-2m apart, sanitising stations throughout the business and clear floor signage to keep guests apart, we were able to professionally serve our guests with both they and our team feeling and being safe. Trade built quickly throughout July, although it's fair to say that a pattern was very quickly established that saw the city centre businesses and wet led businesses struggling whereas the suburban and food led businesses did very well. Miller & Carter particularly, despite their reduced capacity, had many days of like-for-like sales growth which was incredible to see. Customers were clearly pleased to be out and willing to trade up. The reduced capacity also meant that our guests quickly got used to coming out earlier than they normally do to secure a table. Conversely, Nicholsons, our predominantly city-based wet led brand really suffered, a combination of city centre offices being kept closed and no tourist trade meant that some of its sites had to remain closed.

The Eat Out to Help Out government-sponsored scheme in August was a huge success with guests enjoying 50% off food and soft drinks Monday to Wednesdays. Whilst there was a little cannibalisation on Sundays and Thursdays, we enjoyed like-for-like growth of 1.4% for the period. Trade held up well into September, but due to rising infections regulators introduced more stringent restrictions in England making the wearing of face masks mandatory when walking around hospitality businesses, insisting on table service only, and introducing a 10pm curfew. That was quickly followed by a tiering system in England, with a new families-only rule for tiers 2 and 3 replacing the previous Rule of 6 doing the most damage to sales. With infections continuing to rise England followed Wales by moving to full lockdown.

As of today, we are trading in Wales and Scotland although the Scottish tiering restrictions are making most businesses marginal at best. Our Alex business is currently in lockdown and is not due to reopen until 20th December; that date has moved recently. We will reopen our doors in England from the middle of next week, but that will be with tougher tiering restrictions than we had when we shut. All tier 3 sites will have to remain closed except for any delivery business, and tier 2 sites will now only be able to trade if a substantial meal is served. Sensibly, the curfew has been amended with 10pm now being last orders and an additional period allowed for guests to complete their meals and disperse slowly instead of all at once.

We, like our peers in the sector, feel extremely let down by the latest regulations that single out hospitality businesses in the run up to Christmas. The protocols that we operate with make our venues very safe for our teams and guests alike and there has been no evidence provided that can link the spread of the virus to the sector. Allowing gyms and retail to reopen, having a five-day period where families can mix in their own homes is totally inconsistent with the government's approach to our sector. Throughout the pandemic the sector has behaved entirely responsibly and professionally, so if the government is determined to undermine us during the busiest trading season, then it's time for some sector-specific support. Christmas is of course our biggest month and so we were keen to be allowed to trade. We know the festive trade will fall well short of prior years with some sites now being closed, we will not have the big parties that boost trade in the run up to a normal Christmas, and reduced capacity will make it impossible to serve the same number of guests as we normally do, however we would still expect December to be a relatively good month for those sites that can trade, and a profitable month.

Looking further forward, it's fair to say that we and the sector will not recover to pre-COVID levels until restrictions start to be lifted. News of an impending vaccine is therefore very positive, as once the most vulnerable in society have been protected it will be easier for regulations to ease. Given how we were trading in the summer, and the fact that during this period our guests' health scores improved from 4.1 out of 5 pre-lockdown to 4.3 post, we are confident that we will bounce back very quickly when they do.

Finally, our work on the Ignite transformation programme continues in the background and we are ready to start accelerating progress in early 2021. There have been very few positive things coming out of this pandemic, but maybe the quicker adoption of technology has been one of them. We will have order at table apps up and running across eight brands pre-Christmas, and where we are already using them 35% of transactions are coming through this channel from a standing start. We have also seen a step up in our deliver and click-and-collect channels where the latest weekly turnover pre-lockdown would suggest an annualised income stream in excess of £20m and growing. Like everyone else we have also been forced to embrace the world of video conferencing, as we're doing on this call, and now we know it can work this too should save a lot of travelling costs for the business going forward.

I'd like to finish by saying a few words about our people. When I look back over the last eight months, I cannot find the words that do justice to the professional job everyone has done. Almost everyone in the team has had to accept a salary cut for four months of the year or more, our frontline teams have had to understand and deliver ever-changing protocols and manage the associated customer reaction, and most importantly of all our leaders have had to help our team overcome their anxieties, either relating to the pandemic or to the security of their jobs. Protecting as many jobs as we can is a priority for us, as it is our people who have driven the progress we've seen in recent years. Unfortunately, we have not been totally immune to the effects of the pandemic and we have had to lay off circa 1300 jobs where there is no intermediate prospect of those roles being required again. It is our hope that with the job retention scheme extended through to March we can continue to protect the vast majority of remaining roles in the business and we will be able to hit the road running when restrictions are lifted.

In summary, we were in great shape before the pandemic, with a clear programme of work that was building on our momentum. It is worth reminding you that we have an 82% freehold estate, a broad portfolio of popular brands, and once we come through this pandemic we will be in a sector with reduced supply. We have built a track record of delivery in recent years and Ignite 3, with its programme of initiatives, will provide additional impetus to our progress. The pandemic and subsequent restrictions and lockdowns have temporarily put the brakes on, but we see no reason why once they're behind us that we cannot quickly get back onto the path that we were on and back to the top of the UK hospitality sector. I will now hand over to Tim.

Tim Good morning. It has of course been a very difficult year and a lot of uncertainty still remains, but I do believe that we've taken very quick and very effective action to respond to all the challenges presented to us, and that has left us very well-placed to benefit as and when restrictions are limited.

If I start with the income statement for the year, I'll remind you that this is the first year of our adoption of IFRS 16, which has an impact on presentation both of the income statement and the balance sheet, and the prior year has not been re-stated. To be honest, the impact of that is swamped by the disruption that we've experienced in the second half as a result of COVID though.

Overall, we made an operating profit for the year of £99m, so a very small loss in the second half; at the half-year we'd made a profit of £108m.

If we look at sales, and this slide really gives you the narrative of what has been an extraordinary year for us, we made a very strong start, building through to a good Christmas trading season and through January, continuing to regularly outperform the sector. February trading was disrupted by a number of storms that swept across the UK – Dennis and Kiara – and unfortunately just as those storms started to abate, so we began our descent into COVID, culminating in the shutdown of the whole estate on 20th March until 4th July. We reopened cautiously in July, deliberately restraining capacity at first to ensure we could operate responsibly in the new environment. Gradually we were allowed to build trade though through to a very strong, very encouraging August. As we all know though, in September then infection rates started rising again, increasing restrictions started being imposed on us and the wider economy, and sales dipped accordingly all the way down to the second lockdown on 5th November. As we sit here today we are aware that that lockdown's about to be lifted next week, so we would hope that the majority of our estate is up and trading, but of course that is going to depend on the tiering announcement that's imminent and what tier each pub is in.

Throughout we've worked really hard to conserve cash. We've limited out costs and outgoings to an absolute minimum, we've restricted cap-ex to what has been essential only, and we've reached agreement with our scheme trustees to suspend pension contributions for six months; those have now been resumed. So, cash has been pretty resilient, given the disruption we've had on the sales line, and net debt at the year, excluding lease liabilities, is actually flat, so it's the same as it was at the start of the year. Within that, of course, we have a lower level of bond debt and a corresponding slightly higher level of short-term borrowings.

In terms of the balance sheet, one of the key challenges for us and a key priority for us has been to establish a firm and resilient financial platform for the business to trade from. We managed to do that very successfully in the summer, we secured £100 million of additional facilities in our unsecured estate and extended the term of those and existing facilities to

2021, and we secured a number of covenant waivers through to the second half of this year. That's put us in a really good position to deal with whatever is in front of us. As we sit through the current second lockdown our cash burn is £35-40m per month before our debt service costs, and at the beginning of this week we had cash of £125m and liquidity headroom, so that's including undrawn committed facilities totally £225m, so a strong position for us to be in.

In terms of the balance sheet, our principal asset of course is our largely freehold property estate. I would remind you that we re-value this every year, so it's a current valuation, and in fact this year, given the circumstances, we even undertook a full revaluation at the half-year. In hindsight, that half-year, the balance sheet date was 11 April, was probably the period of maximum uncertainty for us, when we'd just closed down and we had really no idea what we were heading into, so we took a very large and prudent write-down at that stage. We've reviewed that now at the end of September, and through the course of the whole year we've written the estate valuation down by 5% to £3.8 billion, but you'll see that is a significant reversal of the write-down we took at the half-year, and that leaves us with net assets of about £1.7 billion, equivalent to £3.90 a share.

Most pertinent, I think, is what lies ahead of us, and of course that remains highly uncertain and unfortunately, given that degree of uncertainty, we just don't feel able to provide detailed guidance on forward trading. What we have seen, and what we take encouragement from is that when people can come out, they will come out and they will spend, and that leaves us with a number of strengths, well-positioned as restrictions are lifted. In particular, a really good freehold estate in great locations, a stable of diversified well-known brands, a management team that has a track record of consistently outperforming the market, and particularly with a whole raft of Ignite initiatives to come through once we're able to open and trade again, so we're positive about the future as soon as restrictions allow.