19 May 2016

MITCHELLS & BUTLERS (MAB): 277p
H1 Results – Analysts' Meeting:

Group says 'strong sales performance in invested sites offset by declines in un-invested estate…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	184.0	35.7	7.8	5.0	1.8
2016 (E)	194.0	37.1	7.5	7.5	2.7
2017 (E)	203.0	39.0	7.1	8.4	3.0

Source: *Company & Broker Estimates*

H1 Results – Analysts' Meeting:

Following the announcement of its H1 numbers earlier this morning, Mitchells & Butlers hosted a meeting for analysts and our comments are set out below:

Trading:

- Today's 28wk update does confirm that the group suffered from the industry-wide slowdown in sales from around end-January
- The second quarter looks to have been down around 2.8%
- However, the group reports that, although no numbers are given, trading has picked up a little in recent weeks
- The environment, however, remains competitive. M&B seemed to accept that it has 'taken price' in the past. It may have to be more competitive going forward.
- LfLs were positive if the negative performances at Harvester and Toby would have been excluded
- Un-invested units may have been down by around 4%. The overall estate was down c5% in volume terms (down 1.6% in ££s). This is clearly not acceptable

Trading outlook:

- The NLW will cost £7m in H2 alone. This will be a 'significant headwind'. It is clearly industry-wide and there will be some upward pressure on prices.
- The outlook for margin (as commented by MARS yesterday) will therefore be somewhat more challenging

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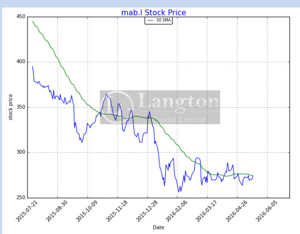

Market Cap: £1.1bn
12m range 256p 475p

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- Competitor new openings growth has slowed. But the units that have already been opened won't be removed.
- Competitor pressure has been most intense re the mid-market, especially Harvester & Toby

Transformation plan:

- The group concluded that the status quo was not acceptable. Running the business for cash would have led to ultimate decline.
- Acquisitions could have been risky & expensive. Disposals would have been value dilutive hence the group aims to grow organically
- Much capital spending until recently has been back of house re systems and non-customer-facing areas.
- This is arguably to the credit of former CEOs. It builds the fabric of the business but it protects rather than builds sales.
- Spending will now be more customer-facing. Conversions to Miller & Carter cost around £650k. Some 7 have been done. Returns are very good (>30%). Returns on Harvester refurbs (c£400k) are 'very strong'. Says this brand 'can be a powerhouse again'.
- M&B will move to a 5yr to 6yr refurb cycle, down from its previous 11yr cycle. This will cost money but the latter strategy left it very vulnerable to new entrants, evolved offers etc.
- Group reiterates that it has (some) fantastic brands and a large number of great properties – which are held 85% freehold. It may also have some tired, dated offers.
- Toby & Harvester numbers will come down (a little) & Miller & Carter numbers along with Sizzling Pizza & Carvery
- Group CEO Phil Urban accepts analysts have 'heard this all before' but he says the business & its staff are energized & focused
- Prices will be addressed. Sounds like they will come down. Or at least not go up as the group strives to increase volumes once more

Balance sheet, cash flow and debt:

- Net debt is manageable. It will not fall much further.
- Dividend growth will be modest.
- No new news on the triennial pension negotiations

Langton Comment: The market has been tough this year to date, and not just for M&B.

Indeed, today's Coffer Peach Tracker (for April) shows that, even when we add March & April together in order to smooth Easter, trade has been down (by around 0.2% LfL) over that period.

However, the wider market is what it is. M&B can only play the ball that it is bowled and, in that context, it appears to be pulling the right levers.

At some point, in order to avoid a déjà vu feeling sense of disappointment from setting in, this will have to come through to numbers but, even with the best will in the world, this is not likely to be discernible for some quarters to come.

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Hence we fall back on the suggestion that M&B has great assets, some good (and some just acceptable) brands, is adequately financed & is well-managed.

This being the case, though a major hiccup in the economy as a whole would cause problems, we believe that value will come out.

The share register is what it is but, that said, a PER of 7.5x with a 2.6% and growing yield, seems a little too low.

Execution is key. The proof of the pudding is in the eating but, we believe, the risks are on the upside. There is every possibility that MAB will change the big figure in its share-price (for the better) this year, next year and the year after.

If it were to do so, and assuming market growth forecasts are not too wide of the mark, the asset-backed shares would still only be trading at around 12x FY18 numbers.

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