25 Nov 2014

MITCHELLS & BUTLERS (MAB): 368p
Full Year Results: 52w to 27 Sept 2014

Group reports encouraging start to FY15 trading…

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	171	32.0	11.5	Nil	Nil
2014 (A)	172	32.4	11.4	Nil	Nil
2015 (E)	197	37.5	9.8	Nil	Nil

Source: *Company & Broker Estimates*

Full Year Numbers to 27 Sept 2014:

Following the release of its full year numbers earlier this morning, Mitchells & Butlers hosted a meeting for analysts and the main points to emerge are set out below:

Overall:

- This has been a ‘frustrating’ year in which much good work has been undertaken – but results have been slow to emerge
- The group believes that the consumer is becoming increasingly value-driven, particularly towards the bottom of the market
- This behaviour may now be hard-wired; the consumer ‘wants more for no more’, formal mealtimes have gone & brands remain key
- Food is back in volume growth and drink declines are reduced

Trading:

- Cost increases should abate – save for wages
- The group’s ‘Good to Great’ transition is in train
- M&B intends to grow share & reminds observers that it only has around 3% of a growing market
- The group has made an ‘encouraging start to FY15’.
- Margin may be down a little on additional sales as these include breakfasts & income from newer time slots etc. as well as keen prices

Cash Flow, Balance Sheet Trading & Other:

- The group needs to be back in positive cash-flow territory after bond amortisation has been accounted for

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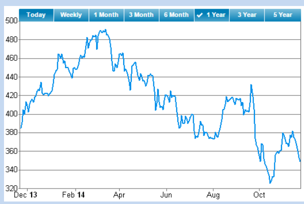

Market Cap: £1.44bn
12m range 330p 490p

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- Debt is up as expected post the Orchid purchase
- Capex will edge back post the investment in Orchid, the EPOs update is more than 50% completed
- Orchid is 'on track' with synergies (HO cost cuts & brand conversions) underway
- A dividend will only be considered when free cash flow (post bond redemptions) is positive
- In FY14, the group was virtually cash neutral pre the impact of the Orchid purchase but, in FY15 through FY17, it has between £61m and £70m of bonds per annum to redeem

Conclusion, Summary, Current Trading & Outlook:

- The group 'will no longer simply take price'
- Growth by implication should be driven by volume
- M&B will focus on its Upmarket Social, Special and Family brands. It says there is room for these estates to perhaps double in size
- The group says it is not complacent but maintains that it is well-placed to prosper in the current environment

Langton Comment: The absence of a dividend until free cash flow (including bond repayments) is positive may have disappointed some but, overall, this was a relatively upbeat presentation.

M&B has clear strengths and its shares are not expensive. And the dividend will come when it comes meaning that some would-be purchasers could be keen to get involved at around these prices whilst others may remain somewhat put off by the shape of the share register and concerns that the future of the group may be determined by a very small group of investors.

Post its reclassification of £10m of in pension finance charges from exceptional items to underlying trading (2013: £11m), the group's shares trade on a little under 10x this year's earnings and may pay a dividend in FY16 (or FY17 at the latest).

We would reiterate that, whilst we acknowledge the underlying strength of M&B's business and accept that its shares are cheap, we do not see MAB as a share that you must have and we would still be tempted to look for value elsewhere.

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