



22 Sept 2015

## MITCHELLS & BUTLERS (MAB): 351p FY update, CEO replaced:

*Group changes CEO, reports recent LfL sales down 0.7%*

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	170.7	32.4	10.8	Nil	Nil
2015 (E)	*189.0	36.1	9.7	0.7	0.2
2016 (E)	206.0	39.3	8.9	5.9	1.7

Source: Company & Broker Estimates, \*numbers under review post profit warning

### Q4 update, CEO replaced:

Mitchells & Butlers has this morning updated on 50wks trading to 12 Sept and announced that CEO Alistair Darby is to leave the company. Our comments are set out below:

#### Chief Executive:

- Mitchells & Butlers announces it is 'pleased to announce today the appointment of Phil Urban as Chief Executive, from 27 September 2015'
- It then goes on to say 'as a consequence, Alistair Darby will step down as Chief Executive on 26 September 2015, and will retire from the Board and leave the Company on that date.'
- M&B adds Phil Urban 'joined Mitchells & Butlers in January 2015 as Chief Operating Officer, and was previously Managing Director at Grosvenor Casinos, a division of Rank Group and Chairman of the National Casino Forum.'
- It adds 'prior to that, he was Managing Director for Whitbread's Pub Restaurant division, and for Scottish and Newcastle Retail's Restaurants and Accommodation Division.'
- Chairman Bob Ivell comments 'the non-executive directors have considered the issue of the leadership of M&B very carefully and are delighted to announce Phil's appointment. Phil is a strong leader with industry experience and a proven track record of operational delivery, who we are confident will build on the progress made under Alistair.'
- He adds 'the Board recognises the significant contribution made by Alistair as Chief Executive over the past three years, is grateful to him for bringing the business to a stronger position and wishes him well in the future.'

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Market Cap: £1.5bn  
12m range 325p 475p

### The Trading Update:

- Whilst the news may be overshadowed by the replacement of its CEO, MAB has updated on trading
- It turned in LfL sales growth of 1.3% for the first 43wks of the current financial year but sales in the 7wks to 12 Sept are down by 0.7%.
- Recent LfL sales trends are shown below:
- **Tab.1. Mitchells & Butlers LfL Sales Trends:**

Period	LfL sales (%)
FY 08/09	+1.6
FY 09/10	+2.8
FY 10/11	+2.6
H1 11/12	+2.7
FY 11/12	+2.1
H1 12/13	+0.3
FY 12/13	+0.4
H1 13/14	+1.1
14w to 19 July	+0.0
9w to 20 Sept	+0.1
FY 13/14	+0.6
8w 14/15	+2.4
17w 14/15	+1.7
H1 14/15	+1.7
First 43wks	+1.3
Weeks 44-50 incl.	-0.7

Source: Company Reports

### Current year numbers & other:

- M+B reports 'the UK eating and drinking out market has been subdued in the summer leading to a slight slowdown in the rate of sales growth, exacerbated by the wet weather.'
- It says 'despite this slow market seen in the past weeks, we are continuing our plans to reposition and enhance the business, focusing on offering quality guest experiences at great value, and remain confident in our ability to meet the challenges of high consumer expectations and forthcoming cost pressures.'
- Nonetheless, it says 'we expect results for the year to 26 September 2015 to show growth on last year although, on the basis of this recent trading, to be at the bottom end of the range of current market expectations.'
- Re new openings, M&B says 'so far this financial year we have opened 14 new sites and converted 48 sites. This includes 38 conversions of Orchid sites to core M&B brands - notably Toby Carvery, Ember Inns, Miller & Carter and Harvester - returns from which have been strong.'
- The group adds 'this programme will continue into next year with a further 40 conversions and the remainder of the sites being integrated into the Heartland estate.'

**Langton Comment:** Today's RNS falls into two, distinct parts; the change in CEO and current trading. These are clearly linked.

Whilst the departure of Alistair Darby was not expected, neither is it altogether a surprise.

M&B is a large part of the Coffey Peach Tracker and, as such, it has been possible for some time to discern that its sales were likely lagging those of the wider market.

One has had a feeling that a giant has been pushing its foot down on the accelerator but the response of the vehicle, for whatever reason, has been sluggish. This is not likely to be down to the performance or lack of performance of any individual but rather to a number of factors including, perhaps, the fact operationally M&B had already set the bar high, the observation that elephants find it hard to jump and the fact that the market is teeming with new, innovative competitors.

With this in mind, forecasts will come down and the future, to be blunt, is somewhat unknown.

Phil Urban and Bob Ivell will update the market late November but, somehow, it feels as though we have been here before. In a sector offering a number of alternative investments, one does not have to own M&B shares. As we reported earlier in the year *'whilst acknowledging the latent strength of M&B's business and accepting that its shares are now 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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