Phil Urban (Chief Executive Officer)

Good morning ladies and gentlemen, and welcome to the Prelims presentation for Mitchells & Butlers for the financial year 2024. As a break from tradition and as a way of bringing to life what we do, I'd like to play you a short video. We produced this for our General Managers for their business forums last summer, and we think it's a far better way of showing you the strengths and breadth of our brands, both new and established, rather than me trying to describe them for you, so please enjoy.

Hopefully that gave you a good feel for how strong our brand line-up is. Today we report operating profit of £312 million for FY24, which was a growth of 41.2%, and it's fair to say that COVID-19 has now been banished to history. We had a strong like-for-like sales growth of 5.3%, return from investment for our remodel programme was over 37%, and our Ignite transformation programme has just been replenished with a whole wave of new initiatives which will move the business forward. We delivered our strongest ever guest scores, highest human engagement scores and lowest staff turnover scores, and our health and safety metrics are also very strong. With eight years straight of market outperformance and despite the impact of the chancellor's budget, we feel confident about the future and the opportunities that will arise.

I will now hand over to Tim who will take you through the financial results before returning to take you through the programme of work which we have underway which we believe will maintain the momentum that we've built.

Tim Jones (Chief Financial Officer)

Good morning. So, our comparator period this year, as you know it's a 53-week year for us, but we previously published a 52-week proforma for that, and that's what I'm going to be comparing to when I talk about these set of results, so they're comparable year-on-year.

Overall, a really strong recovery from very challenging times. It's easy to forget that we entered FY24 with inflation running at 10% and a lot of concerns about the cost-of-living crisis and the impact that was going to have on our top line as well as our cost structure. As things have evolved, demand has remained really strong throughout the year, and I'll come on and look at that, and costs have abated much quicker than we feared they might as we went through the year. We're not quite back to where we were pre-COVID, but our operating profit is up over 40%, our EPS is up 70%, and we have a much stronger operating profit margin, up three full percentage points.

If I start with sales, we went into the year running pretty hot on like-for-like sales, nearly 10%, that really was more of a reflection of the high inflationary environment than anything else. As the year played out, like-for-likes slowed to more normal levels, but really importantly that slowdown has been in line with cost deflation, so the dynamic has allowed us to grow profits as sales have come back to more normal levels. Across the year we averaged 5.3% like-for-like sales growth, and at the moment in the new year we'll be running at about 4%, that's what I would say will be our underlying rate as we stand here today. Volumes across the market are in a gentle decline, 1-1.5% decline, so we're very much consistent with where they were before COVID five years ago.

You've had an insight into the diversity we have across our brand portfolio in that the video Phil played at the beginning. A huge range of occasions that we cover, and that gives a good perspective on the market as a whole. We've added to our stable recently, as you probably know, with Ego and Pesto, gives us some diversity in terms of Mediterranean offer, slightly lower red meat content as well. I think if we look at the market as a whole and as we see it, some comments on how it's evolving, what's good, what's bad at the moment. The late night and bar market is tough, it's not a sector that we're particularly exposed to, as you'll know, but we do see it in our time slot data, and you'll probably be very familiar in that from the numbers that the CGA Business Tracker put out. Calendar days, key calendar days, festive dates remain very strong, so do weekends. I'd say regionally if you look across the whole of this year London has been very strong for us, but to be fair that was more due to the first half than the second half, so I think in terms of the run rate now that's probably less relevant than it was when we look at the year as a whole.

I think the main takeaway behind in the markets we sit today is all segments, maybe other than bars, are holding up really well. A way to perhaps demonstrate that is the difference between our two strongest performing brands in this new year in terms of sale. One is Miller and Carter, so a restaurant business, three-quarters of its sales are food, it's not in central London, it is in some city centres but not in central London, largely suburban estates. The next biggest performer is Nicholsons, so a classic pub offering, three-quarters of its sales are drink, it's absolutely in London, very London-centric and city-centric. So, two very different brands, both absolutely thriving in the current environment, and I think that demonstrates the strength and breadth across the market.

I suppose that does beg the question of where are you more challenged at the moment? I think conditions are tough in Germany, quite specific to that country but we have our Bar Alex brand, you've got an economy in recession, you have an unstable governing coalition, they had COVID support continued far longer than it did here, so they only lost the last remnants of that in terms of that during this financial year, and all of that is compounded for our business which relies very heavily on the terrace trade sitting outside with an extremely wet and windy summer, so it's been a tough year for Bar Alex. However, it is still absolutely highly profitable. We have a really good management team, we are seeing some signs of recovery and we're about to annualise on the VAT change that was when COVID support was withdrawn. So, we've got a tough year behind us, we're really optimistic for that business going forward. We are continuing to invest and we are continuing to open new sites to support them as well.

If I move further down the P&L and look at some of the main traffic drivers, of course strong sales performance helps with like-for-like trading, we're continuing with our remodel programme which is very important to us and we'll talk a little bit more about that, and we're driving efficiencies and cost efficiencies through our Ignite programme. That has enabled us to overcome cost headwinds. Last year was notable for the second year of circa 10% living wage increases, so that was a tough task for us, but we did benefit from commodity prices finally coming off from the extreme highs there had been beforehand, and that gave us a £45 million benefit or lift, if you like, to our P&L. All that led to a large increase in operating profit to £312 million at a much stronger margin of 12%.

I think the important thing probably about cost inflation is what are we heading into? It might sound a bit strange, but the environment I think is very benign. If you look at our food input costs, our drink input costs and almost all of the costs across our cost structure there is of course one notable exception to that, and that is labour and wage costs, where we're having the compounding increases of living wage statutory increases and the National Insurance increase that was announced recently. They dominate our cost inflation going forward. National Insurance is going to cost us about £23 million on an annualised basis and that will take our headline inflation this year to about £100 million or 5% of our cost base. If we go into next year, FY26, we've got another six months of that to annualise, but after that we would expect the whole position to normalise to 3-4% across our cost base which is where we would typically see our challenge from cost inflation.

Cash flow has been really strong this year. It has been helped by a number of items that won't reoccur. We had a very large inflow of working capital in the first half, we held onto a good part of that, not all of that, but we held onto a good part of that for the full year, which helped. We had a receipt of £35 million again in the first half from an escrow account relating to our main plan pension fund. Lower CapEx than I'd guided you to. I think going forward we are in a better shape now. We'd been frustrated with getting some of our remodel programme and Capex away in terms of planning consents and supply chains. I think we're in a much better place to achieve that now, so I'll guide you to a higher number for this year, it will probably be closer to £200 million. And we are benefitting from the use of tax losses that we racked up during COVID which is reducing our cash tax paid, that helped us to the tune of about £22 million, reducing our cash tax in this year, and we'll have those with us at the current rate probably for another couple of years. So overall really strong, £185 million of cash generation and £62 million after we'd paid our monetary bonds amortisation.

Pensions has been an area of enormous success for us in the past couple of years. After many, many years where we used to write a cheque for £50 million to fund a deficit that got ever bigger, we now feel we're absolutely on top of our pensions position and it's become an asset for us. So, the Exec plan is now bought out, it's gone, it's done, we actually received the last £12 million from escrow from that after this balance sheet date, so in the new year. The main plan is in a buy-in with a significant surplus, circa about £164 million. We've started to access that, plus we're able to offset it against defined contributions that we would otherwise have to make. It will take a number of years but we'll be able to get value for that surplus going forward and it's now on our balance sheet. There is a DWP consultation out, you may be aware, about reviewing how employers can use surpluses. Now, that may or may not throw anything up for us; if it does, it will be an upside, but if it doesn't do anything then we'll still be able to offset our surplus against DC contributions. Lastly, we have a very small unfunded scheme which has liabilities of about £25 million.

So, our balance sheet is in good strength with debt continuing to come down with a good cashflow. We have an asset base now of just over £5 billion, and the net debt has just come below £1 billion which is a nice milestone for us to get past. That's 2.2 times EBITDA if you don't include leases, 3.2 if you do include leases.

Looking forward, the amortisation on our securitisation will continue to ramp up, but of course the financing challenge for us is still £200 million every single year that we have to find to meet our obligations to that securitisation, and that will be until we get to 2029/2030 when a whole raft of bonds expire and our debt service starts to come down and a number of options open up for us.

Really pulling all that together, really strong year-on-year performance from a year that we entered into with a certain amount of trepidation – good sales, good profits, good margin, good cash. We've also made broad progress on a number of strategic objectives, and Phil's going to talk about those in some more depth, and I think that puts us in really good shape to face whatever is ahead of us in the year ahead. We're dealing with everything with control, we think we're outperforming the market, and we have a strong balance sheet base to do that from, so we're set up for everything we can achieve. With that, I'd like to hand you back to Phil.

Phil Urban (Chief Executive Officer)

Thanks Tim. So, as you've seen we finished the year well ahead of expectations, and that was undoubtedly a sales-led performance, although our control through the P&L was strong too. Building and maintaining sales momentum is key to sustained success, which is why staying ahead of the market, as measured by the CGA Business Tracker, formerly known as the Peach Tracker, is a key performance indicator for us. We've now tracked ahead of the market since 2016, as this slide shows, which I believe reflects the competitor advantages that we have, namely a stable of well-known and much-loved proven brands, locations that are invariably amongst the strongest in each locality, and the scale to be able to nurture brands when they need repositioning. To remind you, the CGA Business Tracker is a data pool of over 50 competitors, so we're able to track our performance against the total market average.

Performance over the last year saw us staying ahead of the market all year, with the exception of when the Euros impacted our sales disproportionately. It was a year of record sales, and to give you some statistics we sold almost 100 million meals, poured over 300 million drinks, used over 12,000 tons of chips, cracked over 80 million eggs and used 370,000 turkeys. As you will know from our pre-closed statement, quarter 4 sales had softened, primarily due to poor year-on-year weather and the impact of the summer riots. We believed this was artificially low, and so we're delighted that the new year has started well with the first seven weeks sales tracking at 4% like-for-like despite taking less price than we did this time last year.

Lumina forecast market growth of 2.6% for the managed sector in 2025, and we have outperformed the market by between 1-2% every year, so we are confident in our ability to continue to grow our top line going forwards.

We set out nine years ago to build our market share, and this chart shows that we've done just that, and there is no reason to believe that we cannot continue to do so. Despite our size, we still only have 2.6 of the market in terms of outlet numbers and only 5.4% in terms of revenue share, so there's still a lot to aim at. There's a very clear correlation between superior guest review scores and like-for-like sales, and last year saw us deliver the strongest ever guest review scores we've had of 4.5 out of 5, which has grown from 3.9 over the last 8 years. What is also very encouraging is that our guest sentiment scores versus the competition have strengthened, a measure of how guests feel about the brands they use, again suggesting that we can continue to steal market share.

Of course, sales don't just happen, and it is a result of having clear priorities and a systematic approach to delivering them. To remind you, we have three key strategic priorities that continue to guide the work we do, as shown on the slide. The first of which is about maintaining a balanced portfolio. We receive over 1.6 million pieces of guest feedback each year and we use the insight gleaned to keep each of the brands relevant for their respective markets, aiming to operate at the premium end of the market segments where we're represented. We plan to fully invest in each property on an average 7-year cycle, and by doing so we continually raise the average quality of our amenities and hence avoid any brand becoming tired or out-positioned. The projects need to cover front and back of house and externals, and we're delighted with a return from investment of our remodel programme which sat at over 37% last year.

The second priority which we talk about is driving a commercial edge to the way we do business. M&B is now skilled in this area, putting the guests at the heart of everything that we do and using the insight to drive all of our agendas. The second part of this priority is about being clear on how every pound of sales converts down to bottom line profit. Having a relentless drive to understand and grow profit means that we have become very skilled at ensuring every initiative landed in the business is financially well planned and well executed, a welcome byproduct from our Ignite programme which is now in its ninth year. So, commerciality is now a very strong attribute for Mitchells & Butlers.

The third strategic priority is about driving an innovative spirit across the business, and there are three key areas to this that we focus on, the first being the optimisation of all the technology that we have deployed in the business. In my time in M&B we've introduced a huge amount of new technology, from online booking engines and capacity management tools to a new labour rostering system and order and pay at table, to name but a few. The day-to-day operation of the business has radically and rapidly changed, and each of these tools still has a lot of potential for further enhancement. They've also required our team to become very skilled at handling change and embracing new technology and quick at adapting to new processes.

The second area is about making digital marketing an engine room for the business, and I think it's fair to say that over the last eight years it has become just that. We now have a consented database of 12.7 million guests, 4.7 million of which are active at any one time. Last year we launched something we call My Account which allows guests to have a single portal to access their bookings, orders and offers from multiple brands. We already have three million guests signed up to this, with Toby Carvery on track to sign up over a million by Christmas. What's the significance of this? Well, My Account users have a younger profile and an increased frequency of visit, so sign-ups are very encouraging. Again, we have a lot more to come in this space, starting with a major upgrade to our CRM system next year.

The third area is about having an attitude which embraces new product and new concept development. Each of our brands constantly evolve too, as does our product ranges, stretching our offering and ensuring we are quick to market to capitalise on latest trends. We work closely with our suppliers in the space, having a valuable symbiotic relationship with them in terms of testing new ideas quickly.

To deliver on these priorities we pull three levers each year, and the first one I always undersell by describing it as the business-as-usual decisions we take. This is in fact the most important thing we do, as it's the brand management focus we bring to each of the formats we operate, going back to guest feedback before refining our offers and then making all the brand decisions from design to menus and from pricing to service cycles. We have a wealth of experience in this area, and some fantastic operators, and it's my contention that if we did nothing else, we would still compete strongly in the market.

The second lever is the capital programme. Investment in the estate is critical as with so much choice having a quality amenity and good standards is just an entry ticket to compete. We have a remodel programme in each of our brands each year which means that every part of the business continues to move forward. We also encourage a philosophy of continual value engineering to get the maximum impact for the minimum investment. By doing this our returns are very strong. We also have a conversion programme which in recent years has seen a lot of sites move out of Harvester and Toby Carvery into Miller and Carter, but we now have Ego, Pesto, Browns Suburbia and Orleans Smokehouse as viable offers to convert to too, and by doing this we can constantly evolve the shape of our operation and target the parts of the market that we believe represent the biggest opportunities.

The third lever is of course Ignite, our ongoing transformation programme. We know there is no silver bullet to growing profit in a business of our size, and so incremental improvement on multiple fronts simultaneously means that together and aggregate we drive meaningful increase. We always, what I call 'refill the hopper' every two years, which means holding a series of blue-sky meetings to generate new ideas to work on. We've just completed that exercise in the summer with a round of ideation sessions with our leadership team, our RBMs and our general managers which gives us a range of perspectives and a richer level of input. We aim to have circa 40-50 initiatives underway at any one time, so Ignite is as full and as busy as it's ever been.

To give you a flavour of just a few of the initiatives that are live which will add value this year and beyond, we have a bespoke team looking at underperforming assets, systematically working on repositioning the bottom end of our estate. They've already made an annualised £3.5 million improvement since the team were formed through a combination of focused operations, accelerated brand conversion, or in some cases early relinquishing of leases or transfer out into our leasehold model. We have a pilot underway in our unbranded estate with a third-party delivery brand which has a very large social media following and a very strong marketing engine. By partnering with them we are able to access a market that would be very difficult for us to build alone. It's very early days but the delivery sales in the trial sites have already moved from an average of £100 to £1000 per week. Unsurprisingly, we now have a workstream looking at how AI could benefit the business, and we have some strong ideas for guest relations and for bookings. We also have a team looking at reducing the time slot increments to five minutes on our booking system which currently sits in 15--minute intervals, as we believe this will enable us to turn tables more efficiently and unlock increased capacity at peak.

So, Ignite remains a key component of what we do, and should enable us to stay ahead of the competition as it has become ingrained in the way that we work.

Finally, we have continued to work on our sustainability objectives and have made good progress through the year. We've furthered our emission reduction from our baseline year to 14% driven by a reduction in energy consumption, reduced reliance on gas as a fuel source, and by reducing emissions associated with the products we buy. We now have 60 all-electric kitchens in place, and five sites where we've trialled the full removal of gas, and we will continue to expand this programme during the year ahead. We continue to invest in solar and now have 151 sites with solar panels, and we've increased waste diverted from landfill to 98% supported by improved recycling waste of 59% and are on track to achieve our zero waste to landfill by 2030 target. In addition, we've reduced food waste by 23% from our baseline year, driven by improved operational practices and partnerships with redistribution organisations such as Too Good to Go with whom we've recently reached the milestone of two million meals saved from waste.

In summary, we delivered a very strong year last year with 41% operating profit growth. The new year has started well with like-for-like sales growth of 4% over the first seven weeks, and we're expecting a very strong festive season. The brands are all in good shape. We have a full capital programme which should continue to drive very strong returns across the portfolio, and Ignite has as many initiatives that will continue to incrementally move the business forwards. There's no denying that the recent budget disproportionately hit the hospitality and retail sectors. The drop in threshold to £5,000 whereupon employer's NI becomes payable was the cause of this, exacerbated by our higher percentage of part-time workers. However, we remain confident in our ability to continue to grow our profit and to continue to outperform the market, and we will grow our market share as we do so. With a strong balance sheet, we believe we are well placed for the future.