Mitchells & Butlers

<u>Mitchells & Butlers Half Year Results Announcement</u>
<u>Thursday, 22nd May 2014</u>

<u>Question 1</u>
Victoria Greer, JP Morgan Cazenove
So the first one on regional variations on like-for-likes. Staying on like-for-likes could you talk a little about brand variations. I know you don't like to split it down too far, but for example the four target brands. Could you give us a feel for how they are going?

And then finally just on the pensions, the negative pledge on the net assets. So outside the securitisation, does that have any impact on your ability to dispose of or acquire single sites?

Answer :
Yes there are still regional variations. Looking forward I think we expect the recovery to be quite broad based. London continues to be the outperforming area and you know our like-for-like numbers presented here are not consistent with what you see in London focused estates. Other areas are still really tough actually. The North-East and Wales spring to mind where we are finding it really, really difficult. It doesn't feel like the recovery is being felt there yet if I am honest.

In terms of brand variations, probably sticking to our star, which clusters brands into five main submarkets and the most challenged we have got there is our heartland estates and value estates. So that has Crown and Sizzling and what we call Oaktree which are unbranded pubs and that is the cohort if you like of the weakest like-for-likes for us at the moment.

In terms of the pension. So the negative pledge, had a number of conversations with people about this, this morning. So just to be clear, negative pledge does not give the pension fund a security over any assets. What the negative pledge represents is it represents a promise that you won't promote anybody ahead of them. This is why it is a negative pledge rather than a positive security. So in essence it is just a commitment from us to them. It doesn't stop us making disposals and it certainly does not stop us making acquisitions.

<u>Question 2</u>
Nick Thomas, Bank of America
Just also on the pension and interaction with potential dividends. The extra £40 million that you are talking about, can you clarify whether that is this year or next year or a combination of the two and how this interacts with the point about only paying dividend out of cash generation whether it is pre or post that £40 million?

Answer : Tim Jones
Yes certainly Nick. Timing I don't know because it is not determined yet. It will be by September 2015. And the reason that timing is indeterminate is because we want a

bit of breathing space. We have been through this agreement, we have committed to put £40 million of value extra into the fund, but we want a bit of breathing space to think about what is the best way to structure that, what is the best way to do that. So we are going to sit down with the trustees and just have a look at all the options on the table that are available to enable us to do that. And that will take us some time to work through. It is probably unlikely to be this financial year I would have thought. I suspect it will go into next year. But it could be any time before September 2015.

In terms of the impact of that on dividends, we would exclude that £40 million from our formula or criteria.

<u>Question 3</u>
Tim Barrett, Nomura
Coming back to like-for-likes, can you talk about the shape of volume versus spend across the various segments. Does Heartland skew that in a particular direction?

Can you also talk about like-for-likes in the remodelled pubs. Are you getting the kind of uplift on that £200,000 per site expenditure that you would hope for or plan for?

Answer :
The shape is skewed by the weight of numbers within each brand. As I said, Heartland has the lowest sales and has historically been the cohort that has harmed us most on volumes. It is now a cohort so therefore it is coming back the quickest now because it has the most scope to. So the biggest quantum of improvement or swing back has been within the Heartland part of the estate in terms of volumes, because it has been around focusing low price points that we can afford to deliver at a constant cash margin and that is what has hit the sweet spot for that market.

In terms of remodel returns, we are making very good returns on our remodel programme going forward. We have got good delineation now on what we want to achieve and how we are going to roll that out and we reach a solution and we are going to roll it out at pace across the individual brand or format in question. And the returns we are getting back from that are very compelling.

<u>Question 4</u>
Geof Collyer, Deutsche Bank
Can you tell us where we are with the ways of working roll out and how close you are to completing that cultural engineering? Or do we have to wait until all of the new IT systems are actually in place before you can tick all the boxes and say, right we are ready to go from here?

Answer : Alistair Darby
Good question and you have probably given me the answer which is, there is a direct linkage between rollout of the Go-Tech Pub Systems upgrade and Good to Great. There is an important link between the two, but it is not, that isn't a holding back of Good to Great. I think the really important thing to remember about Good to Great is that this is not an initiative that is done in three years. This is fundamentally a long-term culture change in the business where we move from an organisation where really too many decisions were centrally made, to an organisation where you get the proper balance between central and in-unit. And I think the real challenge for Good to Great is that if we can give to the brands, and therefore the teams within those brands, a very clear idea of what their guests need, and therefore the parameters in which you can operate, then you can enable the teams in the pubs to have a really broad ranging conversation about what can we do to do a better job for our guests.

And that is going to be something that we just want to do in the long-term because I think without getting too evangelical about it, the big opportunity for us is ,which we don't think has ever really been achieved at scale in the managed house sector, is how do you really get the most from the 38,000 people you are privileged to employ, because they are just full of amazing ideas. So Good to Great, obviously we are driving ahead, but it is never going to stop because for us it is what is going to make the difference between us and the competition. Because as we have said time and time again, we can invest capital in the pub, but if your people don't execute it really, really well then your capital, the benefit of that capital will quickly run out.

And I think, going back to the remodels point, one of the really attractive features of the remodels is the extent to which we are not only improving hardware, the look and feel of the pubs, but also with that improving software, the way we serve, till systems, the way our staff interact with guests. And I think that is going to be where we want to build competitive advantage over time.

<u>Question 5</u>

Jeffrey Harwood, Oriel Securities

Jeffrey Harwood from Oriel. Just two questions on the pension fund and the dividend. So first of all, if the company makes an acquisition presumably that is excluded from the dividend restriction?

And secondly, in terms of the restriction of dividend growth going forward, logically it would be in your interests to set the dividend at the highest possible level initially?

Answer : Tim Jones

Technically it is excluded, acquisitions are excluded from the pension formula. They would be relevant to the Board's assessment of whether we had positive cashflow going forward though, but it is excluded from a pensions formula. So we would be able to, but it doesn't mean we would.

In terms of dividend, firstly in terms of positioning, you used the word dividend restrictions, we would see this as an acceptance by the Trustee or agreement to our existing dividend policy rather than a restriction around what we can do with dividends, because the criteria we set out here are well within the parameters that we have been talking to you about for the last two years anyway. But yes it says we would grow dividend by the higher of RPI and earnings growth so that precludes us from quantum leap up in the dividend that is unsupported by trading. And that is not a scenario I contemplate our Board wanting to do, certainly not in the period of this agreement.

So yeah, is that in our interest to start as high as possible? Yes, but again we will be looking to set a dividend that is infinite and progressive. So we are not going to leap to start at a higher base than we think is sensible going forward. I don't see this pension agreement being a parameter that bites on where the Board set the dividend on what we would be going for. I think it gives us more room than we need.

<u>Question 6</u>

Douglas Jack – Numis Securities

Can you just talk about your performance in the Leisure Parks? I know you have expanded in there quite quickly initially and then you pulled back and then you remodelled it. Can you just talk about the performance of the remodel and what you can really tell us about future expansion into that area?

Answer : Alistair Darby

Well I think Tim gave some thought on how we were getting on with new openings. As far as leisure parks goes, we are very clear that the brand that we would expand on leisure parks is Harvester. We have tested and trialled Toby and are pretty clear that Toby works best in large suburban arterial route locations. There is a dynamic issue around Toby which is that Toby's biggest day is Sunday. And if you go into a leisure park and you have relatively small number of seats in a retail leisure park site, you simply cannot get through the volumes that you need to do on a Sunday because Sunday is roast day. So you need big outlets and you know the economics don't work on leisure parks. So we are very clear about where we go forward with Toby. It doesn't mean, by the way that the existing Toby's we have done aren't going to make good progress actually. We have got some very good leisure parks Toby sites, but we don't see that as being the way we would go in the future. So it is about Harvester and how do we really help Harvester to work on leisure retail park sites. We are doing a lot of work on that at the moment. We have seen some encouraging results and if we can bring those into shape then clearly we will apply those across the sites we have historically done and on sites we open going forward.

Further question
And in terms of your expansion forward, how do leisure parks fit in there?

Answer: Alistair Darby
In hindsight our blend of expansion when we were going full on three years ago was probably a bit too skewed towards leaseholds. We are fundamentally a freehold business. We want to not really dilute that mix. So we will, you will see as we expand more freeholds than has been the case. Tim has already made that point in the latest numbers. But retail parks clearly play a part in that. I think the key though on retail parks, our Harvester customers go to retail parks, but you have got to be very good on retail parks because a lot of capacity is going in there. And that is not to say that we don't want to be there. But you have got be really hot. And we want to be there, competitive and successful and we will make sure we are really and through all the tests we are doing, that we are confident to expand further into retail parks. If we also get the opportunity to develop freehold Harvesters we will do so.

Alistair Darby
Thanks very much. Thank you.
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