



**Mitchells
& Butlers**

Full Year Results 2019



Financial Review 2019
Tim Jones
Chief Financial Officer

Key messages

- Strong like-for-like sales growth ahead of the market
- Organic profit growth at increased margin
- Cost headwinds and economic uncertainty expected to remain
- Ignite delivering tangible benefits, third wave to launch in FY20
- Prioritising estate investment and value creation through de-leverage,

Income Statement (before adjusted items)

	FY 2019*	FY 2018*	Movement
	£m	£m	%
Revenue	2,237	2,152	+3.9%
Operating costs	(1,920)	(1,849)	
Operating profit	317	303	+4.6%
Interest	(113)	(118)	
Pensions finance charge	(7)	(7)	
Profit before tax	197	178	+10.7%
Operating margin	14.2%	14.1%	+0.1 ppts
Earnings per share	37.2p	34.1p	+9.1%

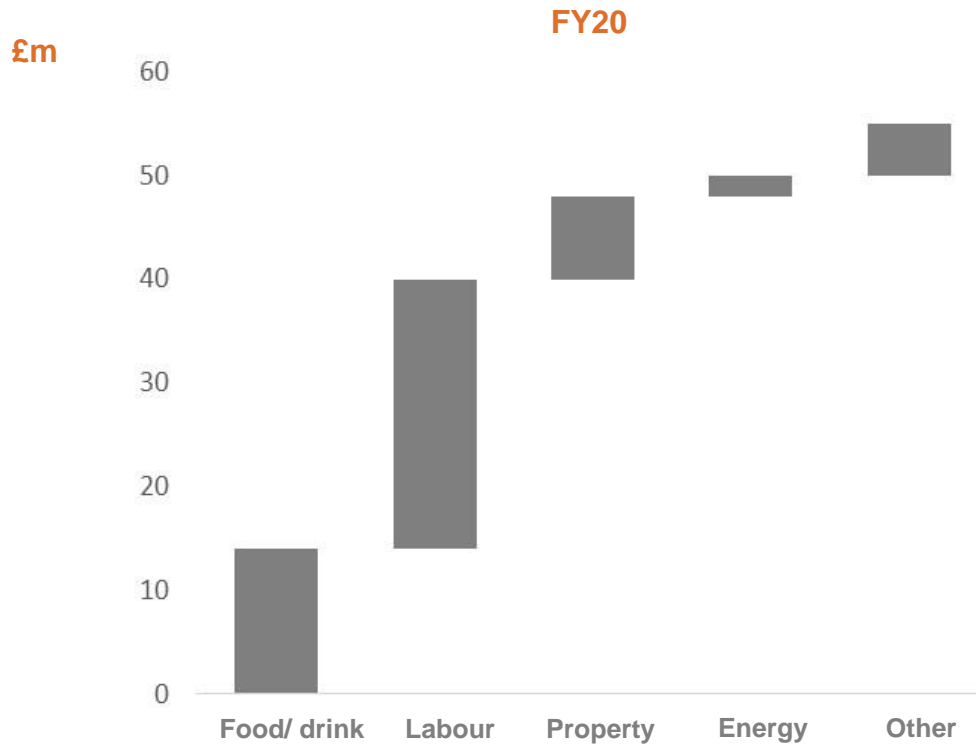
** before separately disclosed items*

Like-for-like sales

	Week 1 – 33	Week 34– 52	Week 1 – 52	Week 1-7 FY 2020
Food	3.6%	3.1%	3.4%	1.7%
Drink	3.9%	2.1%	3.2%	0.7%
Total	3.8%	2.9%	3.5%	1.4%

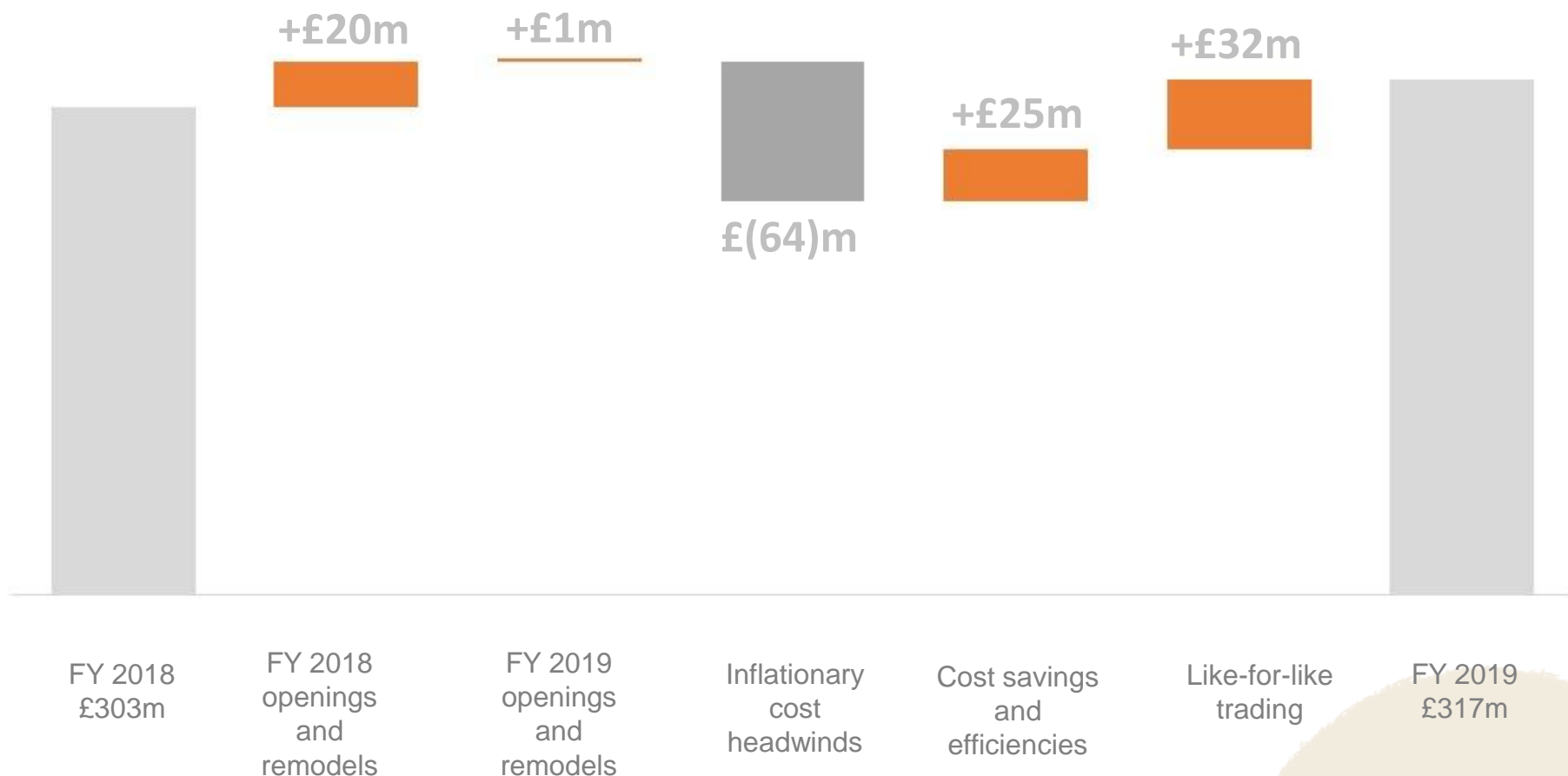
- Sales growth driven by increase in spend per item in part reflecting premiumisation of the estate
- Improvement in volumes trajectory of both food and drink
- Balanced growth across food and drink with particular strength around special occasions
- Outperformance against the market continued into early FY20

Inflationary cost headwinds



- FY19 cost headwinds of £64m in line with expectations
- Low forward visibility due to macroeconomic and political uncertainty but FY20 currently expected to be in region of £60m

Adjusted EBIT movement



Capital expenditure and returns

	FY 2019		FY 2018	
	£m	# sites	£m	# sites
Remodels - refurb	65	212	63	188
Remodels - expansionary	5	11	7	13
Conversions	11	17	21	31
Acquisitions – freehold	4	5	7	2
Acquisitions – leasehold	7	2	3	5
Total return generating capital	92	247	101	239
Maintenance and infrastructure (excl remodels)	60		70	
Total capital expenditure	152		171	

- Remain on track to deliver 6-7 year investment cycle
- Improvement in returns across all capital projects to 21%
- Particularly strong performance in current year remodels
- FY20 capex expected to be c.£170m-£180m

Cash flow

	FY 2019 £m	FY 2018 £m
EBITDA before adjusted items	436	422
Non cash items	6	5
Operating cash flow before adjusted items, working capital and pension contribution	442	427
Working capital	9	2
Pension deficit contributions	(49)	(48)
Operating cash flow before adjusted items	402	381
Cash flow from adjusted items	-	(2)
Capital expenditure	(152)	(171)
Net interest paid	(111)	(119)
Tax	(25)	(20)
Disposals proceeds	14	6
Investment in associate and other	(3)	(5)
Repayment of liquidity facility	(147)	-
Transfer from cash deposits	120	-
Free cash flow	98	70
Mandatory bond amortisation	(87)	(82)
Net cash flow before dividends	11	(12)
Dividends	-	(7)
Net cash flow	11	(19)
Group net debt	(1,564)	(1,688)
Net debt : EBITDA	3.6x	4.0x

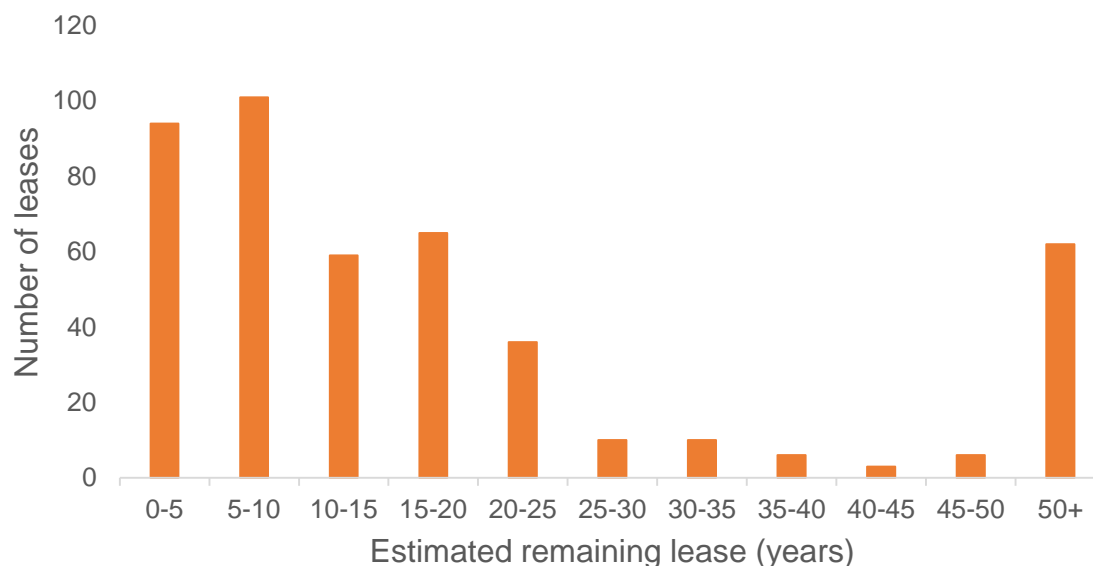
Deleveraging capital structure



- Progressive de-leverage through securitisation amortisation and pension deficit contributions
- Over the last three years (since FY16) leverage reduced from 4.3 times to 3.6 times (excluding pension)

IFRS16 (Leases)

- Adoption from FY19/20 financial year using the modified retrospective (asset equals liability) method with no restatement of comparatives
- Leases (with some exceptions) will be recognised on balance sheet through a right of use asset and related lease liability. In the income statement operating lease costs will be replaced by depreciation of the asset and interest on the liability.
- No impact on cashflow
- Profile of impacted leases below which are substantially all property related



Note : excludes peppercorn / nominal value leases

IFRS 16 Summary impact on transition



- EBITDA +£50m
- EBIT +£6m
- PBT (£11m)
- EPS (2.1p)

- FY20 opening balance sheet values:

Right of use asset	£500m
Lease liability	£546m

- Increase in book gearing of 70bps

Summary

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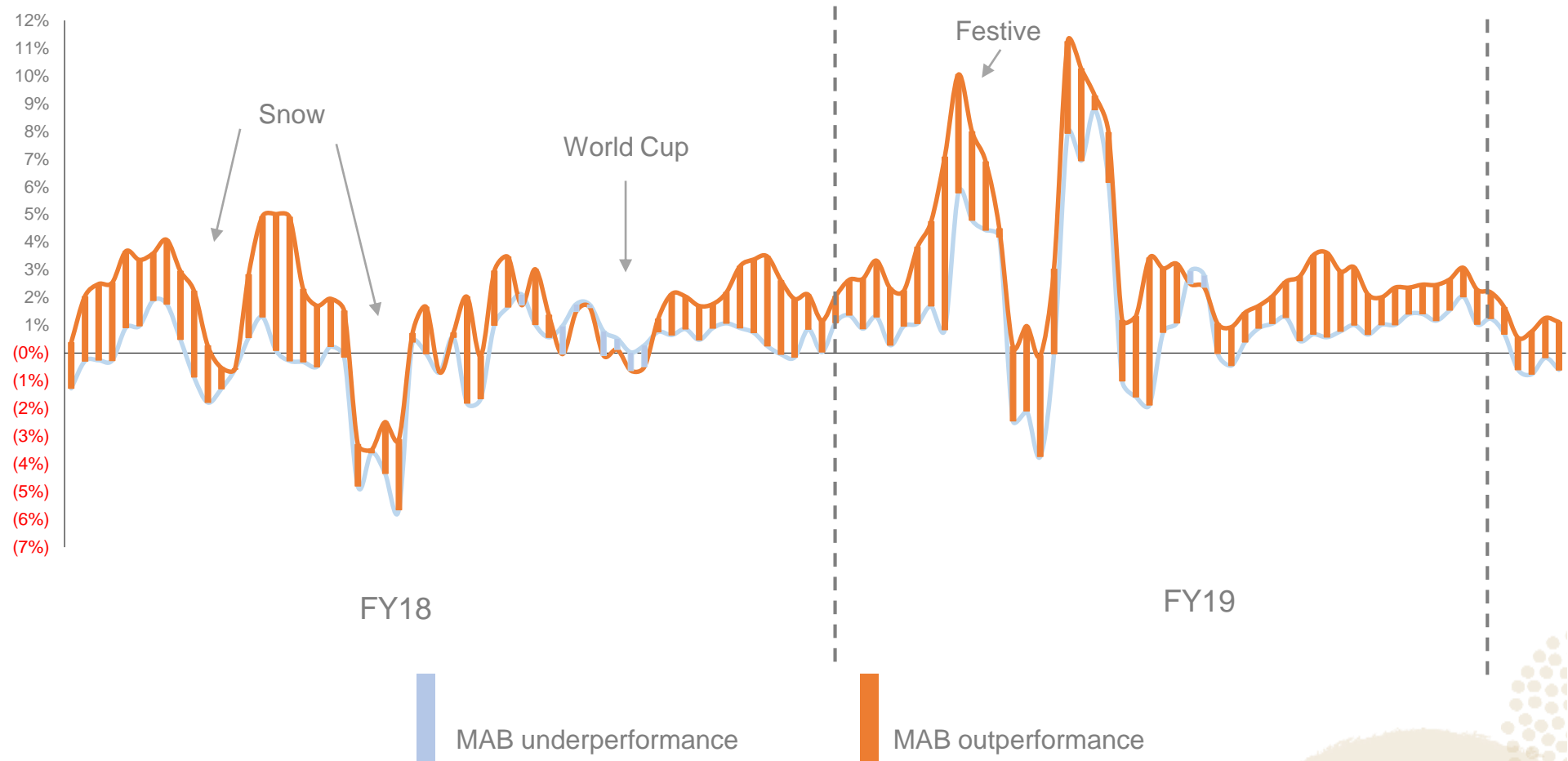
Phil Urban
Chief Executive Officer

Profit growth achieved



- Three consecutive halves of profit growth
- Profitability stabilised and operating margin growth
- Momentum continues to gather pace
- Every brand in like-for-like sales growth

Like-for-like sales versus market



Rolling four-weekly average vs Peach Tracker

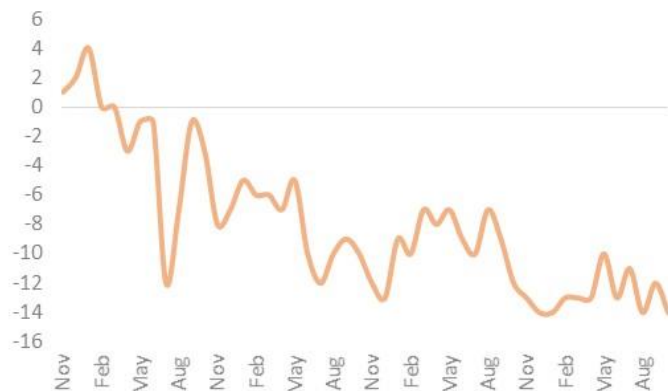
Macro landscape

Restaurant Supply Growth



CGA market growth tracker

Consumer confidence



Gfk consumer confidence index

- Political landscape remains uncertain
- Inflationary cost headwinds continue to impact the industry
- Consumer confidence fragile
- Supply has begun to decrease with restaurant outlets down 3.4%
- Leasehold businesses continue to face challenges

FEB 2016 – FEB 2018

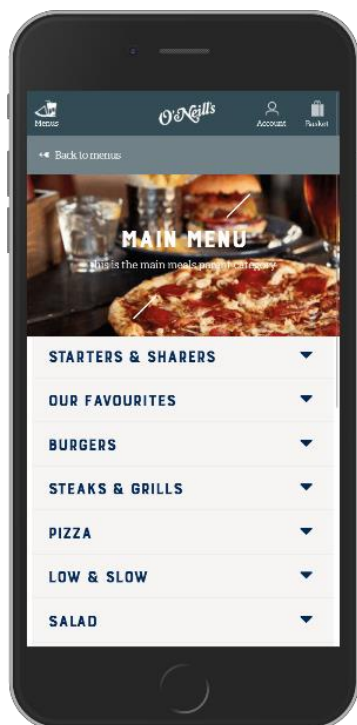
MAR 2018 – CURRENT

2020 ONWARDS

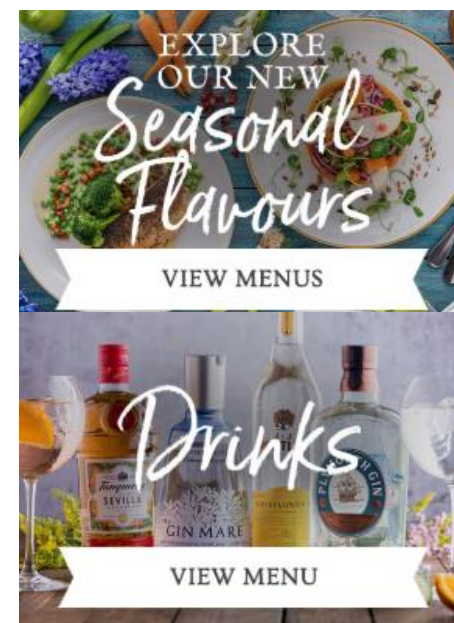
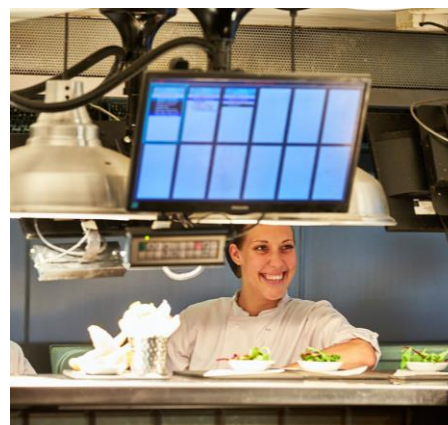
IGNITE 1

IGNITE 2

IGNITE 3



JUST EAT



Target under performing sites

- Three workstreams dedicated to improving under-performing assets:
 - Invested sites missing appraisal
 - Largest year on year decline
 - Onerous leases
- Dedicated actions plans for identified sites
- Structured review and site visit process
- Result has been a significant improvement in profit trajectory



Menu engineering

- Workstream dedicated to optimising menus
- Focus on enhancing menu appeal of each brand
- Provide trade up opportunities
- Reduce waste by removing orphan products and reviewing supplier pack sizes
- Estimated value of workstream is £5m gross profit



- Continued focus on enhancing guests digital experience
- Booking platforms significantly improved by reducing steps
- Online bookings grew by 25% in the year
- Conversion of website visits to bookings increased to 11.4%
- Cost of customer acquisition reduced

YOUR RESERVATION

The Freemasons Arms
32 Downshire Hill
Hampstead Heath London Greater London NW3
1NT
2 Guests
Wed, 20 November, 2019 - 20:00



IGNITE PROJECT OFFICE

EXTERNAL SPEND

- Removal of cash spend in site
- Central procurement
- Energy

DIGITAL

- Delivery and takeaway
- Bookings
- Personalised communication

MENU & PRICING

- Event pricing
- Offer premiumisation
- Menu development

LABOUR

- New software
- Employee shift management app
- Enhanced deployment

SERVICE & SELLING

- Sales training
- Improved standards
- Everybody sells

STOCK & WASTE

- New software
- Faster stocktakes
- Auto ordering
- Real-time data

ESTATE

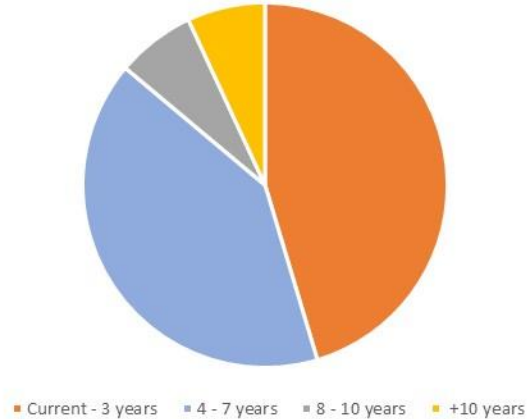
- Improved ROI
- Reduced closure time
- Data driven

SHRINKAGE

- IntelliQ
- Single use discount codes
- Technology

Capital programme

Sites age of investment



- Capital programme one contributor towards improved trading performance
- Target 6-7 year investment cycle
- Ensure the right amount is spent on each project
- Reducing proportion of sites not invested for more than 7 years
- Strong returns from investment projects
 - Remodels 34%



Premium Country Pubs – Project Mandarin



Vintage Inns - Very Vintage



Browns Edinburgh



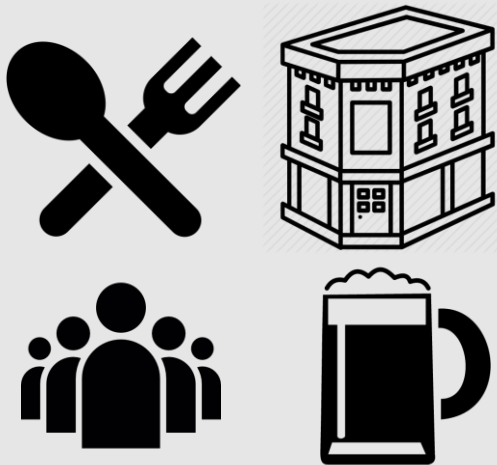
The George at Harpenden



- New all day concept
- Fresh food from an open kitchen
- Premium environment



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

Sustainability



- Developed a new sustainability strategy
- Aim to increase our positive impact on society and reduce our negative impact on the environment
- Ambitious targets set on greenhouse gas emissions, food waste, recycling and use of plastics
- Progress will be reported annually



People



- Engagement up across all cohorts
- Award winning apprentice scheme continues to grow
- Chef academy expanded to 7 locations nationwide
- Turnover reduced by 3ppts
- Mental health wellbeing training being rolled out

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Questions



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& Butlers

**Full Year Results 2019
Supplementary Slides**

FY 2019 – Outlet reconciliation

	Total Managed ¹	Franchised	Total MAB
Opening outlets (start FY 2019)	1,690	60	1,750
Transfers	(10)	10	-
Disposals	(8)	(2)	(10)
Acquisitions	8	-	8
Closing outlets (end FY 2019)	1,680	68	1,748

Notes:

1. FY2019 closing managed total includes 9 non-trading sites.
2. Lodges attached to sites do not appear as a separate outlet.

FY 2019 – Financial covenants summary

Securitisation Restricted Payments Tests

	Test	Actual (Relevant Year)	Headroom
Free cash flow to debt service	1.3x	1.5x	£37m
EBITDA to debt service	1.7x	1.9x	£32m

Securitisation Covenants

	Covenant	Actual (Relevant Year)	Headroom
Free cash flow to debt service	1.1x	1.5x	£76m
Net worth	£500m	£2,322m	£1,822m

Non-Securitised Facility Covenants

	Covenant	Actual (Relevant Year)	Headroom
Net debt to EBITDA	3.0x	(0.79)x	n/a – (no debt)
EBITDAR to rent plus interest	2.0x	2.56x	£23m

Note: Shows annual test only. Full details at <https://www.mbplc.com/infocentre/debtinformation/>

FY 2019 – Securitisation profile

£ms

