



22 November 2016

MITCHELLS & BUTLERS (MAB): 274.5p FY Results – 52wks to 24 September 2016:

Group numbers down but sees 'return to LfL growth' and initiates an 'acceleration of estate development.' Sees cost pressures.

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	184.0	35.5	7.7	5.0	1.8
2016 (E)	184.0	35.7	7.7	7.5	2.7
2017 (E)	188.0	36.0	7.6	7.7	2.8

Source: Company & Broker Estimates

FY Results – Year to 24 Sept 2016:

Mitchells & Butlers has this morning reported FY results for the 52wks to 24 Sept and further comments are set out below:

- M&B reports FY LfL sales down 0.8% but 'with improving trend through the year'
- It says that the last 8wks were +0.5%
- Sales are £2.086bn (2015: £2.101bn) and adjusted operating profit is £318m against £328m last year
- Adjusted EPS is 34.9p (2015: 35.7p) and there is a final dividend of 5p per share
- Recent sales trends are set out below:
- **Tab.1. Mitchells & Butlers LfL Sales Trends:**

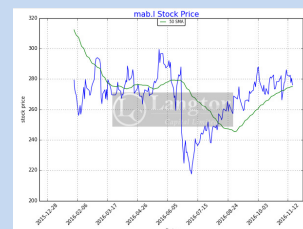
Period	LfL sales (%)
FY 08/09	+1.6
FY 09/10	+2.8
FY 10/11	+2.6
H1 11/12	+2.7
FY 11/12	+2.1
H1 12/13	+0.3
FY 12/13	+0.4
H1 13/14	+1.1
14w to 19 July	+0.0
9w to 20 Sept	+0.1
FY 13/14	+0.6

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Market Cap: £1.1bn
12m range 217p 354p

8w 14/15	+2.4
17w 14/15	+1.7
H1 14/15	+1.7
First 43wks	+1.3
FY 14/15	+0.8
First 8wks 15/16	-1.6
Next 9wks of 15/6	-0.6
First 17wks of 15/16	-1.0
H1 15/16	-1.6
8wks to 17 Sep 16	+1.8
FY 15/16	-0.8
8wks to 19 Nov 16	+0.5

Source: Company Reports

More on recent trading:

- M&B CEO Phil Urban reports 'during the year we have made good progress in our three priority areas: building a more balanced business; instilling a more commercial culture; and driving an innovation agenda.'
- He says 'this focus is starting to have a positive effect on our sales, with improved performance against a subdued market in recent months through continuation of the momentum we saw start in the second half of last year.'
- The group reports 'sales growth in the first eight weeks was impacted by the Rugby World Cup in the prior year, but I'm encouraged by the underlying momentum which has seen recent weeks return to the levels seen in the summer.'
- Regarding the future, Mr Urban comments 'in the next year, as previously announced, we face external cost headwinds, notably from further wage inflation, the recent business rates review and exchange rate movements.' Urban adds 'we are working hard to mitigate these headwinds wherever possible, both through building on our sales momentum and active management of our cost base.'

Balance sheet, cash flow and debt:

- M&B reports that it has opened 8 new sites this year and converted 252 units
- Free cash flow before adjusted items is £60m (FY 2015: £95m)
- The group reports net debt of £1.84bn, some 4.3x adj. EBITDA_{ab} (FY 2015 4.3 times)

Conclusion:

- M&B says 'we have started to see early positive results emerging from our work'. It says it had a challenging H1 but says sales were +0.2% in H2
- This has been 'driven by an increased level of capital investment in our estate but also an improvement in the performance'
- Re Brexit, the group says it will be impacted via changes in consumer confidence, it may find staffing more difficult and costs may rise
- In common with other operators, costs will be an issue. The group reports 'although we are working hard to take mitigating action where possible, we expect to see downward pressure on margins in this financial year'.

- M&B concludes 'despite these challenges, we remain encouraged by the progress we have seen so far' and says that it believes it can 'continue to generate long-term shareholder value'.

Langton: M&B has seen performance improve in H2 and LfLs are +0.5% in the first 8wks of the current year - this latter against the Rugby World Cup last year.

As a largely food-led company, the rugby would have been neutral to slightly unhelpful last year.

As we have reported on a number of occasions, M&B is a big ship and it will take time to turn.

That does not mean that this will not happen but cost pressures in the year just started will make generating profits that little bit more difficult and, as the company may have been guilty of pushing prices a little too aggressively in the past, it may not be able to press the 'price' button and this could impact margins.

M&B's performance at its converted and invested units has been good,

As regards its share price, we are now at a point where the group is trading at only around 7.7x current year earnings and it has a 2.7% (and hopefully growing) yield.

M&B has an extremely attractive estate but, with much still to do, the group's shares may be fairly priced at around these levels.

Contact – Mark Brumby - +44(0)20 7702 3389

mark.brumby@langtoncapital.co.uk

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